

## **FITCH AFFIRMS LYNCHBURG, VA'S GO BONDS 'AA+'; OUTLOOK STABLE**

Fitch Ratings-New York-22 August 2012: Fitch Ratings has affirmed the following rating on Lynchburg, VA's (the city) general obligation (GO) bonds:

--Approximately \$120.1 million GO bonds at 'AA+'.

The Rating Outlook is Stable.

### **SECURITY**

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

### **KEY RATING DRIVERS**

**SOUND FINANCIAL POSITION:** Lynchburg's financial condition is solid as reserve levels have been well managed and consistently maintained. The city's financial profile is supported by prudent fiscal policies and planning.

**AFFORDABLE DEBT BURDEN:** Overall debt levels are expected to remain low to moderately low given the city's future capital needs and issuance plans and the above average pace of amortization of outstanding debt.

**FUTURE RETIREE COSTS WELL FUNDED:** The city's pensions are well funded and other post-employment benefits (OPEB) are manageable.

**MIXED ECONOMIC INDICATORS:** The local economy consists of manufacturing, with ongoing expansion in its industrial engineering, energy, retail, healthcare, and higher education sectors. Below average wealth and income indicators are somewhat attributable to a sizeable student population. Unemployment is above average.

### **CREDIT PROFILE**

#### **MIXED ECONOMIC INDICATORS**

The City of Lynchburg is a community of approximately 76,000 residents located in west-central Virginia, 115 miles west of Richmond and 50 miles east of Roanoke. Although manufacturing remains important to the 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 represent a significant share of economic activity. Lynchburg is home to Centra, a regional non-profit healthcare provider operating two hospitals. Five universities are also located within the city with combined total enrollment of 18,500. Growth potential for the higher education sector is promising with the largest institution, Liberty University, projecting a doubling of its current 12,000 enrollment by 2020.

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

The city's unemployment rate has declined to 8.7% for June 2012 from 9.1% the year prior but

remains above the average of the state (6%) and nation (8.4%). Per capita money and median household income trail the average of the U.S. and state by a considerable 20% to 40%, which is somewhat attributable to the student population.

#### **SOUND FINANCIAL MANAGEMENT**

Financial operations in the city are solid as shown by operating surpluses (after transfers) in the general fund in the past four out of the last five fiscal years. General fund revenues are largely stable, as property tax income continues to grow, with only marginal softening in non-ad valorem revenues. The city's fiscal 2011 unrestricted general fund balance (the sum of committed, assigned, and unassigned as per GASB 54) totaled \$47 million or a healthy 26.7% of spending.

The city's fund balance policy requires that unassigned reserves equal at least 10% of general fund revenues (this portion of the fund balance appears higher in audited statements, because the city spends down these excess balances for non-recurring purposes, generally capital spending, in the year following their accrual).

#### **STRONG RESULTS ANTICIPATED FOR FISCAL 2012**

The city's use of existing reserves for one-time purposes, as per city policy, was expected to result in an approximate \$7 million reduction of the unassigned fund balance in fiscal 2012. However, the use of reserves is expected to be significantly lower at approximately \$1 million, resulting in a projected unassigned fund balance of \$28 million or roughly 19% of spending.

Fitch notes the city consistently surpasses budgeted projections, generally through the achievement of favorable revenue and expenditure results. For fiscal 2012, the city reports unaudited actual expenditures at only 89% of its budget. Savings were achieved through the elimination of 31 positions, freezing employee wages, and restructuring departmental operations. The city also budgets for contingency above its 10% policy; this amount equaled \$1.2 million in fiscal 2012 or 0.8% of projected spending.

#### **FISCAL 2013 BUDGET RAISES PROPERTY TAX RATE**

The city's fiscal 2013 adopted budget includes a 6 cent property tax rate increase to \$1.11 per \$100 assessed value (a 5.7% increase from a year prior) to offset declines in real estate value, related property tax revenues, and state funding in fiscal 2012 and to fund planned capital spending. The tax rate increase was the first in at least six years.

The city reports an increasingly tighter expenditure budget given cost-saving actions implemented over the past several fiscal periods, and some concern with respect to the ability to cut spending further without impacting service provision. Fitch takes comfort in the city's practice of restricting fund balance use for non-recurring costs. Deviation from this practice or a material decline in historical reserve levels are not anticipated, but could pressure the current rating and/or outlook.

#### **AFFORDABLE DEBT BURDEN**

Overall debt levels are low to moderately low at \$1,653 per capita or 2.2% of market value. The city's outstanding debt is amortized at an above average rate of 64.6% within 10 years. Fiscal 2013 budgeted general fund debt service is equal to \$15.2 million or an affordable 9.4% of budgeted fiscal 2013 spending.

The 2013-2017 capital improvement plan (CIP) includes \$130.6 million in general government and school projects, of which \$65 million is expected to be financed with debt for the construction of a new high school. Fitch does not believe that the city's additional debt issuance plans will materially impact debt ratios. The city does not have exposure to variable rate debt or derivatives.

#### **FUTURE RETIREE COSTS WELL FUNDED**

The city participates in the state-wide Virginia Retirement System (VRS). The city consistently funds its full annual required contribution (ARC). The city's pension is well funded at 81.6% based on the plan's 7% pension investment return rate.

Due to a new state mandate requiring local governments to provide a 5% salary increase to employees to offset a new 5% employee retirement plan contribution, the city's costs are expected

to increase \$0.8 million annually, upon full implementation beginning in fiscal 2013. Fitch believes that the city will be able to accommodate the increased costs without undue financial pressure.

Other post-employment benefits (OPEB) are manageable. The city funds OPEB on a pay-as-you-go basis, which in fiscal 2011 was \$2.3 million or around a low 1.3% of general fund spending. The amount paid for the year was slightly more than half of the ARC.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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. 15, 2011);
- 'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 15, 2011).

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Tax-Supported Rating Criteria  
[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)  
U.S. Local Government Tax-Supported Rating Criteria  
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