

CREDIT OPINION

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Mercer County, NJ

Update to credit analysis

Summary

Mercer County, NJ (Aa2 stable) benefits from its strong local economy that is anchored by the presence of the state capital within the county along with higher education institutions such as Princeton University (Aaa stable). The county's resident income and wealth are above-average. Its financial position is stable but below-average for the rating category. Fiscal 2024 preliminary results are showing a decline in reported fund balance to \$55 million from \$65 million. Leverage is in line with state peers but elevated nationally. Its capital plan is manageable.

Credit strengths

- » Growing economy with institutional presence
- » Above-average resident income and wealth

Credit challenges

- » Modestly below-average reserve position
- » Above-average leverage driven by pension and OPEB liabilities

Rating outlook

The stable outlook reflects the growing likelihood that the county's economy will continue to see ongoing improvements while reserves and leverage will remain stable.

Factors that could lead to an upgrade

- » Increase in reserves to above 25% of revenues
- » Sustained decline in leverage to below 200% of revenues

Factors that could lead to a downgrade

- » Decline in fund balance to below 13% of revenues
- » Sustained increase in leverage to above 375% of revenues

Key indicators

Exhibit 1

Mercer (County of) NJ

	2020	2021	2022	2023	Aa Medians
Economy					
Resident income ratio (%)	123.1%	121.9%	122.5%	120.2%	97.6%
Full Value (\$000)	\$46,377,808	\$46,620,409	\$48,637,549	\$52,715,089	\$9,151,511
Population	368,085	384,951	383,732	383,286	87,096
Full value per capita (\$)	\$125,998	\$121,107	\$126,749	\$137,535	\$104,628
Annual Growth in Real GDP	2.0%	9.2%	5.3%	1.7%	1.6%
Financial Performance					
Revenue (\$000)	\$366,274	\$419,635	\$456,537	\$437,196	\$107,019
Available fund balance (\$000)	\$57,406	\$76,989	\$89,024	\$77,658	\$48,740
Net unrestricted cash (\$000)	\$139,891	\$147,292	\$226,097	\$194,127	\$81,778
Available fund balance ratio (%)	15.7%	18.3%	19.5%	17.8%	45.7%
Liquidity ratio (%)	38.2%	35.1%	49.5%	44.4%	81.6%
Leverage					
Debt (\$000)	\$579,574	\$576,763	\$604,429	\$622,156	\$45,818
Adjusted net pension liabilities (\$000)	\$816,322	\$710,739	\$418,367	\$358,693	\$83,237
Adjusted net OPEB liabilities (\$000)	\$296,776	\$326,908	\$237,351	\$243,738	\$4,935
Other long-term liabilities (\$000)	\$14,786	\$14,477	\$21,978	\$28,949	\$4,365
Long-term liabilities ratio (%)	466.2%	388.2%	280.8%	286.7%	161.0%
Fixed costs					
Implied debt service (\$000)	\$40,609	\$41,505	\$40,454	\$42,213	\$3,284
Pension tread water contribution (\$000)	\$22,355	\$22,842	\$17,332	\$19,005	\$1,640
OPEB contributions (\$000)	\$24,671	\$32,429	\$6,605	\$8,493	\$198
Implied cost of other long-term liabilities (\$000)	\$1,078	\$1,059	\$1,015	\$1,535	\$283
Fixed-costs ratio (%)	24.2%	23.3%	14.3%	16.3%	6.0%

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 Trenton-Princeton, NJ Metropolitan Statistical Area Metropolitan Statistical Area.

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

Profile

Mercer County, NJ is located in central New Jersey (A1 positive) and is home to the state capital, Trenton (Baa2).

Detailed credit considerations

Economy: strong economy with institutional presence

Mercer County will continue to see ongoing growth in its local economy driven by its prime location along with institutional presence. The county, centrally located in the state, benefits from the presence of the state capital along with Princeton University (Aaa stable) and The College of New Jersey (A2 stable). The county has ongoing development but of particular note, is a new 42 acre research and development facility for BeiGene, a pharmaceutical company. Construction of this facility is underway and is a \$800 million investment. Additionally, its riverfront area, including a former minor league baseball stadium, are a focus of redevelopment. The local economy has been on a strong growth trend with its GDP growing materially faster than the nation.

The county's resident income and wealth are above-average. Adjusted median household income amounted to 122.4% of the nation. Its full value per capita is \$152,000 utilizing the county's 2024 full value of \$58.5 billion. The county's full value grew 11% year-over-year.

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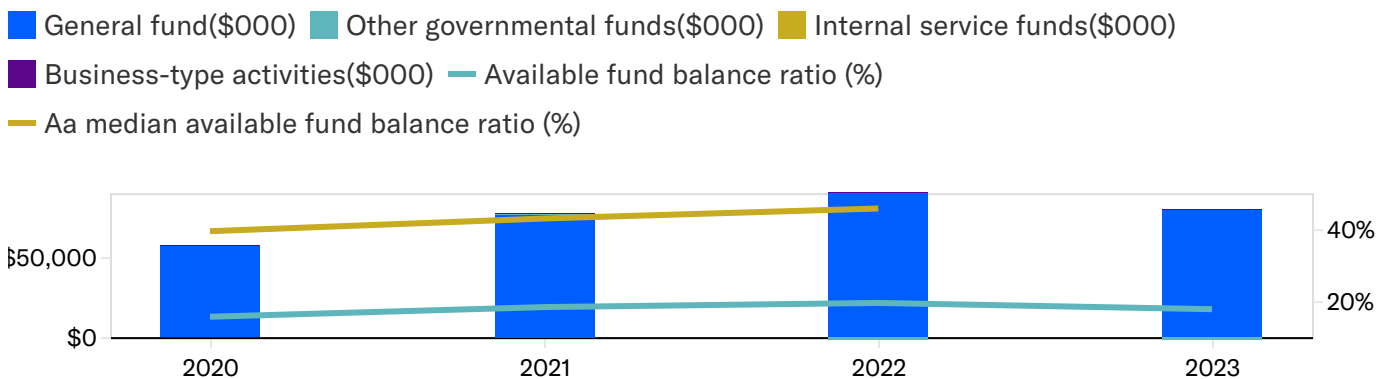
Financial operations: stable reserve position expected to hold

The county's reserve position will see a decline in 2024 as the county's new management team cleans up past administrative quirks. Future fiscal years will see a return to normal levels and stability to operations. The fiscal 2024 introduced budget included a 13% increase in taxes to be raised to reflect increased spending and budgeted debt service. Despite the increase in taxes, the county is expecting a decline in reported fund balance to \$55 million from \$65 million. The Moody's reported fund balance will be higher than that due to the various adjustments that are made to be comparable to standard GAAP accounting. The fiscal 2025 budget is still in progress but will be greater than 2024 to account for overall growth in operations.

Fiscal 2023 audited results show a modest decline to 18% of revenues but continuing a trend of fund balance ranging between 16-19% since 2019. Despite the stability, current reserves are still materially below the national Aa-median for similarly sized entities of 33% of revenues. A positive offset for the below median fund balance is the county's very stable and reliable revenue streams. Mercer County, as with all New Jersey counties, benefit from a guaranteed property tax levy collected and remitted in full by the municipalities within the county. This revenue stream amounted to 65% of total revenues in fiscal 2023.

Exhibit 2

Fund Balance



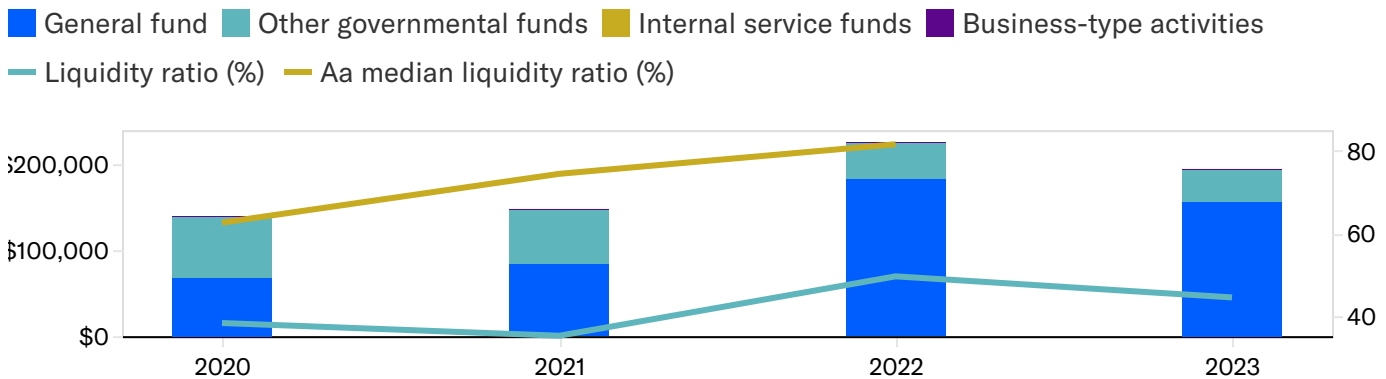
Source: Moody's Ratings

Liquidity

The county's liquidity is very healthy with an ending fiscal 2023 cash balance of \$194.1 million or 44.4% of revenues.

Exhibit 3

Cash



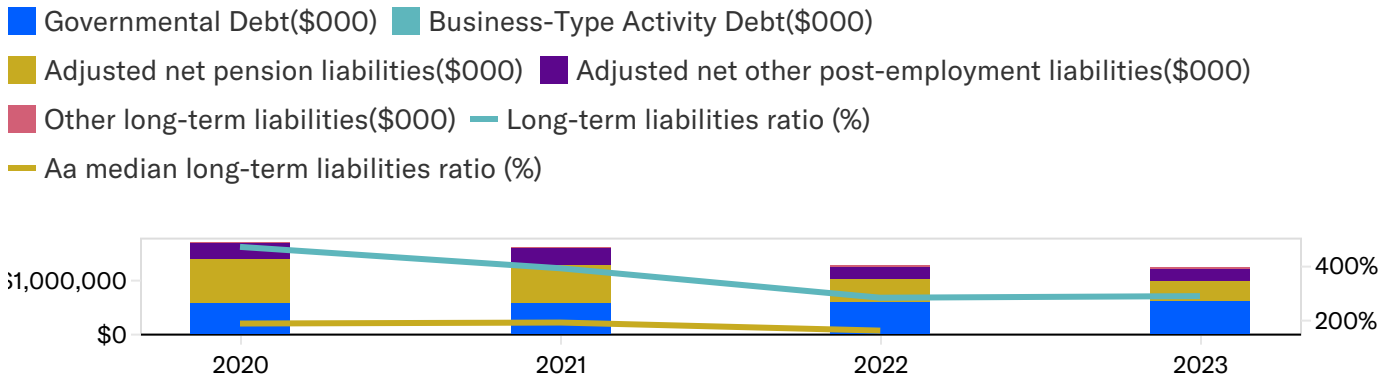
Source: Moody's Ratings

Leverage: affordable leverage

The county's leverage will remain generally stable in the near-term as the its future needs are modest and routine in nature. Including its upcoming issuance, total leverage will amount to approximately 286% of 2023 revenues. Its future borrowing plans are not going to materially increase its outstanding debt burden.

Exhibit 4

Total Primary Government - Long Term Liabilities



Source: Moody's Ratings

Legal security

The Bonds constitute valid and legally binding obligations of the County and, unless paid from other sources, are payable from ad valorem taxes levied upon all the taxable property within the County for the payment of the principal of and interest due on the Bonds, without limitation as to rate or amount

Debt structure

All of the county's debt is fixed rate.

Debt-related derivatives

The county is not party to any interest rate swap or derivative agreements.

Pensions and OPEB

The county's pension liabilities are slightly larger than its debt and, though manageable at this time, represent a potential future credit challenge. The county participates in two state-sponsored multiple employer cost-sharing pension plans and funds retiree healthcare (OPEB) on a pay-go basis.

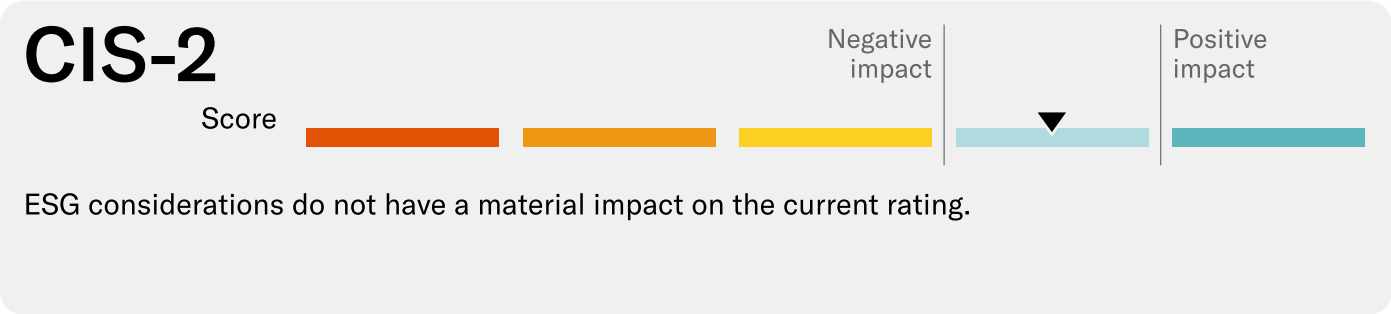
The state-sponsored boards which control the pension funds have historically set contribution rates at a level insufficient to allow the plans to tread water. In addition, the tread water gap does not take into account the very aggressive assumptions underpinning the actuarial analysis, which likely would make the gap even larger. To the extent that the multiple-employer pension plans in which Mercer participates experience returns on assets that fall short of their assumptions, the county's required pension contribution will increase. Because it is not pre-funding OPEB benefits as they accrue, the county's OPEB costs and liabilities will likely escalate as the number of retirees it covers grows and retirees age.

Favorably, the county will benefit from rising discount rates which should lead to reduced liabilities in the near term.

ESG considerations

Mercer (County of) NJ's ESG credit impact score is CIS-2

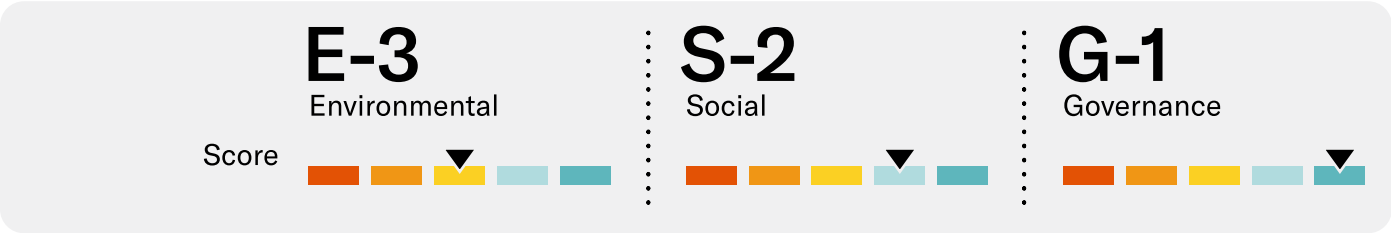
Exhibit 5
ESG credit impact score



Source: Moody's Ratings

The ESG CIS impact score is a 2, reflecting moderately negative exposure to environmental risks and low exposure to social risks offset by strong governance and a favorable location.

Exhibit 6
ESG issuer profile scores



Source: Moody's Ratings

Environmental

The county's overall environmental issuer profile score is **E-3**. While carbon transition, water, natural capital, and waste and pollution risks are modest, portions of the county are prone to flooding and the county is indirectly exposed to the sea level rise issues which are of concern for the entire state.

Social

Exposure to social risk is **S-2**. The county is home to a mix of communities, some of which are wealthy while others are quite poor with elevated poverty. Affordable housing is one of the county's challenges. Overall demographics and educational attainment are in line with peers. Residents have easy access to basic services and the county scores favorably in health and safety.

Governance

Mercer County's strong governance is reflected in a score of **G-1**. The county has built a deep bench of civil servants and outside professionals to implement its policy objectives. This, plus a combination of a strong state-wide institutional framework and highly conservative budgeting, has allowed the county not only to strengthen its finances but to do so while providing various forms of assistance to its local governments.

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.

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

Mercer (County of) NJ

	Measure	Weight	Score
Economy			
Resident income ratio	120.2%	10.0%	Aaa
Full value per capita	152,686	10.0%	Aa
Economic growth metric	3.4%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	17.8%	20.0%	A
Liquidity ratio	44.4%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	286.7%	20.0%	A
Fixed-costs ratio	16.3%	10.0%	A
Notching factors			
Financial disclosures	-0.5		
Scorecard-Indicated Outcome			Aa3
Assigned Rating			Aa2

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Trenton-Princeton, NJ Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

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

Appendix

Exhibit 8

Key Indicators Glossary

	Definition	Typical Source*
Economy		
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
Financial performance		
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	
Leverage		
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 Ratings
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 Ratings
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	
Fixed costs		
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 Ratings
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 Ratings
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 Ratings
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

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