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Ratings

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Summary:

Carroll County, Maryland; General Obligation

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Summary:

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Credit Profile		
US$20.375 mil cons pub imp and rfdg bnds ser 2016 due 11/01/2036		
Long Term Rating	AAA/Stable	New
Carroll Cnty		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Carroll County, Md.'s series 2016 consolidated public improvement and refunding general obligation (GO) bonds and affirmed its 'AAA' rating, with a stable outlook, on the county's existing GO debt.

The county's full-faith-and-credit pledge secures the bonds. We understand officials intend to use series 2016 bond proceeds to fund various county capital projects and refund a portion of the county's series 2007 GO bonds.

Carroll County's GO bonds are eligible to be rated above the sovereign because we believe 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, on RatingsDirect, the county has a predominately locally derived revenue source with about two-thirds of governmental activity revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government.

The rating reflects our opinion of the following factors for the county, including its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2015, which closed with balanced operating results in the general fund but an operating deficit at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 of 12.2% of operating expenditures;
- Very strong liquidity, with total government available cash at 38.2% of total governmental fund expenditures and 3.7x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 10.3% of expenditures and net direct debt that is 85.8% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 67% of debt scheduled to be retired within 10 years; and
- Very strong institutional framework score.

Very strong economy

We consider the county's economy very strong. Carroll County, with an estimated population of 167,842, is located in the Baltimore-Columbia-Towson MSA, which we consider broad and diverse. The county has a projected per capita effective buying income of 126% of the national level and per capita market value of $113,939. Overall, the county's market value grew by 2.1% over the past year to $19.1 billion in 2017. The county unemployment rate was 4.3% in 2015.

The approximately 456-square-mile Carroll County is in north-central Maryland, bordering southern Pennsylvania. Westminster, the county seat and principal city, is approximately 55 miles north of Washington and 30 miles northwest of Baltimore. Currently, 55.1% of county residents commute outside the county for employment. Population has increased by nearly 8% since the 2000 U.S. Census. The greatest population increases have taken place adjacent to Baltimore County and in the Westminster area because these areas provide quick and easy access to the rest of the Baltimore MSA.

The county expects the growth seen in previous years will continue because several of its leading employers are either expanding or refitting their current space. In addition to existing employers, the county expects several businesses in development to come online soon. In addition, the county is developing several new business parks countywide to attract new business and provide additional economic development opportunities.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights include management's use of formal historical trend analysis when preparing upcoming revenue and expenditure budgets. Management reviews budgeted figures compared to actual results monthly. County administrators use a multiyear financial plan, and they prepare for ongoing structural balance. The county maintains a rolling six-year capital improvement plan (CIP) linked to the operating budget with all revenue sources identified. The county has its own investment policy that mirrors the state's policy, and management provides monthly investment reports to county commissioners. The county also has a formal debt policy.

Management maintains several formal reserve policies, including the maintenance of a stabilization fund. The county requires an 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.

Strong budgetary performance

Carroll County's budgetary performance is strong in our opinion. The county had balanced operating results in the general fund of a negative 0.4% of expenditures, but a deficit result across all governmental funds of 3.7% of expenditures in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could improve from 2015 results in the near term.

After taking into account annual transfers into and out of the general fund and capital expenditures in total governmental funds, the county ended fiscal 2015 with an adequate budgetary performance, in-line with its historical performance. The county outperformed its budget with property taxes and local other taxes coming in above final budgeted amounts. The county underspent its budget with the exception of education and library line items. It should be noted that while the county appropriated some reserves, it did not spend a majority of these reserves.

For fiscal 2016, unaudited results are for a structural improvement over fiscal 2015, resulting in, what we consider, a strong budgetary performance. Property and income taxes revenue is strong with growth in the assessable base contributing to higher property tax revenue while the county's income tax revenue continues to grow--a $10.8 million increase from fiscal 2015. Due to high housing demand, the county saw an increase in recordation taxes. In addition, the county did not use about 2% of its income tax earmarked for capital projects, leaving the excess 2% revenue in the general fund. Expenditures increased due mainly to the county school system.

The county allocates 2% of its income taxes to schools. During fiscal 2016, for county schools, which the county has been funding above its minimum maintenance-of-effort requirement, management reallocated 2% of its income tax revenue to support schools and capital projects directly. It also increased funding requirements for teacher pension costs. County expenditures also increased due to a contractual increase for county public-safety employees.

The fiscal 2017 budget, at $388.4 million, is a 2.22% increase from fiscal 2016 and a reduction in the previous-year appropriated line item for county revenue, which consists of revenue in excess of budgeted and unspent appropriated amounts. Education expenses increased the most. Revenue is diverse with property and income taxes generating 56% and 38%, respectively. The current income tax of 3.03% in fiscal years 2016 and 2017 is below the 3.2% state maximum, providing additional financial flexibility.

Strong budgetary flexibility

Carroll County's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 of 12.2% of operating expenditures, or $44.8 million.

Carroll County has a history of maintaining, what we consider, strong available general fund balances. For fiscal year-end 2015, a portion of committed fund balance was $18.9 million, assigned fund balance was $18.4 million, and unassigned balance was $7.3 million. Its stabilization arrangement balance is, what we consider, the county's available budgetary flexibility. Due to its strong financial performance in fiscal 2016, we expect fund balance to improve to $52.8 million: $33.4 million from unassigned and assigned fund balance and $19.4 million from the stabilization arrangement, or 13.9% of adjusted expenses, which we view as strong. This remains in excess of the county's formal fund balance.

Very strong liquidity

In our opinion, Carroll County's liquidity is very strong, with total government available cash at 38.2% of total governmental fund expenditures and 3.7x governmental debt service in 2015. In our view, the county has strong access to external liquidity if necessary.

The county maintains most of its liquidity in pooled and nonpooled investments, both of which primarily consist of U.S. government securities, as well as in a money rate savings account. Currently, the county does not have any contingent liabilities we view as a possible constraint on liquidity.

Strong debt and contingent liability profile

In our view, Carroll County's debt and contingent liability profile is strong. Total governmental fund debt service is 10.3% of total governmental fund expenditures, and net direct debt is 85.8% of total governmental fund revenue.

Overall net debt is low at 2% of market value and approximately 67% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

The fiscal years 2016–2021 CIP is $304.2 million. Management intends to fund about 26% of the CIP through pay-as-you-go funding annually. For several of the $50-million-and-above projects in the CIP, management plans to fund them with outside agency funding. We expect county debt to remain at or below current levels due to rapid debt amortization and, what we view as, management's conservative approach to debt issuance through debt affordability guidelines.

Carroll County's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 3.5% of total governmental fund expenditures in fiscal 2016. Of that amount, 0.8% represented required contributions to pension obligations and 2.7% represented OPEB payments. The county made 105% of its annual required pension contribution in fiscal 2016.

The county operates three pension funds: the Carroll County Employees' Pension, the Carroll County Certified Law Officer's Pension, and the Carroll County Volunteer Firemen Pension. The Carroll County Certified Law Officer's Pension began in fiscal 2010. The county has historically contributed at least 100% of the actuarially determined contribution (ADC) to these plans. Funding levels are, in our opinion, good.

As of the July 1, 2015, valuation, the Carroll County Employees' Pension plan was 98.5% funded with an unfunded actuarial accrued liability (UAAL) of $926,036 and an ADC of $2.5 million, which the county fully contributed, in fiscal 2016. The Carroll County Certified Law Officer's Pension plan was 87% funded with an UAAL of $1.3 million and an ADC of $685,558; the county's actual contribution was about $836,000. The Carroll County Volunteer Firemen Pension plan was 97.4% funded as of Jan. 1, 2015, with an UAAL of $231,508.

The county also offers OPEB to retirees. While the county does not fund the OPEB annual required contribution (ARC) in full, it has established an OPEB trust fund; the county funds additional contributions in excess of pay-as-you-go costs. As of the July 1, 2015, valuation, the OPEB liability was 36.5% funded with an UAAL of $96.9 million and an OPEB cost of $10.4 million in fiscal 2015; the actual contribution was $9.6 million, or 95% of the ARC, in fiscal 2015. For fiscal 2016, the county paid 96.5% of its ARC for OPEB costs. Funding requirements for the OPEB plan have declined to $10.4 million from $11.6 million and employer contributions have increased to $10.1 million from $7.8 million; this has increased the funding level to 96% from 67%.

Very strong institutional framework

The institutional framework score for Maryland counties is very strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Carroll County's large, diverse, and growing economy. The outlook also reflects our opinion that management will likely continue to manage its budget conservatively and maintain strong budgetary flexibility and very strong liquidity. We believe, what we consider, the county's strong financial management practices and policies should help support strong budgetary performance.

It is our opinion overall debt will likely remain close to current levels due to, what we consider, the county's above-average amortization, providing additional rating stability. Therefore, we do not currently expect to change the rating within the outlook's two-year period. However, although we do not expect this to occur, we could lower the rating if the county were to experience significant unexpected reductions in budgetary flexibility due to prolonged weak budgetary performance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.