S&P Global
Ratings

RatingsDirect®

Summary:

Spotsylvania County, Virginia; Appropriations; General Obligation

Primary Credit Analyst:
Tiffany Tribbitt, New York (1) 212-438-8218; Tiffany.Tribbitt@spglobal.com

Secondary Contact:
Nora G Wittstruck, New York (1) 212-438-8589; nora.wittstruck@spglobal.com

Table Of Contents

Summary:

Spotsylvania County, Virginia; Appropriations; General Obligation

Credit Profile		
US$34.425 mil GO pub imp bnds ser 2018 dtd 08/21/2018 due 07/15/2038		
Long Term Rating	AA+/Stable	New

Rationale

S&P Global Ratings has assigned its 'AA+' rating to Spotsylvania County, Va.'s series 2018 general obligation (GO) public improvement bonds and affirmed its 'AA+' rating on the county's existing GO debt. At the same time, S&P Global Ratings affirmed its 'AA' rating on the county's appropriation-backed debt outstanding. The outlook is stable.

Spotsylvania's pledge of its full faith and credit to levy and collect an annual ad valorem tax on all locally taxable property secures the series 2018 bonds and GO bonds outstanding. Proceeds will finance various public school, transportation, and public safety capital projects.

Spotsylvania's appropriation bonds are secured by annual payments and basic rent payments made by the county. We rate these obligations one notch lower than Spotsylvania's general creditworthiness, as reflected in the GO rating, to account for the appropriation risk associated with the payments.

The GO rating reflects our view of the county's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 27% of operating expenditures;
- Very strong liquidity, with total government available cash at 76.4% of total governmental fund expenditures and 5.1x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 14.9% of expenditures and net direct debt that is 113.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 72.3% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Strong economy

We consider the county's economy strong. Spotsylvania County, with an estimated population of 132,028, is in the

Washington-Arlington-Alexandria MSA, which we consider broad and diverse. The county has a projected per capita effective buying income of 103.8% of the national level and per capita market value of $122,107. Overall, the county's market value grew by 7.0% over the past year to $16.1 billion in 2018. The county unemployment rate was 3.8% in 2017.

Located about halfway between Washington, D.C., and Richmond, Va., Spotsylvania residents benefit from access to a strong regional economy with many job opportunities. While nearly three-fourths of the county's labor force commute outside the county for employment, Spotsylvania continues to expand and diversify its employment base, targeting growth in health care, manufacturing, defense/IT/cyber, and tourism. Notable economic developments include completion of a 900,000-square-foot warehouse by German grocery chain Lidl and plans for an additional store in the county, as well as expansions and investments in existing facilities by manufacturers Universal Dynamics Inc. and idX Corp.

Leading local employers include:

- Spotsylvania County Schools;
- Spotsylvania County government;
- HCA Virginia Health System;
- Wal-Mart; and
- CVS Health Corp., a distribution warehouse.

The county's population increased about 10% in the past 10 years, averaging 1.1% growth every year. Spotsylvania assessed value (AV) also increased steadily in the same time, standing at just over $16 billion in 2018. The county reassesses every other year, with the most recent completed in 2018. Officials note the county continues to see new housing developments, including single-family homes and multifamily units in a variety of mixed-use development projects. It has a pipeline of proposed housing projects that would add more than 14,000 units to the county. We anticipate the county's economy will continue to expand slowly and steadily in the near term.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights of the assessment include the following:

- Conservative revenue and expenditure assumptions that incorporate historical as well as long-range financial forecasting.
- Budget performance reports are presented quarterly and include budget-to-actual and year-to-date benchmarks; the budget may be amended throughout the year.
- Spotsylvania maintains annually updated five-year financial forecasts for all of its major funds with varying assumptions and identifiable risks in the out years.
- The county maintains a five-year rolling capital improvement plan of identified projects, costs, and funding sources.

- It has a formally adopted investment policy with earnings and holdings that it reviews at least quarterly.
- The formal debt management policy targets net debt at no more than 3% of estimated market value, and the ratio of debt service expenditures as a percentage of governmental fund expenditures should not exceed 12%, with a goal of lowering this to 10% by the end of 2025.
- A comprehensive reserve policy tied to liquidity and contingency planning needs.

Strong budgetary performance

Spotsylvania County's budgetary performance is strong in our opinion. The county had slight operating surpluses of 1.4% of expenditures in the general fund and of 0.7% across all governmental funds in fiscal 2017. General fund operating results have been stable over the past three years, at 1.3% in 2016 and 1.5% in 2015.

For analytic consistency, we have adjusted data to include recurring transfers, in and out, as revenues and expenditures, and accounting for one-time revenues and expenditures, particularly bond-funded capital needs. Management attributes fiscal 2017 results to revenues exceeding expectations (largely from real estate and personal property) and expenditures being less than projected (from vacancies and unspent contingency).

Officials project 2018 will close with another surplus, regenerating reserves used in the budget and adding at least $1.3 million to fund balances. Results were largely driven by revenues exceeding budgeted expectations, in particular real estate taxes increasing from the expanded base and adopted higher tax rate.

The fiscal 2019 adopted general fund budget totals $130.5 million, representing a 4.8% increase over the fiscal 2018 adopted budget. Real property tax rates increased slightly above the equalized rate. The budget includes a use of approximately $9.7 million of general fund balance, of which $8.6 million is transferred to the capital projects fund. However, given the county's history of strong performance stemming from conservative budgeting, we expect performance will remain strong and reserves will be replenished.

Very strong budgetary flexibility

Spotsylvania County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 27% of operating expenditures, or $69.4 million. Over the past three years, the total available fund balance has been consistent, totaling 27% of expenditures in 2016 and 26% in 2015.

As part of the annual budget process, the county appropriates a contingency equal to 0.25% of general fund expenses. This contingency is meant to cover unforeseen expenditures of a nonrecurring nature that arise during the course of the fiscal year, or to meet relatively minor increases in service-delivery costs. Spotsylvania maintains comprehensive policies governing its reserves.

Highlights of these policies include:

- Designating the fiscal stability reserves as a committed reserve and increasing the required reserve level to 11% of general fund and school operating fund revenues projected for the subsequent fiscal year. We include these reserves in our analysis of available reserves as officials confirm they can be made available by the board;
- Establishing the budget stabilization reserve with a balance of $1 million with 0.25% of general fund and school operating fund revenues projected for the subsequent fiscal year budget to be added until the fund reaches $5

million;

- Formalizing the health insurance reserve to equal incurred, but not reported, claims plus three months of average claims; and
- Creating an economic opportunities reserve of $2 million.

The county has added to available reserves (assigned and unassigned) annually, and expects to do so again in fiscal 2018. Given projections, we expect flexibility will remain very strong.

Very strong liquidity

In our opinion, Spotsylvania County's liquidity is very strong, with total government available cash at 76.4% of total governmental fund expenditures and 5.1x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary.

We believe the county's strong access to external liquidity is supported by its frequent debt issuances, including GO bonds. Though the state allows for investments that we view as permissive, the majority of Spotsylvania's investments are in highly-rated and liquid mutual funds and fixed-income securities, which we do not view as aggressive. The county has consistently had very strong liquidity and we do not anticipate this will diminish.

In 2013, Spotsylvania issued privately placed fixed rate GO debt and economic development authority lease revenue debt. We have reviewed the terms and conditions and do not believe they pose a risk to liquidity.

Strong debt and contingent liability profile

In our view, Spotsylvania County's debt and contingent liability profile is strong. Total governmental fund debt service is 14.9% of total governmental fund expenditures, and net direct debt is 113.7% of total governmental fund revenue. Overall, net debt is low at 1.9% of market value, and approximately 72.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The county's five-year capital improvement plan totals $235 million, with about a third cash-funded. It identifies about $74.9 million in potential projects funded through debt issuances in the next two years. However, any potential issuance is offset by Spotsylvania's rapid debt amortization. Given the county's strong debt management policies, we do not expect to see any material changes to its debt profile.

Spotsylvania's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.2% of total governmental fund expenditures in 2017. Of that amount, 1.7% represented required contributions to pension obligations, and 0.5% represented OPEB payments. The county made its full annual required pension contribution in 2017.

The county and school board participate in the Virginia Retirement System, a defined benefit pension plan that includes a multi-employer agent plan for county and school board employees and a cost-sharing multiple-employer teacher retirement plan. The funded ratios calculated using a 7% discount rate were 86.2% for the county plan, 92.84% for the school-board plan, and 68.28% for the teacher-retirement plan as of June 30, 2017. The county pays 100% of its contractually required contribution. It also administers a single-employer defined benefit plan that provides health and dental insurance during retirement for eligible retirees and their dependents. The plan is funded on a pay-as-you-go basis, with an unfunded liability of $95.7 million as of July 1, 2016.

Very strong institutional framework

The institutional framework score for Virginia counties is very strong.

Outlook

The stable outlook reflects S&P Global Rating's opinion of the county's strong performance and very strong management conditions. Furthermore, the county has successfully maintained its very strong budgetary flexibility and liquidity despite cash funding a substantial portion of capital needs. The strong and growing local economy with access to the greater Washington, D.C., metropolitan area provides further stability. Therefore, we do not expect to raise or lower the rating within the outlook's two-year period.

Upside scenario

Beyond the outlook period, if the county's growth results in improved economic indicators to levels more in line with higher-rated peers, while management continues to strengthen Spotsylvania's debt profile and increase reserves, holding all other factors equal, we could raise the rating.

Downside scenario

If the county significantly and unexpectedly draws down reserves due to fiscal imbalance, the rating could be pressured.

Related Research

- 2017 Update Of Institutional Framework For U.S. Local Governments
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Ratings Detail (As Of August 6, 2018)		
Spotsylvania Cnty GO		
Long Term Rating	AA+/Stable	Affirmed
Spotsylvania Cnty Econ Dev Auth, Virginia		
Spotsylvania Cnty, Virginia		
Spotsylvania Cnty Econ Dev Auth (Spotsylvania Cnty) APPROP		
Long Term Rating	AA/Stable	Affirmed
Spotsylvania Cnty Econ Dev Auth (Spotsylvania Cnty) APPROP		
Long Term Rating	AA/Stable	Affirmed
Spotsylvania Cnty Econ Dev Auth (Spotsylvania Cnty) APPROP		
Long Term Rating	AA/Stable	Affirmed
Spotsylvania Cnty Econ Dev Auth (Spotsylvania Cnty) (Pub Bldg & Equip Proj)		

Ratings Detail (As Of August 6, 2018) (cont.)		
Long Term Rating	AA/Stable	Affirmed
Spotsylvania Cnty Indl Dev Auth, Virginia		
Spotsylvania Cnty, Virginia		
Spotsylvania Cnty Indl Dev Auth pub fac rev bnds (Spotsylvania Sch Fac Proj)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.