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Moody's Raises Jersey City's Municipal Bond Rating

Report Cites "the city's improved financial position with structurally balanced operations" amongst the reasons for upgrade

JERSEY CITY — **Mayor Jerramiah T. Healy** announced today that the **financial investors service firm Moody's** has upgraded Jersey City's **municipal bond rating**, citing "the city's improved financial position with structurally balanced operations, dramatically increased wealth levels and strong prospects for continued tax base growth" amongst the reasons for the upgrade.

"We are pleased that during this time of worldwide economic malaise, that our measures of fiscal restraint, downsizing, and prospective budgetary planning has paid off," said **Mayor Healy**. "As we look to the future, we will continue to seek positive changes within the city's financial structure such as the continued streamlining services where possible, and we will continue to work hard to maintain this positive rating and keep Jersey City moving on the right track."

According to the opinion released by Moody's, the service has assigned an A2 underlying rating with a positive outlook and an A2 enhanced rating with a stable outlook to Jersey City's (NJ) $26.8 million Qualified General Improvement Bonds, Series 2012 and $9.3 million General Obligation Refunding Bonds. Concurrently, Moody's affirms Jersey City's A2 underlying general obligation bond rating and revises to outlook to positive from negative on $846.8 million of city and city-guaranteed long-term general obligation bonds.

All media inquiries should be directed to Jennifer Morrill, Press Secretary to Mayor Jerramiah T. Healy at 201-547-4836 or 201-376-0699./////

MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A2 underlying rating and A2 enhanced ratings to Jersey City's (NJ) $26 million GO Qualified Bonds, Series 2012, and $9.3 million GO Qualified Refunding Bonds, Series 2012 A and B

Global Credit Research - 05 Jul 2012

Outlook revised to positive from negative; affirms A2 rating on $846.8 million of outstanding city and city-guaranteed long-term G.O. debt

JERSEY CITY (CITY OF) NJ
Cities (including Towns, Villages and Townships)
NJ

Moody's Rating

ISSUE		UNDERLYING RATING	RATING
Federally Taxable Qualified General Improvement Refunding Bonds Series 2012 B			A2
Sale Amount	$4,760,000		
Expected Sale Date	07/16/12		
Rating Description	General Obligation		
Qualified General Improvement Bonds, Series 2012		A2	A2
Sale Amount	$26,816,950		
Expected Sale Date	07/16/12		
Rating Description	General Obligation		
Qualified Water Improvement Refunding Bonds, Series 2012 A			A2
Sale Amount	$4,590,000		
Expected Sale Date	07/16/12		
Rating Description	General Obligation		

Moody's Outlook POS

Opinion

NEW YORK, July 05, 2012 --Moody's Investors Service has assigned an A2 underlying rating with a positive outlook and A2 enhanced rating with a stable outlook to Jersey City's (NJ) $26.8 million Qualified General Improvement Bonds, Series 2012 and $9.3million General Obligation Refunding Bonds. Concurrently, Moody's affirms Jersey City's A2 underlying general obligation bond rating and revises the outlook to positive from negative on $846.8 million of city and city-guaranteed long-term general obligation bonds. Proceeds from the current qualified bonds will finance various capital improvements and proceeds from the qualified refunding bonds will refund outstanding General Improvement Bonds for estimated net present value savings of 5.4% ($473,000)of refunded principal without extension of maturity.

SUMMARY RATING RATIONALE

Revision of the outlook to positive from negative reflects the city's improved financial position with structurally balanced operations, dramatically increased wealth levels and strong prospects for continued tax base growth. Future rating reviews will consider the city's success in maintaining structural balance and preserving financial flexibility, particularly with respect to excess levy capacity and Current Fund balance reserves.

The city's A2 underlying rating reflects the city's very large tax base, high debt burden and narrow, although improved, fund balance position.

The A2 enhanced rating on these bonds, which is one notch below the programmatic rating of A1, reflects weak debt service coverage provided by qualified revenues (state aid) under the State of New Jersey's Municipal Qualified Bond Act.

STRENGTHS

-Continued PILOT revenue growth

-Long-term tax base growth expected

-Excess levy capacity under 2% property tax levy cap

-Very sizable tax base

-Improved wealth levels

-Structurally balanced financial operations

WEAKNESSES

-Still-narrow fund balance and liquidity

-High debt burden

-Low pension funding

-Decline in equalized valuation

-Ongoing exposure to tax appeals

MUNICIPAL QUALIFIED BOND RATING

The Municipal Qualified Bond Act requires that a portion of the city's state aid be diverted by the State Treasurer directly to a trustee to make debt service payments. Therefore the A2 rating is based on the state's GO rating of Aa3 with a stable outlook as well as the program's strong mechanics. The rating is also based on coverage provided by state aid (qualified revenues) , which is a relatively weak 1.15 times maximum municipal debt .

IMPROVED FINANCIAL POSITION WITH NARROWED STRUCTURAL GAP

Jersey City's financial position has improved through successful efforts to raise additional recurring revenues while reducing ongoing personnel-related expenditure. The city has also benefitted greatly from ongoing growth in PILOT revenues as a result of continued redevelopment. Fiscal 2011 (December 31) unaudited results demonstrate near structural balance in operations despite a significant state aid cut the previous year and heavy reliance historically on one-time revenue sources. In fiscal 2011 Current Fund balance declined by $3 million to $18.1 million, or 4.7% of Current Fund revenues. Projected fiscal 2012 results indicate healthier operations with a material augmentation in fund balance to an improved $27 million, albeit a still relatively narrow 5.5% of pro forma revenues.

Fiscal years 2009 and 2010 (June 30) were strained by structurally imbalanced financial operations and the loss of certain nonrecurring revenue items. Current Fund balance declined in 2009 by $2.5 million to $12.3 million, a very narrow 2.6% of Current Fund revenues, then again in 2010 by $8 million, which brought the balance to $4. 3 million, or 0.9% of revenues. The city's structural gap was $40 million in fiscal 2009, excluding proceeds of annual borrowing to fund tax appeal settlements ($11.4 million in 2009, which we consider to be a current operating expense). Fiscal 2009 relied significantly on non-recurring revenues, including the final $15 million payment from a settlement with Honeywell International Inc., proceeds from the sale of municipal property ($9.3 million), as well as the deferral of $15.5 million of pension expenses. In fiscal 2010, officials were challenged to balance 7.5% budgetary growth ($36 million) as several of the one-time revenues which supported the fiscal 2009 budget were no longer available. In addition to raising the levy by a significant 21.5%, generating $34.1 million, the city relied on a number of new nonrecurring revenue items, including $14 million of Special Municipal Aid , $5.8 million of land sale proceeds, and $13.5 million of formulaic state aid that was subsequently cut permanently.

Management's plan for addressing declines in state aid revenue and the ongoing structural gap included switching to a calendar budgetary year from a fiscal year in 2010. This transition created a 6-month audit for the period ending December 31, 2010. It allowed the city to collect two years of state aid payments, which constituted 18% of the 2010 budget, within 18 months. This strategy augmented December 31, 2010 (six-month transitional year) year-end Current Fund balance to an improved $21 million (8.4% of pro forma revenues), as large expenditures related to pension contributions were excluded from that period's operations while large injections of state aid were still realized; it also provided additional time for the city to finish executing a workforce reduction plan to reduce recurring expenditures.

Fiscal 2011 (December 31) unaudited results, which reflect a full 12 months, demonstrate a sharp improvement as expenditure cuts and additional revenues began stabilizing operations and preserving the city's higher fund balance following the transition to a calendar year. The fiscal 2011 budget declined by nearly 4.2% or $21 million over the previous year , reflecting the cumulative result of health benefit savings and 366 employee layoffs, retirements and terminations, some of which began in fiscal 2009. Recurring revenues increased substantially, driven by PILOT revenue growth of $9 million. The fiscal 2012 budget is expected to replenish appropriated fund balance and add to year-end Current Fund balance through new PILOT revenues and the proceeds of land sales.

ECONOMIC DEVELOPMENT AUGMENTED PROPERTY VALUES; LONG-TERM GROWTH EXPECTED TO CONTINUE

Jersey City, with its substantial $18.6 billion equalized value in 2011 (down from $20 billion in 2010), boasts the largest municipal tax base in the state. Significant building in Jersey City, beginning with redevelopment along the five miles of Hudson Riverfront, resulted in extraordinary tax base growth during the first half of the last decade. Growth has slowed in recent years and market value depreciation drove an equalized valuation decline of 10% in 2010 and another 7% in 2011. However, the city continues to generate additional revenue from historical growth and new projects are resuming as the regional economic recovery begins to gain some momentum. Additionally, assessed values have remained relatively level, partly through PILOTs expiring and moving onto the AV base.

The city has encouraged commercial development through tax abatements. The estimated development cost of the 35 largest commercial properties currently covered by abatements exceeds $3 billion. These properties currently make payments in lieu of taxes (PILOTs) that are a function of construction costs and a percentage of the taxes that would have been otherwise payable. The PILOT revenues have been increasing for the last 10 years, except for small declines in 2003 and 2008. The nominal decline in PILOTs in fiscal 2008 ($80.7 million versus $81.1 million in 2007) was due to a softening in the regional housing market. PILOTs increased in 2011 to $97 million as completed projects help offset declines in outstanding PILOTs. City officials report a large number development projects in the pipeline and, as such, are expecting PILOT revenues to continue to grow over the medium term. However, grown in taxable values from previously PILOT'ed properties is expected to be limited as few PILOT agreements expire over the near term.

Wealth levels improved dramatically as of 2010 according to the American Community Survey, which has replaced the US Census in providing this data. PCI and MFI were previously a low 72% and 64% of the US median. In 2010, PCI and MFI are a much stronger 93% and 112% of the US, reflective of the significant revitalization within the city. Unemployment of 10.1% as of August 2012 remains above state and national levels (9.1% and 7.7%, respectively for this period). The city's $75,239 equalized value per capita reflects the significant commercial property in the city and is equivalent to 48% of the 2011 state median.

DEBT BURDEN EXPECTED TO REMAIN HIGH

Moody's expects the city's direct debt burden (3.4% of equalized value) to remain high given the city's recent equalized value declines and average amortization of principal (81.8% retired within 10 years). The city's overall debt burden, which includes overlapping Hudson County debt but excludes fee-supported Jersey City Municipal Utility debt, equates to an above-average 5.4% of the city's equalized value. The city expects to issue approximately $20 million in new money bonds every 12 to 15 months, an amount higher than what is scheduled to be paid down over the near term. The city expects to continue to fund tax appeals and retiree payments for accrued compensated absences with notes, and anticipates issuing approximately $5 million to $10 million in notes annually. The city fully funds its ARC ($8.03 million in fiscal 2011) for the Jersey City Employee Retirement System, but has a low funded position of 42% as of Jan. 1, 2012.

POSITIVE OUTLOOK

Revision of the outlook to positive form from negative reflects the city's improved financial position with structurally balanced operations, dramatically increased wealth levels and strong prospect for continued tax base growth.

Future rating reviews will consider the city's success in maintaining structural balance and preserving financial flexibility, particularly with respect to excess levy capacity and Current Fund balance reserves.

What could make the rating change - UP

-Continuation of structurally balanced operations across funds

-Growth in reserve levels in step with budgetary growth

What could make the rating change - DOWN

-Resumption of structural budget imbalance

-Depletion of reserves

-Deterioration of the city's tax base

-Borrowing for cash-flow purposes

KEY STATISTICS:

2010 Estimated Population: 247, 597

2011 Equalized Value : $18.6 billion

Equalized Value Per Capita: $75,239

2010 Per Capita Income (as % of NJ and US median): $30,490 (87.5% and 73%)

2010 Median Family Income (as % of NJ and US median): $54,280 (77.7% and 112%)

Unemployment (August 2012): 10.1% (9.1% for NJ and 7.7% for US)

Poverty Rate (1999): 17.5%

Overall Debt Burden: 5.4%

Direct Debt Burden: 3.4%

Amortization of Principal within 10 Years: 81.8%

2010 Current Fund Balance (June 30): $4.3 million (0.9% of Current Fund revenues)

2010 Current Fund Balance (December 31): $21.2 million (8.4% of Current Fund revenues)

2011 Current Fund Balance (unaudited): $18.1 million (3.7% of Current Fund revenues)

Long-Term GO and Guaranteed Debt Outstanding: $873 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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