

## ISSUER COMMENT

12 July 2017

### RATING

**General Obligation (or GO Related)** <sup>1</sup>

Aa2 Positive

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## St. Mary's County, MD

### Annual Comment on St. Mary's County

#### Issuer Profile

St. Mary's County is located on St. Mary's Peninsula in southern Maryland, surrounded by the waters of the Patuxent River (northeast), Chesapeake Bay (east), the Potomac River (southwest), and the Wicomico River (west). The county seat is Leonardtown. The county has a population of 110,382 and a population density of 309 people per square mile. The county's per capita personal income is \$50,234 (1st quartile) and the November 2016 unemployment rate was 3.6% (2nd quartile). <sup>2</sup> The largest industry sectors that drive the local economy are professional/scientific/technical services, federal government (civilian), and retail trade.

#### Credit Overview

The credit position for St. Mary's County is very strong, and its Aa2 rating matches the median rating of Aa2 for US counties. Notable credit factors include a healthy financial position, a strong socioeconomic profile with an extensive tax base, and a negligible debt burden with a mid-ranged pension liability.

**Finances:** The financial position of the county is very solid and is in line with the assigned rating of Aa2. The net cash balance as a percent of revenues (29.6%) is slightly under the US median and decreased from 2013 to 2016. In addition, the available fund balance as a percent of operating revenues (17.4%) is below other Moody's-rated counties nationwide.

**Economy and Tax Base:** The county has a very healthy economy and tax base, which are slightly favorable in relation to its Aa2 rating. The total full value (\$12 billion) is slightly above the US median. In addition, the full value per capita (\$109,842) is stronger than the US median and rose modestly between 2013 and 2016. Lastly, the median family income equals a significant 148.8% of the US level.

**Debt and Pensions:** The debt liability of the county is low and is a modest credit strength in comparison to the assigned rating of Aa2. The net direct debt to full value (0.6%) is slightly higher than other Moody's-rated counties nationwide. St. Mary's County also has a low pension liability. The Moody's-adjusted net pension liability to operating revenues (0.97x) is favorably below the US median.

**Management and Governance:** Balanced financial operations are a sign of good financial management. In this situation, St. Mary's County's operations were approximately break-even while the tax base generally expanded.

Maryland counties have an Institutional Framework score <sup>3</sup> of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase

revenues and decrease expenditures. While the sector's largest revenue source, property taxes, is not subject to any statewide caps, income taxes account for approximately a third of revenues and are capped at 3.2%. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Maryland has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

## Sector Trends - Maryland Counties

Despite reserve levels generally below national medians, Maryland counties will continue to benefit from strong management practices and diverse revenue streams. Due to a three-year assessment cycle, many counties are seeing tax base declines through fiscal 2015 or 2016. The state's top industries of government, education and health services, and professional and business services are growing, although at a moderate rate. This will lead to tax base growth. Debt and pension liabilities tend to be manageable, even after taking on teacher pension normal costs, phased in through fiscal 2017. Most counties fund OPEB beyond the pay-go requirement.

EXHIBIT 1

### Key Indicators 4 5

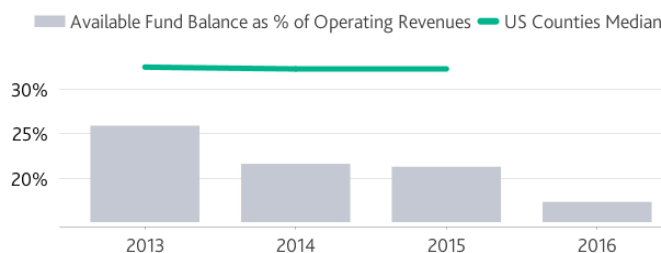
#### St. Mary's County, MD

	2013	2014	2015	2016	US Median	Credit Trend
<b>Economy / Tax Base</b>						
Total Full Value	\$11,460M	\$11,676M	\$11,882M	\$12,040M	\$7,427M	Improved
Full Value Per Capita	\$107,025	\$107,641	\$108,400	\$109,842	\$78,398	Stable
Median Family Income (% of US Median)	147.1%	151.9%	148.8%	148.8%	94.2%	Stable
<b>Finances</b>						
Available Fund Balance as % of Operating Revenues	25.9%	21.6%	21.3%	17.4%	32.3%	Weakened
Net Cash Balance as % of Operating Revenues	47.1%	46.3%	35.0%	29.6%	36.5%	Weakened
<b>Debt / Pensions</b>						
Net Direct Debt / Full Value	0.88%	0.79%	0.70%	0.60%	0.51%	Stable
Net Direct Debt / Operating Revenues	0.50x	0.45x	0.39x	0.33x	0.63x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.5%	1.8%	1.7%	N / A	0.97%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.85x	1.04x	0.97x	N / A	1.26x	Stable

Source: Moody's Investors Service

EXHIBIT 2

### Available fund balance as a percent of operating revenues decreased from 2013 to 2016

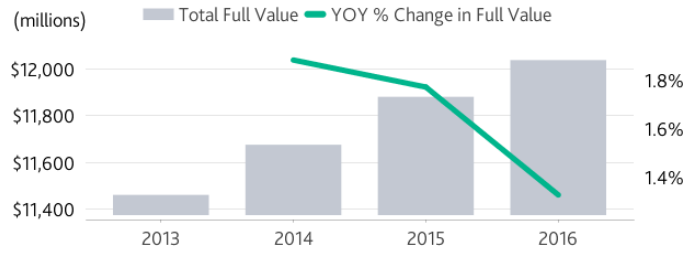


Source: Issuer financial statements; Moody's Investors Service

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EXHIBIT 3

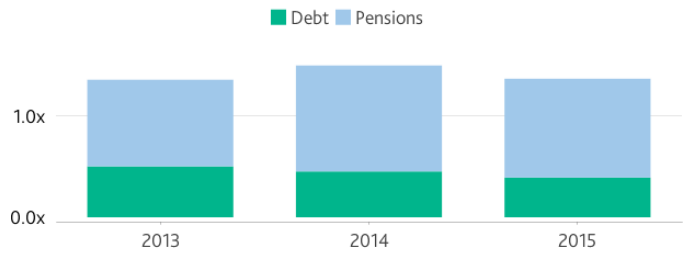
Full value of the property tax base grew between 2013 and 2016



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2013 to 2015



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## Endnotes

- 1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See [Local Government GO Pledges Vary Across States](#) for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantee or enhancement programs or bond insurance.
- 2 The per capita personal income data and unemployment data for all counties in the US census are allocated to quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is \$46,049 for 2014. The median unemployment rate for US counties is 5.1 % for June 2016.
- 3 The institutional framework score measures a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(January 2014\)](#) for more details.
- 4 For definitions of the metrics in the Key Indicators Table, US Local Government General Obligation Methodology and Scorecard User Guide (July 2014) . The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey.

Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average ANPL) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years.

Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Certain state specific rules also apply to individual data points and ratios. Moody's makes adjustments to New Jersey local governments' reported financial statements to make it more comparable to GAAP.

Additionally, Moody's ANPLs reflect analyst adjustments, if any, for pension contribution support from non-operating funds and self-supporting enterprises. Many local government pension liabilities are associated with its participation in the statewide multiple-employer cost-sharing plans. Metrics represented as N/A indicate the data were not available at the time of publication.

- 5 The medians come from our most recently published local government medians report, [Medians – Growing Tax Bases and Stable Fund Balances Support Sector's Stability \(March 2016\)](#) . The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014.

As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2014.

However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians.

Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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