

## CREDIT OPINION

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New Issue

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## Fair Lawn (Borough of) NJ

New Issue - Moody's Upgrades Fair Lawn's (NJ) GO to Aa1; Assigns MIG 1 to BANs

### Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 to the borough of Fair Lawn, NJ's \$18.9 million Bonds consisting of \$13.8 million General Bonds of 2016 and \$5.1 million Water Bonds of 2016. Moody's has also assigned a MIG 1 to \$5.1 million Bond Anticipation Notes. Concurrently, Moody's has upgraded the rating on the borough's outstanding general obligation debt to Aa1 from Aa2.

The upgrade to Aa1 reflects the borough's substantial tax base, high wealth levels, and strong finances, which have continued to improve. The MIG 1 rating reflects the borough's strong fundamental credit quality, excellent liquidity, and established record of market access.

### Credit Strengths

- » Above-average socioeconomic profile
- » Favorable location near [New York City](#) (Aa2 stable)
- » Healthy reserve position

### Credit Challenges

- » Limited room for new development

### Rating Outlook

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

### Factors that Could Lead to an Upgrade

- » Strengthening of the borough's tax base and socioeconomic indices

### Factors that Could Lead to a Downgrade

- » Material deterioration of the tax base and socioeconomic indices
- » Significant decrease in reserves

## Key Indicators

Exhibit 1

Fair Lawn (Borough of) NJ	2011	2012	2013	2014	2015
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 4,845,597	\$ 4,845,597	\$ 4,507,146	\$ 4,397,023	\$ 4,595,748
Full Value Per Capita	\$ 150,084	\$ 149,192	\$ 138,006	\$ 133,397	\$ 136,790
Median Family Income (% of US Median)	179.0%	172.9%	169.1%	174.0%	
<b>Finances</b>					
Operating Revenue (\$000)	\$ 44,116	\$ 45,597	\$ 45,810	\$ 46,539	\$ 49,116
Fund Balance as a % of Revenues	26.8%	28.4%	32.5%	36.8%	38.3%
Cash Balance as a % of Revenues	32.5%	36.7%	40.6%	50.1%	56.2%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 38,696	\$ 34,235	\$ 33,490	\$ 32,720	\$ 36,304
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	0.7x	0.7x	0.7x
Net Direct Debt / Full Value (%)	0.8%	0.7%	0.7%	0.7%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.2x	1.3x	1.4x	1.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.1%	1.3%	1.5%	1.7%

Source: Moody's Investors Service and Fair Lawn Audited Financial Statements

## Detailed Rating Considerations

### Economy and Tax Base: Large Tax Base with Above-Average Wealth Levels

The borough's tax base will remain stable given its access to employment opportunities in the New York City area, ongoing redevelopment, and above-average demographic indicators. Fair Lawn, located 13 miles west of New York City, is a primarily residential community with a modest commercial base. Socioeconomic indicators in the \$4.6 billion tax base are above-average, with median family income at 174% of the national median, up from 162% in 1999. The five-year compound annual decrease in Fair Lawn's equalized value is 1.1%, although it has grown in each of the past 2 years. Management reports considerable ongoing redevelopment which is expected to lead to increases in assessed value. This redevelopment includes both residential and mixed-use properties. Most notably, [Mondelez International, Inc.](#) (Baa1 stable) is undergoing a \$130 million expansion of its facility.

### Financial Operations, Reserves and Coverage: 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 2015 to \$11.5 million, or 23.4% of Current Fund revenues, from \$8.5 million, or 18.3% of revenues in 2014. 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 Moody's-adjusted Current Fund Balance increased to \$18.8 million (38.3%) in 2015.

On an adjusted basis, the borough has seen five consecutive surpluses, resulting in a 78.8% increase in fund balance since 2010. These improvements have been achieved primarily via conservative budgeting but also via regular revenue increases and strong tax collections. In addition, the borough expects to achieve savings thanks to its recent switch from self-insurance to the state health insurance plan. Management notes that there is a \$5 million trust fund available to deal with any residual claims from the self-insurance, which is expected to be more than sufficient.

Moody's notes that while the borough's finances are strong, its flexibility is somewhat restrained on the revenue side by the 2% statutory tax levy cap. On the expenditure side, the borough's flexibility is also limited by its fixed costs. Fixed costs for debt service, required pension contributions and retiree healthcare payments come to \$8.4 million, or 18.2% of expenditures.

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](http://www.moody's.com) for the most updated credit rating action information and rating history.

## LIQUIDITY

Liquidity is likely to remain strong in the medium term. Current Fund net cash increased modestly to \$27.6 million, or 56.2% of revenues, in 2015. Total liquidity coverage on the notes, including trust utility fund cash, is expected to come to approximately 632%.

## Debt, Pensions and Legal Covenants

Fair Lawn's debt burden will remain modest for the medium term. Including this issuance, in 2016, the borough's net direct debt burden was 0.8% of equalized value. Principal amortization is average at 74.7% over the next 10 years. Management intends to issue small amounts of debt to pay for annual capital projects over the next few years.

## DEBT STRUCTURE

All of Fair Lawn's debt is fixed rate. The borough is a frequent market participant and has issued short-term notes in each of the last five years, a factor in our assignment of the MIG 1 rating. Management has also historically sold refunding notes with adequate time before note maturity.

## DEBT-RELATED DERIVATIVES

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

## PENSIONS AND OPEB

Fair Lawn has an above-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 \$88.9 million, or an above-average 1.81 times Current Fund revenues. The borough's 2015 contribution to the retirement system was \$1.5 million for the Police and Firemen's Retirement System (PFRS) and \$1.2 million 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

New Jersey cities have an institutional framework score of "Aa," or strong. Revenues are moderately predictable and mostly consist of property taxes; however, cities are required to make county and school district tax levies whole in the event of tax appeals. Revenue raising ability is moderate as cities are constrained by a 2% cap on the property tax levy. Cities can raise the levy above the cap for debt service, pensions and certain qualified expenses. Expenditures, which primarily consist of personnel and public safety, are highly predictable given a 2% arbitration award cap for disputes with police and fire employees. Cities have a moderate ability to adjust costs given the presence of collective bargaining and high fixed costs.

## Legal Security

Debt service on the bonds and notes is secured by the borough's general obligation unlimited ad valorem tax pledge.

## Use of Proceeds

Proceeds from the bonds will be used to permanently finance \$18.9 million in outstanding BANs. Proceeds from the notes will be used to finance various capital projects.

## Obligor Profile

Fair Lawn is a borough with a population of approximately 34,000 located in northern [New Jersey](#) (A2 negative), within commuting distance of New York City.

## Methodology

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the bond anticipation rating was US Bond Anticipation Notes published in April 2014. Please see the Ratings Methodologies page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

## Ratings

Exhibit 2

### Fair Lawn (Borough of) NJ

Issue	Rating
Bonds Const. of General Bonds of 2016 and Water Bonds of 2016	Aa1
Rating Type	Underlying LT
Sale Amount	\$18,885,000
Expected Sale Date	08/24/2016
Rating Description	General Obligation
Bond Anticipation Notes	MIG 1
Rating Type	Underlying ST
Sale Amount	\$5,065,000
Expected Sale Date	08/24/2016
Rating Description	Note: Bond Anticipation

Source: Moody's Investors Service

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