

CREDIT OPINION

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Prince William (County of) VA

Update to credit analysis

Summary

[Prince William County, VA's](#) (Aaa stable) credit profile reflects a sizable and growing tax base in Northern Virginia (Commonwealth of Virginia, Aaa stable) with strong resident income levels benefiting from its proximity to Washington, D.C. (District of Columbia Aaa stable). While the county's fund balance levels are below similarly rated counties nationwide, they are very stable, supported by management's adherence to formal fiscal policies and proactive monitoring of revenues and expenditures. Debt and pensions are manageable. Prudent financial management and sustained economic growth will continue to support the county's sound credit profile.

Credit strengths

- » Sizeable tax base exhibiting steady annual growth
- » Stable reserve and liquidity position
- » Strong management team supported by formal fiscal policies

Credit challenges

- » Debt and pension burdens slightly above Aaa median

Rating outlook

The stable outlook reflects the likelihood that the county's healthy financial position will remain stable due to conservative and proactive budgetary practices and that the county's sizeable tax base will continue to grow and diversify over the medium-term.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Deterioration of fund balance or liquidity resulting in reduced financial flexibility
- » Significant contraction in tax base and weakened resident income levels
- » Material increase in debt burden

Key indicators

Exhibit 1

Prince William (County of) VA

Prince William (County of) VA	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value (\$000)	\$61,335,721	\$63,755,918	\$67,613,073	\$70,811,690	\$76,319,204
Population	450,763	456,749	461,423	466,834	-
Full Value Per Capita	\$136,071	\$139,586	\$146,532	\$151,685	N/A
Median Family Income (% of US Median)	157.5%	155.0%	152.9%	148.4%	N/A
Finances					
Operating Revenue (\$000)	\$1,605,540	\$1,654,031	\$1,757,378	\$1,839,778	\$1,984,360
Fund Balance (\$000)	\$276,815	\$287,707	\$314,454	\$370,963	\$473,572
Cash Balance (\$000)	\$683,859	\$755,548	\$787,160	\$823,628	\$848,370
Fund Balance as a % of Revenues	17.2%	17.4%	17.9%	20.2%	23.9%
Cash Balance as a % of Revenues	42.6%	45.7%	44.8%	44.8%	42.8%
Debt/Pensions					
Net Direct Debt (\$000)	\$1,114,113	\$1,136,788	\$1,060,100	\$1,085,368	\$1,135,638
3-Year Average of Moody's ANPL (\$000)	\$2,827,728	\$3,009,843	\$3,116,105	\$3,139,761	\$3,669,005
Net Direct Debt / Full Value (%)	1.8%	1.8%	1.6%	1.5%	1.5%
Net Direct Debt / Operating Revenues (x)	0.7x	0.7x	0.6x	0.6x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	4.6%	4.7%	4.6%	4.4%	4.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.8x	1.8x	1.8x	1.7x	1.8x

Source: US Census Bureau, Prince William (County of) VA's financial statements and Moody's Investors Service

Profile

Prince William County, VA encompasses 348 square miles in Northern Virginia (Commonwealth of Virginia, Aaa stable), less than 25 miles southwest of Washington D.C. (District of Columbia, Aaa stable). The county is governed under a County Executive form of government. The Board of Supervisors is comprised of eight county residents who appoint a County Executive to oversee day-to-day operations. Prince William County's population totaled 482,204.

Detailed credit considerations

Economy and tax base: large wealthy tax base in DC metro

Prince William County's substantial \$83 billion tax base (fiscal 2022) is slightly larger than the national Aaa median and will continue to benefit from its favorable location, expanding high-end employment base, and strong resident income levels. Total assessed values have grown at a five-year compound annual growth rate of 6.2%, driven by property value appreciation and new developments and is likely to increase in the near term. The local economy continues to diversify and expand, driven by considerable commercial activity focused on information technology, biotechnology, defense and advanced logistics and manufacturing.

The county has historically had low unemployment, the August 2022 unemployment rate of 3.0% is in line with the state (3.2%) and below the national (3.8%) rates for the same period. According to the most recent U.S. Census American Community Survey, resident income levels are strong and are higher than the national median for the rating category with median family income equal to 148.4% of the US in 2021. Full value per capita is also strong at \$172,077 in fiscal 2022.

Financial operations and reserves: sound financial position expected to remain stable

Prince William County's financial position will remain stable given management's conservative budget assumptions, adherence to formal fiscal policies and strong revenue and expenditure flexibility. Fiscal 2021 ended with a total operating fund balance (inclusive

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of the general and school operating funds) of \$494.4 million, or a sound 24.9% of revenues. Fiscal 2021 financial performance was driven by a strong surplus of \$122 million due to strong expenditure controls and approximately \$45.7 million of ARP funds. Available operating fund balance (total less non-spendable and restricted amounts) was slightly lower at 23.9% of combined operating fund revenues. Positively, available operating fund balance has remained steady over the past five fiscal years, averaging 19.3% of revenues. Because Virginia counties' operating funds include school operations, the median operating fund balance is generally lower than national medians.

The county's adopted fiscal 2022 budget incorporated a one cent decrease in the real estate tax rate and a new cigarette tax (\$.40 per pack). Preliminary unaudited results indicate positive revenue and expenditure variances in the general fund which result in another surplus.

The county's adopted fiscal 2023 budget incorporated a decrease in the real estate tax rate from \$1.115 to \$1.03 and a new 4% food and beverage tax estimated to produce \$24.5 million in additional revenues. The county does not anticipate use of the revenue stabilization reserve and will continue to regularly monitor revenues and expenditures during the fiscal year to maintain structural balance.

The county adheres to a formal fund balance policy requiring the maintenance of unassigned general fund balance at 7.5% of revenues, a revenue stabilization reserve at 2%, and a capital reserve with a minimum balance of 2% of the current capital projects fund appropriations included in the Adopted Six Year CIP, and a \$3 million economic opportunity reserve fund. Further, management performs five-year revenue forecasts and five-year strategic plans.

Liquidity

Prince William County's operating funds (inclusive of the general and school operating funds) reported net cash and investments of \$848.4 million at fiscal year-end 2021, or 42.8% of combined operating fund revenues which is slightly above the national Aaa median.

Debt and pensions: above average debt burden

Prince William County's debt burden will remain manageable, despite future debt plans, given management's adherence to formal debt policies, continued amortization and tax base growth. Post-issuance, the county's net direct debt will be approximately 1.36% of fiscal 2022 full value. Because Virginia counties are responsible for school operations, including capital borrowing, the median direct debt burden is generally higher than national medians as a percentage of full value. The county's direct debt burden represents 0.6 times operating revenues, which is on par with the national Aaa median.

While the county's \$1.2 billion capital improvement plan (CIP) for fiscal 2023-2028 includes additional debt issuance, the amounts are relatively modest and are not forecast to materially impact the county's overall debt profile. The school CIP totals an estimated \$666 million through fiscal 2029. Positively, management maintains a separate capital reserve fund for pay-go capital projects with an estimated balance of \$63.5 million at fiscal year-end 2022. This capital reserve fund is maintained in excess of the county's minimum required funded level of 2% of the total CIP, which would be \$24 million based off the fiscal 2023-2028 CIP.

Management adheres to multiple formal debt policies including a cap on tax supported debt at 3% of total estimated market value (assessed value), an 10% cap on debt service to revenue. The county incorporates these policies into their CIP and long-range debt planning models to ensure continued compliance.

Legal security

The special obligation bonds are secured by the county's full faith and credit and unlimited property tax pledge.

Debt structure

The county's outstanding debt is fixed rate and amortizes over the long-term.

Debt-related derivatives

The county is not party to any interest rate swaps or other derivative agreements.

Pensions and OPEB

The county and the county school board participate in the Virginia Retirement System (VRS), a multi-employer defined benefit pension plan administered by the Commonwealth of Virginia. The county also administers the County Supplemental Retirement Plan, a single employer, defined benefit pension plan for certain public safety personnel, as well as a Volunteer Fire and Rescue Personnel Length of Service Award Program (LoSAP). For fiscal 2021, the county's total pension contribution was \$144.9 million, or 7.5% of operating revenues. The county funds its pensions at the contractually required annual contribution amount, which is typically more than the tread water amount (the amount required to prevent the unfunded liability from increasing based on plan assumptions).

Moody's adjusted net pension liability (ANPL) is our measure of a local government's pension burden that uses a market-based interest rate to value accrued liabilities. The county's ANPL has averaged \$3.7 billion over the last three years, representing 1.8 times operating revenues. Our ANPL is based on a discount rate of 2.7%, compared to the discount rate of 6.73% used to calculate the reported net pension liability of \$1.3 billion.

Prince William County also provides county and school board employees with other post-employment benefits (OPEB). The Moody's adjusted net OPEB liability was \$423.1 million at fiscal year-end 2021. The county's total OPEB contribution was \$24.9 million in fiscal 2021.

Total fixed costs (inclusive of pension and OPEB contributions and debt service) account for a manageable 16.1% of revenues in fiscal 2021.

ESG considerations

Prince William (County of) VA's ESG Credit Impact Score is Positive CIS-1

Exhibit 2

ESG Credit Impact Score

CIS-1

Positive

For an issuer scored CIS-1 (Positive), its ESG attributes are overall considered as having a positive impact on the rating. The overall positive influence from its ESG attributes on the rating is material.



Source: Moody's Investors Service

Prince William County's ESG Credit Impact Score is a positive **CIS-1**, reflecting strong social and governance risks, and neutral-to-low exposure to environmental risks, which supports the county's credit rating, resilience and capacity to respond to shocks.

Exhibit 3

ESG Issuer Profile Scores

ENVIRONMENTAL

E-2

Neutral-to-Low



SOCIAL

S-1

Positive



GOVERNANCE

G-1

Positive



Source: Moody's Investors Service

Environmental

The county's E issuer profile score is neutral to low (**E-2**), reflecting neutral to low exposure to environmental risks across all categories, including physical climate risk, natural resources management, and waste and pollution.

Social

The S issuer profile score is positive (**S-1**). The county has strong in-migration trends. Labor and income are well-above average, educational attainment is positive, and most of the population has access to basic services.

Governance

The county's G issuer profile score is positive (**G-1**), reflecting strengths in the institutional structure. The score also considers the county's policy credibility, transparency, and strong management and budgeting practices.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt 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 4

Prince William (County of) VA

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$82,976,178	Aaa
Full Value Per Capita	\$172,077	Aaa
Median Family Income (% of US Median)	148.4%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	23.9%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	10.2%	Aa
Cash Balance as a % of Revenues	42.8%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	9.1%	A
Management (20%)		
Institutional Framework	Aaa	Aaa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.4%	Aa
Net Direct Debt / Operating Revenues (x)	0.6x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	4.4%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.8x	A
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aaa

[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.

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

Source: US Census Bureau, Prince William County, VA's financial statements and Moody's Investors Service

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