

CREDIT OPINION

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Municipality of Princeton, NJ

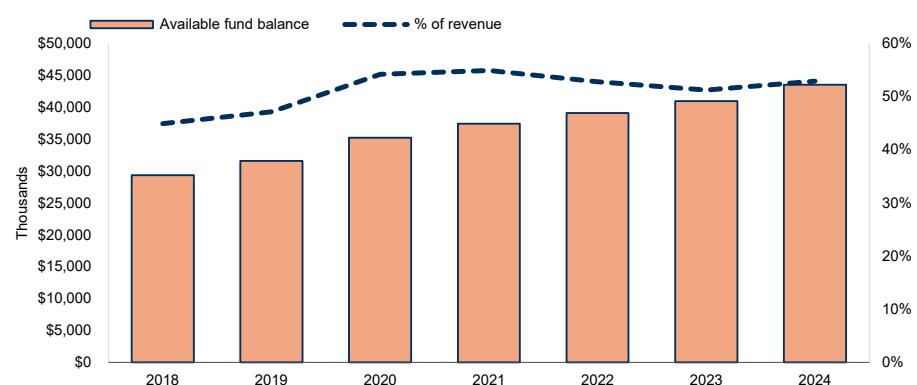
Update to credit analysis

Summary

The [Municipality of Princeton](#) (Aaa) benefits from an extremely strong tax base (the median household income adjusted for the regional cost of living is 230% of the US median) and an excellent financial position (available fund balance exceeds 50% of revenue). Long-term liabilities are moderate at about 250% of revenue. Important to the municipality's credit profile is the presence of Princeton University (Aaa stable), which anchors the local economy, is the municipality's largest taxpayer, and makes significant contributions to the municipality's budget annually.

Exhibit 1

Princeton's reserves are strong



Source: *Municipality of Princeton, Moody's Ratings*

Credit strengths

- » Extremely strong tax base and local economy
- » Excellent financial position
- » Institutional presence of Princeton University

Credit challenges

- » Moderately high long-term liabilities by the standards of Aaa-rated cities nationally

Rating outlook

We do not assign outlooks to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

- » N/A

Factors that could lead to a downgrade

- » Significant operating deficits driving deterioration in available fund balance below 25%
- » Material deterioration of the economy and resident wealth and income

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moodys.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Princeton (Municipality of) NJ

	2021	2022	2023	2024	Aaa Medians
Economy					
Resident income ratio (%)	235.0%	233.5%	229.7%	N/A	168.9%
Full Value (\$000)	\$8,747,532	\$8,937,398	\$9,188,439	\$10,117,850	\$9,011,663
Population	30,717	30,450	30,451	N/A	36,103
Full value per capita (\$)	\$284,778	\$293,511	\$301,745	N/A	\$218,941
Annual Growth in Real GDP	9.2%	5.3%	1.7%	N/A	2.4%
Financial Performance					
Revenue (\$000)	\$68,135	\$73,932	\$80,031	\$82,270	\$108,194
Available fund balance (\$000)	\$37,383	\$39,069	\$40,938	\$43,495	\$68,159
Net unrestricted cash (\$000)	\$59,796	\$66,503	\$67,777	\$71,694	\$99,090
Available fund balance ratio (%)	54.9%	52.8%	51.2%	52.9%	62.6%
Liquidity ratio (%)	87.8%	90.0%	84.7%	87.1%	95.0%
Leverage					
Debt (\$000)	\$85,341	\$75,332	\$84,952	\$97,251	\$72,678
Adjusted net pension liabilities (\$000)	\$97,426	\$81,717	\$73,793	\$65,532	\$89,696
Adjusted net OPEB liabilities (\$000)	\$35,111	\$41,113	\$41,069	\$42,538	\$10,915
Other long-term liabilities (\$000)	\$956	\$719	\$713	\$734	\$4,029
Long-term liabilities ratio (%)	321.2%	269.0%	250.6%	250.5%	217.2%
Fixed costs					
Implied debt service (\$000)	\$5,969	\$5,986	\$5,261	\$5,901	\$4,949
Pension tread water contribution (\$000)	\$4,034	\$3,352	\$3,931	\$3,590	\$2,629
OPEB contributions (\$000)	\$814	\$1,337	\$1,307	\$1,641	\$594
Implied cost of other long-term liabilities (\$000)	\$81	\$67	\$50	\$50	\$274
Fixed-costs ratio (%)	16.0%	14.5%	13.2%	13.6%	10.0%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the Trenton-Princeton, NJ Metropolitan Statistical Area.

Sources: US Census Bureau, Princeton (Municipality of) NJ's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

The Municipality of Princeton is located in Mercer County (Aa2 positive), and resulted from the merger of Princeton Township and Princeton Borough in 2013. It is home to Princeton University and has a population of roughly 31,000.

Detailed credit considerations

Princeton has three key credit strengths. First, its financial position is excellent. Its cash and available reserves score as Aaa on our scorecard, and are aligned with Aaa medians nationally.

Second, its tax base is exceptionally strong. The median household income of Princeton residents is almost 230% of the US median after adjusting for the regional cost of living, an extremely high number (anything over 120% scores as Aaa).

Third, Princeton University provides a strong anchor for the local economy. The university employs about 8,000 people full time, and is the municipality's largest taxpayer at 3% of assessed valuation (despite the fact that it is mostly tax-exempt). It also makes annual contributions to the municipality's budget, in the form of payments in lieu of taxes and grants.

Like most municipalities in NJ, Princeton's long-term liabilities are on the high side by national standards, largely a function of pension and other post-employment benefits. The municipality's Moody's-adjusted long-term liabilities are about 250% of revenue, which is slightly higher than the national Aaa median.

ESG considerations

Environmental

Environmental risk is generally low for the local government sector and factors modestly into the municipality's credit profile. According to data from Moody's ESG Solutions, based on county-level data, Princeton is at medium risk from floods, heat stress, hurricanes, water stress and wildfires. However, the strong wealth, favorable location, and healthy finances mitigate the exposure. In addition, the municipality would likely receive federal and state assistance in the event of an emergency.

Social

Social considerations such as wealth, income, and employment are major factors in the municipality's credit quality and are discussed above.

Governance

Governance is a key credit consideration for all local government issuers. The municipality has a formal fund balance policy to maintain an unadjusted fund balance equal to a minimum of 15%-20% of the operating budget. Conservative budgeting and expenditure controls contribute to the municipality's consistently strong operating results. New Jersey municipalities 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. Cities have a moderate ability to adjust costs given the presence of collective bargaining and high fixed costs.

Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 3

Princeton (Municipality of) NJ

	Measure	Weight	Score
Economy			
Resident income ratio	229.7%	10.0%	Aaa
Full value per capita	354,489	10.0%	Aaa
Economic growth metric	3.4%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	52.9%	20.0%	Aaa
Liquidity ratio	87.1%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	250.5%	20.0%	A
Fixed-costs ratio	13.6%	10.0%	Aa
Notching factors			
Additional Strength in Local Resources	0.5		
Financial disclosures	-0.5		
Scorecard-Indicated Outcome			Aa1
Assigned Rating			
			Aaa

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Trenton-Princeton, NJ Metropolitan Statistical Area to the five-year CAGR of real GDP for the US. Sources: US Census Bureau, Princeton (Municipality of) NJ's financial statements and Moody's Ratings

Appendix

Exhibit 4 Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Ratings
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US Cities and Counties Methodology](#).

Source: Moody's Ratings

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