S&P Global
Ratings

RatingsDirect®

Summary:

St. Marys County, Maryland; General Obligation

Primary Credit Analyst:
Danielle L Leonardis, New York (1) 212-438-2053; danielle.leonardis@spglobal.com

Secondary Contact:
Steven E Waldeck, Boston (1) 617-530-8128; steven.waldeck@spglobal.com

Table Of Contents

Summary:

St. Marys County, Maryland; General Obligation

Credit Profile		
US$14.845 mil pub imp rfdg bnds ser 2017 due 07/15/2029		
Long Term Rating	AA+/Stable	New
St Marys Cnty		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating to St. Marys County, Md.'s, series 2017 public improvement general obligation (GO) refunding bonds. At the same time, we affirmed our 'AA+' rating on the county's existing GO debt. 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 crossover refund (on July 15, 2019) the county's series 2009B consolidated public improvement taxable Build America Bonds. The bonds are an advance crossover refunding, however, we have determined that there is no reliance on the escrow to meet debt service.

In our opinion, the 'AA+' rating reflects the county's:

- Strong economy, with market value per capita of $107,721 and projected per capita effective buying income at 120% of the national level;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with break-even operating results in the general fund but an operating deficit at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 25.9% of total governmental fund expenditures and 5.8x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.4% of expenditures and net direct debt that is 36.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 74.4% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Strong economy

We consider St. Marys County's economy strong. The county has an estimated population of 111,772 and has a projected per capita effective buying income of 120% of the national level and per capita market value of $107,721. Overall, St. Marys County's market value grew by 1.3% over the past year to $12.0 billion in 2016. The county unemployment rate was 4.1% in 2016.

St. Marys 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 4.1% in 2016, 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 $12.46 billion in fiscal 2018. Furthermore, there is no concentration in the tax base, with leading taxpayers accounting for just 4.0% 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. The county adopted a five-year formal long-term financial plan in 2017 (budget + four years). Fiscal 2018 will be the first full year of adherence to plan. We will continue to monitor its adoption and maintenance of the plan in the coming years. St. Marys 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 2.15% 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. Marys has a make-up provision requiring replenishment of reserves over one-to-three years.

Adequate budgetary performance

St. Marys County's budgetary performance is adequate in our opinion. The county had break-even operating results in the general fund, but a deficit result across all governmental funds of negative 4.7% in fiscal 2016.

After adjusting out for a one-time legal settlement of $7.0 million, the county closed fiscal 2016 with a very modest $17,000 operating surplus. However, on a GAAP basis, the county closed with a $7.016 million drawdown. A settlement on property adjacent to the county's landfill was settled and paid in fiscal 2016. We understand there are no more payments to be made in any subsequent years, in regards to this litigation. Property taxes, a stable revenue stream, accounted for 49% of total general fund revenues in fiscal 2016, followed by income taxes at 40%. 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. Marys still has taxing flexibility, if needed.

Fiscal 2017 estimates closing with a roughly $9 million operating surplus, which is expected to be added to total available reserves. The total projected surplus includes true budgetary surplus of $7 million and $2 million of transfers in. Total county reserves (including the unassigned general fund balance, the bond reserve fund and the rainy day fund) are projected at $45.5 million or 20.4% of budget.

The adopted fiscal 2018 budget $221.3 million and includes a modest property tax rate reduction, given the continued tax base growth, no increase to the income tax rate (3.0%), and a new senior property tax credit.

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.

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

Very strong budgetary flexibility

St. Marys County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 22% of operating expenditures, or $47.2 million. The available fund balance includes $37.7 million (17.4% of expenditures) in the general fund and $9.5 million (4.4% 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 (2014-2016), averaging 26% 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 the projection of a surplus for fiscal 2017, we expect county total available reserve levels to begin to gradually increase; keeping in line with the county's recent plans. In addition, and despite recent drawdowns for capital purposes, we do not expect the county's total reserves to fall below its formal target level of 15% of expenditures. As such, we do not expect the budget flexibility score to change over the near term.

Very strong liquidity

In our opinion, St. Mary's County's liquidity is very strong, with total government available cash at 25.9% of total governmental fund expenditures and 5.8x governmental debt service in 2016. 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 Marys County's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.4% of total governmental fund expenditures, and net direct debt is 36.1% of total governmental fund revenue. Overall net debt is low at 0.7% of market value, and approximately 74.4% 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. Marys County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.6% of total governmental fund expenditures in 2016. Of that amount, 3.5% represented required contributions to pension obligations, and 1.1% represented OPEB payments. The county made 100% of its annual required pension contribution in 2016.

The county participates in the state-administered pension plans as well as the county's Sheriff's Office Retirement Plan.

The county adopted Governmental Accounting Standards Board (GASB) statement 68 (GASB 68) in fiscal 2015. The county funds the full annual required contribution for both pension plans. Based on GASB 68, the fiduciary net position as a percent of total pension liability is 61.7% of the Sheriff's Office Retirement Plan. The county's proportionate share of the net pension liability in the sheriff's plan is $42.27 million for fiscal 2016.

The county provides OPEB to eligible employees. Although the county has an established OPEB Trust, which it has historically been contributing to, it did not make contributions to it in fiscal 2016, but rather only made the pay-go portion. This conscious decision was made primarily to rebuild reserves and for tax relief purposes. Given the funding level, at 66.6% in fiscal 2016, the county only made the OPEB pay-go contribution in fiscal 2017 and budgeted for only the pay-go portion in the fiscal 2018 budget.

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 as well as a stable health care and education bases. We believe St. Marys 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 experience improved economic metrics and have them sustained, relative to other 'AAA' credits, as well as the continuation of 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.

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.capitaliq.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.