

MOODY'S

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CREDIT OPINION

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Update

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Borough of River Edge, NJ

Update - Moody's Upgrades Borough of River Edge, NJ's GO to Aa2

Summary Rating Rationale

Moody's Investors Service has upgraded the Borough of River Edge, NJ's General Obligation rating to Aa2 from Aa3.

The Aa2 rating reflects River Edge's strong financial position, facilitated by management's willingness to increase taxes to maintain a balanced budget. The Aa2 also incorporates the borough's moderately-sized and wealthy tax base, low debt burden, and above-average pension liabilities.

Credit Strengths

- » Residential tax base benefitting from proximity to New York City (Aa2 stable) area employment and economic center
- » Strong financial position
- » Low debt burden

Credit Challenges

- » Above-average pension burden
- » Limited revenue-raising ability due to statutory two-percent tax levy cap

Rating Outlook

Outlooks are generally not assigned to local governments with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

- » Sustained increases in fund balance and cash levels
- » Substantial growth in the borough's tax base and socioeconomic indicators

Factors that Could Lead to a Downgrade

- » Material decline in the borough's tax base and wealth and income levels
- » Deterioration of reserves or cash position
- » Substantial increase in debt or pension burden

Key Indicators

Exhibit 1

River Edge (Borough of) NJ	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$ 1,650,991	\$ 1,677,051	\$ 1,640,284	\$ 1,673,343	\$ 1,700,277
Full Value Per Capita	\$ 145,590	\$ 147,136	\$ 142,845	\$ 144,678	\$ 145,984
Median Family Income (% of US Median)	167.1%	192.3%	200.1%	199.2%	199.2%
Finances					
Operating Revenue (\$000)	\$ 14,257	\$ 14,779	\$ 15,130	\$ 15,664	\$ 15,509
Fund Balance as a % of Revenues	12.5%	17.9%	24.9%	29.2%	34.8%
Cash Balance as a % of Revenues	15.2%	21.5%	26.7%	32.3%	37.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 7,741	\$ 9,168	\$ 7,952	\$ 8,737	\$ 7,969
Net Direct Debt / Operating Revenues (x)	0.5x	0.6x	0.5x	0.6x	0.5x
Net Direct Debt / Full Value (%)	0.5%	0.5%	0.5%	0.5%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.4x	1.5x	1.7x	1.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.1%	1.2%	1.4%	1.6%	1.8%

Source: Moody's Investors Service and Borough of River Edge's Audited Financial Statements

Detailed Rating Considerations

Economy and Tax Base: Moderately-Sized Bedroom Community Of New York City

The borough's \$1.7 billion tax base, located in Bergen County (Aaa stable) approximately 20 miles from New York City, will remain stable in the near to medium term due to its strong income levels and favorable location in the New York metropolitan employment area. River Edge is a primarily residential tax base (86% of assessed value) with limited commercial activity (8%). Positively, the borough benefits from having two train lines, bus service, and close proximity to the George Washington Bridge, making it more attractive to commuters due to the convenient access to New York City.

Management reports that a 69-unit affordable apartment complex is currently under construction and expects approximately \$212,000 of added taxes from the development. In addition, continued renovations and expansions upon current housing stock will contribute to tax base stability. No major changes with the top ten taxpayers were reported.

Resident income levels are strong with a median family income of 199% of the national level. Additionally, county unemployment rates remain lower than the state and nation at 4.2% in August 2017, compared to 4.8% and 4.5% respectively.

Financial Operations and Reserves: Healthy Finances With Growing Reserves

The borough's finances have consistently improved over the last five years and are expected to remain stable due to conservative budgeting practices. Fiscal 2016 ended with an increase in reported Current Fund Balance to \$3.9 million, or 24.9% of revenues, from \$3.5 million, or 22.3%, in fiscal 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 Moody's-adjusted Current Fund Balance increased to \$5.4 million, or 34.8% of revenues, in 2016 from \$4.6 million, or 29.2%, in fiscal 2015. Management attributes the financial improvements to strong and increased tax collection rates and less surplus utilized. Included in the adjusted-fund balance is \$439,000 reserved for pending tax appeals; the borough plans to maintain these funds in reserves. Positively, the borough has a formal fund balance policy that aims to have a minimum target of 5% of the annual levy. In 2016, the levy was \$48 million.

The borough has maintained a trend of running operating surpluses since fiscal 2013 as revenues outpace expenses. Revenues have

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grown over the last five years by 13% while expenditures have grown by 4%. Fiscal 2016 revenues are primarily comprised of property taxes (84%), state aid (6.8%), and miscellaneous revenues (6.4%), which are made up of a wide variety of fees.

Management expects reported Current Fund Balance to increase by at least \$1 million for fiscal year 2017 aided by a strong performance in unanticipated revenues. Non-budget revenues are expected to be closer to \$200,000, compared to \$121,000 in fiscal 2016, with receipt of \$140,000 of FEMA reimbursements.

LIQUIDITY

The borough is expected to maintain strong liquidity. At the end of fiscal 2016, the borough had \$5.8 million in cash, or 37.5% of revenues.

Debt and Pensions: Low Debt Burden

The borough's low debt burden will remain manageable given the lack of future borrowing plans in the near to medium term. In fiscal 2016, the borough had \$8 million in direct debt or 0.5% of full value. The debt burden increases to \$37 million or 2.2% of full value when incorporating overlapping debt. Amortization is rapid with 100% of principal repaid within ten years.

DEBT STRUCTURE

All of the borough's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The borough is not party to any interest rate swap or derivative agreements.

PENSIONS AND OPEB

River Edge Borough has an above-average defined-benefit pension burden, based on Moody's-estimated share of a cost-sharing plans administered by the state. Moody's adjusted net pension liability (ANPL) for the borough, under our methodology for adjusting reported pension data, is \$38 million, or an elevated 2.5 times Current Fund revenues. The borough's 2016 contribution to the retirement system was \$549,000 for the Police and Firemen's Retirement System (PFRS) and \$319,000 for the Public Employees' Retirement System (PERS), or 5.7% of expenditures (combined). Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the borough's reported liability information, but to improve comparability with other rated entities.

Fiscal 2016 fixed costs, inclusive of debt service and annual contributions to pensions and OPEB, came to a manageable 19% of operating revenues.

Management and Governance

River Edge displays conservative budgeting practices given a trend of growing Current Fund reserves, consistent operating surpluses, careful monitoring of expenditures, and willingness to increase tax rates given annual increases in property rates.

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

The bonds are secured by the borough's general obligation unlimited tax pledge.

Use of Proceeds

Not applicable.

Obligor Profile

The borough of River Edge is located in Bergen County, approximately 20 miles from New York City with an estimated population of 11,566 (2015 US Census).

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.moodys.com for a copy of this methodology.

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