MOODY'S INVESTORS SERVICE

CREDIT OPINION
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New Issue

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Spartanburg County School District 7, SC

New Issue: Moody's Assigns Aa2 underlying and Aa1 enhanced to Spartanburg CSD 7's (SC) $5.5M GO Bonds, Ser. 2016A

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 underlying and Aa1 enhanced rating to Spartanburg County School District 7's (SC) $5.5 million General Obligation Bonds, Series 2016A. Moody's maintains a Aa2 underlying rating on the district's $41 million in parity GO debt outstanding.

The Aa2 underlying rating reflects the district's moderately sized tax base with below average socioeconomic factors, stable reserve position and above average, but manageable, debt and pension burdens.

The Aa1 enhanced rating and stable outlook is based on the additional security provided by the South Carolina School District Credit Enhancement Program (SCSDCEP). The program assures timely debt service payment through county and state government coordination and is backed by sizable annual state appropriations under the state's Education Finance Act. As the SCSDCEP is a state-backed enhancement program, the program's rating shadows the state's rating and consequently carries the stable outlook that is assigned to the state's Aaa general obligation rating.

Credit Strengths

» Moderately-sized tax base expected to experience ongoing growth given development throughout the county

» Sound reserve levels bolstered by conservative budgeting practices

» Manageable debt burden

Credit Challenges

» Below average socioeconomic factors

» High pension burden

Rating Outlook

Outlooks are not typically assigned to local government issuers with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» Significant growth in the tax base coupled with improved socioeconomic factors

» Increased reserve and liquidity position

» Decreased debt and pension burdens

Factors that Could Lead to a Downgrade

» Tax base deterioration

» Reduction in reserves due to ongoing structural imbalance

» Substantial increase in debt beyond current plans

Key Indicators

Exhibit 1

Spartanburg County School District 7, SC

Spartanburg County School District 7, SC	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 3,624,426	$ 3,738,391	$ 3,802,290	$ 3,784,352	$ 3,081,929
Full Value Per Capita	$ 65,761	$ 68,956	$ 70,015	$ 69,684	$ 56,750
Median Family Income (% of US Median)	72.5%	70.8%	67.6%	67.6%	67.6%
Finances					
Operating Revenue ($000)	$ 102,056	$ 98,451	$ 100,382	$ 99,735	$ 108,564
Fund Balance as a % of Revenues	12.9%	18.6%	17.1%	16.6%	13.6%
Cash Balance as a % of Revenues	17.4%	18.8%	19.3%	20.2%	22.6%
Debt/Pensions					
Net Direct Debt ($000)	$ 66,263	$ 63,499	$ 61,150	$ 53,708	$ 48,845
Net Direct Debt / Operating Revenues (x)	0.6x	0.6x	0.6x	0.5x	0.5x
Net Direct Debt / Full Value (%)	1.8%	1.7%	1.6%	1.4%	1.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	2.0x	2.3x	2.5x	2.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	5.2%	6.0%	6.6%	8.3%

Source: Moody's Investors Service

Recent Developments

Recent developments incorporated in the Detailed Rating Considerations.

Detailed Rating Considerations

Economy and Tax Base: Continued Development Supports Tax Base and Job Growth

The district will continue to see moderate tax base expansion given ongoing growth in the Greenville-Spartanburg region and the availability of developable land within the district. The region continues to benefit from the continued expansion at the BMW plant in Spartanburg County (Aa3), which has spurred the relocation of several suppliers, and proximity to interstates 85 and 26. Recent announcements include a $90 million distribution center for Rite Aid, a third of which is located in the district, and further residential and mixed use development at an old mill lot. While socioeconomic factors are below average, as seen by median family income equal to 79.4% and 67.7% of state and national levels, respectively, unemployment is low at 4.9% as of November 2015 due to the strong job market in the region.

The county's tax base of $3.8 billion has increased by a compound annual rate of 2.8% over the last five years. Officials continue to budget conservatively for future growth. The base is relatively diverse, with the top ten taxpayers accounting for 12.2% of 2015 assessed values. All larger taxpayers are reportedly stable. Enrollment has been flat in recent years, averaging a slight 0.2% decrease over the last five years. Officials expect enrollment to remain flat going forward, with possible increases following the residential development mentioned previously.

Financial Operations and Reserves: Financial Position to Remain Sound Due to Conservative Management

Due to conservative budgeting, strong fiscal policies and prudent fiscal management, the district's fiscal position will remain sound. Reserves across the operating funds, which include special revenue, debt service and special projects funds, as well as the General Fund, have averaged a sound 19.2% over the last five years. General Fund operations in fiscal 2015 were relatively balanced, with audited results reporting a $300,000 surplus.

The fiscal 2016 General Fund budget represents a 2.3% increase over the prior year due to salary and step increases and an increase in teachers to reduce class sizes. Budgetary growth is offset by an increase in state aid and the use of $300,000 in reserves. Officials report that year-to-date both revenues and expenditures are tracking in line with budget. The district's largest revenue is property taxes, accounting for 44.4% of operating revenues in fiscal 2015, followed by state aid (41.6%).

LIQUIDITY

The district pools cash across all operating funds in the General Fund. As a result, General Fund cash was a strong $24.6 million (38.3% of revenues) in fiscal 2015. Net of due to other funds, cash remains sound at $11 million (17.1% of revenues). The district does not rely on cashflow borrowing.

Debt and Pensions: Manageable Debt Burden Likely to Increase Following Upcoming Referendum

The district's manageable debt burden (1.3% of full value) will likely increase in the near term given significant capital plans. Citizens will vote on a $185 million referendum in March to address the district's building needs. Assuming the referendum is approved, officials plan to issue bond anticipation notes over the course of five years before permanently financing the projects. On a pro-forma basis, the district's debt burden would increase to a high 6.1% of full value upon the issuance of the full amount. This is likely to be partially mitigated by ongoing tax base growth.

In accordance with state law, Spartanburg County performs property tax assessments, collects the district's debt service levies, holds sinking funds and makes debt service payments to the trustee. The county treasurer also is responsible for notifying the state treasurer in the event of an insufficiency in the district's debt service fund, in order to trigger the state's intercept of EFA funds under the SCSDCEP. The school district's rating is reflective of its limited authority to raise its operating millage rate, strong financial position, and manageable debt burden.

DEBT STRUCTURE

All of the district's outstanding general obligation debt will be repaid within ten years. All of the district's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The district is not party to any derivative agreements.

PENSIONS AND OPEB

The district contributes to the South Carolina Retirement System (SCRS) and the South Carolina Police Officers Retirement System (PORS) cost-sharing, multiple-employer plans. The district's annual required contribution (ARC) for the plans was $5.8 million in fiscal 2015, or 5.7% of operating expenditures. The district's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $200.8 million, or a slightly above average 1.92 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities. We determined the district's share of liability for the state-run plans in proportion to its contributions to the plans. Total fixed costs for pension and debt service summed to 21.3% of operating expenditures in fiscal 2015.

Management and Governance

The distrcit benefits from an experienced management team, which relies on formal policies and conservative budget assumptions to maintain fiscal stability. The district has an adopted fund balance policy to maintain a minimum level of 12% of revenues.

South Carolina school districts have an institutional framework score of "Aa," or strong. Revenues, which are moderately predictable, are determined by a state funding formula that takes into account state aid and property taxes. Revenue-raising ability is moderate as schools are limited by Act 388, which sets a maximum increase in millage based on CPI increase and population growth. Act 388 can be overridden by two-thirds vote of the county body under certain circumstances. Expenditures consist primarily of highly predictable personnel costs. As South Carolina is a right-to-work state with moderate fixed costs, districts have high expenditure-cutting flexibility.

Legal Security

The bonds are secured by the county's unlimited general obligation pledge.

Use of Proceeds

Bond proceeds will fund a variety of capital needs, including improvements at the elementary school, roof repairs and technology purchases.

Obligor Profile

The district is located in the southeast central portion of Spartanburg County and includes the City of Spartanburg (Aa3). As of 2016, the district's enrollment was 6,779, with a total district population of 54,307 (2013).

Methodology

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

SPARTANBURG COUNTY SCHOOL DISTRICT 7, SC

Issue	Rating
General Obligation Bonds, Series 2016A	Aa2
Rating Type	Underlying LT
Sale Amount	$5,500,000
Expected Sale Date	02/10/2016
Rating Description	General Obligation
General Obligation Bonds, Series 2016A	Aa1
Rating Type	Enhanced LT
Sale Amount	$5,500,000
Expected Sale Date	02/10/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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