

CREDIT OPINION

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 Rate this Research

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Cary (Town Of) NC

Update to credit analysis

Summary

Cary, NC (Aaa stable) benefits from its location near Raleigh (Aaa stable), Durham (Aaa stable) and the Research Triangle Park (RTP). As such, the tax base is large and has grown significantly in recent years. Income and wealth metrics remain very strong. Financial metrics are very healthy, supported by long-term financial plans, formal policies and conservative budget management. Long-term liabilities are low and fixed costs are manageable.

Credit strengths

- » Large, growing tax base within regional economic center
- » Strong and stable financial position supported by formal policies and proactive management
- » Low long-term liabilities

Credit challenges

- » Continuing to manage tax base and population growth
- » Moderate reliance on sales tax revenues

Rating outlook

The stable outlook reflects our expectation that Cary's financial position will remain strong given proactive management. Additionally, the town's tax base will continue to benefit from its favorable location.

Factors that could lead to an upgrade

- » N/A

Factors that could lead to a downgrade

- » Tax base deterioration and weakened income and wealth levels
- » Sustained trend of structural imbalance leading to narrowed reserves and liquidity
- » Significant increase in debt or long-term liabilities

Key indicators

Exhibit 1

Cary (Town Of) NC	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$23,654,830	\$25,851,827	\$26,414,090	\$27,024,529	\$27,759,198
Population	157,259	160,390	163,930	167,547	170,322
Full Value Per Capita	\$150,420	\$161,181	\$161,130	\$161,295	\$162,981
Median Family Income (% of US Median)	167.3%	165.6%	164.9%	165.5%	165.5%
Finances					
Operating Revenue (\$000)	\$157,974	\$163,224	\$167,879	\$180,923	\$180,396
Fund Balance (\$000)	\$99,101	\$97,878	\$84,923	\$93,504	\$93,987
Cash Balance (\$000)	\$93,869	\$91,862	\$78,280	\$84,825	\$84,999
Fund Balance as a % of Revenues	62.7%	60.0%	50.6%	51.7%	52.1%
Cash Balance as a % of Revenues	59.4%	56.3%	46.6%	46.9%	47.1%
Debt/Pensions					
Net Direct Debt (\$000)	\$121,152	\$110,331	\$127,330	\$125,001	\$128,006
3-Year Average of Moody's ANPL (\$000)	\$109,633	\$144,435	\$163,636	\$173,549	\$182,227
Net Direct Debt / Full Value (%)	0.5%	0.4%	0.5%	0.5%	0.5%
Net Direct Debt / Operating Revenues (x)	0.8x	0.7x	0.8x	0.7x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.5%	0.6%	0.6%	0.6%	0.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.7x	0.9x	1.0x	1.0x	1.0x

Source: Moody's Investors Service; town audits

Profile

Cary is located in the center of North Carolina (Aaa stable) and includes property in Wake (Aaa stable), Chatham (Aa1) and Durham (Aaa stable) Counties. The town is in the middle of the Research Triangle Park Area (RTP), a location that repeatedly ranks among the top places in the nation to begin or expand a business. Cary's population is approximately 173,000.

Detailed credit considerations

Economy and tax base: large, growing tax base in robust economic region

Cary's tax base and local economy continues to be well positioned for continued growth. Cary is a key contributor to the regional economy, which benefits from the Research Triangle Park, the state capital of Raleigh and several higher education institutions, and serves as an employment hub with net daily in-migration. Ongoing investments of bio and other high-tech companies at RTP contribute to the town's positive long-run economic look. Officials report over 13,000 jobs created since 2014.

The \$27.8 billion tax base is well above medians and officials estimate a significant 20.8% increase in fiscal 2021 following reassessment. Future tax base growth will be supported by development in downtown Cary, including three mixed use and three multifamily developments, and the redevelopment of a shopping mall into Epic Games' global headquarters in 2024.

Income and wealth metrics are very strong. Median family income represents 165.5% of national levels. Full value per capita of \$162,981 is above statewide Aaa medians but below national medians. Unemployment has historically trended below state and national levels.

Financial operations and reserves: healthy financial position

Cary's financial position will remain sound given management's conservative budgeting practices and commitment to maintaining sound reserve levels. The town maintains a fund balance policy equal to 33% of budgeted expenditures. While multiyear financial plans include appropriation of reserves for one-time capital needs, reserves will remain strong given a demonstrated history of revenues over budget and expenditure savings.

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In fiscal 2020, audited financial reports show balanced operations and a year-end available fund balance of \$94 million, or 52.1% of revenue, which is above national medians for the rating category. Cary maintains additional unrestricted reserves in the capital projects fund, which totaled \$110 million in fiscal 2020. Officials project a surplus in fiscal 2021 due to sales tax revenues over budget.

The fiscal 2022 budget represents an 8.3% increase over the prior year's budget, which is supported by increased property, sales and other tax revenues. The budget includes a \$20.2 million fund balance appropriation for capital projects. Cary is scheduled to receive \$17.3 million in federal relief funds and officials are still in the process of determining how the funds will be spent.

Liquidity

Cary maintains sound liquidity and strong financial flexibility driven by sizable cash reserves totaling \$85 million in fiscal 2020, or 47.1% of revenues, which is in line with medians.

Debt and pensions: manageable long-term liabilities and fixed costs

Including the Series 2021 bonds, Cary's direct debt burden of 1.0%, which is above state and national medians, will remain manageable despite a sizable capital projects plan given a conservative approach to debt financing and ongoing tax base expansion. Approximately \$53 million of outstanding GO debt is self supported by water and sewer revenues and not included in the net direct debt burden. Cary's \$476 million five-year capital plan includes mostly transportation and parks projects, \$278 million of which will potentially be funded with GO debt.

Total fixed costs account for a manageable 14.8% of operating expenditures.

Legal security

The GO bonds are secured by an unlimited ad valorem pledge. The limited obligation bonds are secured by installment payments from the town, which are subject to annual appropriation, and by recourse to essential town assets in the event of non-appropriation.

Debt structure

Variable rate debt accounts for approximately 20% (\$25.7 million Series 2006 bonds) of total debt outstanding, representing a liquidity risk to the town, which is mitigated by its strong balance sheet. Payout (including the Series 2021 bonds) is slightly below average with 63.1% of principal repaid in 10 years.

Debt-related derivatives

Cary is not party to any derivative agreements.

Pensions and OPEB

Cary contributes to the North Carolina Local Government Employees Retirement System (NCLGERS), defined benefit retirement plan administered by the State of North Carolina, as well as a separate law enforcement plan. The Moody's adjusted net pension liability, based on a 3.5% discount rate, is \$199 million, or a 1.1x operating revenue.

In fiscal 2020, the town contributed \$8 million to the pension system, which accounts for a low 4.4% of operating revenue. Annual contributions have historically met our tread water indicator. OPEB is funded on a pay-go basis and the town contributed \$2.8 million in fiscal 2020.

ESG considerations

Environmental

Environmental considerations are not material to Cary's credit profile. According to data from Moody's affiliate Four Twenty Seven, the town has elevated exposure to hurricanes and, to a lesser extent, extreme rainfall. However, exposure to long-term environmental trends is consistent with that of the US local government sector. As a whole, US local governments exposure to long-term environmental risks is low.

Social

Social considerations are key influencers of all local economies, financial and leverage trends and governance stability. Social factors are incorporated into the town's rating by way of wealth (full value per capita) and income (median family income) metrics. The town has been proactive in taking steps to prevent and mitigate the impact of cyber events, largely through employee training and education and updating technology

Governance

North Carolina cities have an institutional framework score of "Aaa," or very strong. Revenues are highly predictable as cities primarily rely on property taxes. Economically sensitive revenues typically account for less than a sixth of operating revenues. Cities have a high ability to increase revenues through virtually unlimited property tax increases. Expenditures are highly predictable and cities have a high ability to reduce costs quickly if needed given a modest fixed cost burden and no collective bargaining units.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Cary (Town of) NC

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%)^[1]		
Tax Base Size: Full Value (in 000s)	\$27,759,198	Aaa
Full Value Per Capita	\$162,981	Aaa
Median Family Income (% of US Median)	165.5%	Aaa
Notching Adjustments:^[2]		
Regional Economic Center		Up
Finances (30%)		
Fund Balance as a % of Revenues	52.1%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	0.8%	A
Cash Balance as a % of Revenues	47.1%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	-0.9%	Baa
Management (20%)		
Institutional Framework	Aaa	Aaa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.9%	Aa
Net Direct Debt / Operating Revenues (x)	1.3x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.6%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.0x	A
	Scorecard-Indicated Outcome	Aaa
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

Source: US Census Bureau, Moody's Investors Service

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