

CREDIT OPINION

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St. Mary's (County of) MD

Update to credit analysis

Summary

[St. Mary's County](#) (Aa1) benefits from a local economy that is anchored by the Naval Air Station Patuxent River (NAS Pax River), the navy's center for avionics research and development, testing, evaluation, and acquisition. The base hosts the Naval Air Systems Command and Naval Air Warfare Center Aircraft Division, and its presence attracts high paying technology industry to the area. As such, wealth and income levels are strong, and support the county's solid and improving financial position.

The county continues to address infrastructure needs to keep pace with the growing population. Schools, public facilities, and roads require on going funding and thus the county's debt burden has increased modestly. However, the county's debt burden will remain manageable given some pay go funding of capital needs as well as overall low fixed costs.

Credit strengths

- » Sizeable and stable tax base anchored by Naval Air Systems Pax River
- » Above average resident wealth indices

Credit challenges

- » Reliance on economically sensitive revenues
- » Coastal location susceptible to weather related events

Rating outlook

Outlooks are generally not assigned to local governments with this amount of debt outstanding

Factors that could lead to an upgrade

- » Significant growth and expansion of the tax base
- » Sustained maintenance and growth in available reserves and liquidity

Factors that could lead to a downgrade

- » Trend of structural imbalance yielding diminished reserve levels
- » Deterioration of tax base and socioeconomic profile

Key indicators

Exhibit 1

St. Mary's (County of) MD

	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value (\$000)	\$12,203,801	\$12,432,117	\$12,624,398	\$12,849,449	\$13,196,225
Population	110,979	111,531	112,290	113,777	113,777
Full Value Per Capita	\$109,965	\$111,468	\$112,427	\$112,935	\$115,983
Median Family Income (% of US Median)	143.9%	142.5%	139.5%	138.6%	138.6%
Finances					
Operating Revenue (\$000)	\$223,616	\$227,061	\$231,654	\$247,898	\$289,511
Fund Balance (\$000)	\$47,375	\$57,715	\$63,265	\$63,380	\$86,016
Cash Balance (\$000)	\$81,474	\$85,277	\$100,127	\$121,452	\$149,834
Fund Balance as a % of Revenues	21.2%	25.4%	27.3%	25.6%	29.7%
Cash Balance as a % of Revenues	36.4%	37.6%	43.2%	49.0%	51.8%
Debt/Pensions					
Net Direct Debt (\$000)	\$85,866	\$79,580	\$98,318	\$118,315	\$138,505
3-Year Average of Moody's ANPL (\$000)	\$207,397	\$220,001	\$227,305	\$240,683	\$266,993
Net Direct Debt / Full Value (%)	0.7%	0.6%	0.8%	0.9%	1.0%
Net Direct Debt / Operating Revenues (x)	0.4x	0.4x	0.4x	0.5x	0.5x
Moody's - ANPL (3-yr average) to Full Value (%)	1.7%	1.8%	1.8%	1.9%	2.0%
Moody's - ANPL (3-yr average) to Revenues (x)	0.9x	1.0x	1.0x	1.0x	0.9x

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

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 114,000.

Detailed credit considerations

Economy and tax base: local economy anchored by naval base exhibiting solid growth

St. Mary's County's tax base will likely continue to grow given the strong technology sector anchored by NAS Pax River, which is the county's largest employer with approximately 20,200 employees. Further, the local economy is well diversified and includes tourism, healthcare, higher education, and advanced manufacturing. Ongoing development drove a five-year average annual tax base increase of 1.9%, reaching \$13.2 billion in fiscal 2021. The county's tax base expanded steadily over the last ten years, anchored by the military presence and officials anticipate modest growth going forward.

Given the number of high-paying technology-based jobs in the county, resident wealth levels continue to rise. The median family income is above average at 138.6% of the US median, and full value per capita is a strong \$115,983, which exceeds the median (\$82,748) of Aa- rated counties. Additionally, unemployment levels have declined with the April 2022 unemployment rate of 3% which was below the state (3.5%) and nation (3.3%) for the same period.

Besides the naval base, other large private employers include MedStar St. Mary's hospital and a number defense contractors. Although the large amount of defense-related employers leaves the county vulnerable to federal military cuts, NAS Pax River has not experienced major cuts, likely because of its role as a strategic research base, and, given the US government's commitment to defense spending.

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Financial operations and reserves: improved financial position

The county's financial position will remain healthy due to recent growth in major operating revenues as well as a recent influx of federal/state monies. Fiscal 2021 closed with a considerable general fund surplus of \$22 million due to better than anticipated revenue collections and operational expenditures coming in under budget. Available general fund balance increased to \$86 million (29.7% of revenues), which is below the median for Aa-rated counties nationally (with populations between 100,000 and 250,000) at 40.6% of revenues but remains consistent with similarly-rated counties within the state.

Income taxes comprise the largest source of revenues (44.2%), followed by property taxes (40%). The county's property tax rate remained unchanged at \$0.8478 per \$100 of assessed value. The local income tax rate was 3.17% but was reduced to 3.10%, becoming effective January 2022.

The fiscal 2022 budget increased by 14% compared to the prior year and included use of roughly \$11 million of reserves, however, county management anticipates balanced operations as revenues have exceeded estimates (largely because of higher than anticipated income tax revenues) and expenditures have remained in line with the budget. The county received \$22 million in ARPA funds, but over \$42 million in requests from county departments and agencies. The county plans to utilize the funds to respond or mitigate the impact of COVID to various county stakeholders including residents, small businesses, non profits, and aid to the hospitality/travel/tourism industries. Notably, the county has spent a portion of the monies on public health and emergency services, and plans to allocate money for broadband expansion, and infrastructure related projects.

Liquidity

General fund net cash at the end of fiscal 2021 is strong at \$149.8 million, or 51.8% of general fund revenues, and exceeds fund balance because the county pools its cash in the general fund.

Debt and pensions: growing but manageable debt burden

The county's debt burden will increase in the next five years given additional debt plans, however, it will remain manageable due to the currently modest level of debt outstanding and overall low fixed costs. Post-issuance of the Series 2022 bonds, the county will have net direct debt of \$153.8 million, which is a manageable 1.2% of full value. Because counties in Maryland issue bonds for schools, this figure is slightly above the median for Aa1-rated counties nationally (0.6% of full value), yet it remains below the median for counties in the state.

The county's 2022-2027 capital improvement plan (CIP) totals \$316 million, and largely supports public facilities (26%), public schools (25%), and highways (18%). The plan will be funded by bonds (52%), with a portion funded by state and federal grants (31%).

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 amortization of debt is slightly below average with 54.7% of principal retired in 10 years. Fiscal 2021 debt service accounted for approximately 4.7% of general fund expenditures.

Debt-related derivatives

The county is not a party to any derivative agreements.

Pensions and OPEB

Pensions are not a source of credit pressure for the county. As of fiscal 2021, the county's (including its component units) adjusted net pension liabilities (ANPL), based on a 2.79% discount rate, totaled \$286 million. The ANPL represents a manageable 0.98 times operating revenue and 2.2% of full value.

In fiscal 2021, the county contributed \$11.9 million to the plans, which represents 110% of its tread water indicator. Tread water indicator measures the annual government contribution required to prevent reported net pension liabilities from growing, given the entity's actuarial assumptions. An annual government contribution that treads water equals the sum of employer service cost and interest on the reported net pension liability at the start of the fiscal year. A pension plan that receives an employer contribution equal to the tread water indicator will end the year with an unchanged net pension liability relative to the beginning of the year if all plan

assumptions hold. Net liabilities may decrease or increase in a given year due to factors other than the contribution amount, such as investment performance that exceeds or falls short of a plan's assumed rate of return. Still, higher contributions will always reduce unfunded liabilities faster, or will allow unfunded liabilities to grow more slowly than lower contributions.

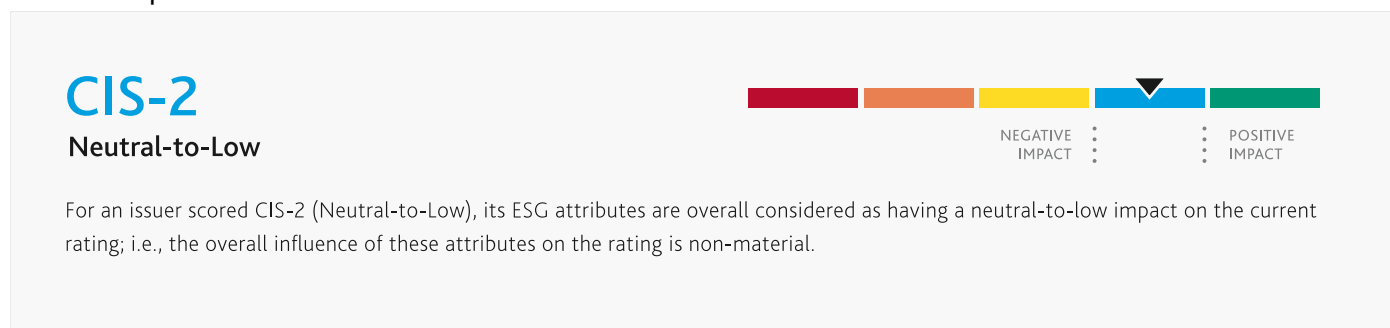
The county also provides other post-employment benefits (OPEB) to employees. Overall, total fixed costs (debt service, pension tread water, and OPEB costs) represented a manageable 13.6% of operating revenues in fiscal 2021.

ESG considerations

ST. MARY'S (COUNTY OF) MD's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 2

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 3

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 Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 4

St. Mary's (County of) MD

Rating Factors	Measure	Score
Economy/Tax Base (30%)[1]		
Tax Base Size: Full Value (in 000s)	\$13,624,164	Aaa
Full Value Per Capita	\$121,330	Aa
Median Family Income (% of US Median)	139.5%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	29.7%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	16.7%	Aa
Cash Balance as a % of Revenues	51.8%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	29.5%	Aaa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.0%	Aa
Net Direct Debt / Operating Revenues (x)	0.5x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.0%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.9x	A
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aa1

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

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

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