Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aaa TO MONMOUTH COUNTY'S (NJ) $71.2 MILLION GENERAL OBLIGATION BONDS, SERIES 2009; OUTLOOK IS STABLE

Global Credit Research - 20 Oct 2009

TOTAL OF $542 MILLION COUNTY AND COUNTY-GUARANTEED PARITY DEBT OUTSTANDING, INCLUDING CURRENT ISSUE

County
NJ

Moody's Rating

ISSUE		RATING
General Obligation Bonds, Series 2009A		Aaa
Sale Amount	$44,790,000	
Expected Sale Date	11/03/09	
Rating Description	General Obligation Unlimited Tax	
General Obligation Bonds, Series 2009B		Aaa
Sale Amount	$26,385,000	
Expected Sale Date	11/03/09	
Rating Description	General Obligation Unlimited Tax	

Moody's Outlook Stable

Opinion

NEW YORK, Oct 20, 2009 -- Moody's Investors Service has assigned a Aaa rating with a stable outlook to Monmouth County's (NJ) $71.2 million General Obligation Bonds, Series 2009 consisting of $44.8 million General Obligation Bonds, Series 2009A and $26.4 million General Obligation Bonds, Series 2009B. The bonds are secured by the county's general obligation unlimited tax pledge and may be issued as Federally Taxable Issuer Subsidy Build America Bonds. At this time, Moody's has also affirmed the Aaa rating on approximately $470.8 million of previously issued and outstanding county and county-guaranteed debt obligations. Proceeds of the current issuance will finance various county capital projects and acquisitions.

The Aaa rating reflects the county's strong financial operations with healthy reserve levels, substantial tax base with slowed but still healthy growth, and favorable debt position. The stable outlook reflects our expectation that the county's substantial tax base will continue to grow, albeit at more moderate rates; wealth levels will remain above state and national norms; the reserve levels will remain healthy despite near-term projected declines; and the debt burden will remain nominal.

The following discussion of the county's long-term credit quality is largely reproduced from Moody's New Issue Report for the Monmouth County Improvement Authority, NJ published October 14, 2009.

STRONG FINANCIAL OPERATIONS WITH CONSISTENTLY HEALTHY RESERVES

Despite the use of current fund reserves in 2008 and the projected use by year-end 2009, Moody's expects the county's financial position to remain strong given a history of well-managed operations that has resulted in multiple years of healthy and stable reserve levels. While the county annually budgets to use more than 50% of its Current Fund balance, it has consistently maintained or increased its fund balance with annual operating surpluses for well over a decade. This surplus trend reversed in 2008 due to underperforming economically sensitive county clerk fees and investment earnings, which have historically exceeded budget and provided a key source of annual fund balance replenishment.

In fiscal 2008, the county replenished $44.8 million of the appropriated $48.5 million of reserves, resulting in a $3.7 million Current Fund balance decline to $83.6 million or a healthy 16.9% of Current Fund revenues. Notably, the county was able to keep its property tax levy flat in 2008, thus experiencing no pressure from the new 4% limitation on annual levy increases on this important revenue stream. The major sources of the replenishment of the $44.8 million of appropriated fund balance included $26.4 million of nonbudgeted revenue, $14.5 million of lapsed appropriation reserves, and $3.4 million from excess miscellaneous revenues. The $26.4 million of nonbudgeted revenues included numerous smaller items, but primarily consisted of approximately $4.7 million of correctional facility cost reimbursement, $4.5 million of reimbursement from the lease for the reclamation center, $4 million of transferred money from the motor vehicle trust fund, and $2.4 million of added and omitted taxes;. Notably, interest earnings were $1.6 million under budget in 2008 compared to $6 million over budget in 2007, reflecting the weaker investment returns due primarily to lower interest rates.

In the fiscal 2009 budget, the county lowered its fund balance appropriation by $3.7 million to $44.9 million, raised the property tax levy by $8.3 million, laid off 118 employees, and negotiated with unions to freeze salaries at 2008 levels, yet management still projects a $4.9 million use of appropriated fund balance by year-end. This would reduce Current Fund balance to a still-healthy $78.7 million or an estimated 14.5% of revenues and the projected sources of fund balance replenishment are similar to those in 2008, plus the one-time use of $5.1 million of reserves outside of the Current Fund. The county also proactively consolidated various services, instituted a hiring freeze for non-essential positions, and cut overtime and pay-go capital in 2009. County officials continue to identify additional areas to improve efficiencies in an effort to cut expenditures and maintain sufficient appropriation reserves available for cancellation in subsequent years.

While the county continues to finalize the 2010 budget, it has instructed departments to attempt to cut 5% from their budgets to offset continual declines in revenues. In addition, the county may appropriate less fund balance to account for the decline in 2009, which it has historically done in an effort to maintain reserve levels. Moody's notes that future county budgets may be tighter given the recent depletion of various reserves outside the Current Fund, the anticipation of previously nonbudgeted items as budgeted revenues, and the ongoing pressure from rising health and pension costs coupled with a limitation on the ability to raise the annual property tax levy. Despite these pressures, Moody's expects the county's strong management team to continue to manage to its budget while maintaining sufficient financial flexibility. Property taxes comprised 58% of the county's 2008 revenues and are guaranteed by the underlying municipalities that collect and remit the taxes in full, providing predictability for this largest revenue source.

GROWTH SLOWS IN SUBSTANTIAL TAX BASE; FORT CLOSING IN 2011

Moody's believes the county's substantial $129 billion tax base will continue to grow, albeit at a more modest rate, given a softening of the regional residential real estate market related to the broader economic recession. The county's equalized value increased at a healthy average annual rate of 13.2% from 2004 to 2009, above the state median of 12.6% and primarily capturing market value appreciation. However, appreciation slowed to one-half the prior year's rate in 2008 and to a minimal 1.3% in 2009, reflective of the residential housing market slow down. Assessed value increased at a similarly strong average annual rate of 13.2% over the same time period, indicative of healthy residential and commercial development that slowed in 2008 to one-quarter of the prior year's rate and also incorporates the revaluations of underlying municipalities in 2009. New development has moderated significantly, as indicated by a 25% decline in residential building permits filed in 2008 compared to the previous year, yet this compares favorably to building permit filings in neighboring counties. Income levels exceed state medians and are approximately 50% higher than national medians, with 2009 equalized value per capita at a strong $200,975, over two times the national median and almost one and one-half times the state median.

Moody's anticipates that the county will continue to benefit from unemployment rates (8.6% as of August 2009) that are consistently below the state and national medians (9.5% and 9.6%, respectively as of August 2009) due to available jobs within the county, as well as in neighboring Middlesex County (GO rated Aa2/negative outlook) and the New York City (GO rated Aa3/stable outlook) metropolitan area, although the slated closure of Fort Monmouth in September 2011 may cause a temporary increase in the medium term. 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/negative outlook), which was recently acquired by SBC Communications (senior unsecured rating A2/negative 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 September 2011 and the Fort Monmouth Economic Revitalization Planning Authority (the "Authority") was established to plan the transition and redevelopment of this area. The proposed reuse plan of the fort emphasizes four industries, including alternative and renewable energy, biotechnology, nanotechnology, and information and communications. The closure of the base is expected to have minimal long-term impact on the county's large 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. The county's redevelopment plan is currently under review by the federal government.

DEBT BURDEN EXPECTED TO REMAIN LOW GIVEN RAPID PRINCIPAL PAYOUT

Moody's believes that the county's modest debt burden will remain low given rapid amortization of principal on county supported GO debt obligation (83.8% retired within 10 years) and moderate future borrowing plans. The county's direct debt burden is a modest 0.3% of equalized valuation, and increases to an average 1.5% after accounting for overlapping debt obligations of underlying municipalities and school districts. Debt service comprised a manageable 9.5% of 2008 expenditures, below the county's policy maximum of 12% and target of 10%. The county's five year capital plan through 2014 calls for $613.5 million of expenditures, with approximately 70% expected to be bond funded. Moody's believes the county's low debt burden coupled with rapid amortization will allow it to layer in the new borrowings with minimal impact to the county's debt burden. The county has no exposure to variable rate debt or derivative products.

Outlook

The stable outlook reflects our expectation that the county's substantial tax base will remain stable with above average income and wealth levels that exceed state and national norms; the financial position will continue to be well-managed and reflect healthy Current Fund balances despite a recent narrowing and additional pressure from the economic downturn and property tax limitations; and 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 depletion of reserves

- Material decline in wealth

- Material increase in debt

KEY STATISTICS:

2007 Population: 642,030 (4.3% increase since 2000)

2009 Equalized Value: $129 billion

2009 Equalized Value Per Capita (as % of NJ and US): $200,975 (144% and 267%)

1999 Per Capita Income (as % of NJ and US): $31,149 (115% and 144%)

1999 Median Family Income (as % of NJ and US): $76,823 (118% and 154%)

2000 Median Housing Value (as % of NJ and US): $203,100 (119% and 170%)

Unemployment (August 2009): 8.6%

Direct Debt Burden: 0.3%

Overall Debt Burden: 1.5%

Payout of Principal of County GO debt (10 years): 83.8%

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

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

2008 Current Fund balance: $83.6 million (16.9% of Current Fund revenues)

Post-sale Parity Debt Outstanding (county and county-guaranteed debt): $542 million

RATING METHODOLOGY USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating Monmouth County, NJ was "Local Government General Obligation and Related Ratings," published in December 2008 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action was on October 8, 2009 when the Aaa rating with a stable outlook of Monmouth County, NJ was affirmed.

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