

RatingsDirect®

Summary:

Carroll County, Maryland; General Obligation

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US\$22.0 mil pub imp bnds ser 2021 due 11/01/2041

Long Term Rating AAA/Stable New

Carroll Cnty

Long Term Rating AAA/Stable Affirmed

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

Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Carroll County Commissioners, Md.'s \$22 million series 2021 public improvement general obligation (GO) 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 2021 bond proceeds to fund various capital projects.

Credit overview

Carroll County's credit factors remained resilient throughout the COVID-19 pandemic and continued to support the 'AAA' rating. The rating benefits from the county's very strong economy that is well embedded in the broader Baltimore metro area. A very robust set of financial management policies and practices that include several items considered in our assessment of environmental, social, and governance (ESG) factors has contributed to the county's track record of a very strong overall financial position. Although the county has significant future capital and borrowing needs, well-established debt management guidelines and limited pressure from pension and other postemployment benefits (OPEB) mitigate risks from fixed costs.

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, 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.

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

- Very strong economy, which benefits from a favorable location and well-educated workforce;
- Very strong financial management team, with comprehensive and robust financial management policies and practices operating under a very strong institutional framework;
- Maintenance of a very strong financial position through the pandemic; and
- Limited fixed costs pressure despite future borrowing plans, thanks to proactive debt management and strong pension and OPEB management.

Environmental, social, and governance (ESG) factors

We have analyzed Carroll County's ESG factors 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. Although the county faces occasional inland flooding, it has taken active measures through stormwater and floodplain management to mitigate risks.

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 with a broad range of industrial, commercial, and residential developments ongoing

The approximately 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 remains a net importer of jobs thanks to its good cooperation with local schools and community colleges, with some residents commuting outside the county for employment. The population continues to rise incrementally as more residential projects are completed. 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.

On the industrial and commercial side, the county has development projects ongoing and planned totaling 2.3 million square feet and over \$290 million. In addition, land development projects, amounting to 1.5 million square feet and almost \$740 million, are underway. The biggest project is Penguin Random House's book distribution warehouse that will expand by over 1 million square feet and add about 150 employees. On the residential side, a \$113 million development that will add 145 townhomes is under construction. The county's tourism sector could experience a small boost thanks to the planned construction of an 85-room hotel. Overall, we expect Carroll County's economy will continue to expand incrementally, thanks to its favorable location and well-educated local workforce.

Comprehensive financial management policies and practices underpinning the county's track record of strong financial outcomes

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. Its 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 adheres to several formal and informal reserve policies, including maintaining a stabilization fund. It targets holding 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.

We view positively the comprehensive steps management has taken to protect the county from emerging risks, such as cyber security threats. The institutional framework score for Maryland counties is very strong.

Resilient budgetary performance throughout the pandemic with significant addition to reserves

Carroll County weathered the pandemic's financial and economic impact extremely well. On the expense side, it curtailed non-essential spending and implemented a hiring freeze until it had more visibility on the availability of federal relief money. The size of the adopted budget was \$1.7 million less than for the previous year. On the revenue side, the county budgeted conservatively to account for the potential weakness of economically sensitive revenues. Predominantly because of revenues that came in \$38 million over budget, the county recorded a very strong surplus in fiscal 2021, according to unaudited figures, and boosted its fund balance to 28% of expenditures.

The county also benefited from a sizable allocation of federal pandemic-related relief money. In total, Carroll County will receive \$71.5 million (approximately 17.5% of expenditures) across the Coronavirus Aid, Relief, and Economic Security Act (CARES) (\$17.9 million), American Rescue Plan Act (ARPA) (\$32.7 million), and various money passed through the state (\$20.9 million). The county anticipates using the ARPA money in three broad areas: broadband infrastructure, public works and utility infrastructure, and behavioral health programs. It has already approved \$14.2 million in ARPA-financed projects in October 2021.

Carroll County's fiscal 2022, at \$57 million, represents a 13.7% increase from fiscal 2021, reflecting the expected recovery and ongoing growth in property and incomes taxes as well as the one-time use of unassigned fund balance. Management expects to use the surplus funding to pay for various capital improvements. Despite the budgeted drawdown of reserves, we expect reserves will remain what we consider very strong. At the end of fiscal 2021, unaudited figures break down the county's reserves as follows: stabilization fund \$23.7 million, assigned balance \$60.0 million, and unassigned fund balance \$29.1 million, up significantly from the previous year.

We recognize the county has revenue-raising capabilities through property taxes and additional income tax revenue should the need occur. In fiscal 2021, property taxes accounted for 50.2% of general fund revenues and income tax revenue for 45.6%. On the income tax side, at 3.03%, the county remains below the state's 3.2% limit, while on the property tax side, it could generate approximately \$2 million in additional revenue through a \$0.01 rate increase.

Most of Carroll County's liquidity is held in pooled and nonpooled investments, primarily U.S. government securities, as well as in a money-rate savings account. The county has a line of credit with a local bank for up to \$12 million in secured debt for a county airport-related project, from which it had drawn \$4.8 million at the end of fiscal 2021. We understand management expects to draw only \$8 million of the total \$12 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 it will likely maintain very strong liquidity.

Strong debt and contingent liability profile

The fiscal years 2022–2027 CIP is about \$439.0 million. Management intends to fund about 43%, or \$188.3 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 OPEB liabilities:

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

As of June 30, 2020, the county participates in:

- Carroll County Employees' Pension, 99.3% funded, with a net pension liability of \$780,000;
- Carroll County Certified Law Officers Pension, started in 2010, 92.3% funded, with a net pension liability of \$1.6 million;
- Carroll County Volunteer Firemen Length of Service Award Program, 84.8% funded, with a net pension liability of \$1.9 million; and
- Its OPEB plan for eligible employees--a county-sponsored, cost-sharing, multiple-employer, defined-benefit, health care plan-- 50.08% funded, with a net liability of \$117.1 million.

The county has historically paid at least 100% of the actuarially determined contribution (ADC) to these plans; in some cases, it overpaid to these plans to increase overall funding.

The combined required pension and actual OPEB contribution was 3.7% of total governmental fund expenditures in fiscal 2020: 1% represented required contributions to pension obligations and 2.6% represented OPEB payments. The county made 105% of its annual required pension contribution in fiscal 2020.

Carroll County also offers OPEB to retirees. While it has not fully funded the OPEB annual ADC in full, it has

established an OPEB trust fund and is budgeting to exceed ADC in fiscal 2021. The county makes additional OPEB contributions above pay-as-you-go costs.

Carroll County, Maryland -- Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	118			
Market value per capita (\$)	129,413			
Population		168,954	168,131	
County unemployment rate(%)		5.1		
Market value (\$000)	21,864,786	21,344,811	20,681,486	
Ten largest taxpayers % of taxable value	2.6			
Strong budgetary performance				
Operating fund result % of expenditures		10.5	2.2	0.9
Total governmental fund result % of expenditures		9.4	6.0	3.1
Very strong budgetary flexibility				
Available reserves % of operating expenditures		27.7	16.0	14.2
Total available reserves (\$000)		112,864	65,451	57,936
Very strong liquidity				
Total government cash % of governmental fund expenditures		49	39	31
Total government cash % of governmental fund debt service		669	455	343
Very strong management				
Financial Management Assessment	Strong			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		7.3	8.6	9.0
Net direct debt % of governmental fund revenue	65			
Overall net debt % of market value	1.8			
Direct debt 10-year amortization (%)	75			
Required pension contribution % of governmental fund expenditures		1.0		
OPEB actual contribution % of governmental fund expenditures		2.6		
Very strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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