

New Issue: Moody's upgrades Leesburg, VA's GO to Aaa; Outlook revised to stable

Global Credit Research - 16 Mar 2015

Assigns Aaa rating to \$49M GO Bonds, Series 2015

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

Moody's Rating

ISSUE	RATING
General Obligation and Refunding Bonds Series 2015	Aaa
Sale Amount	\$49,000,000
Expected Sale Date	03/26/15
Rating Description	General Obligation

Moody's Outlook STA

NEW YORK, March 16, 2015 --Moody's Investors Service has assigned a Aaa rating to Leesburg's (VA) \$49 million General Obligation and Refunding Bonds, Series 2015. Concurrently, Moody's has upgraded the town's General Obligation rating to Aaa from Aa1, affecting \$131.4 million in outstanding parity debt. The outlook has been revised to stable from positive.

SUMMARY RATING RATIONALE

The upgrade to Aaa reflects the town's solid financial position that has continued to improve and is supported by strong fiscal management and planning. The rating also reflects the town's sizeable and wealthy tax base and manageable debt burden.

OUTLOOK

The stable outlook reflects our expectation that the town's financial performance will continue to remain solid even in spite of a steep increase in debt service in fiscal 2017 due to proactive planning, comprehensive fiscal policies, and conservative budgeting practices. The outlook also reflects the expectation that the town will continue to experience modest tax base growth in the near-term due to its favorable location in the region's strong local economy.

WHAT COULD MAKE THE RATING GO DOWN

- Deterioration of tax base or demographic profile
- Decline in General Fund or utility reserves
- Inability to address increase in debt service beginning in fiscal 2017
- Significant increase in debt burden

STRENGTHS

- Favorable location and demographic profile
- Sizeable tax base

- Solid financial position

CHALLENGES

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

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

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

Located in Northern Virginia (Aaa stable) approximately 40 miles southwest of Washington D.C. (Aa1 stable), Leesburg is expected to see continued modest tax base growth due to its favorable location and an improving economy. Over the last five years (2010-2014), the town's tax base has grown at an average annual rate of 2.5% to a high of \$6.5 billion, including a 4.9% increase in 2013 and a 5.7% 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). Victory Brewing recently announced a 13,000 square foot brewery that is expected to start construction in spring 2015 and will serve as an anchor in the Courthouse Square development. In addition, K2M is currently undergoing a \$28 million relocation of their global headquarters and research and development operations within the town that is expected to generate 97 new jobs and retain 268 jobs.

The town, which is the county seat of Loudoun County (Aaa stable), continues to grow rapidly in population, with a 53.7% increase since 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 3.4% in December 2014, as compared to 4.5% for the commonwealth and 5.4% for the nation. Wealth levels in Leesburg are above-average with a per capita income of \$37,724 (113.2% of VA and 134.5% of US) and median family income of \$110,619 (144.5% of VA and 171.3% of US), which is typical of Northern Virginia communities. Full value per capita at \$148,816 is also above average when compared to state (166.5%) and national (157.1%) 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.

FINANCIAL OPERATIONS AND RESERVES: SOLID RESERVE POSITION SUPPORTED BY STRONG MANAGEMENT

Given its strong reserve position and proactive management, Leesburg's financial strength is expected to remain sound. Over the last five years (2010-2014), the town has been able to maintain strong reserve levels averaging \$20 million or 42.1% of General Fund revenues. The town's maintenance of ample reserve levels is attributable to conservative budgeting, as well as a restructuring of debt in fiscal 2011 that provided the town with additional financial flexibility related to fixed costs. This position of strength, as well as proactive financial management, will enable Leesburg to maintain a sound financial position despite a steep increase in debt service beginning in fiscal 2017 and planned draws on reserves to help offset this added expense through fiscal 2020.

Most recently, fiscal 2014 ended with a \$2.6 million increase in General Fund balance to \$20.8 million or 40.7% of General Fund revenues. Leesburg's unassigned General Fund balance increased to \$11.0 million (21.4% of General Fund revenues), just above the town's recently revised policy of 20% (previously 15%). The increase in reserves is reflective of positive revenue performance due to conservative budgeting and a renewed emphasis on tax collections. Expenditures also ended under budget due to conservative estimates. 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. Local taxes, which primarily include sales and meals taxes, were the town's main source of revenue (34% of General Fund revenues), followed by property taxes (27%) in fiscal 2014.

The fiscal 2015 budget represents a 2.7% increase from fiscal 2014 and includes a \$1.6 million addition to General Fund balance. Based on year-to-date projections, the town is expecting to end the fiscal year with at least a \$1.6 million increase in General Fund balance to \$22.4 million or 44.1% of General Fund revenues. Revenues are currently tracking ahead of budget, as assessed valuation growth was better than anticipated and local revenues continue to improve with the economy. Expenditures are tracking to budget.

The fiscal 2016 budget has not yet been adopted, but the town projects a 5.4% increase from the previous year, primarily due to the transition of the Office of Capital Projects from the Capital Fund to the General Fund. A transfer from the Capital Projects Fund will continue to cover these expenditures. The proposed budget also includes maintaining a level tax rate despite expected growth in the tax base, as well as conservative growth in local tax revenues. Expenditures will include a 3% performance-based increase for employees and an 8% increase in health insurance costs. Overall, the budget will include a \$1.4 million increase in General Fund reserves.

While the town had originally planned for a multi-year five-cent tax rate increase (beginning in fiscal 2015 and ending in fiscal 2017) to offset an upcoming spike in debt service, better than expected assessed valuation growth has eliminated the need for a tax rate increase through fiscal 2017. Under current projections, the town expects to draw down to \$16.8 million or a still strong 29.7% of General Fund revenues through fiscal 2020 to help offset a 65% increase in debt service costs between fiscal 2015 and 2017. These elevated debt service levels would be maintained through fiscal 2019 before beginning to decline in fiscal 2020. The town's 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.

Liquidity

The town's liquidity position has remained stable over the last five years (2010-2014) averaging \$18.1 million or 37.7% of General Fund revenues. This strong cash position has been supported by strong management practices and conservative budgeting. The town's cash position is expected to remain healthy going forward.

DEBT AND PENSIONS: SHARP INCREASE IN MEDIUM-TERM DEBT SERVICE EXPECTED TO BE MANAGEABLE

The town's debt profile is expected to remain manageable in the near-term given expected tax base growth and moderate future debt plans. 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%. Under the current debt structure, total

Total debt service for the general and utility funds is expected to increase 65% 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 adopted rates and charges of the system effective January 1, 2015 and that established a plan 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 to fully offset the spike in debt service during the same year.

The town's \$75.6 million fiscal 2016-2021 capital improvement plan is expected to be partially financed by roughly \$20.4 million (27%) in additional GO bonds, with a sizeable portion supported by the Virginia Department of Transportation (42%) to help fund the Hope Parkway for the K2M expansion. The town expects to remain in compliance with its self-imposed debt policies, which require principal amortization above 60% for General Fund debt (68.69% post-issuance), 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% (9.1% in fiscal 2014).

Debt Structure

All of the town's debt is fixed rate.

Debt-Related Derivatives

The town is not party to any derivative agreements.

Pensions and OPEB

The town participates in the Virginia Retirement System defined benefit pension plan administered by the Commonwealth of Virginia. In fiscal 2014, the town's annual required contribution (ARC) was \$3.1 million or 6.4% of operating expenditures. The town contributed 100% of its ARC in fiscal 2014. The town's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data is \$43 million, or a below-average 0.84 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 \$1.2 million or 2.4% of operating expenditures in fiscal 2014. The town contributed \$1.8 million (3.7% of operating expenditures) or approximately 150% of the ARC. Fixed costs including annual pension, OPEB and debt service expenditures summed to a moderate 19.2% of operating expenditures in fiscal 2014.

MANAGEMENT AND GOVERNANCE

Virginia cities have an institutional framework score of "Aaa" or very strong. Cities rely on property taxes to support operations, providing for high revenue raising flexibility as property taxes are unlimited. Expenditures, which are primarily for public safety and education, are predictable and cities have the ability to reduce expenditures if necessary.

The town's consistently sound financial position is supported by a history of conservative budgeting, which we expect to continue in the near-term. The town also recently increased its unassigned General Reserve policy to 20% from 15%. The town's unassigned General Fund balance has averaged 20% over the last five years.

KEY STATISTICS

- 2014 Tax Base Size - Full Value (in 000s): \$6,547,329
- 2014 Full Value Per Capita: \$148,816
- 2012 Median Family Income as % of US median: 171.28%
- 2014 Operating Fund Balance as % of Revenues (includes General): 38.51%
- Five-Year Dollar Change in Fund Balance as % of Revenues: 7.50%
- 2014 Operating Cash Balance as % of Revenues (includes General): 42.01%
- Five-Year Dollar Change in Cash Balance as % of Revenues: 5.82%
- Institutional Framework: Aaa
- Operating History - Five-Year Average of Operating Revenues/ Operating Expenditures: 0.99x
- Net Direct Debt/Full Value: 1.12%
- Net Direct Debt/Operating Revenues: 1.4x
- Three-Year Average of Moody's Adjusted Net Pension Liability/Full Value: 0.64%
- Three-Year Average of Moody's Adjusted Net Pension Liability/Operating Revenues: 0.80x

OBLIGOR PROFILE

The town is located in Loudoun County in northern Virginia, approximately 40 miles from the District of Columbia. The town has a population of approximately 43,996.

LEGAL SECURITY

The bonds are secured by the town's general obligation pledge.

USE OF PROCEEDS

Approximately \$11 million of the current bond issue will be used to reimburse the General Fund for previously funded capital projects, provide funding for the construction of Hope Parkway (economic development incentive for K2M expansion), general street repairs, park and recreation improvements, and storm drainage projects. Approximately \$4 million will be used to refund the Series 2006 bonds for an estimate net present value savings of \$167,344, or 4.1% of refunded principal, with no extension of maturity. The remainder of the issue will refund the Series 2006B Utility Bonds for an estimated net present value savings of \$3.4 million, or 9.8% of refunded principal, with no extension of maturity.

RATING METHODOLOGY

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.moody.com for a copy of this methodology.

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