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Summary:

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

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Credit Profile		
US$23.9 mil lease rev rfdg bnds (Powhatan Cnty) ser 2015 due 09/15/2027		
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) lse rev ser 2007		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and stable outlook to Powhatan County Economic Development Authority, Va.'s series 2015 lease revenue refunding bonds, issued for and supported by Powhatan County. At the same time, Standard & Poor's affirmed its 'AA+' rating on the county's general obligation (GO) debt outstanding and affirmed the 'AA' rating on the county's appropriation debt outstanding. The outlook is stable.

The 'AA' rating on the series 2015 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 sale will be used to refund the authority's series 2007 and 2010 lease revenue bonds. The series 2015 leave 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.

Our view of the county's general creditworthiness includes the county's:

- Strong economy that is primarily a rural, residential community that participates in the broad and diverse Richmond, Va., 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 27% of expenditures in each of the past three fiscal years;
- Strong budgetary performance with a positive general fund result for fiscal 2014;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Weak debt and contingent liabilities position, which includes net direct debt equal to 184% of revenue and with total governmental fund debt service at 15% of expenditures; and
- Very strong institutional framework.

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 just 4.9% in 2013, which compared favorably to that of the commonwealth and nation. In addition, as of January 2015, the county's unemployment rate stood at a very low 4.3%. Projected per capita effective buying income is 94.4% of the national level.

The county's assessed value (AV) is primarily residential and has remained relatively flat at $3.38 billion for fiscal 2014, with corresponding market value per capita very strong at about $118,800. 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 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 27% of expenditures. Powhatan County ended fiscal 2014 with a $1.4 million operating surplus, which increased available general fund reserves to $13.9 million, or a very strong 29.4% of expenditures.

We understand that management expects to draw down reserves in fiscal 2015 by about $465,000 due to the use of $1.2 million in reserves for one-time capital purposes. Operationally, management reports that fiscal 2015 has been another good year with revenues coming in at about $750,000 above budget. 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. General fund operating results for 2014 resulted in a $1.4 million surplus, equal to 3% of expenditures. In addition, the county generated a 3.1% total governmental funds surplus in fiscal 2014; 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 2015 projections suggest operating revenues will exceed expenditures by about $750,000. In addition, we understand that management expects an operationally balanced fiscal 2016 budget.

Very strong liquidity

Powhatan County has a very strong liquidity position, with total government available cash at 32.2% of total governmental fund expenditures and about 2.3x debt services. We believe the county has strong access to external liquidity, having issued GO bonds and appropriation debt 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 was fixed at 3.51% until it reset on Aug. 1, 2025, with no tender option. Following this issuance of the series 2015 lease revenue refunding bonds, the county will refund the series 2010 lease revenue bonds and in so doing, the county will lock in a fixed interest rate through final maturity in 2030.

Weak debt and contingent liability profile

The debt and contingent liability profile is weak, in our view, with net direct debt 175% of revenue and with total governmental fund debt service 14% 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 $1.0 million in 2014, or about 1.8% of governmental expenditures. The county also provides other postemployment benefits (OPEB) in the form of health insurance. The county contributed $27,000 in fiscal 2014 on a pay-as-you-go basis. As of its 2013 valuation, the OPEB plan had an unfunded liability of $1.5 million. In fiscal 2014, 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 current economic factors. Should operating performance significantly and unexpected weaken along with reserves, we may lower the rating. However, at this time, we do not expect to change 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

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Virginia Local Governments

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