

## RATING ACTION COMMENTARY

# Fitch Upgrades St. Mary's County, MD's GOs to 'AAA' on Criteria Change; Outlook Stable

Tue 12 Nov, 2024 - 10:37 AM ET

Fitch Ratings - New York - 12 Nov 2024: Fitch Ratings has upgraded St. Mary's County, MD Issuer Default Rating (IDR) and general obligation (GO) bonds to 'AAA' from 'AA+' due to a criteria change.

The Rating Outlook is Stable.

## RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅	PRIOR ⇅
St. Mary's County (MD) [General Government]	LT IDR    AAA Rating Outlook Stable  Upgrade	AA+ Rating Outlook Stable
St. Mary's County (MD) /General Obligation - Unlimited Tax/1 LT	LT    AAA Rating Outlook Stable  Upgrade	AA+ Rating Outlook Stable

### [VIEW ADDITIONAL RATING DETAILS](#)

The upgrade of the IDR to 'AAA' reflects the implementation of Fitch's U.S. Public Finance Local Government Rating Criteria. Key drivers of the upgrade include the county's 'Strongest' demographic and economic level metrics, particularly its high median household income and low unemployment rate relative to the national benchmark. Another key driver is

the county's long-term liability (LTL) burden, assessed at 'Strong' relative to Fitch's local government rating portfolio.

The county's financial resilience assessment of 'aaa' is supported by 'Ample' budgetary flexibility underpinned by broad revenue-raising powers. Fitch expects that unrestricted general fund reserves (sum of committed, assigned and unassigned) will be maintained at least equal to or above 7.5% of spending (the minimum level for a 'aaa' assessment given its budgetary flexibility). The county has historically maintained unrestricted reserves compliant with its 15% fund balance policy, and fiscal year-end 2023 unrestricted general fund reserves equaled 25.4% of spending.

These strengths are tempered by a 'Weak' population trend and high economic concentration due to the presence of Naval Air Station Patuxent River, which is the county's largest employer with approximately 25,000 employees.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--A sustained approximately 10 to 15% increase in long-term liabilities due to additional debt and/or increases in net pension liabilities and carrying costs, absent a commensurate increase in personal income and/or governmental resources;

--A material weakening in demographic and economic metrics including unemployment rate, population trend and educational attainment;

--A sustained decline in available general fund balances below 7.5% of spending, which would lower the financial resilience assessment to below 'aaa'.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Not applicable because the 'AAA' rating is at the highest rating level.

## **SECURITY**

The bonds are general obligations of the county, whose full faith and credit and unlimited taxing power are irrevocably pledged to repayment of the bonds.

## **FITCH'S LOCAL GOVERNMENT RATING MODEL**

The Local Government Rating Model generates Model Implied Ratings, which communicate the issuer's credit quality relative to Fitch's local government rating portfolio. (The Model Implied Rating will be the Issuer Default Rating except in certain circumstances explained in the applicable criteria.) The Model Implied Rating is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher (AAA), 9.0 (AA+), 8.0 (AA), and so forth down to 1.0 (BBB- and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

## **RATINGS HEADROOM & POSITIONING**

St. Mary's County Model Implied Rating: 'AAA' (Numerical Value: 10.12)

-- Metric Profile: 'AAA' (Numerical Value: 10.12)

-- Net Additional Analytical Factor Notching: 0.0

St. Mary's County's Model Implied Rating is 'AAA'. The associated numerical value of 10.12 is at the lower end of the range for its current 'AAA' rating.

## **KEY RATING DRIVERS**

### **FINANCIAL PROFILE**

#### **Financial Resilience - 'aaa'**

St. Mary's County's financial resilience is driven by the combination of its 'High' revenue control assessment and 'High' expenditure control assessment, culminating in an 'Ample' budgetary flexibility assessment.

-- Revenue control assessment: High

-- Expenditure control assessment: High

-- Budgetary flexibility assessment: Ample

-- Minimum fund balance for current financial resilience assessment:  $\geq 7.5\%$

-- Current year fund balance to expenditure ratio: 25.4% (2023)

-- Five-year low fund balance to expenditure ratio: 25.4% (2023)

### **Revenue Volatility - 'Strongest'**

St. Mary's County's weakest historic three-year revenue performance is neutral to the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 3.3% increase for the three-year period ending fiscal 2015

-- Median issuer decline: -4.7% (2023)

### **DEMOGRAPHIC AND ECONOMIC STRENGTH**

#### **Population Trend - 'Weak'**

Based on the median of 10-year annual percentage change in population, St. Mary's County's population trend is assessed as 'Weak'.

Population trend: 0.7% 2022 median of 10-year annual percentage change in population (37th percentile)

#### **Unemployment, Educational Attainment and MHI Level - 'Strong'**

The overall strength of St. Mary's County's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2023 are assessed as 'Strong' on a composite basis, performing at the 80th percentile of Fitch's local government rating portfolio. This is due to relatively strong education attainment levels, median-issuer indexed adjusted MHI and unemployment rate.

-- Unemployment rate as a percentage of national rate: 70.4% Analyst Input (88th percentile) (vs. 55.6% 2023), relative to the national rate of 3.9%

-- Percent of population with a bachelor's degree or higher: 34.9% (2022) (63rd percentile)

-- MHI as a percent of the portfolio median: 149.6% (2022) (88th percentile)

### **Economic Concentration and Population Size - 'Midrange'**

St. Mary's County's population in 2022 was of sufficient size to qualify for Fitch's highest overall size category, but this is offset by its highly concentrated economy.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 114,783 (2022) (above the 15th percentile)

-- Economic concentration: 81.2% Analyst Input (from 0th to 2.5th percentile) (vs. 80.8% 2023 Actual)

### **Analyst Inputs to the Model**

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise skew the time series.

The unemployment rate metric uses the prior five-year average (2019-2023) of the county's annual unemployment rate as a percentage of the U.S. annual unemployment rate due to the high level of variability in the annual metric post-pandemic. Economic concentration adjustment by using county median by state natural resources and mining for missing data.

## **LONG-TERM LIABILITY BURDEN**

### **Long-Term Liability Burden - 'Strong'**

St. Mary's County's liabilities to personal income has deteriorated while carrying costs to governmental expenditures and liabilities to governmental revenue remain broadly strong.

The long-term liability composite metric in 2023 is at the 72nd percentile, indicating a somewhat lower liability burden relative to the Fitch's local government rating portfolio.

-- Liabilities to personal income: 5.2% Analyst Input (52nd percentile) (vs. 3.8% 2023 Actual)

-- Liabilities to governmental revenue: 104.6% Analyst Input (83rd percentile) (vs. 88.9% 2023 Actual)

-- Carrying costs to governmental expenditures: 9.9% Analyst Input (82nd percentile) (vs. 9.2% 2023 Actual)

The long-term liability burden includes an adjustment to deduct scheduled outstanding principal amortization through fiscal 2024, and to add the principal and debt service amount associated with the county's issued series 2023 GO bonds and expected fiscal 2025 debt issuance plans.

## **PROFILE**

St. Mary's County is located in the southern part of Maryland, bordering the Patuxent and Potomac rivers and Chesapeake Bay. The county's estimated 2023 population of about 115,281 has increased by roughly 10% since 2010. Population growth reflects, in part, continued expansion at the Naval Air Station, which is home to the Naval Air Systems (NAS) Command and the Naval Air Warfare Center Aircraft Division headquarters. The county's unemployment rate had generally trended slightly below national averages, reflective of the stability of federal funding for NAS. Wealth indicators are above U.S. averages in part due to a cluster of higher wage technology jobs in the area.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more

information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## **FITCH RATINGS ANALYSTS**

### **Keith Vereen**

Analyst

Primary Rating Analyst

+1 646 582 3416

[keith.vereen@fitchratings.com](mailto:keith.vereen@fitchratings.com)

Fitch Ratings, Inc.

Hearst Tower 300 W. 57th Street New York, NY 10019

### **Grace Wong**

Director

Secondary Rating Analyst

+1 212 908 0652

[grace.wong@fitchratings.com](mailto:grace.wong@fitchratings.com)

### **Michael Rinaldi**

Senior Director

Committee Chairperson

+1 212 908 0833

[michael.rinaldi@fitchratings.com](mailto:michael.rinaldi@fitchratings.com)

## **MEDIA CONTACTS**

### **Sandro Scenga**

New York

+1 212 908 0278

[sandro.scenga@thefitchgroup.com](mailto:sandro.scenga@thefitchgroup.com)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## **PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## APPLICABLE CRITERIA

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 (1)

## ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

## ENDORSEMENT STATUS

St. Mary's County (MD)

EU Endorsed, UK Endorsed

## DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at

<https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or



ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on

historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide

credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

## [READ LESS](#)

### **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

### **ENDORSEMENT POLICY**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.