

RatingsDirect®

Summary:

Howard County, Maryland; Appropriations; General Obligation

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Credit Profile

US\$232.36 mil go cons pub imp proj and rfdg bnds ser 2015A due 02/15/2035		
<i>Long Term Rating</i>	AAA/Stable	New
US\$41.455 mil metro dist proj and rfdg bnd ser 2015A due 02/15/2045		
<i>Long Term Rating</i>	AAA/Stable	New
Howard Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Howard County, Md.'s series 2015A consolidated public improvement project and refunding bonds and 2015A Metropolitan District project and refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' Rating on the county's existing GO debt. We also affirmed our 'AA+' long-term rating on Howard County Housing Commission's series 2011 lease-revenue appropriation debt, supported by the county. The outlook is stable for all ratings.

The county's full-faith-and-credit pledge secures the consolidated public improvement bonds. Special front-foot assessments on all property in the district, special annual ad valorem taxes levied on assessable property in the district, and water and sewer service charges and connection fees secure the metropolitan district bonds. The county's full faith and credit GO pledge further secures the metropolitan district bonds. Officials intend to use bond proceeds to reimburse the county for the payment of costs related to certain projects and refund certain GO bonds of the county. As is historical practice, the county seeks to use its own cash or draw on its revolving credit line with Wells Fargo Bank N.A. to fund capital projects and then reimburse itself with bond proceeds. Savings from the refunding will be taken over the maturity schedule and there is no extension of maturity.

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

- Very strong economy that is vibrant and diverse and that participates in the Baltimore-Columbia-Towson metropolitan statistical area, coupled with very strong income levels;
- Strong budgetary performance with a diverse revenue stream, led by property taxes that account for 50% of general fund revenue;
- Strong budgetary flexibility despite recent and projected drawdowns in reserves after including the county's stabilization fund;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Very strong management conditions with strong policies and practices;
- Adequate debt and contingent liability profile with low net debt as a percentage of market value and average

amortization; and

- Very strong institutional framework.

Very strong economy

Howard County, with a population estimate of 300,000, encompasses 251 square miles between Baltimore and Washington. Residents benefit from significant employment opportunities in the county and throughout the Washington-Baltimore region. 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. We consider county income very strong, with projected per capita effective buying income at 188.9% of the nation's level.

Unemployment, which has historically been well below state and national rates, averaged just 4.9% in 2013, which was one of the lowest rates in the state. The county continues to attract new businesses in all sectors, and it encourages expansions by existing companies. New construction, particularly in and around Columbia, one of the largest planned communities in Maryland, continues. Downtown Columbia is a focus of the county's economic development initiatives and includes a variety of projects, including Little Patuxent Square.

The property tax base was \$44.6 billion in fiscal 2014, or \$148,400 per capita, about a 12% decrease from the peak of \$50.3 billion in fiscal 2010. The tax base decreases over the past few years reflect the economic downturn's effect on residential value. Annual revaluations, new construction, and increasing property value had fueled strong growth before fiscal 2009. In 2014, for the first time since 2009, values have begun to stabilize and increased slightly by 0.8% since last year. According to management, home prices are now 97% of their 2007 high. Home values have improved, the number of days on the market has decreased, and foreclosures have leveled off. Building permit activity has begun to improve, in our view, moderately, and county officials estimate the median home value was about \$378,000 for fiscal 2014. In our opinion, property tax collections have historically been strong, averaging more than 99% for the past five years. The tax base is very diverse with the 10 leading taxpayers accounting for just 2.6% of AV.

Strong budgetary performance

We view overall budgetary performance as strong with operating surpluses in the last three audited fiscal years. For fiscal 2014, the county generated an \$18 million surplus in the general fund, or 1.9% of expenditures, and a total governmental fund surplus of 2.4% of expenditures, after adjusting out one-time expenditures for capital and moving recurring transfers in and out of the general fund above the line. The county's 2015 budget totals \$1.03 billion and includes a \$43.7 million appropriation of reserves for one-time expenditures, including capital pay-go and a \$5 million contribution to the county's other post-employment benefit (OPEB) trust. During the current fiscal year, management identified a \$15.8 million shortfall mostly related to income tax receipts due to the reconciliation of prior years' tax liabilities. As a result of this anticipated shortfall, management sought to close this budgetary gap through various measures, including a 5% reduction in expenditures across all departments as well as a hiring freeze. With less than four months remaining in the current fiscal year, management projects ending with break-even operating results. The revenue base is diverse, with property taxes, the primary revenue source, generating 50% of general fund revenue.

Strong budgetary flexibility

In our opinion, budgetary flexibility remains strong despite the utilization of reserves in 2014 and projected for 2015 for one-time expenditures such as capital spending. Audited fiscal 2014 results indicate available reserves declined by \$7.4 million to \$67 million, or 7.3% of operating expenses. In addition, the county maintains a budget stabilization

fund, or rainy-day fund, that is legally restricted; this is included in the committed portion of general fund balance, which totaled \$59.3 million at fiscal year-end 2014. With board approval, the county can use this money, if necessary. The county's stabilization fund policy calls for the maintenance of at least 7% of previous-year audited expenditures. Since inception, the county has not tapped its rainy-day fund. Including the stabilization fund, available reserves totaled \$126.3 million, or, what we view as, a strong 13.6% of operating expenditures.

The 2015 budget includes a \$43.7 million appropriation of reserves for various one-time expenditures. Management plans to spend down reserves by this full amount, which will reduce available reserves, including the stabilization fund, to \$82.6 million, or an estimated 8.02% of expenditures, a level we would view as strong should no further reduction occur. While still in the beginning stages of the 2016 budget, we understand that management will not likely include another appropriation of reserves. Further, we understand that the 2016 budget will likely not include a property tax levy increase.

Very strong liquidity

What we consider very strong liquidity supports Howard County's finances with total government available cash at 15.8% of total governmental fund expenditures and a debt service ratio of 165%. Available cash for 2014 totaled \$173.89 million. We believe the county has strong access to external liquidity as it is a frequent issuer of GO-backed debt.

The county currently maintains a \$150 million revolving credit bank line with Wells Fargo Bank, and a \$4.3 million taxable golf course refunding revenue note with PNC Bank N.A. that we believe contain permissive events of default and immediate acceleration as a remedy and therefore consider a non-remote contingent liability risk to the county. However, we believe the contingent liability of these instruments is mitigated by the county's aforementioned refunding of the entire amount currently drawn against the \$150 million bank line. Following this refunding, we believe the county will have sufficient cash to fund any acceleration of principal under the revenue note financing agreement with PNC Bank. We will continue to monitor, as the county draws on the revolving credit line with Wells Fargo Bank to fund capital projects, that there is sufficient available cash to provide liquidity in the event of an immediate acceleration of principal. We understand that management is currently seeking to revise the provisions within the revolving credit bank line in order to reduce or eliminate potential risks to the county.

Very strong management

We view the county's management conditions as very strong with "strong" financial management practices under our Financial Management Assessment methodology, indicating practices are strong, well embedded, and likely sustainable. Highlights include management's:

- Formal debt management policy that maintains debt affordability ratios,
- Five-year rolling capital improvement plan (CIP) tied to the operating budget that identifies all revenue sources,
- Investment policies that mirror state policies with management sharing all data with the county board monthly, and
- Formal reserve policy that includes a fully funded rainy-day fund set at 7% of the general fund budget.

Adequate debt and contingent liability profile

In our opinion, Howard County's debt and contingent liability profile is adequate, with total governmental funds debt service at 9.6% of total governmental funds expenditures and net direct debt at 80.5% of total governmental funds

revenue. Overall net debt is, in our view, low at just 2% of market value. We consider debt amortization average, with officials planning to retire roughly 59% over 10 years. We believe debt will likely remain adequate despite the county's large CIP of \$900 million for fiscal years 2015-2020. We understand that over the next two years, the county will likely issue approximately \$220 million in additional debt.

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. Annual required contributions (ARCs) were \$33.6 million for fiscal 2014, and we understand the county contributed the full amount. The retirement plan and the fire and police plan were 90.6% and 78.6% funded, respectively, as of July 1, 2014. The county also provides OPEBs, and the OPEB plan's funding policy allows the county to contribute the actuarially determined ARC to a trust. In fiscal 2014, the county contributed \$12 million to the OPEB trust and the 2015 budget includes a \$15 million appropriation in addition to the appropriation for pay-go expenditures. As of July 1, 2012, the OPEB unfunded actuarial accrued liability was \$727.9 million.

Very strong institutional framework

We consider the institutional framework score for Maryland counties very strong.

Outlook

The stable outlook on the long-term rating reflects Standard & Poor's opinion that the 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 believe the county's strong financial management practices and policies will support its strong financial performance. In addition, we believe the county's access to, and participation in, the vibrant Washington and Baltimore metropolitan areas enhances rating stability. As such, we do not expect to change the rating within the two-year outlook period. However, should available reserves drop to levels we consider weak with no plans to rebuild to at least adequate levels or should liquidity weaken, particularly given the county's current exposure to what we consider to be non-remote contingent liability risk, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of March 19, 2015)

Ratings Detail (As Of March 19, 2015) (cont.)		
Howard Cnty COPs		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Howard Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Howard Cnty Hsg Commission, Maryland		
Howard Cnty, Maryland		
Howard Cnty Hsg Commission (Roger Carter Recreation Ctr Proj)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

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