

### Summary:

## Berkeley County, South Carolina; General Obligation

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**Summary:**

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Credit Profile		
US\$17.65 mil GO rfdg bnds ser 2012 due 03/01/2028		
<i>Long Term Rating</i>	AA/Stable	New
Berkeley Cnty GO		
<i>Long Term Rating</i>	AA/Stable	Upgraded
<b>Berkeley Cnty GO</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
<b>Berkeley Cnty GO (CIFG)</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services has raised its long-term rating and underlying rating (SPUR) on Berkeley County, S.C.'s general obligation (GO) refunding bonds to 'AA' from 'AA-', reflecting the county's significantly improved financial position and continued economic and tax base growth despite the economic downturn. The outlook is stable.

At the same time, Standard & Poor's assigned its 'AA' long-term rating to the county's series 2012 GO bonds. The outlook is stable.

The rating reflects our view of the county's:

- Continued economic growth, benefiting from its participation in the Charleston-North Charleston core-based statistical area;
- Healthy financial performance in the past two years that has increased the general fund balance to very strong levels; and
- Favorable overall debt position that remains low with limited future capital needs.

The county's full faith and credit GO pledge secures the bonds. Officials will use bond proceeds to refund the outstanding GO series 2003 bonds.

Berkeley County, with a 2010 population of 177,843 (U.S. Census), covers 1,100 square miles in southeastern South Carolina. It neighbors Dorchester County (AA-/Stable GO debt rating) to the west and coastal Charleston County (AAA/Stable) to the east. The population reflects a 25% increase since the 2000 U.S. Census. Because the federal government owns a part of Francis Marion National Forest, a substantial 41% of the county is protected land. Additional land is also held by South Carolina Public Service Authority in connection with lakes Moultrie and Marion, which are large electric power lakes, as well as a growing tourist and residential area.

The largest employer within the county is U.S. Navy Naval Weapons Station with 13,500 employees. While the naval weapons station is currently still a stable employer, we will monitor any potential effects on the base from possible funding cuts as a result of the Federal Budget Control Act of 2011. Other major employers include Berkeley County School District (3,720), South Carolina Public Service Authority (1,516), Blackbaud (1,200), and the county itself (1,059). The county benefits from access to substantial employment opportunities in nearby North Charleston, (AA/Stable) and Charleston (AAA/Stable). Though the county's unemployment rate spiked to 10% in 2009 from 6.2% in 2008 and remained at that level in 2010, it has historically trended below the state but above national averages of 11.2% and 9.6%, respectively. The 2011 average was 9.4%, a 6% decrease from 2010.

In our opinion, income levels in the county are good, with median household effective buying income at 99% of the national level. We consider wealth levels to be very strong based on a market value per capita of \$81,319. Market value has increased by 14% since 2009 and totaled \$14.5 billion in 2011. Assessed value (AV) increased by 10% during the same period and totaled \$758 million. Property taxes remain the county's leading revenue source, accounting for 43% of general fund revenues in fiscal 2011 (June 30). In 2011, tax collections decreased to 93% from 97% in 2010, but, according to management, was due to timing. The property tax base is very diverse, in our opinion, with the 10 leading taxpayers accounting for just 13.2% AV in 2010. County management has indicated that several developments are underway, including two hotels and office buildings, as well as further additions to the Google Inc. data center site. The county also expects that with Boeing Co.'s ongoing projects there should be job increases in nearby Charleston. Nexans, a world wide leader in the cable industry, will be building an extra high voltage cable plant in the county that it expects to begin operation in 2013, with an expected investment of \$80 million and the addition of more than 200 jobs.

The fiscal 2012 budget totals \$55 million and reflects a 0.6% increase year-over-year. According to management, the budget is tracking well, and the general fund may achieve an operating surplus. In addition, management will transfer another \$2 million that is designated for fund balance restoration into the general fund, which will reflect a further increase. State aid is also one of the county's major revenue sources and accounts for 13% of the budget.

The general fund balance has increased significantly after achieving two consecutive surpluses in fiscals 2010 and 2011. These surpluses averaged about \$4 million and increased the available fund balance to \$12 million in 2011, which we consider very strong at 24% of expenditures, from \$4 million in 2009, which we consider strong at 9% of expenditures. A significant part of the surplus is from transfers from a special revenue fund that has been set up for fund balance restoration. The county adopted a policy of maintaining an unreserved fund balance at 15% of the annual general fund budget. Before 2010, the general fund was not at this level, so management became proactive and made the necessary changes to accomplish this goal. As a result of staff attrition and budgetary controls, the general fund balance was restored to the 15% target. Management has indicated that it will maintain the general fund balance at this level or increase it further.

The county's management practices are considered to be "good" under Standard & Poor's Financial Management Assessment. This indicates financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

The county contributes to both the South Carolina Retirement System (SCRS) and South Carolina Police Officer's Retirement System (SCPORS). The annual required contributions (ARC) for both systems totaled \$3.8 million and accounted for 7.4% of the fiscal 2011 budget. The county continues to meet 100% of its required contributions. Other postemployment benefits (OPEB) are covered on a pay-as-you-go basis. In 2011, the annual OPEB was \$1

million, which represented 2% of the fiscal 2011 budget; however, contributions made were \$231,359 and accounted for 0.4% of budget. As of June 30, 2011, the unfunded actuarial accrued liability totaled \$8.8 million with a funded ratio of 0%. In July 2011, the county council amended its OPEB plan, revising its eligibility requirements effective Oct. 1, 2011. Due to the revision, on June 30, 2012, the actuarial accrued liability is estimated to decrease by approximately \$3.9 million, which will then reflect a decrease in the ARC of approximately \$565,000.

After this issue and net of self-supporting water and sewer debt, we view the county's debt burden to be low at \$1,318 per capita and 1.6% of market value. Carrying charges were low at 7.4% of total expenditures in fiscal 2011. Amortization of debt is average, with about 50% of principal retired in the next 10 years and 100% by fiscal 2031. At this time, the county is not planning on issuing additional debt. However, management will continue to cash-fund capital improvements because its capital project fund had a balance of \$67 million in 2011--restricted to transportation and impact fee projects.

## Outlook

The stable outlook reflects our view of the county's healthy financial position and proactive management practices. These practices have resulted in the restoration of fund balance levels to meet the county's adopted fund balance policy, with plans to continue to increase the levels. The stable outlook also reflects our expectation that the county's tax base growth and diversification will continue, as demonstrated by ongoing and anticipated development. Given the county's limited capital needs, we expect that the debt burden will remain low. As such, we do not expect that the rating will change within the two-year parameter of the outlook.

## Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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