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Summary:
St. Mary's County, Maryland; General Obligation

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Credit Profile		
US$16.945 mil cons pub imp tax ex bnds (Taxable Build America Bnds) ser 2009B due 07/15/2020-2029		
Long Term Rating	AA/Stable	New
US$16.12 mil cons pub imp rfdg bnds ser 2009C due 07/15/2021		
Long Term Rating	AA/Stable	New
US$13.055 mil cons pub imp tax ex bnds ser 2009A due 07/15/2010-2019		
Long Term Rating	AA/Stable	New
St Marys Cnty		
Long Term Rating	AA/Stable	Affirmed
St Marys Cnty GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

In Standard & Poor's Ratings Services' opinion, the 'AA' long-term rating assigned to St. Mary's County, Md.'s series 2009A, 2009B, and 2009C consolidated public improvement and refunding bonds reflects the following factors:

- The strength of the local economy, which has seen solid growth as a result of continued expansion at the Patuxent River Naval Air Base, and supporting defense and technology-oriented companies;
- Increasing property wealth and income indicators;
- Historically strong financial performance and position, despite consecutive reserve drawdowns in fiscals 2007 and 2008;
- An experienced and cohesive management team; and
- A low-to-moderate debt burden, coupled with a manageable capital improvement plan.

The bonds are unlimited general obligations of the county. The county will use bond proceeds to finance capital projects and to refund its series 2001 GO bonds and series 2002 GO hospital bonds. Collectively, the refundings are expected to provide the county with a net present value savings of $1.02 million, which will be taken incrementally over the remaining life of the bonds.

The 'AA' long-term rating and underlying rating (SPUR) on the county's rated parity debt have been affirmed.

St. Mary's County occupies roughly 367 square miles in southern Maryland, bounded by the Patuxent and Potomac rivers and the Chesapeake Bay. The current (2008) population of 101,831 represents a 12.86% increase from 2003 levels and the second-highest growth rate in the state. Population growth is reflective, in part, of ongoing expansions at the Patuxent River Naval Air Base, which was positively affected by the outcome of the 2005 Base Realignment and Closure (BRAC) commission findings. The Air Station has been, and continues to be, a significant factor in the rapid expansion and diversity of the local economy. Approximately 22,500 civilian, military, and contractor workers (nearly 44% of the county labor force) support the air station, and the number of technology workers has quintupled in the past 10 years. The station continues to attract high-tech and professional service companies that seek to either supply the needs of the base or use naval applications in commercial activities. Despite delays in the development of the F-35 (Joint Strike fighter), the P-8 (Multimission Maritime Aircraft) and the cancellation of the presidential helicopter--all projects to developed at Patuxent--continued employment growth is expected from a growing defense technology sector. According to the county's 2009 handbook, St. Mary's is home to 220 technology companies, 82 of which, or 34%, are "home grown."

The creation of new jobs, which cover a wide range of employment sectors, allows approximately 74.2% of county residents to work within the county. The county continues to experience solid labor force and employment growth, and its unemployment rate--currently at 5.6%--has historically been well below the state's average. The added jobs reflect the outgrowth of new technology companies involved in defense, naval, and commercial products and services.

The influence of professional and skilled employment has also helped the median income of county residents to increase. In 2008, the county's median income had risen to 133% of the national average from 119% in 1995, demonstrating a favorable trend and indicating the increasing proportion of professional and skilled jobs available in the local economy. According to the Maryland Department of Business and Economic Development, the county has seen one of the largest increases in median household income in the state over the past decade.

The county's tax base is large, continues to increase at a healthy rate, and exhibits no taxpayer concentration. Assessed value (AV) measured nearly $9.7 billion in 2009, or a high $95,159 per capita market value. AV has grown 11.5% annually from fiscals 2005-2009. Moreover, there is no concentration in the base, with the 10 leading taxpayers accounting for just 11.8% of AV. Property taxes account for roughly 44% of total general fund revenues, and tax collections have historically been strong at more than 97% on a current year basis.

The county's financial position remains strong, bolstered in part by established reserve policies and despite consecutive general fund drawdowns in fiscals 2007 and 2008. As of fiscal year-end 2008 (ended June 30), the general fund posted a $5.8 million drawdown; the ending unreserved general fund balance measured $35.95 million, or a very strong 20.1% of expenditures. For fiscal 2009, despite significant reductions in the state income tax allocation, management is predicting a $2.03 million operating surplus, largely garnered from the implementation of increased midyear expenditure controls. The county maintains a bond rating reserve and a "rainy day" fund. The bond rating reserve is maintained at 6% of the following year's budgeted general fund revenues: $11.9 million as of fiscal year-end 2009 (unaudited). The rainy day fund presently totals about $1.625 million. The fiscal 2010 general fund operating budget was balanced at $199.3 million, through the appropriation of $4.1 million in reserves and without an increase in the property tax millage rate. St Mary's County's management practices are considered strong under Standard & Poor's Financial Management Assessment (FMA). An FMA of strong indicates that practices are strong, well embedded, and likely sustainable.

Following these issuances, the county's debt burden will remain low at just $1,420 per capita and 1.5% of market value. Furthermore, debt service payment accounted for a very low 0.63% of governmental expenditures in fiscal 2008. The county continues to follow a rapid schedule of debt amortization that plans for 76% of debt to be retired in 10 years. The county's capital improvement plan addresses the needs that stem from continuing growth and development. The current six-year (2010-2015) plan amounts to $216 million, with the majority of expenditures being for public facilities (34%) and education (30%). The plan is expected to be funded mainly through state and federal grants (39%), the issuance of GO bonds (36%), and transfer tax revenues (14%). As of July 1, 2009, the county reported an unfunded accrued other postemployment benefit (OPEB) liability of approximately $48.8 million. Management has budgeted full funding of the annual required contribution (ARC) since fiscal 2008, and has made consecutive contributions over and above the ARC in fiscals 2008 and 2009 (unaudited).

Outlook

The stable outlook reflects the expectation that employment, training, and research operations at the Patuxent River Naval Air Base will either stabilize or continue to expand. The outlook also reflects the expectation that the county will maintain its good financial position supported by healthy fund balances, adherence to established and well-embedded fiscal policies, and a manageable debt burden.

Related Research

- USPF Criteria: "GO Debt," Oct. 12, 2006
- USPF Criteria: "Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality," April 2, 2008

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.