Rating Update: Moody's affirms the Aa2 rating on the County of Belknap (NH); Negative outlook removed

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Affirmation of Aa2 rating affects $9.7 million of outstanding debt, including the Gunstock Area Commission debt

BELKNAP (COUNTY OF) NH
Counties
NH

Opinion

NEW YORK, February 15, 2013 --Moody's Investors Service has affirmed the Aa2 rating and removed the negative outlook on the County of Belknap's (NH) $9.7 million of outstanding rated general obligation bonds including the Gunstock Area Commission debt. The bonds are secured by the county's general obligation unlimited tax pledge.

SUMMARY RATING RATIONALE

The Aa2 rating reflects a satisfactory financial position that will remain pressured over the near term. The rating also incorporates a sizeable tax base supported by year-around tourism and a minimal debt burden.

STRENGTHS

- Sizeable tax base with strong tourism

- Minimal debt burden

CHALLENGES

- Reliance on fund balance appropriations to balance annual budgets

- Maintaining structurally balanced operations and sufficient reserve levels

- General Fund budgetary pressure from nursing home operating deficits

DETAILED CREDIT DISCUSSION

SATISFACTORY FINANCIAL POSITION EXPECTED TO REMAIN PRESSURED

Belknap County's financial position had shown improvement with consecutive operating surpluses in fiscal 2009 and 2010 which increased the county's fund balance to sufficient levels. However, this limited improvement was primarily due to one-time federal stimulus funds received in those years of approximately $1 million annually. The fiscal 2011 audited financials reflect an operating deficit of $510,000 attributed to ongoing budgetary imbalance which included a $4.9 million fund balance appropriation to cover $1.8 million of capital expenditures and balance operations. The total General Fund balance was reduced to $5.3 million (20.8% of revenues) and the unassigned fund balance remains limited at $345,000 (1.4% of revenues). Positively, the county did roll the nursing home operations into the General Fund in 2011, thereby eliminating advances from the General Fund to the nursing home fund on the balance sheet. Although, the nursing home operations will continue to pressure the county's financial position due to an ongoing $2.9 million deficit between nursing home revenues and expenditures. As of fiscal 2011, including nursing home operations, the county receives the majority of its revenues from property taxes (55.6% of 2011 revenues) and charges for services (36.6%) while the largest expenditures are for health and social services including the nursing home (60.5% of 2011 expenditures) and corrections and public safety (19.3%). Positively, property tax revenues are guaranteed by the underlying municipalities. However, due to the timing of property tax receipts, with municipalities transferring tax revenues in one December payment (end of fiscal year, December 31), the county is a regular issuer of tax anticipation notes, typically issuing between $8 and $10 million annually. The notes are consistently repaid in full prior to year-end.

The fiscal 2012 budget declined by 3.9% and was balanced with a tax levy increase of 0.2% and a $3.7 million fund balance appropriation. The fiscal year-end projections reflect $1 million in additional revenues and expenditure savings, but the positive variance will not be enough to cover the full appropriation of reserves, thereby further reducing the General Fund balance to an estimated $4.6 million (approximately 18.4% of revenues). The 2013 recommended budget calls for a 9% tax levy increase which would generate approximately $1.2 million in additional revenues. However, the county delegation has not yet adopted the recommendation and has until March 31, 2013, to make changes.

The county contributes to the State of New Hampshire Retirement System, a multi-employer cost-sharing defined benefit pension plan. The plan was 57.4% funded as of June 30, 2011. The county contributes its portion of the Annual Required Contribution (ARC), which was $900,203 in 2011, representing 3.5% of expenditures. The plan assumes a 7.75% rate of return on investments and should the rate of return be adjusted downward in the next actuarial valuation, the county's annual contribution and Unfunded Actuarial Accrued Liability (UAAL) of $4.2 billion could increase significantly. Also, the county currently contributes to its OPEB liability on a pay-as-you-go basis. The county contributed 60% of its annual OPEB cost in fiscal 2011, representing $205,579. The total UAAL for OPEB is $2.4 million as of January 1, 2010. The county's total fixed costs for 2011, including pension, OPEB and debt service, represented $1.9 million or 7.3% of expenditures.

Going forward, Moody's expects the pressure on the county's financial position to continue over the near term due to the material operating deficit of the nursing home and rising costs of other expenditures. The county has managed to constrain expenditure growth in recent years but the growth rate is estimated to continue to outpace revenues. Therefore, the county's ability to balance operations with increased revenues and limited expenditure growth while maintaining current fund balance levels will be an important factor in future rating reviews.

LIMITED ENTERPRISE RISK FROM NURSING HOME AND GUNSTOCK AREA COMMISSION

Prior to fiscal 2011, the county's nursing home was designated as an enterprise fund outside the General Fund that received subsidy transfers out of the General Fund averaging $2.8 million annually. The subzidation of the nursing home fund led to increasing advances to other funds building up on the General Fund balance sheet, which inflated reserve levels. In 2011 the county moved the nursing home fund into the General Fund which removed the advances to other funds and provided a cleaner operating picture of the county. Moody's believes this move has limited the enterprise risk of the nursing home by treating the operations as a county service within the General Fund and not as an enterprise fund.

In 1959, state legislation created the Gunstock Area Commission to manage and operate the county owned recreational land area which is named the Gunstock ski and summer resort. The agreement between the county and commission includes an annual PILOT payment of $175,000 from the commission to the county and the county's general obligation security pledge on any bonds or notes issued on behalf of the commission. The agreement also requires the commission to set rates and fees equal to cover debt service and operations. To date, the county has never had to make a debt service payment on behalf of the commission. This includes fiscal 2012 which represented one of the worst operating years in the commissions history due to the lack of snow which required the ski season to open late and close early. Moody's believes the stable operating history, limited debt profile and strong land asset of the commission reduces the contingent liability of the commission.

SIZEABLE TAX BASE STRENGTHENED BY TOURISM

The county's $10 billion tax base has experienced a moderate decline over the last five years which is expected to continue over the near term, reflecting ongoing weakness in the regional real estate market and recessionary economic conditions. Located in central New Hampshire (G.O. rated Aa1/stable outlook) the county borders Lake Winnipesaukee to the east and is home to Gunstock Ski Resort. As such, the county's economy is heavily dependent on year-around tourism and despite weak economic conditions over the past few years tourism activity has not dissipated according to management. However, the 2012 full value declined by 1.3%, the fifth consecutive decline, bringing the five year average annual growth rate to -2.8%. When compared to the strong full value growth from 2002 to 2006 of over 10%, the recent annual declines are much smaller and reflect the continued overall stability in the tax base as evident by the full value per capita of $166,439. In addition, the wealth levels of the county continue to trend below the state average but approximate to the national medians with median family income of $63,560 (84.3% and 102.3%, respectively). Also, Belknap's unemployment rate has improved since 2010 to 4.9% (October 2012) and is below the state (5.2%) and US (7.5%).

DEBT PROFILE TO REMAIN LOW

Moody's expects Belknap County's minimal direct debt burden of 0.1% of full value to remain well below the levels consistent with the Aa rating category. The county's outstanding debt includes $5.9 million in Gunstock Area Commission debt. The Gunstock Area Commission is a county-owned ski and general recreation center located in the Town of Gilford. Under state law the county is authorized to borrow notes and bonds for the commission and all of the commissions outstanding debt carries the full faith and credit of the county although the commission operations have historically been self-supporting and annually covers its full debt service payments. The county's existing debt of $3.7 million is scheduled to be 100% amortized within ten years, with final maturity scheduled for fiscal 2018 while the Gunstock debt matures in 2028. The county currently has no specific future borrowing plans; however, a bond issuance may be needed for future prison renovations or expansion in the coming years. The county's debt profile is composed entirely of fixed rate borrowing and it is not party to any derivative agreements.

WHAT COULD MAKE THE RATING GO UP

- Significant improvement in the county's demographic profile

- Sizeable fund balance growth

- Structurally balanced operations

WHAT COULD MAKE THE RATING GO DOWN

- Continued structural imbalance and draw down of reserves

- Decrease in tax base

KEY FACTS:

2010 Population: 60,088 (+6.7% since 2000)

Full Valuation 2012: $10 billion

Average Annual Increase in Full Valuation (2008-2012): -2.8%

2012 Full Value per Capita: $166,439

Median Family Income: $63,560 (84.3% of state, 102.3% of US median)

FY11 Total General Fund Balance: $5.3 million (20.8% of revenues)

FY11 Unassigned Fund Balance: $345,000 (1.4% of revenues)

Amortization of Principal (10 years): 100%

Direct Debt Burden as % of Full Value: 0.1%

General Obligation Debt Outstanding: $3.7 million

RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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