

Union County Debt Capacity

April 2008



Purpose of this analysis:

- To determine the available debt capacity of Union County.

About First Southwest Company:

- First Southwest Company is one of the nation's largest financial advisory firms. The firm's specialty is advising state and local governments in matters related to debt issuance.

First Southwest Company Representatives:

- Janice T. Burke, Senior Vice President
- Patrick Smith, Analyst



Union County Debt Capacity Analysis

Presentation Outline

Presentation Outline

- Background of existing debt outstanding
- Overview of rating agency analytical review process
- Union County's credit ratings
- Benchmarks and ratios
- Available debt capacity



Summary of Union County's Current Outstanding Debt

Background Information

Outstanding Debt - FYE 2007 post Series 2007 Issuance

	Governmental Activities	Business Type Activities	Total
General Obligation Bonds	\$ 442,808,318	\$ 9,018,482	\$ 451,826,800
Certificates of Participation	112,590,000	-	112,590,000
Revenue Bonds	-	47,315,000	47,315,000
Other Long Term Obligations	-	15,836,967	15,836,967
	\$ 555,398,318	\$ 72,170,449	\$ 627,568,767

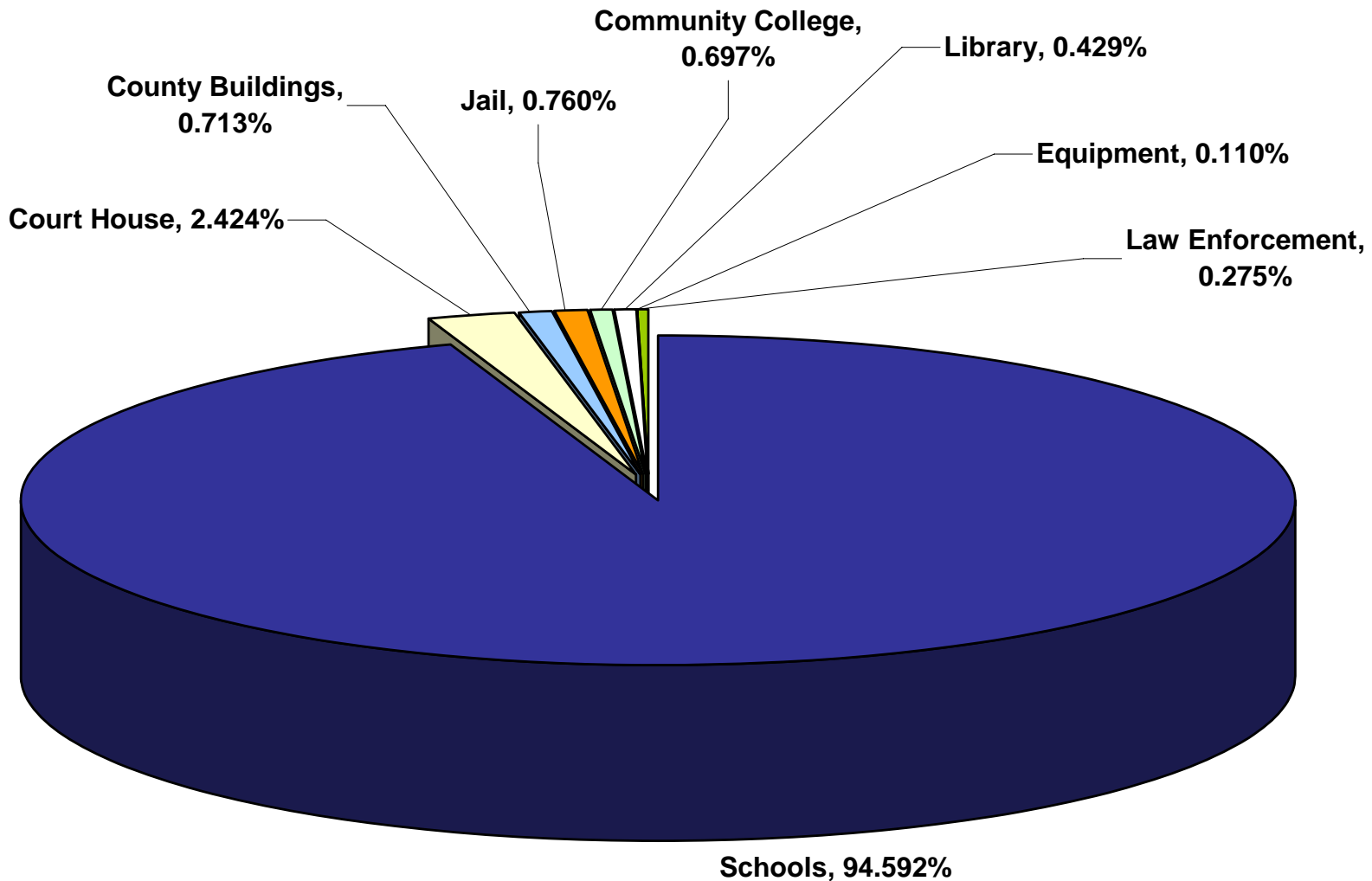
Notes:

Union County has \$64,500,000 in remaining authorized but unissued General Obligation Bonds

Source: Union County 2007 CAFR



Uses of Debt Proceeds for Governmental Activities



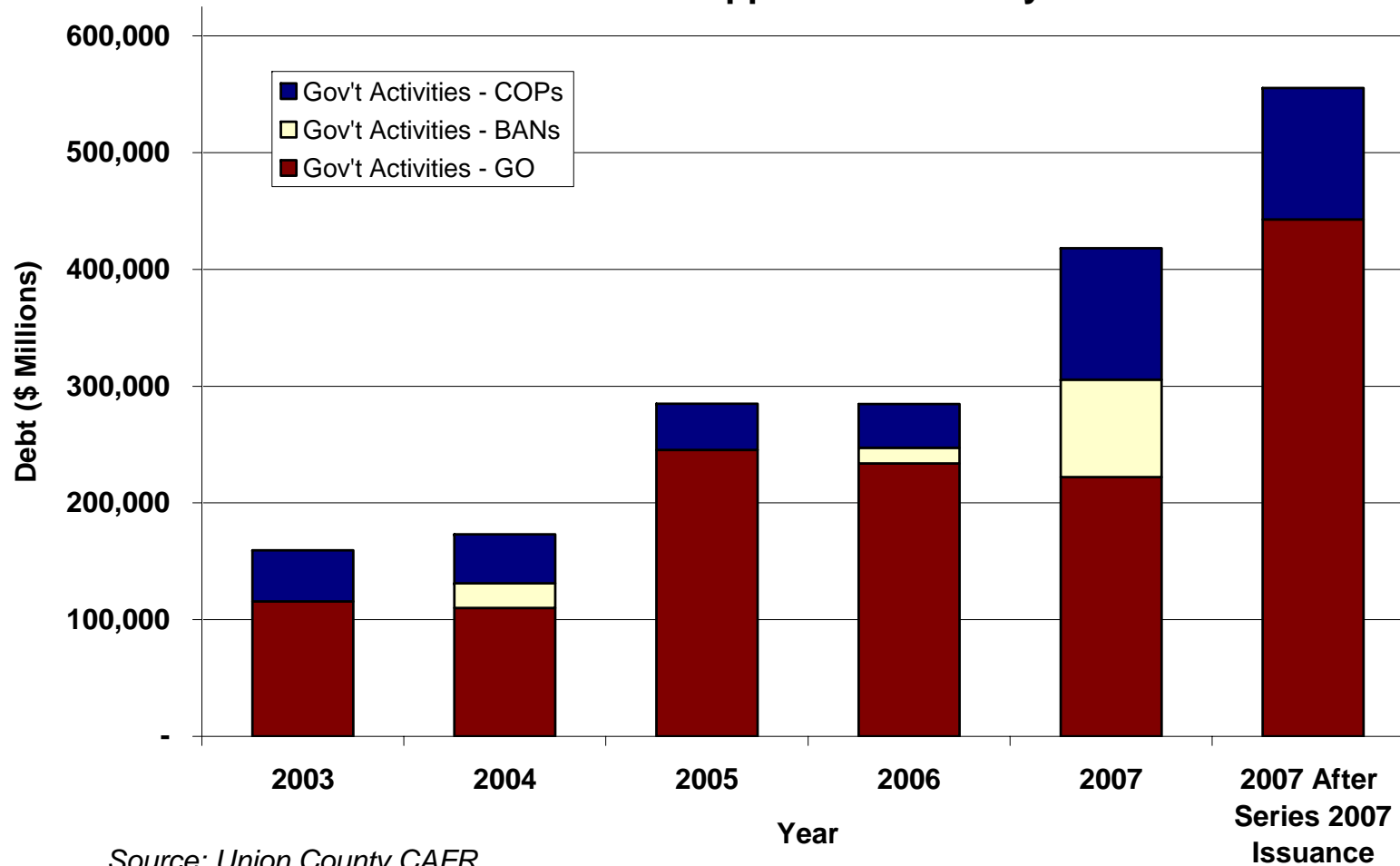
Source: Official Statements

Does not include debt issued for the purpose of Water & Sewer



Outstanding Principal (Last 5 years)

Union County
Outstanding Principal by Year
Tax Supported Debt Only



Source: Union County CAFR



Rating Agency Credit Evaluation Criteria

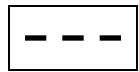


Long Term Municipal Credit Ratings

Ratings

Moody's Fitch / S&P

AAA	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-
Ba1	BB+
Ba2	BB



Union County Ratings

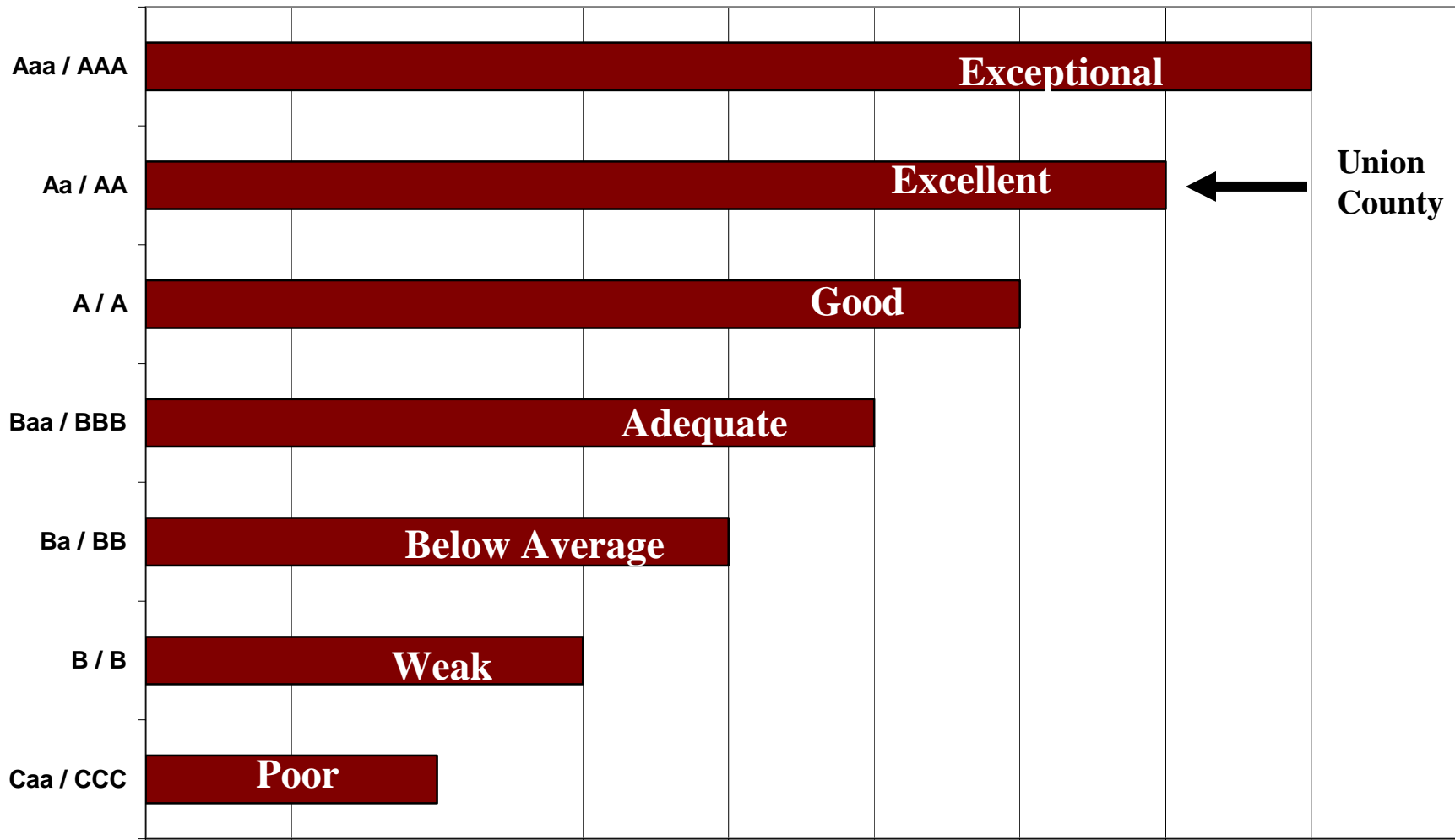


Ratings below the line are speculative grade.



Ratings = Measure of Financial Security

Relative Rating Scale



Evaluation Criteria

- Regional economic conditions
- Management /Governance
- Financial operations (General Fund and enterprise funds, as applicable)
- Debt profile and debt burden
- Tax base (particularly for GO Bonds)



Regional Economic Conditions

The economic base is critical in the credit evaluation, as the underlying economy is what ultimately generates the resources to repay the debt.

- Employment statistics – labor force, employed and unemployment rates (household survey); industry employment in total and by sector – current and historical (industry survey)
- Largest employers
- Income – per capita income, median household income compared to national averages
- Retail sales
- Building permits
- Housing sales and home prices
- Pertinent discussions of key development projects within the community or region in discussion, i.e. new business or housing developments



Management and Governance

S&P has published criteria regarding management practices, referred to as Financial Management Assessment (“FMA”).

- The ability to achieve consistently balanced operations, while meeting the stated objectives is considered a positive sign in the operation of organization or entity
- Performance is demonstrated by:
 - » consistency in budget planning, revenue generation and cost control; and
 - » the ability to deal effectively with disruptions caused by revenue shortfalls and balance sheet deterioration
- Open communication and understanding between staff and county commissioners
- S&P Financial Management Assessment: “Strong” (2007)



Financial Operations

Much can be learned about the issuer by reviewing the manner in which the General Fund is managed.

- General Fund review – 5 years of financial audits recommended
- Revenue diversity – relative reliance on property taxes, sales tax, intergovernmental revenues, etc.
- Trend analysis of significant revenues such as sales tax collections
- Trend analysis and patterns associated with revenue and expense changes
- Changes in fund balance
- Fund balance policy
- Current year budget and year-to-date summaries



Debt Profile and Debt Burden

Determine the relative level of direct and overlapping debt supported by the obligor.

- Direct and net direct debt – what level of outstanding general obligation debt is self-supporting?
- Other obligations that are supported by the general fund – i.e. certificates of participation, lease revenue bonds, etc.
- Overlapping debt – the amount of outstanding general debt issued by entities that overlap the obligor currently being evaluated; this may include special districts (water, sewer, parks, library, among others)
- Overall debt – combined direct and overlapping debt
- Debt burden measures – direct and overall debt per capita and direct and overall debt as a percent of assessed and/or actual value; or debt service coverage measures
- Payout and structure of existing and proposed financing – level, ascending, etc.



Tax Base

Is the tax base growing?

How diverse are the largest taxpayers?

How wealthy is the community?

- Assessed valuation – current and historical
- Distribution of assessed value by property class
- Largest taxpayers
- Estimated market or full value – current and historical
- Assessed value per capita
- Tax Rate – current and historical
- Tax collection history – property tax collections as a percent of levy



Union County Credit Rating



Overview of Union County Credit Ratings

- Current ratings for Union County, North Carolina
 - » Standard and Poor's – “**AA**” Stable Outlook
 - » Moody's – “**Aa2**”
 - » Fitch – “**AA**” Stable Outlook
- Rating analysts' view of County's credit strengths and challenges:
 - » Diverse economy and growing tax base adjacent to the Charlotte MSA;
 - » Strong financial management assessment, demonstrated by solid practices and policies that have resulted in stable operations and adequate reserves;
 - » Increased debt burden due to growth-related pressures for additional school facility capacity;
 - » Moderating of growth trends going forward; and
 - » Expectation of 2009 property revaluation to show appreciation.



Union County Rating History

Union County, North Carolina			
Underlying Rating History: 1938 to Present			
Date	Moody's	S&P	Fitch
March 2006	Upgraded to Aa2		↑
May 2005	↑	Upgraded to AA	↑
February 2001	Upgraded to Aa3	↑	↑
September 1999	↑	Upgraded to AA-	↑
October 1996	↑	A+	AA
November 1974	Upgraded to A1		
October 1973	Upgraded to A		
April 1959	Downgraded to Baa		
January 1944	Upgraded to A		
January 1938	Baa		

Source: Moody's Investors Service, Standard & Poor's, Fitch Ratings



Benchmarking of Union County To Determine Debt Capacity



Debt Capacity Considerations

QUALITATIVE FACTORS

- Results from a complex interplay among the fundamental credit factors
- Not Static! – Always Changing
 - » Variations in credit profile are due to changes in credit fundamentals.
 - » Not based on debt levels alone.
- Dependent upon the acceptable level of risk tolerance
 - » More quantitative debt capacity may be available at a higher risk level, which could negatively impact the credit rating.
 - » If projects are successful or tax base growth occurs as planned, allowing community needs to be met, the credit profile could improve.
- Reflection of debt policies
 - » Debt policies are a tool developed and used by management to provide guidelines for debt levels.
 - » As demographic and economic profiles change, debt policies may evolve to meet community and infrastructure needs.



Debt Capacity Benchmarks

QUANTITATIVE FACTORS

- Debt to Assessed Valuation
 - » A measure of the financial condition of the County; it compares the County's debt obligations to the assessed value of its property.
- Debt per Capita
 - » A measurement of the ability of a issuer to meet its debt obligations; it compares the debt issued by the County to its population.
- Total Debt Service as a Percent of Expenditures
 - » Ratio showing amount of expenditures being allocated toward debt service;
 - » Indication of financial flexibility; S&P considers 15% - 20% of operating expenditure to be a high debt burden
- Ten Year Principal Payout Of Debt
 - » Rating agencies typically like to see 50% of principal paid within the first 10 years



Benchmarking Union County

- Selection of other counties used to benchmark
 - » North Carolina counties selected due to county obligation to issue debt for schools
 - » Counties with populations between 100,000 and 249,999
 - » Similar credit ratings from rating agencies (AA, Aa)
 - » Other high population growth counties
 - » Other high student enrollment growth counties



Annual County Population Totals

County	July 2000	July 2001	July 2002	July 2003	July 2004	July 2005	July 2006	July 2007
UNION	125,405	131,876	138,883	144,747	151,862	161,260	172,087	184,675
% Growth 47.26%		5.2%	5.3%	4.2%	4.9%	6.2%	6.7%	7.3%
CABARRUS	132,146	136,316	139,878	143,340	146,168	150,228	157,179	163,804
% Growth 23.95%		3.2%	2.6%	2.5%	2.0%	2.8%	4.6%	4.2%
IREDELL	123,765	127,949	130,488	133,229	135,831	139,419	145,234	150,787
% Growth 21.83%		3.4%	2.0%	2.1%	2.0%	2.6%	4.2%	3.8%
JOHNSTON	123,095	127,719	132,491	136,407	141,422	146,222	151,589	156,887
% Growth 27.45%		3.8%	3.7%	3.0%	3.7%	3.4%	3.7%	3.5%
NEW HANOVER	161,032	163,711	166,054	168,977	174,217	179,944	184,120	188,206
% Growth 16.87%		1.7%	1.4%	1.8%	3.1%	3.3%	2.3%	2.2%

Source: North Carolina State Demographics Unit



Debt Ratio Comparison

Debt Ratios:	Debt to Assessed Valuations	Debt Per Capita
Union County Debt Ratio after issuance of Authorized Debt ⁽¹⁾	3.86%	3,602
* All NC Counties Average at June 30, 2007 ⁽²⁾	1.47%	1,280
* Large NC Counties Averages at June 30, 2007 ⁽³⁾	2.18%	2,063
* Highest Debt Ratios in NC at June 30, 2007 ⁽⁴⁾	2.90%	2,897

Footnotes:

- (1) Authorized but unissued GO Bonds, \$64,500,000
- (2) Ratios assume issuance of all authorized debt
- (3) Cumberland, Forsyth, Guilford, Mecklenburg, Wake
- (4) Excluding Union and Dare Counties. Dare County excluded because of high seasonal population

Source: Analysis of Debt, State Treasurer's Office June 30, 2007



Comparative Debt Ratios

County	Moody's Ratings	Debt to Assessed Valuations as % ⁽¹⁾	Debt per Capita ⁽¹⁾	Total Debt Service as a % of Expenditures ⁽²⁾	Payout, 10 Years, General Obligation Debt (%) ⁽²⁾
Union	Aa2	3.86%	3,602	14.6%	55.7%
Cabarrus	Aa2	1.85%	1,804	14.4%	54.3%
Iredell	Aa3	1.12%	1,184	11.3%	56.7%
Johnston *	Aa3	2.67%	1,704	15.6%	61.5%
New Hanover *	Aa1	2.01%	2,138	6.6%	58.1%
Other Counties					
Alamance *	Aa2	0.87%	640	6.7%	59.2%
Buncombe	Aa2	0.66%	783	4.9%	73.9%
Catawba	Aa2	0.76%	663	9.6%	100.0%
Davidson *	Aa3	1.00%	663	4.7%	64.2%
Orange	Aa2	1.96%	1,955	13.6%	62.3%
Pitt	Aa3	1.34%	838	10.0%	53.2%

Source: (1) State Treasurer's Office; June 30, 2007.

Source: (2) Moody's Investors Service; all data from FY 2007 unless otherwise stated.

* FY 2006 data



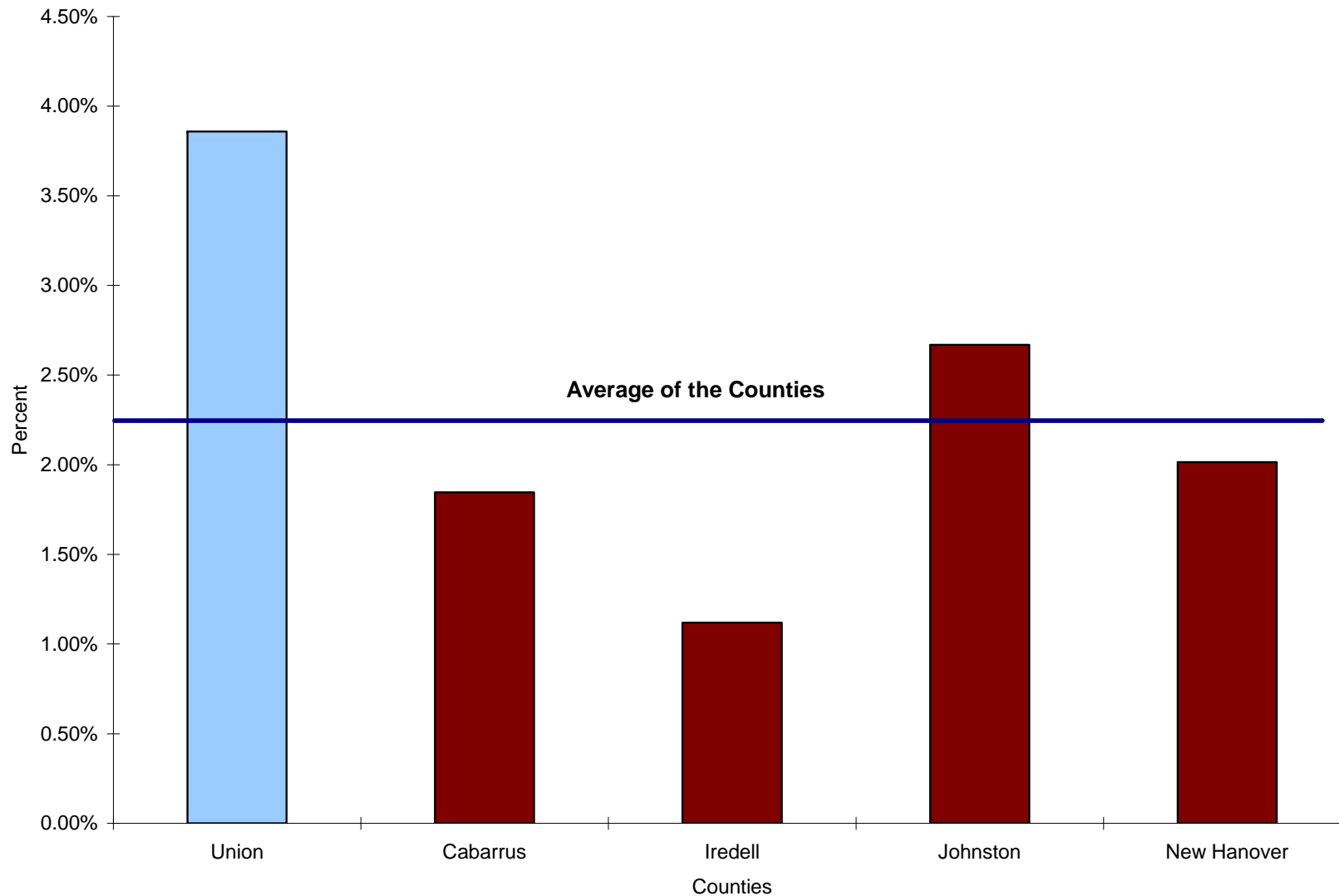
Comparative Income Data

County	Per Capita Income	Median Family Income
Union	21,978	56,197
Cabarrus	21,121	53,692
Iredell	21,148	49,078
Johnston	18,788	48,599
New Hanover	23,123	50,861
Other Counties		
Alamance	19,391	46,479
Buncombe	20,384	45,011
Catawba	20,358	47,474
Davidson	18,703	46,241
Orange	24,873	59,874
Pitt	18,243	43,971

Source: United States 2000 Census



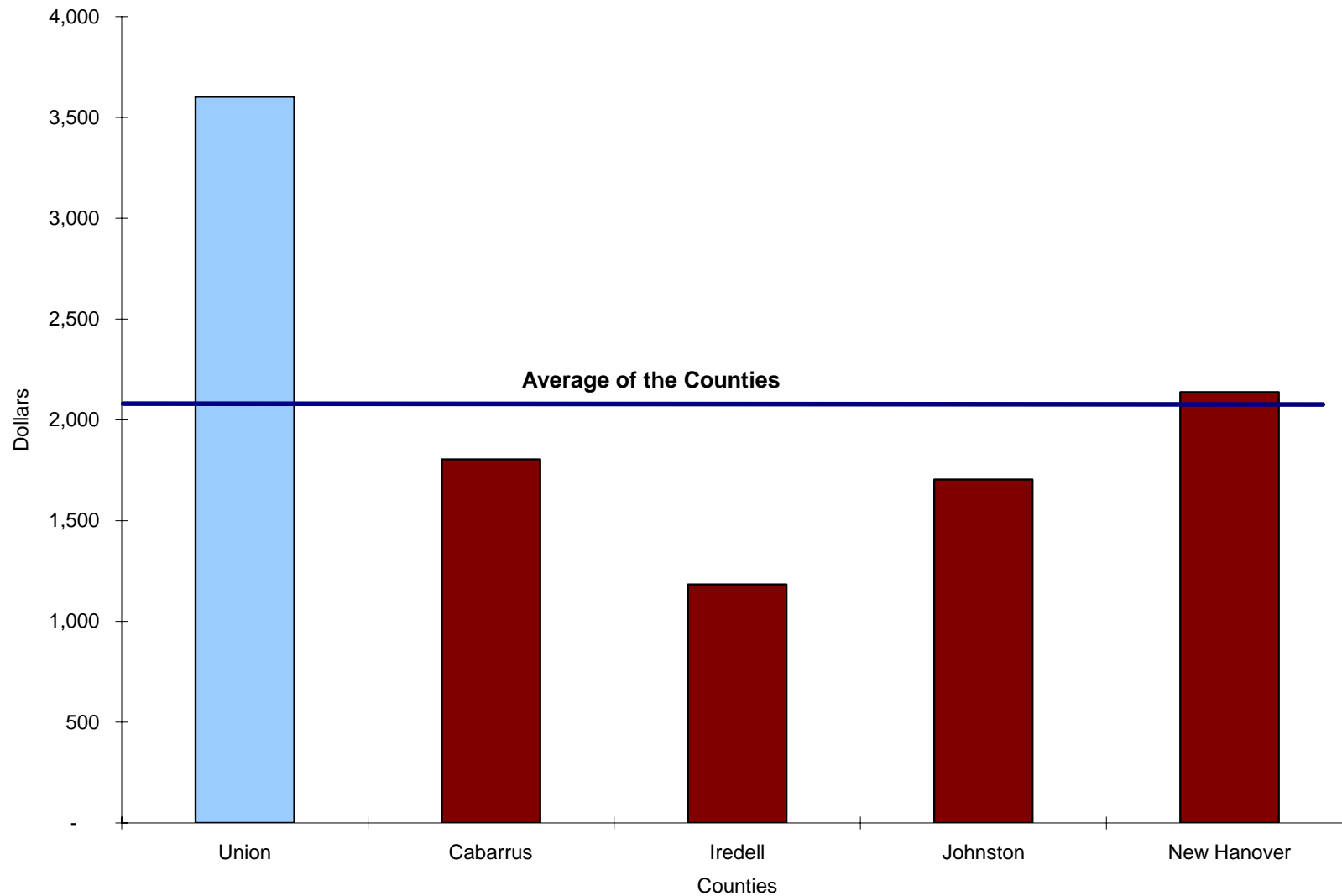
Comparative Debt to Assessed Valuation



Source: State Treasurer's Office



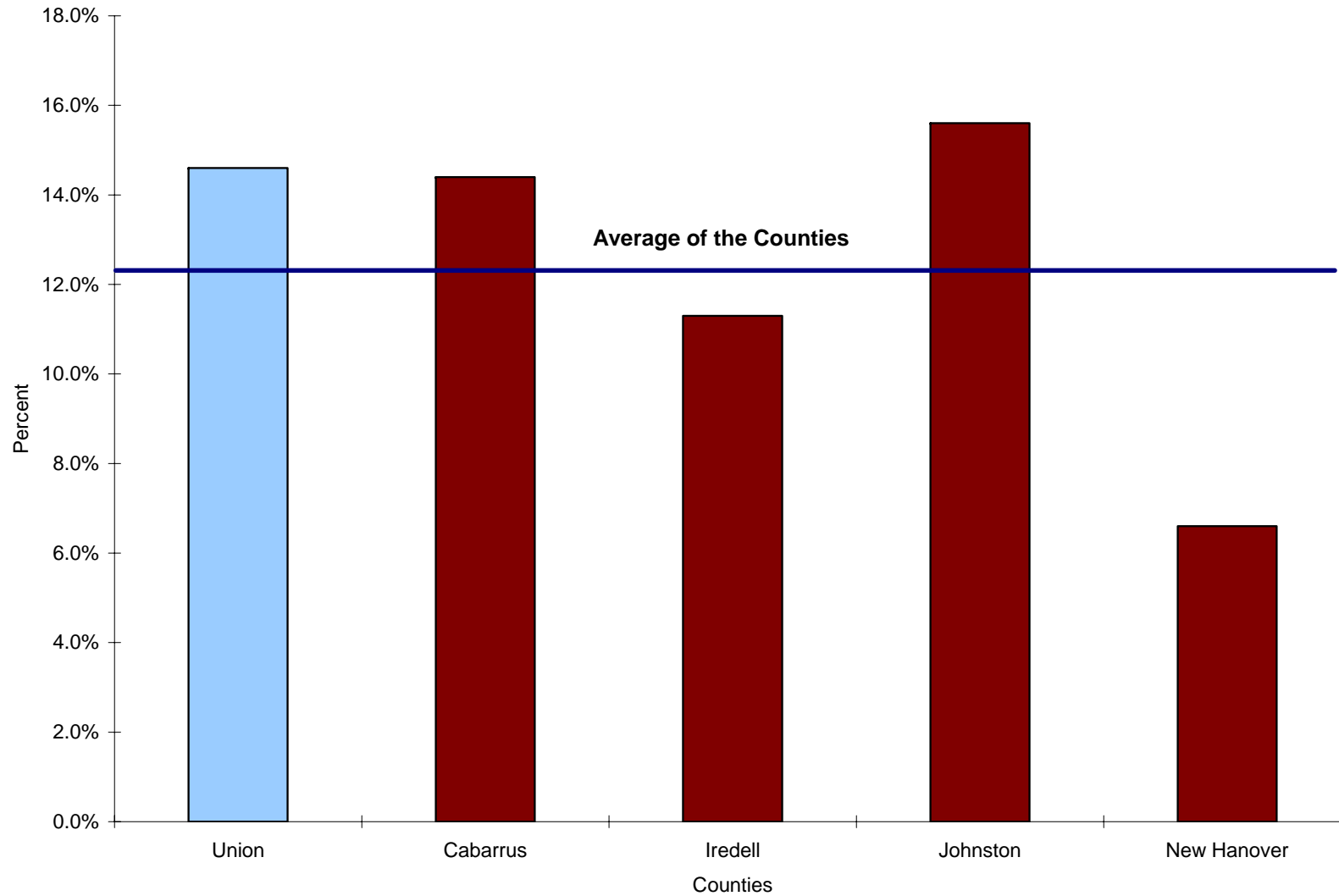
Comparative Debt per Capita



Source: State Treasurer's Office



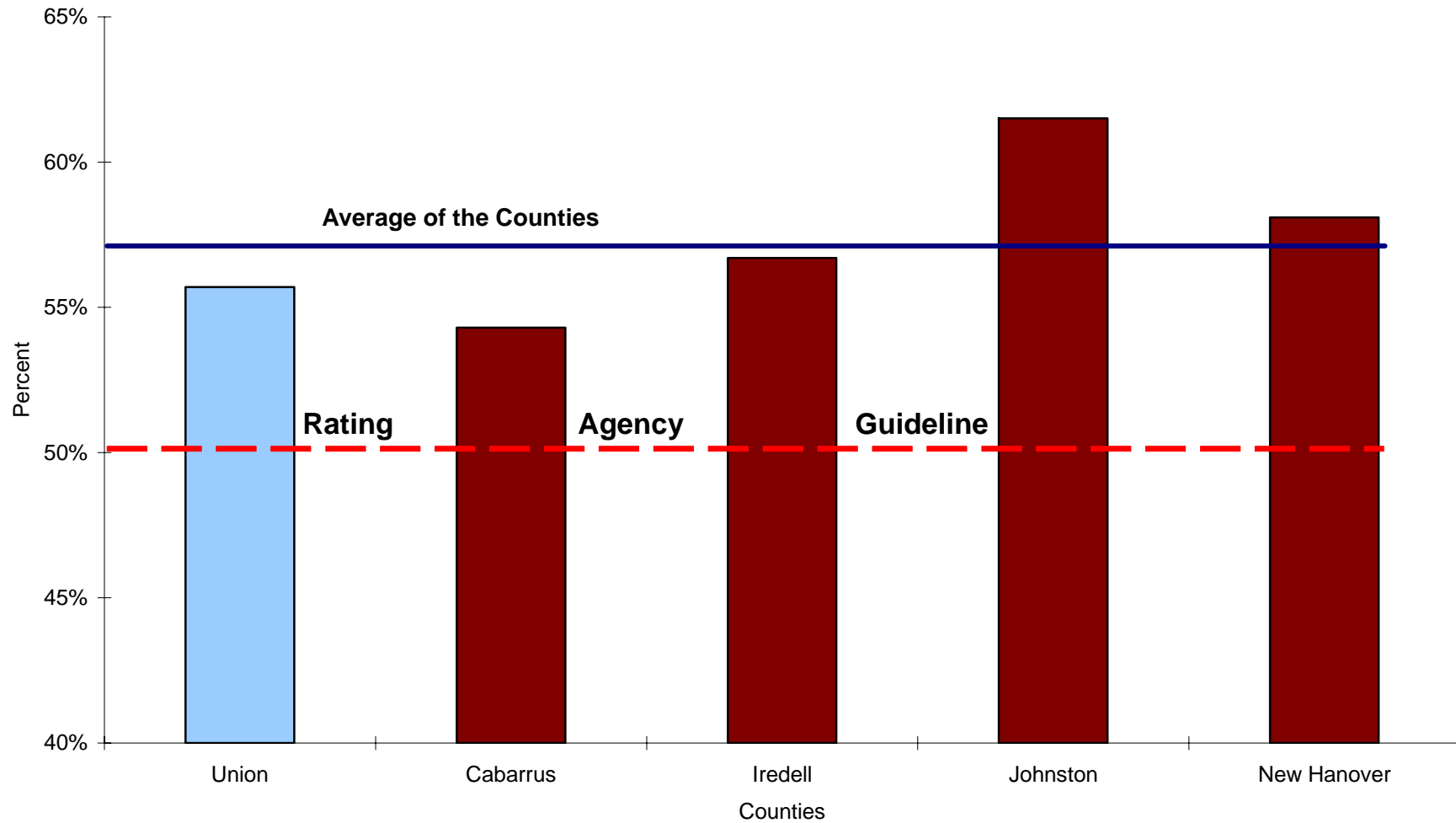
Comparative Total Debt Service To Expenditures



Source: Moody's Investor Services



Comparative Ten-Year Principal Payout



Source: Moody's Investor Services



Projecting Union County's Available Debt Capacity



Determining Union County's Available Debt Capacity

- Step one: Project future Taxable Assessed Value (TAV)
- Step two: Project population growth
- Step three: Project operating expenditures for general fund
- Step four: Establish not-to-exceed limits for debt ratios
- Step five: Use projected TAV, population growth, and general fund operating expenditures to calculate total debt amounts that can be issued without exceeding ratios



Union County Taxable Assessed Value – Actual and Projected

Fiscal Year	Real Property		Personal Property		Public Service Company	Total TAV	Total Direct Tax Rate	TAV Growth
	Commercial	Residential	Motor Vehicles	Other				
Actual (\$000s)								
1998	\$ 755,288	\$ 3,202,632	\$ 777,995	\$ 562,003	\$ 147,607	\$ 5,445,525	0.660	-
1999	781,107	3,451,141	839,361	607,073	158,602	5,837,284	0.660	7.19%
2000	821,965	3,713,032	947,023	674,459	151,551	6,308,030	0.660	8.06%
2001*	1,315,083	5,584,343	1,011,321	724,553	209,913	8,845,213	0.471	40.22%
2002	1,240,174	6,181,767	1,029,160	808,812	217,774	9,477,687	0.471	7.15%
2003	1,273,609	6,716,740	1,084,822	872,219	222,478	10,169,868	0.471	7.30%
2004	1,322,250	7,241,313	1,130,588	843,687	232,942	10,770,780	0.530	5.91%
2005*	1,625,571	9,467,521	1,210,622	855,271	244,639	13,403,624	0.523	24.44%
2006	1,620,411	10,385,207	1,469,931	905,633	254,761	14,635,943	0.560	9.19%
2007	1,717,083	11,495,054	1,584,861	1,028,755	276,145	16,101,898	0.637	10.02%
2008	1,773,675	12,607,318	1,671,421	1,109,078	313,762	17,475,254	0.711	8.53%
Projected (\$000s)								
2009*	2,199,357	17,289,513	1,729,653	1,147,718	324,693	22,690,936	-	29.85%
2010	2,275,983	17,891,881	1,789,915	1,187,705	336,006	23,481,489	-	3.48%
2011	2,355,278	18,515,235	1,852,275	1,229,085	347,712	24,299,585	-	3.48%
2012	2,437,336	19,160,306	1,916,809	1,271,906	359,827	25,146,184	-	3.48%
2013*	3,046,670	23,950,383	1,983,590	1,316,219	372,363	30,669,225	-	21.96%

* Denotes revaluation year

Source: Historical values from 2007 Union County CAFR page 152; 2008 values from TR1 Report; future values provided by Union County finance department



Union County Population

Year	Estimated Population	Estimated % Growth
2006	172,087	-
2007*	184,675	7.31%
2008	189,181	2.44%
2009	193,799	2.44%
2010	198,526	2.44%
2011	203,370	2.44%
2012	208,332	2.44%
2013	213,415	2.44%

* U.S. Census

Source: UCPS Student Enrollment Projections: McKibben Report, projected 12.2% growth over 5 years



School Average Daily Membership Projections 2007-2017

	Growth in Number of Students	% Growth
Union	23,385	64%
Cabarrus	13,491	50%
Kannapolis City	1,743	35%
Iredell	4,655	22%
Mooreville City	2,682	48%
Johnston	10,870	36%
New Hanover	2,187	29%

Source: Average Daily Membership Projections, Percent Growth 2007-2017



General Fund Operating Expenditures

Year	School Current Expense	% Change	Schools Capital	% Change	Debt Service	% Change	All Other	% Change	General Fund Expenditures	% Change
2004-05	\$38,227,614	-	\$4,386,272	-	\$17,112,288	-	\$82,967,603	-	\$142,693,777	-
2005-06	45,181,530	18.2%	6,167,924	40.6%	23,751,518	38.8%	87,204,165	5.1%	162,305,137	13.7%
2006-07	57,243,552	26.7%	11,043,050	79.0%	28,296,163	19.1%	91,761,449	5.2%	188,344,214	16.0%
2007-08*	70,864,000	23.8%	11,000,000	-0.4%	43,132,934	52.4%	92,557,471	0.9%	217,554,405	15.5%

* Budgeted

Source: Union County Finance Office



Union County Financial “Best Practices”

- “Tax supported debt will not exceed 3% of the assessed valuation of taxable property, 20% of General Fund expenditures and \$2,500 per capita”
- “Payout of aggregate principal outstanding shall be no less than 50% repaid within 10 years.”
- “Capital projects will be financed for a period not to exceed the expected useful life of the project.”
- “The County will maintain its financial condition in order to maintain a minimum bond rating in the ‘AA’ category for outstanding G.O. debt.”

Source: *Union County 2007-2008 Annual Budget and Adopted Budget Ordinance, page 29*



Debt Capacity – Current Data and Benchmarks

	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013
Outstanding Debt Balance July 1		\$533,956,575	\$573,658,542	\$545,486,528	\$517,194,698	\$487,963,123
Debt Issuance		64,500,000	0	0	0	0
Debt Retirement		24,798,033	28,172,014	28,291,830	29,231,575	28,982,900
Outstanding Balance June 30	533,956,575	573,658,542	545,486,528	517,194,698	487,963,123	458,980,223
Assessed Valuation (\$000s) ⁽²⁾	\$17,475,254	\$22,690,936	\$23,481,489	\$24,299,585	\$25,146,184	\$30,669,225
<i>Percent Change</i>		29.8%	3.5%	3.5%	3.5%	22.0%
Population ⁽³⁾	189,181	193,797	198,526	203,370	208,332	213,415
<i>Percent Change</i>		2.4%	2.4%	2.4%	2.4%	2.4%
General Fund Operating Expenditures ⁽⁴⁾	\$217,554,405	\$234,234,110	\$252,142,472	\$263,527,340	\$275,677,214	\$286,463,399
<i>Percent Change</i>		7.7%	7.6%	4.5%	4.6%	3.9%
Annual Debt Service on Outstanding Debt	\$43,132,934	\$47,364,575	\$53,078,955	\$51,956,619	\$51,653,581	\$50,141,766
<i>Percent Change</i>		9.8%	12.1%	-2.1%	-0.6%	-2.9%
Debt Burden Ratios						
Debt Service as % of General Fund Operating Expenditures	19.8%	20.2%	21.1%	19.7%	18.7%	17.5%
Per Capita Debt	\$2,822	\$2,960	\$2,748	\$2,543	\$2,342	\$2,151
Debt to Assessed Valuation	3.1%	2.5%	2.3%	2.1%	1.9%	1.5%



Debt Capacity – Cumulative and Annual Ranges Using Target Ratios

Debt Capacity	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013
Amount Available based on:						
Per capita debt ratio of \$2,500						
Cumulative Capacity	0	0	0	0	32,866,877	74,557,277
Annual Capacity	0	0	0	0	32,866,877	41,690,400
Annual Total Debt	\$533,956,575	\$573,658,542	\$545,486,528	\$517,194,698	\$520,830,000	\$533,537,500
<i>Projected Ratio</i>	<i>\$2,822</i>	<i>\$2,960</i>	<i>\$2,748</i>	<i>\$2,543</i>	<i>\$2,500</i>	<i>\$2,500</i>
Debt Service as a percent of Operating Expenditures = 20%						
Cumulative Capacity	\$4,710,055	\$0	\$0	\$9,332,313	\$43,391,695	\$89,116,193
Annual Capacity	4,710,055	0	0	4,622,258	34,059,382	45,724,498
Annual Total Debt	\$538,666,630	\$578,368,597	\$550,196,583	\$526,527,011	\$531,354,818	\$548,096,416
<i>Projected Ratio</i>	<i>20.0%</i>	<i>20.2%</i>	<i>21.1%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>
3% Debt to Assessed Value :						
Cumulative Capacity	0	107,069,538	158,958,142	211,792,852	266,422,397	461,096,527
Annual Capacity	0	107,069,538	51,888,604	52,834,710	54,629,545	194,674,130
Annual Total Debt	\$533,956,575	\$680,728,080	\$704,444,670	\$728,987,550	\$754,385,520	\$920,076,750
<i>Projected Ratio</i>	<i>3.1%</i>	<i>3.0%</i>	<i>3.0%</i>	<i>3.0%</i>	<i>3.0%</i>	<i>3.0%</i>

It should be noted that the calculated annual debt capacity and cumulative debt capacity figures do not account for the normal maturity of any new money bonds issued during the FY 2009 to FY 2013 period. Thus, the projected capacity figures are conservative estimates.



Debt Capacity – Using Debt to Assessed Value As Primary Guideline

Debt Capacity	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013
Amount Available based on Debt to Assessed Value of 3%						
SCENARIO 1 - Holding Target Capacity At 3.0%						
Cumulative Capacity	0	107,069,538	158,958,142	211,792,852	266,422,397	461,096,527
Annual Capacity	0	107,069,538	51,888,604	52,834,710	54,629,545	194,674,130
Annual Total Debt	\$533,956,575	\$680,728,080	\$704,444,670	\$728,987,550	\$754,385,520	\$920,076,750
Projected Ratio	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%
SCENARIO 2 - "Smoothed" Capacity Totals Based On Lower Threshold Targets In Years 2009-2012						
Annual Capacity "Smoothed" Using <i>FY 2012 As Limit of Capacity</i>	0	66,605,599	66,605,599	66,605,599	66,605,599	194,674,130
Cumulative Debt (Including "Smoothed" plus Existing)	\$533,956,575	\$640,264,141	\$678,697,727	\$717,011,496	\$754,385,520	\$920,076,750
Projected Ratio	3.1%	2.8%	2.9%	3.0%	3.0%	3.0%
SCENARIO 3 - "Average" Using Total Capacity In FY 2013 and Averaging Over FY 2009 to FY 2013						
Annual Capacity Averaged Using <i>Total FY 2013 Capacity</i>	0	92,219,305	92,219,305	92,219,305	92,219,305	92,219,305
Cumulative Debt (Including "Average" plus Existing)	\$533,956,575	\$665,877,847	\$729,925,139	\$793,852,614	\$856,840,345	\$920,076,750
Projected Ratio	3.1%	2.9%	3.1%	3.3%	3.4%	3.0%



Debt Capacity Assumptions

Footnoted Items:

- 1. Authorized but Unissued GO Bonds, \$64,500,000*
- 2. Assessed Valuation - Growth rate of 3.5% annually; 29.8% in 2009 and 22% in 2013 revaluation years. Growth in 2013 revaluation year represents a 25% increase in commercial and residential real property.*
- 3. Population growth estimates from McKibben Report*
- 4. General Fund Operating Expenditures-Projected by County Finance Department*



Debt Burden Benchmark Ranges

Counties With Populations Greater Than 150,000

	Overall Net Debt Per Capita (\$)	Overall Net Debt Per Market Value
High	3,629	5.4%
Above Average	2,776 - 3,629	3.2% - 5.4%
Average	1,395 - 2,775	1.8% - 3.1%
Below Average	713 - 1,394	0.9% - 1.7%
Low	713	0.9%

Source: Standard & Poor's Ratings Direct, January 2, 2008

