

## CREDIT OPINION

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## Nutley (Township of) NJ

Update to credit analysis

### Summary

The [Township of Nutley, NJ](#) (Aa2) is well positioned due to its strong and stable reserves, above-average resident wealth and income, favorable location near [New York City](#) (Aa2 stable), and modest debt and pension burden. The township is slightly pressured by a somewhat above-average, for the rating category, reliance on state aid. This is due to the township receiving money from the state to compensate for the loss of a major taxpayer, Hoffman LaRoche.

### Credit strengths

- » Above-average resident wealth and income
- » Favorable location near job centers in northern and central [New Jersey](#) (A3 stable)
- » History of stable financial management

### Credit challenges

- » Above-average reliance on state aid for the rating category

### Rating outlook

Outlooks are not usually assigned to ratings with this level of debt outstanding.

### Factors that could lead to an upgrade

- » Substantial growth in the township's tax base and resident wealth and income
- » Reduced reliance on state aid

### Factors that could lead to a downgrade

- » Material deterioration of the tax base and resident wealth and income
- » Deterioration of finances leading to reduced reserve position

## Key indicators

Exhibit 1

Nutley (Township of) NJ	2012	2013	2014	2015	2016
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$3,826,627	\$3,720,203	\$3,633,584	\$3,574,837	\$3,649,463
Population	28,326	28,437	28,551	28,596	28,586
Full Value Per Capita	\$135,092	\$130,823	\$127,266	\$125,012	\$127,666
Median Family Income (% of US Median)	158.0%	159.3%	160.0%	158.8%	161.3%
<b>Finances</b>					
Operating Revenue (\$000)	\$45,639	\$46,654	\$49,585	\$50,921	\$51,933
Fund Balance (\$000)	\$12,240	\$13,807	\$15,159	\$15,338	\$16,242
Cash Balance (\$000)	\$13,611	\$20,182	\$21,592	\$22,384	\$27,265
Fund Balance as a % of Revenues	26.8%	29.6%	30.6%	30.1%	31.3%
Cash Balance as a % of Revenues	29.8%	43.3%	43.5%	44.0%	52.5%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$8,730	\$10,307	\$8,657	\$7,002	\$16,484
3-Year Average of Moody's ANFL (\$000)	\$64,510	\$72,650	\$83,670	\$97,613	\$110,919
Net Direct Debt / Operating Revenues (x)	0.2x	0.2x	0.2x	0.1x	0.3x
Net Direct Debt / Full Value (%)	0.2%	0.3%	0.2%	0.2%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.4x	1.6x	1.7x	1.9x	2.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.7%	2.0%	2.3%	2.7%	3.0%

Sources: Moody's Investors Service and Nutley

## Profile

Nutley is located in [Essex County](#) (Aa1 stable). It has a population of approximately 28,500.

## Detailed credit considerations

### Economy and Tax Base: Above-average wealth tax base shows signs of stabilizing

The township's tax base will remain stable given its access to employment opportunities in the New York City area and above-average resident wealth and income. Nutley, located 11 miles west of New York City, is largely residential with a substantial commercial base. The \$3.7 billion tax base benefits from above-average resident wealth and income with a median family income equal to 161.3% of the national median. After showing steady declines from 2008 through 2016 (inclusive) the tax base has grown the past two years, resulting in a five-year compound annual decline for the equalized value of 0.6%. The decline in the tax base, though apparently typical for much of northern New Jersey, is actually somewhat different from the norm, as it was largely driven by the loss of the township's largest taxpayer, Hoffman La Roche. The Hoffman La Roche campus is currently subject to a large, ongoing tax appeal and is being parceled out for redevelopment, most notably, for the new Hackensack Meridian School of Medicine at Seton Hall University. The township has a reserve in place to deal with the settlement of the tax appeal.

The base is largely built out with only a modest amount of vacant land. Management reports a considerable amount of redevelopment, most notably in the mixed use space.

### Finances Operations and Reserves: Strong finances with healthy reserves

The township's financial position will remain strong in the medium term as management continues to budget conservatively. Current Fund balance increased in 2016 to \$6.4 million, or 12.3% of revenues from \$6 million, or 11.7% of Current Fund 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.

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The township's Moody's-adjusted Current Fund Balance increased to \$16.2 million (31.3%) in 2016 from \$15.3 (30.1%) in 2015. Since 2011, reported fund balance is up 8% while adjusted fund balance is up 38%. The increase is due to successfully balancing expense and revenue growth. Since 2011, revenues are up 14% while expenditures are only up 13%.

The township's fixed costs including debt service, pensions, and OPEB are average for the nation and below-average in New Jersey, at \$8.6 million, or 16.4% of revenues.

Nutley's revenue blend is somewhat unusual and a source of mild pressure. The largest source, property taxes, accounts for 75% of revenue, well in line for New Jersey municipalities. Regular state aid accounts for a modest 5.1% of revenues but "replacement revenue," a form of transitional state aid designed to assist communities which have lost major taxpayers, accounts for 10.6% of revenues, meaning total state aid is elevated for the rating category at 15.7% of revenues. It should be noted that unlike traditional transitional aid, the replacement revenue does not indicate financial distress; its purpose is to temporarily cover the shortfall and prevent a tax shock to the rest of the community.

#### LIQUIDITY

The township's liquidity is strong. In 2016 the township ended with Current Fund cash of \$27.3 million, or 52.5% of revenues. Cash stays strong even after netting out an interfund payable of \$10.6 million.

#### Debt and Pensions: Low debt with slightly above-average pension burden

The debt burden will remain moderate for the medium term as the township has only limited plans to issue debt. Post-sale, the net direct debt is equal to 0.3% of equalized value.

#### DEBT STRUCTURE

All of the township's long-term debt is fixed rate.

#### DEBT-RELATED DERIVATIVES

The township has no derivative exposure.

#### PENSIONS AND OPEB

Nutley has a slightly above-average defined-benefit pension burden, based on its share of two cost-sharing plans administered by the state. Moody's adjusted net pension liability (ANPL) for the township, under our methodology for adjusting reported pension data, is \$130.3 million, or an above-average 2.51 times Current Fund revenues. The township's 2016 contribution to the retirement system was \$2.4 million for the Police and Fire Retirement System and \$1.1 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 township's reported liability information, but to improve comparability with other rated entities.

#### Governance

Nutley has a history of conservative budgeting and long-term planning as demonstrated by its consistently positive financial performance.

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.

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### Rating Action: **Moody's assigns Aa2 to Nutley's (NJ) GOULT bonds**

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Global Credit Research - 05 Apr 2018

New York, April 05, 2018 – Moody's Investors Service has assigned a Aa2 to the Township of Nutley, New Jersey's \$6.8 million General Bonds of 2018. Moody's maintains the Aa2 rating on the township's outstanding GO debt.

#### RATINGS RATIONALE

The Aa2 rating reflects the township's strong and stable reserves, above-average resident wealth and income, favorable location near New York City (Aa2 stable) and modest debt and pension burden. The rating also reflects the somewhat above-average for the rating category reliance on state aid.

#### RATING OUTLOOK

Outlooks are not usually assigned to ratings with this level of debt outstanding.

#### FACTORS THAT COULD LEAD TO AN UPGRADE

- Substantial growth in the township's tax base and resident wealth and income
- Reduced reliance on state aid

#### FACTORS THAT COULD LEAD TO A DOWNGRADE

- Material deterioration of the tax base and resident wealth and income
- Deterioration of finances leading to reduced reserve position

#### LEGAL SECURITY

Debt service on the bonds is secured by the township's general obligation unlimited ad valorem tax pledge.

#### USE OF PROCEEDS

Proceeds from the bonds will be used to finance various capital projects throughout the township, most notably road and sidewalk projects.

#### PROFILE

Nutley is located in Essex County (Aa1 stable). It has a population of approximately 28,500.

#### 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.com](http://www.moody.com) for a copy of this methodology.

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