

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

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about

future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001