S&P Global
Ratings

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Summary:

Howard County, Maryland; Appropriations; General Obligation

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Credit Profile		
US$65.68 mil cons pub imp proj bnds ser 2022A due 08/15/2041		
Long Term Rating	AAA/Stable	New
US$16.805 mil metro dist proj bnds ser 2022B due 08/15/2051		
Long Term Rating	AAA/Stable	New
Howard Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Howard County, Md.'s series 2022A consolidated public improvement (CPI) project general obligation (GO) and series 2022B metropolitan district project GO bonds. At the same time, we affirmed our 'AAA' long-term rating on the county's existing GO bonds and our 'AA+' rating on the Howard County Housing Commission lease-revenue appropriation debt, supported by the county. The outlook is stable.

The county's full-faith-and-credit pledge secures the consolidated public improvement 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. If special assessment charges are insufficient to pay debt service, the county will levy and collect annually a tax or taxes against all taxable property within the entire corporate limits of the county in a rate and amount sufficient to provide payment of principal and interest on the bonds. For this reason, we rate the metropolitan district GO bonds based on the county's full-faith-and-credit pledge. We rate the commission's debt one notch off the GO rating on the county to account for the risk of appropriation.

We understand proceeds from the consolidated public improvement bonds will be used to refund the county's $10.0 million line of credit (bond anticipation note) and pay or reimburse the county for various capital projects, while the metropolitan district bonds will be used to reimburse the county for water-and-sewer-related projects.

Credit overview

The county is a desirable affluent community with a 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 them to weather several economic downturns, underpin the 'AAA' rating. Despite the recent challenges brought on by the pandemic, the county continues to experience economic growth and maintains a strong financial position and reserves as they continue to monitor and adjust for potential anticipated multiyear revenue loss going forward. Similar to prior years, the county remains committed to developing balanced budgets using conservative budgeting practices 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.

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 94.3% of general fund revenue, coupled with an independent taxing authority and independent treasury management from the federal government.

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;
- Manageable debt burden, which is not expected to pressure finances over the near term given the 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. However, we view the county's HoCo RISE Business Assistant Grant Program to support businesses and organizations that were disproportionately affected by the pandemic, particularly those that underscored diversity and inclusion efforts, as positive for ensuring all members of the community received access to grant support. To date, the county has provided more than $21.0 million in emergency funding to local businesses, primarily targeting retail, restaurants, farms, childcare providers, hotels and more. This successful program was recognized by the National Association of Counties. Although Ellicott City, a community within the county, has faced severe flooding in recent years, the county has implemented initiatives to reduce inland flooding occurrences and therefore we do not believe the county's environmental risks are elevated relative to peers, as these events are infrequent. To address flooding in Ellicott City, the county implemented the Ellicott City Safe and Sound Plan, which seeks to implement long-term flood mitigation in the Tiber Branch watershed. The plan consists of seven projects, with two under construction. While the county has applied for a Water Infrastructure Finance and Innovation Loan (WIFIA), which is currently under review, it has authorized the issuance of up to $75 million of bonds for infrastructure repairs and improvements. Furthermore, the county is committed to combating climate change by championing several initiatives such as solar panel streetlights and reducing greenhouse gas emissions.

Stable Outlook

Downside scenario

Although unlikely, if the county were to face 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 economy with excellent access to Baltimore and Washington D.C. that continues to experience growth even during the pandemic

Encompassing 251 square miles in the center of the state, Howard County is located just 15 miles, or less, from 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 are well above average and unemployment is well below state and national averages. The county has historically been among the top 10 wealthiest counties across the nation. Having the second-highest job growth rate over the past five years at 2.3% (U.S. Bureau of Labor Statistics 2016-2021) and we believe strong job growth will continue with planned economic development underway.

Although the pandemic softened certain sectors of the county's economy such as hotels and retail, many have begun to rebound. The commercial sector is growing with stable vacancy rates. Economic development projects that had begun either prior to or during the pandemic have continued without interruption or delays. Recent projects include Rekor Systems (intelligence), A&M Supply (distribution), Cavalier Logistics (global logistics firm), and Komolo Inc. (food distributor). The county also serves as a catalyst for innovation with the recently opened Maryland Innovation Center (MIC) occupying nearly 50,000 square feet and already 85% leased, with focus on cybersecurity, health care, and medical technologies. Ongoing residential construction, which includes mixed-use, high-density developments, primarily in the Columbia area, and additional developments scattered throughout the county continues to be added to the landscape. Development continues in Columbia and Ellicott City. New construction--particularly in and around Columbia, one of the largest planned communities in Maryland--remains sound, in our view. Downtown Columbia is a focus of the county's economic development initiatives. Other notable projects include the development of two transit-oriented developments, which should further add to the tax base. Lastly, following the most recent flash flood, Ellicott City continues to see redevelopment. Given both the commercial and residential development and re-development and couple with continued property appreciation, assessed value continues to demonstrate healthy and consistent growth.

Very strong management and a well-seasoned management team that remains dedicated to ensuring fiscal stability

Highlights include management's:

- Historically conservative budget assumptions and the use of trend analysis, as well as consideration of future trends when budgeting;

- Monthly monitoring of budget-to-actuals, yet with no regular reporting provided to the county council;
- Five-year, long-term financial plan that the county updates annually;
- Five-year, long-term capital plan that the county 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 cybersecurity plan providing governance and oversight through transparency, leadership, and additional cybersecurity insurance. The county has invested 6% of the total information technology budget for cybersecurity prevention. Furthermore, to address flooding in Ellicott City, the county implemented the Ellicott City Safe and Sound Plan, which seeks to implement long-term flood mitigation in the Tiber Branch watershed.

Historically strong financial position and reserve levels even during several recessionary periods

Howard County has historically maintained strong budgetary performance and reserve levels. Conservative budgeting practices, several formal and well-adhered-to fiscal policies, active participation by the county's 22-member Spending Affordability Advisory Committee (SAAC), and coupled with a well-seasoned management team has aided in its sound financial position.

Fiscal 2021 closed with another well-above average $126.7 million surplus, net of adjustments; and despite the pandemic. Management attributes the surplus to income taxes coming in well above budget along with federal stimulus funds. As a result, total available general fund balance, which includes the rainy-day fund, increased to $325.4 million or a very strong 28.5% of expenditures. Although the county plans to increase pay-go funding for fiscal years 2022 and 2023, we understand there are no plans to significantly draw down on reserves over the near term. 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 2021. With board approval, the county can use this money, if necessary. Its stabilization fund policy calls for the maintenance of at least 7% of previous-year audited expenditures. Since inception, Howard County has not tapped its rainy-day fund. It also has additional revenues, outside of the general fund, which it could use, with approval, if needed. A total of $56.8 million in CARES Act money has been awarded and spent in fiscal years 2021 and 2022. The county has been allocated $63.2 million in ARPA funds, half of which it has received with the other half in June of 2022. The county is currently in the community engagement process of how it will be spent. Lastly, the county received an additional $42.65 million in state and federal grant awards for other specific purposes such as rental/utility assistance and transportation.

Fiscal 2022 is projected to close with another surplus as revenues are exceeding budget, primarily from income and recordation taxes and further aided by federal stimulus funds. On the expenditures side, the county maintains its conservative position by taking ongoing proactive measures to generate savings including hiring freezes. In doing so, this will enable the county to position itself for any potential unforeseen costs in fiscal 2022 or fiscal 2023.

The fiscal 2023 budget is currently being developed and will likely remain conservative with revenues and mindful of lingering pandemic-related costs.

The county continues to look for additional revenue enhancements to ensure budgetary balance, for both operations and capital needs. Between fiscal years 2020 and 2021, the county increased several taxes and fees, including raising the fire and rescue tax and establishing a new emergency medical services (EMS) fee, increasing the refuse curbside collection fee, and establishing a plastic-bag fee. For future capital needs, the county increased the school facilities surcharge and plans to increase the transfer tax. The school facilities surcharge will be phased in through fiscal 2022, increasing from its current $1.32/square foot to $7.50/square foot in fiscal 2022, with consumer price index adjustments thereafter.

In addition to the county's GO debt, it has several outstanding capital leases, a modest privately held taxable golf course refunding revenue notes and a $200.0 million line of credit. However, we do not think they pose any material contingent liability risks to the county's liquidity position as the county maintains ample cash.

With conservative budgeting and formal fiscal policies already in place, we believe the county will continue to take the necessary steps to ensure fiscal stability and we do not expect its budgetary performance to deteriorate over the near term. However, we will continue to monitor the effects of COVID-19 and the related recession on the county's finances.

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

The county currently has $1.83 billion of total direct debt outstanding, including the metropolitan district bonds. The county's formal capital improvement plan (CIP) for fiscal years 2023 through 2027 totals $1.027 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 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 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.

Manageable pension and other postemployment benefits (OPEB) cost

We do not believe pension and OPEB costs to currently be a pressure on the county as the plans are well-funded and discount rates, while still slightly elevated have gradually been reduced.

Howard County's combined required pension and actual OPEB contributions totaled 6.0% of total governmental fund expenditures in 2021. Of that amount, 3.3% represented required contributions to pension obligations, and 2.6% represented OPEB payments. The county made its full annual required pension contribution in 2021.

We expect Howard County will continue to absorb pension and OPEB cost increases into its overall budget; however, if these costs rise to levels that we believe account for an outsized portion of the budget compared with those of peers, our view of the county's debt and long-term liability profile could weaken.

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

- Howard County Retirement Plan. 91% funded with a net pension liability for the county of $48.8 million, and

- Howard County Police & Fire Employees' Retirement Plan. 83.2% funded with a net pension liability of $130.85 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% in fiscal 2020). Investment gains and losses are smoothed over five years and actuarial gains and losses are amortized over 15 years for both plans. The county is considering continued reductions in the discount rate where feasible.

Additionally, a handful of employees (44 of July 1, 2021) 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. Howard County maintains a trust for its OPEB benefits. In fiscal 2021, it contributed $13.0 million to the trust in addition to the $36.6 million in pay-go. Historically, it has contributed 100% of OPEB costs annually. For fiscal 2022, the county contribution to the liability is $11.0 million with pay-go expected to be $30.8 million. The market value of the trust assets was $238.5 million as of Dec. 30, 2021.

Pension contributions, while at 100%, exceed our static funding metric for one of the two county plans (police & fire). However, given ongoing oversight of the plans, we do not expect plan contributions to materially change over the next couple of years.

Very strong institutional framework

The institutional framework score for Maryland counties is very strong.

Howard County, Maryland Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	160			
Market value per capita ($)		173,166		
Population			329,133	327,701
County unemployment rate(%)			5.2	
Market value ($000)		56,994,790	55,178,323	53,412,616
Ten largest taxpayers % of taxable value	3.0			
Strong budgetary performance				
Operating fund result % of expenditures		11.1	6.0	(0.1)
Total governmental fund result % of expenditures		13.8	4.1	(2.0)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		28.5	17.4	11.5
Total available reserves ($000)		325,402	197,072	128,342
Very strong liquidity				
Total government cash % of governmental fund expenditures		51	33	25
Total government cash % of governmental fund debt service		491	324	273

Howard County, Maryland Key Credit Metrics (cont.)				
	Most recent	Historical information		
		2021	2020	2019
Very strong management				
Financial Management Assessment	Strong			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		10.4	10.3	9.3
Net direct debt % of governmental fund revenue	90			
Overall net debt % of market value	2.5			
Direct debt 10-year amortization (%)	59			
Required pension contribution % of governmental fund expenditures		3.3		
OPEB actual contribution % of governmental fund expenditures		2.6		
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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of February 16, 2022)		
Howard Cnty certs of part eq prog		
Long Term Rating	AA+/Stable	Affirmed
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