MOODY'S
INVESTORS SERVICE

New Issue: Moody's upgrades to Aaa Greenville, SC's $8.3M GO debt; Outlook stable

Global Credit Research - 11 Nov 2015

Assigns Aa2 rating to $18.9M IPRBs, Series 2015

GREENVILLE (CITY OF) SC
Cities (including Towns, Villages and Townships)
SC

Moody's Rating

ISSUE	RATING
Taxable Installment Purchase Revenue Bonds (City of Greenville, South Carolina Project) Series 2015	Aa2

Sale Amount	$18,940,000
Expected Sale Date	11/30/15
Rating Description	Lease Rental: Appropriation

Moody's Outlook STA

NEW YORK, November 11, 2015 --Moody's Investors Service has upgraded to Aaa the rating on the City of Greenville's (SC) $8.3 million of outstanding general obligation debt. Concurrently, Moody's has assigned an initial Aa2 rating to the city's $18.9 million Taxable Installment Purchase Revenue Bonds (City of Greenville, South Carolina Project), Series 2015. The outlook is stable.

SUMMARY RATING RATIONALE

The high quality Aaa rating reflects the city's regionally important and diverse tax base, well-managed financial position with ample reserves and liquidity, and average debt profile.

The Aa2 on the city's IPRBs are rated two notches below the city's general obligation debt rating due to the risk of non-appropriation and the less essential nature of the financed project, which includes leasehold interest on the city's parking facilities.

OUTLOOK

The stable outlook reflects our expectation the city's financial position will remain solid given strong management with conservative budgetary practices and prudent fiscal policies. Additionally, the city's tax base is expected to continue its trend of modest growth driven by ongoing residential and commercial development spurred by an expanding manufacturing, higher education and medical sectors.

WHAT COULD MAKE THE RATING GO DOWN

-Failure to maintain structural balance, resulting in deteriorated financial position

-Weakening of regional economy leading to significant tax base loss and decreased wealth

-Non-appropriation on the city's IPRBs

STRENGTHS

-Regionally important economy bolstered by various higher education, medical and manufacturing

-Diverse tax base experiencing ongoing growth

-Strong management with prudent policies

-Sound fiscal position with ample reserves and liquidity

CHALLENGES

-Exposure to economically sensitive revenues

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: DIVERSE TAX BASE AT CENTER OF REGIONALLY IMPORTANT ECONOMY

Greenville's moderately-large tax base is expected to continue its trend of modest growth driven by residential and commercial development. Strategically located along the Interstate 85 corridor in the northwestern region of South Carolina (Aaa stable), the City of Greenville serves as the economic and employment hub of the larger multi-county region, with a mature and diverse tax base that includes advanced manufacturing, higher education, medical and service industries. Downtown City of Greenville is upstate South Carolina's largest business district, with over 3 million square feet of office space. This area is also one of the most popular dining and entertainment destinations for the area, with more than 125 restaurants and pubs located around the city's Main Street.

The Greenville region serves as an economic center to the state, supported by expanding education and research and development sectors. The city reports that Greenville County has seen new capital investment of $1.5 billion and has added approximately 8,940 new jobs to the region from 2010 to 2014; capital investments equaled $375 million in 2015 with 1,897 new jobs. The automotive industry continues to strengthen, with BMW's (BMW AG (P)A2 positive) ongoing investments in its manufacturing plant located in the City of Greer, SC. BMW has invested more than $7.0 billion in the plant since it began operations in 1994, and announced a $1.0 billion expansion plan, the fifth expansion since it opened, increasing its workforce by 800 new jobs (8,000 employed). The region further benefits from a range of transportation options, with access to air, intestate, rail and the inland port in Greer that connects the region to the three state seaports, the City of Charlotte (Aaa stable), and City of Atlanta (Aa2 positive).

The city is also located between two major South Carolina universities, the University of South Carolina (Aa2 stable) in Columbia (Aa1) and Clemson University (Aa2 stable) in Clemson, which has helped drive investment interest in the region. The University of South Carolina's Medical School and Clemson's MBA program are located in the city of Greenville after having renovated and constructed new facilities for their respective programs. The Clemson University International Center for Automotive Research (CU-ICAR), a public/private partnership with Clemson University, BMW and various other manufacturers, is a 250-acre campus located within the city, and encompasses five technology neighborhoods focused on advanced automotive engineering. The companies include BMW IT research center and KOJO/JTEKT Group. Further tax base stability and strength is provide by the presence of Greenville Health System (A1 stable), the city's largest employer (12,000 employed), and one of the state's most comprehensive healthcare providers that continues to expand its scope and reach through acquisitions and affiliations of regional hospitals and medical groups and the system's presence in teaching, academics, and partnerships with regional and statewide health systems.

Wealth levels for the city approximate state averages but are below the national average. The full value per capita is slightly above-average at $117,159, reflecting the significant corporate presence. Unemployment rate has improved to a low 5% as of August 2015. The city's labor force has increased by 8.4% since 2005. Moody's Analytics notes payroll growth has outpaced the national average. Additionally, the Greenville-Anderson-Mauldin region has entered into a self-sustaining expansion, and expects the population increases, improving education attainment, and an expanding logistics industry will continue to support the above-average job growth.

FINANCIAL OPERATIONS AND RESERVES: WELL-MANAGED FISCAL POSITION WITH STRONG BUDGET OVERSIGHT

The city's financial position is expected to remain healthy given its record of strong operating results and conservative management with prudent fiscal policies. The city's formalized policies include maintaining unassigned General Fund balance of 20% of appropriations with anything in excess of the 20% target will be utilized for capital spending or for other one-time expenditures. Over the four years, the city has consistently remained above policy averaging an unassigned fund balance of $17.5 million (26.8% of expenditures) from fiscal

2011 to 2014. Since fiscal 2012, the city's financial position has strengthened as a result of conservative budget assumptions and improving major revenues. The General Fund balance increased to a strong $23.8 million (33.7% of revenues) in fiscal 2014, from a lower $13.5 million (21.6% of revenues) in fiscal 2009. In fiscal 2015, unaudited results demonstrate the city achieving its fifth consecutive surplus increasing General Fund balance to $26.9 million (37.4% of revenues); unassigned was $24.3 million (33.2% of expenditures). Positive performance was attributed to conservative spending and stronger revenues.

For fiscal 2016, the city's included a $2.0 million use of reserves for one-time pay-as-you-go capital spending. Officials project another strong year, and planned for a $3.5 million surplus. Year-to-date revenue and expenditure trends are positive. The city's major revenues are derived primarily from stable property taxes (42.7% of fiscal 2014 revenues) and economically sensitive licenses and permits (44.3%). Despite such high dependence on a volatile revenue stream, the city has demonstrated their ability to maintain strong operating margins given its strong budgetary oversight. The major expenditures are public safety and general government, which comprised 44.5% and 25.9% of fiscal 2014 expenditures, respectively.

Liquidity

The city benefits from a highly liquid General Fund balance that is expected to remain strong. In fiscal 2014, cash increased to $23.9 million (34% of revenues) from a lower of $13.6 million (21.7% of revenues) in fiscal 2009. Unaudited fiscal 2015 cash position strengthened to $27.7 million (36.3%).

DEBT AND PENSIONS: AVERAGE DEBT BURDEN WITH MINIMAL FUTURE DEBT PLANS

The city's debt burden (0.8% of full value in fiscal 2015) is expected to remain average given ongoing growth in the tax base and rapid amortization of principal. Post offering, direct debt burden is expected to increase to 0.9% of full value. Future debt plans are modest, and include a general obligation debt issuance in fiscal 2016 ($3.9 million) and 2017 ($6.2 million) for construction of a new fire station and relocation of the city's public work department.

Debt Structure

As of fiscal 2015 (unaudited), the city had $8.3 million of general obligation debt outstanding with a rapid principal payout of 98.2% within 10 years. The city's debt is all fixed rate and amortized over the long-term.

Debt-Related Derivatives

The city is not party to derivative agreements.

Pensions and OPEB

We expect the city's pension costs to remain manageable. The city participates in the South Carolina Retirement Systems, for police and general employees, two multi-employer, defined benefit retirement plans sponsored by the State of South Carolina (Aaa stable). The city's combined annual required contribution (ARC) for the plans was $3.8 million in fiscal 2014, or a modest 5.6% of operating expenditures. The city's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $131.4 million, or approximately an above average 1.48 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. We determined the city's share of liability for the state-run plans in proportion to its contributions to the plans.

Additionally, the city continues to fully fund the annual required actuarial contribution (ARC) on its other postemployment benefits (OPEB). The city's plan is affiliated with the South Carolina Other Retirement Benefits Employer Trust. Since 2009, through various changes to the benefit program, management has reduced the total liability to $10.9 million in 2013 from $59.85 million. As of the last measurement date, July 1, 2013, the city had a funding ratio of 4.31%. While the city plans to continue making its full ARC payment it does not plan to address the unfunded liability at this time. Total fixed costs (debt service, pension payments and OPEB payments) sum to a manageable $13.7 million or 18.8% of expenditures.

MANAGEMENT AND GOVERNANCE

The City of Greenville has a long history of strong management with prudent practices, which includes formalized policies, multi-year forecasting, and well-developed debt plans. South Carolina cities have an institutional framework score of "Aa," or strong. Property tax revenues, generally the largest source of income, are capped by Act 388, which sets a maximum on the operating millage growth annually. However, expenditures are predictable and have been cut in response to revenue declines, providing ample financial flexibility. Economically sensitive revenues did see a decline during the recession but have rebounded and have in many cases eclipsed pre-recession levels. Additionally, as a right to work state, South Carolina counties have strong expenditure-cutting flexibility.

KEY STATISTICS

FY 2015 Full Valuation: $7.2 billion

Full Value Per Capita: $117,159

Median Family Income as % of US: 91.4%

2014 Operating Fund Balance as % of Revenue: 31.90%

5-Year Dollar Change in Fund Balance as % of Revenue: +13.46%

2014 Operating Cash Balance as % of Revenue: 36.36%

5-Year Dollar Change in Cash Balance as % of Revenue: +17.06%

Institutional Framework: "Aa"

5-Year Average Operating Revenues/Operating Expenditures: 1.02 times

Net Direct Debt as % of Full Value: 0.90%

Net Direct Debt as % of Revenues: 0.85 times

3-Year Average ANPL as % of Full Value: 1.57%

3-Year Average ANPL / Operating Revenues: 1.48 times

OBLIGOR PROFILE

The City of Greenville as the economic center for the upstate South Carolina region, supported by expanding advanced manufacturing, higher education and research and development sectors. Within the city, the population is 61,397; however, inclusive of the Greenville MSA, the population is 824,112 residents, which are attracted to the city's dynamic downtown business district. This area is also one of the most popular dining and entertainment destinations for the area, with more than 90 restaurants and pubs located around the city's Main Street.

LEGAL SECURITY

The GO bonds are secured by the city's unlimited ad valorem tax pledge.

The IPRBs are secured by the city's pledge to annually budget and appropriate fund pursuant to a Base Lease Agreement with the corporation. City plans to pay debt service from all available revenues including available parking, hospitality and accommodation tax revenues after payment of the city's outstanding parking revenue bonds and hospitality tax bonds. The bonds are further secured by a long-term leasehold interest in two of the city's parking facilities, of which a portion of proceeds from these bonds will fund construction of two of the pledge facilities, providing additional bondholder protection as, were officials to fail to appropriate, they would lose access to the portion of the facilities retained by the corporation. We believe the use of proceeds and parking facilities are less essential services; however, given the city's strong commitment and stated mission, the facilities are an important component to city services therefore somewhat mitigating an event of non-appropriation.

The assets will be gradually released from the leasehold interest of the issuer as the city makes payments under the Facilities Purchase and Occupancy Agreement. In the event of non-appropriation or default, the trustee or its appointed consultant would allocate the percentage of undivided interests in the title to these facilities between those conveyed to the city and those retained by the corporation. There is no construction risk, as the city is required to provide payment under the agreement whether the facilities are completed or not. Installment payments are due to the trustee (U.S. Bank, National Association, Aa1 stable) fifteen days prior to debt service payment dates, allowing a satisfactory window for the timely payment to bondholders.

USE OF PROCEEDS

Proceeds from IPRBs Series 2015 will be used to construct a new parking facility ($10.2 million) and refund the city's outstanding IPRBs, Series 2013 extending maturity to 2035 for level debt service including the new bonds.

PRINCIPAL METHODOLOGY

The principal methodology used in rating the General Obligation debt was US Local Government General Obligation Debt published in January 2014. The principal methodology used in rating the lease backed debt was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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