

Summary:

Mecklenburg County, North Carolina; General Obligation; Liquidity Facility

Primary Credit Analyst:

Henry W Henderson, Boston (1) 617-530-8314; henry_henderson@standardandpoors.com

Secondary Contact:

Linda Yip, New York (1) 212-438-2036; linda_yip@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Mecklenburg County, North Carolina; General Obligation; Liquidity Facility

Credit Profile		
US\$173.0 mil GO rfdg bndsser 2011C		
<i>Long Term Rating</i>	AAA/Stable	New
US\$100.0 mil GO qual sch const bndsser 2011A&B		
<i>Long Term Rating</i>	AAA/Stable	New
Mecklenburg Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Mecklenburg County, N.C.'s series 2011 A-C general obligation (GO) bonds and affirmed its 'AAA' long-term rating, and stable outlook, on the county's previously issued GO debt and its 'AA+' rating on the county's appropriation debt. The ratings reflect our assessment of the county's:

- Large and diverse economic base, which includes Charlotte, N.C.;
- Strong financial position; and
- Sound debt management despite significant capital needs.

The county's full faith and credit pledge secures the GO bonds, and the appropriation debt and limited obligation debt is subject to appropriation. Bond proceeds from the series 2011 A and B issues will be used for construction of school and park and recreation facilities. The series 2011 C issue proceeds will be used to refund debt outstanding, including refunding a variable-rate issue and terminating a related swap, for a net present value savings of about 4% of principal and with the savings taken primarily in fiscal years 2015 through 2021. The 2011B bonds are taxable qualified school construction bonds for which the county expects to receive subsidy payments from the U.S. Treasury, but the county is authorized and required by law to levy ad valorem taxes sufficient to make debt service payments on the bonds.

Mecklenburg County, North Carolina's most populous county with an estimated population of 920,000, serves as a major financial, communications, distribution, and manufacturing center for the southeast. The city of Charlotte comprises more than 80% of the county's population. Bank of America is headquartered in the county, and prior to its acquisition by Wells Fargo in November 2008, Wachovia Corp. was also headquartered in the county. The largest employers in the Charlotte area are: Carolinas Healthcare System and Wells Fargo, with over 20,000 employees each. In addition, Bank of America, the Charlotte-Mecklenburg Board of Education, and Wal-Mart employ more than 10,000 each. Charlotte hosted the Democratic National Convention in September 2011.

The county's tax base growth slowed but remained positive in recent years, and assessed valuation reached about \$100 billion in fiscal 2010, or \$104,000 per capita, which we consider extremely strong. Management postponed the eight-year reassessment cycle until fiscal 2012. Residential construction values peaked in calendar 2006 and

declined each year since, but through July 2011 were 12% above the same period in 2010. Nonresidential construction values have declined since 2008, but through July 2011 were 30% above the same period in 2010. Foreclosures also improved substantially for the period, decreasing by 52%. However, total home sales and home prices for the Charlotte area were down slightly through July 2011 compared with one year earlier.

The unemployment rate for the county has been above the national level for multiple years and in June 2011 was 11.1%, higher than both the state and the nation. Median effective buying income is good at 108% of the national level, and per capita EBI is strong at 117%, in our view.

Mecklenburg maintains a strong financial position despite significant decreases in recent years, and officials estimate a fund balance increase for fiscal 2011. At the end of fiscal 2010, a \$40 million unreserved general fund balance reduction brought the unreserved balance of \$221.0 million was equal to 17.6% of expenditures, above the county's 8% fund balance policy and 12% goal.

Officials estimate that the total balance increased by \$41.7 million to 19% of expenditures at the end of fiscal 2011, an improvement from the budgeted appropriation of a net \$8 million of fund balance. The projected 2011 results reverse a two-year trend of general fund declines. The fund balance increase was due to surpluses in both revenues and expenditures. Property taxes were 67% of revenues, followed by intergovernmental (15%) and sales taxes (12%). The fiscal 2012 budget does not appropriate any fund balance, the first budget since fiscal 2004 without a fund balance appropriation. The county's financial policies and practices are "strong" under our Financial Management Assessment (FMA) indicating practices are strong, well embedded, and likely sustainable.

The county participates in the state-run employee retirement system and makes full pension payments. Mecklenburg's unfunded other postemployment benefits (OPEB) liability as of January 2011 was \$355.1 million. The county funded 100% of the OPEB annual required contribution (ARC) in fiscal 2008 and more than 95% in fiscal years 2009 and 2010, but funded only the pay-as-you-go amount for fiscal 2011, or 21% of the ARC. However, the fiscal 2012 budget resumes OPEB trust funding with an \$8 million contribution, with OPEB funding equal to 61% of the ARC.

The economic slowdown has slowed the county's infrastructure needs and therefore its need for additional debt, although the 10-year capital improvement plan remains large. In our view, the overall net debt levels are low compared to market value, at 2.7% and moderate per capita, at \$2,900. The debt service carrying charge remains elevated at 20% of expenditures, but this is somewhat attributable to rapid debt amortization of about 60% over 10 years. Mecklenburg adopted a policy to lower its exposure to hedged and unhedged variable-rate debt to less than 35% of its debt portfolio. After this refunding, officials estimate that 8% of the county's debt will be synthetically-fixed variable rate and 14% will be unhedged variable rate, a significant reduction from previous levels in which total variable rate debt exceeded 40% of debt.

Outlook

The stable outlook reflects Standard & Poor's expectation that management will use its strong financial management procedures to adjust its budgets as necessary to stay within its reserve policy levels despite economic conditions. We do not expect the rating to change in the two-year parameter of the stable outlook, due to this expected financial strength.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of October 6, 2011)		
Mecklenburg Cnty var rate <i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
Mecklenburg Cnty var rate GO pub imp bnds ser 2000C dtd 01/27/2000 due 02/01/2011-2020 <i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
Mecklenburg Cnty GO variable rate ser 2003B <i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
Mecklenburg Cnty GO variable rate ser 2004B <i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
Mecklenburg Cnty GO VRDB ser 2006A <i>Long Term Rating</i>	AAA/A-1+	Affirmed

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.