Howard County
Internal Memorandum

SUBJECT-- Testimony for CB __-2014

TO: Lonnie Robbins
Chief Administrative Office

Through: for Stanley J. Milesky
Director of Finance

From: Nicole Griffith
Debt Manager

The proposed legislation will authorize the County to issue short-term debt known as Commercial Paper Bond Anticipation Notes. The Bond Anticipation Notes fund projects approved as part of the FY 2014 Capital Budget until the annual General Obligation Bond sale.

The County's financial advisor has analyzed the current commercial paper program and their recommendations have been incorporated into the proposed legislation (see attachment). As has been done in the past, the details of the Credit Agreement, Dealer Agreement and Issuing and Paying Agency Agreement will be specified by Executive Order. In 2011, the County decreased the amount of authorized Bond Anticipation Notes from $150,000,000 to $100,000,000. The proposed legislation would authorize a total of $150,000,000, with $100,000,000 designated for Consolidated Public Improvements and $50,000,000 for Metropolitan District (water and sewer) projects.

Cc: Jennifer Sager

Attachment

PFM®
The PFM Group
Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

Two Logan Square
Suite 1600
18th & Arch Streets
Philadelphia, PA
19103-2770

215 567-6100
215 567-4180 fax
www.pfm.com

January 21, 2014

Memorandum

To: Stan Milesky, *Director of Finance, Howard County*
Nikki Griffith, *Debt Manager, Howard County*

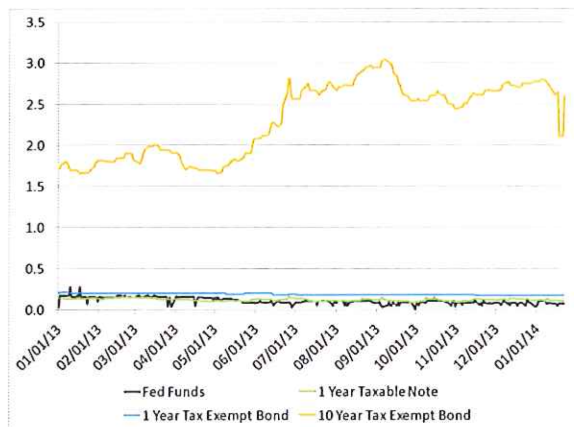
From: Linda Ginty, *Senior Managing Consultant*

Re: Commercial Paper Analysis

At your request we have analyzed the County's current commercial paper program and have determined the following.

Current Market Conditions

In the current market, short term investment rate are significantly lower than the cost of a long term borrowing. If the County were to issue fixed rate bonds today, the borrowing rate would be approximately 3.15%. The County would have to earn in excess of 3.15% in order to avoid carrying costs on the bonds. Short term investments are yielding very little. For instance the yield on the 1 year treasury bond is 0.10% (as of 1-21-2014). Borrowing by using short term products, such as commercial paper, the County can reduce it's carrying cost.



Marketability

The County has a strong history of high demand for its commercial paper program. There are still many money market and short term investment funds that demand high grade investments. A commercial paper program offers the flexibility to meet the markets demands for the length of the term and to reflect the current market conditions. This makes the program an appealing, liquid investment to investors.

Credit Agreement

A credit agreement that provides the County liquidity in the current market is required by both investors and rating agencies in the short term debt market. Commercial paper and other like instruments are remarketed periodically by a commercial paper dealer and in the event that the commercial paper can not be resold in the market, the credit agreement provides for funds to buy the notes so that the County does not have to repay the principal in advance. While typically not drawn upon in a stable bond market, the credit agreement provides protection to the County in the event that the market is disrupted or the notes can not be sold. Without the credit agreement, the notes would bear a higher risk to investors and therefore investors would either demand a higher interest rate or not invest in the County's notes at all.