

New Issue: St. Mary's (County of) MD

MOODY'S ASSIGNS Aa3 RATING TO ST. MARY'S COUNTY'S (MD) \$16.26 MILLION CONSOLIDATED PUBLIC IMPROVEMENT BONDS OF 2005

Aa3 RATING AFFIRMATION AFFECTS \$157.3 MILLION OF OUTSTANDING PARITY DEBT

County
 MD

Moody's Rating

ISSUE	RATING
Consolidated Public Improvement Bonds of 2005	Aa3
Sale Amount	\$16,260,000
Expected Sale Date	03/08/05
Rating Description	General Obligation

Opinion

NEW YORK, Mar 3, 2005 -- Moody's Investors Service has assigned a Aa3 rating to St. Mary's County's (MD) \$16.26 million Consolidated Public Improvement Bonds of 2005. At this time, Moody's has also affirmed the Aa3 rating on the county's \$157.3 million of outstanding parity debt. The bonds are secured by the county's general obligation, unlimited property tax pledge. Proceeds of the bonds will finance capital improvements throughout the county, primarily devoted to school projects (67%) and general county facilities (21%). The high quality rating reflects the county's diversifying economy, anchored by the strategically important Patuxent River Naval Air Station, satisfactory financial performance and adherence to pro-active debt management policies which keep debt levels affordable.

TECHNOLOGY-BASED ECONOMY DOMINATED BY MAJOR NAVY BASE

Moody's expects the county's economy to continue to grow, given steady average growth of 5.1% annually over the past five years and the county's ongoing economic development efforts. The county's Patuxent River Naval Air Station, with 20,100 employees, continues to anchor the local economy. Since 1997, with the transfer of 5,500 jobs to the base, Patuxent River NAS has become the Navy's center for avionics research and development, testing, evaluation and acquisition. Officials expect continued expansion at Patuxent River NAS, with recently awarded contracts expected to bring more than \$128 million of new investment over the next five years. Officials were proactive in developing a seven-point plan to address issues of importance to the navy, including schools, housing, transportation, and land use restrictions under military air space, in anticipation of the upcoming Base Realignment and Closure (BRAC) process. With several objectives already achieved, the plan was revised and adopted as a four-point plan in 2004. Officials believe the base is well positioned going into the current BRAC round, given the base's history of expansion in past base realignments; the level of federal capital investment in the base, which received approximately \$105 million in infrastructure investment between fiscal years 2000 and 2005, with another \$72 million included in the federal budget for fiscal 2006; and the county's efforts to support Navy operations. Nevertheless officials recognize the need to diversify the local economy, through the commercialization of technologies developed at the base, and ongoing support for the county's growing tourism and agriculture industries. Officials are also prudently developing contingency plans in the event of any losses at Pax River with BRAC. Housing development continues to support ongoing employment growth, with the issuance of permits for approximately 1,000 new residential units annually over the past five years, including nearly 1,300 units permitted in the first 11 months of 2004.

Over the past five years, average annual job growth (2.9%) exceeded population growth (2.1%) keeping the county's unemployment rate to a relatively low 2.3% as of December 2004, comparing favorably with the state's 3.7% unemployment rate. Average weekly wage growth, at 21.7% between 1999 and 2003, has also exceeded that of the state, at 17.9%. As of 1999, county per capita income and median family income were approximately 89% and 99% of the relatively high state levels, respectively, compared with 82% and 91%, respectively, in 1989.

STABLE FINANCIAL OPERATIONS EXPECTED

Moody's expects the county's financial position to remain healthy, given conservative fiscal management and the recent replenishment of General Fund reserves. Three consecutive years of draws from reserves to finance capital improvements had decreased General Fund balance to \$12.3 million, equivalent to 12.9% of General Fund revenues as of fiscal 2002. This trend reversed in fiscal 2003, and fiscal 2004 saw a positive operating results which added \$8.5 million to fund balance, despite the budgeted use of \$2.4 million from reserves. The surplus was driven by strong income tax revenues, which came in \$3.9 million over budget, including \$2.5 million representing accelerated distributions from the state; and healthy performance of recordation tax revenues, which exceeded budget by \$2.9 million. Expenditures came in approximately \$900,000 below budget, reflecting management's prudent expenditure controls and the recent comprehensive restructuring of the organization to maximize efficiency. General Fund balance increased to \$22.5 million at year-end fiscal 2004, equivalent to 16% of revenues, including a bond rating reserve targeted at 6% of revenues, valued at \$8.2 million; and a new rainy day fund fully funded at \$1 million, which officials plan to increase to \$1.5 million by fiscal 2007. In addition, management set aside \$7.5 million of the fiscal 2004 surplus as a new economic stabilization fund. This fund will be held through the fiscal 2007, at which time it may be used to offset any negative impact of BRAC on the county's finances, to fund shortfalls in state school construction funding, to finance other non-recurring or capital expenditures, or for tax relief. Taken together, the bond rating reserve, rainy day fund, and economic stabilization reserve, along with approximately \$3 million of undesignated reserves, represent 15.5% of General Fund revenues, which Moody's believes provides the county with ample flexibility. The county retains further flexibility through its revenue-raising flexibility. Officials reduced local income tax rate to 3.05% effective January 1, 2005, below the state maximum rate of 3.2%, and the property tax rate, at \$8.78, is among the lowest in the state. The county may also increase its transfer tax rate, currently 1%, to the 1.5% state maximum if officials so choose, and the county's recordation tax rate and impact fee are below those of neighboring counties.

The fiscal 2005 budget fully funded the St. Mary's Bridge to Excellence, a five-year funding commitment to the board of education, that lends predictability to the county's budgeting process and facilitates long term planning. The budget also allocated \$1.46 million to maintain reserves at targeted levels, and \$500,000 for pay-as-you-go capital spending, which together exceed the \$1.83 million of appropriated reserves. Officials report that income tax and property tax revenues, which provided 77% of operating revenues in fiscal 2004, are both coming in at or above targets for fiscal 2005 to date, and expect total fund balance will remain at or above the fiscal 2004 level.

DEBT POSITION EXPECTED TO REMAIN MANAGEABLE

Moody's believes the county's debt burden will remain affordable, given the county's self-imposed debt affordability model and rate of tax base growth. The county limits tax-supported debt to 2% of assessed valuation, and debt service expenditures may not exceed 12% of the overall budget, although management uses 10% as an internal guideline. These policies have kept the county's debt burden to a moderate 2.2%. Amortization of debt is above average, with 62.1% of principal retired within ten years. The county's approximately \$124 million 2006 - 2010 capital improvements plan (CIP) focuses mainly on schools (42.4%), public facilities (25.8%), highways (14.6%) and land conservation (11.6%). Sources of funding include state and federal funding (40%), county bonds (29.5%), dedicated taxes and fees (25.8%) and pay-as-you-go funds (4.3%).

KEY STATISTICS

2006 Est. Population: 95,500

FY 2005 Full Valuation: \$6.05 billion

FY 2005 Full Value Per Capita: \$63,320

1999 Median Family Income as % of State Average: 99.2%

1999 Per Capita Income as % of State Average: 87.2%

Unemployment, December 2004: 2.3%

Overall Debt Burden: 2.2%

Payout of Principal (10 years): 62.1%

FY 2004 General Fund Balance: \$22.5 million (16% of General Fund revenues/transfers)

Post-Sale Parity Debt Outstanding: \$157.3 million

Analysts

Lisa Cole
Analyst
Public Finance Group
Moody's Investors Service

John Incorvaia
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

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