

Virginia Beach (Water, Sewer)

The 'AAA' rating reflects the system's 'Exceptionally Strong' financial profile within the framework of 'Very Strong' revenue defensibility and a 'Very Strong' operating risk profile, both assessed at 'aa'. The system's leverage, measured as net adjusted debt to adjusted funds available for debt service (FADS), was 2.3x in fiscal 2025 (FYE June 30) and is expected to peak at 3.6x in fiscal 2026 in Fitch Ratings' Analytical Stress Test (FAST) rating case. The leverage ratio is expected to decline in the outyears, maintaining comfortable headroom for the current rating.

Security

The bonds are payable from a first-lien pledge of the net revenues of the system including connection fees.

Assessment

Standalone Credit Profile aaa

Outlooks

Standalone Credit Profile Stable

New Issues

\$85,410,000 Water and Sewer System Revenue Bonds, Series 2026A AAA

\$26,290,000 Water and Sewer System Revenue Refunding Bonds, Series 2026B AAA

Sale Date

May 27, via competitive sale

Outstanding Debt

[Issuer Ratings Information](#)

Climate Vulnerability Signals

2035 Climate Vulnerability Signal < 50

Transition (Climate.VSt) < 50

Physical (Climate.VSp) < 50

Applicable Criteria

[U.S. Water and Sewer Rating Criteria \(February 2026\)](#)

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(May 2026\)](#)

Related Research

[Fitch Rates Virginia Beach, VA's Water and Sewer Bonds 'AAA'; Outlook Stable \(May 2026\)](#)

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Key Rating Drivers

Revenue Defensibility - 'aa'

Very Favorable Service Area; Affordable Rates for the Vast Majority of the Population

The city retains the legal authority to adjust rates as needed without external oversight. Fitch considers the monthly residential water and sewer bill affordable for about 84% of the service area population based on standard monthly usage of 7,500 gallons for water and 6,000 gallons for sewer. It is characterized by midrange customer growth, midrange service area median household income (MHI) and strong unemployment levels relative to the nation.

Operating Risk - 'aa'

Very Low Operating Cost Burden, Moderate Investment Needs

In fiscal 2025, the system had a very low operating cost burden of \$6,226 per million gallons, supportive of the operating risk assessment. The life cycle ratio was elevated, at 49%, in fiscal 2025. Capex to depreciation is strong, averaging 110% over the five fiscal years from 2021 to 2025. Planned capital spending for the next five fiscal years should generally outpace historical depreciation, resulting in a stable to improving life cycle ratio.

The system's fiscal 2026-2030 capital improvement plan (CIP) totals around \$214 million, slightly higher than the fiscal 2024-2028 CIP. Major capital projects include funding for pump station upgrades and sanitary sewer force main rehabilitation and water transmission system upgrades.

Financial Profile - 'aaa'

Leverage to Increase then Decline, Neutral Liquidity

The system had exceptionally low leverage of 2.3x as of fiscal 2025. Leverage has generally declined from fiscal 2021 largely due to amortizing debt but also benefited from rising FADS and higher cash balances. The liquidity profile is considered neutral to the overall assessment, with coverage of full obligations of 1.8x and 431 current days' cash on hand as of fiscal 2025. Fitch-calculated total debt service coverage was 2.2x in fiscal 2025, excluding fixed service expense.

The FAST considers the potential trend of key ratios in a base case and stress scenario over a five-year period. The stress scenario is designed to impose capital costs 10% above expected base case levels and evaluate potential variability in projected key ratios. The FAST reflects Fitch's view of a reasonable scenario, which is generally informed by publicly available and/or management provided information with respect to capex, user charges and rate of revenue and expenditure growth.

In the base case scenario, the leverage ratio is expected to increase to 3.6x in fiscal 2026 from the issuance of the series 2026A bonds, then decline to 2.3x through fiscal 2030. In the stress scenario, which is considered the rating case, the leverage ratio is also expected to increase to 3.6x in fiscal 2026, then decline to 2.6x through fiscal 2030. The liquidity profile is expected to remain neutral to the assessment over the five-year horizon.

Asymmetric Additional Risk Considerations

No asymmetric additive risk considerations affected this rating determination.

Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Leverage exceeding 5.0x on a sustained basis in Fitch's rating case scenario, provided maintenance of current revenue defensibility and operating risk assessments;
- A material weakening of capex levels that drives the life cycle ratio above 45% on a sustained basis could impact the operating risk assessment over time.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- The rating is at the highest level on Fitch's scale and thus cannot be upgraded.

Profile

Virginia Beach serves around 135,000 water and 132,000 wastewater customers. Water is supplied under a Norfolk contract extended to 2060. Sewer flows are sent to the Hampton Roads Sanitation District (IDR AA/Stable), which serves the broader Hampton Roads region.

Revenue Defensibility

Revenue Source Characteristics

Revenue source characteristics reflect that 100% of the system's revenues are derived from monopolistic service lines. Customer concentration is not a concern, as the top 10 customers account for roughly 2% of operating revenues. The largest customer, a retirement community, accounts for less than 1% of operating revenues. Other entities include the Virginia Beach Correction Center, two hospitals and a nursing home.

Service Area Characteristics

The regional economy maintains a strong emphasis on naval activities. Military installations in Virginia Beach include the Oceana Naval Air Station, the East Coast's master jet base and the Joint Expeditionary Base Little Creek – Fort Story, the primary East Coast base supporting overseas contingency operations.

Customer growth, considered midrange, had a five-year CAGR of 0.2% in fiscal 2025, consistent with prior years. Service area MHI is also midrange, measuring 115% of the national level in fiscal 2024, and remaining relatively consistent with prior years. Service area unemployment is considered relatively strong, measuring around 68% of the national level in fiscal 2024, a slight improvement over prior years. As of February 2026, service area unemployment was trending at around 77% of the national level.

Rate Flexibility

Utility rates were considered affordable for around 84% of the service area population as of fiscal 2024.

The city has the independent legal authority to set rates. The system has historically increased rates annually, except for fiscal 2021, in light of pandemic considerations at that time. Water and sewer rates rose a combined 7.9% in fiscal 2025. For fiscal 2026, water and sewer rates increased 8.5% and 2.5%, respectively. Water rates for fiscals 2027 and 2028 are already approved, and will increase 5%, while no rate increases are anticipated for the sewer system. For fiscals 2029–2031, rates have yet to be adopted, but the system anticipates water and sewer rate increases of 9.5%, 8% and 3.5%, respectively.

Asymmetric Factor Considerations

No asymmetric rating factor considerations affect the revenue defensibility assessment.

Operating Risk

Operating Cost Burden

The system's operating cost burden is very low, measuring \$6,226 per million gallons (mg) in fiscal 2025 and averaging around \$5,600/mg over the past five fiscal years. The operating cost burden has been relatively stable, but rose in fiscal 2024 as a result of a near 22% increase in operating expenses. The increases were largely due to higher purchased water costs from the city of Norfolk (AAA/Stable), salary increases following implementation of results from a compensation study and inflationary cost increases of materials and supplies. Fitch believes the operating cost burden will remain very low in the coming years and consistent with the assessment.

Capital Planning and Management

The system's life cycle ratio measured 49% in fiscal 2025, having increased slightly, from 46%, in fiscal 2021. Annual capital investment is strong, with a five-year average capex-to-depreciation ratio of 110% for fiscal 2021–2025, and remaining relatively flat over the prior years.

The system's fiscal 2026–2030 CIP totals around \$214 million, slightly higher than the system's fiscal 2024–2028 CIP. Major capital projects include roughly \$76 million for general sanitary sewer revitalization and rehabilitation across the system, \$67 million for pump station upgrades and \$15 million for water transmission system improvements.

Roughly two-thirds of the plan is anticipated to be funded through the issuance of additional debt, including this new sale, with the remainder funded through pay-as-you-go sources and, to a smaller extent, contributions from the Hampton Roads Sanitary District (HRSD, rated 'AA/Stable'). Overall, the system's projected capital spending is anticipated to remain above historical levels of depreciation, which should contribute to a stable to improving life cycle ratio.

Operational Overview

Virginia Beach is located in the Hampton Roads region of Virginia along the Atlantic Ocean and Chesapeake Bay. The city's water system primarily consists of water distribution assets extending to a customer base of approximately 135,000. Potable water is provided by the city of Norfolk through a long-term wholesale water treatment and

conveyance services contract. The city pays for a proportional share of Norfolk's operations and maintenance expenses, depreciation and a rate of return on assets. The contract with Norfolk was recently extended through 2060.

In the 1990s, the city constructed a pipeline and obtained rights to pump surface water from Lake Gaston to address water supply needs. The Lake Gaston project, completed in 1997, included a 76-mile, 60-inch diameter pipeline extending from a tributary of Lake Gaston to the city of Norfolk's treatment facilities, and provides Virginia Beach with an ample long-term independent water supply source.

The sewer system is a collection and conveyance system that includes collector lines, force mains and pump stations. Sewer flows are transported to the treatment facilities operated by HRSD. HRSD's service territory encompasses over 3,000 square miles and includes nine cities, eight counties and several large military installations with a population of about 1.8 million. Approximately 132,000 customers within the city send their payments to HRSD, which then remits them to the city.

Fitch considers the system to be a related entity to the city for rating purposes given the city's oversight of the system, including its authority to establish rates and operations. The credit quality of the city does not currently constrain the issue rating. However, as a result of being a related entity, the issue rating could become constrained by a material decline in the general credit quality of the city.

Updated U.S. Environmental Protection Agency (EPA) and State Regulations

The city is addressing regulations set forth by the U.S. EPA. The EPA's enhanced focus on lead and copper lines and per- and polyfluoroalkyl substance (PFAS) contaminants has led to the finalized Lead and Copper Rule Improvements (LCRI), along with specific testing requirements for PFAS.

With respect to LCRI, the system has completed its lead service line inventory, having found no lead service lines in the water distribution system. With respect to PFAS, the city conducts quarterly sampling to monitor PFAS concentrations, with all samples having been below the regulatory limit of four parts per trillion.

A new Virginia State Law signed in April 2026 requires wastewater treatment plants to test for perfluorooctanoic acid (PFOA) and perfluoro octane sulfonic acid (PFOS) in its sewage sludge monthly beginning next year. The bill specifies the sludge cannot be applied to land if PFOA or PFOS concentrations are greater than or equal to 50 parts per billion on a 12-month rolling average basis. As the system operates a collection and conveyance wastewater system, it does not expect to be affected by the enactment of this legislation.

Asymmetric Factor Considerations

No asymmetric rating factor considerations affect the operating risk assessment.

Financial Profile and FAST Analysis

Fiscal 2025 leverage was exceptionally low, measuring 2.3x. Leverage has declined overall from a peak of 3.8x in fiscal 2021 as a result of amortizing debt and increasing cash balances. The liquidity profile, which has remained stable over prior years, is considered neutral to the assessment, with COFO of 1.8x and 431 current days' cash on hand as of fiscal 2025.

A fiscal 2026–2031 financial forecast and CIP informed the base case. Full execution of the system's CIP is assumed, as a conservative assumption related to outyear capital spending.

Taking these assumptions into consideration, system leverage is anticipated to moderately increase in the short term, concurrent with the debt issuance, and decline in the outyears. In the base case, leverage is anticipated to increase to 3.6x in fiscal 2026, but decline to 2.3x through fiscal 2030. In the rating case, leverage is anticipated to increase to 3.6x in fiscal 2026, but decline to 2.6x through fiscal 2030. The liquidity profile is expected to remain neutral to the assessment, with COFO of at least 1.7x and sound days' cash annually. These ratios are supportive of the financial profile assessment and the rating.

Asymmetric Additive Risk Considerations

No asymmetric additive risk considerations affect the credit.

Climate Vulnerability Considerations

Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to climate-related risks. If Fitch identifies an entity as higher risk (i.e. its Climate.VS in 2035 is 50 or higher), the entity receives additional analysis and consideration in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch's "[U.S. Public Sector, Revenue-Supported Entities Rating Criteria](#)."

The results of our Climate.VS screener did not indicate an elevated risk for Virginia Beach (VA) [Water, Sewer].

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs into the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

Financial Summary

(Audited Fiscal Years Ended June 30)	2021	2022	2023	2024	2025
Revenue Defensibility					
Revenue Source Characteristics					
% of Total Revenue from Monopolistic Services	100	100	100	100	100
Service Area Characteristics					
Service Area Population	458,599	454,886	453,779	454,808	—
Total Customer Count	266,820	269,331	267,252	267,444	269,671
5-Year Total Customer Count CAGR(%)	0.2	0.3	0.2	(0.1)	0.2
Service Area Median Household Income (\$)	81,810	87,544	90,685	92,968	—
Service Area MHI/U.S. Median Household Income (%)	119	116	115	115	—
Service Area Unemployment Rate (%)	3.7	2.7	2.7	2.7	—
Service Area Unemployment Rate/U.S. Unemployment Rate (%)	70	75	75	68	—
Rate Flexibility					
Total Monthly Bill (\$) (7,500 Gallons Water/6,000 Gallons Sewer)	118.97	123.22	127.87	136.53	147.36
% of Population with Unaffordable Bill	16	15	15	16	—
Operating Risk					
Operating Cost Burden					
Operating Cost Burden (\$/mg)	5,256	5,006	5,345	6,199	6,226
Capital Planning and Management					
Life Cycle Ratio (%)	46	47	49	50	49
Annual CapEx/Depreciation (%)	91	76	77	86	221
5i-Year Average Capex/Depreciation (%)	121	111	98	91	110
Financial Profile (\$000, unless otherwise indicated)					
Current Unrestricted Cash/Investments	115,644	117,235	123,779	129,313	133,616
Current Restricted Cash/Invest (Available Liquidity)	—	—	—	—	—
Current Cash Available	115,644	117,235	123,779	129,313	133,616
Noncurrent Unrestricted Cash/Investments					
Noncurrent Restricted Cash/Invest (Available Liquidity)					
Available Cash	115,644	117,235	123,779	129,313	133,616
Current Restricted Cash/Invest (Debt Service or Debt Service Reserve)					
Noncurrent Restricted Cash/Invest (Debt Service or Debt Service Reserve)	17,979	19,811	20,260	20,547	21,426
Funds Restricted for Debt Service	17,979	19,811	20,260	20,547	21,426
Total Debt	235,334	224,284	207,681	193,128	178,514
Capitalized Fixed Charges	74,635	76,903	79,767	93,704	90,982
Adjusted Net Pension Liability	37,137	24,636	26,265	35,573	36,343
Available Cash	115,644	117,235	123,779	129,313	133,616
Funds Restricted for Debt Service	17,979	19,811	20,260	20,547	21,426
Net Adjusted Debt	213,483	188,776	169,675	172,545	150,797
Total Operating Revs	129,715	130,069	130,433	137,495	146,117
Purchased Water/Sewer Services	30,463	31,389	32,558	38,246	37,136
Other Operating Expenses	62,355	54,905	61,152	76,264	76,095
EBITDA	36,896	43,775	36,723	22,985	32,887
Investment Income/(Loss)	1,068	840	3,375	8,292	10,990

Financial Summary

(Audited Fiscal Years Ended June 30)	2021	2022	2023	2024	2025
Non-Operating Revenues from Taxes					
Other Cash Revenues/(Expenses)	83	109	92	30	119
BAB Subsidy					
Capital Contributions	2,441	3,777	3,739	2,548	3,578
Funds Available for Debt Service	40,489	48,502	43,929	33,855	47,573
Fixed Services Expense	10,662	10,986	11,395	13,386	12,997
Net Transfers In/(Out)	(193)	—	—	—	—
Pension Expense	4,819	1,655	2,251	4,645	4,317
Adjusted Funds Available for Debt Service	55,777	61,143	57,575	51,886	64,887
Net Adjusted Debt/Adjusted Funds Available for Debt Service (x)	3.8	3.1	3.0	3.3	2.3
Funds Available for Debt Service	40,489	48,502	43,929	33,855	47,573
Fixed Services Expense	10,662	10,986	11,395	13,386	12,997
Net Transfers In/(Out)	(193)	—	—	—	—
Adjusted FADS for Coverage of Full Obligations	50,958	59,488	55,324	47,241	60,571
Total Annual Debt Service	17,154	20,727	23,736	21,612	21,357
Fixed Services Expense	10,662	10,986	11,395	13,386	12,997
Adjusted Debt Service (Includes Fixed Services Expense)	27,817	31,714	35,131	34,999	34,354
Coverage of Full Obligations (x)	1.83	1.88	1.57	1.35	1.76
Coverage of Full Obligations Excluding Connection Fees (x)	1.74	1.76	1.47	1.28	1.66
Current Days Cash on Hand	455	496	482	412	431
Liquidity Cushion Ratio (Days)	455	496	482	412	431
All-In Debt Service Coverage (x)	2.36	2.34	1.85	1.57	2.23

Notes: Fitch may have reclassified certain financial statement items for analytical purposes. N.A. – Not available.

Sources: Fitch Ratings, Fitch Solutions, Virginia Beach

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