FITCH RATES CARY, NC'S $16MM GOS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-26 June 2019: Fitch Ratings has assigned an 'AAA' rating to the following Cary, NC general obligation bonds (GOs):

--$16.05 million GO public improvement bonds, series 2019A.

The bonds are being issued for the purpose of providing funds for the capital costs of the acquisition, construction, installation and equipping of street improvements, recreation facilities improvements and fire station improvements. The bonds are scheduled for sale on July 16 via competitive bid.

In addition, Fitch has affirmed the following ratings:

--Issuer Default Rating (IDR) at 'AAA';
--Approximately $162 million GO bonds at 'AAA';
--Approximately $3 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 the town.

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

ANALYTICAL CONCLUSION

The town'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, with an estimated 2018 population of 168,160, benefits from strong local commercial and employment bases as well as its proximity to the state capital, Raleigh (AAA/Stable). Population growth since 2010 has been strong at 24.3%, or a 76% increase, since 2000. 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'
The town has strong revenue-raising flexibility given that the current property tax rate is less than a quarter of the statutory cap. Assessed value (AV) appreciation and sales tax revenue trends have generated natural revenue growth that exceeds U.S. GDP. Fitch expects this trend to continue given strong economic growth prospects.

Expenditure Framework: 'aa'
Moderate carrying costs and the broad ability to manage labor-related costs provide the town with solid expenditure flexibility.

Long-Term Liability Burden: 'aaa'
Modest intermediate term debt plans, a well-funded pension and robust income levels will support the town's ability to maintain a low long-term liability burden.

Operating Performance: 'aaa'
The town's superior budget flexibility and ample general fund reserve balance position it to maintain its historically high level of financial flexibility throughout the economic cycle.

RATING SENSITIVITIES
Continued Strong Financial Position: The rating is sensitive to shifts in fundamental credit characteristics, including the town's strong financial management practices.

CREDIT PROFILE

Academia, biotechnology, and government foster economic stability and have helped the town maintain healthy employment metrics, even during past economic downturns. 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.

The town'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 5,616 employees (6.2% of employment) and is also the largest taxpayer at approximately 2% of AV. MetLife employs 2,600 and represents approximately 3% of the town's employment base. In 2018, several projects were announced that are projected to create approximately $16 million of new investment and 300 new jobs.

Revenue Framework
The revenue base is dominated by property and sales taxes at 55% and 20%, respectively, of fiscal 2018 general fund revenues.

The town's general fund revenue growth, adjusted for tax rate changes, has trended above U.S. GDP growth. The town's tax base is reassessed every four years, and will next be reassessed effective fiscal 2021. Fiscal 2018 assessed value (AV) increased 2% over fiscal 2017 and fiscal 2019 AV is estimated to grow by approximately 1% to $26.7 billion. The town estimates the tax base will grow by 3.5% in fiscal 2020 to $27.6 billion. Sales tax revenue growth has been robust. Strong revenue growth prospects reflect projected AV growth trends as a result of ongoing economic activity and property value appreciation as well as strong sales tax revenue growth.

The town maintains a healthy taxing capacity under the statutory cap of $1.50 per $100 of AV, given the fiscal 2020 tax rate of $.35 per $100 valuation, which has remained stable since fiscal 2017.

Expenditure Framework
Public safety is the town's largest expenditure, at around one-third of spending, followed by public works, equal to about one-fifth of spending.

Despite notable population growth, management has proactively maintained spending growth in line with revenue growth, and Fitch expects that approach to continue.

The town 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. The town also annually funds pay-go capital spending (approximately 3% of the fiscal 2020 budget), which is another area of spending flexibility. Carrying costs associated with debt service, actuarially determined pension payments and OPEB actual contributions total over 12% of total fiscal 2018 governmental spending, almost entirely attributable to debt service. As such, the town is in compliance with its internal debt policy of 15% of debt service to general fund spending. Moderate debt servicing costs are due in part to a rapid (75%) 10-year principal amortization rate.

Long-Term Liability Burden

The town's long-term liability burden is low at 6% of personal income. The liability burden is derived almost entirely from debt; overlapping debt of Wake County accounts for approximately 4% of the burden. The five year (2020-2025) capital improvement plan totals approximately $249 million. Approximately a third of the plan is funded with debt. About one-fifth of the plan is funded with restricted transportation grants and another one-fifth is funded with revenues from the Wake County transit tax. Given the town'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. The town 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. The town funds OPEB on a pay-go basis, but the net OPEB liability (approximately $146 million) is less than 1% of personal income.

Operating Performance

Minimal revenue volatility and ample budget flexibility support a superior capacity to maintain healthy reserves, even at a time of revenue stress. The town's reserve by state statute, which is used primarily to offset accounts receivable, further augments the town's already large unrestricted fund balance. The town concluded fiscal 2018 with a $12.9 million (7.1% of spending) operating deficit due to pay-go capital outlays; however, the unrestricted fund balance remained a high $66 million or 36.5% of general fund spending minus refunding bond proceeds. The reserve for state statute increased the available fund balance to $84.9 million (approximately 47% of spending).

Conservative budgeting underscores the town's financial resilience, resulting in positive operations in the last recession, followed by equally strong budget management during the recovery. Town officials project that out-year reserve levels will remain above the policy amount of 40% of expenditures.

Based on preliminary projections, fiscal 2019 general fund revenues are expected to exceed the budget due largely to better than expected revenue from sales taxes and development-related permits. Due to conservative spending throughout the fiscal year, the general fund expenditures will be less than the amount budgeted. The fiscal 2019 budget included a $5.1 million fund balance appropriation to fund a similar level of capital spending.

The fiscal 2020 adopted general fund budget of approximately $181 million is about a 3% increase over the fiscal 2019 general fund budget. The budget keeps the real property tax rate steady but includes an increase to the recycling fee. Like prior budgets, $5.2 million of fund balance is appropriated along with a similar amount of capital pay-go funding.

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

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Additional information is available on www.fitchratings.com

Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)
https://www.fitchratings.com/site/re/10024656