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## Summary:

# Spotsylvania County, Virginia; Appropriations; General Obligation

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### Credit Profile

US\$31.205 mil GO pub imp bnds ser 2022 dtd 08/23/2022 due 01/15/2042

*Long Term Rating* AAA/Stable New

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) pub fac rev bnds (Spotsylvania Cnty) ser 2021 dtd 09/08/2021 due 06/01/2030

*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.

## Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Spotsylvania County, Va.'s general obligation (GO) public improvement bonds, series 2022 (\$31.2 million). 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 Spotsylvania County's appropriation-backed debt outstanding, issued through the county's Economic Development Authority. 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 2022 bonds and GO bonds outstanding. Proceeds will fund various public school, transportation, and public safety capital projects.

Basic rent payments by the county under a financing agreement to the authority secure the Spotsylvania County's 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.

## **Credit overview**

The 'AAA' rating reflects our view of Spotsylvania County's strong management team and comprehensive formalized financial planning as well as robust economic growth benefiting from synergies provided by the Northern Virginia region and Washington, D.C., metropolitan statistical area (MSA). Despite the onset of COVID-19 pandemic in early 2020, the county's revenues continued to experience very strong growth contributing to the maintenance of an extremely strong overall financial position. At fiscal 2021 year-end, available reserves stood at 62.6% of operating expenses (following S&P Global Ratings' adjustments to audited results), a level we consider very strong. 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, the county has a predominantly locally derived revenue base, with 81% of general fund revenue derived from local sources in fiscal 2021, coupled with independent taxing authority and treasury management.

The GO rating reflects our view of Spotsylvania County's:

- Large, diverse, growing economic base tied to the Washington-Arlington-Alexandria MSA;
- Very strong financial track record, supported by a comprehensive array of formalized financial policies and practices;
- Very strong debt profile, with highly affordable retirement costs; and
- Very strong institutional framework score.

## **Environmental, social, and governance**

We believe Spotsylvania 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 Spotsylvania County's environmental and governmental risks are credit neutral 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

### **Large, diverse, growing economic base tied to the Washington-Arlington-Alexandria MSA**

Spotsylvania County, with an estimated population of just over 143,000, is located in the broad and diverse Washington-Arlington-Alexandria MSA. It is 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 Spotsylvania County for employment, the county continues expanding and diversifying its employment base by targeting growth sectors such as health care, manufacturing, defense/information technology/cyber security, and tourism.

The county's tax base is primarily residential, with the median home price increasing 61% over the past five years to nearly \$445,000 as of May 2022. Housing demand stems from employers' flexible work arrangements and Spotsylvania County's affordable real estate tax rate, which remains the lowest in the region. Management reports that residential construction remains robust, with more than 2,600 units added over the past 24 months and approximately 11,900 planned but not built. Also underway in the county is continued build-out of various retail and mixed-use developments that will provide retail, restaurants, and services for Spotsylvania County's growing population. Specifically, Harrison Crossing provides a variety of shops and services with additional pad sites available for future growth. Furthermore, the site of the former Sears store at Spotsylvania Towne Centre, is being redeveloped to offer high-end multifamily housing, with final completion expected in spring 2024. We believe the residential construction activity as well as other projects, including a Veterans Administration clinic, development around Thornburg, and a large-scale resort and convention center expected to open by 2025 (Kalahari Resorts), will lead to long-term economic growth.

### **Comprehensive array of formalized financial policies and practices**

Spotsylvania County's comprehensive financial management policies and practices, including institutionalized long-term planning initiatives, reflect a wide-ranging risk management strategy that management undertakes to insulate its financial position from operational disruptions. Highlights of the county's financial management policies and practices 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 could 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 (CIP) 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 CIP, 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 training and preparation efforts; and
- A very strong institutional framework score as a Virginia county.

### **Very strong financial track record consisting of robust revenue growth and growing general fund balance reserves**

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 62%), while other taxes, including local sales and meals taxes and business license taxes, account for about 17%.

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. Despite these adjustments, revenues remained very resilient, increasing by about 4% annually over the past two years through the pandemic, helping Spotsylvania County maintain its very strong financial position. Specifically, fiscal 2021 revenues came in \$11.6 million above budget, while expenses other than education came in \$14.7 million below budget, resulting in general fund reserves increasing by nearly \$14 million.

The available fund balance at the end of fiscal 2021 consists of \$131.0 million in the general fund and \$46 million that is outside the general fund but legally available for operations. Through general fund transfers, the county accumulated \$42.1 million in its capital projects fund and \$4.6 million in its transportation fund that management reports are completely unrestricted and could be reclassified with board approval.

Unaudited year-end estimates for fiscal 2022 show a continuation of strong operating results. Nearly all of the county's major revenue sources came in well above budget. Management anticipates general fund revenues to be \$10.4 million above budget while expenses are estimated to total \$10.2 million below budget. As a result, we expect the county to end the year with another strong operating surplus.

The fiscal 2023 budget maintains a conservative revenue forecast. Spotsylvania County expects revenue collections to total \$341 million (nearly 4.3% over the fiscal 2022 amended revenue forecast). The adopted real estate tax rate was equalized relative to the January 2022 reassessment, resulting in a more than 7-cent decrease in the rate to 73.77 cents per \$100 of assessed value (AV) due to very strong AV growth of 15.2%. We understand 56 new positions were added to enhance existing service levels. In addition, we understand the county was given \$26.5 million in American Rescue Plan funding that will be allocated for a range of purposes including staff bonus payments, a broadband expansion

throughout more of the county, as well as expansion of the Motts Water Treatment Plant. Given Spotsylvania County's history of very conservative budgeting and sizable positive revenue and expense variances, we expect the county's budgetary performance will remain strong at year-end.

During the annual budget process, Spotsylvania 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 previously mentioned), 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 a minimum 3.0% of general fund revenue) provides flexibility to reduce this amount during periods of economic stress.

### **Very strong debt profile with manageable retirement costs**

Following these transactions, which primarily refund debt outstanding, Spotsylvania County will have about \$276.9 million in net direct debt outstanding, excluding revenue bonds secured by utility net revenue. Each year the county adopts a five-year CIP, and the plan for fiscal years 2023 through 2027 totals about \$394.1 million, of which 40% is dedicated to school projects. We understand county voters approved \$341 million worth of capital projects in November 2021. We understand these projects will cover Spotsylvania County's capital plan for at least the next five years. Of the voter-authorized total issuance 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.
- Furthermore, pension contributions exceeded our calculation of static funding, indicating that Spotsylvania 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 \$6.8 million is available in the assigned general fund balance, dedicated toward its liability. The school board created an irrevocable trust that contains a balance of nearly \$12 million.

As of June 30, 2021, county employees participated in:

- The Virginia Retirement System: 85.5% funded, with a proportionate net pension liability of \$31.5 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 \$4.9 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 \$98.1 million;
- A Line of Duty Act plan for employees and volunteers in hazardous duty positions, with an OPEB liability of \$7.6 million; and

- A group life OPEB liability of \$4.7 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 \$2.8 million (VRS) and \$228.9 million for its proportionate share of the VRS teacher employee retirement plan. In addition, the board has net OPEB liabilities of \$11.2 million, \$20.5 million, and \$296.5 million associated with the group life insurance program, health insurance, and OPEB, respectively.

### Very strong institutional framework

The institutional framework score for Virginia municipalities is very strong.

Spotsylvania County, Va.--Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
<b>Strong economy</b>				
Projected per capita EBI % of U.S.	105			
Market value per capita (\$)		143,982		
Population (no.)	143,676	138,230	135,953	134,625
County unemployment rate(%)		3.9		
Market value (\$000)		19,902,691	19,381,931	17,935,001
Ten largest taxpayers % of taxable value	4.1			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		4.9	9.1	3.1
Total governmental fund result % of expenditures		9.0	7.3	1.1
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		59.6	57.2	47.4
Total available reserves (\$000)		177,525	156,246	129,045
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		101	94	76
Total government cash % of governmental fund debt service		715	646	562
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Strong debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		14.1	14.6	13.5
Net direct debt % of governmental fund revenue	85			
Overall net debt % of market value	1.4			
Direct debt 10-year amortization (%)	77			
Required pension contribution % of governmental fund expenditures		2.3		

**Spotsylvania County, Va.--Key Credit Metrics (cont.)**

	<u>Most recent</u>	<u>Historical information</u>		
		2021	2020	2019
OPEB actual contribution % of governmental fund expenditures	0.1			

**Very strong institutional framework**

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

**Related Research**

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2021 Update Of Institutional Framework For U.S. Local Governments

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