

RatingsDirect®

Summary:

Harrisonburg, Virginia; General Obligation

Primary Credit Analyst:

Timothy W Barrett, New York (1) 212-438-6327; timothy.barrett@standardandpoors.com

Secondary Contact:

Lauren Freire, New York (1) 212-438-7854; lauren.freire@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Harrisonburg, Virginia; General Obligation

Credit Profile

US\$23.165 mil go pub imp rfdg bnds ser 2014B due 07/15/2025

Long Term Rating AA/Stable New

US\$13.425 mil go pub imp bnds ser 2014A due 07/15/2034

Long Term Rating AA/Stable New

Harrisonburg GO

Long Term Rating AA/Stable Affirmed

Harrisonburg GO

Unenhanced Rating AA(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and stable outlook to Harrisonburg, Va.'s series 2014A and 2014B general obligation (GO) bonds and affirmed its 'AA' rating, with a stable outlook, on the city's existing GO debt based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect.

The city's full-faith-and-credit pledge secures the GO bonds. Officials intend to use bond proceeds to fund various public improvement costs and refund previously issued GO bonds.

The rating reflects our opinion of the following factors for the city, including its:

- Strong economy that is broad and diverse and serves as a regional economic center with an employment base anchored by higher education and related sectors;
- Very strong budgetary flexibility with fiscal 2013 audited available general fund reserves equal to 34.4% of general fund expenditures after accounting for committed reserves we understand management could use for general expenses following board approval;
- Strong budgetary performance with a history of balanced budgets, as well as audited surpluses in three of the past four fiscal years and a very diverse revenue stream with property taxes, the leading revenue source, accounting for 36.8% of general fund revenue;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Very strong management conditions with "strong" financial management policies and practices under our Financial Management Assessment (FMA) methodology, as well as a consistent ability to maintain balanced budgets; and
- Weak debt and contingent liabilities due to moderate carrying charges, moderate net debt, and average amortization.

Strong economy

Located in northwestern Virginia, Harrisonburg encompasses 17.3 square miles in Rockingham County. The city, at the Shenandoah Valley's geographic center, has a population estimate of 51,828, an increase of nearly 30% since the

2000 U.S. Census. James Madison University (JMU), a commonwealth-supported school with 20,100 students, is in the city. Three other colleges and universities, with a total student population of 9,700, are within city limits. Harrisonburg is an integral part of the regional economy, and it provides significant employment opportunities in not only education and health care but also in the supporting sectors such as retail and hospitality services; when combined, these sectors account for nearly 60% of employment. Due to its direct access to major interstates 81, which runs through the county, and 64, which leads into Richmond, residents find additional employment opportunities in Rockingham County and the neighboring counties. Unemployment, at 5.4% in 2013, has historically been on par with the commonwealth's rate yet below the nation's rate.

The property tax base has historically experienced healthy and consistent growth. The tax base grew by an average of 8.3% annually since fiscal 2007 to \$4.3 billion in fiscal 2013, or a market value of \$84,615 per capita, a level we consider strong. Leading taxpayers account for a very diverse 9.2% of total assessed value (AV). Harrisonburg revalues property annually, preventing significant spikes every few years. In our view, property tax collections remained strong at roughly 98% in fiscal 2013. Furthermore, per capita retail sales are, in our opinion, very strong at roughly twice the national average, which we believe reflects Harrisonburg's role as a regional economic center.

Projected per capita effective buying income is just 61%, well below the national average. We, however, believe the significant student presence, which accounts for roughly 60% of the population, somewhat mitigates, what we consider, low income. Based on recent reports published by JMU, 30% of students come from northern Virginia, followed by 29% from outside the commonwealth. Furthermore, nearly half of student families report an annual income of \$125,000 or more.

Very strong budget flexibility

Harrisonburg has a history of maintaining, what we consider, very strong available general fund balances. Management indicates that although it appropriated \$1.6 million from reserves in the fiscal 2014 budget, revenue is coming in about \$1.2 million overbudget for the fiscal year and expenses are coming in about 2% underbudget. Therefore, management expects to end the fiscal year with break-even operations and no material change in reserves.

At fiscal year-end 2013, unassigned and assigned reserves were \$27 million, or about 30.1% of operating expenditures. In addition, it is our understanding the city's \$3.4 million of committed fund balance is available for general expenses following city board approval. Available reserves totaled \$30.4 million, or, what we consider, a very strong 34.4% of operating expenses, at fiscal year-end 2013.

Strong budgetary performance

We view overall budgetary performance as strong. For fiscal 2014, management expects break-even operations despite appropriating \$1.6 million of fund balance due to overbudget revenue and underbudget expenses. Management attributes, what we consider, the strong performance for the fiscal year to, what we regard as, conservative budgeting and very strong economic indicators. In addition, we do not expect reserves to change materially during fiscal 2015.

Harrisonburg closed fiscal 2013 with a slight drawdown of \$279,000 following a transfer of roughly \$4.6 million into the capital projects fund from the general fund. General fund balance totaled \$31.2 million, or 36% of expenditures, a level we consider very strong.

Since the 1950s, Harrisonburg's electric utility commission has provided annual transfer payments. Since the commission's inception, a formal transfer policy requires a minimum transfer of 5% of gross utility revenue into the general fund. Over fiscal years 2004-2013, transfers into the general fund have averaged \$4.7 million annually. Furthermore, the city has additional unrestricted assets outside the general fund -- the water, sewer, public transportation, and sanitation funds -- that totaled \$20.3 million, or another 23% of general fund expenditures, at fiscal year-end 2013.

Very strong liquidity

What we consider very strong liquidity supports Harrisonburg's finances with available cash equal to 59% of total governmental funds expenditures and more than 4x debt service. In addition, we believe the city has strong access to external liquidity. Harrisonburg has three privately placed loans outstanding that total approximately \$13.3 million. We have evaluated the city's legal agreements and have found that although one of the loans that currently totals \$8.1 million has nonremote events of default with acceleration of principal as a remedy, we view the principal outstanding as low compared to the city's liquidity position.

Very strong management

We view Harrisonburg's management conditions as very strong following our revision of the city's FMA score to "strong" from "good" based on a better understanding of the city's long-term financial planning. An FMA of "strong" indicates practices are strong, well embedded, and likely sustainable.

Harrisonburg's financial management techniques include several debt affordability policies, including a 15% debt service carrying charge limit of general government and school component unit expenditures and a 6% limitation on net general bonded debt as a percent of AV. The city performs a five-year financial forecast, updated annually, for each fund. City officials annually update a five-year capital improvement plan (CIP).

Frequent reporting and monitoring of investment policies and debt management are evident. Harrisonburg also maintains a formal reserve policy that it recently amended to increase the minimum targeted level by 4% of budget. The revised reserve policy requires a year-end unassigned general fund balance of a minimum 14% of the budget, up from 10%; it also targets an additional 4% for liquidity for a total of 18% of the general fund budget.

Weak debt and contingent liabilities profile

In our opinion, Harrisonburg's debt and contingent liabilities profile is weak with debt service of 14.4% of total governmental funds expenditures and net direct debt of 155.9% of total governmental funds revenue. The overall debt-to-market-value ratio is, in our view, a moderate 3.6%. We understand Harrisonburg does not have any overlapping debt. We consider principal amortization of existing and proposed debt rapid with officials planning to retire roughly 62% over 10 years.

We view the fiscal years 2015-2019 CIP of approximately \$150 million as manageable; the CIP consists of \$9.4 million of essential projects and \$140.6 million of highly desirable projects. Despite the relatively large CIP, we expect the city's debt profile to remain similar due to its debt management policies.

Harrisonburg contributes to the Virginia Retirement System for employee retirement benefits. The city has historically funded 100% of the annual required contribution for pension liabilities. The fiscal 2013 pension cost totaled \$3.1

million, or less than 3% of governmental expenditures. As of the June 30, 2012, valuation, the pension plan was 70.1% funded with an unfunded actuarial accrued liability (UAAL) of \$35.9 million.

Harrisonburg also provides other postemployment benefits (OPEB) to certain retirees. The fiscal 2013 contribution totaled \$425,336, or 40.7% of the annual OPEB cost, or less than 1% of governmental expenditures. As of the July 1, 2012, valuation, the OPEB UAAL was \$12.7 million.

Very strong Institutional Framework

We consider the Institutional Framework score for Virginia cities with a population greater than 3,200 very strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of the integral economic role Harrisonburg plays in the region and the stability provided by JMU, as well as a number of other institutions. It is our view management will likely maintain, what we consider, its strong financial profile -- including very strong budgetary flexibility, very strong liquidity, and sound budgetary performance -- due to the city's formal policies. For these reasons, we do not expect to change the rating within the outlook's two-year period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Virginia Local Governments

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.