

SUMMARY OF THE FY2004-2009 CAPITAL IMPROVEMENT PROGRAM
EXPENDITURES, BY AGENCY OR PROGRAM

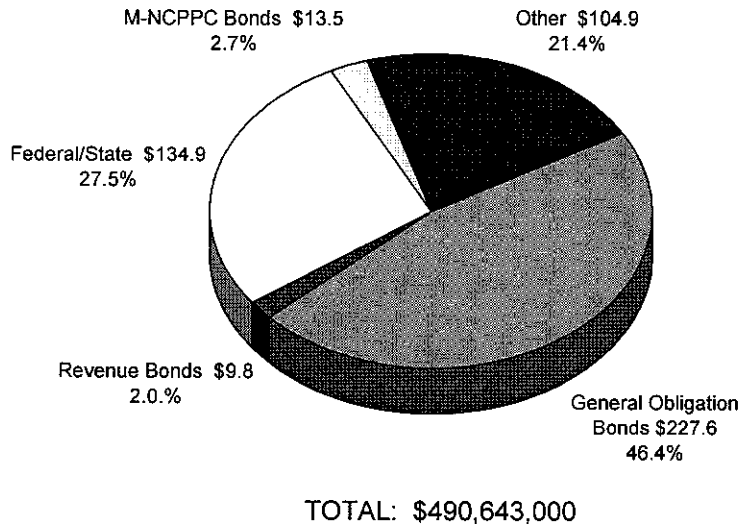
(Dollars in Thousands)

AGENCY/PROGRAM	FY2004 PROPOSED CAPITAL BUDGET	FY2004-2009 PROPOSED CAPITAL PROGRAM
Board of Education	\$ 128,844	\$ 566,594
Stormwater Management	16,606	62,329
Parks and Recreation	111,878	179,634
Industrial Development Authority	18,500	20,865
Public Works & Transportation	98,435	348,300
Library	6,357	11,957
Health	508	639
Corrections	5,711	7,967
Police	0	7,994
Fire/EMS	7,517	36,944
Solid Waste Management	22,952	50,446
Community College	10,942	75,145
Central Services	28,952	51,952
Revenue Authority	0	33,240
Redevelopment Authority	25,141	59,691
Federal Programs	8,300	8,300
TOTAL	\$490,643	\$1,521,997



FY2004 Proposed Capital Budget Revenues

(\$ Millions)



Revenues

The FY2004 Capital Budget is supported by multiple revenue sources. General obligation bonds comprise an important component, at \$227.6 or 46.4% of the total. Revenue bonds account for a large segment—\$9.8 million or 2.0% of the total. Maryland-National Capital Park and Planning Commission bonds support 2.7% of the total at \$13.5 million. Federal and State aid provides \$134.9 million, or 27.5% of the Capital Budget. The remaining \$104.9 million or 21.4% is comprised of miscellaneous revenues and developer contributions. In all, 72.5% of the program is supported by locally-raised revenues. The FY2004 Capital Budget is supported by revenues received in prior fiscal years and by new sources to be generated in FY2004.

Relationship Between Debt Levels and Current Operations

Of prime importance in determining the size and scope of the County's capital program is the amount of debt to be financed annually, and consequently the County's ability to afford the resulting debt service payments. To ensure that capital spending levels do not adversely impact the operating budget and the County's ability to maintain current services in future fiscal years, existing debt levels are carefully monitored. The County is guided in issuing new debt by strict policy directives intended to maintain its financial stability. Measurable standards in the form of key ratios have been established to track the levels of outstanding debt and debt service expenditures.

The two principal debt ratios used by the County as debt policy guidelines are: a) the ratio of net direct debt to assessed value, and b) the ratio of debt service to general fund expenditures. New debt is undertaken only to the extent that it will not jeopardize conformance to the standards set for each of these measures.

Limiting debt service payments as a percentage of operating expenditures assures that other operating budget items will not be short-changed in future year budget allocations. Debt service becomes a fixed expense that has first call on local dollars, so adhering to the expenditure ratio ceiling limits new debt to total budgetary growth. County policy provides that the ratio of General Fund debt service to General Fund expenditures will not exceed 8%. The current level of this ratio is 3.9% as of June 30, 2002, which is well within this limit.

Tying debt service to the ratio of net direct debt to assessed value is particularly useful because there are direct links between an expanding assessable base, infrastructure requirements, and the ability to support additional debt. Growth in the County's assessable base is directly tied to the property tax revenue stream, so increases in the base quickly translate into additional dollars that can potentially be spent to support debt payments. County policy limits net direct debt to no more than 3.0% of the full market assessed value; the County's statutory debt limit under the Annotated Code of Maryland is 6% of its assessable base. The County remains well below this limit, with the ratio at 1.3% for the fiscal year ending June 30 2002.

The General Assembly, during its 2000 session, revised the formula for the calculation of the assessable base by converting to an assessment system based on full (100%) market value. The former system used forty percent of market value for assessment purposes. This change, which is revenue neutral for the State and its local jurisdictions, has the effect of increasing the assessable base, but the legal debt limit decreases accordingly to 6% (it was at 15%). This change was effective as of FY2002. The assessable base chart appearing later in this section uses the assessment (based upon the full market value) that took effect in FY2002.

The use of these two ratios permits the County to maintain flexibility in its capital financing program. As the County's wealth and revenues increase, larger amounts of debt can be issued without the risk of exceeding designated targets for these ratios, as long as overall General Fund spending does not increase disproportionately. This allows the County to meet its infrastructure requirements without infringing upon operating budget needs.

Operating Impacts

The construction of capital projects affects the operating budget in several ways. The major effect comes from the interest and principal payments needed to support the debt issued for construction. General obligation bonds of approximately \$124.2 million have previously been authorized to partially support projects contained in the FY2004 Capital Budget. Additional general obligation bonds of \$103.4 million will be sold during FY2004 to fully fund FY2004 capital expenditures.

A second impact of capital construction relates to the cost of operating completed facilities. When capital projects represent renovations of existing facilities or infrastructure, the impacts on the operating budget are minimal. For example, no measurable new operating impacts result from road reconstruction or resurfacing efforts, or from the renovation of a fire station. In the case of resurfacing, road maintenance costs should decrease, resulting in operating budget savings.

On the other hand, capital projects that represent new initiatives or that add additional space to existing facilities do impact the operating budget. The most significant effect occurs when additional personnel must be hired to staff the newly constructed facility. Other impacts can include custodial, utility and maintenance costs. If a new building is a replacement for an existing structure, however, the additional expenses are usually minor, and in some instances the occupants may even realize cost savings.

An issue that must be addressed when estimating the operational impacts of new facilities is the degree to which additional service costs would be incurred even without the construction of a new facility. For example, additional student enrollment would, assuming relatively stable class size ratios, demand an increase in the number of teachers employed, whether the students were housed in a new facility or absorbed into the current classroom inventory. By housing the additional enrollment in a new school building, the direct budgetary impact of the new construction consists of staff and expenses needed for the operation of the new facility—for instance, a principal, administrative and custodial personnel, and utilities. The hiring of additional teachers would not be a direct result of facility construction in this case. The analysis that follows considers only the direct impacts of capital construction.

A different type of impact occurs when a new facility requires the addition of staff, but the necessary staff are initially taken from the existing personnel complement of an operating agency without hiring new employees. In this case, an operating impact has been assigned since at some point in time the full staffing level will most likely be restored throughout the agency.

At times, operational costs can be offset either by revenue produced by a facility, such as a parking garage, or by leased space savings. These savings are also considered in the analysis.

The table below summarizes the estimated operating impacts for the next three fiscal years of major projects to be completed during FY2003, and commencing operation for the first time in FY2004. The additional costs are shown in each year in which they occur. Thus, a new facility generating additional operating costs in FY2004 is assumed to generate similar expenses in FY2005 and FY2006; no provision has been made for inflation. Estimates are not included for the park and recreation category since operating costs for these facilities are not funded by the County budget. Debt Service impacts are based upon a FY2003 bond sale.

Operating Impacts of the Capital Budget on the General Fund
(FY2003 Completed Projects)

(Dollars in Thousands)

Source of Operating Impact	FY2004	FY2005	FY2006
Operating Expenses			
Education			
<u>Elementary Schools</u>			
Samuel P. Massie Elementary	\$2,100	\$2,100	\$2,100
Oxon Hill Elementary*	1,050	2,100	2,100
Colmar Manor Elementary*	1,050	2,100	2,100
Health			
Cheverly Renovation		Building Renovation - no impact	
Fire			
Bunker Hill Fire Station Consolidation	(220)	(220)	(220)
Debt Service - Net Tax -Supported Debt**	3,187	3,482	3,967
TOTAL	\$7,187	\$9,562	\$10,047

*Mid year opening.

**Based on a \$72.7 million bond sale in December 2002 of net tax supportable debt.

Debt Service Impact

The chart on the following page depicts the ratio of net direct debt to assessed value. Over the last ten years, this ratio has remained relatively constant. A substantial amount of new school debt (44%), however, is being paid from a dedicated revenue source - the School Surcharge, helping to keep debt ratios level.