

## CREDIT OPINION

17 May 2021

 Rate this Research

### Contacts

Kimberly Lyons +1.212.553.4734  
 VP-Senior Analyst  
 kimberly.lyons@moody.com

Lauren Von Bargaen +1.212.553.4491  
 AVP-Analyst  
 lauren.vonbargaen@moody.com

### CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

# Wake Forest (Town of) NC

Update following upgrade

## Summary

Wake Forest, NC (Aaa stable) has experienced significant tax base and population growth in recent years, benefiting from its location near Raleigh (Aaa stable) and the Research Triangle Park. The town's financial position is very healthy, because of a trend of operating surpluses. The town's fixed costs are elevated reflecting above average debt service costs, which is partially mitigated by moderate long term liabilities reflecting a modest pension liability.

On May 11 we assigned a Aaa rating to the Town of Wake Forest, NC's \$1.3 million General Obligation Public Improvement Bonds, Series 2021A and \$4.9 million General Obligation Public Improvement Bonds, Series 2021B. We also upgraded the town's outstanding GO debt to Aaa from Aa1.

## Credit strengths

- » Stable financial position with healthy reserves
- » Growing tax base part of robust broader economic region
- » Manageable long term liabilities

## Credit challenges

- » Rapid population growth could pressure demand for services and infrastructure needs
- » Growth in fixed costs

## Rating outlook

The stable outlook reflects the expectation of continued strong financial performance and stability in the local tax base and broader regional economy.

## Factors that could lead to an upgrade

- » N/A

## Factors that could lead to a downgrade

- » Sustained trend of structural imbalance leading to weakened reserves
- » Tax base deterioration
- » Significant increase in debt or capital needs

## Key indicators

Exhibit 1

### Wake Forest (Town of) NC

	2016	2017	2018	2019	2020
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$4,517,389	\$4,703,252	\$4,978,257	\$5,323,066	\$5,659,865
Population	36,472	38,473	40,159	42,111	45,629
Full Value Per Capita	\$123,859	\$122,248	\$123,964	\$126,406	\$134,403
Median Family Income (% of US Median)	143.0%	143.7%	142.7%	138.3%	138.3%
<b>Finances</b>					
Operating Revenue (\$000)	\$40,375	\$40,366	\$42,065	\$45,138	\$48,271
Fund Balance (\$000)	\$12,792	\$15,211	\$16,214	\$16,137	\$15,261
Cash Balance (\$000)	\$13,509	\$14,167	\$15,094	\$16,521	\$15,316
Fund Balance as a % of Revenues	31.7%	37.7%	38.5%	35.8%	31.6%
Cash Balance as a % of Revenues	33.5%	35.1%	35.9%	36.6%	31.7%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$25,422	\$22,311	\$42,169	\$42,904	\$38,034
3-Year Average of Moody's ANPL (\$000)	\$19,869	\$25,788	\$28,416	\$30,161	\$33,230
Net Direct Debt / Full Value (%)	0.6%	0.5%	0.8%	0.8%	0.7%
Net Direct Debt / Operating Revenues (x)	0.6x	0.6x	1.0x	1.0x	0.8x
Moody's - ANPL (3-yr average) to Full Value (%)	0.4%	0.5%	0.6%	0.6%	0.6%
Moody's - ANPL (3-yr average) to Revenues (x)	0.5x	0.6x	0.7x	0.7x	0.7x

Sources: US Census Bureau, Wake Forest (Town of) NC's financial statements and Moody's Investors Service

## Profile

The Town of Wake Forest is located in Wake County in the north central Piedmont region of North Carolina. It is approximately 15 miles northeast of Raleigh. The town has a population of 45,629 and covers 19.9 square miles.

## Detailed credit considerations

### Economy and tax base: expanding tax base driven by rapid population growth

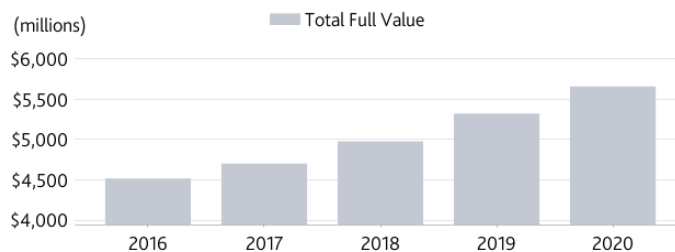
The local economy will remain strong because of commercial and residential development. The \$5.6 billion tax base, which is below state and national medians for Aaa rated cities, has increased at a robust compound annual rate of 5.7% over the last five years. The town is located in Wake County (Aaa stable) with a small portion in Franklin County in adjacent to the City of Raleigh along U.S. Highway 1. The town's adjacency to the state capital and Research Triangle Park - a major high-tech research and development center with more than 50,000 jobs - has rapidly transitioned the town into a commuter base to the region. The town's tax base is approximately 24% commercial/industrial and 76% residential. Permits issued for residential and commercial new construction and alteration cost values of over \$198 million, an increase of approximately 13% from fiscal year 2019. The town enjoys a low taxpayer concentration of 5.2% of total assessed value (AV) with no single taxpayer making up more than 0.7% of the total.

Population growth, as well as significant annexation of and development in residential and commercial areas, will continue to drive tax base growth over the next several years. Town officials estimate a 19.9% increase in total AV fiscal 2021 due to revaluation. The town's population increased by 140% from the 2000 to 2010 Census and is currently estimated at 45,629 for 2019 (50% growth over 2010), with average annual growth 5.0% over the last ten years.

The town's demographic profile remains strong with the most recent estimates showing per capita and median family incomes levels at 113% and 138% of the US, respectively. The town's unemployment rate, at 4% in March 2021, is well below the state's 5% and nation's 6% rates during the same period.

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.

Exhibit 2

**Full value of the property tax base increased from 2016 to 2020**

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

**Financial Operations and Reserves: conservative budget management drives positive operating results**

The town's financial position will likely remain healthy given a trend of positive operating results, conservative budgeting practices, and sound reserve levels. The town has recorded positive general fund operating results in three of the past five fiscal years plus, increasing total general fund balance to a stable \$15.2 million or 31.9% of revenues despite a planned use of fund balance in fiscal 2020. Fund balance as a percent of operating revenues has averaged (34.4%) from 2016 to 2020 and is consistent with the US median.

The fiscal 2020 budget was balanced with \$2.1 million of appropriated fund balance, as the town budgeted \$4.3 million for planned capital expenditures. Given the town's conservative fiscal practices, target goal of maintaining 35% fund balance and stable financial performance we believe the town's financial flexibility is in-line with the Aaa rating category. Future rating reviews will consider the town's ability to maintain healthy operations and general reserves supportive of the current rating category.

The fiscal 2021 budget incorporated a 1.95 cent tax rate adjustment to fund the merger of the Wake Forest Volunteer Fire Department into the town's organizational structure. The budget also included the use of \$812,000 in reserves. However as of March, officials report \$3.5 million in positive variances. Despite the effects of COVID-19, and the merger of the Fire Department, officials project an operating surplus due to strong property tax collections and increased year-to-date sales tax collections.

The fiscal 2022 budget has not yet been adopted, but officials plan to be conservative with estimates. The town prepares an annual three year financial forecast as part of its budget process and reviews five years of historical revenue and expenditure trends, which will continue to support fiscal stability.

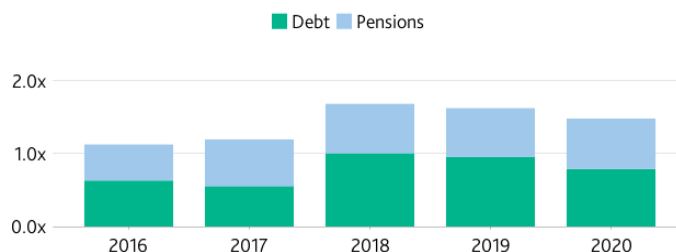
**Liquidity**

The town continues to carry a healthy amount of cash and investments with \$15.3 million in fiscal 2020, representing 31.7% of combined operating fund revenues.

**Debt and Pensions: fixed costs are elevated but overall fixed costs are manageable**

The town's debt position will remain manageable given a low direct debt burden of 0.8% of full value and average debt amortization schedule with 66.6% of principal repaid within 10 years. The town's debt service levels are elevated for the rating category, representing 21% of expenditures in fiscal 2020. We expect debt service to remain high given the town's robust growth and comprehensive five-year \$130 million capital improvement plan that includes \$40 million (31%) of future GO referendum debt and \$48 million (37%) of installment financing.

Exhibit 3

**Moody's-adjusted net pension liability to operating revenues increased from 2016 to 2020**

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

**Legal security**

The bonds are secured by a pledge of the faith and credit and taxing power of the town.

**Debt structure**

The town's debt profile consists entirely of fixed rate borrowing.

**Debt-related derivatives**

The town is not party to any derivative agreements.

**Pensions and OPEB**

Pension and OPEB liabilities are not sources of pressure for the town. The town contributes to the North Carolina Local Government Employees Retirement System (NCLGERS), defined benefit retirement plan administered by the State of North Carolina. The town's Moody's adjusted net pension liability (ANPL), based on a 3.51% discount rate, is \$9.6 million, or a low 0.69x operating revenue and 0.6% of full value, below the US median.

The town discontinued OPEB benefits to anyone hired on or after May 2018. The prior plan is funded on a pay-as-you-go basis.

The town's total fixed costs including, debt, pension and OPEB is an elevated, but manageable, 25.3% of total revenues.

**ESG considerations****Environmental**

Environmental factors represent a limited risk to Wake Forest's credit profile. According to data from compiled by Moody's affiliate Four Twenty Seven, the town is exposed to elevated risk of hurricanes, which is somewhat mitigated by federal government support for disaster recovery costs. The town is also exposed to moderate water stress and extreme rainfall risk. Four Twenty Seven currently tracks data at the county and metropolitan levels.

**Social**

Social considerations are key influencers of all local economies, financial and leverage trends and governance stability. Social factors are incorporated into the town's rating by way of wealth (full value per capita) and income (median family income) metrics. The town is proactive in taking steps to prevent and mitigate the impact of cyber events.

**Governance**

Governance is a material consideration for all local government credits. The town's sound financial position is supported by strong management, comprehensive fiscal policies and healthy fund balance levels.

North Carolina cities have an institutional framework score <sup>1</sup> of "Aaa," or very strong. Property taxes, cities' main revenue source, are highly predictable and stable and revenue raising flexibility is strong. Expenditures are highly predictable and stable and cities have a high ability to reduce expenditures given modest fixed cost burdens and no collective bargaining units.

## Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 4

### Wake Forest (Town of) NC

#### Wake Forest, NC

Scorecard Factors and Subfactors	Measure	Score
<b>Economy/Tax Base (30%)<sup>[1]</sup></b>		
Tax Base Size: Full Value (in 000s)	\$5,659,865	Aa
Full Value Per Capita	\$134,403	Aa
Median Family Income (% of US Median)	138.3%	Aa
<b>Notching Adjustments:<sup>[2]</sup></b>		
Institutional Presence		Up
<b>Finances (30%)</b>		
Fund Balance as a % of Revenues	31.6%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	6.2%	A
Cash Balance as a % of Revenues	31.7%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	8.2%	A
<b>Management (20%)</b>		
Institutional Framework	Aaa	Aaa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	Baa
<b>Notching Adjustments:<sup>[2]</sup></b>		
Unusually Strong or Weak Budgetary Management and Planning		Up
<b>Debt and Pensions (20%)</b>		
Net Direct Debt / Full Value (%)	0.7%	Aaa
Net Direct Debt / Operating Revenues (x)	0.8x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.6%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.7x	Aa
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically outlined in the US Local Government General Obligation Debt Methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: US Censuses Bureau, Wake Forest Financial Statements, Moody's Investors Service

## Endnotes

- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(July 2020\)](#) methodology report for more details.

© 2021 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454