

RatingsDirect®

Summary:

Virginia Public School Authority Prince William County; Appropriations; General Obligation

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Credit Profile

US\$102.795 mil spl oblig sch fing bnds (Prince William Cnty) ser 2019A due 10/15/2039

<i>Long Term Rating</i>	AAA/Stable	New
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US\$34.545 mil rfdg spl oblig sch fing bnds taxable (Prince William Cnty) ser 2019B due 07/15/2033

<i>Long Term Rating</i>	AAA/Stable	New
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Prince William Cnty GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Virginia Public School Authority's series 2019A (new money) and 2019B (refunding) special obligation school financing bonds, issued for Prince William County. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the county's general obligation (GO) bonds outstanding and its 'AA+' rating on the county's appropriation-backed debt outstanding. The outlook is stable.

Security and use of proceeds

The series 2019 bonds are secured by principal and interest payments on the local school bonds issued by Prince William County and held by the authority. The local school bonds are a general obligation of the county. The authority assigned all of its rights to receive payments on the local school bonds to the state treasurer, who will act as paying agent on the 2019 bonds. The county's unlimited property taxes secure the bonds.

We understand Prince William County will use bond proceeds of the 2019A bonds to finance various school-related capital improvements projects. The county will use proceeds of the 2019B bonds to refund certain previously outstanding bonds for debt service savings.

The county's appropriation-backed debt outstanding is payable from lease payments made by Prince William County. The lease payments made pursuant to the lease agreement will be sufficient to pay scheduled debt service. Prince William County's ability to make its lease payments is subject to annual appropriation, and the county pledges its best effort to seek the appropriation's inclusion in the annual budget.

Credit overview

Prince William County is a large and fast-growing county that benefits from its proximity to Washington D.C. As the Washington D.C. metropolitan statistical area (MSA) continues to grow, the county provides residents with generally more affordable housing options than some of its neighbors located a little closer to D.C. As a result, population growth continues at a robust rate, which in turn has spurred very strong tax revenue growth. Along with this growth

comes a substantial amount of capital needs that county management has a history of managing well through very strong planning and policies, including a range of resiliency and preparedness measures, as well as through its sound financial operations. We believe management's conservative financial assumptions and spending discipline are likely to contribute to continued operational consistency and the maintenance of very strong reserves.

Prince William County's GO bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. The county has a predominately locally derived revenue source, with most of general fund revenues derived from local property taxes. (See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.)

The rating reflects our assessment of the following factors for the county:

- Very strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 66.3% of total governmental fund expenditures and 6.0x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 11.1% of expenditures and net direct debt that is 90.6% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 70.3% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Very strong economy

We consider the county's economy very strong. Prince William County, with an estimated population of 462,014, is located in the Washington-Arlington-Alexandria MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 123% of the national level and per capita market value of \$146,344. Overall, the county's market value grew by 6.0% in 2018 to \$67.6 billion in 2019. The county unemployment rate was 2.7% in 2018.

Prince William County is located in northern Virginia about 25 miles southwest of Washington D.C., and has an economy that continues to benefit from its access to, and participation in, the Washington MSA. The county is the commonwealth's second-most populous county and generally has a more affordable cost of living than some of its neighboring counties. Population growth remains strong, and had increased 44% from 2000 to 2010 according to the U.S. Census, and an additional 21% since the 2010 Census to its current level of 462,014. We understand that population is projected to reach 529,600 by 2030, as more and more of the county's land transitions from rural and agricultural to suburban and residential.

The economy is very diverse despite a large military component to the local economy. Marine Corps Base Quantico is within Prince William County and Fort Belvoir is located just outside the county's limits. The installations have gained about 30,000 relocated personnel due to the U.S. military's Base Realignment and Closure in 2005. The realignment has also attracted several defense contractors to the county. Nevertheless, Prince William County continues to diversify its employment base, and recent economic development has focused on such growing businesses as data centers, high-tech, and bio-tech industries; federal agencies and contractors; and advanced logistics and manufacturing facilities.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

In 1988, the county adopted the Principles of Sound Financial Management (PSFM), which guide its financial management practices and policies. The PSFM has been updated seven times, most recently in April 2018. Highlights of the PSFM include quarterly reporting of budget-to-actual results to the board of supervisors and use of a five-year budget plan, adopted by the board of county supervisors annually and integrated with the capital improvement plan (CIP). The use of a five-year budget is also mandated by a board-adopted policy, and the plan must be balanced all five years without the use of an unassigned general fund balance; other features of the plan include a six-year CIP, updated annually, along with the budget plan and including all funding sources; a formal debt management policy, limiting debt service for tax-supported debt to 10% of annual revenues and total bonded debt to 3.0% of net assessed value (AV); a formal investment policy that mandates quarterly reporting to the governing body; and a formal fund balance policy that mandates maintenance of the unassigned general fund balance at 7.5% of general fund revenues, a revenue stabilization fund at 2.0% of general fund revenues (increased from 1.0% in March of 2016), and a capital reserve at 2.0% of current capital projects fund appropriations in the CIP.

In addition, the county has enacted a number of resiliency and preparedness measures, including investment in technology modernization as well cybersecurity prevention and remediation. In addition to technology modernization capital expenditures of nearly \$25 million, cybersecurity prevention includes duplicate infrastructure, migration to the cloud and off-premise solutions, mandated employee education, backup files, robust internal audit testing, and other proprietary security solutions.

Adequate budgetary performance

Prince William County's budgetary performance is adequate in our opinion. The county had surplus operating results in the general fund of 1.8% of expenditures, but a deficit result across all governmental funds of 1.6% in fiscal 2018.

Our calculations adjust for recurring transfers in and out of the general fund, including some transfers to enterprise funds, as well as for the use of bond proceeds to fund one-time capital projects.

The county has an excellent history of conservative budgeting and forecasting practices, supported by well-adhered-to fiscal policies. These policies and practices help Prince William County maintain fiscally balanced operations and the ability to fund a substantial amount of one-time expenses on a pay-as-you-go basis.

According to audited fiscal 2018 results, the county increased general fund reserves by \$1.2 million primarily due to

revenues exceeding budget by \$13.3 million as well as expenditures coming in under budget by \$17.6 million, and net of a \$17.7 million transfer to the capital projects fund. Strong property tax growth and growth in other local taxes fueled the positive revenue variance, while conservative budgeting and savings across a number of expense categories accounted for the expense variance.

The fiscal 2019 budget was balanced totaling \$1.18 billion, including an unchanged real estate tax rate of \$1.125 per \$100 of AV. According to unaudited fiscal 2019 results, management indicates that general fund revenues are on track to exceed the original budget by about \$6.1 million, while expenses came in about \$12.7 million below budget. As a result, we understand Prince William County will add to available reserves again in fiscal 2019.

The fiscal 2020 budget is composed of \$632 million for government services and \$607 million for school funding. The real property tax rate remains unchanged. We understand that management expects to end the year with balanced operations and without a material change to reserves.

The county's general fund revenues consist primarily of property taxes, which account for about 70% of revenues, as well as a number of other taxes that combined account for nearly 12% of revenues. Revenues from the commonwealth account for nearly 12% of general fund revenues.

Very strong budgetary flexibility

Prince William County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 20% of operating expenditures, or \$227.8 million. The available fund balance includes \$183.5 million (15.8% of expenditures) in the general fund and \$44.3 million (3.8% of expenditures) that is available outside of the general fund.

Total available reserves include the assigned and unassigned portions of the general fund balance as well as the committed portion, which contains the revenue stabilization reserve, equal to 2% of general fund revenues, and reserves for capital. In addition, there are funds outside of the general fund in the fire levy fund that we understand are legally available for general fund fire services operations with board approval.] Management also cites a number of other reserve set-asides in its internal services funds, including reserves for health insurance, workers compensation, self-insurance, and intra-county services that total another \$52.4 million and that provide additional financial flexibility.

We understand that reserves should increase in fiscal 2019 and remain at least stable in fiscal 2020. As a result, we believe reserves will continue to remain very strong.

Very strong liquidity

In our opinion, Prince William County's liquidity is very strong, with total government available cash at 66.3% of total governmental fund expenditures and 6.0x governmental debt service in 2018. In our view, the county has strong access to external liquidity if necessary.

We believe the county has strong access to external liquidity as it has issued GO and appropriation-backed bonds frequently over the past 20 years. Management has confirmed it has no contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. In addition, the county does not hold any investments we deem aggressive.

Strong debt and contingent liability profile

In our view, Prince William County's debt and contingent liability profile is strong. Total governmental fund debt service is 11.1% of total governmental fund expenditures, and net direct debt is 90.6% of total governmental fund revenue. Overall net debt is low at 1.8% of market value, and approximately 70.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Prince William County relies on a significant pay-as-you-go capital spending program to keep its debt levels low. Specifically, over the past 10 fiscal years, the county has internally financed nearly \$250 million of capital projects with pay-as-you-go capital spending, providing ample financial flexibility in our view. In addition, included in the county's capital planning is more than \$30 million annually in pay-as-you-go capital funding.

The 2019-2024 CIP totals \$1.53 billion. Education projects account for the largest portion of capital expenditures over the next five years, totaling \$870 million, or nearly 57% of the five-year CIP. Management expects to fund nearly half of the CIP with debt. Management indicates it will bring a referendum to voters later this year for the first time since 2006. We understand the referendum will total \$396 million, consisting of \$355 million for roads/mobility and \$41 million for parks. Nevertheless, we do not expect Prince William County's debt profile to materially change in the next couple of years despite the substantial additional capital needs given the size of the county's tax base, rapid amortization of existing debt, and sizable pay-as-you-go spending.

Prince William County's combined required pension and actual other postemployment benefits (OPEB) contributions were 0.6% of total governmental fund expenditures in 2018. Of that amount, 0.1% represented required contributions to pension obligations, and 0.5% represented OPEB payments. The county made 100% of its annual required pension contribution in 2018.

The county contributes to the Virginia Retirement System (VRS) for its county employees. Prince William County has historically budgeted 100% of the annual required contribution, which the commonwealth determines annually. As of June 30, 2018, the plan was 86.3% funded. The county's net pension liability totals \$168.7 million assuming a 7.0% discount rate.

Prince William County also maintains a supplemental pension plan for public safety employees, which was 100% funded, as well as a length of service award program that was nearly 100% funded as of June 30, 2018.

The county also offers OPEB to its employees, and established a trust fund in 2009 to fund this liability. As of July 1, 2018 Prince William County's OPEB liability was 45.6% funded. This represents a significant increase from the July 1, 2012, report, which was funded at 29.2%. The unfunded actuarially determined liability totals \$39.8 million.

Very strong institutional framework

The institutional framework score for Virginia counties is very strong.

Outlook

The stable outlook reflects our view of the stability and diversity in the very strong economy, which remains an integral part of the Washington-Arlington-Alexandria MSA. The outlook further reflects the county's very strong

budget flexibility and liquidity position and consistent financial operations, which are guided by historically very strong management. As a result, we do not expect to change the rating over our two-year outlook horizon. Although unexpected, if Prince William County were to diminish reserves to much lower levels due to unexpectedly weak budgetary performance, this could pressure the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of October 11, 2019)

Prince William Cnty COPs		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Prince William Cnty Indl Dev Auth, Virginia		
Prince William Cnty, Virginia		
Prince William Cnty Indl Dev Auth (Prince William Cnty) fac rev & rfdg bnds (Prince William Cnty) (County Facilities Proj)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Virginia Pub Sch Auth, Virginia		
Prince William Cnty, Virginia		
Virginia Pub Sch Auth (Prince William Cnty) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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