S&P Global
Ratings

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Summary:

Garner, North Carolina; General Obligation

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Summary:

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Credit Profile		
US$4.05 mil GO pub imp bnds ser 2018 due 08/01/2038		
Long Term Rating	AAA/Stable	New
Garner Twn GO		
Long Term Rating	AAA/Stable	Upgraded

Rationale

S&P Global Ratings raised its long-term rating to 'AAA' from 'AA+' on the Town of Garner, N.C.'s general obligation (GO) bonds. At the same time, S&P Global Ratings assigned its 'AAA' long-term rating to the town's 2018 GO bonds.

The rating action reflects our view of the town's maintenance of extremely strong reserve and liquidity positions; improvement in the town's financial practices management and policies, including the formalized implementation of a capital improvement plan; and robust economic development and planning initiatives.

The town's GO bonds are secured by its full faith and credit, including its requirement to levy ad valorem taxes without limitation as to rate or amount.

The 2018 GO bonds will be issued under the town's 2013 GO bond referendum to finance various capital improvements.

The GO rating is eligible to be higher than the sovereign rating because we believe the town can maintain strong credit characteristics relative to the U.S. sovereign in a stress scenario. Under our criteria "Ratings Above the Sovereign: Corporate and Government Ratings--Methodologies and Assumptions," published Nov. 19, 2013 on RatingsDirect, the town has predominantly locally derived revenue with independent taxing authority and independent treasury management from the federal government.

The 'AAA' rating reflects our view of the town's

- 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 (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 71% of operating expenditures;
- Very strong liquidity, with total government available cash at 111.5% of total governmental fund expenditures and 9x governmental debt service, and access to external liquidity we consider strong;

- Adequate debt and contingent liability position, with debt service carrying charges at 12.3% of expenditures and net direct debt that is 123.3% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Very strong institutional framework score.

Strong economy

We consider Garner's economy strong. The town, with an estimated population of 29,170, is located in Wake County in the Raleigh MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 87% of the national level and per capita market value of $119,858. Overall, the town's market value grew by 7.1% over the past year to $3.5 billion. The county unemployment rate was 3.9% in 2017.

Garner is located immediately south of Raleigh in Wake County. The town is situated along Interstate 40 (I-40) and several major state highways, providing rapid access throughout the greater Raleigh area. The Raleigh-Durham International Airport is approximately 20 miles to the northwest, while the acclaimed Research Triangle Park is located 25 miles northwest. The town has benefitted from the expansive growth throughout the Raleigh-Durham area, with market and assessed value (AV) growing by 12.7% over the past five years. The town realized average annual AV growth of 4.3% over the past 10 years, with a limited decline during the latest recession. According to Census figures, the town's population grew by 37% in 2007 to 2017, outpacing state and national figures and contributing to strong housing demand.

Economic development activity within the town remains vibrant, with the value of building permits reaching 10-year highs in fiscal 2018. Officials anticipate that commercial activity, which represents approximately 40% of the town's property tax base, will continue to expand. In 2017, the town had the second-highest number of commercial permits in Wake County, trailing only Raleigh. The town is set to benefit significantly from continued improvements to the transportation infrastructure in the Raleigh area, including connections with the Raleigh public transit system and the completion of I-540. When complete, I-540 will be a secondary outer ring around Raleigh and will pass through territory managed by the town. The highway will provide near-direct routes from the town to the Research Triangle Park and Raleigh-Durham International Airport, increasing the flow of high-paying jobs into the community. Construction to complete the project is expected to begin in 2020. Recently completed long-term strategic plans in the areas of land use and transportation will aid economic development efforts.

Residents have access to employment opportunities throughout the greater Raleigh area, though the town itself maintains a number of nongovernment, nonretail employers primarily in the manufacturing, distribution, and food processing industries. We anticipate that market values and incomes will continue to expand in the town given the breadth of economic development projects benefiting the town and the general growth in the Raleigh metro area.

Very strong management

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating our view that financial practices are strong, well embedded, and likely sustainable.

We believe the town's proactive financial management is reflected in its formalized policies and practices, resulting in what we consider very strong management conditions. The town uses internal trend analysis, zero-based budgeting techniques, and external information to draft what we consider conservative revenue and expenditure assumptions. The town formally reviews budgetary performance with its governing body on a monthly basis. Additionally, the town maintains an annually updated five-year capital improvement plan that identifies funding sources. In the area of long-term financial planning, the town maintains three- to five-year staffing projections, revenue projections, and a revenue savings plan that details how revenue above a certain growth amount will be retained for capital and debt service uses. The town maintains a formally adopted investment management policy that places limitations on investments and liquidity beyond those prescribed by state statutes and that requires the monthly reporting of investment holdings and performance. The town's formally adopted debt management limits tax-supported debt service expenditures to 15% of expenditures and has a 10-year amortization target of 50% of higher. The town's reserve policy states that it will target available reserves equal to at least 30% of expenditures, with a minimum of 25% of expenditures. We understand that the town has no plans to spend down reserves to this level.

Strong budgetary performance

Garner's budgetary performance is strong, in our opinion. The town had operating surpluses of 11.6% of expenditures in the general fund and of 11.9% across all governmental funds in fiscal 2017. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat in the near term from the very strong results exhibited in fiscal 2017. General fund operating results of the town have been stable over the past three years, measuring 10.9% in 2016 and 12.9% in 2015.

Our results area adjusted to account for capital outlay expenditures financed from debt proceeds. Without consideration of a one-time, supplemental transfer for capital projects in 2014, the town has contributed to reserves and realized and an operating surplus in each of the past five fiscal years. The positive performance is a result of consistent budgetary variances on both revenue and expenditures and revenue growth that has continued to outpace operating expenditures.

Officials indicate that fiscal 2018 will end with a surplus of approximately $750,000. The 2019 budget represents an increase of 6.1% over the 2018 budget and includes a $2.5 million use of fund balance, in line with prior years. The town is evaluating the possibility of merging the privately chartered fire department to full-fledged town department, which could result in budgetary implications. However, given the town's conservative budgetary practices and historical performance, we anticipate positive budgetary variances resulting in continued strong performance.

Very strong budgetary flexibility

Garner's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 71% of operating expenditures, or $19.8 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. Over the past three years, the total available fund balance has remained consistent, totaling 70% of expenditures in 2016 and 72% in 2015.

Officials report that the town has no plans to spend down its strong reserves. Furthermore, town policies stipulate that fund balance may not be appropriated for operating purposes and can be used only for one-time items, solidifying its position. As of fiscal 2017, the town also maintained $5.8 million in committed fund balance that may be utilized with the authority of the town council, though the majority of these funds are intended to be used for capital projects.

The town increased its tax rate 1.5 cents to 53.25 cents per $100 of AV in fiscal 2017. Officials expect this increase to be sufficient to finance the additional debt service from its GO bonds while meeting operational needs. We note the town maintains ample taxing flexibility when compared with similar municipalities.

Very strong liquidity

In our opinion, Garner's liquidity is very strong, with total government available cash at 111.5% of total governmental fund expenditures and 9x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary, as demonstrated by a number of debt and lease issuances over the past 15 years.

We do not consider the town's liquidity position aggressive, with the majority of funds held in demand deposits, the state money market fund, and short-term treasury and agency securities. We anticipate that the town's liquidity position will remain very strong, in line with its flexibility position.

Adequate debt and contingent liability profile

In our view, Garner's debt and contingent liability profile is adequate. Total governmental fund debt service is 12.3% of total governmental fund expenditures, and net direct debt is 123.3% of total governmental fund revenue. Overall net debt is low at 2.2% of market value, which is, in our view, a positive credit factor.

The town is expected to issue the remaining authorized GO debt of $7.2 million in 2019. This additional debt burden will increase the town's net direct debt position to 146.4% of governmental revenue, but this will not result in a deterioration of our view of the town's debt profile.

Garner's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.0% of total governmental fund expenditures in 2017, with 3.7% representing required contributions to pension obligations and 1.3% representing OPEB payments. The town made its full annual required pension contribution.

The town participates in two defined benefit pension plans: the cost-sharing Local Governmental Employees' Retirement System (LGERS) and the single-employer Law Enforcement Officer's separation allowance (LEO). The town's share of LGERS remained well funded at 94% based on the plan's 2017 audit. The LEO plan is funded on a pay-as-you-go basis.

The town administers a single-employer OPEB plan that provides health insurance coverage for eligible retirees until 65, and a Medicare supplement following age 65. Contributions are funded on a pay-as-you-go basis. The unfunded position as of the latest valuation date was $12.3 million, equal to 39% of governmental revenue. We calculate the combined pension and OPEB liability at 55% of governmental revenue, which we consider manageable.

Very strong institutional framework

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

Outlook

The stable outlook reflects our view of the town's strong and growing economy supported by access to the Raleigh MSA. The outlook also reflects our view that the town's reserve and liquidity position will remain very strong and that its lability profile will remain manageable. These factors are supported by the town's strong financial practices and policies. We do not anticipate changing the rating over the two-year outlook horizon. All else equal, we could lower the rating if the town realizes weakened reserve and liquidity positions or if the town increases its liability profile in a manner that reduces expenditure flexibility, leading to difficulties in managing its operating position.

Related Research

2017 Update Of Institutional Framework For U.S. Local Governments

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.