MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Harrisonburg, VA's $36.6M GO Bonds, Series 2014A, B

Global Credit Research - 27 May 2014

Affirms Aa2 affecting $118.8M of outstanding GO debt

HARRISONBURG (CITY OF) VA
Cities (including Towns, Villages and Townships)
VA

Moody's Rating

ISSUE		RATING
General Obligation Public Improvement Bonds, Series 2014A		Aa2
Sale Amount	$13,425,000	
Expected Sale Date	06/10/14	
Rating Description	General Obligation	
General Obligation Public Improvement Refunding Bonds, Series 2014B		Aa2
Sale Amount	$23,165,000	
Expected Sale Date	06/10/14	
Rating Description	General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, May 27, 2014 --Moody's Investors Service has assigned a Aa2 rating to the City of Harrisonburg's (VA) $13.4 million General Obligation Public Improvement Bonds, Series 2014A and $23.2M General Obligation Public Improvement Refunding Bonds, Series 2014B. The bonds are secured by the city's general obligation, unlimited property tax pledge. Concurrently, Moody's has affirmed the Aa2 rating affecting $118.8 million of outstanding GO debt.

Proceeds from the Series 2014A bonds will fund various capital improvements including the construction of a new city hall. Proceeds from the Series 2014B bonds will refund the Series 2005 and a portion of the Series 2006 bonds for an estimated net present value savings of $2.1 million, or 6.6% of refunded principal, with no extension of maturity.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the city's strong local economy stabilized by the presence of James Madison University, the city's stable financial position characterized by healthy reserves, and an above average, but manageable debt burden.

STRENGTHS

- Stable and diverse tax base

- Sound financial position bolstered by policies

- Conservative approach to budgeting

CHALLENGES

- Reliance on economically-sensitive revenues

- Below average wealth levels

- Above average debt burden

DETAILED CREDIT DISCUSSION

REGIONAL ECONOMY BENEFITS FROM PRESENCE OF UNIVERSITY

The city's tax base is expected to continue to experience modest economic expansion and tax base growth going forward due to continued development. The city is the county seat of Rockingham County (Issuer rated Aa2) and is located in the Shenandoah Valley, approximately 120 miles from both Richmond (GO rated Aa2 stable) and Washington, D.C. (GO rated Aa2 stable). Harrisonburg's economic anchor and largest employer (approximately 3,600 employees), James Madison University (JMU), is a major educational institution and part of the Commonwealth of Virginia's (GO rated Aaa stable) higher education system. Enrollment has grown to over 20,000 students, mostly located within the city limits, representing a considerable 41% of the city's 2010 estimated population. JMU recently invested $460 million in capital projects including Forbes Performing Arts Center, Bridgeforth Stadium, JMU Duke Hall, and the Port Republic Road Athletic Fields. The city's tax base is also home to a vibrant, increasingly diverse commercial and industrial base that includes retail, auto parts, software, electronics, agribusiness and packaging product manufacturers.

The city's tax base has almost doubled since fiscal 2003 to a sizable $4.3 billion in fiscal 2013. Annual assessed valuation growth has averaged a moderate 3.6% over the last five years (2008-2013), including the city's first decline of 1.4% in fiscal 2013. Much of this growth is tied to student housing, the result of increased JMU enrollment that has not been accompanied by equivalent growth in on-campus housing. In addition to the university, the city's economy has seen ongoing industrial development, aided by the relative low cost of living and doing business in the city, as well as a variety of economic development initiatives designed to leverage the university to attract new employers. The city's tax base is expected to increase by 0.1% in fiscal 2014, with modest growth continuing over the medium term. Partly due to the large student population, per capita income at $16,748 (52.1% of VA and 61.3% of US) and median family income at $53,518 (72.8% of VA and 85.0% of US) remain below state and national medians. Full value per capita at $83,725 is also slightly below average when compared to the state (88.4%) and nation (93.7%). The city's unemployment, at 6.1% as of March 2014, typically trends lower than the nation (6.8%), but above the state (5.3%).

SOUND FINANCIAL POSITION EXPECTED TO REMAIN STABLE OVER MEDIUM TERM

The city's financial position is expected to remain stable with sound reserve levels through the medium term due to conservative budgeting practices. Over the last five years, the city has been able to increase General Fund balance to $31.2 million (33.2% of General Fund revenues) in fiscal 2013 from $19.5 million (24.1% of General Fund revenues) in fiscal 2009. This increase in reserves was primarily attributable to the conservative budgeting of both revenues and expenditures. Most recently, the city ended fiscal 2013 with a $280,000 decline in General Fund balance driven by a $4.8 million transfer for capital. The city was able to offset the majority of $7.0 million in appropriated fund balance as a result of positive revenue performance related to property and other local taxes, as well as conservative budgeting of expenditures. The city ended with an unassigned General Fund balance of $23.9 million (25.4% of General Fund revenues), which is well above the city's policy to maintain 18%. The city's primary revenue source was property taxes (35.9%), followed by sales taxes (12.2%) in fiscal 2013.

The fiscal 2014 budget represents a 4.7% increase from the fiscal 2013 budget and includes $1.6 million in appropriated fund balance. Based on preliminary estimates, the city expects to end fiscal 2014 with level fund balance. Revenues are expected to end slightly over-budget due to continued positive performance of property and sales taxes, while expenditures are expected to end under budget due to conservative estimates. The proposed fiscal 2015 budget represents a 2.2% decrease from the fiscal 2014 budget and includes $177,477 in appropriated fund balance. The overall budget-to-budget decrease represents the reclassification of sanitation activities to the sanitation fund. The budget also includes a proposed $0.06 (per $100 assessed valuation) increase in the property tax rate that would generate $2.4 million in additional revenue for the city. This increase in revenue would help to offset a 2% salary increase, as well as growth in retirement, health insurance, and jail-related costs.

ABOVE AVERAGE BUT MANAGEABLE DEBT PROFILE

The city's debt profile is expected to remain manageable given anticipated modest growth in the city's tax base in the neat-term and the self-supporting nature of the city's water system. The city's overall debt burden is an above average 3.6% of full valuation when compared to the state (2.4%) and national (2.4%) medians for like-rated entities, but remains well within the city's policy of 6%. Approximately, $11.3 million of the city's $169.4 million in outstanding debt is self-supporting water system debt. The city maintains a five-year (2015-2019) $150 million Capital Improvement Plan (CIP), of which 64% will fund general government projects including a potential jail expansion and 17% for water-related projects. Approximately, 28% of the CIP is expected to be funded with additional bonds. The CIP does not include school-related capital projects, but management anticipates the construction of a new elementary or middle school within this five-year timeframe due to growing enrollment. Amortization is slightly below average with 60.2% of principal retired within 10 years. Debt service represented a moderate 10.7% of operating expenditures in fiscal 2013, which is well below the city's policy of 15%. Harrisonburg has no exposure to variable-rate debt or derivative agreements.

The city and the city school board participate in the Virginia Retirement System defined benefit pension plan administered by the Commonwealth of Virginia (GO rated Aaa stable). In fiscal 2013, the city's annual required contribution (ARC) was $3.1 million (2.5% of operating expenditures), while the ARC for the school board pension was $145,538 (0.1% of operating expenditures). The city contributed 100% of its ARC for both of its pension plans in fiscal 2013. The city's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $96.9 million, or approximately a below-average 0.81 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. We determined the city's share of liability for the state-run plans in proportion to its contributions to the plans.

The city and school board also provide Other Post-Employment Benefits (OPEB) to employees. The total ARC for the city's OPEB totaled $1.0 million (0.8% of operating expenditures) and the school board's OPEB ARC totaled $1.4 million (1.1% of operating expenditures) in fiscal 2013. The city contributed 40.6% of the ARC ($425,336 or 0.3% of operating expenditures), while the school board contributed 53.0% of the ARC ($720,600 or 0.6% of operating expenditures). Fixed costs including annual pension, OPEB and debt service expenditures summed to a moderate 14.2% of fiscal 2013 expenditures.

WHAT COULD MAKE THE RATING GO UP

- Growth in tax base and wealth levels

- Increase in reserve levels

- Decreased debt burden

WHAT COULD MAKE THE RATING GO DOWN

- Significant contraction in tax base

- Decline in reserve levels

- Elevated debt burden

KEY STATISTICS:

2013 Tax Base Size - Full Value (in 000s): $4,339,324

2013 Full Value Per Capita: $83,725

2010 Median Family Income as % of US median: 85.0%

2013 Fund Balance as % of Revenues: 24.98%

Five-Year Dollar Change in Fund Balance as % of Revenues: 3.89%

2013 Cash Balance as % of Revenues: 26.39%

Five-Year Dollar Change in Cash Balance as % of Revenues: 2.70%

Institutional Framework: Aaa

Operating History - Five-Year Average of Operating Revenues/ Operating Expenditures: 1.00x

Net Direct Debt/Full Value: 3.64%

Net Direct Debt/Operating Revenues: 1.27x

Three-Year Average of Moody's Adjusted Net Pension Liability/Full Value: 1.85%

Three-Year Average of Moody's Adjusted Net Pension Liability/Operating Revenues: 0.68x

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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Analysts

Jennifer Diercksen
Lead Analyst
Public Finance Group
Moody's Investors Service

Edward Damutz
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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