Fitch Ratings

Fitch Rates Leesburg, VA's GO Bonds 'AA+'; Outlook Stable Ratings Endorsement Policy

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Fitch Ratings-New York-20 June 2014: Fitch Ratings has assigned an 'AA+' rating to the following general obligation (GO) bonds of Leesburg, VA (the town):

--$23.5 million GO and refunding bonds, series 2014.

The proceeds of the bonds will be used to finance the costs of various capital improvement projects, refund a portion of outstanding GO bonds for debt service savings, and restructure a portion of outstanding GO utility bonds to smooth future debt service costs. The bonds are expected to sell competitively on July 10, 2014.

In addition, Fitch affirms the following ratings:

--$70.9 million GO bonds, series 2005, 2006B, 2009A, 2009B, 2011A, and 2011B at 'AA+';
--$45.5 million GO utility bonds, series 2006 at 'AA+'.

The Rating Outlook is Stable.

SECURITY
The GO bonds are backed by the town's full faith and credit and unlimited ad valorem taxing ability.

KEY RATING DRIVERS

HEALTHY FINANCIAL POSITION: Strong financial management has contributed to a pattern of generally positive operating results, healthy reserves, and high liquidity. Operations benefit from a diverse revenue base and unencumbered legal capacity to increase property taxes, the main general fund revenue source.

AFFLUENT ECONOMIC BASE: The town's strong economic profile reflects residents' high income metrics and educational attainment, healthy population gains, and history of low unemployment relative to the state and nation. The township's small employment base is significantly augmented by its proximity and commuting access to the Washington-Arlington-Alexandria metropolitan statistical area (MSA).

MODERATE DEBT LEVELS: Limited intermediate-term debt issuance will allow the town to maintain the current manageable debt position.

RATING SENSITIVITIES
The rating is sensitive to shifts in fundamental credit characteristics including the town's strong financial profile. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE
Located in Loudoun County in northern Virginia, Leesburg has a 2013 population of 47,673 and continues to experience rapid growth, with the population rising 68.4% since the 2000 census. The town lies 20 miles from Washington-Dulles Airport and 35 miles from the nation's capital.

WEALTHY TAX BASE LOCATED WITHIN STRONG D.C. AREA ECONOMY
The town is primarily a residential community, located at the confluence of state highway 7 and interstate 15, making it accessible to the nearby job markets of Loudoun and Fairfax Counties and Washington D.C. With a well-educated workforce and close proximity to vibrant labor markets, the town has maintained low

unemployment rates and high wealth indicators. As of April 2014, the town's unemployment rate of 3.6% was well below that of the state's 4.7% and nation's 5.9%, and stayed at 5% or below on an annual basis throughout the economic downturn. Median household income is approximately 90% higher than that of the nation, according to census data. Per capita income levels for the town are also high.

STRONG FISCAL POSITION
Leesburg's reserve levels and financial flexibility are ample. The town ended fiscal 2013 with a general fund operating surplus after transfers of $1 million, increasing the unrestricted fund balance to $17.2 million or a sound 35.4% of general fund spending. The general fund balance sheet is highly liquid with cash and investments well over 4x total liabilities.

Year-to-date general fund financial results for fiscal 2014 appear positive. The town is anticipating an operating surplus after transfers of $2.4 million, increasing the unrestricted fund balance to $17.6 million or 35.5% of projected spending.

The adopted fiscal 2015 budget increases spending by 2.7% or $1.3 million over the fiscal 2014 budget. The budget funds a $1.6 million contribution to fund balance, while lowering the property tax rate by 4.7% to 18.3 cents per $100 of assessed valuation (AV). The town's overall tax rate, inclusive of the county rate, is somewhat above-average within the region. Favorably, the tax rate and levy are not subject to statutory or charter restriction.

Town council has approved an increase to the unassigned fund balance policy to a minimum of 16% of general fund spending and management anticipates increasing the policy by 1% annually to reach 20% by fiscal 2019.

PLAN TO ACCOMMODATE RESTRUCTURED DEBT SERVICE
As part of the current issuance, the town is planning to restructure its outstanding utility GO debt to offset expected debt service increases starting in fiscal 2017. The system remains in strong fiscal health and generates self-sufficient operating results, so Fitch does not expect tax support to be needed for this debt. The restructuring would create a more level payout structure. The new 10-year payout ratio of the town's utility debt would be 38%, which is consistent with Fitch's water and sewer revenue bond amortization median. The town expects to vote later this month on multi-year rate increases to maintain fiscal stability going forward. This is the second time in the last four years that the town has decided to restructure its debt service schedule for budgetary savings, with the first, in 2011, deferring general fund payments. Fitch believes this practice is uncharacteristic of the town's otherwise very strong credit profile.

MODERATE DEBT PROFILE
The town's total debt levels are moderate with overall debt equal to $4,087 per capita or 2.8% of market value. Prudent capital planning, reasonable debt policies, and above-average amortization (roughly 65% of outstanding debt is repaid within 10 years) are expected to keep the town's debt burden manageable. The town's current capital improvement plan for fiscal years 2014-2019 totals $84 million and includes only $3.5 million in debt funding outside of the current issuance.

LIMITED OTHER LONG-TERM LIABILITIES
All town employees participate in the Virginia Retirement System (VRS), an agent and cost-sharing multiple employer-defined benefit pension plan administered by the commonwealth. The town's portion of the VRS liability is funded at 74.8. The town regularly contributes its annual required contribution (ARC) to the state plan.

Other post-employment benefits (OPEB) liabilities remain relatively low, and the town has fully funded its OPEB ARC for the past two years, which Fitch considers a credit positive. The town has also established an OPEB trust to fund future benefits, which had a balance of $5.8 million as of June 30, 2013. Carrying costs for debt service, pension, and OPEB, presently 15.8% of governmental fund spending are projected to remain manageable despite the scheduled increase in debt service in fiscal 2017.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, Zillow.com, IHS Global Insight, National Association of Realtors, Underwriter, Bond Counsel, Underwriter Counsel, and Trustee.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

Additional Disclosure
Solicitation Status