

RatingsDirect®

Summary:

Wicomico County, Maryland; General Obligation

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Credit Profile

US\$19.665 mil cons pub imp & rfdg bnds ser 2015 due 11/01/2036

<i>Long Term Rating</i>	AA+/Stable	New
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Wicomico Cnty GO

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating and stable outlook to Wicomico County, Md.'s series 2015 general obligation (GO) consolidated public improvement bonds and refunding 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 subject to the county's self-imposed limitation on property tax increases. Wicomico County's tax limitation states that revenues derived from real property taxes can increase by the lesser of 2%, or by a CPI for all urban consumers, relative to the previous year. Officials intend to use bond proceeds to finance school projects for Wicomico County Board of Education as well as to refund previously issued GO debt.

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

- An adequate, largely agricultural economy, anchored by a number of large stabilizing institutions, including Salisbury University and the University of Maryland-Eastern Shore;
- Strong budgetary performance with operating surpluses in the general fund and at the total governmental fund level as well as a diverse revenue stream, led by property and income taxes that generate 49% and 35%, respectively, of general fund revenue;
- Very strong budgetary flexibility with fiscal 2014 audited available reserves at 36% of general fund expenditures after accounting for committed reserves that management could use for operating expenses, if necessary, with board approval;
- Very strong liquidity, with total government available cash of 58.0% of total governmental fund expenditures and 6.3x governmental debt service, and access to external liquidity we consider strong;
- 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 liability position, with debt service carrying charges of 9.2% of expenditures and net direct debt that is 89.3% of total governmental fund revenue, and low overall net debt at less than 3.0% of market value and rapid amortization with 66.1% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Adequate economy

We consider the Wicomico County's economy adequate. The county has an estimated population of 101,742. The county benefits, in our view, from a stabilizing institutional influence. The county has a projected per capita effective buying income of 86.1% of the national level and per capita market value of \$59,953. Overall, the county's market value grew by 0.6% over the past year to \$6.1 billion in 2016. The county unemployment rate was 7.6% in 2014.

The county is on Maryland's eastern shore. The City of 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, there has also been gradual, but consistent, business growth and diversification. Medical, manufacturing, retail, and service sector growth has aided employment and property tax base expansion. Development, however, has slowed in 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 forest land 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
- The University of Maryland-Eastern Shore (4,200).

In addition, Perdue Foods (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.

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 values. AV has decreased by 19.4% in the past five fiscal years to \$6.1 billion for fiscal 2016. The county assesses property at 100% of market value. Despite the decreases, market value per capita remains strong in our view.

Strong budgetary performance

Wicomico County's budgetary performance is strong in our opinion. The county had operating surpluses of 2.0% in the general fund and 2.5% across all governmental funds in fiscal 2014.

The county's budget for fiscal 2016 totals \$129 million, which is a slight increase over the previous year's budget, and includes \$6.2 million for one-time costs. We understand that management expects to end the year with close-to-breakeven operations despite using \$6.2 million of reserves in the budget for one-time costs, which is similar, albeit slightly higher, than previous years' appropriations. As such, we expect the county's budgetary performance to remain strong.

For fiscal 2015, based on unaudited results, management indicates it generated a \$3.6 million surplus despite appropriating \$5.7 million of the fund balance for one-time purposes. Management attributes the surplus to what we regard as, conservative budgeting. For fiscal 2015, officials indicate revenues came in above budget and totaled \$129.5 million while expenditures came in below budget at \$125.8 million. Management increased the property tax rate to

95.16 cents for fiscal 2015 from 90.8 cents in fiscal 2014.

The county ended fiscal 2014 with a \$2.4 million surplus due to income and property taxes coming in over budget, coupled with conservative budgeting for expenses. Management indicates employment grew much faster than it had expected, coupled with a higher-than-forecast yield from income tax receipts, which led to a large positive variance in income tax revenue.

Very strong budgetary flexibility

Wicomico County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 36% of operating expenditures, or \$44.4 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 37% of expenditures in 2013 and 35% in 2012.

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 2014, available reserves, including committed reserves which could be used for any purpose with board approval, were 36.4% of expenditures.

Unaudited fiscal 2015 results indicate available reserves have increased by \$3.6 million. We understand officials budgeted to use \$6.2 million of reserves in fiscal 2016 for one-time capital expenditures. Nevertheless, given management's history of conservative budgeting, we expect the county to end the year with close-to-breakeven results and with total available reserves remaining very strong.

Despite having very strong budgetary flexibility, the county, in our opinion, has somewhat limited revenue-raising flexibility. Most of the county's general fund revenues are derived from property and income taxes, which generate 49% and 35% of revenues, respectively. The county maintains a self-imposed limitation on property tax increases, which states that revenues derived from real property taxes can increase only by an inflationary factor relative to the previous year. In addition, the county currently levies at the maximum 3.2% income tax rate. Nevertheless, it does have some revenue-raising flexibility in the form of management's ability to increase fees, increase its recordation tax, or impose a transfer tax or a rain tax for stormwater management.

Very strong liquidity

In our opinion, Wicomico County's liquidity is very strong, with total government available cash of 58.0% of total governmental fund expenditures and 6.3x governmental debt service in 2014. In our view, the county has strong access to external liquidity if necessary.

The county maintains most of its cash and equivalents in the Maryland Local Government Investment Pool. We understand that the county does not have any alternative financings that could materially alter its liquidity position. And there is no indication that the city's liquidity position will deteriorate in the near term.

Very strong management

We view the county's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights of Wicomico County's financial practices include:

- Historically conservative budgeting that consistently underestimates general fund revenues and overestimates expenses;
- Bi-monthly budget updates including budget to actuals that are provided to council;
- A formal debt management policy that maintains debt affordability ratios;
- Long-term financial projections that extend out five years and are updated annually;
- A five-year rolling capital improvement plan (CIP) tied to the operating budget that identifies all revenue sources;
- Investment policies that mirror state policies with management sharing all data with the county council on a monthly basis; and
- A formalized reserve policy that includes a fully funded rainy-day fund set at 5% of the general fund budget.

Strong debt and contingent liability profile

In our view, Wicomico County's debt and contingent liability profile is strong. Total governmental fund debt service is 9.2% of total governmental fund expenditures, and net direct debt is 89.3% of total governmental fund revenue. Overall net debt is low at 1.9% of market value and approximately 66.1% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The fiscal years 2016-2020 CIP is, in our opinion, a manageable \$106.6 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 15% of the CIP through bonding; it also intends to fund approximately 70% through state, federal, and private sources and the remainder through existing bond proceeds and pay-as-you-go financing. We understand that the county plans to issue an additional \$15.8 million of additional GO debt within the next two years.

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; however, it 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 \$2.7 million. The county contributed about \$3 million in fiscal 2014. As of July 1, 2015, the pension plan was 90.5% 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 that management fully restored contributions to the OPEB trust fund and in fiscal 2013, and in fiscal 2014 it contributed \$2.0 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 in each of the past two years. This was greater than the fiscal 2014 OPEB cost of \$2.9 million in fiscal years 2013 and 2014. As of June 30, 2015, the OPEB unfunded actuarial liability totaled \$22.8 million; it was 41.3% funded. We understand that management plans to continue paying down the OPEB unfunded actuarial liability and management projects that by fiscal 2029 the county's OPEB liability will be 89% funded.

Wicomico County's combined pension and OPEB contributions totaled 5.0% of total governmental fund expenditures in 2014. Of that amount, 2.1% represented contributions to pension obligations and 2.9% represented OPEB payments.

Very strong institutional framework

The institutional framework score for Maryland counties is very strong.

Outlook

The stable outlook reflects our 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. In 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 expect to change the rating within the outlook's two-year period.

Upside scenario

Although unexpected, we could raise the rating if Wicomico County's economic metrics were to significantly improve such that the county's economic profile was commensurate with other 'AAA' rated municipalities, coupled with the maintenance of the county's strong financial position, including strong budgetary flexibility and liquidity.

Downside scenario

Although we do not expect this to occur, the rating could be pressured if the county were to experience unexpected and significant financial distress, leading to significantly reduced budgetary flexibility and liquidity levels.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

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

Ratings Detail (As Of October 16, 2015)

Wicomico Cnty pub imp bnds ser 2014A due 07/01/2039

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Wicomico Cnty GO

<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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