



Moody's Investors Service

New Issue: MOODY'S ASSIGNS UNDERLYING Baa2 WITH STABLE OUTLOOK AND ENHANCED A1 RATING WITH NEGATIVE OUTLOOK TO JERSEY CITY'S (NJ) \$4.38 MILLION QUALIFIED GENERAL IMPROVEMENT BONDS (PARKING AUTHORITY PROJECT), SERIES 2009

Global Credit Research - 10 Dec 2009

AFFIRMATION OF Baa2 WITH STABLE OUTLOOK AFFECTS \$788 MILLION OF OUTSTANDING DEBT

Municipality
NJ

Moody's Rating

ISSUE	UNDERLYING RATING	RATING
Qualified General Improvement Bonds (Parking Authority Project), Series 2009	Baa2	A1
Sale Amount	\$4,380,950	
Expected Sale Date	12/07/09	
Rating Description	General Obligation Unlimited Tax	

Moody's Outlook Stable

Opinion

NEW YORK, Dec 10, 2009 -- Moody's Investors Service has assigned an underlying Baa2 rating with a stable outlook and an enhanced A1 rating with a negative outlook to the City of Jersey City's (NJ) \$4.38 million Qualified General Improvement Bonds (Parking Authority Project), Series 2009. Concurrently, we have affirmed the Baa2 underlying rating with a stable outlook on \$783.6 million of outstanding city and city-guaranteed general obligation bonds. Proceeds will finance acquisition of an administrative building for the Jersey City Parking Authority. While the Authority is contractually obligated to make payments equal to debt

service to the city, ultimate bond holder security is the city's general obligation unlimited property tax pledge.

The Baa2 rating affirmation reflects the city's large and growing tax base with below-average income and wealth levels; narrow financial position, as evidenced by budget challenges in fiscal 2010 and borrowing to pay tax appeal settlements; and moderate debt position with slow amortization. The stable outlook factors Moody's expectation that reserves will remain narrow, given 2010 budgetary pressures and continued structural imbalance, but management's continued efforts to raise recurring revenues and cut recurring expenditures are expected to keep operations relatively stable to historical performance.

The A1 enhanced rating with negative outlook reflects additional security provided by the State of New Jersey's Municipal Bond Qualified Act, which 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.

QUALIFIED BONDS SUPPORTED BY STATE AID DIVERTED BY STATE TREASURER

Moody's believes that qualified revenues, estimated at \$79.3 million for fiscal 2009, will provide sufficient debt service support for the current issue, which is ultimately secured by the New Jersey Municipal Qualified Bond Act. Coverage of maximum municipal qualified debt service (in 2018) is approximately 1.64 times when excluding the debt service that is reimbursed by the city's Municipal Utilities Authority, but is 1.45 times if all qualified debt is included. Under the Municipal Bond Act, the State Treasurer diverts a portion of the city's state aid to a trustee to pay qualified bond debt service payments before the city can expend the aid for operations. As a result of this program, Moody's expects that bondholders will continue to be insulated from the city's fiscal pressures - a factor that is fundamental to assigning the A1 enhanced rating with a negative outlook to the city's debt currently secured by this program.

NARROW FINANCIAL POSITION EXPECTED TO CONTINUE; FISCAL 2010 BUDGET WILL BE KEY CREDIT DRIVER MOVING FORWARD

Moody's views Jersey City's financial position as narrow, but adequate at the current rating level. However, we believe the city will be challenged in fiscal 2010. The fiscal 2008 Current Fund balance equaled \$14 million or a narrow 3.1% of revenues, reflecting a \$2.3 million augmentation of reserves. The positive result incorporates a number of factors, including a reduced appropriation of fund balance at \$10.3 million (compared to \$12.4

million in 2007). Operations also benefited from an \$11.6 million property tax levy increase and lower health care costs due to the city's decision to withdraw from the state health benefits plan as of January 1, 2008 and to become self-insured. In order to mitigate the risk of a self-insured program, the city purchased a stop-loss insurance policy that pays for health care costs in excess of \$250,000 per employee per year. A number of non-recurring revenues also contributed to 2008 results including a \$15 million payment from Honeywell (senior unsecured rated A2/stable outlook) that will also be received in 2009, \$13 million of land sale proceeds, and \$8 million of Special Municipal Aid. The city's ability to replenish the \$10.3 million of appropriated reserves and augment Current Fund balance were driven by the cancellation of \$7 million of fiscal 2007 appropriations and two one-time revenues sources, including the use of \$2.7 million of a debt service reserve and approximately \$1 million of various current year cancelled appropriations and reserve liquidations.

Unaudited fiscal 2009 results indicate a fiscal year-end (ended June 30th) Current Fund balance of \$12.1 million (2.6% of revenues), as the city only partially replenished the \$13.2 million of appropriated fund balance. Several one-time revenues and expenditure savings were used to balance the budget give no increase in property tax revenues, a \$6.7 million decline in state aid, and growing recurring expenditures. Notably, the city deferred the payment of \$15.5 million of pension expenses, pushing this liability to future years. One-time revenues include \$13.7 million of land sale proceeds and the final \$15 million payment resulting from the Honeywell settlement. Favorably, hotel occupancy tax receipts exceeded 2008 levels, (budgeted \$4.4 million in 2009; actual \$3.8 million in 2008), reflecting the first full year of collections of this new recurring revenue. Evidencing the downturn in the national economy, PILOT payments were \$3 million under budget, as some are calculated based on residential unit sale prices that have declined. Moody's believes the city's structural gap for 2009 approximates \$45 million. This estimation does not include the city's practice of annual borrowing to fund tax appeals (\$11.4 million in 2009), which could be characterized as borrowing to fund current operations.

The 2010 budget, which is expected to be introduced later this month, is presenting significant challenges given rising expenditures and limited options to increase revenues, due to a cap on property tax revenues (which comprised 33.5% of 2008 revenues) and declining state aid. Notably, several of the one-time revenues which supported the 2009 budget will not be available including the Honeywell settlement payments (\$15 million), diminished land sale proceeds (\$13.27 million in 2009), and

the pension deferral (\$15.5 million), which was authorized for just one year. Management is trying to close a \$35 million to \$40 million reported budget gap, even after an \$18.5 million property tax increase in the first two quarters of the fiscal year and the decision to enforce furloughs on non public safety employees. Additionally, all of the city's union contracts have expired, representing another future liability. Future rating reviews will heavily factor the city's ability to balance the 2010 budget and maintain reserves at adequate levels.

ECONOMIC DEVELOPMENT AUGMENTED PROPERTY VALUES; GROWTH EXPECTED TO MODERATE GIVEN ECONOMIC CONDITIONS

Significant building in Jersey City, beginning with redevelopment along the five miles of Hudson Riverfront, has resulted in extraordinary tax base growth in the last decade, which Moody's believes will moderate given national and regional economic trends. Jersey City, with its substantial estimated \$22 billion equalized value in 2009, boasts the largest municipal tax base in the state. The city has encouraged commercial development through 30-year tax abatements, and 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, and future PILOTs are expected to remain at or near the 2008 level for the next few years as new PILOTs from completed projects help offset potential declines in outstanding PILOTs. City officials report a slowing of development projects in the pipeline and, as such, are expecting PILOT revenues may slow in the medium term. Further, growth in taxable values from previously PILOTed properties is expected to be limited as few PILOT agreements expire in the near term.

The city has exposure to the downturn in the financial services industry, given that nine large financial institutions account for 16% of total employment in the city and are among the twenty largest employers. Management reports that Goldman Sachs (senior unsecured rated A1/negative outlook) laid-off 540 employees (18% of the May 2008 workforce) at the end of 2008. Unemployment has increased by 65% from a year ago to 12% as of September 2009, well above state and national levels of 9.6% and 9.5%, respectively. Moving forward, Moody's will

continue to monitor reductions in workforce as they could have a negative impact on the city's income levels, development prospects, and property valuations. While assessed valuation growth has been uneven, increases reflecting new housing and commercial properties maturing out of their PILOT agreements have averaged 2.4% annually over the past five years. Some of the city's on-going development include Trump Towers, the first tower of which is complete, and the Colgate Redevelopment site along the river continues to be enhanced by new residential and office properties including a 1.2 million square foot office center for Goldman Sachs, the city's second largest employer. In addition, the light rail transit project that is expected to ultimately connect Bayonne (G.O. rated Baa3/negative outlook) to Ridgefield (G.O. rated A3) now runs from Bayonne, through Jersey City to Hoboken (G.O. rated Baa3), Weehawken and Union City (G.O. rated Baa2). The city's \$92,010 equalized value per capita reflects the significant commercial property in the city and is equivalent to 67% of the 2009 state median.

DEBT BURDEN EXPECTED TO REMAIN ABOVE AVERAGE

Moody's expects the city's direct debt burden (2.7% of equalized value) to remain above average given the slowing of growth in the city's tax base, near-term borrowing plans, and below-average amortization of principal (59.3% 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 3.2% of the city's equalized value. The city expects to issue approximately \$20 million to \$25 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 with notes and anticipates issuing approximately \$3 million to \$5 million in new tax appeal refunding notes annually. The 2009 borrowing level was elevated (\$11.4 million of new notes) given two large settlements with the city's largest taxpayer. All of the city's debt is fixed rate and the city is not a party to any derivative contracts, including swap agreements.

KEY STATISTICS:

2008 Estimated Population: 241,114

2009 Equalized Value (estimate): \$22.1 billion

Equalized Value Per Capita: \$92,185

1999 Per Capita Income (as % of NJ and US median): \$19,410 (72% and

90%)

1999 Median Family Income (as % of NJ and US median): \$41,639 (64% and 83%)

Unemployment (September 2009): 12% (9.6% for NJ and 9.5% for US)

Poverty Rate (1999): 18.6%

Overall Debt Burden: 3.1%

Direct Debt Burden: 2.6%

Amortization of Principal within 10 Years: 59.3%

2008 Current Fund Balance: \$14 million (2.9% of Current Fund revenues)

2008 Current Fund Balance (unaudited): \$12.1 million (2.55% of Current Fund revenues)

Long-Term GO and Guaranteed Debt Outstanding: \$788 million

RATING METHODOLOGIES USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating Jersey City (NJ) was "Local Government General Obligation and Related Ratings" which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Index of Special Reports - U.S. Public Finance. "State Aid Intercept Programs and Financings" was used in the assignment of the enhanced rating. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action was on June 8, 2009 when Moody's Investors Service assigned a MIG 2 rating to the City of Jersey City's (NJ) \$16.5 million Refunding Notes (Real Property Tax Appeal), Series 2009A (dated June 25, 2009; due June 25, 2010 and affirmed the Baa2 underlying rating with a stable outlook on the city's outstanding general obligation and guaranteed bonds.

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