



New Issue: **Moody's assigns Aa1 to Baldwin Cnty (AL's) \$35.1M GO Warrants, Series 2015**

BALDWIN (COUNTY OF) AL
Counties
AL

Moody's Rating

ISSUE	RATING
General Obligation Warrants Series 2015	Aa1
Sale Amount \$35,070,000	
Expected Sale Date 02/16/15	
Rating Description General Obligation Limited Tax	

Moody's Outlook NOO

NEW YORK, February 11, 2015 --Moody's Investors Service has assigned a Aa1 rating to Baldwin County's (AL) \$35.1 million General Obligation Warrants, Series 2015. Moody's also maintains a Aa1 on approximately \$102 million in outstanding parity debt.

SUMMARY RATING RATIONALE

The Aa1 rating reflects the county's sizeable tax base with above-average state wealth levels, history of prudent fiscal management and satisfactory reserves and low debt burden.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Significant growth in General Fund reserves
- Sizeable tax base increases

WHAT COULD MAKE THE RATING GO DOWN

- Reductions in General Fund balance beyond unaudited fiscal 2014 figures
- Sizeable increases in debt burden

STRENGTHS

- Solid financial management and fiscal policies
- Substantial tax base with above-average state wealth levels
- Low debt burden

CHALLENGES

- Assessed value declines from 2009-2012 due to the economic recession and Gulf of Mexico oil spill
- Reduced General Fund reserves in fiscal 2013 due to debt repayment

RECENT DEVELOPMENTS

Recent developments are included in the Detailed Rating Rationale

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: ASSESSED VALUES EXPECTED TO CONTINUE TO REBOUND AS REAL ESTATE MARKET IMPROVES

Located along Alabama's Gulf Coast, Baldwin County has a large tourism economy that is enhanced by residential growth for commuters to the nearby City of Mobile (GOLT rated Aa2 negative) and the City of Pensacola, Florida. Inside the county, the City of Gulf Shores (GOLT rated Aa2) and the City of Orange Beach (GOLT rated Aa2) are considered premiere beach resorts and attract tourists from Alabama and other neighboring states. In addition, the City of Foley's Tanger Mall attracts shoppers from around the southeast region, and provides substantial sales tax revenues for the county. Management anticipates that growth in the northern portion of the county will continue given the construction of the Airbus plant in Mobile. The northern portion of the county also includes a 3,000-acre Mega Site (county owned), which received its certification verifying its suitability for an automotive assembly or other larger plant. The county is also planning to invest \$150 million, funded through RESTORE Act Funds, to build the Baldwin Beach Expressway that will provide transportation opportunities to the beaches in the southern portion of the county and provide economic development opportunities benefiting all areas of the county.

Assessed values within the county experienced rapid growth from 2004 through 2008, averaging approximately 14.8% per year. Due to the national recession and the oil spill in the Gulf of Mexico, assessed values decreased by an average annual 5.4% from 2009-2012. Management believes that this trend has reversed as the housing market continues to rebound and the excess capacity is absorbed by the growth in population. Assessed values grew by 1.2% and 3.9% in 2013 and 2014 respectively. Housing prices throughout the county have increased over the last three years while days on the market continue to decline. Hotel and condominium occupancy rates have also continued to improve.

Unemployment rates within the county (5.0% for November 2014) remain below both state (5.5%) and national (5.5%) levels. Wealth levels within Baldwin County are above-average when compared to the state median, with per capita income of \$26,769 (113.5% of the state) and median family income of \$61,756 (113.7% of the state). Full value per capita of \$145,223 is high, reflecting, in part, the high property values and lower permanent population of the beach-area resorts.

FINANCIAL OPERATIONS AND POSITION: STABILITY TO CONTINUE; RESERVES EXPECTED TO REMAIN LEVEL IN FISCAL 2015

The county's financial position is expected to remain stable over the near term given management's history of conservative budgeting, formalized fiscal policies and satisfactory General Fund reserves.

The county implemented a series of financial control mechanisms in the early 1990's that resulted in increases in General Fund reserves. Officials provide monthly operational updates to the county commission, and conduct a mid-year formal budget review. As the county does not have flexibility to raise property tax rates, officials have implemented extensive tracking systems to ensure timely collection of payments. In addition, the county updated its formal reserve policy in 2008, requiring maintenance of unassigned General Fund reserves equal to 15% of annual non-grant revenues. The policy also includes the same requirement for the county's Highway Fund and a 7.5% requirement for its Solid Waste Fund.

The county ended fiscal 2013 with surplus operations, however because of the repayment of a short-term

bank loan (\$15 million) issued in fiscal 2012 and a \$6.3 million capital expenditure related to the purchase of 927 acres of Mega Site property, General Fund reserves declined by \$17 million. Total General Fund balance was \$16.29 million (28% of fiscal 2013 General Fund revenues) and unassigned General Fund balance of \$13.83 million (24% of fiscal 2013 General Fund revenues). Property tax and sales tax revenue trends were similar to fiscal 2012, with property taxes down 4% (year-over-year) and sales taxes up 7% (year-over-year). Expenditures also came in under budget by approximately 6%.

Unaudited fiscal 2014 show that the county finished the year with surplus operations and an increase in General Fund reserves of \$218,000. Total General Fund balance ended at \$16.5 million (approximately 31% of annual revenues) and unassigned General Fund balance ended at \$13.5 million (approximately 26% of annual revenues). The county's single largest revenue source, property taxes, came in below budget by approximately \$613,000 or 3%. Sales tax revenues continued to show strength, with collections totaling \$10.9 million (\$35,000 or 0.32% above budget).

The fiscal 2015 General Fund budget includes \$813,000 in appropriated fund balance, \$17 million in property taxes and \$11 million in sales tax revenues. Management reports that revenues are generally at or above budget year-to-date and expectations are that the county will replenish its appropriated fund balance and that General Fund reserves will approximate fiscal 2014 levels. Significant deviation (downward) from the unaudited fiscal 2014 projected year-end reserve levels or declines in fiscal 2015 and beyond, will be evaluated and could place negative pressure on the county's credit rating.

Liquidity

The county's net cash position is a solid \$40.7 million (70.3% of fiscal 2013 General Fund revenues) and is expected to be at \$39.5 million in fiscal 2014. Cash levels are sufficient throughout the year to support county operations.

DEBT AND PENSIONS: BELOW AVERAGE DEBT LEVELS WITH NO IMMEDIATE NEW MONEY DEBT PLANS

The county's debt burden is expected to remain manageable over the near term given an average amortization of principal and the lack of any significant new money debt. The county's direct debt burden is low at 0.4% of full valuation but increases to a still manageable 1.0% of full value when taking into consideration the overlapping debt of local municipalities. Amortization of principal is average with 64.1% of principal repaid within ten years. The county's debt statement includes 100% fixed rate debt and there are no derivative agreements.

Debt Structure

The county's debt statement includes 100% fixed rate debt.

Debt-Related Derivatives

The county is not party to any derivative agreements.

Pensions and OPEB

The county participates in the Employees' Retirement System of Alabama, a multiple-employer defined benefit plan administered by the state. Pension payments for fiscal 2013 totaled \$1.99 million (county employees and Sheriff's department) or 3.4% of operating expenditures. The payment constituted 100% of the annual pension cost for both plans. The city's adjusted pension liability, under Moody's methodology for adjusting reported pension data, is \$78.7 million or an average 1.37 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities. We determined the county's share of liability for the state-run plans in proportion to its contributions to the plans.

MANAGEMENT AND GOVERNANCE

Alabama counties have an institutional framework score of "Aa," or strong. Counties often rely heavily on property tax revenues and while these revenues have been relatively stable for many, a county's ability to raise property tax rates is limited via the Alabama Constitution. Expenditures are largely predictable and counties have the legal ability to reduce expenditures if necessary. Baldwin County continues to conservatively budget its General Fund revenues as well as maintain tight expenditure controls, allowing for satisfactory reserve and cash levels.

KEY STATISTICS

2014 Tax Base Size - Full Value (in 000s): \$28,397,000

2014 Full Value Per Capita: \$145,223

2010 Median Family Income as % of US median: 95.6%

2013 Fund Balance as % of Revenues: 26.8%

Five-Year Dollar Change in Fund Balance as % of Revenues: -8.38%

2013 Cash Balance as % of Revenues: 70.3%

Five-Year Dollar Change in Cash Balance as % of Revenues: 6.5%

Institutional Framework: Aa

Operating History - Five-Year Average of Operating Revenues/ Operating Expenditures: 0.95x

Net Direct Debt/Full Value: 0.4%

Net Direct Debt/Operating Revenues: 2.08x

Three-Year Average of Moody's Adjusted Net Pension Liability/Full Value: 0.25%

Three-Year Average of Moody's Adjusted Net Pension Liability/Operating Revenues: 1.22%

OBLIGOR PROFILE

Baldwin County is located along Alabama's Gulf Coast and has a current population of 195,540.

LEGAL SECURITY

The warrants are secured by a general obligation, limited ad valorem tax pledge of the county.

USE OF PROCEEDS

Proceeds from the current issue will be used to partially advance refund the county's outstanding Series 2007-A, 2008-B and 2008-C warrants for an expected net present value savings of \$1.5 million or 4.28% of refunded principal, with no extension of maturities.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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