

RatingsDirect®

Summary:

Huntersville Town, North Carolina; Appropriations; General Obligation

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Credit Profile

US\$15.56 mil GO bnds ser 2020A due 06/01/2040

Long Term Rating AAA/Stable New

US\$3.95 mil GO bnds ser 2020B dtd 03/10/2020 due 06/01/2030

Long Term Rating AAA/Stable New

Huntersville Twn GO

Long Term Rating AAA/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Huntersville Town, N.C.'s series 2020A general obligation (GO) bonds and series 2020B GO refunding bonds. At the same time, we affirmed our 'AAA' long-term rating on the town's GO debt outstanding and our 'AA+' long-term rating on the town's limited obligation bonds outstanding. The outlook is stable.

Security and use of proceeds

Securing debt service on the 2020A and 2020B bonds as well as the GO debt outstanding is the town's faith and credit and ability to levy ad valorem taxes without limitation as to rate or amount. Securing debt service on the limited obligation bonds outstanding are installment payments by the town to the trustee subject to annual appropriation.

Proceeds from the sale of the series 2020A bonds will fund various street and transportation-related improvements and will exhaust the town's remaining GO authorized debt. Proceeds from the sale of the 2020B bonds will be used to refund GO debt outstanding to lower overall debt service costs estimated at 10.5% of the refunded principal.

Credit overview

Huntersville is primarily an affluent residential, suburban community located within close proximity to Charlotte. The town's management team is keenly focused on maintaining budgetary balance and significant reserves, which together are the hallmark of its various planning initiatives to ensure strong financial operations despite service expansion resulting from robust population growth. Given the town's limited exposure to increasing debt and long-term liability growth, we believe its credit profile will remain stable at the 'AAA' rating level over the outlook period.

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 predominantly locally derived revenue with 49% 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 liquidity.

The rating also reflects our view of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 57% of operating expenditures;
- Very strong liquidity, with total government available cash at 98.4% of total governmental fund expenditures and 9.8x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 10.1% of expenditures and net direct debt that is 100.2% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 71.7% of debt scheduled to be retired in 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 61,220, 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 132% of the national level and per capita market value of \$152,751. Overall, the town's market value grew by 30.7% over the past year to \$9.4 billion in 2020. The county unemployment rate was 3.7% in 2018.

Situated approximately 12 miles north of Charlotte along Interstate 77, Huntersville has grown as an affluent, primarily residential community based on its easy access to the entire Charlotte MSA. The town's population estimate of 61,220 reflects an average annual growth rate of 4.2% since 2008. This trend has generated robust construction activity over the past three years, resulting in about 3,000 residential permits and nearly \$400 million in commercial and industrial investment.

The town's economic development partners, including the Charlotte Regional Business Alliance as well as the Economic Development Partnership of North Carolina, have helped spur several large-scale developments. The Park -- Huntersville is a premier mixed-use community offering office and medical space to property owners or tenants including Joe Gibbs Racing and Novant Health Huntersville Medical Center. Commerce Station, a 126-acre park, is zoned for industrial use and suited for manufacturing operations. Duke Energy also has a major presence in the town's extraterritorial jurisdiction with its facility serving as the largest employer with 1,600 people. New developments have supplemented existing areas such as Birkdale Village, which provides access to national and local retailers as well as residential units, and The Bryton Project. With ongoing economic growth and diversity as well as a nearly 31% increase in the tax base resulting from a revaluation in 2020, we believe the town will maintain its economic strength over the next two years.

Very strong management

We revised our view of the town's financial management to very strong from strong, reflecting the town's implementation of a formal, five-year financial plan as well as a formal investment policy and indicating our view that financial practices are strong, well embedded, and likely sustainable.

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 while ensuring the budgeted collection rate does not exceed the collection rate of the preceding year. Management reports budget-to-actual performance to the town commissioners monthly. The town's formal, five-year financial plan is a dynamic document that is regularly modified based on key decisions by the commissioners that could change out-year projections based on operational expenditures or revenue enhancements. Management's multipronged approach to protecting its systems against cybersecurity threats includes employee training, phishing exercises, and insurance coverage to offset costs of a breach if one occurs. In addition, the town's five-year capital plan is updated annually as part of its budget process and identifies all project funding sources. The adopted formal debt management policy includes affordability metrics that we view as being consistent with prudent planning initiatives. Furthermore, the town's formal investment policy generally mirrors the state's strict investment requirements, but also includes formal reporting of balances to commissioners on a monthly basis. Finally, the town's formal reserve policy calls for the maintenance of an available fund balance of at least 45% of the general operating budget.

Strong budgetary performance

Huntersville's budgetary performance is strong, in our opinion. The town had operating surpluses of 10.8% of expenditures in the general fund and of 5.0% across all governmental funds in fiscal 2019. Given the town's substantial surpluses over the past two years in excess of 10% of expenditures, we believe operating results may not continue at this pace given increasing service demands from population growth. Furthermore, we believe the town will remain aggressive with recruiting and retaining personnel, particularly in public safety, which may contribute to expense growth during the outlook period.

The town's budget is primarily supported by property taxes (49%), and by other taxes and license fees (almost 23%), which have cumulatively grown by 23% and 83%, respectively, since 2014. Although the property tax history incorporates one rate increase in fiscal 2015, the trends primarily reflect economic growth that we expect will continue driving increases in these operating sources over the outlook period.

The town's conservative budgeting practices drove positive operating results over the six years through fiscal 2019. Management reports that despite personnel vacancies throughout the year, the budget is annually developed with the inclusion of full staffing levels. This approach nearly always results in a positive expenditure variance.

The approved \$50.6 million fiscal 2020 budget represents an increase of about \$6.8 million (15.5%) over the amended fiscal 2019 budget, primarily reflecting an increase in capital and engineering costs. Given the area's population growth, significant transportation and mobility projects are underway throughout the town and region, and the town will contribute a portion of its local match to state and federal grant funding through fund balance appropriations, including \$6.7 million in fiscal 2020. Despite the inclusion of this amount in the budget, we believe the town's financial performance will remain strong over the next few fiscal years given historical results.

Very strong budgetary flexibility

Huntersville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 57% of operating expenditures, or \$22.1 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.

The town's reserves are bolstered by its long history of surplus operations as well as adherence to its fund balance policy. In fiscal 2018, the town shifted reserves between the assigned and committed aspects of the fund balance, which appears as a change in the nominal amount available. However, the shift (equal to about \$10 million) was always reserved for capital investments.

Generally management budgets to utilize a portion of reserves to cover capital expenditures, and included \$6.7 million in the fiscal 2020 budget as an appropriation from fund balance to offset capital costs. However, given the town's conservative budgeting practices, year-end results are expected to end with positive operations despite the capital outlay expenditures. Therefore, although the budget includes the use of reserves in fiscal 2020, we anticipate that the town's flexibility will remain very strong given historical results as well as the reserve threshold of 45% required by its fund balance policy.

Very strong liquidity

In our opinion, Huntersville's liquidity is very strong, with total government available cash at 98.4% of total governmental fund expenditures and 9.8x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary given its frequent GO debt issuance over the past 20 years. 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 has no 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 has two privately placed obligations with a total principal amount outstanding equal to \$5.3 million. Based on our review of the transactions, there are no continuing covenant agreements or related documents between the banks 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 10.1% of total governmental fund expenditures, and net direct debt is 100.2% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, and approximately 71.7% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following the current transaction, the town will have about \$50 million in debt outstanding. In fiscal years 2020 to 2024, the town's capital improvement plan identifies about \$63 million in project costs, of which about \$16 million will be funded with proceeds from the series 2020A bonds. Although no additional GO bonds will remain authorized following the current sale, management is considering a future referendum, the timing of which is unknown. Given the town's robust rate of principal repayment and incremental use of debt to fund capital investments, we believe the

town's debt profile will remain a key strength of its credit quality.

Pension and other postemployment liabilities:

- Huntersville's required pension and actual other postemployment benefits (OPEB) contributions totaled 2.5% of total governmental fund expenditures in 2019. The town made its full annual required pension contribution.
- We do not view pension and OPEB liabilities as an immediate source of credit pressure for Huntersville, given our opinion of strong funding discipline and the largest plan's funded status that together limit escalating cost trajectory risk.
- Although OPEB liabilities are funded on a pay-as-you-go basis, which, given claims volatility and medical cost trends, could lead to escalating costs, the contributions are minimal relative to the town's budget and we believe the town has sufficient flexibility to absorb additional contribution costs, if necessary.

As of June 30, 2019, the town participated in two defined benefit pension plans:

- Local Government Employees' Retirement System (LGERS), a state-administered plan that is 90.86% funded, with the town's proportional share of the net pension liability equal to \$4. million; and
- Law Enforcement Officers' Special Separation Allowance, a single-employer plan that currently provides benefits to two retirees with 87 active employees in the plan. Although the funded ratio of 40.3% is low, it carries a modest net liability outstanding of \$2.3 million.

In general, we expect LGERS contributions to meet our view of minimum funding progress, partly as a result of the plan's closed, level-dollar, 12-year amortization that should result in timely funding progress. Furthermore, North Carolina local governments are required to pay 100% of the actuarially determined contribution as set annually by the LGERS Board of Trustees. Despite this requirement, we believe LGERS' discount rate of 7% could lead to some contribution volatility over the long term given that it surpasses our view of a conservative discount rate equal to 6.5%.

The law enforcement officers' special separation allowance is funded on a pay-as-you-go basis and provides benefits to qualified law enforcement officers. In fiscal 2019, it contributed \$33,551 to the plan. Despite the low funded ratio, the discount rate for this plan is 3.64% and the large active employee population will likely help keep annual contributions and the liability manageable over the long term.

Huntersville provides OPEBs through a single-employer, defined benefit plan. The town funds the health care benefits for eligible retirees on a pay-as-you-go basis through a retiree's eligibility for Medicare. Positively, the town board of commissioners can amend the plan as necessary. The OPEB contribution in fiscal 2019 was 0.5% of expenditures and the plan carried an unfunded liability of \$2.3 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 that Huntersville's diverse and dynamic local economy will

continue to expand as a result of its participation in the broad and diverse Charlotte MSA. We believe the economic growth will continue generating additional revenue to ensure maintenance of the town's long history of favorable budgetary performance despite growing service demands. 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 resulting in a deterioration in reserves, leading to an inability to cover growing operating costs associated with additional personnel and program expenditures resulting from population expansion.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

Ratings Detail (As Of February 5, 2020)

Huntersville Twn rfdg ltd oblig bnds

Long Term Rating

AA+/Stable

Affirmed

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

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