S&P Global Ratings

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Summary:

Carroll County Commissioners, Maryland Carroll County; General Obligation

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Table Of Contents

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Credit Profile		
US$58.385 mil cons pub imp & rfdg bnds (Carroll Cnty) ser 2019A due 11/01/2039		
Long Term Rating	AAA/Stable	New
US$25.93 mil taxable rfdg bnds (Carroll Cnty) ser 2019B due 11/01/2033		
Long Term Rating	AAA/Stable	New
Carroll Cnty		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating to Carroll County, Md.'s $58.4 million series 2019A consolidated public improvement and refunding bonds and the county's $25.9 million series 2019B taxable refunding bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the county's existing general obligation (GO) debt. The outlook on all ratings is stable.

The county's full-faith-and-credit pledge secures the bonds. Officials will use the series 2019 bond proceeds to fund various capital projects as well as refund certain maturities of the county's existing debt.

Carroll County's GO bonds are eligible to be rated above the sovereign, because we believe the county can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, the county has a predominantly locally derived revenue source, with about two-thirds of governmental activity revenue derived from property taxes, with independent taxing authority and independent treasury management from the federal government.

We anticipate Carroll County will maintain its strong flexibility and strong budgetary performance. The county's very strong management policies, as evidenced by its robust future financial planning and its integrated capital plan, allow it to respond to changes in revenues and expenditures annually.

The rating reflects our opinion of the county's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect might improve in the near term relative to fiscal 2018, which closed with negative results in the general fund but an operating surplus at the total governmental

fund level;

- Very strong liquidity, with total government available cash at 29.2% of total governmental fund expenditures and 3.0x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 9.7% of expenditures and net direct debt that is 61.9% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 70.5% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Very strong economy

We consider the county's economy very strong. Carroll County, with an estimated population of 167,729, is in the Baltimore-Columbia-Towson MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 117% of the national level and per capita market value of $119,986. Overall, the county's market value grew 2.7% over the past year to $20.1 billion in 2019. The county unemployment rate was 3.2% in 2018.

The approximately 456-square-mile Carroll County is in north-central Maryland, bordering southern Pennsylvania. Westminster, the county seat and principal city, is approximately 55 miles north of Washington and 30 miles northwest of Baltimore. The county is a net importer of jobs, with some residents commuting outside the county for employment opportunities. The population continues to increase as more residential projects are completed. The greatest population increases have taken place adjacent to Baltimore County and in the Westminster area, because they provide quick and easy access to the rest of the Baltimore MSA.

Carroll County continues to see growth in its various business parks. Penguin Random House, Evapco, and Lehigh Cement, Fuchs North America, Advance Thermal Batteries, and FR Conversions are in various business parks within the county. Ongoing developments with new spec business parks are underway, with some completed and others under construction. In addition, the county has addressed concerns surrounding water rights in its southern portion. By addressing water- and sewer-capacity concerns, the county is looking to continue its residential and commercial developments. Furthermore, Carroll County's tourism sector is growing. Based on the county's strong economic profile and significant employer diversity, we anticipate it will maintain and increase its strong economy.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights include management's use of formal historical trend analysis when preparing revenue and expenditure budgets. Management reviews budgeted figures compared with actual results monthly, with summarized updates to the board quarterly. County administrators use a multiyear financial plan, and they prepare for ongoing structural balance. The county maintains a rolling six-year capital improvement plan (CIP) linked to the operating budget with all revenue sources identified. Carroll County has its own investment policy that mirrors that of the state, and management provides quarterly investment reports to county commissioners. The county also has a formal debt policy.

Management maintains several formal and informal reserve policies, including the maintenance of a stabilization fund.

The county targets an unassigned fund balance at 5%-8% of general fund revenue. In addition, the stabilization fund, a committed fund balance, must equal 5% of the operating budget.

Strong budgetary performance

Carroll County's budgetary performance is strong, in our opinion. The county ended with negative operating results in the general fund, but a positive result across all governmental funds in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results will improve from the previous year.

After accounting for annual transfers into and out of the general fund and capital expenditures in total governmental funds, the county ended fiscal 2018 with breakeven results. The county used about $8.2 million in fund balance versus the budgeted $11.5 million. Revenues overall were $2.5 million above budgeted levels, but would have been higher if the county did not have prior-period adjustments for income taxes. Expenses came in under budget by $1.6 million. Despite the draw on fund balance, a majority of these expenses was discretionary, and through the county's proactive and forward planning measures, it was able to afford these increases because of previous years' surpluses.

For fiscal 2019, unaudited results show an improvement in performance relative to fiscal 2018-the county is anticipating a surplus of about $4.0 million. The county did not use any of the $12.8 million in fund balance appropriated. Revenues overall were significantly over budget, primarily the result of increases in miscellaneous revenues and income taxes coming in well above budgeted levels. Expenses came in under budget by $4.8 million. With this surplus, the county was able to continue several of its initiatives, including funding its schools above its maintenance-of-effort requirements, and new and ongoing revenue for school resource officers. In addition, the county funded public safety initiatives.

The fiscal 2020 budget, at $418.8 million, calls for a 1.8% increase in the general fund, but an overall 3.7% decrease in all funds. The county is also decreasing the amount of fund balance appropriated by 28% to $9.2 million. In the general fund, the county continues to increase school funding. Outside the general fund, the county maintains its funding discipline for pay-as-you-go capital projects, and special initiatives such as funding its other postemployment benefits (OPEB) trust. Although early, management does not report any major budgetary fluctuations. Revenue is diverse, with property and income taxes generating 53% and 42%, respectively.

We expect Carroll County to maintain strong-to-adequate budgetary performance, as the county closely monitors its performance and will make the necessary adjustments.

Strong budgetary flexibility

Carroll County's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2018 of 13.5% of operating expenditures, or $53.8 million.

Carroll County has a history of maintaining, what we consider, strong available general fund balances. For fiscal year-end 2018, the portion of committed fund balance that we view as available was $20.5 million, assigned fund balance was $29.2 million, and unassigned balance was $3.9 million. For fiscal 2019, we anticipate slightly strong reserve levels, with different allocation levels in each fund balance category. In 2019, the county expects the stabilization fund to be $20.9 million, followed by the assigned balance at $23.4 million, and the unassigned fund balance growing to $12.7 million. We expect that for 2019, the county's fund balance will be 14.3% of expenses, a level that we consider strong. This remains in excess of the county's formal fund balance. The county has revenue-raising capabilities through property taxes and additional income tax revenue should the need arise.

Very strong liquidity

In our opinion, Carroll County's liquidity is very strong, with total government available cash at 29.2% of total governmental fund expenditures and 3.0x governmental debt service in 2018. In our view, the county has strong access to external liquidity if necessary.

The county maintains most of its liquidity in pooled and nonpooled investments, which primarily consist of U.S. government securities, as well as in a money rate savings account. The county recently entered into a line of credit with a local bank for up to $12 million in secured debt for a project related to the county airport. Management anticipates only drawing on $8 million of the total $12 million. The final maturity date on this line of credit is May 1, 2037. The county has locked an initial interest rate, with a reset date in 2024 based on LIBOR scenarios. In the documentation, different options are outlined for the interest reset, if LIBOR has been fully phased out. We do not believe this line of credit poses a material risk for the county's liquidity levels. The county does not have any contingent liabilities we view as a possible constraint on liquidity. We expect the county to maintain very strong liquidity.

Strong debt and contingent liability profile

In our view, Carroll County's debt and contingent liability profile is strong. Total governmental fund debt service is 9.7% of total governmental fund expenditures, and net direct debt is 61.9% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, and approximately 76.2% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The CIP for fiscal years 2020–2025 is about $452.2 million. Management intends to fund about 40%, or $180.8 million, of the CIP through GO bonds. School capital projects and roads and bridges are two of the largest categories of the CIP. We expect debt to remain at or below current levels due to rapid debt amortization and, what we view as, management's conservative approach to debt issuance through debt-affordability guidelines.

Carroll County's combined required pension and actual OPEB contributions totaled 3.6% of total governmental fund expenditures in 2018. Of that amount, 1.0% represented required contributions to pension obligations, and 2.6% represented OPEB payments.

The county operates three pension funds: the Carroll County Employees' Pension, the Carroll County Certified Law Officer's Pension, and the Carroll County Volunteer Firemen Pension. The Carroll County Certified Law Officer's Pension began in fiscal 2010. The county has historically contributed at least 100% of the actuarially determined contribution (ADC) to these plans. Funding levels are, in our opinion, good.

As of the June 30, 2018, the Carroll County Employees' Pension fiduciary net position as a percent of the total pension liability was 90.62% funded with a net pension liability of $8.9 million and an ADC of $3.0 million, which the county fully contributed, in fiscal 2018. The Carroll County Certified Law Officer's Pension fiduciary net position as a percent of the total pension liability was 82.75% funded with a net pension liability of $2.9 million and an ADC of $679,000; the county's actual contribution was about $797,580. The Carroll County Volunteer Firemen Pension fiduciary net position as a percent of the total pension liability was 82.44% funded as of June 30, 2018 with a net pension liability of $1.8 million.

Carroll County also offers OPEB to retirees. While the county does not fund the OPEB annual required contribution in full, it has established an OPEB trust fund; the county funds additional contributions in excess of pay-as-you-go costs. In 2018, county paid $10.5 million towards the ADC for its OPEB fund, which was $11.4 million. Included in the county's long-term financial plan is $5.6 million per year for the OPEB trust, in addition to incurred pay-as-you-go costs. As of June 30, 2018, the OPEBs' plan fiduciary net position as a percent of the total OPEB liability was 44%.

Very strong institutional framework

The institutional framework score for Maryland counties is very strong.

Outlook

The stable outlook reflects our opinion of Carroll County's large, diverse, and growing economy. The outlook also reflects our opinion that management will likely continue to manage its budget conservatively, and maintain strong budgetary flexibility and liquidity. We believe what we consider the county's strong financial management practices and policies should help support the county's strong budgetary performance. In our opinion, overall debt will likely remain close to current levels due to, what we consider, the county's above-average amortization, providing additional rating stability. Therefore, we do not expect to change the rating within the outlook's two-year period. However, although unlikely, if the county experiences significant unexpected reductions in budgetary flexibility as a result of prolonged weak budgetary performance, it could stress the rating.

Related Criteria And Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2018 Update Of Institutional Framework For U.S. Local Governments