Fitch Ratings

FITCH UPGRADES SPOTSYLVANIA COUNTY, VA'S GOS TO 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-09 August 2016: Fitch Ratings has assigned a 'AAA' rating to the following general obligation (GO) bonds of Spotsylvania County, Virginia:

--$30 million public improvement bonds Series 2016.

The bonds are expected to be sold via competitive sale on August 17th. Proceeds will be used to finance various school and county capital projects.

In addition, Fitch has upgraded the following county ratings:

--Long-Term Issuer Default Rating (IDR) to 'AAA' from 'AA+';
--$170.2 million GOs to 'AAA' from 'AA+';
--$65.2 million Economic Development Authority of Spotsylvania County (EDA) public facilities revenue bonds, series 2011, 2012 and 2014 to 'AA+' from '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. Payments are subject to annual appropriation by the county board. The deed of trust includes a security interest in essential school and county facilities.

KEY RATING DRIVERS

The upgrade reflects application of Fitch's revised criteria for U.S. state and local governments, which was released on April 18. The 'AAA' IDR and GO ratings reflect the county's strong growth prospects, low long-term liability burden, healthy reserves, and broad budgetary tools.

The revenue bond ratings are one notch lower than the IDR at 'AA+', reflecting the requirement for annual appropriations in support of lease payments.

Economic Resource Base
The county is located along the Interstate 95 corridor, within commuting distance of the Washington, D.C. and Richmond, Virginia metropolitan areas at about 55 miles from each. As of 2015, the county's population was 130,475; growth has averaged approximately 1.2% annually.

Revenue Framework: 'aaa' factor assessment
Revenues have been rising at a pace above both the rates of inflation and U.S. GDP growth and Fitch expects this trend to continue. The county has the independent legal ability to raise property tax revenues in an unlimited amount.

Expenditure Framework: 'aa' factor assessment
Fitch expects the natural pace of spending growth to remain below to in line with revenue growth. Moderate carrying costs and broad flexibility to manage labor-related costs allow the county solid

leeway to adjust spending. However, flexibility in education, the county's largest expenditure item, is limited.

Long-Term Liability Burden: 'aaa' factor assessment
The combined burden of debt and unfunded pension liabilities is low in relation to personal income and should remain relatively stable over time based on future capital and issuance plans, rapid amortization and the well-funded position of the county component of the Virginia Retirement System (VRS).

Operating Performance: 'aaa' factor assessment
The county's superior budget flexibility and ample general fund balance position it to comfortably manage through economic downturns without diminishing its overall financial flexibility.

RATING SENSITIVITIES

MAINTENANCE OF STRONG FINANCIAL PROFILE: The rating assumes the county's continued strong financial flexibility, revenue growth prospects and budget controls.

CREDIT PROFILE

Spotsylvania County functions as a bedroom community for the Washington, D.C. area. Currently approximately 64% of county residents commute outside of the county for work.

The county has a pipeline of economic development projects due to the county's economic incentives, availability of land, and skilled workforce that is expected to foster local employment opportunities. The county's target industries include healthcare, manufacturing, high-tech/IT, defense and tourism.

Employment trends are positive. Over the past four years the county has continued to add jobs and the unemployment rate remains well below the U.S. average and is generally in line with state averages. The county's wealth indicators are mixed. While per capita income levels are 10% below the state average, median household income is 14% above the state average.

Revenue Framework
The revenue base is dominated by property taxes at about 65% of fiscal 2015 general fund revenues, intergovernmental revenues (primarily state monies for education) at 14%, and sales taxes at 7%. Revenue performance has remained strong during and after the recession with no recorded declines due to timely tax rate adjustments.

The county's natural pace of general fund revenue growth has trended above inflation and U.S. GDP growth. Given ongoing economic development as well as positive housing trends growth prospects for revenues are positive.

The county's property tax rate remains competitive relative to neighboring similarly sized jurisdictions. Lack of a legal cap on the property tax rate or levy provides the county with high independent legal revenue raising flexibility.

Expenditure Framework
The county's expenditures are primarily composed of public safety and education. These costs comprise approximately 60% of total general fund expenditures. Virginia public schools are largely funded by a mix of state and local aid contributions. The amount of local contributions is determined by the county board, and based on the state-determined performance standards for the school system.

Given the county's history of revenue growth, which has exceeded GDP and inflation, pipeline of development projects, positive housing trends over the past several years, and affordable debt plan, Fitch expects spending growth to be below or more or less aligned with revenues over time.

The county has solid flexibility to adjust major expenditure items. Fixed carrying costs associated with debt service, actuarially determined pension payments and other post-employment benefits (OPEB) actual payments consume approximately 16% of governmental spending. The county has broad discretion over the terms of employee wages and benefits given the absence of collective bargaining. While flexibility to adjust funding levels for education is limited to a minimum funding level according to state standards, the county does currently fund education above the state standard, affording some flexibility to adjust spending.

Long-Term Liability Burden
Overall debt and unfunded pension liabilities are approximately 5% of the county's personal income and are primarily driven by the debt. Fitch expects the liability burden to remain consistent with a 'aaa' assessment because population and income growth are likely to be aligned with additional debt needs, principal amortization is rapid at 77% in 10 years, and strong pension funding should limit growth in net pension liabilities.

Full-time salaried county employees participate in the VRS, a defined benefit pension plan. The county's contributions to VRS are actuarially calculated. For the primary government, the fiduciary net position of the plan covered approximately 87% of the total pension liability at the plan's 7% discount rate as of June 30, 2015.

OPEB liabilities do not represent a significant cost pressure. In addition to county employees, the county pays OPEB benefits for school employees. At the close of fiscal 2015 the UAAL for county employees was reported at $56 million and $195 for school employees, a combined 2% of personal income. The county plans to reach full funding of the OPEB ARC by 2023.

Operating Performance
Given the moderate economic sensitivity of the county's revenues and its superior inherent budget flexibility in the form of control over revenues and spending capacity, Fitch expects the county to manage through economic downturns while maintaining a high level of fundamental financial flexibility. In addition, the county has historically maintained ample reserve levels and continued to do so during the last recession. The unrestricted general fund balance of $65 million was a high 28% of spending at year-end 2015, excluding refunding. Additionally, the county maintains accessible reserves in the county projects fund that totaled $18.6 million at the end of fiscal 2015. In sum, available reserves totaled 35% of spending for fiscal 2015, well above the county's recently enhanced 11% reserve policy.

The county is projecting to close fiscal 2016 with a $4.2million deficit after capital spending or just 1.7% of fiscal 2016 spending compared to a budgeted $3.2 million deficit, reflecting additional funds transferred to the capital projects fund. The county has traditionally used a portion of its fund balance in excess of its policy for capital expenditures.

The fiscal 2017 the $255 million adopted budget is a 4% increase over fiscal 2016. The budget keeps the tax rate stable and slightly increases the fund balance appropriation in the general fund from $3.2 million to $3.7 million, mainly to address capital needs. Based on past operating performance, Fitch expects operations to be positive relative to budget.

Contact:

Primary Analyst
Evette Caze

Director
+1-212-908-0376
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Parker Montgomery
Analyst
+1-212-908-0356

Committee Chairperson
Laura Porter
Managing Director
+1-212-908-0575

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

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

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879478