

ISSUER COMMENT

21 May 2021

RATING

General Obligation (or GO Related) ¹

Aa2 No Outlook

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City of Beaufort, SC

Annual Comment on Beaufort

Issuer Profile

The City of Beaufort is located along the Beaufort River in Beaufort County in southern coastal South Carolina, approximately 50 miles southwest of Charleston. Beaufort County has a population of 186,095 and a moderate population density of 317 people per square mile. The county's median family income is \$79,429 (1st quartile) and the March 2021 unemployment rate was 4.1% (2nd quartile) ². The largest industry sectors that drive the local economy are accommodation/food services, retail trade, and the military.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for Beaufort. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Beaufort changes, we will update our opinion at that time.

Credit Overview

Beaufort has a very strong credit position. Its Aa2 rating is slightly above the median rating of Aa3 for US cities. Notable credit factors include a robust financial position, healthy tax base and sound wealth and income profile. The rating also reflects a light debt burden and somewhat elevated pension liability.

Finances: The financial position of the city is robust and is relatively favorable with respect to the assigned rating of Aa2. Beaufort's cash balance as a percent of operating revenues (44.8%) approximates the US median and fund balance as a percent of operating revenues (39.4%) is consistent with the US median.

Economy and Tax Base: Overall, the city has a very strong economy and tax base, which are in line with its Aa2 rating. Total full value (\$2.6 billion) is slightly stronger than other Moody's-rated cities nationwide. Full value per capita (\$190,536) is above the US median however median family income is just 87.1% of the US level.

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, healthcare, retail, and oil and gas could suffer particularly severe impacts.

Debt and Pensions: Beaufort's debt burden is low and is a credit strength in relation to the assigned rating of Aa2. Net direct debt to full value (0.7%) is slightly lower than the US median and stayed flat from 2016 to 2020. The city has a somewhat inflated pension

liability which is reflected in its Aa2 rating. The city participates in the state pension plan, which determines the city's reported liability and required annual contribution. The Moody's-adjusted net pension liability to operating revenues (2.2x) is higher than the US median.

Management and Governance: South Carolina cities have an institutional framework score ³ of "Aa", which is strong. The sector's main revenue sources are property taxes and business licenses. The ability to raise property tax revenue is subject to Act 388, which sets a maximum operating millage increase based on CPI increase and population growth. However, the cap can be overridden by a two-thirds vote of the governing body under specific conditions allowing for moderate revenue-raising ability. Business licenses are a gross receipts tax levied on business income and rates can be adjusted by city council. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Fixed costs are driven by debt service and retirement costs. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually. South Carolina statute does not permit collective bargaining for public sector workers.

Sector Trends - South Carolina Cities

South Carolina's economy posted strong gains in recent years, but its manufacturing, transportation and tourism sectors will likely experience temporary challenges as the coronavirus slows economic activity and consumer spending. Over the medium term, we expect the state's economy to remain competitive given its low cost of doing business and growing workforce. As the economy slows, however, cities will likely see a decline in business license revenues, which typically account for 20% to 40% of annual operating revenue. South Carolina cities tend to hold stronger reserves than their national peers, a factor that will partially mitigate short-term revenue disruptions.

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 1

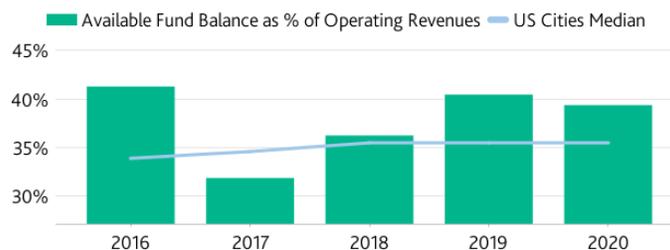
Key Indicators 4.5 Beaufort

	2016	2017	2018	2019	2020	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$2,058M	\$1,985M	\$2,146M	\$2,464M	\$2,553M	\$2,024M	Improved
Full Value Per Capita	\$157,483	\$148,056	\$160,926	\$183,870	\$190,536	\$97,657	Improved
Median Family Income (% of US Median)	80%	84%	82%	87%	87%	114%	Improved
Finances							
Available Fund Balance as % of Operating Revenues	41.3%	31.9%	36.3%	40.5%	39.4%	35.5%	Stable
Net Cash Balance as % of Operating Revenues	48.5%	45.2%	35.7%	44.6%	44.8%	40.0%	Stable
Debt / Pensions							
Net Direct Debt / Full Value	0.8%	0.9%	0.8%	0.8%	0.7%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.85x	0.77x	0.78x	1.18x	1.01x	0.82x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.3%	1.5%	1.6%	1.5%	1.6%	1.9%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.40x	1.32x	1.57x	2.12x	2.17x	1.57x	Weakened
	2016	2017	2018	2019	2020	US Median	
Debt and Financial Data							
Population	13,074	13,413	13,336	13,404	13,404	N/A	
Available Fund Balance (\$000s)	\$7,755	\$7,163	\$7,794	\$7,121	\$7,360	\$8,489	
Net Cash Balance (\$000s)	\$9,112	\$10,148	\$7,679	\$7,847	\$8,369	\$9,759	
Operating Revenues (\$000s)	\$18,781	\$22,475	\$21,499	\$17,600	\$18,691	\$36,135	
Net Direct Debt (\$000s)	\$16,014	\$17,356	\$16,758	\$20,768	\$18,802	\$19,137	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$26,267	\$29,580	\$33,813	\$37,267	\$40,594	\$38,399	

Source: Moody's Investors Service

EXHIBIT 2

Available fund balance as a percent of operating revenues decreased from 2016 to 2020



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

Full value of the property tax base increased from 2016 to 2020



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 2016 to 2020



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

Endnotes

- 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.
 - 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.
- 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 \(July 2020\)](#) methodology report for more details.
 - 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.
 - The medians come from our most recently published local government medians report, [Medians - Tax base expansion bolsters revenue, but pensions remain a hurdle \(May 2020\)](#), which is available on Moody's.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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