

Tax Supported  
New Issue

**Monmouth County, New Jersey**

**Ratings**

<b>New Issue</b>	
General Obligation Bonds, Series 2008	AAA
<b>Outstanding Debt</b>	
County General Obligation Bonds County Improvement Authority Bonds	AAA AAA

**Rating Outlook**

Stable

**Analysts**

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**New Issue Details**

**Sale Information:** \$30,000,000 General Obligation Bonds, Series 2008, to be sold via competitive bid on Sept. 9.  
**Security:** General obligation of Monmouth County and payable from ad valorem taxes, without limitation as to rate or amount.  
**Purpose:** To fund capital improvement projects in the county.  
**Final Maturity:** Serially Sept. 1, 2009–2023.

**Related Research**

- *State of New Jersey, April 8, 2008*
- *Monmouth County, New Jersey, Sept. 11, 2007*

**Rating Rationale**

- Monmouth County continues to benefit from strong financial management, flexibility, and operations.
- Debt levels are low to moderate, with rapid amortization.
- The county has above-average wealth, a growing tax base, and a guaranty of 100% of tax collections by the underlying municipalities.
- The county has experienced solid long-term population growth and a diversifying economic base.

**Key Rating Drivers**

- Credit concerns are minimal.

**Credit Summary**

The 'AAA' rating reflects Monmouth County's solid financial management, resulting in continued strong operations and financial flexibility, stable growth in its high-income tax base, and low direct debt levels with rapid amortization. The county benefited from positive employment growth, and current unemployment levels remain below both the state and national averages. Fund balances continued to grow in 2007 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 improvement plan (CIP) 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.

The county is located along the northern Atlantic Ocean shore of the state of New Jersey, 50 miles outside New York City. The 2000 census revealed an 11.3% population increase over that of 1990, and the county population estimate as of January 2008 of 659,353 is on par with historical growth trends. Wealth levels remain strong as demonstrated in the county's high market value per capita of \$200,554 in 2008 and high household income levels. While the health care and retail sectors dominate private employment, strong gains in the real estate, wholesale, and leisure and hospitality sectors are evident. The county's unemployment rate of 4.6% in June 2008, although up from 3.7% in June 2007, remained below the respective state and national averages of 5.3% for the same period. The composition of the county's largest employers will change over the next few years with the planned closure of Fort Monmouth. The Fort Monmouth Economic Revitalization Commission, with local, state, and county representation, is exploring redevelopment options; Fitch Ratings believes Monmouth County's ability to withstand the base closure is strong, as the county's economy is deeply diversified, providing opportunities for highly skilled displaced employees. In addition, demand for land in the area of Fort Monmouth is high. The remaining 4,800 primarily civilian employees at the base represent a relatively small portion of the county's overall labor force, which totaled 330,899 in December 2007.

The county's financial position is strong, with 2007 results showing an unreserved fund balance of \$87.3 million, or 17.8% of expenditures, transfers out, and other uses. While the county realized a small surplus of \$1.4 million with the unreserved fund balance still strong, the unreserved fund balance dropped as a percentage of spending from 18.2% in 2006. The

**Rating History**

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	9/3/08
AAA	Affirmed	Stable	2/19/08
AAA	Affirmed	Stable	9/5/07
AAA	Affirmed	Stable	6/8/05
AAA	Affirmed	—	5/15/03
AAA	Upgraded	—	8/5/97
AA+	Assigned	—	7/6/93

county consistently practices conservative budgeting and effective expenditure controls. Its wealthy property tax base has expanded steadily and remains primarily residential at 82%. With the revaluation of existing property and new construction, property values grew by double-digit rates through 2007. For 2008, estimates show a slowing to an annual growth rate of 6.7%.

The county's direct debt burden is low at \$597 per capita and 0.30% of market value. Debt levels are more moderate on an overall basis, with debt at \$3,158 per capita and 1.57% of market value. 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 91% to be retired within 10 years.

**Debt**

**Overview**

The county continues to issue debt to finance infrastructure improvements to support its growing population. The current issuance will finance improvements to its roads, bridges, and vocational school, as well as pay costs associated with certain easements throughout the county. However, county debt levels remain low to moderate. Net direct debt is low at \$597 per capita and 0.30% of market value. Overall debt, including school and municipal debt but excluding local self-supported utility debt, is more moderate at \$3,153 per capita, or 1.57% of market value. The county's principal payout of non-utility debt is very rapid, with 61% retiring within five years and 91% within 10 years.

**Debt Statistics**

(\$000)

This Issue	30,000
Outstanding Debt	349,048
Direct Debt	379,048
Overlapping Debt	1,627,417
Total Overall Debt	2,006,465

**Debt Ratios**

Direct Debt per Capita (\$) <sup>a</sup>	597
As % of Market Value <sup>b</sup>	0.3
Overall Debt per Capita (\$) <sup>a</sup>	3,158
As % of Market Value <sup>b</sup>	1.6

<sup>a</sup>Population: 635,285 (2007 estimate).

<sup>b</sup>Market value: \$127,408,793,000 (2008). Note: Numbers may not add due to rounding.

The county maintains prudent debt management policies, including a maximum debt service burden of 12% of current fund revenues, debt amortization of at least 70% within 10 years, and direct debt as a percentage of market value below 0.75%. In 2007, the county was well within all debt policy limits, and debt service represented just 10% of expenditures. Direct debt ratios should remain near current levels, primarily due to rapid debt payout and strong tax base growth.

**Capital Improvement Plan**

The county created a facilities master plan in 2006 to address future needs for its court rooms, prosecutor's office, and sheriff's office. The 2008–2012 CIP totals \$486.4 million, representing a significant increase over prior plans. Spending in the plan focuses on open space land acquisition, road improvements, and land acquisitions to consolidate certain county offices. Funding for the plan comes predominantly from bond funds (87%), with the remainder generated through pay-as-you-go resources and state grants.

**Pension and Other Post-Employment Benefits**

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 this 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 2008 represented 80% of the actual cost for public employees and 100% for police and fire employees. By 2009, the county will contribute 100% of the costs for each plan.

As New Jersey local governments prepare audits in accordance with statutory accounting, monitored by 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 2007, NJDLGS announced that local governments must comply with GASB statement No. 45 on the disclosure of other post-employment benefits. Monmouth County is awaiting further guidance from NJDLGS but will disclose its liability in its 2008 audit. The county is not a member of the state health care plan. As per the actuarial report completed, its unfunded liability is \$403.5 million and annual required contribution, approximately \$22 million. Its annual pay-as-you-go cost for retiree health benefits was \$6.86 million in 2007 and \$8.7 million in 2008. The county considers itself in a good position, as meaningful reductions in benefits were implemented for employees hired after 1994. Approximately two-thirds of the county's current employees were 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. Audited 2007 results show a surplus of \$1.429 million resulting in an unreserved fund balance of \$87.3 million, representing 17.8% of spending. For 2006, the county reported a small surplus of \$668,000, keeping the unreserved fund balance steady at \$85.9 million, or 18.2% of spending.

The 2008 budget continues the county's practice of expenditure controls, and, while revenue forecasting remains conservative, the county expects a small drawdown of the fund balance in 2008, reducing the balance 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 county reports that revenues derived from fee income from real estate transactions in 2008 will be down approximately \$3 million from budget.

**General Fund Financial Summary**

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

	2002	2003	2004	2005	2006	2007
Revenues	394,617	404,549	426,183	451,386	458,457	478,628
Expenditures	390,177	396,623	419,542	438,339	453,427	473,283
Net Change	4,440	7,926	6,642	13,047	5,030	5,345
Net Transfers and Other Sources/ (Uses)	(1,642)	(346)	(3,490)	(6,357)	(4,361)	(3,915)
Net Income	2,798	7,580	3,152	6,690	669	1,430
Total Fund Balance	73,716	82,332	93,074	97,488	95,394	97,323
As % of Expenditures, Transfers Out, and Other Uses	18.3	20.1	21.4	21.3	20.2	19.8
Unreserved Fund Balance	68,280	75,662	78,692	85,202	85,873	87,303
As % of Expenditures, Transfers Out, and Other Uses	16.9	18.5	18.1	18.6	18.2	17.8

Note: Numbers may not add due to rounding.

All counties in New Jersey 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 general obligation bonds and existing lease debt remains excluded from the cap, new lease debt authorized after July 1, 2007 is included in the cap calculation, potentially creating some expenditure pressures over time. The county currently guarantees the lease debt of 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 Monmouth County does not budget the MCIA lease payments it guarantees, any payment under the guarantee may be included in the cap. 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 2005–2007 as the county moved closer to 100% funding of contributions to the state pension system. Pension costs increased another 82% in 2007 and will increase an additional 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 21.5% of the 2008 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 abolition of the social services board, to successfully pare down cost growth. Overall expenditures for 2008 increased a manageable 6.6% over the 2007 budget.

The county's revenue composition in 2007 was dominated by property taxes at 61%, with state and federal grants, local revenues, and miscellaneous sources generating the remainder. The \$294.6 million tax levy for 2007 represented a manageable 2.8% increase over the 2006 level and the lowest increase in the past six years. The 2008 budget once again includes 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 or used minimally, as demonstrated by a long history of solid financial operations.

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 when needed to reduce the fund's structural deficit. Following a significant 25% drop in the solid waste fund balance 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; it maintains additional flexibility up to the \$69 per ton level but must seek outside approval for further rate increases. There has been no tipping fee increase in the current year.

### **Economy**

Located in central New Jersey, the county covers 41 square miles and has a 27-mile Atlantic Ocean coastline. Monmouth County is home to 27 miles of oceanfront beaches, 26 miles of bay shoreline, and numerous miles of lake and river fronts. As a result, the county offers year-round sport and commercial fishing and benefits from exceptional seasonal tourism opportunities. Population growth has been rapid because of the county's proximity to the greater New York/Northern New Jersey metropolitan area, land availability, and access to the state's 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% as one of the fastest growing counties in the state. The county population estimate for 2007 is 635,285 residents, many of whom commute to New York City for employment.

The county's income levels remain above average and continue to grow. Per capita personal income in 2005 was \$48,506, or 111% and 147% of state and national averages, respectively. 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 is high at \$200,554 for 2008, and the measure grew rapidly with the active real estate market of the past several years.

With its solid historical growth rates since 2001, the county has experienced tremendous growth in its taxable base, driven by residential and commercial investments in both shoreline and inland communities. From 2001–2007, market value grew an average 12.6% annually. Individual towns are responsible for property revaluations, which occurred throughout the county in the past few years. The 23% growth in taxable assessed valuation (TAV) from 2006–2007 included growth from new construction (2%) and revaluation of existing property in 10 of the 23 towns (98%). In 2008, the county experienced TAV growth of 4.9%. The county lowered the tax rate in response to the strong growth, but it continued to benefit financially with consistent increases in the tax levy. The tax base has no concentration among the top 10 taxpayers, as they accounted for a minimal 1.6% of TAV.

With the current economic and real estate slowdown occurring across the nation and state, in 2007, the county experienced a decline of 7.6% to \$750,000 from \$810,000 in the median price of new single-family homes. The county reports that median prices of new and existing homes were down 4.3% in first-quarter 2008 from the same quarter in 2007. While residential permits declined slightly by 2.52% from January to May 2008, compared with the same period in 2007, commercial development remains strong. The county reports that for second-quarter 2008, nonresidential building permits in the amount of \$54.25 million was issued versus \$37.255 million for the same quarter in 2007. Despite some signs of diversification with the added commercial/retail development in the county, Monmouth County will likely maintain its primarily residential tax base.

The county unemployment rate, after reaching a high of 5.4% in 2003, has remained comfortably below the state and national averages. As of June 2008, unemployment was 4.6%, up from the June 2007 level of 3.7%, but still below the respective state and national rates of 5.3%. 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, and New York City. Private employment numbers from 2006 show that educational and health services represented 14.3% of total employment and retail trade, 13%. A new retail mall, with 120 outlets, is planned to open in November of this year in Tinton Falls. The finance, insurance, and real

estate sector showed the most growth over the past five years, increasing to 12% of total employment in 2006. The county reports that its office vacancy rate rose to 13% in 2007 from 9.3% in 2006, with its Class A vacancy rate at 14.5%. While increasing, the county's rate was one of the lowest within the 11-county region.

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. In 2006, this measure declined to 12.4%; it will continue to fall over the next several years, as Fort Monmouth, which currently employs 4,800 primarily civilian employees, is slated for closure in accordance with the federal base realignment and closure (BRAC) process (scheduled for completion in 2011). The Fort Monmouth Economic Revitalization Commission, with local, state, and county representation, is exploring redevelopment options and has focused on four areas. Fitch believes that losses associated with BRAC should largely be offset by future labor force growth within the diverse economic base. Furthermore, as many of those employed at Fort Monmouth are private contractors with other clients situated in the county, officials believe some will remain despite the closure. Employment in 2007 at Earle Naval Weapons Station is reported at 1,000, down from higher levels in the past due to the departure of the USS Detroit and its Navy personnel. Employment at the station is not expected to decline further as it was not impacted by BRAC.

The county is home to five major health care providers, including the Jersey Shore Medical Center, Riverview Medical Center, Monmouth Medical Center, Centra State Healthcare System, and Bayshore Community Hospital, which employ in total almost 10,000 individuals. In October 2007, Centra State opened a \$48 million, 171,000-square-foot ambulatory care campus. In addition, Jersey Shore Medical Center is completing a \$300 million expansion, to be completed in mid 2009, that will provide an additional emergency room, a new trauma center, an additional 100 beds, and a 975-car parking facility. Other top employers include AT&T Labs, a segment of AT&T Corp. that maintains a large network services' research and lab facility in Middletown; Vonage, which plans to expand its current product line; the county; and Foodarama Supermarkets (Shop Rite). Brookdale Community College recently completed its higher education center in conjunction with New Jersey Coastal Community University, which allows students to attain a four-year degree from six institutions partnered with the college.

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