FitchRatings

Wake Forest, North Carolina

New Issue Summary

Sale Date: May 25 via competitive bid

Series: $1,290,000 General Obligation Public Improvement Bonds, Series 2021A and $4,920,000 General Obligation Public Improvement Bonds, Series 2021B

Purpose: Proceeds of the bonds will be used to fund the costs of various street, sidewalk, and greenway improvements for the town.

Security: General Obligation of the town, secured by a pledge of the full faith and credit and taxing power of the town.

The 'AAA' IDR and GO ratings reflect the town's strong financial performance and growth prospects, a low long-term liability burden, and broad budgetary management tools enhanced by ample reserves.

Economic Resource Base: Wake Forest is located in the northern part of Wake County and is part of the Research Triangle Park (RTP) area, which includes Raleigh, Durham and Chapel Hill. The town has ready access to employment centers like RTP and major transportation hubs, including US- 1 and NC-98 and Raleigh-Durham International Airport. Population growth has been very strong, increasing by 52% since 2010, with an estimated 2019 census population of 45,629.

Key Rating Drivers

Revenue Framework: 'aaa': Revenues have been rising at a pace above U.S. GDP growth and Fitch expects this trend to continue. The town has strong legal revenue-raising flexibility as its current property tax rate is well within the statutory cap.

Expenditure Framework: 'aa': Fitch expects the natural pace of spending growth to remain marginally above the town's strong revenue growth. Moderate carrying costs and broad flexibility to manage labor-related costs allow the town solid leeway to adjust spending throughout economic cycles.

Long-Term Liability Burden: 'aaa': Long-term liabilities are low relative to personal income. Although future capital and issuance plans of the town and county are large relative to the amount of direct debt outstanding, rapid amortization, modest pension liabilities and growth in the resource base should keep the burden low.

Operating Performance: 'aaa': The town's superior budget flexibility and ample general fund balance allow it to comfortably manage through economic downturns without diminishing its overall financial flexibility.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Not applicable for 'AAA' ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A long-term reduction in the rate of growth of the town's property and income tax base, resulting in an extended decline in revenue growth.
- A sustained increase in the long-term liability burden over 10% of personal income.

Ratings

Long Term Issuer Default Rating	AAA

New Issues

$1,290,000 Wake Forest General Obligation Public Improvement Bonds, Series 2021A	AAA
$4,920,000 Wake Forest General Obligation Public Improvement Bonds, Series 2021B	AAA

Outstanding Debt

Wake Forest General Obligation Public Improvement Bonds	AAA

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates the Town of Wake Forest NC's $6.21MM GOs 'AAA': Outlook Stable (May 2021)

Analysts

Lindsay Horne
+1 646 582-4462
lindsay.horne@fitchratings.com

Evette Caze
+1 212 908-0376
evette.caze@fitchratings.com

Current Developments

After a planned transfer out to the town's capital projects fund, the town ended fiscal 2020 with a minimal net operating deficit of $1.4 million (about 3% of the budget). The fiscal 2020 unrestricted general fund balance totaled $11.6 million or 24% of total spending. When including the $3.6 million restricted for stabilization by state statute, total available reserves equaled $15 million, roughly 31% of spending. According to the town's internal policy, the unrestricted general fund balance is to be maintained at a minimum between 20% and 25% of general fund expenditures, and total fund balance at the close of each fiscal year should be at least 35% of general fund expenditures, which is significantly higher than what Fitch believes is superior financial resilience.

The $57.7 million adopted fiscal 2021 general fund budget, 5% above the originally adopted fiscal 2020 budget, includes no tax rate increases and an appropriated fund balance of $812,400. The revenue budget increase mostly reflects the reintroduction of the solid waste fee effective January 2021, and an expected increase in tax base growth following the most recent revaluation. The town received $1.1 million in coronavirus relief funds through the CARES Act to cover public safety expenses, PPE, and other pandemic-related costs. YTD operations are positive and management is estimating a $3.7 million operating surplus.

The $61.6 million proposed fiscal 2022 general fund budget is approximately 7% above the originally adopted fiscal 2021 budget. The budget assumes property tax base growth of up to 4% and includes an appropriated fund balance of $1.2 million (about 2% of total spending).

The recently enacted America Rescue Plan (ARP) will provide $350 billion in direct aid to state and local governments and additional funding for transit systems and school districts (through the states), as well as a significant amount of economic stimulus that should have a positive near-term impact on state and local government revenues. Fitch does not expect the stimulus aid to alter the long-term credit fundamentals of state and local governments, but should bridge near-term fiscal gaps. For more information see "ARP Boosts State and Local Government Budgets," published March 11 and available on www.fitchratings.com.

The town's allocation of ARP stimulus funds totals $13.3 million. The town has not yet determined how the funds will be spent. The town expects to receive half of the funding by mid-June, with the remaining 50% to be received one year later.

Rating History (IDR and GO bonds)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	5/11/21
AAA	Assigned	Stable	5/31/18

Credit Profile

Wake Forest is primarily located in Wake County (AAA/Stable) with a small portion located in Franklin County (AA+/Stable). The town is mostly residential and supported by several established retail centers; however, commercial growth is ongoing, with several projects in various stages of development. Despite having a geographical area of less than 20 square miles, the town is home to several advanced manufacturing and technology companies.

Employment and demographic data are very favorable. The town's workforce is well educated with 55% having a bachelor's degree or higher, and the town consistently records an unemployment rate below the North Carolina and U.S. benchmarks. Both per capita and median household income exceed the state and national averages.

Revenue Framework

The revenue base is dominated by property and intergovernmental revenues (primarily made up of local option sales tax and franchise taxes) at about 65% and 25%, respectively, of fiscal 2020 general fund revenues.

The town's general fund revenue growth has trended well above U.S. GDP growth, increasing at a 10-year CAGR of 5% through fiscal 2020. The town's property is reassessed every four years. According to the town, current projections show an increase in taxable assessed value (TAV) growth by about 20% to $6.8 billion due to the reassessment. Growth in assessed value incorporates continuous land annexations; future town limits could increase up to 27.12 square miles. Sales tax revenue growth has also been robust at a 10-year CAGR of nearly 7%.

Due to the revaluation, the property tax rate for fiscal 2021 was lowered to $0.495 from $0.52. The town maintains healthy capacity under the statutory property tax cap of $1.50 per $100 of assessed value.

Expenditure Framework

The town's largest spending area is public safety, which makes up about 43% of general fund spending, followed by general government spending.

Fitch expects the natural pace of spending growth to remain in line with or marginally above revenue growth, as growth-driven demands are expected to be supported by new development and increases in consumption-based charges. Despite notable population growth, Fitch expects management to continue to maintain spending growth marginally above revenue growth.

The town's expenditure flexibility is aided by a workforce environment that is favorable to management. Employment terms are not subject to collective bargaining. As such, management has strong control over compensation and work rules.

Carrying costs associated with debt service, actuarially determined pension payments and actual OPEB contributions totaled about 19% of fiscal 2020 governmental spending. Although the town's capital improvement plan (CIP) includes a sizable amount of additional debt, expenditure flexibility is expected to remain solid.

The town makes annual contributions for capital projects. The proposed fiscal 2022 budget includes a transfer of about $1 million or about 1.6% of general fund spending, adding additional budgetary flexibility.

Long-Term Liability Burden

The town's long-term liability burden is 5% of personal income after the current issuance. Outstanding direct debt will total about $39 million after this issuance, accounting for less than 2% of personal income; overlapping debt of Wake County represents the bulk of total liabilities. The town's five-year capital improvement plan totals a sizable $130.9 million. The main spending areas are transportation, general government and asset maintenance. The plan includes about $40 million in additional GO debt. However, given the town's rapid amortization rate of nearly 76% in 10 years (including the current issuance) and the expected growth in the underlying resource base, the long-term liability burden is expected to remain low.

Town employees participate in the Local Government Employees Retirement System (LGERS) administrated by the state. Pensions represent less than 10% of the town's total liability burden. In fiscal 2020 the town's proportionate share of the LGERS liability is funded at 77.9% based on a Fitch adjusted 6% return assumption. The town also participates in the Law Enforcement Officers' Special Separation Allowance. Like most North Carolina localities, the plan is funded on a pay-go basis and the net pension liability is a minimal.

Currently, the town funds OPEB on a pay-go basis; however, the unfunded liability (about $9.7 million as of fiscal year-end 2020) is less than 1% of personal income. The town budgets an annual transfer of about $250,000 from the general fund to the OPEB trust.

Operating Performance

Fitch expects the town to manage through the remainder of the current disruption and future economic downturns with a superior level of fundamental financial flexibility given the consistency of its operating results and reserves through prior and current periods of stress.

The town proved its financial resilience and strong budget management through the coronavirus pandemic by deferring capital spending and implementing a hiring freeze. Fitch expects the town to make similar operational changes as needed during a future economic downturn.

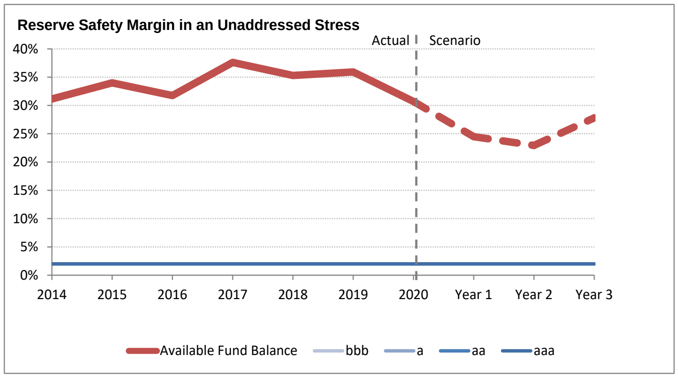
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Wake Forest (NC)

Scenario Analysis

Ver 45



Analyst Interpretation of Scenario Results

Fitch expects the town to manage through the remainder of the current disruption and future economic downturns with a superior level of fundamental financial flexibility given the consistency of its operating results and reserves through prior and current periods of stress.

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)	*Min Y1 Stress:* -1%	*Case Used:* **Moderate**	(1.0%)	6.9%	8.6%
Inherent Budget Flexibility				Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2014	2015	2016	2017	2018	2019	2020	Year 1	Year 2	Year 3
Total Revenues	32,945	35,923	38,037	39,738	40,880	43,612	45,448	44,993	48,099	52,228
% Change in Revenues	-	9.0%	5.9%	4.5%	2.9%	6.7%	4.2%	(1.0%)	6.9%	8.6%
Total Expenditures	35,578	35,833	39,889	39,602	37,313	39,098	43,603	44,475	45,365	46,272
% Change in Expenditures	-	0.7%	11.3%	(0.7%)	(5.8%)	4.8%	11.5%	2.0%	2.0%	2.0%
Transfers In and Other Sources	2,505	978	8,723	2,317	2,638	1,238	2,560	2,534	2,709	2,942
Transfers Out and Other Uses	152	196	5,449	845	5,638	4,978	5,760	5,876	5,993	6,113
Net Transfers	2,353	782	3,274	1,471	(3,000)	(3,741)	(3,200)	(3,341)	(3,284)	(3,171)
Bond Proceeds and Other One-Time Uses	-	-	5,060	-	-	-	-	-	-	-
Net Operating Surplus/(Deficit) After Transfers	(280)	872	1,422	1,607	567	773	(1,356)	(2,823)	(550)	2,785
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	(0.8%)	2.4%	3.5%	4.0%	1.3%	1.8%	(2.7%)	(5.6%)	(1.1%)	5.3%
Unrestricted/Unreserved Fund Balance (General Fund)	7,018	8,528	9,175	11,002	9,958	12,138	11,584	8,760	8,211	10,995
Other Available Funds (GF + Non-GF)	4,112	3,722	3,618	4,209	5,201	3,698	3,569	3,569	3,569	3,569
Combined Available Funds Balance (GF + Other Available Funds)	11,129	12,250	12,792	15,211	15,159	15,835	15,153	12,329	11,780	14,564
Combined Available Fund Bal. (% of Expend. and Transfers Out)	31.1%	34.0%	31.8%	37.6%	35.3%	35.9%	30.7%	24.5%	22.9%	27.8%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	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 scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. 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.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.