

New Issue: Onslow (County of) NC

MOODY'S ASSIGNS A1 RATING TO ONSLOW COUNTY'S (NC) \$62.8 MILLION G.O. BONDS, SERIES 2006

A1 RATING APPLIES TO \$75.8 MILLION IN OUTSTANDING PARITY DEBT, INCLUDING CURRENT ISSUE

County
NC

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2006	A1
Sale Amount \$62,795,000	
Expected Sale Date 05/16/06	
Rating Description General Obligation Unlimited Tax	

Moody's Outlook No Outlook

Opinion

NEW YORK, May 10, 2006 -- Moody's Investors Service has assigned an A1 rating to Onslow County's (NC) \$62.8 million General Obligation Refunding Bonds, Series 2006. Concurrently, Moody's has affirmed the A1 rating on the county's \$13 million in previously-issued general obligation debt. The bonds are secured by the county's unlimited ad valorem tax pledge. Proceeds of the \$50 million School Bonds will be used to finance the construction of an elementary school and provide funding for expansions to existing school facilities. \$12.8 million of refunding bond proceeds will be used to refund the county's outstanding Series 1996 Public Improvement Bonds and Series 1996 School Bonds. The refunding will provide an expected net present value savings of approximately \$375,357, or 3% of refunded principal. The rating reflects the county's stable economy supported by a strong military presence; manageable debt levels; and healthy finances, with growing reserves.

STEADY GROWTH IN THE TAX BASE DRIVEN BY RESIDENTIAL DEVELOPMENT; LOCAL ECONOMY SUPPORTED BY TOURISM AND STRONG MILITARY PRESENCE

Moody's expects the county's economic base to remain stable, given a sizeable military presence, the growth in the tourism industry, and an increase in residential development. The county's average annual growth of assessed value has been a moderate 3.9% over the last five years, bringing the county's full valuation to an estimated \$6.3 billion in fiscal 2006. The county had its last revaluation in fiscal 2001, which resulted in a healthy 25.5% growth in full value. Officials expect the county's full value to reach approximately \$10.5 billion following a revaluation in fiscal 2007. The county's tax base is expected to benefit from ongoing residential development in the medium term, especially in and around the City of Jacksonville and along the coast. Located on the southeastern coast of North Carolina (rated Aa1/positive outlook), Onslow County is a drive-to tourist destination, with the growing tourism industry contributing to the area's economy. Although agriculture is a major source of revenue, in recent years the county has attempted to diversify its economy. The county is in the process of developing a new industrial park, which is expected to attract small to medium-sized industries once enhancements such as storm water improvements are completed. The county also has plans to use a portion of the park to create a county complex.

The county continues to derive economic benefits from the presence of the New River Marine Corps Air Station and Camp Lejeune Marine Corps base, which is the largest concentration of marines and sailors in the country, and the area's largest employer with a civilian and military workforce of approximately 46,000. The base remains a stable county resident, and military employment is expected to increase, based upon the recent announcement that two new infantry battalions will bring 2,600 Marines and about 3,500 of their dependents to the area. While the base is excluded from the county's taxable property, ongoing residential and retail developments around the base are driving steady annual increases in assessed valuation. Groundwater contamination relating to chemicals used at and near the base has occurred in downtown Jacksonville, but officials report that the state would be likely to provide grants if funding is required in the future to address the issue. Retail sales in the county are healthy, with a 7.7% increase from 2004 to 2005,

mostly reflecting the increase in commercial activity in and around the City of Jacksonville. County wealth levels fall below both state and national averages, reflecting the large military population, with 1999 median family income and per capita income at 79.2% and 73.1% of the state levels, respectively. Per capita personal income for 2003 also remains slightly below the state level at 94% of the state average, and the county's full value per capita is a below average \$40,872. Unemployment, at 5.1% as of February 2006, remains at the state and national levels.

SOLID FINANCIAL POSITION WITH GROWING GENERAL FUND BALANCE

Moody's expects the county to maintain its satisfactory financial flexibility, given its history of strong fiscal management and growing reserves. The county ended fiscal 2005 with approximately \$40.1 million in General Fund reserves (33.4% of revenues), \$25.7 million (21.4% of revenues) of which was unreserved. According to officials, the \$8.9 million operating surplus in the General Fund balance at the end of fiscal 2005 was mainly due to conservative budgeting practices. The county has managed to build its reserves over the past two fiscal years, following two years of decline in reserves mainly as a result of the state's withholding of certain aid from municipalities in fiscal years 2002 and 2003. The county is looking to formalize its General Fund balance policy, which currently targets to maintain an unreserved General Fund balance at 16% of total expenditures.

Human services, which include Medicaid costs, are the county's primary expenditures, representing approximately 43.3% of operating expenditures. Another expenditure pressure of the county is education, which made up 23.9% of the county's operating expenditures in fiscal 2005. Intergovernmental and property tax revenues are the county's primary revenue streams, providing 35.1% and 34.6% of revenues, respectively, in fiscal 2005. Sales taxes comprised 22.2% of general fund revenues in fiscal 2005 and were 15.7% or \$3.6 million over budgeted levels, attesting to the conservative budgeting practices of the county. Although management has appropriated \$6.7 million of reserves to balance the budget for fiscal 2006, the county has historically budgeted for such draw downs and performed much better than budget. Officials expect an operating surplus of approximately \$4 million in fiscal 2006.

DEBT POSITION EXPECTED TO REMAIN MANAGEABLE DESPITE FUTURE DEBT PLANS

Moody's believes the county's debt position is manageable given a moderate debt burden of 1.5% of full valuation. The county employs an average repayment schedule with 66.1% of principal repaid within ten years. Currently, the county dedicates a portion of its two half-cent sales taxes to pay debt service for schools. The county is planning to keep its property tax rate approximately \$0.10 above the revenue-neutral rate after revaluation in fiscal 2007 to fund the new debt service. Officials are planning to issue \$15 million of Certificates of Participation within approximately 30 days of the current issuance to construct a new elementary school. The county also has \$40 million of authorized but unissued school bonds, which will be issued in 18 to 24 months. Upon issuance of all authorized debt and the Certificates of Participation, assuming conservative tax base growth of 3% annually, projected debt burden would grow to a still manageable 2.1% of full valuation as of fiscal 2008. Other future debt plans include \$18 million of installment financing for a new jail facility in fiscal 2007, approximately \$15 million of debt for a new administrative complex and \$6 million of debt for a new library, the timing of which is undetermined.

In fiscal 2005 the county turned over operations of its water and sewer system and transferred its public water and sewer system assets to Onslow Water and Sewer Authority (ONWASA). In exchange, ONWASA retired all of the county's water and sewer related debt.

KEY STATISTICS

2004 Population (estimate): 154,297

2006 Full Valuation: \$6.3 billion

Full value per capita: \$40,872

1999 Per Capita Income as a % of state: 73.1%

2003 Per Capita Personal Income as a % of State: 94%

1999 Median Family Income as a % of state: 79.2%

Debt burden: 1.5%

Payout of principal (10 years): 66.1%

FY05 Total General Fund balance: \$40.1 million (33.4% of General Fund revenues)

FY05 Undesignated General Fund balance: \$13.8 million (11.5 % of General Fund revenues)

Post-issue parity debt outstanding: \$75.8 million

Unemployment (February 2006): 5.1%

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