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### St. Mary's County, Maryland; Tax Secured, General Obligation

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### Credit Profile

US\$16.26 mil cons pub imp bnds ser 2005 dtd 03/01/2005 due  
 03/01/2006-2025 AA-  
 Sale date: 08-MAR-2005

#### AFFIRMED

##### St Marys Cnty, Maryland

\$86.980 mil. St Marys Cnty AA-  
 \$16.145 mil. St Marys Cnty GO (MBIA) AAA/AA-(SPUR)  
 \$20.000 mil. St Marys Cnty GO bnds dtd 09/01/1997 due  
 09/01/1998-2012 AAA/AA-(SPUR)

##### St Marys Metro Comm, Maryland

\$18.603 mil. St Marys Metro Comm (St Marys Cnty) AA-

**OUTLOOK:** POSITIVE

### ■ Rationale

The 'AA-' standard long-term rating and Standard & Poor's underlying rating (SPUR) on St. Mary's County, Md.'s series 2005 and outstanding GO bonds reflects:

- The continued strength of the local economy, with increasing wealth and income levels;
- Good financial performance and position, bolstered by established reserve policies;
- An experienced and cohesive management team; and
- A moderate debt burden coupled with a manageable capital improvement plan.

The series 2005 and outstanding GO bonds are secured by the county's full faith and credit pledge. The bulk of the series 2005 bond proceeds will be used to fund school-related projects (\$10.0 million) and county facility projects (\$3.4 million), as well as other road, parks, and solid waste projects.

St. Mary's County, located in southern Maryland, is bounded by the Patuxent and Potomac rivers and the Chesapeake Bay. The county's population has increased 19% since 1990 to 90,305, according to the 2000 U.S. Census; projections are for growth of up to 100,800 by 2010. The Patuxent River Naval Air Station has been, and continues to be, a significant factor in the rapid expansion and diversity of the local economy. Approximately 20,100 civilian, military, and contractor workers, nearly 35% of the workforce, support the air station. The air 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. The number of companies listed in the county's technology handbook, which increased 66%--to 196 in 2005 from 129 in 2000--reflects the increasing number of technology companies located in St. Mary's County. The creation of new jobs, which cover a wide range of employment sectors, allows approximately 74% of county residents to work within the county. The influence of professional and skilled employment has also helped the median income of county residents to increase. In 2003, the

county's median income had risen to 125% 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. The labor force, as of November 2004, totaled 61,300, compared with 49,700 in 1999, and the county's unemployment rate--currently at 2.60%--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 county's tax base is large, continues to increase at a healthy rate, and exhibits no taxpayer concentration. Assessed value (AV) is estimated at \$6.2 billion, or a high \$68,230 per capita market value. Growth in the base has averaged 5.7% annually over the past four years, with professional and skilled employment opportunities contributing to AV growth. Moreover, there is no concentration in the base, with the 10 leading taxpayers accounting for only 4% of AV. Property taxes account for approximately 40% 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 performance and position remain good, bolstered in part by established reserve policies. For fiscal year-end 2004, the general fund posted a surplus of \$8.5 million, with the surplus largely attributed to higher-than-budgeted income tax and recordation revenues, as well as expenditures being under budget by close to \$6.0 million. The ending unreserved general fund balance increased to \$21.7 million, or a strong 16.5% of expenditures. This is up from \$13.1 million, or 10.5% of expenditures in fiscal 2003. In fiscal 2004, management established an economic stabilization reserve. The reserve is intended to help the county weather any unbudgeted costs or needs that might arise as part of the upcoming base realignment and closure (BRAC) round of 2005. This reserve, however, is temporary and management will decide on the use of these funds no later than June 2006. In addition to this temporary stabilization reserve, the county also 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--\$8.2 million at fiscal year-end 2004. The rainy day fund presently totals \$1 million.

Overall debt burden remains manageable at \$1,416 per capita, or 2.1% of market value. The county continues to follow a rapid schedule of debt amortization that plans for 66% of debt to be retired in 10 years. The capital improvement plan (CIP) addresses the needs of the county that stem from continuing growth and development. The 2006-2010 CIP amounts to \$123.7 million, with the majority of expenditures being for education (42%), public facilities (26%), and highways (15%). The major funding projects consist of state and federal funds (40%), county bonds (29%), transfer taxes (15%), and impact fees (11%). Given the faster-than-average amortization of existing debt, and manageable future debt plans, the county's debt burden is expected to remain moderate and manageable.

## ■ Outlook

The positive outlook reflects the expectation that employment, training, and research operations at the Patuxent River Naval Air Base will not be adversely affected by the outcome of BRAC 2005. The outlook also reflects the expectation that the county will maintain its good financial position supported by healthy fund balances, adherence to established fiscal policies, and a manageable debt burden.

## ■ Finances

In fiscal 2004, management established an economic stabilization reserve. The reserve is intended to help the county weather any unbudgeted costs or needs that might arise as part of the upcoming BRAC round. This reserve is temporary and management will decide on the use of these funds no later than June 2006. In addition to this temporary stabilization reserve, the county also maintains a bond rating reserve and rainy day fund. The bond rating reserve is maintained at 6% of the following year's budgeted general fund revenues--\$8.2 million at fiscal year-end 2004. The rainy day fund presently totals \$1 million. The economic stabilization reserve, rainy day fund, and bond rating reserve are all part of the general fund unreserved designated fund balance, which at fiscal year-end 2004 totaled \$21.7 million, or a strong 16.5% of expenditures.

The adopted general fund budget for 2005 was balanced, totaling \$138.5 million. Year-to-date, management projects positive ending general fund results and reserves similar to fiscal 2004. The budget included a reduction in both the property tax and income tax rates. The tax rate on real property was reduced from 0.908 mills to 0.878 mills per \$100 of assessed value--or a reduction of 3.3%. According to county management, this is the third-lowest rate in the state. The income tax rate was also

reduced (effective Jan. 1, 2005) to 3.05% from 3.10%--a reduction of 1.6%. The limit for this rate is 3.20% and with the recent reduction, the county is now at 95% of the limit. While these rates have been reduced, ongoing healthy growth in the real property tax base and increasing wealth and income levels offset any revenue loss. Property and income taxes are the two largest general fund revenue sources, accounting for 42% and 36%, respectively. Leading expenditures include education at 43%, county departments at 25%, the sheriff's office at 13%, and debt service at 9%.

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