

Lynchburg, Virginia

General Obligation Bonds New Issue Report

Ratings

New Issue

General Obligation Public
Improvement and Refunding
Bonds, Series 2014

AA+

Outstanding Debt

General Obligation Bonds

AA+

Rating Outlook

Stable

New Issue Details

Sale Information: \$116,505,000 General Obligation Public Improvement and Refunding Bonds, Series 2014, to sell competitively June 10.

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

Purpose: The proceeds of the bonds will be used to finance the costs of various public improvement projects for the city, pay the outstanding principal of a GO note and defease certain outstanding GO bonds of the city.

Final Maturity: June 1, 2044.

Key Rating Drivers

Sound Financial Position: Lynchburg's financial condition is solid, reflecting prudent fiscal policies and planning, consistent surplus operations and maintenance of a strong fund balance position. The city's diverse revenue stream and property tax revenue autonomy are other credit strengths.

Mixed Economic Assessment: Lynchburg is a regional center for economic activity in central Virginia. However, the economy remains somewhat limited in its scope, and income levels are below commonwealth and national averages. The regional employment base remains concentrated in manufacturing and distribution but increasingly diversified with growth in healthcare, higher education and engineering.

Affordable Debt Burden: Overall debt levels are expected to remain moderately low given the city's future capital needs and debt plans.

Rating Sensitivities

Maintenance of Strong Financial Management: The rating is sensitive to shifts in fundamental credit characteristics, most notably the city's strong financial management practices. The Stable Rating Outlook reflects Fitch Ratings' expectation that such shifts are unlikely.

Related Research

Fitch Rates Lynchburg, VA's GO Bonds
'AA+'; Outlook Stable (May 2014)

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Rating History

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	5/27/14
AA+	Affirmed	Stable	8/22/12
AA+	Affirmed	Stable	9/22/10
AA+	Revised	Stable	4/30/10
AA	Affirmed	Stable	7/7/09
AA	Affirmed	Stable	7/10/07
AA	Affirmed	Stable	4/18/06
AA	Affirmed	Stable	2/8/05
AA	Assigned	Stable	5/26/04

Credit Profile

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; the 2013 population is estimated at 78,014.

Transitioning 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 health services, higher education, industrial engineering and retail activity.

Health and educational services represent a significant share of the city's employment base. Lynchburg is home to CentraHealth, a regional nonprofit healthcare provider operating two hospitals and numerous other clinical facilities with roughly 6,100 employees in the city (equivalent to 4.4% of the roughly 114,000 nonfarm jobs in the Lynchburg metropolitan statistical area).

Five higher education institutions are located within the city limits with a combined total enrollment of 21,206. Growth potential for the higher education sector is promising, with the largest institution, Liberty University, planning roughly \$600 million in expenditures for campus improvements through 2019.

The city's wealth levels are below average, with median household income at 72% and per capita money income at 79% of the nation. The individual poverty rate is high at 23%. The unemployment rate of 6.8% is on par with the national average.

Strong Financial Management

Financial operations in the city are strong as evidenced by positive operating margins in the general fund in each of the last five fiscal years. The city ended fiscal 2013 with an operating surplus (after transfers) of \$1 million, increasing unrestricted fund balance to \$49.4 million, or 29.4% of general fund spending less transfers out for refunding.

The city has a policy to maintain an unassigned fund balance equal to 10% of general fund revenues. Funds in excess of the target fund balance may be considered to supplement pay-as-you-go capital spending.

The city transferred \$9.4 million from the general fund to the capital project funds during fiscal 2013. At the end of fiscal 2013, the city's capital projects fund held \$13.5 million in unrestricted reserves that could be used for operational purposes in an emergency.

Financial Stability Anticipated

The fiscal 2014 budget projected a 3.8% increase in general fund spending from the prior year's budget; this was primarily the result of a 3% salary increase for all general government employees. The budget includes a \$6.6 million fund balance appropriation, although the city has a strong history of conservative budgeting. Preliminary year-to-date results indicate revenues coming in stronger than expected due to increased meals and sales tax revenues. The city has a history of not utilizing their budgeted appropriated fund balance.

For the fiscal 2015 budget, the city is proposing to increase general fund spending by 2%. There is no proposed change to the property tax rate and there is a 2% compensation increase for all city and school employees. The proposed budget includes a general fund balance appropriation of \$7.8 million.

Related Criteria

Tax-Supported Rating Criteria (August 2012)
U.S. Local Tax-Supported Rating Criteria (August 2012)

The city prepared a five-year budget projection that shows mostly positive operating results. Fitch believes this is a reasonable projection due to the city's history of conservative budgeting and stable financial results.

General Fund Financial Summary

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

	2009	2010	2011	2012	2013
Property Tax Revenue	—	—	—	0	71,016
Sales Tax Revenue	—	—	—	0	13,590
Other Tax Revenue	—	—	—	0	37,831
Total Tax Revenue	110,297	112,519	115,010	116,760	122,437
License and Permits	651	664	684	917	991
Fines and Forfeits	613	668	598	722	726
Charges for Services	7,593	7,905	7,907	7,676	9,950
Intergovernmental Revenue	33,646	33,240	33,199	35,030	33,669
Other Revenue	2,571	2,128	1,786	1,561	1,535
General Fund Revenue	155,371	157,124	159,184	162,666	169,308
General Government	20,267	20,239	19,879	20,331	21,058
Public Safety Expenditures	36,982	36,756	38,405	38,845	42,026
Public Works Expenditures	17,209	14,433	15,139	14,436	15,548
Health and Social Services Expenditures	19,126	18,532	18,713	18,268	18,905
Culture and Recreation Expenditures	7,795	7,311	7,398	7,384	7,561
Educational Expenditures	32,150	29,444	30,311	31,697	35,308
Debt Service Expenditures	13,275	22,203	15,898	14,961	14,553
Other Expenditures	3,730	3,604	3,884	3,930	3,504
General Fund Expenditures	150,534	152,522	149,627	149,852	158,463
General Fund Surplus	4,837	4,602	9,557	12,814	10,845
Transfers In	6,450	464	547	283	18
Other Sources	0	13,553	16,605	0	4,130
Transfers Out	8,674	4,181	10,170	11,695	9,852
Other Uses	0	5,873	16,419	0	4,130
Net Transfers and Other	(2,224)	3,963	(9,437)	(11,412)	(9,834)
Net Surplus	2,613	8,565	120	1,402	1,011
Total Fund Balance	37,179	45,744	47,001	48,403	49,414
As % of Expenditures, Transfers Out and Other Uses	23.4	28.1	26.7	30.0	28.7
Unreserved Fund Balance ^a	36,459	44,287	—	—	—
As % of Expenditures, Transfers Out and Other Uses	22.9	27.2	—	—	—
Unrestricted Fund Balance ^b	—	—	47,001	48,403	49,414
As % of Expenditures, Transfers Out and Other Uses	—	—	26.7	30.0	28.7

^aPre GASB54. ^bReflects GASB 54 Classifications: Sum of committed, assigned and unassigned. Note: Numbers may not add due to rounding.

Affordable Debt Profile

Debt levels are moderately low with overall debt equaling \$2,516 per capita and 3.4% of market value. Debt amortization is average with 52% retiring within 10 years.

The 2015–2019 capital improvement plan (CIP) includes \$162 million in general government and school projects. In order to keep debt levels consistent with their current levels after this bond issuance, the largest in the city’s history, the city will need to defer some capital needs and is not planning any additional debt over the life of the CIP.

Debt Statistics

(\$000)	
This Issue	116,505
Outstanding Direct Debt — Net of Refunding	151,468
Self-Supporting	(71,667)
Total Net Direct Debt	196,306
Overlapping Debt	0
Total Overall Debt	196,306
Debt Ratios	
Net Direct Debt Per Capita (\$) ^a	2,516
As % of Market Value ^b	3.4
Overall Debt Per Capita (\$) ^a	2,516
As % of Market Value ^b	3.4

^aPopulation: 78,014 (2013). ^bMarket value: \$5,844,237,020 (2013).
 Note: Numbers may not add due to rounding.

Moderate Other Long-Term Liabilities

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 poorly funded at 60%. The city's unfunded actuarial accrued liability is a moderately high 2.2% of market value.

Other post-employment benefits (OPEB) liabilities are manageable, with the total unfunded liability a moderate 1% of market value. The city prudently contributed more than their full OPEB ARC in fiscal 2013. Carrying costs for debt service, pension and OPEB totaled a low 15.3% of governmental spending in fiscal 2013.

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