

**MEMORANDUM**

September 8, 2017

TO: County Council

FROM: <sup>GO</sup> Glenn Orlin, Deputy Council Administrator

SUBJECT: **Introduction**—Spending Affordability Guidelines for the FY19 Capital Budget and FY19-24 Capital Improvements Program

**Council staff recommends advertising a range of \$330-\$360 million/year for General Obligation bonds, the same range that was advertised two years ago when the guidelines were last set.** The low end of the range would be \$10 million less than the current \$340 million annual guideline, and the high end would be \$20 million more. Note that the Council is not ultimately bound to a guideline within this range; it could plausibly (but not likely) pick an amount lower than \$330 million or higher than \$360 million.

**Council staff recommends advertising a range of \$6.0-7.0 million/year for M-NCPPC bonds.** The low end of the range would be \$0.5 million less than the current \$6.5 million annual guideline, and the high end would be \$0.5 million more.

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**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 3 in 2017. 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.

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 42.0% of the \$4.94 billion Approved FY17-22 Capital Improvements Program (CIP) as amended (excluding WSSC) is financed by County General Obligation bonds and about 0.8% is financed by M-NCPPC bonds.

The guidelines adopted on or before October 3 are to specify:

1. The total general obligation debt issued by the County that may be planned for expenditure in FY19.
2. The total general obligation debt issued by the County that may be planned for expenditure in FY20.
3. The total general obligation debt issued by the County that may be planned for the 6-year period of FY21-24.
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 FY19.
5. The Park and Planning bond debt issued by M-NCPPC that may be planned for expenditure in FY20.
6. The Park and Planning bond debt issued by M-NCPPC that may be planned for the 6-year period of FY21-24.

## **II. Amending the resolution which set the guidelines**

No later than the first Tuesday in February (February 6 in 2018) 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 FY19 guideline at \$340 million, the most it could raise it to in February 2018 is \$374 million (\$34 million more), and if it did so, the most it could raise it to in February 2019 is \$411.4 million (another \$37.4 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, 2018. 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. Calendar**

The law requires the Council to hold a public hearing before adopting guidelines. The schedule over the next month is shown below:

- Tuesday, September 12      Council sets draft guidelines for the public hearing
- Tuesday, September 19      Council holds the public hearing
- Thursday, September 28      GO Committee meets to develop recommendations
- Tuesday, October 3      Council action

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