FitchRatings

Public Finance
Tax-Supported
U.S.A

Horry County, South Carolina

New Issue Summary

Sale Date: February 19th

Series: Series 2020A and 2020B

Purpose: Bond proceeds will finance various public improvements in the county.

Security: The bonds are general obligations of Horry County, payable from the full faith, credit, and taxing power of the county.

The 'AA+' IDR and GO rating reflect the county's healthy level of reserves and highest gap-closing capacity to address potential revenue volatility when taking into account the county's solid expenditure flexibility and legal ability to adjust the property tax rate within the statutory cap. The county's low long-term liability burden contributes to the high credit quality. The 'AA+' rating takes into account the county's tourism-based economic concentration.

Economic Resource Base: Situated in the northeastern corner of South Carolina, Horry County contains more than 50 miles of the Atlantic Ocean coastline commonly known as the Grand Strand. The regional economic hub and tourist destination of Myrtle Beach lies within the county. The 2018 estimated population of about 344,000 is up 28% since 2010.

Key Rating Drivers

Revenue Framework: 'aa': General fund revenues absent property tax rate adjustments increased above inflation but below national GDP over the decade ending in fiscal 2019, a pace Fitch expects to continue based on continued population growth and development in the county. The county's banked available millage under the state's revenue cap provides a high independent legal ability to raise revenues relative to expected revenue volatility through the economic cycle.

Expenditure Framework: 'aa': Fitch expects natural growth in spending to generally track revenue growth. Fixed carrying costs for debt, pension and other post-employment benefits (OPEB) are moderate at 14% of governmental spending in fiscal 2019.

Long-Term Liability Burden: 'aaa': The county's long-term liability burden for debt and pensions is low at about 7% of resident personal income. Due to the sizeable presence of tourism in the county, Fitch views market value as another indicator of the economic base's capacity to support long-term liabilities. When measured against the market value of the tax base, the liability is also low at about 2%. Fitch anticipates that the rapid pace of amortization and growth in the resource base will offset modest planned debt issuance and keep the liability burden around the current level.

Operating Performance: 'aaa': Fitch expects the county to continue to maintain a high level of financial flexibility throughout the economic cycle, given its strong revenue and expenditure flexibility and healthy reserve levels.

Rating Sensitivities

Revenue Growth: The rating is sensitive to shifts in the natural growth prospects for general fund revenue. Fitch currently expects natural revenue growth above the rate of inflation but below the rate of GDP growth. Although not currently expected, a deceleration in the rate of growth that is not matched by controlled spending could put negative pressure on the rating.

Ratings

Long Term Issuer Default Rating	AA+

New Issues

$18,800,000 General Obligation Bonds, Series 2020A	AA+
$2,100,000 (Horry County Fire Protection District) General Obligation Bonds, Series 2020B	AA+

Outstanding Debt

General Obligation Bonds	AA+
Horry County Fire Protection District General Obligation Refunding Bonds	AA+

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (January 2020)

Related Research

Fitch Rates Horry County, SC's GO Bonds 'AA+'; Outlook Stable (February 2020)

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Credit Profile

The county is part of the greater Myrtle Beach-Conway-Georgetown, SC MSA, which was the second fastest growing MSA in the nation by population in 2018 according to Census reports. Along with overall population increases, the county reports continued improvement in off-season visitors, hotel occupancy rates, and employment growth. The county reports hosting approximately 20.3 million visitors in 2018, a new county record. This is reflected in solid gains in retail sales and tourism-sensitive taxes and fees as the economy has rebounded from recessionary declines and subsequently expanded.

Tourism dominates Horry County's economy, accounting for over a quarter of the county's employment. In combination with the county's costal location and relatively long distance from sizable population and economic centers, this adds some degree of concentration risk and vulnerability to periodic revenue and expenditure stresses associated with unexpected weather events, for example. The economy benefits from a modest health care sector largely associated with the growing retiree population (nearly a quarter of the population is over 64, well above the nation average of 16%) and the presence of over 10,000 students at the growing Coastal Carolina University.

Economic indicators are trending in a favorable direction. The unemployment rate peaked in 2010 at a rate higher than the rest of the state, though it has since recovered along the lines of the state and nation. Unemployment varies by month given the seasonal nature of many jobs in the county, but is typically between state and national rates. Per capita personal income in the county is well below both the state and nation reflecting the lower-wage jobs typically associated with tourism and retail employment. However, the poverty level at 16% is in line with the state average.

Revenue Framework

The general fund revenue framework benefits from very stable and diverse revenue sources that capture economic activity within the county. Property taxes, primarily commercial property based, account for just over half of revenues. Other general fund revenues are a diverse mix of fines, fees, taxes and intergovernmental revenue from state and federal sources.

General fund revenues increased strongly at a pace in line with the national GDP expansion during the decade ending in fiscal 2019. As adjusted by Fitch, natural revenue growth (net of tax adjustments) was more moderate, and Fitch expects similar growth going forward. Property taxes account for the largest portion of general fund revenues at about 51%. The county recently completed a revaluation, conducted every five-years, effective tax year 2019 (fiscal 2020), which showed 10% growth in the tax base. Growth in valuation of real property attributable to reassessment may not exceed 15% (increases related to new construction are exempt).

Fees and fines, the second largest general fund revenue source at about 12% of fiscal 2019 total revenues, have demonstrated modest growth in recent years and have benefited from development and population growth in the county. Additionally, continued population and visitor growth positively impacts economically sensitive revenues like sales taxes and hospitality fees, which are primarily captured outside the general fund and dedicated to tourism based projects and roads and the servicing of certain county indebtedness.

Ad valorem revenue raising ability is broadly capped by the provisions of South Carolina's Act 388, which limits property tax rate increases to population growth plus inflation. The law provides for the carry-forward of unused millage increases for up to three years, with exceptions in limited circumstances for emergencies, the loss of significant tax payers, and prior year deficiencies. For fiscal 2019, the county banked 6.8 mills under the cap, which Fitch estimates would generate an additional $11.8 million or 7% of general fund revenues.

The county typically maintains a sizable level of banked capacity. Unused capacity plus the amount of potential revenue generated from other fees and taxes provides high independent revenue raising flexibility considering the level of revenue volatility experienced by the county through the most recent recession.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	2/06/20
AA+	Upgraded	Stable	5/17/10
AA	Revised	Positive	4/30/10
AA-	Affirmed	Positive	5/01/08
AA-	Affirmed	Stable	6/07/04
AA-	Upgraded		1/13/00
A+	Upgraded		9/27/94
A	Assigned		9/10/93

Expenditure Framework

Public safety, the largest spending category of the county, represented about 61% of general fund spending in fiscal 2019, followed by general government spending at 23%.

As with many local governments, Fitch expects the spending demands for the county to be driven by growing service demands associated with population and tourism and to be in line with or marginally ahead of natural revenue growth. The county makes full actuarially determined payments to the state's pension plans, although the relatively weak funded levels of the plan will likely result in growing annual pension contributions. State pension reforms in 2018 included planned increases in pension contributions from both the state and its localities, but the state has made additional ad hoc contributions on behalf of localities in recent years to cover the local share of the required increases. These additional contributions are not guaranteed to continue in the future.

Fixed carrying costs for debt service, pension required and OPEB actual payments were moderate at 14% of fiscal 2019 governmental expenditures and transfers out. Debt service is rapidly amortized as nearly all of the county's governmental debt is retired within 10 years. Management maintains broad legal control over workforce rules and employee wages and benefits, as the state's workforce environment does not allow for collective bargaining. The county demonstrated its willingness to control personnel spending in the previous downturn with a headcount reduction across various departments. Additionally, the county's increased utilization of pay-go capital provides a significant point of expenditure flexibility.

Long-Term Liability Burden

The county's long-term liability burden related to debt and pensions is about 7% of personal income, including the current issuance. In Fitch's view, a material portion of the county's resource base is excluded from personal income given the high level of seasonal visitors in the county. Measured alternatively, as share of market value, long-term liabilities are a very low 2%. Additionally, a majority of the county's direct debt is for road and transportation projects funded through the state infrastructure bank secured by a hospitality fee paid predominantly by visitors. The tax is dedicated for road projects and builds upon already sizable reserves available in capital project funds that should lower the amount of future debt issuance required.

The five-year capital improvement plan totals $194 million and while it includes a modest amount of planned debt it is largely cash funded from the capital project funds. The amortization of direct debt including this issuance is extremely rapid with about 99% paid off within 10 years. The largest component of the long-term liability burden is overlapping debt, estimated at about $570 million at the end of fiscal 2019, although overlapping debt has been decreasing in recent years.

Pension benefits are provided through the South Carolina Retirement System (SCRS) and the South Carolina Police Officers' Retirement System (PORS). Using Fitch's 6% baseline investment rate assumption, the plan's Fitch-adjusted ratios of fiduciary net position to total pension liability were 46% and 53%, respectively, as of fiscal 2019. The net pension liability is minimal at less than 1% of market value.

The county also provides health benefits in an OPEB plan for its retirees. The county has historically funded OPEB benefits on a pay-go basis but recently began funding an additional $250,000 into an OPEB trust over and above pay-go contributions. The unfunded liability is very small at less than 1% of percent of market value.

Operating Performance

The county's available fund balance in fiscal 2019 totaled roughly $79.6 million or a healthy 47% of general fund spending and transfers out. Unrestricted reserves, which have equaled 28% or more of spending dating back to fiscal 2010, combined with other revenue and expenditure tools provide a high level of gap-closing capacity in the context of the county's potential revenue volatility in a normal cyclical downturn.

The county's fiscal 2020 general fund budget of $164.8 million is a 7% increase over the prior year's budget. The fiscal 2020 budget includes 14 new positions and a 4.4% pay increase for all employees. The county typically budgets conservatively and experiences positive variances.

By county policy, management annually updates its five-year projection and maintains a policy minimum fund balance of 25% of the operating budget. The county is currently contemplating an increase to the policy minimum to include an additional debris reserve. According to county management, YTD results have been positive with both revenues and expenditures trending favorably compared to budget.

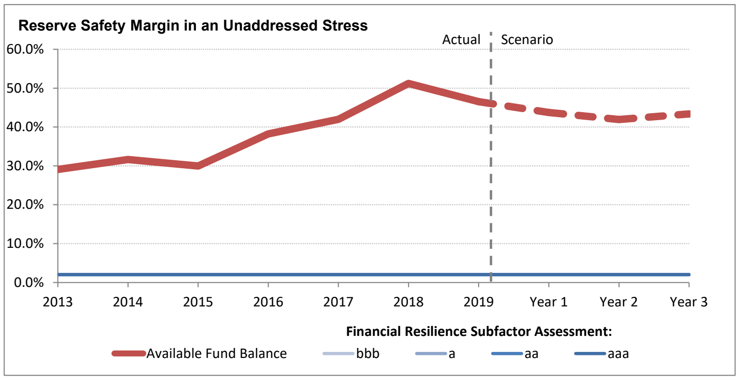
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3' - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Horry County (SC)

Scenario Analysis



Analyst Interpretation of Scenario Results:

The county's available fund balance in fiscal 2019 totaled roughly $79.6 million or a healthy 47% of general fund spending and transfers out. Unrestricted reserves, which have equaled 28% or more of spending dating back to fiscal 2010, combined with other revenue and expenditure tools provide a high level of gap-closing capacity in the context of the county's potential revenue volatility in a normal cyclical downturn.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	3.0%	5.3%
Inherent Budget Flexibility		Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2013	2014	2015	2016	2017	2018	2019	Year 1	Year 2	Year 3
Total Revenues	128,641	128,646	129,750	154,984	159,856	165,599	172,298	170,575	175,636	184,916
% Change in Revenues	-	0.0%	0.9%	19.4%	3.1%	3.6%	4.0%	(1.0%)	3.0%	5.3%
Total Expenditures	122,899	122,053	124,134	130,872	136,821	141,378	152,058	155,099	158,201	161,365
% Change in Expenditures	-	(0.7%)	1.7%	5.4%	4.5%	3.3%	7.6%	2.0%	2.0%	2.0%
Transfers In and Other Sources	1,926	805	1,430	854	729	708	767	759	781	823
Transfers Out and Other Uses	4,369	8,003	7,621	11,114	14,592	10,608	19,127	19,509	19,899	20,297
Net Transfers	(2,442)	(7,199)	(6,190)	(10,260)	(13,863)	(9,900)	(18,360)	(18,750)	(19,118)	(19,475)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	3,300	(605)	(574)	13,851	9,172	14,321	1,880	(3,275)	(1,683)	4,076
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	2.6%	(0.5%)	(0.4%)	9.8%	6.1%	9.4%	1.1%	(1.9%)	(0.9%)	2.2%
Unrestricted/Unreserved Fund Balance (General Fund)	37,027	41,166	39,467	54,299	63,554	77,801	79,647	76,373	74,689	78,766
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	37,027	41,166	39,467	54,299	63,554	77,801	79,647	76,373	74,689	78,766
Combined Available Fund Bal. (% of Expend. and Transfers Out)	29.1%	31.7%	30.0%	38.2%	42.0%	51.2%	46.5%	43.7%	41.9%	43.4%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.