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Ratings

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Summary:

Richmond, Virginia; General Obligation

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Table Of Contents

Rationale

Outlook

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Credit Profile		
US$227.166 mil GO pub imp and rfdg bnds ser 2017 B, C due 06/15/2037		
Long Term Rating	AA+/Stable	New
Richmond GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long term rating to Richmond, Va.'s series 2017B and C (taxable) general obligation (GO) public improvement and refunding bonds. At the same time, we affirmed our 'AA+' rating on the city's existing GO debt. The outlook is stable.

A pledge of the city's full faith credit and resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure these bonds.

We understand proceeds from the 2017B issue will be used to refund all or a portion of the city's outstanding series 2009A, 2010D, 2012A, and 2010 recovery zone economic development bonds, as well as finance various city capital projects. Proceeds from the series 2017C bonds will be used to refund a portion of the series 2010D bonds.

The rating reflects our assessment of the following factors for the city:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 38.7% of total governmental fund expenditures and 3.2x governmental debt service, and access to external liquidity we consider exceptional;
- Weak debt and contingent liability position, with debt service carrying charges at 12.0% of expenditures and net direct debt that is 99.8% of total governmental fund revenue; and
- Very strong institutional framework score.

Strong economy

We consider Richmond's economy strong. The city, with an estimated population of 223,170, anchors the Richmond, VA MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 88.7% of the national level and per capita market value of $106,115. Overall, the city's market value grew by 5.2% over the past year to $23.4 billion in 2016. The city unemployment rate was 4.6% in 2016.

Richmond maintains a deep, diverse economy, which continues to experience growth. The city is the economic hub for the greater Richmond metropolitan area that encompasses nine counties. As the commonwealth's capital, Richmond has, and will continue to have, a significant federal presence; The Fifth Federal Reserve Bank and the U.S. and 4th District Federal Court of Appeals call the city home. Federal employment in the city totals more than 15,000. In addition, commonwealth agencies provide more than 25,000 jobs. Local, commonwealth, and federal government positions account for nearly one-third of the city's employment base. Richmond is also home to several higher education institutions, including Virginia Commonwealth University--the commonwealth's largest university with more than 31,000 students--and University of Richmond with 4,000-plus students, and Virginia Union University (1,600). Government and educational institutions have historically provided employment base stability, especially during recessionary periods.

The economy has grown consistently over the past few years despite the national economic slowdown, in part to the city's active recruitment and retention program. Since 2016, the city has had $840 million of economic investment, which includes 37 new businesses attracted, and 10 business expansions, adding 2,445 new jobs and retaining 606. In addition, spread out through several parts of the city, 2,543 apartment units have been added as a result of recent population growth. Recently completed projects include: Gateway Plaza, which houses the headquarters for a regional law firm, the renovation and restoration of the Altria Theatre, and Canal Walk--The Locks (the renovation of three historical buildings along the Canal Walk) and the opening of the Moxy Hotel (a boutique hotel). Active Development projects include: Stone Brewery Company (a 200,000 square foot brewery production and distribution facility, a bistro, an outdoor beer garden in two phases and expected to be completed by 2018), and the Main Street Station Revitalization, an $86 million investment, which involves the renovation of the 100,000 square foot train shed expected to be completed in the summer of 2017. Other economic development projects include: several significant projects being undertaken by Virginia Commonwealth University (VCU; campus library renovations, and the construction of medical facility as well as the School of Allied Health Professions), the construction of a 20-story office tower in the City's Central business district, where Dominion Resources will establish its new headquarters and CoStar Group choosing to locate its global research headquarters in the city. In addition, the Port of Richmond will receive several upgrades to its facility as well as ongoing public housing transformations. As a result of the ongoing redevelopment efforts, population has increased, unemployment has decreased, and the tax base is stable. Nonetheless, over 20% of the city's population is below the federal poverty line. The city continues to work toward gradually reducing this number through various projects and programs. The city's tax base has remained relatively constant over the past several years. However, as a result of continued economic development, it has increased 8.5% since 2014 to $23.4 million in 2016. Ongoing economic development is expected to continue to foster growth in the tax base over the next several years.

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.

The city's financial assumptions are both realistic and well grounded. Formal historical trend analysis is performed and updated annually for both revenue and spending. Ongoing oversight helps the city's management team stay on track with respect to revenues and expenditures. Budget amendments are not typically made, unless for major items such as grants. The city also uses multiyear forecasting for both revenues and expenditures. Assumptions are conservative, and structural balance is a clear goal. The city also maintains an extensive five-year capital improvement plan (CIP), which has all funding sources identified. In addition to the CIP, the city maintains extensive debt issuance policies, which are quite conservative in nature. The city also maintains and adheres to its formal and conservative reserve policy. Both the debt and reserve policies were strengthened in calendar 2012. The city has established an investment management policy, which closely follows that of the commonwealth. City administrators report to the city council at least monthly. The fund balance policy, first adopted in 1988 was revised in 1992 and 2001 to raise the undesignated and unassigned fund balance to 7% from 3% of budgeted expenditures. In April 2012, the city further increased the policy level to 10% of budgeted general fund and school expenditures. At the same time, the city modified its debt policy with these requirements:

- Total general obligation, moral obligation, and appropriation-backed debt not to exceed 4.5% of total assessed value;
- Total debt service not exceed 10% of total general fund and schools budgeted revenues;
- The 10-year payout of all debt shall not be less than 60%;
- Tax-supported debt will not mature greater than 30 years; and
- The city will provide cash funding for its five-year CIP.

We understand the city is working to further strengthen their debt issuance and reserve polices and is expecting adoption of these proposed policies by the end of calendar 2017.

Strong budgetary performance

Richmond's budgetary performance is strong in our opinion. The city had slight surplus operating results in the general fund of 1.2% of expenditures, and surplus results across all governmental funds of 6.3% in fiscal 2016.

The city closed fiscal 2016 with an $8.2 million surplus, net of adjustments, against a roughly $700 million budget. Available reserves remained sound at $114 million or 16.4% of expenditures; and including the revenue stabilization fund located in the committed portion of the general fund. Leading revenue sources are diverse with property taxes accounting for 34% of total general fund revenues, while total city taxes, which include sales, communications, machinery and tools, prepared foods and lodging taxes, accounted for 68% of revenues. State aid accounted for 16%, while utility payments were 5% of revenues. The city charter requires public utilities to make payments-in-lieu-of-taxes as if the properties were fully taxable. In addition, due to biannual billing, Richmond eliminated the need for revenue anticipation notes that had ranged from $45 million to $75 million over the past 20 years, and this has saved the city on interest costs.

The city's fiscal years 2014, 2015, and 2016 comprehensive annual financial report (CAFR) were significantly delayed as a result of the implementation of a new accounting system without proper testing, as well as other various issues. The issue has since been rectified and the fiscal 2017 CAFR is expected to be delivered in a timely manner.

Nearing the close of fiscal 2017, management estimates closing with a very modest surplus, or on a break even basis as worst case scenario. As such, reserves are expected to remain in line with fiscal 2016. According to the city, both revenues and expenditures are tracking within 1% of budgeted figures.

The city has made several categorical changes to its recently adopted fiscal 2018 budget to be more in line with municipal best practices. The 1% State Sales Tax for Education ($26.2 million) the City receives from the Commonwealth, which was previously budgeted as an offsetting revenue and expense in the General Fund, has now been budgeted to flow directly to Richmond Public Schools. Similarly, the City's Fiscal Year 2018 Budget excludes approximately $26 million of State Highway funding that in prior years was treated as both a revenue and expenditure in the General Fund Budget. The City's 2018 Adopted Budget includes the State Highway Fund revenue and the associated expenditures for street maintenance in the Public Works Special Fund for Street Maintenance, rather than as a revenue and expenditure in the General Fund. The City is also establishing its Risk Management (Insurance) operations and the Department of Information Technology as separate Internal Service Funds in the Fiscal Year 2018 Budget, rather than part of the General Fund, as in prior years. As a result, total general fund revenue for fiscal 2018 is projected to be $690,736,515 (or $26,322,602 or 3.7% lower than the budgeted total general fund revenues for fiscal 2017, due largely to the two excluded revenue categories and the establishment of the two Internal Service Funds. Nonetheless, the fiscal 2018 budget remains in line with all reserve policies and factors in healthy tax revenue growth (primarily property and local). Given the healthy economy growth and more conservative budgeting practices, we do not expect the city's budgetary performance to change over the next few years.

Very strong budgetary flexibility

Richmond's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 16% of operating expenditures, or $114.1 million.

The city continues to work toward increasing its available reserves and despite a planned drawdown in fiscal 2015 for capital needs, has maintained reserves at very strong levels over the past three years (2014-2016). Fiscal 2016 total available reserves, which include the $10 million revenue stabilization fund located in the committed portion of the general fund balance, totaled $114.06 million or 16.4% of expenditures. Nearing the close of fiscal 2017 and management's projection for a modest surplus, we do not believe the budgetary flexibility score to weaken in the near term. In addition, available revenues are in compliance with the city's own current formal policy, which requires the city's unassigned general fund balance to equal 10% of city and school expenditures.

Very strong liquidity

In our opinion, Richmond's liquidity is very strong, with total government available cash at 38.7% of total governmental fund expenditures and 3.2x governmental debt service in 2016. In our view, the city has exceptional access to external liquidity if necessary.

We believe the city has exceptional access to external liquidity as it has issued GO bonds and notes and utility revenues bonds frequently over the past 15 years. Management has confirmed it has no contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. Furthermore, the city does not have any investments we deem aggressive. As such, we do not expect the city's liquidity position to weaken in the near term.

Weak debt and contingent liability profile

In our view, Richmond's debt and contingent liability profile is weak. Total governmental fund debt service is 12.0% of total governmental fund expenditures, and net direct debt is 99.8% of total governmental fund revenue.

Over the next two years (2018-2019), the city plans to issue up to $133.4 million of additional new money debt for various capital projects. The total five-year (2018-2022) CIP is manageable; totaling $175.47 million. In addition, the city's enterprise fund debt for gas, wastewater, water and electric are all self-supporting. The city's total debt service as a percent of total governmental expenditures was slightly higher in fiscal 2016 than in prior years as a result of the repayment of $31.2 million of jail notes following the receipt of a capital grant from the commonwealth.

Richmond's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 6.6% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution in 2016.

The City contributes to the Virginia Retirement System (VRS), a cost-sharing and agent multiple-employer defined-benefit pension plan administered by the VRS. City Constitutional offices of the Sheriff, Courts, City Registrar, and City Treasurer are eligible for participation in the Virginia Retirement System pension plan.

Richmond also maintains a defined-benefit retirement plan and a defined-contribution retirement plan for all city employees. The city makes the required 100% pension contribution annually. All other City employees are participants in the Richmond Retirement System. As of June 30, 2016, the VRS pension obligation was 63.5% funded. Richmond, however, has taken significant steps to enhance the funded status by directing all new hires into a defined-contribution plan and eliminating or reducing cost-of-living adjustments since 2006. Under GASB 67, the city net pension liability was $303.3 million as of June 30, 2016. OPEB payments are made on a pay go basis. The city's OPEB plan was amended in 2007 to only include participants who were currently retired or were active full time employees that were hired prior to Jan. 1, 1997. General employees hired after this date are assumed to pay the full cost of the program with no implicit rate subsidy, and therefore, have no related liability. While we believe pension costs are manageable, given the below-average funding levels rising costs could place pressure on future budgetary performance.

Very strong institutional framework

The institutional framework score for Virginia cities and towns with a population greater than 3,500 and/or with a school division is very strong.

Outlook

The stable outlook reflects the strong and growing area economy, which anchors the regional economy and employment base. The outlook further reflects the city's strong budgetary performance, and very strong fiscal flexibility, and liquidity. The city is guided by very strong management that has implemented, strengthened, and continues to implement strong fiscal policies and practices. As such, we do not believe the rating will change within our two-year outlook horizon.

Downside scenario

Although unlikely, in our opinion, if the city were to encounter severe fiscal pressures and reserves were used to bridge the imbalances thus reducing budgetary flexibility and liquidity levels, the rating may be lowered.

Upside scenario

If the city were to maintain sound fiscal operations and further strengthen reserves, while continuing to address socio-economic issues and future development, and maintain consistent debt and pension and OPEB levels, an upgrade may be warranted.

Ratings Detail (As Of June 16, 2017)		
Richmond GO imp bnds (Federally Taxable)		
Long Term Rating	AA+/Stable	Affirmed
Richmond GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.