STANDARD & POOR'S
RATINGS SERVICES

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Summary:

Wicomico County, Maryland; General Obligation

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Credit Profile		
US$28.895 mil GO bnds ser 2012 due 06/30/2034		
Long Term Rating	AA-/Stable	New
Wicomico Cnty GO		
Long Term Rating	AA-/Stable	Affirmed
Wicomico Cnty GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating and stable outlook to Wicomico County, Md.'s series 2012 general obligation (GO) consolidated public improvement and refunding bonds and affirmed its 'AA-' rating, with a stable outlook, on the county's existing GO debt.

The rating reflects our opinion of the county's:

- Local economy that continues to expand and diversify but remains largely agricultural;
- Healthy and stable long-term property tax-base growth, offset, in part, by assessed value (AV) decreases over the past two fiscal years with no concentration among leading taxpayers;
- Good finances with strong general fund reserves even after sizable drawdowns in three of the past four audited fiscal years due to economic conditions and a property tax limitation imposed by county charter;
- Conservative management practices, coupled with strong, well-embedded fiscal policies; and
- Low debt and rapid amortization.

We believe recent AV decreases that county officials expect to continue at a modest rate at least through fiscal 2016 and, what we consider, the county's above-average unemployment of 8.6% somewhat mitigate these strengths.

The county's full-faith-and-credit pledge secures the bonds. Officials intend to use bond proceeds to fund school system capital projects and refund certain previously issued GO bonds.

Wicomico County, with a population estimate of 99,190, is on Maryland's eastern shore. Salisbury, the county seat, accounts for an estimated 40% of the county's population and serves as the Delmarva Peninsula's economic and cultural center. While agriculture, mainly poultry production, remains the county's most prominent economic activity, gradual but consistent business growth and diversification have occurred. Medical, manufacturing, retail, and service sectors growth has aided employment and property tax base expansion. Development, however, has slowed over the past few years due to the national economic and housing downturn. In our opinion, long-term economic growth should continue since a relatively small portion (13.3%) of the county is developed. About 33.2% of county land is designated for agriculture and 41.3% is either forestland or vacant.

Leading employers include:

- Peninsula Regional Medical Center (3,300 employees), which is consistently rated as one of the nation's 100 leading hospitals;
- The Centre at Salisbury (2,500), a shopping mall;
- Perdue Inc. (1,800), a poultry processing center and the company's corporate headquarters; and
- Labinal Salisbury (800), an electronics manufacturing company formerly known as Harvard Custom Manufacturing.

Unemployment is above state and national rates; in June 2012, unemployment was 8.6% compared with the state's 7.1% and the nation's 8.2%.

The property tax base demonstrated, in our view, very strong growth from fiscal years 2000-2010. AV increased by 118% during the 10-year period to a high $7.7 billion in fiscal 2010. Management attributes strong AV growth to residential price appreciation and strong new residential and commercial permit growth. Since fiscal 2010, AV has decreased due to the recession and home value decreases. Specifically, AV has decreased by 14.3% over the past three fiscal years to $6.7 billion in fiscal 2013. The county assesses property at 100% of market value. Despite the decreases, market value remains, in our opinion, a strong $66,539 per capita. Leading taxpayers account for a very diverse 4.7% of AV. Median household and per capita effective buying incomes are, in our view, a good 94% and 92%, respectively, of national averages.

Finances have historically been, in our opinion, strong. In our view, they remain strong despite some general fund reserve drawdowns due primarily to the national recession and decreases in economically sensitive revenue.

The fiscal 2013 budget reflects increases in economically sensitive revenue, including increased income tax receipts. In addition, county officials increased income and property tax rates; specifically, they increased the income tax rate by one-tenth of 1% to the maximum 3.2% allowed by state law and the property tax rate by 7.14 cents per $100 of AV from 76.9 cents-84.04 cents, the maximum permitted by county charter. Due to these revenue increases, the county passed a $116.8 million fiscal 2013 budget that represents a 7.9% increase, or $8.5 million, over the fiscal 2012 budget. The budget includes restoring contributions to pension and other postemployment benefits (OPEB) and $2.4 million in pay-as-you-go capital expenses. Management has conservatively appropriated $2.6 million of general fund balance in fiscal 2013, which it almost entirely attributes to budgeted pay-as-you-go capital expenditures.

Management indicates unaudited fiscal 2012 results came in substantially better than budgeted due primarily to income taxes coming in 21% above the budget, or a $7.1 million positive variance, coupled with, what we regard as, conservative budgeting on expenses, which came in about 3% underbudget. Management indicates employment grew much faster than it had expected, coupled with a yield from income tax receipts that was significantly higher than forecast, which led to a large positive variance in income tax revenue. Due to the strong year, the county increased available fund balance by roughly $6.8 million to a total of $25.9 million, or, what we view as, a strong 24.6% of operating expenses.

During the three fiscal years before fiscal 2011, the county experienced larger-than-expected decreases in local income taxes and other economically sensitive revenue. These revenue shortfalls led to three consecutive years of general fund drawdowns. Management, however, took a number of measures to reduce expenses, including implementing a furlough plan for employees and hiring and salary freezes, deferring funding to its pension and OPEB trust funds, and eliminating pay-as-you-go capital expenditures. These expenditure reductions substantially closed the budget gap by fiscal 2010. In fiscal 2011, the county closed the year with a $4.7 million general fund surplus. Management attributes the fiscal 2011 surplus to expenditure reductions and conservative expenditure estimates with actual expenses coming in $3.4 million underbudget, as well as income taxes coming in 5.3%, or $2 million, overbudget. The county closed fiscal 2011 with a $30.9 million fund balance: $17.7 million, or, in our opinion, a strong 16.6% of expenditures, of which was unassigned. Available fund balance was $19.1 million, or, in our view, a strong 18% of expenditures.

Property and local income taxes generate 52% and 37%, respectively, of general fund revenue. Current property tax collections average more than 98%. A county property tax revenue cap that limits tax revenue increases to the lesser of the Consumer Price Index or 2% and that indirectly limits personal property tax growth somewhat constrains real property tax and personal property tax revenue.

Standard & Poor's revised its view of Wicomico County's financial management practices to "strong" from "good" under its Financial Management Assessment (FMA) methodology due to a better understanding of the county's debt management policy that specifies debt affordability guidelines. An FMA of "strong" indicates practices are strong, well embedded, and likely sustainable. Other highlights include management's five-year rolling capital improvement plan (CIP) tied to the operating budget that identifies all revenue sources. Investment policies mirror state policies with management sharing all data with the county board monthly. In addition, the county's reserve policy includes a fully funded rainy day fund set at 5% of the general fund budget.

Following this issuance, overall net debt is, in our opinion, a low $1,400 per capita, or 2.1% of market value. We consider debt amortization rapid with officials planning to retire nearly three-fourths of principal over 10 years. Debt service carrying charges were 11.5% of 2011 expenditures, a level we view as moderate. The 2013-2017 CIP is, in our opinion, a large but manageable $130.3 million. The bulk of the five-year CIP is for school expansion and renovations, and officials allot the remaining balance for various projects. The county expects to fund approximately 50% of the CIP through bonding; approximately 40% through state, federal, and private sources; and the remainder through pay-as-you-go financing. The county has curtailed its capital program over the past few years due to the adverse effect of the recent recession and state budget actions on revenue. As such, we expect the county to maintain, what we consider, its low debt and faster-than-average amortization schedule.

The county provides pension and retirement benefits for its employees through a group pension disbursement contract with Aetna Life Insurance Co. and an investment manager contract with Croft Leominster Inc. The county had deferred funding to the pension trust in fiscal years 2010 and 2011 and partially funded the pension trust in fiscal 2012. It is our understanding management expects to restore its contributions to the pension trust fund fully in fiscal 2013. For fiscal 2011, the annual required contribution was $3.2 million. Nonetheless, the county's pension plan was 94% funded as of June 30, 2011. Historically, the county has funded OPEB through pay-as-you-go financing. The county, however, deferred contributions to the OPEB trust fund in fiscal years 2010, 2011, and 2012. We understand management expects to restore its contributions to the OPEB trust fund fully in fiscal 2013. As of June 30, 2011, the OPEB unfunded actuarial liability was $21.7 million and the funded ratio was 25%.

Outlook

The stable outlook reflects Standard & Poor's opinion of Wicomico County's large, diverse, and growing economy. The outlook also reflects our opinion that management will likely continue to conservatively manage its budget in response to economic conditions and maintain its strong finances. We believe the county's strong financial management practices and policies should help support the county's strong financial performance. While the county's CIP remains sizable, it is our opinion overall debt will likely remain close to current levels due to the county's above-average amortization, providing additional rating stability. As such, we do not currently expect to change the rating within the outlook's two-year period.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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