

Summary:

Raleigh, North Carolina; Appropriations; General Obligation

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Credit Profile		
US\$34.51 mil GO rfdg bndsser 2011 A&B due 09/01/2022		
Long Term Rating	AAA/Stable	New
Raleigh GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to Raleigh, N.C.'s series 2011A and 2011B general obligation (GO) refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on the city's GO debt.

Standard & Poor's also affirmed its 'AA+' rating, with a stable outlook, on the city's appropriation debt.

The 'AAA' rating reflects our opinion of the city's:

- Strong local economy that remains resilient despite the national recession,
- Stable property tax base,
- Historically strong finances,
- Good financial management practices and policies, and
- Low-to-moderate overall debt.

The city's full-faith-and-credit pledge secures the bonds. Officials intend to use series 2011A bond proceeds to advance refund the city's series 2004, 2005A, and 2005B GO public improvement bonds and series 2011B bond proceeds to advance refund the city's series 1997 GO housing bonds.

Currently covering an area of more than 143 square miles, Raleigh continues to expand due to a combination of natural growth and ongoing land annexations. According to the U.S. Census, population increased by more than 46% over the past decade to 403,892 in 2010. In 2011, the city also recently approved another 23 annexations that will add more than 200 acres of land.

In addition to being the state capital and county seat, Raleigh is an important economic center for the region since it forms one point of Research Triangle Park with Chapel Hill and Durham at the other two points. In January 2011, Progress Energy and Duke Energy Co. announced the two companies would merge to form Duke Energy. The new combined firm's headquarters will be in Charlotte. Red Hat, a software developer, has agreed to move into the Progress Energy building in Raleigh postmerger. In addition, in June 2011, PNC Bank announced it would acquire RBC Bank, which is headquartered in the city. Although the effect on the city from this acquisition is not currently known, city officials are closely monitoring any changes that could result. The metropolitan area -- which includes Wake, Durham, Orange, Franklin, Chatham, and Johnston counties -- fares relatively well due to its continued population growth and the stabilizing benefits of government and higher education employment in the region. City

unemployment, which averaged 7.6% in 2010, trends below state and national rates. Income, measured through median household effective buying income, is, what we consider, a good 101% of the national average.

Following a property reassessment in fiscal 2009, property tax base growth has leveled off. Assessed value (AV) grew by 1.7% in fiscal 2010 to \$49.9 billion, or, in our opinion, an extremely strong \$123,527 per capita. No concentration remains in the taxpayer base with the 10 leading taxpayers accounting for, what we view as, a very diverse 3.7% of total AV.

In our opinion, the city continues to demonstrate sound financial operations that have allowed management to maintain, what we consider, strong finances. The fiscal 2012 general fund budget is level with the previous year, and it assumes no property tax or fee increases. The budget also includes the elimination of 35 positions held vacant from previous years, as well as no salary increases. According to management, year-to-date results are on target with the budget. Although the fiscal 2011 audit is not yet available, officials expect to post another operating surplus of between \$6 million and \$8 million.

Although the general fund operating surplus in fiscal 2010 was not as high compared with previous years, the \$5.3 million surplus contributed to a \$165.9 million general fund balance. The unreserved balance of \$116.2 million was, what we consider, a very strong 36.9% of expenditures. Lower sales tax revenue, which accounts for roughly 17.5% of total general fund revenue, was the primary driver of the lower operating surplus; property taxes generate more than 55%.

Standard & Poor's views the city's financial management practices "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.

Debt remains, what we consider, low-to-moderate. Overall net debt is \$2,673 per capita, or 2.2% of market value. Carrying charges are, in our view, a moderate 10.3% of total governmental expenditures. Officials plan to bring a \$56 million bond referendum to the electorate this fall; they intend to use proceeds to fund about \$40 million and \$16 million of transportation and housing needs, respectively.

In addition, Standard & Poor's has assigned Raleigh a Debt Derivative Profile (DDP) score of '1.5' on a scale of '1'-'4' with '1' representing the lowest risk and '4' the highest risk. Based on our DDP methodology, a score of '1.5' indicates very low risk. The city currently has one floating- to fixed-rate swap with Citibank N.A. (A+) related to its 2005B certificates of participation. The city does not currently plan to terminate the swap.

Outlook

The stable outlook reflects Standard & Poor's expectation that management will likely continue to maintain, what Standard & Poor's views as, its strong finances given the area's robust economic fundamentals and Standard & Poor's opinion of the city's good management policies and practices. As such, we do not think we will 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

Ratings Detail (As Of September 21, 2011)		
Raleigh ltd oblig <i>Long Term Rating</i>	AA+/Stable	Affirmed
Raleigh ltd oblig VRDBs - 2009 <i>Long Term Rating</i>	AA+/A-1+	Affirmed
Raleigh COPs <i>Long Term Rating</i>	AA+/Stable	Affirmed
Raleigh COPs (Downtown Imp Projs) <i>Long Term Rating</i>	AA+/Stable	Affirmed
Raleigh COPs (Downtown Imp Proj) VRDBs <i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Raleigh COPs (Downtown Imp Proj) VRDBs - 2005 B-2 <i>Long Term Rating</i>	AA+/A-2/Watch Pos	Affirmed
Raleigh COPs (2005 Cap Imp Proj) - 2005C <i>Long Term Rating</i>	AA+/Stable	Affirmed

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