Carroll County, Maryland

FACT Tools

Ratings

Long Term Issuer Default Rating	AAA

New Issue

$30,000,000 General Obligation Public Improvement Bonds, Series 2022	AAA

Outstanding Debt

General Obligation Bonds	AAA

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates Carroll County, MD's $30MM GOs 'AAA'; Outlook Stable (October 2022)

New Issue Summary

Sale Date: Nov. 3, 2022

Series: Public improvement bonds of 2022

Purpose: Proceeds of the bonds will be used to finance certain capital projects

Security: The bonds are payable from Carroll County's full faith and credit taxing power, for which the county is empowered and directed to levy unlimited ad valorem taxes.

The 'AAA' Issuer Default Rating (IDR) and general obligation (GO) bond 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 2021 population of 173,873 has increased by just 4% since 2010, well below that of the state and nation.

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 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': Fitch Ratings expects expenditures to grow marginally above revenues despite 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:

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

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- 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 2021 (June 30 year-end) ended with the county recording a notable $47.8 million (11.7% of spending) operating surplus. Positive operating results reflect a significant 14% increase in income tax revenues and a 4% increase in property tax revenues yoy. Recordation tax revenues also performed well while charges for services still lagged budgeted expectations. Expenditures were slightly below budget by about 2.5%. The unrestricted general fund balance increased to $112.8 million, or 25% of spending.

The county received $17.9 million in Coronavirus Aid, Relief,and Economic Security Act funding during fiscal 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 increased 14% ($57 million) over the general fund fiscal 2021 adopted budget. It included an appropriated fund balance of $44.9 million. According to the unaudited fiscal 2022 financial statement, the county realized a $11.8 million operating surplus. The positive variance reflects better than budgeted income tax (17% above budget) and property tax revenues (4% above budget). The unrestricted general fund balance is expected to increase to $132.6 million, or 32% of spending.

The county received a $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.

The fiscal 2023 general fund budget of $501 million is a 5.7% increase over the fiscal 2022 adopted budget. The budget again appropriates $41.3 million of fund balance but keeps property tax rates and other fees unchanged. The budget increase is mostly tied to pay increases to remain competitive within the current labor environment.

In October 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 is 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 develops a six-year financial plan annually. Fitch expects the county to have balance operations while implementing the new fire and EMS department and maintaining a superior level of resilience.

Credit Profile

The county continues to focus growth within its designated growth areas while trying 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 that of the state and nation. Wealth metrics are above national and state averages.

Revenue Framework

The county relies on a combination of property and income tax revenues, which totaled 50% and 45% of unaudited general fund revenues, respectively, in fiscal 2022.

The county's adjusted general fund revenue growth trended above inflation on a CAGR basis over the 10 years ending in fiscal 2021, somewhat reflective of federal stimulus moneys but also of strong income tax revenue trends and taxable assessed value growth. Like all Maryland

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	10/13/22
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	10/23/02
AA+	Upgraded	—	11/18/99
AA	Assigned	—	10/20/94

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 $22.9 billion, or a 4% increase in fiscal 2023.

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 14%.

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 $46 million in fiscal 2023, or 11% 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 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 years 2022-2027 capital plan totals approximately $225 million, excluding enterprise fund projects. While the plan is funded with over $204 million (2% of personal income) of tax-supported bonds compared to approximately $254 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 106% of liabilities according to the fiscal 2021 financial statement; adjusted to Fitch's standard 6% investment rate of return assumption, the funded ratio declines to 93%. OPEB liabilities do not represent a cost pressure. According to fiscal 2021 reported data, the net OPEB liability was a minimal $16.5 million.

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 economic cycles. 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 could also 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.

ESG Considerations

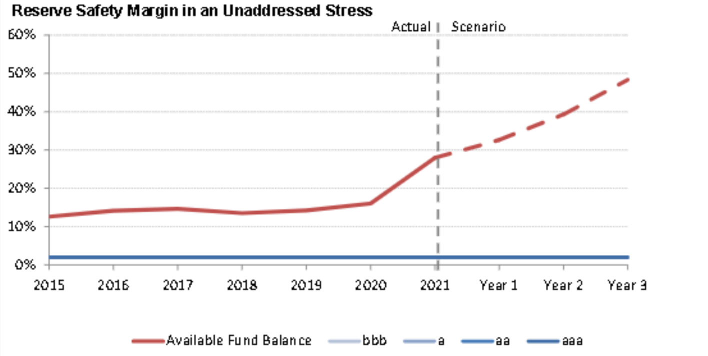
Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Carroll County (MD)

Scenario Analysis

Ver 48

Reserve Safety Margin in an Unaddressed Stress



Analyst Interpretation of Scenario Results

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.

Scenario Parameters:			Year 1	Year 2	Year 3
GDP Assumption (% Change)			(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)			2.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* -1%	*Case Used:* **Moderate**	(1.0%)	1.8%	4.3%
Inherent Budget Flexibility				Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2015	2016	2017	2018	2019	2020	2021	Year 1	Year 2	Year 3
Total Revenues	350,889	370,458	373,735	379,534	400,054	406,177	441,123	436,712	444,770	463,973
% Change in Revenues	-	5.6%	0.9%	1.6%	5.4%	1.5%	8.6%	(1.0%)	1.8%	4.3%
Total Expenditures	360,309	367,547	378,037	387,561	399,423	400,148	399,872	407,869	416,027	424,347
% Change in Expenditures	-	2.0%	2.9%	2.5%	3.1%	0.2%	(0.1%)	2.0%	2.0%	2.0%
Transfers In and Other Sources	75,114	22,394	20,009	11,263	11,601	56,996	51,331	50,818	51,756	53,990
Transfers Out and Other Uses	67,244	16,661	14,139	11,186	7,745	52,820	44,779	45,675	46,588	47,520
Net Transfers	7,871	5,734	5,870	78	3,856	4,177	6,552	5,143	5,167	6,470
Bond Proceeds and Other One-Time Uses	59,780	-	6,525	-	-	45,143	36,955	-	-	-
Net Operating Surplus/(Deficit) After Transfers	(1,550)	8,644	1,568	(7,950)	4,486	10,206	47,804	33,986	33,911	46,096
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	(0.4%)	2.2%	0.4%	(2.0%)	1.1%	2.5%	11.7%	7.5%	7.3%	9.8%
Unrestricted/Unreserved Fund Balance (General Fund)	46,241	54,241	56,315	53,792	57,937	65,452	114,043	148,029	181,939	228,035
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	46,241	54,241	56,315	53,792	57,937	65,452	114,043	148,029	181,939	228,035
Combined Available Fund Bal. (% of Expend. and Transfers Out)	12.6%	14.1%	14.6%	13.5%	14.2%	16.0%	28.0%	32.6%	39.3%	48.3%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.