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New Issue

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Carroll (County of), MD

New Issue: Moody's assigns Aa1 to Carroll County, MD's $20.4M GO Public Imp. and Refunding Bonds of 2016; outlook stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 rating to Carroll County, MD's $20.4 million Consolidated Public Improvement and Refunding Bonds of 2016. Concurrently, Moody's has affirmed the Aa1 rating on the county's $291 million of general obligation (GO) debt outstanding. The outlook remains stable.

The Aa1 rating reflects the county's sound financial position, supported by comprehensive financial policies and healthy available fund balance. The rating also considers the county's largely residential tax base, the near term, ongoing diversification of the local economy, an above average and but affordable debt position.

Credit Strengths

» Sizeable tax base that benefits from its location in the Baltimore MSA

» Healthy fund balance reserves bolstered by formal fiscal policies

Credit Challenges

» Reliance on economically sensitive revenues

» Above average debt burden

Rating Outlook

The stable outlook reflects the county's currently healthy financial position. While the county's reserves have declined in recent years due to one-time expenditures, with another slight decline in fiscal 2015, we believe the county's reserve levels will recover and remain satisfactory going forward due to strong management with comprehensive fiscal policies, as well as a return to tax base growth in fiscal 2016 that is supported by continued economic development.

Factors that Could Lead to an Upgrade

» Growth in the county's tax base and continued improvement in wealth levels

» A sustained trend of operating surpluses and improved reserve and liquidity position

Factors that Could Lead to a Downgrade

» Significant deterioration of reserves or liquidity position

» Substantial decline in the tax base

Key Indicators

Exhibit 1

Carroll (County of) MD	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 20,907,115	$ 19,829,612	$ 18,808,823	$ 18,549,381	$ 18,495,549
Full Value Per Capita	$ 124,985	$ 118,563	$ 112,452	$ 110,809	$ 107,719
Median Family Income (% of US Median)	154.3%	154.3%	155.5%	155.0%	155.0%
Finances					
Operating Revenue ($000)	$ 340,914	$ 343,677	$ 339,255	$ 348,891	$ 358,672
Fund Balance as a % of Revenues	13.7%	16.2%	15.4%	14.0%	12.9%
Cash Balance as a % of Revenues	30.8%	31.0%	34.6%	30.4%	27.7%
Debt/Pensions					
Net Direct Debt ($000)	$ 361,409	$ 350,177	$ 343,476	$ 344,128	$ 332,333
Net Direct Debt / Operating Revenues (x)	1.1x	1.0x	1.0x	1.0x	0.9x
Net Direct Debt / Full Value (%)	1.7%	1.8%	1.8%	1.9%	1.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	N/A	0.1x	0.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	N/A	0.1%	0.3%

Source: Moody's Investors Service

Recent Developments

Recent developments are incorporated in the Detailed Rating Considerations.

Detailed Rating Considerations

Economy and Tax Base: Modest Tax Base Growth Expected Due to Ongoing Economic Development

Carroll County's local economy will expand modestly in the near- and medium-term due to management's focus on diversifying the tax base. Although the county's tax base narrowed by an average of 3.5% annually for the five years ending in fiscal 2015, the decline slowed in fiscal 2014 and fiscal 2015, with declines of 1.5% and 0.1%, respectively. In fiscal 2016, the base grew by a modest 1.1% to $18.7 billion, signaling a return to economic expansion. Management estimates larger increases in the assessable base going forward.

The county's renewed tax base growth and diversification remains a credit strength. Between 2015 and 2016, capital investment of major economic development projects underway is estimated at $75 million with the creation of over 800 new jobs in the community. Management's aggressive pursuit of economic development projects will likely continue to support tax base growth and diversification. Recent developments include a $200 million expansion at Lehigh Hanson, a $40 million construction of Fuchs North American's corporate headquarters (150 employees), $10 million expansion at Penguin Random House, which is expected to add 300 employees over the next several years, and a $50 million redevelopment project to redevelop the former Carrolltown Center into a new shopping hub.

The county's wealth indices approximate state norms but are well above national levels, and have been improving over the past decade. The county's employment base has experienced steady gains during recent years. The August 2016 unemployment rate of 3.8% remains below the 4.5% statewide and 5.0% national levels for the same period.

Financial Operations and Reserves

Management's practice of conservative budgeting and the maintenance of comprehensive fiscal policies will continue to support the county's healthy financial position. The county maintains a Stabilization Fund targeted at 5% of the following year's budget, which is held within committed General Fund balance, as well as a Contingency Reserve targeted at 1% of the annual budget that is held under assigned 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 ($12.7 million in fiscal 2015) 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.

Fiscal 2015 ended with a $1.6 million operating deficit, despite a $14.3 million fund balance appropriation. The available General Fund balance at the end of fiscal 2015 remained healthy at $46.2 million, or 12.9% of operating revenues (including a designation for the Stabilization Fund of $19 million). Overall, the county was able to offset a majority of the appropriated fund balance, as revenue ended over budget due to greater than budgeted property tax and miscellaneous revenues. While the property tax rate remained level in fiscal 2015, the income tax rate was lowered slightly to 3.03% from 3.04%. Property taxes are the main source of operating revenues at 55.0%, followed by income taxes at 40.0% in fiscal 2015.

The fiscal 2016 budget represented a minimal 3.1% increase from the fiscal 2015 budget and included $12.3 million in appropriated fund balance. According to unaudited figures, fiscal 2016 ended with an operating surplus of $8.6 million, and the available General Fund balance grew to $54.2 million, or 14.6% of operating revenues. The county's current financial position is below the state and national medians for Aa1 counties (18% and 34% of operating revenues, respectively). We note that the county continues to maintain revenue-raising capacity, as the income tax rate can be raised up to the state's maximum rate of 3.2%, and there are no set limitations on raising the property tax rate. Income tax collections continue to grow, particularly from income of $150,000 and above.

The fiscal 2017 budget represents a 4.8% increase from the fiscal 2016 budget and includes $9 million in appropriated fund balance. The budget assumes a 6.8% increase in income tax revenues, though the income tax rate remained flat at 3.03%. The continued growth in income tax revenues to offset expenditure increases will be a key factor in the county maintaining financial stability.

LIQUIDITY

General Fund net cash at the end of fiscal 2015 was strong at $99.5 million, or 27.2% of operating revenues.

Debt and Pensions

We expect the county's debt burden to remain manageable, given continued tax base growth and dedicated revenue streams to finance capital improvements. The county's direct debt burden is an above-average 1.8% of full value (compared to the US median of 0.5%). The county currently has $31.1 million in outstanding general obligation debt to provide funds for its Agricultural Preservation Program.

The sources of repayment for this debt are the general revenues of the county and principal from federal obligation securities. As of the end of fiscal 2015, the county held federal obligation securities that totaled $24.6 million, which are considered restricted investments. Net of this debt, the county's direct debt burden declines to 1.7% of full value.

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 2.25% of property tax receipts for the capital budget, dedicates 7% of local income tax revenue to school construction and debt service, and uses impact fees for school and park construction.

The county maintains a $392 million six-year Capital Improvement Plan (2017-2022), 35.7% of which will fund the county's schools, 28.1% for roads and bridges, and 10.9% for enterprises. 44.2% of the plan is expected to be bond-funded, while 26% will be financed with pay-go, which is generally in line with prior year capital plans. The county's level of pay-go capital funding provides additional financial flexibility given that the county has the ability to adjust pay-go projects in a given year, if needed.

DEBT STRUCTURE

All of the county's debt is fixed rate, and amortization of debt is average with 66.9% retired in 10 years. Fiscal 2015 debt service comprised a manageable 11.5% of operating expenditures.

DEBT-RELATED DERIVATIVES

Carroll County has no derivatives.

PENSIONS AND OPEB

The county maintains three defined benefit pension plans including the Carroll County Employee Pension Plan (CCEPP), the Carroll County Certified Law Officers Pension Plan (CCCLOPP), and the Volunteer Fireman Pension Plan (LOSAP). The annual required contribution (ARC) for CCEPP was $2.5 million (0.7% of operating expenditures) in fiscal 2015, $0.7 million (0.2% of operating expenditures) for CCCLOPP and $0.4 million (0.1% of operating expenditures) for LOSAP.

The county's contribution to CCEPP in fiscal 2014 constituted 100% of the ARC, while the contribution to CCCLOPP constituted 121.7% of the ARC. The contribution to LOSAP constituted 57.3% of the ARC in fiscal 2015. The county's adjusted pension liability, under Moody's methodology for adjusting reported pension data, is $92 million, or a manageable 0.26 times of operating revenues in fiscal 2014. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities.

In addition, the county made a $10.6 million contribution to OPEB, representing 93% of the total annual OPEB cost, in fiscal 2015. As of the July 1, 2014 valuation, the county had a $97 million unfunded OPEB liability. Overall, the county's total fixed costs (debt service, pension, and annual OPEB costs) represented a moderate 15.8% of operating revenues in fiscal 2015.

Management and Governance

Maryland counties have an institutional framework score of “Aa,” or strong. Counties primarily rely on property taxes, followed closely by more economically sensitive income taxes, to support operations. Expenditures, which are primarily for education and based on a state-mandated maintenance of effort (MOE) requirement, are moderately predictable despite recent state decisions to significantly reduce highway user revenues and transfer normal teacher pension costs to counties. In addition, aside from meeting the required MOE for education, counties have the ability to reduce expenditures if necessary.

Legal Security

The bonds are secured by the county's unlimited ad valorem tax pledge.

Use of Proceeds

The majority of the proceeds from the Series 2016 bonds ($14 million) will finance various general government projects. The remainder of the proceeds ($6.4 million) will refund a portion of the Series 2007 bonds for an estimated net present value savings of $301,844 or 4.47% of refunded principal.

Obligor Profile

Carroll County has a population of approximately 170,000 and is located approximately 25 miles northwest of the City Baltimore (Aa2 stable).

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Carroll (County of) MD

Issue	Rating
Consolidated Public Improvement and Refunding Bonds of 2016	Aa1
Rating Type	Underlying LT
Sale Amount	$20,375,000
Expected Sale Date	11/10/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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