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Ratings

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Summary:

Spotsylvania County, Virginia; Appropriations; General Obligation

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Credit Profile		
US$26.4 mil GO pub imp bnds ser 2017A due 07/15/2037		
Long Term Rating	AA+/Stable	New
Spotsylvania Cnty GO		
Long Term Rating	AA+/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

Rationale

S&P Global Ratings has assigned its 'AA+' rating to Spotsylvania County, Va.'s series 2017A general obligation (GO) public improvement bonds and affirmed its 'AA+' rating on the county's existing GO debt. At the same time, S&P Global Ratings affirmed its 'AA' rating on the county's appropriation-backed debt outstanding. The outlook on all ratings is stable.

Spotsylvania's pledge of its full faith and credit to levy and collect an annual ad valorem tax on all locally taxable property secures the series 2017A bonds and GO bonds outstanding. Proceeds will finance various public school and public safety capital projects.

The rating on the appropriation-backed debt reflects the following factors:

- The county's strong general creditworthiness;
- The contractual obligation's annual appropriation nature; and
- Debt-service payments that do not occur in the first three months of the county's fiscal year, mitigating concerns over late budget adoption.

The GO rating reflects our view of Spotsylvania's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 27% of operating expenditures;
- Very strong liquidity, with total government available cash at 75.4% of total governmental fund expenditures and 5.4x governmental debt service, and access to external liquidity that we consider strong, but an exposure to a

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non-remote contingent liability risk;
- Strong debt and contingent liability profile, with debt service carrying charges at 14.0% of expenditures and net direct debt that is 111.7% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 72.1% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Strong economy

We consider the county's economy strong. Spotsylvania County, with an estimated population of 130,169, is located in the Washington-Arlington-Alexandria MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 102.7% of the national level and per capita market value of $123,019. Overall, the county's market value grew by 6.0% over the past year to $16.0 billion in 2016. The county unemployment rate was 4.2% in 2016.

Located about halfway between Washington, D.C., and Richmond, Va., Spotsylvania residents benefit from access to a strong regional economy with many job opportunities. The local economy is growing, with a 23% increase in new businesses from 2011 to 2016. The county notes that growth in target industries of healthcare, manufacturing, and professional services are bringing in new jobs that are paying an average wage ranging from $42,000 to $90,000. Notable economic development commitments include a new 900,000-square-foot warehouse by German grocery chain Lidl, and a 150,000-square-foot expansion of a former General Motors' plant by retail manufacturer idX.

Leading local employers include:

- Spotsylvania County Schools ;
- Spotsylvania County government ;
- Spotsylvania Regional Medical Center ;
- Walmart; and
- CVS Health Corp., a distribution warehouse .

The county's total assessed value (AV) has increased steadily since 2010, standing at just over $16 billion in 2016. The county reassesses every other year, with the most recent completed in 2016. Officials note the county continues to see new housing developments, including single-family homes and multifamily units in a variety of mixed-use development projects.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights of the assessment include:

- Conservative revenue and expenditure assumptions that incorporate historical as well as long-range financial forecasting.
- Budget performance reports are presented quarterly and include budget-to-actual and year-to-date benchmarks; the budget may be amended throughout the year.
- Spotsylvania maintains annually updated five-year financial forecasts for all of its major funds with varying assumptions and identifiable risks in the out years.
- The county maintains a five-year rolling capital improvement plan of identified projects, costs, and funding sources.

- It has a formally adopted investment policy with earnings and holdings that it reviews at least quarterly.
- The formal debt management policy targets net debt at no more than 3% of estimated market value, and the ratio of debt service expenditures as a percentage of governmental fund expenditures should not exceed 12%, with a goal of lowering this to 10% by the end of 2025.
- A comprehensive reserve policy tied to liquidity and contingency planning needs.

Strong budgetary performance

Spotsylvania County's budgetary performance is strong in our opinion. The county had slight operating surpluses of 1.3% of expenditures in the general fund and of 0.9% across all governmental funds in fiscal 2016. General fund operating results have been stable over the past three years, with a result of 1.5% in 2015 and negative 0.1% in 2014.

Fiscal 2016 results resulted from a combination of strong revenues and expenditure savings, including vacancies, consulting services, maintenance-service contracts, and software applications. For analytic consistency, we have adjusted data to include recurring transfers, in and out, as revenues and expenditures, and accounting for one-time revenues and expenditures, particularly bond-funded capital needs. Management expects fiscal 2017 to close with another general fund surplus, resulting from revenues exceeding expectations (largely from personal property) and expenditures being less than projected (vacancies and unspent contingency).

The fiscal 2018 adopted budget totals $502.7 million, representing a 1.8% increase over fiscal 2017. All tax rates will remain flat at fiscal 2017 levels. The budget includes a use of approximately $761,000 of general fund balance. However, given the county's history of strong performance stemming from conservative budgeting, we expect performance will remain strong and reserves will be replenished.

Very strong budgetary flexibility

Spotsylvania County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 27% of operating expenditures, or $66.0 million.

As part of the annual budget process, the county will appropriate a contingency equal to 0.25% of general fund expenses. This contingency is meant to cover unforeseen expenditures of a nonrecurring nature that arise during the course of the fiscal year, or to meet relatively minor increases in service-delivery costs. Spotsylvania has recently changed its policies governing reserves, strengthening its commitment to maintaining strong reserves to insure fiscal stability.

Highlights of these policies include:

- Designating the fiscal stability reserves as a committed reserve and increasing the required reserve level to 11% of general fund and school operating fund revenues projected for the subsequent fiscal year. We include these reserves in our analysis of available reserves as officials confirm they can be made available by the board;
- Establishing the budget stabilization reserve with a balance of $1 million with 0.25% of general fund and school operating fund revenues projected for the subsequent fiscal year budget to be added until the fund reaches $5 million;
- Formalizing the health insurance reserve to equal incurred, but not reported, claims plus three months of average claims; and
- Creating an economic opportunities reserve of $2 million.

The county has added to available reserves (assigned and unassigned) annually, and expects to do so again in fiscal 2017. Given projections, we expect flexibility will remain very strong.

Very strong liquidity

In our opinion, Spotsylvania County's liquidity is very strong, with total government available cash at 75.4% of total governmental fund expenditures and 5.4x governmental debt service in 2016. In our view, the county has strong access to external liquidity if necessary.

We believe the county's strong access to external liquidity is supported by its frequent debt issuances, including GO bonds. Though the state allows for investments that we view as permissive , the majority of Spotsylvania'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 this will diminish.

In 2013, Spotsylvania issued privately placed fixed rate GO debt and economic development authority lease revenue debt. We have reviewed the terms and conditions and do not believe they pose a risk to liquidity.

Strong debt and contingent liability profile

In our view, Spotsylvania County's debt and contingent liability profile is strong. Total governmental fund debt service is 14.0% of total governmental fund expenditures, and net direct debt is 111.7% of total governmental fund revenue. Overall net debt is low at 1.8% of market value, and approximately 72.1% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The county's capital improvement plan identifies about $70 million in potential projects funded through debt issuances in the next two years. However, any potential issuance is offset by Spotsylvania's rapid debt amortization. Given the county's strong debt management policies, we do not expect to see any material changes to its debt profile.

Spotsylvania's combined required pension and actual other postemployment benefits contributions totaled 2.4% of total governmental fund expenditures in 2016. The county made its full annual required pension contribution in 2016.

The county and school board participate in the Virginia Retirement System (VRS), a defined benefit pension plan, to include an agent, multiple-employer plan for county and school board employees, and a cost-sharing multiple-employer teacher retirement plan. The plans fiduciary net position, as a percentage of the total pension liability, was 90.6% for the county plan, 95.48% for the school-board plan, and 70.68% for the teacher-retirement plan. The county pays 100% of its contractually required contribution. It also administers a single-employer defined benefit plan that provides health and dental insurance during retirement for eligible retirees and their dependents. The plan is funded on a pay-as-you-go basis, with an unfunded liability of $56.4 million as of July 1, 2014.

Very strong institutional framework

The institutional framework score for Virginia counties is very strong.

Outlook

The stable outlook reflects S&P Global Rating's opinion of the county's strong performance and very strong management conditions. Furthermore, the county has successfully maintained its very strong budgetary flexibility and liquidity despite cash funding a substantial portion of capital needs. The strong and growing local economy with access to the greater Washington, D.C., metropolitan area provides further stability. Therefore, we do not expect to raise or lower the rating within the outlook's two-year period.

Upside scenario

Over time, if the county's growth results in improved economic indicators to levels more in line with higher-rated peers, while management continues to strengthen Spotsylvania's debt profile, holding all other factors equal, we could raise the rating.

Downside scenario

If the county significantly and unexpectedly draws down reserves due to fiscal imbalance, the rating could be pressured.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of July 21, 2017)		
Spotsylvania Cnty Econ Dev Auth, Virginia		
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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) (Pub Bldg & Equip Proj)		
Long Term Rating	AA/Stable	Affirmed
Spotsylvania Cnty Indl Dev Auth, Virginia		
Spotsylvania Cnty, Virginia		
Spotsylvania Cnty Indl Dev Auth pub fac rev bnds (Spotsylvania Sch Fac Proj)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.