

RatingsDirect®

Summary:

Fuquay-Varina Town, North Carolina; General Obligation

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Credit Profile

Fuquay-Varina GO
Long Term Rating

AAA/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'AAA' from 'AA' on Fuquay-Varina Town, N.C.'s existing general obligation (GO) bonds, based on the application of our local GO criteria released on Sept. 12, 2013. The outlook on all bonds is stable.

The town's full-faith-and-credit pledge secures the bonds.

The rating reflects our assessment of the following factors for the town:

- Strong local economy with projected per capita effective buying income at 94.5% of the nation and a per capita market value of \$108,985 as of fiscal 2014. Fuquay-Varina is in the Piney Woods section of North Carolina in southern Wake County, about 14 miles south of Raleigh and 45 miles north of Fort Bragg. The town's location has contributed to strong development growth during the past decade. The town's population has increased by more than 200% since 2001 and management estimates that by 2020, the population could be as high as 30,000, a 52% increase from its current level, due to continued strong growth prospects.
- Very strong budgetary flexibility, as the town has maintained very strong reserves that have been rising during the past few years. Based on the town's fiscal 2013 audit, its available general fund reserves reached nearly \$13.5 million or 94.2% of general fund expenditures. Management has budgeted for a modest decrease in available reserves down to roughly \$12.9 million. However, we expect the town will maintain its reserve levels at more than 30% of general fund expenditures at a minimum during the next two years, a level that we consider very strong.
- Strong budgetary performance, with general fund surpluses reported during the past three fiscal years. Most recently in fiscal 2013, the town's general fund posted a surplus of roughly 19%, although the town has budgeted to end fiscal 2014 with a modest 3.3% deficit. However, we understand the budget is likely to be conservative and we believe the town will likely end with balanced operations at a minimum in the future.
- Very strong liquidity levels during the past few years, most recently reporting total government available cash at 181.2% of total government fund expenditures and more than 3,468% of total governmental fund debt service. We believe the town has strong access to external liquidity, with its practice of issuing GO and water and sewer bonds during the past few years. In addition, management indicates it does not expect to deplete its liquidity during the next two years given the operating surpluses reported in the general fund during the past few years.
- Very strong management conditions with strong financial practices and policies. Some of the town's practices include reviewing historical trends to project future revenues and expenditures, quarterly updates to the town council at a minimum, maintenance of a five-year financial forecast that is updated annually, a formal 25% reserve policy and a formal 10-year capital plan.

- Weak debt and contingent liabilities profile, with roughly 71% of the town's total debt is also projected to be paid off within the next 10 years, which we view as a credit strength. However, we note that the lack of up-to-date overlapping debt information presents a credit weakness for this score. Total governmental funds debt service is 5.2% of total governmental funds expenditures, and net direct debt is only 71.3% of total governmental fund revenue. Fuquay-Varina makes annual contributions to the statewide retirement system, administered by the state. Total contributions for the town's pension and other postemployment benefit payments represented 3.6% of its fiscal 2013 governmental expenditures, which we consider low. We understand the town also has outstanding direct purchase lease bonds in the amount of roughly \$3.8 million subject to acceleration of payments should there be a default. However, we believe the town's outstanding cash levels and its sizable budget partly mitigate this risk of acceleration and is not a major credit risk.
- We consider the Institutional Framework score for North Carolina municipalities very strong. See the Institutional Framework Overview: North Carolina Local Governments.

Outlook

The stable outlook reflects our view of the town's strong local economy, very strong management, flexibility, and liquidity scores. Should the performance score or debt score worsen during the next two years, we could lower the rating.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework score for North Carolina

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