New Issue: Moody's downgrades the City of New Brunswick's G.O. rating to A2 from A1 in conjunction with New Brunswick Parking Authority's (NJ) $183 million City-Guaranteed Parking Revenue Bonds, Series 2010 A, Series 2010 B (BABS), Series 2010 C (RZEDBS), Series 2010 D.

Total of $405 million in City and City-Guaranteed rated debt affected, including current issue.

New Brunswick (City of) NJ
Other SectorsNJ

Moody's Rating

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New Issue: Moody's assigns A2 rating to New Brunswick Parking Authority's (NJ) $40.9 million City-Guaranteed Parking Revenue Refunding Bonds, Series 2012.

Rating Action: Moody's assigns A2 rating to New Brunswick Parking Authority's (NJ) $40.9 million City-Guaranteed Parking Revenue Refunding Bonds, Series 2012.

New Issue: Moody's assigns A3 rating to the City of New Brunswick's (NJ) $14.3 million G.O. Bonds and enhanced Aa2 rating to $10.2 million G.O. School Bonds.

New Issue: Moody's assigns A3 rating to the Parking Authority of the City of New Brunswick (Middlesex County) NJ's $25 million Guaranteed Parking Revenue Bonds, Series 2004A.
A2 rating is based on the City of New Brunswick's unconditional guaranty of payment on the bonds, which constitutes a general obligation unlimited tax pledge of the city. The downgrade to A2 reflects the city's limited financial flexibility, characterized by constrained revenue-raising capability and narrow current fund balance of 2.6% of current fund revenues, and large contingent liability created by the sizable amount of city-guaranteed parking authority debt. The A2 rating also incorporates the city's moderately sized tax base with large student population anchored by large private and public institutions such as Johnson & Johnson (7.5% of assessed values; senior unsecured rated Aa3/stable outlook) and Rutgers University (Aa2/stable outlook). Proceeds of the Series 2010 bonds will finance the construction of two parking garages (657 and 1,275 spaces) with retail and office components. Office and commercial lease revenues are expected to generate 22% of total revenues. Proceeds will also fund the bond reserve requirement for the current bonds, and fund capitalized interest on the current bonds through 2013.

DEBT SERVICE PAYMENTS ULTIMATELY GUARANTEED BY CITY OF NEW BRUNSWICK

The bonds are ultimately secured by the City of New Brunswick pursuant to an ordinance adopted on November 5, 2010 and a Guaranty Agreement authorizing the unconditional guaranty by the city to pay principal and interest on the bonds. Under the guaranty agreement, the city is obligated to provide for the payment of principal and interest on the bonds to the extent that the authority has insufficient funds available. The trustee is required to notify the city 60 days prior to drawing funds from the debt service reserve fund for debt service. The city is obligated to take any necessary action, including emergency or special emergency appropriations and the levy of unlimited ad valorem taxes, to provide the amount sufficient to replenish the debt service reserve fund within 60 days. Since 1993, the city has provided a guaranty for the debt service payments of the parking authority's bonds. To date, the city guaranty has never been called upon by the authority to provide for debt service payments.

WEAKENED FINANCIAL POSITION; NARROW RESERVES AND CONTRAINED REVENUE RAISING CAPABILITY

Reflective of the downgrade, New Brunswick's level of financial flexibility has significantly weakened since fiscal 2006. Current Fund balance levels declined to a narrow 1.6% of Current Fund revenues in fiscal 2009 from a more adequate average of 4.8% between 2001 and 2005. Additionally, the city's capacity to raise revenues independently is limited by property tax levy limitations imposed in 2008 (and 2011), the city's reliance on state aid (20% of revenues) and dependence on inflexible Payments in Lieu of Taxes (PILOT) payments (10% of revenues). High fixed expenditures related to pension increases, health benefits and salary and wages further limit flexibility. Favorably, conservative management practices including frequent monitoring of revenues and expenditures throughout the fiscal year enable the city to make mid-year budgetary adjustments to meet unexpected expenditures, such as a mid-year state aid cut of $2.5 million in fiscal 2010.

Between fiscal 2001 and 2005, the city's reserve levels, although relatively narrow, remained stable at an average of 4.8% of revenues. Financial operations became imbalanced in fiscal 2006 when appropriations increased by $3.7 million, significantly more than the property tax levy increase of $937,000, and Current Fund balance declined to $1.8 million or 2.8% of revenues. Net of $1.6 million of deferred charges related to under budgeted self-insurance claims, fund balance was a nominal $140,000 (0.2% of revenues). The deferred charges were fully paid in fiscal 2007. Unanticipated revenues, a property tax levy increase and a smaller use of surplus as revenue (just $520,000), augmented the Current Fund balance to $3 million (4% of revenues) in fiscal 2007. Since 2007, operations have remained structurally imbalanced with two consecutive reserve draws and a third projected in fiscal 2010. Representing the first fiscal year of recessionary economic conditions, economically sensitive revenue in fiscal 2008 declined below budget and in conjunction with a significant increase in surplus appropriated as revenue ($1.4 million), fund balance returned to narrow levels ($1.6 million or 2.8% of revenues). Fiscal 2008 also represented the first year of a state imposed levy increase limitation of 4% over the previous year's levy. The city opted not to utilize levy capacity and the levy remained 2.9 million below the levy cap, restricting additional levy increases in subsequent years. In fiscal 2009, financial operations resulted in an additional draw of $340,000, reducing fund balance to a very narrow $1.25 million (just 1.6% of municipal revenues). The reserve draw was again driven again by declining economically sensitive revenues, such as interest income and construction code fees, and a large appropriation of surplus as revenue of $1.4 million. Favorably, management did not defer the fiscal 2009 pension contribution as temporarily allowed by the state. Current year-end fiscal 2010 projections indicate a third consecutive, although more modest, fund balance decline of $200,000 following the use of nearly all Current Fund balance ($1.2 million of $1.25 million) as a revenue source.

The city derives roughly one-third (36%) of its revenues from property taxes, 33% from various local sources including fees and (10%) from payments-in-lieu-of-taxes (PILOTS), and approximately 20% from various forms of state aid. These revenue sources provided limited revenue raising flexibility. Current-year tax collections are strong, averaging over 99% during the past five years, partially because the city has accelerated tax sales. Strong collections help the city budget below the actual collection rate and generate surpluses in this line item ($645,000,000 in fiscal 2009). Given the state's imposition of a more restrictive levy increase limitation of 2% over the previous year beginning in fiscal 2011 and limited flexibility in raising other local revenues and increasing annual PILOT payments, the city will be challenged to meet rising fixed expenditures absent significant expenditure reductions. We also believe the city would be challenged to raise revenues to meet debt service requirements related to any of the $304.7 million in total city-guaranteed parking authority debt should the need arise from insufficient or delayed parking and/or commercial use revenues, given its relatively small municipal levy paid by low-income tax payers.

SIGNIFICANT PORTION OF TAX BASE IS TAX-EXEMPT; GROWING POPULATION AND MODEST INCREASES IN ASSESSED VALUATIONS EXPECTED

Moody's believes that the city's moderately sized $3.3 billion tax base will continue to grow, although more modestly than in previous years, driven by residential development and the construction of new office space. Since approximately one-half of the city's property is tax-exempt, the magnitude of property value is understated and reflected in the low assessed valuation growth of the city. Between 2000 and 2005, equalized valuation growth increased at a strong 15.4% annually, above the state median and reflecting the healthy market appreciation in the area. However, market values have declined in recent years (-0.4% in 2009 and -5.6% in 2010), in line with regional
housing market trends. Notably, assessed valuation has averaged a flatter -0.5% average annual growth over the past five years, because additional ratables have been added to the tax base, somewhat offsetting the declines. New Brunswick derives significant economic strength and stability from the institutional presence in its community. The city includes three campuses of Rutgers University (rated Aa2/stable outlook), as well as not-for-profit health care and teaching institutions, most of which anticipate future growth or have ongoing expansion projects. While equalized value per capita is $63,711 compared to the Moody's median for the U.S. of $154,569, it does not reflect the significant amount of tax-exempt properties in the city.

New Brunswick is the seat of Middlesex County (G.O rated Aa1/negative outlook) and is located 60 miles from New York City (G. O. rated Aa2/stable outlook) and from Philadelphia (G.O. rated A2/stable outlook). The city's population has been growing (it increased by 16.5% from 1990 to 2000). Since one-quarter of the population is students, per capita income ($14,308), median family income ($38,222), and median housing values ($122,600) are only slightly more than one-half the state and two-thirds the national medians. A segment of the city's population is also low-income, which is reflected in the city's high 27% poverty rate. The city's population of 51,580 residents is augmented considerably during the daytime - reportedly exceeding 100,000 - by employees at Johnson & Johnson (senior unsecured rated Aaa/stable outlook), the city's largest taxpayer (7.5% of assessed valuation), the Robert Wood Johnson University Hospital (rated A2/stable outlook), and the various university schools and institutes. Moody's believes that the demand for services by residents and nonresidents will continue to spur economic development.

HIGH DEBT BURDEN RELATED TO CITY-GUARANTEED PARKING AUTHORITY DEBT

We believe the city's significant debt burden may place additional pressure on an already strained financial position. Direct debt is a high 8.1% of equalized when incorporating the additional debt created by this issue. Although the New Brunswick Parking Authority has a long track record of healthy financial operations with no support from the city, we believe that the current project's reliance on commercial lease revenues could strain the authority's financial health should these revenue sources erode. Without a historical trend of sufficient coverage from these commercial sources as well as traditional parking revenues related to the two new parking structures, we include parking authority debt related to these projects into debt burden calculations as a contingent liability. Structuring flexibility is limited as principal is amortized at a below-average rate of approximately 38% in 10 years. Notably, the city's water and sewer debt are self-supporting.

WHAT COULD CHANGE THE RATING (UP):
- Growth in taxable assessed valuation
- Improved demographic profile
- Maintenance or growth of current reserve levels relative to budgetary expansion
- Accelerated payout of debt burden

What could make the rating change - DOWN:
- Unanticipated difficulties in receiving lease payments, generating sufficient parking revenues or paying guaranteed debt service
- Protracted structural budget imbalance
- Depletion of reserves

KEY STATISTICS FOR NEW BRUNSWICK:
2009 population: 51,580
2010 Equalized valuation: $3.3 billion
2010 Equalized value per capita: $63,711
Overall debt burden: 9.8%
Direct debt burden: 8.1%
Payout of principal (10 years): 38%
2009 Current Fund balance (unaudited): $ million (1.6% of Current Fund revenues)
1999 Per Capita Income (as % of state and US): $14,308 (53% and 66%)
1999 Median Family Income (as % of state and US): $38,222 (69% and 76%)
Post-sale parity debt outstanding: $405 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009.

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