S&P Global
Ratings

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Summary:

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

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Credit Profile		
US$55.075 mil lse rev bnds (Powhatan Cnty) (County Of Powhatan, Virginia Capital Projs) ser 2016 due 10/15/2037		
Long Term Rating	AA/Stable	New
Powhatan Cnty GO		
Long Term Rating	AA+/Stable	Affirmed
Powhatan Cnty Econ Dev Auth, Virginia		
Powhatan Cnty, Virginia		
Powhatan Cnty Econ Dev Auth (Powhatan Cnty) approp		
Long Term Rating	AA/Stable	Affirmed
Powhatan Cnty Econ Dev Auth (Powhatan Cnty) lse rev ser 2007		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA' rating and stable outlook to Powhatan County Economic Development Authority, Va.'s series 2016 lease revenue refunding bonds, issued for and supported by Powhatan County.

At the same time, S&P Global Ratings affirmed its 'AA+' rating on the county's general obligation (GO) debt outstanding and its 'AA' rating on the county's appropriation debt outstanding. The outlook is stable.

The county's GO bonds are secured by a full faith and credit pledge, including levying an unlimited ad valorem tax on the county's assessed value (AV).

The 'AA' rating on the series 2016 lease revenue refunding bonds reflects our view of:

- The general creditworthiness of Powhatan County; and
- The security of basic rent payments by the county, subject to annual appropriation by county council.

We understand that proceeds from the bond sale will be used to fund various county projects. The series 2016 lease revenue bonds are secured by a covenant and pledge by Powhatan County to make annual rent payments to allow the authority to meet annual debt service payments on the lease revenue bonds. Pursuant to the financing lease, the county has directed the county administrator to include a request for annual debt service payments for these bonds, subject to annual appropriation, in each annual county budget. The authority's obligation to make debt service payments upon the receipt of annual appropriations is absolute and unconditional. Under the indenture of trust, the authority has assigned all annual base rent payments to the trustee. The bonds will also be secured by a deed of trust granting a mortgage on the leased property to the trustee.

Factors supporting our assessment of the county's general creditworthiness include:

- Strong economy that is primarily a rural, residential community that participates in the broad and diverse Richmond, Va., metropolitan statistical area (MSA);
- Strong budgetary performance, with balanced operating results in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 29% of operating expenditures, and with available reserves above 27% in each of the past three fiscal years;
- Very strong liquidity, with total government available cash at 35.3% of total governmental fund expenditures and 2.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Very weak debt and contingent liability position, with debt service carrying charges at 13.6% of expenditures and net direct debt that is 264.4% of total governmental fund revenue; and
- Very strong institutional framework score.

Strong economy

We consider the county's economy strong. Powhatan County, with an estimated population of 28,522, is located in the Richmond, Va. MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 105.2% of the national level and per capita market value of $125,597. Overall, the county's market value has grown by 6.6% over the past year to $3.6 billion in 2016. The county unemployment rate was 3.9% in 2015.

Powhatan County is located in the lower Piedmont area, adjacent to Chesterfield County and approximately 30 miles west of downtown Richmond. The county has long been recognized as a residential and 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.

The county's market value hit a high of $4.1 billion in fiscal 2009 before declining by a combined 18.5% over the next three years to $3.3 billion in fiscal 2012. Since then, Powhatan County's market value has stabilized and then increased to $3.6 billion for fiscal 2016. In addition, the county's property tax base is very diverse, in our view, as the 10 leading taxpayers account for just 2% of total AV.

Strong budgetary performance

Powhatan County's budgetary performance is strong in our opinion. The county had balanced operating results of 0.5% of expenditures in the general fund and of 0.3% across all governmental funds in fiscal 2015.

General fund operating results for 2015 resulted in an $864,000 surplus due primarily to conservative budgeting. In addition, total governmental revenues and expenses were balanced.

The fiscal 2016 general fund budget was structurally balanced at about $47.5 million and the county maintained a tax rate of 90 cents for the year. Management indicates that for fiscal 2016, reserves are expected to increase by about $1.0 million, despite a transfer of $2.9 million to the capital projects fund from the general fund.

For fiscal 2017, we understand that the budget is balanced at $50.9 million without the use of reserves, or a change in the tax rate, and that management expects to end the year without a material change to reserves. As such, we expect budgetary performance to remain strong.

Very strong budgetary flexibility

Powhatan County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 29% of operating expenditures, or $14.7 million.

Over the past three fiscal years, the county has maintained available reserves above 27% of general fund expenditures.

We understand that management expects to increase reserves in fiscal 2016 by about $1 million. As such, at the end of fiscal 2016, we expect the county to maintain available reserves equal to roughly 30% of operating expenses.

For fiscal 2017, we understand that the budget is balanced without the use of reserves and that management expects to end the year without a material change to reserves.

Very strong liquidity

In our opinion, Powhatan County's liquidity is very strong, with total government available cash at 35.3% of total governmental fund expenditures and 2.6x governmental debt service in 2015. In our view, the county has strong access to external liquidity if necessary.

We believe Powhatan County has strong access to external liquidity given its history of issuing GO bonds and appropriation debt within the past 10 years.

The county solely invests in the Virginia state non-arbitrage program and local government investment pool programs.

In 2010, the Powhatan County Economic Development Authority entered into a private bank loan (lease revenue bond) for $5.3 million. In fiscal 2015, the county issued lease revenue bonds refunding this privately placed debt and in so doing, the county locked in a fixed interest rate on these bonds through final maturity in 2030.

Very strong management

S&P Global Ratings revised the county's FMA score to "strong" from "good" based on the county's implementation of formalized five-year, long-term financial projections that management indicates will continue to be reviewed annually.

We view the county's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Management looks at two years of historical performance and current-year finances to arrive at revenue and expenditure assumptions for the following budget year. Once adopted, the finance director provides bi-annual updates on budgeted figures compared to actual performance to the county board, and it can amend the budget, as necessary. Powhatan County has a formal five-year capital plan that it updates annually; the plan is included in the county administrator's proposed budget. In addition, Powhatan County formalized five-year financial projections in 2015 that will now be updated on an annual basis. The formal debt management policy includes debt ratios that management monitors annually, in conjunction with the budgeting process and debt issuance.

The county maintains a formal reserve policy that mandates the undesignated fund balance at each fiscal year-end be at least 15% of the county's total annual operating budget; the county is now in compliance with its recently increased policy, up from 10%. Powhatan County's investment policy requires the county to invest its funds according to commonwealth law. The county solely invests in the Virginia state non-arbitrage program and local government investment pool programs.

Very weak debt and contingent liability profile

In our view, Powhatan County's debt and contingent liability profile is very weak. Total governmental fund debt service is 13.6% of total governmental fund expenditures, and net direct debt, after accounting for the 2016 lease revenue bonds, is 264.4% of total governmental fund revenue.

Following this issuance, we estimate the county's overall net debt as a percent of market value increases to 3.8%. Amortization of principal is average, with nearly half of principal to be retired within 10 years.

The county's five-year capital improvement plan totals $80.1 million and will be funded primarily through debt (85%) with the remaining portion funded primarily through general fund transfers.

Powhatan County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 1.8% of total governmental fund expenditures in 2015. The county made its full annual required pension contribution in 2015.

The county participates in the Virginia State Retirement System, each year contributing the actuarially determined contribution. In fiscal 2015, the county's pension contributions totaled $1.1 million. Powhatan County's net pension liability totals $2.5 million, assuming a 7.0% discount rate. The county also provides OPEB in the form of health insurance and contributed $30,000 in fiscal 2015 on a pay-as-you-go basis. As of its 2014 valuation, the OPEB plan had an actuarial accrued liability of $1.5 million.

Very strong institutional framework

The institutional framework score for Virginia counties is very strong.

Outlook

The stable outlook reflects S&P Global Ratings' 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. As such, we do not expect to change the rating within the two-year outlook horizon.

Upward scenario

Upward rating potential is somewhat limited by the county's current economic factors; however, if Powhatan County's economic metrics improve to levels more commensurate with higher rated counties, we could raise the rating.

Downward scenario

Should operating performance significantly and unexpectedly weaken along with reserves, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Related Research

- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Assessing Credit Quality By The Weakest Link, Feb. 13, 2012
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2015 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.