FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Cary, NC's $125MM GOs 'AAA'; Outlook Stable

Fri 13 Aug, 2021 - 4:59 PM ET

Fitch Ratings - New York - 13 Aug 2021: Fitch Ratings has assigned a 'AAA' rating to the following Cary, NC general obligation (GO) bonds:

--$125 million GO public improvement bonds, series 2021.

The bonds are scheduled to sell competitively on Aug. 31. Proceeds of the bonds will be used to fund various transportation projects and various parks and recreational facilities improvements for Cary.

In addition, Fitch has affirmed the following ratings for Cary:

--Issuer Default Rating (IDR) at 'AAA';

--Approximately $145 million GO bonds at 'AAA';

--Approximately $1.6 million limited obligation refunding bonds (LOBs) series 2010 at 'AA+'.

The Rating Outlook is Stable.

SECURITY

The GO bonds are backed by a pledge of the full faith and credit and unlimited taxing power of Cary.

The outstanding LOBs are payable from lease payments made by Cary under installment financing agreements in an amount sufficient to meet debt service requirements on the debt, subject to annual appropriation.

ANALYTICAL CONCLUSION

Cary's 'AAA' IDR and GO rating reflect its strong revenue growth prospects, ample reserves and broad budgetary tools along with solid expenditure flexibility, and a low long-term liability burden. The rating on the LOBs is one notch below the IDR, reflecting the slightly higher degree of optionality associated with trust agreement payments subject to appropriation.

ECONOMIC RESOURCE BASE

Cary's estimated 2020 US census population is 173,587 up 28% since 2010. Cary benefits from strong local commercial and employment bases as well as its proximity to the state capital, Raleigh (Fitch IDR 'AAA'/Stable). Nearby Research Triangle Park (RTP), a prominent research and development center, serves as an economic engine, helping to draw biotechnology and high-tech firms into the area. Several colleges and universities as well as major healthcare facilities provide complementary employment opportunities.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Cary has strong revenue-raising flexibility given that the current property tax rate is less than a quarter of the statutory cap. Historically taxable assessed value (TAV) appreciation and sales tax revenue trends have generated natural revenue growth that exceeds U.S. GDP. Fitch expects this trend to continue post-pandemic, given strong economic growth prospects.

Expenditure Framework: 'aa'

Fitch expects the natural pace of spending growth to remain marginally above Cary's strong revenue growth. Moderate carrying costs and the broad ability to manage labor-related costs provide Cary with solid expenditure flexibility.

Long-Term Liability Burden: 'aaa'

Cary's overall debt and net pension liability burden is low relative to personal income. Fitch expects that modest intermediate term debt plans, a well-funded pension, and robust income levels will support Cary's ability to maintain a low long-term liability burden.

Operating Performance: 'aaa'

Cary's consistently strong operating performance demonstrates a high level of financial resilience and sound budget management. Fitch believes Cary's superior budget flexibility and ample general fund reserve balance position it to maintain its historically high level of financial flexibility through future economic cycles.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

--Not applicable for a 'AAA' rating.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

--While not expected, a material long-term reduction in Cary's tax base and economy, resulting in an extended decline in Cary's revenue growth prospects;

--A sustained increase in the long-term liability burden materially above 10% of residents' personal income;

--A sustained and material erosion of Cary's gap-closing capacity, resulting in a deterioration of the town's overall financial resilience.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Cary was not materially impacted by the coronavirus pandemic. Cary ended fiscal 2020 with an unrestricted general fund balance of approximately $72 million, about 40% of total spending. When including the $22 million restricted for stabilization by state statute, the town's combined available reserves equaled $94 million, roughly 52% of expenditures, well above its total general fund balance policy minimum of 33%.

The $184 million adopted fiscal 2021 general fund budget is roughly 5% above the adopted fiscal 2020 budget. Management reports third quarter revenues are performing strongly and are 24% higher than the same period last year. This increase is primarily due to Cary's property reassessment, which generated TAV growth of about 21%. Property and sales tax revenue projections are expected to exceed budget expectations, which will help offset revenue shortfalls in Parks, Recreation, and Culture Resources (PRCR) due to pandemic related closures. Cary expects essentially break-even net results, leaving reserves roughly unchanged.

The $199.7 million adopted fiscal 2022 general fund budget is roughly 9% above the adopted fiscal 2021 budget. The main budget drivers include general government, public safety, and PRCR and public works. The budget includes a decrease in the property tax rate to $0.345 per $100 AV and an appropriated fund balance of about $15 million. Fitch expects Cary will manage well through the current uncertainty and future economic downturns, given its traditionally strong budget management practices and maintenance of healthy reserves.

CREDIT PROFILE

Academia, biotechnology, and government foster economic stability and have helped Cary maintain healthy employment metrics. Numerous multinational corporations are tenants at RTP, which is located between three major research universities (Duke, University of North Carolina, and North Carolina State), and prominent employers include Biogen, Inc., GlaxoSmithKline, Fidelity Investments, and Cisco Systems, Inc. The employment opportunities have attracted a highly educated labor force and translated into favorable wealth levels and unemployment rates consistently below the national and state averages.

Cary's location has allowed it to generate economic investment and create its own employment base. SAS Institute, Inc. (computer software) is the town's largest employer with over 5,000 employees and is also the largest taxpayer at approximately 2% of TAV. MetLife employs over 3,000 and represents approximately 3.8% of Cary's employment base.

Apple recently announced a one-billion-dollar investment to expand its operations to a new campus in the RTP. The company plans to occupy a one million square foot building, create about 3,000 new jobs, and is expected to invest $100 million to schools and community initiatives within the state. Epic Games, the video game and software developer, has acquired the 87-acre former Cary Towne Center Mall site with plans to construct and open its new campus by 2024. The new global headquarters could add an additional 1,750-2,000 new jobs.

REVENUE FRAMEWORK

Cary's general fund revenues are consistently dominated by property and sales taxes, making up about 54% and 21% of revenues, respectively, in fiscal 2020.

Cary's general fund revenue growth, adjusted for tax rate changes, has trended above U.S. GDP growth. The tax base is reassessed every four years. Fiscal 2021 TAV is projected to increase by 21% to $34 billion due to the reassessment, following 2.7% growth in fiscal 2020. Cary's strong revenue growth prospects are supported by projected TAV growth resulting from ongoing economic activity and property value appreciation as well as consistently strong sales tax revenue growth.

Cary maintains a healthy taxing capacity under the statutory cap of $1.50 per $100 of TAV. The fiscal 2022 budget includes a $0.005 reduction in the property tax rate from $0.35 to $.345 following the fiscal 2021 reassessment.

EXPENDITURE FRAMEWORK

Public safety is Cary's largest expenditure category, at around one-third of spending, followed by public works and general government, equal to about 19% and 17% of spending respectively.

Fitch expects Cary's natural pace of spending to remain marginally above revenue growth prospects given significant population growth and increases in cost for services.

Cary maintains a significant level of expenditure flexibility due to the favorable workforce environment that prohibits labor contracts and gives management independent control over compensation and work rules. Cary also annually funds pay-go capital spending (approximately 7% of the fiscal 2022 budget), which is another area of spending flexibility. Carrying costs associated with debt service, actuarially determined pension payments and OPEB actual contributions totaled about 12% of governmental spending in fiscal 2020, almost entirely attributable to debt service. As such, management expects to remain in compliance with its internal debt policy of 20% of debt service to general fund spending. Moderate debt servicing costs are due in part to a 60% 10-year principal amortization rate, when including the 2021 general obligation bonds.

LONG-TERM LIABILITY BURDEN

Cary's long-term liability burden, associated with overall debt and Fitch-adjusted NPLs, is low at 5% of personal income in fiscal 2020. The liability burden is derived almost entirely from debt; overlapping debt of Wake County accounts for more than 70% of the burden. The five-year (2022-2026) capital improvement plan totals approximately $476 million. More than half of the plan is funded with debt and more than 15% is funded by general fund transfers. About one-tenth of the plan is funded with restricted transportation grants and another one-fifth is funded with revenues from the Wake County transit tax. Given Cary's modest future debt plans, the liability burden is expected to remain low.

The majority of town employees participate in the North Carolina Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer plan. Cary also administers a single-employer pension plan to provide retirement benefits to qualified sworn law enforcement officers and a supplemental retirement income plan. The aggregate ratio of assets to liabilities is approximately 80% based on a Fitch adjusted 6% return assumption. Cary consistently funds the actuarially determined contribution for both plans. Cary's net OPEB liability (approximately $175 million) is about 1% of personal income and is funded on a pay-go basis.

OPERATING PERFORMANCE

Minimal revenue volatility and ample budget flexibility support a superior capacity to maintain healthy reserves, even during a time of revenue stress. Cary's statutorily required reserve, which is used primarily to offset accounts receivables, bolsters the town's already large unrestricted fund balance. The town ended fiscal 2020 with a small operating surplus, resulting in an unrestricted general fund balance of about $72 million or 40% of general fund spending. The reserve for state statute of about $22 million contributed to an increased combined available fund balance of about $94 million (approximately 52% of spending).

Fitch considers budget management practices during times of economic recovery to be strong. Cary has demonstrated its ability to reduce spending through cost control mechanisms, and Fitch expects management would take similar actions to maintain its strong financial resilience in future downturns.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Cary (NC) [General Government]	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
Cary (NC) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
Cary (NC) /Lease Obligations - Standard/1 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Lindsay Horne
Analyst
Primary Rating Analyst
+1 646 582 4462
lindsay.horne@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Grace Wong
Director
Secondary Rating Analyst
+1 212 908 0652
grace.wong@fitchratings.com

Steve Murray
Senior Director
Committee Chairperson
+1 512 215 3729
steve.murray@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Cary (NC)	EU Endorsed, UK Endorsed

DISCLAIMER

READ LESS

COPYRIGHT

ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit

Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

US Public Finance Infrastructure and Project Finance North America United States