

# RatingsDirect®

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## Summary:

# Prince George's County, Maryland; Appropriations; General Obligation

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Credit Profile		
US\$186.61 mil GO bnds, consolidated pub imp bnds ser 2024A due 08/01/2044		
Long Term Rating	AAA/Stable	New
US\$98.36 mil GO bnds, consolidated pub imp rfdg bnds ser 2024B due 08/01/2034		
Long Term Rating	AAA/Stable	New
Prince George's Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Prince George's County, Md.'s approximately \$186.610 million series 2024A consolidated public improvement general obligation (GO) bonds and the county's approximately \$98.360 million series 2024B GO consolidated public improvement refunding bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' ratings on the county's outstanding GO debt and on the Maryland-National Capital Park & Planning Commission's (MNCPPC) GO bonds, issued for Prince George's County; its 'AA+' rating on the county's certificates of participation (COPs) and lease revenue bonds; and its 'AA' rating on Prince George's County's special obligation refunding bonds (National Harbor Project) based on the county moral obligation pledge.
- The outlook on all ratings is stable.

Security

Securing Prince George's County's 2024A, 2024B, and GO bonds outstanding is the county's full-faith-and-credit GO pledge, subject to the county's real property tax levy limit set forth in Sections 812 and 813 of the county's charter. We do not differentiate between the county's limited-tax GO debt and its general creditworthiness. We think that Prince George's County's ability to meet debt service requirements and continue to operate successfully has a strong link to creditworthiness and that there are no significant resource fungibility limitations. We understand the series 2024A bond proceeds will fund a variety of county capital projects and the 2024B bonds will refund a portion of the county's series 2014A bonds outstanding.

MNCPPC's GO bonds outstanding are secured by both the commission's and the county's full-faith-and-credit pledges. Therefore, we have used a strong-link analysis of the GO ratings on the commission and the county, both of which are currently rated 'AAA' with a stable outlook. Contract payments payable under a funding agreement to be made by Prince George's County, subject to annual appropriation, secure the county's COPs. In addition, Prince George's County's lease revenue bonds outstanding are secured by a purchase installment paid by the county, subject to annual appropriation. Lastly, there are several pledges securing the series 2022 special obligation bonds outstanding.

Although we recognize there are multiple revenue streams supporting the bonds, in assigning the rating, we apply our criteria, "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," (published Nov. 20, 2019 on RatingsDirect). We rate the bonds two notches lower than our GO rating on the county's debt, reflecting our view of its moral-obligation pledge, including a covenant to provide its best effort for the timely appropriation of sufficient funds, as needed, to replenish a debt-service reserve if pledged revenue is insufficient to pay debt service.

### **Credit overview**

The rating reflects our opinion of the county's large diverse tax base that is likely to sustain growth and support financial balance over the long term, further supported by an active management environment and long-standing financial policies. The county budgeted for reserve drawdowns in fiscal years 2024 and 2025, which we expect will be realized, but we project reserves will remain high and support the current rating. Rising fixed costs due to large unfunded pension and other postemployment benefit (OPEB) liabilities could increasingly pressure the budget, in our view, as could growth pressures if the county's debt burden materially increases due to growing capital investments.

The GO rating further reflects our opinion of the following factors for Prince George's County, including its:

- Growing economy across sectors with access to a broad and diverse metropolitan statistical area (MSA);
- Well-embedded financial policies with a focus on long-term balance and a very strong institutional framework;
- Demonstrated history of financial balance with expectation of continued long-term balance notwithstanding near-term drawdowns; and
- Rapidly amortizing debt that will offset growing capital needs in the short term, but large unfunded retirement liabilities that will likely lead to cost growth.

### **Environmental, social, and governance**

We analyzed Prince George's County's environmental, social, and governance factors relative to the county's credit factors, and we determined that all are neutral within the credit rating analysis. We note that the county established its Prince George's County Climate Action Commission to develop a Climate Action Plan, which was completed and approved in 2022 and contains 26 priority recommendations.

## **Outlook**

The stable outlook reflects S&P Global Ratings' opinion of Prince George's County's ability to maintain generally stable finances, balancing competing expenditure priorities consistent with a large, diverse, and growing community and within the confines of its legal and practical revenue-raising constraints. Given the county's strong economic trends, robust management practices, and very strong budgetary flexibility and liquidity, we do not expect to lower the rating during the next two years.

### **Downside scenario**

If the county were to experience sustained weak financial performance, leading to a significant decline in budget flexibility or liquidity, or if its overall debt and contingent liability profile were to materially deteriorate due to its significant capital needs or increasing pension and OPEB costs, we could lower the rating.

## Credit Opinion

### Growing tax base and access to the Washington, DC MSA

Prince George's County remains poised for continued economic growth, resulting from redevelopment and large-scale, mixed-use transportation projects such as:

- Carillon Project at the Largo Metro station, which includes a \$1 billion mixed-use housing development for more than 3,000 residents and more than 1 million square feet of commercial space;
- Suitland Metro station: a \$400 million mixed-use project, including more than 500 housing units and 87,000 square feet of retail space, and
- New Carrollton station: 1,500 residential units and more than 1 million square feet of commercial space.

Additionally, the Federal government is expected to relocate the Federal Bureau of Investigation headquarters to the county, a \$3 billion project that would add 7,500 new jobs. While the major projects will take multiple years to finish, we believe they reflect ongoing investment in the county which will lead to longer-term economic and revenue stability.

Prince George's County additionally benefits from the presence of a number of public institutions and federal agencies, such as University of Maryland-College Park, which is the state's flagship university campus; Andrews Naval Air Facility; the IRS; U.S. Census Bureau; and NASA Goddard Space Flight Center.

### Well-embedded policies and practices that incorporate operational and capital projections

Highlights of the county's financial management policies and practices include:

- Conservative budget assumptions, which include the use of historical trend analysis that goes back at least five years for revenue and expenditures;
- Monthly budget-to-actual financial update reports provided to council with the ability and willingness to amend the budget, when necessary, through its formal amendment process;
- A six-year rolling capital improvement program (CIP) that prioritizes projects and identifies all revenue sources; this revenue is prepared in conjunction with the operating budget'
- Six-year financial projections updated annually and summarized in the county's budget that management uses to examine gaps between projected revenue and expenditures and to ensure affordability within budget objective and revenue limitations;
- A debt management policy, with affordability measures with which the county remains in compliance;
- A formal investment policy that adheres to state limitations on investments, with monthly review of holdings to ensure compliance with the policy and periodic meetings to ensure investments adhere with objectives; and
- A reserve requirement that calls for the maintenance of a contingency reserve at 5% of the general fund budget as well as an operating reserve equal to 2% of budget (in fiscal 2023), which the county intends to increase by 1% each year through fiscal 2026 so that it ends up at 5%.

### **Budgeted use of reserves may result in small drawdowns over the next two years, but expected maintenance of high reserves**

The county ended fiscal 2023 with another operating surplus, primarily reflecting county-source revenue outperforming the budget and expenditure savings. The fiscal 2024 budget included an approximately \$56.7 million use of reserves, which the county expects to show as expended on a GAAP basis at year-end. The 2025 budget includes an additional \$32.9 million in appropriated reserves. Based on fiscal 2023 adjusted expenditures, we calculate reserves falling to about 29.7% at fiscal year-end 2025, and likely somewhat lower given expected expenditure growth. However, we expect reserves will remain comparable at the current rating and will continue to provide rating stability. Also, we understand management is working to end the budgeted reserve appropriation in fiscal 2025. Our assessment of the county's performance includes expected operating drawdowns over the next two years.

County source revenue continues to generally outperform the budget, with home-price growth partially offsetting relatively low transaction volume and continued stable growth in income tax revenue. The county's revenue profile is generally stable with property taxes (including personal property) accounting for 42% of operating revenue, followed by income taxes (33%). Overall, property and local taxes account for more than 90% of general fund revenue. Education and public safety are among the county's largest priorities, and as it grows and continues investment, we expect growth in these expenditure categories. State-mandated growth in education funding will likely continue pressuring the county's budget. We note Prince George's County received approximately \$177 million from the American Rescue Plan Act, which the county expended on a variety of social service and infrastructure needs.

### **Stable debt profile expected**

Following this issuance, the county will have approximately \$3.1 billion in total debt outstanding, including GO and appropriation debt, net of about \$165 million in enterprise debt that we consider self-supporting and including a relatively small portion of underlying debt. We did not include approximately \$1 billion in Washington Suburban Sanitary Commission debt as fees and other revenue have been sufficient to cover debt service.

The county's proposed, six-year CIP totals about \$4 billion, and includes a variety of funding sources such as additional GO debt, federal and state aid, revenue bonds, and pay-as-you-go financing. We expect its near-term new-money debt plans will roughly equal paydown on debt outstanding and we do not expect a material change in debt ratios.

### **Elevated retirement costs that are likely to rise given large unfunded liabilities**

In our opinion, a credit weakness is the large pension and OPEB obligations, despite currently manageable costs. The low funded ratios in the majority of the county's plans are likely to lead to increasing costs. Pension plan assumptions include discount rates of 6.75% for the locally administered plans and 6.8% for the state-administered plan. We continue to view these discount rates as slightly elevated, although we believe this will reduce cost volatility relative to higher rates in the past. The total unfunded pension liability is about \$1.98 billion. The county also administers a single-employer OPEB plan for eligible employees that it generally pays for on a cash basis with annual costs of about \$44 million. As of June 30, 2023, the funded ratio was about 5% and the county had a net OPEB liability of \$1.7 billion.

Prince George's County administers pension plans for county employees and supplemental plans that enhance the pension benefits offered by the state retirement plan. Most county employees participated in one of the following six primary pension plans, as of June 30, 2023:

- Police Pension Plan, a single-employer, defined-benefit plan: 56% funded, \$995 million net pension liability (NPL);
- Fire Service Pension Plan, a single-employer, defined-benefit plan: 59% funded, \$461 million NPL;
- Employees Retirement and Pension System, administered by the Maryland State Retirement and Pension System (MSRPS), a cost-sharing, multiple-employer, defined-benefit plan: \$140 million NPL;
- Correctional Officers' Comprehensive Pension Plan, a single-employer, defined-benefit plan: 56% funded, \$149 million NPL; and
- Deputy Sheriff's Comprehensive Pension Plan, a single-employer, defined-benefit plan: 52% funded, \$111 million NPL;
- Maryland State Retirement System: 72% funded, \$144 million NPL.

The county also has a \$103 million unfunded liability for a length of service awards program that it funds on a pay-as-you-go basis.

## Rating Above The Sovereign

The county's GO bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," Nov. 19, 2013, Prince George's County's primary revenue source is local-source taxes, including real estate and personal property taxes. The county has independent taxing authority and independent treasury management from the federal government.

Prince George's County, MD -- Key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
<b>Strong economy</b>				
Projected per capita EBI % of U.S.	99			
Market value per capita (\$)	131,895			
Population		932,661	911,986	
County unemployment rate(%)		3.5		
Market value (\$000)	123,013,500	116,972,268	111,432,675	
Ten largest taxpayers % of taxable value	3.7			
<b>Adequate budgetary performance</b>				
Operating fund result % of expenditures		2.7	6.3	5.2
Total governmental fund result % of expenditures		(1.7)	3.7	0.2
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		33.5	32.6	27.5
Total available reserves (\$000)		794,199	726,860	581,420
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		24	34	28
Total government cash % of governmental fund debt service		217	332	280

## Prince George's County, MD -- Key credit metrics (cont.)

	Most recent	Historical information		
		2023	2022	2021
Very strong management				
Financial Management Assessment	Strong			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		11.1	10.3	9.9
Net direct debt % of governmental fund revenue	109			
Overall net debt % of market value	2.5			
Direct debt 10-year amortization (%)	65			
Required pension contribution % of governmental fund expenditures		7.7		
OPEB actual contribution % of governmental fund expenditures		2.2		
Very strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

## Ratings Detail (As Of May 30, 2024)

Prince George's Cnty certs of part behavioral hlth fac		
Long Term Rating	AA+/Stable	Affirmed
Prince George's Cnty spl oblig rfdg bnds (National Harbor Project)		
Long Term Rating	AA/Stable	Affirmed
Prince George's Cnty APPROP		
Long Term Rating	AA+/Stable	Affirmed
Prince George's Cnty APPROP		
Long Term Rating	AA+/Stable	Affirmed
Prince George's Cnty APPROP		
Long Term Rating	AA+/Stable	Affirmed
Prince George's Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Prince George's Cnty GO bnds cons pub imp taxable rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
<b>Prince George's County Revenue Authority, Maryland</b>		
Prince George's County, Maryland		
Prince George's Cnty Rev Auth (Prince George's Cnty) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Prince George's Cnty Rev Auth (Prince George's Cnty) APPROP		
Long Term Rating	AA+/Stable	Affirmed

**Ratings Detail (As Of May 30, 2024) (cont.)**

**Maryland National Capital Park & Planning Commission, Maryland**

Maryland National Capital Park & Planning Commission, Maryland

Prince George's County, Maryland

Maryland Natl Cap Pk & Planning Comm GO pk acquis and dev proj and rfdg bnds ser PGC-2015A due 01/15/2036

*Long Term Rating*

AAA/Stable

Affirmed

**Prince George's County, Maryland**

Maryland National Capital Park & Planning Commission, Maryland

Prince George's County, Maryland

Prince George's Cnty (Maryland Natl Cap Pk & Planning Comm) GO park acquisition & dev proj bnds

*Long Term Rating*

AAA/Stable

Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).



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