PRINCE WILLIAM
Finance

2023

Fiscal Health Outlook Report

Published June 2024

PRINCE WILLIAM COUNTY

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Introduction

This report provides a framework for monitoring Prince William County's financial condition for fiscal year 2023. The continuous monitoring process utilized herein is a management tool that pulls together information from the County's budgetary and financial reports and combines it with economic and demographic data.

The use of ratio analysis, as well as trend analysis, help gauge the fiscal health of Prince William County. Local trends are compared to both regional and national results to provide a more comprehensive understanding of the County's financial status. The County utilized the services of PFM Financial Advisors, LLC, the County's financial advisor, to prepare this report. Trend data is taken from the County's Annual Comprehensive Financial Report (ACFR) and other financial and accounting records. The sources of trend data for the comparison jurisdictions included in this report are Moody's Financial Ratio Analysis database and Standard & Poor's (S&P's) ratings reports which contain financial information from the peer group's respective Annual Comprehensive Financial Reports. The 'triple triple-A' comparison group includes the Virginia counties of Arlington, Chesterfield, Fairfax, Hanover, Henrico, and Loudoun, as well as Anne Arundel and Howard County, Maryland and Wake County, North Carolina.

Most of the states take a wide variety of approaches to monitor localities' fiscal health as well. In 2017, the Commonwealth of Virginia joined 22 other states that regularly review financial information from local governments to assess their fiscal conditions. The Virginia Acts of Assembly directed the Auditor of Public Accounts (APA) Office to establish a system to monitor financial data to identify potential fiscal distress among local governments in the Commonwealth. The three-step process currently consists of the 12 financial ratio analysis, ranking each locality's results in the model to determine an overall composite score that serves as a preliminary determination of potential fiscal distress. A higher number of points indicates weaker financial performance. If a locality scores above a determined point threshold, which is reassessed each year, it will be subject to additional qualitative in-depth analysis that includes demographics, unemployment, and other external factors. The ratio and qualitative analyses could lead to a follow-up review, the final step of the process in determining if a locality is experiencing a fiscal distress situation and requires further intervention from the Commonwealth. The County's total score of the ratio trend analysis has been significantly below the threshold and classified as "does not require further follow-up" and has not shown any distress warning signs.[1]

Amidst the challenges posted by easing inflation and a resilient yet slowing economic landscape, state and local governments grapple with tighter economic conditions. Nevertheless, despite these economic headwinds, the County persists in showcasing responsible fiscal management. With an emphasis on forward-thinking planning and judicious decision-making, the County's leadership has upheld financial flexibility and resilience. This dedication to sound fiscal policies has been acknowledged through reaffirmation of the County's credit rating, underscoring the efficacy of management amid economic uncertainties.

[1] Monitoring for Local Government Fiscal Distress Reports from the Commonwealth of Virginia Auditor of Public Accounts are available at https://www.apa.virginia.gov/local-government/reports?type=fiscal-distress-monitoring.

Economy

A U.S. recession of some form in 2023 seemed nearly inevitable as a long line of financial markets pundits leaned into the theory that monetary policy works with long and variable lags. Many believed the consequences of an aggressive interest rate hiking campaign by the Federal Reserve to quash inflation would surely begin to extract a toll on consumption and the labor market. Such has been the plight when attempting to understand the economic impacts brought forth by COVID-19 throughout the transition to a post-pandemic landscape. While the pace of hiring and economic growth has gradually decelerated, recession calls have largely been scrapped as inflation has fallen without the rapid economic slowdown and higher unemployment forecast by many economists. Instead, fanciful terms such as "soft landing", "economic nirvana" and "goldilocks" have been floated to describe the current state of the U.S. economy. But despite relatively positive sentiment emanating from economists and investors, a state of well-being is often cultivated through a lens of subjective interpretation. The simple fact is not all Americans are prospering, as evidence of a two-track economy has slowly emerged. Depleted savings, increased reliance on revolving credit, rising auto loan defaults, an increase in the duration of unemployment and more Americans working multiple jobs are early signs of economic weakness that deserve consideration when assessing the breadth of a downturn in future economic activity.

The combination of low unemployment, falling inflation and firm consumer demand, though welcome, is challenging to decipher amid elevated borrowing costs and tighter lending standards. Speculation has mounted as to whether the enormous sum of U.S. government stimulus dollars that were allocated through federal legislation, namely the Coronavirus Aid, Relief and Economic Security Act (CARES Act) of 2020 and the American Rescue Plan Act (ARPA) of 2021, to mitigate the economic impact of COVID-19, coupled with post pandemic spending bills such as the Inflation Reduction Act and the CHIPS and Science Act, could be supporting U.S. economic expansion, thus partially nullifying the Federal Reserve's 525 basis points of interest rate increases. If Bank of America's early January 2024 claim that approximately seventy-five percent of federal stimulus dollars have not been spent is accurate, a reasonable argument can be made that a key factor permitting inflation to ease has simply been the gradual process of aggregate supply catching up with demand, despite federal spending policies potentially delivering an inflationary impulse by subsidizing economic growth.

Federal Reserve policy makers have generally expressed a positive tone regarding the progress that has been made to reduce price pressures but have signaled a higher degree of confidence that inflation is on a durable path back to 2.0% will be necessary prior to moving forward with interest rate cuts. Given the litany of economic forecasts that have been refuted over the past several years, caution is warranted as officials deliberate a recalibration of monetary policy. Despite a considerable retreat of inflationary pressure from the macroeconomic landscape over the prior twenty months, the Federal Reserve's job of navigating the U.S. economy to a "soft landing" will not necessarily become easier. The central bank will need to weigh risks and uncertainties that could upend its dual mandate of price stability and full employment. But with that dual mandate having become more balanced at this juncture, an argument can be made that some measure of monetary policy easing (i.e. interest rate cuts) is justifiable. The only questions that remain are when and at what pace.

The County's leaders monitor closely the economic activity across all sectors of the community and assess its impact on the local economy and operations. Identifying County's strengths, weaknesses and vulnerabilities, careful planning of robust scenarios, evaluating the structural balance of the County's budget, maintaining financial agility, and not deviating from practices that have led to the triple-A ratings remain the County's key considerations during the economic period of slower global growth, inflation, expected slowdown of consumer spending and potential financial market instability.

Executive Summary

A credit rating is an assessment of the general creditworthiness of an entity or the creditworthiness of an entity with respect to a specific debt security or other financial obligation, based on relevant risk factors. Credit rating criteria and methodology have grown in complexity over time, with both quantitative and qualitative analysis involved.

In general rating agencies look at the following primary credit factors – *financial/budgetary performance*, *economy and tax base*, *debt and pension obligations* and *governance/management*.

Rating agencies use a quantitative scorecard approach to provide a composite score of a local government's credit profile based on the weighted factors deemed most important, measurable, and prevalent. The scorecard contains calculated ratios using historical results which provide a basis for the credit rating. Note that within each scorecard, the metrics used by rating agencies are not all weighted equally. For example, S&P gives more weight to a locality's economy and tax base than they give to debt and other liabilities. The scorecard metrics and weights are summarized in the tables provided at the end of this report.

Next, the rating agencies make qualitative adjustments when events or certain characteristics of the local government may be more significant determinants of a rating than the pure scorecard weighting might otherwise imply.

The adjustments allow for a final rating based on future expectations. Examples of qualitative adjustments include, but are not limited to, the following:

Key:

↑ = Upward adjustment
↓ = Downward adjustment

Financial/Budgetary Performance

↑ Additional borrowable liquidity
↑↓ Strong or weak budget planning and management (e.g., five-year plan)
↓ Reliance on uncertain federal or state aid
↓ Limited revenue raising ability or restrictive tax caps
↓ Heavy fixed costs
↓ Volatile revenue sources
↓ Large structural imbalance

Economy and Tax Base

↑ Presence or proximity of a university, state capital or nation's capital
↑ Exceptionally high household wealth levels
↑ Expected future development
↑↓ Median home value and real estate values trend
↑↓ Population trends
↑↓ Composition of the workforce and employment opportunities
↓ Expected decline in tax base due to corporate closures or tax appeals
↓ High poverty rate

Debt and Pension Obligations

- ↑↓ Unusually rapid or slow amortization of debt principal
- ↑ Established pension or other post-employment benefit (OPEB) reserve
- ↓ Heavy capital needs implying future debt increases

Governance/Management

- ↑ Formal financial policies
- ↑ History of conservative budgeting
- ↑ Active monitoring of budget performance
- ↑ Well-defined plan for restoring structural operating balance and/or replenishing reserves
- ↑ Ability and willingness to make adjustments in response to economic and financial pressures
- ↓ Reliance on cash flow borrowing
- ↓ Weaknesses in best practices
- ↓ Political polarization that makes budgeting and decision-making difficult

The following chart provides a summary of the overall credit strengths and weaknesses of the County as last reported in October of 2023 by the three major credit rating agencies, Moody's Investors Service (Moody's), S&P Global Ratings (S&P) and Fitch Ratings (Fitch).

Prince William County

Credit Strengths and Weaknesses

Positives	Negatives
Economy & Demographics	**Economy & Demographics**
• Sizeable and growing tax base • Diversifying local economy • Affordable cost of living compared to other localities in D.C. metro area • Unemployment rate below national and state averages	• High exposure to changes in federal defense spending, which was volatile over the past decade
Financial Condition	**Financial Condition**
• Stable reserve and liquidity position • Very strong budgetary flexibility • Maintenance of capital reserve fund for pay-go capital	• Fund balance levels below similarly rated counties nationwide
Debt and Pension	**Debt and Pension**
• Long-term liabilities remain manageable • Conservative debt management practices • Overall debt % assessed value of less than 3%	• Debt and pension burdens slightly above Aaa median
Management	**Management**
• Strong management team supported by formal fiscal policies and very strong financial practices • Use of multi-year forecasting tools and frequent budget monitoring	• None
Environmental, Social, Governance	**Environmental, Social, Governance**
• Strong management, institutional and budgeting practices • Positive demographic trends, affordable housing, above average labor and income • Neutral to low exposure to environmental risks	• None

Source: Fitch's report dated September 25, 2023, Moody's report dated September 26, 2023, and S&P's report dated September 28, 2023.

After making all qualitative adjustments to their rating metrics, either upward or downward, the County rates ‘AAA’ from all three major credit rating agencies. Triple-A is the highest rating from each agency and signals that the County has an “extremely strong capacity to meet financial commitments.”

In September 2023, Fitch introduced significant changes to its local government rating methodology to improve comparability across all rated credits, followed by S&P at the beginning of 2024. Despite these changes, it is expected that the county’s AAA rating will remain unaffected with both credit rating agencies. Here is a summary of key changes for both agencies:

Fitch’s new methodology, released in April 2024, aims to enhance the rating process by improving internal and external criteria. This includes leveraging data more effectively and shifting away from relying solely on qualitative factors. The new metrics support a comprehensive rating approach and strive for a more uniform assessment, while upholding key analytical principles. The reorganized analysis focuses on three key rating drivers: financial profile, demographic and economic strength, and long-term liability burden. The scorecard metrics and weights of this new methodology are summarized in tables provided at the end of this report. The next time the County undergoes a credit rating assessment by Fitch, it will be evaluated using this new methodology.

S&P’s proposed new methodology is anticipated to be rolled out at the end of 2024. Key changes from their existing criteria include increasing the weighting of the institutional framework assessment and updating weights for each key credit factor of the Individual Credit Profile (ICP) to 20%. Additionally, there is a shift in the initial economy assessment to reflect broader regional indicators, such as gross county product and county per capita income, rather than specific scoring of taxable market values. Moreover, annual pension and other post-employment benefits costs are incorporated within the debt and liabilities factor of the ICP. The new methodology details how ratings are assigned relative to the government’s credit profile, including specific guidelines for notch adjustments.

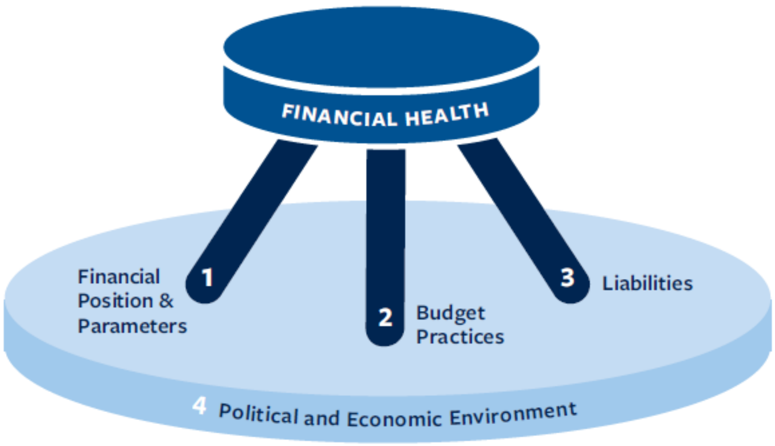
In addition to the financial reporting metric, rating agencies, investors, and analysts today continue to focus on environmental, social and governance (ESG) factors. Moody’s and S&P added explicit ESG scores to their methodology with the intention of providing additional details and transparency regarding their assessment of ESG risks. Fitch rolled out ESG relevance scores across all credits in 2019 and assigned all municipalities the same credit-neutral ESG score of ‘3’. In 2021, Moody’s included the County in its first Sector In-Depth report on ESG considerations for local governments. In its recent report, Moody’s states that the County had a positive ESG Credit Impact Score of 1 (CIS-1), “reflecting strong social and governance risks, and neutral-to-low exposure to environmental risks”. This means that ESG factors have a positive impact on the County’s credit. In its report on the County dated September 28, 2023, S&P indicates that the County’s environmental, social, and governance factors are assessed as neutral, with minimal environmental risks. This observation coincides with the County’s proactive step of establishing an Office of Sustainability and allocating funds to support environmental initiatives, enhancing its overall resilience and preparedness measures.

The ability for the County to receive and maintain a triple-A rating is important as it reflects the County’s ability and willingness to pay its obligations, thereby increasing demand for the County’s bonds and reducing overall borrowing costs. Furthermore, the triple-A rating signals fiscal stability and good governance to businesses looking to locate within Prince William County.

In this report, the County uses 2023 fiscal year-end results to calculate several of the key factors used in the credit rating evaluation. The charts depicting the County as compared to its peer group show County data as either “green” or “yellow”. A green bar reflects the achievement of triple-A status for that particular metric, while a yellow bar indicates a rating of double-A or A.

Fiscal Stability

According to the Government Finance Officers Association (GFOA) a financially sustainable community provides services to citizens within its available means while proactively taking measures to build and preserve its ability to provide services in the future. The Financial Health Model below depicts a three-legged stool comprised of sound financial position and parameters, flexible budget practices and manageable liabilities. The stool sits on a foundation made up of the political and economic environment. These are the same factors the rating agencies assess when assigning a bond rating to a municipality. While the County is a 'triple triple-A' jurisdiction, as affirmed in September 2023, there are some areas that are not as strong as others. Based purely on the rating agencies' quantitative scoring metrics, the County is 'Aa'. However as previously noted, each rating agency also looks at qualitative factors - namely the political environment, governance, and additional economic, financial and debt factors - and can make upward or downward adjustments to a score based on that assessment. Moody's, for example, noted a contributing factor to the County's 'Aaa' rating was County's "good governance, robust economy, as well as a strong and stable financial position". Similarly, S&P highlighted County's "growing economic base, along with long-standing robust financial policies and practices".

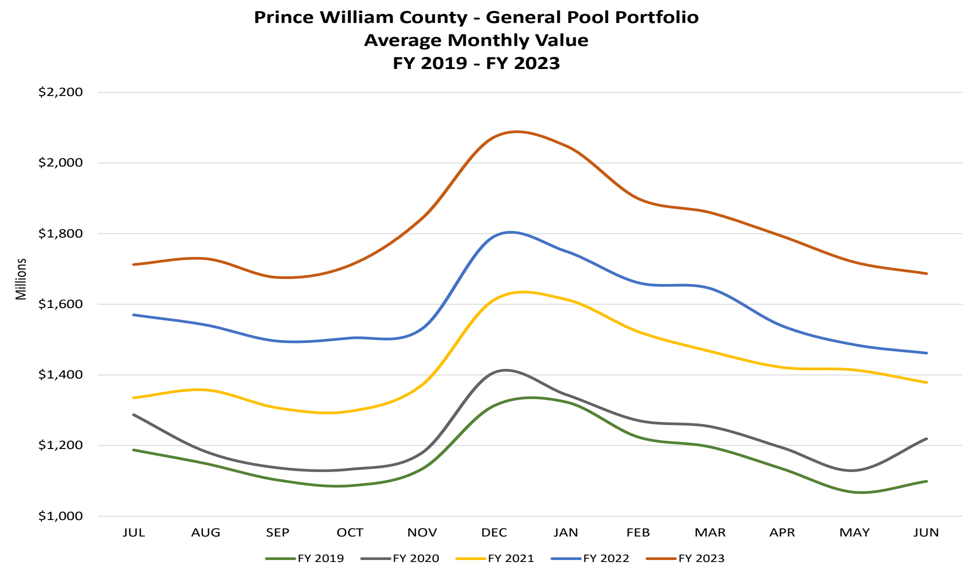


Source: Government Finance Officers Association

Financial Position

Cash

One of the areas assessed related to financial position is cash balance or liquidity. Increases in portfolio size typically come from additions to fund balance/year-end savings as well as a portion of annual revenue growth. The County's General Pool Portfolio has seen average growth of approximately 10.5% since 2019. While the shape and trajectory of the County's average monthly portfolio balance exhibited an expected progression from fiscal year 2019 to 2020, the staggered receipt of federal stimulus funds and budget surpluses played key roles in maintaining a higher-than-normal average portfolio balance throughout fiscal years 2021 and 2022. During fiscal year 2023, average portfolio growth was driven by unspent federal stimulus payments, a higher than anticipated budget surplus and a rising interest rate environment triggered by the Federal Reserve's monetary policy tightening campaign.

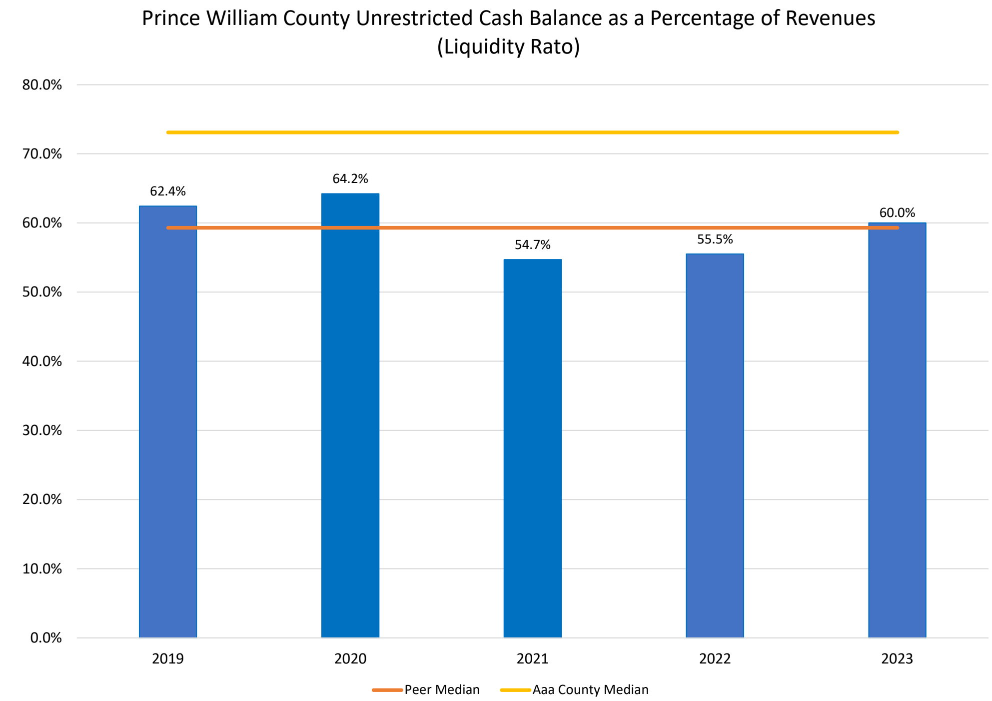


Source: Prince William County, Department of Finance - Treasury Management

Liquidity

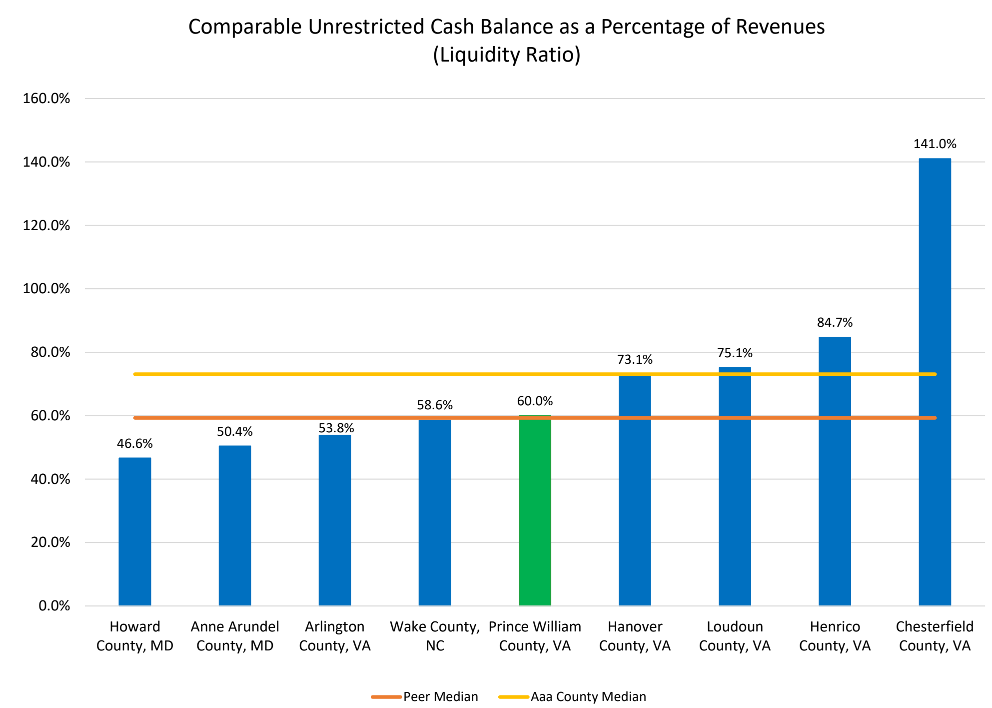
Liquidity ratios analyze the ability of an organization to pay off both its current liabilities as they become due, as well as its long-term liabilities as they become current. In other words, these ratios show the cash balance levels of the County and the ability to turn other assets into cash to pay off liabilities and other current obligations. Cash basis liquidity measures assess the County's relative degree of financial cushion. A good indicator of liquidity level is the cash cushion available to an entity at the end of the fiscal year.

Rating agencies examine the historical cash balance as a percentage of revenues to determine whether an entity has a strong or weak cash margin. A history of weak year-end liquidity signifies a tight cash position with little buffer available if revenues unexpectedly decline. Moody's 'Aaa' target for this liquidity metric is greater than 40%. The liquidity ratio looks at entities' unrestricted cash in total governmental activities, total business type activities and the internal services funds, net of short-term debt from operating funds. The chart on the following page shows that the County is currently at 60% and rates 'Aaa' in this category, with County's unrestricted cash balances exceeding $1.124 billion on June 30, 2023.



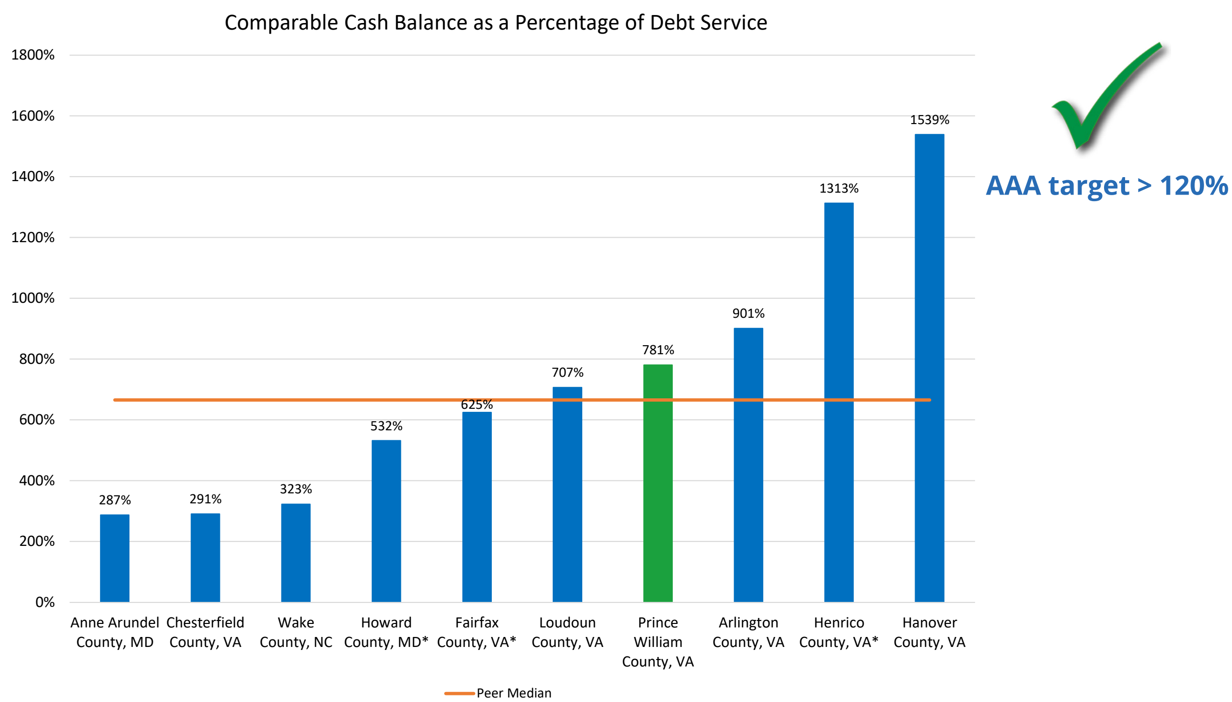
Source: Moody's Financial Ratio Analysis database.

The chart below compares Prince William County to the peer group median and the median of all 'Aaa' rated counties in the nation for historical cash balance as a percentage of revenues. The County is at the peer median, but slightly below the 'Aaa' county median of 73.1%.



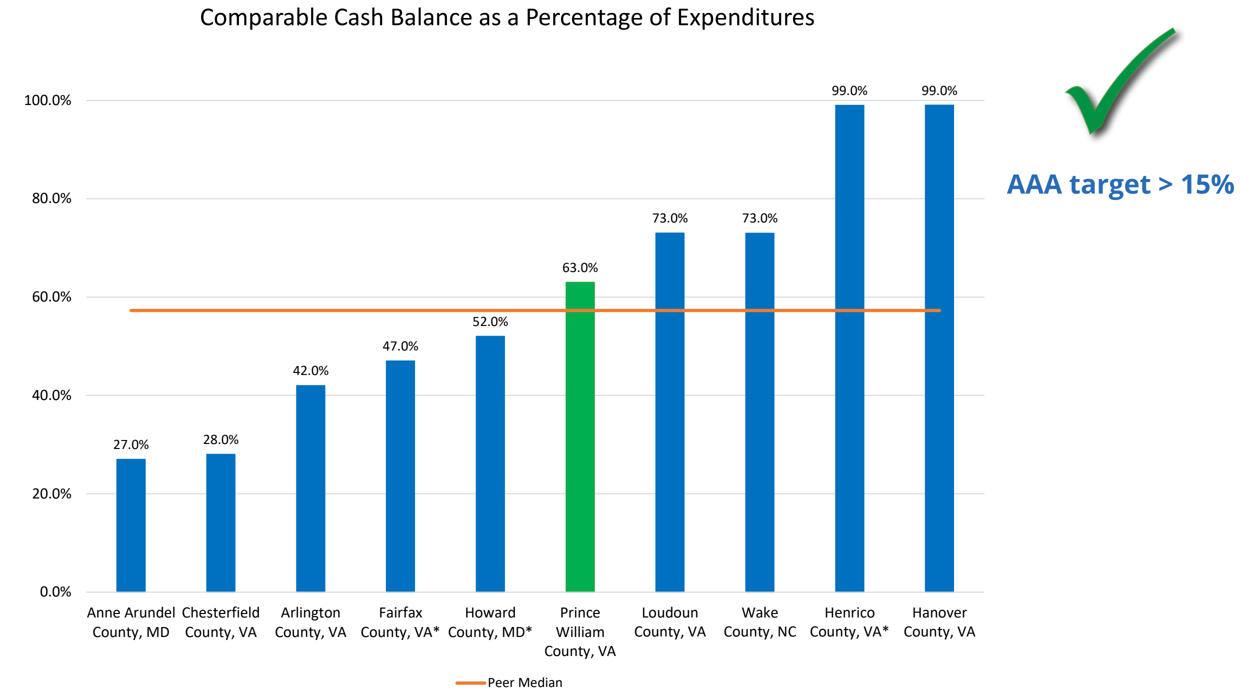
Source: Moody's Financial Ratio Analysis database.

Cash balance as a percentage of debt service shows the relationship of cash to debt and debt service, and the ability of an organization to fund its operational needs. Since there are draws on cash other than repaying debt, i.e., cost of daily operations, it is important for rating agencies to understand the extent to which those other requirements will allow cash to be used to pay debt service costs, or alternatively lead to the need for additional borrowing. S&P measures the cash balance as a percentage of debt service and defines the 'AAA' target as greater than 120%. The County ranks solidly in the 'AAA' category with a percentage that is well above the target at 781%.



Source: PFM estimate of FY 2023 credit ratios, unless denoted by *
* Reflected S&P Report for FY 2023

S&P also examines the cash balance as a percentage of total expenditures with the 'AAA' target measuring greater than 15%. Here again, the County achieves a very strong 'AAA' at 63% which represents the County's enhanced fiscal flexibility should unforeseen events or contingencies occur.



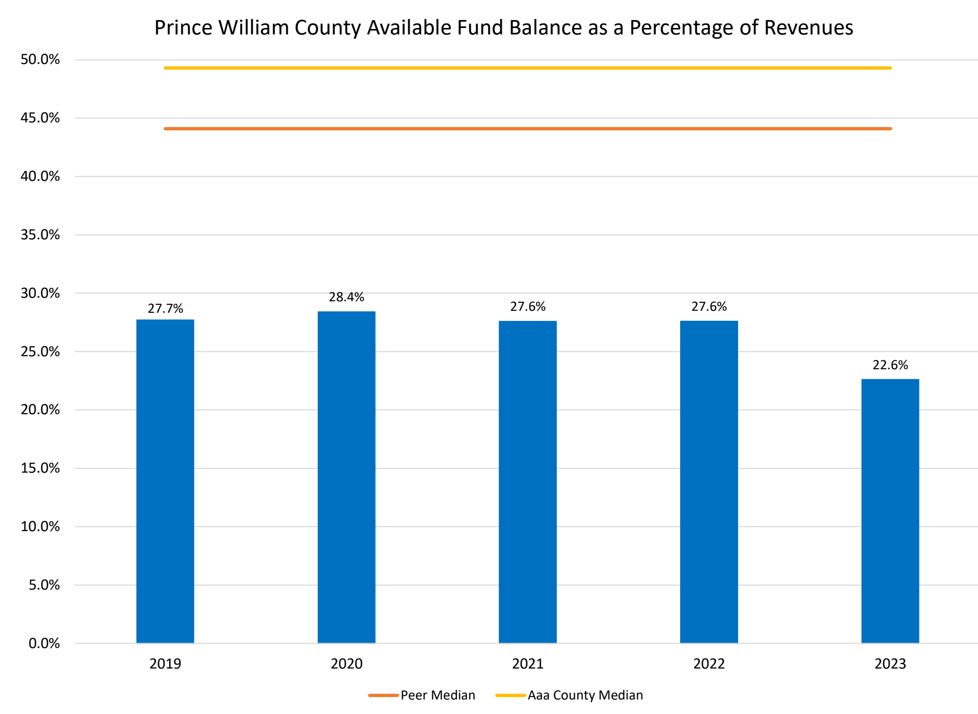
Source: PFM estimate of FY 2023 credit ratios, unless denoted by *
* Reflected S&P Report for FY 2023

Fund Balance

Fund balance is another factor the rating agencies assess to measure financial position. Typically, a proprietary reporting unit reports all related assets and liabilities with the difference between the two reported as net assets, or a measure of net worth. Because Governmental Funds (i.e., general fund, special revenue funds and capital projects funds) report only a subset of related assets and liabilities, the difference between the two is closer to a measure of liquidity, rather than net worth, and could be compared to the term "working capital" in the private sector.

Fund balance ratios generally reflect an entity's revenue and expenditure policies under Generally Accepted Accounting Principles (GAAP), and therefore, show the effects a locality may have taken to balance its budget. Valuable information about both the past and the future is communicated through these ratios. Existing levels of fund balance depict the cumulative effects of an organization's financial history and identify the liquid resources available to fund future liabilities and unforeseen contingencies.

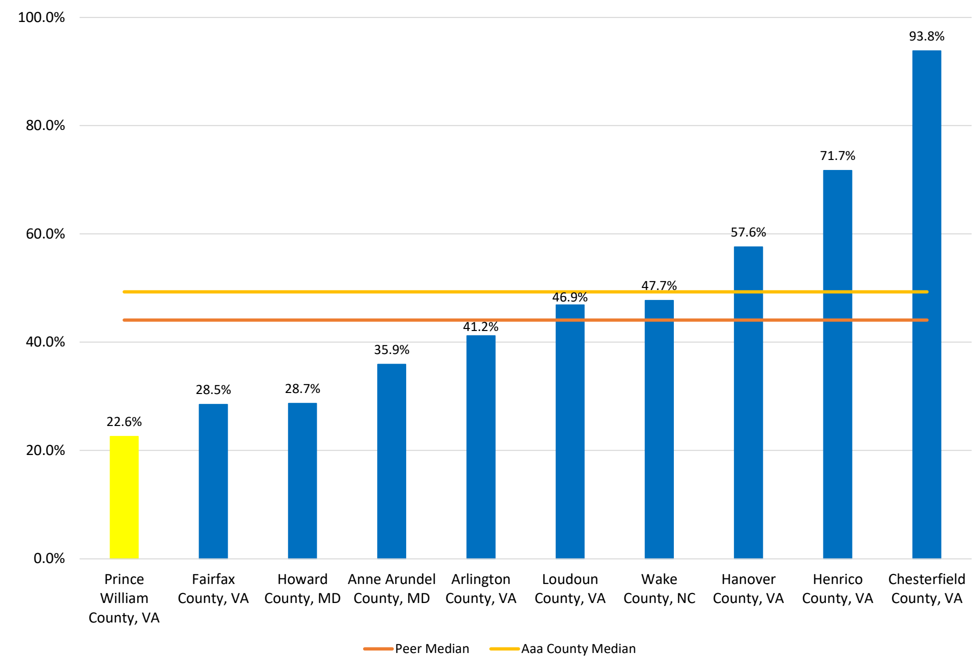
Moody's measures total fund balance as a percentage of revenues, a measurement of "available balances." Moody's 'Aaa' target is greater than 35%. This ratio includes available fund balance plus net current assets to revenue to assess the ability to meet current and short-term financial obligations. This calculation includes revenue from total governmental funds and business-type activities. The County does not score 'Aaa', but rather with 22.6%, scores in the 'Aa' category on a pure quantitative scorecard basis.



AAA target > 35%

Source: Moody's Financial Ratio Analysis database.

The next chart illustrates the same fund balance metric as compared to the County's peers. The County scores below both the peer median and the nationwide Aaa median.



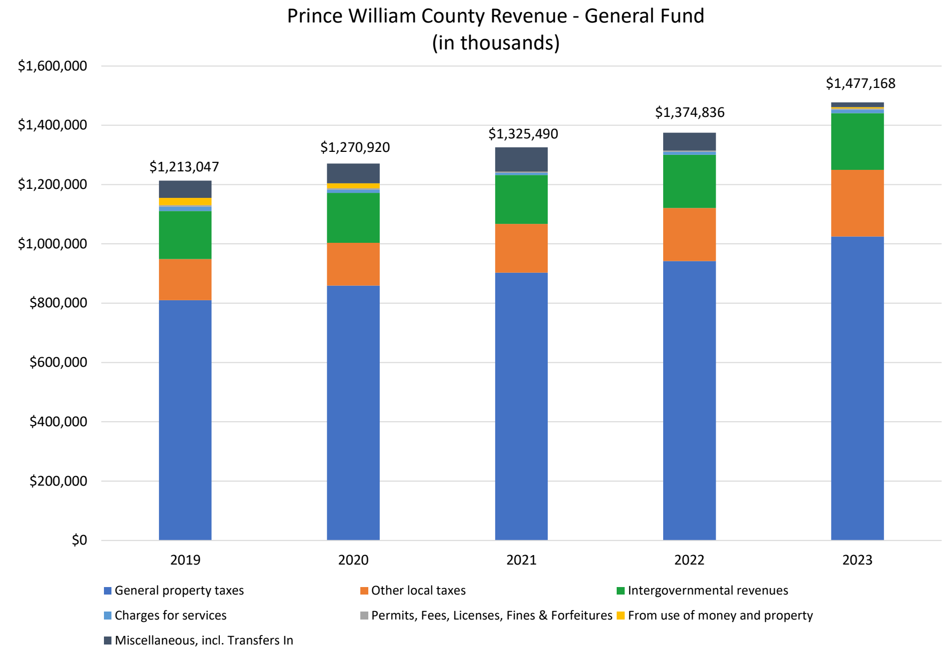
AAA target > 35%

Source: Moody's Financial Ratio Analysis database.

Budgetary Practices

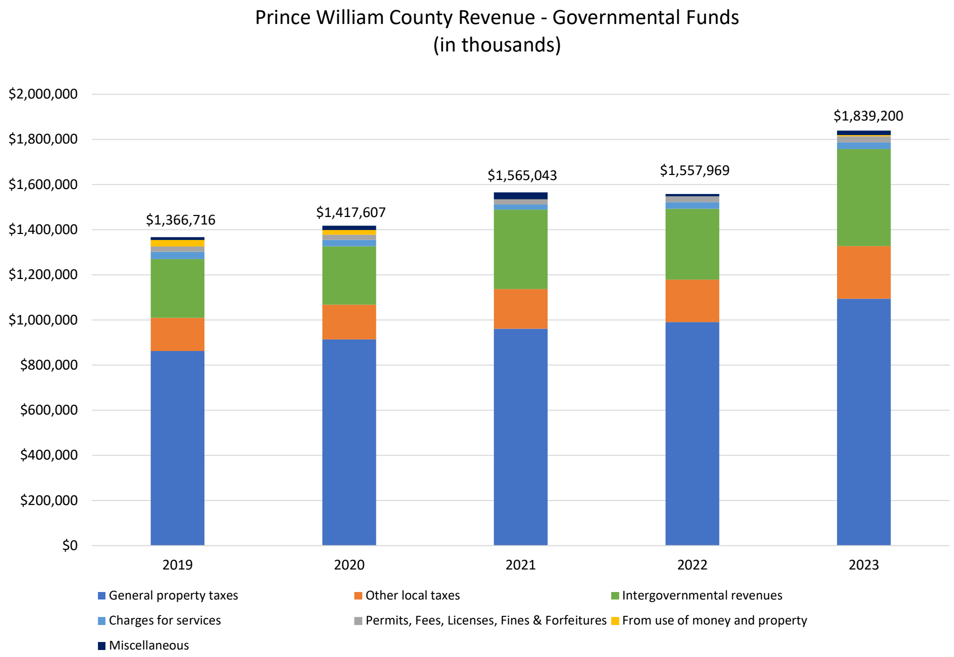
Revenues

A financially sustainable position includes flexible budget practices. This includes adjusting predictions in forecasting revenues and expenditures to meet obligations or raising revenues. The last five years General Fund revenues and transfers in are depicted below. Various categories of revenue are shown, including general property taxes, which remains the largest source of revenue for the County with a steady year-over-year increase. The General Fund revenues are used in S&P's General Fund Operating Result ratio on page 19.



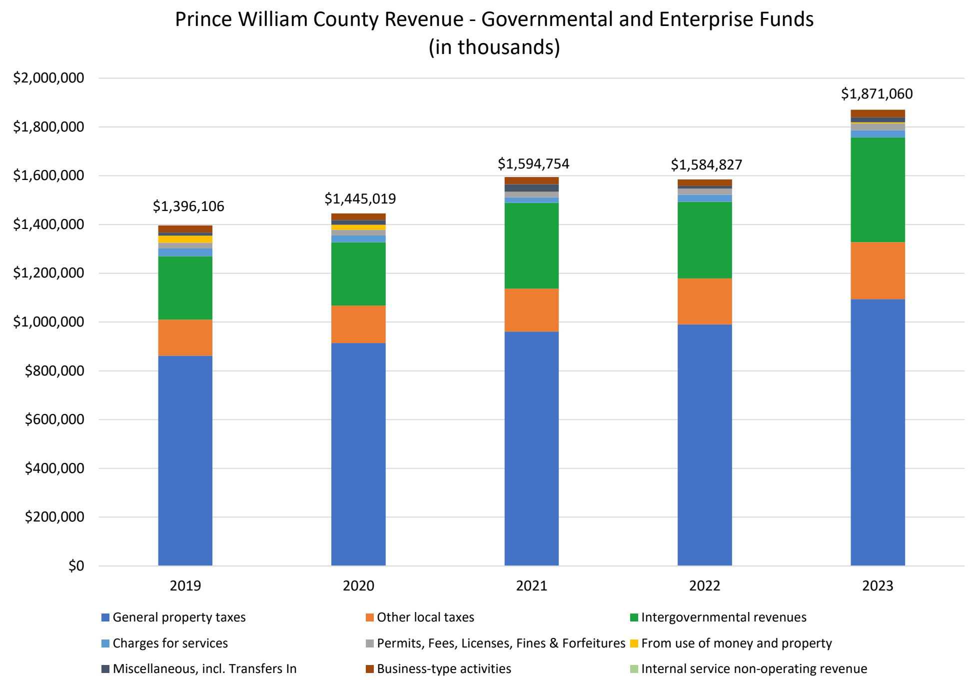
Source: Prince William County Annual Comprehensive Financial Report FY 2019-2023, Exhibit 5.

The following chart shows Governmental Funds revenues that, in addition to General Fund revenue, include Special Revenue Funds, and Capital Projects Funds revenues. The Governmental Fund revenues are used in S&P's Governmental Fund Net Result ratio on page 20.



Source: Prince William County Annual Comprehensive Financial Report FY 2019-2023, Exhibit 5.

Several Moody's ratios, such as Available Fund Balance and Liquidity ratios reported in the Financial Position section that starts on page 9 and Long-term Liabilities and Fixed Cost ratios reported in the Liabilities section that starts on page 22, use total Governmental and Enterprise Funds revenues that are presented in the following chart.

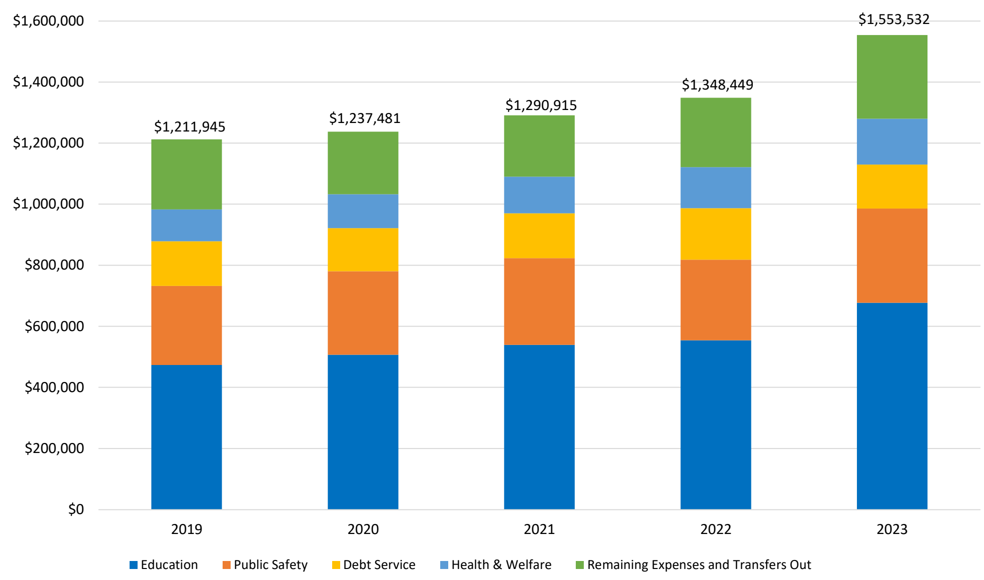


Source: Prince William County Annual Comprehensive Financial Report FY 2019-2023, Exhibits 5 and 8.

Expenditures

The chart below reflects the County's historical General Fund expenditures and is used in S&P's General Fund Operating Result metric only (shown on the following page).

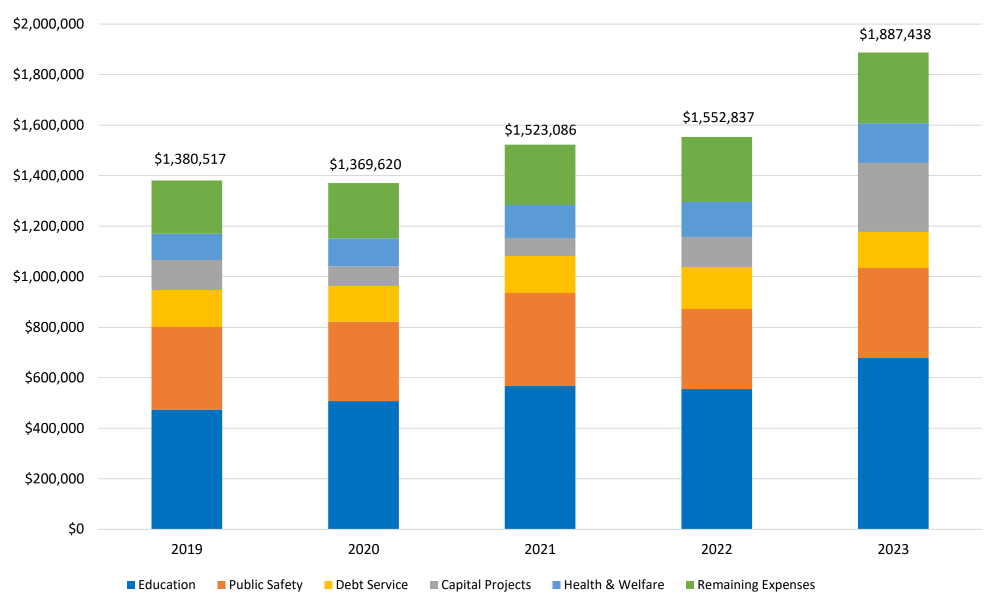
Prince William County Expenditures and Transfers Out - General Fund
(in thousands)



Source: Prince William County Annual Comprehensive Financial Report FY 2019-2023, Exhibit 5.

The Governmental Funds expenditures that are adjusted for transfers in and out of the Capital Project Fund and Enterprise Funds are used in the S&P's Liquidity metric, Cash Balance as a Percentage of Expenditures, shown on page 12, and in the S&P's Net Governmental Funds Operating Result metric, shown on page 19. Governmental Funds expenditures do not include School Board and Adult Detention Center component units.

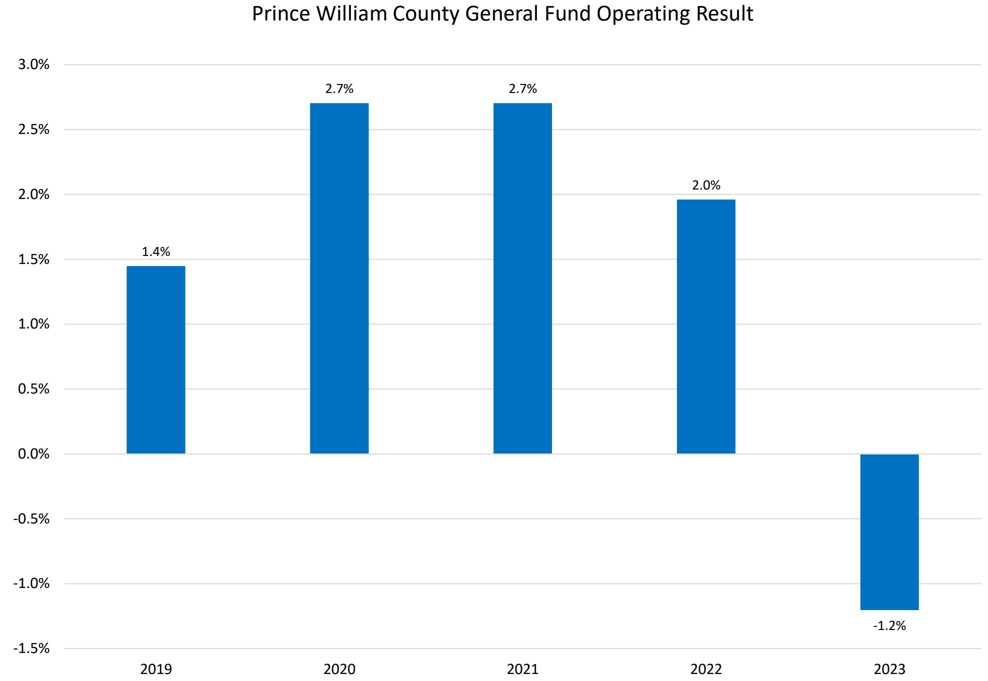
Prince William County Adjusted Expenditures - Governmental Funds
(in thousands)



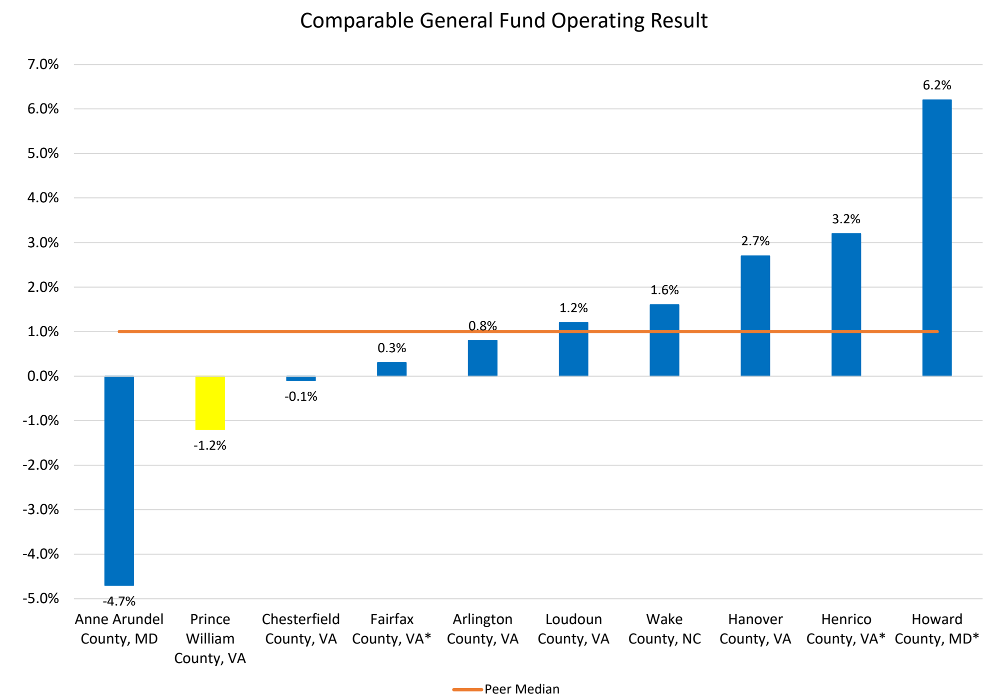
Source: Prince William County Annual Comprehensive Financial Report FY 2019-2023, Exhibit 5.

Budget Strength Measurement

The rating agencies measure the magnitude of revenues that exceed expenditures at year end. Thus, S&P measures the County's historical general fund operating balance (excluding School Division and, beginning with fiscal year 2020, Fire and Rescue Levy funds), surplus or deficit, as a percentage of general fund operating expenditures. The 'AAA' target is greater than 5%. The County score decreases to -1.2% for fiscal year 2023, and is below the peer median of 1%.

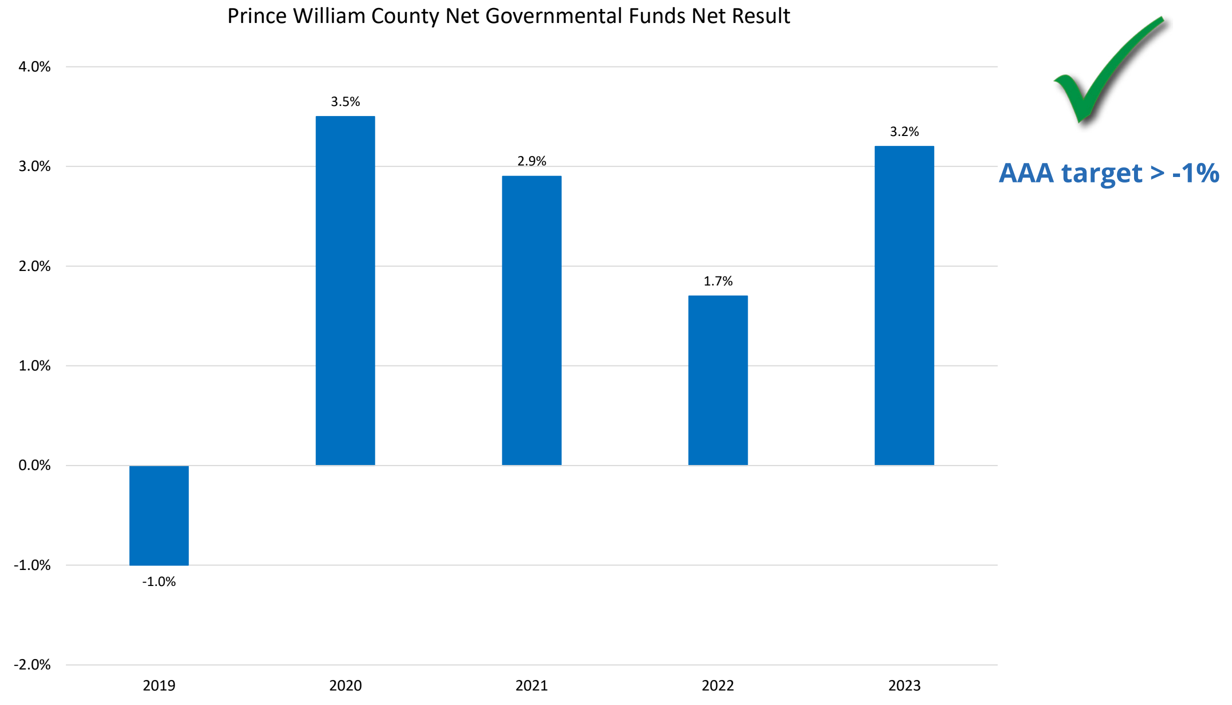


Source: County's S&P reports for FY19-FY22. FY23 is estimated by PFM.

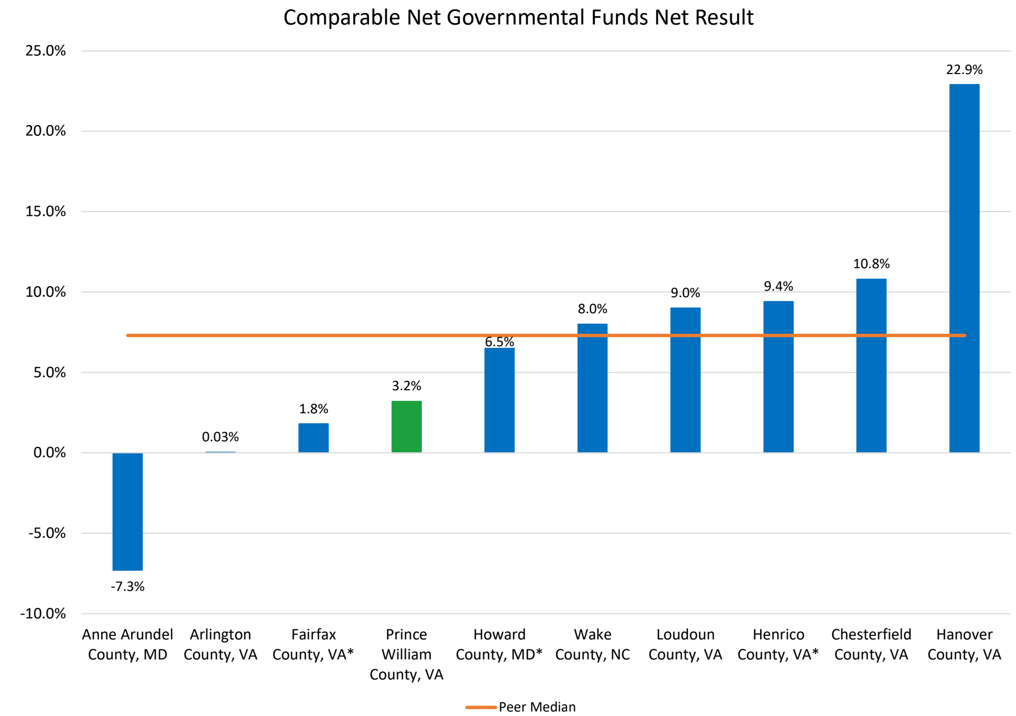


Source: PFM estimate of FY 2023 credit ratios, unless denoted by *
* Reflected S&P Report for FY 2023

A second measure of budget strength used by S&P is net governmental funds as a percentage of expenditures. During fiscal years 2020 and 2021, the County saw an increase to this ratio due to the expenditure savings implemented in a response to COVID-19 pandemic. Additionally, the County received fiscal stimulus funds resulting from the CARES Act and ARPA, that contributed to the County's Net Governmental Funds Operating Result increase in the subsequent years as well. The County's Net Governmental Funds Operating Result score of 3.2% meets the 'AAA' target of greater than -1% but is below the peer median of 7.3%.



Source: County's S&P reports for FY19-FY22. FY23 is estimated by PFM.



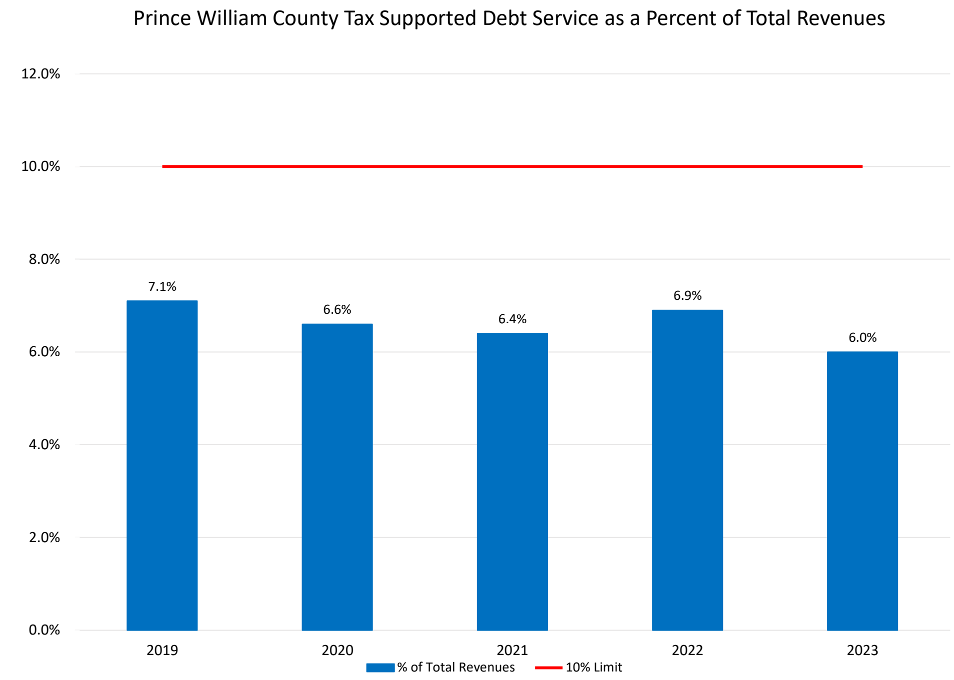
AAA target > -1%

Source: PFM estimate of FY 2023 credit ratios, unless denoted by *
* Reflected S&P Report for FY 2023

LIABILITIES

Debt and Pensions

The last component of a financially sustainable community are manageable liabilities. Rating analysts seek to assess an entity's debt burden and debt affordability, taking into account the debt structure. Within the Principles of Sound Financial Management (PSFM), the County established guidelines for debt management, including self-imposed debt limits, which are a credit strength. The first self-imposed limit measures total debt service as a percentage of total revenues and may not exceed 10%. For fiscal year 2023, the County debt service measured 6% of total revenues.

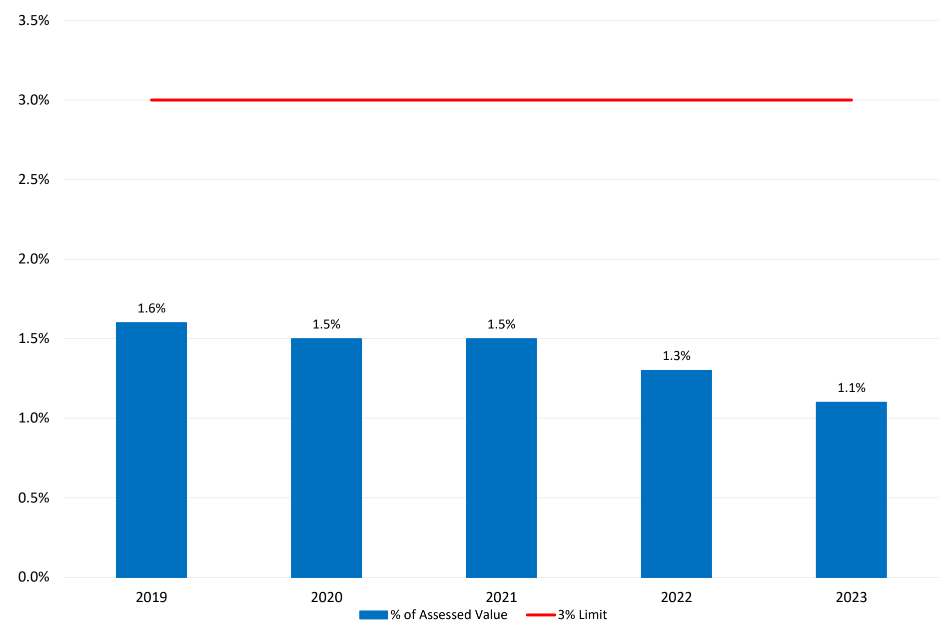


PSFM 5.02.d target < 10%

Source: Prince William County Annual Comprehensive Financial Report FY 2023, Table 14.

The second self-imposed limit states that total tax supported debt will not exceed 3% of net assessed values of taxable real and personal property. At 1.1% for fiscal year 2023, the County continues to maintain debt below this limit.

Prince William County Tax Supported Debt Service as a Percent of Assessed Values



PSFM 5.02.e target < 3%

Source: Prince William County Annual Comprehensive Financial Report FY 2023, Table 14.

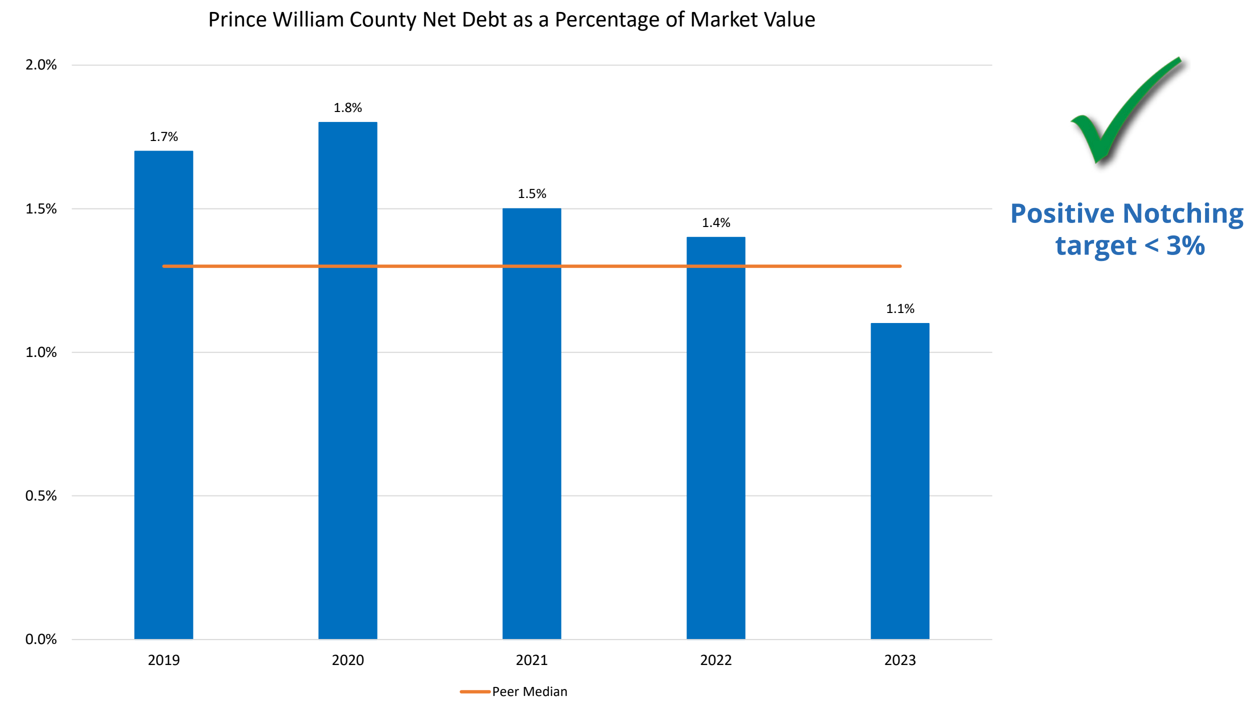
Prince William County's debt capacity forecast represents County management's commitment to maintaining debt service at less than 10% of total revenue. The calculations are based on current existing debt, as of June 30, 2023, plus debt for projects included in County's adopted Capital Improvement Program (CIP) for fiscal years 2025-2029, and the County's projected revenue, as detailed in the table below.

Prince William County Debt Capacity Forecast

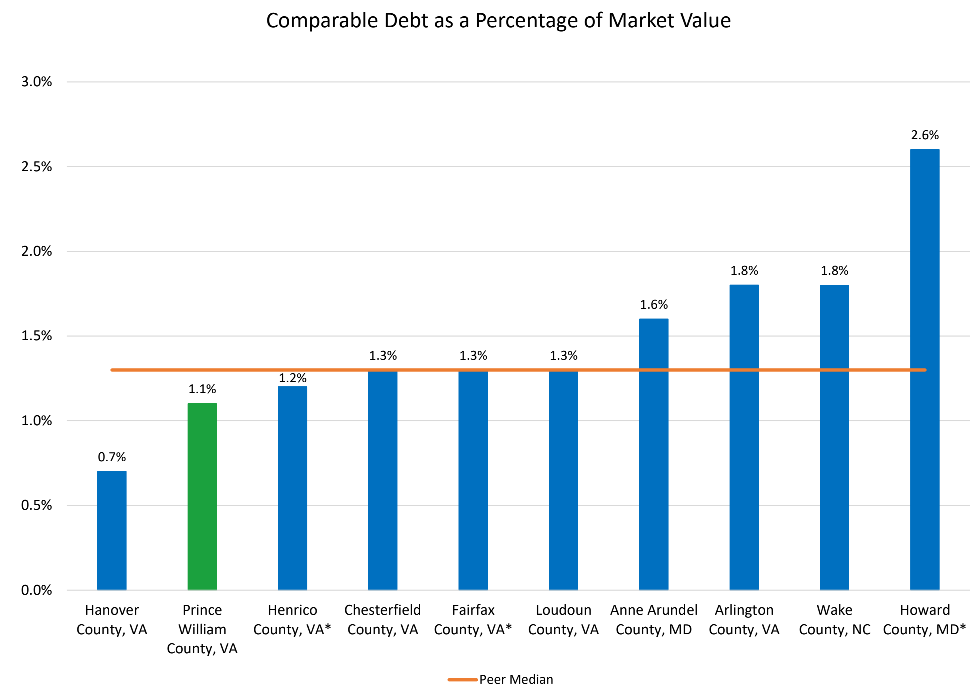
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Total existing and CIP debt service, incl. Schools [1]	$143,120,773	$144,820,810	$154,570,334	$179,697,720	$196,674,855	$214,698,207
Percent change from prior year	-0.55%	1.19%	6.73%	16.26%	9.45%	9.16%
General Revenue (in thousands) [2]	$1,410,072	$1,591,879	$1,661,615	$1,737,654	$1,815,992	$1,897,501
Growth	6.83%	12.89%	4.38%	4.58%	4.51%	4.49%
Total Revenue (in thousands) [3]	$2,792,391	$3,152,427	$3,290,526	$3,441,108	$3,596,242	$3,757,656
Debt service as a percentage of Total Revenue	5.13%	4.59%	4.70%	5.22%	5.47%	5.71%
PSFM imposed limit	10%	10%	10%	10%	10%	10%

Source: [1] Adopted FY 2025 Budget, April 2024, including Schools CIP estimate.
[2] FY 2024 Quarterly Revenue and Expenditure Updates for FY 2024 Forecast; Projections of General County Revenue report for FY 2025-2029 Forecast.
[3] Total Revenue estimates are calculated based on the most recent revenue numbers as shown in FY 2023 ACFR, Table 14. They include General Fund, Special Revenue Funds, School Board and ADC component units revenues.

S&P looks at overall net debt as a percentage of market value to measure the ability of a municipality to meet its debt obligations as one of its notching metric ratios. The notching metric criteria employs a series of overriding factors that can result in the final rating assigned to the local government being different from the indicative rating outcome resulted from the weighted average of seven S&P's factors. This notching metric ratio reflects how much debt has been issued relative to the value of the real property within Prince William County. Increased use of cash to fund capital needs, all other things held constant, can negatively affect this metric. A municipality receives a positive notch if the score is less than 3%. The County's score is 1.1% and rates better than the peer median. This measure is one of the notching metrics that contributes to the County's strong rating in S&P's Debt and Liability category.



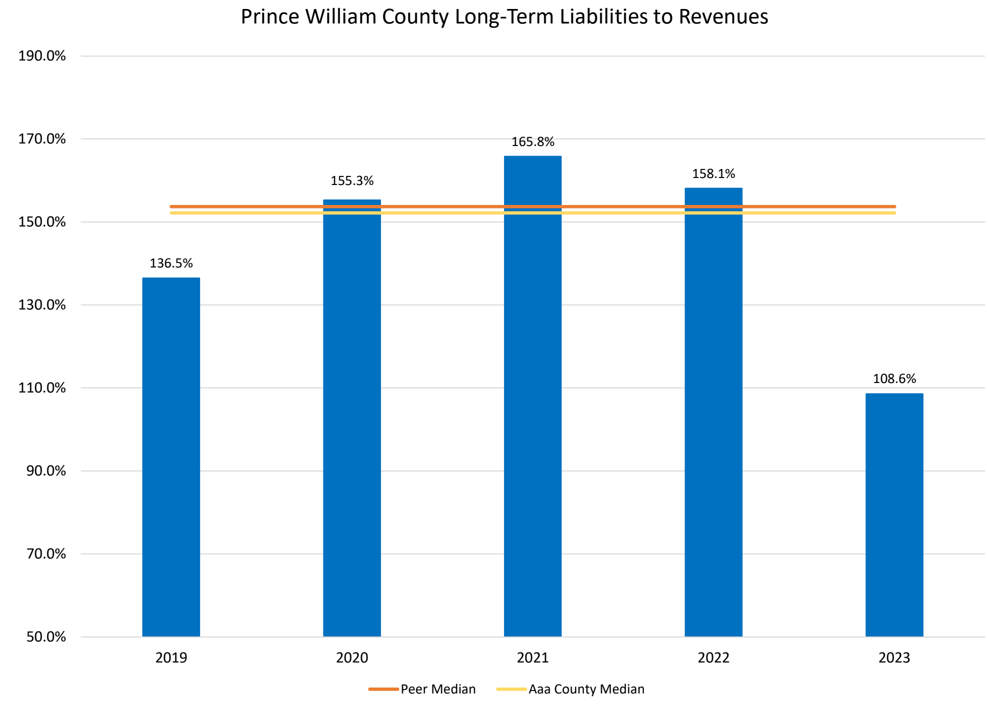
Source: County's S&P reports for FY19-FY22. FY23 is estimated by PFM.



Positive Notching target < 3%

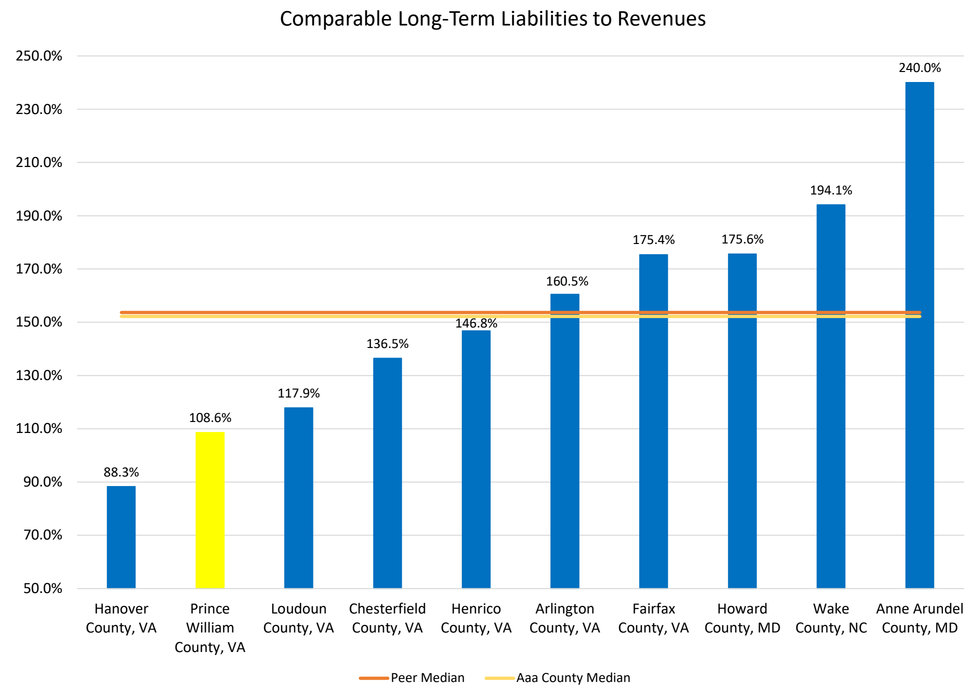
Source: PFM estimate of FY 2023 credit ratios, unless denoted by *
* Reflected S&P Report for FY 2023

In addition to debt, rating agencies assess pension liability. Unfunded pension liabilities represent a long-term liability that can present future budgetary pressures if not reduced. One of the Moody's financial performance metrics in the Leverage category expresses the potential budgetary impact of long-term liabilities, including pension and other post-employment benefit (OPEB) liabilities, in addition to outstanding debt, and speaks to the relative affordability of debt obligations based on current revenue sources. The 'Aaa' target is less than 100%. The County's score at 108.6% earns an 'Aa' rating. The County, however, scores better than both the 'Aaa' county median of 152.2% and the peer group median of 153.7% as all other peer jurisdictions also fall outside the 'Aaa' target (see graph on the next page). In general, Virginia and Maryland local governments have debt burdens that exceed national medians, largely due to debt issued for schools. Of the 117 counties that Moody's rates 'Aaa', as of the most recent data published by Moody's, only 12 counties met the 'Aaa' target of less than 100%.



AAA target < 100%

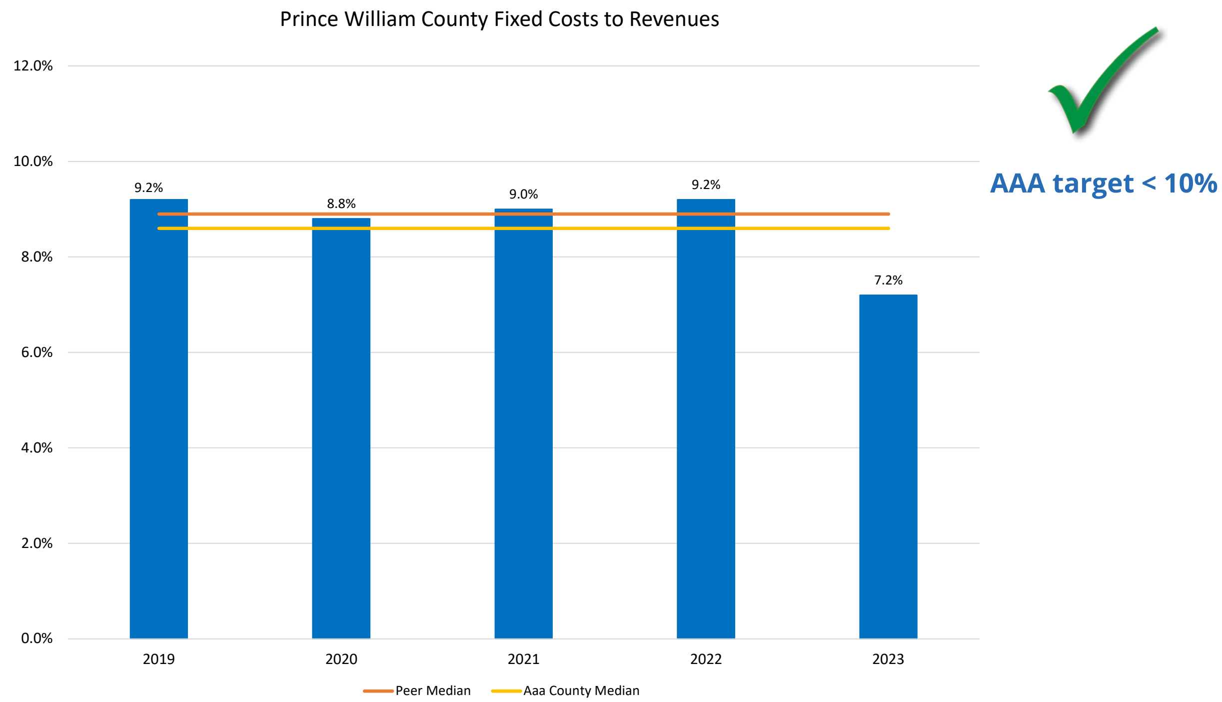
Source: Moody's Financial Ratio Analysis database.



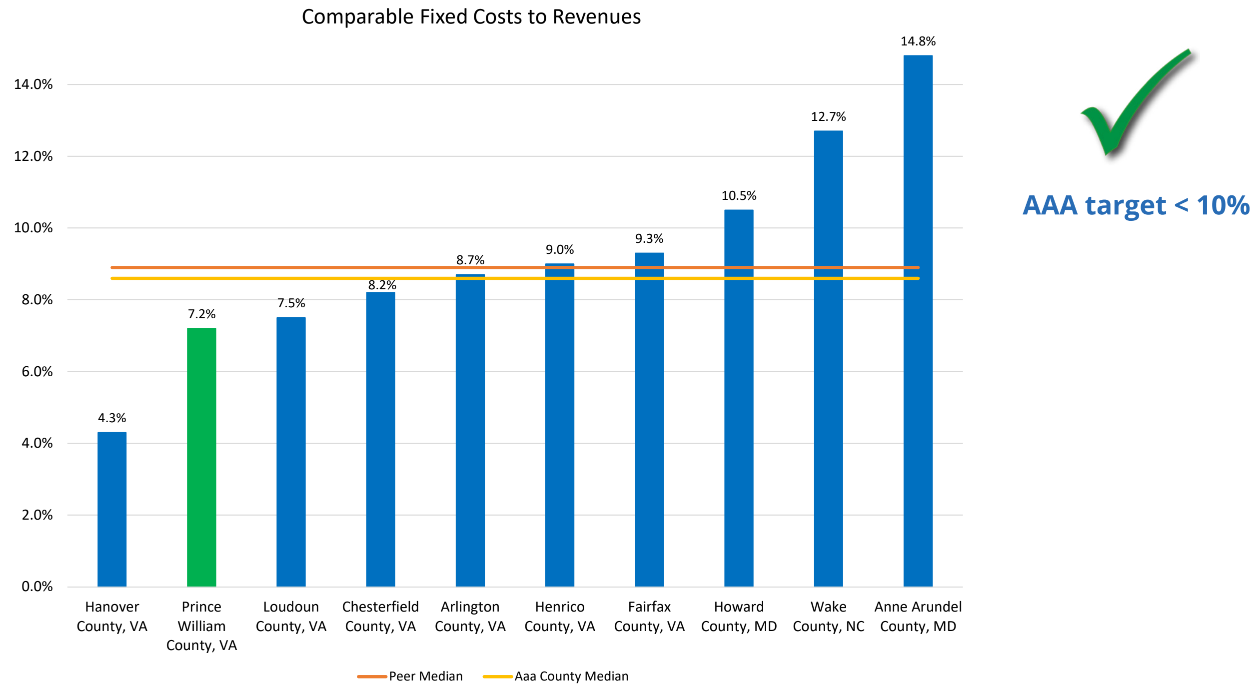
AAA target < 100%

Source: Moody's Financial Ratio Analysis database.

Another sub-factor in Moody's Leverage category is the fixed-costs ratio. It measures estimated annual fixed costs associated with outstanding debt, pensions, OPEB, and other long-term liabilities relative to total governmental and business-type revenues. Debt and other long-term liabilities fixed costs in this ratio are calculated by Moody's through their implied debt service calculation using the 10-Average of Bond Buyer 20-Bond Index as of December 31, 2022. The 10-Average of Bond Buyer 20-Bond Index tracks the average yields of 20 general obligation municipal bonds with Aa2/AA credit ratings over a 10-year period. Pension fixed costs are calculated by Moody's through their tread water indicator calculation. The tread water indicator is an estimate of the annual pension contribution necessary to prevent growth in unfunded liabilities. The County rates 'Aaa' in this category at 7.2% and scores better than the peer group median of 8.9%.



Source: Moody's Financial Ratio Analysis database.



Source: Moody’s Financial Ratio Analysis database.

ECONOMIC ENVIRONMENT

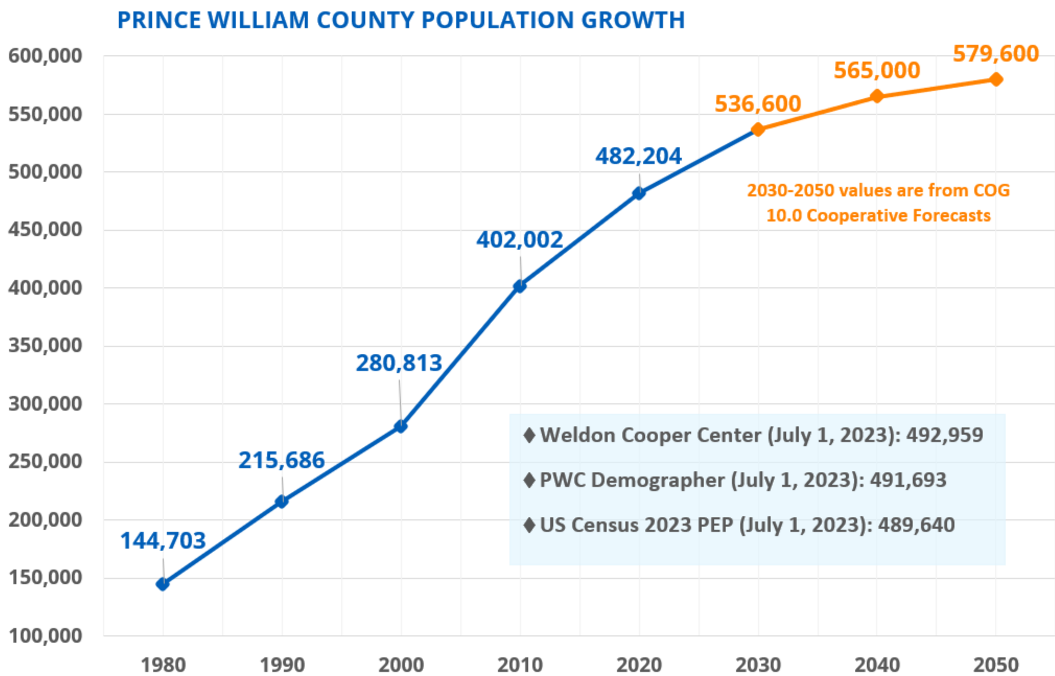
The political and economic environment begins with the governing body. The rating agencies look at the stability of the Board of County Supervisors, adherence to the Principles of Sound Financial Management and consistency in operations. Governance factors capture an organization's willingness to make proactive policy decisions to ensure the maintenance of a strong financial position and reliable financial cushion. Rating agencies report that entities that attempt to increase expenditures for popular services and programs and simultaneously pledge not to raise taxes or cut other programs will generally experience negative impacts such as a deterioration in their balance sheets as reserves are extinguished and the debt load grows. Historically, the County has scored very well in this area, with the institutional framework and management assessment at 'very strong'.

The County is continuing to experience a growing population. The County demographer estimates the population at 495,174 as of the fourth quarter of 2023. The chart below illustrates periods of major growth during the 1960s and 1970s followed by even larger gains through 2020. The County is forecast to maintain population growth in the coming decades but at a decreasing pace as time passes. The COVID-19 pandemic began in the United States in March 2020 and has lasted through 2022. Between 2022 and 2023, the population in Northern Virginia counties began to recover from pandemic-induced domestic out-migration. According to the Census Bureau, Prince William County maintained population growth through the pandemic years, rising from 482,200 in 2020 to an estimated 489,640 as of July 1, 2023.

Prince William County
Historical Population Data

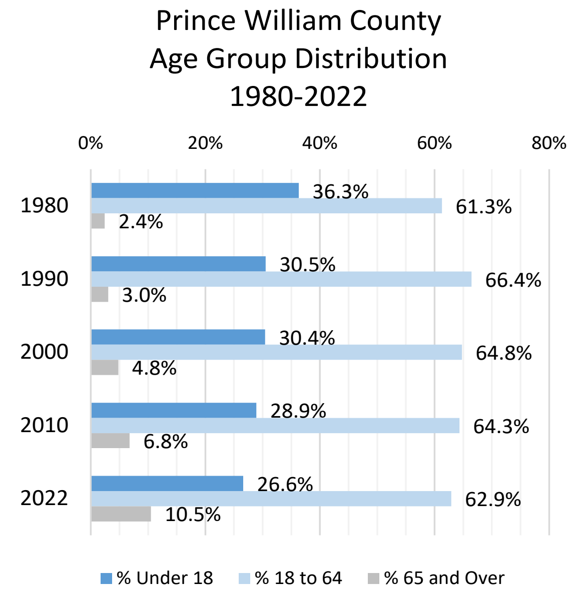
	Count	Gain/Loss	% Change
1900	11,112	1,307	13.33%
1910	12,026	914	8.23%
1920	13,660	1,634	13.59%
1930	13,951	291	2.13%
1940	17,738	3,787	27.15%
1950	22,612	4,874	27.48%
1960	50,164	27,552	121.85%
1970	111,102	60,938	121.48%
1980	144,703	33,601	30.24%
1990	215,686	70,983	49.05%
2000	280,813	65,127	30.20%
2010	402,002	121,189	43.16%
2020	482,204	80,202	19.95%
2030	536,600	54,396	11.28%
2040	565,000	28,400	5.29%
2050	579,600	14,600	2.58%

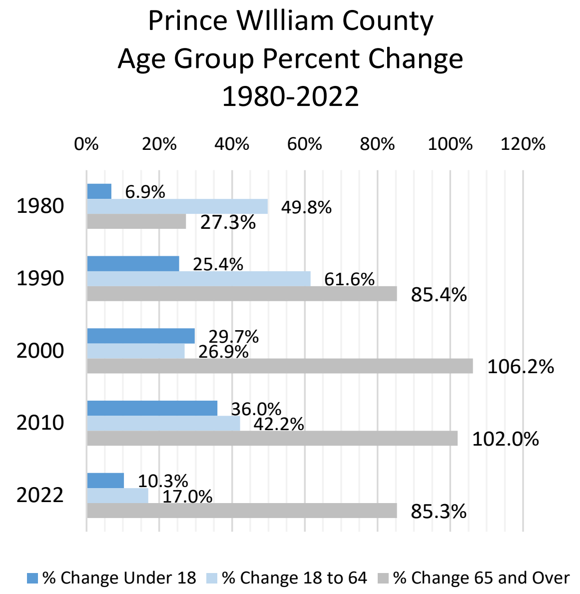
Sources: Prince William County Demographer – Historical population retrieved from University of Minnesota Population Center's NHGIS; Population projections from Metropolitan Washington Council of Governments Round 10.0 Cooperative Forecasts.



Sources: Prince William County Demographer – Historical population retrieved from University of Minnesota Population Center's NHGIS; Population projections from Metropolitan Washington Council of Governments Round 10.0 Cooperative Forecasts; Weldon Cooper Center for Public Service, Demographics Research Group, at UVA; U.S. Census Population Estimates Program.

Demographic factors drive demands for programs and services, impacting the expenditures of a local government. The largest sector of the County population is the 18- to 64-year-old age group, but the fastest rate of growth continues to be in the 65 and over category. In 2018-2022, the U.S. Census Bureau estimated that the County's 65 and over category surpassed 50,000 people at 50,434, nearly double that of the 2010 value of 27,220.

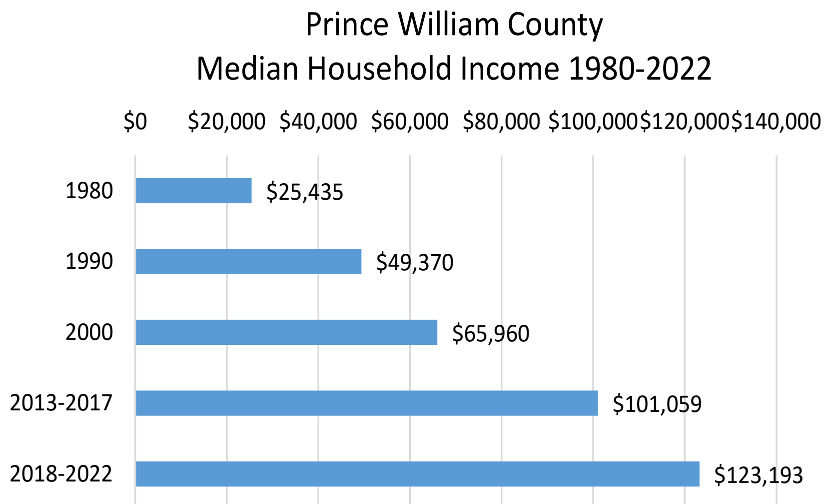




Sources: PWC Demographer: Historical population retrieved from University of Minnesota Population Center's NHGIS; 2018-2022 American Community Survey (ACS) 5-Year Estimates.

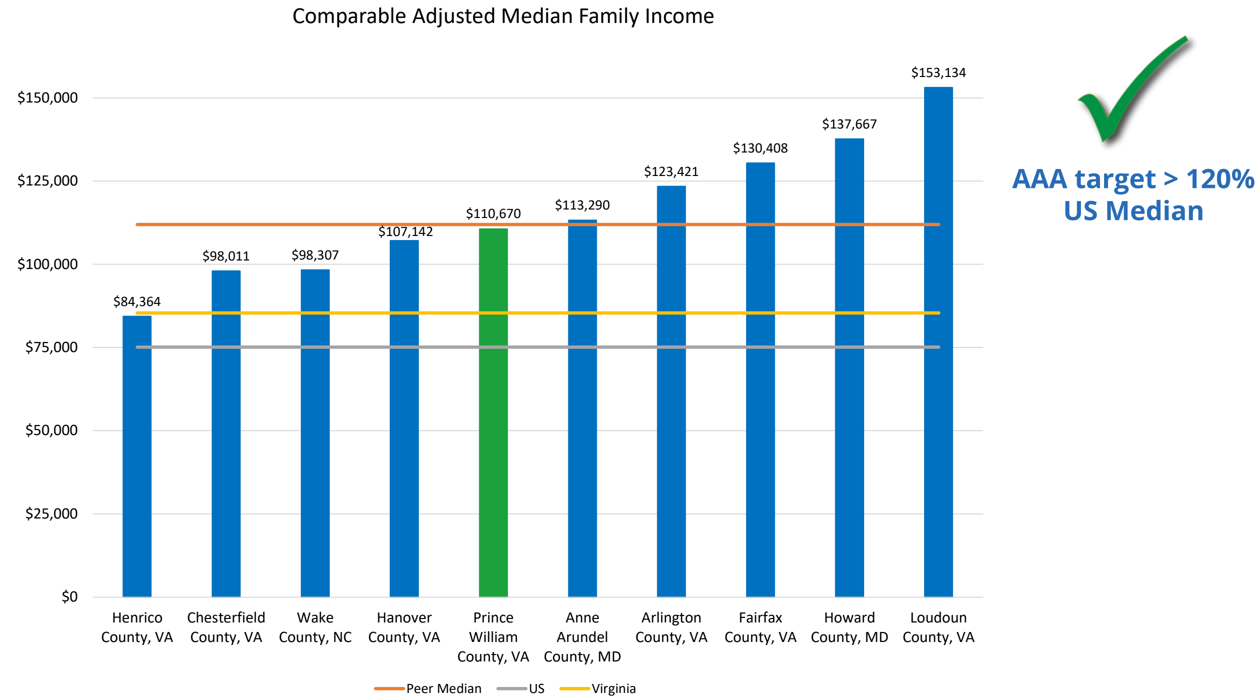
Wealth

A high median household income is a positive economic indicator and a measure of the strength and resilience of a tax base. A jurisdiction with high wealth levels may have greater flexibility to increase property tax rates to meet financial needs. Wealthier communities also have greater spending power and drive demand to support growth in the commercial sector. For example, despite the challenges posed by the Great Recession, the retail industry in the County remained robust. Additionally, in the wake of the COVID-19 pandemic, the County residents shifted their purchasing habits from brick-and-mortar stores to online platforms, retail activity flourished, resulting in a 10.7% sales tax revenue increase in fiscal year 2021 and a further 9.8% rise in fiscal year 2022. The 2018-2022 median household income as reported by the U.S. Census American Community Survey increased to just above $123,193, up from $101,059 just five years earlier.



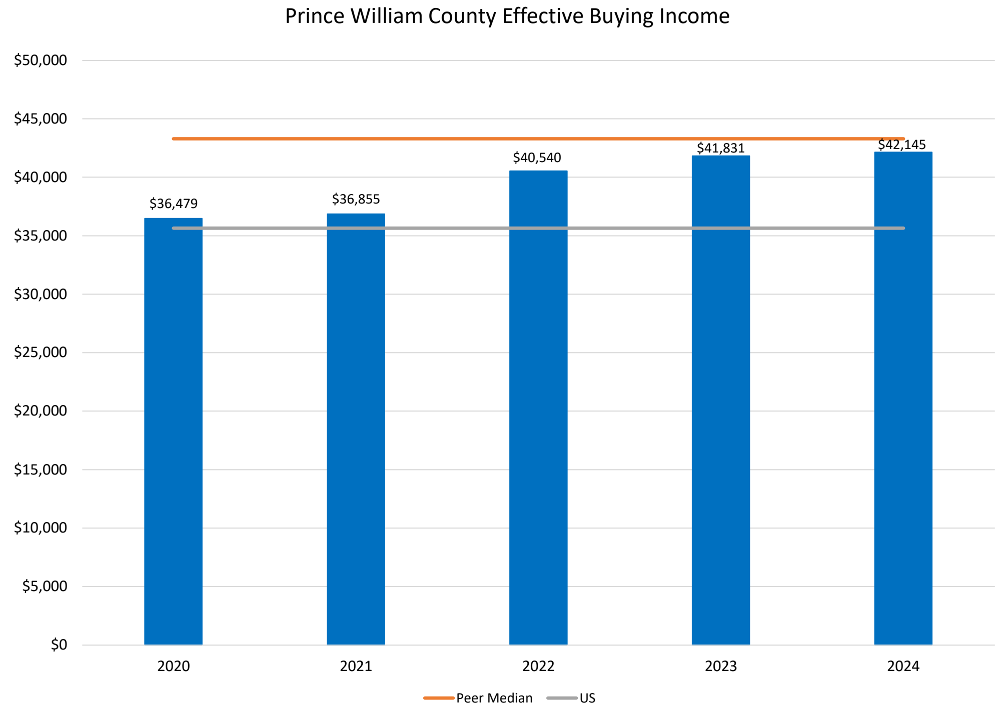
Sources: PWC Demographer: Data for 1980-2000 retrieved from University of Minnesota Population Center's NHGIS; U.S. Census American Community Survey (ACS) 2013-2017 5-Year Estimates and 2018-2022 5-Year Estimates.

Moody's analyzes median family income as opposed to median household income. Household income includes the income of all people who occupy a housing unit regardless of relationship, whereas family income measures the income of two or more people related by birth, marriage, or adoption. Under the new Moody's methodology, median household income is adjusted for regional differences in the cost of living using Regional Price Parity index. Adjusted median family income provides a better reflection of the strength of the tax base. On the median family income, the County scores very strongly as a 'Aaa' at $110,670. This exceeds the 'Aaa' target of 120% of the U.S. median of $75,149, which is $90,179.



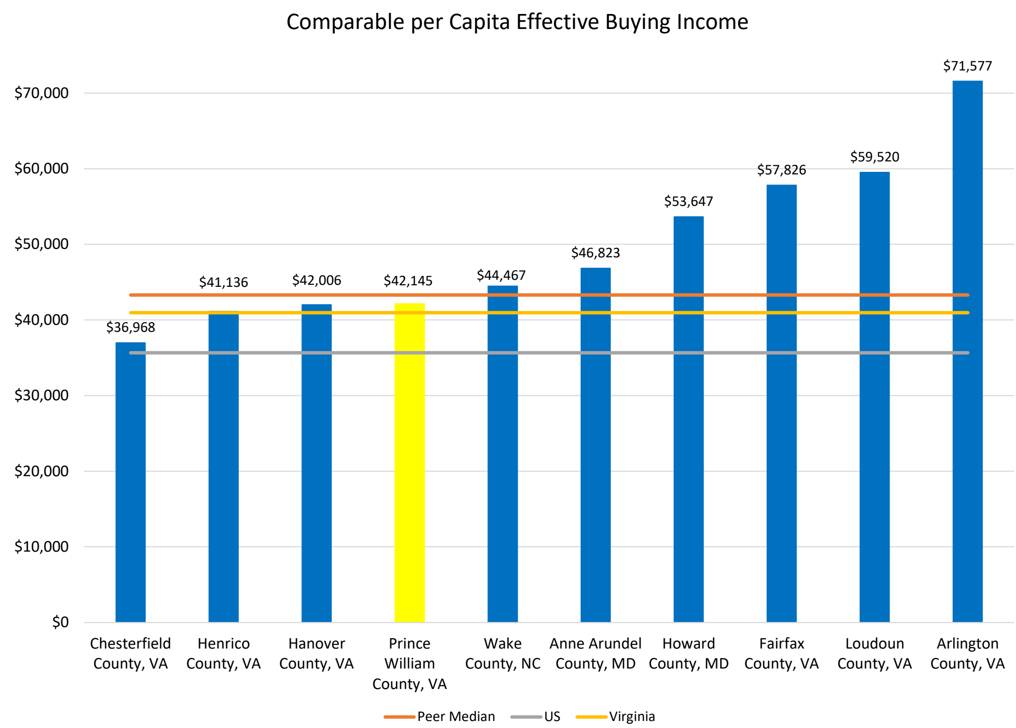
Source: American Community Services and Bureau of Economic Analysis, 2022. 2023 data is unavailable.

S&P reviews effective buying income (EBI) and considers 150% of the U.S. median as 'AAA' rated. Effective buying income is similar to disposable income. The U.S. median EBI is $35,659. At 150% of the U.S. median, the 'AAA' target equates to $53,489. With EBI of $42,145, the County falls below the 'AAA' target and peer group median of $43,306.



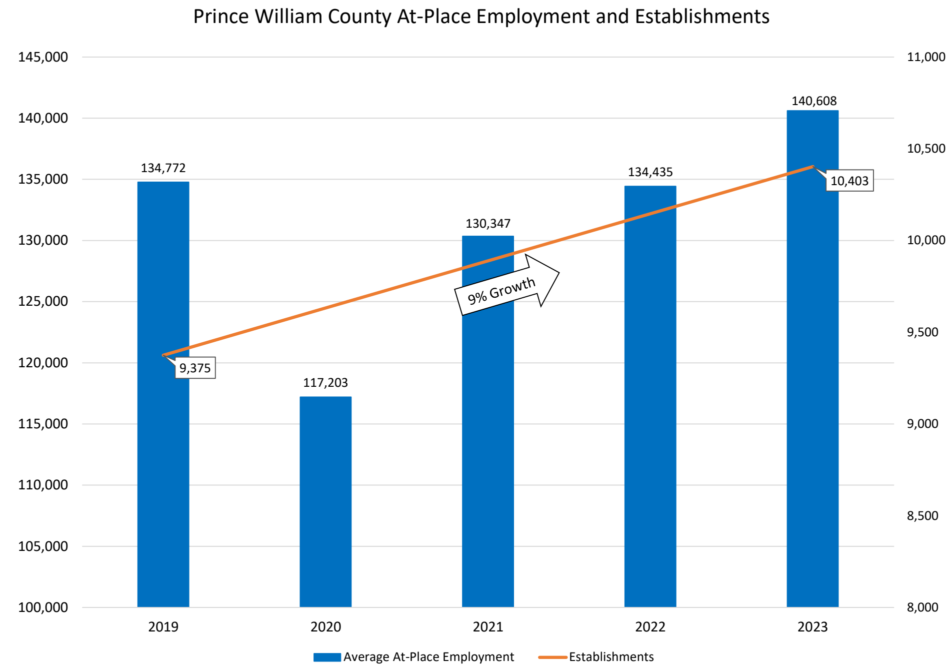
AAA target > 150% US Median

Source: Nielsen's Claritas database



Source: Nielsen's Claritas database.

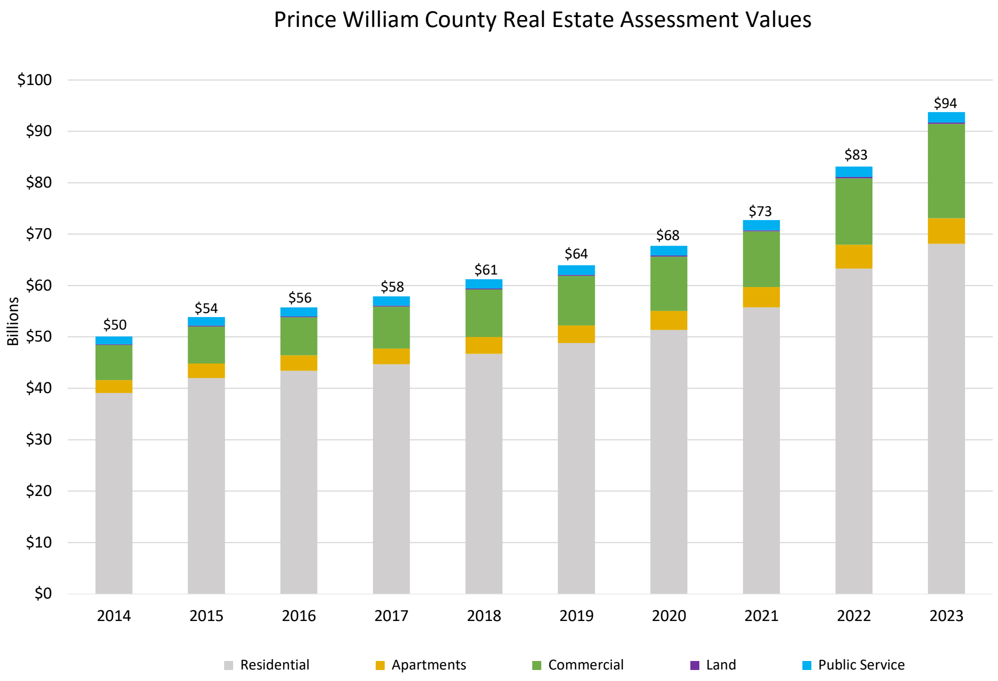
An area where the County has experienced consistent year-over-year growth is reflected in at-place employment. This is an important statistic to monitor as increases in employment signify more jobs to generate more income to pay taxes. The rating agencies have positively noted the County's diverse economy and economic development efforts to grow and expand a high-end employment base. However, unemployment rates nationwide increased sharply in 2020 due to the COVID-19 outbreak. During fiscal year 2023, at-place employment in the County grew by 4.6 percent and exceeded pre-pandemic levels. The County demonstrated steady growth in the number of business establishments as well, a sign of a healthy local economy. Despite the COVID-19 pandemic, many existing businesses were able to sustain their operations with the support of a variety of business relief loan and grant programs and similar funding resources available through federal, state, and local governments.



Source: Virginia Employment Commission, Quarterly Census of Employment and Wages, 2nd Quarter 2023.

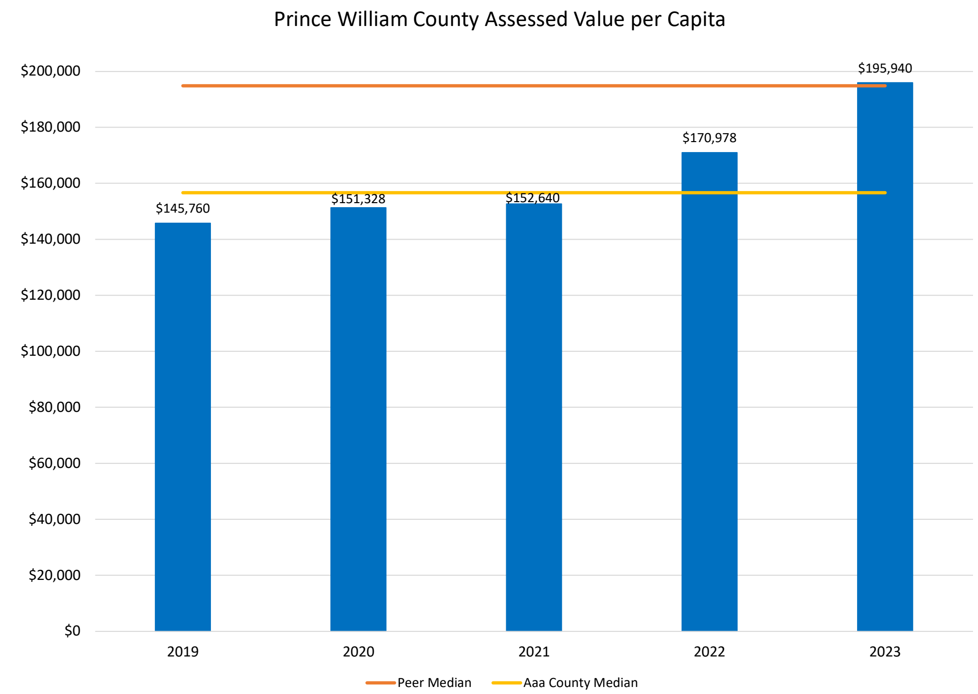
Assessed Value

The tax base is the primary source from which a local government derives its revenues. A large, robust, diverse tax base typically offers a local government more flexibility, as well as protection from unexpected shocks, such as the loss of a significant employer or industry. A smaller more concentrated tax base, on the other hand, is more prone to feel the impacts of such loss due to the dependency on a fewer number of properties. The County's tax base has continued to rebound since the downturn in the economy, now with ten years of continued growth and total assessed values in the 2023 Land Book approaching $94 billion. The County remains more heavily concentrated in residential properties as compared to some of its Northern Virginia peers.



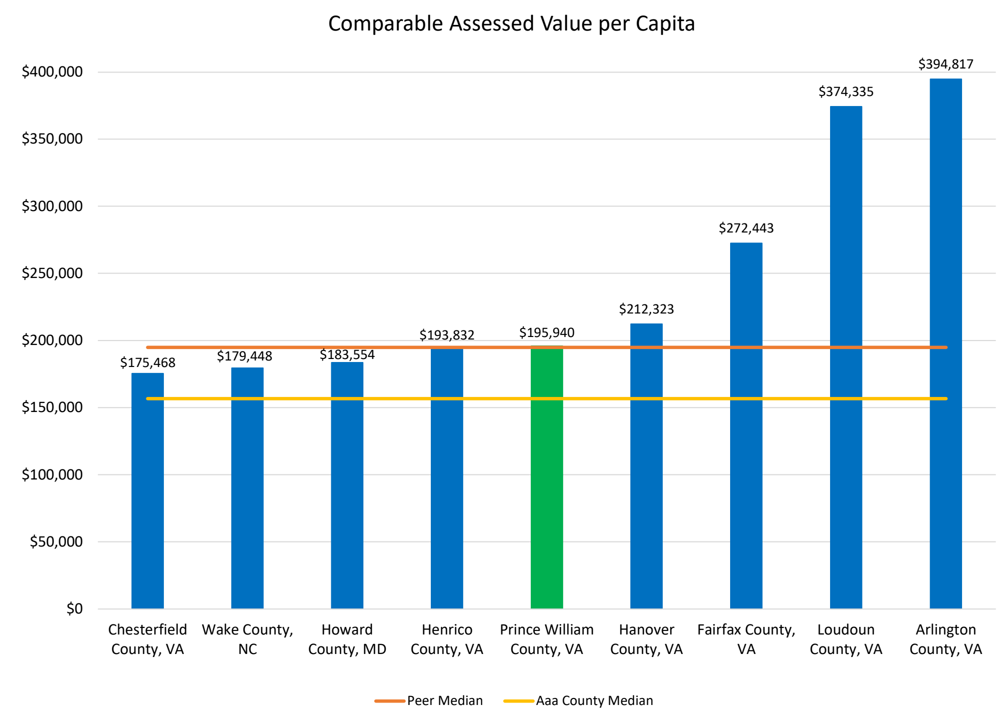
Source: Prince William County Real Estate Assessments Office 2023 Annual Report.

Moody's regards historical assessed value per capita of greater than $180,000 as a 'Aaa' target. This metric converts the taxable property available (real estate and personal property) to generate revenues to a per resident metric, depicting the availability of tax-generating resources to fund programs and services relative to the users. The County achieves a 'Aaa' for this factor with $195,940. The County's score is above the nationwide 'Aaa' median of $156,706 and the peer median of 194,886. Of the 117 counties that Moody's rates 'Aaa', as of the most recent data published by Moody's, 38 counties met the 'Aaa' target for this metric.



AAA target > $180,000

Source: Moody's Financial Analysis database.



Source: Moody's Financial Ratio Analysis database.

Sources:

PFM Financial Advisors, LLC.

Moody's Investors Service Rating Methodology

Standard & Poor's Ratings Services Ratings Direct

Prince William County Annual Comprehensive Financial Report For The Year Ended June 30, 2023

2023 Annual Report Prince William County Real Estate Assessments Office

Prince William County Demographer

Virginia Employment Commission, Quarterly Census of Employment and Wages

American Community Services and Bureau of Economic Analysis

Nielsen's Claritas Database

Virginia Auditor of Public Accounts, Monitoring for Local Government Fiscal Distress 2020-2021 and 2019 Reports.

Moody's Scorecard Summary

Factors & Subfactors	Weight
Factor 1: Economy	30%
Economic Growth	10%
Full Value per Capita	10%
Median Household Income (adjusted for cost of living)	10%
Factor 2: Financial Performance	30%
Available Fund Balance Ratio	20%
Liquidity Ratio	10%
Factor 3: Institutional Framework	10%
Institutional Framework	10%
Factor 4: Leverage	30%
Long-term Liabilities Ratio	20%
Fixed Cost Ratio	10%
Rating	**100%**

S&P's Scorecard Summary

Factors & Subfactors	Weight
Factor 1: Institutional Framework	10%
Framework Score	
Factor 2: Economy	30%
Market Value per Capita	15%
Per Capita Effective Buying Income %	15%
Factor 3: Management	20%
Management Score	
Factor 4 Budgetary Flexibility	10%
Fund Balance as a % of Expenditures	
Factor 5: Budgetary Performance	10%
Total Governmental Funds Net Result	5%
General Fund Operating Balance to Operating Expenditures	5%
Factor 6: Liquidity	10%
Total Cash as a % of Total Governmental Funds Expenditures	5%
Total Cash as a % of Total Governmental Funds Debt Service	5%
Factor 7: Debt and Liability	10%
Net Direct Debt as a % of Total Governmental Funds Revenue	5%
Debt Service as a % of Expenditures	5%
Rating	**100%**

Fitch's Scorecard Summary (implemented April 2024)

Factors & Subfactors	Weight
Factor 1: Financial Profile	35%
Financial Resilience	35%
Revenue Volatility	--*
Factor 2a: Demographic and Economic Strength - Trend	8%
Population Trend	8%
Factor 2b: Demographic and Economic Strength - Level	26%
Unemployment Rate	9%
% of Population w. Bachelor's Degree and Higher	9%
MHI as % of Portfolio Median	9%
Factor 2c: Demographic and Economic Strength – Concentration & Size	9%
Population Size	4.5%
Economic Concentration	4.5%
Factor 3: Long-Term Liability Burden	21%
Liabilities (direct)/Personal Income	7%
Liabilities (direct)/Governmental Revenues	5%
Carrying Costs/Governmental Expenditures	8%
Rating	**100%****

*Treated asymmetrically, where weight is marginal for issuers that exhibit low to moderate revenue volatility. For issuers with higher revenue volatility, this factor will moderately lower the metric.

**The sum does not add up to 100% due to rounding.

The ratios from this scorecard are not utilized in any of the metrics featured in this Fiscal Health Outlook Report.

PRINCE WILLIAM COUNTY

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