

**Mark Acker**

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**From:** GID - Moody's Investors Service [epi@moody.com]  
**Sent:** Monday, September 08, 2008 1:19 PM  
**To:** macker@co.monmouth.nj.us  
**Subject:** Monmouth (County of) NJ

MOODY'S ASSIGNS Aaa RATING TO MONMOUTH COUNTY'S (NJ) \$30 MILLION G.O. BONDS, SERIES 2008; OUTLOOK IS STABLE

TOTAL OF \$456 MILLION COUNTY AND COUNTY-GUARANTEED PARITY BONDS OUTSTANDING, INCLUDING CURRENT ISSUE

Monmouth (County of) NJ  
County  
New Jersey

Moody's Rating

Issue	Rating
General Obligation Bonds, Series 2008	Aaa
Sale Amount	\$30,000,000
Expected Sale Date	09/09/08
Rating Description	General Obligation Unlimited Tax

NEW YORK, September 8, 2008 -- Moody's Investors Service has assigned a Aaa rating with a stable outlook to Monmouth County's (NJ) \$30 million General Obligation Bonds, Series 2008. These bonds are secured by the county's general obligation, unlimited tax pledge. Proceeds will be used to finance various capital improvements. At this time, Moody's has also affirmed the Aaa rating on approximately \$426 million of previously issued and outstanding county and county-guaranteed debt. The Aaa rating reflects the county's sound financial operations and healthy reserves, substantial tax base with continued healthy growth, and modest debt position. The stable outlook reflects our expectation that the county's substantial tax base will continue to experience healthy growth and wealth levels will be above state and national norms, the financial position will continue to reflect healthy reserves despite projected declines in the near-term, and that the debt burden will remain nominal.

**STRONG FINANCIAL OPERATIONS RESULTING IN CONSISTENTLY SOUND RESERVE LEVELS**

Moody's expects the county's financial position will remain healthy given a history of well-managed operations that has resulted in multiple years of stable reserves. Despite budgeting for use of more than 50% of its reserves in each fiscal year, the county has consistently maintained or increased fund balances with annual operating surpluses for well over a decade. The fiscal 2007 budget incorporated a slight (\$500,000) increase of appropriated surplus to \$48.5 million and a 2.9% property tax levy increase. As such, the county's budget was minimally impacted by the recently enacted New Jersey property tax reform legislation that limits the county's levy increase to four percent annually. Actual fiscal 2007 operations (ended December 31) resulted in a \$1.43 million increase to Current Fund balance to \$87.3 million, or a healthy 17.7% of Current Fund revenues. Major sources of replenishment of the \$48.5 million of appropriated fund balance include \$21.6 million of nonbudgeted revenue, of which \$5.4 million related to a one-time settlement payment from the state for housing inmates, \$14.2 million of lapsed appropriation reserves, and \$6 million from investment income. Notably, revenues derived from county clerk fees, which have generally exceeded budget, came in \$1.5 million less than budget, reflective of the decline in real estate housing market in the county.

The fiscal budget 2008 included the same level of appropriated surplus as in fiscal 2007 and reflected no increase to the tax levy (compared to the state-mandated 4% cap on the property tax levy barring some specific exceptions), although the county budgeted revenues more aggressively than in prior years. Management projects that year-end Current Fund

balance will decline by about \$6 million, or about double estimated provided at the beginning of the calendar year. The projected decline reflects county clerk fees that, again, are expected to come in less than budget (estimated \$3 million less than \$12 million budgeted and compared to \$12.5 million actually realized in 2007), as well as interest on investment income that is expected to be \$9 million less than budget despite conservatively budgeting \$5 million less in fiscal 2008 (\$11.5 million) than was actually realized in fiscal 2007 (\$16.5 million). The county also budgeted to use \$3.7 million from its Pension Reserve to mitigate pension contribution costs in fiscal 2008; the county plans to budget the \$3.7 million balance in the Pension Reserve in the fiscal 2009 budget. However, a \$6 million decline of Current Fund balance to \$81 million would have a minimal impact on the county's financial position and result in a still-healthy 17% of 2008 Current Fund appropriations. Sustained growth of taxable values has enabled the county to modestly reduce tax rates while maintaining a growing tax levy, including 3.3% and 2.9% increases in fiscal years 2006 and 2007, respectively. However, new construction has slowed recently relatively to prior years, reflected by 2008 added and omitted tax revenues that are approximately \$800,000 less than the \$3.3 million that was realized for fiscal 2007; the county does not budget to receive these revenues and are recognized as nonbudgeted revenues. For counties, these added and omitted tax revenues are derived from new construction that takes place over the course of the prior fiscal year. Property taxes comprised 58% of the county's revenues in fiscal 2007. Since underlying localities are obligated to collect and remit in full county property taxes, the county is ensured a high level of predictability for its largest revenue source.

#### SUBSTANTIAL TAX BASE EXPERIENCING HEALTHY GROWTH

Moody's believes the county's substantial \$127.4 billion tax base will continue to experience satisfactory growth driven by market appreciation that is experiencing a slowdown in the residential construction balanced by relatively healthy commercial growth. The county experienced a relatively small 3.6% decline in fiscal 2007 in filed building permits for new housing starts compared to the previous year, well below more significant declines in neighboring Middlesex, Ocean and Burlington Counties (rated Aa1/stable outlook, Aa1/stable outlook, and Aa3, respectively). Equalized valuation, which captures new construction and market value appreciation and upon which county taxes are calculated, has grown by a healthy 13.6% annually since 2003, well above the state median of 12.3%, although the increase in fiscal 2008 declined by one-half to 6.7%. Income levels are above-average compared to the state median, but are approximately fifty percent higher than national medians. Equalized value per capita, which approximates wealth levels, is strong at \$200,554 in 2008, well above state and national medians.

Moody's anticipates that the county will continue to benefit from low unemployment rates that are consistently below the state and national medians due to jobs available within the county as well as in neighboring Middlesex County (rated Aa1/stable outlook) and the New York City (rated Aa3/stable outlook) metropolitan area. The county's top private employer is Meridian Health Systems, which operates numerous facilities throughout the county, followed by AT&T (senior unsecured rating A2/stable outlook), which was recently acquired by SBC Communications (senior unsecured rating A2/stable outlook).

Fort Monmouth, a U.S. Army base, is the county's second largest employer and has been recommended to close by the Base Realignment and Closure (BRAC) Commission. The fort has approximately 4,800 employees and serves as the headquarters for the Army Communications-Electronics Command (CECOM). An additional 6,700 private sector contractors are employed at the base. This large civilian workforce is primarily engaged in research and development of battlefield command, control, and communications technologies. The base is currently scheduled to close by 2011 and the Fort Monmouth Economic Revitalization Planning Authority (the "Authority") was established to plan the transition and development of this area. A draft reuse plan of the fort emphasizes four industries, including alternative and renewable energy, biotechnology, nanotechnology, and information and communications. The closure of the fort is expected to have minimal impact on the county's employment base. The approximately 1,200 acres comprising Fort Monmouth is deemed a significant and valuable piece of developable property given its proximity to New York City and the ocean.

#### LOW DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

Moody's believes that the county's modest direct debt position (0.3% of equalized valuation) will remain manageable given an aggressive amortization of principal (96.3% in

10 years), moderate future borrowing plans, and ongoing tax base growth. The county's overall debt burden, which includes all overlapping debt of the underlying municipalities, is a low 1.5%. Moody's believes that the county's rapid amortization schedule and expected tax base expansion will allow it to layer in approximately \$50 million of new debt annually over the next few years with minimal change to its debt burden. Next year, the county plans to issue \$40 to \$50 million of bonds for various capital improvements.

OUTLOOK:

Outlook

OUTLOOK IS STABLE

The stable outlook reflects our expectation that the county's substantial tax base will experience satisfactory growth and wealth levels will be above state and national norms, the financial position will continue to reflect healthy Current Fund balances over the medium-term, and that the debt burden will remain nominal.

What could make the rating go down:

- Multiple years of declines in Current Fund balance resulting in a material change in reserves
- Material decline in wealth
- Material increase in debt

KEY STATISTICS:

2006 Population (estimated): 635,285

2008 Equalized valuation: \$127.4 billion

Equalized value per capita: \$200,554

1999 Per capita income (as % of state and US): \$31,149 (115% and 144%)

1999 Median family income (as % of state and US): \$76,823 (118% and 154%)

2000 Median housing value as % of state: 119%

Overall debt burden: 1.5%

Direct debt burden: 0.3%

Payout of principal (10 years): 96.3%

FY 2007 Current Fund balance: \$87.3 million (17.7% of Current Fund revenues)

Post-sale parity debt outstanding (county and county-guaranteed debt): \$456 million

ANALYSTS:

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