FITCH RATES LEESBURG, VIRGINIA'S $12.38MM GOS 'AAA'; OUTLOOK STABLE

Link to Fitch Ratings' Report: Leesburg, Virginia
https://www.fitchratings.com/site/re/953118

Fitch Ratings-New York-14 June 2019: Fitch Ratings has assigned a 'AAA' rating to the following Leesburg, Virginia (the town) bonds:

--$12.38 million general obligation (GO) refunding bonds series 2019.

The GO bonds are scheduled for competitive sale on June 25. Bond proceeds will refund the 2009A Build America Bonds.

In addition, Fitch has affirmed the following ratings:
--The town's Issuer Default Rating (IDR) at 'AAA';
--$101.4 million GO bonds at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The 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 reflects historically stable revenues with solid growth prospects and the legal ability to adjust the property tax rate. The revenue environment combined with flexible expenditures and a very healthy level of fund balance provides the highest gap-closing capacity.

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. The rapidly growing town's 2018 estimated population of 53,917 is up over 27% since the 2010 census, and has nearly doubled since 2000.

KEY RATING DRIVERS

Revenue Framework: 'aaa'
General fund revenue has increased ahead of inflation and Fitch expects this trend to continue based on the growing economy. Revenue sources are diverse, with property taxes, the largest source of general fund revenue, representing just over one quarter of revenues. The revenue framework benefits from the lack of a legal property tax rate limit in Virginia and local control over other taxes and fees.

Expenditure Framework: 'aa'
The town's fixed carrying costs are moderate at about 15% 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.

Long-Term Liability Burden: 'aaa'
The long-term liability burden associated with debt and pensions is low. Minimal new money debt is planned in the town's CIP and pensions are healthy.

Operating Performance: 'aaa'
The town maintains very healthy reserves relative to the level of historical revenue volatility. Fitch believes these reserves, in combination with the rapidly rebuilt financial flexibility subsequent to the most recent recession and superior inherent budget flexibility, highlight the town's high financial resilience.

RATING SENSITIVITIES

MAINTENANCE OF STRONG FINANCIAL MANAGEMENT: 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

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 28% in fiscal 2018. A variety of intergovernmental revenues, which mostly include revenues from communications sales, state highway maintenance funds and personal property tax relief revenues make up another 28%.

General fund revenue (adjusted for property tax policy action) increased above inflation over the decade ending in fiscal 2018, benefiting from the continued strong rebound in assessed value (AV) that is now back above the pre-recession high, and also from increased revenues from sales, meals and communications taxes. Revenues benefit from the strong economic performance of the entire DC metro area that contributes to the rapid population growth within the town. Fitch expects continued solid revenue growth through the next business cycle.

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 15% of fiscal 2018 spending, which Fitch believes, reflects the demand of the 29% of the town's population that is under age 18, which is above the state and nation. 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 ahead 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 15% of fiscal 2018 governmental spending. Approximately 61% of debt principal is paid down within 10 years including a $25.5 million line of credit the town closed on June 13, 2019. 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). The county also annually funds pay-go capital spending (approximately 5% of the fiscal 2020 budget) which is another area of spending flexibility.

Long-Term Liability Burden

The long-term liability burden associated with debt and pensions is low at approximately 7% of personal income. The metric includes a $25.5 million line of credit mentioned above. The line of credit matures in 2024 at which time is expected to be taken out with long-term bonds. Prudent capital planning and reasonable debt policies are expected to keep the town's direct debt burden very manageable. The town's current capital improvement plan for fiscal years 2020-2025 totals about $153 million excluding utilities and includes $52 million in debt funding ($25.5 million of which is the line of credit). The capital plans are largely devoted to financing transportation projects to alleviate congestion and includes 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 (4%), 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 2018 measurement date, aggregate fiduciary assets cover nearly 76% of total pension liabilities when adjusted by Fitch using a 6% rate of return. The adjusted net pension liability is just $27.6 million or about 1% of personal income.

The town's OPEB's are similarly well managed. The net liability is minimal as the town regularly contributes greater than the actuarially required contribution and keeps assets in an OPEB trust to offset the liability.

Operating Performance

Fitch believes the town's very healthy level of reserves provides the highest strong gap-closing capacity considering the superior level of budgetary flexibility available to the town and lack of exposure to revenue volatility as measured by the Fitch Analytical Sensitivity Tool. Fiscal 2018 operations produced a sixth consecutive surplus of about $2.1 million. Available general fund reserves at year-end totaled a very robust $28.5 million or about 50% of general fund expenditures. The town has increased the unrestricted fund balance reserve policy to 20% of general fund expenditures and is committed to maintaining that level of reserves, which was maintained throughout the last downturn despite some use of fund balance as necessary.

The town accumulated cash in its debt service reserve fund of approximately $9.9 million in the assigned portion of the general fund balance as of fiscal 2018. The original multi-year plan called for tax rate increases to accompany the debt restructuring, though strong revenue performance has allowed the town to eliminate rate increases. The enterprise funds are similarly managed with increasing cash balances and comfortable debt service coverage (net revenues covered debt service 1.96x in fiscal 2018 or 1.26x excluding connection fees).

The fiscal 2019 general fund budget was built around another significant increase in the tax base (5% above fiscal 2018) and was also balanced with the use of $455,000 of reserves. Given the town's strong history of conservative budgeting and controlling spending growth by managing vacancies, management is projecting a $1 million-$2 million operating surplus at year-end. The pro-forma financial schedule through fiscal 2023 continues to appropriate fund balance of between $484,785 and $2.8 million annually. These amounts are set aside in the general fund's assigned fund balance. Fitch expects reserves will remain very healthy even if the full annual appropriation is used.

The fiscal 2020 general fund budget of $60.1 million is a 2% increase over the fiscal 2019 original general fund budget. The budget keeps the tax rate steady reflecting an estimated 2% increase in AV and includes a $577,000 fund balance appropriation. The 2% increase funds increasing personnel and operating costs required to maintain current levels of service, and an increase to the recycling and refuse contract for fiscal 2020. The annual solid waste collection contract increase is associated with town growth, CPI and an increase in recycling disposal costs. The remaining increases are new requests or enhancements. Given the county's strong historical financial performance supported by conservative fiscal policies, Fitch expects fiscal 2020 will at least maintain the town's fund balance policy reserve level.

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Additional information is available on www.fitchratings.com

Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)
https://www.fitchratings.com/site/re/10024656

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