



RATING ACTION COMMENTARY

Fitch Affirms Leesburg, Virginia's GO and IDR at 'AAA'; Outlook Stable

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Fitch Ratings - New York - 01 Jun 2020: Fitch Ratings has affirmed the following ratings for the town of Leesburg, Virginia:

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

--Outstanding general obligation (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 reflects historically stable revenues with solid growth prospects and the unlimited legal ability to adjust the property tax rates, which provides flexibility to address potential declines in the town's tax base or non-ad valorem revenues, which tend to be sensitive to prevailing economic conditions. The town has solid expenditure flexibility and a very healthy level of fund balance that also contribute to its high gap-closing capacity. Fitch expects the town to manage through near-term fiscal pressures from the coronavirus-driven economic slowdown.

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 economy, with strong growth in recent years contributing to its rapid population growth. 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 rebound in assessed value (AV) and increased revenues from sales, meals and communications taxes. Though the town indicated it is possible revenues will underperform fiscal 2021 budgeted figures, Fitch believes

declines are likely to be transitory and trend 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 resulting population growth, and continuing economic development for Leesburg. 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 projected revenue shortfall in fiscal 2020 and has plans to alter fiscal 2021 expenditures by applying measures such as a hiring freeze and capital expenditures reductions. 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'

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 likely retain a high level of fundamental financial flexibility through the current downturn. Leesburg's superior gap-closing capacity is derived from a combination of revenue and expenditures flexibility, and its level of available fund balance. Fitch believes the town's financial resilience is highlighted by its rapidly rebuilt financial flexibility after the most recent recession and superior inherent budget flexibility. The town will initially rely primarily on expenditure cuts to manage anticipated revenue losses.

RATING SENSITIVITIES

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

--Not applicable.

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

--A deeper or more durable decline in general fund revenues than expected, weakening financial flexibility;

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

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public Finance 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 recent outbreak of coronavirus and related government containment measures worldwide creates an uncertain global environment for U.S. state and local governments and related entities in the near term. While Leesburg's most recently available fiscal and economic data do not fully reflect impairment, material changes in revenues and expenditures are occurring across the country and likely to worsen in the coming weeks and months as economic activity suffers and public health spending increases. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in state and local governments as a result of the virus outbreak as it relates to severity and duration, and incorporate revised expectations for future performance and assessment of key risks.

In its baseline scenario, Fitch assumes sharp economic contractions to hit major economies in 1H20 at a speed and depth that is unprecedented since World War II. Sequential recovery is projected to begin from 3Q20 onward as the health crisis subsides after a short but severe global recession. GDP is projected to remain below its 4Q19 level until mid-2022. 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/site/re/10120570>), published April 29, 2020 and 'Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Tax-Supported Issuers', published May 15, 2020 on www.fitchratings.com.

CORONAVIRUS IMPLICATIONS FOR LEESBURG

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. Accounting for planned budgetary responses to the coronavirus pandemic, the town expects to continue to meet its 20% reserve policy, based on the unassigned fund balance only, reflecting robust fiscal resilience.

Town management has indicated fiscal 2020 revenues were trending above budget through March 2020 (prior to the pandemic), but is projecting a \$3.6 million decline, or 6.3% decline compared with budget through fiscal end 2020 (June 30). The decline is primarily associated with a drop-off in meals and hotel taxes, parks and recreation fees due to closure of facilities, and business licenses resulting from the current economic and public health crisis and policy action resulting in tax payment extensions and deferrals. These various non-ad valorem taxes and fees account for roughly 20% of the fiscal 2020 general fund budget. The town expects to address the revenue shortfall through a combination of higher than projected revenues from sources that have not been affected by the crisis such as plan review fees and fines, and significant reductions in operating expenditures through layoffs of flexible part-time employees from closed recreational facilities, freezing of 14 full-time positions, and other savings measures.

Fiscal 2021 reserve balances are expected to remain robust despite near-term fiscal and economic pressure. The Fitch Analytical Sensitivity Tool (FAST) output, which roughly approximates the town's revenue projections for fiscal 2021, suggests Leesburg is moderately exposed to a downturn based on Fitch's baseline scenario of a 5.6% contraction in national GDP. Town revenue projections show a possible \$7.8 million revenue shortfall (approximately 12% of the general fund budget) in fiscal 2021, but Leesburg has identified expenditure measures (including extending the hiring freeze and decreased capex plans) that would match much of the revenue shortfall. It has also identified contingency measures (on both the expenditure and revenue side) that could be instituted should current fiscal 2021 revenue projections undershoot actual performance. Given the town's expenditure flexibility and level of reserves, Fitch expects Leesburg to maintain an 'aaa' level of financial resilience through the near-term pressure.

CREDIT PROFILE

For additional information on Leesburg, VA, please see the rating action commentary published on June 14, 2019.

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

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

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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)

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