

MEMORANDUM

May 5, 2010

TO: County Council
FROM: *CHS*
Charles H. Sherer, Legislative Analyst
SUBJECT: Recommendations from the Management and Fiscal Policy Committee regarding the FY11 Operating Budget for the Working Families Income Supplement NDA

Committee recommendations The Committee met on May 4, 2010 to discuss the Executive's two April 22 adjustments and recommends that the Council:

1. **Approve** the \$474,100 technical reduction based on a decrease in the estimated number of recipients.
2. **Put on the reconciliation list** the entire \$5,394,100 reduction based on the Executive's proposed reduction of one-third of the budget (after reducing the number of recipients). This change requires a change in County law, and on May 4, 2010 the Council introduced Expedited Bill 33-10 to make this change. The Executive recommended this reduction to help meet the shortfall in income tax revenue.

The following may attend:

Rob Hagedoorn, Chief, Treasury Division

Background on the Working Families Income Supplement follows.

March 15 budget The Committee reviewed the Working Families Income Supplement on April 12, 2010 and recommended approval of the Executive's March 15 recommended amount, \$16,656,400. This NDA provides funds to match the State's Refundable Earned Income Tax Credit (EITC). The intent of the Working Families Income Supplement is to provide financial assistance to low-income working families in Montgomery County. The County, through the NDA, reimburses the State for the cost of the refund and related administrative expenses. County law specifies that the County "match" will be the same amount as the State's payment:

Sec. 20-79. Amount of Supplement. The amount of the Working Families Income Supplement paid to each recipient must equal the amount of any refund the recipient receives from the State earned income credit program.

For example, if the State paid a County resident \$250, the County would also pay \$250, for a total of \$500. The State would send the resident a check for \$500 and the County reimburses the State for the County share.

FY10 budget approved in May 2008	\$15,008,200
Increase	1,648,200
FY11 Executive recommendation in March 15, 2010 budget	\$16,656,400

The increase reflected an estimated increase in the number of recipients, reduced earnings for many residents due to the weak economy, and a change in the State formula.

April 22 budget On April 22, 2010, the Executive recommended a package of FY10 and FY11 budget adjustments in response to the \$168 million reduction in income tax revenue about which he told the Council on April 13. Two of the adjustments were reductions to this NDA.

1. \$474,100 reduction As explained in the Executive’s memorandum, the FY11 budget was based on an estimated 32,180 recipients in FY11. Based on updated data from the Controller’s Office, the estimated number of recipients is reduced to 30,505. Finance calculates that the reduction in the estimated number of recipients will reduce total payments by \$474,100. The budget after this technical adjustment is \$16,182,300. **As noted above, the Committee recommended approval.**

2. \$5,394,100 reduction This is one-third of the budget after reducing the number of recipients, as explained below in the extract from the Executive’s April 22 memorandum.

Working Families Income Supplement

Montgomery County is one of the few local governments in the nation that provides a local Earned Income Tax Credit (EITC) for its residents. This program, which began in FY00 at a cost of \$2.2 million, was based on matching the State’s EITC which, at that time was 10% of the Federal EITC. Participation in the program included 12,322 total recipients. Since that time, the State match of the Federal EITC has grown to 25% at an estimated cost in FY11 of \$16.2 million and 30,505 recipients. The average EITC payment has grown from \$178 in FY00 to an estimated \$530 in FY11. In order to respond to the current fiscal crisis, I am recommending that we reduce this payment by 33%. This would create savings of \$5,394,100 and would change the average EITC payment to \$353 which is approximately the level this payment was in FY05.

This reduction requires a change in County law, and on May 4, 2010 the Council introduced Expedited Bill 33-10 to make this change. The Executive recommended this reduction to help meet the shortfall in income tax revenue. **As noted above, the Committee recommended putting the entire amount on the reconciliation list.**

See the table below for details.

March 15, 2010 Executive's recommended budget	\$16,656,400
Reduction for fewer recipients	(474,100)
April 22, 2010 Executive's recommended budget 1	16,182,300
Average payment	530
Reduce payments by one-third	(5,394,100)
April 22, 2010 Executive's recommended budget 2	10,788,200
Average payment	354