

# RatingsDirect®

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## Summary:

# Catawba County, North Carolina; Appropriations

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## Table Of Contents

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Rationale

Outlook

## Summary:

# Catawba County, North Carolina; Appropriations

### Credit Profile

US\$39.76 mil ltd oblig bnnds ser 2018 dtd 05/24/2018 due 04/01/2038

*Long Term Rating* AA/Stable New

#### **Catawba County Public Facilities Financing Corporation, North Carolina**

Catawba Cnty, North Carolina

Catawba County Public Facilities Financing Corporation (Catawba Cnty) ltd oblig rfdg bnnds

*Long Term Rating* AA/Stable Upgraded

Catawba County Public Facilities Financing Corporation (Catawba Cnty) APPROP

*Long Term Rating* AA/Stable Upgraded

## Rationale

S&P Global Ratings raised its long-term rating on Catawba County Public Facilities Financing Corp., N.C.'s existing appropriation debt, supported by Catawba County, to 'AA' from 'AA-'. We also assigned our 'AA' long-term rating to the corporation's series 2018 limited obligation bonds, supported by the county. The outlook on all ratings is stable.

The upgrade reflects our view of the county's improved general creditworthiness, which has benefited from a stable and improving local economy, strengthened management practices and policies following the adoption of a formal long-term financial plan and refinement of its debt management policy, and strong budgetary performance in fiscal 2017 that we do not expect to weaken in the near term.

The 2018 bonds are secured by certain money on deposit under the indenture, and are payable solely from the installment payments and certain other money as provided in the indenture. Catawba County's budget officer is required to include payment in the county's budget each year. The county can only delete the budget item with a resolution from the board of commissioners including a statement explaining the deletion. A deed of trust--consisting of the mortgaged property that includes two county elementary schools further secures the bonds. We understand there is no debt-service-reserve fund, but principal and interest payments are due each June 1 and Dec. 1; this mitigates late-budget-adoption risk. Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Jan. 22, 2018, on RatingsDirect), we rate the county's installment purchase debt one notch below its general creditworthiness. Officials intend to use series 2018 LOB proceeds to fund an expansion of the county jail, as well as for improvements to two county schools, the local community college, and a county park.

The general obligation debt rating reflects our opinion of the county's:

- Adequate economy, with projected per capita effective buying income at 81.3% of the national level and market value per capita of \$106,065;
- Very strong management, with "strong" financial policies and practices under our Financial Management

Assessment methodology;

- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 28% of operating expenditures;
- Very strong liquidity, with total government available cash at 15.9% of total governmental fund expenditures and 1.7x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 9.3% of expenditures and net direct debt that is 102.8% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 79.4% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

**Adequate economy**

We consider Catawba County's economy adequate. The county has an estimated population of 156,106. The county has a projected per capita effective buying income of 81.3% of the national level and per capita market value of \$106,065. Overall, the county's market value grew by 0.6% over the past year to \$16.6 billion in 2018. The county unemployment rate was 4.7% in 2016.

Spanning an area of 405 square miles, Catawba County is located in western North Carolina, roughly 15 miles northwest of Charlotte in the foothills of the Blue Ridge Mountains. The city of Newton serves as county seat, and is one of eight municipalities within county limits. While the local economy has historically been rooted in furniture and textile manufacturing, additional strengthening in the technology, health care, food manufacturing and logistics, education, and telecommunications sectors have produced a measured degree of economic expansion and diversification in recent years. Primary county employers in fiscal 2017 were the Catawba County School System (with 1,960 employees), Catawba Valley Medical Center (1,949), CommScope Inc. (1,609), and Duke LifePoint/Frye Regaional Medical (1,560). We consider the local tax base diverse, with the top 10 taxpayers accounting for only 18.33% of total AV in fiscal 2017, and principal taxpayers that include Apple, Duke Energy, GKN, and Corning Cable Systems. Despite demonstrating a modicum of volatility, due in part to a four-year revaluation cycle, county AV has largely trended upward in since the recession, and officials expect this trend to continue--projecting 8% growth in fiscal 2019.

New residential and commercial development has buoyed organic AV growth in recent years. A variety of new enterprises have contributed to a strengthening of local retail activity, and employers such as Apple--which announced plans in 2017 to invest an additional \$1 billion to grow its existing presence--continue to expand operations in the county. Furthermore, the county is poised for significant economic development in its Sherrills Ford community, which is adjacent to Lake Norman in the southeastern region of the county. A handful of residential and commercial projects are currently in varying stages of development, and county officials expect the area to be a strong driver of long-term growth.

**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.

Catawba County utilizes three years of historical data and consults with outside sources when developing revenue and expenditure assumptions for its annual budget. Conservative positions are typically used when compared to historical trends. Budget-to-actual financial results are presented to the county commission on a quarterly basis, and budget amendments--while typically done once each year--can be made at any time if needed. The county utilizes a formal long-term financial plan that projects revenues and expenditure for a four-year period, and attempts to forecast large, recurring transfers as well as one-time capital expenditures. The plan is updated annually and includes conservative assumptions. It additionally maintains a formal five-year capital improvement plan, which is updated annually and identifies funding sources for projects. The county follows a formal policy for investments, and investment earnings and holdings are presented to the commission on a quarterly basis. Management adheres to a formal debt management policy that is frequently reviewed and sets comprehensive limitations on debt issuances. The county has a formal reserve policy of maintaining 16% of operating expenditures in reserve, which is based on working capital needs.

### **Strong budgetary performance**

Catawba County's budgetary performance is strong in our opinion. The county had slight surplus operating results in the general fund of 0.8% of expenditures, and surplus results across all governmental funds of 4.4% in fiscal 2017.

In assessing the county's budgetary performance, we made adjustments for recurring transfers into and out of the general fund, and for expenditures toward one-time capital projects across total governmental funds--some of which used debt proceeds.

Catawba County has maintained strong budgetary performance in recent years, due in part to conservative practices on behalf of management in which year-end results regularly outperform large planned deficits. After initially budgeting for a drawdown in general fund balance of \$7.5 million, outperformance by both revenues and expenditures of a combined \$16.3 million contributed toward an operating surplus of \$1.3 million. Notably influencing operating performance is the county's practice of making large annual transfers from its general fund to its general capital projects, school construction, school capital projects, and water and sewer funds. Also in fiscal 2017, the county contended with a \$5.1 million shortfall in restricted intergovernmental revenues due in part to the timing of grant revenue receipts; however, this was eclipsed by expenditure cost savings of more than \$12.9 million stemming from unspent appropriations and personnel vacancies. Ad valorem taxes comprised 53% of general fund revenue in fiscal 2017, restricted intergovernmental revenues (21%), sales taxes (17%), and sales and services (4.5%) representing the next largest sources. While sales and services have declined each year since fiscal 2011 owing to persisting imbalance in the county's Home Health service--culminating with the liquidation of the service in fiscal 2016--ad valorem taxes, sales taxes, and restricted intergovernmental revenues have largely remained stable.

In fiscal 2018, the county budgeted for balanced operations in the general fund. Officials report that revenues and expenditures are trending in line with expectations thus far, and anticipate finishing the year with break-even results or a small surplus. Consequently, we expect that budgetary performance will remain strong in the near term.

### **Very strong budgetary flexibility**

Catawba County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 28% of operating expenditures, or \$50.2 million. Catawba County has historically maintained very strong reserve levels, in our view, exceeding 20% of operating expenditures in the three most recent fiscal years and providing substantial flexibility above its formal reserve policy of 16%. Surplus results in fiscal 2017 allowed the county to grow both overall and unassigned fund balance by an additional \$1.4 million and \$4.4 million, respectively, and despite budgeting for balanced operations in fiscal 2018, management anticipates once more adding to fund balance. Therefore, we expect budgetary flexibility to remain very strong in the near term.

### **Very strong liquidity**

In our opinion, Catawba County's liquidity is very strong, with total government available cash at 15.9% of total governmental fund expenditures and 1.7x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary.

In assessing the county's liquidity, we adjusted for investments held with maturities exceeding one year. Its strong access to external liquidity is demonstrated by its access to the market over the past two decades, which includes numerous GO-backed bond issuances. It has historically maintained what we consider very strong cash balances, and given our expectation for at least balanced operations in fiscal 2018, we do not believe its cash position will materially weaken in the near term. All of the county's investments comply with both state statutes and its own formal policy, and were held in agencies, commercial paper, municipal bonds, and pooled funds at the end of fiscal 2017--none of which we consider aggressive. Therefore, we do not expect the county's liquidity position to deteriorate from its very strong position in the near term.

The county's series 2016 installment financing contract was privately placed with TD Bank N.A.; however, the private placement does not include acceleration or cross-default provisions, and--similar to the county's existing debt--is fixed-rate debt and contains no variable-rate components or permissive covenants. Therefore, we do not believe the county has exposure to liquidity pressure from contingent liabilities.

### **Strong debt and contingent liability profile**

In our view, Catawba County's debt and contingent liability profile is strong. Total governmental fund debt service is 9.3% of total governmental fund expenditures, and net direct debt is 102.8% of total governmental fund revenue. Overall net debt is low at 1.2% of market value, and approximately 79.4% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following the issuance of the series 2018 bonds, the county has plans to issue an additional \$21.6 million over the next two fiscal years for improvements to county parks, schools, and Catawba county community college.

Catawba County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.7% of total governmental fund expenditures in 2017. Of that amount, 2.1% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The county made its full annual required pension contribution in 2017.

Catawba County participates in the statewide Local Government Employees' Retirement System (LGERS), a

cost-sharing multiple-employer plan, administered by the state. According to Governmental Accounting Standards Board Statement No. 68, which the county implemented for financial statements ended June 30, 2015, employers with benefits administered through cost-sharing, multiemployer pension plans such as LGERS must report their proportionate share of the net pension liability. As of June 30, 2016, the county's proportion of net LGERS' liabilities was \$17.8 million. In addition, LGERS' fiduciary net position as a percent of the total pension liability was 91.4%. The county made its full annual required contribution to the LGERS plan in fiscal 2017.

The county also participates in three supplemental defined benefit plans: the Law Enforcement Officers Special Separation Allowance (LEOSSA), the Supplemental Retirement Income Plan for Law Enforcement Officers, and the Register of Deeds' Supplemental Pension Fund (RODSPF). The LEOSSA plan is funded on a pay-as-you-go basis, and the county paid \$98,949 in fiscal 2017 as benefits came due. The Supplemental Retirement Income Plan for Law Enforcement Officers requires a contribution equal to 5% of each officer's salary, and the county contributed \$344,877 toward the plan in fiscal 2017. The county contributed \$14,289 to the RODSPF in fiscal 2017, though it had an actuarially determined contribution of \$0.

Catawba County offers OPEB in the form of employee health insurance, which it funds on a pay-as-you-go basis. It paid \$200,998 toward OPEB expenditures in fiscal 2017.

### **Very strong institutional framework**

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

## **Outlook**

The stable outlook reflects our view of the county's stable and improving local economy, very strong flexibility and liquidity, and very strong management, which has contributed to strong budgetary performance and surplus operations in recent years. It also reflects our expectation that the county's debt profile will remain stable corresponding with planned future debt issuances. Consequently, we do not expect to change the rating within the two-year outlook period.

### **Upside scenario**

We could raise the rating if continued economic expansion results in improved wealth and income indicators, compared to those of peers, or if the county's overall debt profile were to improve while strong financial performance is maintained.

### **Downside scenario**

We could lower the rating if the county's financial performance deteriorates, leading to sustained and significant drawdowns in reserves.

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