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County Commissioners of Charles County

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March 31, 2009

Maryland State Department of Education
Attn: The Honorable Nancy S. Grasmick
State Superintendent of Schools
200 West Baltimore Street
Baltimore, MD 21201

RE: Maintenance of Waiver Request

Dear Ms. Grasmick;

The County Commissioners of Charles County, in accordance with Education Article Section 5-202, Md. Code Ann. and Title 13.A.02.05.04 of the Code of Maryland Regulations, respectfully request a waiver of the Maintenance of Effort (MOE) requirement for public school funding for the fiscal year beginning July 1, 2009 and ending June 30, 2010. This waiver request is based on the Maryland General Assembly's consideration of additional cuts in State funding for the counties and the current expectation that State and local revenues will continue to decline in fiscal year 2010. As you may already be aware, there are several proposals before the legislature that could have a significant fiscal impact on county budgets. These potential cuts along with our declining revenues may impact our ability to fund key functions of county funded State agencies and local County government. The deadline for the waiver request is April 1, 2009. The State budget bill must be passed by April 6, 2009. Upon adoption, each county will need to factor the impact of State budget decisions into their own budgets, so that local budgets can be balanced. The adoption date is well beyond the deadline for requesting a waiver, along with the time it will take for county budget offices to absorb, process and provide solutions for new cuts and further revenue losses. We therefore request your approval of a waiver for Charles County Government.

The required funding per the MOE for Fiscal Year 2010 is \$145,093,000, an increase of \$98,200 more than the originally adopted FY2009 budget. Please note the County, in cooperation with the Board of Education, reduced the FY2009 appropriation by \$4,349,900, representing a



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3% reduction from the adopted budget. The adjusted FY2009 budget is \$140,645,100. Our understanding of the law is that the MOE is calculated upon the highest appropriated budget during any one year. **We are requesting that the Maryland State Board of Education waive this requirement and allow us to fund the Charles County Board of Education at the reduced allocation amount of \$140,645,100.**

The projected fiscal condition for FY2010 shows that the revenue budget is 1.4% less than the FY2009 adopted budget due to lower revenues from nearly every revenue source except property taxes. For FY2009, the County has amended the adopted budget by writing down 3% of the revenue budget primarily from recordation taxes and interest income. This decrease to the budget was implemented in November, and since then, further reductions in our revenue appear likely from *interest income and income tax sources*. This decrease does not include further reductions in revenue anticipated in the not-yet adopted State budget for FY2010.

The projected FY2010 expenditures exceed the current revenue estimate by approximately \$5 million; however, the current revenue estimate may need to be adjusted downward which *would cause the deficit to increase*. Furthermore, 47% of the County expenditures are for the Board of Education and 3% are for the College of Southern Maryland. Both organizations have State regulated MOE's and are therefore, restricted from budget cuts. Another *8% of the county budget is used for the payment of the annual principal and interest on existing debt obligations*. The County typically spends approximately *25% of the budget for police and public safety* functions which leaves only 17% of the budget to balance the deficit. It is currently estimated that to balance the budget it would require cutting all other departments and agencies 10%. The amount of this cut is based on current estimates and is likely to increase once revenues are finalized. Budget reductions of this magnitude would likely result in **reductions-in-force** and a dramatic decrease in services to our citizens. Next year's budget will **not** include employee COLA and step increases and continues a hiring freeze on current and future vacancies. The County is also considering a furlough which would result in a 4% decrease in salaries. We are looking at refunding portions of our debt to save on interest costs. We have made substantial cuts in our capital construction program in an effort to trim every possible line item within our budget.

The FY2009 expenditure budgets were cut by 3% or \$9 million dollars across the board in November, 2008. Please note that, due to significant revenue shortfalls in income tax and recordation tax in FY2008, a decrease of \$19 million was absorbed by the fund balance last year and another \$5 million is projected to be absorbed this year.

The County is planning on lower revenue growth in the next five years. Income tax and property tax account for nearly 90% of our total revenue. Our latest reassessment resulted in a 4.6% decrease in property assessments compared to three years ago. That percent change compares with the overall State average increase in assessments of 0.8%. We believe that lower

assessments will continue for the next reassessment of one-third of the County. We have not received assessment notices from the State Department of Assessment and Taxation for FY2009 for our two largest taxpayers, Mirant and SMECO. It is our understanding that both taxpayers are appealing their assessments, which typically translates to a lower assessment.

Despite annual increases in Maryland net taxable income ranging from 2.9% to 8.3% as reported by the Comptroller's Office, the local income tax revenue received from the State between FY05 and FY08 was less than 2% per year. The income tax revenue growth rate is at a historical low.

Regarding local county appropriations for education, the Department of Legislative Services states in their publication Overview of Maryland Local Governments, "The local appropriation in Somerset County increased by less than 1% annually, while in Charles County, the local appropriation increased by 8% annually, the highest growth rate in the State." The County has consistently exceeded the MOE requirement since adopting a funding formula agreement with the Board of Education. The agreement provides that the percent increase in funding for the Board of Education corresponds with the same percent increase in the County's discretionary revenues. This agreement has been in effect since FY2000 and has provided our Board of Education with millions of dollars more each year than the mandatory MOE.

Past funding increases have exceeded both the Consumer Price Index (CPI) and student population growth, allowing the school system to have financial flexibility with much of their budgets. Student population growth has averaged less than 1.5% over the past seven years. The CPI for the Washington DC area has averaged 3.7%.

Also in support of local education, the County adopted an excise tax which is applied on all new home tax bills issued after July 1, 2004. In conjunction with developer contributions and general obligation bonds of the County, we have financed over \$121 million in local school construction costs since FY04. The debt repayment for that capital program is squarely on our taxpayers, both new and existing.

Much of the County's fund balance is expressly designated for future costs. Paramount in future costs will be the need to subsidize school construction debt service. The excise tax over the last year and projected into the next several years, will not meet the debt service for new school construction. Bonds issued for school construction were intended to be funded by the excise tax on new home units. The recent collapse of the housing market has resulted in building permits decreasing by nearly 50% from just two years ago. Unfortunately, the bonds were already issued and the debt service is now due. The County has opened a high school, middle school and two elementary schools in the past few years.

Many of our county residents have already been negatively impacted by the national economy. We have experienced one of the highest number of foreclosures in the State. In

calendar year 2008, Charles County was second in the state for foreclosures. Many of our residents have lost their jobs. Our unemployment rate has grown from 2.8% to 4.7%. Our county human service agencies (transportation, aging, social services, etc) have seen a dramatic increase in requests for assistance. During a time of economic uncertainty for all County residents, we believe now is not the time to increase the financial burden on families, individuals, and businesses, and are strongly against raising taxes which could further damage our local economy.

The Federal Fiscal Stabilization Act and the American Recovery and Reinvestment Act of 2009 will provide federal stimulus funding for a number of State and local projects, including funding for local Boards of Education. Unfortunately, federal stimulus funds will have no impact on the County's general operating budget.

The Charles County Government has placed education as its top priority. As we have demonstrated above, our commitment has been backed by significant funding increases over the last several years. While the Charles County Board of Education opposes the Maintenance of Effort Waiver Request, in light of the anticipated State budget cuts, new funding mandates, projected revenue shortfalls at the Local and State level for the current and upcoming Fiscal Year, and in consideration of the State deadline for filing a waiver request by April 1 (before State budget information is known), Charles County respectfully requests a waiver from the Maintenance of Effort for FY2010.

Very Truly,

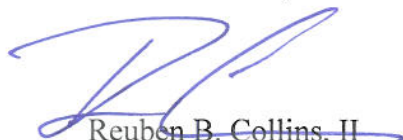
COUNTY COMMISSIONERS
CHARLES COUNTY, MARYLAND



Wayne Cooper, President




Edith J. Patterson, Vice President



Reuben B. Collins, II



Samuel N. Graves, Jr.



Gary V. Hodge

Cc: James Richmond, Superintendent, Charles County Public Schools
Board of Education of Charles County

CHARLES COUNTY REVENUE & EXPENDITURE PROJECTION

	FY09 Amended Budget	FY09 Estimated Actual	FY10 Budget
REVENUES:			
Property Taxes	\$170,040,400	\$170,107,500	\$180,360,500
Income Tax	88,746,000	85,826,300	87,651,000
Recordation Tax	9,000,000	9,265,900	10,000,000
Highway User Tax	9,400,000	8,457,600	8,400,000
Services & Charges	6,256,400	5,952,900	6,157,500
Interest Income	6,160,000	2,936,600	3,500,000
Transfer from Capital Project Fund	1,099,780	1,197,100	3,200,000
Intergovernmental	3,080,060	3,366,260	2,787,100
Misc./Rent/Fines & Forfeitures	2,700,580	2,526,000	2,509,200
Other Local Taxes	2,049,000	1,926,400	2,000,000
Licenses & Permits	948,500	915,100	951,200
Transfer from Landfill Fund	599,800	599,800	599,800
Lease Proceeds	1,981,200	2,019,000	177,300
Fund Balance	3,773,070	3,773,070	95,300
TOTAL REVENUES	\$305,834,790	\$298,869,530	\$308,388,900
EXPENDITURES			
Board of Education	\$140,645,100	\$140,645,100	\$145,093,200
Sheriff's Operations	63,854,810	62,967,400	64,198,700
Debt Service	21,744,250	21,744,300	23,097,700
Public Facilities	19,766,610	19,783,850	19,695,000
General Government	15,435,500	14,920,200	13,166,200
Other Public Safety	11,543,490	11,787,930	11,705,100
Other Education	11,421,500	11,444,800	11,439,200
Fiscal & Administrative Services	5,371,650	5,366,900	5,321,700
Community Services	5,072,220	5,055,200	5,035,900
Planning & Growth Management	3,874,110	3,862,700	3,848,500
Health	3,246,600	3,249,500	2,922,700
Economic Development	1,347,710	1,658,600	1,634,000
Social Services	1,084,470	1,084,520	1,306,300
Conservation of Natural Resources	630,300	615,400	615,500
Capital Project Transfer	513,090	370,210	0
Contingency	283,380	0	0
TOTAL EXPENDITURES	\$305,834,790	\$304,556,610	\$309,079,700
SURPLUS/(DEFICIT)	\$0	(\$5,687,080)	(\$690,800)

State Budget Actions:

Highway User Tax Revenue	(\$2,578,000)
State Aid for Inmate	(875,000)
State Park Revenue	(26,200)
Law Clerks	(100,000)
Local Tax Assessment Office	(600,000)
Total State Budget Actions	(\$4,179,200)

UNBALANCED BUDGET

(\$4,870,000)

MAINTENANCE OF EFFORT - WAIVER REQUEST

Board of Education with Maintenance of Effort	\$145,093,200
Board of Education with waiver	140,645,100
Waiver Request	<u>\$4,448,100</u> *

* The amount requested is based upon current funding reductions being considered by the Maryland General Assembly.

If the adopted State budget for FY2010 further reduces funding for the County, the waiver request amount may need to be increased.