Mecklenburg County, North Carolina

Ratings

Long Term Issuer Default Rating	AAA

New Issue

$225,000,000 General Obligation School Bonds, Series 2021	AAA

Outstanding Debt

General Obligation Bonds	AAA
Limited Obligation Bonds	AA+
Special Obligation Bonds	AA+
Mecklenburg County Public Facilities Corporation Refunding Limited Obligation Bonds	AA+

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (March 2020)

Related Research

Fitch Rates Mecklenburg County (NC) $225MM GOs 'AAA': Outlook Stable (February 2021)

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New Issue Summary

Sale Date: Competitive sale on Feb 23.

Series: $150,000,000 General Obligation School Bonds, Series 2021

Purpose: The general obligation (GO) bond proceeds will used to pay the capital costs of school improvements within the county.

Security: The GO bonds are secured by a pledge of the faith and credit and unlimited taxing power of the county.

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

The limited obligation bond (LOB) rating is one notch lower than the IDR at 'AA+', reflecting the slightly higher degree of optionality associated with lease payments subject to appropriation.

The 'AA+' rating on the special obligation bonds (SOBs), also 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's 2019 estimated census population of over one million has grown by approximately 21% since 2010.

Key Rating Drivers

Revenue Framework: 'aaa': Revenue growth prospects are strong based on increasing assessed values and continued economic development. Fitch Ratings expects growth in line with historical performance. The county's revenue base is largely composed of 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 the county's 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 net pension liability and manageable debt levels. Fitch 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 maintain a high level of financial flexibility throughout the economic cycle, given its solid revenue and expenditure flexibility and strong revenue and economic growth prospects.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Not applicable for a 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A long-term reduction in the rate of growth of the county's property tax base, resulting in an extended decline in revenue growth;
- A sustained increase in the county's liability burden above 10% of residents' personal income;
- An inability to address the fiscal effects of a return to economic contraction, consistent with Fitch's coronavirus downside scenario, and maintain an adequate level of fundamental financial flexibility.

Rating History (IDR and GO Bonds)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	2/08/21
AAA	Affirmed	Stable	1/07/04
AAA	Assigned	—	1/06/00

Current Developments

Sectorwide Coronavirus Implications

The outbreak of coronavirus and related government containment measures worldwide have created an uncertain global environment for U.S. state and local governments and related entities. Fitch's ratings are forward-looking in nature, and Fitch will monitor the severity and duration of the budgetary impact on state and local governments and incorporate revised expectations for future performance and assessment of key risks.

While the initial phase of economic recovery has been faster than expected, GDP in the U.S. is projected to remain below its 4Q19 level until at least 3Q21. In its baseline scenario, Fitch anticipates a slower recovery in early 2021 with a vaccine rollout to the vulnerable, key workers and older individuals in 1H21 but limited for most of the population until late 2021. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the special report "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update," published on Dec. 7, 2020, and non-rating action commentary "Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Government," published on Dec. 16, 2020 on www.fitchratings.com.

Mecklenburg County Coronavirus Update

On March 10, 2020, Governor Roy Cooper issued an executive order declaring a state of emergency in North Carolina due to the coronavirus pandemic. The county was one of the first in North Carolina to implement a stay-at-home order, which has been extended to April 1, 2021.

Mecklenburg County's fiscal response to the coronavirus pandemic enabled the county to maintain a strong financial position despite the implementation of stay-at-home measures. Fiscal 2020 general fund results showed an unassigned fund balance of about $364 million, or 26% of spending. Sales tax and intergovernmental revenues came in below budget; however, declines were offset by positive variances in property tax, interest earned on investments, and licenses and permit revenues.

Overall general fund revenues are expected grow by about 6% compared to fiscal 2019 actuals. The county implemented a hiring freeze for non-essential positions, a spending freeze for non-essential services, and deferred discretionary spending, resulting in expenditure savings and leading to an operating surplus of about $65 million. After transfers to the county's pay-as-you-go capital and capital projects funds, use of reserves totaled a minor $10 million (less than 1% of the budget) to cover general fund expenditures. The county's fund balance policy requires a minimum total fund balance (general fund and debt service fund) of 28% of the prior year's actual revenue. Total general fund balance in fiscal 2020 equaled $496 million, or roughly 36% of spending, when including the state-required restricted fund balance of about $132 million to cover certain receivables, well above policy.

Management reports receiving $39.2 million in Coronavirus Relief Funds, in March of 2020, as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. The funds are held in the special revenue fund, where the county plans to record all coronavirus-related expenses. While the monies were received during fiscal 2020, management expects to use all of the funds during fiscal 2021.

The adopted fiscal 2021 general fund budget of $1.4 billion, held relatively flat compared to the adopted fiscal 2020 budget, includes no rate increases. The budget includes a fund balance appropriation of about $55 million, which is expected to offset an anticipated revenue decline of about $19 million, primarily shown in sales tax and investment interest revenues, in addition to funding $36 million in one-time expenses and restricting $3 million for fire districts. The county has also moved $17 million to the general fund from the debt service fund for additional revenue flexibility. Management has extended the operational changes made in fiscal 2020 into the current fiscal year. The county expects to end fiscal 2021 with a total fund balance of about $477 million, a healthy 34% of spending, in line with its total minimum fund balance policy.

Credit Profile

Mecklenburg County's robust economy is mainly supported by financial and professional services and healthcare, with a growing presence in energy production, high-technology manufacturing, transportation and education. The county is anchored by the city of Charlotte, with access to multi-modal transportation alternatives that include Charlotte-Douglas International Airport, light rail and multiple highways, which support economic development. Charlotte's strong banking sector has made the county the second largest financial center in the U.S. and home to seven Fortune 500 companies. County wealth levels exceed those of the state and nation. The unemployment rate as of November 2020 was 6.5%, almost double compared to the same time in 2019, reflected in a 5.3% reduction in total employment.

Revenue Framework

The county's primary source of revenue comes from property taxes, representing 65% of general fund revenues in fiscal 2020. Other major revenues include sales tax revenue at about 15% of general fund revenues, followed by intergovernmental revenue at roughly 10%, which primarily includes federal and state funding.

Historical general fund revenue growth, when adjusted for policy actions, has trended comfortably above inflation but slightly below the rate of the national GDP for the 10-year period ending in fiscal 2019.

The county's taxable assessed valuation (TAV) for fiscal 2020 increased by about 43% over fiscal 2019, primarily due to the tax base revaluation. Property tax revenues increased by about 9% in fiscal 2020 due to the reassessment. Property within the county is now reassessed every four years instead of every eight years. Fiscal 2021 TAV growth is expected to be in line with recent annual TAV growth of almost 3%. Fitch expects growth prospects will exceed the historical trend post-pandemic, due to continued population gains, property appreciation and development.

The county maintains ample capacity to raise revenues, with the FY 2020 budget tax rate of $0.6169 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 2020 spending, followed by health and social services at 21%.

Fitch expects the natural pace of spending over time to be in line with or marginally above revenue growth trends, absent policy action.

The county maintains healthy expenditure flexibility. Carrying costs associated with debt service, actuarially determined pension contributions, and other-post employment benefit (OPEB) actual contributions are moderate at about 16% of fiscal 2020 governmental spending, with debt service accounting for roughly 10%. 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 in fiscal 2020, 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 FY2019-FY2023 capital improvement plan approximates $1.75 billion, of which more than half will be dedicated to education-related projects, followed by parks and recreation, county government facilities, the 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 via the dedication of a portion of the county's 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 and commitment to fund a portion of capital projects on a pay-go basis.

Long-term liabilities associated with pensions are nominal. The county's employees largely participate in state-administered cost sharing multiple employer defined benefit plans, 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 in fiscal 2020 equaled $165 million, or $318 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. The Fitch Analytical Stress Test (FAST) tool, which relates the county's historical general fund revenue volatility to U.S. GDP, indicates a 7% year one decline in Fitch's downside scenario, which anticipates setbacks in the efficacy or distribution of vaccines, more frequent lockdown measures, and a return to economic contraction in the U.S. FAST is not a forecast (actual revenue declines will vary from FAST), but it provides a relative sense of revenue risk exposure across Fitch's local government portfolio.

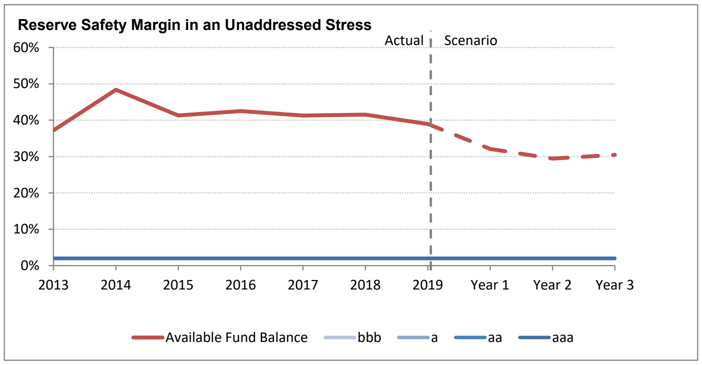
The county has demonstrated a solid history of strong fiscal management throughout economic cycles. During the Great Recession, the county managed expenditures by decreasing its workforce, reducing certain services and deferring maintenance, and has made similar operational changes during the current economic downturn. Fitch expects the county to manage well through the current and future economic cycles given strong expense controls.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Mecklenburg County (NC)

Scenario Analysis



Analyst Interpretation of Scenario Results:

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 an 'aaa' financial resilience assessment during the current and future economic cycles.

Scenario Parameters:					Year 1	Year 2	Year 3
GDP Assumption (% Change)					(3.5%)	4.5%	3.5%
Expenditure Assumption (% Change)					0.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:*	-5%	*Case Used:*	**Baseline**	(6.5%)	7.3%	5.8%
Inherent Budget Flexibility						Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2013	2014	2015	2016	2017	2018	2019	Year 1	Year 2	Year 3
Total Revenues	1,061,848	1,121,826	1,089,875	1,206,568	1,213,699	1,237,900	1,294,268	1,209,960	1,297,839	1,372,997
% Change in Revenues	-	5.6%	(2.8%)	10.7%	0.6%	2.0%	4.6%	(6.5%)	7.3%	5.8%
Total Expenditures	982,674	1,007,708	1,093,790	1,118,216	1,147,236	1,160,033	1,217,746	1,217,746	1,242,101	1,266,943
% Change in Expenditures	-	2.5%	8.5%	2.2%	2.6%	1.1%	5.0%	0.0%	2.0%	2.0%
Transfers In and Other Sources	755	603	13,374	345	270	364	236	221	237	251
Transfers Out and Other Uses	70,447	64,325	53,946	61,310	66,888	69,015	81,341	81,341	82,968	84,627
Net Transfers	(69,692)	(63,722)	(40,572)	(60,965)	(66,618)	(68,651)	(81,104)	(81,120)	(82,731)	(84,376)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	9,482	50,396	(44,486)	27,386	(155)	9,216	(4,582)	(88,906)	(26,992)	21,678
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	0.9%	4.7%	(3.9%)	2.3%	(0.0%)	0.7%	(0.4%)	(6.8%)	(2.0%)	1.6%
Unrestricted/Unreserved Fund Balance (General Fund)	383,266	418,589	376,620	391,037	396,314	381,696	378,904	289,998	263,006	284,684
Other Available Funds (GF + Non-GF)	8,449	100,046	97,531	110,500	105,068	128,903	127,113	127,113	127,113	127,113
Combined Available Funds Balance (GF + Other Available Funds)	391,715	518,635	474,151	501,537	501,382	510,598	506,016	417,111	390,118	411,797
Combined Available Fund Bal. (% of Expend. and Transfers Out)	37.2%	48.4%	41.3%	42.5%	41.3%	41.5%	39.0%	32.1%	29.4%	30.5%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	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 scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. 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.