

CREDIT OPINION

15 November 2023



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St. Mary's County, MD

Update to credit analysis

Summary

The credit profile of [St. Mary's County](#), MD (issuer Aa1) is solid, and reflects the county's diverse economic base, anchored by Naval Air Station Patuxent River (NAS Pax River), and high resident wealth indices. In fiscal 2023 and fiscal 2024, the county utilized a portion of its reserves for one-time capital projects, which will likely soften available fund balance and liquidity; the county's financial profile remains healthy and in line with Aa medians. Total leverage is currently manageable, and will remain around current levels, if not increase modestly, as the county executes its six-year capital improvement plan that calls for \$175 million in additional debt.

Credit strengths

- » Stable operating performance resulting in solid reserves and liquidity
- » Strong resident wealth indices
- » Manageable total leverage

Credit challenges

- » Reliance on economically sensitive revenue streams
- » Potential for increases in total leverage barring corresponding growth in revenues

Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Notable increases in reserves and liquidity
- » Further strengthening of the economic base
- » Moderation in total leverage

Factors that could lead to a downgrade

- » Deterioration of reserves and liquidity
- » Significant contraction in the local economy
- » Increases in total leverage that are no longer in line with peers

Key indicators

Exhibit 1

St. Mary's (County of) MD

	2019	2020	2021	2022	Aa Medians
Economy					
Resident income ratio (%)	148.4%	150.2%	154.5%	N/A	97.7%
Full Value (\$000)	\$12,624,398	\$12,849,449	\$13,196,225	\$13,618,522	\$8,453,079
Population	112,290	113,182	113,209	N/A	90,103
Full value per capita (\$)	\$112,427	\$113,529	\$116,565	N/A	\$96,018
Economic growth metric (%)	N/A	0.6%	-0.4%	N/A	-0.5%
Financial Performance					
Revenue (\$000)	\$263,597	\$284,316	\$319,049	\$335,232	\$92,906
Available fund balance (\$000)	\$63,583	\$64,368	\$87,716	\$121,649	\$38,190
Net unrestricted cash (\$000)	\$95,574	\$113,613	\$131,351	\$149,967	\$53,439
Available fund balance ratio (%)	24.1%	22.6%	27.5%	36.3%	39.4%
Liquidity ratio (%)	36.3%	40.0%	41.2%	44.7%	62.6%
Leverage					
Debt (\$000)	\$97,331	\$117,745	\$142,527	\$130,457	\$46,481
Adjusted net pension liabilities (\$000)	\$236,399	\$278,598	\$285,980	\$231,191	\$93,617
Adjusted net OPEB liabilities (\$000)	\$81,102	\$100,701	\$88,315	\$57,896	\$8,526
Other long-term liabilities (\$000)	\$9,282	\$10,443	\$24,817	\$25,675	\$4,025
Long-term liabilities ratio (%)	160.9%	178.5%	169.8%	132.8%	186.7%
Fixed costs					
Implied debt service (\$000)	\$5,778	\$7,096	\$8,432	\$9,997	\$3,326
Pension tread water contribution (\$000)	\$9,875	\$10,003	\$10,856	N/A	\$2,307
OPEB contributions (\$000)	\$3,391	\$3,707	\$3,951	\$4,121	\$186
Implied cost of other long-term liabilities (\$000)	\$682	\$677	\$748	\$1,741	\$264
Fixed-costs ratio (%)	7.5%	7.6%	7.5%	8.0%	7.2%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#). The Economic Growth metric cited above compares the five-year CAGR of real GDP for California-Lexington Park, MD Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, St. Mary's (County of) MD's financial statements and Moody's Investors Service, US Bureau of Economic Analysis

Profile

St. Mary's County covers an area of 764 square miles and is located on a peninsula in southern [Maryland](#) (Aaa stable) with over 500 miles of shoreline. The county has a population of approximately 115,000.

Detailed credit considerations

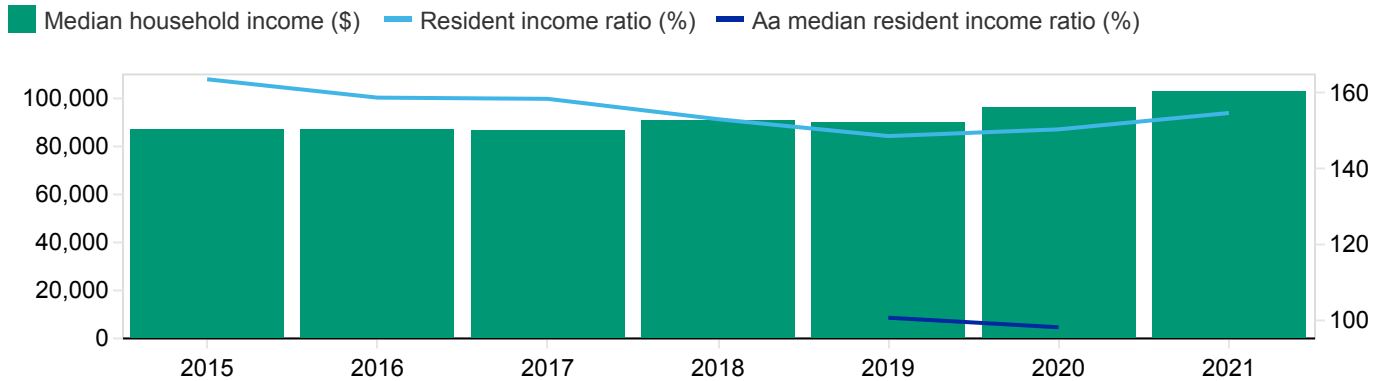
Economy: local economy anchored by naval base

St. Mary's economic base will remain stable anchored by NAS Pax River, which is the county's largest employer with over 21,000 employees. Further, the county's economy is well diversified and includes tourism, healthcare, higher education, and advanced manufacturing. Within the county's seat, Leonardtown, officials report steady residential development with nearly 2,000 single-family homes, condos and apartments in various stages of construction. St. Mary's regional airport is currently involved in a multi-million expansion. Surrounding the airport is the Aeropark Innovation District, a hub for aerospace, tech and university tenants.

Resident wealth indices remain solid with median family income of 155% and full value per capita of \$125,000.

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

Exhibit 2
Resident Income



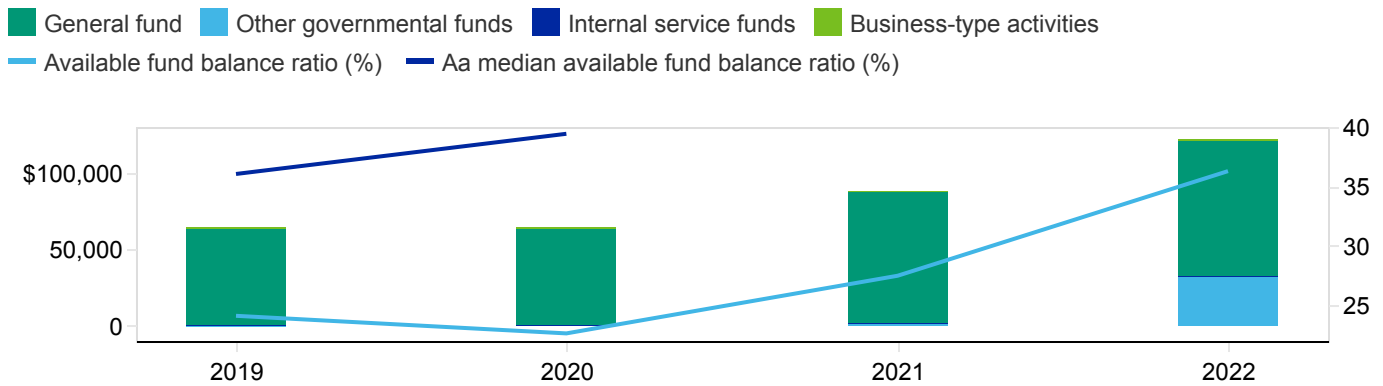
Source: Moody's Investors Service

Financial operations: solid financial performance

Despite planned draws in fiscal 2023 and fiscal 2024, the county's finances are expected to remain sound due to conservative budgeting, and increases in both property taxes and income taxes, two of the county's primary operating streams. Based on fiscal 2023 unaudited performance, the county ended the year with a \$12 million general fund decline, driven by a planned use of \$24.2 million in reserves for capital. Similarly, the fiscal 2024 budget projects another general fund deficit of \$14 million due to one-time capital funding. Despite use of unassigned fund balance, the county remains in compliance with all of its reserve policies. After fiscal 2024, management will address its capital needs with a combination of grants, excise taxes and debt.

Around 75% of the county's governmental funding is derived from property taxes and income taxes. While this is not atypical for Maryland governments, it does expose the county to economic volatility.

Exhibit 3
Fund Balance

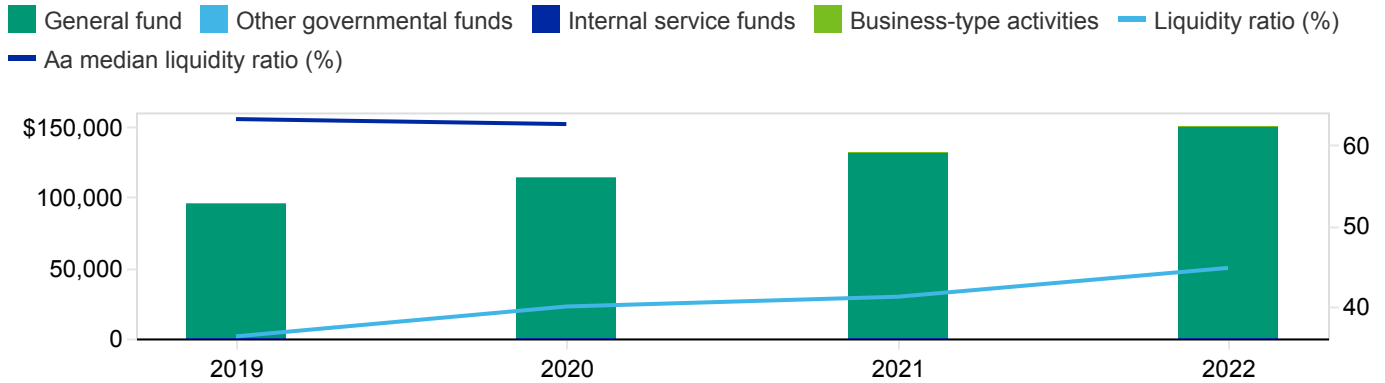


Source: Moody's Investors Service

Liquidity

Unrestricted liquidity remains satisfactory and in line with peers. At fiscal 2022 year-end, unrestricted cash totaled \$150 million, or 44.7% of revenues.

Exhibit 4
Cash



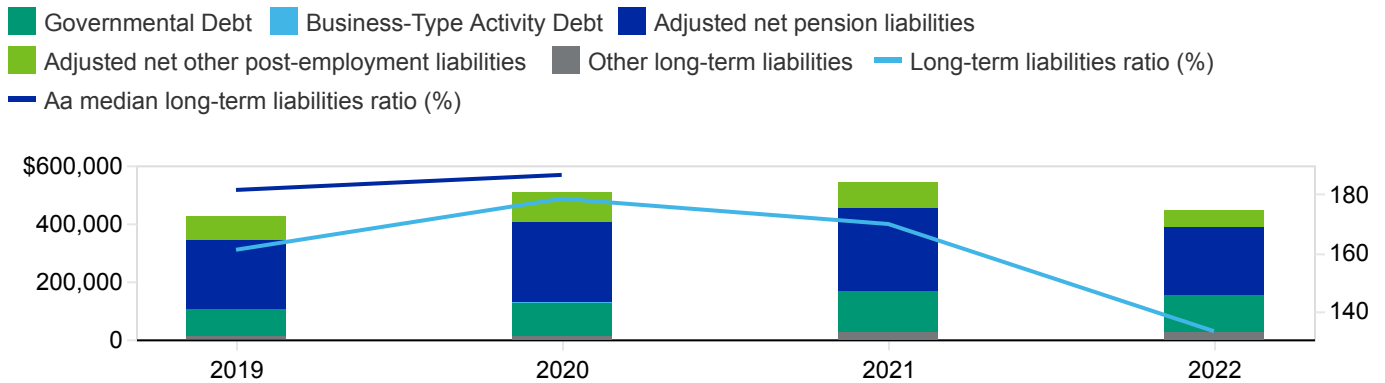
Source: Moody's Investors Service

Leverage: currently manageable leverage with plans to issue over the next five years

The county's leverage will remain around current levels, if not increase slightly, over the near-term due to annual, planned borrowings. Inclusive of the current sale, total leverage will increase to around 150% of operating revenues (reflecting current and proposed debt and unfunded pension and OPEB liabilities).

St. Mary's maintains a comprehensive six-year capital improvement plan, which calls for approximately \$431 million in capital investment, of which \$175 million will be debt funded. Between fiscal 2025 and fiscal 2029, the county anticipates \$30 million to \$50 million in annual issuances. The bulk of the capital outlay will go towards schools (\$151 million), public facilities (\$89 million) and highways (\$81 million).

Exhibit 5
Total Primary Government - Long Term Liabilities



Source: Moody's Investors Service

Legal security

The county's GOULT bonds are backed by the county's full faith and credit pledge, payable from the county's ability to levy ad valorem taxes without limitation upon all assessable property within the county's boundaries.

Debt structure

All of the county's debt is fixed rate and amortizes over the long-term. All debt matures by fiscal 2049. 908397

Debt-related derivatives

The county is not a party to any derivative agreements.

Pensions and OPEB

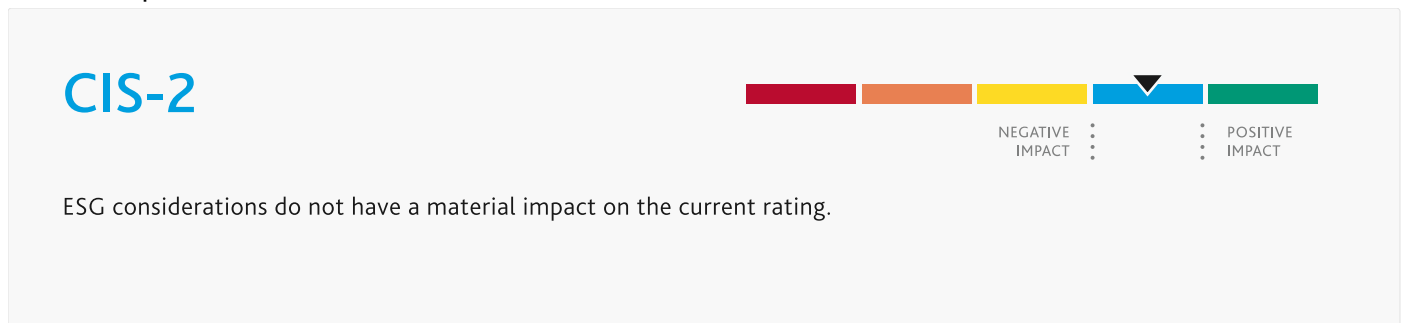
The county's pension and OPEB liabilities will remain generally level and not a major credit driver in the near-term. The county's fiscal 2022 adjusted net pension liability (ANPL) totaled approximately \$231.1 million or 71% of total operating revenues. The county also provides other post-employment benefits (OPEB) to employees. The unfunded OPEB liability, based on Moody's calculations, is \$58 million. Overall, total fixed costs (debt service, pension treadwater, and OPEB costs) represented a manageable 8% of operating revenues in fiscal 2022.

ESG considerations

St. Mary's (County of) MD's ESG credit impact score is CIS-2

Exhibit 6

ESG credit impact score

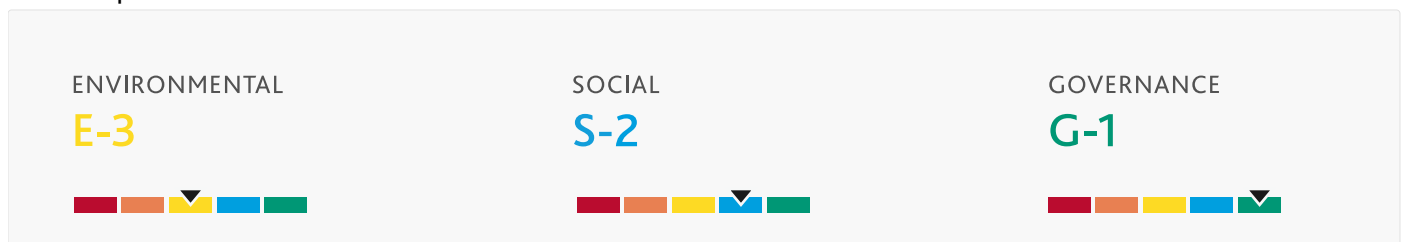


Source: Moody's Investors Service

St. Mary's County's ESG CIS impact score is a 2, reflecting neutral to low exposure to moderately negative environmental, neutral to low social risks, and strong governance.

Exhibit 7

ESG issuer profile scores



Source: Moody's Investors Service

Environmental

The county's overall E issuer profile score is moderately negative (**E-3**). The county has elevated exposure to water stress and extreme weather events, which is notable given that the region is an economic engine for the region with the naval base. Still, the county's operations and economy will likely be able to withstand weather-related events given the state and federal governments' history of providing disaster relief to local governments following a major weather event.

Social

The county's overall S issuer profile score is neutral to low (**S-2**), reflecting positive exposure to education and demographics given modest net migration and birth rates. Labor and income, housing, health and safety and access to basic services are neutral to low.

Governance

St. Mary's County very strong governance profile supports its rating, as captured by a positive G issuer profile score (**G-1**) and reflects a strong institutional structure, demonstrated policy effectiveness and established history of prudent budget management.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 8

St. Mary's (County of) MD

	Measure	Weight	Score
Economy			
Resident income ratio	154.5%	10.0%	Aaa
Full value per capita	125,319	10.0%	Aa
Economic growth metric	-0.4%	10.0%	Aa
Financial Performance			
Available fund balance ratio	36.3%	20.0%	Aaa
Liquidity ratio	44.7%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	132.8%	20.0%	Aa
Fixed-costs ratio	8.0%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa1
Assigned Rating			Aa1

The complete list of outstanding ratings assigned to the St. Mary's (County of) MD is available on their [issuer page](#). Details on the current ESG scores assigned to the St. Mary's (County of) MD are available on their [ESGView page](#).

Sources: US Census Bureau, St. Mary's (County of) MD's financial statements and Moody's Investors Service

Appendix

Exhibit 9

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

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