

CREDIT OPINION

7 February 2018

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Cresskill (Borough of) NJ

Update to credit analysis

Summary

The [Borough of Cresskill](#) (Aa2) is a high wealth suburb of [New York City](#) (Aa2 stable). The borough has very healthy reserves, modest debt, and favorably, does not offer post-retirement benefits.

On February 7, 2018 a press release was published assigning a Aa2 to the borough's \$7 million GOULT issuance.

Credit strengths

- » Above-average resident wealth and income
- » Favorable location near job centers in northern [New Jersey](#) (A3 stable) and New York City

Credit challenges

- » Limited room for expansion

Rating outlook

Outlooks are not usually assigned to ratings with this level of debt outstanding.

Factors that could lead to an upgrade

- » Substantial growth in the borough's tax base and resident wealth and income

Factors that could lead to a downgrade

- » Material deterioration of the tax base and resident wealth and income
- » Sustained, material decrease in reserves

Key indicators

Exhibit 1

Cresskill (Borough of) NJ	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$2,074,564	\$2,002,042	\$2,078,274	\$2,141,245	\$2,201,412
Population	8,541	8,605	8,669	8,729	8,812
Full Value Per Capita	\$242,895	\$232,660	\$239,736	\$245,302	\$249,820
Median Family Income (% of USMedian)	182.9%	186.0%	183.6%	188.0%	188.0%
Finances					
Operating Revenue (\$000)	\$15,584	\$15,819	\$16,316	\$16,808	\$17,784
Fund Balance (\$000)	\$3,415	\$3,620	\$3,946	\$4,278	\$4,599
Cash Balance (\$000)	\$7,525	\$8,330	\$8,757	\$9,263	\$9,717
Fund Balance as a % of Revenues	21.9%	22.9%	24.2%	25.4%	25.9%
Cash Balance as a % of Revenues	48.3%	52.7%	53.7%	55.1%	54.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$10,824	\$10,500	\$10,202	\$10,287	\$14,119
3-Year Average of Moody's ANPL (\$000)	\$18,164	\$20,342	\$23,216	\$29,899	\$36,918
Net Direct Debt / Operating Revenues (x)	0.7x	0.7x	0.6x	0.6x	0.8x
Net Direct Debt / Full Value (%)	0.5%	0.5%	0.5%	0.5%	0.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.2x	1.3x	1.4x	1.8x	2.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.9%	1.0%	1.1%	1.4%	1.7%

The fund balances in the above table reflects the Moody's-adjusted fund balance.

Sources: Moody's Investors Service, Cresskill audited financial statements

Profile

Cresskill is a high-wealth suburb of New York City located in [Bergen County](#) (Aaa stable). It has a population of approximately 8,700.

Detailed credit considerations

Economy: High wealth tax base shows return to growth

The borough's tax base will remain stable given its access to employment opportunities in the New York City area and above-average resident wealth and income. Cresskill, located 11 miles north of New York City, is largely residential with a modest commercial base. The \$2.3 billion tax base benefits from well above-average resident wealth and income with a median family income equal to 188% of the national median. After showing modest declines from 2009 through 2013 (inclusive) the tax base has grown in four consecutive years resulting in a five-year compound annual increase for Cresskill's equalized value of 1.9%.

The base is largely built out with only a modest amount of vacant land. Nonetheless, there is ongoing development. Management reports a number of townhouses being constructed which should lead to some more growth.

Finances and Liquidity: Strong finances with healthy reserves

The borough's financial position will remain strong in the medium term as management continues to budget conservatively. Current Fund balance increased in 2016 to \$2.4 million, or 13.7% of revenues from \$2 million, or 12.1% of Current Fund revenues in 2015. 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 township's Moody's-adjusted Current Fund Balance increased to \$4.6 million (25.9%) in 2016 from \$4.3 million (25.4%) in 2015. Since 2010, reported fund balance is up 74% while adjusted fund balance is up 48%. The increase is due to conservative budgeting and slow, steady tax increases.

Although audited financial statements are not yet available, preliminary 2017 show reported fund balance increasing to \$2.6 million.

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The borough's fixed costs including debt service and pensions are slightly below-average, particularly for New Jersey, at \$2.4 million, or 13.7% of revenues. Favorably, the borough does not offer post-retirement health benefits.

LIQUIDITY

The borough's liquidity is strong. In 2016 the borough ended with Current Fund cash of \$9.7 million, or 54.6% of revenues. Cash remains strong even after subtracting a routine \$5.1 million payable to the local school district.

Debt and Pensions: Modest debt with slightly above-average pension burden

The debt burden will remain moderate for the medium term as the borough has only limited plans to issue debt. Post-sale, the net direct debt is equal to 0.6% of equalized value.

DEBT STRUCTURE

All of the township's long-term debt is fixed rate. The borough typically issues BANs and rolls them for a number of years before bonding out. Post-sale, there will be no remaining BANs.

DEBT-RELATED DERIVATIVES

The borough has no derivative exposure.

PENSIONS AND OPEB

Cresskill has an above-average, but still manageable, defined-benefit pension burden, based on Moody's-estimated share of cost-sharing plans administered by the state. Moody's adjusted net pension liability (ANPL) for the township, under our methodology for adjusting reported pension data, is \$47.2 million, or an above-average 2.65 times Current Fund revenues. The borough's 2016 contribution to the retirement system was \$820,000 for the Police and Firemen's Retirement System (PFRS) and \$394,000 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 township's reported liability information, but to improve comparability with other rated entities.

Governance

Cresskill has a history of conservative budgeting. Notable examples include budgeting with a lower than usual collection rate, and providing monthly updates to the governing body.

New Jersey Cities have an Institutional Framework score 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.

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