

## CREDIT OPINION

9 February 2018

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# Wake (County of) NC

## Update to credit analysis

### Summary

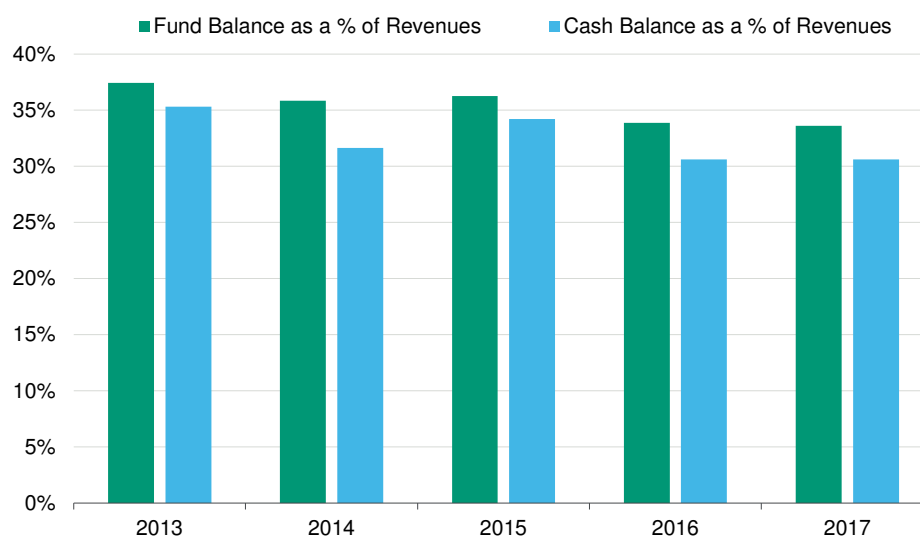
Wake County's (Aaa stable) financial condition is projected to remain satisfactory based on recent audited results, which detail a sizable operating surplus and growing revenues over the past five fiscal years. The county benefits greatly from a dynamic and growing local economy and strong socioeconomic indicators. Management is also committed to raising revenues to maintain financial flexibility as evidenced by a 1.6 cent special district tax rate increase in fiscal 2017. Additionally, the county proactively monitors revenues and expenditures on a monthly basis.

### Credit strengths

- » Large and diverse tax base poised for continued growth
- » Strong financial position
- » Prudent management with strict adherence to codified policies

Exhibit 1

### Maintenance of Stable Reserve Levels Partially Due to Increasing Revenues



Source: Wake County Comprehensive Annual Financial Reports, Moody's Investors Service

## Credit challenge

- » Potential increase of debt burden due to rapid growth and related capital needs

## Rating outlook

The outlook remains stable and reflects the economic strength of the tax base, as well as the county's sound financial position.

## Factors that could lead to an upgrade

- » Not applicable

## Factors that could lead to a downgrade

- » Significant erosion of the county's tax base and/or demographic profile
- » Deterioration of the county's reserves and/or liquidity
- » Increased property tax support for enterprise funds creating strain on General Fund operations

## Key indicators

Exhibit 2

Wake (County of) NC	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$121,931,754	\$127,084,600	\$153,962,559	\$158,596,580	\$166,862,502
Population	929,214	952,513	976,019	998,691	1,046,791
Full Value Per Capita	\$131,220	\$133,420	\$157,745	\$158,804	\$159,404
Median Family Income (% of USMedian)	129.1%	128.6%	127.9%	127.9%	127.9%
Finances					
Operating Revenue (\$000)	\$973,245	\$1,021,611	\$1,093,832	\$1,187,668	\$1,231,585
Fund Balance (\$000)	\$364,367	\$366,149	\$396,847	\$402,364	\$413,942
Cash Balance (\$000)	\$343,840	\$323,402	\$374,348	\$363,597	\$377,215
Fund Balance as a % of Revenues	37.4%	35.8%	36.3%	33.9%	33.6%
Cash Balance as a % of Revenues	35.3%	31.7%	34.2%	30.6%	30.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$2,092,542	\$1,943,761	\$2,234,478	\$2,052,598	\$2,059,235
3-Year Average of Moody's ANPL (\$000)	\$236,073	\$272,368	\$267,288	\$258,746	N/A
Net Direct Debt / Operating Revenues (x)	2.2x	1.9x	2.0x	1.7x	1.7x
Net Direct Debt / Full Value (%)	1.7%	1.5%	1.5%	1.3%	1.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.2x	0.3x	0.2x	0.2x	0.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.2%	0.2%	0.2%	0.2%	0.2%

Source: Wake County Comprehensive Annual Financial Reports, Moody's Investors Service

## Profile

Wake County is the second most populous county in [North Carolina](#) (Aaa stable) located in the central portion of the state and covers roughly 864 square miles with an estimated current population of just over one million.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Detailed credit considerations

### Economy and Tax Base: Large Expanding Base Benefits from Institutional Presence; Poised for Further Growth

Given a diverse economy with many large private companies, as well as the state and several other large institutional employers, we continue to believe the long-term outlook for the county's economy is strong. Wake County encompasses the state capital City of Raleigh (Aaa stable), the rapidly growing Town of Cary (Aaa stable), and the southern portion of the Research Triangle Park (RTP).

Over the last three decades the county has seen a rapid increase in population, growing by over 40% during each corresponding Census. Population continues to increase, having grown by over 10% since 2010, bringing total residents to over one million. The growth in population has been accompanied by increases in property values. The fiscal 2017 full valuation equaled \$167 billion. Valuation figures reflect an annual average increase of 6.8% for the last five years. Housing price reports continue to improve over the past five years. Wealth levels are well above average, with 2015 per capita income equal to 118.1% of the US median and 2014 median family income at 128.6% of the US figure, according to American Community Survey estimates. The county's unemployment rate remains favorable at 3.5% (as of October 2017) and remains well below the state at 4.1% and 3.9% national rate for the same period.

The county has attracted a large number of high-tech companies, with Cisco Systems, Inc. (A1 stable), SAS Institute, GlaxoSmithKline plc (A2 stable) and International Business Machines Corporation (IBM - A1 stable) are among the largest taxpayers and employers. Credit Suisse AG (A1 stable) is expanding its Wake County RTP presence, adding 1,200 information technology, finance and other jobs with \$71 million of investment to the 1,500 current jobs. Trilliant Networks, a smart grid software and communications company, is moving its global headquarters to Cary with 130 jobs and payroll impact of \$13 million, with an average salary of \$100,000. Infosys, a global technology consulting firm, will open one of four planned innovation and technology hubs in the US, employing 2,000 people over the next five years.

The presence of the State of North Carolina's (Aaa stable) capital, as well as the presence of North Carolina State University at Raleigh (Aa1 stable) and five other institutions of higher learning have provided a stable institutional base (and comprise nearly 11% of employment in the county) that augment the private employment sector.

### Financial Operations and Reserves: Financial Position Remains Healthy

The county is expected to continue to maintain a strong financial position given a track record of healthy reserve levels, prudent management practices, and comprehensive fiscal planning. The county has achieved seven consecutive operating surpluses in the General Fund. At fiscal year end 2017, the county's combined operating fund (General Fund and Debt Service) achieved a surplus of \$9.4 million, bringing reserves to \$416.5 million or a healthy 33.8% of combined revenues. Sales tax revenues grew by 8% in fiscal 2017 over the prior year. The fiscal 2018 budget is conservatively constructed and year-to-date results are positive. County officials report sales tax revenues for the first three months of fiscal 2018 are up 8.2% over fiscal 2017, compared to 5.6% growth for the same period in fiscal 2017.

### LIQUIDITY

At the end of fiscal 2017, the county's combined fund net cash totaled \$377.2 million, or a strong 30.6% of combined fund revenues.

### Debt and Pensions: Moderate Debt Levels Expected to Continue Despite Future Borrowing Plans

The county's direct debt burden, at 1.2% of assessed valuation, is expected to remain manageable, given tax base growth, average amortization of principal (80% paid out within 10 years) and strong debt management practices. The county's overall debt burden, currently at 1.6% of full valuation, is expected to remain moderate. Management uses financial modeling to test debt affordability and identifies additional revenue needs for supporting the debt.

The county's seven-year capital plan is developed within the parameters of the county's debt policies. These include a target of 80% debt funding and 20% cash funding through dedicated revenues. The county has tentatively schedule to issue \$170 million of limited obligation lease appropriations bonds in June 2018.

### DEBT STRUCTURE

The county refinanced all outstanding variable rate debt in October 2016 to fixed rate debt.

**DEBT-RELATED DERIVATIVES**

The county has not entered into any derivative agreements to hedge these issues, eliminating counterparty risk and not introducing termination risk.

**PENSIONS AND OPEB**

The county contributes to the North Carolina Local Government Employees Retirement System (NCLGERS), defined benefit retirement plan administered by the State of North Carolina. We determined the county's share of liability for the state-run plan in proportion to its contributions to the plan. The county also operates a small Law Enforcement Officers' Special Separation Allowance plan. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities. The county's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$284.4 million, or approximately a moderate 0.24 times operating revenues and 18% of full value.

The county has not been fully funding OPEB annual contribution requirements the last few years as it devises a strategy to address the liability. It addresses the annual cost on a pay-go basis and contributed 35.9% of the annual required contribution. Board of Commissioners adopted policy eliminating retiree health benefits for employees hired after June 30, 2011. As of December 31, 2015, the most recent actuarial valuation date, the reported unfunded actuarial accrued liability was \$260 million.

**Management and Governance: Strong Financial Management Practices Bolster Credit Profile**

County management has taken great efforts to codify policies and procedures and routinely revisits the levels set to protect the county's credit profile. An example of a recently strengthened policy is to maintain a combined general fund and debt service fund total fund balance of at least 30% of combined revenues. The county budgets conservatively for expenditures, which has led to the maintenance of healthy reserves for the last several years. Similarly, the seven year CIP is well thought out.

North Carolina counties have an institutional framework score of "Aaa", or very strong. Counties operate under limited levy constraints. Pensions are well-funded. Counties have more limited mandates than cities, which supports this sector's overall operating consistency and maintenance of ample reserves.

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