STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:
Harrisonburg, Virginia; General Obligation

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Summary:

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Credit Profile		
US$39.815 mil GO pub imp bnds ser 2016 due 07/15/2040		
Long Term Rating	AA/Stable	New
Harrisonburg GO		
Long Term Rating	AA/Stable	Affirmed
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 to Harrisonburg, Va.'s series 2016 general obligation (GO) public improvement bonds and affirmed its 'AA' rating on the city's existing GO debt. The outlook is stable.

The city's full-faith-and-credit pledge, including the levy of an unlimited ad valorem tax, secures the GO bonds. Officials intend to use bond proceeds to fund various public improvement projects.

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

- Adequate economy, with projected per capita effective buying income at 63.1% and market value per capita of $83,639, that is gaining advantage from a local stabilizing institutional influence in higher education and related sectors;
- Strong budgetary performance, with balanced operating results in the general fund and at the total governmental fund level in fiscal 2015 after accounting for one-time non-operating expenditures, in addition to a very diverse revenue stream with property taxes, the leading revenue source, accounting for about 37% of general fund revenue;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 27% of operating expenditures;
- Very strong liquidity, with total government available cash at 47.4% of total governmental fund expenditures and 4.0x governmental debt service, and access to external liquidity we consider strong;
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Very weak debt and contingent liability position, with debt service carrying charges at 11.9% of expenditures and net direct debt that is 186.5% of total governmental fund revenue; and
- Very strong institutional framework score.

Adequate economy

We consider Harrisonburg's economy adequate. The city, with an estimated population of 52,370, is located in northwestern Virginia. The city benefits, in our view, from a stabilizing institutional influence. It has a projected per capita effective buying income of 63.1% of the national level and per capita market value of $83,639. Overall, the city's market value grew by 0.6% over the past year to $4.4 billion in 2016. The city unemployment rate was 5.4% in 2015.

Harrisonburg encompasses 17.3 square miles in Rockingham County at the Shenandoah Valley's geographic center. James Madison University (JMU), a commonwealth-supported school with 20,100 students, is within 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 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 Interstate 81, which runs through the county, and Interstate 64, which leads into Richmond, residents find additional employment opportunities in Rockingham County and neighboring counties.

The property tax base has historically experienced consistent growth. The tax base has grown by an average of 2.6% annually since fiscal 2008. Leading taxpayers account for a very diverse 9.5% of total assessed value (AV). Harrisonburg revalues property annually, preventing significant spikes every few years. In our view, property tax collections remain strong at nearly 100%. Furthermore, per capita retail sales are very strong, in our opinion, at more than twice the national average, which we believe reflects Harrisonburg's role as a regional economic center.

We believe the significant student presence, which accounts for roughly 60% of the population, somewhat mitigates, what we consider, low income levels in the city. Based on reports published by JMU, roughly 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.

Strong budgetary performance

Harrisonburg's budgetary performance is strong in our opinion. The city had balanced operating results of 0.4% of expenditures in the general fund and of 0.2% across all governmental funds in fiscal 2015 after accounting for one-time expenses.

We view overall budgetary performance as strong. For fiscal 2016, management expects break-even operations despite appropriating $4.5 million of the fund balance. Management indicates that revenues are coming in ahead of budget for the year and that expenses are under budget due primarily to conservative budgeting.

Harrisonburg closed fiscal 2015 with a drawdown of $5.1 million. The drawdown was due in large part to transfers out of the general fund for one-time purposes, including a transfer of roughly $2.4 million into the capital projects fund as well a transfer of $3.1 million into the sanitation fund from committed reserves in the general fund to fund a one-time expense associated with postclosure care costs of a landfill. Excluding these two one-time items, on an operational basis, the city ended fiscal 2015 with close to breakeven operations.

Harrisonburg has a history of transferring excess utility revenue into the general fund from its water and sewer funds. Over the past five fiscal years, transfers into the general fund from the city's utility funds have averaged about $2.5 million annually.

Very strong budgetary flexibility

Harrisonburg's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 27% of operating expenditures, or $25.9 million.

Harrisonburg has a history of maintaining what we consider very strong available general fund balances. Management indicates that although it appropriated $4.5 million from reserves in the fiscal 2016 budget, revenue is coming in about $1.0 million over budget for the fiscal year and expenses are coming in under budget. We understand that management expects to end the fiscal year with no material change in reserves.

At fiscal year-end 2015, unassigned and assigned general fund reserves were $25.9 million, or about 26.8% of operating expenditures. In addition, the city maintains committed reserves in its general capital projects fund equal to $10.8 million at the end of fiscal 2015. We understand that this source of funds is unrestricted and has been accumulated over time primarily from general fund transfers. Management indicates that following board approval, it could use these funds for general expenses. Combined, available general fund reserves and unrestricted reserves held in the general capital projects fund equaled $36.7 million.

Very strong liquidity

In our opinion, Harrisonburg's liquidity is very strong, with total government available cash at 47.4% of total governmental fund expenditures and 4.0x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

The city maintains most of its investments in the local government investment pool (LGIP).

In addition, we believe the city is not exposed to any contingent liability risk that could materially affect liquidity.

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.

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.

Very weak debt and contingent liability profile

In our view, Harrisonburg's debt and contingent liability profile is very weak. Total governmental fund debt service is 11.9% of total governmental fund expenditures, and net direct debt is 186.5% of total governmental fund revenue.

The overall debt-to-market-value ratio is, in our view, a moderate 4.3%. We understand Harrisonburg does not have any overlapping debt. We consider principal amortization of existing and proposed debt above average with officials planning to retire nearly 70% over existing principal over the next 10 years.

We view the fiscal years 2016-2020 CIP of approximately $302.8 million as manageable. The CIP includes $168.3 million of capital projects related to Harrisonburg City Public Schools. We expect the city's debt profile to remain similar due to its debt management policies and above-average amortization of existing debt. Over the next two years, the city's CIP includes $104.5 million in capital needs related to the school fund and $36.4 million related to the general fund. The city has differentiated between priority one projects, which are defined as "absolutely required" and priority two projects, which are defined as "highly desirable." We understand that most of the projects in the CIP are priority two projects, providing the city with flexibility in its capital plan.

Harrisonburg's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 3.3% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

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, which is determined by the state. The fiscal 2015 pension cost totaled $3.1 million, or less than 3% of governmental expenditures. As of the June 30, 2015, the city's portion of the liability totals $19.2 million assuming a 7.0% discount rate.

Harrisonburg also provides OPEB to certain retirees. The fiscal 2015 contribution totaled $327,575, or 41.6% of the annual OPEB cost, or less than 1% of governmental expenditures. As of the July 1, 2014, valuation, the OPEB unfunded actuarial accrued liability was $8.8 million.

Very strong institutional framework

We consider the institutional framework score for Virginia cities with a population greater than 3,500 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. We believe management will likely maintain what we consider its strong financial profile--including very strong budgetary flexibility, very strong liquidity, and at least adequate 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.

Upside scenario

If Harrisonburg's economic metrics improve to levels more in line with higher rated peers, we could raise the rating.

Downside scenario

Although we do not expect this, if the city were to materially draw down reserves due to weak budgetary performance, this could pressure the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

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
- Institutional Framework Overview: Virginia Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. 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.