

RatingsDirect®

Summary:

Onslow County, North Carolina; Appropriations; General Obligation

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

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Credit Profile

Onslow Cnty GO

Unenhanced Rating

AA(SPUR)/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Onslow County, N.C.'s general obligation (GO) debt one notch to 'AA' from 'AA-' based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect. The outlook is stable.

Standard & Poor's also raised its rating on the county's limited obligation bonds and certificates of participation (COPs) one notch to 'AA-' from 'A+'. The outlook is stable.

The county's full-faith-and-credit pledge secures the bonds and COPS.

The rating reflects the following factors for the county:

- Onslow County, with a population estimate of 182,000, occupies about 767 square miles in southeastern North Carolina, along the Atlantic Coast. The county is about 120 miles east of Raleigh and 50 miles north of Wilmington. The local economy relies heavily on the military: Camp Lejeune Marine Corps Base contributed \$3.6 billion in 2010. The camp currently employs approximately 45,000. In March 2012, the federal government announced it would reduce troops at the base by 5,800 as part of a total force reduction; world events, however, slowed down the reduction process. According to management, Camp Lejeune's population remained stable at 45,000; it expects this number to remain stable over the next few years. Due to the military presence, however, the local economy is, in our opinion, weak with projected per capita effective buying income of 70% of the national average. Market value is roughly \$73,600 per capita. Unemployment was 7.6% in 2013, according to the U.S. Bureau of Labor Statistics. No property tax base concentration exists with the 10 leading taxpayers accounting for a very diverse 2.8% of assessed value.
- In our view, with available reserves of 20.9% of operating expenditures in fiscal 2013, budgetary flexibility is very strong. Apart from available fund balance of \$33.8 million, the county also maintains reserves of up to \$13.4 million, or 8% of expenditures, under state statute stabilization. Management reserves another \$12.1 million, or 8% of expenditures, for disaster management, capital improvement, and health benefits. Management estimates the county has added approximately \$307,000 to total general fund balance in fiscal 2014. Although management has budgeted for a fund balance drawdown of \$13.1 million in fiscal 2015, we understand the county could add another small surplus in-line with previous fiscal years.
- In our opinion, overall budgetary performance is strong with surpluses of 0.2% for the general fund and 0.9% for total governmental funds in fiscal 2013. Management reports a small operating surplus of 1.8% for the general fund at fiscal year-end 2014. Following, what we regard as, conservative budgeting practices, the county has budgeted

for an operating deficit of \$13.1 million, or 7.1% of expenditures, for the general fund in fiscal 2015. Management, however, expects another small operating surplus for the general fund at fiscal year-end 2015.

- In our view, very strong liquidity supports Onslow County's finances with available cash of 44% of total governmental funds expenditures and 3.7x debt service coverage. Based on past debt issuance, we believe the county has strong access to capital markets to provide liquidity, if necessary.
- In our opinion, Onslow County's management conditions are very strong with "strong" financial management practices under our Financial Management Assessment methodology, indicating practices are strong, well embedded, and likely sustainable. Assessment strengths include, what we consider, management's strong revenue and expenditure assumptions in the budgeting process, strong oversight in terms of monitoring progress compared to the budget during the year, and formally adopted long-term financial plan and five-year capital plan. In addition to following the 8% undesignated fund balance, the local government commission recommends the county maintain a separately established policy that requires a minimum 15% of expenditures. Furthermore, management's goal is to maintain 25% of general fund operating reserves to provide additional liquidity during emergencies. The county also has debt management and investment management policies.
- In our view, Onslow County's debt and contingent liabilities profile is strong. Debt service is 11.9% of total governmental funds expenditures, and net direct debt is 101% of total governmental funds revenue. Officials plan to retire approximately 72% of debt over 10 years, which we consider a credit strength. We view the net-debt-to-market-value ratio as a low 1.3%, which we consider a positive credit factor. We understand the county has significant debt issuance planned over the next few years, mainly to fund middle school construction and other various capital needs. We, however, believe the debt score will remain strong even after management addresses its additional capital needs. We recognize the county makes its full-required annual contribution to the North Carolina Local Governmental Employees' Retirement System. The county also provides other postemployment benefits (OPEB) to employees hired before June 30, 2009, which it finances through pay-as-you-go financing. The combined annual pension and OPEB cost accounted for 2.7% of total governmental expenditures in fiscal 2013. The OPEB unfunded liability was \$17 million as of Dec. 31, 2011.
- We consider the Institutional Framework score for North Carolina counties very strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Onslow County's consistent maintenance of its very strong budgetary flexibility, coupled with a historical record of strong budgetary performance. We believe what we consider the county's very strong financial management policies and very strong liquidity provide further rating stability. We do not currently expect to change the rating further within the outlook's two-year period. In our opinion, however, a reduced dependency on military employment and improved income could potentially contribute to our raising the rating. Although unlikely, we could lower the rating if the county were to fail to maintain, what we consider, very strong budgetary flexibility and liquidity following a weak budgetary performance.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Related Research

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

Ratings Detail (As Of August 28, 2014)

Onslow Cnty taxable ltd oblig bnds		
<i>Long Term Rating</i>	AA-/Stable	Upgraded
Onslow Cnty tax-exempt ltd oblig bnds		
<i>Long Term Rating</i>	AA-/Stable	Upgraded
Onslow Cnty GO		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Onslow Cnty COPs		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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