

CREDIT OPINION

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 Rate this Research

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Petersburg (City of) VA

New Issuer credit analysis

Summary

[Petersburg, VA's \(A2\)](#) credit profile incorporates an improved financial position, adequate fund balance and liquidity levels, manageable long-term liabilities and moderate fixed costs. The rating also incorporates its slightly concentrated but stable tax base and below-average resident wealth and income levels. Governance is a key rating factor for the city, reflected by its formalized budget and debt policies in addition to proactive management and monitoring of revenue and expenditure performance.

On October 25 we assigned an initial A2 issuer rating to the city and an A2 underlying/ Aa1 enhanced rating to the city's \$28.7 million series 2021 general obligation bonds.

Credit strengths

- » Improved budgetary performance
- » Formal budget and debt policies
- » Proactive and conservative fiscal management

Credit challenges

- » Limited tax base
- » Below-average wealth and income levels

Rating outlook

The positive outlook reflects the expectation of future positive budgetary performance and continued trend of active conservative fiscal management that aligns with high rated entities.

Factors that could lead to an upgrade

- » Maintenance of reserves and liquidity levels
- » Tax base growth and diversification
- » Strengthened income levels and population growth

Factors that could lead to a downgrade

- » Declines in reserves and liquidity levels
- » Tax base deterioration

» Significant increase in debt or long-term liabilities

Key indicators

Exhibit 1

Petersburg (City of) VA

	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$2,175,344	\$2,147,147	\$2,186,364	\$2,142,220	\$2,140,440
Population	31,997	32,037	31,827	31,362	31,362
Full Value Per Capita	\$67,986	\$67,021	\$68,695	\$68,306	\$68,249
Median Family Income (% of US Median)	58.5%	58.3%	58.7%	60.7%	60.7%
Finances					
Operating Revenue (\$000)	\$71,390	\$73,070	\$74,234	\$76,064	\$73,960
Fund Balance (\$000)	-\$7,728	-\$144	\$2,804	\$8,060	\$12,936
Cash Balance (\$000)	\$3,855	\$3,833	\$3,331	\$7,734	\$8,606
Fund Balance as a % of Revenues	-10.8%	-0.2%	3.8%	10.6%	17.5%
Cash Balance as a % of Revenues	5.4%	5.2%	4.5%	10.2%	11.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$59,208	\$54,136	\$62,040	\$57,663	\$53,839
3-Year Average of Moody's ANPL (\$000)	\$83,752	\$89,988	\$124,452	\$118,937	\$112,135
Net Direct Debt / Full Value (%)	2.7%	2.5%	2.8%	2.6%	2.5%
Net Direct Debt / Operating Revenues (x)	0.8x	0.7x	0.8x	0.7x	0.7x
Moody's - ANPL (3-yr average) to Full Value (%)	3.9%	4.2%	5.7%	5.6%	5.2%
Moody's - ANPL (3-yr average) to Revenues (x)	1.2x	1.2x	1.6x	1.5x	1.5x

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

Profile

Petersburg is located in east-central [Virginia \(Aaa stable\)](#), approximately 25 miles south of [Richmond \(Aa1 stable\)](#). Petersburg is one of the 13 jurisdictions that comprise the Richmond-Petersburg Metropolitan Statistical Area. The City encompasses 23.09 square miles and has a population of 31,346 according to the 2020 estimate from the U.S. Census Bureau.

Detailed credit considerations

Economy and tax base: Stable but limited tax base benefits from proximity to Richmond MSA

Petersburg benefits from its proximity to the growing Richmond metropolitan area and Fort Lee military base. The city's \$2.1 billion limited tax base has increased by a modest average annual rate of 0.4% over the last five years. The city is in the process of a tax base reassessment and expects values to increase by 4% reflecting recent residential and commercial development.

The city's largest employment industries and taxpayers are stable but exhibit some concentration in healthcare and manufacturing, with the largest taxpayers accounting for 21% of full values. The largest private employers in the city, Bon Secours Health Systems and Good Neighbor Holdings LLC (Nursing and Residential Care) remain stable anchors with almost 2,000 employees combined. The city has also attracted pharmaceutical manufacturing firms, AMPAC, Phlow, and Civica, who are expected to create 338 combined new jobs and invest a combined \$149 million in new facilities.

Per capita income and Median family income are both weak at 69.2% and 60.7% of national norms, poverty rate is elevated at 24% and full value per capita of \$68,249 is well below the statewide average of \$88,913. City unemployment at 9.6% as of August 2021 was substantially higher than the state (3.8%) and national levels (5.3%). Historically unemployment rates were higher but the city expects unemployment to decline given recent economic development announcements and increasing vaccination rates.

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Finances and liquidity: Sound financial position supported by strong management and fiscal policies

The city's financial position will likely continue to improve, given its recent trend of operating stability, proactive oversight, prudent fiscal policies and healthy reserve levels. For fiscal 2022 the city adopted a relatively flat budget over fiscal 2021. Petersburg benefits from a formalized fund balance policy whereby, the city annually allocates \$1 million to rebuild its available fund balance levels. The fiscal 2022 budget is balanced without a property tax rate increase and, at this time, management does not anticipate any material change to fund balance and liquidity levels by fiscal year-end, with the exception of the budgeted annual increase of \$1 million.

The city's fiscal 2021 budget incorporated conservative revenue assumptions and additional contingencies in light of the coronavirus pandemic. The city budgeted at 92% of its property tax levy and reduced expected sales tax revenue. Capital projects were deferred as well as a 3.7% across the board operating expenditure reduction. Notably the city's budget also included its annual \$1 million allocation to unassigned fund balance. Based on year-to-date performance, officials expect final budget results to be balanced without the use of any reserves and adding an additional \$1.9 million to fund balance.

The city historically ran deficits, however, between fiscal 2017 and 2020 the city implemented proactive and conservative budgetary practices resulting in consistent operating surpluses. The city ended fiscal 2020 with available fund balance of \$12.9 million (17.5% of revenue) a substantial improvement from the negative \$7.7 million available fund balance in fiscal 2016. Total operating fund balance (inclusive of the general, school operating and debt service funds) totaled \$23.4 million or 31.7% of combined operating fund revenue at fiscal year-end 2020.

Liquidity

The city's liquidity position is adequate, with \$8.6 million (11.6% of revenue) in operating fund cash in fiscal 2020.

Debt and pensions: Moderate fixed costs reflecting manageable long-term liabilities

Petersburg's debt burden is manageable and in-line with the national medians for the rating category, and will remain so given the limited plans for future debt issuance and continued amortization of principal. The city's direct debt burden is 2.5% of full valuation for fiscal 2020, slightly higher than the national median but below the city's debt policy of 4.5%. Because Virginia cities are responsible for school operations, including capital borrowing, the median direct debt burden is generally higher than national medians as a percentage of full value. The city's direct debt burden represents approximately 0.7 times operating revenue, which is below the national A median.

Legal security

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

Debt structure

All of the city's debt is fixed rate. The series 2021A and series 2021B will mature in 2042.

Debt-related derivatives

The city is not party to any derivative agreements.

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 total combined pension contribution for fiscal 2020 was \$2.7 million, which was above the tread water amount (the amount required to prevent the unfunded liability from increasing based on plan assumptions).

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 has averaged \$112.14 million over the last three years, representing 1.5 times operating revenue, which is below the national medians for the rating category. Our ANPL is based on a discount rate of 3.51%, which results in it being higher than the reported GASB net pension liability of \$15.6 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 \$10.6 million in fiscal 2020. The fiscal 2020 OPEB contribution for the city totaled \$306,000.

Total fixed costs (inclusive of pension and OPEB contributions and debt service) account for a moderate 9% of expenditures in fiscal 2020.

ESG considerations

Environmental

Similar to the local government sector overall, Petersburg, VA has low exposure to environmental risks. According to data from Moody's affiliate Four Twenty Seven, the county's total average exposure to the projected rate of change of five climate risk factors is low compared to other cities nationwide. Of the physical climate risks Four Twenty Seven evaluates, Petersburg's highest exposure is to hurricanes. This exposure is mitigated by several factors, including management's maintenance of strong reserves, and the state and federal governments' history of providing disaster relief to local governments following a major weather event.

Social

Social considerations are material to, but not a key credit driver of, the city's credit quality and are incorporated by way of full value per capita and median family income. While these social issues do not currently pose a credit risk, we will continue to monitor a variety of factors such as demographics, income levels, population trends and employment levels, as these remain important key credit metrics.

Governance

Governance is a key factor in rating for Petersburg. The city uses formal policies, conservative budgeting and multiyear planning to maintain a healthy financial position. The adopted budget stabilization fund policy requires a minimum of 17% operating expenditures. Virginia Cities have an institutional framework score¹ of "Aaa," which is very strong. Property taxes, the primary revenue source, are highly stable and predictable. Cities have strong revenue-raising ability as there are no caps on property tax rates. Operating expenditures for cities tend to be highly stable and predictable and cities have a strong ability to reduce them given a limited presence of unions and moderate fixed costs, which are driven by debt service and pension costs and are generally less than 25% of expenditures.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Petersburg (City of) VA

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%)^[1]		
Tax Base Size: Full Value (in 000s)	\$2,140,440	Aa
Full Value Per Capita	\$68,249	Aa
Median Family Income (% of US Median)	60.7%	Baa
Notching Factors:^[2]		
Economic Concentration		Down
Other Scorecard Adjustment Related to Economy/Tax Base: Outsized poverty		Down
Finances (30%)		
Fund Balance as a % of Revenues	17.5%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	24.3%	Aa
Cash Balance as a % of Revenues	11.6%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	5.8%	A
Notching Factors:^[2]		
Other Scorecard Adjustment Related to Finances: 5 year trend score inflated due to large volatility swings in fund balance from negative		Down
Management (20%)		
Institutional Framework	Aaa	Aaa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.5%	A
Net Direct Debt / Operating Revenues (x)	0.7x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	5.2%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.5x	A
	Scorecard-Indicated Outcome	A2
	Assigned Rating	A2

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: US Census Bureau, Petersburg's financial statements and Moody's Investors Service

3

Endnotes

1 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(July 2020\)](#) methodology report for more details.

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