STANDARD & POOR'S RATINGS SERVICES
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Summary:

Spotsylvania County, Virginia; Appropriations; General Obligation

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Summary:

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Credit Profile		
US$55.0 mil GO pub imp and rfdg bnds ser 2015 due 07/15/2035		
Long Term Rating	AA+/Stable	New
Spotsylvania Cnty GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to Spotsylvania County, Va.'s series 2015 general obligation (GO) public improvement and refunding bonds and affirmed its 'AA+' rating on the county's existing GO debt.

At the same time, Standard & Poor's affirmed its 'AA' rating on the county's appropriation-backed debt outstanding.

The outlook on all ratings is stable.

The county's full faith and credit pledge secures the GO debt. Officials intend to use GO bond proceeds to finance certain county capital improvements and to refinance the county's series 2007 GO bonds outstanding.

The rating reflects our opinion of the county's:

- Very strong economy that participates in the Washington-Arlington-Alexandria metropolitan statistical area with strong income and wealth;
- Very strong budgetary flexibility with fiscal 2014 audited available general fund reserves of 22.7% of general fund expenditures;
- Adequate budgetary performance with a history of balanced financial operations, as well as a revenue stream led by property taxes that generate roughly two-thirds of general fund revenue;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Very strong management conditions with "strong" financial management policies and practices under our financial management assessment (FMA) methodology, as well as a consistent ability to maintain balanced budgets; and
- Weak debt and contingent liabilities due to moderate carrying charges and low net debt; and
- Very strong institutional framework score.

Very strong economy

Spotsylvania County's economy is very strong. The county, with a population estimate of 126,765, is in northeastern Virginia, bordering Fredericksburg, about 55 miles from Richmond and Washington, which are readily accessible by rail and highway. Interstate 95 and various local highways provide alternate routes into and around the county. Population has grown by, what we consider, a healthy average of roughly 1% annually over the past decade; in our opinion, population growth should remain moderate over the next few years at roughly 1% annually.

Assessed value (AV) has remained relatively stable following a 20% decrease in fiscal 2010 due to a revaluation and reduced residential and commercial values. Fiscal 2015 AV stands at $13.8 billion. Market value remains, in our opinion, a very strong $108,859 per capita. Management believes AV will exhibit some growth over the next few fiscal years given a number of large-scale economic development projects. In addition, no taxpayer base concentration exists with the 10 leading taxpayers accounting for less than 5% of AV.

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);
- Rappahannock Goodwill Industries (400), a vocational and educational services provider;
- A-T Solutions (380), which supports counterterrorist solutions;
- CVS Health Corp. (375), a distribution warehouse; and
- EOIR Measurements Inc. (220), a sensor technology company.

The county continues to attract ample capital investment within its borders. Recent developments include Spotsylvania Regional Medical Center, which opened in June 2010 and has become a leading county employer. Others include substantial activity in the defense, technology, government agencies, 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; at a 5.4% average in 2014, unemployment remained well below commonwealth and national rates. Projected per capita effective buying income is 114% of the national level.

Very strong budgetary flexibility

In our opinion, budgetary flexibility remains very strong with available reserves, unassigned plus assigned, of more than 20% of expenditures in each of the past three fiscal years. At fiscal year-end 2014, the county's available fund balance stood at $52.9 million, or 22.5% of expenditures. According to county policy, it targets an unassigned fund balance equal to or greater than 10% of general fund revenue. In general, the county uses excess fund balance for one-time purposes, including pay-as-you-go capital spending. The county appropriates fund balance annually due primarily to unspent fund balance that is rolled over into the next fiscal year as well as to budgeted pay-as-you-go capital expenditures.

For fiscal 2015, management expects the unassigned fund balance to decrease by about $1.1 million, which maintains available reserves at levels we consider very strong. In addition, we understand that management does not expect the fund balance to materially change at fiscal year-end 2016 even though the county budgeted the use of $3.2 million of reserves for the year primarily for discretionary pay-as-you-go capital expenditures.

Adequate budgetary performance

In our view, overall budgetary performance has been adequate, with a history of balanced financial operations and the use of reserves primarily for pay-as-you-go capital projects. The county's fiscal 2016 budgeted expenditures totaled $245.2 million, representing a 2.9% increase over the prior year. The county's fiscal policies calls for a certain amount of cash-funded capital projects, which in fiscal 2016 totaled $7.1 million. However, the county budgeted for $9.6 million in pay-as-you-go capital expenditures for the year, or $2.5 million above policy level. This is the primary reason the county has budgeted the use of $3.2 million of reserves for fiscal 2016. Nevertheless, the county has a history of outperforming its conservative budget estimates and we do not expect reserves to materially change at fiscal year-end 2016.

For fiscal 2015, management expects its unassigned general fund balance to decrease slightly by about $1.1 million due primarily to $8.7 million used for cash-funded capital projects. Despite the slight decline, the county expects its unassigned fund balance to remain well above the 10% policy levels. In addition, the county's tax rate of 86 cents compares well to its peers in Virginia, providing financial flexibility.

The fiscal 2014 total general fund balance increased by $1.8 million after transfers, which included $9.9 million to the capital projects fund from the general fund, due to conservative budgeting and strong economic factors. Property taxes generate roughly two-thirds of general fund revenues.

Very strong liquidity

Supporting the county's finances is what we consider very strong liquidity with available cash of 65.3% of total governmental funds expenditures and 421% of debt service. We believe the county has strong access to external liquidity because it has issued bonds frequently over the past two decades, including GO and revenue bonds.

The county has issued privately placed GO debt and economic development authority lease revenue debt. Related loan agreements for the authority's lease revenue debt 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 to a level below 1x as a negative credit event.

Very strong management

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

Weak debt and contingent liabilities

In our opinion, Spotsylvania County's debt and contingent liabilities profile is weak with debt service of 15.5% of total governmental funds expenditures, which have been adjusted for capital expenditures that were funded with bond proceeds, as well as net direct debt equal to 112.7% of total governmental funds revenue. The county's overall debt-to-market-value ratio is, in our opinion, a low 2.1%. We consider principal debt amortization on existing and proposed debt above average with officials planning to retire 64% of combined GO and utility debt within 10 years.

The county contributes to the Virginia Retirement System for its pension plan, and it continues to fund the plan's full actuarial annual required contribution (ARC). In fiscal 2014, the ARC was $6.8 million, or 2.7% of governmental expenditures. In addition, the county provides other postemployment benefits (OPEB) to eligible employees. In fiscal 2014, the annual OPEB cost was $5.4 million. The county contributed 16.4% of the annual OPEB cost, or $891,000, in fiscal 2014 through pay-as-you-go funding.

Very strong institutional framework score

We consider the institutional framework score for Virginia counties very strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of the county's ongoing economic growth and development and access to northern Virginia's and D.C's diverse economies. Furthermore, in our view the county has maintained its very strong budgetary flexibility and liquidity despite cash funding a substantial portion of capital needs in addition to a low tax rate. We believe management will likely maintain manageable debt due to its commitment to cash funding a large portion of annual capital needs as well as its targeted debt ratios per the county's debt policy. Therefore, we do not expect to change the rating within the two-year outlook period. If the county's income and wealth levels were to improve as the county's economy continues to develop, however, we could raise the rating. Conversely, although unlikely, if the county were to significantly and unexpectedly draw down reserves due to fiscal imbalance, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Virginia Local Governments

Ratings Detail (As Of July 23, 2015)		
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) lse		
Long Term Rating	AA/Stable	Affirmed
Spotsylvania Cnty Econ Dev Auth (Spotsylvania Cnty) lse rev rfdg bnds (Spotsylvania Cnty) ser 2013 due 06/01/2031		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of July 23, 2015) (cont.)		
Spotsylvania Cnty Econ Dev Auth (Spotsylvania Cnty) rev & rfdg bnds (Spotsylvania County) ser 2014 due 06/01/2034		
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.

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