

# Howard County, Maryland

## Consolidated Public Improvement Bonds/Metropolitan District Bonds New Issue Report

### Ratings

#### New Issues

Consolidated Public Improvement  
Project and Refunding Bonds,  
Series 2015 A AAA

Metropolitan District Project and  
Refunding Bonds, Series 2015 A AAA

#### Outstanding Debt

General Obligation Bonds AAA

### Rating Outlook

Stable

### Related Research

[Fitch Rates Howard County County, MD's  
GO Bonds 'AAA'; Outlook Stable \(March  
2015\)](#)

### New Issue Details

**Sale Information:** \$232,360,000 Consolidated Public Improvement Project and Refunding Bonds, 2015 Series A, and \$41,500,000 Metropolitan District Project and Refunding Bonds, 2015 Series A, selling competitively on April 8.

**Security:** The full faith and credit pledge and unlimited taxing power of Howard County.

**Purpose:** To permanently finance \$28.0 million in outstanding bond anticipation notes in the form of a line of credit and refund approximately \$15.2 million in bonds outstanding for debt service savings.

**Final Maturity:** Consolidated public improvement bonds: Feb 15, 2035; Metropolitan District and refunding bonds: Feb. 15, 2045.

### Key Rating Drivers

**Strong Financial Management:** Prudent management and planning are evidenced in the county's financial performance and healthy reserves, which temper risk to the credit profile associated with income tax volatility.

**Stable and Wealthy Economic Base:** Low levels of unemployment and robust income indicators reflect the quality of the local labor force, the county's favorable location along the Baltimore-Washington, D.C. corridor and proximity to the federal government and the extensive presence of its contractors.

**Moderate Debt Profile:** Howard County continues to adhere to good debt management guidelines, which have allowed overall debt levels and amortization to remain moderate.

**Carrying Costs Low:** Carrying costs including debt service, pension, and other post-employment benefits (OPEB) are low but expected to increase modestly as the county issues additional debt and the state shifts a portion of the burden of teacher pension costs to the counties.

### Rating Sensitivities

**Continued Strong Financial Position:** The rating is sensitive to shifts in fundamental credit characteristics including the county's strong financial management practices. The 'AAA' rating and Stable Rating Outlook reflect Fitch's expectation that such shifts are unlikely.

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Rating History — GOs

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	3/20/15
AAA	Affirmed	Stable	2/26/14
AAA	Affirmed	Stable	3/7/13
AAA	Affirmed	Stable	3/6/12
AAA	Affirmed	Stable	10/7/11
AAA	Affirmed	Stable	2/7/11
AAA	Affirmed	Stable	2/9/10
AAA	Affirmed	Stable	11/2/09
AAA	Affirmed	Stable	3/6/09
AAA	Affirmed	Stable	1/28/08
AAA	Affirmed	Stable	11/26/07
AAA	Assigned	Stable	3/23/07

Credit Profile

Howard County, MD is 251 square miles in area and is home to approximately 304,580 residents. The county is located between Baltimore, MD and Washington, D.C.

General Fund Financial Summary

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

	2010	2011	2012	2013	2014
Property Tax Revenue	425,880	437,603	441,680	446,684	459,016
Income Tax	294,042	315,354	357,346	374,358	392,661
Other Tax Revenue	20,902	335,670	23,415	29,354	27,172
<b>Total Tax Revenue</b>	<b>740,824</b>	<b>773,273</b>	<b>822,441</b>	<b>850,396</b>	<b>878,849</b>
License and Permits	5,839	5,647	5,755	6,456	6,696
Fines and Forfeits	2,963	3,004	2,966	2,717	2,883
Charges for Services	11,136	11,050	12,078	13,960	13,966
Intergovernmental Revenue	5,949	6,745	6,325	6,611	8,596
Other Revenue	14,391	15,597	15,533	16,561	15,855
<b>General Fund Revenue</b>	<b>781,102</b>	<b>815,316</b>	<b>865,098</b>	<b>896,701</b>	<b>926,845</b>
General Government	37,976	39,358	42,307	50,924	64,184
Public Safety	88,445	91,041	97,257	100,430	108,880
Public Works	64,738	58,273	64,504	64,391	70,092
Culture and Recreation	12,970	12,435	14,650	15,180	17,149
Educational	494,086	505,134	512,211	526,439	544,293
Debt Service	78,811	84,773	91,582	90,653	98,175
Other Expenditures	14,798	14,471	15,850	16,863	19,468
<b>General Fund Expenditures</b>	<b>791,824</b>	<b>805,485</b>	<b>838,361</b>	<b>864,880</b>	<b>922,241</b>
<b>General Fund Surplus</b>	<b>(10,722)</b>	<b>9,831</b>	<b>26,737</b>	<b>31,821</b>	<b>4,604</b>
Transfers In	17,371	20,407	15,335	15,579	21,794
Transfers Out	16,676	9,337	22,866	25,619	33,781
Net Transfers and Other	695	11,070	(7,531)	(10,040)	(11,987)
<b>Net Surplus/(Deficit)</b>	<b>(10,027)</b>	<b>20,901</b>	<b>19,206</b>	<b>21,781</b>	<b>(7,383)</b>
Total Fund Balance	71,772	92,673	111,879	133,660	126,277
As % of Expenditures, Transfers Out, and Other Uses	8.9	11.4	13.0	15.0	13.2
Unreserved Fund Balance <sup>a</sup>	10,325	—	—	—	—
As % of Expenditures, Transfers Out, and Other Uses	1.3	—	—	—	—
Unrestricted Fund Balance <sup>b</sup>	—	92,673	111,879	133,660	126,274
As % of Expenditures, Transfers Out, and Other Uses	—	11.4	13.0	15.0	13.2

<sup>a</sup>Pre GASB54. <sup>b</sup>Reflects GASB 54 classifications: sum of committed, assigned, and unassigned. Note: Numbers may not add due to rounding.

Healthy Reserve Levels

Financial operations are strong and reserve levels are expected to remain healthy.

Positive fiscal 2014 operating results reflected a fourth consecutive year of growth in income tax revenue, the county's second largest revenue source at 41% of the general fund. After transfers, which were mostly to the capital projects fund, the year ended with a \$7.4 million deficit. The unrestricted balance of \$126.3 million was equal to a solid 13.2% of general fund spending. The county's policy is to maintain an unassigned fund balance of at least 7% of operating expenditures, which it has exceeded.

The fiscal 2015 general fund budget is 6% (\$57.7 million) more than the fiscal 2014 budget and includes a \$43.7 million fund balance appropriation, the bulk of which is for one-time spending.

Related Criteria

[Tax-Supported Rating Criteria \(August 2012\)](#)

[U.S. Local Government Tax-Supported Rating Criteria \(August 2012\)](#)

The county has appropriated similar fund balance amounts in recent years' budgets and historically has unspent the budget.

Year-to-date results show income tax revenues below budget but offset by midyear spending reductions and a hiring freeze. Use of the appropriated fund balance would bring the unrestricted fund balance down to approximately \$82.6 million, or 8.2% of budgeted fiscal 2015 spending, which is adequate given the county's overall credit profile. The county prepares a multiyear financial forecast to identify and address future fiscal challenges which Fitch views as a positive. The forecast shows balanced operations without the use of fund balance, mostly by reducing the use of one-time spending.

The county relies mostly on property tax revenues (48%) for general fund operations. The county's property tax rate and levy are not subject to statutory or charter limitation or cap, but it is high for the region. Income taxes account for 41% of general fund revenues. The county's income tax rate is at the 3.2% cap.

**Deep Economic Base**

The county is among the wealthiest in the nation, featuring a highly educated workforce. Residents are employed throughout a deep and diverse economy, led by the federal government. Fort Meade is a major driver of long-term regional growth and Maryland's top employer, located in Anne Arundel County (AA+/Stable). The fort is already a home base to all five military services and the National Security Agency and was recently named the headquarters for the new U.S. cyber-security center. Activity at the fort currently reportedly contributes \$2.5 billion annually to the county's economy in contracts and wages.

The education and healthcare sectors, led by John Hopkins University Applied Physics Laboratory, play a pivotal role in the economy and lend additional stability to the government sector. While employment growth has slowed, the county continues to generate and retain jobs through its economic development efforts. The county's December 2014 unemployment rate of 3.9% is well below the state and national averages.

Economic development activities are focused on the redevelopment of downtown Columbia, the further leveraging of the county's proximity of Fort Meade, and manufacturing and retail development. Jovian Concepts, a cyber-security company, has acquired office space in Columbia and will add 45 new jobs. NAFCO, a seafood distributor, is investing \$12 million in a new seafood processing facility, creating 50 new jobs.

**Favorable Debt Profile**

Debt levels are moderate overall at \$3,810 per capita and 2.56% of market value, net of self-supporting GO debt for water and sewer projects. Amortization is average at 58% within 10 years.

Fitch expects the county's debt burden to remain manageable. The county has adopted a fiscal 2015-2019 capital improvement plan (CIP) totaling \$1.7 billion, including

**Debt Statistics**

(\$000)	
This Issue	273,860
Outstanding Direct Debt – Net of Refunding	1,163,402
Self-Supporting	(297,338)
<b>Total Net Direct Debt</b>	<b>1,139,879</b>
Overlapping Debt	20,574
<b>Total Overall Debt</b>	<b>1,160,498</b>

**Debt Ratios**

Net Direct Debt Per Capita (\$) <sup>a</sup>	3,743
As % of Market Value <sup>b</sup>	2.5
Overall Debt Per Capita (\$) <sup>a</sup>	3,810
As % of Market Value <sup>b</sup>	2.6

<sup>a</sup>Population: 304,580 (2014). <sup>b</sup>Market value: \$44,552,141 (2014). Note: Numbers may not add due to rounding.

approximately \$250 million of water and sewer projects. The county's education system remains the emphasis of the CIP, accounting for approximately \$850 million. The plan is mostly debt funded (\$1 billion). Given amortization and projected tax base growth, Fitch expects debt ratios to increase but remain in the moderate range. The current plan would essentially double the current debt burden; however, management will limit additional debt to 10% of spending.

### **Other Long-Term Liability Costs Are Low**

Long-term liabilities related to employment benefits are not expected to pressure future operations. The county provides pension benefits to its employees through single-employer defined benefit plans and annually contributes 100% of the annual required contribution (ARC). As of July 1, 2014, the general employees' plan was well funded at 91% and police and fire employees' at a weaker 79%. Fitch estimates the funded ratios at approximately 85% and 73%, respectively, using Fitch's more conservative 7% discount rate. The aggregate adjusted unfunded actuarial accrued liability (UAAL) totaled \$198 million, or a very low 0.3% of market value. Fitch notes that the county reduced its rate of return assumption to 7.75% during fiscal 2014 and has prudently further reduced the assumption to 7.50% during fiscal 2015.

The county also provides OPEB to its retirees. The county funded its OPEB cost for fiscal 2014 on a pay-as-you-go basis and made a contribution (\$12 million) to pre-fund the liability, bringing the funded ratio to a modest 4%. County management expects to begin fully funding the OPEB ARC by 2020. The UAAL associated with OPEB totals \$717.2 million, or 1.6% of market value. Carrying costs for debt service, pension (including teachers' pension costs), and OPEB totaled a low 13.7% of fiscal 2014 governmental fund spending.

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