S&P Global
Ratings

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Summary:

Fayetteville, North Carolina; Appropriations; General Obligation

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Table Of Contents

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Credit Profile		
US$16.0 mil GO pk and recre bnds ser 2019 due 06/01/2039		
Long Term Rating	AA+/Stable	New
US$4.15 mil taxable ltd oblig bnds (Stadium And Parking Deck Project) ser 2019A due 06/01/2038		
Long Term Rating	AA/Stable	New
US$2.895 mil ltd oblig bnds (Pool Facility Project) ser 2019B due 06/01/2039		
Long Term Rating	AA/Stable	New
US$2.325 mil GO rfdg bnds due 06/01/2025		
Long Term Rating	AA+/Stable	New

Rationale

S&P Global Ratings assigned its 'AA+' rating to Fayetteville, N.C.'s series 2019 general obligation (GO) parks and recreation and refunding bonds. At the same time, S&P Global Ratings assigned its 'AA' rating to Fayetteville's series 2019 limited-obligation bonds (LOBs). S&P Global Ratings also affirmed its 'AA+' rating on the city's unlimited GO debt and its 'AA' rating on Fayetteville's previously issued appropriation-backed debt. The outlook is stable.

Despite an underlying economy we characterize as adequate, Fort Bragg is the economic anchor and a stabilizing institutional influence for Fayetteville that continues to provide economic and credit stability. The city's strong overall financial profile, which has historically yielded consistent and positive budgetary performance, has enabled Fayetteville to cash fund a large portion of its capital-related expenditures, which has helped it maintain its overall strong debt profile.

The $16 million of parks and recreation bonds will fund various park improvements, including a skateboard park, soccer complex, and two senior centers. Approximately $2.3 million in refunding bond proceeds will refund certain maturities of the city's series 2005 GO bonds for net present value savings. Fayetteville's full faith and credit pledge and its agreement to levy ad valorem property taxes without limitation as to rate or amount secure these two issues and the city's GO debt outstanding.

The $4.15 million of proceeds from the series 2019 taxable LOBs will fund additional costs associated with the city's minor league baseball stadium and the parking deck project being developed adjacent to the stadium. Design changes and increased costs--due, in part, to Hurricane Florence--resulted in additional costs of up to $2.5 million for the ballpark and $1.5 million for the parking deck project. The city issued additional LOBs under the 2018 indenture to fund these costs.

Separately being issued under the same indenture, the series 2019 tax-exempt LOBs provide about $2.9 million of proceeds to fund construction of a new pool facility at one of the city's recreation centers.

City payments to the trustee, subject to appropriation, pursuant to the trust agreement secure the series 2019 LOBs. The city's budget officer is required to include payment in Fayetteville's budget each year. The city can only delete the budget item by a city council resolution with a statement explaining the deletion. A deed of trust--consisting of the mortgaged property that includes the city's minor league baseball stadium--further secures both series of LOBs. Principal and interest payments are due each June 1 and Dec. 1, which mitigates late budget adoption risk given the city's June 30 fiscal yearend. Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Jan. 22, 2018), we rate the city's installment purchase debt one notch below its general creditworthiness to reflect the appropriation risk.

Given the support demonstrated by the city government for these projects, as evidenced by council approval to fund the additional costs, we do not view these obligations as having a weaker relationship with the obligor that could increase risk of non-appropriation. However, should this view change, either from weakening support of measures or attempts to bring forth resolutions to delete the appropriations from the budget, our view of this relations could weaken, and could lead to a larger notch differential between Fayetteville's GO rating and the LOBs. Furthermore, such actions by the city could affect our overall view of the city's willingness to fund its obligations, pressuring its GO rating.

Our view of the city's general creditworthiness considers its:

- Adequate economy, with projected per capita effective buying income at 79.5% and market value per capita of $67,038, which we believe are somewhat understated due to the large military presence given that the city is home to Fort Bragg, a stabilizing institution for the local economy;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2018, which closed with an operating deficit in the general fund due to capital spending that will be reimbursed, and break-even operating results at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 64.4% of total governmental fund expenditures and 20.5x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 3.1% of expenditures and net direct debt that is 58.0% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Very strong institutional framework score.

Adequate economy

We consider Fayetteville's economy adequate. The city, with an estimated population of 207,583, is located in Cumberland County, and serves as the county seat. The city benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 79.5% of the national level and per capita market value of $67,038. Overall, the city's market value grew by 1.0% over the past year to $13.9 billion in 2019. The county unemployment rate was 5.8% in 2017.

Located about 60 miles south of Raleigh, Fayetteville encompasses an area of 150 square miles, the second-largest area for a city in the state. Significant annexations have led to a sizable population, which incorporates portions of Fort Bragg, one of the largest military installations in the world. The base is an anchor for the local economy and includes approximately 57,000 military personnel, and 11,000 civilian employees and contractors, not to mention thousands of active family members and retirees. In addition to Fort Bragg, Pope Air Force Base is also co-located in the area. The military and air force bases continue to act as a stabilizing institutional presence in the region, and likely result in economic metrics that are somewhat understated. Fayetteville is also home to three universities and two large hospitals, including a Veterans Administration facility. The city's top 10 taxpayers account for a modest 3.5% of the total tax base and include a large mall, a major retail outlet, and several apartment complexes.

Major employers include:

- U.S. Department of Defense: (14,036 employees)
- Cape Fear Valley Health System (7,000)
- Cumberland County Board of Education (6,042)

City officials report relative stability within the local economy and market value. Property tax collections have historically remained over 99% and in the past five years sales tax collections have been steady. Officials report several significant commercial projects taking place downtown, including development of office, retail, and residential space. Existing businesses continue to expand and add jobs.

The minor league ballpark financed with Fayetteville's 2018 LOBs is positioned as the anchor for the city's downtown development plan. As part of this plan, a nearby hotel is being converted into apartment complexes, and an office tower and hotel facing the ballpark will be built on top of the parking deck. These projects are expected to add more than $30 million to the city's taxable base. Given this expected growth, and the stabilizing influence of Fort Bragg, we anticipate economic metrics will remain stable in the near term.

Very strong management

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

Fayetteville operates under the state Local Government Budget and Fiscal Control Act. Revenue and expenditure assumptions are based on historical data as well as outside sources, including data provided by the state and North Carolina League of Municipalities. The budget is reviewed routinely and at least quarterly by the finance department and formally at midyear by city council. The finance department raises issues or challenges before the midyear review to make any necessary amendments. The city performs a formal, five-year budget forecast annually. Forecasting includes revenues and expenditures, and is also done in conjunction with the capital plan and debt management plan. The city produces a formal five-year capital improvement plan (CIP), which is updated annually. Funding sources are identified and the plan is in line with the financial forecast and debt management plan. Fayetteville has its own investment policy, which mirrors the state's Local Government Budget and Fiscal Control Act. Investment reports are reviewed quarterly.

While Fayetteville does not have a formal debt management policy, it does maintain a set of debt management procedures that outline mechanisms for debt payments and basic guidelines for debt issuance in line with state requirements. The city also has a debt management plan it uses in conjunction with the CIP. It budgets a portion of ad valorem taxes to a capital funding plan, which it uses to manage funding for the repayment of principal and interest on GO debt, installment financing agreements and notes payable instruments for major capital improvements, and to cash fund major capital improvements when appropriate. The plan includes existing GO debt in addition to proposed debt and projects based on the CIP. A formal reserve policy calls for unassigned reserves of 10% of the subsequent year's budgeted general fund expenditures, a level the city has historically maintained.

Strong budgetary performance

Fayetteville's budgetary performance is strong, in our opinion. The city had deficit operating results in the general fund of 2.7% of expenditures, but a balanced result across all governmental funds of negative 0.5% in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results could improve from 2018 results in the near term. Our assessment includes adjustments for recurring transfers the city makes to fund ongoing capital needs and enterprise operations.

In fiscal 2018, Fayetteville's unassigned reserves fell slightly, due to cash-funded capital projects, some of which will be reimbursed in the current fiscal year. Operationally, the city saw balanced results, in part from expenditure savings. The city's revenues are relatively stable, although property tax declined in fiscal 2018 due to a revaluation of property without any adjustments to tax rates. Overall, tax revenue increased about 6% over the past five years, primarily due to the passage of a 1.42 cent increase to support expected parks and recreation projects approved by referendum. Fayetteville primarily derives its general fund revenues from ad valorem taxes (44% of total general fund revenues) and unrestricted intergovernmental revenues largely consisting of sales and utility taxes (42%).

Fayetteville adopted a budget for fiscal 2019 using $12.2 million of reserves. However, officials report year-to-date fiscal performance remains stable, with expenditures trending slightly below budget. Given the city's conservative budgeting practices, it does not typically use the reserves it includes in its budgets. The city is close to finalizing its budget for fiscal 2020, and does not expect significant changes, other than potential savings from moving fleet maintenance into city operations. Overall, given the trend of maintaining structurally balanced operations, we expect our view of the city's performance to remain strong.

Very strong budgetary flexibility

Fayetteville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 22% of operating expenditures, or $35.0 million.

Fueled by annual operating performance, the city continues to maintain reserves at about 20% of adjusted expenditures. Despite the slight use of reserves for capital spending, the city continues to maintain reserves at this level. Although its formal policy is to maintain 10%, the city informally has a goal of keeping 12% of expenditures in unassigned reserves. Given our expectation of balanced operations, we do not anticipate reserves will materially weaken.

Very strong liquidity

In our opinion, Fayetteville's liquidity is very strong, with total government available cash at 64.4% of total governmental fund expenditures and 20.5x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

We believe Fayetteville has strong access to external liquidity because it has accessed the markets with debt issuance in the past 20 years. Given current financial performance, we do not anticipate material deterioration in liquidity in the near term.

The city has a total of $20.1 million in installment financing agreements, including modest short-term capital leases with various banks, both fixed and variable rate (variable-rate debt outstanding equals approximately $1.3 million or 1.4% of the city's debt profile), that are subject to annual appropriation. Under North Carolina Statute Section 160A-20, the agreements explicitly do not allow for deficiency judgments for appropriation-backed debt, which we believe mitigates contingent liability risk associated with these agreements. Furthermore, we believe that Fayetteville maintains sufficient cash on hand to repay the full amount. After paying off the variable-rate debt associated with Festival Park Plaza, following sale of the asset, the city maintains only one variable-rate debt obligation for its Fire Station 19 projects. The installment agreement carries an interest rate of 70% of one-month LIBOR plus 0.55%, which resets monthly. Given the small size of this obligation relative to the city's reserves and operating revenues, we do not view it as a liquidity risk.

Very strong debt and contingent liability profile

In our view, Fayetteville's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.1% of total governmental fund expenditures, and net direct debt is 58.0% of total governmental fund revenue. Overall net debt is low at 1.1% of market value, which is, in our view, a positive credit factor.

Following this issuance, Fayetteville will have about $100 million in net direct debt outstanding, excluding the city's revenue-backed enterprise debt. The series 2019 GO parks and recreation bonds are the first issuance of a planned $35 million total issuance for voter-approved projects. The remaining $19 million will likely be issued in two tranches in the spring of 2021 and 2023. The city also does $1 million-$4 million of short-term capital leases each year. Factoring in this new issue, the city's amortization rate is just below 65% and will likely rise above 65% during the outlook horizon. Overall, we do not expect any material changes to the city's debt profile in the near term.

Fayetteville's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.5% of total governmental fund expenditures in 2018. Of that amount, 3.5% represented required contributions to pension obligations, and 1.0% represented OPEB payments. The city made its full annual required pension contribution in 2018.

Fayetteville participates in the statewide Local Government Employees' Retirement System (LGERS), a cost-sharing, multiple-employer plan, administered by the state. As of June 30, 2018, the city's proportion of net LGERS' liabilities was about $20 million. In addition, LGERS' fiduciary net position as a percent of the total pension liability was 94.18% using a discount rate of 7.2%, which is about at the national average. For more information on the effects discount rates can have on funding ratios, see "The Increasing Cost Of Governmental Pensions: Discount Rate And Contribution Practices" published Sept. 27, 2018. The city made its full annual required contribution to the LGERS plan in fiscal 2018. Fayetteville also administers a single-employer Law Enforcement Officer's Special Separation Allowance, which it funds on a pay-as-you-go basis, and contributes to a supplemental retirement income plan for law enforcement officers, the NC 401(k) plan, and firefighters' and rescue squad workers' pension fund.

The city offers OPEB in the form of employee health insurance, which it funds on a pay-as-you-go basis. It paid $1.76 million toward OPEB expenditures in fiscal 2018. As of June 30, 2018, its net OPEB liability was $43.4 million. Given medical cost trends, we believe funding these obligations on a pay-as-you-go basis could create future cost pressures. However, given Fayetteville's well-funded pension liability and overall financial strength, we do not view its long-term liabilities as a credit pressure.

Very strong institutional framework

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

Outlook

The stable outlook reflects our view that Fayetteville's very strong management and stable financial metrics should ensure continued very strong financial flexibility in the next two years. We believe that Fort Bragg and Pope Air Force Base serve as anchors for the economy and provide additional stability. For these reasons, we do not anticipate changing the rating in the next two years.

Downside scenario

Weak budgetary performance resulting in a significant decline in reserve levels or weakening support for the city's limited-obligation debt could result in a lower rating.

Upside scenario

While unlikely during our outlook horizon, should the underlying economic indicators improve substantially and all other factors remain constant, we could raise the rating.

Related Research

- 2018 Update Of Institutional Framework For U.S. Local Governments
- 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
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of April 16, 2019)		
Fayetteville taxable ltd oblig bnds (Stadium And Parking Deck Proj)		
Long Term Rating	AA/Stable	Affirmed
Fayetteville GO		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of April 16, 2019) (cont.)		
Fayetteville GO (SYNCORA GTY)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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.