PRINCE WILLIAM
Finance

2021

Fiscal Health Outlook Report

Published August 2022

PRINCE WILLIAM COUNTY

Table Of Contents

Introduction

This report provides a framework for monitoring Prince William County's financial condition for fiscal year 2021. The continuous monitoring process utilized herein is a management tool that pulls together information from the County's budgetary and financial reports and combines it with economic and demographic data.

The use of ratio analysis, as well as trend analysis, help gauge the fiscal health of Prince William County. Local trends are compared to both regional and national results to provide a more comprehensive understanding of the County's financial status. The County utilized the services of PFM Financial Advisors, LLC, the County's financial advisors, to prepare this report. Trend data is taken from the County's Annual Comprehensive Financial Report and other financial and accounting records. The sources of trend data for the comparison jurisdictions included in this report are Moody's Financial Ratio Analysis database and Standard & Poor's (S&P's) ratings reports which contain financial information from the peer group's respective Annual Comprehensive Financial Reports. The comparison group includes the Virginia counties of Arlington, Chesterfield, Fairfax, Hanover, Henrico, and Loudoun, as well as Anne Arundel and Howard County, Maryland and Wake County, North Carolina. Additionally, the data in the economic charts originates from various sources and is so noted.

Most of the states take a wide variety of approaches to monitor localities' fiscal health as well. In 2017, the Commonwealth of Virginia joined 22 other states that regularly review financial information from local governments to assess their fiscal conditions. The Virginia Acts of Assembly directed the Auditor of Public Accounts (APA) Office to establish a system to monitor financial data to identify potential fiscal distress among local governments in the Commonwealth. The three-step process currently consists of the 12 financial ratio analysis, ranking each locality's results in the model to determine an overall composite score that serves as a preliminary determination of potential fiscal distress. A higher number of points indicates weaker financial performance. If a locality scores above a determined point threshold, which is reassessed each year, it will be subject to additional qualitative in-depth analysis that includes demographics, unemployment, and other external factors. The ratio and qualitative analyses could lead to a follow-up review, the final step of the process in determining if a locality is experiencing a fiscal distress situation and requires further intervention from the Commonwealth.

The County's total score of the ratio trend analysis has been significantly below the threshold and classified as "does not require further follow-up" for the current monitoring process and has not shown any distress warning signs. Since the point threshold is reassessed each year, comparing the total points from year-to-year ratio trend analyses could be misleading. And as stated in APA's 2019 report the "ratio analysis focuses on using a methodology to analyze each locality's ratio performance on an individual basis, and not to compare the ratio results from one locality to another". The most recent published Monitoring for Local Government Fiscal Distress 2020 and 2021 Report contains data for fiscal years 2019-2020 and is available at http://www.apa.virginia.gov/reports/MonitoringforLocalGovernmentFiscalDistress2020-2021.pdf .

The County continued to exhibit resilience as the novel coronavirus (COVID-19) and related government containment measures worldwide created an uncertain global environment for the U.S., state and local governments. The County saw growth in real estate, personal property, and sales tax revenues. General fund revenues exceeded the budget for fiscal year 2021 by 2.9%. Steady improvement of economic conditions continued to facilitate the mending of the County's labor market, exhibited by a decline in the unemployment rate. Over the course of the pandemic, the County received a total of $190.5M in fiscal stimulus funds resulting from the Coronavirus Aid, Relief and Economic Security Act (CARES Act) of 2020 and the American Rescue plan Act (ARPA) of 2021. These funds are used by the County with a focus on providing a lifeline beyond the impacts of COVID-19 to businesses and individuals/households most in need as well as prioritizing basic needs and addressing disparities that were made worse by the pandemic. The management team continues practicing conservative and well-embedded fiscal policies and undertake robust long-term planning initiatives to mitigate risk to its financial operations and infrastructure, particularly when facing a period of economic weakness, that once again led to a reaffirmation of the County's credit rating despite the economic disruption underway.

Economy

As the human and economic tragedies levied by COVID-19 has begun to ease in the U.S., yet another challenge has emerged that has encroached on the quality of life for millions of American households. Inflation, not experienced at current levels since the early 1980's, has proven to be a pervasive presence and is forecast to remain uncomfortably high for the remainder of 2022. Bloomberg's current survey of private sector economists points to a year-end median inflation reading of 7.2%. U.S. Federal Reserve officials have responded to price pressures circulating through the economy with four increases to the Federal Funds rate and have made clear their intent to prioritize price stability moving forward. With a steeper path of interest rate hikes projected by Fed policy makers leading into 2023, market volatility has taken center stage as investors have struggled to reconcile the trajectory of inflation and its impact on the profile of U.S. growth in the coming quarters.

Despite the fact the Federal Reserve is in the early stages of tightening financial conditions, rifts in the U.S. economy are beginning to emerge. Early signals of cooling consumer demand have been demonstrated through recent housing market, labor market, and retail sales data which clearly indicate a slowing of economic activity has commenced. Big-box retailers, Walmart and Target, provided a measure of confirmation after announcing first quarter earnings well below expectations, a sign the consumer's ability to spend on discretionary goods may be under pressure amid rising costs for food, energy, fuel, and rent. Adding to concern many American households could begin to buckle under the weight of higher prices is the sharp rise in total credit extended. Federal Reserve figures reveal a $61.5 billion increase in revolving credit, which includes credit card debt, from January through April. Non-revolving credit, such as automobile and school loans, have also advanced over the same period to $73.4 billion. While some may argue the data demonstrates consumer resilience, the accumulation of additional debt amid declining savings stands as a consumption headwind leading into 2023.

As financial conditions have begun to ratchet tighter, economists are weighing in on the future path of U.S. economic growth. JPMorgan Chase & Co. Chief U.S. economist Michael Feroli believes growth will decline from 2.4% in the second half of this year to 1% in the latter half of next year, while Bank of America economists have cut their growth forecast to a 0.4% pace by the end of 2023. But a growing number of market observers are indicating a more ominous outcome could be in play. "We put the odds that the economy will suffer a downturn beginning in the next 12 months at one in three with uncomfortable near-even odds of a recession in the next 24 months," Moody's Analytics Chief Economist Mark Zandi said recently. Though these projections are pending the course of inflation and Federal policy, Federal Reserve Chairman Powell has acknowledged the need to reign in price pressures might lead to pushing up the unemployment rate but argued that would not necessarily deliver a devastating blow. "You can still have quite a strong labor market if unemployment were to move up a few ticks," Powell recently stated. Powell also admitted that the central bank's ability to achieve a "soft or softish" landing of the economy may depend on circumstances outside its control. The Russia/Ukraine conflict has contributed to an escalation in food and energy prices, while China's recent struggles to contain the spread of COVID-19 under the country's Zero-COVID Policy is causing the world's second largest economy to stumble and further aggravate the supply chain saga. The nature of a possible recession (short, long, mild, severe) will certainly be debated as economic conditions evolve in the months ahead. But regardless of the profile of a potential downturn in economic activity, history is not on the side of the Federal Reserve. After examining 15 Federal Reserve tightening cycles since the 1950's, Bloomberg Economics concluded all but five ended in recessions of varying degrees.

As the County moves forward through this new economic environment, leaders should remain focused and not deviate from the practices that have led to the triple-A ratings. This unprecedented and evolving global crisis must be continuously monitored and assessed for its impact on the local economy. Identifying County's strengths, weaknesses and vulnerabilities, planning of robust scenarios, engaging staff and maintaining financial agility should remain the County's key considerations during the economic period of slower global growth, inflation, supply-chain disruptions and potential financial market instability.

Executive Summary

A credit rating is an assessment of the general creditworthiness of an entity or the creditworthiness of an entity with respect to a specific debt security or other financial obligation, based on relevant risk factors. Credit rating criteria and methodology have grown in complexity over time, with both quantitative and qualitative analysis involved.

In general rating agencies look at the following primary credit factors – *financial/budgetary performance*, *economy and tax base*, *debt and pension obligations* and *governance/management*.

Rating agencies use a quantitative scorecard approach to provide a composite score of a local government's credit profile based on the weighted factors deemed most important, measurable, and prevalent. The scorecard contains calculated ratios using historical results which provide a basis for the credit rating. Note that within each scorecard, the metrics used by rating agencies are not all weighted equally. For example, both Moody's and S&P give more weight to a locality's economy and tax base than they give to debt and other liabilities. The scorecard metrics and weights are summarized in the tables on page 46.

Next, the rating agencies make qualitative adjustments when events or certain characteristics of the local government may be more significant determinants of a rating than the pure scorecard weighting might otherwise imply.

The adjustments allow for a final rating based on future expectations. Examples of qualitative adjustments include, but are not limited to, the following:

Key:

↑ = Upward adjustment
↓ = Downward adjustment

Financial/Budgetary Performance

↑ Additional borrowable liquidity
↑↓ Strong or weak budget planning and management (e.g., five-year plan)
↓ Reliance on uncertain federal or state aid
↓ Limited revenue raising ability or restrictive tax caps
↓ Heavy fixed costs
↓ Volatile revenue sources
↓ Large structural imbalance

Economy and Tax Base

↑ Presence or proximity of a university, state capital or Nation's capital
↑ Exceptionally high household wealth levels
↑ Expected future development
↑↓ Median home value and real estate values trend
↑↓ Population trends
↑↓ Composition of the workforce and employment opportunities
↓ Expected decline in tax base due to corporate closures or tax appeals
↓ High poverty rate

Debt and Pension Obligations

- ↑↓ Unusually rapid or slow amortization of debt principal
- ↑ Established pension or OPEB reserve
- ↓ Heavy capital needs implying future debt increases

Governance/Management

- ↑ Formal financial policies
- ↑ History of conservative budgeting
- ↑ Active monitoring of budget performance
- ↑ Well-defined plan for restoring structural operating balance and/or replenishing reserves
- ↑ Ability and willingness to make adjustments in response to economic and financial pressures
- ↓ Reliance on cash flow borrowing
- ↓ Weaknesses in best practices
- ↓ Political polarization that makes budgeting and decision-making difficult

This chart provides a summary of the overall credit strengths and weaknesses of the County as last reported in September of 2021 by the three major credit rating agencies, Moody's Investors Service (Moody's), S&P Global Ratings (S&P) and Fitch Ratings (Fitch).

Prince William County

Credit Strengths and Weaknesses

Positives	Negatives
Economy & Demographics	**Economy & Demographics**
• Sizeable tax base with growth potential • Diversifying local economy • Affordable cost of living compared to other localities in D.C. metro area • Unemployment rate below national and state averages	• High exposure to changes in federal defense spending, which was volatile over the past decade
Financial Condition	**Financial Condition**
• Stable reserve and liquidity position • Very strong budgetary flexibility with available fund balance of 21% of operating expenditures in fiscal year 2020 • Maintenance of capital reserve fund for pay-go capital	• Fund balance levels below similarly rated counties nationwide
Debt and Pension	**Debt and Pension**
• Conservative debt management practices • Above-average debt repayment with 73% retiring within 10 years • Overall debt % assessed value of less than 3%	• Debt and pension burden slightly above Aaa median
Management	**Management**
• Strong management team supported by formal fiscal policies and very strong financial practices • Use of multi-year forecasting tools and frequent budget monitoring • Enacting of various resiliency preparedness measures including technology and cybersecurity improvements	• None
Environmental, Social, Governance	**Environmental, Social, Governance**
• Strong management, institutional and budgeting practices, long-term initiatives such as the Sustainability Plan by the Office of Sustainability • Positive demographic trends, affordable housing, above average labor and income • Neutral to low exposure to environmental risks	• None

Source: Moody's report dated September 15, 2021, S&P's report dated September 16, 2021, and Fitch's report dated September 8, 2021.

After making all qualitative adjustments to their rating metrics, either upward or downward, the County rates 'AAA' from all three major credit rating agencies. Triple-A is the highest rating from each agency and signals that the County has an "extremely strong capacity to meet financial commitments."

In April 2022, Moody's proposed significant changes to its local government rating methodology. Some of the major changes included in the proposal are adjustments to the wealth metrics for cost of living, considering all governmental funds (vs. general/operating funds), increasing the weighting of debt factors and reducing of weighting of management. Moody's expects this proposal would impact up to 20% of rated U.S. cities and counties with having at least one of their outstanding ratings change. In discussions regarding the proposed methodology, Moody's analysts have stressed the importance of "Other Considerations" in assigning ratings and noted it is common for ratings to differ from the indicated scores. Based on the preliminary evaluation, it is expected that the County would not see a significant impact on its rating when the proposed changes go into effect and likely continues to qualify for positive adjustments under "Other Considerations" based on its strong management and other qualitative factors. The County anticipates that the Fiscal Health Report will reflect the final changes to Moody's rating methodology next fiscal year at the earliest.

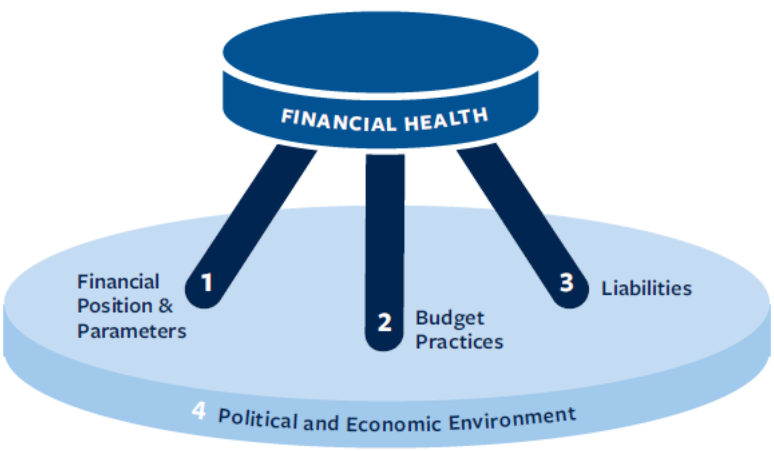
In addition to the financial reporting metric, rating agencies, investors, and analysts today continue to focus on environmental, social and governance (ESG) factors. Moody's and S&P added explicit ESG scores to their methodology with the intention of providing additional details and transparency regarding their assessment of ESG risks. In June 2021, Moody's included the County in its first Sector In-Depth report on ESG considerations for local governments. S&P plans to roll out a new quantitative system rating the impact of ESG risks to include in their credit rating reports as well. In its recent report, Moody's reported that the County had a positive ESG Credit Impact Score of 1 ("CIS-1"), "reflecting strong social and governance risks, and neutral-to-low exposure to environmental risks". This means that ESG factors have a positive impact on the County's credit. Similarly, in its report on the County dated September 16, 2021, S&P indicates that the County's governance is above that of the sector, citing managements' long-term initiatives, bolstered by the recent establishment of the Office of Sustainability and funding for the Sustainability Plan. S&P also indicates that the County's social risks are below those of the sector, specifically Northern Virginia peers, citing positive demographic trends and housing affordability. S&P has not yet assigned specific ESG scores to the County.

The ability for the County to receive and maintain a triple-A rating is important as it reflects the County's ability and willingness to pay its obligations, thereby increasing demand for the County's bonds and reducing overall borrowing costs. Furthermore, the triple-A rating signals fiscal stability and good governance to businesses looking to locate within Prince William County.

In this report, the County uses 2021 fiscal year-end results to calculate several of the key factors used in the credit rating evaluation. The charts depicting the County as compared to its peer group show County data as either "green" or "yellow". A green bar reflects the achievement of triple-A status for that particular metric, while a yellow bar indicates a rating of double-A or A.

Fiscal Stability

According to the Government Finance Officers Association (GFOA) a financially sustainable community provides services to citizens within its available means while proactively taking measures to build and preserve its ability to provide services in the future. The Financial Health Model below depicts a three-legged stool comprised of sound financial position and parameters, flexible budget practices and manageable liabilities. The stool sits on a foundation made up of the political and economic environment. These are the same factors the rating agencies assess when assigning a bond rating to a municipality. While the County is a 'triple triple-A' jurisdiction, as affirmed in September 2021, there are some areas that are not as strong as others. Based purely on the rating agencies' quantitative scoring metrics, the County is 'Aa'. However as previously noted, each rating agency also looks at qualitative factors - namely the political environment, governance, and additional economic, financial and debt factors - and can make upward or downward adjustments to a score based on that assessment. S&P, for example, noted a contributing factor to the County's 'AAA' rating was, "The County has an excellent history of conservative budgeting and forecasting practices, supported by well-adhered-to fiscal policies. These policies and practices help Prince William County maintain fiscally balanced operations and the ability to fund a substantial amount of one-time expenses on a pay-as-you-go basis."

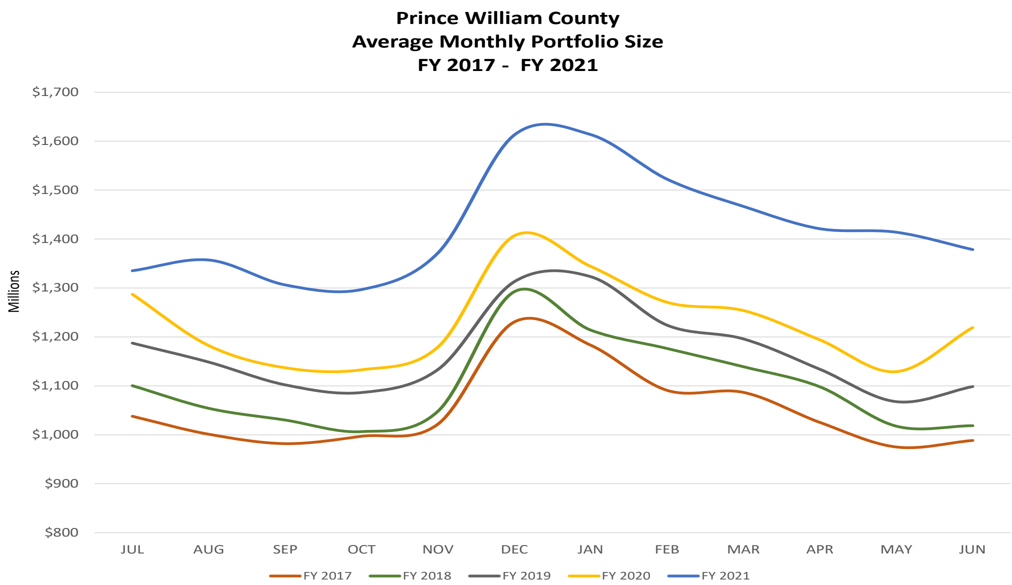


Source: Government Finance Officers Association

Financial Position

Cash

One of the areas assessed related to financial position is cash balance or liquidity. This chart shows the five-year history of the County's General Pool Portfolio. Increases in portfolio size typically come from additions to fund balance/year-end savings as well as a portion of annual revenue growth. The portfolio has seen average growth of approximately 8.4% since 2017. While the shape and trajectory of the County's average monthly portfolio size exhibited a logical progression from fiscal year 2017 to 2020, the staggered receipt of federal stimulus funds played a key role in maintaining a higher-than-normal average portfolio balance throughout fiscal year 2021. Aiming to tame inflationary pressure permeating through the U.S. economy, the Federal Reserve has embarked on a tightening cycle that has seen the Federal Funds Rate increase by 2.25% since March 2022. Based on the market's interpretation of guidance gleaned from Federal Reserve policy makers, rate increases are priced in for each of the three remaining meetings for calendar year 2022. Moving forward through the current economic climate, the County's general portfolio yield will be shaped by the interest rate environment at the time securities are purchased, the maturity horizon of portfolio assets, and future cash flow obligations.

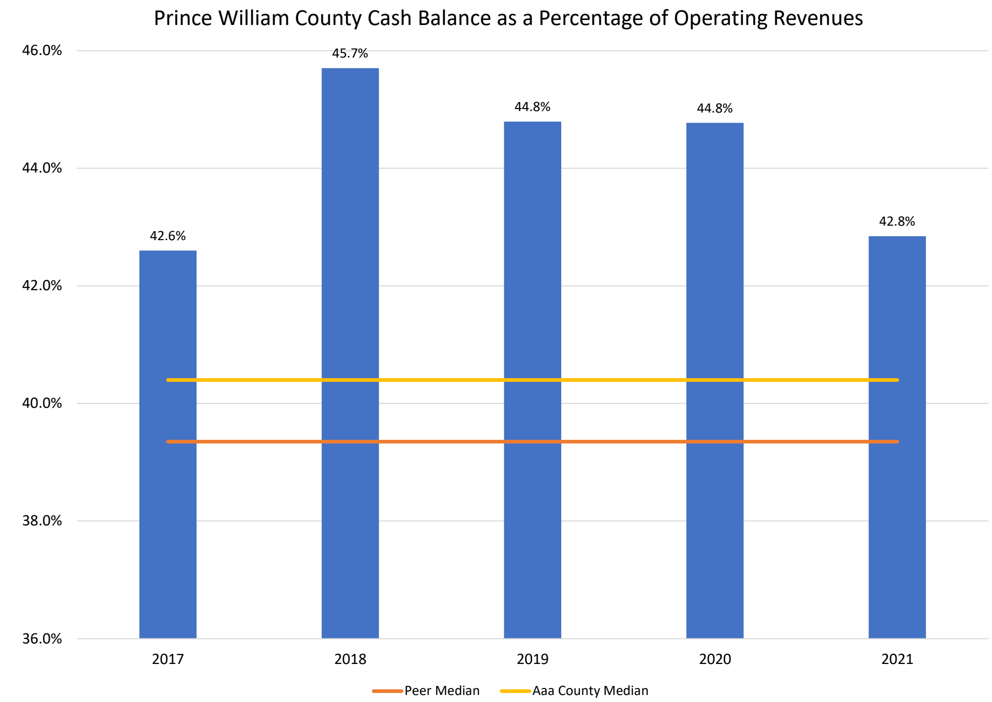


Source: Prince William County, Department of Finance - Treasury Management

Liquidity

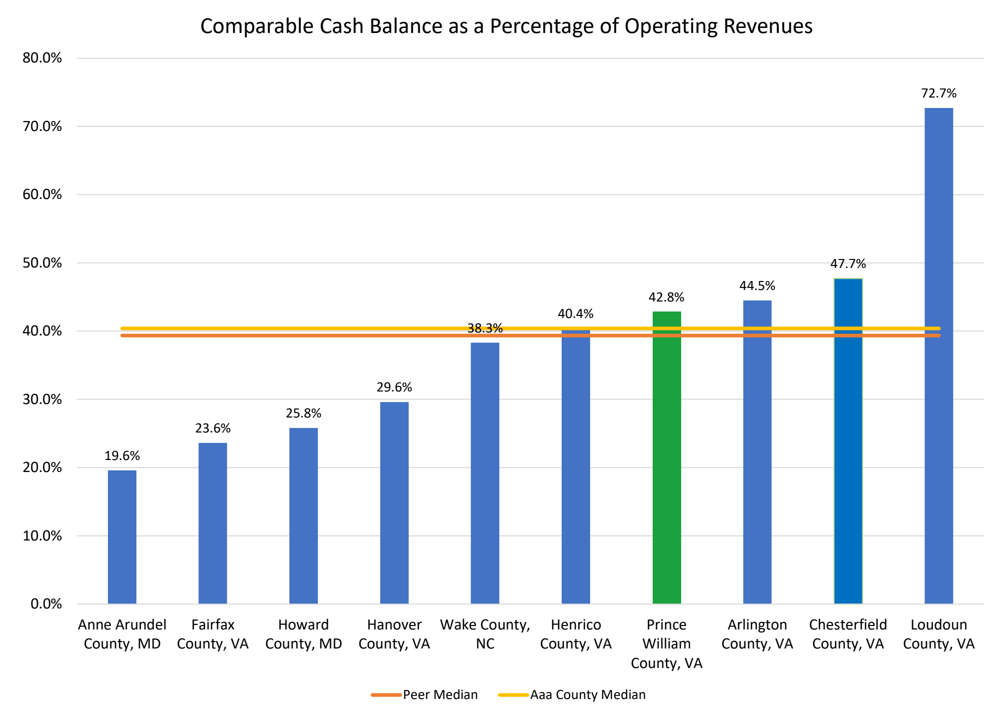
Liquidity ratios analyze the ability of an organization to pay off both its current liabilities as they become due, as well as its long-term liabilities as they become current. In other words, these ratios show the cash balance levels of the County and the ability to turn other assets into cash to pay off liabilities and other current obligations. Cash basis liquidity measures assess the County's relative degree of financial cushion. A good indicator of liquidity level is the cash cushion available to an entity at the end of the fiscal year.

Rating agencies examine the historical cash balance as a percentage of operating revenues to determine whether an entity has a strong or weak cash margin. A history of weak year-end liquidity signifies a tight cash position with little buffer available if operating revenues unexpectedly decline. Moody's 'Aaa' target for this metric is greater than 25%. The chart on the following page shows that the County is currently above 40% and rates 'Aaa' in this category, with County's and Schools' General Fund cash balances exceeding $848 million on June 30, 2021.



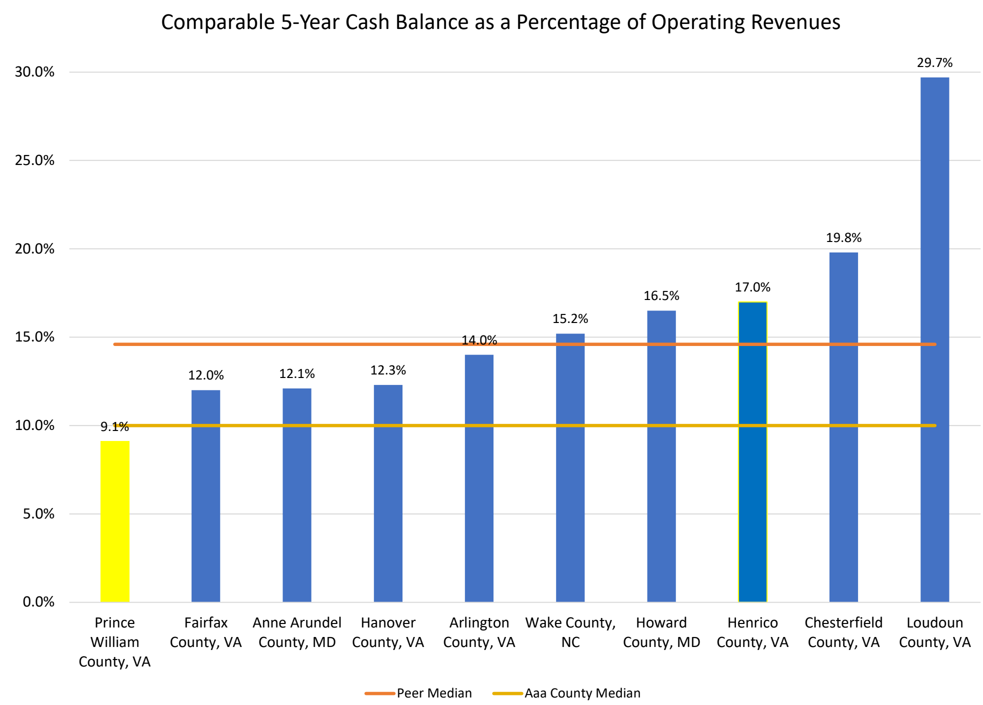
Source: Moody's Financial Ratio Analysis database.

The chart below compares Prince William County to the peer group median and the median of all 'Aaa' rated counties in the nation for historical cash balance as a percentage of operating revenues. The County exceeds both the peer median and the 'Aaa' county median.



Source: Moody's Financial Ratio Analysis database.

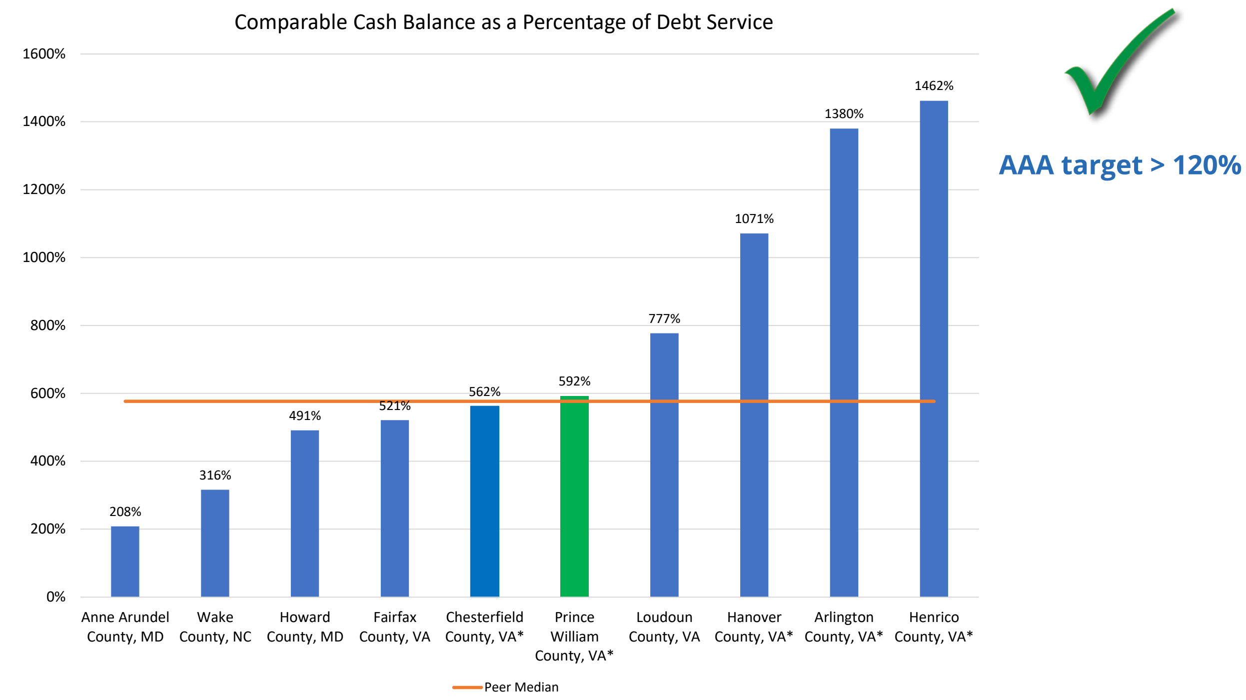
Another liquidity metric calculated by Moody's is the five-year dollar change in cash balance as a percentage of operating revenues. The five-year look provides insight into the structural balance over a full economic cycle. The multi-year trend focuses on financial flexibility and the ability to weather unexpected variances or contingencies. The 'Aaa' target is greater than 25%. In other words, to score triple-A in this category, the County's cash balance as a percentage of operating revenues would need to grow substantially - over 25% - across a five-year period. Of the 120 counties nationwide that Moody's currently rates 'Aaa', only 28 counties achieved 'Aaa' in this metric, according to the most recent data published by Moody's. On a pure quantitative scoring basis, the County rates 'A' in this category and falls below the peer and 'Aaa' county medians.



AAA target > 25%

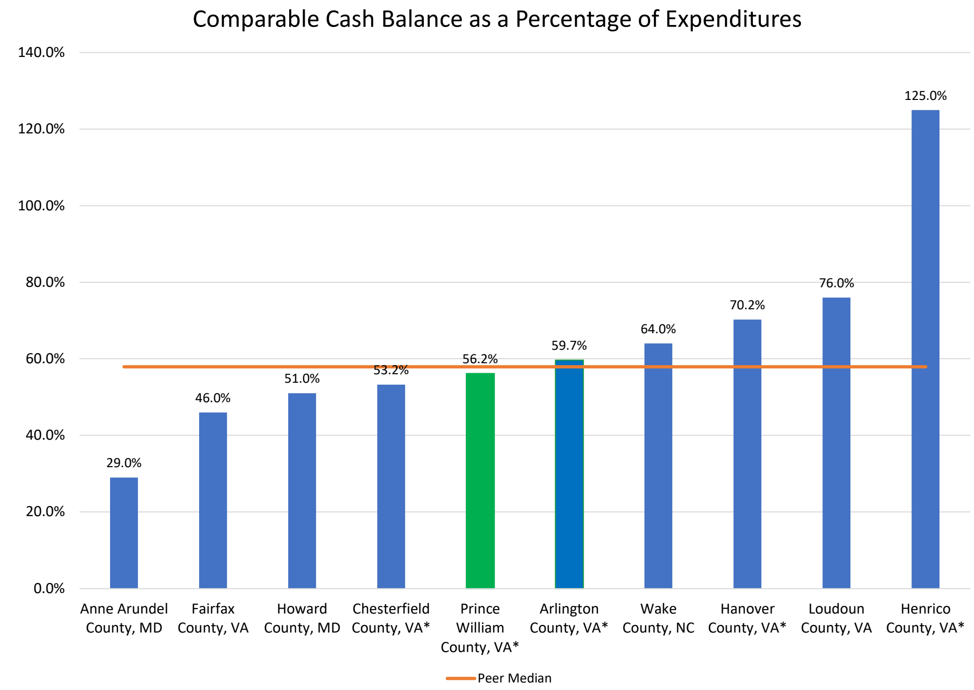
Source: Moody's Financial Ratio Analysis database.

Cash balance as a percentage of debt service shows the relationship of cash to debt and debt service, and the ability of an organization to fund its operational needs. Since there are draws on cash other than repaying debt, i.e., cost of daily operations, it is important for rating agencies to understand the extent to which those other requirements will allow cash to be used to pay debt service costs, or alternatively lead to the need for additional borrowing. S&P measures the cash balance as a percentage of debt service and defines the 'AAA' target as greater than 120%. The County's percentage is well above the target at 592%. The County ranks solidly in the 'AAA' category.



Source: S&P Reports, if available. *Indicates PFM estimate.

S&P also examines the cash balance as a percentage of total expenditures with the 'AAA' target measuring greater than 15%. Here again, the County achieves a very strong 'AAA' at 56.2% which represents the County's enhanced fiscal flexibility should unforeseen events or contingencies occur.



AAA target > 15%

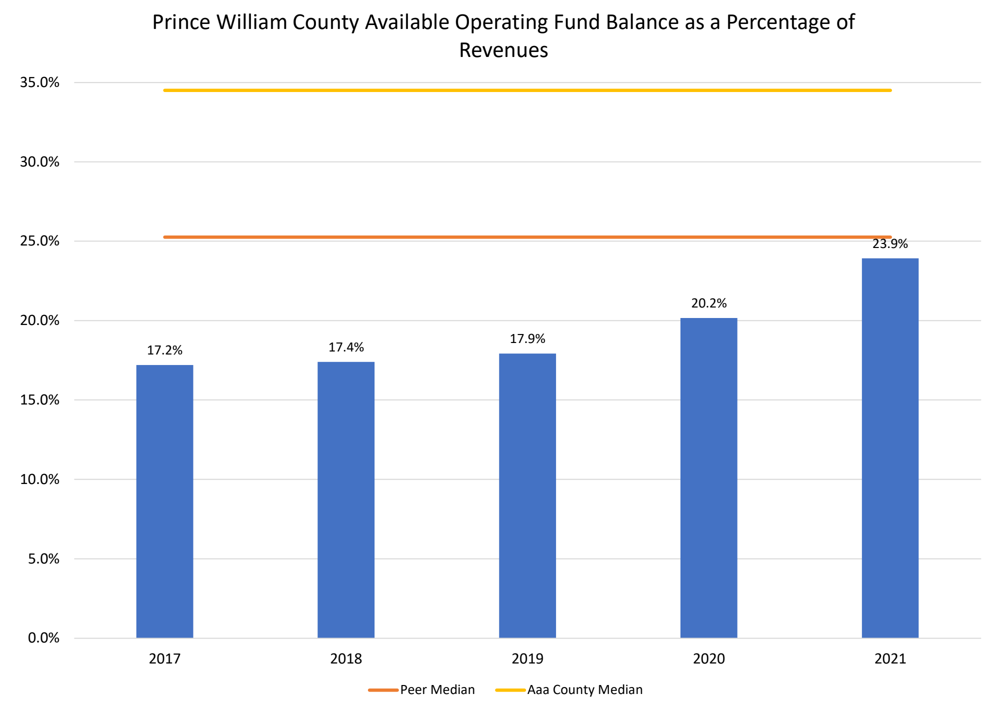
Source: S&P Reports, if available. *Indicates PFM estimate.

Fund Balance

Fund balance is another factor the rating agencies assess to measure financial position. Typically, a proprietary reporting unit reports all related assets and liabilities with the difference between the two reported as net assets, or a measure of net worth. Because Governmental Funds (i.e., general fund, special revenue funds and capital projects funds) report only a subset of related assets and liabilities, the difference between the two is closer to a measure of liquidity, rather than net worth, and could be compared to the term "working capital" in the private sector.

Fund balance ratios generally reflect an entity's revenue and expenditure policies under Generally Accepted Accounting Principles (GAAP), and therefore, show the effects a locality may have taken to balance its budget. Valuable information about both the past and the future is communicated through these ratios. Existing levels of fund balance depict the cumulative effects of an organization's financial history and identify the liquid resources available to fund future liabilities and unforeseen contingencies.

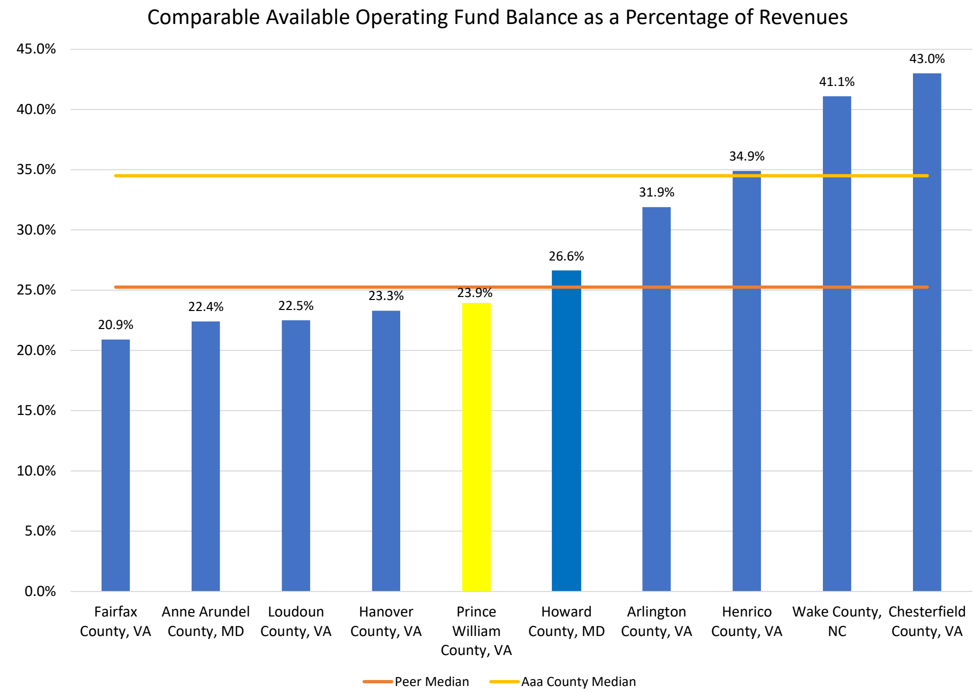
Moody's measures total fund balance as a percentage of operating revenues, a measurement of "available balances." The 'Aaa' target is greater than 30%. While the County does not score 'Aaa', but rather with 23.9%, scores in the 'Aa' category on a pure quantitative scorecard basis, it shows continuous growth in its available fund balance. Rating analysts may qualitatively adjust the scoring on this metric as a build-up and subsequent spend-down of capital reserves to pay for planned projects is viewed as a credit strength as this process reduces or eliminates the need to borrow money for projects.



AAA target > 30%

Source: Moody's Financial Ratio Analysis database.

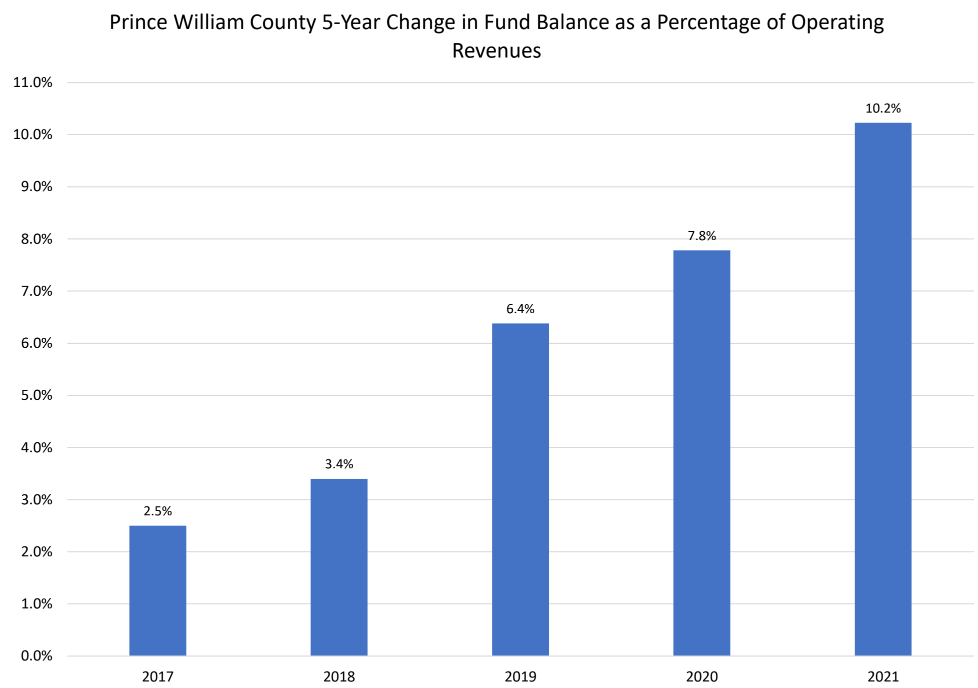
The next chart shows the same fund balance metric as compared to the County's peers. The County scores below both the peer median and the nationwide Aaa median.



AAA target > 30%

Source: Moody's Financial Ratio Analysis database.

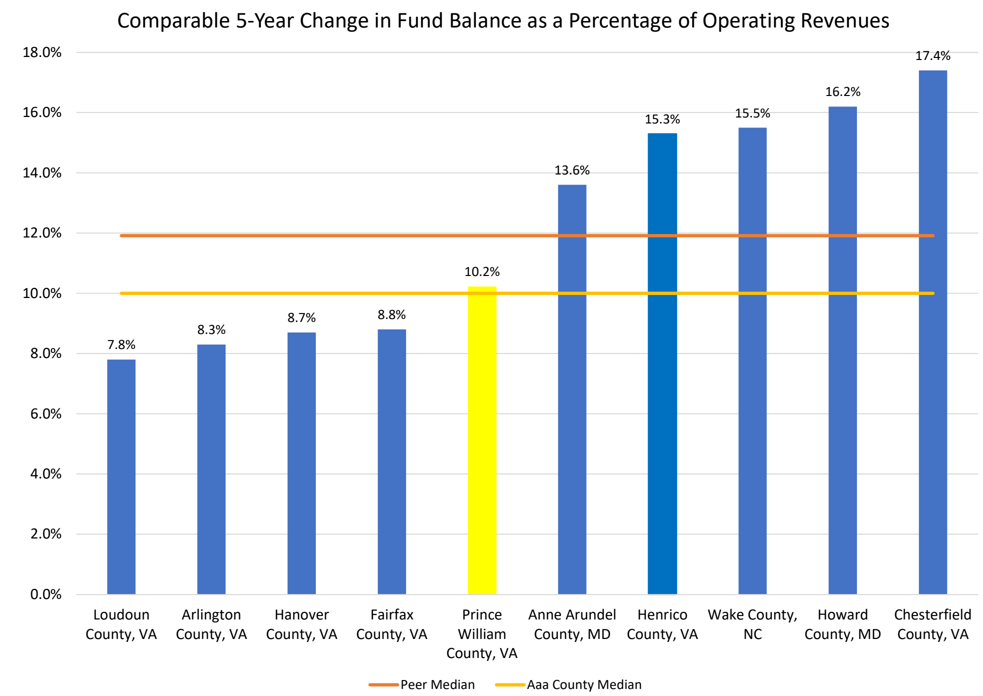
Moody’s also looks at the five-year dollar change in fund balance as a percentage of operating revenues, with the ‘Aaa’ target at greater than 25%. This metric measures growth for each individual locality. In order to score ‘Aaa’ in this category, the County’s fund balance as a percentage of operating revenues would need to grow significantly – over 25% - regardless of the nominal value. The County scores in the ‘Aa’ category with 10.2%, As indicated below, the County has continued to improve over the last five years. The Board of County Supervisors (BOCS) is committed to maintaining fund balances at sufficient levels to comfortably manage through the uncertainty of the current and future economic conditions. Of the 120 counties that Moody’s rates ‘Aaa’, only 13 counties scored ‘Aaa’ on this metric.



AAA target > 25%

Source: Moody’s Financial Ratio Analysis database.

When compared to the peer group median and the nationwide 'Aaa' median, the County scores 10.2%, which is slightly above the nationwide 'Aaa' median of 10%, but below the peer median of 11.9%. It is important to note, that the median of both the peer group and the nationwide 'Aaa' rated public entities all fall below the 'Aaa' target of greater than 25%.



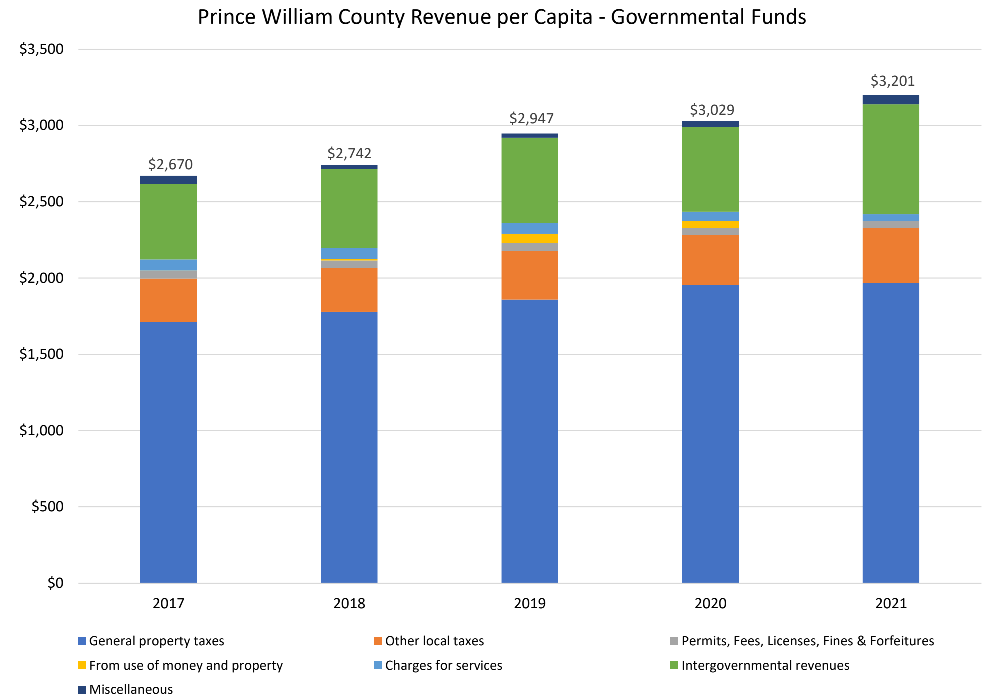
AAA target > 25%

Source: Moody's Financial Ratio Analysis database.

Budgetary Practices

Revenues

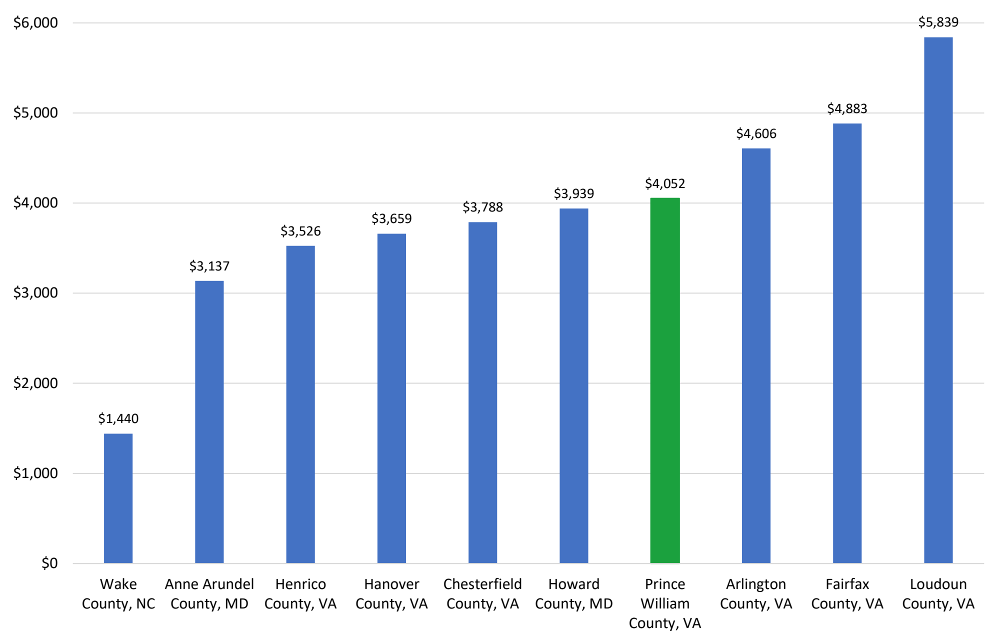
A financially sustainable position includes flexible budget practices. This includes adjusting predictions in forecasting revenues and expenditures to meet obligations or raising revenues. Revenue per capita reveals the average resources generated to fund services relative to the users of those services. The last five years revenue per capita is depicted below. Various categories of revenue are shown, including general property taxes which remains the largest source of revenue for the County with a steady year-over-year increase. In fiscal year 2021, the intergovernmental revenues increased as well due to the receipt of CARES and ARPA fiscal stimulus funds. For purposes of this metric only, revenues of the Governmental Funds are included (i.e., General Fund, Special Revenue Funds, including the COVID-19 Response Fund, and Capital Projects Funds).



Source: Prince William County Annual Comprehensive Financial Report FY 2021, Table 4.

Rating analysts take note of operating revenues per capita as compared to the County's peers. Focus is given to the General Fund and the School Division's revenues and excludes the Special Revenue Funds and Capital Projects Funds. Prince William County ranks below its Northern Virginia counterparts. Rating agencies use this metric to determine if the County has the capacity to raise revenues if faced with a financial crisis, while remaining competitive within the region. During the 2020 session of the Virginia General Assembly, legislators granted counties additional taxing authority providing important revenue diversification options to counties. To further diversify and strengthen the County's revenue base, on November 9, 2021, the BOCS authorized the levy of a cigarette tax of $0.40 per pack effective January 1, 2022 (fiscal year 2022). On April 26, 2022, the BOCS approved a food and beverage tax of 4% effective July 1, 2022 (fiscal year 2023).

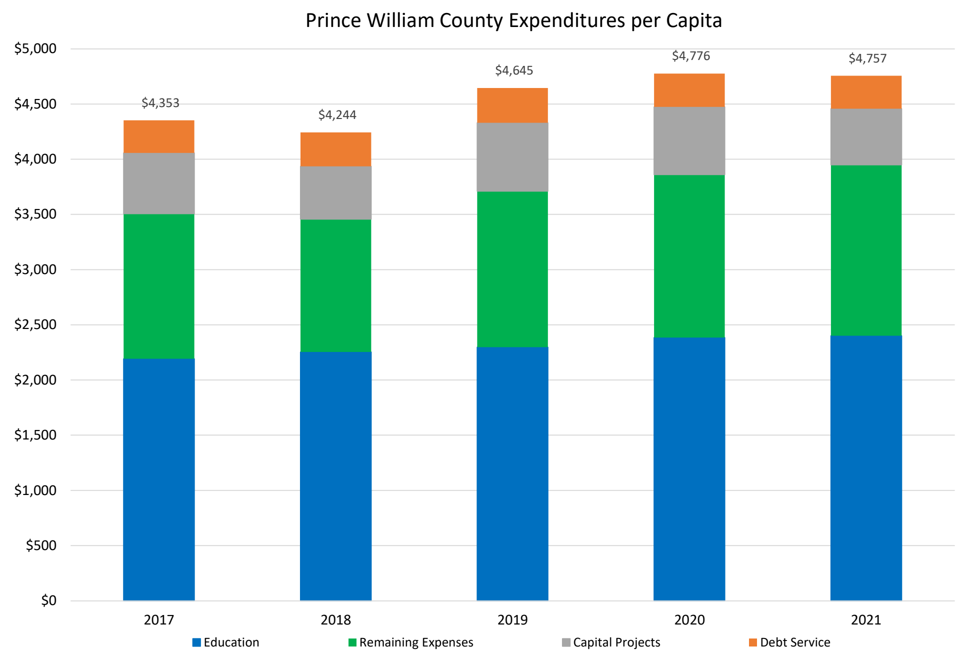
Comparable Operating Revenues per Capita



Source: Moody's Financial Ratio Analysis database.

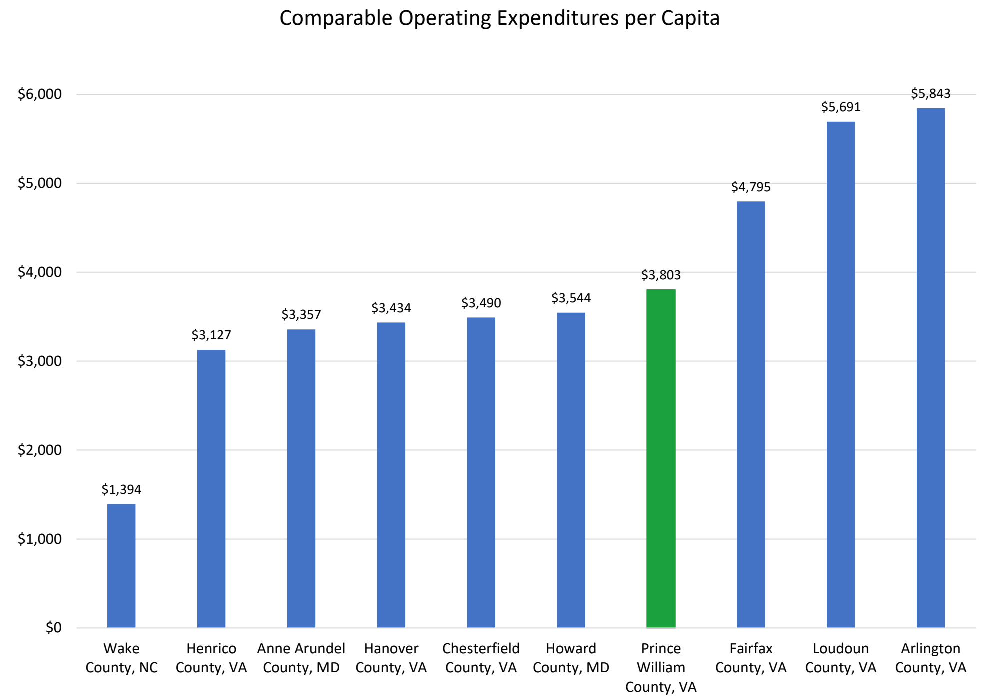
Expenditures

The chart below reflects the County's historical governmental expenditures per capita and includes the General Fund, Special Revenue Funds, School Board and Adult Detention Center.



Source: Prince William County Annual Comprehensive Financial Report FY 2021, Table 22.

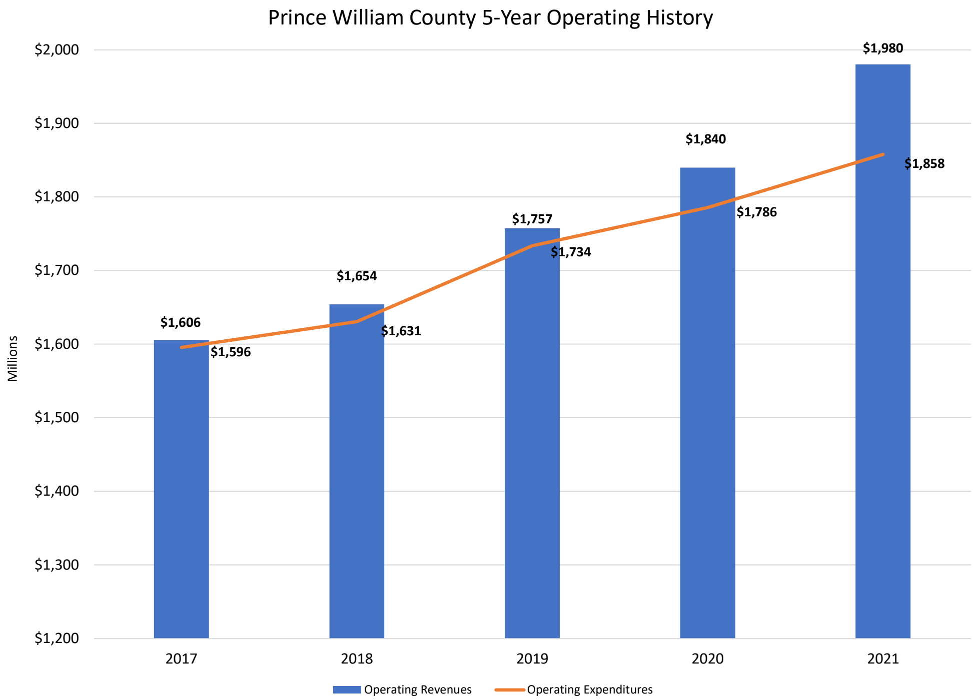
In the peer comparison, Prince William County is below its Northern Virginia counterparts of operating expenditures per capita. The total operating expenditure numbers used in this calculation do not include Special Revenue Funds or Capital Projects Funds that are financed with bond proceeds.



Source: Moody's Financial Ratio Analysis database.

Revenues and Expenditures

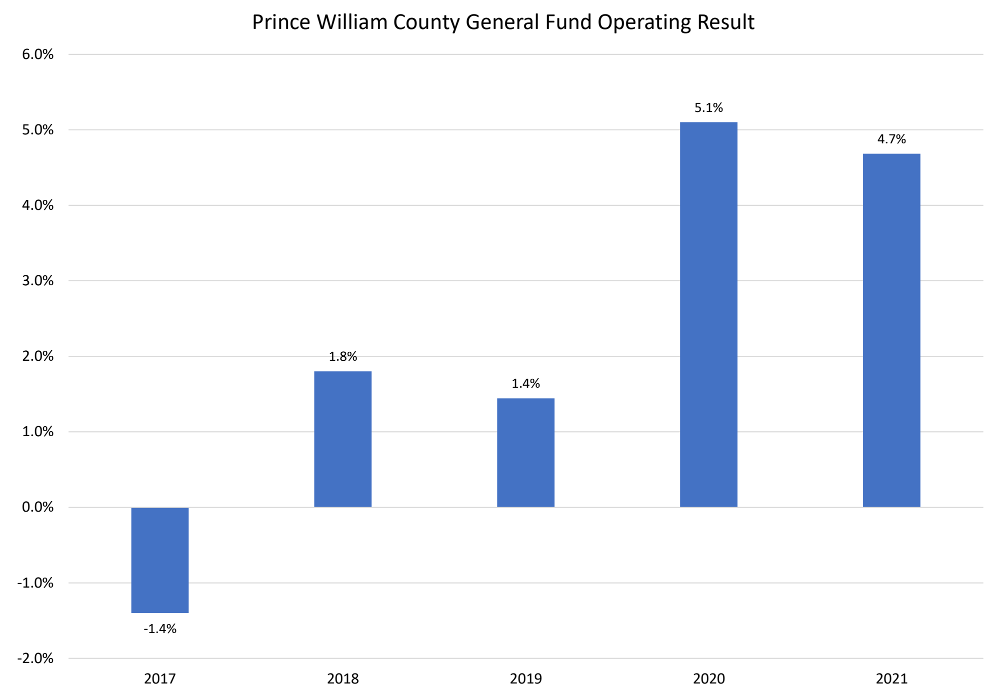
The five-year history of operating revenues and operating expenditures represents the County's ability to achieve balanced operations. The trend analysis provides a look at the County's ability to increase revenues to manage and meet its obligations. For fiscal year 2021, revenues once again exceeded expenditures, and the County improved its net operating results over the prior year. The overall fiscal year 2021 increase of revenues over expenditures is mainly due to the County's ability to manage sufficient expenditure savings to offset anticipated agency revenue shortfalls impacted by the COVID-19 pandemic. The County's unrestricted general fund expenditure savings were approximately $24 million of the fiscal year 2021 final budget compared with $17 million in fiscal year 2020. Schools' operational expenditures decreased as well due to schools and facilities being closed for a prolonged period in fiscal 2021 as a result of the COVID-19 pandemic.



Source: Moody's Financial Ratio Analysis database.

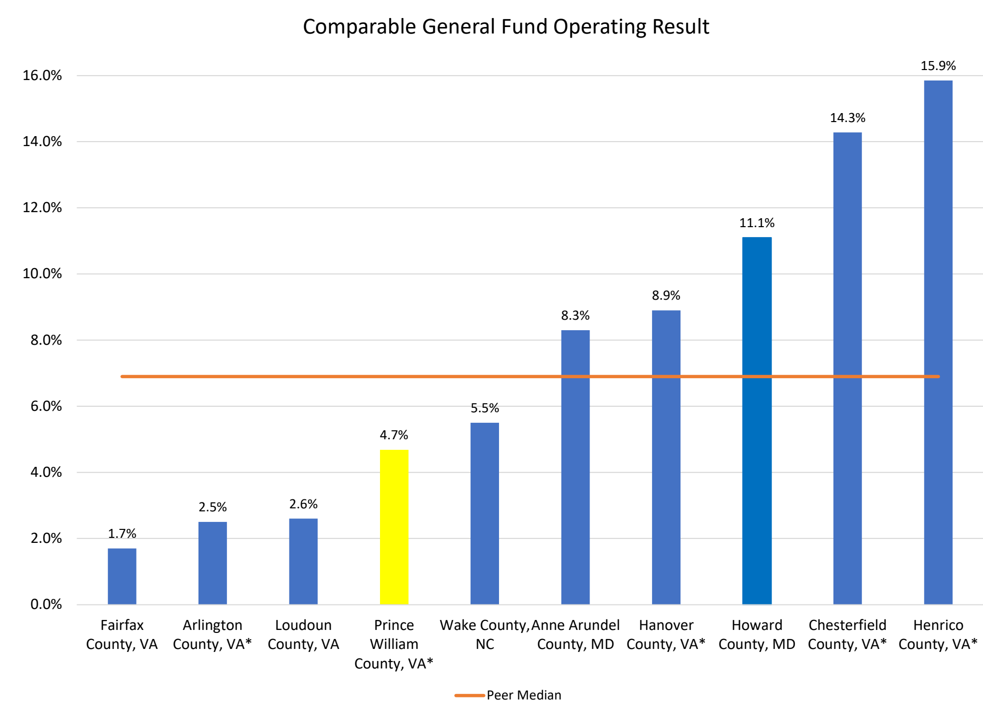
Budget Strength Measurement

The rating agencies measure the magnitude of revenues that exceed expenditures at year end. Thus, S&P measures the County's historical general fund operating balance (excluding Schools' funds), surplus or deficit, as a percentage of general fund operating expenditures. The 'AAA' target is greater than 5%. The County score slightly decreases to 4.7% for fiscal year 2021 and falls below the peer median of 6.9% (see graphs on the following page).



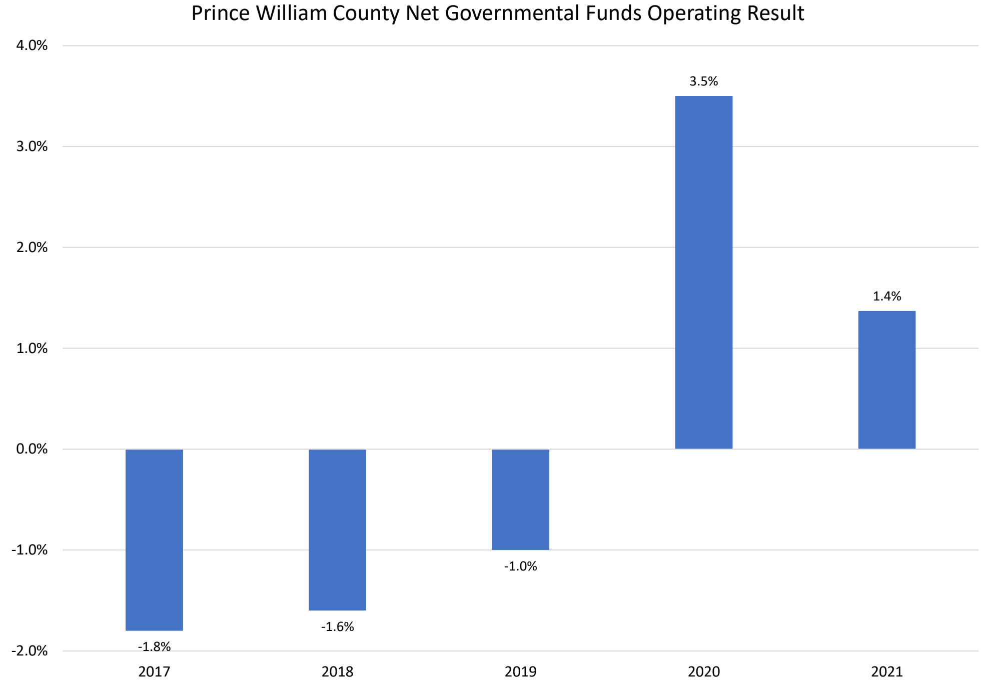
AAA target > 5%

Source: County's S&P reports for FY17-FY19. 2020-2021 are estimated by PFM.



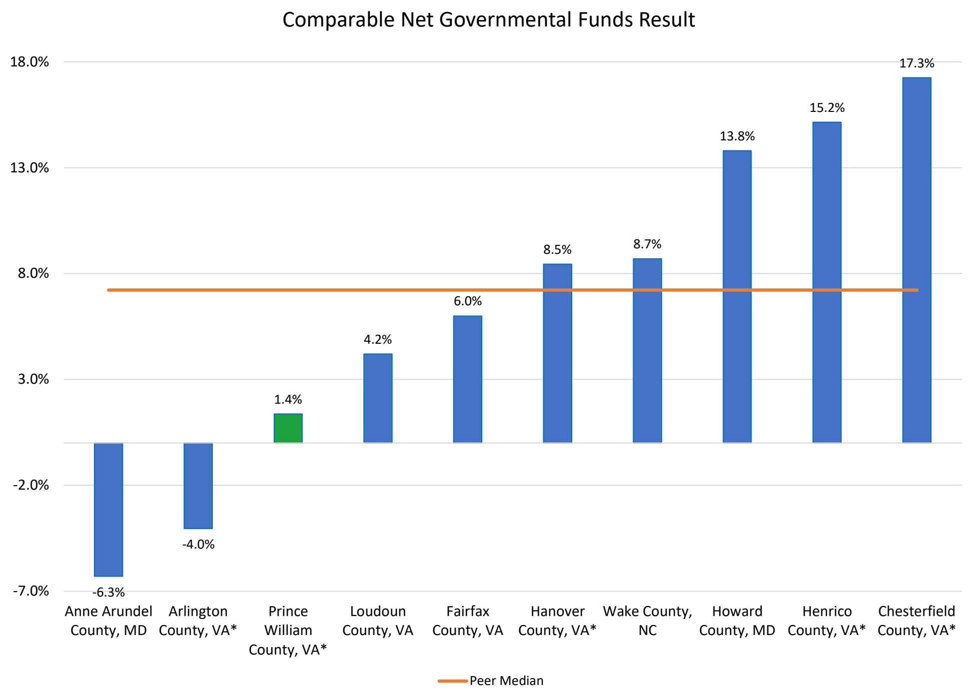
Source: S&P Reports, if available. *Indicates PFM estimate.

A second measure of budget strength used by S&P is net governmental funds as a percentage of expenditures. In fiscal year 2021, the County's score decreases to 1.4%, but meets the 'AAA' target of greater than -1%. However, the County falls below the peer median of 7.2%.



AAA target > -1%

Source: County's S&P reports for FY17 - FY20. 2021 is estimated by PFM.

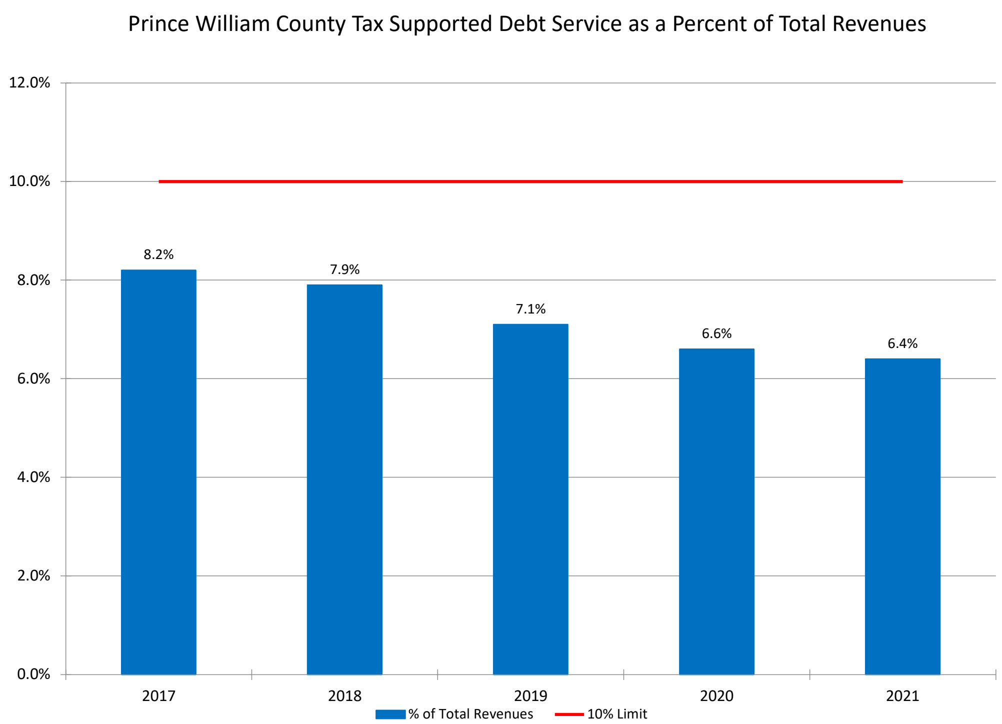


Source: S&P Reports, if available. *Indicates PFM estimate.

Liabilities

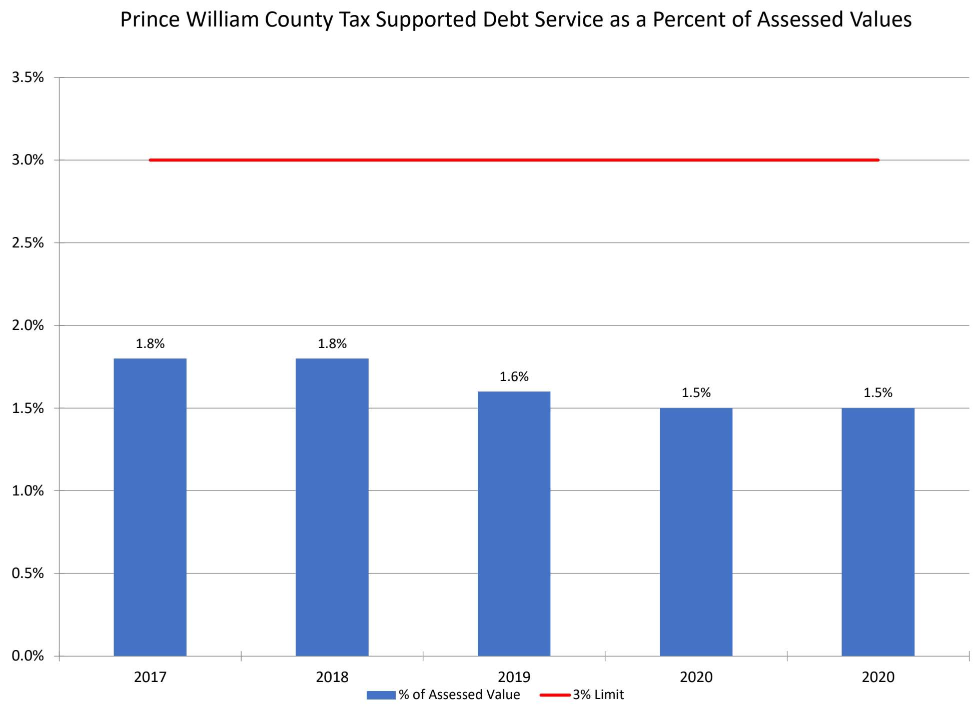
Debt

The last component of a financial sustainable community are manageable liabilities. Rating analysts seek to assess an entity's debt burden and debt affordability, taking into account the debt structure. The County initially adopted its Principles of Sound Financial Management (PSFM) in 1988 with the most recent amendments adopted in 2018. Within the PSFM the County established guidelines for debt management, including self-imposed debt limits, which are a credit strength. The first self-imposed limit measures total debt service as a percentage of total revenues – this number must be below 10%. For fiscal year 2021, the County debt service measured 6.4% of total revenues.



Source: Prince William County Annual Comprehensive Financial Report FY 2021, Table 14.

The second self-imposed limit states that total tax supported debt will not exceed 3% of net assessed values of taxable real and personal property. At 1.5% for fiscal year 2021, the County continues to maintain debt below this limit.



Source: Prince William County Annual Comprehensive Financial Report FY 2021, Table 14.

Prince William County's debt capacity forecast represents County management's commitment to maintaining debt service at less than 10% of total revenue. The calculations are based on current existing debt, as of June 30, 2021, and the County's projected revenue, as detailed in the table below.

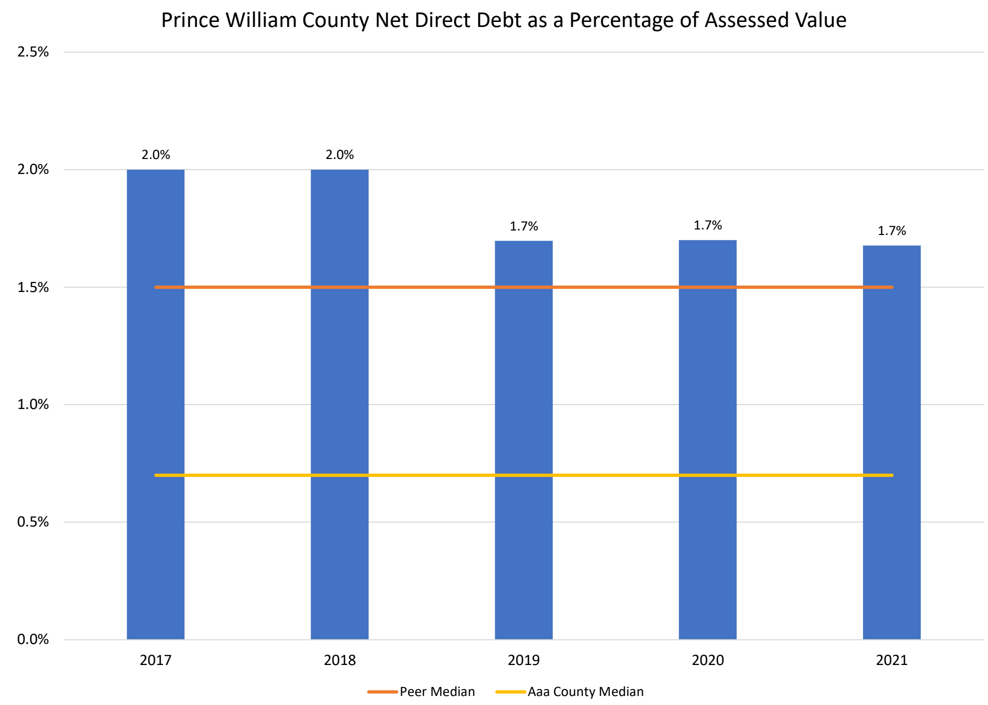
Prince William County Debt Capacity Forecast

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Total existing and CIP	$147,910,251	$147,504,825	$148,445,190	$163,694,283	$179,274,200	$197,268,959
Percent change from prior year	0.76%	-0.27%	0.64%	10.27%	9.52%	10.04%
General Revenue (in thousands) [1]	$1,163,249	$1,249,568	$1,318,006	$1,368,544	$1,422,718	$1,478,673
Growth	3.26%	7.42%	5.48%	3.83%	3.96%	3.93%
Total Revenues (in thousands) [2]	$2,324,670	$2,497,172	$2,633,940	$2,734,936	$2,843,200	$2,955,022
Debt service as a percentage of Total Revenue	6.36%	5.91%	5.64%	5.99%	6.31%	6.68%
PSFM imposed limit	10%	10%	10%	10%	10%	10%

Source: [1] July 2022, Adopted Estimate of General Revenue FY 23-27.

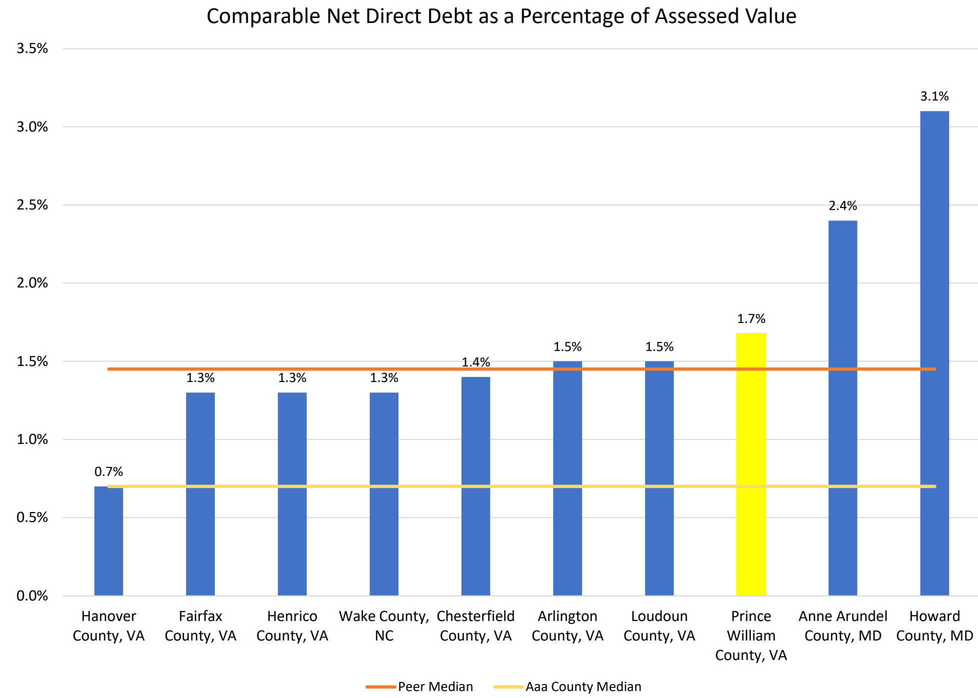
[2] Table 14 FY 2021 Annual Comprehensive Financial Report. Includes revenues for the General Fund, Special Revenue Funds and the School Board and ADC component units.

Moody's looks at net direct debt as a percentage of assessed value to measure the ability of a municipality to meet its debt obligations. This metric reflects how much debt has been issued relative to the value of the real property within Prince William County. Increased use of cash to fund capital needs, all other things held constant, can negatively affect this metric. The 'Aaa' target is less than 0.75%. The County, at 1.7%, exceeds this target and scores in the 'Aa' category. In general, Virginia local governments have debt burdens that exceed national medians, largely due to debt issued for schools.



AAA target < 0.75%

Source: Moody's Financial Ratio Analysis database.

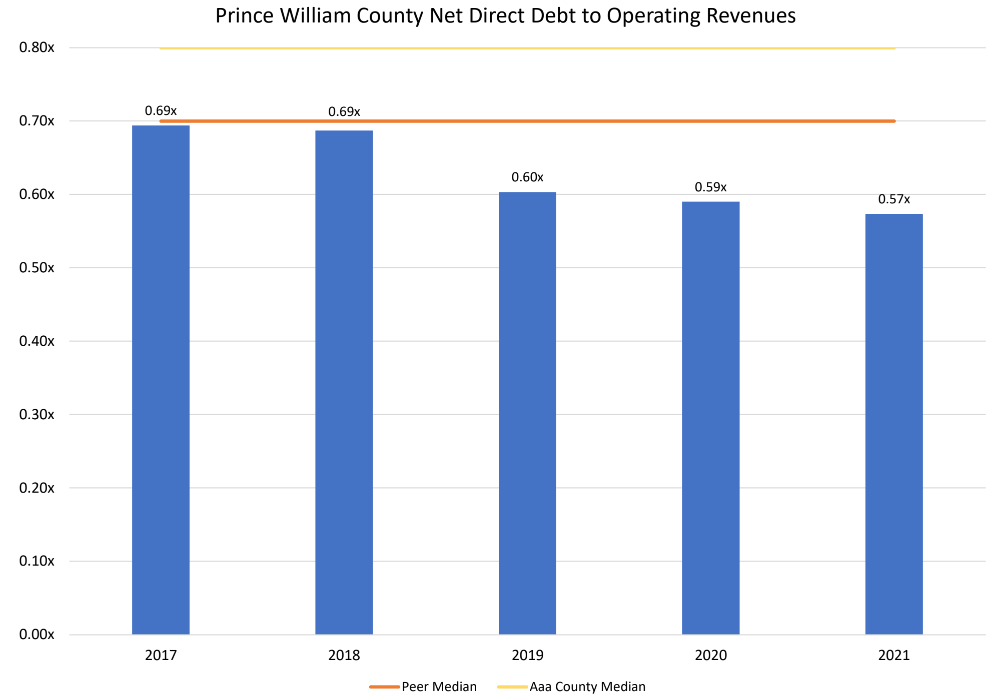


AAA target < 0.75%

Source: Moody's Financial Ratio Analysis database.

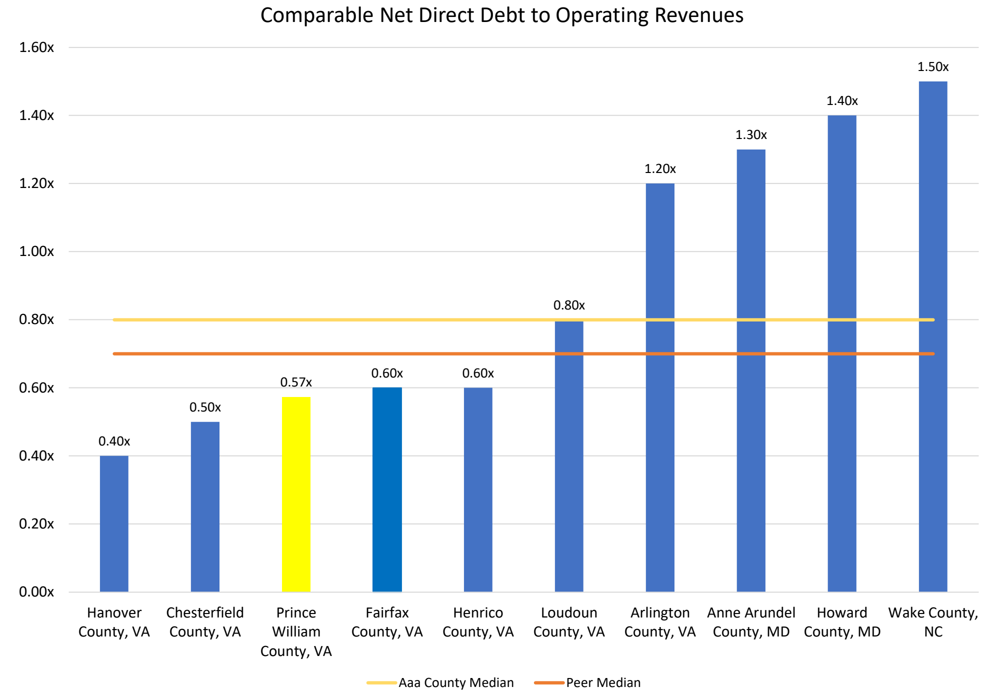
S&P also looks at this metric and improves the score by one point when net debt to assessed value is below 3%. Compared to all other peer group jurisdictions, Prince William County lags most of its peers. However, other than Hanover County, VA, all the jurisdictions fall outside the triple-A target.

Net direct debt relative to operating revenues is another factor evaluated by Moody's. This metric expresses the potential budgetary impact of future debt service and speaks to the relative affordability of debt obligations based on current revenue sources. The 'Aaa' target is less than 0.33x. The County score at 0.57x earns an 'Aa' rating. The County however, scores better than both the 'Aaa' county median of 0.80x and the peer group median of 0.70x as all other peer jurisdictions also fall outside the 'Aaa' target. Again, because local governments in Virginia are responsible for funding schools' capital expenditures, it is common for Virginia credits to lag the national medians and 'Aaa' target.



AAA target < 0.33x

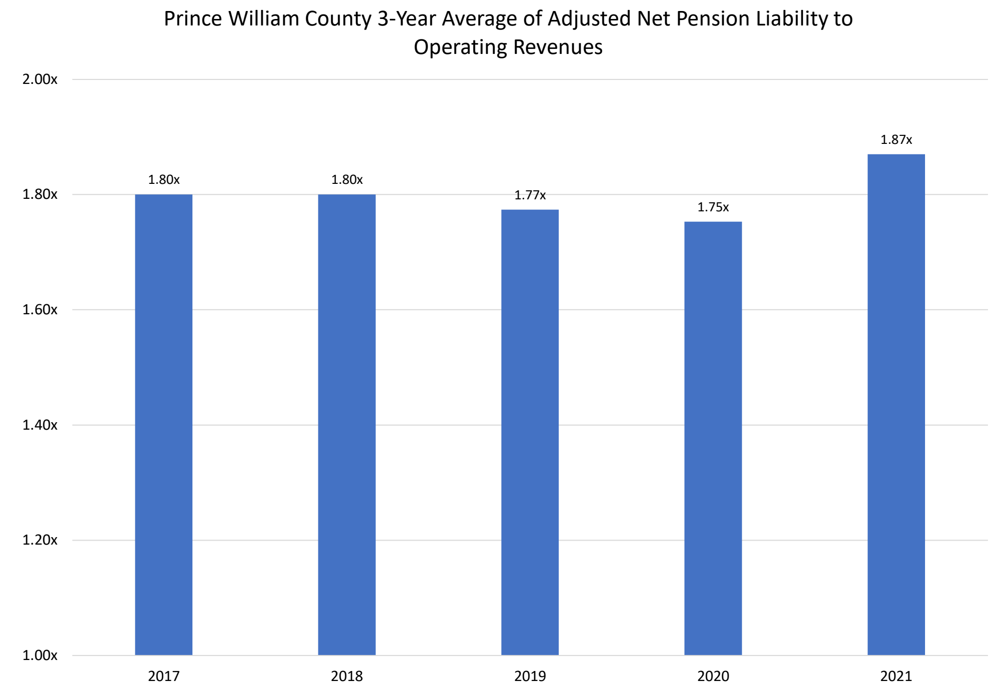
Source: Moody's Financial Ratio Analysis database.



Source: Moody's Financial Ratio Analysis database.

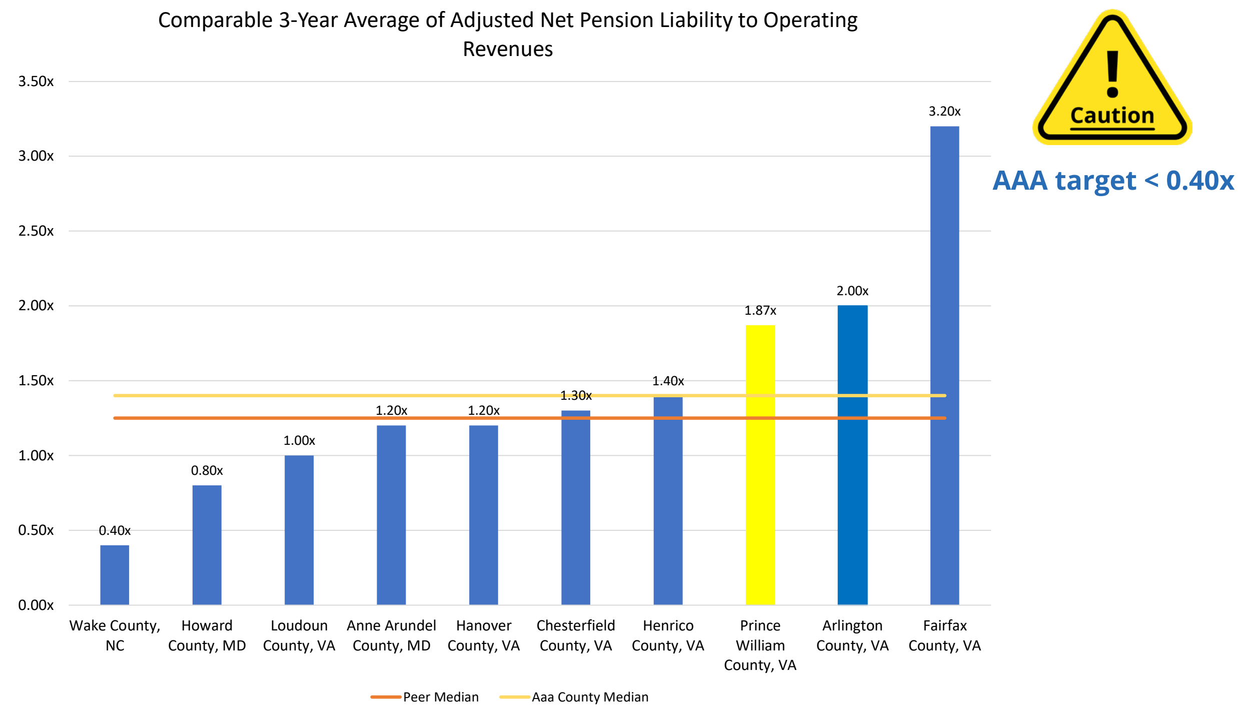
Pensions

Another liability the rating agencies assess is the pension liability. Unfunded pension liabilities represent a long-term liability and can present future budgetary pressures if not reduced. Starting fiscal year 2020, Moody's modified their Adjusted Net Pension Liability methodology for the County to add in the two County Schools Virginia Retirement System (VRS) pension plans. The historic three-year average net pension liability relative to operating revenues for the County is in the 'Aa' category with 1.87x which is above the 'Aaa' target of <0.40x. Of the 120 counties that Moody's rates 'Aaa', as of the most recent data published by Moody's, only 9 counties met the 'Aaa' target of <0.40x.



AAA target < 0.40x

Source: Moody's Financial Ratio Analysis database.

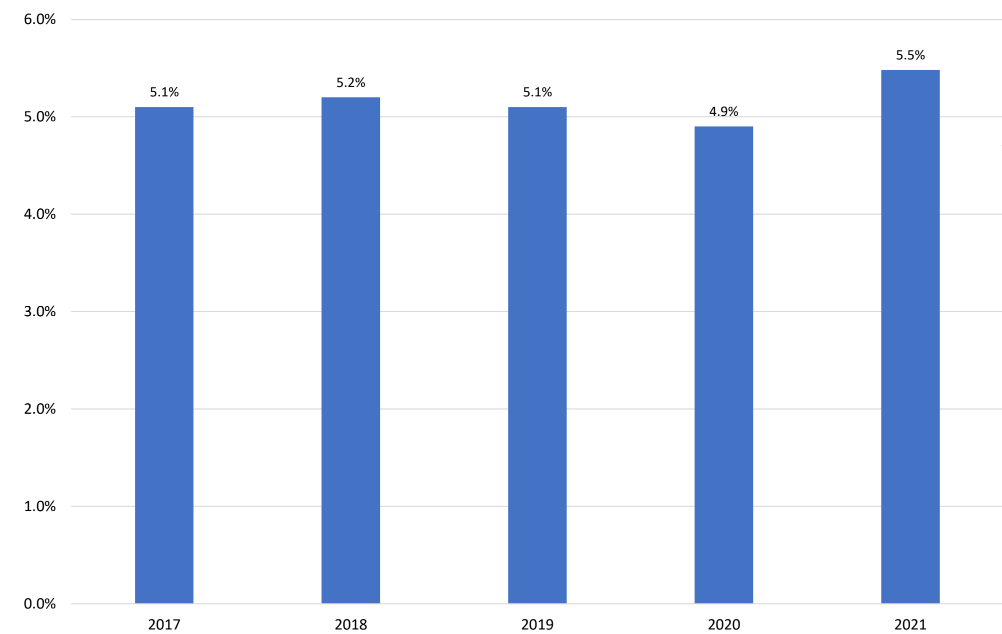


Source: Moody's Financial Ratio Analysis database.

Moody's also looks at the 3-year average net pension liability as a percentage of assessed value. The tax base is evaluated for its capacity to generate future revenue for accrued pension obligations for which assets have not been set aside. The County scores in the 'Baa' rating category (ranging from 4.8% to 12.0%) with 5.5% which is above the 'Aaa' County median of 0.9% and the peer median of 2.4%. Of the County's nine peer localities, as of the most recent data published by Moody's, six fall in either the 'A' or 'Baa' category, two localities fall into the "Aa" category, and only one locality in North Carolina falls into the 'Aaa' category. And of eleven Virginia localities that Moody's rates 'Aaa', none of the Virginia counties met the 'Aaa' target of <0.9%.

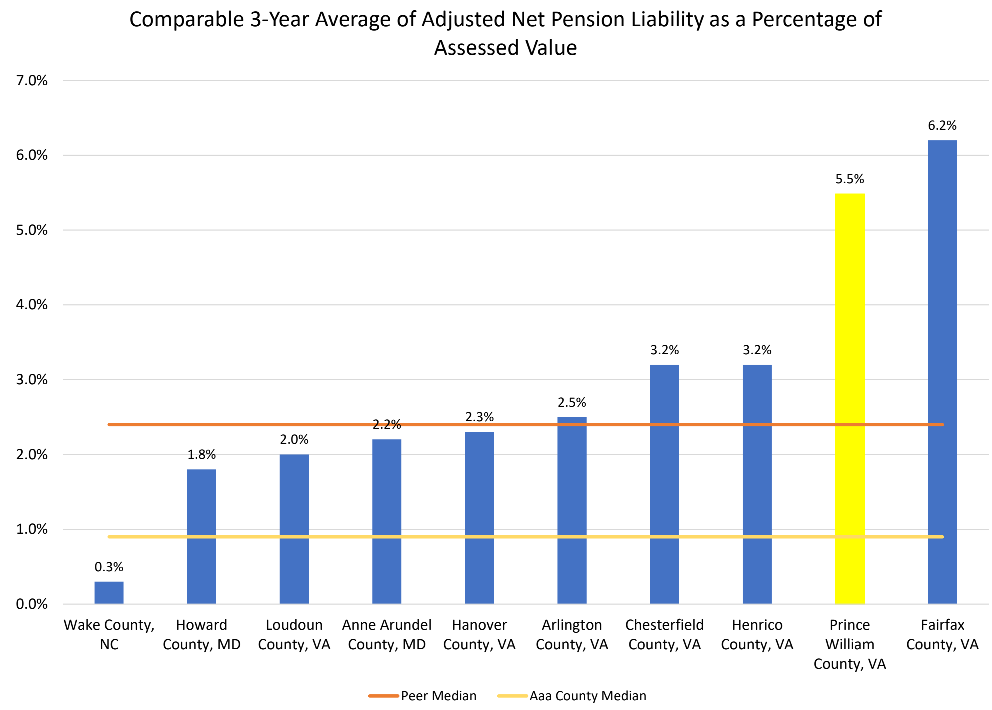
Both 3-year average net pension liability measurements are above the desired 'Aaa' targets for many of the counties in the Commonwealth, because of the requirement to include schools' VRS plans. The unfunded liability of the VRS funds has risen as market returns lagged on investments in the recent years. In addition to VRS plans, the County administers the County Supplemental Retirement Plan, a single employer defined benefit pension plan for sworn and uniformed public safety personnel, as well as a Volunteer Fire and Rescue Personnel Length of Service Award Program (LoSAP). The County funds its pensions at the annual actuarially required contribution amount.

Prince William County 3-Year Average of Adjusted Net Pension Liability as a Percentage of Assessed Value



AAA target < 0.9%

Source: Moody's Financial Ratio Analysis database.



AAA target < 0.9%

Source: Moody's Financial Ratio Analysis database.

Economic Environment

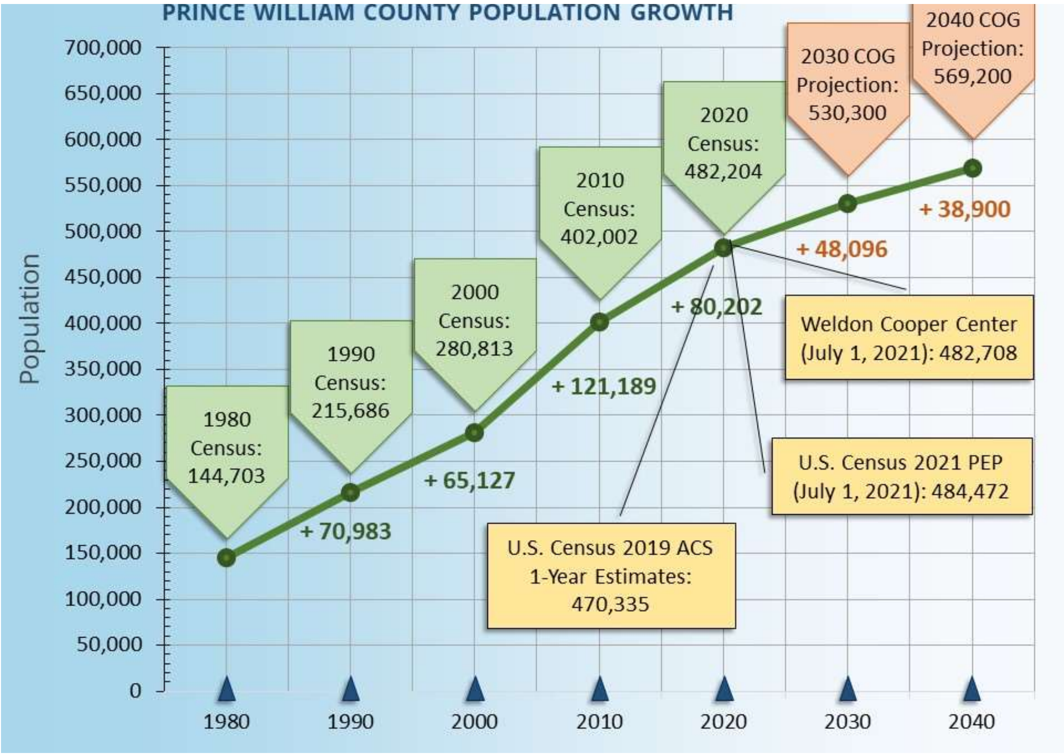
The political and economic environment begins with the governing body. The rating agencies look at the stability of the BOCS, adherence to the Principles of Sound Financial Management and consistency in operations. Governance factors capture an organization's willingness to make proactive policy decisions to ensure the maintenance of a strong financial position and reliable financial cushion. Rating agencies report that entities that attempt to increase expenditures for popular services and programs and simultaneously pledge not to raise taxes or cut other programs will generally experience negative impacts such as a deterioration in their balance sheets as reserves are extinguished and the debt load grows. Historically, the County has scored very well in this area, with the institutional framework and management assessment at 'very strong'.

The County is continuing to experience a growing population. The County demographer estimates the population at 490,250 as of the fourth quarter of 2021, a 1.7% increase from 2020. The chart below illustrates periods of major growth during the 1960s and 1970s followed by even larger gains through 2020. The County is forecast to maintain population growth in the coming decades but at a decreasing pace as time passes.

Prince William County
Historical Population Data

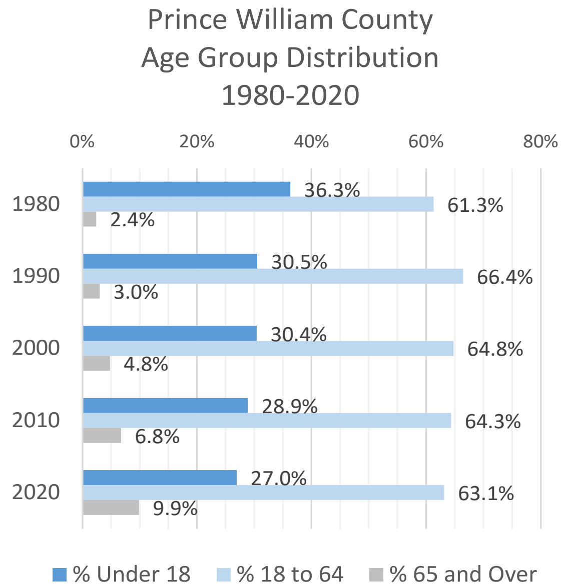
	Count	Gain/Loss	% Change
1900	11,112	1,307	13.33%
1910	12,026	914	8.23%
1920	13,660	1,634	13.59%
1930	13,951	291	2.13%
1940	17,738	3,787	27.15%
1950	22,612	4,874	27.48%
1960	50,164	27,552	121.85%
1970	111,102	60,938	121.48%
1980	144,703	33,601	30.24%
1990	215,686	70,983	49.05%
2000	280,813	65,127	30.20%
2010	402,002	121,189	43.16%
2020	482,204	80,202	19.95%
2030	530,300	48,096	9.94%
2040	569,200	38,900	7.34%

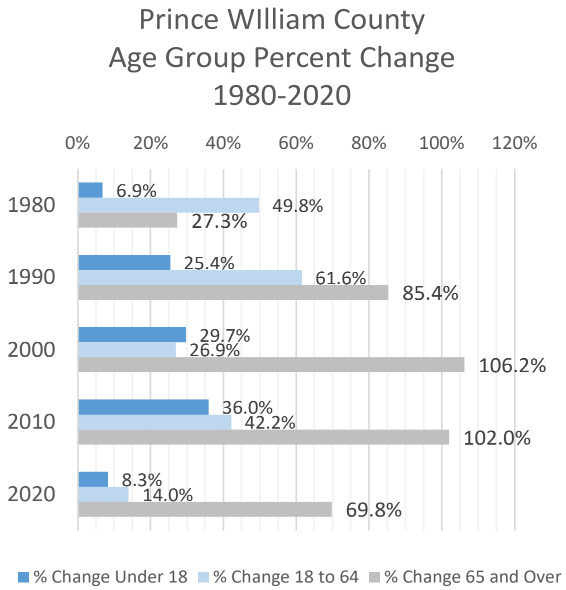
Sources: Prince William County Demographer – Historical population retrieved from University of Minnesota Population Center's NHGIS; Population projections from Metropolitan Washington Council of Governments Round 9.1 Cooperative Forecasts.



Sources: Prince William County Demographer – Historical population retrieved from University of Minnesota Population Center's NHGIS; Population projections from Metropolitan Washington Council of Governments Round 9.1 Cooperative Forecasts; Weldon Cooper Center for Public Service, Demographics Research Group, at UVA; U.S. Census Population Estimates Program; U.S. Census American Community Survey (ACS) 2019 1-Year Estimates.

Demographic factors drive demands for programs and services, impacting the expenditures of a local government. The largest sector of the County population is the 18- to 64-year-old age group but the fastest rate of growth continues to be in the 65 and over category. According to U.S. Census Bureau, County Population by Characteristics: 2020-2021 Publication, the County's population of people ages 65 and over is estimated at 50,293, an increase of nearly 23,000 from 2010 in this age category compared to an increase of just under 14,000 between 2000 and 2010.

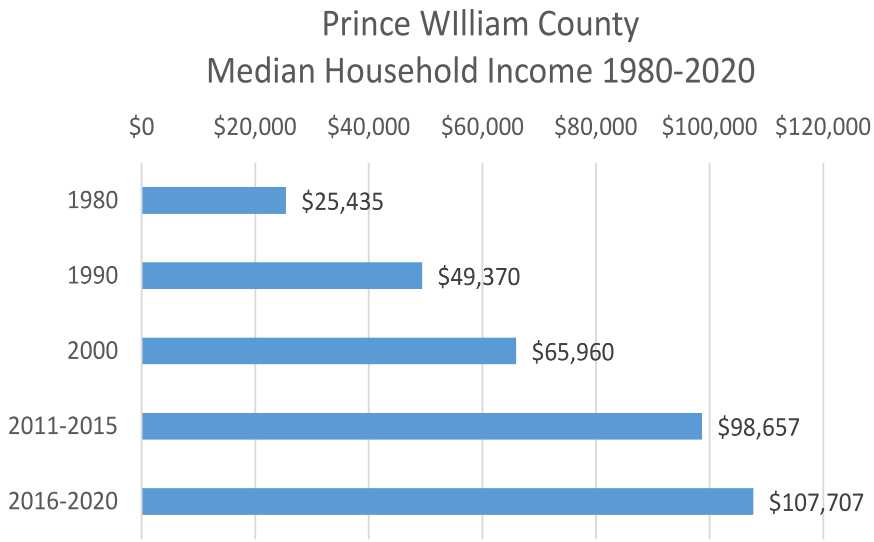




Sources: PWC Demographer: Historical population retrieved from University of Minnesota Population Center's NHGIS; 2016-2020 American Community Survey (ACS) 5-Year Estimates.

Wealth

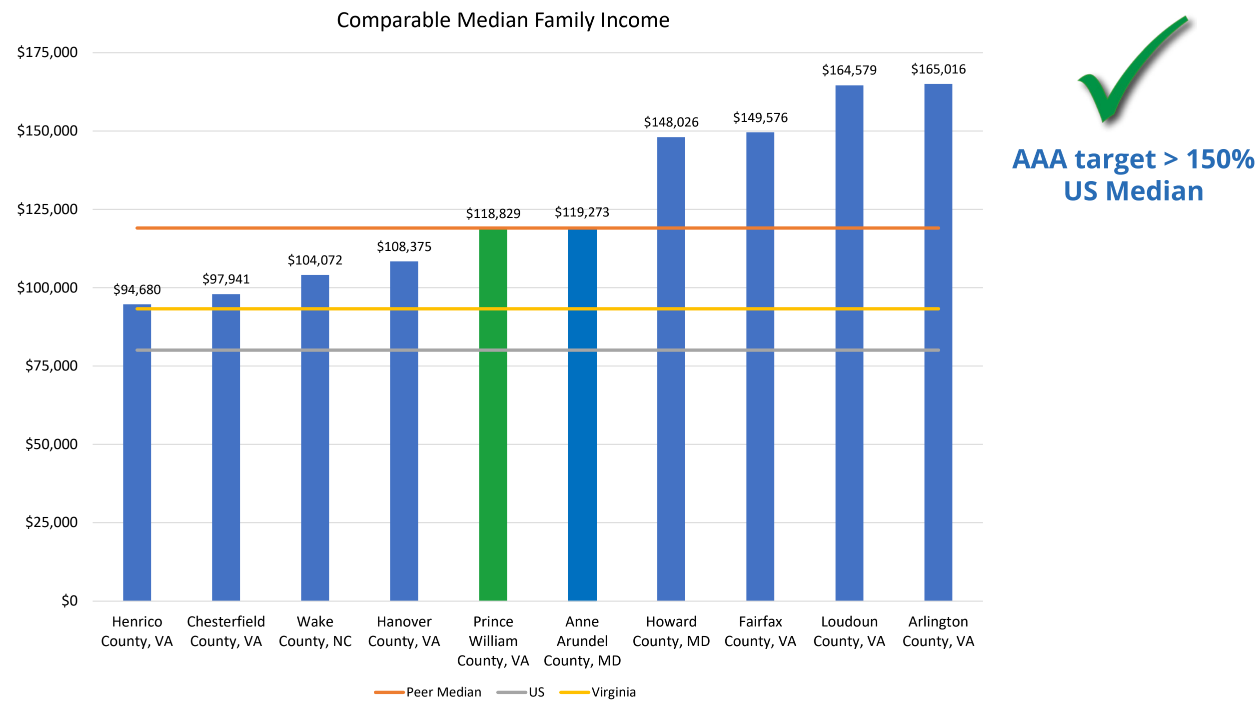
A high median household income is a positive economic indicator and a measure of the strength and resilience of a tax base. A jurisdiction with high wealth levels may have greater flexibility to increase property tax rates to meet financial needs. Wealthier communities also have greater spending power and drive demand to support growth in the commercial sector. For example, in the wake of the pandemic, even as the retail sector was challenged, the County residents shifted their purchases from brick-and-mortar to online purchases. Retail activity, as reflected by sales tax revenue, increased 10.7% in fiscal year 2021. The 2016-2020 median household income as reported by the U.S. Census American Community Survey increased to just above $107,707, up from $98,657 just five years earlier.



Sources: PWC Demographer: Data for 1980-2000 retrieved from University of Minnesota Population Center's NHGIS; U.S. Census American Community Survey (ACS) 2011-2015 5-Year Estimates and 2016-2020 5-Year Estimates.

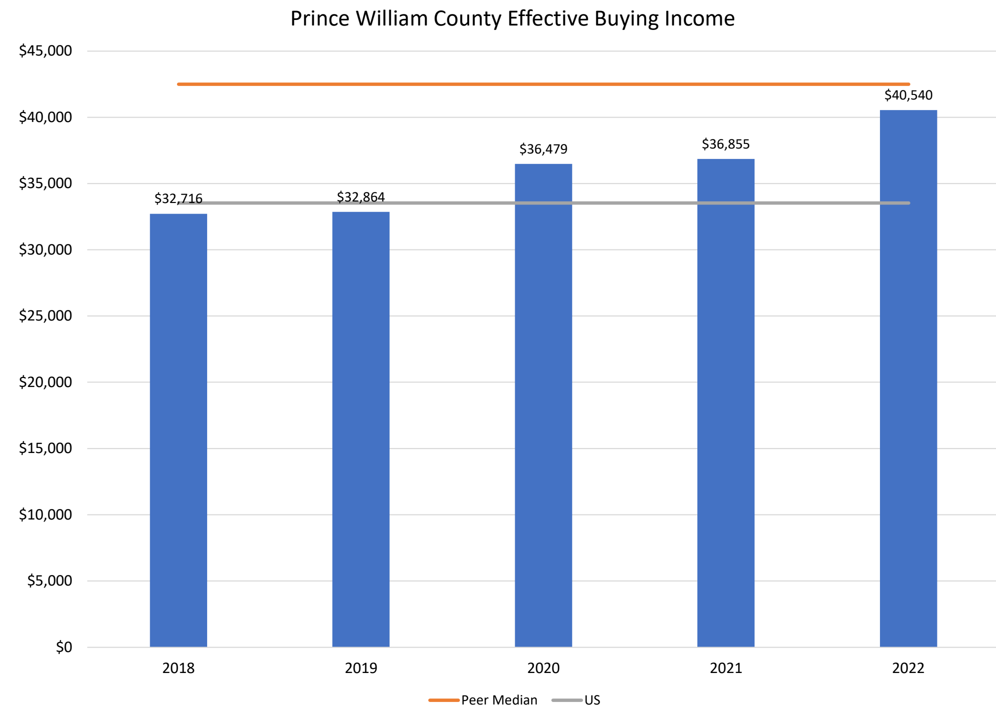
Moody's analyzes median family income as opposed to median household income. Household income includes the income of all people who occupy a housing unit regardless of relationship, whereas family income measures the income of two or more people related by birth, marriage, or adoption. Per Moody's, median family income provides a better reflection of the strength of the tax base.

On the median family income, the County scores very strongly as a 'AAA' at $118,829. This is above the 'AAA' target of 150% of the U.S. median or $80,069.



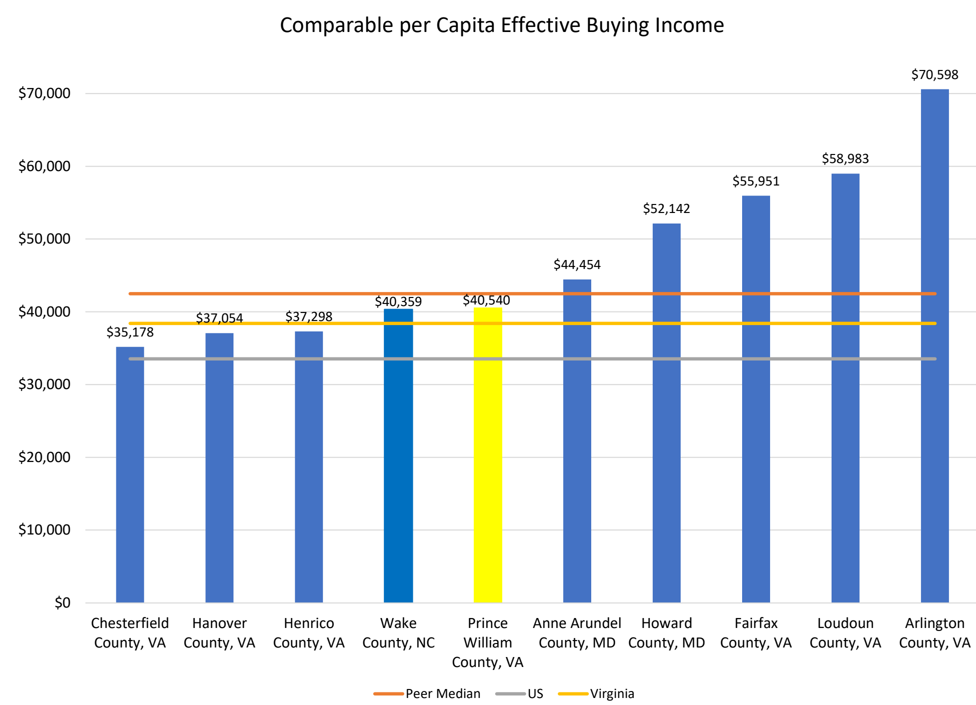
Source: American Factfinder, 2020 5-Year Estimate.

S&P reviews effective buying income (EBI) and considers 150% of the U.S. median as 'Aaa' rated. Effective buying income is similar to disposable income. The U.S. median EBI is $33,531. At 150% of the U.S. median, the 'Aaa' target equates to $50,296. With EBI of $40,540, the County falls below the 'Aaa' target and peer group median of $42,497.



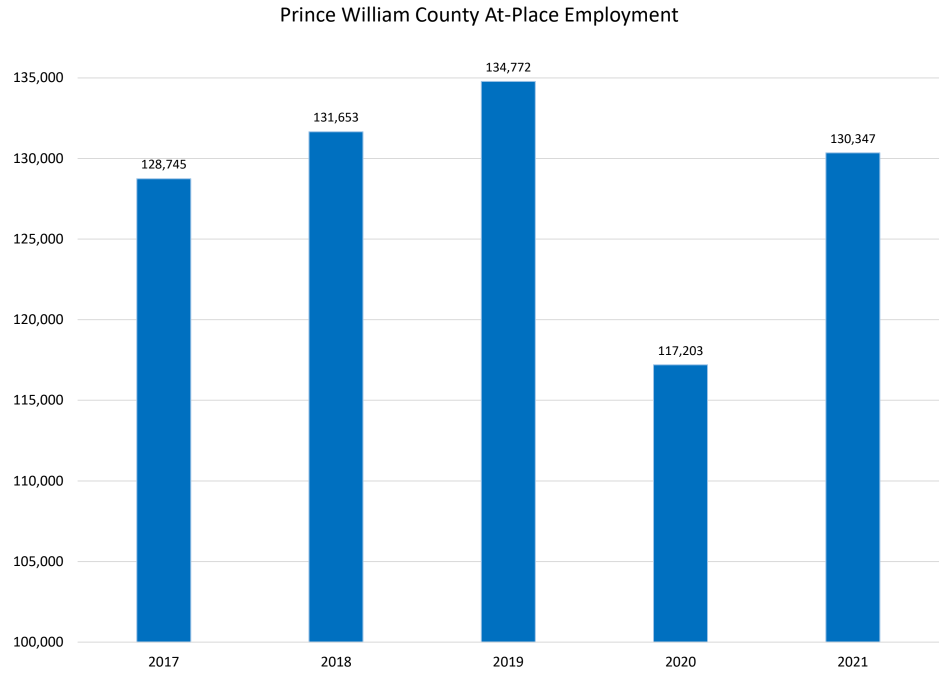
AAA target > 150% US Median

Source: Nielsen's Claritas database



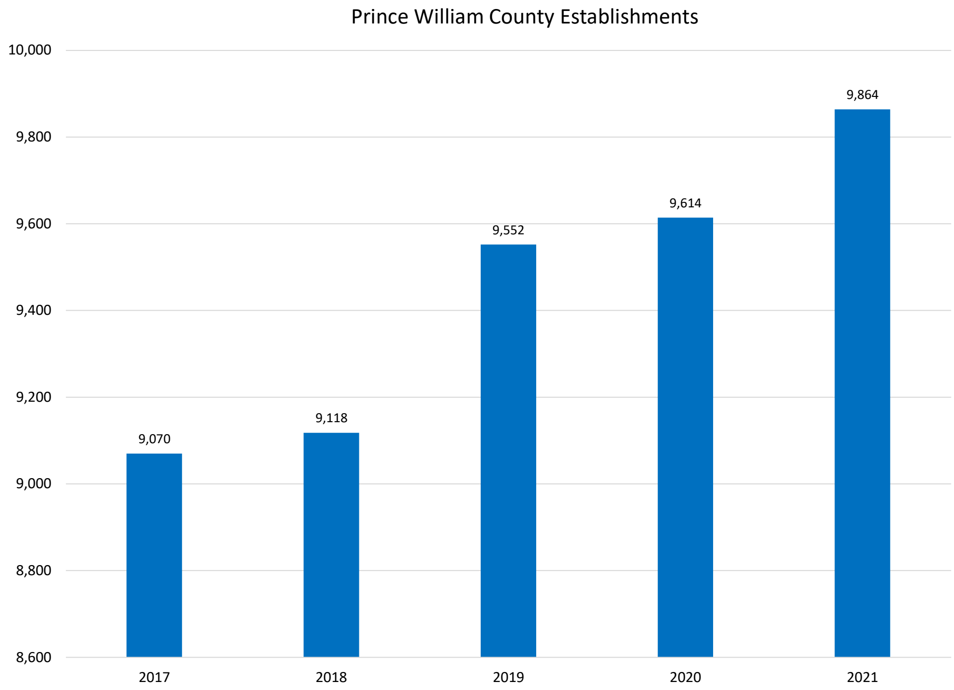
Source: Nielsen's Claritas database.

An area where the County has experienced consistent year-over-year growth is reflected in at-place employment. This is an important statistic to monitor as increases in employment signifies more jobs to generate more income to pay taxes. The rating agencies have positively noted the County's diverse economy and economic development efforts to grow and expand a high-end employment base. However, unemployment rates nationwide increased sharply in 2020 due to the COVID-19 outbreak. During fiscal year 2021, the U.S. economy started to recover at a slow pace and the County experienced modest growth in the number of at-place employment. The at-place employment was slightly lower compared to the pre-pandemic levels as certain sectors such as leisure and hospitality continued to recover, along with nationwide job market challenges associated with filling open positions.



Source: Virginia Employment Commission, Quarterly Census of Employment and Wages, 2nd Quarter 2021.

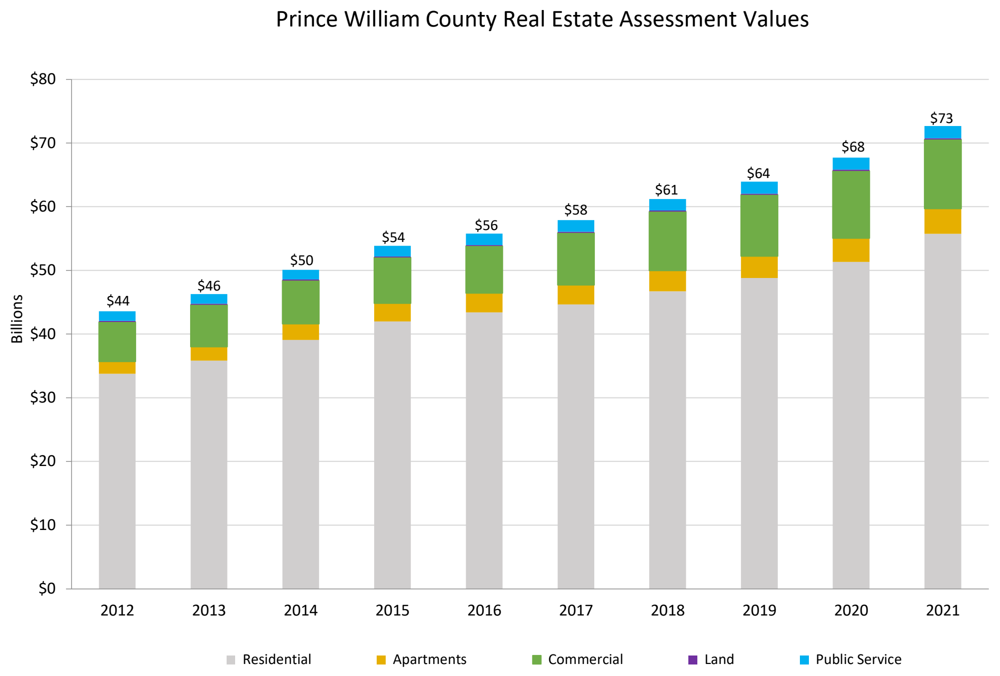
Over the past five years, the County demonstrated steady growth in the number of business establishments, a sign of a healthy local economy. Despite the COVID-19 pandemic, a majority of existing businesses were able to sustain their operations with the support of a variety of business relief loan and grant programs and similar funding resources available through federal, state, and local governments.



Source: Virginia Employment Commission, Quarterly Census of Employment and Wages, 2nd Quarter 2021.

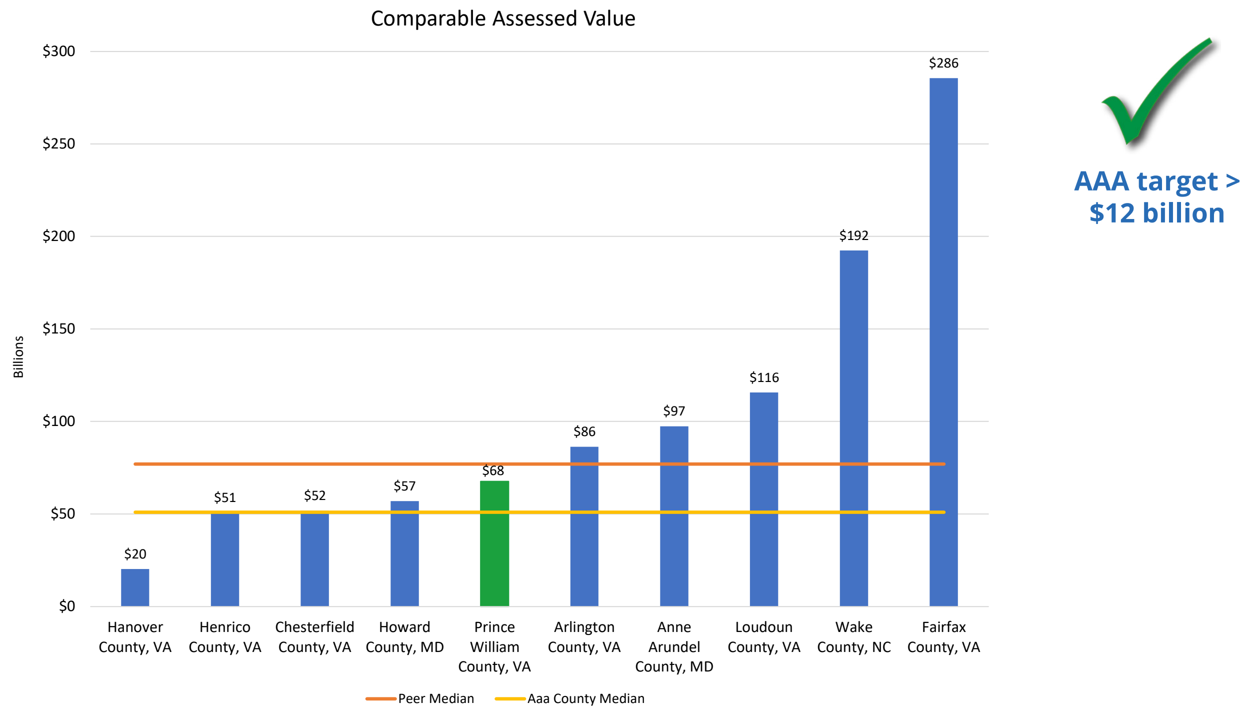
Assessed Value

The tax base is the primary source from which a local government derives its revenues. A large, robust, diverse tax base typically offers a local government more flexibility, as well as protection from unexpected shocks, such as the loss of a significant employer or industry. A smaller more concentrated tax base, on the other hand, is more prone to feel the impacts of such loss due to the dependency on a fewer number of properties. Prince William County displays consistent growth in its real estate tax base as demonstrated in the chart below which reflects the growth in annual land book values.



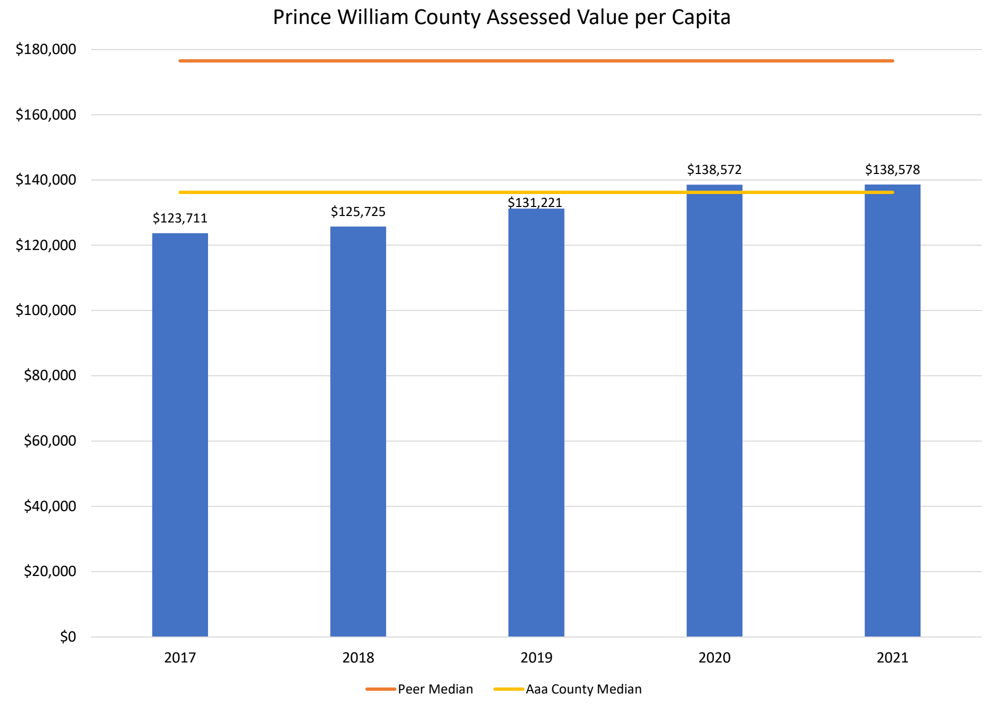
Source: Prince William County Real Estate Assessments Office 2021 Annual Report.

The County's tax base has continued to rebound since the downturn in the economy, now with ten years of continued growth and values that exceed pre-recession values. Moody's rates a tax base of greater than $12 billion as 'Aaa' worthy. In fiscal year 2021 (2020 Land Book), the County's tax base Increased to $68 billion, a strong 'Aaa' score, though the County remains more heavily concentrated in residential properties as compared to some of its peers. The 2021 Land Book assessed values will be used to collect County tax revenues in fiscal year 2022. The total of the assessed values shown in the 2021 Land Book approaches $73 billion.



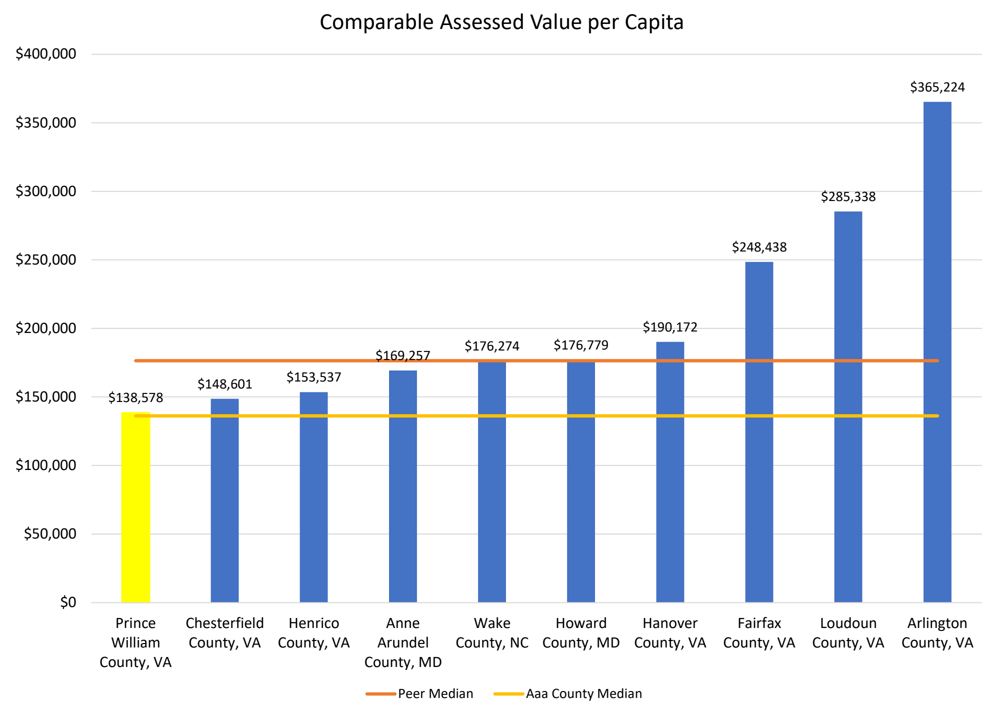
Source: Moody's Financial Ratio Analysis database.

Moody's regards historical assessed value per capita of greater than $150,000 as a 'Aaa' target. This metric converts the taxable property available to generate revenues to a per resident metric, depicting the availability of tax-generating resources to fund programs and services relative to the users. The County achieves a 'Aa' for this factor with $138,578. Of the 120 counties that Moody's rates 'Aaa', as of the most recent data published by Moody's, 49 counties met the 'Aaa' target for this metric.



AAA target > $150,000

Source: Moody's Financial Analysis database.



Source: Moody's Financial Ratio Analysis database.

Sources:

PFM Financial Advisors, LLC.

Moody's Investors Service Rating Methodology

Standard & Poor's Ratings Services Ratings Direct

Prince William County Annual Comprehensive Financial Report For the Year Ended June 30, 2021

2021 Annual Report Prince William County Real Estate Assessments Office

Prince William County Demographer

Virginia Employment Commission, Quarterly Census of Employment and Wages

Nielsen's Claritas Database

Virginia Auditor of Public Accounts, Monitoring for Local Government Fiscal Distress 2020-2021 and 2019 Reports.

Rating Agencies' Scorecard Metrics and Weights

Moody's Scorecard Summary

Factors & Subfactors	Weight
Factor 1: Economy/Tax Base	30%
Full Value (market value of taxable property)	10%
Full Value per Capita	10%
Median Family Income	10%
Factor 2: Finances	30%
Fund Balance as % of Operating Revenue	10%
5-Year Dollar Change in Fund Balance as % of Revenues	5%
Cash Balance as % of Revenues	10%
5-Year Dollar Change in Cash Balance as % of Revenues	5%
Factor 3: Management	20%
Institutional Framework	10%
Operating History: 5-Year Average of Operating Revenues/Operating Expenditures	10%
Factor 4: Debt/Pensions	20%
Net Direct Debt / Full Value	5%
Net Direct Debt / Operating Revenues	5%
3-Year Average of Moody's Adjusted Net Pension Liability/ Full Value	5%
3-Year Average of Moody's Adjusted Net Pension Liability/Operating Revenues	5%
Indicated Rating Score	100%

S&P's Scorecard Summary

Factors & Subfactors	Weight
Factor 1: Institutional Framework Score	10%
Framework Score	
Factor 2: Economy	30%
Market Value per Capita	15%
Per Capita Effective Buying Income %	15%
Factor 3: Management	20%
Management Score	
Factor 4: Budgetary Flexibility	10%
Fund Balance as a % of Expenditures	
Factor 5: Budgetary Performance	10%
Total Governmental Funds Net Result	5%
General Fund Operating Balance to Operating Expenditures	5%
Factor 6: Liquidity	10%
Total Cash as a % of Total Governmental Funds Expenditures	5%
Total Cash as a % of Total Governmental Funds Debt Service	5%
Factor 7: Debt and Liability	10%
Net Direct Debt as a % of Total Governmental Funds Revenue	5%
Debt Service as a % of Expenditures	5%
Rating	**100%**

PRINCE WILLIAM COUNTY

Department of Finance
1 County Complex Court
Prince William, VA 22192
www.pwcva.gov