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INVESTORS SERVICE

CREDIT OPINION
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Petersburg (City of) VA

Update to credit analysis

Summary

Petersburg, VA's (A1) growing economy, benefitting from proximity to Richmond (Aa1 stable), is characterized by extensive residential and commercial development and a below average resident income ratio. Fund balance and cash reserves have grown steadily over the last three fiscal years, a trend that is likely to continue through fiscal 2023, supported by strong property tax collections. The city plans to issue a significant amount of debt for capital projects in the near term which will result in an above average yet manageable leverage burden. The rating also reflects the city's strong management and commitment to maintaining balanced operations.

On April 6, Moody's upgraded the city's issuer rating to A1 from A2. Concurrently, the general obligation unlimited tax (GOULT) rating on the city's outstanding general obligation refunding bonds was upgraded to A1 from A2.

Credit strengths

» Healthy liquidity and reserves

» Expanding local economy

» Low fixed costs

Credit challenges

» Below average resident income and wealth levels

» Moderate debt burden expected to grow over the near term

Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

» Material increases in reserves

» Significant declines in leverage and fixed costs

» Improving resident income indices

Factors that could lead to a downgrade

» Material draws on reserves

» Increases in leverage and fixed costs

» Worsening resident income indices

Key indicators

Exhibit 1
Petersburg (City of) VA

	2018	2019	2020	2021	A Medians
Economy					
Resident income ratio (%)	61.7%	64.6%	69.0%	66.4%	85.5%
Full Value ($000)	$2,186,364	$2,142,220	$2,140,440	$2,274,552	$729,748
Population	31,827	31,362	30,791	33,229	10,219
Full value per capita ($)	$68,695	$68,306	$69,515	$68,451	$64,697
Economic growth metric (%)	N/A	-0.1%	-0.2%	-0.3%	-1.1%
Financial Performance					
Revenue ($000)	$96,451	$99,064	$107,361	$111,030	$21,949
Available fund balance ($000)	$1,831	$8,405	$17,406	$31,775	$8,725
Net unrestricted cash ($000)	$5,935	$11,077	$21,853	$45,106	$11,614
Available fund balance ratio (%)	1.9%	8.5%	16.2%	28.6%	40.6%
Liquidity ratio (%)	6.2%	11.2%	20.4%	40.6%	51.4%
Leverage					
Debt ($000)	$66,517	$61,665	$59,527	$55,502	$17,818
Adjusted net pension liabilities ($000)	$89,596	$73,334	$96,434	$129,471	$25,673
Adjusted net OPEB liabilities ($000)	$8,821	$9,104	$10,601	$11,607	$1,531
Other long-term liabilities ($000)	$1,913	$1,920	$2,063	$1,972	$652
Long-term liabilities ratio (%)	173.0%	147.4%	157.1%	178.8%	277.1%
Fixed costs					
Implied debt service ($000)	$0	$4,901	$4,496	$4,263	$1,258
Pension tread water contribution ($000)	$2,477	$2,259	$2,876	N/A	$711
OPEB contributions ($000)	$353	$421	$306	$416	$56
Implied cost of other long-term liabilities ($000)	$0	$141	$140	$148	$47
Fixed-costs ratio (%)	2.9%	7.8%	7.3%	6.9%	13.1%

For definitions of the metrics in the table above please refer to the US Cities and Counties Methodology or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published US Cities and Counties Median Report.
The Economic Growth metric cited above compares the five-year CAGR of real GDP for Richmond, VA Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.
Sources: US Census Bureau, Petersburg (City of) VA's financial statements and Moody's Investors Service, US Bureau of Economic Analysis

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Profile

Petersburg is located in east-central Virginia (Aaa stable), approximately 25 miles south of Richmond, VA. It's one of the 13 jurisdictions that comprise the Richmond-Petersburg Metropolitan Statistical Area.

Detailed credit considerations

Economy: expanding local economy with below average resident incomes

Petersburg, VA's local economy will continue to benefit from extensive residential and commercial development and proximity to Richmond and the Fort Lee military base. Ongoing expansion of the pharmaceutical industry and notable infrastructure projects, including joint property development with neighboring localities and a proposed $1 billion destination entertainment project comprising two hotels, a casino and restaurants which would add $30 million to the city's revenue stream, have been instrumental in fueling economic growth in the region.

Extensive development offsets below average resident income and wealth levels. A below average unemployment rate of 4.2% and elevated poverty of 21.3% round out the city's moderate socioeconomic profile.

Financial operations: healthy reserves likely to continue growing over the near term

The city's healthy financial position is expected to remain strong, supported by robust revenue growth outpacing increasing operating costs. Across all governmental funds and business type activities, the city's available fund balance closed fiscal 2021 (June 30) at $31.78 million, or 28.6% of total annual revenues, compared to just $17.4 million in fiscal 2020 (exhibit 2). The fiscal 2021 surplus was driven by stronger than usual property tax collections and a decline in debt service costs. According to draft financial statements for fiscal 2022, management expects a $8.5 million general fund surplus continuing the trend of strong operating performance.

The city's reserves are further strengthened by federal relief funds. The city received $5.5 million in CARES funds and $24.8 million in ARPA funds (of which $6 million is reserved for revenue replacement and the remaining is earmarked for infrastructure projects).

The city has a diverse revenue mix. As of fiscal 2021, 83% of the city's total revenues were contributed by governmental activities while the remaining 17% were contributed by business type activities. Of the 83% or $92.3 million of revenues attributed to governmental activities, 40% was comprised of property tax revenues.

The city's business type funds, comprising the public utility, mass transit and golf course funds are healthy and operating performance across these funds is likely to remain stable with modest increases in coming years.

Exhibit 2

Source: Petersburg (City of) VA's financial statements and Moody's Investors Service

Liquidity

The city's governmental and business type funds ended fiscal 2021 with a combined unrestricted net cash balance of $45.1 million, an amount equal to a very strong 40.6% of annual revenues (exhibit 3).

Exhibit 3

Source: Petersburg (City of) VA's financial statements and Moody's Investors Service

Leverage: moderate debt burden likely to grow in coming years

The city ended fiscal 2021 with long term liabilities equaling 178.8% of annual revenues and a fixed costs ratio equaling 6.9% of annual revenues. The city's debt burden amounts to $55.5 million across all governmental and business type funds.

The city has three major capital projects in the pipeline for the next 3-5 years including a new elementary school, a new courthouse and a new city hall. Funding for these projects will come from state grant and loan programs and an approximately $60 million debt issuance. Favorably, despite the increase in the city's debt burden, leverage is likely to remain manageable supported by strong revenue growth.

Legal security

The bonds are general obligations of the city supported by its full faith and credit, including an unlimited ad valorem tax pledge.

Debt structure

All of the city's debt is fixed rate.

Debt-related derivatives

The city is not party to any debt-related derivatives.

Pensions and OPEB

City employees (including school employees) participate in the Virginia Retirement System, an agent and cost-sharing multiple employer defined benefit pension plan administered by the Commonwealth. Petersburg's total combined pension contribution for fiscal 2021 was $2.8 million.

Moody's adjusted net pension liability (ANPL) is our measure of a local government's pension burden that uses a market-based interest rate to value accrued liabilities. The city's ANPL was $129.5 million in fiscal 2021, representing 117% of annual revenues. Moody's ANPL is based on a discount rate of 3.0%, which results in it being higher than the reported GASB net pension liability of $24.2 million.

Petersburg provides other post-employment benefits (OPEB) for eligible employees that elect to receive benefits and funds the annual required contribution each year. The Moody's adjusted net OPEB liability totaled $11.6 million in fiscal 2021. The fiscal 2021 OPEB contribution for the city totaled $416,000.

ESG considerations

Petersburg (City of) VA's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4
ESG Credit Impact Score

Source: Moody's Investors Service

Petersburg's ESG CIS impact score is neutral to low (CIS- 2), reflecting neutral-to-low environmental and social risks, and strong governance.

Exhibit 5
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

The city's overall E issuer profile score is neutral to low (**E-2**), reflecting neutral to low exposure to environmental risks across all categories, including physical climate risk, natural capital, and waste and pollution.

Social

The city's exposure to social risk is neutral to low (**S-2**). The city's educational attainment metrics lag the state. Additionally, the city's health and safety metrics are below the state's greater trends though its labor and income metrics are on par with those of the state. The city does benefit from affordable housing in the region and residents within the city have easy access to basic services.

Governance

The city's G issuer profile score is positive (**G-1**), reflecting strengths in the institutional structure. The score also considers the city's policy credibility, transparency, and strong management and budgeting practices.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 6
Petersburg (City of) VA

	Measure	Weight	Score
Economy			
Resident income ratio	66.4%	10.0%	Baa
Full value per capita	68,451	10.0%	A
Economic growth metric	-0.3%	10.0%	Aa
Financial Performance			
Available fund balance ratio	28.6%	20.0%	Aa
Liquidity ratio	40.6%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	178.8%	20.0%	Aa
Fixed-costs ratio	6.9%	10.0%	Aaa
Notching factors			
Potential for significant change in leverage	-0.5		
Scorecard-Indicated Outcome			Aa3
Assigned Rating			**A1**

Sources: US Census Bureau, Petersburg (City of) VA's financial statements and Moody's Investors Service

Appendix

Exhibit 7
Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the US City and Counties Methodology .
Source: Moody's Investors Service

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