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Summary:

Walsh County, North Dakota Walsh County Water Resource District; General Obligation

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Table Of Contents

Rationale

Outlook

Related Research

Summary:

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Credit Profile

US\$6.35 mil rfdg imp bnds (Walsh Cnty) ser 2018A due 06/01/2037

Long Term Rating

AA-/Stable

New

Rationale

S&P Global Ratings assigned its 'AA-' rating to the Walsh County Water Resource District, N.D.'s series 2018A refunding improvement bonds, which are supported by Walsh County's general fund pledge. The outlook is stable.

The series 2018A bonds are secured by special assessments pledged by the resource district (a component unit of Walsh County). To the extent that assessments are expected to be insufficient, the county is statutorily required to levy ad valorem property tax "deficiency levy" on all taxable property within its borders, without limit as to rate or amount. Given that the tax is not being levied on issuance and the county would likely pay deficiencies first, from its general fund, we consider this a general fund pledge of the county. Pursuant to our criteria, "Issue Credit Ratings Linked To The Obligor's Creditworthiness" (published on RatingsDirect on Jan. 25, 2018), we consider the likelihood of timely payment on the bonds ultimately a function of the county's general operational health, and we rate the bonds on par with our view of the county's general creditworthiness, as reflected in the 'AA-' rating. Officials will use bond proceeds for the current refunding of existing debt.

The 'AA-' rating reflects our view of the county's

- Adequate economy, with projected per capita effective buying income (EBI) at 101.5% of the national level and market value per capita of \$104,139;
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2016, which closed with operating deficits in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 81% of operating expenditures;
- Very strong liquidity, with total government available cash at 34.2% of total governmental fund expenditures and 46.8x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at less than 1% of expenditures and net direct debt that is 40.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of

market value, but significant medium-term debt plans; and

- Adequate institutional framework score.

Adequate economy

We consider Walsh County's economy adequate. The county has an estimated population of 10,713 over 1,294 square miles in northeastern North Dakota, with its eastern edge bordering Minnesota. It has a projected per capita EBI of 101.5% of the national level and per capita market value of \$104,139. Overall, market value grew by 1.8% over the past year to \$1.1 billion in 2018. The county unemployment rate was 3.3% in 2017.

Walsh County's economy centers around agriculture, and agricultural land makes up just under two-thirds of assessed value, with most of the remainder split between residential and utility properties. Valuations have increased modestly over the past four years, which we understand primarily reflects appreciation in agricultural land values, along with some growth in the valuation of oil pipelines running through the county. Management reports that top employers and taxpayers are stable, and we expect the county's economic measures to remain relatively stable in the near term.

Adequate management

We view the county's management as adequate, with "standard" financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Highlights to the FMA include the use of three years of historical data and external sources to formulate budget projections, monthly budget-to-actual reporting to the board of commissioners, and quarterly reporting on investment holdings to the board. The county does not have long-term financial or capital plans nor does it maintain debt management, investment, or reserve policies or targets.

Adequate budgetary performance

Walsh County's budgetary performance is adequate, in our opinion. The county had operating deficits of negative 13.6% of expenditures in the general fund and negative 8.5% across all governmental funds in fiscal 2016. Our assessment accounts for the fact that we expect budgetary results could improve from 2016 results in the near term.

The county's fiscal 2016 audited general fund results reflect an uncharacteristically large deficit, which management attributes in part to the county board's decision to reduce its operating millage rate and spend down some of its fund balance, which was well in excess expenditures at the end of the prior fiscal year. Fiscal 2017 year-end results reflected \$964,000, equal to about one-third of expenditures, while the fiscal 2018 budget was structured with minimal changes over prior years and a small surplus. Overall results across governmental funds have been mixed in recent years, in part due to capital spending. We expect the county's budgetary performance to improve from fiscal 2016 levels and likely to remain adequate, with positive results in the general fund in most years and some potential for deficit spending across total governmental funds.

Very strong budgetary flexibility

Walsh County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 81% of operating expenditures, or \$3.1 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Despite the above-mentioned drawdown, the county's available general fund balance remained very strong, both on a nominal basis and as a share of the budget, at the end of fiscal 2016, and we expect reserve levels to improve through at least fiscal 2018. We note that the county has no fund balance policy or target and has demonstrated a willingness to use reserves to lower taxes, as it did in fiscal 2016. So while management has indicated no plans to use reserves, we believe future reserves could fluctuate, even if we expect them to remain very strong and comfortably in excess of 30% of spending.

Very strong liquidity

In our opinion, Walsh County's liquidity is very strong, with total government available cash at 34.2% of total governmental fund expenditures and 46.8x governmental debt service in 2016. In our view, the county has strong access to external liquidity if necessary.

The county's available cash totaled \$5.9 million at the end of 2016 and we understand will remain relatively stable through the end of 2018. The county's historical issuance of private placement debt and overall credit profile are sufficient to support our view that it has strong access to external liquidity if needed. Management has indicated that the county and the drainage district's only direct-purchase debt outstanding is its series 2017B refunding improvement bonds, which are being refunding with 2018A bond proceeds, and that the county and drainage district otherwise have no other debt.

Strong debt and contingent liability profile

In our view, Walsh County's debt and contingent liability profile is strong. Total governmental fund debt service is less than 1% of total governmental fund expenditures, and net direct debt is 40.5% of total governmental fund revenue. Overall net debt is low at 0.9% of market value, which is, in our view, a positive credit factor. Negatively affecting our view of the county's debt profile is its significant medium-term debt plans.

We understand that county plans to issue an additional \$10 million in refunding improvement bonds for flood mitigation within the next few years.

Walsh County's pension contributions totaled 1.4% of total governmental fund expenditures in 2016. The county made its full annual required pension contribution in 2016.

The county contributes to the North Dakota Public Employees' Retirement System (NDPERS), a cost-sharing multiple-employer defined-benefit plan administered by the NDPERS board with benefits and contribution requirements set by state statute. As of Dec. 31, 2016, the county's proportionate share of the plan's net pension liability totaled \$3.3 million, and the plan's fiduciary net position was 62.7% of the total pension liability per the plan Governmental Accounting Standards Board valuation. The county does not sponsor an other postemployment benefit plan. Given the low annual costs, we expect the pension burden to remain manageable for the foreseeable future.

Adequate institutional framework

The institutional framework score for North Dakota counties is adequate.

Outlook

The stable outlook reflects our view of Walsh County's very strong reserves and stable operating budget, supported by a stable economic base and tax base that should continue to see modest growth through the next few years. Given that we expect minimal changes in the county's financial performance or reserves, we do not expect to change the rating in the two-year outlook horizon.

Downside scenario

Should the county's budgetary performance weaken, pressuring reserves and liquidity, we could lower the rating.

Upside scenario

We could raise the rating with the adoption of more robust and comprehensive financial management policies and practices and with diversification and growth in the local economic base to better align with more highly rated peers.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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