



Wicomico County, Md

Richard M. Pollitt, Jr. County Executive

Managing Fiscal Realities and the Tough Times Ahead

MACO Winter Conference

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presented by

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Surviving the Storm

Citizen Economic Burden

State Funding Cuts

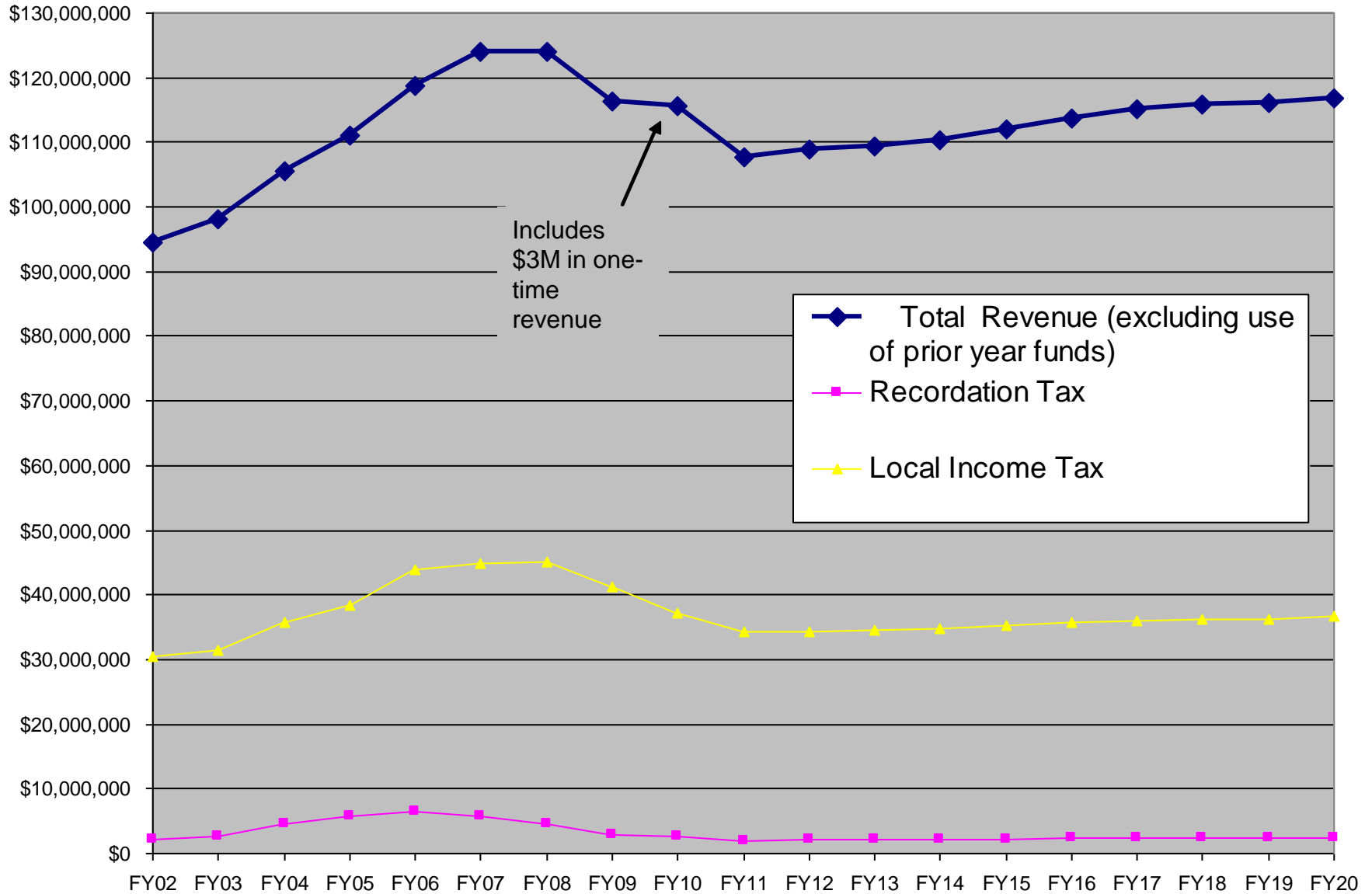
Recession

The County is caught in a Perfect Storm!

Managing Fiscal Realities and the Tough Times Ahead

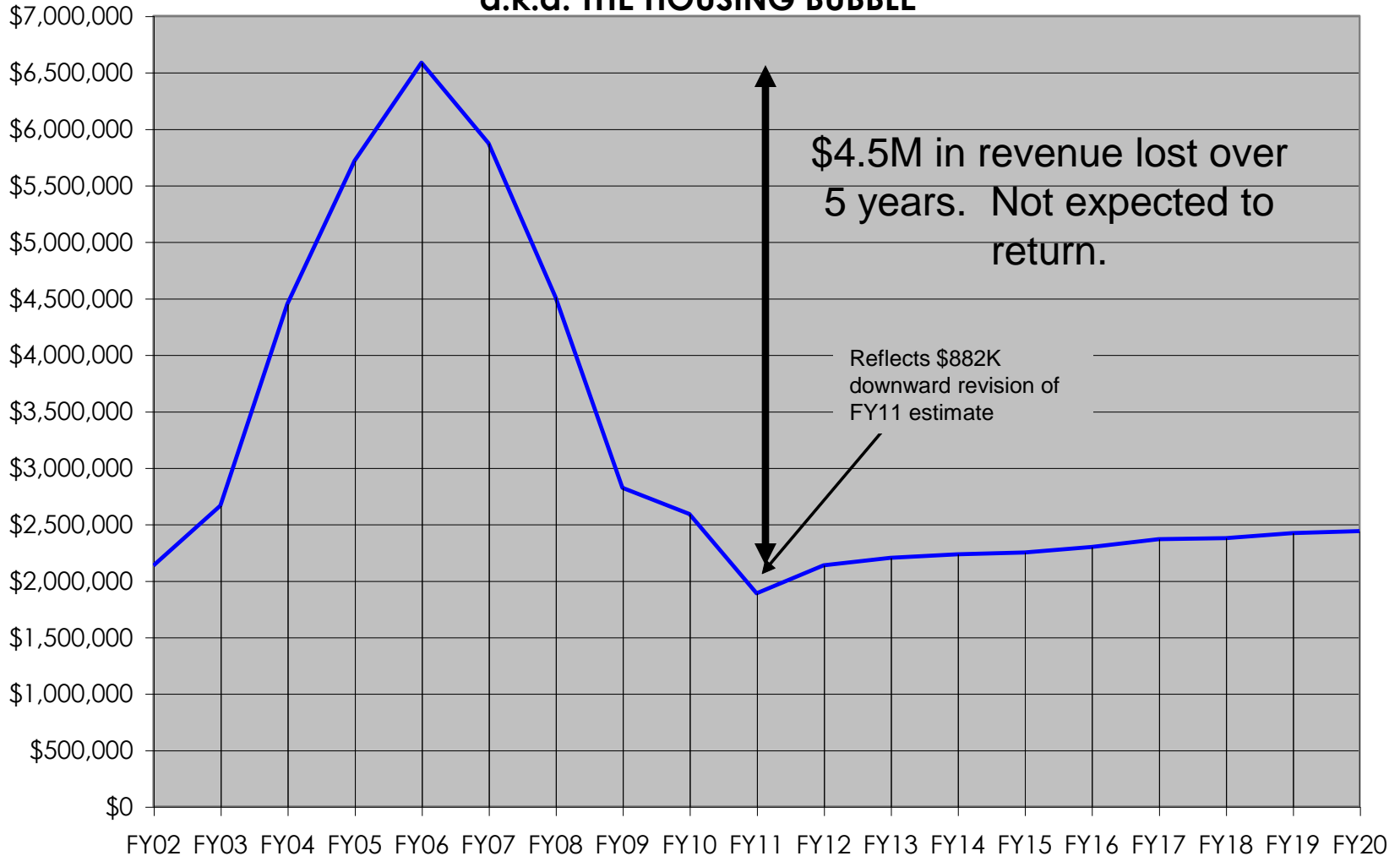
- Revenues have declined dramatically: still going down
- An incremental budget process will not guarantee safe passage – need a long range strategic plan
- Recovery will be protracted
 - Housing sector revenue will not come back for a long time
 - Real property assessable base will decline until housing market recovers.
 - Income tax revenue recovery depends on employment recovery which is 4 to 6 years away
- Citizens and government employees need to be informed of the ongoing effects of the recession, but ...
- The responsibility for fiscal survival rests with the decisions of elected leaders.

\$16M - 13% Decline in Revenue over three years

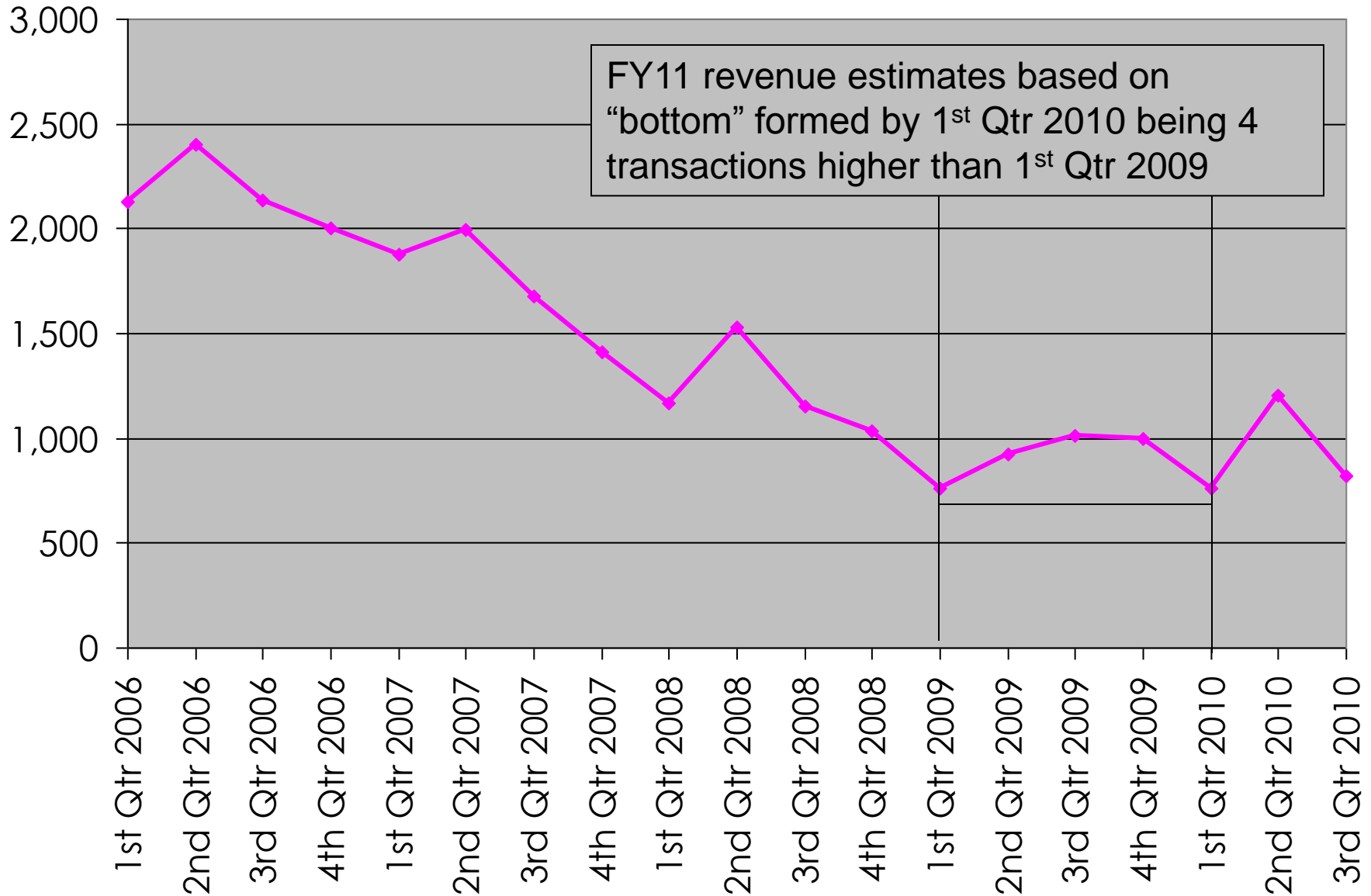


The Housing Market Collapse Triggered the Recession.

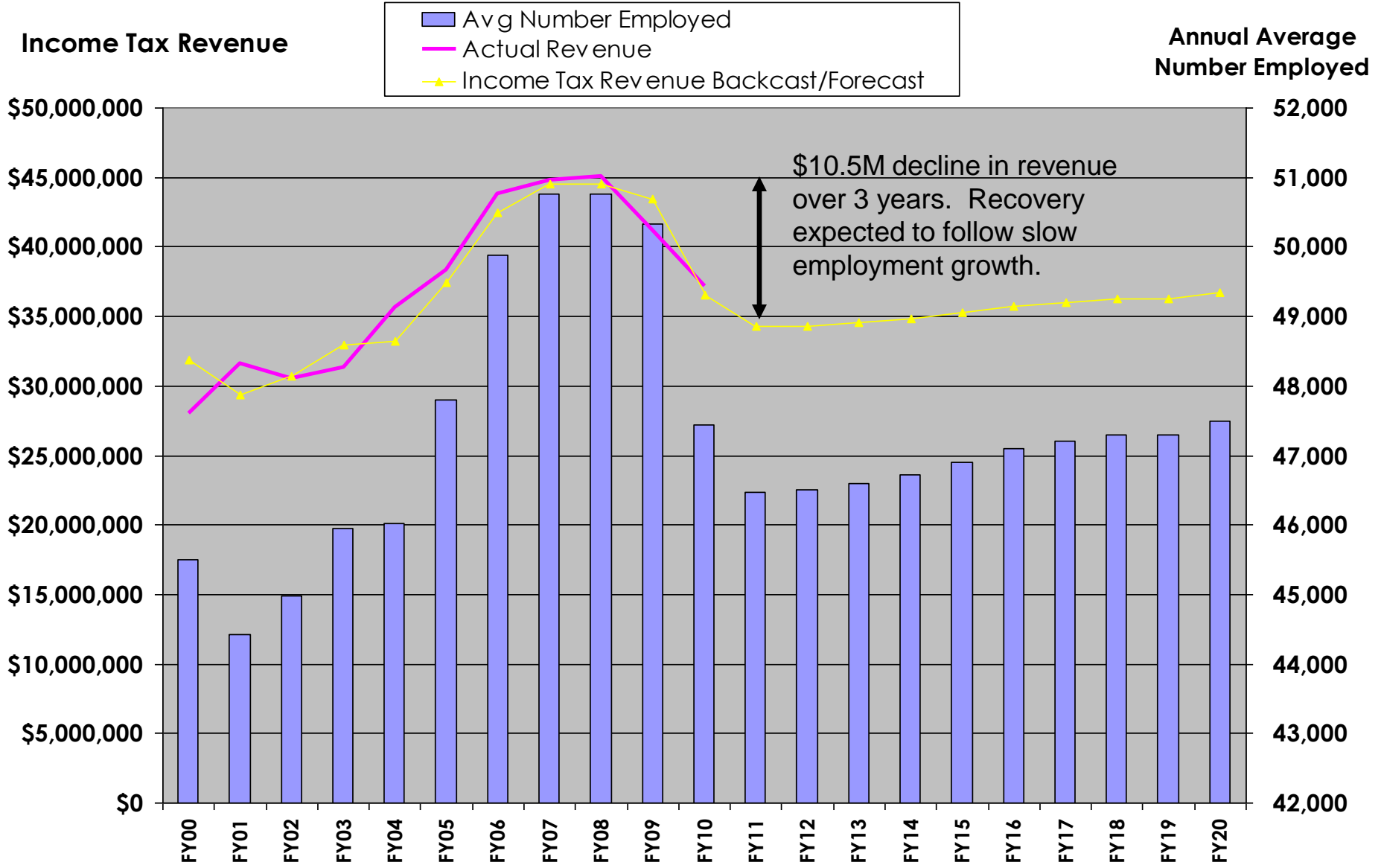
**Recordation Tax Revenue
a.k.a. THE HOUSING BUBBLE**



Taxable Deed and Mortgage Transactions (refinancing excluded)



Employment Drives Income Tax Receipts

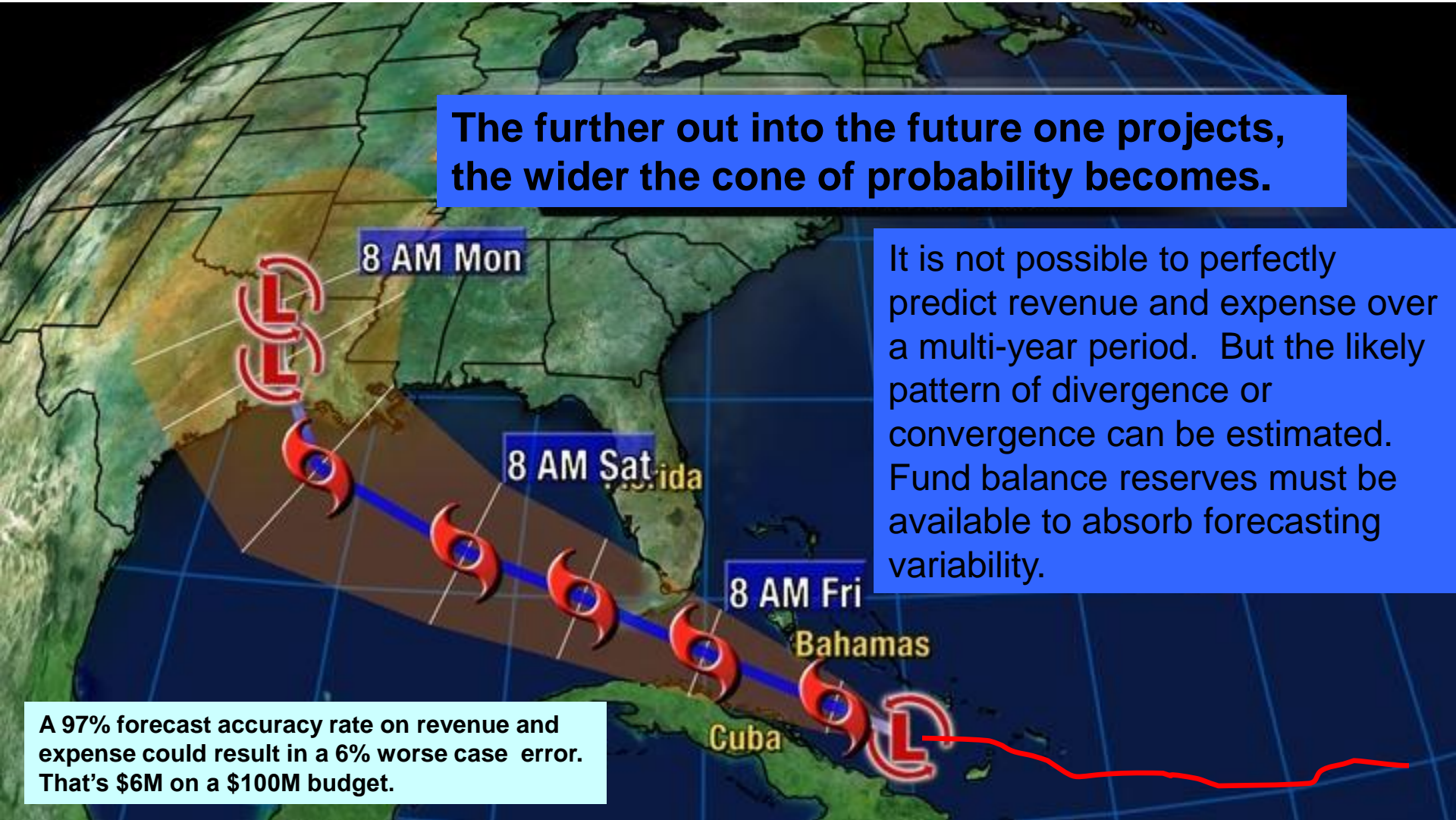


Building long range budget forecasts is a combination of art and science

The further out into the future one projects, the wider the cone of probability becomes.

It is not possible to perfectly predict revenue and expense over a multi-year period. But the likely pattern of divergence or convergence can be estimated. Fund balance reserves must be available to absorb forecasting variability.

A 97% forecast accuracy rate on revenue and expense could result in a 6% worse case error. That's \$6M on a \$100M budget.



Forecasting depends on Assumptions

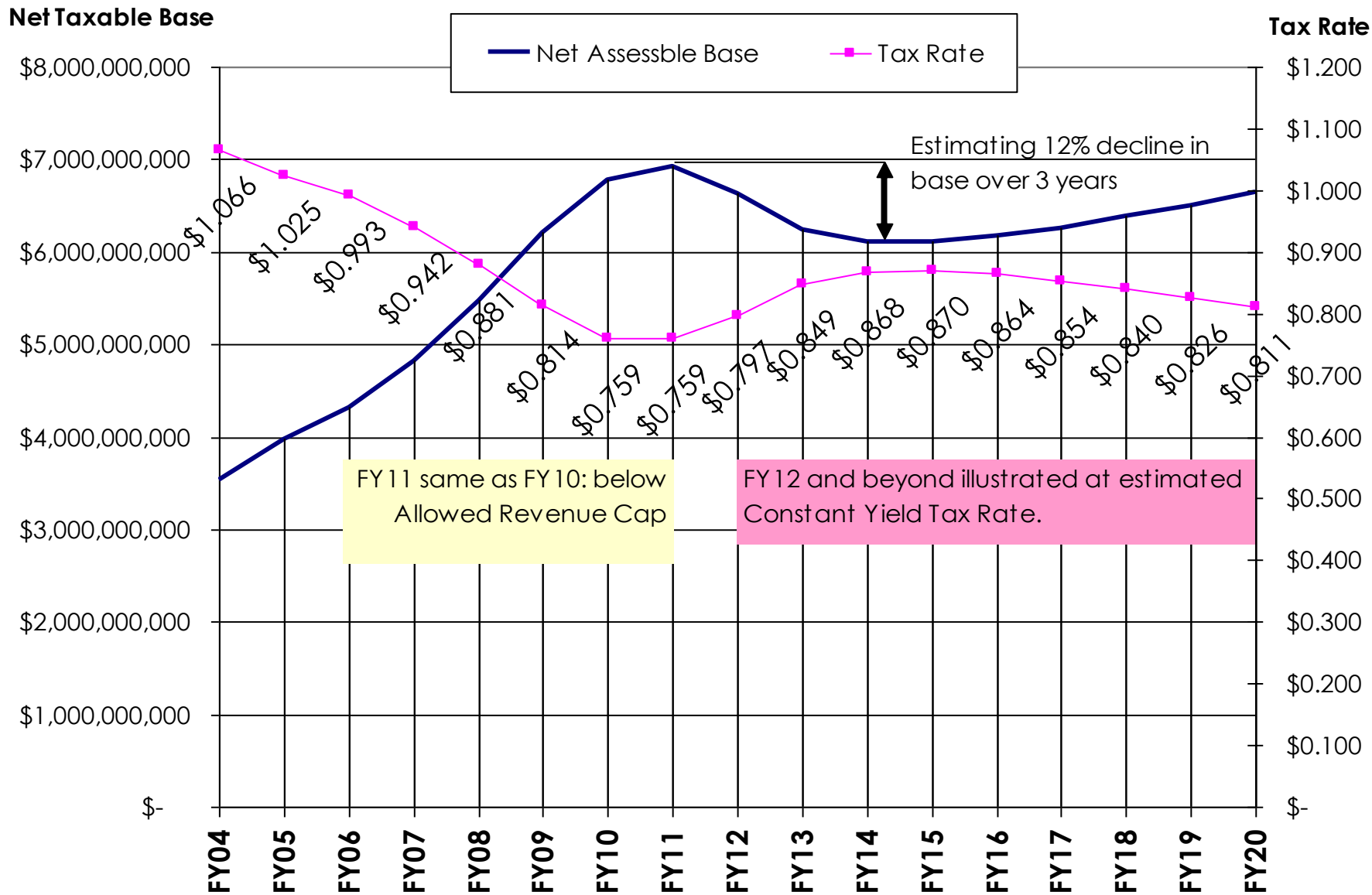
- Understand them
- Keep track of them
- Adjust them as needed
- Remember that results change when the assumptions are changed

Budget Cycle

- County governments operate on a fiscal year beginning July 1 and ending June 30 the following year, e.g. FY11 began on July 1, 2010 and will end June 30, 2011
- The budget cycle for the “next” fiscal year typically begins in January, with formal adoption in June.
- Top line revenue and expense estimates are established roughly 5 months before legislative action; January.
- The State can and has made major changes to funding to local governments after they have enacted their budgets – as happened with the Board of Public Works in the fall of 2009 removing HUR funding for FY10.

Property Tax Revenue = 's

Tax Rate times Taxable Base



How have we coped with the declining revenue?

FY08 – was budgeted and executed before any knowledge of pending recession. Revenue was above FY07. Expenses above FY07. **\$3.5 in fund balance used.**

FY09 – The “planning assumption” in the winter of 2008 was that the recession, which officially started in Dec 2007, would have limited impact on the Eastern Shore of Maryland. A substantial amount of fund balance was budget to “fill the economic pothole in the road”. For the first time in 10 years actual revenue came in below budget, but we under-executed the expense budget resulting in a net **use of \$7.2M in fund balance.**

Coping continued

FY10 – In January of 2009, it was clear that revenues were not going to recover quickly and we could not sustain FY09 spending levels with fund balance alone. A \$10.1M gap between actual new revenue and expenses in the FY10 budget was closed as follows.

- \$3.4M in deferred pension and OPEB contribution
- .7M in one-time savings from debt refinancing
- .6M in employee furlough savings – one-time?
- .6M in capital spending reduction – ongoing/deferred
- 1.8M of fund balance used – one-time
- 2.0M returned from BOE capital fund – one-time
- 1.0M loan from Solid Waste Enterprise Fund – one-time

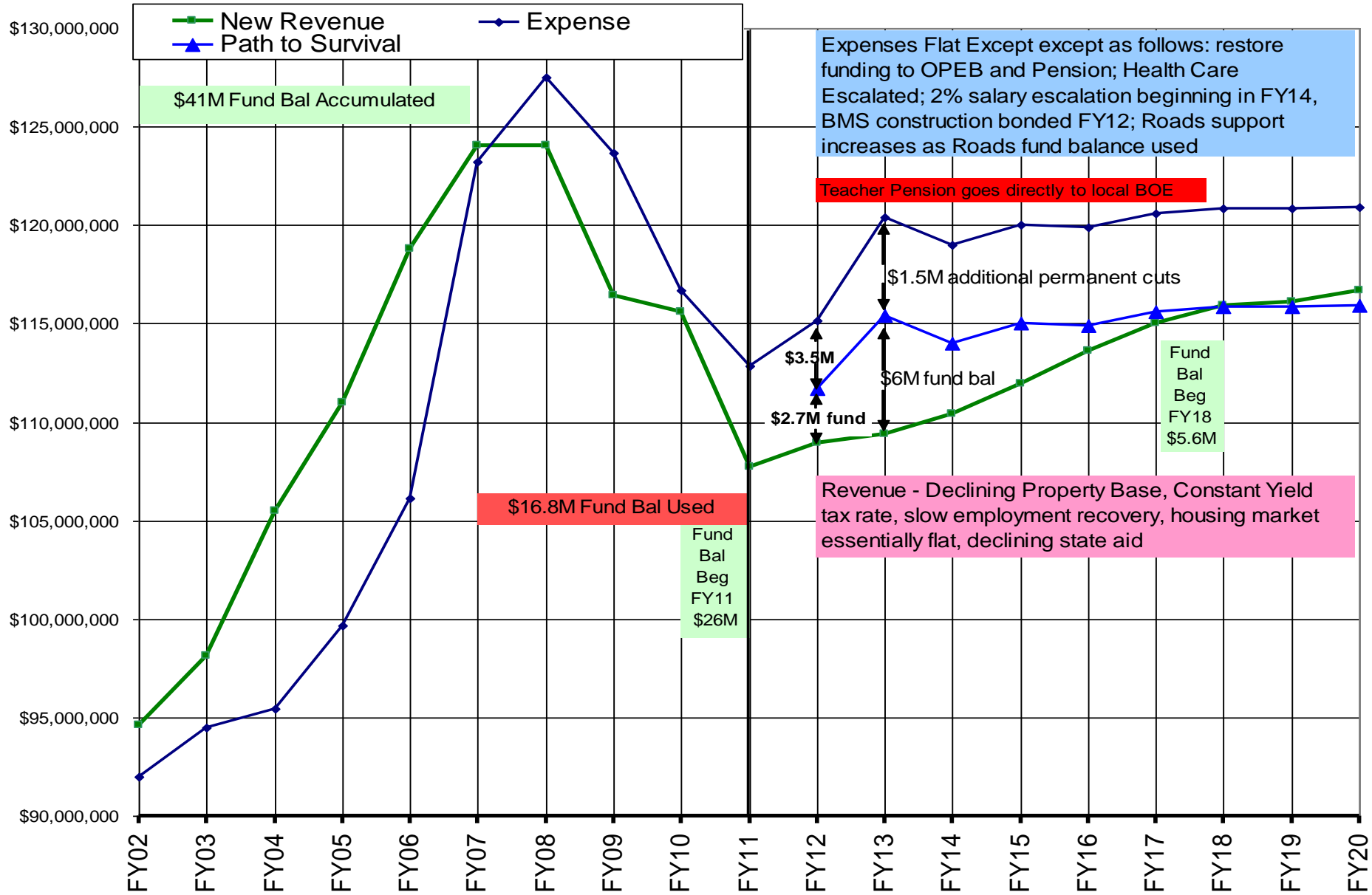
Coping continued

FY11 (the current budget year) In January of 2010, the RATE of decline in revenue receipts appeared to be decreasing, with a total FY11 new revenue budget estimate “only” \$4.5M less than FY10.

- Zero Base Budget required from all departments - insightful
 - \$7.6M reduction to BOE operating budget with approved MOE waiver – ongoing (FY10 baseline)
 - 3.6M in deferred pension and OPEB contribution (FY09 baseline)
 - 0.9M in capital spending – ongoing/deferred (FY09 baseline)
 - 0.7M in personnel and overtime reduction: 17.5 occupied positions and 26 unfilled positions unfunded; overtime computation changed – ongoing
 - 0.56M in employee furlough savings – one-time?
 - 4.6M reductions to operating budgets across the county (including Library and Community College reductions) offset by - ongoing
 - (2.0M) General Fund subsidy to Roads operating fund – ongoing
 - 4.M budgeted use of prior year revenue (fund balance, excess rainy day and health care rate stabilization fund) – one-time

Wicomico County Revenue and Expense

Actual, Budget & Potential Scenarios



FY12 – What lies ahead?

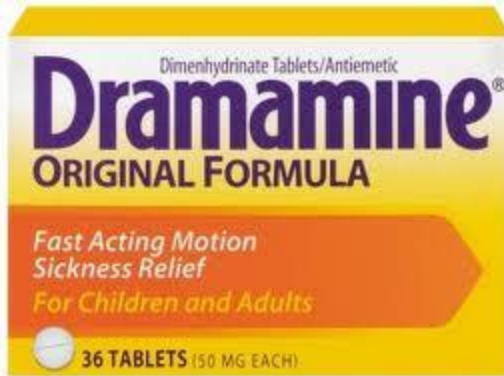
Significant, Permanent Structural Change

- More reductions to BOE operating budget
- Continued moratorium on capital expenditures
- Making furlough savings permanent by service hour reductions and/or pay cuts.
- Restructuring to further reduce manpower
- Eliminating some non-essential services
- Fee for service increases
- Consideration of special taxing districts to replace lost revenue.

We will survive, but the economic and budgetary sea-state is still terrible.



Aids to Personal Survival





Wicomico County, Md

Wicomico County

A Great Place

to Live and Work



Wicomico County, Md