

CREDIT OPINION

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New Issue

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Powhatan County, VA

New Issue - Moody's Assigns Aa3 to Powhatan County's (VA) \$54.5M Lease Rev. Bonds Ser. 2016

Summary Rating Rationale

Moody's Investors Service assigns a Aa3 rating to Powhatan County's (VA) \$54.5 Lease Revenue (County of Powhatan, Virginia Capital Projects) Series 2016. Concurrently, Moody's affirmed the Aa3 rating on the county's approximately \$47 million outstanding lease revenue bonds and the Aa2 rating on the county's approximately \$19 million outstanding general obligation (GO) parity debt.

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 continued economic diversification 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.

The Aa2 GO rating reflects a solid financial position, moderately sized tax base benefiting from close proximity to [Richmond](#) (Aa2/stable) and continued economic diversification and an above-average debt burden.

Credit Strengths

- » Strong financial operations
- » County benefits from proximity to diverse Richmond local economy
- » Conservative budget management guided by comprehensive policies

Credit Challenges

- » Elevated debt burden

Rating Outlook

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

Factors that Could Lead to an Upgrade

- » Strengthening of tax base and demographic profile

Factors that Could Lead to a Downgrade

- » Ongoing structural imbalance leading to significant decline in reserve and liquidity position
- » Substantial leveraging that exceeds county debt policies

Key Indicators

Exhibit 1

Powhatan (County of) VA	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 3,778,662	\$ 3,327,692	\$ 3,375,689	\$ 3,380,122	\$ 3,360,969
Full Value Per Capita	\$ 134,005	\$ 118,381	\$ 118,887	\$ 118,805	\$ 119,838
Median Family Income (% of US Median)	129.4%	137.3%	137.3%	137.3%	137.3%
Finances					
Operating Revenue (\$000)	\$ 66,336	\$ 68,486	\$ 67,411	\$ 69,671	\$ 72,091
Fund Balance as a % of Revenues	16.8%	19.3%	18.5%	19.9%	20.4%
Cash Balance as a % of Revenues	18.9%	22.1%	23.9%	23.0%	23.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 84,444	\$ 78,686	\$ 74,717	\$ 71,059	\$ 60,207
Net Direct Debt / Operating Revenues (x)	1.3x	1.1x	1.1x	1.0x	0.8x
Net Direct Debt / Full Value (%)	2.2%	2.4%	2.2%	2.1%	1.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.7x	1.0x	1.1x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.5%	2.1%	2.2%	2.6%

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Local economy continues to grow at a moderate pace

Powhatan's \$3 billion tax base continues to demonstrate resiliency with ongoing diversity in the regional economy. The local economy benefits strongly from close proximity to Richmond. The County has several direct connections to Richmond, including route 60 and Route 288. Located 25 miles southwest of the city, much of the county remains rural and residential in nature and management reports a number of ongoing residential and mixed use projects in various stages from zoning, planning, to construction including 7 high-end residential developments. Growth also continues in the county's industrial and commercial base primarily at Oakridge Industrial Park, a 100 acre commercial/light industrial park with a diverse tenant base including PIE tech's 17,000 square foot corporate headquarters and SanAir Technologies.

Income levels remain well above Commonwealth medians and approximate national medians with median family income at 137% of the US. The county's unemployment rate of 3.9% remains well below the state and the nation. Population growth has been steady averaging just under 3% over the past decade.

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 over 25% over the last five fiscal years. Officials credit moderate revenue growth coupled with expenditure controls, with 11.5% revenue growth, primarily related to property tax receipts and growth in local taxes, from fiscal 2011 through fiscal 2015 while expenditures grew only 2.9% over the same time period.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

The fiscal 2016 and 2017 budgets are structurally balanced with no tax increase and no use of fund balance. Management reports revenues and expenditures trending better than budget and expects to transfer \$2.9 million to the capital fund. 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 continues to grow totaling \$16.9 million or 23.4% of 2015 Operating Fund revenues.

Debt and Pensions: Elevated debt profile expected to remain manageable given comprehensive financial policies and forward looking capital planning

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 of 3.2% of full valuation (post-issuance) remains below the county's policy limit of 4%. The county's multi-year Capital Improvement Plan (CIP) totals a manageable \$70 million with no near term additional debt issuance planned over the next 5 years.

Despite an elevated debt burden, the county's debt remains affordable accounting for an average of 10.4% of expenditures in fiscal 2015 and expected to remain between 12%-15% over the capital planning period. The projected pay out ratio is 47.8% in fiscal 2017 and will exceed the county's policy of 50% by fiscal 2018.

DEBT STRUCTURE

Amortization of principal is average with a projected pay out ratio of 47.8% in ten years. In fiscal 2017 the county increased its amortization policy to 50% by the end of the 5 year capital planning window.

DEBT-RELATED DERIVATIVES

Powhatan is not party to any derivative agreements.

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 \$109 million or a below-average 1.52 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.

Powhatan funds Other Post-Employment Benefits (OPEB) on a pay-go basis. The county's actuarial accrued liability as of June 30, 2014 was \$1.4 million, the school board's actuarial accrued liability totaled \$14.5 million for the same time period. Total fixed costs (debt service, pension ARC, and OPEB) comprised a manageable 16.6% of fiscal 2015 expenditures.

Management and Governance

Powhatan County continues to benefit from a sound and experienced management team. The county remains in compliance with its 15% unassigned fund balance policy and appropriates annual operating surplus to the capital reserve fund and most recently the school board's capital reserve fund, providing additional financial flexibility for pay-go capital spending. Additionally, the financial position should remain strong given a commitment to forward looking, conservative budget management through 5 year financial projections.

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.

Legal Security: Adequate protections for bondholders; non-appropriation risk mitigated by project essentiality

The Series 2016 Bonds are secured by the county's pledge to annually budget and appropriate sufficient funds to make rental payments for debt service requirements, as well as a first lien pledge on certain financed assets. The pledged asset is the county's existing Junior High School facility which will, upon completion, be replaced by the new Middle School facility creating a strong overall loan to value ratio. The essential nature of the project (a middle school facility) and pledged asset somewhat mitigates the risk of non-appropriation by the county, and other legal provisions adequately protect bond holders.

Use of Proceeds

Approximately \$14 million in new money proceeds will provide funding for a public safety capital projects including a public safety radio system and courthouse expansion. Approximately \$40.5 million in proceeds will fund schools projects primarily related to the Powhatan County Junior High School renovations and replacement.

Obligor Profile

Powhatan County is located in the Richmond MSA area of Virginia with a diversifying local economy. The county has a population of 28,046.

Methodology

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

Ratings

Exhibit 2

Powhatan (County of) VA

Issue	Rating
Lease Revenue Bonds (County of Powhatan, Virginia Capital Projects), Series 2016	Aa3
Rating Type	Underlying LT
Sale Amount	\$54,500,000
Expected Sale Date	07/05/2016
Rating Description	Lease Rental: Appropriation

Source: Moody's Investors Service

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