GO COMMITTEE #1
September 26, 2013

MEMORANDUM

September 24, 2013

TO: Government Operations & Fiscal Policy Committee

GO

FROM: Glenn Orlin, Deputy Council Administrator

SUBJECT: Spending Affordability Guidelines for the FY15 Capital Budget and the FY15-20 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 FY15-20 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 $275-325 million/year, and between $1.65-1.95 billion for the 6-year period.
- For P&P bonds: $6-7 million/year, and between $36-42 million for the 6-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 1 in 2013. 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 50.5% of the $4.39 billion Approved FY13-18 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 1 are to specify:

1) The total general obligation debt issued by the County that may be planned for expenditure in FY15.
2) The total general obligation debt issued by the County that may be planned for expenditure in FY15.
3) The total general obligation debt issued by the County that may be planned for the 6-year period of FY15-20.
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 FY15.
5) The Park and Planning bond debt issued by M-NCPPC that may be planned for expenditure in FY15.
6) The Park and Planning bond debt issued by M-NCPPC that may be planned for the 6-year period of FY15-20.

II. Amending the resolution which set the guidelines

No later than the first Tuesday in February (February 4 in 2014) 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 FY15 guideline at $300 million, the most it could raise it to in February 2014 is $330.0 million, and if it did so, the most it could raise it to in February 2015 is $363 million ($33 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%)
FY13-18	$1,770.0 million (-7.3%)
FY13-18 amended	$1,770.0 million (no change)

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 $2,100 in FY14 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 from the Department of Finance and reflected in the latest Fiscal Plan. The County's assessable base is assumed to grow at a slightly slower pace, as is personal income (until FY18 for the latter). The projected growth of operating revenue is much lower in FY15 and then fluctuates higher and lower in the succeeding years. Anticipated inflation is a bit lower in FYs15-16 but marginally higher in FYs17-18.

At the request of Council staff, the Office of Management and Budget produced six 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 $1,650 million to a high of $1,950 million. Debt capacity analyses for these scenarios are on ©5-10.

Spending Affordability Scenarios ($ millions)

Scenario	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	6-yr Total	Change (%)
Existing	295	295	295	295	295	295	-	-	1,770	-
#1 (©5)	-	-	275	275	275	275	275	275	1,650	-120 (-6.8%)
#2 (©6)	-	-	285	285	285	285	285	285	1,710	-60 (-3.4%)
#3 (©7)	-	-	295	295	295	295	295	295	1,770	0 (none)
#4 (©8)	-	-	305	305	305	305	305	305	1,830	+60 (+3.4%)
#5 (©9)			315	315	315	315	315	315	1,890	+120 (+6.8%)
#6 (©10)			325	325	325	325	325	325	1,950	+180 (+10.2%)

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	#6
FY15 Guideline ($ millions)	275	285	295	305	315	325
FY16 Guideline ($ millions)	275	285	295	305	315	325
FY15-20 Guideline ($ millions)	1,650	1,710	1,770	1,830	1,890	1,950
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	0
Number if years that debt service (plus leases) is not greater than 10% of the General Fund budget	0	0	0	0	0	0
Number of years that real debt/capita doesn't exceed $1,000 (in FY91 dollars) by a "significant" amount ($2,100 in FY14 dollars)	0	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	6
Number of years that debt/income ratio doesn't exceed 3.5%	5	5	4	4	4	2
Total Score	**11**	**11**	**10**	**10**	**10**	**8**

These scores are very poor, especially compared to experience prior to the recession. 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. The debt/income ratio normally does not exceed 3.5% but, depending on the scenario, the ratio hovers above 3.5% for 1-2 years before dipping below later, except for Scenario #6 that exceeds 3.5% for 4 years. 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, except for Scenarios #1 and #2 under which it drops to 11% or lower in FYs19-20.

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 24 public hearing comments. The Executive is recommending G.O. bond guidelines and targets of $295 million annually through the FY15-20 period (Scenario #3, ©7). He expresses concern about the rising proportion of operating budgets that is consumed by debt service, crowding out the ability to maintain or expand operating programs (©11-14).

The Board of Education's (BOE) testimony (©15-16) acknowledges 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 recommends guidelines and targets at least 10% higher than the current guidelines and targets, which is commensurate with $325 million annually (Scenario #6, ©10).

The Planning Board does not have a specific recommendation about the G.O. bond guidelines and targets, but it notes that it likely will not cut its CIP request as deeply as requested by the Executive (©17-18). The Council, of course, will review all of the agencies' requests, as well as the Executive's recommendations next winter and spring.

Analysis. As noted above, Scenarios #1 and #2 perform slightly better than Scenarios #3, 4, and 5, and much better than Scenario #6. Three of the indicators produce worse results than the $295 million/year level the Council approved last winter, and only one indicator fares better:

- For the debt/income indicator, all the scenarios produce higher (worse) ratios in FYs15-18 than what was projected with last year's guidelines, with the exception of Scenarios #1 and #2 in FY18:

Debt/Total Income	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
FY13-18: $295M/year	*3.55%*	*3.51%*	*3.45%*	*3.40%*	*3.38%*	*3.35%*		
Sc. #1: $275M/year			3.59%	3.48%	3.38%	3.31%	3.22%	3.27%
Sc. #2: $285M/year			3.60%	3.50%	3.41%	3.34%	3.27%	3.32%
Sc. #3: $295M/year			3.62%	3.52%	3.44%	3.38%	3.31%	3.38%
Sc. #4: $305M/year			3.63%	3.54%	3.47%	3.42%	3.36%	3.43%
Sc. #5: $315M/year			3.64%	3.57%	3.50%	3.46%	3.40%	3.48%
Sc. #6: $325M/year			3.65%	3.59%	3.54%	3.50%	3.45%	3.53%

- For the debt/assessed value indicator, all the scenarios produce higher (worse) ratios in FYs15-18 than what was projected with last year's guidelines:

Debt/Assessed Value	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
FY13-18: $295M/year	*1.64%*	*1.67%*	*1.70%*	*1.68%*	*1.64%*	*1.58%*		
Sc. #1: $275M/year			1.75%	1.73%	1.70%	1.66%	1.62%	1.64%
Sc. #2: $285M/year			1.75%	1.74%	1.71%	1.68%	1.64%	1.67%
Sc. #3: $295M/year			1.76%	1.75%	1.73%	1.70%	1.67%	1.70%
Sc. #4: $305M/year			1.77%	1.76%	1.74%	1.72%	1.69%	1.72%
Sc. #5: $315M/year			1.77%	1.77%	1.76%	1.74%	1.71%	1.75%
Sc. #6: $325M/year			1.78%	1.79%	1.77%	1.76%	1.73%	1.78%

- For the real debt/capita indicator, all the scenarios produce higher (worse) ratios for FYs15-18 than what was projected with last year's guidelines:

Real Debt/Capita	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
FY13-18: $295M/year	*$2,655*	*$2,673*	*$2,672*	*$2,650*	*$2,611*	*$2,556*		
Sc. #1: $275M/year			$2,842	$2,808	$2,754	$2,690	$2,612	$2,555
Sc. #2: $285M/year			$2,852	$2,826	$2,779	$2,721	$2,649	$2,596
Sc. #3: $295M/year			$2,861	$2,844	$2,805	$2,753	$2,685	$2,637
Sc. #4: $305M/year			$2,871	$2,862	$2,830	$2,784	$2,722	$2,678
Sc. #5: $315M/year			$2,881	$2,880	$2,855	$2,816	$2,759	$2,719
Sc. #6: $325M/year			$2,890	$2,898	$2,881	$2,847	$2,795	$2,761

- For the debt+leases/operating revenue indicator, all the indicators produce better (lower) ratios for FYs15-18 than what was projected with last year's guidelines:

Debt/Operating Rev.	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
FY13-18: $295M/year	*10.90%*	*11.24%*	*11.45%*	*11.66%*	*11.75%*	*11.93%*		
Sc. #1: $275M/year			11.36%	11.56%	11.52%	11.15%	10.86%	10.89%
Sc. #2: $285M/year			11.36%	11.57%	11.56%	11.22%	10.95%	11.00%
Sc. #3: $295M/year			11.36%	11.58%	11.60%	11.28%	11.04%	11.11%
Sc. #4: $305M/year			11.36%	11.59%	11.64%	11.35%	11.13%	11.22%
Sc. #5: $315M/year			11.36%	11.59%	11.68%	11.41%	11.22%	11.34%
Sc. #6: $325M/year			11.36%	11.60%	11.71%	11.48%	11.31%	11.45%

- For the fifth indicator—the payout ratio—all scenarios fall well within the 60-75% range.

For Council staff, these results suggest that the guidelines should not be increased above $295 million/year; in fact, a strong argument can be made for ratcheting them down further.

Council staff recommendation: Approve guidelines and targets of $285 million/year (Scenario #2, ©6). The primary concern is weaker growth in total County income and assessable base; until the trend is reversed, the ability to afford substantial debt is compromised. Recall, however, that the Council will have the opportunity to amend these guidelines by a majority vote next February, should economic conditions—including projections of income and assessable base—change.

IV. Determining affordability, Park and Planning bonds

The guidelines and targets adopted for the FY13-18 CIP and for the FY13-18 CIP as amended were $6.0 million annually in FY13 and FY14, with a 6-year guideline of $36.0 million. The 6-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)
FY13-18	$36.00 million (-4.0%)
FY13-18 amended	$36.00 million (no change)

Both the Executive and the Planning Board recommend setting the FY15 and FY16 guidelines at $6 million. The Executive recommends a 6-year guideline of $36 million (i.e., $6 million each year), while the Planning Board would be satisfied with a guideline anywhere in the $36-42 million range. The Planning Board is particularly concerned about the draw of debt service on the Park Fund.

Council staff recommendation: Concur with the Executive—set the guidelines and targets for Park & Planning bonds at $6 million for FY15 and for FY16, and $36 million for the 6-year period.

f:\orlin\fy14\cipgen\sag\130926go.doc

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.)

***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.

(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.)

DEBT CAPACITY ANALYSIS
KEY ASSUMPTIONS AND INPUTS
AMENDED FY13-18 CIP (January, 2013) VS. FY15-20 CIP (September, 2013)

		Current Year FY14	Year 1 FY 15	Year 2 FY 16	Year 3 FY 17	Year 4 FY 18	Year 5 FY 19	Year 6 FY 20
1	INTEREST RATE ON BONDS							
	FY13-18 CIP - January 2013	5.00%	5.00%	5.00%	5.00%	5.00%		
	FY15-20 CIP -September, 2013		5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
2	OPERATING GROWTH							
	FY13-18 CIP - January 2013	2.10%	2.80%	2.80%	3.90%	3.70%		
	FY15-20 CIP -September, 2013		1.00%	4.20%	3.60%	3.90%	3.50%	3.50%
3	POPULATION							
	FY13-18 CIP - January 2013	1,008,880	1,015,400	1,025,160	1,035,020	1,044,970		
	FY15-20 CIP -September, 2013		1,015,440	1,025,250	1,035,150	1,045,150	1,055,250	1,055,250
4	FY CPI INFLATION							
	FY13-18 CIP - January 2013	2.29%	2.57%	2.86%	3.14%	3.42%		
	FY15-20 CIP -September, 2013		2.40%	2.73%	3.15%	3.45%	3.73%	3.73%
5	ASSESSABLE BASE-COUNTYWIDE							
	FY13-18 CIP - January 2013	164,640,000	169,475,000	176,255,000	184,835,000	194,582,000		
	FY15-20 CIP -September, 2013		169,017,000	175,038,000	182,475,000	190,064,000	198,047,000	198,047,000
6	TOTAL PERSONAL INCOME							
	FY13-18 CIP - January 2013	78,650,000	83,370,000	88,120,000	91,810,000	94,730,000		
	FY15-20 CIP -September, 2013		82,290,000	87,120,000	91,510,000	95,440,000	99,550,000	99,550,000

4

S:\CIP\FISCAL\FY15-20 Full CIP\Debt Capacity 8 26 2013\January vs September Update Assumptions Comparison for Council8 26 2013.xls

SCENARIO #1

DEBT CAPACITY ANALYSIS

FY15-20 CAPITAL IMPROVEMENTS PROGRAM
DEBT CAPACITY ANALYSIS September 5 2013
Scenario - Guidelines @ **$275mn/year FY15-20**
6 Yr. Total ($Mn.) $1,650.0 mn
FY15 Total ($Mn.) $275.0 mn
FY16 Total ($Mn.) $275.0 mn

	GUIDELINE	FY14	FY15	FY16	FY17	FY18	FY19	FY20
1. GO Bond Guidelines ($000s)		295,000	275,000	275,000	275,000	275,000	275,000	275,000
2. GO Debt/Assessed Value	1.5%	1.76%	1.75%	1.73%	1.70%	1.66%	1.62%	1.64%
3. Debt Service + LTL + Short-Term Leases/Revenues (GF)	10%	**10.31%**	**11.36%**	**11.56%**	**11.52%**	**11.15%**	**10.86%**	**10.89%**
4. $ Debt/Capita		2,848	2,910	2,954	2,988	3,019	3,042	3,086
5. $ Real Debt/Capita	**$2,000**	2,848	2,842	2,808	2,754	2,690	2,612	2,555
6. Capita Debt/Capita Income	**3.5%**	3.71%	3.59%	3.48%	3.38%	3.31%	3.22%	3.27%
7. Payout Ratio	**60% - 75%**	68.62%	69.04%	69.48%	69.94%	70.40%	71.26%	72.05%
8. Total Debt Outstanding ($000s)		2,873,315	2,955,315	3,028,245	3,093,255	3,155,460	3,209,640	3,255,980
9. Real Debt Outstanding ($000s)		2,873,315	2,886,050	2,878,682	2,850,685	2,811,031	2,756,481	2,695,728
10. OP/PSP Growth Assumption			1.0%	4.2%	3.6%	3.9%	3.5%	3.5%

(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 FY13 approved budget to FY14 budget for FY14 and budget to budget for FY15-18.

(4)

DEBT SERVICE IMPACT	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Assumed Issue Size ($000)	295,000	275,000	275,000	275,000	275,000	275,000	275,000
GO Bond Debt Service ($000)	277,885	307,935	324,969	339,436	347,844	361,132	375,633
Dollar change in GO Bond debt service (year to year)	15,235	30,051	17,034	14,466	8,409	13,288	14,501
Percentage change in GO Bond debt service (year to year)	5.80%	10.81%	5.53%	4.45%	2.48%	3.82%	4.02%
Dollar change in GO Bond debt service from the base (FY14)		30,051	47,085	61,551	69,960	83,248	97,748
STL and LTL Debt Service	33,004	38,170	42,078	39,872	33,415	22,376	22,376
Total Debt Service for Debt Capacity (GO Bond + STL and LTL)	310,888	346,105	367,047	379,308	381,259	383,509	398,009
Total Revenues	3,012,809	3,046,858	3,174,453	3,291,455	3,419,030	3,531,271	3,655,807

ASSUMED INCREASE IN DEBT ISSUANCE	**Total Increase/(Decrease)**							
Approved GO bond debt issuance		295,000	295,000	295,000	295,000	295,000	295,000	295,000
Assumed GO bond debt issuance		295,000	275,000	275,000	275,000	275,000	275,000	275,000
Increase/(Decrease) in GO bond debt issuance	(120,000)	0	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)

SCENARIO #2

DEBT CAPACITY ANALYSIS

FY15-20 CAPITAL IMPROVEMENTS PROGRAM
DEBT CAPACITY ANALYSIS September 5 2013
Scenario - Guidelines @ **$285mn/year FY15-20**
6 Yr. Total ($Mn.) $1710.0 mn
FY15 Total ($Mn.) $285.0 mn
FY16 Total ($Mn.) $285.0 mn

	GUIDELINE	FY14	FY15	FY16	FY17	FY18	FY19	FY20
1. GO Bond Guidelines ($000s)		295,000	285,000	285,000	285,000	285,000	285,000	285,000
2. GO Debt/Assessed Value	1.5%	1.76%	1.75%	1.74%	1.71%	1.68%	1.64%	1.67%
3. Debt Service + LTL + Short-Term Leases/Revenues (GF)	**10%**	**10.31%**	**11.36%**	**11.57%**	**11.56%**	**11.22%**	**10.95%**	**11.00%**
4. $ Debt/Capita		2,848	2,920	2,973	3,016	3,055	3,084	3,135
5. $ Real Debt/Capita	**$2,000**	2,848	2,852	2,826	2,779	2,721	2,649	2,596
6. Capita Debt/Capita Income	**3.5%**	3.71%	3.60%	3.50%	3.41%	3.34%	3.27%	3.32%
7. Payout Ratio	**60% - 75%**	68.62%	68.97%	69.34%	69.76%	70.18%	71.00%	71.77%
8. Total Debt Outstanding ($000s)		2,873,315	2,965,315	3,047,745	3,121,755	3,192,460	3,254,640	3,308,480
9. Real Debt Outstanding ($000s)		2,873,315	2,895,815	2,897,219	2,876,950	2,843,993	2,795,127	2,739,194
10. OP/PSP Growth Assumption			1.0%	4.2%	3.6%	3.9%	3.5%	3.5%

(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 FY14 approved budget to FY15 budget for FY15 and budget to budget for FY16-20.

DEBT SERVICE IMPACT	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Assumed Issue Size ($000)	295,000	285,000	285,000	285,000	285,000	285,000	285,000
GO Bond Debt Service ($000)	277,885	307,935	325,219	340,686	350,069	364,307	379,733
Dollar change in GO Bond debt service (year to year)	15,235	30,051	17,284	15,466	9,384	14,238	15,426
Percentage change in GO Bond debt service (year to year)	5.80%	10.81%	5.61%	4.76%	2.75%	4.07%	4.23%
Dollar change in GO Bond debt service from the base (FY14)		30,051	47,335	62,801	72,185	86,423	101,848
STL and LTL Debt Service	33,004	38,170	42,078	39,872	33,415	22,376	22,376
Total Debt Service for Debt Capacity (GO Bond + STL and LTL)	310,888	346,105	367,297	380,558	383,484	386,683	402,109
Total Revenues	3,012,809	3,046,858	3,174,453	3,291,455	3,419,030	3,531,271	3,655,807

ASSUMED INCREASE IN DEBT ISSUANCE	**Total Increase/(Decrease)**							
Approved GO bond debt issuance		295,000	295,000	295,000	295,000	295,000	295,000	295,000
Assumed GO bond debt issuance		295,000	285,000	285,000	285,000	285,000	285,000	285,000
Increase/(Decrease) in GO bond debt issuance	(60,000)	0	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)

S:\CIP\FISCAL\FY15-20 Full CIP\Debt Capacity\Debt Capacity 9 5 2013\Debt Capacity SAG 9 5 2013\285Mn\285M FY15-20 Debt Capacity 9 5 2013.xlsDisplay

SCENARIO #3

DEBT CAPACITY ANALYSIS

FY15-20 CAPITAL IMPROVEMENTS PROGRAM
DEBT CAPACITY ANALYSIS September 5 2013
Scenario - Guidelines @ **$295mn/year FY15-20**
6 Yr. Total ($Mn.) $1770.0 mn
FY15 Total ($Mn.) $295.0 mn
FY16 Total ($Mn.) $295.0 mn

	GUIDELINE	FY14	FY15	FY16	FY17	FY18	FY19	FY20
1. GO Bond Guidelines ($000s)		295,000	295,000	295,000	295,000	295,000	295,000	295,000
2. GO Debt/Assessed Value	1.5%	1.76%	1.76%	1.75%	1.73%	1.70%	1.67%	1.70%
3. Debt Service + LTL + Short-Term Leases/Revenues (GF)	**10%**	**10.31%**	**11.36%**	**11.58%**	**11.60%**	**11.28%**	**11.04%**	**11.11%**
4. $ Debt/Capita		2,848	2,930	2,992	3,043	3,090	3,127	3,185
5. $ Real Debt/Capita	$2,000	2,848	2,861	2,844	2,805	2,753	2,685	2,637
6. Capita Debt/Capita Income	3.5%	3.71%	3.62%	3.52%	3.44%	3.38%	3.31%	3.38%
7. Payout Ratio	60% - 75%	68.62%	68.89%	69.20%	69.57%	69.96%	70.76%	71.50%
8. Total Debt Outstanding ($000s)		2,873,315	2,975,315	3,067,245	3,150,255	3,229,460	3,299,640	3,360,980
9. Real Debt Outstanding ($000s)		2,873,315	2,905,581	2,915,756	2,903,215	2,876,954	2,833,774	2,782,660
10. OP/PSP Growth Assumption			1.0%	4.2%	3.6%	3.9%	3.5%	3.5%

(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 FY14 approved budget to FY15 budget for FY15 and budget to budget for FY16-20.

2

DEBT SERVICE IMPACT	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Assumed Issue Size ($000)	295,000	295,000	295,000	295,000	295,000	295,000	295,000
GO Bond Debt Service ($000)	277,885	307,935	325,469	341,936	352,294	367,482	383,833
Dollar change in GO Bond debt service (year to year)	15,235	30,051	17,534	16,466	10,359	15,188	16,351
Percentage change in GO Bond debt service (year to year)	5.80%	10.81%	5.69%	5.06%	3.03%	4.31%	4.45%
Dollar change in GO Bond debt service from the base (FY14)		30,051	47,585	64,051	74,410	89,598	105,948
STL and LTL Debt Service	33,004	38,170	42,078	39,872	33,415	22,376	22,376
Total Debt Service for Debt Capacity (GO Bond + STL and LTL)	310,888	346,105	367,547	381,808	385,709	389,858	406,209
Total Revenues	3,012,809	3,046,858	3,174,453	3,291,455	3,419,030	3,531,271	3,655,807

ASSUMED INCREASE IN DEBT ISSUANCE	Total Increase/(Decrease)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Approved GO bond debt issuance		295,000	295,000	295,000	295,000	295,000	295,000	295,000
Assumed GO bond debt issuance		295,000	295,000	295,000	295,000	295,000	295,000	295,000
Increase/(Decrease) in GO bond debt issuance	0	0	0	0	0	0	0	0

S:\CIP\FISCAL\FY15-20 Full CIP\Debt Capacity\Debt Capacity 9 5 2013\Debt Capacity SAG 9 5 2013\295Mn\295M FY15-20 Debt Capacity 9 5 2013.xlsDisplay

SCENARIO #4

DEBT CAPACITY ANALYSIS

FY15-20 CAPITAL IMPROVEMENTS PROGRAM
DEBT CAPACITY ANALYSIS September 5 2013
Scenario - Guidelines @ **$305mn/year FY15-20**
6 Yr. Total ($Mn.) $1,830.0 mn
FY15 Total ($Mn.) $305.0 mn
FY16 Total ($Mn.) $305.0 mn

	GUIDELINE	FY14	FY15	FY16	FY17	FY18	FY19	FY20
1. GO Bond Guidelines ($000s)		295,000	305,000	305,000	305,000	305,000	305,000	305,000
2. GO Debt/Assessed Value	1.5%	1.76%	1.77%	1.76%	1.74%	1.72%	1.69%	1.72%
3. Debt Service + LTL + Short-Term Leases/Revenues (GF)	**10%**	**10.31%**	**11.36%**	**11.59%**	**11.64%**	**11.35%**	**11.13%**	**11.22%**
4. $ Debt/Capita		2,848	2,940	3,011	3,071	3,125	3,170	3,235
5. $ Real Debt/Capita	$2,000	2,848	2,871	2,862	2,830	2,784	2,722	2,678
6. Capita Debt/Capita Income	3.5%	3.71%	3.63%	3.54%	3.47%	3.42%	3.36%	3.43%
7. Payout Ratio	60% - 75%	68.62%	68.81%	69.07%	69.39%	69.75%	70.52%	71.25%
8. Total Debt Outstanding ($000s)		2,873,315	2,985,315	3,086,745	3,178,755	3,266,460	3,344,640	3,413,480
9. Real Debt Outstanding ($000s)		2,873,315	2,915,347	2,934,293	2,929,480	2,909,915	2,872,421	2,826,127
10. OP/PSP Growth Assumption		2.6%	1.0%	4.2%	3.6%	3.9%	3.5%	3.5%

(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 FY13 approved budget to FY14 budget for FY14 and budget to budget for FY15-18.

8

DEBT SERVICE IMPACT	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Assumed Issue Size ($000)	295,000	305,000	305,000	305,000	305,000	305,000	305,000
GO Bond Debt Service ($000)	277,885	307,935	325,719	343,186	354,519	370,657	387,933
Dollar change in GO Bond debt service (year to year)	15,235	30,051	17,784	17,466	11,334	16,138	17,276
Percentage change in GO Bond debt service (year to year)	5.80%	10.81%	5.78%	5.36%	3.30%	4.55%	4.66%
Dollar change in GO Bond debt service from the base (FY12)		30,051	47,835	65,301	76,635	92,773	110,048
STL and LTL Debt Service	33,004	38,170	42,078	39,872	33,415	22,376	22,376
Total Debt Service for Debt Capacity (GO Bond + STL and LTL)	310,888	346,105	367,797	383,058	387,934	393,034	410,309
Total Revenues	3,012,809	3,046,858	3,174,453	3,291,455	3,419,030	3,531,271	3,655,807

ASSUMED INCREASE IN DEBT ISSUANCE	Total Increase/(Decrease)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Approved GO bond debt issuance		295,000	295,000	295,000	295,000	295,000	295,000	295,000
Assumed GO bond debt issuance		295,000	305,000	305,000	305,000	305,000	305,000	305,000
Increase/(Decrease) in GO bond debt issuance	60,000	0	10,000	10,000	10,000	10,000	10,000	10,000

SCENARIO #5

DEBT CAPACITY ANALYSIS

FY15-20 CAPITAL IMPROVEMENTS PROGRAM
DEBT CAPACITY ANALYSIS September 5 2013
Scenario - Guidelines @ **$315mn/year FY15-20**
6 Yr. Total ($Mn.) $1890.0 mn
FY15 Total ($Mn.) $315.0 mn
FY16 Total ($Mn.) $315.0 mn

	GUIDELINE	FY14	FY15	FY16	FY17	FY18	FY19	FY20
1. GO Bond Guidelines ($000s)		295,000	315,000	315,000	315,000	315,000	315,000	315,000
2. GO Debt/Assessed Value	1.5%	1.76%	1.77%	1.77%	1.76%	1.74%	1.71%	1.75%
3. Debt Service + LTL + Short-Term Leases/Revenues (GF)	10%	**10.31%**	**11.36%**	**11.59%**	**11.68%**	**11.41%**	**11.22%**	**11.34%**
4. $ Debt/Capita		2,848	2,950	3,030	3,098	3,161	3,212	3,285
5. $ Real Debt/Capita	$2,000	2,848	2,881	2,880	2,855	2,816	2,759	2,719
6. Capita Debt/Capita Income	3.5%	3.71%	3.64%	3.57%	3.50%	3.46%	3.40%	3.48%
7. Payout Ratio	60% - 75%	68.62%	68.74%	68.94%	69.22%	69.54%	70.28%	71.00%
8. Total Debt Outstanding ($000s)		2,873,315	2,995,315	3,106,245	3,207,255	3,303,460	3,389,640	3,465,980
9. Real Debt Outstanding ($000s)		2,873,315	2,925,112	2,952,830	2,955,745	2,942,877	2,911,067	2,869,593
10. OP/PSP Growth Assumption			1.0%	4.2%	3.6%	3.9%	3.5%	3.5%

(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 FY14 approved budget to FY15 budget for FY15 and budget to budget for FY16-20.

9

DEBT SERVICE IMPACT	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Assumed Issue Size ($000)	295,000	315,000	315,000	315,000	315,000	315,000	315,000
GO Bond Debt Service ($000)	277,885	307,935	325,969	344,436	356,744	373,832	392,033
Dollar change in GO Bond debt service (year to year)	15,235	30,051	18,034	18,466	12,309	17,088	18,201
Percentage change in GO Bond debt service (year to year)	5.80%	10.81%	5.86%	5.67%	3.57%	4.79%	4.87%
Dollar change in GO Bond debt service from the base (FY14)		30,051	48,085	66,551	78,860	95,948	114,148
STL and LTL Debt Service	33,004	38,170	42,078	39,872	33,415	22,376	22,376
Total Debt Service for Debt Capacity (GO Bond + STL and LTL)	310,888	346,105	368,047	384,308	390,159	396,208	414,409
Total Revenues	3,012,809	3,046,858	3,174,453	3,291,455	3,419,030	3,531,271	3,655,807

ASSUMED INCREASE IN DEBT ISSUANCE	**Total Increase/(Decrease)**							
Approved GO bond debt issuance		295,000	295,000	295,000	295,000	295,000	295,000	295,000
Assumed GO bond debt issuance		295,000	315,000	315,000	315,000	315,000	315,000	315,000
Increase/(Decrease) in GO bond debt issuance	120,000	0	20,000	20,000	20,000	20,000	20,000	20,000

S:\CIP\FISCAL\FY15-20 Full CIP\Debt Capacity\Debt Capacity 9 5 2013\Debt Capacity SAG 9 5 2013\315Mn\315M FY15-20 Debt Capacity 9 5 2013.xlsDisplay

SCENARIO #6

DEBT CAPACITY ANALYSIS

FY15-20 CAPITAL IMPROVEMENTS PROGRAM
DEBT CAPACITY ANALYSIS September 6 2013
Scenario - Guidelines @ **$325mn/year FY15-20**
6 Yr. Total ($Mn.) $1950.0 mn
FY15 Total ($Mn.) $325.0 mn
FY16 Total ($Mn.) $325.0 mn

	GUIDELINE	FY14	FY15	FY16	FY17	FY18	FY19	FY20
1. GO Bond Guidelines ($000s)		295,000	325,000	325,000	325,000	325,000	325,000	325,000
2. GO Debt/Assessed Value	1.5%	1.76%	1.78%	1.79%	1.77%	1.76%	1.73%	1.78%
3. Debt Service + LTL + Short-Term Leases/Revenues (GF)	**10%**	**10.31%**	**11.36%**	**11.60%**	**11.71%**	**11.48%**	**11.31%**	**11.45%**
4. $ Debt/Capita		2,848	2,960	3,049	3,126	3,196	3,255	3,334
5. $ Real Debt/Capita	**$2,000**	2,848	2,890	2,898	2,881	2,847	2,795	2,761
6. Capita Debt/Capita Income	3.5%	3.71%	3.65%	3.59%	3.54%	3.50%	3.45%	3.53%
7. Payout Ratio	60% - 75%	68.62%	68.66%	68.80%	69.04%	69.34%	70.06%	70.76%
8. Total Debt Outstanding ($000s)		2,873,315	3,005,315	3,125,745	3,235,755	3,340,460	3,434,640	3,518,480
9. Real Debt Outstanding ($000s)		2,873,315	2,934,878	2,971,367	2,982,010	2,975,838	2,949,714	2,913,060
10. OP/PSP Growth Assumption			1.0%	4.2%	3.6%	3.9%	3.5%	3.5%

(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 FY14 approved budget to FY15 budget for FY15 and budget to budget for FY16-20.

10

DEBT SERVICE IMPACT	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Assumed Issue Size ($000)	295,000	325,000	325,000	325,000	325,000	325,000	325,000
GO Bond Debt Service ($000)	277,885	307,935	326,219	345,686	358,969	377,007	396,133
Dollar change in GO Bond debt service (year to year)	15,235	30,051	18,284	19,466	13,284	18,038	19,126
Percentage change in GO Bond debt service (year to year)	5.80%	10.81%	5.94%	5.97%	3.84%	5.02%	5.07%
Dollar change in GO Bond debt service from the base (FY14)		30,051	48,335	67,801	81,085	99,123	118,248
STL and LTL Debt Service	33,004	38,170	42,078	39,872	33,415	22,376	22,376
Total Debt Service for Debt Capacity (GO Bond + STL and LTL)	310,888	346,105	368,297	385,558	392,384	399,383	418,509
Total Revenues	3,012,809	3,046,858	3,174,453	3,291,455	3,419,030	3,531,271	3,655,807

ASSUMED INCREASE IN DEBT ISSUANCE	**Total Increase/(Decrease)**							
Approved GO bond debt issuance		295,000	295,000	295,000	295,000	295,000	295,000	295,000
Assumed GO bond debt issuance		295,000	325,000	325,000	325,000	325,000	325,000	325,000
Increase/(Decrease) in GO bond debt issuance	180,000	0	30,000	30,000	30,000	30,000	30,000	30,000

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

September 24, 2013

TO: Nancy Navarro, President, County Council

FROM: Isiah Leggett, County Executive Timothy L. Firestine (ACTING)

SUBJECT: Spending Affordability, FY15-20 Capital Improvements Program

I recommend that the County Council adopt Spending Affordability Guidelines for County General Obligation bonds as displayed in the attached Debt Capacity scenario, with $295.0 million in bonds planned for annual issue in FY15-FY20, for a total of $1.77 billion for the six-year period. This will maintain our currently approved spending guidelines for the six year period.

I believe this recommendation provides the best balance between the needs of the capital and operating budgets. As our debt service payments grow, crowding out programs supported through the operating budget, consideration of this balance becomes even more critical. An analysis of operating budget debt service costs shows that without adding any additional debt, our annual tax-supported debt service costs will increase from $309.2 million in FY14 to $392.6 million in FY19 – an $83.4 million increase over the five year period. In FY14, debt service costs are larger than any County department budget or the budgets for non-MCPS outside agencies.

One of the scenarios proposed for the public hearing would increase the annual G.O. bond issuance to $325 million. If Council adopts this proposal, annual debt service would increase by an additional $12.3 million dollars from FY15 to FY20. The cumulative impact of that increase from FY15-20 would be $33 million. The attached list highlights some of the operating budget tradeoffs in public safety, safety net, and maintenance of core infrastructure that will need to be made if increased debt scenarios are approved.

Operating budget impacts from the capital budget will be further compounded if additional bonds are used to build additional, new facilities requiring more funding to staff and operate them. At a time when citizens are asking us to do a better job of maintaining existing facilities, we should avoid raising false expectations if we cannot afford to operate these new facilities.

For the last several years, the County Council and the Executive branch have worked collaboratively to strengthen our underlying finances, to improve our fiscal flexibility, and to address concerns raised by the bond rating agencies, while weathering a significant recession and weak recovery.
Our joint commitment to these principles has successfully maintained our AAA bond rating, yielding the lowest possible debt service costs over the 20-year life of the bonds.

In addition, a key component of our fiscal restructuring was an acknowledgement that containing debt service costs was necessary to provide funding for vital operating expenses and to maintain fiscal flexibility, should additional revenue shortfalls or unanticipated expenditures occur. This flexibility is even more important now that State Maintenance of Effort requirements for Montgomery County Public Schools and Montgomery College have limited our budget options.

Some Council members may want to consider reducing the annual bond issue since we will exceed our debt affordability indicators under my recommended $295 million bond issue. I do not recommend further bond reductions at this time, given our significant school capacity, economic development, and infrastructure needs.

For Park and Planning bonds, I recommend annual Spending Affordability Guidelines of $6.0 million in FY15-FY20, with a total of $36.0 million for the six-year period – an amount equal to the current guidelines. The Maryland National Capital Park and Planning Commission's operating budget has many cost pressures that are inflexible (i.e. labor agreements, utilities, necessary maintenance to preserve facilities, etc). Increasing debt service costs, as indicated as a possible option in the Council Spending Affordability Guidelines public hearing packet, in a time of uncertain operating revenues would just add to these problems.

Thank you for your consideration. Executive branch staff will be available to assist you in Council worksessions as we work together to balance the capital and operating budget needs.

IL:mcb

Attachments

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

Operating Budget Tradeoffs
Debt Services vs Services

Every $1 million used for debt service could also be used for:

- 13 public school teachers
- 9 police officers
- 9 fire fighters
- Operating 1 library
- Operating 5 recreation centers
- Rental assistance for 427 families
- 31,250 bednights in family shelters
- 11,111 bednights at overflow motels
- Respite care for 339 clients
- Child care subsidies for 197 children for a year
- Services for 4,124 Montgomery Cares clients
- 1,274 county-funded Maternity Partnership program
- 1,919 Housing Stabilization grants
- Pruning 2,150 trees
- Purchasing 2 buses
- Renovations for 50 bus stops

(14)

DEBT CAPACITY ANALYSIS

FY15-20 Capital Improvements Program
FY15-20 SAG SCENARIOS
SEPTEMBER 5, 2013
GO BOND 6 YR TOTAL = 1,770.0 MILLION
GO BOND FY15 TOTAL = 295.0 MILLION
GO BOND FY16 TOTAL = 295.0 MILLION

	FY14	FY15	FY16	FY17	FY18	FY19	FY20
1 GO Bond Guidelines ($000)	295,000	295,000	295,000	295,000	295,000	295,000	295,000
2 GO Debt/Assessed Value	1.76%	1.76%	1.75%	1.73%	1.70%	1.67%	1.70%
3 Debt Service + LTL + Short-Term Leases/Revenues (GF)	10.31%	11.36%	11.58%	11.60%	11.28%	11.04%	11.11%
4 $ Debt/Capita	2,848	2,930	2,992	3,043	3,090	3,127	3,185
5 $ Real Debt/Capita (FY14=100%)	2,848	2,861	2,844	2,805	2,753	2,685	2,637
6 Capita Debt/Capita Income	3.71%	3.62%	3.52%	3.44%	3.38%	3.31%	3.38%
7 Payout Ratio	68.62%	68.89%	69.20%	69.57%	69.96%	70.76%	71.50%
8 Total Debt Outstanding ($000s)	2,873,315	2,975,315	3,067,245	3,150,255	3,229,460	3,299,640	3,360,980
9 Real Debt Outstanding (FY14=100%)	2,873,315	2,905,581	2,915,756	2,903,215	2,876,954	2,833,774	2,782,660
10 Note: OP/PSP Growth Assumption (2)		1.0%	4.2%	3.6%	3.9%	3.5%	3.5%

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 FY14 approved budget to FY15 budget and budget to budget for FY16-20.

MONTGOMERY COUNTY BOARD OF EDUCATION

Testimony before the County Council on the Spending Affordability Guidelines for the FY 2015–2020 Capital Improvements Program

September 24, 2013

Good Afternoon, Ms. Navarro and members of the County Council, I am Christopher S. 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 FY 2015 Capital Budget and the FY 2015–2020 Capital Improvements Program (CIP).

I would like to thank the County Council for your *ongoing* support of our capital projects. The funding you approved for our FY 2014 Capital Budget and Amendments to the FY 2013–2018 CIP will allow Montgomery County Public Schools (MCPS) to address critical capacity issues, keep our modernization schedule on track with minimal delays, 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, and setting the SAG for the level of debt for Montgomery County is the critical first step. Equally important, we will continue to work together to advocate for more state aid for our school construction projects.

We understand that SAG are intended to be developed based on what is affordable, not what is needed. The task you face to determine what is affordable this year will again be a difficult one; however, the Board of Education does not believe that we can afford to let our overcrowded schools go unaddressed or our school buildings deteriorate, any more than we can afford to lose our AAA bond rating.

The County Council packet of September 10, 2013, included six scenarios developed by Montgomery County's Office of Management and Budget. Of the six scenarios, two would decrease the approved SAG, one would maintain the approved SAG level, and three would increase SAG, with 10.2 percent being the largest increase. We believe that the Council must, at a minimum, increase SAG by at least 10 percent above the current limits or provide MCPS with a larger share of the bonds it sells. If not, it will be impossible to fund the capital projects that are vital to address our enrollment growth and our aging facilities.

For the 2013–2014 school year, MCPS will experience the sixth straight year of significant enrollment growth. Enrollment is expected to reach approximately 151,500 students this year, for a one-year increase of over 2,700 students. Since the 2007–2008 school year, enrollment has increased by nearly 14,000 students, with most of the increase at the elementary school level. This amount of increase is equivalent to 19 elementary schools with a capacity of 740 students.

Although numerous school capacity projects have been built to address our increasing student enrollment, the school system continues to be significantly behind meeting our elementary school space needs. This year, 379 relocatable classrooms are in use, with 331 or 87 percent at the elementary school level. This number equates to approximately 7,600 elementary students who attend school in relocatable classrooms every day.

Enrollment growth at the middle and high school levels over the past six years is at a slower pace than at the elementary school level. However, the large cohort of today's elementary school students has started to enter middle and high school. While most secondary schools do not exceed their program capacity, many will quickly become overutilized in the next six years. Secondary schools already overutilized will only get worse. By the 2019–2020 school year, middle school enrollment is projected to increase by approximately 5,000 students and high school enrollment by approximately 4,800 students. These increases are equivalent to four middle schools with a capacity of 1,200 students each, and two and a half high schools with a capacity of 2,000 students each.

MCPS enrollment is projected to increase by another 11,000 students to reach over 162,000 students by the 2019–2020 school year. Total MCPS enrollment between 2007 and 2019 will increase by a remarkable 25,000 students within a 12-year period. If we do not address the overutilization at the elementary school level now, the urgency will be compounded by the anticipated overutilization at the secondary level in the near future.

While our capacity needs are great, we also must address our older schools, many of which are reaching a point where a significant investment in capital maintenance is required to address aging infrastructure needs. In the past, the modernization program has been slowed down 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 2015 Capital Budget and the FY 2015–2020 CIP. The Board of Education respects the difficult task that confronts the County Council. We urge you to consider what is affordable in the context of what we cannot afford to let happen—to let our schools become more overcrowded or to let our school infrastructure needs 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 vital matter.

FROM LIS

Montgomery County Planning Board

THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

OFFICE OF THE CHAIR

September 24, 2013

The Honorable Nancy Navarro
Montgomery County Council
100 Maryland Avenue, 6th Floor
Rockville, Maryland 20850

Dear President Navarro:

I am writing with regard to the County Council's consideration of the Spending Affordability Guidelines for the FY 15 Capital Budget and the FY15-20 Capital Improvements Program (CIP).

We have been working with our staff to analyze the Budget and CIP so that we can present a budget and program that balances fiscal responsibility and restraint while maintaining a commitment to stewardship of the County's Park System. We have carefully considered the information available at the time of the Council's FY14 SAG discussion in February coupled with recent information about the economy and fiscal outlook of the County provided by the Office of Management and Budget.

At this time, the Montgomery County Planning Board is not requesting that the County Council raise the SAG for Park and Planning Bonds, but that it maintain SAG at the current level of $6 million in FY15, $6 million in FY16, and $36-42 million in FY15-20. This is consistent with the guidelines for the FY13-18 CIP and we feel it is responsible in the current fiscal climate.

This has been a difficult decision in some respects considering the County Executive's recent request to make additional cuts or deferments in FY15-18 with respect to GO bond funding. As you may recall, the Commission keeps County GO bonds and Park and Planning bonds in two work programs; the non-local park work program (GO bonds) and the local park work program (Park and Planning bonds). If cuts are made to one work program, there is significant pressure on the non-bond supported funding that supplements both work programs. This includes contributions, grants and Program Open Space (POS), which is not always fluid through the CIP. This, in turn, puts pressure on the other work program.

The County Executive's goal in this upcoming CIP is to reduce GO bonds in FY15-18 by $100 million among all departments and agencies. M-NCPPC was asked to cut $4.653 million. While the M-NCPPC portion is 4.7 percent of the Executive's goal, it has been

8787 Georgia Avenue, Silver Spring, Maryland 20910 Phone: 301.495.4605 Fax: 301.495.1320
www.montgomeryplanningboard.org E-Mail: mcp-chair@mncppc-mc.org

detrimental to the Commission's CIP in that it is an 8.6% cut in our work program for non-local parks. As a result, a proposed cut in GO bonds, which makes up about half of the overall CIP, takes a deeper, more significant hit on the non-local park program. Where other agencies and departments whose GO bonds are dispersed through their entire work program had the option to distribute cuts across the board, M-NCPPC had to concentrate its cuts in the non-local park program.

The Planning Board has been working with staff to develop a recommendation to cut GO bonds by looking at the effects of three scenarios; one where no cuts were made; another where the full amount was cut, and a final scenario where some cuts were made. At this point, the Commission is likely not to recommend the full 4.7% cuts to GO bonds, but has been able to identify some shifts for a 3% cut. While this is less palatable and still leaves several of our level-of-effort projects underfunded, it makes significant progress toward the Executive's goal and helps to reduce the overall debt service to the County related to the issuance of GO bonds.

If you have additional questions or seek clarification regarding the Commission's position on SAG, please let me know. While the Planning Board will be in session on September 26, when the Government Operations and Fiscal Policy Committee considers a recommendation for the full Council on SAG, we will have staff available at the committee meeting.

Thank you for the chance to comment on SAG and the CIP. I look forward to working with you in February as the Council considers the CIP in its entirety.

Kind regards,

Françoise M. Carrier
Chair

FMC/ctm