

RatingsDirect®

Summary:

Prince William County, Virginia; Appropriations; General Obligation

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Credit Profile

US\$62.285 mil spl oblig sch fincg rfdg bnds ser 2021B due 07/15/2034		
<i>Long Term Rating</i>	AAA/Stable	New
US\$54.9 mil spl oblig sch fincg bnds ser 2021A due 10/01/2041		
<i>Long Term Rating</i>	AAA/Stable	New
Prince William Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to Virginia Public School Authority, Va.'s series 2021A and 2021B (taxable) special obligation school financing and refunding bonds issued for Prince William County. At the same time, we affirmed our 'AAA' long-term rating on the county's existing general obligation (GO) debt and on bonds issued through the Virginia Public School Authority as well as our 'AA+' long-term rating on the county's existing appropriation backed debt. The outlook is stable.

The series 2021A&B bonds are limited obligations of the authority and secured solely by principal and interest payments on the local school bonds issued by the county and held by the authority. The local school bonds are a general obligation of the county, secured by revenue from ad valorem taxes, which are unlimited to rate or amount. 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 bonds.

Bond proceeds from the series 2021A bonds will be used to finance various school-related capital costs, while proceeds from the series 2021B bonds will be used to refund a portion of existing school authority issued bonds.

Existing GO bonds are also secured by the county's full-faith-and-GO credit pledge. The county's appropriation-backed debt outstanding is payable from lease payments by Prince William County under certain lease agreements. The appropriation-backed debt outstanding is rated based on the application of our criteria, "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Nov. 20, 2019). We rate the obligations one notch below the GO rating on the county to reflect the appropriation risk associated with lease payments. Although lease payments are subject to annual appropriation, the county pledges its best effort to seek the appropriation's inclusion in the annual budget.

Credit overview

The growing and diversifying area economy, historically sound financial operations, especially during recent fiscal pandemic-related pressures, coupled with the maintenance of very strong reserves, guided by a seasoned management

team and the adherence to conservative and well-embedded fiscal policies underpin the county's 'AAA' rating.

The stable outlook reflects our view of the county's economic diversity that benefits from its proximity to Washington, D.C., and the affordability of the area as compared with its neighbors located a little closer to the district. Although the population growth has led to substantial capital needs, we believe the county's overall fixed costs (including debt service, pension, and other postemployment benefits) remain manageable at 14.3% of total governmental expenditures in fiscal 2020. We believe management's conservative financial assumptions and spending discipline will result in ongoing budgetary stability and 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's revenue is predominantly locally derived, with most of general fund revenue derived from local property taxes. (See "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013.)

In our opinion, the rating reflects the county's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 67.4% of total governmental fund expenditures and 6.5x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 10.3% of expenditures and net direct debt that is 90.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 73.4% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Environmental, social, and governance (ESG) factors

We believe the county's governance is above that of the sector given the long-term planning initiatives that management undertakes to mitigate risk to its financial operations and infrastructure, particularly when facing a period of economic weakness. The recent establishment of an Office of Sustainability and the appropriation of funding for a Sustainability Plan further supports the county's strengths. Furthermore, in our view, social risks are below those of the sector and as compared with Northern Virginia peers given the demographic trends and housing affordability that we believe support the county's economic development efforts and tax base expansion. Finally, we evaluated the county's environmental risks and believe they are in line with the sector.

Stable Outlook

Downside scenario

In the unlikely event that Prince William County were to utilize reserves to bridge a long period of imbalance between revenue and expenditures leading to substantially lower flexibility, we could lower the rating.

Credit Opinion

Very strong economy

We consider the county's economy very strong. Prince William County, with an estimated population of 475,005, is located in the Washington-Arlington-Alexandria, D.C.-Va.-Md.-W.Va. MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 128% of the national level and per capita market value of \$156,374. Overall, the county's market value grew by 4.9% over the past year to \$74.3 billion in 2021. The county unemployment rate was 6.5% in 2020.

Prince William County is located in northern Virginia about 25 miles southwest of D.C. The region's economic expansion has spurred significant population growth, with the county becoming the commonwealth's second-most populous with generally a more affordable cost of living than some of its neighboring counties. Population increased 18% from the 2010 to 2020 according to the U.S. Census and roughly 70% since 2000; reaching over 475,000 currently. While population growth is projected to level off this decade, we understand that population is projected to reach 529,600 by 2030, as land within the county transitions from rural and agricultural to suburban and residential. On the residential side, home values continue to appreciate with the average home price increasing 16% over the past year to \$526,022. Continued residential development throughout the county continues and has not been significantly affected due to the pandemic. The county's commercial sector continues to grow as well, adding a combined 55 new businesses, expansions or retentions with a combined \$3.6 billion capital investment since January 2020. Overall commercial vacancy rates of 4.9% (June 2021) are well below the Northern Virginia area. As a result, the county has experienced healthy tax base growth, which has led to declining tax rates. In addition, Innovation Park, a 1,500 acre, long-term, multi-use project developed jointly by the county and George Mason University should continue to drive tax base growth and employment diversity over time.

The strength of the economy is based on the stabilizing military component from the Marine Corps Base Quantico and Fort Belvoir, 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 also attracted several defense contractors to the county. Nevertheless, Prince William County continues to diversify its employment base with recent development focused on data centers, high-tech, and bio-tech industries as well as advanced logistics and manufacturing facilities.

In response to the pandemic, the county continues to support its local businesses through various programs including direct financial assistance, grants to community partners, premium pay for essential workers and community feeding. Furthermore, a task force comprised of industry and business leaders was created to accelerate recovery. As a result, despite the temporary and modest halt to the county's economic growth, we believe over the long term it will remain

very strong.

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 is regularly updated (every four years) and requires quarterly reporting of budget-to-actual results to the board of supervisors. Furthermore, the principles outline a five-year budget plan, annually adopted by the board of county supervisors and integrated with the capital improvement plan (CIP). The five-year budget plan must be balanced in all years without appropriating the unassigned general fund balance. Other features of the plan include an annually updated six-year CIP that identifies all funding sources. Furthermore, a formal debt management policy delineates limiting debt service for tax-supported debt to 10% of annual revenues and total bonded debt to 3.0% of net assessed value (AV). The county's formal investment policy mandates quarterly reporting to the governing body and a formal fund balance policy requiring 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, and a capital reserve equal to 2.0% of current capital projects fund appropriations in the CIP.

In addition, the county has enacted various resiliency and preparedness measures, including investment in technology modernization as well cybersecurity prevention and remediation. In addition to technology modernization capital expenditures, cybersecurity prevention includes duplicate infrastructure, migration of data redundancy to the cloud and off-premise solutions, mandated employee education, robust internal audit testing, and other proprietary security solutions. Lastly, the board has recently updated its 2021-2024 strategic plan adding a sustainability focus. It has established an Office of Sustainability and appropriated funding for a Community Energy Master Plan.

Strong budgetary performance

Prince William County's budgetary performance is strong in our opinion. The county had operating surpluses of 2.7% of expenditures in the general fund and 3.5% across all governmental funds in fiscal 2020.

We adjust the county's audited results to reflect recurring transfers in and out of the general fund, including some transfers to enterprise funds, as well as removing expenditures financed with 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. The budget is primarily supported by property taxes (about 70%), sales taxes (6%), and other taxes (6%).

With revenues coming in over budget, primarily from property and sales tax revenues, and expenditures under budget, against a revised fiscal 2020 budget, the county closed with a healthy \$33.0 million surplus, net of transfers (primarily to the capital projects funds). Despite the pandemic-related pressures, the county maintained the unassigned fund balance and revenue stabilization reserve fund in-line with formal policy guidelines and added \$9.9 million to the capital reserve through continued prudent fiscal oversight.

The county currently projects closing fiscal 2021 with at least, a \$10.8 million surplus as sales taxes are tracking above budget while expenditures are currently below budget. Given real and personal property taxes were budgeted conservatively for the year, and sales taxes are already exceeding budget, the county estimates the surplus to be larger. The county is set to receive a total of \$190.5 million in federal COVID-relief money (CARES Act \$82.1 million, ARPA \$91.4 million, and other funding sources of \$17.0 million) with an additional \$153.6 million for schools. Roughly \$78 million of CARES Act funding and \$5 million of ARPA funds were utilized in the fiscal 2021 year to cover county and community costs. The board is currently discussing how it plans to use the remainder of the funds.

The fiscal 2022 adopted general fund budget totals \$1.35 billion when including the school board transfer. The budget includes a one cent decrease to the real estate tax rate to \$1.115 (from \$1.125). There are other modest taxes and fees included in the fiscal 2022 budget including the recently adopted cigarette tax of \$0.40 per pack. It is estimated to generate roughly \$4.0 million per year. The county is currently in the process of obtaining membership with the Northern Virginia Cigarette Tax Board. Upon approval, the county will present the ordinance to the board. Lastly, the county could see a new revenue stream from plastic bag taxes, in which revenues would be used for environmental and nutritional purposes.

We expect officials to continue to monitor any potential lingering pandemic-related effects and adjust expenditure controls accordingly to ensure maintenance of reserve levels and budgetary balance.

Very strong budgetary flexibility

Prince William County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 21% of operating expenditures, or \$259.2 million. The available fund balance includes \$219.3 million (17.7% of expenditures) in the general fund and \$39.9 million (3.2% of expenditures) that is outside the general fund but legally available for operations.

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 reserves available in the fire levy fund that are legally available to cover public safety costs in the general fund 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 \$22.95 million and that provide additional financial flexibility.

With a surplus estimated for fiscal 2021, we expect reserves to remain relatively unchanged. We believe the county is well positioned to absorb any potential revenue loss in fiscal 2022 and beyond as a result of the pandemic.

Furthermore, we believe the county's annual transfer to the capital projects fund to cover pay-as-you-go capital spending could be reduced to provide resources to cover operating costs. As such, we do not expect the county's budgetary flexibility to weaken, at least, over the near term.

Very strong liquidity

In our opinion, Prince William County's liquidity is very strong, with total government available cash at 67.4% of total governmental fund expenditures and 6.5x governmental debt service in 2020. In our view, the county has strong access to external liquidity if necessary.

We believe the county has strong access to external liquidity given its regular issuance of debt 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. Furthermore, officials have prioritized conservation of cash given the potential for revenue dislocation stemming from the pandemic.

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 10.3% of total governmental fund expenditures, and net direct debt is 90.2% of total governmental fund revenue. Overall net debt is low at 1.8% of market value, and approximately 73.4% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following this issue, the county will have about \$1.28 billion in net direct debt outstanding. Despite the sizable amount of debt outstanding, the county keeps debt service costs manageable by relying significantly on pay-as-you-go capital spending. In fiscal 2020, the county cash-funded \$39 million in capital projects with \$55.7 million in the capital projects fund balance remaining at year end (in excess of the \$12.0 million required by its policy) and included a \$10.0 million set aside for pandemic-related items. The fiscal 2020 transfer into the fund was \$9.9 million, providing ample financial flexibility to continue its capital investment despite the potential for lower revenue collections in fiscal 2022. Unaudited fiscal 2021 capital reserve balance is estimated at \$55.2 million and does not include the \$10.0 million set aside: still providing ample future flexibility.

County voters overwhelmingly approved a referendum in November 2019 totaling \$396 million, consisting of \$355 million for roads/mobility and \$41 million for parks. Only \$305 million of the \$355.0 million is expected to be borrowed through bond issuance with the remainder coming from other funding sources. The county expects to issue the authorized debt incrementally between fiscal years 2022 and 2027. In total, when combining the referendum debt and other county capital projects, the county plans to issue roughly \$153.0 million in additional debt in fiscal 2023. Nevertheless, we do not expect Prince William County's debt profile to materially deteriorate given rapid amortization of existing debt and sizable pay-as-you-go spending.

Prince William County's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 4.0% of total governmental fund expenditures in 2020. Of that amount, 3.0% represented required contributions to pension obligations, and 1.1% represented OPEB payments. The county made 101% of its required pension contribution in 2020.

We do not view pension and OPEB liabilities as an immediate source of credit pressure, because required contributions currently make up a modest 4.0% of total governmental expenditures. If required contributions were to escalate during the next few fiscal years, which we do not expect, we believe the county could easily absorb higher costs due to its sizable reserves and other flexibility afforded by its large pay-as-you-go capital program.

As of June 30, 2020, the county participated in the following retirement plans:

- County and school board employees participate in the Virginia Retirement System (VRS): 85.2% funded, with a net pension liability of \$207.5 million.

- A supplemental pension plan for public safety employees: 102.0% funded, with a net pension asset; and
- A length of service award program for volunteer firefighters: 61.3% funded, with a net pension liability of \$10.78 million. The funded ratio decreased due to a change in the discount rate from 6% to 3%, which we view prudently.

The county also offers OPEB to its employees, and established a trust fund in 2009, which contained \$95.4 million as of June 30, 2020. As of July 1, 2020, Prince William County's OPEB liability was 69.7% funded with a total liability of \$78.6 million.

We generally view the assumptions governing VRS as conservative with a discount rate of 7.0% and closed amortization period. The county's contributions nearly met our minimum funding progress level and exceeded our static funding metric, indicating the county is making good progress meeting its current and future liabilities. As a result, we do not expect plan contributions to change materially over the next couple of years.

Very strong institutional framework

The institutional framework score for Virginia counties is very strong.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of September 16, 2021)		
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) facs rev and rfdg bnds (Prince William Cnty) ser 2020A dtd 10/29/2020 due 10/01/2040		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
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) spl oblig sch fing bnds (Prince William Cnty) ser 2020 dtd 10/15/2020 due 10/01/2040		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Virginia Pub Sch Auth (Prince William Cnty) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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