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Summary:

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

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Summary:

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Monmouth County; General Obligation; General Obligation Equivalent Security

Credit Profile

US\$38.995 mil government pooled loan rfdg rev bnds (Monmouth Cnty) ser 2016

Long Term Rating AAA/Stable New

Monmouth Cnty GO

Long Term Rating AAA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to the Monmouth County Improvement Authority, N.J.'s series 2016 county-guaranteed pooled governmental pooled loan refunding revenue bonds, supported by Monmouth County. We also affirmed our 'AAA' rating on the county's existing appropriation and general obligation (GO) debt. The outlook is stable.

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," the county has a predominately locally derived revenue source, with over 50% of governmental activity revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government.

The full faith and credit pledge of the county secures the pooled governmental loan revenue bonds. Over several years, the authority has completed a fixed-rate pooled financing on behalf of local governmental entities in the county, which this year consists of about 15 municipalities. The authority will use proceeds to refund its outstanding series 2007 and 2008 county-guaranteed pooled governmental pooled loan refunding revenue bonds.

The rating reflects our opinion of the county's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Weak budgetary performance, with operating deficits in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 at 12.6% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash at 21.8% of total governmental fund expenditures and 2.1x governmental debt service, as well as access to external liquidity we consider strong;

- Strong debt and contingent liability position, with debt service carrying charges of 10.1% of expenditures, net direct debt at 100.4% of total governmental fund revenue, low overall net debt at less than 3% of market value, and rapid amortization with 93% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider the county's economy very strong. Monmouth County, with an estimated population of 628,157, is in the central New Jersey in the New York-Newark-Jersey City, NY-NJ-PA MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 144% of the national level and per capita market value of \$182,969. Overall, the county's market value grew by 2.4% over the past year to \$114.9 billion in 2015. The county unemployment rate was 6.0% in 2014.

The affluent and residential county serves as a leading commuting hub for the greater New York City MSA economy. In addition, significant job opportunities exist in the county itself, primarily in the services and retail trade sectors. Assessed value (AV) decreased by an average of 1.8% annually between fiscal years 2010 and 2013 to \$102 billion due, in part, to property loss and damage related to Hurricane Sandy. For fiscal 2014, total AV equaled \$102.5 billion. Several residential developments currently underway should stabilize the property tax base and provide additional revenue.

Very strong management

We view the county's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Policy highlights include management's annual adoption of a five-year capital improvement program (CIP) that identifies expenditures and funding. The policy limits debt according to several different metrics, including requiring the retirement of 70% of net tax-supported debt over 10 years. The reserve policy requires the maintenance of the current fund balance at a minimum 7% of revenue.

Weak budgetary performance

Monmouth County's budgetary performance is weak, in our opinion. The county had operating deficits of 1.9% in the general fund and 1.9% across all governmental funds in fiscal 2014.

Since fiscal 2011, the county has consistently reduced its budget by roughly 1% through improved efficiency and savings through attrition. Property taxes generated nearly 60% of fiscal 2014 current fund revenue, providing stability to financial performance. Individual municipalities collect county taxes and pay them to the county quarterly; these municipalities guarantee 100% of the county's tax levy.

The fiscal 2014 budget totaled \$480 million and included an appropriation of \$43 million of current fund balance. Audited fiscal 2014 results, however, showed a fund balance drawdown of roughly \$9.8 million. Management notes there were no major one-time revenue or expenditure items during fiscal 2014. During the recent period of increasing expenditures, the county board preferred various cost-cutting measures and shared-service agreements to raising taxes. As reserves continued to shrink due to rising expenditures, the board decided to increase taxes in fiscal 2015 for the first time in recent years.

Again, in fiscal 2015, the county budgeted a \$40 million use of reserves, a decline from the prior year. However, based on unaudited results, the current fund is estimated to end with a surplus of about \$30 million. The strong result was due to the sale of its care centers. Net of this, the current fund would have resulted in an operating deficit of over \$2 million. Nevertheless, the result is a still better performance than budgeted.

At this time, the 2016 budget has not been finalized. However, management does not expect to maintain reserves at over \$96 million. Therefore, we expect that the budgetary performance will remain weak as it spends down reserves over the next two to three years.

Very strong budgetary flexibility

Monmouth County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 at 12.6% of operating expenditures, or \$66.4 million. In addition, the county has the flexibility to raise additional revenues despite statewide tax caps, which we view as a positive credit factor.

Up until fiscal 2015, the county had not raised its tax levy since fiscal 2010, which has resulted in what is currently about \$16 million of banked levy capacity. We believe that this provides additional financial flexibility for the county and supports its very strong budgetary flexibility. Absent this capacity, we consider budgetary flexibility strong, though there have been consistent fund balance drawdowns. Fund balance has totaled between \$67 million and \$76 million (12%-14%) in the past three audited years. Past years of drawdowns have, however, been significantly below the amount budgeted and the county has consistently been reducing its reliance on fund balance by \$3 million annually. Though the fiscal 2014 budget included \$43 million of fund balance use as a result of a planned drawdown, audited fiscal 2014 results showed a decrease of roughly \$10 million in current fund balance; this reduced ending fund balance to \$66 million, or 12.6% of expenditures, well in excess of the county's formal reserve policy minimum of 7% of expenditures.

The fiscal 2015 budget includes a fund balance appropriation of \$40 million, down from \$43 million appropriated in fiscal 2014. Based on one-time revenues received, 2015 unaudited fund balance is expected to increase to \$96 million. With the significant increase in the fund balance, management may consider providing some tax relief to residents and also cash fund some capital projects. Therefore, we do not expect the fund balance will be maintained at this level but will be more in line with prior years. Management expects to maintain fund balance between \$55 million and over \$60 million.

Very strong liquidity

In our opinion, Monmouth County's liquidity is very strong, with total government available cash at 21.8% of total governmental fund expenditures and 2.1x governmental debt service in 2014. In our view, the county has strong access to external liquidity if necessary.

We do not view the county's investments as risky because most are in certificates of deposit or other investments allowed by New Jersey. These ratios would be even higher if we were to include the cash in the county's library, health, and open-space trust funds and reclamation center utility funds available for interfund borrowing, if needed. The county does not currently have any variable-rate or direct-placement debt outstanding.

Strong debt and contingent liability profile

In our view, Monmouth County's debt and contingent liability profile is strong. Total governmental fund debt service is 10.1% of total governmental fund expenditures, and net direct debt is 100.4% of total governmental fund revenue. Overall net debt is low at 2% of market value and approximately 93% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

County officials plan to fund roughly \$300 million (95%) of the CIP with GO debt. The county's CIP covers fiscal years 2016-2020 and totals \$307 million. Though the county has additional debt plans, we do not expect that its debt profile will weaken since its principal debt amortization is rapid.

Eligible county employees participate in one of three state-administered pension plans: the New Jersey Public Employees' Retirement System, the New Jersey Police & Firemen's Retirement System, and the New Jersey Defined-Contribution Retirement program. The county pays other postemployment benefit (OPEB) costs through pay-as-you-go financing each year. The unfunded actuarial accrued OPEB liability was \$436 million at Jan. 1, 2013, the most recent valuation.

Monmouth County's combined pension and OPEB contributions totaled 7% of total governmental fund expenditures in 2014. Of that amount, 4.5% represented contributions to pension obligations and 2.5% represented OPEB payments. The county made its full annual required pension contribution in 2014.

Strong institutional framework

The institutional framework score for New Jersey counties is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Monmouth County's consistently very strong budgetary flexibility and economy, supported by very strong management. We do not expect to change the rating within the next two years because we believe the county will likely maintain at least adequate reserves and continue to participate in the broad and diverse New York City-Newark-Jersey City MSA. If budgetary performance were to remain consistently weak, leading to a significant reserve reduction, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009USPF Criteria: Debt Statement Analysis, Aug. 22, 2006

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: New Jersey Local Governments

Ratings Detail (As Of February 17, 2016)

Monmouth Cnty cnty coll bnds ser 2015 due 07/15/2025

<i>Long Term Rating</i>	AAA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AAA/Stable	Affirmed

Monmouth Cnty cnty voc sch bnds ser 2015 due 07/15/2027

<i>Long Term Rating</i>	AAA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AAA/Stable	Affirmed

Monmouth Cnty reclamation ctr util bnds, open space bnds, gen imp bnds ser 2015 due 07/15/2030

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Monmouth Cnty GO

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Monmouth Cnty Imp Auth, New Jersey

Monmouth Cnty, New Jersey

Monmouth Cnty Imp Auth (Monmouth Cnty) GO

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