

## ISSUER COMMENT

20 May 2019

### RATING

**General Obligation (or GO Related)** <sup>1</sup>

Aaa Stable

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## City of Raleigh, NC

### Annual Comment on Raleigh

#### Issuer Profile

The City of Raleigh is the county seat of Wake County and the state capital, located in the Piedmont region of central North Carolina. The city forms one point of the Research Triangle Park, along with Chapel Hill and Durham. The county has a population of 1,023,811 and a high population density of 1,231 people per square mile. The county's median family income is \$91,701 (1st quartile) and the February 2019 unemployment rate was 3.6% (2nd quartile) <sup>2</sup>. The largest industry sectors that drive the local economy are professional/scientific/technical services, retail trade, and health services.

#### Credit Overview

The credit position for Raleigh is extremely strong, and its Aaa rating is significantly above the median rating of Aa3 for US cities. Notable credit factors include a very healthy financial position, an extensive tax base and a strong wealth and income profile. It also reflects a low debt burden and a moderate pension liability.

**Finances:** Raleigh has a robust financial position, which is consistent with the assigned rating of Aaa. The cash balance as a percent of operating revenues (52.9%) exceeds the US median, and remained stable from 2014 to 2018. Additionally, the fund balance as a percent of operating revenues (59.4%) is far superior to other Moody's-rated cities nationwide.

**Economy and Tax Base:** The economy and tax base of Raleigh are very healthy and are comparable to its Aaa rating. The total full value (\$59.2 billion) is significantly above the US median, and grew markedly from 2014 to 2018. Also, the full value per capita (\$127,369) is much stronger than the US median. Lastly, the median family income is a solid 110% of the US level.

**Debt and Pensions:** Overall, the debt and pension liabilities of the city are affordable, though they are unfavorable relative to the Aaa rating assigned. Raleigh's net direct debt to full value (0.9%) approximates the US median, and remained flat between 2014 and 2018. Also, the Moody's-adjusted net pension liability to operating revenues (1.1x) favorably is slightly lower than the US median.

**Management and Governance:** North Carolina cities have an Institutional Framework score <sup>3</sup> of Aaa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property taxes, the sector's major revenue source, is subject to a cap which can be overridden with voter approval. However, the cap of \$15 per \$1,000 of assessed value still allows for significant revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of

expenditures. North Carolina is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

### Sector Trends - North Carolina Cities

North Carolina cities will generally benefit from a robust state economy, although rural areas still transitioning from a high reliance on textile, furniture and tobacco employment will lag the rest of the state. Most cities benefit from diverse economic expansion of the technology, pharmaceutical, financial and tourism sectors. Sales tax collections are increasing and an improving housing market has bolstered property tax revenues. Pensions are well funded and not expected to have an outsized negative impact on the credit quality of cities as a whole.

EXHIBIT 1

#### Key Indicators <sup>4</sup> <sup>5</sup> Raleigh

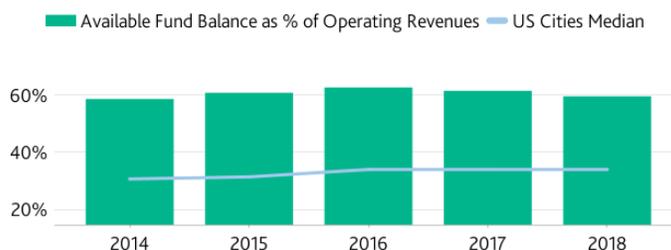
	2014	2015	2016	2017	2018	US Median	Credit Trend
<b>Economy / Tax Base</b>							
Total Full Value	\$52,697M	\$52,725M	\$53,725M	\$58,465M	\$59,195M	\$1,867M	Improved
Full Value Per Capita	\$124,496	\$121,904	\$121,737	\$127,408	\$127,369	\$89,200	Stable
Median Family Income (% of US Median)	105%	106%	110%	110%	110%	113%	Improved
<b>Finances</b>							
Available Fund Balance as % of Operating Revenues	58.5%	60.6%	62.5%	61.3%	59.4%	33.9%	Stable
Net Cash Balance as % of Operating Revenues	53.0%	55.0%	57.2%	55.9%	52.9%	36.9%	Stable
<b>Debt / Pensions</b>							
Net Direct Debt / Full Value	0.9%	1.1%	1.0%	1.0%	0.9%	1.1%	Stable
Net Direct Debt / Operating Revenues	1.25x	1.39x	1.35x	1.41x	1.22x	0.88x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.6%	0.6%	0.6%	0.7%	0.8%	1.8%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.83x	0.80x	0.79x	0.99x	1.09x	1.51x	Stable
	2014	2015	2016	2017	2018	US Median	
<b>Debt and Financial Data</b>							
Population	423,287	432,520	441,326	458,880	464,758	N/A	
Available Fund Balance (\$000s)	\$221,961	\$242,696	\$260,384	\$267,111	\$271,709	\$7,419	
Net Cash Balance (\$000s)	\$201,115	\$220,243	\$238,484	\$243,608	\$242,160	\$8,404	
Operating Revenues (\$000s)	\$379,702	\$400,298	\$416,720	\$435,571	\$457,490	\$21,930	
Net Direct Debt (\$000s)	\$475,452	\$557,028	\$564,062	\$613,758	\$559,368	\$18,580	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$314,618	\$322,239	\$327,921	\$430,454	\$500,859	\$32,507	

Source: Moody's Investors Service

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.com](http://www.moody.com) for the most updated credit rating action information and rating history.

## EXHIBIT 2

## Available fund balance as a percent of operating revenues consistent from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

## Full value of the property tax base increased from 2014 to 2018



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

## EXHIBIT 4

## Moody's-adjusted net pension liability to operating revenues remained stable from 2014 to 2018



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

## Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
  - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- 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 \(December 2016\)](#) methodology report for more details.
  - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
  - The medians come from our most recently published local government medians report, [Medians - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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