

CREDIT OPINION

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Contacts

Edward (Ted) Damutz +1.212.553.6990
 VP-Sr Credit Officer
 edward.damutz@moodys.com

Thomas Jacobs +1.212.553.0131
 Senior Vice President/Manager
 thomas.jacobs@moodys.com

Leonard Jones +1.212.553.3806
 MD-Public Finance
 leonard.jones@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Mecklenburg (County of) NC

Update to analysis

Summary

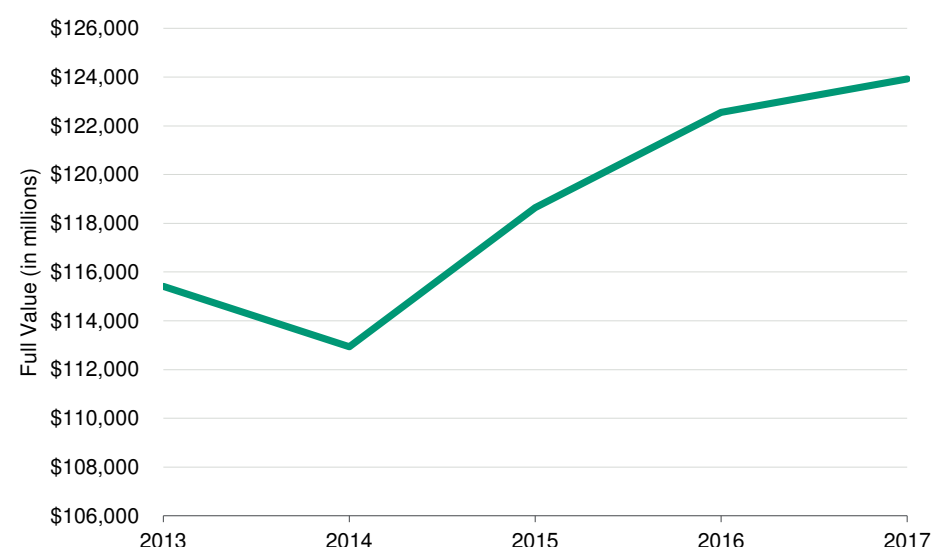
Mecklenburg County (Aaa stable), North Carolina's strong credit profile benefits from a robust local economy, solid financial performance, and manageable debt and pension burden. Key rating factors also include the strong institutional presence of University of North Carolina - Charlotte. (Aa3 stable), ample liquidity, rapid principal amortization and prudent financial management as evidenced by various fiscal policies and multi-year planning.

Credit strengths

- » Sizeable tax base with above average resident income profile
- » Favorable financial operations characterized by robust reserves
- » Limited pension liability
- » Prudent management with conservative policies

Exhibit 1

The tax base continues to expand



Source: Mecklenburg County, NC; Moody's Investors Service

Credit challenges

- » Debt burden is elevated compared to state and national medians for Aaa rated counties largely due to school and community college facility capital needs
- » Exposure to volatile financial industry

Rating outlook

The stable outlook reflects our expectation that the county's large and diverse tax base will remain strong going forward and that the county will continue to maintain healthy reserves.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Significant erosion of the county's tax base and/or demographic profile
- » Deterioration of the county's reserves and/or liquidity
- » Substantially increased fixed costs

Key indicators

Exhibit 2

Mecklenburg (County of) NC	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$115,415,656	\$112,934,112	\$118,633,245	\$122,557,658	\$123,921,533
Population	947,135	968,500	990,288	1,011,774	1,077,874
Full Value Per Capita	\$121,858	\$116,607	\$119,797	\$121,131	\$114,968
Median Family Income (% of US Median)	105.2%	105.7%	107.2%	107.9%	107.9%
Finances					
Operating Revenue (\$000)	\$1,355,804	\$1,408,459	\$1,383,159	\$1,510,471	\$1,523,698
Fund Balance (\$000)	\$554,645	\$675,403	\$655,735	\$695,471	\$683,195
Cash Balance (\$000)	\$548,386	\$686,115	\$717,623	\$663,423	\$691,996
Fund Balance as a % of Revenues	40.9%	48.0%	47.4%	46.0%	44.8%
Cash Balance as a % of Revenues	40.4%	48.7%	51.9%	43.9%	45.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$1,766,218	\$1,621,006	\$1,557,899	\$1,385,077	\$1,406,358
3-Year Average of Moody's ANPL (\$000)	\$288,851	\$327,898	\$338,324	\$368,650	\$540,093
Net Direct Debt / Full Value (%)	1.5%	1.4%	1.3%	1.1%	1.1%
Net Direct Debt / Operating Revenues (x)	1.3x	1.2x	1.1x	0.9x	0.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.3%	0.3%	0.3%	0.3%	0.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.2x	0.2x	0.2x	0.2x	0.4x

Source: Mecklenburg County, NC; Moody's Investors Service; American Community Survey

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's.com for the most updated credit rating action information and rating history.

Profile

Mecklenburg County is the largest county in North Carolina located in the southwest portion of the state covering roughly 546 square miles. The county has approximately 1,076,800 residents.

Detailed credit considerations

Economy and Tax Base: Large and Expanding Regional Hub Poised for Further Growth and Diversification

The county's economy continues to expand as evidenced by further declines in unemployment and increasing building permits, particularly residential construction. Job growth consistently outpaces both North Carolina (Aaa stable) and the US. Mecklenburg County announced the addition of 12,904 jobs and economic investment of approximately \$819 million in 2017. New development in the county in 2017 totaled 8.4 million square feet.

The large full value of \$123.9 billion in 2017 is roughly 2.5 times the US median for Aaa rated counties. Approximately 80% of the county's assessed value is the City of Charlotte (Aaa stable), which, is home to Bank of America, N.A.'s (Aa3 stable) headquarters and has a significant Wells Fargo Bank, N.A. (Aa2 negative) presence. Charlotte has developed into the second largest financial services sector in the US and as such has been vulnerable to the challenges facing the global financial markets. Expansion in the financial sector as well as in manufacturing during the ongoing economic recovery has had a direct effect on unemployment within the county which has decreased to 3.5% in May 2018 from 11.5% as of July 2011. As of May, unemployment in the county compared favorably to the state rate of 3.7% and the national rate of 3.6%.

A level of economic stability is brought about by the presence of major non-profit and educational institutions, including Novant Health, NC (A1 positive), Atrium Health and the University of North Carolina at Charlotte with its 24,000 students. Diversification in the economy is evident in the presence of Duke Energy Corporation (Baa1 stable), the nation's largest power utility and American Airlines, Inc (Ba1 stable), which employs approximately 11,000 people at its hub at Charlotte-Douglas International Airport.

The recently completed LYNX Blue Line Expansion, a \$1.2 billion passenger rail project, connects center city, known as Uptown, to the UNC Charlotte campus with 11 new stations. Retail, hotels and roughly 1,900 new apartments are being built adjacent to the 9.3 miles of new rail. The Mint Museum apartment tower, opened in June 2017, is the tallest residential tower in Uptown at 43 stories. Additionally, the county is in the process of developing 17 acres in the Second Ward downtown Brooklyn Heights neighborhood. Officials recently announced a massive development that will cover 1,300 acres between the airport and the Catawba River. The mixed-use River District project plan includes 4,000 apartments and single family homes, 500,000 square feet of shops, restaurants and retail space and 8 million square feet of office space. Amazon recently announced plans to build a \$200 million distribution center in the county which will add 1,500 new jobs.

The county's growing and vibrant economy has historically been a significant factor in the Aaa rating. The resident wealth and income profile remains stronger than the state and nation, with per capita income representing 127.3% of the State of North Carolina and 114.3% of the national level. Full value per capita is strong at \$114,968.

Financial Operations and Reserves: Healthy Fund Balance Expected to be Maintained Given Conservative Management

The county will likely maintain its healthy financial position given strong fiscal management, ample reserves and strong fund balance policies. The combined operating fund (General and Debt Service) balances have been over 40% of revenues for the last five years, and is slightly above the US median of 39.2% for Aaa rated counties. After a large combined operating surplus of \$39.7 million in fiscal 2016, the county decided to draw down reserves for pay-go projects and deferred maintenance, which is consistent with past practice. Fiscal 2017 ended with an operating draw of \$12.7 million and the operating fund balance remained healthy at \$683.2 million representing 44.8% of fiscal 2017 operating fund revenues. Property taxes comprise 69.4% of revenues, sales tax is 11.9% and intergovernmental 11.6%. Debt Service as a percentage of total expenditures has declined consistently over the last six years to 14.1% in fiscal 2017.

County officials conservatively estimate that fiscal 2018 unaudited preliminary results show an operating surplus of \$50 million. The county's fiscal 2019 adopted budget is balanced before transfers. The budget shows a slight draw partially due to a change in intergovernmental and is conservatively constructed.

It has not been determined if the total damage sustained due to Hurricane Florence within the county will reach the minimum of \$3.4 million to qualify for federal funds.

LIQUIDITY

The county has historically held most of its cash and investments in the combined operating funds. At the end of fiscal 2017, the county's net cash totaled \$692.0 million representing a strong 45.4% of operating fund revenues, which compares favorably to US median of 36.0% for Aaa rated counties.

Debt and Pensions: Debt Burden to Remain Above Average Yet Manageable

The county's debt burden will likely remain above average but manageable given sound debt management policies. At 1.1% of full value, the county's direct debt burden is above the national median of 0.6% for Aaa rated counties. The debt level includes schools and community colleges which are not within the county structure in most US counties. Including borrowing by underlying entities, most notably Charlotte, the county's overall debt burden is 2.9% of full value, which is high compared to the median for Aaa rated counties. Looking forward, the county has limited future borrowing plans.

The county has reduced its debt load by roughly half in the last decade while continuing to experience rapid population growth. Additionally, the county utilizes pay-go financing for many of its capital needs. Debt is retired at a somewhat below average pace with 68% amortization in ten years.

DEBT STRUCTURE

Last year the county fixed out the last of its variable rate debt.

DEBT-RELATED DERIVATIVES

The county has no exposure to any debt-related derivatives or interest rate swap agreements. All previous swaps have been terminated.

PENSIONS AND OPEB

The county contributes to the North Carolina Local Government Employees Retirement System (NCLGERS), defined benefit retirement plan administered by the State of North Carolina. The county's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$540.1 million representing a modest approximately 0.35 times operating revenues and 0.44% of full value. 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 plan.

Management and Governance: Strong Institutional Framework with Conservative Budgeting

North Carolina counties have an institutional framework score of "Aaa", or very strong. Counties in North Carolina operate under limited levy constraints. Pensions are well-funded. Counties have more limited mandates than cities, which supports this sector's overall operating consistency and maintenance of ample reserves.

Management continually reviews and strengthens the county's already prudent financial policies. The Debt Policy was revised in June 2014 to slightly change the debt service fund appropriation level so that it is now funded with a minimum of 19 cents of the property tax rate rather than a flat 21 cents. The county's policy states that total fund balance must be maintained at 28% of prior year's revenues (which includes the Debt Service Fund) and at 8% unassigned fund balance. Any additional reserves over the fund balance requirement can only be used for one-time projects, including capital, technology and fleet upgrades, not on-going operating costs.

Additionally, county policy requires that if the fund balance falls below 28% of revenues the county must replenish it to that level within two years. The county's updated sound policies include limit direct debt as a percentage of market value to 2% and direct debt per capita to \$2,000. Additionally, the county further strengthened the debt policies by lowering maximum variable rate debt as a percentage of total debt to 20% from 35% and lowering the limit on debt service as a percentage of expenditures to 18% from 22%. These relatively new and strengthened policies join a number of policies in place for monitoring the county's debt exposure including amortization of 64% of principal over ten years and limits on overall debt of 4% of full value and overall debt \$4,000 per capita.

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Contacts

Edward (Ted) Damutz +1.212.553.6990
VP-Sr Credit Officer
edward.damutz@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454