Prince William

Finance

2020

Fiscal Health Outlook Report

Published June 2021

Prince William County

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Introduction

This report provides a framework for monitoring Prince William County's financial condition for fiscal year 2020. 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 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 Standard & Poor's (S&P's) ratings reports which contain financial information from the peer group's respective Comprehensive Annual Financial Reports. The comparison group includes the Virginia counties of Arlington, Chesterfield, Fairfax, Hanover, Henrico, and Loudoun, as well as Anne Arundel and Howard County, Maryland and Wake County, North Carolina. Additionally, the data in the economic charts originates from various sources and is so noted.

While the outbreak of the novel coronavirus (COVID-19) and related government containment measures worldwide created an uncertain global environment for the U.S., state and local governments, and related entities, the County saw growth in real estate, personal property, and sales tax revenues. General fund revenues exceeded the budget for fiscal year 2020 by 4.7%. The County benefits from being part of the Washington, D.C. metropolitan area, its relative affordability compared to neighboring counties and a well-educated workforce. The County's stable economic base, rooted in government and military employment, has expanded to encompass the targeted industries of information communication technology; life sciences and biotechnology; specialized logistics and supply chains; federal government agencies/contractors and corporate facilities; and small business and entrepreneurs. The management team closely monitored the effect of stay-at-home orders on its operations and factored further economic weakness stemming from the recession into its budget for fiscal year 2021. The robust planning initiatives and well-embedded long-term financial forecasting once again reaffirmed the County's credit rating despite the economic disruption underway.

Executive Summary

A credit rating is an assessment of the general creditworthiness of an entity or the creditworthiness of an entity 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 45.

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 OPEB 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 May/June and reaffirmed in October of 2020 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 • Diversifying local economy • 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
Financial Condition	**Financial Condition**
• Solid reserve and ample liquidity position • Very strong budgetary flexibility with available fund balance of 17.8% of general fund expenditures in FY19 • Maintenance of capital reserve fund for pay-go capital	• Slight total governmental fund deficit in FY19
Debt and Pension	**Debt and Pension**
• Conservative debt management practices • Above-average debt repayment with 74% retiring within 10 years • Overall debt per capita of less than 3%	• Debt burden relative to full valuation is above the national Aaa median
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 May 28, 2020, S&P's report dated May 22, 2020, and Fitch's report dated June 2, 2020.

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."

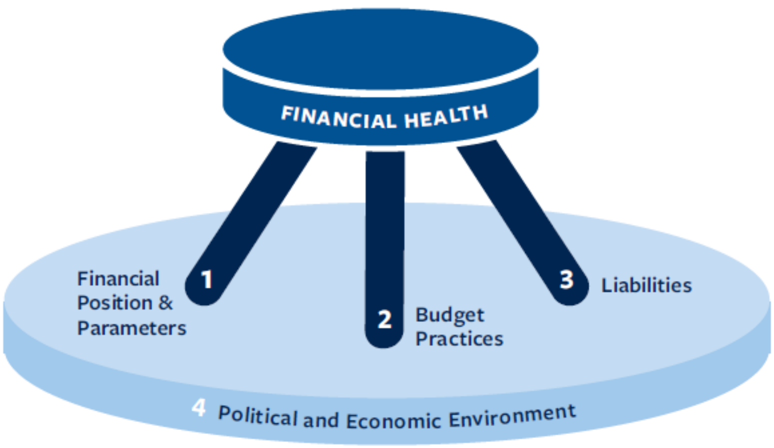
In addition to the financial reporting metric, rating agencies, investors, and analysts today focus on environmental, social and governance (ESG) factors. Given that ESG is becoming increasingly important, rating agencies are adding an ESG component to their methodology with the intention of providing additional details and transparency regarding their assessment of ESG risks. In its recent report, Moody's reported that the County had low exposure to environmental and social risks. As for the governance considerations, the County continues to benefit from strong financial management, conservative budgeting practices, and regular financial reporting, as mentioned in the chart above.

The ability for the County to receive and maintain a triple-A rating is important 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 2020 fiscal year end results to calculate several of the key factors used in the credit rating evaluation. The charts depicting the County as compared to its peer group show County data as 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 Financial Health Model 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 2020, 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."

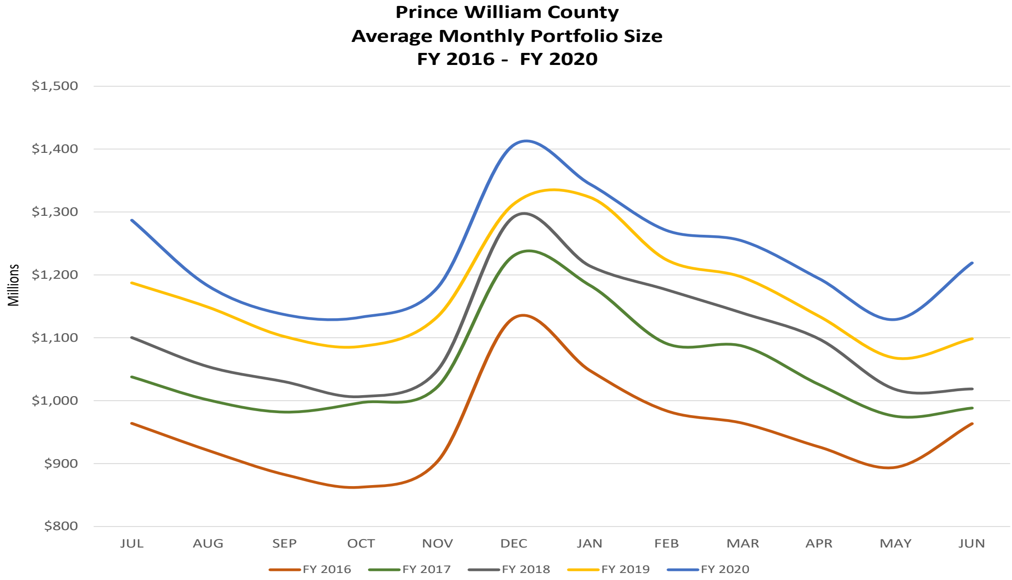


Source: Government Finance Officers Association

Financial Position

Cash

One of the areas assessed related to financial position is cash balance or liquidity. This chart shows the five-year history of the County's portfolio. 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 5.7% since 2016. At present, the Federal Reserve's monetary policy stance should continue to anchor short term interest rates at current levels leading into 2023. Ongoing open market operations conducted by the Federal Reserve are expected to keep the Federal Funds Rate between 0% - 0.25% until officials determine the U.S. economy has successfully navigated the challenges affiliated with the COVID-19 pandemic. Moving forward through the current economic climate, the County's general portfolio yield will be shaped by the interest rate environment at the time securities are purchased, the maturity horizon of portfolio assets, and future cash flow obligations.

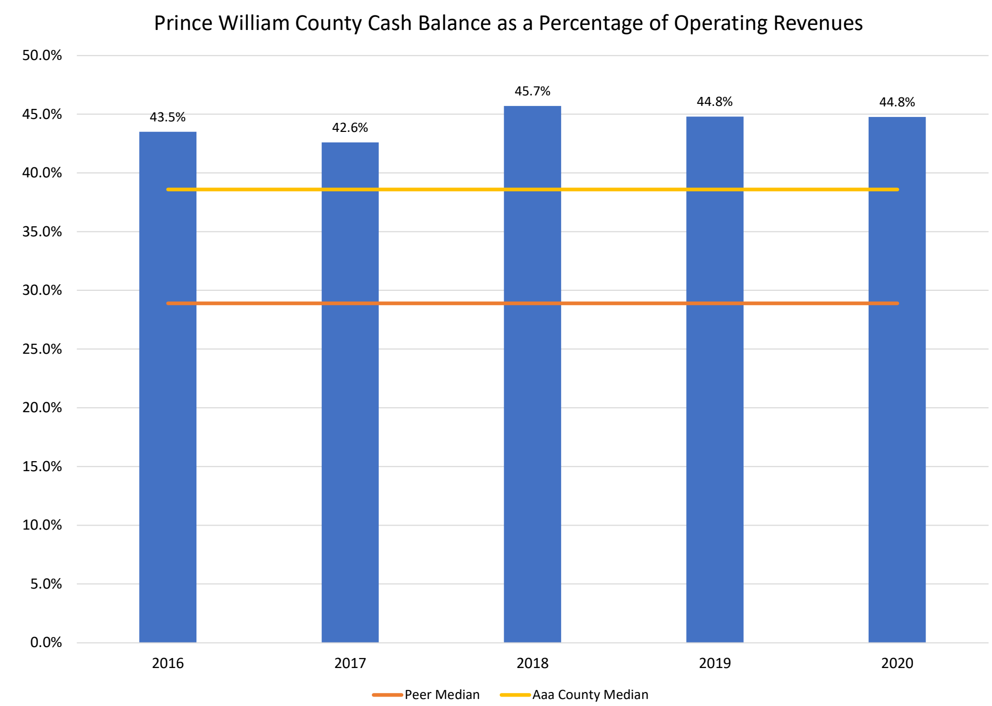


Source: Prince William County Treasury Management

Liquidity

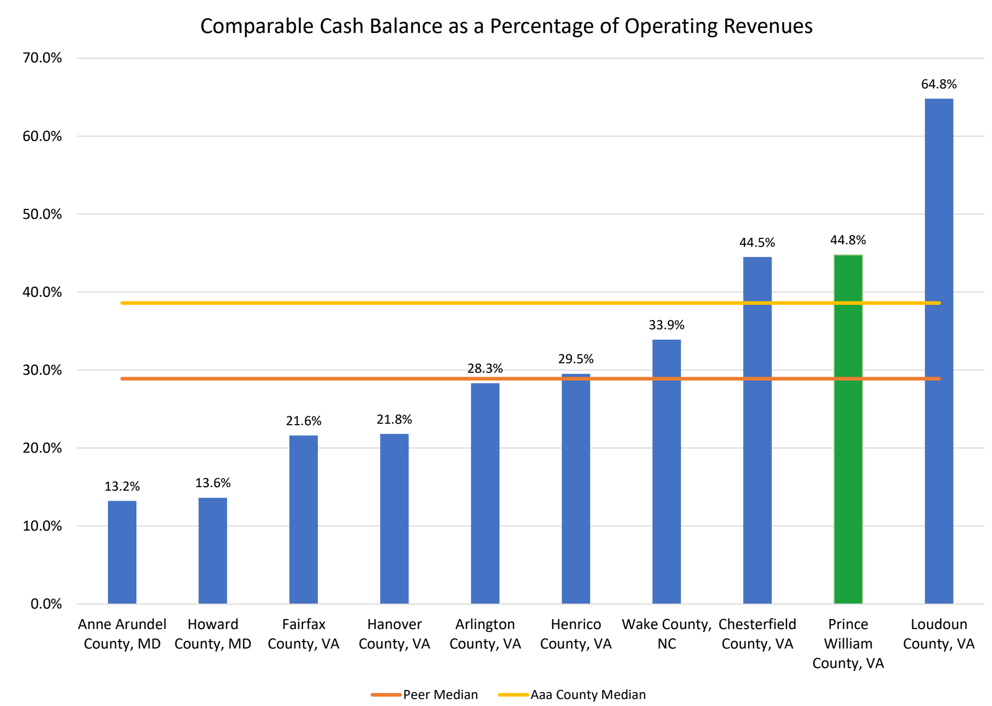
Liquidity ratios analyze the ability of an organization to pay off both its current liabilities as they become due, as well as its long-term liabilities as they become current. In other words, these ratios show the cash balance levels of the County and the ability to turn other assets into cash to pay 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 chart on the following page shows that the County is currently above 40% and rates 'Aaa' in this category, with cash balances exceeding $938 million on June 30, 2020.



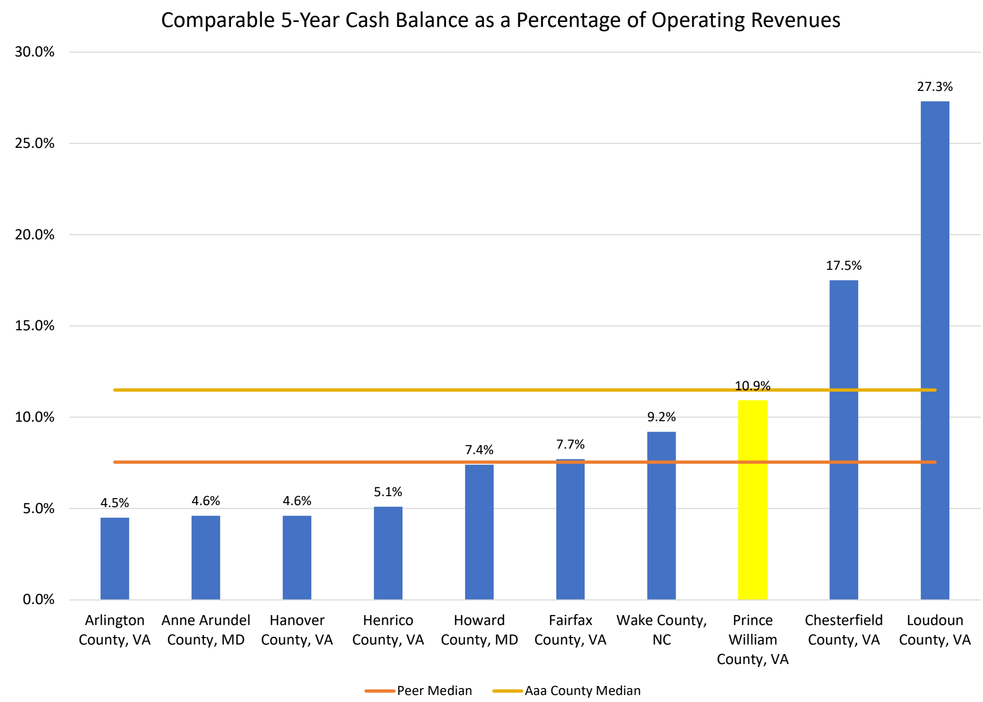
Source: Moody’s Financial Ratio Analysis database.

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 2020.

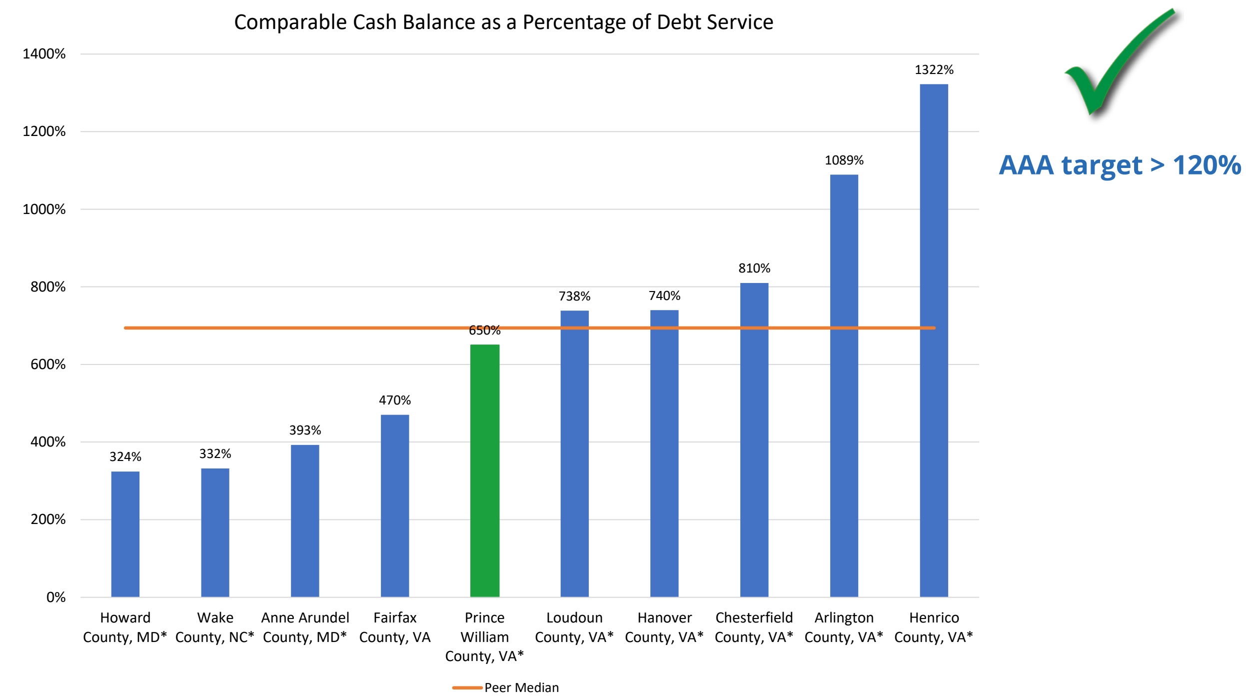
Another liquidity metric calculated by Moody's is the five-year dollar change in cash balance as a percentage of operating revenues. The five-year look provides insight into the structural balance over a full economic cycle. The multi-year trend focuses on financial flexibility and the ability to weather 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 119 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 the peer median, but falls slightly below the 'Aaa' county median of 11.5%.



AAA target > 25%

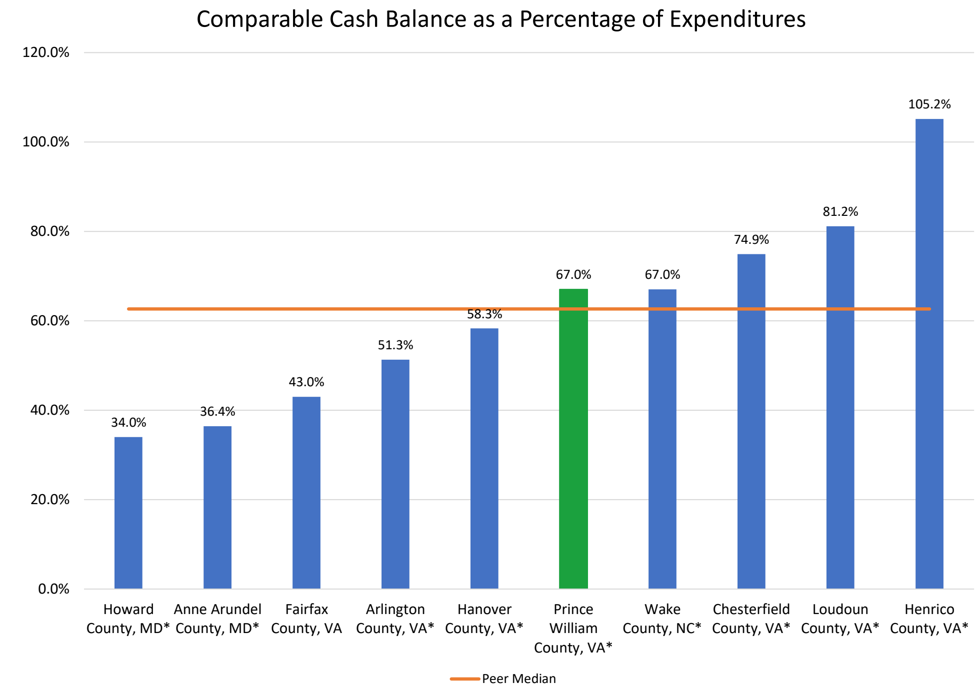
Source: Moody's Financial Ratio Analysis database. All data is as of FY 2020.

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%. The County's percentage increased from the prior year and is well above the target at 650%. The County ranks solidly in the 'AAA' category.



Source: S&P Reports, if available. *Indicates PFM estimate. All data is as of FY 2020.

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 67% which represents the County's enhanced fiscal flexibility should unforeseen events or contingencies occur.



AAA target > 15%

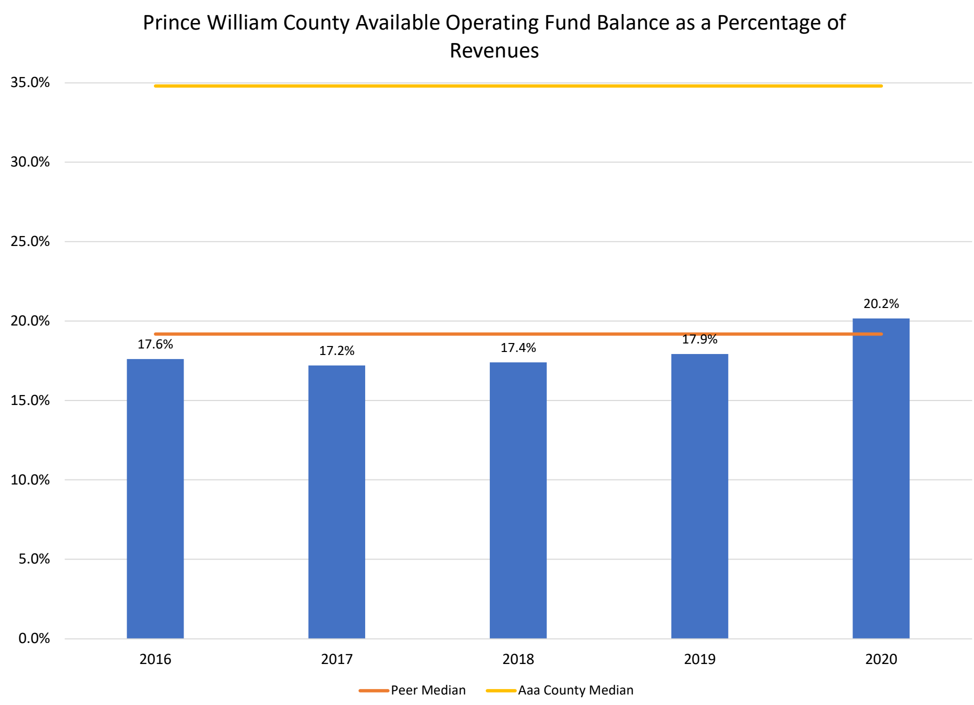
Source: S&P Reports, if available. *Indicates PFM estimate. All data is as of FY 2020.

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 is 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.

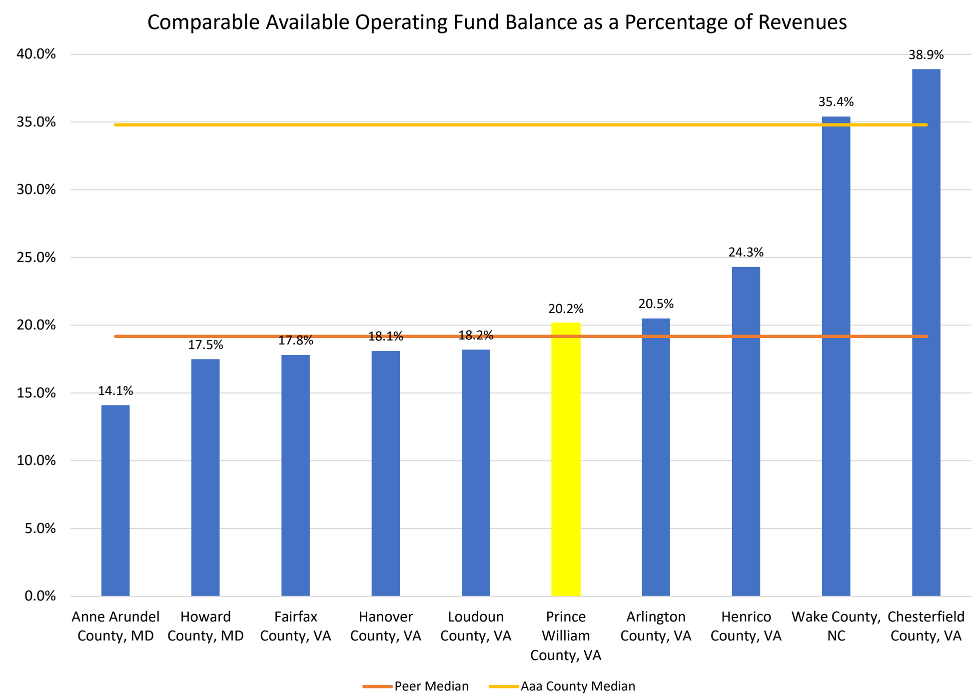
Moody’s measures total fund balance as a percentage of operating revenues, a measurement of “available balances.” The ‘Aaa’ target is greater than 30%. Here the County does not score ‘Aaa’, but rather with 20.2%, scores in the ‘Aa’ category on a pure quantitative scorecard basis. However, in 2020 the County scores better than the peer median for the first time. 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. Rating analysts 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.

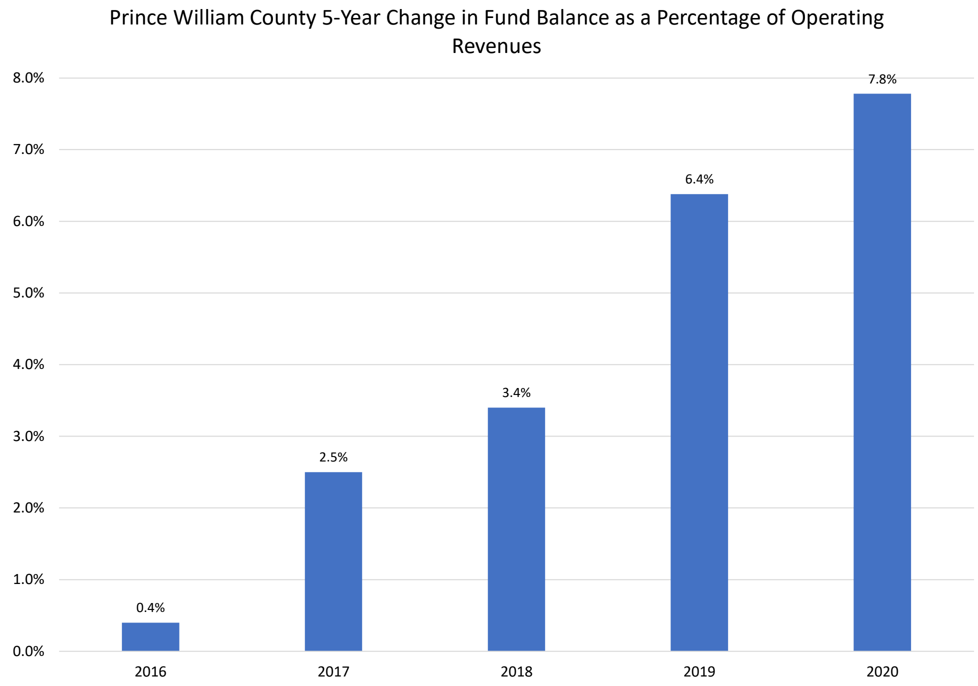
The next chart shows the same fund balance metric as compared to the County's peers. The County scores above the peer median, but below the nationwide Aaa median.



AAA target > 30%

Source: Moody's Financial Ratio Analysis database. All data is as of FY 2020.

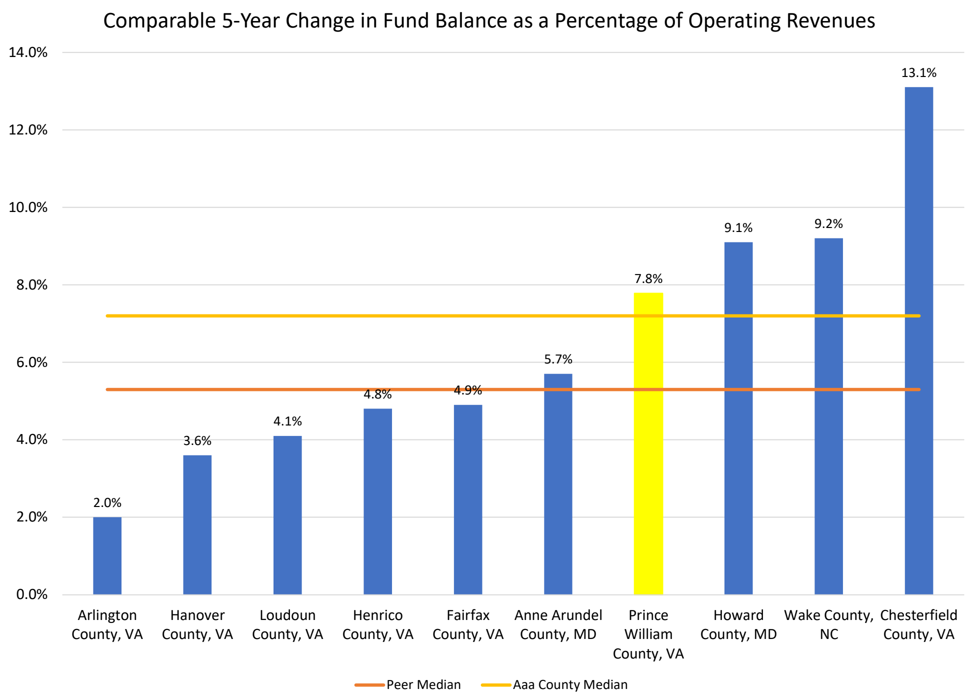
Moody's also looks at the five-year dollar change in fund balance as a percentage of operating revenues, with the 'Aaa' target at greater than 25%. This metric measures growth for each individual locality. In order to score 'Aaa' in this category, the County's fund balance as a percentage of operating revenues would need to grow significantly – over 25% - regardless of the nominal value. The County scores in the 'A' category with 7.8%; however, as indicated below, the trend for the County has improved over the last five years. Of the 119 counties that Moody's rates 'Aaa', only 10 counties scored 'Aaa' on this metric.



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 7.8%, which is above both the nationwide 'Aaa' median of 7.2% and the peer median of 5.3%. It is important to note, 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%.



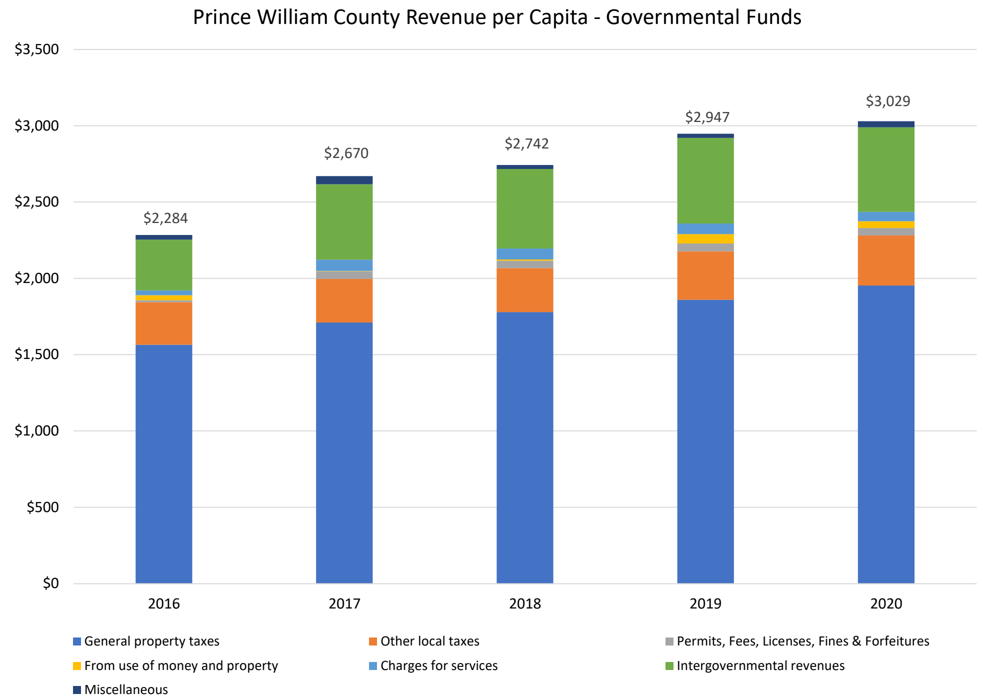
AAA target > 25%

Source: Moody's Financial Ratio Analysis database. All data is as of FY 2020.

Budgetary Practices

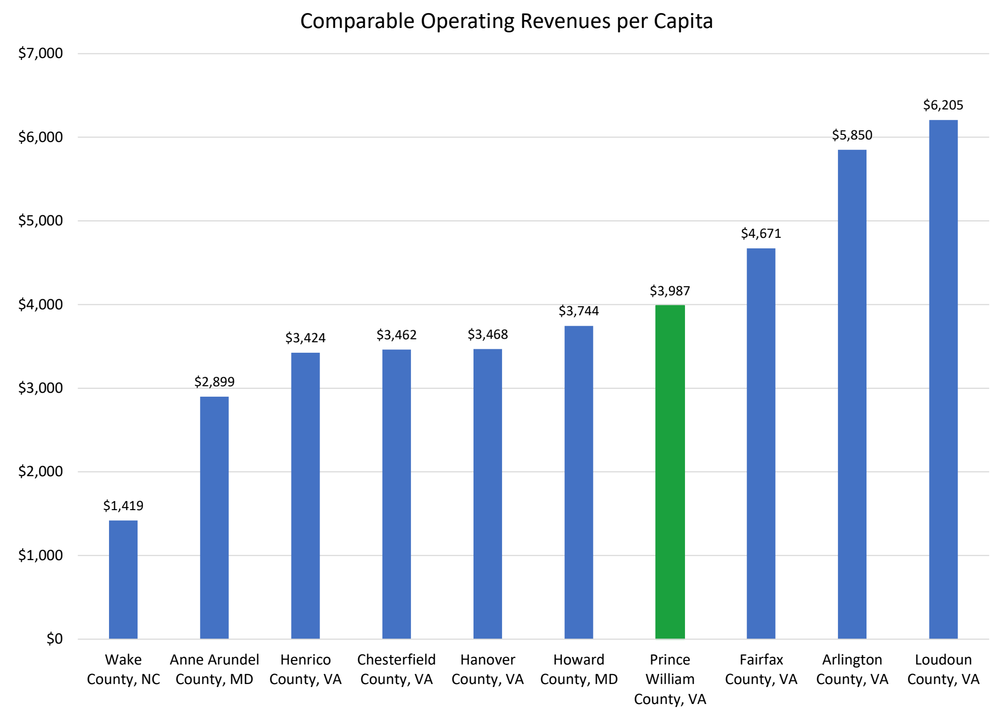
Revenues

A financially sustainable position includes flexible budget practices. This includes adjusting predictions in forecasting revenues and expenditures to meet obligations or raising 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 FY 2020, Table 4.

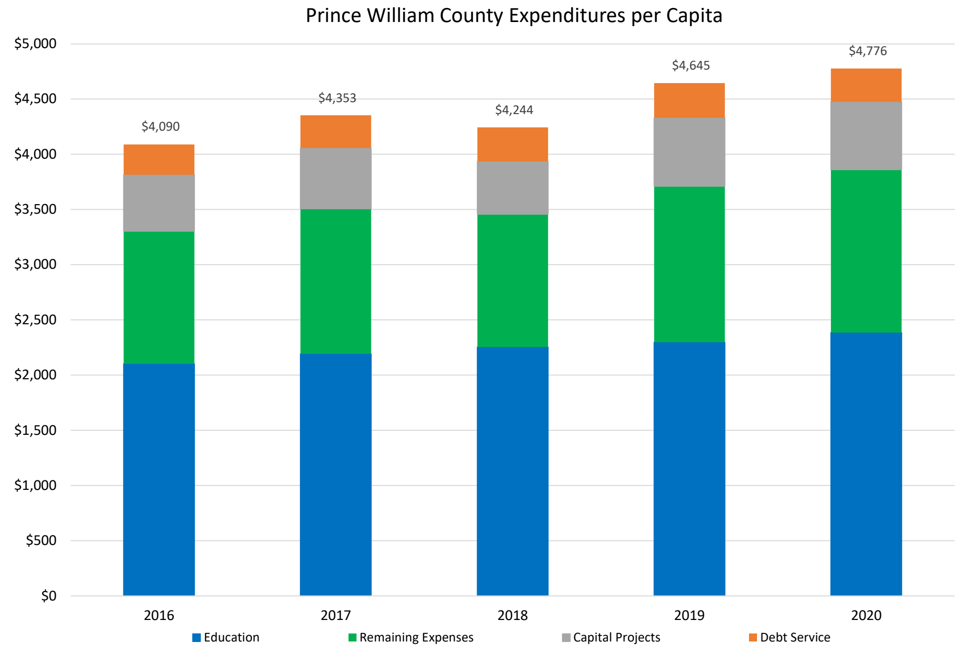
Rating analysts take note of operating revenues per capita as compared to the County's peers. Focus is given to the General Fund and the School Division's revenues and excludes the Special Revenue Funds and Capital Projects Funds. Prince William County ranks below its Northern Virginia counterparts. 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. During the 2020 session of the Virginia General Assembly, legislators granted counties the same taxing authority as cities, further increasing capacity to raise revenues. New potential taxing sources include the meals tax, cigarette tax, admissions tax, and plastic bag tax.



Source: Moody's Financial Ratio Analysis database. All data is as of FY 2020.

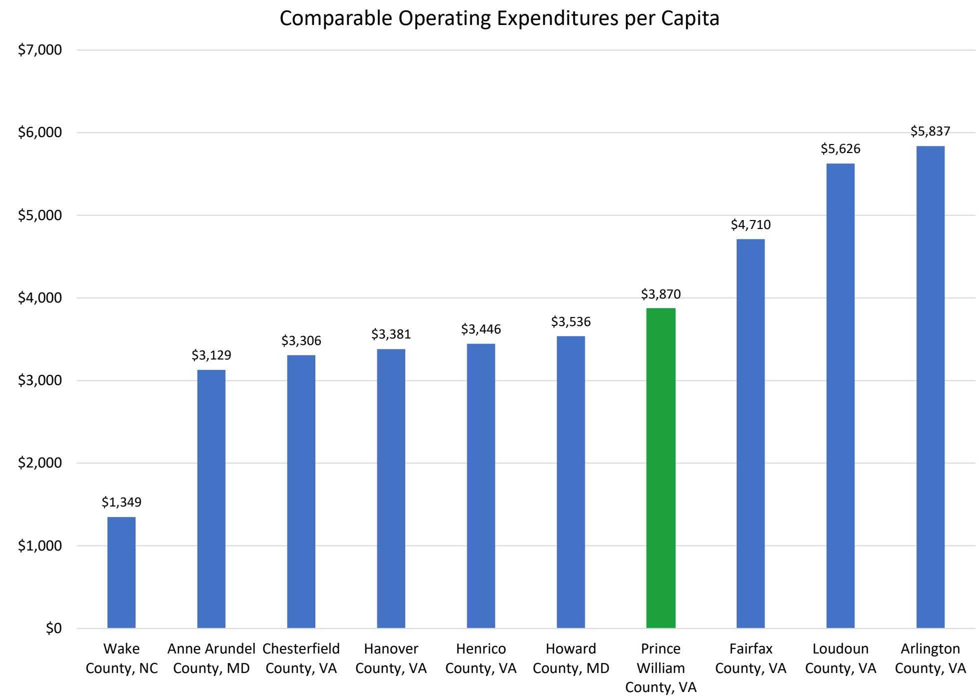
Expenditures

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 2020 expenditures.



Source: Prince William County Comprehensive Annual Financial Report FY 2020, Table 22.

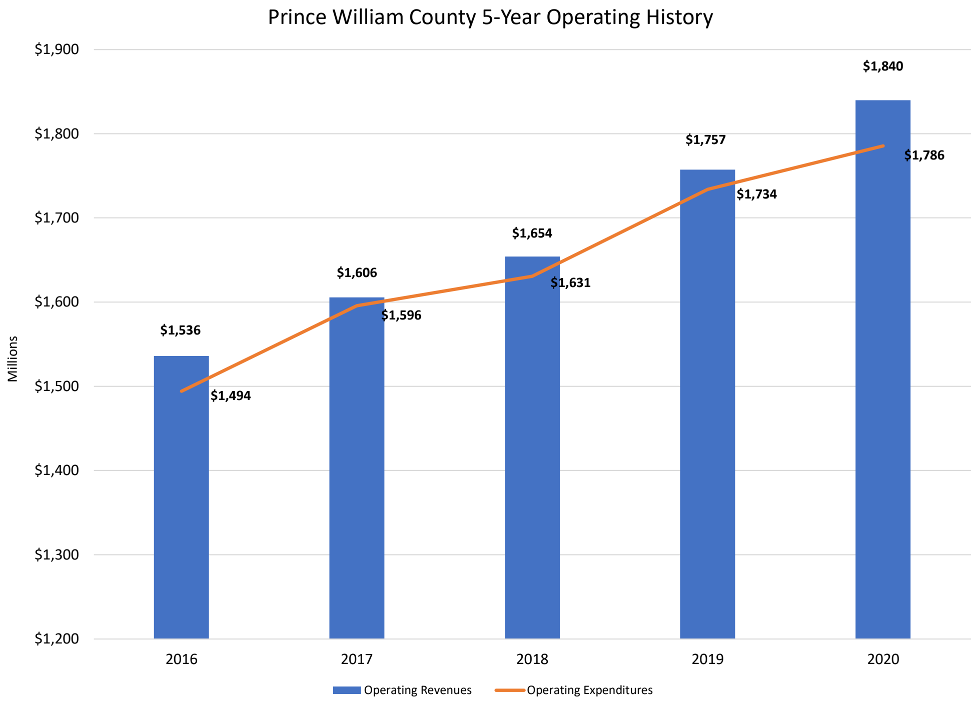
In the peer comparison, Prince William County is below its Northern Virginia counterparts of operating expenditures per capita. The total operating expenditure numbers used in this calculation do not include Special Revenue Funds or Capital Projects Funds that are financed with bond proceeds.



Source: Moody's Financial Ratio Analysis database. All data is as of FY 2020.

Revenues and Expenditures

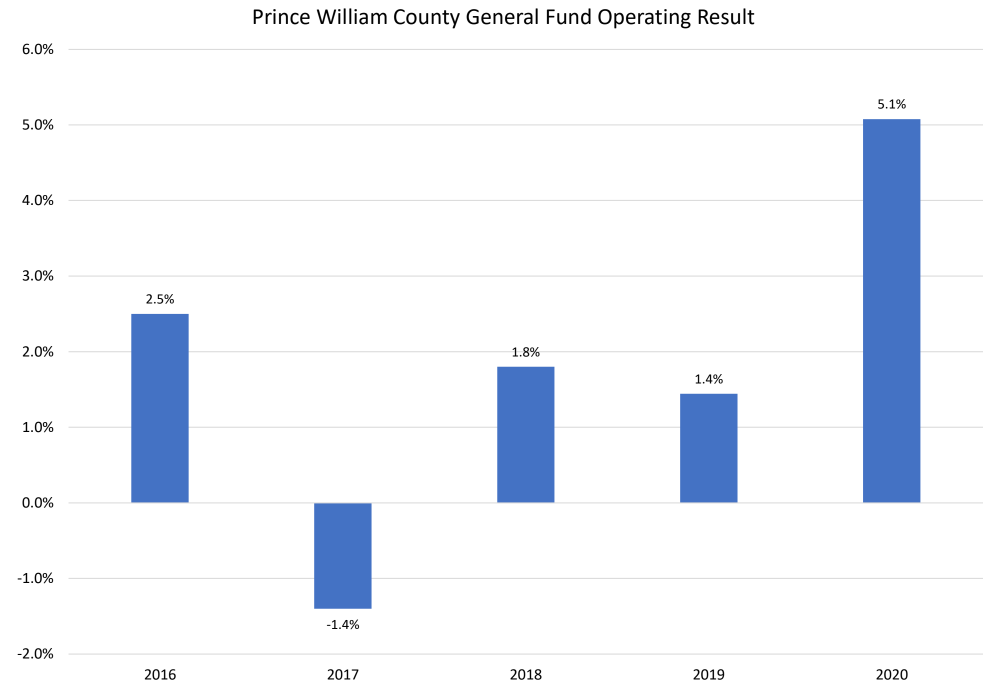
The five-year history of operating revenues and operating expenditures represents the County's ability to achieve balanced operations. The trend analysis provides a look at the County's ability to increase revenues to manage and meet its obligations. For fiscal year 2020, revenues once again exceeded expenditures, and the County improved its net operating results over the prior year.



Source: Moody's Financial Ratio Analysis database.

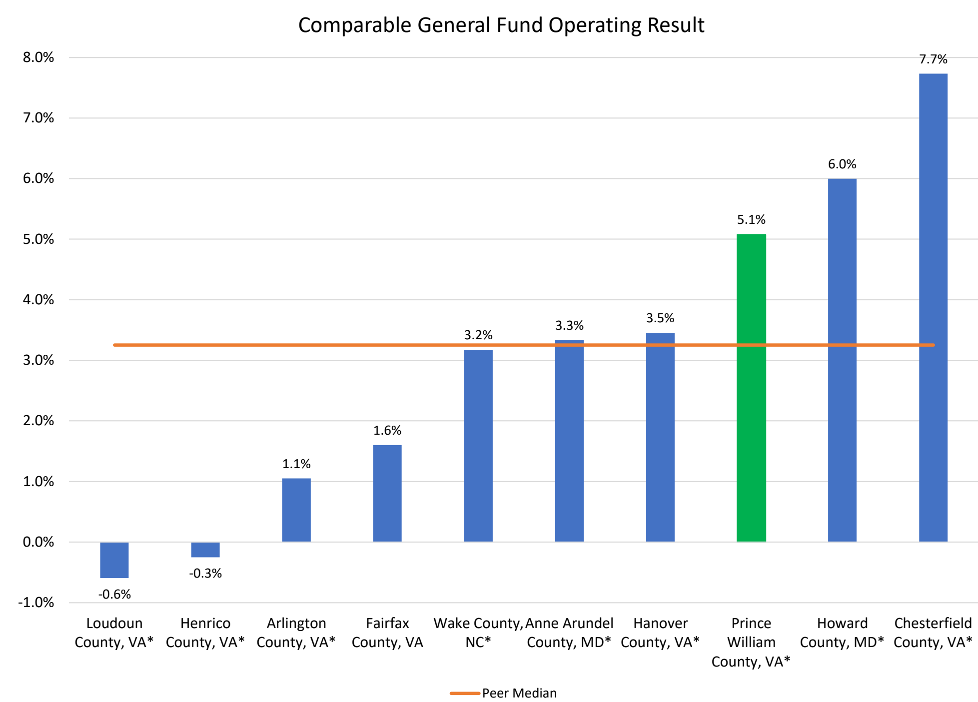
Budget Strength Measurement

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 5%. The County score increases to 5.1% for fiscal year 2020 due to the County's expenditure savings in anticipation of decrease in revenues during the COVID-19 pandemic. The County's general fund expenditure savings equal $17 million or 2.9% of the final budget.



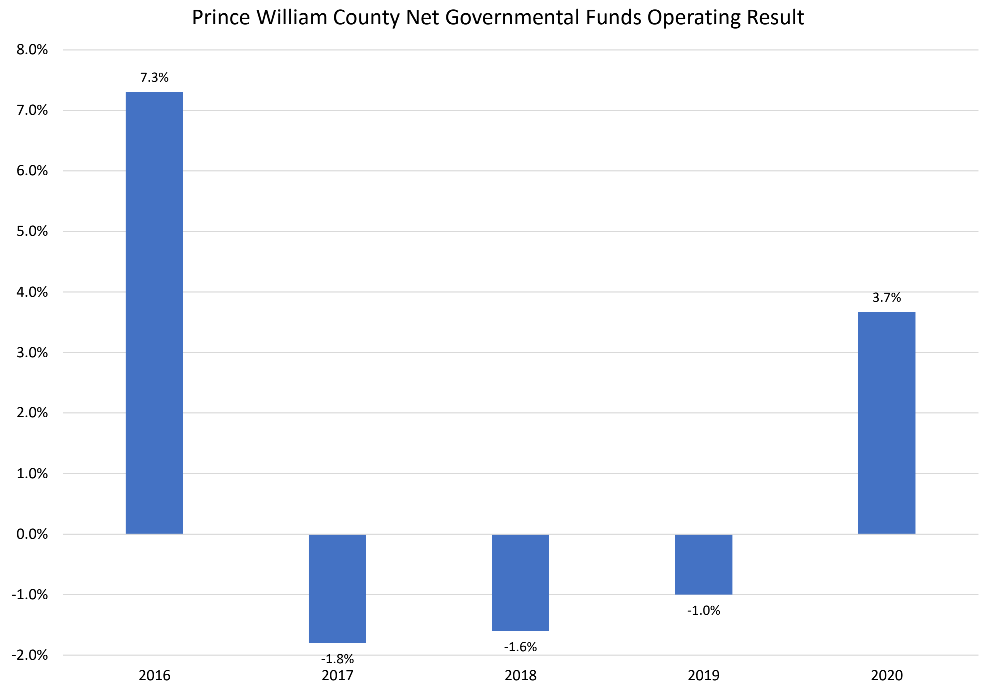
AAA target > 5%

Source: County's S&P reports for FY16-FY19. 2020 is estimated by PFM.



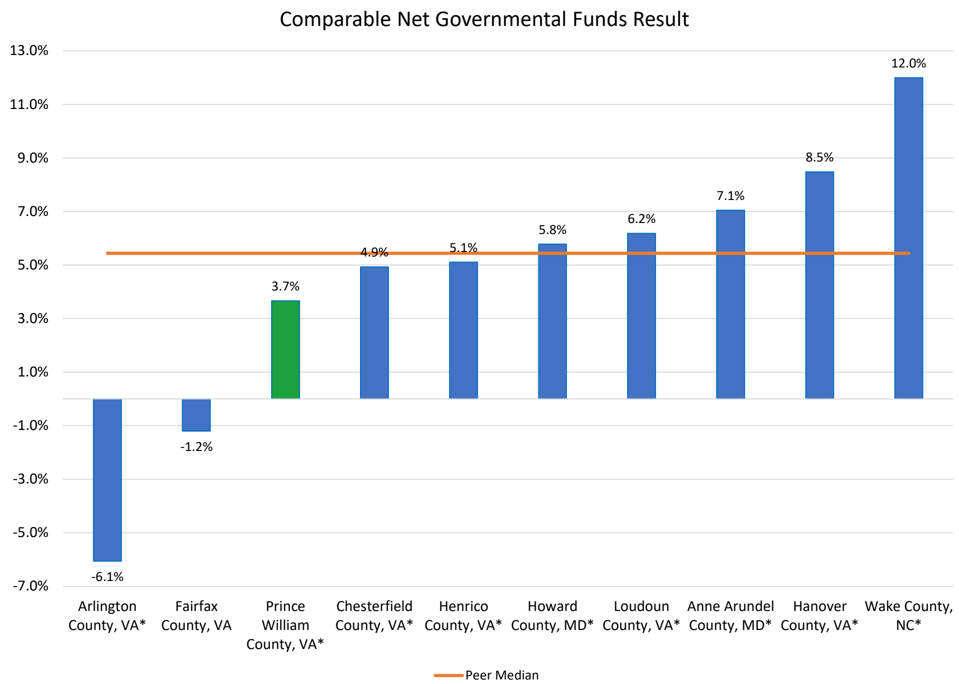
Source: S&P Reports, if available. *Indicates PFM estimate. All data is as of FY 2020.

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%. In fiscal year 2020, the County's score increases to 3.7% due to the expenditure savings as well. However, the County falls below the peer median of 5.4%.



AAA target > -1%

Source: County's S&P reports for FY16 - FY19. 2020 is estimated by PFM.

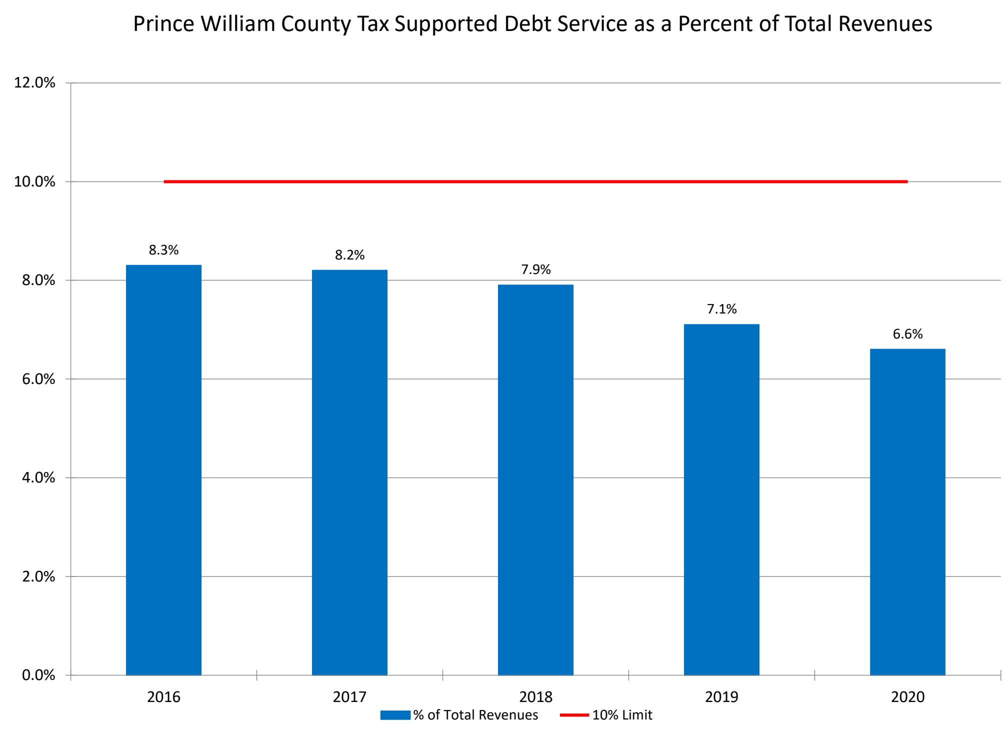


Source: S&P Reports, if available. *Indicates PFM estimate. All data is as of FY 2020.

LIABILITIES

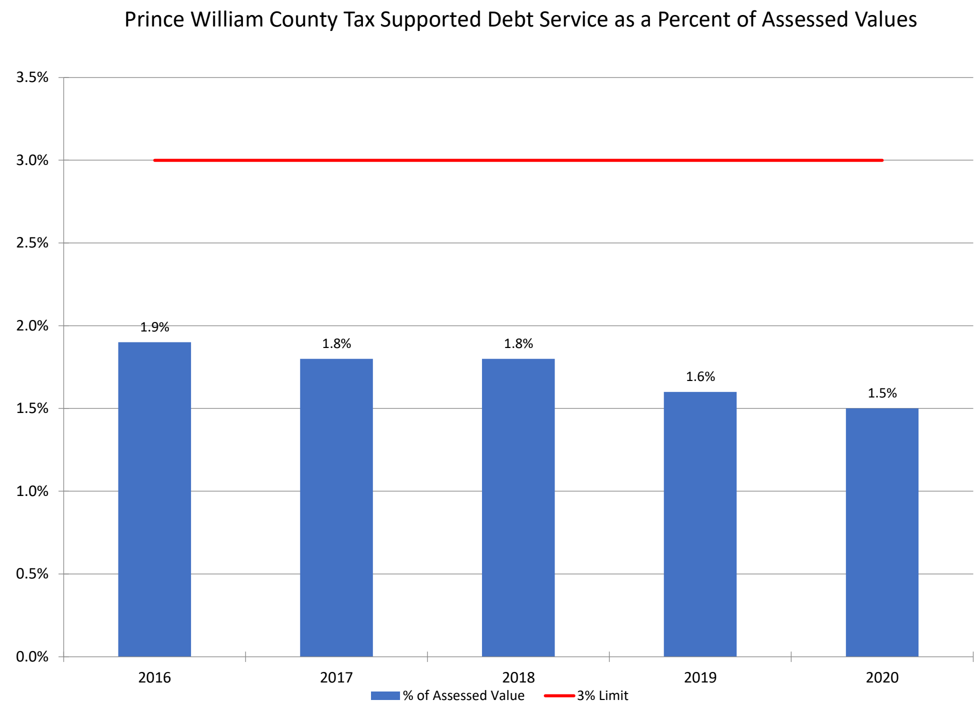
Debt

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 fiscal year 2020, the County debt service measured 6.6% of total revenues.



Source: Prince William County Comprehensive Annual Financial Report FY 2020, 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 1.5% for fiscal year 2020, the County continues to maintain debt below this limit.



Source: Prince William County Comprehensive Annual Financial Report FY 2020, Chart A-8.

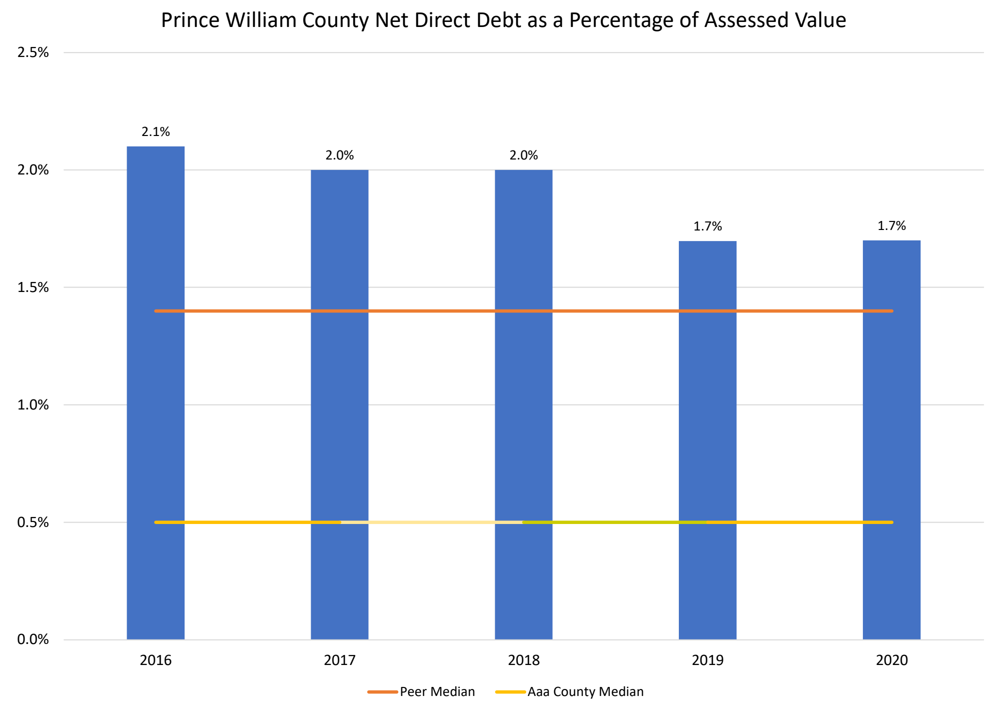
Prince William County's debt capacity forecast represents County management's commitment to maintaining debt service at less than 10% of total revenue. The calculations are based on current existing debt, as of June 30, 2020, and the County's projected revenue, as detailed in the table below.

Prince William County Debt Capacity Forecast

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Total existing and CIP	$146,787,608	$152,492,976	$154,333,849	$168,578,417	$181,139,878	$197,250,496
Percent change from prior year	5.18%	3.89%	1.21%	9.23%	7.45%	8.89%
General Revenue (in thousands) [1]	$1,100,483	$1,153,053	$1,234,578	$1,282,224	$1,330,749	$1,379,722
Growth	2.95%	4.78%	7.07%	3.86%	3.78%	3.68%
Total Revenues (in thousands) [2]	$2,202,689	$2,307,912	$2,471,089	$2,566,456	$2,663,582	$2,761,605
Debt service as a percentage of Total Revenue	6.66%	6.61%	6.25%	6.57%	6.80%	7.14%
PSFM imposed limit	10%	10%	10%	10%	10%	10%

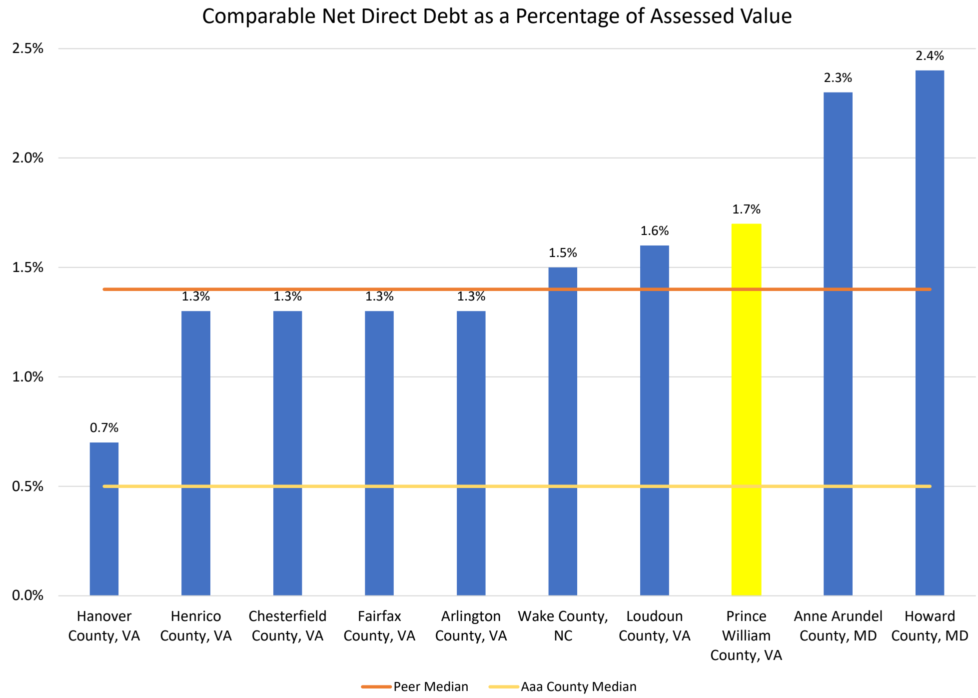
Source: [1] February 16, 2021, proposed FY 22-26 Revenue Forecast.
[2] Table 14 FY 2020 Comprehensive Annual Financial Report. Includes revenues for the General Fund, Special Revenue Funds and the School Board and ADC component units.

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%, exceeds this target and scores in the 'Aa' 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.

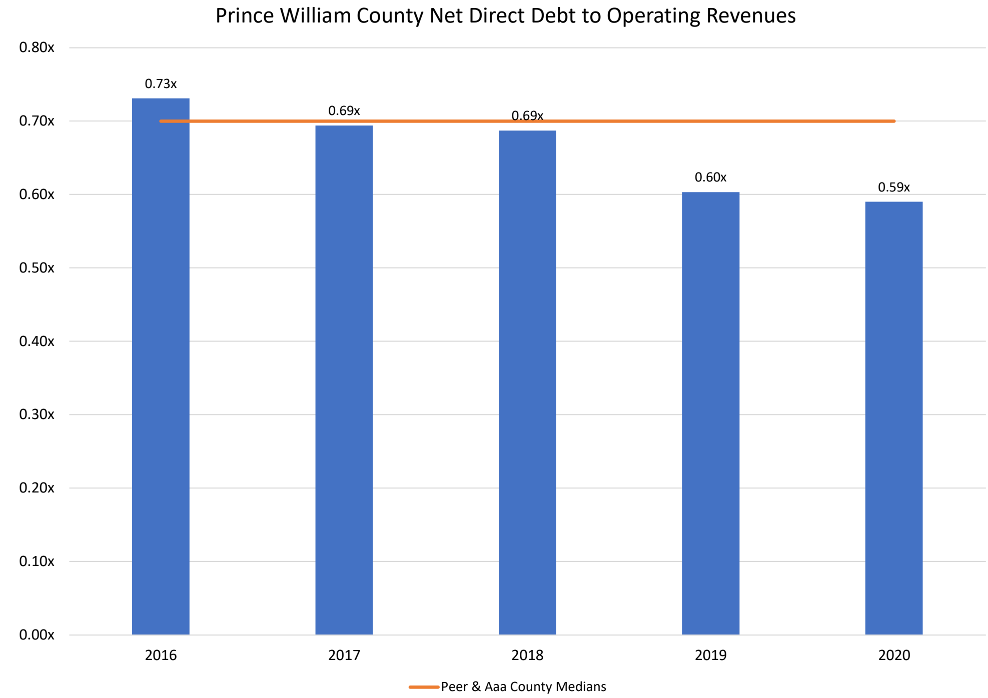


AAA target < 0.75%

Source: Moody's Financial Ratio Analysis database. All data is as of FY 2020.

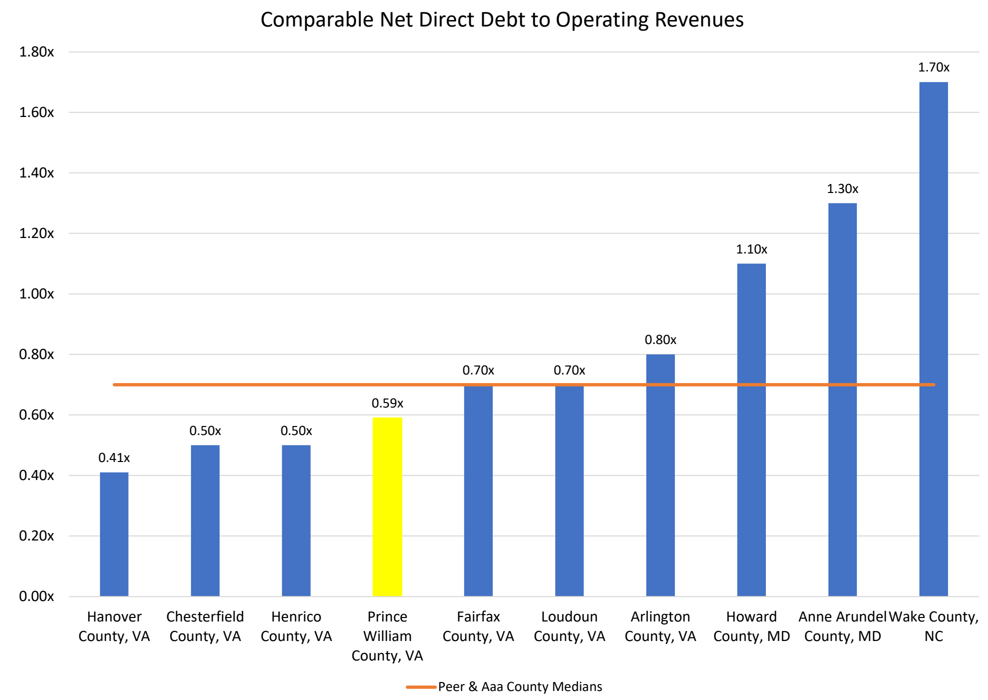
S&P also looks at this metric and improves the score by one point when net debt to assessed value is below 3%. Compared to all other peer group jurisdictions, Prince William County lags most of its peers. However, other than Hanover County, VA, all the jurisdictions fall outside the triple-A target.

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 0.59x earns an 'Aa' rating. The County however, scores better than both the 'Aaa' county median and the peer group median of 0.70x 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 to lag the national medians and 'Aaa' target.



AAA target < 0.33x

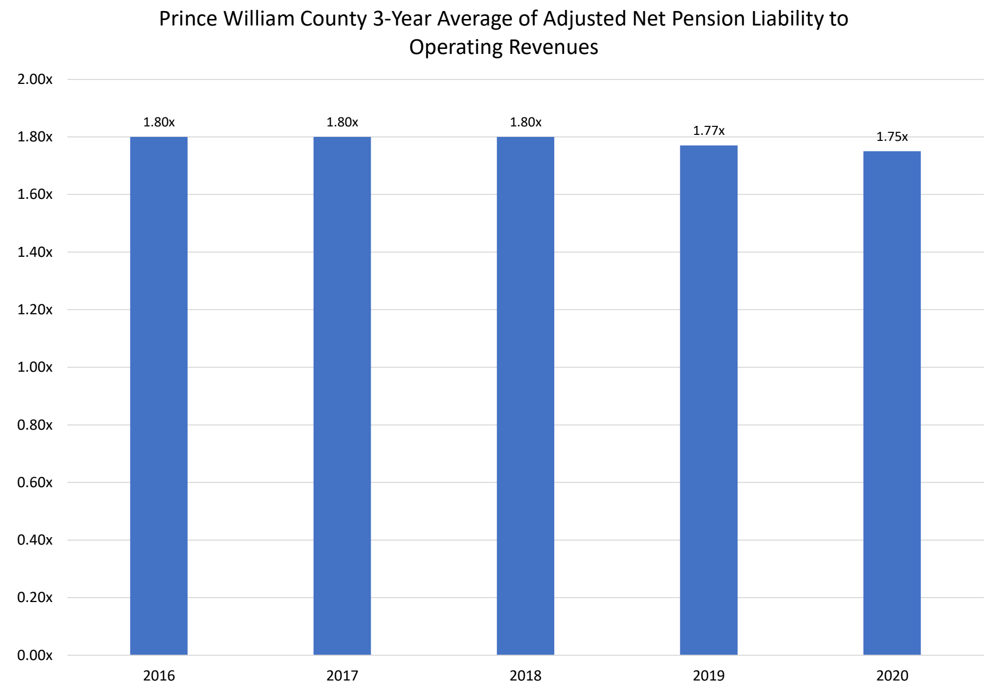
Source: Moody's Financial Ratio Analysis database.



Source: Moody's Financial Ratio Analysis database. All data is as of 2020.

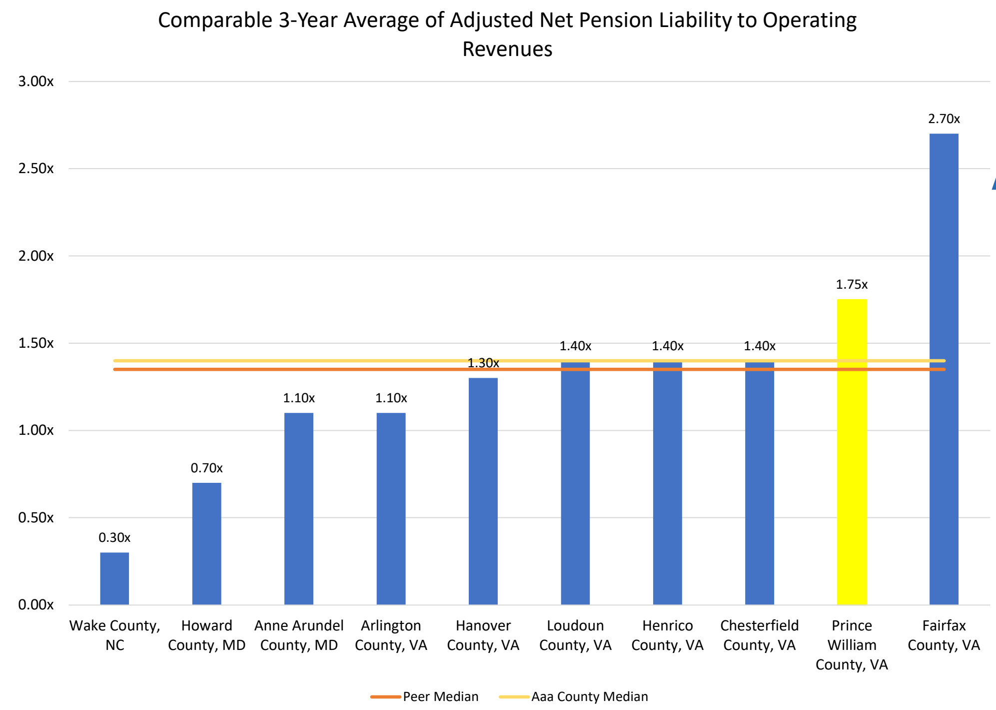
Pensions

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 1.75x which is above the 'Aaa' target <0.40x. During fiscal year 2020, Moody's adjusted their Adjusted Net Pension Liability methodology for the County to add in the two County Schools Virginia Retirement System (VRS) pension plans. These plans were not included in the past periods' calculations for the County, while similar plans were included in the calculations for other counties in the Commonwealth. The graphs below reflect this change in methodology. Of the 119 counties that Moody's rates 'Aaa', as of the most recent data published by Moody's, only 8 counties met the 'Aaa' target of <0.40x.



AAA target < 0.40x

Source: Moody's Financial Ratio Analysis database.

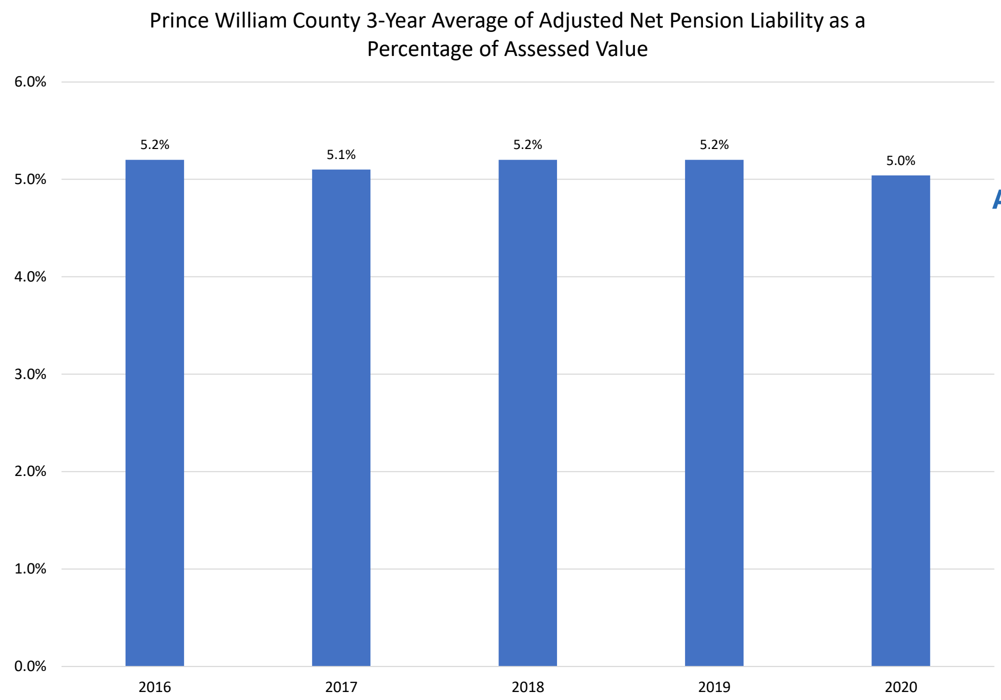


AAA target < 0.40x

Source: Moody's Financial Ratio Analysis database. All data is as of FY 2020.

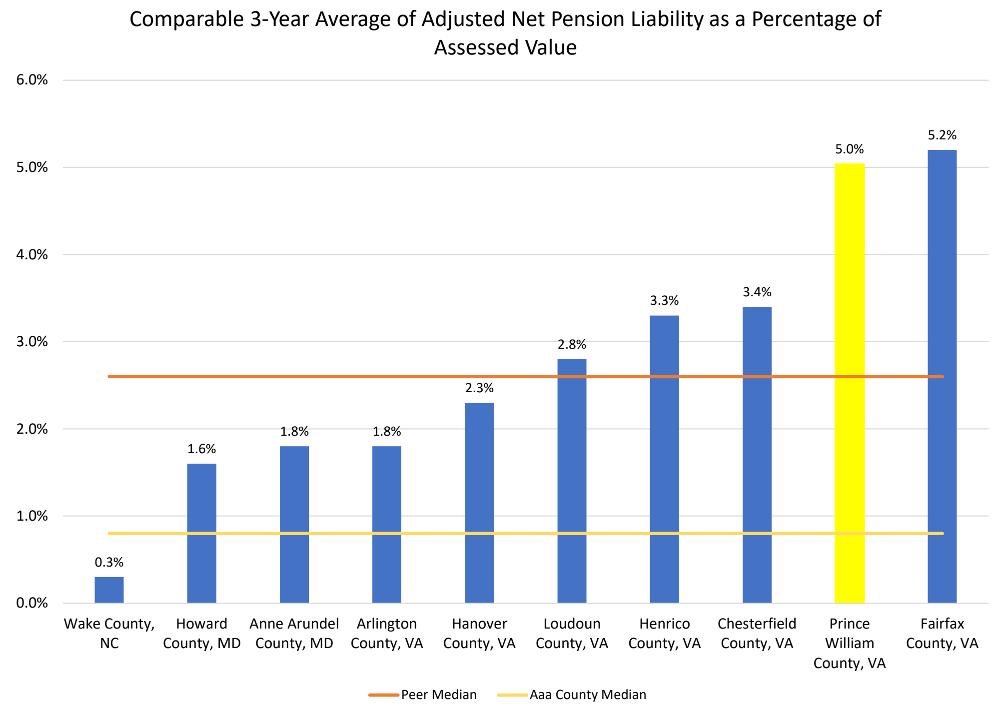
Moody's also looks at the 3-year average net pension liability as a percentage of assessed value. The tax base is evaluated for its capacity to generate future revenue for accrued pension obligations for which assets have not been set aside. The County's score falls just above the cut-off of the 'Baa' rating category (ranging from 4.8% to 12.0%) with 5.0% which is above the 'Aaa' County median of 0.8% and the peer median of 2.6%. Of the County's 9 peer localities, as of the most recent data published by Moody's, five fall in either the 'A' or 'Baa' category and only one locality in North Carolina falls into the 'Aaa' category. And of 119 counties that Moody's rates 'Aaa', none of the Virginia counties met the 'Aaa' target of <0.9%.

Both 3-year average net pension liability measurements are above the desired 'Aaa' targets for many of the counties in the Commonwealth, because of the requirement to include schools' VRS plans. The unfunded liability of the VRS funds has risen as market returns lagged on investments in the recent years. In addition to VRS plans, the County administers the County Supplemental Retirement Plan, a single employer defined benefit pension plan for sworn and uniformed public safety personnel, as well as a Volunteer Fire and Rescue Personnel Length of Service Award Program (LoSAP). The County funds its pensions at the annual actuarially required contribution amount.



AAA target < 0.9%

Source: Moody's Financial Ratio Analysis database.



Caution

AAA target < 0.9%

Source: Moody's Financial Ratio Analysis database. All data is as of FY 2020.

ECONOMIC ENVIRONMENT

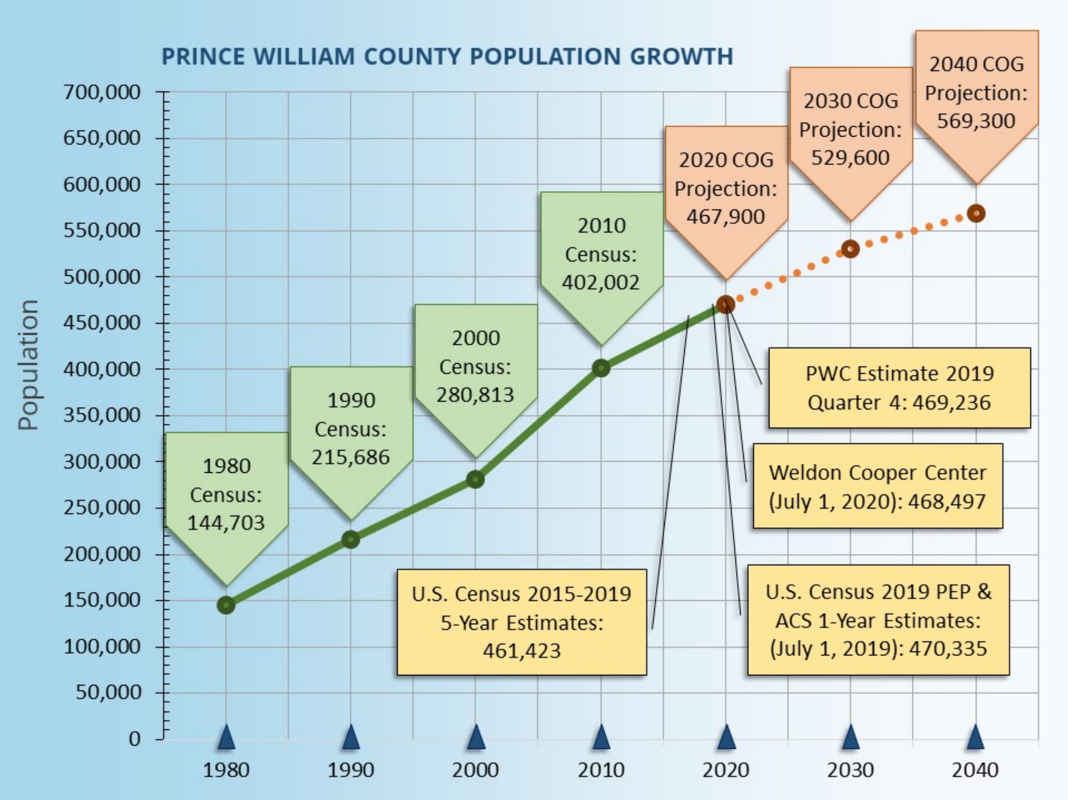
The political and economic environment begins with the governing body. The rating agencies look at the stability of the Board of County Supervisors, adherence to the Principles of Sound Financial Management and consistency in operations. Governance factors capture an organization's willingness to make 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 at 469,236 as of the fourth quarter of 2020. The chart below illustrates periods of major growth during 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

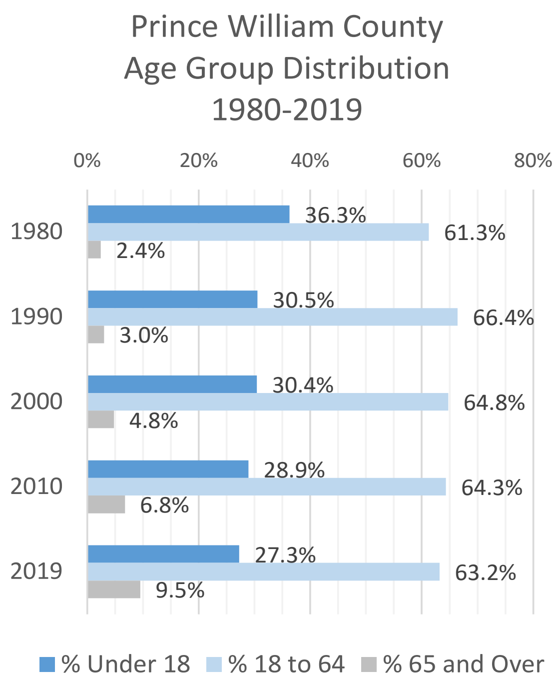
	Count	Gain/Loss	% Change
1900	11,112	1,307	13.33%
1910	12,026	914	8.23%
1920	13,660	1,634	13.59%
1930	13,951	291	2.13%
1940	17,738	3,787	27.15%
1950	22,612	4,874	27.48%
1960	50,164	27,552	121.85%
1970	111,102	60,938	121.48%
1980	144,703	33,601	30.24%
1990	215,686	70,983	49.05%
2000	280,813	65,127	30.20%
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%

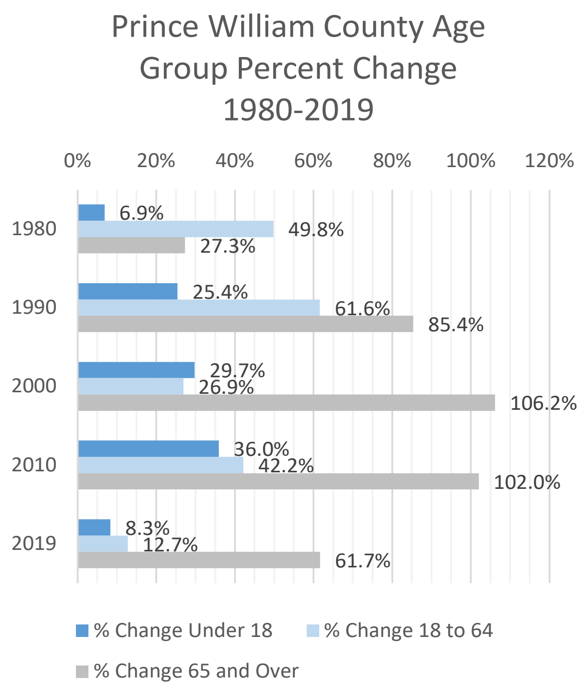
Sources: Prince William County Demographer – Historical population retrieved from University of Minnesota Population Center's NHGIS; Population projections from Metropolitan Washington Council of Governments Round 9.1 Cooperative Forecasts. The data is as of 2019. 2020 data is expected to be available in August 2021.



Sources: Prince William County Demographer – Historical population retrieved from University of Minnesota Population Center's NHGIS; Population projections from Metropolitan Washington Council of Governments Round 9.1 Cooperative Forecasts; Weldon Cooper Center for Public Service, Demographics Research Group, at UVA; U.S. Census Population Estimates Program; U.S. Census American Community Survey (ACS) 2015-2019 5-Year Estimates.

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 50,000 people ages 65 and over, an increase of nearly 23,000 from 2010 in this age category compared to an increase of just under 14,000 between 2000 and 2010.

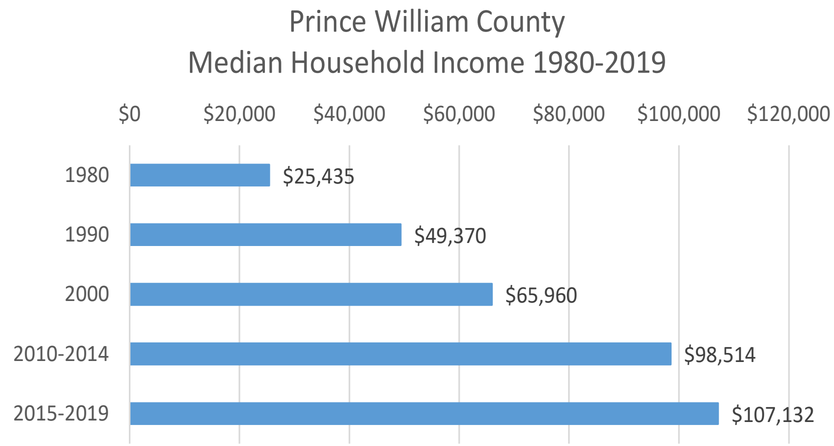




Sources: PWC Demographer: Data for 1980-2000 retrieved from University of Minnesota Population Center's NHGIS; U.S. Census American Community Survey (ACS) 2010-2014 5-Year Estimates and 2015-2019 5-Year Estimates.

Wealth

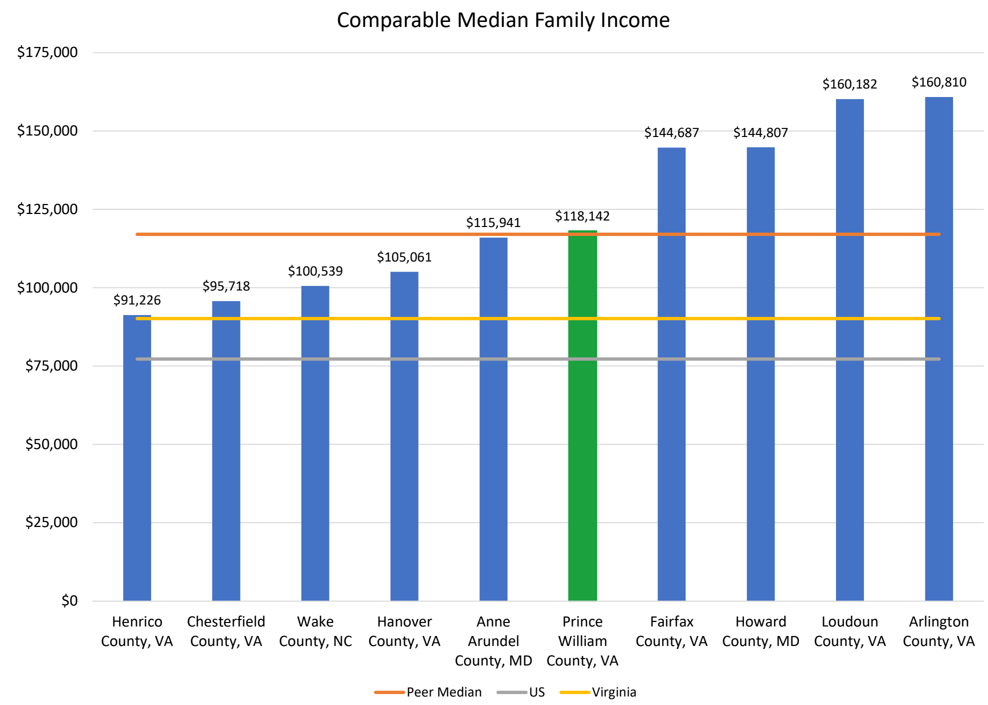
A high median household income is a positive economic indicator and a measure of the strength and resilience of a tax base. A jurisdiction with high wealth levels may have greater flexibility to increase property tax rates to meet financial needs. Wealthier communities also have greater spending power 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 2015-2019 median household income as reported by the U.S. Census American Community Survey increased to just above $107,000, up from $98,541 just five years earlier.



Sources: PWC Demographer: Historical population retrieved from University of Minnesota Population Center's NHGIS; 2015-2019 American Community Survey (ACS) 5-Year Estimates.

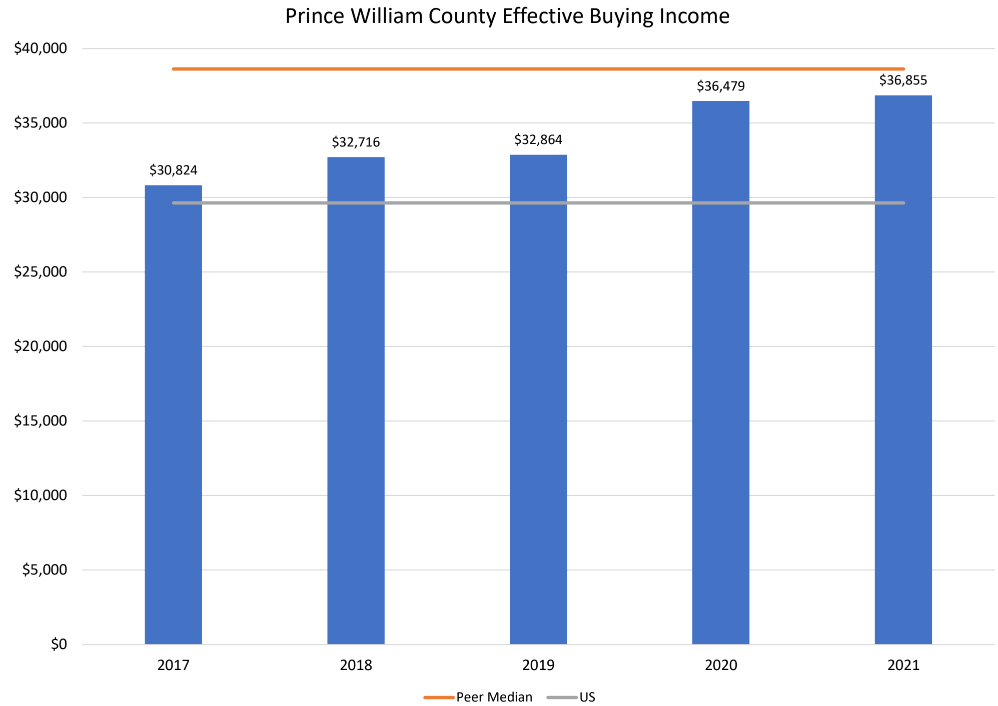
Moody's analyzes median family income as opposed to median household income. Household income includes the income of all people who occupy a housing unit regardless of relationship, whereas family income measures the income of two or more people related by birth, marriage, or adoption. Per Moody's, median 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 $118,142. This is above the 'AAA' target of 150% of the U.S. median or $77,263.



Source: American Factfinder, 2019 5-Year Estimate.

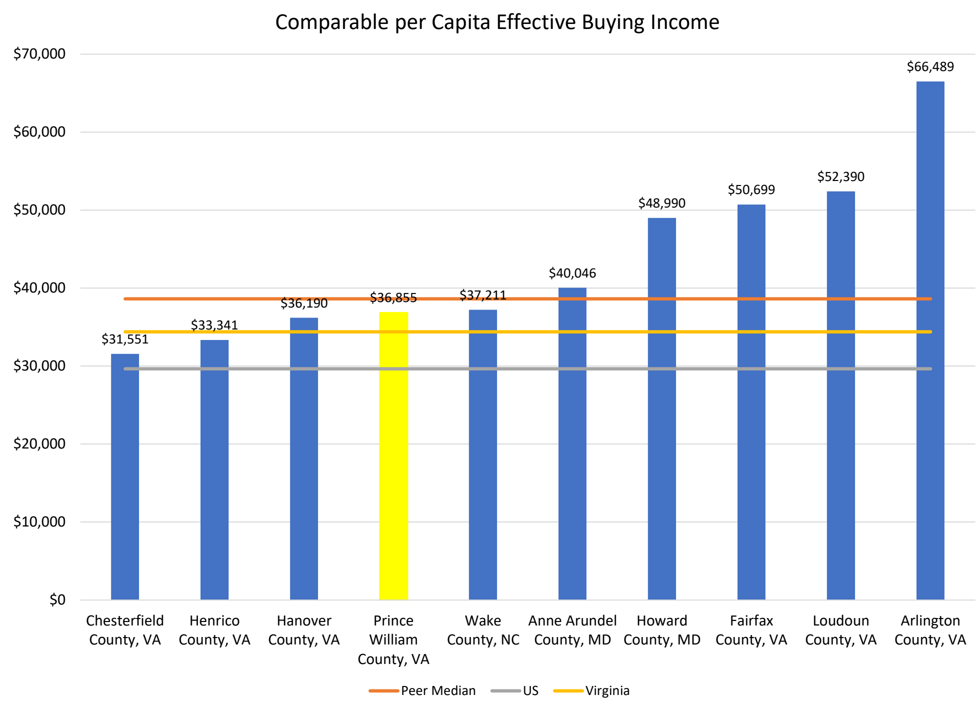
S&P reviews effective buying income (EBI) and considers 150% of the U.S. median as 'Aaa' rated. Effective buying income is similar to disposable income. The U.S. median EBI is $29,642. At 150% of the U.S. median, the 'Aaa' target equates to $44,463. With EBI of $36,855, the County falls below the 'Aaa' target and peer group median.



Caution

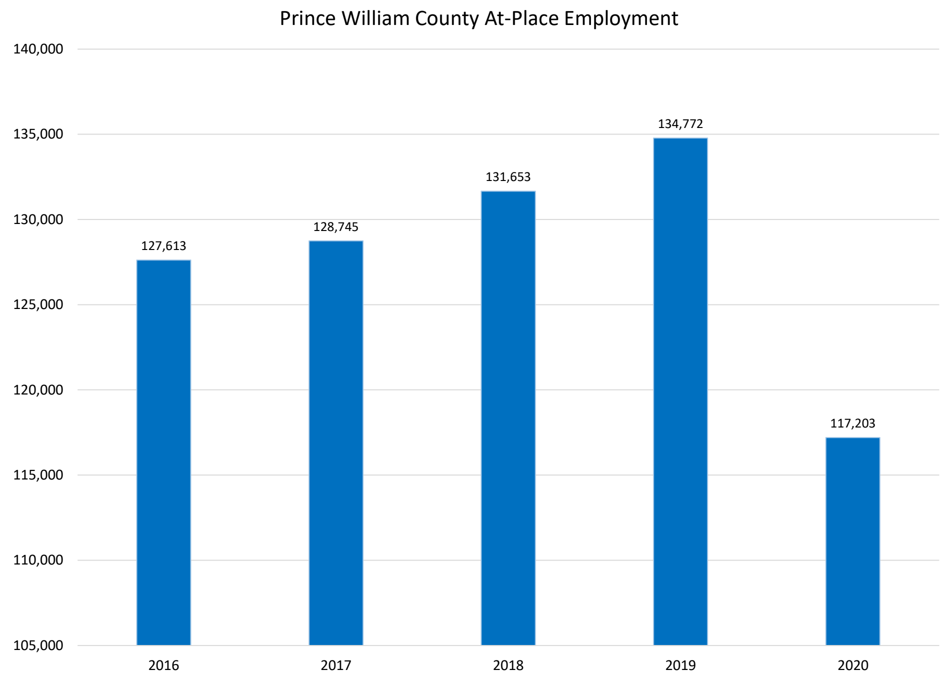
AAA target > 150% US Median

Source: Nielsen's Claritas database



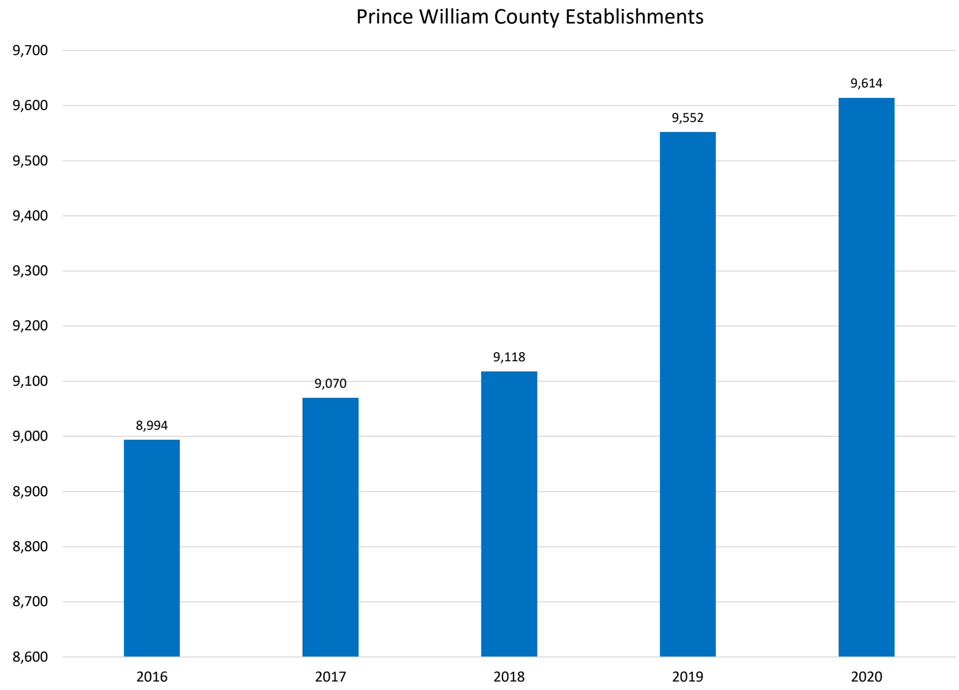
Source: Nielsen's Claritas database. All data is as of 2021.

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. However, unemployment rates nationwide increased sharply in the second calendar quarter of 2020, due to the COVID-19 outbreak. During the first half of fiscal year 2021, the U.S. economy started to recover at a slow pace with the most recent data available from the Virginia Employment Commission showing that the average number of at-place employment is up to 127,702 in the fourth calendar quarter.



Source: Virginia Employment Commission, Quarterly Census of Employment and Wages, 2nd Quarter 2020.

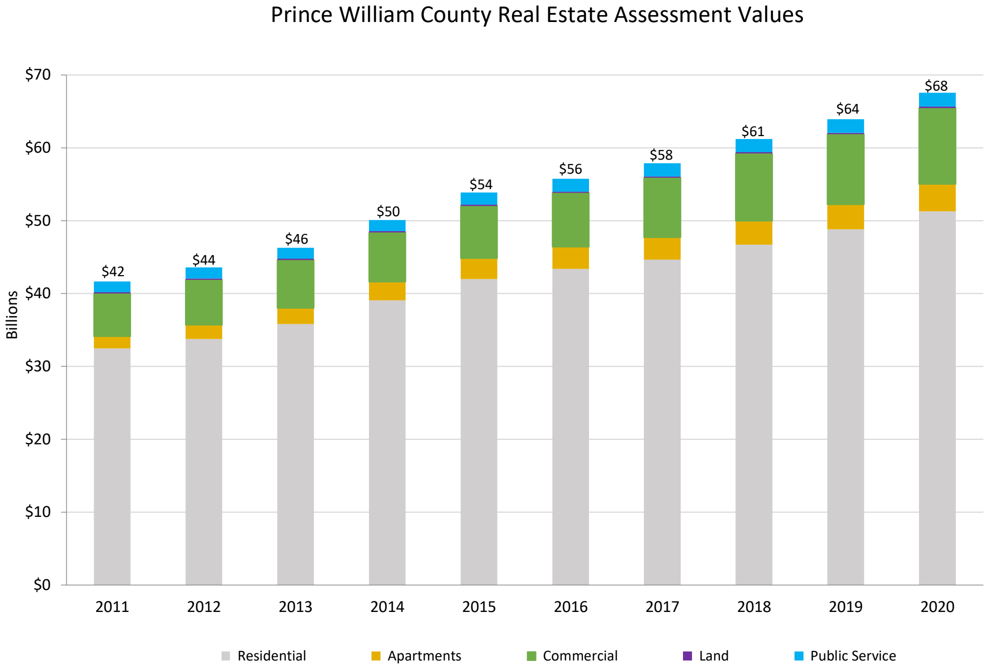
Over the past five years, the County demonstrated steady growth in the number of business establishments, a sign of a healthy local economy. Despite the COVID-19 pandemic, a majority of existing businesses were able to sustain their operations with the support of a variety of business relief loan and grant programs and similar funding resources available through federal, state, and local governments.



Source: Virginia Employment Commission, Quarterly Census of Employment and Wages, 2nd Quarter 2020.

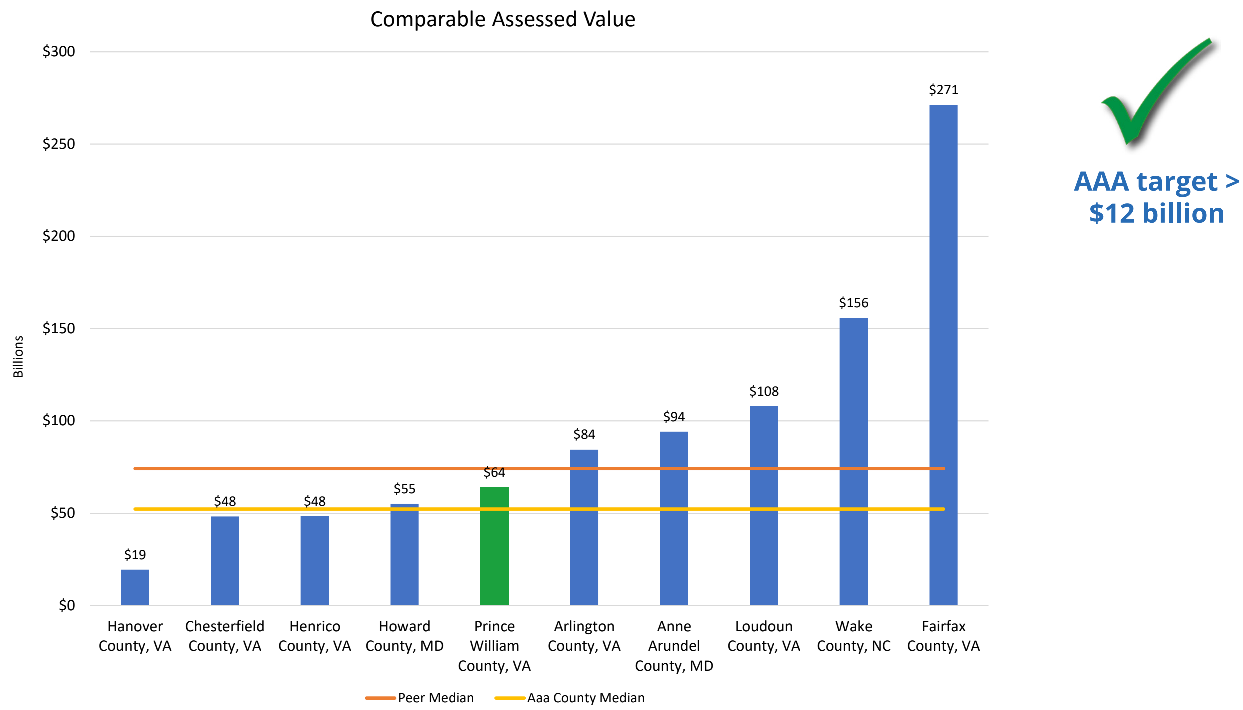
Assessed Value

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.



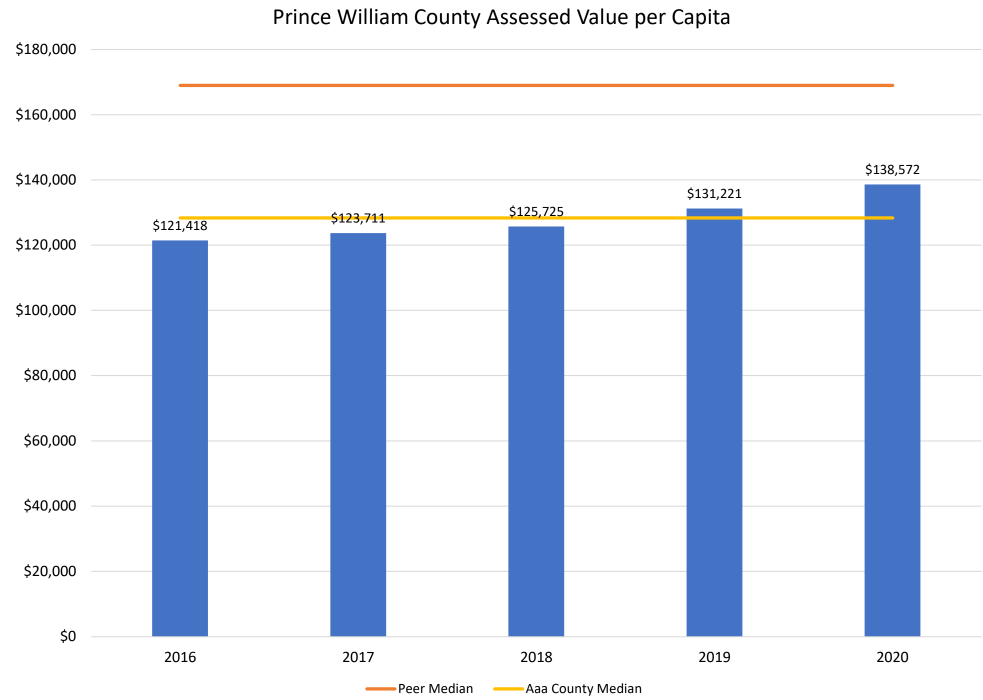
Source: Prince William County Real Estate Assessments Annual Report FY 2020.

The County's tax base has continued to rebound since the downturn in the economy, now with ten 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. In fiscal year 2020 (2019 Land Book), the County's tax base Increased to $64 billion, a strong 'Aaa' score, though the County remains more heavily concentrated in residential properties as compared to some of its peers. The 2020 Land Book assessed values will be used to collect County tax revenues in fiscal year 2021. The total of the assessed values shown in the 2020 Land Book exceeds $67 billion.



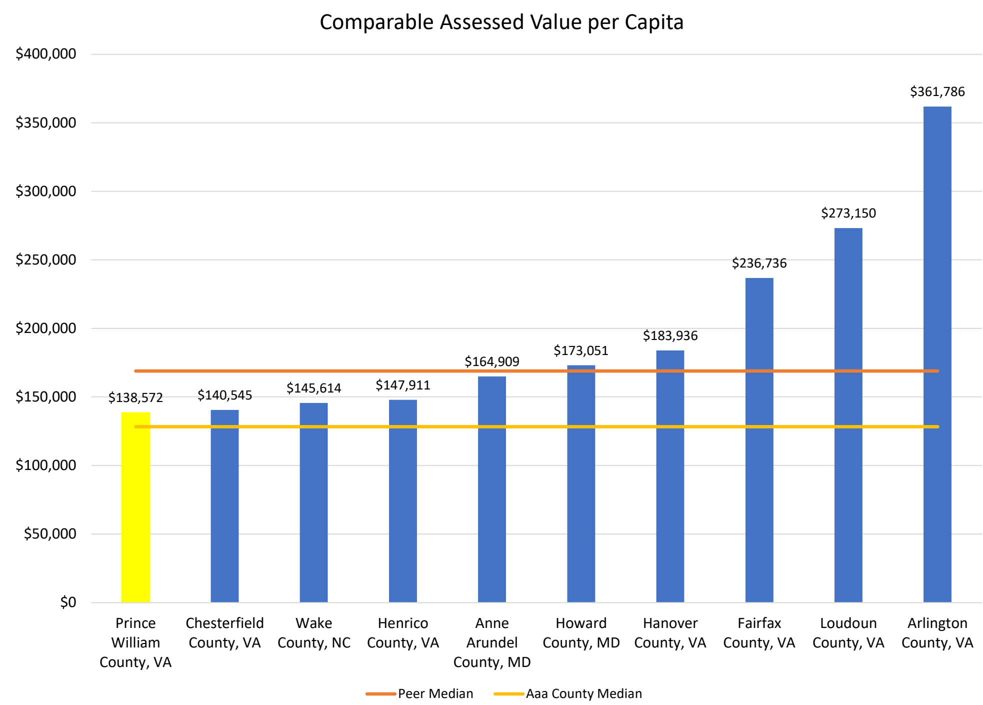
Source: Moody's Financial Ratio Analysis database. All data is as of FY 2020.

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 $138,572. Of the 119 counties that Moody's rates 'Aaa', as of the most recent data published by Moody's, only 39 counties met the 'Aaa' target for this metric.



AAA target > $150,000

Source: Moody's Financial Analysis database.



Source: Moody's Financial Ratio Analysis database. All data is as of FY 2020.

Economy

"Historic," "unprecedented," "indescribable." These became common adjectives to frame the human and economic impact of the coronavirus pandemic throughout 2020. Despite robust monetary and fiscal support provided by the Federal Reserve and U.S. Government, the nation's economy struggled to gain consistent forward momentum as the country grappled to contain COVID-19 cases for the majority of 2020. To believe the trajectory of the U.S. economic recovery in 2021 and beyond exists in a vacuum would be naive. A resurgence and sustained level of U.S. economic output will be primarily dependent on three factors – the effect of COVID-19 cases at home and abroad, the efficacy of vaccines and speed of distribution worldwide, and future monetary and fiscal support implemented by governments around the globe.

Although new COVID-19 cases have persisted through the first three months of 2021, the acceleration of vaccinations within the U.S., accompanied by a general decline in hospitalizations and deaths since mid-January, have provided a foundation for moderate improvement of macroeconomic conditions in the months ahead. Dependency on the pace of labor market recuperation will, of course, be the primary catalyst to drive scalable progress. After a disappointing January employment report, non-farm payrolls increased in February and March by 468 and 916 thousand, respectively. Details from the March report revealed not only vigorous hiring in pandemic sensitive industries such as leisure & hospitality, but strong gains were also reflected in traditionally less volatile sectors such as public & private education and professional & business services. The labor participation rate, a key metric the Federal Reserve is expected to utilize to assess labor market health, rose to 61.5% in March from 61.4% the previous month. As of March 2021, the national unemployment stood at 6.0%.

On March 11, 2021, President Biden signed a $1.9 trillion federal stimulus package known officially as the American Rescue Plan Act of 2021 (ARPA). ARPA marked the fifth round of legislated federal funds committed over a one-year time frame to combat the hardship levied by COVID-19. During March, the U.S. Treasury Department issued over $300 billion in stimulus money, more than double the approximate $130 billion received by Americans in January. The combination of broader re-openings and consumers armed with additional cash propelled March retail sales to a 9.8% gain, the second largest print in the series' history. The high mark of 18.3% was established in May 2020 after a dramatic rebound from the lockdown driven plunge in economic activity that occurred during April. While all major categories of spending showed increases, specific areas of strength in discretionary spending were recorded in autos (15.1%), electronics (10.5%), clothing (18.3%), sporting goods (23.5%), department stores (13.0%) and restaurants/bars (13.4%).

Closer to home, Prince William's County's labor market exhibited modest improvement as measured by a decline in the February unemployment rate to 5.5% from 5.8% in January. Initial claims for unemployment insurance displayed a downward trend from the beginning of January (718) through late February (346), before rising to 822 initial claims for the final reporting week of March. Over the course of the pandemic, Prince William County Government has persistently served the community by seeking available avenues to disburse the County's $82 million allocation of Coronavirus Aid, Relief and Economic Security (CARES) Act funds. Roughly $77 million has been distributed to local businesses and various resident services throughout the community, as well as the Prince William County Schools. Through the American Rescue Plan Act of 2021, the County anticipates receipt of approximately $45 million in mid-May, followed by an additional $45 million in 2022. Official ARPA program guidelines for state and local governments were released by the U.S. Treasury Department on May 10 and County staff is currently conducting a thorough review to identify permissible funding options that can be utilized to further assist residents and the business community of Prince William County in the recovery process.

Sources:

PFM Financial Advisors, LLC.

Moody's Investors Service Rating Methodology

Standard & Poor's Ratings Services Ratings Direct

2020 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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