

CREDIT OPINION

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St. Mary's County, MD

Update to credit analysis

Summary

St. Mary's County, MD (Aa1) benefits from its stable local economy that is anchored by Naval Air State Patuxent River. Federal workforce contraction will not likely impact the county given its essential nature. Reserves are set to hold at healthy levels through 2025. Finally, leverage will remain affordable despite some larger than normal projects in the near-term that will be funded with debt.

Credit strengths

- » Healthy reserves that have increased in recent years
- » Overall stable economy despite concentration in the workforce

Credit challenges

- » Reliance on economically sensitive revenue streams
- » Anticipated increase in leverage to fund capital projects

Rating outlook

We do not assign outlooks to local government issuers with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Sustained maintenance of reserves at or above 50% of revenues
- » Continued diversification of the local economy

Factors that could lead to a downgrade

- » Contraction of the local economy or negative impact from any federal government contraction
- » Increase in leverage to above 200% of revenues
- » Decline in fund balance to below 25% of revenues

Key indicators

Exhibit 1

St. Mary's (County of) MD

	2021	2022	2023	2024	Aa Medians
Economy					
Resident income ratio (%)	154.4%	151.5%	145.5%	N/A	97.6%
Full Value (\$000)	\$13,196,225	\$13,618,522	\$14,076,664	\$14,563,580	\$9,151,511
Population	113,209	113,814	114,372	N/A	87,096
Full value per capita (\$)	\$116,565	\$119,656	\$123,078	N/A	\$104,628
Annual Growth in Real GDP	0.3%	0.1%	3.6%	N/A	1.6%
Financial Performance					
Revenue (\$000)	\$319,049	\$335,232	\$332,354	\$362,887	\$107,019
Available fund balance (\$000)	\$87,716	\$121,649	\$136,806	\$146,606	\$48,740
Net unrestricted cash (\$000)	\$131,351	\$149,967	\$127,380	\$96,368	\$81,778
Available fund balance ratio (%)	27.5%	36.3%	41.2%	40.4%	45.7%
Liquidity ratio (%)	41.2%	44.7%	38.3%	26.6%	81.6%
Leverage					
Debt (\$000)	\$142,527	\$130,457	\$154,798	\$181,119	\$45,818
Adjusted net pension liabilities (\$000)	\$285,980	\$231,191	\$206,065	\$182,753	\$83,237
Adjusted net OPEB liabilities (\$000)	\$88,315	\$57,896	\$51,398	\$43,346	\$4,935
Other long-term liabilities (\$000)	\$24,817	\$25,675	\$24,608	\$24,911	\$4,365
Long-term liabilities ratio (%)	169.8%	132.8%	131.4%	119.1%	161.0%
Fixed costs					
Implied debt service (\$000)	\$8,432	\$9,997	\$9,111	\$10,753	\$3,284
Pension tread water contribution (\$000)	\$10,856	\$9,477	\$11,886	N/A	\$1,640
OPEB contributions (\$000)	\$3,951	\$4,121	\$0	\$0	\$198
Implied cost of other long-term liabilities (\$000)	\$748	\$1,741	\$1,793	\$1,709	\$283
Fixed-costs ratio (%)	7.5%	7.6%	6.9%	6.7%	6.0%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the California-Lexington Park, MD Metropolitan Statistical Area Metropolitan Statistical Area.

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

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). Leonardtown is the county seat.

Detailed credit considerations

The county's local economy will remain strong but driven by military activity. Located in southern Maryland, the county is home to Naval Air State Patuxent River ("Pax River") which is the headquarters for the Naval Air Warfare Center Aircraft Division, Naval Air System Command, and other military departments. The installation employs around 22,000 federal, active duty, and defense contractors. The presence of Pax River helps spur private sector development in the county. There have been no announced work force or funding contraction and management reports that the essential nature of the base will continue to be a stabilizing presence in the future.

The county's reserve position is strong and will remain healthy through the end of fiscal 2025. The county is reporting that fiscal 2025's year-to-date operations are trending well to budget, which will likely lead to the full replenishment of appropriated fund balance. The fiscal 2026 budget will likely appropriate some fund balance to fund capital projects. The county increased its income tax rate to the state maximum of 3.2% effective January 1, 2025, which will lead to increased revenues in fiscal 2026.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

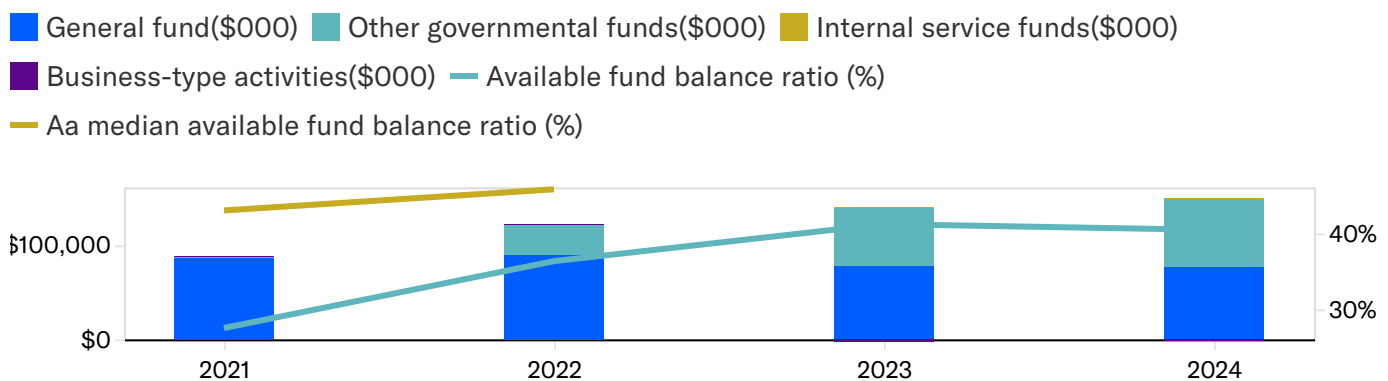
Fiscal 2024 fund balance remained healthy at 40% of revenues across all funds. The General Fund posted a planned deficit to fund one-time capital projects. The county's operations are largely supported by property and income taxes which account for the majority of revenues.

Leverage will increase but remain affordable in the near-term. Including its upcoming issuance, the county's leverage will amount to around 127% of revenue. The county maintains a formal capital improvement plan through 2030 that totals \$370 million, which will largely be funded by annual debt issuances. Pension and OPEB liabilities are affordable. The county has not contributed its actuarially determined contribution (ADC) for OPEB for the past two fiscal years as its plan was fully funded. It is in the process of updating its plans therefore it will need to start contributing again when it is completed.

Financial operations

Exhibit 2

Fund Balance

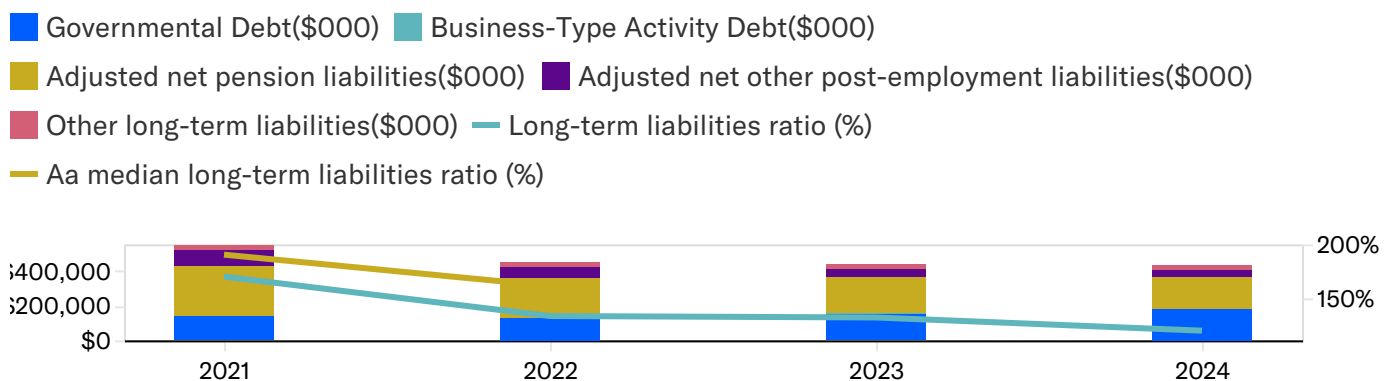


Source: Moody's Ratings

Leverage

Exhibit 3

Total Primary Government - Long Term Liabilities



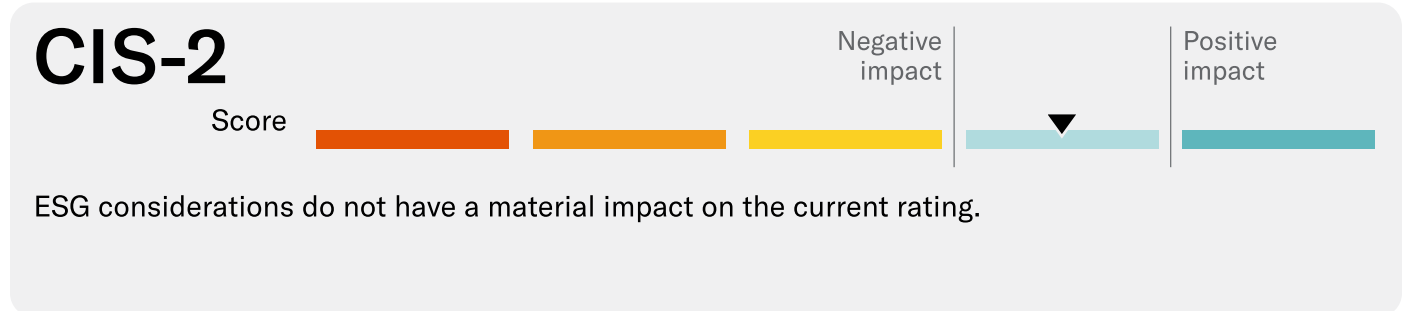
Source: Moody's Ratings

ESG considerations

St. Mary's (County of) MD's ESG credit impact score is CIS-2

Exhibit 4

ESG credit impact score

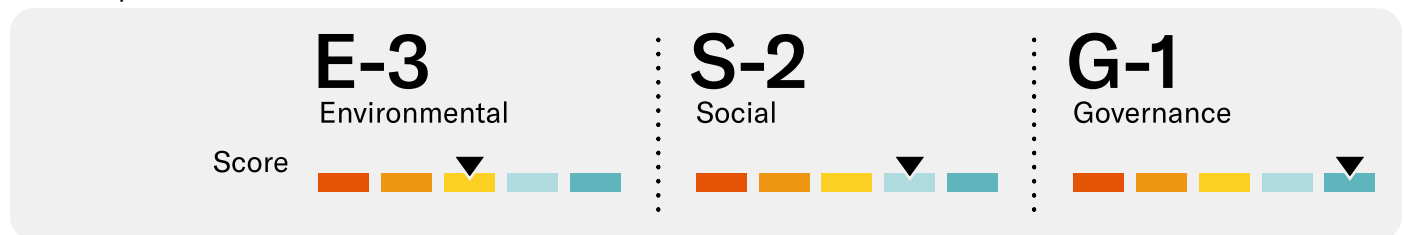


Source: Moody's Ratings

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 5

ESG issuer profile scores



Source: Moody's Ratings

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 Moodys.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 Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 6

St. Mary's (County of) MD

	Measure	Weight	Score
Economy			
Resident income ratio	145.5%	10.0%	Aaa
Full value per capita	127,335	10.0%	Aa
Economic growth metric	-0.2%	10.0%	Aa
Financial Performance			
Available fund balance ratio	40.4%	20.0%	Aaa
Liquidity ratio	26.6%	10.0%	A
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	119.1%	20.0%	Aa
Fixed-costs ratio	6.7%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa1
Assigned Rating			Aa1

The Economic Growth metric cited above compares the five-year CAGR of real GDP for California-Lexington Park, MD Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

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

Appendix

Exhibit 7

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Ratings
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US Cities and Counties Methodology](#).

Source: Moody's Ratings

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