

Howard County, Maryland; Appropriations; CP; General Obligation

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Credit Profile		
US\$50.0 mil GO cons pub imp bnds ser 2012A		
<i>Long Term Rating</i>	AAA/Stable	New
US\$20.0 mil Metro dist bnds ser 2012A		
<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 and stable outlook to Howard County, Md.'s series 2012A consolidated public improvement bonds and series 2012A metropolitan district general obligation (GO) bonds and affirmed its 'AAA' long-term rating, with a stable outlook, on the county's existing GO debt.

At the same time, Standard & Poor's affirmed its 'AA+' long-term rating, with a stable outlook, on the county's appropriation debt and its 'A-1+' short-term rating on the county's commercial paper program.

The ratings reflect our view of the county's:

- Vibrant and diverse local economy with access to the Baltimore and Washington metropolitan statistical areas (MSAs);
- Large and very diverse property tax base that continues to exhibit, what we consider, ongoing healthy growth;
- Very strong wealth and income;
- Strong fund balances that continue to face near-term fiscal pressure with regard to management's maintenance of structurally balanced budgets due to the recent economic downturn; and
- Low and manageable debt, coupled with a substantial, but well-managed, capital improvement program (CIP).

The county's full-faith-and-credit GO pledge secures the consolidated public improvement bonds. Officials plan to use series 2012A consolidated public improvement bond proceeds to finance various county capital projects. 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 plan to use series 2012A metropolitan district bond proceeds to finance various county water and sewer capital needs.

Howard County, with a population estimate of 290,000, encompasses 251 square miles between Baltimore and Washington. Residents benefit from significant employment opportunities in the county, as well as throughout the Washington-Baltimore MSAs. The deep, diverse local and regional economies and a highly educated workforce contribute to historically high wealth and income and low unemployment. We consider county income indicators very strong. Median household effective buying income is 140% of the state's level and 178% of the nation's level.

Unemployment, which has historically been well below state and national rates, was 4.7% in December 2011; this was the lowest in the state and a decline from the summer months. In general, unemployment remains favorable and well below state and national rates. The county continues to attract new businesses, across all sectors, and encourage expansions of existing companies. As a result, the county added roughly 5,000 new jobs between 2006 and 2011, which was the most of any Maryland county. In addition, Howard County was one of only three counties to experience any growth at all.

The county's large property tax base was \$48.14 billion in fiscal 2011, a 4.2% decline from the previous year; this, however, was better than the projected 8.3% decline for fiscal 2011. Since fiscal 2007, the tax base has increased by a healthy 32.2%. Annual revaluations, new construction, and increasing property value had recently fueled strong growth. Due to the economy's downturn, however, county officials are projecting the tax base to remain flat for fiscal 2012 and begin to experience, what we view as, more-modest growth in fiscal 2013 and beyond. The homestead tax credit will mitigate the effect of any property tax revenue declines on the county from potential ongoing tax base declines, providing property tax revenue growth of 3%-4% annually for the near future. Management is currently projecting the county will have a sufficient tax credit for the next two to three years. Property tax collections have historically been, what we consider, strong, averaging more than 99% over the past five years. The tax base is very diverse with the 10 leading taxpayers accounting for just 2.4% of assessed valuation. Management indicates that building permit activity has begun to improve moderately. As such, home values have begun to trend upward, days on the market have begun to decline, and foreclosures have leveled off. County officials estimate average home values were \$396,016 at the end of 2011.

The county's finances remain, what we consider, stable despite recent reserve drawdowns. Due to the economic downturn, some of the county's economically sensitive revenue -- income, recordation and transfer taxes, and investment income -- has fallen short of budgeted levels.

Slightly more than midway through fiscal 2012, management indicates expenditures are trending modestly below the budget while revenues are trending well above the budget, primarily in income taxes. As a result, management is currently projecting an almost \$18.9 million operating surplus that it will add to fund balance. The fiscal 2012 budget totals \$870.8 million and includes the restoration of the pay-as-you-go funding of about \$10.55 million, which officials had held off in fiscal 2011 due to the recession. County officials maintain fiscal 2012 remains a challenging year, but management indicates it will continue to take the necessary measures to ensure fiscal stability. To that end, the county has earmarked, what we view as, a healthy \$93.07 million of other available revenue sources that it could use to offset revenue shortfalls for fiscal 2012; these other sources include unassigned general fund balance, internal service fund balances, and the unreserved portion of the rainy day fund balance. The county has a proven record of taking the necessary actions to curb expenditures. It is our opinion the county will likely continue to manage through these difficult economic times and continue to prudently manage and maintain, what we view as, stable reserves.

Although still unaudited, management estimates it will close fiscal 2011 with a \$20.9 million operating surplus, all of which will fall to fund balance. This surplus is in line with what the county had projected for fiscal 2011 back in February 2011. Management attributes the surplus to income tax revenue coming in well overbudget by about \$11 million. Expenditures came in almost \$9 million underbudget. The general fund balance increased to \$92.67 million, or, in our view, a strong 11.5% of expenditures. Management has also maintained the rainy day fund, which was \$56.8 million and was in accordance with its policy.

The almost complete elimination of state-shared revenue, primarily highway user revenue, in fiscal 2010 exacerbated fiscal pressure. The county, however, was able to continue its ongoing cost-cutting measures, offsetting even greater reserve reductions. The county closed fiscal 2010 with its third consecutive drawdown, totaling \$10 million, net of transfers. Revenue was below budgeted levels by \$13.7 million; property tax revenue, the leading revenue source at 54%, however, came in overbudget, modestly offsetting revenue declines. General fund balance declined to \$71.8 million, or, in our opinion, a still-strong 9.1% of expenditures. Unreserved fund balance decreased to \$10.3 million, or, in our view, an adequate 1.3% of expenditures, from \$47.9 million in fiscal 2008. The county's budget stabilization fund, or rainy day fund, which is legally restricted and accounted for in the reserved general fund balance, was \$54.7 million in fiscal 2010; upon board approval, the county can use this money, if necessary.

In our opinion, general fund balance is a truer liquidity indicator. The county's stabilization fund policy calls for the maintenance of at least 7% of the previous year's audited expenditures. For fiscal years 2010 and 2011, the stabilization fund was \$54.7 million, or 7.2% of expenditures, and \$56.8 million, or 7.1%, respectively, which were in line with the county's policy. Furthermore, the strong management team's ability to implement ongoing, and sometimes unpopular, cost-control measures allowed it to come in \$18.5 million, or 2.7%, underbudget on the expenditure side, preventing more serious reserve declines. Liquidity is, in our opinion, a strong 82.1% of fund equity, held in the form of cash and cash equivalents.

Standard & Poor's considers Howard County's financial management practices "strong" under its Financial Management Assessment methodology, indicating practices are strong, well embedded, and likely sustainable.

In our opinion, excluding metropolitan district debt and other self-supporting debt, overall net debt is a moderate \$3,207 per capita, or a low 2.4% of market value. It is our opinion that debt will likely remain manageable despite the county's large \$1.457 billion CIP for 2013-2017. When including fiscal 2012 and previously authorized projects, the CIP increases to, what we consider, a significant \$3.94 billion.

Outlook

The stable outlook on the long-term rating reflects Standard & Poor's opinion that the county will likely continue to budget conservatively and maintain stable budget reserves in light of difficult economic conditions while making ongoing contributions to the capital projects fund to aid in offsetting its large CIP. In addition, the county's access to, and participation in, the vibrant Washington and Baltimore MSAs provides rating stability. As such, we do not expect the rating to change within the outlook's two-year period. The stable outlook on the lease revenue bonds reflects our outlook on the county's GO debt rating.

Potential Pressures Beyond The County's Control

Potential pension cost shifts and federal job cuts are among the major concerns for Howard County, both of which are out of the county's control. These two items could potentially have a significant effect on the county and its finances.

Pensions

Gov. Martin O'Malley has proposed, and the Maryland General Assembly is considering, shifting half the cost of funding the state teacher's pension costs to local governments for the fiscal 2013 budget year. To date, the General Assembly has not made a decision. If this were to occur, Baltimore City and Maryland counties would be

responsible for paying \$240 million in fiscal 2013; this would only increase over time. According to the governor, the state would help the counties pay the bill through a variety of measures, though no clear sources have been defined. One option is higher income taxes. Howard County, however, currently levies the highest income tax rate, at 3.2%, allowed by the state.

For the county, its assumption of half the state teacher's pension costs would equal \$17.2 million in pension contributions, escalating to \$25.8 million in 2017. The county's potential fiscal 2013 payment is equal to 30% of its rainy day fund. In a proactive measure, the county executive has requested each department to prepare alternative budgets including a 7% reduction in expenditures, which equals the potential pension payment. Management indicates it is considering all options to reduce expenditures, including service reductions, layoffs, pay cuts, and property tax increases.

In our opinion, county pension funding is good. The general county employee retirement plan was funded at 92.5% and the police and fire plan was funded at 76.2%, as of July 1, 2011. The county created an other postemployment benefits (OPEB) trust fund in 2008; the balance is an estimated \$5.327 million for fiscal 2012. Pension and OPEB contributions account for 7.7% of governmental expenditures.

Economy

Due to Howard County's location in the Baltimore-Washington MSA and its good access to Fort Meade, 1.5 miles from the county's line, the county's economy is susceptible to potential federal job cuts. Fort Meade is home to the Defense Cyber Command; the National Security Agency (NSA); and the Defense Information Systems Agency, as well as the cyber headquarters for three of the four armed services and a cyber element of the U.S. Department of Homeland Security. Due to continuing cyber threats, the base continues to grow. Personnel has increased to 56,000 in 2012 from 34,000 in 2005. In addition, the base itself continues to expand in size. The construction of an \$860 million high-performance computing center is scheduled to begin in December 2012. While federal job cuts will likely occur, it is our opinion that the county is better insulated than other areas in the region to handle sizable cuts.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Short-Term Debt, June 15, 2007
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

Ratings Detail (As Of March 9, 2012)		
Howard Cnty cons pub imp cml pap BANs <i>Short Term Rating</i>	A-1+	Affirmed
Howard Cnty COPs <i>Long Term Rating</i>	AAA/Stable	Affirmed
Howard Cnty Hsg Commission, Maryland		
Howard Cnty, Maryland Howard Cnty Hsg Commission lse rev bnds (Roger Carter Recreation Ctr Proj) <i>Long Term Rating</i>	AA+/Stable	Affirmed

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