

GO COMMITTEE #3
June 27, 2011

MEMORANDUM

June 23, 2011

TO: Government Operations and Fiscal Policy Committee

FROM: Stephen B. Farber, Council Staff Director *SBF*

SUBJECT: Resolution to Approve the Tax Supported Fiscal Plan Summary for the FY12-17 Public Services Program

Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*

On June 29, 2010 the Council approved a policy regarding reserves and other fiscal matters in Resolution No. 16-1415. Action clause 5 states: *The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.* On June 29, 2010 the Council also approved the Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program in Resolution No. 16-1416.

On June 21, 2011 the Council introduced a resolution to approve the Tax Supported Fiscal Plan Summary for the FY12-17 Public Services Program. See the resolution on ©1-4. Following the Committee's review on June 27, the Council is scheduled to act on June 28.

The resolution reflects current information on projected revenues and non-agency expenditures for the six-year period, which must be updated as conditions change. It also reflects specific fiscal assumptions, listed in the summary on ©3, that are important goals for inclusion in future budgets.

These assumptions represent sound County fiscal policies that should be adhered to in each year's budget. But in FY09, FY10, and FY11, as fiscal conditions steadily worsened, one or more of the following fiscal policy assumptions were temporarily waived: property tax revenue not to exceed the Charter limit, PAYGO at 10% of planned general obligation bond borrowing, use of recordation tax revenues, retiree health insurance pre-funding at the scheduled level, and reserves at the policy level.

The goal is to adhere to these and all other County policies in future years, but the Council will make actual decisions year by year.¹ **The summary of the Council's decisions in the FY12 operating budget on ©5 shows the Council's strong adherence to County fiscal policies despite the continuing impact of the deep recession.**

The FY12-17 Tax Supported Fiscal Plan Summary, like all versions of the fiscal plan, is a snapshot in time that reflects current fiscal projections and policy assumptions. The one certainty from past experience is that as conditions change, future versions of the plan will change as well. What this version shows – as Row 23 on ©3 makes clear – is what we already know intuitively: that absent a far more robust economic recovery than has occurred to date, strict adherence to the County's fiscal policies will sharply limit the resources available to allocate to the agencies in FY13 and beyond.²

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¹ In other words, the fiscal plan is an important guide but not a rigid blueprint, or what former Councilmember and County Executive Neal Potter called a Procrustean bed (named for Procrustes, the highwayman in Greek mythology who forcibly adjusted travelers of different heights to the length of his iron bed). Rather, as Sgt. Martens of Internal Affairs said on *NYPD Blue*, "Everything is a situation."

² Row 23 on ©3 shows that based on current fiscal projections and policy assumptions, resources available to allocate to the agencies in FY13-17 will change by -2.7%, +2.2%, +3.4%, +4.8%, and +3.6%, respectively. The decline in FY13 is caused by the projected sunset of the energy tax increase approved for FY11-12.

Resolution No.: _____
Introduced: June 21, 2011
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: Government Operations and Fiscal Policy Committee

SUBJECT: Approval of the County's Tax Supported Fiscal Plan Summary for the FY12-17 Public Services Program

Background

1. Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*
2. Over the last two decades the Council's Government Operations and Fiscal Policy Committee (known until December 2010 as the Management and Fiscal Policy Committee) has collaborated with the Office of Management and Budget and the Department of Finance to develop and refine County fiscal projections. The result has been continuous improvement in how best to display such factors as economic and demographic assumptions, individual agency funds, major known commitments, illustrative expenditure pressures, gaps between projected revenues and expenditures, and productivity improvements. This work has also increased the County's ability to harmonize the fiscal planning methodologies of the four tax supported agencies. Each version of the fiscal projections, or six-year fiscal plan, is a snapshot in time that reflects the best estimate of future revenues and expenditures as of that moment, as well as a specific set of fiscal policy assumptions.
3. On June 29, 2010 the Council approved a policy regarding reserves and other fiscal matters in Resolution No. 16-1415. Action clause 5 states: *The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.*
4. On June 29, 2010 the Council approved the Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program in Resolution No. 16-1416.

5. The Council introduced the Tax Supported Fiscal Plan Summary for the FY12-17 Public Services Program on June 21, 2011. The Government Operations and Fiscal Policy Committee reviewed the Plan Summary on June 27, 2011.

Action

The County Council for Montgomery County, Maryland approves the Tax Supported Fiscal Plan Summary for the FY12-17 Public Services Program, as outlined on the attached pages. This summary reflects:

- (1) current information on projected revenues and non-agency expenditures for the six-year period, which must be updated as conditions change. To keep abreast of changed conditions the Council regularly reviews reports on economic indicators and revenue estimates prepared by the Finance Department.
- (2) the policy on expanded County reserves established in Resolution No. 16-1415 and the amendments to the Revenue Stabilization Fund law in Bill 36-10, both of which the Council approved on June 29, 2010.
- (3) other specific fiscal assumptions, listed in the summary, that are important goals for inclusion in future budgets.

This is a correct copy of Council action.

Linda Lauer, Clerk of the Council

Approved FY12-17 Public Services Program

Tax Supported Fiscal Plan Summary

(\$ in Millions)

	App. FY11	Est FY11	% Chg. FY11-12 App/Bud	App. 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	5-26-11		5-26-11										
Total Revenues														
1 Property Tax (less PDs)	1,450.1	1,430.0	0.8%	1,462.2	2.5%	1,498.6	3.4%	1,549.7	3.3%	1,601.5	3.6%	1,659.3	4.1%	1,727.6
2 Income Tax	1,060.7	1,043.7	5.3%	1,117.2	6.4%	1,188.6	5.0%	1,248.0	7.2%	1,337.6	6.7%	1,427.5	5.0%	1,498.7
3 Transfer/Recordation Tax	139.9	134.8	2.6%	143.5	4.5%	150.0	7.9%	161.8	-1.2%	159.8	6.6%	170.3	1.4%	172.7
4 Investment Income	3.6	0.7	-55.9%	1.6	69.4%	2.7	92.0%	5.2	37.3%	7.2	22.1%	8.8	17.8%	10.3
5 Other Taxes	313.2	316.4	3.8%	325.3	-33.4%	216.8	2.9%	223.2	2.6%	229.0	2.3%	234.3	2.8%	240.9
6 Other Revenues	811.6	754.7	3.8%	842.2	0.4%	845.9	0.5%	850.1	0.5%	854.6	0.6%	859.5	0.6%	864.8
Total Revenues	3,779.2	3,680.3	3.0%	3,892.1	0.3%	3,902.6	3.5%	4,038.0	3.8%	4,189.6	4.1%	4,359.8	3.6%	4,514.9
8														
9 Net Transfers In (Out)	41.7	48.9	-1.1%	41.3	2.7%	42.4	3.0%	43.7	3.2%	45.1	3.4%	46.6	3.6%	48.3
10 Total Revenues and Transfers Available	3,821.0	3,729.2	2.9%	3,933.4	0.3%	3,945.0	3.5%	4,081.7	3.7%	4,234.7	4.1%	4,406.3	3.6%	4,563.2
11														
Non-Operating Budget Use of Revenues														
13 Debt Service	264.0	263.8	12.2%	296.2	8.4%	321.0	6.9%	343.3	5.7%	362.9	6.0%	384.5	5.2%	404.6
14 PAYGO	-	-	n/a	31.0	4.8%	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5
15 CIP Current Revenue	23.8	25.5	47.2%	35.0	69.0%	59.2	36.9%	81.0	0.9%	81.7	-21.0%	64.6	0.0%	64.6
16 Montgomery College Reserves	15.9	(9.0)		(9.0)	-67.2%	(2.9)	-102.4%	0.1	9.2%	0.1	9.0%	0.1	8.7%	0.1
17 MNCPPC Reserves	5.3	(1.5)		(1.5)	-105.9%	0.1	49.5%	0.1	1.7%	0.1	10.5%	0.2	15.6%	0.2
18 Contribution to General Fund Undesignated Reserves	107.1	20.8	-32.5%	72.3	-98.3%	1.2	-112.6%	(0.2)	3919.7%	5.8	13.5%	6.6	81.1%	12.0
19 Contribution to Revenue Stabilization Reserves	33.9	19.2	-39.8%	20.4	2.7%	21.0	7.3%	22.5	6.9%	24.1	6.0%	25.5	4.6%	26.7
20 Retiree Health Insurance Pre-Funding	-	-	n/a	49.6	195.4%	146.6	11.3%	163.2	5.1%	171.5	-2.8%	166.8	-2.8%	162.0
21 Set Aside for other uses (supplemental appropriations)	0.3	0.3	-20.0%	0.2	10000.0%	20.2	0.0%	20.2	0.0%	20.2	0.0%	20.2	0.0%	20.2
22 Total Other Uses of Resources	429.1	350.7	15.2%	494.3	21.1%	698.8	10.7%	662.7	5.5%	699.0	0.3%	700.9	3.1%	722.8
23 Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)	3,391.8	3,378.5	1.4%	3,439.1	-2.7%	3,346.2	2.2%	3,419.0	3.4%	3,535.7	4.8%	3,705.4	3.6%	3,840.4
24														
25 Agency Uses														
26 Subtotal Agency Uses	3,391.8	3,378.5	1.4%	3,439.1	-2.7%	3,346.2	2.2%	3,419.0	3.4%	3,535.7	4.8%	3,705.4	3.6%	3,840.4
27 Total Uses	3,821.0	3,729.2	2.9%	3,933.4	0.3%	3,945.0	3.5%	4,081.7	3.7%	4,234.7	4.1%	4,406.3	3.6%	4,563.2
28 (Gap)/Available	0.0	0.0		0.000		0.000		0.000		0.000		0.000		0.000

Notes:

1. FY13-17 property tax revenues are at the Charter Limit assuming a tax credit. All other tax revenues at current rates except as noted below.
2. FY13 reduction in Other Taxes reflects scheduled sunset of the May 2010 Energy Tax increase.
3. PAYGO is programmed at policy level of 10% of planned GO Bond borrowing. See Row 14 above.
4. FY12 revenues reflect redirection of Recordation Tax Premium (\$8.3 million).
5. FY13-17 Retiree Health Insurance Pre-Funding is reflected according to updated 8-year phase-in schedule. See Row 20 above.
6. In FY12, the County Council appropriated a total of \$49.6 million for tax supported agency contributions related to Retiree Health Insurance Pre-Funding. This appropriation is reflected in Row 20 above. The sum of Rows 20 and 26 equal total FY12 tax supported operating budget appropriations.
7. Projected agency rate of growth is constrained to balance the fiscal plan in FY13-17.
8. Reserves are funded at policy levels including legally required contributions to the Revenue Stabilization Fund.
9. Unrestricted General Fund Reserve includes reserves of all County Government tax supported funds.

(W)

**MONTGOMERY COUNTY COUNCIL'S
FISCAL PROTECTION PACKAGE
May 19, 2011**

The Council took decisive actions to protect the County's AAA bond rating and create a sustainable budget going forward.

Council Action	Funding Level	
	FY11	FY12
Pre-fund Retiree Health (OPEB) for all agencies	\$0	\$49.8 million
Cash to replace bonds in CIP (PAYGO)	\$0	\$31.0 million
Create reserve fund for storm and snow removal	\$0	\$5.9 million
Total Funding	\$0	\$86.7 million

Other components of the Council's Fiscal Protection Package:

- **Control growth in compensation costs.** Approved structural changes to employee benefits to save \$33 million in FY12 and \$273 million over the next six years.
- **Control growth in debt service costs.** Lowered annual bond issuance ceiling from the level set last year, \$325 million in FY11-16, to \$310 million in FY12 and \$320 million in FY13-16.
- **Fund future obligations.** Agreed to create a consolidated trust for retiree health benefit pre-funding across County agencies.
- **Strengthen County reserves.** Increased total fund reserves to 6.1% in FY12. The County's approved Fiscal Policy calls for gradually increasing reserve levels to 10% by 2020.