

# RatingsDirect®

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## Summary:

# Wake Forest, North Carolina; General Obligation

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### Credit Profile

US\$22.05 mil GO pub imp bnds ser 2024B due 09/01/2044

*Long Term Rating* AAA/Stable New

US\$1.46 mil GO pub imp bnds ser 2024A due 09/01/2026

*Long Term Rating* AAA/Stable New

Wake Forest GO

*Long Term Rating* AAA/Stable Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the Town of Wake Forest, N.C.'s general obligation (GO) public improvement bonds, series 2024A (\$1.46 million) and public improvement bonds, series 2024B (\$22.05 million), based on the application of its "Methodology For Rating U.S. Governments," published Sept. 9, 2024.
- At the same time, we affirmed our 'AAA' rating on the town's GO debt outstanding.
- The outlook is stable.

### Security

Wake Forest's full faith and credit pledge to levy ad valorem taxes on all taxable property within the town, without limitation as to rate or amount, secures the series 2024A and 2024B GO public improvement bonds. Bond proceeds will be used to fund various transportation improvements, consisting of new lanes, medians, and intersections, as the first part of a \$75.0 million referendum approved by voters in 2022. Management indicates that, over the next five years, it could issue a portion of the remaining \$53 million of authorized but unissued bonds remaining.

### Credit overview

The town's location within the Raleigh, N.C., metropolitan statistical area that drives economic growth and Wake Forest's conservative management team underpin the 'AAA' GO rating. Furthermore, with property and sales taxes providing more than three-fourths of general fund revenue, a significant portion of the budget is funded with a predictable reliable source. Because of these credit fundamentals, the town's financial performance has remained consistently very strong, including a \$5.5 million increase to reserves in fiscal 2023. Furthermore, based on unaudited actuals for fiscal 2024, positive revenue and expenditure variances lead to another \$2.7 million surplus, bolstering the town's already ample available general fund reserves to \$25.4 million, or nearly 37% of revenues (as of June 30, 2023). Although population and economic growth will lead to infrastructure requirements, we believe management will incrementally issue debt to maintain affordable fixed costs leading to stability in the rating over the outlook period.

The 'AAA' rating reflects Wake Forest's:

- Location northeast of Raleigh, N.C., with a population of nearly 60,000, composed of a predominantly residential tax

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base, with favorable access to employment opportunities in Raleigh as well as in Research Triangle Park, an internationally prominent center for high-tech research and light manufacturing;

- Historically surplus financial operations and expectation for continued financial strength due in part to a growing tax base tied into a robust economic area, with revenues consistently outperforming budget;
- Consistent maintenance of very strong available reserves above 25% of operating revenue in the past few years, in compliance with a minimum fund balance policy calling for unassigned reserve maintenance of at least 20%-25% of general fund expenditures;
- Low debt and fixed costs that we anticipate will remain stable and affordable despite the likelihood of additional bond issuances relating to the \$53 million of authorized but unissued debt available to the town;
- Comprehensive array of financial policies and practices consisting of conservative budgeting assumptions, monthly budget-to-actual reporting to the town board, and rolling five-year financial and capital projections, as well as adherence to formalized investment, debt, and minimum fund balance policies; and
- For more information on our institutional framework assessment for North Carolina municipalities, see "Institutional Framework Assessment: North Carolina Local Governments," published Sept. 9, 2024, on RatingsDirect.

### Environmental, social, and governance

We analyzed Wake Forest's environmental, social, and governance risks and opportunities relative to the town's economy, management, budgetary outcomes, and debt and liability profile, and view them as consistent with those of the sector. However, we view the town's significant population growth as a social opportunity, as illustrated by Wake Forest's population nearly doubling since 2010. We believe this strong growth provides underlying economic strength to drive tax-base expansion and revenue-raising flexibility, which we expect will outweigh additional costs to fund capital infrastructure projects and service demands resulting from the demographic trends.

### Rating above sovereign

Wake Forest's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario, based on the locally derived sources that fund its budget and limited risk of negative sovereign intervention. The rating above the sovereign is based on our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013.

## Outlook

The outlook reflects the town's historically very strong financial performance, supported by a robust and growing economy and a comprehensive array of financial policies and practices.

### Downside scenario

We could lower the rating if budgetary performance deteriorates on a sustained basis, if reserves materially decline, or if additional debt leads to fixed cost pressure.

## Credit Opinion

### Economy

The town is predominantly residential, with favorable access to employment opportunities in Raleigh as well as in Research Triangle Park, an internationally prominent center for high-tech research and light manufacturing. Traffic congestion, a result of the region's population and employment growth, is a key concern that accelerates regional transportation initiatives that support a diversified transportation system and consideration of transit service expansion. We believe transportation planning will continue to facilitate economic growth.

Wake Forest has experienced robust economic expansion for more than a decade, with assessed and market values more than doubling over that time. Furthermore, management indicates it expects growth to continue at similar rates for at least the next few years given an array of high-end residential projects underway.

### Management

Management uses conservative budgeting assumptions that review historical trends to formulate the upcoming year's revenue and expenditure forecast. The budget is regularly monitored with monthly budget-to-actual reports provided to elected officials. Long-term financial planning includes the town's current budget year, upcoming budget, and projections for the next three fiscal years. The financial forecast is comprehensive, contains detailed forecast assumptions, and is updated annually as part of the budget process. Wake Forest's finance team uses the forecasts to inform the town board and provide guidance and recommendations. Furthermore, long-term capital planning is identified through a five-year plan that is updated annually and includes sources and uses of funding. The town adheres to a formalized debt management policy with affordability metrics monitored annually to ensure compliance with each threshold. Wake Forest enhanced its formal reserve policy to maintain a minimum unassigned general fund balance of 20%-25% of general fund expenditures in case of unexpected expenditures and revenue shortfalls. In addition, total reserves at year-end should be at least 35% of general fund expenditures and are typically appropriated only for one-time expenditures.

### Financial performance, reserves, and liquidity

Wake Forest's historical financial performance remains very strong. The town's budget is primarily funded with property and sales taxes. The stability of these revenue sources led to another strong operating result in fiscal 2023, with the town increasing available reserves by \$5.5 million.

In fiscal 2024, the adopted budget totaled \$75.3 million. Unaudited actual revenues for fiscal 2024 came in more than 8% above budget, while expenses came in below budget. As a result, management indicates it expects to increase reserves by \$2.7 million after using \$10 million in pay-as-you-go expenses for capital.

The fiscal 2025 budget is balanced and we understand the town anticipates ending the year with similarly strong positive variances and results.

Wake Forest continues to build its available reserves despite the planned annual use of fund balance for one-time expenditures. We believe management will continue to adhere to its formal fund balance policy to maintain an unassigned general fund balance at a minimum of 20%-25% of general fund expenditures.

## Debt and liabilities

In November 2022, voters approved issuing \$75.0 million in GO bonds for roadway and transportation, parks and recreation facilities, greenway improvements, and parking facilities. We understand Wake Forest plans to issue the remaining balance of these bonds over the next four-to-six years. However, given the amortization of existing debt, we do not expect this will have a material impact on the town's debt outstanding.

Wake Forest participates in two defined-benefit pension plans:

- Local Government Employees' Retirement System (LGERS), a state-administered plan that is nearly fully funded, with the town's proportional share of the net pension liability equal to about \$20.7 million; and
- Law Enforcement Officers' Special Separation Allowance, a single-employer plan providing benefits to qualified law enforcement officers funded on a pay-as-you-go basis, which carries a modest net liability outstanding of \$5.5 million.

In general, we expect LGERS contributions to meet our view of minimum funding progress, in part because of the plan's closed, level-dollar, 12-year amortization that should result in timely funding progress. Furthermore, North Carolina local governments are required to pay 100% of the actuarially determined contribution as set annually by the LGERS Board of Trustees, and the town met 100% of its static funding requirement in 2023.

The town also provides other postemployment benefits (OPEB) to eligible employees, paid on a pay-as-you-go basis, with a net OPEB liability of \$12.7 million.

**Table 1**

Wake Forest, North Carolina--credit summary	
Institutional framework (IF)	1
Individual credit profile (ICP)	1.20
Economy	1.0
Financial performance	1
Reserves and liquidity	1
Debt and liabilities	2.00
Management	1.00

**Table 2**

Wake Forest, North Carolina--key credit metrics				
	Most recent	2023	2022	2021
<b>Economy</b>				
GCP per capita % of U.S.	124	124	124	124
County PCPI % of U.S.	117	117	117	114
Market value (\$000s)	7,445,945	7,445,945	7,131,769	6,799,783
Market value per capita (\$)	131,366	148,931	176,019	163,827
Top 10 taxpayers % of taxable value	5	5	5	5
County unemployment rate (%)	3.0	3.0	3.1	4.1
Local median household EBI % of U.S.	134	134	128	129
Local per capita EBI % of U.S.	110	110	110	114

**Table 2**

Wake Forest, North Carolina--key credit metrics (cont.)				
	Most recent	2023	2022	2021
Local population	56,681	49,996	40,517	41,506
<b>Financial performance</b>				
Operating fund revenues (\$000s)	--	69,569	64,744	56,158
Operating fund expenditures (\$000s)	--	58,776	52,593	46,364
Net transfers and other adjustments (\$000s)	--	(5,368)	(4,247)	(3,840)
Operating result (\$000s)	--	5,425	7,904	5,954
Operating result % of revenues	--	7.8	12.2	10.6
Operating result three-year average %	--	10.2	6.6	3.1
<b>Reserves and liquidity</b>				
Available reserves % of operating revenues	--	36.5	28.8	26.4
Available reserves (\$000s)	--	25,394	18,631	14,829
<b>Debt and liabilities</b>				
Debt service cost % of revenues	9.1	9.1	10.2	10.3
Net direct debt per capita (\$)	708	708	994	1,064
Net direct debt (\$000s)	35,411	35,411	40,280	44,157
Direct debt 10-year amortization (%)	--	--	--	--
Pension and OPEB cost % of revenues	5	5	3	4
Net pension liabilities per capita (\$)	597	597	666	261
Combined net pension liabilities (\$000s)	29,823	29,823	26,990	10,832

GCP--Gross county product. PCPI--Per capita personal income. 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

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