

CREDIT OPINION

31 July 2019

 Rate this Research

Contacts

Tiphany Lee-Allen +1.212.553.4772
 VP-Senior Analyst
 tiphany.lee-allen@moody's.com

Valentina Gomez +1.212.553.4861
 AVP-Analyst
 valentina.gomez@moody's.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

Prince William (County of) VA

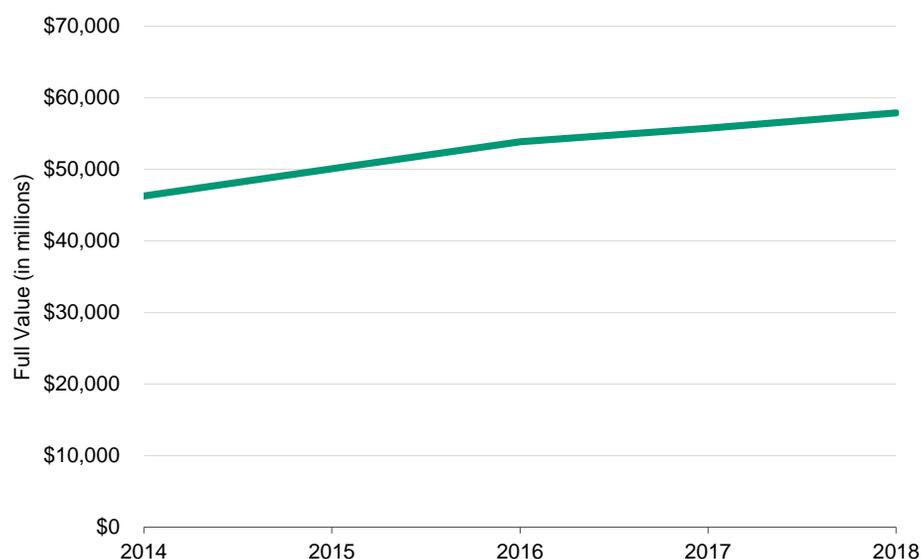
Update to credit analysis

Summary

Prince William County (Aaa, stable) continues to benefit from a dynamic local economy experiencing healthy growth, solid socio-economic indicators, a strong financial position with ample liquidity reflective of effective management and an above average but manageable debt burden.

Exhibit 1

Full value growth continues at a pace stronger than the national median (5.8% average annually since 2014)



Source: Prince William County, VA

Credit strengths

- » Sizeable tax base with ongoing growth potential
- » Solid reserve and liquidity position
- » Strong management team supported by formal fiscal policies

Credit challenges

- » Above average debt burden

Rating outlook

The stable outlook reflects the solid financial position given Prince William County's healthy reserves and sound fiscal management. The outlook also incorporates the county's sizeable tax base that is expected to experience healthy growth over the medium-term.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Substantial deterioration in the tax base and demographic profile
- » Decline in general fund balance or total available reserves below historical levels
- » Sizeable increase in debt burden limiting financial flexibility

Key indicators

Exhibit 2

Prince William (County of) VA	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$46,277,765	\$50,093,457	\$53,864,681	\$55,764,529	\$57,891,082
Population	428,772	437,271	443,630	450,763	460,457
Full Value Per Capita	\$107,931	\$114,559	\$121,418	\$123,711	\$125,725
Median Family Income (% of US Median)	164.3%	162.6%	158.4%	157.5%	157.5%
Finances					
Operating Revenue (\$000)	\$1,406,675	\$1,473,179	\$1,535,946	\$1,605,540	\$1,654,031
Fund Balance (\$000)	\$202,839	\$227,800	\$271,043	\$276,815	\$287,707
Cash Balance (\$000)	\$580,619	\$623,109	\$668,012	\$683,859	\$755,548
Fund Balance as a % of Revenues	14.4%	15.5%	17.6%	17.2%	17.4%
Cash Balance as a % of Revenues	41.3%	42.3%	43.5%	42.6%	45.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$840,182	\$806,637	\$1,122,965	\$1,114,113	\$1,136,788
3-Year Average of Moody's ANPL (\$000)	\$1,739,602	\$1,337,111	\$572,681	\$665,934	\$731,281
Net Direct Debt / Full Value (%)	1.8%	1.6%	2.1%	2.0%	2.0%
Net Direct Debt / Operating Revenues (x)	0.6x	0.5x	0.7x	0.7x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.8%	2.7%	1.1%	1.2%	1.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.2x	0.9x	0.4x	0.4x	0.4x

Source: Moody's Investors Service, Prince William Co. Virginia, US Census

Profile

Prince William County is located in northern Virginia and benefits from its favorable location outside the District of Columbia (approximately 25 miles), high-end employment base and strong wealth levels, which lend long-term stability to this sizable tax base.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Detailed credit considerations

Sizable, Northern Virginia tax base experiences continued growth

Prince William County will continue to benefit from its favorable location, expanding high-end employment base, strong wealth levels, and availability of land that will continue to support healthy growth projections over the medium-term. The county's sizable \$57.8 billion tax base is diverse and includes development activity focused on information technology, biotechnology, defense, and advanced logistics and manufacturing.

Full value growth has averaged nearly 6% annually, favorable growth compared to the national median of 1.7% annually. Prince William County's strong residential and commercial markets coupled with ongoing new investment and development will continue to drive growth in values.

Financial position expected to remain stable going forward; additional outside reserves bolster flexibility

The county's experienced management team's history of prudent fiscal management will ensure maintenance of strong fiscal flexibility going forward. Despite declines in reserves for one-time capital expenditures in 2017 the county still maintains a healthy reserve position. Fiscal 2018 ended with a change in fund balance of \$1.2 million bringing total General Fund balance to \$193 million or 17.1% of General Fund revenues.

The adopted 2020 budget held the tax rate flat at \$1.125, with the last increase in fiscal 2017 from \$1.122. The budget included increased investments in police and fire personnel and the county's adult detention center. The budget also maintains the county's commitment to Prince William County Public Schools according to the general revenue agreement.

LIQUIDITY

Prince William County maintains a solid cash position with fiscal 2018 cash totaling \$556 million or a strong 49% of revenues.

Elevated debt burden exceeds state and national medians

Prince William County's 2% debt burden is expected to remain elevated above both the state (1.3%) and national (0.5%) medians over the medium-term given its sizable \$1.5 billion capital plan funded 55% with additional borrowing. Positively, the county maintains a capital reserve fund for pay-go capital projects. The fund has a projected balance of approximately \$32.8 million in 2019.

The county has adopted debt policies, including maintaining a direct debt burden under 3% of assessed valuation. The debt policies are a key factor in supporting Prince William's strong long-term credit profile and manageable debt position.

DEBT STRUCTURE AND DEBT-RELATED DERIVATIVES

In February 2019 the county entered into a variable rate draw down line of credit not to exceed \$21.1 million. The county is not party to any derivative agreements.

PENSIONS AND OPEB

The county and the school board participate in the Virginia Retirement System defined benefit pension plan administered by the Commonwealth of Virginia (Aaa stable). The county also administers the Police and Fire Supplemental Retirement Plan, a single employer, defined benefit pension plan, as well as a Volunteer Fire and Rescue Personnel Length of Service Award Program (LoSAP).

Prince William County's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$771 million, or an average 0.47 times operating revenues. The county also provides Other Post-Employment Benefits (OPEB) to employees. The county's contributions to OPEB totaled just over 1% of 2018 operating revenues. Despite a high debt burden and elevated pension liability, fixed costs including annual pension, OPEB and debt service expenditures summed to a moderate 11.5% of fiscal 2018 expenditures.

Multi-year forecasting and formalized policies drive strong credit profile

Prince William County's strong management and comprehensive fiscal policies will continue to support its sound financial position. In 2016 the county board increased its Revenue Stabilization Reserve policy minimum to 2% from 1%. This reserve may be used to cover unexpected declines in General Fund revenues which are greater than 3% of the adopted budget, although any draw must be fully replenished to the minimum threshold within five years. Additionally, the county's use of multi-year forecasting tools and frequent

budgetary monitoring are indicative of the county's careful financial management practices, are expected to support continued financial stability going forward.

Virginia Counties have an Institutional Framework score of "Aaa", which is very strong. The sector's major revenue source of property taxes are not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Fixed costs are driven mainly by debt service and pension costs. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Prince William (County of) VA

Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$57,891,082	Aaa
Full Value Per Capita	\$123,068	Aa
Median Family Income (% of US Median)	157.5%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	17.4%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	3.4%	A
Cash Balance as a % of Revenues	45.7%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	11.0%	Aa
Management (20%)		
Institutional Framework	Aaa	Aaa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.0%	A
Net Direct Debt / Operating Revenues (x)	0.7x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.3%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.4x	Aa
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.

[2] Notching factors are specifically defined in the US Local Government General Obligation Debt Methodology Date December 16, 2016.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs updated for 2018 publication.

Source: Prince William County CAFRs, US Census Bureau, Moody's Investors Service

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1182960

Contacts

Tiphany Lee-Allen
VP-Senior Analyst
tiphany.lee-allen@moodys.com

+1.212.553.4772

Valentina Gomez
AVP-Analyst
valentina.gomez@moodys.com

+1.212.553.4861

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454