

Forest Conservation Advisory Committee

Department of Finance

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www.montgomerycountymd.gov/finance

Financial Assets and Trees

- Can Montgomery consider their street trees and/or forest as capital assets that can be bonded?

Financial Assets and Trees

- GAAFR definition of capital asset is land, improvements, to land, easements, buildings, building improvements, vehicles, machinery & equipments, works of art, historical treasures, infrastructure and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.
- Trees are tangible, are owned by Montgomery County, meet the threshold, have useful life of more than 1 year and provide a benefit;

Financial Assets and Trees

CIP Fiscal Policy

- The purposes of the CIP fiscal policy are:
- To encourage careful and timely decisions on the relative priority of programs and projects;
- To encourage cost effectiveness in the type, design, and construction of capital improvements;
- To ensure that the County may borrow readily for essential public improvements; and
- To keep the cost of debt service and other impacts of capital projects at levels affordable in the operating budget

Policy on Eligibility for Inclusion in the CIP

- Capital expenditures included as projects in the CIP should:
 - Have a reasonably long useful life, or add to the physical infrastructure and capital assets of the County, or enhance the productive capacity of County services. Examples are roads, utilities, buildings, and parks. Such projects are normally eligible for debt financing.

Policy On Funding CIP With Debt

- Much of the CIP should be funded with debt. Capital projects usually have a long useful life and will serve future taxpayers as well as current taxpayers. It would be inequitable and an unreasonable fiscal burden to make current taxpayers pay for many projects out of current tax revenues. Bond issues, retired over approximately 20 years, are both necessary and equitable.
- Projects deemed to be debt eligible should:
 - Have an approximate useful life at least as long as the debt issue with which they are funded.

Financial Assets and Trees

Debt Capacity:

- Several measures used in calculation of Spending Affordability Guidelines (SAG)
 - Total debt should not exceed 1.5% of full market value of taxable real property (1.64% - 1.58%).
 - 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 \$2,000 in FY13 dollars (\$2,680 - \$2,637).
 - The ratio of debt to income should not exceed 3.5% (3.55% - 3.35%).
 - 60-75% of the debt at the beginning of any period should be paid off within ten years (68.2% - 69.9%).
 - The sum of debt service and long-term and short-term lease payments should not exceed 10% of General Fund revenue (10.9% - 11.9%).

Financial Assets and Trees

- Scarcity of resources and competition for bond funding:
 - County is approved to issue \$295 million in GO Bond funding each year FY13-18
 - Public Schools 35%, Transportation 22%, College 7%, County Govt. 32%, Parks 4%
 - Other forms of debt also used, but impact debt capacity
 - Over subscribed by several hundred million each year so many infrastructure requests are delayed or rejected
 - Reduced from \$325 million per year in FY11-16 to \$295 million in FY13-18
 - Annual Debt Service: \$299 million in FY13 (3d largest “Agency”) larger than College, Police, Fire & Rescue, HHS, Park and Planning
 - Grows to \$385 million by FY18, almost 30% increase
 - Proposed to be reduced further by some to create financing capacity for Rapid Transit Vehicle (RTV aka BRT) system

Financial Assets and Trees

- As applied to Tree Bonds
 - Relatively fragile assets that are unusually vulnerable to weather, disease, and accidents in a manner that other infrastructure are not: e.g. buildings, roads, bridges
- Montgomery County is a AAA rated jurisdiction
 - To maintain the benefits of this rating
 - We do not test the limits of what can and should be financed with long term debt
 - Adhere to conservative, reliable, and generally accepted and understood practices for using debt
 - Recent municipal bankruptcy cases validate this approach: Stockton, San Bernadino, Harrisburg, Scranton