

Wicomico County, Maryland

General Obligation Public Improvement Bonds New Issue Report

Ratings

New Issue

General Obligation Consolidated
Public Improvement and Refunding
Bonds of 2012 AA-

Outstanding Debt

General Obligation Bonds AA-

Rating Outlook

Stable

New Issue Details

Sale Information: \$28,900,000 General Obligation Consolidated Public Improvement and Refunding Bonds of 2012, via competitive sale on Oct. 2.

Security: The full faith, credit, and taxing power of Wicomico County, subject to constraints set forth in the county charter. Revenues derived from taxes on properties shall not increase, compared with the previous year, by more than 2% or by the consumer price index for all urban consumers, whichever is lesser. New construction and funding the local board of education's budget are not subject to the charter limitations.

Purpose: Proceeds will finance the Bennett Middle School Project and refund various outstanding series of outstanding bonds to achieve debt service savings, with no extension of maturity dates.

Final Maturity: Dec. 1, 2033.

Key Rating Drivers

Ample Reserves Despite Draws: Despite three conservative years of operating deficits, the unrestricted general fund balance remained ample at \$27.63 million, or 25.2% of general fund spending at fiscal year-end 2011.

Positive Operating Variances: Conservative budgeting, an uptick in income tax revenues and increases to the income and real estate tax rates allowed the county to record multiple years of operating surpluses in fiscal years 2011 and 2012.

Diversifying Predominantly Agricultural Economy: The county has an established trend of gradual expansion and diversification within and outside of its two industrial parks, although the unemployment rate remains above the state and national averages.

Debt Burden to Remain Low: Overall debt levels are low, amortization of principal is rapid, and county officials prudently analyze capital needs alongside debt affordability.

Related Research

[Fitch Rates Wicomico County, MD's \\$28.9MM GOs 'AA-'; Outlook Stable \(September 2012\)](#)

Analysts

Evette Caze
+1 212 908-0376
evette.caze@fitchratings.com

Michael Rinaldi
+1 212 908-0833
michael.rinaldi@fitchratings.com

Rating History

Rating	Action	Outlook/ Watch	Date
AA-	Affirmed	Stable	9/21/12
AA-	Affirmed	Stable	11/10/10
AA-	Revised ^a	Stable	4/30/10
A+	Affirmed	Stable	6/12/09
A+	Affirmed	Positive	11/27/07
A+	Assigned	Stable	11/8/05

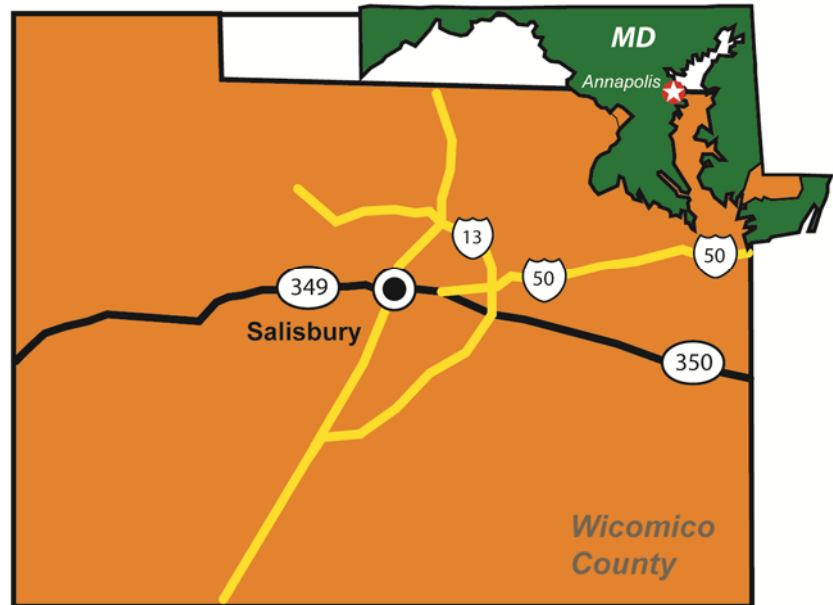
^aReflects recalibration.

Credit Profile

Conservative Budgeting and Spending Cuts Lead to Operating Surplus

In response to several years of weak revenue performance, the county continued aggressive expenditure reductions in fiscal 2011. Cost cutting included a reduction to the board of education operating budget, deferral of pension and other post-employment benefit (OPEB) contributions, overtime reductions, eliminating vacant positions, modest layoffs, furlough days, and a reduction in capital pay-as-you-go spending. Although the pension system remains very well-funded and the county has overfunded annual requirements in the past, the decision to not make the annual required contribution is viewed by Fitch Ratings as a credit negative.

Wicomico County, Maryland



Although the pension system remains very well-funded and the county has overfunded annual requirements in the past, the decision to not make the annual required contribution is viewed by Fitch Ratings as a credit negative.

The county's expenditure reductions together with an increase in income tax revenues for the first time in four years and conservative budgeting prompted a favorable operating surplus of \$4.7 million after transfers (4.3% of general fund spending). As a result, the unrestricted balance (the sum of assigned, unassigned, and committed under GASB 54) increased to \$27.6 million, or a solid 25.2% of general fund spending. The rainy day fund, which is included in the committed balance, remains funded at the policy level, equal to 5.0% of the general fund budget (\$5.7 million).

Positive Operating Results Expected for Fiscal Year-End 2012

The fiscal 2012 budget was adopted with a \$2.1 million general fund balance appropriation in addition to a one-cent tax rate increase to \$0.769 per \$100 of assessed value (AV), below the allowable rate under the charter cap of \$0.809, to help offset the continuing decline in the county's tax base. A charter imposed revenue limit, approved by county voters and effective in fiscal 2002, constrains the county's property tax revenue growth to the lesser of the consumer price index or 2%, excluding revenue from new construction and education funding.

Management expects actual year-end results will reflect an operating surplus after transfers of approximately \$6.8 million (6.5% of projected spending) due to positive budget variances. Income tax revenue came in 21% over budget reflecting positive changes in the economic condition and over distribution of payment from the state. The county has conservatively budgeted fiscal 2013 income tax receipts taken the later into account.

Related Criteria

U.S. Local Government Tax-Supported Rating Criteria (August 2012)
 Tax-Supported Rating Criteria (August 2012)

County management has acknowledged that the substantial increase in income tax revenues relative to the budget was a distribution error and has adjusted estimates for fiscal 2013.

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

	2007	2008	2009	2010	2011
Property Tax Revenue	58,063	59,221	60,328	60,211	60,530
Other Tax Revenue	52,044	50,671	45,235	41,014	42,461
Total Tax Revenue	110,107	109,892	105,563	101,225	102,991
License and Permits	1,187	1,338	1,279	1,256	1,291
Fines and Forfeits	74	249	90	55	68
Charges for Services	7,756	6,058	5,297	4,231	3,462
Intergovernmental Revenue	804	1,040	1,970	3,323	3,219
Other Revenue	3,848	4,071	1,902	3,905	2,418
General Fund Revenue	123,776	122,648	116,101	113,995	113,449
General Government	8,282	9,273	9,511	8,733	8,337
Public Safety	13,831	13,721	14,416	24,983	23,868
Public Works	813	815	762	1,009	957
Health and Social Services	3,103	3,439	3,695	3,453	3,149
Culture and Recreation	1,735	1,852	1,851	1,607	1,626
Educational	53,451	55,175	56,279	55,556	47,279
Debt Service	9,819	10,391	11,947	12,352	13,632
Other Expenditures	21,937	25,430	24,333	7,790	7,578
General Fund Expenditures	112,971	120,096	122,794	115,483	106,426
General Fund Surplus	10,805	2,552	(6,693)	(1,488)	7,023
Transfers In	161	190	317	582	683
Other Sources	97	1,195	0	0	0
Transfers Out	10,223	7,409	860	917	3,005
Net Transfers and Other	(9,965)	(6,024)	(543)	(335)	(2,322)
Net Surplus/(Deficit)	840	(3,472)	(7,236)	(1,823)	4,701
Total Fund Balance	39,524	35,583	28,285	26,364	30,899
As % of Expenditures, Transfers Out, and Other Uses	32.1	27.9	22.9	22.6	28.2
Unreserved Fund Balance	34,015	34,264	27,087	—	—
As % of Expenditures, Transfers Out, and Other Uses	27.6	26.9	21.9	—	—
Unrestricted Fund Balance ^a	—	—	—	23,074	27,628
As % of Expenditures, Transfers Out, and Other Uses	—	—	—	19.8	25.2

^aReflects GASB 54 classifications: sum of committed, assigned, and unassigned. Note: Numbers may not add due to rounding.

2013 Budget

The fiscal 2013 adopted budget is balanced, with a maximum real estate tax rate increase of 7.14 cents (\$0.84040 per \$100 of AV) and an increase to the income tax rate to the maximum rate of 3.2% (\$500,000 in additional revenue in fiscal 2013) allowed under state law and a larger \$2.62 million fund balance appropriation.

Fitch notes the budget eliminates furlough days (\$424,797 in savings in 2012) for the first time in four consecutive years, funds a 2% pay raise (\$448,000 cost to the general fund), and allocates funding for capital infrastructure projects for the first time since 2008. The county reports that it retains options to raise revenue, which includes increasing the recordation tax rate, imposing a transfer tax, increasing fees or increasing the real property tax rate for education funding, as education funding is not subject to the revenue cap.

Rural Local Economy

The county is located on the Delmarva Peninsula in southeastern Maryland and is home to an estimated 2011 population of 99,190. While a large portion of the county remains undeveloped (82%), agriculture, higher education, and healthcare provide a solid foundation for the economy. The county is home to the corporate headquarters of Perdue Farms Inc., which is the county's third largest employer employing approximately 3% (approximately 1,300 employees) of the labor force. Salisbury University and Wor-Wic Community College are located in the county, with a combined student enrollment of over 10,000. Peninsula Medical Center, the county's largest employer (6% of labor force), recently completed a \$100 million expansion that includes a new emergency trauma center, expansion of the cancer center, and other services.

While growth in the employment base has exceeded the state and national average, it has not kept up with the growth in the labor force. Therefore, the county's unemployment rate continues to exceed the state and national average and as of June 2012 the rate was 8.7%. Wealth indicators are fairly in line with national averages but are well below state averages driven by high wealth counties around the Washington, D.C. area.

Favorable Debt Profile

Overall debt levels are moderately low at roughly \$1,113 per capita and 1.8% of market value, and amortization is rapid at 76% in 10 years. The county's fiscal years 2013–2017 capital improvement plan totals \$130.3 million. The county requirement totals \$60.9 million after the current issuance, of which \$21.4 million is directly associated with completion of major school construction projects that must be funded. The balance of the project schedules and funding will be evaluated annually as part of the overall capital investment analysis.

Pension and OPEB Well Funded

The county provides a single employer retirement system. After reaching a funded ratio of 100% (95% after adjusting the internal rate of return [IRR] to 7.00% from 7.75%) in 2007, the county only funded a modest amount of the annual required contribution (ARC) in 2010 (\$402,000, or 26% of the ARC) and 2011 (\$197,000, or 14% of the ARC), and a higher contribution (\$1.6 million, or 83% of the ARC) in 2012, which reduced the funded ratio to a still-strong 89% (84% after adjusting the IRR to 7% from 7.75%). The fiscal 2013 budget includes a \$1.5 million contribution (1.3% of budgeted 2013 spending) for pension costs which is below the \$1.9 million ARC but is expected to maintain the funded ratio at approximately 90%.

Beginning in fiscal 2013, the state will shift the liability for teachers' pension costs to local governments over a four-year phase-in process. The state is expected to offset the majority of the costs, with increases in various revenue streams such as income tax. For fiscal 2013, with

Debt Statistics

(\$000)	
This Issue	28,895
Outstanding Direct Debt – Net of Refunding	80,873
Total Net Direct Debt	109,768
Overlapping Debt	619
Total Overall Debt	110,387
Debt Ratios	
Net Direct Debt Per Capita (\$) ^a	1,107
As % of Assessed Value ^b	1.8
Overall Debt Per Capita (\$) ^a	1,113
As % of Assessed Value ^b	1.8

^aPopulation: 99,190 (2013). ^bAssessed value: \$6,171,540,000 (2013). Note: Numbers may not add due to rounding.

the continuing state grant of \$1.57 million, plus the estimated value of other state-generated revenue enhancements the net effect is expected to be zero.

After several years of funding over the pay-as-you-go amount of OPEB costs and fully funding the ARC in 2008, the county only contributed a total of \$198,070 between 2010 and 2012 (compared to an annual ARC of \$1.4 million) due to budget constraints attributable to the recession and reductions in state revenue. The 2013 budget includes a \$1.4 million contribution to OPEB, which represents 54% of the 2012 ARC and a manageable 1.2% of 2013 budgeted spending.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Copyright © 2012 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.