

## CREDIT OPINION

1 August 2017

### Update

Rate this Research >>

#### Contacts

Daniel Rempe 212-553-4750  
Associate Analyst  
daniel.rempe@moodys.com

Tiphany Lee-Allen 212-553-4772  
AVP-Analyst  
tiphany.lee-allen@moodys.com

## Laurens (County of), SC

Update: Moody's Assigns Negative Outlook to Laurens County's (SC) GO rating; Affirms A1 rating

### Summary Rating Rationale

Moody's Investors Service has affirmed the A1 rating on Laurens County's (SC) General Obligation rating, affecting \$5.5 million General Obligation Bonds, Series 2010. Concurrently, Moody's assigns a negative outlook.

The assignment of the negative outlook reflects the county's deteriorating reserves and liquidity. The A1 rating position reflects the county's sizeable tax base, manageable debt burden and below-average socioeconomic profile.

### Credit Strengths

- » Sizeable tax base
- » Below-average debt burden

### Credit Challenges

- » Limited flexibility due to deteriorating financial position
- » Below average wealth and income levels

### Rating Outlook

The negative outlook reflects the narrowing of financial reserves resulting in limited budgetary flexibility and pressured operations.

### Factors that Could Lead to an Upgrade

- » Material growth in reserves
- » Improvement in the county's socioeconomic profile

### Factors that Could Lead to a Downgrade

- » Failure to achieve structural balance in fiscal 2017, resulting in a draw on fund balance
- » Contraction of the tax base

## Key Indicators

Exhibit 1

Laurens(County of) SC	2012	2013	2014	2015	2016
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 2,712,080	\$ 2,754,417	\$ 2,815,454	\$ 2,864,273	\$ 2,978,037
Full Value Per Capita	\$ 40,708	\$ 41,447	\$ 42,408	\$ 43,144	\$ 44,597
Median Family Income (% of USMedian)	71.0%	69.2%	67.9%	68.1%	68.1%
<b>Finances</b>					
Operating Revenue(\$000)	\$ 35,547	\$ 40,326	\$ 32,326	\$ 31,672	\$ 33,369
Fund Balance as a % of Revenues	14.0%	7.2%	26.0%	20.9%	16.0%
Cash Balance as a % of Revenues	87.6%	74.0%	38.7%	30.3%	31.9%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 14,778	\$ 13,184	\$ 15,906	\$ 14,158	\$ 13,571
Net Direct Debt / Operating Revenues(x)	0.4x	0.3x	0.5x	0.4x	0.4x
Net Direct Debt / Full Value (%)	0.5%	0.5%	0.6%	0.5%	0.5%
Moody's- adjusted Net Pension Liability (3-yr average) to Revenues(x)	N/A	0.9x	1.3x	1.5x	1.5x
Moody's- adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.3%	1.5%	1.7%	1.7%

Source: Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Modestly-Sized Tax Base, Strong Manufacturing Presence

The county's large stable tax base will continue to grow due to its proximity to the counties of Greenville (G.O. rated Aaa) and Spartanburg (G.O. rated Aa2) and ongoing commercial development. Located 30 miles south of Greenville and Spartanburg, the county's \$3 billion tax base has grown has a five-year average annual growth rate of 1.7%. Top employer employers in the county are a Walmart distribution center, Sterilite (a plastics manufacturer), Dispoz-O-Plastics and ZF Transmissions.

County officials report numerous developments by new and existing employers. Investments announced in 2017 include a \$14.1 million dollar expansion by Fukoku, a wiper blade manufacturer, which is expected to add 65 jobs; a \$2.5 million expansion by REMA USA, a manufacturer of high-current contact systems, which will add 40 new jobs; an \$80 million investment by Bird's Eye Energy; and GE's opening of a \$29 million facility for testing prototypes of wind turbines. In addition the county is seeing some residential development, with \$8 million in new construction within the city of Fountain Inn. The area around Lake Greenwood is also attracting modest commercial and residential development.

The tax base is relatively diverse, with the top ten taxpayers accounting for 11.2% of 2016 assessed values. Socioeconomic factors are below average, with median family income equal to 79.7% and 68.1% of state and national levels, respectively, and poverty at 21%. Unemployment is approximately average at 3.7% as of November 2016, compared to 3.6% for the state and 4.1% for the US.

### Financial Operations and Reserves: Steadily Declining Financial Position

The county's financial position has declined steadily after five consecutive years of general fund deficits, limiting financial and operating flexibility. Fiscal 2016, originally balanced with \$623,000 appropriation of reserves, saw a \$758,000 General Fund deficit and draw on reserves, due to unfavorable expenditures variances in Employee Benefits and Equipment Purchases as well as an unbudgeted transfer out of \$433,000 to Victims Assistance fund and Special Revenue Debt Service funds. The county also saw a favorable revenue variance of \$1 million due to better than expected property tax receipts. Fiscal 2016 general fund balance declined to \$5.5 million, or 18.8% of revenues, from \$6.2 million, or 22.9% of revenues in 2015. Total Operating Funds, which include Debt Service and Special Revenue Funds, ended fiscal 2016 with \$7.5 million, or 22.3% of total operating revenues, a decrease from \$7.9 million or 24.8% of revenues in 2015. The county's largest revenue is property taxes at 61.5% of operating revenues in fiscal 2016, followed by charges for services at

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for the most updated credit rating action information and rating history.

18.4% and intergovernmental revenues at 14.7%. Primary expenditures are for public safety, at 42%, followed by general government at 26.3% and public works at 10.7%. Fiscal 2017 budget was balanced without use of reserves and management reports that they are expecting to end the year with balanced operations. Fund balance levels are below the median for the rating category

The county enters in to Fee in Lieu of Taxes agreements with new employers to attract investment in the county. These revenues are shared with overlapping taxing authorities within the county, including three school counties. Historically, the county's share of these revenues was \$1.6 million annually. Going forward, the county will receive a greater share, \$2.4 million, in an effort to achieve balanced fiscal operations.

The county's ability to achieve structural balance and stop further declines in fund balance will be a key factor in future rating decisions. Further draws on fund balance in 2017 and beyond will likely result in downward movement in the county's credit rating.

#### LIQUIDITY

The county's operating reserve cash position totaled \$10.6 million (31.9% of revenues) in fiscal 2016, an increase from \$9.6 million, or 30.3% in fiscal 2015, due to an increase in accounts payable. Cash position is approximately average for the rating category

#### Debt and Pensions

The county's below average debt burden of 0.5% of full value is expected to remain low given only modest future borrowing plans. The county plans to borrow \$1 million for construction of a new EMS facility next year.

#### DEBT STRUCTURE

All debt is fixed rate, with a rapid payout of 100% within 10-years. The county has \$10.5 million outstanding GO debt, of which only the \$5.5 million Series 2010 bonds are rated by Moody's. Additionally, the county has \$1.4 million in special obligation bonds secured by PILOT payments.

#### DEBT-RELATED DERIVATIVES

The county is not party to any derivative agreements.

#### PENSIONS AND OPEB

The county participates in two separate cost-sharing, multiple employer defined benefit plans administered by the State of South Carolina. The county's annual required contribution (ARC) for the plan was \$1.6 million in fiscal 2016, or a moderate 4.3% of operating expenditures.

The county's three-year average adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$49.8 million, or an average 1.49 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities. We determined the county's share of liability for the state-run plan in proportion to its contributions to the plans.

#### Management and Governance

South Carolina Counties have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. South Carolina counties' ability to raise property tax revenue is subject to Act 388, an annual cap, which sets a maximum operating millage increase based on CPI increase and population growth. However, the cap can be overridden by a two-third vote of the governing body under specific conditions allowing for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. South Carolina is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Management does not currently have formal fund balance policies, but new management will seek to implement policies in the near-term.

#### Legal Security

The series 2010 bonds are secured by the county's unlimited ad valorem tax pledge.

## Use of Proceeds

N/A

## Obligor Profile

The county is located 30 miles south of Greenville and Spartanburg in the northern central part of the state with a population of 66,389.

## Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1084741