

ISSUER COMMENT

19 October 2017

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. The county has a population of 791,609 and a high population density of 6,269 people per square mile. The county's median family income is \$68,611 (1st quartile) and the August 2017 unemployment rate was 6% (4th quartile) ². The largest industry sectors that drive the local economy are health services, local government, and professional/scientific/technical services.

Credit Overview

The credit position for Verona Township is very strong, and its Aa2 rating slightly exceeds the median rating of Aa3 for cities nationwide. The key credit factors include a robust financial position, a strong wealth and income profile and a healthy tax base. The credit profile also reflects a manageable debt burden and a somewhat elevated pension liability.

Finances: The township has a robust financial position, which is relatively strong in comparison to the assigned rating of Aa2. 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 cash balance as a percent of operating revenues (44.3%) slightly exceeds the US median, and grew between 2012 and 2016. Additionally, the fund balance as a percent of operating revenues (29.3%) is roughly equivalent to other Moody's-rated cities nationwide.

Economy and Tax Base: The economy and tax base of the township are exceptionally strong overall and are relatively favorable when compared to its Aa2 rating. The median family income equals a robust 205% of the US level. Furthermore, the full value per capita (\$175,553) is materially above the US median, and rose from 2012 to 2016. The total full value (\$2.4 billion) is slightly stronger than other Moody's-rated cities nationwide.

Debt and Pensions: The debt and pension liabilities of Verona Township are mid-ranged overall, although they are weaker when compared to the assigned rating of Aa2. The net direct debt to full value (1.6%) slightly exceeds the US median, and stayed flat between 2012 and 2016. In addition, the Moody's-adjusted net pension liability to operating revenues (2.0x) is unfavorably higher than the US median.

Management and Governance: New Jersey cities have an Institutional Framework score ³ 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.

Sector Trends - New Jersey Cities

New Jersey cities remain stable given improved financial management practices and highly predictable expenditures under the state-wide arbitration award cap. 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 spill-over 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.moodys.com for the most updated credit rating action information and rating history.

EXHIBIT 1

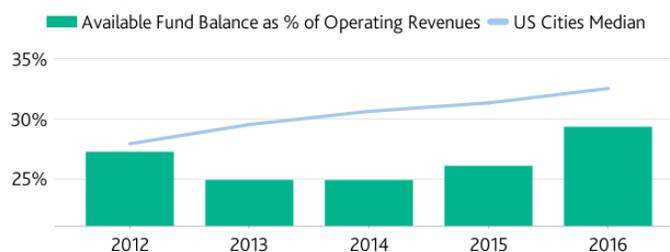
Key Indicators 4.5 Verona Township

	2012	2013	2014	2015	2016	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$2,206M	\$2,178M	\$2,217M	\$2,301M	\$2,373M	\$1,787M	Improved
Full Value Per Capita	\$165,529	\$162,447	\$164,178	\$170,622	\$175,553	\$88,380	Improved
Median Family Income (% of US Median)	210%	211%	209%	205%	205%	113%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	27.2%	24.9%	24.9%	26.1%	29.3%	32.5%	Stable
Net Cash Balance as % of Operating Revenues	35.8%	37.3%	36.6%	38.5%	44.3%	35.4%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	1.4%	1.7%	1.7%	1.7%	1.6%	1.2%	Stable
Net Direct Debt / Operating Revenues	1.45x	1.70x	1.72x	1.74x	1.74x	0.93x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.2%	1.4%	1.5%	1.7%	1.8%	1.7%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.21x	1.40x	1.59x	1.79x	1.99x	1.46x	Weakened
	2012	2013	2014	2015	2016	US Median	
Debt and Financial Data							
Population	13,331	13,412	13,508	13,489	13,519	N/A	
Available Fund Balance (\$000s)	\$5,719	\$5,281	\$5,345	\$5,704	\$6,350	\$7,221	
Net Cash Balance (\$000s)	\$7,527	\$7,922	\$7,856	\$8,427	\$9,585	\$7,930	
Operating Revenues (\$000s)	\$20,996	\$21,213	\$21,479	\$21,881	\$21,658	\$21,262	
Net Direct Debt (\$000s)	\$30,451	\$36,073	\$36,927	\$38,111	\$37,766	\$18,822	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$25,494	\$29,681	\$34,232	\$39,208	\$43,145	\$29,896	

Source: Moody's Investors Service

EXHIBIT 2

Available fund balance as a percent of operating revenues increased from 2012 to 2016



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

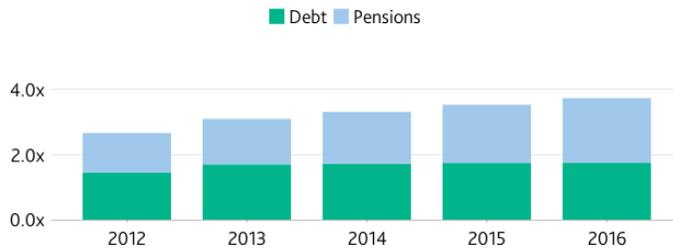
Full value of the property tax base increased from 2012 to 2016



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 2012 to 2016



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 – Growing Tax Bases and Stable Fund Balances Support Sector's Stability \(March 2016\)](#) which is available on Moodys.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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