FITCH AFFIRMS CULPEPER COUNTY, VA'S GOS AT 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-30 August 2018: Fitch Ratings has affirmed the following Culpeper County, VA (the county) ratings at 'AAA':

--Issuer Default Rating (IDR);
--$14.89 million general obligation (GO) school bonds series 2012.

Fitch also affirms the following rating:

--$42.33 million lease revenue refunding bonds series 2014, issued by the Economic Development Authority of Culpeper County at 'AA+'.

The Rating Outlook is Stable

SECURITY
The GO bonds are general obligations of the county, payable from its full faith and credit and unlimited taxing power.

The lease revenue bonds are payable from lease rental payments, subject to annual appropriation, to be made by the county to the Economic Development Authority (EDA).

ANALYTICAL CONCLUSION

The 'AAA' IDR and GO ratings highlight the county's stable economic base, supporting historically strong operating performance and a solid revenue framework, coupled with conservative liability management.

The lease revenue bonds are rated one notch below the IDR, reflecting appropriation risk.

Economic Resource Base
Culpeper County is located west of Interstate-95 in central Virginia, approximately 75-85 miles from both Washington, D.C. and Richmond, VA. With an estimated 2017 population of 51,282, the county's population has increased an estimated 10% since the 2010 census.

KEY RATING DRIVERS

Revenue Framework: 'aaa'
Revenues have been rising at an adjusted pace in line with U.S. GDP growth. The county enjoys strong revenue flexibility given the independent legal ability to increase the property tax rate without limitation.

Expenditure Framework: 'aa'
Fitch expects the natural pace of spending growth to generally track revenue growth. Moderate carrying costs and broad flexibility to manage labor-related costs allow the county solid leeway to adjust spending.

Long-Term Liability Burden: 'aaa'
The county's overall debt and pension liability burden is low. Future debt needs are manageable, and the pace of debt amortization is above average.

Operating Performance: 'aaa'
The county's historical operating performance demonstrates the highest level of financial resiliency. Reserves remained healthy during and after the last recession. Given the county's revenue flexibility and strong reserves, the county is poised to perform well through an economic cycle.

RATING SENSITIVITIES
MAINTENANCE OF STRONG FINANCIAL PROFILE: The rating assumes continuation of the county's strong financial flexibility, budget controls and revenue growth prospects.

CREDIT PROFILE

Culpeper is a bedroom community with over 50% of the labor force commuting outside the county for work, primarily to Fairfax County, Prince William and Fauquier County (according to the Virginia Employment Commission). The local employment base consists mostly of health care, retail (five of the top 10 taxpayers) and county jobs. The health care sector is dominated by Novant Health UVA Health System Culpeper Medical Hospital, which is the county's second largest employer.

The county also has a growing data center presence. While data centers did not generate a significant number of jobs (about 250), they add to the tax base through business property tax revenues. Currently, the top two taxpayers in the county are data centers.

Per capita personal income is below the national average, but poverty is low and unemployment is below the state and national average.

Revenue Framework
Property taxes are the largest revenue source for the county at 62% of fiscal 2017 general fund revenues followed by intergovernmental revenues at 22%. Intergovernmental revenues are comprised mostly of state funding for health and welfare programs.

The county's rate-adjusted general fund revenue growth has trended in line with U.S. GDP growth over the past decade. The county assesses properties on a biannual basis. The 2017 reassessment (effective 2018) reflected a 8% increase in assessed value to an estimated $6.7 billion, according to management. The July 2018 Zillow home price forecast for the county projects a 3.6% increase for 2019. Revenue growth prospects are expected to remain strong.

Lack of a legal cap on the property tax rate or levy provides the county with significant independent legal revenue-raising flexibility.

Expenditure Framework
The county's expenditures are primarily composed of education and public safety. These costs comprised 37% and 19% respectively, of fiscal 2017 general fund expenditures. Virginia public schools are funded by a mix of state and local contributions. Moderately low carrying costs and broad flexibility to manage labor-related costs allow the county solid leeway to adjust spending.

Given strong anticipated revenue growth, Fitch expects the natural pace of spending to be in line with revenue increases over time.

The county has solid flexibility to adjust its major expenditures items. Fixed carrying costs associated with debt service, actuarially determined pension payments and other post-employment benefit (OPEB) payments consumed approximately 12% of fiscal 2017 governmental spending.

The county has broad discretion over the terms of employee wages and benefits given the absence of collective bargaining, and Fitch does not expect salary and pension costs to pressure the rating.

The county makes annual contributions for capital projects, which in fiscal 2017 totaled approximately $6.4 million or a notable approximately 7% of general fund spending; this practice provides additional budgetary flexibility. The fiscal 2019 budget includes $5.2 million for pay-go outlays.

The county currently funds its OPEB liability on a pay-go basis.

Long-Term Liability Burden
Overall debt and unfunded pension liabilities are low at approximately 9% of the county's personal income and are primarily driven by the pension liability. Despite future debt issuance plans, Fitch expects the liability burden to remain consistent with the 'aaa' assessment based on an above-average 10-year principal amortization rate of approximately 68%.

The adopted fiscal 2019 to 2023 general capital improvement plan (CIP) totals approximately $209 million, including school capital needs. The county currently has $74.7 million net overall debt outstanding (over 3% of personal income). According to management, approximately $97 million of the five-year plan is expected to be debt funded.

The county offers defined benefit pension plans administered by the Virginia Retirement System (VRS) including agent plans (for general employees and non-teacher employees of the component unit school system) and a cost-sharing multi-employer plan for teachers. Plan assets (combined and adjusted to Fitch's 6% investment rate of return assumption) covered about 66% of plan liabilities in fiscal 2017. System wide funding of VRS declined over the past decade as the commonwealth set statutorily required contributions, partially used as budget balancing measure for the state, at less than actuarially sustainable levels. The commonwealth achieved full actuarially determined employer contribution payments as of fiscal 2018, which should slow the growth in the net pension liability. Overall the county's liability burden is on the high end of the Fitch's 'aaa' assessment range.

OPEBs are provided to county employees until medicare elibility. The obligation is funded on a pay-go basis. As of the last valuation date, the UAAL for county employees was reported at $1.7 million or less than 1% of personal income.

Operating Performance
Given the county's superior inherent budget flexibility -- in the form of control over revenues and spending flexibility -- Fitch expects the county to manage through economic downturns while maintaining the highest level of fundamental financial flexibility. Reserves are expected to remain above the county's 10%-15% target, a level of financial cushion well in excess of that required for a 'aaa' resilience assessment. The unrestricted general fund balance of $32.6 million in fiscal 2017 was a substantial 34% of spending.

The county proved its financial resilience and strong budget management through the most recent recession by making reductions in force and reducing capital spending, among other measures. Fitch expects the county to make similar operational changes as needed during future economic downturns.

While the fiscal 2018 general fund budget included a fund balance appropriation of more than $3.4 million, management currently is projecting positive operating results relative to budget. Personal property tax revenue collections reported the strongest positive variance, and spending is estimated at 3% under budget.

The fiscal 2019 general fund budget is a notable 11% increase over fiscal 2018, but keeps the tax rate unchanged and appropriates a larger $5.4 million of fund balance to fund capital projects. The majority of the increase consists of $15.9 million for a new career and technical education school. In addition, the budget funds compensation increases and seven new positions. The county historically has used a portion of reserves to balance its budget at adoption, but typically outperforms original projections due to conservative budgeting practices. Fitch expects similar results at fiscal 2019 year-end.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)
https://www.fitchratings.com/site/re/10024656