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Fitch Affs Montgomery County & Northeast Maryland Waste Disposal Auth, MD Solid Waste Revs at 'AA'

NEW YORK--(BUSINESS WIRE)--In the course of routine surveillance, Fitch Ratings affirms the following outstanding revenue bonds of Montgomery County, Maryland (the county):

--Approximately \$9.9 million solid waste disposal system refunding revenue bonds (series 2003A) at 'AA'.

Concurrently, Fitch affirms the 'AA' rating on approximately \$153 million of solid waste refunding revenue bonds (Montgomery County solid waste disposal system), series 2003 issued by the Northeast Maryland Waste Disposal Authority (the authority).

The Rating Outlook is Stable.

RATING RATIONALE:

--The 'AA' ratings reflect the pledge of substantially all revenues generated by the county solid waste disposal system to pay debt service on the bonds.

--Approximately 70% of the revenues of the county system are derived from a benefit charge or user fee collected on property tax bills and enforced through property foreclosure.

--The county has a strong economic base anchored by the extensive presence of the U.S. government, characterized by above-average income levels, low unemployment, and a highly educated labor force.

--The system continues to demonstrate stable financial performance, benefiting from strong management and oversight and revenue control, and liquidity is favorable.

--Management reports the system is in good physical condition and compliant with all regulatory requirements, and there are no significant capital needs or plans for additional leveraging.

--Rate covenant and additional bond protections are weak, and debt burden is high; however, these risks are mitigated in part by the short remaining life of the county and authority bonds, which are fully repaid by 2013 and 2016, respectively.

KEY RATING DRIVERS:

--Fitch anticipates continued strong authority and county financial management, and stable financial performance in tune with historical performance.

--Unanticipated additional leveraging or capital costs may pressure system margins and finances, given an already high cost of debt.

SECURITY:

The authority's bonds are secured by a pledge of project revenues, the primary source of which is a waste disposal fee paid by the county and secured by a pledge of essentially all revenues derived from the operation of the county solid waste disposal system. The pledge securing the county's obligation to pay the waste disposal fee to the authority is on parity with the pledge securing the county's solid waste revenue bonds. The waste disposal fee paid by the county is net of the authority's share of any revenues from the operation of the project. The county's obligation to pay the waste disposal fee is a put-or-pay obligation, meaning it is not contingent on the authority's performance or ability to accept waste for disposal.

CREDIT SUMMARY:

The Northeast Maryland Waste Disposal Authority is an independent agency comprised of eight participating political subdivisions located in central Maryland, organized by the state in 1980 to assist in the development of waste management facilities to serve the region. In 1993 the authority and the county concurrently issued bonds to finance construction of 1,800-ton-per-day resource recovery facility (RRF), among other related improvements. The authority owns the RRF, which it operates as part of the county's solid waste disposal system (the county system) pursuant to the terms of a waste disposal agreement. According to officials, the remaining useful life of the RRF is another 10 years at a minimum.

Approximately 70% of the county system revenues are collected as a system benefit charge which is essentially a pre-paid tip fee collected on the property tax bill and enforced through foreclosure in the same manner as if the owner had failed to pay property taxes. System benefit charges are established by the county without any legal limitation or regulatory approval. System benefit charges are slightly more than \$280 on an annual basis, which is competitive with neighboring counties. System benefit charges are set annually but may be adjusted more frequently. Due to the nature of the property tax bill cycle, mid-year adjustments would be cumbersome; however, the tip fee may be adjusted within 90 days of the county's decision to do so. Tip fees, which account for the bulk of remaining county system revenues, are also established by county ordinance without limitation as to rate or amount. Tip fees are currently \$56 per ton, having last been increased by nearly 8% effective fiscal 2008 and 27% in total since fiscal 2003. The tip fees have been increased, as anticipated by Fitch, to control capacity at the RRF by diverting waste deliveries from private haulers. Current tip fees are reportedly competitive with regional systems.

The county system has historically produced coverage of operating expenses and combined debt service on the authority and county bonds at or close to 1.0 times (x). Fitch calculated coverage in fiscal 2010 from net revenues of the county system was 0.98x, down from 1.19x in fiscal 2008 largely due to a reduction in interest income. The rate covenant and additional bonds test (ABT) is based on a relatively low 1.10x coverage threshold; further, both tests permit 25% of the revenue requirement to be satisfied from available fund balances. The fiscal 2010 coverage ratio improves to 1.62x when factoring in available fund balances. Fitch views negatively these liberal legal provisions, as they allow less than sum-sufficient coverage of debt service from system operations and may allow issuance of more debt than the system operations can comfortably cover. However, the stable nature of the revenue environment combined with the county's exceptional financial management counters this risk, as do the lack of future issuance plans and the short remaining life of the outstanding bonds. Further, system liquidity is considered sound, with \$51.1 million in available reserves at the close of fiscal 2010, or the equivalent of 199 days operating expenses.

The county system is in full compliance with all regulatory permits. The facility is reportedly in good condition, and there are no major capital repairs or replacements scheduled. The county is evaluating a remediation and land use plan for the Gude landfill, which has been closed since 1982, but the scope of the project (from continued monitoring to a full cap) and its cost are presently undeterminable. Debt service charges in fiscal 2011 total \$30.8 million, or approximately one-third of the county system's fiscal 2010 revenues, which Fitch considers high. Outstanding debt of the county (\$10 million) and authority (\$153 million) is scheduled to mature by 2013 and 2016, respectively. The county and the authority are party to various contracts related to the operation of the RRF, delivery of waste to the system, and land-filling of non-processable or bypassed waste. Third-party participants are performing as anticipated, according to management, and renewal risk is considered minimal, and is not expected to result in financial or operational volatility.

The solid waste disposal system service area is the entire Montgomery County (GOs rated 'AAA' by Fitch with a Stable Outlook). Montgomery County is a wealthy suburb of Washington DC, with a highly educated labor force, and a broad and diverse economy with expansion potential. The region's heavy concentration of government jobs helped to stabilize it during the downturn, with declines in total payroll notably lower than the national average. Healthy job growth is anticipated in the intermediate term, with modest risk to government downsizing. Unemployment remains low at 5.5% in November.

Additional information is available at 'www.fitchratings.com'

Applicable Criteria and Related Research:

'Tax-Supported Rating Criteria', dated 16 Aug 2010.

'U.S. Local Government Tax-Supported Rating Criteria', dated 08 Oct 2010.

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548605

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564566

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Contacts

Fitch Ratings

Primary Analyst

Michael Rinaldi, +1-212-908-0833

Senior Director

Fitch Inc.

One State Street Plaza

New York, N.Y. 10004

or

Secondary Analyst

Barbara Ruth Rosenberg, +1-212-908-0731

Director

or

Committee Chairperson

Ann Flynn, +1-212-908-0152

Senior Director

or

Media Relations:

Cindy Stoller, +1-212-908-0526

Email: cindy.stoller@fitchratings.com

