S&P Global
Ratings

RatingsDirect®

Summary:

Moore County, North Carolina; Appropriations; General Obligation

Primary Credit Analyst:
Kimberly Barrett, Centennial (1) 303-721-4446; Kimberly.Barrett@spglobal.com

Secondary Contact:
Ann M Richardson, Dallas + 1 (214) 765 5878; ann.richardson@spglobal.com

Table Of Contents

Summary:

Moore County, North Carolina; Appropriations; General Obligation

Credit Profile		
US$31.0 mil GO Sch bnds ser 2018 due 12/01/2038		
Long Term Rating	AA+/Stable	New
Moore Cnty ltd oblig bnds		
Long Term Rating	AA/Stable	Upgraded
Moore Cnty ltd oblig bnds		
Long Term Rating	AA/Stable	Upgraded
Moore Cnty GO		
Long Term Rating	AA+/Stable	Upgraded

Rationale

S&P Global Ratings raised its rating to 'AA+' from 'AA' on Moore County, N.C.'s existing GO debt, and also raised its rating to 'AA' from 'AA-' on its existing limited-obligation debt.

At the same time, S&P Global Ratings assigned its 'AA+' rating to the county's series 2018 general obligation (GO) bonds.

The outlook for all ratings is stable.

The rating action reflects our view of Moore County's ability to maintain strong financial performance and flexibility while managing a growing debt burden related to its significant capital needs. It also reflects management's willingness to support the debt with additional resources as needed, such as a proposed one-fourth cent sales tax that will go for voter approval in November, as well as a potential property tax rate increase in fiscal 2020.

The county's full faith and credit pledge secures its GO bonds, which are payable from an unlimited-ad valorem tax. The county's limited obligation debt is secured by installment payments made by Moore County pursuant to a trust agreement. We rate these obligations one notch lower than our GO rating on Moore County to account for the appropriation risk associated with the payment. The county has pledged its best efforts to seek appropriations annually out of its operating budget, and has considered the affordability of the payments in its long-term plans. Our consideration of the affordability and likelihood of the annual appropriation payments is reflected in the 'AA' rating. In our view, the features of the trust agreements and terms are standard with no unusual risks regarding timely payment of debt.

Proceeds of the 2018 bonds will finance construction of a new elementary school that will replace two existing elementary schools in the county. The 2018 bonds will be the first of three pieces of a GO bond authorization that was passed in May.

The 'AA+' rating reflects our opinion of the following credit factors:

- Adequate economy, with projected per capita effective buying income at 101.8% of the national level and market value per capita of $131,033;
- Very strong management, with "strong" financial policies and practices under our Financial Management
- Assessment methodology;
- Strong budgetary performance, with an operating surplus in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 54.1% of total governmental fund expenditures and 4.96x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 10.9% of expenditures and net direct debt that is 95% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 66% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework.

Adequate economy

We consider Moore County's economy adequate. The county has an estimated population of 96,122. The county has a projected per capita effective buying income of 101.8% of the national level and per capita market value of $131,033.

Overall, the county's market value increased 2.9% over the past year to $12.6 billion in 2018. The county unemployment rate was 4.5% in 2017.

Moore County is approximately 50 miles southwest of Raleigh and encompasses 706 square miles in central North Carolina. Fort Bragg, one of the nation's largest army bases, is located along the county's southeast border in adjacent Cumberland County.. The base is closely tied to the economy of southern Moore County because small businesses in the area have secured several defense and service contracts. The county also boasts a strong presence of service, health care, and government-related sectors that add stability to the local economy. In addition, the county has a large tourism industry due to several nationally renowned golf courses, leading to strong retail and occupancy tax proceeds for the county. The county's population has grown steadily to about 96,122 in 2017, representing a 3.5% increase over the past three years. Management attributes much of the increase to Fort Bragg and the attractiveness of the area to retirees.

The county's assessed value has been stable and steadily growing, with a total increase of about 4.4% over the past five fiscal years. The county is on a four-year revaluation cycle, the next of which will be in 2019, and management expects to be back to peak pre-recession values at that time. The county's tax base is very diverse, with the top 10 taxpayers making up just 3.4% of total assessed value in 2018. The top 10 taxpayers include a utility, golf resorts, retail, and health care. The largest employer in the county is a medical facility, followed by the school district, Pinehurst golf resort, and the county itself. Rounding out the top 10 employers are additional health care, education, and retail. Sales tax and occupancy tax revenues have also been steadily growing, as well as visitor spending, reflecting the sports tourism component of the county's economy.

Very strong management

We view the county's management as very strong, with "strong" financial policies and practices under our Financial

Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Key practices include management's:

- Use of what we consider conservative budgeting practices, which have led to multiple years of modest operating surpluses;
- Monthly reports on budgetary performance to the board of commissioners;
- Detailed trend analysis of three to five years of historical revenue and expenditures to create a five-year financial forecast that is updated annually as part of the budget process;
- Creation of a 10-year capital plan that identifies funding sources and is updated annually;
- Formally adopted investment and debt management policies with strong monitoring and reporting mechanisms; and
- Formal reserve policy that sets a minimum available general fund balance of 17% of budgeted expenditures.

In addition to these formal policies and reports, the county maintains an interactive financial transparency website that allows constituents to access detailed budget and capital project information.

Strong budgetary performance

Moore County's budgetary performance is strong in our opinion. The county had surplus operating results in the general fund of 1.4% of expenditures, and a surplus operating result of 1.4% across all governmental funds in fiscal 2017.

The county's revenue base is relatively diverse; for fiscal 2017, property tax revenues accounted for approximately 60% of general fund revenue, and sales tax revenues accounted for about 18%. While the county has held its property tax rate flat since fiscal 2010, it has continued to post consecutive operating surpluses; in our view, this is an indication of the county's very strong management and conservative budgeting.

Consistent with its fund balance policy, the county transfers operating surpluses into its major capital projects fund to offset borrowing, providing discretionary budgetary flexibility related to expenditures. After adjusting for transfers in to and out of the general fund, including the capital reserve transfers, the county ended fiscal 2017 with an operating surplus of approximately $1.3 million in the general fund, or 1.4% of general fund expenditures. This follows similar surplus results in fiscal years 2015 and 2016. We have also adjusted total governmental fund expenditures to account for the use of built-up capital reserves for nonrecurring expenditures. This is consistent with the county's goal to fund more capital projects on a pay-as-you-go basis. After adjustments, the county experienced positive results across all governmental funds of $1.5 million or 1.4% of total governmental fund expenditures.

The county originally budgeted for break-even results in fiscal 2018, but based on fiscal-year-end estimates, expects to end the year with positive results and add $2.8 million to fund balance. The estimated surplus is a result of revenues coming in about $3.3 million above budget, primarily due to property tax and sales tax revenues outpacing budget projections. The county also adopted a balanced budget for fiscal 2019, with no plans to spend fund balance. Given recent historical performance, conservative budgeting practices, and expectations for fiscal 2018 and 2019, we expect budgetary performance to remain strong throughout the outlook period.

Very strong budgetary flexibility

Moore County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 21% of operating expenditures, or $20.1 million.

The county has consistently maintained very strong fund balance in each of the past three fiscal years, between $16.6 million and $20.1 million, amounts equal to between 16.8% and 21% of general fund expenditures. This is consistent with the county's formal reserve policy that requires available fund balance to be at least 17% operating expenditures Given recent trends and the lack of plans to spend reserves in fiscal years 2018 and 2019, we expect budgetary flexibility to remain very strong over the outlook horizon.

Amounts in excess of the reserve target are routinely moved to the capital reserve fund from the general fund to finance capital projects on a pay-as-you-go basis. At fiscal year-end 2017, the capital reserve fund had approximately $23.7 million, or 24.8% of operating expenditures. The county can transfer the funds back into the general fund, if needed, providing the county with additional budgetary flexibility. However, we do not consider the capital reserves as part of the available fund balance because they are currently committed for capital projects. We also note that Moore County has an additional $7.6 million (or about 8% of operating expenses) in restricted fund balance as required by state statutes. North Carolina requires that certain financial amounts be restricted from appropriation until they are realized as cash. This balance is not included in the county's overall available fund balance, but we recognize that it adds additional flexibility for North Carolina issuers.

Very strong liquidity

In our opinion, Moore County's liquidity is very strong, with total government available cash at 54.1% of total governmental fund expenditures and 4.96x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary.

The county's issuance of GO, appropriation-backed, and self-supporting debt within the past 15 years demonstrates its strong access to external liquidity. The county's investments are in North Carolina local government investment pools, and they have maturities of less than six months. We do not consider these investments to be aggressive. The county has consistently had very strong liquidity, and we expect this to continue.

The county's series 2016 limited-obligation refunding bonds and series 2018 installment finance limited obligations were private-placement transactions. The legal documents associated with this debt allow for immediate acceleration of principal as a remedy in an event of default. However, we believe Section 160A-20 of North Carolina statutes, which prohibits deficiency judgments for appropriation debt, mitigates liquidity risk. This provision limits the available options for recourse in an event of default, but does allow the bank to acquire or sell the assets or mortgaged properties associated with the contract. Therefore, we do not consider this debt to be a contingent liability risk that would affect the city's liquidity position.

Strong debt and contingent liability profile

In our view, Moore County's debt and contingent liability profile is strong. Total governmental fund debt service is

10.9% of total governmental fund expenditures, and net direct debt is 95% of total governmental fund revenue. Overall net debt is low at 0.8% of market value, and approximately 66% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

In May of 2018, the county passed a GO bond referendum in the total amount of $123 million, which includes $103 million for GO school bonds and $20 million for GO community college bonds. The 2018 bonds will be the first of three pieces of the GO school bonds. Proceeds of the 2018 bonds will finance construction of the new Aberdeen Elementary School. The new elementary school will replace two existing schools, and management expects to realize operational cost savings once the consolidation is complete. We estimate that debt service carrying charges could increase to about 12.5% of expenditures from 10.9% once the full 2018 bonds debt service is included.

Subsequent to the issuance of the 2018 bonds, the county expects to issue the remaining $72 million GO school bonds, authorized in 2018, in two pieces in calendar year 2019, including $34 million in January and $38 million in July. The county plans to issue the $20 million community college bonds in fiscal 2022 to finance a new nursing education facility.

While the county plans to issue substantial additional debt over the next few years to meet school capital needs, we believe the debt profile will remain at least adequate and remain in compliance with the county's debt policies. The county requires amortization to be at least 55% within 10 years, total debt to remain below 2% of assessed value, and debt service to be below 15% of expenditures. The county projects continued compliance with all aspects of the policy, with the issuance of the additional debt, throughout the life of the bonds. Our calculations estimate that overall net debt, debt service carrying charges, and debt as a percent of assessed value will remain compliant with policy as well.

Management indicated the potential for a courthouse project and a high school project that are under consideration for future bonding as well, that are not included in the current GO bond authorization or our calculation of the debt metrics. The timing and par amount for those issues are currently unknown, therefore the potential impact to the debt scoring is uncertain at this time.

We also note that management expects some of the future bond issuances to have a dedicated funding source, and that tax increases are a possibility. For example, there will be a one-fourth cent sales tax on the ballot in November that is estimated to generate $2.3 million to $3.1 million annually that could contribute to debt payment or financing of capital projects. In addition, management is considering a property tax rate change that would be implemented with the fiscal 2020 budget, following the county's next revaluation in 2019. The county's property tax rate has been unchanged since 2010, and management currently projects the potential increase to be between 5.25 cents and 8 cents, depending on whether the one-fourth cent sales tax passes and the results of the revaluation.

Moore County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled

3% of total governmental fund expenditures in 2017. The county made 100% of its actuarially determined pension contribution in 2017.

The county participates in three pension plans: North Carolina Local Government Employees' Retirement System (LGERS), North Carolina Registers of Deeds' Supplemental Pension Fund (RODSPF), and Law Enforcement Officers' Special Separation Allowance. LGERS and RODSPF are both cost-sharing, multiple-employer, defined benefit plans administered by the state. The county consistently makes its actuarially determined contribution, which in fiscal 2017 was $1.95 million for LGERS (or 2.0% of total governmental fund expenditures). The county contributed $6,032 for RODSPF in fiscal 2017. As of June 30, 2017, the funded ratio for the largest plan, LGERS, was 94%, which we consider a positive credit factor.

The Law Enforcement Officers' Special Separation Allowance is a single-employer, defined-benefit pension plan that provides benefits to qualified law enforcement officers. The county funds this plan on a pay-as-you-go basis from the general fund. In fiscal 2017, the county contributed $270,631 (or 0.3% of total governmental fund expenditures) to the plan, which has a total pension liability of $2.8 million.

The county provides OPEB through a single-employer, defined-benefit plan. The county funds the health care benefits plan on a pay-as-you-go basis, and the county board of commissioners could amend the plan. The county's OPEB cost in fiscal 2017 was $648,716 (or 0.7% of total governmental fund expenditures) and reported a net OPEB obligation of $17.6 million.

Very strong institutional framework

The institutional framework score for North Carolina counties is very strong.

Outlook

The stable outlook reflects our opinion that the county will maintain very strong budgetary flexibility and strong budgetary performance, supported by very strong management policies and practices. We do not expect to change the rating within the two-year outlook period.

Downside scenario

We could lower the rating if the county experiences financial pressures-particularly related to the issuance of additional debt over the next few years-that lead to structural budget imbalance or substantial declines in reserves.

Upside scenario

We could raise the rating if the county's economic metrics improved to levels we consider comparable to those of higher-rated peers, all else remaining equal.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017