



New Issue: **Moody's assigns Aa2 rating to the Township of Livingston's (NJ) \$9.17 million General Obligation Bonds, Series of 2013**

Global Credit Research - 10 Jan 2013

Rating applies to approximately \$83 million of outstanding parity debt, including the current sale

LIVINGSTON (TOWNSHIP OF) NJ
Cities (including Towns, Villages and Townships)
NJ

Moody's Rating

ISSUE	RATING
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Sewer Utility Bonds, Series 2013	Aa2
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Sale Amount \$490,000

Expected Sale Date 01/17/13

Rating Description General Obligation

Water Utility Bonds, Series 2013	Aa2
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Sale Amount \$2,180,000

Expected Sale Date 01/17/13

Rating Description General Obligation

General Improvement Bonds, Series 2013	Aa2
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Sale Amount \$6,500,000

Expected Sale Date 01/24/13

Rating Description General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, January 10, 2013 --Moody's Investors Service has assigned a Aa2 rating to the Township of Livingston's (NJ) \$9.17 million General Obligation Bonds, Series of 2013. The Aa2 rating applies to approximately \$83 million of outstanding parity debt, including the current sale. Proceeds of the current sale will be used to redeem outstanding Bond Anticipation Notes.

Of the current sale, \$2.18 million of principal is expected to be paid from the township's water utility and \$490,000 through its sewer utility. The entire transaction is secured by the township's unlimited General Obligation pledge.

SUMMARY RATINGS RATIONALE

The Aa2 rating reflects the township's sizeable suburban tax base supported by substantial wealth and diverse and stable income streams, as well as strong management. It also incorporates reserve levels that are weaker than peers', and moderate fiscal challenges going forward.

STRENGTHS

- Sizeable tax base
- Above average wealth and income levels

- Strong management practices, including multi-year budgeting

CHALLENGES

- Growing pension burden and unfunded employee benefit liabilities
- Multi-year trend of fund balance draw-downs
- Large, unsettled tax appeals

DETAILED CREDIT DISCUSSION

LONG-TERM GAPS PRESSURE BUDGET

We believe the township may be challenged to maintain its current level of financial flexibility, given a history of fund balance draws, a statutory 2% limit to raising the property tax levy and high fixed debt service costs. Going into fiscal 2012, the township had drawn from its fund balance each year since fiscal 2002, with the exception of 2010. The current fund balance shrank at the end of 2011 to \$2.95 million (7.6% of revenues). Township officials estimate a roughly \$1 million draw from fund balance in 2012, driven by a large tax delinquency currently under litigation.

Aside from the tax dispute, numerous factors are pressuring the township's budget. Property owners have challenged their assessments on more than \$1 billion of taxable property, prompting the township to sell notes to pay tax refunds (\$1.85 million of these notes are outstanding). Delinquent taxes have increased during the downturn. The township faces a \$4.5 million liability for unused employee sick days, a liability that is less than 10% funded.

Management has demonstrated an awareness of these problems and a willingness to take steps to address them. The township has reduced staffing by more than 20 workers (8%) through attrition and retirement. It has increased reserves for the unused sick day liabilities and it has increased revenues from permits and fees.

At the end of 2010, management projected a combined deficit of nearly \$8 million through 2015. The township planned to address operating gaps for 2011 and 2012 with increases in non-tax revenues and reductions in expenditures, but lower than anticipated property taxes outweighed these efforts. Future rating reviews will consider the township's success in rebuilding reserves through long-term budget-balancing measures.

SIZEABLE SUBURBAN TAX BASE WITH ABOVE AVERAGE WEALTH LEVELS

Located outside the city of Newark (A3/negative outlook) and commuting distance from New York City (Aa2/stable outlook), Livingston is a town with high wealth levels and a sizeable taxable property. The \$7.65 billion full value of taxable property is 80% residential, with a substantial commercial component featuring the Livingston Mall. Residents of Livingston have a per capita income of \$60,577 (222% of the national median) as of the 2010 American Community Survey, and full value per capita is a robust \$260,000, well more than double the national median. Despite the fact that tax rates are comparatively low, the township faces significant tax appeals for which a liability has yet to be determined.

Tax appeals have pressured the tax base, with the assessed value of taxable property down 4% since a 2009 revaluation.

ABOVE-AVERAGE DEBT BURDEN

The township's debt metrics are above-average. Net direct debt is 1.2% of full value, which is higher than the state and national medians of 1% and 0.7%, respectively. Debt service makes up roughly 14.5% of the township's budget, higher than the 10% median for New Jersey cities.

Livingston also participates in two state-run pension plans: one for police and fire, and one for public employees. The total combined annual required contribution for these plans in 2011 was equal to 9% of the township's budget.

WHAT COULD MAKE THE RATING GO UP:

- Demonstrated success in reconciling long-term budget imbalances
- Sustained build-up in the current fund balance
- Reduced debt burden

WHAT COULD MAKE THE RATING GO DOWN:

- Continued draws on reserves and/or reduced liquidity levels
- Failure to achieve a structurally balanced budget

KEY STATISTICS:

2010 population: 27,391

2012 full valuation: \$7.42 billion

Net direct debt: 1.2%

Overall Debt Burden: 3.7%

Payout of Principal (10 years): 46.3%

FY11 Current Fund Balance: \$2.95 million (7.6% of revenues)

2010 Per Capita Income: \$60,577 (222% of US median)

2010 Medium Family Income: \$143,429(2289% of US median)

Long-term rated G.O. debt outstanding: \$83 million

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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