GO Committee #2
February 4, 2013
Worksession

MEMORANDUM

January 30, 2013

TO: Government Operations and Fiscal Policy Committee

FROM: Jacob Sesker, Senior Legislative Analyst JS

SUBJECT: Spending Affordability Guidelines for the FY14 Operating Budget

Staff Recommendations:

1. **Set the ceiling on property tax revenues at the Charter limit with tax credits**
2. **Set the ceiling on the Aggregate Operating Budget (AOB) at 4.76% above the FY13 AOB**
3. **Allocate the AOB as follows:**
   a. **Debt service $324.3 million**
   b. **Current revenue for capital projects $81.4 million**
   c. **PAYGO $35.5 million**
   d. **OPEB $142.8 million**
   e. **MCPS $2,071.8 million**
   f. **Montgomery College $137.6 million**
   g. **Montgomery County Government $1,310.2 million**
   h. **M-NCPPC $102.4 million**
4. **Set limits on community grants:**
   a. **Overall limit $5.8 million**
   b. **Divided evenly between Council and Executive grants ($2.9 million each)**

Introduction

Proposed spending affordability guidelines were introduced on January 15, and a public hearing was held on January 29. *See © 21-22.* Council action on the resolution is scheduled for February 12. *See ©18-20.* The deadline for the Council to adopt the guidelines is the second Tuesday in February, which falls this year on February 12.[1]

[1] Before FY10, the Council was required to set the guidelines in December and could amend the guidelines in April. On September 16, 2008, the Council unanimously approved Bill 28-89, which made significant changes to the Council's process related to the guidelines. To wit, Bill 28-89 specified that the Council must set the guidelines no later than the second Tuesday in February and that the guidelines could not thereafter be amended.

Under the County Charter and Code[2], the Council must set three spending affordability guidelines for the FY13 operating budgets:

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

In recent years, Council practice has been to concurrently establish a spending target for community grants as part of the spending affordability process. That portion of this memo was prepared by Peggy Fitzgerald-Bare, Council Grants Manager.

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.

Spending Affordability Guidelines for the FY14 Operating Budget

1. Ceiling on property tax revenue.

(a) Background

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. "Charter limit" is a term that is frequently used to mean 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.

Note that it is the amount of real property tax revenue from existing real property, not the property tax rate, which cannot increase by more than the rate of inflation. Interestingly, there is no single "Charter limit" number—the maximum amount of property tax revenue that can be raised without affirmative votes of nine Councilmembers varies depending upon the specific combination of rate increases and credits that the Council chooses during its deliberations in May.[3]

(b) Recommendation

Staff recommends setting property tax revenue at the Charter limit <u>with credits.</u> On June 26, 2012, the Council approved the County's Tax Supported Fiscal Plan Summary for the FY13-18

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[2] On November 6, 1990, the voters amended the Charter to add to §305 the requirement 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.

[3] The Council approves the final calculation of the Charter limit when it sets the tax rates in May of each year.

Public Services Program (Resolution 17-479). *See* ©2-5. In FY13, the Council set property tax revenue approximately $26 million below the Charter limit with a $692 income tax offset credit. The approved fiscal plan assumes property tax revenue **at** the Charter limit in FY14-18, with the income tax offset credit at current levels.

2. Ceiling on the aggregate operating budget.

(a) Background

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** any appropriation made for the following: specific grants, 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 some user fees.

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.

- The Council is **not** setting a target for the AOB.
- The Council is **not** predicting the total amount the agencies will request.
- The Council is **not** predicting the total amount the Executive will recommend.
- The Council is **not** predicting the total amount the Council will approve in May/June.

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.

Neither the Charter nor the Code specifies how to set the ceiling on the AOB. Until FY09, the ceiling was set using revenue projections based on current tax rates. This approach implied an assumption that a budget funded by taxes at current rates was "affordable."

In the last four fiscal years, the Council has not used projected resources as a basis for establishing this spending affordability guideline. During that four year period, the Council has taken four different approaches. For example:

- In FY10, the ceiling on the AOB was set at 5.9% of personal income (4.7% increase above FY09 approved AOB).
- In FY11, the ceiling on the AOB was set at the FY10 approved AOB (no change from FY10 approved AOB).
- In FY12, the ceiling on the AOB was set at the FY11 approved AOB plus inflation (1.7% increase above FY11 approved AOB).
- In FY13, the ceiling on the AOB was set at the FY12 approved AOB plus the year-over-year increase in personal income (4.8% increase above FY12 approved AOB).

As the recent history indicates, there are multiple rational approaches to setting the ceiling on the aggregate operating budget. Council staff presents three potential options on © 1:

- Under Option #1, AOB increases (FY13 to FY14) by 4.76%. That increase is based on the increase in Total Personal Income for the 12 month period through November 2012 (4.43%), plus the proposed $13.4 million increase in State aid for MCPS.
- Under Option #2, AOB increases 2.56%. That increase is based on the estimated rate of inflation for the twelve month period through November 2012 (2.23%), plus the proposed $13.4 million increase in State aid for MCPS.
- Under Option #3, the AOB increases 0.33%. That increase is based on no change from FY13 other than inclusion of the proposed $13.4 million increase in State aid for MCPS.

(b) Recommendation

Staff recommends Option #1, establishing a ceiling on the AOB at an amount equal to the FY13 AOB plus the CY11 to CY12 increase in Personal Income plus the increase in State aid for MCPS. Under this recommendation, the ceiling on the AOB would be set at 4.76% above the FY13 AOB.[4]

FY13 Approved AOB (millions)	$4,014.7
Plus increase CY11 to CY12 Personal Income	4.43%
Subtotal	$4,192.6
Plus increase FY13-14 State aid for MCPS	$13.4
Recommended ceiling for AOB	*$4,206.0*
Change AOB FY13-14	*4.76%*

Under the Charter, any AOB that exceeds the previous year's AOB by more than the rate of inflation (to wit, 2.23%) requires the affirmative votes of six members.

Seven affirmative votes are required to approve an AOB that exceeds the ceiling on the AOB established through the spending affordability guidelines.

3. Allocation of the aggregate operating budget 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) Background

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.

Allocating either more or less to any agency or non-agency category does not trigger a supermajority requirement. This spending affordability guideline is merely a guideline for the

[4] The recommendation was changed to reflect that the Governor's budget includes additional State aid for schools. *See © 24.* Such aid is part of the County's Aggregate Operating Budget, but cannot be allocated to other uses. Staff changed the recommendation to increase the ceiling on the AOB by this amount, and to increase the MCPS allocation by this amount. *See © 1.* The public hearing recommendation assumed no change in State aid. *See © 23.*

Council. Under County Code §20-63, 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.

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

- Factor #1: Revenue estimates could be revised up or down from the December 2012 Fiscal Plan Update. *See © 6-17.*
- Factor #2: Some of the current revenue funding and the pre-funding for OPEB from the Fiscal Plan could be shifted to the agency allocations.
- Factor #3: After reviewing each agency's 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 FY13.

(b) Recommendations

<u>*Debt Service*</u>

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. Council staff recommends $324.3 million, as shown in the December 2012 Fiscal Plan Update.**

<u>*Current Revenue Funding for the Capital Budget*</u>

There are two types of current revenue funding for the capital budget. One type is funding for capital projects that do not meet the criteria for bond funding and must be funded with current revenue, or not funded at all. **Council staff recommends $81.4 million, consistent with the December 2012 Fiscal Plan Update.**

The other type is referred to as "PAYGO from Current Revenue for Bond Offset" (pay as you go), and is funding for projects that 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 Montgomery County's AAA bond rating by reducing the need for bonds and also decreases the operating budget for debt service. **Council staff recommends $35.5 million, consistent with the December 2012 Fiscal Plan Update.**

<u>*Retiree Health Insurance Pre-funding (OPEB)*</u>

Total contributions in FY10-13 ($12 million, $0, $49.6 million, and $105.4 million, respectively) were held down by budget pressures. **Council staff recommends allocating $142.8 million to OPEB, consistent with the December 2012 Fiscal Plan Update.**[5]

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[5] For purposes of setting the Council's spending affordability guidelines, OPEB contributions (MCPS, Montgomery College, Montgomery County Government, and M-NCPPC) are treated as non-agency allocations, similar to debt service.

Agency Allocations (County Government, MCPS, Montgomery College, and M-NCPPC)

The spending affordability guidelines are merely guidelines. As noted above, 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.

Staff recommends that the allocations reflect maintenance of effort budgets for both MCPS and Montgomery College, and that the residual should be split between MCG and M-NCPPC in proportion to their allocations in the FY13 approved budget Note that Staff is modifying this recommendation to include the increase in State aid for MCPS in the MCPS allocation. The draft guidelines introduced on January 15th were written before the Governor's proposed budget had been released, and therefore assumed no change in State aid. The actual proposed budget includes an increase of $13.4 million. *See © 24.*

Staff recommends the following allocations:

- **MCPS $2,071.8 million ($2,058.4 million from the Fiscal Plan update, which assumed no change in State aid, and $13.4 million in increased State aid from the Governor's proposed budget)**
- **Montgomery College $137.6 million**
- **Montgomery County Government $1,310.2**
- **M-NCPPC $102.4**

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

For the last 5 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 FY13, the target set by the Council was $4.4 million, split equally between the Council and Executive at $2.2 million each. In May 2012, the Council approved $2.2 million in Council Community Grants that had gone through the Council's grants process and $3.7 million in Executive-recommended Community Grants, for a total of $5.8 million.

- **Does the Council wish to recommend an overall amount for Community Grants for FY14 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 <u>$5.8</u> million would be the same overall level of funding for Community Grants as the Council approved last spring for the FY13 budget.

<u>Staff recommends this option as the target spending level for Community Grants for FY14, with the amount split equally between the Council and Executive at $2.9 million each.</u>

An equal split of the amount between Council and Executive Grants for FY14 would be an increase in Council grants from the amount approved for FY13 and a decrease in the amount recommended by the County Executive and approved by the Council in the FY13 budget.

Option #2. Alternatively, the Council could **set a separate target amount for both Council and Executive grants** at the amount approved in the FY13 budget ($2.2 million/Council and $3.7 million/Executive).

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

Proposed language for the Council Resolution on spending affordability guidelines would state:

> "The Council's intent is that $xxx 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 $xxx million and Council Community Grants totaling $xxx million."

Contents:

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Council Staff Recommendations, Spending Affordability Guidelines, FY14 Operating Budget

- Option 1: AOB ceiling increases 4.76% (the rate of increase in personal income, 4.43%, plus the increase in State aid for MCPS); MCPS and College budgets set at MOE
- Option 2: AOB ceiling increases 2.56%, (the rate of inflation in CY12, 2.23%, plus the increase in State aid for MCPS); MCPS and College budgets set at MOE
- Option 3: AOB ceiling increases 0.33% (no change from FY13 except to include the increase in State aid for MCPS); MCPS and College budgets set at MOE

Table 1: Spending Affordability Guideline 2, Ceiling on the FY14 AOB, $millions					
FY13 Approved AOB	*4,014.7*		Option 1	Option 2	Option 3
1. Change in Personal Income			+4.43%		
2. Inflation				+2.23%	
3. No change FY13 to FY 14					0.00%
Plus FY13-14 increase State aid for MCPS			$13.4	$13.4	$13.4
Ceiling on FY14 AOB			**$4,206.0**	**$4,117.5**	**$4,028.1**
% change from FY13 Approved			+4.76%	+2.56%	0.33%

Table 2: Spending Affordability Guideline 3: Allocation of FY14 AOB, $millions					
	FY13	% agency total	Option 1	Option 2	Option 3
A. Non agency allocations					
County Debt Service	$298.8		$319.6	$319.6	$319.6
MNCPPC Debt Service	4.8		4.7	4.7	4.7
Current revenue, specific projects	50.2		81.4	81.4	81.4
Current revenue, PAYGO	29.5		35.5	35.5	35.5
Retiree health insurance prefunding (OPEB)					
OPEB for MCPS	58.9		80.3	80.3	80.3
OPEB for Mont. Coll.	1.8		2.4	2.4	2.4
OPEB for County Government	41.4		53.8	53.8	53.8
OPEB for MNCPPC	3.4		6.3	6.3	6.3
Subtotal, non-agencies	***488.8***		***584.0***	***584.0***	***584.0***
B. Agency allocations					
MCPS	2,028.9	57.5%	2,071.8	2,071.8	2,071.8
College excl. expen. funded by tuition	133.3	3.8%	137.6	137.6	137.6
County Government	1,265.0	35.9%	1,310.2	1,228.1	1,145.2
MNCPPC	98.9	2.8%	102.4	96.0	89.5
Subtotal, agencies	***3,526.1***	***100%***	***3,622.0***	***3,533.5***	***3,444.1***
Aggregate Operating Budget	**4,014.9**		**4,206.0**	**4,117.5**	**4,028.1**

Table 3: Change in Agency Allocations, FY13 approved to FY14 recommended				
		Option 1	Option 2	Option 3
MCPS		2.11%	2.11%	2.11%
College excl. expen. funded by tuition		3.21%	3.21%	3.21%
County Government		3.58%	-2.92%	-9.47%
MNCPPC		3.58%	-2.92%	-9.47%
Total		***2.72%***	***0.21%***	***-2.32%***

Resolution No.:	17-479
Introduced:	June 19, 2012
Adopted:	June 26, 2012

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 FY13-18 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 policies on reserve 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 November 29, 2011 the Council clarified and strengthened these policies in Resolution No. 17-312, which retained the fiscal plan language and replaced the earlier resolution.

4. On June 29, 2010, pursuant to these polices, the Council approved the Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program in Resolution No. 16-1416. On June 28, 2011 the Council approved the Tax Supported Fiscal Plan Summary for the FY12-17 Public Services Program in Resolution No. 17-184.

5. The Council introduced the Tax Supported Fiscal Plan Summary for the FY13-18 Public Services Program on June 19, 2012. The Government Operations and Fiscal Policy Committee reviewed the Plan Summary on June 25, 2012.

Action

The County Council for Montgomery County, Maryland approves the Tax Supported Fiscal Plan Summary for the FY13-18 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, revenue estimates, and other fiscal data.

(2) the policy on expanded County reserves established in Resolution No. 17-312 and the amendments to the Revenue Stabilization Fund law in Bill 36-10, which the Council approved on June 29, 2010.

(3) other specific fiscal assumptions listed in the summary.

This is a correct copy of Council action.

Linda M. Lauer

Linda M. Lauer, Clerk of the Council

County Council Approved FY13-18 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

		App. FY12	Estimate FY12	% Chg. FY12-13	App 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		App/Bud	5-24-12										
	Total Revenues														
1	Property Tax (less PDs)	1,462.2	1,437.0	0.0%	1,462.2	3.0%	1,505.8	3.1%	1,553.2	3.5%	1,608.2	3.5%	1,664.5	3.1%	1,716.4
2	Income Tax	1,117.2	1,227.1	13.1%	1,263.6	2.6%	1,296.6	6.6%	1,382.0	4.7%	1,446.4	3.5%	1,497.6	3.4%	1,548.2
3	Transfer/Recordation Tax	143.5	123.9	-4.8%	136.6	2.9%	140.5	5.6%	148.4	7.4%	159.4	7.4%	171.2	5.6%	180.8
4	Investment Income	1.6	0.2	-70.3%	0.5	33.6%	0.6	94.0%	1.2	134.2%	2.9	55.8%	4.5	26.3%	5.7
5	Other Taxes	325.3	311.6	-6.5%	304.1	1.4%	308.5	2.2%	315.1	1.7%	320.5	1.1%	324.1	0.9%	327.0
6	Other Revenues	842.2	839.0	4.9%	883.4	0.8%	890.2	0.2%	892.5	0.2%	894.6	0.2%	896.8	0.2%	899.0
7	**Total Revenues**	3,892.1	3,938.8	4.1%	4,050.4	2.3%	4,142.2	3.6%	4,292.5	3.3%	4,432.1	2.9%	4,558.8	2.6%	4,676.1
8															
9	**Net Transfers In (Out)**	41.3	40.1	-6.3%	38.7	2.9%	39.8	2.9%	40.9	2.7%	42.0	2.7%	43.1	2.7%	44.3
10	**Total Revenues and Transfers Available**	3,933.4	3,978.9	4.0%	4,089.0	2.3%	4,182.0	3.6%	4,333.4	3.2%	4,474.1	2.9%	4,601.9	2.6%	4,720.4
11															
12	**Non-Operating Budget Use of Revenues**														
13	Debt Service	296.2	279.0	2.5%	303.5	6.8%	324.3	9.6%	355.3	5.4%	374.6	4.1%	389.8	0.0%	389.8
14	PAYGO	31.0	31.0	-4.8%	29.5	20.3%	35.5	56.3%	55.5	0.0%	55.5	0.0%	55.5	0.0%	55.5
15	CIP Current Revenue	35.0	37.7	43.5%	50.2	62.1%	81.4	-26.8%	59.5	-2.7%	58.0	-1.8%	56.9	16.2%	66.1
16	Change in Montgomery College Reserves	(9.0)	(4.0)	46.4%	(4.8)	100.0%	-	n/a	-	n/a	-	n/a	-	n/a	-
17	Change in MNCPPC Reserves	(1.5)	(2.5)	30.6%	(1.1)	109.3%	0.1	27.9%	0.1	14.1%	0.1	0.4%	0.1	35.5%	0.2
18	Change in MCPS Reserves	(17.0)	10.5	0.0%	(17.0)	4.1%	(16.3)	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0
19	Change in MCG Special Fund Reserves	22.8	(0.5)	-12.5%	20.0	-99.9%	0.0	172.1%	0.1	25.2%	0.1	-9.6%	0.1	-10.6%	0.1
20	Contribution to General Fund Undesignated Reserves	66.4	104.5	-144.5%	(29.6)	106.7%	2.0	172.1%	5.4	25.2%	6.8	-9.6%	6.1	-10.6%	5.5
21	Contribution to Revenue Stablization Reserves	20.4	45.1	3.6%	21.2	3.1%	21.8	4.1%	22.7	3.6%	23.5	3.6%	24.4	2.8%	25.1
22	Retiree Health Insurance Pre-Funding	49.6	49.8	112.3%	105.4	35.5%	142.8	20.4%	171.9	0.0%	171.9	0.0%	171.9	0.0%	171.9
23	Set Aside for other uses (supplemental appropriations)	0.2	0.2	-67.2%	0.1	30441.4%	20.1	0.0%	20.1	0.0%	20.1	0.0%	20.1	0.0%	20.1
24	**Total Other Uses of Resources**	494.3	550.6	-3.4%	477.6	28.1%	611.7	12.9%	690.7	2.9%	710.5	2.0%	724.9	1.3%	734.2
25	**Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)**	3,439.1	3,426.4	5.0%	3,611.5	-1.1%	3,570.3	2.0%	3,642.7	3.3%	3,763.6	3.0%	3,877.0	2.8%	3,986.2
26															
27	**Agency Uses**														
28															
29	Montgomery County Public Schools (MCPS)	1,950.9	1,923.6	4.0%	2,028.9	1.5%	2,058.4								
30	Montgomery College (MC)	218.0	214.6	0.4%	218.8	0.0%	218.8								
31	MNCPPC (w/o Debt Service)	94.3	94.3	4.9%	98.9	-5.2%	93.8								
32	MCG	1,175.8	1,195.7	7.6%	1,265.0	-5.2%	1,199.3								
33	Available to Allocate to Agencies FY15-18							n/a	3,642.7	3.3%	3,763.6	3.0%	3,877.0	2.8%	3,986.2
34	**Agency Uses**	3,439.1	3,426.4	5.0%	3,611.6	-1.1%	3,570.3	2.0%	3,642.7	3.3%	3,763.6	3.0%	3,877.0	2.8%	3,986.2
35	**Total Uses**	3,933.4	3,978.9	4.0%	4,089.0	2.3%	4,182.0	3.6%	4,333.4	3.2%	4,474.1	2.9%	4,601.9	2.6%	4,720.4
36	(Gap)/Available	0.0	0.0		0.0		0.0		0.0		0.0		0.0		0.0

Notes:

1. FY13 property tax revenue is $26 million below the Charter limit using a $692 income tax offset credit. The Charter limit is assumed FY14-18.
2. May 2010 fuel/energy tax revenue increase is reduced by 10% in FY13-18.
3. Reserve contributions at the policy level and consistent with legal requirements.
4. PAYGO, debt service, and current revenue reflect the approved FY13-18 Capital Improvements Program.
5. Retiree health insurance pre-funding is increased up to full funding by FY15 and then is flat beyond FY15. FY14 is year 7 of 8-year funding schedule.
6. State aid and other intergovernmental revenues are flat in FY14-18.
7. Projected FY14 allocation for MCPS and Montgomery College assumes County funding at maintenance of effort, plus the pension shift for MCPS. This allocation does not include potential increases to State aid and other possible agency resources, such as higher-than-expected fund balance.

Attachment to Resolution No.: 17-479

County Council Approved FY13-18 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

		App. FY12	Est FY12	% Chg. FY12-13	App. FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Cng FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18
37	**Beginning Reserves**														
38	Unrestricted General Fund	66.9	64.0	152.0%	168.6	-17.5%	139.0	1.4% !	141.0	3.8%	146.4	4.6%	153.2	4.0%	159.3
39	Revenue Stabilization Fund	94.1	94.5	47.7%	139.6	15.2%	160.8	13.6%	182.6	12.4%	205.3	11.5%	228.8	10.7%	253.2
40	Total Reserves	161.0	158.6	90.9%	308.1	-2.7%	299.8	7.9%	323.6	8.7%	351.7	8.6%	382.0	8.0%	412.6
41															
42	**Additions to Reserves**														
43	Unrestricted General Fund	66.4	104.5	-144.5%	-29.6	106.7%	2.0	172.1%	5.4	25.2%	6.8	-9.6%	6.1	-10.6%	5.5
44	Revenue Stabilization Fund	20.4	45.1	6.0%	21.2	3.1%	21.8	4.1%	22.7	3.6%	23.5	3.6%	24.4	2.8%	25.1
45	Total Change in Reserves	86.9	149.6	-109.7%	-8.4	384.0%	23.8	18.1%	28.1	7.8%	30.3	0.6%	30.5	0.1%	30.6
46															
47	**Ending Reserves**														
48	Unrestricted General Fund	133.3	168.6	4.3%	139.0	1.4%	141.0	3.8%	146.4	4.6%	153.2	4.0%	159.3	3.4%	164.8
49	Revenue Stabilization Fund	114.5	139.6	40.4%	160.8	13.6%	182.6	12.4%	205.3	11.5%	228.8	10.7%	253.2	9.9%	278.3
50	Total Reserves	247.8	308.1	20.9%	299.8	7.9%	323.6	8.7%	351.7	8.6%	382.0	8.0%	412.6	7.4%	443.1
51	Reserves as a % of Adjusted Governmental Revenues	6.1%	7.5%		7.1%		7.4%		7.8%		8.2%		8.7%		9.1%
52	**Other Reserves**														
53	Montgomery College	7.0	11.2	-7.6%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4
54	M-NCPPC	3.7	4.8	0.7%	3.8	2.6%	3.9	3.2%	4.0	3.6%	4.1	3.5%	4.3	4.5%	4.5
55	MCPS	0.0	33.3	n/a	16.3	-100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
56	MCG Special Funds	2.6	(18.4)	-37.4%	1.6	1.4%	1.6	3.8%	1.7	4.6%	1.8	4.0%	1.8	3.4%	1.9
57	MCG + Agency Reserves as a % of Adjusted Govt Revenues	6.5%	8.3%		7.8%		7.7%		8.1%		8.5%		8.9%		9.3%
58	**Retiree Health Insurance Pre-Funding**														
59	Montgomery County Public Schools (MCPS)	20.0	20.0		58.9		80.3		101.6		100.9		99.7		99.7
60	Montgomery College (MC)	1.0	1.0		1.8		2.4		3.1		3.0		2.8		2.8
61	MNCPPC	2.6	2.6		3.4		6.3		7.7		7.4		7.2		7.2
62	MCG	26.1	26.1		41.4		53.8		59.5		60.6		62.2		62.2
63	Subtotal Retiree Health Insurance Pre-Funding	49.8	49.6		105.4		142.8		171.9		171.9		171.9		171.9
64	**Adjusted Governmental Revenues**														
65	Total Tax Supported Revenues	3,892.1	3,938.8	4.1%	4,050.4	2.3%	4,142.2	3.6%	4,292.5	3.3%	4,432.1	2.9%	4,558.8	2.6%	4,676.1
66	Capital Projects Fund	45.6	60.3	43.7%	65.5	52.1%	99.6	2.3%	101.9	-11.8%	89.9	1.1%	90.8	-11.0%	80.8
67	Grants	108.9	108.9	-1.7%	107.0	2.9%	110.1	2.9%	113.3	2.7%	116.3	2.7%	119.4	2.7%	122.6
68	Total Adjusted Governmental Revenues	4,046.6	4,108.0	4.4%	4,222.8	3.1%	4,351.9	3.6%	4,507.6	2.9%	4,638.3	2.8%	4,769.0	2.3%	4,879.6

AGENDA ITEM #5
December 11, 2012

MEMORANDUM

December 7, 2012

TO: County Council

FROM: Stephen B. Farber, Council Staff Director
Jacob Sesker, Senior Legislative Analyst

SUBJECT: Update on County Fiscal Plan and Economic Indicators

OMB Director Jennifer Hughes, Finance Director Joseph Beach, and their colleagues will join the Council for this fiscal review. They will discuss the Fiscal Plan update on ©1-8 and the revenue and economic indicators update on ©9-35.

Background

In June 2010 the Council approved for the first time a six-year Fiscal Plan that was balanced for the entire period. In June 2011 and 2012 the Council did so again. Every edition of the Fiscal Plan is a snapshot in time that reflects the most recent available data. Each year's edition is updated in December.

Ms. Hughes' memo and data on ©1-8 show that compared to the June 2012 edition, current fiscal projections for FY13-14 are "essentially unchanged." A balanced County budget in FY14 would require a **1.0 percent reduction** in overall agency spending, but because of State maintenance of effort (MOE) requirements for MCPS and the College, spending for MNCPPC and County Government (MCG) would **decline by 4.9 percent.** In the June edition this decline was slightly larger, 5.2 percent.

Ms. Hughes concludes on ©2 that "the fragile economic recovery, coupled with continued uncertainty regarding State and federal revenues, argues for caution in the County's spending plans." Key points in her presentation include the following:

- The Finance Department's forecast of **County revenues** is up $30.9 million in FY13 and down **$8.8** million in FY14, for a small net FY13-14 gain of **$22.1 million.** Increases for income tax revenue are offset by decreases for property, energy, and telephone tax revenue.

- **State aid** in FY14 is assumed to be largely unchanged until the Governor issues his proposed FY14 State budget next month. In FY13 MCPS received $588.3 million in school aid, 85 percent of the County's total State aid. Barring State fiscal pressures associated with the federal "fiscal cliff" or other factors, school aid in FY14 is likely to grow. The average annual increase in FY10-13 was **$39.7 million**.

- The table on ©6-7 lists the agencies' projected cost increases or **"Major Known Commitments"** in FY14. These cost increases total $98.8 million (up 2.7 percent). Note that they do not include any FY14 agency wage increases, which are currently being bargained, except for the second FY13 MCPS step increase scheduled for May 2013. Funding these cost increases would create a budget gap of $136 million. **Note that a 1 percent COLA for all agencies would cost $23.6 million. A step increase for all agencies would cost $31.4 million.**

• The **rate of change** in agency spending is shown on rows 29-34 on ©4. The MCPS increase of 1.5 percent ($29.5 million), to $2.058 billion, covers projected enrollment growth plus a $7.3 million increase for the second year of the State's teacher pension cost shift.[1] The College allocation, $218.8 million, remains flat. The 4.9 percent decrease for MNCPPC means a reduction of $4.8 million, to $94.1 million (without debt service), while the same decrease for MCG means a reduction of $62.0 million, to $1.203.0 billion. **Given the sharp cuts already experienced by MNCPPC and many MCG departments during the recession, these reductions would have a serious impact.** See the graphs on ©36-37 comparing selected agency expenditures in FY09 with those in FY12 and FY13.

• **Reserve contributions** are at the policy level and consistent with County law. The policy level for FY14 is 7.5 percent of Adjusted Governmental Revenues. See point 5 on ©2 of Ms. Hughes' memo.

Other Assumptions

Other key assumptions in the Fiscal Plan update are outlined at the bottom of ©4:

• Property tax revenue is at the Charter limit using the income tax offset credit. The FY11-12 energy tax increase, which the Council reduced by 10 percent for FY13, remains in effect.

• PAYGO, debt service, and current revenue are at the level of the approved FY13-18 Capital Improvements Program.

• Retiree Health Insurance pre-funding (OPEB) is at the scheduled FY14 level, $142.8 million (year 7 of the revised 8-year phase-in schedule). Total contributions in FY10-13 ($12 million, $0, $49.6 million, and $105.4 million, respectively) were held down by budget pressures.

As an important reminder, Ms. Hughes notes on ©2 that the many variables still in play will affect the Executive's recommendations on taxes, spending, and the CIP in January and March.

Revenue and Economic Indicators Update

Mr. Beach will discuss the slides on ©9-35 concerning the revenue and economic indicators update. The data in these slides confirm the lag between economic recovery, which is proceeding slowly, and fiscal recovery, which is proceeding more slowly.

The National Bureau of Economic Research determined that the Great Recession began in December 2007 and ended in June 2009, but the national unemployment rate in October was 7.9 percent.[2] The state rates ranged from 3.1 percent in North Dakota to 11.5 percent in Nevada, while Maryland's rate was 6.7 percent. The County's rate, which peaked at 6.2 percent in January 2010, is currently 4.7 percent. But it was just 2.5 percent in November 2007 and, until January 2009, had not reached even 4 percent in at least 20 years.

The dashboard on ©15 shows that compared to one year ago, resident and payroll employment, as well as home sales and prices, have shown some improvement. But resident employment is still below the 2006 level (see ©16), while home sales and prices remain far below their peaks (see ©19-20).

[1] The County's obligation for the State's pension cost shift in FY13-16 is $27.2 million, $34.5 million, $37.8 million, and $44.4 million, respectively. After FY16 the pension obligation is rolled into the MOE requirement.
[2] A broader measure of unemployment that includes discouraged and underemployed workers was 14.6 percent.

The revenue information on ©22-35 is useful. As noted above, the current forecast, compared to the June forecast, is up $30.9 million in FY13 and down $8.8 million in FY14, for a small net FY13-14 gain of **$22.1 million**. Increases for income tax revenue are offset by decreases for property, energy, and telephone tax revenue (see ©23-24). For the FY13-18 period, the current forecast calls for a $73.8 million decline (see ©25), including a $106.2 million decline in FY15-16.

The slides on ©26-31 show the volatility of County income tax revenue, explain the components of the large November distribution from the State, and outline the economic factors that underlie the projections. The slides on ©32-35 project modest increases in property taxes, transfer and recordation taxes, and other taxes in FY14.[3]

Maintenance of Effort and the FY14 MCPS Budget

The State maintenance of effort law for public schools requires counties to maintain their annual per pupil funding level adjusted for enrollment. Because of major changes enacted by the General Assembly in March, the law now effectively guarantees funding protection for school systems regardless of the state of the economy or the impact on other services and taxpayers.

The new MOE law, and FY13 funding decisions by the Board of Education, have generated widespread community interest and debate. In a May 23 letter to Superintendent Starr and Board President Brandman, County Executive Leggett and then-Council President Berliner said: "The Executive and the Council fully intend to meet the MOE requirement for the MCPS budget again in FY14, but, with continued uncertainty about the economic recovery, the Board should certainly not assume that we can or will exceed it" (see ©38-39). On October 16 the Office of Legislative Oversight issued report 2013-1, *Fiscal Planning and the New Maintenance of Effort Law*.[4] In a November 5 letter to State Senator Nancy King, Mr. Berliner, citing the OLO report, said that "the new law risks making MOE the ceiling as well as the floor" (see the exchange of letters on ©40-45). On November 29 the Council convened a FY14 County budget planning forum to explore these issues with the community.

On December 11 the Superintendent will release his proposed MCPS budget for FY14, and in February the Board will transmit its request. As a practical matter, given the new MOE law, the request cannot be below the MOE level. **A request <u>above</u> the MOE level would raise several questions:**

- **Does MCPS have sufficient resources in FY14 at the MOE level?** As noted above, the Fiscal Plan update projects $29.5 million more in County funds (including $7.3 million for the increase in the State's teacher pension cost shift), and State school aid will probably grow (the average annual increase in FY10-13 was $39.7 million). MCPS also has $23.5 million in unappropriated fund balance from FY11-12 combined and another $10.8 million so far in FY13. **The total of these resources would support a budget increase of nearly 5 percent.**

- **Can MNCPPC and MCG withstand an even deeper reduction than the 4.9 percent reduction projected in the Fiscal Plan update, which assumes that MCPS and the College are funded only at the MOE level?** As the graphs on ©36-37 show, MNCPPC and many MCG departments have already had large reductions since FY09, including Libraries, Recreation, HHS,

[3] Transfer and recordation tax revenues fell from $241.7 million in FY06 to $127.3 million in FY12 and are currently projected to recover to just $190.4 million by FY19 (see ©34).

[4] See http://www6.montgomerycountymd.gov/content/council/olo/reports/pdf/FiscalPlanning_MOE.pdf for the PowerPoint presentation and http://www6.montgomerycountymd.gov/content/council/olo/reports/pdf/2013-1.pdf for the companion document.

and other functions that MCPS relies on. In this regard see ©46-47 for details of the **$240.3 million** for MCPS included in the County's FY13 budget, above and beyond both the $2.029 billion direct appropriation to MCPS and the County's $1.392 billion MOE contribution.

• **Would funding MCPS at more than MOE lock the County into an even higher and irreversible per pupil base going forward?** The County had this experience before, when it funded MCPS at a total of $576 million above MOE in FY01-09, thus creating a much higher required spending base, and then – when revenues plummeted during the recession – was unable to meet MOE in FY10-12.

Other Key Points for the Fiscal Plan Update

Two additional points are relevant to the current Fiscal Plan update:

• While the current outlook for the four agencies' budgets is sobering for FY14, **it is also challenging for FY15-19.** The projected increases in available agency resources in those five years on ©4 are 0.8, 2.8, 4.2, 4.1, and 3.3 percent, respectively. Growth rates of this kind confirm the importance of a cautious approach to spending in FY14 and imply continued spending restraint thereafter rather than a return to pre-recession funding patterns.

• The X factor now in all fiscal planning is the potential impact of the federal **"fiscal cliff,"** which could require large tax increases and sharp spending cuts just three weeks from now if the President and Congress fail to agree on an alternative approach to controlling federal deficits and debt. In the month since the November election the parties have offered assurances that agreement will be reached but have not bridged their differences. Financial markets have been relatively calm to date but could become roiled. Consumer confidence, now at a five-year high, has been buoyed by modest improvements in employment and home prices but could fall sharply. Business confidence, reflecting fiscal uncertainty and fears of a global slowdown, is more fragile. On ©14 the Finance Department points out two potential causes for concern: the direct impact of higher taxes and lower spending on employment and income for County residents, and the secondary effects on asset values and consumption. The County's Aaa bond rating could also be affected.[5]

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[5] On September 26, in reaffirming the County's Aaa bond rating, Moody's Investors Service said: "Moody's **negative outlook** on Montgomery County's Aaa rating is due to its indirect linkages to the weakened credit profile of the U.S. government. The negative outlook relates to Moody's August 2, 2011 decision to confirm the Aaa government bond rating of the United States and assign a negative outlook, and to our December 7, 2011 assessment of the county's exposure to indirect linkages to the federal government. Moody's has determined that issuers with indirect linkages, such as Montgomery County, have some combination of economies that are highly dependent on federal employment and spending, a significant healthcare presence in their economies, have direct healthcare operations, or high levels of short-term and puttable debt."

OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Jennifer A. Hughes
Director

MEMORANDUM

December 5, 2012

RECEIVED
MONTGOMERY COUNTY
2012 DEC -5 AM 9:00

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 Department of Finance's updated revenue forecast has been incorporated in the fiscal plan. Other assumptions in the fiscal plan, including FY12 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 the spending of all County agencies to produce a balanced budget in FY14. Because of Montgomery County Public Schools and Montgomery College maintenance-of-effort requirements, spending for MNCPPC and the County Government would actually have to be reduced 4.9 percent to balance the budget in FY14. This forecast is essentially unchanged from the fiscal plan the Council approved in June, 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 2012 Revenue Update and Selected Economic Indicators report, income tax revenues have been revised upward by $52 million ($45.6 million in FY13 and $6.4 million in FY14). 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 FY14 and beyond reflects the largely one-time nature of most of the increased November 2012 distribution. The forecast also incorporates updated economic assumptions from the State Board of Revenue Estimates, which reflects the continued uncertainty related to Federal spending cuts and increased taxes scheduled to take effect on January 1.

   While income tax revenues have been revised upward, the Department of Finance has reduced its forecast for all other taxes by a total of $29.9 million, resulting in a net increase of $22.1 million ($30.9 million in FY13 and a reduction of $8.8 million in FY14) above the estimate in the approved fiscal plan. The forecast reflects the continued effect of declining taxable assessments, a reduction in fuel energy taxes due to reduced consumption, and a continuation in the decline in phone tax revenue due to fewer land lines and wireless lines.

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 2013. While the State's fiscal outlook is improved compared to last year, the automatic Federal spending cuts and tax increases scheduled to begin in January 2013 could significantly affect the State economy and budget, and would likely also affect State Aid. Given the uncertainty surrounding resolution of the Federal budget issues, the updated fiscal plan does not reflect potential reductions in State Aid resulting from sequestration.

3. **FY14 Expenditures**: Attached is a chart of the "Major Known Commitments" that shows the projected cost increases by agency. While not included in the estimate of agency expenditures in the updated fiscal plan, FY14 expenditures are estimated to grow by $99 million or 2.7 percent. Note the estimate assumes no wage increases, except for MCPS. Each agency is 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 FY14 to produce a balanced budget. Assuming maintenance-of-effort increases for MCPS and Montgomery College, this means 4.9 percent reductions to the operating budgets of MNCPPC and County Government. Assuming the estimated increase in expenditures identified by each agency would equate to an imbalance of $136 million.

5. **Reserves**: Prior fiscal year results are not yet finalized. The projection reflects the impact of the revised revenue forecast. 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, $22.6 million must be contributed to the RSF in FY14, which is about $1.4 million more than assumed in the budget. Total reserves are projected to increase to 7.5 percent at the end of FY14, increasing to 9.4 percent by FY19. The County's policy is to have a total reserve of 10 percent by FY20.

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.

In summary, the fragile economic recovery, coupled with continued uncertainty regarding State and Federal revenues, argues for caution in the County's spending plans. Despite the projected increase in FY13 income tax revenues, we expect only modest growth in base income tax revenues going forward. The decline in property tax, fuel energy tax, and phone tax revenues buttresses the view that any income tax revenue increases should be viewed with caution.

JAH:aae

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[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.

Attachments

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

Fiscal Plan December 2012

Tax Supported Fiscal Plan Summary

($ in Millions)

		App FY13	Est FY13	% Chg. FY13-14	% 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	% Chg. FY18-19	Projected FY19
		5-24-12	12-11-12	Rec/Bud	Rec/Est	12-11-12										
	Total Revenues															
1	Property Tax (less PDs)	1462.2	1,459.5	2.6%	2.8%	1,499.8	2.5%	1,537.2	2.9%	1,581.6	3.5%	1,637.3	3.6%	1,696.6	3.7%	1,758.7
2	Income Tax	1263.6	1,309.2	3.1%	-0.5%	1,303.0	4.7%	1,363.9	4.2%	1,421.8	7.0%	1,521.1	6.2%	1,615.7	3.7%	1,675.5
3	Transfer/Recordation Tax	136.6	136.1	4.2%	4.6%	142.3	7.1%	152.5	6.7%	162.7	4.6%	170.2	5.2%	179.1	3.6%	185.5
4	Investment Income	0.5	0.5	33.6%	33.6%	0.6	94.0%	1.2	134.2%	2.9	55.8%	4.5	26.3%	5.7	0.0%	5.7
5	Other Taxes	304.1	292.7	-2.2%	1.6%	297.4	1.4%	301.6	1.4%	305.7	0.9%	308.5	0.7%	310.6	1.4%	314.9
6	Other Revenues	883.4	883.3	0.8%	0.8%	890.3	0.2%	892.6	0.2%	894.7	0.2%	896.9	0.2%	899.1	0.3%	901.4
7	**Total Revenues**	**4,050.4**	**4,081.2**	**2.1%**	**1.3%**	**4,133.4**	**2.8%**	**4,249.0**	**2.8%**	**4,369.4**	**3.9%**	**4,538.6**	**3.7%**	**4,706.9**	**2.9%**	**4,841.7**
8																
9	**Net Transfers In (Out)**	**38.7**	**38.7**	**2.9%**	**2.9%**	**39.8**	**2.9%**	**40.9**	**2.7%**	**42.0**	**2.7%**	**43.1**	**2.7%**	**44.3**	**0.0%**	**44.3**
10	**Total Revenues and Transfers Available**	**4,089.0**	**4,119.9**	2.1%	1.3%	**4,173.2**	2.8%	**4,289.9**	2.8%	**4,411.4**	3.9%	**4,581.7**	3.7%	**4,751.2**	2.8%	**4,886.0**
11																
12	**Non-Operating Budget Use of Revenues**															
13	Debt Service	303.5	303.5	6.8%	6.8%	324.3	9.6%	355.3	5.4%	374.6	4.1%	389.8	0.0%	389.8	0.0%	389.8
14	PAYGO	29.5	29.5	20.3%	20.3%	35.5	56.3%	55.5	0.0%	55.5	0.0%	55.5	0.0%	55.5	0.0%	55.5
15	CIP Current Revenue	50.2	50.2	62.1%	62.1%	81.4	-26.8%	59.5	-2.7%	58.0	-1.8%	56.9	16.2%	66.1	0.0%	66.1
16	Change in Montgomery College Reserves	(4.8)	(4.8)	100.0%	100.0%	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
17	Change in MNCPPC Reserves	(1.1)	(1.1)	127.0%	127.0%	0.3	-62.9%	0.1	16.2%	0.1	21.7%	0.1	51.1%	0.2	-56.8%	0.1
18	Change in MCPS Reserves	(17.0)	(17.0)	4.1%	4.1%	(16.3)	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
19	Change in MCG Special Fund Reserves	20.0	20.0	-99.8%	-99.8%	0.0	-52.1%	0.0	201.3%	0.1	2.4%	0.1	43.5%	0.1	-1.3%	0.1
20	Contribution to General Fund Undesignated Reserves	(29.6)	(15.1)	63.2%	28.1%	(10.9)	115.7%	1.7	201.3%	5.1	2.4%	5.3	43.5%	7.6	-1.3%	7.5
21	Contribution to Revenue Stabilization Reserves	21.2	22.6	2.9%	-3.6%	21.8	3.3%	22.5	3.2%	23.2	4.5%	24.3	3.9%	25.2	2.7%	25.9
22	Retiree Health Insurance Pre-Funding	105.4	105.4	35.5%	35.5%	142.8	20.4%	171.9	0.0%	171.9	0.0%	171.9	0.0%	171.9	0 0%	171.9
23	Set Aside for other uses (supplemental appropriations)	0.1	15.1	30441.4%	33.2%	20.1	0.0%	20.1	0.0%	20.1	0.0%	20.1	0.0%	20.1	0.0%	20.1
24	**Total Other Uses of Resources**	**477.5**	**508.3**	**25.4%**	**17.8%**	**599.0**	**14.6%**	**686.7**	**3.2%**	**708.5**	**2.2%**	**723.9**	**1.7%**	**736.5**	**0.1%**	**737.0**
25	**Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)**	**3,611.5**	**3,611.5**	**-1.0%**	**-1.0%**	**3,574.2**	**0.8%**	**3,603.2**	**2.8%**	**3,702.9**	**4.2%**	**3,857.8**	**4.1%**	**4,014.7**	**3.3%**	**4,149.0**
26																
27	**Agency Uses**															
28																
29	Montgomery County Public Schools (MCPS)	2028.9	2,028.9	1.5%	1.5%	2,058.4										
30	Montgomery College (MC)	218.8	218.8	0.0%	0.0%	218.8										
31	MNCPPC (w/o Debt Service)	98.9	98.9	-4.9%	-4.9%	94.1										
32	MCG	1265.0	1,265.0	-4.9%	-4.9%	1,203.0										
33	Available to Allocate to Agencies FY15-19						n/a	3,603.2	2.8%	3,702.9	4.2%	3,857.8	4.1%	4,014.7	3.3%	4,149.0
34	**Agency Uses**	**3,611.5**	**3,611.5**	**-1.0%**	**-1.0%**	**3,574.2**	**0.8%**	**3,603.2**	**2.8%**	**3,702.9**	**4.2%**	**3,857.8**	**4.1%**	**4,014.7**	**3.3%**	**4,149.0**
35	**Total Uses**	**4,089.0**	**4,119.9**	**2.1%**	**1.3%**	**4,173.2**	**2.8%**	**4,289.9**	**2.8%**	**4,411.4**	**3.9%**	**4,581.7**	**3.7%**	**4,751.2**	**2.8%**	**4,886.0**
36	**(Gap)/Available**	**0.0**	**0.0**			**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**

Notes:
1. Property taxes are at the Charter Limit using the income tax offset credit.
2. Reserve contributions are at the policy level and consistent with legal requirements.
3. PAYGO, debt service, and current revenue are at the current approved FY13-18 Capital Improvements Program.
4. Retiree health insurance pre-funding is increased up to full funding by FY15 and then is flat beyond FY15. FY14 is year 7 of 8-year funding schedule.
5. State aid and other intergovernmental revenues are flat in FY14-19.
6. Projected FY14 allocation for MCPS and Montgomery College assumes County funding at maintenance of effort, plus the pension shift for MCPS. The allocation does not include potential increases to State aid and other possible agency resources, such as higher-than-expected fund balance.

(13)

		App. FY13	Est FY13	% Chg. FY13-14	% 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	% Chg. FY18-19	Projected FY19
37	**Beginning Reserves**															
38	**Unrestricted General Fund**	168.6	168.6	-9.0%	-9.0%	153.4	-7.1%	142.6	1.2%	144.3	3.6%	149.4	3.5%	154.7	4.9%	162.2
39	**Revenue Stabilization Fund**	139.6	139.6	16.2%	16.2%	162.2	13.4%	184.0	12.2%	206.5	11.3%	229.7	10.6%	254.0	9.9%	279.2
40	**Total Reserves**	308.1	308.1	2.4%	2.4%	315.6	3.5%	326.5	7.4%	350.7	8.1%	379.1	7.8%	408.6	8.0%	441.4
41																
42	**Additions to Reserves**															
43	**Unrestricted General Fund**	-29.6	-15.1	63.2%	28.1%	(10.9)	115.7%	1.7	201.3%	5.1	2.4%	5.3	43.5%	7.6	-1.3%	7.5
44	**Revenue Stabilization Fund**	21.2	22.6	2.9%	-3.6%	21.8	3.3%	22.5	3.2%	23.2	4.5%	24.3	3.9%	25.2	2.7%	25.9
45	**Total Change In Reserves**	-8.4	7.5	230.1%	46.0%	10.9	121.8%	24.2	17.2%	28.4	4.2%	29.5	11.0%	32.8	1.8%	33.4
46																
47	**Ending Reserves**															
48	**Unrestricted General Fund**	139.0	153.4	2.6%	-7.1%	142.6	1.2%	144.3	3.6%	149.4	3.5%	154.7	4.9%	162.2	4.6%	169.7
49	**Revenue Stabilization Fund**	160.8	162.2	14.4%	13.4%	184.0	12.2%	206.5	11.3%	229.7	10.6%	254.0	9.9%	279.2	9.3%	305.1
50	**Total Reserves**	299.8	315.6	8.9%	3.5%	326.5	7.4%	350.7	8.1%	379.1	7.8%	408.6	8.0%	441.4	7.6%	474.8
51	**Reserves as a % of Adjusted Governmental Revenues**	**7.1%**	**7.4%**			**7.5%**		**7.9%**		**8.3%**		**8.6%**		**9.0%**		**9.4%**
52	**Other Reserves**															
53	**Montgomery College**	6.4	6.4	0.0%	0.0%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4
54	**M-NCPPC**	3.8	3.8	7.5%	7.5%	4.0	2.6%	4.2	2.9%	4.3	3.5%	4.4	5.1%	4.7	2.1%	4.7
55	**MCPS**	16.3	16.3	-100.0%	-100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
56	**MCG Special Funds**	1.6	1.6	2.6%	2.6%	1.6	1.2%	1.7	3.6%	1.7	3.5%	1.8	4.9%	1.9	4.6%	1.9
57	**MCG + Agency Reserves as a % of Adjusted Govt Revenues**	**7.8%**	**8.1%**			**7.8%**		**8.1%**		**8.6%**		**8.9%**		**9.3%**		**9.7%**
58	**Retiree Health Insurance Pre-Funding**															
59	Montgomery County Public Schools (MCPS)	**58.9**	**58.9**			**80.3**		**101.6**		**100.9**		**99.7**		**99.7**		**99.7**
60	Montgomery College (MC)	**1.8**	**1.8**			**2.4**		**3.1**		**3.0**		**2.8**		**2.8**		**2.8**
61	MNCPPC	**3.4**	**3.4**			**6.3**		**7.7**		**7.4**		**7.2**		**7.2**		**7.2**
62	MCG	**41.4**	**41.4**			**53.8**		**59.5**		**60.6**		**62.2**		**62.2**		**62.2**
63	**Subtotal Retiree Health Insurance Pre-Funding**	**105.4**	**105.4**			**142.8**		**171.9**		**171.9**		**171.9**		**171.9**		**171.9**
64	**Adjusted Governmental Revenues**															
65	**Total Tax Supported Revenues**	**4,050.4**	**4,081.2**	2.1%	1.3%	**4,133.4**	2.8%	**4,249.0**	2.8%	**4,369.4**	3.9%	**4,538.6**	3.7%	**4,706.9**	2.9%	**4,841.7**
66	**Capital Projects Fund**	**65.5**	**65.5**	52.1%	52.1%	**99.6**	2.3%	**101.9**	-11.8%	**89.9**	1.1%	**90.8**	-11.0%	**80.8**	0.0%	**80.8**
67	**Grants**	**107.0**	**107.0**	2.9%	2.9%	**110.1**	2.9%	**113.3**	2.7%	**116.3**	2.7%	**119.4**	2.7%	**122.6**	2.7%	**125.9**
68	**Total Adjusted Governmental Revenues**	**4,222.8**	**4,253.7**	2.8%	2.1%	**4,343.2**	2.8%	**4,464.1**	2.5%	**4,575.5**	3.8%	**4,748.8**	3.4%	**4,910.3**	2.8%	**5,048.4**

Major Known Commitments (MKCs)

		MCPS	MCG	College	MNCPPC	Total
1	FY13 Approved Budget	2,028,871,395	1,366,983,815	218,786,599	102,288,355	3,716,930,164
2	Retiree Health Insurance Pre-Funding (OPEB)		102,019,574		3,364,500	105,384,074
3	Agency Budgets Net of OPEB	2,028,871,395	1,264,964,241	218,786,599	98,923,855	3,611,546,090
4						
5	Potential or Negotiated Compensation					
6	Wages					0
7	Steps/service increments	12,556,048				12,556,048
8	Elimination of Lump Sum Increase		(14,267,504)			(14,267,504)
9	Group insurance cost increases	10,867,931	7,500,000	(350,000)	588,540	18,606,471
10	Retirement cost increases	6,690,386	6,000,000	700,000	1,663,628	15,054,014
11	Other benefit costs	7,284,136		594,500	405,600	
12	Annualization of Program Expenses		4,475,714			4,475,714
13	One-time expenditures/use of fund balance			2,800,000		
14	Cost increase due to enrollment	11,842,087		336,201		12,178,288
15	Elimination of One-Time Items		(16,191,041)		(372,000)	(16,563,041)
16	Deferred Costs					
17	Deferred Vehicle Replacement		4,000,000			4,000,000
18	Operating Impact of Capital Projects:					
19	Facilities	1,367,446	2,143,716	935,071	353,000	4,799,233
20	Tech Mod and other Information Technology		907,231			907,231
21	Programmtic obligations:					
22	Election Cycle Changes		(259,288)			(259,288)
23	Arts & Humanities Council NDA		500,190			500,190
24	Community Grants: CIP Cost Sharing		500,000			500,000
25	Community Grants NDA		3,777,890			3,777,890
26	Fire Rescue -- EMS revenue allocation		11,991,551			
27	Fire Rescue -- Travilah staffing		1,290,000			
28	Fire Rescue -- extend recruit class to 6 months		2,604,000			
29	Working Families Income Supplement		951,600			951,600
30	EDF Commitments		3,750,000			3,750,000
31	Information Technology cost increases		599,700			599,700
32	High School Wellness Center		1,594,000			1,594,000
33	Bikesharing Grant		693,150			693,150
34	Other programmatic cost changes		1,907,642			1,907,642
35	Inflation:					
36	Energy/utility costs	(945,530)		446,197	125,420	(373,913)

		MCPS	MCG	College	MNCPPC	Total
37	Fuel/rate increases		4,000,000			4,000,000
38	Nonpublic placements	2,295,827				2,295,827
39	Other			350,000	973,783	1,323,783
40	Other required cost increases:					
41	Liability insurance, workers compensation	702,497	6,793,295	300,000	430,570	8,226,362
42	Maintenance, transportation, etc.	563,507				563,507
43						
44	Total Major Known Commitments	53,224,335	35,261,846	6,111,969	4,168,541	98,766,691
45						
46	**Total Projected FY13 Agency Spending**	**2,082,095,730**	**1,300,226,087**	**224,898,568**	**103,092,396**	**3,710,312,781**
47	% Change	2.6%	2.8%	2.8%	4.2%	2.7%

REVENUE SUMMARY
TAX SUPPORTED BUDGETS
($ Millions)

	KEY REVENUE CATEGORIES	App. FY13	Estimate FY13	% Chg. FY13-14	% 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	% Chg. FY18-19	Projected FY19
	TAXES	5-24-12	12-11-12	Rec/Bud	Rec/Est	12-11-12										
1	Property Tax (less PDs)	1,462.2	1,459.5	2.6%	2.8%	1,499.8	2.5%	1,537.2	2.9%	1,581.6	3.5%	1,637.3	3.6%	1,696.6	3.7%	1,758.7
2	Income Tax	1,263.6	1,309.2	3.1%	-0.5%	1,303.0	4.7%	1,363.9	4.2%	1,421.8	7.0%	1,521.1	6.2%	1,615.7	3.7%	1,675.5
3	Transfer Tax	80.7	81.8	6.3%	4.8%	85.7	7.5%	92.1	7.0%	98.6	4.8%	103.3	5.4%	109.0	3.7%	113.0
4	Recordation Tax	55.9	54.3	1.2%	4.2%	56.6	6.6%	60.3	6.2%	64.1	4.3%	66.9	4.9%	70.1	3.4%	72.5
5	Energy Tax	233.8	224.7	-2.5%	1.5%	228.0	1.7%	231.8	1.5%	235.3	0.8%	237.2	0.4%	238.1	1.1%	240.8
6	Telephone Tax	48.7	46.1	-2.7%	2.8%	47.4	-0.2%	47.3	0.3%	47.5	0.9%	47.9	1.5%	48.6	2.2%	49.7
7	Hotel/Motel Tax	19.1	19.2	1.2%	0.4%	19.3	2.3%	19.7	1.7%	20.1	1.6%	20.4	1.9%	20.8	1.7%	21.1
8	Admissions Tax	2.5	2.6	8.0%	2.9%	2.7	3.2%	2.8	3.8%	2.9	4.1%	3.0	4.4%	3.1	4.7%	3.3
9	**Total Local Taxes**	**3,166.5**	**3,197.5**	**2.4%**	**1.4%**	**3,242.5**	**3.5%**	**3,355.2**	**3.5%**	**3,471.8**	**4.8%**	**3,637.2**	**4.5%**	**3,802.1**	**3.5%**	**3,934.6**
	INTERGOVERNMENTAL AID															
10	Highway User	3.3	3.3	2.7%	5.2%	3.4	0.0%	3.4	0.0%	3.4	0.0%	3.4	0.0%	3.4	0.0%	3.4
11	Police Protection	8.7	8.7	0.0%	0.0%	8.7	0.0%	8.7	0.0%	8.7	0.0%	8.7	0.0%	8.7	0.0%	8.7
12	Libraries	5.3	5.3	0.0%	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3
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	588.3	588.3	0.0%	0.0%	588.3	0.0%	588.3	0.0%	588.3	0.0%	588.3	0.0%	588.3	0.0%	588.3
16	Community College	30.2	30.2	0.0%	0.0%	30.2	0.0%	30.2	0.0%	30.2	0.0%	30.2	0.0%	30.2	0.0%	30.2
17	Other	31.4	31.4	0.0%	0.0%	31.4	0.0%	31.4	0.0%	31.4	0.0%	31.4	0.0%	31.4	0.0%	31.4
18	**Total Intergovernmental Aid**	**693.7**	**693.6**	**0.0%**	**0.0%**	**693.8**	**0.0%**	**693.8**	**0.0%**	**693.8**	**0.0%**	**693.8**	**0.0%**	**693.8**	**0.0%**	**693.8**
	FEES AND FINES															
19	Licenses & Permits	11.3	11.3	1.5%	1.5%	11.5	1.5%	11.6	1.5%	11.8	1.5%	12.0	1.5%	12.2	1.5%	12.3
20	Charges for Services	61.2	61.2	2.3%	2.3%	62.6	2.3%	64.0	2.1%	65.4	2.1%	66.8	2.1%	68.2	2.1%	69.6
21	Fines & Forfeitures	20.8	20.8	1.6%	1.6%	21.1	1.6%	21.4	1.6%	21.8	1.6%	22.1	1.6%	22.5	1.6%	22.8
22	Montgomery College Tuition	87.1	87.1	5.4%	5.4%	91.8	0.0%	91.8	0.0%	91.8	0.0%	91.8	0.0%	91.8	0.0%	91.8
23	**Total Fees and Fines**	**180.3**	**180.3**	**3.7%**	**3.7%**	**186.9**	**1.0%**	**188.9**	**1.0%**	**190.7**	**1.0%**	**192.6**	**1.0%**	**194.6**	**1.0%**	**196.6**
	MISCELLANEOUS															
24	Investment Income	0.5	0.5	33.6%	33.6%	0.6	94.0%	1.2	134.7%	2.9	55.8%	4.5	26.3%	5.7	0.0%	5.7
25	Other Miscellaneous	9.4	9.4	2.9%	-1.7%	9.6	2.9%	9.9	2.7%	10.2	2.7%	10.5	2.7%	10.7	2.7%	11.0
26	**Total Miscellaneous**	**9.9**	**9.9**	**4.4%**	**-99.1%**	**10.3**	**8.5%**	**11.2**	**17.2%**	**13.1**	**14.4%**	**15.0**	**9.8%**	**16.4**	**1.7%**	**16.7**
27	**TOTAL REVENUES**	**4,050.4**	**4,081.2**	**2.1%**	**1.3%**	**4,133.4**	**2.8%**	**4,249.0**	**2.8%**	**4,369.4**	**3.9%**	**4,538.6**	**3.7%**	**4,706.9**	**2.9%**	**4,841.7**
28	$ Change from prior Budget	158.2	189.1			83.1		115.5		120.4		169.2		168.3		4,841.7
	Calculation for Adjusted Governmental Revenues															
29	**Total Tax Supported Revenues**	4,050.4	4,081.2	2.1%	-100.0%	4,133.4	2.8%	4,249.0	2.8%	4,369.4	3.9%	4,538.6	3.7%	4,706.9	2.9%	4,841.7
30	**Capital Projects Fund**	65.5	65.5	52.1%	-100.0%	99.6	2.3%	101.9	-11.8%	89.9	1.1%	90.8	-11.0%	80.8	0.0%	80.8
31	**Grants**	107.0	107.0	2.9%	-100.0%	110.1	2.9%	113.3	2.7%	116.3	2.7%	119.4	2.7%	122.6	2.7%	125.9
32	**MCG Adjusted Revenues**	4,222.8	4,253.7	2.8%	-100.0%	4,343.2	2.8%	4,464.1	2.5%	4,575.5	3.8%	4,748.8	3.4%	4,910.3	2.8%	5,048.4

Resolution No.: ______________
Introduced: ______________
Adopted: ______________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council

SUBJECT: Spending Affordability Guidelines for the FY14 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 thanthe second Tuesday in February for the fiscal year starting the following July 1.

4. At the public hearing on January 29, 2013, 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	$ 319.6
M-NCPPC Debt Service	$ 4.7
Current revenue, specific projects	$ 81.4
Current revenue, PAYGO	$ 35.5
Retiree health insurance prefunding	$ 142.8
MCPS	$2,058.4
Montgomery College	$ 137.6
County Government	$1,310.2
M-NCPPC	$ 102.4
Total = Aggregate Operating Budget	$4,192.7

Action

The County Council for Montgomery County approves the following resolution:

1. The spending affordability guidelines for the FY14 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	$ 319.6
M-NCPPC Debt Service	$ 4.7
Current revenue, specific projects	$ 81.4
Current revenue, PAYGO	$ 35.5
Retiree health insurance prefunding	$ 142.8
MCPS	$2,071.8
Montgomery College	$ 137.6
County Government	$1,310.2
M-NCPPC	$ 102.4
Total = Aggregate Operating Budget	$4,206.0

2. The Council intends that $5.8 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 $2.9 million and Council Community Grants totaling $2.9 million.

This is a correct copy of Council action.

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Linda M. Lauer, Clerk of the Council

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Testimony of the Montgomery County Board of Education

Public Hearing on the
Fiscal Year 2014 Operating Budget
Spending Affordability Guidelines

Presented by Philip Kauffman, Vice President

January 29, 2013

Good afternoon, President Navarro and members of the County Council. I am Phil Kauffman, vice president of the Montgomery County Board of Education. Thank you for the opportunity to testify on behalf of the Board of Education on the proposed Operating Budget Spending Affordability Guidelines for Fiscal Year (FY) 2014.

The Board of Education looks forward to working collaboratively with the members of the County Council in supporting the needs of all students in Montgomery County. The Board of Education, the County Council, and the county executive have been and continue to be partners in a common effort to provide a high quality education to all the children of our county. The Board appreciates the significant investment that our county government has made in the past in the support of our budget, as well as the additional funds that support our system and our county's students that are not included in our budget. Through your actions, you have demonstrated that education is the number one priority for our county.

In support of our students, Dr. Joshua P. Starr, superintendent of schools, has recommended a FY 2014 Operating Budget that focuses on three major areas: managing the ongoing enrollment growth in Montgomery County Public Schools (MCPS), reenergizing efforts to narrow the achievement gap in our system, and investing in our future. At the same time, Dr. Starr's budget also begins to restore some of the more than 1,300 positions that were eliminated over the last few years during the fiscal downturn when MCPS redirected resources in order to keep pace with its growth.

The superintendent's FY 2014 budget recommendations are part of a multiyear strategy to keep up with growth and move MCPS forward. As a result, he has recommended a budget for FY 2014 that reflects an increase of $48.9 million, or 2.3 percent, in large part to keep up with a projected enrollment increase of 2,336 additional students over FY 2013.

More than 82 percent of the operating budget recommended by Dr. Starr is in support of enrollment growth and continuing costs. More students require specific services and support to ensure success for all students across the system. More than 49,300 students, about a third of the total enrollment, now receive free and reduced-price meals, an increase of more than 12,000 students over the last five years. In addition, almost 20,000 students (13.1 percent of enrollment) receive English for Speakers of Other Languages (ESOL) services.

MCPS has had success in narrowing the achievement gap in some areas, including Advanced Placement (AP) access and success in early grades reading. In 2012, MCPS students took nearly

33,000 AP exams and three-quarters of the exams resulted in a college-ready school of three or higher. Over the last five years, the most significant growth in AP participation and success has been with African American and Hispanic students. But in other areas, the gaps remain persistent, particularly in middle schools. Dr. Starr's budget for FY 2014 builds on the successes to date in narrowing the achievement gap with a particular focus on mathematics, which is undergoing significant changes in MCPS and across the nation. The goal is to give students a deeper conceptual understanding and ability to apply what they are learning in the classroom. To prepare our students for today's global economy and the staff to help students meet the resulting high demands, the budget continues with the implementation of the Common Core State Standards in math and literacy and Curriculum 2.0. Emphasis is placed on the professional development of staff, a key to the district's success.

In order to meet these important priorities, the superintendent emphasized when he presented his budget to the Board on December 11, 2012, that the request in total is less than one half of one percent (0.4 percent), or about $10 million above the Maintenance of Effort (MOE) level, or the funding floor required by state law. The Board is now in the process of reviewing the superintendent's recommended budget. We have held two public hearings to receive input from our stakeholders and last week held two work sessions. We will take final action on February 12. As you know, we are still engaged in collective bargaining with our three employee associations.

The County Council staff has recommended $2.058 billion for MCPS in the spending affordability guidelines for FY 2014. This is an increase of $29.5 million or 1.45 percent, reflecting an MOE level for MCPS. This reflects only an increase in local funding and assumes no change in state aid from FY 2013. However, if the expected increase in state aid reflected in the Governor's FY 2014 budget for MCPS is factored in, the overall change from FY 2013 would allow for a 2.3 percent increase in the MCPS budget in FY 2014.

The Board is pleased to see that the county's recent fiscal forecast provides some optimism for FY 2014 and beyond. As the Council adopts the spending affordability agency allocations, I encourage you to not only fund the schools at least at the Maintenance of Effort (MOE) level but address the priorities beyond MOE that the superintendent has put forward in his budget to address the continuing needs of our students.

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

Public Hearing Recommendations, Spending Affordability Guidelines, FY14 Operating Budget

- Option 1: AOB ceiling increases 4.43% (the rate of increase in personal income), MCPS and College budgets set at MOE
- Option 2: AOB ceiling increases 2.23%, the rate of inflation in CY12, MCPS and College budgets set at MOE
- Option 3: AOB ceiling remains at FY13 levels, MCPS and College budgets set at MOE

	A	B	C	D	E	F
1	**Table 1: Spending Affordability Guideline 2, Ceiling on the FY14 AOB, $millions**					
2	*FY13 Approved AOB*	*4,014.7*		Option 1	Option 2	Option 3
3	1. Change in Personal Income			+4.43%		
4	2. Inflation				+2.23%	
5	3. No change FY13 to FY 14					0.00%
6	**Ceiling on FY14 AOB**			**$4,192.7**	**$4,104.1**	**$4,014.7**
7	% change from FY13 Approved			+4.43%	+2.23%	0.00%
8						
9	**Table 2: Spending Affordability Guideline 3: Allocation of FY14 AOB, $millions**					
10		FY13	% agency total	Option 1	Option 2	Option 3
11	**A. Non agency allocations**					
12	County Debt Service	$298.8		$319.6	$319.6	$319.6
13	MNCPPC Debt Service	4.8		4.7	4.7	4.7
14	Current revenue, specific projects	50.2		81.4	81.4	81.4
15	Current revenue, PAYGO	29.5		35.5	35.5	35.5
16	Retiree health insurance prefunding (OPEB)					
17	OPEB for MCPS	58.9		80.3	80.3	80.3
18	OPEB for Mont. Coll.	1.8		2.4	2.4	2.4
19	OPEB for County Government	41.4		53.8	53.8	53.8
20	OPEB for MNCPPC	3.4		6.3	6.3	6.3
21	***Subtotal, non-agencies***	***488.8***		***584.0***	***584.0***	***584.0***
22						
23	**B. Agency allocations**					
24	MCPS	2,028.9	57.5%	2,058.4	2,058.4	2,058.4
25	College excl. expen. funded by tuition	133.3	3.8%	137.6	137.6	137.6
26	County Government	1,265.0	35.9%	1,310.2	1,228.1	1,145.2
27	MNCPPC	98.9	2.8%	102.4	96.0	89.5
28	***Subtotal, agencies***	***3,526.1***	***100%***	***3,608.7***	***3,520.1***	***3,430.7***
29	**Aggregate Operating Budget**	**4,014.7**		**4,192.7**	**4,104.1**	**4,014.7**
30						
31	**Table 3: Change in Agency Allocations, FY13 approved to FY14 recommended**					
32				Option 1	Option 2	Option 3
33	MCPS			1.45%	1.45%	1.45%
34	College excl. expen. funded by tuition			3.21%	3.21%	3.21%
35	County Government			3.58%	-2.92%	-9.47%
36	MNCPPC			3.58%	-2.92%	-9.47%
37	***Total***			***2.34%***	***-0.17%***	***-2.70%***

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Primary and Secondary Education

($ in thousands)

	Foundation Program	Compen-satory Ed.	Special Ed.	Student Trans.	Other	Total Direct	$ Change from 2013	% Change from 2013	State Retirement System	TOTAL	$ Change from 2013	% Change from 2013
Allegany	40,051	20,312	5,872	4,531	4,581	75,348	-420	-0.6%	9,206	84,554	562	0.7%
Anne Arundel	208,294	58,734	24,192	21,881	10,615	323,715	9,458	3.0%	72,060	395,775	17,980	4.8%
Baltimore City	426,794	323,468	82,109	19,645	61,428	913,444	23,517	2.6%	82,369	995,813	34,447	3.6%
Baltimore County	354,433	128,778	45,881	28,701	18,808	576,601	18,180	3.3%	100,773	677,374	31,852	4.9%
Calvert	59,411	10,205	4,657	5,579	1,335	81,188	-833	-1.0%	17,516	98,704	1,006	1.0%
Caroline	25,658	13,161	2,356	2,549	2,565	46,289	1,310	2.9%	4,985	51,274	1,906	3.9%
Carroll	100,641	13,895	11,762	9,471	1,587	137,355	-3,608	-2.6%	25,109	162,465	-643	-0.4%
Cecil	62,058	20,921	7,603	5,005	1,652	97,239	-1,104	-1.1%	15,234	112,472	532	0.5%
Charles	110,010	27,543	8,585	10,226	2,620	158,984	2,298	1.5%	25,491	184,476	6,028	3.4%
Dorchester	19,966	9,702	1,395	2,370	1,422	34,854	1,361	4.1%	4,210	39,063	1,942	5.2%
Frederick	162,879	30,989	14,210	11,834	7,721	227,633	3,106	1.4%	37,504	265,137	8,030	3.1%
Garrett	11,063	4,902	1,122	2,895	996	20,977	-1,304	-5.9%	4,070	25,047	-909	-3.5%
Harford	137,688	31,148	17,620	12,143	2,214	200,813	-4,693	-2.3%	34,309	235,122	-952	-0.4%
Howard	160,214	24,029	13,044	15,784	8,221	221,293	303	0.1%	63,310	284,603	9,320	3.4%
Kent	3,815	2,655	646	1,524	890	9,530	-516	-5.1%	2,200	11,730	-340	-2.8%
Montgomery	339,476	121,839	47,267	37,300	61,845	607,728	13,385	2.3%	171,246	778,973	34,113	4.6%
Prince George's	538,298	235,596	61,179	37,288	72,036	944,396	31,686	3.5%	112,867	1,057,263	36,453	3.6%
Queen Anne's	21,373	4,944	2,317	3,236	1,222	33,092	759	2.3%	6,698	39,791	1,346	3.5%
St. Mary's	66,222	15,567	5,049	6,617	1,431	94,886	-154	-0.2%	15,302	110,188	1,407	1.3%
Somerset	13,013	8,246	1,643	1,809	2,035	26,746	2,989	12.6%	3,053	29,799	3,388	12.8%
Talbot	4,381	4,332	845	1,541	1,156	12,255	134	1.1%	3,931	16,186	592	3.8%
Washington	96,940	40,292	8,308	6,881	8,168	160,588	2,665	1.7%	20,006	180,594	5,566	3.2%
Wicomico	66,787	37,135	6,792	5,074	7,619	123,407	3,415	2.8%	13,475	136,882	4,874	3.7%
Worcester	6,395	7,228	1,729	2,887	1,029	19,268	276	1.5%	7,934	27,202	1,180	4.5%
Statewide/Unallocated	0	0	13,146	0	16,919	30,065	6,512	27.6%	0	30,065	6,512	27.6%
Total	3,035,863	1,195,620	389,329	256,769	300,114	5,177,694	108,722	2.1%	852,859	6,030,553	206,191	3.5%

Totals and percentages may not add due to rounding.

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