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Summary:

Purcellville, Virginia; General Obligation

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Credit Profile

US\$16.57 mil GO rfdg bn ds ser 2017B due 02/01/2038

<i>Long Term Rating</i>	AAA/Stable	New
Purcellville Twn ICR		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Purcellville Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating, and stable outlook, to the town of Purcellville, Va.'s series 2017B general obligation (GO) refunding bonds.

At the same time, S&P Global Ratings affirmed its 'AAA' rating on the town's GO debt outstanding. The outlook is stable.

The town's full-faith-credit pledge and agreement to levy ad valorem property taxes without limitation as to rate or amount secure the bonds. Officials intend to use series 2017B bond proceeds to refund previously issued GO bonds.

Purcellville's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. The town has a predominately locally derived revenue source, with 82% of general fund revenue derived from local tax revenue sources. (See, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.)

The GO rating reflects our opinion of the following factors for the town:

- Very strong economy, with access to the broad and diverse Washington-Arlington-Alexandria metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 61% of operating expenditures, including a relatively small portion of committed reserves that we understand could be reclassified with council approval;
- Very strong liquidity, with total government available cash at 118.7% of total governmental fund expenditures and 9.0x governmental debt service;
- Very weak debt and contingent liability position, with debt service carrying charges at 13.2% of expenditures and net direct debt that is 191.2% of total governmental fund revenue; and
- Very strong institutional framework score.

Very strong economy

We consider Purcellville's economy very strong. The town, with an estimated population of 8,356, is located in Loudoun County in the Washington-Arlington-Alexandria MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 142% of the national level and per capita market value of \$160,992. Overall, the town's market value grew by 4.5% in 2016 to \$1.3 billion in 2017. The unemployment rate was 3.2% in 2016.

Purcellville is an affluent town about 60 miles northwest of Washington, DC. The town is a destination in Washington's wine country, with more than 40 wineries within minutes of the historic downtown area. The town has experienced rapid population growth in the past two decades, with the population increasing by 133% since 2000. We understand management expects population to continue to grow at a strong pace due, in part, to Purcellville's participation in the Washington-Arlington-Alexandria MSA, as well as the town's access to Washington Dulles International Airport. In particular, a number of residential developments under construction, including the Mayfair project, which alone is expected to add \$125 million in residential and commercial developments, should contribute to strong growth.

Purcellville is primarily residential (roughly three-fourths of the property tax base) with a growing commercial property presence, as a number of new businesses have located into the town over the past decade. Town management has been proactively improving infrastructure and updating transportation with a number of local transportation projects and sidewalk improvements to accommodate this growth.

Very strong management

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The town has historically maintained conservative budget projections that it has annually outperformed. Budget-to-actual budget updates are provided to council on a monthly basis. The town maintains formal investment and debt management policies as well as an adopted reserve policy that requires a minimum unassigned general fund balance equal to 30% of general fund revenue, or the nominal amount of \$3 million, whichever is greater. In addition, management maintains formal five-year, long-term financial forecasts and a formal five-year capital improvement plan (CIP). Management reviews long-term financial estimates as well as its CIP annually.

Strong budgetary performance

Purcellville's budgetary performance is strong in our opinion. The town had operating surpluses of 3.2% of expenditures in the general fund and of 2.2% across all governmental funds in fiscal 2016 after accounting for transfers in to the general fund from the water and sewer utilities funds.

The town has a history of transferring slightly more than \$1.0 million in excess water and sewer utility revenues to the general fund, which continued in fiscal 2016. Purcellville ended fiscal 2016 with a slight increase to reserves of \$322,000 due primarily to conservative budget assumptions and better-than-expected revenues.

For fiscal 2017, based on unaudited results, management indicates real estate and personal property taxes are 5.1% and 14% over budget, respectively. Other local revenues are also well above budget, including sales taxes, meals taxes, and business license taxes. Based on unaudited actuals, we understand that management expects the unassigned fund

balance to increase by \$1.2 million at the end of fiscal 2017 to nearly \$6.9 million.

The fiscal 2018 budget is operationally balanced with a real estate tax rate remaining at 22.5 cents per \$100 of assessed value as well as utility rates remaining unchanged. The budget includes a 3% salary increase for staff. Although the budget is operationally balanced, we understand that as part of this refunding, management intends to use roughly \$2.1 million of reserves to defeas- the tax supported portion of the 2010 GO Build America bonds (BABs). This defeasance, combined with an estimated \$251,000 transfer to the capital projects fund for pay-as-you-go capital expenses, is expected to reduce the unassigned fund balance to about \$4.6 million, or 44% of revenues, which we view as still very strong.

General fund revenue is diverse with property taxes, the town's leading revenue source, generating 33% of general fund revenue. Meals taxes and sales taxes account for 21% and 13% of general fund revenue, respectively.

Very strong budgetary flexibility

Purcellville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 61% of operating expenditures, or \$6.1 million, including committed reserves that we understand could be reclassified with council approval. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The town has historically maintained available general fund reserves well in excess of its policy level, which mandates an unassigned fund balance equal to the greater of 30% of general fund revenues or \$3 million. Purcellville's available reserves consist mostly of unassigned fund balance. In addition to unassigned reserves, the town maintained committed reserves of \$480,000 for future capital needs at the end of fiscal 2016. We understand these committed reserves could be reclassified if necessary and used for general expenses.

According to unaudited fiscal 2017 results, the town should end fiscal 2017 with an estimated \$1.2 million surplus as well as an unassigned fund balance of nearly \$6.9 million, or about 66% of expenses.

In fiscal 2018, we understand management intends to use roughly \$2.1 million of reserves to defease a portion of its 2010 GO BABs outstanding as well as \$251,000 to fund pay-as-you-go capital expenses. Despite these one-time uses of reserves, management expects to end fiscal 2018 with a \$4.6 million unassigned fund balance, or an estimated 44% of general fund expenses, which remains well above its reserve policy. As such, we expect budgetary flexibility to remain very strong.

Very strong liquidity

In our opinion, Purcellville's liquidity is very strong, with total government available cash at 118.7% of total governmental fund expenditures and 9.0x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

In August 2017, the town completed a privately placed GO refunding for \$5.0 million. In our opinion, this does not pose a liquidity concern and Purcellville does not maintain any material contingent liability risks.

The town maintains its investments primarily in money market investments with original maturities of 90 days or less. We understand that liquidity is not expected to materially change in either fiscal 2017 or fiscal 2018.

Very weak debt and contingent liability profile

In our view, Purcellville's debt and contingent liability profile is very weak. Total governmental fund debt service is 13.2% of total governmental fund expenditures, and net direct debt is 191.2% of total governmental fund revenue.

The town is using the 2017B GO bonds, in addition to roughly \$2.1 million of general fund reserves, to refund and restructure its existing debt service payments. Although the refunding slightly extends the maturity date of the debt by four years, the overall amortization schedule does not materially change, with nearly 50% of debt retired within 10 years.

The proposed fiscal years 2018-2022 CIP totals \$6.0 million. We understand that these projects will be funded primarily by grants and pay-as-you-go funding. As such, the town does not have any plans at this time to issue additional debt.

Purcellville's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4% of total governmental fund expenditures in 2016. The town made its full annual required pension contribution in 2016.

All full-time, salaried permanent employees of the town are automatically covered by the Virginia Retirement System. Purcellville's contractually required contribution rate for the year ended June 30, 2016, was 9.96% of covered employee compensation. In fiscal 2016, the town contributed \$451,000 to the plan. The plan's fiduciary net position as a percent of the total pension liability measured at year-end 2016 was 96.1% for the town. Purcellville's net pension liability totals \$460,646 assuming a 7.0% discount rate.

The town also contributes to an OPEB plan that it funds through pay-as-you-go financing. Most recently, in fiscal 2016, Purcellville contributed \$14,000 for OPEB. As of Jan. 1, 2015, the most recent valuation, the unfunded actuarial accrued liability was \$2.1 million.

Very strong institutional framework

The institutional framework score for Virginia municipalities is very strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Purcellville's diverse and primarily residential property tax base with very strong economic indicators and direct access to the greater Washington-Arlington-Alexandria MSA's employment base. The outlook also reflects our opinion of Purcellville's strong financial flexibility and strong operating performance. We believe that management will likely maintain what we consider strong financial flexibility and performance and that it will likely comply with its own comprehensive financial policies. As such, we do not expect to change the rating within the outlook's two-year period.

Downside scenario

Although we do not expect this to occur, if the town were to significantly draw down reserves as a result of a structural imbalance, this could pressure the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

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