

# RatingsDirect®

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## Summary:

# Horry County, South Carolina; General Obligation

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### Credit Profile

Horry Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
<b>Horry Cnty GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) on Horry County, S.C.'s general obligation (GO) bonds to 'AA+' from 'AA'. The outlook is stable.

The rating change reflects the improvement in the county's debt profile, with further improvement expected in fiscal 2019, coupled with the county's growing and diversifying local economy. In addition, the county's very strong management policies and practices continue to support its strong budgetary performance and very strong reserves.

The county's full faith and credit pledge secures its GO bonds with the ability to levy an unlimited-tax on all taxable property within its borders to pay principal and interest.

The rating reflects our opinion of the county's:

- Adequate economy, with market value per capita of \$129,218 and projected per capita effective buying income at 83.2% of the national level;
- 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 break-even operating results at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 41% of operating expenditures;
- Very strong liquidity, with total government available cash at 34.3% of total governmental fund expenditures and 1.9x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 18.4% of expenditures and net direct debt that is 59.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 74.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Adequate economy**

We consider Horry County's economy adequate. The county has an estimated population of 311,020. It has a projected per capita effective buying income of 83.2% of the national level and per capita market value of \$129,218. Overall, the county's market value grew by 1.7% over the past year to an estimated \$40.2 billion in 2018. The county unemployment rate was 5.6% in 2016.

Horry County is located along the Atlantic Coast in eastern South Carolina. The county encompasses 1,134 square miles and is the largest county in the state. It is home to Myrtle Beach and the local economy is largely tourism-based, with 33 miles of beaches and over 100 golf courses. The county had approximately 18.3 million visitors in 2017, an increase of 26% from 14.5 million in 2011. Management reports that tourism supports over 41,100 jobs in the county and that the county has seen growth in tourism in the offseason as part of its marketing efforts to promote conventions, events, and sports tourism. The county's population has grown significantly since 2000, increasing by more than 50%, from fewer than 200,000 in 2000 to approximately 311,000 in 2016. The county is an attractive location for retirees as well, which has contributed to the county's population growth. In addition, the county has an extensive market for second-homes.

While tourism continues to play an important role in the local economy, the county's economy continues to diversify through growth in manufacturing, health care, and education. Recent announcements regarding expansions and investments in the county include Ebtron, which designs and manufactures airflow systems, \$2.5 million dollar investment and plans to add approximately 100 jobs to the county. In addition, Teknoware, which manufactures interior lighting systems for commercial vehicles, announced a \$6 million investment and the addition of 45 jobs. Currently, the school district is the county's leading employer with over 5,700 employees. Other major local employers include the Conway Medical Center (1,540) and Grand Strand Regional Medical Center (1,427), both of which have added hundreds of jobs to the county in recent years. Due to the growing retiree population, the local health care sector will likely continue to grow.

The county is also home to Coastal Carolina University, which enrolls more than 10,000 students and has approximately 1,200 full-time faculty and staff. The university has experienced rapid growth, with enrollment growing by more than 30% over the past 10 years. Two campuses for Horry Georgetown Technical College are also located in Horry County. The technical college has a total enrollment of approximately 7,000 students.

While tourism will likely continue to be the leading economic driver, we believe the county's local economy will likely continue to expand and diversify through growth in manufacturing, health care, and education.

### **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.

When drafting the budget, officials review historical revenue and expenditure trends as well as economic data and projections. In addition, the budget conservatively projects full employment. Management monitors the budget throughout the fiscal year through comprehensive budget-to-actual reports that are provided to the county council on a monthly basis. Management also maintains a comprehensive formal five-year financial plan that is updated annually

as part of the budgeting process. In addition, officials maintain an in-depth five-year capital plan, which is updated annually and identifies project funding sources.

The county council has also adopted formal investment and debt management policies. The county's debt management policy does not permit variable rate debt, or debt-related derivative products. In addition, the policy states that the county will not use more than 75% of its constitutional debt limit of 8% of assessed value. County officials recently adopted a debt compliance policy and retained disclosure counsel. Officials also recently updated the county's formal fund balance policy. The county will maintain a minimum available fund balance of 25% of budgeted expenditures. These reserves are dedicated to cash management, as well as to cover any unexpected revenue shortfalls or expenditures due to disasters. The county is currently in compliance with its updated policy. We believe the county has very strong management in place, comprehensive and formal policies, and robust long-term financial and capital planning.

### **Strong budgetary performance**

Horry County's budgetary performance is strong in our opinion. The county had surplus operating results in the general fund of 6% of expenditures, and balanced results across all governmental funds of negative 0.3% in fiscal 2017. Our assessment accounts for the fact that we believe the county's budgetary performance will remain strong, but the operating surplus will be less than 5% of general fund expenditures in fiscal 2018.

The county's operating performance remains strong and the county performed better than expected for fiscal 2017. After accounting for transfers into and out of the general fund, the county had a large operating surplus of approximately \$9.1 million, or 6% of general fund expenditures in fiscal 2017. Management attributes much of this surplus to growth in property tax revenue as well as general expenditures coming in approximately \$10.2 million under budget. Strong tourism also led to a 5% increase in hospitality fee revenues. Officials report the surplus would have likely been larger, as fiscal 2017 results included approximately \$4.3 million in expenses related to Hurricane Matthew. The county expects to receive full reimbursement by fiscal 2019. We also adjusted total governmental expenditures down to account for capital expenditures paid for with capital project sales tax reserves.

In fiscal 2016, county officials approved a property tax increase of 7.2 mills for the general fund, increasing the rate to 52.4 mills. This led to significant growth in property tax revenue, improved the county's financial performance, and enabled the county to maintain recurring revenues to cover recurring expenditures. Despite the increase, the county's base tax rate remains the lowest across all South Carolina counties. Property taxes account for approximately 51% of general fund revenue and fees and fines account for roughly 13%.

For fiscal 2018, management indicates that based on current trends, revenues are coming in higher than budgeted and management expects at least balanced operations. While we believe the county will maintain strong budgetary performance in fiscal 2018 due to proactive steps taken by management, we believe the county will not experience a surplus as large as the one it experienced in fiscal 2017.

### **Very strong budgetary flexibility**

Horry County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 41% of operating expenditures, or \$61.4 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Due to the large surplus the county experienced in fiscal 2017, the county's available fund balance increased from approximately \$52.4 million, or 37% of general fund expenditures, to \$61.4 million, or 40.5% of general fund expenditures. In fiscal 2019, the county intends to use \$7 million of the county's fund balance to pay off outstanding leases. Despite the use of a small portion of fund balance, we expect the county's available fund balance to remain above 30% of expenditures. Management recently adopted a new formal fund balance policy that increased the county's minimum available fund balance to 25% of budgeted expenditures, from 15%. The county also has approximately \$90.5 million in additional reserves that are restricted to pay debt service on the county's outstanding debt. We believe the county will maintain very strong budgetary flexibility over the next few fiscal years.

### **Very strong liquidity**

In our opinion, Horry County's liquidity is very strong, with total government available cash at 34.3% of total governmental fund expenditures and 1.9x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary.

In our view, the county's consistent issuance of GO debt within the past 15 years demonstrates its strong access to external liquidity. In addition, the county does not engage in, what we consider the aggressive use of investments. Several of the county's GO debt issuances were privately placed. Management confirms there are no continuing covenant agreements or related documents between the parties holding the bonds and the county that would afford the parties additional rights or remedies. Therefore, we do not view these transactions as a contingent liquidity risk. In addition, the county does not have any variable rate debt. We expect the county to sustain its very strong liquidity over the next two to three years.

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

In our view, Horry County's debt and contingent liability profile is strong. Total governmental fund debt service is 18.4% of total governmental fund expenditures, and net direct debt is 59.1% of total governmental fund revenue. Overall net debt is low at 2% of market value, and approximately 74.1% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

At this time, the county intends to issue approximately \$3.2 million in additional GO debt over the next few years for fire protection related expenditures. In addition, in November 2016, county voters approved an eight-year, 1% sales tax, with funds dedicated to improving local roads. At this time, county officials do not intend to issue additional GO debt backed by sales tax proceeds, as revenues are exceeding projections, enabling the county to cash fund projects; however, county officials may choose to do so in the future as authorized by the voter-approved, 1% sales tax.

Due to rapid amortization and a concerted effort by county officials to prepay outstanding leases, the county's debt profile has seen significant improvement over the past few fiscal years with net direct debt as a percent of total governmental revenue falling from 90.3% in fiscal 2016 to 59.1% in fiscal 2018. We expect continued improvement in the county's debt profile in the near term due to the county's limited-additional debt plans coupled with the expected defeasance of the county's Road Improvement and Development Effort (RIDE) program debt in fiscal 2019.

Horry County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.5% of total governmental fund expenditures in 2017. The county made its full annual required pension contribution in 2017.

The county participates in the South Carolina Retirement System (SCRS) and the police officers' retirement system (PORS). According to Governmental Accounting Standards Board Statement No. 68, employers with benefits administered through cost-sharing, multiemployer pension plans such as SCRS and PORS must report their proportionate share of the net pension liability. As of June 30, 2017, the county's proportion of net SCRS liabilities was \$110.5 million and proportion of net PORS liabilities was \$88.5 million. In addition, the plan fiduciary net position as a percentage of the total pension liability of the SCRS and PORS plans was 53% and 60%, respectively.

Recent legislation signed into law by the South Carolina governor will increase required pension contributions for employers that participate in the state's retirement systems. The approved legislation increased the employer contribution by two percentage points in fiscal 2018. However, the state reimbursed approximately half of this increase, reducing the initial impact on the county. Officials report they did not have difficulty meeting this initial increase. However, the approved legislation includes increases to pension contributions annually through fiscal 2023, which could place some long-term financial pressure on the county.

The county provides other postemployment benefits (OPEB) to eligible employees, and it pays for this OPEB expense through pay-as-you-go financing. In fiscal 2017, the county paid \$1.33 million for OPEB.

### **Strong institutional framework**

The institutional framework score for South Carolina counties is strong.

## **Outlook**

The stable outlook reflects S&P Global Ratings' opinion that Horry County's very strong management policies and practices will likely enable the county to maintain its strong financial performance and very strong reserves. In addition, we believe the county's growing and diversifying economy provides additional rating stability. Therefore, we do not expect to change the rating within the two-year outlook period.

### **Upside scenario**

With all other rating factors remaining stable, if the county's economic indicators were to improve to levels commensurate with higher-rated peers, we could raise the rating.

### **Downside scenario**

If the county's financial performance were to deteriorate, leading to sustained and significant drawdowns in the county's reserves, or if increasing pension costs were to place significant financial pressure on the county, we could lower the rating.

## **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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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