FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Cobb County, GA's 2020 TANs 'F1+'; Outlook Stable

Fri 05 Jun, 2020 - 5:31 PM ET

Fitch Ratings - New York - 05 Jun 2020: Fitch Ratings has assigned a rating of 'F1+' to the following tax anticipation notes (TANs) to be issued by Cobb County, GA:

--$61 million TANs, series 2020.

The Ratings Outlook is Stable.

The TANs are scheduled to sell competitively on or about June 16. TAN proceeds will be used to fund a portion of the county's combined general fund and fire district special revenue fund cash requirements, pending the collection of property taxes.

In addition, Fitch has affirmed the following ratings:

--Issuer Default Rating (IDR) at 'AAA';

--Outstanding GO bonds at 'AAA';

--Outstanding revenue bonds issued by the Cobb-Marietta Coliseum and Exhibit Hall Authority, GA (the authority) (Cobb County Coliseum Project (taxable)), series 2015 at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The TANs are general obligations of the county payable from ad valorem taxes levied upon all taxable property within the territorial limits of the county, without limit as to rate or amount, as well as other legally available funds.

The GO bonds are general obligations of the county, for which its full faith and credit and unlimited taxing power are pledged.

The authority-issued bonds are a limited obligation of the authority, payable from contract payments to be made by the county to the authority under the terms of an intergovernmental agreement. The obligation of the county to make payments under the intergovernmental agreement is absolute and unconditional and will not expire so long as any of the bonds remain outstanding and unpaid, and shall constitute a general obligation of the county backed by its full faith and credit and unlimited taxing power.

ANALYTICAL CONCLUSION

The 'F1+' TAN rating is related to Cobb County's long-term credit quality as expressed through the IDR.

The 'AAA' GO and IDR reflect the county's superior gap-closing capacity, including an unlimited legal ability to independently raise revenues and solid reserves, and a low long-term liability burden.

ECONOMIC RESOURCE BASE

Cobb County is located 20 miles northwest of downtown Atlanta and benefits from its participation in the metropolitan area's large, diverse and vibrant economy. The county's 2019 U.S. census estimated population of approximately 760,141 has grown by almost 11% since 2010, exceeding state and national growth rates.

KEY RATING DRIVERS

Revenue Framework: 'aa'

Fitch expects future revenue growth to exceed inflation, due to continued population gains, property appreciation and development. The county has the independent legal ability to raise property tax rates without limitation. Rates are low within the region.

Expenditure Framework: 'aa'

Fitch expects expenditures to generally align with or marginally exceed revenue growth trends to meet the needs of the growing population. The county retains solid spending flexibility, aided by its ability to control workforce costs in the absence of collective bargaining. Fixed carrying costs are moderate and expected to remain relatively stable.

Long-Term Liability Burden: 'aaa'

The county's long term liabilities are low relative to personal income. Fitch expects liabilities will remain fairly stable relative to incomes due to retiree benefit reforms and limited debt plans.

Operating Performance: 'aaa'

Fitch expects the county will maintain a high level of financial flexibility throughout economic cycles based on its superior budget flexibility, significant reserves and history of conservative budgeting.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

--Not applicable. No further positive rating action can occur with the 'AAA' IDR and GO bond rating.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

--A sustained decline in operating reserves resulting in a weakened financial resilience assessment.

--A downgrade of the county IDR, although not presently anticipated, could result in a downgrade in the TAN rating.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

The recent outbreak of coronavirus and related government containment measures worldwide creates an uncertain global environment for U.S. state and local governments and related entities in the near term. While the county's most recently available fiscal and economic data may not fully reflect material impairment, material changes in revenues and expenditures are occurring across the country and likely to worsen in the near future as economic activity suffers and public health spending increases. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in state and local governments as a result of the virus outbreak as it relates to severity and duration, and incorporate revised expectations for future performance and assessment of key risks.

In its baseline scenario, Fitch assumes sharp economic contractions hit major economies in the 1H20 at a speed and depth that is unprecedented since World War II. Recovery begins from the third quarter of 2020 onward as the health crisis subsides after a short but severe global recession. GDP remains below its 4Q19 level until mid-2022. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the report titled, "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update" (https://www.fitchratings.com/site/re/10120570), published April 29, 2020 on www.fitchratings.com.

On March 14, 2020, the Governor of Georgia declared a Public Health State of Emergency with respect to the coronavirus pandemic. On April 2, 2020, the Governor of Georgia signed a shelter-in-place executive order that superseded all local government orders and that directed residents of the State to stay at home, the closure of schools until the end of the academic year, and the closure of restaurants, bars, other public accommodations and non-essential businesses. Since then, the Governor has issued various additional executive orders, including an April 30, 2020 executive order to end shelter-in-place for most Georgia residents as of April 30, 2020 and allow certain businesses to open under specified conditions, and an executive order on May 28, 2020 extending the public health emergency until July 12, 2020.

The county is well positioned to withstand the current period of economic weakness due to its sound reserves and superior inherent budget flexibility. Fitch expects the county to retain the highest level of financial resilience under both Fitch's baseline and downside economic scenarios. In response to the coronavirus pandemic, the county implemented a hiring freeze and eliminated vacant positions. The county revised its property tax revenue collections down to 95% from 97%, and modified revenue projections to assume no additional revenue from parks, libraries or senior services for the remainder of the year. As a result of these measures, the county is projecting positive results for fiscal YE 2020. Other revenues such as hotel/motel and sales tax revenues collected outside of the general fund are projecting declines in fiscal 2020; however, debt obligations payable from these revenue sources have either already been paid for the fiscal year or the county has confirmed it has sufficient accumulated reserves to meet these obligations. The county has provided support for small business, food and shelter resulting from the pandemic and was allocated $132 million through the federal The Coronavirus Aid, Relief, and Economic Security (CARES) Act program for eligible expenses. The county's proposed fiscal 2021 budget is expected to reflect a modest 1% increase over the prior adopted budget, with no change in the millage rate. The budget is scheduled to be approved in late July.

CREDIT PROFILE

The county's participation in the Atlanta MSA provides strong economic growth prospects with its central location and broad transportation access to diverse employment opportunities. The county continues to exhibit above-average incomes and a low poverty rate, benefiting from favorable employment opportunities and a highly educated workforce. Unemployment levels are consistently below those of the state and nation. The county is home to five Fortune 500 companies − The Home Depot, Coca-Cola Enterprises, Genuine Parts (NAPA), NCR and First Data.

Home values have solidly recovered with current values well above the pre-recession level, according to the Zillow Group. The county's tax digest has grown at a robust pace in the past six years with fiscal 2019 taxable values at approximately 19% above the fiscal 2008 peak and increased by roughly 6% from the prior year. Resident per capita and median household income levels exceed the state and national average.

REVENUE FRAMEWORK

Property tax revenues are the leading revenue source for county operations, accounting for about 60% of fiscal 2019 general fund revenues. Property taxes are not due until October 15 in each year, right after the Sept. 30 fiscal year end; as such, the county issues TANs to provide cash for operations in the second half of the year. Other major revenue sources include non-property tax revenues, licenses and permits (7%), charges for services (11%) and fines and forfeitures (2%).

General fund revenue growth, adjusted for tax rate changes, for the 10-year period ending fiscal 2019 has exceeded inflation. The county's revenue growth was impacted by a sharp decline in home values and related declines in the tax base during and following the Great Recession. Underlying revenue growth was also previously tempered by state policy actions including the implementation of homestead exemptions and legislation that replaced the annually assessed ad valorem tax on vehicles with a one-time fee assessed at the time of a change in ownership. The tax digest and residential values have solidly recovered, and have helped reverse the recessionary revenue losses. Fitch believes future revenue growth absent policy action will outpace inflation, due to continued population gains, property appreciation and development.

The county has broad revenue-raising ability, with no legal limit to the property tax rate and levy. The county's tax rate is low when compared with other neighboring counties in the Atlanta MSA.

EXPENDITURE FRAMEWORK

Public safety represents the county's largest component of spending at approximately 44% of general fund expenditures in fiscal 2019, followed general government at 37%.

Fitch expects general fund spending will generally track or slightly exceed revenue growth over time to meet the service needs of a growing population.

The county's expenditure flexibility is aided by strong control over employee wages, benefits and work rules in the absence of collective bargaining. Carrying costs related to long-term debt and retiree benefits are moderate at 16% and are expected to remain relatively stable with no debt planned and affordable pension contributions.

LONG-TERM LIABILITY BURDEN

Fitch estimates the county's overall debt and unfunded pension liabilities at approximately 4% of personal income. Direct debt accounts for about one-third of the long-term liability. The county makes significant pay-go capital contributions from a one-cent special purpose local option sales tax (SPLOST) levy and reserves. Debt levels incorporate the county's outstanding GO intergovernmental contract obligation-backed bonds issued in fiscal 2015 to finance a portion of the costs for the new Atlanta Braves baseball stadium, which represent roughly three quarters of the county's total direct debt.

Payments on the intergovernmental contract backing the stadium bonds are payable primarily from a combination of licensing fees from the Atlanta Braves and property and hotel taxes within the Cumberland Community Improvement District. The county is obligated to make intergovernmental contract payments equal to debt service to the extent these sources are not sufficient. County officials have indicated that it has sufficient accumulated reserves to make the required debt service payment despite an expected reduction in hotel tax revenues due to the coronavirus pandemic.

In 2014, county residents voted for the third re-authorization of the SPLOST levy to fund various capital needs from fiscal 2016 through fiscal 2021. The SPLOST is expected to generate approximately $750 million in revenue through expiration to be shared between the county and its six incorporated municipalities. The revenue will fund a range of countywide projects that include road and park improvements, public safety equipment and buildings, and new libraries. The county plans to renew the SPLOST program through a voter referendum in 2020 for an additional six years with a primary focus on transportation and public safety projects.

Fitch expects liabilities associated with retiree benefits will stabilize over time due to county reforms to pension and retiree health benefits. The county provides pension benefits to employees through a single employer defined benefit plan. The plan's low funded ratio is expected to gradually improve given the closure of the plan in 2009 and the county's general practice of contributing over the annual required contribution. However, in fiscal 2019, the county's pension funded ratio decreased slightly to 51%, or 43% using a Fitch-adjusted 6% investment rate of return assumption. Nevertheless, the Fitch-adjusted net pension liability was $905 million or only 2% of personal income. New employees may participate in a hybrid plan for pension benefits.

OPERATING PERFORMANCE

Fitch's scenario analysis highlights the county's considerable financial resilience given its low revenue volatility, solid reserves, and superior inherent budget flexibility. In 2018, the county established a minimum unassigned fund balance reserve equal to 20% of the adopted budget. Fitch expects the county will maintain reserves at a level consistent within a 'aaa' financial resilience assessment throughout economic cycles, including the current, unusually deep downturn.

The county demonstrated proactive budget management through the last recession by implementing furlough days and a hiring freeze, eliminating vacant positions, suspending merit increases and overtime pay and deferring capital spending. The county also raised the millage rate in 2011 to offset revenue declines associated with a contraction of the tax digest. These actions enabled the county to maintain service levels and avoid layoffs. Fitch expects the county to adopt similar measures through near to medium pressures, if needed.

Budget management in times of recovery is strong. The county built considerable reserves through the recent expansion and takes prompt action to maintain structural budget balance with no significant deferrals or reliance on non-recurring resources. The fiscal 2019 unrestricted general fund reserve of $157 million was equal to 34% of total spending. The healthy increase in the reserve balance in fiscal 2019 reflects an increase in the property tax revenues due to an increase in the fiscal 2018 millage rate and continued tax digest expansion.

The county issues short-term TANs annually to help cover current expenses of the general fund and fire district special revenue fund during the latter part of the year in advance of property tax collections. The county fiscal year starts on October 1, but property taxes are not levied until August. The county receives a substantial portion of its property tax revenues from September through November.

The level of TAN borrowing has gradually declined from the $115 million issued in fiscal 2009, reflecting improved economic and financial performance. The current TAN issuance of $61 million represents roughly 10% of projected operating receipts and projected receipts in the county's general and fire district funds combine to cover TAN principal and interest payments by more than 10x. Following the TAN repayment in December, the projected ending cash balance of $220 million provides an adequate cushion against any unanticipated cash flow changes. The county generally forecasts revenues on a conservative basis.

CRITERIA VARIATION

None

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Cobb County (GA) [General Government]	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rati Outlook Stable
• Cobb County (GA) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rati Outlook Stable
• Cobb County (GA) /General Obligation	ST	F1+	New Rating	WD

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST States & Locals - Fitch Analytical Stress Test Model, v2.4.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Cobb County (GA)	EU Endorsed
Cobb-Marietta Coliseum & Exhibit Hall Authority (GA)	EU Endorsed

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US Public Finance Infrastructure and Project Finance North America United States