FitchRatings

Spotsylvania County, Virginia

Ratings

Long-Term Issuer Default Rating	AAA

New Issues

$34,300,000 General Obligation Public Improvement and Refunding Bonds, Series 2021	AAA
$25,870,000 Spotsylvania County Economic Development Authority Public Facilities Revenue Refunding Bonds, Series 2021	AA+

Outstanding Debt

General Obligation Bonds	AAA
Economic Development Authority Revenue and Refunding Bonds (EDA)	AA+

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates Spotsylvania County, VA's $34MM GOs 'AAA' and $26MM EDA Refunding bonds 'AA+'; Outlook Stable (July 2021)

New Issue Summary

Sale Date: GO Bonds: Competitive sale, on or about Aug.10; EDA Bonds: Competitive sale, on or about Aug. 25.

Series: $34,300,000 General Obligation Public Improvement and Refunding Bonds, Series 2021; $25,870,000 Spotsylvania County Economic Development Authority (EDA) Public Facilities Revenue Refunding Bonds, Series 2021

Purpose: GO bond proceeds will be used to finance school, public safety and transportation projects. A portion of the bond proceeds will also be used to refund the series 2011A, 2011B and 2012A bonds for cash flow savings. EDA bond proceeds will be used to refund all outstanding maturities of the EDA series 2011, 2012 and 2013 bonds.

Security: The GO bonds are backed by the county's full faith and credit, and unlimited ad valorem taxing ability. The revenue bonds are limited obligations of the EDA, payable solely from payments to be made by the county to the trustee, subject to annual appropriation by the county board.

The 'AAA' Issuer Default Rating (IDR) and GO rating reflect Spotsylvania County's 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 appropriation risk.

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). Spotsylvania continues to grow rapidly, with the 2020 estimated population of 138,449 up about 13% 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 by 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': Fitch expects the combined burden of debt and unfunded pension liabilities to remain low to moderate over time as potential increases in the net pension liability (NPL) 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 cycles without diminishing its overall financial flexibility.

Rating Sensitivities

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

- Not applicable for a 'AAA' IDR.

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

- Material and unexpected weakening of natural revenue growth prospects to below the inflation rate.

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Current Developments

The county has consistently maintained healthy general fund operations including seven consecutive surpluses through fiscal 2020 (June 30 FYE) that have bolstered unrestricted general fund balance to $118.0 million, or 39.6% of total general fund spending, in fiscal 2020, from $55.3 million, or 23.0%, in fiscal 2014. The general fund surplus in fiscal 2020 reflects a combination of better than budgeted property tax revenues and interest earnings, and conservative cost-containment measures such as a hiring freeze, discretionary spending and certain cash-funded capital projects.

County officials estimate general fund results outperformed the fiscal 2021 budget. The county will receive an estimated $26.5 million under the American Rescue Plan Act (ARPA) in fiscal 2022. The planned use of these funds is still to be determined.

Credit Profile

Spotsylvania County functions as a bedroom community for the D.C. metro area. Over one-half of the county's labor force commutes outside 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 county unemployment rate has generally tracked the state's and remains below the U.S. rate. The county's wealth and education indicators are mixed with estimated per capita personal income and education levels averaging nearly the national levels, but trailing the those of 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 63% of fiscal 2020 general fund revenues, followed by intergovernmental revenues (primarily state funds for education; 18%) and sales tax revenues (7%).

The county's general fund revenue growth over the 10-year period ended fiscal 2020 surpassed the national GDP. However, the growth incorporates an increase in intergovernmental revenues associated with a portion of federal funding assistance related to the pandemic. Fitch expects future revenue growth, absent policy actions, to outpace inflation due to expectations for continued growth in population, property appreciation and ongoing economic development. The county's taxable assessed values (TAVs) have steadily grown since the Great Recession, with fiscal 2020 TAVs approximately 17% above the fiscal 2009 peak.

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 including 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 (21% in fiscal 2020) and education (43%). 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 state standards.

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 other post-employment benefit (OPEB) actual spending consume approximately 16% of governmental funds spending. The county currently provides more school funding than required under state law, providing capacity to adjust local education spending, if needed. Expenditure

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	7/29/21
AAA	Upgraded	Stable	8/9/16
AA+	Upgraded	Stable	6/13/12
AA	Revised	Stable	4/30/10
AA-	Assigned	Stable	10/14/04

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 Fitch-adjusted NPL represents slightly over half of the burden. The county adopted a $338 million fiscal 2022 to fiscal 2026 capital improvement plan, of which $17.5 million (or 5%) reflects solid waste projects and the remainder is roughly split between general government and school projects to be primarily funded with debt. Fitch believes the additional debt issuance will not pressure the metric given rapid debt amortization and expectations for continued growth in personal income.

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 2020. The county's aggregate NPL was estimated at approximately $332 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 2020, the net liability for county employees was reported at $113 million, or equal to less than 2% 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 through economic cycles. Available reserves continue to meet the county's conservative policies, including a fiscal stability reserve (equal to 11% of operating revenues), budget stabilization reserves ($5 million) and economic opportunities reserve ($2 million).

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 costs through workforce reduction and salary freezes. Fitch believes the county would undertake similar measures to manage in a future economic downturn.

The county's conservative budget management allowed for continued healthy financial flexibility during the pre-pandemic economic expansion and even through the last year. Management projections indicate positive results for fiscal 2021, with year-end reserve levels expected to remain healthy, consistent with past performance.

The adopted fiscal 2022 general fund budget of approximately $161.6 million is a 7.8% increase over the prior adopted budget and incorporates no change in real estate tax rate, a one-time reduction in business tangible property tax rate, and a $0.20 reduction in the general personal property tax rate, while the meals and transient occupancy tax rates increased. The county adopted a new cigarette tax adopted at $0.30 a pack effective Oct. 1 that is expected to generate approximately $310,000 in additional revenues.

The adopted general fund budget restores funding for new positions and cash-funding for capital that were previously frozen in response to the pandemic. The adopted fiscal 2022 budget does not incorporate the allocation of ARPA funds. The use of these funds is still to be determined.

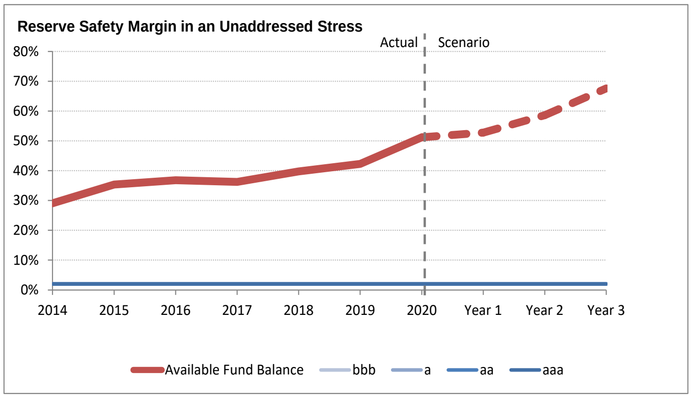
ESG Considerations

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

Spotsylvania County (VA)

Scenario Analysis

Ver 48



Analyst Interpretation of Scenario Results

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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%)	4.0%	5.2%
Inherent Budget Flexibility						Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2014	2015	2016	2017	2018	2019	2020	Year 1	Year 2	Year 3
Total Revenues	231,150	238,739	247,537	254,463	264,652	276,587	294,231	291,288	302,862	318,475
% Change in Revenues	-	3.3%	3.7%	2.8%	4.0%	4.5%	6.4%	(1.0%)	4.0%	5.2%
Total Expenditures	233,768	231,454	246,904	261,929	273,649	283,228	287,771	293,527	299,397	305,385
% Change in Expenditures	-	(1.0%)	6.7%	6.1%	4.5%	3.5%	1.6%	2.0%	2.0%	2.0%
Transfers In and Other Sources	23,498	79,440	31,478	22,514	27,547	31,059	43,044	42,613	44,306	46,590
Transfers Out and Other Uses	19,124	76,434	25,875	11,472	8,482	15,998	24,501	24,991	25,491	26,000
Net Transfers	4,374	3,007	5,602	11,041	19,065	15,061	18,543	17,622	18,816	20,590
Bond Proceeds and Other One-Time Uses	11,584	70,419	16,414	-	-	-	13,893	-	-	-
Net Operating Surplus/(Deficit) After Transfers	1,756	10,292	6,235	3,576	10,068	8,419	25,002	15,384	22,281	33,679
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	0.7%	4.3%	2.4%	1.3%	3.6%	2.8%	8.4%	4.8%	6.9%	10.2%
Unrestricted/Unreserved Fund Balance (General Fund)	55,538	65,310	70,910	76,206	86,263	94,244	118,048	133,432	155,713	189,392
Other Available Funds (GF + Non-GF)	14,690	18,630	23,466	22,857	25,989	32,245	34,768	34,768	34,768	34,768
Combined Available Funds Balance (GF + Other Available Funds)	70,228	83,940	94,376	99,063	112,253	126,489	152,817	168,201	190,482	224,161
Combined Available Fund Bal. (% of Expend. and Transfers Out)	29.1%	35.3%	36.8%	36.2%	39.8%	42.3%	51.2%	52.8%	58.6%	67.6%

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.