FitchRatings

FITCH AFFIRMS ST. MARY'S COUNTY, MD ULTGO'S AT AA+; OUTLOOK STABLE

Fitch Ratings-New York-31 October 2011: In the course of routine surveillance, Fitch Ratings has affirmed the 'AA+' rating on St. Mary's County, MD's approximately $100 million outstanding unlimited tax GO bonds.

The Rating Outlook is Stable.

SECURITY
The Bonds are general obligations of the county, and its full faith and credit and unlimited taxing power are irrevocably pledged to the punctual payment of principal and interest on such bonds when due and payable.

KEY RATING DRIVERS

LOW DEBT BURDEN WITH RAPID AMORTIZATION: Continued strong control of capital expenditure growth is expected to maintain overall debt levels moderate. Debt amortization is above average.

NARROW YET STABLE ECONOMY: The county's economy has fared relatively well during the recent recession. Employment is centered on the Patuxent River Naval Air Station and numerous related defense and technology industries, complemented somewhat by a growing tourism sector. Unemployment rates have remained below average with above average income levels and a stable population.

HEALTHY RESERVES AND BUDGETARY FLEXIBILITY: Reserve levels and financial flexibility remain sound, supported by prudent fiscal policies and planning offsetting current revenue pressures and the somewhat limited economic base.

CREDIT PROFILE

Economy
St. Mary's County, located in the southern part of Maryland, covers 367 square miles and borders the Patuxent and Potomac Rivers and Chesapeake Bay. The 2010 population of 105,151 represents an increase of 22% over the past decade, which was among the fastest within the state and reflective in part of expansions at the Patuxent River Naval Air Base located within the county. The base is a significant factor in the local economy with over 22,000 military, civilian and contractor workers. The overall strategic importance of the base is expected to remain high somewhat tempering potential program cancellations and cuts at the federal level. Per capita income levels are 20% higher than the U.S., in part due to a cluster of higher wage technology jobs in the area.

Other major county employers include St. Mary's Hospital, a 96-bed full service facility with over 1,000 employees. An emphasis on tourism and outdoor activity over the past few years is evidenced by steady average annual growth of 8% in the county's accommodations tax.

County average annual employment growth over the past ten years has been a steady 1.1% and helped maintain unemployment rates, 6.5% in August 2011, below state and national averages.

Like all Maryland municipalities, the county benefits from a triennial assessment practice which smoothes annual volatility in tax base performance. The county adopted a homestead percentage of 105%, which means that assessments on certain owner occupied residential property may not increase by more than 5% in any given year (growth in excess of 5% is credited, or 'banked', and can be used to offset future tax base declines).

New residential and commercial construction activity over the past few years driven in part by base related employment growth has increased the county's assessed valuation to over $11 billion in 2011. AV declines following the upcoming revaluation should be tempered by significant banked AV growth in prior years and is not expected to impact the county's budget.

Finances

Maintenance of sound reserves and financial flexibility despite revenue softening and planned drawdowns in fiscal years 2007 -2009 reflect the county's strong financial management.

The county concluded fiscal 2010 with a $3.8 million general fund surplus which strengthened available reserves, consisting of both the rainy day fund and the unreserved general fund balances, to a solid $31 million or 15% of general fund spending. Estimated year-end 2011 results indicate that the county will realize another operating surplus due in part to better than budgeted income tax revenues and tight expenditure control.

The 2012 budget is essentially flat with the 2011 approved budget, eliminates 21 previously frozen positions and focuses on expenditure efficiency, includes a small $682,611 fund balance appropriation which is identified for non-recurring costs, and a budgeted $500,000 emergency appropriations reserve which lapses at year end. The county spent approximately $3 million in September 2011 for Hurricane Irene cleanup costs, much of which is expected to be reimbursed by FEMA.

The county has consistently preserved a separate bond rating reserve around 6% of general fund expenditures ($11.9 million in 2011) and a rainy day fund of $1.625 million. The bond rating fund is set by formal debt policy adopted by resolution 2009-28 can be utilized subsequent to a simple majority vote of the County Commissioners.

Although the county has instituted a broad range of expenditure reductions to offset significant declines in state aid and variable personal income tax revenues, it retains the ability to implement additional expenditure reductions, if required. Additionally, the county's property and income tax rates are among the lowest in the state and well below the state limits. General fund revenues are a led by property and income taxes at 85% of total revenues with expenditures led by education at 45% followed by public safety (18%) and general government (10%). As noted above, Fitch expects property tax revenues will remain a stable revenue source for the general fund, and income taxes are expected to continue to strengthen. The county's property tax rate is not subject to a cap or limitation on annual growth. The current rate of $0.857 per $100 AV is among the lowest in the state and has not been raised over the past six years.

Debt

The county has carefully managed its capital program spending and issuance of debt, leading to low overall debt levels at $1,172 per capita and 1.0% of market value. Amortization is above average at 70% within ten years. The county has adopted a fiscal 2012 - 2017 capital improvement plan totaling $200 million led by $75 million for public facilities projects and $50 million for public school projects. Funding sources include approximately $77 million from federal sources and $88 million in bonds which the county is likely to issue over the next few years and likely result in only a modest up-tick in debt servicing costs.

Long-term liabilities related to employment benefits are not expected to pressure future operations. The county provides pension benefits to its employees through participation in the state plan. The county has consistently contributed 100% of the annual required contribution. At June 30, 2009 the state plan was funded at a low 65% which could result in increased future county contributions. The county also provides other post employment benefits (OPEB) to its retirees. As of 2010, the UAAL associated with OPEB totaled $46.6 million. The county did establish an OPEB trust in 2009 and as of the end of fiscal 2010 held $26.6 million in the account

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in the Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates and IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 15, 2011);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 15, 2011).

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Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648842