

ISSUER COMMENT

23 March 2018

RATING

General Obligation (or GO Related) ¹

Aa3 No Outlook

Contacts

Nikki S Carroll +1.212.553.1742
Associate Analyst
nikki.carroll@moodys.com

Gregory W. Lipitz +1.212.553.7782
VP-Sr Credit Officer/
Manager
gregory.lipitz@moodys.com

City of Tega Cay, SC

Annual Comment on Tega Cay

Issuer Profile

The City of Tega Cay is located in York County in north central South Carolina, approximately 18 miles southwest of Charlotte, North Carolina. York County has a population of 245,606 and a moderate population density of 360 people per square mile. The county's median family income is \$69,509 (2nd quartile) and the December 2017 unemployment rate was 4% (3rd quartile) ². The largest industry sectors that drive the local economy are retail trade, manufacturing, and administrative/waste management services.

Credit Overview

The credit position for Tega Cay is strong, and its Aa3 rating is equivalent to the median rating of Aa3 for US cities. Notable credit factors include a strong financial position, an affluent socioeconomic profile and a modestly sized tax base. The credit position also reflects a light debt burden and a mid-ranged pension liability.

Finances: The city has a healthy financial position, which is a strength when compared to the assigned rating of Aa3. The cash balance as a percent of operating revenues (56.8%) is much higher than the US median, and saw an impressive increase from 2012 to 2016. In addition, Tega Cay's fund balance as a percent of operating revenues (28.5%) is consistent with other Moody's-rated cities nationwide.

Economy and Tax Base: Overall, the economy and tax base of the city are very healthy and are a modest credit strength in comparison to its Aa3 rating. The median family income is a robust 194.3% of the US level. In addition, the full value per capita (\$121,550) is slightly above the US median, but decreased modestly from 2012 to 2014. However, the total full value (\$1,000 million) is weaker than the US median.

Debt and Pensions: Tega Cay has a small debt burden and is favorable when compared to the Aa3 rating assigned. The city's net direct debt to full value (1%) is on par with the US median, and did not change between 2012 and 2016. However, the pension liability of the city is mid-ranged and is slightly unfavorable in comparison to its Aa3 rating position. The Moody's-adjusted net pension liability to operating revenues (1.3x) is roughly equivalent to the US median.

Management and Governance: South Carolina cities have an Institutional Framework score ³ of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. South Carolina cities' ability to raise property tax revenue is subject to Act 388, an annual cap, which sets a maximum operating millage increase based on CPI increase and population growth. However, the cap can be overridden by a two-third vote of the governing body under specific

conditions allowing for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. South Carolina is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - South Carolina Cities

The South Carolina economy is continuing to experience growth, spurred by a growing manufacturing sector, improving housing market and increased consumer spending. Cities will continue to benefit from their low cost of doing business and ability to attract new manufacturing investment. Assessed values are likely to grow at a modest 1% to 3% throughout the state as the housing market continues to recover due to strong employment gains. Economically sensitive revenues did see a decline during the recession, but have rebounded and have in many cases eclipsed pre-recession levels.

EXHIBIT 1

Key Indicators ⁴ ⁵ Tega Cay

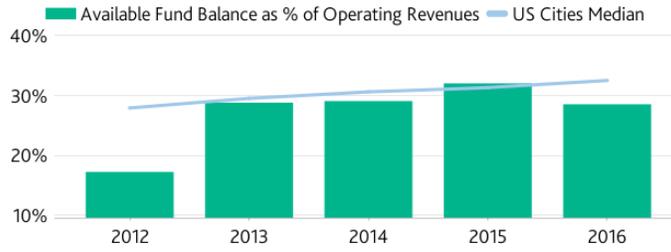
	2012	2013	2014	2015	2016	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$953M	\$985M	\$999M	N/A	N/A	\$1,695M	Stable
Full Value Per Capita	\$125,601	\$124,538	\$121,550	N/A	N/A	\$86,286	Stable
Median Family Income (% of US Median)	179%	172%	179%	194%	194%	113%	Improved
Finances							
Available Fund Balance as % of Operating Revenues	17.2%	28.8%	29.1%	32.0%	28.5%	32.5%	Improved
Net Cash Balance as % of Operating Revenues	28.2%	33.4%	34.1%	31.8%	56.8%	35.4%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	1.0%	0.9%	0.9%	0.8%	1.0%	1.2%	Stable
Net Direct Debt / Operating Revenues	1.40x	1.30x	1.06x	1.07x	1.21x	0.93x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.5%	0.6%	0.8%	1.0%	1.1%	1.7%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.69x	0.90x	0.96x	1.28x	1.34x	1.46x	Weakened
	2012	2013	2014	2015	2016	US Median	
Debt and Financial Data							
Population	7,595	7,911	8,224	8,609	9,946	N/A	
Available Fund Balance (\$000s)	\$1,211	\$2,032	\$2,411	\$2,451	\$2,394	\$7,221	
Net Cash Balance (\$000s)	\$1,988	\$2,356	\$2,829	\$2,437	\$4,767	\$7,930	
Operating Revenues (\$000s)	\$7,040	\$7,061	\$8,297	\$7,657	\$8,396	\$21,262	
Net Direct Debt (\$000s)	\$9,822	\$9,185	\$8,755	\$8,226	\$10,135	\$18,822	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$4,832	\$6,330	\$8,006	\$9,804	\$11,234	\$29,896	

Source: Moody's Investors Service

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.

EXHIBIT 2

Available fund balance as a percent of operating revenues increased from 2012 to 2016



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

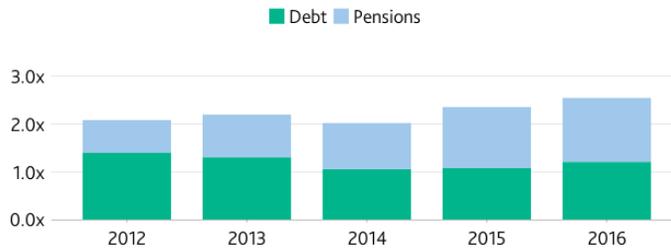
Full value of the property tax base increased from 2012 to 2014



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2012 to 2016



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians - Tax Base Growth Reinforces Sector Stability as Pension Troubles Remain \(March 2017\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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