# New Issue: MOODY'S ASSIGNS Aa2 RATING TO BERKELEY COUNTY'S (SC) $17.6M G.O. REFUNDING BONDS, SERIES 2012; NEGATIVE OUTLOOK REMOVED

Global Credit Research - 24 Feb 2012

## Aa2 RATING APPLIES TO $68.4M IN PARITY DEBT, INCLUDING THE CURRENT OFFERING

BERKELEY (COUNTY OF) SC
Counties
SC

**Moody's Rating**

| ISSUE | RATING |
|---|---|
| General Obligation Refunding Bonds, Series 2012 | Aa2 |

| | |
|---|---|
| **Sale Amount** | $17,650,000 |
| **Expected Sale Date** | 02/29/12 |
| **Rating Description** | General Obligation |

**Moody's Outlook** NOO

**Opinion**

NEW YORK, February 24, 2012 --Moody's Investors Service has assigned a Aa2 rating to Berkeley County's (SC) $17.6 million General Obligation Refunding Bonds, Series 2012. Concurrently, Moody's has affirmed the Aa2 rating and removed the negative outlook to $68.4 million of outstanding general obligation debt. The bonds are ultimately secured by the county's unlimited ad valorem tax pledge.

SUMMARY RATINGS RATIONALE

The Aa2 rating reflects the county's steadily growing tax base, slightly below-average wealth levels, solid financial operations and manageable debt position. The removal of the negative outlook reflects management's ability to replenish fund balance to levels in excess of the county's formalized unassigned fund balance policy of 15%.

STRENGTHS:

-Large and growing tax base located in the Charleston area

-Solid financial position with conservative financial policies

CHALLENGES:

-Limited growth opportunities in the long-term given that a substantial portion of the county tax base is federal government land including the Francis Marion National Forest

DETAILED CREDIT DISCUSSION

FUND BALANCE LEVELS NOW IN LINE WITH COUNTY'S FORMALIZED POLICY

The county's fund balance has significantly improved over the past two years reflecting management's proactive stance to replenish fund balance after three years of stagnation and below average fund balance levels. Fund balance levels are now in excess of management's formalized policy to maintain a minimum of 15% unassigned fund balance. The replenishment of fund balance was due to a number of county initiatives including conservative budgeting on expenses, a hiring freeze, furloughs, significant cuts in discretionary spending, and diverting $2 million per year from the county's multi-county park fee-in-lieu-of-tax (MCPFILOT) payments from companies within the county's industrial parks.

Fiscal 2011 ended with a General Fund balance increase of $3 million increasing fund balance to $12.6 million (22.7% of revenues) from $9.6 million (16.7% of revenues) in fiscal 2010. The increase in fund balance was due to conservative budgeting of expenditures, which finished the year $700,000 under budget, and transfers into the General Fund of $2.3 million. As mentioned above, management has been transferring in MCPFILOT payments to the General Fund and positively has not budgeted these revenues at the beginning of the year. Management expects to make the transfers again in fiscal 2012 and then use those funds to begin to establish and reserve for other post employment benefit (OPEB) liabilities. Negatively, General Fund revenues finished the year slightly below budget driven by a weakness in fees and permits. The fiscal 2012 budget was balanced without a mill rate increase, the fifth straight year without an increase in property tax rates, and no appropriation of fund balance. Management again did not budget revenues from MCPFILOT revenues but does expect to again transfer in $2 million to the General Fund. Given the transfer, and that management reports that revenues are on budget and expenditures are tracking below budget, management expects to end the year with another addition to fund balance.

Approximately 40% of budgeted 2011 General Fund revenues are derived from property taxes, followed by local option sales tax revenues (14.6%) and fines and fees (14%). The local option sales tax revenues are used to rebate property taxes levied within the county during the fiscal year. The county's current year levy collection rates dropped significantly in fiscal 2011 to 87.3% from 91.5% which management attributes to a timing issue when factoring in the receipt of vehicle taxes. Total levy collections for the year were at 92.5%.

DIVERSE LOCAL ECONOMY EXPERIENCING HEALTHY GROWTH

Moody's expects continued tax base expansion in the county, given ongoing residential, commercial, and industrial development, albeit at a slower rate given the ongoing economic recession and that a substantial portion of the county tax base is federal land. The county benefits from its location near the City of Charleston (G.O. rated Aa1) and its port, which helps to attract diverse industries to the area. Daniel Island, a rapidly growing part of the City of Charleston, is located within the county, and has drawn a mix of industry, as well as high-end residential development. While Daniel Island is a major driver of growth in the county's tax base in recent years, the county's economy has diversified through regional economic initiatives with the Counties of Dorchester (G.O. rated Aa2) and Charleston (G.O. rated Aaa), attracting more business to the county's industrial parks. A substantial portion of the county's tax base is federal government land from which the county will receive approximately 25% of gross proceeds from the sale of timber in the National Forest. The county's local employment base is diverse, and includes software, steel, pharmaceutical, medical supply, and chemical manufacturers such as Blackbaud, Nucor (Sr. Unsec. rated A2/negative outlook), and Alcoa. In calendar year 2011 the county had $534.8 million in capital investments, the highest since 2006, and included seven new companies. The new Boeing plant, located in the City of North Charleston (G.O. rated Aa2, negative outlook) has driven new growth within the county with three new companies, related to the airline company, investing in new facilities within the county. The county's population increased by 24.7% from 2000 to 2010 reflecting rapid growth in the tri-county region.

DEBT POSITION EXPECTED TO REMAIN MANAGEABLE

Moody's expects the county's debt burden to remain manageable, given ongoing tax base growth in the county. The considerable overlapping debt of the Berkeley County School District (G.O. rated Aa3/stable outlook) increases the county's overall debt burden to a still-average 1.5% of full valuation and Moody's does not expect this to adversely affect the county's ability to manage its own capital program, as direct debt burden remains minimal at 0.6% of full valuation. Amortization of debt is average, with 65% of principal retired within 10 years. The county does not currently have plans to issue any new debt. The county has no exposure to variable rate debt or derivative products.

WHAT COULD CHANGE THE RATING UP:

-Significant improvement in county wealth indices and continued tax base expansion.

-Significant increases in reserves and liquidity.

WHAT COULD CHANGE THE RATING DOWN:

- Structurally imbalanced operations

-Declining reserve levels below the county's formalized policy.

KEY STATISTICS

2010 population: 177,843

Fiscal 2012 full valuation: $14.5 billion

Full value per capita: $81,319

Overall debt burden: 1.5%

Direct debt burden: 0.6%

Payout of principal in 10 years: 65%

FY11 General Fund balance: $12.6 million (22.7% of General Fund revenues)

FY11 General Fund Unassigned balance: $12.4 million (22.2% of General Fund revenues)

1999 Per Capita Income: $16,879 (89.8% of the state, 78.2% of the U.S.)

1999 Median Family Income: $44.242 (100% of the state, 88.4% of the U.S.)

Post sale parity debt outstanding: $68.4 million

he principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 30 April 2012. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

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**Analysts**

Robert Weber
Lead Analyst
Public Finance Group
Moody's Investors Service

Susan Kendall
Backup Analyst
Public Finance Group
Moody's Investors Service

Julie Beglin
Additional Contact
Public Finance Group
Moody's Investors Service

**Contacts**

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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