

RatingsDirect®

Summary:

Manassas, Virginia; General Obligation

Primary Credit Analyst:

Makai C Edwards, Chicago (1) 312-233-7017; makai.edwards@spglobal.com

Secondary Contact:

Danielle L Leonardis, New York + 1 (212) 438 2053; danielle.leonardis@spglobal.com

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Credit Profile

US\$52.52 mil GO pub imp and imp rfdg bnds ser 2021 due 01/01/2042

Long Term Rating AAA/Stable New

Manassas

Long Term Rating AAA/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long term rating to the City of Manassas, Va.'s \$52.3 million series 2021 public improvement general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's existing GO debt. The outlook is stable.

Manassas' GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. The city has a predominately locally derived revenue source, with 62% of revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government. (See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect).

A pledge of Manassas' full faith and credit secures the GO bonds from ad valorem taxes to be levied on all taxable real property within the city limits without limitation as to rate or amount.

We understand the city will use the proceeds for various capital projects consistent with its capital improvement plan (CIP), including the renovations on city hall, expansion of the Manassas Museum, the construction of a new public safety facility, various other water and sewer projects, and refinancing its outstanding series 2010 bonds.

Credit overview

The rating reflects our view of the city's continuing improving economy, with a \$3 billion investment from Micron Technology Inc. and the addition of nearly 400 new housing units across the Jefferson Square and Landing at Cannon Branch projects. In addition, our outlook reflects the continued surplus, with the city's fiscal 2020 performance reporting a more than \$15 million surplus, net of adjustments, and favorable performance relative to budget is anticipated for fiscal 2021. Maintenance of reserves exceeding the city's 15% minimum policy helps provide additional support for the rating.

The rating reflects our view of the following credit characteristics for Manassas:

- 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 (FMA) methodology;

- Strong budgetary performance, with operating results that we expect could weaken in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 45% of operating expenditures;
- Very strong liquidity, with total government available cash at 123.6% of total governmental fund expenditures and 20.8x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 5.9% of expenditures and net direct debt that is 90.5% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Very strong institutional framework score.

Environmental, social, and governance (ESG) factors

We analyzed Manassas' ESG risks relative to the city's economy, budgetary outcomes, management, and debt and liability profile and determined that they are in line with our view of the sector standard. Manassas' geographic location protects the city from acute physical risks stemming from severe weather-related events; the city has also further mitigated flash flooding-related issues through stormwater utility capital improvements. In addition, we view the near 50% population growth over the past 30 years as a social opportunity because it provides underlying economic strength to spur employment opportunities when compared with areas of the country experiencing population stagnation or loss.

Stable Outlook

Downside scenario

While not anticipated during our outlook period, should the city's budgetary performance face pressure causing a significant and unexpected draw on reserves without the ability or plan to replenish them or if economic metrics were to significantly deteriorate in addition to material increases in debt, we could lower the rating or revise the outlook.

Credit Opinion

Strong economy

We consider Manassas' economy strong. The city, with an estimated population of 41,956, is located in Manassas City (Prince William County/Manassas /Manassas Park combined area) in the Washington, D.C.-Arlington-Alexandria MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 94.6% of the national level and per capita market value of \$145,250. Overall, the city's market value was stable over the past year at \$6.1 billion in 2020.

Manassas encompasses 10 square miles in northern Virginia and is located about 30 miles southwest of Washington, D.C.

The city's tax base is mostly residential, accounting for approximately 66% of the tax base. Manassas continues to see growth in the residential market, with more than 853 combined single-family and condominium sales in fiscal 2020. In

addition, the city noted that overall residential building permits remain strong with the ongoing development of the Landing at Cannon Branch project providing nearly 300 new townhomes. Once complete, the project will provide more than \$3.5 million in new real estate taxes and additional development with a 20,000-square-foot office and retail building that should help provide lodging, retail sales, and meals tax revenue growth in the future. Additional growth is anticipated, with the Jefferson Square project planned to be completed in 2022 that will add approximately 85 executive townhomes and 20 luxury single-family homes to the area. The city noted there are additional residential development plans currently in the zoning and permitting process to meet the growing housing demands.

Manassas also maintains a healthy and growing commercial base. Micron (a memory chip manufacturer) is the city's top taxpayer and top employer. The company is currently in the process of a \$3.0 billion expansion in the city that has helped spur growth in assessed value to more than \$6.4 billion in fiscal 2021. In addition to Micron, the city is seeing growth with another company, High Purity Systems Inc., that will complete an estimated \$8.5 million in investments in Manassas that will triple the company's capacity and provide more than 100 new jobs in the area. Given its location and notable employers, the city is a net importer of jobs. The diversity of available, higher-paying, employment opportunities, coupled with a well-educated work force, continues to lead to above-average wealth and income levels and below-average unemployment, when compared with national averages.

During the COVID-19 pandemic, the unemployment rate mirrored national trends, rising to a peak of 11.3% in April 2020 but has recovered to a preliminary level of 5.2% as of March 2021. Overall, with the continued economic expansion in the city, we anticipate the economy will remain strong.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

In our opinion, Manassas maintains conservative revenue and expenditure assumptions, relying on at least three years of historical trend analysis and forward projections. Budget-to-actual reports, for both revenues and expenditures, are monitored monthly and are provided quarterly to council; the city also maintains a policy regarding amendments throughout the year. Annually, as part of its budget, Manassas prepares five-year financial forecasts for its general fund to identify potential shortfalls and future pressures. The city maintains a rolling five-year CIP of identifiable projects and funding sources for general government, schools, and enterprise operations. It has adopted a formal investment policy, with the treasurer reviewing holdings and earnings at least quarterly; and the city's debt policy guidelines set tax-supported debt as a percentage of estimated market value of taxable property at no more than 3%, and debt service expenditures as a percentage of total governmental fund expenditures at no more than 15%. The payout of aggregate outstanding tax-supported debt principal will be no less than 50% repaid in 10 years.

The city's formal reserve policy was revised in March 2021, and required the established general fund unassigned fund balance level to be maintained at a minimum 15% of general fund operating revenues (compared with the previous range of 13%-15% of general fund operating revenues). Manassas continues to maintain and strengthen the policy for cash flow needs to protect against economic volatility. The policy provides a replenishment provision of three years should it fall below the minimum.

Strong budgetary performance

Manassas' budgetary performance is strong in our opinion. The city had operating surpluses of 12.7% of expenditures in the general fund and 8.9% across all governmental funds in fiscal 2020. While we expect Manassas to have at least balanced operating results, we do not expect results to be as favorable as in 2020.

For analytical consistency, we adjust the fiscal 2020 general fund and total governmental fund results to account for recurring transfers. The city's performance has remained stable over the past few years, recording a fifth consecutive surplus during the year. Management notes that this consistency is the result of conservative budgeting practices, coupled with formal, well-adhered-to fiscal policies.

Fiscal 2020 continues the trend of the city's strong budgetary performance, closing with an operating surplus of more than \$15 million, net of adjustments, for recurring transfers from enterprise operations and capital costs from debt issuances. Revenues exceeded Manassas' budgetary expectations by \$10.5 million due in part to continued strong property tax collections of over 98%, in line with historical collections, as well as other tax revenue growth, with sales tax collections rising over 15% and business license tax revenues up over 9% during the year. As well, the city's expenses came in under budget by approximately \$9.0 million, due in part to Manassas not hosting various events during the summer months because of the pandemic in addition to expenses being covered by received Coronavirus Aid, Relief, and Economic Security Act funding.

For fiscal 2021, the city adopted a conservative \$123.1 million general fund budget, approximately 2.5% higher than fiscal 2020. In the adoption, Manassas included a \$3 million reserve for potential pandemic costs and, as a result of federal funds and favorable performance, the city has not needed to use this reserve. To date, revenues are estimated to exceed budget by \$3 million-\$4 million. This is driven by continued growth in the tax base, with the Micron expansion and continued sales tax growth. Expenses are estimated to come in under budget by \$2 million-\$3 million given wage savings and continued postponement of events. Overall, the city does not anticipate imbalance for the year.

With the fiscal 2022 budget, Manassas is seeking a \$127.1 million general fund budget approximately 3.3% higher than fiscal 2021. Management remains conservative, looking to keep meals taxes and charges for services below pre-pandemic levels to account for general uncertainty. While not included in the budget, the city is eligible for an estimated \$45.2 million in funding under the American Rescue Plan Act, with \$37.3 million estimate for the city's categorization as a non-entitlement city and they are eligible for approximately \$7.9 million from the county's funding given its independent city status. As the guidance become clear as to how the city can use the funds, it anticipates using the funding for one-time costs and would not use if for unsustainable programming (for more information, see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," published March 24, 2021, on RatingsDirect).

Overall, with the resumption of economic activity as states ease pandemic restrictions, the city's overall performance is anticipated to remain strong.

Very strong budgetary flexibility

Manassas' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 45% of operating expenditures, or \$53.1 million.

The city's fund balance policy is to maintain a minimum of 15% of revenues in the unassigned fund balance and, with strong performance, Manassas has continued to increase the fund balance to exceed this threshold over the past five years.

Given the policy limitations, Manassas maintains committed fund balances, primarily for capital projects. Conservative budgeting practices have allowed for healthy increases in these reserves over time. Given that the city has permitted ongoing contributions to the fund, as per the formal reserve policy, which clearly articulates that the assigned or committed fund balance may be unassigned or uncommitted by city council by way of a resolution, we consider these funds available and have included them in our calculations. The total amount included for fiscal 2020 was \$17.5 million. In our opinion, given the city's reserve policy and expected financial performance, flexibility should remain very strong.

Very strong liquidity

In our opinion, Manassas' liquidity is very strong, with total government available cash at 123.6% of total governmental fund expenditures and 20.8x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

We believe the city's strong access to external liquidity is supported by Manassas' regular debt issuances, including GO bonds. Although the state allows for what we view as permissive investments, we believe the city does not currently have aggressive investments, with the majority in highly rated and liquid mutual funds and fixed-income securities. Manassas does not maintain exposure to direct purchase debt, variable-rate debt, or interest-rate derivatives. Therefore, we anticipate the city's liquidity will remain very strong.

Strong debt and contingent liability profile

In our view, Manassas' debt and contingent liability profile is strong. Total governmental fund debt service is 5.9% of total governmental fund expenditures, and net direct debt is 90.5% of total governmental fund revenue. Overall net debt is low at 2.4% of market value, which is in our view a positive credit factor.

With this issuance, the city will maintain approximately \$196.8 million in debt outstanding. Manassas maintains a rolling five-year CIP and has moved plans for the new Dean elementary/intermediate school to fiscal 2026 as it works through sizing of the facility in light of the pandemic's impact on enrollment levels. Additional debt needs remain limited during our outlook period.

Pension and other postemployment benefits (OPEB):

- We do not view pension and OPEB liabilities as source of credit pressure for Manassas.
- Although, OPEB liabilities are funded on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs, the city has legal flexibility to alter OPEB benefits, which we view as a potential means to mitigate escalating costs should they modify benefits.

Manassas participates in the following plans as of June 30, 2020:

- Virginia Retirement System (VRS) primary government: 82.97% funded, with a net pension liability of \$26.5 million.
- VRS Component Unit School Board (nonprofessional): 99.07% funded, with a net pension liability of \$169,829.

- VRS Teacher Retirement Plan: 73.51% funded, with a net pension liability of 47.9 million.
- Group Life Insurance plan: 52% funded, with an OPEB liability of about \$7.5 million.
- Line of Duty Act program: 0.79% funded, with an OPEB liability of about \$3.1 million.
- Health Insurance Credit (HIC) primary government: 55.01% funded, with an OPEB liability of about \$469,060.
- HIC Component Unit School Board (nonprofessional): 78.29% funded, with an OPEB liability of about \$54,250.
- HIC Teachers: 8.97% funded, with an OPEB liability of about \$8.9 million.

The city's combined required pension and actual OPEB contributions totaled 2.6% of total governmental fund expenditures in 2020. Of that amount, 2.4% represented required contributions to pension obligations, and 0.2% represented OPEB payments Manassas made its full annual required pension contribution in 2020. In our view, a discount rate of 6.75% for pension plans is slightly elevated compared to our 6.00% guideline. All full-time, salaried permanent employees of the city and Manassas City Public Schools (MCPS; non-professional employees), are automatically covered by the VRS.

Manassas and MCPS provide postretirement health care insurance benefits for employees who are eligible for retirement benefits. The plan is funded on a pay-as-you-go basis.

Very strong institutional framework

The institutional framework score for Virginia municipalities is very strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments
- , April 28, 2020

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