

RatingsDirect®

Summary:

Cornelius, North Carolina; General Obligation

Primary Credit Analyst:

Kaiti Vartholomaios, New York + 1(212) 438 0866; kaiti.vartholomaios@spglobal.com

Secondary Contact:

Felix Winnekens, New York + 1 (212) 438 0313; felix.winnekens@spglobal.com

Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

Cornelius, North Carolina; General Obligation

Credit Profile

US\$7.64 mil GO pub imp bnds ser 2022 due 08/01/2041

Long Term Rating

AAA/Stable

New

Cornelius GO

Long Term Rating

AAA/Stable

Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to the town of Cornelius, N.C.'s series 2022 general obligation (GO) public improvement bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the town's existing GO debt. The outlook is stable.

The bonds are secured by a pledge of the town's faith and credit and taxing power. Proceeds will be used toward street and parking projects, as well as an arts center.

Credit overview

The rating reflects Cornelius' flourishing economy with ongoing residential and commercial development which benefits from its proximity to several metropolitan areas, including Charlotte, as well as access to Lake Norman. The detail-oriented management team continues to leverage its codified practices to generate consecutive years of surpluses, resulting in exceptional fund balance levels in recent years. As the town continues to issue debt to meet its growth needs, we expect its fixed costs to remain manageable in the near term, without excessive fixed-cost pressure.

Cornelius' 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 predominately locally derived revenue sources with more than 60% of general fund revenue derived from property and sales taxes with independent taxing authority and treasury management from the federal government. Furthermore, Cornelius has considerable financial flexibility, demonstrated by the maintenance of very strong budgetary flexibility and liquidity.

The rating reflects our view of Cornelius':

- Growing economy, which continues to attract development given its favorable location;
- Robust management practices with embedded long-term planning, supported by a very strong institutional framework;
- Over five years of consecutive surpluses with analogous fund balance growth in excess of 75% of expenditures; and
- Manageable debt with rapid amortization and limited pension pressures.

Environmental, social, and governance

We analyzed Cornelius' environmental, social, and governance (ESG) risks relative to the town's economy, management, financial measures, and debt and liability profile and determined that all are in line with our view of the sector standard. Despite exposure to 70 miles of shoreline around Lake Norman, its manmade nature precludes flooding risk since water levels are managed by Duke Energy for hydroelectric power; therefore, we do not consider its environmental risks elevated.

Stable Outlook

Downside scenario

While we expect the town to continue to effectively manage growth and associated capital needs, we could take a negative rating action if its debt burden increased to a level that created financial or budgetary pressure, or non-compliance with its debt management policy.

Credit Opinion

Diverse economy benefiting from lakeside location and access to Charlotte

The town is 20 miles north of Charlotte, with residents benefiting from access to its labor market and broader economic growth. Locally, the largest employers are the school district (443 employees), followed by the local government itself (128) and the country club. Lake Norman also provides opportunity for tourism and recreation activities, as well as high-value lakefront properties. Assessed values (AVs) continue to grow steadily, with just under 40% growth in the last five years.

Similarly development activity continues, as building permit applications continue to rise over the last five years, peaking in 2020. Notable developments include a \$154 million health care facility which is expected to add over 300 jobs, as well as several real estate and commercial projects--both approved and pending approval--throughout the town. As a result, we expect the town's economy to continue expanding.

Conservative and comprehensive policies and practices

We believe the town's proactive and sophisticated financial management is reflected in its formalized policies and practices. Cornelius uses internal trend analysis and external information to make revenue and expenditure assumptions and takes into account historic trends which may affect current ones. The board receives at least quarterly budget-to-actual information in both summary and detail form. Additionally, it engages in multiyear operational forecasting to target balanced budgets, and capital planning that is updated annually and identifies funding for projects five years in advance. The town also has investment management policies that require regular reporting to the board and annual external review. In addition, it has a debt management policy in accordance with the Local Government Budget and Fiscal Control Act, whereby the net debt (total debt carried by a municipality less enterprise fund debt) will not exceed 8% of the AV of taxable property and debt service cannot exceed 15% of expenditures. The town, per policy, also maintains a minimum unassigned general fund balance of 40% of expenditures to operate efficiently and effectively, to cash-fund capital projects when possible, and to allow for unforeseen urgent needs.

Robust financial performance resulting in exceptional fund balance levels

Since fiscal 2018, Cornelius has generated surpluses which have contributed to annual fund balance growth to levels in excess of 75% of revenue in fiscal years 2020 and 2021. The town has a formal policy to maintain unassigned general fund balance equal to 40% of general fund expenditures, which it has historically met and exceeded. Given that there are no plans to draw on reserves, we expect the town's flexibility to remain very strong.

In terms of performance, the town's total revenues have increased by 20.9% between fiscal years 2017 and 2021, in part benefiting from the 2020 revaluation, as well as strong sales tax performance with 19% growth in fiscal 2021. The town increased its tax rate to \$0.222 in fiscal 2020, which generated an additional \$16.7 million in revenues, and has since been kept flat. Ad valorem taxes make up 60% of general fund revenues, followed by unrestricted intergovernmental revenues at 28% predominately made up of local option sales and utility franchise taxes. With regard to expenditures, the total has overall decreased by 6.5% between fiscal years 2017 and 2021, with a rise of 3.6% between fiscal years 2020 and 2021, reflecting increases in public safety and cultural spending, as well as higher debt service. Nevertheless, the town generated strong results in both fiscal years 2020 and 2021.

The fiscal 2022 budget is balanced at \$29.1 million. Performance is tracking above budget to date, with sales tax collections exceeding expectations. In addition Cornelius has already received the first round of its ARPA allocation at \$4.1 million, which it has yet to designate for a specific purpose. Overall, we anticipate another year of positive results.

The town has demonstrated its access to external liquidity through its prior issuance of GO debt and installment finance contracts. Its investments are held in the North Carolina Capital Management Trust's Government Portfolio, which we do not consider aggressive.

The town has several private-placement installment-purchase obligations, which allow for immediate acceleration as a remedy in an event of default. However, we believe Section 160A-20 of North Carolina statutes, which prohibits deficiency judgments for appropriation debt, mitigates liquidity risk. This provision limits the available options for recourse in an event of default, but does allow the bank to acquire the assets associated with the contract, which is often the equipment being acquired with the financing. Therefore, we do not consider this debt a contingent liability risk that would affect the town's liquidity position.

Manageable debt in line with long-term capital plans

Including this issuance, the town's direct debt totals \$24.4 million. The town has a remaining \$20 million in unauthorized debt from the 2018 referendum which it plans to issue over the next five-to-seven years. However, given its rapid amortization, we do not expect the additional debt to materially affect the debt profile.

Pensions are not an immediate credit pressure given strong funding status and limited escalating cost trajectory risk

Cornelius participated in the following plans as of June 30, 2021:

- Local Government Employees' Retirement System (LGERS), 88.6% funded, with a proportional share of the net pension liability (NPL) equal to \$3.7 million.
- Law Enforcement Officers' Special Separation Allowance, with an NPL of \$2 million, which it funds on a pay-as-you-go basis.

In general, we expect plan contributions to meet or exceed our view of minimum funding progress, partially due to the plan's closed, level-dollar, 12-year amortization that should result in timely funding progress. However, we believe LGERS' discount rate of 7% could lead to some contribution volatility.

Cornelius provides other postemployment benefits (OPEBs) through a single-employer, defined-benefit plan. It funds the health care benefits plan on a pay-as-you-go basis. The town's OPEB unfunded liability totaled \$2.4 million as of June 30, 2020, the most recent actuarial valuation date. Although OPEB liabilities are typically funded on a pay-as-you-go basis, which, given claims volatility and medical cost trends, could lead to escalating costs, the town has legal flexibility to alter OPEB benefits, which we view as a means to mitigate potential cost escalations.

Very strong institutional framework

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

Cornelius, NC -- Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	152			
Market value per capita (\$)	237,461			
Population			31,825	30,969
County unemployment rate(%)			7.8	
Market value (\$000)	7,557,206	7,464,168	7,353,052	
Ten largest taxpayers % of taxable value	4.8			
Strong budgetary performance				
Operating fund result % of expenditures		15.7	16.4	(1.3)
Total governmental fund result % of expenditures		10.2	15.8	5.3
Very strong budgetary flexibility				
Available reserves % of operating expenditures		83.4	75.6	59.0
Total available reserves (\$000)		20,119	17,614	14,297
Very strong liquidity				
Total government cash % of governmental fund expenditures		151	136	107
Total government cash % of governmental fund debt service		1,286	1,305	1,162
Very strong management				
Financial Management Assessment	Strong			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		11.7	10.5	9.2
Net direct debt % of governmental fund revenue	80			
Overall net debt % of market value	1.3			
Direct debt 10-year amortization (%)	72			
Required pension contribution % of governmental fund expenditures	3.4			
OPEB actual contribution % of governmental fund expenditures	0.3			

Cornelius, NC -- Key Credit Metrics (cont.)

	<u>Most recent</u>	<u>Historical information</u>		
		2021	2020	2019
Very strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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.

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.