

ISSUER COMMENT

7 September 2017

RATING

General Obligation (or GO Related) ¹

Aa3 Stable

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Borough of Red Bank, NJ

Annual Comment on Red Bank

Issuer Profile

The borough of Red Bank is located in Monmouth County in east central New Jersey, approximately 25 miles south of New York City. The county has a population of 629,185 and a moderate population density of 471 people per square mile. The county's median family income is \$106,925 (1st quartile) and the July 2017 unemployment rate was 4.2% (2nd quartile) ². The largest industry sectors that drive the local economy are health services, retail trade, and professional/scientific/technical services.

Credit Overview

Red Bank has a very healthy credit position. Its Aa3 rating is on par with the US cities median of Aa3. The notable credit factors include a strong financial position, a healthy socioeconomic profile and a sizable tax base. The credit profile also reflects a light debt burden and a somewhat elevated pension liability.

Finances: The borough's financial position is very solid and is slightly favorable with respect to the assigned rating of Aa3. 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 as a result of state statutory accounting regulations. That said, the cash balance as a percent of operating revenues (27.6%) is a little weaker than the US median, but rose significantly from 2012 to 2016. Additionally, Red Bank's fund balance as a percent of operating revenues (16.7%) is materially below other Moody's-rated cities nationwide.

Economy and Tax Base: The economy and tax base of the borough are very healthy and are a modest credit strength in comparison to its Aa3 rating. The full value per capita (\$174,870) is much stronger than the US median, and increased between 2012 and 2016. In addition, the median family income equals 96.9% of the US level. Lastly, the total full value (\$2.1 billion) is consistent with other Moody's-rated cities nationwide.

Debt and Pensions: Red Bank has a manageable debt burden and is slightly favorable relative to the assigned rating of Aa3. The borough's net direct debt to full value (1.3%) approximates the US median, and did not change between 2012 and 2016. On the contrary, the pension liability of the borough is somewhat inflated. The Moody's-adjusted net pension liability to operating revenues (2.2x) is unfavorably above the US median.

Management and Governance: New Jersey cities have an Institutional Framework score ³ of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources are subject to a cap which can be overridden with voter approval only.

However, the cap of 2% still allows for moderate revenue-raising ability and excludes debt service, pensions, and certain health care costs. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually. The State has public sector unions, which can limit the ability to cut expenditures, however, police and fire raises are bound by a 2% arbitration cap.

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.

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.moodys.com for the most updated credit rating action information and rating history.

EXHIBIT 1

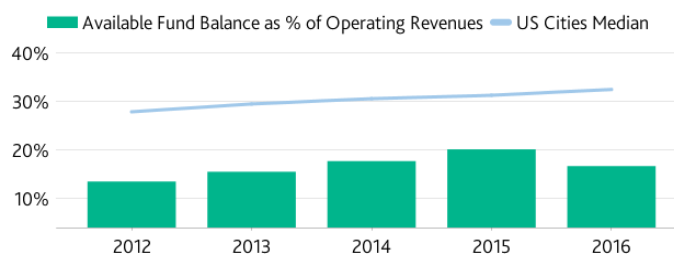
Key Indicators ^{4.5} Red Bank

	2012	2013	2014	2015	2016	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$2,013M	\$2,006M	\$2,035M	\$2,068M	\$2,126M	\$1,787M	Improved
Full Value Per Capita	\$165,112	\$164,362	\$166,200	\$168,989	\$174,870	\$88,380	Improved
Median Family Income (% of US Median)	128%	113%	108%	97%	97%	113%	Weakened
Finances							
Available Fund Balance as % of Operating Revenues	13.5%	15.5%	17.7%	20.1%	16.7%	32.5%	Stable
Net Cash Balance as % of Operating Revenues	10.7%	15.4%	17.9%	24.1%	27.6%	35.4%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	1.3%	1.2%	1.2%	1.5%	1.3%	1.2%	Stable
Net Direct Debt / Operating Revenues	1.25x	1.12x	1.13x	1.34x	1.30x	0.93x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.3%	1.4%	1.6%	1.9%	2.1%	1.7%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.23x	1.33x	1.59x	1.74x	2.22x	1.46x	Weakened
	2012	2013	2014	2015	2016	US Median	
Debt and Financial Data							
Population	12,194	12,207	12,250	12,238	12,160	N/A	
Available Fund Balance (\$000s)	\$2,776	\$3,376	\$3,735	\$4,528	\$3,427	\$7,221	
Net Cash Balance (\$000s)	\$2,209	\$3,360	\$3,779	\$5,428	\$5,676	\$7,930	
Operating Revenues (\$000s)	\$20,589	\$21,781	\$21,102	\$22,490	\$20,556	\$21,262	
Net Direct Debt (\$000s)	\$25,637	\$24,374	\$23,870	\$30,197	\$26,734	\$18,822	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$25,375	\$29,057	\$33,511	\$39,125	\$45,643	\$29,896	

Source: Moody's Investors Service

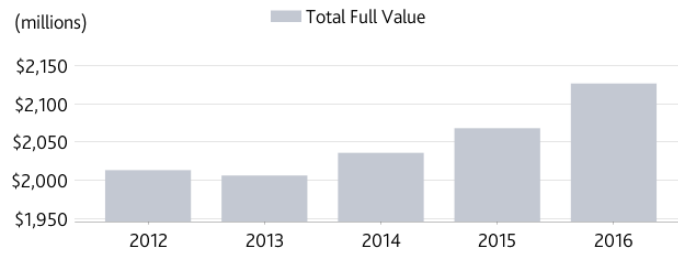
EXHIBIT 2

Available fund balance as a percent of operating revenues increased from 2012 to 2016



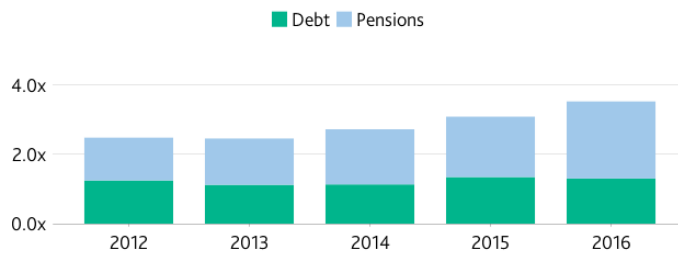
Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

Full value of the property tax base increased from 2012 to 2016

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

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2012 to 2016

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

Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, 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 guarantees, enhancement programs or bond insurance.
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into 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.
- 3 The institutional framework score assesses 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 \(December 2016\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). 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, [Medians - Tax Base Growth Reinforces Sector Stability as Pension Troubles Remain \(March 2017\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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