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Ratings

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Summary:

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

Primary Credit Analyst:
Michael Ryter, Chicago +1 312 233 7016; michael.ryter@spglobal.com

Secondary Contact:
Lauren Freire, New York + 1 (212) 438 7854; lauren.freire@spglobal.com

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Credit Profile		
US$127.605 mil spl oblig sch fin bnds (Prince William Cnty) ser 2024 dtd 10/31/2024 due 10/31/2044		
Long Term Rating	AAA/Stable	New
US$14.915 mil rev bnds (Prince William County) (Telegraph Road Project) ser 2024A due 10/01/2027		
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
Virginia Public School Authority, Virginia		
Prince William County, Virginia		
Virginia Pub Sch Auth (Prince William Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Prince William County, Va.'s approximately $127.605 million series 2024 special obligation bonds, issued by the Virginia Public School Authority (VPSA), based on the application of its criteria, "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.
- We also assigned our 'AA+' long-term rating to the Prince William County Industrial Development Authority (IDA), Va.'s approximately $14.915 million series 2024 facilities revenue bonds, issued on behalf of the county.
- Finally, we affirmed our 'AAA' rating on the county's outstanding general obligation (GO) debt and our 'AA+' rating on its outstanding lease appropriation debt.
- The outlook is stable.

Security

The series 2024 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. Bond proceeds will be used to finance various school-related capital projects.

The IDA series 2024 revenue bonds and outstanding IDA 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. We rate the obligations one notch below the GO rating on the county to reflect the appropriation risk associated with lease payments, based on the application or our criteria, "Issue Credit Ratings Linked To U.S. Public Finance Obligors’ Creditworthiness," published Nov. 20, 2019, on RatingsDirect. The county pledges its best effort to seek the appropriation's inclusion in the annual budget. The series 2024 bonds will finance land acquisition for future use.

Credit overview

Prince William County's rating reflects increasing economic strength likely to lead to material revenue growth, a longstanding commitment to financial balance underpinned by robust formal policies and practices, and consistent financial performance. Though the county has maintained reserves at solid levels, they lag those of similarly rated peers and somewhat offset the aforementioned credit strengths. Population growth and rising debt may lead to some expenditure pressure in future years, particularly as the county continues investments in local schools; however, we expect management to make budgetary adjustments--supported by new revenue growth--to maintain a stable financial profile.

Credit fundamentals supporting the rating include Prince William's:

- Growing tax base supported by investment in data center construction and operations, with access to employment centers throughout the broader Washington, DC metropolitan area, and significantly above average household incomes;
- Generally predictable operating performance, highlighted by a history of general fund surpluses;
- Solid available reserves that while they lag similarly rated peers, are further bolstered by additional funds that can be made available in a stress scenario;
- Expectation of stable carrying charges on a percentage basis, with well-funded pension and other postemployment benefits (OPEB) plans;
- Well-embedded and conservative management practices and planning culture; and
- A very strong operating environment--for more information on our institutional framework assessment for Virginia counties, see "Institutional Framework Assessment: Virginia Local Governments," published Sept. 11, 2024.

Environmental, social, and governance

We view environmental, social, and governance (ESG) factors as neutral in our credit analysis. The county has established an office of sustainability, and its appropriation of funding for a sustainability plan supports its resiliency and preparedness measures. The county's cyber security measures are commensurate with those of its peers.

Rating above the sovereign

Prince William County's GO bonds are eligible to be rated above the sovereign because we think the county can maintain better credit characteristics than the nation in a stress scenario. The county has a predominately locally derived revenue sources with taxing authority and treasury management independent from the federal government.

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's reserve profile materially weakens without a credible plan to strengthen, or if the debt profile materially weakens, we could lower the rating.

Credit Opinion

Economy

Southwest of Washington, D.C., Prince William County's rapidly growing economy is supported by ongoing industrial development and robust household incomes. Though the county's economic output is significantly below the national average, it belies the strength of the local taxing base that derives ample revenue collected from data centers. Population and employment growth rates have outpaced the commonwealth and most of Prince William's immediate neighbors, which we expect to continue. New development, particularly data center construction, has fueled market value growth rather than incremental appreciation in existing property values.

We expect that future data center development including the $24.7 billion Price William Digital Gateway Project, as well as a technology park, distribution hubs, investment in life science campuses and higher education expansion, will drive economic growth in both the near and long-terms. We expect the county to continue to benefit from proximity to nearby Quantico and Fort Belvoir campuses.

Financial performance, reserves, and liquidity

We expect Prince William County to maintain generally balanced operations given its strong revenues from real and personal property taxes, coupled with sophisticated and cautious budgeting practices that consistently produce positive operations. Leading revenue sources in the fiscal 2025 budget include real estate tax (58%), personal property tax (26%), and sales tax (6%).

Following a 2023 fund balance decrease driven by one-time planned drawdown to fund capital needs, the county expects to return to surplus operations in fiscal 2024, with revenues ahead of budget and expenses under budget. The fiscal 2025 budget totals $1.8 billion (including county transfer to schools) and is balanced without one-time sources.

Available fund balance remained very strong in fiscal 2023 despite the drawdown and is expected to grow in fiscal 2024. We adjusted available reserves to include the county's committed capital reserve and revenue stabilization funds. Additionally, the county maintains more than $50 million in other reserves that are not readily available but could be accessed to pay debt service in a stress scenario. A recently established data center revenue stabilization reserve is sized at 10% of tax revenue generated from CE&P and will be fully funded ($7 million-$8 million) using the fiscal 2024 surplus. We expect reserves to remain very strong.

Management

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. Driving the county's planning are its 40-year vision plan, a 20-year comprehensive plan (last updated in 2022) and a 4-6-year strategic plan, as well as regular review of its financial policies and practices to ensure they continue to serve the county's needs. Highlights of its policies and practices include:

- Quarterly reporting of budget-to-actual results and investment holdings to the board of supervisors;
- Five-year budget plan, annually adopted by the board of county supervisors and integrated with the six-year capital improvement plan (CIP) that identifies funding sources--the five-year budget plan must be balanced in all years without appropriating unassigned general fund balance, enabling maintenance of very strong reserves;
- Formal debt management policy that delineates a 13% limit on debt service to general fund and fire levy expenditures and total bonded debt to 3.0% of net assessed value (AV), leading to a manageable debt burden despite ongoing capital investments to support population growth;
- 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.

Debt and liabilities

Following this issuance, we calculate net debt at approximately $1.3 billion. The county identified approximately $1.35 billion in capital needs in its 2025-2030 CIP, of which approximately $567 million is projected to be debt funded, including $454 million over the next two years. Management's projections through fiscal year 2033 show future debt service costs remaining approximately level relative to total governmental fund revenue. We do not expect a material change in the county's debt profile in the near-term, but the rating could be pressured should new money debt issuances outpace total revenue and expenditure growth.

We do not view pension and OPEB liabilities as likely source of credit pressure. Consistent with our analysis across Virginia counties, we have not included school department retirement liabilities within our analysis but note that its school pension and OPEB funded ratios are also high.

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

- Virginia Retirement System (VRS): 90.1% funded, with a $167 million net pension liability (NPL);
- A supplemental pension plan for public safety employees: 100.2% funded, with a $105,000 net pension asset;
- A length of service award program for volunteer firefighters: 74% funded, with a $8 million NPL.

The county contributes to five OPEB plans, with an aggregate liability of approximately $33 million. We do not expect financial pressure from OPEB liabilities.

Table 1

Prince William County, Virginia--credit summary	
Institutional framework (IF)	1
Individual credit profile (ICP)	1.65
Economy	2.0
Financial performance	2
Reserves and liquidity	1
Debt and liabilities	2.25
Management	1.00

Table 2

Prince William County, Virginia--key credit metrics				
	Most recent	**2023**	**2022**	**2021**
Economy				
GCP per capita % of U.S.	64	--	64	64
County PCPI % of U.S.	97	--	97	96
Market value ($000s)	93,973,659	93,973,659	82,833,973	76,319,204
Market value per capita ($)	190,631	190,631	170,282	160,266
Top 10 taxpayers % of taxable value	6	6	6	4
County unemployment rate (%)	2.7	2.7	2.7	3.9
Local median household EBI % of U.S.	150	147	152	154
Local per capita EBI % of U.S.	122	121	124	127
Local population	492,962	492,962	486,453	476,203
Financial performance				
Operating fund revenues ($000s)	--	1,477,168	1,319,611	1,272,256
Operating fund expenditures ($000s)	--	1,493,722	1,314,069	1,262,440
Net transfers and other adjustments ($000s)	--	(1,943)	21,040	25,024
Operating result ($000s)	--	(18,497)	26,582	34,840
Operating result % of revenues	--	(1.3)	2.0	2.7
Operating result three-year average %	--	1.2	2.5	1.9
Reserves and liquidity				
Available reserves % of operating revenues	--	17.4	19.1	15.7
Available reserves ($000s)	--	256,896	251,892	199,604
Debt and liabilities				
Debt service cost % of revenues	7.8	7.8	10.8	9.3
Net direct debt per capita ($)	2,604	2,128	2,264	2,385
Net direct debt ($000s)	1,266,900	1,049,072	1,101,567	1,135,638
Direct debt 10-year amortization (%)	66.0	--	--	--
Pension and OPEB cost % of revenues	3	3	4	3
Net pension liabilities per capita ($)	354	354	360	238
Combined net pension liabilities ($000s)	174,521	174,521	175,289	113,114

GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

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 20, 2024)		
Prince William Cnty COPs		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of September 20, 2024) (cont.)		
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
Prince William County Industrial Development Authority facs rev bnds		
Long Term Rating	AA+/Stable	Affirmed
Prince William County Industrial Development Authority facs rev bnds		
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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.