

RatingsDirect®

Summary:

Princeton, New Jersey; General Obligation

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Credit Profile

US\$14.92 mil GO rfdg bn ds ser 2016 dtd 11/30/2016 due 01/01/2026

Long Term Rating

AAA/Stable

New

Rationale

S&P Global Ratings assigned its 'AAA' rating to Princeton, N.J.'s series 2016 general obligation (GO) refunding bonds. At the same time, we affirmed our 'AAA' rating on Princeton's existing GO debt. The outlook is stable.

A pledge of Princeton's full faith credit and resources and an agreement to levy ad valorem property taxes without limitation on the rate or amount secures the bonds. We understand the 2014 bond proceeds will be used to refund all or a portion of outstanding GO bonds series 2007, 2009, 2010, and 2011. Net present value savings is estimated at 5.2%, currently.

The rating reflects our view of Princeton's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with balanced operating results in the current fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 27% of operating expenditures;
- Very strong liquidity, with total government available cash at 63.2% of total governmental fund expenditures and 3.3x governmental debt service, and access to external liquidity that we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 19.2% of expenditures and net direct debt that is 166.5% of total governmental fund revenue, but rapid amortization, with 86.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Princeton's economy very strong. The city, with an estimated population of 12,354, is located in Mercer County in the Trenton MSA, which we consider to be broad and diverse. The city also benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 134% of the national level and per capita market value of \$629,192. Overall, the city's market value grew by 2.1% over the past year to \$7.8 billion in 2016. The county unemployment rate was 4.8% in 2015.

The now-consolidated Princeton encompasses the former township and borough and covers 18.5 square miles in Mercer County. This was the first instance of municipal consolidation of this size in New Jersey, and the only one to date. The consolidation was approved by residents in 2011 and became effective for fiscal 2013.

Princeton is primarily residential in nature, yet maintains a healthy commercial and retail base. Given its location and excellent access via rail and several major roadways to several regional area economies, residents find ample employment opportunities not only in the Trenton metro area, but Philadelphia, and New York City as well. County unemployment levels have historically been below state and national averages. Per capita incomes are, in our opinion, strong and reflective of the residents' ability to access employment opportunities both locally and throughout the Philadelphia and New York City regional employment bases. Princeton University is located within Princeton's boundaries and provides further stability to the area, yet may somewhat mitigate higher per capita income levels due to the student population.

Following a property revaluation in fiscal 2010, assessed value (AV) experienced modest growth, totaling \$6.9 billion in 2015. Market value has also experienced modest growth during this period. However, management expects ratables to increase by \$127 million over the next five years (2016-2020) as larger economic development projects (including Avalon Bay, a sizeable redevelopment project on the site of a former hospital; and Copper Wood, an age restricted community) and renovations to the Princeton Shopping Center all continue development.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable. Following the implementation and adoption of a formal six-year long-term financial plan, Princeton's FMA improved from good to strong.

Highlights of other policies and practices include: the use of historical trend analysis (looking back three to five years) and zero based budgeting practices for annual budget preparation, prior to consolidation as well as currently. Budget to actuals monitored on a monthly basis, if not more frequently, with quarterly reports provided to council. Following consolidation, Princeton adopted a formal six-year long term financial plan for both revenues and expenditures which is updated annually and includes assumptions. They also maintain a formal six-year capital plan which is updated annually and includes both projects and funding sources. Princeton has adopted their own formal investment policy; monitoring investments and performance daily with reports provided to council quarterly. The formal debt issuance policy requires:

- General debt service to increase to not more than 1.5% annually;
- Current fund debt service to be less than 180% of budgeted current fund revenues;
- Enterprise debt to be less than 200% of budgeted enterprise-wide revenues; and
- State-defined debt to be maintained at 2.5% of three-year average AV (compared to the state's required 3%).

Princeton has also formalized a reserve policy that requires maintaining current fund balance between 15% to 20% of annual expenditures.

Strong budgetary performance

Princeton's budgetary performance is strong in our opinion. The city had balanced operating results of 0.3% of expenditures in the current fund and of 0.3% across all governmental funds in fiscal 2015.

Management continues to work towards greater cost consolidation savings, to maintain a sound fiscal position. As a result of these ongoing efforts, Princeton closed with its third consecutive surplus; of \$148,000 in fiscal 2015; keeping reserves in line with prior years. More than midway through fiscal 2016, management is projecting another modest surplus as revenues are just slightly above budget. Property taxes account for roughly 51% of current fund revenues, followed by miscellaneous revenues, fines and fees. Property tax rates have increased modestly and are either at or below the state's 2% annual levy cap; with cap bank typically being left to expire. Tax collections have been stable, averaging 99% over the past three years (2013-2015).

Given the strong track record of conservative budgeting practices coupled with several adopted and formal fiscal policies, we do not expect the budgetary performance score to change in the near term.

Very strong budgetary flexibility

Princeton's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 27% of operating expenditures, or \$15.5 million. Princeton closed its third year (2015) of consolidated government with another surplus; adding to fund balance reserves. We understand management has no plans to significantly spend down reserves. Rather, it plans to further enhance them, thereby remaining in compliance with Princeton's new formal policy to maintain reserves at 15% to 20% of expenditures. Fiscal 2015 closed with a \$148,000 surplus and an ending current fund available balance of \$15.5 million, or 26.5% of expenditures.

More than midway through fiscal 2016, management is projecting another modest surplus as revenues are just slightly over budget while expenditures are tracking on target with budget. Given the projection for another surplus in fiscal 2016 and their formal reserve policies in place, we do not expect their budget flexibility score to change in the near term.

Very strong liquidity

In our opinion, Princeton's liquidity is very strong, with total government available cash at 63.2% of total governmental fund expenditures and 3.3x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We believe Princeton has strong access to external liquidity, with issuances both prior to consolidation and after, primarily from GO bonds over the past 20 years. Management has confirmed they have no contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. In addition, Princeton does not hold any investments we deem aggressive.

Weak debt and contingent liability profile

In our view, Princeton's debt and contingent liability profile is weak. Total governmental fund debt service is 19.2% of total governmental fund expenditures, and net direct debt is 166.5% of total governmental fund revenue.

Approximately 86.5% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

We understand Princeton plans to issue additional new money debt in the near term. They can currently issue up to \$7.5 million; however, the actual amount has not yet been determined. For conservative purposes, we have factored in the entire allowable amount.

Princeton's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

Princeton participates in two state-administered pension programs: the Public Employees' Retirement System and the Police and Firemen's Retirement System. It has made 100% of its annual required contribution to both systems; as required by the state. OPEB costs are made on a pay-as-you-go basis. With each labor contract renegotiated as a result of consolidation, employee contributions will moderately increase, aiding the combined municipality in total annual contribution costs. As a result, total contributions have modestly declined from 5.3% in 2013 to 5% in 2015. Therefore, we do not expect these costs to rise significantly in the near term.

Princeton's GO bonds are eligible to be rated above the sovereign because we believe the municipality can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, titled "Ratings Above the Sovereign: Corporate and Government Ratings--Methodology and Assumptions," U.S. local governments are considered to have moderate sensitivity to country risk. The municipality general obligation pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the municipality. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management and no history of government intervention. Princeton has considerable financial flexibility, as demonstrated by the very high current fund balance as a percentage of expenditures, as well as very strong liquidity.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects our view of strong budgetary performance following the consolidation. It also reflects the new municipality's ability to continue to effectively manage its financial operations; achieve ongoing cost savings; and maintain a consistent and strong financial position and performance. Moreover, it reflects Princeton benefiting from very strong budget flexibility and liquidity, as well as from very strong management, following adoption of an additional fiscal policy which ensures continued fiscal strength. Additionally, Princeton benefits from its very strong area economy, with good access to even broader and more diverse employment bases. As such, we do not anticipate a rating change within the two-year outlook horizon. However, although unlikely, should Princeton's financial position and reserves deteriorate, we could lower the rating.

Ratings Detail (As Of November 2, 2016)

Princeton gen imp rfdg bnds

Long Term Rating

AAA/Stable

Affirmed

Ratings Detail (As Of November 2, 2016) (cont.)

Princeton GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Princeton Twp GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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