AGENDA ITEM #10
April 14, 2009

MEMORANDUM

April 10, 2009

TO: County Council

FROM: Stephen B. Farber, Council Staff Director SBF

SUBJECT: Overview of the FY10 Operating Budget

The Council is scheduled to make final decisions on the County's FY10 operating budget on May 14 and to adopt implementing resolutions on May 21. This overview outlines the core budget issues that the Council will address and resolve over the next five weeks.

Budget Context and Size

The national recession that started in December 2007 has widened and deepened. Real gross domestic product **fell 6.3 percent** in the fourth quarter of 2008 and has continued to fall sharply this year. The national unemployment rate in March – **8.5 percent**, the highest in a quarter century – is widely expected to exceed 10 percent later this year. A broader measure of unemployment, which includes discouraged and underemployed workers, is now **15.6 percent**. The Dow Jones Industrial Average, which peaked in October 2007, has extended last year's sharp decline and, until a bounce last month, was at **less than half** its peak level, undermining investment and retirement accounts. The bursting of the housing bubble, and the prolonged credit crisis that intensified last fall with the collapse of iconic financial services firms, have also taken a huge toll on individuals and businesses. The resultant **"reverse wealth effect"** portends, despite massive federal stimulus and bailout funding, a long and slow recovery.

This region and County, while faring much better, have not been immune. The February unemployment rate for the Bethesda-Frederick-Rockville metropolitan division – **5.4 percent**, the lowest of the 34 U.S. divisions listed by the Bureau of Labor Statistics – was 2.8 percent a year ago. The County's February unemployment rate – **5.1 percent**, representing nearly **26,000** workers (not counting discouraged and underemployed workers) in a labor force of just over 500,000 – is the highest in at least 20 years and, like the national rate, will almost surely rise further.[1] In this climate, not surprisingly, both State and County revenues have fallen sharply.

[1] The March unemployment rates for the metropolitan division and the County are not yet available but are probably even higher. (Unlike the national rate, they are not seasonally adjusted.) Until January, the County's rate had not reached even 4 percent (much less 5 percent) at any time in at least 20 years, including recession years. Other County economic indicators showing continued weakness include home sales, average sales prices, residential property assessments, residential and non-residential construction, and commercial property vacancy rates. Go to http://www.montgomerycountymd.gov/content/council/pdf/agenda/cm/2009/090402/20090402_MFP01.pdf for the Finance Department's economic indicators report. See ©56-61 on why the region is no longer recession-proof.

The Executive's recommended FY10 tax-supported operating budget is $3.8277 billion, up $39.9 million (1.1 percent) from the Council-approved FY09 budget. The total recommended budget (including grants and enterprise funds) is $4.4249 billion, up $82.7 million (1.9 percent) from the FY09 approved budget.

The recommended budget is a mix of long-term, short-term and one-time measures. It gives priority to public safety, education, and the safety net. It reduces some services, employee pay, and positions, but less than other budgets in the region do and far less than many budgets elsewhere do. Overall, the scope of the County's extensive services remains largely intact.

For further details, see the Executive's transmittal letter on ©1-15. See also the transmittal letters from Board of Education President Brandman for MCPS on ©16-17, Board Chair Shulman and President Johnson for the College on ©18-22, Chairman Hanson for M-NCPPC on ©23-30, and Chair Starks for WSSC on ©31-35. See also the Spending Affordability table on ©36 and the Budget Summary table on ©37.

How the Budget Gap Was Closed

The budget gap is the difference between projected expenditures and projected resources. For County agencies, projected expenditures are based on the 10-year average rate of growth plus the phase-in of retiree health benefits pre-funding. Last May OMB estimated the FY10 budget gap at $200.4 million. By July the deteriorating economic and revenue picture raised the estimate to $251.0 million. By December, reflecting the impact of the financial markets' turmoil on the economy, the estimate grew to $515.7 million. The Council's approval of the FY09 Savings Plan and the elimination of projected FY09 supplemental appropriations then lowered the estimate to $448.9 million. By March, reflecting reduced State aid and a further revenue writedown, the estimate was $587.5 million.

OMB's spreadsheet on ©38 summarizes how the Executive's recommended budget closed this **$587.5 million gap**. Key elements include eliminating general wage adjustments (COLAs) for all agencies ($123.5 million), realizing lower debt service costs in FY09-10 ($57.4 million), shifting current revenue and PAYGO from the capital budget ($48.7 million), cutting FY09 expenditures via the Savings Plan ($32.5 million) and follow-up savings ($21.5 million), reducing projected expenditures for County Government ($55.6 million), lowering reserves from 6 percent to 5 percent of total resources[2] ($39.4 million), and eliminating the scheduled increase in retiree health benefits pre-funding ($25.7 million). See also the following discussion of Maintenance of Effort for MCPS.

Some reductions, like the debt service savings, will be hard to replicate in FY11. Shifting funds from the capital budget has consequences for the County's construction program. Among "budgetary strategies that I have strongly resisted in the past," the Executive lists reducing tax-supported reserves to 5 percent and level-funding for retiree health benefits pre-funding.

[2] Reserves in the Council's approved FY03-09 budgets were 5.9, 5.5, 6.1, 6.0, 6.4, 6.0, and 6.0 percent.

Large Pending Issues

• **General Wage Adjustments (COLAs):** While two County Government unions, FOP Lodge 35 and MCGEO Local 1994, reached agreement with the Executive to postpone previously bargained COLAs in FY10 – as the MCPS unions did with the Board of Education – IAFF Local 1664 did not. When the Executive did not include the IAFF COLA in his recommended budget, the union filed a prohibited practice charge. On March 28 the Labor Relations Administrator dismissed the charge.[3]

The union announced its intent to appeal the decision. If the union actually does appeal and were to prevail quickly, parity ("me too") clauses in the other unions' agreements might be invoked. Timing is a factor since the Council must adopt a budget by June 1. (Ultimate funding decisions are in any event up to the Council.) **As a practical matter, restoring all COLAs, at a cost of $123.5 million, would require major service cuts, position abolishments, or tax increases.**

• **Maintenance of Effort (MOE).** State law requires local jurisdictions to maintain local funding for school systems under a formula based on enrollment and prior year funding. The County's local contribution has often far exceeded the MOE requirement – for example, by $83 million in FY08 and $78 million in FY09. These past funding decisions, combined with the current fiscal situation, led the County to request a waiver of the MOE requirement for FY10 in the amount of **$94.9 million**.

See ©39-44 for the March 31 letter to the State Board of Education from the Executive and the Council President.[4] Also see ©44A-D for the April 7 letter to the State Board from the County Board's leadership. The letter expresses support for the waiver request with certain conditions. Timing is a factor here too because the State Board has until May 15 to decide how large a waiver to approve. **As a practical matter, if the State Board approves a smaller waiver, the difference will have to come from the non-MCPS part of the FY10 budget.**

• **Additional State Reductions.** After the release of the Executive's recommended budget on March 16, the Bureau of Revenue Estimates issued a further large writedown of State revenues. The General Assembly then focused on further expenditure reductions, including State aid to local governments. The conference committee has just completed work. The total County impact appears to be **$41.6 million** less aid than projected in the Executive's recommended budget. See ©45 for OIR's preliminary summary. The Executive's annual budget adjustments, transmitted in the third week of April and usually minor, this year must recommend how to deal with this further reduction in State funds.

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[3] The LRA wrote that this case presents "an unforeseen fiscal emergency. The fact that the Executive normally proposes full funding of the negotiated IAFF agreement does not foreclose the possibility – and in this case, the reality – that financial conditions can change dramatically for the worse, leading to a situation where, as here, the Executive cannot in good conscience request full funding of an agreement. In such case, a requirement that the Executive support full funding irreconcilably conflicts with his Charter-conferred budgetary discretion, and the requirement of local law must give way to that higher authority."

[4] Seven other counties (Anne Arundel, Calvert, Charles, Frederick, Prince George's, Wicomico, and Worcester) have also requested a waiver.

Another key FY10 funding issue is the **EMS Transport Fee**, or ambulance fee. In a March 5 letter, seven Councilmembers asked the Executive not to assume this fee in his recommended budget, but the Executive did so. If the fee is not approved, the Council will need to identify **$12.5 million** – the revenue the Executive has assumed from the fee, net of projected expenditures – in alternative resources or reductions.

Comparison with Budgets Elsewhere

Many FY10 government budgets elsewhere in the region and the nation are even more constrained than the County's. While the Executive's recommended tax-supported budget has just a 1.1 percent increase, the recommended budgets in the largest neighboring jurisdictions (Prince George's, Fairfax, and the District) are all **lower** than in FY09. Their service reductions are larger, and they freeze employee pay (no COLAs or steps), while the Executive retains steps. The Prince George's Executive has proposed 10 furlough days in FY10 on top of 10 this year.

Elsewhere in the nation, most state and local budgets, except some in farm and energy-rich states, are hard-pressed. New York and New Jersey, reeling from the problems of the financial services industry, are considering surtaxes for high-income residents and numerous one-shot expedient measures. The travails of industries ranging from cars to tourism have squeezed other government budgets, especially where unemployment has already reached double digits (California, the Carolinas, Michigan, Nevada, Oregon, and Rhode Island) or is almost there (Florida, Georgia, Indiana, Kentucky, Mississippi, Ohio, and Tennessee).

These and other jurisdictions face furloughs, layoffs, and core service cuts. In Nevada, for example, cuts in Medicaid have already led the University Medical Center to terminate outpatient chemotherapy, dialysis, and other therapies for the uninsured, and the Governor has proposed a 6 percent pay cut for state employees and teachers to avoid large-scale layoffs.

Recommended Allocations to Agencies

The Executive recommends small increases for three of the four tax-supported agencies: **2.0 percent** for MCPS, **2.3 percent** for the College (net of tuition), and **2.4 percent** for M-NCPPC. As in past years, the Executive's recommendations for these agencies lack the detail of those for County Government (MCG), which is **down 0.4 percent**.

The table on ©46 reflects this stringency for individual MCG departments. The many double-digit increases of FY07, the moderate increases of FY08, and even the small increases of FY09 are now a distant memory. Of the largest budgets, Police and Fire/Rescue are each up 2.7 percent, while Corrections is unchanged. HHS is down 2.5 percent, while Transportation and Transit Services are down 4.4 percent and 6.1 percent, respectively. Most other budgets are down: 6.4 percent overall for General Government, 6.3 percent for Libraries, 6.4 percent for Community Development and Housing, and 5.1 percent for Recreation.

Total County Government tax-supported workyears are down 298.9 or 3.0 percent. The reductions include 42.0 in Transit Services (route reductions and elimination of part-time bus driver positions), 38.3 in Libraries (elimination of vacant positions), 28.0 in Recreation (pool manager and teen program positions), 26.4 in HHS (addition of the Emergency Safety Net program and elimination of the Assertive Community Treatment team), 28.6 in Police (elimination of some civilian and sworn positions), and 9.7 in Fire/Rescue (opening of Milestone station less reduction in recruit classes).

Revenue Issues

As usual, the budget includes recommended increases in a range of **fees and fines**. The list on ©47 totals $21.8 million. The largest revenue increases come from College tuition ($2.1 million), the Water Quality Protection charge ($2.3 million), Solid Waste Service charges ($1.6 million), and the ambulance fee ($14.6 million). Council staff has proposed other fee options.

Property Tax

The Executive recommends no increases in tax rates and adherence to the **Charter limit on property tax revenue.**[5] In the limit's 18-year history, the Council has exceeded it four times: in FY03-05 by $4.3 million, $29.2 million, and $37.3 million, and in FY09 by $117.5 million.

For FY06 Mr. Duncan proposed exceeding the Charter limit by $62.5 million. The Council was narrowly divided but ultimately adhered to the Charter limit and instead reduced his recommended budget. In FY06-08, with property assessments rising sharply, the Council met the Charter limit in several ways:

- in FY06, by cutting the rate 4 cents, providing a $116 income tax offset credit for owner-occupied principal residences,[6] and expanding the County supplement to the State's Homeowners Property Tax Credit Program (circuitbreaker).

- in FY07, by cutting the rate another 5 cents and providing a $221 credit.

- in FY08, by providing a $613 credit. Under this all-credit approach, owner-occupied residences with a taxable assessment of up to $475,200 actually had a **lower** bill in FY08 than in FY07, starting with 8.2 percent lower for a taxable assessment of $275,000.

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[5] The Charter limit, approved by County voters in 1990, permits annual growth in County property tax revenue from existing real property to increase only by the rate of inflation. The limit does not apply to revenue from new construction, several more minor factors, or personal property. With the voters' approval of Question B last year, the Council may exceed the Charter limit only with nine votes (not the previous seven). No criteria, such as emergency conditions, are specified for doing so. The understanding in 1990 between Councilmembers who sponsored the Charter amendment (including Mr. Leggett) and Robert Denny, head of Fairness in Taxation, which had advocated a stricter alternative, was that this flexibility would enable the Council to deal with serious fiscal challenges over time.

[6] State and County laws authorize the Council each year by resolution to grant a property tax credit to owner-occupied principal residences "to offset in whole or in part increases in the county...income tax revenues resulting from a county income tax rate in excess of 2.6 percent." A key feature of the income tax offset credit, as Councilmember Floreen first pointed out in 2005, is that it produces a smaller revenue loss than a rate cut. This is because a rate cut applies not only to existing property (which is subject to the Charter limit) but also to new construction and personal property (which are not). Also, this credit focuses the property tax relief on owner-occupied principal residences (as distinct from rental and non-residential property).

For FY10 the Executive recommends meeting the Charter limit by providing a credit of **$690** for each of the County's 250,000 eligible owner-occupied residences. A home with the median taxable assessed value, $380,600, would have a bill increase of $201 or 7.9 percent.[7] See the table on ©48.

This table also shows that with FY05 as the base year, the total bill increase for the median home in FY06-10 (including FY10 recommended) is 16.8 percent. In other words, the bill for the median home over the past five years has risen at <u>less</u> than the rate of inflation (3.2 percent v. 3.7 percent). The key reason is that in FY08, as noted above, bills actually went down.[8]

"Tax Room"

As for **other taxes**, the Executive has not recommended any rate increases, in part because of the economic climate and in part because the County has very little "tax room." The tax increases on property (above the Charter limit), income, energy, and telephones that were approved to balance the FY04-05 budgets have become an integral part of the County's revenue base, accounting for **$303.5 million or 10.2 percent of FY10 local tax revenue ($2,962.2 million)**. The FY10 revenue from the FY09 increases in property and energy taxes is an additional $133.8 million. This amount, combined with the impact of the FY04-05 tax increases, accounts for **$437.3 million or 14.8 percent of FY10 local tax revenue.** See the table on ©49.

The income tax, now at 3.2 percent (the maximum rate permitted by the State), cannot be raised further. The energy tax (more than quadrupled since FY03) and the tax on telephone landlines (more than doubled to $2 per month and also applied to wireless lines) are already high and in any event have a relatively small yield.

During the recession of the early 1990s the Council also raised taxes on income, energy, and telephones, but as fiscal conditions improved later in the decade, the Council reduced those taxes (and also eliminated the beverage container tax). The Council was then able to use this "tax room" to counter the sharp downturn earlier in this decade. **Similar "tax room" is not available now. Since it probably will not be available in the next downturn either, pressure will once again grow to exceed the Charter limit.**

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[7] This 7.9 percent increase exceeds the CPI increase used to calculate the Charter limit, 4.5 percent, because the limit applies to all existing real property combined – i.e., (1) owner-occupied principal residences, (2) rental and other residential property that is not a principal residence, and (3) non-residential property. In FY10 the taxable base for category 1 is rising faster than the base for categories 2 and 3. Only category 1 is eligible for the Homestead Property Tax Credit, which limits the annual increase in taxable assessed value to 10 percent. This credit protected category 1 when assessments were rising rapidly, but now that assessments are falling, the stored credit from past years is keeping the taxable assessed value up. Categories 2 and 3 are not similarly affected now because they did not have this credit's protection when assessments were rising rapidly. Property tax revenue from category 1 is rising at more than the rate of inflation; revenue from categories 2 and 3 combined is actually declining.

[8] If the Council wanted nonetheless to reduce the 7.9 percent median home bill increase in FY10 (which follows a 14.3 percent increase in FY09, when the Charter limit was exceeded by $117.5 million) to the 4.5 percent CPI increase, it could do so by raising the credit from $690 to $777. This increase would forgo $21.7 million in revenue.

Workforce and Compensation Issues

Employee salaries and benefits are always a key fiscal building block. As the Executive notes, they account once again for **80 percent** of the recommended budget. Recommended tax-supported workyears for all agencies are **down 0.8 percent** to 30,293.8. (Workyears are down 3.4 percent for MCG and 0.6 percent for the College; they are up 0.2 percent for MCPS and 1.6 percent for M-NCPPC.) Total workyears are down 0.3 percent to 33,620.1. In the FY09 approved budget the comparable percentages were -0.5 +0.4. This is in stark contrast to the explosive workforce growth in prior years.[9]

COLAs

The key compensation change for FY10 is that funds are not provided for general wage adjustments (COLAs).[10] The tax-supported savings are $28.9 million for MCG, $84.9 million for MCPS, $7.0 million for the College, and $2.7 million for M-NCPPC. With all COLAs included, the budget (absent other reductions) would have been up by 4.3 percent rather than 1.1 percent, and taxes would have to have been raised accordingly.

This change is the single largest element used to close the FY10 budget gap, and its impact on employee pay is clear. COLA reductions for County agencies are rare. In the deep recession of the early 1990s, general government MCG employees had no COLAs for three consecutive years. In FY04 COLAs for all agencies were deferred for four months.

For the most part, however, contracts with agency bargaining units have resulted in consistent improvement in salaries and benefits.[11] OHR's annual surveys show that for almost all job categories, County agencies' salaries and benefits compare favorably with those in other jurisdictions and the private sector. Our employees also have far more job security than others in this economy. These factors have heightened the already intense interest in County employment.

Steps and Furloughs

While the State and other local jurisdictions are freezing salaries in FY10 – that is, not providing either COLAs or step increases – the Executive's budget assumes that **steps** will continue. The tax-supported cost is **$29.2 million** – $5.6 million for MCG, $19.6 million for MCPS, $2.3 million for the College, and $1.7 million for M-NCPPC.

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[9] In FY97-07 County Government added 2,200 jobs (28 percent) while population rose 15 percent. MCPS added 5,000 jobs (30 percent) while enrollment rose 7 percent. The tax-supported budget rose 80 percent.

[10] Given the disinflationary pressures of the weak economy, it now appears that the FY10 CPI increase will be small.

[11] For example, the three-year contracts negotiated for FY08-10 with the MCPS unions, and with FOP Lodge 35 and MCGEO Local 1994 in MCG, provided compounded salary increases in the 26-29 percent range for the two-thirds of employees who are eligible for annual service increments. As the graph on ©50 shows, base salary increases for MCG employees in FY99-09 have tripled the CPI increase. Last year's MCGEO reopener on benefits also increased the County contribution to employees' 401(a) accounts from 6 to 8 percent and gave employees the option to switch to a cash balance plan with a guaranteed annual return of 7.25 percent starting July 1, 2009. Overall, the County's excellent benefits cost more than one-third of salary for MCGEO and more than half for the FOP and IAFF.

The State and many other governments here and elsewhere have also imposed **furloughs** – for example, 2-3 days for State employees in FY09 and, for Prince George's employees, as noted above, 10 days each in FY09 and FY10. The Executive does not propose furloughs at this time but considers them an option in the event of further revenue shortfalls.[12]

Retiree Health Benefits

In his FY10 budget message the Executive speaks firmly about retiree health benefits:

> To approve health benefits for future retirees without funding those benefits is not responsible – it breaks faith with retirees who will need to know the money is there when it is needed. We have long accepted the concept of pre-funding of pension benefits because it is a responsible and cost effective approach to fulfilling our promises to retirees. We need to embrace the need to realistically fund this commitment as well.

Two years ago, at the Executive's urging, the Council approved a five-year phase-in of the pre-funding required for future health benefits for retirees of County agencies. The FY08 phase-in amount, $31.9 million, was scheduled to rise to $70.7 million in FY09. Last year, given the tight budget, the Executive instead proposed an eight-year phase-in to save $15.6 million in FY09. The Council approved the eight-year schedule, but – adopting a revised methodology proposed by its actuarial consultant – reduced the FY09 contribution to $40.6 million.

Now, again for fiscal reasons, the Executive recommends a FY10 contribution at the FY09 level, $40.6 million, to save $25.7 million. See the most recent eight-year phase-in table on ©51. (This table will change as updates to the agencies' regular actuarial valuations of their liabilities are completed.) As the Executive and Council prepare to address the remaining budget gap created by the further State aid reductions just approved by the General Assembly, one option will be an even larger incursion on the FY10 contribution.

Under the original five-year phase-in approved two years ago, the scheduled FY10 contribution was **$109.8 million**. The actual FY10 contribution will be far less. Governments nationwide face a similar funding problem this year. Credit rating agencies, some analysts believe, will recognize this year's fiscal pressures as unique. Hopefully they are.

The core point is that to pre-fund the agencies' retiree health benefits promises to their employees will require an increasingly massive taxpayer contribution, currently estimated to reach the range of $200 million per year by 2015, above and beyond the annual pay-as-you-go expense. This amount will not be available for services to County residents – most of whom do not enjoy such benefits – or, for that matter, for salary or other benefit improvements for agency employees. The alternative is to find ways to limit the County's costs. No sustained effort to do so is underway.

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[12] Choices of this kind reflect the County's commitment to its employees, but they are not lost on the County's critics in Annapolis. As Senate President Miller told the Committee for Montgomery on December 8, "The county that gives big salaries and big benefits is going to have to make some adjustments."

Concession Agreements

The MCPS unions agreed to forgo the scheduled FY10 COLA (5.3 percent) without major contract changes, except for a parity ("me too") clause. FOP Lodge 35 and MCGEO Local 1994 entered into "concession agreements" with the Executive that postpone the COLAs (4.25 and 4.5 percent, respectively) but include some new contract provisions.[13] The key provisions – and questions the Council will need to consider about them – are:

• **Both agreements:** For employees in the defined benefit pension plan, the future pension benefit must credit annual salary as if the COLA had been paid in FY10. The budget lists no current fiscal impact for this "phantom" COLA credit, but there certainly will be one in the future because neither the County nor employees will contribute to the pension fund (the Employees' Retirement System) for the forgone FY10 COLA amount. *Is it wise to require the pension fund, which is already under pressure, to absorb this additional burden?*[14]

• **MCGEO agreement:** Employees at normal retirement age, or within two years of it, will be eligible for a $40,000 buyout incentive, with participating employees scheduled to retire on June 1. The program is supposed to help find openings for employees in the 234 filled positions that are expected to be abolished. Other options to manage this Reduction-in-Force are the Discontinued Service Retirement (DSR) provisions and RIF procedures that provide priority access to vacant positions and maintain employees' salary levels for two years even if they are placed in a lower-graded position. See the RIF information on ©52-53.

OLO's report on buyouts, scheduled for presentation on April 14, raises important questions about the cost-effectiveness of last year's $25,000 buyout program. *How cost-effective is this year's $40,000 program? Should it be open to all comers (685 eligible employees), or should it be limited to classes in which the RIFs are to occur? Is it sound policy to pay $40,000 to employees who are about to retire anyway? Is it wise, given the pressures on the pension fund, to make it pay the cost of this buyout (on top of last year's buyout)?*

• **MCGEO agreement**: Employees at the top of their pay grade in FY10 will receive 60 hours (1.5 weeks) of compensatory leave. *What overtime and other costs will result?*

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[13] It may be that the County's collective bargaining laws should have a "doomsday" clause that suspends costly contract provisions in the event of a subsequent disaster or fiscal emergency, but they do not. Thus the Executive was required to bargain with the unions over postponing the FY10 COLAs unless the unions were prepared to postpone them, without conditions, for the common good. (In his inaugural address, President Obama commended "the selflessness of workers who would rather cut their hours than see a friend lose their job.") By contrast, the Executive is not required to bargain with County residents over services and taxes; instead, he relies on his best judgment of the public interest. There was no bargaining, and there are no concession agreements, with bus riders over the cuts in Ride On service, with library users over the cuts in materials and staff, with WSSC customers over the 9 percent increase in water and sewer rates, or with homeowners over the 7.9 percent increase in the median home's property tax bill.

[14] While the pension fund ranks highly in relative performance, like other funds it has experienced large losses. Assets are down from **$2.8 billion** in October 2007 to **$1.9 billion** as of March 31. The fund's one, three, five, and ten-year investment returns are -24.2, -4.57, 1.13, and 3.03 percent, compared with its actuarial return assumption of 8.0 percent. As of December 31, 2008 the funded ratio was 78.7 percent and the unfunded liability was $722.2 million. A key factor is the succession of large pension improvements included in County collective bargaining agreements starting in FY99. The County's contribution to the pension fund has risen from $44 million in FY00 to $115 million in FY10. Poor investment results for FY08-09 may lead to further large increases.

• **FOP agreement:** Officers who live outside the County but within 15 miles of the County's borders (about 200) will now have full-use vehicles (Personal Patrol Vehicles). (Officers who live in the County will now be able to drive their PPVs up to the 15-mile radius as well.) *How does this square with the original rationale in the contract for PPVs – "providing greater police presence on the streets and in the neighborhoods of Montgomery County"? How does the fiscal placeholder in the budget, $237,000, square with the added cost for vehicles, fuel, insurance, and maintenance, which are probably many times that amount?*

• **FOP agreement:** Officers are to receive 3 additional leave days each year. There is supposedly no additional cost for personnel or overtime. *How is this possible?*

The impact of postponing COLAs should not be underestimated, but for other governments step increases are also gone and furloughs are being imposed. In the private and non-profit sectors, salaries, benefits, and jobs themselves are all painfully on the line. Since **budgets are about choices**, the question about the concession agreements is whether the several million dollars they would cost should go instead, for example, to restoring bus routes, easing cuts to libraries, improving the safety next for people in dire need, or reducing the increase in property tax bills.

What About FY11?

Decisions on the FY10 budget must take into account the difficult fiscal prospects for FY11. As the President has said, the economy will get worse before it gets better. PIMCO's co-founder Bill Gross sees a world-wide process of "de-levering, de-globalization, and re-regulation" leading to a "new normal" characterized by weak growth and lower returns for a majority of asset classes. The County is not immune from this process. OMB's Fiscal Plan already projects a FY11 budget gap of **$370.3 million**.

Moreover, as in past downturns, **the fiscal cycle will lag the economic cycle**, perhaps by as much as a year. State and County revenues will not bounce back quickly. Revenue from capital gains, which is especially important to the County, is projected by the State to have fallen 45 percent in 2008 and to fall **another 30 percent** in 2009.

State aid flows will continue to be a challenge as well. State fiscal analysts project further large State deficits for FY11 and beyond, despite the aggressive actions taken in 2008 and 2009. A legislative study committee is set to scrutinize local aid this summer. Teacher pensions remain in the cross-hairs for Senate President Miller and other key figures.

Federal stimulus funds have already been of assistance. They amount to more than $1 billion of the State's FY10 general fund budget, mitigating cuts now but raising concern about future budgets. They have provided $21.4 million to MCPS – $6.1 million for Title 1 and $15.4 million for IDEA – in FY10, with like amounts expected in FY11. Attached on ©54 is a March 31 list of currently expected stimulus funds prepared for the Interagency Steering Committee, which meets weekly and is aggressively pursuing all funding opportunities. See also the discussion of stimulus funding in the County's MOE waiver request on ©41-42. But as the Executive notes, stimulus funds are temporary, and there are often federal non-supplantation and other requirements that limit their use for the tax-supported budget.

The question for the Executive's recommended FY10 budget is not only whether it deals with the County's immediate fiscal challenge, which it arguably does, but whether it prepares the County adequately for FY11 and beyond. Some of the changes it proposes are in fact significant, but they are also more limited than the structural changes being made by – or forced on – many other governments and the private sector.

The salary and benefit costs that comprise 80 percent of the budget are affordable when times are good and revenue growth is strong. In serious downturns they are not, and fault lines between the County's promises to employees and its ability to pay for them begin to emerge. Absent an economic recovery that is robust and has staying power, these fault lines will deepen.

Approach for Committee and Council Budget Review

The Council's five public hearings on the budget are scheduled for April 13-16. Committee worksessions have started; Council worksessions will begin on May 4. Revenue day and reconciliation day are scheduled for May 13 and 14. Our budget tracking system, which records all Committee and Council actions, will prepare regular updates until May 21, the date for final budget approval. Since the recommended agency budgets fall within the spending affordability guidelines set by the Council on February 10, no SAG reductions are required.

Council President Andrews has suggested how our analysts and Committees can most productively approach individual department and agency budgets. See his memo on ©55.

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OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

March 16, 2009

TO: Phil Andrews, President, Montgomery County Council

FROM: Isiah Leggett, County Executive

SUBJECT: FY10 Operating Budget and FY10-15 Public Services Program

I am pleased to transmit to you, in accordance with the County Charter, my Recommended FY10 Operating Budget and FY10-15 Public Services Program.

My top priorities throughout this budget process have been to produce a fiscally sound and sustainable budget that preserves public safety services, education, and the County's safety net for the most vulnerable. This budget funds these priorities, but also makes the tough decisions that the current fiscal climate requires us to make. Our approach to this budget has been to protect essential services, but also to find long-term cost savings to minimize the burden on taxpayers and alleviate the impact on direct services.

The challenges facing Montgomery County are similar to those other state and local jurisdictions around the nation are encountering. Stagnant economic growth, rising unemployment, and a faltering housing market triggered a sharp loss in local tax revenues, but more importantly have pushed many families into financial crisis, driven up the demand and need for government services, and contributed to rising crime rates. We are not alone in facing these challenges as the State and jurisdictions throughout the region and the nation have been forced to cut services, layoff and furlough employees, and freeze wages.

Our challenge with this budget is to reposition Montgomery County for the future. That is because once the economic recovery does begin, it is expected to be long and slow. Most economists project that these difficult economic times will continue at least through most of 2010. These projections have clear implications for, not only the FY10 Budget, but also for the budgets well into the future. As much as possible, I focused on identifying long-term savings that will be part of the FY10 solution, as well as part of the solution for future budgets.

For our County, the economic recession followed a period of rapid growth in the size of the County workforce and the expansion of several direct services in K-12 education, health and human services, and other programs. For the ten years prior to taking office, under the previous County Executive, the County budget grew by 80 percent, while inflation increased by less than 30 percent. Population growth was only 20 percent over the same time period. During this same time, the school system, which accounts for nearly half of the budget, added 5,000 jobs, a 30 percent increase compared to an enrollment increase of 7 percent. And the County Government added 2,200 jobs, a 28 percent increase. The average rate of growth in the total County tax supported budgets over the past ten years has been 8 percent.

The average rate of growth in the three budgets that I have recommended to the County Council has been 3.8 percent.

I said two years ago, even before the current economic downturn, that our spending was not sustainable. The combination of a growing workforce and sharply receding local revenues has created a long-term structural deficit in the County budget. Since taking office, I have made restoring fiscal prudence a major priority of my administration. We established several cost containment and cost reduction strategies that have dramatically slowed the rate of growth in both the operating and capital budgets and have saved County taxpayers millions of dollars.

In addition to controlling costs in the operating budget, my first capital budget, the FY09-14 Capital Improvement Program (CIP), submitted to the County Council in January 2008 increased capital expenditures by only 1 percent over the previous CIP budget. The two previous CIP budgets had averaged increases of 25 percent each.

In my first budget as County Executive, the County faced a $200 million budget shortfall in FY08. We reduced the tax supported rate of increase in spending by County government from 14.1 percent in FY07 to 6.9 percent in FY08. In FY09, as a result of a plummeting real estate market and the economic downturn, our projected shortfall increased to $401 million. In response to this challenge, we imposed a hiring freeze, produced midyear savings of over $30 million, abolished over 225 positions, implemented a retirement incentive program, and slowed the rate of growth in the County Government to 1.6 percent. In developing the FY10 budget, we faced a daunting and historic projected gap of nearly $590 million, which we have successfully closed.

The cumulative amount of budgetary shortfalls that I have been forced to close in the three budgets that I have developed and recommended to the Council is nearly $1.2 billion.

To address the current year's fiscal crisis, we developed a multi-pronged strategy including: directing all departments to meet aggressive cost savings targets in both the current and next fiscal year; meeting and coordinating our efforts with the principals and employee representatives of all County agencies; renegotiating existing bargaining agreements with our employee unions; and reducing expenditures in our capital budget.

Eighty percent of the County budget goes toward compensation – wages and benefits for County employees. To continue my efforts to create a sustainable budget for the long term, I am recommending the abolishment of approximately 400 positions in County government itself in FY10.

Due to these efforts, the cooperation and collaboration of our employee representatives and the governing boards and principals of other agencies, and other solutions to be discussed below, we have closed this budget gap and reversed the growth trends noted above to an actual decrease in the County Government tax supported budget of 0.4 percent, <u>a reversal of an over ten-year trend.</u>

- I am recommending to the County Council an overall tax-supported budget of $3,827,702,306, up $39,866,901 over FY09. This represents only a 1.1 percent increase.
- For the tax-supported budget, funding for Montgomery County government decreases by $5.6 million – a 0.4 percent decrease over FY09.
- Funding for the Montgomery County Public Schools (MCPS) increases by $38.5 million – a 2.0 percent increase over FY09 to address a projected 2 percent rise in the student population. The budget funds nearly 99 percent of the Board of Education request.
- Funding for the Montgomery College increases by $5.9 million, a 2.8 percent increase.
- The Maryland-National Capital Park & Planning Commission (M-NCPPC) receives $2.5 million more, a 2.4 percent increase.
- I recommend a total County budget (which includes debt service, grants, and enterprise funds) for Fiscal Year 2010 of $4,424,894,136, up $82.7 million over the FY09 Approved Budget – a 1.9 percent increase. This is the lowest level of increase in the total County budget in 18 years.

Overall, this recommended budget reduces spending for County-funded agencies by a total of $179.2 million in FY09 and FY10. This includes nearly $49 million in reductions in FY09 from the County Government, MCPS, M-NCPPC, and Montgomery College. It also includes approximately $130.4 million in reductions from County government departments and County agencies for FY10. MCPS reductions were $56.8 million, the Montgomery College request was shaved by $1.7 million, and M-NCPPC reductions totaled $2.7 million. County department reductions totaled $69.1 million.

Unfortunately, our efforts at expenditure restraint are not completed with the FY10 Operating Budget. Given the severity of the current recession and subsequent declining tax revenues, FY11 and perhaps ensuing fiscal years will require continuing restructuring of County expenditures, especially personnel costs which comprise 80 percent of County costs.

Because it was necessary to increase the property tax above the County charter limit[1] last year, and because of the burden already on County households and businesses as a result of the economic downturn, I made an early commitment to remain within the Charter limit for this fiscal year's budget. This budget keeps faith with that commitment. The property tax for each owner-occupied residence will include a credit of $690 to lower the burden on homeowners and maintain a progressive property tax structure in the County.

Due to the severity of the current economic recession and the loss of over $340 million in tax and other revenues anticipated for this budget, it is necessary to recommend budgetary strategies that I have strongly resisted in the past. In this budget, I am reluctantly recommending that we temporarily reduce our tax supported reserves from 6 percent of resources to 5 percent. This will free up over $39 million in resources that I am recommending to help balance the FY10 budget and sustain existing critical services. The reserves used in FY10 should be replaced as quickly as possible, back to the 6 percent policy level.

I have also found it necessary to seek a waiver of the State required maintenance of effort in local funding of K-12 public education. Again, this is necessary to preserve vital services throughout the

[1] Section 305 of the County Charter limits the growth in real property tax revenues in a fiscal year to the rate of inflation, but excluding new construction, development districts, and other minor exceptions. The Council may override this limitation through the unanimous vote of nine Councilmembers.

County Government and to provide a balanced and sustainable budget. Because of the prudent actions of the Superintendent and the Board of Education in its administration of the FY09 Budget and adoption of the Board's Recommended FY10 Operating Budget, I believe we can reduce the local contribution by approximately $50 million below the Board's amended request, fully fund all educational programs, and fund nearly 99 percent of the Board's requested budget. The only reductions that I recommend to the Board of Education Budget are to the requested increases for employee benefit programs. These reductions can be made without any corresponding change in the benefit levels for MCPS employees.

I am also recommending that we defer an increase in pre-funding for Retiree Health Benefits in FY10. While I remain committed to pre-funding this outstanding liability and seeking ways to minimize the burden on taxpayers, it was necessary to maintain level funding for retiree benefit pre-funding in FY10 so that we could redirect approximately $26 million in projected increases to preserve existing services.

The outlook on the economy remains highly uncertain, including the prolonged recession in the local real estate market and the continuing instability in equity markets. In addition, final decisions by the General Assembly on the State's budget may further affect our capacity to provide local services. Therefore, resorting to quick fixes and adding continuing costs back into the budget will only exacerbate the structural budget gaps long into the future rather than addressing them now through real, long-term solutions.

The Federal Economic Stimulus legislation recently approved by the Congress has provided a helpful and long awaited boost to the economy and provided some much needed assistance to State and local governments. However, the stimulus funds are not a panacea and are intended by their nature to be temporary and will only provide indirect assistance in closing the FY10 gap. Therefore, our use of these funds should be temporary in nature and should not create long-term continuing obligations for local taxpayers that only exacerbate the multi-year fiscal challenges that are ahead for this community.

At the conclusion of the FY09 Budget, the County Council approved the operating budget with a $16 million gap in it with the expectation that the County Executive and the Board of Education would identify the cost savings necessary to address that shortfall. We have identified and implemented the difficult cost reductions, productivity improvements and savings required to balance the budget. However, I want to make it clear that such an approach to FY10 is not acceptable and I believe is not good fiscal policy and may be inconsistent with the County Charter.

Assuming, in your judgment, that you approve my FY10 Budget as recommended, with all of the very difficult cost reductions and other budgetary solutions, there will still be a substantial budgetary gap in FY11. This projected gap of over $370 million is due to the significant ongoing costs of funding County services, as well as the long-term nature of the current economic recession and consequent reduction in revenues. Even with an economic recovery, there will be a lag in the increase in income tax and other revenues as our collections catch up with the economic recovery.

Despite the current challenges we are facing, I remain very optimistic about the prospects for our Community. The quality and nature of services we offer our residents in the areas of education, affordable housing, public safety, and health and human services are among the very best in the nation. New leadership in Washington is providing enhanced aid to local governments and is at work on stimulating the national economy. Our efforts locally to update our land use plans, establish and maintain prudent financial management, take advantage of the emerging green energy market, and the rapidly growing bio-tech market are positioning us well for the future.

This budget reflects the concerns and policy issues that I heard County residents express during the many Town Hall Meetings, Budget Forums, On-Line Chats, and other community meetings we have held over the past year to better understand the hopes, expectations, and needs of the people of our County.

This budget supports my priority policy objectives:

- Children Prepared to Live and Learn
- Affordable Housing in an Inclusive Community
- Safe Streets and Secure Neighborhoods
- A Responsive and Accountable County Government
- Healthy and Sustainable Communities
- An Effective and Efficient Transportation Network
- A Strong and Vibrant Economy
- Vital Living for All of Our Residents

Children Prepared to Live and Learn

We must prepare our children to live and learn so that they will become young adults who are productive workers, healthy individuals, and successful, responsible residents.

For MCPS, I recommend a total of $2.128 billion – nearly 99 percent of the Board of Education request. This is an increase of over $61 million or 3.0 percent over the FY09 Approved Budget to support an anticipated 2 percent increase in the student body to 140,500. Per pupil spending, for all revenue sources, increases to $15,149.

I recommend an investment of $266.3 million in Montgomery College. This is an increase of $6.9 million or 2.7 percent over the FY09 Approved Budget, with a local contribution of $106.7 million. This level of support requires an increase in tuition and fees of $3 per credit hour for County residents, $6 per credit hour for Maryland residents, and $9 per credit hour for students from outside the State.

This budget also provides funding to maintain existing hours at all public libraries.

Affordable Housing in an Inclusive Community

Despite recent fiscal and economic challenges, we must continue to work to make housing affordable in Montgomery County for all our residents by creating and preserving our current affordable housing stock. Given the challenges facing us in this regard, I formed the Affordable Housing Task Force to help identify and develop creative solutions to the crisis of affordable housing in our community. The group's final report has provided several innovative recommendations for increasing and preserving the stock of affordable housing in Montgomery County.

To continue the progress we have made, I recommend an investment of nearly $58 million in the Montgomery Housing Initiative fund (MHI) for acquisition and rehabilitation of the County's affordable housing stock. My recommended budget for MHI will maintain the property acquisition revolving fund established last year which leverages the existing resources of the MHI fund with the transfer from the General Fund. The property acquisition revolving fund has significantly increased our capacity to acquire affordable housing without impacting other County operating budget funding priorities. In the current housing market, the County dollars are able to go further; so now is an opportune time for additional County investment in affordable housing.

In addition, the County has recently reached agreement with the Municipal County Government Employees Organization, Local 1994 and the Fraternal Order of Police, Lodge 35 on the House Keys 4 Employees program to expand workforce housing opportunities for County employees.

I will continue to research and develop other innovative efforts for affordable housing, including expanding our partnership with non-profit providers and national organizations to bring us closer to the goal of a community where our residents can afford to live and work.

Safe Streets and Secure Neighborhoods

This budget sustains the most important investments we have made in our public safety departments including patrol and investigative staffing in the Police Department and field staffing in our Fire and Rescue Service. The past several years have seen significant increases in public safety staffing. Due to current fiscal challenges, we have been forced to make reductions in certain public safety programs. However, those reductions were carefully selected to minimize impacts on response time or first response services.

In order to avert more serious reductions in first response Fire Rescue and Emergency Medical services, I am again urging the County Council that we institute an Emergency Medical Services (EMS) Transport Fee to provide additional resources to sustain and grow our Fire and Rescue Service in the coming years. The projected level of tax-supported resources for the Fire Tax District Fund simply cannot meet the demands for apparatus management; volunteer enhancement, recruitment and retention; performance based initiatives for the volunteer fire rescue departments; additional staffing for new stations opening in West Germantown, East Germantown, Travilah, Clarksburg, and other locations around the County; additional staffing to implement four-person staffing of apparatus; and compensation and benefits for our firefighters and emergency medical technicians.

The alternatives, including relying on dwindling tax supported resources, reducing other direct services, further burdening County residents with increased taxes, or deferring these urgently needed enhancements are not acceptable. I am hopeful that once the Council sees the many difficult choices already made in this budget that there will be no further delay in the passage of the legislation necessary to collect these non-tax resources that are so desperately needed to support services for the safety and protection of our residents.

The legislation necessary to authorize the establishment of the EMS Transport Fee has been with the County Council for almost one year. We have provided extensive outreach to the public on this proposal and provided the Council and the public with all manner of analysis, documentation, and justification on the need for and the implementation of this fee. Now is the time to act. This matter must not be delayed until after passage of the FY10 Budget, because these resources are needed for the FY10 Budget and will be needed as well to address the anticipated shortfall in FY11 and beyond. The total resources anticipated from the EMS Transport Fee is $14.5 million in FY10 and $62.2 million over the next four years.

I have listened, as the Council has, to the concerns of our partners in some of the local fire and rescue departments. However, the changing concerns, fears, and issues that they have raised regarding an EMS Transport fee simply have not materialized in any other jurisdiction with such a fee. In fact, a majority of jurisdictions in this nation have such a fee and provide their Emergency Medical Services without incident.

Actually, these jurisdictions provide EMS in a significantly improved manner than they otherwise would, because an EMS Transport Fee provides the necessary resources for equipment, supplies, and staffing to perform their duties.

Other jurisdictions have used these resources to improve service and save lives with no adverse effects. We should do the same, too.

This EMS Fee will be billed directly to an individual's health insurance, Medicaid, or Medicare. No County resident who is unable to pay will have any out-of-pocket expense for transport to the hospital. All of our surrounding jurisdictions have implemented similar programs with no impact on the willingness of individuals to call for emergency services. The program also will be structured to have no impact on the development and growth capabilities of local volunteer fire and rescue departments.

Due to the anticipated funding from the EMS Transport fee we are able to make several needed improvements to our Fire and Rescue Service, including adding 18 new firefighter positions to staff the East Germantown Fire Station when it opens during the next fiscal year. In addition, we are also including funds to continue implementation of the Electronic Patient Care Reporting system (ePCR) to automate the medical recordkeeping of our emergency medical services personnel as required by the State. The EMS Transport fee is also being used to acquire and outfit 30 critically-needed new ambulances to replace aging models currently in the Fleet.

In order to reduce costs and minimize the need to create new firefighter positions I am recommending the "civilianization" of several firefighter positions. FY10 will mark the first phase in our plan to redeploy firefighters from the 911 Call Center to the field and replace them with civilian call-taking positions, as we currently staff in the Police Department's call taking operation. Further, we are also beginning steps in FY10 to civilianize code enforcement personnel in the Fire Marshall's Office and redeploy these firefighters to the field. However, we are making these changes in a deliberate and careful manner so that the integrity and excellence of our public safety services are preserved while maximizing the efficient use of our resources. Finally, the Fire and Rescue Service Budget also includes additional resources in support of our local fire and rescue departments, including $750,000 as an initial allocation of funds from the EMS Transport fee and $304,290 as a nominal fee as a result of our direct negotiated agreement with the Montgomery County Volunteer Fire and Rescue Association (MCVFRA).

Since its inception in 2007, the County's Speed Camera program has contributed significantly to the advancement of traffic safety throughout the County. Because of the documented success of this program in reducing vehicle speed and collisions, we are expanding the size of this program to 60 fixed and 6 mobile cameras in FY10. In addition, this program has provided additional resources to fund a variety of public safety and pedestrian safety programs.

In FY10, speed camera resources will be used to fund enhancements in pedestrian safety, as well as support the continued funding for critical Police Department units including the Centralized Gang Unit, as well as positions in the Family Crimes Division, Traffic Division, and other positions throughout the Department. In addition, the resources from the speed camera program supported the creation of a traffic/pedestrian safety analyst in the Police Department to provide data analysis in support of traffic and pedestrian safety efforts, as well as the creation of a new investigator position in the Sex Offender Unit.

Because of the County's very serious fiscal limitations, it was necessary to make several very difficult reductions in the Police Department staffing including 7 sworn and 16 civilian positions. These reductions were made in an effort to avoid cutbacks in any direct, first response services or in investigations. Without the available funding from the speed camera program, these reductions would have been much deeper and would have affected several non-first response, but still vitally important, public safety services including the Educational Facility Officers and the Community Policing Officers.

To address the high incidence of pedestrian injuries and fatalities in our County, I formed the Pedestrian Safety Initiative. This initiative was staffed by an interagency work group from the M-NCPPC, the Maryland State Highway Administration, the Montgomery County Department of Transportation, Police Department, the CountyStat Office, the County Council, and others, which developed seven strategies designed to enhance pedestrian safety throughout Montgomery County. Based on the recommendations of the work group, I am recommending an additional $4.1 million to improve safety in areas with a high incidence of pedestrian collisions, make physical improvements to those areas, enhance outreach education and enforcement, and make other needed improvements. This additional investment will complement our existing pedestrian safety program, which includes sidewalk repair and construction, crosswalk installation, and outreach and education.

A Responsive and Accountable County Government

Since taking office last year, I have instituted several measures to make Montgomery County government even better and more efficient in how we operate and provide services to the Community.

My CountyStat initiative has just marked its first year of operation, tracking the County's performance in addressing challenges using real-time data and holding departments and agencies accountable for the results in a number of operational and policy areas. The CountyStat program has provided a forum for ongoing monitoring and measurement of the effectiveness and efficiency of County Government services. This program has been a major success in improving the responsiveness and efficiency of the County Government.

CountyStat has added value by enforcing my philosophy of "results-based accountability" and empowering the Departments to make "data-driven" decisions. Although building upon previous "stat" programs, CountyStat represents a further evolution of this model by focusing on customer results, performance and long-term strategies with focus of effectiveness and efficiency. Specific examples of CountyStat's impact include:

- Analysis of overtime pay for public safety agencies and transportation, which helped the departments to cut overtime hours by 16 percent and save the County $7.1 million in overtime pay in 2008, as compared to 2007 – $3.5 million in savings in Fire and Rescue Service alone.

- Focused pedestrian safety efforts on effective, more cost-efficient strategies to reduce collisions between pedestrians and vehicles, saving the County in excess of $1.5 million, while improving pedestrian safety by promoting those efforts most successful in preventing collisions.

- Developed, with existing staff resources, the County's Community Indicators for all County priority objectives, and a departmental Performance Dashboard to monitor and report, in real time, the County's successes and challenges to the public.

To improve responsiveness and efficiency, we are continuing our efforts at restructuring the County Government including consolidating operational and fiscal responsibility for the Leaf Vacuuming program within the Department of Transportation and refocusing the Office of Internal Audit's efforts on strategic, risk-based, multi-year audit plan with a focus on controls and accountability. We will continue to carefully review the structure of the County Government to streamline our operations and ensure that services are efficiently and effectively delivered and that taxpayer resources are carefully and prudently used.

Progress is also being made in the implementation of the MC311 project to implement a centralized 311 Call Center and a Constituent Relationship Management system (CRM) to enhance community services. Residents will ultimately be able to call one three digit number to access County government services, and we will improve our ability to ensure that every caller gets a timely response. In addition to allowing easier access to government information and services, MC311 should provide considerable savings by consolidating five current call centers housed in various departments, and centralizing the information and referral calls currently received by each of the Executive Branch departments and offices. In the longer run, the information obtained from the CRM system, combined with financial information from the Enterprise Resource Planning (ERP) system, will provide us with important tools to make more informed decisions about how to best use our scarce resources. We are in the process of completing construction of the Call Center, have procured the necessary system software, and are on track to implement this project next spring.

We are also continuing to take steps to reevaluate our business processes and modernize our Core Business Systems to improve the efficiency, effectiveness, and responsiveness of the County Government. The Technology Modernization project will provide resources to develop an ERP system project that will provide a significant upgrade to the County's financial, procurement, human resource, and budgeting systems and will streamline existing business processes. The Technology Modernization capital project will also provide resources to continue to replace the County's manual employee timekeeping system with an automated, web-based system that will provide greater efficiency, functionality, and reporting features. The ERP system is critical to our ability to have real-time, useable, financial data to improve fiscal analysis, promote transparency in our financial affairs, and improve fiscal controls – essential tools for managing during these challenging fiscal times.

The recent Office of Legislative Oversight report, Organization of Recreation Programs across the Department of Parks and Department of Recreation, looked at recreation programming across both departments and recommended that the County consider consolidation of recreation programming into one department. I strongly support consolidation of the recreation programs in the M-NCPPC into the County Government Department of Recreation. There would be many benefits to this consolidation including improved customer service; elimination of duplicative functions; improved utilization of capital and operating assets with fewer conflicts on space and time; and generation of savings based on the economies of scale realized through consolidation.

Having these programs under the same County leadership would allow the Department of Recreation to more easily collaborate and coordinate their efforts with other County departments, such as the Department of Health and Human Services, the Police Department, and Public Libraries. Accountability will also be improved because local elected officials will be more directly responsible for the operations and management of all of the County's recreation activities and facilities. In addition, short- and long-term planning, budgeting, and resource allocation for recreation programming will be improved as the focus will be on a single entity, the County Department of Recreation.

I realize that there is significant controversy surrounding this proposal as with any significant change in the status quo. However, I urge the Council to objectively consider the facts, what is in the best interest of serving our Community, and take the necessary steps to complete this consolidation.

Healthy and Sustainable Communities

We must preserve and sustain the environment in our Community. In this budget we are taking the first steps in complying with the recently issued Municipal Separate Storm Sewer System (MS-4) Permit. Montgomery County's MS-4 Permit is one of the most stringent permits in the country to control pollution from stormwater runoff over a five-year period. Implementation of the MS-4 Permit will require a major investment by the County, through the Water Quality Protection Charge, to bring our efforts into compliance.

While it was necessary, due to our current fiscal challenges, to make targeted reductions to certain health and human services programs, we were able to sustain our most important commitments and make improvements to other vital services. Staff was added to support the opening of the Linkages to Learning and School Based Health Center at New Hampshire Estates Elementary School. In addition, for FY10 we are establishing two sites for an expanded emergency safety net program in low-income neighborhoods to ensure that individuals and families in crisis are connected to the appropriate services. We are also continuing funding for provision of community-based, pre-kindergarten program for forty, three and four year olds to better prepare them for school. The CentroNia Community-based Pre-K program provides a high-quality early childhood experience. The children participate in activities which encourage their cognitive, language, social-emotional, and physical development. It is expected that children who participate in the program will be fully ready for kindergarten. In the Montgomery Cares program which promotes access to healthcare for the uninsured program, we are increasing the number of clients served annually to approximately 22,500 users.

This budget also includes funding to relocate and modernize the Outpatient Addiction Services clinic that is currently operating in a residential neighborhood. This move will address long-standing community public safety concerns.

I am recommending continued support for the Family Justice Center that would offer a more responsive, holistic approach to providing services to the victims of domestic violence. The Family Justice Center concept, which has been used in other jurisdictions around the nation, was developed locally by the Domestic Violence Coordinating Commission with the support of the County Sheriff and members of the County Council. Located near the courts and providing a range of services for families that are victims of domestic violence, the Family Justice Center will provide an integrated, inter-agency approach to providing support and services.

An Effective and Efficient Transportation Network

Despite reductions in State aid for highway maintenance and bus replacement, we are sustaining our most essential transportation services. While it was necessary due to the County's serious fiscal constraints to make targeted reductions in bus routes, we are still projecting Ride On to serve nearly 30 million passengers in FY10. This is a significant achievement that will help ease congestion and contribute to improved air quality in the region. We are also maintaining current revenue funding in the capital budget to keep the replacement and upgrade of Ride On buses on schedule to ensure safer, more fuel efficient, and more environmentally-friendly bus fleet. As mentioned previously, we are continuing to make substantial investments in pedestrian safety to expand the construction of sidewalks, target high incident areas of pedestrian collisions for expedited remedial work, and increase enforcement and public outreach and education.

A Strong and Vibrant Economy

A growing, dynamic local economy is essential to maintaining a strong community. Economic growth provides necessary jobs, quality of life, and ensures balance in the generation of revenues needed to pay for the services provided to all residents and businesses in the County. I recommend sustaining the commitments we have made to our business incubators. This budget includes funds for the acquisition of the site for a Life Sciences and Advanced Technology Center on the eastern side of the County. This budget also includes funds to continue our efforts to revitalize the Wheaton Central Business District.

With the recent release of the draft land use plans for Gaithersburg West, White Flint, and Germantown and the ongoing work in implementing the Shady Grove Sector Plan, the County is continuing its efforts to expand transit-oriented development and position itself for the growth of the green energy market, the expanding bio-science market, and to expand residential neighborhoods closer to public transportation; thereby reducing congestion and benefiting the environment. This budget continues support for finalizing these land use plans and realizing the benefits promised in the Shady Grove plan.

Ensuring Vital Living for All of Our Residents

I am recommending community grants totaling $2.9 million for non-profit organizations that assist County agencies in addressing the human service needs of people in our Community in an innovative, community oriented, and cost effective manner. My priorities with community grants are to fund safety net and essential health and human services and those non-profit partners that leverage other funding sources and where volunteers donate untold hours of community service on behalf of these organizations.

Our very successful Senior Summit enabled me to identify needed service improvements. However, fiscal constraints limit my ability to pilot new programs and enhance most services. I am able to maintain and sustain the vital services to keep seniors independent in the community for as long as possible. I am recommending $134,000 to maintain providing over 24,000 meals at our senior centers. In addition, service providers for 122 new clients with disabilities served during the current fiscal year will have supplemental payments annualized during FY10 at a cost of $157,790.

I recommend $126.2 million for the M-NCPPC Budget, which represents a 2.5 percent increase over the FY09 Approved Budget and is a 2.4 percent increase for the Commission's tax-supported budgets.

Investing in Our Workforce

Due to the severe fiscal constraints we encountered this year it was necessary, after re-negotiation, to eliminate the general wage adjustment for all employees in all County agencies. As previously mentioned, it would not have been possible to close the historic budget gap we faced this year without the partnership of our employee representative organizations. This budget reflects the results of recent contract re-negotiations with the Municipal and County Government Employees Organization (MCGEO) Local 1994 and the Fraternal Order of Police, Lodge 35 over wage issues as well as anticipating the successful conclusion in negotiations with the International Association of Career Firefighters on wage issues.

As a result of alternative cost saving actions taken in the FY09 Budget, I do not believe it is necessary to have employee furloughs in the current year. However, given the very real possibility of additional State aid reductions or further deterioration of our revenues, I am withholding judgment on whether furloughs may be necessary during the next fiscal year. Given the serious reduction to the operating budgets of the County Government and other agencies in FY10, we have very limited options for identifying mid-year savings to respond to changing fiscal conditions.

I am recommending continued funding to support the provision of health insurance benefits to County retirees. However, due to fiscal constraints, we are recommending that we maintain level funding for this benefit in FY10. This will free up tax-supported resources that can be invested in preserving existing services.

To approve health benefits for future retirees without funding those benefits is not responsible – it breaks faith with retirees who will need to know the money is there when it is needed. We have long accepted the concept of pre-funding of pension benefits because it is a responsible and cost effective approach to fulfilling our promises to retirees. We need to embrace the need to realistically fund this commitment as well.

Because we are projecting a long-term imbalance between expenditures and revenues, we need to focus on solutions that are continuing in nature. For this reason, I am recommending creation of an early retirement incentive program. The retirement incentive program we successfully implemented last year was more focused on cost savings and reducing the size of the workforce. While that will certainly be one result of the plan recommended for FY10, it will also provide a means for more coordinated management of the very large number of pending reductions in force of County Government positions.

This budget proposes to abolish approximately 400 positions in Montgomery County Government. While it was a difficult decision to eliminate these positions, these actions will create substantial long-term savings that will contribute to realigning expenditures with revenue growth.

Funding the Budget

I recommend total growth in our tax-supported budget of 1.1 percent – or $39.9 million – over the FY09 Approved Budget. My total FY10 Budget – including debt service, grants, and enterprise funds that generate their own revenue – is recommended at $4,424.9 million, up $82.7 million over the FY09 Approved Budget – or 1.9 percent.

In order to alleviate the burden on County homeowners and businesses, I am recommending that we stay within the Charter limit on property taxes and recommend a $690 Homeowners property tax credit for FY10 to maintain a more progressive property tax structure in the County.

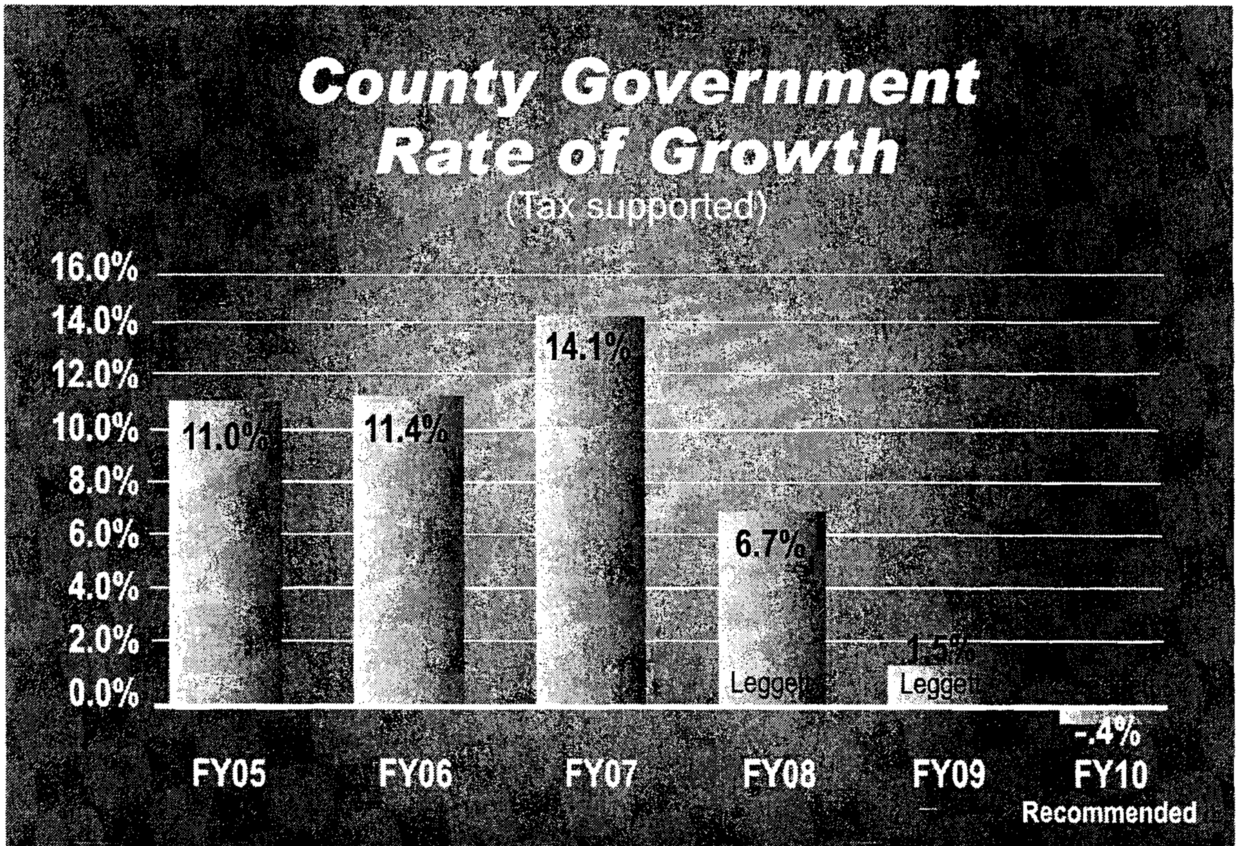
Water and sewer rates increase by 9.0 percent in FY10 in accordance with the budget recently approved by the Washington Suburban Sanitary Commission (WSSC). In addition, certain other fees will need to be increased and new fees will be implemented to cover rising program costs. Details on fee increases are provided in the Revenues section of my Recommended FY10 Operating Budget.

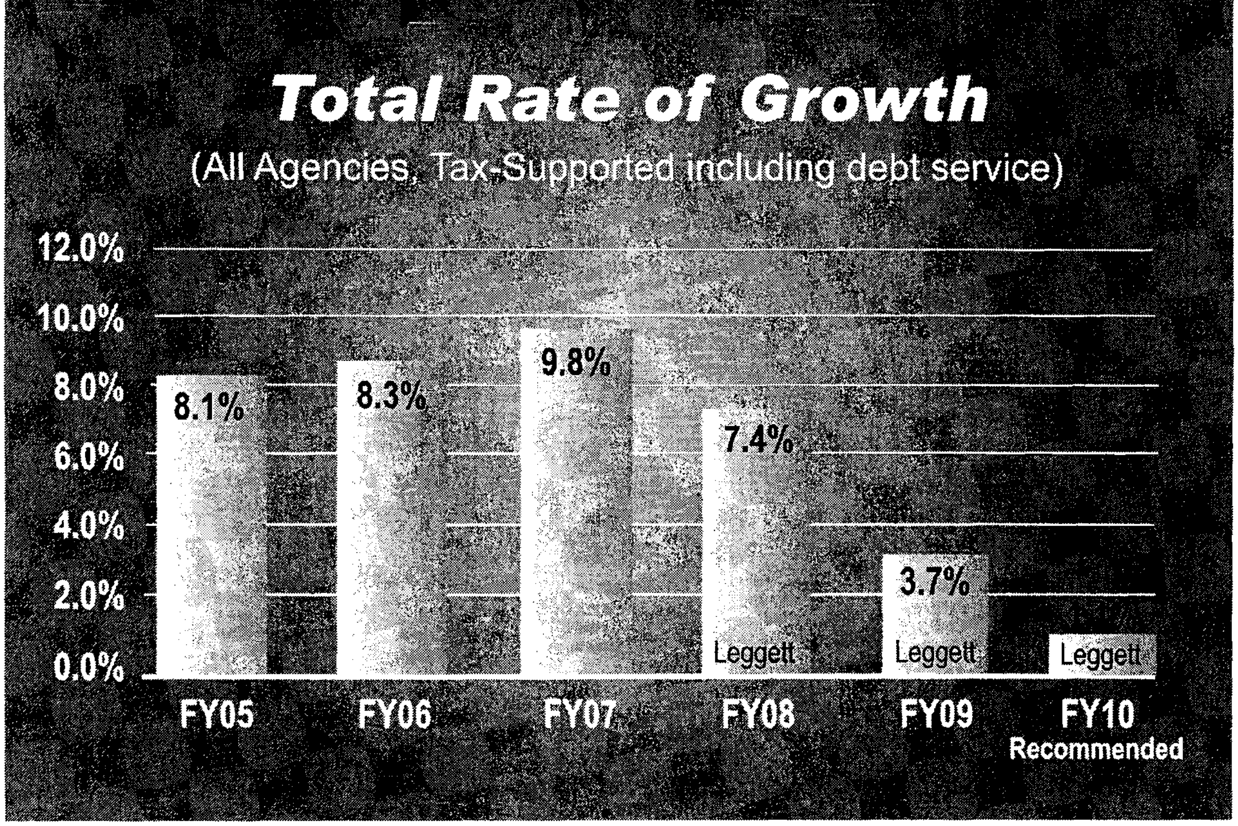
Final Thoughts

I want to thank those who contributed to the development of this Spending Plan including the Board of Education and Superintendent at Montgomery County Public Schools; the Trustees and President of Montgomery College; the Chair of the Maryland-National Capital Park and Planning Commission and the Planning Board; the Commissioners and General Manager of the Washington Suburban Sanitary Commission; individual residents, as well as members of boards, commissions, and committees; community-based organizations; and directors, employees, and employee representatives of departments in all agencies.

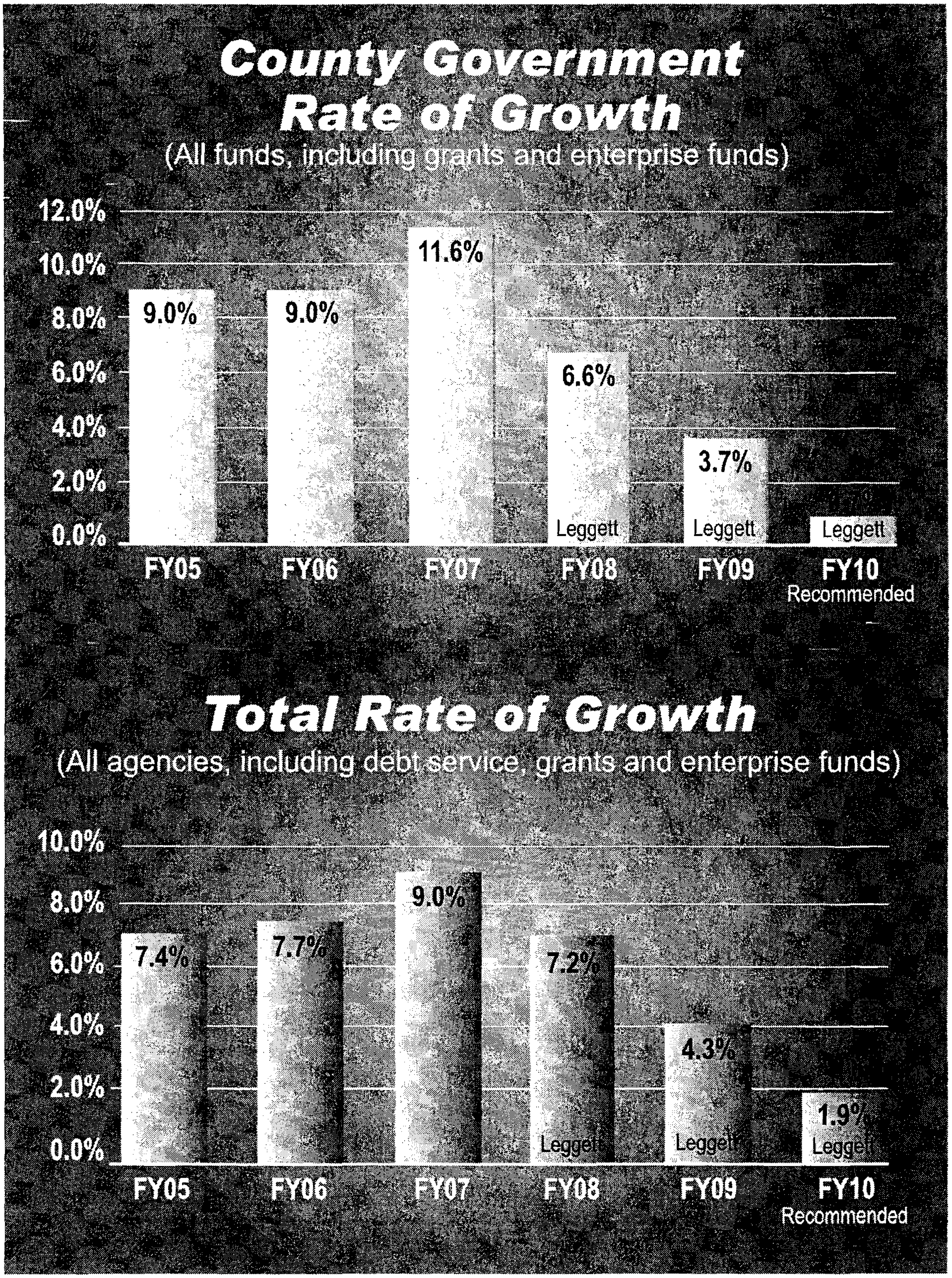
Highlights of my recommendations are set forth on the following pages and details can be found in the Departmental sections. The full budget can be viewed on the County's website at www.montgomerycountymd.gov/omb. Details of the budget requests for MCPS, the College, M-NCPPC, and WSSC can be seen in the separate budget documents produced by those agencies.

I look forward to working with the Council over the next two months on spending priorities and policy issues that arise and have asked Executive Branch staff to assist you in your deliberations.


County Government
Rate of Growth
(Tax supported)
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
11.0%
11.4%
14.1%
6.7%
Leggett
1.5%
Leggett
-.4%
FY05
FY06
FY07
FY08
FY09
FY10
Recommended


Total Rate of Growth
(All Agencies, Tax-Supported including debt service)
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
8.1%
8.3%
9.8%
7.4%
Leggett
3.7%
Leggett
Leggett
FY05
FY06
FY07
FY08
FY09
FY10
Recommended

Phil Andrews, President
March, 2009
Page 14



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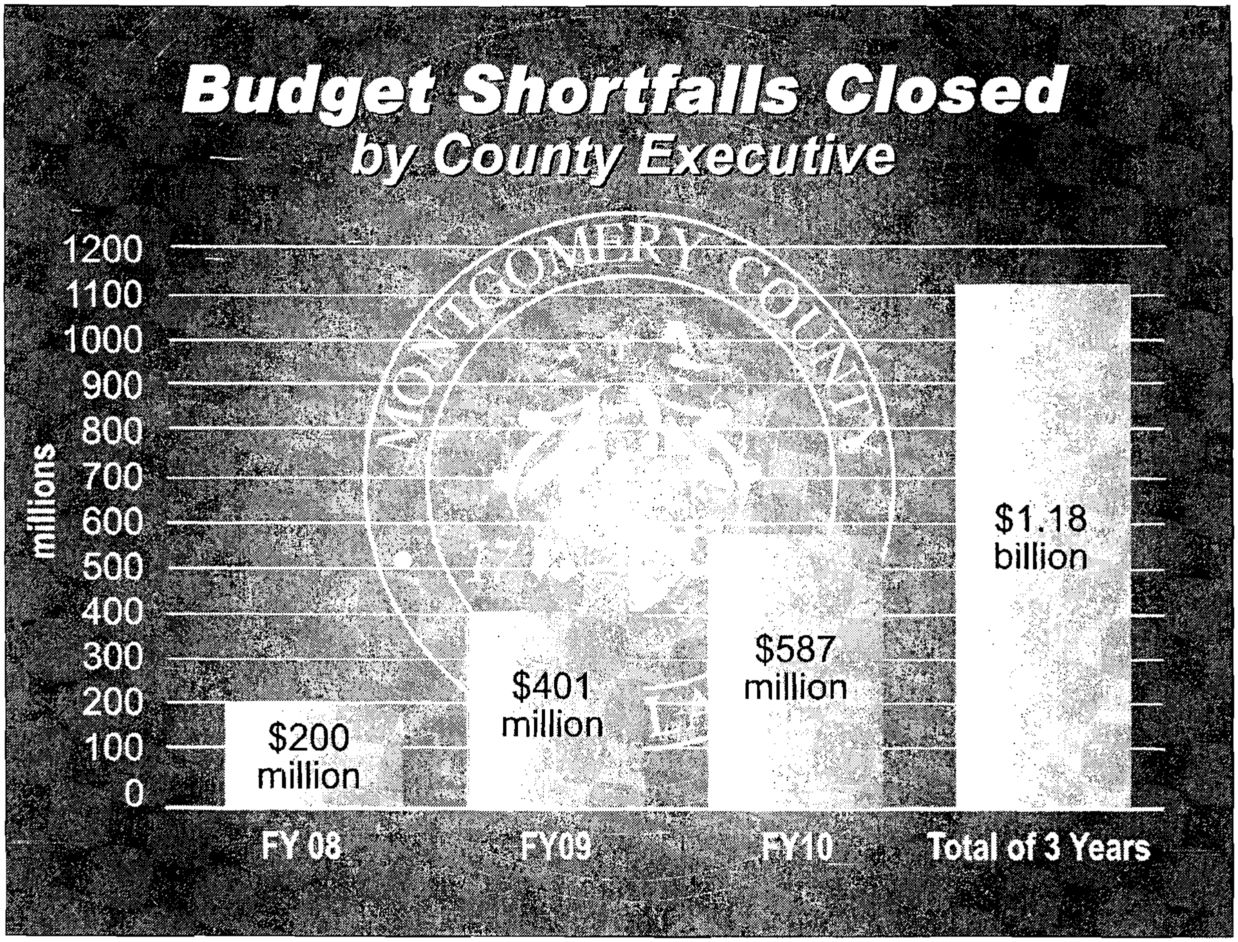

Budget Shortfalls Closed
by County Executive
1200
1100
1000
900
800
700
600
500
400
300
200
100
0
millions
$200 million
$401 million
$587 million
$1.18 billion
FY 08
FY09
FY10
Total of 3 Years
MONTGOMERY COUNTY

February 27, 2009

The Honorable Isiah Leggett, County Executive
The Honorable Phil Andrews, President
Members of the County Council
Montgomery County Government
Rockville, Maryland 20850

Dear Mr. Leggett, Mr. Andrews, and Council Members:

On behalf of the Montgomery County Board of Education, I am pleased to transmit to you the Fiscal Year 2010 Operating Budget for Montgomery County Public Schools (MCPS). As you explore the details, I am confident you will recognize this to be a lean and fiscally responsible budget that clearly reflects the reality of today's difficult economic times. The tax-supported budget of $2.0 billion is just 3.2 percent greater than the approved budget for the current fiscal year. This is less than the 3.5 percent increase allowed by the spending affordability guideline for MCPS approved by the County Council. The total budget of $2.15 billion incorporates anticipated funding from the new federal stimulus legislation.

We have been able to maintain this modest level of increase, despite significant enrollment growth and other factors, including health care and other employee benefits that are driving up operational costs. The budget includes no cost-of-living adjustments for our approximately 22,000 employees, thanks to their extraordinary cooperation in renegotiating next year's wage agreements. This cost reduction measure alone will save $89 million. In addition, the FY 2010 budget represents more than $30 million of reductions, painstakingly achieved by choosing among competing priorities and $20 million more in savings that are being generated this year by a strict, disciplined budget reduction plan.

As a result, the assumption for local maintenance of effort contributions in the FY 2010 budget will be met by carrying over the $20 million in savings made this year by MCPS. This budget also assumes approximately $44 million in additional state aid that we are expected to receive. In our budget, we have sought to be appropriately mindful of the continued economic uncertainty. Accordingly, we are prepared for the possibility that the expected level of state aid could still be reduced through actions of the Maryland General Assembly, although we are working diligently with our delegation in Annapolis to protect the funding.

While the potential revenue from the federal stimulus package for MCPS is not fully known, the United States Congress has now issued specific estimates for additional support included in the American Recovery and Reinvestment Act of 2009 for Title I and Individuals with Disabilities Education Act (IDEA). These additional funds allow us to address the needs of some of our students most impacted by poverty and our special education population. The new federal funding includes $15.3 million through the IDEA grant and $6.1 million for Title I programs that the Board seeks to invest in the expansion of full-day Head Start in Title I schools, as well as the expansion of hours-based staffing for special education in 15 additional middle schools. The Board took swift action to amend our budget, using the $21 million allocated for FY 2010, including the restoration of $5 million of previously proposed reductions.

This budget, if funded as requested, allows us to make the reductions needed to stay within fiscal guidelines set by the County Council while avoiding any across-the-board increase in class size. This reflects our commitment to protect the classroom as much as possible, despite budgetary pressures. This budget preserves the essential elements of our successful academic reforms that have been implemented in accordance with our strategic plan.

We know that you share our desire to preserve the resources necessary to continue the types of success that have been celebrated in recent measurements of MCPS student achievement and that support our ongoing efforts to close the achievement gap. We are proud of the accomplishments that demonstrate the tremendous strides we are making to improve achievement for all students. In adopting this budget, the Board of Education labored to ensure that resources remain in place to support our dedicated administrators, teachers, and supporting services staff so they have the tools necessary to meet our students' needs. We strongly believe that this budget is both responsive to the challenges faced by taxpayers and able to meet the demands of a student population that is continuing to increase in size and in its need for services.

The Board of Education recognizes that we have been the beneficiaries of ongoing support from a community and elected leaders who truly understand how important it is to invest in education. We know that you will continue to work with us as our budget comes before you—first to the county executive and then to the County Council—for review and additional community input and, ultimately, final approval in May.

Thank you for your leadership during these challenging times, and for the sound investment that you continue to make in our community's future through your support of the 139,000-plus students served in the Montgomery County Public Schools.

Sincerely,

Shirley Brandman
President

MONTGOMERY COLLEGE

Campuses at Germantown, Rockville, and Takoma Park, Maryland

Board of Trustees

February 18, 2009

The Honorable Isiah Leggett
Montgomery County Executive
Executive Office Building
101 Monroe Street
Rockville, Maryland 20850
and
The Honorable Phil Andrews, President
Montgomery County Council
and
Members of the Montgomery County Council
Stella B. Werner Council Office Building
100 Maryland Avenue
Rockville, Maryland 20850

Dear Mr. Leggett, Mr. Andrews, and
Members of the Montgomery County Council:

The Board of Trustees of Montgomery College respectfully submits for your consideration the Adopted College Operating Budget for FY2010. The College worked diligently to submit a budget that recognizes the difficult economic situation. We have worked closely with our union leaders, our staff, and our faculty to identify cost savings strategies. The budget we are presenting is one that is fiscally responsible, and one that makes every effort to use our resources wisely, as well as creates efficiencies and funds high priority initiatives. The specifics of our request are as follows:

ENROLLMENT

The College experienced steady growth in student enrollments from fall 2000 through fall 2008, growing by more than three thousand students (3,529) — an increase of more than 16 percent. Because an increasing number of these students are younger and attending full-time, our credit hours of enrollment have increased even more dramatically — by 26 percent (more than 46,000 credit hours). Since last fall, our student headcount is up 2.5 percent and hours of enrollment are up 2.4 percent. Younger students tend to enroll full-time, and full-time students have higher return rates — factors that support our positive enrollment projections for the next several years.

This past fall's enrollment and credit hours are both record highs for the College, making it the largest community college in the state of Maryland and second only to the University of Maryland at College Park in enrollment of undergraduate students.

900 Hungerford Drive, Rockville, Maryland 20850 (301) 279-5272 FAX (301) 279-5260

The major factors driving these increases have been: 1) the continuing growth in the number of high school graduates in the County; 2) the enrollment limitations and substantial tuition increases at the University of Maryland College Park and other public four-year colleges and universities in the State; 3) Montgomery College's quality, affordability, proximity, and proven track record in preparing students for careers and transfers to four-year institutions. A fourth factor — for which we remain grateful — is the County's continued commitment to the College's facilities, faculty, staff, and programs. The County's investments in our facilities and, in particular, our Takoma Park/Silver Spring (TP/SS) Campus expansion have paid off with dramatically higher enrollments. Since fall 2000, TP/SS enrollment has grown by 55 percent and enrollment hours are up by more than 43 percent. In the last year alone, our TP/SS Campus experienced a 7 percent enrollment increase, with a 6.4 percent increase in enrollment hours.

Clearly, these investments dramatically enhance the College's ability to serve our community. They enable us to expand access to postsecondary education, particularly for students who would otherwise be much less likely to attend college. College attendance rates for Hispanic and African-American high school graduates are traditionally lower than for other groups, but at Montgomery College, their attendance rates are increasing, a sure sign that our initiatives to encourage and support their education and retention are working.

REVENUE

Cade formula funding is unknown at this time. Therefore, we assumed that State funding would be virtually flat funding from FY2009. This estimate includes the first round of budget reductions from the Governor in the amount of $1.5 million ($1.3 million current fund and $.2 million WD & CE). The Governor has delayed his second round of cuts which would have put Montgomery College back at the FY08 funding level for three years in a row. If the Governor reverses his decision, this will reduce the College's funding level by another $2.5 million ($2.1 million current fund and $.4 million WD & CE). Should this happen, the College will ask the County to help offset the cut.

This budget includes a $3/$6/$9 credit hour increase in tuition (in-County, in-State, out-of-State). With these proposed increases, the average full-time student will pay almost $4,092 annually (It should be noted that the tuition increases are not final until the Board of Trustees officially acts on tuition rates in April.). Tuition and related fees are expected to generate $71.1 million, an increase of 3.7 percent.

We are also using $1 million from our FY08 Budget Savings Program and $1 million from the FY2009 Budget Savings Program to fund the budget. The remainder of the College's revenue is "other revenue" comprised mostly of other student fees, interest income, and use of fund balance. This leaves us no choice but to request an increase in County funding of $3.3 million, or an increase of 3.1 percent, to close the budget gap.

EXPENDITURE REQUEST

We developed the Current Fund budget with these priorities in mind: ensuring access to higher education by keeping Montgomery College affordable; protecting jobs and meeting our benefit cost increases; accountability; and continued funding for committed projects. The resulting budget request of $218 million is just a 3 percent increase from FY2009, and has undergone substantial reductions from our same level budget presented to the Board of Trustees in December. We have eliminated COLA (pending a final negotiated agreement), eliminated ten positions, and reduced base budgets.

We are pleased to tell you that this budget is $8.3 million less than our initial same service request. However, this budget is not without pain — the full time to part time ratio is at 54 percent — well below the Trustees' goal of 65 percent, which was also strongly supported by previous Councils. Scholarship funding is not enough to adequately fill the needs of our students. We are requesting the following:

Compensation for our Employees

- We are in the process of renegotiating our collective bargaining agreements and should realize significant cost savings. We have assumed a similar increase for noncollective bargaining staff. Those savings are included in this budget.
- In the benefits area, we have included funds for postretirement benefits in the amount of $500,000, and increases for retirement and group insurance. Benefits increases totaled $1.7 million.

Support for our Students

- The College is requesting $95,000 to increase financial aid. Current Federal and State financial aid is insufficient to serve our students. The College did not have sufficient institutional grant money to fund all of the students who qualified for assistance in 2008-2009. In fact, 7,009 students with financial need, qualified for institutional grant funds in fall 2008, but received no grant aid due to a lack of funds. Of this group, 2,475 students did not enroll at Montgomery College during the fall 2008 semester.

Support for the Takoma Park/Silver Spring Campus Expansion

- The Takoma Park/Silver Spring Campus expansion will be complete by fall 2009, with the opening of the Performing Arts Center (PAC) and a new parking garage. The PAC, a 45,050 square foot facility, will house a main theatre; a studio theatre; costume, prop and scene shops; a green room for performers; a dance studio; four general purpose classrooms; and a film editing lab. In addition, there are operating costs associated with the renovation of the Commons Building (Cost $1,084,000).

Assistance with Offsite Leasing

- The College is leasing additional office space at 40 W. Gude and a warehouse to free up space on the Rockville Campus (Cost $208,000).

Costs to Move the Network Operations Center/Other

- The Network Operating Center (NOC) will house all College centralized servers, firewalls, system monitoring hardware and staff, help desk, central telecommunications, internet access connections, and network security. The NOC will be partially operational in the fall of 2009 and complete its move off the Rockville Campus by March 2010. Other costs include increased information technology costs related to expansion (Cost $710,000).

OTHER FUNDS

Emergency Plant Maintenance and Repair Fund

The Emergency Plant Maintenance and Repair Fund (EPMRF) is a Spending Affordability Fund. We are requesting an appropriation of $350,000 and County funding equal to last year's amount ($250,000). This funding is crucial for supporting our emergency maintenance needs.

Workforce Development and Continuing Education (WD & CE)
The appropriation request for this fund is $16.1 million. WD & CE has experienced growth in the following programs: online course offerings, new course offerings in vocational ESL, the new Program Management Institute course series, a full year of commercial driver's license (CDL) training, professional development course series for community ESL instructors, and expanded course offerings at the Germantown Campus. This fund is an enterprise fund and no County funding is requested.

Auxiliary Enterprises
The appropriation request for this fund is $6.2 million. Auxiliary Enterprises is requesting an increase in FY2010 funding for a one-time purchase to equip the new childcare center in Germantown, to expand the concept of a one-stop bookstore, copy/print shop, and snack shop operations to the Germantown and Rockville Campuses. This fund is an enterprise fund and no County funding is requested.

50th Anniversary Endowment Fund
The College is requesting appropriation authority of $250,000 for three endowments in the areas of business, arts, and community outreach. The Business Endowment will help fund the planning for the Germantown Biotechnology Park. The Arts Endowment will fund programs in our Arts Institute, and the Community Outreach Endowment will be used to support the International Education Grant Program. No County contribution is requested.

Cable Fund
The amount requested is $1,539,200 and is funded through the County Cable Plan.

Grants
The College is requesting appropriation authority in the amount of $19.1 million. Of this amount, $400,000 is requested in County funds for the Adult ESL/ABE/GED program, which is the same amount as FY2009.

Transportation Fund
This fund is comprised entirely of user fees from our students, employees, and certain contract staff. The fund also includes parking enforcement revenue. All revenue will be used to pay for lease costs related to the Takoma Park/Silver Spring West Parking Garage, scheduled to open fall 2009. Through this fund, the College also pays the County for free Ride-On bus service. The appropriation request is $2.5 million.

Major Facilities Reserve Fund
The College is requesting appropriation authority in the amount of $2.4 million for lease payments to the Foundation for lease of The Morris and Gwendolyn Cafritz Foundation Arts Center. This fund is entirely comprised of user fees, and no County funds are requested.

Conclusion

In summary, the Montgomery College budget for FY2010 consists of a request of $218 million for the Current Operating Fund. Of this amount, we are requesting $108 million from the County. The College is also requesting $350,000 for the Emergency Plant Maintenance and Repair Fund, of which $250,000 is requested in County funds; $19,548,000 for Federal, State and private grants, and contracts of which $400,000 is requested in County funds for the Adult ESL program; and $1,539,200 for Cable TV. An additional $24,826,405 is budgeted for the self-supporting funds of WD & CE, Auxiliary Enterprises and Transportation Fund, $2.4 million for the Major Facilities Reserve Fund, and $250,000 for the 50th Anniversary Endowment Fund.

The Board of Trustees respectfully requests total expenditure authority of $266.9 million. We appreciate your careful review and consideration of this budget request.

Sincerely yours,

Roberta F. Shulman
Chair, Board of Trustees

Brian K. Johnson, Ed. D.
President

MONTGOMERY COUNTY PLANNING BOARD
OFFICE OF THE CHAIRMAN

January 15, 2009

The Honorable Isiah Leggett
Montgomery County Executive
Executive Office Building
Rockville, MD 20850

The Honorable Phil Andrews
President, Montgomery County Council
Stella B. Werner Council Office Building
Rockville, MD 20850

Dear Mr. Andrews and Mr. Leggett:

Recognizing the difficult economic and fiscal situation confronting Montgomery County, the Montgomery County Planning Board proposes a FY10 Operating Budget request of $116,840,200, a lower level of service than provided in FY09.

The budget request does not represent the Planning Board's view of what is needed to adequately administer the parks or provide the level of planning services required to keep the county well positioned for future development. Rather, it is our best estimate of what can be done in FY10 within the constraints of the current economic climate. It has been designed in the spirit of sharing the pain of the recession with other agencies and to prevent falling too far behind by maintaining services at a reduced, but not desirable, level.

This austere budget proposes no major new initiatives for either department and anticipates filling no positions unless they are critical to performing core functions. Our request, if approved, will require us to continue to take further measures to reduce operating costs.

The increase of $5,158,200 over FY09 reflects only mandated increases such as employee benefit programs and rising costs for supplies and equipment. It also includes an adjustment in employee compensation reflecting a lower-than-normal level of cost of living adjustment (COLA) and merit.

Commission staff prepared our FY10 proposed budget last fall under the assumption that we would provide typical COLA and merit. By the December Commission meeting, when we had to adopt a budget request, it was clear that COLA, merit, or both were likely to be reduced or eliminated by one or both counties. The amount of those reductions, however, is uncertain. To

8787 Georgia Avenue, Silver Spring, Maryland 20910 Chairman's Office: 301.495.4605 Fax: 301.495.1320
www.MontgomeryPlanningBoard.org mcp-chairman@MontgomeryPlanning.org

add complexity, the Commission was still in the process of renegotiating our contract with the employees' union.

To meet the state-mandated January 15 budget delivery date, the Commission adopted a budget resolution that includes a "placeholder" for COLA and merit increases but recognized we would have to reexamine that once the counties had established their policies. To avoid recalculating each element in the program budget, the Commission-adopted compensation adjustments are shown only in the summary charts and departmental overviews, while the program element details of our budget still contain the higher initial assumptions for both COLA and merit. We are prepared to address the effect of final COLA and merit adjustments on each program at this spring's budget work sessions and to revise them as appropriate.

Several actions taken during this fiscal year produced savings that will be amplified in FY10 and beyond, as the Planning Department, Department of Parks, and the Commissioners' Office trimmed workforces and gained efficiencies.

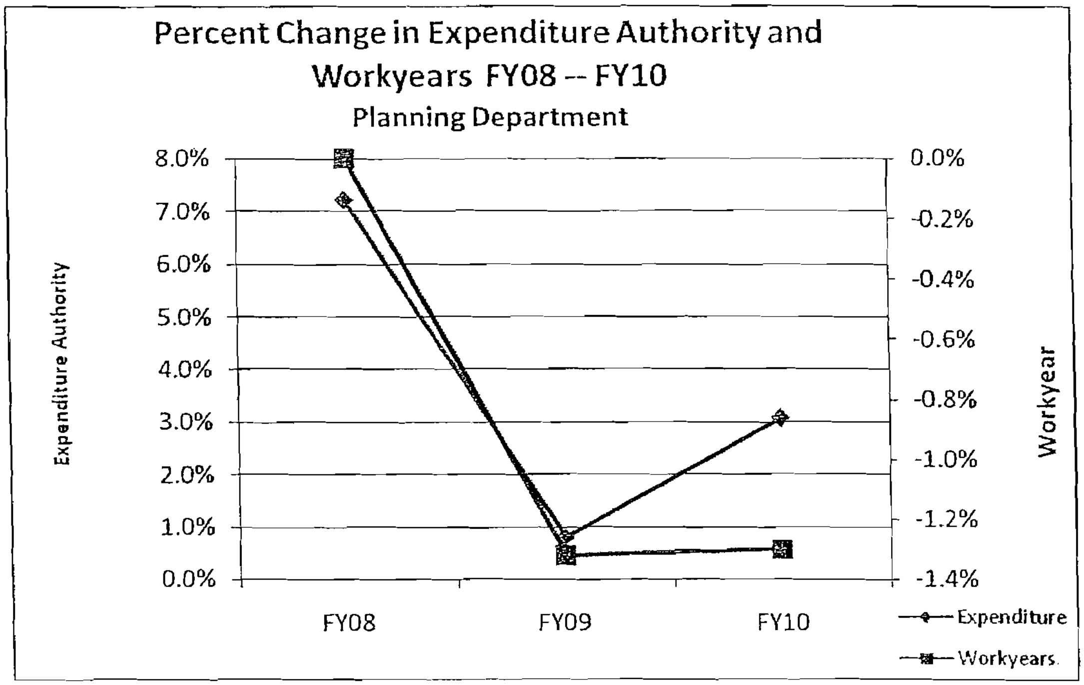
Planning Department
A comprehensive reorganization of the Planning Department eliminated two divisions and four top management posts and downgraded a number of positions. A successful retirement incentive program produced significant savings and made unnecessary any further reductions in force in FY09 although the Department received only a 0.8% increase over FY08. The reorganization and retirement savings will continue to be realized in FY10 and will result in better efficiencies over time.

Despite budget constraints, the Planning Department has made significant progress in meeting core program goals.

Sector plans for Gaithersburg West, Germantown, and White Flint will be submitted for Council review by the end of FY09, with action on the plans and Sectional Map Amendments to implement them in FY10. A design study of the Georgia Avenue corridor has been completed, with policy recommendations to guide future sector plans. An amendment to the ICC Functional Master Plan focusing on bikeways has been prepared, as well as two key studies required by the 2007 Growth Policy: Local Area Transportation Review guidelines and recommendations for a countywide Healthy & Sustainable Communities initiative. A diagnosis of the Zoning Ordinance has been completed by staff, preparing the way for the first stages of its revision in FY10. The need for revision is exemplified by the fact that the ordinance grew by over 100 pages in the past year through text amendments.

Applications for development projects have not declined appreciably, although their size and nature has shifted toward infill and redevelopment projects rather than greenfield subdivisions. Many of our recent development review projects require complex solutions and an innovative balancing of an applicant's intent with the public interest.

(24)



Department of Parks
The retirement incentive program also produced substantial future savings in the Department of Parks. In addition, instituting flexible work hours for park managers provides staff presence during peak use hours and during park events, thus saving overtime costs. Expansion of the volunteer program now provides more than 67,000 hours of work, valued at over $1.3 million. Volunteers provide critical services, such as eradication of invasive plant species, trail and facility maintenance, and visitor information. The Parks Department's aggressive energy conservation program is producing substantial savings – $467,354 in 2008, the payoff from resource conservation plans implemented over the past five years – in spite of increased costs. SmartParks, our work order management and reporting system, continues to help us reduce costs and operate more efficiently.

To increase revenue, the Board approved higher athletic field fees. The Department has stepped up applications for grants and continues to seek donations, although we expect increased competition for fewer grant dollars. Nonetheless, the Department's resources have not kept pace with expansion of the park system. The result is a decrease in routine maintenance and a growing backlog in deferred maintenance of many older facilities. The Department has identified approximately 24 park activity buildings where use is below our minimum 30% utilization rate. Many of the park activity buildings, ancillary buildings and park houses require extensive repairs or total renovation to remain functional. We have no choice but to explore transferring those buildings to other entities, changing the proposed use of the site, or even demolition.

While the park system continues to grow through new acquisitions, dedications, and the development of new facilities, we have not increased staff to keep pace. Despite that, we

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continue to provide an award- winning park system with a wide array of programs. We have selectively trimmed operations that serve relatively few park users while preserving those that meet our core mission or are in greatest demand. Recent changes to our work program allow us to accommodate many of the budget reductions while maintaining most of the services the citizens of Montgomery County expect.

Central Administrative Services

In Central Administrative Services (CAS), IT units in the Department of Human Resources Management and Finance were consolidated to improve efficiency. Also, we eliminated support services and reallocated associated costs to individual departments to increase accountability. We also instituted multiple measures to cut costs. For example, DHRM froze four vacant positions (8% of total positions), downgraded three management positions in FY09, and built these assumptions into its FY10 proposed budget. The proposed FY10 budget for CAS still represents a growth driven by compensation adjustment, retirement contribution and OPEB funding increase, higher maintenance cost for the electronic timekeeping system, NeoGov (new application tracking software implemented in FY09) and legal services software, as well as supporting on-line legal research services and restoring funding for an existing attorney's position.

Commissioners' Office

The Media and Outreach section of the Commissioners' Office was transferred to the Department of Planning, eliminating an additional chief position. We also eliminated one technical writer position.

The Budget Proposal

An overall summary of the budget is provided in the following table.

Budget Unit	FY09 Approved or Adjusted*	FY10 Proposed	Percent Change FY09-10
Total expenditure less reserve			
Commissioners' Office	1,207,000*	1,252,100	3.7%
Planning Department	18,700,700*	19,263,700	3.0%
Department of Parks	83,540,500	87,443,900	4.7%
Central Administrative Services	7,556,800	8,230,900	8.9%
TOTAL	**111,005,000**	**116,190,600**	**4.7%**
ALA debt service	677,000	649,600	-4.0%
Total including ALA	**111,682,000**	**116,840,200**	**4.6%**

*** Adjusted budgets reflect changes due to the reorganization in the Commissioners' Office and Planning Department; adopted budgets were $1,605,200 and $18,302,500, for a percent change of -22% and 5.3% respectively.**

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The tax-supported portion of our request (excluding reserve) is $116,840,200, representing a 4.6% growth from FY09 budget. This includes:

- Administration Fund: $28,746,700 – 4.7% higher than FY09 budget
- Park Fund Operating Expense: $83,139,500 – 4.5% growth from FY09
- Park Fund Debt Service: $4,304,400 – an increase of 7.5%
- Advance Land Acquisition Fund Debt Service: $649,600 – a decrease of 4% from FY09

Non-tax supported funds include:

- Enterprise Fund : $10,397,000--approximately the same level as last year
- Property Management Fund: $1,026,700--9.7% lower than FY09
- Special Revenue Fund: $5,513,400--22% higher, primarily due to the increase in the expenditure authority for the Reforestation Program and anticipated donations and charges to third parities for events

Total FY10 proposed budget for tax-supported and non-tax supported funds (excluding reserve) is $133,777,300 – 4.7% more than the FY09 adopted budget.

Tax Rates

The Commission's budget is funded primarily by three taxes. FY10 proposed real and personal property taxes stay unchanged from FY09 approved tax rates. The current and proposed tax rates by fund are as shown.

Fund	FY09 Approved Property Tax Rate	FY10 Proposed Property Tax Rate	Change
Administration			
Real	1.9 cents	1.9 cents	0%
Personal	4.7 cents	4.7 cents	
Park			
Real	5.3 cents	5.3 cents	0%
Personal	13.2 cents	13.2 cents	
ALARF Debt Service			
Real	0.1 cents	0.1 cents	0%
Personal	0.3 cents	0.3 cents	

In the past decade, the Commission's real property tax rates have been reduced significantly, especially in recent years. Total Commission real property tax rates (including Administration Fund, Park Fund and ALA) dropped by 1.1 cents during FY06-09 from 8.4 cents per $100 of assessed value in FY06 to 7.3 cents per $100 of assessed value in FY09, and personal property tax rates decreased 2.9 cents.

In addition, the continuously weakening economy and housing market has resulted in lower growth in assessable base in FY10, and the trend will continue in coming years. A weakening

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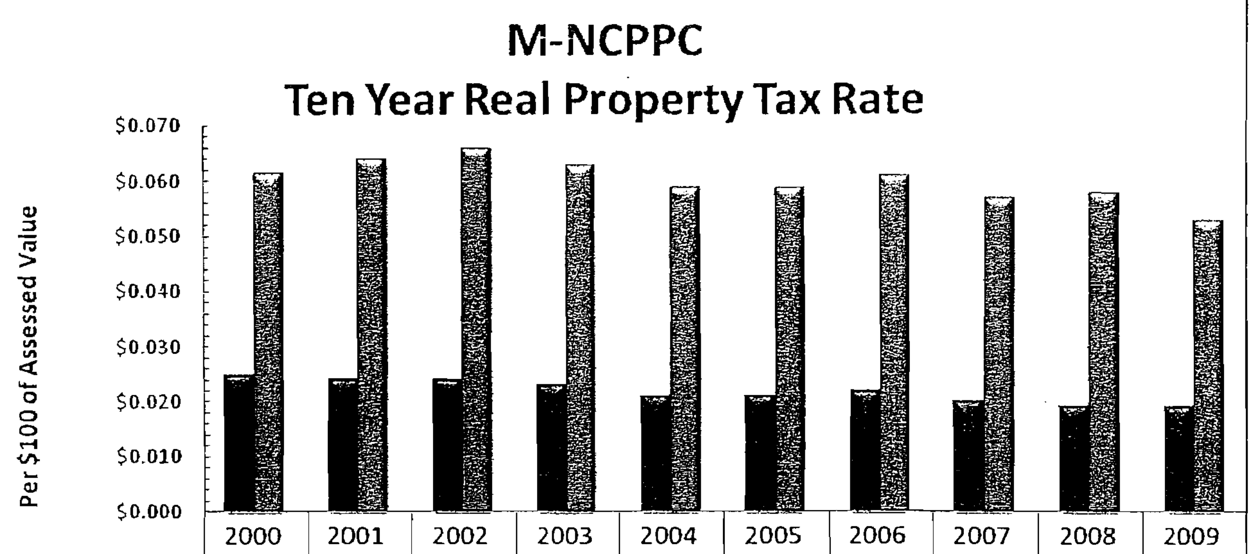
assessable base growth, coupled with a lower level of tax rate, will continue to impact the Commission's revenue capacity and well as its ability to deliver services.

The following graph illustrates the Commission's real property tax rates history in the past decade.



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Administration	$0.025	$0.024	$0.024	$0.023	$0.021	$0.021	$0.022	$0.020	$0.019	$0.019
Park	$0.062	$0.064	$0.066	$0.063	$0.059	$0.059	$0.061	$0.057	$0.058	$0.053

Program Highlights

Despite the challenging budget year, we are committed to a FY10 work program that helps achieve our goal of maintaining Montgomery County as one of the nation's best places to live. Some of the main projects and initiatives on which we expect to focus in FY10 include:

In Planning:

- The first set of revisions to the Zoning Ordinance will presented for Council action.
- Sectional Map Amendments to implement Master Plans for Germantown, White Flint, and Gaithersburg West will be presented to the Council.
- Final Draft Plans for Wheaton CBD, Takoma-Langley, and Kensington also should be completed to allow Council Action following the 2010 election.
- The 2009-2011 Growth Policy, focusing on sustainable development, will be ready for Council action in the first months of FY10.
- The Functional Master Plan for the Purple Line including master plan amendments to reconcile land uses with its impacts.

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- The Green Infrastructure Functional Master Plan and the Water Resources Functional Master Plan will be presented for Council action.
- The Board will continue streamlining regulatory services, County CIP review, traffic and transportation studies, historic preservation, forest conservation and other environmental reviews, and zoning cases.

In Parks:

- The Cultural Resources program will continue prioritizing all 157 historic sites in the park system, stabilizing and protecting sites through the historic renovation program, and expand interpretation programs where resources allow it. *We strongly recommend against reductions in this program because of the fragile condition of and need for urgent attention to many of these resources.*
- Maintenance of the 410 parks in the county system will be reduced by this budget. While the reductions will be noticeable, they will be selective to ensure, to the fullest extent feasible, continued opportunities for everyone to enjoy year-round structured and unprogrammed activities and protection of our greatest environmental and historic resources.
- A new community gardens program in the down-county area and an organic farming project on park land will be started as pilot partnership projects.
- The No Child Left Inside program with parks as outdoor classrooms will continue with a few pilot projects with schools.
- We will expand the "How Are We Doing?" survey of park patrons, using volunteers and students.
- Additional opportunities for non-property tax supported funding sources will be identified, including partnerships, grants, and donations.
- Master Plans for Cabin John Regional Park, Ovid Hazen Wells area, and/or Up-County Trail Plan will be initiated.
- Urban park guidelines will be completed.

In CAS:

- A new performance management program will be initiated to improve organization-wide strategic planning and performance measurement.
- Measures will be taken to improve efficiency and security through technology, including the replacement of the existing financial, budgeting and procurement system, strengthening disaster recovery and security of core financial systems, and utilizing e-conference technology to save transportation time and cost.

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We continue to improve our program budgeting efforts as reflected in the document. Throughout our work program, we are developing performance measures to help track project milestones and measure progress toward program objectives. We will be expanding our performance measurement program throughout FY10 and will report on progress at the element level as appropriate.

In summary, our budget proposal represents the Planning Board's best estimate of what the Commission needs to accomplish its FY10 work program. As always, we aim to build and maintain quality parks, enhance stewardship, and promote quality of place in our communities.

We look forward to working with you and your staff on our FY10 budget proposal.

Sincerely,

Royce Hanson
Chairman

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Washington Suburban Sanitary Commission

14501 Sweitzer Lane Laurel, MD 20707-5902
(301) 206-8000 1(800) 828-6439 TTY: (301) 206-8345 www.wsscwater.com

February 27, 2009

To The Honorable:

County Executives of Prince George's
and Montgomery Counties

Chair, President, and Members
of the County Councils of
Prince George's and Montgomery Counties

Valued Customers and Interested Citizens:

We are hereby transmitting the Fiscal Year 2010 (FY'10) Proposed Capital and Operating Budget for the Washington Suburban Sanitary Commission (WSSC). A preliminary FY'10 budget was published and distributed for review by interested customers, citizens, and officials. Public Hearings were held on Wednesday, February 4, and Thursday, February 5, 2009. The FY'10 Proposed WSSC Budget is now submitted to the County Executives and Councils of Montgomery and Prince George's Counties for hearings and other procedures as directed by Section 1-204, Article 29, Annotated Code of Maryland, before a final budget is adopted for the next fiscal year, beginning July 1, 2009.

The Commission is proposing a 9% average rate increase to pay for escalating prices for power, chemicals, and materials and to provide initial funding for proactive inspection and repair of critical infrastructure. The Proposed FY'10 rate increase will add approximately $4.47 per month to the average residential customer's bill. The impact on customers' annual water and sewer bills at various consumption levels is shown on Table IV (page 11).

This proposed budget reflects our continued focus on providing safe and reliable water, returning clean water to the environment, and doing it in an ethically and financially responsible manner. The state of the WSSC's infrastructure remains a significant concern. We continue to work with stakeholders in both counties to develop a long-term funding solution to meet the WSSC's infrastructure needs. In the interim, this budget includes some additional rate-supported funding for the water and sewer reconstruction programs as well as funding for some inspection and repair of critical infrastructure, but far from the amounts that are needed.

(2)

Our budget needs for FY'10, to provide the same level of service with some new spending for critical proactive maintenance, would have resulted in a 14.9% rate increase. However, spending affordability limits adopted by the two County Councils specified a maximum 9.5% rate increase by the Montgomery County Council and a maximum 6% rate increase by the Prince George's County Council. The following adjustments were made to reduce the budget to a rate considered more affordable in these difficult economic times (listed in order of magnitude on water and sewer rate impact):

	Total Amount	Water & Sewer Rate Impact
Reduce assumed interest rates by 0.5%	$ 2,479,580	$ 2,479,580
Eliminate performance incentives for field employees	2,260,150	2,104,033
Reduce outside services	2,126,586	2,037,562
Increase salary lapse (reduction in budgeted salaries due to anticipated position vacancies)	2,304,400	1,837,801
Reduce sewer reconstruction program	14,811,350	1,801,350
Eliminate cost-of-living adjustment for employees	2,185,883	1,788,052
Reduce large diameter sewer main inspection	1,470,942	1,470,942
Reduce sewer pipe armoring	1,401,285	1,216,883
Reduce number of new positions	3,429,575	983,233
Extend phase-in period for other post employment benefits liability from 5 to 8 years	1,000,000	811,000
Reduce professional services	974,300	810,447
Adjust chemical budget based on revised price estimates	793,900	793,900
Adjust Capital Improvements Program spending based on latest spending estimates	13,124,376	776,376
Defer non-critical Capital Improvements Program projects	9,425,888	696,888
Reduce rights-of-way clearing	600,000	521,042
Sell excess Renewable Energy Credits	500,000	500,000
Eliminate Deferred Compensation Match Program for employees	587,500	476,463
Miscellaneous reductions	567,600	474,763
Adjust fuel budget based on revised price estimates	500,000	431,500
Eliminate winter denitrification at one wastewater treatment plant	400,000	400,000
Reduce sewer line chemical root control	400,000	400,000
Reduce Engineering Support Program	3,216,000	216,000
Reduce travel for professional association conferences & seminars Commission-wide by 50%	225,100	179,619
Eliminate corrosion control operating expenses	150,000	150,000
Defer remote telemetry unit replacements for process control	140,000	140,000
Reduce water house connection renewals	913,600	138,600
Eliminate 5 miles of water main cleaning & lining	884,750	96,750
Reduce Summer Intern Program	88,700	71,049
Eliminate purchase of 28 light vehicles	592,000	33,870
Total	**$ 67,553,465**	**$ 23,837,703**

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In order to further reduce the budget to the 6% rate increase limit recommended by the Prince George's County Council, the following additional adjustments would need to be made (listed in order of magnitude on water and sewer rate impact):

	Total	Water & Sewer Rate Impact $	%
Eliminate water Prestressed Concrete Cylinder Pipe inspection and repair	$ 4,250,000	$ 4,250,000	1.05%
Reduce Sewer Reconstruction Program to FY'09 funding level	20,444,000	1,839,960	0.46%
Reduce Water Main Replacement Program (10 miles)	14,046,000	1,264,140	0.31%
Eliminate high bill adjustment program for customers	1,000,000	1,000,000	0.25%
Eliminate payment for no-fault claims	1,000,000	1,000,000	0.25%
Eliminate large diameter sewer pipe inspection	529,058	529,058	0.13%
Eliminate sewer pipe armoring	600,000	520,800	0.13%
Eliminate valve exercising	500,000	500,000	0.12%
Eliminate trailer mounted safety attenuator hauling contract	443,500	443,500	0.11%
Eliminate six new positions	345,000	297,082	0.07%
Eliminate telephone system replacement	1,850,000	242,088	0.06%
Eliminate leak detection program	100,000	100,000	0.02%
Close watershed recreation areas, fishing, and azalea gardens	76,300	76,300	0.02%
Eliminate Employee Assistance Program	49,000	39,739	0.01%
	$ 45,232,858	**$ 12,102,667**	**3.00%**

The FY'10 estimated expenditures for all operating and capital funds total $929.3 million or $12.3 million (1.3%) more than the FY'09 Approved Budget (all FY'09 Approved Budget numbers have been adjusted for the FY'09 Approved Budget Supplement). The FY'10 Preliminary Proposed Operating Budget of $588.2 million represents an increase of $32.2 million (5.8%) from the FY'09 Approved Operating Budget. The increase in the Operating Funds is driven by cost increases in chemicals, energy, fuel, and services utilizing fuel, such as biosolids hauling; the inclusion of funding for prestressed concrete cylinder pipe inspection and repair, and for large diameter sewer main inspection; additional sewer maintenance; the third increment of an 8-year phase-in to achieve full funding for liabilities related to post-employment benefits based on Governmental Accounting Standards Board Statement No. 45; and the second year of a 5-year program to implement an Enterprise Resource Planning/Enterprise Asset Management System.

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Comparative Expenditures by Fund

	FY'09 Approved *	FY'10 Proposed	FY'10 Over / (Under) FY'09	% Change
Capital Funds				
Water Supply	$185,620,000	$147,030,000	($38,590,000)	(20.8%)
Sewage Disposal	142,718,000	161,454,000	18,736,000	13.1%
General Construction	32,637,000	32,660,000	23,000	0.1%
Total Capital	360,975,000	341,144,000	(19,831,000)	(5.5%)
Operating Funds				
Water Operating	214,081,000	233,925,000	19,844,000	9.3%
Sewer Operating	270,528,000	285,807,000	15,279,000	5.6%
Interest & Sinking	71,426,000	68,462,000	(2,964,000)	(4.1%)
Total Operating	556,035,000	588,194,000	32,159,000	5.8%
GRAND TOTAL	$917,010,000	$929,338,000	$12,328,000	1.3%

* Reflects FY'09 Approved Budget Supplement

The FY'10 Proposed Capital Budget of $341.1 million represents a net decrease of $19.8 million (5.5%) from the FY'09 Approved Budget. The net decrease is primarily attributable to revised project schedules deferring expenditures into later years and several larger projects moving through construction at the Blue Plains WWTP, partially offset by Enhanced Nutrient Removal projects entering their construction phases and increases in both the Water and Sewer Reconstruction Programs.

FY'10 Proposed Capital and Operating Budgets

The proposed budget provides for:

- Funding the first year of the FYs 2010-2015 Capital Improvements Program as amended by mid-cycle update;
- Promptly paying $235.4 million in debt service on $1.5 billion in outstanding debt to WSSC bondholders;
- Meeting or surpassing all federal and state water and wastewater quality standards and permit requirements;
- Keeping maintenance service at a level consistent with the objective of arriving at the site of a customer's emergency maintenance situation within 2 hours of receiving the complaint and restoring service within 24 hours of a service interruption;

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- Paying the WSSC's share of the cost of operating the District of Columbia Water and Sewer Authority's Blue Plains Wastewater Treatment Plant;
- Operating and maintaining a system of 3 reservoirs impounding 14 billion gallons of water, 2 water filtration plants, 7 wastewater treatment plants, 5,500 miles of water main, and 5,400 miles of sewer main 24 hours a day, 7 days a week;
- Continuing to increase the operating reserve from 5% to 10% of water and sewer rate revenues;
- Funding the second year of a 5-year program to implement an Enterprise Resource Planning/Enterprise Asset Management System;
- Funding the third phase of an 8-year ramp-up to achieve full funding of liabilities for post-employment benefits other than retirement based on Government Accounting Standards Board Statement No. 45;
- Expanding the Water and Sewer Reconstruction Programs; and
- Complying with the Sanitary Sewer Overflow Consent Order.

In addition to reviewing expenses and revenues for water and sewer services, we have analyzed the cost and current fee levels for other WSSC services. Based upon these analyses, some new fees and adjustments to current fees are recommended in Table VII (page 14).

<u>Budget Review Process</u>

The Proposed Budget is subject to the Counties' hearings, procedures, and decisions, as provided under Section 1-204, Article 29, of the Annotated Code of Maryland, before the final budget is adopted for the fiscal year beginning July 1, 2009.

Joyce Starks

Joyce Starks, Chair
Washington Suburban Sanitary Commission

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SPENDING AFFORDABILITY COMPARISON

(Dollars in Millions)

A CATEGORY	B FY09 CC Approved 5-22-08	C FY09 Estimate 3-15-09	D FY10 CC SAG 2-10-09	E FY10 CE Recommended 3-15-09	F FY10 CE % Chg Rec / Bud	G FY10 CE $ Chg Rec / Bud
Property Tax	1,364.9	1,365.7	1,441.0	1,438.7	5.4%	73.8
Income Tax	1,325.4	1,281.8		1,214.8	-8.3%	(110.7)
Transfer/Recordation Tax	149.0	112.6		123.4	-17.2%	(25.6)
Other Tax	185.8	180.8		185.3	-0.2%	(0.4)
General State/Fed/Other Aid	563.6	575.3		624.1	10.7%	60.5
All Other Revenue	187.6	192.4		209.0	11.4%	21.4
Revenues	**3,776.3**	**3,708.6**	**1,441.0**	**3,795.3**	**0.5%**	**18.9**
Net Transfers In (Out)	33.3	32.7		35.4	6.4%	2.1
Set Aside: Potential Supplementals	0.0	(18.0)		0.0	n/a	0.0
Set Aside: Other Claims	(2.6)	(0.1)		(2.5)	-1.9%	0.0
Beginning Reserve: Total	269.3	285.2		231.1	-14.2%	(38.2)
Revenue Stabilization Fund	119.6	119.6		119.6	0.0%	0.0
Reserve: Designated	6.2	6.7		0.0	-100.0%	(6.2)
Reserve: Undesignated	143.4	158.8		111.5	-22.3%	(32.0)
TOTAL RESOURCES	**4,076.3**	**4,008.5**	**1,441.0**	**4,059.2**	**-0.4%**	**(17.1)**
APPROPRIATIONS						
Capital Budget:						
CIP Current Revenue	(46.3)	(48.9)	(44.4)	(33.1)	-28.5%	13.2
CIP PAYGO	(5.4)	(5.4)	(32.0)	(1.3)	-75.7%	4.1
CIP PAYGO Rec Tax Undesignated	0.0	0.0		0.0	0.0%	0.0
Operating Budget:						
MCPS	(1,937.0)	(1,917.9)	(2,003.5)	(1,975.5)	2.0%	(38.5)
College, Total	(212.4)	(205.7)		(218.2)	2.8%	(5.9)
Less College Tuition	67.5	67.7		70.1	3.8%	2.6
College, Net	(144.8)	(138.1)	(149.8)	(148.2)	2.3%	(3.3)
County Government	(1,279.4)	(1,266.3)	(1,323.4)	(1,273.8)	-0.4%	5.6
M-NCPPC	(106.4)	(103.9)	(110.1)	(109.0)	2.4%	(2.5)
Other: (Unallocated) / GAP	0.0	0.0		0.0	n/a	0.0
Total Operating Budget:	**(3,535.2)**	**(3,493.9)**	**(3,586.8)**	**(3,576.5)**	1.2%	**(41.4)**
Debt Service:						
All County Debt Service	(230.6)	(207.9)	(257.8)	(224.6)	-2.6%	6.0
M-NCPPC Debt Service	(4.7)	(4.7)	(5.0)	(5.0)	5.8%	(0.3)
MCG Long Term Leases (b)	(17.4)	(16.5)	(22.5)	(21.7)	24.7%	(4.3)
TOTAL APPROPRIATIONS (incl. Capital, Operating & Debt Service)	**(3,839.5)**	**(3,777.3)**	**(3,948.5)**	**(3,862.1)**	**0.6%**	**(22.6)**
Aggregate Operating Budget (excludes College tuition)	**(3,772.0)**	**(3,709.7)**		**(3,792.0)**	**0.5%**	**(20.0)**
Revenue Stabilization Fund (new $s)	0.0	0.0		0.0	n/a	0.0
Ending Reserve: Total	**236.8**	**231.1**		**197.1**	**-16.8%**	**(39.7)**
Revenue Stabilization Fund	**119.6**	**119.6**		**119.6**	**0.0%**	**0.0**
Ending Reserve: Designated	**8.7**	**0.0**		**0.0**	**-100.0%**	**(8.7)**
Ending Reserve: Undesignated	**108.4**	**111.5**		**77.5**	**-28.6%**	**(31.0)**
Maximum AOB without 6 votes (Prior Year AOB + inflation as shown)	**(3,792.8)** **3.60%**	**n/a**		**(3,900.2)** **3.40%**		

a) Based on latest revenue and expenditure estimates as prepared by Department of Finance and OMB.
b) Long term leases of Montgomery County Government are considered equivalent to debt service.

BUDGET SUMMARY BY AGENCY

($ In Millions)

A FISCAL YEAR	B TAX SUPPORTED	C GRANT SUPPORTED	D SELF SUPPORTED	E GRAND TOTAL
MONTGOMERY COUNTY GOVERNMENT				
FY09 Approved	1,279.4	102.5	256.6	1,638.5
FY10 Recommended	1,273.8	112.8	264.0	1,650.6
Percent Change From FY09	-0.4%	10.0%	2.9%	0.7%
MONTGOMERY COUNTY PUBLIC SCHOOLS				
FY09 Approved	1,937.0	75.0	54.7	2,066.7
FY10 Recommended	1,975.5	96.7	56.2	2,128.4
Percent Change From FY09	2.0%	29.0%	2.7%	3.0%
MONTGOMERY COLLEGE				
FY09 Approved	212.4	20.4	26.6	259.4
FY10 Recommended	218.2	19.1	28.9	266.3
Percent Change From FY09	2.8%	-6.2%	8.6%	2.7%
MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION				
FY09 Approved	106.4	0.6	16.1	123.1
FY10 Recommended	109.0	0.6	16.6	126.2
Percent Change From FY09	2.4%	0.0%	3.7%	2.5%
ALL AGENCIES WITHOUT DEBT SERVICE				
FY09 Approved	3,535.2	198.5	354.0	4,087.7
FY10 Recommended	3,576.5	229.2	365.8	4,171.5
Percent Change From FY09	1.2%	15.5%	3.3%	2.1%
DEBT SERVICE: GENERAL OBLIGATION & LONG TERM LEASES				
FY09 Approved	252.7	-	1.9	254.5
FY10 Recommended	251.2	-	2.2	253.4
Percent Change From FY09	-0.6%	0.0%	17.8%	-0.5%
TOTAL BUDGETS				
FY09 Approved	3,787.8	198.5	355.8	4,342.2
FY10 Recommended	3,827.7	229.2	368.0	4,424.9
Percent Change From FY09	1.1%	15.5%	3.4%	1.9%

Closing the Gap FY10

1	**December 2008 Gap**	-515.7	
2	February 2009 Revenue Update	-71.8	
3	**Total Cumulative FY10**	-587.5	
4			
5	**Gap Components**		
6	Revenue Declines: (Income, Transfer/Recordation, Investment Income)		
7	FY09	-102.6	
8	FY10	-239.6	
9	Total Revenue Writedowns	-342.2	
11	Projected Expenditure Increases and other Miscellaneous Changes: FY09 and FY10	-245.4	
12			
13	**Total Gap Components**	-587.5	
14			
15	**Major Solutions to Close the Gap**		
17	MCG: Reduce Tax Supported Expenditures	55.6	Tax Supported departments; Additional reduction of $15 million in Non-Tax supported departments
18	MCG Liquidate Mid Year contract encumbrances	12.8	
19	MCG: Decrease Debt Service in FY09 & FY10	57.4	
20	MCPS: Additional Mid Year Exp. Savings and revenue	17.0	Additional $3 million in FY09 Savings Plan on line 27
21	MCPS: Additional State Aid	25.7	Not Assumed in December 2008 Fiscal Plan
22	MCPS: Reduce Local Contribution below MOE	48.8	Possible through additional state aid; Requires SBOE waiver
23	MCPS: Reductions in Agency FY10 Request	28.3	GWA and OPEB referenced on lines 32 & 33
24	MNCPPC: Reductions in FY10 Request	1.3	GWA and OPEB referenced on lines 32 & 33
25	MC: Reductions in Agency FY10 Request	5.2	GWA and OPEB referenced on lines 32 & 33
26	MC: Additional Mid Year Savings	4.5	Above FY09 Savings Plan
27	FY09 Savings Plan	32.5	All Agencies
28	Reduce FY09 Requested Supplemental Appropriations	19.8	
29	Reduced Fuel Costs	16.3	All Agencies
27	Charter Limit on Property Tax through a credit	12.1	Instead of through a rate cut
28	Redirect Recordation Tax Premium	10.0	Requires change to Code
29	CIP: Decrease Current Revenue: FY09 and FY10	20.0	
30	CIP: Eliminate PAYGO	28.7	Remaining amount from $30 M. is interest from Revenue Stabilization Fund that, by law, must be used for PAYGO
31	Reduce Reserves from 6% to 5%	39.4	
32	Eliminate Increase to OPEB: All Agencies	25.7	
33	Eliminate GWA for all agencies, all units	123.5	
34	Other Miscellaneous Changes	2.9	Includes changes in transfers, fund balance assumptions, minor revenue changes and other changes in assumptions
36	**Total Solutions to Close the Gap**	**587.5**	
38	**Gap 3/16/09**	**0.0**	
Note:	The above is a high level summary of the changes in revenue and expenditure estimates from the December 2008 Fiscal Plan and the Executive's Recommended Budget., as well as actions taken by the County Executive and other agencies in the FY09 and FY10 budget,		

ROCKVILLE, MARYLAND

March 31, 2009

Mr. James H. DeGraffenreidt, Jr.
President
Maryland State Board of Education
200 West Baltimore Street
Baltimore, Maryland 21201

Dear Mr. DeGraffenreidt:

Pursuant to Section 5-202(d)(7) of Maryland Code, Education Article, Montgomery County hereby requests a waiver from the State's Maintenance of Effort (MOE) requirement as defined under Section 5-202(d)(1)-(6). The basis for this request is that the County's fiscal condition significantly impedes us from funding the MOE requirement without seriously impairing other County services, including public safety, services to the most vulnerable residents, post-secondary education, library and recreation services, and other vital locally funded public programs.

As defined under the Education Article, the County's local funding obligation for K-12 Public Education in FY10 would be $1,529,554,447 in order to maintain per pupil spending constant at $11,249 (as defined under the Education Article). The County Executive's Recommended FY10 Operating Budget includes local funding of $1,454,702,161, a difference of $74,852,285 from the amount required under the Education Article. However, given that the Maryland General Assembly is considering additional reductions in local aid that could be more than $50 million for Montgomery County and could severely impact local services, we are requesting a waiver in the amount of $94,852,285. In requesting this amount for the waiver, we are committed to not reducing any educational programs recommended by the Montgomery County Board of Education in its FY10 Recommended Budget.

We are also committed to appropriating local funding that, when combined with State education aid for Montgomery County Public Schools (MCPS), is no less than $1,929,265,335, and to appropriating exclusively for public school purposes all mandated State and Federal aid, including all grants that are received.

This is the first time that Montgomery County has requested such a waiver. With the exception of FY92, when Maryland permitted a State-wide waiver of the MOE requirement, Montgomery County has not only met the MOE requirement, but significantly exceeded it. In the last ten years Montgomery County has increased its local contribution to K-12 Education by over $710 million to over $1.5 billion. This represents an 86.6 percent increase in local funding – an average annual increase of 6.4 percent – which has enabled us to reduce class size, raise test scores, and meet the needs of the growing number of students eligible for FARMS and ESOL services. During the same period, student enrollment grew by only 7.8 percent. This represents a substantial and ongoing local commitment to investing this County's taxpayer funds in educating our children. In addition, the County's FY09-14 Approved Capital Improvements Program (CIP) budget includes over $1.2 billion in locally supported funding for school construction, renovation, information technology, and other capital improvements in support of K-12 public education.

In addition to the County's local contribution to MCPS, the County Government also funds over $37 million to operate several programs in support of the Public Schools' mission, including:

- School Safety: providing 177 Crossing Guards with seven Police Officer positions in support, at a cost of $5.3 million;
- School Safety: providing 31 Police Officers as Educational Facility Officers assigned to 25 Public High Schools and two Middle Schools, at a cost of $3.8 million;
- School Health: Providing 318 positions including nurses and health room technicians, at a cost of $19.8 million;
- Wellness: Funding for various wellness programs, including School Suspension programs; reading, tutoring and mentoring programs; Infant and Toddlers programs; and Pre-Kindergarten programs, at a cost of $3.5 million; and
- Linkages to Learning: providing early intervention services to students and families of elementary and middle school communities with the highest indicators of poverty to address non-academic issues that may interfere with a child's success at school, at a cost of $4.9 million.

In developing the County's FY10 operating budget, Montgomery County was faced with closing a budget shortfall of nearly $600 million. The causes of this serious shortfall were the national economic recession and the continuing international crisis in credit markets. Since May 2008, when the County Council approved the FY09 operating budget, the County has revised its FY09 and FY10 revenue projections downward by over $340 million due to reductions in income, transfer, and recordation tax revenue, investment income, and State Highway User Aid. This revenue loss is nearly 10 percent of our total annual tax supported revenues. Attached is a copy of the County's latest review of economic indicators. In addition, some pertinent facts provided below indicate how the recession has impacted Montgomery County residents and led to this sharp decrease in revenues:

- Since December 2007, Montgomery County's unemployment rate has increased by 84 percent to 4.6 percent in January 2009. This is the highest level of unemployment in Montgomery County since 1990.
- Resident employment has been stagnant since calendar year 2006, with no increase in resident employment, despite the entry of thousands of residents into the job market.

- Home sales have declined 17.8 percent in 2008, 23.4 percent in 2007, and 20.5 percent in 2006.
- Average home sale prices have declined 11.9 percent in 2008. The most recent residential assessments plummeted 16.3 percent.
- The value of new residential construction (~$400,000,000) in CY2008 was the lowest since 1999.

These economic factors have dramatically affected the County's revenue collections for income, transfer, and recordation taxes. Moreover, the Federal Reserve rate cuts have reduced projected FY10 investment income by nearly 60 percent.

To close the budget deficit, produce a balanced budget, and fund essential services including K-12 Education, the County Executive and the County Council have made a number of significant budget reductions for FY09, and the County Executive has also recommended major reductions for FY10, including the following:

- Total mid-year FY09 reductions of $48.8 million in Montgomery County Government, Montgomery College, the Maryland-National Capital Park and Planning Commission, and MCPS;
- Total FY10 reductions of $130.4 million across the same four agencies;
- The abolishment of nearly 400 positions in Montgomery County Government, with nearly half of these positions filled;
- The elimination of all General Wage Adjustments for all employees across all agencies of local government;
- The elimination of the planned $25 million increase in pre-funding of retiree health insurance;
- A reduction of $50 million in current revenue funding to the capital budget; and
- A reduction in the County's reserve of nearly $40 million.

If the County were required to fund the additional $94.8 million local contribution, it would mean even deeper reductions in locally funded services, at a time when local crime rates are rising and the need for emergency assistance for individuals and families in crisis is steeply increasing.

Montgomery County has benefited in several ways from funding received or expected to be received from the Federal Fiscal Stabilization Act and the American Recovery and Reinvestment Act of 2009. In FY10, MCPS will receive $6.1 million for Title I programs for disadvantaged children and $15.3 million for Individuals with Disabilities Education Act (IDEA) programs. The Title I funding will be used to add three schools to receive Title I funding and add eight new full-day Head Start classes, so that all Title I schools that have Head Start classes can offer full-day Head Start classes. The Title I funding will also allow recipient schools to restore teacher positions to reduce class size, support reading and mathematics intervention, and provide ESOL support. The IDEA funding will allow for the restoration of reductions originally proposed for the FY10 budget, including 20.5 special education teachers, five secondary intensive reading teachers, and tuition for students in non-public placement, special educational instructional materials. The IDEA funding will also allow the addition of hours based staffing at 15 additional middle schools, technology to implement the Universal Design for Learning program, and other program improvements. The additional funding from the Title I grants and IDEA grants, however, are targeted grants for specific purposes and does not represent general aid. While a portion of this funding will allow MCPS to restore certain positions and activities that may have otherwise been eliminated in the FY10 budget, this aid generally did not have a positive or negative impact on meeting the State MOE requirement.

In addition, on February 20, 2009, Governor O'Malley announced more than $720 million of funding for Maryland public education resulting from the American Recovery and Reinvestment Act. Under the Governor's plan, every school district in Maryland will be made whole and the Geographic Cost of Education Index (GCEI) will be funded at 100 percent for the first time. For Montgomery County this meant an increase of $21.6 million in funding. The Governor's proposal also included restoration of proposed reductions in supplemental grant and non-public placement funding to local school systems. For Montgomery County, this meant an increase of $4.8 million in funding. The anticipated receipt of this funding in the FY10 budget allowed the County to limit the amount of this waiver request by approximately $26.4 million.

While we are still exploring other formula funding and competitive grant opportunities under the ARRA, Montgomery County Government and other local public agencies expect to receive approximately $36 million in funding for a variety of specific purposes, including transportation projects, bus replacement, workforce training, energy projects, public safety equipment, housing, weatherization, emergency shelter grants, Community Development Block Grants, homelessness prevention, and Community Services Block Grants. Since this funding is targeted for specific purposes and frequently carries standard Federal non-supplantation requirements, it cannot be used to supplement the County's local contribution or provide capacity for Montgomery County to increase its local contribution for K-12 schools.

We are confident that granting this waiver request will not adversely affect the quality of our local public schools. In fact, the County Executive's recommended budget for FY10 would fund nearly 99 percent of the Montgomery County Board of Education's request. The only recommended reductions are to additional funding increases requested for certain benefit funds, including additional pre-funding for retiree health insurance ($12.3 million), the employee health insurance benefit fund ($7.1 million), and the MCPS Employees' Retirement and Pension Systems Plan ($4.3 million). These reductions can be made without affecting the existing level of benefits for these employees.

In addition, as you are aware, the State has recently revised downward its own revenue estimates for FY09 and FY10 by over $1 billion. This has very troubling implications for Montgomery County and other subdivisions across the State because of impending reductions in local aid formulas that may be necessary to produce a balanced budget for the State. Further reductions in local aid will require Montgomery County to identify additional programmatic and service reductions to its own residents to maintain a balanced and sustainable budget.

Montgomery County's ability to raise further revenue from additional local taxes has two major constraints. First, Section 305 of the Montgomery County Charter (see attached) requires the unanimous vote of the nine members of the County Council to increase real property tax revenue beyond the rate of inflation (less new construction and other minor categories). We do not support such an increase in the property tax rate, since it would impose an additional burden on families and businesses during this difficult economic time, and also given the fact that the County exceeded the limits imposed by Section 305 of the Charter in FY09 (an increase of 13 percent). Second, Montgomery County's income tax rate is currently at the State-allowed maximum rate, 3.2 percent.

In closing, we want to stress that education, especially K-12 Education, is one of the most important priorities of Montgomery County. We are very proud of the accomplishments of our Public School system in reducing class size, significantly improving test scores, and preparing our children to be productive, well-educated, and responsible citizens. We are committed to investing the resources necessary to achieve these important results for our County and the State.

However, the severity and duration of the current economic recession and the consequent reduction in revenues leave us no responsible choice except to temporarily reduce the County's local contribution. The Montgomery County Board of Education leadership, working collaboratively with the County Executive and County Council, is aware of this waiver application, and will recommend support for the waiver provided that the funds for educational programs recommended by the Montgomery County Board of Education are not reduced. We urge the State Board of Education to approve this request with all deliberate speed in view of the County's fast-approaching budget deadlines. Thank you for your consideration.

Sincerely,

Isiah Leggett
Montgomery County Executive

Phil Andrews, President
Montgomery County Council

IL/PA:jb

c: Anthony South, Executive Director, Maryland State Board of Education
Montgomery County Council
Shirley Brandman, President, Montgomery County Board of Education
Jerry D. Weast, Ed.D, Superintendent, Montgomery County Public Schools
Richard S. Madaleno, Jr., Senator, District 18
Brian J. Feldman, Delegate, District 15

Attachments:

- Tax Supported Current Revenue FY09-FY10[1]
- March Revenue Update FY08-10 Reflecting County Executive Recommended Budget
- Revenues: Excerpt from County Executive's Recommended FY10 Operating Budget
- Section 305 of the Montgomery County Charter: Approval of the Budget; Tax Levies
- Comprehensive Annual Financial Reports (Audited) FYs 2006-2008
- County Executive's Recommended FY10 Operating Budget
- Approved Montgomery County Operating Budget FY2009
- Supplemental Information on County Fiscal Condition for FY09 and FY10:
  - Presentation of Economic Indicators: Montgomery County Economic Indicators (Montgomery County Department of Finance, prepared March 2009)
  - FY09 Operating Budget Issues, Memo from County Executive Isiah Leggett to Council President Michael J. Knapp, September 4, 2008
  - FY09 Savings Plan, Memo from County Executive Isiah Leggett to Council President Michael J. Knapp, November 13, 2008
  - County Council Approval of FY09 Savings Plan, November 25, 2008
  - Fiscal Plan Update, Memo from County Executive Isiah Leggett to Council President Michael J. Knapp, December 1, 2008
  - FY09 and FY10 Required Budget Actions, Memo from County Executive Isiah Leggett to County Government Department Heads, December 17, 2008

[1] Additional information on County Revenue Streams can be found in the County Executive's Recommended FY10 Operating Budget pages 5-1 to 5-22 and 72-1 to 72-20.

Board of Education
MONTGOMERY COUNTY BOARD OF EDUCATION
850 Hungerford Drive • Rockville, Maryland 20850

April 7, 2009

Mr. James H. DeGraffenreidt, Jr., President
Maryland State Board of Education
200 West Baltimore Street
Baltimore, Maryland 21201

Dear Mr. DeGraffenreidt:

This letter is the Montgomery County Board of Education's response to the Maintenance of Effort (MOE) waiver request that was submitted to you on March 31, 2009. Pursuant to Section 5-202(d)(7) of the Annotated Code of Maryland, Education Article, Montgomery County Executive Isiah Leggett and Montgomery County Council President Phil Andrews have requested a waiver from the State's MOE requirement, as defined under Section 5-202(d)(1)-(6). The basis for their request is that the county's fiscal condition prevents it from funding the MOE requirement without seriously impairing other county services. The Board has not taken a formal position because it will not have had an opportunity to meet prior to the April 10, 2009, deadline for submitting a response. However, we recognize that the unprecedented economic difficulties faced by the county, state, and nation have required the county to request this waiver.

The *American Recovery and Reinvestment Act of 2009* (ARRA) has provided the state with \$26.2 million that otherwise would have been reduced from the state aid due to Montgomery County. Compared to FY 2009, Montgomery County Public Schools (MCPS) expects to receive in FY 2010 approximately \$71 million in additional state aid. This is \$27 million more than was anticipated when the Board of Education adopted its FY 2010 budget request. MCPS also expects to receive \$24.2 million in state aid it was shortchanged by error in FY 2009. These additional revenues allow the Board's requested budget to be funded even if the MOE waiver is approved. However, if final action on the budget by the General Assembly reduces the amount of state aid for MCPS, the requested waiver amount must be reduced by a similar amount.

Montgomery County has informed the Board of Education that because of the serious economic downturn, it faces a budget shortfall of almost \$600 million. MCPS staff has received information about the county economy and revenue projections, as outlined in the county's waiver request, and has worked closely with county staff to review economic and revenue data.

Discussions were held by MCPS staff, county executive staff, and the County Council prior to March 31, 2009, regarding the need for the waiver and the content of the letter requesting the waiver. Although the Board of Education was not able to take a formal position on this waiver

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request, we are recommending support of this request as long as a number of important conditions are met. This conditional support was communicated to Mr. Leggett and Mr. Andrews. The following conditions were shared with them, and it was made clear that our support is contingent on these conditions being agreed to by the Maryland State Board of Education:

1. With the possible exception of pre-funding of retirees health insurance, as explained below, the budget recommended by the County Executive on March 17, 2009, is supported and fully funded by the County Council. This total amount of $2,128,410,168, including $1,975,499,903 in the tax-supported Current Fund, preserves our budget and avoids the waiver causing any further cuts to an already reduced budget.

2. The Board receives support and full funding for the plan submitted to the county executive and County Council for use of the additional Title I and *Individuals with Disabilities Education Act* (IDEA) funds that we have been allocated as part of the federal stimulus funding. There will be no attempt to use these funds to supplant local funds that have been used to support these programs this year.

3. This is a one-year waiver. For FY 2011, the required level of appropriation by the county shall be based on the local appropriation for FY 2009.

The Board of Education's budget request for next year, FY 2010, contains an increase of only $64 million over FY 2009, excluding the additional federal stimulus funds for Title I and IDEA. In the county executive's recommendations for the MCPS FY 2010 Operating Budget, this amount was reduced by $24 million. We believe this reduction can be made because this action would reduce our contribution to health and retiree trust funds that were requested in anticipation of increases that will be needed in FY 2011, including the increase in the contributions to the Other Post-Employment Benefits (OPEB) Fund for health coverage for our retirees. This is not an easy decision to make. We have made progress over the past two years in complying with GASB 45 and beginning to phase-in contributions to pre-fund retirees' health insurance, but these are unusual times and difficult decisions have to be made. These reductions will not impact our educational programs. Therefore, our tax-supported budget increase would be only 2 percent, despite the fact that we will have 2,800 more students.

We were able to accomplish this because of the extraordinary commitment and contributions of our employees. Our unions agreed to renegotiate their agreements with the Board of Education, and our employees have agreed to forego their cost-of-living increases, which will save the school system $89 million in FY 2010. In addition to these reductions, we made $30 million of budget reductions and savings in next year's budget. Also, we saved $20 million this year as a result of a position freeze and comprehensive expenditure restrictions. These savings from FY 2009 will be available to fund next year's budget. These extraordinary contributions to address the current fiscal crisis are in addition to more than $50 million of reductions in the FY 2009 Operating Budget that had to be made last spring.

Having made all of these significant reductions in our operating budget, it is not possible to make further cuts to our educational programs or to our employees next year. If the county executive and County Council decide to make further reductions of close to $20 million, as has been suggested in their increase in the waiver amount to $94 million, these additional reductions must only come from contributions to pre-fund OPEB for our retirees. Any further reductions cannot impact educational programs or our employees because of the serious effect such reductions would have on the children in our schools.

The Montgomery Board of Education took swift action to approve a plan for use of the federal stimulus funds for Title I and IDEA. Within a week of President Obama's signing into law the ARRA, we approved the use of these additional funds to address the needs of some of our students who are most impacted by poverty and our special education population. Included in this action was the restoration of $5 million of reductions that previously had been proposed for FY 2010. It is essential that these additional federal funds be used to help those students that ARRA was intended to support. This is a critical condition for our support of the waiver. This is an opportunity that we cannot lose because the county may want to use these funds for other purposes.

Finally, it is critical that this waiver be for one year only and that the base budget for the purposes of calculating maintenance of effort for FY 2011 is not the FY 2010 amount. MCPS, like other school systems in Maryland, has made tremendous progress during the past six years as a result of the additional state aid provided through Bridge to Excellence funding. Although we are fully aware of the difficult financial situation we face as a result of the economic downturn in the country, we cannot agree to lose the progress that has been made. Seven years ago, the debate was not whether the Thornton recommendations were the right thing to do for the students in Maryland, but rather what amount of funding was needed to help our schools succeed. This is why our support is contingent on this waiver being for one year only and the level of appropriation by the county for 2011 must be based on the local FY 2009 appropriation.

The one unanswered question remaining to be addressed has to do with the amount of the waiver being requested and the assurance that we will not lose any funds for our educational programs or our employees. We need to make certain that we all have the same understanding when the State Board of Education makes its decision.

It should be emphasized that our agreement with the MOE waiver request for this year should not be viewed as a precedent for future waivers. The current economic crisis and the resulting federal stimulus funds represent a unique combination of events that are unlikely to recur. The Board of Education believes that the MOE requirement is an important foundation for local support for education. We are pleased that county leaders have reaffirmed the high priority of education for Montgomery County.

Understanding that our Board of Education has not had time to discuss and take a position on this request, we would recommend support of the county's request for the MOE waiver so long as the conditions described above are included in the action of the Maryland State Board of Education. On behalf of the Board of Education of Montgomery County, we reserve the right to supplement these comments following any additional consideration by the local Board. Please let us know if you have questions or need additional information.

Sincerely,

Shirley Brandman, President
Montgomery County Board of Education

Patricia B O'Neill

Patricia O'Neill, Vice President
Montgomery County Board of Education

JD Weast

Jerry D. Weast, Ed.D., Superintendent of Schools
Secretary, Montgomery County Board of Education

SB:vnb

Copy to:
Mr. Leggett
Mr. Andrews
Members of the Montgomery County Council
Members of the Board of Education
Members of the Montgomery County Legislative Delegation

OPERATING BUDGET ACTIONS, HOUSE, SENATE, CONFERENCE -- FY 10 IMPACTS ON MONTGOMERY COUNTY

COUNTY *	House	Senate	Conference	Notes
Library Aid	279,000	186,000	279,000	I think
Community Colleges	6,537,000	5,463,000	6,000,000 est.	split the difference
Local Employee Retirement	14,000	14,000	14,000	
Highway User Formula	11,236,000	23,968,000	23,324,000	$11.236 million in FY 11
SDAT cost shift	0	2,847,000	0	
Law Clerks cost shift	0	282,000	0	
Park revenues	69,000	69,000	69,000	for 2 years only
POS Local Unencumbered Funds	0	0	0	
Local Jail reimb. / backup	4,163,000	4,163,000	7,163,000 est.	no per diem in FY 10; $45/day thereafter
Local Jail reimb. payback	1,056,000	0	1,056,000	what will be owed for FY 09, and not paid
Targeted Local Health Formula	823,000	823,000	823,000	also in FY 09
MD Child Care Network	220,000	220,000	0	
Headstart	210,000	210,000	0	
Withholding of Local Income Tax	12,088,000	0	0	
Total	36,695,000	38,245,000	38,728,000	

MCPS **	House	Senate	Conference	Notes
Nonpublic Placements	1,704,000	1,704,000	1,704,000	70 / 30 split
Aging Schools	1,151,000	1,151,000	1,151,000	program is rebased
Reduction using GCEI allocation	0	12,379,764	0	
Total	2,855,000	15,234,764	2,855,000	
TOTAL COUNTY IMPACT (EST).	39,550,000	53,479,764	41,583,000	

* munis will not participate proportionately in the $11.236 million in FY 10 and 11 (only $3.5 million statewide) and will not participate at all in the $12.088 million for FY 10
* disparity grant capped at $121 million permanently; B&T, inflation factors on other grants frozen for FY 11 and 12
* Local Income Tax Reserve Fund repayments begin in FY 13
* overpmts of FY 09 error-related library aid also required to be repaid

** the $24 million error will be repaid in FY 09; overpmts taken back in FY 10; supplemental overpmts. taken back in FY 11
** does not reflect an unallocated reduction statewide of $11.4 million (math/science, principals program, incentive grants, etc.)
** MOE waiver language to clarify subsequent year MOE requirement for waiver approved counties

Montgomery County Office of Intergovernmental Relations, 4/10/09

SCHEDULE B-3

Expenditures Detailed By Agency, Fund Type, Government Function and Department

	Actual FY08	Budget FY09	Estimated FY09	Recommended FY10	% Chg Bud/Rec
MONTGOMERY COUNTY GOVERNMENT					
GENERAL FUND TAX SUPPORTED					
General Government					
County Council	8,642,801	9,580,700	8,967,400	9,101,660	-5.0%
Board of Appeals	564,385	619,300	601,230	617,520	-0.3%
Inspector General	583,614	700,720	684,330	634,730	-9.4%
Legislative Oversight	1,223,951	1,370,300	1,314,620	1,341,070	-2.1%
Merit System Protection Board	143,904	155,460	151,940	159,960	2.9%
People's Counsel	233,129	250,170	250,170	246,520	-1.5%
Zoning and Administrative Hearings	478,042	551,910	528,870	524,440	-5.0%
Circuit Court	9,947,675	10,747,630	10,403,550	10,456,960	-2.7%
State's Attorney	11,884,764	12,595,950	12,439,970	12,209,280	-3.1%
County Executive	4,974,377	6,979,440	6,683,350	6,467,130	-7.3%
Board of Elections	8,297,358	6,954,140	7,949,970	4,497,740	-35.3%
Commission for Women	1,265,331	1,317,430	1,287,210	1,201,270	-8.8%
County Attorney	5,567,258	5,680,860	5,481,280	5,250,100	-7.6%
Ethics Commission	276,480	264,310	278,780	272,390	3.1%
Finance	10,993,981	10,727,300	10,233,450	9,856,150	-8.1%
General Services	0	28,321,280	27,723,460	28,131,760	-0.7%
Human Resources	8,911,184	9,522,970	9,032,200	8,655,180	-9.1%
Human Rights	2,398,652	2,501,500	2,150,940	2,179,690	-12.9%
Intergovernmental Relations	784,246	882,770	860,700	877,400	-0.6%
Management and Budget	3,787,216	4,067,640	3,848,920	3,722,010	-8.5%
Procurement	2,798,547	0	0	0	—
Public Information	1,389,094	1,308,720	1,311,220	1,215,210	-7.1%
Regional Services Centers	3,953,494	4,494,100	4,158,600	4,063,250	-9.6%
Technology Services	31,686,959	33,711,050	32,427,540	32,069,270	-4.9%
Total General Government	***120,786,442***	***153,305,650***	***148,769,700***	***143,750,690***	***-6.2%***
Public Safety					
Consumer Protection	2,646,223	2,708,490	2,594,710	2,449,820	-9.6%
Correction and Rehabilitation	64,935,562	65,602,820	65,595,320	65,621,060	0.0%
Emergency Management and Homeland Security	5,642,190	1,653,690	1,480,110	1,402,190	-15.2%
Police	222,472,242	240,313,050	238,366,170	246,761,810	2.7%
Sheriff	19,430,244	20,533,520	20,628,300	20,608,430	0.4%
Total Public Safety	***315,126,461***	***330,811,570***	***328,664,610***	***336,843,310***	***1.8%***
Transportation					
Public Works and Transportation	78,814,643	0	0	0	—
Transportation	0	48,747,030	46,680,070	46,594,010	-4.4%
Total Transportation	***78,814,643***	***48,747,030***	***46,680,070***	***46,594,010***	***-4.4%***
Health and Human Services					
Health and Human Services	218,259,076	201,256,130	196,850,780	196,249,750	-2.5%
Libraries, Culture, and Recreation					
Public Libraries	39,241,580	40,255,530	37,744,230	37,738,070	-6.3%
Community Development and Housing					
Economic Development	8,115,693	8,048,580	7,843,710	7,657,510	-4.9%
Housing and Community Affairs	5,599,972	5,634,370	5,572,580	5,150,390	-8.6%
Total Community Development and Housing	***13,715,665***	***13,682,950***	***13,416,290***	***12,807,900***	***-6.4%***
Environment					
Environmental Protection	4,416,134	4,401,540	4,118,910	2,751,470	-37.5%
Other County Government Functions					
Non-Departmental Accounts	110,590,675	115,528,850	118,394,570	126,586,710	9.6%
Utilities	24,256,026	25,866,880	25,739,990	28,402,900	9.8%
Total Other County Government Functions	***134,846,701***	***141,395,730***	***144,134,560***	***154,989,610***	***9.6%***
TOTAL GENERAL FUND TAX SUPPORTED	**925,206,702**	**933,856,130**	**920,379,150**	**931,724,810**	**-0.2%**
SPECIAL FUNDS TAX SUPPORTED					
General Government					
Urban Districts	6,711,856	7,952,850	7,761,090	7,932,220	-0.3%
Public Safety					
Fire and Rescue Service	191,086,175	191,054,930	192,122,720	196,127,060	2.7%
Transportation					
Transportation	0	0	0	0	—
Transit Services	107,905,928	113,259,360	112,693,220	106,356,480	-6.1%
Total Transportation	***107,905,928***	***113,259,360***	***112,693,220***	***106,356,480***	***-6.1%***
Libraries, Culture, and Recreation					
Recreation	31,314,957	32,457,220	31,487,320	30,810,740	-5.1%
Community Development and Housing					
Economic Development Fund	3,014,376	852,440	1,886,350	852,440	—
TOTAL SPECIAL FUNDS TAX SUPPORTED	**340,033,292**	**345,576,800**	**345,950,700**	**342,078,940**	**-1.0%**

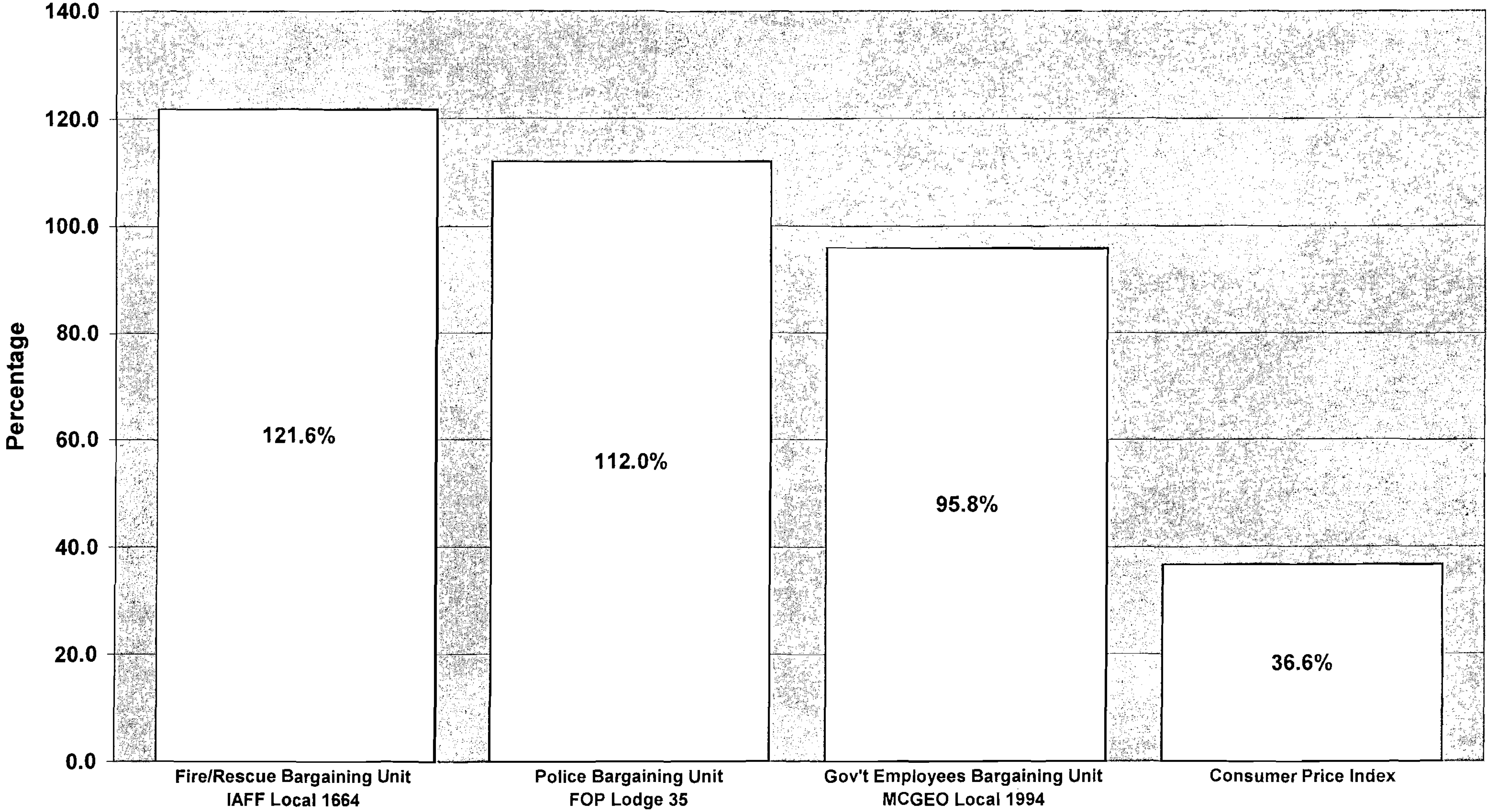
FY10 FEE AND FINE CHANGES*			
DEPARTMENT/FEE AND FINE	FY10 REVENUE CHANGE	METHOD OF CHANGE	NOTE
MONTGOMERY COLLEGE			
Tuition rate increase	2,088,000	Board of Trustees action	Increase per semester hour rate from $99 to $102 for County residents, $203 to $209 for State residents, and $275 to $284 for non-residents.
ENVIRONMENTAL PROTECTION			
Water Quality Protection Charge	2,340,300	Maryland Code, Title 4; Montgomery County Code 19-35; Montgomery County Executive Regulation 6-02; Amend County Code New County Council Resolution	Increase from $35.50 per equivalent unit (ERU) to $45.00 per (ERU) to cover increased expenditures in the Water Quality Protection Fund.
FIRE RESCUE SERVICE			
Ambulance/Emergency Transport Fee	14,554,050	Executive Regulation	To provide needed resources for improvements to staffing, apparatus, recruitment and retention, and volunteer enhancements.
HOUSING AND COMMUNITY AFFAIRS			
Registration for Common Ownership Communities	72,350	Executive Regulation	Increase from $2.25 to $2.75 per unit.
RECREATION			
Activity Fees	50,000	Executive Regulation 12-05 Method 3	Increase fee for Summer Fun Centers
Activity Fees	20,000	Executive Regulation 12-05 Method 3	Increase fee for non-county residents
Activity Fees	70,230	Executive Regulation 12-05 Method 3	Increase fee for Teen Programs
Activity Fees	55,000	Executive Regulation 12-05 Method 3	Increase fees for facility rentals for community centers
Activity Fees	70,000	Executive Regulation 12-05 Method 3	Increase fees for acquatic programs
DEPARTMENT OF TRANSPORTATION			
Rail-to-Bus Transfer	190,600	Council Resolution	Increase Rail-to-Bus Transfer from $0.35 to $0.75.
Taxi Passenger Vehicle License	400,000	Council Resolution	Increase renewal fee from $325 to $750 and ownership transfer fee from $2,500 and $5,000
Increase Vacuum Leaf Collection Fees	61,840	Council Resolution	Increase single family charge per household from $93.04 to $93.96.
SOLID WASTE SERVICES			
Increase Solid Waste Service Charges	1,648,980	Council Resolution	Increase single family charge per household from $202.72 to $209.85.
Increase Solid Waste Collection Fee	187,310	Council Resolution	Increase single family charge per household from $73 to $75.
GRAND TOTAL	**21,808,660**		

*** All changes are assumed to be effective July 1, 2009 except as noted.**
Revenues above do not include implementation costs.

	A	B	C	D	E	F	G	H	I	J	K	L
1	CHARTER LIMIT, see column G for how to achieve.											
2	Rate is from Schedule F-6											
3												
4	FY	FY05	FY06	FY07	FY08	FY09	FY10					
5	Rate prior year	1.005	0.995	0.953	0.903	0.903	0.903					
6	Change rate	(0.010)	(0.042)	(0.050)	+0.000	+0.000	**+0.000**					
7	Rate this year	0.995	0.953	0.903	0.903	0.903	0.903					
8	Credit	0.00	(116.00)	(221.00)	(613.00)	(579.00)	**(690.00)**					
9												
10		Amount of Tax								% Change		
11	FY10 Taxable Value	FY05	FY06	FY07	FY08	FY09	FY10	**Effective tax rate FY10**	Amount change FY09-10	FY09-10	Total FY05-10	Annual FY05-10
12	110,000	680	600	525	208	324	303	**0.276**	(21)	-6.4%	-55.4%	-14.9%
13	220,000	1,359	1,316	1,272	1,029	1,227	1,297	**0.589**	70	5.7%	-4.6%	-0.9%
14	330,000	2,039	2,032	2,018	1,850	2,130	2,290	**0.694**	160	7.5%	12.3%	2.4%
15	Median 380,600	2,351	2,361	2,361	2,227	2,545	2,747	**0.722**	201	7.9%	16.8%	3.2%
16	440,000	2,718	2,748	2,764	2,671	3,033	3,283	**0.746**	250	8.2%	20.8%	3.8%
17	Average 463,100	2,861	2,898	2,921	2,843	3,223	3,492	**0.754**	269	8.4%	22.0%	4.1%
18	550,000	3,398	3,464	3,510	3,492	3,936	4,277	**0.778**	341	8.7%	25.9%	4.7%
19	660,000	4,078	4,180	4,257	4,312	4,839	5,270	**0.798**	431	8.9%	29.2%	5.3%
20	770,000	4,757	4,896	5,003	5,133	5,742	6,263	**0.813**	521	9.1%	31.7%	5.7%
21	880,000	5,437	5,612	5,749	5,954	6,645	7,256	**0.825**	611	9.2%	33.5%	5.9%
22	990,000	6,116	6,328	6,496	6,775	7,548	8,250	**0.833**	702	9.3%	34.9%	6.2%
23	1,100,000	6,796	7,044	7,242	7,596	8,451	9,243	**0.840**	792	9.4%	36.0%	6.3%
24	1,210,000	7,476	7,760	7,988	8,417	9,354	10,236	**0.846**	882	9.4%	36.9%	6.5%
25	1,320,000	8,155	8,476	8,734	9,238	10,257	11,230	**0.851**	973	9.5%	37.7%	6.6%
26	1,430,000	8,835	9,192	9,481	10,059	11,160	12,223	**0.855**	1,063	9.5%	38.3%	6.7%
27	1,540,000	9,514	9,908	10,227	10,880	12,063	13,216	**0.858**	1,153	9.6%	38.9%	6.8%
28	1,650,000	10,194	10,624	10,973	11,701	12,966	14,210	**0.861**	1,244	9.6%	39.4%	6.9%
29	1,760,000	10,874	11,340	11,719	12,522	13,869	15,203	**0.864**	1,334	9.6%	39.8%	6.9%
30	1,870,000	11,553	12,056	12,466	13,342	14,772	16,196	**0.866**	1,424	9.6%	40.2%	7.0%
31	1,980,000	12,233	12,772	13,212	14,163	15,675	17,189	**0.868**	1,514	9.7%	40.5%	7.0%
32	2,090,000	12,912	13,488	13,958	14,984	16,578	18,183	**0.870**	1,605	9.7%	40.8%	7.1%
33	2,200,000	13,592	14,204	14,705	15,805	17,481	19,176	**0.872**	1,695	9.7%	41.1%	7.1%

	A	B	C	D
1	**FY10 REVENUE FROM PAST TAX INCREASES**			
2				
3	**Property tax**		FY10 dollars	
4	Exceeded Charter limit:	Actual amount	Adj for inflation	Cumulative
5	FY03	4.3	5.4	
6	FY04	29.2	36.0	
7	FY05	37.3	44.8	
8	FY09	117.4	122.7	
9	FY10	0.0	0.0	208.9
10				
11				
12	CPI, from BLS		% increase to FY10	
13	FY03	110.4	26.4%	
14	FY04	113.0	23.5%	
15	FY05	116.2	20.1%	
16	FY06	119.5	16.7%	
17	FY07	124.3	12.2%	
18	FY08	128.8	8.3%	
19	FY09	133.5	4.5%	
20	FY10	139.5	0.0%	
21				
22	**Income tax.** Increased rate from 2.95% in FY03 to 3.2% in FY04 and after.			
23	FY10 estimate, at 3.2%	1,214,770,000		
24	FY10 estimate, per 1%	379,615,625		
25	FY10 estimate, at 2.95%	1,119,866,094		
26	Increase from increased rate	94,903,906		94.9
27				
28	**Energy tax,** +356.45% since FY04 + $11.1 million increase starting in FY09			
29	FY10 estimate	130.4		
30	FY10 estimate, before $11.1 m increase	119.3		
31	FY10 estimate, before 356.45% increase	26.1		
32	Increase from increased rates	104.3		104.3
33				
34	**Telephone tax**			
35	For FY 04, the Council: increased the telephone tax on land lines by 116.2%, from 92.5¢ to $2.00			
36	per month [Centrex rates are 1/10 this rate]; increased the tax on cell phones from $0.00 to $2.00			
37	per month;			
38	FY10 estimate, land lines, at $2.00	8,320,000		
39	FY10 estimate, land lines, at $0.92	3,827,200		
40	Increase from increased rates	4,492,800		4.5
41				
42	FY10 estimate, cell, at $2.00	24,700,000		
43	FY10 estimate, cell, at $0.00	0		
44	Increase from increased rates	24,700,000		24.7
45	**Total FY10 revenue from past tax increases**			**437.3**

Montgomery County Government Base Salary Increases, FY99-09



Notes:
Salary information for County bargaining units is from the approved County salary schedules for FY99-09, including increases due to general wage adjustments (COLAs) and service increments (steps), for employees who have not reached the top of their grade. Additional pay increases due to promotions or special pay categories (such as shift differentials or multi-lingual pay) are not included. Information on the Consumer Price Index is from the Bureau of Labor Statistics.

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OPEB

Future Fiscal Impact of 8 Year Phase-In to the ARC (using pension discount rate)

Agency	2009	2010	2011	2012	2013	2014	2015	Total over Future 7 years
County	$ 19,700,000	$ 32,000,000	$ 44,000,000	$ 56,000,000	$ 68,000,000	$ 80,000,000	$ 93,000,000	$ 392,700,000
MCPS	18,300,000	30,000,000	42,000,000	54,000,000	66,000,000	78,000,000	90,000,000	378,300,000
College	700,000	1,200,000	1,700,000	2,200,000	2,700,000	3,200,000	3,600,000	15,300,000
M-NCPPC (Montgomery County portion - 45%)	1,900,000	3,010,000	4,230,000	5,450,000	6,660,000	7,880,000	8,860,000	37,990,000
Subtotal - Tax Supported Agencies	40,600,000	66,210,000	91,930,000	117,650,000	143,360,000	169,080,000	195,460,000	824,290,000
WSSC	-	-	-	-	-	-	-	-
Total	**$ 40,600,000**	**$ 66,210,000**	**$ 91,930,000**	**$ 117,650,000**	**$ 143,360,000**	**$ 169,080,000**	**$ 195,460,000**	**$ 824,290,000**

NOTES:

Other Assumptions

* Actuarial calculations based on 5% annual increases due to inflation and increases in employee or retiree population.
* There will be a policy decision at the agency level to dedicate Medicare Part D subsidies to fund OPEB costs.
* M-NCPPC valuation is for Montgomery/Prince George's Counties combined. This analysis assumes 45% relates to Montgomery County.

OFFICE OF HUMAN RESOURCES

Isiah Leggett
County Executive

Joseph Adler
Director

MEMORANDUM

March 31, 2009

TO: Department Directors and Executive Branch Agency Heads
HR Liaisons
MLS
All County Employees

FROM: Joseph Adler, Director
Office of Human Resources

SUBJECT: RIF Information

As the County Executive stated in his e-mail to County employees on March 16th, the challenges of the current economic conditions required tough choices to be made in preparing the FY10 budget. As a result, a number of positions that are currently filled have to be eliminated and a Reduction in Force process must be initiated.

I realize that this is a difficult time for County employees. The Office of Human Resources has been receiving an increased volume of calls from County employees concerning the impact of the Reduction in Force. The purpose of this e-mail is two-fold: 1) to provide information concerning the Reduction in Force process; and, 2) to provide information concerning services and opportunities available to the County workforce to provide assistance as we face the challenges of the economic downturn.

Notice of Intent

Under our personnel procedures and the relevant collective bargaining agreements, a Notice of Intent is a letter that Office of Human Resources Director sends to an employee in an affected class before a RIF to tell the employee of the potential RIF and that the employee is entitled to priority consideration. The Reduction in Force procedures require that preliminary notifications begin in *mid-April*. Notice of Intent letters will be distributed to employees affected by the RIF on April 15. Additional information on the RIF process and timeline are available at:
http://www.montgomerycountymd.gov/content/ohr/ResourceLibrary/RLMain1.cfm?m=1&c=89

Please note if one position in a position classification in a specific department is eliminated then all members in that position classification will receive a Notice of Intent within that department. One program that may mitigate impact of the Reduction in Force is the 2009 Retirement Incentive Plan.

2009 Retirement Incentive Plan

As a result of collective bargaining, the County Executive is recommending legislation to enact a new early Retirement Incentive Plan (RIP) that allows most full-time County employees who are in the defined benefit plan and within two years of retirement to retire before June 1, 2009 without penalty and receive $40,000. This is a voluntary program and it may help to reduce the number of filled positions planned to be abolished. **This program is subject to approval by County Council.**

Placement Assistance and Transition Services

The Office of Human Resources, in coordination with County Departments, assists affected individuals with placement in accordance with our RIF procedures. We will use every available tool to assist individuals whose positions are eliminated transition into new employment. Several training opportunities will be offered to assist affected employees in obtaining new employment.

Reduction in Force Timeline

	March 16	April 15	April 29	May 15	May 29	June 1	July 5
Notifications	County Executive announced recommended FY 10 budget.	Notice of Intent letters sent to affected employees.			Final Notice letters sent to affected employees with a termination date of July 5, 2009.		
Actions		OHR to announce jobs on County Career web-site with 2-week closing date for employees affected by RIF.	Close employee only announcements. OHR begins placement efforts with the goal to transition affected employees to vacant positions that they are qualified for.	Deadline for eligible employees to complete and submit the Retirement Incentive Program (RIP) application.		Effective date of RIP retirements	If alternative placement is not found for an affected employee, he/she may choose to either be terminated or to take Leave without Pay (LWOP) for up to one year.

Montgomery County: Expected ARRA Funding* as of 3-31-09

		Amount (millions)	Notes
1	Local Highway Projects: receiving $8.490 million or 13.7% of the statewide total.	8.5	
2	Local Area Transit Systems and Transit Station Funding: $6.9 million for heavy-duty transit bus replacements or 11.9% of the $58.185 million total in this category.	6.9	
3	Employment and Training: $1.4 million in Workforce Investment Act formula funding.	1.3	
4	Energy/Environment: Montgomery County expects to receive approximately $7.6 million in formula funded block grants from DOE for energy projects.	7.6	
5	Public Safety: $1 million from DOJ's Byrne grant program (formula).	1.0	
6	Housing:		
a.	$3.2 million in weatherization assistance funding	3.2	
b.	$1.4 million in CDBG funds	1.4	
7	Health and Human Services: Montgomery County will receive $2.1 million for homelessness prevention and rapid re-housing programs. The funding will be directed to HCA using the ESG formula, but the use and name has changed to focus on the HHS programs referenced previously. The County will also receive another $600,000 in CSBG funds targeted toward poverty initiatives, homelessness prevention and rapid rehousing efforts.	2.7	
8	**Subtotal Montgomery County Government**	**32.6**	
9			
10	MCPS		
11	IDEA	12.2	FY10 & FY11
12	Title I	30.7	FY10 & FY11
13	GCEI full funding & Non-Public Placement Restoration**	26.5	
14	**Subtotal MCPS**	**69.4**	
15			
16	HOC		
17	$3.1 million in HUD Capital Fund program	3.1	
18			
19	**Total Local Government Agencies**	**105.1**	
20			
21			
22	**Non-Profits**		
23	$9.5 million in Section 8 Project-Based Rental Assistance (reflects the funding needed to meet the HUD contractual obligation with project-based owners - not new money)	9.5	
24			
25	**Total Local Government Agencies with Funding to Non-Profits**	**114.6**	
26			

* Funding under the ARRA that the County has been notified it will receive
This does not include any ARRA funding awarded to municipalities within Montgomery County.
The County is applying for and may receive additional funding under other provisions of the ARRA

** The funding for the GCEI and restoration of the reduction to the reimbursement for non-public placement of special education students was not directly provided through ARRA. However, the State's receipt of over $720 million in ARRA funding allowed the Governor to recommend full funding of GCEI and restoration of the non-public placement reimbursement. These figures assume passage of the House version of the State appropriations bill for FY10.

MEMORANDUM

March 31, 2009

TO: Councilmembers

FROM: Phil Andrews, Council President

SUBJECT: Council Approach to the FY10 Recommended Operating Budget

The recommended operating budget for FY10 is the product of hard work by the Executive and his staff. While the Council will support many of the Executive's specific budget proposals, we will also weigh many different funding choices. And while this budget poses especially large challenges, working together we will resolve them in a way that protects taxpayers, essential services, and the safety net.

On the revenue side, we will decide what changes in fees and taxes we will support and how they should be structured. On the expenditure side, we will start with the approved FY09 budget and determine what additions or reductions should be made. Once the FY10 State budget is in place, the Executive will transmit amendments to address the additional State reductions, which will clearly be substantial (in the tens of millions), and we will assess those as well. In addition, we will need to replace $12.55 million in ambulance fee revenue (net of proposed expenditures) that the Executive assumed in his budget. We will also need to find resources for Council grants to non-profit organizations that are providing assistance to individuals and families in crisis.

I suggest that we ask our analysts and Committees, as they review the base budget and proposed changes for departments and agencies, to consider what was included in the FY09 approved budget, what has been added through supplementals (very little this year), what additions or reductions are being proposed to existing programs, and what new programs are being proposed. For County Government, this information is summarized in three places: the "FY10 recommended changes" cross-walk for each department, OMB's monthly position report for FY09, and Council staff's weekly update of FY09 supplemental appropriations. For each budget, our analysts and Committees can then assess:

- which items – either in the base or new – warrant full, reduced, or no funding in FY10 (I am advocating carefully targeted rather than across-the-board cuts);
- which items may warrant future funding but require further information and analysis; and
- which items that are recommended for elimination or reduction, or that are not in the recommended budget, should be considered for funding.

All such items will be reflected in Committee recommendations to the Council and in our regular budget tracking reports. Any Committee-proposed additions to the recommended budget will go on our reconciliation list. Given the current fiscal situation, this list should consist only of those items that Councilmembers feel have top priority and should at least be offset by Committee-recommended reductions. Committees should look surgically for savings as they review the proposed budget. When the full Council takes up Committee recommendations, we will need to decide how those recommendations fit with the Council's overall priorities.

Please let me know this week if you have any questions about the approach I am suggesting here. I look forward to working with you as we transform the Executive's recommended budget into the Council's approved budget.

c: Steve Farber, Karen Orlansky, Analysts, Confidential Aides

The Washington Post

Long Insulated By Government, Region Dragged Into Downturn

By Neil Irwin and Dana Hedgpeth
Washington Post Staff Writers
Wednesday, March 4, 2009; A01

This is the state of business in Washington: BearingPoint, a titan in government contracting, is in bankruptcy. Chevy Chase Bank, with nearly 250 local branches, has sold itself under distress. Allied Capital, the District-based buyout firm, has defaulted on more than $1 billion in debt.

Meanwhile, countless small businesses that have called this region home for decades are struggling to stay afloat.

In previous downturns, the region has been largely insulated, the beneficiary of business activity tied to the federal government. This time, local companies -- and residents -- face trials unlike any in at least a generation.

Their struggle is a reflection not only of the depth of the downturn, but also of a sea change in the economic makeup of the area. The private sector has grown more quickly than government in recent years, helping to diversify the local economy and fuel faster growth in good times -- but exposing it to more pain in bad times.

The region's economy remains considerably stronger than the rest of the country. Home prices have fallen in the past two years, but not at the rate of some of the hardest-hit parts of the country, including California and Nevada. Although median prices tumbled last year in outer counties such as Loudoun, they were off only about 2 percent in the District.

Employment in the region also is holding up. The jobless rate in the metro area was 4.7 percent in December, according to the most recently available data, when the national rate was 7.1 percent. Given the concentration of government activity here, the region may not even experience a net loss of jobs during the recession.

Yet the local pain is sufficiently severe that executives are questioning what has long been an article of faith: That Washington is protected from the vicissitudes of the national economy.

That was the lesson in the early part of this decade, when the dot-com bust caused the local jobless rate to spike to 4 percent and the Sept. 11 terrorist attacks took a severe if short-lived toll on businesses. Through it all, most companies here kept hiring, builders kept building and consumers kept buying.

Now, business owners are reporting a sharp decline in demand for goods and services.

Thomas Brown, owner of a home-remodeling and repair business in Bethesda, said his phone has simply stopped ringing.

"This downturn isn't like the last one," he said. "We just sailed through that one. We always thought we were in the right place and we couldn't be hurt because our clients are in the seven-figures. They don't go borrow money to redo their kitchens. They cash in some stocks. But that's changed."

One big difference between this downturn and others over the past two decades is that this one is more broad-based. The liquidation of retailers such as Circuit City means that thousands of area sales clerks and store managers will lose their jobs. At the same time, law firms with sizable offices in the District, including Latham & Watkins, have announced layoffs, as has the private-equity firm Carlyle Group.

"Even though this all started with a slowdown in the housing market, it's now become a financial crisis that affects everybody," said Stephen S. Fuller, a George Mason professor who has studied the regional economy for decades. "If you break your arm, you fix it. If you have a blood disease, it affects everything."

The growth of the private sector and relative shrinking of government has made local workers even more vulnerable, analysts say. In 1991, about 39 percent of economic activity in the region was driven by either federal spending or procurement, according to the George Mason University Center for Regional Analysis. In 2007, before this crisis began, that figure had fallen to 33 percent.

As a result, companies that have relied on the private sector for business are suffering the consequences.

Charlie Atwell, owner of Innovative Business Interiors in Silver Spring, said he built the office furniture company by selling to the biggest employer in town: Uncle Sam. In the company's early years, in the 1990s, 90 percent of his business was selling office chairs, desks, and cubicle walls to the Defense Department and intelligence agencies.

More recently, 75 percent of his sales have been to the private sector, including technology companies, doctors offices and universities. Those private clients, with their own financial woes, have cut back dramatically.

"Now whether you're a small, medium or large company, people are sticking with what they've got," Atwell said. "They're maintaining or downsizing their employees and don't need more furniture."

As it did elsewhere in the country, the global credit bubble fed large imbalances in the Washington area, especially involving real estate. From 2000 to 2006, per-capita income in the region rose 27.5 percent, while home prices rose 151 percent. That gap is not as bad as some places that are now epicenters of the housing bust (in Miami, income rose 27 percent while home prices were up 178 percent), but it nonetheless has depleted Washington area residents' wealth.

That has meant bad business for companies that once benefited from people having considerable disposable income.

Rebecca Foley, of Ace Spas in Rockville, said not long ago she sold 150 to 200 hot tubs in a year. In 2008, she sold 50. In January, she went two weeks without talking to a single customer.

That's different from past downturns, she said. "You felt like you could still squeak it out," Foley said. "Now nobody's spending money."

With consumers tapped out, all sorts of businesses are cutting back, creating a vicious cycle of decline.

Don Beyer Volvo in Falls Church began scaling back last summer, laying off employees, eliminating some phone lines, canceling some of its advertising. Jon Holl, the dealership's general manager, has cut back even with little things, like sending forms by e-mail instead of spending money on postage, and putting lights and computers on energy-saving timers. Overall, Holl expects to trim expenses by $800,000 this year.

"We're doing things you probably should, but don't think about when you're fat and happy," he said. "You wouldn't even pay attention to when the computer would shut down, but now when you're looking at every single number on your financial statement you can't help but think about these things."

For all the gloom among regional executives, there is reason for hope that things will change. James Dinegar, chief executive of the Greater Washington Board of Trade, notes a realignment of military bases will result in new jobs in the region, that the region could disproportionately benefit from the government stimulus package and that several major building projects are already on track.

"They're not a panacea, but that puts construction people to work and could keep the dip from going too much lower," said Dinegar, whose organization represents businesses in the region.

Still, his members are experiencing a downturn akin to that of the early 1980s, the most severe downturn since the Great Depression. "If it doesn't start to turn soon, it eclipses the early '80s," Dinegar said. "That's what has everyone on the edge of their seat."

The Washington Post

There's Now No Question: Region Is Not Recession-Proof

By Steven Pearlstein
Friday, March 6, 2009; D01

If you really want to get depressed, grab a copy of the latest Post 200 and run your eyes down our annual list of the region's largest public and private companies.

With the occasional exception of a government contractor or a health-care company here and there, it reads like a list of wounded giants. Only a year or two ago, almost all were fast-growing industry leaders with well-respected managements, great franchises, healthy profits, rock-solid balance sheets and share prices near record highs. Today, they're hunkered down and cutting back, their balance sheets under stress and their stock prices hammered.

In finance, there are the mortgage twins, Fannie and Freddie, now nationalized, and Sallie, which just recently had the rug pulled out from under it by the Obama administration, which thinks the government can do a better job making student loans.

Allied Capital, the granddaddy of business development companies, may no longer be a going concern because of the decline in the value of its loans and investments, and its younger cousin, American Capital, may not be far behind. And the venerable Chevy Chase Bank, the last of the big independent regional banks, got in so much trouble with bad home loans in California that it was driven into the arms of Capital One, which has its own problem with rising credit card delinquencies.

Meanwhile, things are so bad at Friedman Billings, Ramsey that the investment house announced last week that it was changing its name to Arlington Asset Investment -- after having spent millions of dollars to promote the old name through sponsorship of a PGA golf tournament. Its shares are now trading at 12 cents.

Even the princes of the private-equity realm at the Carlyle Group have had to pull up the drawbridge while they try to nurse some of their over-leveraged portfolio companies back to health.

Surely the most dramatic story, however, involves Joe Robert, one of Washington's most beloved and generous philanthropists, who was already struggling to save his real estate investment trust when he was diagnosed with brain tumors earlier this year. Robert made his fortune buying up unwanted loans and real estate during the last banking crisis but now finds his portfolio stuffed with commercial-mortgage-backed securities that the market values at pennies on the dollar. With his JER Investment Trust now facing the prospect of a cash crunch, Robert this week announced a bold secondary stock offering that would stiff current shareholders while raising $150 million from a new crop of investors.

Washington's problems, however, go well beyond its financial sector.

Travel and tourism have always been a driver of the Washington economy, and right now they're running on only two cylinders. With the inauguration behind us and the new convention center only lightly booked for the coming year, local hotels are already starting to cut back on their staffing. All those big hotel companies that have their headquarters in the Washington area -- Marriott, Host, Choice, Interstate, LaSalle and Robert Johnson's RLJ -- are also pulling in their horns.

Washington would not be Washington without its lawyers. During past downturns, a law firm might quietly pull back on its recruiting or nudge an aging and unproductive partner out the door. But these days, even the largest and most prestigious global firms are rescinding offers to third-year law students, laying off associates and support staff, freezing pay, and taking a scalpel to their partners lists. And while many firms have unapologetically announced increases in their official hourly rates, the reality is that there is deep and widespread discounting going on.

It's much the same story in consulting, where the Corporate Executive Board recently announced that it was laying off 15 percent of its young and well-educated staff and warned of further declines in revenue and profit. And there is plenty of hand-wringing in the world of associations and nonprofit groups, where budgets are being slashed in response to declining membership, reduced donations and the declining value of endowments.

New housing construction has been on the decline for two years, but now commercial development has also virtually ground to a halt. It should tell you everything that Clark Enterprises, parent to the giant, privately owned Clark Construction, simply walked away from the project to develop the east bank of the Anacostia River late last year after a hard-fought competition for the development rights. And given the lack of financing and the overhang in the market, my guess is that it will be years before work will proceed on most of the other big projects now on the drawing board: the old convention center site in the District, Forest City's Konterra Town Center project in northern Prince George's County, Bob Kettler's Harbor Station project in Prince William County and the long-awaited urban makeover for Tysons Corner.

Washington has also become something of a media capital in recent years, but the news there isn't much better. Traditional news organizations like The Washington Post, the Discovery Channel and Gannett have been hit with the double whammy of an economic downturn and a migration of advertising dollars to the Internet. Even after its long-awaited merger with Sirius, XM Satellite Radio still needed a bailout last month from John Malone's Liberty Media.

And then there is biotech, that perennial contender for growth industry of the future. At a speech last week to the Maryland Tech Council in Bethesda, David Mott, former chief executive of MedImmune, who is now a venture capitalist, predicted that only one in three biotech firms would survive the coming shakeout.

With all this weighing down the local economy, is it possible that the expected surge in federal spending will be enough to keep Washington out of recession? That looks to me like wishful thinking. The Obama administration has signaled its intent to reduce spending for defense and homeland security contracting, which is already reflected in the recent decline in share prices for Lockheed Martin, General Dynamics and some other of the bigger government contractors. And while federal employment will expand, even substantially, much of that will be offset by the decline in the payrolls of state and local governments that have grown smartly in recent years.

Washington may have turned up late and well-fortified to this recession, but there's no doubt now that it has arrived.