

ISSUER COMMENT

17 June 2019

RATING

General Obligation (or GO Related) ¹

Aa1 No Outlook

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St. Mary's County, MD

Annual Comment on St. Mary's County

Issuer Profile

St. Mary's County is located on St. Mary's Peninsula in southern Maryland, surrounded by the waters of the Patuxent River (northeast), Chesapeake Bay (east), the Potomac River (southwest), and the Wicomico River (west). The county seat is Leonardtown. The county has a population of 110,979 and a moderate population density of 307 people per square mile. The county's median family income is \$101,941 (1st quartile) and the April 2019 unemployment rate was 3% (2nd quartile) ². The largest industry sectors that drive the local economy are professional/scientific/technical services, federal government (civilian), and retail trade.

Credit Overview

The credit position for St. Mary's County is very good. Its Aa1 rating is slightly stronger than the median rating of Aa2 for US counties. The notable credit factors include a very healthy financial position, an extensive tax base and a strong wealth and income profile. It also reflects an affordable debt burden and a moderate pension liability.

Finances: The financial position of the county is very healthy and is slightly favorable in comparison to the assigned rating of Aa1. The cash balance as a percent of operating revenues (37.6%) is consistent with the US median, though it contracted from 2014 to 2018. Furthermore, the fund balance as a percent of operating revenues (25.4%) falls just short of the US median.

Economy and Tax Base: Overall, the economy and tax base of the county are very strong and are in line with its Aa1 rating position. The total full value (\$12.4 billion) is slightly above the US median, and increased between 2014 and 2018. Additionally, the median family income equals a significant 143.9% of the US level. Lastly, the full value per capita (\$112,022) is stronger than other Moody's-rated counties nationwide.

Debt and Pensions: Overall, the debt and pension liabilities of St. Mary's County are manageable though slightly weak with respect to the assigned rating of Aa1. The net direct debt to full value (0.6%) is consistent with the US median, and did not change between 2014 and 2018. In addition, the Moody's-adjusted net pension liability to operating revenues (1.0x) approximates the US median.

Management and Governance: Maryland counties have an Institutional Framework score ³ of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. While the sector's largest revenue source, property taxes, is not subject to any statewide caps, income taxes account for approximately a third of revenues and are capped at 3.2%. Unpredictable

revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Maryland has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Maryland Counties

Despite reserve levels generally below national medians, Maryland counties will continue to benefit from strong management practices and diverse revenue streams. The state's top industries of government, education and health services, and professional and business services are growing at a moderate rate, which will lead to tax base growth. Due to a three-year assessment cycle, many counties are seeing tax base growth through fiscal 2017 or 2018. Debt burdens tend to be above national medians, because counties issue debt on behalf of school district and utility systems. Debt service payments are generally manageable, because the portion of debt allocated to utilities is often self-supporting. Although counties assume "normal costs" for teachers' pensions, overall pension liabilities tend to be manageable. The majority of counties fund OPEB beyond the pay-go requirement.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 1

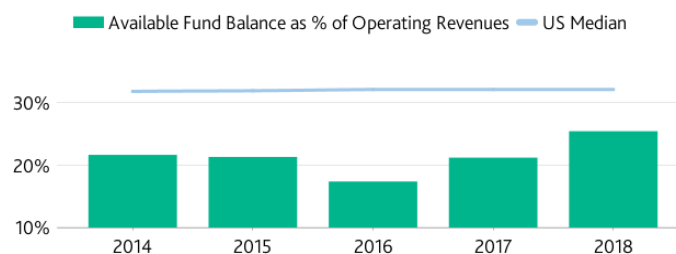
Key Indicators 4.5 St. Mary's County

	2014	2015	2016	2017	2018	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$11,675M	\$11,882M	\$12,040M	\$12,203M	\$12,432M	\$7,495M	Improved
Full Value Per Capita	\$107,641	\$108,400	\$108,789	\$109,965	\$112,022	\$82,836	Stable
Median Family Income (% of US Median)	152%	149%	146%	144%	144%	94%	Weakened
Finances							
Available Fund Balance as % of Operating Revenues	21.6%	21.3%	17.4%	21.2%	25.4%	32.1%	Stable
Net Cash Balance as % of Operating Revenues	46.3%	35.0%	29.6%	36.4%	37.6%	36.7%	Weakened
Debt / Pensions							
Net Direct Debt / Full Value	0.8%	0.7%	0.6%	0.7%	0.6%	0.5%	Stable
Net Direct Debt / Operating Revenues	0.45x	0.39x	0.33x	0.38x	0.35x	0.61x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.8%	1.7%	1.8%	1.7%	1.9%	1.1%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.04x	0.97x	1.00x	0.93x	1.04x	1.28x	Stable
	2014	2015	2016	2017	2018	US Median	
Debt and Financial Data							
Population	108,472	109,614	110,675	110,979	110,979	N/A	
Available Fund Balance (\$000s)	\$44,178	\$44,604	\$37,690	\$47,375	\$57,715	\$23,300	
Net Cash Balance (\$000s)	\$94,659	\$73,226	\$64,362	\$81,474	\$85,277	\$24,724	
Operating Revenues (\$000s)	\$204,231	\$209,431	\$217,080	\$223,616	\$227,061	\$69,726	
Net Direct Debt (\$000s)	\$92,172	\$82,605	\$72,213	\$85,866	\$79,580	\$38,387	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$211,705	\$202,443	\$216,933	\$207,397	\$235,339	\$77,659	

Source: Moody's Investors Service

EXHIBIT 2

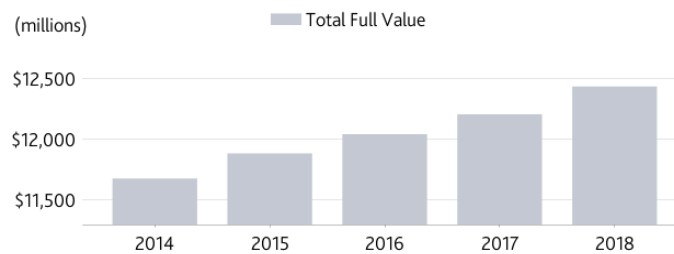
Available fund balance as a percent of operating revenues consistent from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

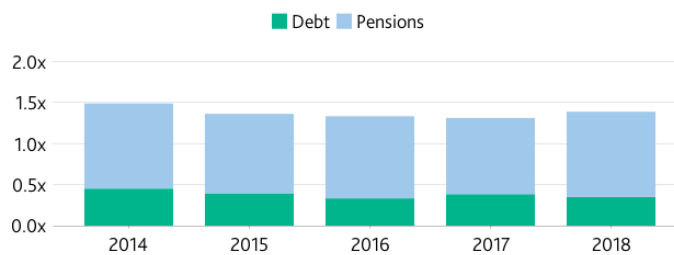
Full value of the property tax base increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues remained stable from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
 - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - The medians come from our most recently published local government medians report, [Medians - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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