

**MEMORANDUM**

May 13, 2010

TO: County Council

VIA: Nancy Floreen, <sup>mf</sup>Council President

FROM: Karen Orlansky, <sup>ko</sup>Director  
Office of Legislative Oversight

SUBJECT: **Resolution to Add Structural Budget Deficit Project to  
Office of Legislative Oversight's FY 2010 Work Program**

The attached resolution amends the Office of Legislative Oversight's FY 2010 Work Program (Council Resolution No. 16-1047) to add a project on the County's structural budget deficit. The resolution establishes December 2010 as the deadline for OLO's report back to the Council.

The substance and timing of the structural budget deficit project outlined in the attached Work Program amendment was developed around the three questions highlighted in the Council President's March 15, 2010 memorandum to the Council (©5).

1. What are the assumptions behind the Executive's future year gap projections?
2. What are the major factors driving the projected budget deficits? Which of these factors represent fixed commitments, e.g., debt service, pension obligations?
3. What policy and budget options are available going forward to address the structural budget deficit?

**Coordinating OLO's Work with Related Initiatives.** Given the magnitude of the County's fiscal challenges, there is ample room for multiple initiatives to examine the issues and offer potential solutions. It will be, however, incumbent upon those of us involved in the various endeavors to coordinate our work so that we avoid duplicating efforts.

Throughout the study period on the structural budget deficit project, OLO staff will take steps to mitigate duplicating the work being undertaken by related initiatives. At minimum, this will include coordinating with the Cross-Agency Resource-Sharing Committee and the Montgomery County Organizational Reform Commission.

- ◆ **The Cross-Agency Resource-Sharing Committee (CARS).** The stated purpose of this inter-agency committee initiated by the County Government's Chief Administrative Officer (CAO) is to "develop common approaches to cost reduction, resource sharing, and improved operational efficiencies." The CAO identified nine separate functional areas for the Committee to focus on: Information Technology; Utilities; Facilities Planning, Design, Construction, and Maintenance Procurement; Space Utilization; Fleet; Mailing, Printing, and Document Management; Employees and Retirees Benefit Plans (health, retirement, etc.); and Administrative Functions (payroll, budget, finance, training).
  
- ◆ **Montgomery County Organizational Reform Commission.** On May 11, 2010, the Council introduced a resolution to establish a Montgomery County Organization Reform Commission. As introduced, the resolution calls for a Commission that consists of four members appointed by the Council and four members appointed by the County Executive. The resolution tasks the Commission with, no later than January 31, 2011, submitting a final report to the Council and Executive that "contains the Commission's recommendations for reorganization or consolidation of functions performed, including the rationale and estimated cost savings associated with implementing the recommendation."

**Staffing.** To complete the work assigned, OLO will consult regularly with the Council Staff Director and other members of the Council's central staff, including the Legislative Attorneys on legal issues as well as the Council's actuary (under contract) for certain cost projections. Outside of the Legislative Branch, OLO will conduct its work in close cooperation with Executive Branch staff, (especially staff in the Office of Management and Budget, Department of Finance, Office of Human Resources, and CountyStat), as well as their counterparts in the other County-funded agencies.

As I wrote in my earlier memorandum about this project, adding this major assignment to the Office of Legislative Oversight's Work Program is likely to consume most of OLO's staff resources during the first half of FY11. I should have a better sense of exactly how much "room" is available for other work by the time the MFP Committee and full Council take up review and approval of OLO's FY 2011 Work Program in July 2010.

In closing, on behalf of the entire Office of Legislative Oversight staff, I want to express our enthusiasm for undertaking this project on the County's structural budget deficit. We look forward to shaping our work in the months ahead to maximize its relevance and usefulness to the Council.

Attachments: Resolution to Amend OLO's FY 2010 Work Program  
 Council President's May 15, 2010 memorandum to Council

Resolution: \_\_\_\_\_  
Introduced: \_\_\_\_\_  
Adopted: \_\_\_\_\_

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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By: County Council

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**SUBJECT: Amendment to the FY 2010 Work Program of the Office of Legislative Oversight**

**Background**

1. On July 21, 2009, the Council adopted Resolution 16-1047 to establish the FY 2010 Work Program of the Office of Legislative Oversight. Resolution 16-1047 assigned the Office of Legislative Oversight with 14 projects to be undertaken during the fiscal year.
2. The projected deficits that the federal, state, and local governments across the country face today are not only cyclical – the result of the worst recession since the Great Depression – but structural as well. A structural budget deficit exists when ongoing expenditures consistently exceed ongoing revenues, even in periods of relative prosperity.
3. The economic crisis of the past several years has had a profound impact on Montgomery County's fiscal situation. The County Council's recent work on the FY11 Operating Budget and projections contained in the County's most recent FY11-16 Fiscal Plan confirm the challenges of achieving balanced budgets in future years.
4. The law establishing the Office of Legislative Oversight (Chapter 29A, Montgomery County Code) specifically authorizes the Office to conduct special program or budget analyses at the request of the Council.
5. The Council requires additional data and analysis to provide the basis for an informed dialogue about the nature of the County's structural budget deficit and policy/budget options to balance revenues and expenditures over the long-term.

**Action**

The County Council for Montgomery County, Maryland, amends Council Resolution 16-1047 to add the following project to the Office of Legislative Oversight's FY 2010 Work Program:

This is a correct copy of Council action.

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Linda M. Lauer, Clerk of the Council

**PROJECT #15  
MONTGOMERY COUNTY'S STRUCTURAL BUDGET DEFICIT**

**Purpose.** The purpose of this OLO project on the County's structural budget deficit is:

- To provide the basis for an informed dialogue about the County's fiscal future;
- To define a structural budget deficit and differentiate it from an annual budget gap;
- To identify the assumptions used in developing the County Executive's "Fiscal Plan;" and to show how changes in revenue and expenditure assumptions change the size of the future structural budget deficit;
- To develop guiding principles and a range of policy/budget options for the Council to consider in order to balance projected revenues and expenditures over a long-term period; and
- To recommend action items and a timetable for Council decisions.

**Project Scope and Timing.** OLO's project on the structural budget deficit will address the three central questions highlighted by the Council President in a March 15, 2010 memorandum (attached):

1. What are the assumptions behind the Executive's future year gap projections?
2. What are the major factors driving the projected budget deficits? Which of these factors represent fixed commitments, e.g., debt service, pension obligations?
3. What policy and budget options are available going forward to address the structural budget deficit?

**The due date for completion of OLO's project is December 2010. This timing will enable the report to be presented to the newly elected Council, before the Council adjourns for winter recess.**

OLO's report back to the Council will be organized into two parts:

- Part I: The County's Structural Budget Deficit: Defined, Quantified, and Explained
- Part II: Options to Achieve Long-Term Fiscal Balance

The components of Part I and Part II are further explained below.

**PART I: THE COUNTY'S STRUCTURAL BUDGET DEFICIT: DEFINED,  
QUANTIFIED, AND EXPLAINED**

The primary purpose of Part I is to promote a full and fair understanding of the causes and size of Montgomery County's structural budget deficit. OLO's work on Part I will be divided into the three tasks summarized below.

**A. Defining a Structural Budget Deficit.** OLO will begin its review by providing a working definition of a structural budget deficit (SBD). The report will explain the difference between a single year budget gap and an on-going, recurring imbalance of revenues and expenditures. In addition, OLO will describe the factors that contribute to the development of a structural imbalance between public sector revenues and expenditures.

**B. A Review of Past Decisions and Trends in Montgomery County.** Based on a review and analysis of data from the past ten years, OLO will present information on the major budgetary decisions, demographic changes, and economic trends that have combined to create the current picture of a recurring annual mismatch between revenues and expenditures. This analysis will aim to identify:

- The annual rates of change in County revenues and expenditures over the last decade;
- Significant changes in the revenue structure, sources, and composition;
- Significant "macro-level" trends in County agency expenditures (the major "cost drivers");
- Major trends in local government service demands;
- Requirements in State and local law that affect revenues and expenditures (e.g., Charter limit, MOE law); and
- Growth in fixed expenditure obligations (e.g., debt, pension payments, OPEB obligations).

**C. Projecting the Future Growth of Revenues and Expenditures in Montgomery County.** OLO will conduct an assessment of the County's future year revenue and expenditure projections. OLO's work will include a critical review of the assumptions and methodologies used in the Executive's most recent six-year Fiscal Plan, including projections of:

- Revenues generated from taxes, fees, and other sources during the next six years;
- County agency expenditures during the next six years;
- Changes in future year expenditure commitments;
- Changes in service demand (e.g., growth in population, MCPS enrollment); and
- Future year legal and other fixed obligations.

OLO's report back to the Council will include examples to illustrate how changing key assumptions behind the six-year projections alter the size of the future years' gaps between revenues and expenditures.

## **PART II: OPTIONS TO ACHIEVE LONG-TERM FISCAL BALANCE**

Based on the findings of Part I and research into strategies implemented elsewhere, OLO will present the Council with options that contribute towards a long-term balance between projected County revenues and projected County expenditures. Part II will include three parts.

**A. Guiding Principles.** OLO will develop a set of guiding principles for Council consideration that would help shape future fiscal planning and budgetary decision-making. For example, these guiding principles could include policies that address:

- The use of projected future year revenue projections and economic indicators (e.g., inflation rate) in determining future expenditure levels;
- Measures to control future year expenditure obligations (including debt service, pension obligations, and other post-employment benefits);
- Fund reserve levels;
- The use of one-time resources;
- Cost recovery for fee-supported programs and services; and
- Capital programming of new facilities that will have future operating budget impacts.

**B. Revenue Options.** This task will involve researching, identifying advantages and disadvantages, and pricing different methods of increasing future year revenues. Options would include adjustments to tax and fee rates and imposition of new taxes and fees. OLO will estimate the amount of revenues that could be generated by the different options as well as the burden the options would place on ratepayers.

**C. Expenditure Options.** The purpose of this task is to generate options for containing future personnel and operating expenditures. Because personnel costs represent the largest portion of agency costs, OLO will focus on options for reducing the size of the workforce and controlling per employee compensation cost increases. In selecting the specific options to study and present to the Council, OLO will:

- Focus on ways to address the cost drivers identified in Part I;
- Apply lessons learned from other jurisdictions that are grappling with resolving their own structural budget deficits; and
- Place priority on strategies that have significant and ongoing fiscal impact.

OLO's work on identifying revenue and expenditure options will be coordinated with related Council and Executive-sponsored efforts, to include the Cross-Agency Resource -Sharing Committee and the Montgomery County Organizational Reform Commission.

Attachment: Memo from Council President Floreen to County Council, March 15, 2010



MONTGOMERY COUNTY COUNCIL  
ROCKVILLE, MARYLAND

OFFICE OF THE COUNCIL PRESIDENT

MEMORANDUM

March 15, 2010

TO: Councilmembers  
FROM: Nancy Floreen, *nf* Council President  
SUBJECT: Assessment of Montgomery County's Structural Budget Deficit

As you know, a structural budget deficit exists when ongoing expenditures consistently exceed ongoing revenues, even in periods of relative prosperity. The deficits that governments face today are not only cyclical – the result of the worst recession since the Great Depression – but structural as well. The federal government and many state and local governments, including the State of Maryland and Montgomery County, now confront deficits of both kinds. Many of us have raised this issue.

The County Executive's recommended FY11 operating budget and FY11-16 Fiscal Plan confirm this point. To close a gap most recently projected at \$779 million, equal to about one-fifth of the approved aggregate operating budget for FY10, the Executive has proposed service reductions, position abolishments, furloughs, and departures from County fiscal policies on a scale that we have never seen before. But the FY11-16 Fiscal Plan shows that even after such actions to achieve a balanced budget in FY11 have been taken, large gaps in future years will persist – including FY12, when federal stimulus dollars will run out. The gaps projected for FY12-16, respectively, are currently estimated to exceed \$212, \$303, \$417, \$464, and \$514 million.

Besides resolving the acute FY11 budget challenge that is now before us, we need to address the chronic budget challenges that lie ahead. I believe that we must address at least three central questions:

1. What are the assumptions behind the Executive's future year gap projections?
2. What are the cost drivers associated with the structural deficit in future years?
3. What policy and budget options are available going forward to address the structural deficit?

To start this process, I will ask the Office of Legislative Oversight to develop a recommended scope of work to answer these three questions. With regard to timetable, I suggest that the Council formally approve a project assignment to OLO at the time we approve the FY11 budget in late May, and that the project be completed by early December, when the new Council will take office. I believe that this project has the potential to produce not only useful information but real results.

As we move forward, answering these questions will require the Council to consult with the Executive and the leadership of MCPS, the College, and Park and Planning, as well as our employee organizations and community stakeholders. Please get back to me by the end of the week with your thoughts and suggestions on this proposal.