Strategic Plan Phase II Panel
Department of Housing and Community Development – County Financing Discussion

Department of Management and Budget

December 18, 2018

Background

- Dillon Rule – revenue limitations
  - Real Estate Tax Rate remains the County's primary revenue source
  - County & School needs for monies generated from annual revenue growth
- Budget Forecast – November update to Board of Supervisors projects $54.3 million deficit for FY 2020
- Options to Finance Capital Projects
  - Pay As You Go (PAYGO) / Paydown
    - Annual cash provided to fund select facilities and infrastructure
  - Issuing Bonds
    - A form of borrowing commonly used by municipal and state governments to finance facilities and infrastructure
    - Time period of debt can range between 20 and 30 years; tie to useful life of the improvements
    - Interest on municipal and state bonds may be tax-exempt from federal and state taxes
    - Examples: General Obligation Bonds and Revenue Bonds

Housing Unit Assumption – Real Estate Tax Rate Impact

Number of Units	100	300	334	500	600	1,000
Total Unit Subsidy*	$8,500,000	$25,500,000	$28,390,000	$42,500,000	$51,000,000	$85,000,000
Real Estate Tax Rate Impact**	0.34	1.02	1.14	1.70	2.04	3.40
Units over 15 year period	1,500	4,500	5,010	7,500	9,000	15,000

* Assumes Average Per Unit Subsidy of $85,000

** Assumes one cent on the Real Estate Tax Rate equivalent to $25 million; separate and distinct from the current ½ penny dedicated to Housing

Ten Principles of Sound Financial Management

- Adopted in 1975 - Statement of Board’s commitment to the County’s financial policies
- Essential for maintaining the Triple A bond rating
- Reaffirmed and amended in FY 2016 with revised reserve levels
- Annual General Obligation bond sale limits of $300 million per year
  - $25 million increase for FCPS approved via FY 2019 Adopted Budget Plan
- Establishes limits to borrowing and debt ratios
  - Annual debt service expenditures not to exceed **10%** of total disbursements
  - Net outstanding debt not to exceed **3%** of total assessed value
  - Forecasting guides future capital spending plans
  - Reviewed in the context of **capacity** and **affordability**

County Debt Ratio Impact - Affordability

Fiscal Year	Debt Service	Debt Ratio Impact	Real Estate Tax Rate Impact*
2022	7,650,000	0.17%	0.31
2023	15,130,000	0.33%	0.61
2024	22,440,000	0.47%	0.90
2025	29,580,000	0.61%	1.18
2026	36,550,000	0.74%	1.46
2027	43,350,000	0.86%	1.73
2028	49,980,000	0.97%	2.00
2029	56,440,000	1.08%	2.26

Notes:

- Assumes one cent on the Real Estate Tax Rate equivalent to $25 million
- Bonds of $85m first sold in FY 2021 and debt impact in FY 2022; Assumes interest rate of 4% over 20 years level principal
- Current forecast of debt ratio ranges between 8.04% and 9.15%

Takeaway Points

- General Obligation Bonds –
  - Uncertainty with voter approval & debt ratio impact
  - Annual bond sale ceiling just recently increased
- RHA financing mechanism - suitable conduit to issue debt but retains debt ratio impact
- $85m / year – unprecedented; competing/pulls from existing programs and priorities
- Wedgewood property
  - Debt service payments through FY 2040
  - Summer 2019 debt service refinancing - estimated ann. savings $500k (subj. to mkt conditions)
- Crescent Property
  - Debt service annual payments of $2.7 million through FY 2023
  - Sale of property – proceeds to HCD