

Tax Supported  
New Issue

Lynchburg, Virginia

**Ratings**

New Issues	
General Obligation Public Improvement Bonds, Series 2009A	AA
General Obligation Public Improvement Refunding Bonds, Series 2009B	AA
Outstanding Debt	
General Obligation Bonds	AA

**Rating Outlook**

Stable

**Analysts**

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**New Issue Details**

**Sale Information:** Approximately \$46,085,000 General Obligation Public Improvement Bonds, Series 2009A, and \$7,605,000 General Obligation Public Improvement Refunding Bonds, Series 2009B, July 29 via negotiation.  
**Security:** Full faith and credit and unlimited ad valorem taxing power of the city.  
**Purpose:** Finance the general capital improvement project and refund certain outstanding general obligation bonds.  
**Final Maturity:** Series 2009A — serially from Aug. 1, 2010–2039; series 2009B — serially from Aug. 1, 2010–2018.

**Related Research**

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

**Rating Rationale**

- Lynchburg’s debt burden is expected to remain moderately low given the city’s adherence to prudent debt policies and its limited capital needs.
- The city’s economy, historically concentrated in manufacturing, continues to diversify, transforming into a regional hub for health care, higher education, retail, and engineering.
- Below-average income indicators are somewhat attributable to a sizable student population.
- Strong financial management and conservative budgeting contribute to sound financial performance and reserve levels.

**Key Rating Drivers**

- Escalating costs associated with implementation of a combined sewer overflow control plan coupled with high sewer utility rates may hamper the city’s financial flexibility.
- Diverse commercial development and growth could increase the breadth of the city’s economy.

**Credit Summary**

The ‘AA’ rating reflects the city of Lynchburg’s strong financial management, moderate debt levels, and mature economy. The traditional employment concentration in the manufacturing sector has been diffused by the city’s role as a retail, health care, and education center for the surrounding area. Future debt needs are manageable, and the debt burden should remain moderate given the rapid amortization of outstanding bonds and the availability of user fees to support a portion of the city’s GO bonds.

Located in central Virginia, Lynchburg has effectively dealt with many of the challenges that face historically manufacturing-based economies. Economic diversification emphasizing engineering, education, and health care continues, while significant public and private investment has bolstered development of the city’s downtown and riverfront. Liberty University, one of the 10 largest employers, is completing significant capital expansion projects and expects to more than double its current student enrollment of 11,300 by 2020. The nuclear engineering firm Areva NP North America announced a \$25 million capital investment and the anticipated addition of 500 employees by 2011 arising from its role in a commercial nuclear reactor construction consortium. The 7.8% April 2009 unemployment rate remained above the commonwealth’s 6.6% but below the nation’s 8.6%. The per capita money income level, while below average at 69% of the commonwealth level and 80% of the national level, is somewhat reflective of the city’s significant student population.

Financial management is strong, as evidenced by adherence to formalized policies regarding fund balance, debt affordability, quarterly reporting, and midyear budget reviews. Reserve levels consistently exceed the adopted policy target of undesignated fund balance equal to at least 10% of general fund revenues. The city ended fiscal 2008 with an unreserved general fund balance equal to 20.2% of spending, a measure more commonly employed by Fitch. Hiring freezes, a two-and-a-half day furlough, and departmental

**Rating History**

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	7/9/09
AA	Affirmed	Stable	5/2/04
AA	Assigned	—	1/5/93

reductions were implemented in fiscal 2009 in response to projected revenue declines, and the city anticipates a general fund balance reduction of \$7.6 million, inclusive of \$5.9 million of pay-as-you-go capital financing. Projected fiscal 2009 year-end results as well as the fiscal 2010 budget are expected to adhere to city reserve policies. City enterprise funds are healthy, aided by steady rate increases. However, the city remains under a special consent order to separate its storm water and sanitary sewer systems, and future sewer utility rate increases are envisioned, keeping them above average for the area.

**Debt Statistics**

(\$000)

This Issue	53,690
Outstanding Debt	100,708
<b>Direct Debt</b>	<b>154,398</b>
Overlapping Debt	0
<b>Total Overall Debt</b>	<b>154,398</b>

**Debt Ratios**

Direct Debt Per Capita (\$) <sup>a</sup>	2,127
As % of TAV <sup>b</sup>	2.9
Overall Debt Per Capita (\$) <sup>a</sup>	2,127
As % of TAV <sup>b</sup>	2.9

<sup>a</sup>Population: 72,596 (2008 estimate). <sup>b</sup>TAV: \$5,376,559,000 (fiscal 2009). Note: Numbers may not add due to rounding.

Overall debt levels are moderately low at \$2,127 per capita and 2.9% of TAV; outstanding debt amortizes at an above-average 62.8% retiring within 10 years. Capital needs outside of the sewer system upgrades are modest due to the low rate of population growth and the presence of an established infrastructure. The \$178 million fiscal years 2010–2014 CIP represents a decrease from previous plans due to the deferment of a large school reconstruction project. About one-half of the CIP relates to the sewer system, which includes compliance with the special consent order regarding combined sewer overflows. GO bonds, revenue bonds, and combined pay-as-you-go capital financing and intergovernmental grants each provide about one-third of CIP funding.

**General Fund Financial Summary**

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

	2006	2007	2008
Taxes	103,012	102,480	110,637
License and Permits	1,026	887	850
Fines and Forfeits	594	582	587
Charges for Services	7,376	7,084	7,198
Intergovernmental Revenue	30,392	31,312	33,410
Other Revenue	3,391	3,765	3,760
<b>Total General Fund Revenue</b>	<b>145,791</b>	<b>146,110</b>	<b>156,442</b>
General Government	13,176	14,112	14,562
Public Safety	32,782	34,640	36,704
Public Works	11,802	11,566	11,258
Health and Social Services	16,111	16,577	18,890
Culture and Recreation	6,927	7,287	7,692
Educational	29,895	30,418	32,932
Debt Service	22,746	12,497	13,153
Other Expenditures	7,386	8,217	8,359
<b>Total General Fund Expenditures</b>	<b>140,825</b>	<b>135,314</b>	<b>143,550</b>
<b>Net Income</b>	<b>4,966</b>	<b>10,796</b>	<b>12,892</b>
Transfers In and Other Sources	11,511	126	4,202
Transfers Out and Other Uses	6,179	15,241	15,306
<b>Net Transfers</b>	<b>5,332</b>	<b>(15,115)</b>	<b>(11,104)</b>

Note: Numbers may not add due to rounding.

**General Fund Financial Summary (continued)**

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

	2006	2007	2008
Total Fund Balance	36,787	32,777	34,566
As % of Expenditures, Transfers Out, and Other Uses	25.0	21.8	21.8
Unreserved Fund Balance	35,907	31,541	32,159
As % of Expenditures, Transfers Out, and Other Uses	24.4	20.9	20.2
Unreserved, Undesignated Fund Balance	25,988	24,670	26,007
As % of Expenditures, Transfers Out, and Other Uses	17.7	16.4	16.4

Note: Numbers may not add due to rounding.

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