

**County Revenue
Task Force Report
July 2008**

**Revenue
Projections
for County and
Municipalities**



GREATER SALISBURY COMMITTEE

Helping make Mid-Delmarva a better place to live and work

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Task Force Charge

The Greater Salisbury Committee Task Force for County and Local Municipalities Finance was charged by the GSC membership as part of the FY08 Work Program with investigating and reporting on the forecasting of revenues and understanding how different tax mechanisms will have impact for Wicomico County and its municipalities. Among items to be considered were county revenue sources, the revenue cap, special taxation districts, long-term leases vs. ownership, and the tax differential.

Task Force Members

Michael Langley, chair
Bryan Murfree
Bill McCain
John McDonnell
Greg Olinde
Joe Ollinger
John Pick
Bill Shockley
Michelle Wright

Introduction

Due to the scope of work, the task force decided to not include any municipalities but rather focus on the needs of county. As we moved through the project we found that the revenue cap has the most impact on county revenues.

The methodology for this study relied heavily on numerous reports and statistics including county financials, special requested trends reports, enterprise funds analysis, a performance audit from 2002, and a Hendrick Personnel Salary Study. This allowed us to explore long-term trends and gain a micro view of the county's finances. In addition, we analyzed a state MACO report and Howard County's Advisory Committee's annual report.

The task force also held one of our work sessions with county officials to gain their insights regarding Wicomico County's finances and the revenue cap. Officials present were Rick Pollitt, Ted Shea, Matthew Creamer, Pat Peterson, plus from the County Council Pres. John Cannon, Bill McCain, and Stevie Prettyman.

This report focuses on the county's revenue sources, its growth, and trends. When analyzing historical growth and trends, from 1997- 2007, the task force determined the compounded annual growth rates for all revenue sources. Based upon these growth rates, we and the county officials may be able to better forecast future revenues.

County Revenue Sources

Wicomico County has four major categories of revenue:

1. Real Property

Real property revenue is the product of the real property tax rate and Wicomico

County's real estate assessable base. The annual growth of this source of revenue is limited by the revenue cap that went into effect in fiscal year 2002. See the section *Revenue Cap Mechanics and Charter Verbiage* for a detailed explanation of the revenue cap.

Included within the real property revenue source are the taxes collected for properties under new construction. Growth in new construction tax revenue is not restricted by the revenue cap.

From 1997 through 2001, revenue from real property, including new construction, grew from \$25,563,926 to \$36,274,387, a compounded annualized growth rate (CAGR) of 9.14%.

From 2001 through 2007, when the revenue cap was in effect, revenue from real property, including revenues from new construction, grew from \$36,274,387 to \$48,381,524, a compounded annualized growth rate of 4.92%.

In all years from 1997 through 2007, the revenues from real property including revenue from new construction grew at a compounded annual growth rate of 6.59%.

2. Personal Property/Corporate

Personal property/corporate tax revenue is the product of the personal property tax rate and the Wicomico County personal property assessments. Since personal property tax rate is a function of real property tax rate, this source of revenue is impacted by the revenue cap. The personal property tax rate is a two and one-half (2 ½) multiple of the real property tax rate.

From 1997 through 2001, revenue from personal property grew from \$8,052,734 to \$10,488,026, a compounded annualized growth rate of 6.83%.

From 2001 through 2007, when the revenue cap was in effect, revenue from personal property grew negatively from \$10,488,026 to \$10,265,420, a compounded annualized growth rate of -3.57%.

In all years from 1997 through 2008, the revenues from personal property grew on a compounded annual growth rate of 2.46%.

3. County Income (Piggy Back Tax)

County income revenue is the product of the county income tax rate and taxable income of Wicomico County residents and businesses. Wicomico County's income tax rate is currently 3.1%. It was last increased in 2003 from 3.05%. By Maryland State law, a county can not exceed 3.2% as its income tax rate.

From 1997 through 2007, revenue from county income tax grew from \$23,068,179 to \$44,816,979, a compounded annualized growth rate of 6.87%.

4. Miscellaneous Taxes and Fees

This source of revenue includes the following:

- Recordation Tax
- 911 revenues
- Trailer park
- Admissions & Amusement
- Licenses & Permits

Intergovernmental transfers
 Service charges and fees
 Interest

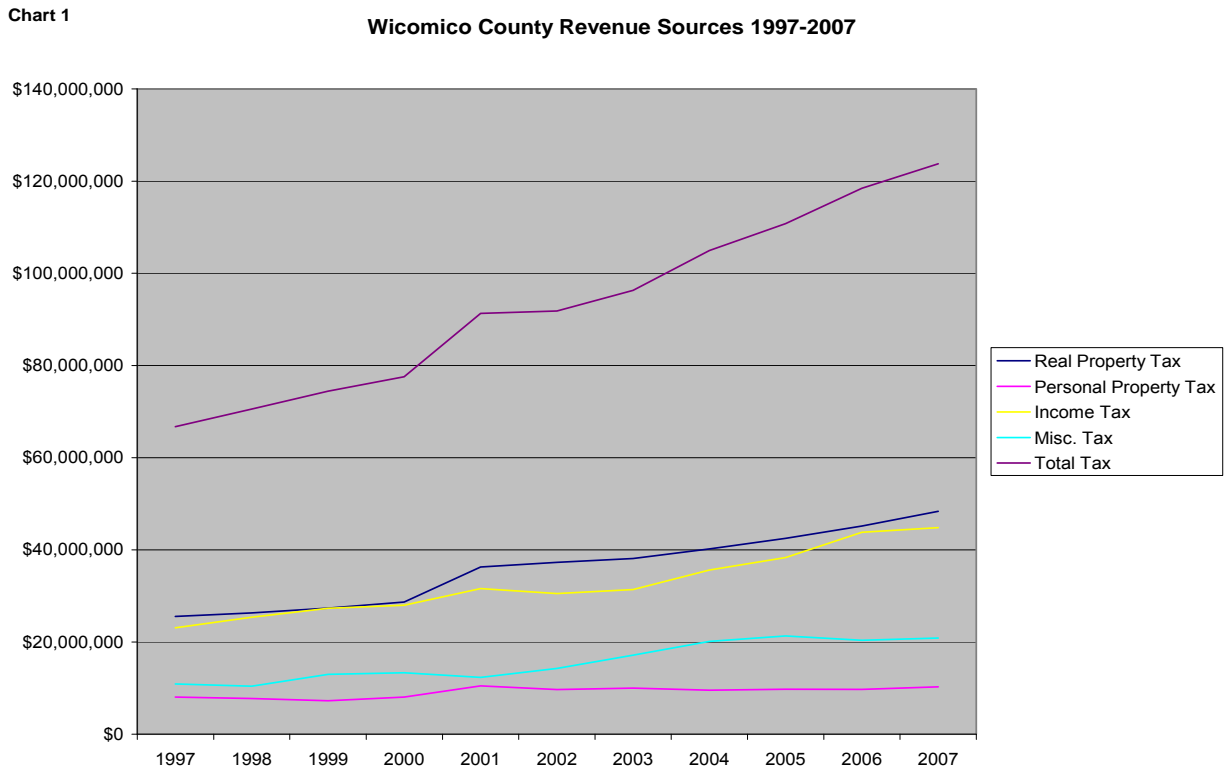
(Since the room tax and ag tax were removed from the general fund, these taxes are not included within this revenue source category)

From 1997 to 2007, revenue from these sources grew from \$10,371,008 to \$20,896,292 a compounded annualized growth rate of 7.26%.

Total of all four sources:

From 1997 to 2007, revenue from all four sources grew from \$66,230,005 to \$123,776,413, a compounded annualized growth rate of 6.45%.

Chart 1 illustrates visually the actual change in dollars from 1997 until 2007.



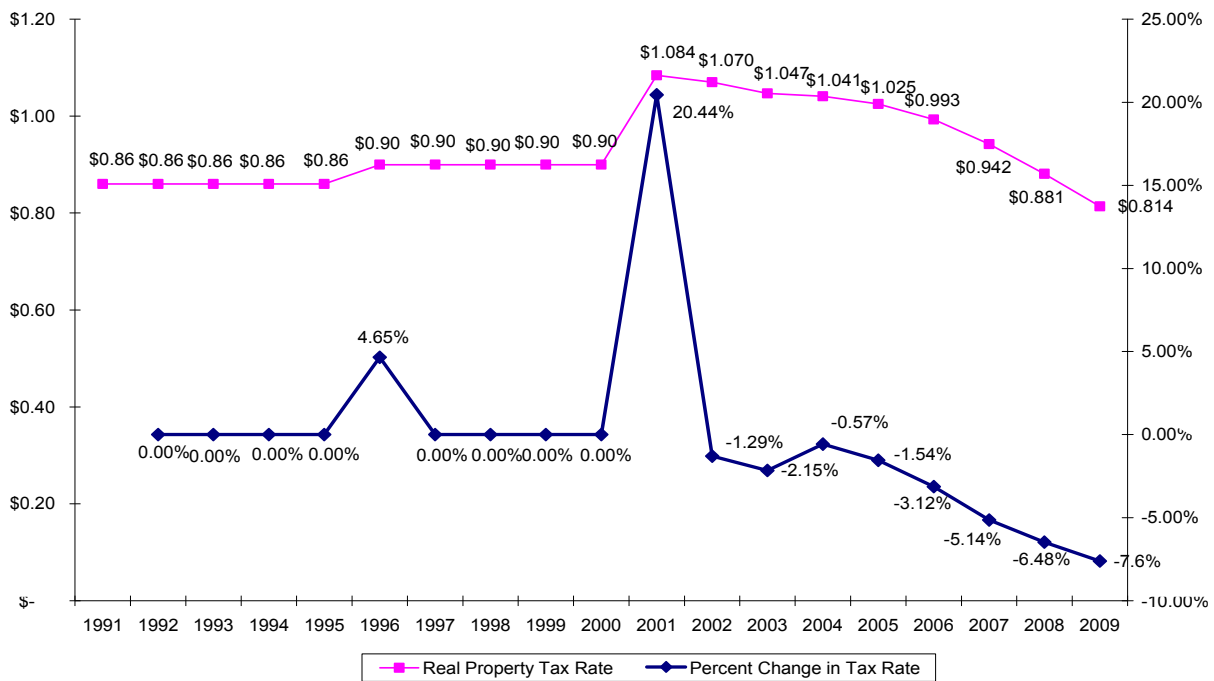
For 1997 to 2007 the county’s revenue CAGR of 6.45% was higher than the State of Maryland and the Federal Government, both of which grew at 5.44% for revenue during the same period. The average American wage during the same period grew at an annualized rate of 3.89%.

Revenue Cap Origins

Throughout the 1990’s, the real property tax rate was consistent. There was a four cent increase which represented only a 4.65% increase in 1996. (See *Real Property Tax Rate and Percent Change in Rate* - Chart 2, page 6.) During the late 1990’s, the county’s expenditures started increasing. In fiscal years 1998, 1999, and 2000,

Chart 2

Real Property Tax Rate and Percent Change in Rate



expenditures grew 5.2%, 11.5%, 10.6%, respectively. County officials cite several reasons for the change.

First, the county increased the issuance of capital bonds, which raised the cost of debt service and the percentage of the budget allocated to debt service.

The *Actual Revenue and Expenditures* (Table 1 on page 10) shows that debt service interest peaked at \$3.5M in fiscal 2000. Debt service principal grew \$0.5M from fiscal 1997 to 1999 and another \$1.5 in fiscal 2000 for a total increase over 1997 of \$2M. In fiscal 2002, it peaked another \$1.5M higher – up 65% in just five years.

However, during that time Governor Glendening who desired to be known as the “education governor” offered state funding to remodel and construct schools. The caveat was that the county had to provide matching funds in order to secure the state monies. Therefore the county council committed to increased county capital funding to match the state expecting to return to normal capital funding levels once the bubble of extra state funding had passed.

Secondly, about this time a report called the Hendrick Personnel Salary Study concluded that the county was not in line with most municipal governments of similar size with regards to the salaries it were paying employees nor the private sector.

Historically, it was a period of a strong economy and high demand for skilled employees. There was especially high turnover in the area of law enforcement and in the Department of Corrections. A decision in accordance with the study was made to invest in the county personnel. The study identified similar positions in the private and public sectors and gave recommendations to the county on compensation that would

allow the county to attract and retain qualified personnel.

The recommendations from the study did not arbitrarily increase everyone’s salary. In some cases employee’s salaries were frozen or given only small increase. However, when large salary disparities existed for similar positions ,increases were given. The analysis concluded, and the council apparently agreed, that the cost of adjusting the compensation levels for county employees would be significantly offset by the reduction in hiring, processing, and training cost for new employees. This salary adjustment in turn not only increased payroll but also raised the county contributions to the pension and retirement portion of the budget.

Thirdly, the county decided to fund some increases in the county’s contribution to the Board of Education. In fiscal 1999, 2000, and 2001 the county increased its funding to the Board of Education by \$3.8M (11.8%), \$2.5M (7.0%), and \$4.7M (12.3%), respectively.

These increases in spending by Wicomico County coincided with unanticipated state actions in 2000 whereby the state withheld income tax revenues that belonged to the county. This eliminated fiscal surpluses and created fiscal deficits. In 1997 and 1998, the county had surpluses totaling \$6.6 M, but due to the aforementioned spending increases in 1999 and 2000, the county created a total deficit of \$5.4 M.

That deficit wiped out the county’s “rainy day” fund and put the county in a severe financial situation. As a result, the county council raised the property tax rate .184 cents (20.44%) for fiscal 2001. Refer to *Actual Revenue and Expenditures Table* (Table 1 on page 10) illustrating a 17.7% revenue increase and a \$1.8M surplus in fiscal year 2001.

Table A

Wicomico County Property Tax Scenarios Based on Home Values

Cumulative

Home Value 2001	Home Value 2009 @ 4%/yr for 9 years	Cumulative 9 yrs Property Tax without Rev Cap	Cumulative 9 yrs Property Tax with Rev Cap	Cumulative 9 yrs Savings 9.57%	Cumulative 9 yrs Property Tax with 2% Tax Cap	Cumulative 9 yrs Extra Cost 8.94%	Cumulative 9 yrs Extra Cost over Rev Cap 18.52%
\$ 100,000.00	\$ 142,331.00	\$ 11,471.75	\$ 10,372.74	\$ 1,099.01	\$ 12,497.90	\$ 1,026.15	\$ 2,125.16
\$ 150,000.00	\$ 213,496.50	\$ 17,207.63	\$ 15,559.11	\$ 1,648.52	\$ 18,746.85	\$ 1,539.23	\$ 3,187.74
\$ 200,000.00	\$ 284,662.00	\$ 22,943.50	\$ 20,745.48	\$ 2,198.02	\$ 24,995.80	\$ 2,052.30	\$ 4,250.32
\$ 250,000.00	\$ 355,827.50	\$ 28,679.38	\$ 25,931.85	\$ 2,747.53	\$ 31,244.75	\$ 2,565.38	\$ 5,312.90
\$ 300,000.00	\$ 426,993.00	\$ 34,415.25	\$ 31,118.22	\$ 3,297.03	\$ 37,493.70	\$ 3,078.45	\$ 6,375.48
\$ 350,000.00	\$ 498,158.50	\$ 40,151.13	\$ 36,304.59	\$ 3,846.54	\$ 43,742.65	\$ 3,591.53	\$ 7,438.06
\$ 400,000.00	\$ 569,324.00	\$ 45,887.00	\$ 41,490.96	\$ 4,396.04	\$ 49,991.60	\$ 4,104.60	\$ 8,500.64
\$ 450,000.00	\$ 640,489.50	\$ 51,622.88	\$ 46,677.33	\$ 4,945.55	\$ 56,240.55	\$ 4,617.68	\$ 9,563.22
\$ 500,000.00	\$ 711,655.00	\$ 57,358.75	\$ 51,863.70	\$ 5,495.05	\$ 62,489.50	\$ 5,130.75	\$ 10,625.80
\$ 550,000.00	\$ 782,820.50	\$ 63,094.63	\$ 57,050.07	\$ 6,044.56	\$ 68,738.45	\$ 5,643.83	\$ 11,688.38
\$ 600,000.00	\$ 853,986.00	\$ 68,830.50	\$ 62,236.44	\$ 6,594.06	\$ 74,987.40	\$ 6,156.90	\$ 12,750.96
\$ 650,000.00	\$ 925,151.50	\$ 74,566.38	\$ 67,422.81	\$ 7,143.57	\$ 81,236.35	\$ 6,669.98	\$ 13,813.54
\$ 700,000.00	\$ 996,317.00	\$ 80,302.25	\$ 72,609.18	\$ 7,693.07	\$ 87,485.30	\$ 7,183.05	\$ 14,876.12
\$ 750,000.00	\$ 1,067,482.50	\$ 86,038.13	\$ 77,795.55	\$ 8,242.58	\$ 93,734.25	\$ 7,696.13	\$ 15,938.70
\$ 800,000.00	\$ 1,138,648.00	\$ 91,774.00	\$ 82,981.92	\$ 8,792.08	\$ 99,983.20	\$ 8,209.20	\$ 17,001.28
\$ 850,000.00	\$ 1,209,813.50	\$ 97,509.88	\$ 88,168.29	\$ 9,341.59	\$ 106,232.15	\$ 8,722.27	\$ 18,063.86
\$ 900,000.00	\$ 1,280,979.00	\$ 103,245.75	\$ 93,354.66	\$ 9,891.09	\$ 112,481.10	\$ 9,235.35	\$ 19,126.44
\$ 950,000.00	\$ 1,352,144.50	\$ 108,981.63	\$ 98,541.03	\$ 10,440.60	\$ 118,730.05	\$ 9,748.43	\$ 20,189.02
\$ 1,000,000.00	\$ 1,423,310.00	\$ 114,717.50	\$ 103,727.40	\$ 10,990.10	\$ 124,979.00	\$ 10,261.50	\$ 21,251.60

Table B

**Wicomico County Property Tax Scenarios Based on Home Values
2001 vs. 2009**

Home Value 2001	Property Tax in 2001 without Rev Cap	Home Value 2009 @ 4%/yr for 9 years	Property Tax in 2009 without Rev Cap 42.33% incr from 2001	Property Tax in 2009 with Rev Cap 14.68%incr from 2001	Property Tax Savings in 2009 Rev Cap vs without Rev Cap 18.72%	Property Tax in 2009 with 2% Tax Cap 66.75% incr from 2001	2% Tax Cap Extra Cost in 2009 17.16%	2% Tax Cap Extra Cost in 2009 Tax Cap vs Rev Cap 44.15%
\$ 100,000.00	\$ 1,084.00	\$ 142,331.00	\$ 1,542.87	\$ 1,253.94	\$ 288.93	\$ 1,807.60	\$ 264.74	\$ 553.67
\$ 150,000.00	\$ 1,626.00	\$ 213,496.50	\$ 2,314.30	\$ 1,880.90	\$ 433.40	\$ 2,711.41	\$ 397.10	\$ 830.50
\$ 200,000.00	\$ 2,168.00	\$ 284,662.00	\$ 3,085.74	\$ 2,507.87	\$ 577.86	\$ 3,615.21	\$ 529.47	\$ 1,107.34
\$ 250,000.00	\$ 2,710.00	\$ 355,827.50	\$ 3,857.17	\$ 3,134.84	\$ 722.33	\$ 4,519.01	\$ 661.84	\$ 1,384.17
\$ 300,000.00	\$ 3,252.00	\$ 426,993.00	\$ 4,628.60	\$ 3,761.81	\$ 866.80	\$ 5,422.81	\$ 794.21	\$ 1,661.00
\$ 350,000.00	\$ 3,794.00	\$ 498,158.50	\$ 5,400.04	\$ 4,388.78	\$ 1,011.26	\$ 6,326.61	\$ 926.57	\$ 1,937.84
\$ 400,000.00	\$ 4,336.00	\$ 569,324.00	\$ 6,171.47	\$ 5,015.74	\$ 1,155.73	\$ 7,230.41	\$ 1,058.94	\$ 2,214.67
\$ 450,000.00	\$ 4,878.00	\$ 640,489.50	\$ 6,942.91	\$ 5,642.71	\$ 1,300.19	\$ 8,134.22	\$ 1,191.31	\$ 2,491.50
\$ 500,000.00	\$ 5,420.00	\$ 711,655.00	\$ 7,714.34	\$ 6,269.68	\$ 1,444.66	\$ 9,038.02	\$ 1,323.68	\$ 2,768.34
\$ 550,000.00	\$ 5,962.00	\$ 782,820.50	\$ 8,485.77	\$ 6,896.65	\$ 1,589.13	\$ 9,941.82	\$ 1,456.05	\$ 3,045.17
\$ 600,000.00	\$ 6,504.00	\$ 853,986.00	\$ 9,257.21	\$ 7,523.62	\$ 1,733.59	\$ 10,845.62	\$ 1,588.41	\$ 3,322.01
\$ 650,000.00	\$ 7,046.00	\$ 925,151.50	\$ 10,028.64	\$ 8,150.58	\$ 1,878.06	\$ 11,749.42	\$ 1,720.78	\$ 3,598.84
\$ 700,000.00	\$ 7,588.00	\$ 996,317.00	\$ 10,800.08	\$ 8,777.55	\$ 2,022.52	\$ 12,653.23	\$ 1,853.15	\$ 3,875.67
\$ 750,000.00	\$ 8,130.00	\$ 1,067,482.50	\$ 11,571.51	\$ 9,404.52	\$ 2,166.99	\$ 13,557.03	\$ 1,985.52	\$ 4,152.51
\$ 800,000.00	\$ 8,672.00	\$ 1,138,648.00	\$ 12,342.94	\$ 10,031.49	\$ 2,311.46	\$ 14,460.83	\$ 2,117.89	\$ 4,429.34
\$ 850,000.00	\$ 9,214.00	\$ 1,209,813.50	\$ 13,114.38	\$ 10,658.46	\$ 2,455.92	\$ 15,364.63	\$ 2,250.25	\$ 4,706.17
\$ 900,000.00	\$ 9,756.00	\$ 1,280,979.00	\$ 13,885.81	\$ 11,285.42	\$ 2,600.39	\$ 16,268.43	\$ 2,382.62	\$ 4,983.01
\$ 950,000.00	\$ 10,298.00	\$ 1,352,144.50	\$ 14,657.25	\$ 11,912.39	\$ 2,744.85	\$ 17,172.24	\$ 2,514.99	\$ 5,259.84
\$ 1,000,000.00	\$ 10,840.00	\$ 1,423,310.00	\$ 15,428.68	\$ 12,539.36	\$ 2,889.32	\$ 18,076.04	\$ 2,647.36	\$ 5,536.68

In response to this extraordinary increase in real property tax, concerned citizens formed a group called VOICE. Their mission was to modify the county charter to include a cap on real property revenues and to petition for a referendum vote. They were successful not only in getting the issue on the ballot but persuading 67% of the public to vote in favor of the revenue cap. After passage, some county officials commented that they did not think the citizens realized they were voting for a 2% revenue cap but rather a 2% tax cap.

Revenue Cap Mechanics and Charter Verbiage

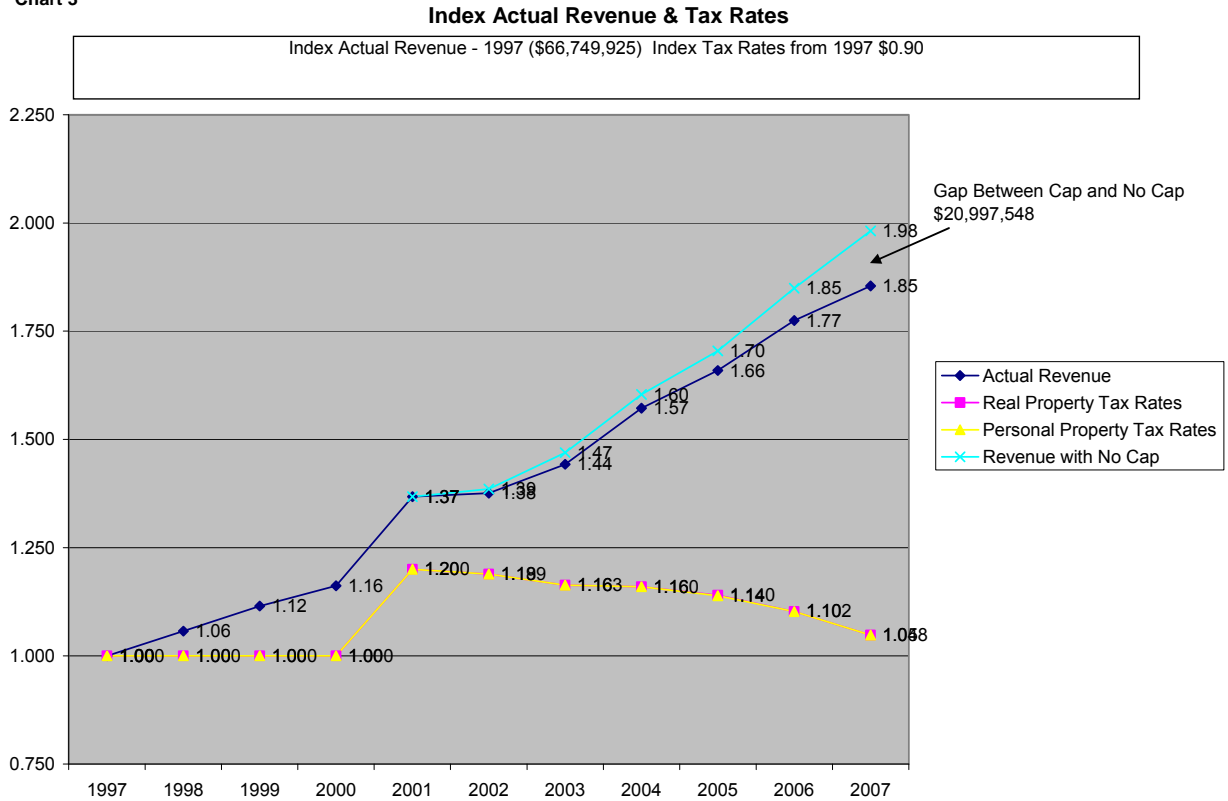
This cap impacts revenue for real property, excluding new construction. Also, it indirectly impacts personal property revenues. In any fiscal year, real property revenue can only increase by 2% or the CPI rate, whichever is less. When the total assessable base increases at a greater rate than 2% or the CPI rate, the real property tax rate must decrease so that the total revenue collected by the county does not exceed 2% or the CPI rate, whichever is less. Since personal property tax rate is defined as 2 1/2 times real property tax rate, the revenue from personal property is also affected.

Wicomico County Charter Section 706

A. Tax levy, balanced budget. When the county budget shall have been finally adopted in the Annual Budget and Appropriation Bill, the County Council shall thereupon levy and cause to be raised the amount of taxes required by the budget in the manner provided by law so that the budget shall be balanced as to proposed income and expenditures.”

B. “Tax revenue cap. Notwithstanding any other provisions of this article, from and after July 1, 2001, revenues derived from taxes on properties existing on

Chart 3



The county has been historically conservative when forecasting revenues. Even with more optimistic forecasting, however, there is no way anyone could have predicted that all of the major revenue streams would have grown so strongly from 2003-2007. As a result, surpluses started to appear. In 2006 and 2007, the county council decided to spend some of the surplus that had been accumulating. Much of it was spent on roads and capital improvement projects, but some was used for normal operating expenditures.

We analyzed the various components of revenue and how they have changed over time. Chart 4, which follows on page 11, illustrates how the major revenue components share of the county's revenue have changed over the 11-year period illustrated. Property taxes were nearly a 39% share in 1997 and, surprisingly, were at 39% in 2007 as well. However, they bottomed out at 37% share in 1999 and 2000. Then after the rate hike in 2001, they averaged over 40% share for 2001, 2002 and 2003.

Strong new construction over the past several years, which is not subject to the revenue cap, has kept this key source of revenue's share steady.

Personal property tax share of the total revenue pie, however, has fallen dramatically. It has declined from the 12% range in 1997 to the low 8% range in 2006

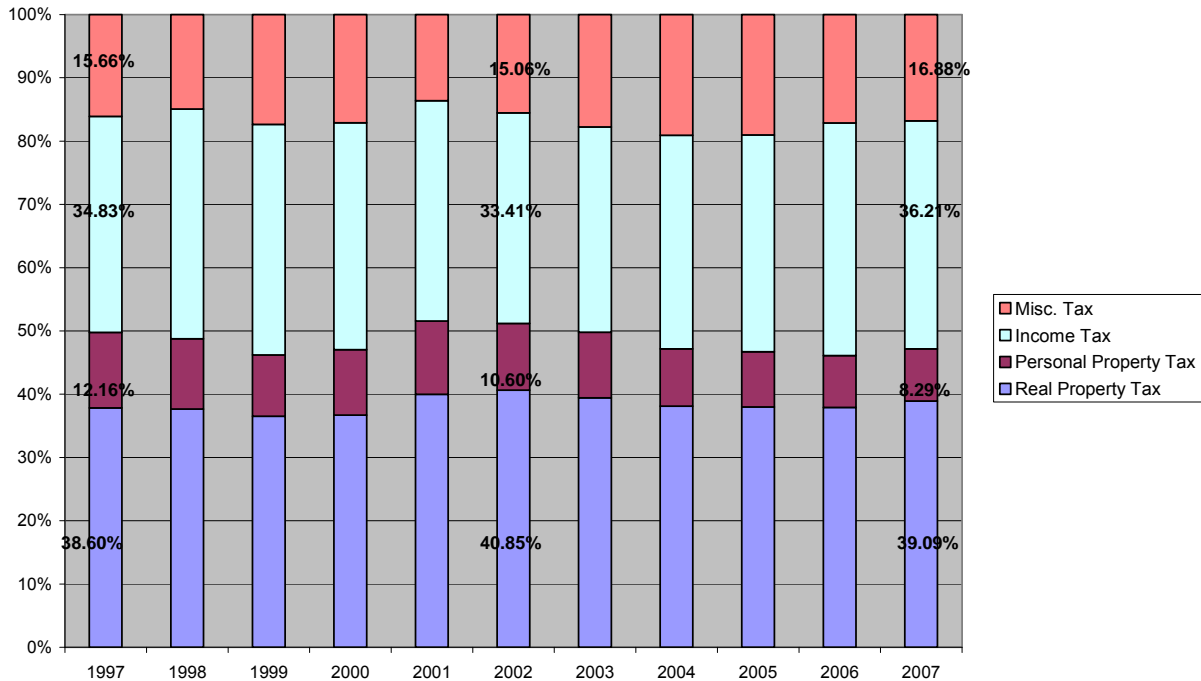
Table 1, which follows on page 10, outlines the *Actual Revenues and Expenditures* from 1997 thru 2007. The year to year % increases in revenue run along the top and expenditures along the bottom.

**Table 1
Actual Revenues and Expenditures**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Revenue	\$ 66,749,925	\$ 70,562,524	\$ 74,427,834	\$ 77,556,731	\$ 91,304,497	\$ 96,303,617	\$ 96,303,591	\$ 104,955,768	\$ 110,761,722	\$ 118,464,994	\$ 123,776,415
Growth		5.71%	5.48%	4.20%	17.73%	0.59%	4.86%	8.96%	5.53%	6.95%	4.48%
Real Property Tax Rate	\$ 0.900	\$ 0.900	\$ 0.900	\$ 0.900	\$ 1.084	\$ 1.070	\$ 1.047	\$ 1.041	\$ 1.025	\$ 0.993	\$ 0.942
Property Taxes											
Real property	\$ 25,563,926	\$ 26,323,115	\$ 27,362,698	\$ 28,661,065	\$ 36,274,387	\$ 37,300,655	\$ 38,139,030	\$ 40,217,893	\$ 42,513,619	\$ 45,165,584	\$ 48,381,524
Personal property & corps	\$ 8,052,734	\$ 7,747,958	\$ 7,239,088	\$ 8,081,172	\$ 10,488,026	\$ 9,680,356	\$ 10,025,222	\$ 9,556,400	\$ 9,794,066	\$ 9,736,615	\$ 10,266,420
Tax adjustments & discounts	\$ (825,842)	\$ (693,906)	\$ (482,313)	\$ (550,255)	\$ (587,945)	\$ (67,184)	\$ (424,031)	\$ (590,994)	\$ (1,184,564)	\$ (648,128)	\$ (583,802)
Total Property Taxes	\$ 32,790,818	\$ 33,377,167	\$ 34,139,473	\$ 36,191,982	\$ 46,174,568	\$ 47,048,195	\$ 47,740,221	\$ 49,183,299	\$ 51,123,121	\$ 54,254,071	\$ 58,063,142
Income Taxes	\$ 23,068,179	\$ 25,365,931	\$ 27,305,483	\$ 28,006,107	\$ 31,607,962	\$ 30,509,842	\$ 31,369,658	\$ 35,623,559	\$ 38,333,958	\$ 43,808,353	\$ 44,816,979
Room tax	\$ 370,896	\$ 426,127	\$ 448,804	\$ 521,744	\$ 515,290	\$ 537,267	\$ 553,303	\$ 563,337	moved to Ent Frnd	moved to Ent Frnd	moved to Ent Frnd
Recordation tax	\$ 1,383,202	\$ 1,566,721	\$ 1,824,282	\$ 1,761,527	\$ 1,863,106	\$ 2,143,556	\$ 2,664,402	\$ 4,451,424	\$ 5,721,406	\$ 6,588,592	\$ 5,874,835
911 revenues	\$ 259,288	\$ 247,081	\$ 283,137	\$ 269,020	\$ 369,021	\$ 435,573	\$ 395,605	\$ 484,135	\$ 571,776	\$ 633,729	\$ 895,914
Ag tax (moved to Spec Rev in FY2001)	\$ 146,224	\$ 215,813	\$ 44,326	\$ 53,288	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Trailer park	\$ 247,984	\$ 243,799	\$ 249,069	\$ 242,017	\$ 254,323	\$ 265,699	\$ 254,874	\$ 288,931	\$ 303,285	\$ 287,611	\$ 313,166
Admission & Amusement	\$ 289,827	\$ 192,415	\$ 219,839	\$ 222,890	\$ 204,370	\$ 193,088	\$ 271,860	\$ 275,975	\$ 250,828	\$ 128,336	\$ 143,407
Total Taxes	\$ 58,556,218	\$ 61,635,054	\$ 64,514,433	\$ 67,268,575	\$ 80,988,640	\$ 81,133,220	\$ 83,249,923	\$ 90,870,660	\$ 96,304,374	\$ 105,700,692	\$ 110,107,443
Licenses & Permits	\$ 644,976	\$ 686,525	\$ 722,479	\$ 784,632	\$ 792,774	\$ 957,391	\$ 989,466	\$ 1,171,888	\$ 1,176,143	\$ 1,321,312	\$ 1,187,009
Intergovernmental	\$ 802,827	\$ 1,116,292	\$ 1,882,343	\$ 1,283,358	\$ 1,366,570	\$ 1,863,802	\$ 4,589,434	\$ 4,523,267	\$ 3,768,098	\$ 2,499,813	\$ 804,306
Service Charges & Fees	\$ 4,617,017	\$ 4,961,779	\$ 5,129,285	\$ 6,110,140	\$ 6,000,272	\$ 6,453,193	\$ 6,580,183	\$ 7,650,243	\$ 7,376,259	\$ 5,977,798	\$ 7,755,449
Misc	\$ 737,903	\$ 458,165	\$ 246,316	\$ 281,460	\$ 407,636	\$ 588,488	\$ 415,176	\$ 383,849	\$ 1,189,213	\$ 610,219	\$ 187,225
Interest	\$ 1,390,984	\$ 1,734,709	\$ 1,932,978	\$ 1,828,566	\$ 1,749,305	\$ 847,523	\$ 479,409	\$ 355,861	\$ 947,635	\$ 2,355,160	\$ 3,734,981
TOTAL REVENUES	\$ 66,749,925	\$ 70,562,524	\$ 74,427,834	\$ 77,556,731	\$ 91,304,497	\$ 96,303,617	\$ 96,303,591	\$ 104,955,768	\$ 110,761,722	\$ 118,464,994	\$ 123,776,413
Expenditures											
General Government	\$ 4,329,244	\$ 4,605,186	\$ 5,169,810	\$ 5,495,629	\$ 6,091,802	\$ 6,554,414	\$ 5,906,027	\$ 5,863,025	\$ 6,625,031	\$ 7,363,154	\$ 8,282,083
Public Safety	\$ 4,708,051	\$ 5,503,264	\$ 6,439,988	\$ 6,876,295	\$ 7,971,299	\$ 7,729,885	\$ 9,607,676	\$ 9,838,651	\$ 9,977,235	\$ 10,672,156	\$ 13,831,225
Public Works (see reconciliation)	\$ 547,673	\$ 350,000	\$ 375,000	\$ 403,840	\$ 464,747	\$ 612,800	\$ 645,377	\$ 662,303	\$ 680,660	\$ 729,356	\$ 812,607
Health & Hospitals	\$ 1,522,596	\$ 1,709,748	\$ 1,857,004	\$ 2,014,897	\$ 2,278,315	\$ 2,233,026	\$ 2,478,363	\$ 2,343,178	\$ 2,260,513	\$ 2,393,468	\$ 2,902,209
Social Services	\$ 549,958	\$ 610,983	\$ 750,468	\$ 574,675	\$ 504,146	\$ 377,752	\$ 376,157	\$ 211,469	\$ 83,863	\$ 117,863	\$ 200,409
Correction	\$ 5,201,986	\$ 5,549,483	\$ 6,411,690	\$ 7,732,140	\$ 7,864,540	\$ 7,523,391	\$ 8,220,288	\$ 8,064,528	\$ 8,822,832	\$ 10,250,423	\$ 11,574,058
Education - Wor - Wic	\$ 1,552,407	\$ 1,726,450	\$ 1,918,405	\$ 2,077,842	\$ 2,204,970	\$ 2,413,855	\$ 2,413,070	\$ 2,167,245	\$ 2,803,467	\$ 3,051,216	\$ 3,646,679
Recreation & Culture	\$ 2,919,671	\$ 3,090,072	\$ 3,262,739	\$ 4,022,349	\$ 3,705,793	\$ 4,213,855	\$ 4,813,149	\$ 5,604,719	\$ 4,297,971	\$ 1,575,153	\$ 1,734,866
Conservation of Natural Resources	\$ 154,611	\$ 135,500	\$ 130,768	\$ 134,025	\$ 136,798	\$ 126,600	\$ --	\$ --	\$ --	\$ --	\$ --
Misc. (Pensions, Medical, Works Compensation)	\$ 4,863,617	\$ 3,382,942	\$ 3,581,027	\$ 4,099,688	\$ 5,162,952	\$ 5,827,813	\$ 5,849,646	\$ 6,050,543	\$ 8,119,044	\$ 8,934,555	\$ 10,363,363
Debt Service - Principal	\$ 5,327,048	\$ 5,704,562	\$ 5,825,106	\$ 7,344,534	\$ 6,801,936	\$ 8,787,532	\$ 7,844,561	\$ 7,458,211	\$ 6,673,445	\$ 6,665,965	\$ 6,567,094
Debt Service - Interest	\$ 3,035,328	\$ 2,948,002	\$ 2,948,071	\$ 3,555,426	\$ 3,264,605	\$ 3,087,498	\$ 3,138,613	\$ 3,124,756	\$ 3,034,335	\$ 3,110,151	\$ 3,251,756
Library	\$ 920,841	\$ 976,284	\$ 1,028,150	\$ 1,150,189	\$ 1,261,211	\$ 1,087,896	\$ 1,165,792	\$ 1,224,369	\$ 1,271,021	\$ 1,325,400	\$ 1,474,577
Bd. Of Education	\$ 30,343,036	\$ 31,864,436	\$ 35,632,426	\$ 38,143,788	\$ 42,843,788	\$ 43,743,788	\$ 44,665,088	\$ 45,679,815	\$ 46,131,073	\$ 46,925,458	\$ 48,329,815
Grants	\$ 683,207	\$ 265,714	\$ 480,086	\$ 762,348	\$ 227,156	\$ 226,197	\$ 37,402	\$ 38,889	\$ --	\$ 2,000	\$ --
Transfers In/Out (net)	\$ (2,959,469)	\$ (1,435,768)	\$ (1,104,961)	\$ (1,727,269)	\$ (1,324,562)	\$ (2,761,675)	\$ (1,825,673)	\$ (520,431)	\$ 507,578	\$ 2,697,685	\$ 9,965,602
Total Operating Expenditures	\$ 63,699,605	\$ 66,986,858	\$ 74,705,777	\$ 82,650,400	\$ 89,459,396	\$ 91,645,422	\$ 95,335,556	\$ 98,211,270	\$ 101,188,068	\$ 105,814,003	\$ 122,936,342
Change vs. PY		5.16%	11.52%	10.63%	8.24%	2.44%	4.03%	3.02%	3.03%	4.57%	16.18%
Excess (deficiency) of revenues over expenses	\$ 3,050,320	\$ 3,575,666	\$ (277,943)	\$ (5,093,669)	\$ 1,845,101	\$ 198,195	\$ 968,035	\$ 6,744,498	\$ 9,573,654	\$ 12,650,991	\$ 840,071

and 2007. This is more than a 30% decline. The income tax share has risen slightly from just under 35% in 1997 to just over 36% in 2007. Finally, the miscellaneous revenue and taxes category has risen from just under 16% in 1997 to just under 17% in 2007.

Chart 4 Percentage Of Revenue Contribution by Category



* Excludes Room and Ag Tax Revenue and Property Tax Adjustments and Discounts for all years

Surpluses and Carry Forwards

The Government Finance Officers Association (GFOA) provides the following advisory concerning the appropriate level of unreserved fund balance for a governmental entity's General Fund:

Appropriate Level of Unreserved Fund Balance in the General Fund (2002)

Background

Accountants employ the term *fund balance* to describe the net assets of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of governmental funds calculated on a government's budgetary basis. In both cases, *fund balance* is intended to serve as a measure of the financial resources available in a governmental fund.

Accountants distinguish *reserved fund balance* from *unreserved fund balance*. Typically, only the latter is available for spending. Accountants also sometimes report a *designated* portion of unreserved fund balance to indicate

that the governing body or management have tentative plans concerning the use of all or a portion of unreserved fund balance.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning. In most cases, discussions of fund balance will properly focus on a government's *general fund*. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unreserved fund balance in the general fund.

Credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unreserved fund balance for state and local governments.

Those interested primarily in a government's creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

Recommendation

GFOA recommends that governments establish a formal policy on the level of unreserved fund balance that should be maintained in the general fund. GFOA also encourages the adoption of similar policies for other types of governmental funds. Such a guideline should be set by the appropriate policy body and should provide both a temporal framework and specific plans for increasing or decreasing the level of unreserved fund balance, if it is inconsistent with that policy.

The adequacy of unreserved fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, GFOA recommends, *at a minimum*, that general-purpose governments, regardless of size, maintain unreserved fund balance in their general fund of no less than five to 15 percent of regular general fund operating revenues, or of no less than one to two months of regular general fund operating expenditures. A government's particular situation may require levels of unreserved fund balance in the general fund significantly in excess of these recommended minimum levels.⁵ Furthermore, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unreserved fund balance in the general fund at any one time.

In establishing a policy governing the level of unreserved fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unreserved fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile).

□ The availability of resources in other funds as well as the potential drain upon general fund resources from other funds (i.e., the availability of resources in other funds may reduce the amount of unreserved fund balance needed in the general fund, just as deficits in other funds may require that a higher level of unreserved fund balance be maintained in the general fund).

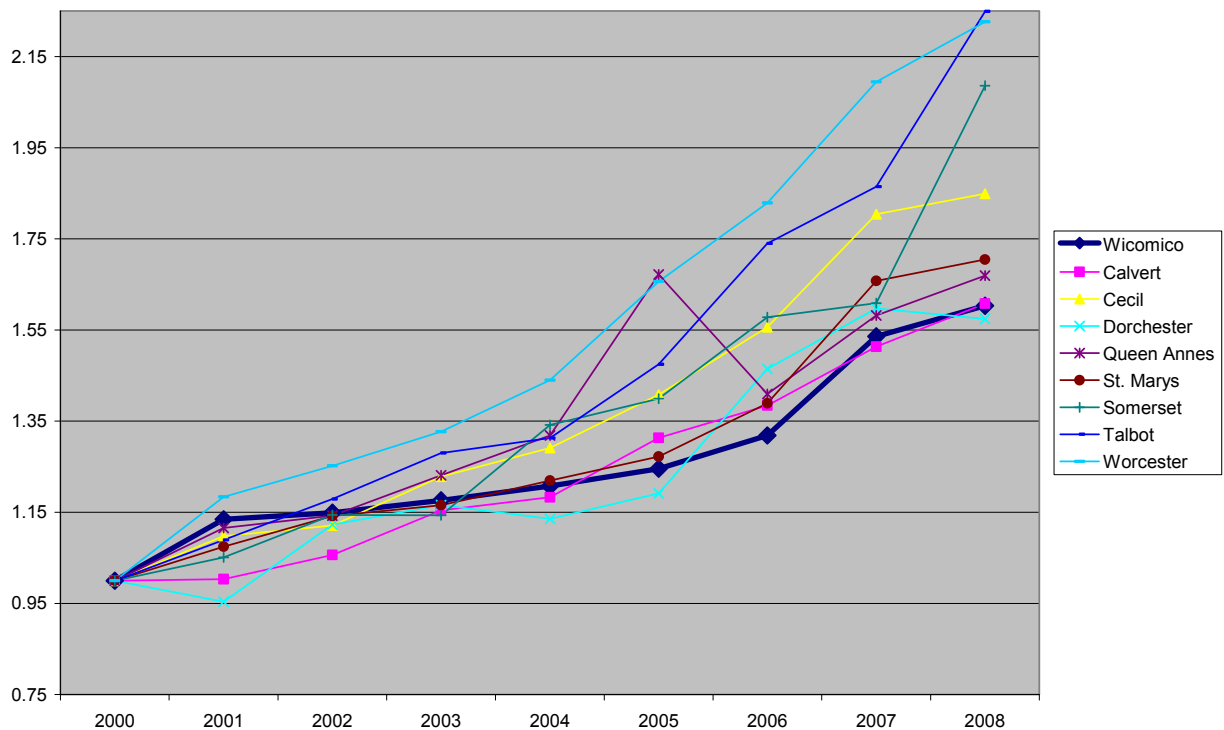
□ Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).

□ Designations (i.e., governments may wish to maintain higher levels of unreserved fund balance to compensate for any portion of unreserved fund balance already designated for a specific purpose).

Naturally, any policy addressing desirable levels of unreserved fund balance in the general fund should be in conformity with all applicable legal and regulatory constraints. In this case in particular, it is essential that differences between GAAP fund balance and budgetary fund balance be fully appreciated by all interested parties.

Approved by the Committee on Accounting, Auditing and Financial Reporting and the Committee on Governmental Budgeting and Management, January 30, 2002. Approved by the Executive Board, February 15, 2002.

Chart 5 County Revenue Operating Budgets 2000 - 2008 Indexed



Comparisons to Other Counties

The task force also reviewed the Maryland Association of Counties, Budgets, Tax Rates and Selected Statistics for fiscal years 2000 through 2008 to determine how our fiscal budgets compared. Chart 5, on previous page, in index form, illustrates that the Wicomico County operating budget has been within a similar growth range for about half of the counties illustrated. Most of our neighboring counties, Worcester, Somerset, and Talbot, have shown a considerably higher growth rate, as has Cecil County.

The task force was able to obtain data for the “cost” of the revenue cap; however, this calculation assumes that all other variables are static.

Table 2

Real Property Tax Revenue Rate Frozen @ \$1.084				
Fiscal year	Tax Rate	Assessment	Lost Revenue	Cumulative
2001	\$ 1.084			
2002	\$ 1.070	\$ 3,457,889,869	\$ 484,105	\$ 484,105
2003	\$ 1.047	\$ 3,627,323,131	\$ 1,342,110	\$ 1,826,214
2004	\$ 1.041	\$ 3,708,291,442	\$ 1,594,565	\$ 3,420,779
2005	\$ 1.025	\$ 3,968,917,370	\$ 2,341,661	\$ 5,762,441
2006	\$ 0.993	\$ 4,323,530,374	\$ 3,934,413	\$ 9,696,853
2007	\$ 0.942	\$ 4,822,854,579	\$ 6,848,454	\$ 16,545,307
2008	\$ 0.881	\$ 5,469,785,620	\$ 11,103,665	\$ 27,648,972
2009	\$ 0.814	\$ 6,214,192,022	\$ 15,908,332	\$ 43,557,303

Table 3

Personal Property/Corp** Rate Frozen @ \$2.71				
Fiscal year	Tax Rate	Assessment	Lost Revenue	Cumulative
2001	\$ 2.710			
2002	\$ 2.675	\$ 478,610,000	\$ 167,514	\$ 167,514
2003	\$ 2.617	\$ 474,889,670	\$ 441,647	\$ 609,161
2004	\$ 2.603	\$ 466,470,940	\$ 499,124	\$ 1,108,285
2005	\$ 2.563	\$ 457,524,050	\$ 672,560	\$ 1,780,845
2006	\$ 2.483	\$ 453,502,100	\$ 1,029,450	\$ 2,810,295
2007	\$ 2.355	\$ 462,520,000	\$ 1,641,946	\$ 4,452,241
2008	\$ 2.203	\$ 483,592,000	\$ 2,451,811	\$ 6,904,052
2009	\$ 2.035	\$ 518,787,000	\$ 3,320,237	\$ 10,224,289

TOTAL BUDGETARY IMPACT \$ 53,781,593

Impact of Revenue Cap on Future Performance

We are on the threshold of potential revenue shortfalls in Wicomico County. The economy has slowed. Home sales are down and new home construction is down. These will decrease the recordation tax, which has seen increases since the beginning of this decade and slow the increase in property taxes. Remember that the county gets the benefit of new construction property tax revenue over and above the 2% property tax cap.

In addition, there is the potential for income tax revenues to fall as a result of the economic situation or, at best, to see slower growth in that revenue stream. On top of the revenue problems, inflation is picking up and nobody knows at what level it is going to stabilize. Fuel for the county’s fleet of vehicles and school buses is jumping almost daily, and it is sure to cost more to heat and cool county structures in fiscal 2009 than the current year.

Table 4 on page 15 (Budgets for Fiscal Years-2009) illustrates that county officials expect a \$1.2M increase in total revenue for fiscal 2009, up just 1% from the current fiscal year. Yet our normal expenditures are budgeted to be \$3.1M higher. That additional spending is coming from prior year surpluses. This table shows that the county has embarked on dangerous ice in using prior surpluses to fund, in part, ongoing normal operating expenditures. When those surpluses are gone, if revenue has not increased, the county will have to cut normal operating expenses. This is not a pleasant prospect.

It appears that even though there is a strong desire by the county for the revenue cap to be changed or eliminated, there will be little energy exerted in 2008 to place this

Table 4	Budgets	For	Fiscal	Years
	2006	2007	2008	2009
Revenue				
Property Taxes				
Real Property	44,439,824	47,304,420	49,766,887	51,493,106
Personal Property	11,623,259	10,892,346	10,653,532	10,557,315
Tax Adjustments	-3,579,306	-3,561,209	-3,225,209	-2,568,700
Total Property Taxes	52,483,777	54,635,557	57,195,210	59,481,721
Other Taxes				
Income Taxes	35,185,000	40,250,700	42,500,000	42,000,000
Recordation Tax	4,200,000	4,688,000	4,794,940	4,000,000
Misc. Taxes	991,554	1,082,680	1,197,327	1,138,154
Total Other Taxes	40,376,554	46,021,380	48,492,267	47,138,154
Corrections Per Diems	3,178,692	4,012,867	3,882,387	3,133,658
Miscellaneous Revenues	8,020,335	8,519,007	9,588,207	10,595,361
Total Revenue	104,059,358	113,188,811	119,158,071	120,348,894
% Change		8.77%	5.27%	1.01%
Prior Surplus Spending	4,467,075	13,252,537	12,792,507	9,187,028
Grand Total	108,526,433	126,441,348	131,950,578	129,535,922
Expenditures				
General Government	7,486,877	9,089,427	11,404,855	11,075,851
Public Safety	10,837,596	14,594,362	14,619,188	15,138,464
Public Works	740,950	799,949	841,173	815,860
Public Health	2,488,893	2,941,339	3,075,621	4,138,496
Social Services	117,863	173,932	200,976	226,290
Corrections	10,377,583	11,131,903	12,941,005	13,457,428
Education-WorWic CC & Misc.	3,050,886	3,647,981	4,135,201	4,399,563
Recreation & Culture	2,087,988	2,230,258	2,380,614	2,489,632
Pensions, Medical, Workers Comp	8,821,784	11,100,418	13,263,491	12,888,729
Debt Service - Principle	7,125,377	6,577,822	6,854,895	7,856,375
Debt Service - Interest	3,336,557	3,346,414	3,578,801	4,065,362
Library	1,306,400	1,474,577	1,543,609	1,648,477
Board of Education	46,925,458	48,329,815	49,443,053	50,204,655
Grants	0	0	50,000	21,209
Contingency & Misc.	2,396,400	1,830,900	1,768,096	809,531
Total Normal Expenditures	107,100,612	117,269,097	126,100,578	129,235,922
% Change		9.49%	7.53%	2.49%
Special Expenditures				
Contribution to Roads	600,000	1,650,000	1,850,000	300,000
Capital Projects	825,821	7,522,251	5,000,000	0
Total Expenditures	108,526,433	126,441,348	132,950,578	129,535,922

on the ballot for a referendum. With the most recent theft issue at the landfill, trust of the county by the general public has been weakened. Consequently, any attempt to change the current system would be difficult for the county to initiate.

Special Taxation Districts

We decided not to pursue this issue.

Long-Term Leases

The Educational Funding Task Force did a very good job investigating the option of leasing versus owning and determined that it is generally more expensive. We did not feel that this needed further exploration.

Tax Differential

The county is currently funding a study; we will await those findings for a report to GSC.

Conclusion and Recommendations

As we have indicated, revenue has grown over the last 11 years. Subsequently, the county's normal operations have not been hindered in a substantial way. However, the county's contribution to the Board of Education's overall budget has increased only 2 to 3 percent each year since the inception of the revenue cap. GSC's Education Funding Task Force concluded that this level of increase did not keep pace with inflation. They further concluded that the county has only met the minimum requirement of "maintenance of effort" in many of those years rather than striving to meet the state's goals of "adequacy" in funding.

In addition, some would argue that we have missed a golden opportunity to catch up and maybe even get ahead of the curve on the many needed capital projects that the county faces. If the property tax cap had not been in place and the county had received just half of the \$34M budgetary impact thru fiscal 2008, Wicomico could have made much more progress in these two areas.

In the future, however, the revenue cap can and very likely will lead to some difficult fiscal times. With new construction down and income tax revenue potentially down or flat, those times may be upon us very soon. The task force recommends the following to the Greater Salisbury Committee for consideration and approval prior to submission to the county:

- 1. In order to successfully get the public educated on the fiscal challenges Wicomico County faces and to build widespread consensus, the committee recommends, in accordance with the Wicomico County Charter, page 21, sect. 508, the formation of a Citizens Advisory Committee.***

"The County Executive may appoint for designated periods of one or more temporary advisory boards of citizens of the county who shall, without compensation other than necessary expenses, assist in the consideration of county administrative policies and programs. Advisory boards by the County Executive under the provisions of this section shall be subject to the confirmation procedures set forth in Section 315 of this Charter."

The Parson Asset Management Group urged the county to have a committee founded by a broad base of constituencies no later than June 30, 2004. The purpose of the committee, which should have accountants and financial experts, as well as government, business, and general citizen representation, would be to recommend a better method of financing the county's operational and capital needs.

- 2. Support the Citizens Advisory Committee in an effort to restructure and communicate to the public a fiscally responsible revenue cap based upon a formula yet to be determined.***

For example, it could be as simple as CPI or 2%, whichever is greater. Another option could be growth + CPI. The current structure has worked while experiencing

strong growth in construction and incomes and low inflation. If those market conditions change, as we are experiencing this year, we will see a fiscal crisis or a dramatic reduction in county services as predicted in 2002 by Parson Asset Management.

The Greater Salisbury Committee has already supported increasing the level of funding to the Board of Education; however, the lack of projected revenue growth in fiscal 2009 has prohibited the county from honoring that request.

3. *The county should analyze the current opportunity to obtain bonds at a preferred interest rate for capital projects and borrow accordingly.*

Moody's has already stated that our bond rating may be in jeopardy: "How state and local governments manage the financial affects of the housing downturn will determine what impact it has on credit quality. State and local governments must adequately recognize the extent to which their finances are at risk and devise timely responses. State and local governments that recognized the extraordinary nature of recent real estate trends, budgeted conservatively and dedicated excess revenue to non-recurring expenditures are better prepared to manage the downturn. Governance structures that inhibit nimble responses- such as requirements for voter referendums or legislative supermajorities to raise taxes, other revenue-raising constraints, property tax caps, and inflexible spending mandates- or unwillingness to address housing-related fiscal pressure directly may have negative credit consequences."

4. *Publish and utilize the trend report (Table 1 Page 10) to educate county officials as well as the citizens of Wicomico County.*

Trends are a leading indicator for forecasting needs and the more educated the public is about these matters, the better chance for a trusting relationship between government and its constituents.

5. *Wicomico County has adopted a policy on a "Rainy Day Fund" for the General Fund.*

This policy provides for a balance in this fund of 5% of the general fund operating budget. However, the recommendation from the debt affordability analysis is that a balance of 10% of the operating budget should be maintained. The County Executive and County Council may wish to review the adequacy of the Rainy Day Fund in view of this recommendation

6. *Wicomico County has not adopted a policy on undesignated fund balance in the General Fund nor have they adopted policies with regard to fund balance in their enterprise funds. The County Executive and County Council may wish to consider adopting such policies in accordance with the guidance from the GFOA.*

7. *Due to the Maryland State's liberal county residency law, Wicomico County residents have the option of declaring residency in another county to avoid Wicomico's higher income (piggyback) tax. We recommend that Wicomico County elected officials work with our state delegation to introduce legislation to tighten county residency requirements.*

8. *By state law, counties' personal property tax rate is defined as 2 ½ times that of a*

county's real property tax rate. The Revenue Cap Referendum indirectly and negatively impacted the Wicomico County's personal property tax rate. The personal property tax rate is not mentioned in the revenue cap's county charter verbiage.

We don't know if it was the intent of VOICE or the county voters to actually decrease personal property tax collections year to year. We doubt it.

We suggest that county elected officials work with our state delegation to introduce legislation to de-couple the personal property tax rate from the county's real property tax rate and provide the county the option to increase or decrease its own personal property tax rate.

9. Unfunded state mandates negatively impact Wicomico County's ability to effectively perform long-term financial planning and fund its normal year to year operations.

We recommend that county elected officials continue to pressure the state government to cease legislating these unfunded mandates. Also, we recommend that GSC communicate our stance on these practices to our state elected officials.

These are our recommendations. If you have any questions they can be addressed by any of our task force members.