

RATING ACTION COMMENTARY

Fitch Rates Carroll County, MD's \$36.5MM GO Bonds 'AAA'; Outlook Stable

Fri 01 Nov, 2024 - 3:25 PM ET

Fitch Ratings - New York - 01 Nov 2024: Fitch Ratings has assigned a 'AAA' rating to the following Carroll County, MD general obligation (GO) bonds:

--\$30 million Public Improvement Bonds 2024;

--\$6.5 million Taxable General Obligation Bonds 2024.

In addition, Fitch has affirmed the following county ratings:

--GO bonds at 'AAA';

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

The Rating Outlook is Stable.

The bonds are scheduled to sell on a competitive basis on Nov. 21. The public improvement bond proceeds will be used to fund various capital improvement projects. The proceeds of the taxable bonds will be used to make funds available to the Hampstead Volunteer Fire and Hose Company No. 1 to finance certain volunteer fire company facilities and related costs.

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I UNDERSTAND

Carroll County (MD) [General Government]	LT IDR	AAA Rating Outlook Stable		AAA Rating Outlook Stable
	Affirmed			
Carroll County (MD) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

The 'AAA' IDR and GOs reflects the implementation of Fitch's "U.S. Public Finance Local Government Rating Criteria". Key drivers for the 'AAA' rating include the county's 'Strongest' demographic and economic level metrics, which are explicitly factored into Fitch's analysis under the new criteria. Another key driver is the county's long-term liability (LTL) burden, assessed at 'Strongest' relative to Fitch's local government rating portfolio.

The county's financial resilience assessment of 'aaa', is supported by 'Ample' budgetary flexibility, underpinned by broad revenue-raising powers, and an expectation that unrestricted general fund reserves (sum of committed, assigned and unassigned) will be maintained at least equal to or above 7.5% of spending (the minimum level for a 'aaa' assessment given its budgetary flexibility assessment). The county has historically maintained unrestricted reserves well above 10%. As of fiscal year-end 2024, the unrestricted general fund balance was 27.5% of general fund spending.

These strengths are modestly tempered by a 'Weak' population trend.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A sustained approximately 90% increase in long-term liabilities due to additional debt and/or increases in net pension liabilities and increased carrying costs, assuming current levels of personal income and/or governmental resources, respectively.

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Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Not applicable due to the 'AAA' rating is at the highest rating level.

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

FITCH'S LOCAL GOVERNMENT RATING MODEL

The Local Government Rating Model generates Model Implied Ratings, which communicate the issuer's credit quality relative to Fitch's local government rating portfolio. (The Model Implied Rating will be the Issuer Default Rating except in certain circumstances explained in the applicable criteria.) The Model Implied Rating is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher (AAA), 9.0 (AA+), 8.0 (AA), and so forth down to 1.0 (BBB- and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

RATINGS HEADROOM & POSITIONING

Carroll County Model Implied Rating: 'AAA' (Numerical Value: 10.75)

-- Metric Profile: 'AAA' (Numerical Value: 10.75)

-- Net Additional Analytical Factor Notching: 0.0

Carroll County's Model Implied Rating is 'AAA'. The associated numerical value of 10.75 is at the upper end of the range for its current 'AAA' rating.

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budgetary flexibility assessment.

-- Revenue control assessment: High

-- Expenditure control assessment: High

-- Budgetary flexibility assessment: Ample

-- Minimum fund balance for current financial resilience assessment: $\geq 7.5\%$

-- Current year fund balance to expenditure ratio: 27.5% (2023)

-- Five-year low fund balance to expenditure ratio: 14.2% (2023)

Revenue Volatility - 'Strongest'

Carroll County's weakest historic three-year revenue performance is neutral to the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 3.0% increase for the three-year period ending fiscal 2015

-- Median issuer decline: -4.7% (2023)

DEMOGRAPHIC AND ECONOMIC STRENGTH

Population Trend - 'Weak'

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Unemployment, Educational Attainment and MHI Level - 'Strongest'

The overall strength of Carroll County's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2023 are assessed as 'Strongest' on a composite basis, performing at the 85th percentile of Fitch's local government rating portfolio. This is due to relatively strong education attainment levels, median-issuer indexed adjusted MHI and unemployment rate.

-- Unemployment rate as a percentage of national rate: 47.2% 2023 (99th percentile), relative to the national rate of 3.6%

-- Percent of population with a bachelor's degree or higher: 38.7% (2022) (72nd percentile)

-- MHI as a percent of the portfolio median: 143.2% (2022) (85th percentile)

Economic Concentration and Population Size - 'Strongest'

Carroll County's population in 2022 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 175,472 (2022) (above the 15th percentile)

-- Economic concentration: 27.5% Analyst Input (above the 15th percentile) (vs. 27.3% 2023 Actual)

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Economic concentration adjustments by using county median by state natural resources and mining for missing data.

LONG-TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Strongest'

Carroll County's long-term liability metrics remain moderately strong across each of the three dimensions: liabilities to personal income, liabilities to governmental revenue, and carrying costs to governmental expenditures. The long-term liability composite metric in 2023 is at the 83rd percentile, indicating a low liability burden relative to the Fitch's local government rating portfolio.

-- Liabilities to personal income: 3.0% Analyst Input (75th percentile) (vs. 2.5% 2023 Actual)

-- Liabilities to governmental revenue: 70.5% Analyst Input (95th percentile) (vs. 58.6% 2023 Actual)

-- Carrying costs to governmental expenditures: 9.8% Analyst Input (83rd percentile) (vs. 9.2% 2023 Actual)

The long-term liability burden includes an adjustment to deduct scheduled principal amortization through fiscal 2024, and to add the principal and debt service amount associated with the county's issued series 2023 and pending series 2024 GO bonds. The budgeted expenditures were adjusted to include county's estimated fiscal 2026 debt service.

PROFILE

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 2023 population of 176,639 has increased by just 5% since 2010, well below the state and nation. The county continues to focus growth within its designated

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College and Carroll Community College). The unemployment rate remains below the state and nation. Wealth metrics are above the nation and state.

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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The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 (1)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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