GO COMMITTEE #1
January 24, 2011

# MEMORANDUM

January 20, 2011

TO: Government Operations & Fiscal Policy Committee

FROM: Glenn Orlin, Deputy Council Staff Director

SUBJECT: Spending Affordability Guidelines for the capital budget, and other general CIP assumptions

The objective for this worksession is for the Committee to review the Spending Affordability Guidelines for the FY11-16 CIP and the set of associated CIP assumptions. The Committee will prepare its recommendations for the Council's review on February 1, the deadline for the Council either to confirm or amend guidelines. Any February revision is supposed to "reflect a significant change in conditions" regarding affordability, and not to take need into account. After February 1 the Council can adopt an aggregate capital budget that has expenditures that exceed the guidelines, but only with seven or more affirmative votes. The section of the County Code describing this process is on ©1-3.

## I. GENERAL OBLIGATION BONDS

***1. Council approved guidelines and targets.*** The General Obligation (G.O.) Bond Spending Affordability Guidelines and targets approved for the FY11-16 CIP on October 6, 2009 and re-confirmed on February 2, 2010 were $325 million in each year and $1.95 billion for the six-year period.

The current guidelines apply to FY11, FY12, and the FY11-16 period. The guidelines can be amended by a simple majority of Councilmembers present. The County Code restricts any increase to the first-year or the second-year guideline to 10% over the previously set amount. Since the current G.O. Bond guideline for FY11 is $325 million, the Council cannot raise it higher than $357.5 million. The same is true for the FY12 guideline. The Council can raise or lower the FY11-16 guideline as high or low as it wishes.

The G.O. Bond Adjustment Chart reflecting the Executive's January 14, 2011 recommendations is on ©4, which is to lower the FY11 and FY12 guidelines by $5 million each, and so to reduce FY11-16 guideline by $10 million. If the Council agrees, this would be the first time in nearly 20 years the guidelines will have been reduced. The $10 million reduction represents a 0.5% decrease from last May's Approved CIP. Table 1 displays the Spending Affordability Guidelines and targets in recent CIPs and in the Executive's January 14 recommendations ('**FY11-16 Rec**'):

**Table 1: General Obligation Bonds in Recent CIPs** ($ millions)

| CIP | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | 6-Yr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FY05-10 | 190 | 190 | 190 | 190 | 190 | 190 | | | | | | | 1,140 |
| FY05-10 Am | 209 | 209 | 200 | 200 | 200 | 200 | | | | | | | 1,218 |
| FY07-12 | | | 264 | 264 | 264 | 226 | 220 | 220 | | | | | 1,458 |
| FY07-12 Am | | | 275 | 275 | 275 | 275 | 275 | 275 | | | | | 1,650 |
| FY09-14 | | | | | 300 | 300 | 300 | 300 | 300 | 300 | | | 1,800 |
| FY09-14 Am | | | | | 300 | 310 | 315 | 325 | 290 | 300 | | | 1,840 |
| FY11-16 | | | | | | | 325 | 325 | 325 | 325 | 325 | 325 | 1,950 |
| **FY11-16 Rec** | | | | | | | **320** | **320** | **325** | **325** | **325** | **325** | **1,940** |

To assist in determining debt capacity—how much debt the County can afford—the Committee and Council rely in part on the debt capacity analysis charts that show the value of various indicators of debt affordability at various levels of debt over the next six years. The indicators are:

1. Total debt should not exceed 1.5% of full market value of taxable real property.
2. The sum of debt service and long-term and short-term lease payments should not exceed 10% of General Fund revenue.
3. Real debt per capita should not exceed $1,000 by a "significant" amount. As a working definition of this indicator, the Council should assume that real debt per capita should not exceed $1,900 in FY12 dollars.
4. The ratio of debt to income should not exceed 3.5%.
5. 60-75% of the debt at the beginning of any period should be paid off within ten years.

The Department of Finance has updated the assumptions and inputs for the bond interest rate, operating revenue growth, population growth, inflation, the assessable base and total personal income. A comparison of the assumptions and inputs is on ©5:

- The annual interest rates on bonds are assumed to remain unchanged at 5.0% annually.
- Operating growth in FY11 is anticipated to climb at a significantly lower rate in FYs12-16: the budget is expected to grow by only 1.0% in FY12 instead of the 2.9% growth that had been assumed last March for FY12. Similarly, Finance has reduced the budget growth rate assumption to 0.7% (instead of 3.6%) for FY13, to 3.4% (instead of 4.2%) for FY14, to 4.1% (instead of 5.1%) for FY15, and to 3.7% (instead of 4.1%) for FY16.
- Population is now expected to grow only about 60% as fast as had been predicted last year.
- The annual inflation rates are forecast to be marginally lower in FY11 and marginally higher in FY12, FY14, and FY15.
- The countywide assessable base is projected to decline in FY11 and again in FY12, and then grow back at a much slower rate in subsequent years.
- Countywide personal income is now projected to grow a bit faster than before.

These assumptions, especially the operating revenue growth and assessable base assumptions, drive the results of these indicators more than the debt levels themselves. Most of the revisions suggest somewhat worsening economic prospects.

Using the new input assumptions, OMB's debt capacity analysis for the current guidelines and targets is on ©6. Compare this chart to that on ©7, which was last year's analysis of these same guidelines. Because the economic assumptions and inputs used now are less optimistic than those used in last year, the values in the debt capacity analysis chart are generally worse.

Especially worrisome is the indicator measuring debt service (plus short- and long-term lease payments) as a percentage of the operating budget. You may recall last year that the $325 million/year bond levels, together with the much lower operating growth assumed then (compared to FY10), brought this indicator over the 10% threshold earlier in the CIP than it ever had—in the second year of the six-year period—and, for the first time brought it just above 11% starting in FY14 and kept it there. (Even during the recession of the early 1990s—when operating growth was also very low—this indicator never exceeded 11%.) Now, examining the same $325 million/year guidelines and targets but with an even slower operating growth rate, the 11% threshold is exceeded a year earlier (FY13), and by a wide margin each year. By FY16 the indicator falls just short of 12%.

Furthermore, due to the slower projected growth in assessable base, the debt/assessed value indicator—which has always been below 1.5%--is now projected to exceed 1.5% by FY12 and remain there. Even the debt/income indicator exceeds the 3.5% threshold in FYs12-13 before dipping back below the threshold in FY14. Nearly the all indicators point to an excessive amount of debt service over the medium-term. Although the analysis only goes out five years, the trends are clear for several years beyond FY16.

*These changes suggest that the guidelines should be reduced.* The Executive is recommending a small reduction in FYs11-12 and hints at a much more significant reduction next year when the guidelines for the FY13-18 CIP are set. The effect of the Executive's recommendations is shown in the Debt Capacity Analysis on ©8. The differences are understandably miniscule, since he is only recommending a 1.5% reduction in only two years, and because most debt service is generated by the prior two decades of bond issuances. The Office of Legislative Oversight's budget sustainability report displayed two much more extensive reductions—by 25% and 50%—resulting in a relatively small decrease in annual debt service (©9-11). However, unless the Council wishes to conduct a major overhaul of the CIP in this "off"-year (which would require most of the existing projects to be considered for amendment), then next year—when the CIP is developed "from scratch"—is the time for major change.

During the past few years the Council has followed the practice of setting the same guideline and target each year of the six-year period. If the Council were adopt guidelines and targets at $320 million every year, it would demonstrate both to the citizenry, the County agencies, and the New York rating agencies that it intends to scale back CIP spending over a long term. It would also slightly soften the blow of cuts for the FY13-18 CIP.

**Council staff recommendation: Concur with the Executive to set the FY11 and FY12 G.O. Bond guidelines at $320 million each, but also to set the targets in FYs13-16 at $320 million as well, resulting in a six-year guideline of $1.92 billion**. The Debt Capacity Analysis for this alternative is shown on ©12.

2. ***Implementation ('overbooking') rates.*** The implementation rate for a given year is the total amount of spending in that year divided by the amount of expenditures initially programmed for that year. An implementation rate is actually a mixture of three factors: the degree to which programmed expenditures in a year are actually spent in that year; the degree to which programmed expenditures from a previous year are lapsed into a subsequent year; and the degree to which the Council approves supplemental and special appropriations which result in additional spending. The implementation rate allows the Council to 'overbook' the CIP to some degree, knowing that not all the funds programmed will actually be spent. The implementation rate assumed in the FY11-16 CIP approved in May was 84.0% for each year. This means that the Council overbooked the Approved CIP by about 19.0% (1.00/.84=1.1904762...).

Council staff has asked OMB to calculate the implementation rate for each agency for the last full fiscal year for General Obligation Bond proceeds, and to array these rates against those of the prior four years. The calculations are on ©13. A summary of the results is displayed below:

**Table 2: Implementation Rates by Program and Year for G.O. Bond Funds** (nearest %)

| | FY06 | FY07 | FY08 | FY09 | FY10 | 5yr avg |
|---|---|---|---|---|---|---|
| MCPS | 125 | 74 | 104 | 104 | 85 | **98** |
| Mont. College | 75 | 50 | 100 | 52 | 64 | **68** |
| Parks | 56 | 78 | 91 | 50 | 128 | **80** |
| Transportation | 87 | 66 | 96 | 95 | 79 | **85** |
| MCG-Other | 95 | 40 | 59 | 64 | 70 | **66** |
| **TOTAL** | **104** | **64** | **94** | **87** | **79** | **86** |

Since rates can fluctuate widely from one year to the next strictly due to the experience on a few large projects or even based on when bills happen to be paid, the best indicator for the future forecast of implementation rates is a multi-year average, not the rate from a particular year. Here are the overall implementation rates over the past several years:

**Table 3: Recent History of Implementation Rates for G.O. Bonds**

| | |
|---|---|
| FY05 | 70.11% |
| FY06 | 103.86% |
| FY07 | 64.37% |
| FY08 | 94.42% |
| FY09 | 86.92% |
| FY10 | 78.81% |

The average implementation rate across agencies over the past five years has been 85.68%. Therefore, while he is recommending not changing the 84.0% implementation rate for the current fiscal year, the Executive is recommending using an implementation rate of 85.7% over each of the next five years (FYs12-16). Essentially he assumes that nearly one of every six dollars of G.O. bond proceeds will not be spent every year of the six-year period. This would allow the CIP to be overbooked by about 16.7% annually (1.00/0.857 = 1.16686...) in FYs12-16.

**Council staff concurs with the Executive on implementation rates.**

*3. Inflation rates.* The inflation rates in the adjustment charts are not supposed to measure construction cost inflation, but general inflation: they are a means of translating the general value of the annual bond guidelines and targets so that they can be compared against aggregate CIP expenditures, which are expressed in constant dollars. The Department of Finance takes the lead in developing inflation forecasts. As noted above, Finance is now assuming the annual inflation rates to be 0.1% lower in FY11, but 0.1% higher in FY12, 0.2% higher in FY14, and 0.1% higher in FY15.

Typically a forecast is developed during the fall which is part of the basis for building the Executive's Recommended CIP. Finance updates these assumptions during the winter based on more recent trends, in preparation for the development of the Executive's Recommended Operating Budget and Public Services Program (PSP). The Council uses the same rates in the CIP as in the PSP. **When the updated rates are available Council staff will report their effect on the funds available for programming.** Table 4 shows the inflation assumptions used in the recently approved CIPs and the rates used for the Executive's CIP recommendations ('**FY11-16 Rec**'):

**Table 4: Inflation Assumptions in Recent CIPs** (%)

| CIP | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|---|---|---|---|---|
| FY07-12 | 2.60 | 2.60 | 2.70 | 2.70 | 2.70 | 2.70 | | | | |
| FY07-12 Am | 3.40 | 3.05 | 2.80 | 2.70 | 2.70 | 2.60 | | | | |
| FY09-14 | | | 2.80 | 2.70 | 2.65 | 2.60 | 2.55 | 2.50 | | |
| FY09-14 Am | | | 2.80 | 2.70 | 2.80 | 2.50 | 2.50 | 2.50 | | |
| FY11-16 | | | | | 2.10 | 2.25 | 2.45 | 2.60 | 2.80 | 3.00 |
| **FY11-16 Rec** | | | | | **2.00** | **2.35** | **2.45** | **2.80** | **2.90** | **3.00** |

*4. Set-aside for bond-funded projects.* In building the CIP the Council has always set aside some funding capacity to cover anticipated and unanticipated contingencies. The set-asides will be needed for: (1) the design, land acquisition, and construction cost of projects currently in facility planning, whether they be roads, schools, or anything else; (2) the inevitable cost increases that occur once more is known about the scope of projects and the problems that must be overcome to deliver them; and (3) the one-time needs or opportunities that cannot be foreseen. The set-asides in prior CIPs are shown in Table 5, and the Executive's latest recommendations are in **bold type**:

**Table 5: Capital Set-Asides for General Obligation Bonds in Recent CIPs** ($ millions)

| CIP | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | 6-Yr | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FY07-12 | 9.2 | 14.4 | 16.1 | 38.3 | 87.0 | 104.3 | | | | | 269.2 | 15.9 |
| FY07-12 Am | 4.6 | 15.2 | 16.6 | 19.6 | 72.5 | 112.4 | | | | | 240.9 | 12.5 |
| FY09-14 | | | 15.3 | 18.0 | 30.2 | 53.5 | 97.6 | 98.2 | | | 312.8 | 15.0 |
| FY09-14 Am | | | - | 13.8 | 19.9 | 20.5 | 62.3 | 51.3 | | | 167.8 | 7.9 |
| FY11-16 | | | | | 12.4 | 12.6 | 16.4 | 26.2 | 49.7 | 87.7 | 205.0 | 8.6 |
| **FY11-16 Rec** | | | | | **2.3** | **9.9** | **18.2** | **19.9** | **23.5** | **69.4** | **143.2** | **6.2** |

The traditional pattern for set-asides—through the CIP approved in May 2008 (the FY09-14 CIP)—was that a full CIP reserved about 15% of available funding, and that an Amended CIP reserved a lesser percentage, since it is essentially only a 5-year CIP. This pattern of reserves has served the County well over the past two decades, allowing for growth in the cost of projects already in the CIP and a fiscal placeholder for some projects in facility planning to be funded for construction in the subsequent CIP.

However, the set-aside in the Amended CIP approved in May 2009 (7.9%) was only about half the size of the normal reserve, as was the set aside in the CIP approved in May 2010 (8.6%). The Executive is now recommending an even lower reserve, holding back only 6.2% of the funds available for programming. Should the Council accept the Executive's recommended set-asides, it should do so with the knowledge that it leaves far less capability to fund future cost increases on existing projects or new projects now in facility planning.

*5. **Summary of G.O. Bond assumptions.*** The net increase of G.O. Bond funds recommended for programming in the Recommended Amended FY11-16 CIP compared to the Approved FY11-16 CIP approved last May is $10.31 million, a 0.5% increase. There would be a sizable decrease except for his proposal that the capital reserve be $61.9 million smaller.

## II. PAYGO AND IMPACT TAXES

*1. **PAYGO.*** Typically the CIP dedicates a certain amount of current revenue as an offset against bond expenditures, also called PAYGO. The County policy is to peg the amount of PAYGO in a year to at least 10% of the G.O. Bond guideline or target for that year, but in the last few years the Executive and Council have not adhered to it in the budget year, as this current revenue has been needed for the Operating Budget.

The PAYGO assumptions in recent CIPs are in Table 6. The Executive's recommendation is to continue to have no PAYGO in FY11, to reduce PAYGO in FY12 by $500,000 to $32 million (10% of this proposed guideline of $320 million) and to retain the $32.5 million/year assumption for FYs13-16. The Executive's recommendations are shown in Table 6 in **bold type**:

**<u>Table 6</u>: 'Regular' PAYGO Assumptions in Recent CIPs** ($ millions)

| CIP | Fy05 | Fy06 | fy07 | Fy08 | fy09 | fy10 | fy11 | fy12 | fy13 | fy14 | fy15 | fy16 | 6-Yr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FY05-10 | 13.0 | 36.0 | 36.0 | 38.0 | 38.0 | 39.6 | | | | | | | 200.6 |
| FY05-10 Am | 7.3 | 11.7 | 36.0 | 38.0 | 38.0 | 39.6 | | | | | | | 170.6 |
| FY07-12 | | | 26.4 | 41.4 | 44.0 | 33.0 | 22.0 | 22.0 | | | | | 188.8 |
| FY07-12 Am | | | 27.5 | 27.5 | 44.0 | 33.0 | 27.5 | 27.5 | | | | | 187.0 |
| FY09-14 Rec | | | | | 5.4 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 | | | 155.4 |
| FY09-14 Am | | | | | 5.4 | 1.3 | 31.5 | 32.5 | 29.0 | 30.0 | | | 129.7 |
| FY11-16 | | | | | | | 0.0 | 32.5 | 32.5 | 32.5 | 32.5 | 32.5 | 162.5 |
| **FY11-16 Rec** | | | | | | | **0.0** | **32.0** | **32.5** | **32.5** | **32.5** | **32.5** | **162.0** |

**Council staff recommends that, for the time being, PAYGO should be set at 10% of the G.O. Bond guidelines and targets for FYs12-16. If the Committee concurs with Council staff's recommendations on the guidelines and targets ($320 million each year), then PAYGO should also be reduced from by $0.5 million (from $32.5 million to $32.0 million), not just in FY12, but in FYs13-16, too.**

2. ***Impact taxes.*** For several years revenue from impact taxes was overestimated, leading to the need to supplant impact tax revenue with General Fund advances which ultimately are reimbursed with funds that otherwise could be used for other projects in the CIP. Starting with the Approved FY11-16 CIP, the Council initiated the practice of assuming conservative revenue estimates for impact taxes. At CIP Reconciliation, if actual revenue proves to be somewhat higher, the Council will be in the happier position to program the additional amount.

The Executive is now recommending that, except for FY11, the revenue assumption should be about $2 million more annually from the School Impact Tax compared to that assumed in the Approved CIP:

**<u>Table 7</u>: School Impact Tax Revenue Estimates ($000)**

| | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | 6-Yr |
|---|---|---|---|---|---|---|---|
| FY11-16 | 7,960 | 8,480 | 8,890 | 9,520 | 10,000 | 10,650 | 55,500 |
| **FY11-16 Rec** | **7,960** | **10,480** | **10,890** | **11,520** | **12,100** | **13,350** | **66,300** |

School impact tax collections have indeed been higher than anticipated lately. In FY10 about $11.5 million was collected. During the first half of this fiscal year about $5.6 million has been collected, so the final revenue is on track to meet or exceed the $11.5 million in FY10. Revenue collected from January to June is usually somewhat higher than for July to December.

**Council staff recommends raising the revenue estimate for FY11 by $2 million (to $9,960,000) and concurring with the Executive's estimates for FYs12-16.**

A similar approach has been initiated for Transportation Impact Tax revenue. However, unlike for the School Impact Tax, Transportation Impact Tax revenues have been slightly lower than the conservative estimates assumed last year. In FY10 about $3.8 million was collected. During the first half of this fiscal year about $1.9 million has been collected, so the final revenue is on track to nearly meet the $3.95 million projection. However, Transportation Impact Tax revenue receipts are particularly difficult to predict due to the unknown as to whether credits will be applied. The Executive has, therefore, prudently scaled back the revenue estimates somewhat:

**Table 8: Transportation Impact Tax Revenue Estimates ($000)**

| | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | 6-Yr |
|---|---|---|---|---|---|---|---|
| FY11-16 | 3,950 | 4,930 | 4,950 | 5,080 | 5,120 | 5,310 | 29,340 |
| **FY11-16 Rec** | **3,450** | **4,282** | **4,334** | **4,080** | **4,120** | **4,410** | **24,766** |

**Council staff recommends the Executive's Transportation Impact Tax forecast.**

*4. School Facilities Payments.* The Executive is not recommending programming School Facilities Payments (SFP) funds prospectively. This source of funding is nearly impossible to predict, since it presumes knowledge as to which cluster/level combinations will be the SFP range (between 105-120% of program capacity) in each of the next six years, and how many proposed subdivisions would choose to make the payments. Instead, the funds will be programmed after they are received, if there are projects to which the funds can be applied.

During the deliberations on the Growth Policy in late 2009, the Planning Board reported that during the prior two years nearly 1,400 residential units had been approved as part of subdivisions where an SFP was required. If all these units proceed to building permit, almost $2 million will ultimately be collected to fund capacity-adding projects for the clusters in which the subdivisions were approved. This spring we will check how much of that revenue has actually been received and use it in reconciling the Amended FY11-16 CIP.

**Council staff concurs with the Executive to not program School Facilities Payment revenue prospectively.**

## III. STATE SCHOOL CONSTRUCTION AID

The CIP approved last May estimated $30.183 million of State school construction aid for FY11 and $40 million annually for the FY12-16 period. The Executive recommends continuing to use these assumptions.

**Council staff recommends using the Executive's estimates for now.** The Education Committee will evaluate these estimates further during its review of the Board of Education's CIP request.

## IV. CURRENT REVENUE

The Executive's proposed Current Revenue Adjustment Chart is on ©14. The Executive is recommending that about $323.4 million of tax-supported Current Revenue be available in FY11-16 (inflation adjusted), about $9.3 million (2.8%) less than in the Approved CIP. The decrease is primarily in the upcoming FY12 budget year, for which he recommends about $6.3 million less,

Current Revenue levels in past CIPs and the Recommended CIP are shown below:

**Table 9: Current Revenue in Recent CIPs** ($ millions)

| CIP | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | 6-Yr |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FY07-12 | 35.0 | 52.8 | 32.6 | 29.2 | 23.3 | 22.7 | | | | | 195.5 |
| FY07-12 Am | 44.2 | 42.5 | 57.9 | 55.2 | 38.3 | 37.7 | | | | | 275.9 |
| FY09-14 | | | 44.9 | 50.1 | 34.0 | 28.4 | 39.5 | 55.8 | | | 252.7 |
| FY09-14 Am | | | 45.9 | 30.7 | 37.1 | 28.5 | 41.3 | 57.8 | | | 241.4 |
| FY11-16 Rec | | | | | 23.8 | 40.9 | 56.1 | 77.0 | 77.9 | 56.9 | 332.7 |
| **FY11-16 Rec** | | | | | **23.4** | **34.6** | **57.2** | **76.6** | **74.7** | **57.0** | **323.4** |

The Executive is using somewhat lower inflation rate assumptions FYs12, 14, and 15. Traditionally the same inflation rates are used for G.O. Bonds, Park and Planning Bonds, the 6-Year Fiscal Plan for the Operating Budget, as well as Current Revenue. If the same inflation rates are assumed Current Revenue would be reduced by $149,000 in FY14, $218,000 in FY15, and $166,000 in FY16, a total reduction of $533,000 in FYs14-16.

**Council staff recommendation: Use consistent inflation rates and thus adjust down the Current Revenue available for programming by $533,000 in FYs14-16.**

## V. PARK AND PLANNING BONDS

The Council initially approved and later confirmed Spending Affordability Guidelines for Park and Planning Bonds of $7.5 million for FY11, $6.0 million for FY12 and $37.5 million for FY11-16. In his January submission the Executive recommended the existing guidelines and using the new inflation rates now proposed for G.O. Bonds. He also is assuming an implementation rate of 87% for each year, just as in the CIP approved last spring (©15).

The Executive's recommended set-aside of about $10.9 million comprises about 26.4% of the funds available for projects, which is a slightly lower percentage than in the Approved CIP (29.4%) but higher than what has traditionally has been reserved.

**Council staff recommendation: Retain the current guidelines and targets.**

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c. In any agreement by the county relating to revenue bonds; and

(2) Compel the performance of all duties required by:

a. This article; or

b. A resolution authorizing revenue bonds; or

c. Any agreement by the county relating to revenue bonds, in accordance with law. (1986 L.M.C., ch. 52, § 1.)

**Sec. 20-54. Credit of county not pledged.**

(a) Revenue bonds are not indebtedness of the county within the meaning of the Charter and do not constitute a pledge of the full faith and credit of the county.

(b) All revenue bonds must contain a statement on their face to the effect that the full faith and credit of the county is not pledged to pay their principal, interest, or premium, if any. (1986 L.M.C., ch. 52, § 1.)

## ARTICLE X. SPENDING AFFORDABILITY—CAPITAL BUDGETS*

**Sec. 20-55. Definitions.**

In this Article, the following terms have the meanings indicated:

(a) *"Aggregate capital budget"* means all capital budgets approved by the County Council.

(b) *"Capital improvements program"* means the comprehensive 6-year program for capital improvements submitted by the County Executive to the County Council under Section 302 of the Charter.

(c) *"Council"* means the County Council sitting as a spending affordability committee under Section 305 of the Charter. (CY 1991 L.M.C., ch. 29, § 2; 1997 L.M.C., ch. 33, § 1.)

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***Editor's note**—See County Attorney Opinion dated 10/30/91-A describing the additions to Charter § 305 by Question F as not conflicting with the TRIM amendment.

Prior to its repeal and reenactment by CY 1991 L.M.C., ch. 29, Art. X was entitled "Spending Affordability;" consisted of §§ 20-55—20-59, and was derived from CY 1991 L.M.C., ch. 1, § 1.



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**Sec. 20-56. Establishment of Guidelines.**

(a) *General.* The Council must adopt spending affordability guidelines for the aggregate capital budget under this Article.

(b) *Content.* The guidelines for the aggregate capital budget must specify the:

(1) total general obligation debt issued by the County that may be planned for expenditure in the first fiscal year under the capital improvements program;

(2) total general obligation debt issued by the County that may be planned for expenditure in the second fiscal year under the capital improvements program;

(3) total general obligation debt issued by the County that may be approved under the 6-year capital improvements program;

(4) total amount of debt, except refunding bonds, issued by the Maryland-National Capital Park and Planning Commission that may be planned for expenditure in the first fiscal year under the capital improvements program for projects in the County;

(5) total amount of debt, except refunding bonds, issued by the Maryland-National Capital Park and Planning Commission that may be planned for expenditure in the second fiscal year under the capital improvements program for projects in the County; and

(6) total amount of debt, except refunding bonds, issued by the Maryland-National Capital Park and Planning Commission for projects in the County that may be approved under the 6-year capital improvements program.

(c) *Procedures.*

(1) The Council must adopt spending affordability guidelines for the aggregate capital budget, by resolution, not later than the first Tuesday in October in each odd-numbered calendar year.

(2) The council must hold a public hearing before it adopts guidelines under paragraph (1).

(3) The Council may delegate responsibility for monitoring relevant affordability indicators to its standing committee with jurisdiction over spending affordability matters.

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(4) Not later than the first Tuesday in February of each year, the Council may, subject to paragraph (5), amend the resolution establishing the guidelines to reflect a significant change in conditions. An amendment may alter a guideline by either an upward or downward adjustment in dollar amount.

(5) Any upward adjustment of a dollar amount under paragraph (4) for a guideline required by subsection (b)(1), (b)(2), (b)(4), or (b)(5) must not exceed 10%. (CY 1991 L.M.C., ch. 29, § 2; 1997 L.M.C., ch. 33, § 1.)

**Sec. 20-57. Affordability Indicators.**

In adopting its guidelines, the Council should consider, among other relevant factors:

(a) the growth and stability of the local economy and tax base;

(b) criteria used by major rating agencies related to creditworthiness, including maintenance of a "AAA" general obligation bond rating;

(c) County financial history;

(d) fund balances;

(e) bonded debt as a percentage of the full value of taxable real property;

(f) debt service as a percentage of operating expenditures;

(g) the effects of proposed borrowing on levels of debt per-capita, and the ability of County residents to support such debt as measured by per-capita debt as a percentage of per-capita income;

(h) the rate of repayment of debt principal;

(i) availability of State funds for County capital projects;

(j) potential operation and maintenance costs relating to debt financed projects; and

(k) the size of the total debt outstanding at the end of each fiscal year. (CY 1991 L.M.C., ch. 29, § 2; 1997 L.M.C., ch. 33, § 1.)

**Sec. 20-58. Approval of Capital Budgets.**

Any aggregate capital budget that exceeds the spending affordability guidelines in effect after the first Tuesday in February requires the affirmative vote of 7 councilmembers for approval. (CY 1991 L.M.C., ch. 29, § 2.)

## GENERAL OBLIGATION BOND ADJUSTMENT CHART

**FY11-16 Biennial Capital Improvements Program**

**COUNTY EXECUTIVE RECOMMENDED**

**JANUARY 14, 2011**

| ($ millions) | 6 YEARS | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|---|---|
| BONDS PLANNED FOR ISSUE | 1,940.000 | 320.000 | 320.000 | 325.000 | 325.000 | 325.000 | 325.000 |
| Plus PAYGO Funded | 162.000 | - | 32.000 | 32.500 | 32.500 | 32.500 | 32.500 |
| Adjust for Implementation ** | 316.008 | 60.952 | 53.396 | 52.803 | 51.217 | 49.621 | 48.018 |
| Adjust for Future Inflation ** | (91.452) | - | - | (8.549) | (18.054) | (27.620) | (37.228) |
| SUBTOTAL FUNDS AVAILABLE FOR DEBT ELIGIBLE PROJECTS (after adjustments) | 2,326.556 | 380.952 | 405.396 | 401.754 | 390.664 | 379.501 | 368.289 |
| Less Set Aside: Future Projects | 143.184<br>6.15% | 2.338 | 9.882 | 18.166 | 19.905 | 23.452 | 69.441 |
| **TOTAL FUNDS AVAILABLE FOR PROGRAMMING** | 2,183.372 | 378.614 | 395.514 | 383.588 | 370.759 | 356.049 | 298.848 |
| MCPS | (837.224) | (191.883) | (153.642) | (145.986) | (163.957) | (114.706) | (67.050) |
| MONTGOMERY COLLEGE | (130.163) | (34.837) | (25.932) | (23.588) | (16.470) | (20.872) | (8.464) |
| M-NCPPC PARKS | (71.964) | (11.754) | (11.089) | (14.030) | (12.793) | (11.262) | (11.036) |
| TRANSPORTATION | (671.125) | (102.116) | (84.644) | (82.162) | (102.016) | (143.256) | (156.931) |
| MCG - OTHER | (569.511) | (105.116) | (146.099) | (120.912) | (76.064) | (65.953) | (55.367) |
| Programming Adjustment - Unspent Prior Years* | 96.615 | 67.092 | 25.892 | 3.090 | 0.541 | - | - |
| **SUBTOTAL PROGRAMMED EXPENDITURES** | (2,183.372) | (378.614) | (395.514) | (383.588) | (370.759) | (356.049) | (298.848) |
| **AVAILABLE OR (GAP)** | - | - | - | - | - | - | - |
| NOTES:<br>* See additional information on the GO Bond Programming Adjustment for Unspent Prior Year Detail Chart<br>** Adjustments Include: | | | | | | | |
| Inflation = | | 2.10% | 2.35% | 2.45% | 2.80% | 2.90% | 3.00% |
| Implementation Rate = | | 84.00% | 85.70% | 85.70% | 85.70% | 85.70% | 85.70% |

(5)

**DEBT CAPACITY ANALYSIS**
**KEY ASSUMPTIONS AND INPUTS**
**AMENDED FY11-16 CIP (January, 2011) VS. FY11-16 CIP (March, 2010)**

| | | Current Year FY10 | Year 1 FY 11 | Year 2 FY 12 | Year 3 FY 13 | Year 4 FY 14 | Year 5 FY 15 | Year 6 FY 16 |
|---|---|---|---|---|---|---|---|---|
| 1 | INTEREST RATE ON BONDS | | | | | | | |
| | FY11-16 CIP - March, 2010 | 5.50% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| | FY11-16 CIP - January, 2011 | | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| 2 | OPERATING GROWTH | | | | | | | |
| | FY11-16 CIP - March, 2010 | 0.50% | -0.30% | 2.90% | 3.60% | 4.20% | 5.10% | 4.10% |
| | FY11-16 CIP - January, 2011 | | -0.30% | 1.00% | 0.70% | 3.40% | 4.10% | 3.70% |
| 3 | POPULATION | | | | | | | |
| | FY11-16 CIP - March, 2010 | 966,000 | 978,000 | 989,000 | 1,001,000 | 1,013,000 | 1,025,000 | 1,035,000 |
| | FY11-16 CIP - January, 2011 | | 971,400 | 978,700 | 986,100 | 993,500 | 1,001,000 | 1,010,450 |
| 4 | FY CPI INFLATION | | | | | | | |
| | FY11-14 CIP - March, 2010 | 3.25% | 2.10% | 2.25% | 2.45% | 2.60% | 2.80% | 3.00% |
| | FY11-16 CIP - January, 2011 | | 2.00% | 2.35% | 2.45% | 2.80% | 2.90% | 3.00% |
| 5 | ASSESSABLE BASE-COUNTYWIDE | | | | | | | |
| | FY11-16 CIP($000) - March, 2010 | 173,813,000 | 174,623,000 | 179,088,000 | 188,154,000 | 197,355,000 | 211,266,000 | 227,240,000 |
| | FY11-16 CIP($000) - January, 2011 | | 172,979,000 | 170,147,000 | 173,405,000 | 179,154,000 | 184,785,000 | 194,051,000 |
| 6 | TOTAL PERSONAL INCOME | | | | | | | |
| | FY11-16 CIP($000) - March, 2010 | 69,500,000 | 70,020,000 | 73,420,000 | 77,520,000 | 81,850,000 | 86,150,000 | 89,650,000 |
| | FY11-16 CIP($000) - January, 2011 | | 70,820,000 | 74,820,000 | 79,540,000 | 84,430,000 | 88,270,000 | 92,130,000 |

# DEBT CAPACITY ANALYSIS

**FY11-16 Biennial CAPITAL IMPROVEMENTS PROGRAM**

**DEBT CAPACITY ANALYSIS JANUARY 20, 2011**

**Scenario - Guidelines @ $325mn/year**

**6 Yr. Total ($Mn.) $1,950.0 mn**

**FY11 Total ($Mn.) $325.0 mn**

**FY12 Total ($Mn.) $325.0 mn**

| | GUIDELINE | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|---|---|---|
| 1. GO Bond Guidelines and Targets (Scenarios) | | 310,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 |
| 2. GO Debt/Assessed Value | 1.5% | 1.26% | 1.43% | 1.56% | 1.62% | 1.65% | 1.67% | 1.65% |
| 3. Debt Service + LTL + Short-Term Leases/Revenues (GF) | 10% | 8.75% | 9.29% | 10.26% | 11.25% | 11.68% | 11.82% | 11.98% |
| 4. $ Debt/Capita | | 2,272 | 2,554 | 2,706 | 2,843 | 2,967 | 3,077 | 3,169 |
| 5. $ Real Debt/Capita | $1,900 | 2,272 | 2,504 | 2,592 | 2,658 | 2,698 | 2,720 | 2,719 |
| 6. Capita Debt/Capita Income | 3.5% | 3.16% | 3.50% | 3.54% | 3.52% | 3.49% | 3.49% | 3.48% |
| 7. Payout Ratio | 60% - 75% | 69.56% | 68.65% | 68.18% | 67.97% | 67.99% | 68.21% | 68.51% |
| 8. Total Debt Outstanding ($000s) | | 2,194,839 | 2,480,600 | 2,648,335 | 2,803,050 | 2,947,470 | 3,080,305 | 3,202,085 |
| 9. Real Debt Outstanding ($000) | | 2,194,839 | 2,431,961 | 2,536,792 | 2,620,782 | 2,680,750 | 2,722,609 | 2,747,813 |
| 10. OP/PSP Growth Assumption | | | | 1.0% | 0.7% | 3.4% | 4.1% | 3.7% |

(1) This analysis is used to determine the capacity of Montgomery County to pay debt service on long-term GO Bond debt, long-term leases, and substantial short-term financing.

(2) OP/PSP Growth Assumption equals change in revenues from FY11 approved budget to FY12 budget for FY12 and budget to budget for FY13-16.

| DEBT SERVICE IMPACT | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|---|---|
| Assumed Issue Size ($000) | 310,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 |
| GO Bond Debt Service ($000) | 223,059 | 236,141 | 259,175 | 284,558 | 305,152 | 323,847 | 342,808 |
| Percentage change in debt service | 8.89% | 5.86% | 9.75% | 9.79% | 7.24% | 6.13% | 5.85% |

| ASSUMED INCREASE IN DEBT ISSUANCE | Total Increase/(Decrease) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Approved GO bond debt issuance | | 310,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 |
| Assumed GO bond debt issuance | | 310,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 |
| Increase/(Decrease) in GO bond debt issuance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

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**DEBT CAPACITY ANALYSIS**

**FY11-16 Capital Improvements Program**
**COUNTY EXECUTIVE RECOMMENDED**
**MARCH 15, 2010**
**GO BOND 6 YR TOTAL = 1,950.0 MILLION**
**GO BOND FY11 TOTAL = 325.0 MILLION**
**GO BOND FY12 TOTAL = 325.0 MILLION**

| | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|---|---|
| 1 New GO Debt Issued ($000s) | 310,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 |
| 2 GO Debt/Assessed Value | 1.24% | 1.40% | 1.46% | 1.47% | 1.47% | 1.44% | 1.39% |
| 3 Debt Service + LTL + Short-Term Leases/Revenues (GF) | 8.75% | 9.03% | 9.84% | 10.64% | 11.08% | 11.13% | 11.04% |
| 4 $ Debt/Capita | 2,239 | 2,498 | 2,639 | 2,762 | 2,872 | 2,969 | 3,058 |
| 5 $ Real Debt/Capita (FY10=100%) | 2,239 | 2,446 | 2,528 | 2,583 | 2,617 | 2,632 | 2,632 |
| 6 Capita Debt/Capita Income | 3.11% | 3.49% | 3.56% | 3.57% | 3.55% | 3.53% | 3.53% |
| 7 Payout Ratio | 69.56% | 68.59% | 68.12% | 67.91% | 67.95% | 68.17% | 68.47% |
| 8 Total Debt Outstanding ($000s) | 2,163,274 | 2,442,635 | 2,610,455 | 2,765,125 | 2,909,660 | 3,042,940 | 3,164,765 |
| 9 Real Debt Outstanding (FY10=100%) | 2,163,274 | 2,392,395 | 2,500,502 | 2,585,317 | 2,651,514 | 2,697,441 | 2,723,722 |
| 10 Note: OP/PSP Growth Assumption (2) | 4.6% | 3.8% | 2.9% | 3.6% | 4.2% | 5.1% | 4.1% |

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Notes:

(1) This analysis is used to determine the capacity of Montgomery County to pay debt service on long-term GO Bond debt, long-term leases, and substantial short-term financing.

(2) OP/PSP Growth Assumption equals change in revenues from FY10 approved budget to FY11 budget for FY11 and budget to budget for FY12-16.

# DEBT CAPACITY ANALYSIS

**FY11-16 Biennial CAPITAL IMPROVEMENTS PROGRAM**

**DEBT CAPACITY ANALYSIS JANUARY 20, 2011**

**Scenario - Guidelines @ $320mn/year FY11-12, $325mn/year FY13-16**

**6 Yr. Total ($Mn.) $1,940.0 mn**

**FY11 Total ($Mn.) $320.0 mn**

**FY12 Total ($Mn.) $320.0 mn**

| | GUIDELINE | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|---|---|---|
| 1. GO Bond Guidelines and Targets ( Scenarios) | | 310,000 | 320,000 | 320,000 | 325,000 | 325,000 | 325,000 | 325,000 |
| 2. GO Debt/Assessed Value | 1.5% | 1.26% | 1.43% | 1.55% | 1.61% | 1.64% | 1.66% | 1.65% |
| 3. Debt Service + LTL + Short-Term Leases/Revenues (GF) | 10% | 8.75% | 9.29% | 10.23% | 11.23% | 11.65% | 11.79% | 11.95% |
| 4. $ Debt/Capita | | 2,272 | 2,554 | 2,701 | 2,833 | 2,957 | 3,069 | 3,162 |
| 5. $ Real Debt/Capita | $1,900 | 2,272 | 2,504 | 2,587 | 2,648 | 2,690 | 2,712 | 2,713 |
| 6. Capita Debt/Capita Income | 3.5% | 3.16% | 3.50% | 3.53% | 3.51% | 3.48% | 3.48% | 3.47% |
| 7. Payout Ratio | 60% - 75% | 69.56% | 68.65% | 68.22% | 68.04% | 68.05% | 68.25% | 68.53% |
| 8. Total Debt Outstanding ($000s) | | 2,194,839 | 2,480,600 | 2,643,335 | 2,793,300 | 2,938,220 | 3,071,805 | 3,194,585 |
| 9. Real Debt Outstanding ($000) | | 2,194,839 | 2,431,961 | 2,532,003 | 2,611,666 | 2,672,337 | 2,715,096 | 2,741,377 |
| 10. OP/PSP Growth Assumption | | | | 1.0% | 0.7% | 3.4% | 4.1% | 3.7% |

(1) This analysis is used to determine the capacity of Montgomery County to pay debt service on long-term GO Bond debt, long-term leases, and substantial short-term financing.

(2) OP/PSP Growth Assumption equals change in revenues from FY11 approved budget to FY12 budget for FY12 and budget to budget for FY13-16.

| DEBT SERVICE IMPACT | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|---|---|
| Assumed Issue Size ($000) | 310,000 | 325,000 | 320,000 | 320,000 | 325,000 | 325,000 | 325,000 |
| GO Bond Debt Service ($000) | 223,059 | 236,141 | 258,139 | 283,927 | 304,158 | 322,879 | 341,864 |
| Percentage change in debt service | 8.89% | 5.86% | 9.32% | 9.99% | 7.13% | 6.15% | 5.88% |

| ASSUMED INCREASE IN DEBT ISSUANCE | Total Increase/(Decrease) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Approved GO bond debt issuance | | 310,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 |
| Assumed GO bond debt issuance | | 310,000 | 325,000 | 320,000 | 320,000 | 325,000 | 325,000 | 325,000 |
| Increase/(Decrease) in GO bond debt issuance | (10,000) | 0 | 0 | (5,000) | (5,000) | 0 | 0 | 0 |

# DEBT SERVICE

> **OVERVIEW:** This paper presents options to reduce projected annual debt service expenditures through reducing scheduled general obligation bond issuance. In addition, this paper identifies the potential consequences of reducing the amount of debt issued.

## Current and Projected Costs for Debt Service

Each year, the County issues general obligation bonds to raise funds for the construction, improvement, or maintenance of the County's publicly-owned infrastructure. In 2008, the Council approved the County's Debt Policy (Appendix ©31), which determines how the County issues and manages debt. The Debt Policy establishes several debt capacity measures the County adheres to in order to maintain its AAA bond rating.

The County typically pays back these general obligation bonds (plus interest) over a 20-year period. As a result, the County must make annual payments to pay off the borrowing and other long-term obligations, referred to as annual debt service payments. The County funds its annual debt service payments through the operating budget, and total debt service payments each year depend on how much debt the County issued in past years. General obligation bond debt typically represents about 90% of the County's total annual debt service costs.

In FY11, general obligation bond debt service payments totaled $236 million, a 47% increase over the FY02 total of $161 million. For FY11, the Council authorized the issuance of $325 million in bonds. The approved Fiscal Plan assumes continued bond issuances of $325 million per year through FY16. As such, annual general obligation debt service payments are scheduled to increase by 51% over the next five years as shown in the table below.

**Table 1. General Obligation Bond Debt Service Payments, FY11 Approved and FY16 Projected**

| | FY11 Approved | FY16 Projected | FY11-FY16 Increase | |
|---|---|---|---|---|
| | | | $ | % |
| Debt Service | $236 million | $356 million | $120 million | 51% |

In recent years, the County has issued approximately 94% of its bond issuance limit each year (excluding FY08 when no debt was issued). If this trend continues over the next five years, projected general obligation bond debt service payments would be lowered to approximately $347 million in FY16.

Currently, Montgomery County general obligation bond proceeds fund 57% of capital expenditures in the FY11-FY16 Capital Improvements Program (CIP). About one half of all general obligation bond proceeds funds MCPS projects; another quarter funds transportation projects (e.g., roads, storm drains, traffic improvements, sidewalks, bikeways, etc.); and the remainder funds other projects such as regional parks, fire stations, and recreation centers.

## Overview of Options

Since general obligation bond debt represents around 90% of annual debt service costs, the two options to reduce future costs presented below focus on general obligation bond debt.

- Option #1 reduces the current general obligation bond issuance limit by 25% for the entire five-year time period from FY12 through FY16.

- Option #2 reduces the current general obligation bond issuance limit by 50% for the entire five-year time period from FY12 through FY16.

Both options assume that, for each fiscal year, the County issues general obligation bonds up to the authorized maximum.

## Implementation Issues

Options to lower bond issuance limits fall within the Council's authority and are implemented through the Council's Spending Affordability Guidelines process. Since general obligation bond issuance funds over 50% of the projects in the approved FY11-16 CIP, determining the financial and programmatic effects of changing bond issuance limits for a specific option is difficult.

Some potential considerations related to lowering the level of bond issuance are highlighted below. The potential impact of changing the amount of debt issued may be favorable or unfavorable, depending upon the perspective of individual stakeholders.

- Less bond capacity means fewer resources for infrastructure projects that are already in the current six-year capital program, as well as less capacity to provide additional funding for projects that are underway and may require additional funding to be completed.

- Capital project costs tend to increase over time due to inflation, and delaying capital projects may result in higher costs in the future due to rising costs of construction and maintenance.

- The issuance of bonds for the construction of new facilities often results in new operating costs as well. Some facilities, such as new libraries or recreation centers, require annual operating appropriations for personnel costs, utilities, etc. once they are opened. Delaying certain capital projects may also delay when those operating costs are incurred.

- A portion of capital borrowing supports maintenance of existing facilities that can result in decreased maintenance or repair costs in the future. For example, the CIP includes projects to resurface roads or to replace building roofs. In some cases, delaying planned infrastructure maintenance could result in higher operating costs in the long-term to County agencies than would be saved by reducing borrowing amounts in the short-term.

# Options to Reduce General Obligation Debt Service Payments

## Current System

The County's current bond issuance limits are $325 million per year. If the County issues bonds as projected, annual debt service payments are projected to increase 50% from FY11 to FY16.

## Alternative Structure/Projected Cost Savings

This alternative shows two options to reduce projected annual debt services payments by reducing the general obligation bond issuance limits. The options show the overall scale and timing of savings associated with different bond issuance levels. As previously noted, any decision to change bond issuance limits would need to take into account policy, programmatic, and budgetary factors.

- **Option #1** reduces the current bond issuance limit by 25%. This reduction would lower debt service payments by $2 million in FY12, and by $94 million in total through FY16.
- **Option #2** reduces the current bond issuance limit by 50%. This reduction would lower debt service payments by $4 million in FY12, and by $189 million in total through FY16.

Table 2 shows the difference in projected annual general obligation bond debt service payments for two debt issuance options, compared to the current issuance limit.

**Table 2. Projected Annual General Obligation (GO) Bond Debt Service Payments, ($ in millions)**

| Option | Annual GO Bonds Issued (FY12-16) | Projected GO Bond Debt Service Payments | | | | | Total FY12-FY16 |
|---|---|---|---|---|---|---|---|
| | | FY12 | FY13 | FY14 | FY15 | FY16 | |
| Current Bond Issuance Limit | $325 million | $265 | $293 | $315 | $335 | $356 | $1,565 |
| **Option #1:** 25% Reduction to Bond Issuance Limit | $244 million | $263 | $282 | $296 | $308 | $321 | $1,471 |
| | **Difference** | **($2)** | **($11)** | **($19)** | **($27)** | **($35)** | **($94)** |
| **Option #2:** 50% Reduction to Bond Issuance Limit | $163 million | $261 | $271 | $277 | $281 | $286 | $1,376 |
| | **Difference** | **($4)** | **($22)** | **($38)** | **($54)** | **($70)** | **($189)** |

Source: Montgomery County Department of Finance

Of note, the options above illustrate how reductions in new debt issuance affect future year debt service payments. Important timing considerations include:

- Each option assumes a reduced <u>but constant</u> level of new borrowing in each year from FY12 through FY16. As the CIP currently contains many active projects that would be difficult to halt mid-construction, smaller reductions in borrowing in the early years with higher reductions in later years is likely the most realistic approach to reducing future debt service payments.
- FY12 is an "off-year" for the CIP. This year, the Council only will consider amendments to the approved FY11-16 CIP. The FY13-16 CIP will be the next opportunity for the Council to consider changes to the timing and funding of the complete package of CIP projects.

## DEBT CAPACITY ANALYSIS

**FY11-16 Biennial CAPITAL IMPROVEMENTS PROGRAM**
**DEBT CAPACITY ANALYSIS JANUARY 20, 2011**
**Scenario - Guidelines @ $320mn/year FY11-16**
**6 Yr. Total ($Mn.) $1,920.0 mn**
**FY11 Total ($Mn.) $320.0 mn**
**FY12 Total ($Mn.) $320.0 mn**

| | GUIDELINE | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|---|---|---|
| 1. GO Bond Guidelines and Targets ( Scenarios) | | 310,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 |
| 2. GO Debt/Assessed Value | 1.5% | 1.26% | 1.43% | 1.55% | 1.61% | 1.64% | 1.66% | 1.64% |
| 3. Debt Service + LTL + Short-Term Leases/Revenues (GF) | 10% | 8.75% | 9.29% | 10.23% | 11.23% | 11.64% | 11.77% | 11.91% |
| 4. $ Debt/Capita | | 2,272 | 2,554 | 2,701 | 2,833 | 2,952 | 3,059 | 3,147 |
| 5. $ Real Debt/Capita | $1,900 | 2,272 | 2,504 | 2,587 | 2,648 | 2,685 | 2,704 | 2,700 |
| 6. Capita Debt/Capita Income | 3.5% | 3.16% | 3.50% | 3.53% | 3.51% | 3.47% | 3.47% | 3.45% |
| 7. Payout Ratio | 60% - 75% | 69.56% | 68.65% | 68.22% | 68.04% | 68.09% | 68.31% | 68.62% |
| 8. Total Debt Outstanding ($000s) | | 2,194,839 | 2,480,600 | 2,643,335 | 2,793,300 | 2,933,220 | 3,061,805 | 3,179,585 |
| 9. Real Debt Outstanding ($000) | | 2,194,839 | 2,431,961 | 2,532,003 | 2,611,666 | 2,667,789 | 2,706,257 | 2,728,505 |
| 10. OP/PSP Growth Assumption | | | | 1.0% | 0.7% | 3.4% | 4.1% | 3.7% |

(1) This analysis is used to determine the capacity of Montgomery County to pay debt service on long-term GO Bond debt, long-term leases, and substantial short-term financing.

(2) OP/PSP Growth Assumption equals change in revenues from FY11 approved budget to FY12 budget for FY12 and budget to budget for FY13-16.

| DEBT SERVICE IMPACT | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|---|---|
| Assumed Issue Size ($000) | 310,000 | 325,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 |
| GO Bond Debt Service ($000) | 223,059 | 236,141 | 258,139 | 283,927 | 304,033 | 322,254 | 340,752 |
| Percentage change in debt service | 8.89% | 5.86% | 9.32% | 9.99% | 7.08% | 5.99% | 5.74% |

| ASSUMED INCREASE IN DEBT ISSUANCE | Total Increase/(Decrease) | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|---|---|---|
| Approved GO bond debt issuance | | 310,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 |
| Assumed GO bond debt issuance | | 310,000 | 325,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 |
| Increase/(Decrease) in GO bond debt issuance | (25,000) | 0 | 0 | (5,000) | (5,000) | (5,000) | (5,000) | (5,000) |

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COMPARING PROGRAMMED AND ACTUAL EXPENDITURES
GO BOND FUNDING ONLY

FOR FISCAL YEARS 2006 THROUGH 2010

| BOND CATEGORY | FY06 ACTUAL BONDS | FY06 PROGRAM.BONDS | FY06 Rate | FY07 ACTUAL BONDS | FY07 PROGRAM.BONDS | FY07 RATE |
|---|---|---|---|---|---|---|
| PUBLIC SCHOOLS | 149,551,785 | 119,811,000 | 124.82% | 113,114,806 | 152,863,000 | 74.00% |
| M. COLLEGE | 11,071,956 | 14,788,000 | 74.87% | 10,085,083 | 19,989,000 | 50.45% |
| M-NCPPC PARKS | 6,532,119 | 11,697,000 | 55.84% | 5,806,313 | 7,470,000 | 77.73% |
| TRANSPORTATION | 59,250,150 | 68,419,000 | 86.60% | 42,349,336 | 64,411,000 | 65.75% |
| MCG-OTHER | 37,356,509 | 39,241,000 | 95.20% | 22,354,632 | 56,180,000 | 39.79% |
| **TOTAL** | **263,762,519** | **253,956,000** | **103.86%** | **193,710,170** | **300,913,000** | **64.37%** |
| **BOND CATEGORY** | **FY08 ACTUAL BONDS** | **FY08 PROGRAM.BONDS** | **FY08 RATE** | **FY09 ACTUAL BONDS** | **FY09 PROGRAM. BONDS** | **FY09 RATE** |
| PUBLIC SCHOOLS | 148,219,059 | 142,981,000 | 103.66% | 159,832,241 | 154,430,000 | 103.50% |
| M. COLLEGE | 22,270,792 | 22,326,000 | 99.75% | 20,981,433 | 40,113,000 | 52.31% |
| M-NCPPC PARKS | 5,390,411 | 5,953,000 | 90.55% | 5,272,160 | 10,560,000 | 49.93% |
| TRANSPORTATION | 73,704,397 | 77,142,000 | 95.54% | 71,701,540 | 75,304,000 | 95.22% |
| MCG-OTHER | 24,540,312 | 41,930,000 | 58.53% | 40,232,351 | 62,450,000 | 64.42% |
| **TOTAL** | **274,124,971** | **290,332,000** | **94.42%** | **298,019,725** | **342,857,000** | **86.92%** |
| **BOND CATEGORY** | **FY10 ACTUAL BONDS** | **FY10 PROGRAM. BONDS** | **FY10 RATE** | **LAST 5 YEAR AVG.** | | |
| PUBLIC SCHOOLS | 105,583,133 | 124,840,000 | 84.57% | 98.11% | | |
| M. COLLEGE | 30,014,266 | 47,155,000 | 63.65% | 68.21% | | |
| M-NCPPC PARKS | 13,988,737 | 10,912,000 | 128.20% | 80.45% | | |
| TRANSPORTATION | 72,845,702 | 91,706,000 | 79.43% | 84.51% | | |
| MCG-OTHER | 45,871,618 | 65,845,000 | 69.67% | 65.52% | | |
| **TOTAL** | **268,303,456** | **340,458,000** | **78.81%** | **85.68%** | | |

# TAX SUPPORTED CURRENT-REVENUES ADJUSTMENT CHART

**FY11-16 Biennial Capital Improvements Program**
**COUNTY EXECUTIVE RECOMMENDED**
**January 14, 2011**

| ($ MILLIONS) | 6 YEARS | FY11 APPROP | FY12 APPROP(1) | FY13 EXP | FY14 EXP | FY15 EXP | FY16 EXP |
|---|---|---|---|---|---|---|---|
| TAX SUPPORTED CURRENT REVENUES AVAILABLE | 341.192 | 23.391 | 34.579 | 58.605 | 80.475 | 80.684 | 63.458 |
| Adjust for Future Inflation * | (17.774) | - | - | (1.401) | (3.915) | (6.016) | (6.442) |
| SUBTOTAL CURRENT REVENUE FUNDS AVAILABLE FOR ELIGIBLE PROJECTS (after adjustments) | 323.418 | 23.391 | 34.579 | 57.204 | 76.560 | 74.668 | 57.016 |
| Less Set Aside: Future Projects | - | - | - | - | - | - | - |
| TOTAL FUNDS AVAILABLE FOR PROGRAMMING | 323.418 | 23.391 | 34.579 | 57.204 | 76.560 | 74.668 | 57.016 |
| GENERAL FUND | | | | | | | |
| MCPS | (115.982) | (2.546) | (4.781) | (24.107) | (27.313) | (28.393) | (28.842) |
| MONTGOMERY COLLEGE | (57.075) | (1.558) | (9.485) | (10.046) | (12.364) | (12.389) | (11.233) |
| M-NCPPC | (15.473) | (2.033) | (2.448) | (2.748) | (2.748) | (2.748) | (2.748) |
| HOC | (6.750) | (0.625) | (1.125) | (1.250) | (1.250) | (1.250) | (1.250) |
| TRANSPORTATION | (44.973) | (2.901) | (4.956) | (8.989) | (10.081) | (8.793) | (9.253) |
| MC GOVERNMENT | (26.464) | (12.269) | (7.883) | (2.217) | (1.365) | (1.365) | (1.365) |
| SUBTOTAL - GENERAL FUND | (266.717) | (21.932) | (30.678) | (49.357) | (55.121) | (54.938) | (54.691) |
| MASS TRANSIT FUND | (53.518) | (1.109) | (2.968) | (6.997) | (21.089) | (19.380) | (1.975) |
| FIRE CONSOLIDATED | (1.083) | - | (0.583) | (0.500) | - | - | - |
| PARK FUND | (2.100) | (0.350) | (0.350) | (0.350) | (0.350) | (0.350) | (0.350) |
| SUBTOTAL - OTHER TAX SUPPORTED | (56.701) | (1.459) | (3.901) | (7.847) | (21.439) | (19.730) | (2.325) |
| TOTAL PROGRAMMED EXPENDITURES | (323.418) | (23.391) | (34.579) | (57.204) | (76.560) | (74.668) | (57.016) |
| AVAILABLE OR (GAP) TO BE SOLVED | - | - | - | - | - | - | - |
| * Inflation: | | 2.10% | 2.25% | 2.45% | 2.60% | 2.80% | 3.00% |

Note:
(1) FY12 APPROP equals new appropriation authority approved at this time. Additional current revenue funded appropriations will require drawing on operating budget fund balances.

# M-NCPPC BOND ADJUSTMENT CHART

**FY11-16 Biennial Capital Improvements Program**
**COUNTY EXECUTIVE RECOMMENDED**
**January 14, 2011**

| ($ millions) | 6 YEARS | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|---|---|
| BONDS PLANNED FOR ISSUE<br>Assumes Council SAG | 37.500 | 7.500 | 6.000 | 6.000 | 6.000 | 6.000 | 6.000 |
| Adjust for Implementation * | 5.374 | 1.121 | 0.896 | 0.875 | 0.851 | 0.827 | 0.803 |
| Adjust for Future Inflation * | (1.535) | - | - | (0.143) | (0.303) | (0.464) | (0.625) |
| SUBTOTAL FUNDS AVAILABLE FOR DEBT ELIGIBLE PROJECTS (after adjustments) | 41.339 | 8.621 | 6.896 | 6.732 | 6.548 | 6.364 | 6.178 |
| Less Set Aside: Future Projects | 10.895<br>26.4% | 4.064 | 1.488 | 0.112 | 0.058 | 2.653 | 2.520 |
| TOTAL FUNDS AVAILABLE FOR PROGRAMMING | 30.444 | 4.557 | 5.408 | 6.620 | 6.490 | 3.711 | 3.658 |
| Programmed P&P Bond Expenditures | (30.444) | (4.557) | (5.408) | (6.620) | (6.490) | (3.711) | (3.658) |
| SUBTOTAL PROGRAMMED EXPENDITURES | (30.444) | (4.557) | (5.408) | (6.620) | (6.490) | (3.711) | (3.658) |
| AVAILABLE OR (GAP) TO BE SOLVED | - | - | - | - | - | - | - |

NOTES:

| | | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|---|---|
| * Adjustments Include: | | | | | | | |
| Inflation = | | 2.10% | 2.35% | 2.45% | 2.80% | 2.90% | 3.00% |
| Implementation Rate = | | 87.00% | 87.00% | 87.00% | 87.00% | 87.00% | 87.00% |