FitchRatings

Fitch Rates Prince William County, VA's $137.3MM GOs 'AAA'; Outlook Stable

Fitch Ratings-New York-07 October 2019: Fitch Ratings has assigned a 'AAA' rating to the following Prince William County, VA general obligation (GO) bonds issued by the Virginia Public School Authority (VPSA):

--$102.7 million special obligation school financing bonds, Prince William County series 2019A;
--$34.5 million special obligation refunding bonds, Prince William County series 2019B.

Series 2019A bond proceeds will be used to pay the costs of various capital school improvement projects for the county. The bonds are scheduled to sell on Oct. 16 via competitive bid. Series 2019B proceeds will be used to refund outstanding debt for savings. The 2019B bonds are scheduled for a negotiated pricing on Oct. 17.

In addition, Fitch has affirmed the following county ratings:

--Long-Term Issuer Default Rating (IDR) at 'AAA';
--$586.3 million outstanding GO bonds issued by the VPSA at 'AAA';
--$130.4 million outstanding county GO bonds at 'AAA';
--$20.5 million outstanding county refunding COPs, series 2013 at 'AA+';
--$19.3 million outstanding county lease obligations issued by the Industrial Development Authority (IDA) at 'AA+';
--$3.2 million outstanding county refunding lease participation certificates, series 2010 at 'AA+'.

The Rating Outlook is Stable.

SECURITY
VPSA bonds are payable from debt service payments on underlying GO bonds made by the county on behalf of the school board, held by the VPSA and pledged to the payment of the bonds.

County GO bonds are general obligations of the county, payable from its full faith and credit pledge and unlimited taxing power.

Lease obligation bonds are backed by lease payments equal to debt service and subject to annual appropriation by the county board.

ANALYTICAL CONCLUSION
The 'AAA' IDR reflects the county's healthy financial resilience, broad budgetary tools, and moderate liability burden. The one notch distinction between the IDR and the lease obligation bond ratings reflects the slightly higher degree of optionality associated with appropriation payments.

Economic Resource Base
The county is located in northern Virginia, approximately 25 miles southwest of Washington, D.C. The county's

population reached an estimated 468,011 in 2018, up 16% since the 2010 Census.

KEY RATING DRIVERS
Revenue Framework: 'aa'
Fitch expects the natural pace of growth over time to be in line with the level of inflation given taxbase growth. The county enjoys strong control over revenues given the independent legal ability to increase property taxes without limitation. The county increased its millage rate 43% between fiscal years 2008 and 2018.

Expenditure Framework: 'aa'
Fitch expects the natural pace of spending growth to generally track or marginally exceed natural revenue growth. Moderate carrying costs and broad flexibility to manage labor-related costs afford the county solid flexibility to adjust spending.

Long-Term Liability Burden: 'aa'
The combined burden of debt and unfunded pension liabilities is moderate at 11% of personal income, which is on the low end of Fitch's 'aa' metric. About 56% of the burden stems from the county's participation in Virginia Retirement System (VRS). Fitch expects debt to slowly increase as the county plans to annually issue debt to meet school and other county capital needs. Somewhat offsetting the debt pressure is the rapid pace of debt amortization and the population and income gains leading to an increasingly large personal resource base.

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

RATING SENSITIVITIES
Shift in Fundamental Credit Profile: The rating is sensitive to an unexpected change in expectations for economic and related revenue growth and to changes in the county's approach to budget management and maintaining financial flexibility.

CREDIT PROFILE
The county benefits from its location on the outskirts of the Washington, D.C. metropolitan region, its relative affordability, and a well-educated workforce. Its stable economic base, rooted in government and military employment, has expanded to encompass the targeted industries of life sciences, information technology and federal government agencies and contractors. The numbers of data centers in the county continues to increase in and outside of Innovation Park and now stands at 41 data centers, a $9 billion investment and 1,170 new jobs. Eight new data center projects are in the pipeline with a total investment of $3.3 billion and 730 new jobs. The county's employment base has increased in line with the pace of the greater D.C. metro area in recent years. Unemployment rates continue to trend lower, remaining below state and national averages.

The presence of the Marine Corp Base Quantico along with the addition of the FBI Northern VA satellite office help to attract contractors and federal agencies. Since nearly 20% of available land within the county is owned by the federal government, the county remains exposed to changes in federal defense spending, which was has been volatile over the past decade, particularly due to including during the Great Recession. However, Prince William County's installations fared well through the previous BRAC realignments. The U.S. Department of Defense is the county's third largest employer but the federal government currently represents just 5% of the resident employment base.

Revenue Framework
The county primarily relies on property tax revenues, which equated to 70% of general fund revenues in fiscal 2018. The next largest category at 15% was intergovernmental revenues from state and federal sources for schools and other social services.

The county's historical general fund revenue compound average growth rate adjusted for real property tax rate changes for the decade ending in fiscal 2018 is just 0.1%. The county's taxable assessed base was hit very hard during the recession with a peak to trough decline of 33%. As of fiscal 2018, the tax base has largely returned to pre-recession levels after several years of strong growth due to ongoing economic development as depicted in solid construction permit data and continued home value appreciation. The fiscal 2019 taxable assessed value (TAV) of $61.2 billion is a 5.7% increase over 2018. The budgeted fiscal 2020 TAV of $63.6 billion is a 4% increase over 2019. Fitch expects a long-term trend of inflationary natural revenue growth.

The Commonwealth of Virginia's does not limit the property tax rate or levy, affording the county significant independent revenue-raising authority. The county's fiscal 2020 tax rate of $1.125 per $100 of assessed value has been stable since the increase from $1.122 in 2017.

Expenditure Framework

The county's largest expenditure category is education at roughly 42% of fiscal 2018 general fund expenditures, followed by public safety at 22%. Virginia public schools are largely funded by a mix of state and local aid contributions. The amount of local contribution is determined by the county's board, and based on the state-determined performance standards for the school system, known as the required local effort (RLE). A revenue sharing agreement between the county and the component unit school district diverts 57% of general fund revenue to fund the district's budget. The agreement has only been adjusted once in the 20 year life of the plan -- a fairly minor change in fiscal 2014 to increase revenue for schools.

Fitch expects the natural pace of spending growth to be in line with to marginally above natural revenue growth.

The county's fixed carrying cost burden is moderate, with costs for debt, pensions, and other postemployment benefits equaling 13% of fiscal 2018 governmental expenditures and transfers out. Debt service accounts for the majority of costs at 10%. The amortization rate of debt is above average at approximately 72% or debt retired in 10 years including the series 2019A bonds. The county contributes to five other post-employment benefit (OPEB) plans. During fiscal 2018, the county funded 112% of the aggregate required contribution, giving the county potential expenditure flexibility during an economic downturn. Expenditure flexibility also benefits from the state's workforce environment that provides broad legal ability to manage labor-related costs.

Long-Term Liability Burden

The county's overall liability burden, including total net overall debt and the county's and component unit schools' net pension liability burden, at about 11% of personal income. The county's six-year capital improvement plan (2020-2025) of $1.5 billion is approximately $706 million debt funded (3% of personal income). The long-term liability burden is expected to remain at the low end of the 'aa' category.

The county is planning a November 2019 bond referendum. The referendum includes two ballot questions; $355 million authorization for road and mobility projects and $41 million for parks. If the debt is authorized and issued over time, Fitch expects the liability burden to remain within the moderate range.

The county participates in the state-administered VRS for regular full-time employees as does the component unit school district for teachers and non-professional employees. The county also maintains a small supplemental defined benefit retirement plan for police officers, uniformed fire and rescue personnel, uniformed adult detention center staff and sheriff employeesand a volunteer fire and rescue personnel length of service award program (LOSAP). On a combined basis, the net pension liability totals roughly 6% of personal income, largely due to the net pension liability for the teachers' plan. The combined funding level is currently about 69% using Fitch's standard 6% investment return assumption.

Positively, the county makes full actuarial payments to fund OPEBs producing a very small net liability of 0.2%

of personal income.

Operating Performance
The county's inherent budget flexibility is superior, with significant independent revenue raising capacity and solid spending flexibility to manage through potentially volatile revenue fluctuations (absent tax rate adjustments), which the county has historically experienced. Fitch expects the county to maintain the highest level of financial flexibility through economic downturns with reserves remaining above the county's unassigned fund balance goal of 7.5% or revenues. The county also maintains a 2% capital reserve, 2% revenue stabilization reserve and $3 million economic development opportunity fund reserve as part of the committed fund balance. The fiscal 2018 unrestricted general fund balance of $183.5 million was a healthy 16.2% of spending. The county does have additional reserves held outside of the general fund that are accessible with board approval, providing additional flexibility.

The county proved its financial resilience and strong budget management through the most recent recession by raising tax rates, deferring most non-school capex, reducing the overall operating budget, implementing a temporary freeze on compensation increases and making a limited number of reductions-in-force among other measures. Fitch expects the county to make similar operational changes as needed during an economic downturn and continue to update its very thorough long-term comprehensive plans and detailed forecasting reports.

According to management's preliminary fiscal 2019 YE operating results, revenues are $6.1 million over budget mostly due to positive revenue variances in the assessment of data center property and sales tax revenues relative to budget. Spending was $16.8 million below budget due to savings in public safety, community development and human services. The capital reserve portion of the committed general fund balance is expected to decline by $30 million. The county plans to use reserves for technology infrastructure, building and facility capital maintenance, human capital management system, 911 call center and other capital infrastructure projects. Despite the use of reserves, fund balance is expected to remain healthy.

The adopted fiscal 2020 general fund budget of $1.2 billion is a 5% increase over fiscal 2019. The budget keeps the real property tax rate stable and includes a modest $675,000 restricted fund balance appropriation to construct a secondary burn facility and student technology at the County's Public Safety Training Center. The budget increase largely funds a 3% compensation increase (which varies annually), additional funding to the schools according to the revenue sharing agreement and the implementation of findings from the public safety recruitment and retention study.

Contact:

Primary Analyst
Evette Caze
Director
+1-212-908-0376
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Kevin Dolan
Director
+1-212-908-0538

Committee Chairperson

Karen Ribble
Senior Director
+1-415-732-5611

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Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

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U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)

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