



Moody's Investors Service

Global Credit Research

New Issue

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**New Issue: Monmouth (County of) NJ**

**MOODY'S ASSIGNS Aaa TO MONMOUTH COUNTY'S (NJ) \$30.65M REFUNDING BONDS, SERIES 2008; OUTLOOK REMAINS STABLE**

**TOTAL OF \$466 MILLION OF COUNTY AND COUNTY-GUARANTEED RATED DEBT OUTSTANDING, INCLUDING CURRENT ISSUE**

County  
NJ

**Moody's Rating**

ISSUE	RATING
Refunding Bonds, Series 2008	Aaa
<b>Sale Amount</b> \$30,645,000	
<b>Expected Sale Date</b> 02/21/08	
<b>Rating Description</b> General Obligation, Unlimited Tax	

**Opinion**

NEW YORK, Feb 20, 2008 -- Moody's Investors Service has assigned a Aaa rating with a stable outlook to Monmouth County's (NJ) \$30.645 million Refunding Bonds, Series 2008. These bonds are secured by the county's general obligation, unlimited tax pledge. Proceeds will be used to refund various maturities of the county's General Improvement Bonds, Series 1998; General Improvement Bonds, Series 1999; G.O. Bonds, Series 2000; and General Improvement Bonds, Series 2001. The net present value savings resulting from the current refunding is expected to be above 4% of the refunded principal.

At this time, Moody's has also affirmed the Aaa rating on approximately \$465 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 be well-managed with Current Fund balances at similarly healthy levels over the medium-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. Fiscal 2006 results reflect another, albeit more modest, increase to reserves of \$671,000 to \$85.87 million, or 18.2% of General Fund revenues. Sources of replenishment were similar to that of fiscal 2005, including \$13.3 million from the cancellation of lapse appropriation reserves, \$9.5 million from interest on investments, \$5.2 million from state aid for earned income credit, and \$3.9 million from added and omitted taxes. Prudently, the county appropriated an additional \$1.2 million of appropriation reserves to offset future pension contributions and currently has a total of \$7.4 million in a pension fund reserve, which it expects to use to offset pension contributions in fiscal years 2008 and 2009. The fiscal 2007 budget incorporated a slight (\$500,000) increase of appropriated surplus to \$48.5 million and also reflected a 2.9% property tax levy increase. As such, the county's budget was and is expected to be minimally impacted by the recently enacted New Jersey property tax reform legislation that limits the county's levy increase to four percent annually. Unaudited fiscal 2007 results indicate a \$1.43 million increase to Current Fund balance to \$87.3 million, or 17.7% of unaudited 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.

In fiscal 2008, management reports that while the level of appropriated fund balance remained the same as in fiscal 2007 at \$48.5 million, the county budgeted revenues more aggressively than in prior years. Early into the fiscal year, the county conservatively projects that Current Fund balance may decline slightly by up to \$3 million, which would minimally impact the county's financial position. 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. The fiscal 2008 budget also includes a 2.8% levy increase, or well below the state-mandated 4% cap. 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. For counties, these added and omitted tax revenues are derived from new construction that takes place over the course of the prior fiscal year. Positively, the county has established reserves for pensions and health care to mitigate future increases, and which it has budgeted to use in fiscal 2008, as well as reserves for its liability related to compensated absences. 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 \$119.3 billion tax base will continue to experience strong growth driven by above-average market appreciation in the region as well as ongoing residential and commercial development. Active residential and commercial retail development is being supported by steady population increases (15% since 1990) as well as steadily improving income levels as a percent of the state median. Residential development continues to remain healthy, particularly in the Townships of Manalapan (rated Aa3), Middletown and Neptune (rated A2). Although the county has experienced a slight decline in the residential housing market, reflected by the 11% decline in building permits issued from January to September 2007 compared to the same period in 2006, residential growth is still relatively healthy compared to neighboring Middlesex, Ocean and Burlington Counties, which have reportedly experienced a 19%, 18.6% and 27.4% decline in building permits, respectively, during the same period. Equalized valuation, which captures new construction and market value appreciation and upon which county taxes are calculated, has grown by a healthy 15.2% annually since 2002, well above the state median of 11.6%. 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 \$187,883 in 2007, equivalent to 168% of the state and nearly three times (292%) the national median.

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 5,700 employees, of which 500 are military personnel and 5,200 are private contractors. 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 and Redevelopment Authority (the "authority") was recently established to plan the transition and development of this area. However, the recommendation to close the base is not expected to have any near-term effects on the county given that the relocation is reportedly on hold until the current war effort is completed and the new facilities in Aberdeen, MD are fully in place. Ultimately, the closure would relocate jobs from the fort primarily to Aberdeen, MD, as well as to other military facilities in Maryland, Ohio, Virginia, and New York. In the unlikely event of the complete loss of the 5,700 jobs currently based at Fort Monmouth, the county's total workforce of approximately 336,500 would decline by a modest 1.7% and would not be expected to have a significant sustained impact on the county's employment level or economy given the breadth and diversity of the county and regional economies. Therefore, the closure of the fort would likely have a minimal overall impact. 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. The authority is working with consultant and anticipates having a concept plan for the redevelopment of Fort Monmouth completed by this summer, and is expected to reflect a significant missed use development.

#### 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 (95.3% 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 1.8%. 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.

**Outl k**

**OUTLOOK IS STABLE**

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 be well-managed with Current Fund balances at similarly healthy levels 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

2007 Equalized valuation: \$119.4 billion

2007 Equalized value per capita: \$187,883

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: 1.8%

Direct debt burden: 0.3%

Payout of principal (10 years): 95.3%

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

FY 2006 Current Fund balance: \$85.9 million (18.2% of Current Fund revenues)

Post-sale parity debt outstanding (county and county-guaranteed debt): \$466 million

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