Wicomico County, Maryland

New Issue Report

Ratings

Long-Term Issuer Default Rating	AA
New Issue	
$20,540,000 General Obligation Consolidated Public Improvement and Refunding Bonds, Series 2017	AA
Outstanding Debt	
General Obligation Bonds	AA

Rating Outlook

Stable

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New Issue Summary

Sale Date: December 6

Series: General Obligation Consolidated Public Improvement and Refunding Bonds, Series 2017

Purpose: To finance certain general service and road projects for Wicomico County (the county), fund a school capital project, and refund certain outstanding county bonds.

Security: The bonds are backed by the full faith, credit, and taxing power of the county but are subject to tax limitation constraints set forth in the county's 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 less. New construction and funding the local board of education's budget are not subject to the charter limitations.

Analytical Conclusion

The 'AA' Issuer Default Rating (IDR) reflects the county's sound level of expenditure flexibility, expectations for limited revenue growth over the near term, low long-term liability burden and exceptionally strong gap-closing capacity.

Centrally located on the Delmarva Peninsula, Wicomico County is at the intersection of U.S. Routes 13 and 50, the two major trans-peninsular highways. The county is 115 miles from both Washington, D.C. and Baltimore. With a 2016 population of 102,577, the county's population has increased by an average annual rate of less than 1% since 2010, which somewhat reflects its rural and undeveloped nature.

Key Rating Drivers

Revenue Framework: 'aa'
Revenues have been rising at a pace below inflation due to a combination of the county charter's limitation on property tax revenue growth and recent sizable assessed value (AV) declines. The county's independent legal ability to raise revenues is strong despite the charter limitation when considered relative to modest expected revenue sensitivity to an economic downturn.

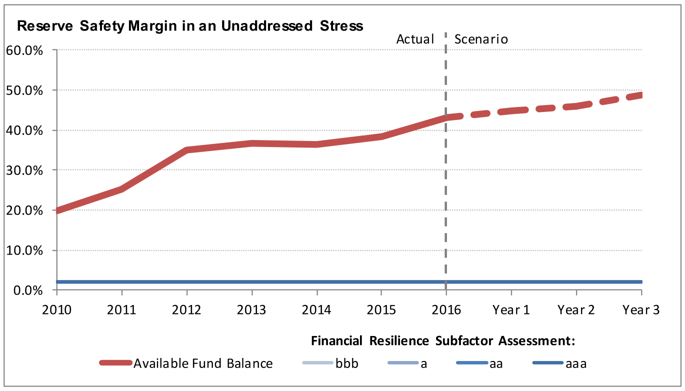
Expenditure Framework: 'aa'
Education drives the county's spending needs, and any reduction would require approval from the state. Nevertheless, the county's ability to make spending cuts when needed is solid. Carrying costs related to debt and pensions are moderate.

Long-Term Liability Burden: 'aaa'
The county's liability burden is low, and debt amortization is rapid. The long-term liability burden is expected to remain modest given minimal additional debt plans.

Operating Performance: 'aaa'
The 'aaa' operating performance assessment reflects the county's ample gap-closing capacity relative to Fitch Ratings' expectations of revenue sensitivity to economic cycles, with a solid level of spending flexibility supplemented by a large reserve cushion.

Wicomico County (MD)

Scenario Analysis v. 2.0 2017/03/24



Analyst Interpretation of Scenario Results:

Given Fitch's assessment of the county's inherent budget flexibility as superior, with strong control over revenues and moderate spending flexibility, Fitch expects the county to manage through economic downturns while maintaining a high level of fundamental financial flexibility. Reserves are expected to remain well above the policy floor of 5%.

The unrestricted general fund balance of $53.9 million at fiscal year-end 2016 was a high 43% of spending. The county ended the year with a $7 million operating surplus, well ahead of the $6 million budgeted appropriated fund balance. Preliminary fiscal 2017 year-end general fund operating results shows a $1.7 million operating surplus compared to a $6 million fund balance appropriation. Strong income tax revenue and underspending of the budget contributed to positive operating results relative to budget.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	1.5%	3.6%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2010	2011	2012	2013	2014	2015	2016	Year 1	Year 2	Year 3
Total Revenues	113,995	113,449	113,345	117,327	123,635	129,758	131,980	130,660	132,660	137,453
% Change in Revenues	-	(0.5%)	(0.1%)	3.5%	5.4%	5.0%	1.7%	(1.0%)	1.5%	3.6%
Total Expenditures	115,483	106,426	101,286	106,598	113,095	120,810	119,212	121,596	124,028	126,508
% Change in Expenditures	-	(7.8%)	(4.8%)	5.2%	6.1%	6.8%	(1.3%)	2.0%	2.0%	2.0%
Transfers In and Other Sources	582	683	512	501	484	-	-	-	-	-
Transfers Out and Other Uses	917	3,005	4,437	6,917	8,635	5,356	5,746	5,861	5,978	6,098
Net Transfers	(335)	(2,322)	(3,925)	(6,416)	(8,151)	(5,356)	(5,746)	(5,861)	(5,978)	(6,098)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	(1,823)	4,701	8,134	4,313	2,389	3,592	7,022	3,203	2,654	4,847
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(1.6%)	4.3%	7.7%	3.8%	2.0%	2.8%	5.6%	2.5%	2.0%	3.7%
Unrestricted/Unreserved Fund Balance (General Fund)	23,074	27,628	37,092	41,722	44,360	48,453	53,968	57,171	59,825	64,672
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	23,074	27,628	37,092	41,722	44,360	48,453	53,968	57,171	59,825	64,672
Combined Available Fund Bal. (% of Expend. and Transfers Out)	19.8%	25.2%	35.1%	36.8%	36.4%	38.4%	43.2%	44.9%	46.0%	48.8%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	10/31/17
AA	Affirmed	Stable	10/28/16
AA	Upgraded	Stable	11/25/14
AA–	Revised	Stable	4/30/10
A+	Affirmed	Stable	6/12/09
A+	Affirmed	Positive	11/27/07
A+	Affirmed	Stable	12/10/03
A+	Assigned	—	1/28/02

Rating Sensitivities

Improvement in Revenue Growth: The IDR and GO bond rating assume continued slow revenue growth. Sustained improvement in organic revenue growth with continued low volatility could put positive pressure on the rating.

Credit Profile

The local economy has a deep history of poultry production and manufacturing, and most of its land area is undeveloped (39%) or designated as agricultural (31%). Perdue is headquartered in the county, employs about 1,600 and is the third-largest private employer in the county and the seventh-largest taxpayer. Education and healthcare are also important economic sectors. Salisbury University employs approximately 1,800 and Wor-Wic Community College 700, or together about 6% of the labor force. Peninsula Regional Medical Center, the county's largest employer (2,900 employees) and a full-service hospital, is one of the primary care facilities for Maryland's Eastern Shore. The county's unemployment rate was above the national average through the Great Recession and remains above the U.S. level but continues to decline.

Revenue Framework

The county relies on a combination of property and income tax revenues, which equaled 47% and 37% of general fund revenues, respectively, in fiscal 2016.

The county's general fund revenue growth trended below the rate of inflation on a compound average annual (CAGR) basis over the 10 years ended in fiscal 2016. The county's AV CAGR for the same period was above the rate of inflation, and management expects similar growth trends over the next triannual reassessment. The expanding employment base has led to very recent robust growth in income tax revenues; evidence of a growth trend could affect Fitch's view of overall revenue growth prospects.

Fitch considers the county's ability to increase revenues to be high relative to limited revenue sensitivity in an economic downturn, as depicted by the Fitch Analytical Sensitivity Tool. A charter-imposed revenue limit, approved by county voters and effective in fiscal 2002, constrains the county's ability to raise property tax revenues annually to the lesser of the CPI or 2%, excluding revenue from new construction. Credit concerns about this constraint are somewhat offset by the county's ability to increase property tax revenue above the cap for educational operating purposes with county council approval. Otherwise, the tax revenue cap can only be exceeded or changed by voter referendum. In addition, the county currently levies income taxes at the maximum rate of 3.2%. The county gains additional flexibility from the ability to increase fines fees and the recordation tax rate and to impose a transfer tax, none of which are subject to a cap.

Expenditure Framework

The county's largest expenditure is education, at roughly 39% of general fund expenditures, followed by public safety at 15%.

Fitch expects the natural pace of spending growth to remain below or in line with revenue growth, as modest population growth should result in limited increases in expenditure demands.

Moderate carrying costs and adequate flexibility to manage labor-related costs allow the county solid spending flexibility. According to the state maintenance of effort mandate, education spending cannot decline from year to year without approval from the state. In response to declining general fund revenues during the recession, the county was granted approval to reduce spending on education for fiscal years 2010–2012.

Related Research
Fitch Rates Wicomico County's (MD) $20.54MM GOs 'AA'; Outlook Stable (October 2017)

Related Criteria
U.S. Public Finance Tax-Supported Rating Criteria (May 2017)

The county council has adopted legislation permitting collective bargaining with deputy sheriffs (approximately 10% of county staff) that includes binding arbitration. A collective bargaining agreement was executed for July 1, 2016 through June 30, 2021. The majority of county employees are not unionized, providing substantial control over work force costs.

The county's fixed cost burden is affordable, with carrying costs for debt, pensions (including the normal cost for teachers' pensions) and OPEB equaling 15% of fiscal 2016 governmental expenditures, with debt service accounting for 9%.

Long-Term Liability Burden

Overall net debt plus the county's unfunded pension liability equals approximately 4% of personal income. Debt amortization is rapid, with 65% of principal retiring in 10 years. The county's $109.2 million capital improvement plan includes a modest $47 million in additional bonds over the next five years. Given the amortization rate and minimal amount of additional debt, the county's long-term liability burden is expected to remain low.

The county's single-employer retirement system has historically been well funded. The plan was 82% funded as of June 30, 2016. Funded levels are an estimated 71% using Fitch's 6% investment rate of return. However, the county reduced the interest rate of return to 7.25% from 7.75% during the 2016 valuation process, which is reflected in an increase in the net pension liability of more than $6.8 million. The county has overfunded the actuarially required contribution (ARC) or actuarially determined contribution (ADC) under GASB 68 for four years after suspending contributions during the economic downturn. Management expects to continue to overfund the ADC until the plan is 100% funded using an assumed 7.25% investment rate of return. The fiscal 2016 contribution of $1.4 million was $534,326 over the ADC.

The county overfunded its OPEB actuarial contributions in fiscal years 2013–2016, including a fiscal 2016 contribution of $5.4 million, which represented 161% of the ARC. The county's OPEB liability was 40% funded as of July 1, 2016. Management plans to continue overfunding until the plan reaches an 80% funded ratio.

Operating Performance

Given Fitch's assessment of the county's inherent budget flexibility as superior, with strong control over revenues and moderate spending flexibility, Fitch expects the county to manage through economic downturns while maintaining a high level of fundamental financial flexibility. For details, see Scenario Analysis, page 2.

The county proved its expenditure flexibility through the most recent recession by suspending salary increases, reducing pension and OPEB contributions to below the ARC, reducing spending on education, freezing capital spending, reducing staff through attrition and offering a retirement incentive, among other tactics. Fitch expects the county to make similar operational changes as needed during another economic downturn.

The fiscal 2018 budget is a 6% ($8 million) increase over fiscal 2017 levels and includes an approximately $9.6 million fund balance appropriation, higher than the $6 million appropriation in fiscal 2017; however, the tax rate has been reduced. Some of the budget increases included a 2% COLA for county employees, an additional $800,000 for capital pay-as-you-go and $1.5 million in increased board of education funding. Based on the county's strong financial history, Fitch expects operations to be balanced and reserve levels to remain within the reserve policy, which should keep gap-closing capacity exceptionally strong.

The ratings above were solicited and assigned or maintained at the request of the rated entity/Issuer or a related third party. Any exceptions follow below.