

RatingsDirect®

Summary:

Carroll County, Maryland; General Obligation

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Credit Profile

US\$30.0 mil GO bnds, pub imp bnds of 2022 due 11/01/2042

Long Term Rating

AAA/Stable

New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Carroll County Commissioners, Md.'s \$30 million series 2022 public improvement general obligation (GO) bonds, issued for Carroll County.
- At the same time, we affirmed our 'AAA' rating on the county's existing GO debt.
- The outlook is stable.

Security

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

Officials will use series 2022 bond proceeds to fund various capital projects.

Credit overview

The 'AAA' rating reflects the county's diversified and growing economy, which is well embedded in the broader Baltimore metro area. A strong track record of conservative budgeting and very robust financial management policies and practices have helped Carroll County maintain budgetary strength and continue increasing reserves. Although the county has significant future capital and borrowing needs, ongoing cash-funding of capital projects, well-established debt management guidelines, and limited pressure from pension and other postemployment benefits (OPEB) mitigate risks from fixed costs.

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 COVID-19 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

We have analyzed Carroll County's environmental, social, and governance (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.

Outlook

The stable outlook reflects our view of Carroll County's strong and expanding economy and stable budgetary performance, with very strong reserves thanks to very strong financial management policies and practices.

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 and its workforce development center, which has also supported population growth in the past decade, especially near Baltimore County and in the Westminster area.

We expect Carroll County's diversity of industries, ranging from manufacturing to pharmaceutical to aerospace and defense will bolster the resilience of the county's economy in a downturn. At the same time, housing market activity remains steady as the county has rural charm. Several employers report plans to increase operations and workforce and the county has been successful in attracting new companies. Overall, we expect the combination of a highly educated workforce, strong community cooperation around ensuring skill levels meet companies' needs, and the diversity of employers (the top 10 taxpayers account for only 2.6% of the assessable base) will help the county to weather economic headwinds.

Comprehensive financial management policies and practices underpin 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 that realistically identifies out-year budget gaps. The county maintains a rolling six-year capital improvement plan (CIP) linked to the operating budget with all funding 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 that management has taken comprehensive steps to address cyber security threats.

The institutional framework score for Maryland counties is very strong.

Resilient budgetary performance throughout the pandemic with significant addition to reserves

Budgetary performance in Carroll County remains strong, with unaudited fiscal 2022 results showing a strong surplus and a \$13.2 million addition to fund balance. Operating results were even stronger and allowed the county to transfer approximately \$25 million to the solid waste fund for a landfill project without an impact on reserves. Local income taxes generated the largest positive variance in fiscal 2022, exceeding budget by almost \$32 million or 17.4% over budget. On the expenditure side, vacancies were one of the key drivers for some underspending against budget.

The fiscal 2023 budget includes a 5.7% increase in the general fund. The county conservatively budgets its two largest revenue sources, property taxes (50.7% of general fund revenues) and income taxes (46.3%) below fiscal 2022 levels. To account for the impact of higher inflation on finances, the budget also includes a contingency that, at 1.4%, is higher than in previous years. Carroll County received approximately \$32.7 million in American Rescue Plan Act funds. After careful deliberation, it is spending this money on broadband expansion, public works and utility infrastructure, and behavioral health initiatives.

The county's long-term financial plan conservatively identifies manageable budget gaps. In part, these are related to county initiatives, including establishing a professional fire and emergency medical services system. Moreover, Carroll County went through several rounds of salary and wage increases aimed at retaining and recruiting talent. Given its track record of conservative budgeting, increasing tax base, and revenue-raising flexibility, especially for property and incomes taxes, we believe the county will be able to take the steps necessary to maintain budgetary balance. In addition, the county has very strong reserves, which will enable it to cushion any adverse economic or financial shocks. At the end of fiscal 2022, unaudited figures break down the county's reserves as follows: stabilization fund \$25.1 million, assigned balance \$59.9 million, and unassigned fund balance \$47.6.1 million, up significantly from the previous year.

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 2022. 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 contingent 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 2023–2028 CIP is about \$403.0 million. Management intends to fund about 44%, or \$176.1 million, of the CIP through GO bonds. We expect debt will likely remain at or below current levels due to rapid 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.

As of June 30, 2021, the county participates in:

- Carroll County Employees' Pension, 108.8% funded, with a net pension asset of \$10.6 million;
- Carroll County Certified Law Officers Pension, 105.9% funded, with a net pension asset of \$1.4 million;
- Carroll County Volunteer Firemen Length of Service Award Program, 84.8% funded, with a net pension liability of \$1.4 million; and
- Its OPEB plan for eligible employees--a county-sponsored, cost-sharing, multiple-employer, defined-benefit, health care plan--90.4% funded, with a net liability of \$16.5 million.

The county has historically paid at least 100% of the actuarially determined contribution (ADC) to these plans; in some cases, it overpaid to increase overall funding. As a result of an actuarial study, in fiscal 2021 its net OPEB liability significantly declined, allowing the county to overfund its ADC in the coming years as the ADC reduces by \$6.0 million phased in over a six-year period.

Ratings above the sovereign

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.

Carroll County, Maryland -- Key Credit Metrics				
	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	114			
Market value per capita (\$)		130,425		
Population			168,757	168,954
County unemployment rate(%)			4.2	
Market value (\$000)		22,010,187	21,344,811	20,681,486
Ten largest taxpayers % of taxable value	2.7			
Strong budgetary performance				
Operating fund result % of expenditures		3.1	10.8	2.2
Total governmental fund result % of expenditures		5.7	9.7	6.0
Very strong budgetary flexibility				
Available reserves % of operating expenditures		30.7	28.0	16.0
Total available reserves (\$000)		132,632	114,042	65,451
Very strong liquidity				
Total government cash % of governmental fund expenditures		50	47	39

Carroll County, Maryland -- Key Credit Metrics (cont.)

	Most recent	Historical information		
		2022	2021	2020
Total government cash % of governmental fund debt service		770	643	455
Very strong management				
Financial Management Assessment	Strong			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		6.6	7.3	8.6
Net direct debt % of governmental fund revenue	59			
Overall net debt % of market value	1.7			
Direct debt 10-year amortization (%)	74			
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 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of October 12, 2022)

Carroll Cnty		
<i>Long Term Rating</i>	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		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Carroll Cnty Commissioners (Carroll Cnty) taxable rfdg bnds (Carroll Cnty) ser 2019B due 11/01/2033		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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