

# MOODY'S

## INVESTORS SERVICE

### **New Issue: MOODY'S ASSIGNS A Aa1 RATING TO BALDWIN COUNTY'S (AL) \$25 MILLION GENERAL OBLIGATION TAXABLE WARRANTS, SERIES 2011**

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Global Credit Research - 15 Jul 2011

#### **AFFIRMATION OF THE Aa1 RATING AFFECTS \$115.05 MILLION IN PREVIOUSLY ISSUED PARITY DEBT**

County  
AL

#### **Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
General Obligation Taxable Warrants, Series 2011	Aa1
<b>Sale Amount</b> \$25,000,000	
<b>Expected Sale Date</b> 07/18/11	
<b>Rating Description</b> General Obligation Limited Tax	

#### **Opinion**

NEW YORK, Jul 15, 2011 -- Moody's Investors Service has assigned a Aa1 rating to Baldwin County's (AL) \$25.0 million General Obligation Taxable Warrants, Series 2011. Concurrently, Moody's has affirmed the Aa1 rating on \$115.05 million in previously issued parity debt. Proceeds of the warrants together with \$10 million in fund balance will fund the purchase of a 3,000 acre Mega Site located south of I65 and adjacent to the CSX rail-line.

#### **RATINGS RATIONALE**

The warrants are secured by a general obligation, limited ad valorem tax pledge of the county. The Aa1 rating reflects the county's history of prudent fiscal management, solid financial position, marked by significant General Fund reserves, as well as the county's substantial economic base, above-average wealth levels and below average debt burden.

#### **STRENGTHS**

- Solid financial management and sizeable General Fund reserves
- Size and location of tax base
- Low debt burden

#### **WEAKNESSES**

- Below-average amortization of principal
- Expected decline in reserves in fiscal 2012

#### **FINANCIAL POSITION REMAINS STRONG DESPITE EXPECTED DECLINE IN RESERVES IN FISCAL 2012**

Moody's believes the county's financial position will remain solid over the medium term, despite an expected decrease in reserves in fiscal 2012, related to the purchase of the Mega Site, given a history of conservative budgeting and solid General Fund reserves and cash levels. As a result of management's budgeting practices, General Fund reserves have grown steadily over the last eight years, adding financial flexibility.

The county implemented a series of financial control mechanisms in the early 1990's that have resulted in increased reserve levels. Officials provide monthly operational updates to the county commission, and a mid-year formal budget review is mandated by ordinance. As the county does not have flexibility to raise property or sales tax rates, officials have implemented extensive tracking systems to ensure timely collection of payments. In addition, the county has an updated formal reserve policy to maintain undesignated reserves at 12.0% of budget

and 8% of current revenues in reserves for emergencies. The county's latest audited year is fiscal 2009, which ended an operating deficit of \$683,000, decreasing overall General Fund reserves to \$29.52 million, or 54.0% of annual revenues. Management attributes the operating deficit to a \$1.5 million shortfall in mortgage tax and building fee revenues and a \$309,000 shortfall in sales tax revenues. The county collects a 2% sales tax, 77.5% of which goes to the county Board of Education. The county retains 40% of the sales tax collections (20% of total receipts) for General Fund operations. While fiscal 2010 results have not yet been finalized, management projects the county ended the year with a modest operating surplus of \$232,384, however due to an unbudgeted capital expenditure of \$1.35 million, overall General Fund reserves dropped to \$28.97 million or 49.35% of annual revenues (unaudited). Officials stated that the capital expenditure (purchase of Lillian boat launch) is expected to be fully reimbursed through a state grant, within the next year. The fiscal 2011 budget includes \$1.09 million in appropriated fund balance, \$20.02 million in property tax revenues and \$8.44 million in sales tax revenues. Through May 2011, management stated that property tax revenues collected equal \$19.04 million (95.11% of budget) and sales tax revenues equal \$5.96 million (70.65% of budget). While the fiscal year does not end until September 30, management anticipates the General Fund will end with a \$1.5 million operating surplus (projected 57.37% of annual revenues). While the fiscal 2012 budget has not yet been completed, the county expects that there will be use of fund balance in order to make a \$10 million payment which will go towards the purchase of the above mentioned Mega Site. If General Fund reserves are close to the projected fiscal 2011 ending levels, management anticipates fund balance should end at approximately \$20.19 million (32.9% of fiscal 2012 revenues) by fiscal year-end 2012. While Moody's recognizes this is a significant drop in reserves, General Fund balance projections of \$20.19 million should still give the county sufficient financial flexibility over the medium term. Significant deviation (downward) from the current fiscal 2012 year-end reserve levels will be evaluated and could place negative pressure on the county's credit rating.

#### WEALTHY TAX BASE EXPECTED TO CONTINUE TO BENEFIT FROM INCREASED GROWTH IN NORTHERN PORTION OF THE COUNTY

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 (G.O. rated Aa2) and the City of Pensacola, Florida. Inside the county, the City of Gulf Shores (G.O. rated Aa2) and the City of Orange Beach (G.O. rated Aa2) are considered premiere beach resorts and attract tourists from Alabama and other neighboring states. A new retail center opened in Spanish Fort in 2005, anchored by a Dillard's (Senior Unsecured Rating B3), and has provided further sales tax base support for county operations. In addition, a new Bass Pro Shop opened in August 2008, providing the county with an added \$786,000 in sales tax revenues over the last 18 months. Point Clear, near the City of Fairhope (G.O. rated Aa3), attracts golfers from around the nation to its Grand Hotel Resort and Spa. The City of Foley's Tanger Mall attracts shoppers from around the southeast region, and provides substantial sales tax revenues for the county. Growth of the commuter base continues, as the county's location along Interstate-10 makes it a bedroom community for both Mobile and Pensacola. Management anticipates growth in the northern portion of the county will continue given the construction of the ThyssenKrupp Steel plant in Mobile. The new plant will include a hot strip mill which will be used primarily to process slabs from the company's new steel mill in Brazil. Officials also expect the regional economy to benefit over the near-term with the introduction of multiple new ancillary or tier 1 supplier companies.

Property values within the county experienced rapid growth from 2004 through 2008, averaging approximately 14.8% per year. Due to the national economic recession and the Gulf of Mexico oil spill, assessed values dropped in both 2009 and 2010 by 8.1% and 10.8% respectively. While overall housing prices were negatively affected over the last two years, home prices in certain sections within the southern portion of the county, near the Gulf of Mexico, are currently above the 2009 prices, a direct result of their beach community location.

While unemployment levels remain at 8.3% (April 2011), this is still below both the national (8.7%) and state (9.0%) medians. Wealth levels within the county are above-average when compared to the state medians, with per capita income of \$20,826 (114.5% of state) and median family income of \$47,028 (112.9% of state). Full value per capita of \$161,406 is high, reflecting in part the high property values and lower permanent population of the beach-area resorts.

#### BELOW AVERAGE DIRECT DEBT BURDEN

Moody's expects the county's indebtedness to remain manageable, despite significant capital needs created by rapid growth. Following the current issue, Baldwin County's overall debt burden will be 1.1% of full valuation, with a low direct debt burden of 0.5%. The debt position is well below the constitutional limits on counties in the state and is comparable to similarly-rated Alabama counties. Amortization of principal is below average at 47.8% of principal repaid within ten years. The county has no outstanding variable rate debt and is not currently party to any interest rate swap agreements.

#### WHAT COULD MAKE THE RATING GO UP:

- Continued growth in tax base
- Continued growth in reserve levels and cash position

#### WHAT COULD MAKE THE RATING GO DOWN:

- Deterioration in General Fund reserve levels
- Significant increased debt burden
- Decreases in tax base valuations

#### KEY STATISTICS:

Population (2007): 171,769

Fiscal 2010 full valuation: \$27.72 billion

Fiscal 2010 full value per capita: \$161,406 million

Direct debt burden: 0.5%

Overall debt burden: 1.1%

Amortization of Principal (10 Years): 47.8%

Fiscal 2008 General Fund Balance: \$30.20 million (53.2% of General Fund revenues)

Fiscal 2009 General Fund Balance: \$29.52 million (54.5% of General Fund revenues)

Fiscal 2010 (unaudited) General Fund Balance: \$28.97 million (49.35% of General Fund revenues)

Median Family Income as a % of State (1999): 112.9%

Per Capita Income as a % of State (1999): 114.5%

Post-issue Parity Debt Outstanding: \$135.05 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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