



RATING ACTION COMMENTARY

Fitch Rates Monmouth County Improvement Auth, NJ's \$30MM Rev Bonds 'AAA'; Outlook Stable

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Fitch Ratings - New York - 02 Sep 2022: Fitch Ratings has assigned a 'AAA' rating to \$30,025,000 governmental pooled loan revenue bonds, series 2022A (Monmouth County Guaranteed) to be issued by the Monmouth County Improvement Authority, New Jersey (MCIA).

In addition, Fitch affirms Monmouth County's GO bond rating and Issuer Default Rating (IDR) at 'AAA', and the rating on various series of outstanding revenue bonds issued by MCIA and guaranteed by the county and its unlimited ad valorem taxing power at 'AAA'. Fitch also affirms the 'F1+' short-term rating on Monmouth County's reclamation center utility bond anticipation notes (BANs), series 2021.

The Rating Outlook is Stable.

Proceeds of the series 2022A bonds will be used to make loans to certain municipalities (the borrowers) within the county to refinance certain outstanding bond anticipation notes of the borrowers, finance general improvements of the borrowers and pay cost of issuance.

SECURITY

The MCIA revenue bonds are payable by loan or lease repayments made by various municipal borrowers and are additionally backed by the full, unconditional and irrevocable guaranty of Monmouth County and its unlimited ad valorem taxing power pursuant to various guaranty resolutions entered into by the county and the authority.

ANALYTICAL CONCLUSION

The 'AAA' rating on the MCIA's revenue bonds is based on the Monmouth County guaranty agreement and the county's 'AAA' IDR. The short-term 'F1+' rating on the outstanding BANs is tied to the county's 'AAA'

IDR. Monmouth County's 'AAA' IDR and GO rating reflect its stable fiscal track record and combination of high reserves and budget flexibility that result in an exceptionally strong capacity to manage through future downturns. The county's proximity to New York City creates a strong and mature economic core with limited expansion capacity. Fitch expects long-term liabilities related to debt and pensions to remain low.

Economic Resource Base

Monmouth County has a stable population totaling 645,354 (a modest increase of 2.4% from 2010) that exhibits high median household income and educational attainment relative to state and national averages. Its proximity to New York City and location along the northern Atlantic shore of New Jersey make it a desirable place to live. Opportunities for new investment are limited primarily to the former Fort Monmouth Army base and rehabilitation or replacement of existing properties, Fitch expects inflationary levels of tax base growth over time and for robust home price growth to subside over the near term and return closer to historical levels.

KEY RATING DRIVERS

Revenue Framework: 'aa'

County revenue growth should generally trend in line with historical inflation levels based on expectations for moderate levels of new construction activity and demand for various revenue-generating services. Fitch views the county's revenue raising flexibility, within the framework of various state tax cap laws, as high relative to potential revenue losses in a moderate economic downturn.

Expenditure Framework: 'aa'

Fitch expects spending levels to remain aligned with revenue growth, driven by annual moderate increases in salaries and benefits. The county retains solid capacity to make expenditure reductions centered on the legal ability to control workforce size and manageable carrying costs and very rapid amortization of county direct debt.

Long-Term Liability Burden: 'aaa'

The county's long-term liability burden associated with overall debt and net pension liabilities (NPL) is low at 5% of personal income. Fitch expects the burden to remain below 10% of personal income based on the rapid amortization of outstanding debt and our expectation of future capital needs and debt issuance plans.

Operating Performance: 'aaa'

Fitch expects Monmouth County to maintain a high level of financial flexibility reflecting the combination of high reserves relative to expected revenue volatility, superior budget flexibility and demonstrated history of conservative budgeting and fiscal management.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not relevant for a 'AAA' or 'F1+' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--An inability to balance recurring spending demands against current fund revenue trends and sustained decline in available reserves and overall financial resilience;

--A sustained increase in fixed costs related to debt service and retiree benefits that limits expenditure flexibility;

--The 'F1+' rating is sensitive to a downgrade of the county's IDR below 'AA-'.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CURRENT DEVELOPMENTS

Monmouth County concluded 2021 (Dec. 31 fiscal year-end) with a \$7.3 million operating surplus. The county was able to offset the nearly \$36.4 million in appropriated fund balance and generate a surplus mainly due to \$12.2 million in miscellaneous revenues above budget (including county clerk and parks department) and the lapse of \$19.1 million in unexpended 2020 appropriations to fund balance pursuant to state law. Unexpended appropriations in 2020 were \$8 million more than the prior year due to the application of federal stimulus to cover wage and fringe benefit expenses associated with pandemic-related activities. Fitch's assessment of financial resilience factors in the unrestricted current fund balance, which improved to \$70.4 million in 2021, plus \$20.5 million in statutory appropriation reserves and reserves for receivables, which Fitch considers to be more consistent with GAAP accounting. Fitch estimates the combined available reserves at approximately 19% of the \$474 million 2022 budget (or 15% of 2021 spending which was inflated by one-time bridge replacement expenditures).

Property taxes are the dominant current fund revenue source at \$311.5 million or 71% of the 2022 budget (excluding appropriated fund balance). The county has essentially maintained a flat tax levy since 2016, having applied the proceeds from the sale of two care centers in December 2015 to balance subsequent years' budgets. The 2021 budget appropriated the remaining \$4.8 million in care center

proceeds, and the 2022 budget lowers the total amount of fund balance appropriated by almost \$2.4 million (or 6.5%) yoy.

The 2022 budget also appropriates \$16.4 million in American Rescue Plan Act (ARPA) as revenue replacement funds, equivalent to a manageable 3.5% of spending. A portion of the ARPA funds have also been used for capital improvements and community programs. The county tentatively plans to utilize similar amounts of ARPA funds as revenue replacement in 2023 and 2024, absent growth in the tax levy or other local revenue sources. Approximately \$28 million in additional unobligated ARPA funds are available to address other budgetary needs that may arise.

The bulk of the county's workforce is unionized and operating under contracts that expired on Dec. 31, 2021. The county has settled with several bargaining units on multi-year contracts with 2.75% annual wage increases, which Fitch considers manageable within the context of new construction and miscellaneous revenue expectations and the county's tax levy growth limitations.

Management reports YTD revenues are down slightly relative to the budget and expenditure pressures associated with rising health care and fuel costs which, when balanced against salary savings due to higher vacancies, will likely contribute to a modest deficit at year end.

CREDIT PROFILE

Monmouth County is situated on the Atlantic shoreline about 50 miles outside of New York City. Its incorporated municipalities include the municipalities of Asbury Park, Long Branch, Red Bank, Rumson and Freehold, amongst others. Access to broader employment opportunities in northern New Jersey and New York City complement the county's popularity among tourists and seasonal property and business owners. The county also has a strong health care presence. Residents exhibit high educational attainment and a median household income that is approximately 20% and 60% above New Jersey and U.S. levels, respectively. Unemployment within the county tends to register below the state and the U.S.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅			PRIOR ⇅
Monmouth County (NJ) [General Government]	LT IDR	AAA Rating Outlook Stable		Affirmed AAA Rating Outlook Stable
Monmouth County (NJ) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable		Affirmed AAA Rating Outlook Stable
Monmouth County (NJ) /General Obligation - Unlimited Tax/1 ST	ST	F1+	Affirmed	F1+

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APPLICABLE CRITERIA

[U.S. Public Finance Tax-Supported Rating Criteria \(pub. 04 May 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 ([1](#))

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