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Ratings

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Summary:

Howard County, Maryland; Appropriations; General Obligation

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Credit Profile		
US$123.03 mil cons pub imp proj bnds 2021 ser A due 08/15/2040		
Long Term Rating	AAA/Stable	New
US$26.36 mil metro dist proj bnds 2021 ser B due 08/15/2035		
Long Term Rating	AAA/Stable	New
Howard Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
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 2021 A consolidated public improvement (CPI) general obligation (GO) bonds and series 2021 B 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'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 the GO rating on the county to account for the risk of appropriation.

We understand proceeds from the public improvement bonds will be used to refund the county's series 2020A GO bond anticipation notes (BANs) and pay or reimburse the county for various capital projects, while the metropolitan district bonds will be used to refund the county's series 2020A GO BANs and reimburse the county for water and sewer related capital projects. Included in this issuance is the $75 million milestone payment for the courthouse project.

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, support the 'AAA' rating. The county continues to monitor anticipated multiyear revenue loss as a result of COVID-19, having modified both the fiscal 2020 and the current fiscal 2021 budgets while remaining committed to developing balanced budgets in the near term. 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.

Although county management notes modest declines in certain economically sensitive revenues in recent months due to the pandemic, in our view, the county's financial position should remain strong. Nevertheless, we believe there remains some uncertainty related to the potential effects of the pandemic and the ensuing recession on the budget, which we will continue to monitor throughout the outlook period. For more information on the pandemic's effect in U.S. public finance, see "Staying Home For The Holidays," published Dec. 2, 2020, on RatingsDirect.

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:

- 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 surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 33.5% of total governmental fund expenditures and 3.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 10.3% of expenditures and net direct debt that is 101.4% 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.

Environmental, social, and governance factors

We consider the county's social and governance risks in line with those of the sector. Although Ellicott City, a community within the county, has faced severe flooding twice over the past five years and the county has implemented initiatives to reduce inland flooding occurrences, we do not believe the county's environmental risks are elevated relative to peers, as these events are infrequent. 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, should 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.

Very strong economy

We consider the county's economy very strong. Howard County, with an estimated population of 327,701, 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 182% of the national level and per capita market value of $168,380. Overall, the county's market value grew by 3.3% over the past year to $55.2 billion in 2020. The county unemployment rate was 2.7% in 2019.

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. County unemployment spiked from 2.6% in March 2020 to 8.1% in April 2020. The most recent data from December shows unemployment was down to 4.9%. Although county unemployment spiked, primarily in the leisure and service sector, as a result of the pandemic and recession, we do not believe it will have a negative impact on the rating. Given the strong job growth rate over the past five years, and continued economic development, we believe county unemployment will continue to trend down.

In general, and despite the effects from COVID-19 and the recession, the county's economy remains, generally, strong. While some sectors, such as hotels and retail, have suffered, other sectors, such as manufacturing and distribution, have cautiously continued operations, along with the professional service sector adapting well to remote operations. Nonetheless, economic development projects that had been underway prior to COVID-19 continue without delays or modest postponements. The county has attracted new development projects prior to, and even during, the pandemic, such as SuprTEK (a cybersecurity defense contractor), Cavalier Logistics (cold storage and pharma products transport), Freshly (prepared meals) and an Amazon fulfillment center. The Howard County Economic Development Authority has engaged several other projects and is in various stages of identifying site options for a rehabilitation facility, a seven-building campus for a prominent research and testing laboratory, and a scientific instruments company. To date, the research and testing campus project was the only one put on hold until the effects of the pandemic become clearer. Furthermore, 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 second flash flood in as many years, Ellicott City continues to see redevelopment.

Given the county's growth in both the residential and commercial and retail sectors, tax base growth has been healthy and consistent, increasing 8.3% over the past three years and averaging approximately 3.3% annually (over the past five years) to $55.20 billion in 2020. While we expect growth to continue, we believe it will be more modest in the wake of the effects from the pandemic and recession.

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, included in the fiscal 2021 budget is a plan to replenish and grow the policy reserve to 3% of expenditures by fiscal year 2030, which would boost the county's overall reserve (including the 7% rainy-day fund) to 10%.

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.

Strong budgetary performance

Howard County's budgetary performance is strong in our opinion. The county had operating surpluses of 6.0% of expenditures in the general fund and of 4.1% across all governmental funds in fiscal 2020.

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 2020 closed as projected, with a well-above average $68 million surplus, net of adjustments; and despite the pandemic. Management attributes the surplus to the significant reconciliation received for delayed gains from the federal tax law change two years ago, along with the federal stimulus, which appears to have helped hold income tax receipts from a significant drop as expected earlier, even during the pandemic months. Additionally, strong collections earlier in the fiscal year in some other taxes and fees (e.g., property taxes and recordation taxes) more than offset the weakening in certain revenues toward the end of the fiscal year, resulting in strong overall revenue collections in fiscal 2020. On the expenditure side, expenditures remained in line with budget as a result of the actions taken by management addressing the pandemic and recession, as well as the receipt of Coronavirus Aid, Relief, and Economic Security (CARES) Act money that covered unanticipated costs.

The fiscal 2021 budget displays even more conservative measures to ensure budgetary balance. Income taxes, as well as other local taxes, charges, and fees, were reduced from fiscal 2020 budgeted revenues. On the expenditure side, the county continues with its countywide hiring freeze, debt refinancings, and ongoing cost-cutting measures. It also includes $16.2 million use of reserves for pay-go capital projects. When including CARES Act monies, additional COVID-19-related grants, and improving income taxes, revenues are projected to come in over budget. While the county remains mindful of the economic uncertainties and continues to monitor revenues and expenditures closely, the county is projecting to close fiscal 2021 with an anticipated surplus primarily from stronger than anticipated year-to-date income taxes.

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.

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 is also in the process of purchasing LED streetlight fixtures and is implementing new utility bill management software for cost-savings measures. Lastly, the county aims to reduce greenhouse gas emissions of county government operations to 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. A firm has been chosen and granted permits to begin construction for a biodigester.

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.

Very strong budgetary flexibility

Howard County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 17% of operating expenditures, or $197.1 million.

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 $75.8 million at fiscal year-end 2020. 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.

As a result of the above-average surplus in fiscal 2020, reserve levels increased from strong to very strong. With estimates for a surplus for fiscal 2021, much more modest than in the previous year and no plans to significantly draw down on reserves, we believe available reserves will likely remain very strong over the near term, given the county's conservative management practices and formal fiscal policies. If the county were to use a greater portion of reserves for either operations or an increased level of capital funding, reserves could be modified back to strong.

Very strong liquidity

In our opinion, Howard County's liquidity is very strong, with total government available cash at 33.5% of total governmental fund expenditures and 3.2x governmental debt service in 2020. 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. 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 2022. The county also maintains about $1.7 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 has several outstanding capital leases. The most recent capital lease (equipment lease) was entered into in August 2020 to finance LED streetlight replacements.

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. As of December 2020, the amount outstanding of such notes was $71.8 million. This issue will refund the notes in their entirety. The county plans on refunding the capital leases in the very near future.

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 10.3% of total governmental fund expenditures, and net direct debt is 101.4% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, which is in our view a positive credit factor.

The county currently has $1.87 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 $1.18 billion, with school 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. This issue includes the county's milestone payment ($75 million) for the courthouse. Lastly, the county plans to issue roughly $20 million to refund the existing capital leases in the very near term. Given debt service are appropriated, the upcoming issue will be certifications of participation (COPs)--a new security for the county. Nevertheless, given its overall debt profile and above-average amortization of existing debt, coupled with well embedded debt policies, we do not believe the county's debt profile will materially change as a result of its current CIP.

Howard County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 6.0% of total governmental fund expenditures in 2020. Of that amount, 3.3% represented required contributions to pension obligations, and 2.7% represented OPEB payments. The county made its full annual required pension contribution in 2020.

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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. 96.6% funded with a net pension liability for the county of $48.8 million, and
- Howard County Police & Fire Employees' Retirement Plan. 84.8% 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 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.

Additionally, a handful of employees (53 of July 1, 2020) 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 2020, it contributed $13.0 million to the trust in addition to the $25.4 million in pay-go. Historically, it has contributed 100% of OPEB costs annually. For fiscal 2021, the county contributions to the liability is $11.0 million with pay-go expected to be $29.7 million. The market value of the trust assets was $214.6 million as of Dec. 30, 2020.

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.

Very strong institutional framework

The institutional framework score for Maryland counties is very strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 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

Ratings Detail (As Of February 3, 2021)		
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 metro dist bnds		
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