

ISSUER COMMENT

1 November 2019

RATING

General Obligation (or GO Related) ¹

Aa2 No Outlook

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Township of Verona, NJ

Annual Comment on Verona Township

Issuer Profile

Verona Township is located in Essex County in northeastern New Jersey, approximately 10 miles northwest of Newark. Essex County has a population of 800,401 and a high population density of 6,339 people per square mile. The county's median family income is \$74,434 (1st quartile) and the August 2019 unemployment rate was 4.4% (3rd quartile) ². The largest industry sectors that drive the local economy are health services, local government, and professional/scientific/technical services.

Credit Overview

Verona Township's credit position is very strong. Its Aa2 rating is slightly higher than the median rating of Aa3 for cities nationwide. Notable credit factors include a very healthy financial position, a robust wealth and income profile, and a strong tax base. The township's credit position also reflects slightly elevated debt and pension liabilities.

Finances: The township has a very healthy financial position, which is consistent with its assigned rating of Aa2. The township's cash balance as a percent of its operating revenues (55.3%) is higher than the US median, and it increased from 2014 to 2018. In addition, the township's fund balance as a percent of its operating revenues (31.1%) is consistent with that of other Moody's-rated cities nationwide. Moody's makes certain adjustments to New Jersey local governments' fund balances. These adjustments include receivables and reserves that would be eligible to be included in fund balance under GAAP accounting, but which are excluded as a result of state statutory accounting regulations.

Economy and Tax Base: Overall, the economy and tax base of the township are very healthy and are relatively favorable in comparison to its Aa2 rating. The median family income of township residents is a robust 210.8% of the US median level. In addition, the full value per capita of the township's tax base (\$185,202) is much stronger than the US median, and it increased from 2014 to 2018. Lastly, the total full value of Verona's tax base (\$2.5 billion) is slightly stronger than that of other Moody's-rated cities nationwide.

Debt and Pensions: The debt and pension liabilities of Verona Township are slightly elevated overall, and are moderately unfavorable relative to its assigned rating of Aa2. The township's net direct debt to full value (1.4%) slightly exceeds the US median, although it decreased modestly from 2014 to 2018. In addition, the ratio of the township's Moody's-adjusted net pension liability to its operating revenues (1.9x) is slightly higher than the US median.

Management and Governance: New Jersey cities have an institutional framework score ³ of "Aa," which is high. 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 only be overridden with voter approval. 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.

Sector Trends - New Jersey Cities

New Jersey cities remain stable given improved financial management practices and highly predictable expenditures. Most cities have implemented more frequent revaluation processes that limit tax appeals and an improving housing market reduces the risk in the first place. While the expanding state economy lags the nation, regions within close proximity of New York City will continue to benefit from the spillover effect of residential and commercial development. Large cities with weak economic profiles and a high dependence on state aid remain vulnerable.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 1

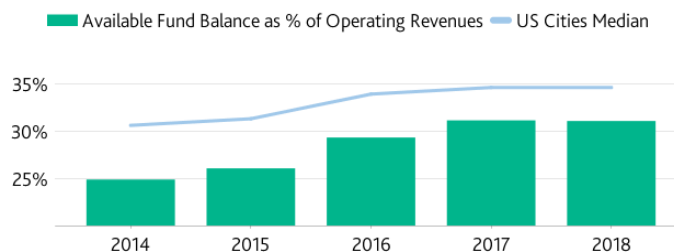
Key Indicators ^{4.5} Verona Township

	2014	2015	2016	2017	2018	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$2,217M	\$2,301M	\$2,373M	\$2,375M	\$2,485M	\$1,904M	Improved
Full Value Per Capita	\$164,178	\$170,622	\$176,048	\$174,875	\$185,202	\$94,106	Improved
Median Family Income (% of US Median)	209%	205%	211%	211%	211%	111%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	24.9%	26.1%	29.3%	31.1%	31.1%	34.6%	Improved
Net Cash Balance as % of Operating Revenues	36.6%	38.5%	44.3%	72.4%	55.3%	39.6%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	1.7%	1.7%	1.6%	1.6%	1.4%	1.1%	Stable
Net Direct Debt / Operating Revenues	1.72x	1.74x	1.74x	1.69x	1.42x	0.84x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.5%	1.7%	1.8%	1.9%	1.8%	1.9%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.59x	1.79x	1.99x	2.03x	1.90x	1.56x	Stable
	2014	2015	2016	2017	2018	US Median	
Debt and Financial Data							
Population	13,508	13,489	13,481	13,585	13,420	N/A	
Available Fund Balance (\$000s)	\$5,345	\$5,704	\$6,350	\$6,909	\$7,347	\$8,028	
Net Cash Balance (\$000s)	\$7,856	\$8,427	\$9,585	\$16,065	\$13,089	\$9,530	
Operating Revenues (\$000s)	\$21,479	\$21,881	\$21,658	\$22,194	\$23,652	\$23,172	
Net Direct Debt (\$000s)	\$36,927	\$38,111	\$37,766	\$37,594	\$33,589	\$19,139	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$34,232	\$39,208	\$43,145	\$45,153	\$44,962	\$35,448	

Source: Moody's Investors Service

EXHIBIT 2

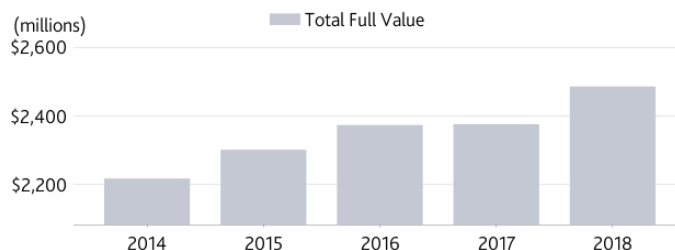
Available fund balance as a percent of operating revenues increased from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

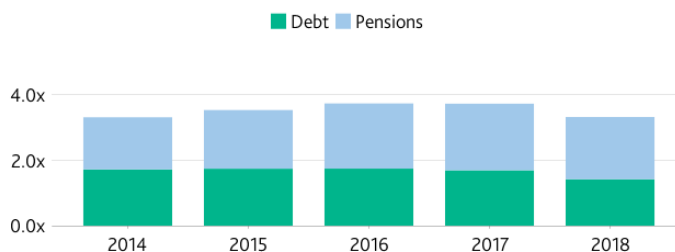
Full value of the property tax base increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
 - 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - 5 The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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