

# Spotsylvania County, Virginia

## General Obligation Bonds New Issue Report

### Ratings

#### New Issue

General Obligation Public  
Improvement and Refunding  
Bonds, Series 2015 AA+

#### Outstanding Debt

General Obligation Bonds AA+  
Economic Development Authority of  
Spotsylvania County Public  
Facilities Revenue Bonds AA

### Rating Outlook

Stable

### New Issue Details

**Sale Information:** \$48,855,000 General Obligation Public Improvement and Refunding Bonds, Series 2015, expected to sell competitively on July 28.

**Security:** The county's full faith and credit and unlimited ad valorem taxing ability.

**Purpose:** Bond proceeds will be used to fund certain road and rail transportation, public safety and general government and public school projects. Proceeds will also advance refund all or a portion of the series 2007 bonds for debt service savings.

**Final Maturity:** Jan. 15, 2035.

### Key Rating Drivers

**Solid Financial Results:** Strong financial performance is evidenced by the county's consistent maintenance of reserves above the prudent general fund balance policy level.

**Economy Tied to Regional Centers:** The local economy relies on the nearby job markets of the Washington, D.C. area, where the majority of county residents commute for employment. Defense contracting and healthcare sectors continue to develop in the county, aided by growth initiatives and positive workforce characteristics. Economic indicators are positive.

**Low-Risk Debt Profile:** Overall debt levels are moderately low and amortization of direct debt principal is rapid. Future capital plans are manageable. The county demonstrates a firm commitment to pay-as-you-go financing. Pension and other post-employment benefit (OPEB) burdens are modest.

### Rating Sensitivities

**Strong Financial Management:** Financial flexibility continues to be ample, with healthy fund balance levels as a result of conservative budgeting practices. Although not expected, material weakening of the county's financial flexibility could result in a rating change.

### Related Research

Fitch Rates Spotsylvania County, VA's  
GOs 'AA+'; Outlook Stable (July 2015)

### Analysts

Evette Caze  
+1 212 908-0376  
[evette.caze@fitchratings.com](mailto:evette.caze@fitchratings.com)

Andrew DeStefano  
+1 212 908-0284  
[andrew.destefano@fitchratings.com](mailto:andrew.destefano@fitchratings.com)

**Rating History**

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	7/16/15
AA+	Affirmed	Stable	8/7/14
AA+	Affirmed	Stable	6/28/13
AA+	Affirmed	Stable	7/16/12
AA+	Upgraded	Stable	6/13/12
AA	Affirmed	Stable	9/22/11
AA	Affirmed	Stable	6/15/11
AA	Affirmed	Stable	6/29/10
AA	Revised	Stable	5/30/10
AA-	Affirmed	Stable	7/7/09
AA-	Affirmed	Stable	5/25/07
AA-	Assigned	Stable	6/13/06

**Credit Profile**

The county is located in the northeastern section of Virginia, approximately 55 miles north of Richmond and 55 miles south of Washington, D.C. The county's estimated 2014 population of 129,188 represented a 5.5% increase from 2010.

**Strong Reserve Levels**

Unrestricted general fund balance levels have historically remained sound and above the county's fund balance policy. The policy stipulates maintenance of an unassigned fund balance equal to no less than 10% of the subsequent fiscal year's budgeted net operating revenue. Net operating revenue includes total general fund revenue plus total component unit (school board) general operating revenue. The county has traditionally used a portion of fund balance in excess of its 10% policy for capital expenditures.

Fiscal 2014 ended with an operating surplus (\$1.8 million, or 0.7% of spending) for the fourth time in five consecutive years. The surplus is net of a \$9.8 million transfer to the capital projects fund. At fiscal year end (June 30, 2014), the unrestricted general fund balance totaled an ample \$55.5 million, or 22% of spending. The capital projects fund at fiscal year-end 2014 had a balance of \$15 million net of bond proceeds, which could be used as additional reserves with board approval.

In addition to a healthy reserve balance, the county retains the flexibility to raise revenues, as its \$0.86 millage rate per \$100 assessed value remains regionally competitive and expenditure cuts to date have been modest. Liquidity is sound when Fitch Ratings adjusts for property tax revenues that have been deferred.

**Estimated Fiscal 2015 Results Show Fund Balance Use for Capital**

The fiscal 2015 budget was 2.6% higher than fiscal 2014's and provided \$1.0 million for a 2% COLA, funding for additional full-time positions, \$8.4 million in capital spending and a \$1.6 million increase in the transfer to the school system. The budget kept the real property tax rate stable but increased the personal property tax rate to offset declines in vehicle values. The budget appropriated a modest \$2.4 million (1% of general fund spending) for nonrecurring expenses. Year-to-date operations show a higher \$3.7 million use of reserves, with the majority of the use being for capital spending. Reserves will remain ample despite the draw.

**Adopted Fiscal 2016 Budget**

The fiscal 2016 budget is 5% higher than the fiscal 2015 budget and provides for an increase in county staff and teachers' salaries and additional full-time positions related to the opening of a new fire station. The budget keeps the real property tax rate stable and appropriates \$3.2 million of fund balance. Given the county's history of strong financial performance, Fitch expects operations to remain positive and reserves to remain in compliance with policy.

Property taxes are the county's primary revenue source. Following declines of 2.9% in fiscal 2012 and 20.0% in fiscal 2010, the county's tax base has begun to recover, with a cumulative 4.7% increase in taxable assessed value in fiscal years 2013 and 2014. Management's projected 1.0%–2.0% increase in fiscal 2015 is supported by recent permit activity.

**Related Criteria**

[Tax-Supported Rating Criteria \(August 2012\)](#)

[U.S. Local Government Tax-Supported Rating Criteria \(August 2012\)](#)

### Proximity to Washington, D.C.

Located on the I-95 corridor, Spotsylvania County functions as a bedroom community for the Washington, D.C. area, with approximately 12% of the labor force employed by the federal government. Approximately 75% of county residents commute outside the county for work, although the county has implemented several initiatives to foster local employment opportunities.

Economic indicators for the county are positive. Per capita income levels are 11% higher than those of the nation, and median household income levels are 48% higher. As has been the historical norm, the county's unemployment rate (5.2% as of March 2015) remains below that of the nation.

### Continued Diversification of Local Economy

The county has experienced growth in its employment base due to its economic incentives, availability of land and skilled workforce. The county's target industries include healthcare, manufacturing, high-tech/IT/defense and tourism.

Spotsylvania Regional Medical Center is the county's largest private employer, and healthcare is the second fastest growing industry. EOIR Technologies, an industry-leading system design and development company staffed with 220 employees in Spotsylvania, was awarded the prime contractor for a \$3.5 million contract in support of the U.S. Army Research, Development and Engineering Command. Tourism continues to be a key industry within the county given the county's Civil War historic sites and battlefields. In 2013, visitors generated approximately \$247 million in overall economic value. Growth is expected to be further spurred by the construction of a Virginia Railway Express Spotsylvania commuter rail station that will go directly into Washington D.C. Construction on the station is expected to be completed by early September 2015.

### Moderately Low Debt Levels

The county's debt profile is moderately low, with net overall debt equal to \$2,291 per capita and 2.0% of market value (MV), below the county's 3.0%–4.0% policy. Debt service as a percentage of total governmental fund spending in fiscal 2014 was sizable at approximately 14.4%, although principal amortization is rapid at 73% within 10 years.

The county's capital needs appear manageable. The fiscal years 2016–2020 capital improvement program (CIP) totals \$237.6 million

(1.6% of MV). School projects represent the majority of the plan (\$111.9 million), followed by government facilities (\$29.0 million), transportation (\$66.0 million) and other projects (\$30.8 million). Approximately 78% of the CIP is funded through debt, with a sizable portion (21%) funded from pay-as-you-go sources.

Fitch views the county's firm commitment to pay-as-you-go financing as a credit positive. The county has been steadily working toward fulfillment of its policy to transfer 5% of general fund

#### Debt Statistics

(\$000)	
This Issue	48,855
Outstanding Direct Debt – Net of Refunding	247,122
<b>Total Net Direct Debt</b>	<b>295,977</b>
<b>Total Overall Debt</b>	<b>295,977</b>
<b>Debt Ratios</b>	
Net Direct Debt Per Capita (\$) <sup>a</sup>	2,291
As % of Market Value <sup>b</sup>	2.0
Overall Debt Per Capita (\$) <sup>a</sup>	2,291
As % of Market Value <sup>b</sup>	2.0

<sup>a</sup>Population: 129,188 (2014 estimate). <sup>b</sup>Market value: \$14,899,515,000 (2014). Note: Numbers may not add due to rounding.

revenues to the capital projects fund, increasing transfers by a quarter percent every year until the policy is achieved. The county is currently at the 3% floor.

**Low Pension and Other Long-Term Liabilities**

Pension and OPEB contributions do not stress financial operations. County employees participate in the statewide Virginia Retirement System, an agent multi-employer defined benefit plan. The county makes annual payments as determined by the state that equal its annual required contribution (ARC). The county's portion of the plan is well funded at 84%, reflecting the plan's assumed 7% investment return assumption. The fiscal 2014 \$6.8 million ARC equaled a modest 2.7% of total governmental spending.

OPEB is currently funded on a pay-as-you-go basis, although the county did establish a reserve with \$826,000 in fiscal 2015. The unfunded actuarially accrued liability (\$55.9 million) represents less than 1% of MV. Despite the sizable debt service payments, carrying costs (debt service, OPEB and pension costs) are manageable at 17.4% of governmental fund spending.

**General Fund Financial Summary**

(\$000, Audited Fiscal Years Ended June 30)

	2010	2011	2012	2013	2014
Property Tax Revenue	135,718	143,644	145,992	146,921	151,223
Other Tax Revenue	38,220	39,725	40,607	41,798	42,250
<b>Total Tax Revenue</b>	<b>173,938</b>	<b>183,369</b>	<b>186,599</b>	<b>188,719</b>	<b>193,473</b>
License and Permits	213	231	290	309	246
Fines and Forfeits	1,007	933	835	642	545
Charges for Services	2,497	2,411	2,557	3,462	4,136
Intergovernmental Revenue	30,355	30,437	31,089	29,511	31,566
Other Revenue	1,509	1,675	1,381	772	1,184
<b>General Fund Revenue</b>	<b>209,519</b>	<b>219,056</b>	<b>222,751</b>	<b>223,415</b>	<b>231,150</b>
General Government	15,019	15,791	16,530	17,679	17,979
Public Safety Expenditures	33,328	34,144	36,494	41,370	41,338
Public Works Expenditures	6,617	7,191	8,033	8,344	8,672
Health and Social Services Expenditures	16,752	17,274	17,172	17,301	18,042
Culture and Recreation Expenditures	6,338	6,803	6,752	6,807	6,812
Educational Expenditures	77,944	85,818	84,485	92,933	102,669
Debt Service Expenditures	37,704	39,153	39,355	37,704	34,302
Other Expenditures	2,758	2,610	3,474	3,767	3,954
<b>General Fund Expenditures</b>	<b>196,460</b>	<b>208,784</b>	<b>212,295</b>	<b>225,905</b>	<b>233,768</b>
<b>General Fund Surplus</b>	<b>13,059</b>	<b>10,272</b>	<b>10,456</b>	<b>(2,490)</b>	<b>(2,618)</b>
Other Sources	0	2,630	6,088	44,237	23,498
Transfers Out	3,469	6,636	3,232	5,123	7,540
Other Uses	0	45	6,017	43,496	11,584
<b>Net Transfers and Other</b>	<b>(3,469)</b>	<b>(4,051)</b>	<b>(3,161)</b>	<b>(4,382)</b>	<b>4,374</b>
<b>Net Surplus/(Deficit)</b>	<b>9,590</b>	<b>6,221</b>	<b>7,295</b>	<b>(6,872)</b>	<b>1,756</b>
Total Fund Balance	48,052	54,949	62,244	55,372	57,128
As % of Expenditures, Transfers Out and Other Uses	24.0	25.5	28.1	20.2	22.6
Unreserved Fund Balance <sup>a</sup>	48,052	—	—	—	—
As % of Expenditures, Transfers Out and Other Uses	24.0	—	—	—	—
Unrestricted Fund Balance <sup>b</sup>	—	54,748	60,683	53,924	55,538
As % of Expenditures, Transfers Out and Other Uses	—	25.4	27.4	19.6	22.0

<sup>a</sup>Pre-GASB 54. <sup>b</sup>Reflects GASB 54 classifications: sum of committed, assigned and unassigned. Note: Numbers may not add due to rounding.

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