

Fitch Ratings

Fitch Rates Wicomico County, MD's GOs AA'; Outlook Stable

Fitch Ratings-New York-13 October 2015: Fitch Ratings has assigned an 'AA' rating to the following limited tax general obligation (LTGO) bonds for Wicomico County, Maryland (the county):

--\$19,770,000 general obligation consolidated public improvement and refunding bonds series 2015.

The bonds are expected to be sold competitively on Oct. 20. Proceeds will be used to finance the replacement of the county's public safety radio system, various school projects, and to refund a portion of the county's outstanding series 2007 public improvement bonds.

In addition, Fitch affirms the county's following ratings:

--\$103 million of outstanding GO bonds at 'AA';

--Implied unlimited tax GO at 'AA'.

The Rating Outlook is Stable.

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.

KEY RATING DRIVERS

STRONG FINANCIAL PROFILE: Management's conservative budgeting practices and recent revenue enhancements have resulted in historically positive operating results, ample reserve levels and strong liquidity. The county's charter limitations have not hampered financial performance, and revenue and spending flexibility remains available.

SOCIOECONOMIC METRICS SOMEWHAT WEAK: Key economic metrics have shown improvement the past year but remain below state and national averages. Agriculture, higher education and healthcare

provide a solid foundation for the economy.

FAVORABLE DEBT POSITION: Overall debt levels are low, amortization of principal is rapid, and county officials prudently analyze capital needs alongside debt affordability.

WELL MANAGED LONG-TERM BENEFIT LIABILITIES: The county's pension system remains well funded and teachers' pension costs funded through the state plan are affordable.

RATING SENSITIVITIES

CHANGE IN FINANCIAL PROFILE: The rating is sensitive to notable changes in the county's long term liabilities, socioeconomic metrics and liquidity levels. Fitch expects the county's strong financial management practices to continue, as reflected by the Stable Outlook.

CREDIT PROFILE

The county is located on the Delmarva Peninsula in southeastern Maryland and had an estimated 2014 population of roughly 101,000, an increase of 20% since 2000.

POSITIVE OPERATING RESULTS BOOSTS RESERVES

A combination of conservative budgeting practices, expenditure controls and moderate revenue increases have resulted in four straight years of operating surpluses. Fiscal 2014 general fund results showed a \$2.4 million net operating surplus, increasing unrestricted reserves to \$44 million or an ample 36.5% of spending. Reserves have steadily increased since fiscal 2010 when unrestricted reserves totaled \$23 million or 20% of spending. Fitch believes the strong level of reserves provides ample budget flexibility in light of the charter imposed 2% tax levy cap and also supports pay-as-you-go capital funding needs.

FISCAL 2015 PROJECTED RESULTS ARE POSITIVE

Officials expect to further increase the county's financial cushion in fiscal 2015 with a projected \$3.6 million net operating surplus (2.9% of estimated fiscal 2015 spending), marking the fifth consecutive year of positive year-end results. Positive revenue variances were experienced due to greater than budgeted income tax revenues and expenditure savings in most areas. The original budget included the appropriation of \$5.7 million of fund balance but the positive results negated the need to use any fund balance. Projected operating results include \$3 million in spending allocated to one-time capital pay-go spending.

FISCAL 2016 BUDGET KEEPS TAX RATE FLAT

The fiscal 2016 budget of \$129 million is a modest 0.2% increase over the prior year's budget and includes no property tax increase. Management was able to absorb a \$910,527 increase in board of education expenses (due to a state mandated increase in its maintenance of effort and teachers' pension costs) by decreasing operating expenses in all non-public safety related departments.

The budget also includes an appropriation of \$6.2 million of fund balance earmarked for one-time operating and capital expenses. Management does not anticipate using the full appropriated fund balance due to its conservative revenue assumptions, which Fitch believes to be reasonable based on recent operations.

DIVERSE REVENUE STREAM

Property taxes are the largest operating revenue source, representing 48% of fiscal 2015 revenues. A charter imposed revenue limit, approved by county voters and effective in fiscal 2002, constrains the county's annual 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, but debt service is included.

The county had increased the property tax rate in fiscal years 2012 through 2015 to the maximum rate allowable under the charter to help offset assessed value declines and maintain fiscal balance. No tax rate increase was implemented for fiscal 2016 as tax base values have stabilized with a modest projected increase of 0.6%. Also, non-property tax revenues are experiencing growth and management seeks to encourage continued economic expansion.

Income tax revenue accounts for a projected 36% of revenues in fiscal year 2015. Income tax revenues continue to show positive trends, aided by a mid-year increase to the income tax rate to the maximum rate of 3.2% from 3.1% on Jan. 1, 2013. Recent job growth is also contributing to revenue gains.

The county reports that it retains options to raise revenue, which include increasing the recordation tax rate, imposing a transfer tax, increasing other service fees and increasing the real property tax rate for education funding (which is not subject to the revenue cap). Education accounts for approximately 36% of general fund spending. Despite recent increases to the property tax rate, it remains regionally competitive.

ECONOMIC INDICATORS SHOW IMPROVEMENT BUT REMAIN BELOW AVERAGE

Agriculture, higher education and healthcare provide a solid foundation for the local economy although a large portion of the land area of the county remains rural. Perdue Farms maintains its corporate headquarters in the county and employs approximately 1,600. Other major employers include the Peninsula Regional Medical Center (2,900), the Centre at Salisbury shopping mall (2,500) and Salisbury University (1,800). The university has an annual enrollment of approximately 8,700 students and has

expansion projects underway totaling over \$130 million.

Both the employment base and labor force have experienced positive growth over the past year of 3.1% and 2.1%, respectively. Unemployment levels have declined to 6.3% in July 2015 from 7.2% a year prior, but continue to remain above state and national averages. Median household income is slightly below the national average but much lower (69%) than the state average (which is driven by high-wealth counties around the Washington D.C. area).

The county had seen its taxable assessed value decline by a total of 18.5% for the period of fiscal 2012 through fiscal 2015 but fiscal 2016 values are up modestly by 0.6% to \$6.1 billion. The state department of assessments and taxation appraises real property every 3 years, somewhat contributing to the lag in a return to growth in values.

LOW DEBT LEVELS; BENEFIT LIABILITIES WELL FUNDED

Overall debt levels are low at roughly \$1,178 per capita and 2% of market value. Principal amortization is rapid at approximately 66% in 10 years. Future debt plans are currently anticipated to be modest. Debt servicing costs are estimated to remain between 8% - 10% of total governmental spending.

The county provides a single employer retirement system which has historically been well funded. The plan was 91% funded as of June 30, 2015. Funded levels are an estimated 84% using Fitch's 7% investment rate of return. The county's \$4.2 million contribution in fiscal 2014 and \$2.5 million contribution in fiscal 2015 was \$2.3 million and \$1.2 million, above the actuarially required contribution (ARC), respectively. Management plans to continue to contribute in excess of the historical calculation of ARC pursuant to the new reporting requirements of GASB 68 to improve its funded levels. Beginning in fiscal 2014, teachers' normal pension costs were shifted to local governments over a four-year phase-in process. The county was able to absorb the additional \$2.7 million cost in fiscal 2014 and 2015.

The county has overfunded its OPEB contributions in fiscals 2013 and 2014 and made a \$3.7 million contribution in fiscal 2014, which represented 130% of the ARC and 2.7% of total governmental spending. The county's OPEB liability is 40% funded as of July 1, 2014. The county plans to reach 89% funded by 2029. Fiscal 2014 carrying costs based on payments made for debt service, OPEB and the pension ARC were a manageable 12.3% of total governmental spending.

Contact:

Primary Analyst
Kevin Dolan
Director
+1-212-908-0538
Fitch Ratings, Inc.

33 Whitehall Street
New York, NY 10004

Secondary Analyst
Parker Montgomery
Analyst
+1-212-908-0356

Committee Chairperson
Steve Murray
Senior Director
+1-512-215-3729

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email:
sandro.scenga@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to fewer than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors, Maryland Department of Labor, Licensing and Regulation, and Maryland Department of Business and Economic Development.

Applicable Criteria

Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942)
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=992217)

Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=992217)

Endorsement Policy (<https://www.fitchratings.com/jsp/creditdesk/PolicyRegulation.faces?context=2&detail=31>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings)

(<http://fitchratings.com/understandingcreditratings>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

ENDORSEMENT POLICY - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.