MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Spotsylvania County, VA's $55M GO Bonds, Series 2015; Outlook revised to positive

Global Credit Research - 20 Jul 2015

Aa2 applies to $166.3M outstanding GO debt

SPOTSYLVANIA (COUNTY OF) VA
Counties
VA

Moody's Rating

ISSUE		RATING
General Obligation Public Improvement and Refunding Bonds, Series 2015		Aa2
Sale Amount	$55,000,000	
Expected Sale Date	07/28/15	
Rating Description	General Obligation	

Moody's Outlook POS

NEW YORK, July 20, 2015 --Moody's Investors Service has assigned a Aa2 rating to Spotsylvania County's (VA) $55 million General Obligation Public Improvement and Refunding Bonds, Series 2015. Concurrently, Moody's has affirmed the Aa2 rating on the county's $166.3 million in outstanding general obligation debt and the Aa3 rating on the county's $69.2 million in outstanding public facility lease revenue debt. The outlook has been revised to positive.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the county's conservative financial management practices that have resulted in consistently healthy reserves. The rating also incorporates the county's sizeable tax base within commuting distance to both Richmond (Aa2 stable) and the District of Columbia (Aa1 stable), and a manageable debt burden.

The public facility revenue bonds are secured by lease rental payments made by legally available revenues, subject to appropriation. The Aa3 rating on the Public Facility Revenue Bonds (School Facilities, Public Building, and Equipment Projects) combines the aforementioned long-term credit characteristics, satisfactory legal provisions of the lease documents and the essentiality of the financed projects.

OUTLOOK

The positive outlook reflects our expectation that the county will be able to maintain healthy reserves despite a sizeable pay-go program. In addition, we expect the county to benefit from continued modest growth over the near-term, which will also help to offset upcoming capital costs.

WHAT COULD MAKE THE RATING GO UP

-Increase reserves to levels more in-line with medians for Aa1-rated credit

-Reduced debt burden

WHAT COULD MAKE THE RATING GO DOWN

-Ongoing decline in reserves limiting financial flexibility

-Substantial contraction in tax base and wealth levels

-Significant growth in debt burden

STRENGTHS

-Sizeable tax base with easy access to nearby employment centers

-Sound financial management as evidenced by management of healthy reserves

CHALLENGES

-Ability to maintain healthy reserves despite sizeable capital program

-Above average debt burden

RECENT DEVELOPMENTS

Recent developments are included in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: SIZEABLE AND DIVERSE TAX BASE WITH MODEST GROWTH POTENTIAL

Spotsylvania County's $14.9 billion tax base is expected to see modest growth over the near-term given its favorable location and diverse employment base. Equidistant to the economic centers of the District of Columbia (Aa1 stable) and Richmond (Aa2 stable) via Interstate 95, residential expansion had driven substantial tax base growth in prior years, with annual increases averaging 18.1% between 2004 and 2008. As a result of the economic environment and the recent downturn in the housing market, the county saw average annual declines of 3.7% over the last five years (2009-2014), including a sizable 19.5% decline as a result of the 2010 revaluation. Most recently, the county has begun to see signs of tax base growth, including a 4.0% increase in 2014 and a healthy 1.3% increase in January 2015.

The county has experienced significant population growth of 93% over the last two decades. While this trend has begun to moderate, commercial growth continues to catch up to serve the larger population. For example, approximately 3.2 million square feet in commercial space is either planned or currently under construction. In addition, various principal employers within the county, including CVS, Inc. and Kaeser Compressors, are either undergoing or have recently completed expansions. The most notable development in the county was LIDL's recent announcement of a $125 million investment to construct a regional headquarters and distribution facility. The county's economy has also benefited from the completion of the Spotsylvania Regional Medical Center operated by HCA, Inc. (B2 stable), a national hospital chain. This taxable hospital has added approximately 450 new jobs to the county and is the county's second largest taxpayer (0.6% of assessed valuation). Additionally, the local economy is expected to benefit from the planned $37 million Virginia Railway Express (VRE) extension into the county which would increase access to nearby employment centers in Northern Virginia and the District of Columbia.

County unemployment, at 5.2% as of March 2015, remains below the nation (5.6%) and just above the state (4.9%). The county exhibits average wealth indicators, with median family income equal to 114.8% and 136.1% of state and national levels, respectively. Full value per capita is a healthy $116,662.

FINANCIAL OPERATIONS AND RESERVES: RESERVES EXPECTED TO REMAIN HEALTHY DESPITE EXPECTED DECLINE IN FISCAL 2015

Despite a planned decline in reserves during fiscal 2015 for one-time capital expenditures, Spotsylvania's financial position is expected to remain strong given healthy reserve levels, timely tax rate increases, and diligent cost control measures. As a result, the county has increased reserves to a high of $57.1 million (24.7% of General Fund revenues) in fiscal 2014 from $38.5 million (18.6% of General Fund revenues) in fiscal 2009. The county recently ended fiscal 2014 with a $1.7 million increase in General Fund balance due to positive performance of property and other local taxes, as well as conservative budgeting of expenditures. Property taxes were the county's primary source of revenue (65.4% of total revenues), followed by other local taxes (18.3%) and state & Federal aid (13.7%) in fiscal 2014.

Based on preliminary estimates for fiscal 2015, county officials expect to end the year with a $3.7 million decline in General Fund reserves to $53.4 million, or a still-healthy 22.7% of revenues. This decrease in reserves is due to an $8.7 million transfer for capital needs, which is driving expenditures to end over budget. Revenues are tracking favorably due to positive variance on property and other local taxes, charges for service, and intergovernmental revenues.

The fiscal 2016 budget increased by 2.9% over the previous year and includes $3.2 million in appropriated fund balance. The tax rate remained level, while growth in other local revenues helped to offset a 1% bonus and 2% merit increase for county employees, a 3% cost of living increase for school board employees, as well as the addition of 15 new positions. Additionally, the budget includes the fourth year of a five-year phase in of 1% pay increases to offset increased employee contributions in the state administered pension program. The budget also includes a $9.6 million transfer for capital at year-end. As with previous budgets, the fiscal 2016 features a number of budgetary cushions to manage potential shortfalls from economically sensitive revenue sources while maintaining its financial position. Moving forward, the county's ability to maintain structural balance and manage its pay-as-you-go capital program will remain an important credit factor.

Liquidity

The county maintained a net cash position of $70 million or a strong 30.3% of General Fund revenues in fiscal 2014. Overall, the county has maintained an average net cash position of $54.6 million or 28.5% of General Fund revenues over the last five years, and expects to end fiscal 2015 in-line with historical trends.

DEBT AND PENSIONS: MANAGEABLE DEBT BURDEN DESPITE FUTURE BORROWING NEEDS

The county's above-average debt burden will likely remain manageable, despite a sizeable capital plan. The county's 2016 to 2020 capital improvement plan (excluding self-supporting utilities) calls for $238 million of capital needs, with approximately $135 million of long-term debt financing and $44.3 million in pay-go contributions. The majority of the plan will fund school (47%) and transportation (28%) projects.

To manage the financial impact of these projects, the county requires a 10-year tax supported debt payout ratio of a minimum of 60% at the end of each adopted five-year capital improvement plan (72.5% post-issuance), debt to full valuation between 3% and 4% (2.2%) and debt service as a percentage of operating expenditures between 10% and 12% (9.6%).

Debt Structure

All of the county's debt is fixed rate.

Debt-Related Derivatives

The county is not party to any derivative agreements.

Pensions and OPEB

The county and the school board participate in the Virginia Retirement System defined benefit pension plan administered by the Commonwealth of Virginia (Aaa stable). In fiscal 2014, the county's annual required contribution (ARC) was $6.8 million (1.9% of operating expenditures) for the county plan, $1.2 million (0.3% of operating expenditures) for the non-professional school employees plan and $19.8 million (5.5% of operating expenditures) for the professional school employees plan. The county contributed 100% of its ARC for all three of its pension plans in fiscal 2014.

The county's adjusted pension liability, under Moody's methodology for adjusting reported pension data, is $653.1 million or a slightly above average 1.85 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities. We determined the county's share of liability for the state-run plans in proportion to its contributions to the plans.

The county and the county school board also provide Other Post-Employment Benefits (OPEB) to employees. The total OPEB ARC was $23.8 million (6.7% of operating expenditures) in fiscal 2014, of which the county contributed 26.9% ($6.4 million or 1.5% of operating expenditures). Fixed costs including required pension contributions, retiree healthcare payments, and debt service expenditures summed to a moderate 18.8% of fiscal 2014 expenditures.

MANAGEMENT AND GOVERNANCE: SOLID FISCAL MANAGEMENT SUPPORTS HEALTHY FINANCIAL POSITION

A commitment to maintain reserves at or above policy-determined levels has contributed to the county's overall fiscal stability. Effective fiscal 2008, the county revised its financial reserve policy, establishing a General Fund balance reserve of 10% of county and school board operating revenues with any remaining unassigned balances available for one-time capital expenses. General Fund unassigned fund balance ended at $43.1 million (11.8% of revenues) in fiscal 2014, but is expected to decline to $42 million (11.1% of revenues) in fiscal 2015 due to the transfer for capital. Overall, the county has maintained an average unassigned fund balance equal to 11.4% of revenue during the last five years.

Virginia counties have an institutional framework score of "Aaa," or very strong. Counties rely on property taxes to support operations, providing for high revenue-raising flexibility as property tax rates are not limited. Expenditures, which are primarily for education, are predictable and counties have the ability to reduce expenditures if necessary.

KEY STATISTICS

-2014 Tax Base Size - Full Value: $14.9 billion

-2014 Full Value Per Capita: $116,662

-2012 Median Family Income as % of US median: 136.1%

-2014 Fund Balance as % of Revenues: 19.23%

-Five-Year Dollar Change in Fund Balance as % of Revenues: 8.36%

-2014 Cash Balance as % of Revenues: 19.79%

-Five-Year Dollar Change in Cash Balance as % of Revenues: 10.67%

-Institutional Framework: Aaa

-Operating History - Five-Year Average of Operating Revenues/ Operating Expenditures: 1.01x

-Net Direct Debt/Full Value: 2.16%

-Net Direct Debt/Operating Revenues: 0.91x

-Three-Year Average of Moody's Adjusted Net Pension Liability/Full Value: 3.05%

-Three-Year Average of Moody's Adjusted Net Pension Liability/Operating Revenues: 1.29x

OBLIGOR PROFILE

Spotsylvania County is located northeastern Virginia between the City of Richmond and the District of Columbia and had a population of 127,715 in 2014.

LEGAL SECURITY

The bonds are secured by the county's unlimited general obligation tax pledge.

USE OF PROCEEDS

Approximately $33 million of the proceeds will be used to fund various general government, public safety, school, and transportation projects. The remainder of the proceeds will refund the Series 2007 bonds for an estimated net present value savings of $798,782, or 5.2% of refunded principal, with no extension of maturity.

RATING METHODOLOGY

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the lease rental rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The following information supplements Disclosure 10 ("Information Relating to Conflicts of Interest as required by Paragraph (a)(1)(ii)(J) of SEC Rule 17g-7") in the regulatory disclosures made at the ratings tab on the issuer/entity page on www.moodys.com for each credit rating:

Moody's was not paid for services other than determining a credit rating in the most recently ended fiscal year by the person that paid Moody's to determine this credit rating.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Jennifer Diercksen
Lead Analyst
Public Finance Group
Moody's Investors Service

Tiphany J. Lee
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

MOODY'S INVESTORS SERVICE

any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

For Japan only: MOODY'S Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of MOODY'S Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.
MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.