S&P Global
Ratings

RatingsDirect®

## Summary:

# Manassas, Virginia; General Obligation

**Primary Credit Analyst:**
Danielle L Leonardis, New York (1) 212-438-2053; danielle.leonardis@spglobal.com

**Secondary Contact:**
Timothy W Barrett, Washington D.C. (1) 202-942-8711; timothy.barrett@spglobal.com

## Table Of Contents

**Summary:**

# Manassas, Virginia; General Obligation

| Credit Profile | | |
|---|---|---|
| US$52.0 mil GO pub imp ser 2019 due 07/01/2039 | | |
| *Long Term Rating* | AAA/Stable | New |
| Manassas | | |
| *Long Term Rating* | AAA/Stable | Affirmed |

## Rationale

S&P Global Ratings assigned its 'AAA' long term rating to Manassas, Va.'s series 2019 public improvement general obligation (GO) bonds. At the same time, we affirmed our 'AAA' rating on the city's existing GO debt. The outlook is stable.

The city's maintenance of its strong budgetary performance and very strong budgetary flexibility and liquidity position through various economic cycles remains the cornerstone of the rating. The ability to generate operating surpluses over the past several years while increasing reserves for capital financing and anticipated increases in debt service guided by strong and formal fiscal policies is reflective in the rating. While overall economic indicators are below 'AAA' medians, the city's location and participation in the regional northern Virginia area and the stable and growing local economy support the rating.

A pledge of the city's full faith and credit secures its GO bonds from ad valorem taxes to be levied on all taxable real property within the city limits without limitation as to rate or amount.

We understand the city will use the series 2019 proceeds for various capital projects consistent with its capital improvement plan (CIP), including the initial phase of construction for a new public safety building, the construction of a new fire and rescue station, and various other water and sewer projects.

Manassas' GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," the city has a predominately locally derived revenue source, with 65% of governmental activity revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government.

The rating reflects our view of the following credit characteristics of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level

in fiscal 2018;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 96.5% of total governmental fund expenditures and 12.4x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 7.8% of expenditures and net direct debt that is 95.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but significant medium-term debt plans; and
- Very strong institutional framework score.

### Strong economy

We consider Manassas' economy strong. The city, with an estimated population of 42,532, is located in Manassas City (Prince William County / Manassas / Manassas Park combined area) in the Washington-Arlington-Alexandria, D.C.-Va.-Md.-W.Va. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 96.7% of the national level and per capita market value of $141,271. Overall, the city's market value grew by 1.8% over the past year to $6.0 billion in 2019. The county unemployment rate was 3.4% in 2017.

The city encompasses 10 square miles in northern Virginia and located roughly 30 miles southwest of Washington, D.C.

The mostly residential city maintains a healthy commercial base as well; anchored by manufacturing, health care, and education. Micron Technology (memory chip manufacturer), Novant Health UVA Health Systems and the city's public school are the city's leading employers which all have over 1,000 employees. Given its location and notable employers, the city is a net importer of jobs. The diversity of available, higher-paying, employment opportunities coupled with a well-educated work force continues to lead to above average wealth and income levels and below average unemployment, when compared with national averages.

Although mature in nature, the city continues to see redevelopment and expansions, which over time, will continue to increase the tax base. In September 2018, Micron announced it would invest $3 billion and create 1,100 new jobs by 2030 in its Manassas facility. This project, coupled with other larger scale projects including The Landing at Cannon Branch (a multi-use site) and business expansions at the city-maintained Manassas Regional Airport, will continue to grow employment and the tax base. Assessed value has risen by 12.5% over the past five years to $6.008 billion in 2018 and is expected to increase another 1.0% for fiscal 2019 to $6.07 billion.

### Very strong management

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

In our opinion, the city maintains conservative revenue and expenditure assumptions, relying on at least three-years of historical trend analysis and forward projections. Budget-to-actuals, for both revenues and expenditures, are monitored monthly with reports provided quarterly to council and the city maintains a policy regarding amendments throughout the year. Annually, as part of its budget, the city prepares five-year financial forecasts for its general fund to identify potential shortfalls and future pressures. The city maintains a rolling five-year CIP of identifiable projects and funding sources for general government, schools, and enterprise operations. The city has adopted a formal investment policy with the treasurer reviewing holdings and earnings at least quarterly; and the city's debt policy guidelines sets tax-supported debt as a percentage of estimated market value of taxable real property of no more than 3% and debt service expenditures as a percent of total governmental fund expenditures no more than 15%. The payout of aggregate outstanding tax-supported debt principal will be no less than 50% repaid in 10 years.

The city's formal reserve policy was revised in June of 2017; requiring the established general fund unassigned fund balance level to be maintained at, a minimum 15% of general fund operating revenues (compared to a range of 13% and 15% of general fund operating revenues prior). The policy continues to be maintained and strengthened for cash flow needs and to protect against economic volatility. The policy provides a replenishment provision of two years should it fall below the minimum.

### Strong budgetary performance

Manassas' budgetary performance is strong in our opinion. The city had operating surpluses of 2.5% of expenditures in the general fund and of 7.8% across all governmental funds in fiscal 2018.

With consistent, conservative budgeting practices coupled with formal, well-adhered to fiscal policies the city has garnered operating surpluses in each of the past four fiscal years, net of adjustments. Historically, the city has seen revenues exceed expenditures with a portion of surplus used to finance capital needs.

Fiscal 2018 continues the trend of the city's strong budgetary performance closing with an operating surplus of $2.86 million, net of adjustments, for recurring transfers from enterprise operations and capital costs from debt issuances. Management attributes the surplus to both revenues, primarily from property taxes, revenues from the use of money and property, and miscellaneous revenues, coming in over budget, while expenditures came in under budget. Total general fund balance, which includes the committed portion, totaled $32.7 million or 32.9% of expenditures. The unassigned general fund balance of $17.2 million or 15% of general fund revenues was in line with the city's formal policy of a minimum 15%. Anything over the 15% the city can, and typically does, transfer to the committed portion for future capital needs. Over the past three fiscal years (2016-2018) the committed portion has doubled increasing to $13.0 million from $6.1 million. Furthermore, in fiscal 2016, the city created a debt service fund building fund balance to $3.15 million in fiscal 2018 from an initial $68,000; in anticipation of building the public safety facility. These practices, in aggregate, attest to the city's strong financial performance, which we do not expect to weaken in the near term.

Fiscal 2019 is projected to close with another surplus as revenues are trending above budget (meals and sales taxes) while expenditures are trending under budget; offsetting the planned use of $3.391 million of fund balance for ongoing capital needs.

### Very strong budgetary flexibility

Manassas' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 29% of operating expenditures, or $32.8 million.

Effective for the fiscal 2018 year, the city council's policy is to maintain the general fund unassigned fund balance at

15% of general fund revenues, excluding other financing sources. For the past five years, the city has met this policy.

Given the policy limitations, the city maintains committed fund balances, primarily for capital projects. Conservative budgeting practices have allowed for healthy increases in these reserves over time. Given that the city has permitted ongoing contributions to the fund, per the formal reserve policy, which clearly articulates that the assigned or committed fund balance may be unassigned or uncommitted by City Council by way of a Resolution, we consider these funds available and have included them in our calculations. The total amount included for fiscal 2018 was $13.0 million. Lastly, the city has an additional $9.2 million in the assigned portion of the school fund, which is not included in our calculations that could be used for city purposes, if necessary. In our opinion, given the city's reserve policy and expected financial performance, flexibility should remain very strong.

### Very strong liquidity

In our opinion, Manassas' liquidity is very strong, with total government available cash at 96.5% of total governmental fund expenditures and 12.4x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

We believe the city's strong access to external liquidity is supported by its regular debt issuances, including GO bonds. Though the state allows for what we view as permissive investments, we believe the city does not currently have aggressive investments, with the majority in highly rated and liquid mutual funds and fixed-income securities. The city has consistently had very strong liquidity and we do not anticipate that will change.

### Adequate debt and contingent liability profile

In our view, Manassas' debt and contingent liability profile is adequate. Total governmental fund debt service is 7.8% of total governmental fund expenditures, and net direct debt is 95.2% of total governmental fund revenue. Overall net debt is low at 2.2% of market value, which is in our view a positive credit factor. Negatively affecting our view of the city's debt profile is its significant medium-term debt plans.

The city maintains a rolling five-year CIP and has plans to issue $91.0 million in additional GO debt; the bulk of which is slated for the construction of the new Dean elementary/intermediate school, coupled with the financing of the remaining portion of the public safety building, culture and recreation purposes and transportation projects in fiscal 2021. All debt issued on behalf of the city's enterprise operations is self-supporting. While this planned issue is sizable, we believe as existing debt is incrementally retired, the factor score could return back to strong.

Manassas' combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.8% of total governmental fund expenditures in 2018. The city made its full annual required pension contribution in 2018.

All full-time, salaried permanent employees of the city and MCPS (non-professional employees), are automatically covered by the Virginia Retirement System. The city's contractually required contribution rate for the year ended June 30, 2018, was 11.45% of covered employee compensation and 6.95% for MCPS employees. As of June 30, 2017, the most recent actuarial valuation date, the plan was 85% and 98% funded for the city and the school board (non-professional employees), respectively.

The city and MCPS provide postretirement health care insurance benefits for employees who are eligible for retirement benefits. The plan is funded on a pay-as-you-go basis with an unfunded liability of $9.08 million for the city and $2.1 million for MCPS as of July 1, 2017.

### Very strong institutional framework

The institutional framework score is very strong.

## Outlook

The stable outlook reflects the city's ability to maintain its very strong reserve and liquidity position and strong budgetary performance, supported by very strong management conditions. The city's participation in the northern Virginia employment base and overall strong economic metrics lend stability to the rating. We therefore do not expect to change our rating within the two-year outlook period. In our opinion, management should be able to make necessary budgetary adjustments to maintain performance and flexibility. However, should the city significantly and unexpectedly draw on reserves without the ability to replenish them or economic metrics were to significantly deteriorate, we could lower 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
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017