Mecklenburg County, North Carolina

New Issue Report

Ratings

Issuer Default Rating	AAA

New Issue

$150,000,000 General Obligation Public Improvement Bonds, Series 2018	AAA

Outstanding Debt

General Obligation Bonds	AAA
Limited Obligation Bonds	AA+
Certificates of Participation	AA+
Special Obligation Bonds, Series 2011	AA+

Rating Outlook

Stable

Analysts

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New Issue Summary

Sale Date: Competitive sale on Sept. 12.

Series: $150,000,000 General Obligation Public Improvement Bonds, Series 2018.

Purpose: To fund various school and park capital projects.

Security: A pledge of the faith and credit and unlimited taxing power of Mecklenburg County.

Analytical Conclusion

The 'AAA' Issuer Default Rating (IDR) is supported by a strong economic base and considerable control over revenues and spending, which underpin the county's strong financial results. Mecklenburg County's long-term liability burden is low, reflecting healthy funding of retiree benefit liabilities and conservative debt management policies.

The COP and LOB rating, at ‘AA+’, is one notch lower than the IDR, reflecting the slightly higher degree of optionality associated with lease payments subject to appropriation.

The 'AA+' rating on the special obligation bonds, one notch below the IDR, reflects the county's covenant to pay debt service from any legally available funds other than proceeds of any tax. The obligation is not subject to termination.

Economic Resource Base: Mecklenburg County encompasses 546 square miles and is located in south-central North Carolina on the South Carolina border. The county is the most populous in the state, with a 2017 population of over 1 million, which has grown approximately 17% since 2010.

Key Rating Drivers

Revenue Framework: 'aaa'
Revenue growth prospects are strong based on historical performance, increasing assessed values and continued economic development. The county's revenue base is largely driven by property taxes. Current tax rates are elevated relative to neighboring counties but well below the statutory limit, providing significant legal revenue-raising ability.

Expenditure Framework: 'aa'
The pace of spending is expected to be generally in line with or marginally above revenue growth in the absence of policy action. The county has solid spending flexibility; carrying costs are moderate and its ability to control wages and benefits is strong, given the absence of collective bargaining.

Long-Term Liability Burden: 'aaa'
The county's long-term liability burden is low, due to a modest pension liability and manageable debt levels. Fitch Ratings expects long-term liabilities to remain a low burden on resources, given rapid debt amortization and conservative debt management policies.

Operating Performance: 'aaa'
Fitch expects the county to continue to maintain a high level of financial flexibility through the economic cycle, given its solid revenue and expenditure flexibility and strong revenue and economic growth prospects.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	8/23/17
AAA	Affirmed	Stable	1/7/04
AAA	Assigned	—	1/6/00

Related Research

Fitch Rates Mecklenburg County (NC) $150MM GOs 'AAA'; Outlook Stable (August 2018)

Related Criteria

U.S. Public Finance Tax-Supported Rating Criteria (April 2018)

Rating Sensitivities

Sound Credit Profile: The ratings are sensitive to shifts in fundamental credit characteristics, including the county's commitment to maintaining strong financial resilience and low long-term liability burden.

Credit Profile

Mecklenburg County's robust economy is mainly supported by financial and professional services and manufacturing, with a growing presence in energy production, tourism, high-technology manufacturing, and health and education sectors. The county is anchored by the city of Charlotte, with access to multi-modal transportation alternatives that include the Charlotte-Douglas International Airport, light rail and multiple highways that support economic development. The county is the second largest financial center in the U.S. and home to five Fortune 500 companies. County wealth levels exceed those of the state and nation. Unemployment levels are below state and national averages, and have notably improved from the recessionary peak.

Revenue Framework

The county's primary revenue source is property tax revenues, which represented 63% of general fund revenues in fiscal 2017. Sales tax revenues are the next largest revenue source, equal to 14% of general fund revenues.

Historical general fund revenue growth has outpaced the rate of U.S. GDP. Property tax revenues were affected by declining home values and lower home sales during the Great Recession, although home values and sales have strongly rebounded due to improved market conditions. Home values well exceed pre-recession levels, according to Zillow.com. As such, the upcoming revaluation scheduled for 2019 is expected to reflect strong home value appreciation since the prior revaluation in 2011. In concert with a strong economic base and the pipeline of development projects, growth prospects are strong.

The county maintains ample capacity to raise revenues, with the fiscal 2019 budget tax rate of $0.8232 per $100 of assessed value, below the statutory cap of $1.50.

Expenditure Framework

General fund expenditures are mainly driven by education spending, which represented 40% of fiscal 2017 spending, followed by health and social services at 25%.

Fitch expects the natural pace of spending over time to be in line with or marginally above revenue growth trends, given a rising population and increased demand for services. The county managed expenditures during the recession by decreasing its workforce, reducing certain services and deferring maintenance.

The county maintains healthy expenditure flexibility. Carrying costs, which comprise total debt service, actuarially determined pension payments and other-post employment benefit (OPEB) actual contributions, are moderate at about 16% of fiscal 2017 governmental spending. The county's ability to control wages and benefits is strong in the absence of collective bargaining, providing additional expenditure flexibility.

Long-Term Liability Burden

Fitch expects the county's long-term liability burden, equal to about 7% of personal income, to remain generally stable. The burden is largely driven by debt, the majority of which is the overlapping obligation of the City of Charlotte.

The county's 2019-2023 capital improvement plans approximate $1.5 billion, a majority of which will be dedicated to education-related projects, followed by parks and recreation, county government facilities, Central Piedmont Community College and library projects. The plan will be funded with a combination of future debt issuance of approximately $200 million annually, pay-as-you-go financing equal to 3 cents of the property tax rate, capital reserve revenues and a portion of excess fund balance in the debt service fund. Fitch considers the county's debt issuance plans to be manageable given its rapid debt repayment (approximately 70% within 10 years after the current issuance) and commitment to fund a portion of capital projects on a pay-go basis.

Long-term obligations associated with pensions are nominal. The county's employees largely participate in a state-administered, cost-sharing, multiple-employer defined benefit plan, including the Local Government Employees' Retirement System and the Register of Deeds Supplemental Pension Fund. The county administers a defined benefit plan for qualified law enforcement-sworn officers. The county's reported net pension liability is equal to $130 million (as of the June 30, 2016 measurement date), or $329 million (less than 1% of personal income) when adjusted by Fitch to reflect a 6% investment rate of return assumption.

Operating Performance

The county's revenues have shown limited historical sensitivity to economic cycles. For details, see Scenario Analysis, page 4.

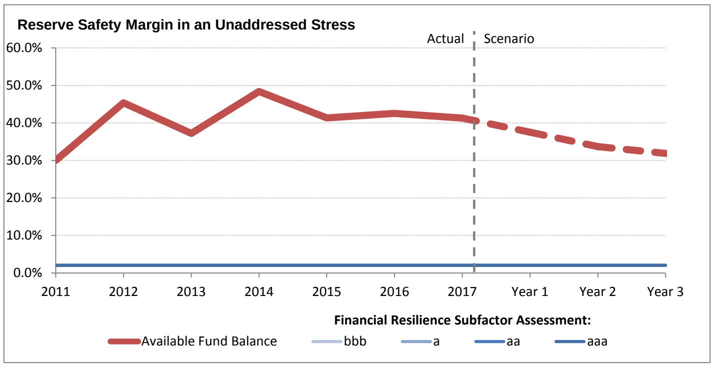
The county has demonstrated a solid history of strong fiscal management through economic cycles. Fiscal 2017 ended with an unrestricted general fund balance of $396 million, or 33% of spending. Year-end results were better than expected, primarily as a result of reduced spending across various departments, conservative budgeting and positive variances in property tax revenues. When adding in the state-required restricted fund balance for certain receivables, reserves equaled $501 million, or 41% of spending. Management projections indicate positive results for fiscal 2018, benefitting from conservative estimates and strong revenue performance, with year-end reserve levels expected to remain healthy, consistent with past performance.

The fiscal 2019 adopted general fund budget is balanced and represents an approximate 3% increase over the prior year's budget and includes a 0.75 cent property tax rate increase and a $6 million fund balance appropriation (less than 1% of the budget). The budget increase funds a new early-childhood education program, enhanced investment in school security and technology for improved security and service delivery. The budget also includes spending for merit increases, pay plan adjustments, clinic services and support in preparation for the county's 2019 revaluation. Given the county's strong historical financial performance and conservative budgeting practices, Fitch expects fiscal 2019 results will remain relatively stable, with reserves in accordance with the county's 28% reserve policy.

Mecklenburg County (NC)

Scenario Analysis

v. 2.0 2017/03/24



Analyst Interpretation of Scenario Results:

The county's revenues have shown limited historical sensitivity to economic cycles. Fitch's Analytical Sensitivity Tool (FAST) produces a general fund revenue decline of a modest 1% in year one of a moderate economic downturn scenario. Fitch believes that the county is well positioned to address a decline of this magnitude while maintaining a high degree of financial flexibility due to its strong revenue raising ability and solid ability to manage expenditures, supplemented by established reserve funding. Fitch expects that the county will maintain reserves at a level that Fitch considers adequate for a 'aaa' financial resilience assessment in the event of a future moderate economic 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%)	1.8%	4.1%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2011	2012	2013	2014	2015	2016	2017	Year 1	Year 2	Year 3
Total Revenues	1,281,576	1,095,957	1,061,848	1,121,826	1,089,875	1,206,568	1,213,699	1,201,562	1,223,767	1,273,330
% Change in Revenues	-	(14.5%)	(3.1%)	5.6%	(2.8%)	10.7%	0.6%	(1.0%)	1.8%	4.1%
Total Expenditures	1,203,792	961,622	982,674	1,007,708	1,093,790	1,118,216	1,147,236	1,170,181	1,193,584	1,217,456
% Change in Expenditures	-	(20.1%)	2.2%	2.5%	8.5%	2.2%	2.6%	2.0%	2.0%	2.0%
Transfers In and Other Sources	230	117	755	603	13,374	345	270	267	272	283
Transfers Out and Other Uses	36,325	48,325	70,447	64,325	53,946	61,310	66,888	68,226	69,590	70,982
Net Transfers	(36,095)	(48,208)	(69,692)	(63,722)	(40,572)	(60,965)	(66,618)	(67,959)	(69,318)	(70,699)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	41,689	86,127	9,482	50,396	(44,486)	27,386	(155)	(36,577)	(39,135)	(14,825)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	3.4%	8.5%	0.9%	4.7%	(3.9%)	2.3%	(0.0%)	(3.0%)	(3.1%)	(1.2%)
Unrestricted/Unreserved Fund Balance (General Fund)	273,895	363,119	383,266	418,589	376,620	391,037	396,314	359,737	320,602	305,777
Other Available Funds (Analyst Input)	98,547	95,150	8,449	100,046	97,531	110,500	105,068	105,068	105,068	105,068
Combined Available Funds Balance (GF + Analyst Input)	372,442	458,269	391,715	518,635	474,151	501,537	501,382	464,805	425,670	410,845
Combined Available Fund Bal. (% of Expend. and Transfers Out)	30.0%	45.4%	37.2%	48.4%	41.3%	42.5%	41.3%	37.5%	33.7%	31.9%

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.