S&P Global
Ratings

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Summary:

Spotsylvania County, Virginia; Appropriations; General Obligation

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Summary:

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Credit Profile		
US$31.663 mil go pub imp bnds ser 2016 due 08/01/2036		
Long Term Rating	AA+/Stable	New
Spotsylvania Cnty GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating to Spotsylvania County, Va.'s series 2016 general obligation (GO) public improvement bonds and affirmed its 'AA+' rating on the county's existing GO debt. At the same time, we affirmed our 'AA' rating on the county's appropriation-backed debt outstanding. The outlook on all the ratings is stable.

The bonds are a GO of the county secured by an irrevocable pledge of its full faith and credit to levy and collect an annual ad valorem tax, unlimited as to rate or amount, on all locally taxable property in the county sufficient to pay principal of and interest on the bonds. Proceeds will be used to finance various capital projects, principally $22.3 million in school projects.

The 'AA' rating on the county's appropriation-backed debt are supported by:

- The county's strong general creditworthiness ('AA+/Stable' GO debt rating);
- 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 'AA+' GO rating reflects our view of the county'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 operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 at 26% of operating expenditures;
- Very strong liquidity, with total government available cash at 69.8% of total governmental fund expenditures and 5.0x governmental debt service, as well as access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 14.0% of expenditures, net direct debt at 116.9% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization, with 67.7% 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 128,276, is in the Washington-Arlington-Alexandria MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 109.3% of the national level and per capita market value of $114,357. Overall, market value grew by 6.1% over the past year to $14.7 billion in 2016. The county unemployment rate was 4.7% in 2015.

Currently, about half of the county's workforce commutes into areas outside of Spotsylvania for employment, including regional employers such as GEICO Corp. and Medicorp, as well as Mary Washington Hospital and federal government employment in Washington and Richmond. However, the county continues to reduce the number of out-of-county commuters by developing the local economy and increasing employment.

Leading local employers include:

- Spotsylvania Regional Medical Center (450 employees);
- CVS Health Corp. (375), a distribution warehouse;
- Rappahannock Goodwill Industries (250), a vocational and educational services provider;
- Rappahannock Electric Coop (160); and
- Simmons USA (150).

The county continues to attract ample capital investment. There has been substantial activity in the defense, technology, government, health care, recreational, and professional business service markets, as well as a number of significant transportation initiatives. Access to a diverse economy has contributed to historically below-average unemployment.

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 that include budget-to-actual date and year-to-date benchmarks and the budget may be amended throughout the year;
- The county 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;
- The county adopted Statement of Investment Policies on Dec. 13, 2011, with earnings and holdings reviewed at least quarterly;
- The county's 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%; and
- The county will commit within its general fund balance at the close of each fiscal year a reserve equal to no less than 11% of general and school operating fund revenues projected for the subsequent fiscal-year budget. In addition, the county maintains self-insured health insurance, budget stabilization, and economic opportunities reserves.

Strong budgetary performance

Spotsylvania County's budgetary performance is strong, in our opinion. It had operating surpluses at 1.5% of expenditures in the general fund and 3.2% across all governmental funds in fiscal 2015. General fund operating results of the county have been stable over the last three years, with results of negative 0.1% in 2014 and negative 0.4% in 2013.

For analytic consistency, data have been adjusted to include recurring transfers in and out as revenues and expenditures, accounting for one-time revenues and expenditures, particularly bond-funded capital needs.

For fiscal 2015, results reflected real property collections increasing 1.8% from the previous year with new construction reflecting a 1.4% increase in overall taxable value. Personal property collections increased 6.24% from the previous year. Overall expenditures decreased $2.3 million or 1.0% from the previous year for various line items.

Fiscal 2016 projections include a $1.1 million increase in undesignated reserves. This includes a one-time transfer out of the economic development opportunities fund of $3.3 million and one-time transfers to the capital projects fund of $5 million, beyond the transfer policy set by the county.

The county's fiscal 2017 budgeted includes use of $3.5 million of reserves for capital projects and a $250,000 one-time transfer for economic development initiatives. Given the county's historical performance, we expect better-than-budgeted results and replenishment of reserves. In fiscal 2017, the county will transfer $700,000 from its general fund to its transportation fund to begin to address projected out-year imbalances in its transportation fund.

Fiscal policies state that the county's goal of budgeting pay-as-you-go (cash) funding for capital projects will be equal to 5% of general fund revenue (excluding other obligated transfers). To meet this goal, beginning in fiscal year 2008, the county established the transfer from the general fund to the capital projects fund at 1%, with an additional 0.25% to be added each year thereafter. In fiscal year 2017, the transfer is budgeted at 3.25% of general fund revenues. For fiscal 2017, a transfer from the general fund to the capital projects fund is budgeted at $8 million.

Very strong budgetary flexibility

Spotsylvania County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 at 26% of operating expenditures, or $62.3 million.

As part of the annual budget process, the county will appropriate a contingency equal to 0.5% of general fund expenses from its fiscal stability reserve. This contingency is meant to fund unforeseen expenditures of a non-recurring nature that arise during the course of the fiscal year, or to meet relatively minor increases in service delivery costs. The county also maintains other various reserves for the following:

- Fiscal stability reserve, a reserve equal to no less than 11% of general and school operating fund revenues projected for the subsequent fiscal-year budget.
- Budget stabilization reserve, which will start in fiscal 2016 with a balance of $1.0 million. Each year thereafter, an amount equal to 0.25% of general and school operating fund revenues projected for the subsequent fiscal-year budget will be added until such time as the fund reaches $5 million.
- Economic opportunities reserve , which will, at the end of each fiscal year, be replenished to a level of $2 million.

The county has added to available reserves (assigned and unassigned) annually. At the end of fiscal 2016, it is expected to increase its undesignated fund balance by $1.1 million. There was reserve use beyond what is customary for the county, primarily related for economic development incentives and additional one-time costs for capital projects. 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 69.8% of total governmental fund expenditures and 5.0x governmental debt service in 2015. 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 what we view as permissive investments, we believe the county does not currently have aggressive ones, with the majority in highly rated and liquid mutual funds and fixed-income securities. The county has consistently had very strong liquidity and we do not anticipate this will diminish.

The county has issued privately placed fixed-rate GO debt and economic development authority lease revenue debt. The agreements contain provisions that could result in the immediate acceleration of principal. However, we believe the county's historical maintenance of sufficient cash to cover principal subject to acceleration somewhat mitigates this risk. We will continue to monitor the county's cash compared to principal outstanding at risk of acceleration, and we would view a decrease in debt service coverage below 1x as a negative credit event.

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 116.9% of total governmental fund revenue. Overall net debt is low at 2.0% of market value, and approximately 67.7% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

The county has identified potentially $66 million in long-term debt needs to be issued in fiscal years 2018 and 2019 for county and school projects. However, any potential issuance is offset by the county's rapid debt amortization and should not have a meaningful effect on the county's overall debt burden.

We note that the county's debt profile improved due to net direct debt as a percentage of total governmental funds revenue declining below 120% and is marginally below this threshold. In addition, amortization has improved to marginally above the 65% 10-year principal payout rate, further strengthening the county's debt profile. However, given the marginal nature of current factors to these ratios, the county's debt profile may move to adequate or weak with future debt issuances.

Spotsylvania County's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 2.6% of total governmental fund expenditures in 2015. The county made its full annual required pension contribution in 2015.

The county and school board participate in the Virginia Retirement System (VRS), a defined-benefit pension plan, to include an agent, multiemployer plan for county and school board employees, and a cost-sharing multiemployer teacher retirement plan. The county pays 100% of the contractually required contribution. The county 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's opinion of the county's ongoing economic growth, strong performance, and very strong management conditions. Furthermore, the county has successfully maintained what we consider its very strong budgetary flexibility and liquidity despite cash funding a substantial portion of capital needs. We do not expect to change the rating within the outlook's two-year period.

Upside scenario

If the county were to experience improved wealth and income levels relative to peers and maintain a strong debt profile, we may raise the rating.

Downside scenario

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

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 27, 2016
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2015 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of August 10, 2016)		
Spotsylvania Cnty GO		
Unenhanced Rating	AA+(SPUR)/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
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

Ratings Detail (As Of August 10, 2016) (cont.)		
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.