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Ratings

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**Summary:**

# St. Mary's County, Maryland; General Obligation


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## Table Of Contents

# Summary:

# St. Mary's County, Maryland; General Obligation

| Credit Profile | | |
|---|---|---|
| US$25.0 mil cons pub imp bnds ser 2016 due 08/01/2036 | | |
| *Long Term Rating* | AA+/Stable | New |
| St Marys Cnty | | |
| *Long Term Rating* | AA+/Stable | Affirmed |

## Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to St. Mary’s County, Md.'s consolidated public general obligation (GO) improvement bonds, series 2016. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the county's previously issued GO bonds. The outlook is stable.

The bonds are secured by the county's full faith and GO credit pledge.

We understand proceeds from this issue will be used to finance various county capital projects including road improvements, public safety needs, and school and library renovations.

The 'AA+' rating reflects our opinion of the county's:

- Strong economy, with market value per capita of $108,384 and projected per capita effective buying income at 132% of the national level;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with a slight operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 26% of operating expenditures;
- Very strong liquidity, with total government available cash at 28.1% of total governmental fund expenditures and 6.7x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 4.2% of expenditures and net direct debt that is 44.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 74.2% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

### Strong economy

We consider St. Mary's County's economy strong. The county has an estimated population of 111,088. It has a projected per capita effective buying income of 132% of the national level and per capita market value of $108,384. Overall, the county's market value grew by 1.3% over the past year to $12.0 billion in 2016. The county unemployment rate was 5.0% in 2015.

St. Mary's County is situated on a peninsula in southern Maryland and bounded by the Patuxent River, the Chesapeake

Bay, and the Potomac River. While the area economy continues to grow and gradually diversify, the Naval Air Station Patuxent River (Pax River) anchors the area economy and continues to expand and foster ongoing growth. Pax River is headquarters for the Naval Air Warfare Center Aircraft Division and Naval Air Systems Command and there are 50 other tenant commands. It currently employs about 25,000 people and is the county's largest employer. Non-defense industry-related economic development continues at a modest pace, as well. Various projects include the expansion of the county airport, and technology-related and retail projects. The county's health care and higher education component remains stable, with St. Mary's Hospital, which recently merged with MedStar Health, and the College of Southern Maryland and St. Mary's College continuing with facility expansions. The county continues to work on promoting its tourism sector as well. County unemployment, at 5.0% in 2015, has historically been below state and national averages. As a result of the modest development and ongoing property revaluations, the county's tax base has experienced consistent growth, increasing to an estimated $12.04 billion in fiscal 2016. Furthermore, there is no concentration in the tax base, with leading taxpayers accounting for just 3.7% of total assessed value (AV).

### Very strong management

We view the county's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights include: the use of historical trend analysis for budget preparation; and looking back three-to-four years for both revenues and expenditures. Budget to actuals are monitored monthly with reports provided to the board monthly from all eight departments. In our opinion, the reports are detailed in nature but are not all inclusive with finances. Management has indicated that plans are to increase the level of detail in each monthly report in the near term. The county does not currently have a formal long-term financial plan. However, a six-year rolling long-term financial plan has been drafted and will be presented to the board during fiscal 2017 so that it will likely be adopted and implemented for fiscal 2018. St. Mary's maintains a five-year rolling capital improvement plan and identifies all projects and funding sources. It also maintains its own investment policy. Investments and performance are monitored monthly with reports provided to the board monthly. The county's formal debt management policy requires total debt not to exceed 2% of AV or debt service expenditures above 10% of the general fund budget. The county's formal reserve policy requires a minimum 15% of general fund revenues consisting of the county's bond rating fund (6% of revenues), the rainy day fund, and the unassigned general fund. In addition, St. Mary's has a make-up provision requiring replenishment of reserves over one-to-three years.

### Adequate budgetary performance

St Mary's County's budgetary performance is adequate in our opinion. The county had slight surplus operating results in the general fund of 1.0% of expenditures, but a deficit result across all governmental funds of 8.6% in fiscal 2015.

The county's financial performance is adequate in our opinion and reflective of the stable, yet conservative nature, of both budgeting practices and management. Over the past several years, management has made a conscious decision to utilize available surplus and a portion of existing reserves to finance various capital needs. Although reserves have declined, they remain, in our opinion, very strong. St. Mary's closed fiscal 2015 with a modest surplus of $2.2 million, net of adjustments, following several years of drawdowns. Property taxes, a stable revenue stream, accounted for 50% of total general fund revenues in fiscal 2015, followed by income taxes at 39%. While income tax revenues have not always met budgeted numbers, they have continued to grow over the past five years. In addition, the county's income tax rate has not changed in several years and St. Mary's still has taxing flexibility, if needed.

With the fiscal 2016 just closing, management estimates an operating surplus of $5.0 million, net of transfers. As such, total available general fund reserves are expected to increase to $38.03 million from $31.2 million. However, given the planned appropriation of $11.8 million in reserves in fiscal 2016, total general fund balance is estimated to decline to $41.99 million from $48.6 million in 2015 because the committed portion of reserves has declined.

The fiscal 2017 adopted general fund budget totals $222.17 million, a decline from the prior year due to the reduction of capital pay-go funding and fund balance. The property and income tax rates are unchanged. In addition, the environmental and solid waste service fee increased to $72 from $60, alleviating the subsidy transfer from the general fund. The emergency support service tax rate also increased to $0.024 from $0.016 to enable the county to maintain and improve on existing services while rebuilding reserves.

Given St. Mary's continued plans to finance ongoing capital needs internally, while maintaining its stable financial positon, we do not expect the budgetary performance score to change in the near term.

### Very strong budgetary flexibility

St Mary's County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 26% of operating expenditures, or $54.1 million. The available fund balance includes $44.6 million (21.4% of expenditures) in the general fund and $9.5 million (4.5% of expenditures) that is outside the general fund but legally available for operations.

The county's reserves have been very strong, in our opinion, over the past three fiscal years (2013-2015), averaging 29% of expenditures, after including reserves in both the committed portion of the general fund and a portion of reserves in the capital projects fund. With fiscal 2016 having just closed, management indicates fiscal 2016 available reserves are to increase modestly. Given the past several years of drawdowns for capital financing, available county reserves reached $31.1 million, or 14.9% of revenues in fiscal 2015, and are right at the county's formal policy minimum level (15%). With the estimated surplus for fiscal 2016, available reserves are projected to grow to almost 18% of revenues. In an effort to rebuild reserves, St. Mary's did not include the use of reserves in its fiscal 2017 budget. We understand the county would like to build reserves back up to around 20% of revenues. Nonetheless, while we understand the county has plans to continue to internally finance ongoing capital needs, we do not believe the budgetary flexibility score will change in the near term, given the historical track record of maintaining solid reserves.

### Very strong liquidity

In our opinion, St Mary's County's liquidity is very strong, with total government available cash at 28.1% of total governmental fund expenditures and 6.7x governmental debt service in 2015. In our view, the county has strong access to external liquidity if necessary.

In our opinion, the county has had strong external access to liquidity issuing GO debt, when required, over the past 20 years. Management has confirmed St. Mary's has no contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. In addition, the county does not hold any investments we deem aggressive.

### Very strong debt and contingent liability profile

In our view, St Mary's County's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.2% of total governmental fund expenditures, and net direct debt is 44.2% of total governmental fund revenue. Overall net debt is low at 0.9% of market value, and approximately 74.2% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

We understand the county plans to issue about $35.0 million of additional new money GO debt within the next 12-18 months to finance various capital needs. Despite the possible issuance and increase in debt service costs, we do not expect this to negatively affect the county's debt and liability factor score, considering the county's rapid amortization schedule.

St. Mary's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.0% of total governmental fund expenditures in 2015. Of that amount, 3.1% represented required contributions to pension obligations, and 1.9% represented OPEB payments. The county made its full annual required pension contribution in 2015.

The county participates in the state-administered pension plans as well as the county's Sheriff's Office Retirement Plan. It provides OPEB to eligible employees. St. Mary's contributed $7.08 million, or 1.9% of expenditures to its OPEB trust fund in fiscal 2015. It adopted Governmental Accounting Standards Board (GASB) statement 68 (GASB 68) in fiscal 2015. Based on GASB 68, the fiduciary net position as a percent of total pension liability is 65.9% of the Sheriff's Office Retirement Plan. The county's proportionate share of the net pension liability in the sheriff's plan is $35.03 million for fiscal 2015.

### Very strong institutional framework

The institutional framework score for Maryland counties is very strong.

## Outlook

The stable outlook reflects our opinion of the county's large and diverse property tax base that will likely continue to experience good growth due, in part, to the Pax River Naval Air Base within its borders. We believe St. Mary's will likely maintain what we consider its very strong budgetary flexibility and liquidity; and at least adequate budgetary performance, supported by well-embedded fiscal policies and practices.

### Upside scenario

If the county were to continue positive financial operations, and begin to rebuild reserves, while continuing to finance ongoing capital needs and holding all other factor scores constant, we could raise the rating.

### Downside scenario

Conversely, although unlikely in our opinion, if the county were to experience fiscal pressures and reserves were used to bridge any imbalances, either for capital or operations, we could 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: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2015 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.