Tax Supported
New Issue

Monmouth County, New Jersey

Ratings

New Issue

General Obligation Bonds,
Series 2007 .... AAA

Outstanding Debt

General Obligation Bonds .... AAA
County-Guaranteed Capital Equipment
Pooled Lease Revenue Bonds* .... AAA
County-Guaranteed Recreational
Facilities Revenue Bonds*................. AAA
County-Guaranteed Correctional
Facilities Revenue Bonds .... AAA

Rating Outlook .... Stable

*Issued by the Monmouth County Improvement Authority.

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New Issue Details

Approximately $74,470,000 General Obligation Bonds, Series 2007, consisting of $50,000,000 public improvement bonds, $20,000,000 open space bonds, and $4,470,000 county college bonds, are scheduled to sell competitively on Sept. 12. The bonds will be issued serially, maturing Sept. 15, 2008–2020.

Security: The bonds are a general obligation of the county and are payable from ad valorem taxes without limitation as to rate or amount.

Purpose: Bond proceeds will be used to finance various capital improvement projects across the county.

■ Outlook

The 'AAA' rating reflects Monmouth County's solid financial management, resulting in continued strong operations and financial flexibility, stable growth of its wealthy tax base, and low direct debt levels with rapid amortization. The county continues to experience positive employment growth, and unemployment levels are well below the state average. Unreserved fund balance continued to grow in 2006 due to the county's conservative budget practices, expenditure controls, and healthy flow of revenue driven by an expanding property tax base. The county's capital plan has grown but remains affordable, and although primarily bond funded, debt levels should remain moderate given the county's conservative policies, including rapid amortization rates.

■ Rating Considerations

The county is located along the northern Atlantic Ocean shore of New Jersey, 50 miles outside New York City. The 2000 U.S. Census revealed an 11.3% population increase since 1990, and the 2005 estimate of 635,952 was on par with state growth trends. Wealth levels remained strong, as demonstrated by the county's high market value per capita of $187,686 in 2007, up 14% from the prior year. While the health care and retail sectors still dominate private employment, strong gains in the real estate, wholesale, and leisure and hospitality sectors are evident. The county's unemployment rate of 3.6% in June 2007 remained below state and national averages, at 4.5% and 4.3%, respectively. The face of the county's largest employers will change over the next few years with the planned closure of the Fort Monmouth military base. The Fort Monmouth Economic Revitalization Commission, with local, state, and county representation, is exploring redevelopment options. Fitch Ratings believes the county's ability to withstand the base closure is strong because the economy is deeply diversified, providing opportunities for the highly skilled displaced employees. In addition, demand for land in the area of Fort Monmouth is high. The 5,500 primarily civilian employees at the base represent a relatively small portion of the county's overall labor force, which totaled 336,551 in June 2007.

The county's financial position is strong. The 2006 unreserved fund balance was $85.9 million, or 18.2% of spending. While the county realized a small surplus and the unreserved fund balance remained strong, it dropped as a percentage of spending from 18.6% in 2005. Despite a consistent budgeting of reserves, surplus operations occur that are consistently supported by conservative budgeting and effective expenditure controls. The 2007 budget is performing as predicted, and fund balance levels are expected to be near 2006 levels. The county's wealthy property tax base has expanded steadily and remains primarily residential at 84%. With the revaluation of existing property, construction property values continue to grow at double-digit rates annually, despite a reduction in residential home sales activity. The median price for a new single family home grew 8%, to $810,000, from 2005–2006.

The county's direct debt burden is low at $546 per capita and 0.29% of equalized value (EV). Debt levels are more moderate on an overall basis, with debt per capita at $2,948 and 1.57% of EV. Pursuant to county resolution, debt is amortized very rapidly, providing ample capacity in future years for continued capital investment. Amortization rates are comfortably above the 70% policy, with more than 93% retiring within 10 years.

Strengths

- Continued strong financial management, flexibility, and operations.
- Low-to-moderate debt levels, with rapid amortization.
- Above-average wealth and growing tax base, with 100% of tax collections guaranteed by underlying municipalities.
- Solid long-term growth in population and diversifying economic base.

Risks

- Minimal.

Debt

The county continues to issue debt to finance infrastructure improvements to support its growing population; however, debt levels remain low to moderate. Net direct debt is low at $546 per capita and 0.29% of EV. Overall debt, including school and municipality debt but excluding local self-supported utility debt, is more moderate at $2,948 per capita and 1.57% of EV. The county's principal payout of non-utility debt is very rapid, with 64% retiring within five years and 94% retiring within 10 years.

Included among the county's outstanding debt are taxable pension refunding bonds issued in 2003 in the amount of $3.6 million. The pension bonds amortized the county's total outstanding pension liability related to early retirement initiatives offered by the county in 1991 and 2000. By issuing these bonds, the county reduced its interest costs, saving an estimated $4 million, or 25%, of the total outstanding liability on a net present value basis. The county did not have any such pension bonds outstanding but refunded its outstanding liability as authorized by the state.

Debt Statistics

($000)

This Issue	74,470
Outstanding Debt	272,789
Direct Debt	347,259
Underlying Debt	1,527,361
Total Overall Debt	1,874,620
Debt Ratios	
Direct Debt Per Capita ($)*	546
As % of Equalized Value**	0.29
Overall Debt Per Capita ($)*	2,948
As % of Equalized Value**	1.57

*Population: 635,952 (2005 estimate).
**Equalized value: $119,359,171,000 (2007 estimate).
Note: Numbers may not add due to rounding.

The county created a facilities master plan in 2006. The 2008–2012 capital improvement plan (CIP) totals $466.4 million, representing a significant increase over prior plans. Spending in the plan focuses on open space land acquisition, road improvements, and land acquisition for the consolidation of certain county offices. Funding for the plan comes predominantly from bond funds (84%), with the remainder generated through pay-as-you-go resources and state grants.

The county maintains prudent debt management policies, including keeping a maximum debt service burden of 12% of current fund revenues, amortizing debt at a rate of at least 70% in 10 years, and preventing direct debt as a percentage of equalized value from exceeding 0.75%. In 2006, the county was well within all debt policy limits, and debt service represented 9.8% of expenditures. Direct debt ratios should remain near current levels, primarily due to the rapid debt payout and strong tax base growth.

Like all local governments in New Jersey, the county is a member of the state pension system for municipal and police and fire employees. Due to high investment returns, the state offered local governments a holiday from pension payments earlier in the decade, with a plan to phase in payments over time to reach 100%. The county makes the annually required pension contribution in accordance with the bill received from the state, which in 2007 represented 60% of the actual cost for public employees and 80% for police and fire. By 2009, the county will be contributing 100% of the costs for each plan.

As New Jersey local governments prepare audits in accordance with statutory accounting, monitored by

Current Fund Financial Summary
($000, Audited Years Ended Dec. 31)

	2002*	2003	2004	2005	2006	2007**
Municipal Property Taxes	236,020	250,251	260,752	269,650	278,540	286,504
Miscellaneous Revenues Anticipated	138,853	135,251	145,701	162,263	159,236	136,849
Miscellaneous Revenues Not Anticipated/Other	19,744	19,047	19,730	19,941	20,681	N.A.
Unexpended Balance of Appropriation Reserves	11,549	11,748	11,384	11,873	13,275	N.A.
Total Revenues/Other Credits to Income	406,166	416,297	437,567	463,727	471,732	423,353
General Government	21,243	22,481	23,278	25,517	25,277	27,798
Land Use Administration	1,489	1,469	1,518	1,566	1,557	1,670
Code Enforcement and Administration	317	347	368	378	366	383
Insurance	31,467	34,627	37,072	41,459	44,769	51,900
Public Safety (Corrections and Penal)	66,804	72,729	77,379	82,335	85,274	88,845
Roads and Bridges (aka Public Works and Engineer)	26,667	28,613	29,180	28,897	29,548	31,901
Health and Welfare	80,388	80,941	84,641	88,215	93,327	96,457
Educational	32,611	34,062	38,042	39,102	40,880	43,235
Recreation	16,797	17,259	18,167	19,075	18,887	18,820
Other†	47,682	38,359	38,230	40,594	35,481	27,248
Debt Service	39,800	41,620	45,056	45,882	46,397	47,977
Capital Improvements	14,723	13,185	11,479	13,022	11,458	13,046
Deferred Charges and Statutory Expenditures	10,189	10,931	15,132	12,299	20,207	22,575
Appropriation Reserves	13,191	12,094	14,874	18,698	17,669	N.A.
Total Expenditures/Other Debits to Expenses	403,368	408,717	434,416	457,037	471,097	471,855
Operating Income/(Deficit)	2,798	7,580	3,151	6,690	635	(48,502)
Total Fund Balance	73,716	82,332	93,073	97,488	95,394	N.A.
As % of Spending	18.3	20.1	21.4	21.3	20.2	N.A.
Unreserved Fund Balance	68,280	75,662	78,692	85,202	85,873	N.A.
As % of Spending	16.9	18.5	18.1	18.6	18.2	N.A.

*Some line items may not compare to prior years due to reclassification. **Budgeted. †Unclassified, public/private offset by revenue, and contingent.
N.A. – Not available. Notes: The county budgets the use of fund balances every year. Numbers may not add due to rounding.

the New Jersey Division of Local Government Services (NJDLGS), they are not typically subject to pronouncements from the Government Accounting Standards Board (GASB). However, in June of this year, the NJDLGS announced that local governments must comply with GASB Statement No. 45 regarding the disclosure of other post-employment benefits. The county is awaiting further guidance from NJDLGS but must disclose this liability in the 2008 audit. The county is not a member of the state health care plan. Its annual pay-as-you-go cost for retiree health benefits is $6.1 million in 2007, up from $5 million in 2003. The county considers itself in a good position, as meaningful reductions in benefits were implemented for employees hired after 1994.

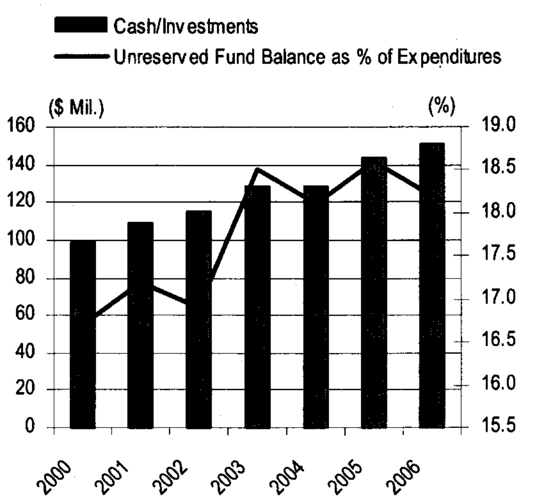
■ Finances

The county continues its strong practices in the areas of financial planning, management, and budgeting. The county effectively manages its budget to meet increased expenditures due to population and economic growth. Since 1989, it has recorded consecutive annual operating surpluses. The audited 2005 surplus of $6.7 million helped increase the unreserved fund balance to $85.2 million, representing 18.6% of spending. For 2006, the county again reported an audited surplus but much smaller at $635,000, keeping the unreserved fund balance fairly steady. With a 3.1% increase in spending from 2005–2006, the unreserved fund balance as a percentage of spending was still strong but dropped to 18.2%.

All counties in the state operate under the state cap law, which limits annual growth in the county tax levy and expenses to the lesser of 2.5% or the cost-of-living adjustment, with certain exceptions including new ratable property, debt service, and other costs as determined by the state. Counties can increase the growth in annual spending to 3.5% with approval of the local governing body. In 2007, the state implemented an additional cap limiting annual growth in expenses to 4%, which primarily affects municipalities as the initial cap only pertained to expenditure growth for municipalities and not tax levy growth. By law, the county calculates the cap under the old and new restrictions and operates under the more restrictive one.

While the new cap also includes exceptions, they are more limited than in the original cap. Specifically, while debt service on GO bonds and existing lease debt remains excluded from the cap, new lease debt authorized after July 1, 2007 would be included in the cap calculation, potentially creating some expenditure pressures over time. The county

Current Fund Summary
(Audited Years Ended Dec. 31)



currently guarantees lease debt of the Monmouth County Improvement Authority (MCIA), and the county does not think the cap will affect its policy of guaranteeing such debt in the future. While the county does not budget the MCIA lease payments it guarantees, any payment under the guarantee may be included in the cap. Both counties and municipalities can seek approval from the state for special exceptions to the cap calculation.

Health and welfare and public safety remained the two largest expense categories, although escalating insurance and pension costs continued to make up a larger share of the budget. Pension costs increased 132% from 2005–2006 as the county moved closer to 100% funding of contribution to the state pension system. Pension costs will increase another 82% in 2007 and 61% in 2008. Increases in these costs to reach the 100% funding level are excluded from the cap calculation. The largest expense category, health and welfare, accounts for 20.4% of the 2007 budget. Historically, the county paid approximately one-third of total health and welfare costs, with federal and state moneys funding the remainder. The county has taken measures — especially in the management of the health and welfare department and the abolition of the social services board — to successfully pare down cost growth. Overall expenditures for 2007 increased a manageable 4.1% over the 2006 budget.

The county's revenue composition was dominated 68% by property taxes in 2007, with state and federal grants, local revenues, and miscellaneous sources generating the remainder. The $286.5 million tax levy for 2007 represented a manageable 2.9% increase over 2006 and the lowest increase in the past six years. With total growth of 3.2% over the 2006 budget, the 2007 budget included a fund balance appropriation of $48.5 million. While use of the fund balance to support operations is generally considered a credit weakness, the county has a long history of conservative budgeting. Appropriated fund balances in prior years have not been needed, as demonstrated by a long history of surplus operations.

The 2007 budget continued the county's practice of expenditure controls, and while revenue forecasting remains conservative, the county plans to slow the growth of the fund balance over the next few years to keep tax levy increases down. The county expects to report a modest surplus by the end of 2007, bringing the fund balance as a percentage of the budget down slightly. While this trend may continue over the next few years, Fitch expects the county's financial flexibility to remain strong. The county has a written policy of maintaining fund balance levels of at least 7% of current fund revenues.

The 2007 TAV growth of 23.0% follows growth of 8.3% in 2006 and 14.8% in 2005 and was primarily due to the revaluation of existing property. The county has lowered the tax rate in response to the strong growth, but it continues to benefit financially with consistent increases in the tax levy. Tax collections are 100% guaranteed by the county's municipalities, providing a reliable and steady revenue stream. Tax remittance to the county is made quarterly on the 15th of February, May, August, and November.

The elimination of legal flow control continues to influence long-term decisions surrounding solid waste operations. When the county lowered tipping fees in the mid-1990s to maintain its competitiveness, revenues fell dramatically, forcing the system to rely on reserves for operations and debt service. In an effort to stabilize revenues, the county now requires all waste not shipped out of state to be sent to the county landfill. The county continues to raise tipping fees to reduce the fund's structural deficit. Following a significant 25% solid waste fund balance drop in 2001, financial flexibility was stabilized through 2004 with a reserve of $21.8 million, or more than 70% of system expenditures. The fund balance grew in 2006 to $40.3 million, representing 119% of 2006 expenditures. The county raised tipping fees in 2006 to $64.50 and maintains additional flexibility up to the $69 per ton level but must seek outside approval for additional rate increases.

■ Economy

Located in central New Jersey, the county covers 41 square miles and has a 27-mile Atlantic Ocean coastline. Population growth has been rapid because of the county's proximity to the greater New York/Northern New Jersey metropolitan area, land availability, solid road and bridge infrastructure, and access to transportation systems. The county's population in 2000 represented 11.3% growth over the 1990 U.S. Census figure, surpassing the strong growth of the 1980s by 9.9% and making it one of the fastest growing counties in the state. Estimates for 2005 showed additional growth to 635,952, or 3.36% above the 2000 U.S. Census figure.

Income levels remain above average and continue to grow. The county's 2005 per capita personal income of $48,506 totaled 111% and 147% of state and national averages, respectively, relatively on par with state figures for 1998 but increasing faster than the national average for that period. The county's 2006 median household effective buying income of $56,499 was 15% and 39% above state and national figures, respectively. Additionally, market value per capita was high and continues to grow rapidly with an active real estate market. Market value per capita registered $187,686 in 2006, which is especially significant given that the county's tax base was largely residential, with more than 84% of total TAV in 2007.

While historical growth rates have been solid, beginning in 2001, the county experienced tremendous growth in its taxable base, driven by residential and commercial investment both in shoreline communities and inland. From 2001–2007, EV grew an average 12.6% annually. Individual towns are responsible for property revaluations, and these have been occurring throughout the county in the past few years. The 23% growth in TAV from 2006–2007 included 2% growth from new construction and 98% from revaluation of existing property in 10 of the 23 towns. The strong construction market is further evidenced by the continued growth in housing prices, despite a slowdown in sales both in the county and nationally. The county reports that residential sales activity declined in 2006 by 17.7%, compared with the state's 16.4% decline and nation's 8.4% decline. Conversely, the average price of a single family home increased 2.4% from 2005–2006, and the median price for new single family homes increased 8%, to $810,000. The tax base had no concentration among its top 10 taxpayers, as they accounted for a minimal 1.6% of TAV.

Although the coastline is primarily built out, the western portion of the county is undergoing significant development. Construction activity (measured by the value of new building permits) as a percentage of EV has shown some signs of slowing from the boom years of the late 1990s. This is likely a factor of record high TAV growth, stemming from the turnover and revaluation of existing homes, outpacing the still active construction market. Building permit values represented 0.5% of EV in 2006, less than the 0.8% annual average from 2001–2005. While residential permits continue to drive the construction market, commercial development remains steady. Residential permits represented 62% of total permits issued in 2006, and commercial permit values increased 45% from 2005, primarily due to a $35 million expansion at the Jersey Shore Medical Center in Neptune. Despite some signs of diversification, the county will likely maintain its primarily residential tax base.

The county unemployment rate, reaching a recent high in 2003 of 5.4%, has remained comfortably below the state and national averages and as of June 2007 was 3.6%. Approximately two-thirds of the county's labor force works within the county, attesting to its substantial employment base. Others commute to jobs in surrounding counties, such as Middlesex and Ocean counties, as well as to New York City. Private employment numbers from 2005 show that educational and health services represented 14.2% of total employment and retail trade represented 13.4%. The finance, insurance, and real estate sector has shown the most growth over the past five years, increasing an average 7.0% annually. Growth in these sectors is largely attributable to an increase in real estate activity as employment in that sector grew 7.3% annually over the period, compared with a 1.7% average annual growth in finance and insurance.

Governmental sector employment was relatively high at 15% in 2005, due to jobs centered at Fort Monmouth, Earle Naval Weapons Station, and more than 40 local governments and school districts. This figure will gradually decline in future years, as Fort Monmouth, which currently employs 5,720 primarily civilian employees, is slated for closure in accordance with BRAC (scheduled for completion in 2011). The Fort Monmouth Economic Revitalization Commission, with local, state, and county representation, is exploring redevelopment options. Fitch believes that losses associated with BRAC should largely be offset by future labor force growth within the diverse economic base. Further, as many of those employed at Fort Monmouth are private contractors with other clients situated in the county, officials believe some will remain despite closure. Employment reported for 2006 at Earle Naval Weapons Station dropped to 1,100, from 1,500 in 2005, due to the departure of the USS Detroit and its Navy personnel.

The Meridian Health system, the county's largest employer, includes the Jersey Shore University Medical Center, Ocean Medical Center, Riverview Medical Center, and K. Hovnanian Children's Hospital. In 2006, Meridian's employee base increased to 8,171, from 7,500 in 2005. Other top employers included AT&T, the county, and Foodarama supermarkets (Shop Rite). Despite shifts among the top employers, county employment grew an average of 1.3% annually over the 1990–2000 census years, outpacing average population growth of 1.1% over the same period, which is further evidence of the broad employment base.