PRINCE WILLIAM
Finance

2019

Fiscal Health Outlook Report

Published May 2020

PRINCE WILLIAM COUNTY

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Introduction

This report provides a framework for monitoring Prince William County's financial condition for Fiscal Year 2019. The continuous monitoring process utilized herein is a management tool that pulls together information from the County's budgetary and financial reports and combines it with economic and demographic data.

The use of ratio analysis, as well as trend analysis, help gauge the fiscal health of Prince William County. Local trends are compared to both regional and national results to provide a more comprehensive understanding of the County's financial status. The County utilized the services of PFM Financial Advisors, LLC, the County's financial advisors, to prepare this report. Trend data is taken from the County's Comprehensive Annual Financial Report (CAFR) and other financial and accounting records. The sources of trend data for the comparison jurisdictions included in this report are Moody's Financial Ratio Analysis database and S&P's ratings reports which contain financial information from the peer group's respective CAFRs. The comparison group includes the Virginia counties of Fairfax, Hanover, Arlington, Henrico, Chesterfield and Loudoun, as well as Howard and Anne Arundel County, Maryland and Wake County, North Carolina. Additionally, the data in the economic charts originates from various sources and is so noted.

At the time of this publication, the economic and financial impacts of the Coronavirus Pandemic (COVID-19) have not fully yet materialized in Prince William County. On March 31, 2020, Governor Ralph Northam issued a Statewide Stay-at-Home Executive Order Number 53 that extends through June 10, 2020. The uncertainty surrounding the duration and financial and economic impacts and the virus itself will determine the shape of the recovery.

During this time, it is important that government leaders are mindful that the rating agencies will not only review the policies localities have in place, but also how the governing body and senior management reacts and responds to this unprecedented economic event to maintain and preserve their financial stability.

Executive Summary

A credit rating is an assessment of the general creditworthiness of an obligor or the creditworthiness of an obligor with respect to a specific debt security or other financial obligation, based on relevant risk factors. Credit rating criteria and methodology have grown in complexity over time, with both quantitative and qualitative analysis involved.

In general rating agencies look at the following primary credit factors – *financial/budgetary performance*, *economy and tax base*, *debt and pension obligations* and *governance /management*.

Rating agencies use a quantitative scorecard approach to provide a composite score of a local government's credit profile based on the weighted factors deemed most important, measurable, and prevalent. The scorecard contains calculated ratios using historical results which provide a basis for the credit rating. Note that within each scorecard, the metrics used by rating agencies are not all weighted equally. For example, both Moody's and S&P give more weight to a locality's economy and tax base than they give to debt and other liabilities. The scorecard metrics and weights are summarized in the tables on page 41.

Next, the rating agencies make qualitative adjustments when events or certain characteristics of the local government may be more significant determinants of a rating than the pure scorecard weighting might otherwise imply.

The adjustments allow for a final rating based on future expectations. Examples of qualitative adjustments include, but are not limited to, the following:

Key:

↑ = Upward adjustment
↓ = Downward adjustment

Financial/Budgetary Performance

- ↑ Additional borrowable liquidity
- ↑↓ Strong or weak budget planning and management (e.g. five-year plan)
- ↓ Reliance on uncertain federal or state aid
- ↓ Limited revenue raising ability or restrictive tax caps
- ↓ Heavy fixed costs
- ↓ Volatile revenue sources
- ↓ Large structural imbalance

Economy and Tax Base

- ↑ Presence or proximity of a university, state capital or Nation's capital
- ↑ Exceptionally high household wealth levels
- ↑ Expected future development
- ↑↓ Median home value and real estate values trend
- ↑↓ Population trends
- ↑↓ Composition of the workforce and employment opportunities
- ↓ Expected decline in tax base due to corporate closures or tax appeals
- ↓ High poverty rate

Debt and Pension Obligations

- ↑↓ Unusually rapid or slow amortization of debt principal
- ↑ Established pension or OBEP reserve
- ↓ Heavy capital needs implying future debt increases

Governance/Management

- ↑ Formal financial policies
- ↑ History of conservative budgeting
- ↑ Active monitoring of budget performance
- ↑ Well-defined plan for restoring structural operating balance and/or replenishing reserves
- ↑ Ability and willingness to make adjustments in response to economic and financial pressures
- ↓ Reliance on cash flow borrowing
- ↓ Weaknesses in best practices
- ↓ Political polarization that makes budgeting and decision-making difficult

This chart provides a summary of the overall credit strengths and weaknesses of the County as last reported in July and October of 2019 by the three major credit rating agencies, Moody's Investors Services (Moody's), S&P Global Ratings (S&P) and Fitch Ratings (Fitch).

Prince William County

Credit Strengths and Weaknesses

Positives	Negatives
Economy & Demographics	**Economy & Demographics**
• Sizeable tax base with growth potential • Affordable cost of living compared to other localities in D.C. metro area • Unemployment rate below national and state averages	• High exposure to changes in federal defense spending, which was volatile over the past decade • Historically volatile tax base, which was hit very hard during the recession
Financial Condition	**Financial Condition**
• Solid reserve and ample liquidity position • Very strong budgetary flexibility with available fund balance of 15.8% of general fund expenditures in FY18 • Maintenance of capital reserve fund for pay-go capital	• Slight total governmental fund deficit in FY18
Debt and Pension	**Debt and Pension**
• Conservative debt management practices • Above-average debt repayment with 70% retiring within 10 years • Overall debt per capita of less than 3%	• Debt burden relative to full valuation is above average • Debt burden expected to increase to fund school and other capital needs
Management	**Management**
• Strong management team supported by formal fiscal policies and very strong financial practices • Use of multi-year forecasting tools and frequent budget monitoring • Enacting of various resiliency preparedness measures including technology and cybersecurity improvements	• None

Source: Moody's report dated July 31, 2019, S&P's report dated October 11, 2019, and Fitch's report dated October 8, 2019.

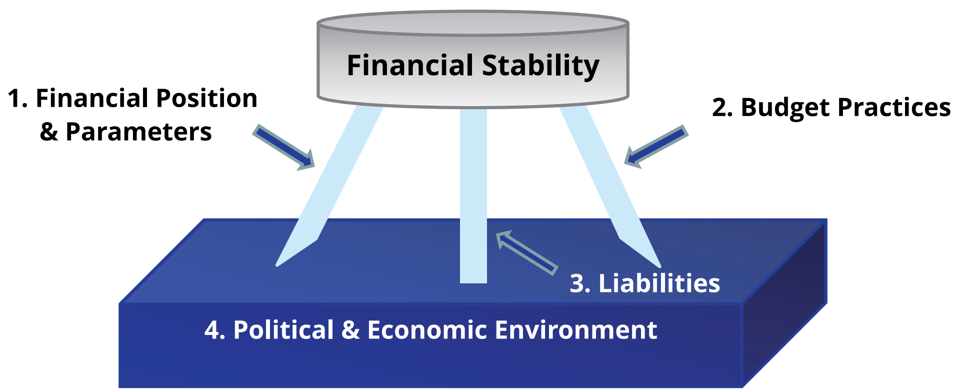
After making all qualitative adjustments to their rating metrics, either upward or downward, the County rates 'AAA' from all three major credit rating agencies. Triple-A is the highest rating from each agency and signals that the County has an "extremely strong capacity to meet financial commitments".

The ability for the County to receive and maintain a triple-A rating is important overall as it reflects the County's ability and willingness to pay its obligations, thereby increasing demand for the County's bonds and reducing overall borrowing costs. Furthermore, the triple-A rating signals fiscal stability and good governance to businesses looking to locate within Prince William County.

In this report, the County uses 2019 fiscal year end results to calculate several of the key factors used in the credit rating evaluation. On charts depicting the County as compared to its peer group, County data will appear either green or yellow. A green bar reflects the achievement of triple-A status for that particular metric, while a yellow bar indicates a rating of double-A or A.

Fiscal Stability

According to the Government Finance Officers Association (GFOA) a financially sustainable community provides services to citizens within its available means while proactively taking measures to build and preserve its ability to provide services in the future. The drawing below depicts a three-legged stool comprised of sound financial position and parameters, flexible budget practices and manageable liabilities. The stool sits on a foundation made up of the political and economic environment. These are the same factors the rating agencies assess when assigning a bond rating to a municipality. While the County is a triple triple-A jurisdiction, as affirmed in October 2019, there are some areas that are not as strong as others. Based purely on the rating agencies' quantitative scoring metrics, the County is 'Aa'. However as previously noted, each rating agency also looks at qualitative factors - namely the political environment, governance, and additional economic, financial and debt factors - and can make upward or downward adjustments to a score based on that assessment. Standard & Poor's, for example, noted a contributing factor to the County's 'AAA' rating was, "The County has an excellent history of conservative budgeting and forecasting practices, supported by well-adhered-to fiscal policies. These policies and practices help Prince William County maintain fiscally balanced operations and the ability to fund a substantial amount of one-time expenses on a pay-as-you-go basis."

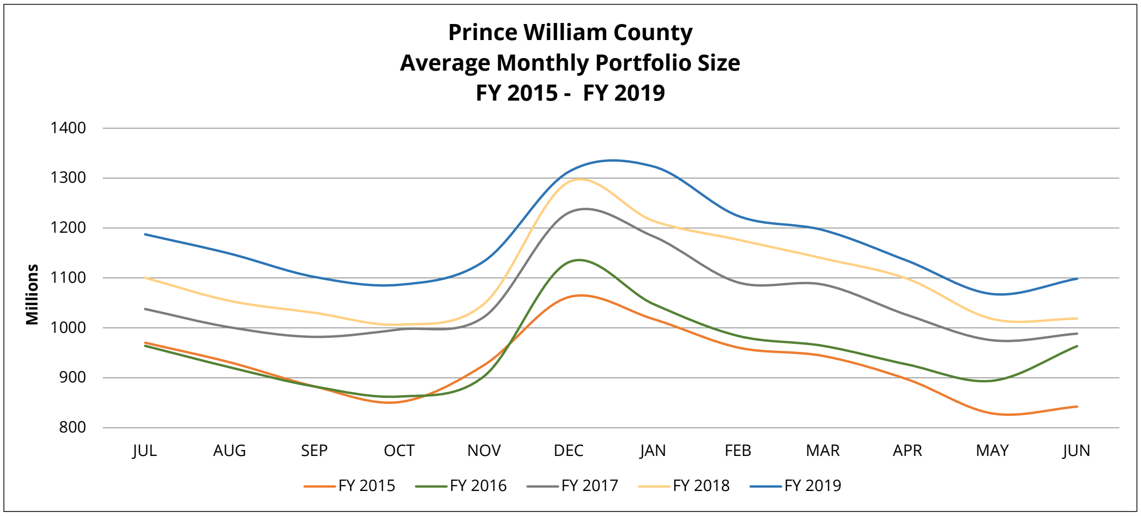


Source: Government Finance Officers Association

Financial Position

Cash

One of the areas assessed related to financial position is cash balance or liquidity. This chart shows the history of the County's portfolio since 2015. Increases in portfolio size typically come from additions to fund balance/year-end savings as well as a portion of annual revenue growth. The portfolio has seen average growth of approximately 4.8% since 2015, which is primarily attributed to increases in interest rates. After keeping rates near zero, between 2008 and 2015, the Federal Open Market Committee (FOMC) incrementally raised the target rate over the next three years to a high of 2.25% to 2.50% in December 2018.

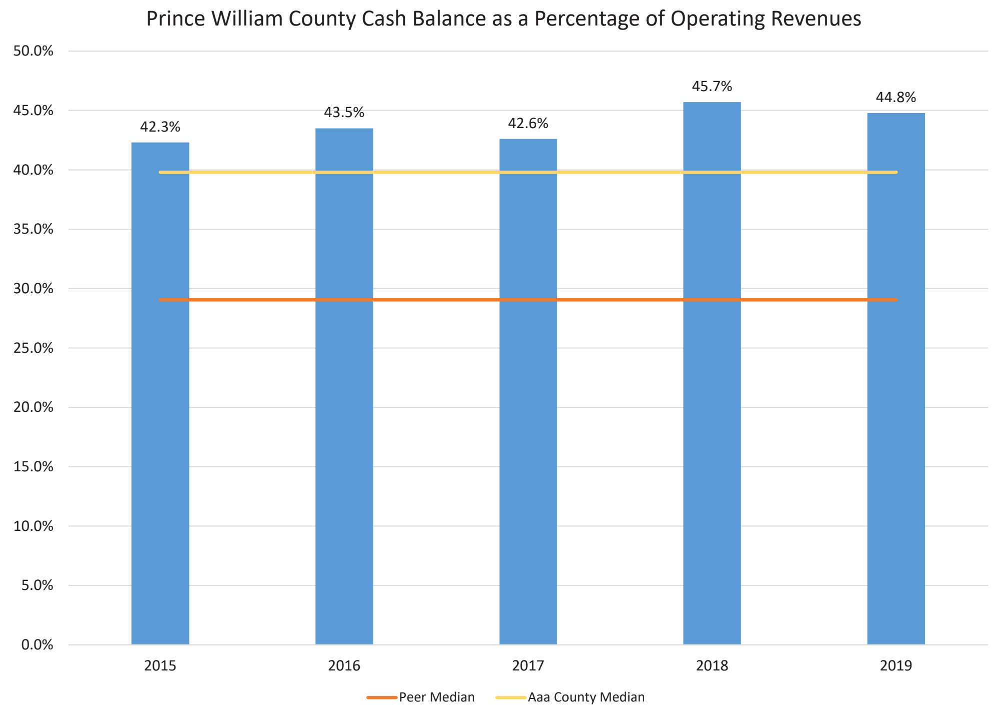


Source: Prince William County Treasury Management

Liquidity

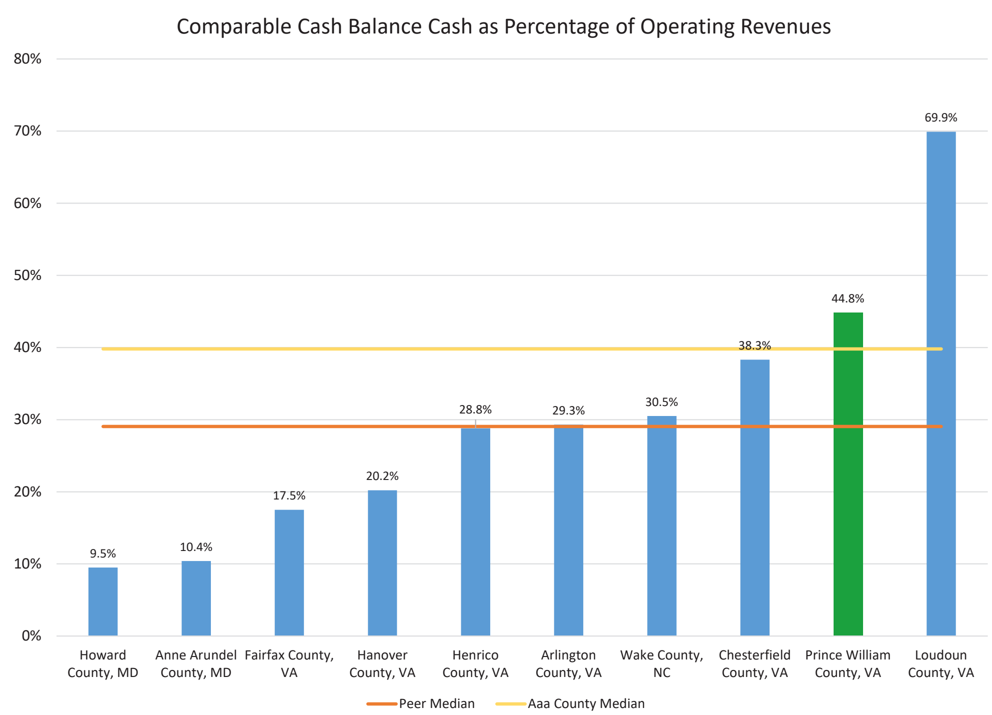
Liquidity ratios analyze the ability of an organization to pay off both its current liabilities as they become due, as well as its long-term liabilities as they become current. In other words, these ratios show the cash balance levels of the County and the ability to turn other assets into cash to pay off liabilities and other current obligations. Cash basis liquidity measures assess the County's relative degree of financial cushion. A good indicator of liquidity level is the cash cushion available to an entity at the end of the fiscal year.

Rating agencies examine the historical cash balance as a percentage of operating revenues to determine whether an entity has a strong or weak cash margin. A history of weak year-end liquidity signifies a tight cash position with little buffer available if operating revenues unexpectedly decline. Moody's 'Aaa' target for this metric is greater than 25%. The County is currently above 40% and rates 'Aaa' in this category, with cash balances exceeding $869 million at June 30, 2019.



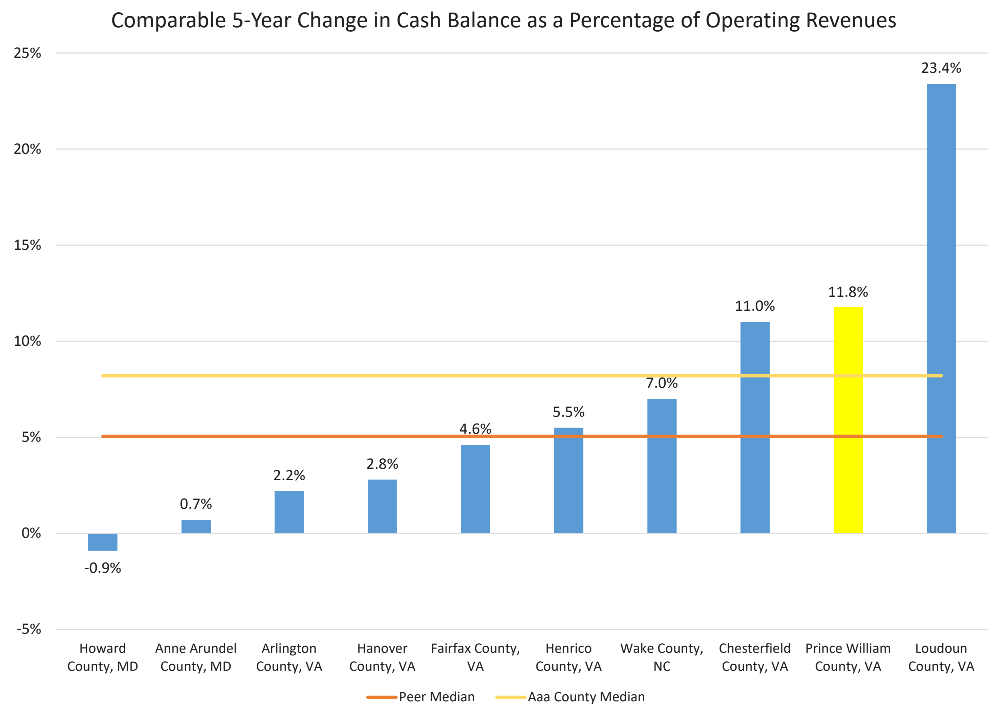
Source: Moody's Financial Ratio Analysis database

The chart below compares Prince William County to the peer group median and the median of all 'Aaa' rated counties in the nation for historical cash balance as a percentage of operating revenues. The County exceeds both the peer median and the 'Aaa' county median.



Source: Moody's Financial Ratio Analysis database, all data is as of FY 2019

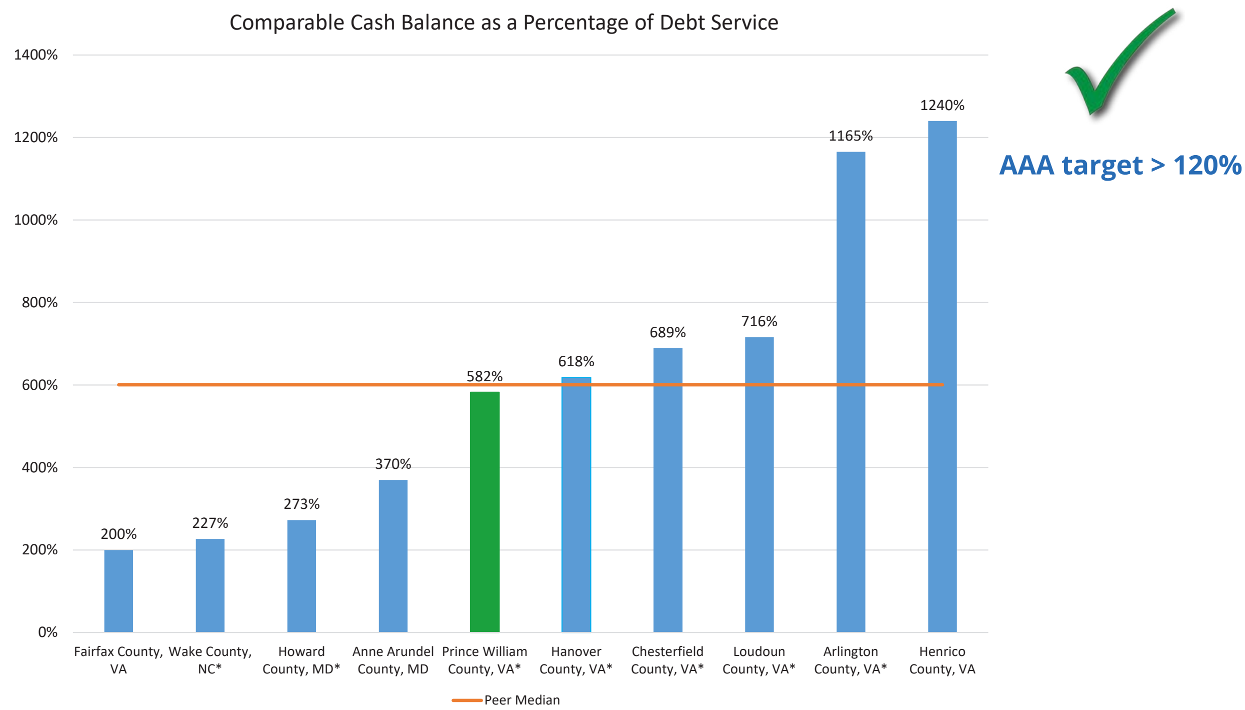
Another liquidity metric calculated by Moody's is the five-year dollar change in cash balance as a percentage of operating revenues. The five-year look provides insight into the structural balance over a full economic cycle. The multi-year trend focuses on financial flexibility and the ability to weather unexpected variances or contingencies. The 'Aaa' target is greater than 25%. In other words, to score triple-A in this category, the County's cash balance as a percentage of operating revenues would need to grow substantially - over 25% - across a five year period. Of the 118 counties nationwide that Moody's currently rates 'Aaa', only 14 counties achieved 'Aaa' in this metric, according to the most recent data published by Moody's. On a pure quantitative scoring basis, the County rates 'Aa' in this category, Additionally, as the chart below indicates, the County continues to exceed both the peer median and the 'Aaa' county median.



AAA target > 25%

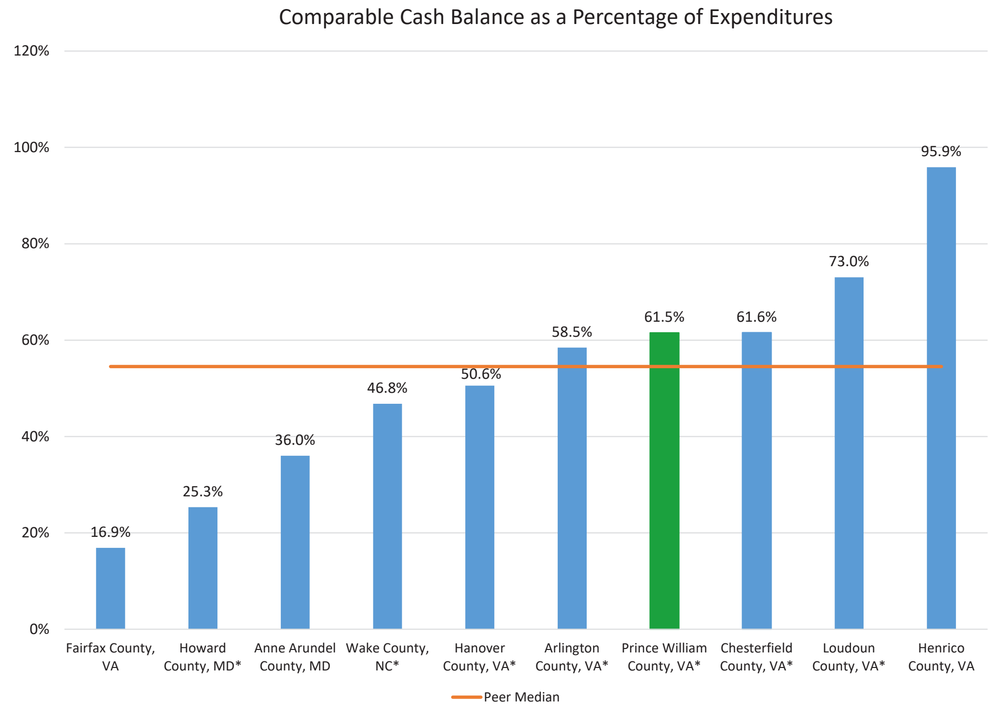
Source: Moody's Financial Ratio Analysis database, all data is as of FY 2019

Cash balance as a percentage of debt service shows the relationship of cash to debt and debt service, and the ability of an organization to fund its operational needs. Since there are draws on cash other than repaying debt, i.e. cost of daily operations, it is important for rating agencies to understand the extent to which those other requirements will allow cash to be used to pay debt service costs, or alternatively lead to the need for additional borrowing. S&P measures the cash balance as a percentage of debt service and defines the 'AAA' target as greater than 120%. Although the County's percentage decreased slightly from the prior year, the County maintains a rate well above the target at 582% and ranks solidly in the 'AAA' category.



Source: *Indicates PFM estimate. All data is of FY 2019

S&P also examines the cash balance as a percentage of total expenditures with the 'AAA' target measuring greater than 15%. Here again, the County achieves a very strong 'AAA' at 61.5% which represents the County's enhanced fiscal flexibility should unexpected events or contingencies occur.



AAA target > 15%

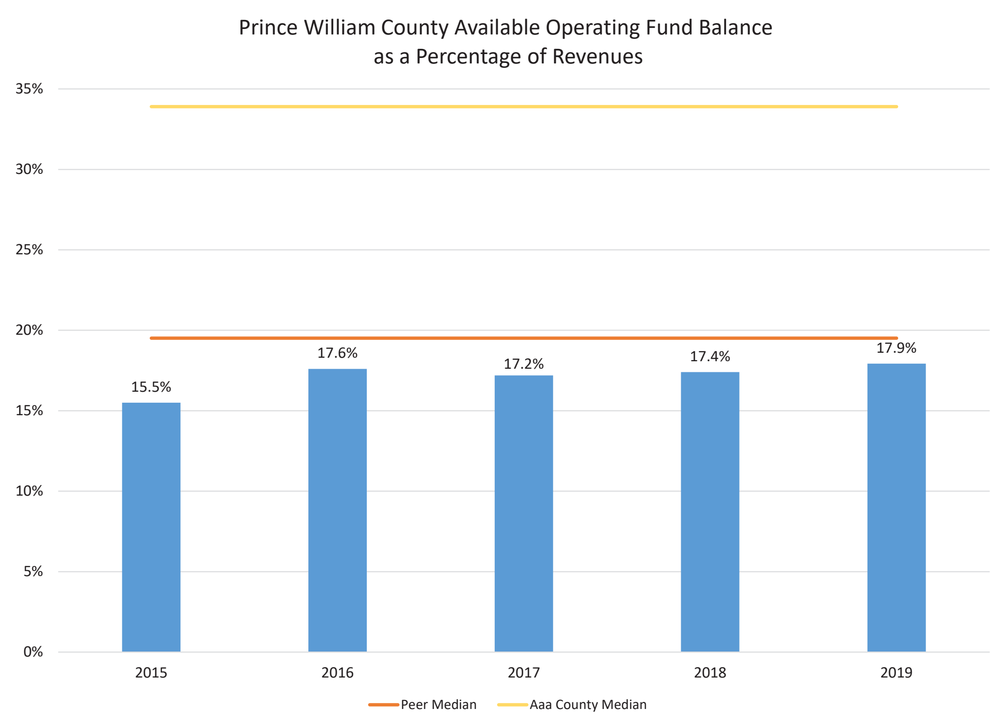
Source: *Indicates PFM estimate. All data is of FY 2019

Fund Balance

Fund balance is another factor the rating agencies assess to measure financial position. Typically, a proprietary reporting unit reports all related assets and liabilities with the difference between the two reported as net assets, or a measure of net worth. Because Governmental Funds (i.e. general fund, special revenue funds and capital projects funds) report only a subset of related assets and liabilities, the difference between the two is closer to a measure of liquidity, rather than net worth, and could be compared to the term “working capital” in the private-sector.

Fund balance ratios generally reflect an entity’s revenue and expenditure policies under Generally Accepted Accounting Principles (GAAP), and therefore, show the effects a locality may have taken to balance its budget. Valuable information about both the past and the future are communicated through these ratios. Existing levels of fund balance depict the cumulative effects of an organization’s financial history and identify the liquid resources available to fund future liabilities and unforeseen contingencies.

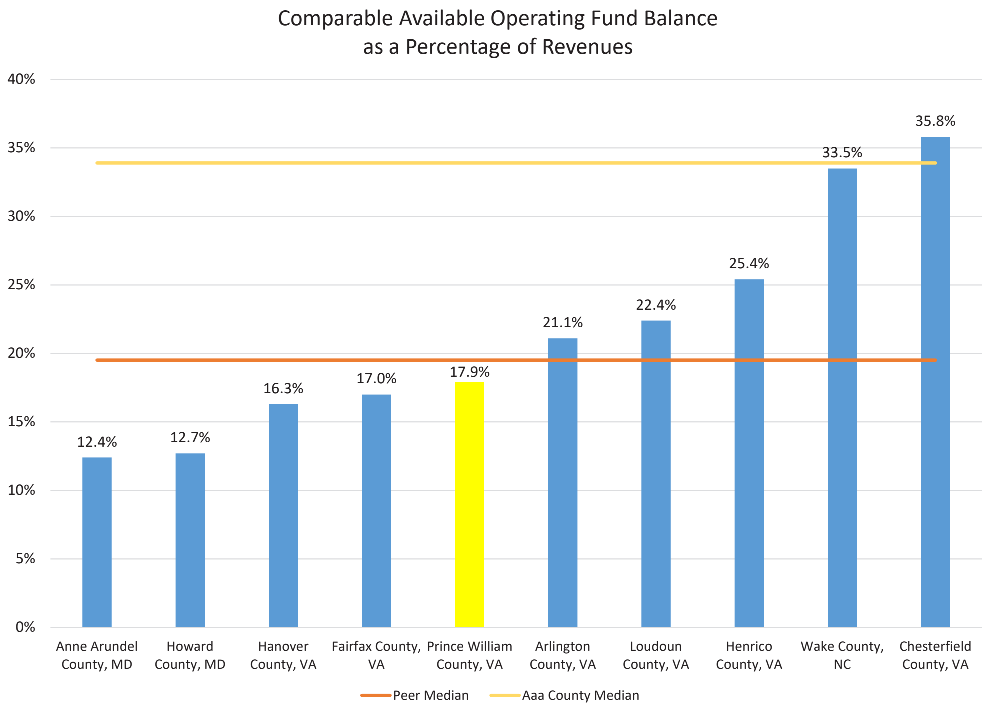
Moody’s measures total fund balance as a percentage of operating revenues, a measurement of “available balances”. The ‘Aaa’ target is greater than 30%. Here the County does not score ‘Aaa’, but rather with 18%, scores in the ‘Aa’ category on a pure quantitative scorecard basis. Over the past five years, the available balances of the County have declined due to the budgeted spend down of both the Capital Reserve Fund and the Fire and Rescue Levy Special Revenue Fund balances for one-time capital expenditures. Ratings analyst may qualitatively adjust the scoring on this metric as a build-up and subsequent spend-down of capital reserves to pay for planned projects is viewed as a credit strength as this process reduces or eliminates the need to borrow money for projects.



AAA target > 30%

Source: Moody’s Financial Ratio Analysis database

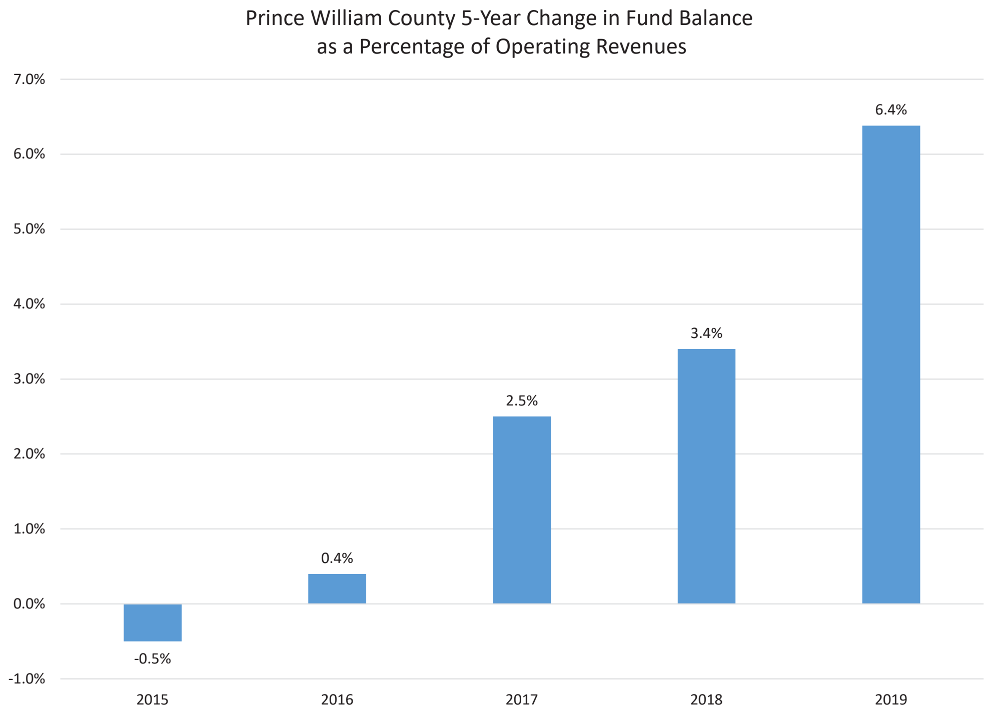
The next chart shows the same fund balance metric as compared to the County's peers. The County scores below most of the triple-A peers and well below the national triple-A median.



AAA target > 30%

Source: Moody's Financial Ratio Analysis database, all data is as of FY 2019

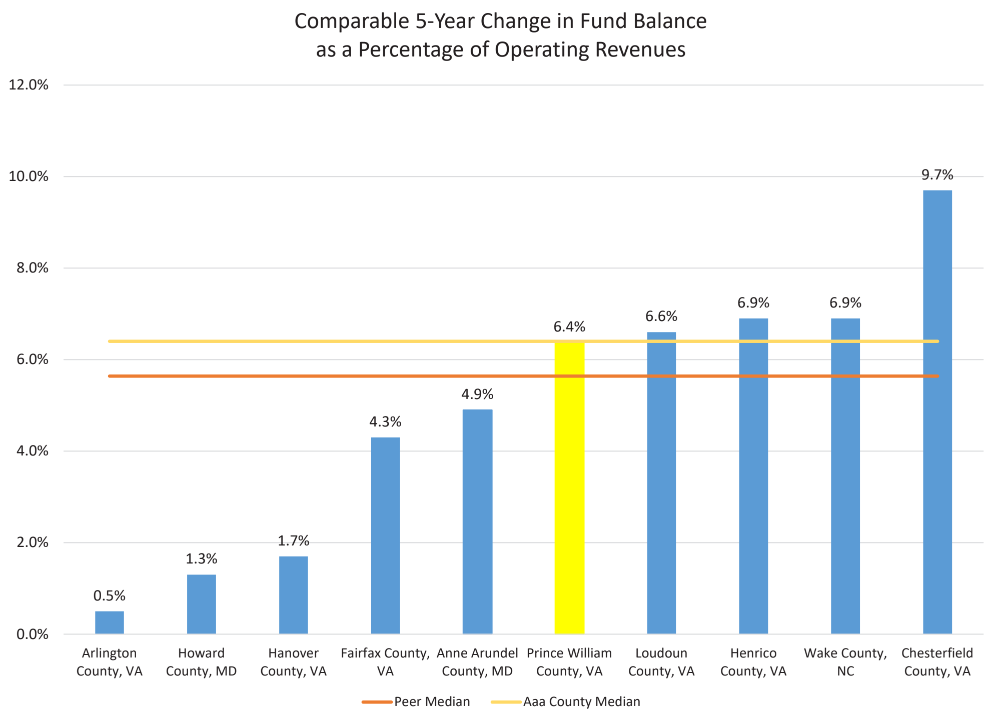
Moody's also looks at the five-year dollar change in fund balance as a percentage of operating revenues, with the 'Aaa' target at greater than 25%. This metric measures growth for each individual locality. In order to score 'Aaa' in this category, the County's fund balance as a percentage of operating revenues would need to grow significantly – over 23% - regardless of the nominal value. Of the 118 counties that Moody's rates 'Aaa', only 11 counties scored 'Aaa' in this metric in Moody's most recently published data. The County scores in the 'A' category with 6.4%; however, as indicated below, the trend for the County has improved over the last five years.



AAA target > 25%

Source: Moody's Financial Ratio Analysis database

When compared to the peer group median and the nationwide 'Aaa' median, the County scores at 6.4%, which equals the nationwide 'Aaa' median and is above the peer median of 5.6%. It is important to note however, that the median of both the peer group and the nationwide 'Aaa' rated public entities all fall below the 'Aaa' target of greater than 25%.



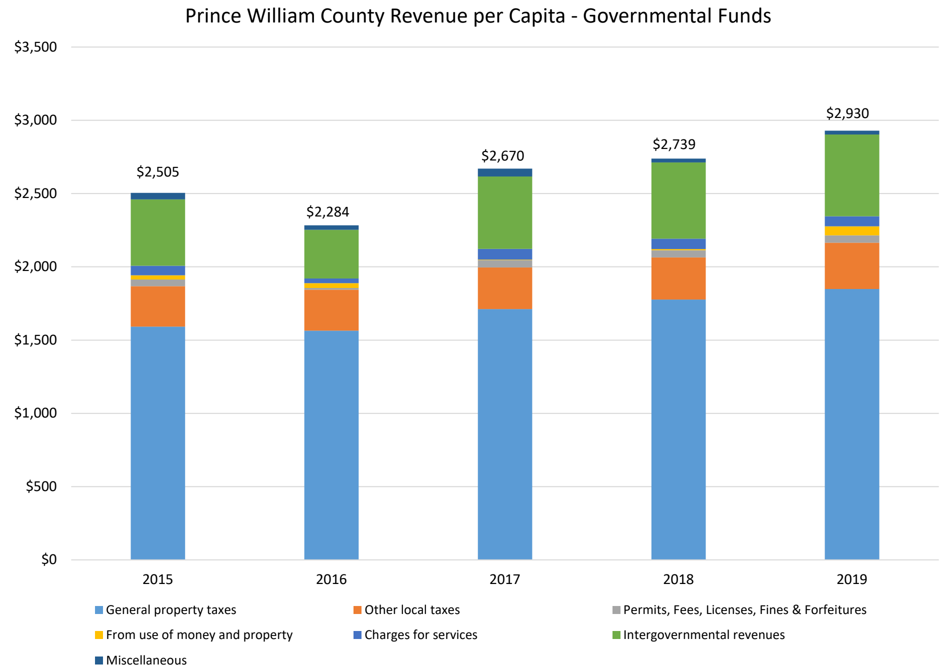
AAA target > 25%

Source: Moody's Financial Ratio Analysis database, all data is as of FY 2019

Budgetary Practices

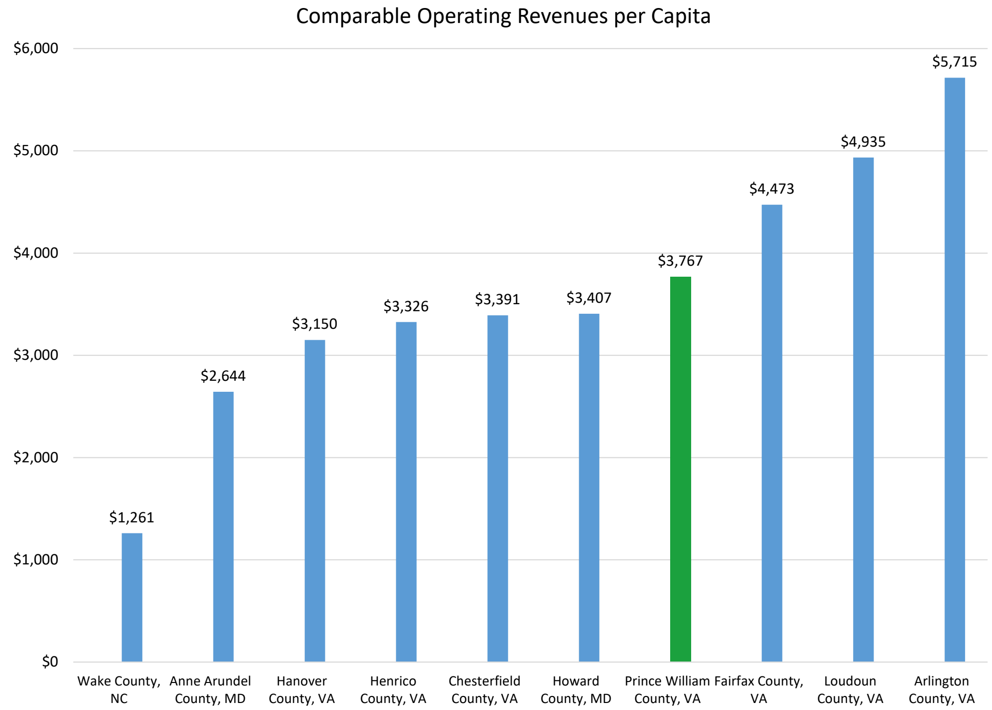
Revenues

A financially sustainable community includes flexible budget practices. This includes adjusting predictions in forecasting revenues and expenditures to meet obligations or raise adequate revenues. Revenue per capita reveals the average resources generated to fund services relative to the users of those services. The last five years revenue per capita is depicted below. Various categories of revenue are shown, including general property taxes which remains the largest source of revenue for the County. For purposes of this metric only, revenues of the Governmental Funds are included (i.e. General Fund, Special Revenue Funds and Capital Projects Funds).



Source: Prince William County Comprehensive Annual Financial Report (CAFR) FY 2019, Table 4

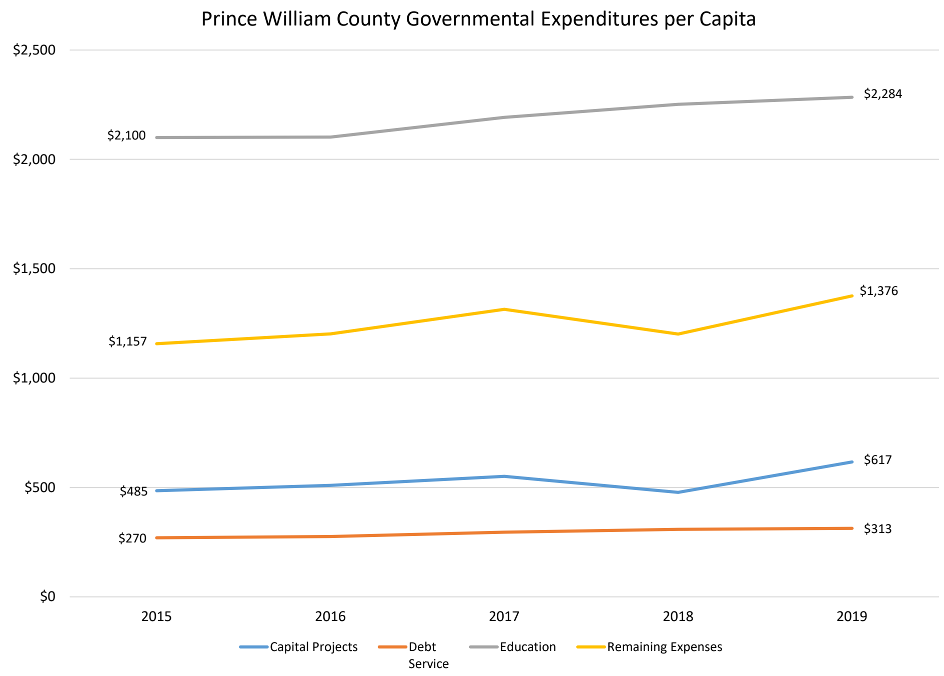
Rating analysts take note of operating revenues per capita as compared to the County's peers. Focus is given to the General Fund and the School Division's revenues and excludes the Special Revenue Funds and Capital Projects Funds. Prince William County is below its Northern Virginia counterparts when compared to peers. Rating agencies use this metric to determine if the County has the capacity to raise revenues if faced with a financial crisis, while remaining competitive within the region.



Source: Moody's Financial Ratio Analysis database, all data is as of FY 2019

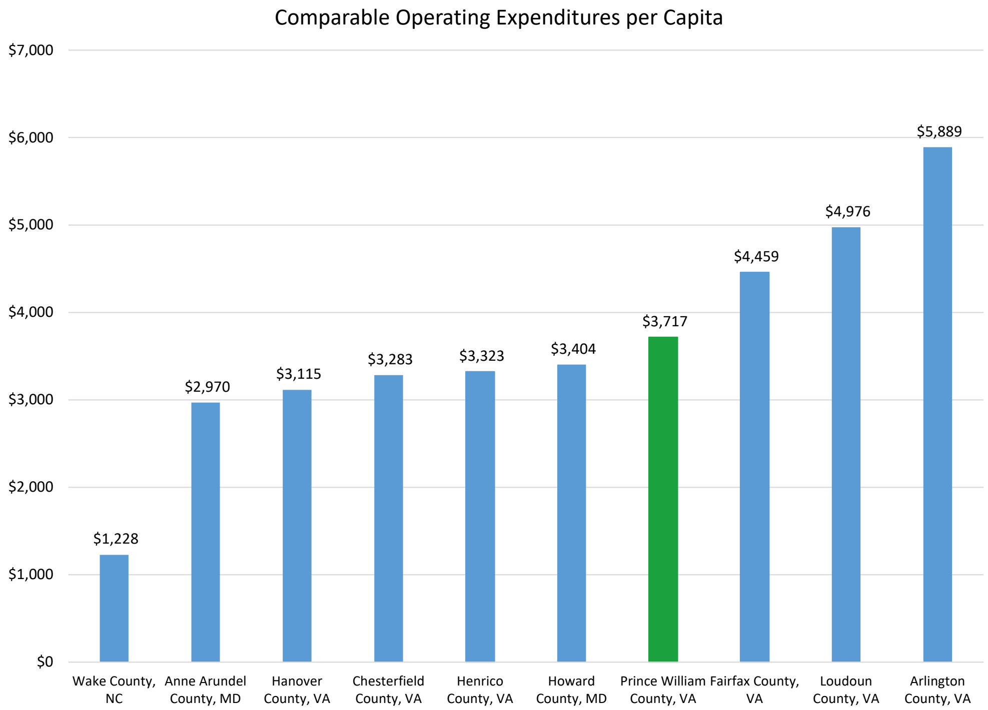
Expenditures

The chart below reflects the County's historical governmental expenditures per capita and includes the General Fund, Special Revenue Funds, School Board and Adult Detention Center. It depicts a steady increase in all 2019 expenditures.



Source: Prince William County Comprehensive Annual Financial Report (CAFR) FY 2019, Table 22

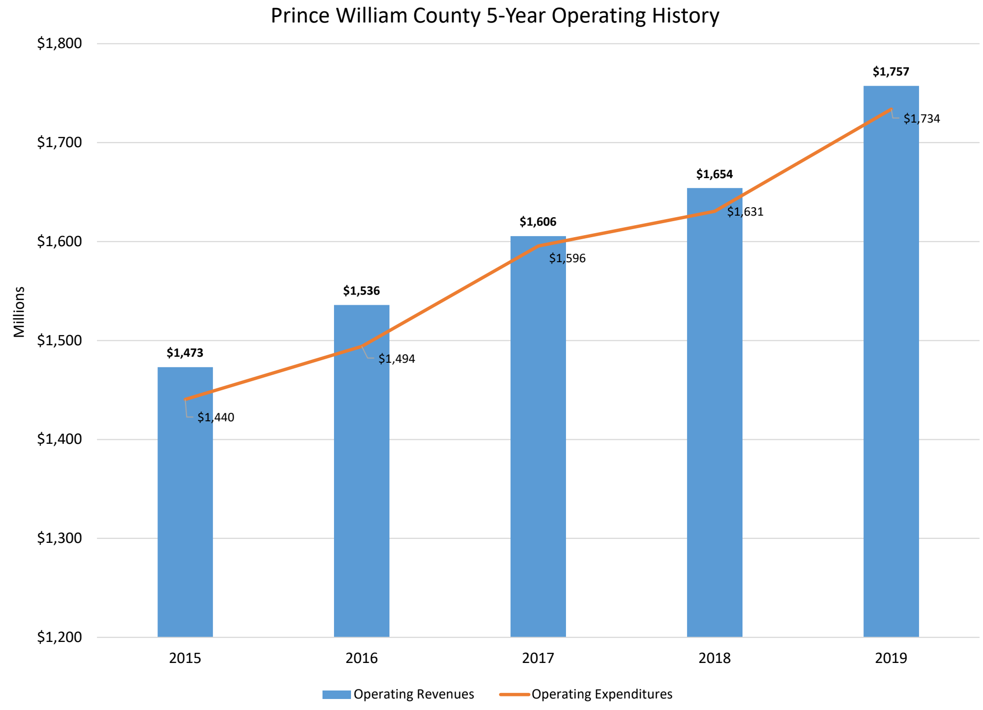
In the peer comparison, Prince William County is below its Northern Virginia counterparts of operating expenditures per capita. The total operating expenditure numbers used in this calculation do not include Special Revenue Funds or Capital Projects Funds that are financed with bond proceeds.



Source: Moody's Financial Ratio Analysis database, all data is as of FY 2019

Revenues and Expenditures

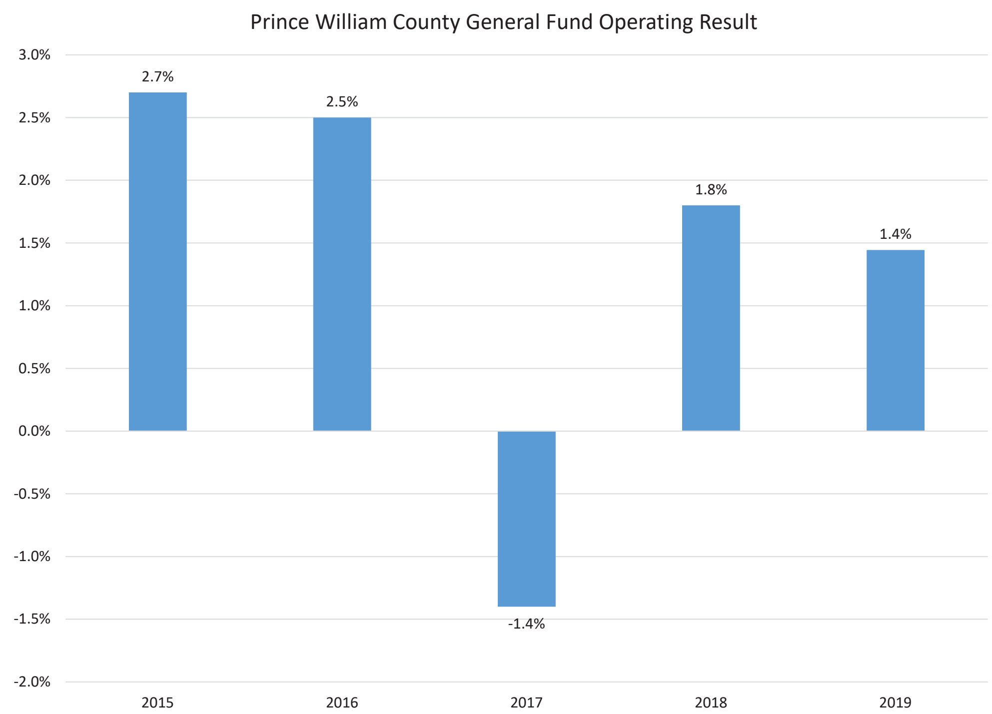
The five-year history of operating revenues and operating expenditures represents the County's ability to achieve balanced operations. The trend analysis provides a look at the County's ability to increase revenues to manage and meet its obligations. For fiscal year 2019, revenues once again exceeded expenditures, and the County improved its net operating results over the prior year.



Source: Moody's Financial Ratio Analysis database

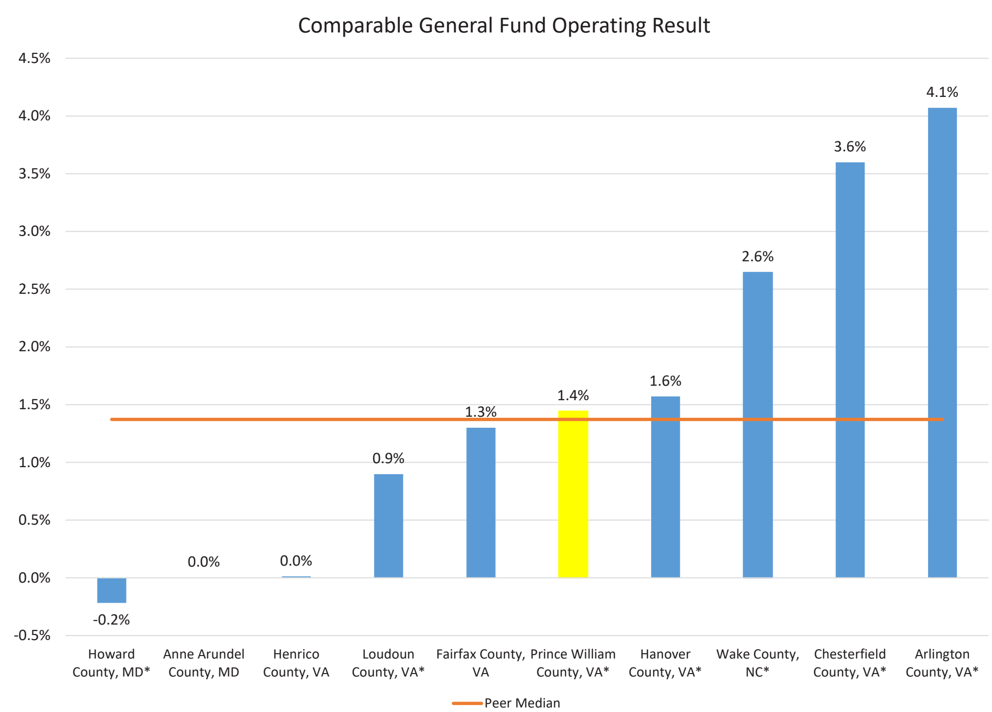
Budget Strength Measurement

The rating agencies measure the magnitude of revenues that exceed expenditures at year end. Thus, S&P measures the County's historical general fund operating balance, surplus or deficit, as a percentage of general fund operating expenditures. The 'AAA' target is greater than 15%. The County initially scores 1.4% for FY 2019. S&P recognizes however, that due to Governmental Accounting Standards Board (GASB) compliance requirements, low fund balances can result from the deferred recognition of some tax revenues and therefore are able to make qualitative adjustments. All peers fall below the target 'AAA' threshold as well. The County believes it is prudent to target a structurally balanced budget in which forecasted recurring revenues, under reasonable growth assumptions, supports recurring expenditures. The County does not strive for revenues to exceed expenditures by more than 5%; rather, the County strives for structural balance.



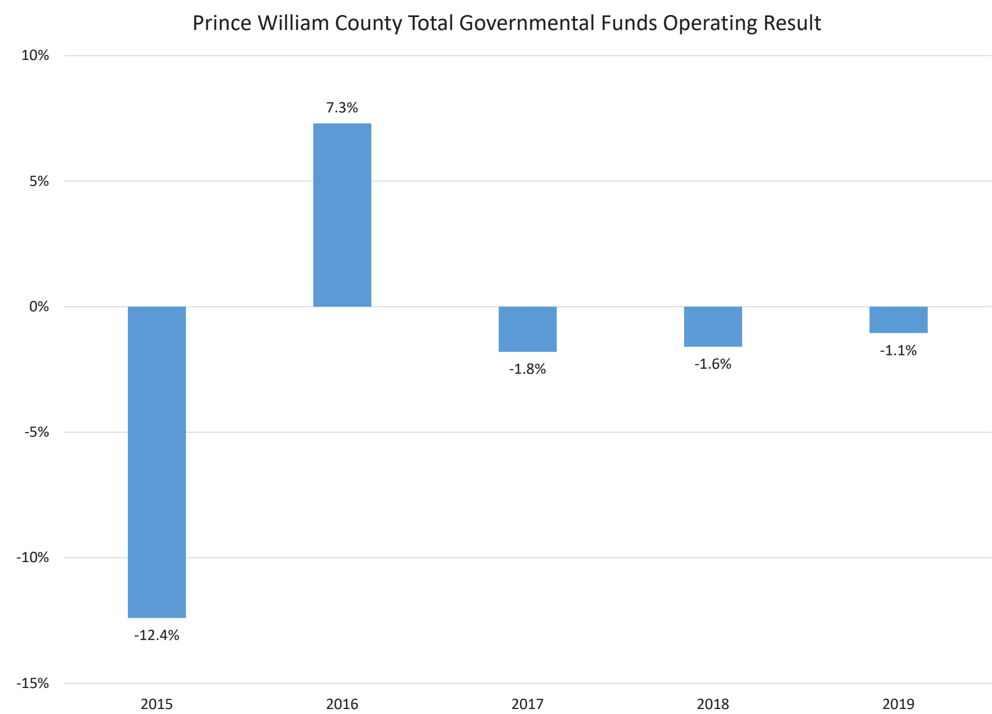
AAA target >15%

Source: County's S&P Report for FY15-FY18. 2019 is estimated by PFM.



Source: S&P Reports, if available. *Indicates PFM estimate. All data is of FY 2019

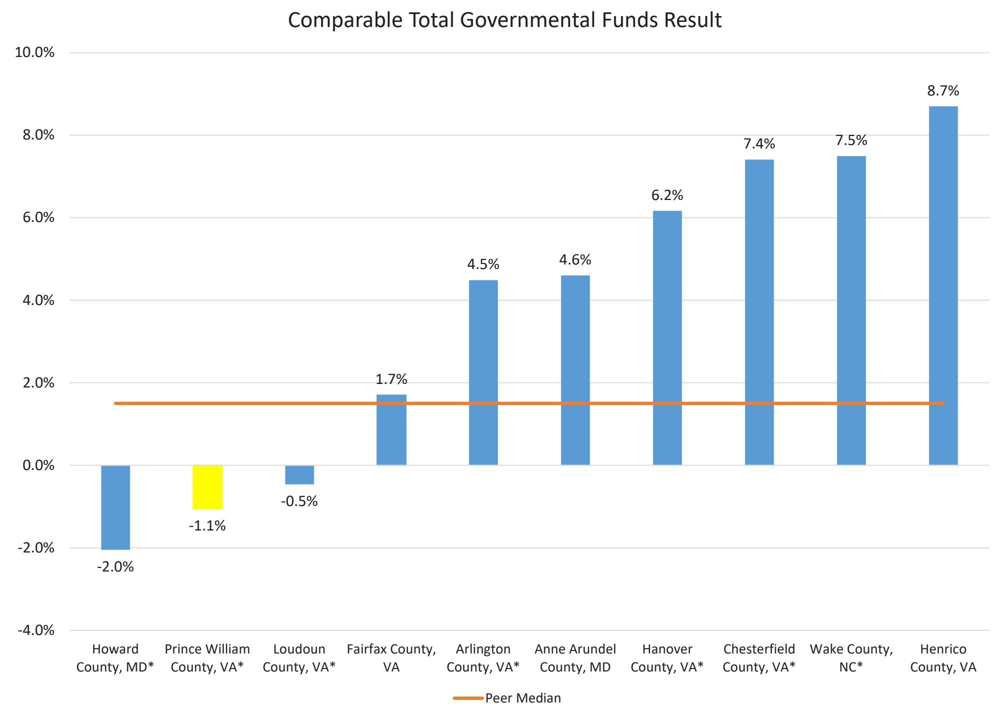
A second measure of budget strength used by S&P is net governmental funds as a percentage of expenditures. The 'AAA' target is greater than -1%. The County measures -1.1% for FY 2019, below the 'AAA' category, largely because of debt financing of capital expenditures in the capital projects funds.



AAA target > -1%

Source: County's S&P reports for FY15 – FY18. 2019 is estimated by PFM.

Compared to its peer group, Prince William County scores below the peer median of 1.4%.

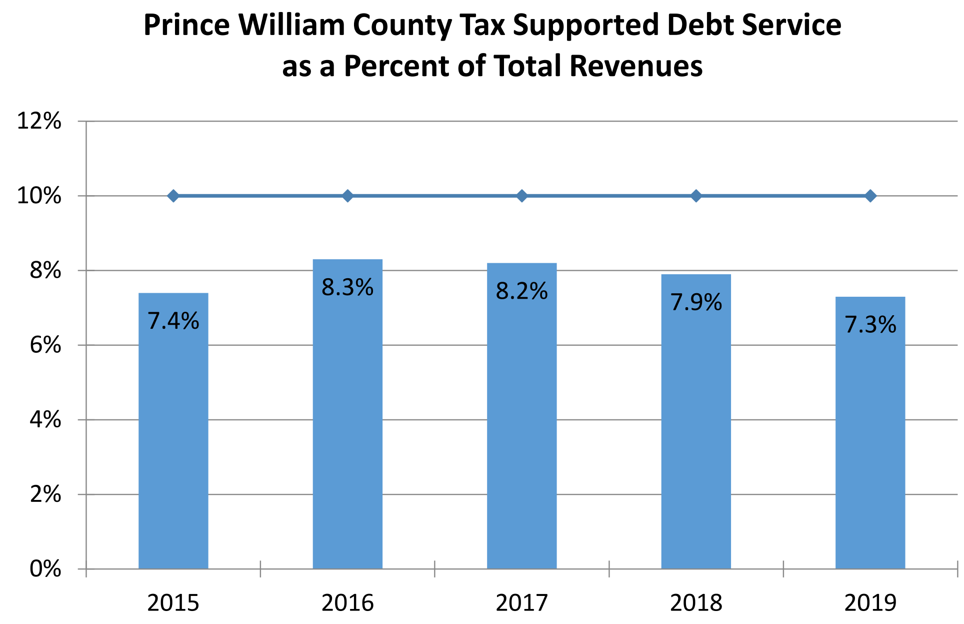


Source: S&P Reports, if available. *Indicates PFM estimate. All data is of FY 2019.

LIABILITIES

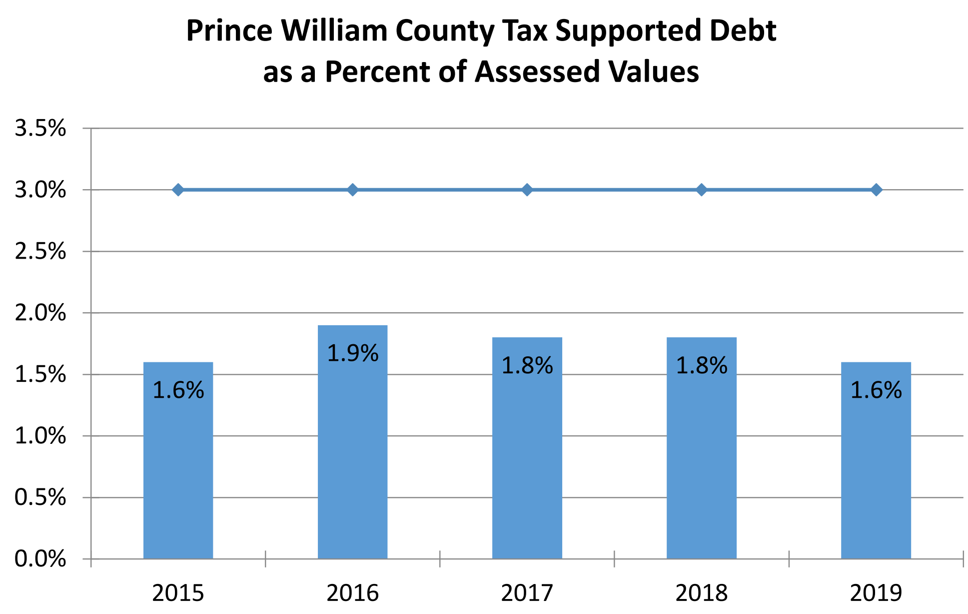
Debt

The last component of a financial sustainable community are manageable liabilities. Rating analysts seek to assess an entity's debt burden and debt affordability, taking into account the debt structure. The County initially adopted its Principles of Sound Financial Management (PSFM) IN 1988 with the most recent amendments adopted in 2018. Within the PSFM the County established guidelines for debt management, including self-imposed debt limits, which are a credit strength. The first self-imposed limit measures total debt service as a percentage of total revenues – this number must be below 10%. For FY 2019, the County debt service measured 7.3% of total revenues.



Source: Prince William County Comprehensive Annual Financial Report (CAFR) FY 2019, Chart A-8.

The second self-imposed limit states that total tax supported debt will not exceed 3% of net assessed values of taxable real and personal property. At 1.6% for FY 2019, the County continues to maintain debt below this limit.



Source: Prince William County Comprehensive Annual Financial Report (CAFR) FY 2019, Chart A-8.

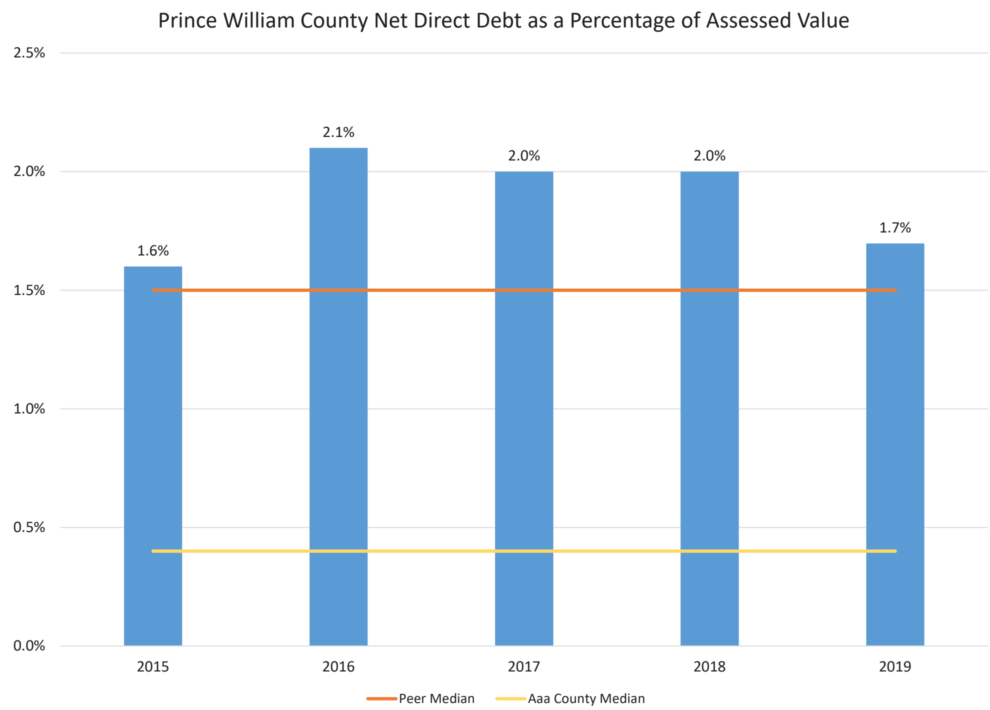
Prince William County's debt capacity forecast represents County management's commitment to maintaining debt service at less than 10% of total revenue. The calculations are based on current existing debt, as of June 30, 2019, and the County's projected revenue growth (pre-COVID-19), as detailed in the table below.

Prince William County Debt Capacity Forecast

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Total existing and CIP	$140,032,282	$151,391,790	$150,050,545	$154,137,627	$157,983,128	$170,078,634
Percent change from prior year	-4.97%	8.11%	-0.89%	2.72%	2.49%	0.22%
General Revenue [1]	$1,068,994,000	$1,112,695,000	$1,156,811,000	$1,199,550,000	$1,243,019,520	$1,268,642,268
Growth	4.86%	4.09%	3.96%	3.69%	3.62%	3.51%
Total Revenues[2]	$1,817,198	$1,889,375	$1,959,327	$2,028,369	$2,099,362	$2,337,179
Debt service as a percentage of Total Revenue	7.71%	8.01%	7.66%	7.60%	7.53%	7.28%
PSFM imposed limit	10%	10%	10%	10%	10%	10%

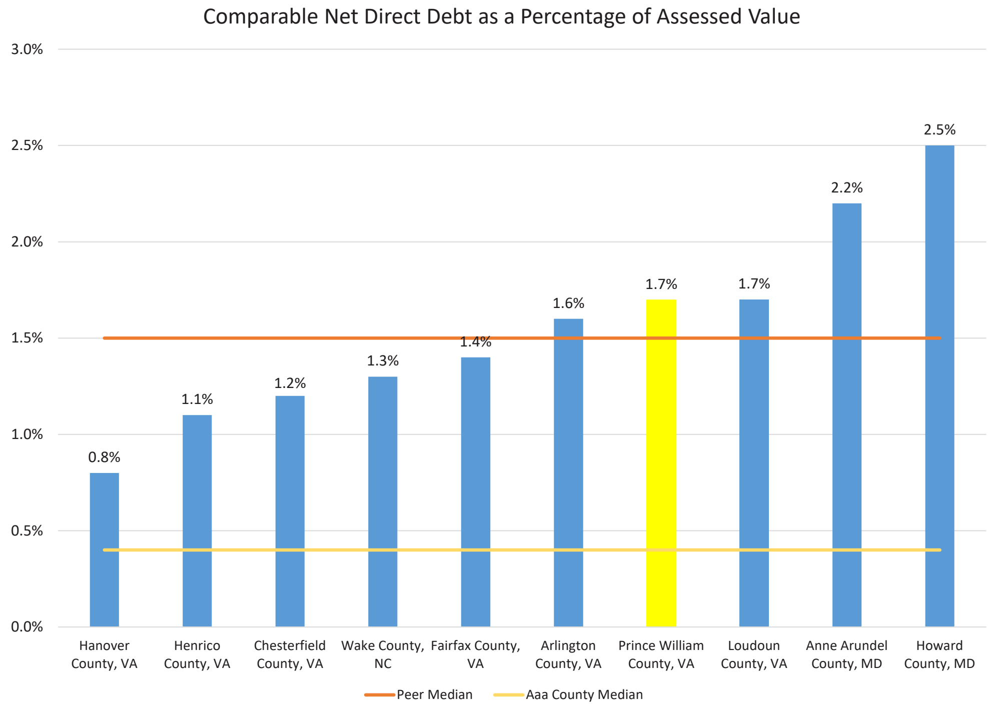
Source: [1] Table 2 2019 CAFR and FY 20 - 24 Revenue Forecast; FY 2025 is based on the February 18, 2020, proposed FY 21- 25 Revenue Forecast
[2] Table 14 FY 2019 CAFR. Includes revenues for the General Fund, Special Revenue Funds and the School Board and ADC component units

Moody's looks at net direct debt as a percentage of assessed value to measure the ability of a municipality to meet its debt obligations. This metric reflects how much debt has been issued relative to the value of the real property within Prince William County. Increased use of cash to fund capital needs, all other things held constant, can negatively affect this metric. The 'Aaa' target is less than 0.75%. The County, at 1.7%, falls outside of this target and scores in the 'A' category. In general, in Virginia, local governments have debt burdens that exceed national medians, largely due to debt issued for schools.



AAA target < 0.75%

Source: Moody's Financial Ratio Analysis database

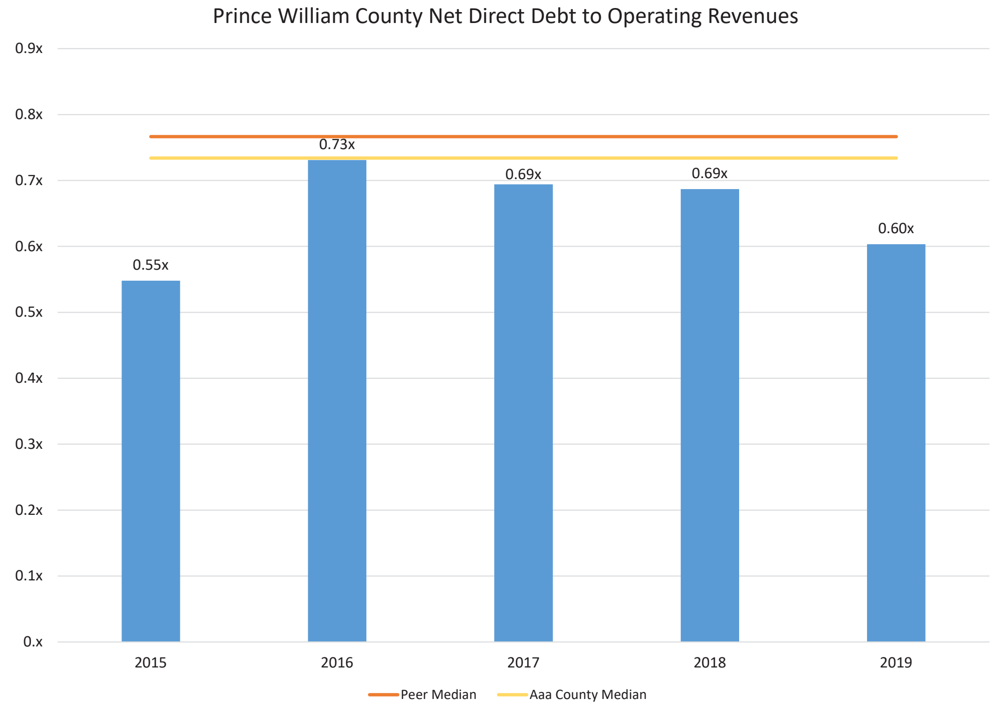


AAA target < 0.75%

Source: Moody's Financial Ratio Analysis database, all data is as of FY 2019

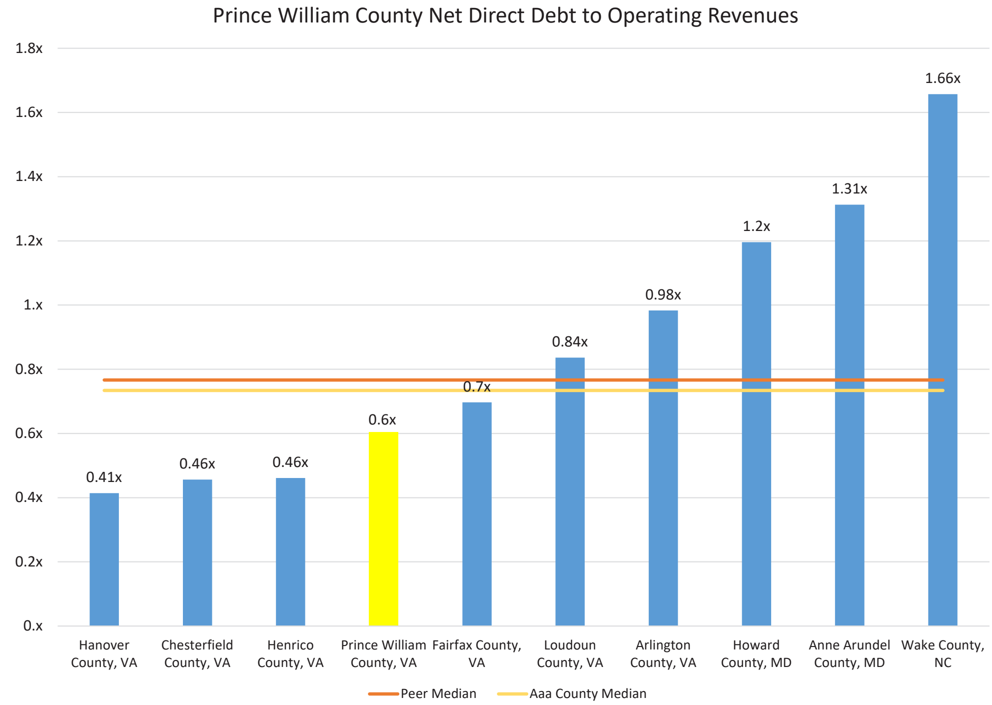
S&P also looks at this metric and improves the score when net debt to assessed value is below 3%. Compared to all other peer group jurisdictions, Prince William County lags most of its peers. However, all the jurisdictions fall outside the triple-A target.

Net direct debt relative to operating revenues is another factor evaluated by Moody's. This metric expresses the potential budgetary impact of future debt service and speaks to the relative affordability of debt obligations based on current revenue sources. The 'Aaa' target is less than 0.33x. The County score at 0.60x earns an 'A' rating. The County however, scores better than both the 'Aaa' county median and the peer group median as all other peer jurisdictions also fall outside the 'Aaa' target. Again, because local governments in Virginia are responsible for funding schools' capital expenditures, it is common for Virginia credits lag the national medians and 'Aaa' target.



AAA target < 0.33x

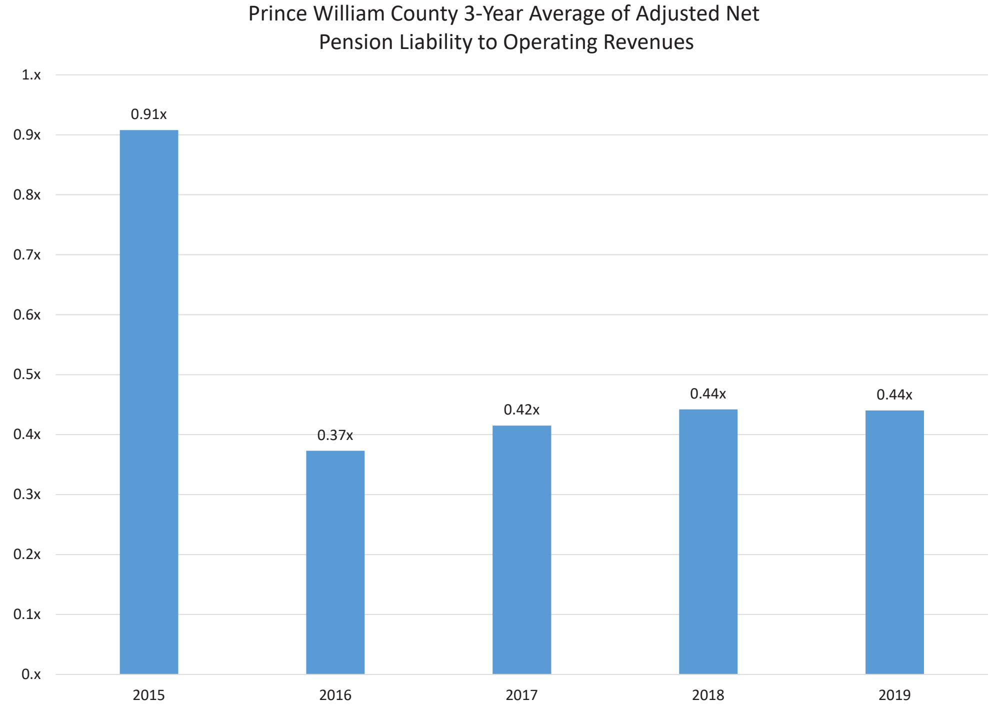
Source: Moody's Financial Ratio Analysis database



Source: Moody's Financial Ratio Analysis database, all data is as of FY 2019

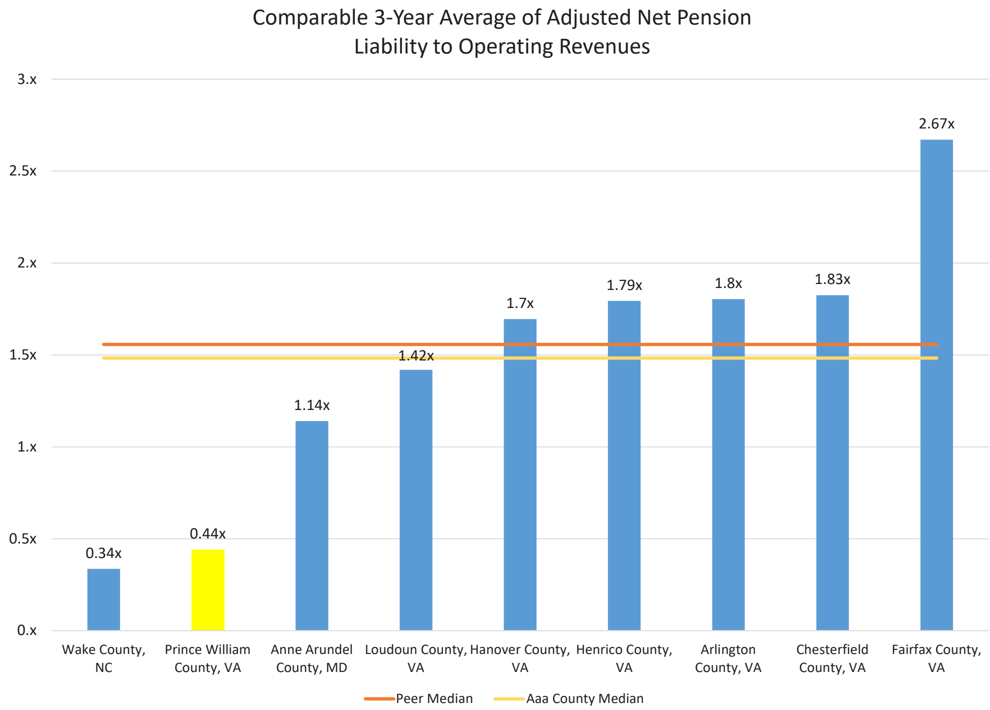
Pensions

Another liability the rating agencies assess is the pension liability. Unfunded pension liabilities represent a long-term liability and can present future budgetary pressures if not reduced. The historic three-year average net pension liability relative to operating revenues for the County is 0.44x which is above the 'Aaa' target <0.40x. Prince William scores much better than the peer median and the 'Aaa' County median due largely in part to the Board of County Supervisors' commitment to fully funding the annual actuarially required contribution into the pension plans. Of the 118 counties that Moody's rates 'Aaa', as of the most recent data published by Moody's, only 10 counties met the 'Aaa' target of <0.40x.



AAA target < 0.40x

Source: Moody's Financial Ratio Analysis database

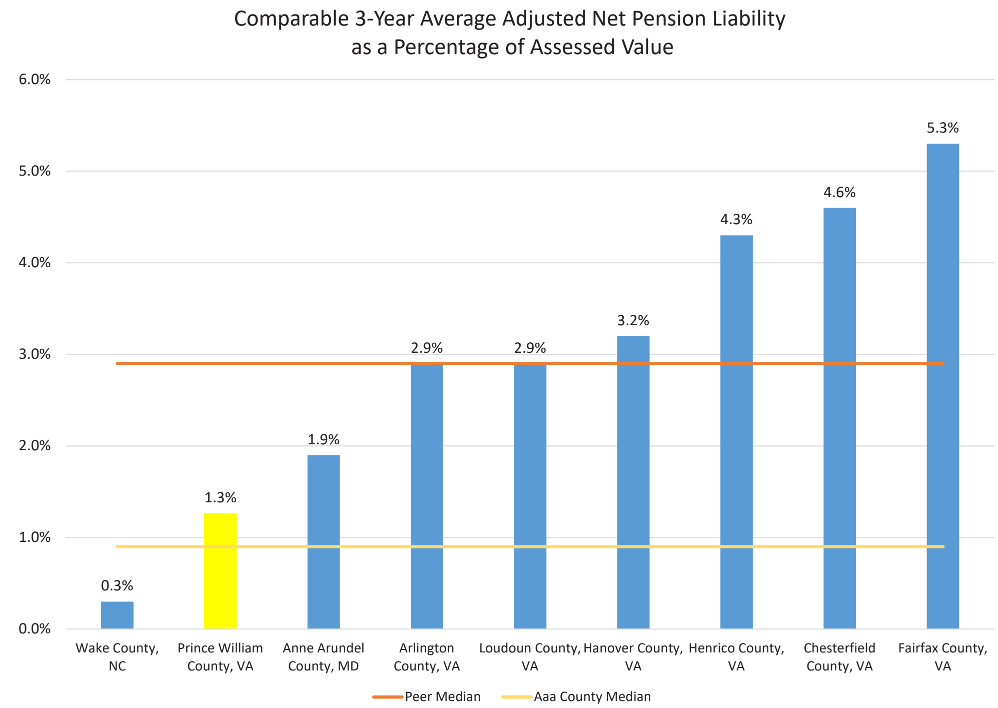


Source: Moody's Financial Ratio Analysis database, all data is as of FY 2019

S&P also looks at the 3-year average net pension liability as a percentage of assessed value. The tax base is evaluated for its capacity to generate future revenue for accrued pension obligations for which assets have not been set aside. The County earns a 'Aa' rating in this category with 1.3% which is above the 'Aaa' County median, and above the 'Aaa' target of less than 0.9%. The County, however, scores better than the peer median.

AAA target < 0.9%

Source: Moody's Financial Ratio Analysis database



Source: Moody's Financial Ratio Analysis database, all data is as of FY 2019

ECONOMIC ENVIRONMENT

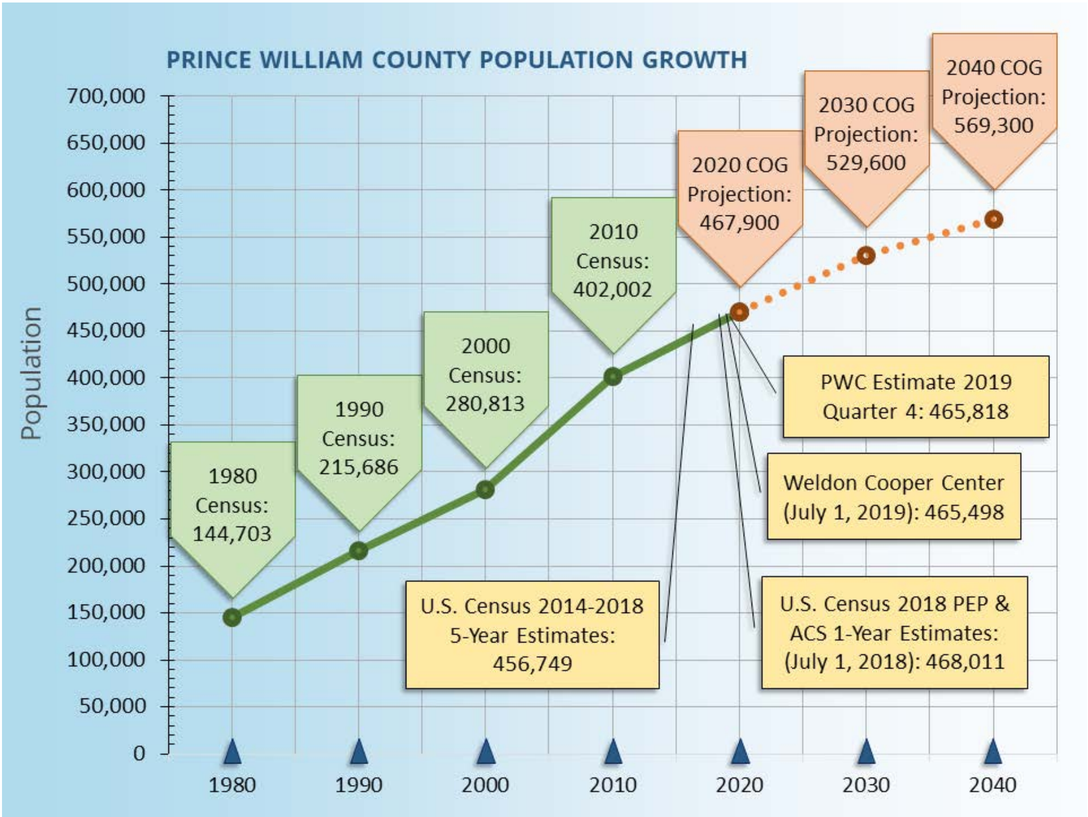
The political and economic environment begins with the governing body. The rating agencies look at the stability of the Board of County Supervisors, adherence to the Principles of Sound Financial Management and consistency in operations. Governance factors capture an organization's willingness to make proactive policy decisions to ensure the maintenance of a strong financial position and reliable financial cushion. Rating agencies report that entities that attempt to increase expenditures for popular services and programs and simultaneously pledge not to raise taxes or cut other programs will generally experience negative impacts such as a deterioration in their balance sheets as reserves are extinguished and the debt load grows. Historically, the County has scored very well in this area, with the institutional framework and management assessment at 'very strong'.

The County is continuing to experience a growing population. The County demographer estimates the population in the County at 465,818 as of the fourth quarter of 2019. The chart below illustrates periods of major growth in the county in the 1960s and 1970s followed by even larger gains leading up to the Great Recession. The county is forecast to maintain population growth in the coming decades but at a decreasing pace as time passes.

Prince William County
Historical Population Data

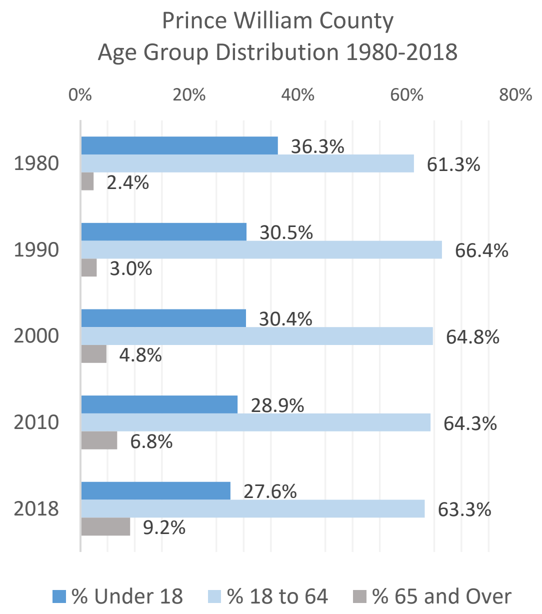
Year	Count	Gain/Loss	% Change
1900	11,112	1,307	13.33%
1910	12,026	914	8.23%
1920	13,660	1,634	13.59%
1930	13,951	291	2.13%
1940	17,738	3,787	27.15%
1950	22,612	4,874	27.48%
1960	50,164	27,552	121.85%
1970	111,102	60,938	121.48%
1980	144,703	33,601	30.24%
1990	215,686	70,983	49.05%
2000	280,813	65,127	30.20%
2010	402,002	121,189	43.16%
2020	467,900	65,898	16.39%
2030	529,600	61,700	13.19%
2040	569,300	39,700	7.50%

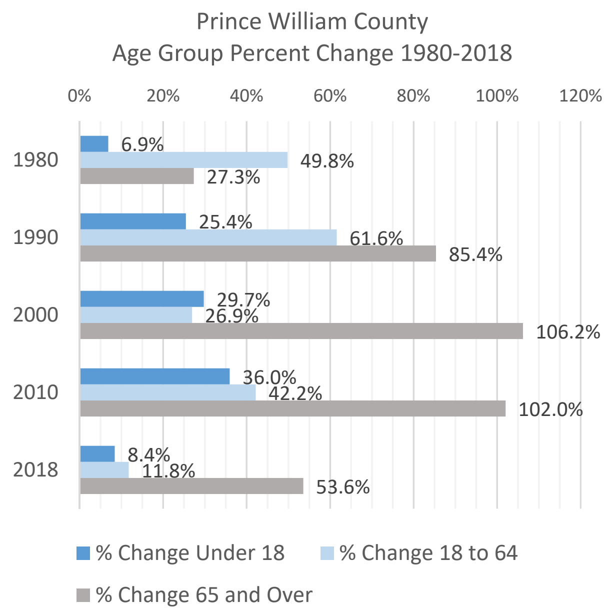
Sources: Prince William County Demographer – Historical population retrieved from University of Minnesota Population Center's NHGIS; Population projections from Metropolitan Washington Council of Governments



Sources: Prince William County Demographer – Historical population retrieved from University of Minnesota Population Center's NHGIS; Population projections from Metropolitan Washington Council of Governments

Demographic factors drive demands for programs and services, impacting the expenditures of a local government. The largest sector of the County population is the 18 to 64-year-old age group but the fastest rate of growth continues to be in the 65 and over category. By 2020, the County could see just over 45,000 people ages 65 and over, an increase of nearly 18,000 from 2010 in this age category compared to an increase of just over 13,000 between 2000 and 2010.

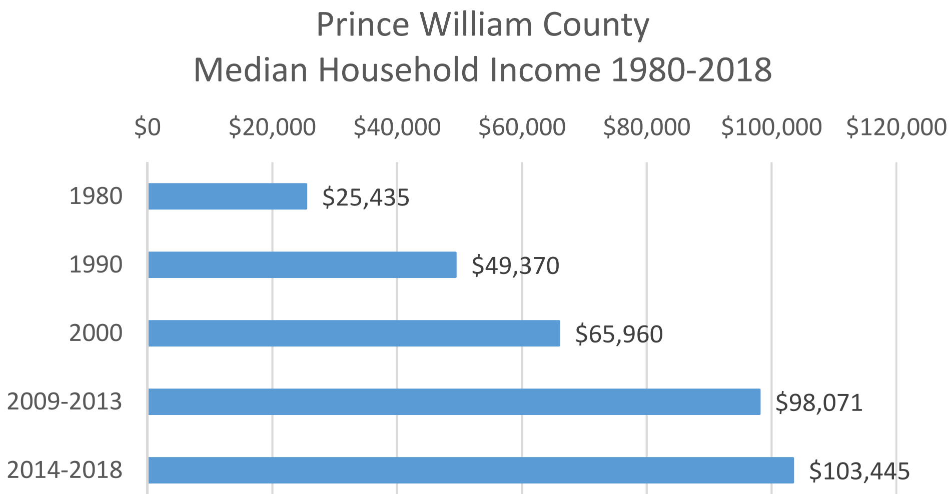




Sources: PWC Demographer: Historical population retrieved from University of Minnesota Population Center's NHGIS; 2014-2018 American Community Survey (ACS) 5-Year Estimates.

Wealth

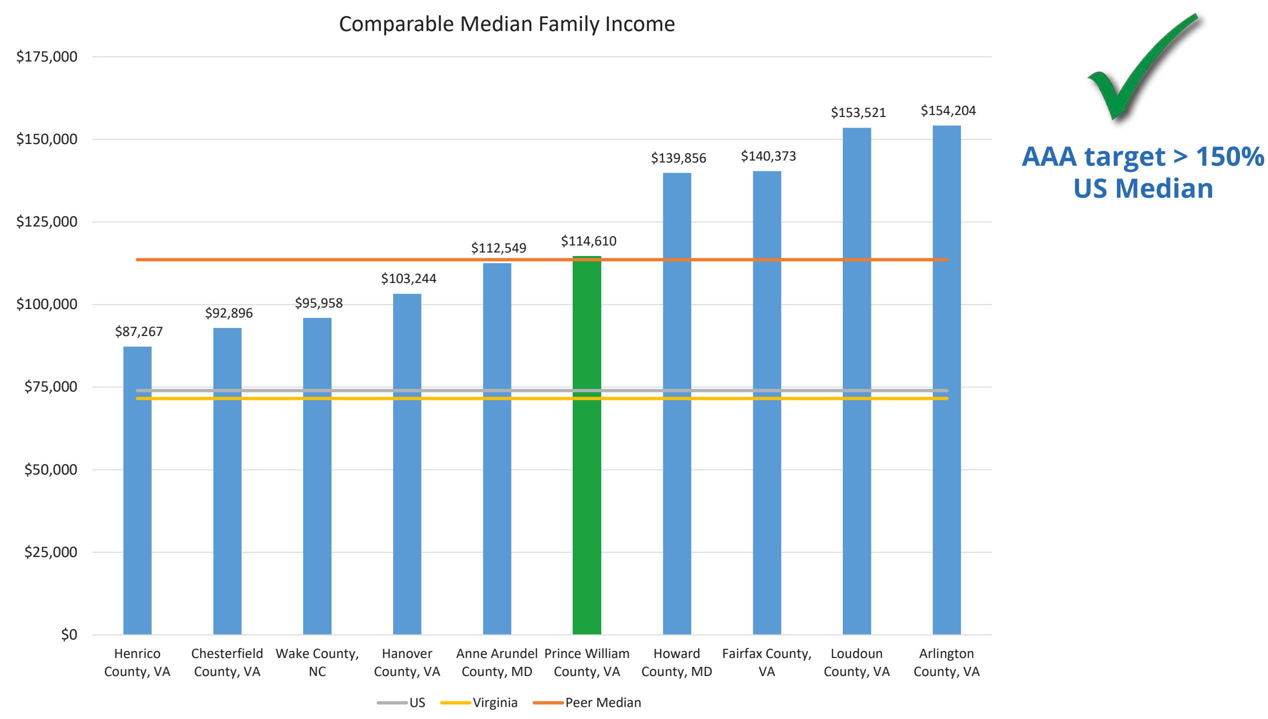
A high median household income is a positive economic indicator and a measure of the strength and resilience of a tax base. A jurisdiction with high wealth levels may have greater flexibility to increase property tax rates to meet financial needs. Wealthier communities also have greater spending power and drive demand to support growth in the commercial sector. For example, even during the Great Recession, the retail industry in Prince William County remained relatively strong. The 2014-2018 median household income as reported by the U.S. Census American Community Survey increased to just above $103,000, up from $98,071 just five years earlier.



Sources: PWC Demographer: Data for 1980-2000 retrieved from University of Minnesota Population Center's NHGIS; U.S. Census American Community Survey (ACS) 2009-2013 5-Year Estimates and 2014-2018 5-Year Estimates.

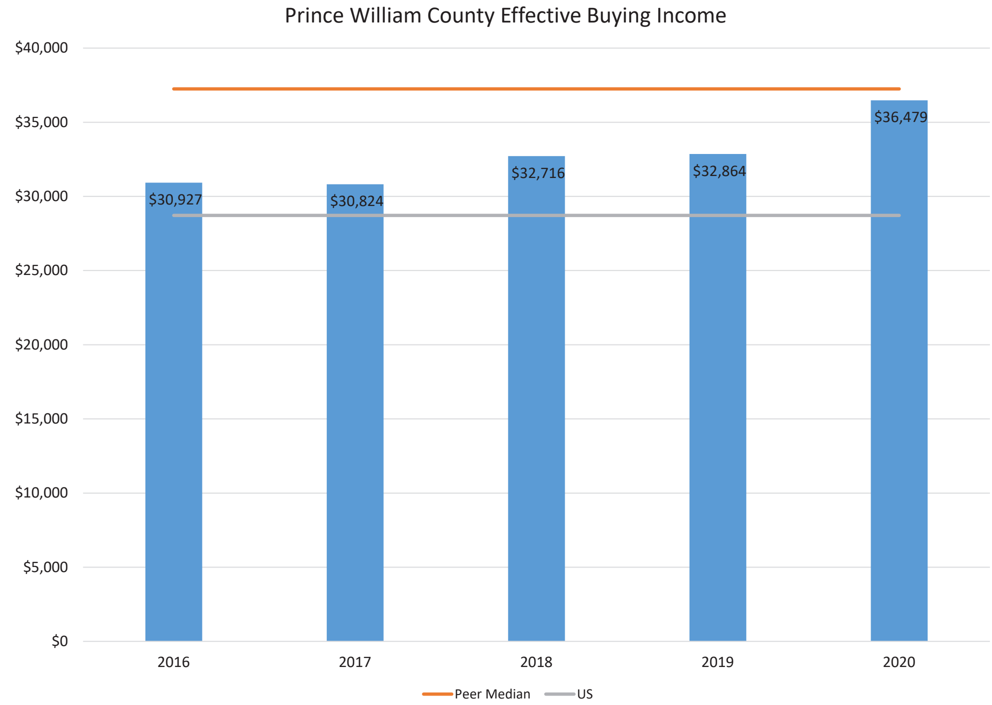
Moody's analyzes median family income as opposed to median household income. Household income includes the income of all people who occupy a housing unit regardless of relationship, whereas family income measures the income of two or more people related by birth, marriage or adoption. Per Moody's, median family income provides a better reflection of the strength of the tax base.

On the median family income, the County also scores very strongly as a 'AAA' at $114,610. This is above the 'AAA' target of 150% of the U.S. median or $73,965.



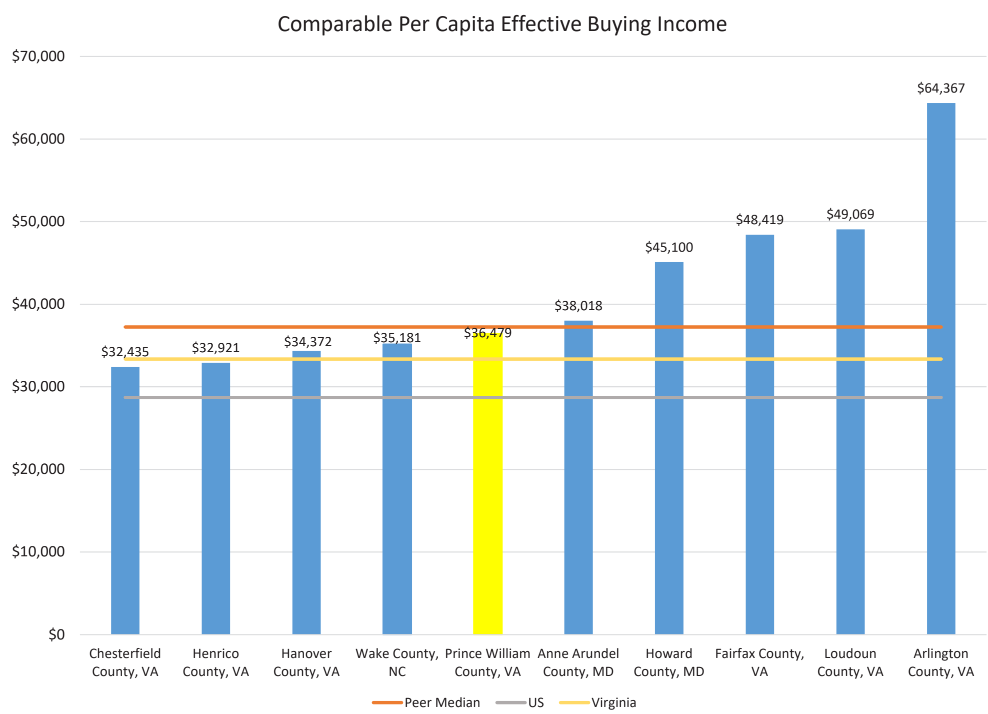
Source: American Factfinder, 2018 5-Year Estimate

S&P reviews effective buying income and considers 150% of the U.S. median as 'Aaa' rated. Effective buying income (EBI) is similar to disposable income. With EBI of $36,479, the County ranks slightly below the peer group median at $37,248. The U.S. median EBI is $28,719. At 150% of the U.S. median, the 'Aaa' target equates to $43,079. The County falls below this target.



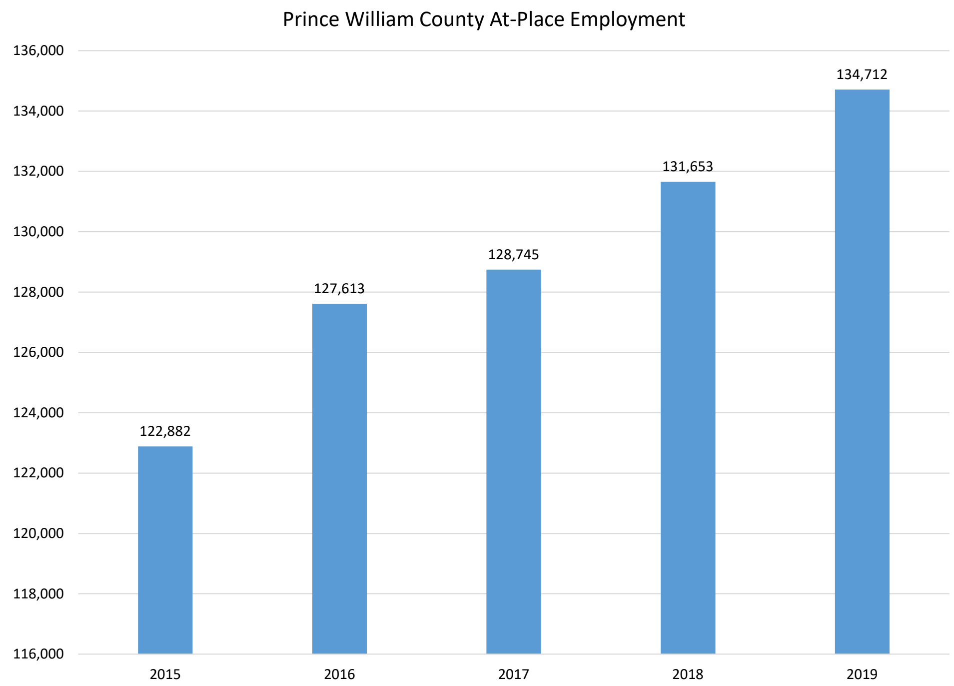
AAA target > 150% US Median

Source: EBI from Nielsen's Claritas database



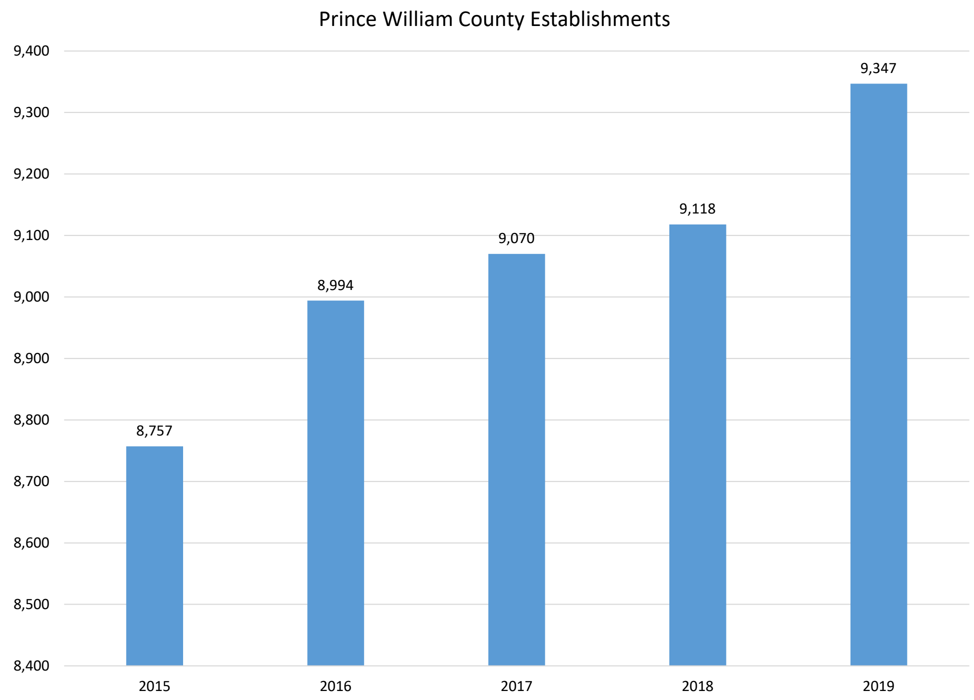
Source: EBI from Nielsen's Claritas database, data as of 2020

An area where the County has experienced consistent year-over-year growth is reflected in at-place employment. This is an important statistic to monitor as increases in employment signifies more jobs to generate more income to pay taxes. The rating agencies have positively noted the County's diverse economy and economic development efforts to grow and expand a high-end employment base.



Source: Virginia Employment Commission, Quarterly Census of Employment and Wages, 2nd Quarter 2019

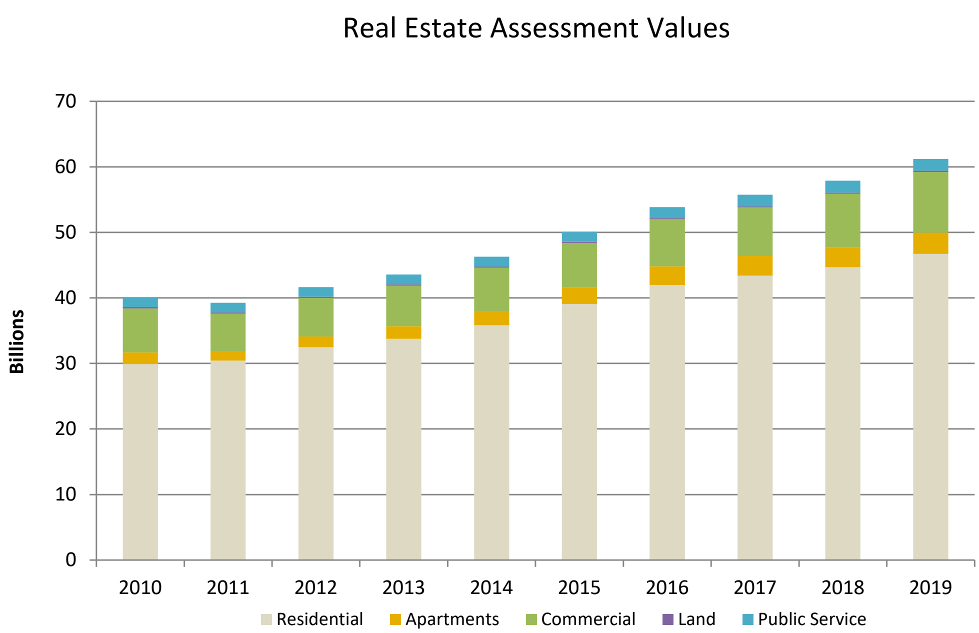
The County has also demonstrated steady growth in the number of business establishments, a sign of a healthy local economy.



Source: Virginia Employment Commission, Quarterly Census of Employment and Wages, 2nd Quarter 2019

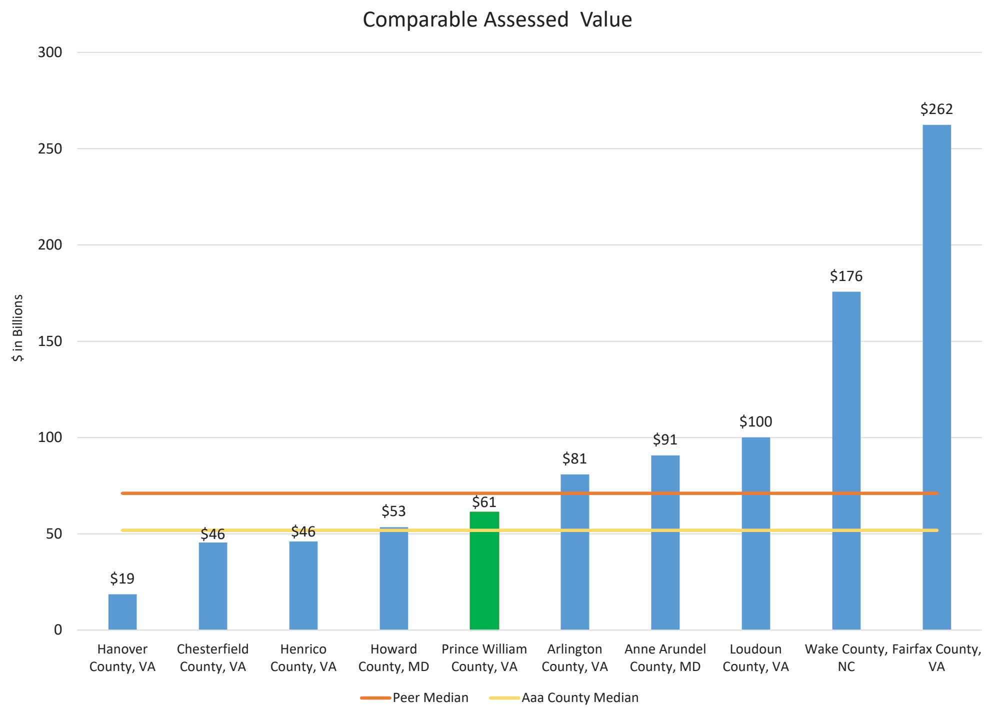
Assessed Value

The tax base is the primary source from which a local government derives its revenues. A large, robust, diverse tax base typically offers a local government more flexibility, as well as protection from unexpected shocks, such as the loss of a significant employer or industry. A smaller more concentrated tax base, on the other hand, is more prone to feel the impacts of such loss due to the dependency on a fewer number of properties. Prince William County displays consistent growth in its real estate tax base as demonstrated in the chart below which reflects the growth in annual land book values.



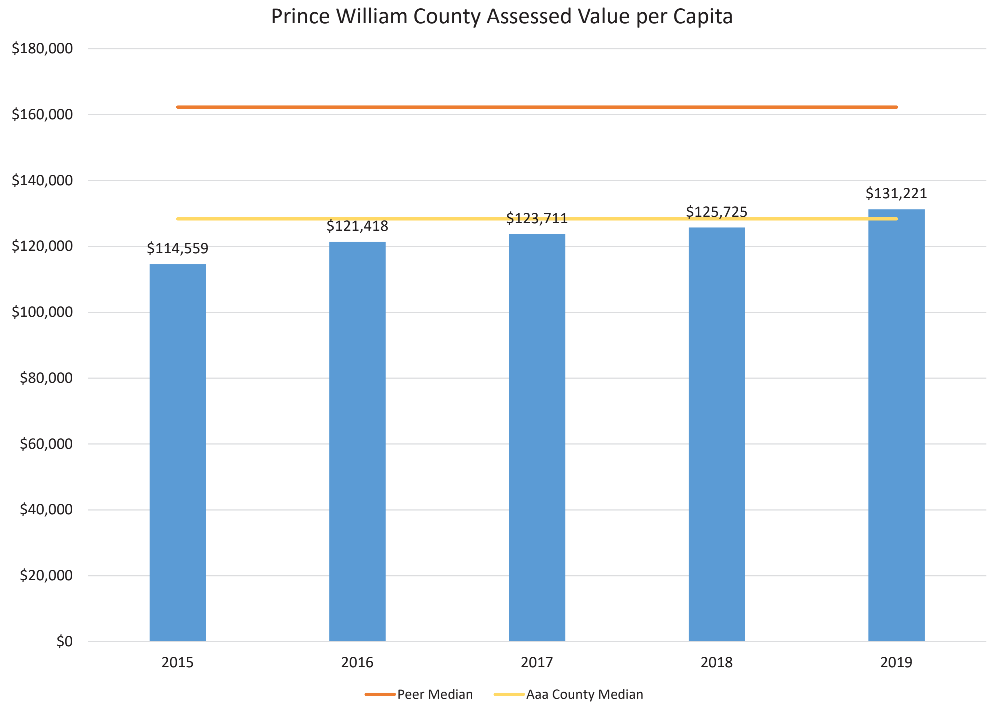
Source: Prince William County Real Estate Assessments Annual Report FY 2019

The County’s tax base has continued to rebound since the downturn in the economy, now with nine years of continued growth and values that exceed pre-recession values. Moody’s rates a tax base of greater than $12 billion as ‘Aaa’ worthy. The 2019 Land Book exceeded $61 billion, a strong ‘Aaa’ score, though the County remains more heavily concentrated in residential properties as compared to some of its peers.



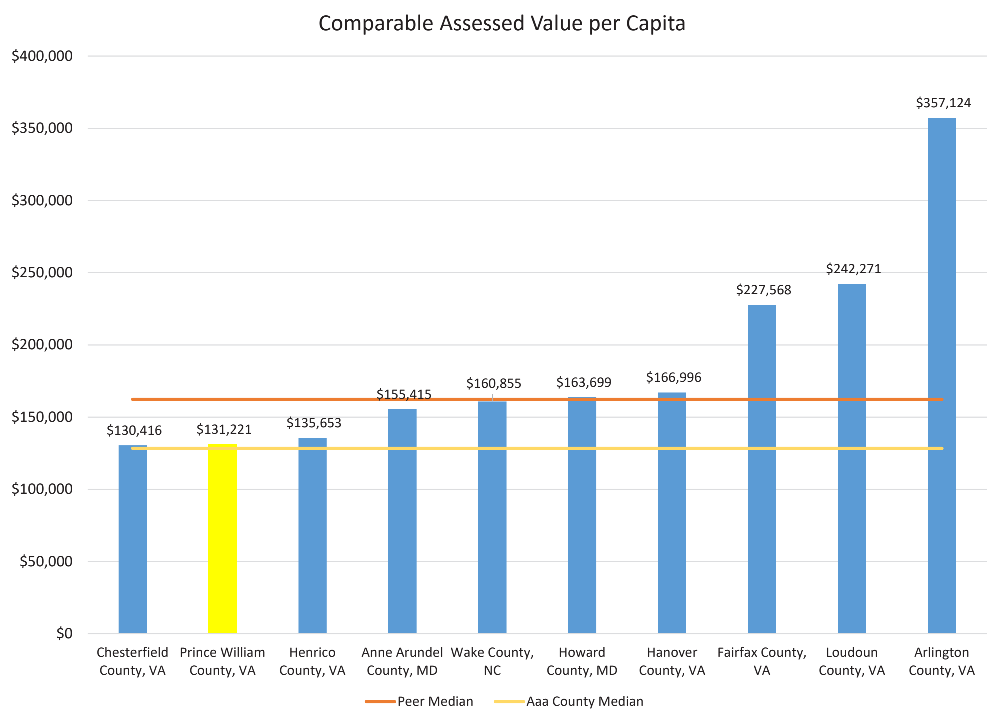
Source: Moody’s Financial Ratio Analysis database, all data is as of FY 2019

Moody's regards historical assessed value per capita of greater than $150,000 as a 'Aaa' target. This metric converts the taxable property available to generate revenues to a per resident metric, depicting the availability of tax-generating resources to fund programs and services relative to the users. The County achieves a 'Aa' for this factor with $131,221. Of the 118 counties that Moody's rates 'Aaa', as of the most recent data published by Moody's, only 32 counties met the 'Aaa' target for this metric.



AAA target > $150,000

Source: Moody's Financial Ratio Analysis database



Source: Moody's Financial Ratio Analysis database, all data is as of FY 2019

Economy

Entering 2020, consensus projections pointed to the U.S. economy producing a modest growth rate of ~1.9%. Those forecasts quickly evaporated as confirmed cases of COVID-19 spread throughout the United States during the month of March. The FOMC has responded aggressively by cutting the Federal Funds Rate 1.50% to a range of 0.00% - 0.25% and implementing various programs to ease liquidity pressures within the financial system. Complimenting the Federal Reserve's monetary policy initiatives, President Trump signed a $2.2 trillion fiscal stimulus package on March 27th known as the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

In addition, Congresswoman Pelosi indicated to Democratic colleagues during an April 6th conference call another round of fiscal stimulus will be at least $1 trillion. Lawmakers on the call revealed future funds would replenish programs established under the CARES Act with weight on direct payments to individuals, extended unemployment insurance, and small business support. Pelosi also indicated the bill should support state and local governments, particularly municipalities with fewer than 500,000 residents. Despite unprecedented current and pledged monetary/fiscal support, the path forward for the world economy and markets remains clouded owed to the uncertainty COVID-19 presents.

While U.S. GDP forecasts for the year ending 2020 represent an extreme exercise in "best guess" scenarios (-1.0% based on Bloomberg survey results), confirmed March employment data points to a challenging road ahead. For the weeks ending March 21st and March 28th Americans filing for unemployment benefits were 3.31 million and 6.65 million, respectively. During the previously referenced two-week period the Commonwealth of Virginia saw an increase of 114,104 residents seeking unemployment benefits. As first quarter 2020 progressed through late February, forecasts of "V" shaped recoveries were quite prominent. But, as COVID-19 has continued to inflict yet to be realized human and economic costs, a sharp rebound during 2020 appears to be a scenario unlikely to materialize given the absence of an effective treatment or vaccine.

As the County moves forward through this new economic environment, leaders should remain focused and not deviate from the practices that have led to the triple-A ratings. Over the years the rating agencies have positively adjusted the County's scorecard for its adherence to good governance/management practices and financial/budgetary performance. As we look beyond fiscal year 2020, particular focus should be given to the following:

- Ample reserves:
  - Form the foundation for triple-A ratings
- Adherence to the Principles of Sound Financial Management:
  - Adoption of a Five-Year Plan
- Fund Balance:
  - Preservation of a Capital Reserve
  - Maintenance of the Revenue Stabilization Reserve and the Economic Development Opportunity Fund Reserve

Sources:

PFM Financial Advisors, LLC.

Moody's Investors Service Rating Methodology

Standard & Poor's Ratings Services Ratings Direct

2019 Annual Report Prince William County Real Estate Assessments Office

Prince William County Demographer

Virginia Employment Commission, Quarterly Census of Employment and Wages

Nielsen's Claritas Database.

Moody’s Scorecard Summary

Factors & Subfactors	Weight
Factor 1: Economy/Tax Base	30%
Full Value (market value of taxable property)	10%
Full Value per Capita	10%
Median Family Income	10%
Factor 2: Finances	30%
Fund Balance as % of Operating Revenue	10%
5-Year Dollar Change in Fund Balance as % of Revenues	5%
Cash Balance as % of Revenues	10%
5-Year Dollar Change in Cash Balance as % of Revenues	5%
Factor 3: Management	20%
Institutional Framework	10%
Operating History: 5-Year Average of Operating Revenues/Operating Expenditures	10%
Factor 4: Debt/Pensions	20%
Net Direct Debt / Full Value	5%
Net Direct Debt / Operating Revenues	5%
3-Year Average of Moody's Adjusted Net Pension Liability/ Full Value	5%
3-Year Average of Moody's Adjusted Net Pension Liability/Operating Revenues	5%
Indicated Rating Score	100%

S&P’s Scorecard Summary

Factors & Subfactors	Weight
Factor 1: Institutional Framework Score	10%
Framework Score	
Factor 2: Economy	30%
Market Value per Capita	15%
Per Capita Effective Buying Income %	15%
Factor 3: Management	20%
Management Score	
Factor 4: Budgetary Flexibility	10%
Fund Balance as a % of Expenditures	
Factor 5: Budgetary Performance	10%
Total Governmental Funds Net Result	5%
General Fund Operating Balance to Operating Expenditures	5%
Factor 6: Liquidity	10%
Total Cash as a % of Total Governmental Funds Expenditures	5%
Total Cash as a % of Total Governmental Funds Debt Service	5%
Factor 7: Debt and Liability	10%
Net Direct Debt as a % of Total Governmental Funds Revenue	5%
Debt Service as a % of Expenditures	5%
Rating	**100%**

PRINCE WILLIAM COUNTY

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