FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Prince William County VA Pub Scl Auth $90MM Bonds 'AAA' & $46MM IDA Revs 'AA+'

Mon 14 Sep, 2020 - 5:59 PM ET

Fitch Ratings - New York - 14 Sep 2020: Fitch Ratings has assigned the following ratings to bonds backed by Prince William County, VA:

--$90 million Virginia Public School Authority (VPSA) special obligation school financing bonds, Prince William County series 2020, 'AAA';

--$46 million Prince William County Industrial Development Authority (IDA) facilities revenue and refunding bonds, series 2020A, 'AA+'.

Proceeds of the series 2020 special obligation bonds will be used to support construction of a new high school, a middle school and improvements and renovations to other existing schools. The bonds are expected to sell competitively the week of Sept. 28.

Proceeds of the series 2020A facilities revenue and refunding bonds will be used to finance capital projects for the county and refinance a portion of outstanding facilities revenue bonds for savings. The bonds are expected to sell competitively the week of Oct. 12.

In addition, Fitch has affirmed the following county ratings:

--Long-Term Issuer Default Rating (IDR) at 'AAA';

--$576.9 million outstanding county VPSA special obligation bonds at 'AAA';

--$154.6 million outstanding county GO bonds at 'AAA';

--$20.6 million outstanding county refunding COPs, series 2013 at 'AA+';

--$19.3 million outstanding county IDA (Courts Facilities Project) facilities revenue and refunding bonds series 2016A at 'AA+';

--$3.3 million outstanding county refunding lease participation certificates, series 2010 at 'AA+'.

The Rating Outlook is Stable.

SECURITY

The VPSA bonds are limited and special obligations of the VPSA, payable solely from payments of principal and interest to be made by the county on its local school bonds. The local school bonds are GOs of the county, for which the county has pledged its full faith and credit for payment and unlimited taxing authority. The VPSA has assigned its rights to receive all payments of principal and interest on the local school bonds to the State Treasurer acting as paying agent for the Series 2020 Bonds and all such payments of principal and interest on the local school bonds shall be made directly to the State Treasurer.

The IDA revenue bonds are backed by basic payments equal to debt service and subject to annual appropriation by the county board.

The outstanding series 2013 COPs and series 2010 lease participation certificates are backed by lease payments subject to annual appropriation by the county and rated one notch below the county's IDR.

ANALYTICAL CONCLUSION

The 'AAA' rating on Prince William County's IDR and on its VPSA special obligation bonds reflects the county's superior gap-closing capacity and budget flexibility, and its unlimited taxing authority. Fitch expects the county to maintain a high level of financial flexibility given its solid operating performance, healthy available fund balance, and moderate liability burden. The one-notch distinction between the IDR and the IDA revenue bond ratings reflects the slightly higher degree of optionality associated with appropriation payments.

ECONOMIC RESOURCE BASE

The county is located in northern Virginia, less than 25 miles southwest of Washington, D.C. The county's population reached an estimated census population of 470,335 in 2019, up 17% since 2010.

KEY RATING DRIVERS

Revenue Framework: 'aa'

The county derives the bulk of its revenues from property taxes. Fitch expects the natural pace of growth over time to be in line with the level of inflation given expected growth in the tax base from new development and changes in values over time. The county enjoys strong control over revenues given its independent legal ability to increase property taxes without limitation.

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 Fitch-adjusted net pension liabilities represents about 10% of personal income. About 57% of the burden stems from the county's and county school's participation in the Virginia Retirement System (VRS). Fitch expects debt to slowly increase as the county plans to issue debt annually 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 income resource base. Fitch expects the liability burden to be moderate over the long term even with the issuance of this debt.

Operating Performance: 'aaa'

The county's superior budget flexibility and ample unrestricted general fund balance allow it to comfortably manage through economic downturns without diminishing its overall financial flexibility. Fitch expects the county to maintain a high level of financial flexibility through the current and future economic downturns, with reserves remaining above the county's unassigned fund balance goal of 7.5% of revenues.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable for an 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A material long-term reduction in the county's tax base, resulting in an extended decline in the county's revenue growth prospects;

--A rapid acceleration in natural pace of spending without a corresponding increase in revenue growth;

--A budgetary response to the current pandemic-induced economic contraction that results in significant and multi-year declines in unrestricted reserves weakening the county's overall financial resilience;

--Economic contraction extending well into fiscal 2021 or beyond, consistent with Fitch's coronavirus downside scenario, which triggers sustained and deep revenue declines and materially erodes the county's gap-closing capacity.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

CURRENT DEVELOPMENTS

Sector-Wide Coronavirus Implications

The outbreak of coronavirus and related government containment measures worldwide has created an uncertain global environment for U.S. state and local governments and related entities. Fitch's ratings are forward-looking in nature, and Fitch will monitor the severity and duration of the budgetary impact on state and local governments and incorporate revised expectations for future performance and assessment of key risks.

While the initial phase of economic recovery has been faster than expected, GDP in the U.S. is projected to remain below its 4Q19 level until at least 4Q21. In its baseline scenario, Fitch assumes continued strong GDP growth in 3Q20 followed by a slower recovery trajectory from 4Q20 onward amid persisting social distancing behavior and restrictions, high unemployment and a further pullback in private-sector investment. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the report entitled, "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update" (https://www.fitchratings.com/research/sovereigns/fitch-ratings-coronavirus-scenarios-baseline-downside-cases-update-08-09-2020), published Sept. 8, 2020 on www.fitchratings.com.

On March 12, Governor Northam of Virginia declared a state of emergency due to the coronavirus pandemic. On March 30, Governor Northam issued a statewide stay at home order in response to the rapid spread of the virus. As of July 1, the state has entered Phase 3 of reopening, which allows for restaurants, retail stores, swimming pools, fitness centers and a number of other businesses to operate in a limited capacity. The county has closely followed state guidelines, issuing a state of emergency on March 13 as well as following reopening guidelines to mitigate the impact of the coronavirus.

County Update

As of June 2020, the county spent $4.9 million on PPE and other related expenses and is currently projecting coronavirus-related expenses to total about $8 million for fiscal 2020. To mitigate the financial impacts of the coronavirus, the county has implemented a hiring freeze, halted discretionary spending and deferred capital projects not under contract. The county was approved to receive $84.2 million in CARES Act funding from the Commonwealth to reimburse coronavirus-related expenses. It received the first allocation of $41 million in August 2020 and received the second allocation of about $41 million in September 2020.

The county saw growth in real, personal property, and sales tax revenues and declines in various revenue sources, including communications and consumer utility taxes, and investment income. Management expects to see a net increase in general fund revenues of approximately $10.5 million over the adopted fiscal 2020 budget, primarily as a result of better than anticipated real and personal property tax collections, positive sales tax collections, offset by lower revenues associated with parks, recreation and tourism.

The fiscal 2019 available general fund balance of $185.3 million was a healthy 15% of spending, 8% of which is unrestricted. The county also maintains a 2% capital reserve, a 2% revenue stabilization reserve and $3 million in its economic development opportunity fund reserve as part of the committed fund balance. The county has additional reserves held outside of the general fund that are accessible with board approval, providing additional flexibility.

The adopted fiscal 2021 general fund budget of $1.2 billion is about 4% over the adopted fiscal 2020 budget, mainly due to real estate tax base growth and increased personal property tax revenues. The budget keeps the real property tax rate stable and includes an $18.1 million (roughly 3.2%) increase in school transfers in accordance with the revenue sharing agreement. Fitch expects the county will continue to budget conservatively while exercising strong budget management practices through the current and future economic cycles and maintain reserves sufficient to retain its high gap-closing capacity.

CREDIT PROFILE

The county benefits from being part of the Washington, D.C. metropolitan area, its relative affordability compared to neighboring counties 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 number 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 providing 1,170 new jobs. Currently, 18 new data center projects are in the pipeline with a total investment of roughly $6.7 billion and are expected to generate 570 new jobs.

For additional information on the county, please see the rating action commentary "Fitch Rates Prince William County, VA's $84.8 Million GOs 'AAA'; Outlook Stable" (May 2020).

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

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR

ENTITY/DEBT	RATING			PRIOR
Prince William County (VA) [General Government]	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
• Prince William County (VA) /Appropriation Supported/1 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST States & Locals - Fitch Analytical Stress Test Model, v2.4.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Prince William County (VA)	EU Endorsed
Prince William County Industrial Development Authority	EU Endorsed
Virginia Public School Authority	EU Endorsed

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