

CREDIT OPINION

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New Issue

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Borough of Franklin Lakes, NJ

New Issue - Moody's Assigns Aaa to Franklin Lakes, NJ's \$5M GO Bonds; Assigns Stable Outlook

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the Borough of Franklin Lakes, NJ's \$5 million General Obligation Refunding Bonds. Concurrently, Moody's has affirmed the Aaa on the borough's outstanding parity GO debt and assigned a stable outlook

The Aaa rating reflects the borough's wealthy tax base, above-average income indicators, and strong financial position.

Credit Strengths

- » Above-average socioeconomic profile
- » Strong reserve position

Credit Challenges

- » Above-average fixed costs

Rating Outlook

The assignment of a stable outlook reflects the expectation that the borough's finances, tax base, and wealth levels will all remain strong in the near to medium term.

Factors that Could Lead to an Upgrade

- » Not applicable

Factors that Could Lead to a Downgrade

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

Key Indicators

Exhibit 1

Franklin Lakes (Borough of) NJ	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 4,590,714	\$ 4,472,492	\$ 4,338,644	\$ 4,240,645	\$ 4,342,183
Full Value Per Capita	\$ 435,345	\$ 422,093	\$ 407,193	\$ 395,361	\$ 402,091
Median Family Income (% of US Median)	244.6%	255.7%	250.3%	262.7%	264.3%
Finances					
Operating Revenue (\$000)	\$ 15,158	\$ 15,183	\$ 16,744	\$ 16,741	\$ 16,673
Fund Balance as a % of Revenues	23.9%	21.7%	22.2%	25.1%	30.5%
Cash Balance as a % of Revenues	25.0%	23.9%	23.3%	29.5%	34.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 14,457	\$ 14,421	\$ 13,945	\$ 13,640	\$ 15,602
Net Direct Debt / Operating Revenues (x)	1.0x	0.9x	0.8x	0.8x	0.9x
Net Direct Debt / Full Value (%)	0.3%	0.3%	0.3%	0.3%	0.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.2x	1.2x	1.3x	1.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.4%	0.5%	0.5%	0.6%

Sources: Moody's Investors Service and Franklin Lakes Audited Financial Statements

Detailed Rating Considerations

Economy and Tax Base: Substantial Tax Base with High Wealth Levels

The borough's tax base will remain strong given its access to employment opportunities in northern [New Jersey](#) (A2 negative) and strong wealth levels. Franklin Lakes, located 20 miles northwest of [New York City](#) (Aa2 stable), is a primarily residential community with a small commercial base. Wealth and income indicators in the \$4.4 billion tax base are well above-average, with equalized value per capita of over \$406,000 and median family income of 264.3% of the national median. The five-year compound annual decrease for the borough's equalized value is 0.4%, reflecting some lingering effects of the housing bubble. Despite some declines, median home value remains a robust \$917,800.

Franklin Lakes is largely built-out, which limits the opportunities for new development; however, management reports extensive ongoing redevelopment, which is expected to have a positive impact on the assessed value. Notable projects include several residential developments as well as the redevelopment of a golf course into 60 single family homes, 160 carriage homes, and 55 affordable housing units.

Financial Operations and Reserves: Strong Financial Position

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 \$3.8 million, or 22.5% of Current Fund revenues, from \$3 million, or 18.2% 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 municipality's Moody's-adjusted Current Fund Balance increased to \$5.1 million, or 30.5%, in 2015, from \$4.2 million, or 25.1%, in 2014.

On an adjusted basis, the municipality has run three consecutive surpluses, resulting in a 37.5% increase in fund balance since 2010. These improvements have been achieved primarily via conservative budgeting.

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Moody's notes that while the municipality'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 municipality's flexibility is also limited by its fixed costs. Fixed costs for debt service, required pension contributions and retiree health care payments come to \$2.9 million, or 17.15% of revenues.

LIQUIDITY

Liquidity is likely to remain strong in the medium term. Cash increased to \$3.8 million, or 34.4% of revenues, in 2015.

Debt and Pensions: Low Debt Burden with Above-Average Pension Liabilities

Franklin Lakes' debt burden will remain modest for the near to medium term. Including this issuance, the borough's net direct debt burden will be 0.3% of equalized value. Management intends to issue small amounts of short-term debt to pay for annual capital projects over the next few years.

DEBT STRUCTURE

All of Franklin Lakes' long-term debt is fixed rate. The township issues bond anticipation notes on a regular basis.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

Franklin Lakes 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 municipality, under our methodology for adjusting reported pension data, is \$26.5 million, or an above-average 1.52 times Current Fund revenues. The municipality's 2015 contribution to the retirement system was \$878,000 for the combined Police and Firemen's Retirement System (PFRS) and 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 municipality's reported liability information, but to improve comparability with other rated entities.

Management and Governance

The borough has a formal fund balance policy to maintain an unadjusted fund balance equal to a minimum of 20% of the previous year's budget with an additional minimum of \$2 million. They also have a goal of never appropriating fund balance unless they believe they can replenish it.

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 is secured by the borough's general obligation unlimited ad valorem tax pledge.

Use of Proceeds

Proceeds from the bonds will be used to advance refund \$4.6 million of Borough's outstanding General Bonds of 2008 for savings. Management expects to achieve net present value savings of approximately \$255,000 or 5.57% of refunded principal.

Obligor Profile

Franklin Lakes is a high wealth, suburban community in northern New Jersey. It has a population of approximately 10,800.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Franklin Lakes (Borough of) NJ

Issue	Rating
General Obligation Refunding Bonds	Aaa
Rating Type	Underlying LT
Sale Amount	\$5,000,000
Expected Sale Date	02/22/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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