STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Asheville, North Carolina; Appropriations; General Obligation

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Table Of Contents

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Credit Profile		
Asheville GO		
Long Term Rating	AAA/Stable	Upgraded
Asheville ltd oblig bnds		
Long Term Rating	AA+/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Asheville, N.C.'s general obligation (GO) debt one notch to 'AAA' from 'AA+'. The outlook is stable.

The upgrade reflects our opinion of the city's consistent maintenance of at least strong budgetary performance and very strong budgetary flexibility, supported by very strong management conditions, through the recent recession.

At the same time, Standard & Poor's raised its rating on the city's limited-obligation debt one notch to 'AA+' from 'AA'. The outlook is stable.

The city's full-faith-and-credit pledge secures the GO debt. Installment payments, subject to annual appropriation, made by the city directly to the trustee in sufficient amounts to pay principal and interest on the bonds pursuant to an installment-financing contract secure the limited-obligation bonds.

We rate the rating on Asheville higher than the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the city primarily has a locally derived revenue source: Property taxes generated roughly 51% of total governmental revenue in fiscal 2014. Intergovernmental revenue, which includes revenue from the federal government, generated just 14%.

The rating further reflects our opinion of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial management policies and practices under our Financial Management Assessment (FMA) methodology;
- Very strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 24% of operating expenditures;
- Very strong liquidity, with total government available cash of 102.4% of total governmental fund expenditures and 20.3x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 5.1% of expenditures and

net direct debt that is 22.5% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization with 67.4% of debt scheduled to be retired within 10 years, but significant medium-term debt plans; and
- Very strong institutional framework score.

Strong economy

We consider Asheville's economy strong. The city, with an estimated population of 89,651, is in Buncombe County in the Asheville MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 91.9% of the national level and per capita market value of $130,037. Overall, the city's market value grew by 1.9% over the past year to $11.7 billion in fiscal 2014. The county unemployment rate was 4.6% in 2014.

The roughly 44.2-square-mile Asheville serves as Buncombe County's seat. The city's employment base is diverse because it is a regional center for trade, manufacturing, and health-care related services for western North Carolina. In addition, due to its location near the Great Smoky and Blue Ridge mountains, tourism is important to the city's economy, contributing to ongoing employment base growth. Leading local employers include Memorial Mission Hospitals, Buncombe County, Buncombe County Schools, Asheville, The Biltmore Co., and The Grove Park Inn Resort & Spa. New Belgium Brewing Co. plans to open a $175-million brewery in 2016. Other projects in various stages of development include the 15 new hotels planned for the city, an office-and-retail complex, and the redevelopment of the River Arts District.

Very strong management

We view the city's management as very strong, with "strong" financial management policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Supporting our opinion of the city's strong management profile are its:

- Budget assumptions that factor in historical and projected five-year trends on revenue and expenditures with projections updated throughout the year and as part of the annual budget process;
- Quarterly updates on budget-to-actual results to the city council;
- Formal, five-year capital improvement plan (CIP) that management updates annually and that the council approves-- Management also identifies project funding sources as part of the CIP;
- Investment practices that adhere to the adopted investment policy with quarterly holdings and earnings reports to the council;
- Adopted debt policy that requires debt service not to exceed 15% of total government operating revenue, coupled with the retirement of at least 50% of debt within 10 years; and
- Maintenance of unassigned general fund balance at 15% of expenditures, according to adopted policy.

Very strong budgetary performance

Asheville's budgetary performance is very strong, in our opinion. The city had operating surpluses of 8.7% of expenditures in the general fund and 9% of expenditures across all governmental funds in fiscal 2014.

Compared with previous years, the fiscal 2014 operating surpluses in the general fund and total governmental funds were significantly higher, partially due to a three-cent property tax rate increase for capital purposes and stronger-than-expected growth in economically driven revenue, such as licenses and permits. After adjusting for transfers, the city posted a $7.8 million operating surplus in the general fund and an $8.4 million operating surplus in total governmental funds in fiscal 2014. Officials expect to close fiscal 2015 with a smaller general fund surplus of about $6 million, or roughly 6.4% of estimated expenditures. They balanced the fiscal 2016 budget without using reserves. According to management, if revenue growth were to remain strong, the city could post another operating surplus by fiscal year-end 2016.

Very strong budgetary flexibility

Asheville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 24% of operating expenditures, or $21.6 million.

The city has consistently carried very strong reserves, which we believe it will likely maintain due to the expected surplus in fiscal 2015. Management estimates available general fund balance at $27.8 million, or roughly 29% of estimated fiscal 2015 expenditures. The fiscal 2016 budget does not include any fund balance appropriation. If budgetary performance were to remain positive, we expect reserves to remain very strong.

Very strong liquidity

In our opinion, Asheville's liquidity is very strong, with total government available cash of 102.4% of total governmental fund expenditures and 20.3x governmental debt service in fiscal 2014. In our view, the city has strong access to external liquidity if necessary.

We believe Asheville's frequent issuance of appropriation-backed and utility system debt supports its strong access to external liquidity. Although the state allows for, what we consider, permissive investments, we think the city does not currently have any aggressive investments with the majority of investments held in highly rated U.S. Government agencies, commercial paper, or certificates of deposit.

The city is considering entering into a $35 million line of credit to provide short-term financing for its CIP. The city would eventually refund the line of credit with long-term limited or special obligation bonds. The city has consistently maintained at least strong liquidity, and we do not expect to change these ratios. In our opinion, if the terms in this line of credit include permissive events of default that could result in immediate acceleration, contributing to a significant weakening of liquidity, however, it could have a negative effect on the rating on the city's debt.

Very strong debt and contingent liability profile

In our view, Asheville's debt and contingent liability profile is very strong. Total governmental fund debt service is 5.1% of total governmental fund expenditures, and net direct debt is 22.5% of total governmental fund revenue. Overall net debt is low at 1.7% of market value and approximately 67.4% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors. Negatively affecting our view of the city's debt profile is its significant medium-term debt plans.

The city is planning to enter into a $35 million line of credit in early 2016 to provide short-term financing for its CIP; management intends to take this out with long-term limited or special obligation bonds. Assuming that all other factors remain equal and that there are no contingent liability concerns with the line of credit, we do not believe this additional debt will change the city's debt profile.

Asheville's combined pension and other postemployment benefit (OPEB) contribution totaled 6.8% of total governmental fund expenditures in fiscal 2014. Of that amount, 4.4% represented contributions to pension obligations and 2.4% represented OPEB payments. The city made 101% of its annual required pension contribution in fiscal 2014.

Asheville contributes to the North Carolina Local Governmental Employees' Retirement System (LGERS) and other smaller supplemental plans. The city funds LGERS at 100% of the annual required contribution and the supplemental plans through pay-as-you-go financing. In addition, the city funds OPEB through pay-as-you-go financing.

Very strong institutional framework

The institutional framework score for North Carolina municipalities is very strong.

Outlook

The stable outlook reflects Standard & Poor's opinion that Asheville will likely continue to demonstrate a very strong management profile that will support, at least, a strong budgetary performance. In addition, we expect reserves and liquidity to remain very strong. If any budgetary or debt pressures were to occur that significantly weaken its budgetary performance, flexibility, or liquidity scores, we could lower the rating. Otherwise, we do not expect to change the rating over the two-year outlook 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
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 22, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: North Carolina Local Governments

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