# Rating Agencies Communications

## August 2012

# Statement of Results /Achievements

# Statement of Results / Achievements

**Moody's, Standard & Poor's, and Fitch Rating Agencies has assigned rating to Isle of Wight County's $49.4 million General Obligation ( GO ) Improvement and Refunding Bonds, Series 2012. Also, concurrently the Rating Agencies has affirmed the GO rating affecting approximately $133.8 million of previously issued GO Bonds.**

| | Moody's | | S & P | | Fitch | |
|---|---|---|---|---|---|---|
| Year | Rating | Comment | Rating | Comment | Rating | Comment |
| 2012 | Aa2 | Affirmed | AA - | Affirmed | AA | Affirmed |

# Outlook Reports

- Highlights
- New Issue

# Moody's

# Rating Agencies Outlook Report
# Highlights

## Moody's

- **"The Aa2 reflects the county's sound financial management practices with a demonstrated commitment to maintaining its ample reserves despite loss of its largest taxpayer."**
- **"STRENGTHS"**
    - **Sound financial management**
    - **Stable underlying economic indicative of the Hampton Roads region**
- **" CHALLENGES"**
    - **Maintenance of financial stability amidst tax base volatility form assessed value declines**
    - **Return to structurally balanced operations by fiscal 2014**
    - **General Fund subsidy of water and sewer enterprise**
    - **Sizable increases to the county's debt burden in coming years related to anticipated economic development projects**
- **FINANCIAL POSTION …**
    - **"Moody's anticipates the county will continue to maintain a sound financial position and return to structurally balance operations in fiscal 2014 given a history of conservative budgeting and sound financial flexibility afforded by healthy reserve levels and a demonstrated commitment to maintain operating surpluses."**
    - **" The county's ability to maintain structural stability in fiscal 2013 amidst potential revenue shortfalls from delayed asset sales and/or economically sensitive revenues, as well as the county's ability to regain structural balance in fiscal 2014 will be key indicators of long-term credit strength."**
    - **"The county has consistently maintained a healthy financial position well above its 10% fund balance policy while transferring funds for capital and other one-time uses."**
    - **"Preliminary fiscal 2012 results indicate a modest operating surplus, but a net $2 million decrease after transfers …"**
- **"WHAT COULD MAKE THE RATING GO UP"**
    - **Significant growth of the underlying tax base**
    - **Adoption of structurally balance budgets**
    - **Decrease in debt burden**
- **"WHAT COULD MAKE THE RATING GO DOWN"**
    - **Significant depletion of financial reserves**
    - **Persistent structural operational imbalance**
    - **Substantial decrease in tax base**

Moody's
INVESTORS SERVICE

# New Issue: Moody's assigns Aa2 rating to County of Isle of Wight's (VA) $49.4 million General Obligation Public Improvement and Refunding Bonds, Series 2012

Global Credit Research - 27 Aug 2012

**Affirms Aa2 rating on $133.8 million outstanding general obligation bonds**

ISLE OF WIGHT (COUNTY OF) VA
Counties
VA

**Moody's Rating**

| ISSUE | | RATING |
|---|---|---|
| General Obligation Public Improvement and Refunding Bonds, Series 2012 | | Aa2 |
| **Sale Amount** | $49,440,000 | |
| **Expected Sale Date** | 09/06/12 | |
| **Rating Description** | General Obligation | |

**Moody's Outlook** NOO

**Opinion**

NEW YORK, August 27, 2012 --Moody's Investors Service has assigned a Aa2 rating to Isle of Wight County's (VA) $49.4 million General Obligation (GO) Improvement and Refunding Bonds, Series 2012. Concurrently, Moody's has affirmed the county's Aa2 general obligation bond rating affecting approximately $133.8 million of parity debt. The bonds are secured by the county's general obligation, unlimited tax pledge. Approximately $19.5 million of this issuance will be used to refinance outstanding maturities of the county's 2003 and 2004 bonds for an estimated net present value savings of 11.7% of refunded bonds, with no extension of maturities. Another $12.8 million of this issuance will be used to permanently finance bond anticipation notes originally issued for the county's utility system. The remaining $17.3 million of this issuance will be used to finance various capital projections.

SUMMARY RATINGS RATIONALE

The Aa2 reflects the county's sound financial management practices with a demonstrated commitment to maintaining its ample reserves despite the loss of its largest taxpayer. The rating further incorporates the county's moderate tax base which has weathered the loss of its major taxpayer, stable underlying economy representative of the Hampton Roads region, and manageable debt burden.

STRENGTHS

-Sound financial management

-Stable underlying economic indicative of the Hampton Roads region

CHALLENGES

-Maintenance of financial stability amidst tax base volatility from assessed value declines

-Return to structurally balanced operations by fiscal 2014

-General Fund subsidy of water and sewer enterprise

-Sizable increases to the county's debt burden in coming years related to anticipated economic development projects

DETAILED CREDIT DISCUSSION

TAX BASE CONTRACTION RESULTING FROM LOSS OF TOP TAXPAYER; LONG-TERM STABILITY EXPECTED

Moody's expects that Isle of Wight County's $5.5 billion tax base will exhibit long-term stability given its strategic location in the southeastern Virginia, Hampton Roads region. Furthermore, the county has demonstrated an underlying robustness to its tax base following the closure of its largest tax payer (12% of total assessed value as of fiscal 2011) and second-largest employer, International Paper. International Paper's facility, which employed approximately 1,100 or approximately 5.8% of the county's labor force at its peak, ceased operations earlier in fiscal 2011. Positively, the effects of the closures have somewhat been mitigated follow the recent announcement by International Paper to repurpose a portion of the plant for another product line, and a Tak Investments announcement to utilize a portion of the plant.

County management continues to pursue a long-term development strategy centering on a 1,500 acre Intermodal Industrial Park Complex, which has already attracted a one million square foot retail distribution center for the national retailer Cost Plus. In addition, SAFCO, a furniture retailer, recently completed a 300,000 square foot distribution center for a $17 million investment. Currently, Green Mountain Coffee (long term rating Ba3/stable outlook) is undertaking a $180 million project to establish and production and distribution facility. Additionally, the county expects to be well positioned to attract a number of new developments after the widening of the Panama Canal in 2014 citing the Port of Virginia's (Virginia Port Authority, Lease Revenue rating Aa1/negative outlook) ability to receive the new super-tankers and provide easy access to rail lines located in the intermodal complex. The county had experienced a healthy 7.9% average annual increase in full valuation from 2007 to 2011, inclusive of the 2007, 2009, and 2011 revaluations. For the recent 2013 revaluation, the county projects a 7% decline in real estate assessed values from 2010 due to softening in the regional housing market.

FINANCIAL POSITION EXPECTED TO REMAIN SOUND GIVEN HEALTHY RESERVE LEVELS; STRUCTURAL BALANCE ANTICIPATED BY 2014

Moody's anticipates the county will continue to maintain a sound financial position and return to structurally balance operations in fiscal 2014 given a history of conservative budgeting and sound financial flexibility afforded by healthy reserve levels and a demonstrated commitment to maintain operating surpluses. In fiscal 2013, the county balanced a 3.6% increase in spending a projected 7% decline in real assessed values with $2.7 million in asset sales and other one-time revenues and an aggressive 24% increase (budget-to-budget, $1.3 million) in economically sensitive taxes in comparison to historical trends. The county's ability to maintain structural stability in fiscal 2013 amidst potential revenue shortfalls from delayed asset sales and/or economically sensitive revenues, as well as the county's ability to regain structural balance in fiscal 2014 will be key indicators of long-term credit strength.

The county has consistently maintained a healthy financial position well above its 10% fund balance policy while transferring funds for capital and other one-time uses. Fiscal 2011 total General Fund balance ended at $20.5 million or 38% of revenues of which $19.8 million or 36.7% of revenues was unassigned. On an operating basis, which includes both the General and School Operating Funds, total fund balance was an ample $20.5 million or a strong 40% of operating fund revenues and has consistently been more than 19% of revenues throughout the decade. During this time, the county has consistently contributed towards its ongoing capital needs. More recently the county has implemented a number of cost saving measures such as a soft hiring freeze and decreases in discretionary spending in anticipation of the loss in property tax revenues due to the closure of International Paper. Preliminary fiscal 2012 results indicate a modest operating surplus, but a net $2 million decrease after transfers out for capital projects.

The county participates in the state's Virginia Retirement System (VRS). Pension payments for fiscal 2011 for the county and school board total $1.8 million or 3.3% of General Fund spending. The payment constituted 100% of the annually required contribution. As of the most recent valuation o June 30, 2010 the county's pension plan was 79.7% funded with an unfunded actuarial accrued liability of $6.4 million. The school board's plan was 88% funded and had an unfunded liability of $585,000. Other post employment benefits are funded on a pay-as-you-go basis. As of the July 1, 2010 valuation, the county has identified a combined $8.2 million liability for both its county and school board.

In addition, the county is currently conducting a rate study for its water system to gradually reduce General Fund subsidies which equaled $1.6 million in transfers for fiscal 2011 and transition the system to be fully self-supporting. The study is expected to incorporate sizable increases in usage stemming from a number of anticipated economic development projects. Officials report sufficient supply to meeting these upcoming demands given its recent take-or-pay contract to the City of Norfolk (GO rated Aa2) for an additional 3.75 million gallons per day capacity.

AVERAGE DEBT BURDEN REMAINS MANAGEABLE

Isle of Wight's above average 2.8% direct debt burden will likely increase, given near-term debt plans and below average amortization of principal (48.8% retired within 10 years), but is expected to remain manageable due to the county's debt affordability policy that requires annual debt service costs to be no more than 10% of expenditures. The county's direct debt burden increases slightly to 2.9% after accounting for the overlapping debt obligations of the Towns of Smithfield and Windsor. The county's new $118 million capital improvement plan includes $113 million of additional borrowing over the next five years, which will significantly increase the county's debt burden. However, new issuances will be contingent upon developments at the intermodal park with the increased burden to be offset by increases to the county's tax base. The county has no exposure to variable rate debt and is not party to any derivative agreements.

WHAT COULD MAKE THE RATING GO UP

-Significant growth of the underlying tax base

-Adoption of structurally balanced budgets

-Decrease in debt burden

WHAT COULD MAKE THE RATING GO DOWN

-Significant depletion of financial reserves

-Persistent structural operational imbalances

-Substantial decrease in tax base

KEY STATISTICS

2010 Population: 35,270 (18.6% increase since 2000)

2011 Full Valuation: $5.5 billion

2011 Full Value Per Capita: $156,273

Per Capita Income: 91.9% of VA; 108.1% of US

Median Family Income: 97.6% of VA; 113.9% of US

Direct Debt Burden: 2.8%

Overall Debt Burden: 2.9%

Payout of Principal (10 years): 48.8%

FY 2011 Total General Fund Balance: $20.5 million (38% of General Fund revenue)

FY 2011 Unassigned General Fund Balance: $19.8 million (36.7% of General Fund revenue)

Post-Sale Long Term Debt Outstanding: $149.5 million

PRINCIPAL METHODOLOGY USED

The 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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# Standard & Poor's

**Rating Agencies Outlook Report**
**Highlights**

**S & P**

- **The AA - rating … "reflects our opinion of the county's" …**
  - **Historically consistent property tax base growth, which has begun to decline due to the closure of the International Paper Co. facility**
  - **Continued strong financial position with very strong reserves aided by conservative fiscal policies**
  - **The county's financial performance and position have been consistently strong though out recent fiscal years due primarily to conservative management and an appreciating tax base**
  - **…unaudited, management projects fiscal 2012 to close on a break-even basis; Management expects reserves to remain close to the prior years, following the use of roughly $2.5 million of reserves to finance various capital projects**
  - **…property tax rates were also increase in fiscal 2012 by 25% (or 13 cents) to a current $0.65 form $0.52 to offset revenue loss from the International Paper plant closure. However, the county's tax rate still trends on the lower end compared with surrounding areas**
  - **…the board will consider a 4-cent real estate adjustment in September to offset the decline in revenues stemming from the reassessment. In our opinion, the county will need to continue to work toward revenue stabilization in the coming years to ensure balanced budgets and allow for future capital needs. We expect that the newly elected board will continue to work toward and maintain its historically prudent and conservative fiscal management.**
  - **Standard & Poor's considers the county's financial management practices and policies "good" under it Financial Management Assessment (FMA) methodology…**

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# Isle Of Wight County, Virginia; General Obligation

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# Isle Of Wight County, Virginia; General Obligation

| Credit Profile | | |
|---|---|---|
| US$49.44 mil GO bnds ser 2012 A&B due 06/01/2044 | | |
| *Long Term Rating* | AA-/Stable | New |
| Isle of Wight Cnty GO | | |
| *Long Term Rating* | AA-/Stable | Affirmed |

## Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to Isle of Wight County, Va.'s series 2012A and 2012B general obligation (GO) public improvement and refunding. At the same time, we affirmed the 'AA-' long term and underlying rating (SPUR) on the county's previously issued GO bonds. The outlook is stable.

The rating reflects our opinion of the county's:

- Largely rural, primarily residential area that benefits from its location and participation in the greater and diverse Hampton Roads regional economy;
- Historically consistent property tax base growth, which has begun to decline due to the closure of the International Paper Co. facility;
- Good wealth and income indicators, coupled with recent declines in unemployment levels due to the recoupment of several lost jobs, primarily from International Paper;
- Continued strong financial position with very strong reserves aided by conservative fiscal policies; and
- Moderate debt burden, coupled with an aggressive, yet manageable recently adopted five-year capital plan.

The county's full faith and GO credit pledge secures the bonds and notes. The county will use bond proceeds from this issue to finance various capital projects as well as refund a portion of its outstanding series 2003, 2004, and 2010B GO bonds and 2011B bond anticipation notes.

Isle of Wight County has an estimated population of 36,468. The county, located in southeastern Virginia in the Tidewater area, is still largely rural and considered part of the greater Hampton Roads region. The local economy has historically been anchored by two large employers: Smithfield Foods (5,000 employees), which serves the employment base in the county's north portion, and International Paper (1,100), which serves the county's southern portion. However, the county's economy experienced a major economic setback when, in October 2009, International Paper abruptly announced the closure of its paper mill in the county, affecting all 1,100 employees. Following the closure, unemployment moderately spiked, but has begun to decline, and was 5.6% in May of 2012. County unemployment has historically been slightly below commonwealth and national rates. Since then, the county has begun to experience economic growth, which should aid in the restoration of jobs over the next several years. In May of 2011, Governor McDonnell announced that International Paper would invest $83 million to re-purpose a portion of the plant as a fluff pulp mill, creating an initial 213 new jobs. In addition, Tak Investments Inc. is set to invest $60 million to establish a recycled tissue plant in the county creating 85 new jobs using a portion of the IP facility. Furthermore, Green Mountain Coffee Roasters, Inc. will soon open its $180 million roasting, grinding, and packaging facility for its single portion

K-cups in the S.T. Holland Industrial Park. Employment will initially start at 200 but rise to 800 over the next five years. According to a report published by the Virginia Economic Development Partnership, it expects the region to recoup most of the 1,100 jobs lost from the International Paper plant closure by 2017. However, the county does not expect revenues from Green Mountain and the International Paper plant to offset revenues lost when the paper mill closed. Revenue generation remains at the forefront of management's concerns.

Through modest economic development and ongoing residential construction, primarily in the Smithfield area, the property tax base has historically experienced healthy growth. However, because of the closure of the International Paper plant, assessed value declined by 3.8% to $5.51 billion in fiscal 2011 and there was another more sizeable decline, of 10.4% in fiscal 2012 to a current $4.936 billion. We consider wealth and income levels good at 99% of the commonwealth's level and 113% of the nation's level.

The county's financial performance and position have been consistently strong throughout recent fiscal years due primarily to conservative management and an appreciating tax base. The county closed fiscal 2011 with a roughly $951,000 surplus, net of transfers. The general fund balance (almost all of which was unassigned) totaled $20.48 million, which we view as very-strong at 39.8% of expenditures. Although still unaudited, management projects fiscal 2012 to close on a break-even basis as revenues and expenditures tracked on par with budget. Management expects reserves to remain close to the prior years, following the use of roughly $2.5 million of reserves to finance various capital projects. In December of 2011, following the Green Mountain announcement, the county reduced the machinery and tools (M&T) tax rate from 95 cents to 70 cents to attract Green Mountain and other prospective companies. Although this rate decrease did not have an impact on fiscal 2012 revenues, the county is projecting a modest decline in M&T revenues in fiscal 2013. Management expects to restore revenue levels in fiscal 2014 as Green Mountain brings their equipment on line. As previously stated, property tax rates were also increased in fiscal 2012 by 25% (or 13 cents) to a current $0.65 from $0.52 to offset revenue loss from the International Paper plant closure. However, the county's tax rate still trends on the lower end compared with surrounding areas.

The county's fiscal 2013 general fund budget totals $94.46 million -- an increase of 3.6% from the previous year. To avoid another property tax rate increase, the new county board included the sale of certain county-owned property (roughly $3 million) as revenue to balance the budget. Should the sale of the property not occur within the fiscal 2013 year, the board has stated it will make cuts elsewhere, and could include layoffs. Furthermore, the board will consider a 4-cent real estate adjustment in September to offset the decline in revenues stemming from the reassessment. In our opinion, the county will need to continue to work toward revenue stabilization in the coming years to ensure balanced budgets and allow for future capital needs. We expect that the newly elected board will continue to work toward and maintain its historically prudent and conservative fiscal management.

Standard & Poor's considers the county's financial management practices and policies "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Management has indicated that, with the help of its financial advisor, the county could look to modify or add to the existing polices. However, there have been no changes yet.

The county's estimated overall debt burden is moderate at $4,162 per capita, or low at 3.1% of market value.

## Outlook

The stable outlook reflects our view of the county's somewhat limited, yet growing, local economy with participation in the broader Hampton Roads regional economy. The county's strong financial position, though it has been recently challenged, manageable debt levels, and capital needs provide rating stability. As such, we do not expect to revise the rating within the two-year horizon of our outlook. However, if the county stabilizes and maintains its revenues through this economic downturn and economic development continues as projected, we could consider a higher rating.

## Economy: Positive Trends, Yet Still Near-Term Challenges

To diversify the local economy and capitalize on the growing importance of the region's port business, the county plans to develop a 1,500-acre, publicly owned intermodal park. The park, designed for light-to-moderate industrial use, such as warehousing and distribution operations, will be developed in three phases. Phase I has already been completed. Cost Plus World Market, a national retailer, Safco, an office products supplier, and Green Mountain Coffee Roasters have already made investments in the park.

Through modest economic development and ongoing residential construction, primarily in the Smithfield area, the property tax base has historically experienced healthy growth. However, because of the closure of the International Paper plant, assessed value declined by 3.8% to $5.51 billion in fiscal 2011 and there was another more sizeable decline, of 10.4% in fiscal 2012 to a current $4.936 billion. Nevertheless, this equates to a per capita market value of $137,945, which we consider extremely strong. Management projects that fiscal 2013 assessed value to decline by another 7% following a property revaluation. To offset revenue losses, the county adopted a 13-cent property tax rate increase in the fiscal 2012 budget, which is almost equal to the estimated loss from the International Paper plant closure. However, tax collection rates remain strong, in our view, averaging more than 99% annually over the past five years. We consider wealth and income levels good at 99% of the commonwealth's level and 113% of the nation's level.

## Debt And Pension

The county's estimated overall debt burden is moderate at $4,162 per capita, or low at 3.1% of market value. Principal amortization is slightly below average with 43% maturing in 10 years, 83% in 20 years, and 99% in 30 years. Debt service is low, in our view, and accounting for 5.2% of expenditures in fiscal 2011. The county's newly adopted 2013-2017 capital improvement plan (CIP) totals $118.4 million, with much of it dedicated to public utilities, schools, and economic development. Management has indicated that it is only a plan and would not hold itself to all commitments if it would jeopardize the county's solid financial position. Additional bond issuances will fund a significant portion (96%) of the CIP.

The county and school board contribute to the Virginia Retirement System (VRS) at 100% of annual pension costs. The county pays its other postemployment benefit (OPEB) costs on a pay-as-you-go basis. The county and school board do not intend to establish a trust to prefund this liability. Pension and OPEB costs accounted for 3.9% of total governmental expenditures in fiscal 2011.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006

| Ratings Detail (As Of August 29, 2012) | | |
|---|---|---|
| **Isle of Wight Cnty GO** | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Affirmed |
| **Isle of Wight Cnty GO pub imp & rfdg bnds dtd 02/01/2003 due 02/01/2004-2023** | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

**Fitch**

**Rating Agencies Outlook Report**
**Highlights**

**Fitch**

- **The AA rating reflects the county's "diversifying economy, ample financial flexibility and average debt levels".**
- **"Financial operations are consistent and strong, and reserve levels are sound. Despite a second consecutive year of property tax revenue declines mainly due to the closure of the International Paper mill, the county recorded a modest…net operating surplus after transfers at year-end fiscal 2011."**
- **"The fiscal 2012 budget was adopted with a 13 cent tax rate increase and no general fund balance appropriation. The tax rate increase more than offsets a 14.2% decline in taxable assessed value between fiscal years 2010 and 2012. Break-even operating results anticipated for fiscal 2012"**
- **" The fiscal 2013budget is balanced, with no property tax rate increase and a modest $300,000 fund balance appropriation for school capital needs."**
- **"Fitch expects the county to continue to maintain ample reserve levels based on historically conservative and prudent financial management."**

# Isle of Wight County, Virginia

## General Obligation Bonds
### New Issue Report

### Ratings

| New Issue | |
|---|---|
| General Obligation Public Improvement and Refunding Bonds, Series 2012 A/B | AA |
| **Outstanding Debt** | |
| General Obligation Bonds | AA |
| General Obligation Utility Notes, Series 2011B | F1+ |
| General Obligation Public Improvement Notes, Series 2010B | F1+ |

### Rating Outlook
Stable

### Related Research
Fitch Rates Isle of Wight County, VA's GO Bonds 'AA'; Outlook Stable (August 2012)

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## New Issue Details

**Sale Information:** $49,440,000 General Obligation Public Improvement and Refunding Bonds, Series 2012 A/B, via negotiated sale on Sept. 10.

**Security:** The full faith, credit, and unlimited taxing power of Isle of Wight County.

**Purpose:** To provide new money for capital projects and permanently finance the GO public improvement notes series 2010B and GO utility notes series 2011B and refund various maturities of the series 2003 and 2004 GO bonds.

**Final Maturity:** 2044.

## Key Rating Drivers

**Diversifying Economy:** The county's employment base remains heavily concentrated in manufacturing, although this risk is somewhat offset by the diversity exhibited in the broader regional economy and continued local investment in nonmanufacturing enterprises attributed in part to growth of the regional port.

**Ample Financial Flexibility:** Solid reserve levels as well as competitive tax rates enhance the county's financial flexibility and offset the impact of lost property tax revenues from the closure of International Paper, Inc.

**Average Debt Levels:** Debt levels should remain average, given the county's manageable capital needs.

**Short-Term Rating Rationale:** The 'F1+' rating reflects the county's long-term creditworthiness and prior experience in the capital markets, implying market access to refinance the notes upon their maturity.

## Rating History — GOs

| Rating | Action | Outlook/ Watch | Date |
|---|---|---|---|
| AA | Affirmed | Stable | 8/27/12 |
| AA | Affirmed | Stable | 6/2/11 |
| AA | Affirmed | Stable | 9/13/10 |
| AA | Revised | Stable | 4/30/10 |
| AA− | Affirmed | Stable | 3/19/10 |
| AA− | Assigned | Stable | 11/21/08 |

## Rating History — Short Term

| Rating | Action | Outlook/ Watch | Date |
|---|---|---|---|
| F1+ | Affirmed | — | 8/27/12 |
| F1+ | Affirmed | — | 6/2/11 |
| F1+ | Assigned | — | 3/19/10 |

## General Fund Financial Summary

($000, Audited Fiscal Years Ended June 30)

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Property Tax Revenue | 34,739 | 36,455 | 39,132 | 38,385 | 37,865 |
| Sales Tax Revenue | 1,970 | 3,587 | 3,409 | 3,109 | 3,404 |
| Other Tax Revenue | 3,846 | 2,806 | 2,762 | 2,719 | 2,919 |
| Total Tax Revenue | 40,555 | 42,848 | 45,303 | 44,213 | 44,188 |
| License and Permits | 705 | 423 | 426 | 407 | 443 |
| Fines and Forfeits | 48 | 101 | 66 | 60 | 76 |
| Charges for Services | 835 | 797 | 901 | 924 | 1,342 |
| Intergovernmental Revenue | 8,340 | 8,106 | 8,125 | 9,225 | 7,594 |
| Other Revenue | 2,400 | 1,941 | 1,225 | 1,214 | 308 |
| **General Fund Revenue** | **52,883** | **54,216** | **56,046** | **56,043** | **53,951** |
| | | | | | |
| General Government | 5,119 | 5,634 | 5,638 | 5,840 | 5,263 |
| Public Safety | 4,950 | 5,716 | 6,250 | 5,957 | 5,737 |
| Public Works | 4,064 | | | | |
| Health and Social Services | 847 | 898 | 1,010 | 966 | 902 |
| Culture and Recreation | 1,685 | 1,947 | 2,063 | 2,273 | 2,195 |
| Educational | 18,701 | 21,788 | 23,474 | 25,059 | 25,005 |
| Debt Service | 6,873 | 6,114 | 6,666 | 3,275 | 2,819 |
| Other | 2,911 | 8,377 | 9,375 | 8,985 | 9,479 |
| **General Fund Expenditures** | **45,150** | **50,474** | **54,476** | **52,355** | **51,400** |
| | | | | | |
| **General Fund Surplus** | **7,733** | **3,742** | **1,570** | **3,688** | **2,551** |
| Transfers In | 0 | 0 | 0 | 22 | 0 |
| Other Sources | 0 | 10,000 | 25,103 | 1,022 | 14,286 |
| Transfers Out | 10,176 | 14,811 | 32,122 | 1,586 | 1,789 |
| Other Uses | 0 | 47 | 352 | 32 | 14,137 |
| Net Transfers and Other | (10,176) | (4,858) | (7,371) | (574) | (1,640) |
| **Net Surplus/(Deficit)** | **(2,443)** | **(1,116)** | **(5,801)** | **3,114** | **911** |
| | | | | | |
| Total Fund Balance | 23,368 | 22,252 | 16,451 | 19,565 | 20,475 |
| As % of Expenditures, Transfers Out, and Other Uses | 42.2 | 34.1 | 18.9 | 36.2 | 30.4 |
| Unreserved Fund Balance | 23,368 | 22,252 | 16,451 | 19,565 | — |
| As % of Expenditures, Transfers Out, and Other Uses | 42.2 | 34.1 | 18.9 | 36.2 | — |
| Unrestricted Fund Balance[a] | — | — | — | — | 20,296 |
| As % of Expenditures, Transfers Out, and Other Uses | — | — | — | — | 30.1 |

[a]Reflects GASB 54 classifications: sum of committed, assigned, and unassigned. Note: Numbers many not add due to rounding.

## Credit Profile

### Manufacturing Based Economy Beginning to Diversify

Isle of Wight is located in the Hampton Roads region of southeastern Virginia. Its economy, while still concentrated in manufacturing (29% of employment), is diversifying as a result of the increased demand for warehousing and distribution that is driven by the growth of the nearby Port of Virginia. Fitch Ratings anticipates that the presence of the port, with its commercial and military activities, will help continue to broaden the local economy.

The county's employment base has done well to recover from the loss of 1,100 jobs due to the closure of International Paper in 2010. Green Mountain Coffee Roasters, Inc. is set to open a $180 million distribution facility in the county and add 800 employees over five years. Also, Tak Investments, Inc. will open a $60 million recycled tissue plant that is expected to employ

### Related Criteria

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

Tax-Supported Rating Criteria (August 2012)

85 people. Lastly, International Paper opened a new fluff fiber operation that employs about 220 people.

The county's unemployment rate tracks well below the national average and has significantly improved from a high of 7.1% in 2010, reflecting some International Paper-related job losses to 5.6% as of May 2012. Median household income is on par with state levels but exceeds national averages.

## Ample Reserve Levels

Financial operations are consistent and strong, and reserve levels are sound. Despite a second consecutive year of property tax revenue declines mainly due to the closure of the International Paper mill, the county recorded a modest $911,000 (1.35% of spending) net operating surplus after transfers at year-end fiscal 2011. The unrestricted general fund balance (the sum of assigned, unassigned, and committed reserves under GASB 54) totaled $20.2 million, or an ample 30.1% of operating expenditures and transfers out.

## Break-Even Operating Results Anticipated for Fiscal 2012

The fiscal 2012 budget was adopted with a 13 cent tax rate increase and no general fund balance appropriation. The tax rate increase more than offsets a 14.2% decline in taxable assessed value between fiscal years 2010 and 2012. The budget also prudently assumes for a 97.8% collection rate although collections have historically exceeded 99.0%. Management expects to report actual year-end results that are closely aligned with the budget.

## Balanced Fiscal 2013 Budget

The fiscal 2013 budget is balanced, with no property tax rate increase and a modest $300,000 fund balance appropriation for school capital needs. Fitch expects the county to continue to maintain ample reserve levels based on historically conservative and prudent financial management. The county's tax rate is reportedly amongst the lowest in the region, and combined with ample reserves, provides for a strong level of financial flexibility.

## Average Debt Profile

Fitch expects overall debt ratios, at 2.9% of market value, will remain average, given the county's affordable additional borrowing plans. Debt service expenditures account for a low approximately 5% of spending, and amortization is average (49% in 10 years).

The county's fiscal years 2013–2017 capital improvement plan (CIP) totals $118.4 million. The plan will be nearly 100% debt financed, including $19.8 million to be funded with the current issuance, which may increase debt ratios as annual debt plans are greater than the annual principal amount amortized. Utility needs represent nearly one-third of the projects.

### Debt Statistics

($000)

| | |
|---|---|
| This Issue | 49,440 |
| Outstanding Direct Debt – Net of Refunding | 101,150 |
| **Total Net Direct Debt** | **150,590** |
| Overlapping Debt | 6,501 |
| **Total Overall Debt** | **157,091** |
| **Debt Ratios** | |
| Net Direct Debt Per Capita ($)[a] | 4,259 |
| As % of Market Value[b] | 2.7 |
| Overall Debt Per Capita ($)[a] | 4,443 |
| As % of Market Value[b] | 2.9 |

[a]Population: 35,356 (2011). [b]Market value: $5,511,733,000 (2011).
Note: Numbers may not add due to rounding.

The county participates in the statewide Virginia Retirement System in a separate cost-sharing pool. The plan is adequately funded at 80% and assumes a discount rate of 7%. The county regularly contributes its annual required contribution (ARC). For fiscal 2011, the $1.77 million ARC equaled a modest 3.3% of spending. The ARC to amortize the county's other post-employment benefits is very manageable, at less than 1% of spending, although the county currently funds this cost on a pay-as-you-go basis.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.