MOODY'S
RATINGS

Rating Action: Moody's Ratings revises Prince George's County, MD's outlook to negative from stable; affirms all ratings and assigns Aaa to 2024 GOLT bonds

30 May 2024

New York, May 30, 2024 -- Moody's Ratings (Moody's) has revised Prince George's County, MD's outlook to negative from stable. Concurrently, Moody's has assigned a Aaa to the county's $285 million General Obligation Bonds consisting of $185.6 million Consolidated Public Improvement Bonds, Series 2024A and $99 million Consolidated Public Improvement Refunding Bonds, Series 2024B. Finally, Moody's has affirmed the county's outstanding issuer and general obligation limited tax (GOLT) ratings at Aaa, its various essential leases at Aa1, its less essential leases at Aa2, and its moral obligation pledge at Aa3. The outlook is negative. The county had approximately $3.3 billion in total debt outstanding at the end of fiscal 2023.

The outlook revision to negative from stable is driven by the expectation that general fund reserves will decline through fiscal 2025 as the county works to rebalance recurring revenues with recurring spending. While reserves will be in line with its historical past, the county's metrics will remain weaker than its other Aaa peers nationally.

RATINGS RATIONALE

The Aaa issuer rating reflects the county's very significant and robust local economy that is anchored by a diverse set of institutional presence including federal agencies, higher education, and healthcare facilities. The county has ongoing development and redevelopment projects that will continue to benefit the revenue base. Its various economic factors are positive attributes consistent with the Aaa rating category.

The Aaa issuer rating also incorporates the county's already below-average but still sufficient reserve position that will see declines through fiscal 2025 as the county utilizes a portion of its unassigned fund balance to fund operations. The fund balance that is projected at the end of fiscal 2025 is largely returning the county to its fiscal 2022 position. While the county's financial management team maintains and adheres to its extensive financial policies, its ability to regain structural balance and stabilize reserves in its fiscal 2026 budget will be key to its future credit trajectory.

Finally, the issuer rating reflects an above-average leverage profile that is not expected to see material changes despite its formal five-year capital program.

The Aaa GOLT rating is at the same level as the issuer rating reflecting the full faith and credit pledge supporting the bonds.

The various Aa1 lease ratings reflects the essential nature of the assets (mostly projects related to essential medical and court facilities) but offset by debt service being subject to annual appropriation of the county council.

The various Aa2 lease ratings reflects the less essential nature of the projects being financed (largely related to economic development) along with debt service being subject to annual appropriation of the county council.

The Aa3 moral obligation rating reflects the strength of the county's Aaa issuer rating, offset by the relative weakness of the county's moral obligation pledge to replenish any deficiency in the debt service reserve fund, subject to appropriation risk. The rating considers the less essential nature of this economic development project, which is a casino, hotel and convention center complex.

RATING OUTLOOK

The negative outlook reflects the county's expected decline in fund balance driven by structurally imbalanced operations that will persist through fiscal 2025. A fiscal 2026 budget that continues this trend, along with realized deterioration of its financial position, will pressure the credit profile.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Fiscal 2026 budget that includes using reserves to fund recurring spending

- Decline in fund balance larger than the budgeted $33 million in the general fund in fiscal 2025

- Increase in leverage that is more consistent with lower rated entities

- Contraction of the local economy

- Downgrade of the issuer rating (GOLT, leases, and moral obligation ratings)

LEGAL SECURITY

The bonds benefit from the county's full faith and credit and limited taxing power for the payment of principal and interest. The county is empowered and directed to levy ad valorem taxes upon all legally assessable property within the corporate limits to pay debt service subject to the tax limitations set forth in Sections 812 and 813 of the county's charter.

USE OF PROCEEDS

The Series 2024A bonds will be used to finance county-wide projects including but not limited to roads, bridges, schools, general infrastructure, and enterprise activities.

The Series 2024B bonds are expected to refund the county's outstanding General Obligation Consolidated Public Improvement Bonds, Series 2014 A for positive savings.

PROFILE

Prince George's County is located in the state of Maryland (Aaa negative) adjacent to northern Virginia (Aaa stable), sixteen miles from downtown Washington D.C. and 45 minutes from Baltimore's inner harbor. Encompassing roughly 499 square miles and 27 incorporated municipalities, the county provides a variety of municipal services including police, fire and emergency services to an estimated population of 957,189.

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties Methodology published in November 2022 and available at https://ratings.moodys.com/rmc-documents/386953 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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