

## Fitch Rates DeKalb County, GA's TANs 'F1+'

Written by Australian Business

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NEW YORK--( [BUSINESS WIRE](#) )--Fitch Ratings has assigned a rating of 'F1+' to the tax anticipation notes (TANs) to be issued by DeKalb County, Georgia (the county):

--\$85,700,000 TANs, due Dec. 31, 2014.

The notes will be sold on a competitive basis, on May 20. The notes will be issued to pay current expenses of the county prior to the receipt of revenues from taxes levied or to be levied for the general fund in 2014.

In addition, Fitch affirms the 'AA-' rating on the county's general obligation (GO) refunding bonds, series 2013.

The Rating Outlook is Stable.

### SECURITY

The notes and bonds are a GO of the county backed by the levy of ad valorem taxes, without limitation as to rate or amount. The notes are payable from ad valorem taxes levied in 2014 and other borrowable funds available for repayment.

### KEY RATING DRIVERS

LONG-TERM ANALYSIS: The 'F1+' rating assigned to the TANs corresponds to the long-term rating on the county's GO bonds. The TAN rating also considers the satisfactory projected coverage on the repayment date and sufficient levels of borrowable funds.

**FINANCES KEY TO CREDIT QUALITY:** Fitch views the county's financial position as improved but still limited with reserves still providing a fairly low financial cushion relative to other 'AA' category counties rated by Fitch. Fitch also views the county's operating profile as mixed, benefiting from ample flexibility to increase revenues and an absence of labor related pressures, offset by a recent history of inconsistent budgetary performance and a very slow response to the economic downturn.

**LOW DEBT BUT PENSION WEAK:** Debt metrics are very low but tempered by the county's low pension funding levels. Carrying charges for pension, debt, and other post-employment benefits (OPEB) consume a moderate share of the annual budget.

**BROAD-BASED ECONOMY:** A highly educated county labor force combine with the employment breadth and growth prospects of the Atlanta metropolitan area to form an expectation for stable to positive economic growth over the long term. County income measures exceed the state's and approximate national norms.

### RATING SENSITIVITIES

**OPERATING STABILITY:** Concerns remain over the rapidity with which reserves were recently depleted. As such the county's commitment to operating stability and compliance with its reserve policy are important rating considerations. The county's debt and economic profile are not expected to pressure the rating.

### CREDIT PROFILE

DeKalb County is located immediately east of Atlanta. Incorporated areas include the cities of Decatur, Dunwoody, Brookhaven, several smaller municipalities and a small portion of Atlanta. The county has an estimated 2013 population of 713,340 compared to 665,865 in 2000.

### ADEQUATE NOTE COVERAGE

The county sells TANs to meet cash flow requirements for its tax funds (general fund and various special tax districts for police, roads and drainage, etc.), as property taxes, which account for approximately 80% of total operating receipts, become due in full on Oct. 15 for the fiscal year beginning the preceding Jan. 1. Although legal provisions do not require set-aside for repayment in advance of note maturity on Dec. 31, the county typically earmarks property taxes received in October for repayment.

Projected tax fund cash balances and operating receipts cover TAN principal and interest by a thin but adequate margin of 1.3x. Coverage improves to 2.1x including projected unrestricted cash balances outside of the tax funds (primarily, cash balances held in risk management, vehicle replacement, and stormwater management funds). The principal amount of the current note issuance approximates a moderate 17% of projected 2014 tax fund operating receipts. Recently improved financial results helped the county lower its cash flow borrowing needs from \$157 million in 2012 and \$103 million in 2013.

### RESERVES IMPROVED BUT STILL NARROW

The county's financial position has improved but remains somewhat limited. The county reported consecutive years of accumulated deficits from 2008-2011 driven by a somewhat slow response to the declining economic and revenue environment. The accumulated general fund deficit reached its weakest point of \$33.8 million in 2010 against spending of \$258.9 million (-13%) before the county enacted a 25.8% increase in the unincorporated area tax rate mid-year 2011. The tax rate increase generated \$25.9 million in additional revenue on the year and paved the way for operating surpluses of \$15.3 million (6.0%) in 2011 and \$28.5 million (10.9%) in 2012. In 2012 the general fund posted a positive unrestricted fund balance for the first time in four years, albeit still very narrow, equal to \$5.1 million or 2.0% of spending. Unaudited financial statements for 2013 are not yet available, but the county projects an ending balance of approximately \$30 million in the general fund or 10.5% of budgeted spending. The 2013 estimate is presented on a cash basis, but it is worth noting the reconciliation of budget-based accounting to GAAP has led to favorable revenue and expenditure accruals in each of the prior three audited fiscal years.

The recently adopted 2014 budget does not include a tax rate increase or any new or one-time revenues. The budget appropriates the entire general fund balance, a practice

consistent with prior year budgets. The county does intend to lower the general fund balance to roughly equal its one-month policy, as a portion of the general fund millage is 'redirected' to build reserves in other tax funds. The budget funds a 3% across the board wage increase, the first since 2005, effective Sept. 1, at an estimated annualized cost of \$10.8 million for the general fund. The budget also includes a \$6 million contribution for capital expenditures.

### RATING FOCUS ON FINANCIAL STABILITY

Looking forward, Fitch views the county's ability to maintain fiscal balance and the preservation of reserves equal to or in very close proximity to the one-month policy level as important rating factors. The performance of the property tax revenue stream is critical to this expectation, given its dominance as a funding source for the budget. Favorably, the county has legal capacity to increase its tax rate and levy without limitation. Fitch believes the tax base will likely continue to grow over time based on projections for population and economic expansion. However, the tax base has proven quite volatile in recent years, losing 25.8% or approximately \$6.6 billion in value from 2008-2012 due to a combination of declining home prices and incorporation. The tax base was flat in 2013 and home prices for Dunwoody and Decatur (the county's largest cities) are performing well according to Zillow and Trulia. The 2014 budget assumes 1% tax base growth, which may prove to be fairly conservative. The county's tax burden is higher than other large in-state counties, which could serve as a political impediment to future increases. The county has held the overall tax rate steady since the 2011 increase, referring to the current 21.21 mill rate as an internal ceiling.

### LONG-TERM LIABILITIES MANAGEABLE

The county's overall debt levels remain very low, reported capital needs are modest and mostly discretionary in nature, and there are no plans for additional long-term debt at this time. Risks to other long-term liabilities related to pension and OPEB are more concerning but Fitch believes they are manageable. The county's pension plan had a reported funded level of 66.1% as of April 1, 2012, adjusted by Fitch to 61.1% substituting the plan's 7.75% rate of return assumption to 7%. Despite the low funded ratio the adjusted unfunded liability of \$757 million does not represent an outsized share of overall market value at just above 1%. The actuarial required contribution (ARC) for pension has almost doubled from the 2008 to 2012 annual financial reports; however, carrying costs for debt service, pension and OPEB still consume a fairly manageable level of governmental fund resources. Both employer and employee contributions have been

increased in recent years, and the county is proposing a shift to a hybrid plan for new entrants commencing Jan. 1, 2015 that would temper its pension liability over time.

### PARTICIPATION IN GROWING ATLANTA METRO ECONOMY

The county benefits from its participation in the Atlanta-Sandy Springs-Roswell metropolitan statistical area (MSA). The MSA ranks as the ninth largest employment center in the U.S. with more than 2.5 million non-farm jobs. MSA population and employment growth are expected to remain strong relative to the state and U.S. County employment levels improved 2.1% on the year in March, lowering the rate of unemployment to 7.1% (still slightly above the Georgia and U.S. average, which has been the case historically). The area economy features a very well-educated labor force lending to a high level of competition. In DeKalb County, 39% of residents 25+ years of age hold a bachelor's degree or higher, equal to an impressive 140% of the national standard. The same relationship is true of the county's per capita money income measure.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, Zillow.com, and Trulia.com.

#### Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)

U.S. Local Government Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685314](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

Additional Disclosure

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