Moody's assigns Aaa to Prince George's County, MD's $248.3M GO Bonds, Ser. 2014 A&B; outlook stable

Affirms Aaa on $1.7B in outstanding parity debt

PRINCE GEORGE'S (COUNTY OF) MD
Counties
MD

Moody's Rating

<table>
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<th>ISSUE</th>
<th>RATING</th>
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<tr>
<td>Consolidated Public Improvement Bonds, Series 2014A</td>
<td>Aaa</td>
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<tr>
<td>Sale Amount</td>
<td>$217,850,000</td>
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<tr>
<td>Expected Sale Date</td>
<td>09/17/14</td>
</tr>
<tr>
<td>Rating Description</td>
<td>General Obligation Limited Tax</td>
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| Consolidated Public Improvement Refunding Bonds, Series 2014B | Aaa |
| Sale Amount | $30,415,000 |
| Expected Sale Date | 09/17/14 |
| Rating Description | General Obligation Limited Tax |

Moody's Outlook STA

Opinion

NEW YORK, September 09, 2014 --Moody's Investors Service has assigned a Aaa rating to Prince George's County's (MD) $217.9 million Consolidated Public Improvement Bonds, Series 2014A and $30.4 million Consolidated Public Improvement Refunding Bonds, Series 2014B. The bonds are secured by the county's limited ad valorem tax pledge. Moody's has also affirmed the Aaa rating on the county's $1.7 billion in outstanding general obligation (limited tax) bonds and storm water bonds, both secured by the county's unlimited tax pledge and the Aa1 rating on the $112.8 million outstanding Certificates of Participation and installment financing debt (essential assets).

SUMMARY RATINGS RATIONALE

The Aaa rating reflects the diversity and historical growth trend of the county's sizeable tax base, which has experienced significant declines despite the county's beneficial location in the Baltimore (Aa2/stable)-Washington, D.C. (Aa2/stable) corridor and the county's adequate financial position, supported by currently-healthy fund balance levels and comprehensive fiscal policies. The rating also reflects the county's modest debt position and a record of operating efficiently within a local revenue cap that limits ad valorem taxing ability.

STRENGTHS

Sizable, diverse tax base in metro-D.C. area
Historically stable financial position
Manageable debt burden

CHALLENGES
Ongoing fiscal constraints due to millage cap and economically-sensitive revenues

Recent declines in the tax base

Employment closely linked to federal government

DETAILED CREDIT DISCUSSION

DIVERSE AND SIZEABLE ECONOMY BENEFITS FROM STRATEGIC GEOGRAPHIC POSITION; RATE OF TAX BASE GROWTH EXPECTED TO SLOW WITH MARKET DOWNTURN

Located directly east of Washington, D.C., Prince George's County continues to leverage its strategic geographic position, extensive transportation network, and large institutional base to support economic growth and diversification. The county's tax base decreased by an average 5.9% annually from fiscal 2009 to fiscal 2014, which includes decreases in fiscal 2011 through 2014, averaging 7.8% annually, as a result of the state's three-year reassessment cycle. Officials project a 1.2% increase in the base in fiscal 2015, with moderate growth thereafter over the medium term given recent development projects and an increase in new housing construction.

Providing institutional stability, the county's three largest employers, with more than 43,000 employees total, are all government entities - Andrews Air Force Base, the county public schools, and the flagship campus of the University of Maryland. The employment base has been further stabilized to date by a number of federal agencies, including the U.S. Postal Service, the U.S. Bureau of the Census, and the Internal Revenue Service. The county's substantial high-tech industry employs more than 33,000 people, anchored by various research-focused federal agencies, including the NASA Goddard Space Flight Center, the Food and Drug Administration and the USDA Beltsville Agricultural Research Center. The employment base has experienced some recessionary contraction, although at 6.5% unemployment as of June 2014, the jobless rate remains slightly above the statewide and national rates at 6.2% and 6.3%, respectively. Moody's notes that while the county's proximity to the metro-D.C. area has been considered a strength and will likely remain so over the long term, current fiscal and credit pressures on the Government of the United States of America (Aaa/stable) could present near to medium term vulnerabilities for the county.

COUNTY MAINTAINS Satisfactory FUND BALANCE LEVELS DESPITE RECENT OPERATING PRESSURES

The county's financial position remains sound despite local revenue-raising constraints, given currently-satisfactory General Fund balance levels, proactive management, and adherence to comprehensive fiscal policies and reserve requirements. The county charter requires the General Fund to maintain a contingency reserve at a minimum 5% of annual expenditures (held in Restricted fund balance) and county policy further requires the General Fund balance to include an additional 2% operating reserve (held in Committed fund balance), assuring the maintenance of satisfactory reserve levels.

Through its strong financial management, the county reported operating surpluses in three out of the last five fiscal years, ending fiscal 2013, increasing total fund balance to $359.4 million (22.6% of revenues) in fiscal 2013 from $278.2 million (19.1% of revenues) in fiscal 2009. The fiscal 2013 budget included a $24.7 million appropriation of reserves to balance the budget, which the county used for one time capital needs. Property taxes are the county's largest direct source of operating revenues, accounting for approximately 44.1% of General Fund revenues (fiscal 2013), followed by income taxes at 31.8%. A tax reform initiative approved by voters in 1978 restricts growth in county property taxes by limiting the real property tax rate to $0.96 per $100 of assessed valuation. Although the county currently is levying at the maximum allowable rate, property tax revenues continue to grow in line with tax base expansion over the medium term. Additionally, the county currently levies the state-imposed maximum 3.2% for local income taxes. The county has historically budgeted conservatively for this economically-sensitive revenue.

Initial projections for fiscal 2014 show a $60.6 million deficit due to $14 million in one-time needs, $24 million in public safety investments and $20 million in higher pension and workers' compensation costs. The projected deficit is expected to decrease total General Fund balance to $285.2 million, or 18.2% of projected revenues.

The fiscal 2015 budget represents a 3% increase relative to the prior year and includes the use of $7 million of reserves. Going forward, Moody's will monitor the county's ability to plan for and manage any challenges resulting from state and local revenue shortfalls and expenditure growth. While we expect the county to maintain reserves in line with stated targets, declines in reserves outside of policy levels, namely unassigned fund balance, may result in negative credit pressure. Moody's will also continue to monitor available reserves outside the General
Fund and county policies to assess whether the county has additional financial cushion in line with its Aaa-rated peer group.

DEBT POSITION TO REMAIN MANAGEABLE THROUGHOUT SIZEABLE CAPITAL PROGRAM

Moody’s believes that the county will be able to implement its substantial six-year capital improvement program (CIP) while maintaining a satisfactory debt position. Although the $3.2 billion six-year (2015-2020) CIP will be largely bond-financed, the county’s debt affordability policies and average payout are expected to provide financing flexibility and timing discipline for future bond issues. The current debt burden is affordable at 2.2% of full valuation. Debt service on general obligation bonds issued for mass transit facilities ($10.5 million) is supported by a separate unlimited ad valorem tax levied by the Washington Suburban Transit Commission, and debt service on bonds issued for storm water facilities ($36 million) is supported by a special unlimited ad valorem tax levied by the county under a State statute. In addition, bonds issued for solid waste facilities ($137 million) are repaid from the county’s self-supporting solid waste enterprise fund. Amortization of principal is average, with 68% repaid within 10 years. All outstanding debt is in a fixed-rate mode and the county is not party to any derivative agreements.

The county participates in the Maryland State Retirement and Pension System for county, Board of Education, community college and memorial library employees, four multi-employer, defined benefit retirement plans sponsored by the State of Maryland. The county also maintains two single-employer, defined benefit plans for police and fire employees. The county’s combined annual required contribution (ARC) for the plans was $112 million in fiscal 2013, or 7% of General Fund expenditures. The district’s combined adjusted net pension liability, under Moody’s methodology for adjusting reported pension data, is $2.5 billion, or approximately a moderate 1.54 times operating revenues. Moody’s uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county’s reported liability information, but to improve comparability with other rated entities. We determined the county’s share of liability for the state-run plans in proportion to its contributions to the plans.

WHAT COULD MOVE THE RATING DOWN

Future structural imbalance or declines in fund balance levels
Use of fund balance in fiscal 2014 and 2015 beyond projections
Declines in tax base or weakening of socio-economic profile

KEY STATISTICS

Full Value, Fiscal 2014: $75.9 billion
Full Value Per Capita, Fiscal 2014: $86,121
Median Family Income as % of US Median (2012 American Community Survey): 131.7%
Fund Balance as % of Revenues, Fiscal 2013: 12.4%
5-Year Dollar Change in Fund Balance as % of Revenues: 2.94%
Cash Balance as % of Revenues, Fiscal 2013: 17.82%
5-Year Dollar Change in Cash Balance as % of Revenues: -1.43%
Institutional Framework: "Aa"
5-Year Average Operating Revenues / Operating Expenditures: 1.01x
Net Direct Debt as % of Full Value: 2.2%
Net Direct Debt / Operating Revenues: 1.03x
3-Year Average ANPL as % of Full Value: 3.0%
3-Year Average ANPL / Operating Revenues: 1.41x

RATING METHODOLOGIES
The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the lease-backed rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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