

New Issue: Moody's upgrades Point Pleasant, NJ's GO to Aa3

Global Credit Research - 16 Nov 2015

Assigns Aa3 to \$8.7M in Ser. 2015 bonds; Upgrade affects \$17.1M in rated GO debt

POINT PLEASANT (BOROUGH OF) NJ
Cities (including Towns, Villages and Townships)
NJ

Moody's Rating

ISSUE		RATING
General Obligation Bonds, Series 2015 Consisting of General Improvement Bonds and Water/Sewer Utility Bonds		Aa3
Sale Amount	\$8,660,000	
Expected Sale Date	11/18/15	
Rating Description	General Obligation	

Moody's Outlook NOO

NEW YORK, November 16, 2015 --Moody's Investors Service has upgraded the Borough of Point Pleasant, NJ to Aa3 from A1 and assigned a Aa3 to the borough's \$8.7 million General Obligation Bonds, Series 2015, consisting of \$7.3 million in General Improvement Bonds and \$1.4 million in Water/Sewer Utility Bonds. The upgrade affects approximately \$17.1 million of outstanding parity debt. Post-sale, the borough will have \$25.8 million in rated long-term GO debt.

SUMMARY RATING RATIONALE

The upgrade to Aa3 reflects the borough's positive financial trend, substantial tax base, and above-average wealth levels.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Strengthening of the borough's tax base and socioeconomic indices
- Continued growth in Current Fund reserves and liquidity

WHAT COULD MAKE THE RATING GO DOWN

- Material deterioration of the tax base and socioeconomic indices
- Significant decrease in reserves
- Reversion to reliance on cash flow borrowing

STRENGTHS

- Above-average socioeconomic profile
- Strong reserve position

CHALLENGES

- Limited room for new tax base development
- Elevated fixed costs

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: LARGE TAX BASE WITH ABOVE-AVERAGE WEALTH LEVELS

The borough's tax base will remain strong as homeowner's finish repairing damage related to Hurricane Sandy and take the opportunity to rebuild on a grander scale. Point Pleasant, located 13 miles north of the township of Toms River (Aa3, stable), is a primarily residential community with a small commercial base. Socioeconomic indicators in the \$3.3 billion tax base above-average, with median family income at 154% of the national median. The five-year compound annual decrease for the equalized value is 2.2%, however, the base grew modestly in 2014 and 2015 and is expected to increase again in 2016. While the borough is almost entirely built out there is considerable redevelopment ongoing. This redevelopment consists primarily of repair work to houses damaged during Hurricane Sandy.

FINANCIAL OPERATIONS AND RESERVES: HEALTHY FINANCES WITH POSITIVE TREND

The borough's financial position will remain strong in the medium term. Current Fund Balance more than doubled in 2014 to \$3.6 million, or 18.1% of Current Fund revenues, from \$1.6 million, or 8.8% of revenues in 2013. 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 borough's adjusted Current Fund Balance increased to \$5.5 million or an ample 27.8% in 2014 from \$4 million or 21.8%. The balance sheet gains were caused primarily by conservative budgeting.

While finances dipped in 2012 and 2013 as a result of Hurricane Sandy, the borough was able to rebuild and overcome the damage in part due to a substantial influx of FEMA funds as well as a substantial Community Disaster Loan.

While the finances are strong, revenue-raising flexibility is somewhat restrained by the 2% statutory tax levy cap. On the expenditure side, flexibility is also limited by above-average fixed costs. Fixed costs for debt service, required pension contributions, and other post-employment benefit payments come to \$4 million, or an above-average 23% of expenditures.

Liquidity

Liquidity will remain strong in the medium term. Current Fund net cash increased modestly to \$14.5 million, or a strong 73.3% of revenues, in 2014. Even after netting out the \$9.5 million school district payable, net cash remains strong at \$5 million or 25.2% of revenues.

DEBT AND PENSIONS: MODEST DEBT BURDEN; AVERAGE PENSION OBLIGATIONS

Point Pleasant's debt burden will remain modest for the medium term given rapid payout and limited plans to issue additional debt. The borough's debt burden is 0.8% of full value, and increases to 1.9% when incorporating overlapping school and county debt. Amortization is rapid with 94.1% of principal repaid within 10 years. The borough has no plans for issuing debt beyond \$2 million or \$3 million in bond anticipation notes annually for routine, annual projects. These notes will be bonded out every 3 to 5 years in such a fashion as to keep annual debt service close to level.

Debt Structure

All of the borough's debt is fixed rate. Total debt comes to \$26.1 million post sale, of which, \$5.7 million was issued by water/sewer fund.

Debt-Related Derivatives

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

Pensions and OPEB

The borough has an 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 \$25.6 million, or an average 1.29 times Current Fund revenues. The 2014 contribution to the retirement system was \$719,000 for the Police and Firemen's Retirement System (PFRS) and \$243,000 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 borough's reported liability information, but to improve comparability with other rated entities.

MANAGEMENT AND GOVERNANCE

The borough's strong management has a history of conservative budgeting and only appropriates what it believes can be replenished. Over the past two years, there has been a strong push towards greater efficiency; the borough recently entered an agreement to share tax collection services, which has materially improved collections.

New Jersey cities have an institutional framework score of "Aa", or strong. Expenditure costs are highly predictable given the arbitration award cap. While the property tax levy limitation somewhat constrains revenue raising ability, the risk of property tax appeals has declined as cities have become better at preventing appeals.

KEY STATISTICS

- Equalized Value, 2015: \$3.3 billion
- Equalized Value Per Capita, 2015: \$176,003
- Median Family Income as % of US Median (2013): 154%
- Fund Balance as % of Revenues, Moody's-adjusted for 2014: 27.8%
- 5-Year Dollar Change in adjusted Fund Balance as % of Revenues: 8.2%
- Cash Balance as % of Revenues, 2014: 73.3%
- 5-Year Dollar Change in Cash Balance as % of Revenues: 18.7%
- Institutional Framework: "Aa"
- 5-Year Average Operating Revenues / Operating Expenditures: 1.00x
- Net Direct Debt as % of Equalized Value: 0.8%
- Net Direct Debt / Operating Revenues: 1.31x
- 3-Year Average ANPL as % of Equalized Value: 0.76%
- 3-Year Average ANPL / Operating Revenues: 1.26x

OBLIGOR PROFILE

Point Pleasant is a borough with a population of approximately 18,665 located on the Jersey shore.

LEGAL SECURITY

Debt service on the rated debt is secured by the borough's general obligation unlimited ad valorem tax pledge.

USE OF PROCEEDS

The bonds will permanently finance various capital projects including but not limited to those for which \$4.7M in General Improvement BANs and \$1.4M in water/sewer BANs were issued.

PRINCIPAL 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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