

Debt Capacity Planning FY20 Capital Budget and FY20–25 Capital Improvements Program (CIP)

June 20, 2018

CIP Debt Capacity–Strategic Alignment

Debt Capacity Planning Supports:

- ▶ Achieve Business Process Excellence and Maintain Financial Stability
- ▶ Improve Infrastructure

Debt Capacity – Macro Concerns

- ▶ AAA Rating
- ▶ Long-term rate stability
- ▶ Customer affordability
- ▶ Debt service impact
- ▶ Change in County Leadership
- ▶ Implementation of capital projects

Debt Capacity Trends

- ▶ Outstanding Debt Growth:
 - +130% since FY2010 to \$3.1 Billion
- ▶ Debt as a % of Budget:
 - + Anticipated to exceed 40% threshold in FY2023 and begins to divert resources from operating programs
- ▶ Affordability:
 - + Potential Rate increases of 13.7% and 6.7% anticipated for FY2020 and FY2021 if no changes to long-term financial plan
- ▶ Growth in Annual Capital Budget:
 - + FY2010 \$371.1M
 - + FY2019 \$656.3M
- ▶ Improved implementation of Capital budget
 - + FY2010-12 63%
 - + FY2015-17 89%

Capital Spending – Policy Guidelines

Attain goal of a sustainable and affordable CIP through:

▶ Near Term

- Use of key financial metrics to assess planned debt levels while balancing rate and operating growth
- Set long-term bond issuance guidelines for CIP as part of long-term financial plan.
- Phase out use of Fund Balance and set an annual PAYGO ceiling

▶ Long Term

- Transition back to level principal payment
- Review method and level of
 - Ready to Serve Charges
 - System Development Charge (SDC)

Debt Capacity Policy Considerations

Debt policy and debt capacity metrics are influenced by several factors:

- ▶ Type of Government
 - State
 - Local
 - Utilities & Special Districts
- ▶ Size of Utility
- ▶ Age of Utility
- ▶ Diversity & sources of funding
- ▶ Security for Bonds

Debt Capacity Metrics

- ▶ Maryland Spending Affordability Guidelines (SAG) Debt Limits
 - Debt Service to 8% of State revenues
 - Debt outstanding to 4% of State personal income
 - Limits capital spending growth to growth in property tax revenues
- ▶ Prince George's County
 - Debt to Assessed Value Not to Exceed (NTE) 3%
 - General Fund Debt Service to Revenues NTE 8%
- ▶ Montgomery County
 - Debt Service to Revenues approximately 10%
 - GO Debt to Assessed Value NTE 1.5%
 - Debt per capita NTE \$2,200
 - Capita Debt/Capita Income NTE 3.5%

CIP Debt Capacity – Recommended Metrics

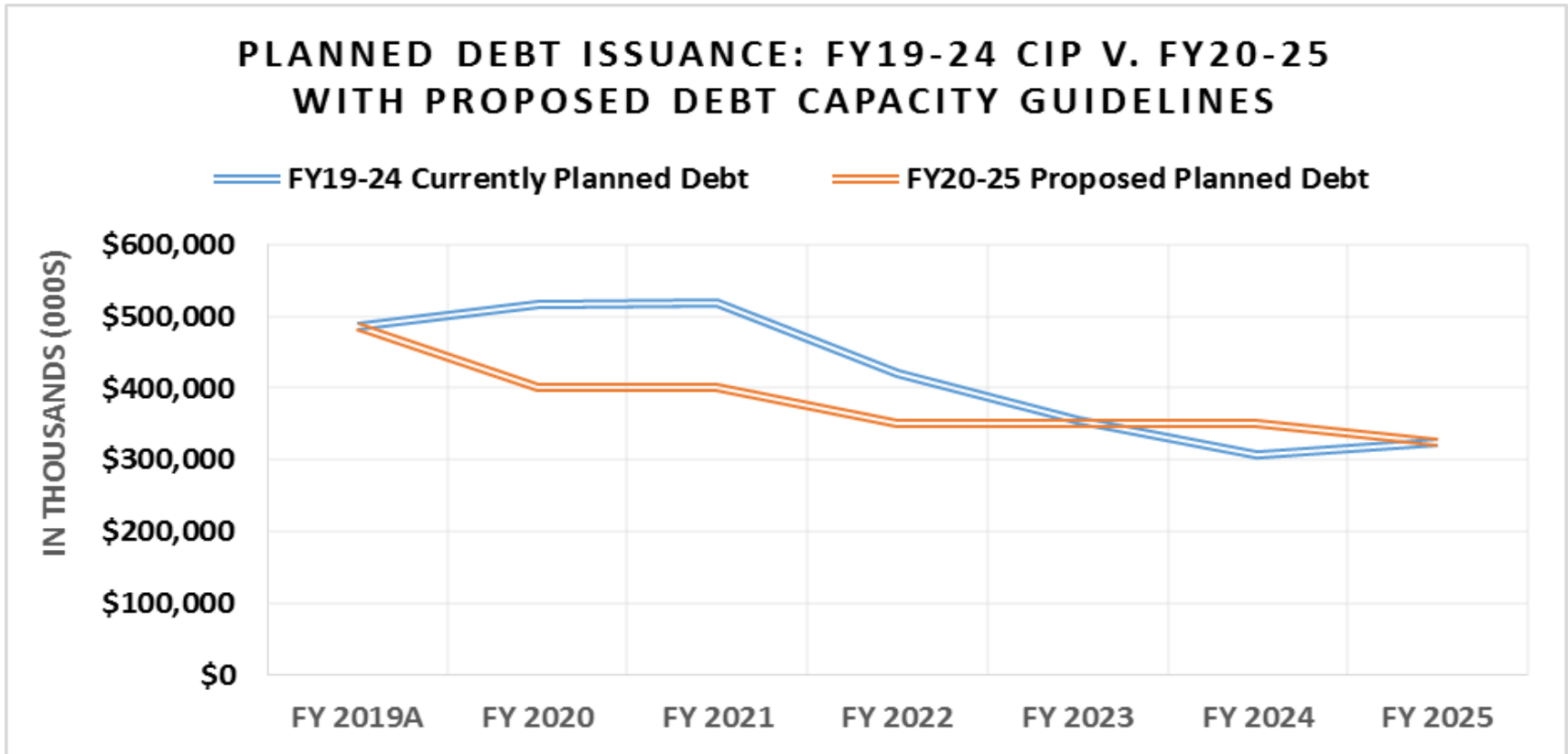
- ▶ Annual CIP cost per customer
 - Recommended guideline: \$450
- ▶ Long-term debt per customer
 - Recommended guideline: \$5,000
- ▶ Debt service coverage (net revenues / debt service)
 - Recommended guideline: 1.10%
- ▶ Debt service as % of expenditures
 - Recommended guideline: <40%
- ▶ Reserves: 90 days availability
- ▶ Consistency in adherence

Debt Capacity – Goals

- ▶ Maintain AAA rating
- ▶ Reduce Debt Service burden by \$580 million over 30 years
- ▶ Maintain Stable annual rate increases of 5.5% to 5.0% for FY20–25
 - Long-term planning & long-term decisions
 - Improved customer affordability
- ▶ Improved cost recovery for Ready to Serve Charges and SDC
- ▶ Establishing specific priorities for CIP spending

Debt Capacity

Debt capacity planning ensures that debt and debt service growth is managed within context of long term financial planning objectives



Debt Capacity – Next Steps

- ▶ Develop Staff Draft FY20–25 CIP
- ▶ Brief Counties on FY20–25 CIP July 9–10
- ▶ Brief Commission on Staff Draft CIP July 18
- ▶ Identify technology investments
- ▶ Brief elected officials
- ▶ Present to rating agencies as part of Fall 2018 GO Bond Issue