MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to Leesburg, VA's $23.5M GO and Refunding Bonds, Series 2014; Outlook revised to positive

Global Credit Research - 24 Jun 2014

Affirms Aa1, affecting $117M of outstanding GO debt

LEESBURG (TOWN OF) VA
Cities (including Towns, Villages and Townships)
VA

Moody's Rating

ISSUE	RATING
General Obligation and Refunding Bonds, Series 2014	Aa1

Sale Amount	$23,500,000
Expected Sale Date	07/10/14
Rating Description	General Obligation

Moody's Outlook POS

Opinion

NEW YORK, June 24, 2014 --Moody's Investors Service has assigned a Aa1 rating to the Town of Leesburg, VA's $23.5 million General Obligation and Refunding Bonds, Series 2014. The bonds are secured by the town's general obligation pledge. Concurrently, the town's Aa1 rating has been affirmed, affecting $117 million in parity debt. The outlook has been revised to positive.

Approximately $11.2 million of the current issue is new money and will fund various general government and utility projects. Of the remaining $12.3 million, $4.8 million will refund the Series 2005 bonds for an estimated net present value savings of $585,460, or 10.6% of refunded principal with no extension of maturity, while $7.5 million will refund the Series 2006 bonds for an estimated net present value loss of $867,835, or 8.9% of refunded principal. The current issue will restructure debt maturing in fiscal 2016 through fiscal 2021 and will layer the restructured Series 2006 debt from fiscal 2025 through fiscal 2034. The purpose of this restructuring is to help minimize increases in utility user rates over the next decade and create an annually declining debt service structure beginning in fiscal 2022. Even with the new structure, total debt service is expected to increase substantially between fiscal 2015 and fiscal 2022, including a 35% spike between fiscal 2015 and fiscal 2017. However, due to a moderate anticipated property tax rate increase and upcoming utility rate increases, debt service is projected to remain under 15% of General Fund expenditures in all years of bond payout.

SUMMARY RATINGS RATIONALE

The Aa1 rating reflects the town's sizable and wealthy tax base, solid financial position despite recent declines in reserves, and a manageable debt burden.

The positive outlook reflects our expectation that the town's financial performance will continue to remain solid in the near-term due to strong fiscal management and planning, and despite a steep increase in debt service in fiscal 2017. The outlook also reflects the expectation that the town's tax base will continue to expand due to its favorable location in the region's strong local economy.

STRENGTHS

-Favorable location and demographic profile

-Sizable tax base

-Solid financial position

CHALLENGES

- Steep increase in General Fund and Utility debt service in 2017

DETAILED CREDIT DISCUSSION

SIZEABLE AND FAVORABLY LOCATED TAX BASE EXPECTED TO SEE MODEST GROWTH IN NEAR-TERM

Located in Northern Virginia approximately 40 miles southwest of Washington D.C. (GO rated Aa2/stable outlook), Leesburg has seen tax base growth resume after several years of market value declines. Over the last five years (2009-2014), the town's tax base has grown at an average annual rate of 2.3% to a high of $6.4 billion, including a 4.9% increase in 2013 and a 3.9% increase in 2014. Commercial activity remains strong in Leesburg, which is a regional center for retail developments. The town currently has three major land development projects underway including Courthouse Square (office, retail, restaurants, and parking), Crescent Place (residential and commercial), and a new Lowes Companies, Inc. (senior unsecured rated A3/stable).

The town, which is the county seat of Loudoun County (GO rated Aaa/stable), continues to grow rapidly in population, with a 51% increase in the last decade following a robust 75% in growth in the 1990's. The town benefits from proximity to an abundance of employment centers in the region, and consequently, unemployment is well below average levels and was 3.6% in April 2014, as compared to 4.7% for the commonwealth and 5.9% for the nation. Wealth levels in Leesburg are above-average with a per capita income of $37,481 (116.6% of VA and 137.2% of US) and median family income of $115,932 (157.7% of VA and 184.1% of US), which is typical of Northern Virginia communities. Full value per capita at $146,742 is also above average when compared to state (156.8%) and national (164.2%) rates. Going forward, the underlying wealth of the tax base, as well as proximity to employment centers throughout Northern Virginia, is expected to facilitate moderate growth through the medium term.

SOUND FINANCIAL POSITION DESPITE RECENT RESERVE DRAWS

Given its strong fiscal 2013 reserve postion and proactive management, Leesburg's financial strength is expected to remain sound despite manageable draws on reserves in fiscal 2010 and 2012 and a steep increase in debt service beginning in fiscal 2017. Over the last five years, the town has been able to increase reserves to $18.2 million (36.7% of General Fund revenues) in fiscal 2013 from $16.9 million (38.3% of General Fund revenues) in fiscal 2008. Despite declines in reserves during fiscal 2010 and fiscal 2012 for various one-time items, the overall increase in fund balance was attributable to conservative budgeting. In addition, the town also underwent a restructuring of debt in fiscal 2011 that provided the town with additional financial flexibility related to fixed costs. Most recently, fiscal 2013 ended with a $1.0 million increase in General Fund balance. Revenues ended over budget due to the positive performance of sales and meals taxes, while expenditures were under budget due to conservative estimates. Unassigned General Fund balance grew to $10.0 million, or 20.3% of General Fund revenues, in fiscal 2013 and is well within Leesburg's policy to maintain 15% of General Fund revenues. The town is considering strengthening this policy to 20% of General Fund revenues and would plan to increase the threshold by 1% each year over the next five years beginning in fiscal 2015. Local taxes, which primarily include sales and meals taxes, were the town's main source of revenue (35% of General Fund revenues), followed by property taxes (27.5%) in fiscal 2013.

The fiscal 2014 budget represents a 0.5% increase from the fiscal 2013 budget and includes a $1.6 million increase in fund balance. Based on preliminary projections, the town expects to end fiscal 2014 with a $2.4 million increase in General Fund balance to $20.5 million or 39.5% of General Fund revenues. This increase in reserves is reflective of positive revenue performance due to conservative budgeting and a renewed emphasis on tax collections. In addition, the reserves would have increased by another $1.3 million if the town had not needed to make a supplemental appropriation for capital asset replacement.

The fiscal 2015 budget represents a 2.7% increase from fiscal 2014 and includes a $1.6 million addition to General Fund balance. The budget includes a 3% performance-based salary increase for employees and a 12% increase in health insurance costs. These expenditures are offset by continued growth in property and other local taxes, permits and fees due to continued development, and fines and forfeitures resulting from increased parking enforcement. While the town had originally planned for a multi-year five-cent tax rate increase (beginning in fiscal 2015) to offset the upcoming spike in debt service, better than expected assessed valuation growth has eliminated the need for a tax rate increase in fiscal 2015 and fiscal 2016. The town now projects only a one-cent tax rate increase in fiscal 2017 to address the 48% increase in general fund debt service costs. (See debt section for more details.) These projections represent conservative estimates, inclusive of a 2% annual growth rate in the tax base, which the town has surpassed in each of the last four years. Going forward, we will continue to monitor the town's ability to maintain its sound financial position despite the significant increase in debt service beginning in fiscal 2017. If the town is able to maintain its financial flexibility despite this growth in fixed costs, additional positive credit pressure is possible.

RESTRUCTURING PROVIDES NEAR-TERM RELIEF; SHARP INCREASE IN MEDIUM-TERM DEBT SERVICE EXPECTED TO BE MANAGEABLE

The direct debt level of the town is modest at 1.1% of full valuation (net of self supporting utility debt); however, when the overlapping debt of Loudoun County is added, overall debt burden rises to an above-average 2.8%. The current issue restructures Leesburg's debt service schedule, providing relief for the Utility Fund in fiscal 2016 through fiscal 2021 that will layer the restructured debt from fiscal 2025 through fiscal 2034. The purpose of this restructuring is to help minimize increases in utility user rates over the next decade and create an annually declining debt service structure beginning in fiscal 2022. Even with the new structure, total debt service for the general and utility funds are expected to increase 41% between fiscal 2015 and fiscal 2022, including a 35% increase between fiscal 2015 and fiscal 2017. Of total debt service, 55% is to be paid by utility fees and 45% by General Fund revenues, although all is secured as general obligation debt. Overall, the incremental increase in debt service in fiscal 2017 requires $2.4 million of net revenues from the General Fund and $814,302 from the Utility Fund.

We expect the Utility Fund to continue supporting its debt through the life of the associated bonds, given its stable history and upcoming new rates. The town's Utility Fund is self-supporting, including roughly $1.9 million in annual administrative reimbursements to the General Fund. Historical coverage exceeded 4.0 times when robust growth generated hefty connection fees prior to the recession, however, more recently debt service coverage has averaged 1.5 times since fiscal 2009. The town is currently in the process of reviewing rates and charges of the system and will establish a plan for potential future rate increases that will help offset growing debt service costs beginning in fiscal 2017. In addition, as mentioned in the Finances section, the town anticipates not needing previously-planned property tax rate hikes starting in fiscal 2015, and rather, now projects needing only a one-cent property tax rate increase in fiscal 2017 to fully offset the spike in debt service during the same year.

The town's $94 million fiscal 2014-2019 capital improvement plan is expected to be partially financed by roughly $17.8 million (19%) in additional GO bonds, with the remainder supported by General and Utility Fund revenues. The town expects to remain in compliance with its self-imposed debt policies, which require principal amortization above 60% for General Fund debt (projected 75.6%), a ratio of debt to assessed value below 2.5% (post-issuance 1.1%), and debt service as a percentage of general fund expenditures under 15% (11.8% in fiscal 2013). In addition, the town is looking to strengthen its direct debt burden policy to 1.5% of full valuation from 2.5% in fiscal 2015. Leesburg has no exposure to variable rate debt or derivative agreements.

The town participates in the Virginia Retirement System defined benefit pension plan administered by the Commonwealth of Virginia (GO rated Aaa/stable). In fiscal 2013, the town's annual required contribution (ARC) was $3.0 million or 6.1% of operating expenditures. The town contributed 100% of its ARC in fiscal 2013. The town's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data is $32.5 million, or approximately a below-average 0.73 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the state-run plans in proportion to its contributions to the plans.

The town also provides Other Post-Employment Benefits (OPEB) to employees. The total ARC for the town's OPEB (including utilities) totaled $1.7 million or 3.5% of operating expenditures in fiscal 2013. The town contributed 40.6% of the ARC $1.8 million or 3.7% of operating expenditures). Fixed costs including annual pension, OPEB and debt service expenditures summed to a moderate 21.6% of operating expenditures in fiscal 2013.

Outlook

The positive outlook reflects our expectation that the town's financial performance will continue to remain solid in the near-term due to strong fiscal management and planning, despite a steep increase in debt service in fiscal 2017. The outlook also reflects the expectation that the town's tax base will continue to expand due to its favorable location in the region's strong local economy. If the town is able to maintain its financial flexibility despite the growth in fixed costs, additional positive credit pressure is possible.

WHAT WOULD MAKE THE RATING GO UP:

- Continued tax base growth

- Trend of strong General Fund and Utility operations

- Ability to address increase in debt service beginning in fiscal 2017 while maintaining financial flexibility

WHAT WOULD MAKE THE RATING GO DOWN (Removal of positive outlook):

- Deterioration of tax base or demographic profile

- Decline in General Fund or Utility Fund net reserves

- Inability to address increase in debt service beginning in fiscal 2017

- Significant increase in debt burden

KEY STATISTICS

2014 Tax Base Size - Full Value (in 000s): $6,438,888

2014 Full Value Per Capita: $146,742

2010 Median Family Income as % of US median: 184.1%

2013 Fund Balance as % of Revenues: 34.68%

Five-Year Dollar Change in Fund Balance as % of Revenues: 5.06%

2013 Cash Balance as % of Revenues: 37.50%

Five-Year Dollar Change in Cash Balance as % of Revenues: 3.07%

Institutional Framework: Aaa

Operating History - Five-Year Average of Operating Revenues/ Operating Expenditures: 0.98x

Net Direct Debt/Full Value: 1.01%

Net Direct Debt/Operating Revenues: 1.32x

Three-Year Average of Moody's Adjusted Net Pension Liability/Full Value: 0.46%

Three-Year Average of Moody's Adjusted Net Pension Liability/Operating Revenues: 0.60x

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Analysts

Jennifer Diercksen
Lead Analyst
Public Finance Group
Moody's Investors Service

Julie Beglin
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

MOODY'S INVESTORS SERVICE