

CREDIT OPINION

10 August 2021

 Rate this Research

Contacts

Kimberly Lyons +1.212.553.4734
 VP-Senior Analyst
 kimberly.lyons@moody's.com

Robert Weber +1.212.553.7280
 VP-Senior Analyst
 robert.weber@moody's.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Harrisonburg (City of) VA

Update to credit analysis

Summary

The [City of Harrisonburg, VA's \(Aa2\)](#) credit profile reflects large and growing tax base that benefits from the stabilizing institutional presence of James Madison University, as well as below-average resident income levels that are impacted by an outsized student population. The city's credit profile also reflects an adequate and stable financial position with satisfactory reserves, management's strong budgeting practices, an above average debt burden, and manageable pension liabilities.

On August 6th, we assigned a Aa2 underlying rating to the city's \$164 million General Obligation Public Improvement and Refunding Bonds, Series 2021A (tax-exempt) and \$2.4 million General Obligation Public Improvement and Refunding Bonds, Series 2021B (federally taxable).

Credit strengths

- » Large and growing tax base with sizeable institutional presence
- » Stable financial position bolstered by formal fiscal policies

Credit challenges

- » Debt burden higher than similarly-rated cities nationwide
- » Resident income levels below Aa2 median

Rating outlook

Outlooks are usually not assigned to local government issuers with this amount of debt.

Factors that could lead to an upgrade

- » Substantial reduction in debt burden
- » Sustained growth of reserves and liquidity
- » Material tax base expansion and improvement in resident income levels

Factors that could lead to a downgrade

- » Trend of operating deficits and narrowing reserve levels
- » Material tax base contraction and weakening resident income levels
- » Substantial increase in debt burden

Key indicators

Exhibit 1

Harrisonburg (City of) VA

	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$4,430,664	\$4,539,870	\$4,616,188	\$4,769,128	\$4,941,089
Population	51,979	53,064	53,391	53,273	54,049
Full Value Per Capita	\$85,240	\$85,555	\$86,460	\$89,522	\$91,419
Median Family Income (% of US Median)	81.1%	84.4%	83.3%	82.1%	82.1%
Finances					
Operating Revenue (\$000)	\$139,287	\$144,742	\$154,487	\$161,625	\$168,911
Fund Balance (\$000)	\$30,145	\$32,535	\$36,031	\$34,972	\$40,424
Cash Balance (\$000)	\$35,443	\$39,033	\$43,774	\$43,737	\$51,109
Fund Balance as a % of Revenues	21.6%	22.5%	23.3%	21.6%	23.9%
Cash Balance as a % of Revenues	25.4%	27.0%	28.3%	27.1%	30.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$182,248	\$172,194	\$163,823	\$156,784	\$181,479
3-Year Average of Moody's ANPL (\$000)	\$195,413	\$230,390	\$238,319	\$242,259	\$237,649
Net Direct Debt / Full Value (%)	4.1%	3.8%	3.5%	3.3%	3.7%
Net Direct Debt / Operating Revenues (x)	1.3x	1.2x	1.1x	1.0x	1.1x
Moody's - ANPL (3-yr average) to Full Value (%)	4.4%	5.1%	5.2%	5.1%	4.8%
Moody's - ANPL (3-yr average) to Revenues (x)	1.4x	1.6x	1.5x	1.5x	1.4x

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

Profile

The City of Harrisonburg, VA encompasses 17.4 square miles in the Shenandoah Valley region of Virginia ([Commonwealth of Virginia, Aaa stable](#)). The city operates under a council-manager form of government and is governed by a five-member council, including the mayor, who appoint a city manager to oversee day-to-day operations. The city's population totaled 54,049 in 2020 according to the most recent U.S. Census American Community Survey, which represents a 10.5% increase since 2011.

Detailed credit considerations

Economy and tax base: growth and diversification continues, tax base anchored by institutional presence

Harrisonburg's \$4.9 billion tax base (fiscal 2020) is much larger than the national median for the Aa2 rating category and continues to grow, with a five-year compound annual growth rate of 2.6%, driven by property value appreciation and new developments. The city's economic anchor and largest employer, James Madison University (JMU), is a major educational institution and part of the Commonwealth of Virginia's higher education system. Enrollment has grown to over 22,000 students, mostly located within the city limits, representing over 40% of the city's total population. JMU continues to expand and invest in the local economy with various capital projects including the College of Business Expansion and Renovation (\$71.2M), Atlantic Union Banking Center -Sports Arena (\$86.7M), and a new retail dining facility (\$225.2M).

The city's tax base is also home to a vibrant, increasingly diverse commercial and industrial base that includes retail, auto parts, software, electronics, agribusiness and packaging product manufacturers. Tourism primarily related to the Shenandoah National Park has also driven growth in the local economy. The city has also recently launched its "Harrisonburg Downtown 2040" initiative, with a goal to continue revitalization of the downtown area.

The city's June 2021 unemployment rate of 5% is slightly higher than the state (4.5%) but below the national (6.1%) rates for the same period. According to the most recent U.S. Census American Community Survey, resident income levels fall below the national median

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

for the rating category with median family income equal to just 82.1% of the US in 2019. Additionally, the city's poverty rate is also elevated at 28.2%. The city's income and poverty levels, however, are partially impacted by a sizeable student population.

Financial operations and reserves: adequate and stable reserve position supported by conservative budgeting and formal fiscal policies

Harrisonburg's financial position will remain stable given management's conservative budget assumptions, adherence to formal fiscal policies, and continued tax base growth. While the city's fund balance reserves are maintained below the national Aa2 medians as a percentage of revenues, they are stable and sizeable on an absolute basis.

Fiscal 2020 ended with a general fund balance of \$39.5 million, or 32.5% of revenues. Total available operating fund balance (inclusive of the general and school operating funds) totaled just \$40.4 million, or 24% of combined operating fund revenues at fiscal year end 2020, higher than fiscal 2019 fund balance of 21.6%, but still below the national median of 37% for the Aa2 rating category. While fund balance levels fall short of the national medians as a percentage of revenues, they are much larger on an absolute basis. Positively, available operating fund balance has remained steady over the past five fiscal years, averaging 22.5% of revenues. Because Virginia cities' operating funds include school operations, the median operating fund balance is generally lower than national medians.

For fiscal 2021, management reports that revenues are tracking above budget and expenditures below. The city is projecting an estimated surplus of \$5.5 million. The fiscal 2022 budget incorporates conservative revenue estimate projecting a 4% decline compared to the fiscal 2021 amended budget.

Management adheres to a formal fund balance policy requiring a minimum level of reserves in the city's unassigned general fund balance. The policy states that the city's unassigned fund balance cannot fall below 18% of expenditures.

Liquidity

Harrisonburg's operating funds (inclusive of the general and school operating funds) reported net cash and investments of \$51.1 million at fiscal year-end 2020, or 30.3% of combined operating fund revenues, which is below the national medians for the rating category as a percentage of revenues but much larger on an absolute basis. Positively, the city's liquidity position has remained relatively stable, averaging 27% of revenues over the past five fiscal years.

Debt and pensions: above-average debt burden will remain manageable despite future borrowing plans

Harrisonburg's debt burden is higher than similarly-rated peers nationwide, but will remain manageable, despite future debt plans, given management's adherence to formal debt policies and continued tax base growth. Post issuance of the Series 2021A and 2021B bonds, the city's net direct debt will be approximately 5.5% of fiscal 2020 full value, which is manageable but well above the national Aa2 median of 0.9%. 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 1.1 times operating revenues, which is also above but closer to the national Aa2 median of 0.8 times.

The city's fiscal 2022-2026 capital improvement plan (CIP) totals \$156.3 million, including projects for the self-supporting utility funds. Management updates the CIP annually and notes that approximately 40% of the identified projects are anticipated to be cash funded (pay-go), while the balance may be funded through a combination of grants, reimbursements from other organizations, debt, and future operations. Therefore, the city's overall debt burden is not anticipated to shift materially given adherence to formal debt policies, tax base growth, and continued amortization of outstanding debt.

Management adheres to formal debt policies that cap tax supported debt at 6% of total assessed values and annual debt service at 15% of expenditures.

Legal security

The city's general obligation bonds are payable from the city's full faith and credit and unlimited property tax pledge.

Debt structure

All of the city's outstanding debt is fixed rate and amortizes at an average rate of 58.5% over 10 year period.

Debt-related derivatives

The city is not party to any interest rate swaps or other derivative agreements.

Pensions and OPEB

The city and the city school board participate in the Virginia Retirement System (VRS), a multi-employer defined benefit pension plan administered by the Commonwealth of Virginia. For fiscal 2020, the city's total pension contribution was \$9.06 million, or 5.3% of operating revenues. The city has funded its pensions at the annually required contribution amount in recent years, which is more than 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 \$237 million over the last three years, representing 1.4 times operating revenues, which is comparable to the national median for the rating category.

City and school board employees participate in the city's single-employer defined benefit other post-employment benefit (OPEB) plans: the City of Harrisonburg Post retirement Healthcare Benefit Plan and the Harrisonburg City School Board Postretirement Healthcare Benefit Plan. The Moody's adjusted net OPEB liability was \$46.6 million at fiscal year-end 2020. The city's total OPEB contribution was \$2.1 million in fiscal 2020.

Total fixed costs (inclusive of pension and OPEB contributions and debt service post-issuance) account for a manageable 16.2% of revenues in fiscal 2020.

ESG considerations

Environmental

Similar to the local government sector overall, Harrisonburg has low exposure to environmental risks. According to data from Moody's affiliate Four Twenty Seven, the city's total average exposure to the projected rate of change of five climate risk factors is mid-ranged compared to other cities nationwide. Of the physical climate risks Four Twenty Seven evaluates, Harrisonburg's highest exposure is to extreme rainfall. This exposure is mitigated by several factors, including management's maintenance of strong reserves, the state and federal governments' history of providing disaster relief to local governments following a major weather event, and Harrisonburg's geographic position in the Shenandoah Valley region of the state.

Social

Social issues, which include demographics, labor force, and income metrics, are material to the city's credit quality and are incorporated by way of full value per capita and median family income. While 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

Like issuers across every sector, governance considerations are material to the city's credit quality. Harrisonburg will continue to benefit from strong management, conservative budgeting practices, and adherence to multiple formal fiscal policies. Additionally, Virginia's flexible operating framework and the city's strong management and conservative budgeting will continue to support its sound financial position.

Virginia Cities have an institutional framework score ¹ 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

Harrisonburg VA

Harrisonburg VA

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$4,941,089	Aa
Full Value Per Capita	\$91,419	Aa
Median Family Income (% of US Median)	82.1%	A
Notching Adjustments: ^[2]		
Institutional Presence		Up
Finances (30%)		
Fund Balance as a % of Revenues	23.9%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	8.0%	A
Cash Balance as a % of Revenues	30.3%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	11.5%	Aa
Management (20%)		
Institutional Framework	Aaa	Aaa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	5.5%	Baa
Net Direct Debt / Operating Revenues (x)	1.6x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	4.8%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.4x	A
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa2

[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.

Sources: US Census Bureau, Harrisonburg VA's financial statements and Moody's Investors Service

Endnotes

- 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.

© 2021 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454