

# RatingsDirect®

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## Summary:

# Apex Town, North Carolina; General Obligation

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## Summary:

# Apex Town, North Carolina; General Obligation

### Credit Profile

US\$6.0 mil GO parks & recre bnds ser 2013 due 02/01/2033

*Long Term Rating* AAA/Stable New

US\$4.53 mil GO rfdg bnds ser 2013 due 02/01/2025

*Long Term Rating* AAA/Stable New

Apex Twn GO

*Long Term Rating* AAA/Stable Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to Apex Town, N.C.'s series 2013 general obligation (GO) bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

The rating reflects our opinion of the town's:

- Still expanding economy with access to a strong regional economy,
- Very strong wealth and income,
- Strong fund balance, and
- Low overall debt with limited additional debt plans.

The town's full-faith-and-credit pledge secures the bonds. We understand officials intend to use bond proceeds to fund various parks and recreational projects and refund the town's series 2005 GO public improvement bonds.

Apex occupies 15.66 square miles in Wake County, approximately 10 miles west of Raleigh and 13 miles from the Research Triangle Park (RTP). The town's participation in RTP's deep and diverse economy has contributed to its continued growth. As estimated by the town's planning department, the 2013 population estimate of 40,003 is a 6.7% increase from the 2010 U.S. Census population. Construction activity in fiscal 2012 increased from previous years; according to management, it is returning to prerecessionary levels. Permit issuance for commercial and residential construction increased by 62.5% in 2012 from 2011, but total permit values grew by 147% to \$161.5 million compared with \$65.3 million in 2011. Based on trends from the first six months of Apex's fiscal year, management is projecting 2013 permit activity to surpass 2012 activity. Another factor contributing to the town's ongoing growth is the recent completion of Interstate 540, a 12.6-mile electronic toll road that provides even quicker access to the RTP, reducing the commute to just 15 minutes from 45 minutes.

The town's continued growth has allowed management to maintain its strong and diverse property tax base. Assessed value (AV) continues to demonstrate growth. Following the reassessment in fiscal 2009, AV averaged about 2.2% annual growth. AV is an estimated \$4.6 billion in fiscal 2013. Market value is, in our opinion, an extremely strong \$113,924 per capita. The 10 leading taxpayers continue to represent a very diverse 8.1% of AV.

In addition to the RTP, residents benefit from Apex's own diverse employment base. Leading local employers include:

- Wake County Public School System (930 employees),
- Apex Tools (425),
- EMC Corp. (355), and
- Apex (340).

This diverse employment mix continues to contribute to, what we consider, strong income. Median household and per capita effective buying incomes are 159% and 126%, respectively, of national averages. In addition, unemployment remains below county, state, and national rates. As reported by the U.S. Bureau of Labor Statistics, unemployment averaged 5.7% in 2012.

Apex maintains, what we consider, strong finances. The town received, what we regard as, strong community support in raising property tax rates by five cents in fiscal 2013 to 39 cents to maintain the level of service it provides to a growing population, as well as fund additional capital projects, including the parks it will construct with the bond proceeds. Therefore, the fiscal 2013 budget includes this tax rate increase and a \$1.5 million general fund balance drawdown. The drawdown is part of a strategic plan for fiscal years 2013-2015 that the town adopted in fiscal 2012 to build up funding for additional capital needs and reduce its reliance on debt. The plan calls for a \$1.5 million appropriation from each annual budget toward this purpose. With revenue and expenditures currently performing better than budgeted, however, officials believe this appropriation might not be required.

Fiscal 2012 closed with an operating surplus of \$1.2 million and a general fund balance of \$17.6 million, \$13.1 million, or, what we consider, a very strong 42.8% of expenditures, of which is unassigned. Property taxes, the leading revenue source, generated more than 47% of general fund revenue in fiscal 2012; other taxes and licenses generated another 20% while intergovernmental revenue accounted for 17%. The town receives minimal federal revenue.

With no changes to its existing policies and practices, Standard & Poor's continues to view the town's financial management practices as "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Overall net debt is, in our opinion, a moderate \$2,425 per capita, or a low 2.2% of market value. Carrying charges were, in our view, a moderate 9% of fiscal 2012 expenditures, which is somewhat offset by, what we consider, above-average GO debt amortization. Officials plan to retire roughly 64% of debt over the next 10 years. Additional debt plans are limited since management intends to fund further capital projects from available reserves. After this bond issuance, Apex will not have any authorized, but unissued, debt outstanding; it does not currently plan to bring any bond referendums to the electorate over the next few years.

Apex contributes to the North Carolina Local Governmental Employees' Retirement System, the North Carolina Law Enforcement Officers' Special Separation Allowance, and two supplemental income plans. Contributions in fiscal 2012 were \$2.6 million, or 8.4% of general fund expenditures. The town continues to fund other postemployment benefits (OPEB) through pay-as-you-go financing. Contributions of \$65,567 represented 6.1% of the annual OPEB cost and just 2.1% of expenditures. The unfunded actuarial accrued liability, as of Dec. 31, 2011, was \$11.7 million. If we were to add this to the town's overall debt, debt would increase slightly to \$2,721 per capita, or 2.4% of market value.

## Outlook

The stable outlook reflects Standard & Poor's view of Apex's ongoing expansion, driven by its access to RTP's diverse and stable economy. We believe this growth will likely continue over the next few years. Furthermore, despite the planned general fund balance drawdown over the next three fiscal years, we believe management will likely manage through the drawdown and Apex's growth while maintaining, what we consider, its strong finances. We could lower the rating if these or other pressures were to result in a significant reserve deterioration. Otherwise, we do not expect to change the rating within the stable outlook's two-year period.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

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