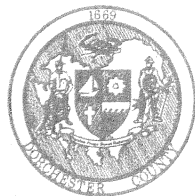


COUNTY COUNCIL OF DORCHESTER COUNTY

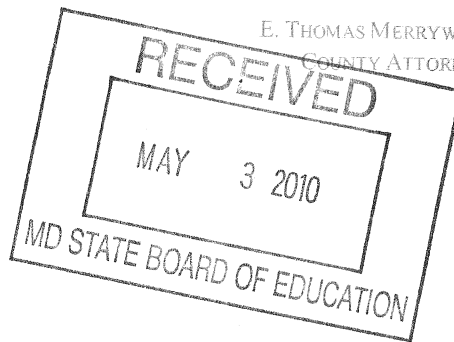
COUNTY OFFICE BUILDING
P. O. BOX 25
CAMBRIDGE, MARYLAND 21613
PHONE: (410) 228-1700
FAX: (410) 228-9641

JAY L. NEWCOMB, PRESIDENT
EFFIE M. ELZEY, VICE PRESIDENT
WILLIAM V. NICHOLS
RICK M. PRICE
RICKY C. TRAVERS



JANE BAYNARD
COUNTY MANAGER

E. THOMAS MERRYWEATHER
COUNTY ATTORNEY



April 29, 2010

Mr. Anthony South
Executive Director
Maryland State Board of Education
200 West Baltimore Street
Baltimore, MD 21201

Dear Mr. South:

The Council of Dorchester County, Maryland, in conjunction with the support of the Board of Education of Dorchester County, respectfully requests a waiver of maintenance of effort for Fiscal Year 2011 amounting to \$354,728. If granted, local funding for the school system would remain level with approved funding for Fiscal Year 2010.

In support of this request, we present the following information:

The amount the county proposes to appropriate for FY 2011

Dorchester County proposes to appropriate \$17,034,817 to the Board of Education of Dorchester County for its FY 2011 operating budget. The proposed funding level is unchanged from the approved FY 2010 operating budget appropriation.

The amount the county is required to appropriate for FY 2011

In order to remain compliant with Section 5-202 of the Education Article of the Maryland Annotated Code, Dorchester County would need to appropriate \$17,389,545 to the Board of Education for FY 2011. The required funding is \$354,728 greater than the approved FY 2010 operating budget appropriation.

The county's projected fiscal condition for the fiscal year of the waiver request

Dorchester County projects a Fiscal Year 2011 general fund operating budget deficit of \$5,666,389 based upon projected recurring revenues of \$46,889,309 and recurring expenditures of \$52,555,698. The county plans to address our operating deficit through a combination of non-recurring revenues such as withdrawals from our Reserve Fund (\$2.6M), and non-sustainable cuts including elimination of GASB 45 contribution (\$1.0M), temporary reductions to employee compensation (\$0.7M), reductions in road maintenance (\$0.5M), and the waiver of maintenance of effort funding (\$0.4M). Our Reserve Fund is projected to end FY 2011 with a balance of \$2.0M, and projected to be fully exhausted during FY 2012. The County has no other reserve, rainy day, or other savings-type funds available.

Required Information, continued

The county's fiscal condition of the current fiscal year

As significant decreases in both income tax revenue (\$1.4M below budget) and highway user revenues (\$1.7M below budget), both considered recurring in short term, were addressed through a combination of non-recurring solutions, the County's current fiscal year already reflects a structural deficit of \$3.1M.

Property taxes, income taxes, other taxes, other revenue streams

Net property taxes (levied less all credits) through February 2010 are \$28,291,861 which is \$1,579,256 or 5.9% higher than prior year of \$26,712,605.

Income tax revenues through the February 2010 distribution are \$4,481,160 which is \$3,061,785 or 41% less than the prior year of \$7,542,945.

Recordation tax revenues through February 2010 are \$1,152,951 which is \$231,859 or 17% less than the prior year of \$1,384,810.

Transfer taxes are dedicated by law for courthouse debt service, courthouse maintenance, and construction of public schools, and are not accounted for within the general fund.

Any statutory prohibitions for raising revenues

Dorchester County has no statutory prohibitions for raising revenue.

Copies of most recent audited financial statement

See attached copy of audited financial statement for year ended June 30, 2009.

County's projected expenditure plan for fiscal year of waiver request

As of the date of this waiver request, the County is perhaps halfway through its FY 2011 budget process. At this stage, our expenditure plan includes a continuation of all measures adopted by Council to address the FY 2010 budget crisis outlined below, with the exception that employee furloughs have been increased from five days to eight days.

County's expenditure plan for the current fiscal year

In reaction to the combination of state cuts in highway user revenues and below expected income tax receipts, the County has instituted a variety of non-sustainable measures, including:

Freezing vacant positions, deferral of comprehensive plan, elimination of funding for other post-retirement employment benefits trust (GASB 45), severely reduced road maintenance, freezing of capital projects, termination of equipment leases, five days of employee furloughs, 3.125% temporary pay

reduction for employees, reduction to budgeted contingency, and withdrawals from fund balances in reserve fund and general fund.

Additional Information:

Unique external environmental factors such as a loss of major business or industry or unique economic strains

Dorchester does have high unemployment (12.9% in February 2010) and strains on the housing market (34 month housing inventory) which have begun to impact our assessable base. While these factors may be higher than most other counties, they are reflective of economic problems affecting all counties. In this regard, we are not unique. However, those two factors combined with the fact we are a small, rural county with limited resources means we cannot solely correct our structural deficits by tax increases or layoffs. For example, a \$5.7M deficit would require raising our tax rate from 0.896 to 1.066, a difference of 17 cents or 19%. A solution based on layoffs would require eliminating half our workforce. Any combination of those choices makes Dorchester a less desirable place to live, which would further increase our housing supply, driving housing values down even further.

Effect of the recession on all county tax bases and other revenue generating streams of income

The effect of the recession on State government resulted in the August 26, 2009 decision by the Board of Public Works to reduce local aid by \$210,705,332 or 32.8%. The largest component of this cut was made to the distribution of highway user revenues (\$159,502,391), with every jurisdiction except Baltimore City losing 90% of their funding. Highway user revenues are primarily derived from carrier taxes, fuel taxes, and vehicle registration fees; certainly a form of tax base that counties have relied on for decades. The operation of our highway department, including the maintenance of our road system, has historically been funded solely from Dorchester's highway user revenues. We are not unique in that regard; most of the counties on the Eastern Shore utilize that strategy as well. We are unique in two important factors though. First, that of the overall BPW cut, Dorchester, one of the poorer counties in the State of Maryland, tops the list in overall percentage of state aid lost at 60.7%. Secondly, Dorchester has 572 miles within its road system and we have no funds to maintain them. Consider the following table:

Highway User Revenues				
Fiscal Year	Budgeted	Actual	\$ Variance	% Variance
2008	\$4,577,858	\$4,150,240	(\$427,618)	-9.3%
2009	\$4,261,743	\$3,592,239	(\$669,504)	-15.7%
2010	\$1,992,515	\$335,743	(\$1,656,772)	-83.2%
2011	\$292,515	\$292,515 (p)	n/a	n/a
3 Year \$ Change	(\$4,285,343)	(\$3,857,725)		
3 Year % Change	-93.6%	93.0%		

(p) projected

Mr. Anthony South
April 29, 2010
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Dorchester County, with the limited resources we have, coped with the budget vs. actual losses in FY 2008 and 2009. Our reserves allowed us to successfully develop a 2 year plan for the budget vs. budget loss of FY 2010. But the BPW cut, only two months into FY 2010, resulting in the budget vs. actual loss of FY 2010, destroyed our plan, and will result in our reserves being depleted in FY 2012.

Dorchester County Board of Education Supports the MOE Waiver

See attached letter, dated March 25, 2010, from Philip L. Bramble, President of Board of Education.

The Council understands the General Assembly considered changes to the maintenance of effort laws, but ultimately no changes were made. We also understand the penalty assessed to Montgomery County in FY 2010 was legislatively waived. We believe the evidence presented above meets the burden of proof substantiating that our fiscal condition significantly impedes our ability to fund the FY 2011 maintenance of effort requirement.

The Council looks forward to presenting this request to the State Board at the earliest possible meeting.

Sincerely,



Jay L. Newcomb
President of Council
Dorchester County, Maryland

CC: Superintendent of Dorchester County Public Schools
Board of Education of Dorchester County Public Schools
Senator Richard F. Colburn
Delegate Adelaide C. Eckardt
Delegate Rudolph C. Cane
Delegate Jeanne Haddaway-Riccio

DORCHESTER COUNTY PUBLIC SCHOOLS

Every Child A Success!

March 25, 2010

Mr. James H. DeGraffenreidt, Jr.
President
Maryland State Board of Education
200 West Baltimore Street
Baltimore, Maryland 21201

Dear Mr. DeGraffenreidt:

The Board of Education of Dorchester County understands that the Dorchester County Council is seeking a waiver of Maintenance of Effort for Fiscal Year 2011. As Board of Education members, we are also concerned residents and taxpayers of Dorchester County. As Board members, our primary duty is obtaining the necessary resources to provide the best educational opportunities for our students. Given the severe economic times faced by the residents of Dorchester County and our County government, we continue to strive to operate the school system as cost-effectively and efficiently as possible.

It is our understanding that the Dorchester County Council is seeking a waiver from Maintenance of Effort in the amount of \$350,786. This amount represents the required increase to our school system from the County due to an increase of 89 students. This waiver would result in the County government providing the same amount of appropriation for FY'11 as they did in FY'10. Given the significant cuts from the State of Maryland that have impacted Dorchester County, exceeding \$3 million, the Board of Education does not believe the waiver in this amount is unreasonable. Given the long history of the Dorchester County Council exceeding Maintenance of Effort for several years, with the exception of the last year which only provided Maintenance of Effort funding at the minimum level, we believe that this request is reasonable and hope that a request for a waiver is an isolated occurrence.

Thank you for your consideration in this matter. Please feel free to contact us should you have any questions.

Sincerely,



Philip L. Bramble
President
Board of Education of Dorchester County

cc: Board of Education Members
Frederic R. Hildenbrand, Superintendent
Dorchester County Council
Gary McCabe, Assistant Superintendent of Administration
Tim Brooke, Controller