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Ratings

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Summary:

Cary, North Carolina; General Obligation

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Cary GO		
Long Term Rating	AAA/Stable	Affirmed
Cary GO		
Long Term Rating	AAA/A-1/Stable	Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'AAA' long-term rating on Cary, N.C.'s general obligation (GO) debt outstanding.
- At the same time, S&P Global Ratings affirmed its 'AAA/A-1' dual rating on the town's series 2006 variable-rate bonds.
- The outlook is stable.

Security

Cary's full faith and credit, payable from unlimited ad valorem property tax revenue, secures the GO bonds. The 'AAA' long-term component of the dual rating on the series 2006 bonds is based on the rating on the obligor, Cary, and the 'A-1' short-term component is based on the short-term rating on the liquidity provider, JPMorgan Chase.

Credit overview

Despite significant spending for capital and a corresponding decline in available reserves, we believe the credit profile remains stable. General fund expenditures increased 23% in 2023, largely in association with one-time capital spending. Total governmental spending for capital increased to more than $106 million in 2023 from $66.7 million in 2022 as the town finished construction of projects such as a large downtown park. The spending led to a reduction in assigned and unassigned general fund balances to about 5.9% of expenditures in 2023 from 41.9% in 2021. However, we note that the town remains in compliance with its fund balance policy, which requires a total fund balance of at least 33% of budgeted expenditures. Total fund balance, inclusive of the stabilization reserve set by state statute, was about $72.8 million, or 35.9% of budgeted expenditures, in 2023. We note that the town is considering revising the fund balance policy to an assigned and unassigned reserve of 10% to 20% rather than a total fund balance, to provide greater fungibility for emergency use. Property taxes make up 53% of general fund revenue, followed by other local taxes (27%) and sales and services (11%).

The town originally budgeted for a $6.4 million utilization of fund balance for 2024, but management anticipates ending the year (June 30) with a $10 million to $15 million increase in reserves as a result of good revenue growth and conservative budgeting assumptions. Cary's proposed 2025 budget incorporates Wake County's recent property reevaluation, which increased assessed value to more than $50 billion, a 46.7% jump from the year prior. Inclusive of a two-cent reduction in the tax rate, the 2025 draft budget estimates an additional $40 million to $45 million of property tax revenue. We anticipate that the assigned and unassigned fund balance will improve in fiscal years 2024 and 2025. Although the 2025 budget includes an average 5% merit-based salary increase for employees, we believe the expected property tax growth will cover the added ongoing expenses.

The rating further reflects our view of the very strong local economy, with a steadily growing tax base, and above-average wealth and income indicators. 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. 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. The town's population increased by more than 20% in the past decade, contributing to healthy economic growth. The technology sector continues to grow in and around RTP, bringing with it new jobs with above-average salaries. Management reports of several projects underway that are expected to contribute to further assessed value increases in the near term.

Over the next year Cary anticipates issuing roughly $112 million in debt, which includes the remaining $100 million from the 2019 GO referendum. The town recently decided to proceed with a $590 million voter referendum in November 2024 for GO debt that, if successful, would likely be phased in over the next five to seven years. Despite the debt plans, we anticipate that the debt profile will remain manageable.

Previously, Cary privately placed installment purchase debt that financed a new fire station and upgrades to the fire engine fleet. The loans, outstanding in the principal amount of $6.9 million, include 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 prohibits deficiency judgments for appropriation debt and mitigates liquidity risk, and we therefore do not consider this debt a contingent liability. Cary maintains a liquidity facility on its existing variable-rate debt, outstanding in the amount of $16.2 million. Under the agreement, the bank will remarket any obligation for which payment is demanded. If the obligation cannot be remarketed, the bank will purchase it. 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. We do not view pension and other postemployment benefit (OPEB) liabilities as an immediate source of credit risk for Cary given our opinion of the largest pension plan's strong funding status and limited escalating cost trajectory risk.

The rating reflects our opinion of Cary's:

- Strong and growing local economy that participates in the Durham-Chapel Hill and Raleigh metropolitan statistical areas, which we consider broad and diverse.
- Strong financial policies and practices under our financial management assessment methodology, coupled with a strong institutional framework score;
- History of strong budgetary performances, despite recent one-time spending and associated declines in reserves; and
- Manageable debt profile with some additional debt plans, and we do not view pension and OPEB liabilities as an immediate source of credit risk given our opinion of the largest pension plan's strong funding status and limited escalating cost trajectory risk.

Environmental, social, and governance

We have assessed Cary's environmental and governance risks relative to its economy, management, financial measures, and debt profile, and view them as neutral in our credit rating analysis. The recent population growth, which is expected to continue for several years, could assist with economic development and spread the cost of services across an increasing population base, and we view this as a favorable social capital factor.

Outlook

Downside scenario

We could lower the rating if Cary experiences financial pressures that lead to sustained budgetary imbalance, or if the town is unable to restore reserves to a level in line with near-term expectations.

Rating above the sovereign

Cary is eligible to be rated higher than the sovereign rating because we believe the town can maintain strong credit characteristics relative to the U.S. sovereign in a stress scenario. Under our criteria "Ratings Above The Sovereign--Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the town has predominantly locally derived revenue with independent taxing authority and independent treasury management from the federal government.

Cary key credit metrics

	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI as % of U.S.	139			
Market value per capita ($)	309,174			
Population			163,809	165,460
County unemployment rate (%)			3.1	
Market value ($000s)	50,645,492	34,829,718	33,931,769	
Ten largest taxpayers as % of taxable value	3.6			
Strong budgetary performance				
Operating fund result as % of expenditures		(3.0)	8.9	18.6
Total governmental funds result as % of expenditures		0.4	11.4	15.4
Strong budgetary flexibility				
Available reserves as % of operating expenditures		6.0	29.2	41.9
Total available reserves ($000s)		14,022	55,955	70,634
Very strong liquidity				
Total government cash as % of governmental funds expenditures		73	74	71
Total government cash as % of governmental funds debt service		756	892	865
Very strong management				
Financial management assessment	Strong			

Cary key credit metrics (cont.)				
	Most recent	Historical information		
		2023	2022	2021
Adequate debt and long-term liabilities				
Debt service as % of governmental funds expenditures		9.7	8.3	8.3
Net direct debt as % of governmental funds revenue	79			
Overall net debt as % of market value	1.3			
Direct debt 10-year amortization (%)	59			
Required pension contribution as % of governmental funds expenditures		4.6		
OPEB actual contribution as % of governmental funds expenditures		1		
Very strong institutional framework				

Note: Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments