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McGRAW HILL FINANCIAL

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Summary:

Baldwin County, Alabama; General Obligation

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Summary:

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Credit Profile		
US$10.155 mil go taxable warrants ser 2014 dtd 05/01/2014 due 01/01/2039		
Long Term Rating	AA+/Stable	New
Baldwin Cnty GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to Baldwin County, Ala.'s series 2014 general obligation (GO) taxable warrants. At the same time, Standard & Poor's affirmed its 'AA+' rating on the county's existing GO debt. The outlook is stable for all ratings.

The county's full-faith-and-credit pledge secures the GO warrants. Officials plan to use warrant proceeds to refinance the county's series 2012-B GO warrants.

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

- Strong local economy;
- Very strong budgetary flexibility, with 2013 audited reserves around 20% of expenditures;
- Very strong liquidity, with total government available cash at 63% of total governmental fund expenditures and well above 500% of debt service;
- Strong management conditions with "good" financial management practices; and
- Very weak budgetary performance.

Strong economy

Serving a population of approximately 190,000, Baldwin is situated in southwestern Alabama, along the Gulf Coast. The county is among the fastest-growing counties in the state. An influx of people, including retirees, has driven very strong population growth over the past decade. Officials believe affordable housing and the county's access to the white beaches of the Alabama and Florida's Gulf Coast, coupled with a transportation infrastructure supported by two interstate highways, have attracted new residents. Residents of the 1,613-square-mile county have easy access to job bases in Mobile, Ala. and Pensacola, Fla. 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 overall economy based on the presence of a number of country clubs, condominiums, resorts, and major retailers.

Market value is just under $19 billion, a 1.2% increase over the previous year. Wealth and income levels are trending well, with market value per capita at $98,413 - which we consider very strong - and per capita effective buying income at 105% of the national level, which we deem good. The tax base is very diverse, with the 10 principal taxpayers accounting for 3% of market value.

Very strong budgetary flexibility

Budgetary flexibility is very strong, with reserves in excess of 15%. Despite drawdowns in recent years, the county has historically maintained very strong reserve. Audited fiscal 2012 reserves were $31.7 million, or 50% of expenditures. The county adopted a deficit budget for fiscal 2013; based on results, reserves are expected to decline to $14.3 million, or 22% of operating expenditures. Despite planned drawdowns for fiscal 2014 and 2015, management is committed to maintaining the county's minimum reserve target of 15% expenditures.

Very weak budgetary performance

The county's budgetary performance is, in our view, very weak, with a projected deficit of 26% for fiscal 2013 and break-even results for 2014. Management attributes the drawdown of reserves to planned one-time expenditures for capital needs and land acquisition. The county has used a portion of its oil and gas-related royalty funds to refund a short-term debt obligation that was issued to purchase a mega-site property. Over time this royalty fund will be refurbished, as the county repays the fund. Per state statute, the royalty fund can only be used for economic development purposes. Moreover, management is confident that in the coming years operating drawdowns will be minimal, and projects minimal deficits through 2017. According to officials, the projections are conservative and that break-even operating results are likely in fiscal 2015, 2016, and 2017. Sales and tax receipts, the principal revenue stream, accounted for 74% of fiscal 2013 general fund revenue, based on unaudited data.

Very strong liquidity

Supporting the county's finances is liquidity we consider very strong, with total government available cash at 63% of total governmental fund expenditures and well above 500% of debt service. We believe the city has strong access to external liquidity, based on its 10-year record of issuance.

Strong management conditions

We view the county's management conditions as strong. 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. Management presents monthly budget reports to the commissioners. The county lacks a formal debt management policy; in practice, it has issued debt only when necessary. Management has used reserves to fund most capital plans.

Strong debt and contingent liability profile

The county's debt and contingent liability profile is strong, with total governmental funds debt service at 10% of total governmental funds expenditures and net direct debt at 127% of revenue in fiscal 2012. The overall net debt burden is low at 1.5% of market value. The debt amortization schedule is extended, with about 69% of principal repaid over 10 years and 100% by 2039. Officials have not indicated any additional debt plans. The county does not have variable-rate debt or privately placed debt transactions.

The county participates in the Employees' Retirement System of Alabama. The city continues to contribute 100% of its annual required contribution (ARC). The city also offers policemen and firemen retirement benefits and meets 100% of its ARC for this fund. The pension plan is 76% funded. Pension and other postemployment benefits accounted for 2% of total expenditures in fiscal 2012.

Adequate Institutional Framework

We consider the Institutional Framework score for Alabama counties adequate.

Outlook

The stable outlook reflects our view of Baldwin County's consistently strong budgetary flexibility and liquidity. We do not expect to revise the rating over the next two years because we believe the management team is committed to maintaining the city's financial position. We, however, could lower the rating if the county continues to post significant operating drawdowns, thus further weakening its already-weak budgetary performance. Improved and stabilized budgetary performance could lead to a positive rating action.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of May 20, 2014)		
Baldwin Cnty GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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