



## 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 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 employees and 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% of 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

## ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

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

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

### Applicable Criteria

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

### Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon



procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

## SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

## Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. [Learn more.](#)