

## CREDIT OPINION

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 Rate this Research

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# Leesburg (Town of) VA

## Update to credit analysis

### Summary

The [Town of Leesburg](#) (Aaa stable) has a sizeable, diversified economy and serves an affluent population in northern Virginia. The town serves a largely residential base and benefits from a variety of economic anchors including governmental employment, a robust transportation system, and proximity to the Metropolitan Washington Airport Authority's (MWAA, Aa3 stable) Dulles International Airport (IAD). As a result of increasing commercial and residential development, the town's revenue base is growing, which will support its strong financial position. The town's debt burden will remain manageable given additional anticipated tax base growth, and although fixed costs are slightly elevated, increased revenues will support future debt service payments and capital projects.

### Credit strengths

- » Favorable location with institutional presence
- » Sizeable tax base and above average wealth and income levels
- » Healthy financial position supported by long-term financial planning

### Credit challenges

- » Moderate fixed costs

### Rating outlook

The stable outlook reflects the expectation that the town's financial position will remain sound given demonstrated trends of operating stability, fiscal monitoring, and adherence to formal policies. The outlook also incorporates the town's large tax base that will continue to benefit from its favorable location in the metro-DC region.

### Factors that could lead to an upgrade

- » Not applicable

### Factors that could lead to a downgrade

- » Deterioration in the town's tax base and socioeconomic indicators
- » Deterioration of reserves and liquidity
- » Weakened financial position in general fund or enterprise funds
- » Material increase in debt burden

## Key indicators

Exhibit 1

Leesburg (Town of) VA	2015	2016	2017	2018	2019
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$6,549,975	\$6,751,547	\$6,835,945	\$7,197,516	\$7,647,910
Population	47,872	49,401	51,015	52,125	53,917
Full Value Per Capita	\$136,823	\$136,668	\$133,999	\$138,082	\$141,846
Median Family Income (% of US Median)	175.8%	166.6%	168.5%	173.0%	173.0%
<b>Finances</b>					
Operating Revenue (\$000)	\$51,460	\$54,647	\$56,875	\$57,544	\$58,715
Fund Balance (\$000)	\$21,636	\$24,462	\$26,434	\$28,505	\$25,355
Cash Balance (\$000)	\$23,256	\$24,822	\$27,340	\$29,642	\$23,468
Fund Balance as a % of Revenues	42.0%	44.8%	46.5%	49.5%	43.2%
Cash Balance as a % of Revenues	45.2%	45.4%	48.1%	51.5%	40.0%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$55,810	\$68,115	\$63,225	\$58,404	\$54,165
3-Year Average of Moody's ANPL (\$000)	\$47,220	\$47,759	\$58,426	\$59,213	\$61,656
Net Direct Debt / Full Value (%)	0.9%	1.0%	0.9%	0.8%	0.7%
Net Direct Debt / Operating Revenues (x)	1.1x	1.2x	1.1x	1.0x	0.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.7%	0.7%	0.9%	0.8%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.9x	0.9x	1.0x	1.0x	1.1x

\*Total full value is based on the tax year associated with the first half of the town's fiscal year

Source: Leesburg, VA & Moody's Investors Service

## Profile

The town is located in [Loudoun County](#) (Aaa stable) in northern [Virginia](#) (Aaa stable), approximately 40 miles from the [District of Columbia](#) (Aaa stable), and serves a population of 53,727.

## Detailed credit considerations

### Economy and tax base: strong, affluent tax base benefitting from ongoing economic development and population growth

Leesburg's tax base will continue to experience steady economic growth due to its favorable location, improving local economy, healthy wealth and income levels, and stable employment base benefitting from local and federal governmental institutions. Located in Northern Virginia, 40 miles from the nation's capital, the town's tax base grew a five-year compound annual rate of 4.6% to reach \$8.4 billion in fiscal 2021, which is aligned with the median of \$7.8 billion of similarly rated entities nationally.

Commercial activity remains strong, which is a regional center for retail developments. Further, the area has several commercial projects underway for multiple mixed-use developments, residential buildings, and office space.

The town's population continues to grow rapidly, increasing 15% over the last five years (2014-2019). As of September 2020, the unemployment rate was 4.6%, relative to 6% in VA and 7.7% in the US, highlighting the areas economic resiliency during the coronavirus pandemic. The town also benefits from an educated work force, with the region ranked highly across the nation for residents with college and advanced degrees. As such, median family income is strong at 173% of the US level, and full value per capita was a healthy \$156,719, which falls below the median (\$203,636) for similar Aaa-rated entities nationally.

### Financial operations and reserves: strong financial position supported stable operating history

The town's financial position will likely remain healthy due to management's ability to adjust property tax rates to support operations, debt service, and capital projects, long-term financial planning, and adherence to prudent fiscal policies.

Following six years of positive operations, the town ran a general fund deficit in fiscal 2019 to fund an increase in capital projects. Still, available (unassigned and assigned) fund balance remains strong at \$25.4 million (41.3% of operating revenues), which is aligned with

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the median for Aaa-rated entities nationally at 42.9% of operating revenues. The town maintains \$9.8 million of assigned fund balance as a "debt service reserve."

The real property tax rate was levied at \$1.84 per \$1,000 of taxable value, remaining level since fiscal 2017. Operating revenues are primarily composed of property taxes (28.5%), intergovernmental revenues (which includes sales, use, and communications taxes) (26.4%), and other local taxes (which includes meals, business licences, and utility taxes) (26.3%).

Before transfers in, unaudited fiscal 2020 results reflect a \$1.1 million deficit, primarily because of declines in other local taxes and charges for services; after incorporating transfers in (primarily for administrative costs due to the general fund), the town posted a small \$180,269 surplus. Available fund balance totaled \$23.9 million (41.6% of revenues). The real property tax rate was maintained at \$1.84 per \$1,000 of taxable value. The town also utilized a portion of its "debt service reserve" for the first time, which totaled \$9.4 million at year-end.

The fiscal 2021 general fund budget includes a 3.9% increase over fiscal 2020, and is anticipated to be balanced, primarily because of cost-savings measures to offset an estimated \$5.5 million in revenue declines because of the pandemic. The town will continue to monitor the budget and make necessary adjustments.

#### **Liquidity**

Leesburg's liquidity position at the end of fiscal 2019 was a healthy \$23.5 million (40% of operating revenues). The town's cash levels are below the Aaa-median of 52.2%, and are anticipated to remain strong going forward.

#### **Debt and pensions: manageable liabilities with moderate fixed costs**

The town's debt profile will likely remain manageable in the near-term given expected tax base growth, the self-supporting nature of the town's utility system, and manageable future debt plans. Following the 2020 refunding, the town's net direct debt level totals 0.6% of full valuation (net of self-supporting utility debt), which is aligned with the Aaa median (0.7%). When the overlapping debt of Loudoun County is added (which includes the county's school system debt), the overall debt burden rises to an above-average 2.5%.

We expect the utility fund to continue supporting its portion of debt through the life of the associated bonds, given its stable history, strong financial position, and approved annual rate increases of 4.5% through 2024. In fiscal 2019, the utility fund maintained 905 days cash on hand, and coverage was 3.13 times, inclusive of \$1.4 million in annual administrative reimbursements to the general fund and income derived from non-operating revenues.

The town also maintains two lines of credit (LOC) with Atlantic Union Bank at a fixed interest rate of 2.561% for \$25.5 million for the general fund and \$32.5 million for the utility fund (both maturing June 13, 2024). As of June 30, 2020, the town has drawn approximately \$174,000 from the general fund LOC and \$1.5 million from the utility fund LOC.

The town's \$232 million fiscal 2020-2025 capital improvement plan is expected to be financed by \$68 million in additional GO bonds (33%) (split evenly between bonds supported by the general fund and utility funds), state funding from the Virginia Department of Transportation and Northern Virginia Transportation Authority (28%), pay-go funding (22%). Projects are primarily for streets and highways (41%), utilities (30%), and general government (13%).

The town expects to remain in compliance with its self-imposed debt policies, which require a ratio of debt to assessed value below 2.5% (post-issuance 1.2% including utility debt), and debt service as a percentage of general fund expenditures under 15% (12.5% in fiscal 2019).

#### **Legal security**

The 2020 GO bonds are secured by the town's unlimited ad valorem tax pledge.

#### **Debt structure**

All debt is fixed rate. Payout is above-average, with 68% of all debt (including utility debt) repaid in 10 years. Debt service payments are anticipated to increase in 2022, with slight annual decreases beginning in 2023, affording flexibility to layer in the planned future issues.

#### **Debt-related derivatives**

The town is not party to any derivative agreements.

## Pensions and OPEB

Pensions are not a source of credit stress for the town. The town participates in the Virginia Retirement System defined benefit pension plan administered by the Commonwealth of Virginia.

The town's adjusted net pension liabilities (ANPL), based on a 4.14% discount rate, totaled \$58.3 million. Comparatively, the GASB reported net pension liabilities, based on a 7% discount rate, totaled \$11 million. The ANPL represents a manageable 0.99 times operating revenue and 0.76% of full value.

In fiscal 2019, the town contributed \$2.4 million to the plans, which surpassed its "tread water indicator"<sup>1</sup>, a credit positive.

Exhibit 2

### Pension Dashboard Fiscal 2019

2019	(000)	% of Operating Revenues	Discount Rate
Operating Revenue	58,715	n/a	n/a
Reported Unfunded Pension Liability	10,979	19%	7.00%
Moody's Adjusted Net Pension Liability	58,342	99%	4.14%
Reported Net OPEB Liability	10,810	18%	6.33%
Moody's Adjusted Net OPEB Liability	24,881	42%	3.60%
Net Direct Debt	54,165	92%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	137,387	233.99%	
Pension Contribution	2,402	4.09%	n/a
OPEB Contribution	897	1.53%	n/a
Debt Service	8,066	13.74%	n/a
Total Fixed Costs	11,365	19.36%	n/a
Tread Water Gap	(732)	-1.25%	n/a
Moody's Adjusted Fixed Costs	10,633	18.11%	n/a

Source: Leesburg, VA & Moody's Investors Service

## ESG considerations

### Environmental

The town's exposure to long-term environmental trends is consistent with that of the US local government sector, which as a whole, is low. However, [environmental considerations](#) are material to the town's credit profile. According to data from Moody's affiliate Four Twenty Seven, the town has elevated exposure to extreme rainfall and heat stress, which is notable given that the county is a large residential hub within a strong economic region. Still, the town's operations and economy will likely be able to withstand weather-related events given management's proactive long-range capital planning and the state and federal governments' history of providing disaster relief to local governments following a major weather event.

### Social

[Social issues](#), which include demographics, labor force, and income metrics, are material to the town's credit quality and are incorporated by way of full value per capita and median family income. While social issues do not currently pose a credit risk, we will continue to monitor a variety of factors such as demographics, income levels, population trends and employment levels, as these remain important key credit metrics.

### Governance

Like issuers across every sector, [governance considerations](#) are material to the town's credit quality. The town's consistently sound financial position is supported by a history of conservative budgeting and prudent financial practices, which we expect to continue in the near-term. The town maintains a policy to keep unassigned general fund balance at 20% of expenditures, which it has surpassed over the past five years.

Virginia cities and towns have an Institutional Framework score of "Aaa", which is very strong. The sector's major revenue source of property taxes are not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the

sector, fixed and mandated costs are generally less than 25% of expenditures. Fixed costs are driven mainly by debt service and pension costs. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

## Rating methodology and scorecard factors

The [US Local Government General Obligation Debt](#) methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

### Leesburg (Town of) VA

Scorecard Factors and Subfactors	Measure	Score
<b>Economy/Tax Base (30%)</b> <sup>[1]</sup>		
Tax Base Size: Full Value (in 000s)	\$8,449,844	Aa
Full Value Per Capita	\$156,719	Aaa
Median Family Income (% of US Median)	173.0%	Aaa
<b>Notching Factors:</b> <sup>[2]</sup>		
Institutional Presence		Up
<b>Finances (30%)</b>		
Fund Balance as a % of Revenues	43.2%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	9.6%	A
Cash Balance as a % of Revenues	40.0%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	3.4%	A
<b>Management (20%)</b>		
Institutional Framework	Aaa	Aaa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Aa
<b>Notching Factors:</b> <sup>[2]</sup>		
Unusually Strong or Weak Budgetary Management and Planning		Up
<b>Debt and Pensions (20%)</b>		
Net Direct Debt / Full Value (%)	0.6%	Aaa
Net Direct Debt / Operating Revenues (x)	0.8x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.7%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.1x	A
	Scorecard-Indicated Outcome	Aaa
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: US Census Bureau, Moody's Investors Service

## Endnotes

- 1 Our "tread water" indicator measures annual government contribution required to prevent reported net pension liabilities from growing, given the entity's actuarial assumptions. An annual government contribution that treads water equals the sum of employer service cost and interest on the reported net pension liability at the start of the fiscal year. A pension plan that receives an employer contribution equal to the tread water indicator will end the year with an unchanged net pension liability relative to the beginning of the year if all plan assumptions hold. Net liabilities may decrease or increase in a given year due to factors other than the contribution amount, such as investment performance that exceeds or falls short of a plan's assumed rate of return. Still, higher contributions will always reduce unfunded liabilities faster, or will allow unfunded liabilities to grow more slowly than lower contributions

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