S&P Global Ratings

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Summary:

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

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Credit Profile		
US$128.515 mil spl oblig sch fincg bnds (Prince William County) ser 2023 dtd 11/09/2023 due 08/01/2043		
Long Term Rating	AAA/Stable	New
US$31.64 mil facs rev bnds (Prince William Cnty) ser 2023A dtd 10/25/2023 due 10/01/2043		
Long Term Rating	AA+/Stable	New
US$16.385 mil facs rev bnds (Prince William County) ser 2023B dtd 10/25/2023 due 10/01/2030		
Long Term Rating	AA+/Stable	New
Prince William County Industrial Development Authority, Virginia		
Prince William County, Virginia		
Prince William Cnty Indl Dev Auth (Prince William Cnty) fac rev & rfdg bnds (Prince William Cnty) (County Facilities Proj)		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the Virginia Public School Authority (VPSA)'s approximately $128.5 million series 2023 special obligation school financing bonds issued on behalf of Prince William County.
- At the same time, S&P Global Ratings assigned its 'AA+' long-term rating to the Industrial Development Authority (IDA) of the County of Prince William's approximately $31.6 million tax-exempt series 2023A facilities revenue bonds and approximately $16.4 million taxable series 2023B facilities revenue bonds.
- We also affirmed our 'AAA' rating on the county's general obligation (GO) bonds outstanding and bonds issued through the VPSA, as well as our 'AA+' rating on the county's appropriation debt outstanding.
- The outlook is stable.

Security

The series 2023 VSPA 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 as 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 will be used to finance various school-related capital projects.

The IDA series 2023A, 2023B, and outstanding IDA appropriation debt is payable from lease payments by Prince

William County under certain lease agreements. The county is obligated to make basic contract payments sufficient for payment of principal and interest, subject to appropriation. 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, on RatingsDirect. 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. The 2023A and 2023B bonds will finance property improvements.

Outstanding GO debt is secured by the county's full-faith-credit pledge.

Credit overview

Prince William County's growing economic base, along with longstanding robust financial policies and practices, have led to consistently stable financial results. We expect continued economic growth consistent with regional trends will support revenue growth, and that the county will continue to adjust its budget to maintain financial balance and its very strong reserve position.

The long-term rating reflects our view of the county's:

- Growing tax base, with development trends indicating continued growth, along with participation in the broad and diverse Washington, D.C. metropolitan statistical area (MSA), supports its very strong economic profile;
- Well-embedded policies and practices, with a very strong institutional framework;
- Consistent financial performance, leading to maintenance of very strong reserve and liquidity positions; and
- Manageable fixed cost burden, with minimal cost growth projected.

Environmental, social, and governance

We have evaluated the county's environmental, social, and governance (ESG) factors and have determined that they are neutral in our credit analysis. We note that while the county's environmental risks are limited, it has established an office of sustainability, and its appropriation of funding for a sustainability plan supports its resiliency and preparedness measures.

Outlook

The stable outlook reflects our view of the county's history of strong performance and robust planning, as well as its economic diversity, which benefits from its proximity to Washington, D.C.

Downside scenario

If the county expends reserves to bridge a long period of imbalance between revenue and expenditures, leading to substantially lower budgetary flexibility, we could lower the rating.

Credit Opinion

Expected continued growth in population and tax base

Prince William County is in northern Virginia, about 25 miles southwest of Washington, D.C. The broader region's economic expansion has spurred significant population growth and we expect regional trends to result in continued development within the county. Prince William County continues its transition from a historically agricultural region to a suburban and residential one, with growing and diversifying employment and tax bases. Recent developments in data centers, high tech, and biotech industries, as well as advanced logistics and manufacturing facilities, are likely to continue. We also note the proximity to Marine Corps Base Quantico and Fort Belvoir, located just outside county limits. Overall, we expect continued growth consistent with regional trends.

Robust financial policies with a clear goal of maintaining financial balance

The county's financial policies and practices derive from its Principles of Sound Financial Management (PSFM) guide, established in 1988 and updated every four years. Highlights of its policies and practices include:

- Quarterly reporting of budget-to-actual results to the board of supervisors;
- 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 unassigned general fund balance;
- Annually updated six-year CIP that identifies all funding sources;
- Formal debt management policy that 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);
- Formal investment policy that mandates quarterly reporting to the governing body; and
- 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, with a target balance of a minimum 2% of the current capital projects fund appropriation included in the county's adopted six-year CIP.
- In addition, we note the steps that the county is taking to mitigate cyber security risks and the very strong institutional framework for Virginia counties.

Expected continuation of strong financial performance and maintenance of very strong reserves

The county's record of at least balanced general fund results stems from its conservative initial budgetary assumptions, consistent monitoring, and a generally stable revenue and expenditure profile. Management expects to begin the fiscal year 2023 audit process in the next few weeks, but we understand from management that initial projections indicate an operating surplus at least equal to those over the past several audited years.

Providing revenue certainty is the county's high reliance on general property taxes, which accounted for about 75% of audited 2022 general fund revenue. Given consistent tax base growth, we expect the primary revenue source to remain stable, although we note that the county is working to diversify its revenue profile. To this end, it adopted a new cigarette tax for 2022, which netted about $2.1 million, and a new food and beverage tax for 2023, which was budgeted for $30 million in new revenue; unaudited actuals indicate actual 2023 receipts of nearly $41 million. The county is working through the state's newly allowed collective bargaining process, but we do not presently expect new contracts to materially alter the county's expenditure profile or trajectory.

The 2024 budget is largely a continuation of previous budgets, but notably adjusts the millage rate downward, resulting in no change in the average tax homeowner tax bill. It adjusts personnel costs to help retain staff and, consistent with previous budgets, does not use stabilization reserves to balance the budget. The initial 2025 budget process expects continued adjustments for employee compensation, health care and retirement costs, and increasing debt service. Overall, despite growing service demands and capital investment, we expect management to build budgets and make adjustments necessary to maintain a stable financial profile.

We adjust the county's audited results to reflect recurring transfers, including some transfers to enterprise funds, and to remove expenditures financed with bond proceeds to fund one-time capital projects. Additionally, available reserves include committed general fund reserves, which contain the revenue stabilization reserve, equal to 2% of general fund revenues, and reserves for capital.

Stable debt profile expected

Following this issue, the county will have about $1.2 billion in net direct debt outstanding. The five-year CIP totals $1.4 billion, but we expect offsetting grants and pay-as-you-go funding, changes to project size and scope, and reprioritization will result in a generally stable debt profile over the next few years. We do not expect to revise our view of the debt profile during the outlook period.

Pension and other postemployment benefits (OPEB) highlights

We do not view pension and OPEB liabilities as an immediate source of credit pressure, as required contributions currently make up a modest percentage of expenditures. Additionally, we expect modest cost escalation due to high funded ratios and generally conservative assumptions. Consistent with our analysis across Virginia counties, we have not included school department retirement liabilities within our analysis, but note the school pension and OPEB funded ratios are also relatively high.

As of the most recently available reporting dates, the county participated in the following retirement plans:

- Virginia Retirement System (VRS): 93.7% funded, with a $101.9 million net pension liability (NPL);
- A supplemental pension plan for public safety employees: 96.8% funded, with a $1.7 million NPL;
- A length of service award program for volunteer firefighters: 70.5% funded, with a $8.7 million NPL; and
- County employee OPEB: 67% funded, with a $90.3 million net OPEB liability.

Ratings above the sovereign

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.)

Prince William County--Key credit metrics				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Very strong economy				
Projected per capita EBI % of U.S.	126			
Market value per capita ($)	193,181			
Population		486,453	476,203	475,005
County unemployment rate (%)		2.7		
Market value ($000)	93,973,659	82,833,973	76,319,204	
Ten largest taxpayers % of taxable value	6.0			
Strong budgetary performance				
Operating fund result % of expenditures		2.0	2.7	2.7
Total governmental fund result % of expenditures		1.7	2.9	3.5
Very strong budgetary flexibility				
Available reserves % of operating expenditures		23.4	22.9	20.9
Total available reserves ($000)		315,682	295,846	259,224
Very strong liquidity				
Total government cash % of governmental fund expenditures		57	57	67
Total government cash % of governmental fund debt service		518	592	654
Very strong management				
Financial Management Assessment	Strong			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		11.0	9.6	10.3
Net direct debt % of governmental fund revenue	78			
Overall net debt % of market value	1.4			
Direct debt 10-year amortization (%)	70			
Required pension contribution % of governmental fund expenditures		3.2		
OPEB actual contribution % of governmental fund expenditures		0.6		
Very strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.
Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of September 28, 2023)

Ratings Detail (As Of September 28, 2023) (cont.)		
Prince William Cnty COPs		
Long Term Rating	AA+/Stable	Affirmed
Prince William Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Prince William County Industrial Development Authority, Virginia		
Prince William County, 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		
Long Term Rating	AA+/Stable	Affirmed
Virginia Public School Authority, Virginia		
Prince William County, Virginia		
Virginia Pub Sch Auth (Prince William Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Virginia Pub Sch Auth (Prince William Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed

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