Moody's Investors Service

New Issue: Lynchburg (City of) VA

MOODY'S ASSIGNS Aa3 RATING TO THE CITY OF LYNCHBURG'S (VA) $53.7 MILLION GENERAL OBLIGATION BONDS SERIES 2009A & B

Aa3 AFFECTS $226.3 MILLION OF PRE-REFUNDING PARITY DEBT

Municipality
VA

Moody's Rating

ISSUE		**RATING**
General Obligation Public Improvement Bonds, Series 2009A		Aa3
Sale Amount	$46,100,000	
Expected Sale Date	07/21/09	
Rating Description	General Obligation Unlimited Tax	
General Obligation Public Improvement Refunding Bonds, Series 2009B		Aa3
Sale Amount	$7,605,000	
Expected Sale Date	07/21/09	
Rating Description	General Obligation Unlimited Tax	

Opinion

NEW YORK, Jul 13, 2009 -- Moody's Investors Service has assigned a Aa3 rating to the City of Lynchburg's, (VA) $46.1 million General Obligation Public Improvement Bonds, Series 2009A and $7.6 million General Obligation Public Improvement Refunding Bonds, Series 2009B. Concurrently, Moody's has affirmed the Aa3 rating on the city's $180.2 million of pre-refunding parity debt. The bonds are secured by the city's general obligation unlimited property tax pledge. Proceeds of the Series 2009A bonds will fund city, school and utility capital projects and proceeds of the Series 2009B bonds will refund, on a current basis, the city's outstanding Series 1999 GO bonds for an estimated net present value savings of $498,000 or 6.8% with no extension of the original maturity. The Aa3 long-term rating reflects the city's diverse and stable economic base that is expected to continue to grow modestly, satisfactory financial performance, and above average debt levels.

STABLE AND DIVERSE ECONOMIC BASE SERVES AS REGIONAL COMMERCIAL CENTER

Moody's expects the city's diverse economic base will remain stable given a diversified private employment base with ongoing investment and the presence of multiple higher education institutions and a large regional health care facility. A regional commercial center in centralVirginia, Lynchburg has experienced healthy 6.5% average annual growth in full valuation over the last five years and is now fully valued at $5.4 billion. This reflects both the introduction of new industry and expansion of existing industries, as well as rising residential values. Recently, Centra Health (rated A2/negative outlook) constructed a tower at Lynchburg General Hospital and opened a new cancer center and a new birthing center. In addition, Babcock and Wilcox's (McDermott International senior unsecured debt rated (P)B2/positive outlook) headquarters relocated to Lynchburg's downtown and added 90 new employees. Going forward, the local economy is expected to benefit from the $25 million investment by Areva NP which will bring 500 new employees by 2011 and a $35 million expansion by Griffin Pipe.

Expansion of existing businesses reflects the city's economic development strategy focused on encouraging firms already located in the city to remain and expand their facilities. These programs include the development of two publicly owned industrial parks, the creation of a small-business assistance center with loans and low-cost office space, and the use of various targeted incentives including subsidized land, infrastructure, and cash grants. The city has also invested in a variety of redevelopment projects designed to revitalize the downtown area by attracting new commercial tenants. In addition to a number of other manufacturing firms, the city contains a large regional shopping mall, as well as several big box retailers, which collectively serve the surrounding areas. The city also includes three four-year colleges, with an enrollment approximating 15,000, including Liberty University (not rated by Moody's), which has aggressive growth plans reportedly intended to expand the schools 11,300 student body to 25,000 by the year 2020. While the last census reported that Lynchburg's wealth indicators were below state norms, the strength of the local economy is reflected in a healthy full value per capita of $77,097, or 92% of the commonwealth median.

Moreover, the presence of a sizable student population tends to negatively skew wealth indices.

HISTORY OF SOLID FINANCIAL PERFORMANCE; COMPLIANCE WITH RESERVE POLICY DESPITE ANTICIPATED DRAWS

Despite anticipated reserve reductions in fiscal 2009 related to waning economically sensitive revenues and continued capital spending, the city's financial position is expected to remain healthy. Lynchburg has a history of consistently solid reserve levels, with undesignated General Fund balance averaging 14.6% of revenues over the last five years. In fiscal 2008, the city posted a modest $1.7 million addition to fund balance, however the structural surplus was a more significant $8.2 million given $6.5 million transferred to city and school capital project funds. Lynchburg closed the 2008 fiscal year with a healthy $34.5 million General Fund balance (22.1% of revenues), of which $26 million, or 16.6% of revenues remained undesignated, well in excess of the city's 10% policy on this portion of reserves.

Fiscal 2009, ended June 30, proved to be a challenging year for many issuers due to the economic recession. Management reports economically sensitive revenues, primarily sales, meals and personal property performed $2.75 million under budget. Given this shortfall and the budgeted use of $16.2 million of reserves, which other favorable budgetary variances only partially replenished, General Fund balance is projected to decrease by approximately $11 million to $23.7 million or a still-solid pro forma 15.5% of revenues, with undesignated balances declining by $7.6 million to $18.4 million or a satisfactory pro-forma 12% of revenues. Of note, the decline includes a $5.9 million transfer to the capital projects fund, as the city consistently transfers undesignated year-end reserve balances in excess of its 10% policy to this fund.

The adopted fiscal 2010 budget decreased by $9.9 million or 6% from the 2009 budget. This was accomplished through cutting overtime funding and pay-as-you go capital expenditures, offering a retirement incentive package and increasing employee contributions for health insurance. . In addition a 5% rise in assessed value due to the biennial revaluation is expected to yield an additional $2.4 million in property tax revenue. Moving forward, Moody's believes that slowed revenue growth will likely impact the city's ability to fund pay-as-you-go capital projects at historically strong levels, but reserve levels will remain consistent with policy objectives given the city's conservative management practices.

WITH SUBSTANTIAL ENTERPRISE SUPPORT, DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

Moody's believes that the city's debt burden (3.2% of full valuation), while above average, will remain manageable, despite significant additional borrowing plans, given rapid amortization of principal (60% retired within 10 years), ongoing growth in assessed valuation, and expected enterprise support of a significant portion of current and future long-term debt. The debt burden is calculated net of $160 million of self-supporting water and sewer debt, approximately $60 million of which carries the city's general obligation pledge. The city's five-year $178 million capital plan primarily consists of $115 million for self-supporting utility projects, and the city plans to finance $122 million with long-term debt (including $57 million in revenue bonds). The city's water system supports outstanding general obligation debt and rates for this enterprise remain highly competitive. A substantial portion of debt has been issued to comply with the city's combined sewer overflow (CSO) special order requirements. In addition to the sizeable borrowing plans, the sewer system, although self-supporting, continues to face challenges, including growing expenditures and high rates. The city has no putable variable rate debt outstanding, but does have a minimal $11.5 million LIBOR based line of credit outstanding, with an interest rate cap of 6%.

KEY STATISTICS

2008 Population (estimate): 69,738 (+6.8% since 2000 census)

2009 Full Valuation: $5.4 billion

2009 Full Value Per Capita: $77,097

1999 Per capita income: $18,263 (76.2% of VA; 84.6% of U.S.)

1999 Median family income: $40,844 (75.4% of VA; 81.6% of U.S.

Debt burden: 3.2%

Payout of Principal (10 years): 60%

FY08 General Fund Balance: $34.6 million (22.1% of General Fund revenues)

FY08 Unreserved, undesignated General Fund Balance: $26 million (16.6% of General Fund revenues)

Post sale parity debt outstanding: $226.3 million

RATING METHODOLOGY USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating the City of Lynchburg, (VA) General Obligation Public Improvement Bonds Series 2009A and B was "Local Government General Obligation and Related Ratings" which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Index of Special Reports - U.S. Public Finance. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action on the City of Lynchburg was on July 10, 2007 when Moody's Investors Service assigned a Aa3 rating to the city's General Obligation Public Improvement Bonds, Series 2007 and the Aa3 rating on outstanding parity debt was affirmed.

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each security that it may consider purchasing, holding or selling.