

Monmouth County, New Jersey

Primary Credit Analysts:

Armen Hrachian
New York
(1) 212-438-7983
armen_hrachian@
standardandpoors.com

Secondary Credit Analysts:

Richard J Marino
New York
(1) 212-438-2058
richard_marino@
standardandpoors.com

Credit Profile

US\$30. mil GO bnds ser 2008 dtd 09/09/2008 due 09/01/2023

| | | |
|-------------------------|------------|----------|
| <i>Long Term Rating</i> | AAA/Stable | New |
| Monmouth Cnty GO bnds | | |
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Monmouth County, N.J.'s series 2008 general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AAA' rating on the county's previously issued GO debt.

The rating reflects our view that the county has several favorable credit characteristics, including:

- Strong local economy anchored by the services, retail trade, and health care industries;
- Substantial and expanding tax base providing more than 60% of the county's revenues;
- Income levels that exceed both state and national levels;
- Consistently strong and conservative financial management, evidenced by regular operating surpluses and high current fund balances; and
- Moderate-to-low overall debt burden.

The county's full faith and credit pledge secures the series 2008 bonds. Proceeds will be used for various capital projects.

Monmouth County (current population: approximately 658,000) is in central New Jersey and neighbors Mercer, Middlesex, Burlington, and Ocean counties. The county is an affluent residential community and increasingly serves as a major commuting hub for the greater New York City area employment base. Significant job opportunities also exist within the county, primarily in the services and retail trade sectors. The county's total market value has increased 47% in the past five years due to new construction and appreciating values, totaling \$127

billion and translating into a strong \$194,317 per capita in 2008. According to 2007 tax rolls, 83% of the county's assessed valuation (AV) consists of residential properties providing, in our opinion, a stable and diverse tax base. County income levels are above average, and median household effective buying income is 141% of national levels, while unemployment has historically been below the national average.

The county's financial operations have been consistently strong, maintaining available reserve levels above 15% over the past 10 years. Audited results for fiscal 2007 (year-end Dec. 31) indicated a modest operating surplus, increasing the unreserved current fund balance to \$87.3 million, considered, in our opinion, to be a very strong 18.4% of expenditures. Management projects fiscal 2008 will close with a slight operating deficit, drawing down reserves upwards of \$6 million because of negative variance in economy-dependent revenues. Management instituted a hiring freeze for the 2009 budget, and will take other steps to control expenses to offset any residual economic slowdown. Further stability is provided by the county's residential property tax base, which provides 60% of total revenues. Historically, the county has managed to increase its current fund balance steadily through strong revenue performance related to sustained economic and tax base development, along with conservative and strong financial management practices.

When considering net overall municipality debt of \$2.04 billion, Monmouth County's estimated overall debt burden is moderate on a per capita basis at \$3,110 and low at 1.6% as a share of full market value. However, the county's net direct debt burden is low at \$652 per capita and 0.3% of market value. Debt service carrying charges have historically been moderate, consistently at 10.0% per year, while 80% of new and outstanding debt will be retired within 10 years.

Outlook

The stable outlook reflects the county's strong local economy and financial management and performance. The county's high income levels and property wealth, coupled with the sizeable tax base, provide further stability to the rating. The stable outlook reflects Standard & Poor's assumption that the county's strong financial position, as primarily measured by healthy current fund balance reserves, will be maintained, and that the county will prudently manage its capital improvement program (CIP) and debt position.

Additionally, as the potential ramifications of base realignment and closure (BRAC) mandates loom on the horizon, it is possible that Fort Monmouth's eventual closure could lead to an adverse effect on the local economy. However, it is Standard & Poor's view that a BRAC-related economic disruption would likely be short term in nature, as the county should be able to withstand Fort Monmouth's closure in the long term.

Strong And Stable Economy

With a land area of approximately 470 square miles, Monmouth County has traditionally been an affluent residential community, while also serving as a major commuting hub for New York City, Philadelphia, and parts of northern New Jersey. The county's population, which has experienced steady growth over the past decade, is approximately 658,000 as of 2008. Over the long term, the county expects more gradual annual population growth, with the forecasted population totaling 694,189 by 2025.

The county has a strong and diverse local economy, primarily dominated by the service and retail trades, which employ about 69% of the county's total workforce. The finance, insurance, real estate; construction; and manufacturing sectors also maintain a significant presence in the county, accounting for a combined 19% of the county's workforce. Major employers within the county include Meridian Health Care (approximately 8,300 employees), Fort Monmouth (5,300), AT&T (4,350), the county itself (3,338), and Foodarama Supermarkets Inc. (2,536). Other major county employers are focused in the health care sector and include CentraState Hospital (approximately 2,407 employees), Monmouth Medical Center (2,050), and Bayshore Community Hospital (1,600). The county indicates that the AT&T facility, which was recently acquired by SBC Communications Inc., is expanding, as the facility houses vital software engineering and other R&D activities. County unemployment levels have historically been below the state and national levels, and, as of June 2008, Monmouth County's unemployment rate measured 4.6%.

Anchored by a strong housing market, residential properties continue to reflect the majority of the county's total AV. The county's total AV measures \$91.6 billion in 2008, \$75.6 billion of which are residential classifications (about 83% of total). Residential valuation grew 5% over the past year, which is on par with total AV growth, which grew about 4.6% in 2008. The county's tax base is diverse, as the 10 leading taxpayers accounted for only 1% of the net taxable valuation in 2008. Major taxpayers are a mix of technology, entertainment, retail, and residential facilities. The county expects that its tax base will continue to expand as several new redevelopment projects come to fruition. However, due to the economic slowdown nationally, residential values are expected to decline modestly in the next year. The county's overall income levels continue to exceed those of the state and the nation.

BRAC And The Closure Of Fort Monmouth

The U.S. Department of Defense's approved BRAC commission list published in 2005 included the closure of Fort Monmouth, which is a military installation in the eastern portion of the county and the county's second-largest employer. According to the BRAC report, Fort Monmouth's closure will gradually take place through 2011, eventually resulting in the elimination of roughly 5,300 direct civilian and military jobs in the county and another 4,500 indirectly associated jobs. The county has formed, in conjunction with the respective underlying municipalities and the state, the Fort Monmouth Economic Revitalization Authority to survey potential redevelopment opportunities. In April 2007, the authority hired EDAW Inc., a global land and community-consulting firm specializing in base reuse strategies through all five BRAC rounds to prepare the reuse and redevelopment plan for Fort Monmouth. The plan, to be released in fall 2008, is expected to describe a mixed-use space of private residential and commercial developments, along with recreational space. Standard & Poor's will continue to monitor the developments surrounding BRAC, although Monmouth County's local economy is strong and should be able to weather any fallout tied to Fort Monmouth's closure.

Finances And Capital Improvement Program

Monmouth County consistently exhibits strong financial performance and management. Current fund operations have yielded very strong available reserve levels during each of the past 10 years. For fiscal 2007, the county's current fund posted a \$1.5 million operating surplus, which raised the current fund balance to \$87.3 million, or a very strong 18.4% of expenditures. The county's largest revenue sources

in fiscal 2007, aside from the \$48.5 million fund balance appropriation, were property taxes (60%), which have been sufficient the past 20 years without increasing the levy year to year beyond the rate of inflation. Health and human services has historically been the county's largest expenditure and represented approximately 19% of total current fund expenditures in 2007, followed by public safety (18.6%), and debt service (10%). Fiscal 2008 midyear projections show an expected drawdown upwards of \$6 million due primarily to lower-than-expected transfer fee and investment revenues. The 2009 budget process has begun and management will once again aim for break-even results through conservative budgeting, including the annual reserve appropriation of nearly \$50 million, which the county expects to offset throughout the year.

In recent years, the county has placed greater emphasis on improving infrastructure needs to keep pace with growth levels, which is evident by its annually reviewed six-year (fiscals 2008-2013), \$486.4 million CIP. The majority of the program (88%) will be financed through the issuance of long-term debt, with the remainder being funded through cash and other governmental aid. Major CIP projects include development of easements, buildings and grounds upgrades, and bridges and roads.

Financial Management Assessment: 'Strong'

Monmouth County's management practices are considered "strong" under Standard & Poor's Financial Management Assessment methodology. The FMA is designed to measure the policies and procedures used by the county's management as it oversees day-to-day operations. Among the highlights of Monmouth County's management techniques are a formal 7% minimum current fund balance target; various formal debt affordability policies, including a 12% debt service carrying-charge cap (debt service to current fund revenues) and a debt-to-market value limit of 0.75%; a six-year CIP with identified projects and funding sources; and a formal debt-affordability pro forma model that forecasts the effect of new and future debt issuances on operations and policy limitations.

Nevertheless, the county scored a standard grade in the long-term financial planning and investment-management policy areas. The county does not maintain a formal revenue and expenditure forecast: Budgets are simply crafted in a manner that will simply adhere to aforementioned reserve and debt policies. Similarly, although the investment policies and portfolio are disclosed in the county's official statement, the investment guidelines adhere to the state's permitted investments guidelines.

Despite these standard marks, the overall management strengths are in keeping with the county's 'AAA' GO debt rating, and the creation and execution of the plans and policies clearly underlines the county's very strong assessment and rating.

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright 2008 by The McGraw-Hill Companies, Inc. Reproduction in whole or in part prohibited except by permission. All rights reserved. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

Standard & Poor's uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from Standard & Poor's, our parent, The McGraw-Hill Companies, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 800-852-1641 or write us at: privacy@standardandpoors.com. For more information about The McGraw-Hill Companies Privacy Policy please visit www.mcgraw-hill.com/privacy.html.

Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. Credit ratings issued by Ratings Services are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of credit ratings issued by Ratings Services should not rely on any such ratings or other opinion issued by Ratings Services in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or by the underwriters participating in the distribution thereof. The fees generally vary from US\$2,000 to over US\$1,500,000. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications.

Permissions: To reprint, translate, or quote Standard & Poor's publications, contact: Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-7280; or by e-mail to: research_request@standardandpoors.com.

The McGraw-Hill Companies