



**New Issue: Moody's assigns Aaa rating to Monmouth County's (NJ)
\$97.8 Million General Obligation Bonds, Series 2012; Outlook is Stable**

Global Credit Research - 15 Jun 2012

**Total of \$725.6 Million of Rated County and County-Guaranteed Parity Debt Outstanding,
including Current Offering**

MONMOUTH (COUNTY OF) NJ

Counties

NJ

Moody's Rating

ISSUE		RATING
Open Space Bonds, Series 2012		Aaa
Sale Amount	\$5,000,000	
Expected Sale Date	06/25/12	
Rating Description	General Obligation	
Reclamation Center Utility Bonds, Series 2012		Aaa
Sale Amount	\$6,300,000	
Expected Sale Date	06/25/12	
Rating Description	General Obligation	
County College Bonds, Series 2012		Aaa
Sale Amount	\$4,250,000	
Expected Sale Date	06/25/12	
Rating Description	General Obligation	
County College Bonds, Series 2012 (County College Bonds Act, P.L. 1971, c. 12)		Aaa
Sale Amount	\$4,250,000	
Expected Sale Date	06/25/12	
Rating Description	General Obligation	
County Vocational School Bonds, Series 2012 (New Jersey School Bond Reserve Act, P.L. 1980 c. 72)		Aaa
Sale Amount	\$1,000,000	
Expected Sale Date	06/25/12	
Rating Description	General Obligation	
General Improvement Bonds, Series 2012		Aaa
Sale Amount	\$77,000,000	
Expected Sale Date	06/25/12	
Rating Description	General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, June 15, 2012 --Moody's Investors Service has assigned a Aaa rating to Monmouth County's (NJ) \$97.8 million General Obligation Bonds, Series 2012. The outlook for the rating is stable. At this time, Moody's has also affirmed the Aaa rating on approximately \$725.6 million of rated county and county-guaranteed general obligation debt outstanding. Proceeds of the bonds will be used to finance various capital improvements within the county including a new trunk radio system, improvements to the waste reclamation center, county college and county vocation school and the purchase of land for open space conservation.

SUMMARY RATING RATIONALE

The bonds are secured by county's general obligation unlimited tax pledge. The Aaa rating reflects the county's strong financial operations with healthy reserve levels, despite some recent weakening, substantial and diverse tax base, and favorable debt position. The stable outlook reflects Moody's expectation that the county tax base will return to growth mode in the near term - albeit at rates more moderate than those recorded in the five years prior to 2009, wealth levels will continue to be above state and national averages, Current Fund reserve levels will be maintained within satisfactory ranges, and the county's debt burden will remain modest.

STRENGTHS:

- Large and diverse \$117 billion tax base
- Favorable location near the center of New York metropolitan region
- Strong financial management and healthy reserve levels
- Modest debt burden

CHALLENGES:

- Expenditure growth driven by pensions, healthcare and other mandated costs
- Weaker revenue growth including constraints of new 2% statewide levy cap

DETAILED CREDIT DISCUSSION

STRONG FINANCIAL OPERATIONS WITH CONSISTENTLY HEALTHY RESERVES

Despite a modest operating deficit in fiscal 2010 and a projected lower reserve balance at year-end 2011 due to the need to reserve against an interfund receivable, we expect the county's overall financial position to remain strong given a 20-year history of well-managed operations that produced healthy and growing reserve levels prior to the 2008-2009 recession. The county annually budgets to use more than 50% of its Current Fund balance, but maintained or increased its fund balance for most of the last decade. This positive surplus trend began to come under pressure in 2008 due to the underperformance of economically sensitive county clerk fees and investment earnings, which had historically exceeded budget and provided a key source of annual fund balance replenishment. Management's cost cutting efforts and better-than-expected revenue performance contributed to essentially flat operations in fiscal 2009 with a modest addition to fund balance. However, the county faced continued operating pressure in fiscal 2010 and 2011 due partly to the state's 4% annual property tax levy cap enacted in 2007, which was superseded by a 2% levy cap in January 2011. These limits on new tax revenues have pressured financial results as the performance of other income sources has weakened. Persistent underperformance of county clerk fees and investment earnings, and lower reimbursements for housing state inmates in county prisons resulted in a \$6.9 million operating deficit in fiscal 2010 (much less than the \$12 million deficit projected by the county in mid-year) and were projected to cause an additional deficit in fiscal 2011.

In fiscal 2010, the county replenished \$37.9 million of its \$44.85 million reserve appropriation, resulting in a modest drop in Current Fund balance to \$76.8 million, equal to a still-healthy 14.8% of Current Fund revenues. Factored into this result was the county's ability to write off \$5.1 million of accounts payable (a single, large payable item) - a significant one-time action that relieved pressure on the Current Fund. Additional actions taken by management to replenish its reserve appropriation in 2010 included reducing all department budgets by 5%, entering into a shared services agreement with neighboring Middlesex County to house Monmouth's juvenile offenders that resulted in 50 additional employee layoffs, and cutting pay-go capital expenses to \$2.75 million. The county also benefited in fiscal 2010 from actions taken in 2008 and 2009, including the proactive consolidation of services, instituted a hiring freeze

for non-essential positions, and cuts in overtime and pay-go capital, which resulted in \$5 million in lower salary costs in 2009 and additional savings in 2010. State aid was \$4.2 million under-budget.

In fiscal 2011, the county reduced its reserve appropriation by \$1 million to \$43.86 million, made the library system self-supporting (\$2.4 million savings), abstained from new debt issuance (\$2.5 million savings) and reduced its annual subsidy to Brookdale Community College (\$6 million savings). The county did not raise its tax property levy in 2011, maintaining it at \$302.5 million, as in 2010. County officials estimate the county replenished its entire \$43.6 million reserve appropriation due primarily to better economically sensitive revenue performance. Notably, unspent appropriation reserves grew by \$6.2 million over fiscal 2010 while miscellaneous revenues improved most significantly, having been \$2.5 million below budget in fiscal 2010. Overperforming revenues balanced out an estimated \$550,000 shortfall in county clerk fees, \$250,000 in under-budgeted state inmate reimbursements, and \$600,000 of below budget sheriff department revenues. County officials estimate the county replenished its entire reserve appropriation and added \$270,000 to reserves by year-end, resulting in a narrow surplus. However, the late receipt of several million dollars worth of state grants necessitated the Current Fund's advancement of \$7.6 million to the county's Grant Fund in the fourth quarter of 2011. The state's department of revenue required the county to reserve against this sizable interfund receivable within the Current Fund, resulting in a \$7.6 million reserve decline on an accounting basis until the receivable is repaid. As a result, Current Fund balance drops to \$69.4 million, or 13.34% of revenues for fiscal 2011 (unaudited).

The county's adopted \$487.4 million fiscal 2012 budget shrank by \$4.15 million compared to fiscal 2011's \$491.5 million budget - a 0.7% year-over-year reduction - and was balanced with a \$43.87 million reserve appropriation equal in size to 2011's. The 2012 budget was balanced without a tax levy increase for the third consecutive year, with the majority of adjustments made to eliminate a projected \$14 million deficit coming from the expenditure side. County officials project appropriation reserves will total over \$27 million for the current fiscal year with unanticipated revenues likely to be in the \$11 to \$12 million range. Better revenue performance, they believe, will enable the county to replenish its reserve appropriation and result in a potential modest addition to fund balance by fiscal year-end. In pursuit of greater control over expenditures, the Board of Freeholders created a budget advisory board in late 2010 with a mandate to create a five-year rolling county budget (the first such exercise in county history). The advisory board is attempting to separate essential from non-essential county services as part of a process to reconfigure the functions of county government with an eye toward sizable multi-year expenditure cuts. County officials continue to identify additional areas to improve efficiencies in an effort to reduce costs and maintain a high level of appropriation reserves available for cancellation in subsequent years. Present challenges aside, we expect the county's strong management practices to result in the maintenance of sufficient financial flexibility.

GROWTH LIKELY TO REMAIN SLOW IN SUBSTANTIAL TAX BASE; FORT CLOSING SPURS REDEVELOPMENT EFFORTS

Moody's believes the county's substantial \$117 billion tax base will return to growth in the near term, albeit at a more modest rate than before the recession given continued softness in residential real estate related to the broader economic climate. The county's equalized value increased at a healthy average annual rate of 7.2% from 2004 to 2009, slightly below the state median of 9.3% and primarily capturing market value appreciation. However, appreciation slowed to 1% in 2009 before equalized value shrank by a cumulative 9.8% from 2010 through 2012, reflecting the residential housing market downturn. Assessed value grew at a similarly strong average annual rate of 10.1% from 2004 to 2009, indicative of robust residential and commercial development and incorporated the revaluations of underlying municipalities in 2009. New development moderated significantly in 2008 and 2009, as indicated by the respective 25% and 40% decline in residential building permits filed compared to prior years'. Income levels exceed state medians and are approximately 50% higher than national medians, with 2011 equalized value per capita at a strong \$185,428, over two times the national median and almost one and one-half times the state median for Moody's-rated US counties.

Moody's anticipates that the county will continue to exhibit an unemployment rate (8.8% as of March 2012) roughly in line with the state and national levels of 9.3% and 8.4%, respectively due to slow employment growth within the county, as well as in neighboring Middlesex County (GO rated Aa2/stable outlook) and the New York City (GO rated Aa2/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). Additional major employers include CentraState Medical Center (rated Baa1/stable outlook), Monmouth University, and Vonage. Fort Monmouth, a US Army base, was the county's second largest employer in the decade prior to its closure on September 15, 2011, employing some 11,500 military personnel and private sector contractors prior to its selection for closure by the federal Base Realignment and Closure (BRAC) commission in 2005. The reuse plan for

the fort emphasizes four industries: alternative and renewable energy, biotechnology, nanotechnology, and information & communications. 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, and closure of the base is expected to have a minimal long-term impact on the county's large and diversified employment base.

The county's reuse plan for Fort Monmouth has been approved by the federal government and the state and county are working with consultants to bring forward redevelopment of the site as a mixed-use area containing commercial and retail components as well as significant residential, recreation and open space segments. Several private entities are in discussions with the county regarding purchasing portions of the site for future use. Notably, the former 15-acre site of the Paterson Clinic and Hospital for Veterans has been purchased by Acute Care, which plans a \$15 million renovation of the facility for use as a medical clinic. These and other redevelopment efforts, which are expected to initiate early phase construction in late 2012 or early 2013, are estimated to lead to the creation of 2,500 to 3,000 jobs in the county in the medium-term.

DEBT BURDEN TO REMAIN MANAGEABLE 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 (77.1% retired within 10 years) and moderate future borrowing plans. The county's direct debt burden is a modest 0.4% of equalized valuation, and increases to an average 1.9% after accounting for overlapping debt obligations of underlying municipalities and school districts. Debt service comprised a manageable 9.4% of 2010 expenditures, below the county's policy maximum of 12% and target of 10%. The county's six year capital plan through 2016 calls for \$369.5 million of expenditures, with approximately 82% expected to be bond funded. The county's modest debt burden coupled with rapid amortization will likely allow it to layer in new borrowings with minimal impact to the county's future debt burden and servicing costs. The county has no exposure to variable rate debt or derivative products.

WHAT COULD CHANGE THE RATING - DOWN:

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

Outlook

The stable outlook reflects our expectation that the county tax base will return to growth in the near term - albeit at rates more moderate than those recorded in the five years prior to 2009, wealth levels will stay above state and national norms, reserve levels will remain healthy despite projected near-term declines; and the county's debt burden will remain nominal.

KEY STATISTICS:

2010 Population: 630,380 (2.5% increase since 2000)

2011 Equalized Value: \$117 billion

2011 Equalized Value Per Capita: \$185,428

2010 Per Capita Income (as % of NJ and US): (117.6% and 149.9%)

2010 Median Family Income (as % of NJ and US): (120.2% and 162.1%)

Unemployment (March 2012): 8.8% (9.3% for NJ and 8.4% for US)

Direct Debt Burden: 0.4%

Overall Debt Burden: 1.9%

Payout of Principal of County GO debt (10 years): 77.1%

2009 Current Fund balance: \$83.7 million (16.4% of Current Fund revenues)

2010 Current Fund balance: \$76.8 million (14.8% of Current Fund revenues)

2011 Current Fund balance (unaudited): \$69.4 million (13.34% of Current Fund revenues)

Post-sale Parity Debt Outstanding (county and county-guaranteed debt): \$725.6 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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