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Ratings

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Summary:

Howard County, Maryland; Appropriations; General Obligation

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Credit Profile		
US$97.145 mil cons pub imp proj bnds ser 2024A due 08/15/2043		
Long Term Rating	AAA/Stable	New
US$24.285 mil metro dist proj bnds ser 2024B due 08/15/2053		
Long Term Rating	AAA/Stable	New
US$2.265 mil cons pub imp proj bnds ser 2024C due 08/15/2043		
Long Term Rating	AAA/Stable	New
Howard Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Howard County, Md.'s approximately $97.1 million series 2024A consolidated public improvement (CPI) project general obligation (GO) bonds, its about $24.3 million series 2024B metropolitan district project GO bonds, and its approximately $2.3 million series 2024C consolidated public improvement project GO bonds.
- 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. Nevertheless, 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 issued on Howard County's line of credit through JP Morgan Chase, 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. In our opinion, these factors, along with surplus financial operations and very strong management, including comprehensive policies and practices, have allowed the county to weather economic downturns, and underpin the 'AAA' rating. Similar to previous years, Howard County remains committed to maintaining balanced budgets using conservative assumptions while adhering to its many formal fiscal policies. In addition, we believe costs related to long-term liabilities remain affordable, particularly given the county's large and wealthy tax base and management's strong planning for current and future challenges.

In our opinion, the rating reflects Howard County's:

- Robust, affluent, and growing economic base directly tied into Baltimore and Washington, D.C. employment bases;
- Historically strong financial position, with very strong reserves that have grown substantially in recent years;
- Very strong management conditions with formal and well-adhered-to fiscal policies, highlighted by conservative budgeting and detailed long-term financial and capital planning, along with a very strong institutional framework score; and
- Manageable overall fixed costs, which we do not expect will pressure finances in the near term despite ongoing substantial capital needs, given the county's adherence to a formal debt management policy and robust capital planning.

Environmental, social, and governance

We consider the county's social and governance factors neutral within our credit rating analysis. Environmentally, although Ellicott City, a community within the county, has faced severe flooding in recent years, Howard 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.

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), Howard 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.

Outlook

The stable outlook reflects the county's historical ability to maintain very strong reserves and strong budgetary performance, which are supported by a strong, dynamic economy and comprehensive management policies.

Downside scenario

Although unlikely, if Howard County were to face significant fiscal pressures either from increased fixed or operating costs, and available reserves drop to levels no longer commensurate with those of similarly rated peers, with no plans to rebuild in a timely manner, we could take a negative rating action.

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.

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, principally in the City of Columbia, and additional developments scattered throughout Howard 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 Howard 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;
- A five-year financial plan that the county updates annually, along with a five-year capital plan updated annually, with funding sources identified;
- A formal investment policy that follows state guidelines, with monthly investment reports;
- A formal debt management policy, with a maximum level of aggregate bonds and other the county's debt outstanding at any time equal to 4.8% of market value;
- A formal fund balance totaling 10% of expenditures, including a 7% rainy-day fund; and
- A cyber security plan providing governance and oversight through transparency and leadership, with the county investing 6% of the total information technology budget for cyber security prevention.

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, and a well-seasoned management team are all factors that have aided in the county's sound financial position.

Fiscal 2023 closed with another strong operating surplus of $82.3 million, equal to 6.2% of budget. Management attributes the surplus to continued 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, the total available general fund balance increased to $485 million, or more than 36% of expenditures, including the $81 million rainy-day fund in committed reserves. We understand that with council approval, the county can use the rainy-day fund, if necessary; however, it has never needed to. In addition, although the county has a history of strong pay-as-you-go capital spending support, we also understand there are no plans to draw down on reserves over the near term. Pay-as-you-go capital spending has averaged more than $31 million annually over the past five years, reaching a high of $76 million in fiscal 2023.

Fiscal 2024 is projected to close with another surplus, as revenues are exceeding budget. In addition, we understand Howard County was allocated $63.2 million in American Rescue Plan Act funds, which has been 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 $2.0 billion of total direct debt outstanding. We understand that Howard County plans to issue approximately $70 million-$90 million of public improvement bonds annually for new capital projects identified in the annual capital budget, and approximately $40 million-$65 million annually for the metropolitan district for the foreseeable future. Nevertheless, given above-average amortization of existing debt, we do not believe Howard County's debt profile will materially change as a result of the county's current CIP.

We note Howard County maintains a $200 million GO BAN line of credit through JP Morgan Chase that provides temporary financing during the year for capital projects before the interim financing is permanently financed with GO bonds. Howard County has drawn $80 million on the line of credit, all of which will be permanently financed as a result of this issue. There are no acceleration events, and we do not view this as a material contingent liquidity risk to the county.

Affordable, well-funded pension and other postemployment benefits

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

- Howard County Retirement Plan: 89% funded, with a net pension liability for the county of $72 million; and
- Howard County Police & Fire Employees' Retirement Plan: 85.2% funded, with a net pension liability of $142.2 million.

The county provides other postemployment benefit (OPEB) to eligible employees through a single-employer, defined-benefit program administered by Howard County. The county maintains a trust for its OPEB benefits, and the net OPEB liability, which is 17% funded, stands at $245 million.

Howard County, Maryland--Key credit metrics

	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	154			
Market value per capita ($)		178,805	172,814	172,203
Population (no.)	340,829		340,829	330,974

Howard County, Maryland--Key credit metrics (cont.)	Most recent	Historical information		
		2023	2022	2021
County unemployment rate(%)			2.6	4.0
Market value ($000)		60,941,835	58,900,042	56,994,790
Ten largest taxpayers % of taxable value	3.1			
Strong budgetary performance				
Operating fund result % of expenditures		6.2	6.2	11.1
Total governmental fund result % of expenditures		6.5	0.0	13.8
Very strong budgetary flexibility				
Available reserves % of operating expenditures		36.4	30.3	28.5
Total available reserves ($000)		484,986	374,147	325,402
Very strong liquidity				
Total government cash % of governmental fund expenditures		52	43	51
Total government cash % of governmental fund debt service		532	464	491
Very strong management				
Financial Management Assessment	Strong			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		9.8	9.2	10.4
Net direct debt % of governmental fund revenue	89			
Overall net debt % of market value	2.6			
Direct debt 10-year amortization (%)	60			
Required pension contribution % of governmental fund expenditures		2.9		
OPEB actual contribution % of governmental fund expenditures		2.4		
Very strong institutional framework				

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

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 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
- 2023 Update Of Institutional Framework For U.S. Local Governments, Nov. 28, 2023

Ratings Detail (As Of February 13, 2024)		
Howard Cnty certs of part eq prog		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of February 13, 2024) (cont.)		
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 County Housing Commission, Maryland		
Howard County, Maryland		
Howard Cnty Hsg Commission (Howard Cnty) APPROP		
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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.