



ISSUER COMMENT

3 February 2016

RATING

General Obligation (or GO Related)¹

Aa3	Stable
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Borough of Red Bank, NJ

Annual Comment on Borough of Red Bank

Issuer Profile

The Borough of Red Bank is located in Monmouth County in east central New Jersey, approximately 50 miles east of Trenton. Monmouth County has a population of 629,279 and a population density of 1,342 people per square mile. The county's per capita personal income is \$66,019 (1st quartile) and the October 2015 unemployment rate was 4.5% (2nd quartile).² Retail/wholesale trade, professional/technical services, and health services are key drivers of the local economy. Meridian Health Care is the predominant employer in the county. Saker ShopRites, Inc. grocery stores, Air Safety Equipment Inc. (aircraft maintenance), and CentraState Healthcare System also rank as top private employers. County government is also an important employer in the area.

Credit Overview

The credit position of Red Bank is very good, and its Aa3 rating matches the median rating of Aa3 for US cities. Notable credit factors include a strong socioeconomic profile with a sizable tax base, and a satisfactory financial position. It also reflects a light debt burden with a mid-ranged pension liability.

Economy and Tax Base: The borough has a very healthy economy and tax base, which are largely consistent with the assigned rating of Aa3. The full value per capita (\$166,799) is materially above the US median. Although the total full value (\$2 billion) fell slightly between 2011 and 2014, it approximates other Moody's-rated cities nationwide. Lastly, the median family income is a healthy 127.9% of the US level.

Finances: Red Bank has a satisfactory financial position, which is comparable to its Aa3 rating. The fund balance as a percent of operating revenues (17.7%) is under the US median. The cash balance as a percent of revenues (17.9%) is also weaker than the US median. That said, it grew from 2011 to 2014. Moody's makes certain adjustments to New Jersey local governments' fund balances to include receivables and reserves that would be eligible to be included in fund balance under GAAP accounting but are excluded in the audit as a result of state statutory accounting regulations.

Debt and Pensions: The borough has manageable debt and pension liabilities, which are consistent with the assigned rating of Aa3. The net direct debt to full value (1.2%) slightly exceeds the US median. The Moody's-adjusted net pension liability to operating revenues (1.4x) unfavorably rose modestly from 2012 to 2014 and is slightly above the US median.

Management and Governance: Balanced financial operations are a component of good financial management. Over the past few years, Red Bank's financial position improved slightly even as the tax base declined slightly.

New Jersey cities have an institutional framework score ³ of "Aa," or strong. Revenues are moderately predictable and mostly consist of property taxes; however, cities are required to make county and school district tax levies whole in the event of tax appeals. Revenue-raising ability is moderate as cities are constrained by a 2% cap on the property tax levy. Cities can raise the levy above the cap for debt service, pensions and certain qualified expenses. Expenditures, which primarily consist of personnel and public safety, are highly predictable given a 2% arbitration award cap for disputes with police and fire employees. Cities have a moderate ability to adjust costs given the presence of collective bargaining and high fixed costs.

Sector Trends - New Jersey Cities

New Jersey cities remain stable given improved financial management practices and highly predictable expenditures under the state-wide arbitration award cap. Most cities have implemented more frequent revaluation processes that limit tax appeals and an improving housing market reduces the risk in the first place. While the expanding state economy lags the nation, regions within close proximity of New York City will continue to benefit from the spill-over effect of residential and commercial development. Large cities with weak economic profiles and a high dependence on state aid remain vulnerable.

Exhibit 1

Key Indicators^{4 5}

Borough of Red Bank, NJ

	2011	2012	2013	2014	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	\$2,136M	\$2,013M	\$2,006M	\$2,036M	\$1,727M	Stable
Full Value Per Capita	\$174,963	\$164,950	\$164,375	\$166,799	\$89,077	Stable
Median Family Income (% of US Median)	126.9%	127.9%	127.9%	127.9%	115.2%	Stable
Finances						
Fund Balance as % of Operating Revenues	13.1%	13.5%	15.5%	17.7%	27.7%	Stable
Cash Balance as % of Operating Revenues	9.3%	10.7%	15.4%	17.9%	30.1%	Improving
Debt / Pensions						
Net Direct Debt / Full Value	1.2%	1.3%	1.2%	1.2%	1.1%	Stable
Net Direct Debt / Operating Revenues	1.29x	1.25x	1.12x	1.13x	0.93x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	N / A	1.3%	1.4%	1.4%	1.5%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	N / A	1.23x	1.33x	1.38x	1.20x	Stable

Source: Moody's

Exhibit 2

Fund balance as a percent of operating revenues increased from 2011 to 2014

Fund Balance as a Percent of Operating Revenues

■ Fund Balance as % of Operating Revenues ■ US Cities Median



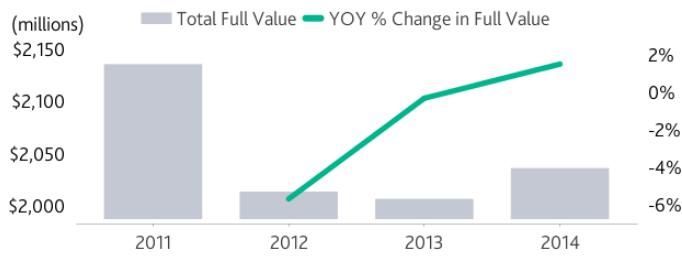
Source: Issuer financial statements; Moody's

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Exhibit 3

Total full value decreased slightly between 2011 and 2014

Total Full Value

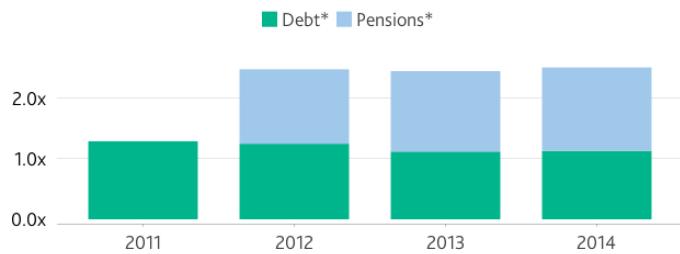


Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Exhibit 4

Moody's-adjusted net pension liability to operating revenues increased from 2012 to 2014

Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues



*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.

Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Endnotes

- 1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See [Local Government GO Pledges Vary Across States](#), for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantee or enhancement programs or bond insurance.
- 2 The per capita personal income data and unemployment data for all counties in the US census are allocated to quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is \$46,049 for 2014. The median unemployment rate for US counties is 4.7 % for October 2015.
- 3 The institutional framework score measures a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(January 2014\)](#) for more details.
- 4 For definitions of the metrics in the Key Indicators Table, see [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey. Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years. Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Updated 2013 US Local Government Medians Demonstrate Stability of Sector \(August 2015\)](#). The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014. As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2013. However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians. Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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