

RatingsDirect®

Summary:

Baldwin County, Alabama; General Obligation

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Credit Profile

US\$10.625 mil GO warrants ser 2012 dtd 07/01/2012 due 06/01/2026

Long Term Rating

AA+/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Baldwin County, Ala.'s general obligation (GO) warrants series 2012. In addition Standard & Poor's affirmed its 'AA+' long-term rating and underlying rating (SPUR) on the county's previously issued debt. The outlook on all ratings is stable.

The rating reflects our view of the county's:

- Location in the Mobile metropolitan statistical area, with healthy population growth and limited future capital plans;
- Good income levels;
- Historically very strong financial position supported by good financial management.

The county's full faith and credit secures the GO warrants. County officials will use warrant proceeds to refund the county's series 2004B GO warrants.

Located in southwestern Alabama, along the Gulf Coast, Baldwin County is among the fastest-growing counties in the state. An influx of people, including retirees, has driven very strong population growth; the county's population is estimated at more than 180,000, up 28% from 140,000 in the 2000 census. Officials believe that affordable housing and the county's proximity to the white beaches of the Alabama and Florida Gulf Coast, coupled with a transportation infrastructure supported by two interstates, has attracted in-migration. Residents of the 1,613-square-mile county have easy access to the Mobile, Ala., and Pensacola, Fla., employment centers. Leading county employers include a mix of midsize service, retail, and manufacturing firms, as well as health care and government-related operations. In addition, tourism is a major component of the county's overall economy, with a number of country clubs, condos, resorts, and major commercial retail shops.

Prior to fiscal 2008, the county's assessed value (AV) had experienced robust growth, having increased more than 60% in fiscal years 2004 to 2008. But because of declining values along the Gulf Coast, AV fell by 8% in fiscal 2009 and 10% in fiscal 2010. The rate of AV decline dropped to 5% for fiscal 2011 and resulted in an AV of \$3.9 billion, which is down from \$5.0 billion in fiscal 2008. Officials attribute the declines to lower property values resulting from a combination of the economic downturn and the British Petroleum (BP) oil spill. Officials are reporting that, since the cleanup, condo sales have returned to historical norms of about 1,200 sales per year, after measuring 860 in June 2009. In addition, the county's tourism industry is showing signs of resurgence, with rental companies in Gulf Shores, Orange Beach, Fort Morgan, and Dauphin Island reporting 90% to 100% occupancy rates. The property tax base is very diverse, with the 10 leading taxpayers accounting for just 5% of total AV.

The county's per capita retail sales are strong, in our view, at 145% of the U.S. average, and unemployment, at 7.7% in June 2012, is below the state average of 8.9%. County median household effective buying income is good, in our view, at 97% of the nation's level. Per capita market value is extremely strong, in our opinion, at \$106,471.

Baldwin County's financial position remains very strong given that available general fund balances have been a minimum of 20% of expenditures in each of the past seven audited fiscal years. Officials report that the county ended fiscal 2010 with an available general fund balance of \$15 million, which we view as very strong at 31% of expenditures before routine transfers. This does not include \$10 million that officials reserved to help finance the purchase of the industrial megasite in fiscal 2012. Based on unaudited fiscal data, officials anticipate posting an available general fund balance of roughly \$16 million, or 28% of expenditures.

For fiscal 2012, officials used \$10 million of the reserved general fund balance to finance improvements to the megasite, and project to end the year with an available general fund balance of \$17 million, or 32% of operations following routine transfers out to other funds. Officials report that fiscal 2012 property tax revenue is on target with the budget and that sales tax revenue is up 2.5% to 3.0% compared with the budget. For fiscal 2012, officials have eliminated positions and consolidated departments as part of their effort to contain costs during the economic downturn. Officials instituted cost reduction measures to curtail costs at the beginning of fiscal 2010 that are still in place. Management reports that cost cutting measures implemented since the start of fiscal 2011 have resulted in savings of \$3.7 million. The measures that county officials have implemented include:

- A hiring freeze;
- Elimination of 40 vacant positions;
- Reduction of training and travel;
- Restriction of overtime;
- Suspension of annual leave without pay,
- Freezing of all merit raises beginning in fiscal 2010
- A flexible staff program, which transfers personnel internally from low-activity areas to high-activity areas.

Property taxes, generated by a countywide five-mill ad valorem tax, accounted for roughly 37% of the county's general fund revenue in fiscal 2010, and sales taxes accounted for 14%. The county is home to several shopping malls, which contribute significantly to sales tax receipts. Management reports that the Tanger Outlet Mall and a Bass Pro Shop are major sales tax contributors. Officials report that the Tanger Outlet remains roughly 100% occupied. Revenue from various gasoline taxes and a 2.5-mill ad valorem levy primarily supports the county's special revenue funds for road and bridge maintenance.

We deem Baldwin County's financial management practices "good" under our financial management assessment methodology, indicating our view that practices exist in most areas, though not all might be formalized or regularly monitored by governance officials. Strong budgeting practices and long-term capital and financial planning highlight the county's practices and procedures. The county lacks a formal debt management policy; in practice, it has issued debt only when it has deemed doing so necessary. County management has used reserves to fund most of its capital plans.

For fiscal 2010, the county's annual pension cost was \$1 million for the sheriff's department and \$1.8 million for all

other employees; in total the cost was equal to 2.4% of total governmental expenditures. The county has contributed 100% of its annual pension cost during the past three years to its pension plan. The county employee plan and the sheriff's department's plan are 78% and 65% funded, respectively. The county funds other postemployment benefits (OPEB) on a pay-as-you-go basis. Annual OPEB contributions total \$113,000, which equates to less than 1% of operations. The total unfunded pension and OPEB liability as of fiscal 2010 were \$20.9 million and \$6.7 million, respectively. Combined, the liabilities represent \$27.7 million, or 1.4% of market value.

Overall net debt, including GO debt from the countywide school board and municipalities in the county, is low, in our view, at about 1% of market value and \$751 per capita. Fiscal 2010 carrying charges are 15% of total governmental expenditures. Officials have no plans to issue additional debt in the near term.

Outlook

The stable outlook reflects our anticipation that the county will continue to take budgetary action to maintain reserves in excess of 20%. In addition, the county's continued development following the BP oil spill, coupled with positive tourism and development indicators, provide further stability to the rating. We anticipate that the county will build up reserves to historically very strong levels. Given the above factors, we will not likely change the rating within the two-year outlook horizon.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006

Ratings Detail (As Of August 17, 2012)		
Baldwin Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Baldwin Cnty GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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