



HOWARD COUNTY DEPARTMENT OF FINANCE

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March 5, 2013

To: Lonnie R. Robbins
 Chief Administrative Officer

From: Stanley J. Milesky
 Director, Department of Finance

Subject: Testimony Council Bill No. 11-2013

Council Bill 11-2013 provides authorization of a multi-year agreement between Howard County, Maryland and Grant Capital Management, Inc., a Maryland corporation, where Grant Capital Management, Inc., will finance the acquisition of certain capital equipment including, without limitation, Fire Department apparatus, furniture, library books, and computers through a Tax-Exempt Master Equipment Lease-Purchase Agreement.

The tax-exempt master equipment lease will permit the County to purchase certain capital equipment, presently financed through the issuance of General Obligation or Metropolitan District bonds, at a significantly lower rate of interest than is otherwise possible. It is important to note here that the use of the master equipment lease does not represent additional borrowing by the County, but is instead an alternative means for financing capital equipment items already approved in the Capital Program and budget. For example if the County would normally issue \$100,000,000 in General Obligation Bonds, those bonds would be reduced and replaced by an equal amount of debt financed via the tax-exempt master equipment lease.

The following example is provided to illustrate the potential savings from the use of the tax-exempt master lease.

Master Lease Tranche	Principal (Amount to be Financed)	Interest Rate	Total Interest	Total Principal & Interest
3-years	\$1,000,000	0.85%	\$17,751	\$1,017,751
5-years	\$1,000,000	1.05%	\$32,585	\$1,032,565
7-years	\$1,000,000	1.25%	\$51,792	\$1,051,792
20-year Bond Comparison (Series 2012 GO Bonds)	\$1,000,000	3.45%	\$404,800	\$1,404,800
20-year Bond Comparison (Current "AAA" MMD)	\$1,000,000	2.50%	\$286,958	\$1,286,958

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This illustration uses both the County's actual experience from last year's bond sale (Series 2012 GO Bonds) as well the current rate provided for a "AAA" credit. As is apparent from the illustration, the rates provided by the use of a tax-exempt master lease to finance \$1,000,000 in capital equipment purchases provides the County with considerable savings from the use of a 20-year General Obligation bond.

If we use the current rate for a "AAA" credit, financing \$1,000,000 for 20-years at an interest rate of 2.50%, through a traditional general obligation bond structure, would result in payment of \$286,958 in interest costs over the 20-year term of the bonds. Alternatively, financing \$1,000,000 for 5-years at an interest rate of 1.05%, under a tax-exempt master lease structure, would result in payment of \$32,585 in interest costs over the 5-year term of the lease; a savings of \$254,373. If the full \$30,000,000 lease is used as intended, the projected savings could be as much as \$7,631,200.

Our current general obligation structure does not typically designate specific series of bonds to specific uses. While this has been done occasionally, the yield curve is steeper (more expensive) for the 20-year bonds, even at the 3, 5, and 7-year maturities, than is the case for similar maturities under the tax-exempt master lease structure.

The County has used lease purchase agreements in the past for the purchase of a helicopter and more recently for heavy equipment vehicles purchased for the landfill. This is, however, the first standing tax-exempt master lease agreement to be used by the County.

In summary, the tax-exempt master lease agreement does not increase overall spending or debt outstanding for the County, but is an alternative means of financing capital equipment, authorized by both the County's annually approved capital program and the annual bond ordinance considered by the Council each year.

Please advise if I am able to provide any additional information to assist you in this matter.

cc: Jessica Feldmark
Nicole Hogue
Rafiu Ighile
Allyson Owens
Jennifer Sager