FitchRatings

06 NOV 2023

Fitch Rates Carroll County, MD's $30MM GOs 'AAA'; Outlook Stable

Fitch Ratings - New York - 06 Nov 2023: Fitch Ratings has assigned a 'AAA' rating to the following Carroll County (the county), MD GO bonds:

--$30 million Public Improvement Bonds of 2023.

In addition, Fitch has affirmed the following county ratings:

--GO bonds at 'AAA';

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

Bond proceeds will fund various capital projects and pay issuance costs. The bonds are scheduled to sell on a competitive basis on Nov. 16.

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 stress. Long-term liabilities are expected to remain exceptionally 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 2022 population of 175,560 has increased by just 5% since 2010, well below the state and national averages.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Revenues absent tax rate adjustments are expected to be above the level of inflation due to consistent recent economic development as well as assessed value growth of 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'

Fitch expects expenditures to grow marginally above revenues given cost increases related to the expansion of the fire/emergency medical service (ems) department. 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 very 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 revenue growth trends that fall below Fitch's expectations for growth above the level of inflation;

--Inability to adequately incorporate new spending needs associated with the new paid fire department within the current revenue structure, either through constraining spending elsewhere or by raising revenue while maintaining fiscal balance and a high level of financial resilience.

CURRENT DEVELOPMENTS

Fiscal 2022 (June 30 year-end) ended with the county recording $15.1 million (3.2% of spending) operating surplus after transfers. Positive operating results reflect a significant 5% increase in income tax revenues and a 5% increase in property tax revenues yoy. Recordation tax revenues also performed well while charges for services came in higher than budgeted expectations. Expenditures were slightly below budget by about 2.0%. The unrestricted general fund balance increased to $129.1 million or 28% of spending.

The county received $75.3 million in federal funding through CARES, ARPA and CRRSAA programs, of which $32.7 million will be allocated by calendar year 2024. These funds support the unbudgeted expenses related to the pandemic and do not subsidize the county's normal general fund operations.

According to the unaudited fiscal 2023 financial statement, the county realized a $2.1 million operating surplus. The positive variance reflects better than budgeted income tax (4% above budget). Property tax revenues were slightly lower than budgeted by 1%. The county is expected to add to fund balance.

The fiscal 2024 $543 million general fund adopted budget increased 8.3% ($41.6 million) over the general fund fiscal year 2023 adopted budget. It included appropriated fund balance of $40.3 million, a 4% decrease from fiscal year 2023. The budget increase is mostly tied to pay increases to remain competitive within the current labor environment.

October of 2020, county commissioners approved the creation of a combination fire and ems department. The new department is meant to bring together 14 volunteer fire companies under a county administered department with paid staff. The change was expected to happen fiscal years 2023 to 2025 and cost approximately $15 million annually, with the cost in fiscal 2023 about $5 million. Fitch expects the county to incorporate this new spending into its budget while maintaining its superior gap closing capacity.

The county maintains a six-year financial plan which it updates annually. Fitch expects the county to maintain balanced operations despite its expansion of public safety services and preserve a superior level of resilience.

CREDIT PROFILE

The county continues to focus growth within its designated growth areas while making an intentional effort to keep one-third of the county rural through its agricultural preservation program. As such, long-standing employers remain stable and economic expansion continues although population growth is slow. The county's economy is anchored by two hospitals (Carroll Hospital Center and Springfield Hospital Center) and two colleges (McDaniel College and Carroll Community College). 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 53% and 46% of unaudited general fund revenues, respectively, in fiscal 2023.

The county's adjusted general fund revenue growth trended above inflation on a CAGR basis over the 10 years ending in fiscal 2022, somewhat reflective of federal stimulus moneys but also reflective of strong income tax revenue trends and taxable assessed value growth. Like all Maryland jurisdictions, property is reassessed on a tri-annual basis. The tax base has been increasing in a range of 2.5%-5% per year and budgeted at $22.8 billion or a 3% increase in fiscal year 2024.

Property tax revenues and rates are not subject to a cap. The income tax rate of 3.03% is below the maximum rate of 3.2%.

Expenditure Framework

The county's largest expenditure category is education at roughly 54% of general fund expenditures, followed by public safety at 15%.

Based on the county's history of structural balance, modest population growth and stable student enrollment at around 25,000, Fitch expects spending growth to increase marginally above revenues requiring budget management to remain balanced.

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 $70 million in fiscal 2024 or 13% spending.

The county's fixed cost burden is affordable, with carrying costs for debt, pensions, and other post-employment benefits (OPEB) totaling about 9% of fiscal 2022 governmental expenditures; the debt service component accounted for 6% 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 2024-2029 capital plan totals approximately $630 million, excluding enterprise fund projects. While the plan is funded with over $252 million (2% of personal income) of tax-supported bonds compared to approximately $288 million of outstanding net direct debt, Fitch expects the debt burden to remain low.

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 2022 financial statement; adjusted to Fitch's standard 6% investment rate of return assumption, the funded ratio declines to 74%. OPEB liabilities do not represent a cost pressure. According to fiscal 2022 reported data, the net OPEB liability increased to $40.6 million due to market declines and changes in actuarial assumptions.

Given the increase in staff related to the expansion of the fire/ems department, pension and OPEB liabilities may increase. Fitch will continue to monitor the impact on liabilities. However, given the current modest burden, the long-term liability burden is expected to remain within the 'aaa' assessment category.

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 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 reserves 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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

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

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

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

Solicitation Status

Endorsement Status

Carroll County (MD)	EU Endorsed, UK Endorsed

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