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Ratings

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Summary:

North Carolina
North Carolina Turnpike Authority; Appropriations; General Obligation

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Credit Profile		
US$151.51 mil Triangle expressway sys approp rev rfdg bnds (North Carolina) ser 2018A dtd 05/10/2018 due 01/01/2039		
Long Term Rating	AA+/Stable	New
North Carolina GO		
Long Term Rating	AAA/Stable	Affirmed
North Carolina Tpk Auth Monroe APPROP		
Long Term Rating	AA+/Stable	Upgraded
North Carolina Tpk Auth State APPROP		
Long Term Rating	AA+/Stable	Upgraded
North Carolina Tpke Auth Monroe connector sys state approp rev bnds (taxable Build America Bnds)		
Long Term Rating	AA+/Stable	Upgraded
North Carolina Tpke Auth Monroe Connector sys st approp rev bnds ser 2010B		
Long Term Rating	AA+/Stable	Upgraded

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to the North Carolina Turnpike Authority (NCTA) series 2018A Triangle Expressway System appropriation revenue refunding bonds. At the same, we raised our rating on the NCTA appropriation revenue bonds outstanding to 'AA+' from 'AA' for the Triangle Expressway System and Monroe Connector debt, based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Jan. 22, 2018, on RatingsDirect).

At the same time we affirmed our 'AAA' rating on North Carolina's general obligation (GO) bonds and our 'AA+' rating on the state's appropriation-backed debt outstanding. The outlook on all the ratings is stable.

The NCTA bonds are special obligations of the authority secured by an annual appropriation to the authority by the state from the North Carolina Highway Trust Fund. The bonds are not payable by appropriated funds from the general revenues of North Carolina, as is typical of state appropriation bonds. The state-appropriated funds supporting the debt service on the bonds are legislatively appropriated and limited to $24 million annually from revenues dedicated to the fund for the Monroe Bypass (series 2011 and 2010A bonds) and $25 million annually for the Triangle Expressway project. The Budget Act provides for the ongoing appropriation of these dollars to the authority unless the act is amended. The North Carolina Department of Transportation (NCDOT), which administers the fund, has agreed in the indenture to provide quarterly payments to NCTA in equal amounts that flow directly into the indenture. We view the obligor involvement with the project as strong, given the significance of the projects being financed and the state's support for transportation with little political or administrative risk. However, we view the intended payment source as moderate, given its limitation to the highway trust fund. For fiscal year 2018, the highway trust fund totaled $1.5 billion with funding from the highway use tax of $821 million (53.1% of revenues), motor fuel tax receipts of $565 million (36.5%), and other revenues of $161 million (10.4%).

This series 2018A issuance is to advance refund up to $150.9 million of Jan. 1, 2019 callable maturities of its outstanding series 2009B bonds. Though the Tax Cuts and Jobs Act eliminated tax-exempt advance refundings in the traditional sense, an advance refunding of taxable Build America Bonds (BABs) is permissible as long as two federally subsidized issues are not outstanding at the same time. The BAB subsidy on the refunded bonds will be eliminated as soon as they are refunded, effectively making the bonds taxable and therefore eligible for an advance refunding.

The state's full faith and credit secures the GO bonds. The GO rating reflects our view of the following credit factors, including North Carolina's:

- Diverse economic base that is expanding ahead of the nation;
- Long history of prudent fiscal management--this includes making difficult budget decisions to restore fiscal balance when necessary, as well as managing surpluses when they occur, to retain structural budget balance;
- Low-to-moderate debt burden with rapid amortization and state borrowing subject to debt-affordability guidelines, which we believe is an important credit factor for a growing state; and
- Well-funded pension system and progress in addressing other postemployment benefit (OPEB) liabilities, which are significant.

North Carolina's economy has diversified over time and demographic trends remain relatively healthy with a continued modest pace of economic recovery since the Great Recession. According to IHS Markit, state employment expanded at a steady pace in the third quarter of 2017. Nonfarm payrolls rose 1.5% year over year, roughly matching the national figure. The manufacturing and information sectors continued to shed jobs compared with a year earlier, contracting 0.2% and 7.9%, respectively. Employment in professional and business services climbed 5.1% year over year. The unemployment rate measured 4.4% for 2017 and is expected to decline further in the near term as the labor market tightens.

At the end of fiscal 2017, the savings reserve had a balance of $1.838 billion, or 7.6% of general fund revenue. The state also has a repairs and renovations reserve account that, following the transfer to the savings reserve, increased to $136.6 million. Actual expenditures totaled $24.01 billion versus an authorized budget of $22.4 billion with revenue collections of $24.04 billion. Income tax collections were $351.3 million over budget and sales and use tax collections were $33.3 million over budget, with other tax items comparing well to budget. Individual income tax collections exceeded the final budget amount by 3.0%; significant increases in withholding and estimated tax payments account for the majority of this increase. Individual income tax are the state's largest general fund revenue source (49.7%), followed by sales and use taxes (31.8%).

The General Assembly adopted a balanced biennium budget with an annual increase of approximately 2.9% compared to the 2016 and 2017 biennium budget; appropriations increased by 3.1% in fiscal 2018 and 2.7% in fiscal 2019. Based on preliminary data from the Department of Revenue and the Office of the State Controller, net general fund revenue collections as of the end of February were up $621 million (4.4%) over fiscal 2017 and $266 million (1.9%) above the fiscal year-to-date targets. Fourth-quarter estimated individual income tax payments for tax year 2017 were up significantly compared to tax year 2016 as many high-income taxpayers pre-paid their 2017 state tax liability in their fourth-quarter payments to deduct the full amount on their 2017 federal income tax returns, thereby reducing the effect of the new limit of $10,000 for their state and local tax deduction in tax year 2018. However, the state expects to perform better than expected on personal income tax collections with overall revenues exceeding budget for the year.

The enacted budget includes a $263 million transfer to the savings reserve account in addition to replenishing a $100.9 million transfer from the savings reserve account for disaster recovery related to Hurricane Matthew and western wildfires.

We consider the state's fiscal 2017 debt burden low at 1.3% of personal income and approximately 1% of gross state product (GSP), and moderate at about $546 per capita. We calculate tax-supported debt, including GO and appropriation-backed debt, supported by taxes, but excluding grant anticipation revenue vehicle bonds, which are supported by federal revenue. Total debt service represented about 2.8% of general governmental spending (excluding federal spending) in fiscal 2017. Overall tax-supported debt is amortized rapidly, with more than 70% of principal retired in the next 10 years. Debt ratios are within North Carolina's affordability parameters.

North Carolina's primary retirement fund is well funded relative to that of other states, with assets covering 89.5% of liabilities (the plan fiduciary net position as a portion of the total pension liability) as of June 30, 2017. The state has a long track record of strong funding discipline, and we view this positively from a credit standpoint. Although OPEB liabilities are high, in our view, the state has actively managed the liability in the past several years.

North Carolina's GO bonds are eligible to be rated above the sovereign because we believe the state can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013), U.S. states are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable with significant state autonomy and flexibility demonstrated by serial bond amortization as well as independent treasury management.

Based on the analytic factors evaluated for North Carolina, on a four-point scale of '1.0' (as the strongest) to '4.0' (as the weakest), S&P Global Ratings has assigned a composite score of '1.4' to the state.

For more information, see the full analysis on North Carolina, published April 6, 2018, on RatingsDirect.

Outlook

The stable outlook reflects the strength of the state's growing economy and budgetary performance in recent years that have led to increasing reserves following the recession. We believe the state has a demonstrated history of making necessary budgetary changes to ensure fiscal balance. The outlook also reflects our expectation that the state will continue to focus on structural budget adjustments as it tracks general fund revenue performance after recent tax reform measures.

Continued economic expansion and restoring reserves will remain important credit factors. However, should North Carolina's economic expansion stall or should management rely on a disproportionate amount of one-time budget adjustments or reserves to cover annual operating expenditures, we could lower the rating.

Ratings Detail (As Of April 6, 2018)		
North Carolina APPROP		
Long Term Rating	AA+/Stable	Affirmed
North Carolina APPROP		
Long Term Rating	AA+/Stable	Affirmed
North Carolina APPROP		
Long Term Rating	AA+/Stable	Affirmed
North Carolina APPROP		
Long Term Rating	AA+/Stable	Affirmed
North Carolina APPROP		
Long Term Rating	AA+/Stable	Affirmed
North Carolina GO		
Long Term Rating	AAA/Stable	Affirmed
North Carolina GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
North Carolina GO		
Long Term Rating	AAA/Stable	Affirmed
North Carolina Infrastructure Fin Corp, North Carolina		
North Carolina		
North Carolina Infrastructure Fin Corp (North Carolina) COPs		
Long Term Rating	AA+/Stable	Affirmed
North Carolina Infrastructure Fin Corp (North Carolina) COPs		
Long Term Rating	AA+/Stable	Affirmed
North Carolina Infrastructure Fin Corp certs of part (North Carolina) (State of NC Repair & Renovation Projs)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
North Carolina Infrastructure Fin Corp certs of part (State of North Carolina Cap Imp) ser 2006A		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.