

Tax Supported
New Issue

Monmouth County, New Jersey

Ratings

New Issue

General Obligation Bonds,
Series 2003 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

*Issued by Monmouth County Improvement Authority.

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New Issue Details

Approximately \$57,295,000 General Obligation Bonds, Series 2003, are scheduled to sell competitively on or about May 22. The bonds consist of \$40 million general improvement bonds, series A, maturing serially March 1, 2004-2018 and \$17.3 million pension refunding bonds, series B, maturing serially July 15, 2004-2008.

Security: The bonds are secured by the county's full faith and credit pledge and are payable from ad valorem taxes without limitation as to rate or amount.

Purpose: Bond proceeds will be used to finance various capital improvements for general purposes, including roads and bridges, as well as for refunding the county's current pension liability related to early retirement incentives offered in 1991 and 2000.

Outlook

The 'AAA' rating reflects Monmouth County's solid financial management resulting in continued strong operations and financial flexibility, stable growth in its wealthy tax base, and low direct debt levels with rapid amortization. Despite the national economic downturn, Monmouth County continues to experience positive employment growth and low office vacancy rates. Fund balances continued to grow in fiscal 2002 due to the county's conservative budget practices, expenditure controls, and healthy flow of revenue driven by property taxes. The county's capital plan is affordable, and although primarily debt funded, debt levels should remain moderate given very rapid amortization rates. The Rating Outlook is Stable.

Rating Considerations

Monmouth County is located along the northern Atlantic shore of New Jersey, 50 miles outside New York City. The 2000 census revealed an 11.3% population increase over 1990, and the 2002 estimate of 629,836 exceeded state growth trends. At 1.3% annually, county employment has expanded faster than annual average increases in population over the last 10 years. Overall, employment, while still concentrated in health care and retail, is diversifying, with significant gains in the construction, trade, and finance sectors. The county's wealthy property tax base has expanded steadily and remains primarily residential at 80%. The assessable base has grown an average of 4.5% annually since 1998, while equalized market value continued its large average annual gains of 8.7%, peaking in 2003. Income levels remain strong, as indicated by the county's high market value per capita of \$106,880 in 2003, up 12% since 2001. The county's unemployment rate of 5.4% in February 2003 was below the state's 5.9%.

The county's financial position is excellent. The 2002 unaudited unreserved fund balance was \$68.3 million, or 16.9% of expenditures. Overall, fund balances over the past five years have increased 9.3% on an average annual basis, supported by conservative budgeting and expenditure controls. Additionally, the strong housing market continues to boost revenues in the current fund, greatly mitigating any budget constraints due to decreased investment income and rising insurance costs. Like all counties in New Jersey, Monmouth County is guaranteed 100% property tax remittance by the municipalities, and in 2002, property tax revenues represented 60% of the county budget. The county maintains further financial flexibility through continued pay-as-you-go capital contributions, which averaged a healthy 3.5% of spending over the past five years. Fiscal 2003 budget appropriations reflect a minimal 0.5% growth over actual expenditures in 2002, conservatively lower than the 2% growth of the prior year.

May 20, 2003

The county's direct debt burden is low and more moderate, on an overall basis, with debt per capita at \$2,897 and 2.7% of equalized value. Amortization rates are rapid, with 87% retired in 10 years, exceeding the county resolution floor of 70%. With this issue, the county issues pension refunding bonds to fund outstanding pension liabilities associated with early retirement incentives offered in 1991 and 2000. The pension bonds have a five-year term and the \$4 million estimated net present value savings is an exceptional 25% of the refunded liability.

■ 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 stable 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 \$586 per capita and 0.6% of equalized value. Overall debt is more moderate at \$2,897 per capita and 2.7% of equalized value. The county's principal payout is very rapid, with 54% retired in five years and 87% in 10 years. Monmouth County's 2003-2008 capital improvement plan (CIP), adopted by the freeholders board, totals \$249 million, 92% of which will be debt financed. Other funding sources for the CIP include self-supporting utility funds and the county's consistent pay-as-you-go contributions. The county's infrastructure needs focus on roads and bridges (34% of the CIP) and buildings and grounds (27%).

The county maintains prudent debt management policies, including keeping a maximum debt service 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 2002, the county was well within debt policy limits, with debt service at 10.6% of the budget, amortization of 87% of debt in 10 years, and direct debt at 0.6% of equalized value. Direct debt ratios should remain near current levels

Debt Statistics

(\$000)

This Issue	57,295
Net Outstanding Debt	311,961
Total Direct Debt	369,256
Overlapping Debt	1,455,239
Total Overall Debt	1,824,495

Debt Ratios

Direct Debt Per Capita (\$)*	586
As % of Equalized Value**	0.6
Overall Debt Per Capita (\$)*	2,897
As % of Equalized Value**	2.7

*Population: 629,836 (2002 estimate).

**Equalized value: \$67,317,053,000 (2003).

because of the rapid debt payout. The county's pay-as-you-go capital appropriations for 2002 were \$14.7 million, and the 2003 budget projects a similar amount, with contributions over the last five years averaging 3.5% of spending.

The 2003 debt issuance includes \$40 million in tax-exempt bonds for general county improvements and \$17.3 million in taxable pension refunding bonds. The pension bonds will amortize the county's total outstanding pension liability related to early retirement initiatives offered by the county in 1991 and 2000. The county will issue these bonds over a five-year term and reduce its interest cost from the 8.75% charged by the state to approximately 2.5%, saving an estimated \$4 million, which is a high net present value of 25% of the total outstanding liability. The county currently does not have any such pension bonds outstanding but will simply refund its outstanding liability as authorized by the state.

■ Finances

Financial planning, management, and budgeting continue to be strong. The county effectively manages its budget to meet increased expenditures due to population and economic growth. Since 1989, the county has recorded consecutive annual operating surpluses. The unaudited 2002 surplus of \$2.6 million helped increase the unreserved fund balance to \$68.3 million, or 16.9% of expenditures. The county's unreserved fund balance has grown an average of 9.3% annually since 1998 and has been consistently close to 17% of expenditures.

The adopted 2003 budget upholds the county's practice of containing expenditures and conservatively estimating revenues. The \$392.4 million budget reflects a moderate 4.3% growth rate over the 2002 budget and below the 7.0% for 2001-2002. The two largest expense categories — health and welfare and

Financial Summary — Current Fund

(\$000, Years Ended Dec. 31)

	1999	2000	2001	2002*	% of Revenues/ Expenditures 2002	2003**
Municipal Property Taxes	193,900	201,530	218,585	236,020	58.1	250,251
Miscellaneous Revenues Anticipated	121,475	128,571	144,425	138,853	34.2	104,240
Miscellaneous Revenues Not Anticipated/Other	13,368	15,430	14,957	19,744	4.9	0
Unexpended Balance of Appropriation Reserves	9,545	8,523	10,273	11,514	2.8	0
Total Revenues/Other Credits to Income	338,288	354,054	388,240	406,131	100.0	354,491
General Government	46,956	52,886	58,316	21,243	5.3	23,043
Land Use Administration	0	0	0	1,489	0.4	1,529
Code Enforcement and Administration	0	0	0	317	0.1	346
Insurance	0	0	0	31,467	7.8	36,970
Judiciary	557	601	626	0	0.0	0
Regulation	12,766	14,483	14,915	0	0.0	0
Public Safety	30,154	32,556	34,870	66,804	16.6	68,137
Roads and Bridges	25,891	28,540	31,885	26,667	6.6	29,117
Health and Welfare	72,720	73,811	78,738	80,388	19.9	85,537
Educational	31,851	32,144	32,257	32,611	8.1	34,372
Recreation	14,033	14,969	15,878	16,797	4.2	17,214
Other	23,419	25,515	40,848	47,805	11.8	27,481
Debt Service	36,705	38,573	38,786	39,800	9.9	41,654
Capital Improvements	11,854	13,051	11,563	14,723	3.6	14,565
Deferred Charges and Statutory Expenditures	10,946	11,081	10,278	10,189	2.5	12,475
Appropriation Reserves	9,825	11,454	12,046	13,191	3.3	0
Total Expenditures/Other Debits to Expenses	327,677	349,664	381,006	403,491	100.0	392,440
Operating Income/(Deficit)	10,611	4,390	7,234	2,640	N.A.	(37,950)†
Total Fund Balance	58,043	62,111	70,963	73,687	N.A.	N.A.
As % of Total Expenditures	17.7	17.8	18.6	18.3	N.A.	N.A.
Unreserved Fund Balance	54,117	58,281	65,605	68,280	N.A.	N.A.
As % of Total Expenditures	16.5	16.7	17.2	16.9	N.A.	N.A.
Unreserved/Undesignated Fund Balance	54,117	58,281	65,605	68,280	N.A.	N.A.
As % of Total Expenditures	16.5	16.7	17.2	16.9	N.A.	N.A.

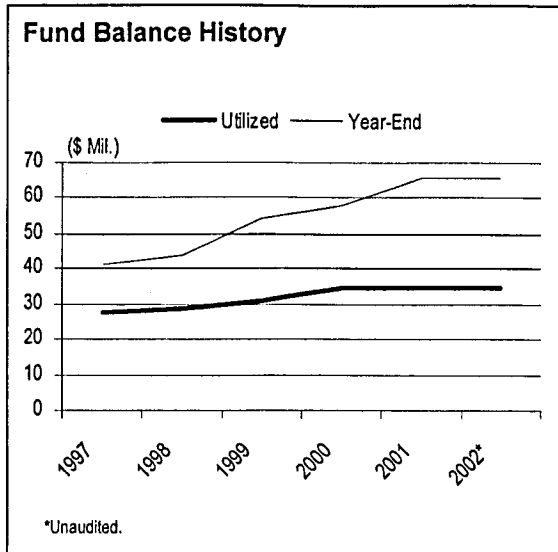
*Unaudited, some line items may not compare to prior years due to reclassification. **Budget. †The county budgets the use of fund balance every year. N.A. – Not available. Note: Numbers may not add due to rounding.

public safety — are driving overall budget growth. The county's mounting insurance costs are of continuing concern, rising 10.5% in 2002 and budgeted for 17.5% growth in 2003. The county is currently examining the insurance structure and overall county contributions and conservatively budgets all costs, demonstrated by actual growth in 2002 being below the budgeted increase of 13.5%. Compared with unaudited appropriations in 2002, 2003 budgeted expenditures represent a minimal increase of 0.5%.

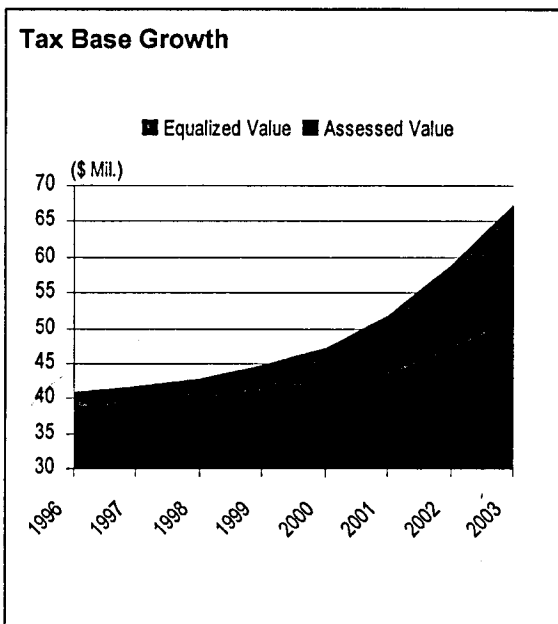
The largest expense category, health and human services (HHS), accounts for \$86 million, or 22%, of the 2003 budget. Historically, the county has paid approximately one-third of total health and welfare costs, with federal and state moneys funding the remainder. The county has taken measures — especially in the management of the health and welfare department and the abolition of the social services board — to successfully pare cost growth. The county

expects future federal and state welfare cuts to result in dollar-for-dollar decreases in program expenditures.

Property taxes constitute 59.8% of the county's annual current fund revenues (including post-adopted budget miscellaneous revenues and grants but excluding usage of fund balance moneys), with the remainder consisting of a combination of state and federal grants and miscellaneous sources, including local revenues. The \$250 million tax levy for 2003 represents a 6% increase from 2002, following 8% growth from 2001–2002, as the tax base expands at a strong pace. The county has continued to decrease tax rates, reaching \$3.71 per \$1,000 in 2003, down from the decade high of \$4.55 per \$1,000 in equalized value in 1995. Tax collections, guaranteed by the county's municipalities, are 100% of the annual levy, 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 that all waste not shipped out of state be sent to the county landfill. Additionally, the county raised rates by \$4 per ton last year and this year (reaching \$57 in fiscal 2004) to cover debt service on the 2002 utility bonds and decrease the fund's operating deficit. System fund balances remained stable in 2002, following the



significant 25% drop in 2001, and financial flexibility has been maintained over the short term, as the reclamation center utility fund balance in 2002 totaled \$21.4 million, representing more than 70% of system expenditures. The county has additional flexibility in its rate-raising ability, with the tipping fee charge authorized up to \$69 per ton; however, fund balance drawdowns are only a temporary solution while the county considers a long-term plan.

■ Economy

Located in central New Jersey, Monmouth 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 2000 population represented 11.3% growth over the 1990 census, surpassing the strong growth of the 1980s (9.9%) and making it one of the fastest growing counties in the state. Estimates for 2002 showed ongoing growth, as the 2002 population of 629,836 was 13.9% higher than the 2000 census figures.

Income levels remain above average, with the county's 2001 per capita personal income of \$42,028 equaling 109% and 138% of state and national averages, respectively. County income levels have grown relative to those of the state and nation since 1995 when per capita personal income was 103% and 128%, respectively. The county's 2001 median household effective buying income of \$54,723 was 114% and 143% of state and national figures, respectively. Additionally, market value per capita is high at \$106,880, which is especially significant given the large residential tax base of the county, totaling 80% of assessed valuation (AV) over the last five years.

Consistent with the county's population growth and development, its tax base grew rapidly at a high 15% average annual rate during the 1980s. From 1990-2000, net AV grew 2.9% annually to \$43.5 billion. The market value of property fell 3.2% in 1992 and 2.9% in 1993 due to the recession but grew 27% from 1995-2000. Both 2001 and 2002 represented significant growth, with equalized value increasing 9.8% and 13.4%, respectively. The tax base has no concentration among its top 10 taxpayers, as they account for a minimal 2.1% of taxable AV.

The county maintains strong growth, and although the coastline is primarily built out, the western

portion of the county is showing significant development. Construction as a percentage of equalized value has shown slight signs of slowing from the boom years of the late 1990s, with 2002 building permit values totaling 0.8% of equalized value, just slightly less than the 1% average of the past few years. While commercial development continues, residential permits are driving the construction market, representing 58% of total permitted values in 2002, down from 64% of total permits values from 1997–2001, compared to the commercial/industrial average of 22% over the same period. However, minor diversification is evident in the proportional growth of commercial permit values over the same period, up from 17% in 1997 to 28% in 2002. Additionally, the county vacancy rate for class A office space is still strong at 4%, although higher than last year's record low 1.2%. However, according to county reports, it is well below the 12% average for the 12 northern New Jersey counties.

The county unemployment rate, while generally below state and national averages, rose in 2002 to the state level of 5.8% but remained below the national average of 6.3%. Despite rising unemployment levels, employment grew a healthy 3.3%; nevertheless, this was not strong enough to outpace the high civilian labor force growth rate of 5.1%. Approximately two-thirds of Monmouth 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 show that the county has a relatively high number of jobs in services (36%) and trade (23%) compared with those of the state and nation.

While relatively high trade and service employment is consistent with a growing population of above-

average age, the county's population is younger than that of the state. From 1990–1996, Monmouth County experienced a 6.7% rise in the population under age 65, compared with 2.7% in New Jersey overall. Government sector employment is relatively high due to jobs provided by Fort Monmouth and the Earle Naval Weapons Station, more than 40 local governments, and many school districts. Fort Monmouth, which continues to recover from operations consolidations due to nationwide base closings, is now the county's largest employer. Both bases have seen increased activity over the past year and remain active employers and economic drivers in the county.

Meridian Health System, the second largest county employer, includes the Jersey Shore and Riverview Medical Centers. In 2001, Meridian's employee base grew by 1% to 4,082. Other top employers include AT&T and Lucent Technologies, which have research labs in the county. While these sites have not been as hard hit as others across the nation, total employment between the two telecommunication companies was down from 9,100 in 2000 to 6,130 in 2002. However, despite shifts among the top employers, county employment grew an average of 1.3% annually over the 1990–2000 decennial census years, outpacing average population growth of 1.1% over the same period, which is further evidence of the broad employment base. Additionally, despite downsizing at the major telecommunications firms, many small and medium-sized companies, including computer, engineering, and spinoff companies spurred by AT&T and Lucent, have provided additional jobs. Future growth will most likely center on services, particularly health care and retail. Tourism also remains an important part of the county's shore economy.

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