

Tax Supported
New Issue

Monmouth County, New Jersey

Ratings

New Issues

General Obligation General Improvement
Bonds, Series 2004A AAA
General Obligation Refunding Bonds,
Series 2004B..... AAA

Outstanding Debt

General Obligation Bonds AAA
County-Guaranteed Capital Equipment
Pooled Lease Revenue Bonds* AAA
County-Guaranteed Recreational
Facilities Revenue Bonds* AAA
County-Guaranteed Correctional
Facilities Revenue Bonds* AAA

Rating Outlook Stable

*Issued by Monmouth County Improvement Authority.

Analyst

Jessalynn K. Moro
1 212 908-0608
jessalynn.moro@fitchratings.com

Issuer Contact

Mark E. Acker
County Finance Director
1 732 431-7391

Issuer Web Site

www.shore.co.monmouth.nj.us

New Issue Details

Approximately \$64,115,000 General Obligation (GO) Bonds, Series 2004, are scheduled to sell competitively on or about April 13. The bonds consist of \$25,000,000 General Improvement Bonds, Series A, maturing serially Jan. 15, 2005-2016, and \$39,100,000 GO Refunding Bonds, Series B, maturing serially Sept. 1, 2004-2015.

Security: The bonds are secured by the county's full faith and credit pledge and are payable from ad valorem taxes without limitation as to rate or amount.

Purpose: Bond proceeds will finance various capital improvements for general purposes, including construction of a new emergency response and information systems building. Refunding bonds will redeem outstanding GO series 1993B, 1996, and 1997 with an estimated net present value savings of 4.1% of refunded par.

■ Outlook

The 'AAA' rating reflects Monmouth County's solid financial management resulting in continued strong operations and financial flexibility, stable growth in its wealthy tax base, and low direct debt levels with rapid amortization. Bucking state and national trends over the last few years, Monmouth County continues to experience positive employment growth and office vacancy rates well below the state average. Fund balances continued to grow in 2003 due to the county's conservative budget practices, expenditure controls, and healthy flow of revenue driven by a vibrant property tax base. The county's capital plan is affordable, and although primarily debt funded, debt levels should remain moderate given the county's conservative debt policies including rapid amortization rates. The Rating Outlook is Stable.

■ Rating Considerations

Monmouth County is located along the northern Atlantic shore of New Jersey, 50 miles outside New York City. The 2000 census revealed an 11.3% population increase over 1990, and the 2003 estimate of 635,584 exceeded state growth trends. Overall, employment, while still dominated by health care and retail, is diversifying, with significant gains in the construction, transportation/utilities, and finance sectors. The county's wealthy property tax base has expanded steadily and remains primarily residential at 74%. The assessable base has grown a strong 6.2% annually over the last five years. Income levels remain strong, as indicated by the county's high market value per capita of \$106,880 in 2003, up 12% since 2001. The county's unemployment rate of 5.1% in January 2004 was below the state's 5.8%.

The county's financial position is excellent. The 2003 unaudited unreserved fund balance was \$75.7 million, or 18.5% of expenditures. Overall, fund balances over the past five years have increased 6.8% on an average annual basis, supported by conservative budgeting and expenditure controls. Additionally, the strong housing market continues to boost revenues in the current fund, greatly mitigating any budget constraints due to decreased investment income and rising insurance costs. Like all counties in New Jersey, Monmouth County is guaranteed 100% property tax remittance by the municipalities, and in 2004, property tax revenues represented 63% of the county budget. The county maintains further financial flexibility through continued pay-as-you-go capital contributions, which averaged a healthy 3.5% of spending over the past five years. Fiscal 2004 budget appropriations reflect 5.9% growth over the 2003 budget and 4.8% over 2003 unaudited results.

April 13, 2004

The county's direct debt burden is low and more moderate, on an overall basis, with debt per capita at \$2,888 and 2.4% of equalized value (EV). Amortization rates are rapid, with 70% retired in 10 years, in line with the county resolution floor. With this issue, the county will begin construction on a new 911 and information systems building, as well as continuing its aggressive open space acquisition program. Series B bond proceeds will refund outstanding general obligation debt for an estimated net present value savings of 4.1% of the refunded par.

■ Strengths

- Continued strong financial management, flexibility, and operations.
- Low-to-moderate debt levels, with rapid amortization.
- Above-average wealth and growing tax base, with 100% of tax collections guaranteed by underlying municipalities.
- Solid long-term growth in population and diversifying economic base.

■ Risks

- Minimal.

■ Debt

The county continues to issue debt to finance infrastructure improvements to support its growing population; however, debt levels remain low to moderate. Net direct debt is low at \$461 per capita and 0.4% of equalized value. Overall debt is more moderate at \$2,888 per capita and 2.4% of EV. The county's principal payout is rapid, with 43% retired in five years and 70% in 10 years. Monmouth County's 2004–2009 capital improvement plan (CIP), adopted by the freeholders board, totals \$261 million, 92% of which will be debt financed. Other funding sources for the CIP include self-supporting utility funds and the county's consistent pay-as-you-go contributions. The county's infrastructure needs focus on buildings and grounds (33% of the CIP) and roads and bridges (31%).

The county maintains prudent debt management policies, including keeping a maximum debt service of 12% of current fund revenues, amortizing debt at a rate of at least 70% in 10 years, and preventing direct debt as a percentage of equalized value from exceeding 0.75%. In 2003, the county was well within debt policy limits, with debt service at 10.5% of the budget, debt amortization of 70% in 10 years, and direct debt at 0.5% of EV. Direct debt

Debt Statistics

(\$000)

This Issue (Net Refunding Portion)	26,115
Net Outstanding Debt	<u>266,829</u>
Net Direct Debt	292,944
Overlapping Debt	<u>1,542,437</u>
Total Overall Debt	1,835,381

Debt Ratios

Direct Debt Per Capita (\$)*	461
As % of Equalized Value**	0.4
Overall Debt Per Capita (\$)*	2,888
As % of Equalized Value**	2.4

*Population: 635,584 (2003 estimate).

**Equalized value: \$76,611,691,000 (2003).

ratios should remain near current levels because of the rapid debt payout and strong tax base growth. The county's pay-as-you-go capital appropriations for 2003 were \$13.2 million, and the 2004 budget projects a slight drop to \$12.7 million. While pay-as-you-go funding has declined over the last two years, it remains above the 1999 funding level.

Included in outstanding debt are taxable pension refunding bonds issued in 2003 in the amount of \$17.3 million. The pension bonds amortized the county's total outstanding pension liability related to early retirement initiatives offered by the county in 1991 and 2000. The county issued these bonds over a five-year term and reduced its interest cost from the 8.75% charged by the state to approximately 2.5%, saving an estimated \$4 million, which is a high net present value of 25% of the total outstanding liability. The county did not have any such pension bonds outstanding but refunded its outstanding liability as authorized by the state.

■ Finances

Financial planning, management, and budgeting continue to be strong. The county effectively manages its budget to meet increased expenditures due to population and economic growth. Since 1989, the county has recorded consecutive annual operating surpluses. The unaudited 2003 surplus of \$7.2 million helped increase the unreserved fund balance to \$75.7 million, or 18.5% of expenditures. The county's unreserved fund balance has grown an average of 6.9% annually over the last five years and has been consistently close to 17% of expenditures.

The adopted 2004 budget upholds the county's practice of containing expenditures and conservatively estimating revenues. The \$416 million budget reflects a 5.9% growth rate over the 2003 budget, however,

Financial Summary

(\$000, Audited Years Ended Dec. 31)

	1999	2000	2001	2002*	2003**	As % of 2002 Rev./Exp.	2004†
Municipal Property Taxes	193,900	201,530	218,585	236,020	250,251	60.1	260,752
Miscellaneous Revenues Anticipated	121,475	128,571	144,425	138,853	142,190	34.2	155,203
Miscellaneous Revenues not Anticipated/Other	13,368	15,430	14,957	19,744	12,108	2.9	—
Unexpended Balance of Appropriation Reserves	<u>9,545</u>	<u>8,523</u>	<u>10,273</u>	<u>11,514</u>	<u>11,537</u>	<u>2.8</u>	<u>—</u>
Total Revenues/Other Credits to Income	338,288	354,054	388,240	406,131	416,086	100.0	415,955
General Government	46,956	52,886	58,316	21,243	22,481	5.5	24,086
Land Use Administration	—	—	—	1,489	1,469	0.4	1,570
Code Enforcement and Administration	—	—	—	317	347	0.1	359
Insurance	—	—	—	31,467	34,627	8.5	40,690
Judiciary	557	601	626	—	—	0.0	—
Regulation	12,766	14,483	14,915	—	—	0.0	—
Public Safety (Corrections and Penal)	30,154	32,556	34,870	66,804	72,729	17.8	73,626
Roads and Bridges (aka Public Works and Engineer)	25,891	28,540	31,885	26,667	28,613	7.0	29,461
Health and Welfare	72,720	73,811	78,738	80,388	80,941	19.8	88,422
Educational	31,851	32,144	32,257	32,611	34,062	8.3	38,404
Recreation	14,033	14,969	15,878	16,797	17,259	4.2	17,890
Other (Unclassified, Public/Private Offset by Rev., Contingent)	23,419	25,515	40,848	47,682	38,555	9.4	30,573
Debt Service	36,705	38,573	38,786	39,800	41,620	10.2	45,254
Capital Improvements	11,854	13,051	11,563	14,723	13,185	3.2	12,721
Deferred Charges and Statutory Expenditures	10,946	11,081	10,278	10,189	10,931	2.7	12,900
Appropriation Reserves	<u>9,825</u>	<u>11,454</u>	<u>12,046</u>	<u>13,191</u>	<u>12,094</u>	<u>3.0</u>	<u>—</u>
Total Expenditures/Other Debits to Expenses	327,677	349,664	381,006	403,491	408,913	100.0	415,956
Operating Income (Deficit)	10,611	4,390	7,234	2,640	7,173	N.A.	(41,000)‡
Total Fund Balance	58,043	62,111	70,963	73,687	80,762	N.A.	N.A.
As % of Total Expenditures	17.7	17.8	18.6	18.3	19.8	N.A.	N.A.
Unreserved Fund Balance	54,117	58,281	65,605	68,280	75,662	N.A.	N.A.
As % of Total Expenditures	16.5	16.7	17.2	16.9	18.5	N.A.	N.A.

*Some line items may not compare to prior years due to reclassification. **Unaudited. †Budget. ‡The county budgets the use of fund balance every year. N.A. – Not available.

above the 4.3% growth from 2002–2003. The 2004 budget growth is manageable given the county's record growth in assessed value (AV) in 2004 of 11.3% and the resultant tax levy increase. The two largest expense categories — health and welfare and public safety — are driving overall budget growth. The county's mounting insurance costs are of continuing concern; however, the county consistently reports expenditures under budget. Insurance expenses rose 10% in 2003, under the 17.5% that was budgeted. The county included 17.5% growth in the 2004 budget. The largest expense category, health and human services (HHS), accounts for \$88 million, or 21%, of the 2004 budget. Historically, the county has paid approximately one-third of total health and welfare costs, with federal and state moneys funding the remainder. The county has taken measures — especially in the management of the health and welfare department and the abolition of the social services board — to successfully pare cost growth. The county expects future federal and state welfare cuts to result in dollar-for-dollar decreases in program expenditures.

Property taxes constitute 62.7% of the county's annual current fund revenues (including post-adopted budget miscellaneous revenues and grants but excluding usage of fund balance moneys), with the remainder consisting of a combination of state and federal grants and miscellaneous sources, including local revenues. The \$261 million tax levy for 2003 represents a 4.2% increase over 2002, keeping total revenue growth consistent over the last two years of 2.6%. The growth in the taxable property base as equalized by the state (EV), has been extremely strong with three consecutive years of double-digit growth from 2001–2003. The 2004 AV growth of 11.3% should yield a record growth year in the total taxable base as the AV growth in 2003 was 8.9% and the EV was 16.3%. The county has continued to decrease tax rates, reaching \$3.71 per \$1,000 in 2003, down from the decade high of \$4.55 per \$1,000 in EV in 1995. Tax collections, guaranteed by the county's municipalities, are 100% of the annual levy, providing a reliable and steady revenue stream. Tax remittance to

the county is made quarterly on the 15th of February, May, August, and November.

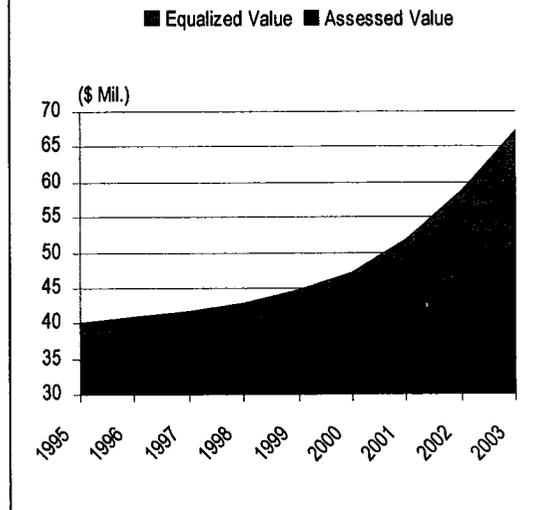
The elimination of legal flow control continues to influence long-term decisions surrounding solid waste operations. When the county lowered tipping fees in the mid-1990s to maintain its competitiveness, revenues fell dramatically, forcing the system to rely on reserves for operations and debt service. In an effort to stabilize revenues, the county now requires that all waste not shipped out of state be sent to the county landfill. In order to cover the funds operation deficit, the county raised rates by \$4 per ton two years in a row, reaching \$57 in fiscal 2004. System fund balances remained stable in 2003, following the significant 25% drop in 2001, and financial flexibility has been maintained over the short term, as the unaudited reclamation center utility fund balance in 2003 totaled \$21.8 million, representing more than 70% of system expenditures. The county has additional flexibility in its rate-raising ability, with the tipping fee charge authorized up to \$69 per ton; however, fund balance drawdowns are only a temporary solution while the county considers a long-term plan.

■ Economy

Located in central New Jersey, Monmouth County covers 41 square miles and has a 27-mile Atlantic Ocean coastline. Population growth has been rapid because of the county's proximity to the greater New York/Northern New Jersey metropolitan area, land availability, solid road and bridge infrastructure, and access to transportation systems. The county's 2000 population represented 11.3% growth over the 1990 census, surpassing the strong growth of the 1980s (9.9%) and making it one of the fastest growing counties in the state. Estimates for 2003 showed ongoing growth, as the 2003 population of 635,584 was 3.3% higher than the 2000 census figures.

Income levels remain above average, with the county's 2001 per capita personal income of \$42,028 equaling 109% and 138% of state and national averages, respectively. County income levels have grown relative to those of the state and nation since 1995, when per capita personal income was 103% and 128%, respectively. The county's 2002 median household effective buying income of \$53,374 was 115% and 140% of state and national figures, respectively. Additionally, market value per capita is high at \$120,537, which is especially significant given the significant residential tax base of the county, averaging

Tax Base Growth
(Years Ended Dec. 31)



78.2% of AV over the last five years. However, as development continues, the county's AV has become less dependent on the residential base compared to just five years ago. In 1999, residential AV totaled 83% and commercial was 9.4%. In 2003, residential and commercial AV were 74% and 12%, respectively.

Consistent with the county's population growth and development, its tax base grew rapidly at a high 15% average annual rate during the 1980s. From 1990–2000, net AV grew 2.9% annually to \$43.5 billion. The EV of property fell 3.2% in 1992 and 2.9% in 1993 due to the recession but grew 27% from 1995–2000. Beginning in 2001, the county has experienced tremendous growth in its taxable base driven by residential and commercial investment both in shoreline communities and inland. In 2001, 2002, and 2003, EV grew 21%, 15%, and 16%, respectively. The 2004 growth in AV is a recent record and should yield even greater EV growth for 2004 by the time the numbers are finalized. The strong construction market is further evidenced by the tremendous growth in the housing stock. In 2003, the median price of a new single-family home in the county was \$480,000, up 20% from only two years ago. The survey of homes conducted excluded custom built homes, which would tend to drive the median price even higher. The tax base has no concentration among its top 10 taxpayers, as they account for a minimal 1.4% of taxable AV.

The county maintains strong growth, and although the coastline is primarily built out, the western portion of the county is showing significant development. Construction as a percentage of EV has shown slight signs of slowing from the boom years of the late 1990s, with 2003 building permit values totaling 0.9% of EV, just slightly less than the 1% average of the past few years. While residential permits continue to drive the construction market, commercial development remains steady. Residential permits represented 68% of the total in 1998 and are down to 59% in 2003. This trend may not be sustainable, however, given that the 2004 AV growth was driven by a 12.9% increase in residential AV over the 7% growth in commercial AV. Despite some signs of diversification, the county will likely maintain the residential dominated tax base. However, with high income levels and steady commercial development, the county's cost structure will remain more than manageable.

The county unemployment rate, following an increase to 5.8%, the state average, in 2002, has returned to below the state and national averages, reaching 5.1% in 2003. Approximately two-thirds of Monmouth County's labor force works within the county, attesting to its substantial employment base. Others commute to jobs in surrounding counties, such as Middlesex and Ocean counties, as well as to New York City. Private employment numbers show that the county has a relatively high number of jobs in services (42%) and trade (24%) compared with those of the state and nation.

While relatively high trade and service employment is consistent with a growing population of above-

average age, the county's population is younger than that of the state. From 1990–1996, Monmouth County experienced a 6.7% rise in the population under age 65, compared with 2.7% in New Jersey overall. Government sector employment is relatively high due to jobs provided by Fort Monmouth and the Earle Naval Weapons Station, more than 40 local governments, and many school districts. Fort Monmouth, which continues to recover from operations consolidations due to nationwide base closings, is the county's third largest employer. Both bases have seen increased activity over the past year and remain active employers and economic drivers in the county.

Meridian Health System, the county's largest employer, includes the Jersey Shore and Riverview Medical Centers. In 2003, Meridian's employee base was 7,400. Other top employers include AT&T, the county and Foodarama supermarkets. Lucent Technologies Inc. (Lucent) is still one of the top 10 employers but with 1,806 employees in 2003 (down from 2,800 two years ago) has dropped to the eighth position from third. Despite shifts among the top employers, county employment grew an average of 1.3% annually over the 1990–2000 decennial census years, outpacing average population growth of 1.1% over the same period, which is further evidence of the broad employment base. Additionally, despite downsizing at the major telecommunications firms, many small and medium-sized companies, including computer, engineering, and spin-off companies spurred by AT&T and Lucent, have provided additional jobs. Future growth will most likely center on services, particularly health care and retail. Tourism also remains an important part of the county's shore economy.

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