

## Wake County, North Carolina

## New Issue Report

## Ratings

Long-Term Issuer Default Rating	AAA
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## New Issue

\$191,490,000 General Obligation Public Improvement Bonds, Series 2018A	AAA
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## Outstanding Debt

Limited Obligation Bonds General Obligation Bonds	AA+ AAA
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## Rating Outlook

Stable

## New Issue Summary

**Sale Date:** Competitive sale Feb. 21, 2018.**Series:** General Obligation Public Improvement Bonds, Series 2018A.**Purpose:** To refinance an equal amount of outstanding bond anticipation notes that have been issued in anticipation of the issuance of school bonds as of the time of the sale of the series 2018A bonds.**Security:** The GO bonds are general obligations of Wake County (the county), payable from its full faith and credit and unlimited taxing power.

## Analytical Conclusion

**Analytical Conclusion:** The 'AAA' Issuer Default Rating and GO rating reflect the county's strong revenue growth prospects, ample reserves and broad budgetary tools.**Economic Resource Base:** Wake County is located in northeast central North Carolina and is part of the Research Triangle Park (RTP) metropolitan region, which encompasses several cities including Raleigh and Durham, and towns including Cary and Chapel Hill. Raleigh-Durham International Airport is located within the county and contributes to the county's attractiveness and resulting expanding employment base and population.

The county has an estimated 2016 population of 1,046,791, making it North Carolina's second most populated county; the population has increased 16% since 2010. The county's median household income is strong at about 128% of the U.S. average. Median home values are about 130% of the statewide figure as reported by Zillow Group as of December 2017, and values have continued to improve since the recession.

## Key Rating Drivers

**Revenue Framework: 'aaa'**

The county has strong revenue flexibility given the current property tax rate is less than one-half the cap. Also, strong assessed value (AV) appreciation has generated natural revenue growth that exceeds GDP. Fitch Ratings expects this trend to continue given strong economic prospects.

**Expenditure Framework: 'aa'**

The county has significant control over spending, including the ability to determine terms of labor given the absence of collective bargaining. Additional flexibility can be found in pay-as-you-go spending and conservative budgeting practices.

**Long-Term Liability Burden: 'aaa'**

The county's overall debt position coupled with its pension liability is low as a percentage of personal income. The county prudently manages its long-term liability burden with conservative debt policies, and pensions are well funded.

**Operating Performance: 'aaa'**

The county's historical operating performance is resilient. Reserves remained ample throughout the economic cycle. Given the county's revenue and expenditure flexibility and strong reserves, the county is poised to perform exceptionally well in an economic downturn.

## Analysts

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## Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	2/2/18
AAA	Affirmed	Stable	10/16/03
AAA	Assigned	—	1/13/00

## Rating Sensitivities

**Shift in Fundamental Credit Profile:** The rating is sensitive to a fundamental change in expectations for economic and related revenue growth and to changes in the county's approach to maintaining operational flexibility to address a cyclical downturn and rebuild resilience during periods of economic expansion.

## Credit Profile

The county is home to a portion of the RTP, which is located between three major research universities (Duke, University of North Carolina and North Carolina State), and includes nearly 50,000 employees at more than 260 companies including IBM, GlaxoSmithKline, Cisco Systems and Fidelity Investments. RTP attracts a highly skilled employee base, which translates into favorable wealth and educational attainment levels.

In addition to ongoing investment in research and development at RTP, during calendar year 2017 the county announced 9,216 new jobs and \$317 million in commercial investment. Most notably, Infosys, India's second largest IT company, plans to bring 2,000 tech jobs to Wake County, the largest job announcement in county history. As a result of continuing employment expansion, unemployment rates are well below state and national averages.

## Revenue Framework

The revenue base is dominated by property and sales tax taxes at 70% and 14%, respectively, of fiscal 2017 general fund revenues.

The county's general fund revenue growth has trended above U.S. GDP growth, increasing at a 10-year compound annual growth rate (CAGR) of 3.7% through fiscal 2017. Revenue growth does include a modest tax rate decline, and the county's assessed value (AV), which is reassessed every four years, has increased by an average annual rate of 6% over the same time period. In 2018, AV increased 2% over 2017 to more than \$144 billion, and 2019 AV is estimated to increase by 2.0% to 2.5%, both between reassessment years. Sales tax revenue growth has been in line with inflation at a 10-year CAGR of 1.7%, which partially reflects a reduction in sales tax revenue due to the Medicaid swap. However, growth over the past two years has been strong at between 6% and 8%.

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.

The county maintains healthy capacity under the statutory cap of \$1.50 per \$100 of AV given the fiscal 2018 tax rate of \$0.615.

## Expenditure Framework

The county maintains healthy expenditure flexibility with a moderate level of spending associated with fixed carrying costs.

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

Carrying costs associated with debt service, actuarially determined pension payments and OPEB actual contributions total approximately 18% of total governmental spending, almost entirely attributable to debt service. As such, the county is in compliance with its internal debt policy of 20% of debt service to governmental spending. Moderate debt servicing costs are offset by a rapid principal amortization rate of 74% in 10 years.

### Related Research

[Fitch Rates Wake County, NC's \\$191.49MM GOs 'AAA'; Outlook Stable \(February 2018\)](#)

### Related Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(May 2017\)](#)

### Long-Term Liability Burden

The county's long-term liability burden is low at about 6% of personal income. Outstanding direct debt totals over \$2.1 billion and represents the bulk of total liabilities. The county's seven-year capital improvement plan totals a sizable \$3.17 billion. However, the county does expect actual future borrowing to allow the county to remain in compliance with its conservative debt policies.

County employees participate in the Local Government Employees Retirement System (LGERS) administrated by the state. The county's proportionate share of LGERS liability is funded at 79.6% based on a Fitch-adjusted 6% return assumption. The county also participates in two supplemental pension plans. While the county's portion of the Register of Deeds Pension Fund is overfunded, the Law Enforcement Officers' Special Separation Allowance is unfunded. However, the net pension liability is a minimal \$16.1 million. The county funds OPEB on a pay-as-you-go basis; however, the unfunded liability (\$260 million) is also less than 1% of personal income.

### Operating Performance

An unaddressed moderate economic decline scenario shows an operating reserve cushion that Fitch judges to be well above the level needed for an 'aaa' financial resilience assessment given the county's superior revenue and spending control. For details, see Scenario Analysis, page 4.

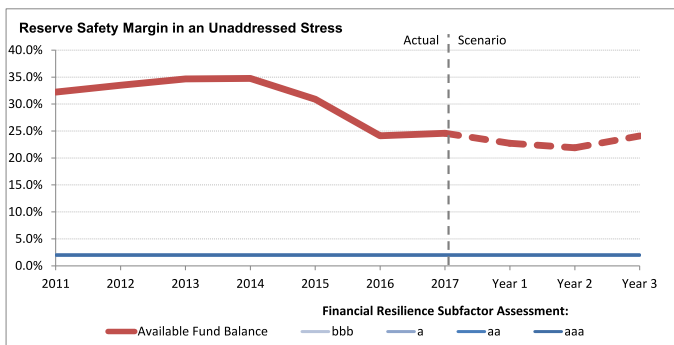
The unrestricted general fund balance of \$220.5 million was a healthy 18.4% of spending at year-end 2017, reflecting a general fund surplus of \$19.6 million. The reserve required by state statute, which is primarily to offset accounts receivable, is an additional source of financial flexibility and totaled about \$73.9 million at fiscal year-end 2017. Finally, the county maintains accessible reserves in the debt service and capital projects fund that totaled a substantial \$183 million. In sum, available reserves totaled \$477.6 million, or 54% of spending.

The fiscal 2018 general fund budget of \$1.26 billion is a 4% increase (\$60 million) over fiscal 2017. The budget includes a 1.45-cent property tax increase and a modest \$870,000 fund balance appropriation. The largest increases are a \$21 million increase in debt and capital funding for education and \$10 million for employee merit and increases in health insurance. Given the county's strong historical financial performance supported by conservative fiscal policies, Fitch expects fiscal 2018 will show similar results to fiscal 2017.

## Wake County (NC)

### Scenario Analysis

v. 2.0 2017/03/24



#### Analyst Interpretation of Scenario Results:

An unaddressed moderate economic decline scenario shows an operating reserve cushion that Fitch judges to be well above the level needed for a 'aaa' financial resilience assessment given the county's superior revenue and spending control. Moreover, Fitch expects that in the event of such an actual revenue decline the county would take offsetting action. The county proved its financial resilience and strong budget management through the most recent recession by making mid-year budget adjustments, reducing cash-funded capital projects, implementing a hiring freeze and reducing staff among other measures.

#### Scenario Parameters:

	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	3.0%	5.1%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2011	2012	2013	2014	2015	2016	2017	Year 1	Year 2	Year 3
Total Revenues	940,889	965,060	957,806	1,008,905	1,076,881	1,168,235	1,215,107	1,202,956	1,238,996	1,301,851
% Change in Revenues	-	2.6%	(0.8%)	5.3%	6.7%	8.5%	4.0%	(1.0%)	3.0%	5.1%
Total Expenditures	729,236	741,173	724,680	743,589	781,574	843,299	889,057	906,838	924,975	943,474
% Change in Expenditures	-	1.6%	(2.2%)	2.6%	5.1%	7.9%	5.4%	2.0%	2.0%	2.0%
Transfers In and Other Sources	4,742	2,187	1,599	2,514	2,718	2,814	2,845	2,816	2,901	3,048
Transfers Out and Other Uses	209,193	209,828	214,112	231,693	285,874	296,830	309,277	315,463	321,772	328,208
Net Transfers	(204,451)	(207,641)	(212,513)	(229,179)	(283,156)	(294,016)	(306,433)	(312,647)	(318,872)	(325,160)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	7,202	16,246	20,613	36,137	12,151	30,920	19,617	(16,529)	(4,850)	33,216
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	0.8%	1.7%	2.2%	3.7%	1.1%	2.7%	1.6%	(1.4%)	(0.4%)	2.6%
Unrestricted/Unreserved Fund Balance (General Fund)	105,010	113,130	134,934	149,335	171,209	201,628	220,514	203,985	199,135	232,351
Other Available Funds (Analyst Input)	197,506	205,233	190,416	189,524	158,423	73,287	73,915	73,915	73,915	73,915
Combined Available Funds Balance (GF + Analyst Input)	302,516	318,363	325,350	338,859	329,632	274,915	294,429	277,900	273,050	306,266
Combined Available Fund Bal. (% of Expend. and Transfers Out)	32.2%	33.5%	34.7%	34.7%	30.9%	24.1%	24.6%	22.7%	21.9%	24.1%
Reserve Safety Margins	Inherent Budget Flexibility									
	Minimal		Limited		Midrange			High	Superior	
Reserve Safety Margin (aaa)	16.0%		8.0%		5.0%			3.0%	2.0%	
Reserve Safety Margin (aa)	12.0%		6.0%		4.0%			2.5%	2.0%	
Reserve Safety Margin (a)	8.0%		4.0%		2.5%			2.0%	2.0%	
Reserve Safety Margin (bbb)	3.0%		2.0%		2.0%			2.0%	2.0%	

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

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