

# RatingsDirect®

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## Summary:

# Huntersville Town, North Carolina; Appropriations; General Obligation

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### Credit Profile

US\$7.81 mil GO pub imp bnds ser 2016 due 06/01/2036		
<i>Long Term Rating</i>	AAA/Stable	New
US\$2.67 mil GO rfdg bnds ser 2016 due 06/01/2028		
<i>Long Term Rating</i>	AAA/Stable	New
US\$0.865 mil GO Two Thirds Bnds (General Obligation Pledge) ser 2016 due 06/01/2018		
<i>Long Term Rating</i>	AAA/Stable	New
Huntersville Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Huntersville Twn rfdg ltd oblig bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Huntersville Town, N.C.'s series 2016A and 2016C general obligation (GO) bonds and series 2016B GO refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

At the same time, S&P Global Ratings affirmed its 'AA+' rating, with a stable outlook, on the town's limited obligation bonds.

The town's faith-and-credit pledge and ability to levy ad valorem taxes without limitation as to rate or amount secure the GO bonds. Officials plan to use bond proceeds to fund various capital projects townwide and refund the town's series 2008 GO bonds.

Huntersville's GO bonds are eligible for a rating above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the town has a predominately locally derived revenue source with 57% of general fund revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government. Furthermore, Huntersville has considerable financial flexibility, demonstrated by the maintenance of very strong budgetary flexibility and very strong liquidity.

The 'AA+' rating on the limited obligation bonds reflects our opinion of the town's:

- General creditworthiness; and
- Pledge, and demonstrated commitment, to budget and appropriate funds for debt service under the trust indenture.

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

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 75% of operating expenditures;
- Very strong liquidity, with total government available cash at 102.8% of total governmental fund expenditures and 7x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 14.8% of expenditures and net direct debt that is 127.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 65.9% of debt scheduled to be retired within 10 years; and
- Very strong institutional framework score.

### **Very strong economy**

We consider Huntersville's economy very strong. The town, with an estimated population of 54,240, is located in Mecklenburg County in the Charlotte-Concord-Gastonia MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 141% of the national level and per capita market value of \$121,384. Overall, the town's market value grew by 1.7% to \$6.6 billion in fiscal 2017. The county unemployment rate was 5.4% in 2015.

Huntersville is approximately 12 miles north of Charlotte along Interstate 77. Due to the town's location, with easy access to the entire Charlotte MSA, it has seen extensive population growth. The town's population estimate of 54,240 is approximately double its population of 26,175 in 2000. The town's increasing population has led to retail and office growth.

Several large-scale developments are under construction, including a 400-acre, mixed-use project that will include more than 2,500 residential units, as well as office and retail space. An industrial park for manufacturing operations is also under construction. The town's extensive growth has led to consistent increases in total assessed value. With many additional developments and infrastructure projects in the planning stages, including the addition of new public transit options, town officials expect growth to continue over the next several years.

In addition to the diverse and growing local economy, residents benefit from ample employment opportunities throughout the greater regional Charlotte economy. Charlotte-Mecklenburg Schools is the leading employer with 1,230 employees. Other leading town employers include:

- McGuire Nuclear Station - Duke Energy (1,200 employees),
- Novant Health (690), and
- Joe Gibbs Racing (600).

### **Strong management**

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

When drafting the budget, officials budget revenue and expenditures based on historical trends and estimated growth patterns. Management also reviews historical trends for collection rates to determine the budgeted collection rate; however, the budgeted collection rate cannot exceed the collection rate of the preceding year. Management reports budget-to-actual performance to the town commissioners monthly. The town has a five-year capital plan that it updates annually as part of its budget process and that identifies all project funding sources. Officials have adopted formal debt management and reserve policies; the reserve policy calls for the maintenance of an available fund balance of at least 45% of the general operating budget. The town does not currently have a formal investment policy.

### **Strong budgetary performance**

Huntersville's budgetary performance is strong in our opinion. The town had operating surpluses of 7.2% of expenditures in the general fund and 2.6% of expenditures across all governmental funds in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term. General fund operating results of the town have been stable over the past three fiscal years, with a result of 6.9% of expenditures in 2014 and 6.8% of expenditures in 2013.

After adjusting for recurring transfers into the Family Fitness & Aquatics Fund, the town experienced a surplus of approximately \$2.2 million. Management attributes this surplus to better-than-budgeted sales tax receipts and increased motor vehicle tax collections. In addition, officials implemented a 2.25-mill property tax increase in fiscal 2015. According to management, the purpose of this mill increase is to pay current and future debt service, as well as build a debt service reserve. Property taxes are the town's leading revenue source and account for approximately 57% of general fund revenue.

Based on preliminary figures, management expects a surplus for fiscal 2016 as well. While the final amount of the surplus is currently unknown, it will likely be less than the \$2.2 million surplus in fiscal 2015. Management will use this surplus to increase reserves. The approved \$34.4 million fiscal 2017 budget includes a small fund balance appropriation of \$430,000. Officials intend to use this slight drawdown to pay for various capital projects. Despite this planned drawdown, we expect financial performance to remain strong over the next few fiscal years.

### **Very strong budgetary flexibility**

Huntersville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 75% of operating expenditures, or \$23.2 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Due to the town's operating surplus in fiscal 2015, available fund balance increased by approximately \$2 million to a total of \$23.2 million. Due to the projected surplus for fiscal 2016, management indicates the town will add to fund balance in fiscal 2016 as well.

Management has budgeted for a slight fund balance drawdown of approximately \$430,000 in fiscal 2017 to pay for planned capital projects. Due to the town's high fund balance, we expect budgetary flexibility to remain very strong over the next few fiscal years despite the planned drawdown.

### **Very strong liquidity**

In our opinion, Huntersville's liquidity is very strong, with total government available cash at 102.8% of total governmental fund expenditures and 7x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

Huntersville's frequent GO debt issuance over the past 10 years demonstrates its strong access to external liquidity. The town does not engage in the aggressive use of investments that we view as likely to add significant volatility to its liquidity position. In addition, the town does not currently have any variable-rate debt exposure that could result in undue liquidity pressure. However, the town maintains two installment loans with acceleration provisions triggered by nonpayment, which we view as unlikely based on our overall assessment of its general creditworthiness. Therefore, we do not view these instruments as a significant liquidity risk.

In addition, the town's series 2015 GO refunding bonds were a direct-purchase transaction. Based on our review of the transaction, there are no continuing covenant agreements or related documents between the bank holding the bonds and the town that would afford the bank additional rights or remedies. Therefore, we do not view this transaction as a contingent liquidity risk.

### **Strong debt and contingent liability profile**

In our view, Huntersville's debt and contingent liability profile is strong. Total governmental fund debt service is 14.8% of total governmental fund expenditures, and net direct debt is 127.7% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, and approximately 65.9% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Huntersville's pension contributions totaled 2.2% of total governmental fund expenditures in fiscal 2015. The town made 100% of its annual required pension contribution to the North Carolina Local Government Employees' Retirement System (LGERS) in fiscal 2015.

Officials plan to issue approximately \$14.7 million in GO bonds at fiscal year-end 2018 for additional capital projects townwide. However, management indicates the size and timing of the issuance could change as it formalizes the plans.

The town participates in two pension plans: LGERS and the North Carolina Law Enforcement Officers' Special Separation Allowance. According to Governmental Accounting Standards Board Statement No. 68, which the town implemented for financial statements ended June 30, 2015, employers with benefits administered through cost-sharing, multiemployer pension plans such as LGERS must report their proportionate share of the net pension liability. As of the most recent actuarial valuation, June 30, 2014, LGERS was 103% funded. The town's proportionate share of net LGERS assets was \$990,361.

The law enforcement officers' special separation allowance is a single-employer, defined-benefit pension plan that provides benefits to qualified law enforcement officers. The town funds this plan on a pay-as-you-go basis from the general fund. In fiscal 2015, it contributed \$42,903 to the plan with an unfunded liability of \$1.1 million.

Huntersville also participates in a supplemental retirement income plan for employees. The supplemental retirement income plan is a defined-contribution plan offered to employees in addition to their respective pension plan. In fiscal 2015, the town contributed \$408,278 to this plan.

Huntersville provides other postemployment benefits (OPEB) through a single-employer, defined-benefit plan. The town funds the health care benefits plan on a pay-as-you-go basis, and the town board of commissioners can amend the plan. The town does not currently have any members receiving retirement health care benefits. Therefore, its contribution to OPEB in fiscal 2015 was \$0. As of Dec. 31, 2013, the most recent actuarial valuation, the plan had an unfunded liability of \$1 million.

### **Very strong institutional framework**

The institutional framework score for North Carolina municipalities is very strong.

## **Outlook**

The stable outlook reflects S&P Global Ratings' opinion of Huntersville's diverse and dynamic local economy, which benefits from its participation in the broad and diverse Charlotte MSA. The rating also reflects our opinion that Huntersville will likely maintain, at least, adequate budgetary performance and very strong reserves and liquidity. Therefore, we are unlikely to change the rating during our two-year outlook period.

However, we could lower the rating if the town were to experience a sustained or substantial weakening of budgetary performance, leading to a deterioration of reserves, or if the town's debt and contingent liability profile were to experience substantial weakening.

## **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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