



# PRINCE WILLIAM COUNTY

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## Internal Audit Report: Debt Capacity Assessment

Prince William County, Virginia

April 16, 2026



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## TRANSMITTAL LETTER

April 16, 2026

The Board Audit Committee of  
Prince William County, Virginia  
1 County Complex Court  
Prince William, Virginia 22192

Pursuant to the internal audit plan for calendar year ("CY") 2025 for Prince William County, Virginia ("County" / "PWC"), approved by the Board of County Supervisors ("BOCS"), we hereby present the internal audit assessment of debt capacity. We will be presenting this report to the Board Audit Committee of Prince William County at the next scheduled meeting on May 19, 2026.

Our report is organized into the following sections:

<b>Executive Summary</b>	This provides a high-level overview of the debt capacity process and the objective of this review.
<b>Background</b>	This provides an overview of the debt capacity and monitoring process and relevant background information.
<b>Analysis</b>	This section contains an analysis of the current debt environment against using existing debt metrics.
<b>Objectives and Approach</b>	The objective of this review is expanded upon in this section, as well as a summation of the various phases of our approach.
<b>Assessment Results and Considerations</b>	This section includes a description of the opportunities for improvement that were identified through our analysis. Process considerations have been provided for Management's review.
<b>Appendix</b>	This section contains additional information regarding the County's annual debt cycle and timeline.

We would like to thank the staff and all those involved in assisting our firm with this internal audit assessment.

Respectfully Submitted,

*RSM US LLP*

**RSM US LLP**



## EXECUTIVE SUMMARY

### Background

Debt capacity reflects the County's ability to issue and manage debt within applicable legal requirements and internally adopted policy limits. The County's debt capacity framework is governed by its Principles of Sound Financial Management ("PSFM") and administered by the Finance Department. Debt capacity monitoring incorporates financial, revenue, and debt information from multiple sources and is supported by external financial advisory services.

Under Virginia law, counties are generally required to obtain voter approval prior to issuing general obligation ("GO") bonds, with the exception of GO bonds issued through the Virginia Public School Authority ("VPSA") to finance Prince William County Schools ("PWCS") projects. Although the Virginia Constitution establishes a debt limit equal to 10 percent of assessed property value, this limit applies to cities and towns unless a county elects city status for bonding purposes. The County has not made this election and is therefore not subject to a fixed constitutional debt limit. Instead, County debt limits are governed by internally adopted PSFM policies, which include metrics related to bonded debt to assessed value and tax-supported debt service to revenue and expenditures.

The County primarily issues debt to finance capital projects by decision of the Board of County Supervisors ("BOCS") as part of the County's Capital Improvement Program ("CIP"). Independently, PWCS determines which school capital projects to finance with debt through PWCS' own Capital Improvement Program ("PWCS CIP"). In practice, PWC primarily issues GO bonds to VPSA, and subject-to-appropriation debt through other conduits (e.g., the County's Industrial Development Authority). During CIP formulation, debt service estimates are developed for proposed capital projects, while existing debt details are maintained in the County's debt management system of record. Oversight of debt capacity includes annual reporting to the Debt Oversight Committee, ongoing engagement with credit rating agencies, and periodic evaluation of compliance with PSFM limits. *Based on current and projected metrics, the County remains within its internally adopted debt capacity thresholds.*

### Overall Summary / Highlights

The assessment and considerations detailed in the pages that follow represent only the instances where opportunities were noted, and do not detail the instances where testing resulted in no reportable observations. For each of the five (5) considerations, we discuss the relevant risks, which may include financial, operational, and/or compliance, as well as public perception or 'brand' risks.

### Objectives and Approach

The objective of this internal audit assessment was to assess the management and monitoring of the County's debt capacity, including compliance with existing policies, procedures, state and local government regulations, and applicable law. Aspects of the assessment included: reviewing the methods and assumptions used for forecasting cash flows and debt, calculating key debt ratios, evaluating the processes for monitoring and reporting compliance related to internally adopted PSFM debt policy limits, reviewing the adequacy, documentation, and adherence to management's debt policies and procedures, and analyzing the robustness of stress testing and scenario planning exercises used to evaluate financial resilience. Our procedures included the following:

- Reviewed existing financial models and forecasts related to PWC debt instruments and reviewed calculations for accuracy and reasonableness of methodologies implemented.
- Reviewed and confirmed sources of key inputs to projection and debt capacity models.
- Reviewed underlying model inputs and assumptions, including historical trends and analysis.
- Reviewed and analyzed stress testing and scenario analyses performed in relation to cash flow projection models and debt capacity models to assess robustness and reasonableness of approach.
- Reviewed processes related to updating, maintaining and reviewing financial forecasts and compliance calculations.
- Reviewed PWC debt performance against credit rating agency metrics and assessed controls related to current debt and credit rating monitoring.

Analysis was performed from December 2025 to March 2026.

***We would like to thank all County team members who assisted us throughout this review.***



## BACKGROUND

### Overview

The Government Finance Officers Association (“GFOA”) describes debt capacity as a measure of a government’s ability to take on debt, articulating further that debt capacity is used to assess the affordability and risk of potential debt, and to help confirm borrowing decisions are made in the best interest of stakeholders. Additionally, the GFOA describes debt management as the set of policies and practices that govern how a government evaluates, issues, manages, and complies with debt obligations over time.

The County’s debt capacity methodology is guided by the Principles of Sound Financial Management (“PSFM”) and is monitored by the Finance Department. As part of its efforts to minimize cost of debt, the County prioritizes the monitoring and maintenance of its AAA credit rating, which was awarded by Fitch, Moody’s, and S&P Global (the “Credit Rating Agencies”) in 2004, 2010, and 2011, respectively, with most recent reviews of the County being completed by the Credit Ratings Agencies in September and October of 2025. To assist in the continuous monitoring and management of the County’s debt, fiscal health, and credit rating, the County frequently engages PFM Financial Advisors (“PFM”) for credit and market assessments (i.e., peer benchmarking, coverage of credit rating agencies, and market updates), assistance in determining sizing and maturities of debt issuances, and assistance in preparation of the County’s annual Fiscal Health Outlook Report. PFM is a nationally recognized, independent municipal advisor with a fiduciary duty to state and local governments, with decades of experience advising counties on credit strategy, rating agency engagement, and the structuring, pricing, and execution of bond issuances across all major debt types.

This report includes a description and evaluation of the County’s regulatory and policy framework surrounding debt capacity, debt planning and issuance process, debt monitoring practices, external debt market considerations, debt capacity governance and oversight practices, and evaluation of the County’s debt capacity in respect of policy limitations.

### Regulatory and Policy Framework

Under Virginia law, counties are generally required to obtain voter approval prior to issuing General Obligation (“GO”) bonds. While Virginia’s Constitution establishes a debt limit equal to 10% of assessed property value, this limit applies to cities and towns, not counties, unless a county elects to be treated as a city for bonding purposes. PWC has not elected city status and, therefore, is not subject to a fixed constitutional debt limit. The County is governed by Virginia law including the general provisions of Title 15.2 of the Code of Virginia, which require voter referendum approval for the issuance of County GO bonds, with the exception of GO bonds issued through the VPSA to finance PWCS capital projects (which do not require voter referendum). The County’s debt portfolio also includes subject-to-appropriation debt (e.g., lease revenue bonds and certificates of participation) issued through other conduits (e.g., the County’s Industrial Development Authority). Unlike GO bonds, subject-to-appropriation debt is not backed by the County’s full faith and credit, and as a result, is rated one notch below the County’s GO bond rating by Credit Rating Agencies. In practice, PWC primarily issues GO bonds to VPSA, and subject-to-appropriation debt through other conduits (e.g., the County’s Industrial Development Authority).

Given the above, the County’s debt capacity methodology is guided by County Code Section 2-1, applicable Virginia State Code, and the PSFM, which details internally adopted limitations to govern the County’s debt level. The purpose of the internal limitations is to prioritize financial stability, debt affordability, and to maintain strong credit rating standards to minimize the cost of debt. The County’s adopted limitations and key debt capacity metrics include<sup>1</sup>:

1. *Total bonded debt outstanding should be no greater than 3% of the total net assessed valuation of taxable real and personal property (“Bonded Debt to Assessed Value”)*
2. *Annual net tax-supported debt service expenditures should be no greater than 10% of total annual revenues (“Tax-Supported Debt Service to Total Revenues”)*
3. *Annual net tax-supported debt service expenditures should be no greater than 13% of the County’s general fund and fire levy expenditures and transfers (“Tax-Supported Debt Service to General and Fire Levy Expenditures”).*

<sup>1</sup> The Tax-Supported Debt Service to General and Fire Levy Expenditures debt capacity metric was adopted by the County and brought into the PSFM in July 2024



## BACKGROUND (CONTINUED)

### Regulatory and Policy Framework (Continued)

The County's PSFM includes additional debt management policies which contribute to effective management of debt capacity, including:

- Debt financing will not be used to fund current operations.
- Bond maturities of no greater than 20 years, not exceeding an asset's useful life.
- The average weighted maturities for GO Bonds and annual appropriation debt should be less than or equal to 10.5 years.
- Variable rate debt is only issued after careful review.
- Tax-supported bonds will, whenever feasible, be issued on a competitive basis unless market conditions or the nature of the financing favors negotiated sales.
- GO Bond issues and annual appropriation debt, whenever possible, will be structured to allow an equal principal amount to be retired each year over the life of the issue, producing a total debt service with an annual declining balance.
- As market opportunities arise, the County may refund certain maturities of its bonds if doing so is expected to deliver savings.

The County's debt management policies and practices support effective management of debt capacity and long-term obligations. For example, the County generally structures bond issuances using level principal repayment, which accelerates principal reduction and helps limit interest costs over the life of the debt. Compared to level debt service structures, level principal amortization reduces outstanding principal more quickly and increases debt capacity availability earlier in the repayment period. Since FY 2021, the principal portion of the County's annual debt service has exceeded \$100 million each year, with a similar level projected for FY 2026.

In addition, the County's debt management approach allows for the pursuit of refunding opportunities when market conditions are favorable. In these transactions, the County does not extend debt maturities, preserving the original payoff timeline while reducing debt service costs through lower interest rates. Together, these practices contribute to strong management of debt capacity and long-term financial commitments.

### Debt Planning & Issuance

The County issues debt for the purposes of financing capital projects, such as the acquisition, construction, or renovation of schools, public facilities, infrastructure, and land. The type of debt issued by the County primarily consists of GO Bonds, lease revenue bonds, and appropriation-backed obligations, with some special revenue-backed issues. As of June 30, 2025, over 85% of the County's debt consists of GO Bonds backed by the County's taxing power, including school bonds issued to the Virginia Public School Authority ("VPSA"). In a typical transaction related to debt issuance for school purposes, VPSA sells bonds (pooled and standalone) and uses the proceeds to buy the County's school GO bonds. For certain projects, the County also utilizes annual-appropriation debt, such as lease revenue or certificate of participation bonds issued through the County's Industrial Development Authority ("IDA"), which typically carry a credit rating one notch below GO Bonds due to appropriation risk.

The process of issuing debt by the County begins during the long-term budget planning process, through the Six-Year Capital Improvement Program ("CIP"). The County's annual CIP development process begins in the Fall, as agencies submit proposals for new capital projects to the County's Office of Management and Budget ("OMB"). Submitted proposals, which include estimated project costs, timeline, scope, and alignment with the County's strategic goals, are initially reviewed by OMB to assess each project's budgetary needs and alignment with financial constraints and program priorities. Between December and January, projects are reviewed and discussed with Executive Management to confirm feasibility, prioritization, and alignment with the County's long-term objectives. For projects identified as eligible to move forward, OMB collaborates with County agencies to estimate spending by fiscal year, which is then provided to Debt Management staff within the Finance Department ("Debt Management Staff") to estimate timing, sizing and type of debt issuances needed to support the expenditures. The CIP identifies funding sources (i.e., bond proceeds, cash-to-capital, proffers, etc.) for each capital project, and debt service estimates are prepared by Debt Management Staff through utilization of a debt capacity model (the "Debt Capacity Model") developed by PFM. The County maintains existing debt and projected debt details, including outstanding balances and debt service amounts within the Debt Capacity Model.



## BACKGROUND (CONTINUED)

### Debt Planning & Issuance (Continued)

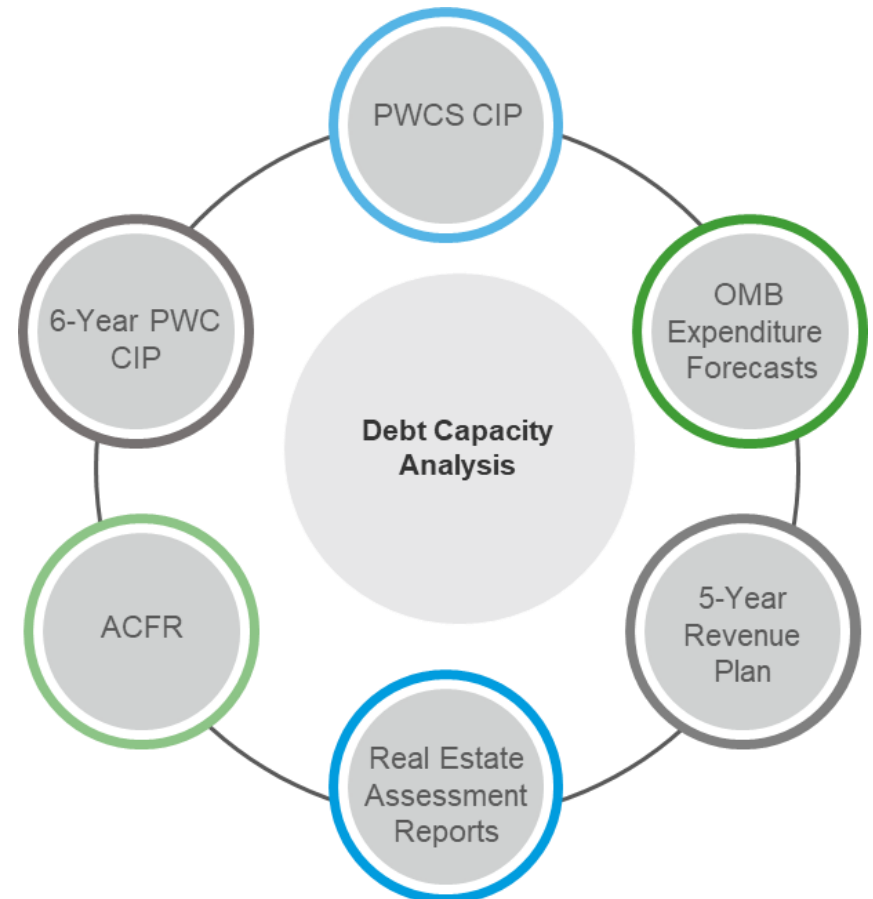
Debt service estimates on forward-looking CIP spend (and respective issuances) form part of the County's projected debt service expenditure, with the other component being debt service expenditure from existing and outstanding debt issues. Total forward-looking debt service expenditure is monitored by the County and is the numerator input to the Tax-Supported Debt Service to Total Revenues and Tax-Supported Debt Service to General and Fire Levy Expenditures debt capacity metrics.

The proposed CIP is presented to the Board of County Supervisors ("BOCS") in February for initial consideration. The Planning Commission and the BOCS engage in working sessions and public hearings as part of the annual budget process, with final adoption and approval occurring in April. According to the CIP schedule, Debt Management Staff determine the optimal time to issue debt for capital projects based on cash flow needs and market considerations. Prior to debt issuance and in advance of any meetings with Credit Rating Agencies, the County consults with PFM to perform an informal preliminary credit assessment and to assist in determination of debt sizing and maturities. Additionally, meetings are held with Credit Rating Agencies, which provides a feedback mechanism for the County to assess potential implications of planned issuances. The ultimate issuance and sale of bonds require BOCS authorization through the passing of a resolution, and new money GO bonds generally require voter referendum approval unless issued to the VPSA.

### Debt Planning & Issuance: Prince William County Schools ("PWCS")

Similar to the County, the process of issuing school debt begins during the long-term budget planning process, through the PWCS Five-Year CIP ("PWCS CIP"). The PWCS CIP is developed based on enrollment forecasts and student / population growth within the County and is itemized by projects and funding type (e.g., funded through general fund or debt-funded). The forecasts and school construction / renovation details are discussed within the PWCS CIP, which is published on PWCS' website annually. PWCS funds capital projects through a combination of bond proceeds and cash contributions from available fund balances. Once it is determined bond proceeds are needed for PWCS projects, the County's Finance Department is notified and will work with PWCS' Finance Department to identify the proposed bond issuance amount (typically issued to VPSA).

Once the PWCS CIP is approved by the School Board, it is submitted to the County's OMB for inclusion in the annual budget. The BOCS reviews the school division's proposed budget and PWCS CIP. The school division's proposed budget is approved and partly funded through the County, If PWCS' proposed budget is not fully funded, a revision process begins which could result in changes to the proposed PWCS CIP, such as delaying projects or approving less costly proposals for projects in the proposed PWCS CIP.





## BACKGROUND (CONTINUED)

### Systems and Debt Monitoring

The County's existing debt details are maintained in a system of record known as Debt Manager. Following the issuance of new bonds, PFM provides a detailed file with the bond issuance structure, which the County Debt Management Staff will import into Debt Manager. Within Debt Manager, projects are linked to issues and proceeds, allowing for project-level or issue-level debt service reporting. Debt Manager enables detailed debt reporting for the County and is maintained for new issuances, maturity payments, refunding, and specific debt terms (e.g., callable debt details, key dates, etc.). Through annual maintenance of key inputs to the County's debt capacity metrics, calculating key metrics can be performed on an ad hoc basis using readily available data from the most recent ACFR, Debt Manager, the Debt Capacity Model, the five-year Adopted Revenue plan, the OMB-prepared five-year expenditure forecast, and the most recent Real Estate Assessment Report. Additionally, as can be observed in the evaluation of debt capacity below, and based on the County's financial position as of June 30, 2025, the risk of breaching the County's self-imposed debt capacity limitations remains distant.

### Oversight & Governance

Oversight and governance of the County's debt capacity is guided by Policy V, Debt Management, of the PSFM. As stated in the PSFM, the BOCS reviews and approves the PSFM by resolution every four years, and the Chief Financial Officer / Director of Finance reviews the PSFM on an annual basis to determine if the financial policies require update by the BOCS in advance of the four-year review cycle. Additionally, on an annual basis, a written report concerning the County's compliance with the PSFM is delivered to the BOCS by the County Executive.

Incremental to the PSFM, the County established a Debt Oversight Committee in 2017, which consists of internal stakeholders and representatives, including the County Executive, Director of Finance, Division Chiefs, Treasury Management, and members of OMB and PWCS. Presentations to the Debt Oversight Committee occur on an annual basis, which include reporting on the County's outstanding debt portfolio, upcoming debt issuances, debt service estimates, historical and forward-looking debt capacity metrics, arbitrage status, the municipal market, and recent reports from PFM and Credit Rating Agencies, including changes in methodologies and differences in definitions used by Credit Rating Agencies. If risks are identified as part of the credit assessments from PFM or through discussions with credit rating analysts, the Finance Department may have meetings with Executive Management, OMB, and the Schools Division to convey the information, discuss potential impacts, and to consider next steps, which could include a review of the PSFM and scheduling future committee meetings. Additionally, various methods are used by the BOCS to manage debt issuance, including using cash-to-capital to fund all or a portion of a project and deferring projects from becoming part of the CIP or approving more cost-effective design proposals, as required.



## ANALYSIS

### Evaluation of Debt Capacity

Insight into the County's debt capacity can be drawn from evaluating its net tax-supported debt and debt service amounts against internally set PSFM limitations.

#### *Tax-Supported Debt & Total Bonded Debt:*

Net tax-supported debt includes GO Bonds (i.e., for General, School, and Park), IDA Revenue Bonds and IDA Loans, Literary Fund Loans, Real Property Leases (i.e., for General, Adult Detention Center, and Park), and Equipment Leases, however, excludes debt supported by business-type activities such as certain parks and recreation revenue bonds. Total bonded debt includes GO Bonds (excluding unamortized GO bond premiums), IDA Revenue Bonds and IDA Loans, and Literary Fund Loans.

According to the County's FY24 ACFR, as of June 30, 2024, total outstanding net tax-supported debt was \$1.144 billion, including \$1.070 billion of outstanding bonds payable, \$26.01 million of capital debt, \$35.89 million of lease liabilities, and \$12.10 million of subscription liabilities (Per Table 11 and Schedule 42 of the FY24 ACFR). Per the FY25 ACFR, as of June 30, 2025, total outstanding net tax-supported debt was \$1.276 billion (representing a \$132 million increase from prior year), including \$1.122 billion of outstanding bonds payable, \$93.46 million of unamortized GO bond premiums, \$17.85 million of capital debt, \$31.47 million of lease liabilities, and \$10.35 million of subscription liabilities (Per Table 11 and Schedule 42 of the FY25 ACFR). The outstanding bonds payable figure includes school GO bonds issued to VPSA for PWCS capital projects. As described in the Background section, school bonds are obligations of the County as obligor; however, the volume and timing of school-related debt issuances reflect capital decisions made by the PWCS School Board, a legally independent component unit with its own elected governance structure. As a result, County management's ability to directly reduce or defer school debt issuances may be limited in practice.

According to documentation provided by Debt Management staff, as of November 14, 2025, the County's total outstanding bonds payable amounted to \$1.201 billion following new bond issuances of \$154.64 million and principal paydown on existing bonds of \$93.95 million from July 1, 2025, to November 14, 2025. Additionally, from November 14, 2025, to June 30, 2026, the remaining principal paydown expected on existing bonds is \$10.54 million, resulting in an expected outstanding bonds payable amount of \$1.191 billion as of June 30, 2026, which for the purposes of the below analysis, we have assumed to be the Total Bonded Debt as of June 30, 2026 ("FY26E") for illustrative purposes only.

#### *Tax-Supported Debt Service:*

Debt service on net tax-supported debt includes debt service expenditures of the General Fund, Special Revenue Funds (excluding the PRTC lease), Capital Projects Funds, and the School Board and Adult Detention Center Component Units. In FY25, based on the ACFR, debt service on net tax-supported debt was \$158.75 million, of which, \$113.1 million and \$45.7 million were related to principal and interest, respectively, representing an increase of \$16.9 million (11.9% increase) over FY24, where net tax-supported debt service was \$141.8 million, of which, \$100.0 million and \$41.8 million were related to principal and interest, respectively.

According to a summary provided by Management and the Debt Capacity Model, total debt service is estimated to be \$151.91 million in FY26E, from which, we have calculated the principal and interest portions to be approximately \$104.48 million and \$47.43 million, respectively.



## ANALYSIS (CONTINUED)

### Evaluation of Debt Capacity (Continued)

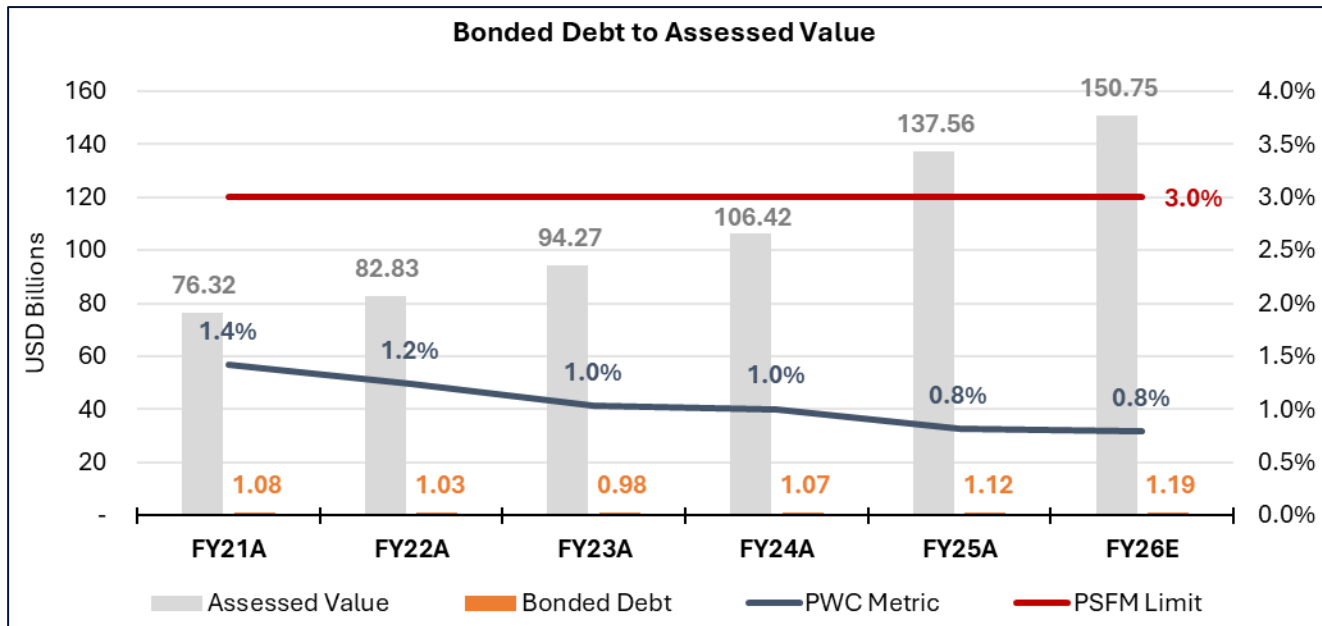
#### Bonded Debt to Assessed Value

Based on the 2025 Annual Report from the Real Estate Assessments Office, the assessed valuation of taxable real property was \$106.8 billion in 2024 (value basis for FY25). Additionally, based on the FY25 ACFR, the assessed valuation of taxable personal property was \$30.8 billion in FY25, resulting in a total assessed valuation of taxable real and personal property of \$137.6 billion. Applying the PSFM limitation of 3% to the total assessed valuation of \$137.6 billion results in a total bonded debt limit of \$4.13 billion as of June 30, 2025, implying incremental debt capacity of \$3.00 billion as of June 30, 2025.

#### PSFM Limitation:

Per policy 5.02 (e), total bonded debt will not exceed three percent (3%) of the net assessed valuation of taxable real and personal property in the County.

Looking forward to FY26E, the 2025 Annual Report from the Real Estate Assessments Office states an assessed valuation for taxable real property of \$119.7 billion in 2025. While assessed valuation of taxable personal property is to be determined, assuming no growth from FY25 ACFR amounts, the total assessed valuation of taxable real and personal property could be \$150.8 billion in FY26E. Applying the PSFM limitation of 3% to a total assessed valuation of \$150.8 billion results in a potential tax-supported debt limit of \$4.52 billion as of June 30, 2026, implying potential incremental debt capacity of \$3.33 billion as of June 30, 2026. The chart below outlines the County's Bonded Debt to Assessed Value metric from FY21A to FY25A, and FY26E<sup>2</sup>:



<sup>2</sup> Source: ACFR's for FY21A to FY25A, and FY25 ACFR, Debt Capacity Model, 2025 Real Estate Assessment Report, and assumptions for FY26E.



## ANALYSIS (CONTINUED)

### Evaluation of Debt Capacity (Continued)

#### *Bonded Debt to Assessed Value (Continued)*

As of June 30, 2025, the County's bonded debt increased by 10.2% since FY21. Following declines in FY22 and FY23, bonded debt increased \$146.3 million (excluding unamortized GO bond premiums) between FY23 and FY25. Over the same period, the assessed valuation of taxable real and personal property grew at an annualized rate of 15.9% from \$76.3 billion to \$137.6 billion, an absolute increase of 80.2%. The largest contributors to growth in assessed valuation since FY21 were growth in assessed values of (i) personal property, which grew \$22.2 billion, from \$8.6 billion in FY21 to \$30.8 billion in FY25, (ii) residential real property, which grew \$20.9 billion, from \$51.3 billion in FY21 to \$72.2 billion in FY25, and (iii) commercial and industrial real property, which grew \$15.9 billion, from \$10.6 billion in FY21 to \$26.5 billion in FY25. As the most active commercial real estate category, data centers have been a key driver of assessed valuation growth in the County, driven by the County's data center positioning and connectivity, and a skilled technological workforce supporting artificial intelligence, cloud computing, and cyber security. Data centers accounted for greater than 90% of the growth in assessed values of commercial real property in 2024 and appreciated at a year-over-year rate of 23.7% in 2025. Based on the 2025 Annual Report from the Real Estate Assessments Office, the assessed real property valuation of data centers now exceeds \$21.7 billion.

Incremental to the impact data centers have had on the assessed values of real property in the County, data centers also significantly impact the assessed values of tangible business and personal property. In FY25, tax on tangible business and personal property increased approximately 21% over FY24, largely driven by an increase in assessed values of business property, growth of which has been spurred from the County's expanding data center presence. For the County, tax revenues on tangible business and personal property is the most significant single revenue source following real property tax.

**Sensitivity Considerations:** Holding all else constant, in reflection of the Bonded Debt to Assessed Value Metric and the County's financial position as of June 30, 2025, bonded debt could increase to approximately \$4.13 billion, an incremental increase of \$3.00 billion, while remaining in compliance with the respective limitation. On the contrary, the FY25 assessed values of taxable real and personal property would need to decline by \$100.1 billion (a 72.8% decline) to \$37.4 billion, a level not seen for over 15 years, for the Bonded Debt to Assessed Value metric of 3.0% to be breached. Additionally, for FY26E, assessed values of taxable real and personal property would need to decline by approximately \$111.0 billion (a 73.7% decline) to \$39.7 billion for the Bonded Debt to Assessed Value metric of 3.0% to be breached.

#### Summary:

Based on the County's financial position and anticipated financial position as of June 30, 2025, and June 30, 2026, respectively, the risk of breaching the Bonded Debt to Assessed Value metric remains distant.



## ANALYSIS (CONTINUED)

### Evaluation of Debt Capacity (Continued)

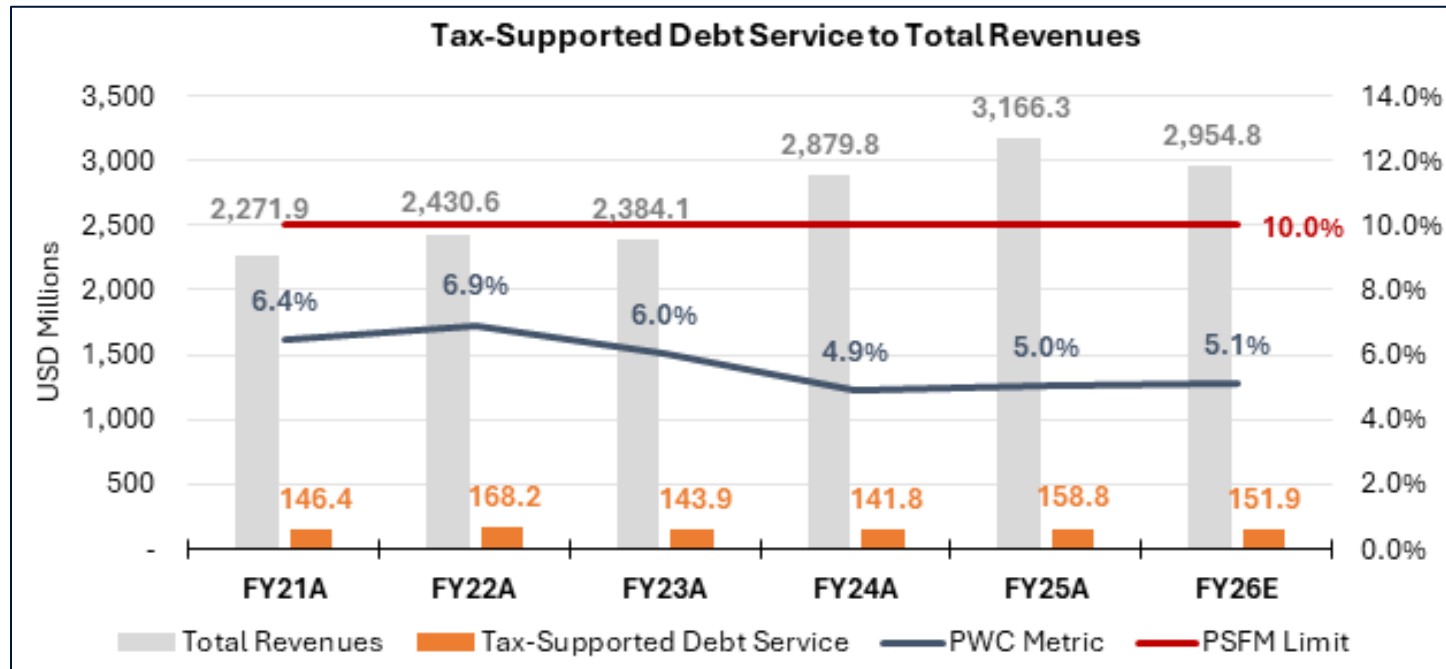
#### Tax-Supported Debt Service to Total Revenues:

Total annual revenues include County revenues from the General Fund and Special Revenue Funds, in addition to revenues from PWCS and the Adult Detention Center Component Units. Based on the FY25 ACFR, the County's total annual revenues for FY25 were \$3.17 billion, of which \$1.80 billion was General Fund revenues. Applying the PSFM limitation of 10% to FY25 total annual revenues of \$3.17 billion equates to an annual net tax-supported debt service limit of \$316.63 million, representing incremental debt service capacity of \$157.88 million over FY25 debt service of \$158.75 million.

#### PSFM Limitation:

Per policy 5.02 (d), annual net tax-supported debt service expenditures shall not exceed ten percent (10%) of annual revenues.

Looking forward to FY26E, based on the 5-year Adopted Revenue Plan, General Fund revenues is projected to be \$1.73 billion, while estimates for total annual revenues by Debt Management Staff as outlined in the July 2025 presentation to the Debt Oversight Committee is expected to be \$2.95 billion. Applying the PSFM limitation of 10% to FY26E total annual revenues of \$2.95 billion equates to an annual net tax-supported debt service limit of \$295.48 million, representing incremental debt service capacity of \$143.57 million over FY26E projected debt service of \$151.91 million. The chart below outlines the County's Tax-Supported Debt Service to Total Revenues metric from FY21A to FY25A, and FY26E<sup>3</sup>:



<sup>3</sup> Source: ACFR's for FY21A to FY25A, and Debt Capacity Model, 5-year Adopted Revenue Plan, and July 2025 presentation to Debt Oversight Committee for FY26E.



## ANALYSIS (CONTINUED)

### Evaluation of Debt Capacity (Continued)

#### *Tax-Supported Debt Service to Total Revenues (Continued)*

As of FY25, the County's net tax-supported debt service increased by 8.4% since FY21. After peaking in FY22 and following declines in FY23 and FY24, tax-supported debt service grew by \$16.9 million in FY25. Over the same period, total annual revenues grew at an annualized rate of 8.7%, from \$2.27 billion to \$3.17 billion, an absolute increase of 39.4%.

The County's largest contributors to General Fund revenues is tax revenues from real and personal property, which exhibited substantial growth in assessed values since FY21. General Fund revenues as a percentage of total revenues averaged 57.3% from FY21 to FY25, while the General Fund's revenue from taxes on real and personal property averaged 71.2% over the same period. In absolute terms, the General Fund's revenue from real and personal property tax increased \$370.0 million, or 41.0%, from FY21 to FY25, and represented approximately 41.4% of the growth in total annual revenues (\$370.0 million / \$894.5 million) from FY21 to FY25. Growth in real and personal property tax revenues have largely been driven from the growth in the assessed values of personal, residential, and commercial property, benefiting greatly from data center development.

**Sensitivity Considerations:** Holding all else constant, in reflection of the Tax-Supported Debt Service to Total Revenues metric and the County's financial position as of June 30, 2025, annual net tax-supported debt service expenditures could increase to \$316.63 million, while remaining in compliance with the 10% of total annual revenues PSFM limitation. On the contrary, considering the FY25 tax-supported debt service expenditure, total annual revenues would need to decline by \$1.58 billion (a 49.9% decline) to \$1.59 billion, a level not seen since 2016, for the Tax-Supported Debt Service to Total Revenues metric of 10% to be breached. Holding all else constant, for FY26E, annual net tax-supported debt service expenditures could increase to \$295.48 million, while remaining in compliance with the 10% of total annual revenues PSFM limitation. Put in other words, based on FY26E debt service estimates, total annual revenues would need to decline to \$1.52 billion for the Tax-Supported Debt Service to Total Revenues metric of 10% to be breached.

Considering the more restrictive amounts from above (i.e., FY26E total annual revenues of \$2.95 billion and projected debt service of \$151.91 million) and using the assumptions outlined below, incremental debt capacity of \$1.57 billion could be implied<sup>4</sup>.

#### Assumptions:

- Incremental debt service capacity of \$143.57 million
- Level principal payments on new issuances
- Maturity of 20 years on new issuances
- A fixed interest rate of 4.1% (approximation of the County's blended average true interest cost)

Assuming net tax-supported debt outstanding of \$1.33 billion as of June 30, 2026, in addition to the underlying assumptions, the weighted average interest rate for the County would need to increase to approximately 12.7% on net tax-supported debt to increase debt service expenditures by \$143.57 million.

- Total debt service of \$295.48 million
- Level principal payments on total existing net tax-supported debt outstanding
- Weighted average maturity of 10.5 years

#### Summary:

Based on the County's financial position and anticipated financial position as of June 30, 2025, and June 30, 2026, respectively, the risk of breaching the Tax-Supported Debt Service to Total Revenues metric remains distant.

<sup>4</sup> For illustrative purposes only as a variety of other considerations which could impact implied debt capacity exist, such as maturity, payment type, and interest rates.



## ANALYSIS (CONTINUED)

### Evaluation of Debt Capacity (Continued)

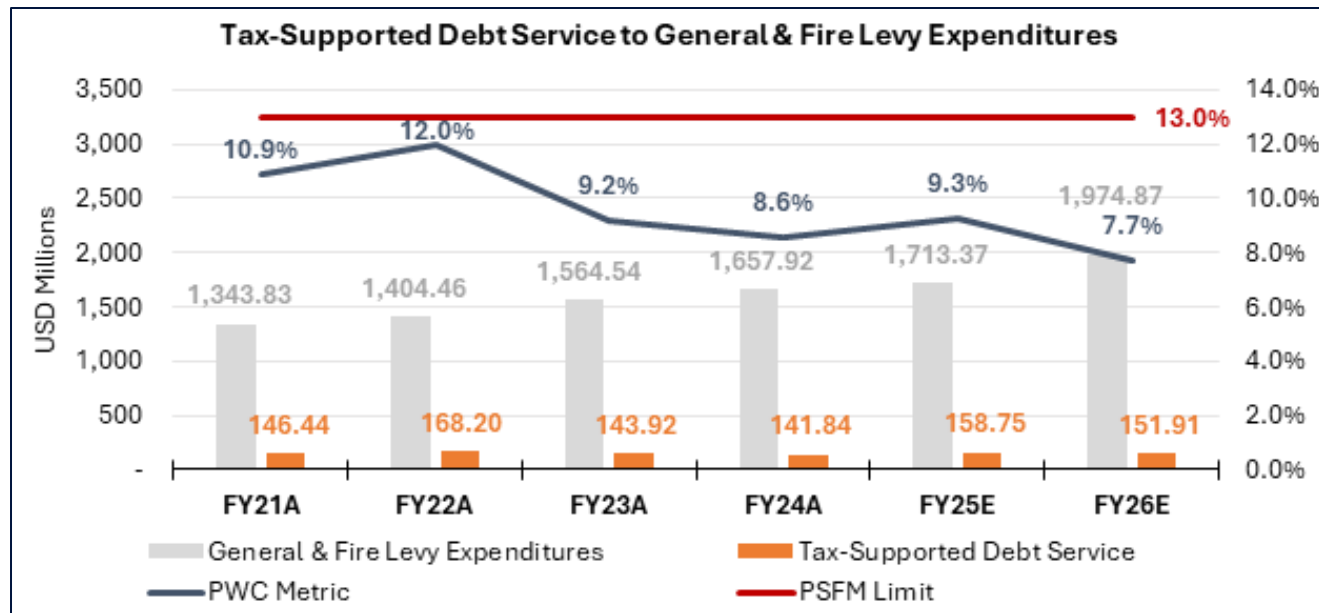
#### Tax-Supported Debt Service to General and Fire Levy Expenditures

Introduced in July of 2024, the County internally monitors tax-supported debt service to total General Fund and Fire and Rescue Levy Fund Expenditures and Transfers. The purpose of the metric, as stated by the County's Debt Management Staff, is to better align tax-supported debt service with the expenditures from which it is serviced. As a result, to isolate the metrics denominator to expenditures and transfers associated with the County's debt service expenditure, the County takes total General Fund expenditures (excluding transfers and education expenditures), adds total transfers to PWCS (i.e., represents the actual, or in the case of forward-looking metric calculations, the budgeted, transfer from PWC to PWCS), and finally, adds Fire and Rescue Levy Fund expenditures and transfers.

#### PSFM Limitation:

Per policy 5.02 (d), annual net tax-supported debt service expenditures shall not exceed thirteen percent (13%) of General Fund and Fire and Rescue Levy Fund expenditures.

Based on the July 2025 presentation to the Debt Oversight Committee, the County's total General Fund and Fire and Rescue Levy Fund Expenditures and Transfers for FY25 were projected to be \$1.71 billion. Applying the PSFM limitation of 13% to this figure equates to an annual net tax-supported debt service limit of \$222.74 million, representing incremental debt service capacity of \$63.99 million over FY25 debt service of \$158.75 million. Looking forward to FY26E, based on the 5-year expenditure forecast prepared by the OMB, total General Fund and Fire and Rescue Levy Fund Expenditures and Transfers is estimated to be \$1.97 billion. Applying the PSFM limitation of 13% to this figure equates to an annual net tax-supported debt service limit of \$256.73 million, representing incremental debt service capacity of \$104.82 million over FY26E projected debt service of \$151.91 million. The chart below outlines the County's Tax-Supported Debt Service to General and Fire Levy Expenditures metric from FY21A to FY24A, and for FY25E and FY26E:<sup>5</sup>



<sup>5</sup> Source: Debt Capacity Model, 5-year Expenditure Forecast from OMB, and July 2025 presentation to Debt Oversight Committee.



## ANALYSIS (CONTINUED)

### Evaluation of Debt Capacity (Continued)

#### *Tax-Supported Debt Service to General and Fire Levy Expenditures (Continued)*

**Sensitivity Considerations:** Holding all else constant, in reflection of the Tax-Supported Debt Service to General and Fire Levy Expenditures metric and the County's financial position as of June 30, 2025, annual net tax-supported debt service expenditures could increase to \$222.74 million, while remaining in compliance with the 13% PSFM limitation. On the contrary, considering the FY25 tax-supported debt service expenditure, General and Fire Levy Expenditures would need to decline by \$492.2 million (a 28.7% decline) to \$1.22 billion for the PSFM limitation of 13% to be breached.

Holding all else constant, for FY26E, annual net tax-supported debt service expenditures could increase to \$256.73 million, while remaining in compliance with the 13% PSFM limitation. Put in other words, based on FY26E debt service projections, General and Fire Levy Expenditures would need to decline to \$1.17 billion for the PSFM limitation of 13% to be breached.

Considering the more restrictive amounts from above (i.e., FY25E General and Fire Levy Expenditures of \$1.71 billion and tax-supported debt service of \$158.75 million) and using the assumptions outlined below, incremental debt capacity of \$703.15 million could be implied<sup>6</sup>.

#### Assumptions:

- Incremental debt service capacity of \$63.99 million
- Level principal payments on new issuances
- Maturity of 20 years on new issuances
- A fixed interest rate of 4.1% (approximation of the County's blended average true interest cost)

In consideration of the County's net tax-supported debt outstanding of \$1.28 billion as of June 30, 2025, and using the assumptions outlined below, the weighted average interest rate for the County would need to increase to approximately 7.9% on net tax-supported debt to increase debt service expenditures by \$63.99 million.

- Total debt service of \$222.74 million
- Level principal payments on total existing net tax-supported debt outstanding
- Weighted average maturity of 10.5 years

#### Summary:

Based on the County's General and Fire Levy Expenditures for FY25E and FY26E, the risk of breaching the Tax-Supported Debt Service to General and Fire Levy Expenditures metric remains distant.

<sup>6</sup> For illustrative purposes only as a variety of other considerations which could impact implied debt capacity exist, such as maturity, payment type, and interest rates.



## ANALYSIS (CONTINUED)

### Credit Rating

Credit rating is the opinion of a credit rating agency regarding an entity's ability and willingness to fulfill its financial obligations. In other words, a credit rating is a measure of risk that an issuer will default on repayment, which drives interest rates on bonds (i.e., higher credit ratings imply less risk to the investor and allow issuers to demand lower interest rates).

The County solicits ratings from Credit Rating Agencies when it plans to issue new debt, including GO Bonds, lease revenue bonds, and Industrial Development Authority ("IDA") revenue bonds. Credit Rating Agencies conduct full reviews, which typically occur immediately before a bond issuance or as part of maintaining active ratings for market access. In advance of meetings with Credit Rating Agencies, the County consults with PFM to perform an informal credit assessment and to assist in determining debt sizing and maturity. Meetings held with Credit Rating Agencies provide a feedback mechanism for the County to assess potential implications of planned issuances.

The County maintains the highest possible credit ratings on its GO Bonds: AAA from Fitch Ratings (since 2004), Aaa from Moody's (since 2010), and AAA from S&P Global (since 2011). Furthermore, these Credit Rating Agencies reaffirmed their respective ratings of the County, with stable outlooks, as recently as September and October of 2025 in advance of the County's issuance of the \$94 million series 2025 VPSA bonds (GO Bonds used to fund various school projects).

Maintenance of PWC's credit rating delivers tangible benefits to the County, with Virginia's most recent market data showing that a downgrade from AAA to AA increases a county's tax supported borrowing cost by roughly 7 to 18 basis points, while FMS Bonds implies a spread of roughly 10 to 20 basis points from AAA to AA rated municipal bonds. Taxable municipal bonds typically have wider spreads than tax-exempt bonds; however, interest rates and spreads across credit ratings can vary based on market conditions, including, but not limited to bond structure, maturity, and supply/demand dynamics at the time of sale. Assuming a par fixed rate bond issuance with an interest rate spread between AAA and AA+ / Aa1 of 18 basis points and level principal payments over 20-year maturity, a credit rating downgrade could cost the County an undiscounted \$1.89 million over 20 years of debt service on an issuance of \$100 million, or incremental debt service / interest expense of \$180,000 in the first-year post-issuance.

Each Credit Rating Agency has different methodologies, calculations, and approaches in determining an issuer's credit rating. Furthermore, methodologies used by Credit Rating Agencies change from time to time. For example, S&P Global published a new methodology for U.S. Governments on September 9, 2024, and in Fitch Ratings' most recent ratings report, the methodology for calculating economic concentration changed, which had a negative impact on PWC's credit score from Fitch Ratings. To stay abreast of these changes and to assist in the continuous monitoring and management of the County's debt, fiscal health, credit rating, peer comparison, and external market conditions, the County frequently engages PFM for:

- Credit and market assessments;
- Assistance in determining sizing and maturities of debt issuances;
- Engagement in discussions with Credit Rating Agencies;
- Review of reports from Credit Rating Agencies;
- Assistance in review of the County's fiscal health; and
- Assistance in preparation of the County's annual Fiscal Health Outlook Report.

Key points from September and October 2025 credit rating reports and PFM's December 2025 and March 2026 credit presentation to the County are outlined below:

#### *Highlights and Strengths*

- Large and growing tax base with strong income and wealth metrics and a stable economy that benefits from proximity to Washington, DC, and is further supported by data center construction.
- Healthy financial position, low leverage, well-funded retirement liabilities, and expectation of stable carrying charges on a relative basis.
- Solid operating environment and generally predictable operating performance supported by a strong management team with cautious management practices and planning cultures.



## ANALYSIS (CONTINUED)

### Credit Rating (Continued)

#### Challenges

- Moody's: Stated the available fund balance is below Aaa medians, though it has been exceptionally stable over the past five years.
- S&P Global: Although the County has maintained reserves at solid levels, they lag those of similarly rated peers, which somewhat offset the County's credit strengths;
- S&P Global: Population growth and rising debt may lead to some expenditure pressure in future years.
- S&P Global: They do not anticipate a material change in the County's debt profile in the near-term; however, the rating could be pressured should new money debt issuances outpace total revenue and expenditure growth.
- Fitch Ratings: The presence of Quantico and the FBI's office helps attract contractors and federal agencies but also exposes the County to changes in federal defense spending, which has been subject to volatility.

#### Downgrade Risks

- Moody's: A trend of structural imbalance leading to a fund balance below 15% of revenues.
- Moody's: A significant increase in long-term liabilities, exceeding 250% of revenue.
- S&P Global: If the County's reserve profile materially weakens without a credible plan to strengthen, or if its debt profile materially weakens.
- Fitch Ratings: A sustained approximately 10% increase in long-term liabilities due to additional debt or increase in net pension liabilities and increased carrying costs, without a commensurate increase in personal income or governmental resources;
- Fitch Ratings: A weakening in demographic and economic metrics including unemployment rate, population trend, and educational attainment; and
- Fitch Ratings: A sustained decline in available general fund balances below 10% of spending which would lower the financial resilience assessment to below AAA.

As shown above, key challenges and risks identified by Credit Rating Agencies, and within some degree of County control, primarily relate to adequacy of fund balances / reserves and thoughtful (i.e., relative to revenue / expenditures / resources) management of long-term debt burden and new debt issuances.

#### Fund Balance

Under PWC's PSFM, the following policies surrounding fund balances / reserve requirements are in place:

- Unassigned General Fund Balance:
  - Must be maintained at no less than 7.5% of each year's General Fund revenues across all years of the Five-Year Plan, and any excess funds above 7.5% may be used for capital outlay, debt prepayment, or added to reserves.
  - Per PWC ACFR's and over the last 5 fiscal years, the Unassigned General Fund Balance as a percentage of General Fund revenues has been equal to the policy minimum of 7.5%.
- Revenue Stabilization Reserve:
  - Minimum of 2% of General Fund revenues to be used for economic shocks or revenue declines of 3% or greater when compared to revenue in the adopted budget.
  - Per PWC ACFR and over the last 5 fiscal years, the Revenue Stabilization Reserve as a percentage of General Fund revenues has been equal to the policy minimum of 2.0%.



## ANALYSIS (CONTINUED)

### Credit Rating (Continued)

#### Fund Balance (Continued)

Other reserves / funds maintained by PWC and with policies outlined in the PSFM include:

- Capital Reserve: Minimum of 2% of current Capital Projects Funds Appropriations, which are only to be used for unexpected project cost overruns.
- Data Center Revenue Stabilization Reserve: Minimum of 10% of prior year's audited tax revenues from data centers, adopted in 2024.
- Economic Development Opportunity Fund: Target of \$3M in the fund per PSFM.

To better understand how the County's fund balance / reserve requirements compare to best practices, GFOA guidance, peer comparison, and credit rating agency benchmarks should be considered. GFOA provides guidance that unrestricted fund balances for general purpose governments should be at least two months (~16.7%) of regular operating revenues or expenditures; however, it is noted that lower levels may be appropriate for larger governments with more diverse revenue streams. Additionally, GFOA outlines that policies surrounding unrestricted fund balances should be tailored to local risk factors, including revenue volatility, revenue flexibility, and exposure to emergencies. While PWC's unrestricted fund balance falls short of GFOA guidance, an important distinction for counties in Virginia is their broad, uncapped property tax authority. Counties in Virginia set their own real estate tax rates annually, face no statutory rate caps, have no voter-approved requirement to increase rates, and can apply increases countywide with immediate effect in the next fiscal year. As a result, counties in Virginia often score near the top of national peer sets in revenue flexibility across credit rating agencies, and as a result, required fund balance and reserve cushions to maintain AAA rating quality declines. Outside of its quantitative guidance, GFOA highlights the importance of formal written policies specifying target levels, criteria for use, replenishment timelines, and consideration of other available resources, which PWC has established as part of the PSFM.

Considering Virginia county taxing authority, fund balance and reserve comparison to Credit Rating Agency benchmarks and Virginia county peers is more useful in analyzing PWC's position. As previously mentioned, each Credit Rating Agency has their own methodologies and calculations, which change from time to time. It is important to note that the Credit Rating Agencies' reserve and fund balance calculations applied to the County are computed on a primary government basis and exclude PWCS School Board fund balances. Although PWCS, as a discretely presented component unit, maintains its own fund balance reserves, those balances are not incorporated into Moody's, S&P Global, or Fitch Ratings' reserve metrics for the County. A summary of Credit Rating Agency fund balance and reserve calculations (as calculated in PFM's December 2025 report) are summarized below:

#### Moody's:

- Fund Balance Ratio = Unrestricted General Fund Balance plus Net Current Assets / Revenue
- PWC score for FY2024 was 27%
- Moody's Aaa benchmark is 35% or greater and peer median was 42%

#### S&P Global:

- Reserve Ratio = General Fund Reserves / General Fund Revenues
- General Fund Reserves includes assigned, unassigned, committed capital reserve, and PWC's revenue stabilization and data center revenue stabilization reserves
- PWC score for FY2024 was 17.4%
- S&P Global's AAA benchmark is 15% or greater and peer median was 24%

#### Fitch Ratings:

- Available Reserves Ratio (Calculated as a 5-year low) = Fund Balance / Expenditures
- Fund Balance includes assigned, committed, and unassigned, and Expenditures include expenditures and transfers out, each from the General Fund
- PWC score for FY2024 was 18.4%, however, the 5-year low occurred in FY2023 and was 16.8%
- Fitch Ratings AAA benchmark for the County is 10% or greater, noting that Fitch adjusts benchmarks for reserve requirements based on budgetary flexibility



## ANALYSIS (CONTINUED)

### Credit Rating (Continued)

#### *Fund Balance (Continued)*

Other than Fitch Ratings, PWC's fund balance and reserve ratios fall short of peer medians, and in the case of Moody's, the Aaa benchmark. Additionally, qualitative feedback provided by Credit Rating Agencies and recommendations from PFM's March 2026 presentation point to PWC maintaining or increasing reserve levels. In summary, fund balances and reserves play an important role in responsible debt management and Credit Rating Agency evaluation. PWC has historically maintained stable reserve levels. However, alignment of PWC's fund balances / reserves with Credit Rating Agency benchmarks and peer group medians would likely reduce risk of future credit rating downgrade.

#### *Long-Term Debt / New Debt Issuances*

Another key topic highlighted by Credit Rating Agencies as a downgrade risk pertains to the County's Long-Term Liability burden and new debt issuances, with each agency highlighting a downgrade risk if a significant increase in long-term liabilities occurs (or a materially weakened debt profile), without commensurate increases in personal income or government resources. A sample of Credit Rating Agency Long-Term Debt / Liability calculations (as calculated in PFM's December 2025 report) are summarized below:

#### **Moody's:**

- Long-Term Liabilities Ratio =  $(\text{Debt} + \text{Adjusted Net Pension and OPEB Liabilities} + \text{Other Long-Term Liabilities}) / \text{Operating Revenue}$
- PWC score for FY2024 was 99%
- Moody's Aaa benchmark is 100% or less

#### **S&P Global:**

- Net Direct Debt Per Capita =  $\text{Net Direct Debt} / \text{Population}$
- PWC score for FY2024 was \$2,305
- S&P Global provides rankings from best (<500) to worst (>4,500) across six tiers, with PWC landing in the upper mid-range

#### **Fitch Ratings:**

- Long-Term Liability Burden =  $(\text{Direct Debt} + \text{Adjusted Net Pension Liability}) / \text{Governmental Revenue}$
- PWC score for FY2024 was 135%, placing PWC in the 71st percentile, a strong score with opportunity to strengthen to "strongest" at 80th percentile or greater

As can be observed, PWC's long-term liability ratios are strong, but should be monitored as outlined by Credit Rating Agencies. Additionally, PFM's March 2026 presentation included the following recommendations in respect of maintaining the County's credit ratings:

- Do not increase debt to the maximum levels permitted under the PSFM; and
- Control total debt service growth within revenue growth, which may require careful balancing and consideration regarding timing of County needs relative to School needs.

#### **Summary:**

PWC has historically been compliant with existing PSFM debt capacity metric policy levels; however, an opportunity exists to introduce metrics that relate to potential credit rating downgrade risks - such as metrics to address the long-term liability, debt burden, and reserve level risks identified by Credit Rating Agencies. This would provide executive management with increased visibility into overall credit rating risk profile of PWC and allow internal stakeholders to make informed decisions with respect to future cost of borrowings. See "**Assessment Results and Considerations**" for more detail.



## OBJECTIVES AND APPROACH

### Objective

The objective of this internal audit was to assess the management and monitoring of the County's debt capacity, including compliance with existing policies, procedures, state and local government regulations and applicable law. Aspects of the assessment included: reviewing the methods and assumptions used for forecasting cash flows and debt, calculating key debt ratios, evaluating the processes for monitoring and reporting compliance related to debt obligations, reviewing the adequacy, documentation, and adherence to management's debt policies and procedures, and analyzing the robustness of stress testing and scenario planning exercises used to evaluate financial resilience.

### Approach

#### Understanding and Documentation of the Process

This phase consisted primarily of inquiry and walkthroughs to obtain an understanding of the current operating policies and procedures, monitoring functions, and control structures as they relate to the processes within our scope. The following was performed as part of this phase:

- Obtained and reviewed key documents, including policies and procedures related to the function, as well as relevant County regulations, reporting, and any other relevant information as deemed necessary.
- Conducted interviews with personnel from key departments to obtain a detailed understanding of applicable policies and procedures, and roles/responsibilities related to the processes within the scope. Gained an understanding of procedures as they relate to the processes within scope.
- Developed a work plan to evaluate key processes and controls based on the information obtained through interviews, walkthroughs, and preliminary review of documentation.

#### Assessment of the Management and Monitoring of the County Debt Capacity

This phase was conducted by reviewing financial models and forecasts, reviewing underlying assumptions driving relevant financial analyses, and holding discussions with Management regarding the processes surrounding debt capacity and compliance with existing internal and governmental policies. Procedures included, but were not limited to, the following:

- Reviewed existing financial models and forecasts related to County debt instruments:
  - Reviewed calculations for accuracy and reasonableness of methodologies implemented.
  - Reviewed and agreed sources of key inputs to projection and debt capacity models.
  - Reviewed underlying model inputs and assumptions, including, but not limited to historical trends and analysis.
  - Reviewed and analyzed stress testing and scenario analyses performed in relation to cash flow projection models and debt capacity models to assess robustness and reasonableness of approach.
- Reviewed debt management governance structure surrounding financial forecasts:
  - Conducted interviews with key stakeholders regarding processes and timelines regarding updating, maintaining and reviewing financial forecasts and compliance calculations.
  - Reviewed documentation related to debt management policies.
  - Reviewed quality and frequency of debt portfolio reporting.
  - Evaluated escalation procedures for risk indicators, when applicable.
- Reviewed debt capacity policies and procedures and verified financial compliance with statutory debt limits and internal debt policy requirements.
- Reviewed a sample of historical compliance calculations and verified accuracy of such calculations.

#### Reporting

At the conclusion of this review, we summarized our findings into this report. We have reviewed the results with the appropriate Management.



## ASSESSMENT RESULTS AND CONSIDERATIONS

### 1. Debt Capacity Model and Analytical Framework

To monitor debt usage and estimate debt service requirements, the County's Debt Management staff use a Debt Capacity Model developed by PFM Financial Advisors ("PFM"). County staff maintain information within the model related to existing and projected debt, including outstanding balances and debt service amounts. During our review, we identified opportunities to enhance the model and related maintenance practices to strengthen analytical capabilities and better align with leading practices. Specifically:

- **Use of Historical Trend Data:** Historical trend data for key debt ratios is not systematically compiled or centrally maintained to support consistent longitudinal analysis. While this data exists, it is not incorporated as part of the Debt Capacity Model for trend analysis.
- **Stress Testing Expansion:** Forward-looking projections under alternative issuance, revenue, expenditure, or interest rate scenarios are not produced within a standardized framework. Stress testing and sensitivity analysis is generally limited in scope (i.e., stress-tested using the assumption of a 10% decline to revenues and expenditures) and remains stagnant without identification or alteration of stress-testing methodologies in consideration of key operational drivers, such as revenue concentration (e.g., residential real estate), revenue growth (e.g., data center development), and interest rate variability.
- **Integration of Existing Debt Service Metrics:** Key PSFM debt metrics including Bonded Debt to Assessed Value, Tax-Supported Debt Service to Total Revenues, and Tax-Supported Debt Service to General and Fire Levy Expenditures are not calculated within a single, integrated model. Rather than being built into a debt capacity model as key outputs driven through the input of assumptions or actual amounts on an annual basis, debt capacity metrics are compiled in separate excel workbooks on an ad hoc basis, which increases risk of errors in calculation, methodology, and consistent application.
- **Documentation of Debt Model Methodology:** Assumptions, methodologies, and data sources are not formally documented within a single analytical tool. While assumptions and methodologies could be explained verbally in detail, these factors are not formalized within the Debt Capacity Model making it challenging to recalculate or rebuild the debt capacity metric using historical ACFR, or forward-looking financial information. Should the County experience significant turnover or changes in succession planning, the loss of institutional knowledge will be compounded by the lack of documented Model methodology.
- **Debt Capacity Threshold Indicators:** Internal early warning debt capacity thresholds below policy limits have not been formally established. Such limits may help identify risks of breaching PSFM limitations earlier, providing the County with ample time to consider multiple options for corrective actions which align with the County's strategic mandates before optionality becomes constrained.

Although a debt capacity model prepared by PFM exists and is primarily used to estimate debt service on planned issuances and total existing and projected debt service, it is not currently used as formalized debt capacity model and analytical framework by the County for ongoing debt capacity monitoring. Instead, debt capacity metrics are currently calculated on an as-needed basis using standalone analytical files. In the absence of a formalized debt capacity model and analytical framework, key risks include inconsistent analysis, limited strategic insight, noncompliance with PSFM, and key-person dependency.

The GFOA does not prescribe a single standardized debt capacity model; however, best practices on debt management and capital planning clearly support the use of a structured debt capacity or debt affordability analysis. GFOA guidance emphasizes establishing quantitative debt limits expressed through commonly used financial ratios, monitoring compliance with those limits over time, and integrating forward-looking, multiyear projections into capital planning decisions. Together, these practices necessitate the use of a formal analytical framework, which can be operationalized through a debt capacity model, to evaluate current and future borrowing capacity, assess financial risk, and support transparent, well-informed debt issuance decisions.



## ASSESSMENT RESULTS AND CONSIDERATIONS (CONTINUED)

### 1. Debt Capacity Model and Analytical Framework (Continued)

The County may consider the following actions:

- Consider developing and maintaining a formalized, consolidated debt capacity model to serve as the primary analytical tool for monitoring PSFM compliance and supporting long term capital planning. Enhancements to the Model may promote consistency, reduce keyperson dependency, and strengthen governance and strategic insight. At a minimum, the model should:
  - Maintain historical trend data for key metrics, including reconciliation to the ACFR as appropriate.
  - Have the capability to perform scenario and sensitivity analyses, and establish a standardized and sophisticated set of internal stress scenarios (e.g., revenue downturns, interest rate increases, moderation in assessed valuation growth).
  - Consolidate all PSFM debt capacity metrics and calculations, including associated inputs at a granular (within practical reason) level, into a single, integrated workbook.
  - Clearly document assumptions, calculations, methodologies, and data sources.
  - Include forward-looking projections to evaluate the impact of proposed debt issuances.
  - Adopt nonbinding internal early warning thresholds to improve monitoring of key debt capacity ratios and for discussion purposes with County leadership and the Debt Oversight Committee.



## ASSESSMENT RESULTS AND CONSIDERATIONS (CONTINUED)

### 2. Debt and Credit Risk Metrics

The County's debt capacity framework is grounded in the principles established in the Principles of Sound Financial Management (PSFM) and has historically supported compliance with adopted policy limits. Current monitoring focuses primarily on a single long-term debt metric (tax-supported debt to assessed value), and the risk of breaching this policy has historically remained remote. In addition, the County has consistently maintained stable fund balance and reserve levels at or above adopted minimum policy requirements.

However, recent credit rating agency reports and PFM's credit and peer benchmarking analysis indicate that certain long-term liability, debt burden, and reserve measures represent relative areas for improvement when compared to AAA benchmarks and peer group medians. Rating agencies have identified potential downgrade risks associated with sustained increases in long-term liabilities, growth in debt service outpacing revenues, and reserve levels that remain below peer medians, even where policy compliance is maintained.

While the County's existing metrics provide high-level guidance on overall debt affordability, they may not fully reflect current credit rating agency methodologies, evolving outlook considerations, or communicated downgrade sensitivities. Specifically, the current framework does not explicitly incorporate liabilities-to-resources measures inclusive of pension obligations or forward-looking guidance related to the sustainability of debt service growth relative to revenue trends. As a result, executive management may have limited visibility into how future borrowing decisions could affect the County's long-term credit profile and potential borrowing costs, notwithstanding continued compliance with existing PSFM policy thresholds.

The County may consider the following actions:

- Consider enhancing the debt capacity and credit risk monitoring framework to better align with credit rating agency benchmarks, peer comparisons, and PFM recommendations, while maintaining consistency with the PSFM. Specifically:
  - Incorporate additional long-term liability and debt burden metrics commonly used by credit rating agencies, such as liabilities-to-resources ratios inclusive of pension obligations (e.g., direct debt plus net pension liability relative to governmental revenues). These measures would complement existing PSFM metrics and provide greater insight into downgrade risk considerations identified by rating agencies.
  - Adopt policy-level guidance related to the sustainability of debt service growth, such as linking projected debt service growth over a multi-year (e.g., five- to ten-year) horizon to historical or forecasted revenue growth. This would help support future debt issuance decisions remain aligned with the County's long-term financial capacity and rating agency expectations that debt and carrying costs grow in proportion to revenues.
  - Use peer benchmarking and rating agency medians as contextual monitoring tools, alongside adopted policy limits, to inform internal discussions around future debt issuance, reserve targets, and long-term liability management.
  - Enhance reporting to executive management and key decision-makers by clearly summarizing how existing and proposed debt levels align with credit rating agency benchmarks, communicated downgrade risks, and anticipated impacts on future borrowing costs.



## ASSESSMENT RESULTS AND CONSIDERATIONS (CONTINUED)

### 3. Documentation of Debt Procedures and Methodology

As part of this review, we assessed the written documentation describing key day-to-day activities and responsibilities specific to debt management, monitoring, and reporting. While Debt Management staff and County leadership actively monitor the County's debt portfolio and compliance with the internally adopted PSFM, there is limited documented guidance describing key activities surrounding how debt capacity metrics are calculated, updated, reviewed, or how integrated inputs are coordinated, validated, and confirmed across departments, component units, and other stakeholders. Specifically, we observed the absence of written procedures addressing the following key areas:

- **The frequency of reporting and internal monitoring activities:** Each year, the County Debt Management staff prepare an annual presentation for the Debt Oversight Committee which incorporates key debt capacity metrics from the most recent Annual Comprehensive Financial Report ("ACFR"), existing debt and debt service information maintained in the system of record, Debt Manager, projected debt and debt service estimates from the Debt Capacity Model, and general revenue forecasts. In addition, the County engages PFM to support the ongoing monitoring and management of the County's fiscal health. While these activities demonstrate an established annual reporting and external monitoring framework, the County's process for internal, ongoing debt capacity monitoring is largely informal and the steps taken by staff are not documented.
- **How data inputs from component units are obtained, validated, and documented:** Certain inputs to debt capacity metrics are high-level forecasts or assumptions provided to or prepared by Debt Management staff, rather than a structured, consultative forecasting process with all stakeholders. Current, detailed information and collaboration with component groups may provide more granularity and detail. For example:
  - The non-general fund portion of Total Revenues within the forward-looking Tax Supported Debt Service to Total Revenues debt capacity metric calculation is currently based on the historical relationship between General Fund Revenue, and non-general fund revenues (i.e., PWCS and the Adult Detention Center), rather than through a collaborative review of forward-looking Total Revenue. The methodology by which this is calculated is undocumented.
  - The Tax Supported Debt Service to General and Fire Levy Expenditures calculation relies on 5-year expenditure and transfer data received from OMB, but underlying assumptions and methodology is not readily available to the Finance Department.
- **Procedures for incorporating budgeted, forecast, interim, or unaudited financial information:** Currently, County Debt Management Staff calculate historical debt capacity metrics based on the most recently published ACFR, and forward-looking debt capacity metrics based on readily-available and published inputs, such as the 5-year adopted revenue plan. There were no formalized procedures documented on which inputs were being utilized by the County at any given point in time, nor were there procedures in place to use interim or unaudited financial information to update Debt Capacity Metrics to be current when prepared. An example of this is the County's presentation to the Debt Oversight Committee, which occurs in July, however, despite the presentation occurring after the County's June year-end, debt capacity metric inputs still utilize budget or forecast amounts for the year that has passed, leading to debt capacity metrics that rely on outdated information being communicated to the Debt Oversight Committee. An opportunity may exist to supplement the July presentation with preliminary, unaudited year-end results for the just-closed fiscal year — clearly identified as preliminary — to provide the Committee with the most current available view of the County's debt capacity position.
- **Roles and responsibilities for preparation and review:** Documents that detail the key roles and responsibilities of staff members, including how Debt Management Staff coordinate with other teams, do not yet exist. How and when debt capacity metrics are prepared, maintained, and updated, who is responsible for each task, can be described verbally, but is otherwise not formalized in a standard operating procedure for repeatability or training.



## ASSESSMENT RESULTS AND CONSIDERATIONS (CONTINUED)

### 3. Documentation of Debt Procedures and Methodology (Continued)

Debt capacity inputs are drawn from authoritative sources such as the ACFR, Debt Manager, the Five-Year Adopted Revenue Plan, OMB expenditure forecasts, and Real Estate Assessment Reports. However, in the absence of documented SOPs governing both debt capacity monitoring activities and cross-functional coordination, the County's process relies heavily on institutional knowledge. This may limit transparency into how assumptions are developed and validated, increase key-person dependency, and reduce consistency in forward-looking debt capacity analysis over time. Best practice for governments with complex organizational structures includes establishing formal coordination protocols for debt capacity inputs, including clearly defined forecast ownership, consistent forecast horizons aligned with the CIP, and documentation of assumptions and limitations. While collaboration occurs across the County, greater formalization could improve consistency, transparency, and confidence in forward-looking debt capacity analysis.

The County may consider the following actions:

- Consider formalizing its debt capacity monitoring practices by developing written SOPs. Documented procedures strengthen internal control, support continuity, promote clear succession planning, and promote consistent application of debt policies. At a minimum, SOPs should:
  - Define calculation methodologies and standard data sources for associated inputs to each PSFM debt capacity metric.
  - Establish frequency and timing of debt capacity metric / model updates, such as quarterly updates or in advance of key reviews and decisions (e.g., Budget and CIP adoption, bond issuances, presentation to Debt Oversight Committee, etc.).
  - Document forecast and assumption methodologies for forward-looking inputs, and methodology for stress-testing and sensitivity analysis (e.g., what should interest rate assumption be, how should revenue or expenditure inputs be stress-tested, etc.).
  - How data is obtained, reviewed, and validated between Debt Management staff and other agencies and departments.
  - Document how stress-testing and sensitivity analysis should be performed.
  - Documenting methodologies and assumptions used where direct forecasting is not feasible.
  - Assign clear preparation and review responsibilities.



## ASSESSMENT RESULTS AND CONSIDERATIONS (CONTINUED)

### 4. Integration of Debt Capacity Analysis into CIP and Budget Development

The County produces debt service estimates during CIP development; however, while debt service estimates are considered in advance of annual CIP adoption, formal evaluation of forward-looking debt capacity metrics and available policy capacity is not formally and consistently embedded into the CIP or budget development process at the point when capital priorities and funding strategies are being finalized.

Instead, debt capacity analysis is primarily prepared for rating agency discussions and the annual Debt Oversight Committee presentation, which occur after key capital and budget decisions have been substantially developed. The Debt Capacity Model is used primarily for forward looking debt service estimates, not for debt capacity analysis. As a result, formalized analysis of debt capacity metrics may be evaluated after key capital and budget decisions have been substantially established, rather than serving as an input into those decisions.

Without consistent integration of forward-looking debt capacity analysis into the CIP and budget development process, the County may not fully leverage its analytical capabilities to inform capital prioritization, evaluate trade-offs among competing projects, or assess long-term affordability before decisions are finalized. This may limit transparency into the cumulative impact of capital decisions on debt capacity and reduce flexibility to proactively adjust project timing or funding strategies. It is noted that the PWCS CIP is developed and approved by the PWCS School Board, which is a legally separate component unit with independent elected governance. By the time the PWCS CIP is submitted to the County's OMB for inclusion in the annual budget, PWCS capital decisions have generally been substantially established through the School Board's independent process. As a result, the County's ability to adjust school-related capital priorities or funding strategies through integrated debt capacity analysis is limited to the advisory and collaborative engagement available through the budget review and practical revenue sharing processes. The action items below are therefore most directly applicable to the County's general government CIP; for school-related debt, the opportunity lies in earlier and more structured engagement with PWCS during the development of the PWCS CIP, prior to School Board adoption, after which the County's options for oversight are more severe.

The County may consider the following actions:

- Integrate debt capacity analysis more directly into the CIP and annual budget development process (i.e., prior to formal adoption by the BOCS). This integration can support decision-making and reinforce long-range financial planning by:
  - Evaluating proposed CIP scenarios against PSFM debt capacity limits.
  - Presenting projected debt capacity metrics alongside CIP and budget summaries.
  - Documenting the anticipated impact of CIP adoption and associated funding strategies on each PSFM metric.
  - Given that school-related debt issuances reflect PWCS School Board decisions made through an independent governance process, consider establishing a structured early engagement protocol with PWCS Finance during PWCS CIP development — prior to School Board adoption — to allow Debt Management staff to model the debt capacity implications of proposed school capital scenarios before school capital priorities are finalized.



## ASSESSMENT RESULTS AND CONSIDERATIONS (CONTINUED)

### 5. Debt Oversight Committee Materials

The Debt Oversight Committee receives comprehensive annual information regarding the County's debt portfolio, planned financing activity, key debt capacity metrics, credit rating considerations, and prevailing market conditions. The annual presentation also includes multi year bond financing plans for Schools, Parks, and Transportation projects.

However, while debt capacity ratios relative to PSFM limits are presented, the materials do not include calculations translating those ratios into the implied dollar value of debt capacity available. As a result, the Committee reviews planned bond financing activity without a clearly articulated linkage to how much policy level debt capacity remains available under each PSFM limitation. An opportunity exists to enhance the role of Debt Oversight Committee by incorporating the implied dollar value of available debt capacity into the annual presentation, allowing proposed and planned bond issuances to be discussed in the context of available capacity.

Additionally, there is an opportunity for the Debt Oversight Committee to provide non-binding guidance on prudent near term bond issuance ranges following the annual presentation and in advance of the County's annual issuance cycle. Currently, the Committee reviews available information and discusses potential next steps, but formal recommendations are not documented. Best practice suggests oversight committees are most effective when given the opportunity to provide non-binding recommendations after analysis; this is also most similar to the Virginia Commonwealth's Debt Capacity Advisory Committee practices.

The County may consider the following actions:

- Debt Management staff calculate the dollar value of available debt capacity based on PSFM limitations (including most recent actuals, projections for the year-ahead, and impacts of stress-testing and sensitivity analysis) and including as part of the presentation to the Debt Oversight Committee.
- Consider engaging PFM to calculate implied available debt capacity from most recent credit rating reports, such as for explicitly mentioned risks of a downgrade, and including as part of the presentation to the Debt Oversight Committee.
- Consider formally documenting the non-binding recommendations made by the Debt Oversight Committee on prudent near-term (i.e., 1 to 2 years) debt authorization and issuance in advance of bond issuances and as part of CIP and budget development for PWC and PWCS. Non-binding, formal recommendations from the Debt Oversight Committee following review of detailed analysis contained in the presentation to the Debt Oversight Committee could assist in facilitating prudent bond issuance amounts.



## APPENDIX

### County Annual Debt Cycle

The County's annual debt cycle is outlined below.

#### January:

- CIP spending estimates by fiscal year are prepared by the OMB and respective agencies.
- The OMB contacts Debt Management Staff and presents an initial list of CIP projects inclusive of spending estimates.
- Debt Management Staff estimate the timing, sizing, and type of debt needed to support the County CIP projects, then will prepare debt service estimates for projected issuances using the Debt Capacity Model.
- PWCS presents its proposed PWCS CIP, including identification of debt financing needs.
- Debt Management Staff layer the details of PWCS' debt financing needs into the Debt Capacity Model to project debt service estimates on school projects.

#### February:

- The County's proposed budget for the fiscal year ahead is presented to the BOCS.

#### March:

- Annual continued disclosures are submitted to the Municipal Securities Rulemaking Board ("MSRB").
- PWCS' budget for the fiscal year ahead is adopted.
- Modifications to projected debt service estimates may occur only following formal action or direction by Board or County leadership.

#### April – May:

- The County's budget for the fiscal year ahead is adopted by the BOCS.
- For tracking purposes, Debt Management Staff update the County's general revenue details in the Debt Capacity Model to reflect the Adopted Revenue plan (i.e., the County's five-year revenue plan)<sup>7</sup>.
- OMB-prepared five-year expenditure forecasts are provided to Debt Management Staff<sup>8</sup>.

#### June:

- Fiscal year-end of PWC and PWCS.

<sup>7</sup> The County's general revenue is a component of Total Revenue, the denominator in the County's Tax-Supported Debt Service to Total Revenues debt capacity metric

<sup>8</sup> OMB five-year expenditure forecast is the denominator in the County's Tax-Supported Debt Service to General and Fire Levy Expenditures debt capacity metric



## APPENDIX (CONTINUED)

### County Annual Debt Cycle (Continued)

#### July – August:

- Annual presentation to the Debt Oversight Committee is prepared by Debt Management staff drawing historical financial information and debt capacity metrics from the most recent ACFR, existing total debt and debt service details from Debt Manager, projected debt and debt service estimates from the Debt Capacity Model, general revenue forecasts from the five-year Adopted Revenue plan, expenditure forecasts from the OMB-prepared five-year expenditure forecast, and property tax and real estate data from the County's most recently issued Real Estate Assessment Report<sup>9</sup>.
- Annual presentation to the Debt Oversight Committee occurs, including a review of the County's debt portfolio, key debt capacity metrics, reviews of recent credit rating agency reports, and other debt management considerations as applicable.

#### September:

- Using the adopted CIP and PWCS CIP, Debt Management Staff begin analysis of debt deal sizing, including review with project managers to determine actual and projected expenditures and timelines.
- Meetings are held with PFM for consultation of issuance details and in preparation for meetings with Credit Rating Agencies.

#### October - November:

- Debt Management Staff begin drafting Official Statements (produced for each bond sale).
- The Debt Capacity Model is used to project debt service estimates in advance of meetings with Credit Rating Agencies.
- Meetings with Credit Rating Agencies occur.
- Reports are issued by Credit Rating Agencies pertaining to credit ratings on the County's upcoming issuances.
- Debt issuances take place.
- PFM provides detailed files with debt details for import into Debt Manager<sup>8</sup>.

#### December:

- Debt Manager reports are used to update existing debt detail in the Debt Capacity Model.
- Debt Management Staff work with County agencies to prepare reimbursement using bond funding details.

<sup>9</sup> Debt Manager is a debt management software tool used by the County as a system of record and management tool.



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