AGENDA ITEM #18 & 19
April 20, 2010
Public hearing

MEMORANDUM

April 16, 2010

TO: County Council

CHS

FROM: Charles H. Sherer, Legislative Analyst

SUBJECT: Resolution to transfer funds from the Revenue Stabilization Fund to the General Fund
Resolution to transfer funds from the General Fund to the Revenue Stabilization Fund

March 19 In a memorandum dated March 19, 2010, the Executive recommended that the Council approve two resolutions regarding the Revenue Stabilization Fund (RSF), see ©4-5. The first would transfer as much as $102.0 million from the RSF to the General Fund in FY10. The second would transfer $37.0 million from the General Fund to the RSF in FY11 to partially restore the balance in the RSF. Both transfers are explained in more detail below.

March 25 In a memorandum dated March 25, 2010, the Executive recommended three "Additional FY10 and FY11 Budget Actions" totaling $48.450 million in additional resources over FY10-11 (©4). See the top of ©8 for a summary of the additional actions. The impact on the transfers of the March 25 actions compared to the March 15 budget as shown on ©8 would be:

1. To reduce the FY10 transfer from the RSF to the General Fund by $30.3 million, from $102.0 million to $71.6 million.
2. To increase the FY11 transfer from the GF to the RSF by $18.1 million, from $37.0 million to $55.1 million.
3. To increase the reserve in the RSF at the end of FY11 by $48.5 million (note that this is the two year increase in resources), from $54.8 million to $103.3 million.
4. To increase the total ending reserve at the end of FY11 by $48.5 million, from $194.3 million to $242.7 million. The reserve % would increase from 5.0% to 6.2%. This assumes that all $48.5 million of additional resources go into the RSF (none are spent).
5. No change in undesignated reserve, $139.4 million.

The Executive's March 15 budget assumed a $50 million increase in the energy tax, all in FY11. Of the proposed $48.5 million resource increase over FY10-11, an **additional** increase in the energy tax accounts of $45.5 million (a $3.0 million decrease in the estimated cost of snow removal in FY10 accounts for the rest). The MFP and T&E Committees are scheduled to meet jointly on April 21 to discuss the proposed increases in the energy tax. The Council is tentatively scheduled to take action on all revenue measures on May 19, including these two resolutions regarding the RSF.

April 13 In a memorandum dated April 13, 2010, the Executive informed the Council that he is reducing estimated income tax revenue by $68 million in FY10 and by $100 million in FY11 (©17). On April 22 at 1:30 pm, Executive staff are scheduled to provide an update on the Executive's proposed response to these revenue reductions affecting FY10-11. As shown on ©8, row 18, column C, the balance in the RSF at the end of FY10 was projected on March 19 to be $48 million, not enough to offset the $68 million reduction in General Fund revenue in FY10.

Because the Council has not yet approved the energy tax increases, because the Council does not yet have the Executive's plan to respond to the April 13 revenue reductions, and because other changes may occur between now and May 19, the two resolutions have not been changed since introduction on March 23.

As noted above, there are two resolutions regarding transfers.

1. The first transfer is from the Revenue Stabilization Fund to the General Fund in FY10. The explanation of why this transfer is needed was in a Council staff memorandum previously distributed to all Councilmembers and attached on ©9. In brief, General Fund revenues decreased $174 million from the budget to the March 15 estimate, and unbudgeted snow removal costs were $60.6 million. These two huge changes would result in a deficit in the General Fund without further action. The detail of the changes to the General Fund is on ©14. With regard to deficits in a fund, Section 311 of the Charter states:

> "Limitations on Expenditures. No expenditures of County funds shall be made or authorized in excess of the available unencumbered appropriations therefor."

As explained in the Executive's memorandum on ©1 and as shown in the table on ©3, the combination of reduced FY10 revenues compared to the projections made in May 2009 and increased storm and snow costs in FY10 will result in a projected $91.9 million deficit in the General Fund at the end of FY10, **even after** the two budget savings plans of $100 million.

The Executive assumed a $101.9 million transfer in FY10 from the Revenue Stabilization Fund to the General Fund, which would result in a projected surplus/fund balance in the General Fund of $10 million at the end of FY10. This will ensure that the General Fund complies with §311 of the Charter.

Restriction on the amount transferred Section 20-72 of the County Code states the following regarding the use of the RSF (the entire section is at the end of this memorandum):

(d) The funds transferred may only be used to support appropriations which have become unfunded.

(e) By an affirmative vote of 6 Councilmembers the Council after holding a public hearing and seeking the recommendation of the Executive may transfer amounts from the Fund without regard to the limits and conditions in subsections (a) - (c).

The Action clause of the resolution does not specify the amount that must be transferred, but does specify that the amount must be only the amount needed to fund all the appropriations, as limited by the County Code. As noted above, the March 15 estimate of this amount was $91.9 million. The amount actually transferred could be more or less than $91.9 million, depending on what happens to both revenues and expenses between now and June 30. The resolution as drafted gives the Director of Finance the flexibility to transfer the amount needed (up to the $119.6 million balance in the RSF), and **Council staff recommends approval.**

As noted above, approval of the resolution requires the affirmative vote of 6 Councilmembers after holding a public hearing. The Council already has the Executive's recommendation to approve the resolution.

2. The second transfer is from the General Fund to the Revenue Stabilization Fund in FY11.
Section 20-69, Discretionary contributions to Fund, states that "The County Executive may recommend and the County Council may by resolution approve additional contributions to the Fund if doing so will not result in the 10 percent limit in Section 20-67(a) being exceeded."

The value of having the RSF is evident, and the second resolution will transfer $37 million from the General Fund to the Revenue Stabilization Fund to partially restore the balance in the RSF. **Council staff recommends approval.**

Sec. 20-72. Use of Fund
(a) After holding a public hearing and seeking the recommendation of the Executive, and if the Council finds that reasonable reductions in expenditures are not sufficient to offset the shortfall in revenue, the Council may, by resolution approved by the Executive, transfer an amount from the Fund to compensate for no more than half of the difference between the original projection of total General Fund revenues for that fiscal year and a revised forecast of the General Fund revenues projected for the same fiscal year. If the Executive disapproves a resolution within 10 days after it is transmitted and the Council readopts it by a vote of 6 Councilmembers, or if the Executive does not act within 10 days after it is transmitted, the resolution takes effect.

(b) However, a transfer must not be approved unless 2 of the following conditions are met:

(1) The Director estimates that total General Fund revenues will fall more than 2 percent below the original projected revenues.

(2) Resident employment in the County has declined for 6 consecutive months compared to the same month in the previous year.

(3) A local index of leading economic indicators has declined for 3 consecutive months.

(c) The cumulative transfers from the Fund in any single fiscal year must not exceed half of the balance in the Fund at the start of that fiscal year.

(d) The funds transferred may only be used to support appropriations which have become unfunded.

(e) By an affirmative vote of 6 Councilmembers the Council after holding a public hearing and seeking the recommendation of the Executive may transfer amounts from the Fund without regard to the limits and conditions in subsections (a) - (c). (1993 L.M.C., ch. 41, § 1.)

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

2010 MAR 19 AM 9:26

MONTGOMERY COUNTY COUNCIL

MEMORANDUM

March 19, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Revenue Stabilization Fund: FY10 and FY11 Recommended Transfers

The purpose of this memorandum is to transmit for introduction by the County Council two resolutions pertaining to the Revenue Stabilization Fund (RSF). The first resolution will authorize a transfer from the RSF to the County General Fund to support appropriations that have become unfunded during FY10. The second resolution will authorize the transfer of $37 million from the County General Fund to the RSF during FY11.

The first resolution is necessary because due to the ongoing economic downturn, General Fund revenues in FY10 declined by over $174 million or 6.4% from the original budgeted revenues for this year. In addition, due to the historic snow storms of this winter, snow removal, and storm response costs are estimated to exceed $60 million, approximately 4 times the amount normally expended. These conditions have contributed to a projected FY10 General Fund deficit of $91.9 million.

The General Fund Deficit occurred despite County Council approval of both rounds of the FY10 savings plans that totaled approximately $100 million. Recall that the County's reserves include not only the County Government General Fund, but also, the other tax supported reserves of County Government, Public Schools, Park and Planning, and Montgomery College.

As explained in my January 7, 2010 transmittal of the second saving plan to the County Council, we were projecting a $64 million FY10 deficit in the General Fund even after approval of the first round of the savings plan. The projected deficit in the tax supported reserves after the approval of the first round of the savings plan was approximately $31.6 million. Positive reserves in other tax supported funds were offsetting the County General Fund deficit.

After approval of the second round of the savings plan, the total tax supported reserves were projected to be in a positive fiscal position, but the general fund was still in a deficit, because a substantial part of the savings in the second round of the savings plan occurred outside of the General Fund (e.g. MCPS, Mass Transit, Recreation, etc...). Subsequent to the approval of the second round of the savings plan several events occurred that further impacted the health of the County General Fund including the February snow storms, a further reduction of FY10 income tax and property tax revenues, and a reduction in other revenues (speed camera citations, and federal financial participation

In the absence of the recommended transfer from the RSF, the General Fund will end FY10 in a deficit and General Fund appropriations would become unfunded. The existing balance in the RSF is $119.6 million.

The second resolution is needed to restore funds to the RSF. As mentioned in my budget transmittal message, the experience of the past year with historic revenue declines and expenditure increases has reaffirmed the wisdom of our practice of maintaining strong reserves in both the RSF and undesignated reserves.

I urge the Council to review and adopt these resolutions as part of its deliberations on the FY11 Operating Budget.

IL:jfb

Attachment

c: Timothy L. Firestine, Chief Administrative Officer
Joseph F. Beach, Director, Office of Management and Budget
Jennifer E. Barrett, Director, Department of Finance
Marc Hansen, Acting County Attorney
Kathleen Boucher, Assistant Chief Administrative Officer

SCHEDULE A-4

Fiscal Summary By Fund

	Actual FY09	Budget FY10	Estimated FY10	Recommended FY11	% Chg Bud/Rec
TAX SUPPORTED					
MONTGOMERY COUNTY GOVERNMENT					
County General Fund					
BEGINNING FUND BALANCE	84,221,914	32,240,449	34,073,690	10,000,000	-69.0%
REVENUES					
Taxes	2,540,477,985	2,574,275,421	2,433,214,501	2,613,028,098	1.5%
Licenses & Permits	9,301,807	9,132,380	9,627,560	9,392,210	2.8%
Charges for Services	14,648,414	10,259,480	10,452,700	10,502,210	2.4%
Fines & Forfeitures	27,622,282	37,542,780	25,472,960	25,483,410	-32.1%
Intergovernmental	90,521,955	71,370,675	48,284,710	66,495,950	-6.8%
Investment Income	568,785	600,160	73,310	1,042,535	73.7%
Miscellaneous	17,784,415	14,383,265	16,405,490	14,082,530	-2.1%
Total REVENUES	*2,700,925,643*	*2,717,564,161*	*2,543,531,231*	*2,740,026,943*	*0.8%*
NET INTER-FUND TRANSFERS					
To Revenue Stabilization Fund	0	0	0	-37,000,000	—
From Non-Tax Supported Funds	43,107,175	40,773,480	44,995,500	37,984,850	-6.8%
To Non-Tax Supported Funds	-13,204,221	-23,039,550	-15,284,840	-13,556,370	-41.2%
From Tax Supported Funds	13,193,720	13,376,690	32,693,120	11,486,930	-14.1%
To Tax Supported Funds	-207,688,643	-146,866,318	-138,959,848	-231,668,280	57.7%
From Internal Service Funds	0	12,500,000	12,500,000	0	—
To/From Component Units/Agencies	-2,313,346	-2,573,030	-2,796,300	-3,438,840	33.6%
From Revenue Stabilization	0	0	101,953,983	0	—
Total NET INTER-FUND TRANSFERS	*-166,905,315*	*-105,828,728*	*35,101,615*	*-236,191,710*	*123.2%*
CONTRIBUTIONS TO/FROM OTHER FUNDS					
To Tax Supported Funds	-1,619,218,413	-1,636,633,768	-1,634,635,746	-1,509,972,599	-7.7%
County Contribution to CIP Fund	-48,350,107	-30,160,000	-24,183,000	-25,444,000	-15.6%
Designated CIP: PAYGO	-3,400,097	0	0	0	—
Total CONTRIBUTIONS TO/FROM OTHER FUNDS	*-1,670,968,617*	*-1,666,793,768*	*-1,658,818,746*	*-1,535,416,599*	*-7.9%*
Total Resources	***947,273,625***	***977,182,114***	***953,887,790***	***978,418,634***	***0.1%***
APPROPRIATION/EXPENDITURE					
Appropriation/Expenditure	-923,200,969	-910,428,020	-880,796,190	-851,481,740	-6.5%
Adjustment for Prior Year Encumbrances/Reserves	731,225	0	0	0	—
Total APPROPRIATION/EXPENDITURE	*-922,469,744*	*-910,428,020*	*-880,796,190*	*-851,481,740*	*-6.5%*
CLAIMS ON FUND					
Set Aside: Future Needs	0	-2,540,169	-63,091,600	0	—
Change in Designated Reserves	9,269,809	0	0	0	—
Total CLAIMS ON FUND	*9,269,809*	*-2,540,169*	*-63,091,600*	*0*	*—*
Total Use of Resources	***-913,199,935***	***-912,968,189***	***-943,887,790***	***-851,481,740***	***-6.7%***
PROJECTED FUND BALANCE	**34,073,690**	**64,213,925**	**10,000,000**	**126,936,894**	**97.7%**
Special Funds					
Bethesda Urban District					
BEGINNING FUND BALANCE	69,008	35,370	42,780	217,320	514.4%
REVENUES					
Taxes	460,839	485,780	497,070	502,370	3.4%
Charges for Services	137,558	130,000	130,000	130,000	—
Investment Income	4,174	0	0	0	—
Total REVENUES	*602,571*	*615,780*	*627,070*	*632,370*	*2.7%*
NET INTER-FUND TRANSFERS					
From Non-Tax Supported Funds	2,774,850	2,835,000	2,835,000	2,593,000	-8.5%
To Tax Supported Funds	-8,070	-8,730	-8,730	-7,910	-9.4%
Total NET INTER-FUND TRANSFERS	*2,766,780*	*2,826,270*	*2,826,270*	*2,585,090*	*-8.5%*
Total Resources	***3,438,359***	***3,477,420***	***3,496,120***	***3,434,780***	***-1.2%***
APPROPRIATION/EXPENDITURE					
Appropriation/Expenditure	-3,396,480	-3,380,210	-3,278,800	-3,347,660	-1.0%
Adjustment for Prior Year Encumbrances/Reserves	904	0	0	0	—
Total APPROPRIATION/EXPENDITURE	*-3,395,576*	*-3,380,210*	*-3,278,800*	*-3,347,660*	*-1.0%*

3

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

March 25, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive Isiah Leggett

SUBJECT: Additional FY10 and FY11 Budget Actions

Budget Process

I am sending this memorandum to recommend that we jointly take additional actions to strengthen the County's financial position in the current fiscal year and for FY11.

There is no perfect time to formulate a budget. Since I recommended my budget earlier this month, we have already received more bad news that points to additional fiscal deterioration. 1 This includes a dramatic increase in the County's unemployment rate from 5.2% to 6.2% and may signal further erosion of income tax revenue. 2 In addition, Anne Arundel County's bond rating was recently downgraded from a AA+ to a AA rating due to several factors including the deteriorating condition of Anne Arundel's reserves. 3 At the same time, the Department of Finance has been in discussions with the bond rating agencies relative to an upcoming bond sale and is concerned about feedback they have received from the rating agencies on our fiscal position.

Events Subsequent to County Executive's FY11 Budget Transmittal

Increase in County's Unemployment Rate

Last week we learned through the State Department of Labor, Licensing, and Regulation that the County's unemployment rate increased to 6.2%. The unemployment rate which averaged 5.4% between May and December '09, has reached an unprecedented level for the County. Our assumption prior to this announcement was that the unemployment rate reached its peak given a ±0.1 percentage point change either way over the next three months based on the recent national situation and the County's performance since May of last year.

While the data are "not seasonally adjusted", the number of County residents employed in January was 480,493 (↓1.0% from January '09) and the lowest level since 2004. If the January data are an indicator of the employment situation in the near term, we could expect a further strain on income tax revenues over the next six months (particularly the May, June, and July distributions) than we had estimated for the FY11 budget. Our economic assumption for resident employment assumed a modest 0.3% increase for calendar year 2010 for the FY11 Recommended Budget.

This significant increase in the unemployment rate should not be easily dismissed as just "more people entering the labor force". It is in fact, a more accurate estimate of the number of people out of work in the County which contributes to the strain on the County's safety net services and has serious implications for future estimates of income tax revenues.

Anne Arundel County Bond Rating Downgrade

Fitch Ratings, in downgrading Anne Arundel County's bond rating from AA+ to AA noted the following as a basis for their action: "The rating downgrade from 'AA+' to 'AA' reflects Anne Arundel's (the county) continued diminished reserve levels and financial flexibility, underscored by recent failures to achieve structurally balanced budgets. A charter-imposed cap on property tax growth somewhat limits the county's ability to offset other tax and fee revenue declines, although a substantial taxable assessed valuation cushion bolsters the consistency of property tax collections. The county's low income tax rate provides revenue-raising flexibility."[1]

The relevance of this analysis to Montgomery County is obvious given the trend in our own general fund balance and property tax cap limitations. In addition, unlike

[1] Fitch Ratings, Anne Arundel County, Maryland, March 22, 2010, page 1

Anne Arundel County, Montgomery County is at the State authorized maximum income tax rate.

Rating Agency Feedback

As you know, like many jurisdictions, Montgomery County is in the bond market at multiple times during the year. This spring, the County is issuing bonds for its Affordable Housing Acquisition Program and seeking financing for its Ride On Bus fleet. In their analysis of the County's credit worthiness, the ratings analysts have focused their attention on the County's reserve levels, particularly in light of the extraordinary fiscal pressures we have faced this year. As mentioned above, a recent review of another Maryland county's credit, Anne Arundel, highlighted the need for strong reserve levels and a structurally balanced budget.

As stated in the attached press release from Fitch Ratings: " The proposed fiscal 2011 budget includes a proposed energy tax increase as well as furloughs, lay-offs, and programmatic reductions that are intended to eliminate the $780 million deficit, restore $37 million to the RSF, and increase the undesignated general fund balance to $126.9 million. Should the county attain its objectives, it will restore reserves to the modified 5% policy, although Fitch is concerned **that insufficiently conservative revenue projections may impede the county's attainment of its goal**. The county has stated that by fiscal 2012 it will eliminate the currently projected $212 million structural deficit and will restore reserves to its 6% policy. **Fitch's current rating and Stable Outlook assume the county will be successful, but failure to achieve the fiscal 2011 and 2012 financial goals could result in a credit profile that is inconsistent with the current rating category."**[2] *(Emphasis added)*

Recommended Actions

As you are aware, my Recommended FY11 Operating Budget substantially reduced the rate of growth in the County budget. Based on the dramatic decline in income tax receipts, unexpected costs related to snow removal, and other drains on our budget this year, we are projecting a reduction in our ~~general fund~~ reserves to $27.7 million in FY10. These reserves include $10.0 million in the County General Fund and $17.7 million remaining in the Revenue Stabilization Fund.

Based on additional fiscal challenges that relate to a dramatically higher unemployment rate and the strong signals from the bond rating agencies that we demonstrate and implement a plan to meet our reserve targets in FY11 and FY12, I am recommending the following additional actions which total $48.4 million and that this amount be added to the Revenue Stabilization Fund to help restore the balance in that fund:

[2] Fitch Ratings, Montgomery County, Maryland, March 25, 2010

Fuel Energy Tax Increase - In my Recommended budget I proposed raising an additional $50 million through an increase in the fuel energy tax to begin in FY11. I now recommend that we increase the fuel energy tax to raise an additional $13.6 million in FY10 and $31.8 million in FY11 for total additional revenues of $45.4 million. This will, regrettably, increase the average residential utility bill by approximately $5 per month. $60/yr = + 60%

Accelerate FY11 Fund Balance Transfers- I am recommending that we accelerate certain planned FY11 transfers from non-tax supported funds into the County's General Fund in FY10. This will increase General Fund resources by $3.7 million in FY10 and will not compromise the financial position of the funds from which the transfers will be taken.

Reduce FY10 Set Aside - the FY11 Budget includes $63.1 million for snow removal costs. Based on a more recent estimate of snow removal costs, we can reduce this set aside amount by $3 million.

Recommended Use of Additional Resources

The combination of these actions will produce additional resources of approximately $48.4 million for FY10 and FY11. I very strongly recommend that all of these resources be restored to the County's Revenue Stabilization Fund to provide additional flexibility to the County in FY10 and FY11 to respond to further adverse economic and fiscal conditions. I fully appreciate the pressures that the Council is under to support additional spending in FY11 to restore pay increases for County employees, preserve County services at existing levels, address the requests from our non-profit partners, and address other important and meritorious public needs. However, it is imperative for the long term fiscal health of this County that we jointly resist these pressures in order to bring stability and sustainability back to the County's financial condition.

Conclusion

In closing, I want to be clear that I will not support using any of these resources to add back continuing costs into the County's budget. All of these additional resources need to be restored to the County's Revenue Stabilization Fund.

Attachment

	A	B	C	D
1	OMB Calculations regarding additional resources in the CE's March 25, 2010 memorandum			
2				
3				
4	**Additional Actions on March 25:**	FY10	FY11	Total
5	Energy Tax Increase	13,600,000	31,850,000	45,450,000
6	Reduce FY10 Set Aside, decrease cost snow	3,000,000		3,000,000
7	Accelerated Fund Balance Transfers	3,747,010	(3,747,010)	0
8	Total Additional Resources	20,347,010	28,102,990	48,450,000
9				
10				
11	Reconciliation of Reserves:			
12				
13	**Revenue Stabilization Fund**	March 15	March 25	Change
14	Beginning FY10 Balance	119,647,610	119,647,610	0
15	FY10 Interest Earnings	311,080	311,080	0
16	Transfer from RSF to GF	(101,953,983)	(71,606,973)	30,347,010
17	Transfer to CIP PAYGO	(311,080)	(311,080)	0
18	Ending FY10 Balance	17,693,627	48,040,637	30,347,010
19	FY11 Interest Earnings	150,395	150,395	0
20	Transfer to CIP PAYGO	0	0	0
21	FY11 Contribution into RSF (transfer from GF)	37,000,000	55,102,990	18,102,990
22	Ending FY11 Balance	54,844,022	103,294,022	48,450,000
23				
24	**Ending FY10 Reserves**	March 15	March 25	Change
25	General Fund Balance	10,000,000	0	(10,000,000)
26	Other MCG Tax Supported Reserves	701,130	701,130	0
27	Agency Tax Supported Reserves	48,605,304	48,605,304	0
28	Revenue Stabilization Fund	17,693,627	48,040,637	30,347,010
29	Total Tax Supported Reserves	77,000,061	97,347,071	20,347,010
30	Total Estimated Resources	3,815,917,521	3,833,264,531	
31	Reserves as a Percent of Resources	2.0%	2.5%	
32				
33	**Ending FY11 Reserves**	March 15	March 25	Change
34	General Fund Balance	126,936,894	126,936,894	0
35	Other MCG Tax Supported Reserves	5,177,190	5,177,190	0
36	Agency Tax Supported Reserves	7,321,646	7,321,646	0
37	Revenue Stabilization Fund	54,844,022	103,294,022	48,450,000
38	Total Tax Supported Reserves	194,279,752	242,729,752	48,450,000
39	Total Estimated Resources	3,885,595,018	3,903,698,008	
40	Reserves as a Percent of Resources	5.0%	6.2%	
41				
42	**SUMMARY OF RESERVE AT THE END OF FY11:**			
43	RSF	54,844,022	103,294,022	48,450,000
44	Undesignated	139,435,730	139,435,730	0
45	Total	194,279,752	242,729,752	48,450,000

F:\Sherer\Excel\RSF FY10-11.xls, AE calc2, 4/13/2010, 12:50

MEMORANDUM

April 12, 2010

TO: County Council

CHS

FROM: Charles H. Sherer, Legislative Analyst

SUBJECT: FY10 revenues, expenses, and ending reserve in the tax supported funds

The purpose of this memorandum is to explain what happened to FY10 revenues, expenses, and ending reserve in the period from May 2009 to March 2010; and why the Council must approve an FY10 transfer from the Revenue Stabilization Fund (RSF) to the General Fund. The explanation is based on the spreadsheets on ©1-5, which were based on schedules A2- A6 on pages 69-4 through 69-33 in the Executive's FY11 Operating Budget.

Focus on all tax supported funds The General Fund is the largest fund but not the only fund: schedule A2 shows that there are 10 other tax supported funds in County Government and three other tax supported agencies (MCPS, Montgomery College, and MNCPPC), each of which has several funds. Schedule A2 shows that the General Fund has roughly 70% of total revenues and roughly 23% of expenditures.

Rows 4-17 on ©1 show the FY10 budget the Council approved in May 2009 for the General Fund, all other funds, and the total for all funds. Rows 13 and 17 show that total ending reserve for all tax supported funds was budgeted to be $195.8 million/5.0% of revenues. Between May 2009 and March 2010, **two** major changes occurred, both of them bad.

1. The first major change in FY10 was that the estimate of General Fund revenues in FY10 decreased $174.0 million. The major decreases are shown in the table below.

Revenue in FY10	Date of estimate May 2009	March 2010	Change
Income tax	1,214.8	1,094.6	(120.2)
Recordation tax	58.4	46.2	(12.2)
Telephone tax	32.8	29.5	(3.3)
Hotel	20.0	15.8	(4.2)
Speed camera citations	28.8	15.8	(13.0)
State and federal aid	71.4	48.3	(23.1)
Total	1,426.2	1,250.2	(176.0)

<u>2. The second major change in FY10</u> was three major snow storms, the costs of which were not in the FY10 budget, and which OMB estimated will increase the FY10 "Set aside for future needs" by a net cost of $60.6 million (later decreased by $3.0 million, see below). The sum of these two events reduced projected FY10 ending reserve by $234.6 million!

Taking into account those two changes, the two budget savings plans that totaled $99.4 million, and various smaller changes, rows 29 and 33 shows that total ending reserve for all tax supported funds was estimated on March 15, 2010 to be $77.0 million/2.1%, not as much as 5.0% in May 2009, but still positive. No further revenue increases nor expenditure reductions were necessary in total. See the table below for a summary.

Summary of impact of major changes on FY10 reserve	Amount	%
Projected total ending reserve, May 2009	195.8	5.0
Decrease revenue in GF	(174.0)	
Unbudgeted costs of snow removal, net	(60.6)	
Two budget savings plans	99.4	
Miscellaneous changes, net	16.4	
Projected total ending reserve, March 2010	77.0	2.1
Decrease	(118.8)	(2.9)

<u>Focus on the General Fund</u> As just explained, in the March 15 latest estimate for FY10, **all funds** together still had a projected reserve at the end of FY10 of 2.1%. However, both of the changes mentioned above reduced the reserve in the **General Fund** from the May 2009 estimate of $64.3 million. If these two changes were the only changes to the General Fund in the May 2009 budget, then the General Fund would have a **<u>deficit</u>** at the end of FY10 of $170.3 million (64.3 – 174.0 – 60.6 = – 170.3). The Charter prohibits funds from having a deficit, so the projected deficit in the General Fund must be eliminated.

To eliminate this deficit, ©3 shows the results of the two savings plans and 11 proposed transfers **from** funds that have a surplus **to** the General Fund. Of the $99.4 million savings from both savings plans, ©4 shows that $48.3 million was in the General Fund and the remaining $51.2 million was in other funds.

Row 34 of column B on ©3 shows that the deficit in the General Fund would still be ($92.0 million) after both savings plans and after the 11 proposed transfers to the General Fund. To eliminate this deficit, the Executive proposed a $102.0 million transfer from the RSF to the General Fund, which would leave the General Fund a $10.0 million reserve at the end of FY10. The RSF was created for this purpose. The transfers do not change the total reserve in the tax supported funds. Rather, the transfers reallocate the total reserve among the tax supported funds (from funds with a surplus to the General Fund).

Additional FY10 and FY11 budget actions In a memorandum dated March 25, 2010, the Executive proposed three actions "to strengthen the County's financial position in FY10 and FY11." **He further recommended that all the additional resources be added to the RSF.**

March 25, 2010 Executive recommended budget actions ($millions)

Item	FY10	FY11	Total
Increase energy tax in addition to the $50 million increase proposed on March 15	13.6	31.8	45.4
Accelerate transfer from non-tax supported funds to the General Fund	3.7	(3.7)	0.0
Reduce set-aside for snow costs	3.0	0.0	3.0
Total	20.3	28.1	48.4

The results for FY10 are shown on ©2. For FY10, projected total ending reserve would increase by $20.3 million, from $77.0 million on March 15 to $97.3 million on March 25 as a result of the $20.3 million increase in FY10 resources. (The Council Staff Director noted that the additional energy tax revenue will have to be reduced to the extent that the Council increases the utility budgets for the four agencies to pay the additional energy tax.)

The impact on projected total reserve is shown on ©5 and summarized below, assuming that **all the additional $48.4 million in additional resources are added to the RSF (and not spent).**

1. **FY10** The additional $20.3 million in resources would increase the projected total ending reserve from 2.1% on March 15 to 2.6% on March 25.

2. **FY11** The additional $48.4 million in resources would increase the reserve from 5.0% on March 15 to 6.2% on March 25.

	A	B	C	D
1	FY10 FUND DATA: General Fund, all other funds, and total			
2				
3	**I. Approved in May 2009**			
4		General	All other	Total
5	Beginning fund balance	32.2	203.0	235.2
6	Revenues	2,717.6	1,087.3	3,804.9
7	Net transfers	(105.8)	143.0	37.2
8	Resources	2,644.0	1,433.3	4,077.3
9	Less contributions (from GF to MCPS and College)	(1,636.6)	1,636.6	0.0
10	Less current revenue for CIP	(30.2)	(1.9)	(32.1)
11	Less operating budget	(910.4)	(2,936.5)	(3,846.9)
12	Less claims on fund balance	(2.5)	0.0	(2.5)
13	= Projected total ending reserve	64.3	131.5	195.8
14	Less Revenue Stabilization Fund	0.0	(119.6)	(119.6)
15	= Undesignated reserve	64.3	11.9	76.2
16				76.2
17	**Projected % reserve**			**5.0%**
18				
19				
20	**II. Estimate in March 15 budget** Reflects both savings plans and various CE actions			
21	Beginning fund balance	34.1	195.7	229.8
22	Revenues	2,543.5	1,110.8	3,654.3
23	Net transfers (includes $102.0m from RSF to GF)	35.1	16.3	51.4
24	Resources	2,612.7	1,322.8	3,935.5
25	Less contributions (from GF to MCPS and College)	(1,634.6)	1,634.6	0.0
26	Less current revenue for CIP	(24.2)	(0.7)	(24.9)
27	Less operating budget (including snow supplemental)	(943.9)	(2,889.7)	(3,833.6)
28	Less claims on fund balance	0.0	0.0	0.0
29	= Projected total ending reserve	10.0	67.0	77.0
30	Less Revenue Stabilization Fund	0.0	(17.7)	(17.7)
31	= Undesignated reserve	10.0	49.3	59.3
32				59.3
33	**Projected % reserve**			**2.1%**
34				
35	**IIA. Summary of impact of major changes on reserve**			
36	Projected total ending reserve, May 2009, from above			195.8
37	Decrease revenue in GF			(174.0)
38	Unbudgeted costs of snow removal, net			(60.6)
39	Two budget savings plans			99.4
40	Miscellaneous changes, net			16.4
41	Projected total ending reserve, March 2010, same as above			77.0
42	Decrease projected ending reserve			(118.8)
43				

	A	B	C	D
4		General	All other	Total
44	**III. Executive recommended March 25**			
45	Beginning fund balance	34.1	195.7	229.8
46	Revenues	2,543.5	1,110.8	3,654.3
47	CE March 26, increase energy tax	13.6		13.6
48	CE March 26, accelerate transfer from non-tax supported funds from FY11 to FY10	3.7		3.7
49	Net transfers (includes $102.0m from RSF to GF)	35.1	16.3	51.4
50	Resources	2,630.0	1,322.8	3,952.8
51	Less contributions (from GF to MCPS and College)	(1,634.6)	1,634.6	0.0
52	Less current revenue for CIP	(24.2)	(0.7)	(24.9)
53	Less operating budget (including snow supplemental)	(943.9)	(2,889.7)	(3,833.6)
54	CE March 26, reduce cost snow removal	3.0	0.0	3.0
55	Less claims on fund balance	0.0	0.0	0.0
56	= Projected total ending reserve	30.3	67.0	97.3
57	Transfer all CE March 26 additional resources to RSF	(20.3)	20.3	0.0
58	Less Revenue Stabilization Fund	0.0	(38.0)	(38.0)
59	= Undesignated reserve	10.0	49.3	59.3
60				59.3
61	**Projected % reserve**			**2.6%**

	A	B
1	FY10 GENERAL FUND	
2	Why does the General Fund need a transfer from the Revenue Stabilization Fund of roughly	
3	$102 million? The Charter prohibits funds from having a deficit. Without the transfer, the	
4	General Fund would have a deficit of $92 million. Most of the savings from the savings plan	
5	were not accounted for in the General Fund, see attached table. The table below shows the	
6	major changes.	
7		
8		Change
9	Reserve at end of FY10 as estimated in May 2009	64,213,925
10	CHANGES	
11	Beginning fund balance	+1,833,241
12	Revenues	(174,032,930)
13	Set-aside for future needs (net change, snow removal)	(60,551,431)
14	Reserve at end of FY10 reflecting the changes above	(168,537,195)
15		
16	Transfers:	
17	From Grant Fund for lease payment for HHS facility on Picard Drive	+635,700
18	From DLC, earnings transfer	+667,430
19	From CATV Fund	+2,278,390
20	From parking districts, transfer savings plan	+630,530
21	Transfer fund balance from Mass Transit Fund	+7,937,170
22	Transfer fund balance from Fire District Fund	+6,362,430
23	Transfer fund balance from Recreation Fund	+5,016,830
24	Reduce transfer to MHI	+7,806,000
25	Reduce transfer to Economic Development Fund	+300,000
26	Reduce transfer to Debt Service Fund, savings plan	+7,606,470
27	Other transfers, net (no change or only small change)	(264,590)
28	Other changes	
29	Expenditures for County Government OB (reflects both savings plans)	+29,631,830
30	Current revenue for CIP (reflects both savings plans)	+5,977,000
31	Contribution to MCPS and College	+1,998,022
32	Total, transfers and other changes	+76,583,212
33		
34	Ending fund balance, before transfer from RSF	(91,953,983)
35	Transfer from RSF	+101,953,983
36	Ending fund balance, after transfer from RSF	10,000,000

	A	B	C	D
1	FY10 SAVINGS PLANS (there were 2)			
2	The Council approved savings plan #1 on November 17, 2009.			
3	The Council approved savings plan #2 on February 9, 2010			
4				
5	Fund/Agency	SP #1	SP #2	Total
6	General Fund OB	9,041,460	17,042,560	26,084,020
7	Other County Government Funds OB	7,552,340	5,501,990	13,054,330
8	Total County Government OB	16,593,800	22,544,550	39,138,350
9	MCPS	9,900,000	22,000,000	31,900,000
10	College	1,070,790	1,700,000	2,770,790
11	MNCPPC	2,180,000	1,250,000	3,430,000
12	Debt Service expense	0	2,159,450	2,159,450
13	Total expense in OB	29,744,590	49,654,000	79,398,590
14	Current revenue in CIP	0	9,216,000	9,216,000
15	Eliminate prior year encumbrances	0	1,500,000	1,500,000
16	Reduce transfer to MHI	0	4,800,000	4,800,000
17	Debt Service revenue	0	4,530,580	4,530,580
18	TOTAL	29,744,590	69,700,580	99,445,170
19				99,445,170
20				
21	General Fund savings			
22	General Fund OB	9,041,460	17,042,560	26,084,020
23	Debt Service expense	0	2,159,450	2,159,450
24	Current revenue in CIP	0	9,216,000	9,216,000
25	Eliminate prior year encumbrances	0	1,500,000	1,500,000
26	Reduce transfer to MHI	0	4,800,000	4,800,000
27	Debt Service revenue	0	4,530,580	4,530,580
28	Total General Fund savings	9,041,460	39,248,590	48,290,050
29				48,290,050
30				
31	Savings in other funds			51,155,120
32				
33				
34	**March 25, 2010 Executive recommended budget actions ($millions)**			
35	Item	FY10	FY11	Total
36	Additional increase energy tax	13.6	31.8	45.4
37	Accelerate transfer from non-tax supported funds to GF	3.7	(3.7)	0.0
38	Reduce set-aside for snow costs	3.0	0.0	3.0
39	Total	20.3	28.1	48.4
40				48.4

	A	B
1	REVENUE STABILIZATION FUND	
2		
3		
4	Balance, beginning of FY10	119.6
5	FY10 Transfer to General Fund, CE, March 15, 2010	(102.0)
6	Assume $0 FY10 ending fund balance in GF	10.0
7	Reduce the transfer, CE, March 25, 2010, for "additional budget actions" in FY10	20.3
8	Revised transfer in FY10 to General Fund	(71.7)
9		
10	Balance, end of FY10/beginning of FY11	47.9
11	OMB calculation of transfer from GF to RSF in FY11, March 25	55.1
12	Balance, end of FY11, March 25	103.0
13	Undesignated reserve in all other tax supported funds, end of FY11, March 25	139.4
14	Total reserve, end of FY11, March 25	242.4
15		
16	**% reserve, OMB preliminary estimate on April 2** (see calculation below)	**6.2%**
17		
18		
19	FY11 resources, March 15	3,903.3
20	Additional resources, March 25	48.4
21	FY11 resources, March 25	3,951.7
22	Less RSF at beginning of year, from above	(47.9)
23	Net	3,903.8
24	Total reserve, end of FY11, March 25, from above	242.4
25	**% reserve**	**6.2%**
26		
27	Reserve for 1.0%	39.0
28	Reserve for 6.0%	234.2
29		
30	Reserve at 6.2% minus reserve at 6.0%	8.2
31		
32	Reserve for 5.0%	195.2

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OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett

County Executive

MEMORANDUM

April 13, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Additional Revenue Write-down

The purpose of this memorandum is to provide the Council with an update on our need for a further write-down of our income tax forecast following a meeting with the State Comptroller's Office last Friday in Annapolis. At that meeting, we received new information about actual current year collections that was not previously available. I believe it is important that this information be shared with the Council as soon as possible so that we can be proactive and stay ahead of the fiscal situation as it continues to unfold.

On April 5, 2010, I informed the Council of an unprecedented shortfall in the March Income Tax distribution. At that time, I noted that Finance Department staff were planning to meet with the Maryland Comptroller's Office to understand the basis for this significant reduction. I also asked the Finance Department to work with the Comptroller's Office to assure that we have the latest information about actual State collections in order to gauge the validity of our forecast of the income tax for the remainder of this fiscal year and for next fiscal year.

At the Friday meeting, the Comptroller's Office noted that income tax withholdings and estimated payments decreased nearly four percent in January and February with March still being processed. These first quarter receipts will be distributed to the counties in May. The County forecast had assumed these receipts would increase one percent. Based on the reported decrease and other information provided about the upcoming distributions and Montgomery County's declining share of total receipts, and at the recommendation of the Department of Finance, I believe it is prudent to write-down FY2010 Income Tax revenue by $44 million and FY2011 revenue by another $100 million. This is in addition to the reduction of $24 million already reported on April 5th. The total write-down is $168 million over the two years. Department of Finance staff will provide Council staff with further specifics of the write-down.

I plan to transmit specific measures to the Council early next week to address these unanticipated losses in revenue. Based on our recent experiences, we must demonstrate that our plan is fiscally viable. The Plan must:

- Reflect the reality of the lower revenue stream we are experiencing and most likely will experience into the near future; and
- Rebuild reserves to a level that more appropriately addresses the volatility of Income Tax receipts.

Given the situation, it is clear to me that the Council has no room to increase expenditures and must work to identify additional cuts. Any additional reductions the Council identifies should be added to reserves rather than be used to restore or enhance programs. Additionally, the Council should immediately act on the revenue measures before it including the increase to the Energy tax and the implementation of the EMS fee.

As I mentioned before, we have no choice but to be proactive and work together to maintain a sound and sustainable financial footing for the County government.

IL:tf

Resolution No: __________
Introduced: __________
Adopted: __________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the Request of the County Executive

SUBJECT: Transfer from the Revenue Stabilization Fund to the General Fund

Background

1. County Code Section 20-72(e) authorizes the County Council by resolution to transfer funds from the County's Revenue Stabilization Fund, after holding a public hearing and seeking the County Executive's recommendation.

2. County Code Section 20-72(d) permits a transfer from the Revenue Stabilization Fund to support appropriations which have become unfunded.

3. The Executive estimates that because of mid year revenue reductions and extraordinary expenditure increases, the County Government General Fund is projected to end FY10 with a deficit of $91,953,983. This would cause existing appropriations in the General Fund to become unfunded.

4. In his Recommended FY11 Operating Budget, the County Executive has recommended the amount of the transfer from the Revenue Stabilization Fund to the General Fund in FY10 to be $101,953,983.

5. A public hearing was held on April 20, 2010.

Action

The County Council for Montgomery County, Maryland, approves the following action:

For the FY10 operating budget, the Director of Finance must transfer from the County Government's Revenue Stabilization Fund to the General Fund an amount that is sufficient to support appropriations that have become unfunded in the General Fund. The amount transferred must be consistent with Section 20-72 of the County Code. The Director of Finance will report to the County Council on the amount that is transferred.

This is a correct copy of Council action.

____
Linda M. Lauer, Clerk of the Council

Resolution No: ____________
Introduced: ____________
Adopted: ____________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the Request of the County Executive

SUBJECT: Transfer from the General Fund to the Revenue Stabilization Fund

Background

1. County Code Section 20-69 authorizes the County Council by resolution to transfer funds to the County's Revenue Stabilization Fund, provided such a transfer would not exceed the maximum fund size as defined under Section 20-67(a).

2. The Director of Finance estimates the maximum size of the Revenue Stabilization Fund to be $134 million based on 10 percent of the average aggregate annual revenue derived from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund in the 3 preceding fiscal years.

3. In his Recommended FY11 Operating Budget, the County Executive has recommended the amount of the transfer from the General Fund to the Revenue Stabilization Fund to be $37,000,000.

4. The total amount of the Revenue Stabilization Fund in FY11 after the transfer in paragraph #3 above, and the accumulation of interest income, will be $54,844,022 which is below the maximum fund size as defined in Section 20-67(a).

5. A public hearing was held on April 20, 2010.

Action

The County Council for Montgomery County, Maryland, approves the following action:

During FY11, the Director of Finance must transfer $37,000,000 from the County Government's General Fund to the Revenue Stabilization Fund.

This is a correct copy of Council action.

____
Linda M. Lauer, Clerk of the Council

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