



**Queen  
Anne's  
County**

**OFFICE OF BUDGET, FINANCE AND  
INFORMATION TECHNOLOGY**

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*County Administrator: Gregg A. Todd*  
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**County Commissioners:**

James J. Moran, At Large  
Jack N. Wilson Jr., District 1  
Stephen Wilson, District 2  
Robert Charles Buckey, District 3  
Mark A. Anderson, District 4

DATE: November 13, 2018  
TO: County Commissioners  
CC: Stephen Wilson, County Commissioner  
Gregg A. Todd, County Administrator  
FROM: Jonathan R. Seeman, Director  
RE: Final Report of the Spending Affordability Committee, FY2020

The Spending Affordability Committee (SAC), established by Ordinance 15-11 in 2015, met twice in October, 2018, in order to prepare recommendations for the FY2020 County budget process. The Committee membership is as follows:

- Anne MacKinnon, former State Delegate and Prince George's County Councilwoman
- John Wilson, Local Business Owner
- Joe Zimmerman, Secretary-Treasurer, Maryland-National Capital Park and Planning Commission; former Queen Anne's County Director of Finance

Their charge was to recommend spending affordability guidelines which consider the upcoming FY2020 operating and capital budgets, sustainable debt service, budget forecasts, fund balance and an optimal six year capital program.

The SAC has made 8 recommendations in the areas of the budget (operating and capital), debt, and fund balance. They have focused on the major issues affecting affordability. The SAC hereby transmits their report to the Commissioners and looks forward to the opportunity to present their findings and recommendations to you.



## REPORT OF THE FY2020 SPENDING AFFORDABILITY COMMITTEE

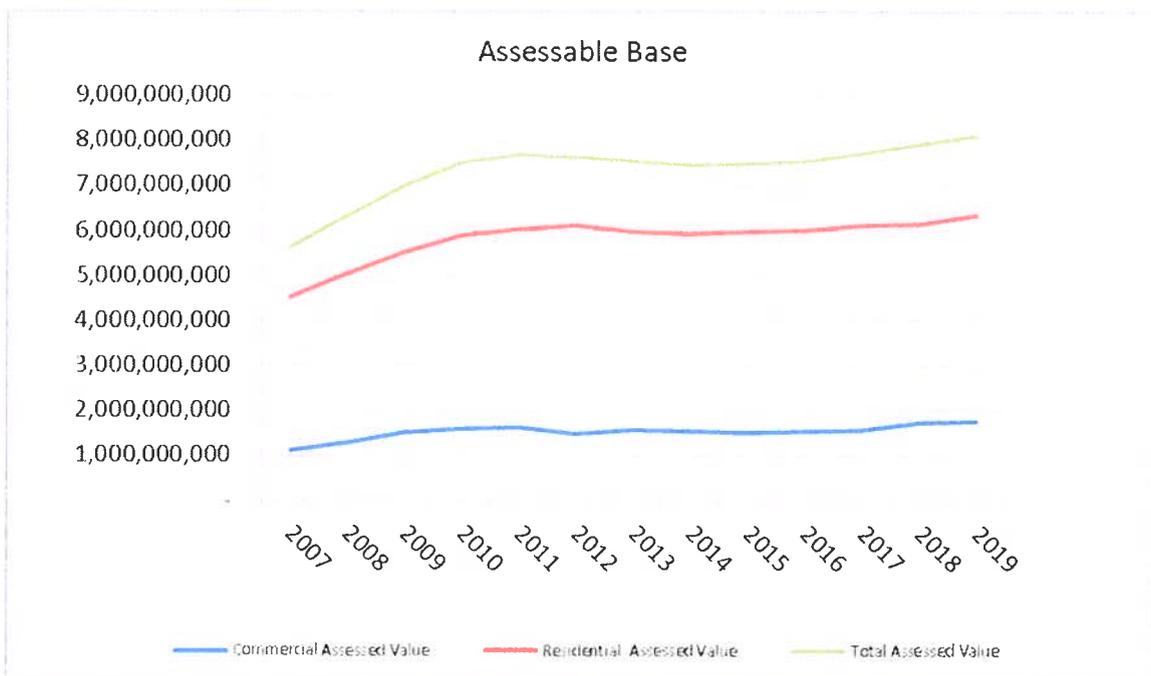
**Committee Members: John Wilson, Anne MacKinnon, Joe Zimmerman**

The Committee began its FY2020 considerations by reviewing the prior year recommendations and actions taken in light of those recommendations (Actions taken include considering realistic multi-year forecasts for operating revenues and expenditures and capital improvements, considering alternative financing and performing scheduled salary class studies, new fund balance policies relating to unassigned fund balance and the restoration of required limits if the need arises, paygo policies limiting the amount and use of paygo funds to maintain adequate resources and to balance the use of cash and bonds to fund capital projects.)

The Committee reviewed the current status of the local economy, the budget and revenue picture, the County's fund balance, a five year expenditure and revenue forecast, and the County's performance relative to debt policies.

The County received a AAA bond rating. The budget is structurally balanced, has a stable revenue base and has produced surpluses regularly since the end of the recession around 2012. The local economy reflects low unemployment and Queen Anne's County has the fifth highest per capita income in Maryland. Assessable base growth has been slow since the end of the Recession in 2012.

The County is experiencing strong growth in its hospitality and commercial industries. The unemployment rate of 3.8% is below the state's average of 4.3%. The housing market has been relatively strong over the past several years – since 2011 the total units sold has increased by 111%; the median sold price has increased 5% since 2013. In the past, the County could reliably count on growth in both property tax and income tax however, the recession of 2009-2011 caused a flattening of property values for the period of about 2011- 2017. Property assessments have shown slow growth for the last couple assessment cycles and increased 3% in the last year.



The County has built reasonable levels of fund balance after virtually wiping out the County's reserves in FY2011. The County holds a Rainy Day Fund for emergencies, and a Revenue Stabilization Fund which is designed to protect the fund balance and limit the use of these funds. The Rainy Day Fund must hold a balance equal to 8% of budgeted general fund operating revenues. The Revenue Stabilization Fund should not exceed 5% of budgeted general fund operating revenues and can be funded at a maximum of \$1 million per year.

The County's total General Fund fund balance as of June 30, 2018 was \$29,655,465, which is a significant increase from the County's FY11 fund balance of \$5,818,522. This fund balance includes non-spendables such as inventory, certain Assigned funds, the Rainy Day Fund reserve of \$10,906,358, the Revenue Stabilization Fund reserve of \$5,000,000 and an unassigned fund balance of \$11,142,331.

	<u>FY12 Actual</u>	<u>FY13 Actual</u>	<u>FY14 Actual</u>	<u>FY15 Actual</u>	<u>FY16 Actual</u>	<u>FY17 Actual</u>	<u>FY18 Actual</u>
Nonspendable	\$ 555,215	\$ 626,122	\$ 480,385	\$ 687,777	\$ 586,481	\$ 754,921	\$ 1,001,610
Restricted	340,670	8,111,614	8,375,368	8,681,112	9,002,389	10,626,394	10,999,800
Committed	695,944	-	1,157,360	2,000,000	3,000,000	4,000,000	5,027,897
Assigned	-	1,284,657	1,284,875	2,034,875	1,926,782	1,998,415	1,483,827
Unassigned	<u>11,207,265</u>	<u>5,965,003</u>	<u>7,123,519</u>	<u>7,793,085</u>	<u>8,468,591</u>	<u>8,830,530</u>	<u>11,142,331</u>
Total Fund Balance	<u>\$ 12,799,094</u>	<u>\$ 15,987,396</u>	<u>\$ 18,421,507</u>	<u>\$ 21,196,849</u>	<u>\$ 22,984,243</u>	<u>\$ 26,210,260</u>	<u>\$ 29,655,465</u>

The County Fund Balance policy limits the use of fund balance to "Paygo" items in the capital budget, to supplement the Rainy Day Fund when it is underfunded, to pay down existing debt, for one-time non-recurring expenditures, and to hold for reserves.

The County has consistently achieved the mandated level of the Rainy Day Fund, and has used limited Paygo funds as a funding source within the capital budget.

## DEBT MEASURES AND AFFORDABILITY

The County retires roughly \$7-8 million of debt each year. However the current forecast includes bond issuances over the 7 years projected to total \$85.6 million, an amount larger than the current projected debt retirements.

	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>
<u>Existing General Obligation Bond Debt</u>				
Governmental Activities	\$ 118,894,801	\$ 110,090,592	\$ 102,696,090	\$ 94,973,226
Business Type Activities	2,625,199	2,384,409	2,228,911	2,066,775
<b>TOTAL</b>	<b>121,520,000</b>	<b>112,475,001</b>	<b>104,925,001</b>	<b>97,040,001</b>

Forecasted additions to debt

FY19 Issuance of \$9.6 million	9,600,000	9,600,000	9,278,400	8,942,400
FY20 Issuance of \$10.0 million	-	10,000,000	10,000,000	9,665,000
FY21 Issuance of \$24.0 million	-	-	24,000,000	24,000,000
FY22 Issuance of \$12.0 million	-	-	-	12,000,000
FY23 Issuance of \$10.0 million	-	-	-	-
FY24 Issuance of \$10.0 million	-	-	-	-
FY25 Issuance of \$10.0 million	-	-	-	-

Total Debt Including:

Forecasted Issuances	\$ 131,120,000	\$ 132,075,001	\$ 148,203,401	\$ 151,647,401
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	<u>FY23</u>	<u>FY24</u>	<u>FY25</u>
<u>Existing General Obligation Bond Debt</u>			
Governmental Activities	\$ 86,887,178	\$ 79,427,875	\$ 71,650,616
Business Type Activities	1,897,822	1,722,125	1,539,385
<b>TOTAL</b>	<b>88,785,000</b>	<b>81,150,000</b>	<b>73,190,001</b>

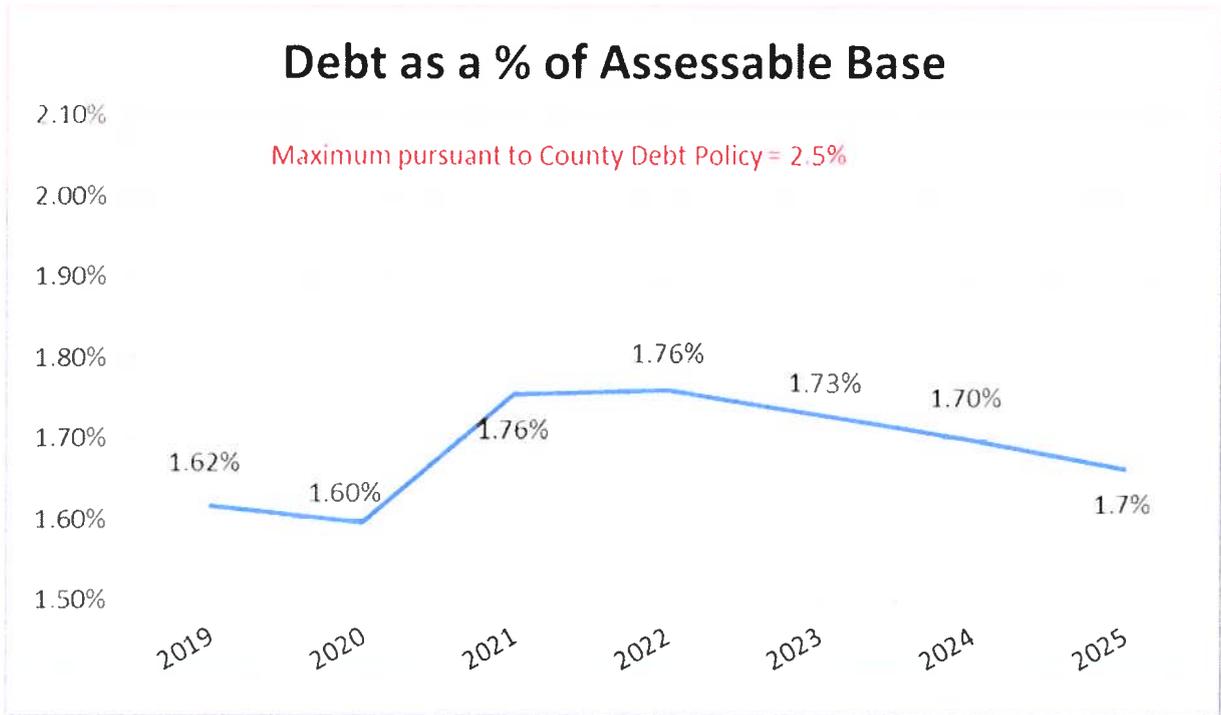
Forecasted additions to debt

FY19 Issuance of \$9.6 million	8,592,000	8,227,200	7,848,000
FY20 Issuance of \$10.0 million	9,315,000	8,950,000	8,570,000
FY21 Issuance of \$24.0 million	23,193,600	22,353,600	21,480,000
FY22 Issuance of \$12.0 million	12,000,000	11,570,000	11,150,000
FY23 Issuance of \$10.0 million	10,000,000	10,000,000	9,665,000
FY24 Issuance of \$10.0 million	-	10,000,000	10,000,000
FY25 Issuance of \$10.0 million	-	-	10,000,000

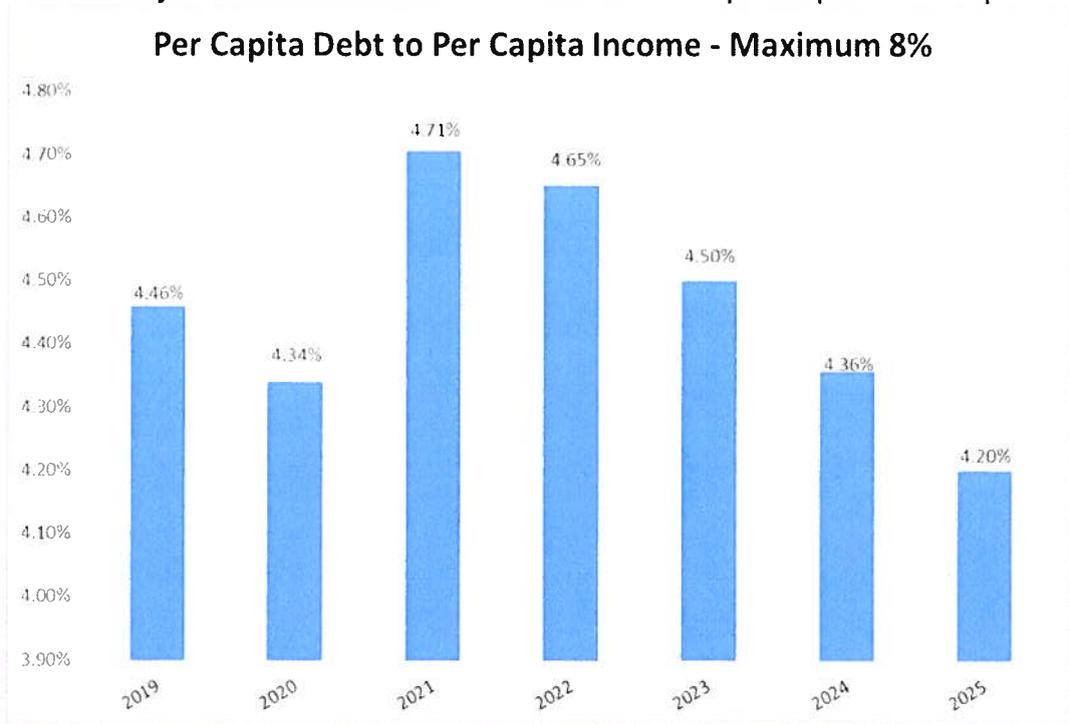
Total Debt Including:

Forecasted Issuances	\$ 151,885,600	\$ 152,250,800	\$ 151,903,001
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Under this model, with modest bond issuances generally between \$10-12 million annually, the County is within the limits of all three debt policies. The first debt policy states that general bonded debt must be 2.5% or less of the total taxable assessable base. The County's current debt as a percentage of assessable base is 1.62%. Using the assumptions presented above the highest ratio reached within 7 years is 1.76% in FY2021 & FY2022.

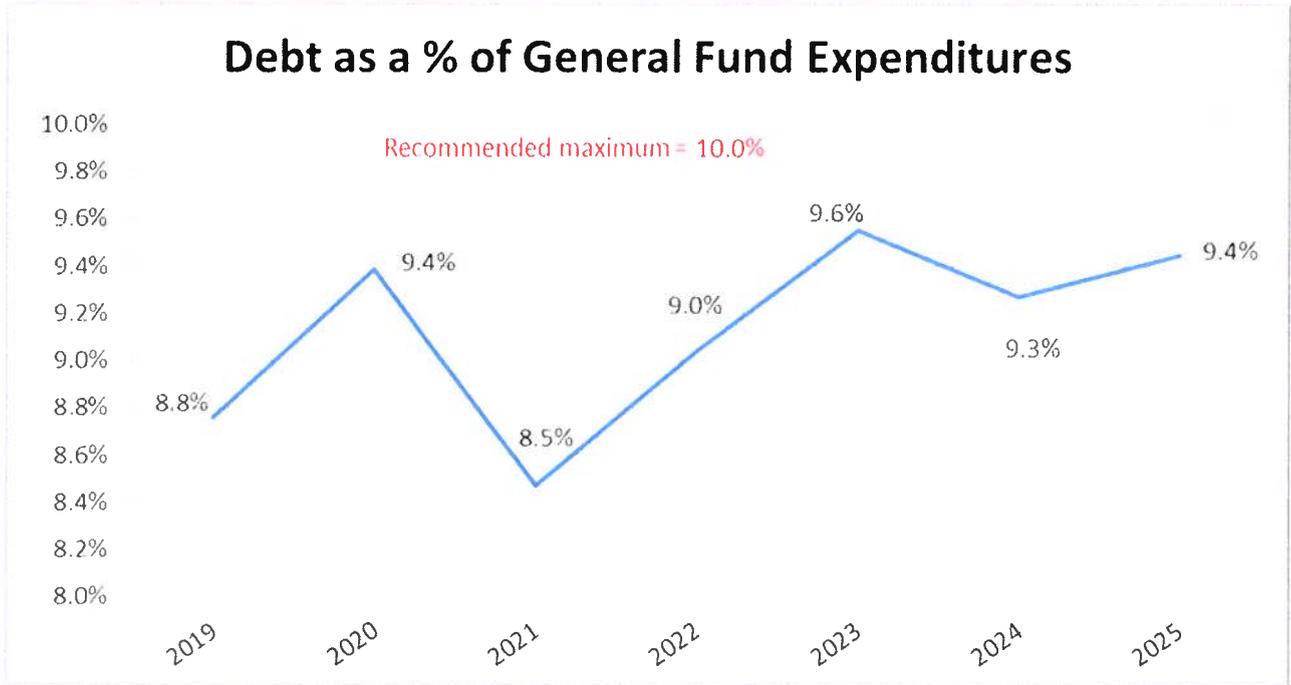


The second measure is per capita debt to per capita income (a measure designed to reflect that debt affordability is related to local wealth), which must remain below 8%) The County is well under this measure with 4.71% per capita debt to per capita



income reached in FY2021.

The final debt measure for the County is debt service as a percentage of general fund expenditures. This measure has a limit of 10%. The County's current measure is 8.8%. Using the assumptions presented above this measure is highest in FY2023 reaching 9.6%.



## **FY2020 SPENDING AFFORDABILITY COMMITTEE RECOMMENDATIONS**

The Committee Members were pleased to see the adoption of and adherence to their recommendations from last year. They were very encouraged to see the financial stability of the County and that reserves have met policy goals.

They present the following recommendations to the Commissioners for their budgetary considerations for the upcoming fiscal year:

1. Update and modernize the County's Investment Policy
2. The County should be aware and cognizant of recent and extraordinary ongoing increases in housing, such as Four Seasons and Southern Kent Island, and the resulting impact on the County's economy, resources, etc.
3. The Office of Budget, Finance and IT should review and advise the Commissioners of the potential budgetary impacts of the Kirwan Commission recommendations.
4. The Office of Budget, Finance and IT should understand and show the long term consequences of budget decisions, as well as the potential impacts on fiscal balance and reserves.
5. Non-discretionary expenditures added to the budget must be considered in terms of sustainability when combined with all non-discretionary decisions, supported by the future revenue streams, as indicated by maintaining a balanced five year forecast.

6. Make certain that the capital budget process considers realistic 6 year projections, particularly relative to large capital cost projects. Major projects should be anticipated and considered well in advance. Correspondingly, the capital budget should represent a realistic multi-year plan, such that the Commissioners should evaluate each year of the six year capital program during the annual budget process.
7. Caution the County Commissioners to carefully consider the adequacy of reserves to address unanticipated obligations, and future recessions and downturns in the economy.
8. In light of the County's success in financial management (as evidenced by two AAA bond ratings), we recommend the continuation and enhancement of policies and practices recommended and adopted in prior years including:
  - a) Adherence to debt affordability through the use of adopted debt measures
  - b) Limit the use of prior year unassigned fund balance for paygo funding for the capital budget—as a one-time source of funds, only to be used for one time capital expenses
  - c) Adherence to the County's fund balance policy including limitations on the use of excess revenues (for paygo, Rainy Day Fund, emergencies, non-recurring expenditures)
  - d) Maintain balances in the Rainy Day Fund, Revenue Stabilization Fund, and unassigned fund balance in accordance with County policies
  - e) Continued adherence to the 10 year phase in of OPEB (retiree health benefits)
  - f) Prepare and update annual five year operating forecast
  - g) Provide regular financial status updates for the Commissioners