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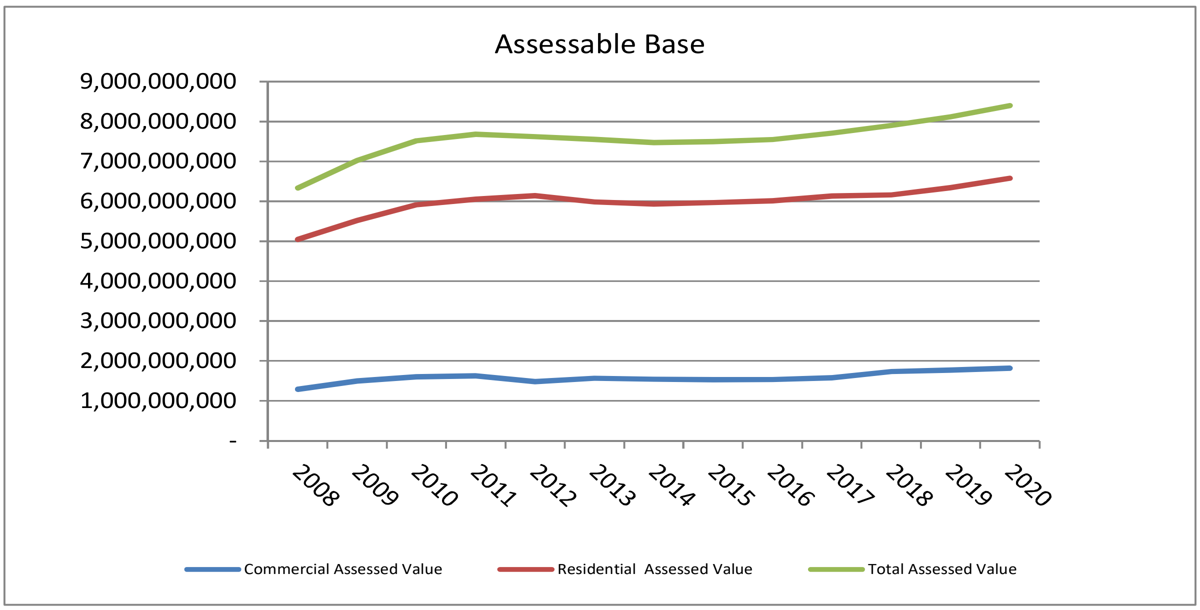
REPORT OF THE FY2021 SPENDING AFFORDABILITY COMMITTEE

Committee Members: John Wilson, Anne MacKinnon, Joe Zimmerman

The Committee began its FY2021 considerations by reviewing 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 has received two AAA bond ratings. 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 ($57,493). 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 3.5% is below the state's average of 4%. The housing market has been relatively strong over the past several years – the resale volume has increased by 32% over the last five calendar years; the median sold price has increased 12% since 2014. 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 unaudited fund balance as of June 30, 2019 was $36,112,388, which is a significant increase from the County's FY14 fund balance of $18,421,507. This fund balance includes non-spendables such as inventory, certain Assigned funds, the Rainy Day Fund reserve of $11,420,069, the Revenue Stabilization Fund reserve of $6,000,000 and an unassigned fund balance of $16,247,355.

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	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Estimated
Nonspendable						
Inventory	$ 479,718	$ 675,458	$ 580,083	$ 701,575	$ 967,201	$ 1,139,440
Prepaid Items	667	12,319	6,398	53,346	34,409	-
Restricted						
Rainy Day Fund	8,235,928	8,557,813	8,882,114	10,524,078	10,906,358	11,420,069
Restricted - misc	139,440	123,299	120,275	102,316	93,442	81,021
Committed						
Revenue Stabilization	1,000,000	2,000,000	3,000,000	4,000,000	5,000,000	6,000,000
Committed - misc	157,360	-	-	-	27,897	-
Assigned						
Wynne Case	1,284,875	2,034,875	825,000	798,415	801,900	801,900
Subsequent Year's Exp	-	-	1,101,782	1,200,000	681,927	422,603
Unassigned	7,123,519	7,793,085	8,468,591	8,830,530	11,142,331	16,247,355
Total Fund Balance	**$ 18,421,507**	**$ 21,196,849**	**$ 22,984,243**	**$ 26,210,260**	**$ 29,655,465**	**$ 36,112,388**

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 $88.8 million, an amount larger than the current projected debt retirements.

	FY20	FY21	FY22	FY23
Existing General Obligation Bond Debt				
Governmental Activities	$ 121,090,592	$ 113,346,091	$ 105,258,227	$ 96,797,179
Business Type Activities	2,384,409	2,228,911	2,066,775	1,897,822
TOTAL	123,475,001	115,575,002	107,325,002	98,695,001
Forecasted additions to debt				
FY20 Issuance of $9.0 million	9,000,000	9,000,000	8,698,500	8,383,500
FY21 Issuance of $21.0 million	-	21,000,000	21,000,000	20,296,500
FY22 Issuance of $12.5 million	-	-	12,500,000	12,500,000
FY23 Issuance of $10.0 million	-	-	-	10,000,000
FY24 Issuance of $12.6 million	-	-	-	-
FY25 Issuance of $13.7 million	-	-	-	-
FY26 Issuance of $10.0 million	-	-	-	-
Total Debt Including:				
Forecasted Issuances	$ 132,475,001	$ 145,575,002	$ 149,523,502	$ 149,875,001

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	FY24	FY25	FY26
Existing General Obligation Bond Debt			
Governmental Activities	$ 88,942,876	$ 80,750,617	$ 72,558,358
Business Type Activities	1,722,125	1,539,385	1,356,645
TOTAL	90,665,001	82,290,002	73,915,003
Forecasted additions to debt			
FY20 Issuance of $9.0 million	8,055,000	7,713,000	7,357,500
FY21 Issuance of $21.0 million	19,561,500	18,800,250	18,007,500
FY22 Issuance of $12.5 million	12,110,000	11,700,000	11,270,000
FY23 Issuance of $10.0 million	10,000,000	9,665,000	9,315,000
FY24 Issuance of $12.6 million	12,600,000	12,600,000	12,210,000
FY25 Issuance of $13.7 million	-	13,700,000	13,700,000
FY26 Issuance of $10.0 million	-	-	10,000,000
Total Debt Including:			
Forecasted Issuances	$ 152,991,501	$ 156,468,252	$ 155,775,003

Under this model, with modest bond issuances generally between $10-12 million annually, the County is within the limits of its three adopted debt policies. Those policies are detailed in the following:

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 1.58%. Using the assumptions presented above the highest ratio reached within 7 years is 1.72% in FY2022.

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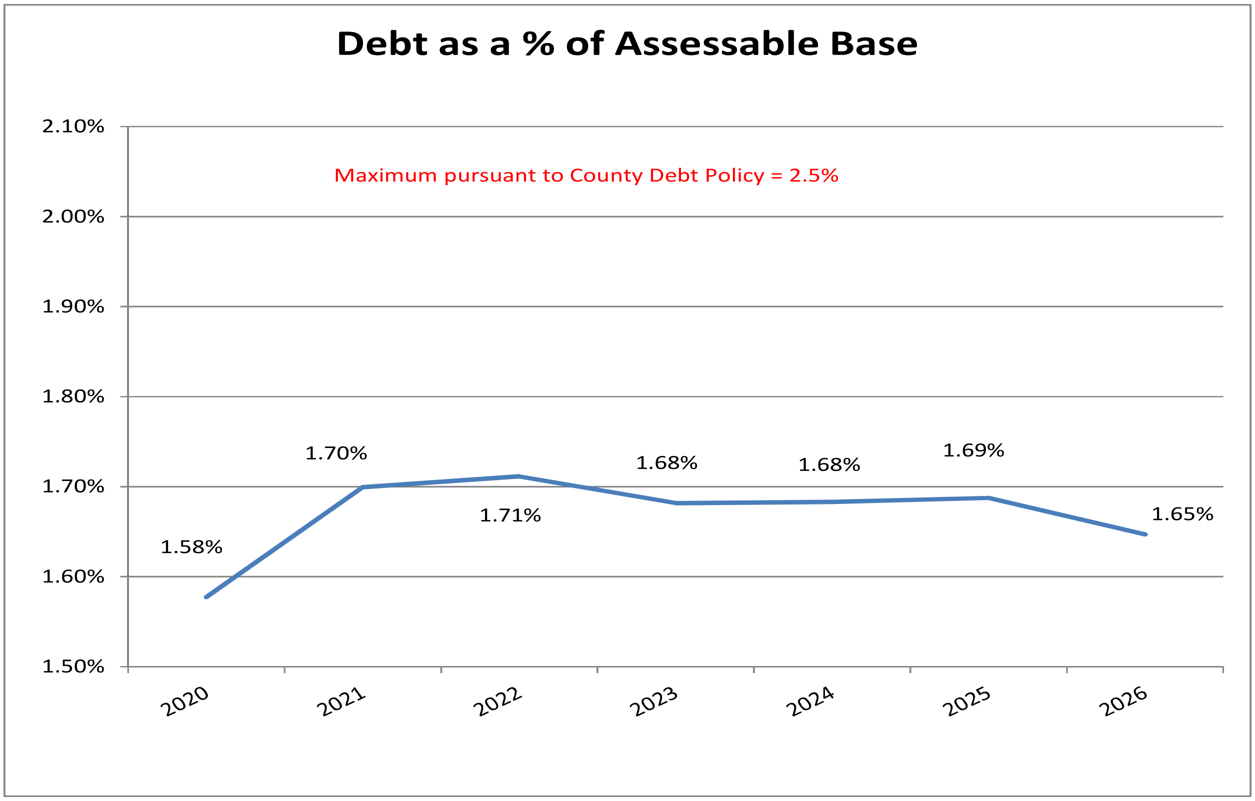
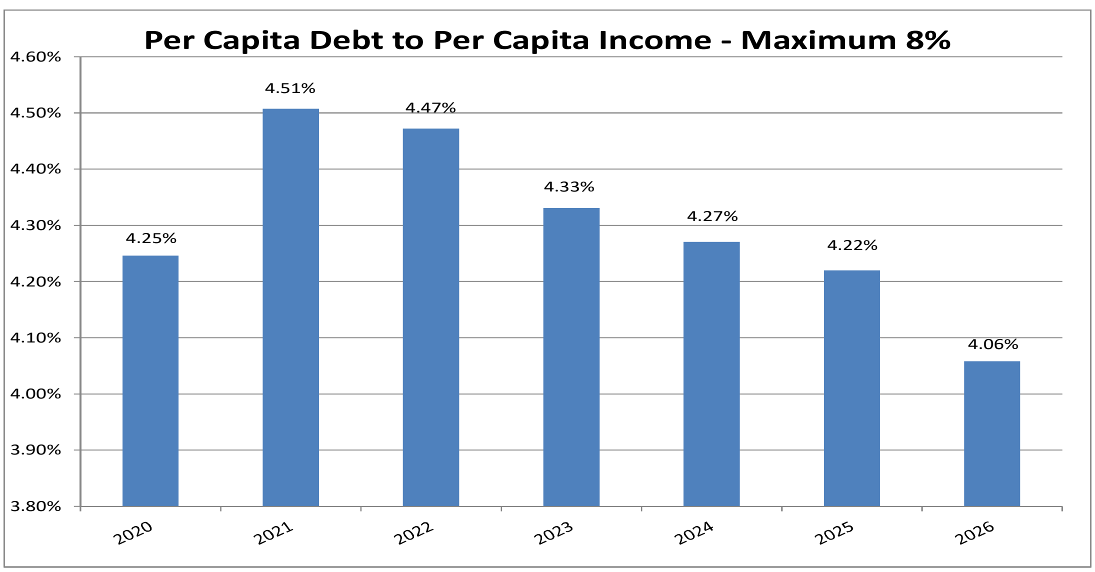


The second measure is per capita debt to per capita income (a measure designed to reflect that debt affordability is related to local wealth), which must remain below 8%)`The County is well under this measure with 4.51% per capita debt to per capita income reached in FY2021.



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 9%.

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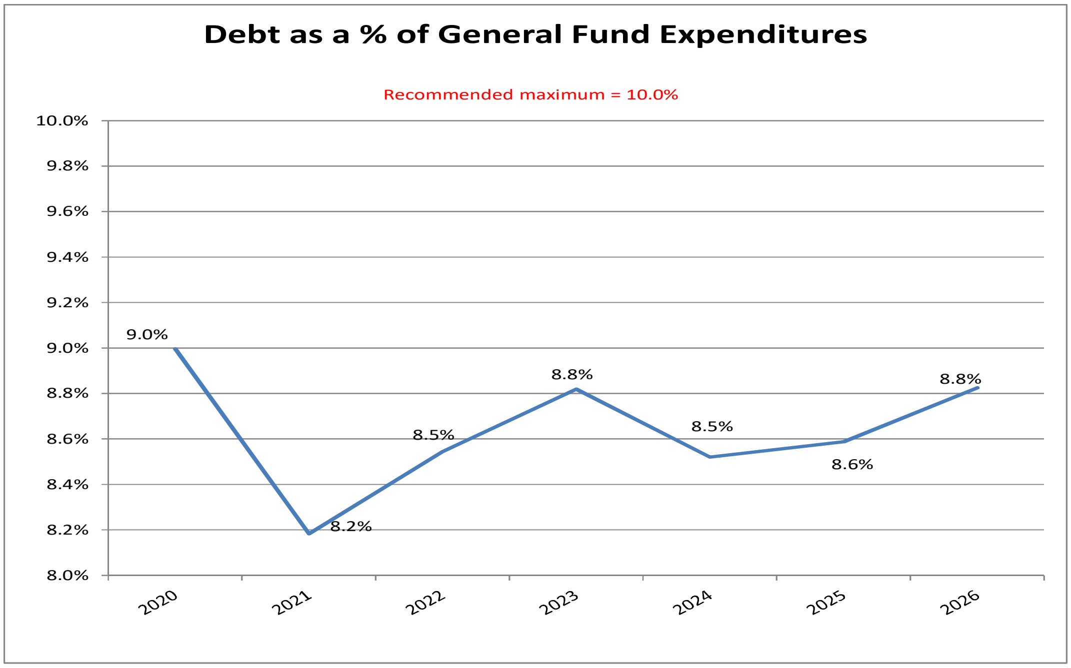

KIRWAN

The Committee was presented with detailed information and current data on the impacts of the Kirwan Commission Recommendations. The discussions included projections for the FY2030 Model Local Share, as well as impact based on current funding levels for the Board of Education and funding trends. The County's Local Share would increase from a current funding level of $59.5 million to $76.0 million in FY2030. The charts below served as data on which discussions were based:

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Rev. 10/14/19

FY 2030 Model Local Share

$ in Millions

	Foundation	CWI	Comp. Ed.	Conc. of Poverty	Spec. Ed.	English Learners	PreK	Career Ladder	CCR	Total
Allegany	$24.2	$0.0	$6.6	$0.0	$1.9	$0.0	$3.1	$1.7	$0.1	$37.7
Anne Arundel	602.2	28.1	146.2	13.8	58.5	40.0	58.9	43.4	3.4	994.4
Baltimore City	288.0	8.2	209.4	0.0	42.4	21.4	70.1	20.8	0.9	661.2
Baltimore	606.5	16.9	221.8	0.0	78.7	41.9	69.1	43.7	2.8	1,081.4
Calvert	77.1	2.6	12.6	0.0	7.3	0.7	7.4	5.6	0.4	113.7
Caroline	16.2	0.0	4.0	0.0	0.7	0.4	1.2	1.2	0.0	23.7
Carroll	137.0	0.0	20.7	0.0	15.2	1.9	16.1	9.9	1.0	201.7
Cecil	67.0	0.0	23.1	0.0	9.9	1.4	10.4	4.8	0.4	116.9
Charles	122.0	2.9	34.7	0.0	13.2	3.2	10.8	8.8	0.6	196.2
Dorchester	16.3	0.0	6.5	0.0	1.0	0.3	1.7	1.2	0.0	26.9
Frederick	221.7	4.5	46.2	0.0	23.9	14.1	22.4	16.0	1.5	350.2
Garrett	23.2	0.0	8.3	0.0	2.1	0.1	4.8	1.7	0.1	40.2
Harford	193.0	6.0	47.1	0.0	24.2	3.9	22.1	13.9	1.2	311.4
Howard	364.8	20.4	64.0	0.0	33.7	19.6	26.3	26.3	2.4	557.7
Kent	16.2	0.0	6.0	0.5	1.8	0.6	3.5	1.2	0.1	29.7
Montgomery	1,257.8	89.3	297.6	35.8	130.3	196.3	103.5	90.7	6.8	2,208.2
Prince George's	636.6	35.1	319.8	0.0	68.4	124.5	80.9	45.9	2.4	1,313.6
Queen Anne's	50.1	0.0	9.7	0.2	5.1	1.8	5.2	3.6	0.3	76.0
St. Mary's	80.2	2.7	20.7	0.0	7.9	1.2	7.9	5.8	0.5	126.9
Somerset	8.1	0.0	2.2	0.0	0.4	0.0	0.8	0.6	0.0	12.0
Talbot	45.2	0.0	12.8	1.1	3.7	3.3	5.5	3.3	0.2	75.2
Washington	82.2	0.0	28.5	0.0	7.0	1.7	11.0	5.9	0.4	136.7
Wicomico	44.0	0.0	12.7	0.0	2.3	1.2	4.1	3.2	0.1	67.5
Worcester	77.9	0.0	17.7	1.2	6.0	1.2	9.1	5.6	0.4	119.1
Unallocated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	$5,057.5	$216.7	$1,578.7	$52.7	$545.5	$480.7	$555.6	$364.8	$25.9	$8,878.2

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Comparing Aid to Local Appropriations and Local Share

Fiscal 2030

$ in Millions

	Projected Current Local Appropriations	Local Share	Greater Of	Difference	% Increase
Allegany	$38.3	$37.7	$38.3	$0	0%
Anne Arundel	895.6	994.4	994.4	98.8	11%
Baltimore City	331.8	661.2	661.2	329.4	99%
Baltimore	993.0	1,081.4	1,081.4	88.4	9%
Calvert	167.8	113.7	167.8	0.0	0%
Caroline	18.5	23.7	23.7	5.2	28%
Carroll	246.4	201.7	246.4	0.0	0%
Cecil	102.9	116.9	116.9	14.0	14%
Charles	254.7	196.2	254.7	0.0	0%
Dorchester	26.1	26.9	26.9	0.9	3%
Frederick	343.9	350.2	350.2	6.3	2%
Garrett	38.9	40.2	40.2	1.3	3%
Harford	302.2	311.4	311.4	9.2	3%
Howard	787.1	557.7	787.1	0.0	0%
Kent	21.1	29.7	29.7	8.6	41%
Montgomery	1,945.5	2,208.2	2,208.2	262.7	14%
Prince George's	952.7	1,313.6	1,313.6	360.9	38%
Queen Anne's	77.6	76.0	77.6	0.0	0%
St. Mary's	138.2	126.9	138.2	0.0	0%
Somerset	12.9	12.0	12.9	0.0	0%
Talbot	53.7	75.2	75.2	21.5	40%
Washington	130.8	136.7	136.7	5.9	5%
Wicomico	58.1	67.5	67.5	9.4	16%
Worcester	113.7	119.1	119.1	5.3	5%
Unallocated	0.0	0.0	0	0	
	$8,051.4	**$8,878.2**	**$9,279.3**	**$1,227.9**	**15%**

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FY2021 SPENDING AFFORDABILITY COMMITTEE COMMENTS AND RECOMMENDATIONS

The Committee Members are encouraged to see the financial stability of the County and that reserves have met policy goals, that debt levels appear manageable, and that the revenue growth remains consistent. The Committee does emphasize caution in projecting future revenue and in taking on new spending levels in light of any impending and inevitable economic slowdown. As income taxes have increased as a percentage of total revenue, there is potential for increased volatility in General Fund revenues. The Committee notes that during the last recession, income taxes dropped by $12.7 million over two years, or 17% per year. This was in addition to a significant decrease in transaction based revenues such as transfer and recordation taxes.

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

1. The Office of Budget, Finance and IT should continue to review and advise the Commissioners of the potential budgetary impacts of the Kirwan Commission recommendations.
2. The Committee has considered the number of potential capital projects over the next 4-6 years and advises careful consideration of future debt and funding levels for the capital budget.
3. The County should ensure, during the capital budget process, that capital fund balance is in hand and available for appropriation in the upcoming budget year.
4. The County should consider the debt measure of "debt per capita" as an additional advisory debt measure. This measure was formerly a standard measure, and has since been replaced. The Committee recommends that the debt policy be reviewed and updated to include additional measures as appropriate and a report be prepared comparing the County's measures to other similar jurisdictions.
5. The Commissioners are urged to consider and maintain an awareness of the potential for economic and fiscal impacts from climate change.
6. The Committee encourages the continued emphasis on maintaining support for items that allow the County to sustain services and "stay ahead of the curve" in times of fiscal stress, such as continuing a vehicle replacement plan, updating salary classifications, etc.
7. The County should continue to provide for a more logical and fiscally sound practice of budgeting shorter term capital assets such as vehicles in the operating budget. The practice of long term planning for such assets in the capital budget could be continued but with funding from the operating budget.
8. The Committee advises caution in considering mid-year or out of budget cycle capital or operating projects.
9. Develop criteria for the strategic use of unassigned fund balance to recognize its nature as a one-time source of funding best used as means of mitigating debt.

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The Committee's prior year (FY2019) recommendations were as follows, with documentation on actions taken thus far:

- Update and modernize the County's Investment Policy ***(no formal policy has been put in place – however, a new policy is in draft at this time.)***
- 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. (***the County monitors and tracks development projects***)
- The Office of Budget, Finance and IT should review and advise the Commissioners of the potential budgetary impacts of the Kirwan Commission recommendations. ***(The department presented the Commissioners with a Financial Status Update on October 8th, which included a detailed presentation with current data and information related to Kirwan. The Office continues to monitor the work of the Funding Formula Work Group and the full Commission)***
- 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 (***Part of annual budget process)***
- 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. (***Forecast in place and included as part of review of this Committee)***
- 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***. (6 Year Capital Budget was included in the Commissioner Budget Meetings for FY2020 and was a part of the budget process.)***
- Caution the County Commissioners to carefully consider the adequacy of reserves to address unanticipated obligations, and future recessions and downturns in the economy. (***Part of this report as well as annual budget)***
- 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:

    1. Adherence to debt affordability through the use of adopted debt measures

    2. Limit the use of prior year unassigned fund balance to paygo funding for the capital budget—as a one-time source of funds, only to be used for one time capital expenses

    3. 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)

    4. Maintain balances in the Rainy Day Fund, Revenue Stabilization Fund, and unassigned fund balance in accordance with County policies

    5. Continued adherence to the 10 year phase in of OPEB (retiree health benefits) (***Numbers 1-5 are part of the annual budget process and are presented to rating agencies as part of bond rating process)***

    6. Prepare and update annual five year operating forecast ***(Forecast in place and included and part of review of this Committee)***

    7. Provide regular financial status updates for the Commissioners *(**Scheduled quarterly for Commissioner meetings).***