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Summary:
**Lynchburg, Virginia; General
Obligation**

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Summary:

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Credit Profile		
US\$45.6 mil GO bonds ser 2009A&B due 07/15/2039		
Long Term Rating	AA/Stable	New
Lynchburg		
Long Term Rating	AA/Stable	Affirmed
Lynchburg GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

The 'AA' long-term rating assigned to Lynchburg, Va.'s general obligation (GO) bonds series 2009A and refunding series 2009B and the 'AA' rating on the city's previously issued GO bonds reflects the city's:

- Growing and diversifying local economy, with stable employers, that remains the service center for a four-county region,
- Steady tax base growth, with regular expansions of commercial and industrial base,
- Strong financial position with very strong reserve levels,
- Strong management policies, and
- Moderate debt profile and pay-as-you-go-capital plan.

An offsetting factor is the city's adequate, though still below average, wealth and income indicators.

The city's full faith and credit GO pledge secures the bonds. Proceeds will finance various capital improvements projects for the city's schools, parks and recreation, transportation, and water and sewer.

Lynchburg (population 69,146) is located in central Virginia, approximately 57 miles east of Roanoke ('AA' GO rating). The 50-square-mile city has long served as the employment and retail base of the four-county region in which it is situated. This broader Lynchburg metropolitan statistical area economy, with a population of about 228,600, continues to experience steady growth and diversification. Education and health services is the leading employment sector (23% of total), followed by manufacturing and trade and transportation and utilities, each accounting for 19% of the workforce. Within the city, employment growth and development have been driven by health services, higher education, engineering, and retail services. Centra Health Systems is the city's largest employer with more than 5,700 employees. Centra owns both Virginia Baptist Hospital (317 beds) and Lynchburg General Hospital (270 beds). The latter recently opened its regional outpatient cancer treatment center. Areva NP North America, an engineering firm that specializes in nuclear power plants, is planning a \$25 million expansion that will add 500 engineer jobs to the city by 2011. Liberty University, the city's second-largest employer, transformed the existing Ericsson building into a new law school, an exercise facility, and student activities center. Unemployment stood at 7.6% as of April 2009, slightly above the state average of 7.0% but below the national average of 8.5%, for the same period.

The city's tax base also continues to experience steady growth. Total assessed value (AV) reached \$5.377 billion in fiscal 2009, an increase of 1.3% from the previous year. In 2008, the city had a revaluation that increased AV 17.9% to \$5.306 billion. We consider the city's market value per capita to be strong at \$77,757. Despite residential and commercial growth in the city in recent years, wealth and income measures remain adequate, with median household effective buying income was 68% of the commonwealth level and 77% of the national level. These wealth numbers may be understated somewhat, given the number of college students estimated at 17,342, or 24.5% of the city population.

The city's financial position remains strong with very strong reserve levels. Fiscal 2008's undesignated general fund balance closed with a balance of \$26 million, or a very strong 18% of general fund expenditures of \$143.5 million. The total unreserved fund balance in fiscal 2008 was larger at \$32.1 million, or still very strong at 22% of expenditures, due to a \$1.7 million operating surplus. According to the city, fiscal 2009 is projected to close with a general fund undesignated fund balance of \$18.4 million, equal to 11% of general fund expenditures. At year-end, the total fund balance is estimated to close at \$23.6 million, or strong at 14.4% of general fund expenditures. The city experienced a slow down in consumer spending that was reflected in its sales, meals, and personal property revenues and projects nondedicated revenues to be \$2.7 million less than budgeted. On the expenditure side, the city implemented a hiring freeze and reductions in departmental spending and projects a \$1.9 million decrease from the amended budget.

The fiscal 2010 adopted budget totals \$154.3 million, a decrease of 2.5% over fiscal 2009. The budget includes a planned \$3.4 million use of fund balance, which would bring the fund balance down to a still-strong level at 13%. Other budget assumptions include an increase of \$1.5 million, or 2.4%, in property tax revenues over fiscal 2009, maintaining the contingency reserve at \$1.2 million, and reductions in employee benefits.

We consider Lynchburg's management practices "strong" under Standard & Poor's Financial Management Assessment (FMA). An FMA of strong indicates that the city's financial management practices are strong, well embedded, and likely sustainable.

The city's overall debt burden remains at a moderate \$2,510 per capita, or 3.2% of market value. In fiscal 2008, debt service carrying charges were moderate at 9.1% of general fund expenditures. However, amortization of debt is faster than average, with 65% of principal retired within 10 years. The city's capital improvement plan (CIP) for fiscal 2010-2014 consists of \$57.0 million in general city projects and \$115.7 million in utilities (water and sewer) projects for a total of \$178.5 million. The city is expecting to fund \$64 million of these projects with tax-supported bonds and \$57 million with revenue bonds. The city continues to meet its special order requirement, a combined sewer overflow (CSO) project that requires the complete separation of storm water and sewer systems. The estimated work for the remainder of the CSO separation in 2007 dollars is \$309 million over the next 20-25 years. However, the city is currently in the midst of signing a new Long Term Control Plan and has identified CSO projects in its 2010-2014 CIP with \$88 million in sewer projects. The city also received a federal stimulus loan of \$25.3 million in April 2009 to pay for CSO projects previously budgeted for in the CIP.

Outlook

The stable outlook reflects the city's diverse local economy, which continues to experience growth and the city's position as a major employer in the region. Standard & Poor's Ratings Services expects the city's financial operations to remain strong, with structural budget balance and reserves consistent with the city's adopted policies.

We also expect debt needs to remain steady, as the city addresses its infrastructure needs. The city's debt burden is expected to remain manageable and within current guidelines.

Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

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