S&P Global Ratings

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Summary:

St. Mary's County, Maryland; General Obligation

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Table Of Contents

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Credit Profile		
US$30.0 mil GO bnds cons pub imp bnds ser 2025 due 12/15/2045		
Long Term Rating	AA+/Stable	New
St Marys Cnty		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to St. Mary’s County, Md.'s roughly $30 million series 2025 general obligation (GO) consolidated public improvement bonds, based on the application of its "Methodology For Rating U.S. Governments," criteria, published Sept. 9, 2024.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the county's existing GO debt.
- The outlook is stable.

Security

The bonds are a GO of St. Mary's County, secured by the county's full-faith-and-credit pledge. Proceeds from this issue will fund various general government and school capital projects.

Credit overview

St. Mary's County's general creditworthiness is characterized by a history of strong financial operations and reserves, supported by a durable local economy that benefits from its access to employment markets surrounding Washington D.C. as well as from a strong management team that maintains conservative budgeting and a comprehensive set of formalized financial policies.

Although St. Mary's County is not considered a part of the D.C. metropolitan statistical area (MSA), its northern portion is about 40 miles southeast of the capital and residents have direct access to employment opportunities throughout the county and the D.C. MSA. The local economy benefits from a number of stabilizing institutions, highlighted by Naval Air Station Patuxent River, a military installation with over 22,000 employees. The installation's heavy involvement in defense and aerospace research and development supports, in our view, higher county income levels compared with those of the U.S. We believe the significant defense presence also insulates the county to some degree from broader federal workforce cuts affecting the region.

The county continues to maintain sound financial operations, including strong available general fund reserves, despite large capital outlays averaging nearly $12 million annually over the last five fiscal years. Income taxes accounted for approximately 45% of total general fund revenue in fiscal 2024, followed by property taxes at 43%, with both sources showing consistent growth over the past five years. Fiscal 2024 ended with a slight reduction in reserves of $500,000 due primarily to capital pay-go spending of $8.7 million. Nevertheless, available reserves remained robust at $76.7

million, or 24.4% of operating revenues.

For fiscal 2025, the county budgeted the use of $6.7 million for non-recurring expenses. The tax rate remains unchanged at $0.8478 per $100 of assessed value, which is below average compared with that of peers. However, the county increased its income tax rate to 3.2%, or the maximum allowed under state law, providing additional revenues to help pay for increased county expenses and school funding. The county anticipates close to breakeven operations at year-end without a material change in reserves, which we expect will remain well above 20% of revenues.

Management informed us that there are no material changes expected at this time to the fiscal 2026 budget. Management indicates it could appropriate as much as $11.5 million for pay-go capital spending. Nevertheless, given the county's history of positive variances and conservative budgeting, as well as the increase in the income tax rate in the previous year providing additional revenues that the county can grow into, we expect performance will remain sound.

We view St. Mary's County's debt levels as low. Following this issuance, we calculate that the county will have nearly $180 million in direct tax-supported debt. Its six-year capital improvement plan (CIP; 2025-2030) totals $444 million, a little less than half of which management expects to fund with additional debt issuances. We estimate that St. Mary's County could issue $25 million to $30 million of new-money GO debt each year over the six-year CIP to finance various capital needs. Despite the expected issuances, we do not expect this plan will materially weaken the county's debt and liability factor score given its amortization of existing debt as well as its formalized debt policies.

The rating also reflects St. Mary's County's:

- Stable, durable local economy located on a peninsula in southern Maryland and bounded by the Patuxent River, Chesapeake Bay, and the Potomac River, with good tax base growth, particularly in Leonardtown, the county seat and sole overlapping municipality in the county. The Naval Air Station Patuxent River (Pax River) is St. Mary's County's largest employer and anchors the area economy, fostering employment growth in defense, engineering, and technology;
- Comprehensive set of formalized financial policies and practices that, combined with conservative budgeting, underpin the county's strong financial performance and robust reserves; and
- Low overall net debt, with manageable capital improvement needs and retirement costs; pension liabilities totaling just $42.4 million relating to the county's portion of the state-administered Sheriff's Plan as well as a length of service program ($8.0 million); and an other postemployment benefit (OPEB) liability of $18.4 million; however, we note the school board, which is a component unit of the county, maintains an OPEB liability of $315.7 million. Although we do not directly factor the school board's OPEB liability into the county's debt-and-liabilities metrics, we note the county indirectly pays for a portion of this liability through school funding.
- For more information on our institutional framework assessment for Maryland counties, see "Institutional Framework Assessment: Maryland Local Governments," published Sept. 9, 2024, on RatingsDirect.

Environmental, social, and governance

St. Mary's County's location along the Potomac and Patuxent rivers and Chesapeake Bay exposes the county to coastal and inland flooding, sea-level rise, and severe storms. We note that the county maintains an array of formalized policies and plans to help mitigate these risks, including:

- An adopted multijurisdictional hazard mitigation plan that was approved by the Maryland Department of Emergency Management and the Federal Emergency Management Administration, was updated in 2024, and incorporates climate, weather, and disaster planning;
- An Emergency Operations Plan, approved by county commissioners and updated annually; and
- A Nuisance Flooding Plan, adopted in October 2020.

In addition, the county has taken steps to assess its critical infrastructure for vulnerabilities to climate change. We view St. Mary's County's strong oversight and comprehensive risk management strategies relating to the environment as a strength compared to those of peers.

We view the county's social and governance factors as being credit-neutral within our analysis. We have spoken with officials regarding cyber security and consider management conversant in the relevant risks and proactive in managing them.

Outlook

The stable outlook reflects our opinion that the county will maintain its strong financial operations and very strong reserves given its conservative budgeting practices, well-embedded fiscal policies, and diverse economic base.

Downside scenario

If the county were to experience significant fiscal pressures and its reserves were used to bridge any imbalances over a prolonged period, without a plan to restore, we could lower the rating.

Upside scenario

If St. Mary's County were to experience material improvement in its economic metrics to a level more commensurate with higher-rated peers', while holding all other factor scores constant, we could raise the rating.

Table 1

St. Mary's County, Maryland--Credit summary	
Institutional framework (IF)	1
Individual credit profile (ICP)	1.55
Economy	1.5
Financial performance	2
Reserves and liquidity	1
Management	1.00
Debt and liabilities	2.25

Table 2

St. Mary's County, Maryland--Key credit metrics	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	--	106	106	105
County PCPI % of U.S.	--	101	101	100
Market value ($000s)	--	14,563,580	14,076,664	13,618,522

Table 2

St. Mary's County, Maryland--Key credit metrics (cont.)

	Most recent	2024	2023	2022
Market value per capita ($)	--	126,985	121,277	114,871
Top 10 taxpayers % of taxable value	--	4.0	4.0	4.2
County unemployment rate (%)	--	2.8	2.0	2.8
Local median household EBI % of U.S.	--	126	126	126
Local per capita EBI % of U.S.	--	114	114	111
Local population	--	114,687	116,070	118,555
Financial performance				
Operating fund revenues ($000s)	--	314,872	293,411	281,824
Operating fund expenditures ($000s)	--	310,688	280,630	271,364
Net transfers and other adjustments ($000s)	--	(4,684)	(24,187)	(7,664)
Operating result ($000s)	--	(500)	(11,406)	2,796
Operating result % of revenues	--	(0.2)	(3.9)	1.0
Operating result three-year average %	--	(1)	1.6	2.9
Reserves and liquidity				
Available reserves % of operating revenues	--	24.4	26.4	31.5
Available reserves ($000s)	--	76,720	77,326	88,682
Debt and liabilities				
Debt service cost % of revenues	--	4.5	4.2	4.5
Net direct debt per capita ($)	1,570	1,467	1,270	1,067
Net direct debt ($000s)	180,100	170,303	147,437	126,554
Direct debt 10-year amortization (%)	--	56	--	--
Pension and OPEB cost % of revenues	--	5.0	6.0	6.0
NPLs per capita ($)	--	732	732	775
Combined NPLs ($000s)	--	85,020	85,020	91,925

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.