

Tax Supported  
New Issue

# Howard County, Maryland

## Ratings

New Issues	
Consolidated Public Improvement Bonds, 2008 Series A	AAA
Metropolitan District Bonds, 2008 Series A	AAA
Outstanding Debt	
Consolidated Public Improvement Bonds	AAA
Metropolitan District Bonds	AAA

## Rating Outlook

Stable

## Analysts

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## New Issue Details

**Sale Information:** Approximately \$107,500,000 Consolidated Public Improvement Bonds, 2008 Series A, and \$4,095,000 Metropolitan District Bonds, 2008 Series A, competitively on Feb. 12.  
**Security:** General obligations of the county, secured by a pledge of the full faith, credit, and taxing power of the county.  
**Purpose:** To redeem a portion of the county's bond anticipation notes and to pay costs related to certain county capital projects, costs related to the county's water and sewer capital projects, and costs of issuance on the bonds.  
**Final Maturity:** Serially from Feb. 15, 2009–2038.

## Related Research

- [Howard County, Maryland, Nov. 29, 2007](#)
- [State of Maryland, July 31, 2007](#)

## Rating Rationale

- Superior wealth levels and a breadth of employment opportunities locally and regionally underscore the county's strong economy and solid tax base.
- Excellent financial management has resulted in solid reserve levels and controlled expenditure growth.
- Overall debt levels are moderate, amortization is rapid, and the county continues to adhere to conservative financial and debt policies.

## Key Rating Drivers

- Prudent fiscal management is expected to maintain strong reserve levels in light of broader economic pressures.
- Economic growth should continue at a measured pace, allowing management to address infrastructure expansion and renewal in a timely manner without undue fiscal strain.

## Credit Summary

The 'AAA' rating reflects Howard County's deep and diverse economy, strong financial management, affluent residents, and a moderate debt burden with rapid amortization. The county's financial position is strong, with ample liquidity, sound general fund reserves above the charter-mandated level, and excellent financial planning. Current and projected tax-supported debt levels are affordable.

Howard County's relative affluence, high quality of life, excellent schools, and proximity to both Baltimore and Washington, D.C. have resulted in continued strong demand for housing and related commercial expansion. Repeatedly listed as one of the best places to live in popular magazines, the county controls its growth, limiting new housing units to 1,850 annually and placing 10% of its land under permanent farmland preservation easements. Further growth is anticipated as recent Base Realignment and Closure Commission (BRAC) recommendations will bring the Defense Information Systems Agency and other Defense Department activities to Fort Meade, in adjacent Anne Arundel County. Assessed valuation growth has been solid, averaging 10.0% annually since fiscal 2000; Fitch Ratings anticipates that the county's assessment process will shelter it, at least in part, from market declines over the next few fiscal years. County employment remains strong, with the November 2007 unemployment rate of 2.4% comfortably below the state's 3.4% and the nation's 4.7%. Wealth and income indicators are high, with per capita income 30% above state and 64% above national averages.

Financial operations are stable after a difficult recessionary period during which the loss of capital gains and bonus income severely eroded income tax collections. Strong financial management increased the fiscal 2007 unreserved general fund balance to \$67.3 million, representing a high 9.2% of spending, from a negligible \$307,500, or 0.1% of spending, in fiscal 2003. The county has restored the general fund charter reserve to 7% of the prior year's audited expenditures and continues to increase its pay-as-you-go funding for capital needs. In fiscal 2007, the county designated \$14 million of its fund

**Rating History**

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	1/28/08
AAA	Assigned	—	9/4/89

balance to its obligations for health care and other post-employment benefits (OPEB). The county expects to end fiscal 2008 with a modest surplus.

Debt levels are moderate and are expected to remain so. Inclusive of the current issuance, overall net debt equals \$3,095 per capita and 2.1% of market value, and amortization will remain above average at 64% within 10 years. In addition to ongoing long-term borrowing, the county continues to borrow on a short-term basis to provide for interim financing of the capital improvement program (CIP). A portion of the current issuance will redeem approximately \$107.5 million of outstanding bond anticipation notes and refinance them on a long-term basis. The fiscal years 2009–2013 CIP totals \$1.2 billion, with 54% of planned spending for the highly regarded kindergarten through grade 12 school system and the local community college. Tax-supported debt will fund 69% of the CIP. A spending affordability advisory committee annually measures debt affordability and operating projections.

**Debt**

**Current Debt Levels**

The county projects it will maintain its current low debt levels despite future planned borrowings, remaining within its spending affordability advisory committee’s recommended guidelines. County overall debt levels are moderate at \$3,095 per capita and 2.1% of market value. While per capita debt is slightly above average, Fitch believes that it is manageable, given high residential income levels and the county’s rapid retirement of outstanding debt. Amortization occurs at the above-average rates of 30% within five years and 64% within 10 years. The county will continue its practice of funding capital needs through issuing short-term debt and repaying those obligations from long-term debt proceeds. Annual borrowing is expected to remain between \$80 million and \$110 million.

Nearly all of Howard County’s debt is secured by its unlimited ad valorem pledge. Approximately 20% of outstanding direct debt funds water and sewer projects in the county’s more densely populated eastern section, known as the metropolitan district. Metropolitan district user charges, or nontax revenues, cover debt service on about 61% of this debt, and this proportion is deducted from the debt ratios as self-supporting. The remaining 39% is counted as direct debt, since it is supported by ad valorem and road frontage assessments. Golf course revenue bonds, totaling \$7.9 million of outstanding par, are backed by a county contractual obligation to replenish the reserve account. This debt was deducted from the tax-supported debt burden in its entirety, since the golf course has been self-supporting since its inception.

**Future Issuance and Capital Needs**

The fiscal 2008 capital budget totals \$352.5 million. Water and sewer projects represent 35% of this budget, and 26% of expenditures are related to education. The fiscal years 2009–2013 \$1.2 billion CIP includes educational needs, representing 54% of expenditures; general county programs, 20%; and transportation, 11%. The remaining portion will fund

**Debt Statistics**

(\$000)

This Issue	111,595
Outstanding Debt	679,760
Direct Debt	791,355
Overlapping Debt	51,930
<b>Total Overall Debt</b>	<b>843,285</b>

**Debt Ratios**

Direct Debt Per Capita (\$) <sup>a</sup>	2,905
As % of Market Value <sup>b</sup>	1.9
Overall Debt Per Capita (\$) <sup>a</sup>	3,095
As % of Market Value <sup>b</sup>	2.1

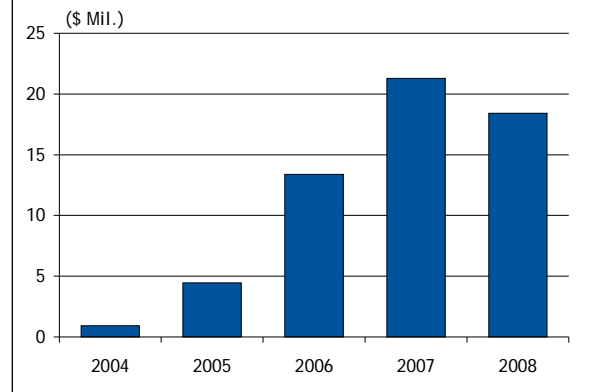
<sup>a</sup>Population: 272,452 (2006).

<sup>b</sup>Market value: \$40,912,612,000 (fiscal 2008).

Note: Numbers may not add due to rounding.

recreation and parks and water and sewer projects. Funding sources for the five-year CIP include tax-supported debt, grants, and pay-as-you-go funding. The county's return to pay-as-you-go financing provides additional financial flexibility in the event that operating priorities command additional resources over the next few years. New debt issuance will closely follow debt affordability guidelines, but debt ratios should be affected minimally if tax base and income growth resemble recent growth trends.

**Pay-As-You-Go Funding Trend**  
(Fiscal Years Ending June 30)



### Pension Plans

County employees participate in either the Howard County Retirement Plan, designated for general county employees, or the Howard County Police and Fire Employees' Retirement Plan. The county has fully funded its annual required contributions to both plans for at least the past 10 years. Fiscal 2007 contributions were \$9.7 million and \$13.5 million to the county retirement plan and the police and fire retirement plan, respectively. Teachers within the county participate in the Teachers' Retirement and Pension Systems, administered by the state of Maryland.

### Other Post-Employment Benefits

Beginning in fiscal 2008, the county will be required to disclose the annual cost of OPEB to comply with the requirements of GASB 45. The unfunded actuarial accrued liability is estimated at \$897 million. The \$53 million annual required contribution (ARC) is significantly higher than the county's current \$13 million pay-as-you-go cost for funding existing retirees' OPEB. The county established a task force, which included representatives from labor, to analyze the available options.

In February 2008, the county expects to introduce legislation to establish an OPEB trust. The county trust is expected to include the county, library, and economic development authority, while the school system and community college are expected to each form its own trust. The fiscal 2008 budget includes a \$14 million appropriation from reserves to be allocated across the three OPEB trusts, and in fiscal 2009 the county will begin using current revenues to fund the ARC. Full funding of the ARC is expected within eight years, and the county will continue to use surplus funds to fund the liability to the extent that they are available.

## Finances

### Overview

Financial operations are stable and have improved significantly after a difficult recessionary period. Howard County was financially strained from fiscal years 2001–2003 due to income tax revenue shortfalls, reduced general fund liquidity resulting from the use of prior-year surplus for capital investments, spending pressures related to employee wages and benefits, high service demands, and school enrollment. As a result, the county did not achieve its charter target for its rainy day fund for fiscal 2003 and reduced pay-as-you-go financing. The county restricted the level of general government spending to the revenue growth projected in the financial forecast, or about 5%–7% per year. Since fiscal 2004, Howard County's budget has been

structurally balanced, and the county has increased its fund balance, rainy day fund, and pay-as-you-go funding for capital expenses.

### General Fund Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

	2002	2003	2004	2005	2006	2007
Property Taxes	240,537	253,823	267,579	288,765	313,061	337,533
Other Local Taxes	196,074	187,980	231,425	282,977	316,737	321,942
Other Revenue	44,723	44,731	47,269	46,826	54,544	59,864
<b>Total Revenue</b>	<b>481,335</b>	<b>486,533</b>	<b>546,272</b>	<b>618,568</b>	<b>684,342</b>	<b>719,339</b>
Total Expenditures	191,921	506,324	543,327	590,441	632,892	691,046
<b>Operating Income/(Deficit)</b>	<b>289,414</b>	<b>(19,791)</b>	<b>2,945</b>	<b>28,127</b>	<b>51,450</b>	<b>28,294</b>
Net Transfers and Other Sources/(Uses)	(307,227)	14,977	6,230	4,333	(14,507)	(22,309)
<b>Net Income/(Deficit)</b>	<b>(17,813)</b>	<b>(4,813)</b>	<b>9,175</b>	<b>32,460</b>	<b>36,943</b>	<b>5,971</b>
Total Fund Balance	35,389	30,575	39,751	72,211	109,154	115,139
As % of Expenditures, Transfers Out, and Other Uses:						
Total Fund Balance	6.9	6.0	7.2	12.0	16.5	15.8
Unreserved Fund Balance	0.8	0.1	0.4	5.3	9.9	9.2

Note: Numbers may not add due to rounding.

### Budget Stabilization Policy

The county's rainy day fund was established by charter and provides an extra layer of general fund financial cushion in the form of a reservation of fund balance for budget stabilization. By charter requirement, the rainy day fund must equal at least 7.0% of the most recent available audited fiscal year expenditures. All surplus funds from the prior year contribute to the rainy day fund to reach the 7.0% goal. Once the fund reaches its target, remaining surplus dollars can only fund capital projects, reduce county debt, or finance one-time expenditures. Any deviation from these specific uses of surplus funds must be approved by a majority vote of the County Council.

### Recent Financial Performance

Fiscal 2007 ended with a \$6.0 million surplus. While this is a decline from the levels in fiscal years 2005 and 2006, where surpluses exceeded \$30 million, the county's unreserved fund balance totaled a solid \$67.3 million, or 9.2% of spending, in fiscal 2007. Included in the unreserved fund balance are designations of \$37.7 million for pay-as-you-go-funding to be spent in fiscal 2008, \$6.9 million to the rainy day fund for fiscal 2008, and \$15 million for the OPEB liability. Property taxes accounted for 47% of fiscal 2007 actual revenues, an increase of 7.8% over fiscal 2006 receipts. The county has raised the property tax levy robustly over the past few fiscal years, with increases of 13.7% in fiscal 2006 and 13.2% in fiscal 2007. Current tax collections are excellent, regularly exceeding 99%. Local income tax revenue slowed from the fiscal 2006 level, a result largely attributable to a state-level change in the distribution schedule of taxes collected. Recordation tax revenue was \$3.5 million below the budgeted level in fiscal 2007 as a result of housing market instability.

The county's assessed value has demonstrated double-digit growth since fiscal 2005, with an estimated 12.4% change in AV from fiscal 2007 to fiscal 2008's projected AV of \$40.9 billion. Pursuant to state law, the county annually applies a 5% cap on AV growth for existing property, but there are no restrictions on new construction or transferred

property; nevertheless, the state's triennial assessment and phase-in practices should allow for strong AV growth over the next several fiscal years. There is no concentration among the 10 largest taxpayers, which total 2.8% of AV.

The water and sewer enterprise fund supporting the metropolitan district had a surplus of \$1.2 million before capital contributions in fiscal 2007, an improvement over the \$5.3 million deficit in fiscal 2006, which was the fourth deficit in the past six years. The metropolitan district buys water from the city of Baltimore (water and wastewater revenue bonds rated 'A+' with Stable Rating Outlook by Fitch) and the Washington Suburban Sanitary Commission (water supply bonds rated 'AAA' with Stable Rating Outlook by Fitch). The county has passed along cost increases to users of the system, most recently with a fiscal 2008 increase of 9% to compensate for the rise in the cost of water purchased from Baltimore City and sewage sent to Baltimore County for treatment. This increase raised the average quarterly invoice for a family of four to \$130 from \$120, still one of the lowest bills in the region.

### Budget and Forecast

The fiscal 2008 general fund budget is 10.7% above the fiscal 2007 budget. Education remains the county's most important priority, followed by public safety. The budget includes a sustained high level of pay-as-you-go capital funding at \$18.4 million, which, if realized, will be the fifth consecutive year of improved pay-as-you-go funding. Projected fiscal 2008 revenues are \$11.7 million over budget, despite anticipated shortfalls in recordation tax and interest income. The projected revenue surplus is primarily a result of estimated property tax collections reaching \$14.6 million overbudget.

The county's general fund financial forecast from fiscal years 2009–2012 indicates average annual expenditure growth of 5.8%, slightly above the projected revenue growth of 5.7%. Nevertheless, the county anticipates ending each of these years with a surplus.

### Economy

#### Overview

Howard County was predominately agricultural until 1966, when construction began on the new town of Columbia. Although the western section of the county remains agricultural, the county has boomed, becoming a wealthy Baltimore-Washington, D.C. suburban enclave with a diverse economy of its own. The county's population grew to 272,452 in 2006 from 247,842 in 2000, a 1.7% average annual growth rate that exceeded Maryland's 1.1%. County economic development efforts are centered on leveraging projected increases in demand for commercial office space that may occur as new military and homeland security functions are integrated in and around Fort Meade. While Fort Meade and the National Security Agency are located in Anne Arundel County (general obligation bonds rated 'AA+' with Stable Rating Outlook by Fitch), the facilities are very



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close to the Howard County border. The counties report that they are working together to meet federal government and private contractor needs for space.

### Employment and Development

Unemployment rates have been below state and national averages since at least 1997, and the 2006 unemployment rate of 2.9% was the lowest since 2001. The largest employer, the public school system, employs almost 6,900 workers, followed by Johns Hopkins Applied Physics Lab, which focuses on research and development and employs 4,050 workers. Approximately 100,000 workers commute to jobs in neighboring counties, and Howard County is working to create more in-county job options for commuting residents.

Corporations continue to be attracted to Howard County. At least seven companies have recently established their headquarters in the county or expanded existing facilities, each creating from 100–250 new jobs. Nineteen commercial buildings totaling 1.2 million square feet are under construction, and developers have submitted plans for additional buildings totaling 5.1 million square feet. Commercial real estate vacancy rates in 2007, which fluctuated as new buildings came onto the market, rose slightly above the county's 10%–12% target in the fourth quarter. Given current market conditions, the vacancy rate for commercial property is projected to rise to 13% in 2008. Howard County has established a task force to understand the economic ramifications of the BRAC recommendations. Current projections estimate that the county will see approximately 3,000 new families and 4,000 new jobs as a result of BRAC and normal growth at Fort Meade.

### Income Levels

County income, wealth, and educational levels are high by all available measures. Howard County has the state's highest median household income and is fourth in a national ranking of suburban counties at more than \$91,000. Per capita personal income is 128% of state and 159% of national averages. The median home price in Howard County is approximately \$389,450, below Montgomery County's (GO bonds rated 'AAA' with Stable Rating Outlook by Fitch) median of \$450,000 but well above medians for other jurisdictions in the region. The county ranks sixth in the nation for the percentage of residents with advanced degrees; 58% of the residents attained a baccalaureate or higher degree, while 95% of the adults have a high school diploma or post-secondary education.

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