

Tax Supported  
New Issue

**Monmouth County, New Jersey**

**Ratings**

**New Issue**

General Obligation Bonds,  
Series 2006 ..... 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 \$40,000,000 General Obligation Bonds, Series 2006, are scheduled to sell competitively on May 23. The bonds will be issued serially, maturing Jan. 15, 2007–2021.

**Security:** The bonds are 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 in 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. Fund balances continued to grow in 2005 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 census revealed an 11.3% population increase over that of 1990, and the 2005 estimate of 635,952 is on par with state growth trends. Wealth levels remain strong as demonstrated in the county’s high market value per capita of \$164,703 in 2005, up 19% since 2004. While still concentrated in health care and retail, employment is diversifying with significant gains in the construction and finance sectors. The county’s unemployment rate of 4.2% in March 2006 remains below the state and national averages, both at 4.8%. Of recent note is the recommended closure of Fort Monmouth by the Federal Base Realignment and Closure Commission (BRAC). The Fort Monmouth Economic Revitalization Commission, with local, state, and county representation, is being developed to explore the redevelopment potential of the land. Fitch Ratings believes the county’s ability to withstand the base closure is strong as the economy is deeply diversified providing opportunities for the highly skilled displaced employees. Further, the 5,500 civilian and military employees at the base represent a relatively small portion of the county’s overall labor force, which totaled 332,410 in March 2006.

The county’s financial position is strong. The 2005 unaudited unreserved fund balance was \$85.2 million, or 18.6% of expenditures. Overall, fund balances over the past five years increased 6.8% on an average annual basis, supported by conservative budgeting and effective expenditure controls. The strong housing market has augmented revenues in the current fund, somewhat offsetting budget stress related to rising insurance and pension costs. The 2006 budget is performing as predicted, and fund balance levels are expected to be close to the 2005 level. The county’s wealthy property tax base has expanded steadily and remains primarily residential at 82%. The equalized value (EV) of property grew a strong 12.3% annually on average between 2002 and 2006.

**May 22, 2006**

The county's direct debt burden is low at \$530 per capita and 0.32% of EV. Debt levels are more moderate on an overall basis, with debt per capita at \$2,865 and 1.74% 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 88% retired in 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 \$530 per capita and 0.32% of EV. Overall debt, including school and municipality debt but excluding local utility debt, which tends to be self-supporting, is more moderate at \$2,865 per capita and 1.74% of EV. The county's principal payout of non-utility debt is very rapid, with 56% retired in five years and 88% in 10 years.

Included among the county's outstanding debt are taxable pension refunding bonds issued in 2003 in the amount of \$17.3 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.

Monmouth County's 2005–2010 capital improvement plan (CIP), adopted by the freeholders' board in May 2005, totals \$363.29 million, representing a 2% increase over the prior year's plan, which incorporated conservative cost increases

**Debt Statistics**

(\$000)

This Issue	40,000
Direct Debt	337,282
Overlapping Debt	1,485,522
Total Overall Debt	1,862,804

**Debt Ratios**

Direct Debt Per Capita (\$)*	530
As % of Equalized Value**	0.32
Overall Debt Per Capita (\$)*	2,866
As % of Equalized Value**	1.74

\*Population: 635,952 (2005).

\*\*Equalized value: \$104,800,000,000 (2006 estimate)

associated with escalating construction material prices. The county is presently conducting a facilities master plan that will frame the next CIP, expected to be adopted in summer 2006. Management expects some shifting of projects but no significant change in the total cost or funding sources.

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 2005, the county was well within all debt policy limits, and debt service represented 10.5% of expenditures. Direct debt ratios should remain near current levels, primarily due to the rapid debt payout and strong tax base growth. While the county's pay-as-you-go capital appropriations have typically exceeded 3% of spending, 2004 pay-as-you-go levels dropped to \$11.5 million, or 2.8% of spending. Pay-as-you-go spending in both 2005 and 2006 represents 3% of budgeted expenditures.

■ **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, the county has recorded consecutive annual operating surpluses. The unaudited 2005 surplus of \$13 million helped increase the unreserved fund balance to \$85.2 million, representing 18.6% of spending. The county's unreserved fund balance grew an average of 6.8% annually over the past five years and averaged 17.9% of spending.

The adopted 2006 budget maintains the county's practice of controlling expenditures while conservatively estimating revenues and is performing as

**Financial Summary**

(\$000, Audited Years Ended Dec. 31)

	2000	2001	2002*	2003	2004	2005**	2006†
<b>Revenues</b>							
Municipal Property Taxes	201,530	218,585	236,020	250,251	260,752	269,650	278,540
Miscellaneous Revenues Anticipated	128,571	144,425	138,853	135,251	145,701	162,264	130,492
Miscellaneous Revenues Not Anticipated and Other	14,931	14,957	19,744	19,047	19,730	19,473	—
Unexpended Balance of Appropriation Reserves	9,022	10,273	11,549	11,748	11,384	12,041	—
Total Revenues/Other Credits to Income	354,054	388,240	406,166	416,297	437,567	463,428	409,032
<b>Expenditures</b>							
General Government	52,886	58,316	21,243	22,481	23,278	25,517	26,475
Land Use Administration	—	—	1,489	1,469	1,518	1,566	1,678
Code Enforcement and Administration	—	—	317	347	368	378	394
Insurance	—	—	31,467	34,627	37,072	41,459	49,985
Judiciary	601	626	—	—	—	—	—
Regulation	14,483	14,915	—	—	—	—	—
Public Safety (Corrections and Penal)	32,556	34,870	66,804	72,729	77,379	82,335	83,052
Roads and Bridges (aka Public Works and Engineer)	28,540	31,885	26,667	28,613	29,180	28,897	30,701
Health and Welfare	73,811	78,738	80,388	80,941	84,641	88,215	97,226
Educational	32,144	32,257	32,611	34,062	38,042	39,102	41,275
Recreation	14,969	15,878	16,797	17,259	18,167	19,075	18,500
Other‡	25,515	40,848	47,682	38,359	38,230	40,594	29,708
Debt Service	38,573	38,786	39,800	41,620	45,056	45,882	46,397
Capital Improvements	13,051	11,563	14,723	13,185	11,479	13,022	12,866
Deferred Charges and Statutory Expenditures	11,081	10,278	10,189	10,931	15,132	12,299	18,775
Appropriation Reserves	11,454	12,046	13,191	12,094	14,874	18,698	—
Total Expenditures/Other Debits to Expenses	349,664	381,006	403,368	408,717	434,416	457,039	457,032
Operating Income/(Deficit)	4,390	7,234	2,798	7,580	3,151	6,389	(48,000)‡
Total Fund Balance	62,111	70,963	73,716	82,332	93,073	98,782	N.A.
As % of Expenditures, Transfers Out, and Other Uses	17.8	18.6	18.3	20.1	21.4	21.6	N.A.
Unreserved Fund Balance	58,281	65,605	68,280	75,662	78,692	85,202	N.A.
As % of Expenditures, Transfers Out, and Other Uses	16.7	17.2	16.9	18.5	18.1	18.6	N.A.

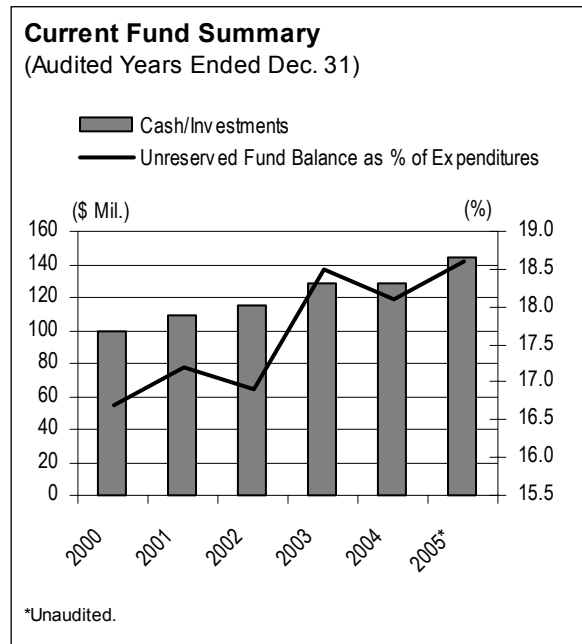
\*Some line items may not compare to prior years due to reclassification. \*\*Unaudited. †Budget. ‡Unclassified, public/private offset by revenue, and contingent. Note: The county budgets the use of fund balance every year. N.A. – Not available.

expected. The \$457 million budget grew by a manageable 4.9% over the 2005 budget, representing a 4.3% increase over unaudited results for the same year. Budget growth of this magnitude is manageable given the county's robust growth in assessed value (AV).

The two largest expense categories remain health and welfare and public safety, although escalating insurance and pension costs continue to constitute a larger share of the budget. Insurance expenses were budgeted to rise 11.8% in 2005, though actual expenditures were \$3.9 million under budget. The county prudently included a high 20.5% growth in the 2006 budget. The largest expense category, health and welfare, accounts for 21.2% of the 2006 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 cost growth.

The county's revenue composition is dominated 61% by property taxes with state and federal grants, local revenues, and miscellaneous sources generating the remainder. The \$278.5 million tax levy for 2006 represents a manageable 3.3% increase over 2005. With total growth of 4.9% in 2006, the budget includes a fund balance appropriation of \$48 million. While use of fund balance to support operations is generally considered a credit weakness, the county has a long history of conservative budgeting. Appropriated fund balance in prior years has not been needed, as demonstrated by a long history of surplus operations.

The 2005 AV growth of 14.8% follows growth of 11.6% in 2004. The county has lowered the tax rate in response to the strong growth, but 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 the significant 25% 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. Fund balance grew in 2005 to \$34.1 million, representing more than 97% of 2005 expenditures. The county raised rates in 2005 to \$60.50 and will raise rates again in 2006 to \$64.50. Additional flexibility up to the \$69 per ton level remains, though outside approval is required above that rate.

■ **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 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 2005 showed additional growth to 635,952, or 3.36% above 2000 census figures.

Income levels remain above average and are growing relative to the state and nation. The county's 2004 per capita personal income of \$45,784 totaled 110% and 139% of state and national averages, respectively, slightly ahead of figures recorded in 1998 of 107% and 132%, respectively. The county's 2004 median household effective buying income of \$55,679 was 15% and 42% above state and national figures, respectively. Additionally, market value per capita is high and growing rapidly with an active real estate market. Market value per capita registered \$164,792 in 2006, which is especially significant given the county's tax base is largely residential, more than 82% of total AV in 2005.

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 2001–2005, EV grew an average 11.7% per year. The strong construction market is further evidenced by the tremendous growth in housing prices. In 2005, the median price of a new single-family home in the county grew 7% to \$752,500. This increase follows the dramatic 25% growth experienced between 2003 and 2004 to \$702,000. The survey of homes conducted excluded custom built homes, which would drive the median price even higher. The tax base has no concentration among its top 10 taxpayers, as they account for a minimal 1.8% of taxable AV.

Although the coastline is primarily built out, the western portion of the county is showing significant development. Construction activity (measured by the value of new building permits) as a percentage of EV has shown slight signs of slowing from the boom years of the late 1990s, likely a factor of record high AV growth stemming from the turnover of existing homes outpacing the still active construction market. Building permit values represented 0.6% of EV in 2005, just slightly less than the 0.9% average of the past few years. While residential permits continue to drive the construction market, commercial development remains steady. Residential permits represented 66% of the total in 2004 and grew to 72% in 2005. Despite some signs of diversification, the county will likely maintain the 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 March 2006 was 4.2%. 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 show that the county has a relatively high number of jobs in educational and health services (14.3%) and retail trade (13.4%) compared with those of the state and nation.

Governmental sector employment is relatively high at 13% in 2004 due to jobs centered at Fort Monmouth, Earle Naval Weapons Station, and more than 40 local governments and school districts. This figure will gradually begin to decline in future years as Fort Monmouth, which currently employs 5,500 civilian and military employees, is slated for closure in accordance with BRAC (scheduled for completion in 2011). The county is slated to receive a federal grant for a study of redevelopment options, and a request for proposals will be released later this year to solicit ideas from the planning community. Additionally, the Fort Monmouth Economic Revitalization Commission, with local, state and county representation, is being developed to explore the redevelopment potential of the land. 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.

Meridian Health System, the county's largest employer, comprises the Jersey Shore and Riverview Medical Centers. In 2005, Meridian's employee base was 7,500. Other top employers include AT&T, the county, and Foodarama (Shop Rite) supermarkets. 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.

The telecommunications sector within the county continues to evolve. AT&T is reportedly experiencing growth in county employment in its research operations related to the SBC acquisition. Lucent Technologies, which has historically been among the county's top employers, will move 1,331 jobs from Holmdel Township to Morris County through July 2007. This loss is partly offset by Vonage, Inc., which recently opened a 300,000-square-foot facility in Holmdel and is expected to employ 1,400 people by the end of this year.

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