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RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect

Summary:

Lynchburg, Virginia; General Obligation

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Table Of Contents

Summary:

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Credit Profile		
US$125.0 mil GO bnds ser 2014 A,B&C due 06/01/2044		
Long Term Rating	AA+/Stable	New
Lynchburg GO		
Long Term Rating	AA+/Stable	Affirmed
Lynchburg GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to Lynchburg, Va.'s public improvement and refunding general obligation (GO) bonds series 2014A, B, and C. At the same time, we affirmed our 'AA+' rating on the city's outstanding GO bonds based on our local GO criteria, released Sept. 12, 2013. The outlook is stable.

A pledge of the city's full faith credit and resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure these bonds.

The city will use proceeds from the series 2014A bonds to finance various city capital needs, primarily to construct a new high school and refund its series 2011 bond anticipation note. Proceeds from series 2014B and 2014C will be used to refund some of the city's outstanding GO bonds

The ratings reflect our assessment of the following factors for the city:

- Weak economy, which plays an integral role in the regional economy and employment base;
- Very strong budgetary flexibility, with 2013 audited available reserves at 31% of general fund expenditures;
- Strong budgetary performance, which includes a revenue stream we consider stable;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Very strong management with strong financial policies and a consistent ability to maintain balanced budgets; and
- Adequate debt and contingent liabilities position, mostly due to the city's high net direct debt.

Weak economy

We consider Lynchburg's economy to be weak. The city anchors the Lynchburg/Campbell County combined metropolitan statistical area (MSA) and is located in the foothills of the Blue Ridge Mountains along the James River in the center of the commonwealth. Lynchburg is the employment and retail base of a four-county region and continues to be an employment hub with a significant numbers of people commuting in to the city for work. The city is mature, yet a healthy amount of redevelopment and expansion of existing businesses continues. Lynchburg continues to work with the Economic Development Authority (EDA) to promote future growth and redevelopment and has established several new initiatives to achieve these goals, including Foreign Trade Zone Participation and the establishment of a revolving loan fund.

The health care, retail, higher education, and manufacturing sectors anchor the employment base. Leading employers include: CENTRA Health (6,100 employees), Liberty University (4,620), AREVA (nuclear power, 1,792), and J.Crew Outfitters (1,400). Campbell county unemployment was 6.6% in 2013. In addition, within the city's boundaries are five higher education institutions, with Liberty University being the largest. Total enrollment accounts for 27.5% of Lynchburg's total population and, in our opinion, is a contributing factor to its lower wealth levels. Liberty University, recognized as the nation's largest private non-profit online educator, has started a sizable $600 million campus renovation and expansion project. Construction is expected to continue through 2019, and as a result, the project has spurred additional development, primarily in retail. Projected per capita effective buying income is 63.8% with a per capita market value of $75,384. The city's tax base has remained relatively constant with assessed value (AV) increasing 1.4% since 2010 to $5.84 billion in 2013. Management expects AV to increase modestly over the next one to two years as the future economic development is added to the tax base.

Very strong budgetary flexibility

In our opinion the city's budgetary flexibility remains very strong with total general fund available reserves averaging 24.4% of expenditures over the past three fiscal years (2011-2013) with no plans to significantly spend them down. Audited fiscal 2013 general fund reserves were $34.8 million or 21% of expenditures after adjusting for transfers. In addition, when reserves outside the general fund are included, levels rise to $52.4 million or 31% of expenditures. These reserve levels are well above the city's formal policy of 10%. For fiscal 2014, management is projecting to close with a roughly $4 million surplus, which will further increase reserves.

Strong budgetary performance

Lynchburg's budgetary performance has been strong overall, in our view, with a surplus of 0.6% for the general fund in fiscal 2013 and a slight increase of 0.1% of total governmental funds. The city has a stable revenue stream with little exposure to volatile revenue streams. Property taxes accounted for 61% of general fund revenues, rising to over 72% when all local taxes, such as sales and use, meals, and business licenses are included. The city continues its historically conservative budgeting practices and generates surpluses, net of transfers annually. Property tax rates have remained relatively unchanged over the past decade, increasing in fiscal 2013 to $1.11/ $100 from 1.05/$100 in anticipation of funding school-related capital needs. Fiscal 2014, per management, is projecting to close with a roughly $4 million surplus as revenues are coming in slightly over budget, while expenditures are under budget. The city's fiscal 2015 proposed budget totals $176.3 million and includes the use of $7.8 million of fund balance. However, the city has not historically had to use appropriated fund balances because conservative budgeting practices and fiscal policies have aided it with surpluses instead. The 2015 proposed budget does not include a property tax rate increase, but it does include a 2% salary increase for city and school employees.

Very strong liquidity

Supporting the city's finances is liquidity we consider very strong, with total government available cash at 22% of total governmental fund expenditures and 280% of debt service. We believe the city has strong access to external liquidity. The obligor has contingent liquidity risk exposures that we consider manageable at the current rating level. The exposures come from $10 million of debt sold directly to a bank facility.

Very strong management

We view the city's management conditions as very strong with strong financial practices. Lynchburg's fiscal and debt practices are based on a series of comprehensive policies adopted that it adopted in 1999 and further strengthened as part of a regular review process. The city uses five-year historical trend analysis, commonwealth and federal estimates and data projections, and economic forecasts to develop its annual revenue and expenditure assumptions. Management monitors the budget through formal processes, and it tracks revenues and expenditures daily and makes monthly reports on the results to the city council based on adopted policy. In mid-March, the city's financial management team makes formal recommendations for budget adjustments to the city council based on budgeted numbers compared with actual results.

A six-year capital improvement program (CIP) serves as the basis for annual capital appropriations and debt financing requirements; management updates the CIP annually with identified funding sources. The city adheres to comprehensive formal debt management policies in planning and addressing its capital needs, including:

- A policy that limits the city's debt service-to-budget to 10% of budgeted general expenditures,
- A limit on total debt to 4.5% of full market value,
- A principal amortization target of 60% over 10 years, and
- The city's pay-as-you-go appropriations of at least 10% of the annual CIP.

The city has its own investment policy that it reviews annually with regular quarterly reporting to the city manager and city council. The city recently adjusted and strengthened its long-adopted reserve policy, which calls for the maintenance of undesignated general fund balance at 10% of operating revenues.

Adequate debt and contingent liabilities

In our opinion, the city's debt and contingent liabilities profile is strong, with total governmental fund debt service at 7.9% of total governmental fund expenditures, and with net direct debt at 108% of total governmental fund revenue and not slated to rise following this issuance.

The city participates in the Virginia Retirement System (VRS) and makes 100% of annual required contributions (ARC). The combined ARC pension costs and other postemployment benefit pay-as you-go costs for fiscal 2013 totaled 7.4% of expenditures. We do not expect that these costs will increase substantially in the near term.

Very Strong Institutional Framework

We consider the Institutional Framework score for all Virginia cities with population over 3,200 to be very strong. See Institutional Framework score for Virginia.

Outlook

The stable outlook reflects our view of Lynchburg's consistent financial performance and stable economy, which is supported by very strong budget flexibility, liquidity, and management. We do not expect to revise the rating in the next two years because we believe the city will maintain its very strong financial position and manage its debt burden. However, if budgetary performance or debt and contingent liability were to decline, we might lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Virginia Local Governments

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