MEMORANDUM

February 2, 2010

TO: Management and Fiscal Policy Committee

CHS

FROM: Charles H. Sherer, Legislative Analyst

SUBJECT: Spending Affordability Guidelines for the FY11 Operating Budget, second Committee meeting

The purpose of this meeting is to recommend guidelines for the Council to consider on February 9. The tentative guidelines the Committee recommended on January 25 for the public hearing on February 2 are in the resolution on ©2 as calculated in the spreadsheet on ©1. The deadline for the Council to adopt the guidelines is the second Tuesday in February, which is February 9.

The Committee's proposed guidelines for the public hearing are summarized below, with background information following the summary. There were no speakers at the public hearing.

1. Property tax will be at the so-called Charter limit, so the property tax rates will **not** require nine affirmative votes.

2. The ceiling on the aggregate operating budget is the same amount as the Council approved for FY10 (zero % increase). The Council is not trying to predict the total amount the agencies will request, not the total amount the Executive will recommend, not the total amount the Council will approve in May. Rather, the Council is trying to set the ceiling (maximum) the Council will approve in May based on how much the Council thinks the County's residents can afford. When the Council approves the budgets in May, seven affirmative votes are required to exceed whatever ceiling the Council sets.

3. The aggregate operating budget will be allocated as follows:
    a. debt service is the amount OMB estimated
    b. current revenue amounts are from the Executive's Recommended FY11-16 CIP
    c. MCPS receives the Superintendent's recommended budget
    d. the College increases at the same % as MCPS
    e. County Government and MNCPPC receive the same % of the remainder in FY11 as in FY10, which means each receives the same % decrease from FY10 to FY11.

    The table below shows the % change from FY10 to FY11.

Agency	% change
MCPS	+1.2%
College	+1.2%
County Government	-3.7%
MNCPPC	-3.7%

4. Although not a guideline, the Committee recommends the following language for the resolution: "The Council's intent is that $3 million of the County Government's allocation will be appropriated for Community Grants (this amount excludes Community Service Grants), with Executive-recommended specific Community Grants totaling $1.5 million and Council specific Community Grants totaling $1.5 million."

The Council staff memorandum for the MFP Committee meeting on January 25 follows.

Background On November 6, 1990, the voters amended the Charter to add to section 305 the requirements that "The Council shall annually adopt spending affordability guidelines for the capital and operating budgets, including guidelines for the aggregate capital and aggregate operating budgets. The Council shall by law establish the process and criteria for adopting spending affordability guidelines." The resulting law is in sections 20-59 through 20-63 in the Code, which states that the Council must set **three** guidelines for the operating budget for the fiscal year starting the following July 1:

1) A ceiling on funding from property tax revenues.

2) A ceiling on the aggregate operating budget, which is defined as the total appropriation from current operating revenues for the next fiscal year, including current revenue funding for capital projects, but excluding appropriations for: specific grants, enterprise funds, tuition and tuition-related charges at Montgomery College, and the Washington Suburban Sanitary Commission. Specific grants are grants for specific programs which will not be provided if the grants are not received. Note that the aggregate operating budget includes current revenue funding for the capital budget.

3) The allocation of the budget among debt service, current revenue funding for the capital budget, and operating expenses for MCPS, Montgomery College, County Government, and MNCPPC.

In adopting its guidelines, the Council should consider the condition of the economy, the level of economic activity in the County, trends in personal income, and the impact of economic and population growth on projected revenues. There is no provision in the County Code for amending the guidelines. In accordance with Section 20-61 of the County Code, each January, the Finance Director consults with independent experts from major sectors of the economy. These experts advise the County on trends in economic activity in the County and how activity in each sector may affect County revenues. The Director of Finance sends the findings to the Council each March.

Deadline for adopting the guidelines On September 16, 2008, the Council unanimously approved Bill 28-89, which specified that the Council must set the guidelines no later than the second Tuesday in February, starting with the FY10 operating budget, with no provision for amending the guidelines. In previous years, the Council was required to set the guidelines in December, with a provision permitting but not requiring the Council to amend them in April.

June 1 Approval of the Budget Section 305 of the Charter imposes two restrictions on the aggregate operating budget:

1) "An aggregate operating budget which exceeds the aggregate operating budget for the preceding fiscal year by a percentage increase greater than the annual average increase of the Consumer Price Index for all urban consumers for the Washington-Baltimore metropolitan area, or any successor index, for the 12 months preceding December 1 of each year requires the affirmative vote of **six** Council members." The U.S. Department of Labor Bureau of Labor Statistics provides this data. The BLS calculates this index for every odd-numbered month, and the last index each calendar year is for November. In the 19 years starting in FY92, six affirmative votes were required 15 times because the budget increased more than inflation.

2) "Any aggregate operating budget that exceeds the spending affordability guidelines then in effect requires the affirmative vote of **seven** council members for approval." In the 19 years starting in FY92, seven affirmative votes were required 12 times.

June 30 Tax Levy Section 305 of the Charter imposes **one** restriction on property taxes on existing real property: nine affirmative votes are required if the amount of property tax on existing real property exceeds the previous year's tax by more than the rate of inflation (seven affirmative votes until the voters increased the number to nine in November 2008 effective with the FY10 budget). The limit applies only to existing real property. "This limit does not apply to revenue from: (1) newly constructed property, (2) newly rezoned property, (3) property that, because of a change in state law, is assessed differently than it was assessed in the previous tax year, (4) property that has undergone a change in use, and (5) any development district tax used to fund capital improvement projects." Finally, the limit does not apply to personal property. (Personal property generally includes furniture, fixtures, office and industrial equipment, machinery, tools, supplies, inventory, and any other property not classified as real property.)

The maximum amount of property tax the Council can approve without requiring nine affirmative votes is referred to as the "Charter limit". In the 19 years in which this Charter provision has been in effect, starting in FY92, seven/nine affirmative votes were required four times: in FY03-05 and FY09.

I. Ceiling on funding from property taxes This is the first guideline the Council must set, as explained above. The Committee recommends the so-called Charter limit, so the property tax rates will **not** require nine affirmative votes.

II. Ceiling on the aggregate operating budget After considering projected personal income growth of 2%, the State's spending affordability growth of 0%, and the County's projected gap in FY11 of more than $600 million, the Committee believes that this ceiling should be the same as the Council approved for FY11, which means 0% growth. The aggregate operating budget is then allocated to debt service, revenue funding for the capital budget, and operating expenses for the agencies as shown on ©1.

III. Allocation of the aggregate operating budget

a) Debt Service Debt service is a fixed charge that must be paid before making the allocation of any resources to the four agencies. Long-term leases are included, since these payments are virtually identical to debt. Debt service is in the County Government's debt service fund and also in the budget for MNCPPC. The amount of debt service next year is based on the amount of debt currently outstanding and estimated to be issued.

b) Current Revenue Funding for the Capital Budget There are two types of current revenue funding for the capital budget.

i) The first type is funding for capital projects which do not meet the criteria for bond funding and must be funded with current revenue, or not funded at all. Council staff used the amount in the Executive's January 15, 2010 Recommended FY11-16 CIP, $25.0 million.

ii) The second type is referred to as "PAYGO from Current Revenue for Bond Offset" (pay as you go), and is funding for projects which are eligible for bond funding, but the Council has decided to use current revenues to decrease the need for bonds. The substitution of current revenues for bonds helps protect the AAA bond rating by reducing the need for bonds and also decreases the operating budget for debt service. The Council's target is 10% of bond funding ($325 million), which would be $32.5 million. However, Council staff used the amount in the Executive's Recommended FY11-16 CIP, $2.0 million.

c) Agency Allocations (County Government, MCPS, Montgomery College, and MNCPPC). If an agency submits a budget that exceeds the allocation, Bill 28-08 requires each agency to submit by March 31 prioritized expenditure reductions to reach the allocation.

Two options for the agency allocations are shown below. **The Committee recommended option 1, the same approach the Council has used in previous years.**

1. MCPS gets the Superintendent's recommenced budget (including $79.5 million the Council appropriated for debt service in FY10), the College increases at the same % as MCPS, and County Government and MNCPPC get the same % of the remainder in FY11 as in FY10 (which means each gets the same % decrease from FY10 to FY11). See ©1.

2. All agencies get the same % of the total agency allocations in FY11 as in FY10 (which means each gets the same % decrease from FY10 to FY11).

The table below compares the % change from FY10 to FY11 for the two options.

Agency	Option 1	Option 2
MCPS	+1.2%	-0.7%
College	+1.2%	-0.7%
County Government	-3.7%	-0.7%
MNCPPC	-3.7%	-0.7%

<u>Overall Spending Target for Community Grants</u> The Council's Grants Manager provided the following information.

Last year the County Council set an overall spending target for Community Grants as part of its actions establishing Spending Affordability Guidelines for the Fiscal Year 2010 Operating Budget. While the target is not binding, it assists the Council in budget planning. For FY10 the target set by the Council was $2.5 million for Council Community Grants and $2.5 million for Executive Community Grants. In May, 2009 the Council **approved $1.8 million in Council Community Grants** that had gone through the Council's grants process and **$2.5 million in Executive-recommended Community Grants.**

Does the Committee wish to recommend an overall amount for Community Grants for Fiscal Year 2011 and, if so, at what amount? Does the Committee wish to set an overall target for both Executive-recommended Community Grants and Council Community Grants or solely Council Community Grants?

An overall target of $1.5 million for Council Grants for FY 2011 would be a 16.7% reduction from the amount approved by the Council for Council Grants in the FY10 and on a percentage basis, comparable to the FY11 overall tax-supported budget 'gap' between projected revenues and expenditures (somewhat less than 15% based on the November 30 Fiscal Plan). **A target of $1.5 million for County Executive-recommended Grants would be a 40% reduction** from the amount recommended by the County Executive and approved by the Council in the FY10 budget.

Alternatively, the Committee could recommend a 15% reduction from the approved budget for both Council and Executive grants ($1.53 million/Council and $2.13 million/Executive) or just set a target for Council grants.

During last year's review of spending targets for Community Grants the Committee also noted the Council's decision to inform grant applicants that the Council is **particularly interested in proposals that provide emergency and other assistance to the neediest members of our community**. This priority is also noted in the FY11 Council Grant Application.

Proposed language for the Council Resolution on Spending Affordability Guidelines would state:

> "The Council's intent is that $3 million of the County Government's allocation will be appropriated for Community Grants (this amount excludes Community Service Grants), with Executive-recommended specific Community Grants totaling $1.5 million and Council specific Community Grants totaling $1.5 million."

Schedule

January 25	MFP
February 2	Public hearing
February 8	MFP
February 9	Council action

Contents:

©	Item
1	Council staff's calculations
2	Resolution

	A	B	C	D	E
1	SPENDING AFFORDABILITY GUIDELINES FOR THE AGGREGATE OPERATING BUDGET				
2	$millions				
3					
4	MCPS: FY10 includes double appropriation for debt service (79.537); FY11 is Superintendent's recommended budget				
5	College: FY11 has same % increase as MCPS				
6					
7	**I. Calculation of the ceiling on the AOB**			FY11	
8	Projected % increase in personal income of County residents in CY10 for FY11, Finance			+2.0%	
9	Projected growth in State's operating budget			+0.0%	
10	Council staff's suggested growth in the aggregate operating budget			+0.0%	
11					
12					
13	**II. Allocations**	FY10 approved	% of agency total	**FY11**	% change
14	County Debt Service	246.5		**274.9**	11.5%
15	MNCPPC Debt Service	5.0		**5.0**	0.9%
16	Current revenue, specific projects	30.7		**25.0**	-18.7%
17	Current revenue, PAYGO	1.3		**2.0**	52.0%
18	Subtotal, non-agencies	283.5		**306.9**	8.2%
19					
20	MCPS	2,020.1	57.3%	**2,044.5**	1.2%
21	College, excluding expenditures funded by tuition	147.5	4.2%	**149.2**	1.2%
22	County Government	1,251.2	35.5%	**1,205.5**	-3.7%
23	MNCPPC	106.6	3.0%	**102.8**	-3.7%
24	Subtotal, agencies	3,525.4	100.0%	**3,502.0**	-0.7%
25	Aggregate Operating Budget	3,808.9		**3,808.9**	0.0%
26				3,808.9	
27					
28	CG	1,251.2	92.1%	1,205.5	
29	MNCPPC	106.6	7.9%	102.8	
30	Total	1,357.8	100.0%	1,308.2	

Resolution No:	
Introduced:	February 2, 2010
Adopted:	

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council

Subject: Spending Affordability Guidelines for the FY11 Operating Budget

Background

1. Section 305 of the Charter and Chapter 20 of the Montgomery County Code require the Council to set spending affordability guidelines for the operating budget for the next fiscal year.

2. The guidelines must specify:

   a) A ceiling on property tax revenues, which are used to fund the aggregate operating budget.

   b) A ceiling on the aggregate operating budget. The aggregate operating budget is the total appropriation from current operating revenues, including appropriations for capital projects but excluding appropriations for: enterprise funds, the Washington Suburban Sanitary Commission, specific grants for which the spending is contingent on the grants, and expenditures equal to the estimated tuition and tuition-related charges at Montgomery College.

   c) The spending allocations for the County Government, the Board of Education, Montgomery College, the Maryland-National Capital Park and Planning Commission, debt service and current revenue funding of capital projects. As noted above, the College's allocation excludes expenditures equal to the estimated tuition and tuition-related charges.

3. The legislation lists a number of economic and financial factors to be considered in adopting the guidelines, requires a public hearing before the Council adopts guidelines, and requires that the Council adopt guidelines no later than the second Tuesday in February for the fiscal year starting the following July 1.

4. At the public hearing on February 2, 2010, the public had the opportunity to comment on the following guidelines.

a) The amount of property tax revenue will not exceed the amount calculated in accordance with §305 of the Charter that would require nine affirmative votes.

b) The ceiling on the aggregate operating budget and the agency allocations:

	$ million
County Debt Service	274.9
MNCPPC Debt Service	5.0
Current Revenue, specific projects	25.0
Current Revenue, PAYGO	2.0
MCPS	2,044.5
Montgomery College	149.2
County Government	1,205.5
MNCPPC	102.8
AGGREGATE OPERATING BUDGET	3,808.9

Action

The County Council for Montgomery County approves the following resolution:

1. The spending affordability guidelines for the FY11 Operating Budget are:

a) The amount of property tax revenue will not exceed the amount calculated in accordance with §305 of the Charter that would require nine affirmative votes.

b. The ceiling on the aggregate operating budget and the agency spending allocations in **millions** of dollars are:

MCPS	
Montgomery College	
County Government	
MNCPPC	
County Debt Service	
MNCPPC Debt Service	
Current Revenue, PAYGO	
Current Revenue, other	
AGGREGATE OPERATING BUDGET	

3

2. The Council's intent is that $3 million of the County Government's allocation will be appropriated for Community Grants (this amount excludes Community Service Grants), with Executive-recommended specific Community Grants totaling $1.5 million and Council specific Community Grants totaling $1.5 million.

This is a correct copy of Council action.

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Linda M. Lauer, Clerk of the Council