



NEWS RELEASE

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City of Beaufort earns highest bond rating ever, but still working to revitalize local economy

The City of Beaufort earned its highest bond rating ever from Standard & Poor's Ratings Services, reflecting the city's strong management, budgetary flexibility and a locally-improving economy, city leaders said Wednesday.

Standard & Poor's Rating Services raised its long-term rating and underlying rating on the City of Beaufort's general obligation debt to 'AA,' up from 'AA-', based on their local general obligation criteria released September 12, 2013. The outlook is stable, the rating firm said.

The good news for the city government comes even as the community continues to wrestle with economic diversification and redevelopment, attracting shoppers to downtown Beaufort stores, finding the right mix of local retail and destination shops, and balancing city taxes against services and improvements some residents desire.

"All in all, I think our city government has done a wonderful job of navigating the Great Recession, from a management perspective, and the Standard and Poor's rating reflects that achievement," Beaufort Mayor Billy Keyserling said.

"At the same time, we are still struggling to fill vacant storefronts, we struggle to attract new residents, we struggle to provide all the services and amenities people say they want. And we must press on with efforts to diversify our economic base by attracting better jobs for those who grow up here and those who choose to move here. From that perspective, Beaufort as a community has a long ways to go, though we are making headway," he said.

The Standard & Poor's Rating Services report addressed the City of Beaufort government's finances, not the community at large.

The improved rating could bring better interest rates for the City of Beaufort if general obligation bonds are issued or existing debt refinanced with the AA standing, said City Finance Director Kathy Todd. She said there aren't any immediate plans to issue additional debt though refinancing current debt may be a viable option if it will produce lower interest rates and save the City money in the short- and long term.

"As the economy quickly turned bad and then worse starting in 2007, (City Manager Scott) Dadson, his staff and City Council made some very strategic decisions that helped stabilize our finances and put us in our favorable position today. It wasn't easy, and sacrifices were made, but today the City of Beaufort government is in perhaps its best financial situation in 20-plus years," the mayor said.

The S&P upgrade reflects the rating agency's findings of strong financial management in the city government, very strong budgetary flexibility, very strong liquidity, strong budgetary performance, and adequate debt and contingent liabilities.

"This supports our hard work to put Beaufort in a strong financial position despite the economic downturn," Dadson said. "Kudos to Kathy Todd and our City Council for making this improved bond rating possible."

Jon Verity, chairman of the Beaufort Redevelopment Commission, applauded the city staff and City Council's work to earn the high S&P rating.

"This is good news," Verity said. "Our message is that the City manages its resources well, but there are not enough resources to do many of the things the public would like to see, such as adding more parks and open space, building a parking garage and expanding some existing services.

"To create more resources we need to build our economy, attract new residential and commercial property owners and find new ways to encourage people to shop within the city limits," he said.

Standard & Poor's Rating Services provided their assessment of the following credit factors for the City that contributed to Beaufort's AA rating:

Strong management

"We feel Beaufort's management conditions are strong, with good financial practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. Strengths of the assessment, in our opinion, include strong revenue and expenditure assumptions in the budgeting process, strong oversight in terms of monitoring progress against the budget during the year, and a long-term financial plan."

Very strong budgetary flexibility

"In our opinion, Beaufort's budgetary flexibility is very strong, with available reserves at 40.7 percent of operating expenditures in fiscal 2013. While the city expects to use some of the committed fund balance for capital acquisitions in 2014, it does not expect any change to available reserves. The adopted 2014 budget planned to use just over \$1 million in committed fund balance, but at this time, management does not anticipate that it will need that amount. Similarly, there is a budgeted use of \$280,000 for fiscal year 2015, but this is from a previously committed fund balance, and unrestricted fund balance will not likely be materially different.

“In our view, reserves are a credit strength, as the available fund balance was above 30 percent for audited fiscal 2013, and we expect it to remain above that level for the current year and following years.”

Very strong liquidity

“What we consider very strong liquidity supports Beaufort's finances, with total government available cash to government fund expenditures and cash to debt service at 88 percent and 7.2x, respectively. Based on its past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary.”

Strong budgetary performance

“In our opinion, Beaufort's budgetary performance is strong overall, with a 2.2 percent surplus for the general fund and a 9.2 percent surplus for the total governmental funds in fiscal 2013. We believe that the issuer has the ability and willingness to make adjustments if needed to maintain strong performance.

“The portion of revenues generated from property tax has declined to 27 percent in recent years, from 45 percent in 2009. This is primarily due to an increase in non-property tax revenue sources.

“Having a diverse source of revenues can, in some cases, be a positive credit factor. Non-property tax revenues for the city include local hospitality taxes; local accommodations taxes; business license fees; brokers' fees, telecommunications fees; building permits; and franchise fees. However, the city's sources of revenue are items that are prone to economic cyclicalities and have shown signs of volatility in the past recessionary cycle. Due to the past cyclicalities in these numbers and the potential for future volatility in these revenue sources, we view this as a negative credit factor.”

Adequate debt and contingent liabilities

“In our view, Beaufort's debt and contingent liabilities profile is adequate. Total governmental fund debt service is 12.2 percent of total governmental funds expenditures and net direct debt is 81.7 percent of total governmental funds revenue. Approximately 68 percent of the debt is repaid over 10 years, which we consider a credit strength. Last year Beaufort contributed 100 percent of its annual required pension contribution. The annual pension and other post-employment benefits costs accounted for four percent of the total government expenditures in fiscal 2013.”

Outlook

“The stable outlook reflects our opinion that the City that has benefited from favorable economic and financial factors. Income levels are good and property values are extremely strong, in our opinion. We believe that management will continue to keep budgetary flexibility very strong by making adjustments when and where needed.

“Barring sharp declines in financial performance over the two-year outlook period, which we consider unlikely, we do not expect to lower the rating. We could raise the rating if budgetary performance or debt scores were to improve -- and we thought that the city could maintain those higher scores -- and if there were no offsetting credit factors.”

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