

CREDIT OPINION

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New Issue

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Princeton (Municipality of) NJ

New Issue - Moody's Assigns Aaa to Princeton, NJ's \$24.2M GO Bonds; Outlook Stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa GO rating to the Municipality of Princeton, NJ's \$24.2 million General Improvement Bonds, Series 2017. Moody's maintains the Aaa rating on the municipality's outstanding GO debt. The outlook is stable.

The Aaa reflects the municipality's large tax base, high wealth, strong finances, and the institutional presence of [Princeton University](#) (Aaa stable).

Credit Strengths

- » Healthy reserve levels
- » Large, wealthy tax base
- » Institutional presence of Princeton University

Credit Challenges

- » Above-average debt burden

Rating Outlook

The stable outlook reflects the expectation that the municipality's finances, tax base, and wealth levels will all remain strong in the near to medium term.

Factors that Could Lead to an Upgrade

- » Not applicable.

Factors that Could Lead to a Downgrade

- » Significant decrease in Current Fund balance or cash position
- » Substantial increase in direct debt burden

Key Indicators

Exhibit 1

Municipality of Princeton, NJ	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$ 7,226,423	\$ 7,175,583	\$ 7,228,833	\$ 7,429,018	\$ 7,611,605
Full Value Per Capita	\$ 244,905	\$ 240,251	\$ 242,099	\$ 244,915	\$ 243,579
Median Family Income (% of US Median)	229.8%	264.9%	261.7%	268.7%	
Finances					
Operating Revenue (\$000)	\$ 62,189	\$ 59,796	\$ 58,473	\$ 58,516	\$ 60,422
Fund Balance as a % of Revenues	30.7%	34.3%	33.1%	34.1%	37.2%
Cash Balance as a % of Revenues	35.1%	37.7%	36.6%	38.4%	42.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 114,759	\$ 107,529	\$ 101,577	\$ 97,484	\$ 95,182
Net Direct Debt / Operating Revenues (x)	1.8x	1.8x	1.7x	1.7x	1.6x
Net Direct Debt / Full Value (%)	1.6%	1.5%	1.4%	1.3%	1.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.9x	1.0x	1.2x	1.3x	1.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.7%	0.8%	0.9%	1.1%	1.2%

NOTES: All figure from before 2013 are a composite of the Township and Borough of Princeton.

The fund balances in the above table reflects the Moody's-adjusted fund balance.

Sources: Moody's Investors Service and Princeton audited financial statements

Detailed Rating Considerations

Economy and Tax Base: Sizeable Tax Base with Wealthy Population

Princeton's large and wealthy tax base will experience moderate growth over the next several years given ongoing construction and development. The municipality benefits from the anchoring presence of Princeton University, the [Princeton Theological Seminary](#) (Aa1 stable), and the [Institute for Advanced Study](#) (Aaa stable). The university is particularly important as it not only makes annual "fair share" payments, it is also the largest regular property tax payer. The \$7.8 billion tax base has a five-year compound annual rate of increase of 1.5%. This total is dramatically understated as it does not include the 34% of the base which is tax exempt. The municipality has well above-average wealth levels with median family income at 268.7% of the national median or 200.8% of the state median.

Financial Operations, Reserves and Coverage: Strong Finances with Healthy Reserves

The municipality's financial position will remain strong in the medium term as management continues to budget conservatively. Current Fund Balance increased in 2016 to \$17.3 million, or 28.6% of current fund revenues from \$15.5 million, or 26.5% of revenues in 2015. Moody's makes [certain adjustments](#) to New Jersey local governments' fund balances to include receivables and reserves that would be eligible to be included in fund balance under GAAP accounting but are excluded as a result of state statutory accounting regulations. The municipality's Moody's-adjusted Current Fund Balance increased to \$22.5 million (37.2%) in 2016. Positively, the municipality's revenue is heavily weighted towards local revenues with 55.7% of current fund revenues coming from property taxes. At 33%, the next largest item, miscellaneous revenues, includes the university fair share revenues, sewer rentals, as well as the standard fines, fees, and permits. State aid is a very small share at only 4.1% of revenues.

On an adjusted basis, the municipality has seen surpluses in four of the past five years, resulting in a 21% increase in fund balance since 2011 (adjusted for the merger of the Township and Borough of Princeton). These improvements have been achieved primarily via conservative budgeting but also via regular revenue increases and strong tax collections.

Moody's notes that while the municipality's finances are strong, its flexibility is somewhat restrained on the revenue side by the 2% statutory tax levy cap. On the expenditure side, the municipality's flexibility is also limited by its fixed costs. Fixed costs for debt

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service, required pension contributions and retiree health care payments come to \$14.3 million, or 23.7% of revenues. Although this number is somewhat elevated, the number has been fairly stable and there is every indication that the municipality has ample ability to handle the expense.

LIQUIDITY

Liquidity is likely to remain strong in the medium term. Current Fund net cash increased modestly to \$25.8 million, or 42.6% of revenues, in 2016.

Debt, Pensions and Legal Covenants: Above-Average Debt and Pension Burden

Princeton's debt burden will be above-average for the Aaa rating category for the medium term. Post-sale, the municipality's net direct debt burden will be 1.5% of equalized value. Management intends to issue small amounts of debt to pay for annual capital projects over the next few years.

DEBT STRUCTURE

All of Princeton's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The municipality is not party to any interest rate swaps or other derivatives.

PENSIONS AND OPEB

Princeton has an above-average defined-benefit pension burden, based on Moody's-estimated share of a cost-sharing plan administered by the state. Moody's adjusted net pension liability (ANPL) for the municipality, under our methodology for adjusting reported pension data, is \$107.3 million, or an above-average 1.78 times Current Fund revenues. The municipality's 2016 contribution to the retirement system was \$1.6 million for the Police and Firemen's Retirement System (PFRS) and \$1.2 million for the Public Employees' Retirement System (PERS). Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the municipality's reported liability information, but to improve comparability with other rated entities.

Management and Governance

The municipality recently adopted formal debt and financial policies. Going forward the municipality will maintain an ending Current Fund balance between 15%-20% of budgeted appropriations.

New Jersey Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources are subject to a cap which can be overridden with voter approval only. However, the cap of 2% still allows for moderate revenue-raising ability and excludes debt service, pensions, and certain health care costs. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually. The state has public sector unions, which can limit the ability to cut expenditures, however, police and fire raises are bound by a 2% arbitration cap.

Legal Security

Debt service on the bonds and notes is secured by the municipality's general obligation unlimited ad valorem tax pledge

Use of Proceeds

Proceeds from the bonds and cash on hand will be used to permanently finance \$19.5 million in Bond Anticipation notes maturing September 15, 2017 and to provide \$6.5 million of new money to fund various capital improvements.

Obligor Profile

Princeton is a high wealth community located in central [New Jersey](#) (A3 stable) anchored by Princeton University. It has a population of 31,249.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

Ratings

Exhibit 2

Princeton (Municipality of) NJ

Issue	Rating
General Improvement Bonds, Series 2017	Aaa
Rating Type	Underlying LT
Sale Amount	\$24,200,000
Expected Sale Date	09/06/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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