

## CREDIT OPINION

22 April 2024



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## City of Elizabeth, NJ

### Update to credit analysis

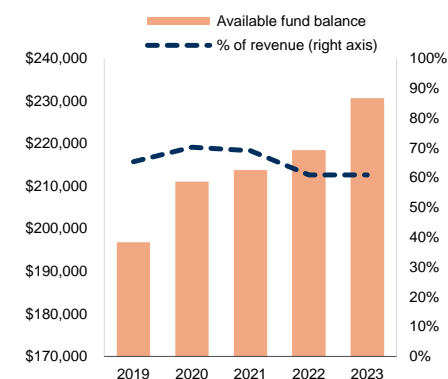
#### Summary

The City of Elizabeth, NJ's (Aa2) excellent financial management will ensure the city will preserve its strong financial position. The city holds very healthy reserves (available fund balance is 60.9% of revenue) and demonstrates conservative budgeting and sound long-term financial planning. Elizabeth's strong fiscal condition is an important strength in light of its local tax base, which is not as wealthy as most highly rated peers in the state. The city's median household income adjusted for the regional cost of living is 70.6% of the US median, which is among the lowest income figures out of more than 200 rated NJ municipalities. Favorably, the city's base is growing (full value has jumped more than 10% in each of the past two years, and population is up 8% over the past decade), owing to its favorable location near Newark Airport and major NJ highways, its relative affordability for the region, and good transit options into New York City. The growing base, strong financial management, and moderate leverage will keep the city's credit profile in a solid position going forward.

Exhibit 1

#### Financial position is strong

\$ in thousands

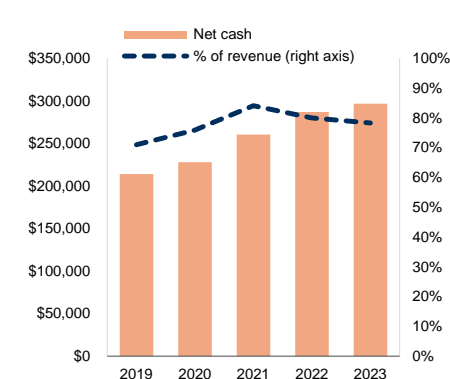


Source: Moody's Ratings

Exhibit 2

#### Cash is solid

\$ in thousands



Source: Moody's Ratings

On April 22, 2024, we assigned Aa2 ratings to the city's \$23 million General Obligation Bonds, Series 2024, consisting of \$11 million General Improvement Bonds and \$12 million Sewer Utility Bonds. We also affirmed the city's Aa2 issuer rating and Aa2 general obligation debt ratings, as well as the Aa2 ratings on city-guaranteed debts issued by the Elizabeth Parking Authority.

### Credit strengths

- » Excellent financial position
- » Conservative budgeting and fiscal practices
- » Growing local economy

### Credit challenges

- » Resident incomes below the levels of most peers
- » Capital investment requirements in the city's sewer fund
- » Moderate long-term liabilities

### Rating outlook

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

### Factors that could lead to an upgrade

- » Strengthening of resident income ratio to at least 100% of the US median
- » Significant decline in leverage

### Factors that could lead to a downgrade

- » Decline in available fund balance below 45% of revenue
- » Significant increase in leverage
- » Capital requirements for sewer system driving need for substantial debt issuances and rate increases

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 3

### Elizabeth (City of) NJ

	2020	2021	2022	2023	Aa Medians
<b>Economy</b>					
Resident income ratio (%)	67.5%	68.6%	70.6%	N/A	115.2%
Full Value (\$000)	\$8,592,066	\$9,309,505	\$10,493,003	\$12,215,593	\$2,753,876
Population	128,484	135,772	135,665	N/A	22,803
Full value per capita (\$)	\$66,873	\$68,567	\$77,345	N/A	N/A
Annual Growth in Real GDP	-3.5%	4.8%	2.5%	N/A	4.9%
<b>Financial Performance</b>					
Revenue (\$000)	\$300,439	\$309,942	\$358,964	\$378,812	\$49,930
Available fund balance (\$000)	\$211,030	\$213,812	\$218,455	\$230,671	\$27,007
Net unrestricted cash (\$000)	\$227,944	\$260,569	\$287,081	\$296,688	\$36,277
Available fund balance ratio (%)	70.2%	69.0%	60.9%	60.9%	54.0%
Liquidity ratio (%)	75.9%	84.1%	80.0%	78.3%	75.9%
<b>Leverage</b>					
Debt (\$000)	\$219,148	\$198,902	\$191,568	\$184,945	\$35,831
Adjusted net pension liabilities (\$000)	\$885,188	\$690,544	\$621,166	\$535,685	\$55,367
Adjusted net OPEB liabilities (\$000)	\$179,787	\$319,168	\$306,571	\$275,286	\$5,248
Other long-term liabilities (\$000)	\$24,671	\$25,532	\$28,439	\$25,532	\$1,716
Long-term liabilities ratio (%)	435.6%	398.2%	319.7%	269.6%	244.9%
<b>Fixed costs</b>					
Implied debt service (\$000)	\$15,735	\$15,694	\$13,951	\$13,379	\$2,465
Pension tread water contribution (\$000)	\$25,982	\$28,090	\$19,969	\$26,150	\$1,563
OPEB contributions (\$000)	\$11,732	\$11,732	\$11,687	\$13,870	\$178
Implied cost of other long-term liabilities (\$000)	\$1,743	\$1,767	\$1,791	\$1,986	\$116
Fixed-costs ratio (%)	18.4%	18.5%	13.2%	14.6%	10.7%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the New York-Newark-Jersey City, NY-NJ-PA Metropolitan Statistical Area Metropolitan Statistical Area.

Sources: US Census Bureau, Elizabeth (City of) NJ's financial statements and Moody's Ratings, US Bureau of Economic Analysis

## Profile

The City of Elizabeth is the fourth-largest municipality in New Jersey, with a population of 135,665. It is the county seat of Union County, and is located just south of Newark.

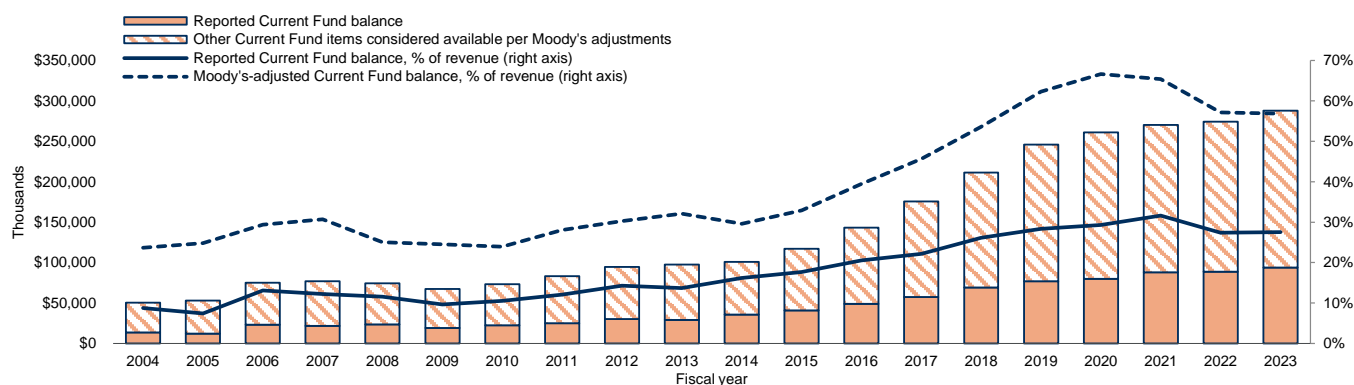
## Detailed credit considerations

Elizabeth's financial management is its greatest strength. Reserves are healthy and the city's strong fiscal practices will protect its financial position going forward.

The city's financial results speak for themselves. Its reported Current Fund balance has not declined once in 10 years, and the available Current Fund balance (including items not considered fund balance under NJ accounting but considered available by Moody's) is more than 60% of revenue. Elizabeth has achieved this through conservative budgeting, long-term financial planning, and a willingness to increase the property tax levy.

Exhibit 4

### Elizabeth's reserves are very healthy



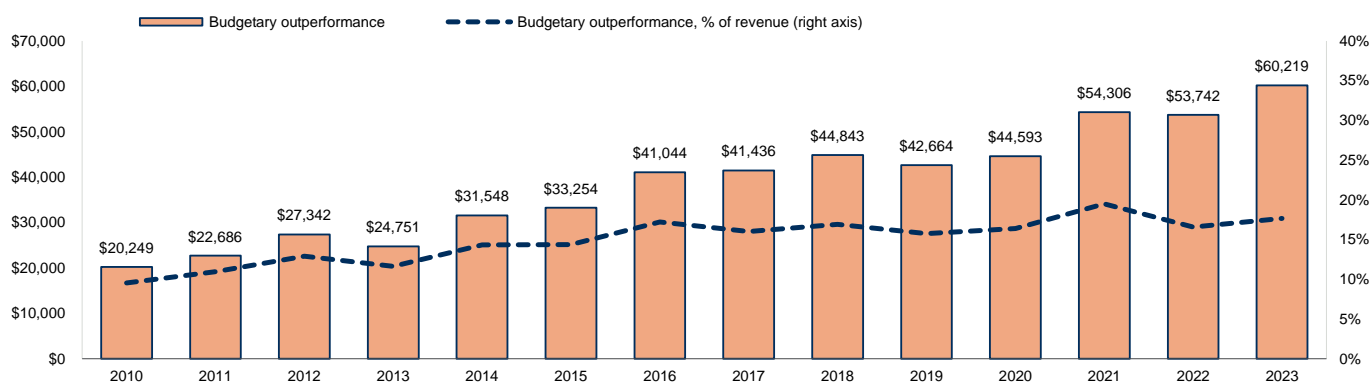
This shows the city's Current Fund balance against Current Fund revenue. It differs from the available fund balance shown in the key indicators table above because this figure includes only the Current Fund and not the balances in its business-type activities.

Source: Elizabeth, Moody's Ratings

The scale of the city's budgetary outperformance is good evidence of its conservative financial management. Each year, Elizabeth generates substantial revenues in excess of its budget. With Current Fund revenue of about \$340 million, the city last year generated \$60 million of budgetary outperformance (17.6% of revenue).

Exhibit 5

### Elizabeth outperforms its budget by a significant margin



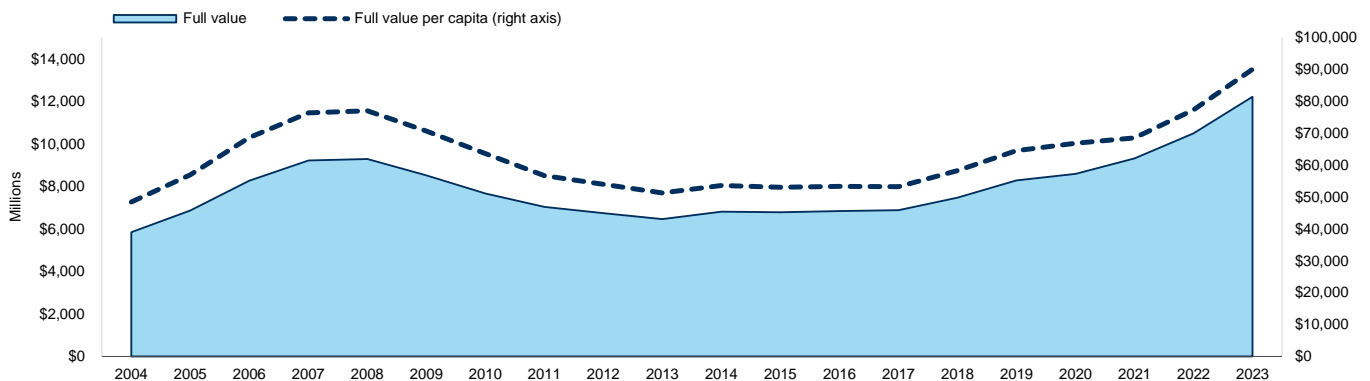
Source: Elizabeth

Note that the above only captures the city's Current Fund, and not its business-type activities, in particular its sewer fund. While the sewer fund is financially healthy as well, the capital needs of that fund will mean future debt issuances and ongoing rate increases. Given the city's established track record of strong fiscal management, we expect the city's balance sheet to retain its strength throughout this.

The city's financial strength and good fiscal management are important offsets to its local economy and tax base, which is not as wealthy as most similarly rated peers in NJ. The city's median household income adjusted for the regional cost of living is equal to 70.6% of the US median, which is the 14th-lowest out of 215 rated NJ municipalities, and substantially lower than the median of 133.3% for NJ municipalities rated Aa2.

Favorably, though, the city is growing – its full value has jumped more than 10% in each of the past two years<sup>1</sup>, and its population is up 8% over the past decade. This is attributable to the city's favorable location near Newark Airport and major regional highways, as well as its good transit access into New York City. It is also an affordable community for the region; its median home value is \$100,000 lower than the median home value in Union County. Based on the ongoing development in the city, its income and property wealth are likely to continue to strengthen.

Exhibit 6

**Local tax base is growing and strengthening**

Source: NJ Division of Taxation, US Census Bureau

The city's leverage is moderate, which is standard for NJ cities. Its total Moody's-adjusted long-term liabilities are equal to about 270% of revenue, which is a bit above the national median.

## Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 7

### Elizabeth (City of) NJ

	Measure	Weight	Score
<b>Economy</b>			
Resident income ratio	70.6%	10.0%	Baa
Full value per capita	90,042	10.0%	A
Economic growth metric	-0.4%	10.0%	Aa
<b>Financial Performance</b>			
Available fund balance ratio	60.9%	20.0%	Aaa
Liquidity ratio	78.3%	10.0%	Aaa
<b>Institutional Framework</b>			
Institutional Framework	Aa	10.0%	Aa
<b>Leverage</b>			
Long-term liabilities ratio	269.6%	20.0%	A
Fixed-costs ratio	14.6%	10.0%	Aa
<b>Notching factors</b>			
Financial disclosures	-0.5		
Scorecard-Indicated Outcome			Aa3
<b>Assigned Rating</b>			<b>Aa2</b>

The Economic Growth metric cited above compares the five-year CAGR of real GDP for New York-Newark-Jersey City, NY-NJ-PA Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Elizabeth (City of) NJ's financial statements and Moody's Ratings

## Appendix

Exhibit 8

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
<b>Financial performance</b>		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
<b>Leverage</b>		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
<b>Fixed costs</b>		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US Cities and Counties Methodology](#).

Source: Moody's Ratings

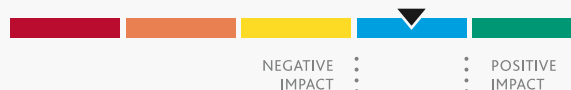
## ESG considerations

### Elizabeth (City of) NJ's ESG credit impact score is CIS-2

Exhibit 9

#### ESG credit impact score

# CIS-2



ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

Elizabeth's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting moderately negative exposure to environmental risks, low exposure to social risks and a sound governance profile.

Exhibit 10

#### ESG issuer profile scores

ENVIRONMENTAL

## E-3



SOCIAL

## S-2



GOVERNANCE

## G-1



Source: Moody's Ratings

### Environmental

The city's overall environmental issuer profile score is moderately-negative (**E-3**). While carbon transition, water, natural capital, and pollution risks are modest, the city is exposed to rising sea levels, particularly since the Port of New York and New Jersey (partially located within the city) is a key economic engine for the region. Favorably, multiple levels of government are engaged in projects related to the health and upkeep of the Hudson River.

### Social

Elizabeth's social issuer profile score is neutral to low (**S-2**). Housing and educational attainment remain sources of pressure while access to basic services, health and safety, and demographic pressures all have a fairly neutral impact. The city is considerably less wealthy than many surrounding communities but is also a less expensive enclave, though ongoing development is likely to partially change the nature of the residential economic profile.

### Governance

Elizabeth's governance issuer profile score is positive (**G-1**). The city benefits from a very strong institutional framework and has successfully implemented financial and growth policies. This has resulted in a very strong financial position. The city has a deep bench of civil servants and outside professionals.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.



## Endnotes

- 1 Some of this is due not to organic growth but to challenges to assessments the city has lodged against some properties, resulting in higher assessed valuations.

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