Washington County, Maryland

Financial Condition Analysis

Table of Contents

Financial Condition

Financial condition may be defined as the ability of a local government to finance its services on a continuing basis.

It can address the governments ability to maintain needed service levels, including the maintenance of capital facilities in a manner that protects the initial investment and keeps the facilities in usable condition.; withstand local and regional economic disruptions and meet the demands of natural growth and change.

A financially stable government collects enough revenue to pay its short and long-term bills and finance major needs without shifting disproportionate costs to future generations.

Overview

The financial condition of Washington County, Maryland government (County) impacts the services that resident receive. County residents rely on the County's ability to stay functioning and to provide law enforcement, education, safe roads, solid waste, water & sewer, and more.

The primary purpose of the report is to define the County's financial condition, the forces that affect it and the obstacles associated with measuring it. It identifies existing and emerging financial issues and provides a basis for developing remedial action if required.

This report provides financial context for the impacts on services and maintenance that the County has seen over time. It simplifies the detailed information contained in the County's many other financial reports.

While sound budgeting and management practices can help protect the financial condition of the County, these factors cannot always avert fiscal stress—especially when negative environmental trends are severe.

A trend analysis can help identify underlying causes of fiscal stress and help predict future financial outcomes.

Introduction

Local governments produce a great deal of financial information, but most of it reflects a single snapshot in time. This annual report focuses on historical trends over several years, allowing decision-makers to visualize the County course, consider options, and make adjustment to improve the County's long-term health.

The criteria was based on the approach provided by the International City/County Management (ICMA) and it is used by our region and across the country.

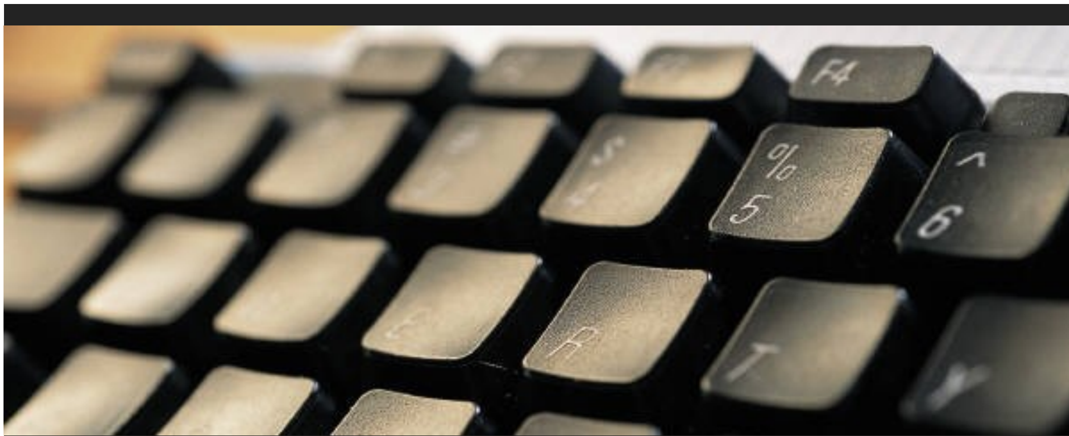
This report supplements the various financial documents produced by the County, such as the Annual Operating and Capital budgets, the Ten year Capital Improvement Plan, the Debt Affordability Analysis, the Official Statement, and Quarterly financial update reports. The Financial Trends Monitoring report is meant to take a broader look, over a multi-year period in time, at what constitutes financial condition. The report includes various data such as economic, demographic and financial indicators.

Washington County, Maryland

The Office of Budget and Finance

Debra S. Murray

CFO



Can the County Pay its Bills Now

Cash Reserve

Purpose:

To ensure positive trends to meet financial or economic circumstances and ensure stable tax rates.

Description:

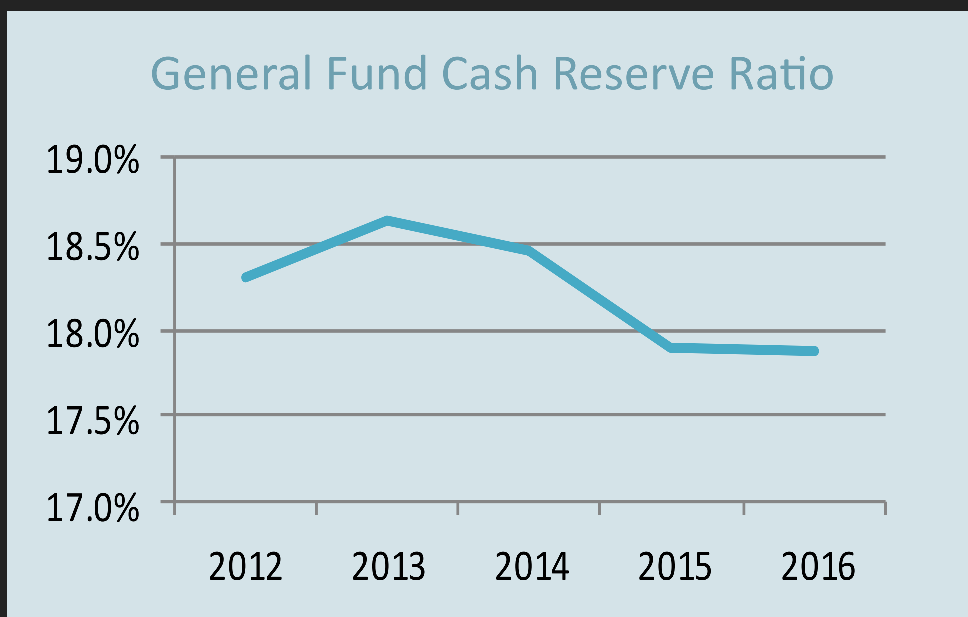
The County has several different reserves set aside by policy or by legislative requirement. Of these reserves the general fund has the fewest restrictions on how it can be used. Within the County's general fund money is set aside to pay for serves like public safety, education, and roads when revenues take a turn for the worse. Just like it is better if you're able to save a portion of your annual income, having the ability to set aside a larger portion of its annual revenue in fund balance indicates that the County has a better financial condition.

The size of a government's cash reserve can affect its ability to withstand financial emergencies. It can also affect its ability to accumulate funds for capital purchases without having to borrow.

Analysis:

Washington County's cash reserve ratio has remained fairly constant over the past five years as shown in the chart below with a slight fluctuation in 2015. Snow removal efforts in 2014 and 2015 account for the majority of the change.

The County's Maryland peer group median was 16.77% for 2016. A minimum of 17% is recommended by oversight organizations and by policy. The amount over the 17% provides flexibility in the required reserve as the County sees budget growth. A seventeen percent reserve allows the County to pay bills for 2 months.



Can the County Pay its Bills Now

Liquidity Ratio

Purpose:

To ensure sufficient cash levels to meet payment demands.

Description:

Cash and investments that can be quickly turned into cash enable the County to pay bills that will come due in the short term (one year or sooner). Just like you want enough money in your back account to pay your monthly credit card bills and mortgage payment, the County needs to have sufficient cash and liquid investment to cover the obligations that it must pay.

Low or declining liquidity can indicate that a government has overextended itself in the long run.

Generally a ratio of less than one would indicate that current liabilities exceed the County's cash and short-term investments. Such a liquidity deficit would indicate a current cash problem.

Analysis:

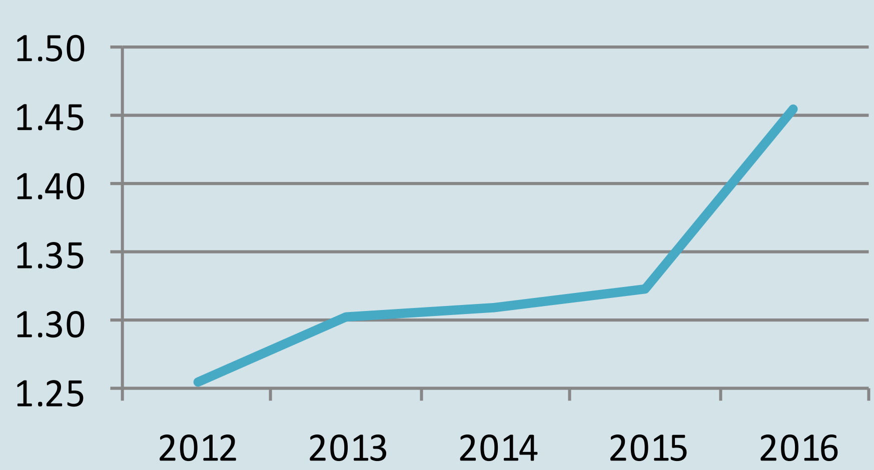
According to industry standard benchmarks, a liquidity ratio of less than one is considered a negative warning trend.

The comparative graph below shows that Washington County's cash and investments ratio is above the 1 to 1 ratio minimum.

The drop in 2014 was due to unspent restricted capital funds.

The trending ratio is favorable as it represents more than a 1 to 1 ratio of cash exceeding liability amounts for the trending period.

General Fund Liquidity Ratio



Service Costs Provided

Expenditures Per Capita

Purpose:

Monitors changes in general fund services and the demands thereof.

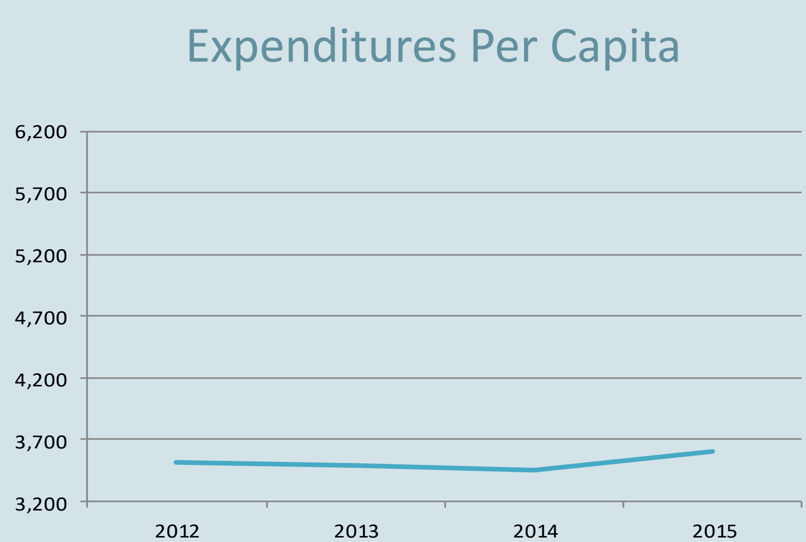
Description:

Changes in per capita expenditures reflect changes in expenditures relative to changes in population. Increasing per capita expenditures can indicate that the cost of providing services is outstripping the ability to pay. On the other hand if the increase in spending is greater than can be accounted for by inflation or the addition of new services, it may indicate declining productivity, that is, that the County is spending more real dollars to support the same level of services.

The County as indicated in the chart below has consistently ranked 20-24th among Maryland counties as having the lowest per capita (with 24 Counties and Baltimore City) The highest being Montgomery County at $6,116 and Talbot County being the lowest at $3,202. Washington County is at $3,605.

Analysis:

Expenditures per capita have increased by $89 or 2.53% since 2011. The main factor in the increase is related to added emergency services. Emergency service costs have increased 34% between 2011-2015 outpacing available revenue increases of 3%.; largely due to reduction in F&R volunteers. No tax increases have been approved and the continued rising costs may indicate that future tax increases may be needed; as the County decreases other categories to compensate for the rise in emergency services costs.



Condition of County Assets

Change In Value

Purpose:

To monitor capital assets value and avoid high maintenance costs.

Description:

Capital assets include buildings, land, vehicles, and public infrastructure. Most of the County's capital assets decrease in value over time because of depreciation, just like your car probably is worth less now than when you bought it. If the County doesn't replace or renovate its capital assets, the value of time decreases.

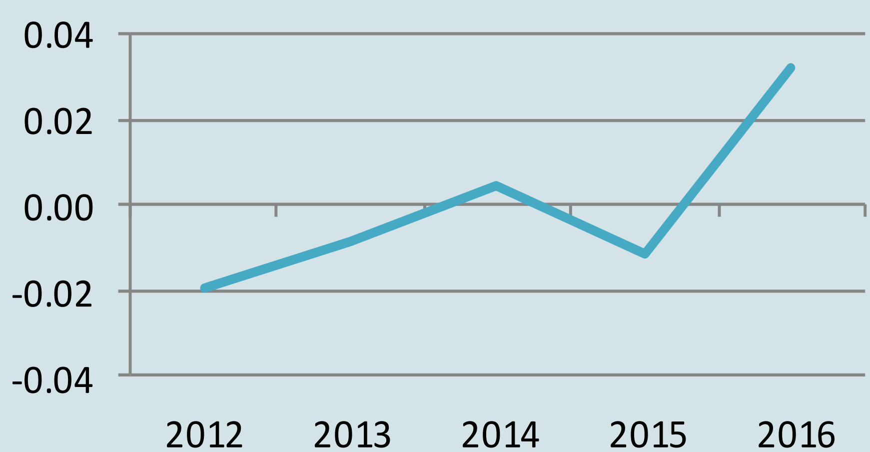
Good assets management requires investment in regular, preventive maintenance. This increases the life of the assets and reduces costs. Lack of preventive maintenance risk early failure and increased expenditures.

Analysis:

The County had negative ratios during 2012-2015. This would indicate that the depreciation of capital assets was greater than the value of capital assets added and that some capital assets may need renovated or replaced.

The negative growth is a result the recession when capital assets were eliminated. Over time that base cost has been added back for replacement. In addition funding sources have been reduced causing a decrease in capital projects. Fiscal year 2016 shows improvement but would recommend close monitoring.

Change in Value of Capital Assets



Can the County Pay Long-term Obligations

Long-term Debt

Purpose:

To manage the appropriate level of long-term debt is within policy and industry standards

Description:

The County borrows money to pay for capital improvements, ranging from schools to sewer pipes. Debt financing allows the County to spread the costs of large projects across many years, so future taxpayers who benefit from the project will pay for a portion of the improvements.

If long-term debt were to exceed the County's resources for paying the debt, the County may have difficulty obtaining additional capital funds, may have to pay a higher rate of interest and have difficulty repaying existing debt. Just like when a bank makes sure your mortgage payment can be paid from your weekly wage income, the County ensures that its debt payments can be paid from existing base revenues.

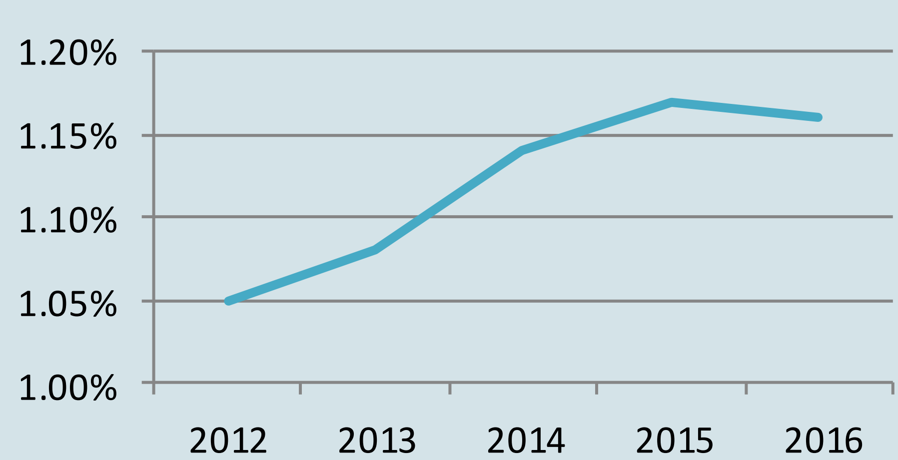
Analysis:

The County develops a 20 year debt affordability analysis that monitors debt ratios. Net debt of less than 3% of assessed value is consider to be an indicator of low debt levels.

During the period measured, assessed valuation has declined over the five years measured due to the recession.

The County's peer group median is 1.68% and the County's policy is not to exceed 1.50%. The County's ratio is below both the peer group and policy caps.

Assessable base has increased in 2017 & 2018 sending the trend downward as the real estate market rebounds.



Can the County Pay Long-term Obligations

Debt Service Payments

Purpose:

To develop desirable levels of debt service and analyzing fixed costs of debt service.

Description:

Debt service is defined here as the amount of principal and interest that the County must pay each year on debt . Increasing debt service reduces expenditure flexibility by adding to the County's obligations.

Debt service can be a major part of a governments fixed costs, and its increase may indicate excessive debt and fiscal strain. By policy the County's debt service costs should not exceed 8% of expenditures.

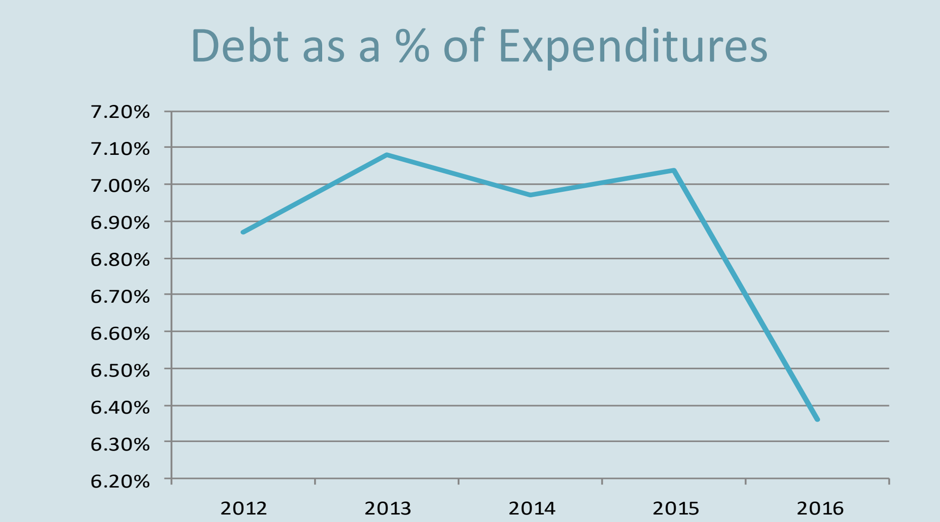
Before any debt is issued, the impact of the debt service on total annual fixed costs are analyzed.

Any debt service exceeding 20% of operating expenses is considered a potential problem with 10% being acceptable.

Analysis:

During the period shown below Debt Service as a % of expenditures has decreased from 6.87% to 6.36%.

Several factors account for the decrease in this ratio. General fund has shown decreases due to; bonds were paid off in 2012 and favorable interest rates have been experienced over the past several years. Debt service remains fairly consistent. The average increase in annual debt service is .42% while total general fund budget has an annual average increase of 2.47%.



Demographics

Median Age of Population

Purpose:

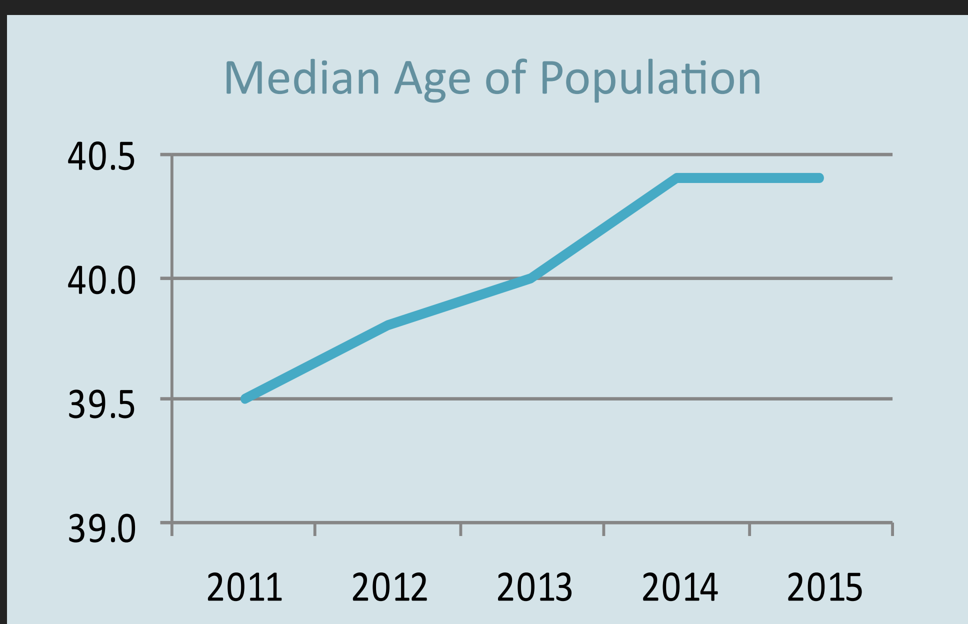
Monitoring median age of population can show future service requirements for either educational and housing or more cost towards health and welfare.

Description:

Median age may affect both County revenues and expenditures. Income from seniors tend to trigger less tax revenue, less household spending and, higher health, welfare and transportation costs. A lower median age are usually demanding services for schools, recreation, and related programs. A younger median age for the County may pose different opportunities and challenges, such as the community's ability to reinvest in businesses, neighborhood and home, the availability of secondary and postsecondary education, and the number of bars and clubs in its entertainment district.

Analysis:

The medium age for Washington County has been on an overall slow rise since 1990. The chart below shows that in 2014 and 2015 the medium age has stabilized. The median age is within the midrange portion of the working age. Washington County's revitalization of major areas, such as, the downtown urban core and Cascade Town Centre will help to develop an urban setting that appeals to younger, creative, and high-tech individuals. These projects may help reduce the future median age.



Demographics

Unemployment Rate & Number Employed

<u>Purpose:</u>

Changes in unemployment rate are related to changes in personal income and a measure to the support local business sector.

<u>Description:</u>

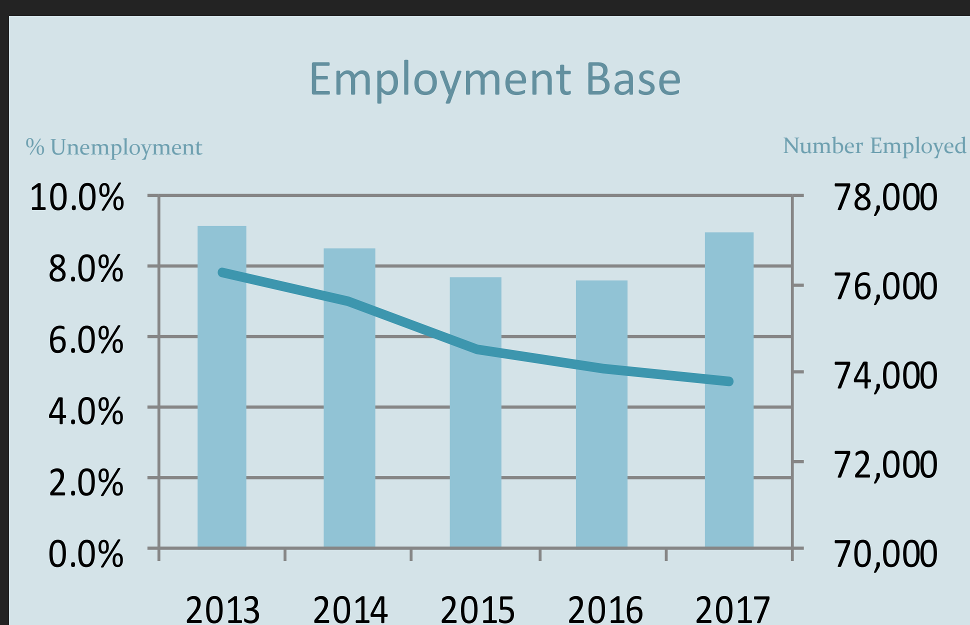
Employment base is related directly to business activity and personal income. Changes in the unemployment rate are related to changes in personal income, and thus a measure of, and an influence on, the community's ability to support its business sector. A change in the number of jobs available in the community is a measure of, and an influence on, business activity.

If the employment base is growing, if it is sufficiently diverse to provide a cushion against short-run economic fluctuations or a downturn in one sector, and if it provides sufficient income to support the local business community, then it will have a positive influence on the County's financial condition.

Analysis:

Washington County over the past five years has shown a steady decline in the rate since the recessionary period with the County's unemployment rate is still above State and National averages.

The County's workforce was declining but upward trends have been steady since 2015. Declines in mainly credit card processing jobs were predominantly offset by increases in labor force within education, federal, state and local government job employment.

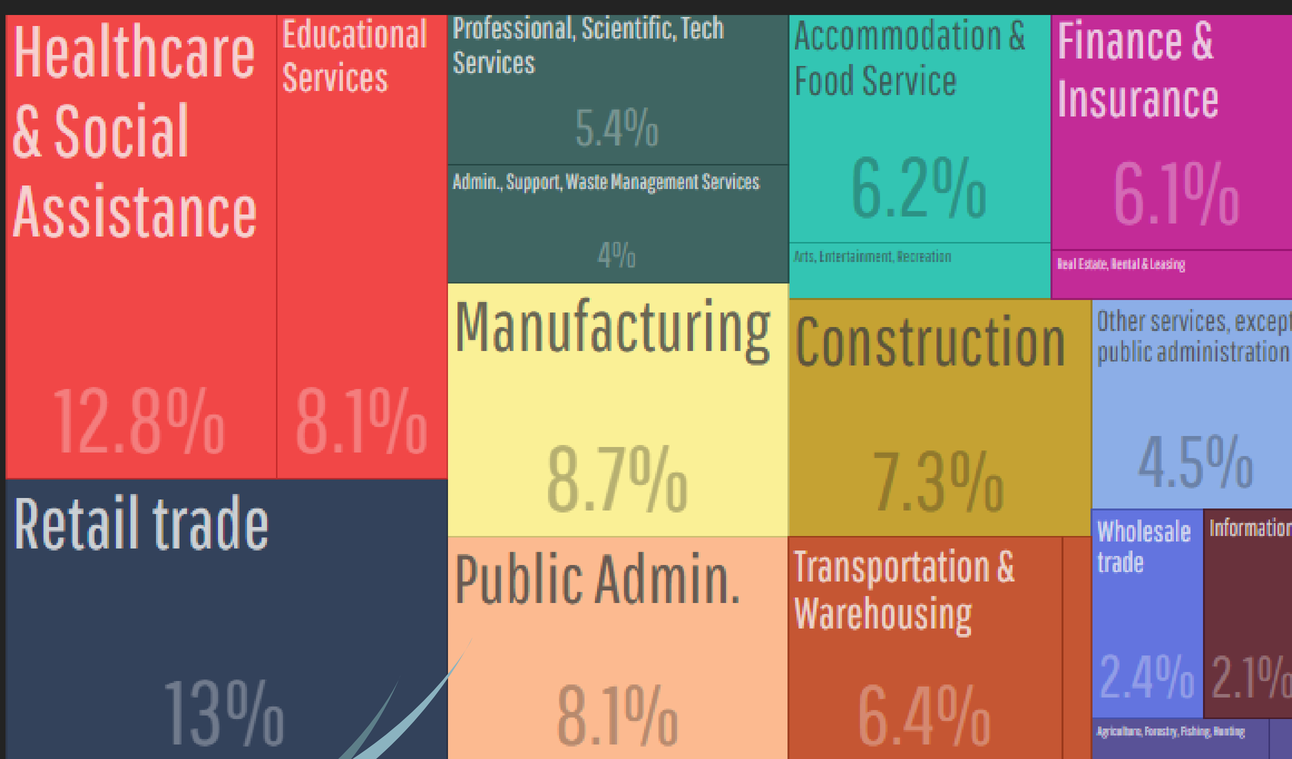


Other Economic Statistics

Increase in Housing Activity

Decrease in Crimes

EMPLOYMENT BY INDUSTRY



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