

# RatingsDirect®

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**Summary:**

**Hudson County, New Jersey;  
Appropriations; General Obligation;  
General Obligation Equivalent  
Security; Note; School State Program**

**Primary Credit Analyst:**

Anthony Polanco, Manchester + 1 (617) 530 8234; anthony.polanco@spglobal.com

**Secondary Contact:**

Felix Winnekens, New York + 1 (212) 438 0313; felix.winnekens@spglobal.com

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## Summary:

# Hudson County, New Jersey; Appropriations; General Obligation; General Obligation Equivalent Security; Note; School State Program

### Credit Profile

US\$140.605 mil BANs ser 2024 due 02/28/2025

<i>Short Term Rating</i>	SP-1+	New
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US\$43.539 mil county-guaranteed pooled nts (Hudson County) (Local Unit Loan Prog) ser 2024A due 03/25/2025

<i>Short Term Rating</i>	SP-1+	New
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#### **Hudson County Improvement Authority, New Jersey**

Hudson County, New Jersey

Hudson County Improvement Authority cnty gtd pooled nts, (Local Unit Loan Program)

<i>Short Term Rating</i>	SP-1+	Affirmed
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Hudson County Improvement Authority (Hudson County) cnty sec'd lse rev bnds

<i>Long Term Rating</i>	AA/Stable	Affirmed
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### Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to the Hudson County Improvement Authority, N.J.'s \$43.5 million series 2024A county-guaranteed pool notes, consisting of \$36.7 million series 2024A-1 tax-exempt county-guaranteed pooled notes and \$6.8 million series 2024A-2 taxable county-guaranteed pooled notes.
- At the same time, S&P Global Ratings assigned its 'SP-1+' short-term rating to Hudson County, N.J.'s \$140.6 million series 2024 bond anticipation notes (BANs).
- In addition, we affirmed our 'SP-1+' short-term rating on the authority's existing county-guaranteed pool notes.
- Finally, we affirmed our 'AA' long-term rating on Hudson County's general obligation (GO) debt and county-guaranteed GO-backed debt, previously issued by the Hudson County Improvement Authority.
- The outlook on all long-term ratings is stable.

### Security

Hudson County's full-faith-and-credit pledge to pay principal and interest from the levy and collection of ad valorem taxes, without limit as to rate or amount, secures its long-term GO debt and BANs.

The ratings on the county-guaranteed notes and other county-guaranteed debt reflect our view of Hudson County's unconditional guarantee for full and prompt principal and interest payment when due and payable. The guarantee qualifies as a form of credit enhancement and, in our view, reflects the county's unconditional promise to pay the guaranteed obligations on the due date when remedies against the primary obligors have been exhausted. In addition, the short-term rating reflects our opinion of the county's general creditworthiness and market risk profile, which we consider low. The low market-risk profile reflects our view of the county's strong legal authority to issue long-term

debt to take out the notes and its ongoing disclosure to market participants. The 2024A authority notes are being issued on behalf of four municipalities for various capital improvements. The 2024 BANs are being issued to finance various capital projects for the county.

The authority's county-secured lease revenue bonds are secured by rental payments by the county, which has an absolute and unconditional obligation to make rental payments that we rate as consistent with the county's long-term GO rating. The New Jersey Fund for the Support of Free Public Schools program provides additional bond security for the county's vocational-technical bonds. The program pledges a portion of a state fund's assets for a school district's debt service should it be unable to meet principal-and-interest payments.

### **Credit overview**

Hudson County's general creditworthiness reflects our view of the county's strong economy, with a growing property tax base and favorable access to the New York City metropolitan statistical area (MSA). The county added approximately \$10.8 million to its current fund balance in fiscal 2022, bringing the fund balance more in line with that of similarly rated peers. The county estimates to have ended fiscal 2023 with overall balanced operations, resulting in a slight drawdown in reserves. While the county has historically maintained adequate-to-strong reserves and stable operations, we believe its sizeable pension and other postemployment benefit (OPEB) obligations combined with a large debt burden could lead to budgetary pressure if not properly managed.

The rating reflects our opinion of the county's:

- Robust economy, with participation in the New York-Newark-Jersey City MSA;
- History of solid financial performance, with the maintenance of adequate-to-good reserves;
- Strong management conditions, characterized by a number of formalized financial policies and practices, with a strong institutional framework;
- Manageable overall debt burden despite annual debt issuances; and
- Large retirement and debt liabilities, which could add pressure to the budget.

### **Environmental, social, and governance**

We view the county's environmental physical risks as somewhat elevated, given the county's exposure to coastal flooding from its shoreline along the Hudson River and Newark Bay, although the county continues to work with state and national resources to mitigate these risks. We view social and governance risks as generally neutral within our credit analysis, though we view the state's governance of its pension plans and the lack of a mechanism to prefund OPEB as a weakness for New Jersey local governments.

## **Outlook**

The stable outlook reflects our expectation that the county will maintain at least adequate reserves and generally stable performance over the next two years, while residential growth will help minimize economic risk from disruption in commercial office space.

### **Downside scenario**

We could lower the rating if the county's finances deteriorate, resulting in weakened liquidity and budgetary performance and flexibility. We will monitor total pension and OPEB payments, and if these costs increase materially, pressuring budgetary performance, we could also lower the rating.

### **Upside scenario**

We could raise the rating if income indicators improve to levels that we consider commensurate with those of higher-rated peers, budgetary flexibility continues to strengthen through consistently positive financial operations, and the long-term liability profile improves, including from pension and OPEB liabilities.

## **Credit Opinion**

### **Robust economy participating in the New York-Newark-Jersey City MSA**

Historically, the county's population has increased during the day because of an influx of commuters and workers. While Hudson County is mostly residential, the county's location and excellent transportation network of roadway and rail service provide for a thriving commercial and industrial sector. Several mixed-use residential and retail developments are underway throughout the county, and there is a light-rail extension project that could support some additional waterfront development. We believe Hudson County's economy should remain stable, but we will continue to monitor the possible effects of lower demand for office space in the county, which could possibly lead to assessed valuation declines or increased appeals specific to that sector. Management was unable to provide figures on commercial office space vacancies or appeals. The statutory structure for levying taxes requires that municipalities collect and guarantee counties their full property-tax levies, which insulates them from some immediate financial effects. However, continuing lower valuations could pressure the county's ability to tap the tax base adequately to offset rising costs from health care and pensions.

### **Formalized financial policies and procedures guide budget planning and monitoring**

Hudson County uses conservative budgeting assumptions and trend data to prepare its budget while monitoring the budget monthly, with the finance director providing reports to the county board of commissioners. It annually updates its five-year capital plan, outlining uses and funding sources. The county also has a formal investment management policy, and management reports holdings monthly to the board. Hudson County does not perform formal multiyear financial planning, and lacks formal debt and reserve management policies; the informal reserve target, however, calls for maintaining reserves equal to 3%-4% of expenditures for liquidity, which it has historically maintained and exceeded.

The institutional framework score for New Jersey counties is strong.

### **Expected financial performance improvement sustaining adequate-to-strong reserves**

The county's fiscal 2022 positive operating result brings the fund balance back to near its pre-pandemic levels. Combined with lower expenditures during the year, fund balance ratios have improved into a strong range, from adequate. This result supports our stable outlook, especially considering that the county's fund balance position at year-end 2021 was lower than that of other rated peers relative to expenditures. The result benefits from \$26 million in American Rescue Plan Act (ARPA) funds that the county used as a revenue replacement. Most of the funded costs

were one-time, although a portion covered higher costs from staffing challenges in corrections facilities. Hudson County has entered into corrections agreements with other counties and also receives state and federal inmates. The financial results related to corrections have been somewhat volatile over the last three fiscal years, and we will monitor the county's ability to adequately budget for the function following the expiry of federal funding. The county's current funding mix promotes revenue stability, with 59% of revenue (excluding ARPA funds) from property taxes and just 5% from state aid.

The county's adopted 2023 budget includes an increase of \$7 million, to \$42 million, in the surplus used to balance the budget. For fiscal 2023, the county's preliminary estimate is to have ended with a slight fund balance drawdown of about \$1 million. While expenditures came in on target, officials indicate the count's anticipated revenue line item came in under budget, mainly from register of deeds. Other revenue items were on budget overall. As is common for all New Jersey municipalities and counties, which fund operations for the first few months of the fiscal year through a continuing resolution, the borough has not yet adopted its fiscal 2024 budget, although work on it has begun. We understand that it does not expect any major changes from prior year at this point. We expect that the fund balance will fluctuate between levels we consider adequate and strong, although we also expect it will remain below that of higher-rated peers.

We expect liquidity will remain very strong, supported by the county's access to public markets, if necessary. While Hudson County does guarantee debt issued by the improvement authority, we believe the local governments paying for this debt will continue to do so, and that there will not be a contingent claim on the county. We also believe that if the county's guarantee were to be triggered for these claims, it maintains the ability to permanently finance the debt and so would be able to manage any associated contingent liability. Hudson County does not have any debt with provisions allowing for acceleration of debt service that might increase contingent liability risk.

### **Manageable overall debt burden despite annual debt issuances**

Hudson County's direct debt outstanding will total about \$1.6 billion, including the county's GO debt, county-guaranteed debt issued through the authority (including this note issuance), and capital lease debt. We understand the county plans to continue issuing debt in approximately the same amount as it has in the past several years, and we do not expect our assessment of the debt-and-liability profile to change. Approximately \$980 million of the debt is from county-guaranteed debt that other entities support. The county has not had to make payments on guaranteed debt.

### **Pension and OPEB highlights**

We view pension and OPEB liabilities as a credit pressure for Hudson County, as they are for most New Jersey local governments. While the county is currently managing pension costs, we believe it has a limited ability to control future liability growth due to state restrictions and funding discipline. Hudson County funds OPEB according to state statute, on a pay-as-you-go basis, which, due to claims volatility and medical cost and demographic trends, is likely to lead to escalating costs.

At Dec. 31, 2022, Hudson County participated in:

- New Jersey Police & Firemen's Retirement System, which was 63.3% funded, with a proportional share of the net pension liability (NPL) equal to \$112.4 million as of the 2021 measurement date;

- New Jersey Public Employees' Retirement System, which was 46.4% funded, with a proportional share of the NPL equal to \$242.0 million; and
- New Jersey's defined-benefit health care plan, which provides retiree health care until death and which was 0% funded, with an OPEB liability of about \$672.1 million at year-end 2021, the most recent data available.

Although the county funds 100% of its actuarially determined contributions (ADC), it fell short of our minimum funding progress metric but exceeded our static funding metric, which implies positive but slow funding progress. This shortfall is partially due to poor plan assumptions and methodologies, but plans have recently improved due to the state ramping up to 100% of its ADC. The plans' 30-year, level-dollar, open-amortization schedule will result in slow funding progress. (For more details, see "Pension Spotlight: New Jersey," published June 21, 2022, on RatingsDirect.) Hudson County also provides OPEB to eligible retirees through the state health benefits program, a state-administered, cost-sharing, multiple-employer, defined-benefit postemployment health care plan. It funds these benefits on a pay-as-you-go basis with no prefunding mechanism in place, limiting its ability to plan for rapidly escalating costs. In fiscal 2022, it contributed \$13.5 million toward pay-as-you-go retiree health care benefits.

Hudson County, New Jersey--Key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	131			
Market value per capita (\$)	168,938			
Population		705,044	675,195	681,795
County unemployment rate (%)		3.6		
Market value (\$000)	119,108,405	114,110,736	103,421,193	
Ten largest taxpayers % of taxable value	4.0			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		1.6	(0.5)	(1.3)
Total governmental fund result % of expenditures		1.6	(0.5)	(1.3)
<b>Strong budgetary flexibility</b>				
Available reserves % of operating expenditures		8.2	6.4	6.7
Total available reserves (\$000)		56,593	45,793	49,259
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		31	26	26
Total government cash % of governmental fund debt service		476	364	488
<b>Strong management</b>				
Financial Management Assessment	Good			
<b>Very weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		6.4	7.1	5.3
Net direct debt % of governmental fund revenue	229.5			
Overall net debt % of market value	2.3			
Direct debt 10-year amortization (%)	38.4			

### Hudson County, New Jersey--Key credit metrics (cont.)

	Most recent	Historical information		
		2022	2021	2020
Required pension contribution % of governmental fund expenditures		5.3		
OPEB actual contribution % of governmental fund expenditures		2.0		

#### Strong institutional framework

#### EBI--Effective buying income. OPEB--Other postemployment benefits.

Data points and ratios may reflect analytical adjustments.

## Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

### Ratings Detail (As Of February 8, 2024)

Hudson Cnty cnty coll rfdg bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty cnty vocational-technical sch bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty county vocational tech sch bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty energy savings oblig rfdg bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty gen imp bnds ser 2020 due 11/15/2041		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty Cnty coll bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty GO bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty GO bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty GO bnds ser 2022		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty GO bnds (Nj School Bond Reserve Act) ser 2019 due 07/01/2039		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty GO cnty coll bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty GO voc sch		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Ratings Detail (As Of February 8, 2024) (cont.)		
<i>Underlying Rating for Credit Program</i>	AA/Stable	Current
Hudson Cnty GO Vo-Tech bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty GO Vo-Tech Bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	NR	
Hudson Cnty SCHSTPR		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	NR	
Hudson Cnty SCHSTPR		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	NR	
Hudson County GO bnds ser 2023 due 07/01/2040		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<b>Hudson County Improvement Authority, New Jersey</b>		
Guttenberg, New Jersey		
Hudson Cnty Imp Auth (Guttenberg) GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<b>Hudson County Improvement Authority, New Jersey</b>		
Hudson County, New Jersey		
Hudson Cnty Imp Auth (Hudson Cnty) cnty guaranteed solid waste rev rfdg bnds (Hudson Cnty) ser 2019 due 07/01/2040		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty Imp Auth (Hudson Cnty) cnty secd lse rev bnds (Hudson Cnty) ser 2020 dtd 10/01/2020 due 10/01/2051		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty Imp Auth (Hudson Cnty) cnty secd lse rev rfdg bnds (Hudson Cnty) ser 2016 dtd 09/28/2016 due 04/01/2033 2035		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty Imp Auth (Hudson Cnty) federally taxable cnty-guaranteed lse rev rfdg bnds (Hudson Cnty) (Lincoln Pk Proj) ser 2020 due 06/01/2041		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty Imp Auth (Hudson Cnty) federally taxable cnty-guaranteed spl acquis rfdg bnds (Hudson Cnty) (Bergen Ave Proj) ser 2020		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty Imp Auth (Hudson Cnty) federally taxable GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Current
Hudson Cnty Imp Auth (Hudson Cnty) federally taxable, cnty-guaranteed lease rev bnds (Hudson Cnty) ser 2020 due 12/31/2051		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty Imp Auth (Hudson Cnty) tax-exempt cnty gtd pooled nts (Local Unit Loan Program)		



Ratings Detail (As Of February 8, 2024) (cont.)		
<i>Short Term Rating</i>	SP-1+	Affirmed
Hudson Cnty Imp Auth (Hudson Cnty) GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty Imp Auth (Hudson Cnty) GOEQUIV		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson Cnty Imp Auth (Hudson Cnty) GOEQUIV (AGM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Current
Hudson County Improvement Authority		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hudson County Improvement Authority (Hudson County) cnty gtd pooled nts		
<i>Short Term Rating</i>	SP-1+	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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