S&P Global
Ratings

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Summary:

Cary, North Carolina; Appropriations; General Obligation

Primary Credit Analyst:
Kimberly Barrett, Centennial + 1 (303) 721 4446; Kimberly.Barrett@spglobal.com

Secondary Contact:
Lauren Freire, New York + 1 (212) 438 7854; lauren.freire@spglobal.com

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Credit Profile		
US$125.0 mil GO pub imp bnds ser 2021 due 09/01/2041		
Long Term Rating	AAA/Stable	New
Cary GO		
Long Term Rating	AAA/Stable	Affirmed
Cary GO		
Long Term Rating	AAA/A-1/Stable	Affirmed
Cary GO (Pub Imp Proj) lse		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to Cary, N.C.'s series 2021 general obligation (GO) public improvement bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on Cary's GO debt outstanding, its 'AA+' long-term rating on Cary's appropriation-backed obligations outstanding, and its 'AAA/A-1' rating on Cary's series 2006 variable-rate bonds. The outlook is stable.

The GO bonds are secured by Cary's full-faith-and-credit pledge, payable from unlimited-ad-valorem property tax revenues. The long-term component of the dual rating on the series 2006 bonds is based on the rating on the obligor, Cary, and the short-term component is based on the short-term rating on the liquidity provider, JPMorgan Chase. The 'AA+' appropriation rating is one notch lower than the town's general creditworthiness to reflect the presence of appropriation risk associated with the annual payment.

Proceeds of the $125.0 million series 2021 GO bonds will finance parks improvements ($90 million) and transportation projects ($35 million) and are being issued as part of a $225.0 million 2019 voter referendum.

Credit overview

The rating reflects our view of Cary's consistently strong financial performance and flexibility. Cary's use of conservative budgeting assumptions has typically led to positive operating results, which has led to maintenance of very strong general fund reserves and the ability to frequently cash-fund capital projects. The rating also reflects the very strong local economy, with a steadily growing tax base, and above-average wealth and income indicators. With the recent announcement of Apple locating its first east coast headquarters in Research Triangle Park (RTP), we expect continued economic growth in the surrounding area. Additionally, with Cary's strong debt profile and well-funded pension plan, risk from long-term obligations is limited.

The rating further reflects our view of Cary's:

- Very 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 an operating surplus in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 40% of operating expenditures;
- Very strong liquidity, with total government available cash at 83.7% of total governmental fund expenditures and 10.6x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 7.9% of expenditures and net direct debt that is 92.1% 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.

Cary's GO bonds are eligible to be rated above the sovereign because we believe Cary can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, Cary has a predominantly locally derived revenue base, with approximately 93% of general fund revenue derived from local sources in fiscal 2020, coupled with independent taxing authority and treasury management.

Environmental, social, and governance (ESG) factors

We analyzed Cary's environmental and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that they are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if Cary experiences financial pressures that lead to budgetary imbalance or material draws on reserves.

Credit Opinion

Very strong economy

Cary, with an estimated population of 163,693, is located in Wake, Chatham, and Durham counties in the Durham-Chapel Hill and Raleigh MSAs, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 152% of the national level and per capita market value of $207,288. Overall, the town's market value grew by 1.2% over the past year, to $33.9 billion in 2022. The weighted-average unemployment rate of the counties was 6.4% in 2020.

Cary is adjacent to Raleigh, the state capital, and is the seventh-largest municipality in the state. Cary is also adjacent to Research Triangle Park (RTP), the largest research park in the nation and one of the largest in the world. RTP employs almost 55,000 workers at approximately 300 global firms. Cary originally grew as a residential community for people employed at RTP and in state government, but has since developed a significant commercial and industrial base of its own and now imports more workers than it exports on a daily basis. SAS Institute, a leading markets analytics software company, is the largest taxpayer and largest employer, with nearly 5,600 employees. SAS's assessed value (AV) has almost doubled in the past decade as it continues to expand, but only represents 2.2% of overall AV. Cary's tax base is very diverse, with the top 10 taxpayers accounting for only 5.5% of total AV. Overall, AV has steadily grown each year over the past decade, averaging 2% to 4% growth in between revaluations, which occur every four years. Fiscal 2021 values grew 21% with the most recent revaluation.

Cary continues to invest in the development of its downtown, making it a pedestrian-friendly multiuse area that is active day and night. The downtown park is the largest project that will be financed with proceeds of the 2021 bonds. To be developed on a seven-acre parcel of land, it will feature open space and performance space, and will be adjacent to the library, allowing for extensive programming for art, fitness, and entertainment.

The technology sector continues to grow in and around RTP, bringing with it new jobs with above-average salaries. Epic Games, headquartered in Cary, recently acquired the Cary Towne Center, an outdated shopping center, that it will redevelop into its new campus by 2024, adding an additional 1,750 to 2,000 employees, which is projected to make the company a top employer in Cary. Apple recently announced that it will be establishing its first east coast campus at RTP. The campus is planned to be a $1.0 billion development, with a one million-square-foot building, and it is targeting creation of 3,000 new jobs with an average salary of $185,000. Apple also plans to invest $100 million for schools and communities in North Carolina. We believe these developments will bolster Cary's already steadily growing local economy.

Very strong management

We view the town'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. Management evaluates historical data and trends when developing revenue and expenditure assumptions for budgeting purposes. Additionally, the use of external sources informs planning related to consideration of economic cycles and future developments. The budget can be amended as needed throughout the fiscal year, and budgetary performance is regularly monitored. Management prepares comprehensive quarterly financial reports that include an economic outlook, financial highlights, and budget-to-actual performance. Cary's long-term financial forecast is regularly updated and provides 10-year projections of revenues, expenditures, and reserves. Cary annually approves and updates its 10-year capital improvement plan, which includes project details, costs, and funding sources. Cary's reserve policy was revised in 2020 to require a total fund balance of at least 33% of budgeted expenditures. This policy allows reserves in excess of the minimum requirement to be used to cash-fund capital projects, which is frequently done. Cary's debt management policy outlines allowable debt types and structures, and limits debt service carrying charges to no more than 20% of budgeted expenditures. Cary has a formal investment policy and regularly reports holdings and earnings within the quarterly financial reports. Finally, we believe Cary has appropriate cyber security practices in place and does not have any unusual cyber security risks.

Strong budgetary performance

Our assessment of budgetary performance includes adjustments for recurring transfers out of the general fund to special revenue funds, for nonrecurring capital expenses from the capital project fund, and for transfers to the capital project fund from the general fund. After adjustments, Cary has consistently maintained positive operating results in each of the past three audited fiscal years, ranging from $8.4 million to $13.2 million, or 4.9% to 8.1% of general fund expenditures. Similarly, Cary also experienced surplus results across all governmental funds. Cary's general fund revenues are stable, with property taxes making up 54% of general fund revenues, followed by other local taxes (22%), sales and services (10%), intergovernmental (7%), and the remainder made up of several smaller miscellaneous sources.

Cary typically uses conservative budget assumptions, initially appropriating fund balance but not actually using it to balance the budget, which results in actual results consistently outperforming budget estimates. For example, in fiscal 2020, management initially budgeted for a $5.9 million use of fund balance, but instead ended with a $10.9 million operating surplus (before transfers). Fiscal 2020 results include $758,942 CARES Act funding, which was used to reimburse employee premium pay.

The fiscal 2021 budget included a 4% revenue increase, primarily due to projected additional property tax revenues expected from the increased values resulting from the 2021 revaluation. Cary opted to maintain the property tax rate at 2020 levels, which have been in place since the last revaluation in 2017. This was above the revenue-neutral rate, but was approved to help keep budgetary balance in a year that might have been affected by the COVID-19-induced recession. Somewhat offsetting the increase in property tax revenues, the fiscal 2021 budget also estimated sales tax revenues would be 20% less than the previous year, reflecting lower activity due to the pandemic. Actual revenues are tracking well compared to budget, which initially included a $22.7 million fund balance draw, but management currently estimates at least balanced results at year-end, with no draw on reserves. In fiscal 2021, Cary received a $2.8 million allocation of CARES ACT funding from Wake County that was used for public safety salaries, and $126,615 from Chatham County that was used for facility disinfection.

The fiscal 2022 adopted budget assumes continued revenue growth, 1.2% AV growth, and a $15.2 million use of fund balance. We expect actual results to outperform budget estimates, as in prior years. Cary has been allocated $17.32 million in ARPA funds, which will be received in two equal disbursements in fiscal years 2022 and 2023. Cary is currently undergoing a needs assessment to determine how to allocate the ARPA funds.

Very strong budgetary flexibility

Cary's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 40% of operating expenditures, or $68.0 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. Cary has consistently maintained a very strong available general fund balance in each of the past three audited fiscal years of $63.4 million to $68.0 million, or 40% to 42% of general fund expenditures. Available general fund balance has fluctuated year to year, as a sizeable amount of capital projects have been cash-funded annually from surplus reserves, but has always remained well above Cary's formal reserve policy requiring a total fund balance equal to at least 33% of expenditures. As of June 30, 2020, Cary has $132.0 million in its capital projects fund balance, which is not included in our reserve metrics, but does provide additional flexibility.

Very strong liquidity

In our opinion, Cary's liquidity is very strong, with total government available cash at 83.7% of total governmental fund expenditures and 10.6x governmental debt service in 2020. In our view, the town has strong access to external liquidity, if necessary, which it has demonstrated through its frequent issuance of GO, limited obligation, and revenue debt over the past 20 years. Cary's investments are primarily held in U.S. treasury and agency securities, bank deposits, and municipal bonds. We do not consider these investments to be aggressive.

Cary previously privately placed its 2018 installment purchase debt, which financed a new fire station and upgrades to the fire engine fleet. The loan, currently outstanding in the principal amount of $7.3 million, includes an acceleration clause for the entire principal upon default. While we view an event of default as very unlikely, we believe Section 160A-20 of North Carolina statutes, which prohibits deficiency judgments for appropriation debt and mitigates liquidity risk, and we therefore do not consider this debt to be a contingent liability.

Cary maintains a liquidity facility on its existing variable-rate debt, outstanding in the amount of $25.7 million as of June 30, 2020. Under the agreement, the bank will remarket any obligation for which payment is demanded. If the obligation cannot be remarketed, the bank will purchase the obligation. Interest rates may change pursuant to the terms of the debt agreement based on market conditions. The interest rates, per the remarketing agreement, cannot exceed maximum step rates.

Strong debt and contingent liability profile

Total governmental fund debt service is 7.9% of total governmental fund expenditures and net direct debt is 92.1% of total governmental fund revenue. Overall net debt is low, at 1.4% of market value, which is in our view a positive credit factor. In October 2019, Cary voters passed two GO bond initiatives totaling $225 million, including $112 million for new parks projects and $113 million for transportation projects. The 2021 bonds will include $90 million for park projects and $35 million for transportation projects. The remaining $22 million for parks projects and $78 million for transportation projects will be issued within the next four years. Our assessment of the debt profile incorporates the issuance of the remaining authorized, but unissued, referendum debt.

Pension and other postemployment benefits (OPEB):

We do not view pension and OPEB liabilities as an immediate source of credit risk for Cary, given our opinion of the largest pension plan's current strong funding status and limited escalating cost trajectory risk. Cary's combined required pension and actual OPEB contributions totaled $10.9 million, or 5.2% of total governmental fund expenditures, in 2020.

Cary participates in the following plans as of June 30, 2020:

- Local Government Employees' Retirement System (LGERS), a cost-sharing, multiple-employer, defined-benefit pension plan, funded on an actuarial basis, with a funded ratio of 88.6% in fiscal 2020 and a proportional share of net pension liability equal to $45.4 million.
- Law Enforcement Officers' Special Separation Allowance (LEOSSA), a single-employer, defined-benefit pension plan, funded on a pay-as-you-go basis, with a net pension liability of $9.9 million.
- Single-employer OPEB defined-benefit plan, funded on a pay-as-you-go basis, with a net OPEB liability of $174.7

million in fiscal 2020.

Very strong institutional framework

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

Related Research

- 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
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020