

Tax Supported
New Issue

St. Mary's County, Maryland

Ratings

New Issues

| | |
|-------------------------------------------------------------------------------------------------------------|----|
| Consolidated Public Improvement Tax-Exempt Bonds, Series 2009A | AA |
| Consolidated Public Improvement (Tax-Exempt Bonds) (Taxable Build America Bonds), Series 2009B ^a | AA |
| Consolidated Public Improvement Refunding Bonds, Series 2009C | AA |

Outstanding Debt

| | |
|--------------------------|----|
| General Obligation Bonds | AA |
|--------------------------|----|

^aDirect payment to the issuer.

Rating Outlook

Stable

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New Issue Details

Sale Information: Approximately \$46,120,000 General Obligation Bonds, consisting of \$13,055,000 Consolidated Public Improvement Tax-Exempt Bonds, Series 2009A, \$16,945,000 Consolidated Public Improvement (Tax-Exempt Bonds) (Taxable Build America Bonds), Series 2009B, and \$16,120,000 Consolidated Public Improvement Refunding Bonds, Series 2009C, competitively on Nov. 17.

Security: Unlimited general obligations of the county, to which its full faith and credit and unlimited taxing power are pledged.

Purpose: Series 2009A and 2009B to finance county capital projects. Series 2009C to advance refund callable maturities of the county's consolidated public improvement bonds of 2001.

Final Maturity: Series 2009A: July 15, 2009. Series 2009B: July 15, 2029. Series 2009C: July 15, 2021.

Rating Rationale

- St. Mary's County's economy has traditionally been narrowly focused on Patuxent River Naval Air Station and the related technology and defense industries and has recently shown promise as a tourist destination.
- Sound economic attributes include below-average unemployment rates and a rapidly growing, young population attracted by employment opportunities.
- Reserve levels are sound, and the county maintains revenue-raising capacity. Reserve levels are projected to decline, as the county is using its general fund balance to prefund OPEB liabilities and mitigate the severity of revenue reductions attributable to the current economic weakening.
- Debt levels are moderately low and expected to remain so given the county's demonstrated ability to control capital expenditure growth.

Key Rating Drivers

- The county should maintain sound reserve levels despite current revenue pressures and the limited economic base.
- Debt levels should remain manageable in light of the pressures of a rapidly growing population and the associated capital needs.

Credit Summary

The 'AA' rating reflects the county's traditionally narrow, military economy with sound attributes, including below-average unemployment rates and a rapidly growing population. Reserve levels are solid, although they are projected to decline given the county's use of its general fund balance to fund one-time expenditures and replace declining state revenues. The debt burden is expected to remain moderately low given the county's demonstrated willingness to limit capital spending.

The county, with an estimated 2008 population of 101,578, has had the second fastest growth rate in the state this decade, with the Naval Air Station Patuxent River complex (about 11,000 employees) and related defense contractors attracting a young workforce to the county. Government represents a high 49.8% of county earnings, and the professional and business services sector accounts for a substantial 23.2%, with both sectors nearly double the state average. An emphasis on tourism and outdoor activity as a tool for economic diversification has shown signs of



Related Research

- *Charles County, Maryland, April 13, 2009*
- *Calvert County, Maryland, May 8, 2009*

success, with the county reporting slight increases in tourism-related revenue over the past year. The county's largest private employer, St. Mary's Hospital (1,140 employees), recently merged with MedStar Health and will now be the first network hospital in the southern part of the state. Unemployment, at 5.6% in September 2009, has remained well below the state and national averages, at 7.1% and 9.5%, respectively. Wealth indicators are mixed, with median household income well above that of the state and nation, in contrast to the below-average per capita personal income.

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

| | 2006 | 2007 | 2008 |
|-----------------------------------------------------|----------------|----------------|----------------|
| Property Tax | 63,199 | 69,853 | 77,889 |
| Other Tax | 71,622 | 70,501 | 73,548 |
| Total Tax | 134,821 | 140,354 | 151,437 |
| License and Permits | 1,267 | 1,556 | 1,439 |
| Fines and Forfeits | 350 | 373 | 287 |
| Charges for Services | 5,259 | 5,977 | 5,713 |
| Intergovernmental | 6,706 | 6,375 | 6,188 |
| Other Revenue | 17,719 | 12,994 | 12,355 |
| General Fund Revenue | 166,122 | 167,629 | 177,419 |
| General Government | 21,328 | 19,069 | 19,655 |
| Public Safety | 24,514 | 28,481 | 31,222 |
| Public Works | 9,354 | 10,523 | 7,049 |
| Health and Social Services | 4,863 | 5,214 | 5,540 |
| Culture and Recreation | 2,976 | 3,220 | 3,776 |
| Educational | 66,793 | 72,181 | 80,511 |
| Debt Service | 12,857 | 12,665 | 12,556 |
| Other Expenditures | 9,514 | 10,971 | 18,567 |
| General Fund Expenditures | 152,199 | 162,324 | 178,876 |
| General Fund Surplus/(Deficit) | 13,923 | 5,305 | (1,457) |
| Transfers In and Other Sources | 2,049 | 6,005 | 1,376 |
| Transfers Out and Other Uses | 4,340 | 14,314 | 5,750 |
| Net Transfers and Other Sources/(Uses) | (2,291) | (8,309) | (4,374) |
| Total Fund Balance | 46,281 | 43,278 | 37,447 |
| As % of Expenditures, Transfers Out, and Other Uses | 29.6 | 24.5 | 20.3 |
| Unreserved Fund Balance | 45,501 | 41,495 | 35,946 |
| As % of Expenditures, Transfers Out, and Other Uses | 29.1 | 23.5 | 19.5 |
| Unreserved, Undesignated Fund Balance | 14,480 | 11,473 | 11,088 |
| As % of Expenditures, Transfers Out, and Other Uses | 9.3 | 6.5 | 6.0 |

Note: Numbers may not add due to rounding.

Reserve levels are sound and expected to remain consistent with the rating category subsequent to deliberate drawdowns to finance one-time expenditures and mitigate the effects of revenue reductions attributable to a weakened economy. Fiscal 2008 concluded with an unreserved fund balance equal to a solid 19.5% of general fund spending. Fiscal 2009 is anticipated to produce a total fund balance reduction of around \$9 million, subsequent to a \$10 million contribution to fund OPEB liabilities. The county expects reserves to include a fully funded bond rating reserve, equal to 6% of spending, a rainy day fund of \$1.6 million, and \$7 million carried forward to absorb fiscal years 2011 and 2012 state aid reductions, although revenue shortfalls depleted a \$1.3 million budget stabilization reserve. The fiscal 2010 general fund budget was 1.6% below that approved in fiscal 2009, inclusive of a \$3 million appropriation to replace state reductions for highway funds. The county does not plan to use its rainy day fund or bond rating reserve fund during the current fiscal year and retains significant revenue-raising capacity, including a low property tax rate and a state income tax rate 0.2% below the allowable maximum.

A demonstrated ability to reduce capital spending in response to economic dictates is expected to maintain debt at moderately low levels despite growth needs fueled by the

strong population expansion. With this issuance, the debt burden equals \$1,232 on a per capita basis and 1.3% of market value. Amortization is above average at 66.4% within 10 years. The fiscal years 2011–2015 capital improvement plan totals \$195 million, with tax-supported debt financing representing slightly more than one-third.

Debt Statistics

(\$000)

| | |
|---------------------------|----------------|
| This Issue | 46,120 |
| Outstanding Debt | 79,044 |
| Direct Debt | 125,164 |
| Overlapping Debt | 0 |
| Total Overall Debt | 125,164 |

Debt Ratios

| | |
|-------------------------------------------|-------|
| Direct Debt per Capita (\$) ^a | 1,232 |
| As % of Market Value ^b | 1.3 |
| Overall Debt per Capita (\$) ^a | 1,232 |
| As % Market Value ^b | 1.3 |

^aPopulation: 101,578 (2008 estimate).

^bMarket value: \$9,690,189,000 (fiscal 2009). Note: Numbers may not add due to rounding.

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