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INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa1 RATING TO CARROLL COUNTY'S (MD) $31.1 MILLION CONSOLIDATED PUBLIC IMPROVEMENT AND REFUNDING BONDS OF 2011

Global Credit Research - 01 Nov 2011

Aa1 RATING AFFECTS $386 MILLION OF POST-REFUNDING PARITY DEBT

County
MD

Moody's Rating

ISSUE	RATING
Consolidated Public Improvement and Refunding Bonds of 2011	Aa1

Sale Amount	$31,000,000
Expected Sale Date	11/10/11
Rating Description	General Obligation

Opinion

NEW YORK, Nov 1, 2011 -- Moody's Investors Service has assigned a Aa1 rating to Carroll County's (MD) $31.1 million Consolidated Public Improvement and Refunding Bonds of 2011. Concurrently, Moody's has affirmed the Aa1 rating on the county's $386 million in pre-refunding parity debt. The bonds are secured by the county's unlimited ad valorem tax pledge.

RATINGS RATIONALE

The Aa1 rating reflects the county's sound financial position, supported by comprehensive fiscal policies, satisfactory available fund balance, and an above average but affordable debt position. The rating also considers the rapid growth of the county's largely-residential tax base during recent years, which has moderated with the recession, and the ongoing diversification of the local economy. Bond proceeds from the current sale will refund two series of outstanding bonds for an expected net present value savings equal to 3% of refunded principal, with no extension of maturity.

STRENGTHS

-Sizable tax base that benefits from its proximity to the Metro-DC area

-Sound fund balance reserves bolstered by formal fiscal policies

-Manageable debt burden

CHALLENGES

-Reliance on economically sensitive revenues

-Growing expenditures driven by personnel costs and long term liabilities

DETAILED CREDIT DISCUSSION

SATISFACTORY FINANCIAL FLEXIBILITY MAINTAINED; CONSERVATIVE MANAGEMENT AND POLICIES SUPPORT STABLE OPERATIONS

The county's sound financial position is supported by comprehensive fiscal policies and planning, proactive management, and satisfactory revenue-raising capacity. Local law requires management to appropriate surplus funds in subsequent budgets, so that operating surplus is captured as undesignated fund balance in a base year, then designated for future expenditures in ending fund balance of the following fiscal year, and then appropriated to the General Fund budget in the third year. Despite draws from General Fund balance in recent years in accordance with these requirements, Moody's believes the county retains satisfactory financial flexibility to absorb unanticipated budget variances. To enhance flexibility, the county maintains a Stabilization Fund targeted at 5% of the following year's budget and a Contingency Reserve targeted at 1% of the following year's budget, both within General Fund balance. Additionally, the county allocates a portion of operating revenues to fund capital projects on a pay-go basis; these property and income tax receipts ($10.6 million in fiscal 2010, $13.6 million in fiscal 2011) are collected in the Capital Projects Fund but may be transferred to the General Fund to finance operations in the event of a revenue shortfall or unexpected operating need. Financial management practices, including the development of a six-year balanced operating plan and the restriction of one-time revenues (including appropriated fund balance) to fund non-recurring expenditures, further enhance the county's ability to maintain balanced operations.

Following two consecutive operating surpluses, the county reported two consecutive deficits in fiscal 2009 and 2010, decreasing fund balance to $75.3 million in fiscal 2010 from $80 million in fiscal 2008. Despite an appropriation of $14.9 million of fund balance in fiscal 2010, the county replenished the majority of fund balance through conservative budget assumptions and efforts to contain expenditures. Ending fund balance in fiscal 2010 included designations for the Stabilization Fund ($10.7 million) and the Contingency Reserve ($6.75 million). When combined with an $8 million undesignated portion, available fund balance represented a satisfactory 7.6% of fiscal 2010 revenues. Based on unaudited results, the county ended fiscal 2011 with a notable $20.8 million surplus, which includes $13 million in long-term notes issued for agriculture preservation. Net of these note proceeds, the county had a structurally balanced budget, fully replenishing the $8 million fund balance appropriation and reporting a $7 million addition to available fund balance. Following the conversion to GASB 54 in fiscal 2011, the county will report its Stabilization and Contingency reserves in committed fund balance, which along with unassigned fund balance, is expected to total

$35.2 million or a sound 10.2% of revenues.

The fiscal 2012 budget is relatively level to the prior year's budget and appropriates $8 million from General Fund balance for one-time expenditures. The income tax rate was maintained at 3.05%, affording revenue-raising capacity up to the state's 3.2% maximum rate, while the property tax rate declined by $0.02. The property tax decline is offset by an increase in state revenues for school construction and a projected increase in income tax revenues. The county's largest revenue source is property taxes (60% of fiscal 2010 revenues), followed by income taxes (29.4%).

TAX BASE GROWTH EXPECTED TO MODERATE DUE TO RECESSION; FOCUS REMAINS ON MANAGED RESIDENTIAL DEVELOPMENT AND TARGETED ECONOMIC EXPANSION

Located approximately 25 miles northwest of the City of Baltimore (G.O. rated Aa2/stable), Carroll County has experienced an accelerated pace of tax base expansion during recent years, driven largely by the rapid appreciation of residential real estate and new residential construction. While the county's tax base saw significant growth through the middle part of the decade, full value declined in both fiscal 2011 and 2012 to a still-sizable $19.7 billion due to the overall down economy and real estate market. Residential property serves as a principal factor in tax base expansion; the residential property digest comprises 84% of the real property assessable base and increased 36% in value from fiscal 2007 to fiscal 2011. Approximately 65% of the county's land area is farmland and the county strengthened its Adequate Public Facilities Ordinance (APFO) in fiscal 2005 to establish more rigorous school, utility and public safety adequacy standards in an effort to control rapid residential development, which is achieved by limiting the number of residential building permits issued over a six-year period. Moody's expects weakness in the residential market to continue over the near term, consistent with the region; however, the county's tax base may avoid significant declines given the statewide requirement to phase-in reassessment-related tax base growth over a three-year period, effectively smoothing the impact of any property devaluation. Further, the county's homestead tax credit limits the county's ability to capture homestead appreciation for annual tax levy purposes to 5% (down from 7% in fiscal 2010), steady annual growth in the tax levy as pent-up appreciation is added to the tax rolls.

Notwithstanding the role of residential real estate in tax base expansion, the county's commercial and industrial base also continues to demonstrate steady growth trends and diversification. The commercial and industrial tax digest equals a combined 10.3% of the assessable base. The county's employment base similarly has experienced steady gains during recent years. Long-term growth is expected to be supported by the planned development of 120 acres of industrially-zoned land (one million square feet of space over 10 years), St. John Properties' planned development of a 40-acre mixed-use retail and industrial park, and the ongoing development of the 63-acre Westminster Technology Park. The county's wealth indices approximate state norms and officials report that the county's median income has steadily increased since 2000. August 2011 unemployment of 6.7% is elevated relative to recent years but remains below the 7.4% statewide and 9.1% national levels for the same period.

DEBT BURDEN EXPECTED TO REMAIN AFFORDABLE

Moody's expects the county's overall debt burden to remain manageable, given ongoing tax base growth and dedicated revenue streams to finance capital improvements. The current issuance increases the county's total debt burden to a still moderate 2.3% of full valuation. Approximately 68.7% of all debt obligations will be retired within 10 years and debt service comprised 10.5% of fiscal 2010 operating expenditures. The county's earmarking of revenue streams for capital projects and the aggressive funding of pay-go capital improvements represent credit strengths. The county designates a minimum 3% of property tax receipts for the capital budget, dedicates 9.1% of local income tax revenue to school construction and debt service, and uses impact fees for school and park construction. The county's six-year community investment plan (CIP) projects the need for $146 million in bond financing through fiscal 2017. All outstanding debt is fixed rate and the county is not party to any derivative agreements.

WHAT COULD MOVE THE RATING UP:

- Continued tax base growth and diversification, coupled with improved socioeconomic factors

- Increased fund balance reserve position

WHAT COULD MOVE THE RATING DOWN:

- Significant deterioration of reserve or liquidity position

- Use of fund balance reserves for operations

KEY STATISTICS

2010 Population: 167,134

Fiscal 2012 full valuation: $19.7 billion

Fiscal 2012 full value per capita: $118,118

Unemployment rate (August 2011): 6.7%

1999 Median Family Income: $66,430 (107% of state; 133% of nation)

1999 Per Capita Income: $23,829 (93% of state; 110% of nation)

Overall debt burden: 2.3%

Payout of principal (10 years): 68.7%

Fiscal 2010 General Fund balance: $75.3 million (22.5% of estimated revenues)

Fiscal 2011 General Fund balance (unaudited): $96 million (27.9% of estimated revenues)

Post-sale parity debt outstanding: $386 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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