STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Lynchburg, Virginia; General Obligation

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Summary:

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Credit Profile		
US$50.0 mil GO bnds ser 2016 due 05/23/2036		
Long Term Rating	AA+/Stable	New
Lynchburg GO		
Long Term Rating	AA+/Stable	Affirmed
Lynchburg GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Lynchburg, Va.'s series 2016 general obligation (GO) public improvement and refunding bonds. At the same time, we affirmed our 'AA+' long-term rating and underlying rating (SPUR) on the city's existing GO debt. The outlook is stable.

A pledge of the city's full faith credit and resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure these bonds.

We understand proceeds from this issue will be used to finance various city capital projects, which include projects for water and sewer purposes, as well as to refund a portion of outstanding GO debt.

The ratings reflect our assessment of the following factors for the city:

- Adequate economy, with projected per capita effective buying income at 74.1% and market value per capita of $76,734, that is gaining advantage from a local stabilizing institutional influence;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with a slight operating deficit, net of transfer, in the general fund but an operating surplus at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 36% of operating expenditures;
- Very strong liquidity, with total government available cash at 32.3% of total governmental fund expenditures and 3.4x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 9.4% of expenditures and net direct debt that is 98.8% of total governmental fund revenue; and
- Very strong institutional framework score.

Adequate economy

We consider Lynchburg's economy adequate. The city, with an estimated population of 78,229, is located in Lynchburg City (Campbell County/Lynchburg combined area). The city benefits, in our view, from a stabilizing

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institutional influence. The city has a projected per capita effective buying income of 74.1% of the national level and per capita market value of $76,734. Overall, the city's market value grew by 1% over the past year to $6 billion in 2015. The city unemployment rate was 5.9% in 2014.

The city anchors the Lynchburg/Campbell County combined metropolitan statistical area (MSA) and is located in the foothills of the Blue Ridge Mountains along the James River in the center of the commonwealth. Lynchburg is the employment and retail base of a four-county region and continues to be an employment hub with a significant number of people commuting in to the city for work. The city is mature, yet a healthy amount of redevelopment and expansion of existing businesses continues. Lynchburg continues to work with the Economic Development Authority (EDA) to promote future growth and redevelopment and has established several new initiatives to achieve these goals, including a local enterprise redevelopment program, and the establishment of a revolving loan fund. Recent economic development projects include: the redevelopment of the historic Virginian Hotel ($25 million investment), and various retail expansions, including the construction of The Fresh Market.

The health care, retail, higher education, and manufacturing sectors anchor the employment base. Leading employers include: Liberty University (8,000 employees), CENTRA Health (5,000+), AREVA (nuclear power, 1,500+), Lynchburg city schools (1,000+) and J.Crew Outfitters (1,000). In addition, within the city's boundaries are five higher education institutions, with Liberty University being the largest. Total enrollment accounts for 31% of Lynchburg's total population and, in our opinion, is a contributing factor to its lower wealth levels. Liberty University, recognized as the nation's largest private non-profit online educator, continues with its sizable campus renovation and expansion project. Construction is expected to continue through 2019, and as a result, the project has spurred additional development, primarily in retail. The city's tax base has remained relatively constant with assessed value (AV) increasing 2.4% since 2011 to $6 billion in 2015. Management expects AV to increase modestly over the next one to two years as the future economic development is added to the tax base.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Lynchburg's fiscal and debt practices are based on a series of comprehensive policies that it adopted in 1999 and updated as necessary through a regular review process. The city uses five-year historical trend analysis, commonwealth and federal estimates and data projections, and economic forecasts to develop its annual revenue and expenditure assumptions. Management monitors the budget through formal processes, and it tracks revenues and expenditures daily and makes quarterly reports on the results to the city council based on adopted policy. Each mid-March, the city's financial management team makes formal recommendations for budget adjustments to the city council based on budgeted numbers compared with actual results.

A six-year capital improvement program (CIP) serves as the basis for annual capital appropriations and debt financing requirements; management updates the CIP annually with identified funding sources. On an informal basis, the city maintains a five-year long-term financial forecast for revenues and expenditures and includes certain assumptions. The city adheres to comprehensive formal debt management policies in planning and addressing its capital needs, including:

- A policy that limits the city's debt service-to-budget to 10% of budgeted general expenditures,
- A limit on total debt to 4.5% of full market value,
- A principal amortization target of 60% over 10 years at the end of the five-year CIP, and
- The city's pay-as-you-go appropriations of at least 10% of the annual CIP.

The city has its own investment policy that it reviews annually with its financial advisor. Reports are made and shared with the city manager on a quarterly basis. However, investment reports are not shared with the council unless requested. The city recently adjusted and strengthened its long-adopted reserve policy, which calls for the maintenance of undesignated general fund balance at 10% of operating revenues.

Strong budgetary performance

Lynchburg's budgetary performance is strong in our opinion. The city had a slight deficit operating result, net of adjustments, in the general fund of 0.7% of expenditures, but a surplus result across all governmental funds of 4.7% in fiscal 2015.

Lynchburg's budgetary performance has been strong overall, in our view, benefitting from conservative budgeting practices. The city has a stable revenue stream with little exposure to volatile revenues. Property taxes accounted for 46% of general fund revenues, rising to over 72% when all local taxes, such as sales and use, meals, and business licenses are included. The city continues its historically conservative budgeting practices and generates surpluses, net of transfers annually, with the exception of fiscal 2015, as the city had increased capital costs relating to the construction of the new high school. Property tax rates have remained relatively unchanged over the past decade, increasing in fiscal 2013 to $1.11/$100 from $1.05/$100 in anticipation of funding school-related capital needs and remaining constant through fiscal 2016. Fiscal 2016, per management, is projected to close with a surplus as revenues are trending above budget while expenditures are on target with budget. The city's fiscal 2017 budget is currently being prepared, and is not expected to use any managed vacancies, so that fund balance should increase.

Very strong budgetary flexibility

Lynchburg's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 36% of operating expenditures, or $64.2 million. The available fund balance includes $49.9 million (27.9% of expenditures) in the general fund and $14.3 million (8% of expenditures) that is outside the general fund but legally available for operations.

Audited fiscal 2015 general fund reserves were $49.9 million or 27.9% of expenditures after adjusting for transfers. In addition, when reserves outside the general fund are included, levels rise to $64.2 million or 36% of expenditures. These reserve levels are well above the city's formal policy of 10%. For fiscal 2016, management is projecting to close with a surplus, keeping reserves in line with prior years. As such, we do not expect the budget flexibility score to change in the near term.

Very strong liquidity

In our opinion, Lynchburg's liquidity is very strong, with total government available cash at 32.3% of total governmental fund expenditures and 3.4x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

In our opinion, the city has strong access to external liquidity, as it has issued GO debt frequently over the past 20 years. The obligor has contingent liquidity risk exposures that we consider manageable at the current rating level. The exposures come from $10 million of debt sold directly to a bank facility. There are no acceleration provisions and the city maintains sufficient liquidity. In addition, the city does not hold any investments we deem aggressive.

Weak debt and contingent liability profile

In our view, Lynchburg's debt and contingent liability profile is weak. Total governmental fund debt service is 9.4% of total governmental fund expenditures, and net direct debt is 98.8% of total governmental fund revenue.

The city plans to issue approximately $23 million of additional debt over the next two years.

Lynchburg's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.5% of total governmental fund expenditures in 2015. Of that amount, 5.7% represented required contributions to pension obligations, and 1.8% represented OPEB payments. The city made its full annual required pension contribution in 2015.

The city participates in the Virginia Retirement System (VRS) and makes 100% of annual required contributions (ARC). The combined ARC pension costs and OPEB pay-as you-go costs for fiscal 2014 totaled 7.5% of expenditures. We do not expect that these costs will increase substantially in the near term.

Very strong institutional framework

The institutional framework score for Virginia is very strong.

Outlook

The stable outlook reflects our view of Lynchburg's consistent financial performance and stable economy, which is supported by very strong budget flexibility, liquidity, and management. We do not expect to change the rating over our two-year outlook horizon, because we believe the city will maintain its very strong financial position and manage its debt burden.

Upside scenario

In our opinion, if the city were to experience significant improvements in overall economic indicators, and have them maintained, with all other factor averages being held constant, we may raise the rating.

Downside scenario

Conversely, if budgetary performance or debt and contingent liability were to decline, placing fiscal pressure on the city, we might lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Institutional Framework Overview: Virginia 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 Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.