

CREDIT OPINION

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Mercer County, NJ

Update to credit analysis

Summary

[Mercer County, NJ](#) (Aa2 stable) benefits from its strong local economy that is anchored by the presence of the state capital within the county along with higher education institutions such as [Princeton University](#) (Aaa stable). The county's resident income and wealth are above-average. Its financial position is sufficient but below-average for the rating category. It is showing modest annual improvements through fiscal 2023 unaudited results. Leverage is in line with peers within the state but elevated nationally. Its capital plan is manageable.

Credit strengths

- » Growing economy with institutional presence
- » Above-average resident income and wealth

Credit challenges

- » Modestly below-average reserve position
- » Above-average leverage driven by pension and OPEB liabilities

Rating outlook

The stable outlook reflects the expectation that the county's economy will continue to see ongoing improvements while reserves and leverage will remain stable.

Factors that could lead to an upgrade

- » Significant improvement in reserve consistent with the national Aa-median of 33% of revenues
- » Sustained decline in long-term liabilities

Factors that could lead to a downgrade

- » Structurally imbalanced operations leading to decline in reserves more consistent with lower rated entities
- » Material and sustained increase in leverage
- » Contraction of the local economy

Key indicators

Exhibit 1

Mercer (County of) NJ

	2019	2020	2021	2022	Aa Medians
Economy					
Resident income ratio (%)	123.5%	123.0%	121.8%	122.4%	97.8%
Full Value (\$000)	\$45,557,571	\$46,377,808	\$46,620,409	\$48,637,549	\$8,736,359
Population	367,922	368,085	384,951	383,732	90,964
Full value per capita (\$)	\$123,824	\$125,998	\$121,107	\$126,749	N/A
Annual Growth in Real GDP	10.7%	2.3%	7.8%	4.8%	4.9%
Financial Performance					
Revenue (\$000)	\$356,648	\$366,274	\$419,635	\$456,537	\$97,580
Available fund balance (\$000)	\$58,773	\$57,406	\$76,989	\$89,024	\$43,698
Net unrestricted cash (\$000)	\$144,454	\$139,891	\$147,292	\$226,097	\$68,628
Available fund balance ratio (%)	16.5%	15.7%	18.3%	19.5%	43.0%
Liquidity ratio (%)	40.5%	38.2%	35.1%	49.5%	74.4%
Leverage					
Debt (\$000)	\$556,974	\$579,574	\$576,763	\$604,429	\$46,820
Adjusted net pension liabilities (\$000)	\$570,822	\$816,322	\$710,739	\$418,367	\$103,575
Adjusted net OPEB liabilities (\$000)	\$229,963	\$296,776	\$326,908	\$237,351	\$7,091
Other long-term liabilities (\$000)	\$14,786	\$14,786	\$14,477	\$21,978	\$3,981
Long-term liabilities ratio (%)	384.8%	466.2%	388.2%	280.8%	190.3%
Fixed costs					
Implied debt service (\$000)	\$36,123	\$40,609	\$41,505	\$40,454	\$3,257
Pension tread water contribution (\$000)	\$23,779	\$22,355	\$22,842	\$17,332	\$2,211
OPEB contributions (\$000)	\$30,594	\$24,671	\$32,429	\$6,605	\$186
Implied cost of other long-term liabilities (\$000)	\$1,061	\$1,078	\$1,059	\$1,015	\$282
Fixed-costs ratio (%)	25.7%	24.2%	23.3%	14.3%	71%

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 Metropolitan Statistical Area.

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

Profile

Mercer County, NJ is located in central [New Jersey](#) (A1 stable) and is home to the state capital, [Trenton](#) (Baa2).

Detailed credit considerations

Economy: strong local economy

Mercer County will continue to see ongoing growth in its local economy driven by its prime location along with institutional presence. The county, centrally located in the state, benefits from the presence of the state capital along with [Princeton University](#) (Aaa stable) and [The College of New Jersey](#) (A2 stable). The county has ongoing development but of particular note, is a new 42 acre research and development facility for BeiGene, a pharmaceutical company. Construction of this facility is underway and is a \$800 million investment. The local economy has been on a strong growth trend with its GDP growing materially faster than the nation.

The county's resident income and wealth are above-average. Adjusted median household income amounted to 122.4% of the nation. Its full value per capita is \$152,000 utilizing the county's 2024 full value of \$58.5 billion. The county's full value grew 11% year-over-year.

Financial operations: stable reserves

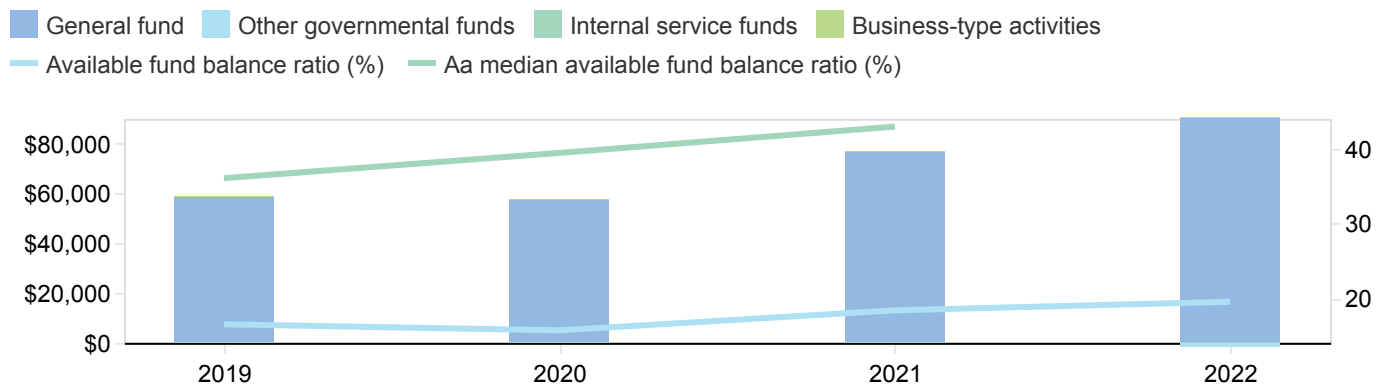
The county's reserve position is set to remain generally stable in the near-term. The fiscal 2024 introduced budget includes a 13% increase in taxes to be raised to reflect increased spending and budgeted debt service. Year-to-date operations are trending well to

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budget indicating flat reserves by year-end. Fiscal 2023 unaudited result show a modest tick up in reserves with the Moody's adjusted available fund balance estimated at \$92 million or 22% of revenues.

Ending fiscal 2022 audited results mark the county's highest Moody's adjusted fund balance amount in recent years of \$89 million or 19.5% of revenues. Despite these high levels, current reserves are still materially below the national Aa-median for similarly sized entities of 33% of revenues. A positive offset for the below median fund balance is the county's very stable and reliable revenue streams. Mercer County, as with all New Jersey counties, benefit from a guaranteed property tax levy collected and remitted in full by the municipalities within the county. This revenue stream amounted to 58% of total revenues in fiscal 2022.

Exhibit 2

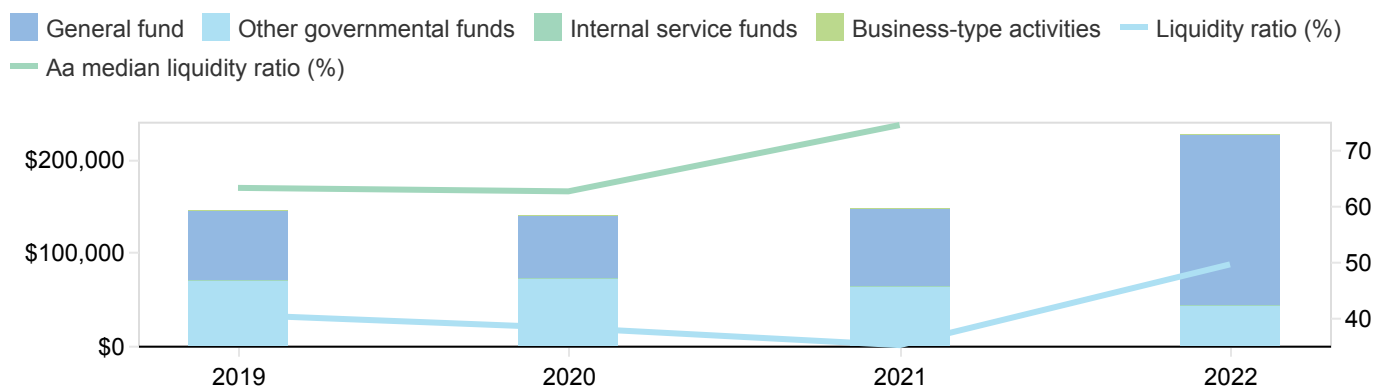
Fund Balance

Source: Moody's Ratings

Liquidity

The county's liquidity is very healthy with an ending fiscal 2022 cash balance of \$226 million or 50% of revenues. Fiscal 2023 cash is estimated to total \$186 million or 45% of revenues.

Exhibit 3

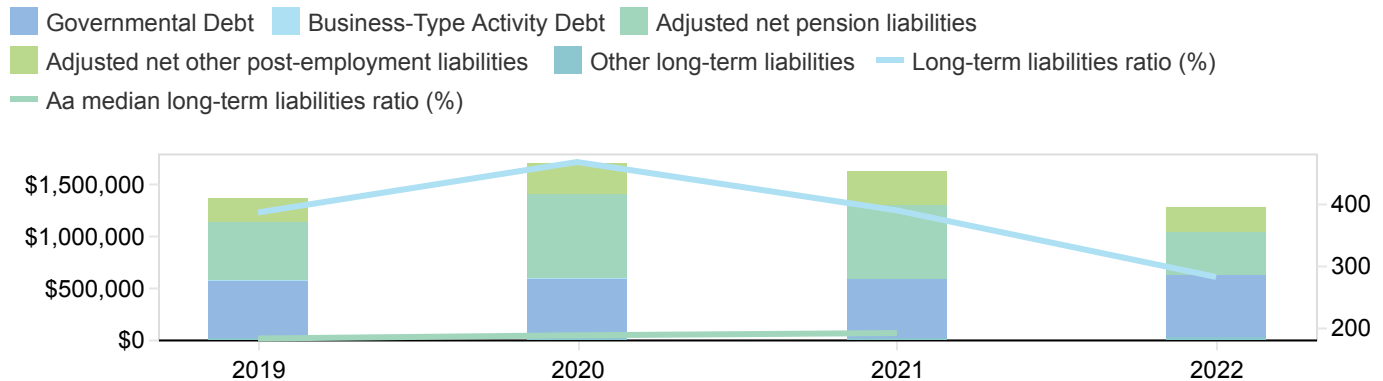
Cash

Source: Moody's Ratings

Leverage: manageable leverage

The county's leverage will remain generally stable in the near-term as the its future needs are modest and routine in nature. Including its upcoming issuance, total leverage will amount to approximately 281% of revenues. Its future borrowing plans are not going to materially increase its outstanding debt burden.

Exhibit 4

Total Primary Government - Long Term Liabilities

Source: Moody's Ratings

Legal security

The Bonds constitute valid and legally binding obligations of the County and, unless paid from other sources, are payable from ad valorem taxes levied upon all the taxable property within the County for the payment of the principal of and interest due on the Bonds, without limitation as to rate or amount.

Debt structure

All of the county's debt is fixed rate.

Debt-related derivatives

The county is not party to any interest rate swap or derivative agreements.

Pensions and OPEB

The county's pension liabilities are slightly larger than its debt and, though manageable at this time, represent a potential future credit challenge. The county participates in two state-sponsored multiple employer cost-sharing pension plans and funds retiree healthcare (OPEB) on a pay-go basis.

The state-sponsored boards which control the pension funds have historically set contribution rates at a level insufficient to allow the plans to tread water. In addition, the tread water gap does not take into account the very aggressive assumptions underpinning the actuarial analysis, which likely would make the gap even larger. To the extent that the multiple-employer pension plans in which Mercer participates experience returns on assets that fall short of their assumptions, the county's required pension contribution will increase. Because it is not pre-funding OPEB benefits as they accrue, the county's OPEB costs and liabilities will likely escalate as the number of retirees it covers grows and retirees age.

Favorably, the county will benefit from rising discount rates which should lead to reduced liabilities in the near term.

ESG considerations

Mercer (County of) NJ's ESG credit impact score is CIS-2

Exhibit 5

ESG credit impact score

CIS-2



ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

The ESG CIS impact score is a 2, reflecting moderately negative exposure to environmental risks and low exposure to social risks offset by strong governance and a favorable location.

Exhibit 6

ESG issuer profile scores

ENVIRONMENTAL

E-3



SOCIAL

S-2



GOVERNANCE

G-1



Source: Moody's Ratings

Environmental

The county's overall environmental issuer profile score is moderately-negative (**E-3**). While carbon transition, water, natural capital, and waste and pollution risks are modest, portions of the county are prone to flooding and the county is indirectly exposed to the sea level rise issues which are of concern for the entire state.

Social

Exposure to social risk is neutral-to-low (**S-2**). The county is home to a mix of communities, some of which are wealthy while others are quite poor with elevated poverty. Affordable housing is one of the county's challenges. Overall demographics and educational attainment are in line with peers. Residents have easy access to basic services and the county scores favorably in health and safety.

Governance

Mercer County's strong governance is reflected in a score of **G-1**. The county has built a deep bench of civil servants and outside professionals to implement its policy objectives. This, plus a combination of a strong state-wide institutional framework and highly conservative budgeting, has allowed the county not only to strengthen its finances but to do so while providing various forms of assistance to its local governments.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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 7

Mercer (County of) NJ

	Measure	Weight	Score
Economy			
Resident income ratio	122.4%	10.0%	Aaa
Full value per capita	152,508	10.0%	Aa
Economic growth metric	3.6%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	19.5%	20.0%	A
Liquidity ratio	49.5%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	280.8%	20.0%	A
Fixed-costs ratio	14.3%	10.0%	Aa
Notching factors			
Financial disclosures	-0.5		
Scorecard-Indicated Outcome			Aa3
Assigned Rating			Aa2

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Trenton-Princeton, NJ Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Mercer (County of) NJ's financial statements and Moody's Ratings

Appendix

Exhibit 8

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 Investors Service
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 Investors Service
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 Investors Service
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 Investors Service
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 Investors Service
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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