

Research Update:

# Virginia Beach Series 2026A And 2026B Water And Sewer Revenue Refunding Bonds Rated 'AAA'

May 13, 2026

## Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to [Virginia Beach](#)'s series 2026A and 2026B water and sewer revenue refunding bonds.
- At the same time, we affirmed our 'AAA' rating on the system's existing revenue debt.
- The outlook is stable.

## Rationale

### Security

Net revenues of the water and sewer system secure the bonds. Proceeds from the series 2026A bonds will be used to finance phase six of the pump station program, sanitary sewer revitalization, sanitary sewer force main rehabilitation, a water tank replacement, and several other projects. Proceeds from the series 2026B bonds will be used to refund all or a portion of the system's series 2013 revenue bonds. Following this issuance, the system will have about \$270.5 million of revenue debt outstanding.

We view bond provisions as weak, due to a low 1.15x rate covenant and an additional bonds test (ABT) that can include non-recurring revenue sources as part of revenues. Virginia Beach is required to maintain rates that yield net revenues equal to 115% of maximum annual debt service (MADS). Bond provisions also include a 1.15x MADS ABT and a reserve funded at MADS. The rate covenant and ABT include tap fees and connection fees as part of revenues.

### Credit highlights

Virginia Beach has a long history of conservative management and budgeting practices guided by a seasoned administration team and several operational and financial policies. These factors have led to the maintenance of strong financial metrics, which generally exceed formal polices and projections, while adopting a capital improvement plan (CIP) that addresses aging infrastructure, regulatory compliance, and resiliency. More than 97% of the sewer CIP and 81% of the water CIP are dedicated to replacing or rehabilitating aging infrastructure and technology.

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The current five-year CIP is manageable at \$263 million and we do not expect it will contribute to the weakening of its overall debt burden over the near term. The large and stable customer base with above-average incomes (given the significant military presence) and the broad and diverse Virginia Beach economy further support the rating.

The rating further reflects our opinion of the following factors:

- The system has a stable and primarily residential customer base in the Virginia Beach-Chesapeake-Norfolk metropolitan statistical area that is experiencing diverse economic development with nominal concentration among its leading customers, which account for roughly 3% of total revenues.
- Virginia Beach owns and operates an integrated water distribution and wastewater collection system that serves the entire city with ample capacity to address current customers and accommodate modest near-term growth projections.
- We believe rates are affordable and will remain manageable even after water rate increases of 5% annually in fiscal years 2027 and 2028, coupled with the receipt of a separate bill from Hampton Roads Sanitation District for wastewater treatment.
- Very strong operational and financial policies and practices include formal asset management and succession plans, proactive plans to address system and resiliency-related capital needs, and several formal fiscal policies to ensure strong and consistent financial metrics.
- Virginia Beach has historically robust all-in debt service coverage (S&P Global Ratings-calculated), at 1.4x in fiscal 2025, yet higher when calculated using rate covenant provisions, that include certain recovery fees. However, we believe coverage may moderate over the near term as the series 2026 bonds are layered on.
- Historically extremely strong liquidity, at \$133.6 million or 431 days' cash on hand in fiscal 2025, is supported by a formal policy to maintain working capital between 80%-100% of annual operating expenses.
- The very strong debt and liability profile is supported by a low debt-to-capitalization ratio of 27%. We do not expect this ratio to significantly erode following additional debt planned for fiscal 2029, which Virginia Beach has already incorporated in its six-year CIP (2026-2031). The CIP totals \$263.0 million, and remains in line with the system's formal policy requiring at least 25% of capital projects to be funded with cash from rates or reserves, or both.

## Environmental, social, and governance

Environmental, social and governance factors are credit neutral in our rating assessment. We believe that management has mitigated most of the system's environmental, social, and governance-related risks by adopting, adhering to, and adjusting its operating and financial policies and procedures. We view most of the city's other factors as on par with those of similarly rated water and sewer utilities. While we believe rates are affordable, should management raise rates far beyond projections, affordability and future flexibility could be affected. Environmental risk factors, including sea-level rise, are an elevated risk for the system, given its location on the Virginia coastline. This risk is mitigated by the city's completion of a Comprehensive Sea Level Rise and Recurrent Flooding Study, which it used to develop plans for sea-level rise mitigation and stormwater management.

## Rating above the sovereign

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The system's bonds are eligible to be rated above the sovereign because of the system's limited exposure to federal revenue. (For more information, see our criteria, "[Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#)," Nov. 19, 2013).

We believe the water and sewer system's operating expense flexibility and locally derived revenue base, which represents all system revenue, support the higher rating.

## Outlook

The stable outlook reflects our expectation that the system will maintain its very strong all-in debt service coverage and extremely strong liquidity as it manages modest customer growth projections, adopts sufficient rate increases, and manages ongoing capital needs for maintenance and operations, and resiliency- and climate-related capital projects.

### Downside scenario

We could lower the rating if cash and coverage fall to levels that are no longer commensurate with the rating. This could occur due to unforeseen operating expenditures or capital needs that surpass budget or rate increases, or if very modest customer growth and projected consumption decreases are insufficient, causing financial metrics to deteriorate.

### Virginia Beach--economic and financial data

	Most recent	Fiscal year-end			Median (AAA)
		2025	2024	2023	
<b>Economic data</b>					
MHHEBI of the service area as % of the U.S.	110.0				114.0
Unemployment rate (%)	3.1				3.4
Poverty rate (%)	7.9				10.3
Water rate (6,000 gallons or actual) (\$)	30.9				33.3
Sewer rate (6,000 gallons or actual) (\$)	33.2				37.2
Annual utility bill as % of MHHEBI	1.0				1.0
Operational management assessment	Good				Good
<b>Financial data</b>					
Total operating revenues (\$000s)		144,724	135,264	129,053	73,371
Total operating expenses less depreciation (\$000s)		113,230	114,509	93,711	53,231
Net revenues available for debt service (\$000s)		47,456	33,826	43,835	--
Debt service (\$000s)		18,996	18,941	18,879	--
S&P Global Ratings-adjusted all-in DSC (x)		1.4	1.2	1.4	2.6
Unrestricted cash (\$000s)		133,616	129,313	123,779	90,711
Days' cash of operating expenses		431	412	482	713
Total on-balance-sheet debt (\$000s)		180,832	195,064	209,951	140,491
Debt-to-capitalization ratio (%)		27.0	21.5	22.8	26.0
Financial management assessment	Good	--	--	--	Strong

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

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### Ratings List

#### New Issue Ratings

US\$26.290 mil wtr and swr sys rfdg rev bnds ser 2026B due 10/01/2041

Long Term Rating AAA/Stable

US\$85.410 mil wtr and swr sys rev bnds ser 2026A due 10/1/2051

Long Term Rating AAA/Stable

#### Ratings Affirmed

#### Water & Sewer

Virginia Beach, VA Water and Sewer System AAA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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