

# The County Commissioners of Kent County

RONALD H. FITHIAN  
PRESIDENT  
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MEMBER  
CHESTERTOWN, MD

ALEXANDER P. RASIN  
MEMBER  
CHESTERTOWN, MD

R. Clayton Mitchell, Jr.  
Kent County Government Center  
400 High Street  
Chestertown, Maryland 21620  
TELEPHONE 410-778-4600  
FACSIMILE 410-778-7482  
E-MAIL [kentcounty@kentgov.org](mailto:kentcounty@kentgov.org)  
[www.kentcounty.com](http://www.kentcounty.com)

SUSANNE HAYMAN  
COUNTY ADMINISTRATOR

THOMAS N. YEAGER  
COUNTY ATTORNEY

April 16, 2012

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

Dear Mr. South,

The Kent County Commissioners are requesting a waiver from the State's Maintenance of Effort requirement stipulated in Section 5-202 of the Education Article. The County is required to fund \$16,988,283 under the maintenance of effort formula for fiscal year 2013, and proposes to fund \$16,128,112 which is \$860,171 or 5.1% lower than required. The grounds for Kent County's "Impeded Ability" waiver request are contained in this document per your instructions of April 11, 2012.

## **(1) External environmental factors**

Kent County is a rural, primarily agricultural county with a population of 20,197. The County derives approximately three-quarters of its revenue from the 12,792 property owners and 8,718 persons who file Maryland income tax returns. Approximately one quarter of Kent County's housing stock is owned by non-residents who do not pay income taxes to Kent County and the State.

In December of 2007 the United States entered a period of recession. Beginning in fiscal year 2010, the County began to experience revenue declines associated with the recession. Because of the unique size, employment base and socio-economic structure of the County, these declining revenues have impacted Kent County much more severely than the State as a whole.



Recycled Paper

The following statistics illustrate the impact the recession has had on Kent County:

Unemployment – Kent County’s January 2012 unemployment rate is 2.1% higher than the State average. As the following table indicates, the economic recovery is occurring more slowly in Kent County than in the State as a whole (Local Area Unemployment Statistics published by the Bureau of Labor Statistics).

	July 2010	July 2011	Jan 2012
Kent County	8.2%	8.0%	8.6%
State of Maryland	7.8%	7.2%	6.5%
% Kent County Exceeds State	0.4%	0.8%	2.1%

Major Employers – Kent County’s top 15 employers reduced their workforce by 11.3% between 2008 and 2011 (Brief Economic Facts published by Department of Business and Economic Development).

Major Employers	2008	2011	# Change	% Change
Chester River Health Systems	642	586	-56	-8.7%
Washington College	485	535	50	10.3%
Dixon Valve & Coupling	362	325	-37	-10.2%
Kent County	262	229	-33	-12.6%
David A. Bramble	240	223	-17	-7.1%
Heron Point of Chestertown	200	180	-20	-10.0%
LaMotte Chemical Products	152	134	-18	-11.8%
Angelica Nurseries	144	66	-78	-54.2%
Chestertown Nursing & Rehab	110	104	-6	-5.5%
Waterman's Crabhouse & Restaurant	100	110	10	10.0%
Upper Shore Community Health	98		-98	-100.0%
USA Fulfillment	83	55	-28	-33.7%
Kent Center	82	80	-2	-2.4%
Gillespie & Son	80	65	-15	-18.8%
Peoples Bank	78	75	-3	-3.8%
Total	3,118	2,767	-351	-11.3%

Income Statistics – The following table highlights seven income related statistics that illustrate how severely the County’s economy has been affected by the recession.

	Kent County	State Average
Median Household Income	51,892	70,017
% of Households making \$74,999 or less	70.20%	53.30%
% of population below poverty level	15.00%	9.10%
% of children under 18 below poverty level	24.30%	11.70%
% of population on Food Stamps/SNAP	11.10%	7.00%
% of population on Social Security	39.90%	24.40%

Kent County has a relatively low ranking in income: 15<sup>th</sup> in the state in per capita income and 17<sup>th</sup> in the state in median income. (Source 2010 U.S. Census).

Property Values – Kent County property assessments are projected to decrease 14.8% between fiscal year 2011 and fiscal year 2014, according to estimates published by the State Department of Assessment and Taxation. As the following table indicates, while Statewide assessments appear to level off in fiscal year 2014, showing only a 0.2% decline, Kent County’s assessed real property values continue to drop at a much steeper rate of 5.0%.

Fiscal Year	Kent County			Total - All Counties & Baltimore City		
	Real Property Assessable Base	Change from Prior Year	% of Change from Prior Year	Real Property Assessable Base	Change from Prior Year	% of Change from Prior Year
2014	2,764,392	(146,113)	-5.0%	650,274,093	(1,600,627)	-0.2%
2013	2,910,505	(209,343)	-6.7%	651,874,720	(30,178,894)	-4.4%
2012	3,119,848	(126,185)	-3.9%	682,053,614	(51,005,885)	-7.0%
2011	3,246,033			733,059,499		
Cummulative Effect 2007-2010		(481,641)	-14.8%		(82,785,406)	-11.3%

**(2) Kent County’s Tax Base**

Kent County’s income tax and property tax bases have declined significantly from the pre-recession levels. In both tax bases the County has incurred significantly larger decreases than the State as a whole.

Income Tax

Income tax returns for tax year 2010, are 469 (5.1%) fewer than tax year 2007 income tax returns. The decrease in the County’s tax returns for this period was three times higher than the average of Maryland’s 23 counties and Baltimore City.

Tax Year	Kent County			Total-All Counties & Baltimore City		
	# of Tax Returns	# of Change from Prior Year	% of Change from Prior Year	# of Tax Returns	# of Change from Prior Year	% of Change from Prior Year
2010 (rec'd FY10-FY12)	8,718	(31)	-0.4%	2,632,589	35,206	1.4%
2009 (rec'd FY09-FY11)	8,749	(223)	-2.5%	2,597,383	(44,939)	-1.7%
2008 (rec'd FY08-FY10)	8,972	(215)	-2.3%	2,642,322	(36,722)	-1.4%
2007 (rec'd FY07-FY09)	9,187			2,679,044		
Cummulative Effect 2007-2010		(469)	-5.1%		(46,455)	-1.7%

Income tax revenue for tax year 2010 was \$2,942,496, which is 23.6% lower than tax year 2007. Kent County's decrease in revenue for this period is four times higher than the average decrease of Maryland's 23 counties and Baltimore City.

Tax Year	Kent County			All Counties & Baltimore City		
	Income Tax	Change from Prior Year	% of Change from Prior Year	Income Tax	Change from Prior Year	% of Change from Prior Year
2010	9,513,216	735,692	8.4%	3,821,663,657	210,072,023	5.8%
2009	8,777,524	(1,883,458)	-17.7%	3,611,591,634	(104,099,554)	-2.8%
2008	10,660,982	(1,794,730)	-14.4%	3,715,691,188	(340,125,371)	-8.4%
2007	12,455,712			4,055,816,559		
Cummulative Effect 2007-2010		(2,942,496)	-23.6%		(234,152,902)	-5.8%

The County's income tax base has been significantly eroded on two fronts: 1) the high unemployment rate has reduced the overall taxable income of County residents, and 2) there are fewer tax returns being filed.

Property Tax

Fiscal Year 2014 real property assessable base figures (provided by the State Department of Assessment & Taxation) are expected to decline 14.8% from Fiscal Year 2011 levels. The decrease in Kent County's real property assessable base for this period is 3.5% greater than the average of Maryland's 23 counties and Baltimore City.

Fiscal Year	Kent County			Total - All Counties & Baltimore City		
	Real Property Assessable Base	Change from Prior Year	% of Change from Prior Year	Real Property Assessable Base	Change from Prior Year	% of Change from Prior Year
2014	2,764,392	(146,113)	-5.0%	650,274,093	(1,600,627)	-0.2%
2013	2,910,505	(209,343)	-6.7%	651,874,720	(30,178,894)	-4.4%
2012	3,119,848	(126,185)	-3.9%	682,053,614	(51,005,885)	-7.0%
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**(3) Rate of Inflation relative to growth of student population**

During recent decades Kent County has experienced substantial growth in its older population and a significant reduction in its student population. Kent's total student population declined from 2,986 students in 1999-2000, to 2,040 students in 2012-2013, a decline of almost one-third of the student population. Since 2009-2010, Kent County Schools have seen a decrease of 179 students.

The CPI in 2009 was 3.85. In 2010 it dropped to -0.34, and this year the CPI has risen to 3.16. (Source: Bureau of Labor Statistics).

More telling than the CPI, however, is *The Self-Sufficiency Standard for Maryland 2012*, sponsored

by the Maryland Community Action Partnership. This recent study indicates that over the past decade the essential costs of meeting basic needs for a three person family (one adult, one pre-schooler, and one school-age child) in Maryland has increased by an average of 54%. The largest increases (71-92%) occurred in Anne Arundel, Kent, and Queen Anne's counties. (*Self-Sufficiency Standard for Maryland*, page 12). Most of these cost increases occurred in the past 5 years. (Ibid. pages 14-15).

#### **(4) Maintenance of Effort Requirement to a County's Statutory Ability to Raise Taxes**

The maintenance of effort requirement for fiscal year 2013 is \$16,988,283, which is an increase of \$860,171 over fiscal year 2012 funding. Further, fiscal year 2013 county revenues are projected to be \$1,100,000 lower than revenues in fiscal year 2012. Thus, to fund maintenance of effort and maintain revenues at last year's level, the County will need \$1,960,171 of additional revenue for fiscal year 2013.

The County's current income tax rate, 2.85%, is projected to generate \$9,700,000 of revenue in fiscal year 2012. If the County were to raise its income tax rate to the maximum rate of 3.20%, the increased rate has the potential to generate an additional \$1,200,000 of revenue for the FY13 tax year. Collection of that revenue, however, would not all occur during fiscal year 2013. It would be collected over a period of three fiscal years. Typically about 40% of the income tax revenue from a tax year is received in the first fiscal year of implementation, so if the County maximized its income tax rate for tax year 2013, Kent County could potentially receive about \$480,000 of additional revenue in fiscal year 2013. This additional revenue would fall short of funding the maintenance of effort requirement.

The County's fiscal year 2012 property tax rate is \$1.022. An increase of one cent on the property tax rate will generate \$290,000 of additional revenue.

In order to raise the \$1,960,171 needed in new revenue to fund maintenance of effort (\$860,171) and to maintain fiscal year 2013 revenues at the 2012 level (\$1,100,000), Kent County would have to raise the income tax rate to the maximum rate of 3.2% (generating \$480,000 additional revenue) *and* raise the property tax rate by \$0.051 to \$1.073 (generating \$1,480,000 additional revenue). This would raise Kent's property tax rate to the fourth highest rate in the State (after Baltimore City, Montgomery County, and Baltimore County) and the highest income tax rate allowed by law.

#### **(5) Kent County's History of Exceeding Required MOE Amount**

Kent County is proud of having maintained its ranking among the top counties in per pupil funding through these difficult economic times. In FY12, Kent County was fourth in per pupil funding even after its funding fell below the maintenance of effort level.

The Kent County Commissioners are committed to funding quality education for the County's children, and Kent County has historically made funding education a priority in its budget process. This is evidenced by the following table which shows that in the last 11 years the County has funded \$7,647,762 above the maintenance of effort requirement. Indeed, prior to fiscal year 2011, the last time the County funded education at the maintenance of effort level, with no additional funding, was 1997. If maintenance of effort waivers are not granted when counties are experiencing severe revenue declines, it will discourage counties from funding school systems in excess of maintenance when revenues are rising and the economy is strong.

Fiscal Year	County Allocation	Maintenance of Effort	Funding in Excess of Maintenance of Effort
2002	12,887,085	11,989,750	897,335
2003	13,437,085	12,462,227	974,858
2004	13,124,906	13,074,906	50,000
2005	13,675,613	12,896,876	778,737
2006	14,275,613	13,464,594	811,019
2007	15,110,000	13,835,811	1,274,189
2008	16,217,000	14,579,339	1,637,661
2009	17,217,000	15,720,252	1,496,748
2010	17,194,706	16,648,957	545,749
2011	17,154,835	17,154,835	-
2012	16,128,112	16,946,646	(818,534)
Total Increase over Maintenance of Effort last 11 years			7,647,762

**(6) Position of Kent County Board of Education**

Kent County's local Board of Education does not support funding at less than the maintenance of effort level.

**(7) Fiscal Year 2013 Reductions in State aid to Kent County.**

Due to lingering uncertainties regarding the State budget, the extent of FY13 reductions are unknown at this time. Whether the county will continue to receive current state public safety grants is uncertain. This grant funding pays for police and crime victim assistance personnel.

**(8) Number of Waivers Received in the Past.**

Although Kent County funded less than maintenance of effort in FY12, Kent County has never previously funded below maintenance of effort. Nor has the County been granted a waiver in the past.

**(9) History of Compensation Adjustment for Employees of the County Board and Employees of County Government**

**\*Compensation**

<b>FISCAL YEAR</b>	<b>SALARY ACTION</b>	<b>COUNTY</b>	<b>**SCHOOL SYSTEM</b>
2008	COLA Adjustment	No COLA	4- 5% Increase
	Other	0 - 4% Merit Increase	Step Increase
2009	COLA Adjustment	2% COLA	3% Increase
	Other	0 - 4% Merit Increase	Step Increase
2010	COLA Adjustment	No COLA	0.5% Increase
	Other	50% of Employees 0 - 2%***	Step Increase
2011	COLA Adjustment	No COLA	No COLA
	Other	1.92% Decrease	None
2012	COLA Adjustment	No COLA	No COLA
	Other	1.92% Decrease	None

\* School system employees are, almost without exception, on a higher compensation scale than county employees.

\*\* Includes Administration, Teachers and Support Services.

\*\*\* Kent County employee merit compensation system was eliminated July 2010.

It is anticipated that the 1.92% salary decrease will be continued for all county employees through FY13.

Salary and benefit packages are still being negotiated for the school system.

County Government has also implemented the following personnel actions to achieve additional cost savings between fiscal year 2009 and fiscal year 2012:

- Eliminated 27 FTE positions, which included 4.5 involuntary layoffs and elimination of 12% of the county workforce.
- Changed county overtime policies to reduce overtime costs.
- Reduced county employees' health benefits.
- Eliminated funding to GASB 45 post employment health insurance trust.
- Eliminated county employees' long term disability benefit.
- Eliminated annual employee appreciation dinner.
- Eliminated county employees' tuition assistance program and professional development funding (except funding required to maintain certain job-essential certifications – e.g., police certification, water/wastewater operator certification).
- Eliminated all funding for county administrator and county department heads to attend MACo and other job-related professional conferences.
- Reduced mileage reimbursement for attending job-related meetings; encouraged employees to participate in meetings by conference call.
- Merged Tourism and Economic Development Departments
- Combined the Building and Parks Maintenance Departments
- Restructured Public Works Department

The extent to which the school system effected similar personnel actions is unknown.

#### **(10) How and Why Education Funding Will Remain Adequate if Waiver is Granted**

The overwhelming majority of the funding request that exceeds FY12 funding is slated to fund additional compensation for administrators, teachers, support services, and contractors. Kent County sympathizes with all persons seeking additional income in these difficult economic times. Kent County also acknowledges the associated personnel retention concerns, which is also a concern in the county workforce as it faces adding a potential third year of across the board pay cuts for its employees.

Of course teachers are very important. The Kent County Commissioners agree with its school system that its' educational staff are essential to our community. We hope that all county workers, including our schools' employees, will pull together with government and fellow citizens to forego an increase in compensation during this year in which neither county government nor the citizens in general can afford the increased taxes and diminished services that will be required to pay for it.

Kent County's position is that Kent County's quality of education will not suffer if our public schools pull together with all citizens, foregoing an increase in compensation in this very difficult year.

#### **CONCLUSION**

Presently, Kent County, like all local governments in Maryland, is struggling to craft a budget and spending plan amid uncertainties of whether the State will impose additional financial burdens (e.g., teacher pension costs) that will not only further impact the county's ability to fund schools, but also public safety, roads, and other basic services.



**Revenues** - Kent County's revenues have declined by \$2,636,311 since the pre recession level of 2009. While fiscal year 2013 revenues are projected to increase slightly, they are still below the fiscal year 2009 level.

Fiscal Year	Revenue	\$ of Change from Prior Year	% of Change from Prior Year
2013 Budget	42,050,674	1,159,462	2.8%
2012 Budget	40,891,212	-1,018,162	-2.4%
2011 Actual	41,909,374	1,117,372	2.7%
2010 Actual	40,792,002	-3,894,983	-8.7%
2009 Actual	44,686,985		
Cummulative Effect 2009 2013		-2,636,311	-5.9%

**Expenditures** - The total 2013 request for education funding is \$18,406,402 of which \$17,309,178 is for the public schools operating budget. The request is \$320,895 above the maintenance of effort requirement for 2013. If the County were to fund fully the schools' request, the county would have to reduce all non-education expenditures by 8.9% below the fiscal year 2009 level.

	2009 Actual	2013 Budget	\$ Change	% Change
Education				
Operating	17,217,000	17,309,178	92,178	0.5%
Debt, Capital, OPEB	1,388,438	1,097,224	(291,214)	-21.0%
Education - Total	18,605,438	18,406,402	(199,036)	-1.1%
Non-Education	25,945,745	23,644,272	(2,301,473)	-8.9%
Total Expenditures	44,551,183	42,050,674	(2,500,509)	-5.6%

Beyond the extensive personnel cuts outlined above (which reduced total salaries by 12%), Kent County's additional efforts to conserve funds thus far have included:

- Placing capital expenditures on indefinite hold as of December 2009. A total of \$75,000 in capital expenses has occurred since 2009.
- Merging Tourism and Economic Development Offices
- Combining the Building and Parks Maintenance Departments
- Restructuring the Public Works Department
- Reducing departmental operating budgets overall 8.5%
- Eliminated county curbside recycling program.
- Reduced hours at landfills.

The deep cuts in the entire county budget have meant that needed expenditures for essential equipment and vital infrastructure have been delayed for two and a half years at this point. Delaying fundamental expenditures (e.g., police vehicles, repairs to 911 communications towers, road maintenance) will take a toll on our citizens' safety. Further, Kent County is required in fiscal year 2013 to fund a \$2,800,000 public safety project to bring the emergency response radio system into compliance with FCC requirements. In fiscal year 2014 the county will face funding a core program capital project essential to the viability of our community college.

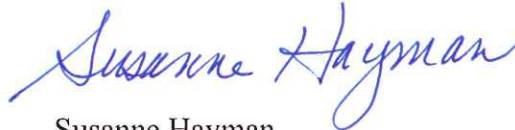
Kent County increased the property tax rate by 5.1% in fiscal year 2011 from \$0.972 to \$1.022. This means that Kent's citizens, who already live with lower incomes and higher unemployment than the State average, are paying the highest real estate taxes on Maryland's Eastern Shore and the sixth highest real estate taxes in the State. The Kent County Commissioners simply do not think our citizens are able to pay additional taxes, and that a tax increase of any kind will stall the economic recovery of the County even more.

While the Kent County Commissioners recognize that education is one of the County's top priorities, the County cannot continue to fund it at the expense of providing adequate public safety, infrastructure, and public works services that all citizens need and deserve. Kent County feels that the only way to meet its legal obligations to provide adequate education, as well as adequate public safety and public works services; is to have the flexibility to allocate our available revenues to meet all essential operations. Kent County cannot fund all mandated and essential services if required to fund education at the maintenance of effort level in fiscal year 2013.

The Kent County Commissioners hope you understand our financial situation, which includes our past excellent performance in funding education despite thin resources and high taxes, and that you will approve the County's request for a maintenance of effort waiver of \$860,171.

Thank you for your consideration.

Respectfully Submitted,



Susanne Hayman  
County Administrator  
[shayman@kentgov.org](mailto:shayman@kentgov.org)



Patricia Merritt  
Chief Finance Officer  
[pmerritt@kentgov.org](mailto:pmerritt@kentgov.org)

Cc: Kent County Commissioners  
Dr. A. Barbara Wheeler, Superintendent, KCPS  
Board of Education Members