S&P Global Ratings

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Summary:

# Carroll County Commissioners, Maryland Carroll County; General Obligation

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**Summary:**

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| Credit Profile | | |
|---|---|---|
| US$29.41 mil Cons pub imp and rfdg bnds of 2020 (Carroll Cnty) ser A due 11/01/2040 | | |
| *Long Term Rating* | AAA/Stable | New |
| US$25.34 mil taxable rfdg of 2020 (Carroll Cnty) ser B dtd 11/01/2020 due 11/01/2033 | | |
| *Long Term Rating* | AAA/Stable | New |
| Carroll Cnty | | |
| *Long Term Rating* | AAA/Stable | Affirmed |

## Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Carroll County Commissioners, Md.'s roughly $29.41 million series 2020A consolidated public improvement and refunding general obligation (GO) bonds and roughly $25.34 million series 2020B taxable GO refunding bonds, issued for Carroll County, and affirmed its 'AAA' rating, with a stable outlook, on the county's existing GO debt.

The county's full-faith-and-credit pledge secures the bonds.

Officials will use series 2020A and 2020B bond proceeds to fund various capital projects and refund certain maturities of the county's existing debt.

Carroll County's GO bonds are eligible to be rated above the sovereign because we think 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, on RatingsDirect, 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 treasury management from the federal government.

### Credit overview

What we consider the county's very strong financial management with strong financial policies, evidenced by robust financial planning and an integrated capital plan, allow it to respond to revenue and expenditure changes annually.

As the recovery of the recent national COVID-19-related recession begins, the county has maintained relative stability in its overall economic and financial profile. It has benefitted from robust economic growth recently, which has provided underlying strength for property and income taxes, the county's main operating revenue, facilitating strengthened reserves and covering growing service demands. Consistent with operating results during the past five fiscal years, management expects fiscal 2020 to end with a roughly $11 million general fund surplus. Furthermore, management adopted a balanced $417.3 million fiscal 2021 budget that incorporates adjusted assumptions to account for potential reduced revenue.

While uncertainty exists regarding economic recovery, we think very strong management and conservative budgeting, coupled with very strong reserves, will likely help stabilize any fiscal stress the county experiences. S&P Global Economics is projecting a slow recovery. (For more information on COVID-19's effect on the U.S. public finance sector, see the articles, titled "Potholes On The Road To Recovery," published Sept. 29, 2020, and "The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020.)

The rating also reflects our opinion of the county's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong financial management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, which closed with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2019;
- Strong budgetary flexibility, with available fund balance in fiscal 2019 at 14.2% of operating expenditures;
- Very strong liquidity, with total government available cash at 31% of total governmental-fund expenditures and 3.4x governmental debt service, and access to external liquidity we consider strong;
- Strong debt-and-contingent-liability position, with debt service carrying charges at 9% of expenditures and net direct debt that is 65.1% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 75.8% of debt scheduled to be retired within 10 years; and
- Very strong institutional framework score.

### Environmental, social, and governance (ESG) risks

We have analyzed Carroll County's ESG risks relative to the county's economy, management, financial measures, and debt-and-liability profile and have determined all are in-line with the sector standard. The ratings incorporate our view of health-and-safety risks posed by COVID-19 and the recent related recession. The ongoing pandemic and related social risks have led to social distancing and restricted travel to limit COVID-19's spread.

## Stable Outlook

### Downside scenario

Although we do not expect this to occur, we could lower the rating if budgetary flexibility were to decrease significantly due to prolonged weak budgetary performance.

## Credit Opinion

### Very strong economy

We consider the county's economy very strong. Carroll County, with a population estimate of 168,131, is in the Baltimore-Columbia-Towson MSA, which we consider broad and diverse. Projected per capita effective buying income is 119% of the national level and per capita market value is $126,407. Overall, market value has grown by 2.8% during the past year to $21.3 billion in fiscal 2021. Unemployment was 2.9% in 2019 but is higher in 2020 due to COVID-19 and the recent related recession.

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

Ongoing developments continue with new additional speculative business parks underway, following recently completed business parks. Numerous longstanding employers--such as Penguin Random House, Fuches, and others--anchor the county's economy. The county is looking to continue residential and commercial developments. Furthermore, the tourism sector is growing. Based on the county's strong economic profile and significant employer diversity, we expect it will likely maintain and increase its very strong economy.

### Very strong management

We view the county's financial 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. The county's own investment-management policy mirrors the state's policy, and management provides quarterly investment reports to county commissioners. The county also has a formal debt-management policy.

Management maintains several formal and informal reserve policies, including maintaining a stabilization fund. It targets 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.

### Adequate budgetary performance

We revised Carroll County's budgetary performance to adequate from strong to account for uncertainty related to our projection of a slow recovery from the recent COVID-19-related recession.

The county had slight general fund surplus operating results at 0.9% of expenditures and surplus results across all governmental funds at 3.1% in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could improve from fiscal 2019 results during the next few fiscal years.

After accounting for annual transfers into and from the general fund and capital expenditures in total governmental funds, the county ended fiscal 2019 with surplus results. The county did not use any of the $12.8 million of appropriated fund balance. Overall revenue was significantly overbudget due primarily to increases in miscellaneous revenue and income taxes coming in well overbudget. Expenses were underbudget by $4.8 million. With this surplus, the county continued several initiatives, including funding schools above maintenance-of-effort requirements, coupled with new and ongoing revenue for school-resource officers. In addition, the county funded public-safety initiatives. In our view, revenue is diverse with property and income taxes generating 53% and 42%, respectively.

The fiscal 2020 $418.8 million budget calls for a 1.8% general fund increase but an overall 3.7% decrease in all funds. The county is also decreasing appropriated fund balance by 28% to $9.2 million. Based on unaudited results, despite COVID-19's effect on the county, revenue was $9 million overbudget with expenses roughly $10.3 million underbudget. Officials are projecting a sizable surplus at fiscal year-end 2020.

During the height of the pandemic, the county:

- Halted discretionary spending,
- Instituted a hiring freeze, and
- Provided grant funding to local businesses.

The county received unexpected grants and other revenue, totaling $25.6 million, the largest share of which, $14.7 million, was Coronavirus Aid, Relief, & Economic Security Act funding.

For the fiscal 2021 budget, management changed some assumptions when it came to certain revenue, primarily income taxes. The fiscal 2021 budget of $417.3 million was a 0.04% general fund decrease because the county held most budgets flat or slightly reduced compared with fiscal 2020. Employee salaries were flat while the county funded schools at the minimum-of-effort level, which translated to a $1.2 million increase.

Currently, the county reports no major revenue variance. While we think management will likely continue to make necessary budgetary adjustments to maintain balanced operations, we imagine the unprecedented widespread effect COVID-19 will have on state revenue and many local economies, including Carroll County, could potentially result in weaker budgetary performance for fiscal 2021 and beyond. If management were to maintain balanced financial results during the next two fiscal years, or until we think the threat of stagnating or decreasing revenue due to negative economic shocks has subsided, we could revise our view of budgetary performance to strong.

### Strong budgetary flexibility

Carroll County's budgetary flexibility is strong, in our view, with available fund balance in fiscal 2019 at 14.2% of operating expenditures, or $57.9 million.

The county has a history of maintaining, what we consider, strong available general fund balances. In fiscal 2019, the stabilization fund was $20.9 million, followed by assigned balance at $23.4 million and unassigned fund balance at $13.5 million. We expect that for fiscal 2020, fund balance, buoyed by expected results, will likely grow to roughly $65.8 million, or 16% of expenses, a level we consider very strong; however, we are unsure if the county will maintain that level of fund balance beyond fiscal 2020. We recognize the county has revenue-raising capabilities through property taxes and additional income tax revenue should the need occur.

### Very strong liquidity

In our opinion, Carroll County's liquidity is very strong, with total government available cash at 31% of total governmental-fund expenditures and 3.4x governmental debt service in fiscal 2019. In our view, the county has strong access to external liquidity if necessary.

The county maintains most liquidity in pooled and nonpooled investments, which primarily includes 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 county-airport-related project; while management expects to only draw on $8 million of the total $12 million, it has currently used roughly $4.2 million. The line of credit's final maturity is May 1, 2037.

The county has locked in an initial interest rate with a reset date in 2024 based on LIBOR scenarios. The documentation outlines different options for the interest reset, if LIBOR has fully phased out. We do not consider this line of credit a material liquidity risk. The county does not have any contingent liabilities we view as a possible liquidity constraint. We expect the county will likely 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% of total governmental-fund expenditures, and net direct debt is 65.1% of total governmental-fund revenue. Overall net debt is low at 1.8% of market value and officials plan to retire about 75.8% of direct debt during 10 years, which are, in our view, positive credit factors.

The fiscal years 2021–2026 CIP is about $389.9 million. Management intends to fund about 49.5%, or $188.9 million, of the CIP through GO bonds. School capital projects and road-and-bridge projects are two of the CIP's largest categories. We expect debt will likely 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.

### Pension and other-postemployment-benefit (OPEB) highlights

- We expect Carroll County will likely continue to absorb pension and OPEB cost increases effectively into its overall budget.
- We do not currently view pension and OPEB liabilities as an immediate credit pressure for Carroll County.
- Management funds OPEB liabilities through the Consolidated Retiree Health Benefits Trust, established July 1, 2007.

As of June 30, 2019, the county participates in:

- Carroll County Employees' Pension, which was 91.8% funded, with a net pension liability of $8.6 million;
- Carroll County Certified Law Officer's Pension, started in 2010, which was 83.17% funded, with a net pension liability of $3.3 million;
- Carroll County Volunteer Firemen Pension, which was 87% funded, with a net pension liability of $1.4 million; and
- Carroll County's OPEB plan for eligible employees--a county-sponsored, cost-sharing, multiple-employer, defined-benefit, health-care plan--which was 46.63% funded, with a net liability of $123.9 million.

The county has historically contributed at least 100% of the actuarially determined contribution to these plans; in some cases, it overfunded these plans to increase overall funding.

The combined required pension and actual OPEB contribution totaled 3.6% of total governmental-fund expenditures in fiscal 2019: 1% represented required contributions to pension obligations and 2.6% represented OPEB payments. The county made 124% of its annual required pension contribution in fiscal 2019.

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 OPEB contributions in excess of pay-as-you-go costs.

### Very strong institutional framework

The institutional framework score for Maryland counties is very strong.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

| Ratings Detail (As Of November 10, 2020) | | |
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| **Carroll Cnty Commissioners, Maryland** | | |
| Carroll Cnty, Maryland | | |
| Carroll Cnty Commissioners (Carroll Cnty) cons pub imp & rfdg bnds (Carroll Cnty) ser 2019A due 11/01/2039 | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| Carroll Cnty Commissioners (Carroll Cnty) taxable rfdg bnds (Carroll Cnty) ser 2019B due 11/01/2033 | | |
| *Long Term Rating* | AAA/Stable | Affirmed |