

## **FITCH UPGRADES UNION COUNTY, NC'S GO BONDS TO 'AAA'; STABLE OUTLOOK**

Fitch Ratings-New York-10 November 2015: Fitch Ratings has assigned an 'AAA' rating to the following GO bonds for Union County (the county), NC:

--\$47.12 million general obligation refunding bonds series 2015.

Bonds proceeds will be used to refund several series of bonds for debt service savings. The bonds are scheduled to sell on December 10th.

In addition, Fitch upgrades following ratings:

--\$215.85 million general obligation (GO) bonds upgraded to 'AAA' from 'AA+';

--Approximately \$56.9 million limited obligation bonds (LOBs) series 2012 and 2013 upgraded to 'AA+' from 'AA';

--\$6.21 million series 2006 certificates of participation (COPs) upgraded to 'AA+' from 'AA'.

The Rating Outlook is Stable.

### **SECURITY**

GO bonds are general obligations payable from the full faith and credit and unlimited taxing power of the county.

COPs and LOBs are payable from lease payments subject to annual appropriation by the county and by a lien on essential government assets.

### **KEY RATING DRIVERS**

**STRONG FINANCIAL PROFILE:** The rating upgrade reflects the county's strong financial profile including revenue and spending flexibility as well as robust reserves. A recent court ruling eliminated the risk of a potential financial burden on the county related to school capital projects. The school board's appeal was struck down.

**MODERATE OVERALL DEBT PROFILE:** Overall debt levels and total carrying costs remain moderate. Pension and other post-employment benefit (OPEB) costs are modest and do not pressure financial operations.

**FAVORABLE ECONOMIC INDICATORS:** The county's economy benefits from the broad employment base of the city of Charlotte in adjacent Mecklenburg County. Wealth levels continue to exceed national averages. Unemployment is low relative to state average.

**APPROPRIATION RISK:** The 'AA+' rating on the COPs and LOBs reflects appropriation risk, as well as the level of essentiality of the assets securing the bonds.

### **RATING SENSITIVITIES**

**SOUND CREDIT PROFILE:** The rating is sensitive to shifts in fundamental credit characteristics including the county's affordable debt profile, strong financial management practices, and growing

economy. The Stable Outlook reflects Fitch's expectation that the county will continue to manage growth while maintaining financial strength.

## CREDIT PROFILE

Union County is located in south-central North Carolina and is part of the rapidly growing Charlotte-Gastonia-Rock Hill metropolitan statistical area (MSA). Population growth has been rapid, increasing 76% since 2000, but has slowed to a more moderate level recently.

## STRONG FISCAL MANAGEMENT MARKED BY HEALTHY RESERVE LEVELS

Financial operations historically have been characterized by maintenance of healthy reserves, adherence to internal reserve policies, and a conservative approach to budget development. During fiscal 2015, the county realized a fifth consecutive net operating surplus after transfers of a modest \$1.94 million (less than 1% of 2015 spending). The unrestricted fund balance totals approximately \$63.47 million or an ample 23.7% of general fund spending.

The state-required statutory reserve, which is primarily to offset accounts receivable, is a source of additional financial flexibility. This reserve totaled \$17.4 million at fiscal year-end 2015, or an additional 6.5% of spending. The county has a conservative goal of unassigned general fund balance as a percent of spending of 20%. The county is in compliance with its goal.

The fiscal 2016 budget of approximately \$269.7 million is essentially flat to fiscal 2015. The budget includes a 1% decline in the tax levy due to a 3.75% decline in assessed value following a recent revaluation. The last revaluation was in 2008 at the height of the housing boom. The budget also includes \$3.2 million of appropriated fund balance up slightly from 2014.

The county's five-year financial projections show modest operating deficits. Fitch expects the county to address the projected shortfalls through its established practices of conservative budgeting and spending controls (the county typically underspends its budget by 3% - 4%).

## MODERATE DEBT PROFILE

Overall debt levels are moderately low at \$1,866 per capita and 1.9% of market value. The county's debt is mostly fixed rate, with variable rate debt (approximately \$18.5 million) accounting for a modest 4.5% of general government debt. In addition to variable rate exposure, the county has \$52.6 million of debt that is not subject to put risk or swap termination risk but is subject to refinance risk. The interest rate on the bonds converts to a maximum rate of 22% in the absence of an extension or renegotiation in May of 2019. Fitch believes refinance risk is minimal given the county's high credit quality. The county does not have any plans to issue additional variable rate debt.

Debt service costs are high, consuming about 18% of total governmental fund spending in fiscal 2015. Amortization of outstanding principal is rapid with roughly 68% of principal retired within 10 years.

The six year capital improvement plan totals \$211.9 million. The plan is expected to be funded with \$136.3 million of general obligation bonds which would need to be approved by voter referendum. Given debt amortizes rapidly and the county continues to grow, the additional debt is not expected to impact debt ratios. The remainder of the plan would be funded with pay-go capital spending.

Funding for pension obligations does not represent a cost pressure. The county contributes to four retirement plans including the well-funded state Local Government Employees' Retirement

System. The county's fiscal 2015 total contribution was an affordable \$4.7 million or 1.8% of governmental spending. For other post-employment benefits, the county pays its obligation on a pay-go basis. For fiscal 2015 the annual contribution represented 1.7% of spending and as of 2015 OPEB obligations were 31% funded. Total carrying costs were sizable at 21% of total governmental fund spending.

## GROWING ECONOMY

Union County is a rapidly growing, primarily residential, suburb of Charlotte. The county's population, estimated at 218,568 in 2014, grew an above average 8.6% since the 2010 census outpacing the growth rate of the state and nation. Population is projected to increase another 12% by 2020.

Most of the county's largest employers and taxpayers are manufacturing companies. Corporate expansions and developments have been limited in nature and focused on manufacturing and construction. The economy does have a significant agricultural component. The county posts the third highest level of agribusiness receipts in the state.

Economic indicators are positive. The employment base continues to expand, and unemployment continues to decline. As of August 2015, the unemployment rate was 5.2%, which is below the state and national rate. Wealth indicators are above state and national averages.

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Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to fewer than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch

anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from CreditScope, IHS Global Insight, and Zillow Group.

#### Applicable Criteria

Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=869942](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942)

Tax-Supported Rating Criteria (pub. 14 Aug 2012)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)

U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685314](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

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