

CREDIT OPINION

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Ocean (County of) NJ

Update to credit analysis

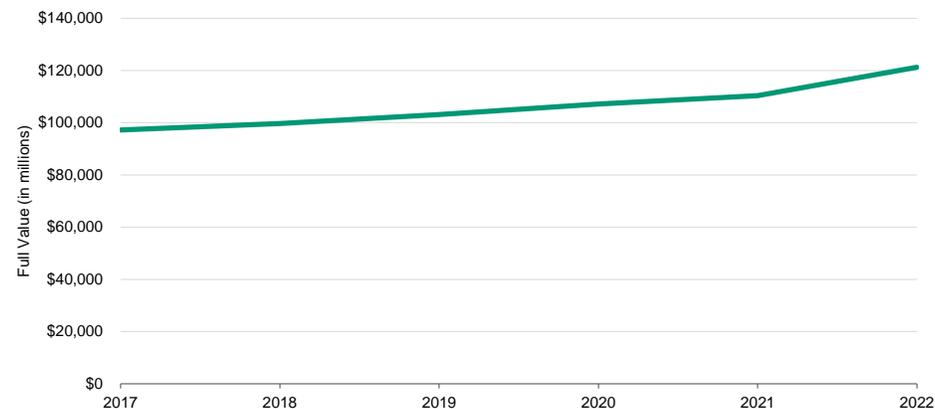
Summary

[Ocean County](#), NJ (Aaa stable) benefits from an extremely large, diverse tax base favorably located on the Jersey shore. While resident incomes appear somewhat modest for the rating category, these figures are understated as the county has a substantial inventory of second homes.

The county has not suffered financially from the coronavirus pandemic, but has actually benefitted as wealthy urban residents initially fled to the coast, extending the season materially. In addition, the real estate market has boomed as beachfront property has been in high demand.

Exhibit 1

Ocean County's tax base continues to grow



Source: New Jersey Division of Taxation

Credit strengths

- » Very large tax base
- » Modest debt burden
- » Significant liquidity in outside trust funds
- » Extensive beachfront property is in high demand

Credit challenges

- » Relatively low wealth and income levels for Aaa rating category
- » Exposure to extreme weather events and climate risk

Rating outlook

The stable outlook reflects our expectations that the county's finances and economy will remain robust due to its strong fiscal management and favorable location.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Sustained structural imbalance leading to material draws in reserves
- » Material tax base declines/deteriorating resident wealth and income
- » Significant increase in debt, pension and/or OPEB liabilities

Key indicators

Exhibit 2

Ocean (County of) NJ	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value (\$000)	\$97,221,306	\$99,645,037	\$103,172,307	\$107,115,369	\$110,365,256
Population	597,943	601,651	601,651	601,651	601,651
Full Value Per Capita	\$162,593	\$165,619	\$171,482	\$178,036	\$183,437
Median Family Income (% of US Median)	116.3%	114.9%	116.5%	115.4%	115.4%
Finances					
Operating Revenue (\$000)	\$429,235	\$442,551	\$457,745	\$569,793	\$514,380
Fund Balance (\$000)	\$83,502	\$98,305	\$116,397	\$126,417	\$121,329
Cash Balance (\$000)	\$116,771	\$141,702	\$154,094	\$161,642	\$164,319
Fund Balance as a % of Revenues	19.5%	22.2%	25.4%	22.2%	23.6%
Cash Balance as a % of Revenues	27.2%	32.0%	33.7%	28.4%	31.9%
Debt/Pensions					
Net Direct Debt (\$000)	\$432,272	\$435,986	\$428,617	\$457,075	\$445,918
3-Year Average of Moody's ANPL (\$000)	N/A	\$616,196	\$620,672	\$689,216	\$781,128
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.4%	0.4%	0.4%
Net Direct Debt / Operating Revenues (x)	1.0x	1.0x	0.9x	0.8x	0.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.6%	0.6%	0.6%	0.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.4x	1.4x	1.2x	1.5x

Fund balance figures reflect Moody's adjustments.

Sources: US Census Bureau, Ocean County's financial statements and Moody's Investors Service

Profile

Ocean County is located in the east central part of [New Jersey](#) (A2 stable) along the Atlantic Ocean. The county has a population of roughly 602,000.

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Detailed credit considerations

Economy and tax base: large, diverse tax base continuing to expand

The county's sizeable tax base will continue to expand as beachfront property has become increasingly attractive in light of the pandemic and the rise of remote work. This is in addition to the long-standing trend of extensive redevelopment and improvement of second homes, which accelerated after Hurricane Sandy. The \$121.3 billion (as of 2022) tax base is large even when compared to its Aaa-rated peers and is a considerable strength for the county. The tax base is approximately 88% residential and has a strong tourist and second home economy due to its extensive coastline and favorable location about 60 miles from [New York City](#) (Aa2 stable). Resident income and wealth levels are slightly above-average by national standards with a median family income of 115.4% of the national level but are below-average by state standards with an MFI of 88.2% of the state median. Equalized value per capital is a strong \$201,419.

The county sustained significant damage during Hurricane Sandy in 2012 leading to material declines in equalized value. The county has grown steadily ever since and has surpassed its pre-Sandy and Great Recession peak.

The county also benefits from the institutional presence of Joint Base McGuire-Fort Dix-Lakehurst. Other major employers include the Saint Barnabas Health Medical Group, a [Six Flags Theme Parks Inc.](#) (Ba2 stable) location, and Wakefern Food Corp. Development and redevelopment efforts are largely focused on residential properties but construction of a new 300 acre amusement center complex is underway and there are various logistics and warehousing possibilities in the county as well.

One of the county's largest property taxpayers, the Oyster Creek nuclear power plant, is shut down and decommissioning has started. While was mildly negative for the county, it represents only 0.1% of the tax base and has not and will not have a material impact on the county's overall economic health. In fact, some of the outermost parts of the plant's campus have already been rented out and are thus back in use.

The coronavirus pandemic has had a somewhat unusual impact on the county. While the restrictions on dining and entertainment were a source of pressure, the pandemic also materially extended the season for Ocean County. The annual influx of second homeowners began much earlier than usual and lasted much longer than usual as many with the ability to do so decamped from more crowded regions of the state. As a result, demand for shore property has spiked, which has yielded increased revenue for the county and helped compensate for the other effects of the pandemic. Unemployment, which had briefly spiked, has also come down and, as of June 2022, the unemployment rate was 3.4%, lower than the state (3.5%) and national rates (3.8%). The labor force has also grown to be larger than before the pandemic.

Financial operations and reserves: healthy and stable financial position with strong liquidity

The county's financial position will remain strong in the medium term as management continues to budget conservatively. Reported current fund balance increased slightly in 2021 to \$77.7 million, or 15.1% of revenues. 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. Although the county's Moody's-adjusted Current Fund Balance dipped to \$121.3 million (23.6%), this decline is more apparent than real as it does not include a \$10.8 million reserve for CARES reimbursement. It also does not include \$117 million in ARPA funding; the county is segregating this money and has yet to finalize plans on how it will be spent.

Although the pandemic has had a negative impact across the county, the direct impact on the county's finances has been small. Favorably, in 2021, the county received 71% of its revenues from property taxes which are guaranteed in full by its constituent municipalities, none of which have had trouble paying. While some fines and fees or other non tax revenues are down, the total effect, as has been seen, has been negligible. Going forward, the county expects a modest draw on reserves in 2022, again, this does not include any potential usage of ARPA funding.

The county's fixed costs including debt service and pension benefits are moderate at \$79.6 million or 15.5% of revenues.

Liquidity

The county's liquidity is extremely strong. In 2021 the county ended with Current Fund cash of \$164.3 million, or 31.9% of revenues; this does not include any federal money. In addition, the county maintains considerable liquidity in its trust funds. Although these

funds are restricted for various purposes, in an emergency much of these funds could be borrowed. As of 2021, the trust funds contained just under \$133.9 million.

Debt and Pensions: Low debt burden with modest pension obligations

Ocean County's debt burden will remain moderate for the medium term. Including the 2022 issuance, the direct debt burden is 0.4% of equalized value or 0.9x revenues. Future debt plans are limited; at most, the county intends to borrow between \$25 million and \$30 million per annum, well in line with its amortization schedule. There is only one large project underway, a roughly \$70 million courthouse expansion; this is not expected to have a material effect on the county's debt burden.

The county may need to contribute some extra money for beach replenishment projects, however, the bulk of this cost will be borne by the US Army Corps of Engineers.

Legal security

Debt service on the bonds is backed by the county's pledge of its full faith and credit backed by its legal obligation to levy ad valorem tax on all taxable property for the payment of debt service without limit as to rate or amount.

Debt structure

All of the county's long-term debt is fixed rate. A significant portion of the county's debt, approximately 18%, was issued by the Ocean County Utilities Authority and is backed by the county. This debt is self-supporting.

Debt-related derivatives

All of Ocean County's long-term debt is fixed rate.

Pensions and OPEB

The county's pension liabilities are larger than its debt and, though manageable at this time, represent a potential future credit challenge. The county participates in 2 state sponsored multiple employer cost-sharing pension plans. The county is in a special funding situation with the state and records no OPEB liability. The table below summarizes the total 2021 pension contributions and unfunded liabilities.

Exhibit 3

2021	(000)	% of Operating Revenues	Discount Rate
Operating Revenue	5,14,380	n/a	n/a
Reported Unfunded Pension Liability	2,67,675	52%	7.17%
Moody's Adjusted Net Pension Liability	8,38,900	163%	2.78%
Reported Net OPEB Liability	-	0%	0.00%
Moody's Adjusted Net OPEB Liability	-	0%	0.00%
Net Direct Debt	4,45,918	87%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	12,84,818	249.78%	
Pension Contribution	24,109	4.69%	n/a
OPEB Contribution	-	0.00%	n/a
Debt Service	54,750	10.64%	n/a
Total Fixed Costs	78,859	15.33%	n/a
Tread Water Gap	5,717	1.11%	n/a
Moody's Adjusted Fixed Costs	84,577	16.44%	n/a

Sources: Moody's Investors Service & Ocean County audited financial statements

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. 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.

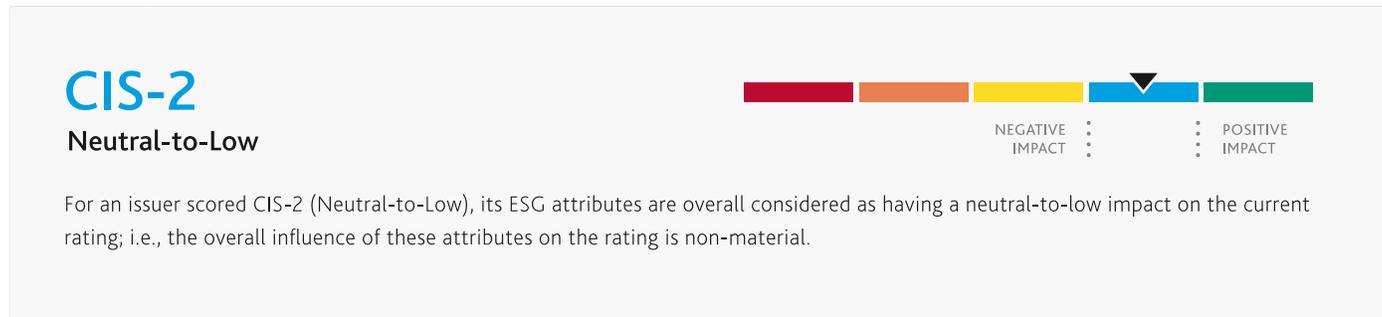
To the extent that the multiple-employer pension plans in which Ocean County participates experience returns on assets that fall short of their assumptions, the county's required pension contribution will increase.

ESG considerations

Ocean (County of) NJ's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4

ESG Credit Impact Score



Source: Moody's Investors Service

The ESG CIS impact score is a 2, reflecting moderately negative exposure to environmental risks, low exposure to social risks offset by strong governance and a favorable location.

Exhibit 5

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

The county's overall environmental issuer profile score is moderately-negative (**E-3**). While carbon transition, water, natural capital, and waste and pollution risks are modest, the county is exposed to rising sea levels, and hurricane risk particularly since it has a large number of shore communities. Favorably, multiple levels of government are engaged in projects related to the health and upkeep of the Jersey Shore.

Social

Exposure to social risk is neutral-to-low (**S-2**). A large portion of the county's residents live in shore communities with a mix of affluent second homeowners and less wealthy permanent residents. Affordable housing is one of the county's major challenges. Overall demographics and educational attainment are in line with peers. Residents have easy access to basic services and the county scores favorably in health and safety.

Governance

Ocean County's strong governance is reflected in a score of **G-1**. The county has built a deep bench of civil servants and outside professionals to implement its policy objectives. This, plus a combination of a strong state-wide institutional framework and highly conservative budgeting, has allowed the county not only to strengthen its finances but to do so while providing various forms of assistance to its local governments.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt 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 6

Ocean (County of) NJ

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%)^[1]		
Tax Base Size: Full Value (in 000s)	\$121,257,760	Aaa
Full Value Per Capita	\$201,542	Aaa
Median Family Income (% of US Median)	115.4%	Aa
Notching Factors:^[2]		
Other Scorecard Adjustment Related to Economy/Tax Base: Exposure to extreme weather events and climate risk		Down
Standardized Adjustments [3]:		
Finances (30%)		
Fund Balance as a % of Revenues	23.6%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	8.6%	A
Cash Balance as a % of Revenues	31.9%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	11.5%	Aa
Notching Factors:^[2]		
Other Scorecard Adjustment Related to Finances: Additional liquidity in trust fund		Up
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 (%)	0.4%	Aaa
Net Direct Debt / Operating Revenues (x)	0.9x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.6%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.5x	A
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aaa

[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.

Fund balance figures reflect Moody's adjustments.

Sources: US Census Bureau, Ocean County's financial statements and Moody's Investors Service

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