



2022 Spending Affordability Advisory
Committee

Department of Finance
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Topics of Discussion

- ▶ Credit Rating
- ▶ Current Debt Management Policy Measures
- ▶ Debt Measure Projections
- ▶ Bond Authorization Process
- ▶ Authorized But Unissued Bonds

Howard County Credit Rating

- Howard County has received the highest AAA rating from the three major credit rating agencies for the past 23 years.
- County Executive Ball's Transition Team Report prepared in January 2019 included several fiscal recommendations:
 - 1) "continue [to] focus on maintaining County AAA bond rating [which] allows us to borrow money at the lowest possible cost;
 - 2) revisit the Rainy Day Fund investment strategy to prepare for a downturn in the economy or a revenue shortfall."
- For a \$150 million bond sale, the County's financial advisor estimated interest savings due to a triple AAA rating of over \$1 million over the 20 year life of the bonds.

Credit Rating Criteria

- ▶ The three major credit rating agencies are Fitch, Moody's and S&P.
- ▶ The credit rating analysis measures the ability and willingness of an entity to meet financial obligations.
- ▶ Each rating agency publishes a methodology which identifies the critical credit factors considered.
- ▶ The credit rating methodology covers four major areas:
 - Economy & tax base
 - Finances
 - Management
 - Debt & pensions

		Moody's	S&P's	Fitch
Investment Grade	Strongest	Aaa	AAA	AAA
		Aa	AA	AA
		A	A	A
		Baa	BBB	BBB
Non Investment Grade	Weakest	Ba	BB	BB
		B	B	B
		Caa	CCC	CCC
		Ca	CC	CC
		C	C	C
		D	D	D

Rating Criteria – Fund Balance

Rating Considerations

- **Moody's:** Under the Finances section of Moody's methodology, Fund Balance as a % of Revenues category is defined as follows:
 - Aaa: >30.0%
 - Aa: 30.0% - 15.0%
 - A: 15.0% - 5.0%
 - Baa and below: <5.0%

- **S&P:** The Finances section defines categories of Budgetary Flexibility and Available Fund Balance as a % of Expenditures as follows:
 - Very Strong: >15%
 - Strong: 8% - 15%
 - Adequate: 4% - 8%
 - Weak: 1% - 4%
 - Very Weak: < 1%

	As of 06/30/16	As of 06/30/17	As of 06/30/18	As of 06/30/19	As of 06/30/20
Committed					
Rainy Day Fund	64,173	67,383	71,339	73,958	75,845
Nonspendable	7,632	9,045	12,600	12,265	11,478
Restricted	1,972	2,070	1,024	-	-
Assigned	53,577	34,649	49,382	35,997	99,393
Unassigned	12,016	23,544	7,898	18,387	21,834
Total Fund Balance	139,370	136,691	142,245	140,608	208,550
As % of Current Year General Fund Expenditures	13.7%	13.0%	13.2%	12.6%	18.4%

The County has increased the General Fund Balance to be more consistent with the median AAA percentage. Per the County Charter, the Unassigned Balance is available for one-time expenditures not on-going operating expenditures.

Current Debt Affordability Measures

Measure #1: Debt as a Percent of the Assessable Base

- ▶ The County Charter limits outstanding general county debt to 4.8% of the assessed value of real and personal property. This measure is also included in S&P and Moody's credit rating criteria.

	Assessable Base	Outstanding GO Debt	Debt as % of Base
June 30, 2016	47,641,613,341	\$1,001,118,547	2.10%
June 30, 2017	49,626,808,995	\$1,054,697,374	2.13%
June 30, 2018	51,518,005,000	\$1,162,521,552	2.26%
June 30, 2019	53,412,616,240	\$1,203,728,872	2.25%
June 30, 2020	55,178,322,000	\$1,262,704,059	2.29%

Debt Measure Projections

Debt Measure # 1, as projected based upon current assumptions.

	Assessable Base	Outstanding GO Debt	Debt as % of Base
June 30, 2021	56,889,457,000	\$1,321,450,854	2.32%
June 30, 2022	58,441,355,000	\$1,323,864,774	2.27%
June 30, 2023	59,902,388,875	\$1,330,239,376	2.22%
June 30, 2024	61,399,948,597	\$1,348,110,539	2.20%
June 30, 2025	62,934,947,312	\$1,379,110,452	2.19%
June 30, 2026	64,508,320,995	\$1,404,699,732	2.18%
June 30, 2027	66,121,029,019	\$1,429,085,143	2.16%
June 30, 2028	67,774,054,745	\$1,388,895,314	2.05%
June 30, 2029	69,468,406,114	\$1,348,158,850	1.94%
June 30, 2030	71,205,116,266	\$1,305,313,703	1.83%

Current Assumptions: \$90 million annual debt issuance beginning in FY2024 at 4.5% interest rate plus \$75 million in bonds for Courthouse in FY2021, \$80.5 million WIFIA loan in FY2027 and issuance of authorized but unissued bonds through FY2027. Assessable base projections per SDAT and Budget Office.

Current Debt Affordability Measures

Measure #2: Debt measured against the population on a per-capita basis.

- ▶ This measure is not considered by credit rating agencies but is currently required by the County's Debt Management Policy.

	Population	Outstanding GO Debt	Debt per Capita
June 30, 2016	316,966	\$1,001,118,547	\$3,158
June 30, 2017	321,113	\$1,054,697,374	\$3,285
June 30, 2018	323,293	\$1,162,521,552	\$3,596
June 30, 2019	325,960	\$1,203,728,872	\$3,693
June 30, 2020	330,376	\$1,262,704,059	\$3,822

Current Debt Affordability Measures

Measure #3: Per-capita debt measured as a percent of per-capita income.

- ▶ A limit of 10% was consistent with AAA rated counties when added to the policy in 1996. This measure is no longer considered by credit rating agencies.

	Debt per Capita	Per Capita Income	Debt as % of Income
June 30, 2016	\$3,158	\$69,133	4.57%
June 30, 2017	\$3,285	\$70,508	4.66%
June 30, 2018	\$3,596	\$71,883	5.00%
June 30, 2019	\$3,693	\$73,258	5.04%
June 30, 2020	\$3,822	\$74,633	5.12%

Source: U.S. BEA and Maryland Department of Planning, in constant 2009 dollars.

Current Debt Affordability Measures

Measure #4: Debt Service as a percent of current revenues.

- ▶ The self-imposed policy goal is to keep debt service to 10% or less of current revenues. This measure is part of S&P's credit rating criteria.

	Debt Service	Revenues	DS as % of Revenue
June 30, 2016	\$112,982,329	\$1,241,292,000	9.10%
June 30, 2017	\$123,488,167	\$1,302,216,000	9.48%
June 30, 2018	\$115,793,944	\$1,324,235,000	8.74%
June 30, 2019	\$125,035,834	\$1,363,133,000	9.17%
June 30, 2020	\$145,612,118	\$1,381,758,272	10.54%

*Current revenues include General Fund, Environmental Services Fund and Fire Tax Fund.

Debt Service Projections

Debt Measure # 4, as projected based upon current assumptions.

	Debt Service	Revenues	DS as % of Revenue
June 30, 2021	\$150,089,311	\$1,366,798,148	10.98%
June 30, 2022	\$149,402,063	\$1,406,461,675	10.62%
June 30, 2023	\$162,192,680	\$1,447,290,989	11.21%
June 30, 2024	\$177,582,260	\$1,476,667,869	12.03%
June 30, 2025	\$173,953,138	\$1,506,647,855	11.55%
June 30, 2026	\$179,676,014	\$1,537,243,444	11.69%
June 30, 2027	\$189,192,621	\$1,581,894,528	11.96%
June 30, 2028	\$194,277,319	\$1,627,858,362	11.93%
June 30, 2029	\$191,029,858	\$1,675,173,755	11.40%
June 30, 2030	\$191,592,032	\$1,723,880,671	11.11%

Current Assumptions: \$90 million annual debt issuance beginning in FY2024 at 4.5% interest rate plus \$75 million in bonds for Courthouse in FY2021, \$80.5 million WIFIA loan in FY2027 and issuance of authorized but unissued bonds through FY2027.

Bond Authorization and Issuance Process

- Bonds are authorized in conjunction with the adoption of the Capital Budget in May. The bond authorization is linked to a specific capital project and requires legislative action to be re-allocated.
- The bond authorization is in effect for four years. Unissued bonds may be re-authorized for an additional four years during the budget adoption cycle.
- Once bonds are authorized, the County's current projections reflect annual issuance of 20% per year.
- The County has a short-term Line of Credit in place to reimburse capital project outlays periodically throughout the year. Each spring, the County issues General Obligation bonds to payoff the Line of Credit.

Authorized But Unissued Bonds

	FY 2016	FY 2017	FY2018	FY2019	FY2020	FY2021	FY2022 Est.
Water & Sewer Bonds	\$385,705,646	\$361,503,155	\$304,575,001	\$261,991,194	\$222,646,214	\$195,490,227	\$190,459,416
Maryland Water Quality Bonds	\$23,936,000	\$23,936,000	\$0	\$0	\$0	\$0	\$0
Building Excise Tax Bonds	\$95,704,763	\$84,299,824	\$84,171,824	\$74,391,301	\$63,346,275	\$51,640,729	\$48,100,939
Fire Tax Bonds	\$22,301,616	\$18,882,818	\$26,324,856	\$7,463,621	\$3,139,631	\$2,993,630	\$2,993,631
Broadband Fee Bonds	\$20,000,000	\$18,490,000	\$18,490,000	\$7,123,000	\$7,123,000	\$5,666,000	\$4,666,000
Tax Increment Bonds	\$50,000,000	\$50,000,000	\$71,745,000	\$71,775,000	\$71,775,000	\$71,775,000	\$41,775,000
Environmental Fee Bonds	\$10,865,000	\$9,419,304	\$9,031,304	\$8,225,304	\$4,135,117	\$2,981,117	\$1,823,117
Community College Fee Bonds	\$7,250,000	\$7,200,952	\$4,969,952	\$236,952	\$0	\$0	\$0
Economic Development Bonds	\$0	\$0	\$0	\$0	\$3,000,000	\$0	\$1,000,000
Stormwater Fee Bonds	\$0	\$0	\$8,800,000	\$21,350,000	\$14,786,001	\$17,637,000	\$16,509,000
School Surcharge Bonds	\$4,500,000	\$3,000,000	\$2,000,000	\$1,000,000	\$2,000,000	\$1,000,000	\$0
School Transfer Tax Bonds	\$0	\$0	\$0	\$0	\$0	\$19,687,000	\$10,000,000
Cultural Center	\$0	\$0	\$0	\$0	\$0	\$0	\$61,652,000
Courthouse P3 Bonds	\$0	\$0	\$105,000,000	\$91,000,000	\$86,000,000	\$9,000,000	\$0
General Obligation Bonds	\$359,090,646	\$297,076,268	\$253,479,754	\$216,076,104	\$263,088,453	\$308,610,634	\$396,255,719
	\$979,353,671	\$873,808,321	\$888,587,691	\$760,632,476	\$741,039,690	\$686,481,338	\$775,234,823

Of the \$396 million in outstanding GO bonds, over 40% or \$166M is related to Education. Of the \$188M in new GO authorizations in FY2021, \$80M was for Education, an increase of \$37M from FY2020.

Issued to Authorized Bonds Comparison

On average, over the past 15 years, the amount of General Obligation bonds issued has been less than the amount authorized.

FY	Authorized	Issued	Issued Percent of Authorized
2007	85,281,000	68,862,690	80.75%
2008	90,485,000	82,125,039	90.76%
2009	96,206,000	57,649,792	59.92%
2010	100,028,000	97,184,421	97.16%
2011	100,000,000	112,515,317	112.52%
2012	99,734,000	116,391,706	116.70%
2013	94,996,000	93,761,749	98.70%
2014	94,969,000	87,809,241	92.46%
2015	118,243,000	92,729,318	78.42%
2016	119,752,000	67,386,495	56.27%
2017	93,400,000	132,861,402	142.25%
2018	201,266,000	124,161,400	61.69%
2019	97,400,000	106,462,850	109.30%
2020	102,276,000	113,779,848	111.25%
2021	95,895,000	124,275,578	129.60%
Average	105,995,400	98,530,456	95.85%