Summary:

Morris County, New Jersey; General Obligation

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

Secondary Contact:
Carolyn McLean, New York (1) 212-438-2383; carolyn.mclean@spglobal.com

Table Of Contents

Summary:

Morris County, New Jersey; General Obligation

Credit Profile		
US$35.522 mil GO bnds ser 2019 due 02/01/2030		
Long Term Rating	AAA/Stable	New
Morris Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Morris County, N.J.'s series 2019 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.

Extensive, well-integrated management policies and long-term planning have helped Morris County maintain its excellent credit quality, in our view. The county's growing economy, with robust residential and commercial development, also provides a solid base to fund its consistently strong operations. While fixed costs—particularly from pension and other postemployment benefits (OPEBs)—remain elevated, we note that management has been proactive in addressing these costs, and over the long term, view the county as better positioned to deal with the resulting pressure than most in-state peers.

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 metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 16% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash at 29.8% of general fund expenditures and 2.5x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 12.1% of expenditures and net direct debt that is 103.3% of general fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 95.6% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

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 2019 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.

Very strong economy

We consider the county's economy very strong. Morris County, with an estimated population of 494,228, 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 to be broad and diverse. The county has a projected per capita effective buying income of 174% of the national level and per capita market value of $191,723. Overall, market value grew by 0.6% over the past year to $94.8 billion in 2018. The county unemployment rate was 3.3% in 2018.

Tax base composition is primarily composed of single- and multi-family residential (79.8% of assessed value [AV]), commercial (14.8%), and industrial (3.4%) properties. The county's taxable base has grown by approximately 7.54% over the last five years, supported by a balanced mix of property value appreciation and new developments in the area.

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. 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). Despite the presence of sizable pharmaceutical and industrial firms, the 10 leading taxpayers account for approximately 1.9% of AV, which we consider very diverse.

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 a 281-unit multifamily residential complex in Morris Plains, a 345-apartment complex in Rockaway Township, and a 350-unit midrise apartment complex in Boonton. Officials also note that several new commercial developments will generate thousands of new jobs and over 1 million square feet of new office and retail space. The county maintains an economic development and tourism strategy, dedicating $290,000 to economic development and $226,000 to tourism development in the 2019 budget. Based on the county's very strong wealth and income conditions, coupled with potential for substantial growth over the coming years, we do not expect to modify our view of its economic profile in the next two years.

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.

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.

Strong budgetary performance

Morris County's budgetary performance is strong, in our opinion. The county had balanced operating results in the general fund of 0.2% of expenditures in fiscal 2018. General fund operating results of the county have been stable over the last three years, with results of negative 0.2% in 2017 and positive 0.1% in 2016.

The county achieved positive operating results in fiscal 2018, generating $640,000 of fund balance beyond what it appropriated in the budget. Officials attribute the result to strong revenue performance and conservative expenditure budgeting. The county received approximately $1.5 million of unbudgeted revenue from the Morris View nursing home lease, which will be a continuing revenue source and is anticipated in the 2019 budget.

The adopted fiscal 2019 budget, totaling $315.3 million, includes a tax levy increase of 2.54%. The increase includes exceptions to the property tax for allowable debt service, health care costs, and pension increases, demonstrating Morris County's willingness to align revenues with expenditures to maintain structural balance. While the budget includes a fund balance appropriation of $25.3 million, in line with that of 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 $48 million and $53 million at year-end.

Property and other county purpose taxes, the main revenue source, generated about 69% of current fund revenue in fiscal 2018. The underlying municipalities guarantee the county 100% of property tax collections, providing additional stability. Given the county's history of maintaining structurally balanced operations, coupled with overall strong budget planning and management of current-year finances, we generally expect budgetary performance to remain strong.

Very strong budgetary flexibility

Morris County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 16% of operating expenditures, or $53.4 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. Including these additional reserves of almost $12.7 million brings total noncapital reserves to about 19.3% of 2018 current fund expenditures. In addition, the county had about $9.9 million of banked levy capacity available for the 2020 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 29.8% of general fund expenditures and 2.5x governmental debt service in 2018. 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 to 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 general fund expenditures, and net direct debt is 103.3% of general fund revenue. Overall net debt is low at 1.2% of market value, and approximately 95.6% 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 expect the county will be able to absorb rising pension expenditure 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 $25 million-$35 million a year in debt, depending on market conditions and identification of critical infrastructure needs. 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.

Morris County's combined required pension and actual OPEB contributions totaled 10.7% of general fund expenditures in 2018. Of that amount, 4.5% represented required contributions to pension obligations, and 6.2% represented OPEB payments. The county made its full annual required pension contribution in 2018. The funded ratio of the largest pension plan is 40.5%. We do not see material improvement in the near term. While Morris County paid its full required portion of the actuarially determined contribution (ADC) in 2018, we believe it has limited ability to control future growth of contributions and, with regard to OPEB obligations, it has no mechanism for prefunding its share of the liabilities due to state restrictions. As is the case for many New Jersey municipalities, we believe the budgetary pressure from these obligations is likely to increase, and that this pressure constrains the county's flexibility to address unforeseen challenges, which could have an adverse long-term effect on credit quality.

As a governmental New Jersey entity, Morris County must participate in the cost-sharing multiple-employer Police and Firemen's Retirement System (PFRS) and Public Employees' Retirement System (PERS) pension plans, as defined by the Governmental Accounting Standards Board (GASB). Both PFRS and PERS are, in our view, significantly underfunded. The plan fiduciary net position as a percentage of the total pension liability, as defined in GASB Statement No. 67, was 57.91% for PFRS and 40.45% for PERS as of July 1, 2018. While funding policies somewhat mitigate the risks for local governments of escalating contributions due to low plan funded ratios, Morris County could face rising pension costs should the state not follow its current schedule of increasing pension contributions, although we view this as unlikely in the short term. 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).

In fiscal 2019, the county's ADC totaled over $16.3 million for PFRS and PERS. Furthermore, its proportionate shares of the liabilities for each plan were $108.6 million for PFRS and $244.2 million for PERS as of Dec. 31, 2017.

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, 2018 was $841.9 million. 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.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Morris County's very strong and diverse economy and ability to withstand economic downturns while continuing to boost property tax base growth significantly and keep unemployment low. The outlook also reflects our assessment of the county's history of strong-to-very strong budgetary performance, budgetary flexibility, and liquidity. For these reasons, we do not expect to lower the rating within the outlook's two-year period. However, if budgetary pressures from rising pension and OPEB costs were to cause performance deterioration and draws on reserves, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov. 8, 2017

Ratings Detail (As Of May 30, 2019)		
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

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.