FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Carroll County, MD's $54.750MM GOs 'AAA'; Outlook Stable

Thu 12 Nov, 2020 - 12:25 PM ET

Fitch Ratings - New York - 12 Nov 2020: Fitch Ratings has assigned a 'AAA' rating to the following Carroll County, MD general obligation (GO) bonds:

--$29.410 million consolidated public improvement and refunding bonds of 2020 (series A);

--$25.34million taxable refunding bonds of 2020(series B).

In addition, Fitch affirms the following county ratings:

--$229.2 million GO bonds at 'AAA';

--Issuer Default Rating (IDR) at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The bonds are payable from the county's full faith and credit taxing power, for which the county is empowered and directed to levy unlimited ad valorem taxes.

ANALYTICAL CONCLUSION

The 'AAA' IDR and GO rating reflect the county's demonstrated ability to maintain healthy financial flexibility. Along with sizable reserves, the county's broad revenue-raising authority and spending flexibility support its superior level of inherent budget flexibility to address periods of economic distress, including the current downturn. Long-term liabilities are expected to remain low, reflecting manageable future issuance plans. Revenue growth prospects are expected to remain solid in the post pandemic period.

ECONOMIC RESOURCE BASE

Carroll County, located in north-central Maryland, covers 452 square miles and is within the Baltimore metropolitan area, approximately 40 miles from the downtown business district. With an estimated 2019 population of 168,447 the county's population has increased by less than 1% since 2010.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Revenues absent tax rate adjustments have grown at a rate below inflation over the past decade ending in 2019; however, Fitch expects revenue over time to be above the level of inflation due to sustained economic development, assessed value (AV) growth of 2-3% y-o-y, and income tax revenue growth despite recent reductions to the rate. The county has the independent legal ability to raise property tax revenues in an unlimited amount.

Expenditure Framework: 'aa'

Expenditures are likely to grow at a rate in line with to marginally above revenues in the absence of policy action, with no exceptional spending pressures. Fixed carrying costs for debt service and retiree benefits are moderate. Management maintains strong control over wages and benefits, providing solid expenditure flexibility.

Long-Term Liability Burden: 'aaa'

The county's long-term liability burden is low. Future debt plans are modest relative to personal income and current debt outstanding.

Operating Performance: 'aaa'

Fitch expects the county to maintain a high level of financial flexibility throughout economic cycles based on its expenditure and revenue flexibility and steady reserve position; solid economic and revenue prospects enhance this assessment.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable for a 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A return to economic contraction in the U.S., consistent with Fitch's coronavirus downside scenario, which triggers sustained and deep revenue declines that contributes to a material erosion of the county's gap-closing capacity;

--Revenue growth trends that fall below Fitch's expectations for growth above the level of inflation.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

CURRENT DEVELOPMENTS

The outbreak of the coronavirus and related government containment measures worldwide has created an uncertain global environment for U.S. state and local governments and related entities. Fitch's ratings are forward-looking in nature, and Fitch will monitor the severity and duration of the budgetary impact on state and local governments and incorporate revised expectations for future performance and assessment of key risks.

While the initial phase of economic recovery has been faster than expected, GDP in the U.S. is projected to remain below its 4Q19 level until at least 4Q21. In its baseline scenario, Fitch assumes continued strong GDP growth in 3Q20 followed by a slower recovery trajectory from 4Q20 onward amid persisting social distancing behavior and restrictions, high unemployment and a further pullback in private-sector investment. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the report entitled, "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update" (https://www.fitchratings.com/research/sovereigns/fitch-ratings-coronavirus-scenarios-baseline-downside-cases-update-08-09-2020), published Sept. 8, 2020, and "Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Tax-Supported Issuers", published on Oct. 1, 2020, on www.fitchratings.com.

Coronavirus Implications for Carroll County

The county is well positioned to withstand the current period of economic weakness due to its healthy reserves and superior inherent budget flexibility. Fitch expects the county to retain the highest level of financial resilience under both Fitch's baseline and downside economic scenarios. Unaudited fiscal 2020 (June 30 year-end) results show revenues exceeding expenditures by $10.7 million after transfers. Revenues were up approximately 2% over fiscal 2019 actuals, mainly due to additional property tax revenue generated from growth in assessed value. Revenues are 2% above the adopted fiscal 2020 budget due to positive variances in income tax revenues. Spending increased less than 1% relative to fiscal

2019 actuals and was below the fiscal 2020 budget due to a halt in discretionary spending and implementation of a hiring freeze following the pandemic. The unaudited unrestricted general fund balance totals $65.9 million or 16.2% of general fund spending. The county received $14.7 million of Coronavirus Aid, Relief and Economic Security Act (CARES) funding into the grant fund, of which just $1 million was spent during fiscal 2020.

The general fund fiscal 2021 adopted budget totaling $417 million, represents a $1.7 million or essentially flat budget to the adopted fiscal 2020 budget. The lack of growth in ongoing revenue is largely driven by assumed negative impacts to income tax, the county's second largest revenue source (41% of general fund revenue), recordation tax revenue, and investment income. Most agency budgets are flat or declining with the exception of the education budget which increased $1.2 million. Management reports year-to-date income tax revenues are trending above budget while recreation and admission revenues, which make up a nominal portion of revenues, are trailing the budget.

CREDIT PROFILE

The local economy is diverse. Despite the pandemic long-standing employers remain stable and economic expansion continues. Included in these expansions, Penguin Random House, the county's second largest taxpayer and fifth largest employer, completed an expansion this year and is expected to add 150 new employees. Additional significant employers that serve as anchors are two hospitals (Carroll Hospital Center and Springfield Hospital Center) and two colleges (McDaniel College and Carroll Community College). Since the pandemic, the county's labor force has declined as well as employment. The unemployment rate remains below the state and nation. Wealth metrics are favorable and in line with the region, above the nation but below the state.

REVENUE FRAMEWORK

The county relies on a combination of property and income tax revenues, which totaled 51% and 41% of unaudited general fund revenues, respectively in fiscal 2020.

The county's adjusted general fund revenue growth has trended below inflation on a compound average annual (CAGR) basis over the 10 years ending in fiscal 2019, somewhat reflective of the prolonged recovery of the county's taxable assessed value (TAV) following the Great Recession. Like all Maryland jurisdictions, property is reassessed on a tri-annual basis. The tax base has been increasing in a range of 2%-3% per year and budgeted at $21.3 billion or a 4% increase in FY21.

Property tax revenues and rates are not subject to a cap and are viewed as competitive within the region. The income tax rate of 3.03% is below the maximum rate of 3.2% and is also comparable to the income tax rate levied by other counties statewide. Both property and income tax rates have been steady, with several rate reductions enacted over the prior decade.

EXPENDITURE FRAMEWORK

The county's largest expenditure category is education at roughly 52% of general fund expenditures, followed by public safety at 13%.

Based on the county's history of structural balance, flat population growth and slightly declining student enrollment, Fitch expects spending growth to remain in line with revenues.

According to the state's maintenance of effort (MOE) mandate, education spending cannot decline year-over-year without state approval, limiting the county's ability to reduce spending. However, the county's workforce is not currently unionized, providing broad flexibility to manage labor-related costs. Furthermore, the county gains additional flexibility from annual capital pay-go that totaled over $22 million in fiscal 2019 or 5% spending. The county's fixed cost burden is affordable, with carrying costs for debt, pensions, and other post-employment benefits (OPEB) totaling about 12% of fiscal 2019 governmental expenditures; the debt service component accounted for 9% of the total and is expected to remain manageable based on potential future debt issuance. Carrying costs include near full-funding of the OPEB actuarially determined contribution.

LONG-TERM LIABILITY BURDEN

Overall net debt plus the county's net pension liability is low at 3% of personal income. The county's fiscal 2021-2026 capital plan totals over $424.4 million, excluding enterprise fund projects. While the plan is funded with over $186.9 million (2% of personal income) of tax-supported bonds compared to approximately $350 million of net direct debt, Fitch expects the debt burden to remain low.

Fitch does not expect pension liabilities to pressure future operations. The county provides pension benefits to its employees through the county employee pension plan, and to police officers and volunteer firefighters through the county certified law officers' pension plan and volunteer fireman pension plan; the county also participates in the statewide pension system. Combined across plans, assets covered about 78% of liabilities (adjusted to Fitch's standard 6% investment rate of return assumption) in fiscal 2019.

OPEB liabilities do not represent a cost pressure. According to fiscal 2019 reported CAFR data, the net OPEB liability is $123 million or 1% of personal income, which is up over the prior year due to a benefit enhancement recognized in the law officers' plan.

OPERATING PERFORMANCE

Given the county's superior inherent budget flexibility (in the form of control over revenues and spending capacity), Fitch expects the county to manage through the current economic downturns while maintaining a high level of financial resiliency.

The county proved its financial resilience and strong budget management through the most recent recession by freezing salary increases, eliminating positions, and postponing capital spending (among other tactics). The county has made similar changes during the current downturn which has enabled the county to maintain favorable operating results.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Carroll County (MD) [General Government]	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
• Carroll County (MD) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Evette Caze
Director
Primary Rating Analyst

+1 212 908 0376
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Kevin Dolan
Director
Secondary Rating Analyst
+1 212 908 0538

Michael Rinaldi
Senior Director
Committee Chairperson
+1 212 908 0833

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST States & Locals - Fitch Analytical Stress Test Model, v2.4.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Carroll County (MD)	EU Endorsed

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