S&P Global
Ratings

RatingsDirect®

Summary:

Morris County, New Jersey; General Obligation

Primary Credit Analyst:
Felix Winnekens, New York + 1 (212) 438 0313; felix.winnekens@spglobal.com

Secondary Contact:
John Kennedy, New York + 1 (212) 438 2128; john.kennedy@spglobal.com

Table Of Contents

Summary:

Morris County, New Jersey; General Obligation

Credit Profile		
US$28.7 mil gen imp bnds ser 2020 due 02/01/2032		
Long Term Rating	AAA/Stable	New
US$3.4 mil cnty coll due 02/01/2029		
Long Term Rating	AAA/Stable	New
US$1.581 mil park bnds due 02/01/2026		
Long Term Rating	AAA/Stable	New
Morris Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Morris County, N.J.'s series 2020 general obligation (GO) bonds, consisting of general improvement, park, and county college bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the county's previously issued GO debt. The outlook is stable.

Morris County's full faith and credit pledge and its agreement to levy ad valorem property taxes without limitation as to rate or amount secure the GO debt. We understand officials intend to use proceeds from the series 2020 bonds to finance various capital and park improvements in the county and county college projects at the County College of Morris.

Morris County's 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), the county has a predominantly locally derived revenue source, with almost two-thirds of current fund revenue coming from property taxes. It also has independent taxing authority and independent treasury management from the federal government.

Credit overview

Our rating on Morris County reflects our view of its stable revenue and expenditure profile and track record of strong budgetary performance. While we expect the national recession induced by the outbreak of COVID-19 will weigh on the economic and financial outlook for the county in the near term (see the article, titled "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020 on RatingsDirect), we believe the county's proximity to the New York City and northern New Jersey metropolitan statistical area (MSA), and a strong management team that has been proactive in response to the pandemic will lend stability to the rating. In line with our view of the ongoing economic contraction, we believe the closure of nonessential businesses will temper economically sensitive revenue performance and exacerbate unemployment in fiscal 2020. However, given that property tax makes up 77% of the county's current fund operating revenues, coupled with very healthy fund balances, we believe that Morris County is somewhat insulated from the immediate effects of the pandemic and therefore, do not expect it to affect the county's ability to maintain budgetary balance and pay debt service costs. We view positively the county's efforts through different working groups to assess the longer-term budgetary impact from COVID-19 and jumpstart the economy as lockdown restrictions ease.

The ratings reflect our assessment of the following factors, including our view of the county's:

- Very strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with balanced operating results in the current fund in fiscal 2019, which factors in revenue and expenditure uncertainty due to the economic environment;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 32.2% of current fund expenditures and 2.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 12.1% of expenditures and net direct debt that is 87.5% of current fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 92.3% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our rating and analysis incorporate our view regarding the health and safety risk posted by the COVID-19 pandemic, which we believe could pressure the county's budget in the short term. We view positively, that the county started a task force looking at the longer-term economic and financial impact of the pandemic on the county's finances. Overall, we consider the county's social risks in line with those of the sector. We also analyzed the county's environmental and governance risks relative to its credit factors, and we determined that both are in line with our view of the sector standard.

Stable Outlook

The stable outlook reflects our opinion of Morris County's very strong and diverse economy, which we expect will show resiliency during this economic downturn. The outlook also reflects our assessment of the county's history of strong-to-very strong budgetary performance, budgetary flexibility, and liquidity, which will lend stability to the rating over the next six to 12 months. However, if budgetary pressures as a result of recessionary pressures or from rising pension and OPEB costs were to cause performance deterioration and draws on reserves, we could lower the rating.

Credit Opinion

Very strong economy

We consider the county's economy very strong. Morris County, with an estimated population of 491,845, is an affluent and suburban county in the center of northern New Jersey, about 25 miles from New York City. It is in the New York-Newark-Jersey City MSA, which we consider broad and diverse. The county has a projected per capita effective buying income of 183% of the national level and per capita market value of $195,368. Overall, market value grew by 1.4% over the past year to $96.1 billion in 2019.

We believe the county's overall economy will show some resiliency amid the national recession induced by the outbreak of COVID-19. We understand many of the largest employers have continued operating their facilities throughout the pandemic (for instance, pharmaceutical companies) or have allowed employees to work remotely (for instance, professional and financial services companies). The county's leading employers include Atlantic Health System (6,140), the U.S. Army Armament Research and Development Center (6,000 employees), Novartis Corp. (4,900), and ADP Inc. (2,690). However, rapidly evolving economic conditions as a result of COVID-19 have already affected the labor market (see "U.S. Biweekly Economic Roundup: With Unprecedented Job Losses, Unemployment Soars," published May 8, 2020). The county unemployment rate has historically stayed below state and national levels, and stood at a multiyear low of 2.8% in 2019. During the Great Recession, it peaked at 7.3%. Furthermore, the effects of social distancing and other decisions made to safeguard the community from COVID-19 spread support our view of an economic contraction in 2020. As a result, we will monitor the longer-term effects of the current downturn on the labor market and the economy overall.

Further resilience in the near term will come from the stability and diversity of the county's tax base. The tax base is primarily composed of single- and multi-family residential (79.8% of assessed value [AV]), commercial (14.8%), and industrial (3.4%) properties. Despite the presence of sizable pharmaceutical and industrial firms, the 10 leading taxpayers only account for approximately 1.9% of AV, which we consider very diverse. The county's taxable base has grown by approximately 10% since 2015, supported by a balanced mix of property value appreciation and new developments in the area.

We believe the county's economy will remain supported by its favorable location. A developed network of rail and highways traverses the county, connecting residents to regional employment opportunities in the greater New York City and Northern New Jersey MSA. In addition, the county features a diverse local employment base, anchored by the headquarters of several large industries, health care providers, and pharmaceutical firms. This has also helped continued growth in residential, mixed-use, and commercial developments. Although limited vacant, but developable land remains in the county, officials report that it has benefited from infill redevelopment, mixed-use developments, and expansion of available office space. Notable new developments include two multi-family, mixed-used developments in the Township of Parsippany-Troy Hills: the 625-unit Parq Parsippany and the 441-unit The District 1515. Those projects both involve the redevelopment of vacant/underutilized office space and also contain commercial elements. The multi-family housing market remains strong; plans for approximately 4,200 units have been submitted to the Morris County Planning Board over the past year. Applications for commercial site plans of greater than 5,000 square feet submitted over that same time period total approximately 1.7 million square feet. The largest two projects consist of the 470,000-square-foot Adler Warehouse in Roxbury Township and the 328,000-square-foot M-Station in the Town of Morristown.

To help spur the county's recovery once state-imposed stay-at-home orders are being eased, the county's freeholder board has created a small business recovery task force. This task force is working alongside the chamber of commerce and looking at ways they can help small businesses with the reopening process.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The county has been quick to try identify and address the longer-term impact from COVID-19. To that end, it has set up the Freeholder COVID-19 Strategic Planning Advisory Committee comprising members from the freeholders and management staff. The committee's goal is to undertake an all-encompassing review and analysis of Morris County's services, method of delivery of those services, and financial conditions over the next six years (2020-2025). We also view positively that the county has taken active measures to protect itself from emerging risks, such as cyber risks.

In developing its annual budget, management reviews historical trends and considers forward-looking projections when arriving at revenue and expenditure assumptions. According to management, it bases its budget on conservative revenue projections and the county works closely with underlying communities to identify budgetary changes and prioritize expenditures. Furthermore, the county's formal cash management policy governs investments, which officials report monthly.

During each fiscal year, county finance officials monitor budget-to-actual results closely, providing monthly budget reports to the county's freeholder board and posting this information on its website. Amendments, while infrequent, can occur through emergency appropriations and transfers, as permitted under statute. The county has a formal six-year capital improvement plan with all sources identified; it updates the plan annually. In addition, it maintains formalized, five-year financial projections that the governing body reviews and updates annually. These projections are integrated into the budget planning process and can take into account different financial scenarios and the effect on the budget. A formal reserve policy establishes a minimum unreserved fund balance (carry forward) and reserves at 12% of current fund expenditures. The comprehensive debt policy includes governance and measurability standards for managing existing and future debt obligations.

Adequate budgetary performance

Despite the county's track record of strong budgetary performance, we assess Morris County's budgetary performance as adequate, reflecting the economic and financial uncertainties resulting from the spread of COVID-19 and associated stay-at-home orders. The county had balanced operating results in the current fund in fiscal 2019. Current fund operating results have been stable in the past three years, with a result of 0.2% in 2018 and negative 0.2% in 2017.

The majority of Morris County's revenues come from what we view as less economically sensitive revenue sources, i.e. property taxes. In fiscal 2019, unaudited results show that property taxes account for about 77% of current fund revenues and collections are guaranteed by the underlying municipalities, ensuring that the county collection rate will remain 100%. That said, we understand that for fiscal 2020 the county expects revenues more directly affected by the shutdown of certain public services, such as county clerk, county library, or sheriff's department revenues, will come in slightly under budget. To offset these shortfalls, the county identified several expenditure savings such as a hiring freeze and delays in capital projects. COVID-19-related expenses have been manageable at $1.4 million with at least 75% of those expenses being reimbursable by the Federal Emergency Management Agency (FEMA), while the county also received other grant and assistance money to offset the financial impact from COVID-19. As a result, we expect the overall financial impact of COVID-19 will be manageable for the county.

The county achieved positive operating results in fiscal 2019, generating $108,000 of fund balance beyond what it appropriated in the budget. Officials attribute the result to strong revenue performance and conservative expenditure budgeting. The adopted fiscal 2020 budget, totaling $315.9 million, includes a tax levy increase of 0.6%. The increase is below the 3.5% that would have been permissible under the 2% cap including exceptions to the property tax for allowable debt service, health care costs, and pension increases. We believe this creates more possibilities for the county to raise the tax levy in fiscal 2021 to offset any revenue or expenditure variances resulting from COVID-19 that could prove more long-lasting. While the fiscal 2020 budget includes a fund balance appropriation of $27.1 million, slightly higher than in previous years, officials report they expect to replenish these funds and have close to balanced results. In addition, management conservatively estimates the aggregate fund balance will be between $51 million and $56 million at year-end.

Very strong budgetary flexibility

Morris County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 16% of operating expenditures, or $53.5 million.

In addition to the county's uncommitted reserves, officials said they have dedicated reserves for accumulated absences, storm recovery (snow removal), and other purposes, which they would turn to first to meet qualifying costs above budgeted amounts. For instance, the county has already used about $1.4 million for COVID-19-related expenses for which it expects to be reimbursed by FEMA. Including these additional reserves of at least $12.9 million in fiscal 2019, total noncapital reserves amount to about 19.3% of 2019 current fund expenditures. In addition, the county had about $10.5 million of banked levy capacity available for the 2021 budget, which provides it additional flexibility to raise revenues.

The adopted fund balance policy governs decisions about minimum reserve levels, permitting the use of reserves, and recovery plans for when drawdowns are required. Therefore, we expect reserves will remain strong despite the potential use of fund balance in accordance with the county's adopted policy because we generally expect the county will continue to appropriate no more than it anticipates regenerating during the year.

Very strong liquidity

In our opinion, Morris County's liquidity is very strong, with total government available cash at 32.2% of current fund expenditures and 2.7x governmental debt service in 2019. In our view, the county has strong access to external liquidity if necessary.

Morris does not invest aggressively and is not exposed to variable-rate or privately placed debt. Current holdings are largely in bank deposits. The county maintains what we view as strong access to external liquidity, with long-term GO bond issuances in the past 20 years. Management indicates it does not expect to materially draw down total cash, so we expect liquidity will remain very strong.

Adequate debt and contingent liability profile

In our view, Morris County's debt and contingent liability profile is adequate. Debt service is 12.1% of current fund expenditures, and net direct debt is 87.5% of current fund revenue. Overall net debt is low at 1.1% of market value, and approximately 92.3% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors. In our opinion, a credit weakness is Morris County's large pension and OPEB obligation. However, the county is currently managing these costs while also planning for their future increase. We view positively that the county managed to eliminate lifetime health benefits from its bargaining units, which over time should help drive down OPEB costs. We expect the county will be able to absorb rising pension expenditures given the size of its tax base and its above-average flexibility concerning tax levy increases.

In accordance with debt service goals in its adopted debt management policy, Morris County actively manages its capital needs and anticipates issuing $30 million a year in debt, depending on market conditions and identification of critical infrastructure needs. To offset the budgetary impact from COVID-19, the county's COVID-19 strategic advisory planning committee has already recommended postponing a $62 million courthouse addition project to 2024 from 2021. We have factored this into our analysis and do not anticipate any material changes to the county's debt profile. The county also maintains capital reserves that could be used to offset project costs. In addition, it guarantees debt issued through the Morris County Improvement Authority, which we have included in our analysis.

Pension and other postemployment benefits

- We view pension and OPEB liabilities as a source of credit pressure for Morris County, as it is for most New Jersey local governments.
- While it is currently managing pension costs, we believe the county has limited ability to control future growth of these liabilities.
- OPEBs are, by state statute, funded on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs. However, in 2007 Morris County began to prospectively eliminate retiree lifetime health benefits and has successfully negotiated such benefits out of all 20 of its bargaining units, so it expects these liabilities to eventually decline.

Morris County participates in the following state-administered pension plans:

- Police and Firemen's Retirement System: 60.2% funded with a crossover date in 2076, with a proportional share of the net pension liability equal to $114 million
- Public Employees' Retirement System: 42% funded with a crossover date in 2057, with a proportional share of the net pension liability equal to $421 million

Morris County's combined required pension and actual OPEB contributions totaled 11.9% of current fund expenditures in 2019. Of that amount, 4.7% represented required contributions to pension obligations, and 7.2% represented OPEB payments. Total fixed costs increase to 24.1% when including debt service payments. Although the county funds 100% of its actuarially determined contributions (ADCs), contributions fell short of both static and minimum funding progress, in part because of poor assumptions and methodologies, but also due to the state's continued underfunding of its portion of the ADC. The plans' 30-year, level-dollar open amortization schedule will result in slow funding progress. For more details and information on these risks, see our report, "New Jersey Pension Funding: State Actions Reverberate At The Local Level" (published Dec. 12, 2018). We also believe there is a significant possibility the state will reduce annual pension contributions or delay scheduled contribution increases because of the current recession, which could result in higher required contributions for Morris County.

Morris County also offers OPEBs to certain eligible retirees, which it funds on a pay-as-you-go basis. No mechanism allows for prefunding this liability, limiting the county's ability to plan for these costs. Therefore, the unfunded actuarial accrued liability as of Dec. 31, 2019 was $1.0 billion. In 2007, Morris County began to prospectively eliminate retiree lifetime health benefits and has successfully negotiated such benefits out of all 20 of its bargaining units, so it expects these liabilities to eventually decline.

The county includes projections for pension and OPEB costs in its financial forecasts, taking actions in current budgets that will allow it to maintain structural balance. It has been willing to use levy cap exemptions for increasing pension costs. Given the county's history of managing these costs and proactive financial forecasting, we generally expect officials to maintain balanced operations despite the rising costs associated with these liabilities.

Strong institutional framework

The institutional framework score for New Jersey counties is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of June 5, 2020)		
Morris Cnty Imp Auth, New Jersey		
Morris Cnty, New Jersey		
Morris Cnty Imp Auth (Morris Cnty) cnty guaranteed rev rfdg bnds (Morris Cnty) (Renewable Energy Prog Proj) ser 2019 due 08/15/2025		
Long Term Rating	AAA/Stable	Affirmed
Morris Cnty Imp Auth (Morris Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed