

RatingsDirect®

Summary:

Dare County, North Carolina; Appropriations; General Obligation

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Summary:

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Credit Profile

Dare Cnty COPs		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Dare Cnty APPROP		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Dare Cnty certs part bnds ser 2001 dtd 04/15/2001 due 06/01/2002-2016 2018 2021		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services has raised its rating on Dare County, N.C.'s general obligation (GO) debt to 'AA+' from 'AA'. At the same time, Standard & Poor's raised its long-term and underlying ratings on Dare's appropriation backed obligations to 'AA' from 'AA-'. The outlook is stable.

The upgrade reflects our opinion of the county's sustained strong performance that has resulted in very strong reserve levels over the past three years. We believe Dare's strong economic characteristics and very strong management conditions further support the higher rating.

The county's unlimited taxing authority to levy ad valorem taxes on all taxable property without limit as to rate or amount secures its GO bonds.

The 'AA' rating on Dare's appropriation backed obligations reflects our opinion of:

- The county's general creditworthiness, as lessee;
- The contractual obligation's annual appropriation nature;
- An absolute and unconditional payment provision upon appropriation;
- Dare's debt service payments that do not occur within the first three months of the fiscal year, mitigating concerns over late budget adoption; and
- The North Carolina Local Government Commission's oversight.

Installment payments the county makes to Dare County Public Facilities Corp. pursuant to an installment purchase contract secure the COPs. According to the installment purchase contract, the budget officer will include the amount of required installment payments and additional payments in the budget proposals for the county commission's review in each fiscal year. Dare assigns the trustee all rights, title, and property. There is no abatement of the installment payments. The county is responsible for all taxes; operations and maintenance; and insurance, which is set at the full replacement value. The installment purchase contract is a triple-net lease with no right of set off or counterclaim.

The long-term GO rating reflects our assessment of the following credit factors, particularly Dare's:

- Strong economy, with projected per capita effective buying income at 119% of the national level and market value per capita of \$369,097;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund but break-even operating results at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 50.9% of total governmental fund expenditures and 3.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 16.1% of expenditures and net direct debt that is 97.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization; and
- Very strong institutional framework score.

Strong economy

We consider Dare County's economy strong. The county has an estimated population of 34,836. It has a projected per capita effective buying income of 119% of the national level and per capita market value of \$369,097. Overall, the county's market value grew by 0.5% over the past year to \$12.9 billion in 2015. The county unemployment rate was 8.2% in 2014.

Dare is on North Carolina's eastern seaboard, about 190 miles from Raleigh, the state capital. The area economy centers on tourism because the county is home to the popular and well-established Outer Banks vacation and resort area. Dare boasts a seasonal population that increases to about 8.5x its year-round Census report. Leading employers include Dare County Schools, the county itself, and the North Carolina Department of Transportation.

Effective for fiscal 2014, the county-wide reassessment was the first in eight years following the Great Recession. As a result, the county saw a decline in assessments of 27.5% compared with that of the previous year. However, it continues to boast extremely high market values per capita due to its desirable location as part of the middle of the Outer Banks along the North Carolina's coast.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights of the assessment Include:

- Conservative budgeting practices, using at least five years of historical projections and multiyear planning, supported by formal revenue and expenditure policy;
- Monthly budget reports that review year-to-date budget to actual trends shared with county commissioners who may amend the budget throughout the year;
- Multi-year financial planning for the current budgeted year and next budgeted year because the county has instituted a comprehensive biennial budget process and additional modeling for its Beach Nourishment projects. It also started five-year general fund financial modeling in 2015;

- A comprehensive, annually updated five-year capital improvement plan with identified projects, costs, and funding sources;
- The adoption of a cash management and investment management policy. The county also reviews holdings at least annually and earnings presented monthly to county commissioners as well as maintains internal controls;
- A debt management policy that is more conservative than state guidelines. Dare has adopted a self-imposed ceiling of 4% of net debt to assessed and targeted debt service as a percentage of the operating budget at 14% to 16%. The finance director or their designee monitors policy adherence; and
- The formally adopted target goal of the County for the General Fund unreserved and undesignated fund balance, which will be 19%-21% of the actual expenditures of the then completed fiscal year (with a target of 20%). The policy includes a replenishment provision and the ratios are tied to avoiding cash flow notes, short-term borrowing, and guard against effects of an economic downturn.

Strong budgetary performance

Dare County's budgetary performance is strong in our opinion. The county had slight surplus operating results in the general fund of 0.7% of expenditures, but a break-even result across all governmental funds in fiscal 2015.

We expect Dare's strong financial performance to continue. For fiscal 2015, the county continued to post better than budgeted results based on conservative practices. There were no one-time revenues. Expenditures were about \$5 million under budget or 4.91%. Dare notes the five year annual average for expenditures under budget was 4.23%.

Consistent with historical trends, the county appropriated reserves in its fiscal years 2016 and 2017 budget of \$2.00 and \$2.14 million, respectively. For fiscal 2016, management made an additional appropriation of \$1.25 million of reserves midyear to create an Inlet Maintenance (special revenue) fund to appropriate funds to serve as a local match to state funds. The appropriation is consistent with the county's reserve policy and was appropriated after Dare's fiscal 2015 surplus.

Very strong budgetary flexibility

Dare County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 20% of operating expenditures, or \$19.0 million.

The county's flexibility is supported by a reserve policy that, in our opinion, should continue to allow it to maintain very strong reserve levels. Per its policy, the fund balance may be drawn down below the target percentage for emergencies, nonrecurring expenditures, or major capital projects. However, we do not expect an unexpected drawdown to have a material effect on reserves. The policy includes a replenishment provision for the county to annually appropriate 25% of the difference between the target percentage level and the actual balance until it meets the target level.

Very strong liquidity

In our opinion, Dare County's liquidity is very strong, with total government available cash at 50.9% of total governmental fund expenditures and 3.2x governmental debt service in 2015. In our view, the county has strong access to external liquidity if necessary.

We believe Dare's strong access to external liquidity is supported by its frequent debt issuances, including GO and appropriation backed bonds. Although the state allows for what we view as permissive investments, we believe the county does not have aggressive ones, with the majority in mutual funds and fixed-income securities. Dare has

consistently had very strong liquidity and we do not anticipate a change to these ratios.

The county entered a private placement installment financing contract for \$3.07 million for an expansion to Manteo Elementary School. There are no permissive provisions within the financing documents. In addition, provisions of Section 160A-20 of the North Carolina statutes, do not allow for deficiency judgments.

Adequate debt and contingent liability profile

In our view, Dare County's debt and contingent liability profile is adequate. Total governmental fund debt service is 16.1% of total governmental fund expenditures, and net direct debt is 97.7% of total governmental fund revenue. Overall net debt is low at 1.0% of market value, and approximately 79.7% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The county will issue an installment financing debt over the next year of \$12.0 million for a beach nourishment project, \$25.0 million for highway and infrastructure protection, and \$5.8 million to construct a Regional Emergency Communications Center. The structure for each of the three debt issuances has not yet been determined. There may be private placements, public issuances, or both.

Dare County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.9% of total governmental fund expenditures in 2015. Of that, 2.1% represented required contributions to pension obligations, and 2.8% represented OPEB payments. The county made 95% of its annual required pension contribution in 2015.

Dare participates in the statewide Local Governmental Employees' Retirement System (LGERS) which, as of 2015, reported a plan fiduciary net position of 102.64% of the total pension liability for all local government participants. The county also contributes to a separation allowance for eligible employees, and supplemental pension plans.

Dare administers a postemployment healthcare benefits plan as a single-employer defined benefit plan to cover eligible employees retired under the LGERS. It funds the plan on a pay-as-you go basis with minimal prefunding (1.17% as of Dec. 31, 2013). As of that reporting date, the unfunded liability was about \$81 million.

Very strong institutional framework

The institutional framework score for North Carolina counties is very strong. See the institutional framework score for North Carolina.

Outlook

The stable outlook reflects our view of the county's strong economy and very strong management conditions we expect will continue. Formal policies and long-range planning further supports strong performance, in our view, and very strong flexibility will likely continue. We do not expect to raise or lower our rating within the two-year outlook period.

Upside scenario

Should the county's income levels increase to a level consistent with those of higher rated peers and should it reduce its debt burden, we might raise our rating.

Downside scenario

Although we view this as unlikely, should Dare unexpectedly reduce reserves or deteriorating performance affect liquidity, we could lower our rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Institutional Framework Overview: North Carolina Local Governments
- U.S. State And Local Government Credit Conditions Forecast, Jan. 11, 2016
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of February 16, 2016)		
Dare Cnty ltd oblig <i>Long Term Rating</i>	AA/Stable	Upgraded
Dare Cnty rfdg ltd oblig bnds <i>Long Term Rating</i>	AA/Stable	Upgraded
Dare Cnty GO <i>Long Term Rating</i>	AA+/Stable	Upgraded

Many issues are enhanced by bond insurance.

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