

RATING ACTION COMMENTARY

Fitch Rates Prince George's County, MD's \$281.5MM GOs 'AAA'; Outlook Stable; Removes UCO

Wed 15 May, 2024 - 4:38 PM ET

Fitch Ratings - New York - 15 May 2024: Fitch Ratings has assigned a 'AAA' rating to the following Prince George's County, Maryland general obligation (GO) bonds:

--\$183,165,000 GO consolidated public improvement bonds series 2024A;

--\$98,390,000 GO consolidated public improvement refunding bonds series 2024B.

The bonds are scheduled for competitive sale on June 4, 2024. Bond proceeds will be used to fund various capital projects as well as refund the series 2014A bonds. Fitch has also affirmed the following ratings:

--Issuer Default Rating (IDR) at 'AAA';

--GO bonds at 'AAA'.

The Rating Outlook is Stable. The ratings have been removed from Under Criteria Observation.

RATING ACTIONS

ENTITY / DEBT ↕

RATING ↕

PRIOR ↕

| | | | | |
|--|----------|---------------------------|--|---------------------------|
| Prince George's County (MD) [General Government] | LT IDR | AAA Rating Outlook Stable | | AAA Rating Outlook Stable |
| | Affirmed | | | |

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|--|----|---------------------------|----------|---------------------------|
| Prince George's County (MD) /General Obligation - Limited Tax/1 LT | LT | AAA Rating Outlook Stable | Affirmed | AAA Rating Outlook Stable |
|--|----|---------------------------|----------|---------------------------|

[VIEW ADDITIONAL RATING DETAILS](#)

The 'AAA' IDR and GO rating reflects the county's historically strong operating performance supporting its 'aaa' financial resilience assessment. The 'aaa' assessment reflects a 'high midrange' level of budgetary flexibility and Fitch's expectation that reserves will be maintained at or above 10% of spending (compared to the current 33%).

Demographic and economic level metrics are considered 'strong' by Fitch offset by a weak population trend metric. Economic concentration and population size are at the 'strongest' levels, measuring above the 15th percentile, after an analyst adjustment (see below for more information). The rating also incorporates the county's 'weak' long-term liability burden composite. The rating additionally reflects the application of a positive one-notch additional analytical factor that recognizes the county's role as a notable economic contributor to the Washington-Arlington-Alexandria, DC-VA-MD-WV metropolitan statistical area (MSA).

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Failure to maintain available reserves above 10% of spending on a sustained basis, resulting in a 'aa' financial resilience assessment;

--A roughly 22% increase in long-term liability burden metrics;

--Weakened economic and demographic performance including but not limited declining population, rising unemployment and lower resident income.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Not applicable given the 'AAA' rating and Stable Outlook.

SECURITY

The GOs are backed by the county's full faith and credit and limited taxing authority. The county charter limits the real property tax rate to \$0.96 per \$100 of assessed value (AV) and further requires that certain taxes may not be increased without voter approval.

FITCH'S LOCAL GOVERNMENT RATING MODEL

The Local Government Rating Model (LGRM) generates Model Implied Ratings (MIR) which communicate the issuer's credit quality relative to Fitch's local government rating portfolio (the MIR will be the IDR except in certain circumstances explained in the applicable criteria). The MIR is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher ('AAA'), 9.0 ('AA+'), 8.0 ('AA'), and so forth down to 1.0 ('BBB-' and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile (MP), and a structured framework to account for Additional Analytical Factors (AAFs) not captured in the Metric Profile that can either mitigate or exacerbate credit risks. AAFs are reflected in notching from the MP and are capped at +/-3 notches.

RATINGS HEADROOM & POSITIONING

Prince George's County Model Implied Rating: 10.20 ('AAA')

--Metric Profile: 9.20 ('AA+')

--Net Additional Analytical Factor Notching: +1.0

Individual Additional Analytical Notching Factors:

--Economic and Institutional Strength: +1.0

Prince George's County's Model Implied Rating of 10.20 is at the lower end of the range for its current 'AAA' rating.

The county has maintained a stable financial position consistent with a 'aaa' resilience assessment. While the county's debt to personal income metric has remain relatively stable, debt service costs have been increasing and could pressure the 'AAA' IDR and GO rating if the trend continues. Wealth metrics have been relatively steady while unemployment has improved.

KEY RATING DRIVERS

FINANCIAL PROFILE

Financial Resilience - 'aaa'

Prince George's County's financial resilience is driven by the combination of its 'High' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'High Midrange' budgetary flexibility assessment.

--Revenue control assessment: High

--Expenditure control assessment: Midrange

--Budgetary flexibility assessment: High Midrange

--Minimum fund balance for current financial resilience assessment: $\geq 10.0\%$

--Current year fund balance to expenditure ratio: 33.2% (2023)

--Five-year low fund balance to expenditure ratio: 23.4% (2020)

Revenue Volatility - 'Strong'

Prince George's County's weakest historic three-year revenue performance is neutral to the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

--Lowest three-year revenue performance (based on revenues dating back to 2005): 0.8% increase for the three-year period ending fiscal 2014

--Median issuer decline: -3.8% (2023)

DEMOGRAPHIC AND ECONOMIC STRENGTH

Population Trend - 'Weakest'

Based on the median of 10-year annual percent change in population, Prince George's County's population trend is assessed as 'Weakest'.

Population trend: 0.2% 2022 median of 10-year annual percent change in population (18th percentile)

Unemployment, Educational Attainment and MHI Level - 'Strong'

The overall strength of Prince George's County's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2023 are assessed as 'Strong' on a composite basis, performing at the 76th percentile of Fitch's local government rating portfolio. This is due to relatively strong education attainment levels, median-issuer indexed adjusted MHI and unemployment rate.

--Unemployment rate as percentage of national rate: 61.1% 2023 (96th percentile), relative to the national rate of 3.6%

--Percent of population with a bachelor's degree or higher: 35.6% (2022) (65th percentile)

--MHI as a percent of the portfolio median: 115.9% (2022) (67th percentile)

Economic Concentration and Population Size - 'Strongest'

Prince George's County's population in 2022 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

--Population size: 946,971 (2022) (above the 15th percentile)

--Economic concentration: 51.0% Analyst Input (above the 15th percentile) (vs. 58.3% 2023 Actual)

Demographic and Economic Strength Additional Analytical Factors and Notching: +1.0 notch (for Economic and Institutional Strength)

A 1.0 notch uplift has been applied under the Economic and Institutional Strength additional analytical factor reflecting Fitch's view of Prince George's economic importance and resilience, as a notable contributor to the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA. The MSA plays a vital role in the national economy, accounting for 2.9% of U.S. GDP in 2022, according to the Bureau of Economic Analysis' data. Prince George's is also a major employment center within the state and is home to educational institutional and government anchors for the region.

The economic concentration was adjusted to a level consistent with pre-pandemic level and other peers within the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA. Concentration is driven by the government sector, which includes various federal government agencies in addition to public education institutions such as the University of Maryland at College Park.

LONG TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Weak'

Prince George's County's long-term liability metrics remain moderately weak across each of the three dimensions: liabilities to personal income, liabilities to governmental revenue, and carrying costs to governmental expenditures. The long-term liability composite metric in 2023 is at the 23rd percentile, indicating somewhat elevated liability burden relative to the Fitch local government rating portfolio.

--Liabilities to personal income: 10.8% Analyst Input (16th percentile) (vs. 10.9% 2023 Actual)

--Liabilities to governmental revenue: 204.4% Analyst Input (38th percentile) (vs. 206.1% 2023 Actual)

--Carrying costs to governmental expenditures: 19.7% Analyst Input (21st percentile) (vs. 19.3% 2023 Actual)

Fitch adjusted the county's direct debt to reflect the addition of the series 2024 bonds and scheduled principal amortization on outstanding debt in fiscal 2024. Carrying costs were adjusted to include the additional annual costs and savings associated with this issuance.

PROFILE

The county's economic base benefits from its location adjacent to Washington, DC, as well as its broad commercial base. The county is home to 15 governmental bureaus including, the NASA Goddard Space Flight Center, the USDA Beltsville Agricultural Research Center, USDA-APHIS, the Army Research Laboratory, the Institute for Defense Analysis, the Internal Revenue Service, and the U.S. Census Bureau Supercomputer Center.

The county is also home to six universities and colleges, including The University of Maryland (UMD) at College Park, the flagship campus of the University System of Maryland with an enrollment of approximately 40,000 and the county's largest employer with over 20,000 employees. UMD continues to expand its footprint within the county.

The Capital Region Medical Center, completed in 2021, is the first teaching hospital in southern Maryland, and includes a level II trauma center, a cardiac surgery center and a neonatal intensive care unit, among other programs. UMD Discovery District is a \$2 billion public-private investment that opened in 2017. The research park is home to 60 companies and organizations including the Food and Drug Administration and United States Department of Agriculture and fortune 500 companies like Capital One, Adobe and Raytheon.

In November 2023, Prince George's was selected as the new site for the Federal Bureau of Investigation headquarters, further expanding the county's federal government presence. The move of the headquarters from DC is expected to bring 7,500 jobs, along with 61 acres of mixed-use development for the site itself, plus an additional million square feet of nearby development. Construction of the headquarters is set to begin in 2029 and end in 2035 with occupancy in 2036.

Economic development prospects appear healthy, with the county reporting billions in projects either in the pipeline or in active development. An important potential driver of future economic growth is the development of the Purple Line light-rail transit system (Fitch rates Purple Line Transit Partners LLC, BBB/Negative Outlook). This rail system, currently under construction, will connect New Carrollton in Prince George's County to Bethesda in Montgomery County upon completion which is expected in 2027.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

FITCH RATINGS ANALYSTS

Evette Caze

Senior Director

Primary Rating Analyst

+1 212 908 0376

evette.caze@fitchratings.com

Fitch Ratings, Inc.

Hearst Tower 300 W. 57th Street New York, NY 10019

Grace Wong

Director

Secondary Rating Analyst

+1 212 908 0652

grace.wong@fitchratings.com

Michael Rinaldi

Senior Director

Committee Chairperson

+1 212 908 0833

michael.rinaldi@fitchratings.com

MEDIA CONTACTS

Sandro Scenga

New York

+1 212 908 0278

sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 (1)

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Prince George's County (MD)

EU Endorsed, UK Endorsed

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