FitchRatings

RATING ACTION COMMENTARY

Fitch Assigns 'AAA' Rating to Leesburg, Virginia's GO Bonds; Outlook Stable

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Fitch Ratings - New York - 24 Nov 2020: Fitch Ratings has assigned the following rating to the town of Leesburg, Virginia:

--$13,515,000 general obligation (GO) refunding bonds, Series 2020.

The bonds are scheduled for competitive sale on Dec. 8, 2020. The Series 2020 bonds will be issued to refund the Series 2011 GO bonds and restructure a portion of the debt service of the Series 2014, Series 2015, and Series 2019 GO bonds.

Additionally, Fitch has affirmed the following ratings:

--Issuer Default Rating (IDR) at 'AAA';

--Outstanding GO bonds at 'AAA'.

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.

ANALYTICAL CONCLUSION

Leesburg's 'AAA' IDR and GO rating reflect historically stable revenues with solid growth prospects as well as the town's high gap-closing capacity. The town's unlimited legal ability to adjust property tax rates, which provides flexibility to address potential declines in the town's tax base or non-ad valorem revenues, and solid expenditure flexibility contribute to its high gap-closing capacity. Fitch expects the town to manage well through near-term fiscal pressures from the coronavirus-driven economic slowdown given its inherent budget flexibility and healthy reserve levels.

ECONOMIC RESOURCE BASE

The town of Leesburg is located in Loudoun County (AAA/Stable) in northern Virginia, about 15 miles from Washington-Dulles Airport and 40 miles from the nation's capital. Economic performance of the entire DC metro area has been key to the town's economic expansion, leading to the town's strong population and tax base growth in the years leading up to the pandemic. The town's 2019 estimated population of 53,727 is up 26% since the 2010 census, and has nearly doubled since 2000.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

General fund revenue growth has exceeded inflation over the decade ending in fiscal 2019, benefiting from the continued strong growth in assessed value (AV) and increased revenues from sales tax prior to the pandemic. Fitch believes long-term revenue growth is likely to be sustained between inflation and GDP primarily given its proximity to Washington D.C. with its strong long-term economic growth prospects, and the town's population growth and continuing economic development. There is no legal limit to the property tax rate or levy in Virginia and the town retains the ability to adjust other local taxes and fees, bolstering the revenue framework.

Expenditure Framework: 'aa'

Leesburg's fixed carrying costs are moderate at about 16% of governmental spending. Combined with the lack of other major mandated spending items and favorable workforce environment in Virginia, the town retains a solid amount of expenditure flexibility. Leesburg implemented expenditure reductions to offset the revenue shortfall in fiscal 2020 and projected fiscal 2021 by applying measures such as a hiring freeze and capex reductions. The town's debt restructuring will provide some budget relief in the current fiscal year; however, it will notably raise debt service costs between fiscal 2022 and fiscal 2025. Fitch expects the town's natural pace of spending growth to be in line with to marginally above revenue growth over the long run as the town continues to grow.

Long-Term Liability Burden: 'aaa'

The long-term liability burden associated with debt and Fitch-adjusted net pension liabilities is low at 7% of estimated personal income. Fitch expects the burden to remain low as the town's five-year capital program reports a modest level of future debt plans. Pensions do not contribute significantly to the town's long-term liability burden at less than 1% of personal income.

Operating Performance: 'aaa'

Leesburg's superior gap-closing capacity is derived from a combination of revenue and expenditure flexibility, and its level of available fund balance. Available reserves were 39% of general fund spending in fiscal 2019, indicating ample fiscal flexibility and consistent with an 'aaa' financial resilience assessment. Fitch anticipates the town will retain a high level of fundamental financial flexibility through the current downturn. The town's financial resilience is highlighted by its rapidly rebuilt financial flexibility after the most recent recession and superior inherent budget flexibility.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable given the current 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A deeper or more durable decline in general fund revenue than expected, slowing revenue growth to below inflation in the long run;

--A rise in carrying costs relative to governmental expenditures that decreases expenditure flexibility;

--A sustained increase in long-term liabilities above 10% of personal income.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

CURRENT DEVELOPMENTS

The outbreak of the coronavirus and related government containment measures worldwide has created an uncertain global environment for U.S. state and local governments and related entities. Fitch's ratings are forward-looking in nature, and Fitch will monitor the severity and duration of the budgetary impact on state and local governments and incorporate revised expectations for future performance and assessment of key risks.

While the initial phase of economic recovery has been faster than expected, GDP in the U.S. is projected to remain below its 4Q19 level until at least 4Q21. In its baseline scenario, Fitch assumes continued strong GDP growth in 3Q20 followed by a slower recovery trajectory from 4Q20 onward amid persisting social distancing behavior and restrictions, high unemployment and a further pullback in private-sector investment. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the report entitled, "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update" (https://www.fitchratings.com/research/sovereigns/fitch-ratings-coronavirus-scenarios-baseline-downside-cases-update-08-09-2020), published Sept. 8, 2020, and "Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Tax-Supported Issuers", published on Oct. 1, 2020, on www.fitchratings.com.

CORONAVIRUS IMPLICATIONS FOR LEESBURG

Accounting for planned budgetary responses to the coronavirus pandemic, the town reports that unaudited actual results show the town met their 20% of expenditures unassigned reserve policy in fiscal 2020 (FYE June 30), indicating still-robust fiscal resilience.

Town management has indicated fiscal 2020 revenues were trending above budget through March 2020 (prior to the pandemic), and unaudited actuals show that revenues underperformed original budget expectations by less than $1 million, or about 1.3%. The decline is primarily associated with a drop-off in charges for services and non-ad valorem taxes as well as policy action resulting in tax payment extensions and deferrals. The town addressed the revenue shortfall with reductions in operating expenditures through closing recreational facilities, freezing 15 full-time positions, pausing some capital spending, and other savings measures. Additionally, revenues were higher than initial post-pandemic projections indicated as sources such as sales tax, which the town believes benefitted from the taxation of online sales which began in July 2019, outperformed assumptions.

Town management expects fiscal 2021 reserve balances to remain robust despite near-term fiscal and economic pressure. The original fiscal 2021 budget was adopted in March 2020, but the town expects to miss budgeted revenues by $5.5 million, approximately 9% of the general fund budget. Leesburg has identified expenditure measures to handle some of the fiscal 2021 revenue shortfall including not filling 18 positions, decreasing capex plans and making departmental reductions. Some of the shortfall offset also comes from approximately a $1 million use of unassigned fund balance. Additionally, the current debt restructuring will result in a deferral of $3.7 million of debt service from fiscal 2021 primarily into fiscal years 2022-2025. The fiscal 2021 deferral amounts to about 6% of the total general fund budget.

After accounting for the $1 million use of fund balance, the total general fund balance would remain at 39% of budgeted fiscal 2021 general fund operating expenditures. Additionally, the town believes it would be able to access $8 million in its capital projects fund. Given the town's expenditure flexibility and level of reserves, Fitch expects Leesburg to maintain a 'aaa' level of financial resilience through the near-term pressure. However, a further deferral of spending as the town's economy recovers might change Fitch's view of budget management.

CREDIT PROFILE

The town is primarily a residential community located 40 miles from Washington D.C., with access to the nearby job markets of Loudoun and Fairfax counties as well as the greater Washington D.C. region. It is the county seat of Loudoun County. With a well-educated workforce and close proximity to vibrant labor markets, the town has maintained low unemployment rates and very high wealth indicators.

REVENUE FRAMEWORK

Property tax revenues represent the largest source of the town's general fund revenue at 29% in fiscal 2019. A variety of intergovernmental revenues, which mostly include communications sales taxes, state highway maintenance funds and state personal property tax relief make up another 26%.

General fund revenue (adjusted for property tax policy action) increased above inflation over the decade ending in fiscal 2019, benefiting from the continued strong growth in assessed value (AV) and slower increases in sales, meals and communications taxes. Despite a slight drop in revenues between fiscal 2019 and fiscal 2020, unaudited actuals show the town's 10-year revenue CAGR through fiscal 2020 remaining solid at about 3.3%. AV growth has also been solid over the 10-year window, growing at about 3.8% according to preliminary figures. Fitch expects continued solid revenue growth through the next business cycle as the town continues its economic development programs. Though growth is anticipated to remain between inflation and GDP, the town only has one more plot of developable land available and will mostly need to rely on redevelopment efforts in the future.

There is no legal limit to the property tax rate or levy in Virginia and the town retains the ability to adjust other local taxes and fees, such as the meals and business license fees, as necessary, providing the town with significant revenue-raising flexibility.

EXPENDITURE FRAMEWORK

The town of Leesburg's largest general fund expenditure categories are public works and public safety, which each consume about a quarter of the budget. Culture and recreation account for 14% of fiscal 2019 spending. Education spending is funded by Loudoun County and the Commonwealth. Fitch believes the town's solid expenditure flexibility stems from a minimal level of mandated spending requirements, and a workforce environment in the commonwealth that is favorable to management.

The town's spending obligations are likely to increase in line with to slightly above of revenues absent policy action to control spending given the expanding service needs of the growing resource base.

Fixed carrying costs for debt service, actuarially required pension payments and other post-employment benefit (OPEB) actual contributions are moderate at 16% of fiscal 2019 governmental spending. A debt restructuring in fiscal 2011 front loaded debt service but Fitch notes that management is well prepared to address higher debt service costs (further in the operating performance section below). Even with the restructuring, debt amortizes at a quick 82% over 10 years, elevating the town's fixed costs.

LONG-TERM LIABILITY BURDEN

The long-term liability burden associated with debt and pensions is low at approximately 7% of personal income. Prudent capital planning and reasonable debt policies are expected to keep the town's direct debt burden very manageable. Capital plans are largely devoted to financing transportation projects to alleviate congestion and include a significant amount of funding from the county and the Commonwealth. The overlapping debt of the county is a more substantial portion of the debt burden (5% of personal income), and is likely to increase though remain manageable.

All full-time town employees participate in the Virginia Retirement System (VRS), an agent multiple-employer defined benefit pension plan administered by the Commonwealth. As of the 2019 measurement date, aggregate fiduciary assets cover nearly 78% of total pension liabilities when adjusted by Fitch using a 6% rate of return. The adjusted net pension liability is just $25.4 million or about 1% of personal income.

The town's liability for other-post employment benefits (OPEB) is similarly low, representing 0.3% of personal income.

OPERATING PERFORMANCE

Fitch believes the town's very healthy level of reserves provides the highest gap-closing capacity considering the superior level of budgetary flexibility available and limited historical revenue volatility as measured by the Fitch Analytical Sensitivity Tool. The town's unrestricted fund balance remained robust in fiscal 2019 at about 39% of general fund spending following a larger than usual transfer out for capital expenditures. The town has increased the unassigned fund balance reserve policy to 20% of general fund expenditures and is committed to maintaining an unassigned fund balance consistent with their fund balance policy, which was maintained throughout the last downturn despite some use of fund balance as necessary.

The town continued to build on strong reserves after the most recent recession. It has operated with a surplus in six of the last seven years with only fiscal 2019 not coming in net positive. This is related to a large transfer out for capital projects. Fiscal 2020 unaudited actuals show the town's general fund was balanced without the use of reserves.

The town's governmentwide liquidity was strong as of fiscal 2019 with 327 days cash on hand.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Leesburg (VA) [General Government]	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
• Leesburg (VA) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST States & Locals - Fitch Analytical Stress Test Model, v2.4.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Leesburg (VA)	EU Endorsed

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