S&P Global
Ratings

RatingsDirect®

Summary:

Howard County, Maryland; Appropriations; General Obligation

Primary Credit Analyst:
Danielle L Leonardis, New York (1) 212-438-2053; danielle.leonardis@spglobal.com

Secondary Contact:
Nora G Wittstruck, New York (1) 212-438-8589; nora.wittstruck@spglobal.com

Table Of Contents

Summary:

Howard County, Maryland; Appropriations; General Obligation

Credit Profile		
US$145.445 mil cons pub imp proj & rfdg bnds (taxable) ser 2020C due 08/15/2039		
Long Term Rating	AAA/Stable	New
US$118.765 mil cons pub imp proj bnds (tax-ex) ser 2020A due 08/15/2039		
Long Term Rating	AAA/Stable	New
US$50.475 mil metro dist rfdg bnds (taxable) ser 2020D due 08/15/2044		
Long Term Rating	AAA/Stable	New
US$49.515 mil metro dist proj bnds (tax-ex) ser 2020B due 08/15/2049		
Long Term Rating	AAA/Stable	New
Howard Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Howard Cnty cert of part (Agricultural Land Preserv Prog Installment Purch #1991-17 ser 1991C dtd 08/15/1991 due 2020		
Long Term Rating	AAA/Stable	Rating Assigned

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Howard County, Md.'s series 2020 A and C (taxable) consolidated public improvement project and refunding general obligation (GO) bonds and series 2020 B and D (taxable) metropolitan district project and refunding GO bonds. At the same time we affirmed our 'AAA' long-term rating on the county's existing GO bonds and its 'AA+' rating on the Howard County Housing Commission's 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 of the county GO rating to account for the risk of appropriation.

We understand, proceeds from this issue will be used to pay or reimburse the county for the cost of certain public improvements, repay all or a portion of the county's outstanding GO bond anticipation notes (BANs) and provide funds to refund certain existing county GO bonds.

Credit overview

The county is a desirable affluent community with a strong economy, supported by a 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, support the 'AAA' rating. Furthermore, the county has already begun to monitor anticipated multi-year revenue loss as a result of COVID-19, modifying the current year's budget while remaining committed to developing balanced budgets in the near term. We currently believe costs related to long-term liabilities remain affordable, particularly given its 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:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2019, which closed with balanced operating results in the general fund but an operating deficit at the total governmental fund level in fiscal 2019;
- Strong budgetary flexibility, with an available fund balance in fiscal 2019 of 11.5% of operating expenditures;
- Very strong liquidity, with total government available cash at 25.3% of total governmental fund expenditures and 2.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 9.3% of expenditures and net direct debt that is 102.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Very strong institutional framework score.

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 predominately 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.

Stable Two-Year Outlook

Downside scenario

Although unlikely, if available reserves drop to levels that are more commensurate with those of lower rated peers, with no plans to rebuild to strong levels, or should liquidity materially weaken, we could lower the rating.

Credit Opinion

Very strong economy

We consider the county's economy very strong. Howard County, with an estimated population of 326,286, is located in the Baltimore-Columbia-Towson, Md. MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 168% of the national level and per capita market value of $163,699. Overall, the county's market value grew by 3.7% over the past year to $53.4 billion in 2019. The county unemployment rate was 3.0% in 2018.

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 and education and healthcare sectors keep wealth and income well above average and unemployment well below state and national averages. The county has historically been among the top 10 wealthiest counties across the nation. Factoring in COVID-19 and recession concerns, personal income is projected to increase by 2% (compared with 3.9%) over the next five years, as per The Jacob Frances Institute at the University of Baltimore. Given the strong job growth rate over the past five years, county unemployment continues to trend down.

The county continues to attract new businesses in all sectors, and it encourages expansions by existing companies. In particular, NAVCO Wholesale Seafood, signed a lease for 70,000 square feet. The company brings with it $25 million in capital investment and 50 new jobs. New construction--particularly in and around Columbia, one of the largest planned communities in Maryland--remains strong, in our view. Downtown Columbia is a focus of the county's economic development initiatives, including a variety of projects in the Symphony Woods, Lakefront, and Mall & Warfield areas. Other notable projects include the development of two transit-oriented developments, which should further add to the tax base. Lastly, following the second flash flood in as many years, Ellicott City continues to see redevelopment.

Given the growth in the county, both in the residential and commercial and retail sectors, tax base growth has been healthy and consistent, averaging roughly 3.3% annually (over the past five years) to $53.4 billion in 2019. We expect this trend to continue, yet more modestly in the wake of recessionary concerns, and the county's assessed value will continue to rise in the near term.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

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. Furthermore, it has implemented a goal to strengthen its minimum reserve requirement to 10% over time.

In addition, 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 cybersecurity prevention.

Strong budgetary performance

Howard County's budgetary performance is strong in our opinion. The county had balanced operating results in the general fund of negative 0.1% of expenditures, but a deficit result across all governmental funds of negative 2.0% in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could improve from 2019 results in the near term. General fund operating results of the county have been stable over the last three years, with a result of 0.5% in 2018 and a result of negative 0.3% in 2017.

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.

The county closed fiscal 2019 with a modest drawdown of $1.6 million; against a $1.1 billion budget. Reserves remained relatively in line with the prior year. The revenue base is diverse, with property taxes generating approximately 51% of general fund revenue, followed by income taxes at 45%. Property tax collections remain strong, averaging over 99% annually over the past five years.

Management is currently estimating fiscal 2020 to close with a roughly $15 million surplus, net of adjustments made by the county due to the anticipated loss of revenues due to COVID-19. While multiple taxes and charges and fees are expected to be impacted from COVID-19, very strong year-to-date performance in income tax related to the delayed impact from the Federal tax law change and conservative budgeting is the primary driver of the estimated surplus.

The county has acknowledged the potential challenges that they face for fiscal 2021 and the following years and remain committed to developing balanced budgets in the wake of COVID-19 and a recession. The county is currently crafting the fiscal 2021 budget. In anticipation of these challenges, in March (2020) the county adjusted down (from prior SAAC projections) both general fund revenues and annual growth rates on property and income taxes as well as other charges and fees.

The county continues to looks for additional revenue enhancements to ensure budgetary balance, for both operations and capital needs. Between fiscal 2020 and 2021, the county has increased several taxes and fees including increasing the fire and rescue tax and establishing a new 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.

The county is also committed to combat climate issues. It recently completed a solar feasibility study and will look to select a company to enter into a solar power purchase agreement to power 30% of government operations. The county also is in the process of purchasing LED streetlight fixtures and is implementing new utility bill management software for cost savings measures. Lastly, the county will aim to reduce greenhouse gas emissions of county government operations 45% below 2010 levels by the year 2030 and reach zero emissions by 2050. This will be accomplished by reducing county energy use, lowering fleet fuel consumption, and increasing renewable energy generation on county property.

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. As such, we do not expect its budgetary performance to deteriorate over the near term. However, we will continue to monitor the effects that COVID-19 and recession could have on the county's finances.

Strong budgetary flexibility

Howard County's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2019 of 11.5% of operating expenditures, or $128.3 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 11.9% of expenditures in 2018 and 11.9% in 2017.

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 $73.96 million at fiscal year-end 2019. 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 the general fund, which it could use, with approval, if needed.

With the expectation of a surplus for fiscal 2020, we believe available reserves will likely remain strong over the near term, given the county's conservative management practices and formal fiscal policies.

Very strong liquidity

In our opinion, Howard County's liquidity is very strong, with total government available cash at 25.3% of total governmental fund expenditures and 2.7x governmental debt service in 2019. In our view, the county has strong access to external liquidity if necessary.

The county has historically issued GO debt, which we believe gives it access to strong liquidity, if necessary. Howard County currently maintains a $200 million revolving credit bank line with Bank of America N.A. This line of credit is set to expire in May of 2020. The county is currently working on establishing a new line of credit for future BAN issuances. This issue will refund all of the county's existing BANs. It also maintains about $1.965 million in taxable golf course refunding revenue notes with PNC Bank N.A. that we believe contain permissive events of default and immediate acceleration as a remedy. However, we do not think this poses a material contingent liability risk to the county's liquidity position.

The county issues tax-exempt bond anticipation notes (BANs) to provide financing for a portion of the cost of its ongoing capital projects. Currently, the existing notes are in the form of a line of credit and will be repaid in their entirety with the proceeds from this bond issue. As of Dec. 31, 2019, the outstanding amount of such notes was $171.9 million.

In addition, we believe the county has ample cash to fund any acceleration of principal under the revenue note financing agreement with PNC Bank. Therefore, we do not believe there is any material contingent liability risk to the county's liquidity position. We also do not view any of its investments as aggressive.

Adequate debt and contingent liability profile

In our view, Howard County's debt and contingent liability profile is adequate. Total governmental fund debt service is 9.3% of total governmental fund expenditures, and net direct debt is 102.1% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, which is in our view a positive credit factor.

The county currently has $1.8 billion of total direct debt outstanding including the metropolitan district bonds. The county's formal capital improvement plan (CIP) for fiscal years 2021 through 2025 totals $1.98 billion, with school and general county projects accounting for nearly half of identified projects. We understand that the county plans to issue roughly $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 above-average amortization of existing debt, we do not believe the county's debt profile will materially change as a result of its current CIP.

We expect Howard County will continue to absorb pension and other postemployment benefits (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: 96.6% funded with a net pension liability for the county of $37.5 million, and
- Howard County Police & Fire Employees' Retirement Plan: 83.6% funded with a net pension liability of $121.8 million.

Both plans are county-administered, single-employer, defined-benefit, public employee retirement plans. The discount rate for these plans will be reduced to 7.4% in fiscal 2021 (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.

In addition, a handful of employees (58 as of July 1, 2019) participate in the Employee Retirement and Pension Systems of the State of Maryland.

The county provides OPEBs 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 2019, it contributed $15.7 million to the trust in addition to the $25.3 million in pay-go. Historically it has contributed 100% of OPEB costs annually. For fiscal 2020, the county contributions to the liability is $13.0 million with pay-go expected to be $27.4 million. The market value of the trust assets was $154.4 million at June 30, 2019.

We note 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.

We view the county's pension and OPEB expenses as manageable despite the somewhat below-average funding percentages.

Howard County's combined required pension and actual OPEB contributions totaled 5.9% of total governmental fund expenditures in 2019. Of that amount, 3.1% represented required contributions to pension obligations, and 2.8% represented OPEB payments. The county made its full annual required pension contribution in 2019.

Very strong institutional framework

The institutional framework score is very strong.

Related Research

- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- U.S. State And Local Government Credit Conditions Forecast, Oct. 29, 2019
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of April 2, 2020)		
Howard Cnty metro dist bnds ser 2011A dtd 03/09/2011 due 02/15/2012-2031 2033 2036 2041		
Long Term Rating	AAA/Stable	Affirmed
Howard Cnty metro dist bnds 2009 ser A dtd 04/08/2009 due 04/15/2010-2029		
Long Term Rating	AAA/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 proj & rfdg bnds ser 2013A dtd 04/04/2013 due 02/15/2014-2033 2035 2038		
Long Term Rating	AAA/Stable	Affirmed
Howard Cnty metro dist rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Howard Cnty COPs		
Long Term Rating	AAA/Stable	Affirmed
Howard Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of April 2, 2020) (cont.)		
Howard Cnty GO metro dist bnds ser 2007 A dtd 03/15/2007 due 02/15/2008-2031 2034 2037		
Long Term Rating	AAA/Stable	Affirmed
Howard Cnty Metro Dist bnds ser 2012A dtd 04/11/2012 due 02/15/2013-2029 2032 2037		
Long Term Rating	AAA/Stable	Affirmed
Howard Cnty Hsg Commission, Maryland		
Howard Cnty, Maryland		
Howard Cnty Hsg Commission (Roger Carter Recreation Ctr Proj)		
Long Term Rating	AA+/Stable	Affirmed