

FITCH RATES MONMOUTH COUNTY IMPROVEMENT AUTH, NJ \$7.9MM RFG REVS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-28 July 2014: Fitch Ratings has assigned an 'AAA' rating to the following bonds to be issued by the Monmouth County Improvement Authority, NJ (the MCIA):

--\$2,725,000 wastewater treatment facilities lease revenue refunding bonds, series 2014A;

--\$6,970,000 wastewater treatment facilities lease revenue refunding bonds, federally taxable series 2014B.

The bonds will be sold via negotiation on or about August 12. Proceeds will refund all of the MCIA's outstanding wastewater treatment facilities lease revenue refunding bonds, tax-exempt series 2005A and wastewater treatment facilities lease revenue bonds, federally taxable series 2005B. The refunding is projected to yield an aggregate net present value savings of approximately \$345,950 or 3.8% of refunded par.

In addition, Fitch affirms the 'AAA' rating on the county's \$495.3 million outstanding GO bonds and \$370.2 million outstanding MCIA revenue bonds.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by basic lease payments made by the city of Asbury Park, subject to annual appropriation. The bonds are also unconditionally and irrevocably guaranteed by Monmouth County (the county) pursuant to a guaranty resolution. The county's obligation to make payments under the guaranty is a direct and general obligation of the county, backed by the levy of ad valorem taxes on all taxable property within the county without limitation as to rate or amount.

KEY RATING DRIVERS

STABLE FINANCIAL POSITION: County general fund (or current fund) reserve levels remain solid and liquidity is strong. Conservative budgeting and financial management has allowed for relatively stable financial results over an extended period. Operations are largely funded from property taxes which are fully guaranteed by underlying municipalities.

FAVORABLE ECONOMIC PROFILE: The county's economic profile is driven by its favorable location within the greater New York metropolitan area and expansive beachfront. High income levels, low poverty, and a comparatively stable population and housing market are strengths for the county, somewhat tempered by its exposure to seasonal leisure activity.

MANAGEABLE DEBT: County debt levels are manageable and rapidly amortized. Future borrowing plans are manageable and capital needs are largely related to discretionary projects. Carrying costs including debt service, pension and other-post employment benefits (OPEB) remain an affordable component of the budget.

RATING SENSITIVITIES

SHIFT IN FINANCIAL PERFORMANCE: Projections for fund balance use in 2014 are higher than previously anticipated, largely reflecting continued revenue weakness and diminished expenditure reduction alternatives. Reserves are expected to remain sound at year end; however, any sizable decline of ending fund balance going forward could signal a shift in the county's commitment to fiscal stability and could pressure the 'AAA' rating.

CREDIT PROFILE

Monmouth County is located along the northern Atlantic shore of New Jersey, 50 miles outside of New York City. The county's 2013 estimated population is about 630,000. Incorporated cities located within Monmouth County include Asbury Park, Long Branch, and Red Bank.

PROXIMITY TO NEW YORK CITY CREATES STRONG ECONOMIC CORE

Fitch expects the county's economy will continue to perform well over time given the benefits inherent in its proximity to New York City and desirable coastline location. The county's labor force is well educated and median household income registers a strong 118% of the state and 160% of the U.S. standard. The county's market value on a per capita basis, approximately \$180,000, is considered very high and further indicative of the wealth characteristics of both year-round residents and second home owners. The housing market continues a strong rebound, with median prices in the county's largest communities up over 20% on the year according to Trulia.

The employment base is not performing as strongly as housing, with the county registering a third straight year of modest gains in 2013 consistent with the broader New York-Newark-Jersey City metropolitan statistical area (MSA). Unemployment improved to 6.0% in May compared to 7.5% in the same month of 2013 largely due to labor force declines. The county's employment base remains about 15,000 jobs below its pre-recession high. Leading non-governmental employers in the county include Meridian Health Care (9,200), Saker ShopRites (6,850), and Air Safety Equipment (2,600).

FINANCIAL RESOURCES SOUND ENTERING 2014

Unaudited information for 2013 depicts an increase in the current fund balance to \$76.2 million or 14.8% of expenditures from \$66.6 million or 12.6% of expenditures in 2012. Reserves increased during the year as the county was able to release as unrestricted surplus a total of \$12.7 million recorded as a reserve for accumulated grant receivables. Management reports approximately \$3 million of appropriated fund balance spent for operations in fiscal 2013 (equivalent to less than 1% of spending). The county's financial management policy requires a minimum current fund balance equal to 7% of revenues. Reserve levels have historically been maintained well above the policy level which is an important consideration in the maintenance of the 'AAA' rating.

FUND BALANCE RELIANCE & FLAT REVENUE GROWTH A GROWING CONCERN

The 2014 current fund budget includes a fund balance appropriation of \$43 million representing a high 8.9% of the budget. The fund balance appropriation was lowered from \$46 million in 2013 and has been fairly consistent since 2009. However, the reliance on fund balance for operations is expected to grow considerably in 2014, with a year-end fund balance projection of roughly \$60 million (a \$16 million deficit) in the worst case. The projected fund balance would remain equivalent to approximately 12% of spending. The fund balance projection does not reflect the potential receipt of close to \$4 million in FEMA funds associated with Superstorm Sandy, a portion of which would be deposited in the current fund. Material additional use of reserves beyond what is projected in 2014 could put pressure on the current rating.

Management has done a noteworthy job controlling costs to counter flat revenue totals as the county has opted to hold constant the levy for property taxes (the source for 63% of 2014 budgeted revenue)

in each of the prior four years. Prior year actions, which have included layoffs and hiring freezes, increased employee contributions for health care, elimination of programs and a reduction in capital projects, limited spending growth to just 0.7% from 2009-2013. The current full-time workforce is down 393 positions or 12% since 2008.

Expenditure reduction alternatives appear to be more limited now largely reflected in diminishing appropriation reserves (unspent, lapsed appropriations) and the projected use of fund balance this year. The county's ability to resolve the existing budget gap would appear to center on an increase in revenue, with the county able to generate approximately \$10 million in additional property taxes within the constraints of the statutory tax cap. The county's property tax rate remains among the lowest in the state, and the tax levy is fully guaranteed by the county's underlying municipalities eliminating risk of non-collection or delinquencies.

MODERATE DEBT BURDEN

The county's overall debt burden remains moderate at \$3,993 per capita or 2.3% of market value (estimated at \$109.9 billion in 2014). Debt statistics include \$370.2 million of county-guaranteed debt issued by the MCIA and backed by the unlimited tax GO pledge of the local unit participants; this amount represents about 15% of the county's overall debt burden. In the history of the MCIA debt program there has never been an occurrence of a local unit bond payment default. The rate of outstanding principal amortization exceeds the county's aggressive policy of 70% within 10 years, providing ample capacity in future years for continued capital investment. Despite the rapid payout carrying costs related to county debt remain quite manageable at about 11% of spending. The county adopted a six-year capital program totaling just over \$230 million, reduced from \$344.9 million last year as the county concludes several larger scale capital projects and focuses on maintenance needs going forward.

PARTICIPATION IN UNDERFUNDED STATE PENSION PLANS

The county participates in two state-run pension plans, Public Employees Retirement System (PERS) and Police and Fireman's Retirement System (PFRS), and is fully funding its annual required contribution as dictated by the state. PERS and PFRS are 74% and 76.9% funded as of June 30, 2013. Fitch estimates the funded status of both plans diminishes moderately when substituting a 7% rate of return for the plans fairly aggressive 7.9% rate. Contributions to the state plans are budgeted at \$23.8 million in 2014 or 4.9% of spending. The county budgets just \$100,000 for its single-employer defined contribution plan.

Pension reforms enacted by the state, including an increase in employee contributions, are considered positive, although required payments to the state plans have averaged only about 90% of the ARC the last five years. The current unfunded OPEB liability equals just 0.5% of market value. OPEB is funded on a pay-as-you-go basis and payments are expected to decline over time as employees hired after July 1, 1994 will not receive paid health care benefits when they retire.

COUNTY GUARANTY PROVISIONS

The city of Asbury Park's obligation to pay debt service on the bonds is unconditional and irrevocable, and a direct and general obligation of the city backed by the levy of an unlimited ad valorem tax. The bonds are additionally secured by the full, unconditional and irrevocable guarantee of Monmouth County, backed by its unlimited ad valorem taxing power. If on the 15th day of the month preceding a month in which MCIA debt service is payable there are insufficient funds in the debt service fund to make such payment the MCIA shall notify the county and the county shall immediately take all actions necessary to cure the deficiency (which may include the adoption of an emergency appropriation). Fitch estimates annual debt charges associated with all outstanding county-guaranteed

MCIA debt at roughly \$21 million or 4% of the current fund budget. There is no history of local unit payment default.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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