

RatingsDirect®

Summary:

St. Mary's County, Maryland; General Obligation

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St. Mary's County, Maryland; General Obligation

Credit Profile

US\$30.0 mil GO bnds cons pub imp bnds ser 2023 due 12/15/2043

Long Term Rating AA+/Stable New

St Marys Cnty

Long Term Rating AA+/Stable Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to St. Mary's County, Md.'s roughly \$30 million series 2023 general obligation (GO) consolidated public improvement bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the county's existing GO debt.
- The outlook is stable.

Security

The bonds are a GO of St. Mary's County, secured by the county's full-faith-and-credit pledge. Proceeds from this issue will fund various general government and school capital projects.

Credit overview

St. Mary's County's general creditworthiness is characterized by a history of strong financial operations, supported by a durable local economy that benefits from its access to employment markets surrounding Washington D.C., as well as from a strong management team that maintains conservative budgeting and a comprehensive set of formalized financial policies. Although St. Mary's County is not considered a part of the D.C. metropolitan statistical area (MSA), its northern portion is about 40 miles southeast of the capital and residents have direct access to employment opportunities throughout the county and the D.C. MSA.

The county continues to maintain strong financial operations, including very strong available general fund reserves. Income taxes accounted for approximately 45% of total general fund revenue in fiscal 2022, followed by property taxes at 43%, with both sources showing consistent growth over the past five years. Fiscal 2022 ended with a \$2.8 million surplus, increasing available reserves to \$88.7 million, or 33% of operating expenses, which includes committed reserves that are available for use with commissioner approval. Although the pace of revenue growth slowed in fiscal 2023, with local revenue sources coming in about 1.5% below budget according to unaudited results, the county still maintained what we consider strong financial performance, with general fund expenses also coming in under budget. As a result, general fund expenses exceeded revenue by \$11.4 million. However, we understand St. Mary's County used \$24.2 million in pay-as-you-go capital spending during the year, resulting in an estimated \$12 million drawdown in reserves according to unaudited fiscal 2023 results. Despite the use of reserves, total estimated available reserves remain very strong at fiscal year-end 2023 at nearly 30% of expenses. For fiscal 2024, the county budgets the use of

\$14 million for pay-as-you-go capital spending. The tax rate remains unchanged at 0.8478, which is below average compared with that of peers. In addition to a low property tax rate, St. Mary's County's income tax rate of 3.0% is below the state-mandated 3.2% maximum, providing additional financial flexibility. Given the county's history of positive variances and conservative budgeting, we expect performance will remain strong.

We view St. Mary's County's debt levels as low. Following this issuance, we calculate that the county will have approximately \$178 million in direct tax-supported debt. Its six-year capital improvement plan (CIP; 2024-2029) totals \$431.1 million, a little less than half of which management expects to fund with additional debt issuances. We estimate that St. Mary's County could issue an estimated \$25 million-\$30 million of new-money GO debt each year over the six-year CIP to finance various capital needs. Despite the expected issuances, given the amortization of existing debt as well as St. Mary's County's formalized debt policies, we do not expect this plan will materially weaken the county's debt and liability factor score.

In our opinion, the rating reflects St. Mary's County's:

- Stable, durable local economy, located on a peninsula in southern Maryland and bounded by the Patuxent River, Chesapeake Bay, and the Potomac River, with good growth, particularly in Leonardtown, the county seat and sole overlapping municipality in the county. The Naval Air Station Patuxent River (Pax River) is St. Mary's County's largest employer and anchors the area economy, employing about 25,000, and fostering growth in the form of additional defense, engineering, and technology jobs;
- Comprehensive set of formalized financial policies and practices that, combined with conservative budgeting, underpin the county's strong financial performance and very strong reserves, as well as a very strong Institutional Framework score; and
- Low overall net debt with manageable capital improvement needs and retirement costs, with pension liabilities totaling just \$61.4 million relating to the county's portion of the state-administered Sheriff's Plan as well as a length of service program, and an other postemployment benefit (OPEB) asset of \$2.3 million; however, we note the school board, which is a component unit of the county, maintains an OPEB liability of \$357 million.

Environmental, social, and governance

St. Mary's County's location along the Potomac and Patuxent rivers and Chesapeake Bay exposes the county to coastal and inland flooding, sea-level rise, and severe storms. We note that the county maintains an array of formalized policies and plans to help mitigate these risks, including:

- An adopted multijurisdictional hazard mitigation plan, which was approved by the Maryland Department of Emergency Management and the Federal Emergency Management Administration in 2017, and that incorporates climate, weather, and disaster planning;
- An Emergency Operations Plan, approved by county commissioners in 2018 and updated annually; and
- A Nuisance Flooding Plan, adopted in October 2020.

In addition, the county has taken steps to assess its critical infrastructure for vulnerabilities to climate change. We view St. Mary's County's strong oversight and comprehensive risk management strategies relating to the environment as a strength compared to those of peers.

We view the county's social and governance factors as being credit neutral within our analysis. We have spoken with officials regarding cyber security and consider management conversant in the relevant risks and proactive in managing them.

Outlook

The stable outlook reflects our opinion that the county will maintain its strong financial operations and very strong reserves given its conservative budgeting practices and well-embedded fiscal policies in addition to a diverse economic base.

Downside scenario

Although unlikely in our opinion given the strength of St. Mary's County's financial position and strong management conditions, if the county were to experience significant fiscal pressures and reserves were used to bridge any imbalances over a prolonged period, without a plan to restore reserves, we could lower the rating.

Upside scenario

If St. Mary's County were to experience material improvement in its economic metrics, while holding all other factor scores constant, we could raise the rating.

St. Mary's County, Maryland--key credit metrics

	Most recent	--Historical information--		
		2022	2021	2020
Strong economy				
Projected per capita effective buying income (EBI) (% of U.S.	112.7			
Market value per capita (\$)	119,504	114,871	115,247	113,142
Population	118,555	118,555	114,504	113,569
County unemployment rate(%)		3.1	4.1	4.6
Market value (\$000)	14,167,769	13,618,522	13,196,225	12,849,449
10 leading taxpayers as a % of taxable value	3.9			
Strong budgetary performance				
Operating fund result as a % of expenditures		1.0	10.0	5.5
Total governmental fund result as a % of expenditures		2.2	9.1	5.1
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		32.7	32.8	27.0
Total available reserves (\$000)		88,682	86,016	63,381
Very strong liquidity				
Total government cash % of governmental fund expenditures		47.1	46.0	43.2
Total government cash % of governmental fund debt service		1,026.5	1,030.7	849.8
Very strong management				
Financial Management Assessment	Strong			
Very strong debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		4.6	4.5	5.1

St. Mary's County, Maryland--key credit metrics (cont.)

	Most recent	--Historical information--		
		2022	2021	2020
Net direct debt as a % of governmental fund revenue	54.4			
Overall net debt as a % of market value	1.3			
Direct debt 10-year amortization (%)	52.6			
Required pension contribution as a % of governmental fund expenditures		3.9		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		1.3		

Very strong Institutional Framework

Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2022 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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