

RATING ACTION COMMENTARY

Fitch Rates Howard County, MD's \$104MM GOs at 'AAA'; Outlook Stable

Tue 18 Feb, 2025 - 11:33 AM ET

Fitch Ratings - New York - 18 Feb 2025: Fitch Ratings has assigned a 'AAA' rating to the following Howard County MD general obligation (GO) bonds:

--\$82,210,000 consolidated public improvement bonds, 2025 series A (tax-exempt);

--\$21,900,000 metropolitan district project bonds, 2025 series B (tax-exempt).

The 2025 series A and series B bonds are scheduled to sell competitively on or about March 5. The 2025 series A bonds proceeds will be used to repay all or a portion of the county's outstanding master general obligation bond anticipation note, series 2023A (tax-exempt), to pay or reimburse the county for the cost of public improvement projects. The 2025 series B bond proceeds will be used to repay all or a portion of the county's outstanding master general obligation bond anticipation note, series 2023A (tax-exempt), to reimburse the county for the cost of water and sewer projects.

The Rating Outlook is Stable.

Fitch's Issuer Default Rating (IDR) on Howard County is 'AAA' with a Stable Rating Outlook.

RATING ACTIONS

ENTITY / DEBT ◆	RATING ◆	PRIOR ◆
Howard County (MD) [General Government]		

Howard County (MD) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
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[VIEW ADDITIONAL RATING DETAILS](#)

The 'AAA' GO rating reflects the county's 'aaa' financial resilience, marked by 'Ample' budgetary flexibility and the expectation that unrestricted general fund reserves (the sum of committee assigned, and unassigned reserves) will be maintained at or above 10% of total spending.

Unrestricted general fund reserves were equal to approximately \$467 million or 32% of total spending in fiscal 2024, and have exceeded 17% since fiscal 2020. Fitch expects reserves to weaken as the county appropriates a portion of its recently built-up reserves for capital and non-recurring items; however, Fitch believes the county's unrestricted reserves could be maintained at a level consistent with the current financial resilience assessment.

The ratings incorporate the county's 'Strongest' demographic and economic level metrics, moderately offset by a 'Midrange' population trend. Robust unemployment, educational attainment and median household income reflect the strength and stability of the federal government and education and healthcare sectors, led by John Hopkins University. The county's long-term liability metric is also 'Midrange' on a composite basis, primarily due to liabilities to personal income and fixed carrying costs ratios below the median of Fitch's local government rating portfolio.

RATING SENSITIVITIES

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

--An approximate 70% increase in long-term liabilities due to additional debt and/or increases in pension liabilities and fixed carrying costs, assuming current levels of personal income and governmental resources;

--A material weakening in demographic and economic metrics including the unemployment rate, population trend, median household income and educational attainment;

--A sustained decline in available general fund balances below 10% of spending which would lower the financial resilience assessment to below 'aaa'.

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

--Positive rating factors are not applicable because the 'AAA' rating is at the highest rating level.

SECURITY

The GO bonds are backed by the county's full faith and credit pledge and its unlimited taxing power.

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

Howard County Model Implied Rating: 'AAA' (Numerical Value: 10.72)

-- Metric Profile: 'AAA' (Numerical Value: 10.72)

-- Net Additional Analytical Factor Notching: 0.0

Howard County's Model Implied Rating is 'AAA'. The associated numerical value of 10.72 is at the upper end of the range for a 'AAA' rating.

KEY RATING DRIVERS

FINANCIAL PROFILE

Financial Resilience - 'aaa'

Howard County's financial resilience is driven by the combination of its 'High' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'High Midrange' budgetary flexibility assessment.

- Revenue control assessment: High
- Expenditure control assessment: Midrange
- Budgetary flexibility assessment: High Midrange
- Minimum fund balance for current financial resilience assessment: $\geq 10.0\%$
- Current year fund balance to expenditure ratio: 31.8% (2024)
- Lowest fund balance to expenditure ratio for the fiscal-year period 2020-2024: 17.4% (2020)

Revenue Volatility - 'Strongest'

Howard 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): 5.8% increase for the three-year period ending fiscal 2011
- Median issuer decline: -4.5% (2024)

DEMOGRAPHIC AND ECONOMIC STRENGTH

Population Trend - 'Midrange'

Based on the median of 10-year annual percentage change in population, Howard County's population trend is assessed as 'Midrange'.

Population trend: 1.1% 2023 median of 10-year annual percentage change in population (57th percentile)

Unemployment, Educational Attainment and MHI Level - 'Strongest'

The overall strength of Howard County's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2024 are assessed as 'Strongest' on a composite basis, performing at the 96th 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: 60.0% Analyst Input (96th percentile), relative to the national rate of 4.0%

-- Percent of population with a bachelor's degree or higher: 64.5% (2023) (97th percentile)

-- MHI as a percent of the portfolio median: 179.7% (2023) (96th percentile)

Economic Concentration and Population Size - 'Strongest'

Howard County's population in 2023 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: 336,001 (2023) (above the 15th percentile)

-- Economic concentration: 43.4% (2024) (above the 15th percentile)

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward looking performance shifts, or non-recurring events that may otherwise skew the time series.

The unemployment rate was updated to incorporate the average unemployment rate for the county and U.S. for the 12 months through December 2024 from the Bureau of Labor Statistics.

LONG-TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Midrange'

Howard County's liabilities to governmental revenue remain strong while carrying costs to governmental expenditures and liabilities to personal income remain midrange. The long-term liability composite metric in 2024 is at the 55th percentile, roughly in line with Fitch's local government rating portfolio.

-- Liabilities to personal income: 6.2% Analyst Input (43rd percentile) (vs. 6.2% 2024 Actual)

-- Liabilities to governmental revenue: 111.8% Analyst Input (80th percentile) (vs. 111.9% 2024 Actual)

-- Carrying costs to governmental expenditures: 14.9% Analyst Input (49th percentile) (vs. 14.5% 2024 Actual)

Analyst Inputs to the Model

The direct net debt reflects debt outstanding as of fiscal 2024, net of fiscal 2025 scheduled principal amortization and includes the current series 2025 general obligation (GO) bond issuance and a \$10 million draw on a WIFIA loan. Debt service costs and total governmental expenditures were increased by approximately \$7.6 million and \$683,000 to reflect the estimated debt service for the 2025 GO bond and the WIFIA loan, respectively.

PROFILE

Howard County is situated within the Washington-Arlington-Alexandria MSA. It is primarily a suburban enclave with an estimated census population of 336,001 as of 2023, representing a 17% increase since 2010.

The county has a large professional and business services sector owing to its proximity to federal government employment, including Fort Meade, located in nearby Anne Arundel County (AAA/Stable), is a major driver of long-term regional growth, and is Maryland's largest employer. The fort is a home base to all six military services and several federal agencies, including the National Security Agency, which is also a headquarters for the U.S. cybersecurity center.

DATE OF RELEVANT COMMITTEE

29 January 2025

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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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

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ENDORSEMENT STATUS

Howard County (MD)

EU Endorsed, UK Endorsed

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