FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Prince William County VA PSA $128.5MM Bonds 'AAA' & $48MM IDA Revs 'AA+'; Outlook Stable

Mon 25 Sep, 2023 - 4:55 PM ET

Fitch Ratings - New York - 25 Sep 2023: Fitch Ratings has assigned ratings to the following bonds:

--$128.5 million Virginia Public School Authority (VPSA) special obligation school financing bonds, Prince William County series 2023, 'AAA' to be issued by the VPSA on behalf of Prince William County, VA (county);

--$31.6 million Prince William County Industrial Development Authority (IDA) facilities revenue bonds, series 2023A, 'AA+';

--$16.3 million Prince William County IDA facilities revenue bonds, series 2023B (federally taxable), 'AA+'.

Proceeds of the series 2023 VPSA special obligation bonds will be used to construct one high school and an elementary school replacement and renovations/improvements to existing schools. The bonds are expected to sell competitively on Oct. 26. Proceeds of the IDA series 2023 A and B bonds will be used to construct a county crisis receiving center, public safety training center and countywide space. The bonds are expected to sell competitively on Oct. 11.

In addition, Fitch has affirmed the following county ratings:

--GO bonds at 'AAA';

--VPSA special obligation bonds at 'AAA';

--County refunding certificates of participation (COPs), series 2013 at 'AA+';

--County IDA facilities revenue and refunding bonds, series 2020A and series 2016A, 'AA+'.

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

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Prince William County (VA) [General Government]	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
Prince William County (VA) /Appropriation Supported/1 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable
Prince William County (VA) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
Prince William County (VA) /Lease Obligations - Standard/1 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

SECURITY

The VPSA bonds are limited and special obligations of the VPSA, payable solely from payments of principal and interest to be made by the county on its local school bonds. The local school bonds are GOs of the county, for which the county has pledged its full faith and credit for payment and unlimited taxing authority. The VPSA has assigned its rights to receive all payments of principal and interest on the local school bonds to the State Treasurer acting as paying agent for the series 2023 bonds and all such payments of principal and interest on the local school bonds shall be made directly to the State Treasurer.

The outstanding IDA revenue bonds and the county's series 2013 COPs are backed by lease or basic payments equal to debt service and subject to annual appropriation by the county board.

ANALYTICAL CONCLUSION

The 'AAA' rating on the VPSA special obligation bonds reflects the county's 'AAA' IDR and GO rating, which is underpinned by the county's superior gap-closing capacity and budget flexibility, and its unlimited taxing authority. Fitch expects the county to maintain a high level of financial flexibility given its solid operating performance, healthy available fund balance, and moderately low liability burden.

The 'AA+' rating on the COPs appropriation-backed debt is one-notch below the IDR reflecting the slightly higher degree of optionality associated with appropriation payments.

Economic Resource Base

The county is located in northern Virginia, less than 25 miles southwest of Washington, D.C. The county's population reached an estimated U.S. census population of 486,943 in 2022, up 21.6% since 2010.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

The county derives the bulk of its revenues from property taxes. Fitch expects the natural pace of revenue growth to exceed the level of inflation over time based on expectations for continued population growth and tax base expansion from new development and property appreciation. The county has high independent legal ability to increase property taxes without limitation.

Expenditure Framework: 'aa'

Fitch expects the natural pace of spending growth to be marginally above revenue growth prospects. Moderate carrying costs and broad flexibility to manage labor-related costs afford the county solid flexibility to adjust spending.

Long-Term Liability Burden: 'aa'

The combined burden of debt and Fitch-adjusted net pension liabilities represents about 9% of personal income, which is at the high end of the low range. Fitch expects the liability burden to be moderate over the long term, as the county continues to issue debt annually to meet school and other county capital needs.

Operating Performance: 'aaa'

The county's superior budget flexibility and ample unrestricted general fund balance allows it to manage through economic downturns without diminishing its overall financial flexibility.

RATING SENSITIVITIES

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

--Not applicable given the 'AAA' IDR and GO rating.

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

--A material reduction in sustained revenue growth trends below the rate of inflation;

--A reduction in the solid expenditure flexibility after the county negotiates its first collective bargaining agreements, made allowable by a 2022 board adopted collective bargaining ordinance;

--A sustained and material erosion of the county's gap-closing capacity, resulting in a deterioration of its overall financial resilience.

CURRENT DEVELOPMENTS

Prince William County ended fiscal 2022 with a net-operating surplus of $26.6 million, about 2% of general fund spending, increasing the county's unrestricted general fund balance to $278.9 million or nearly 21% of expenditures. The county saw positive budget variances primarily from strong personal property tax revenues growth and expenditure savings across categories.

The fiscal 2023 general fund budget of $1.5 billion was about 9% over the fiscal 2022 budget. The budget included a modest reduction of the real estate tax rate but the adoption a 4% meals tax. According to management, preliminary/unaudited revenues are about 4% over budget largely driven by the new meals tax and positive budget variances in personal property tax revenues due to the growth within the data center industry and the increase in assessed values for vehicles. The county expects to underspend the budget by 1%-2%. As such, the county is expected to show positive operating results for fiscal 2023 and add to fund balance.

The county's $1.65 billion adopted fiscal 2024 general fund budget is about 11.8% over the fiscal 2023 budget. The budget reduces the property tax rate to $0.966 per $100 of assessed value from $1.03 and includes a $90.8 million increase in the transfer out to fund schools, which reflects a 12.7% increase, in accordance with the county's revenue sharing agreement (57% schools/43% county). The county's recently adopted 4% meals tax, is budgeted to generate $32 million in revenue in fiscal 2024, reflecting a 30% increase over meals taxes assumptions included in the fiscal 2023 budget. Fitch expects the county will continue to exercise strong budget management practices through current and future economic cycles and maintain reserves sufficient to retain its high gap-closing capacity.

CREDIT PROFILE

The county is situated within the Washington, D.C. metropolitan area. Its relative affordability compared to neighboring counties and its well-educated workforce support favorable economic and demographic growth trends. Its stable economic base, rooted in government and military employment, has expanded to encompass the targeted industries of life sciences, information technology and federal government agencies and contractors. The number of data centers in the county continues to increase in and outside of Innovation Park.

The presence of the Marine Corp Base Quantico, along with the addition of the FBI Northern VA satellite office, help to attract contractors and federal agencies, but also exposes the county to changes in federal defense spending, which has been subject to volatility. The U.S. Department of Defense is the county's third largest employer; overall, the federal government currently represents just 5% of the resident employment base.

Revenue Framework

The county primarily relies on property tax revenues, totaling 75% of general fund revenues in fiscal 2022. The next largest category was intergovernmental revenues at 14% from state and federal sources primarily for schools and other social services.

The county's 10-year general fund revenue CAGR, adjusted for real property tax rate changes, registered 4.8% in fiscal 2022. The CAGR is not adjusted for the implementation of the meals tax or cigarette tax. Fitch expects general fund revenue growth to moderate somewhat but trend above inflation over time given ongoing economic development as shown in solid growth in construction permits, continued home value appreciation, and a solid pipeline for new data centers. The county's taxable assessed value (TAV) Increased by 13% to about $93 billion in fiscal 2023, primarily due to the county's annual property reassessment, following approximately 8% growth in fiscal 2022.

The Commonwealth of Virginia does not limit the property tax rate or levy, affording the county significant independent revenue-raising authority to help counteract cyclical budgetary stresses.

Expenditure Framework

The county's largest expenditure categories are education and public safety, at 42% and 20% of fiscal 2022 general fund expenditures, respectively. Virginia public schools are largely funded by a mix of state and local aid contributions. The amount of local contribution is determined by the county's board, and based on the state-determined performance standards for the school system, known as the required local effort (RLE). A revenue sharing agreement between the county and the component unit school district diverts 57% of general fund revenue to fund the district's budget. Importantly, the county board has the ability to adjust the agreement, if needed, supporting a solid level of overall expenditure flexibility.

Fitch expects the natural pace of spending growth to be marginally above natural revenue growth, given the county's full control over employee wages and benefits, as well as its manageable debt service and retiree benefit costs.

The county's fixed carrying cost burden is moderate, with costs for debt, pensions, and other post-employment benefits (OPEB) equaling 14% of fiscal 2022 total governmental expenditures. Debt service accounts for the majority of costs at about 10% and reflects an amortization rate of debt at approximately 64% of debt retired in 10 years, including this issuance. Expenditure flexibility also benefits from the state's workforce environment that provides broad legal ability to manage labor-related costs.

According to Senate Bill 939 effective May 1, 2021, Virginia localities are permitted to engage in collective bargaining agreements with public employees. The board adopted a collective bargaining ordinance in November, 2022, and amended the ordinance in July 11,

2023. The county is currently bargaining with the Prince William County Police Association (PWCPA) and the Internal Association of Fire Fighters (IAFF), which are both expected to end bargaining before the end of 2023. In October of 2022, the school board established an collective bargaining agreement effective July 1, 2024

with Prince William Education Association represented by Local 2598. Fitch will evaluate the impact of a negotiated agreement on expenditure flexibility when more information is available.

Long-Term Liability Burden

The county's long-term liability burden, including this issuance and the county's and component unit schools' Fitch-adjusted net pension liability, is about 9% of residents' personal income. The county's five-year capital improvement plan from fiscal 2024-2029 of $1.4 billion (excluding school capital plans) is approximately 32% debt funded. Fitch expects the liability burden to remain moderately low given continued expected growth in personal income and principal amortization.

The county participates in the state-administered Virginia Retirement System plans for regular full-time employees as does the component unit school district for teachers and non-professional employees. The county also maintains a small supplemental defined benefit retirement plan for police officers, uniformed fire and rescue personnel, uniformed adult detention center staff and sheriff employees and a volunteer fire and rescue personnel length of service award program (LOSAP). On a combined basis, the net pension liability totals about 4% of personal income, largely due to the net pension liability for the teachers' plan. The combined ratio of net assets to liabilities is currently about 81% using Fitch's standard 6% investment return assumption.

The county contributes to five OPEB plans and has an unfunded OPEB liability of less than 1% of personal income. The county established an OPEB trust fund for the county and schools with assets totaling $114 million at the end of fiscal 2022 The county consistently funds pensions and OPEB at the aggregate actuarially determined contribution (ADC) level.

Operating Performance

The county has a superior level of inherent budget flexibility, supported by an unlimited independent revenue raising capacity and solid spending flexibility to manage through economic cycles. The county maintains a capital reserve (minimum 2% of capital projects), a revenue stabilization reserve (2% of general fund revenues), and $3 million in its economic development opportunity fund reserve as part of the committed fund balance and a 7.5% of general fund revenues reserve held in the unassigned portion of the fund balance. Additional reserves are held outside of the general fund that can be utilized with board approval, providing additional flexibility. Fitch anticipates that the county has the ability to absorb any future budgetary pressures by utilizing a combination of expenditure cuts and revenue-raising measures, and will also have the option to make reserve draws if necessary.

The county has demonstrated its ability to reduce spending through cost control mechanisms in prior recessions by deferring most non-school capex, reducing the overall operating budget, implementing a temporary freeze on compensation increases and making a limited number of reductions-in-force, among other measures. Fitch expects the county to make similar operational changes as needed during future economic downturns and continue to update its long-term comprehensive plans and detailed forecasting reports to maintain its strong financial resilience.

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 is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

FITCH RATINGS ANALYSTS

Keith Vereen
Analyst
Primary Rating Analyst
+1 646 582 3416
keith.vereen@fitchratings.com

Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Evette Caze
Director
Secondary Rating Analyst
+1 212 908 0376
evette.caze@fitchratings.com

Shannon McCue
Senior Director
Committee Chairperson
+1 212 908 0593
shannon.mccue@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Prince William County Industrial Development Authority	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.