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Ratings

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Summary:

Morris County, New Jersey; General Obligation

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Credit Profile		
US$29.0 mil GO bnds ser 2016 due 10/15/2026		
Long Term Rating	AAA/Stable	New
Morris Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Morris Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Morris Cnty Imp Auth, New Jersey		
Morris Cnty, New Jersey		
Morris Cnty Imp Auth (Morris Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating, and stable outlook, to Morris County, N.J.'s series 2016 general obligation (GO) bonds, consisting of general improvement, park bonds, and county college bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating, and stable outlook, on the county's GO debt outstanding. The outlook is stable.

Securing Morris' GO bonds is a full faith and credit pledge, consisting of ad valorem taxes levied on all taxable property in the county without limitation as to rate or amount. We understand that officials intend to use series 2016 bond proceeds to fund various county projects.

Morris' GO bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), Morris has a predominately locally derived revenue source, with almost two-thirds of current fund revenue from property taxes. The county also has independent taxing authority and independent treasury management from the federal government.

The rating reflects our opinion of the following factors:

- Very strong economy that participates in, and has commuting access throughout, the New York City metropolitan statistical area (MSA), resulting in low unemployment and very strong wealth and incomes;
- Strong budgetary performance, with historically balanced operations, including balanced operations in fiscal 2015 after accounting for one-time litigation expenses;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 15.3% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;

- Very strong liquidity, with total government available cash at 23.4% of general fund expenditures and 2.1x governmental debt service, and access to external liquidity we consider strong;
- Strong management, with good financial policies and practices under our financial management assessment (FMA) methodology;
- Strong debt and contingent liability position, with debt service carrying charges at 11.3% of expenditures and net direct debt that is 112.4% of general fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization; and
- Strong institutional framework score.

Very strong economy

We consider the county's economy very strong. Morris County, with an estimated population of 502,174, is located in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 160% of the national level and per capita market value of $181,159. Overall, the county's market value grew by 0.7% over the past year to $91.0 billion in 2015. The county unemployment rate was 4.2% in 2015.

Morris County is an affluent suburb of New York City. Residents have access to New York City, and the diverse MSA employment base has made the county a preferred location for corporate headquarters and suburban commuters. As such, wealth and income levels are very strong. The tax base is primarily composed of residential (76.6% of assessed value [AV]), commercial (14.7%), and industrial (3.7%) properties. AV has increased slightly in the past three fiscal years and currently stands at $79.2 billion. Despite the presence of large pharmaceutical and industrial firms, the 10 leading taxpayers account for 2% of AV, which we consider very diverse.

Historically strong budgetary performance

Morris County's budgetary performance is strong in our opinion. The county had balanced operating results in the current fund in fiscal 2015 after accounting for one time litigation expenses.

Morris has a history of conservative budgeting and balanced financial operations. Before fiscal 2015, the county had generated current fund surpluses in the previous four fiscal years. In fiscal 2015, it drew down reserves by $7.3 million primarily due to the use of $7.0 million relating to the settlement of litigation associated with Morris' legal battle with the developer regarding solar projects constructed in the past few years. Excluding this one-time expense, the county's operations were balanced.

Officials balanced the fiscal 2016 (year ended Dec. 31) current fund budget, which totals $340.7 million, with the use of $23.9 million of reserves. This is in line with previous years' appropriations. We understand that revenues and expenses have come in better than budget for the first half of the year and that management does not expect a material change to its current fund reserves at fiscal year-end.

Property taxes, the main revenue source, generate nearly two-thirds of current fund revenue.

Very strong budget flexibility

Morris County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 15.7% of adjusted operating expenditures, or $53.0 million. In addition, the county has the flexibility to raise additional revenues despite statewide tax caps, which we view as a positive credit factor.

Morris has a history of maintaining strong-to-very strong available current fund balances. In fiscal 2015, management used about $7.0 million of reserves in connection with the settlement of litigation associated with its solar renewable energy program. Despite this, current fund reserves remained above 15% of expenditures at fiscal year-end.

The 2016 budget includes the use of $23.9 million in the fund balance, which is in line with previous years' appropriations. We understand that management expects to end the year with close-to-breakeven operations and without a material change in fund balance.

Morris can raise the tax levy by 2% annually, not including exceptions, and in fiscal 2016, the county raised the levy by $7.5 million. We understand that the county has about $14.4 million of banked levy capacity. The underlying municipalities guarantee the county 100% of property tax collections.

Very strong liquidity

In our opinion, Morris County's liquidity is very strong, with total government available cash at 23.4% of general fund expenditures and 2.1x governmental debt service in 2015. In our view, the county has strong access to external liquidity if necessary.

We recognize Morris' access to external liquidity because it has issued GO bonds frequently for at least a decade, consisting typically of annual GO issuances. The county does not have any privately placed or direct-purchase debt. We consider Morris' investments nonaggressive because the county primarily maintains its cash in the form of bank deposits and certificates of deposit. Management indicates it does not expect to materially draw down total cash, so we expect liquidity to remain very strong.

Strong management

We view the county's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them regularly.

Management reviews historical trends when arriving at revenue and expenditure assumptions in addition to using conservative revenue assumptions in its budgets. It monitors budget-to-actual results monthly and posts monthly budget reports on the county website. The county's formal six-year capital improvement plan (CIP) is in place with all sources identified. In addition, Morris maintains formalized, five-year financial projections that council reviews and updates annually. The county's cash management policy and state statute limitations dictate where management can invest. Although Morris does not have a formal written reserve policy, we understand that management informally targets the maintenance of at least 10% of budgeted revenues in reserve for cash flow purposes. Although the county does not have a formal written debt management policy, its internal practices and goals are to maintain debt service at about or below 15% of the budget, in addition to maintaining rapid payback of principal of 12 years or less.

Strong debt and contingent liability profile

In our view, Morris County's debt and contingent liability profile is strong. Debt service is 11.3% of general fund expenditures, and net direct debt is 112.4% of current fund revenue. Overall net debt is low at 1.0% of market value including debt the county guarantees, and amortization is rapid with nearly 90% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Morris's six-year CIP calls for $205.7 million of projects. Management plans to fund the majority of the CIP, or $185.8 million, through new bonds and bond anticipation notes. The leading projects are road and bridge improvements, which account for $121.1 million of the CIP.

The county's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 8.5% of general fund expenditures in 2015. Of that amount, 4.0% represented required contributions to pension obligations, and 4.5% represented OPEB payments. Morris made its full annual required pension contribution in 2015.

County employees participate in the New Jersey Public Employees' Retirement System (PERS), the New Jersey Police & Firemen's Retirement System (PFRS), or the defined-contribution retirement program (DCRP). The state sponsors and administers the PERS and PFRS plans, and Prudential Financial Inc. jointly administers the DCRP investments with the New Jersey Division of Pensions & Benefits. Morris' combined contribution to the plans was $13.9 million in fiscal 2015. As of June 30, 2015, the county's liability was $231.4 million for its proportionate share of the PERS net pension liability, assuming a 5.4% discount rate. In addition, as of June 30, 2015, Morris' liability was $107.7 million for its proportionate share of the PFRS net pension liability, assuming a 6.3% discount rate.

The county also provides OPEB from the current fund through pay-as-you-go financing. In fiscal 2015, it contributed about $15.5 million for OPEB and the actuarial accrued liability for OPEB was $1.15 billion, all of which was unfunded.

Strong institutional framework

The institutional framework score for New Jersey counties is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Morris' very strong and diverse economy and ability to withstand economic downturns while continuing to significantly increase property tax base growth and keep unemployment low. The outlook also reflects our assessment of the county's history of strong-to-very strong budget performance, budget flexibility, and liquidity. Morris' maintenance of what we consider manageable debt also contributes to the stable outlook. As such, we do not expect to lower the rating within the outlook's two-year period. However, if the county were to significantly and unexpectedly draw down reserves due to weak budgetary performance, we could lower the rating.

Related Research

- Institutional Framework Overview: New Jersey Local Governments
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.