

July 15, 2011

Summary:
Baldwin County, Alabama; General
Obligation

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Summary:

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Credit Profile		
US\$25. mil GO taxable warrants ser 2011 dtd 08/01/2011 due 08/01/2041		
Long Term Rating	AA+/Stable	New
Baldwin Cnty GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its long-term, 'AA+' rating to Baldwin County, Ala.'s general obligation (GO) warrants series 2011. In addition Standard & Poor's affirmed its 'AA+' underlying rating on the county's debt outstanding. The outlook 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 pledge secures the GO warrants. We understand that county officials will use warrant proceeds to purchase a 3,000-acre property for use as a certified industrial megasite, which officials project will promote continued economic development.

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 currently 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 however, include a mix of mid-size 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 number of country clubs, condos, resorts, and major commercial retail shops.

Prior to fiscal 2008, the county's assessed value (AV) had been experiencing robust growth, having increased more than 60% from fiscal 2004 to fiscal 2008. But due to declining values along the Gulf Coast, the AV for fiscal 2009 fell by 8.8% to \$4.6 billion from \$5 billion in fiscal 2008. In fiscal 2010, AV fell another 12% to \$4.1 billion. Officials attribute the declines to lower property values resulting from a combination of the economic downturn and the British Petroleum oil spill. Since the cleanup, officials are reporting that condo sales are back up to historic norms, at around 1,200 currently, after being down 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 for the July 4 holiday weekend. 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 148% of the U.S. average, and unemployment, at 8.7% in May 2011, is below the state average. County median household effective buying income is good in our view, at 97% of the nation's level.

We consider Baldwin County's financial position to be healthy given that available general fund balances have been a minimum of 20% of expenditures in each of the past six audited fiscal years. Officials report that they ended fiscal 2009 with an available general fund balance of \$29.5 million, which is very strong at 67% of expenditures before routine transfers. Based on unaudited data, officials expect to post an available general fund balance of roughly \$29 million in fiscal 2010, or close to 60% of operations, and they project similar results for fiscal 2011. For fiscal 2012, officials will use \$10 million from the general fund to help finance the purchase of the industrial megasite, which would bring the available general fund balance down to a projected \$20 million, or roughly 40% of expenditures before routine transfers. Officials project that ad valorem revenues will decline 8.5% in fiscal 2011 and 5% in fiscal 2012, but sales tax revenues in May 2011 are 8.9% above where they were in May 2010. County officials are projecting to maintain very strong reserves in the face of lower historical revenues after taking a number of steps to combat projected revenue declines including:

- Implementing a hiring freeze that is expected to save \$700,000;
- Eliminating 40 vacant positions;
- Reducing training and travel for \$150,000 in savings;
- Restricting overtime for \$100,000 in savings;
- Suspending annual leave without pay, saving \$200,000;
- Freezing all merit raises beginning in fiscal 2010, saving approximately \$250,000;
- Implementing a flexible staff program, which transfers personnel internally from low activity areas to high activity areas.

Officials project net savings of \$2.4 million in fiscal 2011 as a result of taking these measures.

Property taxes, generated by a countywide 5-mill ad valorem tax, accounted for roughly 37% of the county's general fund revenues 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 Shops are major sales tax contributors. Officials report that the Tanger Outlet remains roughly 100% occupied. Revenues from various gasoline taxes and a 2.5-mill ad valorem levy primarily support 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 (FMA) methodology, indicating 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 currently lacks a formal debt management policy; in practice, it has issued debt only when needed. County management has used reserves to fund most of its capital plans.

For fiscal 2009, the county's annual pension cost was \$1.8 million, equal to 3% of operations. The county has contributed 100% of its annual pension cost over the past three years to its pension plan, which is about 80%

funded. The county funds other post-employment benefits (OPEB) on a pay-as-you-go basis. Annual OPEB contributions total \$89,000, which equates to less than 1% of operations. The total unfunded OPEB liability as of the fiscal year 2009 audit is \$6.7 million.

Overall net debt, including GO debt from the countywide school board and municipalities in the county, is low in our view, at about 1.0% of market value and \$751 per capita. Fiscal 2009 carrying charges are low at less than 8%. Officials have no plans to issue additional debt in the near term.

Outlook

The stable outlook reflects the expectation that the county's continued development will allow for sustained economic growth and for management's maintenance of very strong reserves. The county's rating is not likely to change within the standard two-year outlook horizon.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of July 15, 2011)		
Baldwin Cnty GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Baldwin Cnty GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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