S&P Global
Ratings

RatingsDirect®

Summary:

Spotsylvania County, Virginia; Appropriations; General Obligation

Primary Credit Analyst:
Nora G Wittstruck, New York + (212) 438-8589; nora.wittstruck@spglobal.com

Secondary Contact:
Timothy W Barrett, Washington D.C. + 1 (202) 942 8711; timothy.barrett@spglobal.com

Table Of Contents

Summary:

Spotsylvania County, Virginia; Appropriations; General Obligation

Credit Profile		
US$34.33 mil GO pub imp and rfdg bnds ser 2021 dtd 08/24/2021 due 01/15/2041		
Long Term Rating	AAA/Stable	New
US$25.87 mil pub fac rev bnds (Spotsylvania Cnty) ser 2021 dtd 09/08/2021 due 06/01/2030		
Long Term Rating	AA+/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Spotsylvania County, Va.'s general obligation (GO) public improvement and refunding bonds, series 2021, and its 'AA+' long-term rating to the Economic Development Authority of Spotsylvania County's public facilities revenue refunding bonds, series 2021. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the county's GO debt outstanding as well as its 'AA+' long-term rating on the county's appropriation-backed debt outstanding. The outlook is stable.

The county's full faith and credit, including the levy and collection of an annual ad valorem tax on all locally taxable property without limitation as to rate or amount, secures the series 2021 bonds and GO bonds outstanding. Proceeds will fund various public school, transportation, and public safety capital projects as well as refund certain maturities outstanding to lower overall debt service costs with savings estimated at 11.2% of the refunded par amount.

Basic rent payments by the county under the financing agreement to the authority secure the series 2021 public facilities revenue refunding bonds as well as the appropriation debt outstanding. We rate these obligations one notch lower than the county's general creditworthiness, as reflected by the GO rating, to account for the appropriation risk. Proceeds will be used to refund certain obligations outstanding to lower overall debt service costs with savings estimated at nearly 10.8% of the refunded par amount.

Credit overview

The 'AAA' rating reflects our view of the county's strong management team as well as its robust economic growth benefiting from synergies provided by the Northern Virginia region and Washington, D.C., metropolitan statistical area (MSA). Despite some revenue weakness resulting from the pandemic in fiscal 2020, the county's financial operations remained strong, as reflected in reserves increasing to 57.2% of operating expenditures (following S&P Global Ratings' adjustments to audited results). Management's discipline in setting aside dedicated reserves and regularly revising forecasts are practices instrumental to ensuring budgetary balance, despite the disruption from the pandemic. Furthermore, Spotsylvania County's debt and long-term liability profile remains low, supported by sizable annual pay-as-you-go capital contributions and manageable pension and other postemployment benefit (OPEB) contributions, which we expect will remain a small portion of its budget given the well-funded retirement plans.

Spotsylvania County's GO bonds are eligible to be rated above the sovereign, because we believe the county can maintain better credit characteristics than the nation in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the county has a predominantly locally derived revenue base, with nearly 85% of general fund revenue derived from local sources in fiscal 2020, coupled with independent taxing authority and treasury management.

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

- Strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with operating results that we expect could weaken in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 57% of operating expenditures;
- Very strong liquidity, with total government available cash at 94.3% of total governmental fund expenditures and 6.5x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 14.6% of expenditures and net direct debt that is 101.3% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 75.4% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Environmental, social, and governance factors

We believe Spotsylvania County's governance represents an opportunity reflecting its comprehensive risk management strategy and institutionalized long-term planning initiatives that management undertakes to insulate its financial position from operational disruptions. Furthermore, we believe the county's strong demographic trends, including positive population growth, as well as housing affordability compared with that of neighboring Northern Virginia jurisdictions help lower social capital risks when compared with areas of the country experiencing stagnant-to-declining population that could challenge economic activity. We believe the county's environmental risks are consistent with those of the sector when evaluating them against the county's economy, budgetary outcomes, management, and long-term liability profile.

Stable Outlook

Downside scenario

Although not expected, if the county's budgetary performance materially deteriorates, leading to persistent draws on its reserves, we could lower the rating.

Credit Opinion

Strong economy

We consider the county's economy strong. Spotsylvania County, with an estimated population of 139,971, is located in the Washington-Arlington-Alexandria MSA, which we consider broad and diverse. The county has a projected per capita effective buying income of 108.6% of the national level and per capita market value of $142,192. Overall, the county's market value increased 2.7% in 2021 to $19.9 billion. The county unemployment rate was 6.2% in 2020.

Spotsylvania County is located about halfway between Washington, D.C., and Richmond, Va., and residents benefit from access to a strong regional economy and employment opportunities. While nearly three-fourths of the labor force commutes outside the county for employment, Spotsylvania County continues expanding and diversifying its employment base by targeting growth sectors such as health care, manufacturing, defense/information technology/cyber, and tourism.

The county's tax base is primarily residential with the median home price increasing 39% over the past five years to nearly $370,000 as of May 2021. Some areas have experienced a rapid uptick in demand for housing throughout the pandemic, and Spotsylvania County is similar with supply dropping to less than one month's inventory. Housing demand stems from employers' flexible work arrangements and the county's affordable real estate tax rate, which remains the lowest in the region. Management reports that residential construction remains healthy with more than 1,300 units added over the last 12 months and more than 12,000 planned but not built. Also underway in the county are various retail and mixed-use developments that will provide retail, restaurants, and services for the county's growing population. For example, Harrison Crossing provides a variety of shops and services with additional pad sites available for future growth. Furthermore, the Spotsylvania Towne Centre, which is on the site of a former Sears store, is being redeveloped to offer housing, entertainment, and a new hotel. We believe the residential construction activity as well as other projects, including a Veterans Administration clinic, development around Thornburg, and Pierson Drive, will lead to long-term economic growth.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our financial management assessment methodology, indicating our view that 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
- Presentation of quarterly budget performance reports that include budget-to-actual and year-to-date comparison analysis. The county may amend its budget throughout the year.
- Maintenance of annually updated five-year financial forecasts for each of its major funds with varying assumptions and identified out-year budget risks
- Maintenance of a five-year rolling capital improvement plan that identifies projects, costs, and funding sources

- A formally adopted investment policy with quarterly reports that provide earnings and holdings information
- A formal debt management policy with affordability targets, including net debt to equal no more than 3% of estimated market value, maintenance of a 10-year amortization threshold of no less than 65% at the end of each five-year capital improvement plan, and the ratio of debt service expenditures as a percentage of governmental fund expenditures that should not exceed 12%, with a goal of 10%
- A comprehensive reserve policy tied to liquidity and contingency planning needs, including a general fund reserve equal to at least 11% of general fund and school operating fund revenue, a budget stabilization reserve equal to $5 million, and an economic opportunities reserve funded at $2 million for the purpose of funding state grant matching requirements
- Various cybersecurity mitigation strategies to protect assets, including employee and citizen training and preparation efforts

Strong budgetary performance

Spotsylvania County's budgetary performance is strong, in our opinion. The county had operating surpluses of 9.1% of expenditures in the general fund and 7.3% across all governmental funds in fiscal 2020. While the county anticipates operating with at least balanced operations in fiscal 2021, we anticipate that the surplus will trend closer to historical levels at less than 5% of expenditures.

We adjust audited results to account for recurring transfers in and out of the general fund and to remove one-time expenditures, particularly for bond-funded capital costs. Property taxes are the primary source that fund general operations (nearly 63%), while other taxes, including local sales and meals taxes and fuel taxes, account for about 16%.

At the onset of the pandemic in March 2020, the county's management team quickly implemented expenditure controls to offset the uncertainty in revenue collections. These included a hiring freeze, elimination of discretionary spending, and reduction in pay-as-you-go capital funding for certain projects. Furthermore, management revised the revenue forecast to reflect lower collections for sales and meals taxes. These efforts, along with receipt of $23.8 million in CARES Act funding, primarily allocated to public safety payroll costs, utility bill relief, and broadband expansion, allowed the county to operate with a nearly $25 million surplus (9.1% of expenditures as adjusted by S&P Global Ratings), reflecting revenue trending 0.5% over the amended budget and expenditures 8.5% below.

The fiscal 2021 budget was adopted during the onset of the pandemic, leading to management adopting a conservative revenue forecast of $283 million (about 4.4% below fiscal 2020 actual collections, not including transfers and fund balance appropriation). Preliminary results show that revenue collections are expected to total $308 million (3.3% over the fiscal 2021 amended revenue forecast of $298 million), primarily because local taxes are expected to exceed budget by $8.3 million (nearly 20% over the local taxes revenue forecast). Furthermore, expenditures are estimated to trend 3.1% below the amended budget, as management upheld many of the expenditure modifications implemented in fiscal 2020 into the first half of fiscal 2021. As a result, we expect the county's budgetary performance to remain strong at year end. The fiscal 2022 adopted budget restores most of the expenditure reductions and includes rate increases to local taxes as allowed under state statute, as well as allocation of nearly $12 million in cash-capital funding as required by the county's policy. Furthermore, the county will receive $26.5 million in American Rescue Plan funding that it will likely allocate toward one-time costs, but final determinations are pending.

Very strong budgetary flexibility

Spotsylvania County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 57% of operating expenditures, or $156.2 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The available fund balance consists of $118.0 million (43.2% of expenditures) in the general fund and $38.2 million (14.0% of expenditures) that is outside the general fund but legally available for operations. Through general fund transfers, the county accumulated $33.4 million in its capital projects fund and $4.8 million in its transportation fund that management reports are completely unrestricted and could be reclassified with board approval.

During the annual budget process, the county appropriates a contingency equal to 0.25% of general fund expenditures, which is meant to cover unforeseen and nonrecurring expenditures that arise during the fiscal year, or to meet relatively minor increases in service-delivery costs. We believe this contingency, coupled with the county's conservative budgeting practices and adherence to funding other dedicated reserves (including those mentioned previously), helps mitigate disruptions in operations, particularly one as significant as the pandemic. Furthermore, we believe the county's substantial commitment to funding pay-as-you-go capital investments (with a policy requiring appropriation of 3.25% of general fund revenue) provides flexibility to reduce this amount during periods of economic stress. While the county expects the general fund available reserve to modestly decline in fiscal 2021, partly related to the transfer of $5.2 million from the assigned general fund balance to the school board's dedicated OPEB trust, we believe flexibility will remain very strong.

Very strong liquidity

In our opinion, Spotsylvania County's liquidity is very strong, with total government available cash at 94.3% of total governmental fund expenditures and 6.5x governmental debt service in 2020. In our view, the county has strong access to external liquidity if necessary, resulting from its regular issuance of debt over the past 20 years.

Although the state allows for investments that we view as permissive, the majority of Spotsylvania County'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 that this will diminish. Spotsylvania County has issued various privately placed fixed-rate GO debt and economic development authority lease revenue debt, some of which will be refunded with these transactions. These transactions are disclosed in the audited financial statements, and following our review of the agreements we do not believe they pose a contingent liquidity risk.

Strong debt and contingent liabilities profile

In our view, Spotsylvania County's debt and contingent liability profile is strong. Total governmental fund debt service is 14.6% of total governmental fund expenditures, and net direct debt is 101.3% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, and approximately 75.4% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following these transactions, which primarily refund debt outstanding, the county will have about $317.5 million in net direct debt outstanding, excluding revenue bonds secured by utility net revenue. Each year the county adopts a five-year capital improvement plan, and the plan for fiscal years 2022 through 2026 totals about $339 million, of which

46.5% is dedicated to school projects. A portion of the plan will be funded with GO bonds, which the county anticipates that voter will authorize in November 2021. The referendum amount is approximately $399 million and will cover issuances in fiscal years 2023 through 2030. Of the total amount, $207 million is allocated to school projects. Ultimately, we believe the county's prudent approach to its debt plan and adherence to its debt management policy will not result in any material changes to its debt profile.

Pension and OPEB liabilities:

- We do not view pension and OPEB liabilities as an immediate credit pressure because required contributions make up a relatively small portion of total governmental expenditures, which in fiscal 2020 were 2.0% (1.9% for pension and 0.1% for OPEB).
- Furthermore, pension contributions exceeded our calculation of static funding, indicating that the county is making good progress meeting liabilities. As a result, we do not expect plan contributions to materially escalate over the next couple of years.
- While the county has not established a formal trust for its OPEB liability, about $6.6 million is available in the assigned general fund balance, dedicated toward its liability. The school board created an irrevocable trust that contains $9.4 million following a $5.2 million transfer from the county in fiscal 2021.

As of June 30, 2020, county employees participated in:

- The Virginia Retirement System: 88.8% funded, with a proportionate net pension liability of $22.8 million for county employees, with a current discount rate of 6.75%
- A length-of-service award program for volunteer firefighters with a net pension liability of $3.7 million
- A single-employer, defined-benefit OPEB plan that provides health and dental insurance during retirement for eligible retirees and their dependents with an unfunded actuarial accrued liability that totals $112.8 million, including $13.2 million allocated to proprietary funds
- A Line of Duty Act plan for employees and volunteers in hazardous duty positions with an OPEB liability of $6.3 million

Spotsylvania County also participates in a cost-sharing plan for school board employees and an agent multiple-employer plan for school board political subdivision employees. The board pays all contributions as a discrete component unit of the county. Consistent with our analysis, which does not incorporate the school board's financial performance into the county's general financial performance, we elected not to consider the board's retirement liabilities or contributions as part of the liability analysis for Spotsylvania County. However, for transparency purposes, we report the school board's two defined benefit pension plans that have total net pension liabilities of $849,000 and $208 million. In addition, the board has net OPEB liabilities of $11.0 million, $20.7 million, and $261.8 million associated with the group life insurance program, health insurance, and OPEB, respectively.

Very strong institutional framework

The institutional framework score for Virginia counties is very strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of July 29, 2021)		
Spotsylvania Cnty GO		
Long Term Rating	AAA/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) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Spotsylvania Cnty Indl Dev Auth, Virginia		
Spotsylvania Cnty, Virginia		
Spotsylvania Cnty Indl Dev Auth (Spotsylvania Cnty) APPROP (AMBAC)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.