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Ratings

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Summary:

Macon, Georgia
Macon-Bibb County Urban Development Authority; General Obligation; General Obligation Equivalent Security

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Macon-Bibb County Urban Development Authority; General Obligation; General Obligation Equivalent Security

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Macon-Bibb Cnty Indl Auth, Georgia		
Macon-Bibb Cnty, Georgia		
Macon-Bibb Cnty Indl Auth (Macon-Bibb Cnty) GO equiv		
Long Term Rating	AA-/Stable	Upgraded
Macon-Bibb Cnty Urban Dev Auth, Georgia		
Macon, Georgia		
Macon-Bibb Cnty Urban Dev Auth (Macon) GO equiv (AMBAC)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Rating Action

S&P Global Ratings raised its rating on Macon-Bibb County, Ga.'s general obligation (GO) sales tax bonds and other GO-backed obligations two notches to 'AA-' from 'A'. At the same time, S&P Global Ratings raised its rating on the Macon-Bibb County Industrial Authority's and Macon-Bibb County Urban Development Authority's revenue bonds issued for the county two notches to 'AA-' from 'A'. The outlook is stable.

Securing Macon-Bibb's GO sales tax bonds is a special 1% sales and use tax that voters authorized Nov. 8, 2016, and took effect April 1, 2018. Voters have authorized the collection of up to $280 million in related revenue. If sales tax receipts cannot cover debt service, the county has pledged its full faith, credit, and taxing power toward repayment (including an unlimited ad valorem tax levy). We rate to Macon-Bibb's unlimited property tax pledge, which we view as the stronger pledge. This marks a reimposition of the 1% sales tax that voters authorized in November 2011.

The Macon-Bibb County Industrial Authority's and Macon-Bibb County Urban Development Authority's rated debt issuances are special obligations of the respective authorities, secured by payments of the county pursuant to an intergovernmental contract. Under the intergovernmental contract, the county has pledged its full faith, credit, and taxing power to the bonds.

Credit overview

The two-notch upgrade reflects Macon-Bibb County's improvement in available reserves, which have risen to a very strong level from a weak level over the course of three fiscal years. The improved flexibility occurs as a result of

improved budgetary practices and management's approach in rebalancing the county's financial performance following the 2014 county consolidation, which had resulted in a temporary structural imbalance due to the adoption of the lower property tax rate across the entire region. Since then, the property tax rate has increased, and additional revenues are starting to materialize in the budget and the county as a whole is better positioned for broader economic development. While we anticipate ongoing development, we do not expect a material deterioration in its debt profile since capital projects are funded through SPLOSTS; however its high pension costs remain a credit constraint.

The rating reflects our view of Macon-Bibb County's:

- Adequate economy, with projected per capita effective buying income (EBI) at 72.8% and market value per capita of $75,109, which we view as broad and diverse;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, which closed with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 40.0% of total governmental fund expenditures and 7.3x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 5.5% of expenditures and net direct debt that is 52.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 76.5% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
- Very strong institutional framework score.

Environmental, social, and governance factors

We view environmental, social, and governance (ESG) risks as being in line with our view of the sector as a whole. While population trends have been flat in recent years, projections indicate declines over the next five years, which we believe could pose a social risk as service costs would be spread across a smaller base and could hinder maintenance of long-term affordability. However, we expect this trend to be offset through job creation from economic development, which could attract new residents and will continue to monitor it.

Stable Outlook

Upside scenario

Improvement in wealth and income levels, coupled with formalized long-term financial planning and plans to offset rising fixed costs could result in a positive rating action.

Downside scenario

We could lower the rating if the county's financial performance deteriorates, leading to material reduction in reserves.

Credit Opinion

Adequate economy

We consider the county's economy adequate. Macon-Bibb County, with a population of 152,064, is in central Georgia, about 80 miles south of Atlanta. It is in the Macon-Bibb County metropolitan area, which we consider to be broad and diverse. The county has a projected per capita EBI of 72.8% of the national level and per capita market value of $75,109. Overall, market value grew by 1.8% over the past year to $11.4 billion in 2020. The county unemployment rate was 7.5% in 2020.

The county is home to Mercer University (enrollment of approximately 8,300). Macon-Bibb is bisected by Interstate 75, and has access to the state's leading regional centers, including Atlanta, Augusta, Columbus, and Savannah. Primarily rural, the county has had some economic growth in the area following the establishment of the Macon-Bibb Industrial Authority, which has attracted significant development and has 26 projects in the pipeline totaling $500 million in investment. A Brown & Williamson facility which closed in 2006 was recently sold for $2.3 million to an investment firm that is actively marketing the space for lease to attract new business. Furthermore, Dean Baldwin Painting, a woman-owned company that provides aircraft paint for major carriers such as Delta, is currently establishing a local presence, which is expected to create over 120 jobs. This ties in with the expansion of the Middle Georgia Regional Airport and the county's partnership with Central Georgia Technical College and Robins Air Force Base to create a jobs training and aircraft maintenance program. In addition the medical presence has strengthened with the pending acquisition of the Coliseum hospital by Piedmont, on the heels of the Navicent Health and Atrium Health merger in 2018. Major employers include Geico (6,100 employees), Navicent (5,000), and the county's board of education (4,880).

Given the ongoing development, which did not slow as a result of the pandemic, we expect that the county's economy will remain stable.

Strong management

We view the county's management as strong, with good financial 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 change in our FMA assessment to strong from adequate reflects Macon-Bibb County's adherence to policies and improvement in reserves compliant with its formal fund balance policy to maintain a minimum of 45 days of expenditures in reserve, as well as a return to budgetary balance through the application of conservative assumptions. The county uses two-to-three years of historical data in the budgeting process and the Board of Commissioners can approve amendments to the budget as needed throughout the year. Budget performance reports, including budget-to-actual comparisons, are provided monthly to the governing body. The county's reserve policy is to seek and maintain the equivalent of 45 days' normal operating expenditures and other financing uses based on the current fiscal year's budget in the stabilization fund, and it has been in compliance of its policy since fiscal 2019. It also has a formalized investment and debt management policy, with specific thresholds set for debt planning purposes. While the county has a capital improvement plan in place with a five-year horizon and funding sources identified, it does not

have a long-term financial plan.

Strong budgetary performance

Macon-Bibb County's budgetary performance is strong, in our opinion. The county had operating surpluses of 8.9% of expenditures in the general fund and 5.0% across all governmental funds in fiscal 2020. Our analysis accounts for routine transfers from the general fund to the county's enterprise, nonmajor governmental, and internal services funds, as well as capital spending funding with bond proceeds. The primary sources of general fund revenues are property taxes (53%), sales taxes (19%), franchise taxes (7%), and insurance premium taxes (7%).

After five consecutive years of operating deficits, the county started generating significant surpluses in fiscal 2019, resulting in a materially improved financial position. Macon-Bibb became a consolidated government on Jan. 1, 2014, after voters of Bibb County and the city of Macon--at a special election in 2012--authorized the establishment of a single countywide government. Under the enabling legislation, all bonds and other obligations Macon and Bibb County entered into before the effective date will continue, according to their terms, as obligations and rights of Macon-Bibb County. Following this consolidation, the county adopted the lower of the two property tax rates previously levied. This led to about $25 million in lost revenues. In addition, as part of its consolidation, Macon-Bibb had to reduce the combined budgets of the former city and county by 20% within five years, subject to certain CPI allowances. It satisfied the requirement in three years, primarily through a retirement incentive program, reduction in staff, and deferral of pay-as-you-go OPEB contributions. Ultimately, about $20 million was eliminated from the budget. We view the deferral of OPEB contributions since 2014 as a credit negative. However, these reductions were not enough to offset the losses in revenues, and the county experienced deficits for four straight fiscal years.

The fiscal 2018 budget featured structural changes, including a 3-mill property tax increase, generating an additional $12 million in revenue, and the county passed a balanced budget. However, unexpected increases in health care costs led to another deficit. For the fiscal 2019 budget, the county implemented additional reforms and raised property taxes another 3 mills. It modified revenue projections, budgeting for no more than 99% of prior-year collections. Management also created a Healthcare and Benefits Committee to identify savings, revising benefits to increase employee contributions and deductibles and generating about $3 million in savings. These led to the adoption of a structurally balanced budget for fiscal 2019, which ultimately ended with a surplus due to revenues coming in higher than expected and expenditures coming in lower than expected due to unfilled vacancies.

After two years of consecutive 3-mill increases, the county has generated significant surpluses in fiscal years 2019 and 2020, which it added to the fund balance. It did not otherwise have to make any material expenditure cuts to balance the budget or defer capital projects. The county received about $8 million in Coronavirus Aid, Recovery, and Economic Security Act funds during the fiscal year. For fiscal 2021, it is expecting to add $3 million in fund balance based on performance to date, and the 2022 budget proposal is balanced with salary increases for employees. The county is also anticipating receipt of about $75.8 million from the American Rescue Plan Act stimulus funds and will use a portion to replace lost hotel/motel tax revenue, while the remainder will likely be used for capital projects, including computer purchases and servers. We anticipate that the county will maintain at least balanced operating results in the near term.

Very strong budgetary flexibility

Macon-Bibb County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 21% of operating expenditures, or $32.8 million. Following the consolidation, the county's reserve position has improved materially as planned over the past three fiscal years to a very strong level from weak, in line with its policy to achieve over 45 days of operational expenditure in reserves, with an eventual goal to build toward 60 days. It is currently at 52 days. It estimates adding $3 million in fiscal 2021 alone, and anticipates it will reach over 75 days in fiscal 2022. Given the county's progress and approach in generating consistent results, we anticipate that the fund balance will remain at very strong levels.

Very strong liquidity

In our opinion, Macon-Bibb County's liquidity is very strong, with total government available cash at 40.0% of total governmental fund expenditures and 7.3x governmental debt service in 2020. In our view, the county has strong access to external liquidity if necessary.

We believe Macon-Bibb has strong access to external liquidity, given its frequent GO-based issuances, and expect the score to remain very strong. It has $9.2 million in privately placed debt obligations. Events of default are standard and the remedies are not permissive, so we do not believe these obligations create a contingent liability risk. In addition, the county indicates it does not have any material litigation or investigations outstanding that could pose a contingent liability risk.

Strong debt and contingent liability profile

In our view, Macon-Bibb County's debt and contingent liability profile is strong. Total governmental fund debt service is 5.5% of total governmental fund expenditures, and net direct debt is 52.5% of total governmental fund revenue. Overall net debt is low at 1.1% of market value, and approximately 76.5% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

The county currently has $128.3 million net debt outstanding, of which $112.3 million is GO debt. It does not have any plans to issue new money since the majority of capital projects are financed through SPLOST. As a result of its dedicated revenue streams and rapid amortization, we do not anticipate a material change in our view of its debt.

Pension and OPEBs:

- In our opinion, a credit weakness is Macon-Bibb County's large pension and OPEB obligation.
- Despite low carrying charges, given the low funding levels and slow minimum funding progress, we expect these costs to increase in the future.
- The county has established employee benefits trusts for each pension plan and for OPEBs to help address potential rising fixed costs and volatility which could arise from the high discount rates above 7%

Macon-Bibb formerly maintained three pension plans as of June 30, 2019:

- The County Employee's Pension Trust, a single-employer, defined-benefit, public employee retirement system: 57.96% funded with 7.25% discount rate and $85.2 million net pension liability (NPL), which was closed as of fiscal 2020.

- General Employees' Pension Plan (Former City of Macon): 80.15% funded with 7.54% discount rate and $21 million NPL, which was closed since 2014.
- Fire and Police Pension Plan (Former City of Macon), a single-employer, defined-benefit plan for sworn fire and police officers: 96.3% funded with 7.54% discount rate and $9 million NPL, which was closed since 2014.

Macon-Bibb County's combined required pension and actual OPEB contributions totaled 9.3% of total governmental fund expenditures in 2020. Of that amount, 6.5% represented required contributions to pension obligations, and 2.8% represented OPEB payments. The county made its full required pension contribution in 2020. As part of the consolidation, it closed the last defined-benefit plan in fiscal 2020 to reduce future costs and has replaced it with a 457 deferred compensation and 401(A) defined-contribution plan for new employees. As part of these reforms, Macon-Bibb changed its amortization method, moving to a level dollar amortization, which we view as less risky than its previous amortization method that used a level percent of payroll amortization with an aggressive growth assumption, which we believe contributed to volatility in contributions, pressuring the county's budgets in the past.

The county conducted an actuarial study in 2019, which projected an increase of $1 million-$2 million in required contributions for the new pension plans during the first six-to-eight years, but also projected annual savings of $1 million-$5 million after that period. The county states it will continue to fund its actuarially required contribution in full via the general fund. In fiscal 2019, it contributed $401,709 to the 401(A) plan. It reports no long-term liability related to its pension plan.

Macon-Bibb also provides postemployment medical benefits to eligible retirees employed before 2011, which totals $116.3 million as of fiscal 2019. During its time of financial stress, the county stopped contributing to these benefits, choosing instead to spend down its OPEB assets. Macon-Bibb expects to generate savings from plan design changes done as part of its broader efforts to control health benefits costs. Furthermore, the county no longer offers these benefits to new hires, and will likely gradually reduce liabilities. Furthermore, it has established employee benefit trust funds to offset the rising costs, which total $445.5 million as of fiscal 2020.

Very strong institutional framework

The institutional framework score for Georgia counties is very strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of June 11, 2021)		
Macon-Bibb Cnty Urban Dev Auth, Georgia		
Macon-Bibb Cnty, Georgia		
Macon-Bibb Cnty Urban Dev Auth (Macon-Bibb Cnty)		
Long Term Rating	AA-/Stable	Upgraded
Macon-Bibb Cnty Urban Dev Auth (Macon-Bibb Cnty) GO equiv		
Long Term Rating	AA-/Stable	Upgraded
Macon-Bibb Cnty Urban Dev Auth (Macon-Bibb Cnty) GO equiv		

Ratings Detail (As Of June 11, 2021) (cont.)		
Long Term Rating	AA-/Stable	Upgraded
Macon-Bibb Cnty Urban Dev Auth (Macon-Bibb Cnty) GO equiv (AMBAC)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Macon-Bibb Cnty Urban Dev Auth (Macon-Bibb Cnty) (Bibb Cnty Pub Facs Proj) GO equiv		
Long Term Rating	AA-/Stable	Upgraded

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.