S&P Global Ratings

RatingsDirect®

Summary:

Horry County, South Carolina; General Obligation

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

Secondary Contact:
Jennifer K Garza (Mann), Farmers Branch (1) 214-871-1422; jennifer.garza@spglobal.com

Table Of Contents

Summary:

Horry County, South Carolina; General Obligation

Credit Profile		
US$18.8 mil General Obligation Bonds (Public Improvements) ser 2020A dtd 01/29/2020 due 03/01/2030		
Long Term Rating	AA+/Stable	New
US$2.1 mil General Obligation Bonds (Public Improvements) ser 2020B due 03/01/2030		
Long Term Rating	AA+/Stable	New
Horry Cnty GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Horry County, S.C.'s series 2020A and 2020B general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the county's GO debt outstanding. The outlook is stable.

The county's full-faith-and-credit pledge secures the GO bonds, with the ability to levy an unlimited ad valorem tax on all taxable property within its borders to pay principal and interest. The 2020A bond proceeds will finance construction of a new emergency operations center as well as renovations to county facilities. The 2020B bond proceeds will finance capital improvements to existing fire stations.

The rating reflects our view of the county's stable and expanding local economy that, while traditionally seasonal and tourism-based, has been diversifying to other industries and becoming a year-round destination as it grows. The rating also reflects our view of the county's strong financial performance and flexibility, which are supported by very strong management policies and practices.

The rating reflects our opinion of the following credit factors:

- Adequate economy, with projected per capita effective buying income (EBI) at 85.3% of the national level and market value per capita of $126,036;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 49% of operating expenditures;
- Very strong liquidity, with total government available cash at 17.1% of total governmental fund expenditures and 1.8x governmental debt service, and access to external liquidity that we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 9.4% of expenditures and net direct debt that is 19.6% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of

market value and rapid amortization, with 71.4% 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 a projected per capita EBI of 85.3% of the national level and per capita market value of $126,036. Overall, the county's market value grew 4.4% over the past year to $42.6 billion in 2019. The county unemployment rate was 4.2% in 2018.

Horry County is along the Atlantic Coast in eastern South Carolina. It encompasses 1,134 square miles and is the second-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 more than 100 golf courses. The county had approximately 20 million visitors in 2018, an increase of 38% from 14.5 million in 2011. Management reports that tourism supports more than 43,900 jobs in the county and that the county has seen tourism growth in the offseason as part of its marketing efforts to promote conventions, events, and sports tourism. The county's full-time residential population has grown significantly since 2000, increasing more than 75%, to approximately 355,000 in 2019 from fewer than 200,000. The county is an attractive location for retirees as well, which has contributed to its population growth.

While tourism plays an important role in the local economy, the county's economy continues to diversify through growth in manufacturing, health care, and education. The county is developing a new industrial park, which it expects to attract several new tenants. Other recent announcements include a UPS expansion for a new $11 million delivery center that the county expects to create 50 new jobs. The school district is the county's leading employer with 5,899 employees. Other major local employers include the Conway Medical Center (1,170) and Grand Strand Regional Medical Center (1,246), both of which have added hundreds of jobs in recent years. The county is also home to Coastal Carolina University, which enrolls more than 10,000 students and has approximately 1,481 full-time faculty and staff. The university has experienced rapid growth, with enrollment increasing by more than 30% over the past 10 years. Two campuses for Horry Georgetown Technical College are also located in the county. The technical college has a total enrollment of approximately 7,000 students.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our FMA 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 it provides to the county council monthly. Management also maintains a comprehensive formal five-year financial plan that it updates annually as part of the budgeting process. In addition, officials maintain an in-depth five-year capital plan, which the county updates 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 (AV). County officials recently adopted a debt compliance policy and retained disclosure counsel. The county's reserve policy requires maintenance of 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 reserve policy.

Given Horry County's coastal location, and therefore susceptibility to impacts from natural disasters and climate change, we view the setting aside of additional reserves specifically for disaster-recovery costs positively. In addition, management reports that the county is in the midst of a resiliency study that will address ways to better prepare and respond to weather events in the future. The county was impacted by Hurricane Matthew in fiscal 2017 and Hurricane Dorian in fiscal 2019. While the recovery costs were initially paid by the county, they were later reimbursed from insurance and the Federal Emergency Management Agency.

Strong budgetary performance

Horry County's budgetary performance is strong, in our opinion. The county had operating surpluses of 7.2% of expenditures in the general fund and of 14.7% across all governmental funds in fiscal 2019. It has consistently maintained positive operating performance in each of the past three audited years, with surpluses ranging from $12 million-$14 million, or 7%-9% of general fund expenditures. Our analysis includes adjustments for recurring transfers into and out of the general fund as well as nonrecurring expenses such as capital projects, disaster-recovery costs, and early repayment of debt. The county adopted a balanced budget for fiscal 2020, revenues and expenditures are trending favorably fiscal year-to-date, and management expects to end the year with surplus results and continuing to build fund balance. Based on recent trends, and expectations for fiscal 2020, we expect budgetary performance to remain strong throughout the outlook period.

The county has had three successful Road Improvement and Development Effort (RIDE) programs, including: RIDE 1, enacted in 1996, which implemented a 1.5% hospitality tax fee; RIDE 2, in place from 2007-2014, levied a one-cent capital project sales tax; and RIDE 3, approved in 2016 and expiring in 2025, reimplemented the one-cent capital project sales tax. The RIDE program generates substantial funds that are available for road projects outside the general fund operating budget. The county is currently involved in a lawsuit related to RIDE 1, with the incorporated municipalities within the county, and until resolved, hospitality taxes are not being collected in those municipalities. Given that these funds are held outside the general fund, and are dedicated to transportation capital projects, we do not expect the lawsuit and injunction to affect the county's general operations.

Very strong budgetary flexibility

Horry County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 49% of operating expenditures, or $79.6 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. The county has maintained very strong reserves in each of the past three fiscal years, ranging from $61.4 million-$79.6 million, or 41%-51% of general fund expenditures. This reserve level meets and exceeds the county's formal policy to maintain reserves equal to 25% of expenditures. With no plans to draw on reserves over the next two fiscal years, we expect budgetary flexibility to remain very strong throughout the outlook period.

Very strong liquidity

In our opinion, Horry County's liquidity is very strong, with total government available cash at 17.1% of total governmental fund expenditures and 1.8x governmental debt service in 2019. In our view, the county has strong access to external liquidity if necessary, which it has demonstrated with its consistent issuance of GO debt within the past 15 years. 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. We expect the county to sustain its very strong liquidity over the next two-to-three years. In addition, in regard to the lawsuit, we believe the county has sufficient resources set aside to repay hospitality tax revenue to the municipalities if needed, and therefore we do not view the pending resolution of the litigation as a contingent liquidity risk.

Very strong debt and contingent liability profile

In our view, Horry County's debt and contingent liability profile is very strong. Total governmental fund debt service is 9.4% of total governmental fund expenditures, and net direct debt is 19.6% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, and approximately 71.4% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The 2020A bond proceeds will finance construction of a new emergency operations center as well as renovations to county facilities. The 2020B bond proceeds will finance capital improvements to existing fire stations. Subsequent to this issuance, the county expects to issue an additional $25 million in GO bonds to finance additional improvements to county buildings and EMS facilities in fiscal 2021. Given that a similar amount of principal is expected to be retired within the next two years, we do not expect the additional debt plans to materially impact the county's overall debt profile.

Pension and other postemployment benefits

We expect Horry County will continue to absorb pension and other postemployment benefits (OPEB) costs into its overall budget, however, if these costs rise to levels that we believe account for an outsized portion of the budget compared with those of peers, our view of the county's debt and long-term liability profile could weaken.

- We do not view pension and OPEB liabilities as an immediate source of credit pressure for Horry County, despite lower funding levels and our expectation that costs will increase.
- Because the county's pension actuarially determined contribution (ADC) is built from what we view as weak assumptions and methodologies, we believe it increases the risk of unexpected contribution escalations. However, we anticipate higher contributions will likely remain affordable given the strength of the county's revenue base.
- Although OPEB liabilities are funded on a pay-as-you-go basis and costs are likely to increase, the county has legal flexibility to alter OPEB benefits, which we view as a potential means to mitigate escalating costs.

Horry County participates in the following cost-sharing, multiple-employer pension plans funded as follows:

- South Carolina Retirement System (SCRS): 54.4% funded, with a net pension liability of $114.7 million.
- Police Officers' Retirement System (PORS): 62.7% funded, with a net pension liability of $92.7 million.

- A defined-benefit health care plan that provides both explicit and implicit subsidies to retirees until age 65: 0.0% funded with an OPEB liability of about $42.0 million.

The county's combined required pension and actual OPEB contributions totaled 4.5% of total governmental fund expenditures in 2019. Of that amount, 4.2% represented required contributions to pension obligations, and 0.3% represented OPEB payments. Although the county funds 100% of its ADC fell short of both static funding and minimum funding progress. The plans' amortization methods, especially the level 3.00% of payroll amortization, defer costs and will result in slow funding progress. In our view, a discount rate of 7.25% for both plans could lead to contribution volatility. However, reforms enacted in 2017 sought to address weaker funded ratios and included lowering the discount rate and closing the amortization period, both of which we view as mitigating contribution escalation risk. These reforms will likely improve funding status, but will contribute to rising costs for plan participants. For more information on the pension reform, see "South Carolina's Proposed Pension Reform Provides Path To Improve Funding, But Challenges Remain," published March 14, 2017, on RatingsDirect.

Strong institutional framework

The institutional framework score for South Carolina counties is strong.

Outlook

The stable outlook reflects our 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

We could raise the rating if the county's economy diversifies, underlying wealth and income indicators improve to levels that we consider comparable with those of higher-rated peers, and the county manages potentially rising fixed costs such as pension and OPEB obligations.

Downside scenario

If the county's financial performance deteriorates, leading to sustained and significant drawdowns in the county's reserves, or if increasing pension costs 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
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2019 Update Of Institutional Framework For U.S. Local Governments