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INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa2 RATING TO THE CITY OF LYNCHBURG'S (VA) $24.5 MILLION GENERAL OBLIGATION PUBLIC IMPROVEMENT REFUNDING BONDS, SERIES 2010

Global Credit Research - 27 Sep 2010

Aa2 AFFECTS $235.4 MILLION G.O. DEBT, INCLUDING CURRENT OFFERING

Municipality
VA

Moody's Rating

ISSUE	RATING
General Obligation Public Improvement Refunding Bonds, Series 2010	Aa2

Sale Amount	$24,500,000
Expected Sale Date	09/30/10
Rating Description	General Obligation

Opinion

NEW YORK, Sep 27, 2010 -- Moody's Investors Service has assigned a Aa2 rating to the City of Lynchburg's (VA) $24.5 million General Obligation Public Improvement Bonds, Series 2010.

RATINGS RATIONALE

Concurrently, Moody's has affirmed the Aa2 rating on the city's $210.9 million of pre-refunding parity debt. The entirety of the current issue is secured by the city's general obligation unlimited property tax pledge. Proceeds of the bonds will refund, on a current basis, the city's outstanding Series 2001, 2003A and 2004 general obligation bonds for an estimated net present value savings of $1.2 million or 5.3% with no extension of the original maturity. The Aa2 long-term rating reflects the city's diverse and stable economic base that is expected to continue to grow modestly, as well as its satisfactory financial performance and above-average debt levels.

STABLE AND DIVERSE ECONOMIC BASE SERVES AS REGIONAL COMMERCIAL CENTER

Moody's expects the city's diverse economic base to remain stable given a diversified private employment base with ongoing investment and the presence of multiple higher education institutions and a large regional health care facility. A regional commercial center in central Virginia, Lynchburg has experienced healthy 7.5% average annual growth in full valuation over the last five years and is now fully valued at $5.7 billion. Growth has continued in this central Virginia community, increasing by 4.1% in fiscal 2010. This growth reflects both the introduction of new industry and expansion of existing industries, as well as rising residential values. Recently, Central Health, the city's largest employer, constructed a tower at Lynchburg General Hospital and opened a new cancer center and a new birthing center. In addition, Babcock and Wilcox, Inc. (rated Ba1/stable outlook) recently relocated its headquarters to Lynchburg's downtown and added 150 employees. The local economy has also benefited from the $12 million investment by Areva NP which will bring 200 new employees in the near-term.

Expansion of existing businesses reflects the city's economic development strategy focused on encouraging firms already located in the city to remain and expand their facilities. These programs include the development of two publicly owned industrial parks, the creation of a small-business assistance center with loans and low-cost office space, and the use of various targeted incentives including subsidized land, infrastructure, and cash grants. The city has also invested in a variety of redevelopment projects designed to revitalize the downtown area by attracting new commercial tenants and possible graduate student housing. In addition to a number of other manufacturing firms, the city contains a large regional shopping mall, as well as several big box retailers, which collectively serve the surrounding areas. The city also includes three four-year colleges, with a combined enrollment approximating 18,000, including Liberty University (not rated by Moody's), which has aggressive growth plans reportedly intended to expand its 12,000 student body to 25,000 by the year 2020. Approximately one-quarter of the city's population is full-time students. While the last census reported that Lynchburg's wealth indicators were below state norms, the strength of the local economy is reflected in a healthy full value per capita of $80,420, or 81% of the commonwealth median. Moreover, the presence of a sizable student population tends to negatively skew wealth indices.

HISTORY OF SOLID FINANCIAL PERFORMANCE; CONTINUED SURPLUSES STRENGTHEN RESERVES

In what proved to be a challenging year for many issuers due to the economic recession, Lynchburg was able to continue to add to its reserves and maintain its healthy financial position. Lynchburg has a history of consistently solid reserve levels, with undesignated General Fund balance averaging 13.3% of revenues over the last five years. In fiscal 2008, the city posted a modest $1.7 million addition to fund balance; however, the structural surplus was a more significant $8.2 million given $6.5 million transferred to city and school capital project funds. In fiscal 2009 (ended June 30), the city posted a $2.6 million addition to fund balance, which included a $6.5 million transfer from its Solid Waste Fund following the sale of a city landfill to a regional services authority and a $7.4 million transfer to city and school capital project funds. Lynchburg closed the 2009 fiscal year with a healthy $37.2 million General Fund balance (23% of revenues), of which $24.5 million, or 15.1% of revenues, remained undesignated, well in excess of the city's 10% policy on this portion of reserves.

Fiscal 2010 (unaudited) operations are expected to result in another operating surplus, increasing reserves by approximately $5.4 million. Management reports that revenues are expected to be $5 million better than budgeted while operating expenses were reduced $2.7 from budgeted levels, allowing the city to replenish $3.5 million of appropriated fund balance. The increase in revenues is largely due to conservative budgeting of property tax revenues, which benefited from better than expected personal property taxes. General Fund balance is projected to increase to approximately $42.6 million or a solid pro forma 34% of revenues, with undesignated balances increasing by $5.7 million to $30.5 million or a satisfactory pro-forma 24% of revenues. Of note, the increase includes a $2.8 million transfer to the capital projects fund, as the city consistently transfers undesignated year-end reserve balances in excess of its 10% policy to this fund.

The adopted fiscal 2011 budget increased by $8 million or 5.2% from the 2010 budget, and utilizes $8.5 million of General Fund balance. The 2011 budget features flat property tax growth, a $1.2 million contingency reserve, and the transfer of $8.3 million to the city and school capital project funds. In addition, the city anticipates using $1.1 million to establish a debt service reserve for anticipated school debt. To manage expenditure growth, the city has utilized expenditure saving measures in current and prior budgets, including cutting overtime funding and staffing levels, offering a retirement incentive package and increasing employee contributions for health insurance. Moving forward, Moody's believes that slowed revenue growth will likely impact the city's ability to fund pay-as-you-go capital projects at historically strong levels, but reserve levels will remain consistent with policy objectives given the city's conservative management practices.

DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE, WITH SUBSTANTIAL ENTERPRISE SUPPORT

Moody's believes that the city's debt burden (2.3% of full valuation), while above average, will remain manageable, despite significant additional borrowing plans, given rapid amortization of principal (63.3% retired within 10 years), ongoing growth in assessed valuation, and expected enterprise support of a significant portion of current and future long-term debt. The debt burden is calculated net of $180 million of self-supporting water and sewer debt, approximately $70 million of which carries the city's general obligation pledge. The city's five-year $159 million capital plan primarily consists of $94 million for self-supporting utility projects, and the city plans to finance $92 million with long-term debt (including $50 million in revenue bonds). The city's water system supports outstanding general obligation debt and rates for this enterprise remain highly competitive. A substantial portion of debt has been issued to comply with the city's combined sewer overflow (CSO) special order requirements. In addition to the sizeable borrowing plans, the sewer system, although self-supporting, continues to face challenges, including growing expenditures and high rates. Management indicates that it will continue to raise rates to comply with the special order and to fund additional debt service. The city eliminated a variable rate line of credit it had outstanding earlier this year. The city no longer has any variable rate debt outstanding, and is not party to any derivative agreements.

WHAT COULD CHANGE THE RATING (UP):

-Higher growth in taxable assessed valuation over the medium term

-Accelerated payout of debt burden

WHAT COULD CHANCE THE RATING (DOWN):

-Material multi-year declines in fund balances and liquidity

-Significant growth in the district's direct debt burden

KEY STATISTICS

2009 Population (estimate): 70,734 (+8.4% since 2000 census)

2010 Full Valuation: $5.7 billion

2010 Full Value Per Capita: $80,420

1999 Per capita income: $18,263 (76.2% of VA; 84.6% of U.S.)

1999 Median family income: $40,844 (75.4% of VA; 81.6% of U.S.

Debt burden: 2.3%

Payout of Principal (10 years): 63.3%

FY09 General Fund Balance: $37.2 million (23% of General Fund revenues)

FY09 Unreserved, undesignated General Fund Balance: $24.5 million (15.1% of General Fund revenues)

Post sale parity debt outstanding: $235.4 million

The principal methodology used in rating Lynchburg (City of) VA was General Obligation Bonds Issued by U.S. Local Governments rating methodology published in October 2009. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, confidential and proprietary Moody's Investors Service's information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

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