

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aa3 to Lower Township MUA, NJ's \$4.8M Refunding Bonds, 2014

Global Credit Research - 31 Jan 2014

Affirms Aa3 on \$32.1M parity debt

LOWER TOWNSHIP MUNICIPAL UTILITIES AUTHORITY, NJ
Cities (including Towns, Villages and Townships)
NJ

Moody's Rating

ISSUE	RATING
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Revenue Refunding Bonds, Series 2014	Aa3
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Sale Amount \$4,760,000

Expected Sale Date 02/12/14

Rating Description General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, January 31, 2014 --Moody's Investors Service has assigned a Aa3 rating to Lower Township Municipal Utilities Authority, NJ's \$4.76 million Revenue Refunding Bonds, Series 2014. The bonds are ultimately secured by Lower Township's General Obligation (GO) unlimited tax pledge. The proceeds of the bonds will be used to refund \$4.8 million of previously issued revenue bonds for a net present value savings of approximately \$153,600 (3.2% of refunded par). Concurrently, Moody's has affirmed the township's Aa3 GO rating, affecting \$32.1 million of direct GO and GO-backed debt.

RATING RATIONALE

The Aa3 reflects township's General Obligation rating, as the township's GO pledge ultimately secures this transaction through a service contract. The rating incorporates the township's large tax base with below average wealth levels and seasonal economy, conservative fiscal management, increased fund balance in fiscal 2013, and manageable debt burden.

STRENGTHS

- Large tax base with seasonal economy
- Conservative financial management practices
- Low debt burden

CHALLENGES

- Revenue raising limitations from statewide 2% levy cap
- Relatively low wealth levels compared to the state average

DETAILED CREDIT DISCUSSION

AUTHORITY DEBT ULTIMATELY BACKED BY TOWNSHIP

The authority's debt is ultimately backed by the township through a service contract and provisions under the

general bond resolution. The township is required to cure any operating deficiency incurred by the authority. The township is further obligated to levy ad valorem taxes upon all taxable real property in the township, without limitation as to rate or amount, in order to meet its required payments to the authority. The authority is required to charge sum sufficient rates and maintain a debt service reserve fund equal to maximum annual debt service. If revenues are insufficient to meet covenants in a fiscal year (ending November 30), the authority will notify the township of the insufficiency by December 30, and the township must provide payment to the authority by January 15. The township is also obligated to cover any estimated shortfalls for the current fiscal year with quarterly payments due on the first days of February, May, August and November. The township has not been called upon to cure any insufficiency since the implementation of the service contract in 1968.

HEALTHY FINANCIAL POSITION

The township's financial position is expected to remain healthy given the its strong financial management practices. Over the past five years, the township has demonstrated healthy operating performance with modest increases and decreases in total fund balance. In 2012, Current Fund balance declined \$450,000 decreasing fund balance to \$2.6 million, or a satisfactory 11.7% of revenues, from \$3.0 million in fiscal 2011, or 13% of 2011 revenues. The decline was largely due to lower excess taxes as a result of increased tax appeals. In order to increase comparability with national peers, Moody's adjusts New Jersey Current Fund balance levels by incorporating additional financial flexibility provided by appropriation reserves and reserves for receivables. When factoring in these adjustments, the township's fiscal 2012 Current Fund balance is about \$4.5 million, or a healthy 20.4% of revenues.

Although audited result for fiscal 2013 are not yet available, the township utilized about \$1.6 million of fund balance and increased the levy 5.9%, which was within the parameters of the 2% statewide levy cap plus allowed exemptions and banked levy capacity. Unaudited reports indicate that the township regenerated all utilized fund balance and increased Current Fund balance by about \$1.3 million, bringing ending fund balance to \$3.9 million. Township officials attribute the increase to aggressive collection efforts which increased collections to 98.21% in fiscal 2013 from 97.21% in fiscal 2012. The township's strong liquidity (\$5.7 million in cash reserves in fiscal 2013) and excess levy capacity provide additional financial flexibility.

LARGE TAX BASE WITH BELOW AVERAGE WEALTH LEVELS AND A STRONG SEASONAL TOURISM COMPONENT

Moody's believes Lower Township's sizable \$3.7 billion full value tax base will stabilize after modest declines as a result of the declining housing market and economic recession. Full value has declined 17% since 2008, or an average annual decline of 3.4%. The town has pursued tax base reassessments to actively readjust assessed values and minimize the potential impact of tax appeals. A 2010 reassessment decreased assessed values 13% and a 2013 reassessment is expected to decrease values 11.5% in fiscal 2014. Located in the southeast corner of Cape May County (GO rated Aa1), approximately 40 miles southeast of Philadelphia (GO rated A2 stable) the largely maritime community supports wealth levels that are below average for the state, with a median family income of \$63,324 (74% of the state median and 93.3% of the US). However, full value per capita is strong at \$162,190 due to a large number of second and vacation homes. The local economy contains commercial fishing and food processing components, as well as high levels of seasonal tourism during the summer months.

SMALL DEBT BURDEN AND MODERATE PENSION LIABILITIES

Moody's expects the township's small overall debt burden to remain manageable given the modest size of the total debt burden compared to the township's full value tax base and limited additional debt plans. The township's debt consists of \$13.8 million in direct GO debt and an additional \$18.3 million in GO-guaranteed authority debt that is self-supporting. The township's net direct debt burden is a modest 0.4% of full valuation, and increases to only 1.23% when factoring in all guaranteed and overlapping debt. Neither the authority nor the township has exposure to variable rate debt or any derivative agreements.

The township has a somewhat higher than average pension burden, based on the unfunded liabilities for its Moody's-estimated share of two cost-sharing plans administered by the state. Moody's adjusted net pension liability (ANPL) for the township as of December 31, 2012, under our methodology for adjusting reported pension data, is \$26.4 million, or a somewhat higher than average 1.18 times operating revenues, compared to less than 1 times on average in the sector nationally. 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.

For more information on Moody's insights on employee pensions and the related credit impact on companies,

governments, and other entities across the globe please visit Moody's on Pensions at www.moody's.com/pensions

WHAT COULD MOVE THE RATING UP:

- Significant and sustained improvement to cash and Current Fund reserve levels
- Significant gains in tax base and/or improvement in socioeconomic profile

WHAT COULD MOVE THE RATING DOWN:

- Material decline in reserve levels
- Significant retraction of assessed valuation

KEY STATISTICS (Township of Lower):

Tax base size: Full Value: \$3.7 billion

Full value per capita: 162,190

Median family income as % of US: 93.3%

FY2012 adjusted Current Fund balance as a % of revenues: 20.42%

5-year dollar change in adjusted fund balance as a % of revenues: -1.07%

Cash balance as a % of revenue: 20.68%

5-year dollar change in cash as a % of revenues: -0.55%

Institutional Framework: A

Operating History: 5-year average of operating revenues/operating expenditures: 0.99x

Net direct debt/full value: 0.37%

Net direct debt/operating revenues: 0.62x

3-year average Moody's ANPL/Full Value: 1.01%

3-year average Moody's ANPL/operating revenues: 1.68x

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

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