FitchRatings

Public Finance
Tax-Supported
U.S.A.

Ocean County, New Jersey

New Issue Summary

Sale Date: Sept. 8 via competitive sale

Series: $47,970,000 General Improvement Bonds, Series 2022; $2,745,000 College Capital Improvement Bonds, Series 2022

Purpose: Proceeds of the general improvement bonds will finance the construction of various capital projects in the county. Proceeds of the college capital improvement bonds will be used to finance capital projects at Ocean County College.

Security: The full faith and credit and unlimited taxing authority of Ocean County (the county). The county college capital improvement bonds are further entitled to payments of principal and interest by the state of New Jersey, pursuant to New Jersey's County College Bond Act.

Ocean County's 'AAA' IDR and GO bond rating reflect the county's superior gap-closing capacity, which incorporates its manageable expenditure growth demands, a demonstrated ability to control expenditures during economic downturns and high independent legal revenue raising capacity within statutory tax caps. The rating also considers Fitch's expectations for natural revenue growth to align with inflation over time and the county's low long-term liabilities compared to residents' personal income.

Economic Resource Base: Ocean County encompasses 634 square miles of eastern New Jersey, approximately equidistant (60 miles-70 miles) between New York and Philadelphia, and includes 45 miles of oceanfront and barrier islands. The townships of Lakewood, Toms River, Brick and Jackson are located in the county, in addition to popular shoreline communities of Point Pleasant, Seaside Heights and Long Beach Island. The county's census population stood at an estimated 649,000 in 2021, up 12.6% since 2010, compared to 7.5% growth for the nation.

Key Rating Drivers

Revenue Framework: 'aa': Fitch expects future natural revenue growth to at least track Fitch's expectation for long-term inflation, which is reflective of the county's stable economy and expectations for future moderate growth in population and development activity. Fitch views the county's revenue raising flexibility within the framework of various state tax cap laws as high relative to potential revenue losses in a moderate economic downturn.

Expenditure Framework: 'aa': Fitch expects the natural pace of spending growth to be in line with to slightly above natural revenue growth over time. Fixed carrying costs for long-term liabilities claim a moderate proportion of governmental spending. The county has adequate controls over employee headcount and wages and has controlled expenditure growth during prior economic downturns.

Long-Term Liability Burden: 'aaa': The combined burden of debt and net pension liabilities (NPLs) is low compared to residents' personal income. Fitch expects the burden to remain low based on the county's manageable capital plans and changes in the resource base. The bulk of long-term liabilities are derived from the debt of overlapping units of government and the county's proportionate share of state pension fund liabilities, over which the county has no direct influence.

Operating Performance: 'aaa': Fitch expects the county to manage through periods of economic decline while maintaining a substantial financial cushion based on its superior inherent budget flexibility, in the form of solid revenue and expenditure controls, and history of sound financial management throughout the economic cycle.

FACT Tools

Ratings

Long Term Issuer Default Rating	AAA

New Issues

$47,970,000 General Improvement Bonds, Series 2022	AAA
$2,745,000 College Capital Improvement Bonds, Series 2022	AAA

Outstanding Debt

Ocean County (NJ) College Capital Improvement Bonds	AAA
Ocean County (NJ) General Obligation Bonds	AAA
Ocean County Utilities Authority (NJ) Wastewater Revenue Refunding Bonds	AAA

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates Ocean County, NJ's $50.7MM Ser 2022 GO Bonds 'AAA'; Outlook Stable (August 2022)

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Rating Sensitivities

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

- Not applicable as the IDR is at Fitch's highest level.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

- A sustained increase in long-term liabilities associated with debt and net pension liabilities to a level above 10% of residents' personal income.
- An economic contraction, which triggers sustained and deep revenue declines and materially erodes the county's gap closing capacity and resilience cushion.
- A notable reversal of natural growth prospects for revenues sustained below the level of inflation.

Rating History (IDR and GO Bonds)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	8/24/22
AAA	Affirmed	Stable	6/07/12
AAA	Affirmed	Negative	7/13/10
AAA	Revised	Stable	4/30/10
AA+	Upgraded	Stable	8/08/06
AA	Affirmed	Positive	8/06/04
AA	Affirmed	Stable	9/18/03
AA	Assigned		8/18/92

Current Developments

Ocean County continues to maintain its strong financial profile coming out of the pandemic period. Property values have seen strong growth due to new sales and in part, property revaluations, supporting growth in property taxes, the county's primary source of operating revenue. The county receives 100% of its quarterly tax payments as its underlying local governments are required to remit 100% of tax collections due to the county.

The county ended 2021 with a close to $1 million increase in current fund balance to $77.7 million. This equates to approximately 15% of spending. The original $470 million 2021 budget included the use of $38 million of fund balance and appropriated $43 million for capital projects. Most non-ad valorem revenues contributed to positive revenue variances during 2021, particularly county clerk recording fees, and combined with expenditure savings, negated the full use of budgeted fund balance. While CARES Act moneys received by the county were expended or distributed locally during 2020 and 2021 they did not materially influence 2021 results.

The county uses a cash/modified accrual basis of accounting in accordance with state requirements as opposed to GAAP accounting. When compared to issuers who use GAAP accounting, the cash/modified accrual basis usually results in lower fund balance levels due to the typically larger current fund expenditure base and the requirement to carry over unexpended appropriation reserves for an additional year. With the inclusion of appropriation reserves, encumbrance reserves and reserves for receivables, which is more in line with GAAP accounting, the total unrestricted reserves equal 29% of current fund spending.

The county's $480 million budget for 2022 includes an increase in the tax levy and a modest use of banked tax levy capacity of $2.4 million. This was offset by a 3.6% decline in the tax rate as the tax base experienced a 10% increase over 2021 levels. The tax rate has been lowered slightly yoy and is down close to 10% since 2016 due to continued tax base growth. Budgeted expense drivers are associated with an increase in capital spending to $51.5 million, higher employee health insurance costs and moderate increases in salaries and debt service. Certain county labor contracts are open, with negotiations pending and the budget reflects compensation rates similar to other settled county labor contracts. Appropriated fund balance reflects a slight increase to $38.5 million; however, the county's operating results typically outperform budget and often regenerate surpluses, negating the use of fund balance. Management has indicated that results to date are in line with budget expectations.

Ocean County received $118 million in American Rescue Plan Act funds but has not yet expended any of these funds. Management waited for final rules regarding the permitted use of these funds and has been developing a plan for use with a goal to not use it for recurring costs or additional employees. Preliminary plans support community health and social programs for the county and local governments, as well as for permitted capital uses.

Credit Profile

The performance of Ocean County's economy and its predominantly residential tax base relies heavily on its extensive oceanfront properties and popularity of its shore communities to vacationers from New Jersey, New York and Philadelphia. The county's tax base has experienced solid growth since 2014, following a 17% decline between 2009 and 2014 as a result of the Great Recession and Superstorm Sandy. The $121 billion taxable value for 2022 is greater than the $109 billion peak just before the Great Recession. This equates to an estimated market value per capita of a high $187,000. Wealth levels exceed national levels but are below the state averages.

The county's coastal shoreline serves as a large tourism and secondary home draw and resident employment is somewhat concentrated in the hospitality industry. In addition to hospitality, the county has a strong presence in retail, healthcare and government serving a sizeable and moderately growing year-round population.

Revenue Framework

The county's primary source of revenues is property taxes representing approximately 71% of 2021 current fund revenues (excluding budgeted surplus balance). The other primary sources of revenue are derived from the state and federal government. Property taxes are collected by the underlying municipalities within the county with the county's portion paid to the county treasurer on a quarterly basis, assuring 100% collections.

Fitch expects current fund revenues to grow in line with the level of inflation over time, largely due to the nature of restrictions on property tax levy growth imposed by state law and expectations for moderate tax base and population growth.

Revenue-raising flexibility is high when viewed in the context of potential revenue declines in a moderate economic downturn, despite the presence of statutory tax caps. New Jersey counties operate under two separate spending cap laws. The 1977 tax cap law limits increases in the tax levy to the lesser of 2.5% or an inflation index (the Implicit Price Deflator for State and Local Government Purchases of Goods and Services computed by the U.S. Department of Commerce). However, increases up to 3.5% in the tax levy are allowed by adoption of a resolution of the county commissioners. A second test effective since budget year 2011 limits growth in the tax levy to 2%. The state's tax cap laws are based on the prior year's levy and not taxable assessed values (TAV), mitigating the effect of a decline in TAV on property tax revenues.

Importantly, each test includes exemptions from the caps for the value of new construction and additions to the tax base, increases in debt service, certain increased pension contributions and healthcare costs. Expenditures mandated as a result of certain emergencies are also exempt. Fitch's assessment of the county's independent legal ability to raise revenues also considers the amount of banked tax levy capacity. Local governments may bank that portion of the maximum tax levy that is not used for a period of two years, when subject to the 1977 cap. The county reports it has $9.2 million in banked capacity (or 1.9% of the current fund budget) available for the 2023 budget under the 1977 tax cap limit.

Expenditure Framework

Salaries, wages, health insurance and retirement programs drive the county's costs. The current fund budget includes a mix of administrative functions, health and welfare programs funded mostly through state and federal grants, and its law and justice department (county clerk, prosecutor and sheriff). Other expenses are associated with the county's college and vocational schools and recreational facilities.

Fitch expects the county's overall spending needs to increase in line with to slightly above natural revenue growth in the absence of policy action.

Fixed costs for debt service, pension and other post-employment benefits (OPEB) are moderate at roughly 16% of 2021 current fund spending when considering state debt service assistance and netting out the county library commission's contribution towards pensions. Fitch calculates fixed costs spending compared to the current fund and not total governmental expenditures as is done for issuers outside New Jersey, due to the uniqueness of NJ governmental accounting, which does not conform to GAAP. Servicing of the county's direct debt accounted for roughly 10% of spending and reflects a fairly aggressive principal amortization schedule of 74% repayment in 10 years (before this issue). Fitch expects fixed costs to remain moderate as manageable debt plans are in place for the near term. Pension contributions are likely to see moderate annual increases but are dependent on investment performance. The county is required to make full actuarial contributions to the state-administered pension plans except under very limited circumstances.

Employee contracts for law enforcement positions are currently open and in negotiations. These contracts are subject to binding arbitration and the arbitrator must assess the financial impact of the award on the local governing unit and its residents, the continuity and stability of employment, and a comparison of contract terms with other employees generally. The county's other large labor contracts expire in 2024 and 2025. Management has the flexibility to impose layoffs and furloughs, if necessary, pursuant to the terms of the N.J. State Civil Services Rules and Regulations.

Long-Term Liability Burden

Long-term liabilities associated with net overall debt and Fitch-adjusted net pension liabilities (NPLs) are low at 6% of residents' personal income. Estimated overlapping debt represents roughly 60% of the metric with the remainder roughly split between direct debt and NPLs. Future debt plans appear reasonable and are not expected to have an impact on the assessment considering the rapid pace at which existing debt is repaid.

The long-term liability burden also factors in the county's proportionate share of the Fitch adjusted NPL related to two state administered pension plans, the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS). Fitch's long-term liability metric reflects the GASB accounting valuation for both plans.

OPEB is offered through the state's plan and the county makes pay-as-you-go payments as required by the state.

Operating Performance

The county's superior financial resilience is derived from a combination of its revenue and expenditure flexibility, modest revenue volatility during typical economic cycles, and solid reserve levels. Fitch anticipates that the county will absorb any future budgetary pressure by utilizing a combination of expenditure cuts and revenue-raising, and the option to make reserve draws if necessary. Given the array of budgetary solutions available, the county is well positioned to maintain its financial resilience through economic cycles.

Fitch views the county's budget management as strong, evidenced by its history of deploying various budgetary tools and maintaining a sufficient fiscal resource base during periods of economic stress.

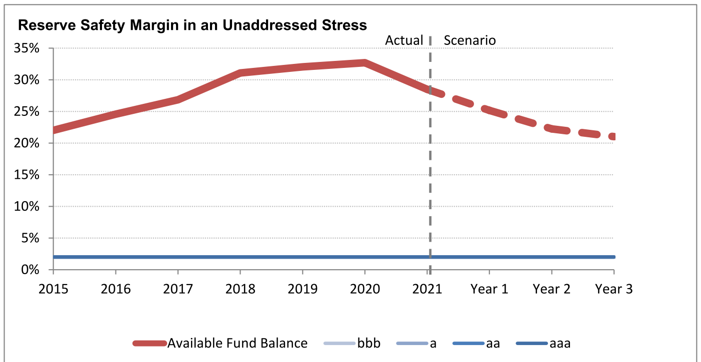
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Ocean County (NJ)

Scenario Analysis

Ver 48



Analyst Interpretation of Scenario Results

The county's superior financial resilience is derived from a combination of its revenue and expenditure flexibility, modest revenue volatility during typical economic cycles, and solid reserve levels. Fitch anticipates that the county will absorb any future budgetary pressure by utilizing a combination of expenditure cuts and revenue-raising, and the option to make reserve draws if necessary. Given the array of budgetary solutions available, the county is well positioned to maintain its financial resilience through economic cycles.

Scenario Parameters:			Year 1	Year 2	Year 3
GDP Assumption (% Change)			(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)			2.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* **-1%**	*Case Used:* **Moderate**	(1.0%)	2.3%	3.8%
Inherent Budget Flexibility				Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2015	2016	2017	2018	2019	2020	2021	Year 1	Year 2	Year 3
Total Revenues	429,812	433,012	430,468	443,111	458,641	464,496	515,770	510,613	522,452	542,106
% Change in Revenues	-	0.7%	(0.6%)	2.9%	3.5%	1.3%	11.0%	(1.0%)	2.3%	3.8%
Total Expenditures	422,713	424,788	426,740	427,841	447,271	469,849	514,787	525,083	535,584	546,296
% Change in Expenditures	-	0.5%	0.5%	0.3%	4.5%	5.0%	9.6%	2.0%	2.0%	2.0%
Transfers In and Other Sources	-	-	-	-	-	-	-	-	-	-
Transfers Out and Other Uses	-	-	-	-	-	-	-	-	-	-
Net Transfers	-	-	-	-	-	-	-	-	-	-
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Deficit) After Transfers	7,099	8,224	3,728	15,270	11,370	(5,352)	983	(14,470)	(13,133)	(4,191)
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	1.7%	1.9%	0.9%	3.6%	2.5%	(1.1%)	0.2%	(2.8%)	(2.5%)	(0.8%)
Unrestricted/Unreserved Fund Balance (General Fund)	43,507	51,731	55,458	70,728	82,099	76,746	77,730	63,259	50,127	45,936
Other Available Funds (GF + Non-GF)	49,526	52,619	59,137	62,214	61,235	76,931	68,945	68,945	68,945	68,945
Combined Available Funds Balance (GF + Other Available Funds)	93,033	104,350	114,595	132,943	143,334	153,678	146,675	132,205	119,072	114,882
Combined Available Fund Bal. (% of Expend. and Transfers Out)	22.0%	24.6%	26.9%	31.1%	32.0%	32.7%	28.5%	25.2%	22.2%	21.0%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.