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Warning issued over county's AAA rating

Leggett sends addendum to budget to boost reserves

by Erin Cunningham | Staff Writer

Concerned about preserving Montgomery's AAA bond rating, County Executive Isiah Leggett is offering several changes to his proposed budget to bolster the county's reserves.

Leggett is seeking to increase an energy fee as early as this month and to move money into the county's reserve fund sooner than expected.

Leggett's recent revisions were based on a warning from Fitch Ratings that the county's diminished reserve fund could affect its bond rating in the future, he wrote in a memo to the County Council on Thursday. Fitch, one of three major bond rating companies, kept the county's general obligation bond rating at AAA — considered the gold standard — according to a report also released Thursday.

Fitch recently lowered Anne Arundel County's bond rating over concerns that mirror Montgomery County's budget situation.

"The expectations of the bond agencies is that we're going to get our house in order and not continue to run the way we have been running," said Councilman Marc Elrich (D-At large) of Takoma Park. "The warning seems to be that we need to be careful, and they have expectations."

Montgomery County's AAA bond rating, which it has held since 1973, is the highest available rating and is an indicator of the security of the county's financial debt, such as bonds. The rating, which is assessed annually, also determines the interest rate at which the county can borrow funds.

The Fitch report found that if the reserve fund does not rebound in fiscal 2011 and 2012, the county's bond rating could be affected, said county spokesman Patrick K. Lacefield.

The council likely will take up Leggett's proposal when it returns from recess next week.

Just two weeks ago, Leggett (D) proposed taking \$102 million from the county's revenue stabilization, or "rainy day," fund to help balance the fiscal 2010 budget.

It is the first time the county has tapped its rainy day fund, said Joseph Beach, director of the county's Office of Management and Budget.

Montgomery County is projected to have a reserve fund of about \$77 million when fiscal 2010 ends June 30. The county's reserves include the rainy day fund and the undesignated fund balance.

The county's policy of maintaining a reserve fund of 6 percent of the county's tax-supported resources was changed to 5 percent to free up resources to preserve services in fiscal 2010 and 2011, Beach said.

Leggett originally proposed returning \$37 million to the rainy day fund in fiscal 2011.

"It certainly makes you think about how Montgomery County is doing," Councilman George L. Leventhal (D-At large) of Takoma Park said. "It's likely that we will need to make additional adjustments in this fiscal year in order to restore the health of our reserves."

Lacefield said the county's AAA bond rating — a top priority for the county — likely saves the county millions of dollars annually in financing capital projects. There also are other advantages related to economic development, he said.

To increase the county's reserve fund, Leggett proposed increasing the county's fuel energy tax in the current fiscal year — not in fiscal 2011, which starts July 1, as he had originally proposed.

If approved, the increase is expected to cost each household about \$5. It would take effect for bills in April, May and June — the fourth quarter of the fiscal year, Elrich said.

By moving up the start date, Leggett expects to raise an additional \$13.6 million in fiscal 2010 and \$31.8 million in fiscal 2011.

Leggett released his original fiscal 2011 budget proposal March 15.

However, since then, Fitch handed down its warning about the county's bond rating, and the county's unemployment rate also has increased from 5.4 percent to 6.2 percent, which could lower revenue projections included in Leggett's original budget proposal.

Leggett's other recommendations are to accelerate a planned fiscal 2011 transfer of \$3.7 million from non-tax-supported funds into the county's general fund and lower the amount of money set aside for snow removal costs by \$3 million based on new estimates.

The fiscal 2011 budget proposal did include \$63.1 million for snow removal costs.

However, Leggett's proposals do nothing to decrease spending, according to Councilman Michael J. Knapp (D-Dist. 2) of Germantown.

"My concern is that it only raises money," he said. "It doesn't actually reduce spending, so I think we need to explore some reductions, too."