

March 9, 2009

Howard County, Maryland; General Obligation

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US\$74. mil cons pub imp bnds 2009 ser A due 02/15/2029		
<i>Long Term Rating</i>	AAA/Stable	New
US\$26.9 mil metro dist bnds 2009 ser A due 02/15/2029		
<i>Long Term Rating</i>	AAA/Stable	New
Howard Cnty		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to Howard County, Md.'s series 2009A consolidated public improvement bonds and series 2009A metropolitan district bonds and affirmed its 'AAA' rating, with a stable outlook, on the county's existing general obligation (GO) debt.

In our opinion, the rating reflects the county's:

- Vibrant and diverse local economy with access to the Baltimore and Washington metropolitan statistical areas (MSAs);
- Large and diverse property tax base that continues to exhibit ongoing healthy growth;
- High wealth and income levels;
- Improved financial performance and position, following a gradual reduction in general fund reserves over fiscals 2001-2003; and
- Low and manageable debt burden, 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 will use bond proceeds to repay a portion of county notes outstanding. Special front-foot assessments on all property within the district, special annual ad valorem taxes levied on assessable property within 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 provides further security for the metropolitan district bonds. Officials will use bond proceeds to fund water and sewer projects.

Howard County, with a population estimate of 276,000, encompasses 251 square miles between Baltimore and Washington. Residents benefit from significant employment opportunities within the county and throughout the Washington-Baltimore region. The deep and diverse local and regional economies contribute to high wealth levels and low unemployment. We consider the county's income indicators very strong. Median household effective buying income is 140% of the state's level and 177% of the nation's level. Unemployment, below 4% for 2008, has historically been well below state and national rates.

The county's property tax base was, in our opinion, a large \$42.26 billion for fiscal 2008, an increase of 16% over the previous year. Since 2004, the county's tax base has increased by a sizable 72.5%. Annual revaluations, new construction, and increasing property values have recently fueled this strong growth. County officials, however,

estimate the county will see a 7% reduction in residential assessments for one-third of the property revalued for 2009. Given this reduction, however, estimates still have property tax base growth at slightly more than 12%, which we consider strong. Furthermore, the Homestead Tax Credit will mitigate the effect of any property tax declines from potential ongoing tax base declines. In our view, property tax collections, near 100%, have historically been strong. In our opinion, the tax base is also diverse with the 10 leading taxpayers accounting for just 2.56% of assessed valuation. Despite a slight construction slowdown and an increase in the number of days houses are on the market, housing values have seen only modest declines.

In our opinion, Howard County's financial performance and position have improved over the past four consecutive fiscal years, following a gradual reserve reduction over fiscals 2001-2003. After several years of operating surpluses, the county closed fiscal 2008 with a \$12.2 million drawdown, net of transfers, primarily to the capital projects fund. Property tax revenues(48%) -- the county's leading revenue source, which came in over-budget -- were able to offset declines in other tax revenues, including recordation taxes and investment income. The county's total general fund balance dipped to \$102.9 million, or, in our view, a still-strong 13.5% of expenditures. The unreserved portion of the fund balance fell slightly to \$47.9 million, or 6.3% of expenditures.

Management is projecting fiscal 2009 to close with a reserve drawdown. Factors contributing to the drawdown include projected shortfalls, primarily from income and recordation taxes, which excess property taxes and planned transfers into the capital projects fund for ongoing capital needs should offset. County officials have a proven record of taking the necessary actions to curb expenditures. It is our opinion that the county will continue to deal with these difficult economic times, manage prudently, and maintain stable reserves. The county's stabilization fund reserve policy is to maintain reserves of at least 7% of the previous year's audited expenditures. For fiscal 2008, the stabilization fund totaled \$45.095 million, or 6.5% of expenditures.

Standard & Poor's considers Howard County's financial management practices "strong" under its financial management assessment (FMA) methodology, indicating practices are strong, well embedded, and likely sustainable.

In our opinion, the county's debt burden remains low and manageable. Excluding metropolitan district debt and other self-supporting debt, overall net debt is about \$2,761 per capita, or 1.8% of market value. It is our opinion that the county's debt burden will remain manageable despite its large 2010-2014 CIP of \$1.27 billion. When including fiscal 2009 and previous authorized projects, the plan increases, in our view, to a significant \$3.2 billion.

Outlook

The stable outlook reflects the county's access to, and participation in, Washington's and Baltimore's vibrant metropolitan areas, which contributes to the county's above-average wealth levels and historically low unemployment. The stable outlook also reflects Standard & Poor's expectation that the county will continue to budget conservatively and maintain stable reserves in light of difficult economic conditions while making ongoing contributions to the capital projects fund to aid in offsetting the large CIP.

Financial Management Assessment: 'Strong'

Standard & Poor's considers Howard County's financial management practices "strong" under its FMA methodology, indicating practices are strong, well embedded, and likely sustainable. The county has a long-standing record of being fiscally conservative with a good adherence to management policies and practices.

When preparing budgets, the county uses techniques such as historical trend analysis and base budgeting for revenues and expenditures. In addition, the administration closely monitors trends in the surrounding areas. The county seldom makes amendments to the budget once adopted, except for major items such as grants. The county also uses multiyear financial planning, and management forecasts five years out for operating and capital on both revenues and expenditures. The county's CIP is a five-year rolling plan with all revenues identified and linked to the budget.

The county follows Maryland's investment law. Financial officers make monthly reports to elected officials on the county's actual investment and progress. The county maintains debt issuance policies measured by various sectors, including debt service to operating revenues, market value, per capita, or personal income. Furthermore, management's law for the revenue stabilization fund is to maintain at least 7% of the previous year's audited expenditures.

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