

ISSUER COMMENT

8 March 2019

RATING

General Obligation (or GO Related) ¹

Aa2 No Outlook

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Culpeper County, VA

Annual Comment on Culpeper County

Issuer Profile

Culpeper County is located in north central Virginia. The county seat of Culpeper is approximately 70 miles northwest of Richmond and 60 miles southwest of Washington, D.C. The county has a population of 49,795 and a moderate population density of 131 people per square mile. The county's median family income is \$80,258 (1st quartile) and the December 2018 unemployment rate was 2.3% (1st quartile) ². The largest industry sectors that drive the local economy are retail trade, health services, and local government.

Credit Overview

Culpeper County's credit position is very strong and its Aa2 rating matches the median rating of Aa2 for US counties. The key credit factors include a substantial tax base with a positive wealth and income profile, a healthy financial position, a light debt burden and a moderate pension liability.

Economy and Tax Base: The economy and tax base of the county are very strong and are in line with the assigned rating of Aa2. The full value per capita (\$134,683) is above the US median, and saw an impressive increase from 2014 to 2018. Additionally, the total full value (\$6.8 billion) is consistent with the US median. Median family income is a healthy 112.3% of the US level.

Finances: Culpeper County's financial position is very solid and is in line with its Aa2 rating. The cash balance as a percent of operating revenues (20%) is materially below the US median, and fell slightly between 2014 and 2018. Fund balance as a percent of operating revenues (23.5%) is a little weaker than other Moody's-rated counties nationwide. Because Virginia counties' operating funds include school operations, the median operating fund balance is generally lower than national medians. However, given the strong institutional framework we assign to VA counties, which reflects their significant revenue raising and expenditure cutting abilities, their overall financial positions can remain strong despite lower reserve levels.

Debt and Pensions: Overall, the debt and pension liabilities of the county are affordable if slightly unfavorable with respect to the assigned rating of Aa2. The net direct debt to full value (1.1%) exceeds the US median but decreased from 2014 to 2018. Also, the Moody's-adjusted net pension liability to operating revenues (1.5x) is on par with the US median. Because Virginia counties are responsible for school operations, including capital borrowing, the median direct debt burden is generally higher than national medians. However, given the strong institutional framework we assign to VA counties, which reflects their significant revenue raising and expenditure cutting abilities, their overall debt profile can remain affordable despite elevated debt levels.

Management and Governance: Virginia counties have an Institutional Framework score ³ of Aaa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector has one or more major revenue sources that are not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Virginia is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Virginia Counties

Economic growth in the commonwealth continues to improve, but will lag the nation near-term. Exposure to federal spending cuts is fading and Virginia remains a desirable place to do business. Projected job growth, primarily in service industries, will benefit counties going forward. Assessed values are expected to grow at a modest 1% to 2% as the housing market continues to recover. Economically sensitive revenues saw a decline during the recession, but are beginning to rebound. Overall, Virginia counties will benefit from their typically strong financial management, growing revenues, and typically solid fund balance levels.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

EXHIBIT 1

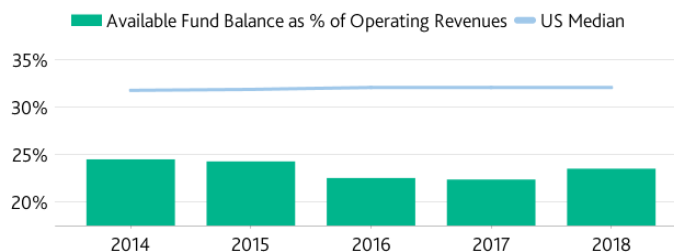
Key Indicators ⁴/₅ Culpeper County

	2014	2015	2016	2017	2018	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$5,346M	\$5,477M	\$6,120M	\$6,220M	\$6,770M	\$7,495M	Improved
Full Value Per Capita	\$111,596	\$113,118	\$125,040	\$124,213	\$134,683	\$82,836	Improved
Median Family Income (% of US Median)	114%	118%	112%	112%	112%	94%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	24.5%	24.3%	22.5%	22.4%	23.5%	32.1%	Stable
Net Cash Balance as % of Operating Revenues	22.7%	22.0%	19.3%	17.6%	20.0%	36.7%	Stable
Debt / Pensions							
Net Direct Debt / Full Value	1.9%	1.7%	1.4%	1.3%	1.1%	0.5%	Improved
Net Direct Debt / Operating Revenues	0.77x	0.68x	0.61x	0.56x	0.51x	0.61x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	2.7%	3.3%	2.9%	3.5%	3.4%	1.1%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.10x	1.33x	1.27x	1.50x	1.53x	1.28x	Stable
	2014	2015	2016	2017	2018	US Median	
Debt and Financial Data							
Population	47,910	48,424	48,952	50,083	50,272	N/A	
Available Fund Balance (\$000s)	\$31,974	\$33,028	\$31,841	\$32,166	\$35,033	\$23,300	
Net Cash Balance (\$000s)	\$29,595	\$29,982	\$27,320	\$25,300	\$29,727	\$24,724	
Operating Revenues (\$000s)	\$130,491	\$135,999	\$141,309	\$143,777	\$148,967	\$69,726	
Net Direct Debt (\$000s)	\$100,442	\$93,086	\$86,904	\$80,588	\$75,234	\$38,387	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$143,737	\$180,743	\$179,778	\$215,101	\$227,948	\$77,659	

Source: Moody's Investors Service

EXHIBIT 2

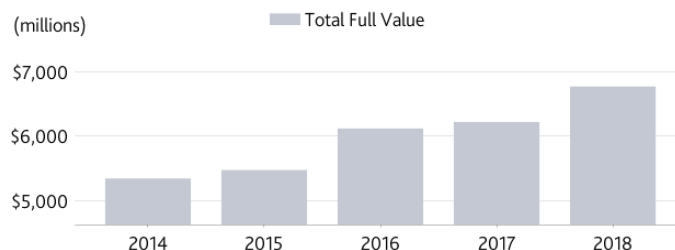
Available fund balance as a percent of operating revenues was stable from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

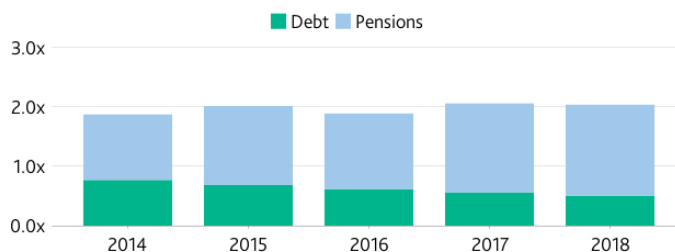
Full value of the property tax base increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues was stable from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
 - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - The medians come from our most recently published local government medians report, [Medians - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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