GO #4
January 31, 2011

MEMORANDUM

January 26, 2011

TO: GO Committee

CHS

FROM: Charles H. Sherer, Legislative Analyst

SUBJECT: Spending Affordability Guidelines for the FY12 Operating Budget

<u>The purpose of this Committee meeting</u> is for the Committee to make recommendations for the Council to consider on February 8. The public hearing was on January 25. The Council staff calculations are shown in the spreadsheet on ©1-2. The deadline for the Council to adopt the guidelines is the second Tuesday in February, which is February 8.

The Council must set guidelines to comply with the Charter and with County law. The actual budgets will be determined during the Council's budget process, starting in early April and ending in late May. The actual budgets will no doubt differ from the guidelines the Council sets on February 8.

<u>Background</u> 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 **<u>three</u>** 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 <u>excluding</u> 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 M-NCPPC.

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. 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 Before FY10, the Council was required to set the guidelines in December, with a provision permitting, but not requiring, the Council to amend them in April. 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.

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 20 years starting in FY92, six affirmative votes were required 15 times because the AOB 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 20 years starting in FY92, seven affirmative votes were required 12 times because the AOB exceeded the spending affordability guidelines then in effect.

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 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 20 years in which this Charter provision has been in effect, starting in FY92, seven affirmative votes were required four times: in FY03-05 and FY09.

I. Ceiling on funding from property taxes This is one guideline the Council must set, as explained above. On June 29, 2010, the Council approved the County's Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program (Resolution 16-1416). The approved fiscal plan included the following assumption: "FY12-16 property tax revenues are at the Charter Limit assuming a tax credit." Therefore, the resolution on ©8-10 includes this statement: "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."

II. Ceiling on the aggregate operating budget Council staff presents four options on ©1:

Option 1: The AOB is 5.9% of Finance's estimated Personal Income of County residents for CY11. When the Council amended the SAG law on September 16, 2008, the Council agreed that 5.9% seemed to be a "reasonable" % that residents could afford to pay for the many services the County provides, based on a historical comparison of the County's operating budget to the Personal Income of County residents (©7). The AOB would increase 16.0%.

Option 2: The AOB increases at the same % from FY11 to FY12 as Finance estimates that Personal Income will grow. The AOB would increase 4.7%.

Option 3: The AOB is the same as in the December 2010 update of the fiscal plan, which would increase 0.8%. (The fiscal plan does not include a calculation of the AOB, but the fiscal plan does include most of the numbers needed to calculate the AOB.)

Option 4: AOB increases at estimated inflation in the calendar year ending December 2010, 1.7%.

(The AOB would increase roughly 9.1% based on the major known commitments, which resulted in the $300 million gap about which the Executive has warned the Council, see ©7A.)

Council staff recommends option 4 as a reasonable option, given the County's fiscal situation with respect to revenues. It seems reasonable that the residents can "afford" a budget that increases at the rate of inflation, which was approximately 1.7% for the calendar year ending December 2010 (the Federal Bureau of Labor Statistics has published the six bi-monthly % changes for calendar year 2010 but has not yet published the annual % change). This is 0.9% higher than option 3 and allows for the possibility that revenues will increase between now and the end of May when the Council approves the budgets.

III. Allocation of the aggregate operating budget The components are shown below. The fiscal plan specified that the following uses of funds will be accounted for **before** the agency allocations. Only the third item is included in the calculation of the AOB: begin to prefund retiree health insurance, also referred to as OPEB, which stands for other post employment benefits.

1. Increase (decrease) the General Fund reserve to maintain the Charter limit of 5% of General Fund revenues in the previous fiscal year
2. Transfer to the Revenue Stabilization Fund to achieve a total reserve target of 6.4% of Adjusted Governmental Revenues (this % will increase to 10% by FY2020)
3. Retiree health insurance prefunding (OPEB)
4. Set aside for supplemental appropriations in FY12

The aggregate operating budget is allocated to debt service, current revenue funding for the capital budget, retiree health insurance prefunding (OPEB) and, finally, operating expenses for the agencies.

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 M-NCPPC. The amount of debt service next year is based on the amount of debt currently outstanding and estimated to be issued, as shown in the December 2010 Fiscal Plan.

b) Current Revenue Funding for the Capital Budget There are two types of current revenue funding for the capital budget. Council staff used the amounts the GO Committee recommended on January 24, which are the same as the Executive recommended in his Recommended FY12 Capital Budget, dated January 14, 2011.

i) One 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.

ii) The other 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 approved fiscal plan referenced above included the following assumption: "PAYGO restored to policy level of 10% of planned GO Bond borrowing in FY12-16."

c) Retiree health insurance prefunding (OPEB) The amount is from the December 2010 Fiscal Plan.

d) Agency Allocations (County Government, MCPS, Montgomery College, and M-NCPPC). If an agency submits a budget that exceeds the Council's allocation, Bill 28-08 requires each agency to submit by March 31 prioritized expenditure reductions to reach the allocation. After funding the items above, the total available for the agency allocations would decrease 2.9%, compared to a decrease of 3.9% in the December 2010 Fiscal Plan. (Agency allocations would increase 4.9% based on the major known commitments, which resulted in the $300 million gap about which the Executive has warned the Council, see ©7A.)

Council staff calculated the agency allocations by giving each agency the same % change from FY11, which is -2.9% as just explained above. **This is the allocation Council staff recommends for purposes of complying with the requirements of the SAG law**. See ©1-2. The exact allocations will be determined during the budget process. At least two factors could change the allocations by the time the Council approves the budgets in May:

1) Revenue estimates could be revised up or down from the December 2010 Fiscal Plan.

2) Some of the current revenue funding and the prefunding for OPEB (items b-c above) from the Fiscal Plan could be shifted to the agency allocations.

An alternative allocation is shown on ©3-4, in which MCPS gets the budget at MOE, excluding $6.0 million the Superintendent included for OPEB, which is accounted for separately; the College increases at the same % as MCPS; and County Government and M-NCPPC get the same % of the remainder in FY12 as the Council approved for FY11 (which means each gets the same % change from FY11 to FY12). See ©3-4. As can be seen, MCPS and the College would both increase 5.5%, while the County Government and M-NCPPC would both decrease 16.8%. Council staff does **not** recommend this allocation because of the substantial % decrease for the latter two agencies.

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

For the last 3 years, the County Council has set an overall spending target for Community Grants as part of its actions establishing Spending Affordability Guidelines for the Operating Budget. While the target is not binding, it assists the Council in budget planning. For FY11, the target set by the Council was $1.5 million for Council Community Grants and $1.5 million for Executive Community Grants. In May 2010, the Council **approved $1 million in Council Community Grants** that had gone through the Council's grants process and **$2.9 million in Executive-recommended Community Grants, for a total of $3.9 million.**

Does the Council wish to recommend an overall amount for Community Grants for Fiscal Year 2012 and, if so, at what amount? Does the Council wish to set an overall target for both Executive-recommended Community Grants and Council Community Grants, or solely Council Community Grants?

Three options are presented:

Option #1. An overall target for Council and Executive Community Grants of $3.7 million would be a 5% reduction from the amount approved for FY11. On a percentage basis, that reduction is comparable to the target budget reduction the County Executive has given to the Department of Health and Human Services, the program area of most of the Community Grants. An equal split of that amount between Council and Executive Grants for FY12 would be **$1.85 million each**, an increase in Council grants from the amount approved for FY11 and a decrease in the amount recommended by the County Executive and approved by the Council in the FY11 budget.

Option #2. Alternatively, the Council could **set a separate 5% reduction from the approved budget for both Council and Executive grants** ($950,000/Council and $2.8 million/Executive).

Option #3. Establish a target for **Council grants only**.

During last year's review of spending targets for Community Grants, the Council also noted its 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 FY12 Council Grant Application.

Schedule

January 18	Introduction
January 25	Public hearing
January 31	GO
February 8	Council action

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5	December 2010 Fiscal Plan
7	Personal income and the County's operating budget
8	Resolution

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1	SPENDING AFFORDABILITY GUIDELINES FOR THE FY12 AGGREGATE OPERATING BUDGET						
2							
3	**Each agency gets same % change from FY11**						
4							
5	Option 1: AOB is 5.9% of Finance's estimated Personal Income of County residents for CY11						
6	Option 2: AOB increase at same % from FY11 to FY12 as Finance's estimated Personal Income.						
7	Option 3: AOB is the same as in December 2010 fiscal plan update						
8	Option 4: AOB increases at estimated inflation in calendar year ending December 2010.						
9							
10	FY11 Approved AOB	$3,602.9					
11	**I. Calculation of the FY12 ceiling on the AOB**			Option 1	Option 2	Option 3	Option 4
12	1. Finance's estimated personal income			$70,820			
13	Times an affordability factor based on previous budgets			X5.9%			
14	2. Finance's projected % increase in PI				4.7%		
15	3. Growth in December 2010 fiscal plan update					+0.8%	
16	4. Inflation						+1.7%
17	**Ceiling on FY12 AOB**			**$4,178.4**	**$3,772.2**	**$3,630.9**	**$3,664.1**
18	% change from FY11 Approved			+16.0%	+4.7%	+0.8%	+1.7%
19							
20	**II. Allocations** ($millions)	FY11 approved	% agency total	Option 1	Option 2	Option 3	Option 4
21	**A. Non agency allocations**						
22	County Debt Service	$259.1		$290.8	$290.8	$290.8	$290.8
23	MNCPPC Debt Service	4.9		4.5	4.5	4.5	4.5
24	Current revenue, specific projects	23.8		34.6	34.6	34.6	34.6
25	Current revenue, PAYGO	0.0		32.0	32.0	32.0	32.0
26	Retiree health insurance prefunding (OPEB)			83.6	83.6	83.6	83.6
27							
28	Subtotal, non-agencies	287.8		445.5	445.5	445.5	445.5
29	**B. Agency allocations**						
30	MCPS	1,919.8	57.9%	2,161.7	1,926.5	1,844.7	1,863.9
31	College excl. expen. funded by tuition	139.0	4.2%	156.5	139.5	133.6	135.0
32	County Government	1,163.6	35.1%	1,310.2	1,167.7	1,118.1	1,129.7
33	MNCPPC	92.7	2.8%	104.4	93.0	89.1	90.0
34	Subtotal, agencies	3,315.1	100.0%	3,732.9	3,326.7	3,185.4	3,218.6
35	**Aggregate Operating Budget**	**3,602.9**		**4,178.4**	**3,772.2**	**3,630.9**	**3,664.1**
36	Check			4,178.4	3,772.2	3,630.9	3,664.1
37							
38	% change agency allocations			+12.6%	+0.4%	-3.9%	-2.9%
39							
40							

	A	B	C	D	E	F	G
1	SPENDING AFFORDABILITY GUIDELINES FOR THE FY12 AGGREGATE OPERATING BUDGET						
2							
3	**Each agency gets same % change from FY11**						
41							
42	% increase agency allocations from FY11 to FY12			Option 1	Option 2	Option 3	Option 4
43	MCPS			+12.6%	+0.4%	(3.9%)	(2.9%)
44	College excl. expen. funded by tuition			+12.6%	+0.4%	(3.9%)	(2.9%)
45	County Government			+12.6%	+0.4%	(3.9%)	(2.9%)
46	MNCPPC			+12.6%	+0.4%	(3.9%)	(2.9%)
47	Total			+12.6%	+0.4%	(3.9%)	(2.9%)
48							
49							
50	**SAG allocations**	FY11 approved					
51	County Debt Service	$259.1		$290.8	$290.8	$290.8	$290.8
52	MNCPPC Debt Service	4.9		4.5	4.5	4.5	4.5
53	Current revenue, specific projects	23.8		34.6	34.6	34.6	34.6
54	Current revenue, PAYGO	0.0		32.0	32.0	32.0	32.0
55	Retiree health insurance prefunding (OPEB)	0.0		83.6	83.6	83.6	83.6
56	MCPS	1,919.8		2,161.7	1,926.5	1,844.7	1,863.9
57	College excl. expen. funded by tuition	139.0		156.5	139.5	133.6	135.0
58	County Government	1,163.6		1,310.2	1,167.7	1,118.1	1,129.7
59	MNCPPC	92.7		104.4	93.0	89.1	90.0
60	Total = Aggregate Operating Budget	3,602.9		4,178.4	3,772.2	3,630.9	3,664.1
61	Check: row 17			4,178.4	3,772.2	3,630.9	3,664.1

	A	B	C	D	E	F	G
1	SPENDING AFFORDABILITY GUIDELINES FOR THE FY12 AGGREGATE OPERATING BUDGET						
2							
3	**MCPS gets MOE in FY12, MC gets same % change as MCPS.**						
4	Other agencies get same % of remainder in FY12 as in FY11, which results in same % change from FY11 to FY12.						
5	Option 1: AOB is 5.9% of Finance's estimated Personal Income of County residents for CY11						
6	Option 2: AOB increase at same % from FY11 to FY12 as Finance's estimated Personal Income.						
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12	1. Finance's estimated personal income			$70,820			
13	Times an affordability factor based on previous budgets			X5.9%			
14	2. Finance's projected % increase in PI				+4.7%		
15	3. Growth in December 2010 fiscal plan update					+0.8%	
16	4. Inflation						+1.7%
17	**Ceiling on FY12 AOB**			**$4,178.4**	**$3,772.2**	**$3,630.9**	**$3,664.1**
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25	Current revenue, PAYGO	0.0		32.0	32.0	32.0	32.0
26	Retiree health insurance prefunding (OPEB)			83.6	83.6	83.6	83.6
27							
28	Subtotal, non-agencies	287.8		445.5	445.5	445.5	445.5
29	**B. Agency allocations**						
30	MCPS (See note at end)	1,919.8	57.9%	2,026.1	2,026.1	2,026.1	2,026.1
31	College excl. expen. funded by tuition	139.0	4.2%	146.7	146.7	146.7	146.7
32	County Government	1,163.6	35.1%	1,445.0	1,068.8	937.9	968.7
33	MNCPPC	92.7	2.8%	115.1	85.1	74.7	77.2
34	Subtotal, agencies	3,315.1	100.0%	3,732.9	3,326.7	3,185.4	3,218.6
35	**Aggregate Operating Budget**	**3,602.9**		**4,178.4**	**3,772.2**	**3,630.9**	**3,664.1**
36	Check			4,178.4	3,772.2	3,630.9	3,664.1
37							
38	CG	1,163.6	92.6%	1,445.0	1,068.8	937.9	968.7
39	MNCPPC	92.7	7.4%	115.1	85.1	74.7	77.2
40	Total	1,256.3	100.0%	1,560.1	1,153.9	1,012.6	1,045.9

3

	A	B	C	D	E	F	G
1	SPENDING AFFORDABILITY GUIDELINES FOR THE FY12 AGGREGATE OPERATING BUDGET						
2							
3	**MCPS gets MOE in FY12, MC gets same % change as MCPS.**						
41							
42	% increase agency allocations from FY11 to FY12			Option 1	Option 2	Option 3	Option 4
43	MCPS			+5.5%	+5.5%	+5.5%	+5.5%
44	College excl. expen. funded by tuition			+5.5%	+5.5%	+5.5%	+5.5%
45	County Government			+24.2%	(8.1%)	(19.4%)	(16.8%)
46	MNCPPC			+24.2%	(8.1%)	(19.4%)	(16.8%)
47	Total			+12.6%	+0.4%	(3.9%)	(2.9%)
48							
49							
50	**SAG allocations**	FY11 approved					
51	County Debt Service	$259.1		$290.8	$290.8	$290.8	$290.8
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53	Current revenue, specific projects	23.8		34.6	34.6	34.6	34.6
54	Current revenue, PAYGO	0.0		32.0	32.0	32.0	32.0
55	Retiree health insurance prefunding (OPEB)	0.0		83.6	83.6	83.6	83.6
56	MCPS	1,919.8		2,026.1	2,026.1	2,026.1	2,026.1
57	College excl. expen. funded by tuition	139.0		146.7	146.7	146.7	146.7
58	County Government	1,163.6		1,445.0	1,068.8	937.9	968.7
59	MNCPPC	92.7		115.1	85.1	74.7	77.2
60	Total = Aggregate Operating Budget	3,602.9		4,178.4	3,772.2	3,630.9	3,664.1
61	Check: row 17			4,178.4	3,772.2	3,630.9	3,664.1
62							
63	MCPS MOE budget excludes $6.0 million to prefund OPEB, which is accounted for separately above.						
64							
65							
66	**III. Comparison of agency allocations, option 4**				= % change	MOE	Difference
67	MCPS				1,860.0	2,026.1	(166.1)
68	College excl. expen. funded by tuition				134.7	146.7	(12.0)
69	County Government				1,127.4	962.4	165.0
70	MNCPPC				89.8	76.7	13.1
71	Total agency allocations				3,211.8	3,211.8	0.0

Fiscal Plan Update: December 2010

($ in Millions)

		App. FY11	Est FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17
		5-27-10	12-14-10	Rec/Bud											
	Total Revenues														
1	Property Tax (less PDs)	1,450.1	1,436.7	1.3%	1,468.7	2.9%	1,511.3	3:5%	1,563.5	3.2%	1,613.7	3.5%	1,670.3	3.8%	1,733.1
2	Income Tax	1,060.7	1,030.2	3.9%	1,101.7	6.6%	1,174.3	4.4%	1,225.7	7.9%	1,321.9	5.2%	1,390.7	4.1%	1,447.5
3	Transfer/Record. Tax	139.9	134.5	-4.7%	133.4	10.1%	146.8	7.0%	157.1	0.5%	157.9	6.7%	168.5	2.0%	171.8
4	Investment Income	3.6	1.3	-51.0%	1.8	176.0%	4.9	138.7%	11.8	57.1%	18.5	30.3%	24.1	0.0%	24.1
5	Other Taxes (e.g. Ambulance Fee)	313.2	310.1	1.7%	318.6	-33.9%	210.6	2.8%	216.5	2.5%	221.9	2.2%	226.8	2.7%	232.9
6	Other Revenues	811.6	780.7	-2.5%	791.7	0.5%	795.3	0.5%	799.5	0.6%	804.0	0.6%	808.6	0.6%	813.4
7	**Total Revenues**	**3,779.2**	**3,693.5**	**1.0%**	**3,815.8**	**0.7%**	**3,843.2**	**3.4%**	**3,974.1**	**4.1%**	**4,137.8**	**3.7%**	**4,289.0**	**3.1%**	**4,422.8**
8															
9	**Net Transfers In (Out)**	**41.7**	**41.7**	**-68.0%**	**13.4**	**2.4%**	**13.7**	**2.8%**	**14.1**	**2.9%**	**14.5**	**3.0%**	**14.9**	**3.0%**	**15.4**
10	**Total Revenues and Transfers Available**	**3,821.0**	**3,735.3**	**0.2%**	**3,829.2**	**0.7%**	**3,856.9**	**3.4%**	**3,988.1**	**4.1%**	**4,152.3**	**3.7%**	**4,303.9**	**3.1%**	**4,438.2**
11															
12	**Non-Operating Budget Use of Revenues**														
13	Debt Service	264.0	264.0	11.9%	295.3	11.3%	328.6	8.3%	356.1	6.3%	378.5	4.6%	396.1	0.0%	396.1
14	PAYGO	-	-	n/a	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5
15	CIP Current Revenue	23.8	23.8	72.1%	40.9	40.3%	57.4	41.0%	81.0	3.9%	84.2	-24.7%	63.4	0.0%	63.4
16	Montgomery College Reserves		15.8		(11.8)	-100.7%	0.1	45.0%	0.1	2.4%	0.1	-4.0%	0.1	-37.1%	0.1
17	MNCPPC Reserves		4.3		0.1	83.1%	0.1	26.6%	0.2	-3.4%	0.2	10.2%	0.2	3.4%	0.2
18	Contribution to General Fund Undesignated Reserves	107.1	7.9	-18.9%	86.9	94.5%	4.8	-87.7%	0.6	-834.0%	5.5	30.2%	7.2	52.8%	11.0
19	Contribution to Revenue Stabilization Reserves	33.9	19.2	-41.4%	19.9	0.7%	20.0	3.4%	20.7	4.1%	21.6	3.7%	22.4	3.1%	23.1
20	Retiree Health Insurance Pre-Funding	-	-	n/a	83.6	22.7%	102.6	18.6%	121.7	14.9%	139.8	5.0%	146.8	3.4%	151.8
21	Set Aside for other uses (supplemental appropriations)	0.3	15.3	8916.1%	22.5	0.0%	22.5	0.0%	22.5	-11.3%	20.0	0.0%	20.0	0.0%	20.0
22	**Total Other Uses of Resources**	**429.1**	**350.2**	**32.8%**	**570.0**	**-0.2%**	**568.8**	**11.7%**	**635.4**	**7.4%**	**682.3**	**0.9%**	**688.5**	**1.4%**	**698.0**
23	**Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)**	**3,391.8**	**3,385.1**	**-3.9%**	**3,259.2**	**0.9%**	**3,288.2**	**2.0%**	**3,352.8**	**3.5%**	**3,470.0**	**4.2%**	**3,615.4**	**3.5%**	**3,740.2**
24															
25	**Agency Uses**														
26															
31	**Subtotal Agency Uses**	**3,391.8**	**3,385.1**	**-3.9%**	**3,259.2**	**0.9%**	**3,288.2**	**2.0%**	**3,352.8**	**3.5%**	**3,470.0**	**4.2%**	**3,615.4**	**3.5%**	**3,740.2**
32	**Total Uses**	**3,821.0**	**3,735.3**	**0.2%**	**3,829.2**	**0.7%**	**3,856.9**	**3:4%**	**3,988.1**	**4.1%**	**4,152.3**	**3.7%**	**4,303.9**	**3.1%**	**4,438.2**
33	**(Gap)/Available**	**0.000**	**0.000**		**0.000**		**0.000**		**0.000**		**0.000**		**0.000**		**0.000**

Notes:

1. **FY12-17 property tax revenues are at the Charter Limit assuming a tax credit. All other tax revenues at current rates except as noted below.**
2. **Revenues reflect Energy Tax and Wireless Telephone Tax increases approved by the County Council on May 27, 2010. Energy Tax increase sunsets at the end of FY12.**
3. **PAYGO restored to policy level of 10% of planned GO Bond borrowing in FY12-17. See Row 14 above.**
4. **FY11 Revenues reflect one year redirection of Recordation Tax Premium ($11 M.) and Recordation Tax for MCPS CIP and College IT ($5 M.).**
5. **Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12. See Row 20 above.**
6. **Projected FY12-17 rate of growth of Agency Uses constrained to balance the fiscal plan in FY12-17.**
7. **FY11 Reserves reflect restoration of reserves to current 6% (of tax supported resources) policy level. FY10 and FY11 reserves (see Rows 34-42 below) include all County and Outside Agency tax supported reserves.**
8. **FY12-17 Unrestricted General Fund Reserves are reduced in certain years to reflect compliance with Section 310 of the County Charter on maximum size of the general fund balance (shall not exceed 5% of prior year general fund revenues). Outside Agency reserves are excluded from these amounts and are displayed separately (see Rows 16 and 17 above).**
9. **FY12-17 Reserves reflect new reserve policy including increase in reserve levels and inclusion of capital projects and grant revenues as part of Adjusted Governmental Revenues.**

5

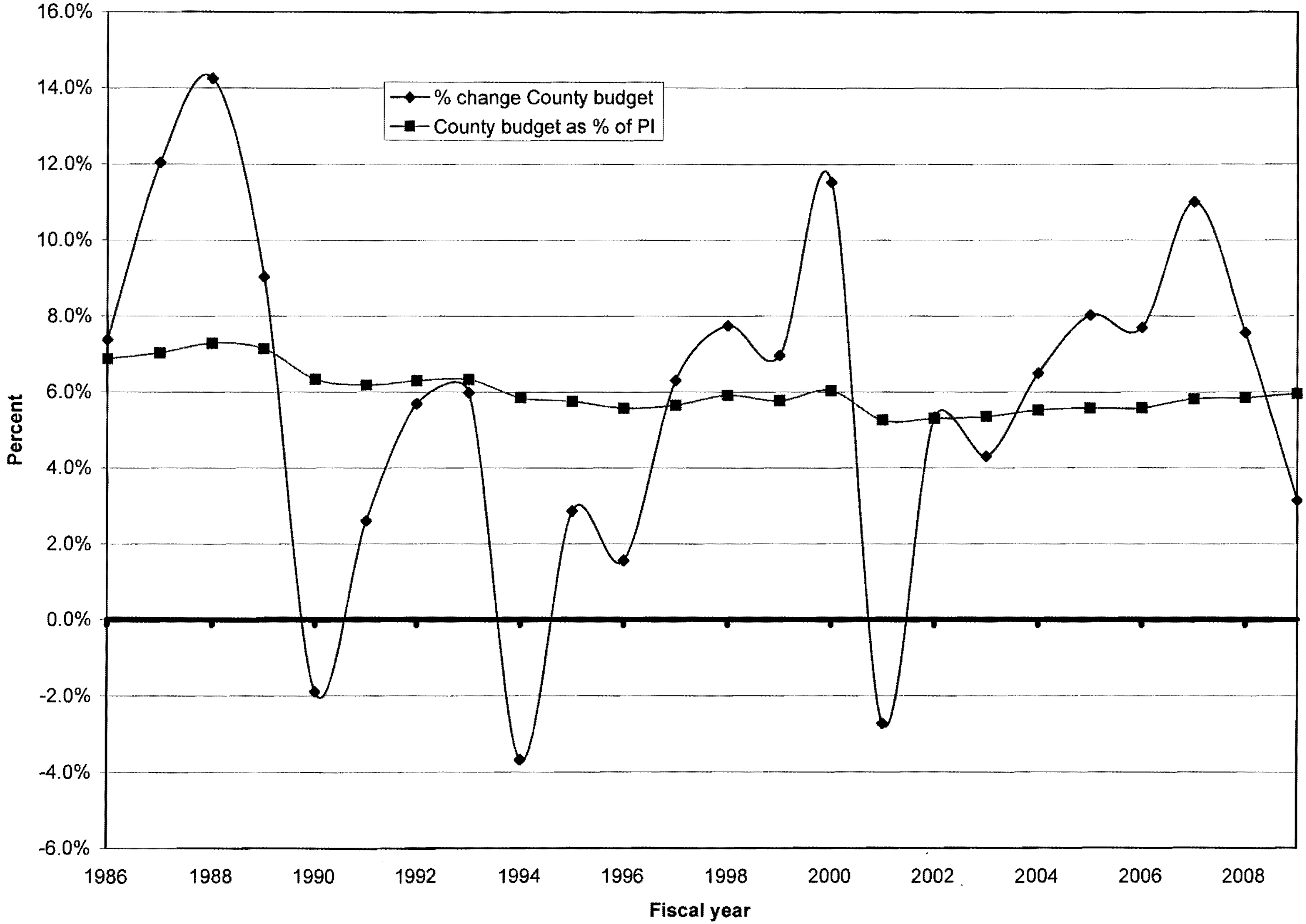
Fiscal Plan Update: December 2010

($ in Millions)

		App. FY11	Est. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17
34	**Beginning Reserves**														
35	**Unrestricted General Fund**	29.7	38.2	20.7%	46.1	188.4%	133.0	3.6%	137.8	0.4%	138.4	4.0%	144.0	5.0%	151.1
36	**Revenue Stabilization Fund**	60.4	74.9	25.6%	94.1	21.1%	114.0	17.6%	134.0	15.5%	154.7	13.9%	176.3	12.7%	198.7
37	**Total Reserves**	90.1	113.1	23.9%	140.2	76.2%	247.0	10.1%	271.8	7.8%	293.1	9.2%	320.3	9.2%	349.8
38															
39	**Additions to Reserves**														
40	**Unrestricted General Fund**	107.1	7.9	1000.6%	86.9	94.5%	4.8	-87.7%	0.6	-834.0%	5.5	30.2%	7.2	52.8%	11.0
41	**Revenue Stabilization Fund**	33.9	19.2	3.7%	19.9	0.7%	20.0	3.4%	20.7	4.1%	21.6	3.7%	22.4	3.1%	23.1
42	**Total Change in Reserves**	141.1	27.1	294.3%	106.8	-76.7%	24.8	-14.2%	21.3	27.1%	27.1	9.1%	29.6	15.2%	34.1
43															
44	**Ending Reserves**														
45	**Unrestricted General Fund**	136.8	46.1	188.4%	133.0	3.6%	137.8	0.4%	138.4	4.0%	144.0	5.0%	151.1	7.3%	162.1
46	**Revenue Stabilization Fund**	94.3	94.1	21.1%	114.0	17.6%	134.0	15.5%	154.7	13.9%	176.3	12.7%	198.7	11.6%	221.7
47		231.2	140.2	76.2%	247.0	10.1%	271.8	7.8%	293.1	9.2%	320.3	9.2%	349.8	9.7%	383.9
48	**Reserves as a % of Total Tax Supported Revenues Plus CIP & Operating Grant Revenues**	**6.0%**	**3.7%**		**6.4%**		**6.8%**		**7.1%**		**7.5%**		**7.9%**		8.4%
49	**Agency Reserves**														
50	**Montgomery College**	0.0	15.8	-74.9%	4.0	2.1%	4.0	3.1%	4.2	3.0%	4.3	2.8%	4.4	1.7%	4.5
51	**M-NCPPC**	0.0	4.3	1.7%	4.3	3.0%	4.5	3.7%	4.6	3.5%	4.8	3.7%	5.0	3.7%	5.1
	MCG + Agency Reserves as a % of Adjusted Govt Revenues		**4.2%**		**6.6%**		**7.0%**		**7.3%**		**7.7%**		**8.1%**		**8.6%**
52	**Retiree Health Insurance Pre-Funding**														
53	Montgomery County Public Schools (MCPS)	-	-		**53.2**		**64.8**		**76.4**		**87.7**		**92.1**		96.7
54	Montgomery College (MC)	-	-		**1.0**		**1.2**		**1.3**		**1.4**		**1.5**		1.5
55	MNCPPC (w/o Debt Service)	-	-		**4.4**		**5.1**		**5.6**		**6.1**		**6.4**		6.7
56	MCG	-	-		**25.0**		**31.5**		**38.4**		**44.6**		**46.8**		46.8
57	**Subtotal Retiree Health Insurance Pre-Funding**	-	-	-	83.6	-	102.6	-	121.7	-	139.8	-	146.8	-	151.8

6

PERCENT CHANGE IN COUNTY BUDGET & COUNTY BUDGET AS % OF PERSONAL INCOME



7

	A	B	C	D	E	F
1	FROM THE DECEMBER 2010 FISCAL PLAN UPDATE					
2	FY12 budget with/without a $300 million gap					
3						
4						
5	A. Non agency allocations	FY11 approved	FY12 with $300m gap	% change	FY12 no gap	% change
6	County Debt Service	$259.1	$290.8	12.2%	$290.8	12.2%
7	MNCPPC Debt Service	4.9	4.5	-8.2%	4.5	-8.2%
8	Current revenue, specific projects	23.8	40.9	71.8%	40.9	71.8%
9	Current revenue, PAYGO	0.0	32.5		32.5	
10	Retiree health insurance prefunding (OPEB)	0.0	83.6		83.6	
11	Subtotal, non-agency	287.8	452.3	57.2%	452.3	57.2%
12						
13	B. Agency allocations (including Coll tuition & tuition related charges)	3,391.8	3,559.2	4.9%	3,259.2	-3.9%
14	Total appropriations	3,679.6	4,011.5	9.0%	3,711.5	0.9%
15	Less College tuition & tuition related charges)	(76.7)	(80.6)	5.1%	(80.6)	5.1%
16	AOB	3,602.9	3,930.9	9.1%	3,630.9	0.8%

7A

Resolution No: ____________
Introduced: January 18, 2011
Adopted: ____________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council

Subject: Spending Affordability Guidelines for the FY12 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 1, 2011, 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 in $millions:

County Debt Service	$290.8
MNCPPC Debt Service	4.5
Current revenue, specific projects	34.6
Current revenue, PAYGO	32.0
Retiree health insurance prefunding	83.6
MCPS	1,863.9
Montgomery College	135.0
County Government	1,129.7
MNCPPC	90.0
Total = Aggregate Operating Budget	$3,664.1

Action

The County Council for Montgomery County approves the following resolution:

1. The spending affordability guidelines for the FY12 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:

County Debt Service	
MNCPPC Debt Service	
Current revenue, specific projects	
Current revenue, PAYGO	
Retiree health insurance prefunding	
MCPS	
Montgomery College	
County Government	
MNCPPC	
Total = Aggregate Operating Budget	

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2. The Council's intent is that $3.7 million of the County Government's allocation will be appropriated for Community Grants (this amount excludes Community Service Grants), with Executive-recommended Community Grants totaling $1.850 million and Council Community Grants totaling $1.850 million.

This is a correct copy of Council action.

____
Linda M. Lauer, Clerk of the Council

Addendum
GO #4
January 31, 2011

MEMORANDUM

January 28, 2011

TO: GO Committee

CHS

FROM: Charles H. Sherer, Legislative Analyst

SUBJECT: Spending Affordability Guidelines for the FY12 Operating Budget

Introduction After discussing the guidelines with Council members and with Council staff, I realized that more explanation is needed about the aggregate operating budget (AOB). Hopefully the following questions and answers will provide the necessary background.

What is the AOB? The AOB is a concept in §305 of the County Charter. It is 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. See ©1 for the AOB the Council approved on May 27, 2010 for FY11.

The components of the AOB are referred to as "tax-supported" budgets, as opposed to other components which are not funded by County taxes. The so-called "tax-supported" budgets are funded by taxes, of course, and by other sources of revenues, as shown in the table below. A summary of all budgets (tax and non-tax supported) the Council approved on May 27 is on ©2.

FY11 Revenue for the tax-supported budgets	$millions	% of Total Revenue
Property Tax	1,450.1	38.4%
Income Tax	1,060.7	28.1%
General State, Federal, Other Aid	614.3	16.3%
All Other Revenue	200.9	5.3%
Energy Tax	245.5	6.5%
Transfer Tax	75.7	2.0%
Recordation Tax	64.2	1.7%
Telephone Tax	48.4	1.3%
Hotel/motel Tax	17.4	0.5%
Admissions and Amusements Tax	2.0	0.1%
Total Revenue	3,779.2	100.0%

How does the AOB relate to the so-called Charter limit on property taxes? As the table above shows, property taxes are one part of County revenues. Neither the Charter nor County law limits the other revenues.

In addition to more or less defining AOB, what else does the Charter say about the AOB? In November 1990, the voters amended the Charter to add the provisions a) – c) below, effective with the FY92 budget (provision d) has been in the Charter for many years before 1990).

a) "The Council shall annually adopt spending affordability guidelines for the capital and operating budgets, including guidelines for the aggregate capital and aggregate operating budgets." Note that this is the answer to another question, why does the Council set guidelines.

b) "The Council shall by law establish the process and criteria for adopting spending affordability guidelines." The Council most recently amended the law on September 16, 2008 and the law is in article XI of the County Code (©3-5). **The County law, not the Charter, uses the word "ceiling":**

> The spending affordability guidelines for the operating budget must specify:
>
> (1) a ceiling on funding from ad valorem real property revenues; and
>
> (2) a ceiling on the aggregate operating budget.

c) "Any aggregate capital budget or aggregate operating budget that exceeds the guidelines then in effect requires the affirmative vote of seven Councilmembers for approval." In the 20 years starting in FY92, seven affirmative votes were required 12 times because the AOB exceeded the spending affordability guidelines then in effect.

d) 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." In the 20 years starting in FY92, six affirmative votes were required 15 times because the AOB increased more than inflation.

The history of the AOB is on ©6-7.

What was the purpose of the Charter amendment regarding the AOB? The purpose was to limit spending, by provision c) above. As can be seen, the limit is weak, compared to a more restrictive limit of, for example, prohibiting the AOB from increasing more than inflation, or more than inflation plus population growth.

What is the relevance of the ceiling on the AOB, which the Council sets in February? In Council staff's view, the relevance of the ceiling on the AOB is that seven Councilmembers must approve the AOB by resolution in May if the AOB exceeds the February ceiling. If the Council sets a relatively low ceiling in February, then seven affirmative votes are more likely to be required in May than if the Council sets a relatively high ceiling in February.

The Council must set guidelines to comply with the Charter and with County law. The actual budgets will be determined during the Council's budget process, starting in early April and ending in late May. The actual budgets will no doubt differ from the guidelines the Council sets on February 8. There is no need nor legal requirement that the Council accurately predict in February what the AOB will be in May.

In setting the ceiling on the AOB, 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 on the amount the Council will approve in May based on how much the Council thinks in February the County's residents can afford in the following fiscal year. When the Council approves the budgets in May, seven affirmative votes are required to exceed whatever ceiling the Council sets.

How does the Council decide how much spending, as measured by the AOB, the County residents can afford? Council staff does not know of any objective method of determining the affordability ceiling. Whatever AOB the Council sets will be easily affordable by some residents and not affordable for others. The Council has discretion to set the AOB at whatever amount it wants, but the ceiling should be reasonable and have some rational basis.

For all budgets through FY09, the Council set the guidelines in the fall and then had the option of amending them in the spring. The Council based the guidelines on projected revenues at current tax rates, deducted the target reserve, say 6%, and then the AOB was whatever was left.

Various observers of the process noted that this was not totally logical, because **there is no way to know that residents can afford taxes at current rates.**

In 2008, when the Council was considering amending the SAG law, OMB Director Joe Beach suggested the following:

> "Also, I believe we at least need to discuss whether the basis for calculating affordability should change from available resources to a different standard. For instance Baltimore County uses growth in personal income calculated against the previous year's budget. A link to the FY08 report for Baltimore County is below. This would admittedly be a less flexible standard than we have now, but if we want a stronger relationship between the local community's capacity to pay for services and budgeted expenditures this may be an approach we want to consider."

Federal Bureau of Economic Analysis definition of personal income. Income received by persons from all sources. It includes income received from participation in production as well as from government and business transfer payments. It is the sum of compensation of employees (received), supplements to wages and salaries, proprietors' income with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj), rental income of persons with CCAdj, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance.

Personal income is a comprehensive measure of the income of all persons from all sources. In addition to wages and salaries, it includes employer-provided health insurance, dividends and interest income, social security benefits, and other types of income.

Council staff suggestion in 2008 for FY10. Based on the Committee discussion on June 30, 2008 and on the recommendation from Mr. Beach and from Mr. Firestine in prior years, Council staff suggested that the Council base its spending affordability guidelines on some % of PI, rather than on the method of using projected resources, for several reasons.

1. PI is a better measure of affordability than projected resources. In fact, projected resources is not in any way a measure of affordability. Saying that the County residents can afford to spend, for example, 6% of their PI for County services seems more sensible than saying they can afford to pay whatever resources result from current rates. There is no way to know whether they can afford current rates or not.

2. The PI approach eliminates the Council's dependence on resource projections from the Executive branch, which will not be final even by late January or early February. If projected resources increase between late January or early February and early March, then the Council's guidelines will be too low, as they have been in the past.

3. On the other hand, if the Executive's resource estimates in his March budget are the same as the late January or early February estimates, then the Council guideline would be the same as the Executive's, so what is the point of the Council's process?

Council staff suggested that a better measure of affordability would be County spending as a % of the residents' personal income. On January 27, 2009, the Council agreed to use for FY10 a new method for calculating the ceiling on the aggregate operating budget, in which the FY10 ceiling was 5.9% of estimated personal income. This 5.9% was based on an analysis of previous budgets as a % of PI and seemed to be a reasonable % of residents' PI to use for the County's operating budget. The residents can then use the remainder of their income for savings and for spending on other items, such as food, shelter, clothing, medical care, recreation, State taxes, and Federal taxes.

The Council stated that it may revise this % in future years. With the old method, the ceiling was approximately 94% of projected resources.

The 5.9% ceiling permitted a 4.7% increase from the actual FY09 AOB to the FY10 ceiling, which the Council knew at the time was more than the Council would be able to approve in May, based on projected revenues. The Council could have approved a lower ceiling, such as permitting no increase, based on the assessment of the likely direction of personal income. On the other hand, if the Federal stimulus package were to pass, perhaps personal income and available revenues would permit some growth. As it turned out, the package passed.

As shown on ©6, the May AOB was $140 million less than the February ceiling. In Council staff's view, the new method worked well for FY10.

FY11 However, the 5.9% method for FY11 would have resulted in an increase in the AOB of 4.9%, which at that time seemed way too high. Instead, the Council set the ceiling on the AOB at the same amount as the Council approved for FY10 (zero % increase). Even the 0% increase was higher than the AOB the Council approved in May 2010 for FY11, which was $206 million less than the ceiling.

FY12 The 5.9% method would result in an increase in the AOB of 16.0%, which is clearly not affordable for the residents. Council staff then suggested three other options, as explained in the memorandum for this item:

Option 2: The AOB increases at the same % from FY11 to FY12 as Finance estimates that Personal Income will grow. The AOB would increase 4.7%.

Option 3: The AOB is the same as in the December 2010 update of the fiscal plan, which would increase 0.8%. (The fiscal plan does not include a calculation of the AOB, but the fiscal plan does include most of the numbers needed to calculate the AOB.)

Option 4: AOB increases at estimated inflation in the calendar year ending December 2010, 1.7%.

Why does the Council allocate the AOB among the individual/separate budgets shown on ©1?
This requirement is not in the Charter, but is in the County law. As explained above, the Charter amendment instructed the Council as follows: "The Council shall by law establish the process and

criteria for adopting spending affordability guidelines." As permitted by this provision of the Charter, the Council approved the following:

> **Sec. 20-63. Recommended Budget Allocations.** For each fund or budget included in the aggregate operating budget, in the resolution adopted under Section 20-60(c)(1) the Council must adopt separate budget allocations for County government, the Board of Education, Montgomery College, and the Maryland-National Capital Park and Planning Commission, and for debt service and current revenue funding of capital projects.

The Council's rationale for making these allocations was to give the agencies guidance as to how much the Council thought the County's residents could afford for each agency, and the agencies would take the allocations into account in preparing their budgets. In practice, this did not work well when the Council set guidelines in December (and could revise them in April) because the allocations were based on revenues estimated by the Executive branch that turned out to be much lower than they estimated in the Executive's March 15 budget. The agencies were understandably reluctant to prepare budgets with employee layoffs that turned out to be unnecessary when revenue estimates increased.

With the new process, the Council now sets the guidelines in February and does not revise them. By February, the outside agencies have already prepared their budgets, so the Council's allocations are too late for them to consider, even if they thought the guidelines were realistic. Alternative methods of calculating the allocations are in the memorandum for this discussion.

The FY 2011 aggregate operating budget excludes enterprise funds, specific grants, and tuition and tuition-related charges at the College, and it is calculated as follows.

Fund or District	Appropriation
General Fund	$ 842,911,520
Fire District	182,148,330
Economic Development Fund	852,440
Mass Transit	104,309,460
Recreation District	25,896,670
Urban Districts	7,437,830
MCPS	1,919,842,746
Montgomery College	215,774,676
MNCPPC:	
Administration Fund	23,603,090
Park Fund	69,050,080
Debt service on County bonds	259,091,380
Debt service on Park bonds	4,939,500
Current revenue for the Capital Budget	23,786,000
Current Revenue for PAYGO	0
Total Appropriations	3,679,643,722
Less College Tuition and Tuition-Related Charges	(76,748,807)
AGGREGATE OPERATING BUDGET	**3,602,894,915**
SUMMARY:	
MCPS	1,919,842,746
College, Total	215,774,676
Less College Tuition & Tuition-Related Charges	(76,748,807)
College, Net	139,025,869
County Government	1,163,556,250
MNCPPC	92,653,170
Debt service on County bonds and Park bonds	264,030,880
Total Current Revenue for Capital Budget	23,786,000
Total Appropriations	3,679,643,722
Less College Tuition and Tuition-Related Charges	(76,748,807)
AGGREGATE OPERATING BUDGET	**3,602,894,915**
Aggregate operating budget, prior year	3,808,876,263
$ increase	(205,981,348)
% change	-5.4%

1

	A	B	C	D	E	F	G
1	**BUDGETS APPROVED BY THE COUNCIL ON MAY 27, 2010**						
2							
3					Change FY10-11		Council -
4		FY10 Approved	FY11 Executive	FY11 Council	Executive	Council	Executive
5	**AMOUNTS**						
6	I. Aggregate operating budget as defined in the Charter: tax supported budgets funded with current revenue						
7	Operating budget only	3,846,901,206	3,658,944,686	3,655,857,722	(187,956,520)	(191,043,484)	(3,086,964)
8	Current revenue for the CIP	32,060,000	26,799,000	23,786,000	(5,261,000)	(8,274,000)	(3,013,000)
9	Total	3,878,961,206	3,685,743,686	3,679,643,722	(193,217,520)	(199,317,484)	(6,099,964)
10	Less College tuition	(70,084,943)	(76,748,807)	(76,748,807)	(6,663,864)	(6,663,864)	0
11	AOB	3,808,876,263	3,608,994,879	3,602,894,915	(199,881,384)	(205,981,348)	(6,099,964)
12							
13	II. Total operating budget: excludes current revenue for the CIP						
14	Operating component from AOB above	3,846,901,206	3,658,944,686	3,655,857,722	(187,956,520)	(191,043,484)	(3,086,964)
15	Funds excluded from SAG	627,075,542	616,310,068	615,047,888	(10,765,474)	(12,027,654)	(1,262,180)
16	Total operating budget	4,473,976,748	4,275,254,754	4,270,905,610	(198,721,994)	(203,071,138)	(4,349,144)
17							
18	III. Total operating budget from II + current revenue for the CIP from I						
19	Grand Total	4,506,036,748	4,302,053,754	4,294,691,610	(203,982,994)	(211,345,138)	(7,362,144)
20							
21	**PERCENT CHANGES from FY09-10**						
22	I. Aggregate operating budget as defined in the Charter: tax supported budgets funded with current revenue						
23	Operating budget only				-4.9%	-5.0%	
24	Current revenue for the CIP				-16.4%	-25.8%	
25	Total appropriations				-5.0%	-5.1%	
26	AOB				-5.2%	-5.7%	
27							
28	II. Total operating budget: excludes current revenue for the CIP						
29	Operating component of AOB, from above				-4.9%	-5.0%	
30	Funds excluded from SAG				-1.7%	-1.9%	
31	Total operating budget				-4.4%	-4.5%	
32							
33	III. Total operating budget from II + current revenue for the CIP from I						
34	Grand Total				-4.5%	-4.7%	

Article XI. Spending Affordability-Operating Budgets.

Sec. 20-59. Definitions.

In this Article, the following terms have the meanings indicated:

(a) *"Operating budget"* means the total amount appropriated from current operating revenues for the ensuing fiscal year, including any current revenue funding for capital projects.

(b) *"Aggregate operating budget"* means the operating budget, minus any amounts appropriated for:

(1) enterprise funds;

(2) the Washington Suburban Sanitary Commission;

(3) expenditures equal to tuition and tuition-related charges estimated to be received by Montgomery College; and

(4) any grant which can only be spent for a specific purpose and which cannot be spent until receipt of the entire amount of revenue is assured from a source other than County government.

(c) *"Council"* means the County Council. (CY 1991 L.M.C., ch. 30, § 1; 1997 L.M.C., ch. 35, § 1; 1999 L.M.C., ch. 21, § 1; 2008 L.M.C., ch. 32, § 1.)

Sec. 20-60. Adoption of Guidelines.

(a) *General.* The Council must adopt spending affordability guidelines for the operating budget in accordance with this Article.

(b) *Content.* The spending affordability guidelines for the operating budget must specify:

(1) a ceiling on funding from ad valorem real property tax revenues; and

(2) a ceiling on the aggregate operating budget.

(c) *Procedures.*

(1) The Council must adopt spending affordability guidelines for the operating budget by resolution not later than the second Tuesday in February of each year.

(2) The Council must hold a public hearing before it adopts the guidelines under paragraph (1).

(3) The Council may delegate responsibility for monitoring relevant affordability indicators to the Council's standing committee with jurisdiction over spending affordability matters. (CY 1991

L.M.C., ch. 30, § 1; 1992 L.M.C., ch. 30, § 1; 1997 L.M.C., ch. 35, § 1; 1999 L.M.C., ch. 21, § 1; 2008 L.M.C., ch. 32, § 1.)

Editor's note—1999 L.M.C., ch. 5, § 1, states: "Notwithstanding any provision of Chapter 20 of the County Code to the contrary, including Section 20-60(c)(4) and Section 20-62, the County Council may increase the spending affordability guideline for the aggregate operating budget for fiscal year 2000 by more than 1% over any guideline previously adopted.

Sec. 20-61. Affordability Indicators.

(a) *Factors.* In adopting guidelines, the Council should consider, among other relevant factors, 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.

(b) *Advice.* To assist the Council in adopting guidelines, the Finance Director must each January, and at other times as necessary, consult with independent experts, who need not be County residents, from major sectors of the County economy. The experts should advise on trends in economic activity in the County and how activity in each sector of the economy may affect County revenues. The Director must report the experts' views, if any are received, to the Executive and Council. (CY 1991 L.M.C., ch. 30, § 1; 1997 L.M.C., ch. 35, § 1; 1999 L.M.C., ch. 21, § 1; 2008 L.M.C., ch. 32, § 1.)

Sec. 20-62. Approval of Aggregate Operating Budget.

Any aggregate operating budget that exceeds the ceiling on the aggregate operating budget adopted under Section 20-60(c) requires the affirmative vote of 7 Councilmembers for approval. (CY 1991 L.M.C., ch. 30, § 1; 1992 L.M.C., ch. 30, § 1; 1997 L.M.C., ch. 35, § 1; 2008 L.M.C., ch. 32, § 1.)

Editor's note—See County Attorney Opinion dated 10/30/91-A describing the additions to Charter § 305 by Question F as not conflicting with the TRIM amendment.

1999 L.M.C., ch. 5, § 1, states: "Notwithstanding any provision of Chapter 20 of the County Code to the contrary, including Section 20-60(c)(4) and Section 20-62, the County Council may increase the spending affordability guideline for the aggregate operating budget for fiscal year 2000 by more than 1% over any guideline previously adopted.

Sec. 20-63. Recommended Budget Allocations.

(a) *Applicability.* For each fund or budget included in the aggregate operating budget, in the resolution adopted under Section 20-60(c)(1) the Council must adopt separate budget allocations for County government, the Board of Education, Montgomery College, and the Maryland-National Capital Park and Planning Commission, and for debt service and current revenue funding of capital projects.

(b) *Expenditure Reductions.* If a budget submitted to the County Council exceeds a budget allocation adopted under subsection (a), the County Executive (for the County government budget) and the governing board of the agency that prepared the budget must recommend by March 31:

(1) prioritized expenditure reductions that would be necessary to comply with the adopted budget allocation; and

(2) a summary of the effect on the agency's program of the recommended prioritization.

(c) *Added Information.* If the Executive or an agency submits a proposed amendment to the operating budget to the Council after the Executive has submitted the annual budget, and the proposed amendment would cause the budget for County government or the agency to exceed the budget allocation adopted under subsection (a), the Executive or the respective agency must include with the amendment the information required in subsection (b). (CY 1991 L.M.C., ch. 30, § 1; 1992 L.M.C., ch. 30, § 1; 1997 L.M.C., ch. 35, § 1; 1999 L.M.C., ch. 21, § 1; 2008 L.M.C., ch. 32, § 1.)

	A	E	F	G	H	I	J	K	L	M
1	AGGREGATE OPERATING BUDGET									
2										
3										
4	FY	Winter SAG	Exec. May	Council May	% Change	Infl. thru prev. Nov.	Max. w/o six votes	Need 6 votes?	Need 7 votes?	Vote
5	91			1,497.8						
6	92	1,478.0	1,482.0	1,488.2	(0.6%)	6.1%	1,589.1	No	Yes	9-0
7	93	1,548.4	1,532.8	1,528.7	2.7%	3.0%	1,532.8	No	No	6-3
8	94	1,603.4		1,615.5	5.7%	3.0%	1,574.6	Yes	Yes	9-0
9	95 A	1,678.8	1,734.9	1,712.7	6.0%	2.7%	1,659.1	Yes	Yes	9-0
10	Charter amendment in Nov. 1994 excluded specific grants for all agencies, and tuition and tuition-related									
11	charges at the College, starting in FY 96.									
12	95 B			1,622.5		2.7%				
13	96	1,676.3	1,665.3	1,668.1	2.8%	1.4%	1,645.2	Yes	No	9-0
14	97	1,700.3	1,694.6	1,693.2	1.5%	1.4%	1,691.5	Yes	No	9-0
15	98	1,789.8	1,805.5	1,803.3	6.5%	3.9%	1,759.2	Yes	Yes	9-0
16	99	1,905.4	1,928.0	1,941.3	7.7%	0.4%	1,810.5	Yes	Yes	7-1
17	00	2,095.1	2,079.7	2,077.1	7.0%	1.3%	1,966.5	Yes	No	9-0
18	01A	2,317.0	2,305.6	2,316.0	11.5%	2.0%	2,118.6	Yes	No	9-0
19	01B			2,251.7						
20	02	2,368.9	2,368.0	2,372.3	5.4%	3.2%	2,323.8	Yes	Yes	9-0
21	03	2,440.7	2,447.7	2,471.2	4.2%	2.6%	2,438.6	Yes	Yes	9-0
22	04	2,493.7	2,602.3	2,629.3	6.4%	2.4%	2,530.5	Yes	Yes	9-0
23	05	2,816.7	2,823.2	2,842.7	8.1%	2.8%	2,702.9	Yes	Yes	8-1
24	06	2,947.9	3,117.0	3,061.5	7.7%	2.8%	2,922.3	Yes	Yes	9-0
25	07	3,412.2	3,388.7	3,402.4	11.1%	4.0%	3,184.0	Yes	No	9-0
26	08	3,656.1	3,654.0	3,661.0	7.6%	3.6%	3,524.9	Yes	Yes	9-0
27	09	3,622.1	3,777.6	3,772.0	3.0%	3.6%	3,792.8	No	Yes	8-0
28	10A		3,766.4	3,729.4	(1.1%)	4.5%	3,825.7			
29	10B	3,948.5	3,845.9	3,808.9	1.0%	4.5%	3,941.7	No	No	8-1
30	11A	3,808.9	3,609.0	3,602.9	(3.4%)	0.2%	3,736.9			
31	11B	3,808.9	3,609.0	3,602.9	(5.4%)	0.2%	3,816.5	No	No	7 - 2
32	Number Yes							15	12	
33	Number No							5	8	

At least 6 affirmative votes are needed to approve a budget that exceeds the previous years budget by more than inflation, as measured by the CPI for all urban consumers in the Washington area for the 12 month period ending in November of the year before the fiscal year starts.

At least 7 affirmative votes are needed to approve a budget that exceeds the SAG then in effect.

FY 01: State aid that goes directly to WMATA no longer included, $64.267 million in FY 01. Datain FY 01A includes this aid and the data in FY 01B excludes this aid.

In September 2008, the Council amended the law. Starting with the FY10 budget, the Council sets the guidelines in February and does not revise them.

10A excludes the double appropriation of $79,537,322 for MCPS debt service. 10B includes it.

11A compares FY11 to FY10A. 11BA compares FY11 to FY10B.