

**Rating Update: Washington (County of) VA**

## **MOODY'S UPGRADES TO A2 FROM A3 WASHINGTON COUNTY'S (VA) ISSUER RATING**

County  
VA

### **Opinion**

NEW YORK, Oct 31, 2007 -- Moody's Investors Service has assigned an A2 issuer rating to Washington County, Va. This issuer requested rating reflects Moody's assessment of the county's implied general obligation unlimited tax pledge credit quality. The upgrade from A3 to A2 reflects the county's stable taxbase that is expected to continue to benefit from a moderate pace of ongoing growth, a strong financial position and a modest debt burden with limited near term borrowing plans.

### **RESIDENTIAL AND INDUSTRIAL GROWTH DRIVEN BY PROXIMITY TO TRI-CITIES REGION**

Moody's expects that the county will continue to experience moderate economic growth, driven primarily by its proximity to the Tri-Cities region, which encompasses the cities of Bristol, VA (underlying GO rated Baa1); Kingsport, TN (underlying GO rated A1); and Johnson City, TN (GO rated A1). The county's \$4.3 billion taxbase has growth 7% on average annually over the last five years, inclusive of a 2006 revaluation that yielded 28% growth (county currently reassesses every four years but is moving to reassessment every two years). Eastman Chemical Company (senior unsecured debt rated Baa2), located in Kingsport, TN, is a major source of jobs in the region, employing approximately 9,000. Because of the I-81 corridor and Tri-Cities area, shopping, entertainment and other amenities are readily available. Management reports substantial recent and ongoing expansion of the county's retail sector driven largely by the significantly lower Virginia sales tax rate. The Highlands project, a \$40 million retail investment, is well underway in addition to other retail and commercial growth in preliminary stages. The county's economic development staff is working to attract additional manufacturing to two industrial parks, including a regional industrial park located in the county. Target industries include parts manufacturing to serve the regional automotive manufacturing sector, including the Volvo truck manufacturing plant located near Pulaski, VA. Bristol Compressors, previously the county's largest employer, was sold and has subsequently downsized. Despite these employment losses, the unemployment rate remains moderate and was 4.1% in August 2007, as compared to 3.1% for the state and 4.6% for the nation over the same time period. While the county remains largely rural, it has reportedly become a desirable location for retirement homes, with high end golf-course communities. Per Capita Income is approximately 75% of state levels and 85% of the national average.

### **STABLE FINANCIAL POSITION CHARACTERIZED BY AMPLE RESERVE LEVELS AND CONSERVATIVE MANAGEMENT**

Moody's believes that the county's financial position, characterized by healthy reserve levels, will remain satisfactory. Fiscal years 2003-2006 all ended with operating surpluses despite a \$405,000 reduction in fund balance in fiscal 2005 that resulted from the county's transfer of \$1.6 million from the General Fund to the Capital Projects Fund. Fiscal year 2006 ended with a \$594,000 operating surplus, bringing General Fund balance to \$11.6 million or 23.4% of revenues. Fund balance was highly liquid at year end, with cash balances exceeding \$11.2 million. The county's Capital Projects Fund balance established as per county policy in 2004, \$3.8 million at year end 2006, provides additional financial flexibility. Fiscal 2007, which ended June 30, is reported to have resulted in further augmentation of reserves. The county's primary revenue source is property taxes (52% of revenues) with sales tax receipts representing 10.7% of revenues.

### **DEBT BURDEN REMAINS MANAGEABLE WITH LIMITED FUTURE BORROWING PLANNED**

Moody's expects the county's debt burden to remain manageable due to limited planned borrowing and an already modest debt burden. At 0.5% of full valuation, the current debt burden is modest. Debt burden includes the county's share of the Southwest Virginia Regional Jail Authority's outstanding debt. The county's share of the authority's obligation is \$8.3 million, which will be repaid through annual general fund appropriations. Near term capital needs include \$3.1 million expected as a private placement by year end 2007 to fund economic development initiative. Payout of principal is above average with approximately 73% of principal repaid within 10 years.

## KEY STATISTICS

2006 Population (estimated): 51,984

Full Valuation: \$4.3 billion

Full Value Per Capita: \$82,492

Unemployment Rate (8/07): 4.1%

Debt burden: 0.5%

10-Year Payout: 73%

1999 County Per Capita Income as a % of State: 76.5%

1999 County Median Family Income as a % of State: 74.1%

Fiscal 2006 General Fund reserves: \$11.6 million (23.4% of General Fund revenues)

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