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## Monmouth County, New Jersey

### *Credit Profile*

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US\$40. mil GO bnds ser 2006 due 01/15/2021 AAA

Sale date: 23-MAY-2006

### **AFFIRMED**

### *Monmouth Cnty, New Jersey*

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Outstanding GO bnds AAA

### *Monmouth Cnty Imp Auth, New Jersey*

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Outstanding bnds AAA

**OUTLOOK:** STABLE

### **Rationale**

The 'AAA' rating on Monmouth County, N.J.'s series 2006 GO bonds reflects the county's:

- Strong local economy anchored by the services, retail trade, and health care industries;
- Substantial and rapidly growing tax base;
- 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.

Monmouth County (current population, 635,952) 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. As of 2005, approximately 83% of the county's assessed valuation (AV) consisted of residential properties. Significant job opportunities also exist within the county, primarily in the services and retail trade sectors. The county's tax base is also diverse, as the 10 leading taxpayers accounted for roughly 2% of 2005's net taxable AV. The county's 2005 market value totaled \$90.1 billion,

translating into a strong \$141,934 per capita. The county is forecasting the 2006 full-equalized market value to total \$105 billion, or a 16% increase over 2005's full value. County income levels are above average, as per capita and median household effective buying incomes are 145% and 143% of the national levels, respectively.

The U.S. Department of Defense's approved Base Realignment and Closure (BRAC) commission list includes 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 list, Fort Monmouth's closure will result in the elimination of roughly 5,300 direct civilian and military jobs in the county, and another 4,500 indirectly associated jobs. Additionally, under the BRAC list, Naval Weapons Station Earle, which is also located in the county, is to be realigned, resulting in a loss of just 120 direct and indirect positions. The county has formed, in conjunction with the respective underlying municipalities and the state, a formal Fort Monmouth site reuse committee, and the development of a comprehensive site reuse plan should be completed in 2007. In addition, the county indicates that the base closure will be done over time, and that the Fort Monmouth property should be well positioned for a wide array of redevelopment possibilities. Standard & Poor's Ratings Services 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.

The county's financial operations have been consistently strong. Audited results for fiscal 2004 (year-end Dec. 31) indicated a \$3.0 million operating surplus, which pushed the unreserved current fund balance to \$78.7 million, or 18.1% of expenditures. Unaudited fiscal 2005 figures place the current fund closing with a \$6.5 million operating surplus and an ending unreserved current fund balance of \$85.2 million, which translates to a strong 18.6% of expenditures. The fiscal 2005 surplus is primarily attributable to strong investment income, federal inmate reimbursements, and earned income grant revenue line items. Historically, the county has managed to steadily increase its current fund balance through strong revenue performance related to sustained economic and tax base development, along with conservative budgeting practices. The adopted fiscal 2006 current fund budget totals \$457.0 million and represents a 4.9% increase over the fiscal 2005 adopted budget. The fiscal 2006 budget includes a \$48.0 million current fund balance appropriation (\$6 million higher than in fiscal 2005), and the larger fund balance appropriation is directly related to the use of fiscal 2005's \$6.5 million operating surplus. The county projects fiscal 2006 closing with at-least break-even operations.

When factoring in net underlying municipality debt of \$1.49 billion, Monmouth County's estimated overall debt burden is high on a per capita basis at \$2,980 and low (1.8%) as a share of full market value. However, the county's net direct debt burden is low at \$631 per capita and 0.4% of market value. Debt service carrying charges have historically been above average, and measured nearly 11.0% of current fund expenditures in fiscal 2004. However, the above-average carrying charges are offset by the county's rapid debt retirement schedule: nearly 84% of new and outstanding debt will be retired in 10 years and 100% retired by 2021.

## 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 assumes 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 CIP and debt position. Additionally, as the potential ramifications of BRAC mandates loom on the horizon it is possible that Fort Monmouth's eventual closure could lead to an adverse impact 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.

## **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, as well as Philadelphia and parts of northern New Jersey. The U.S. Census Bureau estimates the county's population, as of 2005, to be 635,952, which signifies a 3.4% increase since the 2000 U.S. Census. 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 7,600 employees), Fort Monmouth (5,500), AT&T (4,350), the county itself (3,545), and Foodarama Supermarkets Inc. (2,458). Other major county employers are focused in the health care sector and include CentraState Hospital (approximately 2,156 employees), Monmouth Medical Center (2,050), and Bayshore Community Hospital (1,700). The county indicates that the AT&T facility, which was recently acquired by SBC Communications, 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 2005, Monmouth County's unemployment rate measured 3.8%.

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 \$65.4 billion in 2005, of which residential classifications are \$53.9 billion (about 83% of total). Residential valuation has grown by 56% between 2001 and 2005, which is slightly faster than total AV growth, which grew about 51% during the same time frame. The county's tax base is diverse, as the 10 leading taxpayers accounted for about 2% of the net taxable valuation in 2005. Major taxpayers include Freehold Mall, AT&T, Monmouth Mall, and Lucent Technologies. The county anticipates its tax base will continue to expand as several new redevelopment projects, including the Long Branch and Asbury Park projects, come to fruition. County data suggest that the median price for new single-family homes is around \$752,500 (7% higher than in 2004), with higher end homes selling for well in excess of \$1 million. The county's overall income levels continue to exceed those of the state and the nation.

## **Finances/CIP**

Monmouth County consistently exhibits strong financial performance and management. Current fund operations have yielded positive results in each of the past six fiscal years (2000-2005), adding to the county's strong reserves. For fiscal 2004, the county's current fund posted a \$3.0 million operating surplus, which raised the current fund balance to \$78.7 million, or a strong 18.1% of expenditures and 18.0% of operating revenues. The county's largest revenue sources in fiscal 2004, aside from the \$41 million fund balance appropriation, were property taxes (56%), state and federal grants (6%), medical homes (5%), and social services (5%). Health and human services has historically been the county's largest expenditure, and represented approximately 20% of total current fund expenditures in 2004, followed by public safety (18%) and debt service (11%). Unaudited results for fiscal 2005 indicate a \$6.5 million operating surplus, boosting the current fund balance to \$85.2 million, or 18.6% of expenditures and 19.7% of revenues. The county is able to continuously produce operating surpluses in the current fund mainly through the strong revenue performance related to sustained economic and tax base development. In addition, conservative budgeting practices contribute to Monmouth's performance: operating revenues routinely surpass budgeted amounts, while appropriations consistently come in below budgeted levels. The \$457 million fiscal 2006 current fund budget includes a \$48.0 million current fund balance

appropriation, a 3.3% property tax levy increase, and a 2.2% appropriation increase for salaries. County management projects fiscal 2006 closing with at-least break-even operations in the current fund.

Monmouth County's financial performance and position are further enhanced by several established formal financial and debt affordability policies including:

- A recently revised minimum current fund balance objective of 7% of revenues;
- A net tax-supported debt service carrying charge target of 10% of revenues, with a 12% cap;
- At least 70% of net tax supported debt must be retired within 10 years; and
- A net tax-supported debt-to-market value limit of 0.75%.

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 2006-2011), \$418.9 million capital improvement program (CIP). The majority of the program (69%) will be financed through the issuance of long-term debt, with the remainder being funded through cash and other governmental aid. Major CIP project areas pertain to development easements (34% of the CIP), buildings/grounds (23%), and bridges/roads (22%). To ensure compliance with its debt affordability policies, the county maintains a debt capacity pro forma model that assumes the annual issuance of \$45 million in new bonds through 2011.

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