

ISSUER COMMENT

12 October 2018

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 792,586 and a high population density of 6,277 people per square mile. The county's median family income is \$70,937 (1st quartile) and the August 2018 unemployment rate was 5.7% (4th 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 has a strong credit position, and its Aa2 rating slightly exceeds the median rating of Aa3 for US cities. Notable credit factors include a robust financial position, a sizeable tax base with a very strong wealth and income profile, and manageable debt and pension burdens.

Finances: The township's financial position is robust and is relatively favorable when compared to its assigned rating of Aa2. The cash balance as a percent of operating revenues (72.4%) far surpasses the US median, and saw a material increase from 2013 to 2017. In addition, the fund balance as a percent of operating revenues (31.1%) approximates that of other Moody's-rated cities nationwide. 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.

Economy and Tax Base: Verona Township has an exceptionally healthy economy and tax base overall, which are relatively favorable when compared to its Aa2 rating. The township's total full value (\$2.4 billion) is slightly above other Moody's-rated cities nationwide. Furthermore, the full value per capita (\$174,579) is much stronger than the US median, and rose from 2013 to 2017. The median family income equals a very strong 210.8% of the US level.

Debt and Pensions: Overall, Verona Township's debt and pension liabilities are moderate and are somewhat unfavorable when compared to its assigned rating of Aa2. The net direct debt to full value (1.6%) is slightly higher than the US median, and increased modestly between 2013 and 2017. Additionally, the Moody's-adjusted net pension liability to operating revenues (2.0x) unfavorably exceeds 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 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.

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.

EXHIBIT 1

Key Indicators ⁴ ⁵ Verona Township

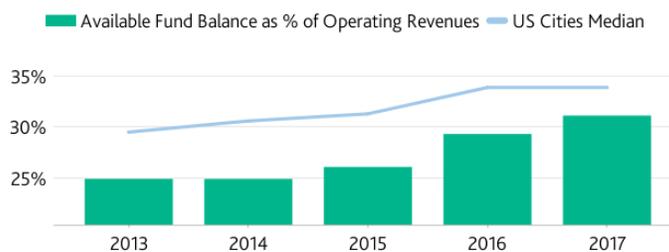
	2013	2014	2015	2016	2017	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$2,178M	\$2,217M	\$2,301M	\$2,373M	\$2,375M	\$1,867M	Improved
Full Value Per Capita	\$162,447	\$164,178	\$170,622	\$176,048	\$174,579	\$89,200	Improved
Median Family Income (% of US Median)	211%	209%	205%	211%	211%	113%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	24.9%	24.9%	26.1%	29.3%	31.1%	33.9%	Improved
Net Cash Balance as % of Operating Revenues	37.3%	36.6%	38.5%	44.3%	72.4%	36.9%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	1.7%	1.7%	1.7%	1.6%	1.6%	1.1%	Stable
Net Direct Debt / Operating Revenues	1.70x	1.72x	1.74x	1.74x	1.69x	0.88x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.4%	1.5%	1.7%	1.8%	1.9%	1.8%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.40x	1.59x	1.79x	1.99x	2.03x	1.51x	Weakened
	2013	2014	2015	2016	2017	US Median	
Debt and Financial Data							
Population	13,412	13,508	13,489	13,481	13,608	N/A	
Available Fund Balance (\$000s)	\$5,281	\$5,345	\$5,704	\$6,350	\$6,909	\$7,419	
Net Cash Balance (\$000s)	\$7,922	\$7,856	\$8,427	\$9,585	\$16,065	\$8,404	
Operating Revenues (\$000s)	\$21,213	\$21,479	\$21,881	\$21,658	\$22,194	\$21,930	
Net Direct Debt (\$000s)	\$36,073	\$36,927	\$38,111	\$37,766	\$37,594	\$18,580	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$29,681	\$34,232	\$39,208	\$43,145	\$45,153	\$32,507	

Source: Moody's Investors Service

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 2

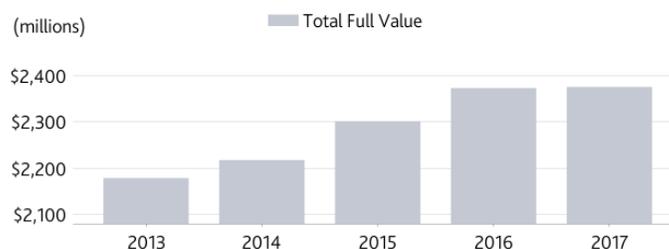
Available fund balance as a percent of operating revenues increased from 2013 to 2017



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

Full value of the property tax base increased from 2013 to 2017



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 2013 to 2017



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

Endnotes

- 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.
 - 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.
- 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.
 - 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.
 - The medians come from our most recently published local government medians report, [Medians - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) 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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