RatingsDirect®

Summary:

Wicomico County, Maryland; General Obligation

Primary Credit Analyst:
Timothy W Barrett, New York (1) 212-438-6327; timothy.barrett@standardandpoors.com

Secondary Contact:
Lindsay Wilhelm, New York (1) 212-438-2301; lindsay.wilhelm@standardandpoors.com

Table Of Contents

1202972 | 300189365

Summary:

Wicomico County, Maryland; General Obligation

Credit Profile		
US$12.5 mil go pub imp bnds of 2013 ser 2013 due 10/01/2033		
Long Term Rating	AA+/Stable	New
Wicomico Cnty GO		
Long Term Rating	AA+/Stable	Upgraded
Wicomico Cnty GO		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its rating on Wicomico County, Md.'s general obligation (GO) debt two notches to 'AA+' from 'AA-' based on Standard & Poor's new local GO criteria, published Sept. 12, 2013, on RatingsDirect. The outlook is stable.

At the same time, Standard & Poor's assigned its 'AA+' rating and stable outlook to the county's series 2013 GO public improvement bonds.

The county's full-faith-and-credit pledge secures the bonds. Officials intend to use bond proceeds to fund board of education capital projects.

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

- Adequate economy that is largely agricultural and anchored by a number of large stabilizing institutions, including Salisbury University and Perdue Farms Inc.'s headquarters;
- Very strong budgetary flexibility with fiscal 2012 audited available reserves at 28.1% of general fund expenditures;
- Strong budgetary performance with a diverse revenue stream, led by property and income taxes that account for 52% and 37%, respectively, of general fund revenue;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Very strong management conditions with strong policies and practices and historically consistent ability to maintain balanced budgets; and
- Strong debt and contingent liability, driven by moderate carrying charges, low net debt, and rapid amortization.

Strong economy

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; 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, 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. About 33.2% of county land is agriculture and 41.3% is either forestland or vacant.

A number of stabilizing institutions anchor the county, including Salisbury University (a student population estimate of more than 8,600), University of Maryland Eastern Shore (4,454), and Wor-Wic Community College (3,218). In addition, Perdue (1,800 employees) maintains its headquarters in the county and Peninsula Regional Medical Center (3,300 employees) is consistently rated one of the nation's 100 leading hospitals. Unemployment is above state and national rates; in June 2013, unemployment was 9% compared with the state's 7% and the nation's 7.3%.

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, in our view, 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 $6.6 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. Projected per capita effective buying income is 85% of the national level.

Very strong budget flexibility

In our opinion, budget flexibility remains very strong. Wicomico County has a history of maintaining, what we consider, strong available general fund balances. Unaudited fiscal 2013 results indicate available reserves increased by $2.8 million; compared with previous-year results, this would maintain a similar percent of reserves compared to expenditures due to the increase in operating expenses. At fiscal year-end 2012, available reserves, unassigned and assigned, were 28.1% of expenditures; we understand officials do not plan to spend down reserves.

Strong budgetary performance

We view overall budgetary performance as strong. For fiscal 2013, based on unaudited results, management indicates it generated a $2.8 million surplus due primarily to, what we regard as, conservative budgeting and expenses coming in well underbudget.

For fiscal 2014, Wicomico County increased the general fund budget by about $11 million, or 9.3% of governmental expenditures. Management partially attributes the increase to an income tax rate increase of 0.1% to the maximum 3.2% permitted by state law and a property tax rate increase of 6.82 cents, which is the maximum allowed under the county's charter. Officials balanced the budget with the use of $4.5 million of fund balance for one-time capital projects.

The county ended fiscal 2012 with an $8.1 million surplus, driven by income taxes coming in 21% overbudget, or a $7.1 million positive variance, coupled with conservative budgeting for expenses, which came in about 3% underbudget. Management indicates employment grew much faster than it had expected, coupled with a significantly higher-than-forecast yield from income tax receipts, which led to a large positive variance in income tax revenue. Revenue is diverse with property and income taxes generating 52% and 37%, respectively.

Very strong liquidity

What we consider very strong liquidity supports Wicomico County's finances with a total-government-available-cash-as-a-percent-of-total-governmental-fund-expenditures ratio of 82.8% and a percent-of-debt-service ratio of 672.6%. We believe the county has strong access to external liquidity.

Very strong management

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

- Formal debt management policy that maintains debt affordability ratios,
- Five-year rolling capital improvement plan (CIP) tied to the operating budget that identifies all revenue sources, and
- Investment policies that 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.

Strong debt and contingent liability profile

In our opinion, Wicomico County's debt and contingent liabilities profile is strong with a total-governmental-funds-debt-service-as-a-percent-of-total-governmental-funds-expenditures ratio of 12.3% and a net-direct-debt-as-a-percent-of-total-governmental-funds-revenue ratio of 103.1%. Overall net debt is, in our view, low at just 1.9% of market value. We consider debt amortization rapid with officials planning to retire roughly 73.5% over 10 years.

The fiscal years 2014-2018 CIP is, in our opinion, a large but manageable $258.8 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 42% of the CIP through bonding; it also intends to fund approximately 51% of the CIP through state, federal, and private sources and the remainder through pay-as-you-go financing.

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 deferred funding to the pension trust in fiscal years 2010 and 2011, but it restored nearly full funding to the pension trust in fiscal 2012. The annual required contribution was $1.7 million for fiscal 2012, and the county contributed $1.6 million. As of June 30, 2013, the pension plan was 92.5% funded. Historically, the county has funded other postemployment benefits (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 fully restored contributions to the OPEB trust fund in fiscal 2013, contributing $1.9 million. As of June 30, 2011, the OPEB unfunded actuarial accrued liability was $2.4 million.

Very Strong Institutional Framework

We consider the Institutional Framework score for Maryland counties very strong.

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 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. 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 again within the outlook's two-year period.

Related Criteria And Research

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Institutional Framework Overview: Maryland Local Governments

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.