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Summary:

Wicomico County, Maryland; General Obligation

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Credit Profile

US\$20.3 mil pub imp bnds ser 2016 due 11/01/2031

Long Term Rating

AA+/Stable

New

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Wicomico County, Md.'s series 2016 general obligation (GO) public improvement bonds and affirmed its 'AA+' rating, with a stable outlook, on the county's existing GO debt.

The county's full-faith-and-credit pledge secures the bonds subject to the county's self-imposed limitation on property tax increases for properties existing on the county real property tax roll prior to July 1, 2001. Wicomico County's tax limitation on properties already on the tax roll as of July 1, 2001 states that revenues derived from real property taxes can increase by the lesser of 2%, or by a CPI, relative to the previous year. Management intends to use bond proceeds to finance various county and school projects.

The rating reflects our opinion of the following factors for the county:

- Adequate economy, that has a large agricultural component and is anchored by a number of large stabilizing institutions, including Salisbury University and the University of Maryland-Eastern Shore;
- Strong budgetary performance, including results for fiscal 2015, which closed with an operating surplus in the general fund, albeit with an operating deficit at the total governmental fund level in fiscal 2015 due primarily to pay-go capital spending, in addition to an expected surplus in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 38% of operating expenditures, after accounting for committed reserves that with council approval could be used for general expenses, in addition to available reserves at the end of fiscal 2016 equaling nearly 45% of expenditures according to unaudited results;
- Very strong liquidity, with total government available cash at 58.2% of total governmental fund expenditures and 6.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Strong debt and contingent liability profile, with debt service carrying charges at 8.9% of expenditures and net direct debt that is 95.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 65.6% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Adequate economy

We consider Wicomico County's economy adequate. The county has an estimated population of 101,614. The county benefits, in our view, from a stabilizing institutional influence. The county has a projected per capita effective buying income of 93.1% of the national level and per capita market value of \$60,380. Overall, the county's market value grew by 0.6% over the past year to \$6.1 billion in 2017. The county unemployment rate was 6.8% in 2015.

The county is on Maryland's eastern shore. The City of Salisbury, the county seat, accounts for an estimated 40% of the county's population; the city serves as the Delmarva Peninsula's economic and cultural center. While agriculture, mainly poultry production, remains the county's most prominent economic activity, there has also been gradual, but consistent, business growth and diversification. Medical, manufacturing, retail, and service sector growth has aided employment and property tax base expansion. Nonetheless, nearly one-third of county land is agricultural, and more than 39% is either forest land or vacant.

A number of stabilizing institutions anchor the county, including:

- Wor-Wic Community College (10,000 students);
- Salisbury University (an estimate of more than 8,700); and
- The University of Maryland-Eastern Shore (4,200).

In addition, Perdue Foods (1,600 employees) maintains its headquarters in the county. Furthermore, Peninsula Regional Medical Center (2,900 employees) is consistently rated one of the nation's 100 leading hospitals.

The property tax base demonstrated, in our view, very strong growth from fiscal years 2000-2010. Assessed value (AV) increased by 118% during the 10-year period to \$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 decreased home values. It has decreased by 19% in the past five fiscal years to \$6.1 billion for fiscal 2017. The county assesses property at 100% of market value. Despite the decreases, market value per capita remains strong in our view.

Strong budgetary performance

Wicomico County's budgetary performance is strong in our opinion. The county had surplus operating results in the general fund of 2.8% of expenditures, but a deficit result across all governmental funds of 4.5% in fiscal 2015 due primarily to pay-go capital spending. General fund operating results of the county have been stable over the last three years, with a result of 2.0% in 2014 and a result of 3.8% in 2013.

The county's budget for fiscal 2017 totaled \$135.0 million, which was a 4.6% increase from the previous year's budget, and included \$6.0 million for one-time costs, which is consistent with prior years. The tax rate increased very slightly for the year to \$0.9520 for fiscal 2017 from \$0.9518 per \$100 of AV. We understand that management expects to end the year with close-to-breakeven operations due to very conservative budget estimates. As such, we expect Wicomico's budgetary performance to remain strong.

For fiscal 2016, management budgeted the use of \$6.2 million for one-time costs. However, primarily due to very conservative budget estimates, it is our understanding that unaudited results for fiscal 2016 show an \$8.9 million surplus. Specifically, general fund revenues came in \$8.8 million above budget, while expenses came in about \$6.2 million below budget. Income taxes, in particular, came in 17.7% above budget primarily due to very low unemployment numbers in the county.

For fiscal 2015, Wicomico generated a \$3.6 million surplus despite appropriating \$5.7 million of the fund balance for one-time purposes. Revenues came in well above budget while expenditures came in below budget. Management increased the property tax rate to 95.16 cents for fiscal 2015 from 90.8 cents in fiscal 2014.

The county has a diverse revenue stream, led by property and income taxes that generate about 48% and 36%, respectively, of general fund revenue.

Very strong budgetary flexibility

Wicomico County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 38% of operating expenditures, or \$48.5 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The county has a history of maintaining what we consider very strong available general fund balances after accounting for committed reserves available for operating expenses following council approval. Committed reserves consist of the 5% rainy-day fund that the county maintains, according to its fund balance policy, as well as reserves appropriated in subsequent fiscal years for one-time, nonrecurring expenditures.

Unaudited fiscal 2016 results indicate available reserves increased by \$8.9 million. As such, we expect total available reserves, including committed reserves, to equal nearly \$58 million at the end of fiscal 2016, or close to 45% of expenditures.

For fiscal 2017, we understand management budgeted to use \$6.0 million of reserves for one-time capital expenditures. Nevertheless, given management's history of very conservative budgeting, we expect the county to end the year with close-to-breakeven results and with total available reserves remaining very strong.

Despite having very strong budgetary flexibility, Wicomico, in our opinion, has somewhat limited revenue-raising flexibility. Most of its general fund revenues are derived from property and income taxes, which generate 48% and 36% of revenues, respectively. The county maintains a self-imposed limitation on property tax increases, which states that revenues derived from real property taxes can increase by the lesser of 2%, or by CPI, relative to the previous year for properties on the tax roll prior to July 1, 2001. However, under certain circumstances, the county may raise property tax revenues above this limit if it is for education purposes. In addition, it currently levies at the maximum 3.2% income tax rate. Nevertheless, it does have some revenue-raising flexibility in the form of management's ability to increase fees, increase its recordation tax, or impose a transfer tax or a rain tax for stormwater management.

Very strong liquidity

In our opinion, Wicomico County's liquidity is very strong, with total government available cash at 58.2% of total governmental fund expenditures and 6.6x governmental debt service in 2015. In our view, the county has strong access to external liquidity if necessary.

The county maintains most of its cash and equivalents in the Maryland Local Government Investment Pool. We understand that it does not have any alternative financings that could materially alter its liquidity position. And there is no indication that the county's liquidity position will deteriorate in the near term.

Very strong management

We view the county's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights of the county's financial practices include:

- Historically conservative budgeting that consistently underestimates general fund revenues and overestimates expenses,
- Bi-monthly budget updates including budget to actuals that are provided to council,
- A formal debt management policy that maintains debt affordability ratios,
- Long-term financial projections that extend out five years and are updated annually,
- A five-year rolling capital improvement plan (CIP) tied to the operating budget that identifies all revenue sources,
- Investment policies that mirror state policies with management sharing all data with the county council on a monthly basis,
- A formalized reserve policy that includes a fully funded rainy day fund set at 5% of the general fund budget.

Strong debt and contingent liability profile

In our view, Wicomico County's debt and contingent liability profile is strong. Total governmental fund debt service is 8.9% of total governmental fund expenditures, and net direct debt is 95.6% of total governmental fund revenue. Overall net debt is low at 2.1% of market value, and approximately two-thirds of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The fiscal years 2017-2021 CIP is, in our opinion, manageable at \$118.5 million. The bulk of the five-year CIP is for general government purposes as well as school expansion and renovations. The county expects to fund approximately 17% of the CIP through bonding; it also intends to fund approximately 47% through state, federal, and private sources. The remaining one-third of funding will likely come from pay-as-you-go financing.

Wicomico County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.7% of total governmental fund expenditures in 2015. Of that amount, 1.4% represented required contributions to pension obligations, and 3.3% represented OPEB payments. The county has made the full annual required pension contribution in each of the last three years.

The county provides pension and retirement benefits for general and public safety employees through a group pension disbursement contract with Aetna Life Insurance Co. and an investment manager contract with Croft Leominster Inc. The county deferred funding to the pension trust in fiscal years 2010 and 2011; however, it restored full funding to the pension trust in fiscal 2013, as well as in fiscal years 2014 and 2015. As of July 1, 2016, the pension plan was 82% funded. Wicomico's proportionate share of the net pension liability totals \$6.6 million, assuming a 7.75% discount rate.

Historically, the county has funded OPEB through pay-as-you-go financing. However, it deferred contributions to the OPEB trust fund in fiscal years 2010, 2011, and 2012. We understand that management fully restored contributions to the OPEB trust fund in fiscal 2013. In fiscal 2015, the county contributed \$1.5 million to the trust fund, as well as \$3.2 million of retiree claim costs, for a total of \$4.7 million in OPEB contributions. As of July 1, 2016, the unfunded OPEB obligation totaled \$21.3 million; it was 47.3% funded. We understand that management plans to continue paying down the OPEB unfunded actuarial liability and projects that by fiscal 2029 the county's OPEB liability will be 89% funded.

Very strong institutional framework

The institutional framework score for Maryland counties is very strong.

Outlook

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

Upside Scenario

We could raise the rating if Wicomico's economic metrics were to significantly improve such that the county's economic profile was commensurate with that of other 'AAA' rated municipalities, coupled with the maintenance of its strong financial position, including strong budgetary flexibility and liquidity.

Downside Scenario

The rating could be negatively pressured if the county were to experience unexpected and significant financial distress, leading to significantly reduced budgetary flexibility and liquidity levels.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of October 28, 2016)		
Wicomico Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Wicomico Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Wicomico Cnty GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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