

Washington County, Virginia

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<i>Credit Profile</i>		
ICR		
<i>Long Term Rating</i>	A+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'A+' issuer credit rating to Washington County, Va.

The 'A+' ICR reflects:

- A growing local economic base that serves as a regional service area for a multiple county area in both Virginia and Tennessee;
- Strong, consistent tax-base growth as a result of revaluation of property, ongoing new construction and property appreciation, coupled with no taxpayer concentration;
- Solid financial position, coupled with strong and consistent reserve levels; and
- A very low debt burden with modest future debt and capital needs.

Washington County is located in the southwestern part of Virginia and borders the state of Tennessee. The county's population has increased 11% between the 1990 and 2000 censuses and another 2.7% since 2000 to a current 52,499. The county is one of only two counties with demonstrated population growth among southwestern Virginia counties. While agriculture and tourism remain important components to the local economy, industrial and retail development continue. With 15 exits off Interstate 81, the most in any county in Virginia, the industrial and retail sectors continue to flourish. On the retail side, the Highlands, a \$40 million retail investment, should be completed shortly and another retail complex (similar investment size) is planned for the near future. The county greatly benefits from out-of-state consumers from Tennessee because of the lower sales tax rates (5% versus 9%). Four industrial/business parks promote industrial businesses. Unemployment has historically been above both state and national averages. However, in recent years, county unemployment has

begun to trend downward, and while still above state averages, has now fallen below national averages at 4.0%. Roughly 65% of residents are employed within the county. Additional employment opportunities can be found in Bristol, Va., Sullivan County, Tenn., and Smyth County, Va.

Aided by property revaluations, ongoing new construction and property appreciation, the county's tax base has demonstrated healthy growth, which has averaged 9.3% annually since 1997 to a current \$3.97 billion in fiscal 2006. Per capita market value has also risen to a high \$75,596. Housing starts remain strong despite the current national housing recession with average new home values ranging from \$350,000 to \$750,000. The tax base should see continued increases, as there remains a significant amount of land available for development. There is no concentration among leading taxpayers as they account for a nominal 2.6% of the tax base. Wealth and income levels are below state and national averages at 81% and 89%, respectively.

The county's financial position is sound. Fiscal 2006 closed with a \$594,000 operating surplus and an ending general fund balance of \$11.68 million (23.7% of expenditures)—of which almost all was unreserved. County reserve levels have historically been strong. Since fiscal 2000, the unreserved general fund balance has ranged from a low of 22.5% of expenditures to a high of 29.2%—with an overall average of 25% of expenditures.

The fiscal 2008 budget is balanced and includes a property tax rate increase and an almost 10% increase in sales tax revenues. Although not a formal reserve policy, the board of supervisors established a capital reserve account (July 7, 2004) within the county's capital improvement fund. Monies in this account are available for capital projects or other needs.

Standard & Poor's considers Washington County's management practices "standard" under its Financial Management Assessment, indicating that the finance department maintains adequate policies in some, but not all, key areas. The county uses conservative budgeting practices, including historical trend analysis as well as utilizing state and regional reports. Amendments to the budget are made, but only when necessary. The county maintains its own investment policy, which requires monthly reports made to county council. The county is in the process of developing a formal capital improvement plan as well as a multiyear forecasting model. Currently, the county does not have formal debt issuance or reserve policies in place.

The county's overall debt burden is very low at just \$239 per capita or 0.3% of market value. Principal amortization is quite rapid with 72.5% maturing in 10 years and the remainder maturing by 2025. The county expects to issue \$3.1 million (private placement) by the end of calendar year 2007 for infrastructure purposes related to the Highlands project. While the county has historically funded general fund projects on a pay-as-you-go basis, it will look to issue approximately \$30.4 million in bonds in the near term. Projects include: \$5.8 million for schools (November 2007 issuance expected) and \$21.5 million for a new county administration building (July 2010 issuance expected). However, even with this additional debt, debt levels will remain quite low.

Outlook

The outlook reflects Standard & Poor's gradual diversification of the local economy and its regional service role. The solid financial position and very low debt levels lend stability to the rating.

Ratings Detail (As Of 26-Oct-2007)

Washington Cnty ICR

<i>Long Term Rating</i>	A+/Stable	New Rating
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