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Ratings

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Summary:

Prince William County, Virginia Virginia Public School Authority; Appropriations; General Obligation

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Credit Profile		
US$42.99 mil spl oblig sch fin bnds (Prince William Cnty) ser 2022 dtd 11/10/2022 due 10/01/2042		
Long Term Rating	AAA/Stable	New
Prince William Cnty COPs		
Long Term Rating	AA+/Stable	Affirmed
Prince William Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Prince William Cnty Indl Dev Auth, Virginia		
Prince William Cnty, Virginia		
Prince William Cnty Indl Dev Auth (Prince William Cnty) fac rev & rfdg bnds (Prince William Cnty) (County Facilities Proj)		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the Virginia Public School Authority's (VPSA) $42.99 million series 2022 special obligation school financing bonds issued on behalf of Prince William County.
- At the same time, we affirmed our 'AAA' rating on the county's existing general obligation bonds and bonds issued through the VPSA and our 'AA+' rating on the county's existing appropriation debt.
- The outlook is stable.

Security

The series 2022 bonds are limited obligations of the authority and secured solely by principal and interest payments on the local school bonds issued by the county and held by the authority. The local school bonds are a general obligation of the county, secured by revenue from ad valorem taxes, which are unlimited as to rate or amount. The authority assigned all of its rights to receive payments on the local school bonds to the state treasurer, who will act as paying agent on the bonds. Bond proceeds will be used to finance various school-related capital projects.

Existing general obligation (GO) bonds are also secured by the county's full-faith-and-GO credit pledge. The county's appropriation-backed debt outstanding is payable from lease payments by Prince William County under certain lease agreements. The appropriation-backed debt outstanding is rated based on the application of our criteria, "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Nov. 20, 2019 on RatingsDirect). We rate the obligations one notch below the GO rating on the county to reflect the appropriation risk associated with lease payments. Although lease payments are subject to annual appropriation, the county pledges its best effort to seek the appropriation's inclusion in the annual budget.

Credit overview

Prince William County's growing and diversifying economy, historically sound financial operations (especially during recent pandemic-related fiscal pressures), and maintenance of very strong reserves underpin the rating. In addition, the county's policies and practices help it maintain fiscally balanced operations and the ability to fund its robust capital needs without significantly affecting its performance. We believe management's conservative financial assumptions and spending discipline will result in ongoing budgetary stability and maintenance of very strong reserves.

The rating reflects our view of the county's:

- Very strong local economy with access to the broad and diverse Washington, D.C. metropolitan statistical area (MSA);
- Well-embedded policies and practices, with very strong institutional framework;
- Strong performance maintaining very strong reserve and liquidity levels; and
- Manageable fixed cost burden, with minimal pressure on its budget.

Environmental, social, and governance

We have evaluated the county's environmental, social, and governance factors and have determined that they are neutral in our credit analysis. The county's governance is supported by long-term planning initiatives that management undertakes to mitigate risk to its financial operations and infrastructure. The county's environmental risks are limited; management has established an Office of Sustainability and its appropriation of funding for a sustainability plan further supports the county's resiliency and preparedness measures.

Outlook

The stable outlook reflects our view of the county's history of strong performance and robust planning, as well as its economic diversity, which benefits from its proximity to Washington, D.C.

Downside scenario

In the unlikely event that Prince William County were to use reserves to bridge a long period of imbalance between revenue and expenditures, leading to substantially lower flexibility, we could lower the rating.

Credit Opinion

Growing population, with ongoing residential and commercial developments

Prince William County is located in northern Virginia, about 25 miles southwest of Washington, D.C. The region's economic expansion has spurred significant population growth. The county is now the commonwealth's second-most populous and has a generally more affordable cost of living than some of its neighboring counties. The strength of the economy is based on the stabilizing influence of the Marine Corps Base Quantico and Fort Belvoir, located just outside the county's limits. In addition, Prince William County continues to diversify its employment base, with recent development in data centers, high-tech, and bio-tech industries as well as advanced logistics and manufacturing facilities. With this growth, the county is continuing to transition from rural and agricultural to suburban and residential. It also continues to see investment in new businesses; since January 2021, 22 new business have been created, along with 21 expansions, resulting in $1.6 billion in capital development. With this significant and ongoing development, residential growth continues, further supporting our opinion that the local economy will remain very strong.

Principles of Sound Financial Management (PSFM), established in 1988, guide management policies and practices

The PSFM are updated every four years. Below are the county's financial policies:

- Quarterly reporting of budget-to-actual results to the board of supervisors;
- Five-year budget plan, annually adopted by the board of county supervisors and integrated with the capital improvement plan (CIP). The five-year budget plan must be balanced in all years without appropriating the unassigned general fund balance;
- Annually updated six-year CIP that identifies all funding sources;
- Formal debt management policy that delineates limiting debt service for tax-supported debt to 10% of annual revenues and total bonded debt to 3.0% of net assessed value (AV);
- Formal investment policy that mandates quarterly reporting to the governing body; and
- Formal fund balance policy requiring maintenance of the unassigned general fund balance at 7.5% of general fund revenues, a revenue stabilization fund at 2.0% of general fund revenues, and a capital reserve, with a target balance for a minimum of 2% of the current capital projects fund appropriation included in the county's adopted six-year CIP.

In addition, we note the steps that the county is taking to mitigate cyber security risks and the very strong institutional framework for Virginia counties.

Performance remains strong, with very strong liquidity levels and flexibility

We adjust the county's audited results to reflect recurring transfers in and out of the general fund, including some transfers to enterprise funds, and remove expenditures financed with bond proceeds to fund one-time capital projects. The county has an excellent history of conservative budgeting and forecasting practices, supported by well-adhered-to fiscal policies. General fund revenue exceeded budget by $42.0 million in fiscal 2021, while expenses came in at roughly 3.8% lower than in the revised budget. The budget is primarily supported by property taxes (about 70%), sales taxes (6%), and other taxes (6%).

Fiscal year 2022 is anticipated to end with a positive result as revenues continue to rebound from the impact of the pandemic. Additional revenue in the latter half of fiscal 2022 includes a 40 cent cigarette tax. For fiscal 2023, a 4% food and beverage tax, established on July 1, 2022, provides a further revenue source for the county as it continues to diversify revenues to insulate itself from short-term fluctuations. The fiscal 2023 budget of $1.47 billion includes a real estate tax rate of $1.03, which is an 8.5 cent decrease from 2022 levels. Despite the lower tax rate, revenue is still anticipated to grow as the county continues to see property tax revenue growth. We anticipate that, moving forward, the county's performance will remain strong as it maintains strong budgetary controls.

Total available reserves include the assigned and unassigned portions of the general fund balance as well as the committed portion, which contains the revenue stabilization reserve, equal to 2% of general fund revenues, and reserves for capital. In addition, there are reserves available in the fire levy fund that are legally available to cover public safety costs in the general fund, with board approval. Management also cites reserve set-asides in other funds that provide additional financial flexibility. Management has confirmed it has no contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. We do not anticipate significant changes in liquidity levels moving forward.

Manageable debt burden

Following this issue, the county will have about $1.1 billion in net direct debt outstanding. Despite this sizable amount, the county keeps debt service costs manageable by relying significantly on pay-as-you-go capital spending. The unaudited fiscal 2022 capital reserve balance is estimated at $63.5 million, providing ample future flexibility.

The county's CIP identifies $1.9 billion worth of projects, with $910 million allocated for various transportation projects, followed by $793.5 million for education projects. Despite the sizeable plan, the county anticipates that a significant portion will be offset by grants, pay-go funding, and state and federal aid. Medium-term debt plans center on a recently approved referendum for $355 million for transportation and $41 million for parks projects. Management anticipates that the county will only issue $310.8 million of the authorized $355 million for its transportation projects, with the balance coming from other funding sources. The county expects to issue the authorized debt incrementally between fiscal years 2023 and 2028. In total, when combining the referendum debt and other county capital projects, the county plans to issue roughly $77.4 million in additional debt in the next two fiscal years. This figure excludes school-related debt plans that total an additional $153.9 million. Nevertheless, we do not expect the county's debt profile to materially deteriorate given rapid amortization of existing debt and sizable pay-as-you-go spending.

Pension and other postemployment benefit (OPEB) highlights

We do not view pension and OPEB liabilities as an immediate source of credit pressure, because required contributions currently make up a modest percentage of expenditures. If required contributions were to escalate during the next few fiscal years, we believe the county could easily absorb higher costs due to its sizable reserves and the flexibility afforded by its large pay-as-you-go capital program.

As of June 30, 2021, the county participated in the following retirement plans:

- County and school board employees participate in the Virginia Retirement System (VRS): 85.2% funded, with a net pension liability of $207.5 million (2021 information unavailable);
- A supplemental pension plan for public safety employees: 119.06% funded, with a net pension asset; and
- A length-of-service award program for volunteer firefighters: 67.16% funded, with a net pension liability of $9.5 million.

The county also offers OPEB to its employees and established a trust fund in 2009 that contained $128.6 million as of June 30, 2021. Across county plans, the OPEB liability is $83.3 million, and the county maintains a funding level of 84.21%, while the school plan covered by the master trust is over-funded at 136.01%.

Ratings above the sovereign

Prince William County's GO bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. The county's revenue is predominantly locally derived, with most of general fund revenue derived from local property taxes. (See "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013.)

Prince William County, Va.: Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	125.5			
Market value per capita ($)	174,245			
Population		476,203	475,005	470,275
County unemployment rate (%)		3.9		
Market value ($000)	82,976,178	76,319,204		
Ten largest taxpayers % of taxable value	3.9			
Strong budgetary performance				
Operating fund result % of expenditures		2.7	2.7	1.4
Total governmental fund result % of expenditures		2.9	3.5	(0.9)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		22.9	20.9	18.3
Total available reserves ($000)		295,846	259,224	221,729
Very strong liquidity				
Total government cash % of governmental fund expenditures		56.9	67.4	62.8
Total government cash % of governmental fund debt service		592.1	653.9	593.5
Very strong management				
Financial Management Assessment	Strong			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		9.6	10.3	10.6
Net direct debt % of governmental fund revenue	68.7			
Overall net debt % of market value	1.4			
Direct debt 10-year amortization (%)	73.4			
Required pension contribution % of governmental fund expenditures		3.2		
OPEB actual contribution % of governmental fund expenditures		0.6		
Very strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of October 11, 2022)		
Prince William Cnty Indl Dev Auth, Virginia		
Prince William Cnty, Virginia		
Prince William Cnty Indl Dev Auth (Prince William Cnty) facs rev and rfdg bnds (Prince William Cnty) ser 2020A dtd 10/29/2020 due 10/01/2040		
Long Term Rating	AA+/Stable	Affirmed
Virginia Pub Sch Auth, Virginia		
Prince William Cnty, Virginia		
Virginia Pub Sch Auth (Prince William Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Virginia Pub Sch Auth (Prince William Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed

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