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Ratings

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Summary:

Howard County, Maryland; Appropriations; General Obligation

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Table Of Contents

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Credit Profile		
US$71.265 mil cons pub imp proj bnds ser 2023A due 08/15/2042		
Long Term Rating	AAA/Stable	New
US$15.77 mil metro dist proj bnds ser 2023B due 08/15/2052		
Long Term Rating	AAA/Stable	New
Howard Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Howard Cnty certs of part eq prog		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Howard County, Md.'s roughly $71.3 million consolidated public improvement (CPI) project general obligation (GO) bonds, series 2023A, and its roughly $15.8 metropolitan district project GO bonds, series 2023B.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the county's existing GO debt as well as its 'AA+' rating on Howard County Housing Commission's lease-revenue appropriation debt, supported by the county.
- The outlook is stable.

Security

The county's full-faith-and-credit pledge and unlimited taxing power secure the CPI project bonds as well as the metropolitan district bonds. Further securing the latter are special front-foot assessments on all property in the county, special annual ad valorem taxes levied on assessable property in the county, and water and sewer service charges and connection fees. Nonetheless, we rate the metropolitan district GO bonds based on the county's full-faith-and-credit pledge.

We understand proceeds from the CPI GO bonds and the metropolitan district bonds will be used to repay the county's GO bond anticipation notes (BANs) outstanding and pay or reimburse the county for various capital and water-and-sewer projects.

The 'AA+' rating on the Housing Commission's lease revenue bonds is based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Nov. 20, 2019). We rate the bonds one notch lower than the GO rating to account for appropriation risk.

Credit overview

The county is a desirable affluent community with a very strong economy, supported by a well-educated population, wealthy property tax base, and high household incomes, with access to the Baltimore and Washington metropolitan statistical areas (MSAs). In our opinion, these factors, along with stable financial operations and very strong management, including comprehensive policies and practices that have allowed the county to weather several economic downturns, underpin the 'AAA' rating. The county continues to experience strong economic growth, which has helped bolster its financial position and reserves. Similar to prior years, the county remains committed to maintaining balanced budgets using conservative assumptions and adhering to its many formal fiscal policies. We believe costs related to long-term liabilities remain affordable, particularly given the county's sizable and wealthy tax base and management's strong planning for current and future challenges. As a result, we do not expect to change the rating during the two-year outlook period.

In our opinion, the rating reflects the county's:

- Robust and growing economy, with excellent access to Baltimore and Washington, D.C. employment bases;
- Consistent tax base growth in an affluent community with no taxpayer concentration;
- Historically strong financial position with very strong reserves, guided by a well-seasoned management team and several formal and well-adhered-to fiscal policies; and
- Manageable debt burden, which is not expected to pressure finances, given its adherence to its formal debt management policy.

Environmental, social, and governance

We consider the county's social and governance risks neutral within our credit rating analysis. Environmentally, although Ellicott City, a community within the county, has faced severe flooding in recent years, the county has implemented initiatives to reduce inland flooding, including implementing the Ellicott City Safe and Sound Plan, which seeks to create long-term flood mitigation in the Tiber Branch watershed. Furthermore, the county is committed to combating environmental challenges and climate change by championing initiatives such as solar panel streetlights, reducing greenhouse gas emissions by extending tax credits for clean vehicles, and leveraging state frameworks to conserve agricultural land. As a result of the county's extensive efforts, we understand it became the first county in the nation to receive LEED Platinum certification, the highest designation possible, under the United States Green Building Council's LEED for Cities and Communities certification program.

Outlook

The stable outlook reflects the county's historical ability to maintain very strong reserves and strong budgetary performance, supported by very strong economic and management conditions. We therefore do not expect to change our rating within the two-year outlook period.

Downside scenario

Although unlikely, if the county were to face significant fiscal pressures either from fixed or operational costs, and available reserves drop to levels that are more commensurate with those of lower-rated peers, with no plans to rebuild in a timely manner, or should liquidity materially weaken, we could lower the rating.

Credit Opinion

Robust, growing economy with excellent access to Baltimore and Washington, D.C.

Howard County encompasses 251 square miles in the center of the state, and is located within 15 miles, of Baltimore City; Washington, D.C.; and Fort Meade. With an excellent transportation network, a highly educated workforce, and ample employment opportunities throughout the local and regional economy, primarily in the professional and business, education, and health care sectors, the county's wealth and income levels are among the highest in the nation, and unemployment has historically remained well below state and national averages.

Although the pandemic temporarily softened certain sectors of the county's economy, such as hotels and retail, these sectors have rebounded, and the county's economic growth continues at an impressive rate. Commercial building permits in 2022 were at five-year highs and the commercial sector maintains stable and very low vacancy rates. Economic development projects continue to proliferate in the county, particularly in the cyber security, health care, and medical technologies industries. In addition, ongoing residential construction, including mixed-use, high-density developments, particularly in the Columbia area, and additional developments scattered throughout the county, continues to be a strength for the county, propelling good revenue growth.

Well-seasoned management team maintaining an array of formalized financial practices and policies

Highlights of the county's management practices include:

- Historically conservative budget assumptions and the use of trend analysis;
- Monthly monitoring of budget-to-actuals by management, with periodic reporting provided to county council;
- Five-year, long-term financial plan that it updates annually;
- Five-year, long-term capital plan that it updates annually, with funding sources identified;
- Formal investment policy that follows state guidelines, where the county council receives monthly reports on investments;
- Formal debt management policy, with a maximum level of aggregate bonds and other indebtedness of the county outstanding at any time equal to 4.8% of market value; and
- Formal stabilization fund policy that states the county will maintain at least 7% of previous-year expenditures. However, the county has met its goal of growing the policy reserves by an extra 3% of expenditures (bringing the total to 10%, including the rainy day fund) ahead of schedule.
- The county has implemented a cyber security plan providing governance and oversight through transparency, leadership, and additional cyber security insurance. The county has invested 6% of the total information technology budget for cyber security prevention.
- The institutional framework score for Maryland counties is very strong.

Historically strong financial position and reserve levels

Howard County has historically maintained strong budgetary performance and reserve levels throughout economic cycles. Conservative budgeting practices, formalized and well-adhered-to fiscal policies, active participation by the county's 22-member Spending Affordability Advisory Committee (SAAC), and a well-seasoned management team are all factors that have aided in the county's sound financial position.

Fiscal 2022 closed with another strong operating surplus, increasing available reserves by $75.9 million. Management attributes the surplus to good growth in income taxes as well as steady property-tax growth, combined with conservative budgeting and expenditures coming in well below budget. As a result, total available general fund balance, which includes the rainy day fund, increased to $374.1 million, or nearly 30% of expenditures. Although we understand the county could increase pay-go capital spending given the current strength of reserves, we also understand there are no plans to significantly draw down on reserves over the near term. Pay-go capital spending has averaged more than $20 million annually, reaching $42 million in fiscal 2022. The county maintains a budget stabilization fund, or rainy day fund, that is included in the committed portion of general fund balance and which totaled $77.65 million at fiscal year-end 2022. With council approval, the county can use this money, if necessary. Since inception, Howard County has not tapped its rainy day fund.

Fiscal 2023 is projected to close with another surplus, as revenues are exceeding budget. In addition, we understand the county was allocated $63.2 million in American Rescue Plan Act (ARPA) funds, which will be spent on a variety of one-time capital expenditures.

Manageable debt burden guided by a formal capital improvement plan and debt issuance policy

The county currently has $1.9 billion of total direct debt outstanding. The county's formal capital improvement plan (CIP) for fiscal years 2023 through 2027 totals $1.2 billion, with school, sewer, and general county projects accounting for nearly half of identified projects. We understand that the county plans to issue approximately $70-$90 million of public improvement bonds annually for new capital projects identified in the annual capital budget, and approximately $40-$65 million annually for the metropolitan district for the foreseeable future. Nevertheless, given its overall debt profile and well-embedded debt policies, we do not believe the county's debt profile will materially change as a result of its current CIP.

We note the county maintains a $200 million GO BAN line of credit through Bank of America N.A. that provides temporary financing during the year for capital projects before the interim financing is permanently financed with GO bonds. There are no acceleration events, and we do not view this as a material contingent liquidity risk to the county. We understand the agreement expires in May 2023 and that the county is in the process of renewing the note.

Manageable pension and other postemployment benefits (OPEB) cost

- We do not believe pension and OPEB costs are currently a pressure on the county, as the plans are well-funded and discount rates, while still slightly elevated, have gradually been reduced.
- We expect Howard County will continue to absorb pension and OPEB cost increases into its overall budget, given current retirement costs are less than 5% of governmental expenditures.

Almost all county employees participate in one of two pension plans:

- Howard County Retirement Plan: 92% funded, with a net pension liability for the county of $50.7 million; and
- Howard County Police & Fire Employees' Retirement Plan: 85.2% funded, with a net pension liability of $130.6 million.

Both plans are county-administered, single-employer, defined-benefit, public employee retirement plans. The discount rate for these plans was reduced to 7.35% in fiscal 2022 (down from 7.45%). Additionally, a handful of employees (44 as of July 1, 2022) participate in the employee retirement and pension systems of the State of Maryland.

The county provides OPEB to eligible employees through a single-employer, defined-benefit program administered by the county. Historically, it has contributed 100% of OPEB costs annually. Howard County maintains a trust for its OPEB benefits, and the net OPEB liability stood at $309.1 million at the end of fiscal 2022.

Ratings above the sovereign

Howard County's GO debt is 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 predominantly locally derived revenue source, with property taxes and income taxes generating the vast majority of general fund revenue, coupled with an independent taxing authority and independent treasury management from the federal government.

Howard County--Key Credit Metrics

	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	159			
Market value per capita ($)	183,041			
Population			330,974	329,133
County unemployment rate (%)			4.3	
Market value ($000)	60,581,707	58,900,042	56,994,790	
Ten largest taxpayers % of taxable value	2.9			
Strong budgetary performance				
Operating fund result % of expenditures		6.2	11.1	6.0
Total governmental fund result % of expenditures		0.0	13.8	4.1
Very strong budgetary flexibility				
Available reserves % of operating expenditures		30.3	28.5	17.4
Total available reserves ($000)		374,147	325,402	197,072
Very strong liquidity				
Total government cash % of governmental fund expenditures		43	51	33
Total government cash % of governmental fund debt service		464	491	324
Very strong management				
Financial Management Assessment	Strong			

Howard County--Key Credit Metrics (cont.)

	Most recent	Historical information		
		2022	2021	2020
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		9.2	10.4	10.3
Net direct debt % of governmental fund revenue	91			
Overall net debt % of market value	2.5			
Direct debt 10-year amortization (%)	60			
Required pension contribution % of governmental fund expenditures		3.0		
OPEB actual contribution % of governmental fund expenditures		2.2		
Very strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.
Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of February 17, 2023)

Howard Cnty metro dist proj and rfdg bnd ser 2015A due 02/15/2045		
Long Term Rating	AAA/Stable	Affirmed
Howard Cnty metro dist proj rfdg bnds ser 2017 C dtd 04/25/2017 due 02/15/2018-2047		
Long Term Rating	AAA/Stable	Affirmed
Howard Cnty metro dist rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Howard Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Howard Cnty GO metro dist bnds		
Long Term Rating	AAA/Stable	Affirmed
Howard Cnty Hsg Commission, Maryland		
Howard Cnty, Maryland		
Howard Cnty Hsg Commission lse rev rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.