FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Spotsylvania County, VA's $31MM GO Bonds 'AAA'; Outlook Stable

Thu 28 Jul, 2022 - 2:25 PM ET

Fitch Ratings - New York - 28 Jul 2022: Fitch Ratings has assigned a 'AAA' to the Spotsylvania County, VA's $31,320,000 general obligation (GO) public improvement bonds, series 2022.

The bonds are expected to be sold via competitive sale on or about August 9. Bond proceeds will be used to finance school, public safety and transportation projects.

In addition, Fitch has affirmed the following ratings:

--Issuer Default Rating (IDR) at 'AAA';

--Outstanding GO bonds at 'AAA';

--Outstanding Economic Development Authority (EDA) of Spotsylvania public facilities revenue bonds at 'AA+'.

The Rating Outlook is Stable.

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.

ANALYTICAL CONCLUSION

The 'AAA' IDR and GO rating reflect the 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, Virginia (about 55 miles from each). Spotsylvania continues to grow rapidly, as the 2021 estimated population of 143,676, was up about 17% since the 2010 Census.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Fitch 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 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, as it is at its highest rating.

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;

--Increases in long-term liabilities beyond Fitch's expectations that result in weaker expenditure flexibility.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

The county has consistently maintained healthy general fund operations including eight consecutive surpluses through fiscal 2021 (June 30 fiscal YE) that have bolstered unrestricted general fund balance to $131.5 million or 42.9% of total general fund spending in fiscal 2021, from $55.3 million or 23.0% in fiscal 2014.

The general fund surplus in fiscal 2021 reflects a combination of better than budgeted other local tax revenues, primarily from local sales, recordation tax, meals tax and business license revenues and conservative cost containment measures and other reduced spending related to the pandemic. County officials estimate positive results for fiscal 2022 general fund results, due to increases in personal property, sales, meals and recordation tax revenues and expenditure savings.

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 has generally tracked the state and remains below the U.S. 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 health care, manufacturing, high-tech, defense and tourism.

Revenue Framework

County operations are primarily supported by property taxes, which comprise about 62% of fiscal 2021 general fund revenues, followed by intergovernmental revenues (19%) and sales tax revenues (8%).

The county's general fund revenue growth over the 10-year period ending fiscal 2021, surpassed the national GDP. However, the growth incorporates an increase in other local taxes which primarily includes local sales, meals, recordation taxes and 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 (TAV) have steadily grown, with fiscal 2021 TAVs approximately 21% above the calendar year 2009 peak. The county reassesses the tax base every two years.

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 (22% in fiscal 2021) and education (40%). 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 upon 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 actual spending consumes 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 flexibility is further enhanced by the absence of collective bargaining, which provides a strong legal ability to manage workforce costs. According to Senate Bill 939 effective May 1, 2021, Virginia localities are permitted to engage in collective bargaining agreements with public employees. County employees have not engaged in collective bargaining at the present time.

Long-Term Liability Burden

The county's overall debt and unfunded pension liability is moderately low at about 8% of personal income. The Fitch-adjusted NPL represents slightly over half of the burden. The county adopted a $394 million fiscal 2023 to fiscal 2027 capital improvement plan, of which more than half of the costs are focused on school capital and general government projects and the remainder focused on solid waste, parks & recreation, fire & rescue and transportation projects, all 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 68% of plan liabilities in fiscal 2021. The county's aggregate NPL was estimated at approximately $367 million or about 5% of personal income, using the Fitch adjustment.

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 a fiscal stability reserve (equal to 11% of operating revenues), budget stabilization reserves ($5 million), economic opportunities reserve ($2 million).

The county has demonstrated its financial resilience through economic shocks 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. Fitch believes the county would undertake similar measures to manage in a future economic downturn. The county reported $42.1 million of committed reserves in its capital fund in FY 2021.

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 2022, with YE reserve levels expected to remain healthy, consistent with past performance.

The FY 2023 adopted general fund budget totals $180.3 million which represents an approximate 12% increase over the prior adopted budget and incorporates a reduction in the real estate tax rate which was equalized to the January 2022 reassessment, and lowered the business tangible property tax rate from the prior year. The county created a new personal property tax class with a lower tax rate in response to a notable rise in used vehicle values, while leaving the general personal property tax class rate unchanged.

The adopted general fund budget includes funding for new positions and continues the allocation of cash-funding for capital that was previously frozen in response to the pandemic. The adopted budget includes a $17 million use of general fund reserves at YE, however the county typically outperforms the budget.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Spotsylvania County (VA) [General Government]	LT IDR	AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable
Spotsylvania County (VA) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable
Spotsylvania County (VA) /Lease Obligations - Standard/1 LT	LT	AA+ Rating Outlook Stable Affirmed	AA+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Spotsylvania County Economic Development Authority (VA)	EU Endorsed, UK Endorsed

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