

Exclusive 'AAA' County Club Opens Door To Six New Members

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Six counties attained 'AAA' status in the past 15 months, bringing the number in this elite group to 48. The newcomers were Anne Arundel County, Md.; Bernalillo County, N.M.; Hillsborough County, Fla.; Maricopa County, Ariz.; Polk County, Iowa; and Washington County, Minn.

The increase in the number of counties with a 'AAA' general obligation (GO) rating is in line with Standard & Poor's Ratings Services' forecast in its last report in October 2006. We predicted additions to the 'AAA' ratings list following a two-year period in which only one county was added. The 'AAA' category represents a very exclusive club, with less than 1% of all rated GO debt (excluding insured debt) falling into this category.

Maricopa County received the 'AAA' issuer credit rating right out of the box. The other five new 'AAA' ratings were upgraded from 'AA+'.

What It Takes To Join The 'AAA' Club

A deep, diverse, and growing economy, strong financial management, and a low debt burden are hallmarks of 'AAA' rated counties. This rating category, by definition, represents extremely strong capacity to pay principal and interest. Typically, 'AAA' rated counties demonstrate an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-designed capital plans, maintaining sufficient reserves, adjusting in midyear as needed for unforeseen circumstances, and planning for future contingencies.

While 11 of the 'AAA' rated counties have populations of more than 1 million, the average population is about 807,000. There is a wide range in population size, from 3.94 million in Maricopa, to 200,226 in Arlington County, Va., and 136,526 in Olmsted County, Minn.

Publication Date

Jan. 24, 2008

Stability: Lessons from the last recession

'AAA' rated counties exhibit a common trait: stability. This was demonstrated during the economic slowdown in 2001-2002.

Factors contributing to stability are:

- Revenues that are not heavily cyclical (unlike states which rely on income, sales, and capital gains taxes that generally make their revenues more sensitive to the economy);
- Strong collection rates for property taxes and locally derived fees;
- Strong sales tax collections; and
- Reserves that is sufficient and largely maintained during the recession.

A record of stability and resilience through all economic cycles is a key characteristic of 'AAA' rated counties. This is not to say that 'AAA' rated counties do not feel the effect of economic slowdowns. Rather, they manage to offset recessionary pressures by creating reserves in good times and plan well ahead for their operating and capital needs.

A diverse revenue stream is often a key to financial strength, because too much reliance on one source of revenue can make a county vulnerable to economic downturns. Equally important are spending trends. Although counties cannot always control all their costs, sound financial decisions can help maintain fiscal strength. Some counties have financial responsibility for social service programs—a very unpredictable part of the budget in an economic downturn because caseloads tend to increase. Social service programs also introduce the potential for costly unfunded mandates. Highly rated counties have been able to control labor costs, limit the growth in programs and services, and take other measures, such as raising taxes or using reserves, to keep operations in structural balance despite economic pressures.

Planning For The Long Term

Planning is often key to sound finances and manageable debt levels. County services and growing infrastructure needs have to be assessed with a long-term view, especially if a county is expanding rapidly. In setting user fees for water and sewer or solid waste operations, for example, a county has to balance its needs for future expansion and maintenance with the political reality of keeping rate increases reasonable and stable. Infrastructure requirements associated with solid waste, school facilities, sewer and roads, or other major services should be anticipated and made part of an achievable, long-term capital plan.

Many of the 'AAA' rated counties have sophisticated financial planning procedures, both short and long term, that provide maximum flexibility to manage resources in any economic environment. Capital planning and, more recently, debt affordability models or guidelines that evaluate capital requirements and funding sources and assess the future impact of current bond programs, are strong management tools. Governments that can solve problems before they become unmanageable or expensive are the most successful in achieving structural balance in their financial operations and in managing their debt and capital needs.

The Four Essentials

The various economic, financial, and debt ratios of 'AAA' rated counties do not represent an exhaustive list of considerations in the rating process.

They do, however, represent some of the most important characteristics contributing to the coveted 'AAA' rating:

- Strong administration;
- Manageable debt levels;
- Strong economies; and
- Financial flexibility in the form of additional reserves, taxing ability, or budget options.

While each of Standard & Poor's 48 'AAA' rated counties is unique, these key common factors give the counties extremely strong capabilities to meet their debt obligations.

Ratios And Rankings

Standard & Poor's uses several ratios as part of the credit review process. Among them are overall net debt per capita, per capita market value, and unreserved general fund balance as a percentage of expenditures (see glossary in table 9).

A high overall net debt ratio is an indication of a heavy debt burden, which is theoretically borne in equal measure by each resident. In some cases, Standard & Poor's makes distinctions between direct debt, for which the issuer itself is responsible, and overlapping and underlying debt, which is not a direct obligation of the issuer. If the issuer's direct debt is low, less weight may be given to overlapping and underlying debt than will be the case if the issuer's own debt burden is high.

Overall debt per capita for the 48 'AAA' rated counties ranged from a high of \$4,266 for Travis County, Texas, to a low of \$161 for Montgomery County, Md. Average overall debt per capita is \$2,350, up from \$2,116 in our 2006 report, and the median is \$2,484, up from \$2,188.

Per capita market value measures property wealth. Virginia's Arlington County has the highest per capita market value, at \$265,654, followed by Loudoun County, Va., at \$240,888. In our last report, these two counties also had the highest per capita market values, but the order was reversed. In both counties, a combination of strong price appreciation, new development, and redevelopment boosted valuation significantly in the past decade, as has been the case throughout northern Virginia.

Although 'AAA' rated counties demonstrate resiliency through all economic cycles, the impact of the currently soft real estate market on valuations in these counties is being monitored by Standard & Poor's to gauge what impact, if any, the housing slump will have on this high level of credit quality. Average per capita market value for the 'AAA' rated counties is \$116,850, up from \$111,374 last year, and \$99,710 in 2005. Median per capita market value has shown similar growth, having increased to \$104,142 currently, from \$82,998 in 2004 and \$78,021 in 2002. Eight of the 10 highest per capita market values are counties in the East, and the top three—Arlington, Loudoun, and Fairfax—are in Virginia.

When examining a county's financial position, Standard & Poor's also reviews reserves levels, both in terms of policies and trends. We examine the unreserved general fund balance as a percentage of operating expenditures to determine the size of reserves available in relation to the total budget. While we do not advocate an ideal reserve level, our report, "U.S. GO Rating Distributions and Summary Ratios: Year-End 2007," on Jan. 2, 2008, sets forth ranges for cities and counties based on population segments with descriptors that range from high, above average to average, below average, and low.

Each situation is considered on its own merits. The ratio for the 'AAA' rated counties for unreserved general fund balance as a percentage of general fund operating expenditures ranges from a low of 7.9% for Fairfax County, Va. and 8.1% for Middlesex County, N.J. to a high of 88.6% for Collin County, Texas, and 84.2% for Lake County, Ill.

The average unreserved general fund balance for the 'AAA' rated counties is 26.4% of operating expenditures, while the median is 20.5%. Seven of the top 10 counties with highest unreserved fund balances are in the Midwest. The resilience of 'AAA' counties is evident in the stability of unreserved general fund balance, which, at 26.4% of operating expenditures, is essentially unchanged from 26.8% in our June 2002 report. This is even more impressive considering that the latest figures captured the effects of the 2001 recession.

Economic Assessment

Areas of economic activity that affect credit quality include:

- Growth of the labor force;
- Diversification of employment sectors;
- Unemployment rates;
- Wealth and income indicators;
- Construction and retail activity;
- Population growth;
- Attraction of new businesses; and
- Tax base and employment expansion.

We examine several economic indicators to determine the vibrancy and strength of an entity. Among the most important are income levels and unemployment rates. We compare several income indicators with U.S. averages.

As measured by Claritas Inc., a marketing information company, ratios, median household effective buying income as a percentage of the U.S. average ranges from 91% for Charleston County, S.C., to 172% for Arlington and Fairfax County, Va. On average, the 'AAA' rated counties' median household effective buying income was 125% of the U.S. average, while the median was 120%. At first glance, these income levels may appear more moderate than expected for highly rated credits, and much lower than the average (159% and median 139%) for 'AAA' rated cities, but given the large populations in many 'AAA' rated counties, wealth levels tend to be spread out and often understated. The average unemployment rate of 4% in 'AAA' rated counties is below the U.S. rate of 5.1%. In many of these counties, the jobless rate is significantly below the U.S. average.

Broad geographic distribution

Table 1 illustrates the number of 'AAA' rated counties by region and compares it with the 2004 report. The increase in the number of 'AAA' rated counties is distributed almost equally across all regions. A little over half of the 'AAA' rated counties (25) are located in 'AAA' rated states.

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Table 1

'AAA' Rated Counties By Region				
	<i>East</i>	<i>Midwest</i>	<i>West/Southwest</i>	<i>Southeast</i>
	Virginia (5)	Minnesota (4)	Texas (4)	North Carolina (5)
	Maryland (4)	Michigan (3)	Utah (1)	Georgia (3)
	New Jersey (4)	Illinois (2)	Washington (1)	South Carolina (2)
	New York (1)	Ohio (1)	New Mexico (1)	Florida (2)
	Delaware (1)	Missouri (1)	Arizona (1)	
		Kansas (1)		
		Iowa (1)		
Currently	15	13	8	12
2004 report	13	10	5	9

Fourteen of the 'AAA' rated counties are located in Maryland, North Carolina, and Virginia, which are all 'AAA' rated states. The state and local level of governments of these states share a consistent level of financial conservatism, state oversight, and sound fiscal and debt policy, which is a credit strength.

The eastern region also has a very high concentration of higher education institutions, a strong federal government presence, and a highly established corporate and industrial base, which provide a strong employment and income foundation. While many of these economic characteristics are present in counties in the west, the local tax environment and other intergovernmental constraints make it more difficult to achieve the highest rating. Most eastern states have taxing flexibility, in contrast to some western region county governments, which operate under strict taxing limitations. Often these taxing limitations reduce financial flexibility.

Table 2

'AAA' Rated Counties										
		<i>State Population</i>	<i>Household EBI</i>	<i>Total MV (Mil. \$)</i>	<i>Per capita MV (\$)</i>	<i>GF bal % exp</i>	<i>Unreserved FB%</i>	<i>Total direct debt (Mil. \$)</i>	<i>Overall debt % MV</i>	<i>Overall debt per capita (\$)</i>
Arlington Cnty	VA	200,226	143	53,191	265,654	12.7	11.7	761	1.1	2,993
Baltimore Cnty	MD	786,113	114	56,106	71,371	21.2	19.2	1,395	1.6	1,159
Bernalillo Cnty	NM	615,099	96	38,845	63,152	60.8	25.5	329	2.0	1,232
Charleston Cnty	SC	331,917	91	49,449	148,980	33.5	29.9	493	1.7	2,479
Chesterfield Cnty	VA	306,000	130	29,823	97,460	29.0	19.4	601	1.9	1,895
Cobb Cnty	GA	673,775	131	75,716	112,376	20.9	18.6	366	0.5	526
Collin Cnty	TX	690,500	159	61,954	89,723	91.9	88.6	363	2.8	2,546
Dallas Cnty	TX	2,383,300	105	135,408	56,815	14.4	11.3	222	5.9	3,355
Dekalb Cnty	GA	710,400	113	63,790	89,794	12.0	8.8	1,123	1.9	1,686
DuPage Cnty	IL	932,670	146	104,375	111,909	25.0	24.1	325	3.0	3,326
Durham Cnty	NC	249,654	102	21,286	86,203	20.0	12.5	342	2.5	1,910
Fairfax Cnty	VA	1,059,560	172	232,410	219,346	9.0	7.9	2,784	1.0	2,288

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Table 2

'AAA' Rated Counties (cont.'d)										
		<i>State Population</i>	<i>Household EBI</i>	<i>Total MV (Mil. \$)</i>	<i>Per capita MV (\$)</i>	<i>GF bal % exp</i>	<i>Unreserved FB%</i>	<i>Total direct debt (Mil. \$)</i>	<i>Overall debt % MV</i>	<i>Overall debt per capita (\$)</i>
Forsyth Cnty	NC	326,340	98	29,645	90,841	30.7	21.0	440	1.9	1,675
Franklin Cnty	OH	1,153,926	103	86,615	75,061	66.7	65.0	310	3.9	2,942
Greenville Cnty	SC	407,383	98	27,663	67,905	36.5	35.3	141	5.0	3,371
Guilford Cnty	NC	448,694	99	41,180	91,777	23.8	14.9	605	2.1	1,962
Gwinnett Cnty	GA	757,104	127	62,932	83,122	39.0	37.9	1,004	0.6	506
Hennepin Cnty	MN	1,122,093	120	167,419	149,203	41.1	35.6	538	2.0	3,024
Henrico Cnty	VA	288,735	113	28,992	100,409	34.8	34.0	438	1.0	1,029
Hillsborough Cnty	FL	1,115,960	101	56,617	50,734	20.2	18.7	697	0.9	446
Howard Cnty	MD	276,287	161	36,925	133,647	16.1	9.4	810	1.9	2,489
Johnson Cnty	KS	520,000	136	55,837	107,380	31.7	26.5	346	3.2	3,437
Kent Cnty	MI	599,524	104	48,677	81,193	56.4	51.2	524	4.2	3,405
King Cnty	WA	1,835,300	120	298,755	162,783	24.0	20.0	2,072	1.8	2,969
Lake Cnty	IL	723,591	146	75,509	104,353	84.4	84.2	292	0.4	403
Loudoun Cnty	VA	259,225	172	62,444	240,888	21.0	19.4	925	1.7	4,150
Macomb Cnty	MI	829,453	115	74,457	89,766	24.1	24.0	167	3.2	2,889
Maricopa Cnty	AZ	3,936,231	108	431,682	109,669	55.4	52.8	198	1.5	1,649
Mecklenburg Cnty	NC	850,178	117	88,360	103,931	25.2	16.8	2,121	3.3	3,392
Middlesex Cnty	NJ	785,095	134	90,282	114,996	8.7	8.1	832	1.8	2,041
Monmouth Cnty	NJ	655,674	139	119,359	182,040	32.8	19.4	411	1.7	3,085
Montgomery Cnty	MD	953,000	156	122,425	128,463	12.0	11.8	1,805	0.1	161
Morris Cnty	NJ	495,004	161	88,857	179,507	20.8	15.2	258	1.6	2,878
New Castle Cnty	DE	531,037	121	76,200	143,493	80.6	22.8	225	1.0	1,495
Oakland Cnty	MI	1,214,361	136	154,662	127,361	17.5	17.2	914	3.3	4,199
Olmsted Cnty	MN	136,526	119	12,245	89,687	46.2	42.5	137	3.2	2,840
Palm Beach Cnty	FL	1,287,987	110	232,872	180,803	29.4	29.0	1,684	1.6	2,794
Polk Cnty	IA	374,601	106	27,557	73,564	31.4	25.6	260	1.2	911
Ramsey Cnty	MN	515,278	105	55,273	107,267	45.0	39.9	206	2.2	2,344
Salt Lake Cnty	UT	996,374	115	90,714	91,044	25.1	23.2	395	0.9	821

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'AAA' Rated Counties (cont.'d)										
		<i>State Population</i>	<i>Household EBI</i>	<i>Total MV (Mil. \$)</i>	<i>Per capita MV (\$)</i>	<i>GF bal % exp</i>	<i>Unreserved FB%</i>	<i>Total direct debt (Mil. \$)</i>	<i>Overall debt % MV</i>	<i>Overall debt per capita (\$)</i>
Somerset Cnty	NJ	319,900	162	51,893	162,218	22.5	17.0	205	2.2	3,533
St Louis Cnty	MO	1,004,666	116	92,022	91,595	31.2	24.9	303	1.5	1,387
Tarrant Cnty	TX	1,702,250	112	105,761	62,130	18.2	14.5	266	5.4	3,338
Travis Cnty	TX	920,544	113	75,418	81,927	26.8	23.4	536	5.2	4,266
Wake Cnty	NC	782,283	127	75,948	97,085	20.1	12.0	1,585	2.5	2,415
Washington Cnty	MN	224,857	144	31,225	134,284	56.5	55.6	159	2.0	3,472
Westchester Cnty	NY	946,900	134	178,570	188,584	14.2	12.5	973	2.2	4,137
Average		807,414	125	90,383	116,850	32.0	26.4	687	2.2	2,350
Median		700,450	120	69,123	104,142	25.1	20.5	439	1.9	2,484

EBI—Effective buying income. MV—Market value. GF—General fund. FB—Fund balance. Exp—Expenditure.

Table 3

Largest 'AAA' Rated Counties By Population	
Maricopa Cnty	3,936,231
Dallas Cnty	2,383,300
King Cnty	1,835,300
Tarrant Cnty	1,702,250
Palm Beach Cnty	1,287,987

Table 4

Smallest 'AAA' Rated Counties By Population	
Olmsted Cnty	136,526
Arlington Cnty	200,226
Washington Cnty	224,857
Durham Cnty	249,654
Loudoun Cnty	259,225

Table 5

Top 'AAA' Rated Counties By Household Income As % Of U.S. Average	
Loudoun Cnty	172
Fairfax Cnty	172
Somerset Cnty	162
Howard Cnty	161
Morris Cnty	161

Table 6

Top 5 'AAA' Rated Counties By Per Capita Market Value (\$)	
Arlington	265,654
Loudoun	240,888
Fairfax	219,346
Westchester	188,584
Monmouth	182,040

Table 7

'AAA' Rated Counties Ranked By Ratio Of Unreserved Fund Balance To Operating Expenditure (%)	
Collin	88.6
Lake	84.2
Franklin	65.0
Washington	55.6
Maricopa	52.8

Table 8

'AAA' Rated Counties With Lowest Debt Per Capita (%)	
Montgomery	161
Lake	403
Hillsborough	446
Gwinnett	506
Cobb	526

Glossary

Table 9

Glossary	
General fund balance/expenditures	The annual dollar amount of reserves the municipality has in its general fund as a percentage of general fund expenditures at the end of the fiscal year. Source: Audits and Comprehensive Annual Financial Reports of the municipalities.
Household EBI % of U.S.	Effective buying income measures income after taxes. Household EBI measures income on a household basis, regardless of the number of family members and compares it on a ratio basis with the national average. Source: Claritas Inc.
Per capita market value	Total market value divided by population.
Overall net debt % of market value	Overall net debt to market value. A ratio of the dollar value of debt to the value of the underlying tax base. This number provides insight into how heavy or light the debt burden is on taxable property. Source: Official statements of municipalities and Comprehensive Annual Financial Reports.
Direct debt per capita	This number generally includes underlying and overlapping debt, and indicates how heavy the debt burden is for residents. Source: Official statements of municipalities and Comprehensive Annual Financial Reports.
Total direct debt	The total amount of debt the issuer is directly responsible for repaying. It excludes overlapping and underlying debt.
Total market value	The value of the municipality's taxable property. Source: Official statements of the municipalities.
Unreserved general fund balance/expenditures	Similar to total general fund balance, but more restrictive because only those funds not reserved for some specific purpose are included. Source: Audits and Comprehensive Annual Financial Reports of the municipalities.

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