MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Monmouth County Impr. Auth., NJ's $9.7M Ser. 2014A & 2014B GO-guaranteed bonds

Global Credit Research - 01 Aug 2014

Affirms Aaa on $780M parity debt; outlook stable

MONMOUTH (COUNTY OF) NJ
Counties
NJ

Moody's Rating

ISSUE		RATING
Wastewater Treatment Facilities Lease Revenue Refunding Bonds, Federally Taxable Series 2014B		Aaa
Sale Amount	$6,970,000	
Expected Sale Date	08/20/14	
Rating Description	General Obligation	
Wastewater Treatment Facilities Lease Revenue Refunding Bonds, Series 2014A		Aaa
Sale Amount	$2,725,000	
Expected Sale Date	08/20/14	
Rating Description	General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, August 01, 2014 --Moody's Investors Service has assigned a Aaa rating to the Monmouth County Improvement Authority, NJ's $2.7 million Wastewater Treatment Facilities Lease Revenue Refunding Bonds Series 2014A and $7 million taxable Series 2014B. The bonds are secured by a guaranty from Monmouth County, NJ. At this time, we have affirmed Monmouth County's Aaa rating, affecting approximately $780 million of bonds secured either directly or through guaranty agreements by the county's General Obligation unlimited tax pledge. The outlook is stable.

Proceeds of the current issue will be used to advance refund the authority's 2005 bonds for estimated net present value savings of 3.8% of refunded par. The bonds were originally issued to fund capital work on Asbury Park, NJ's (Baa1) wastewater treatment plant.

SUMMARY RATING RATIONALE

The Aaa rating reflects the county's strong financial operations with healthy reserve levels, substantial and diverse tax base, and favorable debt position. The stable outlook reflects Moody's expectation that wealth levels will stay above state and national norms, reserve levels will remain healthy, and the county's debt burden will continue to be nominal.

STRENGTHS:

Large and diverse tax base

Favorable location near New York metropolitan region

Strong financial management and healthy reserves

CHALLENGES:

Large and growing portfolio of guaranteed debt

Modestly negative financial trend

DETAILED CREDIT DISCUSSION

MCIA BONDS SECURED BY COUNTY GUARANTY

The authority's 2014A and 2014B bonds are ultimately secured by general obligation a guaranty from Monmouth County.

Under the transaction's structure, the City of Asbury Park will make quarterly lease payments to the authority, with the lease payments sufficient to cover debt service and due roughly five weeks before the debt service dates. The trustee must notify the county of any shortfall roughly two weeks before the debt service dates. Pursuant to a guaranty ordinance, the county will pledge to cover any shortfalls in the lease payments by the debt service due date. The language in the guaranty ordinance defines the county's obligation as unconditional and irrevocable, and backed by the county's unlimited ad valorem taxing power. Therefore, we rate these bonds on parity with the county's direct GO bonds.

FINANCIAL POSITION REMAINS STRONG DESPITE MODEST DECLINES

The county's financial operations remain healthy despite a modestly negative trend. The county has cut costs aggressively, with the overall budget shrinking four consecutive years, to $481 million in 2014. During these four years, the county has kept the property tax levy (roughly 63% of budgeted revenues) flat.

The flat levy combined with costs from Hurricane Sandy and rising healthcare costs has pressured the county's financial position. Although the fund balance reported under New Jersey's statutory accounting rules is little-changed, based on our adjustments to make the fund balance more comparable with fund balances in other states the county's fund balance at the end of 2013 was about 17% of revenues, down from 21% of revenues in 2011.

This position is still consistent with top-rated entities in New Jersey, although further declines in reserves could apply downward pressure on the county's rating in future years.

The county appropriated $43 million of fund balance as revenue in 2014, and based on recent history will not likely replenish this entire amount. The magnitude of further fund balance declines in 2014 and beyond will be an important factor in the county's rating going forward. Should the county continue to keep the property tax levy flat and appropriate more fund balance than it can replenish, the fund balance will likely decline to a level inconsistent with top-rated counties.

LARGE, DIVERSE TAX BASE

The county's $112 billion tax base is large, diverse, and affluent. Favorably located in central New Jersey (A1 negative), within commuting distance of New York City (Aa2 stable) and numerous other regional employment centers, the county has grown rapidly over the past half-century. The population of 629,672 as of 2012 is nearly triple the population in 1950.

The county is affluent. The median family income in the county is equal to 164% of the US median, well above the level of peers even at the highest rating category. The median home value of $399,000 reflects the county's desirable location, its wealthy residents, and its strong socio-economic profile.

Hurricane Sandy damaged an estimated 17,000 properties and reduced the county's assessed valuation by approximately $500 million (0.4%). The county actively reassessed affected properties in order to change tax rates based on accurate property values and to discourage tax appeals. The county also faces nearly 7,000 tax appeals from prior years, but reimbursements are paid by municipalities and the administration claims the volume of appeals has slowed.

DEBT BURDEN MODEST DESPITE GUARANTEED DEBT PORTFOLIO

The county's direct debt burden is modest. The county's debt portfolio consists of $357 million of direct General Obligation bonds, plus about $80 million of GO-secured bonds. Additionally, the county has put its GO guaranty behind $379 million of municipal financings through its improvement authority. Although none of the borrowers in these financings has ever defaulted, the guaranty exposure is large and would pressure the county's financial position in the unlikely event that the guaranty were called on to a significant degree.

The direct debt burden, excluding the self-supporting debt of the county's reclamation utility and the MCIA loan portfolio, is equal to about 0.4% of full value.

The county participates in the New Jersey Police and Firemen's Retirement System and the New Jersey Public Employees' Retirement System, two multi-employer, defined benefit retirement plans sponsored by the State of New Jersey. The county's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, has averaged a moderate 0.9 times operating revenues over the past three years. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities. We determined the county's share of liability for the state-run plans in proportion to its contributions to the plans.

Outlook

The stable outlook reflects our expectation that wealth levels will stay above state and national norms, reserve levels will remain healthy despite projected near-term declines; and the county's debt burden will remain nominal.

WHAT COULD CHANGE THE RATING - DOWN:

- Continuation of negative financial trend

- Calls on the county guaranty

KEY STATISTICS:

Full value: $112 billion

Full value per capita: $177,736

Median family income: 164%

Fund balance as % of revenues (adjusted for NJ accounting): 17%

5-year dollar change in fund balance as % of revenues: -2%

Cash balance as % of revenues: 22.4%

5-year dollar change in cash balance as % of revenues: -4.6%

Institutional framework (NJ counties): A

5-year average of operating revenues to operating expenditures: 1.00x

Debt to full value: 0.4%

Debt to revenues: 0.8x

Moody's adjusted three-year net pension liability to full value: 0.45%

Moody's adjusted three-year net pension liability to operating revenues: 0.93x

RATING METHODOLOGIES

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. The additional methodology for this rating was Rating Transactions Based on the Credit Substitution Approach: Letter of Credit backed, Insured and Guaranteed Debts published in March 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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