AGENDA ITEM #4
February 2, 2010
Action

MEMORANDUM

January 29, 2010

TO: County Council

FROM: Glenn Orlin, Deputy Council Staff Director

SUBJECT: **Action**—Spending Affordability Guidelines for the capital budget, and other CIP revenue assumptions

Management and Fiscal Policy Committee recommendation (3-0): Confirm the existing G.O. Bond and Park & Planning Bond guidelines, and concur with the Executive's other CIP revenue assumptions

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The Executive is recommending a FY11-16 CIP of approximately $4 billion (not including WSSC), a 6.9% increase over the CIP amended last May. The objective for this worksession is for the Council to review the Spending Affordability Guidelines and the set of associated CIP assumptions. Below is an overview of the Executive's Recommended CIP.

I. OVERVIEW OF EXECUTIVE'S RECOOMENDED CIP

*1. **Historical growth in the CIP.*** The CIP has grown at varying rates as shown below:

Table 1: Funds Programmed in CIPs (not including WSSC)

	Funding	% Change from Prior Year
Amended FY99-04 CIP	$1,589,835,000	+8.1%
Approved FY01-06 CIP	$1,845,766,000	+16.1%
Amended FY01-06 CIP	$2,020,425,000	+9.5%
Approved FY03-08 CIP	$1,758,013,000	-13.0%
Amended FY03-08 CIP	$1,848,601,000	+5.2%
Approved FY05-10 CIP	$2,332,040,000	+26.2%
Amended FY05-10 CIP	$2,388,365,000	+2.4%
Approved FY07-12 CIP	$2,967,901,000	+24.3%
Amended FY07-12 CIP	$3,189,592,000	+7.5%
Approved FY09-14 CIP	$3,377,467,000	+5.9%
Amended FY09-14 CIP	$3,743,831,000	+10.8%
Exec Rec. FY11-16 CIP	**$4,000,901,000**	**+6.9%**

2. ***Size and distribution of the requests.*** The 'outside' agencies—Montgomery County Public Schools, Montgomery College, the Maryland-National Capital Park and Planning Commission, the Revenue Authority, and the Housing Opportunities Commission—transmitted their respective requests for the FY11-16 CIP late last year. On January 15 the Executive transmitted his recommendations, both for the departments and offices of the County Government and for the outside agencies. Below is a summary of the agencies' requests and the Executive's recommendations as compared to the FY09-14 CIP as amended last May:

Table 2: Requested Funds by Agency and Program (in $000)

	Approved CIP	Agency Request	Percent Change	Executive's Rec.	Percent Change
Montgomery County Public Schools	1,270,842	1,493,818	+17.5%	1,484,647	+16.8%
Montgomery College	340,184	420,182	+23.5%	260,009	-23.6%
M-NCPPC (Parks)	198,980	203,499	+2.3%	161,502	-18.8%
Revenue Authority	41,341	35,328	-14.5%	35,328	-14.5%
Housing Opportunities Commission	15,795	14,254	-9.8%	13,629	-13.7%
County Government	1,876,689	2,045,786	+9.0%	2,045,786	+9.0%
Housing/Community Development	*56,924*	*60,591*	*+6.4%*	*60,591*	*+6.4%*
Natural Resources/Solid Waste	*69,942*	*128,472*	*+83.7%*	*128,472*	*+83.7%*
General Government/HHS	*264,281*	*288,500*	*+9.2%*	*288,500*	*+9.2%*
Libraries & Recreation	*142,147*	*151,102*	*+6.3%*	*151,102*	*+6.3%*
Public Safety	*344,181*	*352,146*	*+2.3%*	*352,146*	*+2.3%*
Transportation (w/WMATA)	*999,214*	*1,064,975*	*+6.6%*	*1,064,975*	*+6.6%*
TOTAL	**3,743,831**	**4,212,867**	**+12.5%**	**4,000,901**	**+6.9%**

Another point of comparison is the percentage of resources that the Executive is recommending for each agency compared the relative shares in the Approved CIP as amended:

Table 3: Percentage of Programmed Funds by Agency and Program (in $000)

	Amended FY09-14 CIP	Percent	Executive's Rec. FY11-16 CIP	Percent
Montgomery County Public Schools	1,270,842	33.9%	1,484,647	37.1%
Montgomery College	340,184	9.1%	260,009	6.5%
M-NCPPC (Parks)	198,980	5.3%	161,502	4.0%
Revenue Authority	41,341	1.1%	35,328	0.9%
Housing Opportunities Commission	15,795	0.4%	13,629	0.3%
County Government	1,876,689	50.2%	2,045,786	51.1%
Housing/Community Development	*56,924*	*1.5%*	*60,591*	*1.5%*
Natural Resources/Solid Waste	*69,942*	*1.9%*	*128,472*	*3.2%*
General Government/HHS	*264,281*	*7.1%*	*288,500*	*7.2%*
Libraries & Recreation	*142,147*	*3.8%*	*151,102*	*3.8%*
Public Safety	*344,181*	*9.2%*	*352,146*	*8.8%*
Transportation (w/WMATA)	*999,214*	*26.7%*	*1,064,975*	*26.6%*
TOTAL	**3,743,831**	**100.0%**	**4,000,901**	**100.0%**

In aggregate the agencies are requesting a 12.5% increase in spending for the upcoming 6-year period, compared to the Executive's recommended 6.9% increase. The agencies that would be the biggest "winners" in the Executive's CIP are MCPS, with a 16.8% increase, followed by the County Government at 9.0%. MCPS's share of programmed funds would increase from 33.9% to 37.1% under the Executive's plan. On the other hand, the biggest "losers" would be M-NCPPC (Parks) and Montgomery College, with reductions of 18.8% and 23.6%, respectively, despite the fact that each of these agencies requested more funding.

How much is programmed in the CIP for each agency is different than how much will be actually spent, since the agencies have differing implementation rates. The implementation rates over each of the past 5 years, as well as the 5-year weighted averages, are on ©8. Of the funds programmed in CIP, the Executive expects only 84% will be spent: $3,369,757,000. So, while the Executive recommends that 37.1% of programmed funds be allocated to MCPS projects, for example, if MCPS implements at the 94.43% rate it has over the past 5 years, it will spend about $1,401,952,000, or about 41.6% of the total amount actually spent.

3. Projects eligible for funding. Most projects in the Recommended CIP are graduates of the full facility planning process. However, facility planning has also been substantially completed for some other projects that do *not* appear in the Executive's Recommended CIP. They are not shown because either: (1) facility planning had not been completed when the departments' CIP recommendations were made last summer, but is substantially completed now, six months later; or (2) facility planning had been completed, but the Executive did not ascribe to them a high enough priority to recommend them.

Nevertheless, Council staff will bring before the Council these projects for its consideration since, of course, the Council's decision on these matters is the final one. In the past, the Council has decided to program many of them (as it did for the Chapman Avenue Extended and MacArthur Boulevard Bikeway Improvements projects), but not all (it decided not to program Citadel Avenue Extended the first year that it was eligible).

4. Working through the CIP. Here are a few comments and cautions, mostly to ward off serious divisiveness (a.k.a., a "train wreck") when the CIP is reconciled to the debt and current revenue guidelines and targets in mid-May. In most years CIP Reconciliation is achieved with little fanfare by making minor expenditure adjustments to several projects. But if after its initial round of worksessions the Council produces a pre-reconciled CIP that is well above the guidelines and targets, then Reconciliation can be an ugly exercise. Just ask anybody who was around here in May of 1994 or 1998.

There is another reason to try to keep close to the guidelines and targets during the next few months. If the cumulative effect of the Council's straw votes is to include more funding than can reasonably be absorbed in the end, then the constituents for these projects can be lulled into a false sense of security that their projects are 'safe,' only to have the rug cut out from under them when projects are deferred or even deleted in mid-May. A better general approach is, if there is any question about the merit of a project, to be conservative about the amount or timing of its funding. This is generally the approach the Council uses with the Operating Budget, where it adds to the Executive's recommendations only when the Reconciliation List (a.k.a., "Wish List") is compiled in mid-May.

Unfortunately, none of us have thought of a way to figure out a true "Wish List" process for the CIP. This is because most projects are multi-year in nature, and many have multiple funding sources. Reconciling the Operating Budget is simple addition to a predetermined total; reconciling the CIP is more akin to solving a Rubik's Cube: accelerating or decelerating a project may help in meeting the target in one of the six years, but may exacerbate the problem in other years. Nevertheless, the Council has managed to stay within spending affordability in nearly all of the CIPs approved since the voters approved Charter Question 'F' in 1990.

Here are some suggestions for the Council as it works through the CIP:

- ***Always keep in mind that the Council's aggregate CIP funding will likely be at most only marginally different than the aggregate funding level proposed by the Executive.*** This means that, with a few exceptions, additions the Council wishes to make over the Executive's recommendations for particular projects should be accompanied by cuts to other projects.

- ***Remember it is especially difficult to make significant changes to the Executive's recommendations in FY11 and FY12.*** The majority of the recommended spending in these years is for projects either already under construction or about to go under construction (for which significant funds have already been expended for planning, design, and land acquisition). Most of the rest of the funds are for continuing "level of effort" projects like PLAR, HVAC and roof replacement, etc.

- ***While keeping the first two points in mind, don't think that each committee has to work to keep "its" part of the capital budget within an artificial limit, such as the Executive's recommendations.*** The CIP is an expression of the Council's priorities, not anyone else's. If the Council stays within the Executive's recommendations, it would be unnecessarily chaining itself to his general funding priorities.

- ***There is no CIP "Wish List."*** During the worksessions each committee (and later, the Council) should make definitive decisions about each project: approve it as recommended, delay it, accelerate it, and/or amend its scope, or delete it. At the same time, individual Councilmembers should make known publicly whether he or she has a caveat about its status. For example, if you think a project is important but not critical, you might recommend its approval during the worksession but say you may need to revisit its funding or timing at CIP Reconciliation. Alternatively, if you think a project is only fairly important, you might recommend its denial or delay during the worksession but say you would like to see it added back or re-accelerated at CIP Reconciliation if funding were available. Our analysts have sharp ears and will pick up on these clues. This information will help immensely as we put together a CIP Reconciliation package.

- ***Use the last Approved CIP as the benchmark, not the Executive's or an agency's request.*** Although the Executive, BOE, Parks Board, etc., have prepared recommendations, progress on a project is best measured against the last official decision—the Approved CIP as amended last year.

II. GENERAL OBLIGATION BONDS

1. Council approved guidelines and targets. February 2 is the deadline for the Council either to confirm or amend guidelines. Any February revision is supposed to "reflect a significant change in conditions" regarding affordability, and not to take need into account. After February 2 the Council can adopt an aggregate capital budget that has expenditures that exceed the guidelines, but only with seven or more affirmative votes. The section of the County Code describing this process is on ©1-3.

The General Obligation (G.O.) Bond Spending Affordability Guidelines and targets approved for the FY11-16 CIP on October 6, 2009 were $325 million in each year and $1.95 billion for the six-year period. The October 6 guidelines apply to FY11, FY12, and the FY11-16 period. The guidelines can be amended by a simple majority of Councilmembers present. The County Code restricts any increase to the first-year or the second-year guideline to 10% over the previously set amount. Since the October 6 G.O. Bond guideline for FY11 was $325 million, the Council cannot raise it higher than $357.5 million. The same is true for the FY12 guideline. The Council can raise or lower the FY11-16 guideline as high or low as it wishes.

The G.O. Bond Adjustment Chart reflecting the Executive's recommendations is on ©4, which is to retain the October 6 guidelines and targets. These guidelines and targets represent a 6.0% increase over the guidelines used for the Amended FY09-14 CIP. Table 4 displays the Spending Affordability Guidelines and targets in recent CIPs and in the Executive's January 15 recommendations ('**FY11-16 Rec**'):

Table 4: General Obligation Bonds in Recent CIPs ($ millions)

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

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 six years. The indicators are:

1. Total debt should not exceed 1.5% of full market value of taxable real property.

2. The sum of debt service and long-term and short-term lease payments should not exceed 10% of General Fund revenue.
3. Real debt per capita should not exceed $1,000 by a "significant" amount. As a working definition of this indicator, the Council should assume that real debt per capita should not exceed $1,900 in FY10 dollars.
4. The ratio of debt to income should not exceed 3.5%.
5. 60-75% of the debt at the beginning of any period should be paid off within ten years.

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

- The annual interest rates on bonds are assumed to be 0.8% lower in FY11 and 0.5% lower in subsequent years.
- Operating growth in FY11 is anticipated to be only 0.1%; the assumption for FY11 last March was 2.9%. The forecast growth in FYs12-13 has dropped slightly.
- The forecast of population growth is virtually unchanged.
- The annual inflation rates are forecast to be 0.3% lower in FY11, but 0.2% higher in FY12, 0.5% higher in FY13, and 0.7% higher in FY14.
- The countywide assessable base is projected to grow at a slightly lower pace in FYs12-14.
- Countywide personal income is now projected to grow a bit more slowly than before.

These assumptions, especially the operating revenue growth assumption, drive the results of these indicators as much as the difference in the debt levels. Most of the revisions suggest slightly worsening economic prospects.

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

Especially worrisome is the indicator measuring debt service (plus short- and long-term lease payments) as a percentage of the operating budget. The $325 million/year bond levels, together with the much lower operating growth in FY11, *brings this indicator over the 10% threshold earlier in the CIP than it ever has*—in the second year of the six-year period—and, *for the first time brings it above 11%, and keeps it there for three years* (and likely longer, if the projection were to go beyond FY16). Even in the recession of the early 1990s—when operating growth was also very low—this indicator never exceeded 11%.

Over the years Executives, Executive Branch staff, and Councilmembers have looked to the debt service (plus leases) as a percentage of the operating budget as most important of the five indicators; note that in last year's Debt Capacity Analysis it is even displayed in bold type (©7). Therefore, it is ironic that although this indicator is expected to reach a historically high level, it has not raised a more serious concern. The 10% standard is widely used among State and local governments; has similar hard times in other traditional AAA jurisdictions allowed the rating agencies to allow 11% or higher to be the de facto standard during this recession? Executive Branch staff may wish to comment.

Frankly, this indicator should be the *least* important. The dynamics of this indicator suggests that when the County expands compensation and services then more debt can be carried, while when the County contracts compensation and services then the capital budget must also contract. To the contrary, it makes more sense to increase capital funding during a downturn—or at least keep it relatively stable—as a means for pump-priming the economy. The more significant indicators are those that track debt service as a percentage of income, population, and assessed value: those measuring ability to pay. These indicators only have only slightly regressed (in the cases of income and assessed value) or slightly improved (population) since last summer.

Council staff recommendation: Concur with the Executive – do not amend the guidelines and targets. The law suggests that the October 6 guidelines should not be amended unless there is a significant change in conditions. If there has been a change since October, it has been somewhat negative. Unlike the Operating Budget guidelines, the CIP Spending Affordability Guidelines should take into account *long-term* changes rather than short-term ones, since their purpose is to determine how much additional debt the County should accept as a fiscal burden over the next 20 years. Nevertheless, there has been no sign over the last several months that the County's long-term fiscal prospects have significantly improved.

2. Implementation ('overbooking') rates. The implementation rate for a given year is the total amount of spending in that year divided by the amount of expenditures initially programmed for that year. An implementation rate is actually a mixture of three factors: the degree to which programmed expenditures in a year are actually spent in that year; the degree to which programmed expenditures from a previous year are lapsed into a subsequent year; and the degree to which the Council approves supplemental and special appropriations which result in additional spending. The implementation rate allows the Council to 'overbook' the CIP to some degree, knowing that not all the funds programmed will actually be spent. The rate assumed in the Amended FY09-14 CIP was 87.5% for each year of the 6-year period. This means that the Council overbooked the Amended CIP in each year by 14.3% (1.00/.875=1.1428571...).

Council staff has asked OMB to calculate the implementation rate for each agency for the last full fiscal year for General Obligation Bond proceeds, and to array these rates against those of the prior four years. The calculations are on ©8. A summary of the results is below:

Table 5: Implementation Rates by Program and Year for G.O. Bond Funds (nearest %)

	FY05	FY06	FY07	FY08	FY09	5yr avg
MCPS	66	125	74	104	104	**94**
Mont. College	132	75	50	100	52	**82**
Parks	82	56	78	91	50	**71**
Transportation	80	87	66	96	95	**85**
MCG-Other	55	95	40	59	64	**63**
TOTAL	**70**	**104**	**64**	**94**	**87**	**84**

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

Table 6: Historical Implementation Rates for G.O. Bonds

FY99	93.56%
FY00	83.29%
FY01	115.14%
FY02	87.18%
FY03	95.31%
FY04	91.17%
FY05	70.11%
FY06	103.86%
FY07	64.37%
FY08	94.42%
FY09	86.92%

The average implementation rate across agencies over the past five years has been 83.94%. Therefore, the Executive is recommending using an implementation rate of 84% over each of the next six years. Essentially it assumes that nearly one of every six dollars of G.O. bond proceeds will not be spent every year of the six-year period. This would be, by far, the lowest implementation rate assumed in the two decades of calculating spending affordability for the CIP. It would allow the CIP to be overbooked by 19% annually (1.00/0.84= 1.1905...).

Council staff believes extending the 84% assumption over each of the six years is not realistic, given past spending patterns. Note that the 5-year average of 83.94% is a figure heavily influenced by the extremely low rates in FY05 and FY07: the rates 5 and 3 years ago. The more recent experience shows higher rates. A better approach is what the Executive and Council did two years ago with the implementation rate analysis: use the 5-year average as the rationale for *the following two years*, but retain the usual 90% rate in the last four years.

Using 90% during FYs13-16 reduces the funds available for the CIP in those years by nearly $100 million compared to the Executive's implementation rate assumption. But using 84% as the rationale for overbooking will lead to what happens when airlines too aggressively overbook: projects will be forcibly bumped. Using 84% for six years greatly over-promises what the CIP can deliver.

Council staff recommends an implementation rate of 84% for FYs11-12 and 90% for FYs13-16.

3. Inflation rates. The inflation rates in the adjustment charts are not supposed to measure construction cost inflation, but general inflation: they are a means of translating the general value of the annual bond guidelines and targets so that they can be compared against aggregate CIP expenditures, which are expressed in constant dollars. The Department of Finance takes the lead in developing inflation forecasts. As noted above, Finance is now assuming the annual inflation rates to be 0.3% lower in FY11, but 0.2% higher in FY12, 0.5% higher in FY13, and 0.7% higher in FY14.

Typically a forecast is developed during the fall which is part of the basis for building the Executive's Recommended CIP. Finance updates these assumptions during the winter based on more recent trends, in preparation for the development of the Executive's Recommended Operating Budget and Public Services Program (PSP). The Council uses the same rates in the CIP as in the PSP. When the updated rates are available Council staff will report their effect on the funds available for programming. Table 7 shows the inflation assumptions used in the recently approved CIPs and the rates used for the Executive's CIP recommendations (**'FY11-16 Rec'**):

Table 7: Inflation Assumptions in Recent CIPs (%)

CIP	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
FY07-12	2.60	2.60	2.70	2.70	2.70	2.70				
FY07-12 Am	3.40	3.05	2.80	2.70	2.70	2.60				
FY09-14			2.80	2.70	2.65	2.60	2.55	2.50		
FY09-14 Am			2.80	2.70	2.80	2.50	2.50	2.50		
FY11-16 Rec					**2.50**	**2.70**	**3.00**	**3.20**	**3.40**	**3.60**

4. Set-aside for bond-funded projects. In building the CIP the Council has always set aside some funding capacity to cover anticipated and unanticipated contingencies. The set-asides will be needed for: (1) the design, land acquisition, and construction cost of projects currently in facility planning, whether they be roads, schools, or anything else; (2) the inevitable cost increases that occur once more is known about the scope of projects and the problems that must be overcome to deliver them; and (3) the one-time needs or opportunities that cannot be foreseen. The set-asides in prior CIPs are shown in Table 8, and the Executive's latest recommendations are in **bold type**:

Table 8: Capital Set-Asides for General Obligation Bonds in Recent CIPs ($ millions)

CIP	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	6-Yr	%
FY07-12	9.2	14.4	16.1	38.3	87.0	104.3					269.2	15.9
FY07-12 Am	4.6	15.2	16.6	19.6	72.5	112.4					240.9	12.5
FY09-14			15.3	18.0	30.2	53.5	97.6	98.2			312.8	15.0
FY09-14 Am			-	13.8	19.9	20.5	62.3	51.3			167.8	7.9
FY11-16 Rec					**10.2**	**12.5**	**10.2**	**35.8**	**53.7**	**66.5**	**188.9**	**8.0**

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

However, the set-aside in the Amended CIP approved last May was dramatically lower—even for a 5-year CIP—and the Executive is now recommending virtually the same percentage to be set aside for the upcoming *6-year* period. The reserve of $10.2 million in FY11 is slightly low but alright, but the reserves for FY12 and FY13 should be about $5 million and $10 million higher, respectively. The reserves in FYs15-16 are also considerably lower than usual compared to normal 5th and 6th years.

The argument has been made by the Executive, the Board of Education, the Superintendent and others that capital funding should be accelerated to take advantage of low-bid prices. Therefore, several projects in the Executive's Recommended CIP are being proposed to be programmed earlier than they normally would be. But, while low bid prices are a fact now and are likely to extend into FY11, there is no guarantee they will last beyond that. If prices stay low for a longer time, that would be a sign that the recession is lasting longer, questioning the long-term assumptions about the County's growth in income, assessed value, etc., that are the basis for justifying retaining the annual $325 million G.O. Bond level in the first place.

Council staff recommends that programmed G.O. Bond funds in the FY11-16 CIP be reduced by a further $60 million, with those funds used to increase the set-aside. Even this would only bring the set-aside to about 10.6%, lower than the traditional 15% for a full 6-year CIP. Most of the $60 million would be diverted from FY15 and FY16, but as noted above, the FY12 and FY13 reserves are also too low. At CIP Reconciliation the Council should strive for final set-asides approaching the following (in $ millions):

Table 9: Council staff Recommended Capital Set-Asides for the FY11-16 CIP ($ millions)

	FY11	FY12	FY13	FY14	FY15	FY16	6-Yr	%
Council Staff Rec	*11*	*17*	*20*	*35*	*74*	*92*	*249*	*10.6*

Alternatively, should the Council accept the Executive's recommended set-asides, it should do so with the knowledge that it leaves far less capability to fund future cost increases on existing projects or new projects now in facility planning.

*5. **Slippage.*** It is quite common that the schedule for a particular project encounters delays from one CIP to the next, almost always for production reasons, not policy reasons. For example, a project in the Approved FY09-14 CIP might have anticipated $5 million of construction in FY10, but during the course of FY09 progress was stalled, and so it might be now scheduled for FY11 instead. However, if expenditures were shown accurately by year, this $5 million not only will have counted against the FY10 spending affordability guideline, but once again under the new FY11 guideline. Such a double-counting artificially limits the amount of funds that could be programmed. Therefore, the unfortunate but necessary practice has been not to show a delay in the expenditure schedule on the project description form (PDF). But this gives elected officials and the public a false impression as to when construction is actually expected to occur.

During 2009 Executive and Council staffs discussed a possible "fix" that would continue to eliminate double-counting yet have accurate spending-by-year information on the PDFs. Office of Management and Budget staff produced such a fix that Council staff endorses, and is included for the first time in the Recommended CIP. An additional adjustment has been included in the General Obligation Bond Adjustment Chart entitled "Programming Adjustment - Unspent Prior Years" The adjustment shows that $90.066 million-worth of spending slippage that was "counted" against spending affordability in prior years will now be shown accurately in FYs11-14 of the new CIP (mostly in FY11). The table on ©9-10, which also appears in the Recommended CIP, provides the project-by-project details of the $90.066 million.

With this change the FY11-16 CIP and future CIPs will have much more accurate information about the timing of expenditures, while still not compromising the Council's ability to program funds up to the limits of the spending affordability guidelines and targets.

6. ***Summary of G.O. Bond assumptions.*** The net increase of G.O. Bond funds recommended for programming in the Recommended FY11-16 CIP compared to the Amended FY09-14 CIP approved last May is $287.552 million, a 14.7% increase. Less than half of this increase—about $125 million—is due to raising the Spending Affordability Guidelines. About $100 million is due to using a historically optimistic overbooking rate, and about $60 million is due to programming a historically small capital reserve.

III. PAYGO, RECORDATION TAX, AND IMPACT TAXES

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

The PAYGO assumptions in recent CIPs are in Table 6. The Executive's recommendation is to set PAYGO at $1.974 million in FY11 and $32.5 million per year (the 10% minimum) for FYs12-16. The remaining $1.974 million in FY11 is interest from the Revenue Stabilization Fund which is required to be used as PAYGO. Therefore, the Executive recommends reducing PAYGO in FY11 by about $29.5 million in FY11 from the Amended CIP (providing resources to help close the projected $600 million Operating Budget gap) and increasing PAYGO by $3.5 million in FY13 and $2.5 million in FY14. *Council staff concurs with the Executive.* The Executive's recommendations are shown in Table 10 in **bold type**:

Table 10: 'Regular' PAYGO Assumptions in Recent CIPs ($ millions)

CIP	Fy05	fy06	fy07	fy08	fy09	fy10	fy11	fy12	fy13	Fy14	fy15	fy16	6-Yr
FY05-10	13.0	36.0	36.0	38.0	38.0	39.6							200.6
FY05-10 Am	7.3	11.7	36.0	38.0	38.0	39.6							170.6
FY07-12			26.4	41.4	44.0	33.0	22.0	22.0					188.8
FY07-12 Am			27.5	27.5	44.0	33.0	27.5	27.5					187.0
FY09-14 Rec					5.4	30.0	30.0	30.0	30.0	30.0			155.4
FY09-14 Am					5.4	1.3	31.5	32.5	29.0	30.0			129.7
FY11-16 Rec							**2.0**	**32.5**	**32.5**	**32.5**	**32.5**	**32.5**	**164.5**

*2. **Recordation tax revenue.*** In 2002 the Council approved an increase to the County's recordation tax. The proceeds of this increment are to be used to supplement capital funding for any MCPS project or Montgomery College information technology project. These funds are essentially types of PAYGO and Current Revenue.

Three years ago the Council amended the recordation tax to increase the rate by $3.10/$1,000 (i.e., 0.31%) for the amount of value of a transaction greater than $500,000. Half of the incremental revenue is dedicated to rental assistance programs and half to County Government capital projects (e.g., roads, libraries, police and fire stations).

Revenue from the School Recordation Tax Increment rose steadily from FY03 to FY06, but it declined in FY07 and it has continued to decline during the first half of this fiscal year:

Table 11: Past Revenue from the 'School Increment' of the Recordation Tax

FY03	$23,199,460
FY04	33,857,701
FY05	39,684,570
FY06	44,860,925
FY07	32,738,324
FY08	25,247,523
FY09	18,246,176
FY10 (first half)	9,242,045

The Executive has scaled back his revenue projections for the School Increment, assuming that revenue will rebound somewhat in FY11 and remain fairly stable in $24-26 million range during the six-year period. The comparison of the current and proposed assumptions is displayed below:

Table 12: Revenue Assumptions for the Recordation Tax 'School Increment' ($000)

CIP	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	6-Yr.
FY09-14 Am	18,000	20,000	28,100	29,600	31,500	34,400			161,600
FY11-16 Rec			**23,586**	**24,338**	**24,260**	**24,952**	**25,557**	**26,153**	**148,846**

Council staff concurs with the Executive's assumptions for the School Increment.

Revenue from the County Government Recordation Tax increment was $5,231,000 in FY09 and was $4,032,193 during the first half of FY10. Again, half of these funds are for rental assistance programs and the other half is for County Government CIP projects.

The Executive will be recommending legislation that would allow the FY11 revenue from the County Government Increment to be used for the Operating Budget, so he has not programmed any of these funds for the CIP in FY11. (It is unknown whether that legislation would also allow the rental assistance portion of these of funds to be re-allocated as well.) He is also suggesting slightly more conservative revenue projections in the later years. The comparison of the current and proposed assumptions is displayed below:

Table 13: CIP Revenue Assumptions from the 'County Government Increment' ($000)

CIP	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	6-Yr.
FY09-14 Am	2,615	3,047	6,499	6,749	5,110	5,912			29,932
FY11-16 Rec			**0**	**4,350**	**4,667**	**5,254**	**5,650**	**6,120**	**26,051**

Council staff concurs with the Executive's assumptions for the County Government Increment.

3. ***Impact taxes.*** For the past few years revenue has been overestimated from impact taxes, leading to the need to supplant impact tax revenue with General Fund advances which ultimately are reimbursed with funds that otherwise could be used for other projects in the CIP. Executive and Council staff concur that the proper course for future CIPs, starting with the FY11-16 CIP, is to start with much more conservative revenue estimates for impact taxes. The Executive is now recommending estimates which will probably be attained. At CIP Reconciliation, if actual revenue proves to be somewhat higher, the Council will be in the happier position to program the additional amount. But note these likely would be marginal increases, not windfalls.

When the FY09-14 CIP was approved in the spring of 2008, school impact taxes were expected to generate about $17.2 million in FY09, $19.2 million in FY10, and $127.5 million over the six-year period. Last winter the Council reduced the estimates for FY09 and FY10 to $11 million/year as the economy—especially the development industry—declined. At CIP Reconciliation this past May, the Council estimated that only about $8 million would be collected by the end of FY09. The final revenue figure came in just under this estimate: $7,925,495.

During the first half of this fiscal year about $5 million has been collected, so the final revenue is on track to be close to the $11 million projection for FY10. However, future years will generate far less revenue than is currently assumed. The Executive is recommending $55.5 million (as shown in the table below), only about half of the $110 million assumed in the Amended FY09-14 CIP:

Table 14: School Impact Tax Revenue Estimates ($000)

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	6-Yr
May, 2008	17,226	19,243	20,336	21,974	23,324	25,359	-	-	127,462
Feb., 2009	11,000	11,000	20,336	21,974	23,324	25,359	-	-	112,993
May, 2009	8,000	11,000	20,336	21,974	23,324	25,359	-	-	109,993
FY11-16 Rec			**7,960**	**8,480**	**8,890**	**9,520**	**10,000**	**10,650**	**55,500**

In the spring of 2008 transportation impact taxes were expected to generate about $19.8 million in FY09, $13.2 million in FY10, and $90.5 million over the six-year period. Last winter the Council reduced the estimates for FY09 and FY10 to $7 million and 10 million, respectively. At CIP Reconciliation the Council estimated that only about $3.2 million would be collected by the end of FY09. The final revenue figure came in at just $2,398,310.

During the first half of this fiscal year only about $1.4 million has been collected, so the final revenue projects to fall well below the $10 million estimate for FY10. In future years this tax is now estimated to generate a much smaller proportion of funds than the school impact tax. For the FY11-16 CIP the Executive is recommending assuming only about $29.4 million (see below), about 58.5% less than the $70.7 million assumed in the Amended FY09-14 CIP:

Table 15: Transportation Impact Tax Revenue Estimates ($000)

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	6-Yr
May, 2008	19,796	13,223	13,758	14,341	14,384	15,000	-	-	90,502
Feb., 2009	7,000	10,000	13,758	14,341	14,384	15,000	-	-	74,483
May, 2009	3,200	10,000	13,758	14,341	14,384	15,000	-	-	70,683
FY11-16 Rec			**3,950**	**4,930**	**4,950**	**5,080**	**5,120**	**5,310**	**29,340**

Council staff recommends using the Executive's forecasts for school and transportation impact taxes.

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

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

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

IV. STATE SCHOOL CONSTRUCTION AID

The CIP amended last May estimated $40 million of State school construction aid annually for the FY11-14 period. When the Superintendent and the Board of Education prepared their respective CIP requests, they did not wish to independently assume a different set of forecasts.

The Executive is recommending that the FY11-16 CIP assume $30 million in State aid for FY11, which would be $10 million less than currently programmed for that year. He recommends retaining the $40 million/year assumption for FYs12-14, and extending that assumption for FYs15-16.

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

V. CURRENT REVENUE

The Executive's proposed Current Revenue Adjustment Chart is on ©11. The Executive is recommending that about $333.1 million of tax-supported Current Revenue be available in FY11-16 (inflation adjusted), about $91.7 million (40.0%) more than in the Amended CIP. But this increase is loaded after FY11; in FY11 he recommends about $12.1 million less, in order to provide more funds for the Operating Budget.

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

Table 16: Current Revenue in Recent CIPs ($ millions)

CIP	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	6-Yr
FY07-12	35.0	52.8	32.6	29.2	23.3	22.7					195.5
FY07-12 Am	44.2	42.5	57.9	55.2	38.3	37.7					275.9
FY09-14			44.9	50.1	34.0	28.4	39.5	55.8			252.7
FY09-14 Am			45.9	30.7	37.1	28.5	41.3	57.8			241.4
FY11-16 Rec					**25.0**	**40.6**	**55.6**	**77.0**	**77.9**	**56.9**	**333.1**

Council staff recommendation: Concur with the Executive's assumptions on Current Revenue in the CIP for FYs11-16. FY11 is the key year to restrain Current Revenue spending, given current economic conditions.

VI. PARK AND PLANNING BONDS

On October 6 the Council approved Spending Affordability Guidelines for Park and Planning Bonds of $7.5 million for FY11, $6.0 million for FY12 and $37.5 million for FY11-16. In his January submission the Executive recommended the existing guidelines and using the new inflation rates now proposed for G.O. Bonds and Current Revenue. He also is assuming an implementation rate of 87% for each year, just as in the CIP approved last spring (©12).

The Executive's recommended set-aside of about $11.8 million comprises about 28.8% of the funds available for projects, which is nearly the same percentage as last year but higher than what has traditionally has been reserved. In each of the past two years the set-aside has been about 17% of the funds available for programming; the Council could program $5 million more within the FY11-16 period and still have about a 16-17% reserve.

Council staff recommendation: Retain the current guidelines and targets.

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

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

a. This article; or

b. A resolution authorizing revenue bonds; or

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

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

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

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

ARTICLE X. SPENDING AFFORDABILITY—CAPITAL BUDGETS*

Sec. 20-55. Definitions.

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

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

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

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

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

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

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Sec. 20-56. Establishment of Guidelines.

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

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

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

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

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

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

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

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

(c) *Procedures.*

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

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

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

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

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

Sec. 20-57. Affordability Indicators.

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

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

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

(c) County financial history;

(d) fund balances;

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

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

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

(h) the rate of repayment of debt principal;

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

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

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

Sec. 20-58. Approval of Capital Budgets.

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

GENERAL OBLIGATION BOND ADJUSTMENT CHART

FY11-16 CAPITAL IMPROVEMENTS PROGRAM
COUNTY EXECUTIVE RECOMMENDED
JANUARY 15, 2010

($ millions)	6 YEARS	FY11	FY12	FY13	FY14	FY15	FY16
BONDS PLANNED FOR ISSUE	1,950.000	325.000	325.000	325.000	325.000	325.000	325.000
Plus PAYGO Funded	164.474	1.974	32.500	32.500	32.500	32.500	32.500
Adjust for Implementation **	350.979	61.905	61.905	59.921	57.871	55.765	53.612
Adjust for Future Inflation **	(107.358)	-	-	(10.413)	(21.175)	(32.234)	(43.537)
SUBTOTAL FUNDS AVAILABLE FOR DEBT ELIGIBLE PROJECTS (after adjustments)	2,358.095	388.879	419.405	407.009	394.196	381.031	367.575
Less Set Aside: Future Projects	188.891 8.01%	10.238	12.516	10.167	35.750	53.698	66.522
TOTAL FUNDS AVAILABLE FOR PROGRAMMING	2,169.204	378.641	406.889	396.842	358.446	327.333	301.053
MCPS	(957.748)	(187.818)	(171.979)	(175.743)	(183.011)	(119.359)	(119.838)
MONTGOMERY COLLEGE	(108.718)	(36.427)	(20.856)	(14.831)	(17.385)	(10.755)	(8.464)
M-NCPPC PARKS	(64.159)	(12.483)	(12.564)	(15.637)	(8.403)	(7.536)	(7.536)
TRANSPORTATION	(578.094)	(96.842)	(75.604)	(72.895)	(74.894)	(125.927)	(131.932)
MCG - OTHER	(550.551)	(112.453)	(146.005)	(119.938)	(75.116)	(63.756)	(33.283)
Programming Adjustment - Unspent Prior Years*	90.066	67.382	20.119	2.202	0.363	-	-
SUBTOTAL PROGRAMMED EXPENDITURES	(2,169.204)	(378.641)	(406.889)	(396.842)	(358.446)	(327.333)	(301.053)
AVAILABLE OR (GAP)	-	-	-	-	-	-	-
NOTES: * See additional information on the GO Bond Programming Adjustment for Unspent Prior Year Detail Chart ** Adjustments Include: Inflation =		2.50%	2.70%	3.00%	3.20%	3.40%	3.60%
Implementation Rate =		84.00%	84.00%	84.00%	84.00%	84.00%	84.00%

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DEBT CAPACITY ANALYSIS KEY ASSUMPTIONS AND INPUTS AMENDED FY09-14 CIP(March, 2009) VS. RECOMMENDED FY11-16 CIP (January, 2010)									
		Prior Year FY09	Current Year FY10	Year 1 FY 11	Year 2 FY 12	Year 3 FY 13	Year 4 FY 14	Year 5 FY 15	Year 6 FY 16
1	INTEREST RATE ON BONDS								
	FY09-14 CIP - March, 2009	7.10%	5.50%	5.80%	5.50%	5.50%	5.50%		
	FY11-16 CIP - January, 2010			5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
2	OPERATING GROWTH								
	FY09-14 CIP - March, 2009	4.60%	0.50%	2.90%	4.30%	4.10%	4.40%		
	FY11-16 CIP - January, 2010			0.10%	3.90%	4.00%	4.40%	5.00%	4.20%
3	POPULATION								
	FY09-14 CIP - March, 2009	957,760	966,000	977,522	989,181	1,000,979	1,012,919		
	FY11-16 CIP - January, 2010			978,000	989,000	1,001,000	1,013,000	1,025,000	1,035,000
4	FY CPI INFLATION								
	FY09-14 CIP - March, 2009	4.10%	3.25%	2.80%	2.50%	2.50%	2.50%		
	FY11-16 CIP - January, 2010			2.50%	2.70%	3.00%	3.20%	3.40%	3.60%
5	ASSESSABLE BASE-COUNTYWIDE								
	FY09-14 CIP($000) - March, 2009	162,649,000	173,813,000	186,249,000	192,233,000	195,984,000	201,073,000		
	FY11-16 CIP($000) - January, 2010			186,853,000	189,676,000	193,243,000	198,552,000	205,672,000	214,525,000
6	TOTAL PERSONAL INCOME								
	FY09-14 CIP($000) - March, 2009	67,100,000	69,500,000	73,700,000	78,000,000	81,900,000	85,700,000		
	FY11-16 CIP($000) - January, 2010			72,800,000	76,300,000	80,000,000	83,900,000	87,500,000	91,600,000

DEBT CAPACITY ANALYSIS							
FY11-16 Capital Improvements Program COUNTY EXECUTIVE RECOMMENDED JANUARY 15, 2010 GO BOND 6 YR TOTAL = 1,950.0 MILLION GO BOND FY11 TOTAL = 325.0 MILLION GO BOND FY12 TOTAL = 325.0 MILLION							
	FY10	FY11	FY12	FY13	FY14	FY15	FY16
1 New GO Debt Issued ($000s)	310,000	325,000	325,000	325,000	325,000	325,000	325,000
2 GO Debt/Assessed Value	1.24%	1.31%	1.38%	1.43%	1.47%	1.48%	1.48%
3 Debt Service + LTL + Short-Term Leases/Revenues (GF)	8.75%	9.43%	10.21%	10.90%	11.25%	11.26%	11.18%
4 $ Debt/Capita	2,239	2,498	2,639	2,762	2,872	2,969	3,058
5 $ Real Debt/Capita (FY10=100%)	2,239	2,437	2,507	2,548	2,567	2,566	2,551
6 Capita Debt/Capita Income	3.11%	3.36%	3.42%	3.46%	3.47%	3.48%	3.45%
7 Payout Ratio	69.56%	68.59%	68.12%	67.91%	67.95%	68.17%	68.47%
8 Total Debt Outstanding ($000s)	2,163,274	2,442,635	2,610,455	2,765,125	2,909,660	3,042,940	3,164,765
9 Real Debt Outstanding (FY10=100%)	2,163,274	2,383,059	2,479,830	2,550,253	2,600,345	2,630,036	2,640,280
10 Note: OP/PSP Growth Assumption (2)	4.6%	0.1%	3.9%	4.0%	4.4%	5.0%	4.2%

Notes:

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

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

DEBT CAPACITY ANALYSIS

FY11-16 CAPITAL IMPROVEMENTS PROGRAM
DEBT CAPACITY ANALYSIS SEPTEMBER 8, 2009
Scenario - Debt Issues @ $325mn/year

6 Yr. Total ($Mn.) $1,950.0 mn
FY11 Total ($Mn.) $325.0 mn
FY12 Total ($Mn.) $325.0 mn

	GUIDELINE	FY10	FY11	FY12	FY13	FY14	FY15	FY16
1. New GO Debt Issued ($000s) (Scenarios)		310,000	325,000	325,000	325,000	325,000	325,000	325,000
FYs 09-14 Approved Issues ($000)		310,000	315,000	325,000	290,000	300,000		
2. GO Debt/Assessed Value	1.5%	1.24%	1.31%	1.36%	1.41%	1.45%	1.46%	1.45%
3. Debt Service + LTL + Short-Term Leases/Revenues	**10%**	**8.75%**	**9.51%**	**9.77%**	**10.15%**	**10.30%**	**10.35%**	**10.43%**
4. $ Debt/Capita		2,239	2,499	2,639	2,762	2,873	2,969	3,051
5. $ Real Debt/Capita	~~$1,800~~ $1,9[illegible]	2,239	2,431	2,505	2,558	2,595	2,616	2,623
6. Capita Debt/Capita Income	3.5%	3.11%	3.31%	3.35%	3.38%	3.40%	3.40%	3.40%
7. Payout Ratio	60% - 75%	69.56%	68.59%	68.12%	67.91%	67.95%	68.17%	68.47%
8. Total Debt Outstanding ($000s)		2,163,274	2,442,635	2,610,455	2,765,125	2,909,660	3,042,940	3,164,765
9. Real Debt Outstanding ($000)		2,163,274	2,376,104	2,477,418	2,560,200	2,628,316	2,681,667	2,721,003
10. OP/PSP Growth Assumption			**1.5%**	**4.6%**	**4.0%**	**4.4%**	**4.6%**	**4.6%**

(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 FY10 approved budget to FY11 budget for FY11 and budget to budget for FY12-16.

DEBT SERVICE IMPACT	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Assumed Issue Size ($000)	310,000	325,000	325,000	325,000	325,000	325,000	325,000
GO Bond Debt Service ($000)	223,059	242,259	260,263	288,589	307,877	326,354	346,252
Percentage change in debt service	**8.89%**	**8.61%**	**7.43%**	**10.88%**	**6.68%**	**6.00%**	**6.10%**

ASSUMED INCREASE IN DEBT ISSUANCE	**Total Increase/(Decrease)**							
Approved GO bond debt issuance		310,000	315,000	325,000	290,000	300,000	300,000	300,000
Assumed GO bond debt issuance		310,000	325,000	325,000	325,000	325,000	325,000	325,000
Increase/(Decrease) in GO bond debt issuance	**120,000**	**0**	**10,000**	**0**	**35,000**	**25,000**	**25,000**	**25,000**

IMPLEMENTATION RATES
COMPARING PROGRAMMED AND ACTUAL EXPENDITURES
GO BOND FUNDING ONLY
FOR FISCAL YEARS 2005 THROUGH 2009

BOND CATEGORY	FY05 ACTUAL BONDS	FY05 PROGRAM.BONDS	FY05 Rate	FY06 ACTUAL BONDS	FY06 PROGRAM.BONDS	FY06 RATE
PUBLIC SCHOOLS	63,381,524	95,812,000	66.15%	149,551,785	119,811,000	124.82%
M. COLLEGE	12,470,877	9,413,000	132.49%	11,071,956	14,788,000	74.87%
M-NCPPC PARKS	7,191,028	8,739,432	82.28%	6,532,119	11,697,000	55.84%
TRANSPORTATION	43,347,600	54,258,000	79.89%	59,250,150	68,419,000	86.60%
MCG-OTHER	31,470,284	56,951,569	55.26%	37,356,509	39,241,000	95.20%
TOTAL	**157,861,313**	**225,174,000**	**70.11%**	**263,762,519**	**253,956,000**	**103.86%**

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BOND CATEGORY	FY07 ACTUAL BONDS	FY07 PROGRAM.BONDS	FY07 RATE	FY08 ACTUAL BONDS	FY08 PROGRAM. BONDS	FY08 RATE
PUBLIC SCHOOLS	113,114,806	152,863,000	74.00%	148,219,059	142,981,000	103.66%
M. COLLEGE	10,085,083	19,989,000	50.45%	22,270,792	22,326,000	99.75%
M-NCPPC PARKS	5,806,313	7,470,000	77.73%	5,390,411	5,953,000	90.55%
TRANSPORTATION	42,349,336	64,411,000	65.75%	73,704,397	77,142,000	95.54%
MCG-OTHER	22,354,632	56,180,000	39.79%	24,540,312	41,930,000	58.53%
TOTAL	**193,710,170**	**300,913,000**	**64.37%**	**274,124,971**	**290,332,000**	**94.42%**

BOND CATEGORY	FY09 ACTUAL BONDS	FY09 PROGRAM. BONDS	FY09 RATE	LAST 5 YEAR AVG.
PUBLIC SCHOOLS	159,832,241	154,430,000	103.50%	94.43%
M. COLLEGE	20,981,433	40,113,000	52.31%	81.97%
M-NCPPC PARKS	5,272,160	10,560,000	49.93%	71.27%
TRANSPORTATION	71,701,540	75,304,000	95.22%	84.60%
MCG-OTHER	40,232,351	62,450,000	64.42%	62.64%
TOTAL	**298,019,725**	**342,857,000**	**86.92%**	**83.94%**

GENERAL OBLIGATION BOND - PROGRAMMING ADJUSTMENT FOR UNSPENT PRIOR YEAR'S
FY11-16 CAPITAL IMPROVEMENT PROGRAM
COUNTY EXECUTIVE RECOMMENDED: JANUARY 15, 2010

PDF #	PDF Name	Total	FY11	FY12	FY13	FY14	FY15	FY16
	Montgomery College							
036603	Macklin Towers Alterations	3.200	2.200	1.000	-	-	-	-
046602	Computer Science Alterations	0.814	0.814	-	-	-	-	-
056601	Commons Renovation	0.100	0.100	-	-	-	-	-
096602	Rockville Parking Lot & Tennis Court Relocation	1.100	1.100	-	-	-	-	-
096603	Health Sciences Expansion	1.200	0.600	0.600	-	-	-	-
096604	Germantown Observation Drive Reconstruction	0.600	0.600	-	-	-	-	-
956645	Germantown Child Care Center	0.600	0.600	-	-	-	-	-
	Sub-Total	7.614	6.014	1.600	-	-	-	-
	M-NCPPC Parks							
038703	Laytonia Recreational Park	0.045	0.045	-	-	-	-	-
058701	Black Hill Renovation & Extension	1.301	1.301	-	-	-	-	-
078708	Wheaton Tennis Bubble Renovation	0.024	0.024	-	-	-	-	-
098703	Woodlawn Barn Visitors Center	0.175	0.175	-	-	-	-	-
	Sub-Total	1.545	1.545	-	-	-	-	-
	Transportation							
500505	White Ground Road Bridge No. M-138	0.765	0.765	-	-	-	-	-
500900	Clarksburg Rd Bridge No. M-009B	0.522	0.522	-	-	-	-	-
509132	Facility Planning: Bridges	0.159	0.159	-	-	-	-	-
509928	Brookville Service Park	4.011	3.065	0.946	-	-	-	-
500723	Northern Damascus Park & Ride Lot**	0.176	0.023	0.076	0.077	-	-	-
500933	Equipment Maintenance & Operation Center	0.157	0.157	-	-	-	-	-
509974	Silver Spring Transit Center	11.551	11.551	-	-	-	-	-
500119	Bethesda Bikeway & Pedestrian Facilities**	1.012	-	-	1.012	-	-	-
500600	Shady Grove Access Bike Path	0.646	0.646	-	-	-	-	-
500718	MacArthur Blvd Bikeway Improvements	0.753	0.498	0.255	-	-	-	-
500904	Dale Drive Sidewalk	0.172	0.172	-	-	-	-	-
500102	Bethesda CBD Streetscape	0.898	0.513	0.385	-	-	-	-
500151	Woodfield Rd Extended	3.632	3.632	-	-	-	-	-
500311	Montrose Parkway West	0.629	0.629	-	-	-	-	-
500401	Nebel Street Extended	0.368	0.368	-	-	-	-	-
500516	Father Hurley Blvd Extended	3.839	3.839	-	-	-	-	-
500717	Montrose Parkway East	0.889	0.889	-	-	-	-	-
500719	Chapman Ave Extended	0.101	0.101	-	-	-	-	-
500912	Thompson Rd Connection	0.281	0.281	-	-	-	-	-
508000	Subdivision Rds Participation	2.252	1.861	0.391	-	-	-	-
507310	Public Facilities Roads	0.702	0.350	0.352	-	-	-	-
508716	Silver Spring Traffic Improvements	0.754	0.754	-	-	-	-	-
500722	State Transportation Participation	0.900	-	0.900	-	-	-	-
500338	Highway Noise Abatement	0.400	0.200	0.200	-	-	-	-
	Sub-Total	35.569	30.975	3.505	1.089	-	-	-
	MCG - Other							
710300	Gaithersburg Library Renovation	0.706	0.706	-	-	-	-	-
710301	Olney Library Renovation & Addition	1.249	1.249	-	-	-	-	-
710703	Davis Library Renovation**	0.665	-	0.487	0.178	-	-	-
720100	N. Bethesda Community Recreation Center**	1.001	0.355	0.250	0.396	-	-	-
720102	N. Potomac Community Recreation Center	0.443	0.443	-	-	-	-	-
720800	Wheaton Community Recreation Center	0.038	0.038	-	-	-	-	-
720905	Plum Gar Neighborhood Recreation Center	0.402	0.402	-	-	-	-	-
720918	Good Hope Neighborhood Recreation Center	0.112	0.112	-	-	-	-	-
720919	Ross Boddy Neighborhood Recreation Center	0.438	0.258	0.180	-	-	-	-
500705	401 Hungerford Drive Garage	0.271	0.271	-	-	-	-	-
640400	School Based Health & Linkages to Learning Centers	0.024	0.024	-	-	-	-	-
640902	High School Wellness Center	0.235	0.235	-	-	-	-	-

GENERAL OBLIGATION BOND - PROGRAMMING ADJUSTMENT FOR UNSPENT PRIOR YEAR'S
FY11-16 CAPITAL IMPROVEMENT PROGRAM
COUNTY EXECUTIVE RECOMMENDED: JANUARY 15, 2010

PDF #	PDF Name	Total	FY11	FY12	FY13	FY14	FY15	FY16
450300	Clarksburg Fire Station	3.086	1.559	0.625	0.539	0.363	-	-
450305	Female Facility Upgrade	0.025	0.025	-	-	-	-	-
450500	Cabin John Fire Station #30 Addition/Renovation	0.176	0.176	-	-	-	-	-
450504	Travilah Fire Station	3.428	2.078	1.350	-	-	-	-
450702	Glen Echo Fire Station Renovation	0.709	0.467	0.242	-	-	-	-
450900	Glenmont FS 18 Replacement	1.088	0.459	0.629	-	-	-	-
450903	Kensington FS25 Addition	0.346	0.346	-	-	-	-	-
450906	Public Safety Headquarters	0.974	0.974	-	-	-	-	-
470302	3rd District Police Station	0.339	0.339	-	-	-	-	-
470400	Animal Shelter	10.191	-	10.191	-	-	-	-
451000	Fire Station Alerting	0.500	0.200	0.300	-	-	-	-
450302	Fire Stations: Life Safety Systems	0.320	0.160	0.160	-	-	-	-
458429	Resurfacing Fire Stations	0.600	0.300	0.300	-	-	-	-
458629	Roof Replacements: Fire Stations	0.630	0.330	0.300	-	-	-	-
450700	FS Emergency Power System Upgrades	0.750	0.750	-	-	-	-	-
509923	Elevator Modernization	0.900	0.900	-	-	-	-	-
507834	Energy Conservation	0.225	0.225	-	-	-		-
509970	Life Safety Systems: MCG	0.575	0.575	-	-	-	-	-
508331	Roof Replacements: MCG	2.000	2.000	-	-	-	-	-
429755	Detention Center Reuse*	12.892	12.892	-	-	-	-	-
	Sub-Total	**45.338**	**28.848**	**15.014**	**1.113**	**0.363**	-	-
	Total Programming Adjustment	**90.066**	**67.382**	**20.119**	**2.202**	**0.363**	-	-

** Project recommended for closeout*
***Projects delayed*

(10)

TAX SUPPORTED CURRENT REVENUES ADJUSTMENT CHART

FY11-16 Capital Improvements Program
CE RECOMMENDED
JANUARY 15, 2010

($ MILLIONS)	6 YEARS	FY11 APPROP	FY12 EXP	FY13 EXP	FY14 EXP	FY15 EXP	FY16 EXP
TAX SUPPORTED CURRENT REVENUES AVAILABLE	355.183	25.032	40.566	57.252	81.889	85.617	64.828
Adjust for Future Inflation *	(22.132)	-	-	(1.668)	(4.850)	(7.720)	(7.895)
SUBTOTAL CURRENT REVENUE FUNDS AVAILABLE FOR ELIGIBLE PROJECTS (after adjustments)	333.051	25.032	40.566	55.584	77.039	77.897	56.933
Less Set Aside: Future Projects	- 0.0%	-	-	-	-	-	-
TOTAL FUNDS AVAILABLE FOR PROGRAMMING	333.051	25.032	40.566	55.584	77.039	77.897	56.933
GENERAL FUND							
MCPS	(124.452)	(11.016)	(4.781)	(24.107)	(27.313)	(28.393)	(28.842)
MONTGOMERY COLLEGE	(53.466)	0.092	(8.106)	(10.196)	(12.354)	(11.749)	(11.153)
M-NCPPC	(13.136)	0.354	(2.698)	(2.698)	(2.698)	(2.698)	(2.698)
HOC	(6.754)	(0.504)	(1.250)	(1.250)	(1.250)	(1.250)	(1.250)
TRANSPORTATION	(45.979)	(3.158)	(7.500)	(8.593)	(9.348)	(8.690)	(8.690)
MC GOVERNMENT	(25.866)	(8.596)	(9.338)	(2.337)	(1.865)	(1.865)	(1.865)
SUBTOTAL - GENERAL FUND	(269.652)	(22.827)	(33.673)	(49.181)	(54.828)	(54.645)	(54.498)
ECONOMIC DEVELOPMENT FUND	-	-	-	-	-	-	-
MASS TRANSIT FUND	(59.800)	(1.855)	(5.044)	(6.053)	(21.861)	(22.902)	(2.085)
FIRE CONSOLIDATED	(1.499)	-	(1.499)	-	-	-	-
PARK FUND	(2.100)	(0.350)	(0.350)	(0.350)	(0.350)	(0.350)	(0.350)
SUBTOTAL - OTHER TAX SUPPORTED	(63.399)	(2.205)	(6.893)	(6.403)	(22.211)	(23.252)	(2.435)
TOTAL PROGRAMMED EXPENDITURES	(333.051)	(25.032)	(40.566)	(55.584)	(77.039)	(77.897)	(56.933)
AVAILABLE OR (GAP) TO BE SOLVED	-	-	-	-	-	-	-
* Inflation:		2.50%	2.70%	3.00%	3.20%	3.40%	3.60%

Notes:
(1) FY11 APPROP equals new appropriation authority recommended at this time. Additional current revenue funded appropriations will require drawing on operating budget fund balances.

(11)

M-NCPPC BOND ADJUSTMENT CHART

FY11-16 Capital Improvements Program
COUNTY EXECUTIVE RECOMMENDED
January 15, 2010

($ millions)	6 YEARS	FY11	FY12	FY13	FY14	FY15	FY16
BONDS PLANNED FOR ISSUE	37.500	7.500	6.000	6.000	6.000	6.000	6.000
Assumes Council SAG							
Adjust for Implementation *	5.334	1.121	0.896	0.870	0.843	0.816	0.787
Adjust for Future Inflation *	(1.802)	-	-	(0.175)	(0.355)	(0.541)	(0.731)
SUBTOTAL FUNDS AVAILABLE FOR DEBT ELIGIBLE PROJECTS (after adjustments)	41.033	8.621	6.896	6.696	6.488	6.275	6.057
Less Set Aside: Future Projects	11.813 28.8%	0.100	0.018	3.141	2.591	3.014	2.949
TOTAL FUNDS AVAILABLE FOR PROGRAMMING	29.220	8.521	6.878	3.555	3.897	3.261	3.108
Programmed P&P Bond Expenditures	(29.220)	(8.521)	(6.878)	(3.555)	(3.897)	(3.261)	(3.108)
SUBTOTAL PROGRAMMED EXPENDITURES	(29.220)	(8.521)	(6.878)	(3.555)	(3.897)	(3.261)	(3.108)
AVAILABLE OR (GAP) TO BE SOLVED	-	-	-	-	-	-	-
NOTES:							
* Adjustments Include:							
Inflation =		2.50%	2.70%	3.00%	3.20%	3.40%	3.60%
Implementation Rate =		87.00%	87.00%	87.00%	87.00%	87.00%	87.00%

(12)