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CREDIT OPINION
9 August 2018

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Spotsylvania (County of) VA

Update to analysis

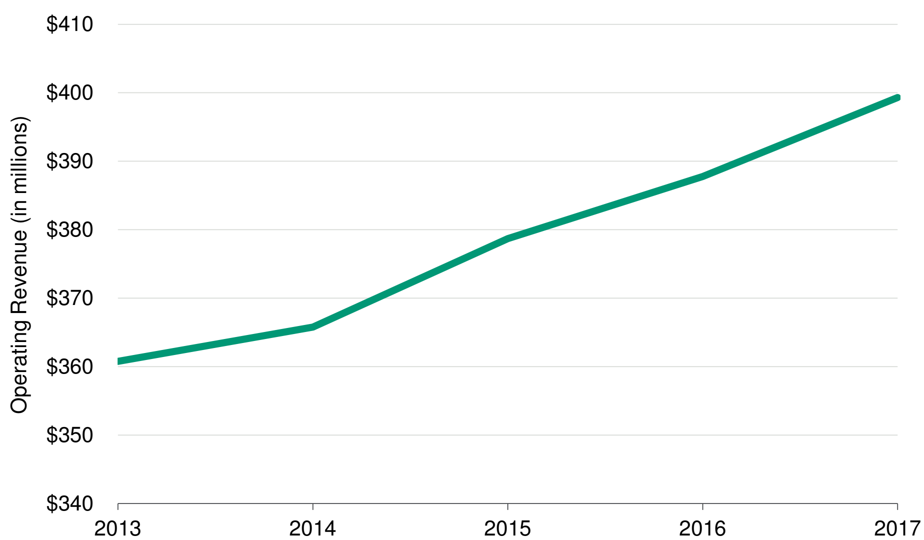
Summary

Spotsylvania County (Aa1) will continue to benefit from its location along Interstate 95 approximately 45 miles north of Richmond (Aa2, positive outlook). Modest consecutive full value growth has led to a sound revenue trend and stable financial operations.

The county's debt is elevated when compared to state and national medians, however, continued adherence to comprehensive debt policies and expected modest full value growth will help mitigate debt burden challenges going forward.

We assigned a Aa1 to the county's $38 million General Obligation Public Improvement Bonds on August 3rd.

Exhibit 1
Sound revenue growth trends driven by property tax revenues
Property taxes accounted for 41.7% of fiscal 2017 revenue



Source: Moody's Investors Service

Credit strengths

» Large tax base with easy access to nearby employment centers

» Sound financial management as evidenced by maintenance of healthy reserves

Credit challenges

» Ability to maintain healthy reserves despite sizeable pay-go program

» Above average debt burden

Rating outlook

Outlooks are generally not assigned to local government credits with this amount of debt outstanding

Factors that could lead to an upgrade

» Increase reserves to levels more in-line with Aaa medians

» Reduced debt burden

Factors that could lead to a downgrade

» Substantial contraction in tax base and wealth levels

» Ongoing decline in reserves limiting financial flexibility

» Significant growth in debt burden

Key indicators

Exhibit 2

Spotsylvania (County of) VA	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$14,227,003	$14,331,446	$14,899,515	$15,113,694	$16,013,251
Population	124,319	126,200	127,691	129,181	133,033
Full Value Per Capita	$114,439	$113,561	$116,684	$116,996	$120,371
Median Family Income (% of US Median)	135.0%	135.8%	132.7%	131.4%	131.4%
Finances					
Operating Revenue ($000)	$360,769	$365,772	$378,698	$387,796	$399,309
Fund Balance ($000)	$53,935	$68,057	$79,478	$82,365	$87,522
Cash Balance ($000)	$67,661	$70,024	$81,730	$88,428	$95,909
Fund Balance as a % of Revenues	14.9%	18.6%	21.0%	21.2%	21.9%
Cash Balance as a % of Revenues	18.8%	19.1%	21.6%	22.8%	24.0%
Debt/Pensions					
Net Direct Debt ($000)	$281,159	$275,949	$267,607	$272,350	$272,497
3-Year Average of Moody's ANPL ($000)	$454,682	$543,143	$604,939	$576,325	$627,795
Net Direct Debt / Full Value (%)	2.0%	1.9%	1.8%	1.8%	1.7%
Net Direct Debt / Operating Revenues (x)	0.8x	0.8x	0.7x	0.7x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.2%	3.8%	4.1%	3.8%	3.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.5x	1.6x	1.5x	1.6x

Source: Spotsylvania County, Moody's Investors Service, US Census

Profile

Spotsylvania County is located northeastern Virginia between the City of Richmond and the District of Columbia. The county's population has grown 10.8% in the last 10 years and totaled 133,033 according to the most recent American Community Survey.

The largest industry sectors that drive the local economy are public administration, retail trade, and health services.

Detailed credit considerations

Sizable tax base with growth potential

Spotsylvania County's sizable tax base will likely see modest growth over the near-term given its favorable location and diverse employment base.

The county has experienced significant population growth of 93% over the last two decades. While this trend has begun to moderate, commercial growth continues to catch up to serve the larger population. For example, in 2017 the county notes 6 significant economic development announcements, 403 created or saved jobs and nearly $11 million in new investment. In addition, various principal employers within the county such as Universal Dynamics, Inc., have increased investment in the county. Universal Dynamics relocated 120 jobs to the county and expects to add 50 more over the next decade. The most notable recent development in the county is LIDL's recent $125 million investment to construct a 921,565 square foot distribution facility, creating approximately 260 jobs, 86 of those jobs being full-time positions with an average salary of approximately $95,000.

County unemployment, at 2.9% as of May 2018, remains below the national median and in line with the state rates for the same period. Additionally, the median family income equals a significant 131.4% of the US level. Lastly, the full value per capita ($120,371) is above other Moody's-rated counties nationwide.

Sound financial operations provide flexibility for one-time draws

Despite planned draws on reserves for one-time capital expenditures, Spotsylvania's financial position is expected to remain strong given healthy reserve levels, timely tax rate increases, and diligent cost control measures.

The original 2018 budget assumed a use of $6 million in reserves for one-time items. Based on 3rd quarter estimates for fiscal 2018, county officials expect to add $1.3 million to fund balance. General fund revenues are projected to exceed budget by $6.4 million largely driven by increases in real estate taxable value and a $0.0166 increase in the tax rate. Additionally, General Fund expenditures are projected to be $0.9 million lower than budget.

The fiscal 2019 adopted budget totals $130.5 million, a 4.8% increase over fiscal 2018. The budget includes a tax rate of $0.833, slightly above the equalized rate of $0.8164. In addition to the policy level requirement of $9.8 million, the budget includes the use of $8.6 million from fund balance to cash fund one-time capital projects.

Moving forward, the county's ability to maintain structural balance and manage its pay-as-you-go capital program will remain an important credit factor.

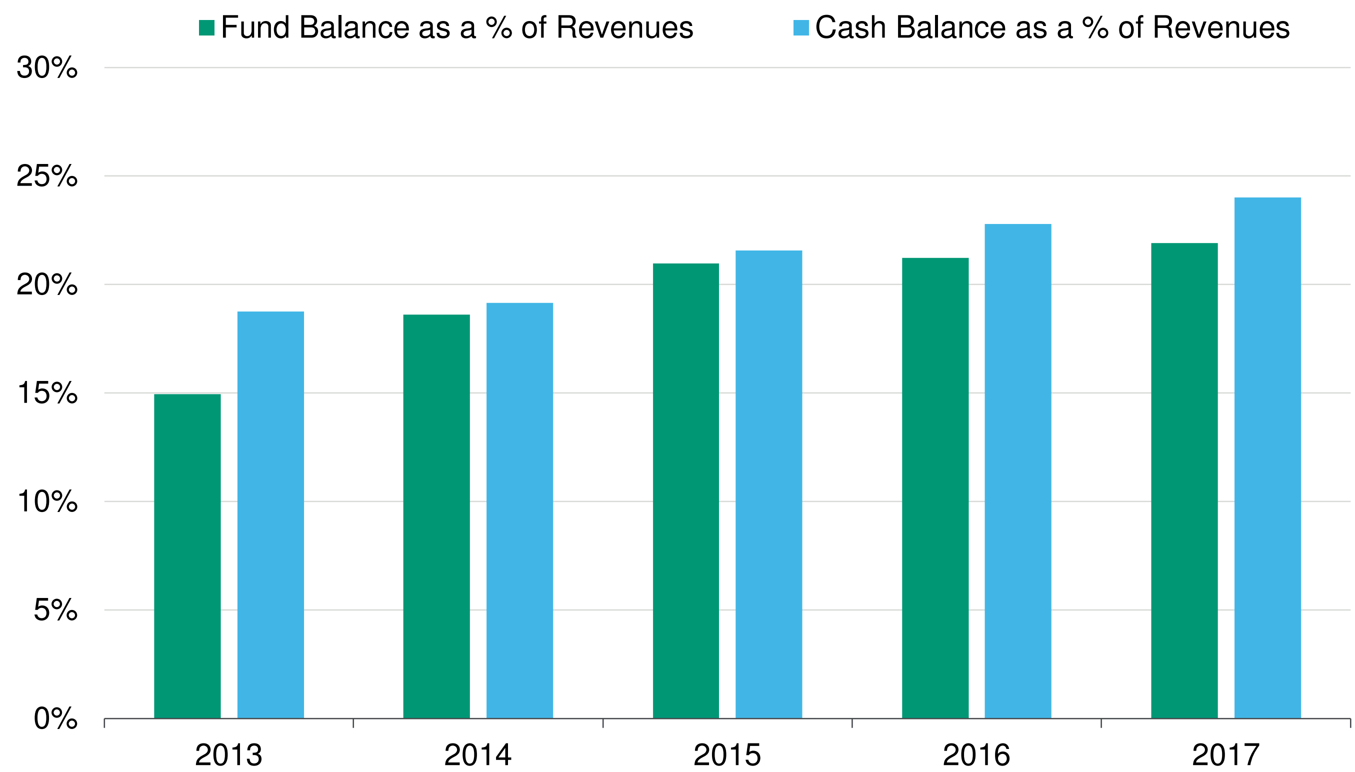
LIQUIDITY

Spotsylvania's cash position remains sound totaling $95.9 million in fiscal 2017.

Exhibit 3

Total operating cash totaled 24% of revenues in fiscal 2017

Graph shows available operating cash which exceeds 20%



Source: Moody's Investors Service, Spotsylvania County, VA

Capital plan will pressure debt burden, policies and full value growth will help mitigate challenges

Spotsylvania's above-average debt burden will likely remain manageable, despite a sizeable capital plan. Post-issuance, the county's debt burden will remain level with net direct debt representing a manageable 1.9% of full value. While the county's net direct debt burden is well above the national medians for the Aa1 rating category (0.4% of full value), it approximates similarly rated counties in the Commonwealth (2.0% of full value). Because Virginia counties are responsible for school operations, including capital borrowing, their median direct debt burdens are generally higher than national medians.

The county's 2019 to 2023 capital improvement plan (excluding self-supporting utilities) calls for $235 million of capital needs. The majority of the plan will fund schools (36%) and general government projects (28%). 31% of the county's CIP is funded with cash.

To manage the financial impact of these projects, the county recently enhanced its debt policies to require a 10-year tax supported debt payout ratio of a minimum of 65% (previously 60%), debt to full valuation of no more than 3% (previously between 3% and 4%) and debt service as a percentage of operating expenditures of no more than 12% (previously 10-12%) with a target of 10% by the end of fiscal 2025.

DEBT STRUCTURE

All of the county's debt is fixed rate and amortized over the long-term.

DEBT-RELATED DERIVATIVES

The county is not party to any derivative agreements.

PENSIONS AND OPEB

The county and the school board participate in the Virginia Retirement System defined benefit pension plan administered by the Commonwealth of Virginia (Aaa stable). The county's adjusted pension liability, under Moody's methodology for adjusting reported pension data, is $756 million or a slightly above average 1.91 times operating revenues.

The county and the county school board also provide Other Post-Employment Benefits (OPEB) to employees. In fiscal 2016, the Board approved an OPEB funding plan to reserve 100% of the General Fund's annual required contribution within eight years. In fiscal 2017 the county contributed 16.4% of its $8.8 million annual cost and 29.3% of the $18.6 million school board cost.

Strong operating framework and sound management strengthen credit profile

Virginia's flexible operating framework and the county's strong management and conservative budgeting will continue to support its sound financial position.

Virginia counties have an Institutional Framework score of Aaa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector has one or more major revenue sources that are not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Virginia is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually

REPORT NUMBER 1137348

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