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Summary:

Frederick, Maryland; General Obligation

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Summary:
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Credit Profile		
US$13.125 mil taxable gen imp rfdg bnds ser 2011A due 12/01/2021		
Long Term Rating	AA/Stable	New
US$7.935 mil gen imp rfdg bnds ser 2011B due 12/01/2028		
Long Term Rating	AA/Stable	New
US$2.5 mil arpt rfdg bnds ser 2011 due 12/01/2021		
Long Term Rating	AA/Stable	New
Frederick City GO		
Long Term Rating	AA/Stable	Affirmed
Frederick City GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating and stable outlook to Frederick, Md.'s series 2011, 2011A, and 2011B airport and general improvement refunding bonds and affirmed its 'AA' long-term rating and underlying rating (SPUR), with a stable outlook, on the city's existing debt.

The rating reflects our opinion of the city's:

- Location and participation in the diverse and vibrant Washington-Baltimore regional economy,
- Strong and expanding local economy with a significant commercial and retail component,
- Historically strong finances, and
- Moderate debt.

The city's full-faith-and-credit general obligation (GO) pledge secures the bonds. Officials intend to use bond proceeds to refund the city's GO bonds.

Frederick is about 50 miles from Baltimore and Washington. The current city population estimate of 65,239 grew by 23.6% since the 2000 U.S. Census. The city accounts for about one-quarter of Frederick County's population and one-third of its households. Interstates 270 and 70, which serve as connectors to the regional economy, facilitate regionwide access. While the city has easy access to the vibrant regional economy, it maintains a strong and growing local economy. Fort Detrick, the city and county's leading employer with 9,200 military and civilian personnel, anchors the economy. Fort Detrick houses the National Cancer Research Institute, a national policy and research center. The presence of Fort Detrick and the institute continues to attract telecommunications- and biotechnology-related companies to the county. Additional leading employers include:

- Frederick County Board of Education (5,540 employees),
- Frederick County (2,355), and

- Frederick Memorial Healthcare Systems (2,295).

The city also maintains a sizable retail component. Per capita retail sales are 162% of national levels. The local and regional employment bases contribute to, in our opinion, low unemployment; city unemployment averaged 6.7% in 2011.

The property tax base has demonstrated consistent and healthy growth. The tax base grew by an average of 10% annually over the past five years to $6.92 billion for fiscal 2011. Officials estimate assessed value (AV) will decline by 9.7% to $6.1 billion in fiscal 2012, reflecting lower home prices. Leading taxpayers are diverse, accounting for a modest 5% of the tax base. Market value is currently $109,636 per capita, which we consider very strong. Median household effective buying income is 86% of the state's level and 111% of the nation's level.

Frederick's finances remain, what we consider, strong, characterized by, in our view, historically strong reserves. The fiscal 2012 budget conservatively projects a 6.4% revenue decrease due primarily to the forecast lower AV. In addition, management expects to use roughly $2 million in reserves for one-time purposes in fiscal 2012. Despite the expected drawdown, management expects unassigned fund balance to remain, in our view, a strong $15 million, or 23.4% of operating expenses. The city closed fiscal 2011 with a $4.8 million operating surplus, net of transfers, due primarily to lower-than-expected expenditures. General fund balance closed with $25.8 million, or, in our view, a very strong 38.9% of expenditures: $17 million, or 27.2%, of which was unassigned. Property tax collections are, what we regard as, strong: They have averaged nearly 100% over the past five years. Property tax revenue generates 64.3% of general fund revenue.

Standard & Poor's considers Frederick's financial management practices "strong" under its Financial Management Assessment methodology, indicating practices are strong, well embedded, and likely sustainable.

In our opinion, overall debt, including overlapping debt and net of self-supporting enterprise debt, is a moderate $3,742 per capita, or 3.9% of market value. Officials intend to repay all city debt by 2034. We consider amortization of existing debt above average with officials planning to retire 61% of principal over 10 years.

Frederick provides pension and retirement benefits to city employees. Three pension plans currently exist. The cost of the three plans is roughly $10.3 million, or 15.2% of expenditures. The city has historically contributed 100% of the annual required contribution. The plans are roughly 48.4% funded, and the unfunded actuarial liability is $91.9 million. In addition, Frederick provides postemployment benefits. As of July 1, 2010, the total unfunded actuarial liability was $128 million.

Outlook

The stable outlook reflects Standard & Poor's opinion of Frederick's large and diverse economy, which participates in the larger and vibrant regional economy. What we consider solid finances and strong reserves provide rating stability. As such, we do not currently think we will change the rating within the outlook's two-year period.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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