

RatingsDirect®

Summary:

Powhatan County Economic Development Authority, Virginia Powhatan County; Appropriations; General Obligation

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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Credit Profile

Powhatan Cnty GO

Long Term Rating

AA+/Stable

Upgraded

Powhatan Cnty Econ Dev Auth, Virginia

Powhatan Cnty, Virginia

Powhatan Cnty Econ Dev Auth (Powhatan Cnty) lse rev ser 2007

Unenhanced Rating

AA(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term rating on Powhatan County, Va.'s general obligation (GO) debt two notches to 'AA+' from 'AA-' and raised its long-term rating on the Powhatan County Economic Development Authority's lease revenue bonds two notches to 'AA' from 'A+', based on its local GO criteria released Sept. 12, 2013. The outlook is stable.

The 'AA+' long-term rating reflects our assessment of the following factors, including the county's:

- Strong economy as it is primarily a rural, residential community that participates in the broad and diverse Richmond metropolitan statistical area (MSA);
- Strong management conditions with what we consider "good" financial policies and practices, based on our Financial Management Assessment (FMA) methodology;
- Very strong budgetary flexibility with a history of available reserves above 20% of expenditures;
- Strong budgetary performance with a positive general fund result for fiscal 2013;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Very weak debt and contingent liabilities position, which includes overall net debt at less than 3% of market value.

Strong economy

Powhatan County, with a population estimate of 28,377, is in the lower Piedmont area, adjacent to Chesterfield County and approximately 30 miles west of downtown Richmond. The county has long been recognized as an agricultural area, but over the past two decades, it has experienced significant economic development. Much of the development--primarily commercial--has occurred mainly along the growing Route 60 corridor, near the Chesterfield County line. County residents benefit from the availability of several highways, including Routes 60 and 288, which

provide direct access to the broad and diverse Richmond MSA. County unemployment averaged 4.9% in 2013, which compared favorably to that of the commonwealth and nation. Projected per capita effective buying income is 93% of the national level.

The county's assessed value (AV) is primarily residential and has remained relatively flat at \$3.3 billion for fiscal 2013, with corresponding market value per capita very strong at about \$117,000. The county's property tax base is very diverse, as the 10 leading taxpayers account for less than 2% of total AV.

Strong management conditions

Standard & Poor's considers Powhatan County's financial management practices "good" under its FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them.

Very strong budgetary flexibility

In our opinion, budgetary flexibility is very strong. Over the past three fiscal years, the county has maintained available reserves above 20% of expenditures with a slight decline in fiscal 2013 to \$12.5 million, or a very strong 27% of expenditures, due to one-time expenditures related to capital projects. We expect the county will continue to use reserves for capital improvements as needed, while maintaining its very strong reserve position.

Strong budgetary performance

We consider the county's budgetary performance strong. Operational results for 2013 were a positive 1.7% of expenditures in the general fund and 1.3% of expenditures for total governmental funds; this includes adjustments for regular transfer from the general fund to support enterprise operations. We expect budgetary performance to remain strong as the county's preliminary fiscal 2014 projections suggest revenues will exceed expenditures. The fiscal 2015 budget is adopted and structurally balanced without the use of reserves.

Very strong liquidity

Powhatan County has a very strong liquidity position, with total government available cash at 29% of total governmental fund expenditures and about 2x debt services. We believe the county has strong access to external liquidity, having issued GO bonds within the past 10 years.

In 2010, the Powhatan County Economic Development Authority entered into a private bank loan (lease revenue bond) for \$5.3 million. The interest rate on the loan is fixed at 3.51% until it resets on Aug. 1, 2025, with no tender option. The note matures in 2030. We believe this agreement presents a contingent liquidity risk because the banks have the right to accelerate repayment of principal if any events of default are triggered; this would increase annual debt service payments by more than 20%.

Very weak debt and contingent liability profile

The debt and contingent liability profile is very weak, with net direct debt 184% of revenue and with total governmental fund debt service 15% of total governmental fund expenditures. The county's debt profile improves when considering overall net debt is less than 3% of market value. Amortization of principal is average, with 52% to be retired within 10 years.

Powhatan County participates in the Virginia State Retirement System and contributed its full annual required

contribution of \$1.1 million in 2013. As of its 2012 valuation, the county's cost-sharing portion of the system was about 67% funded. The county also provides other postemployment benefits (OPEBs) in the form of health insurance. The county contributed \$19,000 in fiscal 2013 on a pay-as-you-go basis. As of its 2012 valuation, the OPEB plan had an unfunded liability of \$931,000. In fiscal 2013, the combined pension and OPEB payments represented a manageable 2% of total governmental expenditures.

Very strong institutional framework

We consider the Institutional Framework score for Virginia counties very strong.

Outlook

The stable outlook reflects Standard & Poor's expectation that Powhatan County will continue to adjust its budget to maintain structural balance while maintaining its very strong reserves. The underlying property wealth provides rating stability, as does access to the Richmond MSA.

Upward rating potential is somewhat limited by the county's very weak debt profile and current economic factors. However, should operating performance weaken along with reserves, we may lower the rating. We do not anticipate changing the rating within the two-year outlook horizon.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 8, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Standard & Poor's Assigns Industry Risk Assessments To 38 Nonfinancial Corporate Industries, Nov. 20, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Institutional Framework Overview: Virginia Local Governments

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