

## CREDIT OPINION

31 July 2019



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## Prince William (County of) VA

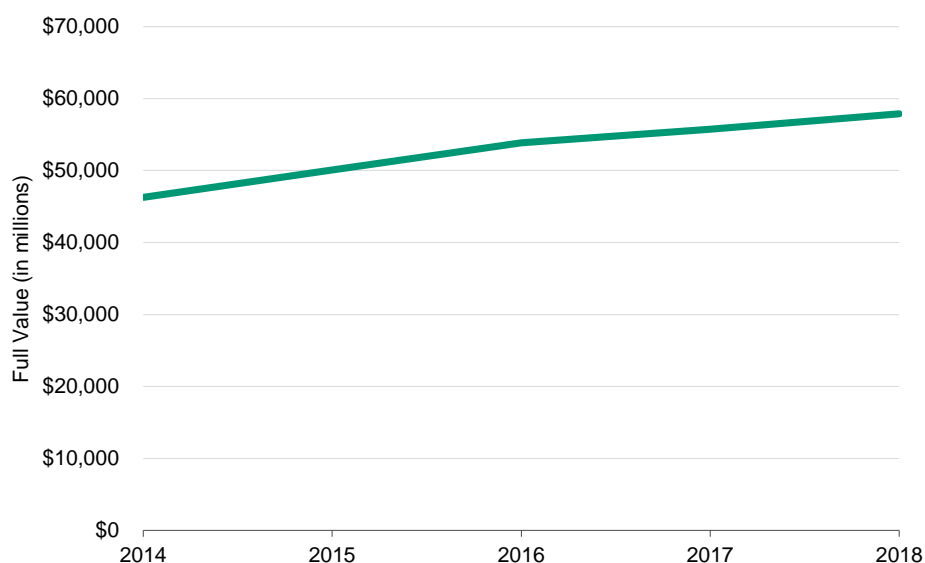
### Update to credit analysis

#### 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
<b>Economy/Tax Base</b>					
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%
<b>Finances</b>					
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%
<b>Debt/Pensions</b>					
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](http://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
<b>Economy/Tax Base (30%)</b> <sup>[1]</sup>		
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
<b>Finances (30%)</b>		
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
<b>Management (20%)</b>		
Institutional Framework	Aaa	Aaa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
<b>Debt and Pensions (20%)</b>		
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

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