MOODY'S INVESTORS SERVICE

CREDIT OPINION
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**Contacts**

Orlie Prince +1.212.553.7738
*Senior Vice President/Manager*
orlie.prince@moodys.com

Lauren Von Bargen +1.212.553.4491
*Vice President - Senior Analyst*
lauren.dahan@moodys.com

**CLIENT SERVICES**

| | |
|---|---|
| Americas | 1-212-553-1653 |
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| Japan | 81-3-5408-4100 |
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# Town of Cary, NC

## Update to credit analysis


## Summary

Cary, NC (Aaa stable) will continue to benefit from a growing tax base and economy and sound financial performance bolstered by proactive management and formal policies. Income and wealth metrics of the town are very strong and in line with Aaa medians. The town's long-term liabilities are slightly elevated but remain manageable.


## Credit strengths

» Robust economic growth

» Strong income and wealth levels

» Ample financial position supported by long-term planning and formal policies

## Credit challenges

» Slightly elevated leverage position

## Rating outlook

Cary's stable outlook reflects the expectation that the tax base and economy will continue to benefit from its strategic location near Raleigh and the Research Triangle Park. The outlook also reflects the town's proactive long-term planning and strong management, which will ensure healthy financial metrics and manageable long-term liabilities.

## Factors that could lead to an upgrade

» N/A

## Factors that could lead to a downgrade

» Increase in long-term liabilities exceeding 350% of revenue for multiple years

» Sustained trend of structural imbalance leading to significantly narrowed reserves, below 35% of revenue

## Key indicators

Exhibit 1
**Cary (Town Of) NC**

| | 2020 | 2021 | 2022 | 2023 | Aaa Medians |
|---|---|---|---|---|---|
| **Economy** | | | | | |
| Resident income ratio (%) | 173.3% | 168.8% | 169.5% | N/A | 173.0% |
| Full Value ($000) | $27,759,198 | $33,610,645 | $33,931,769 | $34,829,718 | $8,668,233 |
| Population | 169,177 | 171,603 | 174,880 | N/A | 35,992 |
| Full value per capita ($) | $164,084 | $195,863 | $194,029 | N/A | $225,444 |
| Annual Growth in Real GDP | 0.4% | 8.5% | 3.5% | N/A | N/A |
| **Financial Performance** | | | | | |
| Revenue ($000) | $314,275 | $328,416 | $338,923 | $372,838 | $101,177 |
| Available fund balance ($000) | $497,238 | $493,953 | $499,350 | $442,351 | $58,570 |
| Net unrestricted cash ($000) | $513,296 | $503,421 | $522,903 | $480,517 | $82,803 |
| Available fund balance ratio (%) | 158.2% | 150.4% | 147.3% | 118.6% | 61.7% |
| Liquidity ratio (%) | 163.3% | 153.3% | 154.3% | 128.9% | 88.4% |
| **Leverage** | | | | | |
| Debt ($000) | $416,485 | $396,097 | $508,741 | $478,533 | $71,733 |
| Adjusted net pension liabilities ($000) | $225,647 | $275,725 | $264,497 | $191,961 | $120,941 |
| Adjusted net OPEB liabilities ($000) | $169,205 | $159,983 | $143,209 | $127,713 | $14,374 |
| Other long-term liabilities ($000) | $22,988 | $20,545 | $23,378 | $22,279 | $3,750 |
| Long-term liabilities ratio (%) | 265.5% | 259.5% | 277.3% | 220.1% | 263.2% |
| **Fixed costs** | | | | | |
| Implied debt service ($000) | $29,085 | $29,826 | $27,782 | $35,530 | $4,989 |
| Pension tread water contribution ($000) | $8,224 | $8,914 | $7,016 | $9,752 | $3,389 |
| OPEB contributions ($000) | $2,847 | $2,427 | $2,059 | $2,690 | $523 |
| Implied cost of other long-term liabilities ($000) | $1,432 | $1,646 | $1,441 | $1,633 | $245 |
| Fixed-costs ratio (%) | 13.2% | 13.0% | 11.3% | 13.3% | 11.6% |

For definitions of the metrics in the table above please refer to the US Cities and Counties Methodology or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published US Cities and Counties Median Report.
The real GDP annual growth metric cited above is for the Raleigh-Cary, NC Metropolitan Statistical Area [issuer specific] Metropolitan Statistical Area.
*Sources: US Census Bureau, Cary (Town Of) NCâ€™s financial statements and Moodyâ€™s Investors Service, US Bureau of Economic Analysis*

## Profile

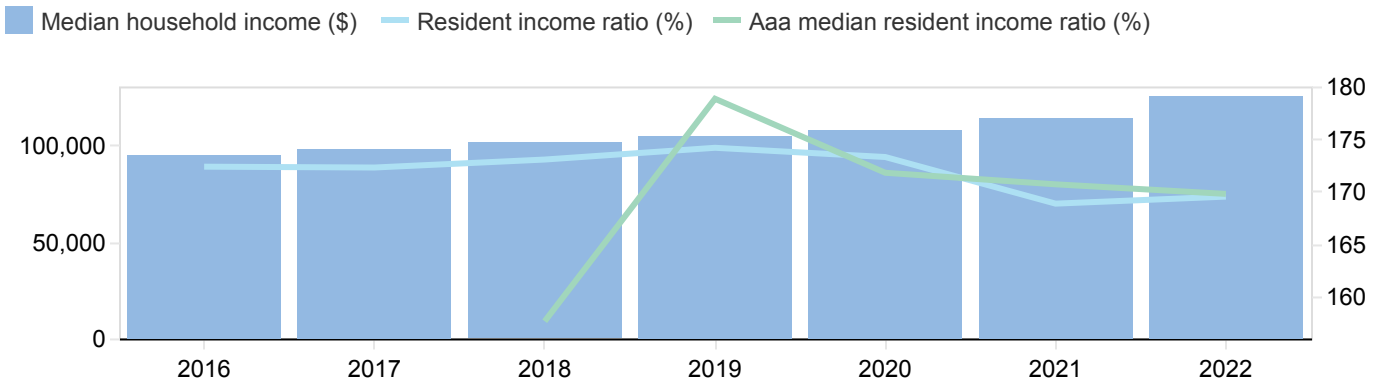
The Town of Cary is located primarily in Wake County (Aaa stable) in north central North Carolina (Aaa stable), directly west of Raleigh (Aaa stable) and southeast of Durham (Aaa stable).

## Detailed credit considerations

### Economy

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. Economic growth is exceeding the nation and the town's $35 billion tax base continues to grow. Resident income and wealth levels are strong.

Exhibit 2
**Resident Income**

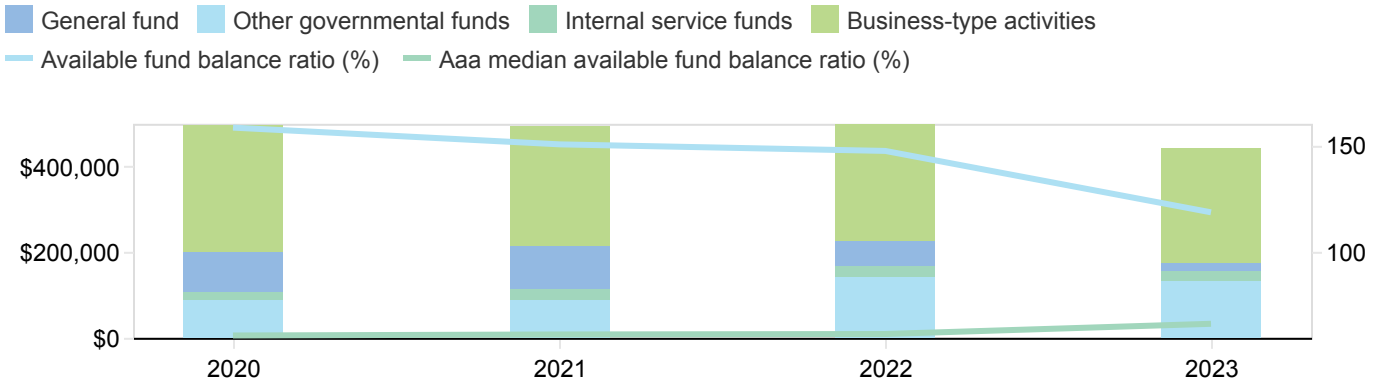



*Source: Moody's Investors Service*

## Financial operations

The town's financial position is robust and will remain so supported by formal policies, proactive management and growing revenues. Governmental funds account for about 70% of the town's revenues, with revenues from the water and sewer system (Aaa stable) accounting for the remainder. General fund revenues are largely comprised of property and sales taxes, both of which continue to increase. Despite the use of general fund reserves in recent years for capital projects, total available fund balance remains robust at over 100% of revenue.

Exhibit 3
**Fund Balance**



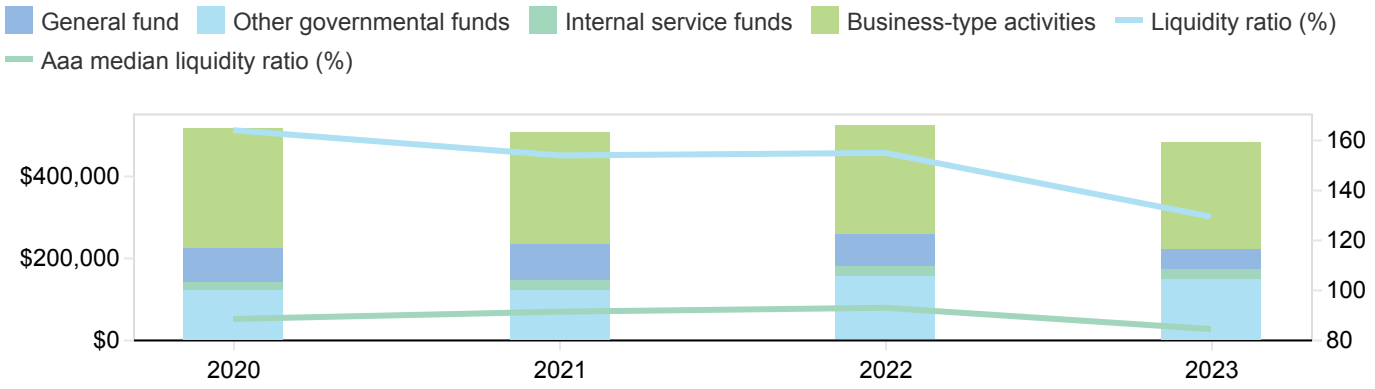

*Source: Moody's Investors Service*

The fiscal 2024 general fund budget represents a 3% increase over the prior year, includes a $6 million fund balance appropriation for capital projects and maintains a flat property tax rate. The budget includes a 3% increase on water and sewer rates to support ongoing capital projects.

**Liquidity**

Similar to fund balance, the town's liquidity position is very strong and exceeds medians for the rating category.

Exhibit 4
**Cash**

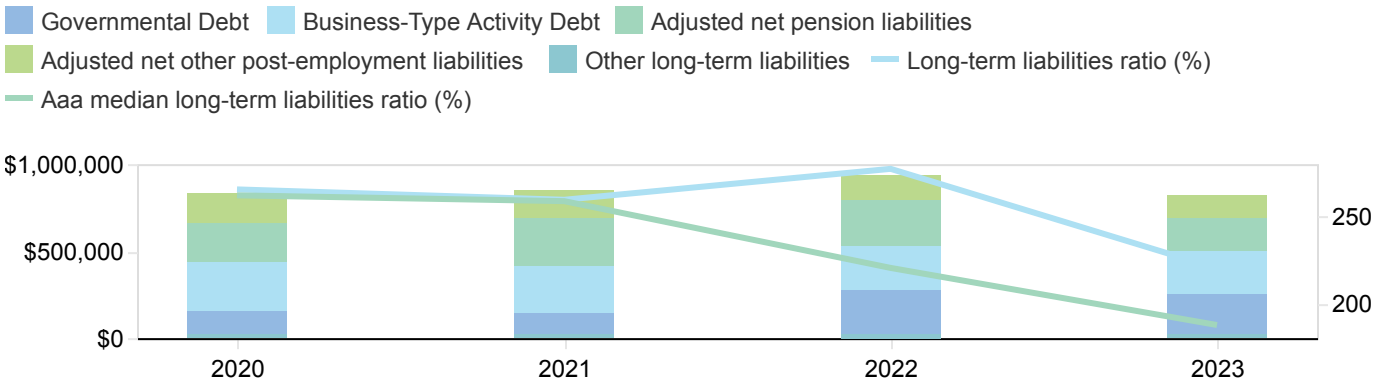



*Source: Moody's Investors Service*

## Leverage

The town's leverage is manageable, though slightly elevated. Total long-term liabilities represent 220% of revenue, with debt accounting for about 60% of liabilities and pensions representing 25%. OPEB liabilities are minimal. Outstanding debt is equally split between governmental and business-type activities (water and sewer revenue bonds). Fixed costs are slightly elevated, but manageable, at 13% of revenue.

Exhibit 5
**Total Primary Government - Long Term Liabilities**




*Source: Moody's Investors Service*

The town prepares an annual capital budget, as well as a multi-year capital improvement plan. Capital projects budgeted for fiscal 2024 total $170 million, funded from a combination of debt, general fund, capital fund and utility reserves, grants and transit tax distributed by the county. Multi-year planning, as well as formal debt policies and targets, will ensure that the town's debt position remains manageable.

### Legal security

The town's general obligation bonds are backed by its unlimited ad valorem taxing authority and full faith and credit pledge. Water and sewer revenue bonds are backed by a net revenue pledge of the system.

### Debt structure

The town has one series of variable rate debt, which represents just over 3% of total debt outstanding. The town has entered into a standby bond purchase agreement with JP Morgan Chase Bank, NA that expires June 1, 2027.

**Debt-related derivatives**
The town is not party to any derivative agreements.

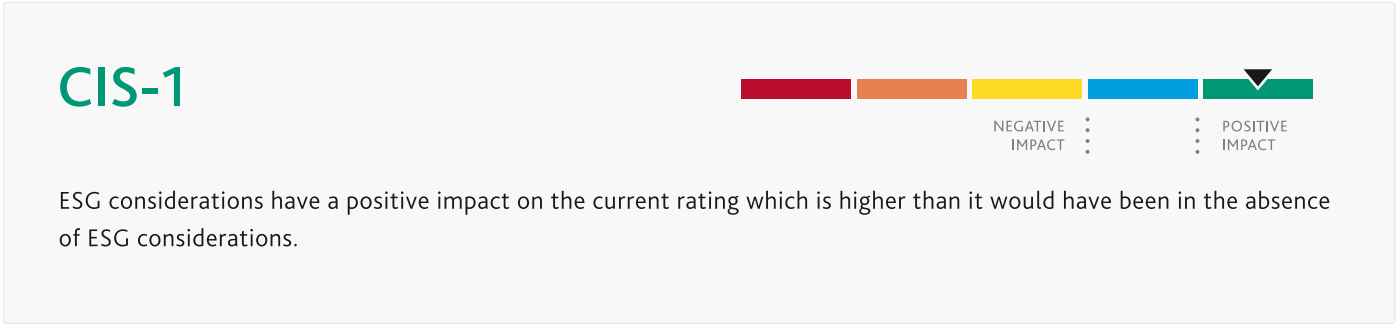
**Pensions and OPEB**
Cary contributes to the North Carolina Local Government Employees Retirement System (NCLGERS), defined benefit retirement plan administered by the State of North Carolina, as well as a separate law enforcement plan. Moody's adjusted pension liabilities represent about 50% of revenue and annual contributions have historically exceeded our tread water indicator.

The town provides OPEB to employees, which is funded on a pay-go basis. Moody's adjusted OPEB liabilities represent a minimal 35% of revenue.

## ESG considerations

### Cary (Town Of) NC's ESG credit impact score is CIS-1

Exhibit 6
**ESG credit impact score**




*Source: Moody's Investors Service*

Cary's ESG credit impact score is **CIS-1**, reflecting neutral to low exposure to environmental risks and positive social and governance considerations, all of which support the town's credit rating, resilience and capacity to respond to shocks.

Exhibit 7
**ESG issuer profile scores**


*Source: Moody's Investors Service*

### Environmental
The town's overall E issuer profile score is **E-2**, reflecting neutral to low exposure to environmental risks across all categories, including physical climate risk, carbon transition, natural resource management, and waste and pollution.

### Social
The town's S issuer profile score of **S-1** reflects low risk posed by social factors. The town benefits from strong population growth and in migration, a highly educated population and a low crime rate. Housing and access to basic services present neutral-to-low risks.

### Governance
The town's governance issuer profile score is **G-1**. The town benefits from a strong institutional structure, budget management and demonstrated policy effectiveness. Property taxes, the town's main revenue source, are highly predictable and stable. The town has

moderate revenue-raising ability, given the statewide 15 mill cap; however, the town maintain ample headroom under this cap. The town also maintains favorable transparency and disclosure.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 8

**Cary (Town Of) NC**

| | Measure | Weight | Score |
|---|---|---|---|
| **Economy** | | | |
| Resident income ratio | 169.5% | 10.0% | Aaa |
| Full value per capita | 199,164 | 10.0% | Aaa |
| Economic growth metric | 2.0% | 10.0% | Aaa |
| **Financial Performance** | | | |
| Available fund balance ratio | 118.6% | 20.0% | Aaa |
| Liquidity ratio | 128.9% | 10.0% | Aaa |
| **Institutional Framework** | | | |
| Institutional Framework | Aaa | 10.0% | Aaa |
| **Leverage** | | | |
| Long-term liabilities ratio | 220.1% | 20.0% | A |
| Fixed-costs ratio | 13.3% | 10.0% | Aa |
| **Notching factors** | | | |
| No notchings applied | | | |
| Scorecard-Indicated Outcome | | | Aa1 |
| **Assigned Rating** | | | **Aaa** |

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Raleigh-Cary, NC Metropolitan Statistical Area [issuer specific] Metropolitan Statistical Area to the five-year CAGR of real GDP for the US

*Sources: US Census Bureau, Cary (Town Of) NCâ€™s financial statements and Moodyâ€™s Investors Service*

# Appendix

Exhibit 9
**Key Indicators Glossary**

| | Definition | Typical Source* |
|---|---|---|
| **Economy** | | |
| Resident income ratio | Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI | MHI: US Census Bureau - American Community Survey 5-Year Estimates<br>RPP: US Bureau of Economic Analysis |
| Full value | Estimated market value of taxable property in the city or county | State repositories; audited financial statements; continuing disclosures |
| Population | Population of the city or county | US Census Bureau - American Community Survey 5-Year Estimates |
| Full value per capita | Full value / population | |
| Economic growth metric | Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US | Real GDP: US Bureau of Economic Analysis |
| **Financial performance** | | |
| Revenue | Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions | Audited financial statements |
| Available fund balance | Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds | Audited financial statements |
| Net unrestricted cash | Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt | Audited financial statements |
| Available fund balance ratio | Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue | |
| Liquidity ratio | Net unrestricted cash / Revenue | |
| **Leverage** | | |
| Debt | Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements | Audited financial statements; official statements |
| Adjusted net pension liabilities (ANPL) | Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits | Audited financial statements; Moody's Investors Service |
| Adjusted net OPEB liabilities (ANOL) | Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits | Audited financial statements; Moody's Investors Service |
| Other long-term liabilities (OLTL) | Miscellaneous long-term liabilities reported under the governmental and business-type activities entries | Audited financial statements |
| Long-term liabilities ratio | Debt + ANPL + ANOL + OLTL / Revenue | |
| **Fixed costs** | | |
| Implied debt service | Annual cost to amortize city or county's long-term debt over 20 years with level payments | Audited financial statements; official statements; Moody's Investors Service |
| Pension tread water contribution | Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met | Audited financial statements; Moody's Investors Service |
| OPEB contribution | City or county's actual contribution in a given period | Audited financial statements |
| Implied cost of OLTL | Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments | Audited financial statements; Moody's Investors Service |
| Fixed-costs ratio | Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue | |

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the US City and Counties Methodology .
*Source: Moody's Investors Service*

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## Contacts

Orlie Prince +1.212.553.7738
*Senior Vice President/ Manager*
orlie.prince@moodys.com

Lauren Von Bargen +1.212.553.4491
*Vice President - Senior Analyst*
lauren.dahan@moodys.com

## CLIENT SERVICES

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