

CREDIT OPINION

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Berkeley Heights (Township of) NJ

Update to credit analysis

Summary

[Berkeley Heights](#) (Aa1) benefits from a very wealthy tax base and ongoing redevelopment. The township has several new projects that will be additions to the local economy while adding new PILOT revenue. The financial position has improved over the past several years and will remain healthy through fiscal 2022 as actual operations are trending better than budget, year-to-date. The debt burden of the township is slightly above peers but the township made a large one-time pay down in fiscal 2021 with the sale of property. Its pension and OPEB liabilities are the drivers of its long-term liabilities.

Credit strengths

- » Growing and wealthy tax base with proximity to [New York City](#) (Aa2 stable)
- » Improving reserves that are expected to continue

Credit challenges

- » Above-average long-term liabilities for the rating category

Rating outlook

Moody's typically does not assign outlooks to local government issuers with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Continued improvement in its reserve position
- » Decline in long-term liabilities

Factors that could lead to a downgrade

- » Material deterioration of the tax base and resident wealth and income
- » Decrease in reserves
- » Growth in long-term liabilities

Key indicators

Exhibit 1

Berkeley Heights Township, NJ	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$3,293,371	\$3,355,387	\$3,336,817	\$3,443,695	\$3,486,223
Population	13,387	13,576	13,417	13,310	13,321
Full Value Per Capita	\$246,013	\$247,156	\$248,701	\$258,730	\$261,709
Median Family Income (% of US Median)	249.5%	245.1%	268.0%	281.7%	257.9%
Finances					
Operating Revenue (\$000)	\$18,253	\$18,927	\$18,982	\$21,252	\$22,928
Fund Balance (\$000)	\$2,935	\$3,663	\$3,560	\$4,793	\$6,203
Cash Balance (\$000)	\$3,430	\$10,935	\$4,714	\$5,196	\$7,122
Fund Balance as a % of Revenues	16.1%	19.4%	18.8%	22.6%	27.1%
Cash Balance as a % of Revenues	18.8%	57.8%	24.8%	24.4%	31.1%
Debt/Pensions					
Net Direct Debt (\$000)	\$17,824	\$24,869	\$39,692	\$56,414	\$59,939
3-Year Average of Moody's ANPL (\$000)	\$31,086	\$33,168	\$35,474	\$34,675	\$37,036
Net Direct Debt / Full Value (%)	0.5%	0.7%	1.2%	1.6%	1.7%
Net Direct Debt / Operating Revenues (x)	1.0x	1.3x	2.1x	2.7x	2.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.9%	1.0%	1.1%	1.0%	1.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.7x	1.8x	1.9x	1.6x	1.6x

Source: Moody's Investors Service; township financial statements; US Census

Profile

Berkeley Heights is a township located within commuting distance of New York City with a population of approximately 13,300.

Detailed credit considerations

Economy and tax base: very wealth and growing tax base

The township's tax base will remain strong given its access to employment opportunities in the New York City area, stable population, strong local economy and above-average resident wealth and income. Berkeley Heights, located approximately 15 miles west of New York City, is approximately 76% residential and 24% commercial. The township's \$3.6 billion base has benefitted from ongoing redevelopment efforts which will be additions to its local economy. These projects are in various stages of completion. While most of the projects are on PILOTs (thus not included in the tax base figures) two are going to be additions to the base. The projects are largely residential with some mixed-use developments.

Resident wealth and income are very strong, with median family income at 257.9% of the nation median and 197% of the state. Full value per capita is also strong at \$267,280.

Financial operations and reserves: healthy reserves expected to grow modestly

The township's financial position will remain strong in the medium term as management continues to budget conservatively and new PILOT revenue come on line. Current Fund balance increased to \$3.9 million or 17% of revenue in 2020 from \$2.5 million, or 11.7% of Current Fund revenue in 2019. 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 \$6.2 million (27%) from

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\$4.8 million (22.6%) in 2019. The township's revenues stream is mostly property taxes accounting for 63% of revenues followed by other miscellaneous revenues at 24% of revenues.

Fiscal 2021 unaudited results show another strong year for the township. Adjusted fund balance is set to increase to \$9.7 million or 27.2% of revenue. The increase in the fund balance reflects very strong revenue collections particularly in above-average property tax collections, construction code fees, and sewer fees.

The fiscal 2022 budget, net of a sale of property that was completed in fiscal 2021, is largely similar to previous years. The township increased its tax levy 2.5% while aiming to be conservative in its other miscellaneous revenues. Year-to-date, the township's revenue collections have been very strong while spending is in line with budget. The township is expecting to at least replenish its use of fund balance (\$2.8 million) and potentially add to reserves by the end of the year.

Liquidity

The township's cash will also remain strong in the near-term. At the end of fiscal 2020, cash was \$7.1 million or 31.1% of revenue. Fiscal 2021 shows another increase to \$10.9 million or 30.8% of revenue.

Debt and pensions: above-average leverage

The township's debt burden will remain slightly elevated for the rating category even with a \$10 million pay down in debt, financed with revenue from the aforementioned asset sale. Including this issuance, the township's debt burden will be approximately 1.5% of full value. In the near-term, the township expects to authorize \$2 million annually for routine infrastructure improvements. The township has ongoing capital needs and will be working to leverage grants, low-interest state loans, and internal funds to avoid issuing excessive long-term debt in the future.

Legal security

The bonds are valid and legally binding obligations of the township, and unless paid from other sources, are payable from ad valorem taxes levied upon all taxable property within the township without limit as to rate or amount.

The notes are valid and legally binding obligations of the township, payable in the first instance from the proceeds of the sale of bonds in anticipation of which the note is issued but if not so paid, payable ultimately from ad valorem taxes that may be levied upon all taxable property within the township without limit as to rate or amount.

Debt structure

All of Berkeley Heights' debt is fixed rate.

Debt-related derivatives

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

Pensions and OPEB

The township's adjusted pension and OPEB obligations will continue to be a substantial portion of the township's overall leverage. The township participates in two state sponsored multiple employer cost-sharing pension plans and provides other post-employment benefits (OPEB) also administered by the state. OPEB is funded on a pay-as-you-go basis. The table below summarizes the total 2020 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

2020	(000)	% of Operating Revenues	Discount Rate
Operating Revenue	22,928	n/a	n/a
Reported Unfunded Pension Liability	15,928	69%	7.00%
Moody's Adjusted Net Pension Liability	41,359	180%	2.70%
Reported Net OPEB Liability	43,084	188%	2.12%
Moody's Adjusted Net OPEB Liability	41,442	181%	2.52%
Net Direct Debt	59,939	261%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	142,740	622.56%	
Pension Contribution	1,256	5.48%	n/a
OPEB Contribution	1,275	5.56%	n/a
Debt Service	3,077	13.42%	n/a
Total Fixed Costs	5,608	24.46%	n/a
Tread Water Gap	153	0.67%	n/a
Moody's Adjusted Fixed Costs	5,761	25.13%	n/a

Sources: Moody's Investors Service; township financial statements

The state-sponsored boards, which control the pension funds have historically set contribution rates at a level insufficient to allow the plans to tread water. In addition, the tread water gap does not take into account the very aggressive state board's assumptions underpinning the actuarial analysis, which likely would make the gap even larger. The township did increase its adjusted fund balance more than its 2020 tread water indicator indicating its operations were balanced.

To the extent that the multiple-employer pension plans in which the township participates experience returns on assets that fall short of their assumptions, the township's required pension contribution will increase. Because it is not pre-funding OPEB benefits as they accrue, the township's OPEB costs will likely escalate as the number of retirees it covers grows and retirees age.

ESG considerations

Environmental

Environmental factors do not pose a credit risk in the near-term for the township. According to county-level data from Moody's ESG Solutions, the township's highest exposures are to hurricanes, water stress and sea level rise. These exposures are mitigated by ongoing efforts address annual infrastructure improvements and support from FEMA in the event of material storm damage.

Social

Social considerations are not expected to have a material credit impact on the township in the near-term. The township's poverty rate is extremely low at 1.1% compared to the nation at 13.4%. Unemployment within the county of 8% is above the state (7.8%) and the nation (6.2%).

Governance

The management team in Berkeley Heights has been extremely active improving the overall fiscal health of the township. The team has worked to secure new PILOT revenue to be added to the budget and help address capital projects. Additionally, the township is working to improve reserves to keep its financial position strong.

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 revenue 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 healthcare 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.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching adjustments dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Berkeley Heights Township, NJ

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$33,61,101	Aa
Full Value Per Capita	\$2,52,316	Aaa
Median Family Income (% of US Median)	257.9%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	27.1%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	15.7%	Aa
Cash Balance as a % of Revenues	31.1%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	16.9%	Aa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.7%	Aa
Net Direct Debt / Operating Revenues (x)	2.5x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.1%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.6x	A
Scorecard-Indicated Outcome		Aa1
Assigned Rating		Aa1

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication

Sources: US Census Bureau, Moody's Investors Service

Sources: Moody's Investors Service; Berkeley Heights, NJ's financial statements; US Census

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