FitchRatings

Public Finance
Tax-Supported
U.S.A.

Spotsylvania County, Virginia

Ratings

Long Term Issuer Default Rating	AAA

New Issue

$19,010,000 General Obligation Public Improvement Bonds, Series 2020	AAA

Outstanding Debt

General Obligation Bonds	AAA
Economic Development Authority Revenue Bonds	AA+

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (March 2020)

Related Research

Fitch Rates Spotsylvania County, VA's $19MM GOs 'AAA'; Outlook Stable (August 2020)

Analysts

Grace Wong
+1 212 908-0652
grace.wong@fitchratings.com

Patrick Goggins
+1 646 582-4695
patrick.goggins@fitchratings.com

New Issue Summary

Sale Date: Competitive sale, on or about Sept. 1

Series: $19,010,000 general obligation (GO) public improvement bonds, series 2020

Purpose: Bond proceeds will be used to finance or reimburse the county for costs associated with public safety projects, public school projects and transportation projects in the county and to refinance costs of certain county capital improvements. A portion of the bond proceeds will also be used to refund certain outstanding GO bonds.

Security: The GO bonds are backed by the county's full faith and credit and unlimited ad valorem taxing ability.

The 'AAA' Issuer Default Rating (IDR) and GO bond rating reflect Spotsylvania County's strong financial operations as demonstrated by the maintenance of healthy reserves, strong revenue framework, moderately low long-term liability burden, superior gap closing capacity and broad budgetary tools. The revenue bond rating is one notch lower than the IDR at 'AA+', reflecting the slightly higher degree of optionality given the requirement for annual budgetary appropriation in support of lease payments.

Economic Resource Base: The county is located along Virginia's Interstate 95 corridor, midway between Washington, D.C. and Richmond, VA (about 55 miles from each). The county continues to grow, as the 2019 census estimated population of 136,215 was up about 11% since the 2010 census.

Key Rating Drivers

Revenue Framework: 'aaa': Fitch Ratings believes the pace of revenue growth (net of policy action) will outpace the rate of inflation over time, due to continued population gains, property appreciation and development. The county has the independent legal ability to raise property tax revenues in an unlimited amount.

Expenditure Framework: 'aa': Fitch expects the natural pace of spending growth to remain in line with to marginally above revenue growth. Moderate carrying costs and broad flexibility to manage labor-related costs afford the county solid leeway to adjust spending.

Long-Term Liability Burden: 'aa': The combined burden of debt and unfunded pension liabilities is moderate. Fitch expects the metric to remain at the low (strong) end of the 'aa' assessment level over time as potential increases in the net pension liability and future debt issuance plans should generally match growth in personal income and the amortization rate of existing debt.

Operating Performance: 'aaa': The county's superior budget flexibility and ample general fund balance position it to comfortably manage through economic downturns without diminishing its overall financial flexibility.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Not applicable.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- An economic contraction extending well into the 2H20 or beyond, consistent with Fitch's coronavirus downside scenario, that triggers sustained and deeper than expected tax revenue losses and materially erodes the county's gap-closing capacity.
- A material weakening of natural revenue growth prospects below the current 'aa' assessment.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	8/17/20
AAA	Review - No Action	Stable	4/16/20
AAA	Upgraded	Stable	8/09/16
AA+	Upgraded	Stable	6/13/12
AA	Revised	Stable	4/30/10
AA-	Assigned	Stable	10/14/04

Current Developments

The ongoing outbreak of coronavirus and related government containment measures worldwide create an uncertain global environment for U.S. state and local governments and related entities in the near term. While the county's most recently available fiscal and economic data may not fully reflect impairment, material changes in revenues and expenditures are occurring across the country and are likely to worsen in the coming weeks and months as economic activity suffers and public health spending increases. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in state and local governments as a result of the virus outbreak as it relates to severity and duration and incorporate revised expectations for future performance and assessment of key risks.

In its baseline scenario, Fitch assumes sharp economic contractions to hit major economies in 1H20 at a speed and depth that are unprecedented since World War II. Sequential recovery is projected to begin from 3Q20 onward as the health crisis subsides after a short but severe global recession. GDP is projected to remain below its 4Q19 level until mid-2022. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the special report "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update," published April 29, 2020 and available on www.fitchratings.com.

Coronavirus Implications for Spotsylvania County

The county entered the current economic crisis with a sound financial position, having concluded fiscal 2019 with unrestricted reserves totaling $94.2 million, or 42.3% of operating expenditures and transfers out and 143 days cash on hand. Fitch expects the county to retain the highest level of financial resilience under both Fitch's baseline and downside economic scenarios. The county projects fiscal-end 2020 (June 30) general fund results to be stable with prior-year results, with sales tax revenues and intergovernmental revenues expected to exceed the budget and sufficiently offset a modest decline in real and personal property taxes. Property taxes are the primary general fund revenue source, contributing roughly 64% of the fiscal 2019 total. To mitigate the revenue decline, the county froze vacant positions, discretionary spending and certain cash funded capital projects. The county was awarded an initial $11.9 million in CARES Act funds from the commonwealth, of which $8 million was recognized in fiscal 2020 and the remainder to be spent in fiscal 2021. The county was subsequently awarded with a second allocation of CARES Act funding for $11.9 million, which was received in August 2020.

Credit Profile

Spotsylvania County functions as a bedroom community for the D.C. metro area. Over half of the county's labor force commutes outside of the county for work according to the Virginia Employment Commission. Over the past several years, the county has continued to add jobs on par with the rate of the rest of the growing state economy. The unemployment rate tracks the state and remains below the U.S. even in the current environment. The county's wealth and education indicators are mixed, with estimated per capita personal income and education levels averaging nearly the national level but trailing the commonwealth. Poverty levels are well below those of the state and the U.S.

The county has a pipeline of economic development projects due to the availability of land, and transportation investments are attracting private investment and continued economic growth. The county's target industries include healthcare, manufacturing, high-tech, defense and tourism.

Revenue Framework

County operations are primarily supported by property taxes, which comprise about 64% of fiscal 2019 general fund revenues, followed by intergovernmental revenues (16%), primarily state funds for education, and sales tax revenues (7%).

General fund revenue growth, when adjusted for policy action, has trailed U.S. inflation over the decade ending in fiscal 2019. However, the county's taxable assessed values and resident home values have steadily grown since the Great Recession, and Fitch believes the county's future revenue growth prospects will exceed the historical trend due to continued population gains and ongoing economic development in the region as well as positive housing trends in the county.

The county benefits from broad revenue raising flexibility, as it is not subject to any limitation on its property tax rate or tax levy. The county's property tax rate remains competitive relative to neighboring jurisdictions.

Expenditure Framework

The county provides a broad range of municipal services include law enforcement, fire and rescue, education, health and social services, solid waste disposal and community development. The county's expenditures are primarily focused on public safety (19% in fiscal 2019) and education (44%). Virginia public schools are largely funded by a mix of state and local aid contributions. Local contributions are determined by the county board, and the minimum funding level is based on a state standard.

Given the county's solid revenue growth prospects, Fitch expects spending growth to be in line with to marginally above revenues over time.

The county has solid flexibility to adjust major expenditure items. Fixed carrying costs associated with debt service, actuarially calculated required pension costs and OPEB actual spending consume approximately 14% of governmental spending. The county currently funds an elevated share of school funding relative to the state-mandated requirement for public education and has the capacity to adjust the level of support for public schools, if needed. Expenditure flexibility is further enhanced by the absence of collective bargaining, which provides a strong legal ability to manage workforce costs.

Long-Term Liability Burden

The county's overall debt and unfunded pension liability is moderately low at about 9% of personal income. The metric is roughly split between direct debt of the county and the net pension liability (NPL), with the Fitch-adjusted NPL slightly over half of the burden. The county adopted a capital improvement plan (CIP) for fiscal 2021 in an approximate amount of $82 million, of which two-thirds reflects utility projects and the remainder is roughly split between general government and school projects. The county is currently reviewing its capital plans for the next few years and plans to adopt a CIP for the next few years in fall 2020.

The county offers defined benefit pension plans administered by the Virginia Retirement System through both agent plans (for general employees and non-teacher employees of the component unit school system) and as a cost-sharing multi-employer plan for teachers. Aggregate pension plan assets (combined and adjusted to Fitch's 6% investment rate of return assumption) covered about 70% of plan liabilities in fiscal 2019. The county's aggregate NPL was estimated at approximately $325 million, or about 5% of personal income, using the Fitch adjustment.

The county also provides OPEB plans for county employees. At the close of fiscal 2019, the net liability for county employees was reported at $90 million, or about 1% of personal income.

Operating Performance

Given the limited historical revenue volatility and the county's superior inherent budget flexibility, Fitch expects the county to maintain a high level of fundamental financial flexibility throughout economic cycles. Available reserves continue to meet the county's conservative policies, including reserves for emergencies and others for economic stress, economic development, and additional amounts in the capital project and the transportation fund.

The county demonstrated its financial resilience and strong budget management through the Great Recession by delaying capital spending, shifting funds to the general fund from available reserves in the capital projects fund as necessary to address budget gaps, reducing the appropriation to the schools and controlling cost through workforce reduction and freezing salaries.

The county's conservative budget management allowed for continued healthy financial flexibility after the previous recession. Management projections indicate stable results for fiscal 2020, with year-end reserve levels expected to remain healthy, consistent with past performance.

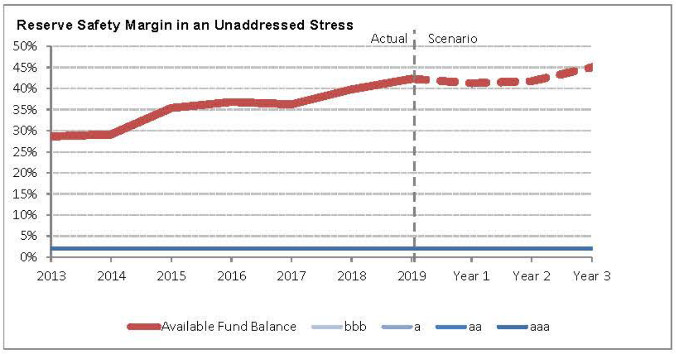
The adopted fiscal 2021 general fund budget of approximately $150 million is a 5% increase over the prior adopted budget and incorporates a real property tax rate decrease (from $0.8474 to $0.8094) despite property tax revenues in fiscal 2020 falling below expectations, funds base pay adjustment for public safety approved in fiscal 2020, school resource officers at every school and public safety positions. The adopted budget eliminated the cost of living adjustment and pay for performance adjustments for non-public safety employees, the increased contribution to OPEB and tuition reimbursement and training. The budget appropriates $3.9 million of the budget stabilization reserve to backfill expected declines in consumption-based taxes and interest earnings; however, the county expects to maintain reserves at similar levels and continue to adhere to its financial policy guidelines. The adopted fiscal 2021 budget does not incorporate the allocation of CARES Act funds.

ESG Considerations

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Spotsylvania County (VA)

Scenario Analysis



Analyst Interpretation of Scenario Results:

Given the limited historic revenue volatility and the county's superior inherent budget flexibility, Fitch expects the county to maintain a high level of fundamental financial flexibility throughout economic cycles. Available reserves continue to meet the county's conservative policies, including reserves for emergencies and others for economic stress, economic development, and additional amounts in the capital project and the transportation fund.

The county demonstrated its financial resilience and strong budget management through the Great Recession by delaying capital spending, shifting funds to the general fund from available reserves in the capital projects fund as necessary to address budget gaps, reducing the appropriation to the schools and controlling cost through workforce reduction and freezing salaries.

Scenario Parameters:					Year 1	Year 2	Year 3
GDP Assumption (% Change)					(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)					2.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:*	-1%	*Case Used:*	Moderate	(1.0%)	3.5%	4.9%
Inherent Budget Flexibility						Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2013	2014	2015	2016	2017	2018	2019	Year 1	Year 2	Year 3
Total Revenues	223,415	231,150	238,739	247,537	254,463	264,652	276,587	273,821	283,470	297,227
% Change in Revenues	-	3.5%	3.3%	3.7%	2.8%	4.0%	4.5%	(1.0%)	3.5%	4.9%
Total Expenditures	225,905	233,768	231,454	246,904	261,929	273,649	283,228	288,893	294,671	300,564
% Change in Expenditures	-	3.5%	(1.0%)	6.7%	6.1%	4.5%	3.5%	2.0%	2.0%	2.0%
Transfers In and Other Sources	44,237	23,498	79,440	31,478	22,514	27,547	31,059	30,748	31,832	33,377
Transfers Out and Other Uses	48,619	19,124	76,434	25,875	11,472	8,482	15,998	16,318	16,644	16,977
Net Transfers	(4,382)	4,374	3,007	5,602	11,041	19,065	15,061	14,430	15,188	16,400
Bond Proceeds and Other One-Time Uses	43,496	11,584	70,419	16,414	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	**(6,872)**	**1,756**	**10,292**	**6,235**	**3,576**	**10,068**	**8,419**	**(642)**	**3,987**	**13,062**
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	**(3.0%)**	**0.7%**	**4.3%**	**2.4%**	**1.3%**	**3.6%**	**2.8%**	**(0.2%)**	**1.3%**	**4.1%**
Unrestricted/Unreserved Fund Balance (General Fund)	53,924	55,538	65,310	70,910	76,206	86,263	94,244	93,602	97,589	110,652
Other Available Funds (GF + Non-GF)	**12,118**	**14,690**	**18,630**	**23,466**	**22,857**	**25,989**	**32,245**	**32,245**	**32,245**	**32,245**
Combined Available Funds Balance (GF + Other Available Funds)	**66,042**	**70,228**	**83,940**	**94,376**	**99,063**	**112,253**	**126,489**	**125,848**	**129,835**	**142,897**
Combined Available Fund Bal. (% of Expend. and Transfers Out)	28.6%	29.1%	35.3%	36.8%	36.2%	39.8%	42.3%	41.2%	41.7%	45.0%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.