PRINCE WILLIAM
Finance

2022

Fiscal Health Outlook Report

Published May 2023

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Introduction

This report provides a framework for monitoring Prince William County's financial condition for fiscal year 2022. The continuous monitoring process utilized herein is a management tool that pulls together information from the County's budgetary and financial reports and combines it with economic and demographic data.

The use of ratio analysis, as well as trend analysis, help gauge the fiscal health of Prince William County. Local trends are compared to both regional and national results to provide a more comprehensive understanding of the County's financial status. The County utilized the services of PFM Financial Advisors, LLC, the County's financial advisor, to prepare this report. Trend data is taken from the County's Annual Comprehensive Financial Report (ACFR) and other financial and accounting records. The sources of trend data for the comparison jurisdictions included in this report are Moody's Financial Ratio Analysis database and Standard & Poor's (S&P's) ratings reports which contain financial information from the peer group's respective Annual Comprehensive Financial Reports. The 'triple triple-A' comparison group includes the Virginia counties of Arlington, Chesterfield, Fairfax, Hanover, Henrico, and Loudoun, as well as Anne Arundel and Howard County, Maryland and Wake County, North Carolina.

Most of the states take a wide variety of approaches to monitor localities' fiscal health as well. In 2017, the Commonwealth of Virginia joined 22 other states that regularly review financial information from local governments to assess their fiscal conditions. The Virginia Acts of Assembly directed the Auditor of Public Accounts (APA) Office to establish a system to monitor financial data to identify potential fiscal distress among local governments in the Commonwealth. The three-step process currently consists of the 12 financial ratio analysis, ranking each locality's results in the model to determine an overall composite score that serves as a preliminary determination of potential fiscal distress. A higher number of points indicates weaker financial performance. If a locality scores above a determined point threshold, which is reassessed each year, it will be subject to additional qualitative in-depth analysis that includes demographics, unemployment, and other external factors. The ratio and qualitative analyses could lead to a follow-up review, the final step of the process in determining if a locality is experiencing a fiscal distress situation and requires further intervention from the Commonwealth.

The County's total score of the ratio trend analysis has been significantly below the threshold and classified as "does not require further follow-up" for the current monitoring process and has not shown any distress warning signs. Since the point threshold is reassessed each year, comparing the total points from year-to-year ratio trend analyses could be misleading. And as stated in APA's 2019 report the "ratio analysis focuses on using a methodology to analyze each locality's ratio performance on an individual basis, and not to compare the ratio results from one locality to another". The most recent published Monitoring for Local Government Fiscal Distress 2020 and 2021 Report contains data for fiscal years 2019-2020 and is available at http://www.apa.virginia.gov/reports/MonitoringforLocalGovernmentFiscalDistress2020-2021.pdf.

As the novel coronavirus (COVID-19) eases, the emergence of inflation created a more challenging environment for the U.S., state, and local governments. With tighter financial conditions and slower economic growth, the County's leadership team continues practicing fiscally prudent and well-embedded policies, developing robust planning around various scenarios and maintaining financial agility. In fiscal year 2022, the County's general revenues once again exceed the budget by 6.56%, supported by surpluses in real estate tax, personal property tax and sales tax revenues. The County's economy has demonstrated a sound recovery from the impacts of COVID-19, that led to a reaffirmation of the County's credit rating despite the economic disruption underway.

Economy

A phenomenon once labeled as transitory by many has been replaced by a vigorous attempt by central banks around the globe to quash stubbornly high inflation. The relentless pace of interest rate increases implemented by the Federal Reserve throughout 2022 are beginning to permeate through the broader U.S. economy and have set the stage for inflationary pressure and economic growth to cool further. After peaking at 9.1% in June, inflation has fallen to below 6%, led primarily by a decline in energy and goods prices. But despite current projections that suggest inflation will reach approximately 4.1% by year-end 2023, price pressures will not necessarily follow a linear decline given the general strength of the U.S. labor market, a key factor that lifted U.S. Gross Domestic Product (GDP) to 2.1% during 2022. The median GDP forecast for 2023 indicates a growth profile that will step-down but remain positive at 1.0%. With a prevailing backdrop of elevated inflation and declining growth, two key questions remain unanswered concerning the path of monetary policy. One, will a Federal Funds rate currently forecast to peak at approximately 5.1% be restrictive enough to allow the Fed's 2.0% average annual inflation target to be achieved? And two, how will the Federal Reserve respond to its dual mandate of full employment and price stability if a higher than forecast rate of unemployment is necessary to restore average annual inflation to 2.0%? The Fed's Summary of Economic Projections show the median unemployment rate peaking at 4.6% over the next two years.

Many economists, including Federal Reserve officials, believe current data suggests there is still a path to what is known as a "soft landing." A scenario in which the use of monetary policy tools - such as raising interest rates – reduces consumer spending and lowers inflation, but avoids a profound economic downturn marked by mass layoffs over various sectors of the economy. But despite an abundance of tools and data economists have at their disposal, projecting a recession is akin to putting together pieces of a puzzle and continues to be art more than science. Currently, certain measurements have not allowed some puzzle pieces to fit seamlessly. For example, the manufacturing sector has been cited by some market observers as already in a recession, while the housing market has experienced a sharp decline. However, factory and construction employment has remained firm.

"The signals are mixed in a way that we haven't seen before," says Claudia Sahm, a former Federal Reserve economist and the founder of Sahm Consulting. "People say, 'Historically when this happens, that happens, and then we go into a recession.' That's a good starting place, but that shouldn't be the end place for the analysis." Ms. Sahm came up with her own real-time recession test known as the Sahm Rule. The rule states that when the three-month moving average of the unemployment rate rises by 0.5 percentage point or more relative to the low in the previous 12 months, a downturn has begun. The current reading does not indicate a recession. The economic impact from the pandemic saw a significant trend in macroeconomic forecasting develop in which information from government releases has been supplemented with smaller but more high-frequency data from private sources. Analysts dug into numbers on restaurant reservations from OpenTable, movie attendance from Comscore Inc. and mobility data from Google to assess how quickly U.S. consumers' lives were returning to normal. Those same high-frequency measurements are now being utilized to uncover any evidence that households are curbing discretionary spending, but these indexes have yet to indicate sustained downward momentum. There is no shortage of opinions from market and economic pundits as to how 2023 will unfold but one ongoing dynamic is clear. Many Americans are feeling the financial burden of cost-of-living expenses that wages have failed to match.

The County's leaders monitor closely the economic activity across all sectors of the community and assess its impact on the local economy and operations. Identifying County's strengths, weaknesses and vulnerabilities, careful planning of robust scenarios, evaluating the structural balance of the County's budget, maintaining financial agility and not deviating from practices that have led to the triple-A ratings remain the County's key considerations during the economic period of slower global growth, inflation, expected slowdown of consumer spending and potential financial market instability.

Executive Summary

A credit rating is an assessment of the general creditworthiness of an entity or the creditworthiness of an entity with respect to a specific debt security or other financial obligation, based on relevant risk factors. Credit rating criteria and methodology have grown in complexity over time, with both quantitative and qualitative analysis involved.

In general rating agencies look at the following primary credit factors – *financial/budgetary performance*, *economy and tax base*, *debt and pension obligations* and *governance/management*.

Rating agencies use a quantitative scorecard approach to provide a composite score of a local government's credit profile based on the weighted factors deemed most important, measurable, and prevalent. The scorecard contains calculated ratios using historical results which provide a basis for the credit rating. Note that within each scorecard, the metrics used by rating agencies are not all weighted equally. For example, S&P gives more weight to a locality's economy and tax base than they give to debt and other liabilities. The scorecard metrics and weights are summarized in the tables on page 40.

Next, the rating agencies make qualitative adjustments when events or certain characteristics of the local government may be more significant determinants of a rating than the pure scorecard weighting might otherwise imply.

The adjustments allow for a final rating based on future expectations. Examples of qualitative adjustments include, but are not limited to, the following:

Key:

↑ = Upward adjustment
↓ = Downward adjustment

Financial/Budgetary Performance

↑ Additional borrowable liquidity
↑↓ Strong or weak budget planning and management (e.g., five-year plan)
↓ Reliance on uncertain federal or state aid
↓ Limited revenue raising ability or restrictive tax caps
↓ Heavy fixed costs
↓ Volatile revenue sources
↓ Large structural imbalance

Economy and Tax Base

↑ Presence or proximity of a university, state capital or Nation's capital
↑ Exceptionally high household wealth levels
↑ Expected future development
↑↓ Median home value and real estate values trend
↑↓ Population trends
↑↓ Composition of the workforce and employment opportunities
↓ Expected decline in tax base due to corporate closures or tax appeals
↓ High poverty rate

Debt and Pension Obligations

- ↑↓ Unusually rapid or slow amortization of debt principal
- ↑ Established pension or other post-employment benefit (OPEB) reserve
- ↓ Heavy capital needs implying future debt increases

Governance/Management

- ↑ Formal financial policies
- ↑ History of conservative budgeting
- ↑ Active monitoring of budget performance
- ↑ Well-defined plan for restoring structural operating balance and/or replenishing reserves
- ↑ Ability and willingness to make adjustments in response to economic and financial pressures
- ↓ Reliance on cash flow borrowing
- ↓ Weaknesses in best practices
- ↓ Political polarization that makes budgeting and decision-making difficult

The following chart provides a summary of the overall credit strengths and weaknesses of the County as last reported in October of 2022 by the three major credit rating agencies, Moody's Investors Service (Moody's), S&P Global Ratings (S&P) and Fitch Ratings (Fitch).

Prince William County

Credit Strengths and Weaknesses

Positives	Negatives
Economy & Demographics	**Economy & Demographics**
• Sizeable and growing tax base • Diversifying local economy • Affordable cost of living compared to other localities in D.C. metro area • Unemployment rate below national and state averages	• High exposure to changes in federal defense spending, which was volatile over the past decade
Financial Condition	**Financial Condition**
• Stable reserve and liquidity position • Very strong budgetary flexibility with available fund balance of 23% of operating expenditures in fiscal year 2021 • Maintenance of capital reserve fund for pay-go capital	• Fund balance levels below similarly rated counties nationwide
Debt and Pension	**Debt and Pension**
• Conservative debt management practices • Above-average debt repayment • Overall debt % assessed value of less than 3%	• Debt and pension burden slightly above Aaa median
Management	**Management**
• Strong management team supported by formal fiscal policies and very strong financial practices • Use of multi-year forecasting tools and frequent budget monitoring • Enacting of various resiliency preparedness measures including technology and cybersecurity improvements	• None
Environmental, Social, Governance	**Environmental, Social, Governance**
• Strong management, institutional and budgeting practices, long-term initiatives such as the Sustainability Plan by the Office of Sustainability • Positive demographic trends, affordable housing, above average labor and income • Neutral to low exposure to environmental risks	• None

Source: Fitch's report dated October 6, 2022, S&P's report dated October 11, 2022, and Moody's report dated October 13, 2022.

After making all qualitative adjustments to their rating metrics, either upward or downward, the County rates 'AAA' from all three major credit rating agencies. Triple-A is the highest rating from each agency and signals that the County has an "extremely strong capacity to meet financial commitments."

In April 2022, Moody's introduced significant changes to its local government rating methodology to improve comparability across all rated credits. The County's credit rating has not been substantially impacted by it, and the current Fiscal Health Report provides detailed information reflecting these changes. Some of the key changes of the new rating methodology are:

- Including all governmental and business-type funds (vs. general/operating funds) and excluding component units funds, such as School Division and Adult Detention Center, in its scorecard calculations;
- Adjusting resident income levels for cost of living, using Regional Price Parity Index;
- Increasing the weighting of debt factors; and
- Reducing of weighting of management and institutional framework factor.

In discussions regarding the new methodology, Moody's analysts have stressed the importance of "Other Considerations" in assigning ratings and noted it is common for ratings to differ from the indicated scores. It is expected that the County continues to qualify for positive adjustments under "Other Considerations" based on its strong management and other qualitative factors.

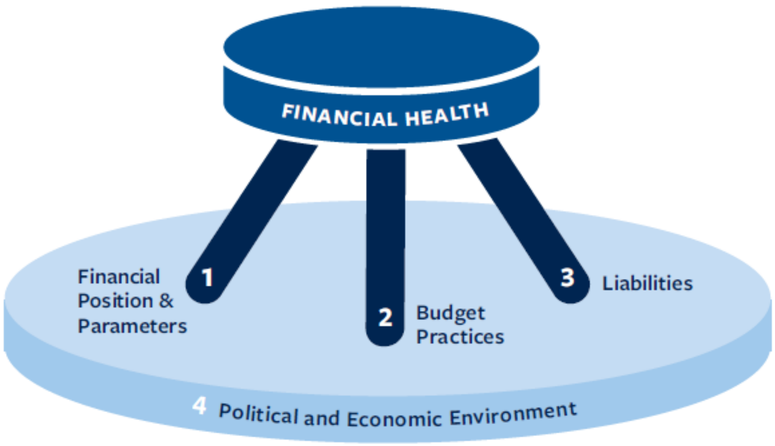
In addition to the financial reporting metric, rating agencies, investors, and analysts today continue to focus on environmental, social and governance (ESG) factors. Moody's and S&P added explicit ESG scores to their methodology with the intention of providing additional details and transparency regarding their assessment of ESG risks. In June 2021, Moody's included the County in its first Sector In-Depth report on ESG considerations for local governments. In its recent report, Moody's states that the County had a positive ESG Credit Impact Score of 1 (CIS-1), "reflecting strong social and governance risks, and neutral-to-low exposure to environmental risks". This means that ESG factors have a positive impact on the County's credit. Fitch rolled out ESG relevance scores across all credits in 2019 and assigned all municipalities the same neutral ESG score of '3'. S&P has not yet published specific ESG scores for any local government in the U.S. It is expected that scores will be available sometime in 2023. In its report on the County dated October 11, 2022, S&P indicates that the County's environmental, social, and governance factors are neutral, with limited environmental risks and strong management operating with long-term planning initiatives to mitigate risks to the County's financial operations and infrastructure.

The ability for the County to receive and maintain a triple-A rating is important as it reflects the County's ability and willingness to pay its obligations, thereby increasing demand for the County's bonds and reducing overall borrowing costs. Furthermore, the triple-A rating signals fiscal stability and good governance to businesses looking to locate within Prince William County.

In this report, the County uses 2022 fiscal year-end results to calculate several of the key factors used in the credit rating evaluation. The charts depicting the County as compared to its peer group show County data as either "green" or "yellow". A green bar reflects the achievement of triple-A status for that particular metric, while a yellow bar indicates a rating of double-A or A.

Fiscal Stability

According to the Government Finance Officers Association (GFOA) a financially sustainable community provides services to citizens within its available means while proactively taking measures to build and preserve its ability to provide services in the future. The Financial Health Model below depicts a three-legged stool comprised of sound financial position and parameters, flexible budget practices and manageable liabilities. The stool sits on a foundation made up of the political and economic environment. These are the same factors the rating agencies assess when assigning a bond rating to a municipality. While the County is a 'triple triple-A' jurisdiction, as affirmed in October 2022, there are some areas that are not as strong as others. Based purely on the rating agencies' quantitative scoring metrics, the County is 'Aa'. However as previously noted, each rating agency also looks at qualitative factors - namely the political environment, governance, and additional economic, financial and debt factors - and can make upward or downward adjustments to a score based on that assessment. S&P, for example, noted a contributing factor to the County's 'AAA' rating was County's "growing and diversifying economy, historically sound financial operations (especially during recent pandemic-related fiscal pressures), and management's conservative financial assumptions and spending discipline that result in ongoing budgetary stability and maintenance of very strong reserves.

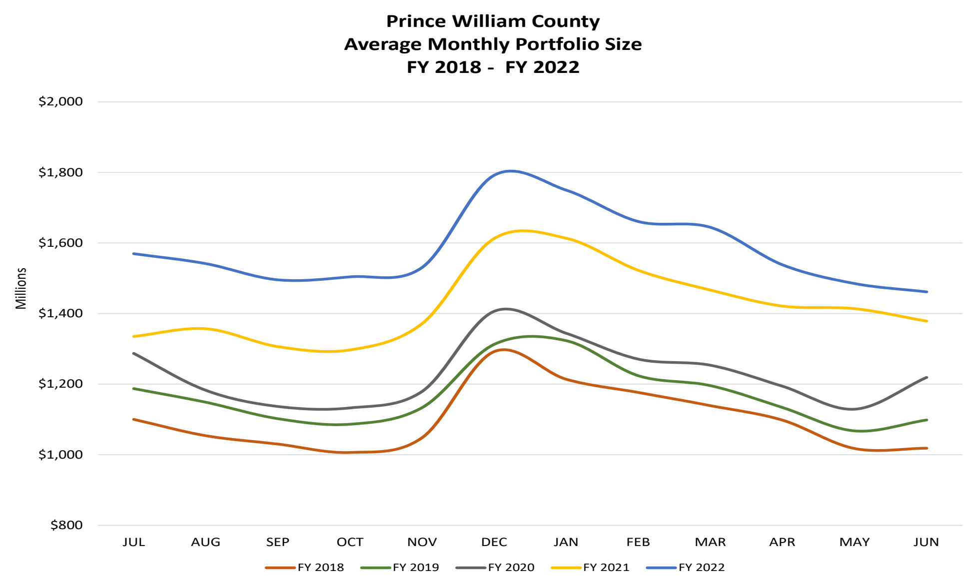


Source: Government Finance Officers Association

Financial Position

Cash

One of the areas assessed related to financial position is cash balance or liquidity. This chart shows the five-year history of the County's General Pool Portfolio. Increases in portfolio size typically come from additions to fund balance/year-end savings as well as a portion of annual revenue growth. The portfolio has seen average growth of approximately 8.6% since 2018. While the shape and trajectory of the County's average monthly portfolio size exhibited a logical progression from fiscal year 2018 to 2020, the staggered receipt of federal stimulus funds played a key role in maintaining a higher-than-normal average portfolio balance throughout fiscal years 2021 and 2022. Aiming to tame inflationary pressure permeating through the U.S. economy, the Federal Reserve has embarked on a tightening cycle that has seen the Federal Funds Rate increase 500 basis points since March 2022 to a range of 5.00% - 5.25%.

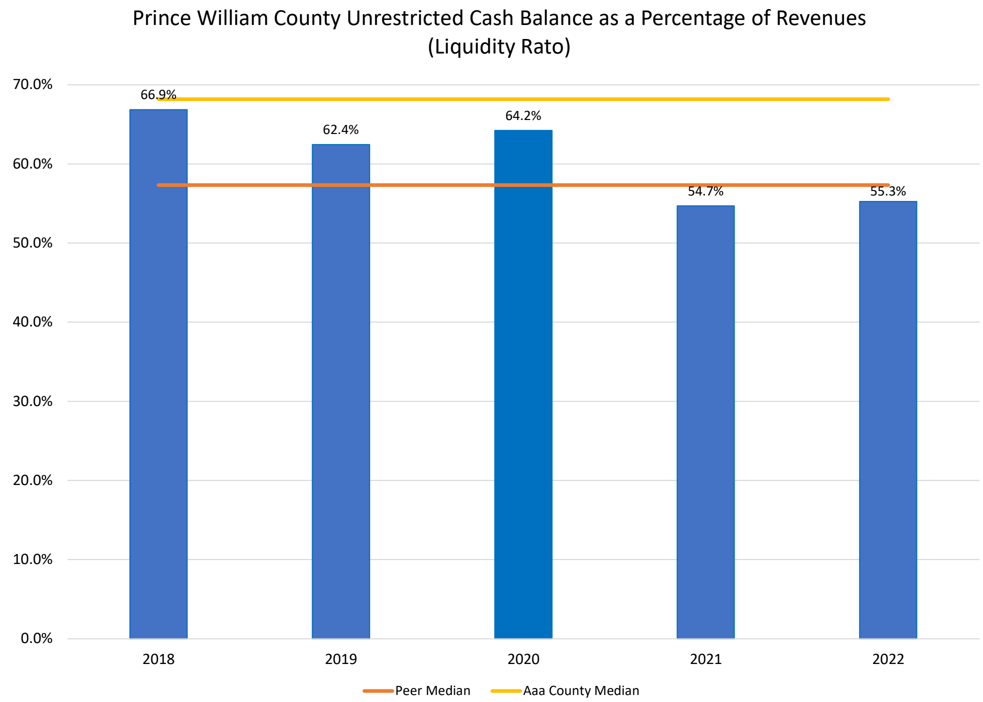


Source: Prince William County, Department of Finance - Treasury Management

Liquidity

Liquidity ratios analyze the ability of an organization to pay off both its current liabilities as they become due, as well as its long-term liabilities as they become current. In other words, these ratios show the cash balance levels of the County and the ability to turn other assets into cash to pay off liabilities and other current obligations. Cash basis liquidity measures assess the County's relative degree of financial cushion. A good indicator of liquidity level is the cash cushion available to an entity at the end of the fiscal year.

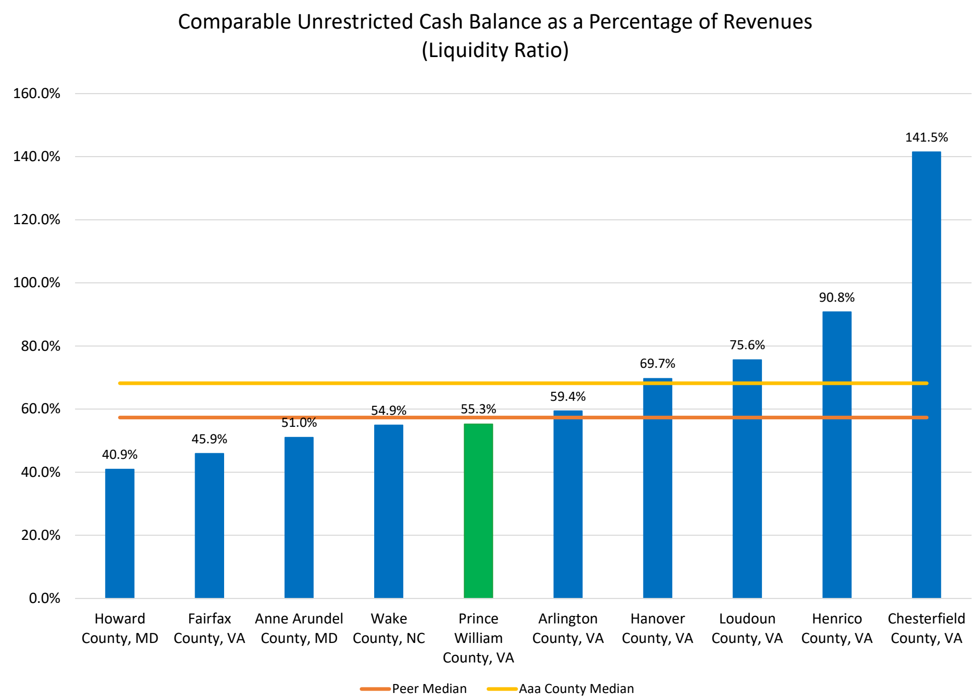
Rating agencies examine the historical cash balance as a percentage of revenues to determine whether an entity has a strong or weak cash margin. A history of weak year-end liquidity signifies a tight cash position with little buffer available if revenues unexpectedly decline. With the adoption of the new methodology, Moody's new 'Aaa' target for this liquidity metric has increased to greater than 40%. The new liquidity ratio looks at entities' unrestricted cash in total governmental activities, total business type activities and the internal services funds, net of short-term debt from operating funds. The chart on the following page shows that the County is currently at 55.3% and rates 'Aaa' in this category, with County's unrestricted cash balances exceeding $875 million on June 30, 2022.



AAA target > 40%

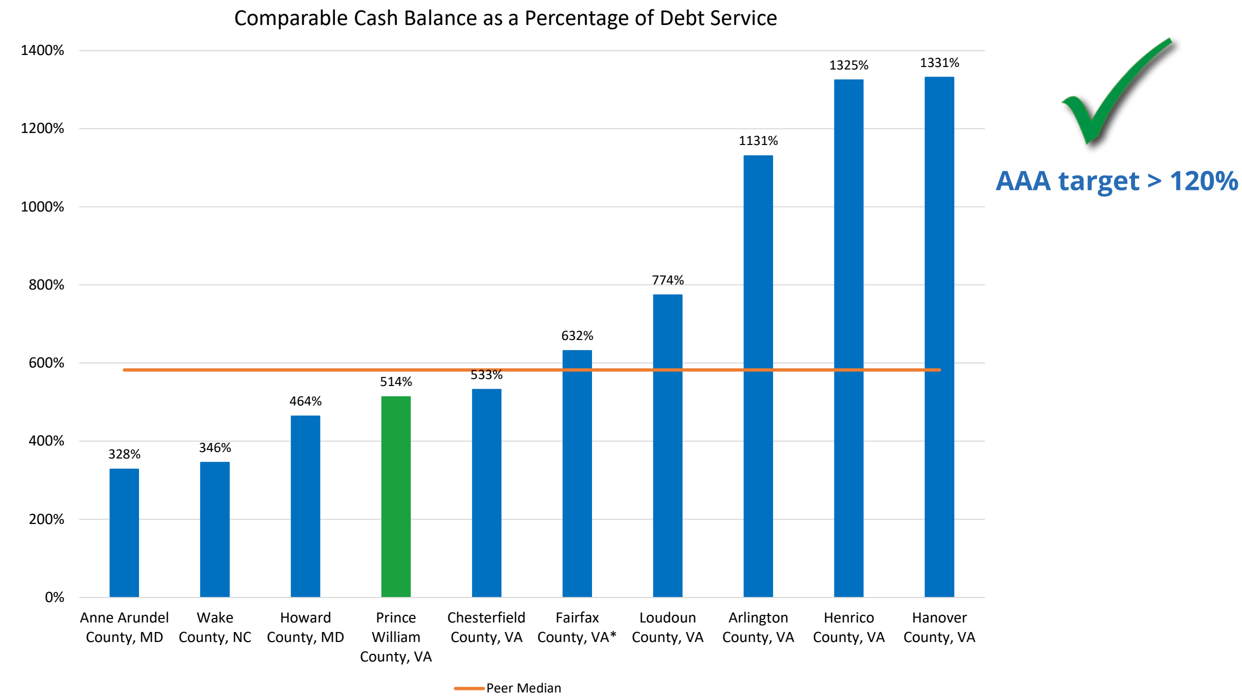
Source: Moody's Financial Ratio Analysis database.

The chart below compares Prince William County to the peer group median and the median of all 'Aaa' rated counties in the nation for historical cash balance as a percentage of revenues. The County is no longer above the 'Aaa' county median and is slightly below the peer median of 57.3%.



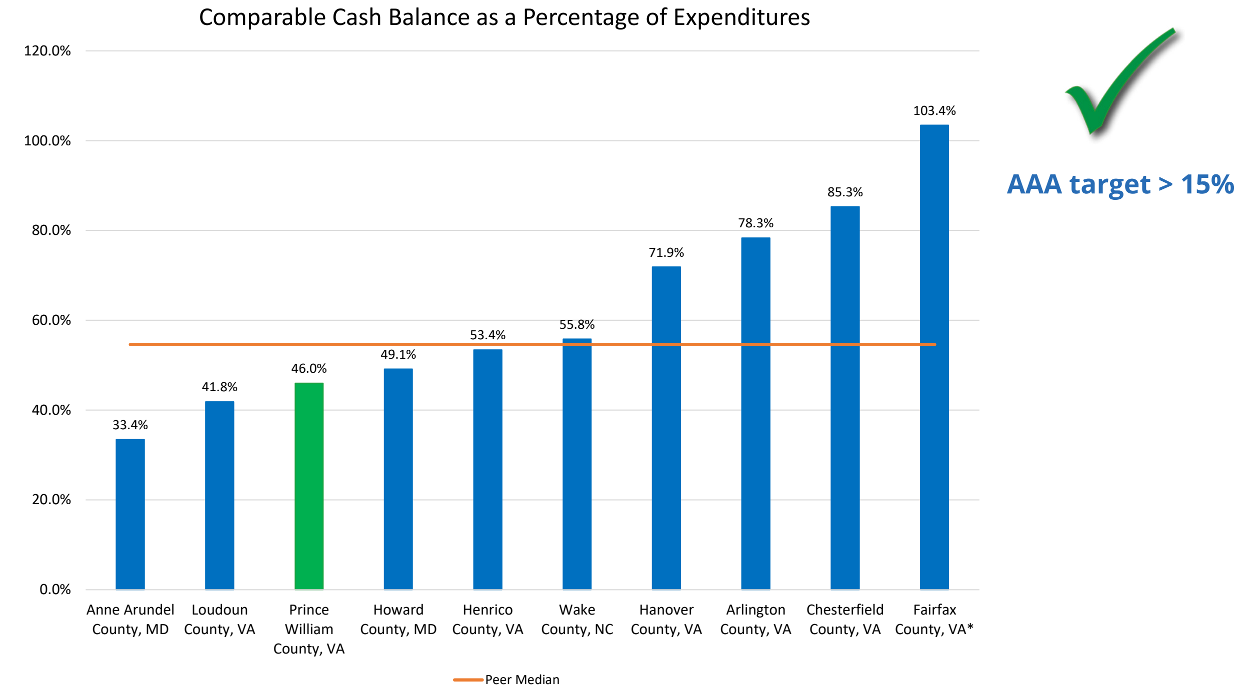
Source: Moody's Financial Ratio Analysis database.

Cash balance as a percentage of debt service shows the relationship of cash to debt and debt service, and the ability of an organization to fund its operational needs. Since there are draws on cash other than repaying debt, i.e., cost of daily operations, it is important for rating agencies to understand the extent to which those other requirements will allow cash to be used to pay debt service costs, or alternatively lead to the need for additional borrowing. S&P measures the cash balance as a percentage of debt service and defines the 'AAA' target as greater than 120%. The County ranks solidly in the 'AAA' category with a percentage that is well above the target at 514%.



Source: PFM estimate of FY 2022 ratios, unless denoted by *
* Reflected S&P Report

S&P also examines the cash balance as a percentage of total expenditures with the 'AAA' target measuring greater than 15%. Here again, the County achieves a very strong 'AAA' at 46% which represents the County's enhanced fiscal flexibility should unforeseen events or contingencies occur.



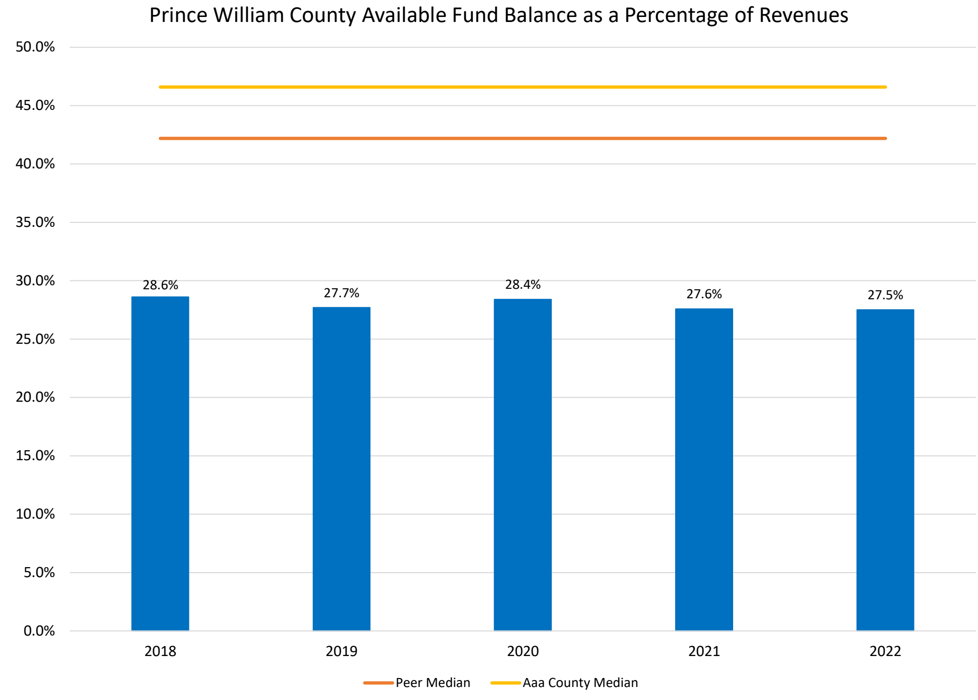
Source: PFM estimate of FY 2022 ratios, unless denoted by *
* Reflected S&P Report

Fund Balance

Fund balance is another factor the rating agencies assess to measure financial position. Typically, a proprietary reporting unit reports all related assets and liabilities with the difference between the two reported as net assets, or a measure of net worth. Because Governmental Funds (i.e., general fund, special revenue funds and capital projects funds) report only a subset of related assets and liabilities, the difference between the two is closer to a measure of liquidity, rather than net worth, and could be compared to the term “working capital” in the private sector.

Fund balance ratios generally reflect an entity’s revenue and expenditure policies under Generally Accepted Accounting Principles (GAAP), and therefore, show the effects a locality may have taken to balance its budget. Valuable information about both the past and the future is communicated through these ratios. Existing levels of fund balance depict the cumulative effects of an organization’s financial history and identify the liquid resources available to fund future liabilities and unforeseen contingencies.

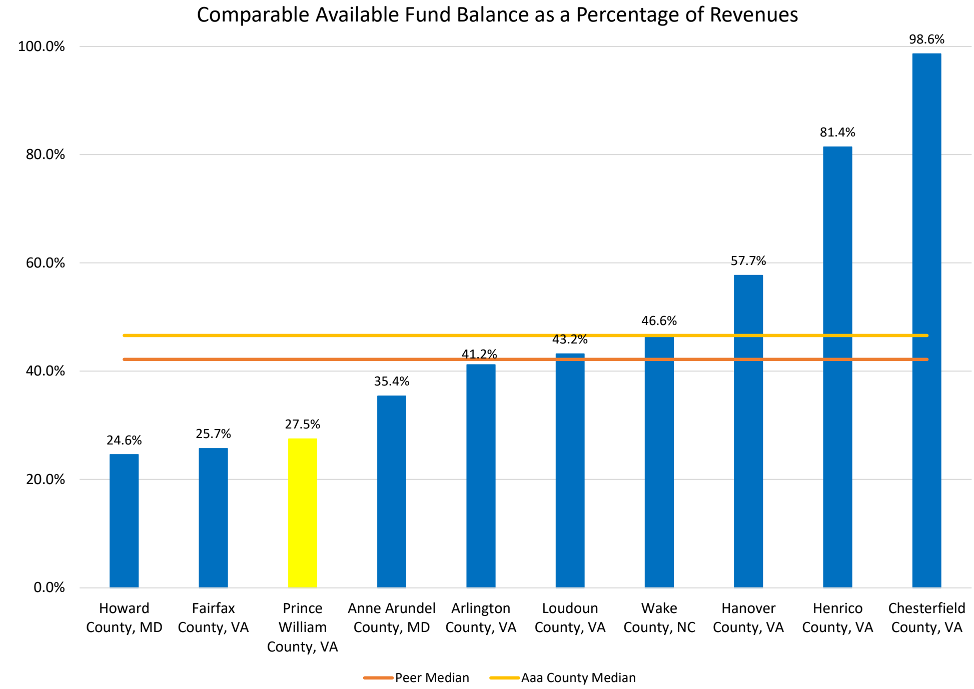
Moody’s measures total fund balance as a percentage of revenues, a measurement of “available balances.” The new Moody’s ‘Aaa’ target has increased from greater than 30% to greater than 35%. The new ratio includes available fund balance plus net current assets to revenue to assess County’s ability to meet current and short-term financial obligations, compared to the previous methodology ratio of available fund balance to operating revenue. The new calculation also includes revenue from total governmental funds and business-type activities, compared to revenue from operating funds. The County does not score ‘Aaa’, but rather with 27.5%, scores in the ‘Aa’ category on a pure quantitative scorecard basis.



AAA target > 35%

Source: Moody’s Financial Ratio Analysis database.

The next chart illustrates the same fund balance metric as compared to the County's peers. The County scores below both the peer median and the nationwide Aaa median.

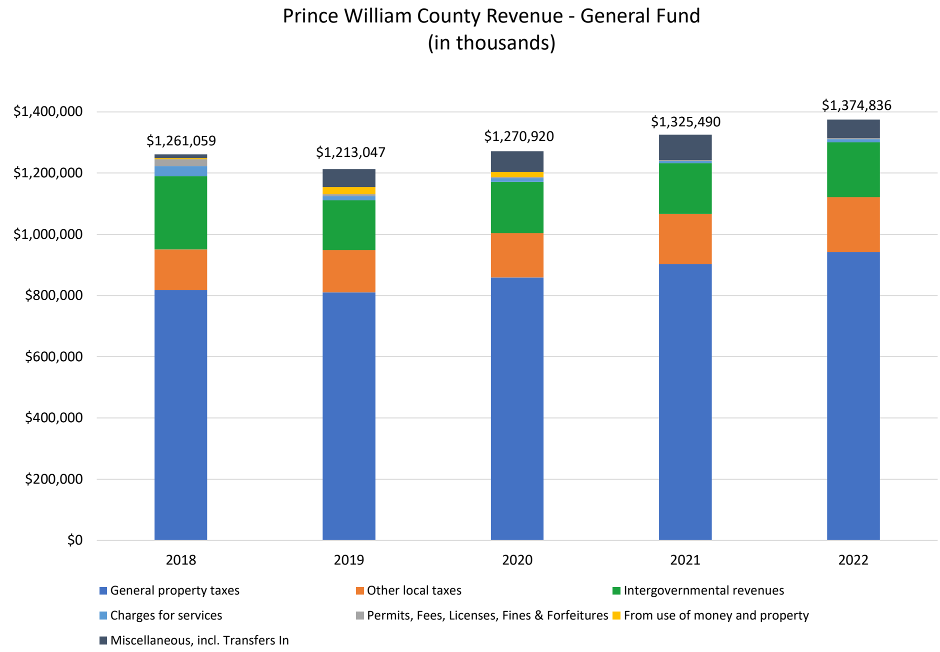


Source: Moody's Financial Ratio Analysis database.

Budgetary Practices

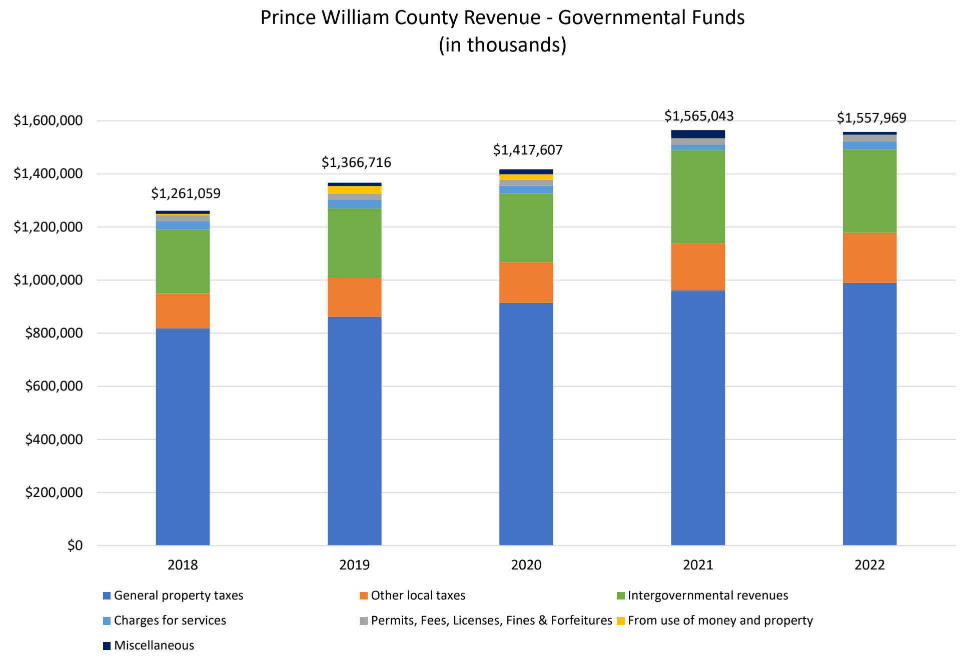
Revenues

A financially sustainable position includes flexible budget practices. This includes adjusting predictions in forecasting revenues and expenditures to meet obligations or raising revenues. The last five years General Fund revenues and transfers in are depicted below. Various categories of revenue are shown, including general property taxes, which remains the largest source of revenue for the County with a steady year-over-year increase. The General Fund revenues are used in S&P's General Fund Operating Result ratio on page 19.



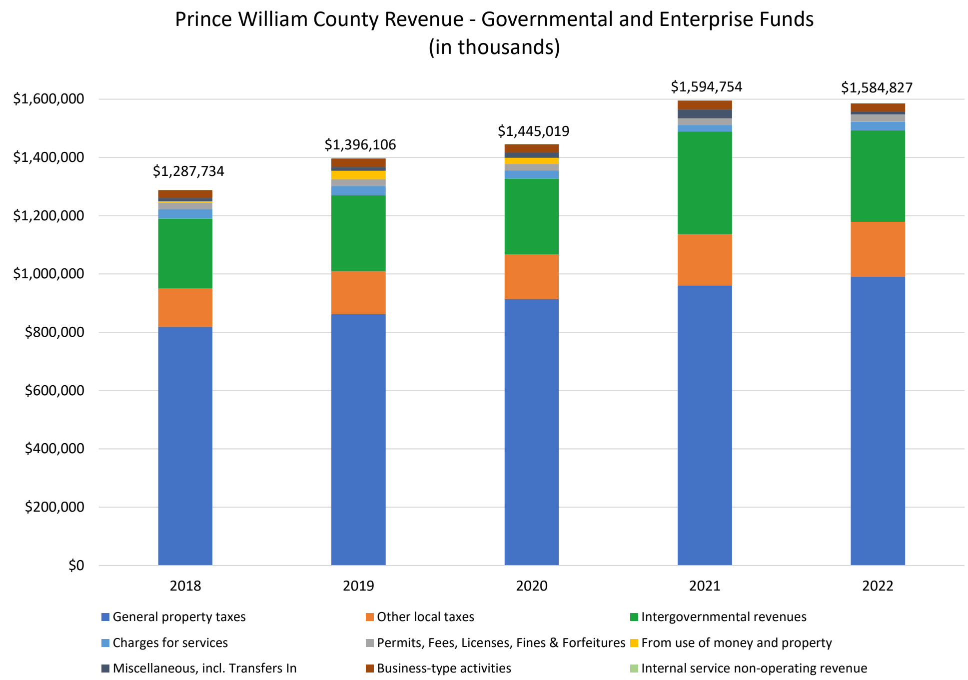
Source: Prince William County Annual Comprehensive Financial Report FY 2022-2018, Exhibit 5.

The following chart shows Governmental Funds revenues that, in addition to General Fund revenue, include Special Revenue Funds, COVID-19 Response Fund, and Capital Projects Funds revenues. The Governmental Fund revenues are used in S&P's Governmental Fund Net Result ratio on page 20.



Source: Prince William County Annual Comprehensive Financial Report FY 2022-2018, Exhibit 5.

With the implementation of the new methodology, Moody's ratios (Available Fund Balance and Liquidity ratios reported in the Financial Position section that starts on page 9 and Long-term Liabilities and Fixed Cost ratios reported in the Liabilities section that starts on page 22) use total Governmental and Enterprise Funds revenues and exclude revenues from School Division and Adult Detention Center component units.

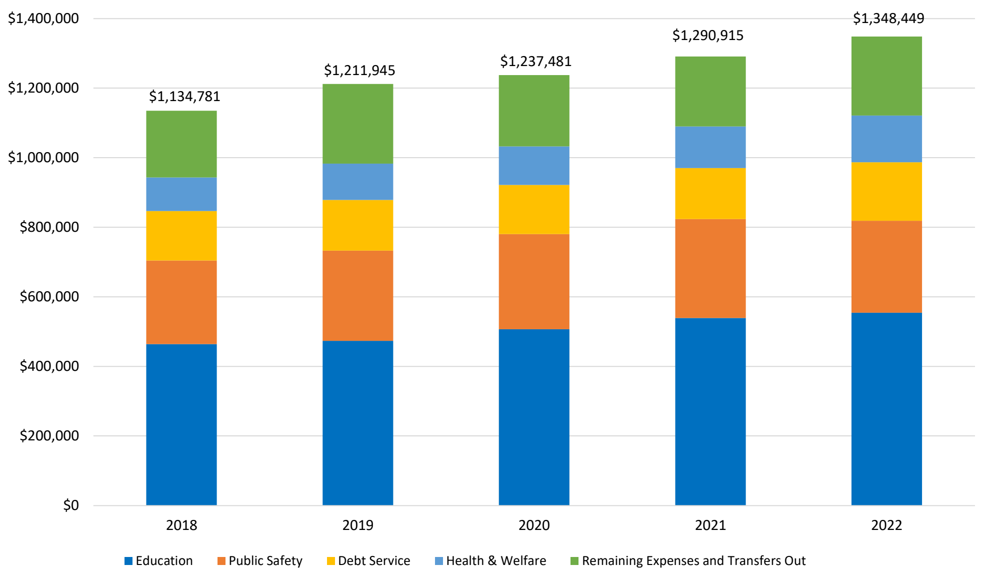


Source: Prince William County Annual Comprehensive Financial Report FY 2022-2018, Exhibits 5 and 8.

Expenditures

The chart below reflects the County's historical General Fund expenditures and is used in S&P's General Fund Operating Result metric only (shown on the following page).

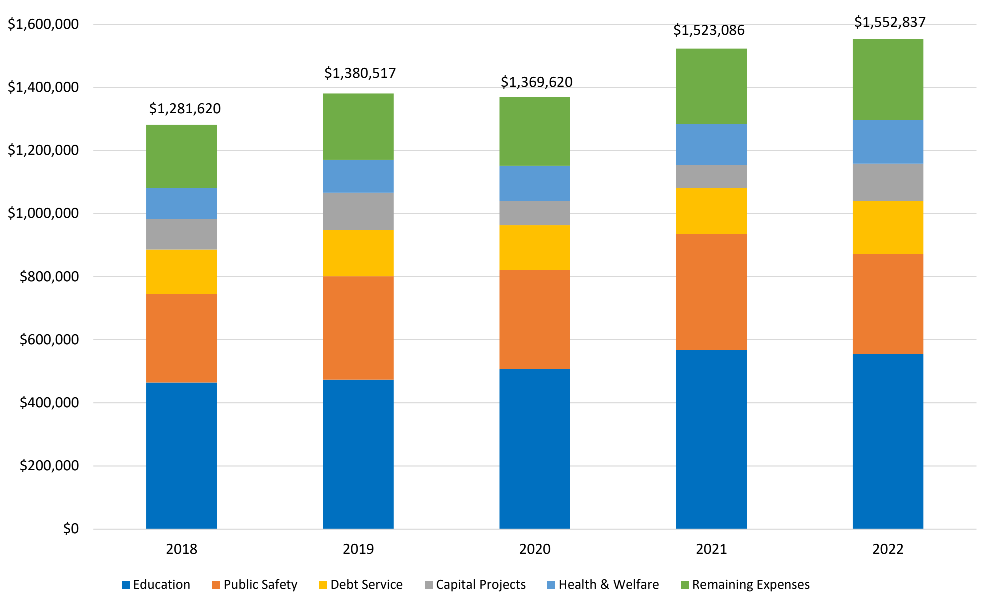
Prince William County Expenditures and Transfers Out - General Fund
(in thousands)



Source: Prince William County Annual Comprehensive Financial Report FY 2022-2018, Exhibit 5.

The Governmental Funds expenditures that are adjusted for transfers in and out of the Capital Project Fund and Enterprise Funds are used in the S&P's Liquidity metric, Cash Balance as a Percentage of Expenditures, shown on page 12, and in the S&P's Net Governmental Funds Operating Result metric, shown on page 19. Governmental Funds expenditures do not include School Board and Adult Detention Center component units.

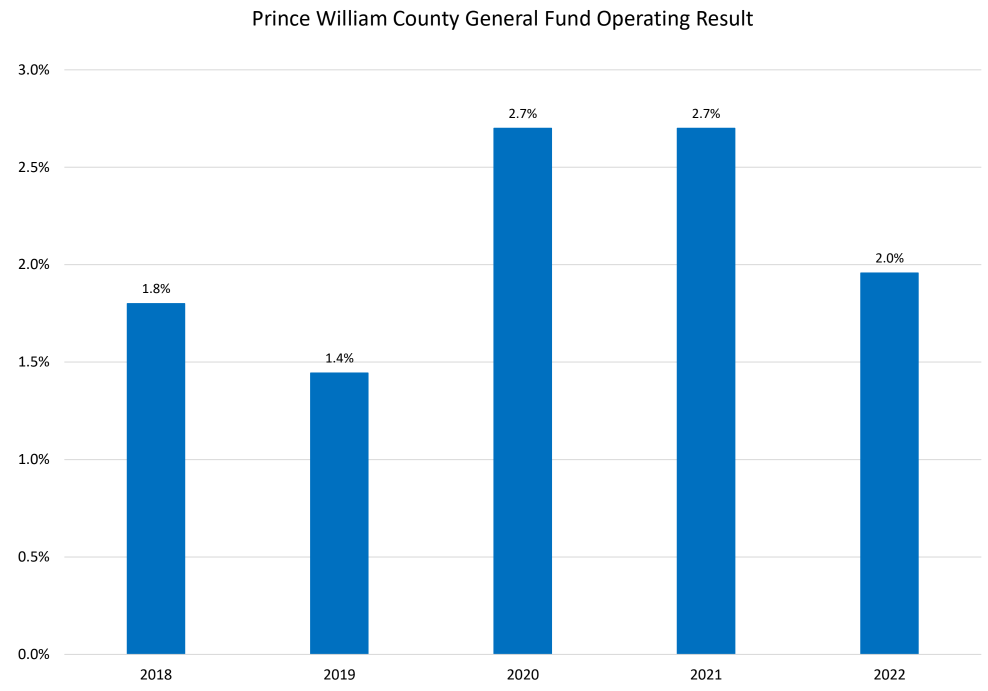
Prince William County Adjusted Expenditures - Governmental Funds
(in thousands)



Source: Prince William County Annual Comprehensive Financial Report FY 2022-2018, Exhibit 5.

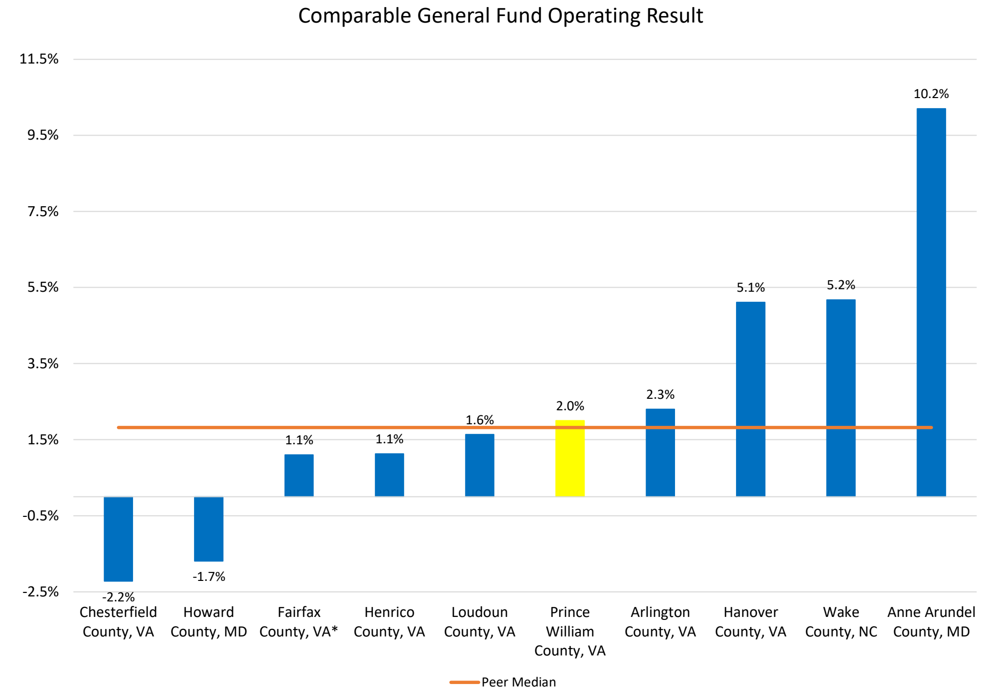
Budget Strength Measurement

The rating agencies measure the magnitude of revenues that exceed expenditures at year end. Thus, S&P measures the County's historical general fund operating balance (excluding School Division and, beginning with fiscal year 2020, Fire and Rescue Levy funds), surplus or deficit, as a percentage of general fund operating expenditures. The 'AAA' target is greater than 5%. The County score slightly decreases to 2% for fiscal year 2022, however, is above the peer median of 1.8%.



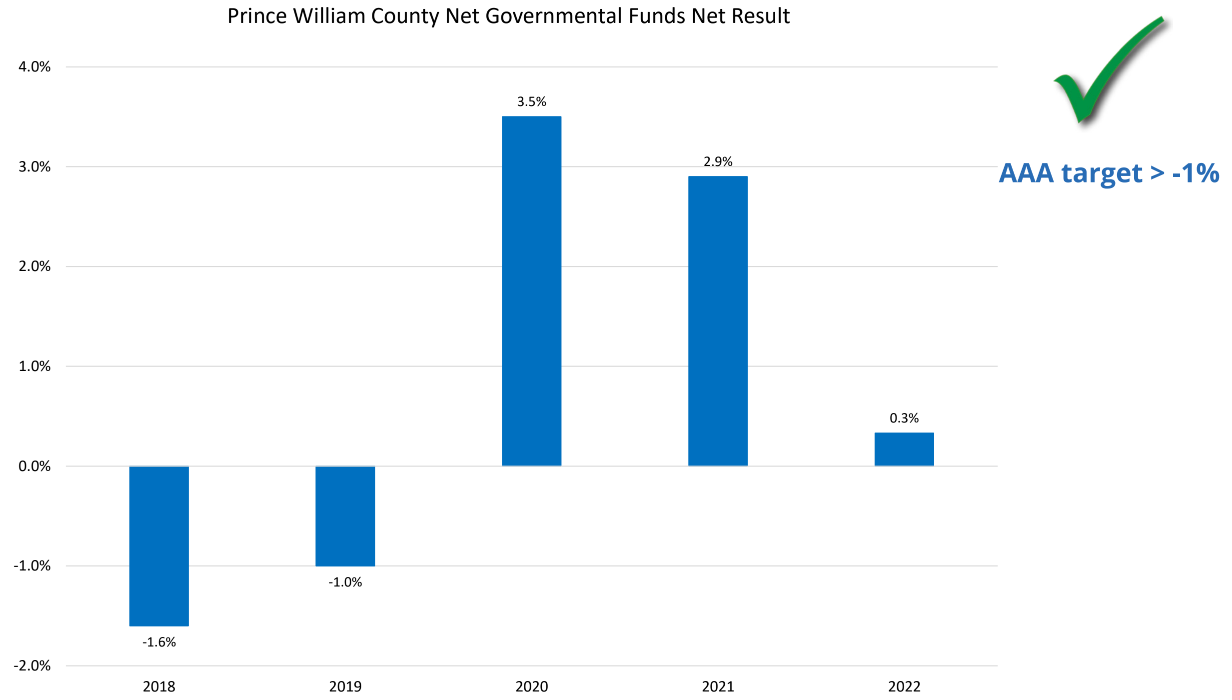
AAA target > 5%

Source: County's S&P reports for FY18-FY21. FY22 is estimated by PFM.

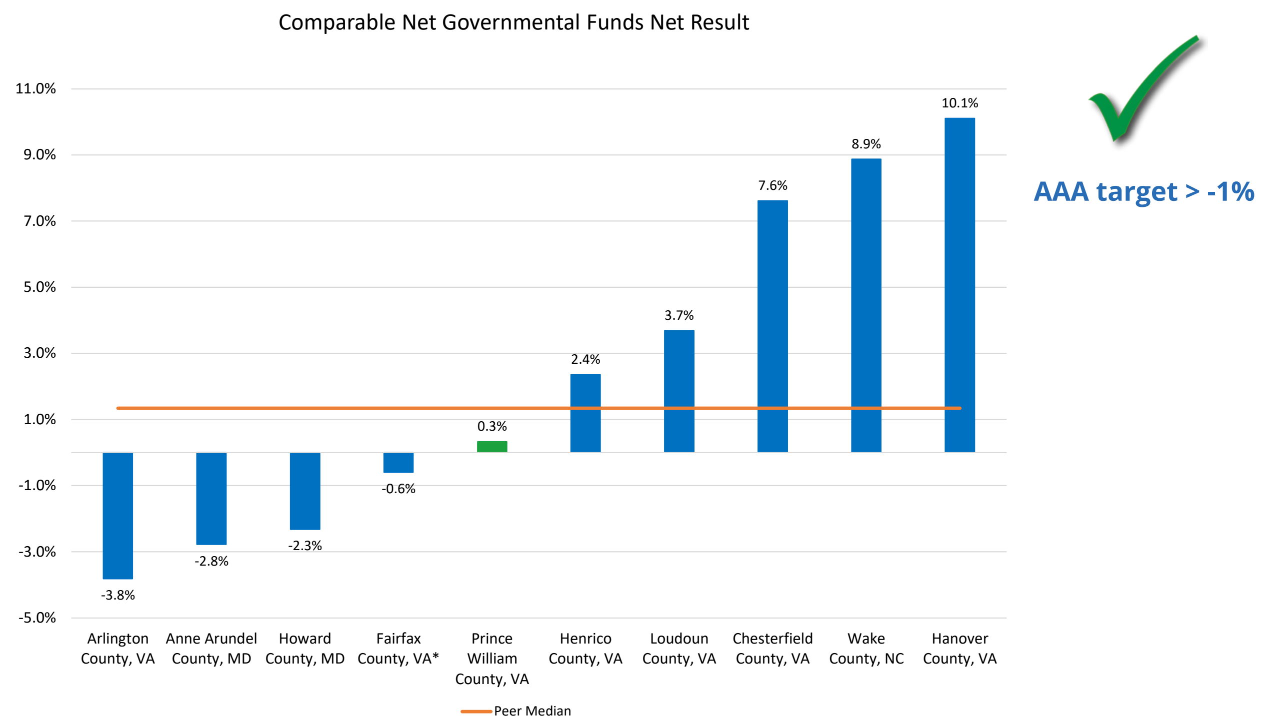


Source: PFM estimate of FY 2022 ratios, unless denoted by *
* Reflected S&P Report

A second measure of budget strength used by S&P is net governmental funds as a percentage of expenditures. During fiscal years 2020 and 2021, the County saw an increase to this ratio due to the expenditure savings implemented in a response to COVID-19 pandemic. Additionally, the County's fiscal year 2022 governmental funds revenue had a modest growth compared to fiscal years 2020 and 2021, when the County received fiscal stimulus funds resulting from the Coronavirus Aid, Relief and Economic Security Act (CARES Act) of 2020 and the American Rescue Plan Act (ARPA) of 2021. These factors contributed to the County's Net Governmental Funds Operating Result score decrease to 0.3%. However, the County's score meets the 'AAA' target of greater than -1% but is below the peer median of 1.3%.



Source: County's S&P reports for FY18 - FY21. FY22 is estimated by PFM.

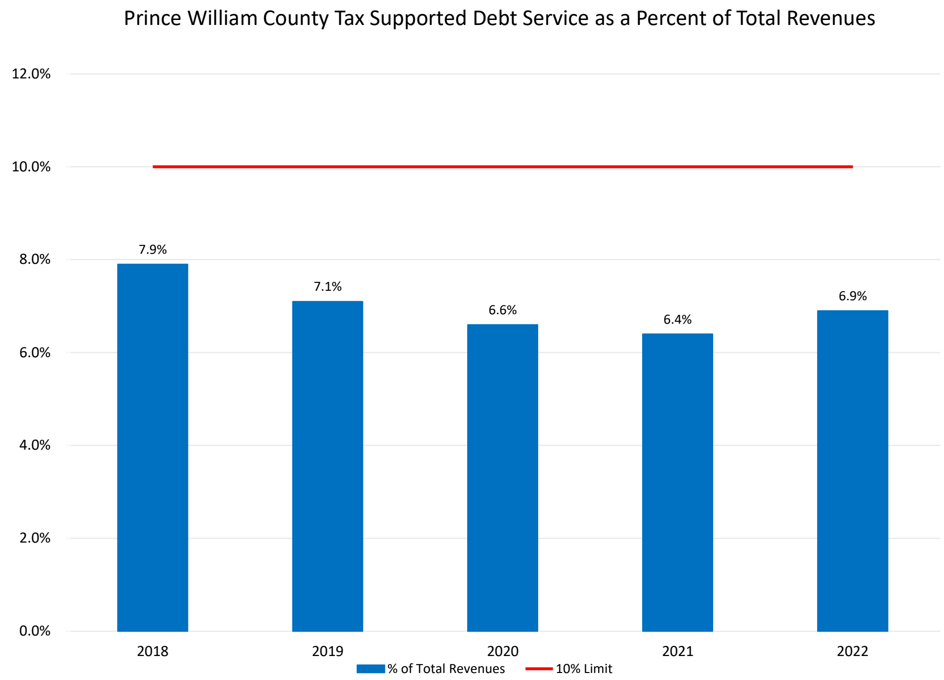


Source: PFM estimate of FY 2022 ratios, unless denoted by *
* Reflected S&P Report

LIABILITIES

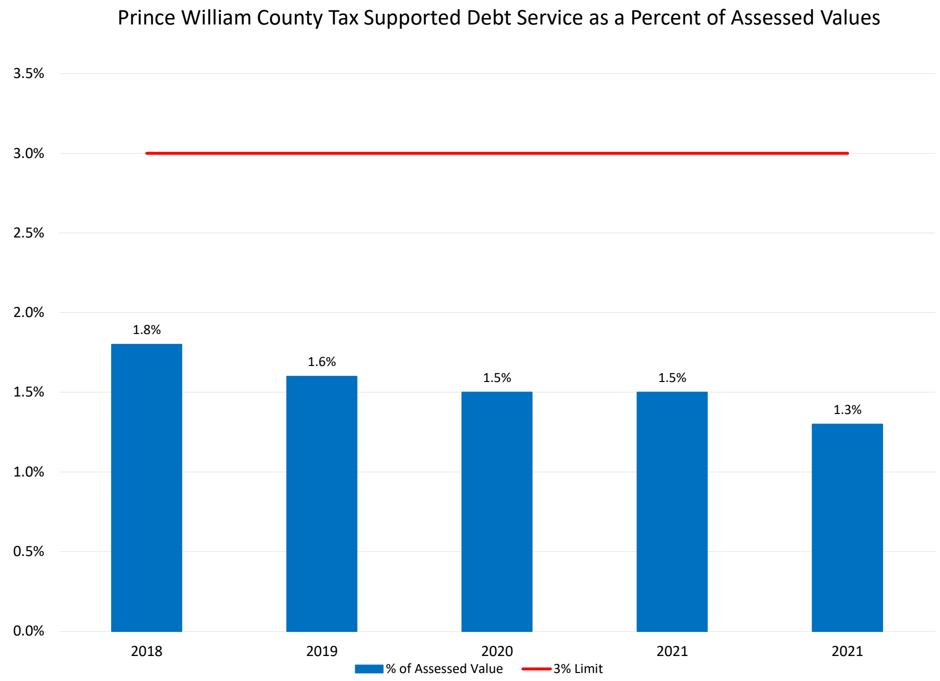
Debt and Pensions

The last component of a financial sustainable community are manageable liabilities. Rating analysts seek to assess an entity's debt burden and debt affordability, taking into account the debt structure. The County initially adopted its Principles of Sound Financial Management (PSFM) in 1988 with the most recent amendments adopted in 2018. Within the PSFM the County established guidelines for debt management, including self-imposed debt limits, which are a credit strength. The first self-imposed limit measures total debt service as a percentage of total revenues and may not exceed 10%. For fiscal year 2022, the County debt service measured 6.9% of total revenues.



Source: Prince William County Annual Comprehensive Financial Report FY 2022, Table 14.

The second self-imposed limit states that total tax supported debt will not exceed 3% of net assessed values of taxable real and personal property. At 1.3% for fiscal year 2022, the County continues to maintain debt below this limit.



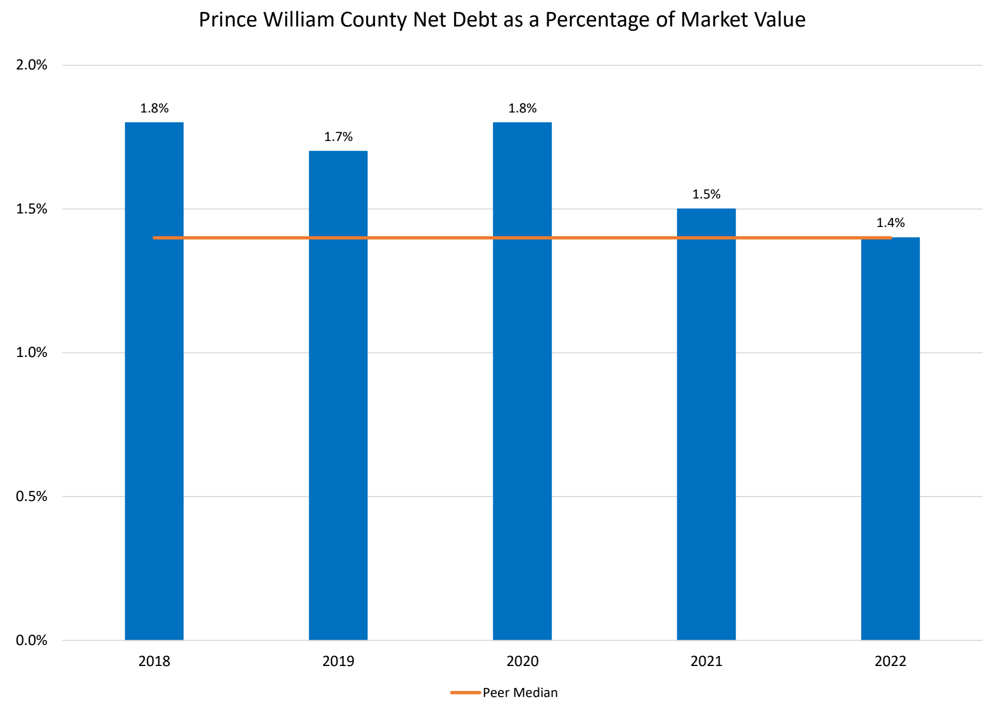
Source: Prince William County Annual Comprehensive Financial Report FY 2022, Table 14.

Prince William County's debt capacity forecast represents County management's commitment to maintaining debt service at less than 10% of total revenue. The calculations are based on current existing debt, as of June 30, 2022, and the County's projected revenue, as detailed in the table below.

Prince William County Debt Capacity Forecast						
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Total existing and CIP, incl. Schools [1]	$144,592,099	$142,118,200	$153,635,616	$181,751,517	$210,618,833	$222,709,734
Percent change from prior year	-14.03%	-1.71%	8.10%	18.30%	15.88%	5.74%
General Revenue (in thousands) [2]	$1,262,068	$1,398,860	$1,496,578	$1,562,901	$1,631,424	$1,699,385
Growth	3.36%	10.84%	6.99%	4.43%	4.38%	4.17%
Total Revenue (in thousands) [3]	$2,499,296	$2,770,188	$2,963,701	$3,095,041	$3,230,738	$3,365,323
Debt service as a percentage of Total Revenue	5.79%	5.13%	5.18%	5.87%	6.52%	6.62%
PSFM imposed limit	10%	10%	10%	10%	10%	10%

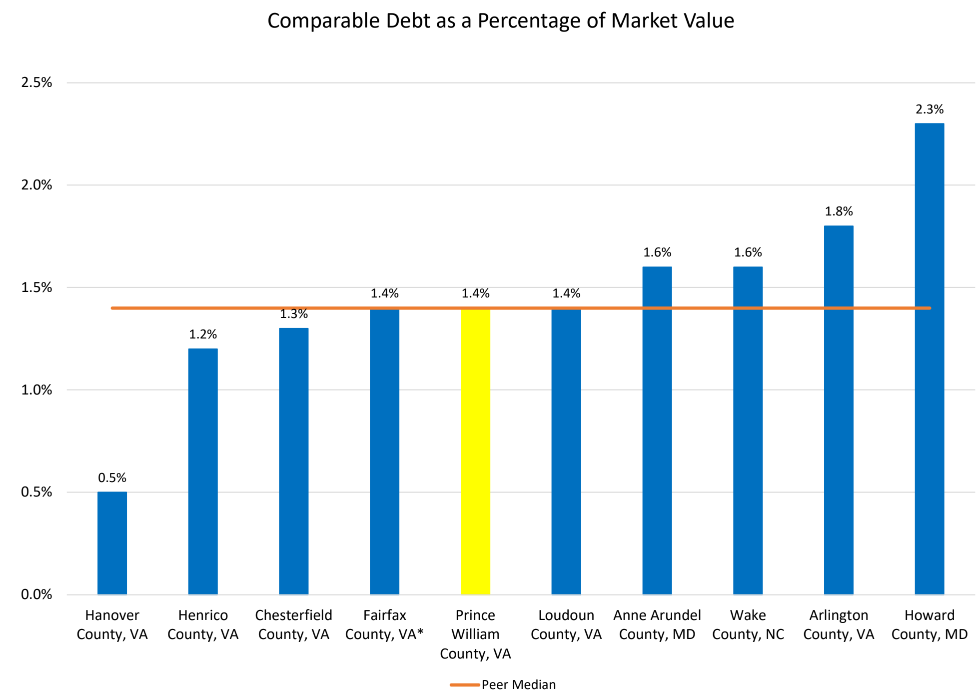
Source: [1] Proposed FY 2024 Budget, March 2023, including Schools CIP estimate.
[2] FY 2023 Quarterly Revenue and Expenditure Updates for FY 2023 Forecast; Projections of General County Revenue report for FY 2024-2028 Forecast.
[3] Total Revenue estimates are calculated based on the most recent revenue numbers as shown in FY 2022 ACFR, Table 14. They include General Fund, Special Revenue Funds, School Board and ADC component units revenues.

S&P looks at overall net debt as a percentage of market value to measure the ability of a municipality to meet its debt obligations as one of its notching metric ratios. The notching metric criteria employs a series of overriding factors that can result in the final rating assigned to the local government being different from the indicative rating outcome resulted from the weighted average of seven S&P's factors. This notching metric ratio reflects how much debt has been issued relative to the value of the real property within Prince William County. Increased use of cash to fund capital needs, all other things held constant, can negatively affect this metric. A municipality receives a positive notch if the score is less than 3%. The County's score is at 1.4% and is the same as many of its peers. This measure is one of the notching metrics that contributes to the County's strong rating in S&P's Debt and Liability category.



Positive Notching target > -1%

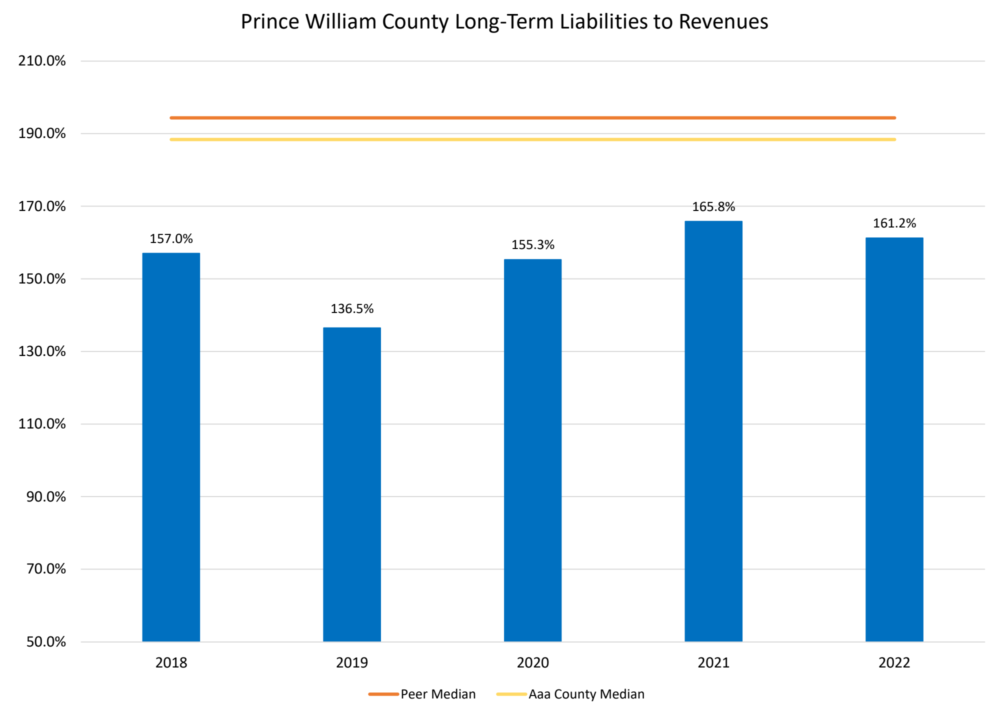
Source: County's S&P reports for FY18-FY21. FY22 is estimated by PFM.



Positive Notching target > -1%

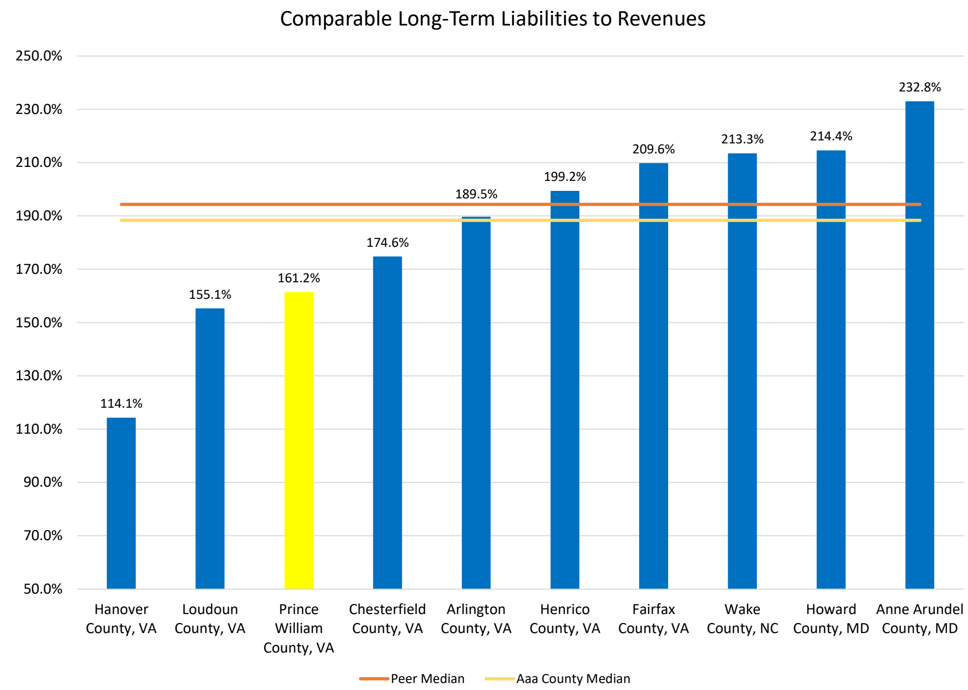
Source: PFM estimate of FY 2022 ratios, unless denoted by *
* Reflected S&P Report

In addition to debt, rating agencies assess pension liability. Unfunded pension liabilities represent a long-term liability that can present future budgetary pressures if not reduced. One of the Moody's new financial performance metrics in the Leverage category expresses the potential budgetary impact of long-term liabilities, including pension and other post-employment benefit (OPEB) liabilities, in addition to outstanding debt, and speaks to the relative affordability of debt obligations based on current revenue sources. The 'Aaa' target is less than 100%. The County's score at 161.2% earns an 'Aa' rating. The County, however, scores better than both the 'Aaa' county median of 188.4% and the peer group median of 194.4% as all other peer jurisdictions also fall outside the 'Aaa' target (see graph on the next page). In general, Virginia and Maryland local governments have debt burdens that exceed national medians, largely due to debt issued for schools. Of the 111 counties that Moody's rates 'Aaa', as of the most recent data published by Moody's, only four counties met the 'Aaa' target of less than 100%.



AAA target < 100%

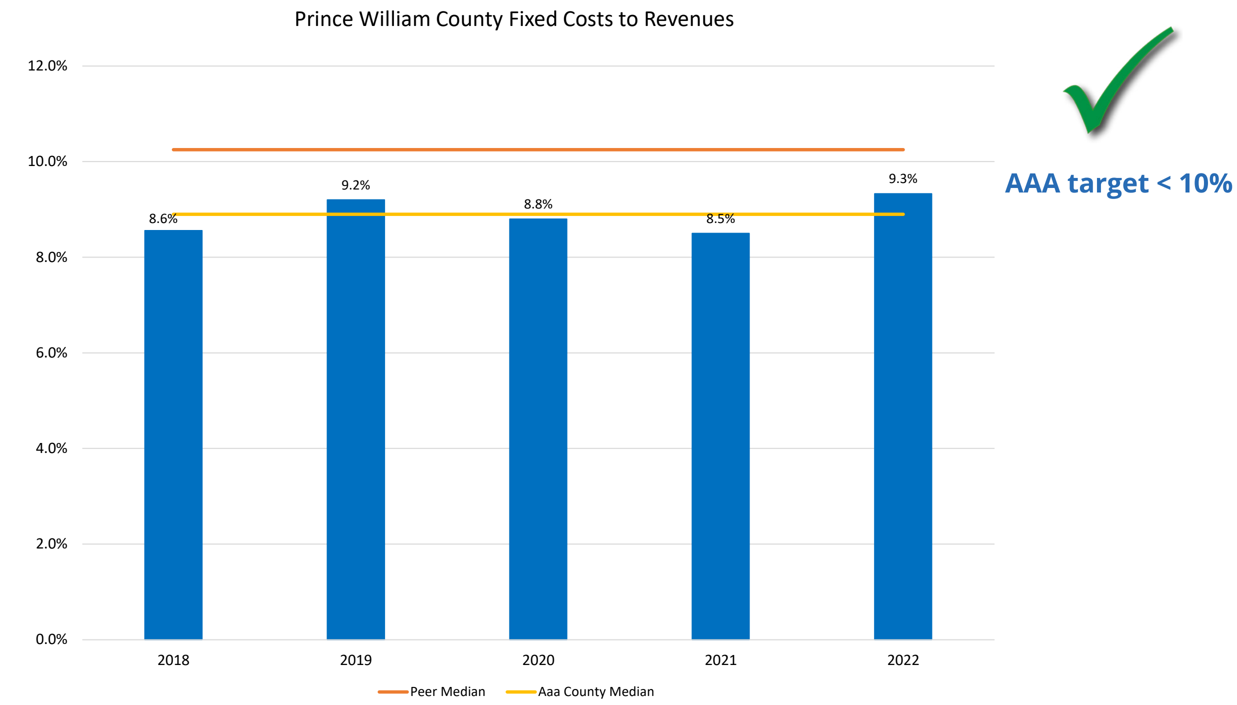
Source: Moody's Financial Ratio Analysis database.



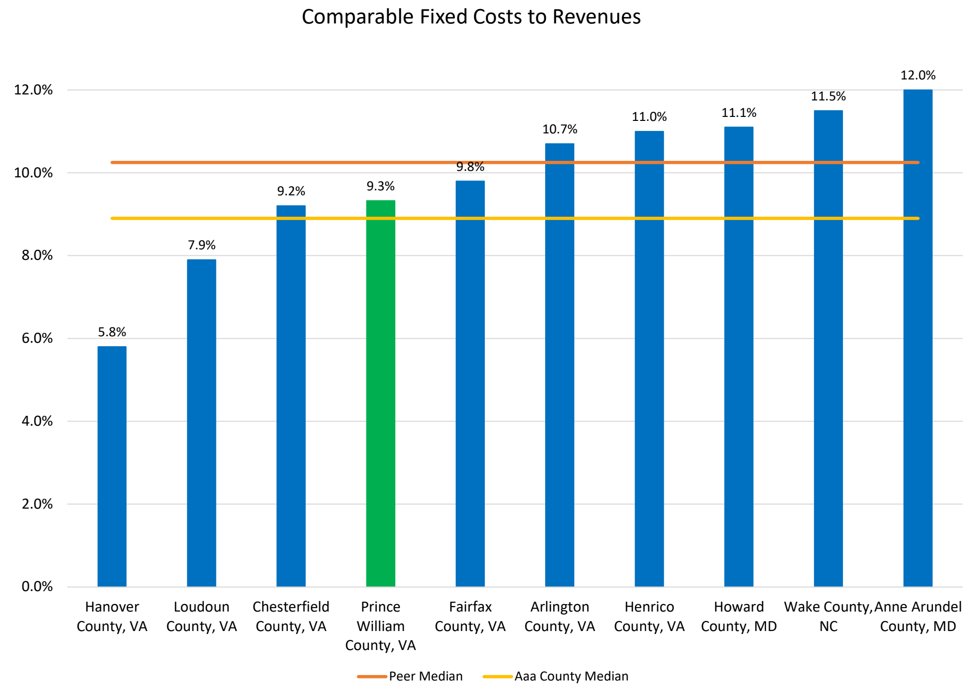
AAA target < 100%

Source: Moody's Financial Ratio Analysis database.

Another sub-factor in Moody's Leverage category is the fixed-costs ratio. It measures estimated annual fixed costs associated with outstanding debt, pensions, OPEB, and other long-term liabilities relative to total governmental and business-type revenues. Debt and other long-term liabilities fixed costs in this ratio are calculated by Moody's through their implied debt service calculation using the 10-Average of Bond Buyer 20-Bond Index as of December 31, 2022. The 10-Average of Bond Buyer 20-Bond Index tracks the average yields of 20 general obligation municipal bonds with Aa2/AA credit ratings over a 10-year period. Pension fixed costs are calculated by Moody's through their tread water indicator calculation. The tread water indicator is an estimate of the annual pension contribution necessary to prevent growth in unfunded liabilities. The County rates 'Aaa' in this category with 9.3% and scores better than the peer group median of 10.3%.



Source: Moody's Financial Ratio Analysis database.



AAA target < 10%

Source: Moody's Financial Ratio Analysis database.

ECONOMIC ENVIRONMENT

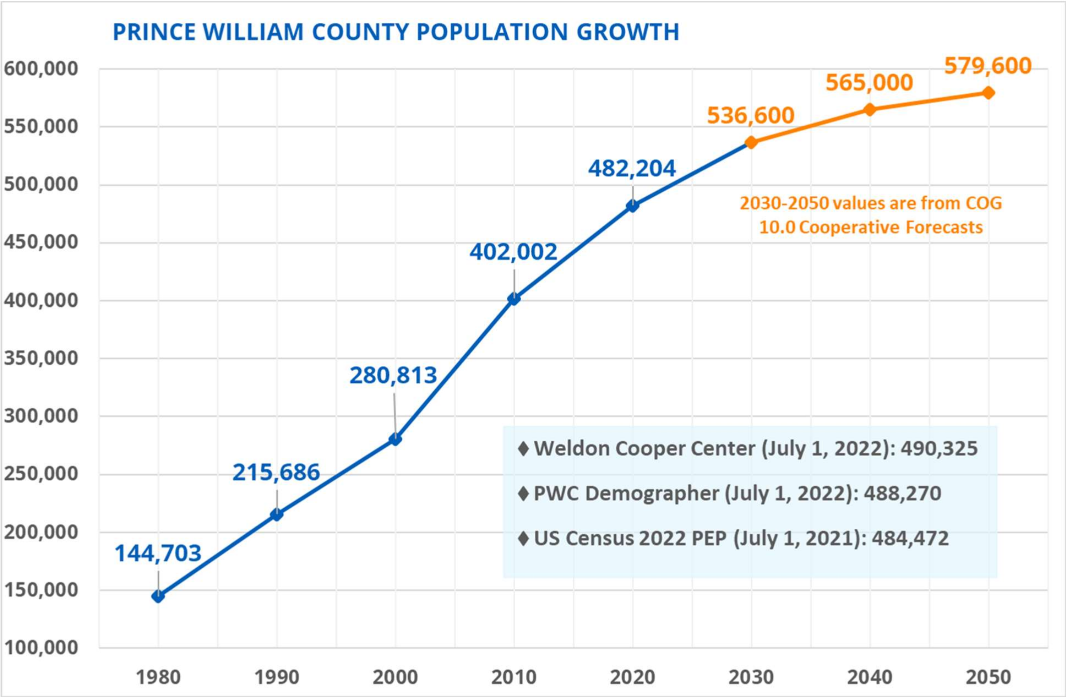
The political and economic environment begins with the governing body. The rating agencies look at the stability of the Board of County Supervisors, adherence to the Principles of Sound Financial Management and consistency in operations. Governance factors capture an organization's willingness to make proactive policy decisions to ensure the maintenance of a strong financial position and reliable financial cushion. Rating agencies report that entities that attempt to increase expenditures for popular services and programs and simultaneously pledge not to raise taxes or cut other programs will generally experience negative impacts such as a deterioration in their balance sheets as reserves are extinguished and the debt load grows. Historically, the County has scored very well in this area, with the institutional framework and management assessment at 'very strong'.

The County is continuing to experience a growing population. The County demographer estimates the population at 489,763 as of the fourth quarter of 2022. The chart below illustrates periods of major growth during the 1960s and 1970s followed by even larger gains through 2020. The County is forecast to maintain population growth in the coming decades but at a decreasing pace as time passes. The COVID-19 pandemic began in the United States in March 2020 and has lasted through 2022. It changed the country's demographic migration patterns significantly and impacted the number of nationwide births and deaths. Similarly, the novel coronavirus greatly impacted Northern Virginia's demographic patterns. Although the U.S. Census Bureau's Population Estimates Program (PEP) estimates that the County's population rose by over 2,000 from July 1, 2020, to July 1, 2021, Northern Virginia's population declined in a one-year period for the first time since Census Bureau annual record keeping began in 1970, declining by an estimated 12,000 people.

Prince William County
Historical Population Data

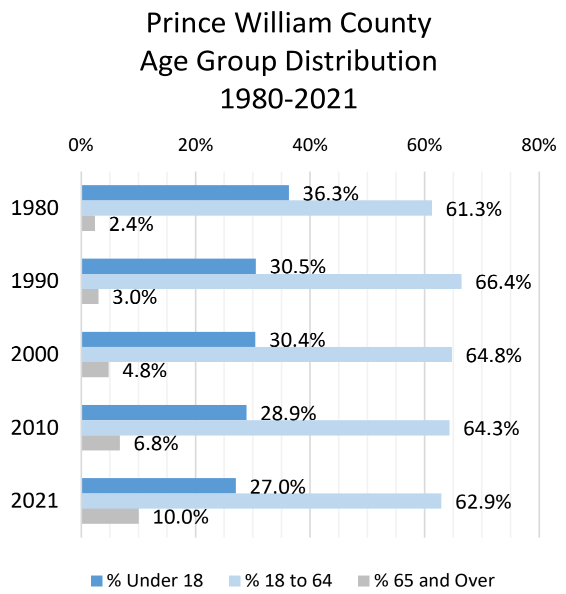
	Count	Gain/Loss	% Change
1900	11,112	1,307	13.33%
1910	12,026	914	8.23%
1920	13,660	1,634	13.59%
1930	13,951	291	2.13%
1940	17,738	3,787	27.15%
1950	22,612	4,874	27.48%
1960	50,164	27,552	121.85%
1970	111,102	60,938	121.48%
1980	144,703	33,601	30.24%
1990	215,686	70,983	49.05%
2000	280,813	65,127	30.20%
2010	402,002	121,189	43.16%
2020	482,204	80,202	19.95%
2030	536,600	54,396	11.28%
2040	565,000	28,400	5.29%
2050	579,600	14,600	2.58%

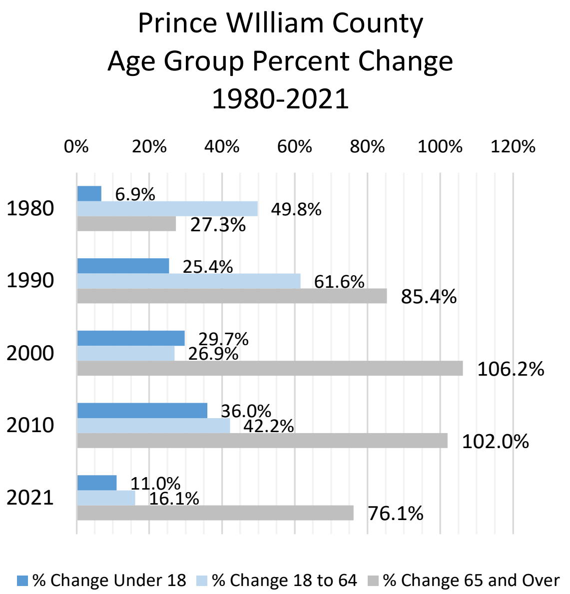
Sources: Prince William County Demographer – Historical population retrieved from University of Minnesota Population Center's NHGIS; Population projections from Metropolitan Washington Council of Governments Round 10.0 Cooperative Forecasts.



Sources: Prince William County Demographer – Historical population retrieved from University of Minnesota Population Center's NHGIS; Population projections from Metropolitan Washington Council of Governments Round 10.0 Cooperative Forecasts; Weldon Cooper Center for Public Service, Demographics Research Group, at UVA; U.S. Census Population Estimates Program.

Demographic factors drive demands for programs and services, impacting the expenditures of a local government. The largest sector of the County population is the 18- to 64-year-old age group, but the fastest rate of growth continues to be in the 65 and over category. According to U.S. Census Bureau, County Population Characteristics, the County's population of people ages 65 and over is estimated at 47,947 in 2021, an increase of nearly 21,000 from 2010 in this age category compared to an increase of just under 14,000 between 2000 and 2010.

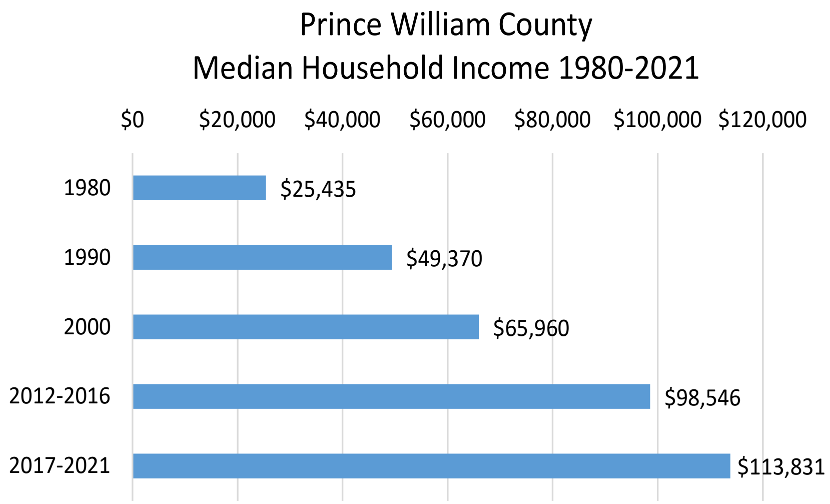




Sources: PWC Demographer: Historical population retrieved from University of Minnesota Population Center's NHGIS; 2017-2021 American Community Survey (ACS) 5-Year Estimates.

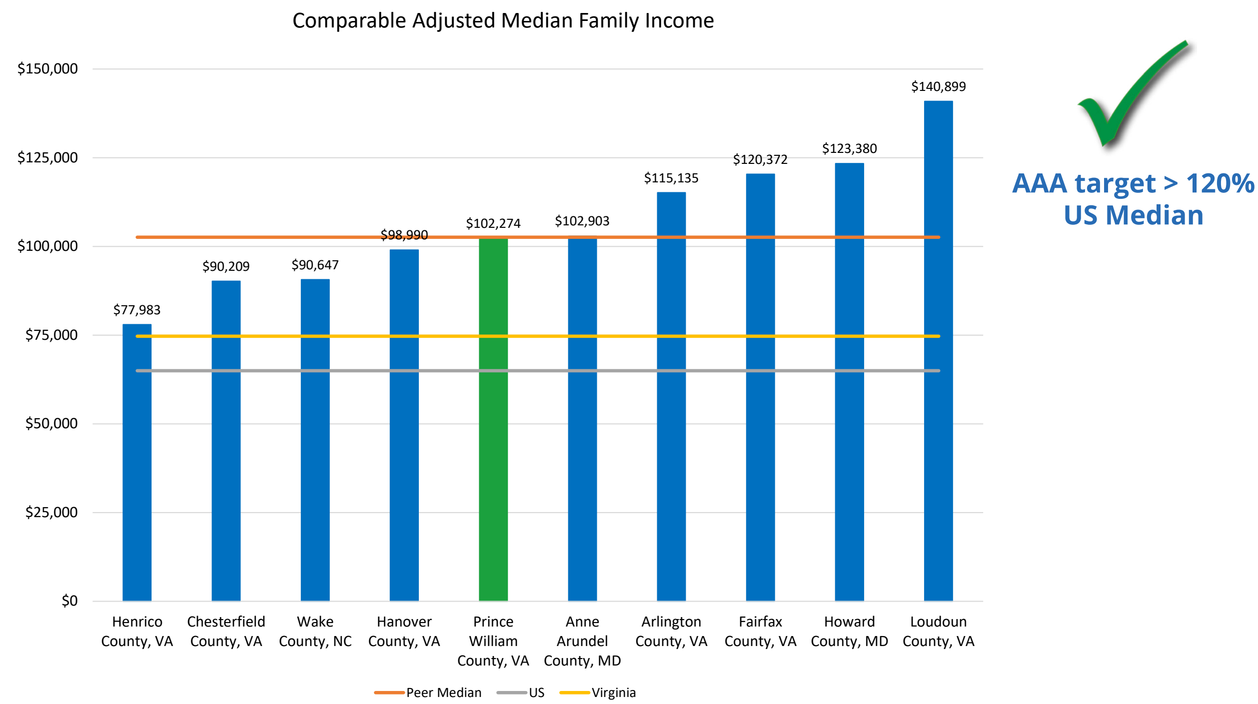
Wealth

A high median household income is a positive economic indicator and a measure of the strength and resilience of a tax base. A jurisdiction with high wealth levels may have greater flexibility to increase property tax rates to meet financial needs. Wealthier communities also have greater spending power and drive demand to support growth in the commercial sector. For example, in the wake of the pandemic, even as the retail sector was challenged, the County residents shifted their purchases from brick-and-mortar to online purchases. Retail activity, as reflected by sales tax revenue, increased 10.7% in fiscal year 2021 and 9.8% in fiscal year 2022. The 2017-2021 median household income as reported by the U.S. Census American Community Survey increased to just above $113,831, up from $98,546 just five years earlier.



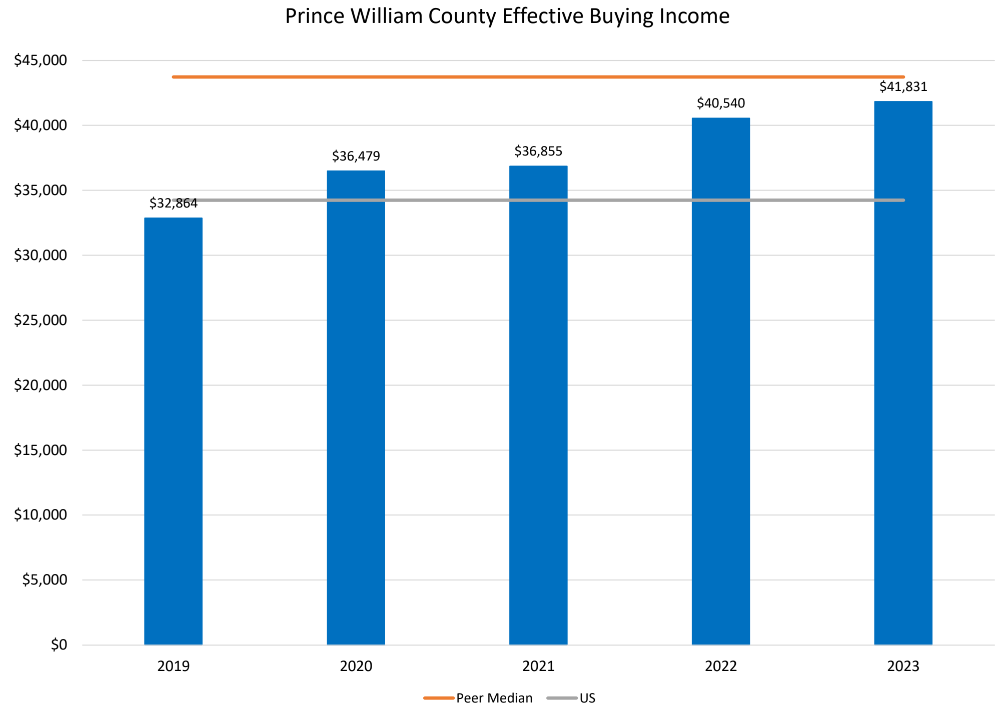
Sources: PWC Demographer: Data for 1980-2000 retrieved from University of Minnesota Population Center's NHGIS; U.S. Census American Community Survey (ACS) 2012-2016 5-Year Estimates and 2017-2021 5-Year Estimates.

Moody's analyzes median family income as opposed to median household income. Household income includes the income of all people who occupy a housing unit regardless of relationship, whereas family income measures the income of two or more people related by birth, marriage, or adoption. Under the new Moody's methodology, median household income is adjusted for regional differences in the cost of living using Regional Price Parity index. Adjusted median family income provides a better reflection of the strength of the tax base. On the median family income, the County scores very strongly as a 'Aaa' at $102,274. This is above the 'Aaa' target of 120% of the U.S. median or $72,993.



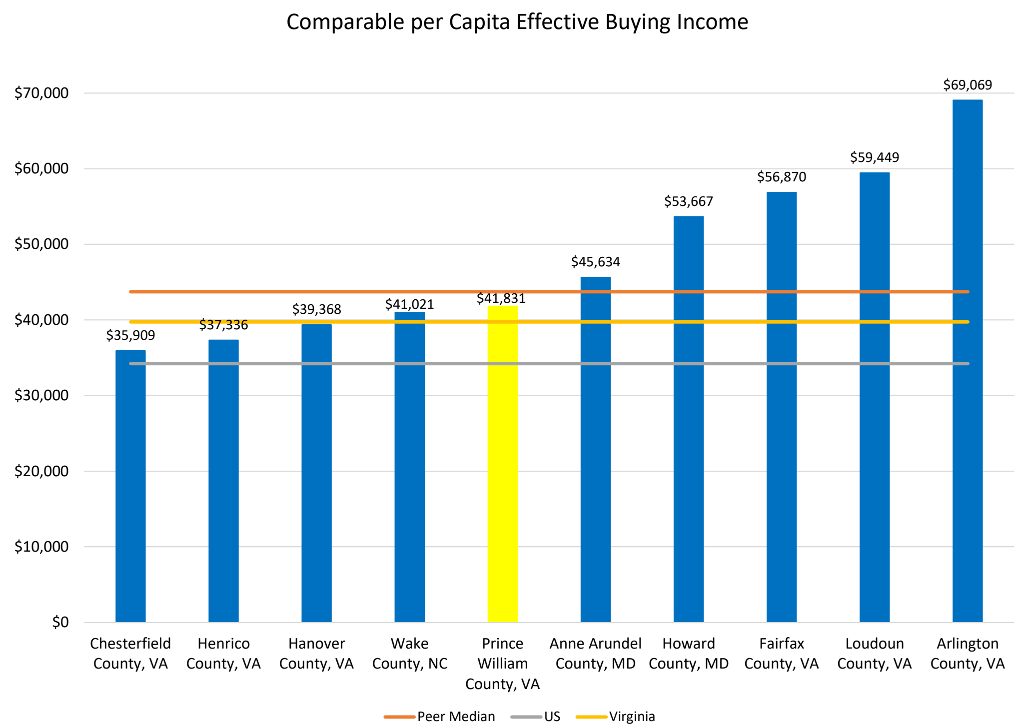
Source: American Community Services and Bureau of Economic Analysis, 2021.

S&P reviews effective buying income (EBI) and considers 150% of the U.S. median as 'AAA' rated. Effective buying income is similar to disposable income. The U.S. median EBI is $34,245. At 150% of the U.S. median, the 'AAA' target equates to $51,368. With EBI of $41,831, the County falls below the 'AAA' target and peer group median of $43,733.



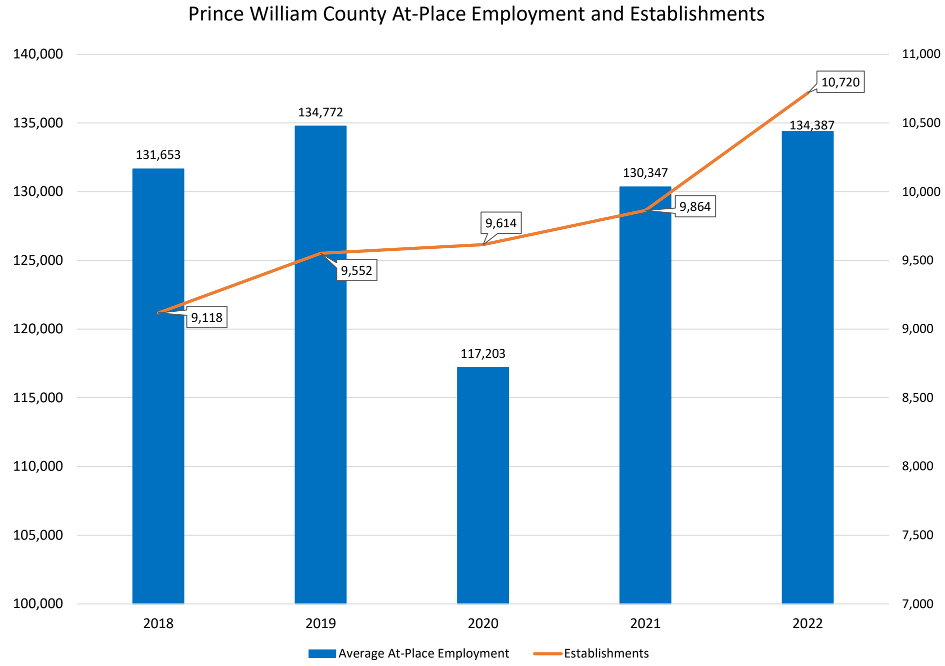
AAA target > 150% US Median

Source: Nielsen's Claritas database



Source: Nielsen's Claritas database.

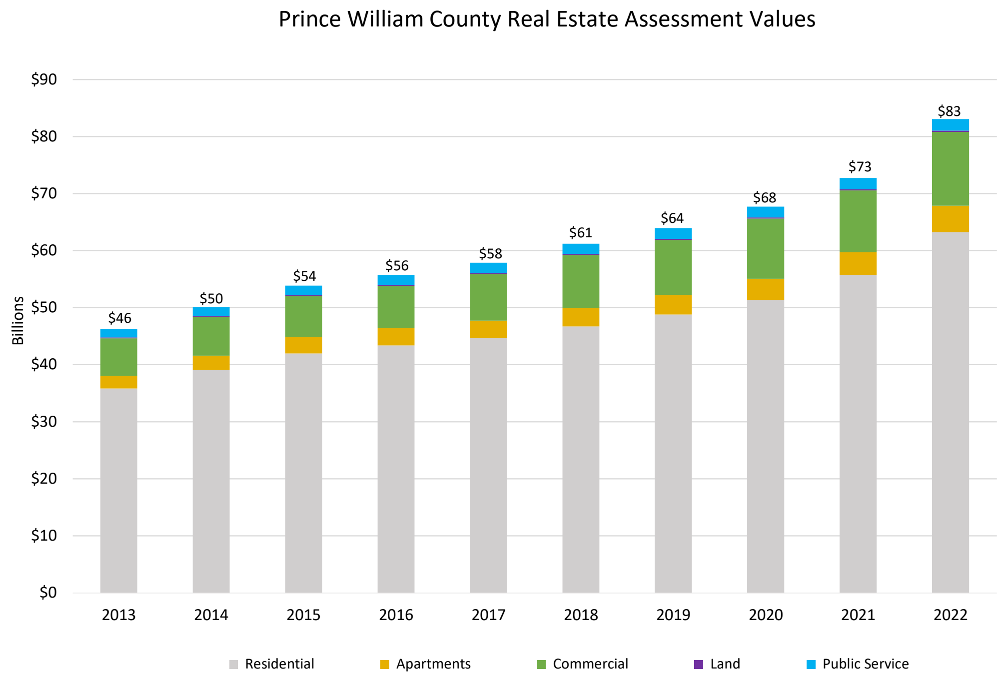
An area where the County has experienced consistent year-over-year growth is reflected in at-place employment. This is an important statistic to monitor as increases in employment signify more jobs to generate more income to pay taxes. The rating agencies have positively noted the County's diverse economy and economic development efforts to grow and expand a high-end employment base. However, unemployment rates nationwide increased sharply in 2020 due to the COVID-19 outbreak. During fiscal year 2022, at-place employment in the County grew by three percent and returned closer to pre-pandemic levels. The County demonstrated steady growth in the number of business establishments as well, a sign of a healthy local economy. Despite the COVID-19 pandemic, many existing businesses were able to sustain their operations with the support of a variety of business relief loan and grant programs and similar funding resources available through federal, state, and local governments.



Source: Virginia Employment Commission, Quarterly Census of Employment and Wages, 2nd Quarter 2022.

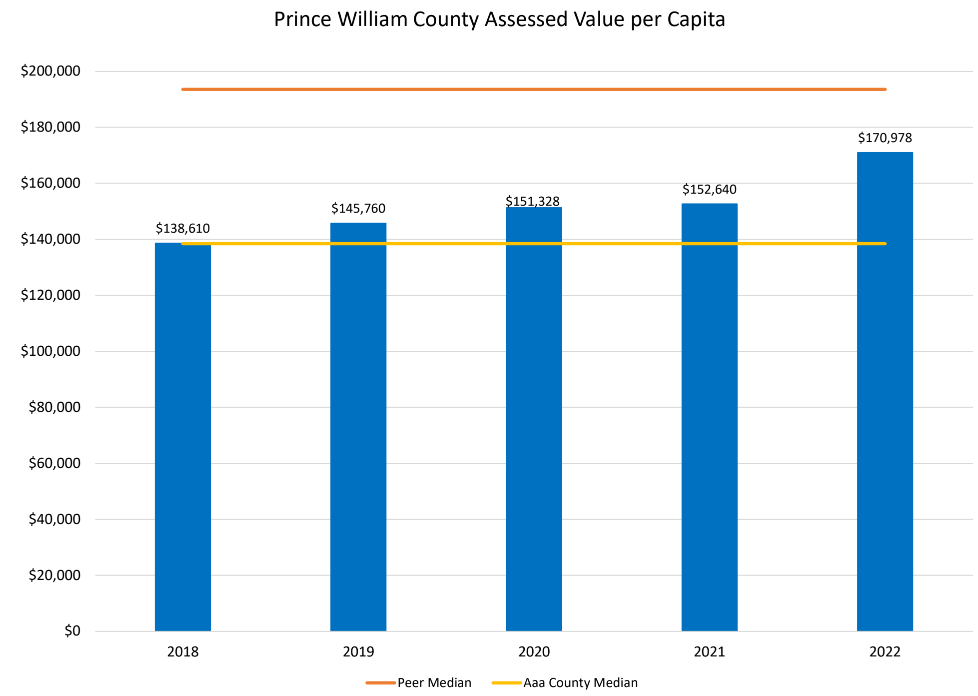
Assessed Value

The tax base is the primary source from which a local government derives its revenues. A large, robust, diverse tax base typically offers a local government more flexibility, as well as protection from unexpected shocks, such as the loss of a significant employer or industry. A smaller more concentrated tax base, on the other hand, is more prone to feel the impacts of such loss due to the dependency on a fewer number of properties. The County's tax base has continued to rebound since the downturn in the economy, now with ten years of continued growth and values that exceed pre-recession values. The County remains more heavily concentrated in residential properties as compared to some of its peers. The 2022 Land Book assessed values will be used to collect County tax revenues in fiscal year 2023. The total of the assessed values shown in the 2022 Land Book approaches $83 billion. The consistent growth in the County's real estate tax base is demonstrated in the chart below.



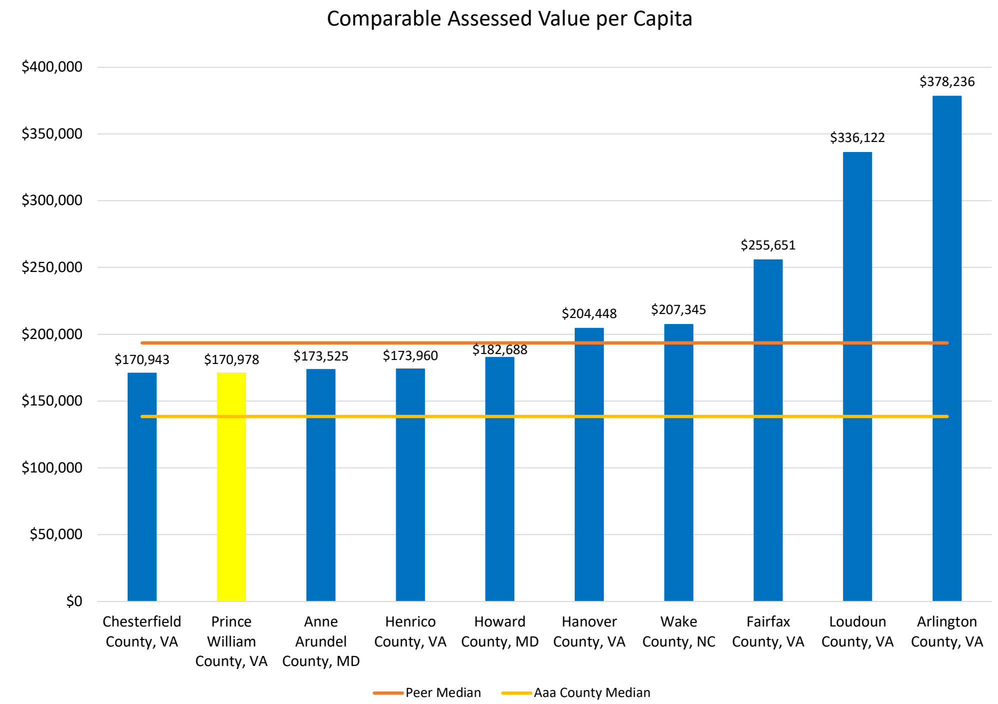
Source: Prince William County Real Estate Assessments Office 2022 Annual Report.

Moody's regards historical assessed value per capita of greater than $180,000 as a 'Aaa' target. This metric converts the taxable property available (real estate and personal property) to generate revenues to a per resident metric, depicting the availability of tax-generating resources to fund programs and services relative to the users. The County achieves a 'Aa' for this factor with $170,978 and falls below the peer median of $193,568. However, the County's score is above the nationwide 'Aaa' median of $138,475. Of the 111 counties that Moody's rates 'Aaa', as of the most recent data published by Moody's, 34 counties met the 'Aaa' target for this metric.



AAA target > $180,000

Source: Moody's Financial Analysis database.



Source: Moody's Financial Ratio Analysis database.

Sources:

PFM Financial Advisors, LLC.

Moody’s Investors Service Rating Methodology

Standard & Poor’s Ratings Services Ratings Direct

Prince William County Annual Comprehensive Financial Report For The Year Ended June 30, 2022

2022 Annual Report Prince William County Real Estate Assessments Office

Prince William County Demographer

Virginia Employment Commission, Quarterly Census of Employment and Wages

American Community Services and Bureau of Economic Analysis

Nielsen’s Claritas Database

Virginia Auditor of Public Accounts, Monitoring for Local Government Fiscal Distress 2020-2021 and 2019 Reports.

Moody’s Scorecard Summary

Factors & Subfactors (New Methodology)	Weight	Factors & Subfactors (Former Methodology)	Weight
Factor 1: Economy	30%	Factor 1: Economy/Tax Base	30%
Economic Growth	10%	Full Value (market value of taxable property)	10%
Full Value per Capita	10%	Full Value per Capita	10%
Median Household Income (adjusted for cost of living)	10%	Median Family Income	10%
Factor 2: Financial Performance	30%	Factor 2: Finances	30%
Available Fund Balance Ratio	20%	Fund Balance as % of Operating Revenue	10%
Liquidity Ratio	10%	5-Year Dollar Change in Fund Balance as % of Revenues	5%
		Cash Balance as % of Revenues	10%
		5-Year Dollar Change in Cash Balance as % of Revenues	5%
Factor 3: Institutional Framework	10%	Factor 3: Management	20%
Institutional Framework	10%	Institutional Framework	10%
		Operating History: 5-Year Average of Operating Revenues/Operating Expenditures	10%
Factor 4: Leverage	30%	Factor 4: Debt/Pensions	20%
Long-term Liabilities Ratio	20%	Net Direct Debt / Full Value	5%
Fixed Cost Ratio	10%	Net Direct Debt / Operating Revenues	5%
		3-Year Average of Moody's Adjusted Net Pension Liability / Full Value	5%
		3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues	5%
Rating	**100%**	**Rating**	**100%**

S&P’s Scorecard Summary

Factors & Subfactors	Weight
Factor 1: Institutional Framework	10%
Framework Score	
Factor 2: Economy	30%
Market Value per Capita	15%
Per Capita Effective Buying Income %	15%
Factor 3: Management	20%
Management Score	
Factor 4 Budgetary Flexibility	10%
Fund Balance as a % of Expenditures	
Factor 5: Budgetary Performance	10%
Total Governmental Funds Net Result	5%
General Fund Operating Balance to Operating Expenditures	5%
Factor 6: Liquidity	10%
Total Cash as a % of Total Governmental Funds Expenditures	5%
Total Cash as a % of Total Governmental Funds Debt Service	5%
Factor 7: Debt and Liability	10%
Net Direct Debt as a % of Total Governmental Funds Revenue	5%
Debt Service as a % of Expenditures	5%
Rating	**100%**

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COUNTY

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