Summary:

Walker County, Georgia; General Obligation

Credit Profile		
Walker Cnty GO sales tax bnds		
Long Term Rating	BBB+/Negative	Downgraded

Rationale

Standard & Poor's Ratings Services has lowered its long-term rating and underlying rating (SPUR) on Walker County, Ga.'s series 2008 general obligation (GO) sales tax bonds to 'BBB+' from 'AA-'. The outlook is negative.

A 1% special purpose local option sales tax and the county's GO pledge secures the bonds.

The downgrade is based on the implementation of our local GO criteria and reflects our view of the county's weak liquidity due to its guarantee of liabilities incurred by the Hospital Authority of Walker, Dade, and Catoosa counties. Over the past several years, the authority has incurred several loans that are guaranteed, in full or in part, by the county. In our view, the supporting agreements contain nonremote events of default that give the creditors the right to call for an immediate repayment of principal. Should such an event occur, county representatives report the county would issue long-term debt. In our view, however, the county would need, and indeed lacks, sufficient cash to bridge the time it takes to repay the loan and issue the bonds.

The county's share of principal issued pursuant to these agreements is 22% of its general fund revenue in 2013 and, given the lack of internal liquidity, is a liquidity risk. The ratio above does not include principal related to the county's largest guarantee, which requires the lender initiate nonjudicial foreclosure prior to seeking repayment. The terms of that agreement limit the lender's recourse to the difference between the fair market value of the collateral as of the date of nonjudicial foreclosure and the principal outstanding. County officials supplied information to Standard & Poor's demonstrating roughly $4 million of cushion between the appraisal and the loan; a deterioration of that cushion absent an improvement in liquidity could be a negative credit event. We believe the county is subject to high refinancing risk as two notes it guarantees as well as the tax anticipation notes come due in December and represent 14% of debt outstanding. The county's total governmental cash (including investments restricted for the special purpose local option sales tax 2008) is 18.1% of governmental fund expenditures and 118.8% of debt service.

The rating also reflects our assessment of the following factors for the county:

- Very weak economy despite participation in the broad and diverse Chattanooga metropolitan statistical area (MSA);
- Weak budgetary flexibility with a negative general fund balance projected for fiscal 2014;
- Weak budgetary performance, with general fund deficits for 2013 (draft audit) and 2014 (projected).
- Very weak debt and contingent liabilities position; and
- Adequate management conditions with standard financial practices.

Very weak economy

Walker County benefits from participation in the broad and diverse Chattanooga MSA. Nevertheless, we consider its economy very weak when combining projected per capita income of 70.5% of the national level and market value per capita of $54,400. The county's net maintenance and operations digest is $1.3 billion in 2013, which is up 0.5% year-over-year. The unemployment rate averaged 7.1% in 2013, down from 7.7% in 2012. Despite the improvement, we believe there to be concentration in the manufacturing sector, which accounts for 30% of jobs.

Weak budgetary flexibility

We view the county's budgetary flexibility as weak, with draft audit results for fiscal 2013 (Sept. 30 year-end) showing a $1.3 million total available general fund balance (5.9% of adjusted expenditures). The county has spent down reserves over the past several years rather than raising its millage rate – management reports the last tax increase was four years ago – or cutting expenditures. We expect structural deterioration as management projects a negative balance at fiscal 2014 year-end. We also note the 2014 budget has not yet been adopted. Management expects planned structural changes in the 2015 budget to return the general fund balance to positive territory.

Weak budgetary performance

We view the county's budgetary performance as weak. Unaudited results for 2013 show a general fund deficit of 12.1% of expenditures and a total governmental fund deficit of 8.9% of expenditures. While we expect the county to post yet another deficit in 2014, management reports the 2015 budget will include a millage increase as well as cost-cutting measures such that a general fund surplus would result.

Very weak debt and contingent liability profile

The county's debt and contingent liabilities position is very weak, in our opinion, even though 100% of principal will be retired in the next 10 years. Total governmental fund debt service is 15.3% of total governmental funds expenditures and net direct debt is 128.3% of total governmental funds revenue. We believe the county's loan guarantees constitute contingent liabilities as they could be converted to debt. We received information about overlapping school district debt from management. We do not anticipate any medium-term debt issuances beyond the county's cash flow borrowing. Pension and other postemployment benefit expenditures represent 2.6% of 2013 governmental fund expenditures.

Adequate management conditions

We view the county's management conditions as adequate with standard financial practices. The county's budget is based on historical analysis, and the sole commissioner receives monthly budget updates and investment earnings. The county does not have formal debt or reserve policies, or a long-term financial plan. Capital needs are funded by SPLOST proceeds and identified in the authorizing resolution.

Very strong Institutional Framework

We consider the Institutional Framework score for Georgia counties very strong.

Outlook

The negative outlook reflects our view of the county's weak liquidity stemming from loans it guarantees that are subject to immediate acceleration. The outlook also reflects the county's financial position and the fact that a budget for 2014 has not yet been adopted more than six months into the fiscal year. A continued weakness in budgetary performance that leads to further deterioration of reserves, or indeed a liquidity event, would likely cause us to lower the rating.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.