

CREDIT OPINION

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Red Bank (Borough of) NJ

Update to credit analysis

Summary

The [Borough of Red Bank](#) (Aa3) is a suburb of [New York City](#) (Aa1 stable). Although the borough is largely built out, the tax base has been expanding and is nearing its pre-recession peak. While the borough's finances are stable, resident wealth and income are only average by national standards and below-average for the regions.

Credit strengths

- » Satisfactory reserve position
- » Favorable location near New York City

Credit challenges

- » Limited room for new development
- » Weak resident wealth and income relative to the region
- » Elevated fixed costs

Rating outlook

The stable outlook reflects the expectation that the borough's finances and economy will remain generally stable and healthy in the near to medium term.

Factors that could lead to an upgrade

- » Strengthening of the borough's tax base and resident wealth and income
- » Material increase in reserves

Factors that could lead to a downgrade

- » Substantial deterioration of the tax base and resident wealth and income
- » Significant decrease in reserves and liquidity

Key indicators

Exhibit 1

Red Bank (Borough of) NJ	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$2,006,366	\$2,035,947	\$1,920,716	\$2,097,352	\$2,139,472
Population	12,207	12,250	12,238	12,218	12,220
Full Value Per Capita	\$164,362	\$166,200	\$156,947	\$171,661	\$175,080
Median Family Income (% of US Median)	112.5%	108.4%	96.9%	110.2%	109.6%
Finances					
Operating Revenue (\$000)	\$21,781	\$21,102	\$22,490	\$20,556	\$21,925
Fund Balance (\$000)	\$3,376	\$3,735	\$4,528	\$3,427	\$3,806
Cash Balance (\$000)	\$3,360	\$3,779	\$5,428	\$5,676	\$8,914
Fund Balance as a % of Revenues	15.5%	17.7%	20.1%	16.7%	17.4%
Cash Balance as a % of Revenues	15.4%	17.9%	24.1%	27.6%	40.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$24,374	\$23,870	\$30,197	\$26,734	\$29,085
3-Year Average of Moody's ANPL (\$000)	\$29,057	\$33,511	\$39,125	\$45,643	\$50,591
Net Direct Debt / Full Value (%)	1.2%	1.2%	1.6%	1.3%	1.4%
Net Direct Debt / Operating Revenues (x)	1.1x	1.1x	1.3x	1.3x	1.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.4%	1.6%	2.0%	2.2%	2.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.6x	1.7x	2.2x	2.3x

Fund balance figures reflect Moody's adjustments. As of 2019, the tax base full value was \$2.3 billion.

Sources: Red Bank audited financial statements, US Census Bureau, & Moody's Investors Service

Profile

Red Bank is a borough with a population of just over 12,000 located in [Monmouth County](#) (Aaa stable) in northern [New Jersey](#) (A3 stable), within commuting distance of New York City.

Detailed credit considerations

Economy and Tax Base: Modestly-sized tax base with average wealth

The borough's tax base will remain stable given its favorable location and access to employment opportunities in the New York City area. Red Bank, located 50 miles from Manhattan, is approximately 67% residential and 31% commercial. Wealth and income in the \$2.3 billion tax base are average for the nation and below-average compared to the state, with median family income equal to 109.6% of the national median or 82.3% of the state and an equalized value per capital of \$189,297. The five-year compound annual increase in Red Bank's equalized value is 2.6%. Although equalized value is still just short of the pre-recession peak, the last 2019 saw growth of 5.6%, indicating the base may be on the verge of completing its recovery. Although the borough is largely built out, management reports one substantial redevelopment project; a 2.7 acre site just off Route 35 is being redeveloped as a 210 unit complex. This should lead to further tax base growth.

ENVIRONMENTAL CONSIDERATIONS

The borough has been and will continue to be impacted by environmental risks associated with storm events and rising temperatures. Due to its location near the Jersey Shore, Red Bank is exposed to storms and hurricanes which have the potential to do considerable damage. Efforts to strengthen coastal areas by multiple levels of governments and agencies, including the Army Corps of Engineers are ongoing.

Financial Operations and Reserves: Well maintained finances with satisfactory reserves

The borough's financial position will remain strong in the medium term as management continues to budget conservatively. Current Fund Balance increased in 2017 to \$1.9 million, or 8.8% of Current Fund revenues, from \$1.6 million, or 7.8% in 2017. Moody's makes [certain adjustments](#) to New Jersey local governments' fund balances to include receivables and reserves that would be eligible to be

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included in fund balance under GAAP accounting but are excluded as a result of state statutory accounting regulations. The borough's Moody's-adjusted Current Fund Balance increased to \$3.8 million (17.5%) in 2017.

By state standards, the borough receives a fairly typical 59.7% of revenues from property taxes. This is supplemented by state aid (9.2%) and miscellaneous revenues. The most notable miscellaneous revenues include substantial transfers from the water-sewer and parking utilities. The borough makes transfers of this kind every year and, to date, the utility funds remain healthy. That said, the transfers do cause the utilities to fail to meet Moody's definition for self-supporting (though they meet the state's definition) as coverage of debt service has not been greater than sum sufficient for three years running.

The borough's flexibility is somewhat restrained on the revenue side by the 2% statutory tax levy cap. On the expenditure side, the borough's flexibility is also limited by its fixed costs. Fixed costs for debt service, required pension contributions and retiree healthcare payments come to \$5.5 million, or an elevated 25% of revenues.

Although audited results are not yet available for 2018, preliminary results are favorable, with reported fund balance holding steady and adjusted fund balance increasing to \$4.5 million.

LIQUIDITY

Liquidity is likely to remain strong in the medium term. Current Fund net cash is a healthy \$8.9 million, or 40.7% of revenues. This figure remains healthy even after subtracting a routine \$2.5 million in payables owed to the local and regional school districts and an unusual \$2.4 million in prepaid taxes related to residents' efforts to adjust to the tax reform and changed SALT deduction rules.

Debt and Pensions: Modest debt and pension burden

Red Bank's debt burden will remain modest for the medium term. Following the 2019 sale, the borough's net direct debt burden is approximately 1.1% of equalized value and there are no plans for large debt issuances.

DEBT STRUCTURE

All of Red Bank's debt is fixed rate. The borough is a frequent market participant and has issued short-term notes in each of the last five years although there will be no notes outstanding post-sale.

DEBT-RELATED DERIVATIVES

The borough is not party to any interest rate swaps or other derivatives.

PENSIONS AND OPEB

Red Bank has a modestly above-average defined-benefit pension burden, based on Moody's-estimated share of a cost-sharing plans administered by the state. Moody's adjusted net pension liability (ANPL) for the borough, under our methodology for adjusting reported pension data, is \$53.4 million, or an above-average 2.44x 2017 Current Fund revenues. The borough's 2017 contribution to the retirement system was \$1.4 million for the combined Police and Firemen's Retirement System (PFRS) and Public Employees' Retirement System (PERS). Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the borough's reported liability information, but to improve comparability with other rated entities. The borough pays OPEB costs on a pay as you go basis.

The state-sponsored boards which control the pension funds have historically set contribution rates at a level insufficient to allow the plans to tread water.¹ In addition, the tread water gap does not take into account the very aggressive assumptions underpinning the actuarial analysis, which likely would make the gap even larger.

Management and Governance

The borough management has a history of conservative budgeting as seen in its recent stable financial performance.

New Jersey municipalities have an Institutional Framework score of Aa, which is high. 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.

Rating methodology and scorecard factors

The US Local Government General Obligation Rating Methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Red Bank (Borough of) NJ

Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$2,313,209	Aa
Full Value Per Capita	\$189,297	Aaa
Median Family Income (% of US Median)	109.6%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	17.5%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	4.9%	A
Cash Balance as a % of Revenues	40.7%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	30.6%	Aaa
Notching Factors: ^[2]		
Other Analyst Adjustment to Finances Factor: Overstated cash due to routine payables and larger than usual prepaid taxes		Down
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.1%	Aa
Net Direct Debt / Operating Revenues (x)	1.2x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.2%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	2.3x	A
Scorecard-Indicated Outcome		Aa3
Assigned Rating		Aa3

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Sources: Red Bank audited financial statements, US Census Bureau, & Moody's Investors Service

Endnotes

- 1 Our "tread water" indicator measures the annual government contribution required to prevent reported net pension liabilities from growing, given the entity's actuarial assumptions. An annual government contribution that treads water equals the sum of employer service cost and interest on the reported net pension liability at the start of the fiscal year. A pension plan that receives an employer contribution equal to the tread water indicator will end the year with an unchanged net pension liability relative to the beginning of the year if all plan assumptions hold. Net liabilities may decrease or increase in a given year due to factors other than the contribution amount, such as investment performance that exceeds or falls short of a plan's assumed rate of return. Still, higher contributions will always reduce unfunded liabilities faster, or will allow unfunded liabilities to grow more slowly than lower contributions.

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