Edison (Township of) NJ
Update to credit opinion

Summary
The Township of Edison (Aa2 stable GOULT MIG 1 BAN), New Jersey is a near suburb of New York City (Aa2 stable). The township boasts moderately above-average resident wealth and income levels. It has recently seen considerable tax base growth and full value has surpassed its pre-recession peak.

Credit strengths
» Large tax base with above-average resident wealth and incomes
» Favorable location near job centers in greater New York City area
» Expanding tax base

Credit challenges
» Depletion of some non-Current Fund reserves
» Elevated pension burden

Rating outlook
The stable outlook rating reflects the township’s large, stable tax base and strong financial position.

Factors that could lead to an upgrade (long-term only)
» Continued tax base expansion
» Increased resident wealth and incomes and
» Significant increase in reserves

Factors that could lead to a downgrade
» Material deterioration of the tax base (bonds)
» Reduced resident wealth and incomes (bonds)
» Significant depletion of reserves (bonds and notes)
» Downgrade of long-term rating (notes)

Key indicators
Exhibit 1

<table>
<thead>
<tr>
<th>Edison (Township of) NJ</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economy/ Tax Base</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Full Value ($000)</td>
<td>$14,034,988</td>
<td>$14,576,442</td>
<td>$15,665,351</td>
<td>$15,835,821</td>
<td>$16,414,707</td>
</tr>
<tr>
<td>Population</td>
<td>100,513</td>
<td>101,051</td>
<td>101,865</td>
<td>101,868</td>
<td>102,304</td>
</tr>
<tr>
<td>Full Value Per Capita</td>
<td>$139,634</td>
<td>$144,248</td>
<td>$153,785</td>
<td>$155,454</td>
<td>$160,450</td>
</tr>
<tr>
<td>Median Family Income (% of US Median)</td>
<td>162.8%</td>
<td>161.5%</td>
<td>158.3%</td>
<td>157.4%</td>
<td>158.8%</td>
</tr>
<tr>
<td><strong>Finances</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenue ($000)</td>
<td>$119,594</td>
<td>$123,506</td>
<td>$121,375</td>
<td>$129,692</td>
<td>$132,213</td>
</tr>
<tr>
<td>Fund Balance ($000)</td>
<td>$15,688</td>
<td>$20,321</td>
<td>$18,302</td>
<td>$17,050</td>
<td>$21,287</td>
</tr>
<tr>
<td>Cash Balance ($000)</td>
<td>$36,052</td>
<td>$41,899</td>
<td>$38,719</td>
<td>$38,224</td>
<td>$68,612</td>
</tr>
<tr>
<td>Fund Balance as a % of Revenues</td>
<td>13.1%</td>
<td>16.5%</td>
<td>15.1%</td>
<td>13.1%</td>
<td>16.1%</td>
</tr>
<tr>
<td>Cash Balance as a % of Revenues</td>
<td>30.1%</td>
<td>33.9%</td>
<td>31.9%</td>
<td>29.5%</td>
<td>51.9%</td>
</tr>
<tr>
<td><strong>Debt/Pensions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Direct Debt ($000)</td>
<td>$78,058</td>
<td>$74,082</td>
<td>$96,817</td>
<td>$87,950</td>
<td>$87,354</td>
</tr>
<tr>
<td>3-Year Average of Moody’s ANPL ($000)</td>
<td>$245,151</td>
<td>$272,267</td>
<td>$311,822</td>
<td>$336,079</td>
<td>$384,784</td>
</tr>
<tr>
<td>Net Direct Debt / Operating Revenues (x)</td>
<td>0.7x</td>
<td>0.6x</td>
<td>0.8x</td>
<td>0.7x</td>
<td>0.7x</td>
</tr>
<tr>
<td>Net Direct Debt / Full Value (%)</td>
<td>0.6%</td>
<td>0.5%</td>
<td>0.6%</td>
<td>0.6%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Moody’s - adjusted Net Pension Liability (3-yr average) to Revenues (x)</td>
<td>2.0x</td>
<td>2.2x</td>
<td>2.6x</td>
<td>2.6x</td>
<td>2.9x</td>
</tr>
<tr>
<td>Moody’s - adjusted Net Pension Liability (3-yr average) to Full Value (%)</td>
<td>1.7%</td>
<td>1.9%</td>
<td>2.0%</td>
<td>2.1%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

Fund balance figures reflect Moody’s adjustments
Sources: Moody’s Investors Service, Edison audited financial statements, US Census Bureau

Profile
Edison is a near suburb of New York City with a population of just over 100,000.

Detailed credit considerations

Economy: Favorably located tax base with shows signs of tax base recovery

The township’s tax base will continue to grow modestly as it benefits from its favorable location and ongoing redevelopment. Edison, located 10 miles west of Staten Island, is approximately 70% residential, 15% commercial, and 14% industrial. Resident wealth and income in the $17.4 billion tax base are above-average, with a median family income equal to 158.8% of the national median. The township’s equalized full value, which has surpassed its pre-recession peak, has grown at a compound annual rate of 4.4% over the last five years. Although the base is largely built out, management reports considerable ongoing redevelopment, notably in the warehousing sector, which has been leading to increases in value.

Due primarily to a substantial gap between assessed and equalized values, tax appeals occur routinely. The township budgets approximately $2 million annually for lost tax appeals and has, in the past, issued debt to pay for losses beyond this amount. Favorably, recent efforts by the township government, coupled with the return to tax base growth, have stemmed the tide of tax appeals. The township has also adopted a policy of aggressively fighting appeals at which it has enjoyed considerable success. The township has also filed and won reverse tax appeals.

Finances and Liquidity: Strong, stable financial position

The township’s financial position will likely remain strong in the medium term as management continues to budget conservatively. In 2017, Current Fund balance increased to $12 million, or 91% of revenues from $10.8 million, or 8.4% of revenues, from $8 million, or 6.6% of revenues in 2016. Moody’s makes certain adjustments to New Jersey local governments’ fund balances to include receivables and reserves that would be eligible to be included in fund balance under GAAP accounting but are excluded as a result of state statutory accounting regulations. The township’s Moody’s-adjusted Current Fund Balance increased modestly in 2017 to $21.3 million (16.1%) from $17.1 million (13.1%) in 2016.
Although audited 2018 results are not yet available, preliminary results indicate a decline in reported surplus of approximately $2 million, largely due to a decline in construction permits.

In 2014 the township drew down the remaining balance in the Water Utility Fund. This fund has no revenues and exists only to pay debt service associated with the water system. All fund balance previously in the system was proceeds of sale by the township of a concession to run the water system in exchange for a single payment 20 years ago. The concession ended in 2017. For now, debt service will be paid out of the Current Fund; the total amount of additional debt service is non-material to the Current Fund. The township has received a proposal and is currently engaged in negotiating potential terms.

LIQUIDITY

Liquidity is likely to remain strong in the medium term. Current Fund net cash skyrocketed in 2017 to $68.6 million (51.9% of revenues), largely due to a massive increase in prepaid taxes caused by residents’ attempts to deal with the tax law changes. Stripped of the prepaid taxes, and a routine payable owed to the school district, net cash is closer to $31.5 million or a very healthy 23.8% of revenues.

Total liquidity coverage of debt service on the township’s notes tends to be strong. Including cash from all funds, net cash more than covers total notes outstanding.

Debt and Pensions: Modest debt burden with above-average pension liability

The township is a frequent market participant and has issued short-term notes in each of the last five years, a factor in our assignment of the MIG 1 rating. Management has also historically sold refunding notes with adequate time before note maturity. The new notes are expected to mature February 7, 2020. The township typically repays the notes by issuing new ones while also making principal paydowns according the schedule set by New Jersey (A3 stable) law.

DEBT STRUCTURE

All of Edison's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The township is not party to any interest rate swaps or other derivatives.

PENSIONS AND OPEB

Edison has an above-average defined-benefit pension burden, based on Moody's-estimated share of a cost-sharing plans administered by the state. Moody's adjusted net pension liability (ANPL) for the township, under our methodology for adjusting reported pension data, is $446.3 million, or an above-average 3.38 times Current Fund revenues. The township's 2017 contribution to the combined Police and Firemen's Retirement System (PFRS) and Public Employees' Retirement System (PERS) was $10.9 million. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the township's reported liability information, but to improve comparability with other rated entities.

In 2017, total fixed costs including debt service, OPEB, and pensions amounted to 19.8% of revenues.

Governance

Management had previously experienced significant turnover with multiple CFOs in only a few years. The new team was brought into place in July 2015 which has been working on improving financial operations, elevating financial forecasting and management reporting, and creating a more detailed debt management plan. They are also actively pursuing strategic options with the utility funds.

New Jersey Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector’s legal ability to increase revenues and decrease expenditures. The sector’s major revenue sources are subject to a cap which can be overridden with voter approval only. However, the cap of 2% still allows for moderate revenue-raising ability and excludes debt service, pensions, and certain health care costs. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually. The State has public sector unions, which can limit the ability to cut expenditures.