

Sector Review:

20 More Counties Achieve 'AAA' Rating Despite The Recession

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20 More Counties Achieve 'AAA' Rating Despite The Recession

Since our last report on 'AAA' rated debt of counties published in January 2008, 20 more counties have attained Standard & Poor's Ratings Services' general obligation (GO) or issuer credit rating of 'AAA', bringing the number to 67. The large increase in the number of 'AAA' rated counties since 2008 reflects not only criteria changes but also, in our view, the inherent economic, financial, and managerial strength of these counties, which have performed extremely well through the current recession. (See "Ongoing Criteria Changes May Lead To USPF Rating Changes," published May 5, 2008, on RatingsDirect on the Global Credit Portal.)

Of the new 'AAA' rated counties, 14 were upgraded to 'AAA' from 'AA+', while the debt of six counties was rated 'AAA' right from the start. The number of 'AAA' rated counties has increased to 67 up from 42 since October 2006. (See table 1 for the new additions to the 'AAA' list.)

Table 1

'AAA' Rated Newcomers As Of September 2010

County	State
Albemarle	VA
Anne Arundel	MD
Anoka	MN
Carver	MN
Chester	PA
Cumberland	PA
Dakota	MN
Delaware	OH
Denton	TX
Douglas	NE
Hamilton	TN
Hanover	VA
Harris	TX
James City	VA
Marin	CA
Prince George's	MD
San Diego	CA
Sarasota	FL
Sedgwick	KS
Williamson	TX

'AAA' Rated Counties Are Geographically Dispersed

The 'AAA' rated counties are geographically dispersed, with the southeast region of the U.S. having the largest number of counties rated 'AAA' (22) compared with other regions (table 1). Since our last report, each region has experienced an increase in the number of 'AAA' ratings (see table 2). (For the previous report, see "Sector Review: Exclusive 'AAA' County Club Opens Door To Six New Members," published Jan. 24, 2008, on RatingsDirect on the Global Credit Portal.)

Table 2

'AAA' Rated Counties By State And Region	
(As of September 2010)	No.
Northeast	
Maryland	5
New Jersey	4
Pennsylvania	2
Delaware	1
New York	1
Total	13
Midwest	
Minnesota	7
Michigan	3
Illinois	2
Kansas	2
Ohio	2
Nebraska	1
Iowa	1
Missouri	1
Total	19
West/Southwest	
Texas	7
California	2
Arizona	1
New Mexico	1
Utah	1
Washington	1
Total	13
Southeast	
Virginia	8
North Carolina	5
Florida	3
Georgia	3
South Carolina	2
Tennessee	1
Total	22

Size And Location Are Not A Factor

Our examination of 'AAA' rated counties' ratios shows that population size and geographic location are not significant factors. The 'AAA' rated counties come from 25 states (up from 21 states since 2008) across the country. There are what we view as large 'AAA' rated counties--such as Maricopa County, Ariz. (4.0 million residents); Harris County, Texas (3.98 million residents); and San Diego, Calif. (3.17 million residents); and what we consider to be small population-based counties such as Carver County, Minn. (population 86,236); Albemarle County, Va. (population 93,668); and Hanover County, Va. (population 103,025). However, most large and small population-based 'AAA' rated counties share what we consider to be important attributes, such as having lower unemployment rates than the national average and good-to-very-strong wealth levels.

Grouping counties by size and region reveals to us that per capita market values and wealth levels generally tend to be higher in the northeast and southeast than in other regions. The fact that these two statistics move in tandem indicates, we believe, a direct link between the wealth of a county and property values. Even though large population-based counties generally have lower wealth levels than the median for 'AAA' rated counties, it is not impossible for them to achieve the highest rating category.

Debt Profiles

The average overall net debt per capita for the 'AAA' rated counties is \$2,816 and the median is \$2,611. The 'AAA' rated counties have what we consider a low overall debt-to-market value average of 2.6% and a median of 2.2%, which has only increased slightly from 1.9% in 2008. The 'AAA' rated counties generally pay off debt at an above-average rate, with about two-thirds of long-term debt retired within 10 years. While such above-average debt retirement schedules can increase fixed costs by accelerating repayment, in many cases the 'AAA' rated counties have policies supporting faster amortization of debt. Typically, less than 10% of the 'AAA' rated communities' general fund and debt service budgets are dedicated to debt service.

Growing Tax Bases With Strong Wealth Levels

Standard & Poor's 'AAA' rated counties have varying types of tax bases. Some are what we consider to be somewhat small (both geographically and in population) but benefit from their close proximity to larger adjacent counties, others are what we consider to be dynamic metropolitan economies such as New York, Los Angeles, Chicago, and Washington DC. The larger 'AAA' rated counties such as Maricopa, Ariz., San Diego, Calif., and King, Wash., are examples of counties with diverse economies.

Some of the key ratios of a county's economic health that we consider in our ratings analysis include employment, market value and trend of property valuations, and relative wealth as measured by effective buying income. Arlington, Va., has what we view as a high market value per capita (\$273,355) as do Fairfax and Loudoun counties, Va. (\$225,824 and \$210,022, respectively). Some of the larger population 'AAA' rated counties have per capita market values below the 'AAA' median of \$112,244; these include Harris County (\$70,236), Dallas County (\$69,574), and Tarrant County, Texas (\$66,244). The average per capita market value for all 'AAA' rated counties is \$125,648 and the median is \$112,244. This is up from the 2008 report, when the comparable figures were \$116,850 and \$104,142, respectively. Given the length and breath of the recession and its impact on property

valuations, we believe the growth experienced by the 'AAA' rated counties speaks to the strength of their respective tax bases.

In economic downturns, we have found that higher-valued properties typically retain valuation through a recession. We believe this is evident when comparing the counties that were rated 'AAA' in 2008 to current valuation for the same group. In our 2008 report, the counties rated 'AAA' had a median per capita market value of \$104,142 and an average per capita market value of \$116,850. Current figures indicate to us growth in both ratios, with median per capita market value of \$112,244 and average per capita market value of \$125,648.

There are some differences among the 'AAA' rated counties, depending on population and location. Larger counties (those with populations of about 250,000 residents or greater) have average per market capita values of about \$116,820 (below the 'AAA' county average of 125,648); smaller counties (those with fewer than 250,000 people) show a very high average per capita value of \$151,800.

Finances

The median unreserved general fund balance as a percent of operating expenditures for all 'AAA' rated counties is what we consider a very strong 27.4%, and has increased from 20.5% since our last report in 2008. We believe that reserves of this magnitude provide flexibility in dealing with unforeseen events such as a shortfall in revenues or rise in expenses.

Table 3 details a wide range of unreserved fund balance levels, ranging from slightly more than 100% of operating expenditures (Franklin County, Ohio, and Collin County, Texas) to a low of less than 5% for six counties. This is a function of many factors, including the sheer size or lack thereof of reserves to general fund budgets. According to our criteria, we do not look for a specific fund balance level to achieve a 'AAA' rating; rather, we consider the predictability of the revenues, the policies and procedures that counties have adopted, and how closely they are followed to be more important factors in assessing counties credit quality. We also consider the availability of reserves held outside the general fund when assessing financial position.

Table 3

'AAA' Rated Counties--Key Data And Ratios As Of September 2010											
County	State	Population	Household EBI as a % of U.S.	Per capita EBI as a % of U.S.	Total market value (mil. \$)	Per capita market value (\$000s)	General fund balance as a % of expenditure	Unreserved fund balance %	Total direct debt (mil. \$)	Overall debt as a % of market value	Overall debt per capita (\$)
Albemarle	VA	93,668	120	131	16,901,026	180,435	9.2	9.1	139,388	0.8	1,488
Anne Arundel	MD	511,537	149	140	85,862,837	167,853	3.9	(0.2)	1,075,300	1.2	1,934
Anoka	MN	331,939	125	106	31,051,940	93,547	40.8	40.7	171,021	2.8	2,586
Arlington	VA	205,703	165	205	56,230,015	273,355	15.6	15.6	971,867	1.5	4,187
Baltimore	MD	793,827	117	112	89,102,545	112,244	17.1	14.3	1,618,686	1.1	1,259
Bernalillo	NM	644,023	95	100	42,965,953	66,715	84.9	48.0	323,290	2.4	1,581
Carver	MN	86,236	147	133	12,587,543	145,966	55.3	49.6	58,726	3.9	5,647
Charleston	SC	348,046	92	105	55,081,538	158,259	29.4	28.1	482,808	1.4	2,160
Chester	PA	493,395	148	148	68,918,204	139,682	30.2	29.4	486,846	0.7	987
Chesterfield	VA	314,000	132	118	37,767,298	120,278	30.8	21.2	660,000	1.6	1,882

Table 3

'AAA' Rated Counties--Key Data And Ratios As Of September 2010 (cont.)											
Cobb	GA	705,140	126	120	84,393,985	119,684	15.8	13.9	416,056	0.4	467
Collin	TX	748,050	154	146	71,819,164	96,009	104.2	99.6	393,966	7.5	7,196
Cumberland	PA	229,361	110	110	23,152,844	100,945	56.7	51.9	52,580	2.4	2,460
Dakota	MN	398,487	136	123	43,255,613	108,550	92.5	77.2	140,285	2.8	3,031
Dallas	TX	2,451,800	98	97	170,582,361	69,574	7.7	5.9	155,504	4.7	3,255
Dekalb	GA	727,600	104	100	69,719,000	95,821	(3.5)	(5.4)	1,096,250	0.7	660
Delaware	OH	166,678	145	144	17,875,530	107,246	38.3	36.9	140,270	3.4	3,653
Denton	TX	636,557	137	123	53,341,773	83,797	25.4	25.3	287,753	8.2	6,908
Douglas	NE	499,150	100	104	34,956,884	70,033	51.1	45.5	147,503	3.6	2,508
DuPage	IL	936,130	142	136	128,700,000	137,481	47.9	47.1	309,528	2.8	3,662
Durham	NC	265,670	96	98	29,027,441	107,430	24.6	16.5	424,663	2.2	2,387
Fairfax	VA	1,022,089	179	170	230,812,147	225,824	9.7	8.3	2,896,308	1.1	2,484
Forsyth	NC	343,704	91	96	34,510,300	100,407	35.8	28.1	547,176	2.8	2,795
Franklin	OH	1,167,641	96	103	80,275,731	68,750	103.7	97.2	331,839	5.1	3,516
Greenville	SC	440,978	91	94	33,958,127	77,006	40.3	39.9	180,577	0.6	478
Guilford	NC	476,642	93	98	44,588,079	93,546	26.6	17.5	779,645	2.5	2,332
Gwinnett	GA	797,504	124	100	73,594,035	92,280	27.5	26.4	1,149,066	2.8	2,543
Hamilton	TN	330,168	92	101	28,183,092	85,360	57.4	55.9	254,268	1.8	1,516
Hanover	VA	103,025	138	119	15,320,381	148,705	17.6	17.2	224,375	1.2	1,738
Harris	TX	3,984,349	101	97	282,177,265	70,236	25.2	11.4	4,308,841	7.5	5,336
Hennepin	MN	1,143,181	116	129	149,254,383	130,561	31.5	26.5	967,010	2.5	3,232
Henrico	VA	313,989	113	121	32,016,975	101,968	45.2	43.9	583,534	1.7	1,702
Hillsborough	FL	1,214,963	101	106	73,162,000	60,217	53.9	53.0	1,040,212	1.0	580
Howard	MD	277,061	177	162	48,400,000	174,691	10.3	3.0	935,650	1.9	3,225
James City Cnty	VA	63,937	134	146	12,017,000	187,951	24.2	23.3	213,611	1.8	3,341
Johnson	KS	548,122	135	140	61,186,001	111,628	37.0	32.9	482,700	3.5	3,938
Kent	MI	608,315	99	93	45,155,488	74,230	49.2	48.4	476,473	4.3	3,164
King	WA	1,861,792	124	136	386,889,728	207,805	16.3	13.6	1,059,317	1.6	3,326
Lake	IL	735,744	143	139	88,104,329	119,749	71.8	62.8	310,266	2.7	3,202
Loudoun	VA	289,737	183	155	60,851,046	210,022	18.0	16.5	1,162,479	2.5	5,240
Macomb	MI	833,430	107	101	66,795,426	80,145	27.6	27.4	178,030	4.0	3,217
Maricopa	AZ	4,012,038	111	104	516,677,465	128,782	49.0	46.6	287,889	1.3	1,636
Marin	CA	252,413	162	202	52,162,634	206,656	44.4	39.8	222,858	0.4	876
Mecklenburg	NC	935,304	107	117	100,200,000	107,131	27.5	20.0	2,374,828	3.0	3,111
Middlesex	NJ	790,805	137	120	112,462,305	142,212	4.8	4.0	675,777	0.6	826
Monmouth	NJ	637,228	146	147	129,000,000	202,439	21.3	16.8	490,346	1.8	3,556
Montgomery	MD	957,760	168	172	167,959,063	175,367	4.2	3.9	2,376,812	1.3	2,325
Morris	NJ	497,756	171	171	103,669,450	208,274	19.7	13.0	223,510	0.8	1,716
New Castle	DE	535,840	117	112	76,200,000	142,207	54.0	11.0	386,384	1.3	1,889
Oakland	MI	1,205,365	126	138	135,717,972	112,595	34.6	34.5	690,824	3.2	3,591
Olmsted	MN	142,000	119	119	13,797,957	97,169	58.9	53.9	132,125	1.9	1,859
Palm Beach	FL	1,302,748	109	134	223,427,842	171,505	68.4	67.8	1,868,448	1.8	3,083

Table 3

'AAA' Rated Counties--Key Data And Ratios As Of September 2010 (cont.)											
Polk Cnty	IA	424,778	105	108	29,944,466	70,494	27.7	27.7	250,067	3.7	2,611
Prince George's	MD	831,600	128	109	114,593,200	137,798	20.1	9.5	1,215,044	0.8	1,066
Ramsey	MN	517,398	103	105	50,763,596	98,113	44.9	39.1	189,415	2.7	2,611
Salt Lake	UT	1,032,985	111	92	106,507,192	103,106	17.3	15.2	398,813	1.8	1,869
San Diego	CA	3,173,407	120	113	396,294,522	124,880	38.2	29.6	1,344,445	2.5	3,173
Sarasota	FL	389,320	103	138	61,564,845	158,134	74.8	74.6	755,486	0.6	956
Sedgwick	KS	482,863	97	92	33,563,327	69,509	46.7	42.4	176,285	5.4	3,767
Somerset	NJ	329,942	169	174	62,005,698	187,929	21.1	14.3	150,209	1.9	3,513
St Louis	MO	992,408	111	123	103,319,199	104,110	37.4	32.4	199,963	1.6	1,654
Tarrant	TX	1,715,623	107	103	113,649,138	66,244	15.6	12.5	346,495	5.5	3,661
Travis	TX	1,031,033	105	115	98,355,097	95,395	24.0	20.5	543,499	4.9	4,627
Wake	NC	902,689	119	116	118,845,630	131,657	20.8	12.9	1,781,301	2.2	2,874
Washington	MN	234,348	144	131	29,159,603	124,429	63.2	60.3	139,812	2.7	3,371
Westchester	NY	943,000	135	157	188,664,710	200,069	11.1	9.9	1,001,515	2.2	4,325
Williamson	TX	410,686	132	105	31,310,477	76,239	47.5	46.2	775,685	9.6	7,301
Average		788,428	124	124	93,139,708	125,648	35.9	31.4	695,993	2.6	2,816
Median		548,122	120	119	66,795,426	112,244	30.2	27.4	424,663	2.2	2,611

EBI--Effective buying income.

Financial Management Assessment Scores

Standard & Poor's Financial Management Assessment (FMA) methodology plays an important role in our assessment of a government's financial management policies and procedures.

The FMA attempts to provide a transparent assessment of a government's financial practices and to highlight aspects of management that are common to most governments. A government's ability to implement timely and sound financial and operational decisions in response to economic and fiscal demands is an important component of credit quality in our view.

The FMA encompasses seven areas that we believe are most likely to affect credit quality. They are:

- Revenue and expenditure assumptions;
- Budget amendments and updates;
- Long-term financial planning;
- Long-term capital planning;
- Investment management policies;
- Debt management policies; and
- Reserve and liquidity policies.

Our overall FMA assessments are communicated in Standard & Poor's analyses using the following terminology:

- "Strong" indicates that in our view practices are strong, well embedded, and likely sustainable.
- "Good" indicates that in our view practices are deemed currently good, but not comprehensive.

- "Standard" indicates that in our view the finance department maintains adequate policies in most, but not all, key areas.
- "Vulnerable" indicates that in our view the government lacks policies in many of the areas deemed most critical to supporting credit quality.

Approximately 94% of the 'AAA' rated counties maintained a strong or good FMA score, which indicate, we believe, the use of a fair amount of planning and policies.

How Have The 'AAA' Rated Issuers In Our Last 'AAA' County Report Held Up During The Recession?

We believe that a good indication of the credit strength of 'AAA' rated counties is evident by looking back on how they have performed over time. Comparing the 'AAA' rated counties Standard & Poor's rated in January 2008 to the present reveals some important facts in our view. Both average and median household and effective buying income levels in the current report are slightly stronger than in January 2008 as is the case for market value and market value per capita. On the financial side, unreserved fund balance levels increased on a median and average basis. Debt ratios have risen, with average overall debt per capita in particular much higher in the current report compared with 2008. We do not believe that the rise in debt levels is a concern given what we consider to be the strong wealth and market value characteristics of the 'AAA' rated counties. While the full effects of the recession have yet to be felt, we believe these strong ratios are evidence that the 'AAA' rated counties are performing well, having come into the recession with strong reserves and well-managed operations.

Economic Challenges Ahead

While 'AAA' rated counties exhibit what we view as very strong credit quality, they are not immune to challenges. Standard & Poor's continues to pay particular attention to the recession's impact on them, and how they manage in an environment of a soft housing and real estate market, rising health care and energy costs, pension performance, and postemployment obligations. We expect that practices in place and demonstrated management skills will likely continue to promote strong performance. To date, the 'AAA' rated counties have shown an ability to manage through all economic cycles in our view. As other counties master these issues, we expect that there will likely be more additions to the 'AAA' list. (See table 4 for glossary of terms.)

Table 4

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 as a % 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.

Table 4

Glossary (cont.)	
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.
EBI--Effective buying income.	

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