S&P Global Ratings

RatingsDirect®

Summary:

Edisto Beach, South Carolina; General Obligation

Primary Credit Analyst:
Kimberly Barrett, Centennial (1) 303-721-4446; Kimberly.Barrett@spglobal.com

Secondary Contact:
Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@spglobal.com

Table Of Contents

Summary:

Edisto Beach, South Carolina; General Obligation

Credit Profile		
Edisto Beach GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings affirmed its 'AA+' long-term rating on the town of Edisto Beach, S.C.'s general obligation (GO) debt outstanding. The outlook is stable.

The full faith, credit, and taxing power of the town is pledged to the GO bonds, which are payable from an unlimited ad valorem tax.

Credit overview

The rating reflects our view of the town's consistently strong financial performance and flexibility to date. Its use of conservative budgeting assumptions has typically lead to positive operating results, which has allowed the town to build and maintain very strong general fund reserves. We believe that prudent budget management will help it weather the current recession. The local economy is primarily tourism driven, with a large presence of second homes that are usually seasonally rented. While larger tourism-based economies may be hit the hardest in the current recession, we believe Edisto Beach is relatively well-situated given its accessibility as a drive-to destination and the likelihood that homeowners are residing there instead of renting in the current uncertain environment.

The rating further reflects our opinion of the following credit factors:

- Very strong economy, with market value per capita of $2.4 million and projected per capita effective buying income (EBI) at 184% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2019, which closed 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 2019 of 146% of operating expenditures;
- Very strong liquidity, with total government available cash at 3.4x total governmental fund expenditures and 73.1x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.6% of expenditures and net direct debt that is 37.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

We consider environmental risks for the town elevated compared to the sector standard due to its coastal location, which makes it more susceptible to weather events and the effects of climate change. We analyzed the town's governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that they are in line with our view of the sector standard. Absent the implications of COVID-19, we consider the town's social risks in line with that of the sector standard. We view the risks posed by the COVID-19 pandemic to public health and safety as a social risk, which, if sustained, could weaken the town's economy, liquidity, and budget performance.

Stable Outlook

Downside scenario

We could lower the rating if the town experiences budgetary pressure--stemming from the recession or otherwise--that leads to budgetary imbalance or material declines in reserves.

Upside scenario

We could raise the rating if the town's local economy diversifies beyond traditional tourism-based industries, it adopts and implements comprehensive long-term capital and financial planning, and the funded status of its pension plans improves.

Credit Opinion

Very strong economy

Edisto Beach, with a population of 408, is about 45 miles southwest of Charleston in Colleton County, along South Carolina's Atlantic coast. The town has a projected per capita EBI of 184% of the national level and per capita market value of $2.4 million. Overall, market value grew by 0.9% over the past year to $969.5 million in 2020. The town is mostly tourism-based, with a lot of second homes that are rented seasonally. The traditional summer season, which spans Memorial Day to Labor Day, is the busiest time for visitors. Management reports that with COVID-19 closures, restaurants were able to transition to take-out service and no businesses have permanently closed. Officials also indicated that many homeowners came to stay in their homes rather than rent them during this time of uncertainty. Additionally, Edisto Beach may benefit from its status as a drive-to tourism destination, compared to larger internationally known tourist destinations that people usually fly to.

We expect the town's economic fundamentals to remain strong over the long term, but given the uncertainty related to COVID-19 and the recession, we will monitor for any material adverse effects to the local economy in the near term. (For S&P Global Economics' latest forecast, see "The U.S. Faces a Longer and Slower Climb from the Bottom," published June 25, 2020 on RatingsDirect.) Further, despite a historically low county unemployment rate of 3.2% in 2019, rapidly evolving economic conditions due to the pandemic have affected the labor market (see "U.S. Jobs Market Buckles Under The Coronavirus Pandemic," published April 2, 2020), and as a result, we expect the unemployment rate could temporarily materially increase in the near term. The county unemployment rate previously peaked at 11.5% to 13.4% during the Great Recession. More recently, it peaked at 9.6% in May 2020 before coming back down to 8.2% in June 2020. While we don't expect elevated unemployment rates to persist long term, we will continue to monitor the effects that the unemployment rate may have on the local economy.

Strong management

We view the town'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 town evaluates historical data and trends when developing revenue and expenditure projections for budgeting purposes, and incorporates current economic trends and forecasts for a forward-looking view. The budget can be amended as needed throughout the fiscal year, and budgetary performance is regularly monitored through monthly budget-to-actual reporting. The town's reserve policy requires unassigned general fund balance sufficient to cover at least two months of operating expenditures. It typically meets and far exceeds this reserve policy target. The town's investment policy prioritizes safety and liquidity over returns and outlines allowable investment types, and quarterly investment reports include holdings and earnings. It has a formal debt management plan that provides guidelines for debt issuance such as requiring voter approval for GO debt, preferring to issue self-supporting debt, and limiting overall debt to no more than 8% of market value (which is consistent with state guidelines). The town does not have a formalized long-term capital improvement plan or a long-term financial forecast. It has a local comprehensive beach management plan that is updated every five years. The beach management plan is prepared with the assistance of external engineers and consultants and includes historical and planned beach renourishment projects. It is updated and revised over time to reflect changes in standards or state requirements; for example, recent legislation will require more focus on erosion prevention. Given the town's coastal location and susceptibility to weather events and climate change, we believe this type of planning is an important component of the management assessment as it may help mitigate potential environmental risks.

Adequate budgetary performance

Our assessment of budgetary performance includes the potential for results to deteriorate from typically strong levels due to the effects from COVID-19 on the recession. Our assessment also incorporates adjustments for recurring transfers in to the general fund from accommodations, hospitality, and tourism funds. After adjustments, the town experienced positive operating results at the general fund and total governmental fund level in each of the past three audited fiscal years. Because of the relatively small size of the town's budget, surpluses can fluctuate as a percentage of expenditures. For example, for fiscal years 2017 through 2019, surpluses ranged from $206,000 to $1.0 million, or 5.6% to 31.5% of general fund expenditures. The general fund budget composition is relatively diverse, with the largest revenue sources being property taxes (29%), licenses and permits (18%), charges for services (18%), grants (15%), intergovernmental revenues (8%), and sales taxes (4%). While there is a tourism and seasonal component to the local economy, general fund operations are somewhat isolated from the effects of more cyclical revenues, as hospitality and accommodations taxes are held in special revenue funds.

For the fiscal year ended June 30, 2020, management is projecting surplus results. Accommodations and hospitality tax revenues were down for March through June, but since they are restricted for tourism-related uses, operational impacts were limited. Management delayed capital projects to reduce expenditures. For the current fiscal year 2021 budget, management assumed a 5% reduction in accommodation taxes and a 10% reduction in hospitality taxes. Also in fiscal 2021, management expects to reimburse COVID-19 technology expenditures with FEMA ($7,000) and CARES Act (up to $25,000) funding. In addition, the fiscal 2021 budget includes a millage increase that was banked from previous years and would have otherwise expired. Management expects those additional property tax revenues to offset revenue reductions elsewhere in the budget. With those adjustments, management expects to see at least balanced results for fiscal 2021.

Very strong budgetary flexibility

The town has consistently maintained very strong reserves in each of the past three audited years, with an available fund balance ranging from $4.0 million to $4.9 million, or 97% to 146% of general fund expenditures. Reserve levels typically far exceed the town's formal policy target to maintain fund balance equal to at least two months (16%) of operating expenses. With no plans to draw on reserves in fiscal 2020 or 2021, we expect flexibility to remain very strong.

Very strong liquidity

In our opinion, Edisto Beach's liquidity is very strong, with total government available cash at 3.4x total governmental fund expenditures and 73.1x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary, which it has demonstrated through its previous issuance of GO and revenue debt of over the past two decades. We do not consider the town's investments aggressive as they are primarily held in state local government investment pools, with holdings maturing within one year or less. The town does not have any variable-rate or privately placed debt that could present a contingent liquidity risk.

Very strong debt and contingent liability profile

Total governmental fund debt service is 4.6% of total governmental fund expenditures, and net direct debt is 37.2% of total governmental fund revenue. Overall net debt is low at 0.2% of market value, which is, in our view, a positive credit factor. The town's governmental funds debt service carrying charges are low, as the majority of its debt is being supported by enterprise funds. It has no plans to issue additional debt within the next two-to-three years.

Pension and other postemployment benefits

We expect Edisto Beach will continue to absorb pension costs into its overall budget, but if these costs rise to levels that we believe account for an outsized portion of the budget compared with those of peers, our view of the town's debt and long-term liability profile could weaken. The town does not provide other postemployment benefits.

- We do not view pension liabilities as an immediate source of credit pressure for the town, despite lower funding levels and our expectation that costs will increase.
- Because the town's pension actuarially determined contribution (ADC) is built from what we view as weak assumptions and methodologies, we believe it increases the risk of unexpected contribution escalations. However, we anticipate higher contributions will likely remain affordable given the strength of the town's revenue base.

Edisto Beach participated in the following plans as of June 30, 2019:

- South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined-benefit pension plan, with a 54.4% funded ratio and a net pension liability (NPL) of $1.8 million
- South Carolina Police Officers' Retirement System (PORS), a cost-sharing multiple-employer defined-benefit

pension plan, with a 62.7% funded ratio and a NPL of $1.2 million.

The town's combined required pension contributions totaled 6.3% of total governmental fund expenditures in 2019. Although it funds 100% of its ADC, it fell short of our calculation of minimum funding progress. The plans' amortization methods, especially the level 3.00% of payroll amortization, defer costs and will result in slow funding progress. In our view, a discount rate of 7.25% for both plans could lead to contribution volatility. We note that reforms enacted in 2017 sought to address weaker funded ratios and included lowering the discount rate and closing the amortization period, both of which we view as mitigating contribution escalation risk. These reforms will likely improve funding status, but will require increases to pension contributions for employers that participate in the state's retirement systems. Specifically, the employer contribution rates are scheduled to increase annually by 1% through July 1, 2022. The state has reimbursed a portion of the required increases each year to date, thereby reducing the initial effects on the town. (For more information on our view of state pension plans and the 2017 pension reforms, see "Pension Spotlight: South Carolina," published June 15, 2020.)

Strong institutional framework

The institutional framework score for South Carolina municipalities is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020