

Fitch Rates Chesterfield County, VA, \$61MM GOs 'AAA'; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has assigned the following ratings to Chesterfield County (the county), Virginia's general obligation (GO) bonds:

--\$14.6 million GO public improvement bonds, series A of 2014;

--\$46.7 million GO public improvement refunding bonds, series B of 2014.

The bonds are expected to price on June 10 via competition. The bonds will finance various public improvement projects and refund certain outstanding GO debt.

In addition, Fitch affirms the following outstanding bonds:

--\$372.7 million GO bonds at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The GO bonds are general obligations secured by the full faith, credit and unlimited taxing power of the county.

KEY RATING DRIVERS

DIVERSE ECONOMIC BASE: Ample land supply and favorable location within the

Richmond metropolitan area show excellent prospects for continued development and expansion. Solid economic indicators include stable unemployment rates below the national average and above-average wealth levels.

STRONG FINANCIAL PERFORMANCE: Sustained excellence in financial management and planning has resulted in consistently positive financial operations and healthy reserve levels.

LOW DEBT BURDEN, RETIREE COSTS: Overall debt levels are low, attributable in part to a solid history of pay-as-you-go capital financing. Retiree costs do not pressure the credit.

RATING SENSITIVITIES

NOTABLE CHANGE TO CREDIT PROFILE: The rating is sensitive to shifts in fundamental credit characteristics including the county's strong financial management practices. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE

Chesterfield County (2013 population of 327,745) is located southwest of Richmond, the state's capital. Annual population growth since the last census has been at an above-average 2%.

VIBRANT EMPLOYMENT BASE

The county serves as an integral part of the Commonwealth's economically vital capital region. The county's highly skilled and well-educated labor force not only fills the area's government and professional positions but also meet the demands of its own diverse and growing employment base. Major employers within the county include high-tech

synthetic fibers manufacturing, retail food distribution, and health care.

SOLID ECONOMY; MANAGEABLE LONG-TERM GROWTH EXPECTED

Population growth since 2000, although more moderate than in the 1980s and 1990s, is double the Commonwealth's rate, as good schools, new housing and jobs continue to attract residents. Over the past decade, the county's employment rate has grown 1.2% annually on average, nearly triple the nation's, although slightly below the 1.5% average annual growth in the labor force.

This relationship has reversed over the past year, when the 4.1% employment growth exceeded the 3.6% labor force increase. Unemployment has remained consistently below that of the nation, as evidenced by the 5.2% rate in March of 2014. Wealth metrics are well-above national levels.

Fitch believes that tax base valuations will reflect the area's desirability for residential and commercial development. Assessed valuation appears to be showing signs of recovery from the average annual decline of 1.8% over the past four years. County officials noted that existing home values have increased for the first time since the recession and there has been a notable increase in permits for new home construction. Fitch accepts the reasonableness of the county's 3% annual residential tax base growth projection over the intermediate term given the recent price increases.

AMPLE FINANCIAL FLEXIBILITY

Conservative budgeting and strong reserves underscore the county's sound financial management and inherent financial flexibility. Reserves are consistently well-above the county's fund balance target of 8% of spending. The county has attained positive operating margins without resorting to service reductions or other severe spending cuts, providing notable flexibility should it be required.

Fiscal 2013 ended with a slight fund balance draw-down (equivalent to 0.6% of

spending) attributable to funding one-time projects. Operating margins prior to fund balance use for capital have been positive for over a decade. The unrestricted fund balance (the sum of assigned, unassigned and undesignated under GASB 54) equals a robust 36.3% of spending.

The fiscal 2014 general fund budget is performing well. Revenues collections have been favorable to the budget. Actual expenditures are below budget due to prudent management; the county has not been required to enact targeted spending reductions.

The \$766 million fiscal 2015 budget, representing a 4.2% increase from the prior year, includes increased funding for public safety and capital replacement expenses. A one-cent increase in the millage will be utilized primarily to reduce classroom size.

The adopted budget assumes an increase to fund balance. Although multi-year financial forecasts show draw-downs in reserves, county officials have indicated that these calculations are meant to reflect what could occur if past prudent financial practices are not followed. Fitch believes that favorable past financial performance bodes well for realizing positive results in the coming years.

LOW DEBT BURDEN

Overall debt levels are low at \$1,554 per capita and 1.4% of market value. Principal amortization is rapid, with 74.5% retired within 10 years, even with elevated refunding savings in fiscal years 2016 and 2017. The county plans to issue debt annually, starting in fiscal 2015. Outstanding debt is primarily fixed rate, and the letters of credit for the variable rate debt were recently renewed.

The fiscal 2015-2019 capital improvement plan (CIP) includes \$483 million of general government and school projects, of which \$240 million will be debt financed. Planned government and school capital projects and debt issuances increased substantially from the \$320 million and \$169 million, respectively, incorporated in the fiscal 2013 - 2017 CIP.

County voters last year approved \$353 million of additional GO debt issuance, consisting of \$304 million for school construction and renovation and \$49 million for replacing the emergency communications system. Given the county's willingness to delay issuance in order to comply with its debt targets, Fitch does not believe the county's additional issuance plans will affect credit quality.

The county has returned to its pay-go target of 5% of spending after decreasing the target to 4.5% in response to a weakened economy. The county's fiscal 2015 adopted pay-as-you-go capital funding totals \$23.8 million. In addition, the county has a pay-go reserve equal to \$8.3 million that it had amassed to compensate for the 0.5% target reduction. Fitch considers pay-go contributions an area of flexibility.

WELL-MANAGED LONG-TERM OBLIGATIONS

Pension and other post-employment benefit (OPEB) contributions are low as a percentage of government spending. Pension contributions to the Virginia Retirement System (VRS) as well as the county's supplemental retirement system equaled \$28.2 million or 3.8% of governmental spending. The county's fiscal 2015 budget includes an additional \$8.6 million transfer to the schools to achieve the requirements of the schools' VRS restoration plan. The county's portion of the VRS is funded at about 70% using a 7% investment rate of return, a level that Fitch considers just satisfactory.

The county has attained full funding of its OPEB contribution and since fiscal 2008 has often exceeded its funding requirements. The fiscal 2013 OPEB annual required contribution equaled a modest 1.1% of government spending.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, and the National Association of Realtors.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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