

RatingsDirect®

Summary:

Baldwin County, Alabama; General Obligation

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Summary:

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Credit Profile

US\$35.07 mil GO Warrants ser 2015 dtd 02/01/2015 due 02/01/2033

Long Term Rating

AA+/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to Baldwin County, Ala.'s series 2015 general obligation (GO) 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. We understand that officials plan to use warrant proceeds to refinance the county's series 2007A, 2008B, and 2008C 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 73% of total governmental fund expenditures and above 300% of debt service;
- Strong management conditions with "good" financial management practices;
- Strong debt and contingent liability;
- Weak budgetary performance; and
- Adequate Institutional Framework.

Strong economy

Serving a population of approximately 190,000, Baldwin County 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 about \$19.6 billion, about a 4% increase over the previous year. Wealth and income levels are trending well, with market value per capita at \$102,296 -- 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 about 3% of market value.

Very strong budgetary flexibility

Budgetary flexibility is very strong, with reserves in excess of 15%. Despite drawdowns in recent years, Baldwin County has historically maintained very strong reserve levels. Audited fiscal 2013 reserves were \$14.3 million, or 22% of expenditures. Fiscal 2014 unaudited results reflect a general fund balance of \$14.5 million, or 24% of expenditures. Based on data provided by management, we expect reserve levels to remain very strong.

Weak budgetary performance

The county's budgetary performance is weak, in our view, following a general fund deficit of 26% for fiscal 2013 and relatively break-even results for fiscal year-end 2014. Management attributes the drawdown of reserves to planned one-time expenditures for capital needs and land acquisition. Baldwin 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. Officials adopted a break-even operating budget for fiscal 2015 and project break-even operating results for fiscal years 2016 and 2017. Sales and tax receipts, the principal revenue stream, accounted for 74% of fiscal 2013 general fund revenue, based on audited data.

Very strong liquidity

Supporting the county's finances is liquidity we consider very strong, with total government available cash at 73% of total governmental fund expenditures and above 300% of debt service, as per the fiscal 2013 audit. We believe Baldwin County 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 recently adopted a comprehensive debt management policy, in addition to its pre-existing and well-embedded financial management policies.

Strong debt and contingent liability profile

Following this issuance and our analytic adjustments, we view Baldwin County's debt and contingent liability profile weak, with total governmental funds debt service at 24% of total governmental funds expenditures and net direct debt at 119% of revenue. The overall net debt burden remains low at 1.4% of market value. The debt amortization schedule is above average, but no longer considered rapid, with about 64% of principal repaid over 10 years. Officials have not indicated any additional debt plans. The county does not have variable-rate debt or privately placed debt transactions.

Baldwin County participates in the Employees' Retirement System of Alabama. The county continues to contribute 100% of its annual required contribution. Pension and other postemployment benefits accounted for about 1% of total expenditures in fiscal 2013.

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 very strong 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 county financial position. However, we could lower the rating if Baldwin 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: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Alabama Local Governments

Ratings Detail (As Of February 18, 2015)		
Baldwin Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Baldwin Cnty GO (AGM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Baldwin Cnty GO (AMBAC)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Baldwin Cnty GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Baldwin Cnty GO (SYNCORA GTY)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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