

**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**

---

Rationale

Outlook

## Summary:

# Howard County, Maryland; Appropriations; General Obligation

### Credit Profile

US\$131.845 mil cons pub imp proj and rfdg bnds 2019 ser A due 08/15/2038		
<i>Long Term Rating</i>	AAA/Stable	New
US\$66.71 mil metro dist proj and rfdg bnds 2019 ser B due 08/15/2048		
<i>Long Term Rating</i>	AAA/Stable	New
Howard Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' rating to Howard County, Md.'s series 2019A consolidated public improvement project and refunding bonds and series 2019B metropolitan district project and refunding bonds. The outlook is stable.

At the same time, S&P Global Ratings affirmed its 'AAA' rating on the county's general obligation (GO) debt outstanding, and its 'AA+' rating on the Howard County Housing Commission's lease-revenue appropriation debt, supported by the county. The outlook is stable.

We believe 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. 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.

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 as per our appropriation criteria.

Officials intend to use bond proceeds to repay all or a portion of the county's outstanding series 2017 consolidated GO bond anticipation tax-exempt note, to reimburse the county for the cost of public improvement projects, to pay costs of issuance of the public improvement bonds, and to provide funds to refund outstanding GO bonds. The metropolitan

district bonds will be used to repay all or a portion of the county's outstanding series 2017 GO bond anticipation tax-exempt note, and to reimburse the county for the cost of water and sewer projects, and to provide funds to refund outstanding GO bonds—all of which were issued under the line of credit.

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.

The rating reflects our opinion of the following factors for the county, including its:

- 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 (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2018, which closed with balanced operating results in the general fund but an operating deficit at the total governmental fund level in fiscal 2018; net of adjustments;
- Strong budgetary flexibility, with an available fund balance in fiscal 2018 of 11.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 27.9% of total governmental fund expenditures and 3.3x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 8.6% of expenditures and net direct debt that is 102.7% 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.

### **Very strong economy**

We consider the county's economy very strong. Howard County, with an estimated population of 320,499, encompasses 251 square miles between Baltimore and Washington. It is in the Baltimore-Columbia-Towson MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 174% of the national level and per capita market value of \$160,743. Overall, market value grew by 3.8% over the past year to \$51.5 billion in 2018. The county unemployment rate was 3.1% in 2017.

Population growth in the county has been significant, nearly doubling since 1990. Income and wealth levels have risen substantially since then. Residents benefit from significant employment opportunities in the county and throughout the Washington-Baltimore MSAs. The deep and diverse local and regional economies and highly educated workforce contribute to what we regard as historically high wealth and income and low unemployment.

The county continues to attract new businesses in all sectors, and it encourages expansions by existing companies. In particular, Vytex Windows, a residential replacement window manufacture in the county, is expanding by 60,000 square feet. This expansion will bring total square footage to 220,000 and will result in 205 new and retained 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 2.5% annually to \$51.5 billion in 2018. We expect this trend to continue 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 FMA 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.

### **Strong budgetary performance**

Howard County's budgetary performance is strong, in our opinion. The county had balanced operating results in the general fund of 0.1% of expenditures, but a deficit result across all governmental funds of negative 1.9% in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results could improve from 2019 results in the near term.

The county closed fiscal 2018 with a surplus of \$5.5 million, keeping reserves relatively in line with the prior year. It has historically maintained conservative budgeting practices and guided by several formal and well-adhered-to fiscal policies. The revenue base is diverse, with property taxes generating approximately 50% of general fund revenue, followed by income taxes at 46%.

Management indicated that revenues and expenditures for fiscal 2019 are on target and anticipates a slight surplus due to an increase in property and income taxes. With no significant changes in reserves, we do not expect the county's budgetary performance score to weaken in the near term.

Over the last three years, the county has invested over \$3 million on information security and plans to invest another \$1.5 million in fiscal 2020. This investment will be accounted for in the county's IT budget. The fiscal 2020 budget is currently being crafted and is expected to be presented in the coming months. The county plans to increase the rate of the existing school surcharge fee (following the recently passed Maryland General Assembly House Bill 1409) in the fiscal 2020 budget. The actual fiscal effects will depend on the surcharge rate authorized by the County Council and new residential construction in the county. Lastly, the county hired a consultant to conduct a comprehensive study of the short- and long-term effects on both the capital and operating budgets in regard to the county's Adequate Public Facilities Ordinance (APFO). While the study has not been completed, the county estimates a net loss of roughly \$11.0 million annually over the next six years, against a \$1.0 billion annual budget. As a testament to the county's conservative budgeting practices, a slowdown in the economy will be factored into the fiscal 2020 budget.

### **Strong budgetary flexibility**

Howard County's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2018 of 11.9% of operating expenditures, or \$128.6 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 \$71.3 million at fiscal year-end 2018. 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, at least, break-even operations for fiscal 2019, we believe available reserves will likely remain at least strong for the close of fiscal 2019 and into 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 27.9% of total governmental fund expenditures and 3.3x governmental debt service in 2018. 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. It also maintains about \$2.84 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 notes are in the form of a line of credit and are repaid with the proceeds from the county's long-term bonds. As of March 31, 2019, the outstanding amount of such notes was \$186.2 million. This issue will refund the outstanding BANs (line of credit) in their entirety.

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 8.6% of total governmental fund expenditures, and net direct debt is 102.7% 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's formal capital improvement plan (CIP) for fiscal years 2020 through 2024 totals \$1.74 billion, with school and general county projects accounting for nearly half of identified projects. We understand that the county could issue roughly \$85 million-\$105 million of public improvement bonds annually for new capital projects identified in the annual capital budget and approximately \$25 million-\$50 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.

Howard County's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 6.0% of total governmental fund expenditures in 2018. Of that amount, 3.0% represented required contributions to pension obligations, and 2.9% represented OPEB payments. The county made 102% of its annual required pension contribution in 2018.

Howard County provides pension and retirement benefits for employees through the Howard County Retirement Plan and the Howard County Police & Fire Employees' Retirement Plan. The plans are county-administered, single-employer, defined-benefit, public employee retirement plans. The retirement plan and the fire and police plan were 95.2% and 82.6% funded, respectively, as of June 30 2018. The county net pension liability for the general retirement and the fire and police plans totals \$ 35.4 million and \$ 121.5 million, respectively, assuming a discount rate of 7.5% for both plans. However, the pension committee voted to reduce the discount rate to 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 provides OPEBs to eligible employees. It has re-adopted its eight-year funding policy due to economic improvements. Howard County maintains a trust for its OPEB benefits. In fiscal 2018, it contributed \$16 million to the trust. As of June 30, 2017, the county's net OPEB liability was \$1.105 billion. It will contribute \$15.7 million in fiscal 2019, as planned. The market value of the trust assets stands at \$130.1 million.

### **Very strong institutional framework**

The institutional framework score for Maryland counties is very strong.

## **Outlook**

The stable outlook on the long-term rating reflects S&P Global Ratings' opinion that Howard County will continue to budget conservatively and maintain at least strong budgetary flexibility and very strong liquidity while making ongoing contributions to the capital projects fund to support its large CIP. We also believe its strong financial management practices and policies will continue to support its financial performance. In addition, we believe the county's access to, and participation in, the vibrant Washington and Baltimore MSAs enhances rating stability. Therefore, we do not

**Summary: Howard County, Maryland; Appropriations; General Obligation**

expect to change the rating within the two-year outlook period. However, 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.

<b>Ratings Detail (As Of April 22, 2019)</b>		
Howard Cnty metro dist bnds ser 2011A dtd 03/09/2011 due 02/15/2012-2031 2033 2036 2041		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Howard Cnty metro dist bnds 2009 ser A dtd 04/08/2009 due 04/15/2010-2029		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Howard Cnty metro dist proj and rfdg bnd ser 2015A due 02/15/2045		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Howard Cnty metro dist proj rfdg bnds ser 2017 C dtd 04/25/2017 due 02/15/2018-2047		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Howard Cnty metro dist proj & rfdg bnds ser 2013A dtd 04/04/2013 due 02/15/2014-2033 2035 2038		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Howard Cnty metro dist rfdg bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Howard Cnty COPs		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Howard Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Howard Cnty GO metro dist bnds ser 2007 A dtd 03/15/2007 due 02/15/2008-2031 2034 2037		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Howard Cnty Metro Dist bnds ser 2012A dtd 04/11/2012 due 02/15/2013-2029 2032 2037		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>Howard Cnty Hsg Commission, Maryland</b>		
Howard Cnty, Maryland		
Howard Cnty Hsg Commission (Roger Carter Recreation Ctr Proj)		
<i>Long Term Rating</i>	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.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.