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# For a city in Montgomery, staying debt-free is the norm



James M Thresher/The Washington Post - In Gaithersburg, being debt-free isn't the cause for fanfare. It's the norm.

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The nation's debt in dollars consists of 14 digits. The District's, 10. But Gaithersburg has only one: zero.

Yes, \$0. Zilch. Just a 45-minute drive from Capitol Hill, the community is debt-free and has been, more or less, for about four decades.

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The U.S. national debt has climbed to a stunning \$14.3 trillion. Who are our biggest creditors, according to recent data from the U.S. Treasury?

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As the country struggles with its \$15 trillion debt, Gaithersburg has plugged away with a time-tested budgeting philosophy: Pay as you go and build your financial reserves.

For the city of about 60,000 along Interstate 270, the discipline comes with rewards: There's \$33 million in Gaithersburg's rainy day fund, which draws effusive praise from local government experts.

"For a community to have a large rainy day fund and no debt is the situation that any local government official would truly die for," said Donald F. Kettl, dean of the University of Maryland School of Public Policy.

Still, Mayor Sidney A. Katz says it's never been harder to follow the tenets that put Gaithersburg in such an enviable position. Once the fastest-developing area in the county, Gaithersburg is reaching its limits, and that means its property tax base isn't growing as fast as it once did. What's more, the city is receiving less aid from the county, state and federal governments, which have long been vital sources of support.

The city is trying, though. "Debt is a huge issue," said David B. Humpton, a former city administrator who had a hand in keeping Gaithersburg on track. "Look at places like Harrisburg."

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Last month, Harrisburg, Pa., filed for federal bankruptcy after failing to pay off its debt.

And last week, Jefferson County, Ala., became the largest municipal government to file, because it could not handle its debt of more than \$3 billion.

On the other side of the spectrum, there's Edgewood, Fla., a city of 2,500 that became debt-free last month. To celebrate, its mayor and council president held a public ceremony during which the city's last mortgage was set on fire and residents were served "debt-free cake."

In Gaithersburg, being debt-free isn't a cause for fanfare. It's the norm, as newcomers to government learn. "There's always a council member that comes in thinking that this city government should go into debt and [they] quickly look at what we're providing and how we're providing it, and that pretty much silences it," Humpton added.

Plenty of cities have debt to pay off. Takoma Park has \$6.1 million, Greenbelt has \$3.8 million, Bowie has \$14 million and Herndon has \$21 million.

Then there's the District, which has many of the responsibilities of a state, with more than 600,000 residents and a debt of \$8 billion.

There are plenty of reasons why governments take on debt. Most states and cities are required to balance their budgets, and debt can help pay for employee costs, public facilities and public services. Kettl and other experts say governments find debt particularly useful for building infrastructure, such as water pipes, and buying big-ticket equipment, like firetrucks.

Like other municipal governments in the county, Gaithersburg does not pay for some essential — and expensive — services, including schools, fire and rescue services, mass transit or a jail.

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City Manager Angel Jones says that if the city had to pay for those things, the city still wouldn't necessarily have to take on debt, because it could issue taxes as the county currently does.

Sanford W. Daily, a longtime Gaithersburg official before he retired in 1995, spearheaded the "pay-as-you-go" policy. Gaithersburg paid off its last debt shortly after he moved there in 1968. In the early 1970s, Daily encouraged the mayor and legislators to make it city policy to save some money every year for capital projects and emergency situations.

## Gallery



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Some decisions later turned out to be helpful in maintaining the city's debt-free status.

About 40 years ago, Daily switched the employee retirement plan from a pension, which has a set payout, to the public-employee equivalent of a 401(k), which does not ensure any minimum payout and carries much less risk for the employer. Many private companies have switched to 401(k)s, and some governments are trying to do the same.

Gaithersburg's employees are not unionized, which also may have driven down costs, experts say. According to the libertarian [Cato Institute](#), unionized state and local employees receive 31 percent higher wages and 68 percent more in benefits than nonunionized employees. Most of the 12 Maryland municipalities with more than 20,000 residents have unionized workforces; Gaithersburg is one of only three without.

Meanwhile, Gaithersburg grew in size and its population and businesses skyrocketed in recent decades because of Interstate 270 and the Shady Grove Metro station. In 1960, the population was 3,000; today, it is more than 20 times that. The city's budget was \$3.7 million in 1979; in 2009, it was \$42 million.

The city has taken on debt only once since Daily started his policy. In 1982, it



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purchased the 57-acre Summit Hall Turf Farm near Route 355, because it wanted a recreation center and private developers would have created a traffic problem if they had purchased and built on the land. Legislators paid off the debt in a few years, ahead of schedule.

But city hall now is struggling to keep debt-free. To pay for its fiscal 2011 operating budget, the city approved its first property tax rate increase in 45 years and slashed the budget by 8 percent.

This year's budget outlook is not as bleak. The capital budget sharply increased, and city projections show Gaithersburg being debt-free for at least the next five years. But Jones said that moving forward, "being able to sustain the system is going to be consistently challenging."

Several mixed-use developments — including Crown Farm and the Archstone Gaithersburg Station — will provide much-needed revenue when they are completed, but the pace of new development is decidedly slower.

For now, that suits some residents, such as Jane Tepper. Tepper, 63, has lived in Gaithersburg just over half her life, and she is happy with the pace of the city's development — and with the level of city's debt, which was news to her.

"That's the way the United States should work," Tepper said.

SOURCE:[http://www.washingtonpost.com/local/md-politics/for-a-city-in-montgomery-staying-debt-free-is-the-norm/2011/11/03/gIQADq7aPN\\_story.html](http://www.washingtonpost.com/local/md-politics/for-a-city-in-montgomery-staying-debt-free-is-the-norm/2011/11/03/gIQADq7aPN_story.html)