Fiscal Challenges of Local Governments in Maryland

Department of Legislative Services 2016

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Office of Policy Analysis
Annapolis, Maryland

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Department of Legislative Services
Office of Policy Analysis
Maryland General Assembly

Warren G. Deschenaux
Executive Director

December 2, 2016

The Honorable Thomas V. Mike Miller, Jr.
The Honorable Michael E. Busch
Honorable Members of the General Assembly

Ladies and Gentlemen:

Following the Great Recession of 2007-2009, several cities across the country experienced financial emergencies or filed for bankruptcy, most notably in Alabama, California, Pennsylvania, and Rhode Island. One of the issues to emerge as a result of that uptick in municipal fiscal distress is the role, if any, a state should have in helping municipalities recover and regain fiscal stability.

In 2013, The Pew Charitable Trusts conducted a nationwide study that examined the characteristics of local financial distress and the range of state involvement, or "intervention," in local government finances. See *The State Role in Local Government Financial Distress* (July 2013). Among other things, this report recommended that states monitor the fiscal conditions of local governments with an eye toward helping them avoid full-blown crises, if possible. In 2016, The Pew Charitable Trusts released a follow-up study on the policies and practices that states utilize to monitor local fiscal conditions, with the basic goal of detecting fiscal distress at the local level. See *State Strategies to Detect Local Fiscal Distress* (September 2016).

Based largely on the information in the two studies conducted by The Pew Charitable Trusts, the Department of Legislative Services (DLS) presents this report that summarizes the tools and resources Maryland has to address fiscal challenges faced by local governments in the State. The report was prepared by Laura P. Lodge and Trevor S. Owen of the Office of Policy Analysis and reviewed by Theodore E. King, Jr. Katylee M. Cannon prepared the manuscript.

DLS trusts that the report will be useful to members of the General Assembly and to other persons interested in matters relating to municipal fiscal distress.

Sincerely,

Warren G. Deschenaux
Executive Director

WGD/LPL:TSO/kmc

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Executive Summary

Following the Great Recession of 2007 through 2009, several cities across the country experienced financial emergencies or filed for bankruptcy, most notably in Alabama, California, Pennsylvania, and Rhode Island. One of the issues to emerge as a result of that uptick in municipal fiscal distress is the role, if any, a state should have in helping municipalities recover and regain fiscal stability.

In 2013, The Pew Charitable Trusts conducted a nationwide study that examined the characteristics of local financial distress and the range of state involvement, or "intervention," in local government finances. Among other things, this report recommended that states monitor the fiscal conditions of local governments with an eye toward helping them avoid full-blown crises, if possible. In 2016, The Pew Charitable Trusts released a follow-up study on the policies and practices that states utilize to monitor local fiscal conditions, with the basic goal of detecting fiscal distress at the local level.

Based largely on the information in the two studies conducted by The Pew Charitable Trusts, this report compares the tools available in Maryland to other states and concludes that Maryland has limited options to assist counties, municipalities, and special taxing districts in fiscal distress. Also of particular note is a 2010 letter of advice from the Office of the Attorney General that explains that the State has no legal obligation to assist a local government in fiscal crisis, and that absent a constitutional or statutory basis, a deficit in the budget of a local government may not be considered a State obligation.

The report further goes on to discuss the various devices and resources Maryland does have to address fiscal challenges faced by local governments in the State and identifies four preventive tools and a fifth device that is available only to an incorporated municipality in a fiscal crisis that has proven irreversible.

The first three tools concern an annual audit requirement. First, State law requires all counties, incorporated municipalities, and special taxing districts to conduct an annual audit. All audit reports must be filed with the Office of Legislative Audits (OLA) in the Department of Legislative Services (DLS). Second, State law requires OLA to perform a desk review of each audit report. Specifically, OLA identifies instances of noncompliance or untimely filing of the reports and also analyzes financial data over the most recent five-year period to identify local governments with potential financial problems relating to deficit balances in unrestricted general funds or unfavorable trends and ratios. Third, after reviewing the local government audit reports, OLA routinely presents its findings at a public hearing to the General Assembly's Joint Committee on the Management of Public Funds.

The fourth tool takes a different approach to avoiding financial problems. Specifically, Maryland has several laws that limit the amount and type of debt that a local government may incur. Both constitutional and statutory provisions typically either set a maximum amount of debt or require prior approval by the voters of the local jurisdiction. Other laws authorize local debt only under very limited circumstances.

The fifth tool identified in the report to address local fiscal problems is dissolution. It appears that no municipality has voluntarily dissolved itself, and only four municipalities have been dissolved by operation of law, all in the 1960s. All of the former municipalities were incorporated before 1900, and because they each ceased to operate for an extended period of time, there were reportedly no assets or obligations that needed to be assumed by the county in which each municipality was located.

In addition, the report describes three resources that seek to address legislative and public concerns regarding the fiscal health of local governments. These resources are annual publications prepared by DLS and are derived primarily from the data obtained from the annual audit reports received by the department from the various local governments.

Lastly, the report describes recent events in the nearby city of Petersburg, Virginia that illustrate the dire fiscal problems of that local government that came to light only in the past several months and how both the city of Petersburg and the state of Virginia have responded.

Fiscal Challenges of Local Governments in Maryland

Background

After several cities across the country experienced financial emergencies or filed for bankruptcy shortly after the Great Recession of 2007-2009, most notably in Alabama, California, Pennsylvania, and Rhode Island; the question of what role, if any, a state should have in helping cities recover took on greater significance. In 2013, The Pew Charitable Trusts conducted a nationwide study that examined the characteristics of local financial distress and the range of state involvement, or "intervention," in local government finances. See *The State Role in Local Government Financial Distress* (July 2013). Among other things, this report recommended that states monitor the fiscal conditions of local governments with an eye toward helping them avoid full-blown crises, if possible.

This year, The Pew Charitable Trusts released a follow-up study on the policies and practices that states utilize to monitor local fiscal conditions, with the basic goal of detecting fiscal distress at the local level. See *State Strategies to Detect Local Fiscal Distress* (September 2016).

Based largely on the information in the two studies conducted by The Pew Charitable Trusts, this report summarizes what tools and resources Maryland has to address fiscal challenges at the local level.

Basic Options for Addressing Local Fiscal Challenges

The 2013 Pew report (updated in April 2016) identified several intervention tools that a state may take. The report shows that 20 states have enacted laws that allow the state government to intervene in a city, town, or county financial crisis. Among these states, there are a variety of intervention practices. Interestingly, the report notes that local governments often accept state intervention begrudgingly, and that it is rare for a local government to seek bankruptcy protection from a court.

Within the identified state intervention programs, there is variety in both who may be designated to conduct the intervention program and what intervention practices are allowed. Generally, states choose from among the following groups, or a combination of them, to conduct an intervention: a receiver, financial manager, overseer, or coordinator; a state agency; or a financial control board or state appointed board or commission. While no two state intervention programs are alike, each state intervention program includes one or more of the following practices:

- restructuring of local debt, such as renegotiating terms of existing bonds;
- restructuring of local labor contracts, such as renegotiating multi-year pacts on salaries, benefits and other compensation;

- restructuring of local taxes, fees and credits, such as increasing existing taxes or implementing new taxes;

- providing emergency financing, such as extending enhanced credit backing, loans or grants;

- providing technical assistance, such as auditing records, creating a financial plan and approving spending; and/or

- assisting with involuntary dissolution or consolidation of the local jurisdiction.

The 2013 Pew report identifies two other tools that can be used by states to address local fiscal problems:

- statutory definition of local fiscal distress, which can facilitate identifying the point when various steps can or must be taken by the state – 18 states; and

- statutory authority for a local government to file for Chapter 9 bankruptcy under federal law – 27 states authorize some form of bankruptcy with varying conditions, 2 states prohibit local governments from seeking bankruptcy protection, and 21 states do not have laws regarding local government bankruptcy.

The 2016 Pew report, while focusing primarily on various fiscal monitoring systems, also briefly mentions a broad range of other mechanisms that many state officials said they utilize to keep local governments "on a sound fiscal path," including:

- monitoring debt limits;

- reviewing revenue and spending caps;

- putting or assessing limits on tax rate increases;

- requiring balanced budgets;

- providing technical assistance or training for local government officials;

- reviewing or approving local debt issuances;

- reviewing or approving local budgets for compliance with the law; and

- limiting how local governments can invest their money.

As to the fiscal monitoring systems themselves, the 2016 Pew report focused on those states that "actively and regularly" review financial information from local governments with the aim of trying to detect fiscal distress or more generally assessing the fiscal condition of local governments. The 2016 Pew report identified 22 states that met this criteria, within which there is a broad range in the scope and intensity of monitoring efforts. Indicators that are often used by states to assess the fiscal condition of local governments include:

- on time submission of audits or other financial information;
- deficit or minimum fund balance;
- debt service payments or debt service per capita or relative to operating revenue;
- sufficient cash for services;
- total revenue and/or expenditures per capita;
- unrestricted fund balance level/unassigned fund balance;
- cash to liabilities ratio;
- interfund transfers to supplement the General Fund;
- general obligation debt/revenue or total debt per capita;
- whether the local government filed a municipal debt reduction readjustment plan under Chapter 9 of the federal bankruptcy code; and
- pension plan funding ratios.

Maryland's Tools for Addressing Local Fiscal Challenges

According to both the 2013 and 2016 Pew reports, compared to most other states, there are limited options under Maryland law for addressing fiscal challenges of local governments. As described in the 2013 Pew report, Maryland law contains no provisions for any State intervention practices, does not define local fiscal distress, and does not authorize a local government to file for Chapter 9 bankruptcy. As to the last point, the Maryland Association of Counties reports that no legislation has been introduced in Maryland for at least the past 30 years that would authorize a local government to file for bankruptcy protection under federal law.

Moreover, it is important to note that recent advice of the Office of the Attorney General (OAG) explains that the State has no legal obligation to assist a local government in fiscal crisis. As made clear in a letter dated January 29, 2010, to Senator Ulysses Currie, absent some constitutional or statutory basis, a deficit in the budget of a local government may not be considered a State obligation, and no judicial case to date has imposed an obligation on any state to "cover" the deficit of a local jurisdiction.

As described in the 2016 Pew report, Maryland is 1 of the 22 states that has at least one active and regular fiscal monitoring system. For Maryland, the system identified is an annual audit requirement. It is interesting to note that only 8 of the 22 states have so-called "early warning" features; Maryland is not 1 of those 8 states. Having early warning features means that a state has laws that define when a local government is in fiscal distress and systems to identify signs that a locality is declining toward such a condition. However, despite not being identified in the 2016 Pew report as a state with early warning features, it is important to realize that these annual audit reports are monitored closely by two units of State government as described below.

In addition to the annual auditing requirement and the routine monitoring of these audit reports, Maryland law also contains provisions for other useful tools: limitations on local indebtedness and municipal dissolution, all of which are discussed below. The first four tools are preventive steps, while the last option is likely to be utilized as a last resort after a municipal fiscal crisis has proven irreversible or when a municipality simply ceases to operate.

1. Annual Audit Requirement

Under Section 16-306 of the Local Government Article, each county, incorporated city or town, and taxing district in Maryland is required to conduct an annual audit. The annual audits are required to be conducted by a certified public accountant licensed in the State of Maryland in accordance with generally accepted auditing standards and must include financial statements prepared in accordance with generally accepted accounting principles. In addition, each local government is required to file their annual audit report with the Office of Legislative Audits (OLA) within the Department of Legislative Services (DLS). Each year, OLA prepares and distributes audit guidelines to aid local governments in the preparation of their financial statements by providing updated information regarding accounting, reporting, and auditing requirements.

2. Review of Annual Audit Reports by OLA

Under Section 16-307 of the Local Government Article, OLA is required to perform a desk review of the annual audit reports submitted by each local government that includes:

- identifying any instances of noncompliance with certain provisions of State law (*e.g.*, the timely filing of audit reports); and

- an analysis of financial data over the most recent five-year period to identify local governments with potential financial problems relating to deficit balances in unrestricted general funds or unfavorable trends and ratios.

Untimely Filing of Annual Audit Reports

A proper analysis of a local jurisdiction's fiscal health is not possible if the local government fails to submit their annual audit report in a timely matter. From fiscal 2006 to 2015, OLA identified 20 jurisdictions as not submitting their financial reports in time to be included in OLA's annual review. Among the State's larger jurisdictions, Baltimore City has failed to submit its annual report in a timely manner in four of the last five fiscal years reviewed by OLA. In addition, the City of Hyattsville in Prince George's County failed to submit its audit report in a timely manner in each of the last eight fiscal years. For a list of all local jurisdictions that did not submit an audit report in a timely manner from fiscal 2006 through 2015 see **Appendix 1**.

General Unrestricted Fund Balance Deficits

From fiscal 2006 to 2015, OLA's annual review of local government audits identified deficit balances in unrestricted general funds at least once in 13 jurisdictions over the 10-year period.

Not surprisingly, the greatest number of general fund balance deficits were reported during the height of the Great Recession. During fiscal 2009, Anne Arundel County reported a $2.1 million general fund balance deficit, while six municipalities were also identified by OLA as having deficit fund balances that year. As local governments continue to recover from the Great Recession in recent years, far fewer jurisdictions are reporting deficits. In fiscal 2014 and 2015, Crisfield in Somerset County was the only local jurisdiction in the State reporting a deficit general fund balance. A list of all local governments identified by OLA as having general fund deficits over the last 10 years is provided in **Appendix 2**.

Unfavorable General Fund Trends and Ratios

OLA also reviews the audits of local governments to identify unfavorable trends and ratios based on its analyses of financial data over the most recent five-year period. These unfavorable trends include a local government reporting general fund expenditures that exceed general fund revenues, significant decreases in general fund balances, and significant decreases in the ratio of general fund balances to general fund expenditures. From fiscal 2006 to 2015, OLA identified 10 local jurisdictions as having unfavorable general fund trends and ratios (see **Appendix 3**). Most recently, in fiscal 2015, OLA identified unfavorable trends while analyzing the financial data submitted by Henderson in Caroline County and Rising Sun in Cecil County.

3. Briefing on Annual Audit Reports to the Joint Committee on the Management of Public Funds

After its annual review of local governments is published, OLA presents its findings at a public hearing to the Maryland General Assembly's Joint Committee on the Management of Public Funds. The joint committee's responsibilities include the review of public funds invested and managed by local governments. The annual briefing by OLA is an opportunity for concerns on the fiscal health of a local government to be publicly heard.

Case in Point – Fairmount Heights

For example, in fall 2011, OLA briefed the joint committee regarding multiple concerns OLA had with the fiscal health of Fairmount Heights in Prince George's County. Among these concerns were that the town was unable to submit its fiscal 2010 audit report in time for OLA's annual review. Based on OLA's review of the town's available fiscal 2009 audit, OLA determined the town had a general fund deficit of approximately $54,000 due in part to fiscal 2009 revenues coming in far below what the town had initially budgeted. In addition, the town was discovered to be delinquent in payments to several vendors.

Ultimately, Fairmount Heights was able to take preventative actions, such as reducing public safety and overall expenditures, to achieve a positive general fund balance by fiscal 2011. The town has been able to maintain this positive trend through its most recently submitted fiscal 2015 audit report in which it reported a positive general fund balance of $212,000.

January 2012 Hearing on Municipal Bankruptcy

The fall 2011 briefing by OLA lead the joint committee to hold a hearing in January 2012 at which several experts in the area of municipal bankruptcy made presentations. It is necessary to note that, according to the 2013 Pew report, under federal bankruptcy law, the reference "municipal government" is a broader term than "city" and can include towns, villages, boroughs, counties, and special districts.

As mentioned above, while the joint committee was able to determine through advice from OAG that the State would not be legally obligated to pay any debts or deficits of local governments, the implications of what actions the State could take if the financial situation worsened in Fairmount Heights or in another local jurisdiction were unclear.

Committee staff also researched provisions in federal and State law regarding municipal bankruptcy. As noted above, while the federal bankruptcy code allows municipal government to file for bankruptcy under Chapter 9 provided there is state approval, Maryland law does not have any provisions authorizing municipal bankruptcy.

4. Limitations on Indebtedness

Taking a different approach to avoid financial problems, Maryland has several laws that limit the amount and type of debt that a local government may incur. **Appendix 4** shows the constitutional and statutory limitations on indebtedness that local governments may issue. Generally, these provisions either set a maximum amount of debt or require approval by the voters of the jurisdiction. **Appendix 5** shows statutory provisions that authorize local debt only under very specific and limited circumstances.

5. Dissolution of a Municipality

Prior to ratification in 1954 of Article XI-E of the Maryland Constitution, which granted home rule authority to incorporated municipalities in the State, the General Assembly exercised final authority over the dissolution (and creation) of municipalities. Since 1954, the only mechanisms providing for the dissolution of incorporated municipalities have been under two statutory provisions, neither of which involves the General Assembly.

Voluntary Dissolution

Under Section 4-313 of the Local Government Article, a municipality may dissolve itself by passing a charter resolution to repeal its entire charter. This charter resolution may provide for the disposition of municipal assets and the liquidation of any municipal debt. If no disposition is made in the resolution, the governing body of the county in which the municipality is located shall succeed to full ownership of the assets and pay the debts of the municipality. If necessary to provide revenue to pay the debts when a municipal charter is repealed, the county governing body shall establish a special taxing district with the same borders as the former municipality, impose a special tax or assessment in that area in the same manner as other county property taxes, apply the proceeds to the debts, and discontinue the tax after all debts of the former municipality have been paid.

Dissolution by Operation of Law

Section 4-314 of the Local Government Article provides for the dissolution of a municipality by operation of law under specific circumstances: a municipality fails for three consecutive years to file required financial statements with DLS; the Executive Director of DLS has reasonable cause to believe the municipality is no longer actively operating; and OLA certifies that the municipality has no outstanding debts or obligations. On receiving certification from the Executive Director of DLS as to the above circumstances, the Secretary of State shall issue a public proclamation declaring that the municipal charter is repealed and file copies of the proclamation with specified judicial offices and DLS. If the assets and liabilities of the former municipality have not been disposed of before a municipal charter is repealed by operation of law, the governing body of the county in which the former municipality was located shall succeed to full ownership of any municipal assets and liquidate any municipal debt as described in Section 4-313.

To date since 1954, it appears that no municipality has voluntarily dissolved itself, while only four municipalities have been dissolved by operation of law, all in the 1960s (**Exhibit 1**). All four of these municipalities had been incorporated before 1900 and, because they each had ceased to operate for an extended period of time, there were reportedly no assets or obligations that needed to be assumed by the county in which each municipality had been located.

Exhibit 1
Municipalities Dissolved by Operation of Law
Since 1954

Name of Municipality	Incorporation	Dissolution
Bridgetown (Caroline County)	1839	Proclamation of Secretary of State July 16, 1964
Piscataway (Prince George's County)	1843	See Above
Solomons (Calvert County)	1892	See Above
Point of Rocks (Frederick County)	1847	Proclamation of Secretary of State August 21, 1968

State law does not contain any comparable provisions for the dissolution of a county, and the dissolution of a special taxing district would be governed by the State or local government authority that created the district.

Additional Resources

Besides the statutory provisions and long-time practices discussed above, for years, DLS has provided other useful resources to address legislative and public concerns regarding the fiscal health of local governments. Each of the department's annual reports utilize to varying degrees the data obtained from the annual audit reports submitted by each local government, as well as other sources. All but the last report are currently available electronically on the General Assembly's website. The reports are as follows.

Local Government Finances in Maryland

The *Local Government Finances in Maryland* (LGF) report is published in an effort to reasonably reflect the general fiscal condition of local governments in Maryland. The annual assessable base, debt, revenues, expenditures, and pension liabilities (where applicable) of each county and municipality are presented within this 400-page report. Additional revenue and expenditure detail for each county board of education, community college, and library board are also presented within the report.

Overview of Maryland Local Governments

The *Overview of Maryland Local Governments* report updates legislators and the public on the fiscal and social issues confronting local governments in Maryland. This report includes an in-depth review of multiple topics affecting local governments including the annual analysis of demographic indicators, local tax rates, local revenue growth, county salary actions, local general fund balances, and local debt measures.

Measuring Local Fiscal Conditions in Maryland – Demographic and Fiscal Trends

DLS has recently created the *Measuring Local Fiscal Conditions in Maryland* report, which provides additional analysis and insight into the fiscal well-being of Baltimore City and the counties in Maryland. This report identifies a series of key indicators that measure both the fiscal health of the major jurisdictions over time and provide warning signals of potential fiscal stress. The key indicators presented in the report represent demographic and fiscal trends in seven areas: revenues; expenditures; operating position; debt structure; unfunded liabilities; community needs and resources; and fiscal constraints. While still in its infancy, it is anticipated that in the future this report will aid in identifying local governments that might be facing fiscal challenges.

Case in Point in Neighboring Virginia

Petersburg, Virginia, provides a current illustration of a nearby local government in fiscal crisis, with reportedly no financial assistance forthcoming from the state.

According to reports in the *Washington Post* and the *Richmond Times-Dispatch* newspapers over the past couple months, Petersburg is a city 20 miles south of Richmond with a population of approximately 32,000 with profound financial woes that came to light earlier this year. Many state and local experts note that poor spending habits approved by city officials in recent years exacerbated ongoing municipal losses due to a shrinking tax base resulting from a steady population decline that peaked in 1980; the departure in 1985 of a major employer, tobacco company Brown and Williamson; and a 1993 deadly tornado that damaged the historic district and set back revitalization efforts by decades. In spring 2016, the city manager was fired; to date, an interim city manager remains in that position. Shortly after taking the position, the interim city manager fired the city finance director and called the state for help. State auditors spent the summer examining the city's books and determined that the crisis resulted from years of mismanaged budgets, inconsistent reporting of expenditures and revenue, and a lack of liquid cash. In August 2016, the state finance secretary reported that the city faced a $12.0 million operating budget shortfall, had spent all its reserves, and had at least $14.0 million in unpaid obligations (reports in September 2016 put the unpaid obligations closer to $19.0 million). The city hired outside consultants to come up with a plan to get the city out of trouble, and in early September, the city council adopted nearly all the recommended tax increases and spending cuts, including $4.1 million less in city school funding, reductions in city salaries, shutting of local museums, and curtailments in public services. The city's credit was recently downgraded to junk status by Standard and Poor's.

Also in early September, the city mayor reported that the Governor of Virginia had made it clear that the city must overcome the budget gap on its own, without any financial assistance from the state. The state finance secretary briefed state legislators in mid-September on the summer work of the state's auditors and emphasized that the state was providing only technical assistance. While some members expressed the need for the state to avoid becoming vulnerable, such as by assuming the city's unpaid debt to the Virginia Retirement System, other members noted that no other strapped city has received this much involvement by the state, and this was not the time to start a new precedent. Reports at the end of September noted that next year's state legislature, rather than drafting policies to bail out troubled localities, will more likely consider measures that would protect the state's solid fiscal standing from the impact of any declining community. Also reported was the news that one week before an October 1, 2016 deadline, Petersburg managed to make a $1.4 million bond payment to the Virginia Resources Authority, a premier funding source for local government infrastructure financing through bond and loan programs, in an effort to prevent city services, other than public safety, from being shut down.

By way of comparison, as shown in the 2013 Pew report, Virginia law is similar to Maryland law in that Virginia law contains no provisions for any state intervention practices, does not define local fiscal distress, and does not authorize a local government to file for Chapter 9 bankruptcy. Unlike Maryland, Virginia is not listed in the 2016 Pew report as 1 of the 22 states that has an active and regular fiscal monitoring system. The *Washington Post* reports that Virginia law requires counties and cities of more than 3,500 to submit an annual audit to the state auditor of public accounts; details as to what happens with the annual audit reports are unclear.

Appendix 1. Schedule of Local Governments Not Included in the Office of Legislative Audits Annual Analysis Due to Late Submission of Required Audit Report

Local Government	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
County										
Baltimore City						X	X		X	X
Municipality										
Bel Air Special Taxing Area										X
Capitol Heights			X	X						
Deer Park			X		X	X	X	X	X	X
Eagle Harbor				X						
East New Market	X									
Fairmount Heights				X	X	X				
Forest Heights	X	X	X	X	X	X				
Fruitland							X			
Glenarden	X							X	X	X
Hyattsville			X	X	X	X	X	X	X	X
Lonaconing			X	X						
Marydel								X	X	X
Morningside								X	X	X
Mount Rainier				X						X
Mount Savage Special Taxing Area	X	X								X
Pittsville								X		
Sharptown				X			X			
Westernport			X	X						
Other										
Washington Suburban Transit Commission			X		X					
Count	**4**	**2**	**7**	**9**	**5**	**5**	**5**	**6**	**6**	**9**

Source: Department of Legislative Services; Office of Legislative Audits, *Annual Review of Local Government Audit Reports*

Appendix 2. Schedule of Local Government General Fund Deficits Tracked by the Office of Legislative Audits

Local Government	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
County										
Anne Arundel				-2,092,456						
Municipality										
Cambridge			-961,152	-1,023,554	-129,882					
Cecilton								-27,687		
Crisfield									-138,791	-206,549
Cumberland			-714,645	-1,223,111	-1,912,378	-1,606,117	-862,478			
Easton	-292,671									
Fairmount Heights			-24,231	-54,392	-53,348					
Fruitland				-83,880						
Morningside	-347,558	-184,296								
Myersville	-297,324	-420,676	-194,217							
Port Deposit					-139,158					
Princess Anne	-15,184		-73,860	-69,013	-173,609					
Ridgely	-33,313	-63,728	-241,723	-281,213	-153,072	-95,914	-62,610			

Source: Department of Legislative Services; Office of Legislative Audits, *Annual Review of Local Government Audit Reports*

Appendix 3. Schedule of Local Governments with Significant Unfavorable General Fund Trends and Ratios Tracked by the Office of Legislative Audits

Local Government	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
County										
Caroline				X						
Municipality										
Cecilton							X			
District Heights	X		X	X						
Fairmount Heights	X									
Havre de Grace		X								
Henderson									X	X
Pocomoke City							X		X	
Rising Sun										X
Riverdale Park			X	X						
Vienna		X								
Count	**2**	**2**	**2**	**3**	**0**	**0**	**2**	**0**	**2**	**2**

Source: Department of Legislative Services; Office of Legislative Audits, *Annual Review of Local Government Audit Reports*

Appendix 4. Debt Limitations on Local Governments

	Maryland Constitution	Statutory Authority
Commission Counties	Art. III, § 54 – No county debt or credit unless authorized by act of General Assembly (GA).	No general authority, but see Appendix 5 for authority under limited circumstances.
Charter Counties	No provision.	Local Government Art. § 10-203** – Maximum debt is limited to sum of: • 6% of assessable basis of real property; and • 15% of assessable basis of personal property and operating real property. Local Government Art. § 19-401 – Local Government Art., Section 10-203 applies to the creation of public debt by a charter county.
Code Counties	Art. XI-F, § 8 – GA has exclusive jurisdiction to enact a local law that authorizes or regulates the maximum amount of county debt.	Local Government Art., Title 19, Subtitle 5 – Creation of county debt: general provisions including passage of local law and requirements about notice, maximum maturity, and liability.
Baltimore City	Art. XI, § 7 – Creation of debt or extension of credit must be: authorized by ordinance of mayor and city council; and approved by majority of votes cast, after proposal is either approved by majority of city delegation members in GA or by legislation passed by GA. Any creation of debt or extension of credit may not exceed 40 years. City may temporarily borrow any amount to meet any deficiency in city treasury or provide for any emergency to maintain police or preserve health, safety, and sanitary condition of city. GA may set limit on aggregate amount of debt to same extent as for charter counties.	Baltimore City Charter, Art. II, § 33 and 50 – Various provisions as to issuance of stocks, bonds, *etc.* as provided under Maryland Constitution, Art. XI, § 7.

Municipalities	Art. XI-E, § 5 – Any local law setting maximum amount of municipal debt passed by the GA must be approved by majority of votes cast in municipality.	Local Government Art., § 4-106 – Legislative body of municipality may take necessary action to ensure that any local law setting maximum amount of municipal debt passed by GA is submitted to voters of municipality. Local Government Art., Title 19, Subtitle 3 – Creation of municipal debt: general provisions including conflicts with charter provisions and requirements about notice, maximum maturity, and liability.

** Charter counties may set lower limitations.

Source: Department of Legislative Services

Appendix 5. Local Government Debt Provisions with Limited Applicability

Purpose of Debt	Statutory Authority
Assistance to Destitute and Unemployed Residents	Local Government Art., § 16-405 – *A county or municipality (but not Baltimore City)* may borrow money subject to specified limits for assistance to destitute and unemployed residents.
Public Schools	LG Title 19, Subtitle 6 – *A county (including Baltimore City)* may borrow money and incur indebtedness not to exceed at any one time the county's State share and expend the proceeds to pay the costs of public school construction or capital improvements.
Libraries	Local Government Art., Title 19, Subtitle 7 – *Only in Calvert, Harford, and St. Mary's counties*, a county may borrow money to pay capital construction costs of public library buildings. In St Mary's County, borrowed money may also be used to pay preservation costs of public libraries.
Residential Mortgage Financing	Local Government Art., Title 19, Subtitle 8 – *Only in Cecil County*, the county may issue indebtedness to make money available directly or through mortgage lending institutions to make or service residential mortgage loans, not to exceed a total aggregate amount of $35,000,000.
Pension Liability Funding Bonds	Local Government Art., Title 19, Subtitle 9 – *Only in charter counties, code counties, and municipalities*, a county or municipality may borrow money and issue bonds to fund any unfunded liability of the county or municipality with respect to any pension or retirement plan or system that is closed to new membership and under which the county or municipality is obligated to pay retirement, disability, death, or other benefits.
Local Military Emergency	Public Safety Art., § 14-405 – *A county (including Baltimore City)*, during a declared emergency due to military or warlike catastrophe, may borrow money or create debt on the faith and credit of the county.
Special Taxing Districts	Local Government Art., Title 21 – Various provisions for erosion prevention projects, shore erosion control districts, infrastructure improvements, stormwater management, *etc*.
Public Watershed Associations	Local Government Art., § 25-804 – Issuance of bonds or notes.
Public Drainage Associations	Local Government Art., § 26-803 – Issuance of bonds or notes.
Drainage Districts	Local Government Art., § 27-705 – Issuance of bonds.

Source: Department of Legislative Services