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ISSUER COMMENT
11 March 2019

RATING

General Obligation (or GO Related) [1]	
Aa1	No Outlook

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Town of Matthews, NC

Annual Comment on Matthews

Issuer Profile

The City of Matthews is located in Mecklenburg County in south central North Carolina, approximately 10 miles southeast of Charlotte. The county has a population of 1,034,290 and a high population density of 1,965 people per square mile. The county's median family income is $76,298 (1st quartile) and the December 2018 unemployment rate was 3.4% (2nd quartile) [2] . The largest industry sectors that drive the local economy are finance/insurance, retail trade, and administrative/waste management services.

Credit Overview

The credit position for Matthews is excellent. Its Aa1 rating is stronger than the median rating of Aa3 for US cities. Key credit factors include a very healthy financial position, an extremely limited debt burden and an affordable pension liability. It also reflects a strong wealth and income profile and a solid tax base.

Finances: The town has a robust financial position, which is slightly favorable when compared to the assigned rating of Aa1. Matthews' cash balance as a percent of operating revenues (49%) is above the US median, and increased significantly between 2014 and 2018. Additionally, the fund balance as a percent of operating revenues (48.2%) is stronger than other Moody's-rated cities nationwide.

Debt and Pensions: The debt burden of the town is low and is a modest credit strength when compared to its Aa1 rating. The net direct debt to full value (0.2%) is materially below the US median, and was flat from 2014 to 2018. Matthews also has a low pension liability; the Moody's-adjusted net pension liability to operating revenues (0.73x) favorably is materially below the US median.

Economy and Tax Base: The economy and tax base of the town are very strong and aligned with the town's Aa1 rating position. The median family income equals a significant 132.9% of the US level. Furthermore, Matthews' full value per capita ($122,526) is above other Moody's-rated cities nationwide, despite declining modestly between 2014 and 2018. Lastly, the total full value ($3.8 billion) is considerable compared to the US median.

Management and Governance: North Carolina cities have an Institutional Framework score [3] of Aaa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property taxes, the sector's major revenue source, is subject to a cap which can be overridden with voter approval. However, the cap of $15 per $1,000 of assessed value still allows for significant revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of

expenditures. North Carolina is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - North Carolina Cities

North Carolina cities will generally benefit from a robust state economy, although rural areas still transitioning from a high reliance on textile, furniture and tobacco employment will lag the rest of the state. Most cities benefit from diverse economic expansion of the technology, pharmaceutical, financial and tourism sectors. Sales tax collections are increasing and an improving housing market has bolstered property tax revenues. Pensions are well funded and not expected to have an outsized negative impact on the credit quality of cities as a whole.

EXHIBIT 1

Key Indicators [4] [5] Matthews

	2014	2015	2016	2017	2018	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	$3,623M	$3,527M	$3,595M	$3,601M	$3,779M	$1,867M	Stable
Full Value Per Capita	$126,348	$120,189	$119,646	$118,625	$122,526	$89,200	Stable
Median Family Income (% of US Median)	130%	132%	133%	133%	133%	113%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	35.4%	39.2%	40.8%	40.5%	48.2%	33.9%	Improved
Net Cash Balance as % of Operating Revenues	33.0%	36.0%	36.4%	41.2%	49.0%	36.9%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	0.1%	0.2%	0.2%	0.2%	0.2%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.22x	0.44x	0.43x	0.35x	0.36x	0.88x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.5%	0.4%	0.4%	0.4%	0.4%	1.8%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.89x	0.79x	0.66x	0.66x	0.73x	1.51x	Stable

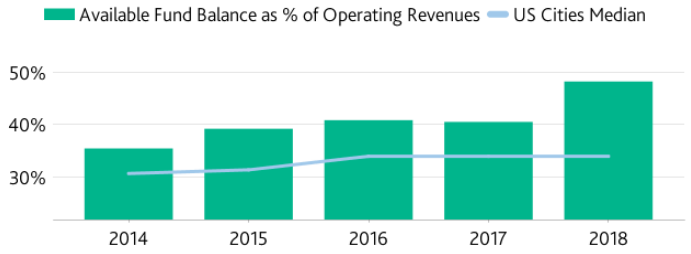
	2014	2015	2016	2017	2018	US Median
Debt and Financial Data						
Population	28,677	29,352	30,054	30,359	30,849	N/A
Available Fund Balance ($000s)	$6,684	$7,766	$8,307	$8,516	$10,644	$7,419
Net Cash Balance ($000s)	$6,228	$7,140	$7,405	$8,670	$10,822	$8,404
Operating Revenues ($000s)	$18,886	$19,833	$20,358	$21,044	$22,082	$21,930
Net Direct Debt ($000s)	$4,245	$8,722	$8,807	$7,419	$7,963	$18,580
Moody's Adjusted Net Pension Liability (3-yr average) ($000s)	$16,896	$15,753	$13,350	$13,992	$16,171	$32,507

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

EXHIBIT 2

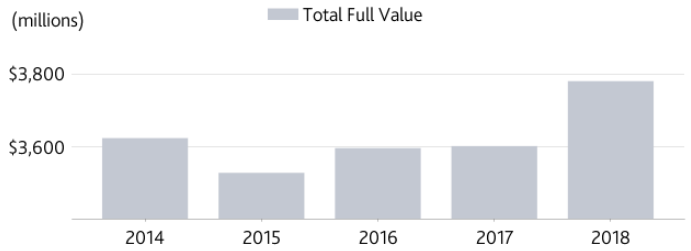
Available fund balance as a percent of operating revenues increased from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

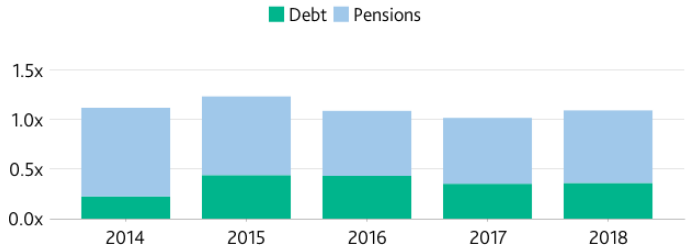
Full value of the property tax base increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues decreased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.

2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See US Local Government General Obligation Debt (December 2016) methodology report for more details.

4 For definitions of the metrics in the Key Indicators Table, US Local Government General Obligation Methodology and Scorecard User Guide (July 2014) . Metrics represented as N/A indicate the data were not available at the time of publication.

5 The medians come from our most recently published local government medians report, Medians - Property values key to stability, but pension burdens remain a challenge (March 2018) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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