

Tax Supported  
New Issue

## Lynchburg, Virginia

**Ratings**

New Issue General Obligation Public Improvement Refunding Bonds, Series 2010	AA+
Outstanding Debt General Obligation Bonds	AA+

**Rating Outlook**

Stable

**Analysts**

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**New Issue Details**

**Sale Information:** \$23,990,000 General Obligation Public Improvement Refunding Bonds, Series 2010, via negotiation during the week of Sept. 27.

**Security:** Full faith and credit of the city; ad valorem taxes authorized for repayment without limit as to rate or amount.

**Purpose:** To advance refund certain outstanding general obligation bonds of the city, excluding the costs of issuance.

**Final Maturity:** 2031.

**Related Research**

For information on Build America Bonds, visit [www.fitchratings.com/BABs](http://www.fitchratings.com/BABs).

**Applicable Criteria**

- *Tax-Supported Rating Criteria, Aug. 16, 2010*
- *U.S. Local Government Tax-Supported Rating Criteria, Dec. 21, 2009*

**Other Research**

- *Danville, Virginia, July 10, 2009*
- *Commonwealth of Virginia, Nov. 11, 2008*

**Rating Rationale**

- Lynchburg's (the city) financial management remains strong, generating healthy reserves while meeting commitments to pay-as-you-go capital financing.
- The city's economic base continues to diversify and grow beyond reliance on manufacturing, with ongoing expansion in its healthcare, higher education, and heavy engineering sectors.
- Below-average income indicators are somewhat attributable to a sizable student population.
- The city's unemployment rate has risen to historically high levels, but other economic indicators remain stable, such as tax collections and tax base growth.
- Debt levels are moderate and amortized at an above-average rate.

**Key Rating Drivers**

- The maintenance of solid financial reserves is key to preserving credit quality.
- Escalating costs associated with the continued implementation of a combined sewer overflow control plan, coupled with high sewer utility rates, may hamper the city's financial flexibility.

**Credit Summary**

The city of Lynchburg is a community of approximately 74,000 residents located in west-central Virginia, 115 miles west of Richmond and 50 miles east of Roanoke. Although manufacturing firms remain important to its economic base, the city has become a regional hub for health services, higher education, industrial engineering (particularly nuclear power related), and retail activity.

Health and educational services now represent a significant share of the economic activity generated by this traditionally manufacturing-driven city. Lynchburg is home to Centra Health, a regional non-profit healthcare provider operating two hospitals and numerous other clinical facilities in the jurisdiction, with almost 1,000 acute- and non-acute-care beds. The city also contains five universities, with a total enrollment of 18,458 (approximately 25% of Lynchburg's total population). Growth potential for the higher education sector is promising, with the largest institution, Liberty University, projecting a doubling of its current enrollment to 24,000 by 2020.

Nuclear power plant engineers are an important part of the city's economic base. Areva, designer, manufacturer, and builder of one-third of the world's nuclear plants, has its North American headquarters in Lynchburg, and Babcock & Wilcox (another major, NYSE-listed nuclear engineering firm) maintains two of its subsidiaries in the city as well. Areva's design for the first new commercial U.S. reactor in over 30 years is currently under review by the Nuclear Regulatory Commission Licensure, and Babcock retains long-term contracts with the Department of Energy and the Nuclear Security Administration.

The impact of the recession on the city has been mixed. The city's tax base has retained its value well through the current housing market disruption. Lynchburg's

## Rating History

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	9/22/10
AA+	Revised	Stable	4/30/10
AA	Assigned	Stable	1/5/93

latest biennial property assessment was conducted in spring of 2009, recording 4.1% growth. However, the city's employment market is seriously stressed by historical standards. The city's unemployment rate grew rapidly throughout the summer, reaching 9.6% in July 2010, the highest since at least 1990 according to the Bureau of Labor Statistics. This is significantly higher than state and Virginia (VA) metro area rates, and although broadly in line with national unemployment figures, Lynchburg's employment market has traditionally outperformed the nation's.

Financial operations in the city remain strong. Audited general fund revenues are largely stable, as property tax income continues to grow, with only marginal softening in non-ad valorem revenues. Management also reports slight revenue growth in unaudited fiscal 2010. Expenditures are well matched with recurring revenues, and generate consistent operating surpluses. The city elects to make pay-as-you-go capital contributions in excess of its reserve policy target (an undesignated fund balance at 10% of general fund revenues), which Fitch Ratings views as a credit positive. These reserves appear higher in audited statements because the city spends down these excess balances in the year following their accrual. Audited unreserved fund balances were a healthy 22.9% of total general fund spending in fiscal 2009.

Overall debt levels are moderate and stable at approximately 2.1% of the city's value (or \$1,645 per capita). Capital needs appear manageable, and the city's five-year capital improvement plan is comprehensive, with a significant portion of equity financing (pay-as-you-go and grant sourced). Management's time horizon is also long term, with capital deposits being budgeted in fiscal 2011 for replacement of a high school in calendar 2018. The city remains under a 1994 Virginia Department of Environmental Quality special consent order to separate its storm water and sanitary sewer systems. The order did not contain fixed dates for fully implementing the Combined Sewer Overflow (CSO) Remedial Plan, but the city's consultant files annual reports to confirm that Lynchburg remains in compliance with the consent order. The last report indicates that 75% of the original overflow points have now been eliminated. The city intends to continue capital investment to eliminate all CSO issues, and keeps its sewer rates among the highest of all VA metro areas to assist in funding this remediation.

## Debt Statistics

(\$000)

This Issue	23,990
Direct Debt	162,184
Self-Supporting	64,576
Net Direct Debt	121,598
Total Overall Debt	121,598

### Debt Ratios

Direct Debt Per Capita (\$) <sup>a</sup>	1,645
As % of Market Value <sup>b</sup>	2.3
Overall Debt Per Capita (\$) <sup>a</sup>	1,645
As % of Market Value <sup>b</sup>	2.3

<sup>a</sup>Population: 73,933 (2009 estimate).

<sup>b</sup>Market value: \$5,382,586,000 (fiscal 2010).

Note: Numbers may not add due to rounding.

**General Fund Financial Summary**

(\$000, Audited Fiscal Years Ended June 30)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Property Tax Revenue	60,191	57,242	63,188	65,186
Other Tax Revenue	29,501	30,757	33,182	32,055
<b>Total Tax Revenue</b>	<b>103,012</b>	<b>102,480</b>	<b>110,637</b>	<b>110,297</b>
License and Permits	1,026	887	850	651
Fines and Forfeits	594	582	587	613
Charges for Services	7,376	7,084	7,198	7,593
Intergovernmental Revenue	30,392	31,312	33,410	33,646
Other Revenue	3,391	3,765	3,760	2,571
<b>General Fund Revenue</b>	<b>145,791</b>	<b>146,110</b>	<b>156,442</b>	<b>155,371</b>
General Government	13,176	14,112	14,562	20,267
Public Safety Expenditures	32,782	34,640	36,704	36,982
Public Works Expenditures	11,802	11,566	11,258	17,209
Culture and Recreation Expenditures	6,927	7,287	7,692	7,795
Debt Service Expenditures	22,746	12,497	13,153	13,275
Other Expenditures	7,386	8,217	8,359	3,730
<b>General Fund Expenditures</b>	<b>140,825</b>	<b>135,314</b>	<b>143,550</b>	<b>150,534</b>
Net Transfers and Other Uses	4,966	10,796	12,892	4,837
<b>Total Fund Balance</b>	<b>36,787</b>	<b>32,777</b>	<b>34,566</b>	<b>37,179</b>
As % of Expenditures, Transfers Out, and Other Uses	25.0	21.8	21.8	23.4
<b>Unreserved Fund Balance</b>	<b>35,907</b>	<b>31,541</b>	<b>32,159</b>	<b>36,459</b>
As % of Expenditures, Transfers Out, and Other Uses	24.4	20.9	20.2	22.9

Note: Numbers may not add due to rounding.

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