



Rating Action: Moody's Ratings assigns initial Aa1 issuer rating to Knightdale (Town of), NC and Aa2 to LOBs

04 Feb 2025

New York, February 04, 2025 -- Moody's Ratings (Moody's) has assigned an initial Aa1 issuer rating to the Town of Knightdale, NC and a Aa2 rating to the town's Limited Obligation Bonds, Series 2025 (LOBs), with an estimated par amount of \$13.7 million. Post issuance, the town will have approximately \$30.7 million in debt outstanding.

RATINGS RATIONALE

The Aa1 issuer rating reflects Knightdale's growing population, economy, and tax base. The town benefits from growth and development trends in the Research Triangle that will continue to make it an attractive destination for in-migration and residential and commercial development. Following Wake County's 4-year revaluation effective for FY 2025, the town's tax base grew by 57% to \$4.3 billion, with full value per capita exceeding \$220,000. Future tax base growth will be supported by a continuing trend of ongoing residential and commercial development, reflected by permitting trends, and by economic growth in the Research Triangle.

The rating also reflects the town's sound financial position which will continue to be supported by robust fund balance policies and the town's willingness to raise property taxes to accommodate growth to pay for debt service an increase in staff headcount. At the end of FY 2024, the town had available fund balances of \$19.0 million (57.1% of revenue) and net cash of \$19.6 million (58.9%), of which \$9.4 million (28.2%) in available general fund balance was available to support operations. The town's general fund balance will likely remain at similar levels relative to revenue moving forward given revenue growth and prudent expenditure management. The town's long-term liabilities will be manageable at 172.5% of FY 2024 revenue following the issuance of the Series 2025 LOBs given a lack of plans for new debt until FY 2029. Fixed costs will remain similarly manageable at 11.1% of revenue.

Governance is a key driver of this initial rating. The town benefits from strong budget management, reflected by its history of exceeding its minimum 25% unassigned fund balance policy that will enable financial resiliency in the event of event risk.

The Aa2 LOBs are rated one notch below the issuer rating reflecting the risk of non-appropriation and the essentiality of the pledged assets (Law Enforcement Center).

RATING OUTLOOK

We do not assign outlooks to local governments with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Strengthening in resident incomes to over 150% of the national median, adjusted for regional price parity
- Increase in available general fund balance to over 50% of annual operating revenue on a sustained basis

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Regional economic downturn that causes full value per capita to decline to under \$180,000
- Trend of imbalanced operations that weakens available fund balances to under 25% of revenue

LEGAL SECURITY

Debt service on the LOBs is payable from annual installment payments made by the town, subject to annual appropriation. The bonds are also backed by a lien on the town's Law Enforcement Center, which is an essential asset that will house its police department.

USE OF PROCEEDS

Proceeds from the Series 2025 LOBs will be used to finance a new 26,000 square foot Law Enforcement Center for the town's Police Department.

PROFILE

Knightdale encompasses 7.8 square miles in Wake County (Aaa stable), 7 miles east of Raleigh (Aaa stable). The town provides governmental services including public safety and operates a stormwater utility for a growing population of 19,532 residents per the 2023 American Community Survey (ACS).

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties published in July 2024 and available at <https://ratings.moody.com/rmc-documents/425429>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance

(ESG) risks in our credit analysis can be found at <https://ratings.moodys.com/rmc-documents/435880>.

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