GO COMMITTEE #2
September 26, 2011

**MEMORANDUM**

September 22, 2011

TO: Government Operations & Fiscal Policy Committee

GO

FROM: Glenn Orlin, Deputy Council Staff Director

SUBJECT: Spending Affordability Guidelines for the FY13 Capital Budget and the FY13-18 Capital Improvements Program

The purpose of this meeting is for the Committee to form its recommendations on the spending affordability guidelines and targets for General Obligation (G.O.) bonds and Park & Planning (P&P) bonds to be used in the FY13-18 Capital Improvements Program. The Council is tentatively scheduled to act on October 4, which is the legislative deadline for action.

Specifically, the Council has requested comments on guidelines that may fall within the following ranges:

- For G.O. Bonds: between \$290-320 million/year annually, and between \$1.74-1.92 billion for the six-year period.
- For Park and Planning Bonds: \$6 million annually for FY13 and for FY14, \$6 million for each year during FYs15-18, and \$36 million for the six-year period.

## I. Establishment of guidelines

Section 305 of the Charter requires the Council to set spending affordability guidelines for the capital budget each year, and requires the Council to establish by law the process and criteria. Subsequent law requires the Council to set the guidelines for capital budgets by resolution biennially, and no later than the first Tuesday in October in odd-numbered years: October 4 in 2011. As the title of the law indicates, the guidelines are related to how much the Council believes the County can afford, not how much might be needed. The law is on ©1-3.

Until now the guidelines have applied to County General Obligation Bonds and bonds issued by the Maryland-National Capital Park and Planning Commission (M-NCPPC) only; there are no limits on capital expenditures which are funded by other sources (except for the Washington Suburban Sanitary Commission, for which there is a separate spending affordability process). Roughly 55.5% of the $4.05 billion Approved FY11-16 Capital Improvements Program (CIP) as amended (excluding WSSC) is financed by County General Obligation Bonds and about 0.8% is financed by bonds issued by M-NCPPC.

The guidelines adopted on or before October 4 are to specify:

1) The total general obligation debt issued by the County that may be planned for expenditure in FY13.
2) The total general obligation debt issued by the County that may be planned for expenditure in FY13.
3) The total general obligation debt issued by the County that may be planned for the 6-year period of FY13-18.
4) The Park and Planning bond debt issued by M-NCPPC to finance local park acquisition and development (County bonds are used for the regional parks) that may be planned for expenditure in FY13.
5) The Park and Planning bond debt issued by M-NCPPC that may be planned for expenditure in FY13.
6) The Park and Planning bond debt issued by M-NCPPC that may be planned for the 6-year period of FY13-18.

## II. Amending the resolution which set the guidelines

No later than the first Tuesday in February (February 7 in 2012) the law permits the Council to increase or decrease the guidelines "to reflect a significant change in conditions." A majority of the Council is needed to approve a change in the guidelines. The change in conditions would relate to an increase or decrease in the County's ability to afford the debt, not to an increase or decrease in need. The law places no limit on the amount of decrease permitted to any guideline or to the amount of increase for the 6-year guidelines. The law limits any increase to the first-year and second-year guidelines to 10% of the amounts which were set in October. In the second year of a biennial CIP cycle, the second-year guideline cannot be raised by more than 10% of that established in the prior year.

Therefore, for example, if the Council were now to establish the FY13 guideline at $320 million, the most it could raise it to in February 2012 is $352.0 million, and if it did so, the most it could raise it to in February 2013 is $387.2 million ($35.2 million more). In the second year the law again places no limit on the amount of decrease permitted to any guideline or to the amount of increase for the 6-year guidelines.

The capital budget must be approved by June 1. Note that only a majority is needed to set the guidelines in October or to change the guidelines in February, but 7 affirmative votes are required to exceed the guidelines when the budget is approved in May.

## III. Determining affordability, General Obligation bonds

The law suggests that the Council should consider a number of economic and financial factors, which are either part of the regular briefings on economic indicators (which the GO Committee developed) or will be considered in the discussion below on debt affordability indicators. The 6-year bond ceilings for general obligation debt since the FY99-04 CIP are shown below, as well as the percentage change from the prior year:

| | |
|---|---|
| FY99-04 | $714.0 million |
| FY99-04 amended | $743.0 million (+4.1%) |
| FY01-06 | $798.0 million (+7.4%) |
| FY01-06 amended | $826.0 million (+3.5%) |
| FY03-08 | $880.4 million (+6.6%) |
| FY03-08 amended | $895.2 million (+1.7%) |
| FY05-10 | $1,140.0 million (+27.3%) |
| FY05-10 amended | $1,218.0 million (+6.8%) |
| FY07-12 | $1,458.0 million (+19.7%) |
| FY07-12 amended | $1,650.0 million (+13.2%) |
| FY09-14 | $1,800.0 million (+9.1%) |
| FY09-14 amended | $1,840.0 million (+2.2%) |
| FY11-16 | $1,950.0 million (+6.0%) |
| FY11-16 amended | $1,910.0 million (-2.1%) |

To assist in determining debt capacity—how much debt the County can afford—the Council relies 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 6 years. The indicators are:

1. Total debt should not exceed 1.5% of full market value of taxable real property.
2. Debt service (defined as expenditures plus long- and short-term leases) should not exceed 10% of the General Fund operating budget.
3. 60-75% of the debt at the beginning of any period should be paid off within ten years.
4. The ratio of debt to income should not exceed 3.5%.
5. Real debt per capita should not exceed $1,000 in FY91 dollars by a "significant" amount. (Reflecting inflation, we should now use an indicator of $2,000 in FY12 dollars.)

The calculation of these indicators depends not just on the amount of projected debt, but also on projections of assessed value, growth in the operating budget, population, and personal income. The chart on ©4 displays last winter's projections versus the most recent forecasts. The rate of inflation is now assumed to grow faster by 0.2-0.4%/year and population is also now expected to grow slightly faster, but assessed value, personal income, and the County's operating budget revenues are projected to increase at slower rates than were assumed last January.

At the request of Council staff, the Office of Management and Budget has produced five scenarios reflecting different potential County bond guidelines and targets. (The bond 'targets' are the amounts for the third, fourth, fifth, and sixth years of the CIP. While the law would allow any of the targets to be exceeded, the Council's practice at CIP Reconciliation is to try to bring planned expenditures under or at the targets as well as the guidelines.) The 6-year totals for these scenarios (see below) range from a low of $1,740 million to a high of $1,920 million. Debt capacity analyses for these scenarios are on ©5-9.

**Spending Affordability Scenarios ($ millions)**

| Scenario | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | 6-yr Total | Change (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| Existing | 320 | 310 | 320 | 320 | 320 | 320 | - | - | 1,910 | - |
| #1 (©5) | - | - | 320 | 320 | 320 | 320 | 320 | 320 | 1,920 | +10 (+0.5%) |
| #2 (©6) | - | - | 310 | 310 | 310 | 310 | 310 | 310 | 1,860 | -50 (-2.6%) |
| #3 (©7) | - | - | 300 | 300 | 300 | 300 | 300 | 300 | 1,800 | -110 (-6.8%) |
| #4 (©8) | - | - | 295 | 295 | 295 | 295 | 295 | 295 | 1,770 | -140 (-7.3%) |
| #5 (©9) | | | 290 | 290 | 290 | 290 | 290 | 290 | 1,740 | -170 (-9.8%) |

How each scenario meets the five debt indicators is shown below. The table notes the number of years within the CIP period the indicators would be met (maximum total score=30):

| | #1 | #2 | #3 | #4 | #5 |
|---|---|---|---|---|---|
| FY13 Guideline ($ millions) | 320 | 310 | 300 | 295 | 290 |
| FY14 Guideline ($ millions) | 320 | 310 | 300 | 295 | 290 |
| FY13-18 Guideline ($ millions) | 1,920 | 1,860 | 1,800 | 1,770 | 1,740 |
| **Debt Indicators** | | | | | |
| Number of years that total debt is not greater than 1.5% of the market value of taxable real property | 0 | 0 | 0 | 0 | 0 |
| Number if years that debt service (plus leases) is not greater than 10% of the General Fund budget | 0 | 0 | 0 | 0 | 0 |
| Number of years that real debt/capita doesn't exceed $1,000 (in FY91 dollars) by a "significant" amount ($2,000 in FY12 dollars) | 0 | 0 | 0 | 0 | 0 |
| Number of years that payout ratio (percentage of debt to be paid out in 10 years) is 60-75% | 6 | 6 | 6 | 6 | 6 |
| Number of years that debt/income ratio doesn't exceed 3.5% | 3 | 4 | 4 | 5 | 5 |
| **Total Score** | **9** | **10** | **10** | **11** | **11** |

*These scores are very poor, especially compared to past experience.* Debt has normally not exceeded 1.5% of real property value in any year, but the projection under every scenario is that it will exceed it in every one of the next six years, although the percentage trends slightly in the positive direction after FY15. The debt/income ratio normally does not exceed 3.5% but, depending on the scenario, the ratio hovers above 3.5% for 1-3 years before dipping below later. The debt service as a percentage of operating revenue is often above 10%, but rarely above 11%; now the projection is for a ratio above 11% in every year under every scenario, and trending in a negative (i.e., higher) direction. Under the $310M/year and $320M/year scenarios the ratio climbs above 12% by FY18.

Overall, the comparative results of the debt indicators should not be surprising. Within this range of scenarios there is very little difference in the results for the indicators, since most debt service (the numerator in most of the indicators) is paid from prior bond issues.

***September 20 public hearing comments.*** The Executive is recommending G.O. bond guidelines and targets of $295 million annually through the FY13-18 period (Scenario #4, ©8). He points to the data outlined above: that many of our debt indicators exceed their thresholds, and that higher bond levels will contribute to higher debt service obligations in future years, with the consequence of squeezing future operating budgets (©11-14). Setting the bond limits at $295 million annually—compared to retaining the current $320 million level (Scenario #1, ©5)—would save $39 million in debt service costs over the CIP period, which would be available for operating budgets during that period. OMB has produced a series of charts displaying this difference (©15-18).

The Board of Education's testimony acknowledged that setting the guidelines is about what is affordable, not what is necessary or desirable. Nevertheless, by turning the phrase the BOE argues that the County cannot "afford" to allow schools to become more overcrowded or infrastructure to go unaddressed. The BOE also argues that, since unit costs and interests rates are down, this would be the best time to increase funding, or at a minimum to keep it at the same level. Therefore, the BOE recommends guidelines and targets of $320 million annually (Scenario #1) or higher (©19-20). The Planning Board recommends Scenario #1: $320 million annually (©21-22).

**Council staff recommendation: Concur with the Executive, set the guidelines and targets at $295 million annually (Scenario #4).** Even at $295 million annually, the indicators produce worse results than the $320 million annual level the Council approved last winter; this is because the projections of total income, property tax assessments, and operating budget growth are down:

| **Debt/Total Income** | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|---|
| FY11-16: $320M/year | 3.50% | 3.53% | 3.51% | 3.47% | 3.47% | 3.45% | | |
| Sc. #1: $320M/year | | | 3.59% | 3.55% | 3.53% | 3.50% | 3.45% | 3.38% |
| Sc. #2: $310M/year | | | 3.57% | 3.53% | 3.49% | 3.46% | 3.40% | 3.33% |
| Sc. #3: $300M/year | | | 3.56% | 3.51% | 3.46% | 3.41% | 3.35% | 3.28% |
| Sc. #4: $295M/year | | | 3.55% | 3.50% | 3.44% | 3.39% | 3.33% | 3.25% |
| Sc. #5: $290M/year | | | 3.55% | 3.48% | 3.43% | 3.37% | 3.30% | 3.22% |

For the debt/ income indicator, all the scenarios, including the smallest at $290 million/year, produce higher (worse) ratios in FYs13-14 than what was projected with last year's guidelines. For FYs15-16, scenarios at $300 million/year or less produce (slightly) better ratios, however.

| **Debt/Assessed Value** | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|---|
| FY11-16: $320M/year | 1.43% | 1.55% | 1.61% | 1.64% | 1.66% | 1.64% | | |
| Sc. #1: $320M/year | | | 1.64% | 1.68% | 1.72% | 1.70% | 1.68% | 1.66% |
| Sc. #2: $310M/year | | | 1.64% | 1.67% | 1.71% | 1.68% | 1.66% | 1.63% |
| Sc. #3: $300M/year | | | 1.63% | 1.66% | 1.69% | 1.66% | 1.64% | 1.60% |
| Sc. #4: $295M/year | | | 1.63% | 1.66% | 1.68% | 1.65% | 1.62% | 1.59% |
| Sc. #5: $290M/year | | | 1.63% | 1.65% | 1.68% | 1.64% | 1.61% | 1.58% |

For the debt/assessed value indicator, all the scenarios produce higher (worse) ratios for FYs13-16 than what was projected with last year's guidelines.

| Debt/Operating Rev. | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|---|
| FY11-16: $320M/year | 9.29% | 10.23% | 11.23% | 11.64% | 11.77% | 11.91% | | |
| Sc. #1: $320M/year | | | 11.10% | 11.45% | 11.62% | 11.79% | 11.96% | 12.16% |
| Sc. #2: $310M/year | | | 11.09% | 11.41% | 11.55% | 11.69% | 11.83% | 12.02% |
| Sc. #3: $300M/year | | | 11.08% | 11.36% | 11.47% | 11.59% | 11.71% | 11.89% |
| Sc. #4: $295M/year | | | 11.08% | 11.34% | 11.44% | 11.54% | 11.65% | 11.82% |
| Sc. #5: $290M/year | | | 11.07% | 11.32% | 11.40% | 11.49% | 11.59% | 11.75% |

For the debt+leases/operating revenue indicator, all the indicators produce better ratios for FYs13-16 than what was projected with last year's guidelines.

For Council staff, these results suggest that a set of guidelines in the $290-$300/year range would be reasonable, and $295 million/year (Scenario #4) is the mid-point of this range. Whichever of these three scenarios is selected, however, it is important not to modify it by ramping the levels higher in the earlier years and lowering them in the later years, as the Council has done now and then in the past. First of all, it raises the debt service levels faster, squeezing future operating budgets sooner. Secondly, such a bond schedule is not credible. Rating agencies will not believe that a higher level in the early years will actually be followed by corresponding lower levels in later years. They will more likely infer—as proven by the past—that larger levels in the early years translate to levels at least as high subsequently.

Therefore, the prudent course of action now would be to approve a lower set of guidelines that are the same over each of the six years. Recall that the Council will have the opportunity to amend these guidelines next February, should economic conditions change.

### IV. Determining affordability, Park and Planning bonds

The guidelines and targets adopted for the FY11-16 CIP and for the FY11-16 CIP as amended were $7.5 million in FY11 and $5.0 million annually in FYs12-16, with a six-year guideline of $37.5 million. The six-year planned expenditures for Park and Planning bonds for the past several CIPs (and the percentage change from the prior year) are shown below:

| | |
|---|---|
| FY99-04 | $16.60 million |
| FY99-04 amended | $16.60 million (no change) |
| FY01-06 | $17.20 million (+3.6%) |
| FY01-06 amended | $17.45 million (+1.5%) |
| FY03-08 | $18.00 million (+3.2%) |
| FY03-08 amended | $18.00 million (no change) |
| FY05-10 | $22.60 million (+25.6%) |
| FY05-10 amended | $22.60 million (no change) |
| FY07-12 | $23.50 million (+4.0%) |
| FY07-12 amended | $23.50 million (no change) |
| FY09-14 | $30.00 million (+27.7%) |
| FY09-14 amended | $30.00 million (no change) |
| FY11-16 | $37.50 million (+25.0%) |
| FY11-16 amended | $37.50 million (no change) |

Both the Executive and the Planning Board recommend setting the FY13 and FY14 guidelines at $6 million, and the six-year guideline at $36 million (i.e., $6 million each year of the next CIP). The Planning Board is particularly concerned about the draw of debt service on the Park Fund.

**Council staff recommendation: Concur with the Planning Board and Executive—set the guidelines and targets for Park & Planning bonds at $6 million for FY13 and for FY14, and $36 million for the six-year period.**

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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.

**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.)

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**DEBT CAPACITY ANALYSIS**
**DRAFT KEY ASSUMPTIONS AND INPUTS**
**AMENDED FY11-16 CIP (January, 2011) VS. FY13-18 CIP (September, 2011)**

| | | Current Year FY 12 | Year 1 FY 13 | Year 2 FY 14 | Year 3 FY 15 | Year 4 FY 16 | Year 5 FY17 | Year 6 FY18 |
|---|---|---|---|---|---|---|---|---|
| 1 | INTEREST RATE ON BONDS | | | | | | | |
| | FY11-16 CIP - January, 2011 | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | | |
| | FY13-18 CIP - September, 2011 | | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| 2 | OPERATING GROWTH | | | | | | | |
| | FY11-16 CIP - January, 2011 | 1.00% | 0.70% | 3.40% | 4.10% | 3.70% | | |
| | FY13-18 CIP - September, 2011 | | 0.30% | 3.50% | 3.80% | 4.10% | 3.60% | 3.60% |
| 3 | POPULATION | | | | | | | |
| | FY11-16 CIP - January, 2011 | 978,700 | 986,100 | 993,500 | 1,001,000 | 1,010,450 | | |
| | FY13-18 CIP - September, 2011 | | 986,100 | 993,500 | ~~1,004,000~~ 1,017,000 | ~~1,010,450~~ 1,026,420 | ~~1,010,940~~ 1,035,930 | ~~1,010,940~~ 1,045,530 |
| 4 | FY CPI INFLATION | | | | | | | |
| | FY11-16 CIP - January, 2011 | 2.35% | 2.45% | 2.80% | 2.90% | 3.00% | | |
| | FY13-18 CIP - September, 2011 | | 2.70% | 3.00% | 3.20% | 3.40% | 3.60% | 3.60% |
| 5 | ASSESSABLE BASE-COUNTYWIDE | | | | | | | |
| | FY11-16 CIP($000) - January, 2011 | 170,147,000 | 173,405,000 | 179,154,000 | 184,785,000 | 194,051,000 | | |
| | FY13-18 CIP - September, 2011 | | 168,355,000 | 172,600,000 | 176,153,000 | 185,255,000 | 193,953,000 | 202,874,000 |
| 6 | TOTAL PERSONAL INCOME | | | | | | | |
| | FY11-16 CIP($000) - January, 2011 | 74,820,000 | 79,540,000 | 84,430,000 | 88,270,000 | 92,130,000 | | |
| | FY13-18 CIP - September, 2011 | | 77,170,000 | 81,810,000 | 86,130,000 | 90,230,000 | 94,680,000 | 99,319,000 |

# DEBT CAPACITY ANALYSIS

**FY13-18 CAPITAL IMPROVEMENTS PROGRAM**
**DEBT CAPACITY ANALYSIS September 13, 2011**
**Scenario - Guidelines @ $320mn/year FY13-18**
**6 Yr. Total ($Mn.) $1,920.0 mn**
**FY13 Total ($Mn.) $320.0 mn**
**FY14 Total ($Mn.) $320.0 mn**

| | GUIDELINE | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|---|
| 1. GO Bond Guidelines ($000s) | | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 |
| 2. GO Debt/Assessed Value | 1.5% | 1.56% | 1.64% | 1.68% | 1.72% | 1.70% | 1.68% | 1.66% |
| **3. Debt Service + LTL + Short-Term Leases/Revenues (GF)** | **10%** | **10.22%** | **11.10%** | **11.45%** | **11.62%** | **11.79%** | **11.96%** | **12.16%** |
| 4. $ Debt/Capita | | 2,675 | 2,807 | 2,927 | 2,986 | 3,073 | 3,149 | 3,213 |
| 5. $ Real Debt/Capita | $2,000 | 2,675 | 2,734 | 2,767 | 2,735 | 2,723 | 2,693 | 2,652 |
| 6. Capita Debt/Capita Income | 3.5% | 3.60% | 3.59% | 3.55% | 3.53% | 3.50% | 3.45% | 3.38% |
| 7. Payout Ratio | 60% - 75% | 68.22% | 68.04% | 68.09% | 68.31% | 68.62% | 69.00% | 69.36% |
| 8. Total Debt Outstanding ($000s) | | 2,618,335 | 2,768,300 | 2,908,220 | 3,036,805 | 3,154,585 | 3,262,310 | 3,359,805 |
| 9. Real Debt Outstanding ($000) | | 2,618,335 | 2,695,521 | 2,749,284 | 2,781,823 | 2,794,694 | 2,789,700 | 2,773,235 |
| 10. OP/PSP Growth Assumption | | | 0.3% | 3.5% | 3.8% | 4.1% | 3.6% | 3.6% |

(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 FY12 approved budget to FY13 budget for FY13 and budget to budget for FY14-18.

| DEBT SERVICE IMPACT | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|
| Assumed Issue Size ($000) | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 |
| GO Bond Debt Service ($000) | 255,831 | 276,595 | 295,619 | 313,763 | 334,094 | 353,303 | 374,063 |
| Dollar change in GO Bond debt service (year to year) | 19,690 | 20,764 | 19,025 | 18,144 | 20,331 | 19,209 | 20,760 |
| Percentage change in GO Bond debt service (year to year) | 8.34% | 8.12% | 6.88% | 6.14% | 6.48% | 5.75% | 5.88% |
| Dollar change in GO Bond debt service from the base (FY12) | | 20,764 | 39,788 | 57,932 | 78,263 | 97,472 | 118,232 |
| STL and LTL Debt Service | 34,083 | 39,488 | 42,200 | 42,165 | 42,134 | 42,120 | 42,120 |
| Total Debt Service for Debt Capacity (GO Bond + STL and LTL) | 289,915 | 316,083 | 337,820 | 355,928 | 376,228 | 395,424 | 416,184 |
| Total Revenues | 2,836,323 | 2,848,279 | 2,950,623 | 3,063,592 | 3,192,296 | 3,306,638 | 3,423,659 |

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

5

# DEBT CAPACITY ANALYSIS

**FY13-18 CAPITAL IMPROVEMENTS PROGRAM**
**DEBT CAPACITY ANALYSIS September 15, 2011**
**Scenario - Guidelines @ $310mn/year FY13-18**
**6 Yr. Total ($Mn.) $1,860.0 mn**
**FY13 Total ($Mn.) $310.0 mn**
**FY14 Total ($Mn.) $310.0 mn**

| | GUIDELINE | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|---|
| 1. GO Bond Guidelines ($000s) | | 320,000 | 310,000 | 310,000 | 310,000 | 310,000 | 310,000 | 310,000 |
| 2. GO Debt/Assessed Value | 1.5% | 1.56% | 1.64% | 1.67% | 1.71% | 1.68% | 1.66% | 1.63% |
| **3. Debt Service + LTL + Short-Term Leases/Revenues (GF)** | **10%** | **10.22%** | **11.09%** | **11.41%** | **11.55%** | **11.69%** | **11.83%** | **12.02%** |
| 4. $ Debt/Capita | | 2,675 | 2,797 | 2,908 | 2,958 | 3,037 | 3,106 | 3,163 |
| 5. $ Real Debt/Capita | $2,000 | 2,675 | 2,724 | 2,749 | 2,710 | 2,691 | 2,656 | 2,611 |
| 6. Capita Debt/Capita Income | 3.5% | 3.60% | 3.57% | 3.53% | 3.49% | 3.46% | 3.40% | 3.33% |
| 7. Payout Ratio | 60% - 75% | 68.22% | 68.04% | 68.09% | 68.31% | 68.62% | 69.00% | 69.36% |
| 8. Total Debt Outstanding ($000s) | | 2,618,335 | 2,758,300 | 2,888,720 | 3,008,305 | 3,117,585 | 3,217,310 | 3,307,305 |
| 9. Real Debt Outstanding ($000s) | | 2,618,335 | 2,685,784 | 2,730,850 | 2,755,716 | 2,761,916 | 2,751,220 | 2,729,901 |
| 10. OP/PSP Growth Assumption | | | 0.3% | 3.5% | 3.8% | 4.1% | 3.6% | 3.6% |

(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 FY12 approved budget to FY13 budget for FY13 and budget to budget for FY14-18.

| DEBT SERVICE IMPACT | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|
| Assumed Issue Size ($000) | 320,000 | 310,000 | 310,000 | 310,000 | 310,000 | 310,000 | 310,000 |
| GO Bond Debt Service ($000) | 255,831 | 276,345 | 294,369 | 311,538 | 330,919 | 349,203 | 369,463 |
| Dollar change in GO Bond debt service (year to year) | 19,690 | 20,514 | 18,025 | 17,169 | 19,381 | 18,284 | 20,260 |
| Percentage change in GO Bond debt service (year to year) | 8.34% | 8.02% | 6.52% | 5.83% | 6.22% | 5.53% | 5.80% |
| Dollar change in GO Bond debt service from the base (FY12) | | 20,514 | 38,538 | 55,707 | 75,088 | 93,372 | 113,632 |
| STL and LTL Debt Service | 34,083 | 39,488 | 42,200 | 42,165 | 42,134 | 42,120 | 42,120 |
| Total Debt Service for Debt Capacity (GO Bond + STL and LTL) | 289,915 | 315,833 | 336,570 | 353,703 | 373,053 | 391,324 | 411,584 |
| Total Revenues | 2,836,323 | 2,848,279 | 2,950,623 | 3,063,592 | 3,192,296 | 3,306,638 | 3,423,659 |

| ASSUMED INCREASE IN DEBT ISSUANCE | Total Increase/(Decrease) | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|---|
| Approved GO bond debt issuance | | 310,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 |
| Assumed GO bond debt issuance | | 320,000 | 310,000 | 310,000 | 310,000 | 310,000 | 310,000 | 310,000 |
| Increase/(Decrease) in GO bond debt issuance | (50,000) | 10,000 | (10,000) | (10,000) | (10,000) | (10,000) | (10,000) | (10,000) |

# DEBT CAPACITY ANALYSIS

**FY13-18 CAPITAL IMPROVEMENTS PROGRAM**
**DEBT CAPACITY ANALYSIS September 13, 2011**
**Scenario - Guidelines @ $300mn/year FY13-18**
**6 Yr. Total ($Mn.) $1,800.0 mn**
**FY13 Total ($Mn.) $300.0 mn**
**FY14 Total ($Mn.) $300.0 mn**

| | GUIDELINE | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|---|
| 1. GO Bond Guidelines ($000s) | | 320,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| 2. GO Debt/Assessed Value | 1.5% | 1.56% | 1.63% | 1.66% | 1.69% | 1.66% | 1.64% | 1.60% |
| **3. Debt Service + LTL + Short-Term Leases/Revenues (GF)** | **10%** | **10.22%** | **11.08%** | **11.36%** | **11.47%** | **11.59%** | **11.71%** | **11.89%** |
| 4. $ Debt/Capita | | 2,675 | 2,787 | 2,888 | 2,930 | 3,001 | 3,062 | 3,113 |
| 5. $ Real Debt/Capita | $2,000 | 2,675 | 2,714 | 2,730 | 2,684 | 2,659 | 2,619 | 2,570 |
| 6. Capita Debt/Capita Income | 3.5% | 3.60% | 3.56% | 3.51% | 3.46% | 3.41% | 3.35% | 3.28% |
| 7. Payout Ratio | 60% - 75% | 68.22% | 68.04% | 68.09% | 68.31% | 68.62% | 69.00% | 69.36% |
| 8. Total Debt Outstanding ($000s) | | 2,618,335 | 2,748,300 | 2,869,220 | 2,979,805 | 3,080,585 | 3,172,310 | 3,254,805 |
| 9. Real Debt Outstanding ($000s) | | 2,618,335 | 2,676,047 | 2,712,415 | 2,729,609 | 2,729,137 | 2,712,739 | 2,686,566 |
| 10. OP/PSP Growth Assumption | | | 0.3% | 3.5% | 3.8% | 4.1% | 3.6% | 3.6% |

(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 FY12 approved budget to FY13 budget for FY13 and budget to budget for FY14-18.

| DEBT SERVICE IMPACT | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|
| Assumed Issue Size ($000) | 320,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| GO Bond Debt Service ($000) | 255,831 | 276,095 | 293,119 | 309,313 | 327,744 | 345,103 | 364,863 |
| Dollar change in GO Bond debt service (year to year) | 19,690 | 20,264 | 17,025 | 16,194 | 18,431 | 17,359 | 19,760 |
| Percentage change in GO Bond debt service (year to year) | 8.34% | 7.92% | 6.17% | 5.52% | 5.96% | 5.30% | 5.73% |
| Dollar change in GO Bond debt service from the base (FY12) | | 20,264 | 37,288 | 53,482 | 71,913 | 89,272 | 109,032 |
| STL and LTL Debt Service | 34,083 | 39,488 | 42,200 | 42,165 | 42,134 | 42,120 | 42,120 |
| Total Debt Service for Debt Capacity (GO Bond + STL and LTL) | 289,915 | 315,583 | 335,320 | 351,478 | 369,878 | 387,224 | 406,984 |
| Total Revenues | 2,836,323 | 2,848,279 | 2,950,623 | 3,063,592 | 3,192,296 | 3,306,638 | 3,423,659 |

| ASSUMED INCREASE IN DEBT ISSUANCE | Total Increase/(Decrease) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Approved GO bond debt issuance | | 310,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 |
| Assumed GO bond debt issuance | | 320,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Increase/(Decrease) in GO bond debt issuance | (110,000) | 10,000 | (20,000) | (20,000) | (20,000) | (20,000) | (20,000) | (20,000) |

# DEBT CAPACITY ANALYSIS

**FY13-18 CAPITAL IMPROVEMENTS PROGRAM**
**DEBT CAPACITY ANALYSIS September 13, 2011**
**Scenario - Guidelines @ $295mn/year FY13-18**
**6 Yr. Total ($Mn.) $1,770.0 mn**
**FY13 Total ($Mn.) $295.0 mn**
**FY14 Total ($Mn.) $295.0 mn**

| | GUIDELINE | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|---|
| 1. GO Bond Guidelines ($000s) | | 320,000 | 295,000 | 295,000 | 295,000 | 295,000 | 295,000 | 295,000 |
| 2. GO Debt/Assessed Value | 1.5% | 1.56% | 1.63% | 1.66% | 1.68% | 1.65% | 1.62% | 1.59% |
| **3. Debt Service + LTL + Short-Term Leases/Revenues (GF)** | **10%** | **10.22%** | **11.08%** | **11.34%** | **11.44%** | **11.54%** | **11.65%** | **11.82%** |
| 4. $ Debt/Capita | | 2,675 | 2,782 | 2,878 | 2,916 | 2,983 | 3,041 | 3,088 |
| 5. $ Real Debt/Capita | **$2,000** | 2,675 | 2,709 | 2,721 | 2,671 | 2,643 | 2,600 | 2,549 |
| 6. Capita Debt/Capita Income | 3.5% | 3.60% | 3.55% | 3.50% | 3.44% | 3.39% | 3.33% | 3.25% |
| 7. Payout Ratio | 60% - 75% | 68.22% | 68.04% | 68.09% | 68.31% | 68.62% | 69.00% | 69.36% |
| 8. Total Debt Outstanding ($000s) | | 2,618,335 | 2,743,300 | 2,859,470 | 2,965,555 | 3,062,085 | 3,149,810 | 3,228,555 |
| 9. Real Debt Outstanding ($000s) | | 2,618,335 | 2,671,178 | 2,703,198 | 2,716,556 | 2,712,747 | 2,693,498 | 2,664,899 |
| 10. OP/PSP Growth Assumption | | | 0.3% | 3.5% | 3.8% | 4.1% | 3.6% | 3.6% |

(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 FY12 approved budget to FY13 budget for FY13 and budget to budget for FY14-18.

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| **DEBT SERVICE IMPACT** | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|
| Assumed Issue Size ($000) | 320,000 | 295,000 | 295,000 | 295,000 | 295,000 | 295,000 | 295,000 |
| GO Bond Debt Service ($000) | 255,831 | 275,970 | 292,494 | 308,200 | 326,156 | 343,053 | 362,563 |
| Dollar change in GO Bond debt service (year to year) | 19,690 | 20,139 | 16,525 | 15,706 | 17,956 | 16,897 | 19,510 |
| Percentage change in GO Bond debt service (year to year) | 8.34% | 7.87% | 5.99% | 5.37% | 5.83% | 5.18% | 5.69% |
| Dollar change in GO Bond debt service from the base (FY12) | | 20,139 | 36,663 | 52,369 | 70,325 | 87,222 | 106,732 |
| STL and LTL Debt Service | 34,083 | 39,488 | 42,200 | 42,165 | 42,134 | 42,120 | 42,120 |
| Total Debt Service for Debt Capacity (GO Bond + STL and LTL) | 289,915 | 315,458 | 334,695 | 350,366 | 368,290 | 385,174 | 404,684 |
| Total Revenues | 2,836,323 | 2,848,279 | 2,950,623 | 3,063,592 | 3,192,296 | 3,306,638 | 3,423,659 |

| **ASSUMED INCREASE IN DEBT ISSUANCE** | **Total Increase/(Decrease)** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Approved GO bond debt issuance | | 310,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 |
| Assumed GO bond debt issuance | | 320,000 | 295,000 | 295,000 | 295,000 | 295,000 | 295,000 | 295,000 |
| Increase/(Decrease) in GO bond debt issuance | (140,000) | 10,000 | (25,000) | (25,000) | (25,000) | (25,000) | (25,000) | (25,000) |

# DEBT CAPACITY ANALYSIS

**FY13-18 CAPITAL IMPROVEMENTS PROGRAM**
**DEBT CAPACITY ANALYSIS September 13, 2011**
**Scenario - Guidelines @ $290mn/year FY13-18**
**6 Yr. Total ($Mn.) $1,740.0 mn**
**FY13 Total ($Mn.) $290.0 mn**
**FY14 Total ($Mn.) $290.0 mn**

| | GUIDELINE | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|---|
| 1. GO Bond Guidelines ($000s) | | 320,000 | 290,000 | 290,000 | 290,000 | 290,000 | 290,000 | 290,000 |
| 2. GO Debt/Assessed Value | 1.5% | 1.56% | 1.63% | 1.65% | 1.68% | 1.64% | 1.61% | 1.58% |
| **3. Debt Service + LTL + Short-Term Leases/Revenues (GF)** | **10%** | **10.22%** | **11.07%** | **11.32%** | **11.40%** | **11.49%** | **11.59%** | **11.75%** |
| 4. $ Debt/Capita | | 2,675 | 2,777 | 2,868 | 2,902 | 2,965 | 3,019 | 3,063 |
| 5. $ Real Debt/Capita | $2,000 | 2,675 | 2,704 | 2,712 | 2,658 | 2,627 | 2,582 | 2,528 |
| 6. Capita Debt/Capita Income | 3.5% | 3.60% | 3.55% | 3.48% | 3.43% | 3.37% | 3.30% | 3.22% |
| 7. Payout Ratio | 60% - 75% | 68.22% | 68.04% | 68.09% | 68.31% | 68.62% | 69.00% | 69.36% |
| 8. Total Debt Outstanding ($000s) | | 2,618,335 | 2,738,300 | 2,849,720 | 2,951,305 | 3,043,585 | 3,127,310 | 3,202,305 |
| 9. Real Debt Outstanding ($000s) | | 2,618,335 | 2,666,310 | 2,693,981 | 2,703,502 | 2,696,358 | 2,674,258 | 2,643,232 |
| 10. OP/PSP Growth Assumption | | | 0.3% | 3.5% | 3.8% | 4.1% | 3.6% | 3.6% |

(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 FY12 approved budget to FY13 budget for FY13 and budget to budget for FY14-18.

| **DEBT SERVICE IMPACT** | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|---|
| Assumed Issue Size ($000) | 320,000 | 290,000 | 290,000 | 290,000 | 290,000 | 290,000 | 290,000 |
| GO Bond Debt Service ($000) | 255,831 | 275,845 | 291,869 | 307,088 | 324,569 | 341,003 | 360,263 |
| Dollar change in GO Bond debt service (year to year) | 19,690 | 20,014 | 16,025 | 15,219 | 17,481 | 16,434 | 19,260 |
| Percentage change in GO Bond debt service (year to year) | 8.34% | 7.82% | 5.81% | 5.21% | 5.69% | 5.06% | 5.65% |
| Dollar change in GO Bond debt service from the base (FY12) | | 20,014 | 36,038 | 51,257 | 68,738 | 85,172 | 104,432 |
| STL and LTL Debt Service | 34,083 | 39,488 | 42,200 | 42,165 | 42,134 | 42,120 | 42,120 |
| Total Debt Service for Debt Capacity (GO Bond + STL and LTL) | 289,915 | 315,333 | 334,070 | 349,253 | 366,703 | 383,124 | 402,384 |
| Total Revenues | 2,836,323 | 2,848,279 | 2,950,623 | 3,063,592 | 3,192,296 | 3,306,638 | 3,423,659 |

| **ASSUMED INCREASE IN DEBT ISSUANCE** | **Total Increase/(Decrease)** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Approved GO bond debt issuance | | 310,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 |
| Assumed GO bond debt issuance | | 320,000 | 290,000 | 290,000 | 290,000 | 290,000 | 290,000 | 290,000 |
| Increase/(Decrease) in GO bond debt issuance | (170,000) | 10,000 | (30,000) | (30,000) | (30,000) | (30,000) | (30,000) | (30,000) |

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**COUNTY EXECUTIVE TESTIMONY**

**SPENDING AFFORDABILITY**

**FY013-18 CAPITAL IMPROVEMENTS PROGRAM**

**September 20, 2011**

Good afternoon. I am Jennifer Hughes, and I am here to testify on behalf of County Executive Isiah Leggett to present his recommendations on Spending Affordability Guidelines for the FY013-18 period.

The County Executive recommends that the Council adopt Spending Affordability Guidelines for County bonds as displayed in the attached Debt Capacity Analysis scenario, with $295.0 million in bonds planned for issue in each year of the FY13-18 period, for a total of $1.77 billion for the six-year period. This represents a decrease of $140 million or approximately 7.3 percent from our currently approved spending guidelines.

Compared to the previously approved bond guidelines, the County Executive's recommended bond guidelines will reduce debt service by $39.0 million over the six-year period. These funds will be needed in order to achieve priorities which the Executive shares with Council including maintaining our AAA bond rating, safety net services, public safety operations, and infrastructure maintenance, or possibly funding future employee raises.

Last year, in response to the faltering economy and concerns raised by the bond rating agencies, the County Council and the Executive worked together to restructure the County's finances. A key component of that restructuring was an acknowledgement that debt service reductions were necessary to provide funding for vital operating expenses and to maintain fiscal flexibility should additional revenue shortfalls or unanticipated expenditures occur. Now, when it appears that economic recovery will take longer than anticipated, that need to reduce debt service costs seems even more compelling.

Despite the recommended reduction in bond issuance, we will still exceed some of our debt affordability indicators. For this reason, the Executive would encourage you to resist the urge to increase the bond issues beyond the recommended levels. It will take some time to bring all of these indicators to the target levels, and we must start now to achieve that goal in an orderly manner.

In summary, the County Executive recommends that we issue $295 million annually in support of our capital investment requirements. He recommends against higher levels at this time because of the constraints that higher debt service levels will place on future operating budgets.

For Park and Planning bonds, the Executive recommends $6.0 million annually and $36 million for the six-year period. This recommendation is consistent with the request from the Maryland National Capital Park and Planning Commission and will protect the capital investment in our parks and extend the current debt management plan.

Thank you for your consideration of the County Executive's views. Executive branch staff will be available to assist you in Council worksessions.

Attachment

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
*County Executive*

MEMORANDUM

September 19, 2011

TO: Valerie Ervin, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Spending Affordability, FY13-18 Capital Improvements Program

I recommend that the Council adopt Spending Affordability Guidelines for County bonds as displayed in the attached Debt Capacity scenario, with $295.0 million in bonds planned for issue in FY13-FY18, for a total of $1.77 billion for the six-year period. This represents a decrease of $140 million or approximately 7.3 percent from our currently approved spending guidelines for the six year period.

Last year, in response to the faltering economy and concerns raised by the bond rating agencies, we worked together to restructure our County's finances. A key component of that restructuring was an acknowledgement that debt service reductions were necessary to provide funding for vital operating expenses and to maintain fiscal flexibility should additional revenue shortfalls or unanticipated expenditures occur. Now, when it appears that economic recovery will take longer than anticipated, that need to reduce debt service costs seems even more compelling. We must consider what will be necessary in order to move forward with our shared priorities - maintaining our AAA bond rating, safety net services, public safety operations, and infrastructure maintenance, or possibly funding future employee raises.

Compared to the prior approved bond guidelines, my recommendation for reducing the annual bond issue will result in significantly reduced debt service expenditures over the next six years. However, we will still exceed some of our debt affordability indicators. For this reason, I would encourage you to resist the urge to increase the bond issues beyond the recommended levels. It will take some time to bring all of these indicators to the target levels, and we must start now to achieve that goal in an orderly manner.

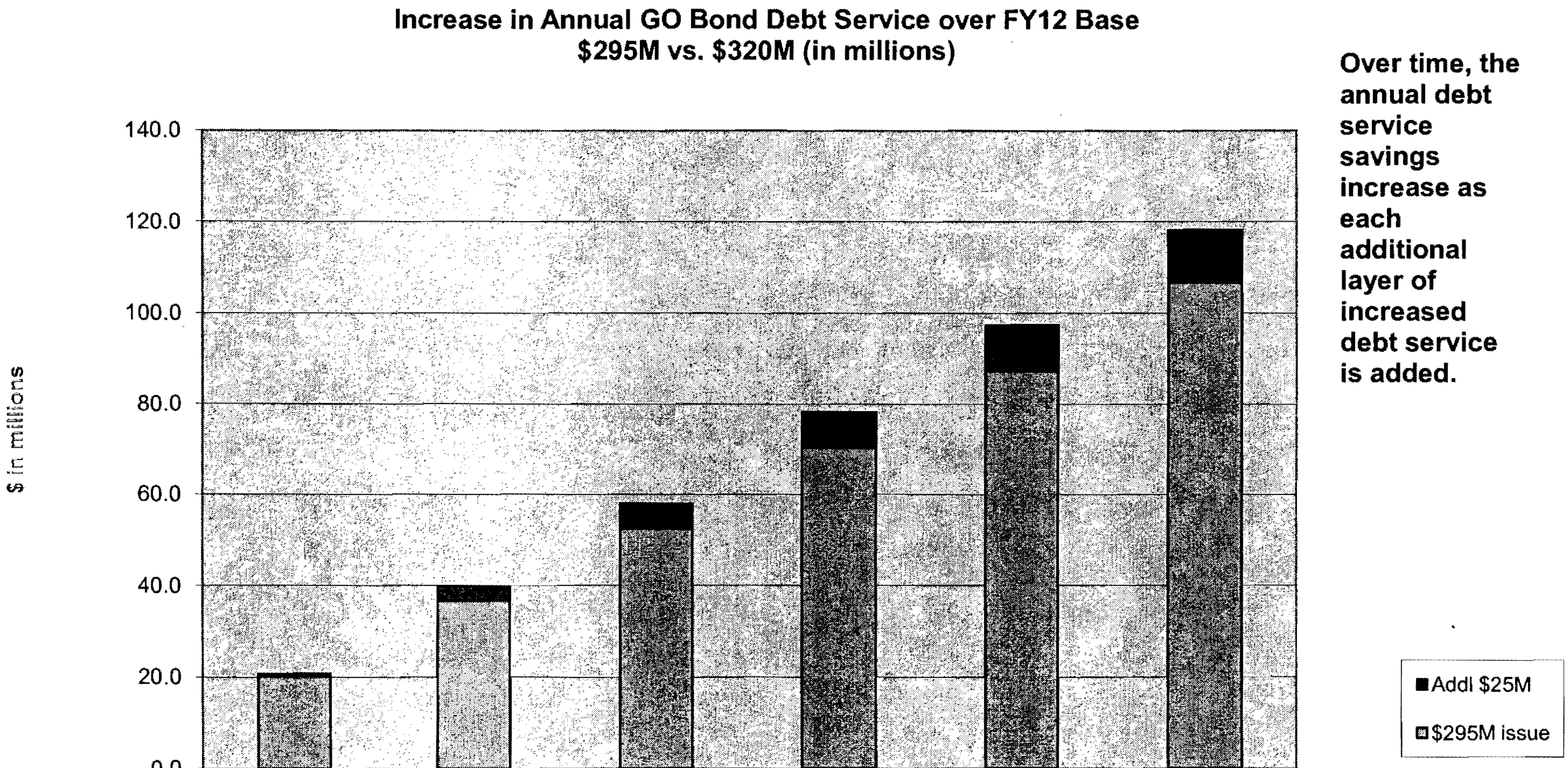
The Maryland-National Capital Park and Planning Commission (M-NCPPC) has requested Spending Affordability Guidelines for Park and Planning bonds at $6.0 million in FY13-18, for a total of $36.0 million for the six-year period. This represents a decrease of $1.5 million or 4.0 percent over the currently approved spending guidelines. M-NCPPC is requesting this decrease because of the uncertainty of the Parks' operating budget, the funding source for bond debt service. I concur with the M-NCPPC request in order to preserve a manageable debt service level in the Park Fund. This recommendation is consistent with protecting the capital investment in our parks and extending the current debt management plan.

Thank you for your consideration. Executive branch staff will be available to assist you in Council worksessions.

IL:mcb

Attachment

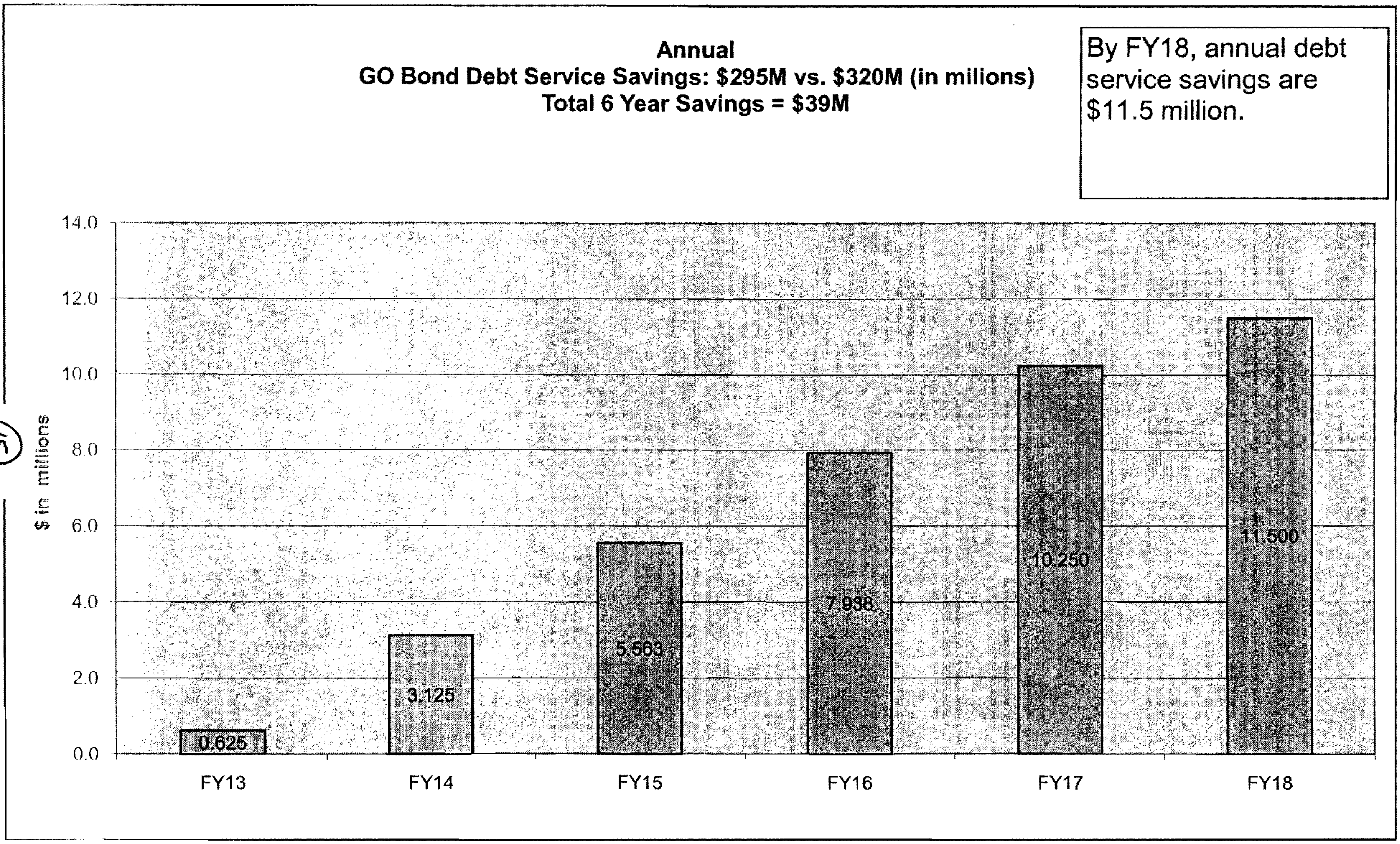
c: Timothy L. Firestine, Chief Administrative Officer
Joseph F. Beach, Director, Department of Finance
Kathleen Boucher, Assistant Chief Administrative Officer
Jennifer A. Hughes, Director, Office of Management and Budget
Melanie Wenger, Director, Office of Intergovernmental Relations
Francoise Carrier, Chairman, Montgomery County Planning Board




| | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|
| Addl $25M | 0.625 | 3.125 | 5.563 | 7.938 | 10.250 | 11.500 |
| $295M issue | 20.139 | 36.663 | 52.369 | 70.325 | 87.222 | 106.732 |

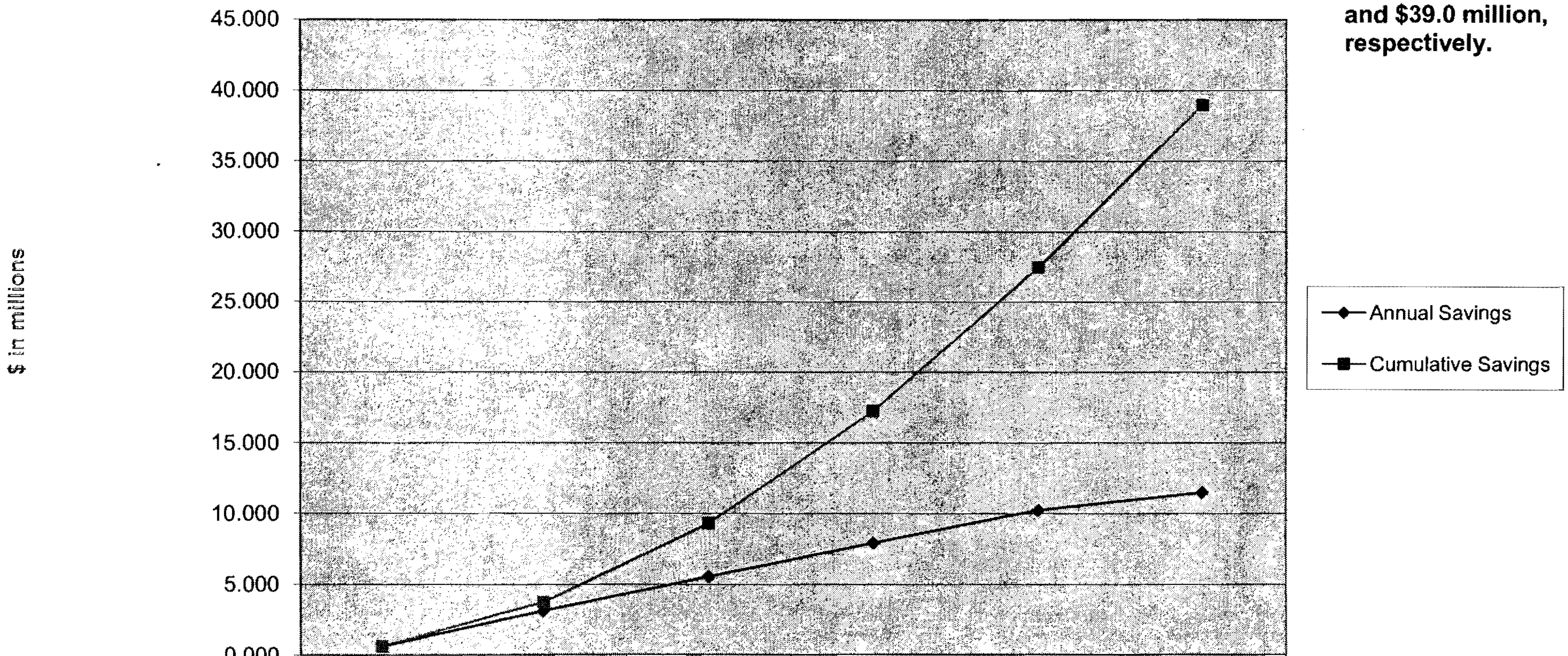
**Over time, the annual debt service savings increase as each additional layer of increased debt service is added.**

(14)


Annual
GO Bond Debt Service Savings: $295M vs. $320M (in milions)
Total 6 Year Savings = $39M
By FY18, annual debt service savings are $11.5 million.
$ in millions
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
0.625
3.125
5.563
7.938
10.250
11.500
FY13
FY14
FY15
FY16
FY17
FY18

**Annual & Cumulative GO Bond Debt Service Savings (in millions): $295M vs. $320M**

**By FY18, annual and cumulative savings are $11.5 and $39.0 million, respectively.**




| | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|
| Annual Savings | 0.625 | 3.125 | 5.563 | 7.938 | 10.250 | 11.500 |
| Cumulative Savings | 0.625 | 3.750 | 9.313 | 17.251 | 27.501 | 39.001 |

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**Cumulative Impact of Debt Service Increases:**
**$295M vs. $320M**

$295M issue 6-year impact = $373M
$320M issue 6-year impact = $412M


| | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|---|
| Addl $25M | 0.625 | 3.750 | 9.313 | 17.251 | 27.501 | 39.001 |
| $295M | 20.139 | 56.802 | 109.171 | 179.496 | 266.718 | 373.450 |

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Board of Education — Montgomery County Maryland

# MONTGOMERY COUNTY BOARD OF EDUCATION

850 Hungerford Drive ◆ Rockville, Maryland 20850

## Testimony before the County Council on the Spending Affordability Guidelines for the FY 2013–2018 Capital Improvements Program

**September 20, 2011**

Good afternoon, Ms. Ervin and members of the County Council. I am Christopher Barclay, president of the Board of Education. Thank you for the opportunity to provide testimony as the Council considers setting Spending Affordability Guidelines (SAG) for the Fiscal Year (FY) 2013 Capital Budget and the FY 2013–2018 Capital Improvements Program (CIP).

I would like to thank the County Council for its ongoing support of our capital projects. The funding you approved for our FY 2012 Capital Budget and Amendments to the FY 2011–2016 CIP will allow Montgomery County Public Schools (MCPS) to address capacity issues, keep our modernization schedule on track, and continue our countywide programs to maintain the school system's infrastructure and address safety concerns. In order to fund all of these capital projects, we depend on several critical funding sources. As you know, the most important of these revenue sources is the General Obligation bonds (GO bonds), and setting the SAG for the level of debt for Montgomery County is the critical first step.

We continue to believe that now is an excellent time to address both our capacity needs and our aging school facilities. MCPS continues to experience significantly lower construction prices. This is a win-win for the school system and the taxpayers—we get advantageous funding that enables us to address infrastructure needs and taxpayers save money while getting an excellent return on their investment. We are paying 30 percent less today than we were a few years ago when construction prices were more than $280 per square foot. In just three or four years, we may be approaching the $280 range again. Now is the time to leverage current market conditions to fund our capital projects.

We understand that SAG is developed based on what is deemed affordable, not what is deemed necessary or even desirable. The task you face to determine what is affordable this year will be much more difficult because of the economic outlook and the fiscal situation that Montgomery County is facing. However, the Board of Education does not believe that we can afford to let our overcrowding go unaddressed or our school facilities deteriorate, anymore than we can afford to lose our AAA bond rating.

The Board of Education encourages the County Council to increase SAG or at least maintain the guidelines at the current level. Without such action, a number of projects that are vital to address our enrollment growth and our aging facilities will not be able to be funded.



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For the 2011–2012 school year, MCPS will experience the fourth straight year of significant enrollment growth. Enrollment is expected to reach approximately 146,400 students, a one-year increase of more than 2,300 students. Since the 2007–2008 school year, enrollment has increased by more than 8,600 students. Projections indicate enrollment will continue to increase, with about 155,000 students projected by 2017. The greatest enrollment growth is expected to occur at the elementary school level, where 90 percent of our 350 relocatable classrooms are in use. Substantial increases in middle school and high school enrollments soon will follow. The enrollment growth that has occurred—and will continue for the foreseeable future—underscores the importance of our CIP program to accommodate the rapid influx of students.

Our CIP also must address our older schools, many of which are reaching a point at which a significant investment in capital maintenance is required to address aging infrastructure needs. In the past, the modernization program has been slowed or deferred to allow funding to be targeted for capacity and other priorities. While this approach was necessary at the time, the capital needs of our older schools and our aging infrastructure must be addressed to ensure we can provide the instructional space necessary to deliver our educational programs.

The Board of Education urges you to consider all of these issues as part of your deliberations in setting SAG for the FY 2013 Capital Budget and the FY 2013–2018 CIP. The Board of Education respects the difficult task that confronts the County Council. We urge you consider what is affordable in the context of what we cannot afford to let happen—to allow our schools to become more overcrowded or to allow our school infrastructure needs to go unaddressed. We are confident that we can continue to work together for our children to fund these critical needs.

Thank you for the opportunity to comment on this important matter.

## TESTIMONY

## Spending Affordability Guidelines (SAG) for the FY13 Capital Budget and FY13-18 Capital Improvements Program

Françoise M. Carrier
Chair of the Montgomery County Planning Board

Good afternoon. My name is Françoise M. Carrier, Chair of the Montgomery County Planning Board.

I am here today to testify in support of the Government Operations & Fiscal Policy Committee's recommendation to set the Spending Affordability Guideline for Park and Planning Bonds at $6 million for FY13, $6 million for FY14, and $36 million for the FY13-18 period. This funding limit averages $6 million per year, which remains unchanged from the annual limit approved for the FY11-16 CIP with the exception of the FY11 level, which was set higher to accommodate funding for the now delayed urban park at Germantown Town Center. While the Commission has several local park projects that require funding for detailed design and construction in the FY13-18 CIP, we believe that it would not be fiscally responsible at this time to request an increase in the Park and Planning SAG due to the debt service that would be associated with these bonds. This debt service is programmed in the Park Fund, which has had to sustain substantial cuts over the past couple of years. In the past, the Commission was able to leverage State Program Open Space funds against Park and Planning bonds; however, more recently, the lack of POS funds has significantly affected the Commission's ability to program new local park projects. The lack of POS funds and no increase in the Park and Planning SAG will present some challenges in programming local park projects in the FY13-18 CIP, but the Commission is prepared to face these challenges by placing higher priority on projects that will have the greatest beneficial impact to the public.

I'm also here to testify regarding the guidelines for County General Obligation (GO) bonds. I understand that the GO Committee has recommended a range for GO bonds between $290-320 million/year, reflected in five different scenarios. These bonds fund many types of County projects, including non-local park projects that are equally as important as local park projects. The County Executive has asked each Department and Agency to reduce its GO bonds by 5.5 percent through FY16, based on the FY11-16 Amended CIP. For the Commission, that amounts to approximately $3.4 million, a significant decrease considering the mandates and other necessary increases that the Parks Department has to sustain. The 2010 Americans for Disabilities Act is one example of an unfunded mandate for which the Commission must include funding in its CIP. To reduce the impact to the County's and the Commission's *existing* CIP, I support the least stringent of the five scenarios, labeled "Scenario #1," produced by the County Office of Management and Budget at the request of Council staff. This scenario would increase the existing GO Bond SAG by only $10 million over a six year period. The remaining scenarios would actually decrease the funding limit by a range of $50 million to $170 million, creating major impacts on the County's CIP. Council staff has stated that within this range of scenarios there is very little difference in the result for the debt service indicators, meaning that the risk between issuing $10 million in additional debt versus issuing $170 million in less debt is minimal and inconsequential. It makes sense to at least maintain the same funding level or a slightly higher one so that the County can continue taking advantage of this period of low construction costs.

I ask the Council to consider a six-year funding limit of $36 million for Park and Planning bonds and a six-year funding limit for the General Obligation bond SAG of $1.92 billion, based on "Scenario #1" produced by the Office of Management and Budget. Thank you for your time and I look forward to working with the Council throughout the development of the FY13-18 CIP.