FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Carroll County, MD's $22MM GOs 'AAA'; Outlook Stable

Tue 09 Nov, 2021 - 5:12 PM ET

Fitch Ratings - New York - 09 Nov 2021: Fitch Ratings has assigned a 'AAA' rating to the following Carroll County (the county), MD general obligation (GO) bonds:

--$22 million public improvement bonds of 2021 (series A).

In addition, Fitch affirms the following county ratings:

--GO bonds at 'AAA';

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

The series A bonds will fund various capital projects. The bonds are scheduled to sell on a competitive basis November 18.

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. Long-term liabilities are expected to remain low, reflecting manageable future issuance plans and modest net pension liabilities. Revenue growth prospects are expected to remain solid.

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. The estimated 2020 population of 172,891 has increased by just 3% since 2010, well below the state and nation.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Revenues absent tax rate adjustments have grown at a rate below inflation over the decade ending in 2020; however, Fitch expects revenue over time to be above the level of inflation due to consistent recent economic development, assessed value growth of 2%-3% yoy. Income tax revenue growth absent rate reductions has been solid. 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. 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, and pensions comprise a small percentage of total liabilities.

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:

--Sustained declines in fund balance leading to a reduced level of financial resilience no longer consistent with the current 'aaa' assessment;

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

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 county has maintained a strong financial position through the pandemic, as property and income taxes (together over 90% of general fund revenue) were not affected by the pandemic slowdown. Recordation tax revenues also performed well while charges for services declined due to closures resulting from the pandemic.

Expenditures were under budget due to halted discretionary spending and a hiring freeze. The fiscal 2020 audit posted a net general fund surplus of $10.2 million (3% of spending), increasing the unrestricted fund balance to $65.4 million or 16% of spending.

The approved fiscal 2021 general fund budget of $417 million was essentially flat compared to fiscal 2020. The budget included a fund balance use of $4 million and no change to tax rates. The lack of budget growth was 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 due to the pandemic. However, unaudited results show actual revenues approximately $38 million over budget and expenditures $10 million under budget, resulting in a positive budget variance of $47 million on a budgetary basis. The unaudited unrestricted general fund balance is $112.8 million or 25% of spending.

The county received $17.9 million in Coronavirus Aid, Relief, and Economic Security Act funding during fiscal year 2021 that supported the unbudgeted expenses related to the pandemic and did not subsidize the county's normal general fund operations.

The fiscal 2022 $474 million general fund adopted budget is an increase of 14% ($57 million) over the general fund fiscal year 2021 adopted budget. It includes appropriated fund balance of $44.9 million and a 4% increase in the conservative revenues budgeted in fiscal 2021 driven by property and income taxes. The appropriation funds non-recurring spending including $20 million for the purchase of additional land contiguous to the existing landfill site, a $1 million contribution to the Length of Service

Award Program for firefighters, equipment purchases and road and other capital improvements. All tax rates remain unchanged. The budget also funds a 3% increase in public education spending and $1 million for employee bonuses.

The county has received half of the $32.7 million allocation from the American Rescue Plan Act of 2021. The Board of County Commissioners has approved a spending plan that allocates the majority of funding toward broadband infrastructure, public works improvements and behavioral health programs.

CREDIT PROFILE

Despite the pandemic, long-standing employers remained stable and economic expansion continues although population growth is slow. Penguin Random House, the county's fourth 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 and employment have rebounded. The unemployment rate remains below the state and nation. Wealth metrics are above the nation and state.

Revenue Framework

The county relies on a combination of property and income tax revenues, which totaled 50% and 41% of unaudited general fund revenues, respectively, in fiscal 2021.

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 2020, somewhat reflective of the prolonged recovery of the county's taxable assessed value following the Great Recession as well as tax rate reductions. Like all Maryland jurisdictions, property is reassessed on a tri-annual basis. The tax base has been increasing in a range of 2.5%-3% per year and budgeted at $21.8 billion or a 2.4% increase in fiscal year 2022.

Property tax revenues and rates are not subject to a cap and are viewed by Fitch 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 seen 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 stable student enrollment at around 25,000, Fitch expects spending growth to increase marginally above revenues.

According to the state's maintenance of effort mandate, education spending cannot decline yoy 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 is budgeted at over $28 million in fiscal 2022 or 6% spending.

The county's fixed cost burden is affordable, with carrying costs for debt, pensions, and other post-employment benefits (OPEB) totaling about 11% of unaudited fiscal 2021 governmental expenditures; the debt service component accounted for 7% of the total and is expected to remain manageable based on potential future debt issuance and rapid amortization. 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 2022-2027 capital plan totals approximately $450 million, excluding enterprise fund projects. While the plan is funded with over $184 million (2% of personal income) of tax-supported bonds compared to approximately $238 million of outstanding 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 88% of liabilities according to the fiscal 2020 financial statement; adjusted to Fitch's standard 6% investment rate of return assumption, the funded ratio declines to 76%. According to July 1, 2020 valuations that will be included in the fiscal 2021 audited financial statements, the unfunded liabilities across plans have declined. As such the aggregate funded ratio is expected to increase.

OPEB liabilities do not represent a cost pressure. According to fiscal 2020 reported data, the net OPEB liability is $117 million or 1% of personal income, which is up over the prior year due to a benefit enhancement recognized in the law officers' plan. However, according to the actuarial valuation as of July 2020 (for fiscal 2021) the plan was 71.7% funded and the liability was reduced to just $16.5 million. According to management, the decline is based on changes in claims and investment returns.

Operating Performance

Fitch expects the county to manage through cyclical downturns while preserving a high level of financial resilience, given the county's revenue and expenditure flexibility and expected revenue volatility through the economic cycle. General fund reserves are well above the county's 5% stabilization reserve policy.

Fitch anticipates the county would absorb any downward budget pressure by utilizing a combination of expenditure cuts and revenue-raising and will also have the option to make reserve draws if necessary.

Given the array of budgetary solutions available, the county is be well positioned to maintain its financial resilience through economic cycles.

The county has exercised its strong inherent budget flexibility (on both the revenue and spending side) to consistently come in ahead of budgets. During periods of economic expansion, the county has maintained structural balance and built up reserve levels to robust levels.

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
evette.caze@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Lindsay Horne
Analyst
Secondary Rating Analyst
+1 646 582 4462
lindsay.horne@fitchratings.com

Amy Laskey
Managing Director
Committee Chairperson
+1 212 908 0568
amy.laskey@fitchratings.com

MEDIA CONTACTS

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

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

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

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Carroll County (MD)	EU Endorsed, UK Endorsed

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