AGENDA ITEM #15
June 29, 2010

MEMORANDUM

June 25, 2010

TO: County Council

FROM: Stephen B. Farber, Council Staff Director SBF

SUBJECT: Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program

The Management and Fiscal Policy Committee reviewed the subject issue on May 6, June 14, and June 24, 2010. On June 24 the Committee unanimously recommended approval of the resolution on ©1-4. The Committee plans to reconvene at 2:00 p.m. on June 28 for a final review of this recommendation.

Background

On March 15 the Executive included in his FY11 Recommended Operating Budget a Tax Supported Fiscal Plan Summary for FY11-16. The Executive subsequently transmitted revised versions of this summary to reflect changes in his recommended budget made on March 25 and April 22. On April 13 the Council President recommended that the Council approve for the first time a balanced six-year fiscal plan for the FY11-16 period.

On May 21 the Executive transmitted another revised version of the fiscal plan summary to reflect his **recommended new policy on County reserves**. On June 29 the Council is separately scheduled to act on the MFP Committee's recommendations on this policy, which are included in a resolution and in amendments to the Revenue Stabilization Fund law in Bill 36-10.

The Executive's recommended new policy would raise reserves from the current policy level, 6% of resources, to 10% of a new base, Adjusted Governmental Revenues, by FY20. Action clause 5 of the implementing resolution states: *The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.*

Earlier History

Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*

Over the past two decades the MFP Committee has collaborated with OMB and Finance to develop and refine County fiscal projections. The result has been continuous improvement in how best to display such factors as economic and demographic assumptions, individual agency funds, major known commitments, illustrative expenditure pressures, gaps between projected revenues and expenditures, and productivity improvements. This work has also increased the County's ability to harmonize the four agencies' fiscal planning methodologies.

Notwithstanding this important work, the Council, in adopting approval resolutions each year for the operating and capital budgets, has not adopted "comprehensive six-year programs for public services and fiscal policy." One reason is **the inherent difficulty in accurately projecting revenues and expenditures for one year, as this year has shown, let alone six**. Thus each version of the County's fiscal projections, or six-year fiscal plan, is a **snapshot in time** that reflects the best estimate of future revenues and expenditures as of that moment, as well as a specific set of fiscal policy assumptions.

A second reason is that **new developments can make a large difference**. For example, several years ago our fiscal projections did not include pre-funding retiree health benefits (OPEB); now they must. Our current fiscal projections do not include any County funding of teacher pensions; in future years they may have to. On the revenue side, our pre-FY09 projections assumed property tax revenue at the Charter limit, but the Charter limit was exceeded that year by $118 million. Our income tax projections did not anticipate the fact that revenue would soar by 21% in FY07 and then fall by 21% in FY10. Federal stimulus funds that unexpectedly helped us in FY10-11 will probably not be available in FY12.

A third reason is that in the past, six-year fiscal projections that reflect historical rates of spending growth have been **unbalanced**, showing large budget gaps in the outyears. Since each year's budget must be balanced, the Council has understandably been unwilling to approve a fiscal plan that suggests otherwise.

Balanced Six-Year Fiscal Plan

As noted above, the Executive has transmitted several versions of a recommended Tax Supported Fiscal Plan Summary for FY11-16, including both unbalanced and balanced ones. The initial versions, like those of past years, were **unbalanced**. See Mr. Beach's April 6 memo on the FY11-16 Fiscal Plan on ©5-8, and in particular the two unbalanced versions of the fiscal plan, dated March 15 and March 25, on ©9-10.

For the first **balanced** versions of the fiscal plan, dated March 25 and April 22, see ©11-13. **These versions achieve balance each year by sharply constraining agency expenditures, or uses.** See ©14-15 for the version transmitted with the Executive's recommended new policy on reserves.

This version includes on ©14 the constrained expenditures in FY12-16 projected for the four agencies (MCPS, Montgomery College, M-NCPPC, and County Government). OMB explained its methodology as follows: "Each agency's spending is calculated to increase at its 10-year average historical rate of growth (FY02 to FY11 approved), and then is reduced in proportion to its FY11 share of total agency spending each year to produce a balanced budget."

M-NCPPC expressed concern with this methodology because it locks in the agency's disproportionately large budget reduction in FY11. See the letter from Acting Planning Board Chair Marye Wells-Harley on ©16-18. The Committee recommended that the fiscal plan show the total expenditures projected for all four agencies rather than projections for the individual agencies, which are and will continue to be determined in the annual budget process.

MFP Committee Recommendation

The balanced fiscal plan recommended by the MFP Committee starts with the Council's final decisions on the FY11 operating budget. See ©1-4. This version reflects:

(1) current information on projected revenues and non-agency expenditures for the six-year period, which must be updated as conditions change. To keep abreast of changed conditions the Council regularly reviews reports on economic indicators and revenue estimates prepared by the Finance Department.

(2) the policy on expanded County reserves established in the separate resolution on this issue and the amendments to the Revenue Stabilization Fund law in Bill 36-10, both of which the Council is to consider at this meeting.

(3) other specific fiscal assumptions, listed in the summary, that are important goals for inclusion in future budgets.

This last point warrants further discussion. **The assumptions listed on ©4 reflect sound County fiscal policies that should be adhered to in each year's budget.** But in FY09, FY10, and FY11, as fiscal conditions steadily worsened, one or more of the following fiscal policy assumptions were temporarily waived: property tax revenue not to exceed the Charter limit, PAYGO at 10% of planned general obligation bond borrowing, use of recordation tax revenues, retiree health insurance pre-funding at the scheduled level, and reserves at the policy level.

The goal is to adhere to these and all other County policies in future years, but the Council will make actual decisions year by year.[1] One policy that must be adhered to is the new policy on expanded County reserves, which is buttressed by the amendments to the Revenue Stabilization Fund law in Bill 36-10.

As noted above, the six-year fiscal plan summary on ©3-4, like all versions of the fiscal plan, is a snapshot in time that reflects current fiscal projections and policy assumptions. The one certainty from past experience is that as conditions change, future versions of the plan will change as well. What this version shows – as Row 31 on ©3 makes clear – is what we already know intuitively: that absent a far more robust economic recovery than now appears likely, strict adherence to the County's fiscal policies will sharply limit the resources available to the agencies in FY12 and beyond.[2]

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[1] In other words, the fiscal plan is an important guide but not a rigid blueprint, or what former Councilmember Neal Potter called a Procrustean bed (named for Procrustes, the highwayman in Greek mythology who forcibly adjusted travelers of different heights to the length of his iron bed). Rather, as Sgt. Martens of Internal Affairs said on *NYPD Blue*, "Everything is a situation."

[2] Row 31 on ©3 shows that based on current fiscal projections and policy assumptions, resources available for agency uses in FY12-16 will change by +0.1%, -1.3%, +2.2%, +3.8%, and +4.7%, respectively. The decline in FY13 is caused by the projected sunset of the energy tax increase approved for FY11-12.

Resolution No.: ______________
Introduced: ______________
Adopted: ______________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Management and Fiscal Policy Committee

SUBJECT: Approval of the County's Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program

Background

1. Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*

2. Over the last two decades the Council's Management and Fiscal Policy Committee has collaborated with the Office of Management and Budget and the Department of Finance to develop and refine County fiscal projections. The result has been continuous improvement in how best to display such factors as economic and demographic assumptions, individual agency funds, major known commitments, illustrative expenditure pressures, gaps between projected revenues and expenditures, and productivity improvements. This work has also increased the County's ability to harmonize the fiscal planning methodologies of the four tax supported agencies. Each version of the fiscal projections, or six-year fiscal plan, is a snapshot in time that reflects the best estimate of future revenues and expenditures as of that moment, as well as a specific set of fiscal policy assumptions.

3. On March 15, 2010 the County Executive included in his FY11 Recommended Operating Budget a Tax Supported Fiscal Plan Summary for FY11-16. The Executive subsequently transmitted revised versions of this summary to reflect changes in his recommended budget made on March 25 and April 22, 2010.

4. On April 13, 2010 the Council President recommended that the Council approve for the first time a balanced six-year fiscal plan for the FY11-16 period.

5. On May 21, 2010 the Executive transmitted another revised version of the fiscal plan summary to reflect his recommended new reserve policy. On June 24, 2010 the Management and Fiscal Policy Committee recommended approval of this policy, as amended. Action clause 5 of the approval resolution states: *The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.* The Committee recommended implementing such a fiscal plan for the FY11-16 period, starting with the FY11 Operating Budget approved by the Council on May 27, 2010.

Action

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

The Council approves the Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program, as outlined on the attached pages. This summary reflects:

(1) current information on projected revenues and non-agency expenditures for the six-year period, which must be updated as conditions change. To keep abreast of changed conditions the Council regularly reviews reports on economic indicators and revenue estimates prepared by the Finance Department.

(2) the policy on expanded County reserves established in Resolution No. 16-xxxx and the amendments to the Revenue Stabilization Fund law in Bill 36-10, both of which the Council approved on June 29, 2010.

(3) other specific fiscal assumptions, listed in the summary, that are important goals for inclusion in future budgets.

This is a correct copy of Council action.

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Linda M. Lauer, Clerk of the Council

County Council's Approved FY11-16 Public Services Program
Tax Supported Fiscal Plan Summary

($ in millions)

		App. FY10	Restated FY10	% Chg. FY10-11	App. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
		5-21-09		Restated to approved	5-27-10										
	Total Revenues														
1	Property Tax (less PDs)	1,440.9	1,440.9	0.6%	1,450.1	2.7%	1,489.9	3.0%	1,534.9	3.1%	1,582.6	3.4%	1,635.9	2.4%	1,675.3
2	Income Tax	1,214.8	1,214.8	-12.7%	1,060.7	6.6%	1,130.2	6.2%	1,200.8	5.3%	1,264.8	8.6%	1,373.6	7.9%	1,482.6
3	Transfer/Record. Tax	123.4	123.4	13.4%	139.9	6.0%	148.3	-2.2%	145.1	8.7%	157.8	7.5%	169.7	5.1%	178.3
4	Investment Income	5.9	5.9	-38.2%	3.6	88.3%	6.9	95.1%	13.4	28.0%	17.1	16.8%	20.0	8.8%	21.7
5	Other Taxes	185.3	185.3	69.0%	313.2	2.8%	322.1	-32.8%	216.4	2.9%	222.6	2.8%	228.9	2.7%	235.1
6	Other Revenues	834.6	755.1	7.5%	811.6	-2.5%	791.7	0.7%	797.2	0.7%	803.1	0.8%	809.6	0.9%	816.6
7	**Total Revenues**	**3,804.9**	**3,725.4**	1.4%	**3,779.2**	**2.9%**	**3,889.1**	**0.5%**	**3,907.8**	**3.6%**	**4,048.0**	**4.7%**	**4,237.6**	**4.1%**	**4,409.6**
8															
9	Net Transfers In (Out)	37.2	37.2	12.1%	41.7	-68.0%	13.4	2.4%	13.7	2.6%	14.0	2.8%	14.4	3.0%	14.9
10	**Total Revenues and Transfers Available**	**3,842.2**	**3,762.6**	1.6%	**3,821.0**	2.1%	**3,902.4**	0.5%	**3,921.4**	3.6%	**4,062.0**	4.7%	**4,252.0**	4.1%	**4,424.4**
11															
12	**Non-Operating Budget Use of Revenues**														
13	Debt Service	251.5	251.5	5.0%	264.0	11.9%	295.3	11.3%	328.6	8.3%	356.1	6.3%	378.5	4.6%	396.1
14	PAYGO	1.3	1.3	-100.0%	-	n/a	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5
15	CIP Current Revenue	30.7	30.7	-22.6%	23.8	72.1%	40.9	40.3%	57.4	41.0%	81.0	3.9%	84.2	-24.7%	63.4
16	Montgomery College Reserves						4.0	-98.1%	0.1	-2.9%	0.1	5.5%	0.1	4.2%	0.1
17	MNCPPC Reserves						4.3	-96.3%	0.2	-2.6%	0.2	7.1%	0.2	-25.9%	0.1
18	Contribution to General Fund Undesignated Reserves	(39.3)	(39.3)	-372.3%	107.1	-100.4%	(0.4)	1300.2%	5.4	-119.9%	(1.1)	668.3%	6.1	39.3%	8.5
19	Contribution to Revenue Stabilization Reserves	-	-	n/a	33.9	-28.5%	24.3	-16.0%	20.4	16.4%	23.7	44.9%	34.4	-6.3%	32.2
20	Retiree Health Insurance Pre-Funding	-	-	n/a	-	n/a	83.6	22.7%	102.6	18.6%	121.7	14.9%	139.8	5.0%	146.8
21	Set Aside for other uses (supplemental appropriations)	2.5	2.5	-90.2%	0.3	8916.1%	22.5	0.0%	22.5	0.0%	22.5	-11.3%	20.0	0.0%	20.0
22	**Total Other Uses of Resources**	**246.7**	**246.7**	**73.9%**	**429.1**	**18.2%**	**507.0**	**12.4%**	**569.7**	**11.7%**	**636.6**	**9.3%**	**695.6**	**0.6%**	**699.6**
23	**Available to Allocate to Agencies (Total Revenues + Net Transfers-Total Other Uses)**	**3,595.4**	**3,515.9**	**-3.5%**	**3,391.8**	**0.1%**	**3,395.4**	**-1.3%**	**3,351.7**	**2.2%**	**3,425.4**	**3.8%**	**3,556.4**	**4.7%**	**3,724.9**
24															
31	**Agency Uses**	**3,595.4**	**3,515.9**	**-3.5%**	**3,391.8**	**0.1%**	**3,395.4**	**-1.3%**	**3,351.7**	**2.2%**	**3,425.4**	**3.8%**	**3,556.4**	**4.7%**	**3,724.9**
32	**Total Uses**	**3,842.2**	**3,762.6**	**1.6%**	**3,821.0**	**2.1%**	**3,902.4**	**0.5%**	**3,921.4**	**3.6%**	**4,062.0**	**4.7%**	**4,252.0**	**4.1%**	**4,424.4**
33	**(Gap)/Available**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**

		App. FY10	Restated FY10	% Chg. FY10-11	App. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
34	Beginning Reserves														
35	Unrestricted General Fund	115.5	115.5	-74.3%	29.7	360.6%	136.8	-0.3%	136.4	3.9%	141.8	-0.8%	140.7	4.3%	146.8
36	Revenue Stabilization Fund	119.6	119.6	-49.5%	60.4	56.2%	94.3	25.7%	118.6	17.2%	139.0	17.1%	162.7	21.1%	197.1
37	Total Beginning Reserves	235.2	235.2	-61.7%	90.1	156.6%	231.2	10.3%	255.0	10.1%	280.7	8.1%	303.4	13.3%	343.9
38															
39	Additions to Reserves														
40	Unrestricted General Fund	-39.3	-39.3	-372.3%	107.1	-100.4%	-0.4	1300.2%	5.4	-119.9%	-1.1	668.3%	6.1	39.3%	8.5
41	Revenue Stabilization Fund	0.0	0.0	n/a	33.9	-28.5%	24.3	-16.0%	20.4	16.4%	23.7	44.9%	34.4	-6.3%	32.2
42	Total Change in Reserves	-39.3	-39.3	-458.6%	141.1	-83.1%	23.8	8.2%	25.8	-12.1%	22.6	78.6%	40.5	0.5%	40.7
43															
44	Ending Reserves														
45	Unrestricted General Fund	76.2	76.2	79.6%	136.8	-0.3%	136.4	3.9%	141.8	-0.8%	140.7	4.3%	146.8	5.8%	155.3
46	Revenue Stabilization Fund	119.6	119.6	-21.2%	94.3	25.7%	118.6	17.2%	139.0	17.1%	162.7	21.1%	197.1	16.3%	229.2
47	Total Ending Reserves	195.8	195.8	18.0%	231.2	10.3%	255.0	10.1%	280.7	8.1%	303.4	13.3%	343.9	11.8%	384.5
48	Reserves as a % of Adjusted Governmental Revenues				**6.0%**		**6.5%**		**7.1%**		**7.4%**		**8.0%**		**8.6%**
49	Agency Reserves														
50	Montgomery College				0.0	n/a	4.0	1.9%	4.0	1.8%	4.1	1.8%	4.2	1.9%	4.3
51	MNCPPC				0.0	n/a	4.3	3.7%	4.5	3.5%	4.6	3.6%	4.8	2.6%	4.9
52	**Retiree Health Insurance Pre-Funding**														
53	Montgomery County Public Schools (MCPS)						53.2		64.8		76.4		87.7		92.1
54	Montgomery College (MC)						1.0		1.2		1.3		1.4		1.5
55	MNCPPC (w/o Debt Service)						4.4		5.1		5.6		6.1		6.4
56	MCG						25.0		31.5		38.4		44.6		46.8
57	**Subtotal Retiree Health Insurance Pre-Funding**						83.6	-	102.6	-	121.7	-	139.8	-	146.8

This fiscal plan summary reflects the following assumptions:

1. FY12-16 property tax revenues are at the Charter Limit assuming a tax credit. All other tax revenues at current rates except as noted below.
2. Revenues reflect Energy Tax and Wireless Telephone Tax increases approved by the County Council on May 27, 2010. Energy Tax increase sunsets at the end of FY12.
3. PAYGO restored to policy level of 10% of planned GO Bond borrowing in FY12-16. See Row 14 above.
4. FY11 revenues reflect one-year redirection of Recordation Tax Premium ($8 M.) and Recordation Tax for MCPS CIP and College IT ($5 M.).
5. Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12. See Rows 20 and 53-56 above.
6. Projected FY12-16 rate of growth of Agency Uses constrained to balance the fiscal plan in FY12-16. Allocations to the four agencies (MCPS, Montgomery College, MNCPPC, and County Government) will be determined in the annual budget process.
7. FY11 reserves reflect restoration of reserves to current 6% (of tax supported resources) policy level. FY10 and FY11 reserves (see Rows 34-48 above) include all County and Outside Agency tax supported reserves.
8. FY12-16 Unrestricted General Fund Reserves are reduced in certain years to reflect compliance with Section 310 of the County Charter on maximum size of the general fund balance (shall not exceed 5% of prior year general fund revenues). Outside Agency reserves are excluded from these amounts and are displayed separately (see Rows 16 - 17 and 50 - 51 above).
9. FY12-16 reserves reflect proposed new reserve policy including increase in reserve levels and inclusion of capital projects and grant revenues as part of Adjusted Governmental Revenues.

Notes:

1. Restated FY10 excludes $79.5 million for debt service that was double appropriated to MCPS to meet the State's Maintenance of Effort requirement and then reimbursed to the County.
2. As of 6-22-10, Actual FY10 agency uses are estimated to be $103.0 million less than Approved or Restated FY10 due chiefly to reductions from two FY10 savings plans.

OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

April 6, 2010

TO: Interested Readers

FROM: Joseph F. Beach, Director

SUBJECT: FY11-16 Fiscal Plan

Executive Summary:

As with each of the operating budgets he has transmitted to the County Council, the County Executive's highest priority was to produce a fiscally sound and sustainable budget that preserves public safety services, education, and the County's safety net for its most vulnerable residents. The FY11 budget process was uniquely challenging because of the continued, sharp decline in tax revenues and State aid and the government's response to emergencies including the H1N1 outbreak and the record snow storms this winter, which combined to increase the projected budget gap to an historic level of nearly $780 million.

The Executive's recommended budget, released on March 15, 2010, closed this unprecedented budget gap and maintained property taxes at the Charter limit.[1] Since release of the operating budget, additional information[2] became available which led the County Executive on March 25 to recommend additional actions to improve the County's reserves. As part of this plan, the Executive recommended an additional increase to the Energy Tax, and he also recommended implementing the rate increase in FY10. In addition, $3 million was released from the FY10 supplemental appropriation set-aside, and $3.7 million in certain planned non-tax supported transfers were accelerated into FY10. In total, these actions will increase reserves by $48.4 million in FY11, and are reflected in the fiscal plans in this document.

The Executive's recommended budget includes a $693 credit for each owner-occupied residence which keeps property taxes at the Charter limit and supports a progressive property tax structure in the County. The budget reduces overall spending by 3.8 percent, the only time the total operating

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

[2] The County's unemployment rate increased from 5.2 percent to 6.2 percent, Anne Arundel County's bond rating was downgraded, and rating agency feedback in connection with an upcoming bond sale reflected significant concerns with the County's reserve levels.

budget has decreased since the adoption of the current Charter in 1968. Tax supported spending across all agencies decreases $166 million, or 4.3 percent, while the County government tax supported budget decreases $76.5 million, or 6.1 percent compared to FY10. This pullback in spending, a continuation of the trend begun by this Executive when he took office three years ago, is necessary to correct the structural imbalance in the operating budget by bringing current and expected expenditures into alignment with revenues.

While this budget repositions Montgomery County for the future, it is unlikely these measures to restrain spending are complete with the FY11 operating budget. Given the severity of the recession, depressed employment levels, and the lag in revenue growth, FY12 and perhaps ensuing fiscal years will require continued restructuring of County expenditures, especially personnel costs which comprise 80 percent of County costs. Significant fiscal pressures remaining on the horizon include rising employee compensation and benefit costs, continued pre-funding of retiree health insurance expenses, increased demand for new and expanded services or restoration of service reductions, the impact on the operating budget from capital investment, and continued economic stagnation.

This challenge is evident in the current projected FY12 budget gap, not including potential additional reductions in Federal and State Aid, further complicating the County's ability to plan for the FY11-16 period. The Executive is addressing this long term structural imbalance by engaging our partners in Montgomery County Public Schools, Montgomery College, Maryland-National Capital Park and Planning Commission, and the Washington Suburban Sanitary Commission to establish a cross-agency committee that will be charged with developing resource sharing ideas and implementation strategies in areas such as information technology, space utilization, fleet management, utilities, facilities planning and design, construction and maintenance, training, and other administrative services.

Background:

The recommended FY11-16 Fiscal Plans for the tax supported and non-tax supported funds of the agencies of County government are provided for your information. Portions of this material were initially published in the FY11-16 Recommended Operating Budget and Public Services Program (March 15, 2010).[3] As in past years, this information is intended to assist the County Council and other interested parties review the County Executive's recommended budget during the Council's budget worksessions this spring.

Interested readers should note that the fiscal plans included in this publication are not intended to be prescriptive, but are instead intended to present one possible outcome of policy choices regarding taxes, user fees, and spending decisions. Other important assumptions are explained in footnotes at the bottom of each fiscal plan display. One significant benefit of presenting multi-year projections is that the potential future year impacts of current policy decisions can be considered by decision makers when making fiscal decisions in the near term. The Executive's fiscal policies support:

- prudent and sustainable fiscal management: constraining expenditure growth to expected resources;
- identifying and implementing productivity improvements;
- avoiding the programming of one-time revenues to on-going expenditures;
- growing the local economy and tax base;

[3] In addition to these two documents, the reader is encouraged to review other County fiscal materials such as the Comprehensive Annual Financial Report for the year ended June 30, 2009; the Annual Information Statement published by the Department of Finance on January 15, 2010; and Economic Indicators data. Budget and financial information for Montgomery County can also be accessed on the web at www.montgomerycountymd.gov.

- obtaining a fair share of State and Federal Aid;
- maintaining prudent reserve levels;
- minimizing the tax burden on residents; and
- managing indebtedness and debt service very carefully.

Because of the loss of more than $320 million in projected revenues since approval of the FY10 budget last May and the record cost of snow removal this winter, estimated to exceed $60 million, the Executive found it necessary to again recommend certain measures that he had strongly resisted in the past. The Executive recommends removing $31.5 million in PAYGO[4] and deferring the scheduled $64 million increase for retiree health insurance pre-funding. In addition, the Executive recommends withdrawing from the Revenue Stabilization Fund enough funds to maintain a positive FY10 year end fund balance in the County's General Fund.[5] These measures were necessary to balance the FY10 and FY11 budgets and avoid even more reductions to critical government programs and services. The Executive recommends replacement of these resources to their policy levels as quickly as possible.

Fiscal Plan for the Tax Supported Funds:

The recommended fiscal planning objectives for FY11-16 for the tax supported funds are:

- Adhere to sound fiscal policies.
- Tax supported reserves (operating margin and the Revenue Stabilization Fund) are recommended to be restored to the policy level of 6 percent of total resources in FY11[6] and maintained at the policy level in FY12-16 of the fiscal plan.
- Maintain property taxes at the Charter limit by providing a $693 credit to each owner-occupied household.
- Assume property tax revenues at the Charter Limit during FY12-16 in the fiscal plan using the income tax offset credit.
- Manage fund balances in the non-tax supported funds to established policy levels where applicable.
- Assume current State aid formulas, but continue successful strategies to increase State (and Federal) operating and capital funding.
- Maintain priority to economic development and tax base growth:
  - Seize opportunities to recruit and retain significant employers compatible with the County's priorities;
  - Give priority to capital investment that supports economic development/tax base growth.
- Maintain essential services.
- Limit exposure in future years to rising costs by controlling baseline costs and allocating one-time revenues to one-time expenditures, whenever possible.
- Manage all debt service commitments very carefully, consistent with standards used by the County to maintain high credit ratings and future budget flexibility. Recognize the fixed commitment inherent

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[4] Current revenue that is substituted for debt in capital projects that are debt eligible or used in projects that are not debt eligible or qualified for tax-exempt financing is referred to as PAYGO, or "pay as you go" funding. The County's policy is to program at least 10 percent of planned General Obligation bond issues as PAYGO in the capital budget.

[5] This withdrawal was approximately $102 million in the March 15 operating budget. As a result of the additional actions recommended by the Executive on March 25, the withdrawal is now approximately $71.6 million.

[6] Reserves were initially assumed to be 5 percent of total resources in the March 15 operating budget, but were increased to the policy level as a result of the additional actions recommended by the Executive on March 25.

in all forms of multi-year financing (long-term bonds, shorter-term borrowing, and lease-backed revenue bonds) that must be accommodated within limited debt capacity.

- Program PAYGO to be at least 10 percent of anticipated General Obligation Bond levels to contain future borrowing costs in FY12-16.
- For capital investment, allocate debt, current revenue, and other resources made available by the fiscal objectives above according to priorities established by policy and program agendas.
- For services, allocate resources consistent with policy and program agendas.

The major challenges for FY11-16 will be to contain on-going costs, preserve essential services, and make improvements in other services including public safety, education, the social safety net, affordable housing, and transportation, as the local economy continues to recover from the recession.

Fiscal Plans for the Non-Tax Supported Funds:

By definition, each of the non-tax supported (fee-supported) funds is independent, covering all operating and capital investment expenses from its designated revenue sources. The fiscal health of each fund is satisfactory, though looking ahead some funds will need to meet expected challenges by rate adjustments and/or expenditure management decisions. One continuing challenge for some of these funds relates to the impact of pre-funding retiree health insurance costs.

Conclusion:

Montgomery County's long term fiscal health is strong as a result of its underlying economy and the financial management policies endorsed by its elected officials. Nonetheless, the County continues to face significant challenges in the years ahead. The FY11-16 Fiscal Plans reflect these challenges in their assumptions and projections.

Comments on the Fiscal Plans that follow are encouraged as opportunities for improvement. Office of Management and Budget and Finance staffs of the County government, and Finance staff of the other agencies, are available to assist in the Council's deliberations.

JFB:ae

Attachment: FY11-16 Fiscal Plan for Montgomery County, Maryland

c: Isiah Leggett, County Executive
Members, Montgomery County Council
Timothy L. Firestine, Chief Administrative Officer
Dr. Jerry D. Weast, Superintendent, MCPS
Dr. Hercules Pinckney, Interim President, Montgomery College
Royce Hanson, Chair, Montgomery County Planning Board
Jerry N. Johnson, General Manager, WSSC
Annie B. Alston, Executive Director, Housing Opportunities Commission
Keith Miller, Executive Director, Revenue Authority
Jennifer Barrett, Director, Department of Finance
Kathleen Boucher, Assistant Chief Administrative Officer
Stephen Farber, Council Staff Director

March 15, 2010

County Executive's Recommended FY11-16 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

	App. FY10	Est. FY10	% Chg. FY10-11	Rec. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
	5-21-09	3-15-10	Rec/Bud	3-15-10										
Total Resources														
Revenues	3,804.9	3,654.3	-0.3%	3,793.6	2.9%	3,903.5	3.6%	4,044.2	4.2%	4,214.1	5.1%	4,429.3	4.1%	4,612.2
Beginning Reserves Undesignated	115.5	110.2	-48.7%	59.3	135.1%	139.4	35.2%	188.6	6.1%	200.0	5.5%	210.9	6.4%	224.5
Beginning Reserves Designated	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Net Transfers In (Out)	37.2	51.4	-12.2%	32.7	-57.0%	14.0	2.4%	14.4	2.6%	14.8	2.8%	15.2	3.0%	15.6
Total Resources Available	3,957.7	3,815.9	-1.8%	3,885.6	4.4%	4,056.9	4.7%	4,247.1	4.3%	4,428.8	5.1%	4,655.4	4.2%	4,852.3
Less Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	289.2	29.6%	469.5	23.5%	579.9	10.8%	642.6	9.8%	705.6	5.0%	741.0	0.6%	745.8
Available to Allocate to Agencies	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**1.8%**	**3,477.0**	**3.7%**	**3,604.5**	**3.3%**	**3,723.2**	**5.1%**	**3,914.4**	**4.9%**	**4,106.6**
Agency Uses														
Montgomery County Public Schools (MCPS)	2,020.1	1,989.9	-3.9%	1,940.5	5.8%	2,053.3	5.8%	2,172.6	5.8%	2,298.8	5.8%	2,432.4	5.8%	2,573.7
Montgomery College (MC)	217.5	214.5	-3.8%	209.2	6.0%	221.9	6.0%	235.3	6.0%	249.5	6.0%	264.6	6.0%	280.5
MNCPPC (w/o Debt Service)	106.6	103.2	-14.1%	91.6	3.8%	95.1	3.8%	98.8	3.9%	102.6	3.9%	106.5	3.9%	110.6
MCG	1,251.2	1,219.1	-6.1%	1,174.7	5.1%	1,235.1	5.1%	1,298.6	5.1%	1,365.3	5.1%	1,435.5	5.1%	1,509.3
Subtotal Agency Uses	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**5.5%**	**3,605.4**	**5.5%**	**3,805.2**	**5.5%**	**4,016.2**	**5.5%**	**4,239.0**	**5.5%**	**4,474.1**
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)				-		53.2		64.8		76.4		87.7		92.1
Montgomery College (MC)				-		1.0		1.2		1.3		1.4		1.5
MNCPPC (w/o Debt Service)				-		4.4		5.1		5.6		6.1		6.4
MCG				-		25.0		31.5		38.4		44.6		46.8
Subtotal Retiree Health Insurance Pre-Funding				-	-	83.6	-	102.6	-	121.7	-	139.8	-	146.8
Subtotal Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	289.2	29.6%	469.5	23.5%	579.9	10.8%	642.6	9.8%	705.6	5.0%	741.0	0.6%	745.8
Total Uses	3,957.7	3,815.9	-1.8%	3,885.6	9.9%	4,268.9	6.6%	4,550.4	6.4%	4,843.5	5.7%	5,119.7	4.8%	5,366.7
(Gap)/Available	-	-		0.0		(212.0)		(303.3)		(414.7)		(464.3)		(514.3)

Notes:

1. FY12-16 property tax revenues are at the Charter Limit assuming a tax credit.
2. Projected FY12-16 Agency Uses assume average 10-year rate of growth.
3. Reserves are restored to the policy level of 6% of total resources in FY12-16.
4. PAYGO restored to policy level in FY12-16.
5. Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12.

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March 25, 2010

County Executive's Recommended FY11-16 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

	App. FY10	Est. FY10	% Chg. FY10-11	Rec. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
	5-21-09	3-31-10	Rec/Bud	3-31-10										
Total Resources														
Revenues	3,804.9	3,667.9	0.5%	3,825.5	2.9%	3,935.3	3.6%	4,076.0	4.2%	4,245.9	5.1%	4,461.2	4.1%	4,644.1
Beginning Reserves Undesignated	115.5	110.2	-57.3%	49.3	182.8%	139.4	1.7%	141.8	6.1%	150.4	7.1%	161.1	8.4%	174.7
Beginning Reserves Designated	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Net Transfers In (Out)	37.2	55.2	-22.3%	28.9	-64.7%	10.2	2.5%	10.5	2.6%	10.7	2.8%	11.0	3.0%	11.4
Total Resources Available	3,957.7	3,833.3	-1.4%	3,903.7	4.6%	4,085.0	3.5%	4,228.3	4.2%	4,407.1	5.1%	4,633.3	4.2%	4,830.1
Less Other Uses of Resources (Capital, Debt Service, Reserve)	362.2	306.5	34.6%	487.6	9.3%	533.1	11.2%	593.0	10.6%	655.9	5.4%	691.2	0.7%	696.0
Available to Allocate to Agencies	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**4.0%**	**3,551.8**	**2.3%**	**3,635.2**	**3.2%**	**3,751.2**	**5.1%**	**3,942.1**	**4.9%**	**4,134.1**
Agency Uses														
Montgomery County Public Schools (MCPS)	2,020.1	1,989.9	-3.9%	1,940.5	5.8%	2,053.3	5.8%	2,172.6	5.8%	2,298.8	5.8%	2,432.4	5.8%	2,573.7
Montgomery College (MC)	217.5	214.5	-3.8%	209.2	6.0%	221.9	6.0%	235.3	6.0%	249.5	6.0%	264.6	6.0%	280.5
MNCPPC (w/o Debt Service)	106.6	103.2	-14.1%	91.6	3.8%	95.1	3.8%	98.8	3.9%	102.6	3.9%	106.5	3.9%	110.6
MCG	1,251.2	1,219.1	-6.1%	1,174.7	5.1%	1,235.1	5.1%	1,298.6	5.1%	1,365.3	5.1%	1,435.5	5.1%	1,509.3
Subtotal Agency Uses	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**5.5%**	**3,605.4**	**5.5%**	**3,805.2**	**5.5%**	**4,016.2**	**5.5%**	**4,239.0**	**5.5%**	**4,474.1**
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)				-		53.2		64.8		76.4		87.7		92.1
Montgomery College (MC)				-		1.0		1.2		1.3		1.4		1.5
MNCPPC (w/o Debt Service)				-		4.4		5.1		5.6		6.1		6.4
MCG				-		25.0		31.5		38.4		44.6		46.8
Subtotal Retiree Health Insurance Pre-Funding				-	-	83.6	-	102.6	-	121.7	-	139.8	-	146.8
Subtotal Other Uses of Resources (Capital, Debt Service, Reserve)	362.2	306.5	34.6%	487.6	9.3%	533.1	11.2%	593.0	10.6%	655.9	5.4%	691.2	0.7%	696.0
Total Uses	3,957.7	3,833.3	-1.4%	3,903.7	8.2%	4,222.1	6.6%	4,500.8	6.5%	4,793.7	5.8%	5,069.9	4.9%	5,316.9
(Gap)/Available	-	-		-		(137.2)		(272.6)		(386.7)		(436.6)		(486.8)

Notes:

1. FY12-16 property tax revenues are at the Charter Limit assuming a tax credit.
2. Revenues reflect higher Energy Tax rate increase recommended by the County Executive on March 25, 2010.
3. Projected FY12-16 Agency Uses assume average 10-year rate of growth.
4. Reserves are increased to the policy level of 6% of total resources in FY11 as a result of the Energy Tax increase and are maintained at that level in FY12-16.
5. PAYGO restored to policy level in FY12-16.
6. Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12.

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Balanced Fiscal Plan Scenario

County Executive's Recommended FY11-16 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

	App. FY10	Est. FY10	% Chg. FY10-11	Rec. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
	5-21-09	3-31-10	Rec/Bud	3-31-10										
Total Resources														
Revenues	3,804.9	3,667.9	0.5%	3,825.5	2.9%	3,935.3	3.6%	4,076.0	4.2%	4,245.9	5.1%	4,461.2	4.1%	4,644.1
Beginning Reserves Undesignated	115.5	110.2	-57.3%	49.3	182.8%	139.4	1.7%	141.8	6.1%	150.4	7.1%	161.1	8.4%	174.7
Beginning Reserves Designated	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Net Transfers In (Out)	37.2	55.2	-22.3%	28.9	-64.7%	10.2	2.5%	10.5	2.6%	10.7	2.8%	11.0	3.0%	11.4
Total Resources Available	3,957.7	3,833.3	-1.4%	3,903.7	4.6%	4,085.0	3.5%	4,228.3	4.2%	4,407.1	5.1%	4,633.3	4.2%	4,830.1
Less Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	306.5	34.6%	487.6	9.3%	533.1	11.2%	593.0	10.6%	655.9	5.4%	691.2	0.7%	696.0
Available to Allocate to Agencies	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**4.0%**	**3,551.8**	**2.3%**	**3,635.2**	**3.2%**	**3,751.2**	**5.1%**	**3,942.1**	**4.9%**	**4,134.1**
Agency Uses														
Montgomery County Public Schools (MCPS)	2,020.1	1,989.9	-3.9%	1,940.5	1.8%	1,975.2	2.1%	2,017.0	3.0%	2,077.5	5.0%	2,181.8	5.1%	2,293.7
Montgomery College (MC)	217.5	214.5	-3.8%	209.2	2.0%	213.4	2.3%	218.4	3.2%	225.5	5.3%	237.3	5.4%	250.0
MNCPPC (w/o Debt Service)	106.6	103.2	-14.1%	91.6	-0.1%	91.5	0.2%	91.7	1.1%	92.7	3.1%	95.6	3.2%	98.6
MCG	1,251.2	1,219.1	-6.1%	1,174.7	1.1%	1,188.1	1.5%	1,205.5	2.3%	1,233.9	4.4%	1,287.6	4.5%	1,345.1
Subtotal Agency Uses	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**1.5%**	**3,468.2**	**1.9%**	**3,532.6**	**2.7%**	**3,629.5**	**4.8%**	**3,802.4**	**4.9%**	**3,987.4**
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)				-		53.2		64.8		76.4		87.7		92.1
Montgomery College (MC)				-		1.0		1.2		1.3		1.4		1.5
MNCPPC (w/o Debt Service)				-		4.4		5.1		5.6		6.1		6.4
MCG				-		25.0		31.5		38.4		44.6		46.8
Subtotal Retiree Health Insurance Pre-Funding				-	-	83.6	-	102.6	-	121.7	-	139.8	-	146.8
Subtotal Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	306.5	34.6%	487.6	9.3%	533.1	11.2%	593.0	10.6%	655.9	5.4%	691.2	0.7%	696.0
Total Uses	3,957.7	3,833.3	-1.4%	3,903.7	4.6%	4,085.0	3.5%	4,228.3	4.2%	4,407.1	5.1%	4,633.3	4.2%	4,830.1
(Gap)/Available	-	-		-		-		-		-		-		-

Notes:

1. FY12-16 property tax revenues are at the Charter Limit assuming a tax credit.
2. Revenues reflect higher Energy Tax rate increase recommended by the County Executive on March 25, 2010.
3. Reserves are increased to the policy level of 6% of total resources in FY11 as a result of the Energy Tax increase and are maintained at that level in FY12-16.
4. PAYGO restored to policy level in FY12-16.
5. Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12.
6. Projected FY12-16 rate of growth of Agency Uses is adjusted to balance the fiscal plan in FY12-16.

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OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

April 23, 2010

TO: Stephen B. Farber, County Council Staff Director

FROM: Joseph F. Beach, Director, Office of Management and Budget

SUBJECT: Revised Balanced Fiscal Plan FY11-16

Attached please find the subject fiscal plan based on the Executive's April 22, 2010 amendments to the FY10 and FY11 budgets. Please note that we will be making changes to the format of the fiscal plan to reflect an exclusion of prior year carryover of undesignated reserves as a resource and increasing the reserve requirement beginning in FY12 based on pending changes to the County's reserve policies.

copies:
Timothy L. Firestine, Chief Administrative Officer
Jennifer Barrett, Director of Finance
Alex Espinosa, Operating Budget Coordinator

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Balanced Fiscal Plan
Amended as of April 22, 2010

County Executive's Recommended FY11-16 Public Services Program
Tax Supported Fiscal Plan Summary

($ in Millions)

	App. FY10	Est. FY10	% Chg. FY10-11	Rec. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
	5-21-09	4-22-10	Rec/Bud	4-22-10										
Total Resources														
Revenues	3,804.9	3,612.4	-0.3%	3,792.6	2.9%	3,902.9	0.0%	3,901.2	3.6%	4,041.0	4.7%	4,230.1	4.1%	4,401.6
Beginning Reserves Undesignated	115.5	112.0	-57.2%	49.4	184.8%	140.7	6.9%	150.5	0.3%	151.0	5.6%	159.4	7.4%	171.3
Beginning Reserves Designated	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Net Transfers In (Out)	37.2	62.1	7.1%	39.9	-71.2%	11.5	2.4%	11.8	2.6%	12.1	2.8%	12.4	3.0%	12.8
Total Resources Available	3,957.7	3,786.5	-1.9%	3,881.9	4.5%	4,055.1	0.2%	4,063.4	3.5%	4,204.0	4.7%	4,402.0	4.2%	4,585.7
Less Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	295.6	34.4%	486.9	11.3%	541.8	9.6%	593.6	10.2%	654.1	5.1%	687.8	0.6%	691.8
Available to Allocate to Agencies	**3,595.4**	**3,490.9**	**-5.6%**	**3,394.9**	**3.5%**	**3,513.3**	**-1.2%**	**3,469.8**	**2.3%**	**3,549.9**	**4.6%**	**3,714.2**	**4.8%**	**3,893.9**
Agency Uses														
Montgomery County Public Schools (MCPS)	2,020.1	1,989.9	-3.9%	1,940.5	1.3%	1,965.5	-1.5%	1,935.3	2.1%	1,975.8	4.5%	2,065.4	5.1%	2,170.7
Montgomery College (MC)	217.5	214.5	-3.7%	209.6	1.5%	212.8	-1.3%	210.0	2.3%	215.0	4.8%	225.2	5.3%	237.2
MNCPPC (w/o Debt Service)	106.6	103.2	-15.8%	89.8	-0.7%	89.2	-3.6%	85.9	0.0%	85.9	2.5%	88.0	3.1%	90.7
MCG	1,251.2	1,183.3	-7.7%	1,155.0	0.6%	1,162.2	-2.3%	1,136.0	1.4%	1,151.5	3.8%	1,195.7	4.4%	1,248.4
Subtotal Agency Uses	**3,595.4**	**3,490.9**	**-5.6%**	**3,394.9**	**1.0%**	**3,429.6**	**-1.8%**	**3,367.2**	**1.8%**	**3,428.2**	**4.3%**	**3,574.4**	**4.8%**	**3,747.2**
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)				-		53.2		64.8		76.4		87.7		92.1
Montgomery College (MC)				-		1.0		1.2		1.3		1.4		1.5
MNCPPC (w/o Debt Service)				-		4.4		5.1		5.6		6.1		6.4
MCG				-		25.0		31.5		38.4		44.6		46.8
Subtotal Retiree Health Insurance Pre-Funding				-	-	83.6	-	102.6	-	121.7	-	139.8	-	146.8
Subtotal Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	295.6	34.4%	486.9	11.3%	541.8	9.6%	593.6	10.2%	654.1	5.1%	687.8	0.6%	691.8
Total Uses	3,957.7	3,786.5	-1.9%	3,881.9	4.5%	4,055.1	0.2%	4,063.4	3.5%	4,204.0	4.7%	4,402.0	4.2%	4,585.7
(Gap)/Available	-	-		-		-		-		-		-		-

Notes:

1. FY12-16 property tax revenues are at the Charter Limit assuming a tax credit.
2. Revenues reflect Energy Tax and Wireless Telephone Tax increases recommended by the County Executive on April 22, 2010. Energy Tax increase sunsets at the end of FY12.
3. Reserves are at the policy level of 6% of total resources in FY11-16. Revisions to the County's reserve policy are under consideration and have not been included at this time.
4. PAYGO restored to policy level of 10% of planned GO Bond borrowing in FY12-16.
5. Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12.
6. Projected FY12-16 rate of growth of Agency Uses constrained to balance the fiscal plan in FY12-16.

County Executive's Recommended FY11-16 Public Services Program

($ in Millions)

		App. FY10	Est. FY10	% Chg. FY10-11	App. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
		5-21-09	5-27-10	Rec/Bud	5-27-10										
	Total Revenues														
1	Property Tax (less PDs)	1,440.9	1,437.8	0.6%	1,450.1	2.7%	1,489.9	3.0%	1,534.9	3.1%	1,582.6	3.4%	1,635.9	2.4%	1,675.3
2	Income Tax	1,214.8	1,026.3	-12.7%	1,060.7	6.6%	1,130.2	6.2%	1,200.8	5.3%	1,264.8	8.6%	1,373.6	7.9%	1,482.6
3	Transfer/Record. Tax	123.4	114.8	13.4%	139.9	6.0%	148.3	-2.2%	145.1	8.7%	157.8	7.5%	169.7	5.1%	178.3
4	Investment Income	5.9	1.3	-38.2%	3.6	88.3%	6.9	95.1%	13.4	28.0%	17.1	16.8%	20.0	8.8%	21.7
5	Other Taxes	185.3	201.0	69.0%	313.2	2.8%	322.1	-32.8%	216.4	2.9%	222.6	2.8%	228.9	2.7%	235.1
6	Other Revenues	834.6	832.6	-2.8%	811.6	-2.5%	791.7	0.7%	797.2	0.7%	803.1	0.8%	809.6	0.9%	816.6
7	**Total Revenues**	**3,804.9**	**3,613.9**	**-0.7%**	**3,779.2**	**2.9%**	**3,889.1**	**0.5%**	**3,907.8**	**3.6%**	**4,048.0**	**4.7%**	**4,237.6**	**4.1%**	**4,409.6**
8															
9	**Net Transfers In (Out)**	**37.2**	**62.1**	**12.0%**	**41.7**	**-68.0%**	**13.4**	**2.4%**	**13.7**	**2.6%**	**14.0**	**2.8%**	**14.4**	**3.0%**	**14.9**
10	**Total Revenues and Transfers Available**	**3,842.2**	**3,676.0**	**-0.6%**	**3,820.9**	**2.1%**	**3,902.4**	**0.5%**	**3,921.4**	**3.6%**	**4,062.0**	**4.7%**	**4,252.0**	**4.1%**	**4,424.4**
11															
12	**Non-Operating Budget Use of Revenues**														
13	Debt Service	251.5	243.8	5.0%	264.0	11.9%	295.3	11.3%	328.6	8.3%	356.1	6.3%	378.5	4.6%	396.1
14	PAYGO	1.3	0.3	-100.0%	-	n/a	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5
15	CIP Current Revenue	30.7	20.9	-22.6%	23.8	72.1%	40.9	40.3%	57.4	41.0%	81.0	3.9%	84.2	-24.7%	63.4
16	Montgomery College Reserves						4.0	1.9%	4.0	1.8%	4.1	1.8%	4.2	1.9%	4.3
17	MNCPPC Reserves						4.3	3.7%	4.5	3.5%	4.6	3.6%	4.8	2.6%	4.9
18	Contribution to General Fund Undesignated Reserves	(39.3)	(82.3)	372.2%	107.1	-100.4%	(0.4)	1498.5%	5.4	-119.9%	(1.1)	668.3%	6.1	39.3%	8.5
19	Contribution to Revenue Stabilization Reserves	-	(59.3)	n/a	33.9	-28.5%	24.3	-16.0%	20.4	16.4%	23.7	44.9%	34.4	-6.3%	32.2
20	Retiree Health Insurance Pre-Funding	-	-	n/a	-	n/a	83.6	22.7%	102.6	18.6%	121.7	14.9%	139.8	5.0%	146.8
21	Set Aside for other uses (supplemental appropriations)	2.5	60.1	-90.2%	0.3	8916.1%	22.5	0.0%	22.5	0.0%	22.5	-11.3%	20.0	0.0%	20.0
22	**Total Other Uses of Resources**	**246.7**	**183.6**	**73.9%**	**429.1**	**18.2%**	**507.1**	**14.0%**	**578.0**	**11.6%**	**645.2**	**9.2%**	**704.4**	**0.6%**	**708.5**
23	**Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)**	**3,595.4**	**3,492.4**	**-5.7%**	**3,391.8**	**0.1%**	**3,395.3**	**-1.5%**	**3,343.4**	**2.2%**	**3,416.9**	**3.8%**	**3,547.7**	**4.7%**	**3,715.9**
24															
25	**Agency Uses**														
26															
27	Montgomery County Public Schools (MCPS)	2,020.1	1,989.9	-5.0%	1,919.8	0.3%	**1,926.240**	-1.3%	1,901.5	2.4%	1,947.9	4.1%	2,027.1	5.0%	2,127.9
28	Montgomery College (MC)	217.5	214.5	-0.8%	215.8	1.0%	**217.853**	-0.6%	216.5	3.1%	223.3	4.7%	233.8	5.6%	247.0
29	MNCPPC (w/o Debt Service)	106.6	103.2	-13.1%	92.7	-1.4%	**91.331**	-3.2%	88.4	0.6%	88.9	2.2%	90.9	3.2%	93.8
28	MCG	1,251.2	1,184.8	-7.0%	1,163.6	-0.3%	**1,159.870**	-2.0%	1,136.9	1.7%	1,156.8	3.4%	1,195.9	4.3%	1,247.3
29	**Subtotal Agency Uses**	**3,595.4**	**3,492.4**	**-5.7%**	**3,391.8**	**0.1%**	**3,395.3**	**-1.5%**	**3,343.4**	**2.2%**	**3,416.9**	**3.8%**	**3,547.7**	**4.7%**	**3,715.9**
30	**Total Uses**	**3,842.2**	**3,676.0**	**-0.6%**	**3,820.9**	**2.1%**	**3,902.4**	**0.5%**	**3,921.4**	**3.6%**	**4,062.0**	**4.7%**	**4,252.0**	**4.1%**	**4,424.4**
31	**(Gap)/Available**	**0.000**	**0.000**		**0.0000000**		**0.000**		**0.000**		**0.000**		**0.000**		**0.000**

Notes:

1. **FY12-16 property tax revenues are at the Charter Limit assuming a tax credit. All other tax revenues at current rates except as noted below.**
2. **Revenues reflect Energy Tax and Wireless Telephone Tax increases approved by the County Council on May 27, 2010. Energy Tax increase sunsets at the end of FY12.**
3. **PAYGO restored to policy level of 10% of planned GO Bond borrowing in FY12-16. See Row 14 above.**
4. **FY11 Revenues reflect one year redirection of Recordation Tax Premium ($8 M.) and Recordation Tax for MCPS CIP and College IT ($5 M.).**
5. **Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12. See Row 20 above.**
6. **Projected FY12-16 rate of growth of Agency Uses constrained to balance the fiscal plan in FY12-16.**
7. **FY11 Reserves reflect restoration of reserves to current 6% (of tax supported resources) policy level. FY10 and FY11 reserves (see Rows 34-42 below) include all County and Outside Agency tax supported reserves.**
8. **FY12-16 Unrestricted General Fund Reserves are reduced in certain years to reflect compliance with Section 310 of the County Charter on maximum size of the general fund balance (shall not exceed 5% of prior year general fund revenues). Outside Agency reserves are excluded from these amounts and are displayed separately (see Rows 29 and 30 above).**
9. **FY12-16 Reserves reflect proposed new reserve policy including increase in reserve levels and inclusion of capital projects and grant revenues as part of Adjusted Governmental Revenues.**

County Executive's Recommended FY11-16 Public Services Program

($ in Millions)

	App. FY10	Est. FY10	% Chg. FY10-11	Rec. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
Beginning Reserves														
Unrestricted General Fund	115.5	112.0	-74.3%	29.7	360.4%	136.8	-0.3%	136.4	3.9%	141.8	-0.8%	140.7	4.3%	146.8
Revenue Stabilization Fund	119.6	119.6	-49.5%	60.4	56.2%	94.3	25.7%	118.6	17.2%	139.0	17.1%	162.7	21.1%	197.1
Total Reserves	235.2	231.6	-61.7%	90.1	156.5%	231.1	10.3%	255.0	10.1%	280.7	8.1%	303.4	13.3%	343.9
Additions to Reserves														
Unrestricted General Fund	-39.3	-82.3	372.2%	107.1	-100.4%	-0.4	1498.5%	5.4	-119.9%	-1.1	668.3%	6.1	39.3%	8.5
Revenue Stabilization Fund	0.0	-59.3	n/a	33.9	-28.5%	24.3	-16.0%	20.4	16.4%	23.7	44.9%	34.4	-6.3%	32.2
Total Change in Reserves	-39.3	-141.5	-458.4%	141.0	-83.1%	23.9	7.9%	25.8	-12.1%	22.6	78.6%	40.5	0.5%	40.7
Ending Reserves														
Unrestricted General Fund	76.2	29.7	79.5%	136.8	-0.3%	136.4	3.9%	141.8	-0.8%	140.7	4.3%	146.8	5.8%	155.3
Revenue Stabilization Fund	119.6	60.4	-21.2%	94.3	25.7%	118.6	17.2%	139.0	17.1%	162.7	21.1%	197.1	16.3%	229.2
	195.8	90.1	18.0%	231.1	10.3%	255.0	10.1%	280.7	8.1%	303.4	13.3%	343.9	11.8%	384.5
Reserves as a % of Total Tax Supported Revenues Plus CIP & Operating Grant Revenues				6.0%		6.3%		6.9%		7.2%		7.8%		8.4%
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)				-		53.2		64.8		76.4		87.7		92.1
Montgomery College (MC)				-		1.0		1.2		1.3		1.4		1.5
MNCPPC (w/o Debt Service)				-		4.4		5.1		5.6		6.1		6.4
MCG				-		25.0		31.5		38.4		44.6		46.8
Subtotal Retiree Health Insurance Pre-Funding				-	-	83.6	-	102.6	-	121.7	-	139.8	-	146.8

THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

6611 Kenilworth Avenue • Riverdale, Maryland 20737

June 20, 2010

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

The Honorable Nancy Floreen, President
Montgomery County Council
100 Maryland Avenue
Rockville, Maryland 20850

Dear Mr. Leggett and Ms. Floreen:

The Planning Board understands that the MFP Committee and the full Council are reviewing a proposal for a balanced Tax Supported Fiscal Plan for FY 11 – FY 16. We support the sound public policy upon which long-term fiscal planning is based. However, after reviewing the scenarios of the FY11-16 Public Services Program – Tax Supported Fiscal Plan presented to the MFP Committee on June 14, 2010, we have concerns about the growth assumptions assigned for the Maryland-National Capital Park and Planning Commission in comparison to those of the other government entities.

The following table summarizes projected rates of growth for the various governments based on the County Executive's latest recommended FY11-16 fiscal plan assuming the proposed new reserve level:

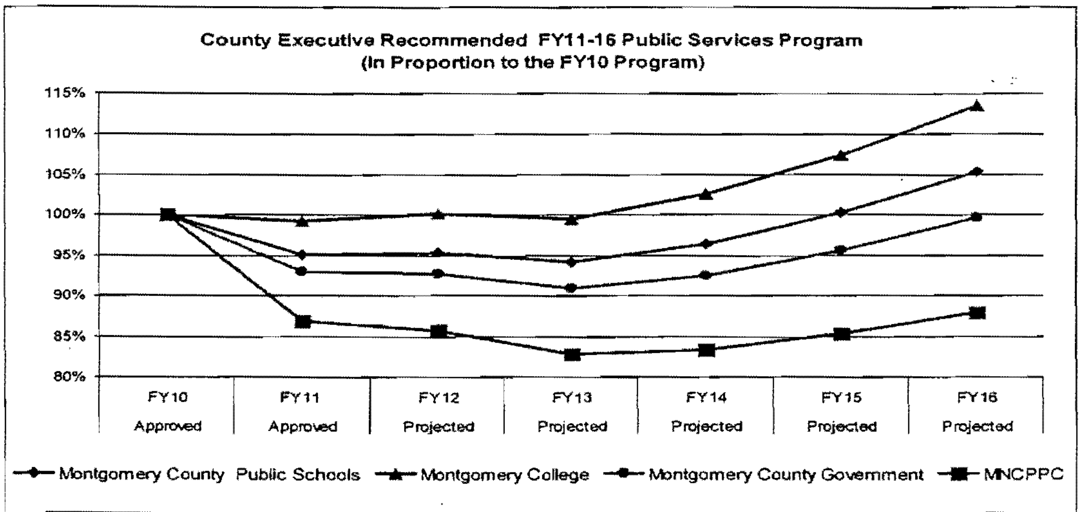
County Executive's Recommended FY11-16 Public Services Program (Source: MFP package circle 18, June 14th 2010)

($ in Millions)	Approved FY10	Approved FY11	Chg (%) FY10-11	Projected FY16	**Chg (%) FY10-16**	**Chg ($) FY10-16**
Montgomery County Public Schools	2,020.1	1,919.8	-5.0%	2,127.9	**5.3%**	**107.8**
Montgomery College	217.5	215.8	-0.8%	247.0	**13.6%**	**29.5**
MNCPPC	**106.6**	**92.7**	**-13.0%**	**93.8**	**-12.0%**	**(12.8)**
Montgomery County Government	1,251.2	1,163.6	-7.0%	1,247.3	**-0.3%**	**(3.9)**
Total	3,595.4	3,391.9		3,716.0		
MNCPPC as a % of Total	**3.0%**	**2.7%**		**2.5%**		

Based on the above assumptions, the Commission will be the only entity that is projected to experience a significant negative growth rate (-12.0%) in the FY10-16 period. All other entities are projected to recover from their FY11 reductions with accumulated growth ranging from flat to 13.6% during this period, but the Commission's budget, as projected in

FY16, would be $12.8 million lower than in its FY10 level. The Commission's share of the total budget of all entities also would drop significantly from 3.0% in FY10 to 2.5% in FY16.

The disparity in growth is shown clearly in the following graph, which utilizes FY10 as the starting point and shows projected spending in future years (as a percent of the FY10 budget). It shows that **M-NCPPC experienced the deepest cut in FY11 and as a result, because future growth rates are predicated on past growth rates, will experience the lowest growth in the coming six years.**



Although the above fiscal plan is only one of the scenarios being reviewed, the Commission's projected growth rate is significantly lower than the other entities in all versions.

In communications with the OMB, we learned that the OMB's projections were based on a 10-year average growth (FY02-FY11 Adopted Budgets) of individual agencies with further reductions applied in proportion to each agency's FY11 share of total spending. We have great concern about these assumptions, and the capacity of the Commission to deliver an adequate level of service if the assumptions become guidelines for future budget growth. We offer the following points to be considered when reviewing the fiscal plan:

- In FY11, the Commission's budget was cut by 17.3% from its proposed level, the highest reduction among all government entities. Factoring in this significant hit, the future growth assumptions appear to be based on the premise that even after such a significant restructuring, the Commission will be positioned to again absorb more reductions and/or limit expenditure growth to a greater extent than other entities. We consider this premise illogical.

- The Commission has mandated and non-discretionary expenditures. The minor growth in the base scenario and negative growth in the balanced scenario will not be sufficient to cover even mandated cost increases. For example, in FY11, the Commission had to temporarily relax the 80% to 120% market value corridor requirement to avoid a 100% increase in pension cost. Based on the actuary's preliminary 5- year projection, the

Commission's retirement contribution in Montgomery County will need to increase by approximately $6 million between FY11 budget and FY12, and by $15 million in total between FY11 and FY16. According to the County Executive's recommended scenario, the total Commission expenditures are projected to decrease from FY11 to FY12 by $1.4 million, and the total projected expenditure increase during FY11-16 is $1.1 million, far less than requirements for the mandated pension contribution. This is before we factor in potential COLA and merit increases pending upon union negotiations and other obligations in the six year period.

- During the 10 years between FY01 and FY11, the Commission's budget increased by 35%, the lowest among all agencies. The budgets of the Montgomery County Public Schools and Community College increased by 73% and 80% respectively, and the County Government's budget increased by 49% in the same period. We would suggest that in fairness, an entity that has successfully kept its expenditure growth under control, has continually increased its efficiency, has developed programs to generate additional revenues, and has met every savings plan requested should not be penalized by projecting such significantly lower growth in future years.

Fiscal Plans are a tremendously effective tool, but the assumptions upon which they are based are critical. While we fully understand the County's fiscal condition and outlook, recognize the importance of sharing in responsible financial management and know that fiscal plans are projections using information at a point in time that will change in response to various economic factors and service needs, we are concerned about the assumptions upon which the plans under review are based. We offer an alternative approach which would be to either use the same growth rate for each agency or use the FY01-10 average growth (rather than FY02-FY11 average growth) of individual agencies as the basic assumption for FY12-16 projections. This rate of growth could be adjusted to reflect mandated costs, and then a prorata reduction for all agencies could be made to achieve the balanced model.

We know that the County Executive recommends and the County Council sets funding each year based on an individualized assessments of each agency's needs and the County's resources. We look to the County Executive's recommendations and the County Council's budget decisions to fund the Commission's crucial needs on a year-by-year basis, rather than following a pre-set formula that may place undue weight on past budget decisions. Thank you for considering our concerns.

Sincerely,

Marye Wells-Harley

Marye Wells-Harley
Acting Chair

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