

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Howard County, MD's outstanding ratings; assigns Aaa to Series 2025 bonds; outlook stable

18 Feb 2025

New York, February 18, 2025 -- Moody's Ratings (Moody's) has affirmed Howard County, MD's issuer and general obligation ratings at Aaa, its lease rating at Aa1, and its special obligation tax increment financing bonds at A3. Concurrently, we have assigned a Aaa to its \$82.2 million Consolidated Public Improvement Project Bonds, 2025 Series A (Tax-Exempt) and \$21.9 million Metropolitan District Project Bonds, 2025 Series B (Tax-Exempt). The county had \$2.1 billion in total debt outstanding at the end of 2024. The outlook is stable.

RATINGS RATIONALE

The Aaa issuer rating reflects the county's robust and dynamic local economy that benefits from its location between Baltimore and Washington D.C. The area has ongoing private sector development that will add to its already strong economy anchored by higher education, health care, and technical/professional industries. Resident income and wealth are strong and are a key credit strength.

The financial position of the county has been stable over the past several years however the county is utilizing past operating surpluses to fund future capital projects in 2025. This will bring fund balance down but remain satisfactory for the rating category. The fiscal 2026 budget is still in progress but will likely include routine increases in spending. The county has a very strong management team that conducts multi-year financial forecasts to budget for future needs while maintaining healthy reserves.

The leverage is manageable but the county has a \$1.6 billion capital improvement plan through 2030. Even with the annual debt issuances, leverage should remain manageable given rapid principle amortization. Pensions and OPEB are not a material portion of leverage.

The Aaa on the county's general obligation bonds reflects the unlimited ad valorem

tax pledge that support debt service.

The Aa1 on the county's leases appropriation rating reflects its the risk associated with the covenant to budget and appropriate annual purchase installments for debt service, the satisfactory legal structure, and essentiality of the projects that includes equipment used for governmental programs of the county.

The A3 on the county's tax increment financing (TIF) district (Annapolis Junction Town Center) reflects the pledge of incremental ad valorem property taxes levied on properties in the Annapolis Junction Town Center (the "District") which is favorably located in the Baltimore-Washington DC metro area, adjacent to Fort Meade and other employment centers. The rating incorporates the District's very small incremental tax base that has seen significant growth over the last several years and the adequate debt service coverage of around 1.6x provided by incremental revenues. The rating also reflects the high taxpayer concentration as only six taxpayers account for 100% of property taxes. Positively, income levels in the county are very strong at over 180% of the nation and the pledge is a closed lien. The bonds also benefit from special taxes levied on properties in the District, in an amount sufficient to cover debt service.

RATING OUTLOOK

The stable outlook reflects the growing likelihood that the county's reserves will remain in line with current expectations while its leverage and economy stay strong.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Diversification of the tax base (TIF only)
- Increase in debt service to more than 2 times (TIF only)

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Decline in fund balance to below 20% of revenues (non-TIF ratings)
- Increase in leverage to above 250% of revenues (non-TIF ratings)
- Decline in assessed values (TIF only)
- Narrowed debt service coverage (TIF only)

LEGAL SECURITY

The 2025 bonds are unlimited general obligations of the county.

The outstanding general obligation bonds benefit from the county's unlimited ad valorem tax pledge.

The outstanding essential leases are contingent obligations subject to annual appropriation to pay debt service.

The outstanding TIF bond is payable from tax increment revenues collected in the district. Additional security is provided by the county's ability to levy and collect special taxes, which are set at a fixed amount, not based on assessed values.

USE OF PROCEEDS

The Public Improvement Bonds will be used to repay all or a portion of the county's outstanding bond anticipation notes that were used to fund capital projects in the county.

The Metropolitan District bonds will be used to repay all or a portion of the outstanding bond anticipation notes used to fund capital projects.

PROFILE

Howard County is located in central Maryland and favorably located between Baltimore and Washington D.C. The county's population is around 334,000.

METHODOLOGY

The principal methodology used in the issuer, general obligation and lease ratings was US Cities and Counties published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425429>. The principal methodology used in the Tax Allocation/Tax Increment rating was Tax Increment Debt Methodology published in September 2022 and available at <https://ratings.moodys.com/rmc-documents/393335>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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