

New Issue: Moody's assigns Aa3 to Powhatan County, VA's \$23.9M Lease Rev. Bonds

Global Credit Research - 14 Apr 2015

Affirms Aa2 GO rating

POWHATAN COUNTY ECONOMIC DEVELOPMENT AUTHORITY, VA
Counties
VA

Moody's Rating

ISSUE	RATING
Lease Revenue Refunding Bonds (County of Powhatan, Virginia Capital Projects) Series 2015	Aa3
Sale Amount	\$23,900,000
Expected Sale Date	04/27/15
Rating Description	Lease Rental: Appropriation

Moody's Outlook NOO

NEW YORK, April 14, 2015 --Moody's Investors Service assigns Aa3 rating to the Powhatan County's (VA) \$23.9 Lease Revenue Refunding (County of Powhatan, Virginia Capital Projects) Series 2015. Concurrently, Moody's affirmed the Aa3 rating on the county's \$18 million outstanding lease revenue bonds and the Aa2 rating on the county's \$19.8 million outstanding GO parity debt.

SUMMARY RATING RATIONALE

The Aa3 rating reflects the county's underlying credit quality including a solid financial position, moderately sized tax base benefiting from close proximity to Richmond (Aa2/stable) and an above-average debt burden. Additionally, the rating factors in satisfactory legal provisions and the essential nature of the projects and pledged assets, mitigating the risk of non-appropriation.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Strengthening of tax base and demographic profile

WHAT COULD MAKE THE RATING GO DOWN

- Reduction in reserve levels
- Increase in debt burden

STRENGTHS

- Strong financial operations
- County benefits from proximity to diverse Richmond local economy

CHALLENGES

- Elevated debt burden

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

LEGAL STRUCTURE: ADEQUATE PROTECTIONS FOR BONDHOLDERS; NON-APPROPRIATION RISK MITIGATED BY PROJECT ESSENTIALITY

The essential nature of the project and pledged asset somewhat mitigates the risk of non-appropriation by the county, and other legal provisions adequately protect bond-holders. In the event of non-appropriation, the county would lose title to an elementary school, a fire station and associated property, which provides adequate collateralization of 50% of outstanding principal under the Trust Indenture.

ECONOMY AND TAX BASE: MODERATELY SIZED TAX BASE NEAR RICHMOND AREA

The county's \$3 billion tax base has demonstrated resilience through the recession, with the diversity of the nearby local economy. Decline in the county's base has averaged 3.7% over the last five years including a 12% decline with its 2012 revaluation. Officials report modest growth expected with the next revaluation, January 1 2016.

Located 25 miles southwest of the city of Richmond (G.O. rated Aa2/stable outlook), much of the county remains rural and residential in nature and management reports approximately 80-100 residential housing projects in various stages of construction. The county is also home to a light industrial base reporting a diverse base of tenants at its 100 acre Oakridge Industrial Park.

Income levels approximate commonwealth medians and national medians with median family income at 129% of the US. The county's unemployment rate of 4.4% as of January 2015 remains well below the state and the nation.

FINANCIAL OPERATIONS AND RESERVES: CONSERVATIVE BUDGET MANAGEMENT DRIVES RESERVE GROWTH

Powhatan's financial position should remain solid given a history of conservative financial management and demonstrated adherence to adopted policies. Despite one-time reserve uses for capital in fiscal 2011 and 2013, total fund balance has remained strong averaging 25% over the last five fiscal years.

Officials added \$1.4million to fund balance in 2014 largely the result of favorable performance of sales tax and real estate collections. Management reports ongoing monitoring of revenues and expenditures, officials expect to use \$1.2 million of reserves for one-time capital use in 2015 but expect overall continued reserve growth over the medium-term. We expect the county will maintain satisfactory overall reserves in compliance with the unassigned reserve policy which has been strengthened in recent years to 15%.

Liquidity

The county's net cash as a percentage of General Fund revenues continues to grow totaling \$12.9 million or 26% of 2014 General Fund revenues.

DEBT AND PENSIONS: ELEVATED DEBT POSITION TO REMAIN MANAGEABLE GIVEN DEBT POLICIES

Powhatan's debt burden will likely remain affordable despite being slightly elevated, due to the county's active debt management policies. The county's debt burden, at an average 2.3% of full valuation remains below the county's policy limit of 4.5%. County officials are in the process of drafting a multi-year capital plan.

Despite an elevated debt burden, the county's debt remains affordable accounting for an average of 10% of expenditures over the last few fiscal years.

Debt Structure

All of the county's outstanding debt is fixed rate.

Debt-Related Derivatives

The county has historically issued fixed-rate obligations and has no exposure to derivative products

Pensions and OPEB

The county's pension obligations remain manageable. Powhatan County participates in the Virginia Retirement System (VRS), a multi-employer pension plan administered by the Commonwealth of Virginia (Aaa/stable). The combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data totaled \$71 million or a below-average 1.03 times operating fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities. We determined the county's share of liability for the state-run plans in proportion to its contributions to the plans.

MANAGEMENT AND GOVERNANCE

County management continues to budget conservatively. Virginia counties have an institutional framework score of "Aaa" or very strong. Counties rely on property taxes to support operations, providing for high revenue-raising flexibility as property tax rates are not limited. Expenditures, which are primarily for education, are predictable and counties have the ability to reduce expenditures if necessary.

KEY STATISTICS

- 2015 Full Value: \$3 billion
- 2014 Full Value Per Capita: \$73,730
- Median Family Income as % of US: 129%
- Fiscal 2014 Fund balance as a % of Revenues 22.1%
- 5-Year Dollar Change in Fund Balance as % of Revenues: -0.53%
- Fiscal 2014 Cash Balance as % of Revenues: 24.90%
- 5-Year Dollar Change in Cash Balance as % of Revenues: 1.55%
- Institutional Framework: Aaa
- 5-Year Average Operating Revenues / Operating Expenditures: 1.00x
- Net Direct Debt as % of Full Value: 2.7%
- 3-Year Average of Moody's ANPL as % of Full Value: 8.66%
- 3-Year Average of Moody's ANPL / Operating Revenues: 2.16x

OBLIGOR PROFILE

Powhatan County is located in the Richmond MSA area of Virginia with a diversifying local economy.

LEGAL SECURITY

Debt service is secured by the county's general obligation, unlimited tax pledge.

USE OF PROCEEDS

The 2015 bonds will refund the county's outstanding 2007 and 2010 Lease Revenue Bonds for an expected present value savings in excess of 6% without extending debt maturity.

PRINCIPAL METHODOLOGY

The principal methodology used in this lease rental rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. The principal methodology used in this general obligation rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moody.com for a copy of these methodologies.

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