MOODY'S
INVESTORS SERVICE

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Update

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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
Economy/Tax Base					
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%
Finances					
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%
Debt/Pensions					
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

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 for a copy of this methodology.

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