

RatingsDirect®

Summary:

Gordon County, Georgia; Appropriations; General Obligation

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Summary:

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Credit Profile

Gordon Cnty ICR

Long Term Rating

AA-/Stable

Affirmed

Georgia Association of County Commissioners, Georgia

Gordon Cnty, Georgia

Georgia Assn of Cnty Comrs lsg prog certs of part (Gordon Cnty, Georgia Pub Purp Proj) ser 2008

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' issuer credit rating (ICR), with a stable outlook, on Gordon County, Ga. and affirmed its 'A+' underlying rating (SPUR), with a stable outlook, on Georgia Association of County Commissioners' leasing program certificates of participation (COPs), supported by Gordon County.

An installment-purchase lease agreement between Georgia Association of County Commissioners, as lessor, and Gordon County, as lessee, secures the COPs. The COPs have a proportionate and undivided interest in certain rental payments (base rentals) made under an annually renewable lease agreement. Base rentals are assigned to the trustee. A lien on, and security interest in, the project to the trustee, pursuant to a security agreement, provides additional COPs security. The county pays utility, insurance, tax, and maintenance costs on the project. The county has a debt reserve fund in place based on maximum annual debt service.

The ICR reflects our opinion of the county's:

- Very weak economy, with a concentrated employment base;
- Strong management, with "good" financial management policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and balanced operating results at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 60% of operating expenditures;
- Very strong liquidity, with total government available cash of 85% of total governmental fund expenditures and 28.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 3% of expenditures and net direct debt that is 26.6% of total governmental fund revenue and low overall net debt at less than 3% of market value and rapid amortization with 75.4% of debt scheduled to be retired within 10 years; and
- Very strong institutional framework score.

Very weak economy

We consider Gordon County's economy very weak. The county has an estimated population of 56,140. The county has a projected per capita effective buying income of 72% of the national level and per capita market value of \$86,415. Overall, the county's market value grew by 1.9% over the past year to \$4.9 billion in fiscal 2016. Weakening Gordon County's economy is a concentrated employment base, with a single sector accounting for more than 30% of total county employment. The county unemployment rate was 7.4% in 2014.

Gordon County is in northwestern Georgia, approximately 60 miles northwest of Atlanta and 45 miles south of Chattanooga, Tenn. The local economy centers on manufacturing, specifically carpet and rug production. Leading county employers include:

- Mohawk Industries (1,800 employees),
- Shaw Industries (1,300),
- Apache Mills (300), and
- Beaulieu Group (300).

Other leading employers include county schools, government, and Gordon Hospital.

The economy is showing signs of recovery, especially in unemployment, which peaked at about 14% at the height of the recession. Our forecasts for the region show strong nonfarm employment growth of about 2.5%-3.25% in 2015. (For more information, please see the article, titled "U.S. State And Local Government Credit Conditions Forecast," published July 22, 2015, on RatingsDirect.) After contracting for several years, the property tax base has shown some growth through 2016, which officials attribute to the recovering economy.

Strong management

We view the county's management as strong, with "good" financial management policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The county maintains a formal five-year capital improvement plan that it updates annually, coupled with identified funding sources. Management provides formal quarterly updates on budget-to-actual results to the county council, and the county can amend the budget as needed. The county uses some historical analysis for revenue and expenditure assumptions, and budgetary variances have historically been favorable. The county has adopted a formal investment policy that includes at least quarterly reports to the council. A formal reserve policy targets at least four months', or roughly 35%, operating expenditures to account for unforeseen emergencies and historical cash flow needs, which the county has historically exceeded. Currently, the county does not perform any formal long-term financial planning.

Strong budgetary performance

Gordon County's budgetary performance is strong, in our opinion. The county had surplus operating results in the general fund of 2% of expenditures, and balanced results across all governmental funds of 0.3% of expenditures in fiscal 2014. General fund operating results of the county have been stable over the past three fiscal years, with a result of 1.5% of expenditures in fiscal 2013 and a result of 1.2% of expenditures in fiscal 2012.

The county's budgetary performance has been adjusted for recurring transfers out to the fire fund, as well as revenue

and expenditures related to the 2012 and 2005 special-purpose local-option sales tax project funds. Officials attribute fiscal 2014 performance to conservative budgeting practices.

Officials expect fiscal 2015 to end with at least break-even operations despite the \$2.5 million of budgeted fund balance use. The fiscal 2016 budget includes another appropriation of about \$2.7 million, in-line with the county's historical practices. Due to conservative budgeting and the history of generating positive results, we expect budgetary performance to remain strong.

Very strong budgetary flexibility

Gordon County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 60% of operating expenditures, or \$17.3 million. We expect the available fund balance will remain more than 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 57% of expenditures in fiscal 2013 and 60% in fiscal 2012.

We expect that the county will add to fund balance in fiscal 2015 and that officials do not currently plan to draw down reserves significantly.

Very strong liquidity

In our opinion, Gordon County's liquidity is very strong, with total government available cash of 85% of total governmental fund expenditures and 28.2x governmental debt service in fiscal 2014. In our view, the county has strong access to external liquidity if necessary.

Furthermore, we note the county does not have any contingent liquidity risk from financial instruments with payment provisions that change upon the occurrence of certain events. In addition, the county primarily invests in the Georgia Local Government Investment Pool, which we do not consider aggressive.

Very strong debt and contingent liability profile

In our view, Gordon County's debt and contingent liability profile is very strong. Total governmental fund debt service is 3% of total governmental fund expenditures, and net direct debt is 26.6% of total governmental fund revenue. Overall net debt is low at 1.3% of market value and approximately 75.4% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Officials do not currently have any debt plans within the next two years that would materially affect the county's debt profile. The county makes annual contributions to a defined-contribution pension plan that totaled \$592,000 in fiscal 2014.

Gordon County's combined pension and other postemployment benefit contribution totaled 0.1% of total governmental fund expenditures in fiscal 2014. The county made its full annual required pension contribution in fiscal 2014.

The county administers a single-employer, defined-benefit health care plan for retirees. At July 1, 2013, the most recent actuarial valuation, the unfunded actuarial accrued liability was \$1 million and entirely unfunded. The county pays these costs through pay-as-you-go financing, and it does not currently plan to fund the liability.

Very strong institutional framework

The institutional framework score for Georgia counties is very strong.

Outlook

The stable outlook reflects Standard & Poor's opinion that Gordon County will likely maintain its very strong budgetary flexibility, supported by strong management. We believe the county's limited additional capital needs provide further rating stability. While unlikely to occur, if budgetary performance were to experience sustained deterioration, coupled with a significant reduction in reserves, we could lower the rating. In our opinion, our ability to raise the rating is currently limited due to the county's very weak economy, which is concentrated in manufacturing. Therefore, we do not expect to change the rating within the outlook's two-year period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 22, 2015
- Institutional Framework Overview: Georgia Local Governments

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