

CREDIT OPINION

12 February 2016

New Issue

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Monmouth County Improvement Authority, NJ

New Issue - Moody's assigns Aaa to MCIA, NJ's \$39M Guaranteed Bonds

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the Monmouth County Improvement Authority, NJ's \$39 million Governmental Pooled Loan Refunding Revenue Bonds, Series 2016. Moody's maintains a Aaa rating on Monmouth County's parity General Obligation bonds and on the GO-secured bonds issued by the Monmouth County Improvement Authority.

The rating reflects the county's general obligation unlimited tax pledge, which is the ultimate security for the bonds via provisions of a county guaranty. The Aaa reflects the county's large, affluent tax base in suburban New Jersey (A2 negative), a healthy financial position that has been on a modest downward trend, and a moderate debt burden with a significant portfolio of guaranteed debt.

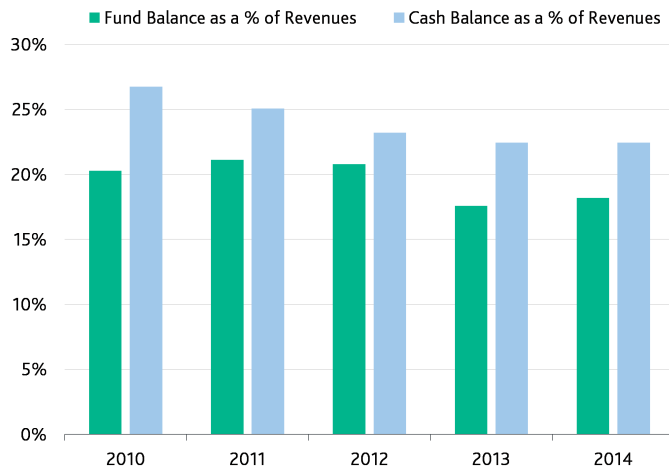
Credit Strengths

- » Large suburban tax base with above-average socioeconomic profile
- » Healthy financial position

Credit Challenges

- » Modestly negative trend in financial position
- » Significant portfolio of guaranteed debt

Exhibit 1



Source: Moody's Investors Service

Rating Outlook

The stable outlook incorporates the modest downward trend in the county's financial position, which is likely to stabilize within the next two years at a level that is still healthy. The outlook also recognizes the ongoing strength of the county's large, suburban tax base.

Factors that Could Lead to a Downgrade

- » Further decline in financial position
- » Growing structural imbalance
- » Substantial declines in assessed valuation

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

Monmouth (County of) NJ	2010	2011	2012	2013	2014
Economy/Tax Base					
Total Full Value (\$000)	\$ 125,737,958	\$ 121,225,015	\$ 116,904,878	\$ 112,437,005	\$ 110,559,848
Full Value Per Capita	\$ 199,464	\$ 192,110	\$ 185,745	\$ 178,594	\$ 175,693
Median Family Income (% of US Median)	162.1%	162.1%	163.8%	163.8%	163.8%
Finances					
Operating Revenue (\$000)	\$ 520,312	\$ 520,613	\$ 523,655	\$ 535,840	\$ 516,677
Fund Balance as a % of Revenues	20.3%	21.1%	20.8%	17.6%	18.2%
Cash Balance as a % of Revenues	26.7%	25.1%	23.2%	22.4%	22.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 339,422	\$ 318,077	\$ 424,925	\$ 401,535	\$ 478,953
Net Direct Debt / Operating Revenues (x)	0.7x	0.6x	0.8x	0.7x	0.9x
Net Direct Debt / Full Value (%)	0.3%	0.3%	0.4%	0.4%	0.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	0.8x	0.9x	1.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	0.4%	0.4%	0.5%

Source: Moody's Investors Service

Recent Developments

Since our last report, the county has finished fiscal 2015 and has prepared initial operating results. As expected, the county closed on its sale of two of its nursing homes in a public competitive bid for \$32.4 million. The proceeds were used to bolster reserves. Fiscal 2015 ending reported fund balance was \$30 million higher at approximately \$96 million, or 19.6% of budgeted revenues, compared to \$66 million or 12.9% in 2014. The county continues to target a fund balance of roughly \$65 million going forward and will reduce fund balance gradually over the next several years. The county will likely use a significant portion of the sale proceeds for one-time capital projects and to provide taxpayer relief.

Detailed Rating Considerations

Economy and Tax Base: Large, affluent tax base

Monmouth County is a large suburban county in central New Jersey, and its tax base is a particular strength for the credit. The full value of \$112 billion is far above-average, even for Aaa-rated peers. Further, the county's affluence is notable even at the Aaa category: the median family income is equal to 164% of the US median, which makes it the 18th-wealthiest county in the US.

The median home value in the county is \$414,000, or 225% of the US median, which reflects its desirable location and affluent population. The poverty rate in Monmouth County is below-average at 7%.

The assessed valuation of the tax base has declined by 1.1% since 2011 as a result of tax appeals, the regional real estate downturn, and to a lesser extent properties damaged by Hurricane Sandy. The trend of AV declines appears to have halted, as the county posted increases in 2015 and 2016.

Financial Operations and Reserves: Healthy and stable financial position, bolstered by recent asset sales

The county's financial position has glided downward the past few years as it held the tax levy constant and spent some of its fund balance. Current fund balance declined to 12.9% of revenues in 2014 from 16.4% in 2009, as the county appropriated more fund balance than it could replenish. On an adjusted-basis, which includes appropriation reserves and certain reserves for receivables, the county's fund balance ended at a healthy 17.5% of revenues.

The county's \$488 million 2015 budget was funded primarily by property taxes (63% of budgeted 2015 revenues), which were collected and guaranteed by its constituent municipalities. As such, the county is assured of full collection of its levy annually. The county increased its levy 1.5% in fiscal 2015 and appropriated \$40 million of fund balance, \$3 million less than the previous year.

The county sold two of its nursing homes in a public competitive bid for \$32.4 million and closed the sale in December. In addition to the one-time capital gain, the sale eliminated an expensive operation that was responsible for annual operating losses of approximately \$8.2 million. Proceeds of the sale were used to bolster reserves and, going forward, will likely be used for a variety of one-time projects. With the sale proceeds, Current Fund balance ended at \$96 million, or a very healthy unadjusted 19.6% of budgeted revenues. The county estimates that, absent the sale, there was a modest operational deficit of \$2.7 million. The county has expressed an interest in keeping fund balance at roughly \$65 million going forward and intends to draw down fund balance over the next several years until the target is reached. The drawdowns will be used to finance one-time capital projects and to provide taxpayer relief.

LIQUIDITY

The county's liquidity is solid, with Current Fund cash and short-term investments at about \$116 million, or more than 22.5% of revenues, as of the end of 2014. Additionally, the county has about \$60 million of cash in trust funds held outside the Current Fund, much of which could either be borrowed by the Current Fund or could absorb costs that would otherwise be recorded in the Current Fund. These figures do not include the monies received from the sale of the nursing homes.

Debt and Pensions: Substantial portfolio of guaranteed debt

The county's gross debt consists of about \$468.99 million of GO debt (including direct GO, a self-supporting reclamation fund, and various other GO-backed bonds), plus an additional \$376.2 million of bonds issued by the Monmouth County Improvement Authority and guaranteed by the county.

The proceeds of the MCIA bonds were loaned to municipalities within the county for capital projects, and the repayment of the bonds is supported by the full faith and credit of each of the borrowers, as well as by the county's guarantee. The maximum annual debt service on the MCIA bonds is about \$46.7 million (2016), or about 9.6% of the county's fiscal 2015 budget. Should the county have to cover a significant portion of MCIA payments it could pressure the county's financial position, although we view such an outcome as unlikely. The county has never had to cover a missed payment.

Excluding the MCIA debt, the net direct debt is equal to a modest 0.4% of full value. Including the MCIA debt, the county's gross debt is equal to 0.7% of full value.

DEBT STRUCTURE

All of the county's and MCIA's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The county is not party to any derivative agreements.

PENSIONS AND OPEB

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 1.08 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.

In 2014, fixed costs, inclusive of debt service and annual contributions for pensions and OPEB, were a manageable 17% of operating revenues.

Management and Governance

Monmouth County's financial management is strong, as evidenced by its cost-control efforts and multi-year plan to restore structural balance. Over the past four years, Current Fund costs have fallen by just under \$1 million.

New Jersey counties have an institutional framework score of "Aa," or strong. Revenue raising ability is moderate as counties are constrained by a 2% cap on the property tax levy. However, counties may levy above the cap for debt service, pensions, and certain qualified expenses. County revenues are highly predictable as property taxes (typically over 60% of total revenues) are collected and remitted in full by the county's underlying municipalities. Counties have a moderate ability to cut expenditures given union presence. Payroll costs, which are the primary expenditure, are highly predictable given a 2% arbitration award cap for disputes with police and fire employees.

Legal Security

The bonds are ultimately secured by the county's general obligation unlimited tax pledge via the provisions of a county guaranty. Under the guaranty, the county shall be unconditionally and irrevocably obligated to levy ad valorem taxes for the payment of debt service, without limitation as to rate or amount.

If there are insufficient funds in the Debt Service Fund on the 15th day of the month preceding the month of the debt service due date, the authority will notify the county within one day. Debt service is due on the 1st day of June and December. The county will make up the deficiency in the fund at least two days prior to the due date. Failure to provide notice does not relieve the county of its obligation under the guaranty. If the county fails to make payment when due, the authority shall advance moneys from any legally available fund and the county shall reimburse the authority.

Use of Proceeds

The \$39 million of proceeds, will be used to refund a portion of the Authority's presently outstanding Governmental Loan Revenue Bonds, Series 2007, and Governmental Loan Revenue Bonds, Series 2008. It is expected that the refunding will result in net present value savings of \$2.7 million, or 6.58% of refunded principal.

Obligor Profile

Monmouth County is located in central New Jersey and has a population of about 630,000.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. The additional methodology used in this rating was Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts published in December 2015. Please see the Rating Methodologies page on www.moody.com for a copy of these methodologies.

Ratings

Exhibit 3

MONMOUTH COUNTY IMPROVEMENT AUTHORITY, NJ

Issue	Rating
Governmental Pooled Loan Refunding Revenue Bonds, Series 2016	Aaa
Rating Type	Underlying LT
Sale Amount	\$38,995,000
Expected Sale Date	03/02/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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