Moody's Rating
June 12, 2014

MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Isle of Wight County, VA's $36.4M GO Refunding Bonds, Ser. 2014A&B

Global Credit Research - 12 Jun 2014

Affirms Aa2 affecting $142.9M of parity debt

ISLE OF WIGHT (COUNTY OF) VA
Counties
VA

Moody's Rating

ISSUE		RATING
General Obligation Refunding Bonds, Series 2014A (Tax-Exempt)		Aa2
Sale Amount	$24,100,000	
Expected Sale Date	06/17/14	
Rating Description	General Obligation	
General Obligation Refunding Bonds, Series 2014B (Taxable)		Aa2
Sale Amount	$12,300,000	
Expected Sale Date	06/17/14	
Rating Description	General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, June 12, 2014 --Moody's Investors Service has assigned a Aa2 rating to Isle of Wight County's (VA) $24.1 million General Obligation Refunding Bonds, Series 2014A (Tax-Exempt) and $12.3 million General Obligation Refunding Bonds, Series 2014B (Taxable). The bonds are secured by the county's general obligation, unlimited tax pledge. Concurrently, Moody's has affirmed the county's Aa2 general obligation bond rating affecting approximately $142.9 million of parity debt.

The Series 2014A issue will refund the Series 2008B, Series 2010D, Series 2011A and Series 2012A bonds, as well as the Series 1999 and Series 2011C literary loans for an estimated net present value loss of $1.8 million or - 7.4% of refunded principal. The Series 2014B issue will refund the Series 2005, Series 2010D, Series 2011A and Series 2012 bonds for an estimated net present value loss of $1.1 million or 9.3% of refunded principal. Under both series, the maturities will be extended by 17 years to provide the county with a more level debt service schedule over the long-term, as well as more financial flexibility in the short-term as most of the savings will be realized up front. Overall, the extended maturity on these bonds does not exceed the final maturity of the county's aggregate debt profile.

SUMMARY RATINGS RATIONALE

The Aa2 rating reflects the county's sizable tax base that weathered the loss of its major taxpayer in fiscal 2011, the stable underlying economy representative of the Hampton Roads region, and above-average debt burden. The rating also reflects the county's currently healthy reserve levels that are expected to decline, but still remain satisfactory in the near-term, as the county implements a three-year plan to achieve structural balance and stabilize its financial position. Any deviation from this plan could result in negative credit pressure.

STRENGTHS

- Sizeable tax base

- Healthy reserve levels

- Adoption of three-year plan to address structural imbalance

CHALLENGES

- Ability to achieve structural balance and maintain reserves in line with current rating category

- Above average debt burden

DETAILED CREDIT DISCUSSION

RECENT TAX BASE CONTRACTION RESULTING FROM LOSS OF TOP TAXPAYER; LONG-TERM STABILITY EXPECTED

Isle of Wight County's $5 billion tax base is expected to exhibit long-term stability given its strategic location in the southeastern Virginia, Hampton Roads region. Furthermore, the county has demonstrated an underlying robustness to its tax base following the closure of its largest tax payer (represented 12% of total assessed value in fiscal 2011) and second-largest employer, International Paper Company (senior unsecured rated Baa2/stable). International Paper's facility, which employed approximately 1,100 or approximately 5.8% of the county's labor force at peak, ceased operations in fiscal 2011. Positively, the effects of the closure have been partially mitigated by an $83 million investment from International Paper to repurpose a portion of the plant for another product line, a $60 million from Tak Investments to use another portion of the facility to manufacture recycled tissue, and a $14.8 million investment from Franklin Lumber restart operations at International Paper's sawmill. All of these plants are currently in operation and have created over 300 new jobs for the county.

County management continues to pursue a long-term development strategy centering on a 1,500 acre Intermodal Industrial Park Complex, which already includes a one million square foot retail distribution center for the national retailer Cost Plus and a 300,000 square foot distribution center for the furniture retailer, SAFCO. In addition, Keurig Green Mountain, Inc (rated Ba2/stable) recently established a production and distribution facility at the Intermodal Park with plans to invest $180 million over a five-year period (2011-2015) and hire as many as 800 employees (currently operating at approximately 350 employees). Additionally, the county expects to be well positioned to attract a number of new developments after the widening of the Panama Canal in 2014 citing the Port of Virginia's (Virginia Port Authority, Lease Revenue rated Aa1/stable) ability to receive the new super-tankers and provide easy access to rail lines located in the intermodal complex.

The county experienced an average annual decrease in full valuation of 1.1% from 2008 to 2013, inclusive of 3.8% (fiscal 2011), 8.9% (fiscal 2012), and 1.1% (fiscal 2013) declines, reflecting the closure of International Paper. Going forward, the county is projecting modest growth, which incorporates the repurposing of the International Paper plant. The county's unemployment rate continued to decline to 4.6% in April 2014, which was below both the state (4.7%) and national (5.9%) rates. In addition, full value per capita at $140,292 remains well above state (125.6%) and national (185.1%).

HEALTHY RESERVE POSITION EXPECTED TO DECLINE IN NEAR-TERM; LONG-TERM PLAN TO ACHIEVE STRUCTURAL BALANCE

The county's healthy reserve levels are expected to decline, but remain satisfactory in the near-term, due to management's decision to address the county's structural imbalance and stabilize the financial position through implementation of a three-year transition plan. The county has consistently maintained a healthy financial position well above its 10% fund balance policy (17% of expenditures in fiscal 2013) while transferring funds for capital projects and other one-time uses. Most recently, the county ended fiscal 2013 with a $4.7 million decline in General Fund balance to $16.8 million, or a sound 29% of General Fund revenues, due to unrealized asset sales and one-time capital expenditures. Property taxes accounted for the county's largest revenue source (64.3% of total revenues) in fiscal 2013, followed by state aid (14.5% of total revenues).

The fiscal 2014 budget represents a 2% increase relative to the prior year's budget and does not include any appropriation of fund balance. The budget includes a $0.08 (per $100 of assessed valuation) property tax rate increase, $0.05 of which is an equalization to offset recent declines in the county's tax base, with the remaining $0.03 expected to generate $1.2 million in additional revenue. Based on preliminary estimates, the county expects to end fiscal 2014 with a $2.5 million decline in General Fund balance to $14.3 million or a still healthy 23.5% of General Fund revenues. The county was originally anticipating a $3.9 million draw on reserves, but was able to realize unexpected savings related to educational and other departmental costs. Overall, revenues are expected to end slightly under-budget due to under-performance of property and other local taxes, while expenditures will end slightly over budget due to increased public safety costs.

In fiscal 2015, the county plans to begin implementing a three-year transition plan that will help achieve structural balance and stabilize the county's overall financial position. The fiscal 2015 budget represents an 11% increase from the fiscal 2014 budget and includes $3.2 million in appropriated fund balance. The fund balance appropriation funds water contract reservation fees with Western Tidewater Water Authority that has previously been debt financed. The county raised rates for water and sewer customers in fiscal 2015 to try and help offset General Fund support. The budget also includes a $0.12 (per $100 of assessed valuation) property tax rate increase, of which $0.10 will address the fiscal 2014 operating deficit, while the remaining $0.02 will provide increased funding to schools, whose budget rose 4% year-over-year. Despite the property tax rate increase in fiscal 2014 and fiscal 2015, the county's tax rate remains among the lowest in the Hampton Roads region. Going forward, the county expects to utilize another $1.6 million in appropriated fund balance in fiscal 2016, before achieving structural balance in fiscal 2017. Any deviation from this plan, including larger-than-anticipated draws on reserves in fiscal 2014, fiscal 2015, and fiscal 2016, as well as any deviation from achieving structural balance by fiscal 2017, will result in negative credit pressure.

ABOVE AVERAGE DEBT BURDEN REMAINS MANAGEABLE

Isle of Wight's above average 3.0% direct debt burden will likely increase, given near-term debt plans and below average amortization of principal (34.2% retired within 10 years), but is expected to remain manageable due to the county's debt affordability policies that required the direct debt burden to remain under 4% of assessed valuation. The county also maintains a debt policy that requires annual debt service costs to be no more than 12% of expenditures (8.8% in fiscal 2013). The county's $120.9 million capital improvement plan (2015-2019) includes $108 million of additional borrowing over the next five years primarily for water improvements (27.5%), economic development (15.9%), schools (12.7%), and transportation (9.6%). The county has no exposure to variable rate debt and is not party to any derivative agreements.

The county and the county school board participate in the Virginia Retirement System defined benefit pension plan administered by the Commonwealth of Virginia (GO rated Aaa/stable). In fiscal 2013, the county's annual required contribution (ARC) was $1.8 million (2.0% of operating expenditures), while the ARC for the school board pension was $0.2 million (0.3% of operating expenditures). The county contributed 100% of its ARC for both of its pension plans in fiscal 2013. The county's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data is $97 million, or approximately an average 1.05 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities. We determined the county's share of liability for the state-run plans in proportion to its contributions to the plans.

The county and school board also provide Other Post-Employment Benefits (OPEB) to employees. The total ARC for the county's OPEB (governmental and business activities) totaled $0.2 million (0.3% of operating expenditures) and the school board's OPEB ARC totaled $0.8 million (0.9% of operating expenditures) in fiscal 2013. The county contributed 13.9% of the ARC ($32,383 or 0.04% of operating expenditures), while the school board contributed 33.9% of the ARC ($267,803 or 0.3% of operating expenditures). Fixed costs including annual pension, OPEB and debt service expenditures summed to a moderate 11.4% of fiscal 2013 expenditures.

WHAT COULD MAKE THE RATING GO UP:

- Significant growth in tax base and wealth levels

- Increase in reserves providing additional financial flexibility

- Ability to achieve and maintain structural balance

- Decreased debt burden

WHAT COULD MAKE THE RATING GO DOWN:

- Substantial decline in tax base and wealth levels

- Diminished financial reserves beyond current projections

- Continued structural imbalance

- Elevated debt burden

KEY STATISTICS:

2013 Tax Base Size - Full Value (in 000s): $4,966,179

2013 Full Value Per Capita: $140,292

2010 Median Family Income as % of US median: 113.9%

2013 Fund Balance as % of Revenues: 19.55%

Five-Year Dollar Change in Fund Balance as % of Revenues: -6.58%

2013 Cash Balance as % of Revenues: 25.31%

Five-Year Dollar Change in Cash Balance as % of Revenues: -6.64%

Institutional Framework: Aaa

Operating History - Five-Year Average of Operating Revenues/ Operating Expenditures: 0.98x

Net Direct Debt/Full Value: 3.00%

Net Direct Debt/Operating Revenues: 1.75x

Three-Year Average of Moody's Adjusted Net Pension Liability/Full Value: 0.88%

Three-Year Average of Moody's Adjusted Net Pension Liability/Operating Revenues: 0.48x

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Standard and Poor's Rating

June 17, 2014

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:

Isle Of Wight County, Virginia; General Obligation

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Table Of Contents

Summary:

Isle Of Wight County, Virginia; General Obligation

Credit Profile		
US$25.0 mil go bnds (Tax-exempt) ser 2014A due 07/01/2039		
Long Term Rating	AA/Stable	New
US$11.353 mil go rfdg bnds (Taxable) ser 2014B due 07/01/2039		
Long Term Rating	AA/Stable	New
Isle of Wight Cnty GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and stable outlook to Isle of Wight County, Va.'s series 2014A and 2014B general obligation (GO) refunding bonds and affirmed its 'AA' rating, with a stable outlook, on the county's existing GO debt based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect.

The county's full-faith-and-credit pledge secures the GO bonds. Officials intend to use bond proceeds to refund previously issued GO bonds.

The rating reflects our opinion of the following factors for the county, including its:

- Strong economy that is large, diverse, and primarily residential and benefits from its location and participation in the broad and diverse Hampton Roads regional economy;
- Very strong budgetary flexibility with fiscal 2013 audited available general fund reserves equal to 26.6% of general fund expenditures, mitigated, in part, by recent drawdowns and a fiscal imbalance expected through fiscal 2016;
- Weak budgetary performance due to a budgetary imbalance over the past couple of fiscal years management has taken measures to correct, including raising the property tax rate by 20 cents within the past two years;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Strong management conditions with "good" financial management policies and practices under our Financial Management Assessment (FMA) methodology; and
- Very weak debt and contingent liabilities due to high net direct debt as a percent of revenue, moderate carrying charges, moderate net debt, and below-average amortization.

Strong economy

Isle of Wight County, with a population estimate of 36,462, is in southeastern Virginia in the Tidewater area. The still largely rural county is part of the greater Hampton Roads region. Nearly one-third of the county's labor force works in the manufacturing sector. Leading private employers include:

- Smithfield Foods (5,000 employees), serving the northern county;
- Keurig Green Mountain (350); and
- International Paper (220).

The county's economy experienced a major setback in October 2009 when International Paper, with 1,100 employees at the time, abruptly announced the closure of its paper mill in the county. Following the closure, unemployment increased moderately, peaking at 7.3% in 2010; unemployment, however, has since improved considerably to an average of just 5.6% in 2013.

The county continues to experience economic growth, which should aid in job growth over the next several years. In July 2012, International Paper invested $90 million to repurpose a portion of the plant as a fluff pulp mill, which created roughly 225 new jobs. In addition, Tak Investments Inc. invested $60 million to establish a recycled tissue plant on a portion of the closed International Paper facility; this new plant currently employs 65, and we understand it should employ 85 when fully operational. Furthermore, start-up operations began at Green Mountain Coffee Roasters Inc. in fall 2012; the company grew to 350 employees by the end of 2013. According to officials, Green Mountain will invest $180 million into this new facility over the next five years; we understand employment at the site could increase to 800 over the next five years. According to a report published by Virginia Economic Development Partnership, by 2017, the region should recoup most of the 1,100 jobs lost due to the International Paper plant closure.

Historically, the county has experienced, what we view as, good assessed value (AV) growth due to economic development and ongoing residential construction, primarily in the Smithfield area. Following the International Paper plant closure and the national housing market decline, however, AV decreased by 13.3% over the past three fiscal years to $5 billion in fiscal 2013. Despite this decrease, market value remains, in our opinion, an extremely strong $136,201 per capita. Projected per capita effective buying income is 107.4% of the national level.

Very strong budget flexibility

Isle of Wight County has a history of maintaining, what we consider, very strong available general fund balances. At fiscal year-end 2013, general fund balance totaled $16.7 million, or, what we consider, a very strong 26.6% of general fund expenses. Due to a fiscal imbalance that began in fiscal 2013 from decreasing tax revenue and increased operating expenses, however, the county has drawn down reserves recently; it expects a budget gap through fiscal 2016. We understand that management expects a $2.5 million drawdown in fiscal 2014 and that it expects budget gaps of $3.2 million in fiscal 2015 and $1.6 million in fiscal 2016 before fully balancing the budget in fiscal 2017. Nonetheless, we believe budget flexibility will likely remain, what we consider, at least strong over the next two fiscal years.

Weak budgetary performance

In our view, overall budgetary performance is weak in fiscal years 2013 and 2014. For fiscal 2014, management increased the real estate tax rate by eight cents, five cents of which represents an equalization from an AV decrease and three cents of which provides additional property tax revenue of $1.2 million. Despite the tax rate increase, we understand management expects to draw down reserves by roughly $2.5 million due to a fiscal imbalance. Management attributes, what we consider, the weak performance for fiscal 2014 to increased operating expenses outpacing tax revenue that has stagnated due to the recession. In addition, management has identified budget gaps in fiscal years 2015 and 2016 that it continues to address.

In response to the drawdowns and projected budget gaps, management increased the real estate tax rate again for the fiscal 2015 budget. The 12-cent increase consists of 10 cents to help balance operations and two cents for county schools; this increases the total tax rate to 85 cents per $100 of AV. Despite total increases of 20 cents over the past two years, the tax rate remains, in our view, competitive with other Virginia counties. Management also reduced discretionary and pay-as-you-go capital expenses to help balance the budget by fiscal 2017.

The county closed fiscal 2013 with a drawdown of $4.7 million. Available general fund balance totaled $16.7 million, or 26.6% of expenditures and transfers, a level we consider very strong.

Very strong liquidity

We consider Isle of Wight County's liquidity very strong with available cash equal to 30% of total governmental funds expenditures and more than 2x debt service. In addition, we believe the county has strong access to external liquidity.

Strong management

We view the county's management conditions as strong. Standard & Poor's considers the county's financial management practices and policies "good" under its FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Very weak debt and contingent liabilities profile

In our opinion, the county's debt and contingent liabilities profile is very weak with debt service of 11.8% of operating expenditures and net direct debt of more than 2x county operating revenue. In our view, the overall debt-to-market-value ratio is a moderate 3.2%. We consider principal debt amortization below-average with officials planning to retire roughly 34% over 10 years.

We view the fiscal years 2015-2019 capital improvement plan (CIP) of approximately $120 million as manageable. The county currently expects to fund 89.3% of the CIP primarily through additional debt and the remainder with grants and donations. We do not expect the county's debt profile to change materially due to its debt management policies.

The county contributes to the Virginia Retirement System for retirement benefits. The county has historically funded 100% of the annual required contribution (ARC) for pension liabilities. In fiscal 2013, the ARC was $1.8 million, or 2.7% of governmental expenditures. As of June 30, 2011, the pension liability was 76.1% funded. In addition, the county provides postemployment health care benefits to eligible employees. As of July 1, 2012, the unfunded actuarial accrued liability was $1.3 million for the county and $6.5 million for the school board.

Very strong Institutional Framework

We consider the Institutional Framework score for Virginia counties very strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of the county's diverse local economy and participation in the broader Hampton Roads regional economy. The outlook also reflects our expectation that the county will likely make the necessary budget adjustments to achieve structural balance by fiscal 2017, according to its three-year financial plan, while maintaining, what we consider, strong reserves. If the county were to fail to achieve structural balance within the next two fiscal years, we could lower the rating. Furthermore, if the county were to diminish budgetary flexibility or liquidity materially by drawing down reserves to levels that are no longer commensurate with the rating, we could lower the rating.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Virginia Local Governments

Ratings Detail (As Of June 17, 2014)		
Isle of Wight Cnty GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Isle of Wight Cnty GO pub imp & rfdg bnds dtd 02/01/2003 due 02/01/2004-2023		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Fitch Rating

June 11, 2014

FITCH RATES ISLE OF WIGHT COUNTY, VA'S GO BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-11 June 2014: Fitch Ratings assigns an 'AA' rating to the following general obligation (GO) bonds of Isle of Wight County, Virginia (the county):

--$24.9 million series 2014A (tax-exempt);
--$12.31 million series 2014B (taxable).

The bonds will sell via negotiated sale on or about June 24. Proceeds will be used to restructure a portion of the county's debt for upfront debt service saving.

In addition, Fitch affirms the following rating:

--$132.63 million in outstanding county GO bonds at 'AA'.

The Rating Outlook is Stable.

SECURITY

The bonds are general obligations of the county, secured by its full faith and credit and unlimited taxing power.

KEY RATING DRIVERS

FISCAL IMBALANCE: Unrealized revenue projections and increasing debt service costs resulted in an operating deficit in fiscal 2013 and a projected deficit for fiscal 2014. Measures planned for the next several fiscal years are projected to restore budgetary balance.

MODERATE DEBT LEVELS: Debt levels should remain moderate given no additional debt plans. The amortization is slow at 34% retired in 10 years.

SOUND RESERVE LEVELS: Despite the fiscal 2013 operating deficit, general fund reserves remain healthy with an unrestricted balance of roughly 25% of spending at year-end.

DIVERSIFYING ECONOMY: The county's employment base remains heavily concentrated in manufacturing, although this risk is somewhat offset by the diversity exhibited in the broader regional economy and continued local investment in non-manufacturing enterprises.

RATING SENSITIVITIES

STRUCTURAL BALANCE: The rating is sensitive to the county's ability to meet current projections for fiscal 2014 operations, and to reverse a recent trend of operational imbalance and maintain satisfactory reserve levels going forward.

CREDIT PROFILE

Isle of Wight County is located in the Hampton Roads region of southeastern Virginia. The county's population is small at an estimated 35,656 in 2013, but growth has been strong with a 19% increase over the past decade. The population is expected to increase an additional 10% by 2020.

HEALTHY RESERVES MAINTAINED DESPITE DECLINES

Reflecting a planned use of reserves for one-time capital spending and a smaller than expected gain from the sale of certain assets, fiscal 2013 ended with a larger than projected $4.66 million operating deficit. The unrestricted balance was reduced to $16.65 million but was still strong at 25.8% of general fund spending.

The adopted fiscal 2014 budget included an eight cent real estate tax increase ($3.2 million in additional revenue) and no fund balance appropriation. The county prudently implemented a tax rate increase to fund education and public safety increases, and five cents was dedicated to the equalization of revenues to offset assessed value declines. Management reports the decline was due to a decline in real estate values following reassessment.

Estimated year-end results show a manageable $2.5 million operating deficit (4% of projected 2014 spending), further reducing the unrestricted balance to $14.15 million or a still healthy 22% of general fund spending. Management reports the operating deficit was mostly due to an error in the budgeting of property tax revenues.

The county's fund balance policy requires the unassigned general fund balance to equal 10% of budgeted governmental funds expenditures, plus budgeted expenditures in the school operating and food service funds. Fitch believes the policy is conservative in that it measures fund balance against much larger spending base. The county remains in compliance with its policy.

Liquidity has declined but remains satisfactory with approximately three months of cash on hand, down from approximately four and half months in fiscal 2011.

PLAN TO REGAIN FISCAL BALANCE

The fiscal 2015 budget addresses the initial $3.9 million gap from fiscal 2014, $700,000 in additional school needs and a $3.2 million conversion of water reservation fees from being accounted for as capital to operating expenses. County management has prudently developed a plan to regain balanced operations with a combination of revenue raising measures (one-time and recurring) and spending reductions.

The county had previously bonded for the funding of the water reservation fees. The county's new management has discontinued that practice and has added the reservation fees to operating expenditures. Although the fiscal 2015 budget includes rate increases, the public utilities fund is not self-supporting and will continue to require support from the general fund.

The first year of the plan, which has been adopted by the Board of Supervisors, includes a $.12 cent real estate tax increase that is expected to generate approximately $4.8 million in additional revenue, and a $3.2 million use of fund balance. Despite being the second consecutive tax rate increase, the tax burden remains low relative to rates of neighboring communities and affords additional financial flexibility.

Management expects to balance operations in fiscal 2016 with additional revenues from a property reassessment scheduled for fiscal 2015 and a $1.6 million use of fund balance. A number of development projects have been approved recently, including 1,583 new single family homes and apartments, nearly 1,000 square feet of retail space and a 100-room hotel. These projects are expected to generate an increase in various revenues, including meals and lodging taxes, water/sewer connection and usage fees and property taxes.

Future rating actions will reflect the county's ability to balance operations with recurring revenues and minimize or eliminate the use of reserves to close budget gaps.

MANUFACTURING BASED ECONOMY BEGINNING TO DIVERSIFY

The county's economy remains concentrated in manufacturing (29% of employment) but is diversifying as a result of the increased demand for warehousing and distribution being driven by the growth of the nearby Port of Virginia. Fitch anticipates that the presence of the port, with its commercial and military activities, will continue to help broaden the local economy.

Per capita and median household income metrics are above the national average and track closely to those of the state despite the high number of local manufacturing jobs.

The county's employment base has done well to recover from the loss of 1,100 jobs due to the closure of an International Paper facility in 2010. At 5.5% as of March 2014 the county's unemployment rate tracks well below the national average and has significantly improved from a high of 7.4% in 2010.

In July 2012, International Paper invested $90 million and reopened a portion of the mill, creating 220 plus jobs. Also in July 2012, Tak Investments, Inc. announced it would invest $60 million to establish a recycled tissue plant at the International Paper site. In June 2013, Franklin Lumber LLC announced that it would purchase the idle International Paper sawmill and restart operations, investing $14.8 million over five years and creating 72 jobs.

Also, the county is continuing to develop a 3,200 acre intermodal industrial complex along U.S. Route 460 in the Windsor section of the county. To date, Keurig Green Mountain Coffee opened a $180 million facility in the park, and several other companies also have located facilities there.

MODERATE DEBT PROFILE; DEBT RESTRUCTURING WILL RELIEVE COST PRESSURES

Fitch expects the county's moderate overall debt ratios (3.9% of market value or $4,348 per capita) will remain largely unchanged given the county's lacks of additional borrowing plans, modest assessed value growth assumption and slow amortization rate following the current restructuring. Debt ratios also include GO water and sewer bonds, as the utility system is currently not self-supporting.

Debt service expenditures accounted for 10.3% of total governmental spending in fiscal 2013, up sharply from the prior year's expense of 4.15%. The current amortization schedule includes a doubling in annual debt service payments by fiscal 2016. The substantial increase is mostly due to the maturity of the $7.5 million literary anticipation note.

This restructuring refinances the literary loan and extends the maturities of the county's water and sewer debt. The county is expecting to achieve $27.4 million in total cash flow saving through 2023, with a present value cost of $2.9 million.

The county participates in the state-wide Virginia Retirement System in a separate cost-sharing pool. The plan is adequately funded at 76% for county employees and assumes a discount rate of 7%. The county regularly contributes its annual required contribution (ARC). For fiscal 2013 the $1.9 million ARC equaled a modest 2.5% of total governmental spending.

The ARC to amortize the county's other post-employment benefits ($224,000) is also very manageable at a low 0.3% of total governmental spending, although the county currently funds this cost on a pay-as-you-go basis. Carrying costs for debt service, pension and OPEB totaled a low 12.8% of fiscal 2013 governmental fund spending.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors, Virginia Employment Commission.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314