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Ratings

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Summary:

Howard County, Maryland; Appropriations; General Obligation

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Credit Profile		
US$82.21 mil GO bnds, consolidated pub imp project bnds ser 2025A due 08/15/2044		
Long Term Rating	AAA/Stable	New
US$75.0 mil WIFIA loan dtd 03/15/2025 due 08/15/2054		
Long Term Rating	AAA/Stable	New
US$21.9 mil GO bnds metropolitan dist project bnds ser 2025B due 08/15/2054		
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 $82.2 million series 2025A consolidated public improvement (CPI) project general obligation (GO) bonds, its $21.9 million series 2025B metropolitan district project GO bonds, and its $75 million Water Infrastructure Finance and Innovation Act (WFIA) bond.
- At the same time, we affirmed our 'AAA' rating on the county's existing GO debt as well as its 'AA+' rating on the 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 there, 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.

As security for the payment of the WIFIA loan, the county will issue a WIFIA bond to the Environmental Protection Agency (WIFIA lender). Any payment of the WIFIA bond will be treated as a payment in respect of the WIFIA loan. The WIFIA loan and bond constitute a GO of the county, for which the full faith and credit and unlimited taxing power of the county is pledged.

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 either reimburse the county for various capital projects or refund previously issued debt. We understand proceeds from the WIFIA loan will be used to fund various county utility capital 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, on RatingsDirect). 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 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.

Although we believe the county has some exposure to potential federal funding freezes or cuts, which could equate to reduced operating revenue, we believe management is well positioned to effectively mitigate the effects of any such cuts through budget adjustments. We believe Howard County remains committed to maintaining balanced budgets using conservative assumptions while adhering to its many formal fiscal policies. In addition, in our view, costs related to long-term liabilities, although growing, 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 the Baltimore and Washington, D.C. MSA employment bases, including extremely strong income levels compared to the national average, which we believe to be a credit strength;
- Historically sturdy financial position, with robust available general fund reserves that should remain robust, despite the county's planned use of reserves in fiscal 2025 for one-time capital purposes;
- Comprehensive financial policies and practices 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
- Increasing but 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, in addition to well-funded retirement plans.

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 robust reserves and surplus financial operations, supported by a 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 or from potential federal funding cuts, such that 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 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 we believe the county has some exposure to potential federal government expense cuts or freezes given its ties to Washington, ultimately we believe it has a long track record of strong planning and proactive budget management, which we believe will limit the effects of any such cuts.

Economic development projects continue to proliferate in the county, particularly in cyber security, health care, and medical technologies. In addition, ongoing residential construction, including mixed-use, high-density developments, principally in the City of Columbia, and additional developments scattered throughout Howard County, remains a strength for the county, generating 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 improvement plan (CIP) 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 IT budget for cyber security prevention.

Historically strong financial position and reserve levels

Howard County has historically maintained steady budgetary performance with robust 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 sustained the county's sound financial position.

Fiscal 2024 closed with another strong operating year despite the use of $19 million in reserves due largely to an $89.4 million transfer out of the general fund, more than $82 million of which was used to fund one time pay-as-you-go capital expenses. Management attributes its historical surplus operations 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, the total available general fund balance currently stands at a robust $467 million, or more than 33% of expenditures, including the $85 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 fiscal 2025, the county conservatively projects to use as much as $196 million in reserves to fund one-time capital projects as part of management's plan to limit debt increases. It has a history of strong pay-as-you-go capital spending support, which has ramped up significantly in recent years, averaging nearly $60 million annually since 2020 and reaching a high of $110 million in fiscal 2024, and budgeted to materially increase again in fiscal 2025. That said, we understand revenue is exceeding budget for the first half of fiscal 2025 and that management continues to identify savings in the current budget such that we do not anticipate the county using the full amount appropriated in the budget. Nonetheless, even if it were to fully use the $196 million budgeted, we anticipate available general fund reserves remaining robust at more than 20% of revenue at year-end, or more than double the county's minimum policy level.

Elevated but manageable debt burden guided by a formal CIP and debt issuance policy

The county currently has $2.0 billion of total direct debt outstanding. We understand that for the foreseeable future it plans to issue approximately $70 million-$90 million of public improvement bonds annually for new capital projects identified in the annual capital budget. Nevertheless, given above-average amortization of existing debt in addition to increased pay-as-you-go spending, we do not believe Howard County's debt profile will materially worsen 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. The county has drawn $84.5 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: 88.7% funded, with a net pension liability (NPL) for the county of $184 million; and
- Howard County Police & Fire Employees' Retirement Plan: 87.6% funded, with a NPL of $126.9 million.
- There is also a length of service award program for volunteer firefighters and emergency medical service personnel with a NPL of $26.2 million.

The county provides other postemployment benefits (OPEBs) to eligible employees through a single-employer, defined-benefit program administered by Howard County. It maintains a trust for its OPEB benefits, and the net OPEB liability, which is 18.6% funded, stands at $250.7 million.

Table 1

Howard County, Maryland--Credit summary	
Institutional framework (IF)	1
Individual credit profile (ICP)	1.80
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.00
Debt and liabilities	4.00

Table 2

Howard County, Maryland--Key credit metrics				
	Most recent	**2024**	**2023**	**2022**
Economy				
Real GCP per capita % of U.S.		132	132	132
County PCPI % of U.S.		136	136	136
Market value ($000s)		64,022,945	60,941,835	58,900,042
Market value per capita ($)		190,498	181,330	172,814
Top 10 taxpayers % of taxable value		3.0	3.1	3.0
County unemployment rate (%)		2.4	1.7	2.4
Local median household EBI % of U.S.		162	162	154
Local per capita EBI % of U.S.		157	157	156
Local population		336,082	336,082	340,829
Financial performance				
Operating fund revenues ($000s)		1,385,186	1,416,492	1,309,412
Operating fund expenditures ($000s)		1,378,482	1,334,148	1,233,466
Net transfers and other adjustments ($000s)		(25,814)		
Operating result ($000s)		(19,110)	82,344	75,946
Operating result % of revenues		(1.4)	5.8	5.8
Operating result three-year average %		3.4	7.2	7.2

Table 2

Howard County, Maryland--Key credit metrics (cont.)				
	Most recent	**2024**	**2023**	**2022**
Reserves and liquidity				
Available reserves % of operating revenues		27.4	34.2	28.6
Available reserves ($000s)		380,087	484,986	374,147
Debt and liabilities				
Debt service cost % of revenues		9.9	9.2	9.2
Net direct debt per capita ($)	5,688	5,474	5,416	5,414
Net direct debt ($000s)	1,911,752	1,839,591	1,820,073	1,845,212
Direct debt 10-year amortization (%)	61	64		
Pension and OPEB cost % of revenues		6.0	5.0	5.0
NPLs per capita ($)		991	716	609
Combined NPLs ($000s)		333,173	240,515	207,415

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings Detail (As Of February 19, 2025)		
Howard Cnty certs of part eq prog		
Long Term Rating	AA+/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 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.