

M E M O R A N D U M

May 10, 2010

TO: County Council

FROM: *CHS*
Charles H. Sherer, Legislative Analyst

SUBJECT: Recommendations from the Management and Fiscal Policy Committee regarding two resolutions:

- 1) Resolution to transfer funds from the Revenue Stabilization Fund (RSF) to the General Fund (GF) for FY10;
- 2) Resolution to transfer funds from the General Fund to the Revenue Stabilization Fund in FY11

Committee recommendation: The Committee met on May 6 and recommends **approval** of both resolutions as the Executive recommended. The first resolution will transfer an amount to be determined, estimated on April 22 to be \$81.9 million, from the RSF to the GF to eliminate a deficit in the GF in FY10. The second resolution will transfer \$55.0 million in FY11 from the GF to the RSF to partially restore the balance in the RSF. A transfer of approximately this amount is necessary to prevent the projected balance in the General Fund at the end of FY11 from exceeding the maximum size specified in §310 of the Charter, which is 5% of the General Fund revenues in FY10.

Background 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. The entire package of resource increases and spending decreases totaled \$196.7 million, which included \$36.6 million to increase the total reserve at the end of FY11 from 5% to 6% (©1). As shown below, the Executive recommends two transfers between the Revenue Stabilization Fund and the General Fund.

Reserves

The actions which I am recommending will provide the County with an ending FY10 balance of \$37.6 million in the Revenue Stabilization Fund (RSF) after a transfer of \$81.9 million from the RSF to the General Fund in FY10. The FY11 projected ending reserve is restored to the 6% policy level. The ending General Fund reserve is \$121.5 million which is nearly 5% of general fund revenues. The Revenue Stabilization Fund would end FY11 with a balance of \$92.8 million after a transfer of \$55 million from the General Fund to the RSF during FY11.

1. The first transfer is from the Revenue Stabilization Fund to the General Fund in FY10. As the Executive stated above, the April 22 estimate of the amount of the transfer is \$81.9 million, which is needed to eliminate a projected \$81.9 million deficit in the General Fund. The reason for eliminating this projected deficit is to avoid a reduction in the County's bond rating. As Finance staff explained, "We have been advised by our financial advisor that our bond rating will be downgraded if we end the year with a General Fund deficit." If this amount is transferred from the Revenue Stabilization Fund to the General Fund, the balance in the Revenue Stabilization Fund will be \$37.6 million and the balance in the General Fund will be \$0 at the end of FY10.

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. The amount actually transferred could be more or less than \$81.9 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 of whatever amount is needed.**

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 would transfer \$55 million in FY11 from the General Fund to the Revenue Stabilization Fund to partially restore the balance in the RSF. A transfer of approximately this amount is necessary to prevent the projected balance in the General Fund at the end of FY11 from exceeding the maximum size specified in §310 of the Charter, which is 5% of the General Fund revenues in FY10. After the FY11 transfer, at the end of FY11, the balance in the General Fund will be \$121.5 million; and the balance in the Revenue Stabilization Fund will be \$92.8 million. **Council staff recommends approval.**

Resolution No: _____
Introduced: _____
Adopted: _____

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the Request of the County Executive

SUBJECT: FY10 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 to the General 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. In his March 15, 2010 Recommended FY11 Operating Budget, the Executive estimated that because of mid year revenue reductions and extraordinary expenditure increases, the County Government General Fund would end FY10 with a deficit of \$92.0 million. This would cause existing appropriations in the General Fund to become unfunded.
4. A public hearing was held on April 20, 2010.
5. In a memorandum dated April 22, 2010, the County Executive revised his estimated deficit in the General Fund at the end of FY10 to \$81.9 million. If this amount is transferred from the Revenue Stabilization Fund to the General Fund, the balance in the Revenue Stabilization Fund will be \$37.6 million and the balance in the General Fund will be \$0 at the end of FY10.

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: FY11 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 from the General Fund 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 recommended a \$37.0 million transfer from the General Fund to the Revenue Stabilization Fund in FY11.
4. A public hearing was held on April 20, 2010.
5. In a memorandum dated April 22, 2010, the County Executive revised his recommended transfer from the General Fund to the Revenue Stabilization Fund in FY11 to \$55.0 million.
6. After the transfer, at the end of FY11, the balance in the General Fund will be \$121.5 million; and the balance in the Revenue Stabilization Fund will be \$92.8 million, which is below the maximum fund size as defined in Section 20-67(a).

Action

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

During FY11, the Director of Finance must transfer \$55.0 million 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