STANDARD & POOR'S RATINGS SERVICES

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## Summary:

# Baldwin County, Alabama; General Obligation

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| Credit Profile | | |
|---|---|---|
| US$18.645 mil GO warrants ser 2013 dtd 02/01/2013 due 01/01/2026 | | |
| *Long Term Rating* | AA+/Stable | New |
| Baldwin Cnty GO | | |
| *Long Term Rating* | AA+/Stable | Affirmed |
| **Baldwin Cnty GO** | | |
| *Unenhanced Rating* | AA+(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating and stable outlook to Baldwin County, Ala.'s series 2013 general obligation (GO) warrants and affirmed its 'AA+' rating, with a stable outlook, on the county's existing GO debt.

The rating reflects our opinion of the county's:

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

The county's full-faith-and-credit pledge secures the GO warrants. Officials plan to use warrant proceeds to refinance the county's series 2006A GO warrants for interest cost savings.

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 187,443, up by 33% from 140,415 at the 2000 U.S. Census. Officials believe affordable housing and the county's access to the white beaches of the Alabama and Florida Gulf Coast, coupled with a transportation infrastructure supported by two interstates, have attracted in-migration. Residents of the 1,613-square-mile county have easy access to Mobile's and Pensacola, Fla.'s 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, condominiums, resorts, and major commercial retail shops.

The county's primary economic focus is the completion of the Baldwin Beach Express, which would shorten the drive to the beach and Atlanta. The expressway would also provide alternative access to the Megasite, a county-owned 3,100-acre site; this site is a potential location for a major business. The cost of the Baldwin Beach Express project is roughly $150 million, and officials plan to finance the project with RESTORE Act funding.

Before fiscal 2008, assessed value (AV) had experienced robust growth: It increased by more than 60% over fiscal years 2004-2008. Due to decreasing values along the Gulf Coast, however, AV decreased by an aggregate 25% since fiscal 2008 to $3.7 billion in fiscal 2012. Officials attribute AV decreases to lower property values due to a combination of the economic downturn and the British Petroleum (BP) oil spill. According to officials, since the BP cleanup, condominium sales have returned to historical norms; sales were an estimated 1,122 annually in 2012 after just 860 in 2009. In addition, the county's tourism industry is showing signs of resurgence: Hotel occupancy rates in the South Baldwin area were 79% during summer 2012. The property tax base is very diverse with the 10 leading taxpayers accounting for just 3.2% of AV.

Per capita retail sales are, in our view, a strong 145% of the national average. Unemployment of 6.3% in November 2012 was below the nation's 7.4%. Median household effective buying income is, in our view, a good 96% of the nation's level. Market value is, in our opinion, a very strong $99,600 per capita.

Finances have remained, in our opinion, very strong since available general fund balances have been more than 30% of expenditures in each of the past five audited fiscal years. For unaudited fiscal 2012, officials estimate they ended the year with a $5.1 million surplus after transfers due, in part, to ongoing reductions in operating expenses that brought general fund balance to $32.3 million. In fiscal 2012, officials eliminated positions and consolidated departments as part of an effort to contain costs during the economic downturn. Cost reduction measures to curtail costs instituted at the beginning of fiscal 2010 are still in place. According to management, cost-cutting measures implemented since the start of fiscal 2011 have resulted in savings of $4.2 million. The measures county officials have implemented include:

- Instituting a hiring freeze,
- Eliminating 40 vacant positions,
- Reducing training and travel,
- Restricting overtime,
- Suspending annual leave without pay,
- Freezing all merit raises beginning in fiscal 2010, and
- Instituting a flexible staff program that transfers personnel internally to high-activity areas from low-activity areas.

In fiscal 2013, management reports it used $6.3 million of unrestricted fund balance to purchase the final 927 acres of the Megasite. Officials are projecting the general fund to end fiscal 2013 with a $26 million balance, or 54% of budgeted expenditures.

Fiscal 2011 was the first year after the BP oil spill and the first tourist season after the oil cleanup at sea and on the beaches. The county used $1.6 million of general fund balance to pay a substantial purchase option on the Megasite, and it loaned the board of education a substantial amount related to a potential settlement with BP over the oil spill. Therefore, the county ended fiscal 2011 with a $28 million available general fund balance, or 55% of expenditures.

Property taxes for general purposes generated roughly 31% of general fund revenue in fiscal 2011 and general sales taxes generated 15%. The county is home to several shopping malls that contribute significantly to sales tax receipts. According to management, the Tanger Outlet Mall and a Bass Pro Shop are leading sales tax contributors. 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.

Standard & Poor's deems Baldwin County's financial management practices "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. 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. Management has used reserves to fund most capital plans.

The county participates in the Alabama Employees' Retirement System. The sheriff's department contributes separately to the plan; therefore, the rates differ. For fiscal 2011, the county's annual pension cost was $1.2 million for the sheriff's department and $1.7 million for all other employees; the total cost equaled 2.4% of governmental expenditures. The county has historically contributed 100% of the annual pension cost to its pension plan. As of Sept. 30, 2010, the most recent actuarial valuation date, the county employee plan and the sheriff's department's plan were 72% and 64% funded, respectively. The county funds other postemployment benefits (OPEB) through pay-as-you-go financing. Annual OPEB contributions are $150,267, or less than 1% of operations. As of fiscal 2010, the unfunded pension and OPEB liabilities were $26.4 million and $4.6 million, respectively; the combined liability was $31 million, or less than 1% of market value.

Following this issuance, overall debt is, in our view, low at about 1% of market value, or $682 per capita. Fiscal 2011 carrying charges were, in our view, a moderate 14.4% of governmental expenditures. We consider debt amortization above average with officials planning to retire roughly 58% of principal over 10 years. Currently, officials do not definitively plan to issue additional debt.

## Outlook

The stable outlook reflects Standard & Poor's opinion that the county will likely maintain its strong finances, supported by good financial management practices and prudent budgeting. In addition, the county's continued development following the BP oil spill and positive tourism and development indicators provide further rating stability. We do not expect to change the rating within the outlook's two-year period since we believe the county's key revenue streams will likely remain relatively stable during the current economic recovery.

## Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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