

CREDIT OPINION

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 Rate this Research

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Spotsylvania (County of) VA

Update to analysis

Summary

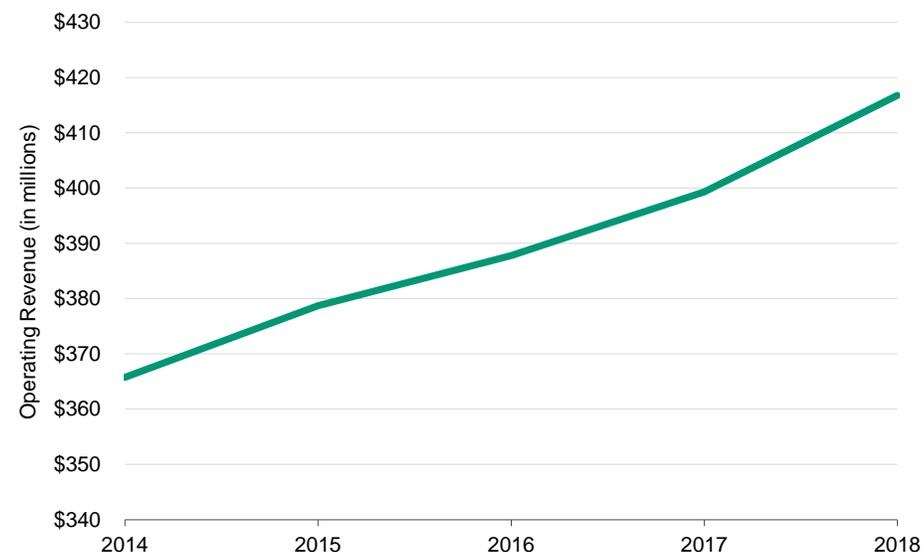
Spotsylvania County (Aa1) will continue to benefit from its location along Interstate 95 approximately 45 miles north of Richmond (Aa2, positive outlook). Modest consecutive full value growth has led to a sound revenue trend and stable financial operations.

The county's debt is elevated when compared to state and national medians, however, continued adherence to comprehensive debt policies and expected modest full value growth will help mitigate debt burden challenges going forward.

We assigned a Aa1 to the county's \$53.4 million General Obligation Public Improvement Bonds on July 26th.

Exhibit 1

Sound revenue growth driven by trends in property tax revenues Property tax revenue accounted for 41% of FY 18 operating revenues



Source: Moody's Investors Service

Credit strengths

- » Large tax base with easy access to nearby employment centers
- » Sound financial management as evidenced by maintenance of healthy reserves

Credit challenges

- » Ability to maintain healthy reserves despite sizeable pay-go program
- » Above average debt burden

Rating outlook

Outlooks are generally not assigned to local government credits with this amount of debt outstanding

Factors that could lead to an upgrade

- » Increased reserves to levels more in-line with Aaa medians
- » Reduced debt burden

Factors that could lead to a downgrade

- » Substantial contraction in tax base and wealth levels
- » Ongoing decline in reserves limiting financial flexibility
- » Significant growth in debt burden

Key indicators

Exhibit 2

Spotsylvania (County of) VA	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$14,331,446	\$14,899,515	\$15,113,694	\$16,013,251	\$16,439,341
Population	126,200	127,691	129,181	130,159	133,783
Full Value Per Capita	\$113,561	\$116,684	\$116,996	\$123,028	\$122,881
Median Family Income (% of US Median)	135.8%	132.7%	131.4%	129.7%	129.7%
Finances					
Operating Revenue (\$000)	\$365,772	\$378,698	\$387,796	\$399,309	\$416,783
Fund Balance (\$000)	\$68,057	\$79,478	\$82,365	\$87,522	\$100,638
Cash Balance (\$000)	\$70,024	\$81,730	\$88,428	\$95,909	\$108,831
Fund Balance as a % of Revenues	18.6%	21.0%	21.2%	21.9%	24.1%
Cash Balance as a % of Revenues	19.1%	21.6%	22.8%	24.0%	26.1%
Debt/Pensions					
Net Direct Debt (\$000)	\$275,949	\$267,607	\$272,350	\$272,497	\$270,301
3-Year Average of Moody's ANPL (\$000)	\$543,143	\$604,939	\$576,325	\$627,795	\$665,117
Net Direct Debt / Full Value (%)	1.9%	1.8%	1.8%	1.7%	1.6%
Net Direct Debt / Operating Revenues (x)	0.8x	0.7x	0.7x	0.7x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.8%	4.1%	3.8%	3.9%	4.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.5x	1.6x	1.5x	1.6x	1.7x

Source: Moody's Investors Service, Spotsylvania County, VA, US Census

Profile

Spotsylvania County is located in northeastern Virginia between the City of Richmond and the District of Columbia. The county's population has grown over 10% in the last 10 years and totaled 133,783 according to the most recent American Community Survey.

The largest industry sectors that drive the local economy are public administration, retail trade, and health services.

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Detailed credit considerations

Sizable tax base with growth potential

Spotsylvania County's sizable tax base will likely see modest growth over the near-term given its favorable location and diverse employment base.

The county has experienced significant population growth of 93% over the last two decades. While this trend has begun to moderate (averaging 1.2% growth annually over the last decade), commercial growth continues to catch up to serve the larger population while home prices continue to increase, with median home sale price increasing by 23% over the past 5 years. The most notable recent development in the county is LIDL's recent \$125 million investment to construct a 921,565 square foot distribution facility, creating approximately 260 jobs, 86 of those jobs being full-time positions with an average salary of approximately \$95,000.

Spotsylvania County is also a growing destination for tourism. According to the Virginia Tourism Corporation, visitors to the County in 2017 generated an estimated \$285 million in overall economic value up \$10 million from the 2016 estimate. Looking ahead, the county anticipates that ongoing road and transportation improvements through the Virginia Department of Transportation as well as the opening of Dominion Raceway will be catalysts for continued economic development.

County unemployment at 2.9% remains below the national median and in line with the state rates for the same period. Additionally, the median family income equals a strong 129.7% of the US level.

Sound financial operations provide flexibility for one-time draws

Despite planned draws on reserves 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.

The fiscal 2019 adopted General Fund budget totaled \$130.5 million, a 4.8% increase over fiscal 2018. The budget included a tax rate of \$0.833, slightly above the equalized rate of \$0.8164. In addition to the policy level requirement of \$9.8 million, the budget included the use of \$8.6 million from fund balance to cash fund one-time capital projects. 3rd quarter estimates indicated a \$2 million positive variance in real estate tax revenue and \$2.2 million in additional revenue to offset cost increases for DSS and CSA programs. Expenditures are expected to exceed budget by \$4.4 million largely related to DSS/CSA programs and increased fire and rescue overtime costs.

The fiscal 2020 adopted General Fund budget totals \$142.3 million; a 9.0% increase over the fiscal 2019 General Fund Budget and includes a \$0.8474 tax rate. In addition to the policy level requirement of \$9.8 million, an additional \$4.2 million is budgeted for one-time capital projects.

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

Spotsylvania's cash position remains sound totaling \$108.8 million or 26.1% of operating fund revenues up from \$95.9 million in fiscal 2017.

Capital plan will pressure debt burden, policies and full value growth will help mitigate challenges

Spotsylvania's above-average debt burden will likely remain manageable, despite a sizeable capital plan. Post-issuance, the county's debt burden will remain level with net direct debt representing a manageable 1.8% of full value. While the county's net direct debt burden is well above the national medians for the Aa1 rating category (0.4% of full value), it approximates similarly rated counties in the Commonwealth (2.0% of full value). Because Virginia counties are responsible for school operations, including capital borrowing, their median direct debt burdens are generally higher than national medians.

The county's 2020 to 2024 capital improvement plan (excluding self-supporting utilities) calls for \$260 million of capital needs. The majority of the plan will fund schools (47%) and general government projects (20%). 44% of the CIP is funded with long-term bond issuance while 31% of the county's CIP is funded with cash.

In 2018, to manage the financial impact of these projects, the county enhanced its debt policies to require a 10-year tax supported debt payout ratio of a minimum of 65% (previously 60%), debt to full valuation of no more than 3% (previously between 3% and 4%) and debt service as a percentage of operating expenditures of no more than 12% (previously 10-12%) with a target of 10% by the end of fiscal 2025.

DEBT STRUCTURE

All of the county's debt is fixed rate and amortized over the long-term.

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). The county's adjusted pension liability, under Moody's methodology for adjusting reported pension data, is \$671 million or a slightly above average 1.71 times operating revenues.

The county and the county school board also provide Other Post-Employment Benefits (OPEB) to employees. In 2016, the county board instituted a phased-in funding plan to reserve 100% of the General Fund's OPEB ARC within 8 years. As of June 30, 2019 the county will have assigned fund balanced of \$4.4 million for General Fund and \$4 million for water and sewer to fund future OPEB costs. The county's total OPEB liability as of June 30, 2018 totaled \$122 million.

The county school board has an irrevocable OPEB trust, as of June 30, 2018 the assets in the trust totaled \$3.4 million. The school board's OPEB liability as of June 30, 2017 totaled \$238.8 million.

Strong operating framework and sound management strengthen credit profile

Virginia's flexible operating framework and the county's strong management and conservative budgeting will continue to support its sound financial position.

Virginia Counties have an Institutional Framework score of "Aaa", which is very strong. The sector's major revenue source of property taxes are not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Fixed costs are driven mainly by debt service and pension costs. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Rating Methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Spotsylvania (County of) VA

Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$16,439,341	Aaa
Full Value Per Capita	\$122,881	Aa
Median Family Income (% of US Median)	129.7%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	24.1%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	11.2%	Aa
Cash Balance as a % of Revenues	26.1%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	9.9%	A
Management (20%)		
Institutional Framework	Aaa	Aaa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.6%	Aa
Net Direct Debt / Operating Revenues (x)	0.7x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	3.8%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.6x	A
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa1

[1] Economy measures are based on data from the most recent year available.

[2] Notching factors are specifically defined in the US Local Government General Obligation Debt Methodology dated December 16, 2016.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs updated for 2018 publication.

Source: Spotsylvania County, VA CAFRs, US Census Bureau, Moody's Investors Service

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