

## CREDIT OPINION

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New Issue

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## Spotsylvania County, VA

New Issue - Moody's assigns Aa1 to Spotsylvania County, VA's 2017 GO Bonds

### Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 rating to Spotsylvania County, VA's \$26.4 million General Obligation Public Improvement Bonds Series 2017A. Moody's maintains the Aa1 rating on the county's \$166.7 million of outstanding parity general obligation bonds.

The Aa1 rating reflects the county's recently strengthened conservative financial management practices that have resulted in consistently healthy reserves. The rating also incorporates the county's sizeable tax base within commuting distance to both [Richmond](#) (Aa2 stable) and the [District of Columbia](#) (Aa1 stable), and an elevated but manageable debt burden.

### 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 1

Spotsylvania (County of) VA	2012	2013	2014	2015	2016
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 14,616,843	\$ 14,227,003	\$ 14,331,446	\$ 14,899,515	\$ 15,113,694
Full Value Per Capita	\$ 118,977	\$ 114,439	\$ 113,561	\$ 116,684	\$ 115,104
Median Family Income (% of US Median)	136.1%	135.0%	135.8%	132.7%	132.7%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 348,848	\$ 360,769	\$ 365,772	\$ 378,698	\$ 387,796
Fund Balance as a % of Revenues	17.4%	14.9%	18.6%	21.0%	21.2%
Cash Balance as a % of Revenues	19.5%	18.8%	19.1%	21.6%	22.8%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 298,346	\$ 281,159	\$ 275,949	\$ 267,607	\$ 272,350
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	0.8x	0.7x	0.7x
Net Direct Debt / Full Value (%)	2.0%	2.0%	1.9%	1.8%	1.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.3x	1.5x	1.6x	1.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	3.2%	3.8%	4.1%	3.8%

\*2017 Full Value = \$16.0 billion

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

## Detailed Rating Considerations

### Economy and Tax Base: Sizable Tax Base with Continued 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. Equidistant to the economic centers of the District of Columbia and Richmond (via Interstate 95), the county's 2017 full value of \$16 billion is below the national (\$20.6 billion) but above the state (\$13.4 billion) medians for the Aa1 rating category. Beginning in fiscal 2014, the county has seen continued tax base growth, resulting in a 5 year average annual growth rate of 1.88% from 2013 to 2017. County officials project modest growth going forward.

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, over 4.7 million square feet in commercial space is either planned or currently under construction. In addition, various principal employers within the county such as Kaeser Compressors, are either undergoing or have recently completed expansions.

The most notable recent development in the county is LIDL's recent \$125 million investment to construct a 921,565 square foot distribution facility, which will create approximately 200 jobs. The county's economy has also benefited from the completion of the Spotsylvania Regional Medical Center operated by HCA, Inc. (B1 positive), a national hospital chain. This taxable hospital has added approximately 610 new jobs to the county as of June 2017 and is the county's third largest taxpayer (0.6% of assessed valuation). Additionally, the local economy is expected to benefit from the completed \$37 million Virginia Railway Express (VRE) extension into the county which would increase access to nearby employment centers in Northern Virginia and the District of Columbia.

County unemployment, at 3.8% as of May 2017, remains below the national (4.3%) and in line with the state (3.8%) rates for the same period. The county exhibits average wealth indicators, with median family income equal to 111.7% and 132.6% of state and national levels, respectively. Full value per capita is a healthy \$121,955 for 2017.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

### Financial Operations and Reserves: Strong Financial Operations Despite Planned Draws for Capital

Despite a planned decline in reserves during fiscal 2017 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 county ended fiscal 2016 with a \$6.2 million increase in General Fund balance due to positive performance of property and other local taxes, as well as conservative budgeting of expenditures. General fund reserves increased to a high of \$73.7 million (29.8% of General Fund revenues) in fiscal 2016 from \$54.9 million (25.1% of General Fund revenues) in fiscal 2011. Property taxes were the county's primary source of revenue (65.0% of total revenues), followed by other local taxes (18.1%) and state & Federal aid (14.0%) in fiscal 2016.

Based on preliminary estimates for fiscal 2017, county officials expect to end the year with a \$6.3 million decline in General Fund reserves to \$67.3 million, or a still healthy 26.9% of revenues. This decrease in reserves is due to an \$14.4 million transfer for capital needs, which is driving expenditures to end over budget. Revenues are tracking favorably due to positive variance on property and other local taxes, charges for service, and intergovernmental revenues.

The fiscal 2018 budget increased by 1.9% over the previous year and includes \$761,222 in appropriated fund balance. The tax rate remained level, while growth in other local revenues helped to offset a 3.2% compensation adjustment as well as the addition of approximately 26 new positions. The budget also includes a \$8.8 million transfer for capital at year-end. As with previous budgets, the fiscal 2018 budget features a number of budgetary cushions to manage potential shortfalls from economically sensitive revenue sources while maintaining its financial position. 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

The county maintained a net cash position of \$88.4 million or a strong 35.7% of General Fund revenues in fiscal 2016. Overall, the county has maintained an average net cash position of approximately 32.1% of General Fund revenues over the last five years, and expects to end fiscal 2017 in-line with historical trends.

### Debt and Pensions: Debt Burden Expected to Remain Manageable Despite Planned Issuance

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 1.8% of 2017 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 2018 to 2022 capital improvement plan (excluding self-supporting utilities) calls for \$211.5 million of capital needs, with approximately 75% funded with additional bonds and 24% funded with General Fund reserves. The majority of the plan will fund schools (48%) and general government projects (19%).

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 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. Post-issuance, principal amortization will remain above average with 80% of principal amortized within the next 10 years.

#### 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 \$567.3 million or a slightly above average 1.52 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities. We determined the county's share of liability for the state-run plans in proportion to its contributions to the plans.

The county and the county school board also provide Other Post-Employment Benefits (OPEB) to employees. The county portion of the OPEB ARC totaled \$5.9 million in fiscal 2016 (1.5% of operating revenues) and the county contributed 21.8%, up slightly from 21.5% in fiscal 2015. The schools OPEB ARC totaled \$18 million (4.6% of operating revenues) and 28.9% of the ARC was paid in fiscal 2016, down from 42.2% in fiscal 2015.

## Management and Governance

A commitment to maintain reserves at or above policy-determined levels has contributed to the county's overall fiscal stability. In fiscal 2016 county management enhanced its financial policies to provide for greater financial flexibility. Management increased its Fiscal Stability Reserve requirement to 11% from 10% and established a Budget Stabilization Reserve of \$1 million with a plan to add 0.25% annually until the reserve totals \$5 million and an Economic Opportunities Reserve funded at \$2 million for future potential economic development initiatives.

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.

## Legal Security

The bonds are secured by the county's unlimited general obligation tax pledge.

## Use of Proceeds

Proceeds from the Series 2017A bonds will finance various public safety and public school projects.

## Obligor Profile

Spotsylvania County is located northeastern Virginia between the City of Richmond and the District of Columbia. The county's population, which has grown substantially over the past two decades, totaled 127,691 in 2015, according to the most recent American Community Survey.

## Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## Ratings

Exhibit 2

### Spotsylvania (County of) VA

Issue	Rating
General Obligation Public Improvement Bonds, Series 2017A	Aa1
Rating Type	Underlying LT
Sale Amount	\$26,400,000
Expected Sale Date	08/02/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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