

Research Update:

Hilton Head Island, SC GO Bond Rating Raised To 'AAA', Special Obligation Bonds Raised To 'AA+' On Improved Reserves

July 3, 2025

Overview

- S&P Global Ratings raised its rating to 'AAA' from 'AA+' on [Hilton Head Island](#), S.C.'s outstanding general obligation (GO) debt.
- At the same time, S&P Global Ratings raised its rating to 'AA+' from 'AA' on the town's outstanding special obligation bonds outstanding.
- The outlook is stable.
- The rating reflects the application of its "[Methodology For Rating U.S. Governments](#)," Sept. 9, 2024.
- The raised rating reflects the town's improved reserve levels, which provide it sufficient flexibility if faced with economic slowdowns or emergencies while remaining comparable with its similarly-rated peers.

Rationale

Security

The town's full-faith-and-credit pledge secures its GO bonds, with the ability to levy an unlimited-tax on all taxable property within its borders to pay principal and interest.

The special obligation hospitality fee bonds are secured by a 2% local hospitality tax on all gross proceeds derived from the gross sales price of prepared meals and beverages sold at town establishments. The special obligation beach preservation fee bonds are secured by a 2% fee on gross proceeds derived from the rental of rooms, excluding meeting rooms, campground spaces, or recreational vehicle spaces. The hospitality fee bonds and the beach preservation fee bonds are additionally secured by debt service reserve (DSR) funds that are required to be funded at the lesser of the standard three-prong test. In the event of a deficiency in the reserve funds, the town has agreed to replenish such funds from available amounts, subject to annual

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appropriation. The rating is based on the town's covenant to appropriate available funds to replenish the reserve funds, as needed, and therefore, is rated one notch below the town's general creditworthiness rating, which we view as the stronger of the two pledges. Because most of the financed projects were related to tourism (as that is the primary purpose of the dedicated revenue streams given the projects were significantly important to the town as a tourist destination), we view this debt as having a strong relationship to the obligor. Finally, the town pledges to appropriate from its operating revenues to replenish the DSRs as needed, and it has a long track record of appropriating for its GO debt. Therefore, we view the intended payment source as strong.

Credit highlights

The 'AAA' rating reflects our view of the town's history of operating surpluses, which have raised reserve levels to well above those of its peers, which we view as a credit strength sufficient to offset the potential for deterioration in budget flexibility and reserves during economic downcycles, contingency expenses that may relate to chronic and acute physical weather events, as well as the town's below-average economic output metrics. We believe the town's conservative budgeting practices, very high household and per capita incomes, and robust market value per capita despite a largely tourism-driven local economy, well-embedded management practices and policies and manageable debt burden support the rating. The town has identified various capital needs and is planning to fund these primarily through bond proceeds and a small portion of available cash reserves. However, given the town's commitment to maintain surplus operations and build reserves, we expect its financial position will remain robust. The town's net direct debt and fixed costs are likely to remain manageable despite its additional debt plans given the strength of its solid financial profile.

The 'AAA' rating further reflects our opinion of the town's:

- Largely tourism-driven economic base coupled with very high-income metrics that trend well above national and statewide peers;
- Ample financial profile with an expectation of positive operating performance and maintenance of healthy reserve levels;
- Comprehensive and sustainable management practices and policies, most notably with conservative budgeting practices, structured long-term planning and maintenance of formalized policies;
- Manageable long-term liability and fixed cost profile despite plans to issue additional debt in the near term; and
- For more information on our institutional framework assessment for South Carolina municipalities, see "[Institutional Framework Assessment: South Carolina Local Governments](#)", Sept. 9, 2024.

Environmental, social, and governance

Environmental risks are somewhat elevated for Hilton Head Island due to its location along South Carolina's Atlantic coast, which makes it more vulnerable to weather events and the effects of climate change. We note that to mitigate some of this exposure to physical risks associated with acute weather events, management maintains high fund balance levels for contingencies, specifically setting aside a portion of reserves for disaster recovery. The town annually invests in stormwater infrastructure and beach renourishment projects to harden and improve its base as part of its long-term capital plan. The town plans to adopt a resiliency and

adaptation plan early in 2026. We analyzed the town's social and governance risks relative to its economy, management, financial measures, and debt and liability profile, and view them as credit neutral.

Rating above the sovereign

Under our criteria, "[Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#)," Nov. 19, 2013, we rate Hilton Head Island higher than the sovereign because we think the town can maintain better credit characteristics than the nation in a stress scenario, based on its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention. In 2024, locally derived revenues amounted to 97% of general fund revenue, which we believe demonstrated its lack of dependence on central government revenue.

Outlook

The stable outlook reflects the expectation that the town will maintain large reserves to offset potential cyclicity in economically sensitive revenues or weather event risks that could disrupt budgetary performance from year to year. The outlook also signifies the expectation that the town will continue to prudently manage its immediate and future capital improvement program.

Downside scenario

We could lower the rating if net performance became imbalanced and resulted in a material draw in reserves such that they are no longer comparable to its peers at the 'AAA' rating.

Credit Opinion

Economy

Hilton Head Island is located on a 54-square-mile barrier island on the southern coast of South Carolina, approximately 20 miles northeast of Savannah, Ga., and 60 miles southwest of Charleston. The town is a popular destination for its beach and golf courses, and hosts major golf tournaments. The town's economic base is largely tourism driven as it attracts around 3.1 million visitors annually and has a large second-home component, which contributes to its above-average market value per capita levels. While Hilton Head Island's household incomes are well above both state and national levels, its economic output levels trend lower than its 'AAA' rated peers. To address affordable housing demand, the town negotiated public-private partnership agreements and committed \$4 million in revenue to complement two existing public-private housing partnerships that have infrastructure improvements under development. The assessed value continues to grow at a very healthy pace, which afforded the town a 2-mill total tax reduction for fiscal 2026 to 19.4 from 21.4. The town's economically sensitive revenue streams include hospitality taxes (food and beverage sales tax), accommodation tax, and beach preservation fees. The combination of these revenue streams grew 27% since fiscal 2021 with 2024 exhibiting some moderation in growth. Management assumes 2% growth in its hospitality tax and no growth in its accommodations and beach preservation fees in its long-term forecast, which we view as prudent and conservative even considering our current economic forecast--which anticipates a slowdown in gross domestic product growth and softening consumer sentiment nationwide. For more on our economic outlook, see "[Global Credit Conditions Q3 2025: Bending, Not Breaking](#)," June 30, 2025.

Finances, reserves, and liquidity

The town has generated healthy surpluses due to consistent revenue growth in property tax, business license, franchise fee, and tourism-related revenue during the last four fiscal years, coupled with conservative budget assumptions. The town's available fund balance grew to 80% of operating revenues in fiscal 2024, or \$39.5 million and is very robust in comparison to statewide and national peers at this rating level. Total available reserves include committed fund balance for disaster recovery at \$24.4 million. The general fund balance can be used for emergency purposes in case of unforeseen circumstances and to avoid emergency town borrowing or use of tax anticipation notes. In addition, the town added to fund balances outside the general fund in fiscal 2024, totaling \$36 million in the natural disaster fund and \$48 million in the beach renourishment fund as additional flexibility for disasters though not incorporated in the total available reserve ratios. Though we view these balances positively, given the town's elevated physical risks related to acute weather events.

Based on year-end estimates, management expects to record an \$8 million operating surplus for fiscal 2025, ultimately adding to available reserves. The town proposed a balanced budget for fiscal 2026 that totals \$174.711 million, a 2.14% decrease from fiscal 2025 budget, with a millage rate reduction for fiscal 2026 due to assessed value growth. We note that the town's accommodation taxes, hospitality taxes, and beach preservation fee revenues are reported outside of the general fund to safeguard general fund operations from possible revenue fluctuations related to the town's tourism activity. We expect the town's lengthy track record of positive operations and reserve growth to continue in coming years solid financial performance and management's intention to build reserves while maintaining the town's resilient and strong financial profile. Furthermore, management is considering implementing higher fund balance reserve requirements in the near term (following enhancements in fiscals 2023 and 2026), which further supports our outlook on the town's budget flexibility.

Management

The town's management plans prudently and contributes to financial strength. The town's proactive budgeting practices and formalized financial policies are comparable with its 'AAA' rated peers.

- **Budget practices:** Budgets are forward-looking with robust monitoring. When drafting the budget, management reviews historical revenue and expenditure trends up to previous three years and uses conservative budgeting assumptions that are also forward-looking. Monthly monitoring, and reporting of comprehensive budget-to-actual results to the town council.
- **Long term planning:** The town has both formal and informal long-term planning practices to help inform its financial decision making. Maintenance of an annually updated three-year financial model for the general fund, which is used internally for the preparation of future forecasts and budgeting but it is not approved by the town council. The town annually maintains its comprehensive formal 10-year capital improvement plan, which identifies costs and funding sources.
- **Policies:** Hilton Head Island has robust, well-defined policies with thorough reporting. The formalized general fund reserve policy was revised in fiscal 2023 and requires a minimum available fund balance of 40%-55% of expenditures. The debt management policy is published annually in the town's budget, specifies state guidelines that limit GO debt to no more than 8% of assessed value, and further restricts the town's debt to 80% of the state limit. The remaining 20% of debt capacity is reserved for disaster recovery needs, if needed.

The town's formal investment policy limits investments to certain types of instruments in addition to setting a maximum percentage of the portfolio permitted in each security.

Debt

The town's net direct debt as a percentage of total revenues and market value are low compared with its 'AAA' rated peers. However, net direct debt per capita and current costs are trending slightly weaker in comparison to similarly rated peers. We have incorporated the town's privately placed stormwater bonds issued in fiscal year 2021 of which \$940,000 is outstanding and represents just 1.4% of debt outstanding. The agreement does not contain permissive events of default or remedies and we therefore do not consider debt a contingent liability.

We expect that the town will maintain a manageable debt burden despite its additional debt plans, including approximately \$30 million in GO bonds to fund various capital projects in the next two years. Additionally, the town awarded a \$38 million contract to Marinex Construction Inc. in May 2025 to renourish its beaches in fiscal 2026; \$23 million will be paid from beach preservation fund reserves coupled with an estimated \$15 million tax-exempt private placement bond issuance that is backed by beach preservation fee revenue.

We do not view pension and other postemployment benefit liabilities as an immediate credit pressure for the town despite their lower funding levels and our expectation that costs will likely increase. (For more information on our view of state pension plans and the 2017 pension reforms, see "Pension Spotlight: South Carolina," Sept. 15, 2023.)

Hilton Head Island, South Carolina--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	1.37
Economy	1.0
Financial performance	1
Reserves and liquidity	1
Management	1.35
Debt and liabilities	2.50

Hilton Head Island, South Carolina--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	--	--	73	74
County PCPI % of U.S.	--	--	115	114
Market value (\$000s)	--	23,226,560	20,394,197	19,325,742
Market value per capita (\$)	--	609,397	535,084	460,520
Top 10 taxpayers % of taxable value	--	4.4	5.2	5.1
County unemployment rate (%)	--	3.8	2.7	2.9
Local median household EBI % of U.S.	--	--	136	135
Local per capita EBI % of U.S.	--	--	187	185
Local population	--	--	38,114	41,965

Hilton Head Island, South Carolina--key credit metrics

	Most recent	2024	2023	2022
Economy				
Financial performance				
Operating fund revenues (\$000s)	--	49,313	44,407	44,023
Operating fund expenditures (\$000s)	--	54,823	48,108	43,092
Net transfers and other adjustments (\$000s)	--	11,544	8,142	2,456
Operating result (\$000s)	--	6,034	4,441	3,387
Operating result % of revenues	--	12.2	10.0	7.7
Operating result three-year average %	--	10.0	9.0	6.7
Reserves and liquidity				
Available reserves % of operating revenues	--	80.1	75.4	66.0
Available reserves (\$000s)	--	39,508	33,484	29,063
Debt and liabilities				
Debt service cost % of revenues	--	13.0	16.8	17.3
Net direct debt per capita (\$)	1,658	2,000	2,314	2,484
Net direct debt (\$000s)	63,212	76,237	88,195	104,250
Direct debt 10-year amortization (%)	67	73	--	--
Pension and OPEB cost % of revenues	--	2.0	2.0	2.0
NPLs per capita (\$)	--	499	499	428
Combined NPLs (\$000s)	--	19,019	19,019	17,972

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List

Upgraded

	To	From
Local Government		
Hilton Head Island, SC Unlimited Tax General Obligation	AAA/Stable	AA+/Stable
Pooled		
Hilton Head Island, SC Moral Obligation and Food and Beverage Tax	AA+/Stable	AA/Stable
Hilton Head Island, SC Moral Obligation and Hotel Tax	AA+/Stable	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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