

**Summary:**

## Leesburg, Virginia; General Obligation

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### Credit Profile

US\$12.38 mil GO rfdg bn ds ser 2019 due 02/01/2039

<i>Long Term Rating</i>	AAA/Stable	New
Leesburg		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Leesburg, Va.'s general obligation (GO) refunding bonds series 2019. At the same time, we affirmed our 'AAA' long-term rating on the town's GO debt outstanding. The outlook is stable.

The rating reflects our view of the town's wealthy residential tax base favorably located within the vibrant Washington, D.C., metropolitan region that drives employment opportunities creating housing demand and population growth. Economic growth has translated into revenue trends supporting budgetary balance despite increased service and expenditure requirements. Capital needs stemming from population and service expansion could create fiscal pressure, but we believe that with a management team that adheres to codified policies and procedures and with well-funded pension and other post-employment plans, the town will absorb these costs without a material change to its credit rating.

Securing debt service on the bonds is the town's full faith and credit, including the levy and collection of ad valorem taxes that are unlimited as to rate or amount. Proceeds from the sale will refund certain outstanding maturities of the series 2009A Build America Bonds for an estimated net present value savings of approximately \$850,000.

The rating further reflects our view of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area;
- Very strong management, with strong financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 51% of operating expenditures;
- Very strong liquidity, with total government available cash at 99.8% of total governmental fund expenditures and 9x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 11.1% of expenditures and net direct debt that is 74.9% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 66.2% of debt scheduled to be retired in 10 years; and

- Very strong institutional framework score.

### **Very strong economy**

We consider Leesburg's economy very strong. The town, with an estimated population of about 54,000, is located in Loudoun County in the Washington-Arlington-Alexandria metropolitan statistical area, which we consider broad and diverse. The town has a projected per capita effective buying income of 146% of the national level and per capita market value of \$149,000. Overall, the town's market value grew to \$8 billion in 2018. The county unemployment rate was 2.4%.

Leesburg, located in Loudoun County, is a wealthy bedroom community that serves the greater Washington, D.C., region's deep and diverse employment base. The town also benefits from growing employment opportunities within its borders, including in government contracting, medical technology, and small business entrepreneurship supported by the Mason Enterprise Center. Other economic diversity within the town stems from Leesburg Tech Park, where speculative industrial space is available and almost completely leased, as well as construction of high-end residential units with 178 townhomes in Crescent Parke and 326 in Tuscarora Village. Management reports that demand for single-family residences within Leesburg is increasingly competitive and new homes are often purchased prior to completion. Other significant projects underway include a downtown in-fill project located at Church and Market with 15,000 square feet of retail and restaurant space and the recently completed Ion International Training Center, which includes two professional-sized hockey rinks and which will double as a special events venue accommodating 5,500 people. Given the dynamic metropolitan area, the town's annual average population growth of 3.3% is outpacing the national average, and the development underway, we believe the town's economy will remain very strong.

### **Very strong management**

We view the town's management as very strong, with strong financial policies and practices under our financial management assessment methodology, indicating our view that financial practices are strong, well embedded, and likely sustainable.

When formulating the budget, the town reviews five years of historical information while adhering to its five-year financial plan to update revenue and expenditures by 2% annually. The financial plan as well as the six-year capital improvements plan are reviewed annually by the town council and updated to ensure that assumptions for growth are meaningful based on historical and year-to-date actual trends. The operating budget and capital plan are intertwined to ensure that costs associated with the completion of capital projects are reflected in the revenue and expenditure forecast. Furthermore, management provides the council with monthly budget-to-actual reports that show trends as well as investment outcomes. The debt management policy identifies key affordability thresholds relative to debt service expenditures no greater than 15% of total expenditures and total debt outstanding equal to 2.5% of the town's assessed valuation. These metrics are monitored annually and reported to the council. An updated formal reserve policy was adopted in January 2015 and requires maintenance of the unassigned fund balance equal to 20% of general fund expenditures, a level with which the town has historically complied.

### **Strong budgetary performance**

Leesburg's budgetary performance is strong, in our opinion. The town had operating surpluses of 2.9% of expenditures in the general fund and of 6.8% across all governmental funds in fiscal 2018.

The town's budget is funded primarily by three sources: property taxes (28.0%), other local taxes mostly consisting of meals taxes (27.0%), and intergovernmental revenue mostly consisting of sales taxes (27.5%).

Over the past five fiscal years, the town produced annual operating surpluses ranging from \$2.0 million to \$2.9 million, approximately 3.9% to 5.6% of expenditures. Management reports that annual revenue growth commensurate with the town's economic expansion and diversification as well as careful monitoring of expenditures support operating results. When fiscal 2019 audited results are available, they are expected to show another year of positive operations, as revenue is on track to outpace budget expectations and expenditures are trending below.

Fiscal 2020 is balanced and equal to about \$60.1 million, or 2% higher than the adopted fiscal 2019 budget. The increase results primarily from higher personnel expenditures, as the town regularly reviews its salary structure and implements market adjustments to remain competitive with the private sector. Given the strong historical trend, expectations for fiscal 2019 results, and ongoing growth in primary revenue sources, we believe the town's budgetary performance will remain strong over the two-year outlook period.

### **Very strong budgetary flexibility**

Leesburg's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 51% of operating expenditures, or \$28.5 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The town amended its fund balance policy in January 2015 to maintain 20% of operating expenditures in the unassigned fund balance rather than 15%. Furthermore, the policy indicates that any amount over 20% could be used for one-time expenditures. The town has easily maintained the higher threshold with the unassigned portion of the fund balance equal to \$14.5 million, or nearly 26% of expenditures, in fiscal 2018. S&P Global Ratings' calculation of flexibility includes available reserves (the assigned and unassigned portions), which in fiscal 2018 were equal to \$28.5 million, or a substantial 51% of expenditures. The assigned amount includes reservations for debt service (nearly \$10.0 million), capital assets (\$1.7 million), and expenditures for future years (\$2.4 million). Given the long history of the town's strong budgetary performance and adherence to its fund balance policy, we believe the town's flexibility will remain very strong well outside of the two-year outlook period.

### **Very strong liquidity**

In our opinion, Leesburg's liquidity is very strong, with total government available cash at 99.8% of total governmental fund expenditures and 9x governmental debt service in 2018.

With its regular issuance of debt over the past 20 years, we believe that the town's access to external liquidity is strong and that its cash position is very strong. The town's investment portfolio consists of cash investments in the state's local government investment pools, which we do not consider aggressive and which are highly liquid to ensure that amounts are drawn when necessary to meet payment obligations.

In conjunction with the current transaction, the town entered into two lines of credit with Atlantic Union Bank to provide interim financing for general capital projects (\$25.5 million) and utilities fund capital projects (\$32.5 million). Both agreements mature in 2024 and, upon review of the events of default, do not contain payment provisions that change upon certain events. The town will draw amounts from the lines of credit and will eventually refinance any

amounts drawn with long-term debt. The agreements provide flexibility to finance the required funding for the projects only once construction occurs.

### **Strong debt and contingent liability profile**

In our view, Leesburg's debt and contingent liability profile is strong. Total governmental fund debt service is 11.1% of total governmental fund expenditures, and net direct debt is 74.9% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, and approximately 66.2% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following this transaction, the town will have about \$57.5 million of total direct debt outstanding including amounts retired in fiscal 2019 and excluding GO debt supported by the water and sewer fund. The town's six-year capital improvements plan identifies about \$203.2 million in future needs, only \$28 million of which is expected to be financed with GO bond proceeds. The remainder of the funding will likely be derived from state and federal grants, pay-as-you-go funding, utilities (bonds and pay-go), and other governmental unit contributions (Loudoun County and the Northern Virginia Transportation Authority). Given the town's expected plan of finance for these capital needs and fairly rapid amortization of principal, we believe the town's debt profile will remain manageable.

Leesburg's required pension and actual other postemployment benefits (OPEB) contributions totaled 4.3% of total governmental fund expenditures in 2018, with 3.0% representing required contributions to pension obligations and 1.3% representing OPEB payments. The town made its full annual required pension contribution.

All full-time employees are covered by the Virginia Retirement System (VRS), an agent, multiple-employer plan administered by the Commonwealth of Virginia. The system administers three types of plans: two defined benefit plans and one hybrid plan consisting of defined benefit and defined contribution characteristics. Most employees hired on or after Jan. 1, 2014 opt into the hybrid plan.

Based on an actuarial determined rate, the city contributed 10.45% of each covered employee's compensation, which equated to approximately \$2.1 million in fiscal 2018. Furthermore, based on the plan's measure date of June 30, 2016 (rolled forward to June 30, 2017), the town reported a proportionate share of the net pension liability of about \$13.6 million. Based on information presented in the town's fiscal 2018 audited financial statements, the plan's fiduciary net position as a percentage of total pension liability is 86.4%.

Leesburg provides OPEB for eligible employees and beneficiaries through a single-employer retiree health care and life insurance benefit program as well as through VRS. The town made 100% of its contractually required contributions to each plan in fiscal 2018: \$825,000 to the local plan and \$123,000 to VRS. The single-employer plan and VRS together have a combined net OPEB liability of about \$9.5 million. The town's local OPEB plan's funded ratio was nearly 60%, while the VRS plan was funded at close to 50% as of June 30, 2018. We believe that the town's costs associated with its long-term liabilities will remain manageable and that its strong management team will make budgetary adjustments to absorb higher costs associated with contributions, if required.

### **Very strong institutional framework**

The institutional framework score for Virginia towns is very strong.

## Outlook

The stable outlook reflects our view of the town's management team that adheres to codified policies and procedures to produce consistent financial performance that we expect will continue. Furthermore, given the robust region within which Leesburg is located, we believe economic trends will remain favorable as a result of pent-up demand for housing within the town. As a result, we do not expect to change the rating within our two-year outlook period. However, if the town's budgetary performance deteriorates as a result of fiscal stress related to population growth or capital needs, resulting in consecutive and meaningful draws on fund balance, we could lower the rating.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2018 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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