Lynchburg, Virginia

General Obligation Bonds
New Issue Report

Ratings

New Issue

Public Improvement and Refunding Bonds, Series 2016	AA+
Outstanding Debt	
General Obligation Bonds	AA+

Rating Outlook

Stable

Related Research

Fitch Rates Lynchburg VA's GOs 'AA+'; Outlook Stable (April 2016)

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New Issue Details

Sale Information: $49,600,000 Public Improvement and Refunding Bonds, Series 2016, expected to sell competitively on April 27.

Security: Payable by Lynchburg's pledge of its full faith, credit and taxing power.

Purpose: Fund various public improvement projects and to refund and defease certain outstanding GO bonds of the city.

Final Maturity: Dec. 1, 2038.

Key Rating Drivers

Strong Revenue and Expenditure Control: The rating reflects the city's strong control of revenues and expenditures and strong budget management, which produced healthy reserves. The city's long-term liability burden is manageable.

Economic Resource Base: The city of Lynchburg is located along the James River in central Virginia, roughly 50 miles east of Roanoke. The city has exhibited steady growth in population at an average annual rate of 1.5% since the 2000 U.S. Census, which is faster than that of the state and the nation; the 2014 population is estimated at 79,047.

Revenue Framework: 'aaa' factor assessment. The city's revenue stream is diverse, and its largest source, property taxes, has no legal limit. General fund revenues have historically grown on par with the national economy and Fitch expects that they will continue on this path.

Expenditure Framework: 'aaa' factor assessment. The city proactively manages budgets and maintains ample cost-cutting ability.

Long-Term Liability Burden: 'aa' factor assessment. The liability burden is moderate and expected to remain so. The city's liabilities are primarily in the form of direct debt, which is manageable due to prudent debt policies including the wide use of pay-as-you-go capital funding.

Operating Performance: 'aaa' factor assessment. The city's healthy financial reserves are well in excess of their 10% policy and, in conjunction with the city's superior ability to adjust revenues and spending, leave the city very well positioned to address cyclical declines.

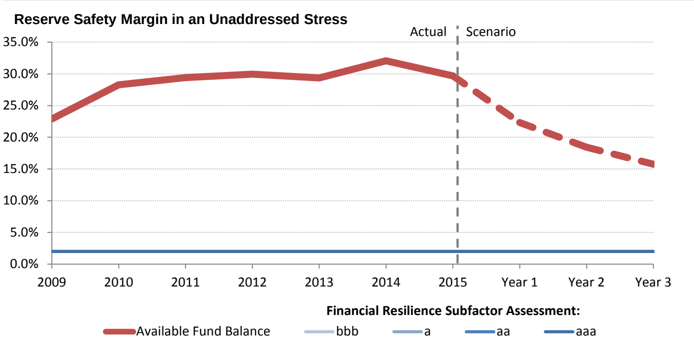
Rating Sensitivities

Reserves Provide Sound Financial Cushion: The rating is sensitive to shifts in fundamental credit characteristics, including the county's strong financial management practices and healthy reserve levels. The Stable Rating Outlook reflects Fitch's expectation that such shifts are unlikely.

Lynchburg (VA)

Scenario Analysis

v. 1.04 2016/03/31



Analyst Interpretation of Scenario Results:

The city’s financial resilience comes from a combination of expenditure cutting and revenue raising flexibility and maintaining a strong reserve cushion. An unaddressed moderate economic decline scenario shows an operating reserve cushion that Fitch judges to be consistent with an ‘aaa’ financial resilience assessment. Moreover, Fitch expects that in the event of such an actual revenue decline of this magnitude the city would maintain reserves at a significantly higher level through active expenditure management.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	-1.0%	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	-1.0%	2.0%	3.2%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2009	2010	2011	2012	2013	2014	2015	Year 1	Year 2	Year 3
Total Revenues	155,371	157,124	159,184	162,666	169,308	173,619	176,616	174,849	178,374	184,149
% Change in Revenues	-	1.1%	1.3%	2.2%	4.1%	2.5%	1.7%	-1.0%	2.0%	3.2%
Total Expenditures	150,534	152,522	149,627	149,852	158,463	158,787	167,290	170,636	174,049	177,530
% Change in Expenditures	-	1.3%	-1.9%	0.2%	5.7%	0.2%	5.4%	2.0%	2.0%	2.0%
Transfers In and Other Sources	6,450	14,017	17,152	283	4,148	62	23,561	23,325	23,795	24,566
Transfers Out and Other Uses	8,674	10,054	26,589	11,695	13,982	10,162	34,021	34,702	35,396	36,103
Net Transfers	-2,224	3,963	-9,437	-11,412	-9,834	-10,100	-10,461	-11,377	-11,600	-11,538
Bond Proceeds and Other One-Time Uses	0	5,873	16,419	0	4,130	0	22,648	0	0	0
Net Operating Surplus(+)/Deficit(-) After Transfers	2,613	8,565	120	1,402	1,011	4,732	-1,135	-7,163	-7,275	-4,918
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	1.6%	5.5%	0.1%	0.9%	0.6%	2.8%	-0.6%	-3.5%	-3.5%	-2.3%
Available Fund Balance (General Fund)	36,459	44,287	47,001	48,403	49,414	54,146	53,011	45,848	38,573	33,655
Other Available Funds (Analyst Input)	0	0	0	0	0	0	0	0	0	0
Combined Available Funds Balance (GF + Analyst Input)	36,459	44,287	47,001	48,403	49,414	54,146	53,011	45,848	38,573	33,655
Combined Available Fund Bal. (% of Expend. and Transfers Out)	22.9%	28.3%	29.4%	30.0%	29.4%	32.0%	29.7%	22.3%	18.4%	15.8%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario Analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	4/21/2016
AA+	Revised	Stable	4/30/2010
AA	Assigned	Stable	5/27/2004

Credit Profile

Diversifying Economy

Lynchburg's historically strong manufacturing and distribution base remains important to the local economy, although the city has expanded to become a regional hub for higher education, health services, industrial engineering, and retail activity. Education and health are the largest employment sectors in the city, which includes five higher education institutions.

General Fund Financial Summary

($000, Audited Fiscal Years Ended June 30)

	2013	2014	2015
Property Tax	71,016	74,253	72,473
Sales Tax	13,590	13,842	21,027
Other Tax	37,831	37,142	34,270
Total Tax	**122,437**	**125,237**	**127,771**
Licenses & Permits	991	1,068	1,000
Fines & Forfeits	726	634	637
Charges For Services	9,950	10,556	10,751
Intergovernmental	33,669	34,333	34,604
Other Revenue	1,535	1,791	1,853
Total General Fund Revenues	**169,308**	**173,619**	**176,616**
General Government	21,058	19,163	20,995
Public Safety	42,026	42,455	44,421
Public Works	15,548	16,403	14,601
Health & Social Services	18,905	19,184	19,826
Culture & Recreation	7,561	7,480	8,558
Educational	35,308	35,709	36,390
Debt Service	14,553	14,109	17,680
Other	3,504	4,284	4,819
Total General Fund Expenditures	**158,463**	**158,787**	**167,290**
Operating Surplus	10,845	14,832	9,326
Transfers In	18	5	23,148
Other Sources	4,130	57	412
Transfers Out	9,852	10,162	34,021
Other Uses	4,130	0	0
Net Transfers & Other	(9,834)	(10,100)	(10,461)
Net Operating Surplus/(Deficit) After Transfers	**1,011**	**4,732**	**(1,135)**
Total Fund Balance	49,414	54,146	53,011
Total Fund Balance as % of Spending (Adjusted for Bond Proceeds and Other One-Time Uses)	29.4	32.1	29.7
Unrestricted Fund Balance	49,414	54,146	53,011
Unrestricted Fund Balance as % of Spending (Adjusted for Bond Proceeds and Other One-Time Uses)	29.4	32.1	29.7

Notes: Unreserved Fund Balance: Pre GASB54. Unrestricted Fund Balance: Reflects GASB 54 Classifications: Sum of Committed, Assigned, and Unassigned. Numbers may not add due to rounding.
Source: Lynchburg, Lumesis, and Fitch.

Applicable Criteria

U.S. Tax-Supported Rating Criteria (April 2016)

Growth potential for the higher education sector is promising at the largest institution, Liberty University. The large number of students in the city contributes to the below-average wealth levels; median household income is 76% of the nation and just 61% of the state. The individual poverty rate is high at 25%.

Revenue Framework

The city's positive revenue framework assessment benefits from its diverse revenue stream, which includes a mix of property, sales and meals taxes and other non-tax revenue. Property taxes are the most significant source of general fund revenue at 42% and have grown on pace with total general fund revenues, producing year-over-year increases in all but the first year since the recession began.

General fund revenues have grown ahead of inflation and on par with national GDP over the last ten years without significant policy action. There is no limit to the property tax rate in the commonwealth of Virginia.

Expenditure Framework

The city maintains healthy expenditure flexibility with moderate spending associated with fixed carrying costs. School spending is the largest expenditure item for the city with enrollment numbers tracking similar to population growth. Spending is increasing generally along the lines of revenue growth and economic expansion.

The city maintains a significant level of expenditure flexibility due to the favorable workforce environment that prohibits labor contracts and gives management independent control of compensation and work rules. Carrying costs associated with debt service, actuarially determined pension payments and OPEB actual contributions total a manageable 13.6% of governmental spending.

Long-Term Liability Burden

The city’s overall liability burden is moderate at 12.5% of personal income, primarily driven by debt, but also includes the unfunded portion of the pension.

Debt levels are moderately low with overall debt totaling 3.3% of full market value. Debt amortization is average with 53% scheduled for retirement within 10 years. Debt levels are not expected to increase in the near term as minimal new debt issuance is planned in the five year capital improvement plan (CIP) through 2020 for government and school projects and includes significant pay-as-you-go funding.

All city employees participate in the Virginia Retirement System (VRS), an agent and cost-sharing multiple employer-defined benefit pension plan administered by the commonwealth. The city's portion of the VRS is funded at 69% based on the most recent actuarial report, which makes reasonable assumptions including a 7% investment rate of return. The city makes the full actuarially determined contribution each year.

Debt Statistics

($000, Audited Fiscal Years Ended June 30)

Debt Statistics	
This Issue	49,600
Total Direct Debt — Net of Refunded	271,948
Self-Supporting Debt	77,081
Net Direct Debt	**194,867**
Overlapping Debt	0
Overall Debt	194,867
Debt Ratios	
Net Direct Debt Per Capita[a]	2,456
As % of Market Value[b]	3.3
Net Direct & Overlapping Debt Per Capita[a]	2,456
As % of Market Value[b]	3.3

[a]Population: 79,047 (2014). [b]Market value: $5,959,756,000 (fiscal 2016).
Source: Lynchburg (VA), Lumesis, and Fitch.

Operating Performance

The city's financial resilience comes from a combination of expenditure cutting and revenue raising flexibility and maintaining a strong reserve cushion. For details, see "Scenario Analysis," page 2.

The city practices conservative budgeting and added to reserves throughout the recession without postponing capital spending. Fiscal 2015's use of reserves for one-time capital spending was the first since fiscal 2007. Fitch expects the city to maintain reserves above its fund balance policy.

The city maintains a healthy financial cushion (30% of general fund expenditures and transfers out at fiscal 2015 year-end) that is well in excess of the city's unassigned fund balance policy, which requires reserves of no less than 10% of general fund revenue.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.