THE 2008 BUDGET COMMITTEE REPORT ON

THE PROPOSAL TO LOWER THE ASSESSMENT INCREASE CAP

COMMITTEE MEMBERS

Chair: James Howard, Long Reach

Vice-Chair: Mary Chiu, Kings Contrivance

Roger Hultgren, Harper's Choice

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COLUMBIA, MARYLAND

APRIL 15, 2008

The 2008 Budget Committee

Evan Coren
Chair, Planning and Strategy Committee
Columbia Association, Inc.
10221 Wincopin Circle
Columbia, Maryland 21044

April 15, 2008

Dear Mr. Coren,

Please accept the attached report from the 2008 Budget Committee on "The Proposal to Lower the Assessment Increase Cap."

As always, members of the Budget Committee are available for future consultation regarding this report or other matters the Board of Directors or the Planning and Strategy Committee require. The other committee members and I sincerely appreciate the opportunity to have served the Columbia Association and residents as members of the Budget Committee and on their behalf, I remain,

Respectfully,

James P. Howard, II
Chair, Budget Committee

Charge

The Columbia Association Board of Directors (Board) asked the Budget Advisory Committee (BAC) to review a proposal to lower the cap on residential assessments from its current limit of 3 percent annually to 2 percent. The Board is interested in the potential long-term impact such an action would have on the financial health of the Association.

Background

A major source of Association revenue is the annual charge, or "CA assessment". The maximum assessment rate that CA is permitted to charge is $0.75 per $100 of assessed valuation. The CA assessment amount is 50 percent of the State of Maryland Department of Assessments and Taxation's assessed phased-in value for real estate tax purposes on all taxable residential, commercial, and industrial property subject to the CA lien. The CA assessment may not increase more than 10 percent from year to year.

For fiscal year 2008, the assessment rate was $0.68 per $100 of the assessed valuation. The Board reduced the cap from 10 percent to 4 percent for fiscal year 2007 and to 3 percent for fiscal year 2008.

Recently, a proposal was introduced to further reduce the cap to 2 percent for fiscal year 2009.

Recommendation

The BAC recommends that the Board retain the current 3 percent cap on increases in assessments.

The BAC further recommends that the Board consider revisiting this issue if substantial increases to the assessment base materialize as a result of increased development, or re-development, in downtown Columbia.

Discussion

The BAC estimates that reducing the cap would put CA's operating budget into deficit by fiscal year 2013. The BAC believes that deficit spending would have several undesirable consequences. Chief among those would be to increase CA's debt and the attendant costs of debt service. In addition, an increase in debt may jeopardize CA's current favorable bond rating, thus further increasing the costs of serving that debt.

CA's 10-year economic model of June 2006 assumed the assessment cap would remain at 3 percent from fiscal year 2008 through fiscal year 2016, and that model projected no operating deficit during fiscal year 2006 through fiscal year 2016.

In Columbia's early years, operating deficits were a deliberate policy choice. The rationale was that CA would incur deficits in order to build and operate its facilities while Columbia was developing. During those early years, Columbia was growing and the assessment base was increasing along with that development. As a result of a growing assessment base, CA revenues also increased to service that debt and to fund operations.

CA has not had an operating deficit since fiscal year 1986 and has been reducing its outstanding debt.

Columbia may now be considered mature; that is, there are few undeveloped parcels and many of its facilities are, or soon will be, in need of major repair or replacement. The BAC believes it is prudent to borrow for capital projects, but not for operating expenses.

The redevelopment of downtown Columbia may result in a significant increase in CA's assessment base. If that occurs, that might be an opportune time to re-visit the question of lowering the cap on assessment increases.

Revenues from the CA assessment (with the current 3 percent cap) and Package Plan and other membership and facility fees are projected to cover costs for the next several years; however, the uncertain performance of the broader economy may make current projections obsolete. In the current economic climate, the BAC urges the Board to exercise caution in fiscal matters.

Under current conditions, the committee believes that lowering the cap is not a prudent policy. Thus, the BAC recommends that the Board retain the current cap of 3 percent and consider re-visiting this issue if redevelopment of downtown Columbia results in a significant increase in the assessment base.