GO Committee #1
February 6, 2012
Worksession

MEMORANDUM

February 2, 2012

TO: Government Operations and Fiscal Policy Committee

FROM: Jacob Sesker, Senior Legislative Analyst JS

SUBJECT: Spending Affordability Guidelines for the FY13 Operating Budget

Introduction

A public hearing on the recommended guidelines was held on January 31, 2012. The Montgomery County Board of Education testified in support of the recommended guidelines (see © 16-19).

The deadline for the Council to adopt the guidelines is the second Tuesday in February, which this year falls on February 14. Council action is scheduled for February 14. The public hearing draft of the resolution is attached on © 13-15.

Under the County Charter and Code[1], the Council must set three spending affordability guidelines for the FY13 operating budget:

1. Ceiling on property tax revenues
2. Ceiling on the aggregate operating budget (AOB)
3. Allocation of that AOB

Under §20-61 of the Code, the Council should consider several factors when adopting its guidelines. Those factors are 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.

This memorandum includes a background discussion of each of the three spending affordability guidelines. Following that background discussion, the memorandum includes staff recommendations as well as alternatives/options for consideration in setting the spending affordability guidelines for the FY13 operating budget. Finally, this memorandum also addresses a related item, the overall spending targets for community grants. That portion of this memo was prepared by Peggy Fitzgerald-Bare, Council Grants Manager.

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[1] On November 6, 1990, voters amended the Charter to add to §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 §20-59 through §20-63 of the Code.

Background

1. The first spending affordability guideline is a ceiling on property tax revenue.

Under §305 of the Charter, nine affirmative votes are required to set the property tax rates in May/June if the amount of property tax revenue from existing real property exceeds the previous year's tax by more than the rate of inflation.[2] Note that it is the amount of property tax revenue, not the property tax rate, which cannot increase by more than the rate of inflation.

The "Charter limit" is the maximum amount of property tax revenue the Council can approve without requiring nine affirmative votes. The limit applies only to property tax revenue from 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 applies to revenue from taxes on real property only and does not apply to revenue from taxes on personal property.[3]

The Department of Finance calculates total property tax revenue at the Charter limit throughout the budget process. The components[4] in the calculation change to reflect new information, and as they do, the estimated Charter limit also changes. The Council approves the final calculation of the Charter limit when it sets the tax rates in May of each year.

2. The second spending affordability guideline is a ceiling on the aggregate operating budget.

The aggregate operating budget (AOB) is defined as total appropriation from current operating revenues for the next fiscal year, **including** current revenue funding for capital projects, but **excluding** appropriations made for the following: specific grants[5], enterprise funds, tuition and tuition-related charges at Montgomery College, and the Washington Suburban Sanitary Commission.

The components of the AOB are referred to as "tax supported" budgets, as opposed to the other components, which are not funded by County taxes. The so-called "tax supported" budgets are not funded exclusively by taxes; non-tax sources of funding for "tax supported" budgets include state and federal aid, interest income, and user fees.

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[2] In November 2008, voters increased the number of affirmative votes required from seven to nine. This change was effective with the FY10 budget. In the 21 years in which this Charter provision has been in effect, starting in FY92, seven affirmative votes were required four times: in FY03-05 and in FY09. Again, to exceed the Charter limit today would require nine affirmative votes.

[3] Personal property includes furniture, fixtures, office and industrial equipment, machinery, tools, supplies, inventory, and any other property not classified as real property.

[4] The components of the calculation are (1) the estimated property tax on existing real property during FY12, the current fiscal year, (2) estimated inflation in CY 2011, (3) the amount of new construction in FY12, and (4) the amount of personal property in FY12.

[5] Specific grants are grants for specific programs that will not be provided if the grants are not received.

Two restrictions on the aggregate operating budget are imposed under §305 of the Charter:

- "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[6], or any successor index, for the 12 months preceding December 1 of each year requires the affirmative vote of **six** Council members."[7]

- "Any aggregate operating budget that exceeds the spending affordability guidelines then in effect requires the affirmative vote of **seven** Council members for approval."[8]

In setting the ceiling on the AOB, the Council is trying to set a maximum 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.[9]

- The Council is **not** setting a target for the AOB.
- The Council is **not** trying to predict the total amount the agencies will request.
- The Council is **not** trying to predict the total amount the Executive will recommend.
- The Council is **not** trying to predict the total amount the Council will approve in May.

Neither the Charter nor the Code specify how to set the ceiling on the AOB. The Council has discretion to set the AOB, but the ceiling should be reasonable and have some rational basis.

Whatever AOB the Council sets will result in tax burdens that are more affordable for some residents and less affordable for others. The spirit of the spending affordability guidelines is to ensure that the tax burden on residents generally is affordable. As such, in the last three fiscal years, the Council has made an effort to base the guidelines on inflation and personal income of County residents rather than on projected revenues.

An additional problem is that "affordable" is a function of disposable income, not income. Personal income may increase in certain years, while disposable income increases less or even decreases. Nationwide, personal income (seasonally adjusted) in the 3rd quarter of CY11 was 4.2% higher than personal income in the 3rd quarter of CY10. However, disposable income increased only 2.9% during the same period. Disposable income, while conceptually superior to personal income, is impractical in application due to the lack of available County-level data.

[6] The U.S. Department of Labor Bureau of Labor Statistics (BLS) provides this data. The BLS calculates this index for every odd-numbered month, and the last index each calendar year is for November.

[7] In the 21 years starting in FY92, six affirmative votes were required 15 times because the AOB increased more than inflation.

[8] In the 21 years starting in FY92, seven affirmative votes were required 12 times because the AOB exceeded the spending affordability guidelines then in effect.

[9] 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 differ from the guidelines the Council sets in February.

3. The third spending affordability guideline is the allocation of the AOB among the following: debt service; current revenue funding for the capital budget; retiree health insurance pre-funding (OPEB); and operating expenses for MCPS, Montgomery College, County Government, and M-NCPPC.

The County Code requires the Council to make agency (and non-agency) allocations, but these allocations are not predictions of the actual budgets, which will be determined during the Council's budget process in April and May. It is through the budget process that the Council considers competing demands, establishes priorities, and allocates resources.

Spending Affordability Guidelines for the FY13 Operating Budget

1. The first guideline is a ceiling on property tax revenue.

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 assumed that FY12-16 property tax revenue will be set at the Charter Limit, assuming a tax credit. Neither the tax rate nor the tax credit amount is determined as a part of the Council's February spending affordability guideline actions. The resolution on © 12-14 includes the following 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." **Council staff recommends establishing the ceiling on property tax revenue at the Charter Limit, assuming a tax credit.**

2. The second guideline is a ceiling on the aggregate operating budget (AOB).

Council staff presents three options on © 1-3:

Option 1: The AOB increases (FY12 to FY13) in proportion to increases in Personal Income, based on Finance's estimates of Personal Income in CY11 and projected Personal Income for CY12. The AOB would increase 4.80%.

Option 2: The AOB increases 3.33%, the estimated rate of inflation for the calendar year ending December 2011.

Option 3: The AOB ceiling is established at the FY12 approved AOB.

Council staff recommends the first option. Note, however, that this would result in the Council establishing a ceiling on the AOB that is in excess of projected revenues. Last year, the Council chose to establish a ceiling on the AOB using inflation (Option 2). Both options are reasonable approaches.

3. The third spending affordability guideline is the allocation of the AOB among the following: debt service; current revenue funding for the capital budget; retiree health insurance pre-funding (OPEB); and operating expenses for MCPS, Montgomery College, County Government, and M-NCPPC.

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 should be based on the amount of debt currently outstanding and estimated to be issued, as shown in the December 2011 Fiscal Plan Update.**

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

> 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. **Council staff recommends $59.2 million, consistent with the December 2011 Fiscal Plan Update.**
>
> 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 for which the Council has decided to use current revenue to decrease the need for bonds. The substitution of current revenue for bonds helps protect the AAA bond rating by reducing the need for bonds and also decreases the operating budget for debt service. Resolution 16-1415 (Reserve and Selected Fiscal Policies) states the following: "The County should allocate...each fiscal year as PAYGO at least ten percent of the amount of general obligation bonds planned for issue that year." In setting the spending affordability guidelines for the FY13 capital budget, the Council established $295 million in GO bond borrowing as a guideline. **Council staff recommends $29.5 million, assuming that PAYGO will be at the 10% policy level.**

The Executive's recommendations were released on January 17 in his Recommended FY13 Capital Budget.

c) Retiree health insurance pre-funding (OPEB): Consistent with the December 2011 Fiscal Plan Update, OPEB is at the scheduled FY13 level, $146.6 million. That is the amount established for year six of the revised eight-year phase-in schedule. Total contributions in FY10-12 ($12 million, $0, and $49.6 million, respectively) were held down by budget pressures. **Council staff recommends allocating $146.6 million to OPEB, consistent with the December 2011 Fiscal Plan Update.**[10]

d) Agency Allocations (County Government, MCPS, Montgomery College, and M-NCPPC): The spending affordability guidelines are merely guidelines. Any agency requesting more than the Council's spending affordability guidelines must submit to the Council by March 31 prioritized expenditure reductions that would be necessary to comply with the adopted budget allocation and a summary of the effect on the agency's program of the recommended prioritization.

[10] Beginning in FY12, OPEB contributions for County government, Montgomery College, and MCPS were all included in the County Government portion of the AOB. For purposes of setting the Council's spending affordability guidelines, staff recommends treating all OPEB contributions (MCPS, Montgomery College, Montgomery County Government, and M-NCPPC) as non-agency allocations, similar to debt service.

Staff recommends allocations to MCPS and Montgomery College at maintenance of effort levels[11], including formula funding for state aid. Staff recommends allocating the remainder to County Government and M-NCPPC in proportion to their FY12 allocations.

One alternative, illustrated on © 2, is that the Council could make the recommended non-agency allocations and then allocate the remainder such that each agency's tax supported budget increases or decreases by the same percentage. This also would be a reasonable option for the Council.

The SAG allocations that the Council approves are not the final budgets that the Council will approve in May. At least three factors could change the allocations by the time the Council approves the budgets in May:

- Factor #1: Revenue estimates could be revised up or down from the December 2011 Fiscal Plan Update. For example, state aid might be reduced as a result of continuing state budget pressures, or energy tax revenues might continue at current levels due to a decision not to sunset the FY11-12 energy tax increase.

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

- Factor #3: After reviewing each agency request and considering the Council's priorities for the many and varied services the agencies provide, the Council may decide that different agencies should have a different percentage change from FY12, excluding OPEB.

Overall Spending Target for Community Grants (prepared by Council Grants Manager)

For the last 4 years, the Council has set an overall spending target for Community Grants as part of its actions to establish spending affordability guidelines for the operating budget. While the target is not binding, it assists the Council in budget planning. **For FY12, the target set by the Council was $3.7 million, split equally between the Council and Executive at $1.85 million each. In May 2011, the Council approved $1.5 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 $4.4 million.**

Does the Council wish to recommend an overall amount for Community Grants for Fiscal Year 2013 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?

[11] A "maintenance of effort" budget for MCPS will result in an increase (FY12-FY13) in the SAG allocation for MCPS, but could result in a decrease in SAG allocation for Montgomery College, depending upon the size of any increase in tuition revenues, which are not included in the calculation of the aggregate operating budget. Tuition revenues are projected to increase in FY13 due to an increase in enrollment and an increase in rate. It is possible that the Montgomery College budget could increase, even though the SAG allocation decreases.

Three options are presented:

Option #1. An overall target for Council and Executive Community Grants of $4.4 million would be the same overall level of funding for Community Grants as the Council approved last spring for the FY12 budget.

Staff recommends this option as the target spending level for Community Grants for FY13, with the amount split equally between the Council and Executive.

For the Committee's information, the County Executive has given the Department of Health and Human Services, the program area of most of the Community Grants, a 1% target budget reduction. Applying that same percentage target reduction to Community Grants would only reduce the target spending level for Community Grants by $44,000. To simplify setting the target for Community Grants, staff recommends the same overall target amount for Community Grants in FY13 as the Council actually approved for Community Grants in the FY12 budget.

An equal split of that amount between Council and Executive Grants for FY13 would be **$2.2 million for Council Grants and $2.2 million for Executive Grants,** an increase in Council grants from the amount approved for FY12 and a decrease in the amount recommended by the County Executive and approved by the Council in the FY12 budget.

Option #2. Alternatively, the Council could **set a separate target amount for both Council and Executive grants,** set at the amount approved in the FY12 budget ($1.5 million/Council and $2.9 million/Executive).

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

©	Item
1	Council staff's calculations
4	Montgomery College Maintenance of Effort Calculation
5	December 2011 Fiscal Plan Update
13	Resolution
16	Testimony of the Montgomery County Board of Education

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Council Staff Recommendations, Spending Affordability Guidelines, FY13 Operating Budget

- Option 1: AOB ceiling increases 4.80% (the rate of increase in personal income), MCPS and College budgets set at MOE
- Option 2: AOB ceiling increases 3.33%, the rate of inflation in CY11, MCPS and College budgets set at MOE
- Option 3: AOB ceiling remains at FY12 levels, MCPS and College budgets set at MOE

	A	B	C	D	E	F
1	**Table 1: Spending Affordability Guideline 2, Ceiling on the FY13 AOB, $millions**					
2	*FY12 Approved AOB*	*3,770.5*		Option 1	Option 2	Option 3
3	1. Finance's projected % increase in PI			+4.80%		
4	2. Inflation				+3.33%	
5	3. No change FY12 to FY 13					0.00%
6	**Ceiling on FY13 AOB**			**$3,951.6**	**$3,896.1**	**$3,770.5**
7	% change from FY12 Approved			+4.80%	+3.33%	0.00%
8						
9	**Table 2: Spending Affordability Guideline 3: Allocation of FY13 AOB, $millions**					
10		FY12 approved	% agency total	Option 1	Option 2	Option 3
11	**A. Non agency allocations**					
12	County Debt Service	$291.6		$315.0	$315.0	$315.0
13	MNCPPC Debt Service	4.7		6.0	6.0	6.0
14	Current revenue, specific projects	35.0		59.2	59.2	59.2
15	Current revenue, PAYGO	31.0		29.5	29.5	29.5
16	Retiree health insurance pre-funding (OPEB)					
17	OPEB for MCPS	20.0		78.3	78.3	78.3
18	OPEB for Mont. Coll.	1.0		2.4	2.4	2.4
19	OPEB for County Government	26.1		59.6	59.6	59.6
20	OPEB for MNCPPC	2.6		6.3	6.3	6.3
21	***Subtotal, non-agencies***	***412.0***		***556.3***	***556.3***	***556.3***
22						
23	**B. Agency allocations**					
24	MCPS	1,950.9	58.1%	1,997.0	1,997.0	1,997.0
25	College excl. expen. funded by tuition	137.5	4.1%	132.9	132.9	132.9
26	County Government	1,175.8	35.0%	1,171.4	1,120.0	1,003.8
27	MNCPPC	94.3	2.8%	94.0	89.8	80.5
28	***Subtotal, agencies***	***3,358.5***	***100%***	***3,395.3***	***3,339.8***	***3,214.2***
29	**Aggregate Operating Budget**	**3,770.5**		**3,951.6**	**3,896.1**	**3,770.5**
30						
31	**Table 3: Change in Agency Allocations, FY12 approved to FY13 recommended**					
32				Option 1	Option 2	Option 3
33	MCPS			2.36%	2.36%	2.36%
34	College excl. expen. funded by tuition			-3.33%	-3.33%	-3.33%
35	County Government			-0.37%	-4.74%	-14.63%
36	MNCPPC			-0.37%	-4.74%	-14.63%
37	***Total***			***1.10%***	***-0.56%***	***-4.30%***

Alternative, Spending Affordability Guidelines, FY13 Operating Budget

- Option 1: AOB ceiling increases 4.80% (the rate of increase in personal income), FY12 to FY13 changes in agency allocations are the same for each agency
- Option 2: AOB ceiling increases 3.33% (the rate of inflation in CY11), FY12 to FY13 changes in agency allocations are the same for each agency
- Option 3: AOB ceiling remains at FY12 levels, FY12 to FY13 changes in agency allocations are the same for each agency

A	B	C	D	E	F
Table 4: Spending Affordability Guideline 2, Ceiling on the FY13 AOB, $millions					
FY12 Approved AOB	*3,770.5*		Option 1	Option 2	Option 3
1. Finance's projected % increase in PI			+4.80%		
2. Inflation				+3.33%	
3. No change FY12 to FY 13					0.00%
Ceiling on FY13 AOB			**$3,951.6**	**$3,896.1**	**$3,770.5**
% change from FY12 Approved			+4.80%	+3.33%	0.00%

Table 5: Spending Affordability Guideline 3: Alternative Allocation of FY13 AOB, $millions					
	FY12 approved	% agency total	Option 1	Option 2	Option 3
A. Non agency allocations					
County Debt Service	$291.6		$315.0	$315.0	$315.0
MNCPPC Debt Service	4.7		6.0	6.0	6.0
Current revenue, specific projects	35.0		59.2	59.2	59.2
Current revenue, PAYGO	31.0		29.5	29.5	29.5
Retiree health insurance pre-funding (OPEB)					
OPEB for MCPS	20.0		78.3	78.3	78.3
OPEB for Mont. Coll.	1.0		2.4	2.4	2.4
OPEB for County Government	26.1		59.6	59.6	59,6
OPEB for MNCPPC	2.6		6.3	6.3	6.3
Subtotal, non-agencies	***412.0***		***556.3***	***556.3***	***556.3***
B. Agency allocations					
MCPS	1,950.9	58.1%	1,972.3	1,940.0	1,867.1
College excl. expen. funded by tuition	137.5	4.1%	139.0	136.7	131.6
County Government	1,175.8	35.0%	1,188.7	1,169.2	1,125.3
MNCPPC	94.3	2.8%	95.3	93.8	90.2
Subtotal, agencies	***3,358.5***	***100%***	***3,395.3***	***3,339.8***	***3,214.2***
Aggregate Operating Budget	**3,770.5**		**3,951.6**	**3,896.1**	**3,770.5**

Table 6: Alternative Change in Agency Allocations, FY12 approved to FY13 alternative				
		Option 1	Option 2	Option 3
MCPS		1.10%	-0.56%	-4.30%
College excl. expen. funded by tuition		1.10%	-0.56%	-4.30%
County Government		1.10%	-0.56%	-4.30%
MNCPPC		1.10%	-0.56%	-4.30%
Total		***1.10%***	***-0.56%***	***-4.30%***

Table 7: Total Personal Income (Department of Finance)				
Calendar Years	Updated (Jan. '12)		November '11	
2007	$62,640		$62,640	
2008	$64,810	3.5%	$64,810	3.5%
2009	$64,440	-0.6%	$64,440	-0.6%
2010	$66,730	3.6%	$66,940	3.9%
2011	$69,950	4.8%	$70,540	5.4%
2012	$73,310	4.8%	$73,720	4.5%
2013	$77,180	5.3%	$76,890	4.3%
2014	$81,560	5.7%	$81,390	5.9%
2015	$85,980	5.4%	$86,070	5.8%
2016	$90,090	4.8%	$89,690	4.2%
2017	$93,300	3.6%	$92,760	3.4%
2018	$96,300	3.2%	$96,220	3.7%

Table 8: Agency Allocations for FY12 and FY13 Options and Alternatives								
	FY12		Recommended			Alternative		
Agency	FY12 Allocation	FY12 % of agencies	Option 1 (AOB +4.80%)	Option 2 (AOB +3.33%)	Option 3 (AOB +/-0%)	Option 1 (AOB +4.80%)	Option 2 (AOB +3.33%)	Option 3 (AOB +/-0%)
MCPS	1,950.9	58.1%	58.8%	59.8%	62.1%	58.1%	58.1%	58.1%
College excl. expen. funded by tuition	137.5	4.1%	3.9%	4.0%	4.1%	4.1%	4.1%	4.1%
County Government	1,175.8	35.0%	34.5%	33.5%	31.2%	35.0%	35.0%	35.0%
MNCPPC	94.3	2.8%	2.8%	2.7%	2.5%	2.8%	2.8%	2.8%
Subtotal, agencies	***3,358.5***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***

Montgomery College
Maintenance of Effort
FY2013
(as of January 24, 2012)

	FY12 Budget	FY13 MOE
County	94,368,755	94,368,755
State	29,788,628	30,209,281
Tuition and related	80,464,800	85,462,717
Student fees	1,503,473	1,600,435
Fund Balance	7,828,465	4,205,151
FY10 Budget Savings Program	535,395	-
FY11 Budget Savings Program	490,260	490,260
All Other	1,275,000	1,300,000
Current Fund	216,254,776	217,636,599
other tax supported funds not in MOE:		
EMPRF - county funds	250,000	250,000
- use of fund balance	100,000	100,000
Adult ESOL Grant - county	400,000	400,000
Total tax supported	217,004,776	218,386,599
Less tuition and related	80,464,800	85,462,717
SAG allocation	136,539,976	132,923,882

OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Jennifer A. Hughes
Director

MEMORANDUM

December 5, 2011

TO: Stephen B. Farber, Staff Director, County Council

FROM: Jennifer A. Hughes, Director, Office of Management and Budget

SUBJECT: Fiscal Plan Update

Attached please find the updated fiscal plan and supporting documents. The only major change to the FY12-17 fiscal plan adopted by the County Council on June 28, 2011 is the incorporation of the Department of Finance's updated revenue forecast. Other assumptions in the fiscal plan, including year-end results, current year expenditure updates, and other non-agency spending have not been changed, but will be updated as more information becomes available.

The fiscal plan would require a 1.0 percent reduction in agency spending to be balanced in FY13. While this is an improvement compared to this point last year, the forecast still calls for a reduction in spending, which means the County will once again face a challenging fiscal environment with difficult choices ahead. I want to highlight a few aspects of this update:

1. **Revenues**: As detailed in the Department of Finance's December 2011 Revenue Update and Selected Economic Indicators report, income tax revenues have been revised upward by $184.5 million ($120.9 million in FY12 and $63.6 million in FY13). The estimated increase in income tax revenues results primarily from the more volatile component of the November income tax distribution related to extended filings, estimated payments, and reconciliations. The forecast for FY13 and beyond reflects the largely one-time nature of most of the increased November 2011 distribution. While income tax revenues have been revised upward, the Department of Finance has reduced its forecast for all other taxes by a total of $68.9 million, resulting in a net increase of $115.6 million ($79.2 million in FY12 and $36.4 million in FY13) above the estimate in the approved fiscal plan. The downward revision in all other taxes reflects continued economic sluggishness and the impact of the weak housing market on taxable assessments and other real estate related taxes. The revenue estimates do anticipate the sunset at the end of FY12 in the increase in the energy tax rates approved for FY11.

2. **Intergovernmental Aid**: State Aid assumptions will be updated after budget requests from Montgomery County Public Schools and Montgomery College are received and the Governor releases his budget in January 2012. However, given the State's projected $1 billion gap, the Governor's FY13 budget may include reductions to local aid. In addition, MCPS' FY12 Maintenance of Effort penalty of $26 million, which was deferred by the legislature to FY13, may still be imposed. Other changes to formulas and cost shifting may also be part of the State's plan to close its budget gap. The County may also be affected by cutbacks in Federal employment and procurement due to the $1.2 trillion automatic sequester scheduled to begin in January 2013. The updated fiscal plan does not reflect any of these potential adverse impacts.

3. **FY13 Expenditures**: While not included in the estimate of agency expenditures in the updated fiscal plan, FY13 expenditures are estimated to grow by $102.2 million or 3.0 percent in FY13. Attached is a chart of the "Major Known Commitments" that shows the projected cost increases by agency. Note the estimate assumes the continuation of a wage freeze. Each agency is in the midst of bargaining with its employee representatives so the fiscal plan does not reflect the potential outcome of these negotiations.

4. **Rate of Growth**: The impact of revised revenue estimates will require a 1.0 percent reduction in the size of agency operating budgets in FY13 to produce a balanced budget. Assuming the estimated increase in expenditures identified by each agency would equate to an imbalance of $135 million.

5. **Reserves**: Prior fiscal year results are not yet finalized. Because FY11 year-end reserves are still an estimate at this point, it is premature to draw any firm conclusions about the projected reserves displayed in the updated fiscal plan. The projection, however, reflects the impact of the revised revenue forecast, particularly the unanticipated FY12 income tax revenues. According to the Revenue Stabilization Fund law (MCC 20-68) adopted by the Council in June 2010, the mandatory contribution to the RSF must be the greater of 50 percent of excess revenues[1] or 0.5 percent of Adjusted Governmental Revenues[2]. Under this law, $54 million must be contributed to the RSF in FY12, which is nearly $34 million more than assumed in the budget. As a result, total reserves are projected to increase to 7.5 percent at the end of FY12. General Fund reserves in excess of the 5 percent Charter Limit[3] are projected to be drawn down during FY13, and total reserves are projected to increase to 9.5 percent by the end of FY18.

The fiscal plan update does not reflect decisions the Executive may consider as part of his budget recommendations in January and March. As noted above, there are many unknown factors that could significantly affect fiscal plan projections, including the Executive's choices regarding taxes, spending on the Capital Improvements Program, and other fiscal issues. These and other decisions will be incorporated into his recommendations later this winter and spring.

[1] Defined as the amount, if positive, by which total revenues from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund for the fiscal year exceed the original projections for these amounts.

[2] Defined as the tax supported revenues of the four County agencies, excluding the local contributions to MCPS and Montgomery College, plus revenues of the County Government's Grants and Capital Projects Funds.

[3] Section 310 of the County Charter limits the undesignated General Fund reserve to 5 percent of prior fiscal year General Fund revenues.

In summary, the uneven economic recovery, coupled with continued uncertainty regarding State and Federal revenues, argues for caution in the County's spending plans. Despite the greater projected FY12 income tax revenues, we expect only modest growth in the base income tax revenues. The decline in property and transfer and recordation tax revenue estimates, along with the loss of the energy tax revenues, buttresses the view that any income tax revenue increases should be viewed with caution.

JAH:aae

Attachments

c: Timothy L. Firestine, Chief Administrative Officer
Joseph F. Beach, Director, Department of Finance
Kathleen Boucher, Assistant Chief Administrative Officer

Fiscal Plan Update December 2011

Tax Supported Fiscal Plan Summary

($ in Millions)

		App. FY12	Estimate FY12	% Chg. FY12-13	% 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	% Chg. FY17-18	Projected FY18
		5-26-11		Rec/Bud	Rec/Est											
	Total Revenues															
1	Property Tax (less PDs)	1,462.2	1,444.7	2.0%	3.3%	1,492.2	3.0%	1,537.4	2.6%	1,576.9	3.4%	1,631.0	3.7%	1,692.1	3.0%	1,743.7
2	Income Tax	1,117.2	1,238.2	12.1%	1.1%	1,252.1	3.5%	1,296.2	6.4%	1,379.7	3.9%	1,433.8	3.6%	1,485.5	4.1%	1,547.1
3	Transfer/Recordation Tax	143.5	130.8	-2.9%	6.6%	139.4	6.1%	147.8	5.2%	155.5	8.0%	168.0	7.5%	180.7	5.4%	190.4
4	Investment Income	1.6	1.6	69.4%	69.4%	2.7	92.0%	5.2	37.3%	7.2	22.1%	8.8	17.8%	10.3	0.0%	10.3
5	Other Taxes	325.3	313.9	-36.5%	-34.2%	206.7	1.9%	210.7	2.1%	215.0	2.2%	219.7	1.9%	223.9	1.8%	227.9
6	Other Revenues	842.2	842.2	0.4%	0.4%	845.9	0.5%	850.1	0.5%	854.6	0.6%	859.5	0.6%	864.8	0.6%	870.2
7	**Total Revenues**	**3,892.1**	**3,971.4**	**1.2%**	**-0.8%**	**3,939.0**	**2.8%**	**4,047.5**	**3.5%**	**4,188.9**	**3.1%**	**4,320.8**	**3.2%**	**4,457.3**	**3.0%**	**4,589.6**
8																
9	**Net Transfers In (Out)**	**41.3**	**41.3**	**2.7%**	**2.7%**	**42.4**	**3.0%**	**43.7**	**3.2%**	**45.1**	**3.4%**	**46.6**	**3.6%**	**48.3**	**3.6%**	**50.0**
10	**Total Revenues and Transfers Available**	**3,933.4**	**4,012.7**	1.2%	-0.8%	**3,981.4**	2.8%	**4,091.2**	3.5%	**4,234.0**	3.2%	**4,367.3**	3.2%	**4,505.6**	3.0%	**4,639.6**
11																
12	**Non-Operating Budget Use of Revenues**															
13	Debt Service	296.2	296.2	8.4%	8.4%	321.0	6.9%	343.3	5.7%	362.9	6.0%	384.5	5.2%	404.6	0.0%	404.6
14	PAYGO	31.0	31.0	4.8%	4.8%	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	35.0	35.0	69.0%	69.0%	59.2	36.9%	81.0	0.9%	81.7	-21.0%	64.6	0.0%	64.6	0.0%	64.6
16	Change in Montgomery College Reserves	(9.0)	(9.0)	67.2%	67.2%	(2.9)	102.4%	0.1	9.2%	0.1	9.0%	0.1	8.7%	0.1	2.9%	0.1
17	Change in MNCPPC Reserves	(1.5)	(1.5)	105.6%	105.6%	0.1	41.9%	0.1	-11.5%	0.1	33.4%	0.1	10.8%	0.2	9.8%	0.2
18	Change in MCPS Reserves	(17.0)	(17.0)	100.0%	100.0%	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
19	Change in MCG Special Fund Reserves	22.8	22.8	-99.3%	-99.3%	0.2	-131.0%	(0.0)	286.6%	0.1	37.5%	0.1	-10.7%	0.1	3.7%	0.1
20	Contribution to General Fund Undesignated Reserves	66.4	96.8	-133.8%	-123.2%	(22.5)	89.1%	(2.4)	286.6%	4.6	37.5%	6.3	-10.7%	5.6	3.7%	5.8
21	Contribution to Revenue Stabilization Reserves	20.4	54.3	3.9%	-60.9%	21.2	6.5%	22.6	6.6%	24.1	5.2%	25.4	4.2%	26.4	2.6%	27.1
22	Retiree Health Insurance Pre-Funding	49.6	49.6	195.4%	195.4%	146.6	11.3%	163.2	5.1%	171.5	-2.8%	166.8	-2.8%	162.0	0.0%	162.0
23	Set Aside for other uses (supplemental appropriations)	0.2	15.2	10000.0%	32.9%	20.2	0.0%	20.2	0.0%	20.2	0.0%	20.2	0.0%	20.2	0.0%	20.2
24	**Total Other Uses of Resources**	**494.3**	**573.6**	**16.4%**	**0.3%**	**575.5**	**14.8%**	**660.5**	**5.7%**	**697.8**	**0.4%**	**700.6**	**2.2%**	**716.3**	**0.1%**	**717.2**
25	**Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)**	**3,439.1**	**3,439.1**	**-1.0%**	**-1.0%**	**3,405.9**	**0.7%**	**3,430.7**	**3.1%**	**3,536.2**	**3.7%**	**3,666.8**	**3.3%**	**3,789.3**	**3.5%**	**3,922.4**
26	**Agency Uses**	**3,439.1**	**3,439.1**	**-1.0%**	**-1.0%**	**3,405.9**	**0.7%**	**3,430.7**	**3.1%**	**3,536.2**	**3.7%**	**3,666.8**	**3.3%**	**3,789.3**	**3.5%**	**3,922.4**
27	**Total Uses**	**3,933.4**	**4,012.7**	**1.2%**	**-0.8%**	**3,981.4**	**2.8%**	**4,091.2**	**3.5%**	**4,234.0**	**3.2%**	**4,367.3**	**3.2%**	**4,505.6**	**3.0%**	**4,639.6**
28	**(Gap)/Available**	**0.000**	**0.000**			**0.000**		**0.000**		**0.000**		**0.000**		**0.000**		**0.000**

Assumptions:

1. Property taxes are at the Charter Limit using the Income tax offset credit.
2. May 2010 Energy Tax increase sunsets at the end of FY12.
3. Reserve contributions at the policy level and consistent with legal requirements.
4. PAYGO, Debt Service, and Current Revenue at the amended FY11-16 CIP.
5. Retiree health insurance pre-funding is programmed at the scheduled FY13 contribution level (year 6 of 8).
6. Wage freeze is assumed.
7. Requires 1.0 percent reduction in agency spending to balance.

Fiscal Plan Update December 2011

Tax Supported Fiscal Plan Summary

($ in Millions)

#		App. FY12	Est FY12	% Chg. FY12-13	% 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	% Chg. FY17-18	Projected FY18
29	**Beginning Reserves**															
30	**Unrestricted General Fund**	66.9	66.9	144.7%	144.7%	163.7	-13.7%	141.2	-1.7%	138.8	3.3%	143.3	4.4%	149.6	3.7%	155.2
31	**Revenue Stabilization Fund**	94.1	94.1	57.7%	57.7%	148.4	14.3%	169.6	13.3%	192.2	12.5%	216.3	11.7%	241.7	10.9%	268.1
32	**Total Reserves**	161.0	161.0	93.9%	93.9%	312.1	-0.4%	310.8	6.5%	331.0	8.7%	359.7	8.8%	391.3	8.2%	423.3
33																
34	**Additions to Reserves**															
35	**Unrestricted General Fund**	66.4	96.8	-133.8%	-123.2%	-22.5	89.1%	(2.4)	286.6%	4.6	37.5%	6.3	-10.7%	5.6	3.7%	5.8
36	**Revenue Stabilization Fund**	20.4	54.3	3.9%	-60.9%	21.2	6.5%	22.6	6.6%	24.1	5.2%	25.4	4.2%	26.4	2.6%	27.1
37	**Total Change in Reserves**	86.9	151.1	-101.4%	-100.8%	-1.3	1701.3%	20.2	42.1%	28.7	10.4%	31.6	1.3%	32.0	2.8%	32.9
38																
39	**Ending Reserves**															
40	**Unrestricted General Fund**	133.3	163.7	5.9%	-13.7%	141.2	-1.7%	138.8	3.3%	143.3	4.4%	149.6	3.7%	155.2	3.7%	161.0
41	**Revenue Stabilization Fund**	114.5	148.4	48.1%	14.3%	169.6	13.3%	192.2	12.5%	216.3	11.7%	241.7	10.9%	268.1	10.1%	295.2
42	**Total Reserves**	247.8	312.1	25.4%	-0.4%	310.8	6.5%	331.0	8.7%	359.7	8.8%	391.3	8.2%	423.3	7.8%	456.3
43	**Reserves as a % of Adjusted Governmental Revenues**	6.1%	7.5%			7.6%		7.8%		8.2%		8.7%		9.1%		9.5%
44	**Other Reserves**															
45	**Montgomery College**	7.0	7.0	-42.3%	-42.3%	4.0	1.8%	4.1	1.9%	4.2	2.0%	4.2	2.1%	4.3	2.2%	4.4
46	**M-NCPPC**	3.7	3.7	2.3%	2.3%	3.8	3.1%	3.9	2.7%	4.1	3.5%	4.2	3.7%	4.3	4.0%	4.5
47	**MCPS**	0.0	0.0	n/a	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
48	**MCG Special Funds**	2.6	2.6	5.9%	5.9%	2.7	-1.7%	2.7	3.3%	2.7	4.4%	2.9	3.7%	3.0	3.7%	3.1
49	**MCG + Agency Reserves as a % of Adjusted Govt Revenues**	6.5%	7.9%			7.8%		8.1%		8.5%		8.9%		9.4%		9.8%
50	**Retiree Health Insurance Pre-Funding**															
51	Montgomery County Public Schools (MCPS)	**20.0**	**20.0**			**78.3**		**90.6**		**101.4**		**98.0**		**94.2**		**94.2**
52	Montgomery College (MC)	**1.0**	**1.0**			**2.4**		**2.7**		**3.1**		**2.9**		**2.7**		**2.7**
53	MNCPPC	**2.6**	**2.6**			**6.3**		**7.1**		**7.7**		**7.2**		**6.8**		**6.8**
54	MCG	**26.1**	**26.1**			**59.6**		**62.8**		**59.4**		**58.7**		**58.4**		**58.4**
55	**Subtotal Retiree Health Insurance Pre-Funding**	**49.6**	**49.6**	-		**146.6**	-	**163.2**	-	**171.5**	-	**166.8**	-	**162.0**		**162.0**
56	**Adjusted Governmental Revenues**															
57	**Total Tax Supported Revenues**	**3,892.1**	**3,971.4**	1.2%	-0.8%	**3,939.0**	2.8%	**4,047.5**	3.5%	**4,188.9**	3.1%	**4,320.8**	3.2%	**4,457.3**	3.0%	**4,589.6**
58	**Capital Projects Fund**	**45.6**	**60.3**	33.8%	1.1%	**61.0**	-0.5%	**60.7**	4.9%	**63.7**	6.9%	**68.0**	-1.1%	**67.3**	0.0%	**67.3**
59	**Grants**	**108.9**	**108.9**	2.5%	2.5%	**111.6**	2.6%	**114.5**	2.8%	**117.8**	2.7%	**120.9**	2.7%	**124.2**	2.7%	**127.6**
60	**Total Adjusted Governmental Revenues**	**4,046.6**	**4,140.6**	1.6%	-0.7%	**4,111.6**	2.7%	**4,222.7**	3.5%	**4,370.3**	3.2%	**4,509.7**	3.1%	**4,648.8**	2.9%	**4,784.4**

	A	B	C	D	E	F
1	**Major Known Commitments (MKCs)**					
2						
3		**MCPS**	**MCG**	**College**	**MNCPPC**	**Total**
4	FY12 Approved Budget	1,950,909,291	1,222,908,680	218,004,776	96,904,080	3,488,726,827
5	Retiree Health Insurance Pre-Funding (OPEB)		47,075,000		2,559,850	49,634,850
6	Agency Budgets Net of OPEB	1,950,909,291	1,175,833,680	218,004,776	94,344,230	3,439,091,977
7						
8	Potential or Negotiated Compensation					
9	Wages					0
10	Steps/service increments					0
11	Other projected bargaining costs					0
12	Group insurance cost increases	13,241,554	6,251,960	1,305,380	1,715,975	22,514,869
13	Retirement cost increases	9,925,470	5,125,000	304,770	2,557,198	17,912,438
14	Other labor costs/2% RSP & GRIP	51,513	3,170,880			3,222,393
15	Annualization of Program Expenses		1,010,910	(67,329)		943,581
16	Cost increase due to enrollment	14,196,816		288,327		14,485,143
17	Elimination of One-Time Items		(10,814,380)			(10,814,380)
18	Restore Salary Reduction from Furloughs				858,539	858,539
19	Deferred Costs					
20	Restoration of prior year reductions		2,784,000			2,784,000
21	Deferred Vehicle Replacement		4,390,520			4,390,520
22	Operating Impact of Capital Projects:					
23	Facilities	1,809,642	2,713,300	258,867		4,781,809
24	Roads		98,750			98,750
25	Tech Mod and other Information Technology		5,819,650			5,819,650
26	Programmtic obligations:					
27	Election Cycle Changes		227,820			227,820
28	Arts & Humanities Council NDA		430,190			430,190
29	Community Grants: CIP Cost Sharing		425,000			425,000
30	Community Grants NDA		2,953,790			2,953,790
31	Leases		544,180			544,180
32	Working Families Income Supplement		685,200			685,200
33	County Attorney Disparity Study		600,000			600,000
34	EDF Commitments		7,767,150			7,767,150
35	Information Technology cost increases		1,108,040			1,108,040
36	HHS programs/grant replacements		1,246,290			1,246,290
37	Bikesharing Grant		409,000			409,000
38	Salary costs from expiration of ARRA funding		1,374,160			1,374,160

	A	B	C	D	E	F
3		**MCPS**	**MCG**	**College**	**MNCPPC**	**Total**
39	Classification and Compensation Audit		155,000			155,000
40	Other programmatic cost changes		3,147,670			3,147,670
41	Inflation:					
42	Service/Materials Contracts		1,335,070			1,335,070
43	Energy/utility costs	(3,003,749)	1,000,000	(517,371)	99,701	(2,421,419)
44	Fuel/rate increases	2,055,017	3,000,000			5,055,017
45	Nonpublic placements	727,880				727,880
46	Other	4,338,960		250,000		4,588,960
47	Other inescapable cost increases:					
48	Liability insurance, workers compensation	3,493,412	545,770	200,000	100,644	4,339,826
49	Maintenance, transportation, etc.	522,228				522,228
50						
51	Total Major Known Commitments	47,358,743	47,504,920	2,022,644	5,332,057	102,218,364
52						
53	**Total Projected FY13 Agency Spending**	**1,998,268,034**	**1,223,338,600**	**220,027,420**	**99,676,287**	**3,541,310,341**
54	% Change	2.4%	4.0%	0.9%	5.7%	3.0%

REVENUE SUMMARY
TAX SUPPORTED BUDGETS
($ Millions)

	A KEY REVENUE CATEGORIES	B App. FY12	C Estimate FY12	D % Chg. FY12-13	E %Chg FY12-13	F Projected FY13	G % Chg. FY13-14	H Projected FY14	I % Chg. FY14-15	J Projected FY15	K % Chg. FY15-16	L Projected FY16	M % Chg. FY16-17	N Projected FY17	O % Chg. FY17-18	P Projected FY18
	TAXES	5-26-11		Rec/Bud	Rec/Est											
1	Property Tax (less PDs)	1,462.2	1,444.7	2.0%	3.3%	1,492.2	3.0%	1,537.4	2.6%	1,576.9	3.4%	1,631.0	3.7%	1,692.1	3.0%	1,743.7
2	Income Tax	1,117.2	1,238.2	12.1%	1.1%	1,252.1	3.5%	1,296.2	6.4%	1,379.7	3.9%	1,433.8	3.6%	1,485.5	4.1%	1,547.1
3	Transfer Tax	83.3	77.9	3.6%	10.9%	86.4	7.1%	92.5	5.4%	97.5	7.5%	104.7	7.3%	112.4	5.6%	118.7
4	Recordation Tax	51.9	48.6	2.2%	9.2%	53.0	4.5%	55.4	4.9%	58.1	9.0%	63.3	7.8%	68.3	5.0%	71.7
4a	Recordation Tax Premium	8.3	4.3	-100.0%	-100.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
4b	Recordation Tax CIP	0.0	0.0	0.0%	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
5	Energy Tax	251.2	241.5	-48.0%	-45.9%	130.6	2.0%	133.2	1.9%	135.7	1.1%	137.1	0.5%	137.8	0.8%	138.9
6	Telephone Tax	51.5	50.2	2.9%	5.5%	53.0	2.1%	54.1	2.0%	55.2	4.7%	57.8	4.9%	60.6	3.6%	62.8
7	Hotel/Motel Tax	20.0	19.8	3.0%	4.0%	20.6	1.1%	20.8	3.2%	21.5	2.6%	22.0	2.7%	22.6	2.8%	23.3
8	Admissions Tax	2.6	2.4	-3.4%	3.4%	2.5	3.5%	2.6	3.7%	2.7	3.6%	2.8	3.6%	2.9	3.6%	3.0
9	**Total Local Taxes**	**3,048.3**	**3,127.6**	**1.4%**	**-1.2%**	**3,090.4**	**3.3%**	**3,192.2**	**4.2%**	**3,327.1**	**3.8%**	**3,452.5**	**3.8%**	**3,582.3**	**3.5%**	**3,709.1**
	INTERGOVERNMENTAL AID															
10	Highway User	1.8	1.8	0.0%	0.0%	1.8	0.0%	1.8	0.0%	1.8	0.0%	1.8	0.0%	1.8	0.0%	1.8
11	Police Protection	8.2	8.2	0.0%	0.0%	8.2	0.0%	8.2	0.0%	8.2	0.0%	8.2	0.0%	8.2	0.0%	8.2
12	Libraries	5.5	5.5	0.0%	0.0%	5.5	0.0%	5.5	0.0%	5.5	0.0%	5.5	0.0%	5.5	0.0%	5.5
13	Health Services Case Formula	3.6	3.6	0.0%	0.0%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6
14	Mass Transit	22.8	22.8	0.0%	0.0%	22.8	0.0%	22.8	0.0%	22.8	0.0%	22.8	0.0%	22.8	0.0%	22.8
15	Public Schools	559.8	559.8	0.0%	0.0%	559.8	0.0%	559.8	0.0%	559.8	0.0%	559.8	0.0%	559.8	0.0%	559.8
16	Community College	29.8	29.8	0.0%	0.0%	29.8	0.0%	29.8	0.0%	29.8	0.0%	29.8	0.0%	29.8	0.0%	29.8
17	Direct Reimbursements	14.3	14.3	0.0%	0.0%	14.3	0.0%	14.3	0.0%	14.3	0.0%	14.3	0.0%	14.3	0.0%	14.3
18	Other	11.2	11.2	0.0%	0.0%	11.2	0.0%	11.2	0.0%	11.2	0.0%	11.2	0.0%	11.2	0.0%	11.2
19	**Subtotal State Aid**	**657.1**	**657.1**	**0.0%**	**0.0%**	**657.1**	**0.0%**	**657.1**	**0.0%**	**657.1**	**0.0%**	**657.1**	**0.0%**	**657.1**	**0.0%**	**657.1**
20	Federal Aid	8.0	8.0	0.0%	0.0%	8.0	0.0%	8.0	0.0%	8.0	0.0%	8.0	0.0%	8.0	0.0%	8.0
21	**Total Intergovernmental Aid**	**665.0**	**665.0**	**0.0%**	**0.0%**	**665.0**	**0.0%**	**665.0**	**0.0%**	**665.0**	**0.0%**	**665.0**	**0.0%**	**665.0**	**0.0%**	**665.0**
	FEES AND FINES															
22	Licenses & Permits	11.8	11.8	1.5%	1.5%	12.0	1.5%	12.2	1.5%	12.3	1.5%	12.5	1.5%	12.7	1.5%	12.9
23	Charges for Services	49.2	49.2	2.2%	2.2%	50.2	2.4%	51.4	2.6%	52.8	2.7%	54.2	2.9%	55.8	2.9%	57.4
24	Fines & Forfeitures	19.8	19.8	1.6%	1.6%	20.1	1.6%	20.4	1.6%	20.8	1.6%	21.1	1.6%	21.4	1.6%	21.8
25	Montgomery College Tuition	82.0	82.0	2.2%	2.2%	83.7	2.4%	85.8	2.6%	87.9	2.7%	90.3	2.9%	92.9	2.9%	95.6
26	**Total Fees and Fines**	**162.8**	**162.8**	**2.0%**	**2.0%**	**166.1**	**2.2%**	**169.8**	**2.4%**	**173.8**	**2.5%**	**178.2**	**2.6%**	**182.9**	**2.6%**	**187.7**
	MISCELLANEOUS															
27	Investment Income	1.6	1.6	69.4%	69.4%	2.7	92.0%	5.2	37.3%	7.2	22.1%	8.8	17.8%	10.3	0.0%	10.3
28	Other Miscellaneous	14.4	14.4	2.7%	2.7%	14.8	3.0%	15.3	3.2%	15.7	3.4%	16.3	3.6%	16.9	3.6%	17.5
29	**Total Miscellaneous**	**16.0**	**16.0**	**9.4%**	**9.4%**	**17.5**	**16.8%**	**20.5**	**11.9%**	**22.9**	**9.2%**	**25.0**	**8.6%**	**27.2**	**2.2%**	**27.8**
30	**TOTAL REVENUES**	**3,892.1**	**3,971.4**	**1.2%**	**-0.8%**	**3,939.0**	**2.8%**	**4,047.5**	**3.5%**	**4,188.9**	**3.1%**	**4,320.8**	**3.2%**	**4,457.3**	**3.0%**	**4,589.6**

Resolution No.:	
Introduced:	January 17, 2012
Adopted:	

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council

SUBJECT: Spending Affordability Guidelines for the FY13 Operating Budget

Background

1. Section 305 of the Charter and Chapter 20-60 of the 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. Chapter 20-61 of the County Code 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 January 31, 2012, 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 proposed ceiling on the aggregate operating budget and the agency allocations in millions of dollars are:

County Debt Service	$ 315.0
M-NCPPC Debt Service	$ 6.0
Current revenue, specific projects	$ 59.2
Current revenue, PAYGO	$ 29.5
Retiree health insurance prefunding	$ 146.6
MCPS	$1,997.0
Montgomery College	$ 137.5
County Government	$1,167.2
M-NCPPC	$ 93.6
Total = Aggregate Operating Budget	$3,951.6

Action

The County Council for Montgomery County approves the following resolution:

1. The spending affordability guidelines for the FY13 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	
M-NCPPC Debt Service	
Current revenue, specific projects	
Current revenue, PAYGO	
Retiree health insurance prefunding	
MCPS	
Montgomery College	
County Government	
M-NCPPC	
Total = Aggregate Operating Budget	

2. The Council intends that $4.4 million of the County Government's allocation must be appropriated for Community Grants (this amount excludes Community Service Grants), with Executive-recommended Community Grants totaling $2.2 million and Council Community Grants totaling $2.2 million.

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council

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Testimony of the Montgomery County Board of Education
Public Hearing on the FY 2013 Operating Budget
Spending Affordability Guidelines

Presented by
Ms. Shirley Brandman, President
January 31, 2012

Good afternoon, President Berliner and members of the Montgomery County Council. I am Shirley Brandman, president of the Montgomery County Board of Education. Thank you for this opportunity to testify on behalf of the Montgomery County Board of Education on the proposed operating budget spending affordability guidelines for Fiscal Year (FY) 2013. The Board of Education requests that the Council approve spending affordability guidelines that include a Maintenance of Effort (MOE) budget for the Montgomery County Public Schools (MCPS) as recommended by Council staff. Meeting MOE will eliminate any possibility of another penalty of the loss of state aid and will assist efforts by the Montgomery County legislative delegation in Annapolis to waive the FY 2012 penalty and to modify the MOE law to increase flexibility for counties that face fiscal difficulties. I am pleased that several Council members have stated that they expect to be able to comply with MOE in FY 2013. Such a consensus will facilitate our working together in Annapolis this year for the interests of Montgomery County and its schools. As you all know, Governor Martin O'Malley has proposed shifting half of the cost of teacher pensions to local jurisdictions. Such a move would have serious consequences for our ability to fund appropriate instruction in our classrooms. We stand with you, the county executive, and our local delegation in Annapolis in strong opposition to this move.

The members of the Board of Education look forward to working collaboratively with each of you to achieve our vision of success for all students at a time of continuing fiscal challenge. The Board of Education and the County Council, along with the county executive, have been partners in our common effort for the children of our county. This partnership helps to ensure excellence in our public school system, which

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in turn drives the economic engine of the county. At this time of continuing economic difficulty, it is even more important to remember how much an excellent system of public schools contributes to the economic success of our county. Thanks to the dedication of our staff and our partnership, MCPS students have continued to achieve at very high levels.

For the purpose of spending affordability, the superintendent of schools recommends $1,997,011,288 for FY 2013. This is the minimum amount required according to the state Maintenance of Effort (MOE) law. It is an increase of $46,101,997 (2.4 percent) over FY 2012. Our superintendent of schools, Dr. Joshua P. Starr, has recommended a thoughtful and measured approach to allocating our educational resources. He has recommended a budget that holds the line steady on education funding while accounting for our continued rapid enrollment growth. Dr. Starr's budget represents only a 2 percent increase to keep pace with a projected enrollment increase of 2,250 students. This is the lowest percentage increase requested in more than ten years. Indeed, Dr. Starr has wisely urged that existing resources must be re-evaluated to ensure that they are deployed effectively before requesting additional resources.

The Board of Education has held a series of community conversations to identify budget priorities and two public hearings on the superintendent's operating budget recommendation. Through several hours of budget work sessions, the Board has also reviewed the budget proposal carefully with Dr. Starr and staff. We will take action to adopt our budget request on February 14, 2012.

As the Board prepares its budget request, the challenges of enrollment growth have continued to increase. Since 2007, MCPS has added approximately 9,000 students. Many of these students come to us with special needs, require English for Speakers of Other Languages (ESOL) services, or are eligible for Free and Reduced-price Meals System (FARMS) services. Since 2007, the number of FARMS students has grown by nearly 12,000, more than the total increase in enrollment.

Since the beginning of the recession in FY 2009, however, our budget has stagnated, with a reduction of $1,500 in per-pupil local funding. The "rebasing" of local support under Maintenance of Effort last year permanently lowered the starting point for our education budget to a level that President Berliner has described as the "low water mark." Starting from this reduced level and factoring in the enrollment increase of 2,400 students this year means that the county's MOE requirement for FY 2013 will be $22 million higher in local funding. This mandated increase in local funding covers only the cost of new enrollment, not the inflationary increases facing schools or any improvement in services. If the county does not make that contribution at the lower, "rebased" level, we will again confront the potential of another penalty – a vicious cycle that we must break.

The superintendent's recommended budget assumes that the county will comply with the MOE requirement. My colleagues and I urge you to adopt spending affordability agency allocations which recognize the need to fund education at MOE at the least, as the Council has done for most previous years. Such a commitment will help to make the case in Annapolis to waive the pending $26 million penalty. This request also seems appropriate in light of recent county fiscal forecasts indicating the possibility of a "light at the end of the tunnel."

MCPS is continuing to make progress by identifying efficiencies that minimize the need to request more resources. During the past four years, the Board of Education has made the following difficult decisions to cope with fiscal constraints:

- Employees have had to forego wage increases and pay a higher proportion of pension costs.
- More than 1,300 positions have been eliminated, which is more than two-thirds of all positions added for improvements in the previous decade.
- Class sizes have been increased by about one student per class.

The Superintendent's Recommended FY 2013 Operating Budget has identified another $8 million in efficiencies. More than 20 percent of central services has been eliminated over the last four years, indicating that the budget spent on central administration is now below 2 percent of the total, the lowest in the district's history and one of the lowest in the state. MCPS also has worked with other county agencies to avoid duplication of services. But if we permit further cuts in services for schools, over the long-term we cannot maintain the quality that has made our public schools among the best in the nation. As we work together to make the best decisions for our children's future, the Board of Education is committed to improving the collaborative partnership with the county executive and the County Council.

Thank you for the opportunity to participate in this public hearing. I welcome your questions.