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Summary:

**Monmouth County, New Jersey
Monmouth County Improvement
Authority; Appropriations; General
Obligation; General Obligation
Equivalent Security**

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Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Related Research

Summary:

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Credit Profile		
US\$30.025 mil govt pooled loan rev bnds (Monmouth Cnty) ser 2022A due 10/01/2042		
Long Term Rating	AAA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the Monmouth County Improvement Authority, N.J.'s approximately \$30.025 million series 2022a governmental pooled loan revenue bonds, guaranteed by Monmouth County.
- At the same time, we affirmed our 'AAA' long-term rating on the county's previously issued general obligation (GO) bonds and county-guaranteed bonds issued by the authority.
- The outlook is stable.

Security

The governmental pooled loan revenue bonds are issued on behalf of four municipalities in Monmouth County. Our rating on the county-guaranteed bonds issued through the improvement authority reflects our view of Monmouth County's unconditional guarantee of full and prompt payment of principal and interest on the bonds when due and payable. The guarantee qualifies as a form of credit enhancement and, in our view, is based on the county's unconditional promise to pay the guaranteed obligation on the due date when remedies against the primary obligors are exhausted. For issues that carry the county's guarantee, none of the transactions include obligors with unenhanced ratings that exceed our rating on the county. The county's full-faith-and-credit pledge, including an agreement to levy unlimited ad valorem taxes on all taxable property within county limits, secures its GO bonds. The New Jersey Fund for the Support of Free Public Schools program provides additional bond security for the county's previously issued vo-tech bonds.

Credit overview

Underpinning the county's credit strength is its large, diverse, high-value tax base and its management team, which has historically achieved balanced current fund operations and sustained strong-to-very strong flexibility and liquidity. We believe the latter is critical to maintaining the rating, given long-term liability pressures that New Jersey local governments may experience should the state require higher contributions to increase funding levels of its underfunded pension plans. Following a five-year period wherein the county slowly and intentionally used proceeds from the sale of a care center to balance its budgets, it achieved a surplus operating result without including those

proceeds in fiscal 2021. The county similarly plans to use a portion of its American Rescue Plan Act (ARPA) funding to mitigate the effects of inflationary pressures over the next several years, although its track record in aligning recurring revenues and expenditures gives us comfort its budgets will not become imbalanced once it exhausts relief funds.

Monmouth County guarantees a significant amount of debt issued through its improvement authority on behalf of municipal, school, and utility entities within the county, which partially leads to our debt assessment that we expect will fluctuate over time between adequate and weak. We consider the county's policies and monitoring for its guarantee program to be robust. The county has not had to make any payments on this guaranteed debt and we do not expect it will have to in the near term.

The rating reflects our view of the county's:

- Large and diverse local economy, with steady growth and high per capita metrics despite its large population;
- Very strong management with strong financial-management policies, practices under our Financial Management Assessment (FMA) methodology and strong Institutional Framework score;
- Generally solid financial profile, characterized by the maintenance of strong reserves and a demonstrated ability to realign recurring revenues and expenditures after one-time windfalls;
- Weak debt and contingent liability profile with county-guaranteed debt and a large pension and other postemployment benefit (OPEB) obligation.

Environmental, social, and governance

Although its long coastline leaves it exposed to the effects of sea-level rise and extreme weather events, Monmouth County has extensive climate resiliency planning integrated into its operations and development, reducing environmental risk and benefiting constituent municipalities. We view its governance risks as being generally neutral, although pension funding discipline and assumption choices at the state level will likely lead to elevated and volatile costs for the county. We view the county's social risks as neutral in our credit analysis.

Outlook

The stable outlook reflects our view of Monmouth County's plan to maintain its strong financial position and our belief that its use of ARPA funds for revenue replacement will not imperil its ability to maintain structural balance over the outlook period.

Downside scenario

If gaps between expenditures and revenues increase after the county uses the remainder of its ARPA allocation, we could lower the rating. Additionally, its large capital plans leading into the pandemic gradually led to a run-up in both authorized debt and debt outstanding. We note that the county has recently subjected new capital spending to greater scrutiny and reduced its future borrowing plans. However, we could lower the rating if additional debt service or other unforeseen expenditures led to sustained revenue and expenditure imbalances.

Credit Opinion

Impressive tax base tied into New York City, North New Jersey, and the Jersey Shore

A developed network of railroads, ferries, and highways traverses Monmouth County, connecting residents to regional employment opportunities in the greater New York City and northern New Jersey metropolitan statistical area (MSA), which supports the county's very strong wealth and income levels. Residents also have access to the Philadelphia MSA and southern New Jersey for additional employment opportunities. The county's tax base is also bolstered by vacation homes along its lengthy coastline. Retail centers make up about one-half of the largest taxpayers. Despite the presence of these substantial retail centers, the 10 leading taxpayers account for 1.3% of assessed value, which we consider very diverse. We believe the large size of Monmouth County's tax base provides tremendous support to increase revenues when necessary.

Strong real estate market conditions have persisted over the last two years and were largely insulated from the slump at the start of the pandemic. Residential building permits jumped by over 30% in 2020 from its 2019 level, compared with a 13% decline statewide. There were slightly fewer home sales in June 2022 compared to a year ago, and while prices have continued to increase, the rate of increase has tempered to levels closer to historical averages. A number of large-scale residential developments are also underway, and projects tend to sell out quickly. The county also approved 22 commercial, 28 industrial, eight office, 11 mixed-use, and three public developments by early August 2022. In addition to increases in the tax base, new development has also contributed to outperforming fee revenues. We believe Monmouth County is likely to sustain very strong wealth and income levels over the next two years.

Strong financial management practices, policies focused on long-term structural balance

- In developing its annual budget, management reviews historical trends and considers forward-looking projections when arriving at revenue and expenditure assumptions.
- Finance officials monitor budget-to-actual results closely, providing monthly budget reports to the county's commissioner board. Amendments, while infrequent, can occur through emergency appropriations and transfers, as permitted under statute.
- The county's formal cash management policy governs investments, which officials report at least monthly.
- Monmouth County has a formal six-year capital improvement plan (CIP), with all sources identified, that is updated annually. Administrators began involving department heads more closely in the capital-planning process in 2019, and we expect this trend to continue.
- Management maintains a five-year financial forecast that focuses on maintaining structurally balanced budgets and identifying outyear challenges.
- The county maintains a comprehensive debt policy that sets forth governance and measurability standards for managing existing and future debt obligations. These benchmarks and metrics include requiring the retirement of 70% of net tax-supported debt over 10 years and the maximum ratio of net tax-supported debt to 0.75% of total market value.
- The county's formal reserve policy requires the maintenance of the current fund balance at a minimum 7% of revenue.

We also spoke with officials regarding cyber security, and they were conversant regarding the risks. We believe the county is taking proactive steps to mitigate cyber risk.

The institutional framework score for New Jersey municipalities is strong.

Expense control and proactive budget management support a strong financial position

Monmouth County added to fund balance in 2021 for the first time since 2016, when it began slowly and intentionally using proceeds from a 2015 asset sale to fund a small portion of operations. The county reported a \$7.3 million addition to fund balance during the year. While certain revenues outperformed, the positive result mainly reflects the effects of expense reduction in the 2020 budget, which appears as 2021 revenues as a function of statutory accounting treatment. The county did not use ARPA funds in the 2021 budget, although it received approximately \$120 million between 2021 and 2022.

The county's 2022 budget includes a fund balance appropriation of \$34 million, down approximately \$2.4 million from the previous year. It has historically been able to replenish these fund balance anticipations with positive budget-to-actual variances during the year. The budget also makes use of \$16.4 million for revenue replacement to address significant increases in a few line items, mostly fuel and health benefits costs. The county intends to use some portion of the ARPA funds for revenue replacement in the budget for the next two years, gradually increasing revenues and decreasing expenditures in the outyears so that budgets will remain structurally aligned. We believe it has a track record of conservative budgeting and demonstrated ability to wean budgets off one-time revenues that put it in a good position to manage these considerations. We understand that budget-to-actuals are in a good position so far for 2022.

The underlying municipalities guarantee Monmouth County its full property tax levy, and they contribute approximately 66% of budgeted current fund revenue for 2022. Our forward-looking view of the county's performance depends on the extent to which we believe it can replenish its appropriated surplus through positive budget-to-actual variances. We expect that it will maintain generally stable performance in the long run, although we recognize there may be slight transitional pressure as it exhausts federal relief funds. We could lower our assessment if the county's operating results do not remain positive over the next several years.

The county's fund balance position is approximately in line with its historically average on an absolute basis, although it has dipped slightly relative to the budget as a result of increases state and federal grants and relief funds in 2020 and 2021. We also expect reserves will remain well in excess of its formal reserve policy minimum of 7% of revenues.

While Monmouth County does guarantee debt through its improvement authority, we believe the local governments paying for this debt will continue to do so, and that there will not be a contingent claim on the county. We also believe that if the county's guarantee were to be triggered for these claims, it maintains the ability to permanently finance the debt so it would be able to manage any associated contingent liability. Monmouth County does not have any debt with provisions allowing for acceleration of debt service that might increase contingent liability risk.

Manageable overall debt burden with decreasing annual issuance but a substantial guarantee program

We estimate county-issued net direct debt totals \$405 million, including utility debt, excluding debt we view as self-supporting based on state aid reimbursement or historical rate and charge coverage. However, the county also

guarantees a significant amount of debt through its improvement authority. We estimate guaranteed debt outstanding will total approximately \$682 million following this transaction. We note that the county has never had to make a payment on behalf of an entity as part of a guarantee arrangement. We believe the entities paying for this debt will continue to do so, so we do not currently view it as a speculative contingent liability that will require the county's support in the near term.

Monmouth County implemented changes to its capital budget process that have reined in additional debt issuance over the past three years. We understand the county plans to stabilize its debt-supported capital budget at around \$65 million per year in the future. We believe the new controls to rein in capital spending mitigate the risk that additional debt service will pressure budgets. The county's own net direct debt (excluding authority debt issued on behalf of other entities but guaranteed by the county) is 62% of current fund revenue. Including the guaranteed debt, net direct debt is 166%. Relative to the budget, tax-supported county debt has decreased over the past two years. Due to fluctuations in both guaranteed and county debt issuance, we believe our assessment of debt is likely to be between weak and adequate in the near term.

Pension and OPEB highlights

- We view pension and OPEB liabilities as a source of credit pressure for Monmouth County, as with most New Jersey local governments.
- While it is currently managing pension costs, we believe the county has limited ability to control future growth of pension liabilities.
- OPEBs are, by state statute, funded on a pay-as-you-go basis. Ordinarily, claims volatility, as well as medical cost and demographic trends, would likely to lead to escalating costs. However, the county eliminated OPEBs for new hires in 1994, and has begun seeing declining costs.

Monmouth County participates in the following state-administered pension plans:

- Police and Firemen's Retirement System: 71.41% funded, with a proportional share of the net pension liability (NPL) equal to \$180.0 million as of Dec. 31, 2020.
- Public Employees' Retirement System: 51.52% funded, with a proportional share of the NPL equal to \$255.8 million as of Dec. 31, 2020.

Although the county funds 100% of its actuarially determined contributions (ADCs), contributions fell short of our minimum funding progress metric, which we view negatively; however, they do exceed static funding, which implies positive but slow funding progress. This shortfall is due in part to poor assumptions and methodologies, although plans have seen recent improvement due to the state ramping up to 100% of its ADC. For more details and information on these risks, see our report, "Pension Spotlight: New Jersey," published June 21, 2022, on RatingsDirect.

Monmouth County also provides OPEBs to eligible retirees who began employment prior to July 1, 1994. It does not provide retiree health benefits to those who joined after that date, which management indicates could reduce future liabilities associated with providing retiree health care. The net OPEB liability for the county as of Dec. 31, 2021, was \$422 million, down from \$474 million in 2020. The liability is funded on a pay-as-you-go basis, which, given claims

volatility as well as medical cost and demographic trends, could lead to escalating costs in the short term. However, we understand that costs have begun to decrease and will likely continue to do so.

Rating above the sovereign

Monmouth County's GO bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria ("Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013), the county predominantly derives its revenue from local sources, receiving 66% from local property taxes, and has independent taxing authority as well as independent treasury management from the federal government.

Monmouth County, NJ -- Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	140			
Market value per capita (\$)	236,023			
Population		616,422	619,646	625,511
County unemployment rate(%)		5.5		
Market value (\$000)	145,489,775	145,489,775	135,037,882	
Ten largest taxpayers % of taxable value	1.2			
Strong budgetary performance				
Operating fund result % of expenditures		1.1	(0.8)	(0.4)
Total governmental fund result % of expenditures		1.1	(0.8)	(0.4)
Strong budgetary flexibility				
Available reserves % of operating expenditures		10.8	10.5	13.2
Total available reserves (\$000)		70,378	63,118	68,059
Very strong liquidity				
Total government cash % of governmental fund expenditures		22	21	23
Total government cash % of governmental fund debt service		233	203	205
Very strong management				
Financial Management Assessment	Strong			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		9.4	10.2	11.4
Net direct debt % of governmental fund revenue	166			
Overall net debt % of market value	1.5			
Direct debt 10-year amortization (%)	79			
Required pension contribution % of governmental fund expenditures		5.0		
OPEB actual contribution % of governmental fund expenditures		2.5		
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- Credit Conditions North America Q3 2022: Credit Headwinds Turn Stormy, June 28, 2022
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of September 1, 2022)

Monmouth Cnty cnty vocational sch bnds		
Long Term Rating	AAA/Stable	Affirmed
Underlying Rating for Credit Program	AAA/Stable	Affirmed
Monmouth Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Monmouth Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Monmouth Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Monmouth Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Underlying Rating for Credit Program	NR	
Monmouth Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Underlying Rating for Credit Program	AAA/Stable	Affirmed
Monmouth Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Monmouth Cnty GO gen imp and cnty coll bnds ser 2021A due 01/15/2029		
Long Term Rating	AAA/Stable	Affirmed
Monmouth Cnty GO rfdg bnds ser 2021B due 01/15/2025		
Long Term Rating	AAA/Stable	Affirmed
Monmouth Cnty (c. 12) cnty coll bnds		
Long Term Rating	AAA/Stable	Affirmed
Monmouth County Improvement Authority governmental pooled ln rev bnds (Monmouth Cnty) ser 2009 dtd 12/30/2009 due 12/01/2010-2026 2029		
Long Term Rating	AAA/Stable	Affirmed
Monmouth County Improvement Authority, New Jersey		
Monmouth Cnty, New Jersey		
Monmouth Cnty Imp Auth (Monmouth Cnty) governmental pooled ln rev bnds		
Long Term Rating	AAA/Stable	Affirmed
Monmouth Cnty Imp Auth (Monmouth Cnty) governmental pooled ln rev bnds (Monmouth County Guaranteed)		
Long Term Rating	AAA/Stable	Affirmed
Monmouth Cnty Imp Auth (Monmouth Cnty) govtl pooled loan rev bnds		

[illegible]

Ratings Detail (As Of September 1, 2022) (cont.)

Monmouth County Improvement Authority (Monmouth Cnty) capital equipment pooled lse rev bnds (Monmouth Cnty) ser 2013 dtd 10/09/2013 due 10/01/2014-202

Long Term Rating AAA/Stable Affirmed

Monmouth County Improvement Authority (Monmouth Cnty) governmental pooled ln rev bnds ser 2020 due 12/01/2040

Long Term Rating AAA/Stable Affirmed

Monmouth County Improvement Authority (Monmouth Cnty) governmental pooled loan rev bnds

Long Term Rating AAA/Stable Affirmed

Monmouth County Improvement Authority (Monmouth Cnty) govt pooled loan rev bnds (Monmouth Cnty) ser 2021B due 12/01/2042

Long Term Rating AAA/Stable Affirmed

Monmouth County Improvement Authority (Monmouth Cnty) lse rev bnds (Monmouth Cnty) (Brookdale Comnty Coll Proj) ser 2008 dtd 12/30/2008 due 08/01/2009

Long Term Rating AAA/Stable Affirmed

Monmouth County Improvement Authority (Monmouth County) cap equip pooled lse rev bnds

Long Term Rating AAA/Stable Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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