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Summary:

Cobb County, Georgia Cobb-Marietta Coliseum and Exhibit Hall Authority; Appropriations; General Obligation; General Obligation Equivalent Security

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Cobb County, Georgia Cobb-Marietta Coliseum and Exhibit Hall Authority; Appropriations; General Obligation; General Obligation Equivalent Security

Credit Profile

US\$372.55 mil Rev bnds ser 2015

Long Term Rating

AAA/Stable

New

Cobb Cnty GO

Long Term Rating

AAA/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to the Cobb-Marietta Coliseum and Exhibit Hall Authority, Ga.'s series 2015 revenue bonds, supported by Cobb County. At the same time, we affirmed our 'AAA' long-term rating on the county's general obligation (GO) debt, and our 'AA+' long-term rating on the Georgia Association of County Commissioners' series 2010 leasing program certificates of participation (COPs). The outlook on all the ratings is stable.

The series 2015 bonds are secured through an intergovernmental agreement between Cobb County and the authority. In the agreement, the county has covenanted to levy an annual ad valorem tax, if necessary, on all taxable property within its borders for contract payments in amounts sufficient to enable the authority to pay debt service on the series 2015 bonds. The county's payments under this agreement are absolute and unconditional. We consider the security equivalent to the county's GO pledge.

While the bonds are, in our opinion, a GO equivalent security, to the extent that additional revenue is also available, the county may not need to use its full ad valorem taxing powers. While not legally pledged sources of revenue, the county intends to use additional revenues from the following sources: existing and excess hotel/motel taxes, rental car tax, Cumberland District tax, and legally agreed on annual license fees during the life of the bonds from the Atlanta National League Baseball Club (ANLBC) of \$6.1 million.

The COPs have proportionate and undivided interest in rental payments to be paid under an annually renewable lease agreement between the Georgia Association of County Commissioners, as the lessor, and Cobb County, as the lessee. The rating is based on the general creditworthiness of the county and demonstrated commitment to repaying its appropriation-backed obligations.

Cobb County's GO bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign:

Corporate And Government Ratings—Methodology And Assumptions," the county has a predominately locally derived revenue source, with 62% of governmental activity revenue derived from property taxes with independent taxing authority and treasury management independent from the federal government.

The ratings reflect our view of Cobb County's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash of 16.6% of total governmental fund expenditures and 7.0x governmental debt service, and access to external liquidity we consider exceptional;
- Adequate debt and contingent liability position, with debt service carrying charges of 2.4% of expenditures and net direct debt that is 75.0% of total governmental fund revenue, and low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) liability; and
- Very strong institutional framework score.

Strong economy

We consider the county's economy strong. Cobb County, with an estimated population of 721,050, is located in the Atlanta-Sandy Springs-Roswell, GA MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 108.9% of the national level and per capita market value of \$108,450. Overall, the county's market value grew by 4.5% over the past year to \$78.2 billion in 2015. The county unemployment rate was 6.0% in 2014.

One of metropolitan Atlanta's five principal counties, Cobb County is just 20 miles northwest of downtown Atlanta. Its largest employees are Home Depot (20,000 employees), Cobb County Schools (14,100), and Wellstar Health System (13,498). While the property tax base is diverse, in our opinion, the county's largest taxpayer is the Georgia Power Co., responsible for 2.28% of all taxes levied. We expect economic activity and growth in taxable values to continue due to increased development from the Braves stadium location.

Strong management

We view the county's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The county's finances are supported by strong budgeting practices, including biennial budgeting based on historical and projected trends with line-item budgeting performed at the departmental level for operations. Budgetary performance is monitored regularly with monthly updates, including budget-to-actuals and year-to-date comparisons provided to the Board of Commissioners. Amendments for appropriation changes and transfers not within a department require board approval. The county has a formal investment management policy with regular monitoring by the finance department and monthly reporting of holdings and earnings to the board. In addition, the county maintains a 10-year financial planning model for general government and enterprise operations that allows

commissioners to identify potential concerns and budget accordingly. The county maintains four capital budgets as part of its capital improvement plan, the bulk of which is for water and sewer projects. The funds are part of the county's annual budget and include various non-SPLOST (special-purpose local option sales tax)-funded projects over a five-year period and identified funding sources. The county follows state statutes regarding debt limits, but does not have any formal policies or guidelines. There is a 15% reserve and liquidity policy which reflects a 9% reserve based on liquidity needs, 3% for economic conditions, and 3% for title ad valorem.

Strong budgetary performance

Cobb County's budgetary performance is strong in our opinion. The county had operating surpluses of 2.5% in the general fund and 4.9% across all governmental funds in fiscal 2014.

For fiscal 2014, the surplus was largely due to the county's history of conservative budgeting practices and better-than-budgeted revenues for permitting and property tax collections. We note the county's general fund annually subsidizes its transit enterprise and solid waste funds (\$9.6 million and \$2.7 million, respectively, for the year) and receives a formulary payment from its water and sewer fund (\$15.5 million for the year) capped at 10% of the previous year's revenue.

For fiscal 2015, the county expects surplus operations and an addition to its fund balance with permitting well above projections compared to the same period last year. The county's proposed fiscal 2016 budget is balanced without the use of one-time revenues or reserve appropriation.

Property taxes are the county's primary revenue source at 62% of budgeted revenues for 2015. The county has been lowering the general fund millage rate in recent years from 7.52 mills in fiscal 2013 to 7.32 in fiscal 2014, and again to 7.12 in fiscal 2015 due largely to a net increase in the general fund taxable property values of 3.6% and 3.2% in fiscal years 2014 and 2015, respectively.

Very strong budgetary flexibility

Cobb County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 19% of operating expenditures, or \$61.6 million.

The county's policy has been to maintain a 15% reserve for the general fund. For the past three years, its available general fund balance has been increasing annually. For fiscal 2015, the county reclassified \$10 million of unassigned fund balance to its committed 800 MHz capital fund for financing a communication project. Despite the decline in available reserves for the year, the county expects better-than-budgeted performance and addition to reserves. We expect reserves to remain very strong.

Very strong liquidity

In our opinion, Cobb County's liquidity is very strong, with total government available cash of 16.6% of total governmental fund expenditures and 7.0x governmental debt service in 2014. In our view, the county has exceptional access to external liquidity if necessary.

We believe the county's exceptional access to external liquidity is supported by its frequent debt issuances, including GO and water and sewer revenue bonds and TANs. We believe the county does not currently have aggressive investments, with the majority in the Georgia Fund I and highly rated fixed-income securities. The county has

consistently had very strong liquidity and we do not anticipate a change to these ratios.

Adequate debt and contingent liability profile

In our view, Cobb County's debt and contingent liability profile is adequate. Total governmental fund debt service is 2.4% of total governmental fund expenditures, and net direct debt is 75.0% 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.

As expected, the county's overall debt profile has worsened to adequate due to this debt issuance and the resulting change in amortization.

The county maintains a single-employer, contributory, defined-benefit pension plan, the Cobb County Employees' Retirement System Pension Plan. The plan changed to a hybrid defined-benefit and defined-contribution for all employees hired after Dec. 31, 2009. It was 53.4% funded as of Jan. 1, 2014. The county has been contributing above its full annual required contribution (ARC) in recent years. We note that liabilities could increase in the near term as the plan is phasing in a reduction in its investment rate of return from 8% to 7.5% over a five-year period.

The county also administers the Cobb County Government Health Benefit Plan, a single-employer defined-benefit OPEB plan. As of Jan. 1, 2014, it was 42.3% funded. Contributions to the plan have been above 100% of the ARC for the past three years and were 120% for fiscal 2014, resulting in improved funding ratios.

In our opinion, a credit weakness is Cobb County's large pension and OPEB liability. Its combined pension and OPEB contributions totaled 8.1% of total governmental fund expenditures in 2014. Of that amount, 5.6% represented contributions to pension obligations and 2.5% represented OPEB payments. The county made 101% of its pension ARC in 2014. The pension funded ratio is 53.4%.

Given the below-adequate funding levels of the county's retirement system and current funding levels, we consider these a significant liability. Costs are likely to increase in the near term due to changing actuarial assumptions and current funding levels, but should be manageable for the county based on its overfunding of its OPEB and pension ARCs and history of positive budgetary performance.

Very strong institutional framework

The institutional framework score for Georgia counties is very strong.

Outlook

The stable outlook on the long-term rating reflects our view of Cobb County's strong financial performance supported by a strong underlying economy and strong management practices. While the county's debt profile has worsened, the burden is manageable.

We do not expect to change the rating within our two-year outlook horizon. However, should the county continue to significantly increase its debt burden and available reserves decline unexpectedly, we may lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 22, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Georgia Local Governments

Ratings Detail (As Of August 19, 2015)

Cobb Cnty Kennestone Hosp Auth, Georgia

Cobb Cnty, Georgia

Cobb Cnty Kennestone Hosp Auth (Cobb Cnty) intergovernmental bnds (Cobb Cnty) due 07/01/2035

| | | |
|-------------------------|------------|----------|
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |
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Cobb-Marietta Coliseum & Exhibit Hall Auth, Georgia

Cobb Cnty, Georgia

Cobb-Marietta Coliseum & Exhibit Hall Auth (Cobb Cnty) GO

| | | |
|-------------------------|------------|----------|
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |
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Cobb-Marietta Coliseum & Exhibit Hall Auth (Cobb Cnty) GO jr lien

| | | |
|-------------------------|------------|----------|
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |
|-------------------------|------------|----------|

Georgia Association of County Commissioners, Georgia

Cobb Cnty, Georgia

Georgia Assn of Cnty Comrs (Cobb Cnty) COPs

| | | |
|-------------------------|------------|----------|
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
|-------------------------|------------|----------|

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