

# RatingsDirect®

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**Summary:**

## Wicomico County, Maryland; General Obligation

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## Summary:

# Wicomico County, Maryland; General Obligation

### Credit Profile

US\$20.54 mil GO cons pub imp and rfdg bnds ser 2017 due 12/01/2034

*Long Term Rating* AA+/Stable New

Wicomico Cnty GO

*Long Term Rating* AA+/Stable Affirmed

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

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Wicomico County, Md.'s series 2017 general obligation (GO) consolidated public improvement and refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating, with a stable outlook, on the county's existing GO debt.

Wicomico's full-faith-and-credit pledge secures the bonds subject to the county's self-imposed limitation on property tax increases for properties existing on the county real property tax roll before July 1, 2001. The county's tax limitation on properties already on the tax roll as of that date states that revenues from real property taxes can increase by the lesser of 2% or the previous year's CPI.

Management intends to use proceeds to finance some general service and road projects in the county, as well as a Wicomico County Board of Education capital project. A portion of the proceeds will refund Wicomico's 2009 Build America Bonds (BABs). The 2009 BABs' refunding has a crossover date of Dec. 1, 2019. We understand that, before and through the crossover date, principal and interest on the refunding bonds will remain GOs of Wicomico payable from ad valorem property taxes. However, interest from their date of issuance until the redemption date is expected to be paid from an escrow account. Money remaining in the account on the crossover date will redeem the refunded bonds in advance of their scheduled maturities.

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

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 43% of operating expenditures

after accounting for committed reserves that with council approval could be used for general expenses;

- Very strong liquidity, with total government available cash at 63.3% of total governmental fund expenditures and 6.6x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 9.5% of expenditures and net direct debt that is 92.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 65.2% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

### **Adequate economy**

We consider the county's economy adequate. Wicomico County, with an estimated population of 102,400, is located in the Salisbury, Md., MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 88.6% of the national level and per capita market value of \$61,533. Overall, the county's market value grew by 2.3% over the past year to \$6.3 billion in 2018. The county unemployment rate was 6.0% in 2016.

Located on Maryland's eastern shore, Wicomico's population growth has exceeded 8% over the past decade. The county is home to two of the state's fastest-growing communities. One of these, the City of Salisbury, is the county seat and the Delmarva Peninsula's economic and cultural center. Wicomico is a regional transportation hub, with Maryland's second-largest port and a regional airport. Although agriculture and related agribusiness, primarily from the poultry industry, remains the backbone of the local economy, the county has steadily expanded and diversified its economy. To this end, we recently revised our view of the Salisbury MSA to strong from moderate, reflecting the sustained labor force growth, particularly in the medical, manufacturing, retail, and service sector. Leading employers in the county include Peninsula Regional Medical Center (2,900 employees), Perdue Farms Inc. (1,600 employees), Wal-Mart/Sam's Club (750 employees), and Jubilant Cadista Pharmaceuticals Inc. (450 employees). Wicomico is also home to three higher education institutions -- Salisbury University, Wor-Wic Community College, and the University of Maryland-Eastern Shore -- that bring 23,000 students and 3,600 employees into Wicomico from surrounding areas. These institutions' presence continue to benefit the county; however, due to the economic growth in the Salisbury MSA, the effect of tax-exempt land and non-working students have less of an impact on our initial view of the local economy.

After significant increases in assessed values (AV) from fiscal years 2000-2010, the recession caused AV to decline to a low of \$6.06 billion in fiscal 2015 from its peak in 2012 at just over \$7 billion. Since then, recovery in housing prices and continued economic growth in Wicomico have led to AV increases in both fiscal 2017 and 2018. The county assesses property at 100% of market value. Furthermore, the continued recovery nationwide and ongoing growth in the county should continue to lead to increasing AV in the near term. Wicomico is both helped and hindered by its large portion of agricultural, forest, or vacant land, making up about 70% of its land use, giving the county room to expand.

### **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'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 council receives;
- A formal debt management policy that maintains debt affordability ratios;
- 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 monthly; and
- A formalized reserve policy that includes a fully funded rainy day fund set at 5% of the general fund budget.

Before 2016, Wicomico had 10-year financial projection that was updated annually. While it has not been updated for 2017 and 2018, management reports its intention to return to updating the forecast during the 2019 budget process. We will continue to monitor the county's long-term financial planning and its effect on our overall view of the FMA.

### **Strong budgetary performance**

Wicomico County's budgetary performance is strong in our opinion. The county had operating surpluses of 5.6% of expenditures in the general fund and of 7.3% across all governmental funds in fiscal 2016. Our assessment accounts for the fact that we do not expect budgetary results to remain in excess of 5% in the near term.

Management attributes the large fiscal 2016 surplus to strong revenue collections and keeping spending under budget. Fiscal 2017 preliminary results show another surplus, albeit moderated from 2016's exceptional results. Driving some of these results is the conservative approach management takes in its revenue projections. Despite year-over-year growth in many revenue sources, including income taxes and property taxes, budget projections keep revenues flat relative to previous years' results to mitigate the risk of revenue shortfalls. The county has a diverse revenue stream, led by property and income taxes that generate about 47% and 37%, respectively, of general fund revenue in fiscal 2016. Property tax collections are strong, at above 99% in the past five fiscal years.

The county's budget for fiscal 2018 totaled \$142.98 million, a 5.6% increase from the previous year's budget, and includes \$9.5 million in appropriated fund balance to fund one-time costs including capital needs for education and public works. Growth to the tax base led to a real property tax rate reduction to 93.98 cents per \$100 of AV from 95.20 cents in fiscal 2017. With this budget, the county continues its strategy of tying recurring costs to recurring revenues, and using reserves only to fund one-time investments in capital needs or other one-time expense. However, given the conservative revenue estimates and history of budgetary controls, we expect Wicomico will regenerate most, if not all, of the appropriated funds. As such, we expect the county's budgetary performance to remain strong.

### **Very strong budgetary flexibility**

Wicomico County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 43% of operating expenditures, or \$54.0 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Wicomico 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. Even without these additional reserves, Wicomico maintains very strong unassigned fund balances at nearly 30% of expenditures. Unaudited fiscal 2017 results indicate that total reserves will once again increase to about \$59.7 million, or just over 47% of expenditures. Although the

county appropriates reserves in its budget to fund one-time costs, it has a long history of replenishing these reserves in part due to its conservative revenue estimates. As such, we do not foresee reserves changing materially in the near term.

### **Very strong liquidity**

In our opinion, Wicomico County's liquidity is very strong, with total government available cash at 63.3% of total governmental fund expenditures and 6.6x governmental debt service in 2016. In our view, the county has strong access to external liquidity if necessary.

Wicomico does not have an investment portfolio we view as aggressive and is not exposed to variable-rate or privately placed debt that could alter its liquidity position. The county maintains most of its cash and equivalents in the Maryland Local Government Investment Pool. Wicomico maintains what we view as strong access to external liquidity, with long-term GO bond issuances within the past 20 years. Combined with the county's sound financial performance and strong management team, we do not believe its liquidity position will deteriorate in the near term.

### **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 9.5% of total governmental fund expenditures, and net direct debt is 92.7% of total governmental fund revenue. Overall net debt is low at 2.1% of market value, and approximately 65.2% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The CIP for fiscal years 2018-2022 is manageable, in our opinion, at \$109.3 million. A large share of the county's planned capital needs are for its kindergarten-grade 12 schools, its community college, the airport, and public safety. The county expects to fund approximately 56% through state, federal, and private sources. A portion of the funding beyond the current fiscal year (23%) remains to be determined, and will likely come from a combination of pay-as-you-go and other financing sources, including potential new bonds. Given Wicomico's debt management policy with affordability measures, we would expect additional borrowing to have a limited effect on our view of the county's debt profile.

Wicomico's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.9% of total governmental fund expenditures in 2016. Of that amount, 0.7% represented required contributions to pension obligations, and 4.1% represented OPEB payments. The county made 157% of its annual required pension contribution in 2016.

Wicomico provides pension and retirement benefits for general and public safety 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, and has contributed more than its actuarially required contribution in each of the past three fiscal years, showing a commitment to funding these future liabilities. As of June 30, 2016, the pension plan fiduciary net position as a percentage of total pension liability, as defined in GASB 67, was 82.08%, using a discount rate of 7.25%. The county recently lowered its discount rate from 7.75%, and we view its new discount rate as less aggressive. Certain members in the county are covered by the Maryland State Retirement and Pension System (MSRPS), which has a funded ratio of 68.78%, which Wicomico makes its portion of the employer's contribution and

the state funds the rest on behalf of the county. As such, the county's proportional share of the net pension liability as of June 30, 2016 was \$498,411.

Historically, Wicomico has funded OPEB through pay-as-you-go financing. However, since fiscal 2013, the county has been contributing to an OPEB trust fund and is gradually working towards prefunding long-term liability. To that end, the unfunded OPEB obligation totaled \$20.3 million with the trust 65.73% funded. We understand that management plans to continue paying down its OPEB unfunded actuarial liability.

### **Very strong institutional framework**

The institutional framework score for Maryland counties is very strong.

## **Outlook**

The stable outlook reflects S&P Global Ratings' opinion of Wicomico's growing local economy and role in the broader regional 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 the county maintain its consistent financial performance. We believe overall debt will likely remain close to current levels given Wicomico's debt management policies, providing additional rating stability. Therefore, we do not expect to raise or lower the rating within the outlook's two-year period.

### **Upside scenario**

Holding all other credit factors equal, upward rating movement is contingent upon economic growth leading to increases in its market values per capita and projected per capita effective buying income, such that these measures are commensurate with that of other 'AAA' rated municipalities.

### **Downside scenario**

While unexpected, if the county were to experience significant financial distress that led to sustained reductions to budgetary flexibility or liquidity levels, we could lower the rating.

## **Related Research**

- 2017 Update Of Institutional Framework For U.S. Local Governments
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- U.S. State And Local Government Credit Conditions Forecast, July 24, 2017

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the

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