

# Wicomico County, Maryland

## General Obligation Bonds New Issue Report

### Ratings

#### New Issue

General Obligation Public  
Improvement Bonds of 2013 AA-

#### Outstanding Debt

General Obligation Bonds AA-

### Rating Outlook

Stable

### New Issue Details

**Sale Information:** \$12,500,000 General Obligation Public Improvement Bonds of 2013, selling competitively on Oct. 15.

**Security:** The bonds are secured by the full faith, credit and taxing power, subject to constraints set forth in Wicomico County's (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:** To finance the construction of Bennett Middle School and renovation of Parkside High School.

**Final Maturity:** Oct. 1, 2033.

### Key Rating Drivers

**Strong Fiscal Management:** Timely revenue enhancements and conservative budgeting have resulted in positive operating results, ample reserve levels and strong liquidity.

**Below-Average Economic Profile:** The county is the economic and commercial center for the lower eastern shore region of Maryland; however, key economic metrics remain stressed and below state and national norms.

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

### Rating Sensitivities

**Continued Strong Financial Pressure:** The rating is sensitive to shifts in fundamental credit characteristics, including the county's strong financial management practices. The Stable Rating Outlook reflects Fitch Ratings' expectation that such shifts are unlikely.

### Related Research

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

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Rating History

Rating	Action	Outlook/ Watch	Date
AA-	Affirmed	Stable	9/30/13
AA-	Affirmed	Stable	9/21/12
AA-	Affirmed	Stable	11/10/10
AA-	Revised	Stable	4/30/10
A+	Affirmed	Stable	4/9/10
A+	Affirmed	Stable	11/24/09
A+	Affirmed	Stable	6/12/09
A+	Affirmed	Stable	12/8/08
A+	Affirmed	Stable	11/27/07
A+	Affirmed	Stable	9/27/06
A+	Affirmed	Stable	11/8/05
A+	Affirmed	Stable	9/1/04
A+	Assigned	Stable	12/10/03

Credit Profile

The county is located on the Delmarva Peninsula in southeastern Maryland and had an estimated 2012 population of 100,647.

Conservative Budgeting and Revenue Enhancements Lead to Operating Surpluses

In fiscal 2012, the county prudently increased the property tax rate and continued to make expenditure reductions to offset revenue pressures stemming from ongoing decline in taxable assessed value (TAV). As a result, the county realized a notable \$8.1 million (7.7% of spending) operating surplus after transfers, increasing the unrestricted balance to \$37 million, or an ample 35.1% of general fund spending. The rainy day fund, which is included in the unrestricted balance, remains funded at the policy level, equal to 5% of the general fund budget (or \$5.8 million).

Officials expect to increase the county's financial cushion in fiscal 2013 with a \$2.8 million surplus (2.5% of spending), which would mark the third consecutive year of positive year-end results. Favorable operations are due to conservative budgeting and revenue enhancements made during the budgeting process.

Diverse Revenue Stream

The county derives the majority of its revenues from property taxes (52%). 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 CPI or 2%; new construction and funding the local board of education's budget are not subject to the charter limitations. The county increased the property tax rate in fiscal years 2013 and 2014 to the maximum rate allowable under the charter.

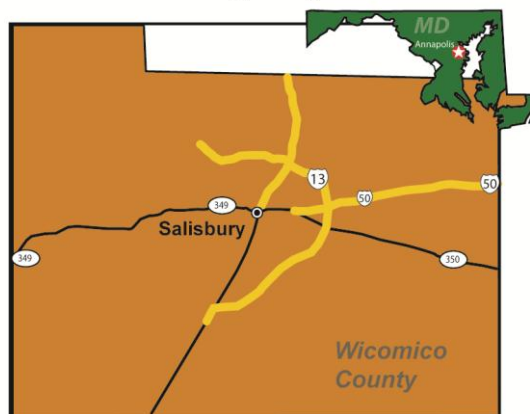
Income tax revenue accounts for 37% of revenues. Income tax revenues showed a positive trend over the past three fiscal years, but estimated fiscal 2013 results show a 3% decline due to an overdistribution in fiscal 2012 from the state and continued strained economic conditions. Fitch notes the county implemented a midyear increase to the income tax rate to the maximum rate of 3.2% on Jan. 1, 2013.

The county reports that it retains options to raise revenue, which includes increasing the recordation tax rate, imposing a transfer tax, increasing fees and/or increasing the real property tax rate for education funding, which accounts for the bulk of general fund spending at approximately 40% (education funding is not subject to the revenue cap). Despite recent increases to the property tax rate, rates remain competitive.

Fiscal 2014 Budget Balanced

The 2014 budget reflects a 9% increase (\$11 million) in expenditures year over year. To fund the increase, the county again increased the real property tax rate to the maximum rate allowed under the charter and increased the appropriated fund balance by \$1.9 million. Also, the county will realize the full-year effect of the 0.1% income tax rate increase (\$1.3 million). The budget also includes a \$4.5 million increase in disparity grant moneys from the state.

Wicomico County, Maryland



Related Criteria

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

**General Fund Financial Summary**

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

	2008	2009	2010	2011	2012
Property Tax Revenue	59,221	60,328	60,211	60,530	58,468
Other Tax Revenue	50,671	45,235	41,014	42,461	3,227
<b>Total Tax Revenue</b>	<b>109,892</b>	<b>105,563</b>	<b>101,225</b>	<b>102,991</b>	<b>103,540</b>
License and Permits	1,338	1,279	1,256	1,291	1,224
Fines and Forfeits	249	90	55	68	74
Charges for Services	6,058	5,297	4,231	3,462	2,976
Intergovernmental Revenue	1,040	1,970	3,323	3,219	3,269
Other Revenue	4,071	1,902	3,905	2,418	2,262
<b>General Fund Revenue</b>	<b>122,648</b>	<b>116,101</b>	<b>113,995</b>	<b>113,449</b>	<b>113,345</b>
General Government	9,273	9,511	8,733	8,337	8,899
Public Safety Expenditures	13,721	14,416	24,983	23,868	23,095
Public Works Expenditures	815	762	1,009	957	893
Health and Social Services Expenditures	3,439	3,695	3,453	3,149	3,309
Culture and Recreation Expenditures	1,852	1,851	1,607	1,626	1,589
Educational Expenditures	55,175	56,279	55,556	47,279	40,203
Debt Service Expenditures	10,391	11,947	12,352	13,632	13,673
Other Expenditures	25,430	24,333	7,790	7,578	9,625
<b>General Fund Expenditures</b>	<b>120,096</b>	<b>122,794</b>	<b>115,483</b>	<b>106,426</b>	<b>101,286</b>
<b>General Fund Surplus/(Deficit)</b>	<b>2,552</b>	<b>(6,693)</b>	<b>(1,488)</b>	<b>7,023</b>	<b>12,059</b>
Transfers In	190	317	582	683	512
Other Sources	1,195	0	0	0	0
Transfers Out	7,409	860	917	3,005	4,437
<b>Net Transfers and Other</b>	<b>(6,024)</b>	<b>(543)</b>	<b>(335)</b>	<b>(2,322)</b>	<b>(3,925)</b>
<b>Net Surplus/(Deficit)</b>	<b>(3,472)</b>	<b>(7,236)</b>	<b>(1,823)</b>	<b>4,701</b>	<b>8,134</b>
Total Fund Balance	35,583	28,285	26,364	30,899	39,054
As % of Expenditures, Transfers Out and Other Uses	27.9	22.9	22.6	28.2	36.9
Unreserved Fund Balance <sup>a</sup>	34,264	27,087	—	—	—
As % of Expenditures, Transfers Out and Other Uses	27	22	—	—	—
Unrestricted Fund Balance <sup>b</sup>	—	—	23,074	27,628	37,092
As % of Expenditures, Transfers Out and Other Uses	—	—	19.8	25.2	35.1

<sup>a</sup>Pre-GASB 54. <sup>b</sup>Reflects GASB 54 classifications: sum of committed, assigned and unassigned. Note: Numbers may not add due to rounding.

The budget funds \$8.5 million of one-time capital funding and other nonrecurring expenses, which is a point of flexibility for future budgets, \$1.3 million in increased funding for educational operations (\$581,498 of the increase due to an increase in the contribution to teacher pension costs), a \$1.68 million increase to pension funding for county employees and a 1.7% cost-of-living pay raise. Given the county's history of strong financial performance, Fitch expects operations to remain positive and reserves to remain ample.

**Economic Indicators Remain Weak**

While agriculture, higher education and healthcare provide a solid foundation for the economy, socioeconomic indicators are weak. July employment is down 3.3% year over year, in contrast to the employment base of the state and nation, which continues to grow. Furthermore, the county's employment base remains about 7% below the pre-recession peak, trailing the rate of job recapture by the state and nation. The county's unemployment as of July 2013 was above average at 8.4%. 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.

Total taxable value has declined 17% between fiscal years 2012 and 2014. The statewide triennial assessment cycle creates a lag in realized TAV declines, and the county projects declines to continue through fiscal 2017.

**Favorable Debt Profile**

Overall debt levels are low at roughly \$1,106 per capita and 1.7% of market value, and amortization is rapid at approximately 69% retiring in 10 years. Debt servicing costs are low at 5.3% of total governmental spending.

The county’s fiscal years 2014–2018 capital improvement plan totals \$258.8 million, including the current issuance. Additional debt plans are modest at \$22 million, and pay-as-you-go funding totals \$13.2 million. State and federal moneys fund about 51% of the plan, while \$68 million of the plan is currently unfunded. The majority of the plan (82%) funds school projects and public safety (10%).

**Pension and OPEB Liabilities Remain Well Funded**

The county provides a single-employer retirement system that remains very well-funded at 85.4% (adjusted by Fitch to a 7.0% investment rate of return from 7.75%). Importantly, the county has restored its funding support for the pension plan, following several years of contributions that were significantly lower than the actuarial required contribution (ARC). The county funded 95% and 117% of the ARC in fiscal years 2013 and 2014, respectively.

The 2013 budget includes a \$3.65 million contribution to other post-employment benefits (OPEB), which represents 127% of the ARC. As of June 2013, the funded ratio was 30%, and the trust balance totaled \$46 million as of June 30, 2012. The unfunded actuarial accrued liability of \$22.8 million accounts for less than half a percent of market value. Pension and OPEB costs account for a low 5% of total 2013 budgeted governmental spending.

**Debt Statistics**

(\$000)	
This Issue	12,500
Outstanding Direct Debt — Net of Refunding	98,815
Self-Supporting	(486)
<b>Total Net Direct Debt</b>	<b>110,829</b>
Overlapping Debt	526
<b>Total Overall Debt</b>	<b>111,355</b>

**Debt Ratios**

Net Direct Debt Per Capita (\$) <sup>a</sup>	1,101
As % of Market Value <sup>b</sup>	1.66
Overall Debt Per Capita (\$) <sup>a</sup>	1,106
As % of Market Value <sup>b</sup>	1.67

<sup>a</sup>Population: 100,647 (2012). <sup>b</sup>Market value: \$6,664,263,000 (fiscal 2013). Note: Numbers may not add due to rounding.

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