Spotsylvania County, Virginia

New Issue Report

Ratings

Long Term Issuer Default Rating	AAA

New Issue

$54,235,000 General Obligation Public Improvement Bonds, Series 2019	AAA

Outstanding Debt

General Obligation Bonds	AAA
Economic Development Authority (Public Building and Equipment Project) Public Facilities Revenue Bonds, Series 2011	AA+
Economic Development Authority (Spotsylvania School Facilities Project) Public Facilities Revenue & Refunding Bonds, Series 2012	AA+
Economic Development Authority Revenue & Refunding Bonds, Series 2014	AA+

Rating Outlook

Stable

Analysts

Grace Wong
+1 212 908-0652
grace.wong@fitchratings.com

Evette Caze
+1 212 908-0376
evette.caze@fitchratings.com

New Issue Summary

Sale Date: Competitive sale, on or about Aug. 7

Series: $54,235,000 general obligation (GO) public improvement bonds, series 2019

Purpose: Bond proceeds will be used to finance or reimburse Spotsylvania County for costs associated with public safety, public school and transportation projects and to refinance costs of certain capital improvements. A portion of the bond proceeds will also be used to refund certain outstanding GO bonds and a bank loan.

Security: The GO bonds are backed by the county's full faith and credit and unlimited ad valorem taxing ability.

Analytical Conclusion

The 'AAA' Issuer Default Rating (IDR) and GO bond rating reflect the county's strong revenue framework, moderate long-term liability burden, healthy operating performance, and broad budgetary tools. The revenue bond rating is one notch lower than the IDR at 'AA+', reflecting the requirement for annual budgetary appropriation in support of lease payments.

Economic Resource Base: The county is located along Virginia's Interstate 95 corridor, midway between Washington, D.C. and Richmond, Virginia (about 55 miles from each). The county continues to grow, with the county's 2018 Census estimated population of 134,238 up about 10% since the 2010 Census.

Key Rating Drivers

Revenue Framework: 'aaa'
Fitch Ratings believes the pace of revenue growth (net of policy action) will outpace the rate of inflation over time, due to continued population gains, property appreciation and development. The county has the independent legal ability to raise property tax revenues in an unlimited amount.

Expenditure Framework: 'aa'
Fitch expects the natural pace of spending growth to remain in line with to marginally above revenue growth. Moderate carrying costs and broad flexibility to manage labor-related costs afford the county solid leeway to adjust spending.

Long-Term Liability Burden: 'aa'
The combined burden of debt and unfunded pension liabilities is moderate. Fitch expects the metric to remain at the low end of the 'aa' assessment level over time as potential increases in the net pension liability and future debt issuance plans should generally match the amortization rate of existing debt.

Operating Performance: 'aaa'
The county's superior budget flexibility and ample general fund balance position it comfortably to manage through economic downturns without diminishing its overall financial flexibility.

Rating Sensitivities

Revenue Growth Prospects: A material weakening of natural revenue growth prospects could pressure the rating.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	7/25/19
AAA	Upgraded	Stable	8/09/16
AA+	Upgraded	Stable	6/13/12
AA	Revised	Stable	4/30/10
AA-	Assigned	Stable	10/14/04

Related Research

Fitch Rates Spotsylvania County, VA's $54MM GOs 'AAA'; Outlook Stable (July 2019)

Spotsylvania County (VA) [General Government] - ESG Navigator

Related Criteria

U.S. Public Finance Tax-Supported Rating Criteria (April 2018)

Long-Term Liabilities: A material increase of the county's long-term liability metric for debt and pensions without a commensurate increase in personal income could pressure the rating.

Credit Profile

Spotsylvania County functions as a bedroom community for the D.C. metro area. Over half of the county's labor force commutes outside of the county for work, according to the Virginia Employment Commission. Employment trends inside the county are positive. Over the past six years, the county has continued to add jobs on par with the rate of the rest of the growing state economy. The unemployment rate tracks the state's and remains below that of the U.S. The county's wealth and education indicators are mixed, with estimated per capita personal income and education levels averaging near the national level but trailing the commonwealth. Poverty levels are well below those of the state and the U.S.

The county has a pipeline of economic development projects due to the availability of land, and transportation investments are attracting private investment and continued economic growth. The county's target industries include healthcare, manufacturing, high-tech, defense and tourism.

Revenue Framework

County operations are primarily supported by property taxes, which comprised about 65% of fiscal 2018 general fund revenues, followed by intergovernmental revenues (primarily state funds for education) at 16%.

General fund revenue growth, when adjusted for policy action, trailed U.S. inflation over the decade ended in fiscal 2018. However, the county's taxable assessed values and resident home values have steadily grown since the Great Recession, and Fitch believes the county's future revenue growth prospects will exceed the historical trend due to continued population gains and ongoing economic development in the region as well as positive housing trends in the county.

The county benefits from broad revenue raising flexibility, as it is not subject to any limitation on its property tax rate or tax levy. The county's property tax rate remains competitive relative to neighboring similarly sized jurisdictions.

Expenditure Framework

The county provides a broad range of municipal services, including law enforcement, fire and rescue, education, health and social services, solid waste disposal and community development. The county's expenditures are primarily composed of public safety (18% in fiscal 2018) and education (45%). Virginia public schools are largely funded by a mix of state and local aid contributions. Local contributions are determined by the county board, and the minimum funding level is based upon state standard. Similar to many other localities, the county funds above the minimum requirement.

Given the county's solid revenue growth prospects, Fitch expects spending growth to be in line with to marginally above revenues over time.

The county has solid flexibility to adjust major expenditure items. Fixed carrying costs associated with debt service, actuarially calculated required pension costs and OPEB actual spending consume approximately 15% of governmental spending. The county currently funds approximately twice the state-mandated requirement for public education. While the county provides an elevated share of school funding relative to other municipalities in the state and has the capacity to adjust the level of support for public schools, education remains a top priority, and the county does not have plans to reduce funding. Expenditure flexibility is further enhanced by the absence of collective bargaining, which provides a strong legal ability to manage workforce costs.

Long-Term Liability Burden

The county's overall debt and unfunded pension liability is moderate at about 10% of personal income. The metric is roughly split between direct debt of the county and the net pension liability (NPL), with the NPL slightly over half of the burden.

The 2020-2024 capital improvement plan includes approximately $260 million in general government and school projects and is primarily funded with debt. Fitch does not expect debt to pressure the liability burden as population and income growth are likely to be aligned with additional debt issuance and principal is rapidly amortized, with an approximate 80% payout ratio within ten years.

The county offers defined benefit pension plans administered by the Virginia Retirement System, through both agent plans (for general employees and non-teacher employees of the component unit school system) and as a cost-sharing multi-employer plan for teachers. Aggregate pension plan assets (combined and adjusted to Fitch's 6% investment rate of return assumption) covered about 68% of plan liabilities in fiscal 2018. The county's aggregate NPL was estimated at approximately $337 million, or about 5% of personal income, using the Fitch adjustment.

The county also provides OPEB plans for county employees. At the close of fiscal 2018, the net liability for county employees was reported at $122 million, or about 2% of personal income. By fiscal 2021, the county plans to begin setting aside assets in a trust and to reach full funding of the OPEB ARC by fiscal 2023.

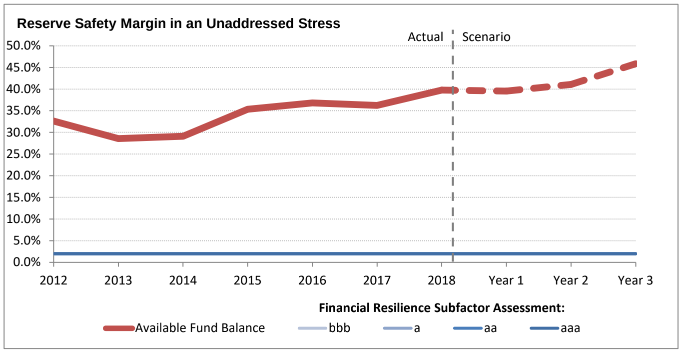
Operating Performance

Given the limited historical revenue volatility and the county's superior inherent budget flexibility, Fitch expects the county to maintain a high level of fundamental financial flexibility throughout economic cycles. For details, see Scenario Analysis, page 4.

The county's conservative budget management allowed for continued ample financial flexibility after the previous recession. Management projections indicate positive results for fiscal 2019, benefiting from conservative estimates and strong revenue performance, with year-end reserve levels expected to remain healthy, consistent with past performance. The adopted fiscal 2020 general fund budget of approximately $142 million is a 9% increase over the prior adopted budget and incorporates a real property tax rate increase (from $0.8330 to $0.8474), a cost of living adjustment, merit increases and new positions. The budget appropriates the use of $5.2 million in general fund balance, whereby $4.2 million is for capital projects, which is consistent with its approach to fund a portion of its capital needs on a pay-as-you-go basis.

Spotsylvania County (VA)

Scenario Analysis



Analyst Interpretation of Scenario Results:

Given the limited historic revenue volatility and the county's superior inherent budget flexibility, Fitch expects the county to maintain a high level of fundamental financial flexibility throughout economic cycles. Available reserves continue to meet the county's conservative policies, including reserves for emergencies and others for economic stress, economic development, and additional amounts in the capital project and the transportation fund.

The county demonstrated its financial resilience and strong budget management through the most recent recession by delaying capital spending, shifting funds to the general fund from available reserves in the capital projects fund as necessary to address budget gaps, reducing the appropriation to the schools, and controlling cost through workforce reduction and freezing salaries.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	3.8%	5.2%
Inherent Budget Flexibility		Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2012	2013	2014	2015	2016	2017	2018	Year 1	Year 2	Year 3
Total Revenues	222,751	223,415	231,150	238,739	247,537	254,463	264,652	262,005	272,066	286,263
% Change in Revenues	-	0.3%	3.5%	3.3%	3.7%	2.8%	4.0%	(1.0%)	3.8%	5.2%
Total Expenditures	212,295	225,905	233,768	231,454	246,904	261,929	273,649	279,122	284,704	290,398
% Change in Expenditures	-	6.4%	3.5%	(1.0%)	6.7%	6.1%	4.5%	2.0%	2.0%	2.0%
Transfers In and Other Sources	6,088	44,237	23,498	79,440	31,478	22,514	27,547	27,271	28,318	29,796
Transfers Out and Other Uses	9,249	48,619	19,124	76,434	25,875	11,472	8,482	8,652	8,825	9,001
Net Transfers	(3,161)	(4,382)	4,374	3,007	5,602	11,041	19,065	18,619	19,494	20,795
Bond Proceeds and Other One-Time Uses	6,017	43,496	11,584	70,419	16,414	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	7,295	(6,872)	1,756	10,292	6,235	3,576	10,068	1,503	6,856	16,659
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	3.4%	(3.0%)	0.7%	4.3%	2.4%	1.3%	3.6%	0.5%	2.3%	5.6%
Unrestricted/Unreserved Fund Balance (General Fund)	60,683	53,924	55,538	65,310	70,910	76,206	86,263	87,766	94,622	111,282
Other Available Funds (GF + Non-GF)	9,630	12,118	14,690	18,630	23,466	22,857	25,989	25,989	25,989	25,989
Combined Available Funds Balance (GF + Other Available Funds)	70,313	66,042	70,228	83,940	94,376	99,063	112,253	113,756	120,612	137,271
Combined Available Fund Bal. (% of Expend. and Transfers Out)	32.6%	28.6%	29.1%	35.3%	36.8%	36.2%	39.8%	39.5%	41.1%	45.8%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

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