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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

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Credit Profile

US\$9.325 mil pub imp bnds ser 2014A due 07/01/2039

Long Term Rating AA+/Stable New

US\$1.605 mil pub imp bnds ser 2014B due 07/01/2039

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 2014A (tax-exempt) and 2014B (taxable) 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. Officials intend to use bond proceeds to fund various county capital projects.

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

- Adequate, largely agricultural economy, anchored by a number of large stabilizing institutions, including Salisbury University and University of Maryland-Eastern Shore;
- Very strong budgetary flexibility with fiscal 2013 audited available reserves at 36.8% of general fund expenditures after accounting for committed reserves that management could use for operating expenses, if necessary, with board approval;
- Strong budgetary performance with a diverse revenue stream, led by property and income taxes that generate 52% and 35%, respectively, of general fund revenue;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Very strong management conditions with "strong" financial management policies and practices under our Financial Management Assessment (FMA) methodology, coupled with a historically consistent ability to maintain balanced budgets; and
- Strong debt and contingent liabilities due to moderate carrying charges, low net debt, and rapid amortization.

Adequate economy

We view Wicomico County's economy as adequate. The county, with a population estimate of 99,692, 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 one-third of county land is agricultural, and more than 40% is either forestland 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
- University of Maryland-Eastern Shore (4,200).

In addition, Perdue (1,600 employees) maintains its headquarters in the county. Furthermore, Peninsula Regional Medical Center (2,700 employees) is consistently rated one of the nation's 100 leading hospitals. Unemployment has historically been above commonwealth and national rates; in 2013, unemployment averaged 8.1%.

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 value. AV has decreased by 19.9% over the past five fiscal years to \$6.1 billion for fiscal 2015. The county assesses property at 100% of market value. Despite the decreases, market value remains, in our opinion, a strong \$60,806 per capita. Projected per capita effective buying income is 88.3% 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, 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. At fiscal year-end 2013, available reserves, including committed reserves, were 36.8% of expenditures.

Unaudited fiscal 2014 results indicate available reserves have increased by \$2.1 million; compared with previous-year results, this would maintain similar reserves compared to expenditures due to the increase in operating expenses. We understand officials plan to use roughly \$5.7 million of reserves in fiscal 2015 for one-time capital expenditures, a \$1.2 million increase in reserve appropriation compared with fiscal 2014. Nonetheless, total available reserves should remain, what we consider, very strong compared to expenses at fiscal year-end 2015.

Strong budgetary performance

We view overall budgetary performance as strong. For fiscal 2014, based on unaudited results, management indicates it generated a \$2.1 million surplus due primarily to, what we regard as, conservative budgeting and expenses coming in well underbudget. For fiscal 2015, officials increased the general fund budget by about \$1.1 million to a total of \$128.7 million. Officials balanced the fiscal 2015 budget with the use of \$5.7 million of fund balance for one-time capital projects, which is similar, albeit slightly higher, to the previous year's appropriation of \$4.5 million. The county

currently levies the maximum 3.2% income tax rate. In addition, officials increased the property tax rate to 95.16 cents for fiscal 2015 from 90.8 cents in fiscal 2014.

The county ended fiscal 2013 with a \$4.3 million surplus due to income and property taxes coming in overbudget, coupled with conservative budgeting for expenses. 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 35%, respectively.

Very strong liquidity

What we consider very strong liquidity supports Wicomico County's finances with available cash at 56.2% of total governmental funds expenditures and debt service at 533.5%. 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 FMA methodology, indicating practices are strong, well embedded, and likely sustainable. Highlights 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 council 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 liabilities profile

In our opinion, Wicomico County's debt and contingent liabilities profile is strong with debt service at 10.5% of total governmental funds expenditures and net direct debt at 97.4% of total governmental funds revenue. Overall net debt is, in our view, low at just 2% of market value. We consider debt amortization rapid with officials planning to retire roughly 69% over 10 years.

The fiscal years 2015-2019 CIP is, in our opinion, a large, but manageable, \$212.1 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 33% of the CIP through bonding; it also intends to fund approximately 61% through state, federal, and private sources and the remainder through pay-as-you-go financing.

The county provides pension and retirement benefits for 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; it, however, restored full funding to the pension trust in fiscal 2013, as well as in fiscal years 2014 and 2015. The annual required contribution for the county's plan (\$1.9 million) and the county's portion for the teacher's retirement system (\$739,283) equaled roughly \$2.7 million. The county contributed roughly \$3 million in fiscal 2014. As of July 1, 2014, the pension plan was 108.8% 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

that management fully restored contributions to the OPEB trust fund in fiscal 2013 and that it contributed \$2 million to the trust fund, as well as \$1.7 million of retiree claim costs, for a total of \$3.6 million in OPEB contributions. This was greater than the fiscal 2013 OPEB cost of \$2.9 million. As of June 30, 2014, the OPEB unfunded actuarial liability totaled \$20.3 million; it was 40% funded.

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. Therefore, we do not currently expect to change the rating within the outlook's two-year period.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Maryland Local Governments

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