



Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aa3 RATING TO ST. MARY'S COUNTY'S (MD) \$46.1 MILLION CONSOLIDATED PUBLIC IMPROVEMENT BONDS OF 2009

Global Credit Research - 12 Nov 2009

Aa3 RATING AFFIRMATION AFFECTS \$146 MILLION OF OUTSTANDING PARITY DEBT

County
MD

Moody's Rating

ISSUE	RATING
Consolidated Public Improvement Tax-Exempt Bonds, Series 2009A	Aa3
Sale Amount	\$13,055,000
Expected Sale Date	11/17/09
Rating Description	General Obligation
Consolidated Public Improvement Bonds, Series 2009B (Build America Bonds)	Aa3
Sale Amount	\$16,900,000
Expected Sale Date	11/17/09
Rating Description	General Obligation
Consolidated Public Improvement Refunding Bonds, Series 2009C	Aa3
Sale Amount	\$16,100,000
Expected Sale Date	11/17/09
Rating Description	General Obligation

Opinion

NEW YORK, Nov 12, 2009 -- Moody's Investors Service has assigned Aa3 ratings to St. Mary's County's (MD) \$13.06 million Consolidated Public Improvement Bonds Series 2009A, \$16.9 million Consolidated Public Improvement Bonds Series 2009B and \$16.1 million Consolidated Public Improvement (Refunding) Series 2009C. Series 2009B may be issued as taxable Build America Bonds. At this time, Moody's has also affirmed the Aa3 rating on the county's \$146 million of outstanding parity debt. The bonds are secured by the county's general obligation, unlimited property tax pledge. Proceeds of the bonds will finance elementary and middle school projects (66%) and improvements at the College of Southern Maryland wellness & aquatic center (13%), with the remaining portion devoted to general county facility projects. The high quality rating reflects the county's diversifying economy, anchored by the strategically important Patuxent River Naval Air Station, satisfactory financial performance and adherence to pro-active debt management policies which keep debt levels affordable.

TECHNOLOGY-BASED ECONOMY DOMINATED BY MAJOR NAVY BASE

Moody's expects the county's economy to continue to grow, albeit at a slower pace over the near-term given the national economic recession, driven by the county's ongoing economic development efforts which have resulted in an average 10.8% full value growth over the last five years. The county's Patuxent River Naval Air Station, with 22,500 employees, continues to anchor the local economy. Since 1997, with the transfer of 5,500 jobs to the base, Patuxent River NAS has become the Navy's center for avionics research and development, testing, evaluation and acquisition. Officials expect continued expansion at Patuxent River NAS, given an emerging growth area in unmanned air systems and a new hanger under construction; total investment is valued at approximately \$43.2 million. Officials are working to diversify the local economy through the commercialization of technologies developed at the base, and ongoing support for the county's growing tourism industry. County's officials report that accommodation tax revenue increased by 1% in 2009, even as the state's reportedly declined by 5%, resulting from the opening of three new hotels in 2009. Four additional hotels are expected to open during 2010.

The county population is estimated to exceed 100,000 following 17.8% growth from 2000-2008, the second highest growth rate in the state. Continued population growth may place pressure on sewer and water capacity although management continues to develop plans to respond to the increased demand as the economy recovers. The county's unemployment rate, a

moderate 5.8% in July 2009, remained below that for the state and nation (7.1% and 9.5%, respectively). Wealth levels are slightly lower than those of the state, as evidenced by the 1999 per capita income standing at 89% and median family income at 103% of the state. The county's full value per capita is an average \$96,537.

STABLE FINANCIAL OPERATIONS EXPECTED

Moody's expects the county's financial position to remain healthy, given conservative fiscal management and satisfactory General Fund reserves. Favorable General Fund operations during fiscal 2005 and 2006 were primarily driven by positive performance of economically sensitive income and recordation tax, resulting in a healthy \$46.3 million General Fund balance (28% of 2006 General Fund revenues). Since then, the county has dedicated a portion of the fund balance to pre-fund \$20.3 million of the county's Other Post Employment Benefit (OPEB) liability and \$15.2 million in pay-go spending for capital expenditures. Although the fiscal 2008 budget appropriated \$14.5 million of fund balance as a revenue source, in part to fund one-time uses including pre-funding of OPEB (\$10 million) and \$500,000 for capital needs, actual use of reserves was limited to \$5.8 million as property tax collections exceeded budgeted levels by \$6.5 million. General Fund balance declined to a still sound \$37.4 million (21% of General Fund revenues).

The adopted fiscal 2009 budget appropriated \$11.5 million of fund balance, primarily to fund OPEB (\$10 million) and pay-as-you-go capital expenditures (\$500,000). Despite \$5.3 million in offsetting budgetary savings, negative performance to budget of income taxes (\$2.3 million), recordation taxes (\$3.2 million), and Highway User Fees (\$1.3 million) are projected to have driven a \$9.4 million deficit at year-end. Total General Fund balance is expected to be maintained at a still strong \$28 million (15.7% of General Fund revenues) including a bond rating reserve (\$11.9 million) that is maintained at 6% of the subsequent year's budget and \$1.6 million in a rainy day reserve. Going forward, county management does not intend to continue to pre-fund its OPEB obligation through the use of fund balance.

The adopted fiscal 2010 budget maintains the property tax rate at \$0.857 per \$100 of assessed valuation and the local income tax rate at 3.0%, below the 3.2% maximum permitted under state law. The budget appropriates \$4.1 million from General Fund balance of which \$3 million was intended to offset anticipated state cuts to highway user revenue. Subsequent to budget adoption, the state imposed further local aid reductions totaling \$3.8 million to the county; this shortfall is expected to be largely offset, given management's implementation of \$4.1 million in expenditure cuts, of which \$3.2 million is considered to be recurring. Management maintains approximately \$7 million within the fund balance to help offset any future state aid cuts or material variances in economically sensitive revenues during fiscal 2011 or 2012. The county retains additional budgetary flexibility, as local income tax and transfer tax rates are currently below the state-allowed maximum levels, and property tax, recordation tax and impact fees are reportedly below those of neighboring counties. Moody's will monitor the county's ability to plan for and manage any current-year and near-term challenges related to the recession and believe that the county will maintain General Fund balance at satisfactory levels going forward.

DEBT POSITION EXPECTED TO REMAIN MANAGEABLE

Moody's believes the county's debt burden will remain affordable, given management's adherence to debt affordability policies, under which tax-supported debt is limited to 2% of assessed valuation, and debt service expenditures may not exceed 10%. These policies have kept the county's debt burden to a moderate 1.3%. Amortization of debt is above average, with 68.5% of principal retired within ten years. The county's capital improvements plan (CIP) totals \$195 million, however, borrowing is expected to be limited to approximately \$73 million between fiscal 2011 and 2015, with the remainder funded through state and federal grants (38%), dedicated taxes and fees (20%) and pay-as-you-go funds (1.3%). The plan focuses mainly on public facilities (37%), schools (29%), highways (18%) and land conservation (11%). All of the county's debt is fixed rate, and the county is not party to any derivative agreements.

KEY STATISTICS

2008 population: 100,378

Fiscal 2009 full valuation: \$9.7 billion

Fiscal 2009 full value per capita: \$96,537

Unemployment rate (August 2009): 5.6%

1999 Median Family Income: \$61,397 (99% of state; 123% of nation)

1999 Per Capita Income: \$22,662 (89% of state; 105% of nation)

Overall debt burden: 1.3%

Payout of principal (10 years): 68.5%

FY 2008 General Fund balance (audited): \$37.4 million (21% of revenues)

Post-refunding parity debt outstanding: \$146 million

RATING METHODOLOGIES USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating St. Mary's County was Moody's "General Obligation Bonds Issued by U.S. Local Governments," published in October 2009 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action was on March 3, 2005 when Moody's affirmed the county's Aa3 general obligation rating.

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