

MOODY'S ASSIGNS Aaa TO HOWARD COUNTY'S (MD) \$111.6M G.O. BONDS; OUTLOOK STABLE

Aaa RATING APPLIES TO \$757.5M IN PARITY BONDS, INCLUDING THE CURRENT ISSUE

Howard (County of) MD
County
Maryland

Moody's Rating

Issue	Rating
Consolidated Public Improvement Bonds, 2008 Series A and Metropolitan District Bonds, 2008 Series A	Aaa
Sale Amount	\$111,595,000
Expected Sale Date	02/12/08
Rating Description	General Obligation

NEW YORK, January 29, 2008 -- Moody's Investors Service has assigned a Aaa rating and stable outlook to Howard County's (MD) \$107.5 million Consolidated Public Improvement Bonds, 2008 Series A and \$4.1 million Metropolitan District Bonds, 2008 Series A. At this time, Moody's also affirms the Aaa rating on \$645.9 million in parity bonds outstanding. Both series are secured by the unlimited ad valorem tax pledge of the entire county, although the Metropolitan District covers only one-third of the county's area. The Metropolitan District Bonds are initially payable from special benefit assessments, special annual ad valorem taxes, and water and sewer service and connection charges within the district. The assignment of Moody's highest quality rating reflects the county's strong economic position, including a sizeable tax base and wealthy demographic profile. The rating further considers the county's conservative fiscal policies and management, satisfactory financial reserve levels, and an affordable debt position. Proceeds of the public improvement bonds will repay up to \$107.5 million of the county's Consolidated Public Improvement Commercial Paper Bond Anticipation Notes, Series D, which were issued to defray a portion of the costs of general county capital projects. Proceeds of the Metropolitan District bonds will finance various water and sewer capital projects.

The discussion below on the long-term credit characteristics of the county is largely reproduced from the Moody's New Issue Report published on November 27, 2007.

STRATEGIC LOCATION IN BALTIMORE-WASHINGTON CORRIDOR SUPPORTS HEALTHY TAX BASE GROWTH

Strategically located along Interstate 95 between Washington, D.C. (G.O. rated A1/stable) and the City of Baltimore (G.O. rated Aa3/stable), Howard County continues to experience healthy rates of tax base expansion, employment growth, and gains in wealth. The full market value of the county's tax base has increased by 70% since fiscal 2002, growing to a substantial \$36.4 billion as of fiscal 2007. Notably, the county's rate of tax base growth has steadily increased on an annual basis during this time, escalating from 6% growth in fiscal 2003 to 16% growth in fiscal 2007. County officials report an additional 14.8% gain in taxable valuation for fiscal 2008, driven primarily by the ongoing appreciation of existing residential property values. Officials further project tax base growth of at least 5% annually for the next 10 years, given the present reassessment levels and the county's 5% per year cap on homestead assessment increases. New residential development - a significant contributor to tax base expansion during recent years - has slowed in line with the regional slowdown of the residential real estate market. Commercial and industrial properties, which together comprise 15% of the real property tax base, also continue to contribute to tax base expansion. A reported 1.2

million square feet of speculative office space is currently under construction in the county, with an additional 5.1 million square feet proposed for future development.

Wealth indices demonstrate the county's strong demographics - the county has the highest median household income in the state and the third highest nationally. Unemployment in the county, characteristically much lower than state and national levels, was 2.4% as of November 2007, as compared with 3.5% statewide and 4.5% nationwide. Job growth in the healthcare, financial services, defense and homeland security sectors continue to drive the expansion of the employment base; county officials estimate that the county gained 4,700 new jobs during calendar year 2006, consistent with the average 3,500 jobs gained annually during the prior decade. Officials expect the county to experience additional capital investment and economic expansion with the implementation of the Department of Defense Base Realignment and Closure (BRAC) 2005 recommendation to add approximately 5,700 direct jobs at Fort Meade, located less than five miles from the county line in adjacent Anne Arundel County (G.O. rated Aa1). The fort's expansion is expected to serve as an anchor for the relocation of defense contractors and related businesses to the area and both state and county officials believe that Howard County's strategic location proximate to the fort will result in significant gains to the county's defense-related employment base.

HEALTHY FINANCIAL PERFORMANCE EXPECTED TO CONTINUE FOLLOWING SUCCESSFUL RECOVERY OF DEPLETED RESERVES

Moody's expects the county to maintain a favorable financial position given prudent management practices and policies, healthy fiscal operations, and adequate financial flexibility derived from the county's dedicated reserves. Conservative budget assumptions, strong revenue performance, and broad expenditure controls have supported the replenishment of General Fund balance in recent years following the use of \$22.9 million in reserves during fiscal 2002 and fiscal 2003 largely related to the underperformance of capital gains-related income tax revenues. During the subsequent three-year period ending fiscal 2006, income tax revenues stabilized and the county achieved full fiscal recovery with the addition of a significant \$78.6 million to General Fund balance. Accordingly, fund balance levels increased from a low \$30.6 million (6% of revenues) in fiscal 2003 to a sound \$109.1 million (15.6% of revenues) in fiscal 2006, including \$38.4 million reserved for the rainy day fund (5.5% of revenues) in accordance with the county's charter requirement to appropriate surplus revenues into the rainy day fund until its balance equals 7% of the audited General Fund expenditures from the prior fiscal year. Importantly, the county also restored pay-go capital spending to a level consistent with historical norms during fiscal 2006, following the curbing of pay-go funding for capital during the period of financial downturn.

Favorable financial performance continued during fiscal 2007, wherein positive revenue variance and healthy expenditure savings fully replenished \$21.3 million appropriated from General Fund balance and resulted in an actual \$6.0 million operating surplus for the year. Moody's notes that \$16.6 million in unanticipated property tax revenue offset shortfalls in income tax (\$330,000 below budget) and recordation tax (\$3.5 million) receipts. County officials report that income tax revenues were impacted by a change in the state's distribution calendar (offset by a prior-year income tax surplus), while the underperformance of recordation tax revenues reflected the slowdown of the residential real estate market, consistent with regional trends. As a result of the General Fund's solid operating performance, total fund balance increased to \$115.1 million (15.7% of revenues) at year end, including \$41.8 million (5.7% of revenues) reserved for the rainy day fund in fulfillment of the county's charter requirement. Unreserved fund balance included \$6.9 million designated for subsequent year budget stabilization and \$7.6 million in undesignated fund balance, which together with the rainy day fund equaled

7.7% of annual revenues. Unreserved General Fund balance also included \$15.0 million designated for other post-employment benefits (OPEB) and \$37.7 million designated to support pay-go capital expenditures during the following fiscal year.

The fiscal 2008 budget maintains the property tax rate at \$1.014 per \$100 of assessed valuation and appropriates \$37.7 million from General Fund balance, reflecting the prior year's fund balance designation. Appropriated fund balance will support \$21.3 million in pay-go capital improvements and a \$14.0 million contribution for other post-employment benefits (OPEB), to be applied toward the creation of a trust for the county's long-term OPEB liability. The county plans to phase in the actuarially required contribution for the long-term liability over a period of five to eight years. Based on revenue performance to date, officials estimate that property tax revenues, bolstered by continued tax base expansion, will exceed budget by more than \$14.5 million at year end. Officials also report that although recordation tax revenues are tracking nearly \$4.4 million below original budget, the strong performance of other primary revenue sources will result in the replenishment of a portion of appropriated fund balance at the close of the fiscal year.

Moody's believes that the county may experience education funding pressures in the near term as a result of the recently-adopted State of Maryland (G.O. rated Aaa) Budget Reconciliation Act, which freezes state funding for education at the fiscal 2008 level in the ensuing two fiscal years. The fiscal 2008 General Fund budget includes a 8.5% increase in county funding for the Board of Education, which is the county's single largest expenditure item at 55% (\$450.8 million) of the budget. Officials expect that the education funding freeze will place additional pressure on the county to provide local funding for education. Moody's will monitor the county's ability to plan for and manage any challenges resulting from the state revenue withholding and believes that the General Fund retains financial flexibility if additional local resources are required, given that \$21.3 million of the county's capital program is financed through recurring revenue sources.

DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

Moody's expects the county's debt position to remain affordable, with significant anticipated future borrowing supported by the strong growth in assessed valuation, the rapid retirement of existing debt, and self-supporting enterprise systems. The county's debt burden is a modest 1.9% of full valuation. Debt service is paid through a combination of ad valorem taxes, user and connection fees, and special assessments. Amortization of debt is average, with 62.1% of principal retired within 10 years, and debt service costs were 9.5% of total fiscal 2007 operating expenditures, which Moody's considers manageable. The county's \$1.5 billion six-year capital improvement program includes \$746 million (48%) for construction of educational facilities, \$207 million (13%) for water and sewer projects, and \$183 million (12%) for transportation infrastructure.

KEY STATISTICS

2006 population: 272,452

Fiscal 2007 full valuation: \$36.4 billion

Fiscal 2007 full value per capita: \$133,584

Unemployment rate (November 2007): 2.4%

1999 Median Family Income: \$85,422 (138% of state; 171% of nation)

1999 Per Capita Income: \$32,402 (126% of state; 150% of nation)

Overall debt burden: 1.9%

Payout of principal (10 years): 62.1%

Fiscal 2007 General Fund balance: \$115.1 million (15.7% of revenues)

Fiscal 2007 Rainy Day Fund reserve: \$41.8 million (5.7% of revenues)

Parity debt outstanding: \$757.5 million

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