

# **RatingsDirect®**

---

## **Summary:**

## **Alexandria, Virginia; General Obligation**

### **Primary Credit Analyst:**

Felix Winnekens, New York + 1 (212) 438 0313; [felix.winnekens@spglobal.com](mailto:felix.winnekens@spglobal.com)

### **Secondary Contact:**

Christian Richards, Washington D.C. + 1 (617) 530 8325; [christian.richards@spglobal.com](mailto:christian.richards@spglobal.com)

## **Table Of Contents**

---

Credit Highlights

Outlook

Credit Opinion

Related Research

## Summary:

# Alexandria, Virginia; General Obligation

Credit Profile		
US\$143.18 mil GO capital imp bnds ser 2022B due 06/30/2053		
<i>Long Term Rating</i>	AAA/Stable	New
Alexandria GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Alexandria GO cap imp bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the City of Alexandria, Va.'s approximately \$143.2 million series 2022B general obligation (GO) capital improvement bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's GO debt outstanding.
- The outlook is stable.

## Security

Securing debt service on the bonds and GO debt outstanding is the city's full faith and credit, including an agreement to levy ad valorem property taxes without limitation as to rate or amount. Bond proceeds will finance various capital improvements, including approximately \$119 million in general city projects and \$30 million for the redevelopment of the Landmark Mall.

## Credit overview

Alexandria's location within the Washington, D.C. region and the city's own robust employment base has resulted in material economic development, a strong housing market, and modest population growth, facilitating higher reserves and long-term budgetary balance. The city's prudent financial management practices, supported by its long history of positive budgetary performance and maintenance of sizable reserves, anchor credit quality. Ongoing cash funding of a large portion of the city's comprehensive capital improvement plan (CIP) will help keep fixed costs manageable.

The rating further reflects our assessment of Alexandria's:

- Robust economic growth and management team that proactively manages the city's economy, finances, and environmental, social, and governance (ESG) risks;
- Track record of balanced operating results and very strong budgetary flexibility that provides an important buffer in light of broader macroeconomic pressures;
- Limited pressure from debt and pension liabilities despite the city's extensive CIP.

## Environmental, social, and governance

We believe the city's environmental risks are somewhat elevated, given Alexandria's location along the Potomac River, which occasionally floods. However, the city included flood mitigation planning in its Environmental Action Plan 2040, which also sets benchmarks to reduce greenhouse gas emissions by 2030 and 2050. To that end, the city also recently established the Office of Climate Action, which will drive its climate change agenda. Furthermore, through budget and policy initiatives, Alexandria is addressing social risks such as income and racial inequities. Finally, governance risks are neutral in our credit rating analysis. That said, we view positively that management has taken steps to protect the city from emerging risks, such as cyber security threats.

## Outlook

The stable outlook reflects our view of the city's very strong economy with a robust development pipeline that will spur further tax base growth. We believe this will support ongoing budgetary strength and very strong reserves, notwithstanding the significant ongoing capital needs.

### Downside scenario

Although unlikely, if the city were to experience financial performance deterioration or a steep reduction in reserves resulting from its large CIP or unforeseen fiscal pressures, we could take a negative rating action.

## Credit Opinion

### Very strong economy that is well embedded in the capital region

Situated directly across the Potomac River from Washington, D.C., Alexandria offers commuter access to the capital by interstate highways (I-95, I-395, I-495) and the Metrorail system. The city also has access to airports, including Washington Reagan National Airport and Dulles International Airport, as well as several Amtrak routes. Furthermore, it benefits from the importance of the federal government as a direct and indirect employer. While about three-quarters of residents commute outside Alexandria for employment, the city hosts various large public and private employers, including the U.S. Patent & Trademark Office, the Department of Defense, INOVA Alexandria Hospital, and several consulting firms, including the Institute for Defense Analyses.

Alexandria's economic development efforts focus on transit-oriented projects and small area plans for each of the city's unique commercial areas. In total, in calendar 2021 the city approved almost 2,800 residential units (10.6% affordable housing) and 2.7 million square feet of nonresidential space. Development is focused around four areas: Potomac Yard and Oakville Triangle, Landmark Mall, Potomac River Generating Station, and Eisenhower East. Potomac Yard and the Oakville Triangle will benefit from a fifth Metro station, expected to be completed in early 2023; as well as from Virginia Tech's 600,000-square-foot innovation campus and the area's proximity to Amazon's HQ2. The \$1 billion, 3.5-million-square-foot redevelopment of the former Landmark Mall site will include mixed-used developments and multifamily housing and a 1-million-square-foot hospital that the city actively supports through infrastructure investments and the purchase of land it is leasing to INOVA Hospital.

In addition, Alexandria is a leader in office-to-residential/hotel conversions, creating new residential and hotel units

from some of its office spaces. Several investments are ongoing in the affordable housing stock, which Alexandria incentivizes through density bonuses for developers. Given the city's favorable demographic and broader economic trends, we believe Alexandria is well positioned to generate consistent tax base growth over the long term.

### **Very strong management with extensive ESG focus**

Management uses revenue and expenditure assumptions supported by various sources and projections. The city council receives formal monthly financial reports with year-to-date budget-to-actual information. Alexandria has formal policies governing investments, with quarterly reporting to the council. Long-term financial planning is robust and includes a formal five-year forecast updated annually with low-through-high revenue and expenditure growth assumptions. We also view the city's debt policy and affordability metrics, including debt as a percentage of fair market value, debt service as a percentage of general governmental expenditures, and principal repayment ratio, as consistent with our view of very strong management practices. The rolling, 10-year CIP identifies projects and funding for all years. The city's formal fund balance policy has a minimum threshold of 15% of general fund revenue and a replenishment mechanism should reserves fall below the threshold.

The institutional framework score for Virginia municipalities is very strong.

### **Very strong financial position and a track record of balanced results**

Our analysis of the city's budgetary performance reflects adjustments to the audited financial results to remove amounts related to one-time capital spending funded with bond proceeds and to account for recurring transfers.

In fiscal 2021, Alexandria added \$23.4 million to its very strong reserves. Surplus results were partly fueled by rebound in economically sensitive revenues, though this was uneven. While sales and meals taxes surpassed pre-COVID-19 pandemic levels, lodging taxes were still below 2019 levels primarily due to lingering effects of pandemic-related travel restrictions. The significant operating surplus was also due to conservative budgeting practices that led to 2021 actual expenditures being \$18.5 million under budget. Lower expenditures were in part related to an effort to curtail departmental spending and delaying pay-as-you-go financed capital spending due to the uncertainty of the pandemic.

Unaudited fiscal 2022 results show another, even stronger, surplus with a \$49.6 million addition to fund balance. Of that surplus, approximately \$35.4 million is American Rescue Plan Act money that replaced lost revenue. General fund results were spurred primarily by the strong recovery of economically sensitive taxes and the stability and growth of property taxes, which account for 71% of general fund revenues. Sales and meals tax continued to pick up, surpassing 2021 levels, while lodging taxes ticked higher, fueled by leisure travel--but still remain below 2019 levels, given the lag in the return of business travel.

Budgeted fiscal 2023 expenditures are almost 8% higher than previous year actuals to account for higher labor costs, and fuel and energy prices. The city also budgeted for an \$8 million use of reserves. Although it is still early in the fiscal year, city officials indicate that this draw may not materialize. As a result, we expect Alexandria will continue to build on its track record of strong financial performance and maintenance of very strong reserves. As part of its fiscal 2023 CIP funding, the city indicated it will appropriate \$36.2 million from the general fund and \$387 million, also from the general fund, in the next 10 years. It also plans to use \$10 million of assigned fund balance to pay for capital improvements in fiscal 2023 and \$23.8 million in total through 2032. Given the city's track record of outperforming its budget and ongoing economic growth, we believe Alexandria will maintain its very strong reserves over the outlook

horizon.

In our view, the city has no contingent liquidity risks associated with financial instruments that contain payment provisions that change upon certain events, and we expect its liquidity will remain very strong. Alexandria issued its series 2016B GO refunding bonds through a bank loan with TD Bank N.A. Bond provisions are standard and do not contain any unusual provisions, such as acceleration, that could pressure liquidity. In addition, the city privately placed lines of credit with Bank of America and STI Institutional & Governmental Inc. that end June 1, 2023, and July 10, 2023, respectively. The city has so far drawn only nominal amounts and is planning on canceling both credit lines. Interest rates for notes issued under the agreements are pegged to LIBOR, but the documents contain alternative interest rate provisions, given LIBOR's expiration.

### **Limited pressure from debt despite extensive CIP**

Following the current transaction, the city's direct debt outstanding is about \$995.7 million. Alexandria's 2023-2032 approved CIP totals \$2.73 billion and includes significant investments in transportation (\$571.2 million), schools (\$497.8 million), public buildings (\$362.7 million), and community development (\$366.9 million). The city has made increased investments in stormwater management of \$288.4 million that will help mitigate environmental risks and improve its infrastructure resiliency. Despite the sizable CIP, we expect no material changes in our view of Alexandria's debt profile, as the 10-year plan assumes that only about 60% will be funded with additional debt proceeds while a large portion of the remainder will be funded with cash, grants, or other contributions.

### **Well-funded pension other postemployment benefit (OPEB) liabilities**

- We do not view pension or OPEB contributions as a significant risk for Alexandria, as the city's funding policy requires annually paying at least the actuarially determined contribution (ADC), and in some cases more, to lower-funded plans.
- However, a discount rate of 6.75%-7% could lead to contribution volatility because it exceeds what we consider a conservative 6% rate that might withstand market shocks.

Alexandria participates in six public employee retirement systems. The four largest, defined-benefit plans are as follows:

- Virginia Retirement System, an agent multiple-employer plan with a funded ratio of almost 83.5%, with a proportionate share of the net pension liability (NPL) of \$110.6 million.
- City Supplemental Retirement (92.5% funded), with a proportionate share of the NPL of \$12.6 million.
- Firefighters and Police Officers Pension (84.1% funded), with a proportionate share of the NPL of \$63.3 million.
- Fire and Police Officers Disability plans (118.1% funded) carry a net pension asset of \$5.8 million.

The latter three are single-employer plans administered by the city.

Alexandria offers OPEB for eligible employees. It has one plan, which includes the Line of Duty Act benefits. The plan is funded at 82%, which we view favorably, given the city's commitment to overfund this obligation.

## Ratings above the sovereign

Alexandria's 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. Under our criteria "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013, U.S. local governments are considered moderately sensitive to country risk. The city's GO pledge is the primary source of security on the debt, and this severely limits the possibility of negative sovereign intervention in Alexandria's payment of debt or operations. The city has independent treasury management, and the U.S. has no history of negative federal intervention relating to a local government's revenue. Local revenue from property and other local taxes made up about 89% of Alexandria's general fund revenue in fiscal 2021.

### Alexandria, Virginia -- Key Credit Metrics

	Most recent			Historical information		
	2022	2021	2020	2022	2021	2020
<b>Very strong economy</b>						
Projected per capita EBI % of U.S.		201				
Market value per capita (\$)	284,945	277,436	274,457	260,000		
Population		163,400	161,320	163,625		
County unemployment rate(%)			3.8	6.0		
Market value (\$000)	46,560,058	45,333,030	44,275,403	42,542,577		
Ten largest taxpayers % of taxable value		11.0				
<b>Strong budgetary performance</b>						
Operating fund result % of expenditures		6.3	3.2	0.9		
Total governmental fund result % of expenditures		1.1	3.6	2.2		
<b>Very strong budgetary flexibility</b>						
Available reserves % of operating expenditures		26.3	23.1	19.9		
Total available reserves (\$000)		204,705	169,372	145,698		
<b>Very strong liquidity</b>						
Total government cash % of governmental fund expenditures		53	53	40		
Total government cash % of governmental fund debt service		714	635	518		
<b>Very strong management</b>						
Financial Management Assessment		Strong				
<b>Strong debt &amp; long-term liabilities</b>						
Debt service % of governmental fund expenditures		7.4	8.4	7.8		
Net direct debt % of governmental fund revenue		108				
Overall net debt % of market value		2.1				
Direct debt 10-year amortization (%)		56				
Required pension contribution % of governmental fund expenditures		3.8	4.3	4.0		
OPEB actual contribution % of governmental fund expenditures		1.4	1.0	1.2		
<b>Very strong institutional framework</b>						

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGS DIRECT are registered trademarks of Standard & Poor's Financial Services LLC.