FITCH RATES MONMOUTH COUNTY IMPROVEMENT AUTHORITY, NJ'S REVS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-11 February 2016: Fitch Ratings has assigned an 'AAA' rating to the following revenue bonds to be issued by Monmouth County Improvement Authority, New Jersey:

--$38,995,000 governmental pooled loan revenue refunding bonds, series 2016.

The bonds will be sold via negotiation on or about March 2. Proceeds will refund outstanding obligations for a net present value savings of approximately $2.69 million or 6.6% of refunded par (pending market conditions).

Fitch currently rates $469 million of outstanding county GO bonds and $376.2 million of outstanding Monmouth County Improvement Authority (MCIA) revenue bonds (pre-refunding) 'AAA'.

The Rating Outlook is Stable.

SECURITY

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

KEY RATING DRIVERS

STABLE FINANCIAL POSITION: Already solid general fund (or current fund) reserves received a considerable boost following the sale of several county owned care centers. Conservative budgeting and financial management have 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: Monmouth County's economic profile is driven by its favorable location within the greater New York metropolitan area and its 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 LONG-TERM LIABILITIES: County debt levels are moderate and rapidly amortized. The scope and nature of future capital needs and borrowing plans are manageable. 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: The rating remains sensitive to the maintenance of stable financial operations and a healthy fund balance position.

CREDIT PROFILE

Monmouth County is located along the northern Atlantic shore of New Jersey, 50 miles outside of New York City. The county's 2014 estimated population is 629,279. 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. Monmouth County resident employment grew 3% in 2015 following a gain of 2.7% in 2014. Employment had been flat from 2009-2013, performance consistent with the broader New York-Newark-Jersey City metropolitan statistical area (MSA). The county's preliminary December unemployment rate of 3.9% compared favorably to 4.4% for New Jersey and 5% for the U.S. Leading non-governmental employers in the county include Meridian Health Care (9,932 employees), Centra State Healthcare Systems (2,626), Saker ShopRites (2,250), and Comm Vault (1,740).

The county's labor force is well educated, and median household income registers a strong 118% of the state and 159% of the U.S. standard. The county's market value on a per capita basis, approximately $179,000, is considered very high and is further indicative of the wealth characteristics of both year-round residents and second home owners. The median home value in Monmouth County as of December 2015 was $371,500 according to Zillow Group, an increase of 0.6% on the year. Zillow's one-year forecast depicts similar growth in home prices throughout the county. Opportunities exist for new investment and job growth on the site of the former Fort Monmouth Army base, but tax base development may be a key issue going forward given the somewhat mature nature of the county and limitations on developable land.

PROCEEDS FROM SALE OF CARE CENTERS BOOST RESERVES

The county closed on the sale of the John L. Montgomery Care Center and the Geraldine L. Thompson Care Center for $17.4 million and $15 million, respectively, on Dec. 31. The current fund balance improved to $96.1 million or 18% of spending from $66.4 million or 12.6% in 2014. Fitch would expect some use of the newfound financial cushion over time but that reserves would remain comfortably above the county's reserve policy, equal to 7% of revenue, as has been the case historically.

The improvement in fund balance in 2015 was net of a $2.7 million net deficit from operations on the year. The county had earlier forecast a loss of $7-8 million from operations, but higher revenue associated with the county's social service provision and various constitutional officers helped narrow the gap. The disposition of the care facilities also relieves a financial burden on the current fund budget, which has subsidized the care centers' cost of operations in the amount of $7.1 million in 2014, $6.9 million in 2013, and $6.9 million in 2012.

The county plans to introduce its 2016 budget this week. The budget is expected to appropriate $45.85 million of fund balance, up from $40 million in 2015 (of which the county regenerated approximately $37 million from operations). The increase in fund balance utilization represents a one-time diversion from the county's plan to return the budget to a state of structural balance, which Fitch views as an important rating factor. The county had previously made solid progress is this regard, lowering its fund balance appropriation from $46 million in 2013 and achieving better than budget results in 2015, as noted above.

Property taxes fund approximately 60% of the current fund budget. County tax levies are subject to a statutory cap of 2.5% or the cost-of-living adjustment, whichever is lower. There are certain important exclusions for changes in debt service, certain increases in pension and healthcare contributions and declared emergencies. The county's 2015 tax levy of $307 million was $7.2 million under the tax cap. The county increased its tax levy by 1.5% in 2015, the first increase since 2010. 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 limiting risk of non-collection or delinquency.

MANAGEABLE DEBT LEVELS AND CAPITAL DEMANDS

Fitch estimates the county's overall debt burden at a moderate $3,515 per capita or 2% of market value (estimated at $112.8 billion for 2015). Debt statistics include $376.2 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 19% of the county's overall debt burden. 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. Capital spending increases with the multi-year plan adopted in 2015 but remains very manageable at $307 million or 0.3% of market value and is not expected to increase debt levels over the five year period. Capital needs center on bridge and road improvements and engineering facilities.

RETIREE LIABILITIES REMAIN AFFORDABLE

Monmouth 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 actuarially based contribution established by the state. PERS and PFRS reported 2014 funded ratios were 74% and 76%, respectively. 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.

Pension contributions remain affordable and have been fairly stable, benefiting from reforms enacted by the state including an increase in employee contributions. Payments to the state plans are budgeted at $23.8 million in 2015 or 4.9% of spending. The county contributes just $100,000 to its single-employer defined contribution plan, for which there is no long-term liability. The liability for other post-employment benefits (OPEB) was reported at $436 million in 2013, or 0.4% of market value. OPEB is funded on a pay-as-you-go basis and payments are expected to decline over time, since employees hired after July 1, 1994 will not receive paid health care benefits when they retire. The total cost of funding debt service, pension, and OPEB costs is estimated by Fitch to consume roughly 20% of current fund spending.

COUNTY GUARANTY PROVISIONS

MCIA bonds are issued to acquire separate series of borrower bonds that are a direct and general obligation of each of the respective municipal borrowers. 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 $22 million or 4.5% of the current fund budget. In the history of the MCIA debt program there has never been an occurrence of a local unit bond payment default.

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Date of Relevant Rating Committee: May 28, 2015.

Additional information is available at 'www.fitchratings.com'.

Fitch recently published exposure drafts of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015 and Exposure Draft: Incorporating Enhanced Recovery Prospects into U.S. Local Tax-Supported Ratings). The drafts include a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to less than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published in the first quarter of 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Lumesis and IHS Global Insight.

Applicable Criteria
Exposure Draft: Incorporating Enhanced Recovery Prospects into US Local Tax-Supported Ratings (pub. 02 Feb 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=875108
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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