MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Jackson County, GA's $7.7M Revenue Bonds, Ser. 2015; outlook revised to negative

Global Credit Research - 17 Jul 2015

Affirms Aa2 on $126M in outstanding parity debt

JACKSON (COUNTY OF) GA
Counties
GA

Moody's Rating

ISSUE		RATING
Revenue Refunding Bonds (Jackson County, Georgia Public Purpose Projects), Series 2015A and Series 2015B		Aa2
Sale Amount	$7,705,000	
Expected Sale Date	07/23/15	
Rating Description	General Obligation	

Moody's Outlook NEG

NEW YORK, July 17, 2015 --Moody's Investors Service has assigned a Aa2 rating to Jackson County's (GA) $7.2 million Revenue Refunding Bonds (Jackson County, Georgia Public Purpose Projects), Series 2015A and $550,000 Revenue Refunding Bonds (Jackson County, Georgia Public Purpose Projects), Series 2015B, issued through the City of Jefferson Public Building Authority. Concurrently, Moody's has affirmed the Aa2 rating on the county's outstanding parity debt.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the county's sizable tax base, adequate, albeit weakened, reserve position and an above average debt burden. The rating also incorporates the county's manageable pension burden, sound demographics and management's demonstrated willingness to raise the tax rate to offset property value declines and maintain level expenditures in recent years

OUTLOOK

The negative outlook reflects the challenges the county faces in restoring reserves to levels appropriate for the rating, given limited tax base growth and high debt service costs. The negative outlook also reflects the appropriation and use of fund balance in recent years, which has driven reserves below both the county's policy level and those of similarly rated credits. Future reviews will incorporate the county's ability to adopt structurally balanced budget and stabilize fund balance levels.

WHAT COULD MAKE THE RATING GO UP

- Tax base expansion coupled with improved socioeconomic factors

- Increased reserve levels

- Reduction in debt burden

WHAT COULD MAKE THE RATING GO DOWN

- Continued trend of fund balance declines

- Further reductions in tax base

- Increased debt burden

STRENGTHS

- Demonstrated willingness to raise tax rate

- Low and manageable pension burden

- Sizable tax base with a low unemployment rate

CHALLENGES

- Three consecutive fiscal years of fund balance declines

- Recent tax base decreases

- Above average debt burden

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: STILL-SIZABLE TAX BASE DESPITE RECENT DECLINES; PROJECTED TO STABILIZE IN FISCAL 2016

Jackson County's tax base is expected to rebound over the next several years given proximity to regional economic centers following significant declines throughout the recession. The county benefits from its location north of Athens-Clarke County Unified Government (Aa1) and east of Atlanta (Aa2 positive), which drove significant population and tax base growth pre-recession. Over the last five years, however, the tax base has declined annually, averaging a 1.5% decrease, to $6.1 billion in fiscal 2015.

Despite recent declines, officials project upwards of a 7% increase in fiscal 2016 due to an increase in building permits and speculative building of four distribution centers. The base is expected to see continued growth given the county's location relative to large employment centers and recent population growth (45% increase from 2000 to 2010), which has likely resulted in pent up demand for commercial services.

The county's economy is diverse and includes agricultural, automotive manufacturing, healthcare, distribution and logistics. Socioeconomic factors are average, with median family income representing 99.9% of the state and 91.6% of the nation. Countywide unemployment is low as of March 2015 at 5.1%, relative to 6.2% for the state.

FINANCIAL OPERATIONS AND RESERVES: RESERVE POSITION REMAINS ADEQUATE DESPITE RECENT DECLINES

The county will remain challenged to increase reserves to historically strong levels due to high debt service costs and moderate tax base growth. The county has reported three consecutive operating deficits, resulting in a decrease in General Fund balance to $6.4 million (18.7% of revenues) in fiscal 2014 (ended December 31) from a high of $10.7 million (29.2% of revenues) in fiscal 2011.

The county has been using reserves to balance its budget, because revenues have remained essentially flat since FY 2009. While the county has raised the tax rate annually since 2010 and maintained relatively level expenditures through the use of furlough days, these efforts have not been enough to offset declines in charges for services and sales tax revenues. Notably, the county has not been in compliance with its formalized fund balance target of 20% in unassigned fund balance since fiscal 2009.

The fiscal 2015 budget includes the use of $767,000 of reserves and eliminates all furlough days. Officials recently approved a 1 mill tax rate increase and officials report that revenues and expenditures are tracking relative to budget.

Liquidity

The county collects the majority of property taxes in October and November for the subsequent fiscal year, resulting in high cash levels at yearend. In fiscal 2014, General Fund cash totaled $19.1 million, or 55.8% of revenues.

DEBT AND PENSIONS: DEBT EXPENDITURES ACCOUNT FOR A SIGNIFICANT PORTION OF BUDGET; PENSION BURDEN IS MANAGEABLE

The county's debt burden of 1.7% of full value is slightly above average for the rating. Additionally, fiscal 2014 debt service expenditures represented a high 32% of expenditures across the county's general, debt service and Special Purpose Local Option Sales Tax (SPLOST) funds. The county does not have any additional debt plans at this time, as all capital needs are funded through the SPLOST. The current SPLOST expires July 2017 and officials plan to go to voters to renew the tax in 2016.

Debt Structure

The county has modest variable rate debt outstanding, $1 million from Series 2004 revenue notes, representing less than 1% of total debt outstanding. The notes are paid by the county pursuant to a contract with the airport authority bearing interest at a variable rate of LIBOR +.75 basis points. The county maintains ample liquidity to provide debt service in heightened interest rate stress scenarios. The payout rate is average, with 79.5% of principal repaid in 10 years.

Debt-Related Derivatives

The county is not party to any derivative agreements.

Pensions and OPEB

The county participates in the Association of County Commissioners of Georgia, a multi-employer, defined benefit retirement plan sponsored by the State of Georgia (Aaa stable) for all employees hired before 1998. The county's combined annual required contribution (ARC) for the plans was $562,000 in fiscal 2014, or approximately 1.6% of General Fund expenditures. The county maintains a defined contribution plan for all other employees and contributed $367,000 in fiscal 2014. The district's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $7.1 million, or approximately a low 0.21 times operating revenues. 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 plans in proportion to its contributions to the plans.

MANAGEMENT AND GOVERNANCE: STRUCTURALLY IMBALANCED BUDGETS HAVE LED TO RESERVES BELOW FORMAL TARGETS; VERY STRONG INSTITUTIONAL FRAMEWORK

While the county maintains a fund balance policy, requiring unassigned fund balance to be equal to a minimum of 20% of operating expenditures, reserves have not met these requirements since fiscal 2009. The county annually appropriates fund balance to balance the budget, and while a portion of fund balances is regularly replenished, this practice as resulted in the recent decrease in reserves.

Georgia counties have an institutional framework score of "Aaa" or very strong. Counties rely heavily on property tax revenue to fund operations and are not subject to any property tax or levy caps. Expenditures are predictable and counties have a high ability to reduce expenditures if necessary as there are no unions in the state.

KEY STATISTICS

Full value: $6.1 billion

Full value per capita: $99,335

Median family income: 91.6% of U.S.

Available fund balance, FY 2014 (unaudited): 15.74% of operating revenues

5-year change in fund balance: -6.69% of operating revenues

Net cash, FY 2014 (unaudited): 56.02% of operating revenues

5-year change in net cash: -14.49% of operating revenues

Institutional framework: Aaa

5-year average of operating revenues / expenditures: 0.98x

Net direct debt burden % of full value: 1.67%

Net direct debt burden / operating revenues: 3.0x

3-year average Moody's adjusted net pension liability % of full value: 0.14%

3-year average Moody's adjusted net pension liability / operating revenues: 0.3x

OBLIGOR PROFILE

Jackson County is located north of Athens-Clarke County and approximately 50 miles northeast of Atlanta. As of 2014, total population was estimated at 61,870, a 2.3% increase from 2010.

LEGAL SECURITY

The bonds are ultimately secured by the county's unlimited ad valorem tax pledge.

USE OF PROCEEDS

Bond proceeds will partially refund the county's Series 2007A bonds for an expected net present value savings of 5.6% of refunded principal with no extension of maturity.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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