AGENDA ITEM #13
April 17, 2012

MEMORANDUM

April 13, 2012

TO: County Council

FROM: Stephen B. Farber, Council Staff Director SBF

SUBJECT: Overview of the FY13 Operating Budget

The Council is scheduled to make final decisions on the County's FY13 operating budget on **May 17** and to adopt implementing resolutions on **May 24**. This overview outlines the core budget issues that the Council will address and resolve over the next five weeks.

1. Budget Framework

The Executive's recommended overall FY13 tax supported operating budget (including debt service) is **$3.974 billion**, up **$189 million (5.0%)** from the Council-approved FY12 budget. The total recommended budget (including grants and enterprise funds) is **$4.566 billion**, up **$199 million (4.6%)** from the FY12 approved budget.

To complete action on the State budget – unless the so-called "doomsday" budget is to go into effect – the General Assembly will have to meet in special session. As of this writing, the date for such a session has not been set. Decisions made there would probably require important adjustments to the Executive's recommended budget. See the discussion starting on page 9.

After three years of grueling County budgets shaped by the Great Recession, this recommended budget strikes a different tone. It makes limited strategic restorations to County services that suffered deep cuts in FY10-12, but it bears no resemblance to the expansive budgets of earlier years. **There are two bellwethers of this budget, neither of which has been possible in recent years:** The Executive recommends full funding of the requests of the three outside tax supported agencies (MCPS, Montgomery College, and M-NCPPC), and he has reached agreements with the three County employee unions (UFCW Local 1994/MCGEO, FOP Lodge 35, and IAFF Local 1664).

To fund the budget, given that both economic and fiscal recovery are still proceeding slowly, the Executive proposes two key steps. First, he recommends extension of the **fuel/energy tax increase** approved for FY11-12 only and scheduled to expire in FY13: **155%** for residential rates and **60%** for non-residential rates. Retaining the increase would yield **$114.0 million** in FY13. Second, he recommends a large increase in the agencies' tax supported pre-funding for **retiree health benefits (OPEB)**, $61.1 million, but this is **$35.9 million less** than projected in the Fiscal Plan. **These two proposals combined produce about $150 million in resources to undergird the budget.** Both are reviewed below.

For further detail on the FY13 recommended budget and the agencies' requests, see the Executive's transmittal letter on ©1-14. See also the transmittal letters from Board of Education President Brandman for MCPS on ©15-17, Board Chair Kaufman and President Pollard for the College on ©18-24, Chair Carrier for M-NCPPC on ©25-34, and Chair Moore for WSSC on ©35-40. See also the revenue and expenditure charts on ©41-43, the Spending Affordability table on ©44, the Budget Summary table on ©45, the Revenue Summary table on ©46, the Fiscal Plan Summary on ©47-48, and the table on how the FY13 budget gap was closed on ©49.

2. Economic Context

It is now 3½ years since the world's financial system seemed at risk of plummeting into a second Great Depression. Extraordinary fiscal and monetary measures taken since then by U.S. and foreign policymakers have helped restore relative stability, but recovery has been historically slow.

The March national unemployment rate was 8.2%, below its peak of 10.1% in October 2009 but well above its pre-recession level of 4.7% in November 2007.[1] Payroll employment rose by 120,000, about half the increase of the last three months (125,000 new jobs are needed just to keep pace with labor force growth). There were 12.7 million unemployed workers, 42.5% of them for six months or more. The rate of "total" unemployment, which includes underemployed and discouraged workers, was **14.5%**.

Other measures are mixed. Jobless claims have trended down. The Standard & Poor's 500 stock index, now up 108% from its March 2009 low, is still 11% below its October 2007 high. Manufacturing, and the auto industry in particular, shows increasing strength, but data on housing and capital investment are uneven. Other factors of concern are soaring gasoline prices, stiff economic headwinds in the euro zone, foreign policy hotspots, and long-deferred decisions on massive federal deficits that will come due in January 2013. The economy and the financial system cannot say afloat forever on a sea of red ink.

The County's recovery is also progressing slowly. The County's February unemployment rate was **5.2%**, below its peak of 6.2% in January 2010 but more than double its low of 2.4% in April 2007.[2] Resident employment, which fell 3.8% in 2009-10, rose 0.9% in 2011. Home prices rose 2.3%; home sales fell 8.8%. While the County's longer-term economic prospects are bright, the short term remains challenging. In February the Finance Department's Business Advisory Panel expressed mixed views on current prospects for residential and commercial real estate, construction, and other sectors.[3] Federal deficit reduction efforts could magnify recent declines in federal employment and procurement.

For the Finance Department's economic update summary, see ©50. For the full update, see http://www.montgomerycountymd.gov/content/finance/data/economic/Presentation_of_Economic_Indicators_CountyCouncil_041712.pdf.

3. Revenue Issues, Including Fuel/Energy Tax and Property Tax

Revenues are projected to rise **$135.1 million** (3.5%) from the FY12 approved budget. The largest increases are in income tax revenue (11.2%) and intergovernmental aid (4.2%). Property tax revenue is unchanged. Transfer/recordation tax revenue (-9.5%) and other tax revenue (-3.0%) are down.

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[1] State rates in February ranged from 3.1% in North Dakota to 12.3% in Nevada. Maryland's rate was 6.5%. Virginia's was 5.7%.

[2] The current 5.2% County unemployment rate represents more than 26,000 workers (not counting underemployed and discouraged workers) in a labor force of about 522,000. Until January 2009 the County's rate had not reached even 4% at any time in at least 20 years, including recession years.

[3] See http://www.montgomerycountymd.gov/content/finance/data/economic/BAP_Report_to_Council_FY2012.pdf for the February 16, 2012 report of the Business Advisory Panel.

Fuel/Energy Tax

In a March 15 memo the Executive said: "The **fuel/energy tax** is a broad-based revenue source that includes federal institutions based in the County. Not only is it an important component of the balanced spending plan I transmitted to the Council, it also provides a much needed ongoing source of funding to meet the fiscal challenges ahead as the General Assembly completes its work to balance the State's operating budget and to offset continued weakness in other County revenues."[4]

In FY03 receipts from the energy tax were **$24.4 million**. The tax was tripled in FY04 and has risen steadily since then. Two years ago, when governments nationwide faced a severe revenue failure, the Executive proposed a 39.6% rate increase in his March 15 budget. On March 25 he revised the increase to 63.7%. On April 22 he raised the increase to 100%. Because this increase would have a "significant impact...on County residents and businesses," he recommended a **sunset in FY13**.

In the Council's modified plan, as noted above, residential rates for FY11-12 rose **155%** while non-residential rates rose **60%**.[5] The average tax in FY12 was $247 for 364,880 residential users and $4,391 for 34,858 non-residential users (for whom the **actual** tax, of course, varies widely). Total FY12 receipts from the tax, estimated at $243.1 million, were projected to fall to $131.2 million in FY13 with the sunset. If the increase is retained, estimated FY13 receipts would be **$245.2 million**. As the Fiscal Plan on ©47 shows, **the Executive assumes that the sunset will not occur in FY14-18 either**.

Property Tax

The Executive recommends a different approach to the **property tax**. Because of declining values, the County's assessable base for real property fell 3.6% in FY12 and another 2.9% in FY13, from $167.8 billion in FY11 to $157.1 billion in FY13. (In previous recessions there has never been a year-over-year decline, much less a two-year decline.) Instead of setting property tax revenue at the **Charter limit**,[6] the Executive recommends the FY12 revenue level, $1.462 billion, **$26.0 million below** the Charter limit. He also recommends retaining the **income tax offset credit**[7] at $692. This would require a **4.5 cent rate increase.** The FY12 increase was 4.2 cents.

Since each cent on the property tax yields $16.1 million, setting property tax revenue at the Charter limit would require a **6.1 cent rate increase** if the credit remains at $692. Keeping the rate the same would require reducing the credit to $404 at the Executive's proposed revenue level and to $297 at

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[4] The tax is imposed on providers of electricity, fuel oil, gas, steam, or liquefied petroleum gas. It is based on energy consumption, not on changes in the price of the energy product. Currently about 37% of revenue is from residential users and 63% is from non-residential users.

[5] To help ensure a balanced close to the FY10 budget, which was under great pressure, non-residential rates between May 20 and June 30, 2010 rose 118% and residential rates rose 323%.

[6] Charter §305 limits the growth in real property tax revenue to the rate of inflation, excluding new construction, development districts, and other minor exceptions. Overriding the limit requires the vote of all nine Councilmembers; until 2008 seven votes were required. In the limit's 21-year history, the Council has exceeded it four times: in FY03-05 by $4.3 million, $29.2 million, and $37.3 million, and in FY09 by $117.5 million.

[7] State and County laws authorize the Council each year by resolution to grant a property tax credit to owner-occupied principal residences "to offset in whole or in part increases in the county...income tax revenues resulting from a county income tax rate in excess of 2.6 percent." A key feature of the income tax offset credit is that it produces a smaller revenue loss than a rate cut. This is because a rate cut applies not only to existing property (which is subject to the Charter limit) but also to new construction and personal property (which are not). Also, this credit focuses the property tax relief on owner-occupied principal residences (as distinct from rental and non-residential property).

the Charter limit level. **Note that foregoing $26.0 million in FY13 revenue means reducing the base for calculating the Charter limit in future years as well.**

Fees and Fines

As usual, the recommended budget includes selected increases in **fees and fines**. The list on ©51 totals $11.6 million. The increases are for College tuition ($3.1 million), the Water Quality Protection charge ($5.5 million), parking fees ($2.8 million), and Ride On monthly passes and fares ($0.6 million). Solid waste collection fee revenue would decline by $337,440, reflecting a decrease in the single family charge per household from $70 to $66. Water and sewer rates would rise by 7.5%.

"Tax Room"

The County continues to have very limited **"tax room."** The income tax is at the maximum rate permitted by the State (3.2%). Nine votes are required to exceed the Charter limit on property tax revenue. Raising the already high levels of the energy and cell phone taxes would be difficult. Recordation taxes are also at high levels. Other revenue sources are small.

During the recession of the early 1990s the Council raised taxes on income, energy, and telephones, but as fiscal conditions improved later in the decade, the Council reduced those taxes (and also abolished the beverage container tax). The Council was then able to use this "tax room" to counter the sharp downturn in the early years of the last decade. Similar "tax room" is not available now. Pressure will grow to exceed the Charter limit on property tax revenue, but the nine-vote requirement will present a high bar.

4. Recommended Tax Supported Allocations to Departments and Agencies

As noted above, the Executive recommends full funding of the agencies' FY13 requests: up $50.7 million or 2.6% for MCPS,[8] up $0.4 million or 0.2% for the College, and up $4.5 million or 4.7% for M-NCPPC. Compared to some pre-recession requests, these FY13 requests are restrained.

County Government (excluding retiree health benefits pre-funding) is up $64.7 million or 5.5%. Of this amount, $38.8 million is for Public Safety, while $26.9 million is for fixed costs, compensation, and non-Public safety, including initiatives for Positive Youth Development and Seniors. Increases for individual departments are targeted and, in most cases, moderate. See the list on ©52. For example, the Libraries budget, down 29.6% in FY12 compared to FY09, is up 9.5%. To reach its FY09 level – not including the impact of inflation – the Libraries budget would have to rise 42.0%.

The severe fiscal conditions of FY10-12 required an unprecedented series of actions to address the County's structural budget challenge.[9] As the graph on ©53 shows, department and agency budgets were severely constrained, including sharp reductions in such core functions as Police, Fire and Rescue, and HHS. The FY13 recommended budget restores only some of those reductions.

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[8] Regarding his first proposed budget, Superintendent Starr said: "The continuing weakness of the economy makes it impossible for funding agencies at all levels to provide the full amount that is desirable without unacceptable reductions to other essential services. In addition, I strongly believe that we must assess how effectively we use existing resources before we can responsibly ask for additional taxpayer contributions."

[9] In 2010 the Council asked the Office of Legislative Oversight to assess the fiscal challenge and ways to address it. The links to OLO Report 2011-2, *Achieving a Structurally Balanced Budget in Montgomery County*, are:
http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/2011-2.pdf
http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/2011-2Part-II.pdf

Another telling display is the OMB table below. It shows that the recommended FY13 budget for County Government, compared with the FY08 approved budget (excluding pre-funding for retiree health benefits), is actually **down 0.6%** over this five-year period, not including the impact of inflation. During this period the budgets for MCPS, the College, and M-NCPPC were up 9.0%, 11.0%, and 1.7%, respectively. In the three-year period of FY05-07 the County Government budget rose 41.1%. See ©13.

FY08 to FY13 Operating Budget Agency Rate of Growth*

Tax Supported Budgets	FY08 Approved*	FY12 Approved*	FY13 Recommended Budget*	FY12-13 $ Change	FY12-13 % Change	FY08-13 % Change
Montgomery County Government	$1,248,525,220	$1,175,833,680	$1,240,489,229	$64,655,549	5.5%	-0.6%
Montgomery County Public Schools	$1,836,100,947	$1,950,909,291	$2,001,643,842	$50,734,551	2.6%	9.0%
Montgomery College	$196,811,472	$218,004,776	$218,386,599	$381,823	0.2%	11.0%
MD-National Capital Park & Planning Commission	$101,892,900	$99,017,030	$103,579,700	$4,562,670	4.6%	1.7%
Subtotal Tax Supported Agency Expenditures	**$3,383,330,539**	**$3,443,764,777**	**$3,564,099,370**	**$120,334,593**	**3.5%**	**5.3%**
Debt Service	**$239,480,290**	**$291,574,070**	**$298,792,040**	**$7,217,970**	**2.5%**	**24.8%**
Total Tax Supported Expenditures	**$3,622,810,829**	**$3,735,338,847**	**$3,862,891,410**	**$127,552,563**	**3.4%**	**6.6%**

* Excluding funds for pre-funding retiree health insurance. The FY13 County Government tax supported appropriation includes a total contribution of $107.4 million, including contributions of $61.9 million on behalf of Montgomery County Public Schools and $1.9 million on behalf of Montgomery College. The Park & Planning Commission tax supported appropriation includes a contribution of $3,364,500

5. Workforce Changes

Workforce changes are limited. MCPS is up a net of 229.5 FTEs to 20,841.7. The College has no change. M-NCPPC is up a net of 2.2 FTEs. County Government is up 92 positions. For example:

<u>**Workforce Changes**</u>	**Position <u>Change</u>**
• Transit - change is due to new Ride On service in Germantown connecting Richter Farm, Dawson Farm and Soccerplex to Germantown Transit Center; in Potomac and PARC Potomac; and in the Gaithersburg - Watkins Mill extension.	4.0
• Recreation - Change is due to a number of program additions and enhancements: Student/Teen Employment Program, weekend/evening teen programs, Excel Beyond the Bell, and White Oak Community Recreation Center Senior Programs; restoration of staffing for the Scotland Alternate Program (was closed for renovation).	5.0
• Public Libraries - Changes include an increase in Sunday service hours from four to five and the number of open Sundays; and the addition of eight hours per week to Bethesda, Rockville, Germantown, Quince Orchard, and Wheaton branches.	15.0
• Police - increased number of officers in the Office of the Chief, as well as in Field, Management, Investigative, and Animal Services. Increased number of employees to accommodate the unification of the 911 call taking function at the ECC. Elimination of overnight front desk positions at the 2nd and 6th Districts and reduction in the number of County building security personnel.	58.0

The recommended budget refers to the elimination of **1,254** County Government positions in FY10-12. This is the gross loss; the net loss of FTEs is **998 (9.8%)**. MCPS regularly refers to the elimination of **1,300** positions in FY10-12. This too is a gross number. The net loss of FTEs is **160 (0.7%)**. See the chart on ©54.

6. Salary and Benefits, Including Group Insurance, Retirement, and OPEB

Because of the County's severe fiscal challenges, there have been no general wage adjustments (GWAs, or COLAs) for agency employees in the past three years, FY10-12, and for the past two years there have been no service increments or step increases either. In the deep recession of the early 1990s, County Government employees had no GWAs for three consecutive years, but service increments were consistently funded. **The total pay freeze in FY11-12 was unprecedented for County agencies.**

Salaries

The Executive's view now is that **"the economic and fiscal picture for the County remains too uncertain to add significant dollars to our wage base."** He recommends that the outside agencies provide "one-time adjustments that do not add to our base budget," like the $2,000 lump sum payment for most employees that he has negotiated with the three County employee unions.

MCPS is not taking this approach. The MCPS budget provides step increases; negotiations on additional increases, including a possible COLA, are still in progress. The College provided a lump sum payment in December 2011 from FY12 funds but plans no pay increase in FY13. (A reopener with employee organizations would be triggered if County Government or MCPS "negotiate and implement more than a 2% increase or add to their salary base.") M-NCPPC is still in negotiations. WSSC plans to provide a 2% GWA, merit increases, and flexible worker pay.

Group Insurance and Retirement Benefits

In the last year some agencies have made **major structural changes to group insurance and retirement benefits for active employees**. See the tables on ©53-55 for a summary of the Council's May 2011 decisions regarding County Government employees and its recommendations regarding MCPS employees.[10]

On **group insurance**, MCPS declined to make the changes recommended by the Council, as described below. The College took additional important steps to reduce group insurance costs (see ©21-22). M-NCPPC and WSSC made no changes. County Government, MCPS, and the College all acted to raise eligibility requirements for **retiree health benefits**.

On **retirement**, the General Assembly required MCPS employees in the State's defined benefit plan to contribute an additional 2% of salary and made further changes for future pension COLAs and newly hired employees (this was also the case for College employees in the State's defined benefit plan). MCPS applied these actions to other school employees as well. Employees in County Government's defined benefit plan were also required to contribute an additional 2% of salary, 1% in FY12 and another 1% in FY13, and future pension COLAs were also restricted. M-NCPPC and WSSC made no retirement changes.

[10] See http://montgomerycountymd.granicus.com/MetaViewer.php?view_id=6&clip_id=1341&meta_id=21322 for full details on the Council's actions and a comparison with the Executive's recommendations.

Equity Among County Agency Employees

It is important to note that the agencies' histories on salary and benefit issues are not identical, nor is the design of their benefit plans. That said, their differing approaches in FY11, FY12, and FY13 raise questions of equity among County agency employees. For example:

• **Furloughs**. In FY11 all County Government employees, including public safety employees, had furloughs of 3, 5, or 8 days depending on their salary level. (Each furlough day is nearly 0.4% of annual salary.) College employees had up to 8 days; M-NCPPC employees had up to 10 days. (Planning staff had another 5 days in FY12.) **MCPS declined to have any furloughs.**[11]

• **Salaries.** As noted above, the Executive has called for **"parity"** in the agencies' FY13 approach to salaries: lump sum payments rather than any addition to base salary. The College has followed this approach. M-NCPPC is still in negotiations on both salary and benefit issues. **MCPS and WSSC plan additions to base salary.**

• **Group insurance**. The premium share for County Government employees not enrolled in HMOs rose on January 1, 2012 from 20% (for some employees, 24%) to 25%. College employees have paid 25% for group insurance for more than a decade. M-NCPPC employees currently pay 15%. WSSC employees pay 20% (for HMOs) or 22% (for other providers). MCPS employees pay 5% (for HMOs) or 10% (for other providers). **MCPS declined to adopt the Council's suggestion to raise these shares to 10% and 15%, respectively, and has announced no change for FY13.**

Another key area is **retirement**. All non-public safety County Government employees hired since October 1, 1994 have been enrolled in a defined contribution plan. (A cash balance option was added in 2009.) Nearly half of College employees and all MCPS, M-NCCPC, and WSSC employees are enrolled in far more costly defined benefit plans.

The combined effect of these differences among agencies is that the total compensation packages of comparable employees have varied considerably and will continue to vary in FY13. These differences have large budget impacts, particularly because salaries and benefits account for four-fifths of the agencies' total spending and 90% of the $2 billion MCPS budget. For example:

• Raising base salaries for MCPS employees in FY13 will increase the cost of all future salary increases, compared to the lump sum approach being taken for County Government employees.

• If MCPS were to use for its active employees the same premium share of group insurance that County Government uses, MCPS would save nearly **$40 million** on an annualized basis, more than the combined FY12 General Fund budgets for Transportation and Housing.[12]

• Defined benefit pension costs for MCPS employees will grow substantially if the State's pension shift plan is finally approved. See pages 9-10. In addition, MCPS is the only school system with a county-funded supplement to the State pension benefit. Funding the supplement alone will cost nearly **$30 million** in FY13, more than the entire FY12 budget for Libraries.

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[11] In FY11 MCPS increased average class size by one to save $16 million. MCPS could have achieved the same savings with just over two furlough days.

[12] At the Council's April 10 public hearing, MCEA president Doug Prouty testified that "the cost of health care for the average MCPS family enrolled in the most popular plan is three quarters of that of the average County Government family." This statement does not present an accurate picture of actual costs. See the memo on ©58.

Pre-funding Retiree Health Benefits (OPEB)

Another key FY13 compensation issue is **pre-funding retiree health benefits (OPEB, or Other Post Employment Benefits).** The Executive recommends raising the tax supported contribution for the four agencies from **$49.6 million** in FY12 to **$110.7 million** in FY13. This large $61.1 million increase is still $35.9 million less than the amount projected in the FY12-17 Fiscal plan. The Executive plans to allocate this latter amount to other budget priorities. He proposes to increase the OPEB contribution to $142.8 million in FY14 and to reach the Annual Required Contribution (ARC), now projected at $171.9 million, in FY15.

These OPEB contributions are essential if agencies are to meet their retiree health benefits obligations in future years, when the current annual pay-as-you-go approach will no longer be sufficient. The Council and Executive agreed on a five-year OPEB phase-in schedule in 2007 and a revised eight-year schedule in 2008, but the annual contributions became a casualty of the deep recession, as they did for state and local governments nationwide. **In FY11, when the original five-year schedule had called for a $149 million tax supported contribution, there was none.**

FY12 budget pressures were equally challenging, but the Council and Executive agreed that the phase-in of OPEB contributions had to resume and provided a $49.6 million contribution. Last year the Council also created a **consolidated retiree health benefits trust** on behalf of County Government, MCPS, and the College in order to make the OPEB funding process more transparent and coherent.

The rating agencies have made clear their expectation that AAA jurisdictions must address this obligation, which for County agencies currently has a funded level of just 3%, according to an OLO memorandum report scheduled for release in early May. The recommended FY13 OPEB contribution extends the return toward required funding.

7. FY13-18 Fiscal Plan

The summary of the Executive's recommended FY13-18 Fiscal Plan is on ©47-48. Each edition of the Fiscal Plan is a snapshot in time that reflects the most recent available data. The assumptions that underlie it are subject to legitimate debate.

The most important changes in this edition are driven by two key proposals in the recommended budget. Extending the energy tax increase, rather than sunsetting it in FY13 as the last edition assumed, provides additional revenue of $114.6 million in FY13 and **$712.0 million** over the six-year period. Setting property tax revenue in FY13 at $26.0 million below the Charter limit decreases revenue by **$175.8 million** over the six-year period.

Given these and other assumptions, row 33 on ©47 shows the "agency uses" (the amount available for the four tax supported agencies) in FY14: **0.3% less than in FY13.** Agency uses increase in FY15-18, but by small amounts: 2.7%, 3.4%, 3.1%, and 3.1%, respectively.

These increases are well below the pre-recession historical growth rates to which the agencies, the workforce, and the community have become accustomed. **Note also that this projection does not reflect the impact of the State's pending decision to shift teacher pension costs to the counties.** What is clear for the County, and for other governments, is that until employment rebounds more strongly, along with consumer spending and housing, governmental revenues will remain subpar and budgets will remain under pressure.

8. Reserve and Selected Fiscal Policies, and the County's AAA Bond Rating

The Council adopted a comprehensive resolution on reserve and selected fiscal policies in June 2010 and updated it in November 2011.[13] The resolution addresses building reserve levels to 10% of Adjusted Governmental Revenues by 2020, maintaining PAYGO at 10% of annual general obligation bond issuance, and other goals. **The FY13 recommended budget fully meets the resolution's requirements.**

The Executive and Council developed these policies in the spring of 2010, when the severe recession-related revenue failure experienced by governments nationwide required decisive action. In March 2010 Moody's Investors Service placed the County on a **watchlist for a possible ratings downgrade**, citing the County's need to "stabilize and replenish reserve levels and to restore financial flexibility." On April 22, 2010 the Executive proposed a series of large tax increases and spending cuts totaling nearly $200 million, above and beyond his recommended March 15 budget.

The Council's final action on the FY11 budget in May 2010 closed a budget gap of nearly $1 billion; the budget was the first in at least 40 years to show a decline from the previous year's budget. In June the Council approved the multi-year policy on expanded reserves. All three rating agencies confirmed the County's AAA bond rating. They did so again after the Council made equally hard decisions on the FY12 budget in May 2011. See the Council's FY12 Fiscal Protection Package on ©59.

On August 4, 2011 Moody's placed on **negative outlook** five AAA-rated states and 161 AAA-rated local governments (including the County) that have strong links to federal employment and procurement. On December 7 Moody's restored two of the states (South Carolina and Tennessee) to stable outlook but retained the other three (Maryland, New Mexico, and Virginia) on negative outlook. Moody's also restored 119 local governments to stable outlook but retained the others (including the County) on negative outlook. Virginia jurisdictions in this region, including Fairfax, Arlington, and Prince William counties, remained on negative outlook as well. That status is likely to stay in effect until the long-deferred problem of massive federal deficits, including the $1.2 trillion automatic sequester of federal funds scheduled to start in January 2013, is addressed.

For decades, Councils and Executives have given top priority to maintaining the AAA bond rating, even in the face of extreme fiscal pressures. The County has held a AAA rating since 1973 and is currently one of 38 local governments nationwide with a AAA rating from all three rating agencies. **The Finance Department memo on ©60-61 outlines in concrete terms the dollars-and-cents importance of maintaining the AAA rating, quite apart from its symbolic importance.**

9. State Decisions: Pension Shift and Changes to the Maintenance of Effort Law

The March 12 letter on ©62-64 from County Executive Leggett and Council President Berliner to the County delegation's leaders addresses two issues of great importance: shifting teacher pension costs to the counties and radical changes to the State's maintenance of effort law.

[13] See http://www.montgomerycountymd.gov/content/council/pdf/res/2011/20111129_17-312.pdf.

Pension Shift

The letter notes that the pension shift is not justified on either policy or fiscal grounds. The Council's February 23 statement on ©65 confirms this point, as does information on the web site of the statewide coalition on this issue, www.stoptheshiftmd.com.[14]

As noted above, to complete action on the State budget – unless the so-called **"doomsday"** budget is to go into effect – the General Assembly will have to meet in special session. As of this writing, the date for such a session has not been set.

See ©66 for a list of "doomsday" budget reductions contingent on the continued failure to enact SB 152 (related to the pension shift) and SB 523 (the revenue measure). See ©67 for the corrected local aid reductions list from the Governor's office. (The corrections relate to a 10% reduction to community colleges and reductions to libraries and mandated school aid that cannot go into effect without statutory changes; see the shaded area.)

For the County, the reductions would be $32.8 million for the Geographic Cost of Education Index (GCEI) and $3.6 million in College aid, for a total of **$36.4 million**. As noted above, neither the pension shift nor the projected State income tax changes would occur if the "doomsday" budget goes into effect.

The conference committee plan on pension shift approved before Sine Die was somewhat less onerous than the Governor's proposal, but **its fiscal impact over time will be large**. The shift applies to retirement costs of school boards (but not of libraries and community colleges, as in the Governor's proposal). It involves the **"normal"** teacher pension cost, which reflects the current cost of retirement for active employees and excludes unfunded accrued liabilities. See the summary and tables on ©68-71.

During the four-year phase-in period, FY13-16, the regular required maintenance of effort costs paid by counties will be increased by additional pension costs. **For the County, the additional cost in FY13 will be $27.2 million, rising to $44.4 million in FY16.** In FY17 the normal cost will be rolled into the maintenance of effort per-pupil cost, thus raising it. Going forward, the MCPS budget will absorb the normal cost impact of salary improvements and workforce growth and whatever actions the State takes on benefit levels and plan assumptions.

The County's FY13 cost is supposed to be "offset" by the following: $10.2 million in additional County income tax revenue resulting from the conference committee's plan to limit State income tax exemptions (see the plan on ©72), $11.0 million from the indemnity mortgage recordation tax,[15] and $10.5 million from a waiver of the scheduled repayment to the local income tax reserve fund.

The Executive would normally transmit his recommended FY13 budget adjustments later this month. If a special session occurs, the adjustments will include the impact on County revenues

[14] See also http://montgomerycountymd.granicus.com/MetaViewer.php?view_id=6&clip_id=2422&meta_id=30461 for the Council's February 28 discussion of the pension shift proposal.

[15] DLS describes this provision as follows: It "applies the recordation tax to an 'indemnity mortgage' in the same manner as if the guarantor were primarily liable for the guaranteed loan, unless the recordation tax is paid on another instrument of writing that secures the payment of the guaranteed loan or the indemnity mortgage secures a guarantee of repayment of a loan for less than $1.0 million." Revenue from this provision cannot be precisely estimated.

The Executive would normally transmit his recommended FY13 budget adjustments later this month. If a special session occurs, the adjustments will include the impact on County revenues and expenditures of whatever final decisions the General Assembly makes on the pension shift, the income tax, and other matters.

The Executive has just indicated that to help address the cost of the pension shift, if it occurs, and the impact of other State actions, he recommends legislation to establish an Emergency Medical Services Reimbursement Program. See his April 12 memo on ©73-75. In 2010 the Council approved legislation to establish an EMS charge, also known as an ambulance fee. The bill was petitioned to referendum and was rejected by a margin of 54-46%.

Maintenance of Effort Changes

The March 12 letter also outlines the flaws and overreach of Senate Bill 848/House Bill 1412, the new **maintenance of effort law**. See the summary on ©76-77. **Note that significantly, the law confirms the County's rebasing of the MCPS budget in FY12 and waives the $26 million penalty that was scheduled to be imposed in FY13.**

The law includes even more stringent conditions for obtaining a waiver from the State Board of Education, and to meet funding requirements it authorizes intercepting counties' income tax revenue and overriding voter-approved limits on county property taxes. **The law effectively guarantees funding protection for school systems regardless of the state of the economy or the impact on other services and taxpayers.**

Confronted with this risk, counties may conclude that they cannot exceed the annual maintenance of effort requirement, and thus lock in a higher future spending requirement, even if they have done so in the past and would otherwise do so in the future. In FY01-09 the County's support for MCPS exceeded the maintenance of effort requirement by **$576.8 million**. Because of the deep recession, the County could not meet the requirement in FY10-12 (although the MCPS budget did rise slightly because of the increase in State aid, while most County Government budgets fell sharply).

10. Approach for Committee and Council Budget Review

The Council's five public hearings on the budget were held on April 10-12. County residents and stakeholders are also communicating their views via email, regular mail, and the Council's budget hotline. Updates on Committee and Council budget action will be available on the Council's web site.

Committee worksessions will begin on April 16; Council worksessions will begin on May 7. Revenue day and reconciliation day are scheduled for May 16 and 17. Our budget tracking system, which records all Committee and Council actions, will prepare regular updates through May 24, the date for final budget approval.

Council President Berliner has suggested how our analysts and Committees can most productively approach individual department and agency budgets. See his April 9 memo on ©78.

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OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

March 15, 2012

TO: Roger Berliner, President, Montgomery County Council

FROM: Isiah Leggett, County Executive Isiah Leggett

SUBJECT: FY13 Operating Budget and FY13-18 Public Services Program

In accordance with the County Charter, I am pleased to transmit to you my Recommended FY13 Operating Budget and FY13-18 Public Services Program.

This budget reflects the concerns and policy issues that I heard County residents express during the many Town Hall Meetings, Budget Forums, On-Line Chats, and other community meetings I have held over the past year to better understand the hopes, expectations, and needs of the people of our County. I am also grateful to the County's advisory boards and commissions for their input during my deliberations.

This budget supports my priority policy objectives:

- Children Prepared to Live and Learn
- Affordable Housing in an Inclusive Community
- Safe Streets and Secure Neighborhoods
- A Responsive and Accountable County Government
- Healthy and Sustainable Communities
- An Effective and Efficient Transportation Network
- A Strong and Vibrant Economy
- Vital Living for All of Our Residents

For the past several years, the County has experienced the worst economic downturn since the Great Depression. This has resulted in service cuts for our residents, wage freezes and furloughs for all County employees, and significant reductions in County staff. As we struggled to adjust to the new economic realities, I stated that we would emerge from this recession a stronger, though leaner organization. In fact, this is occurring. As the details of the budget will show, County employees continue to provide our residents with an exceptional level of service. Despite the downturn in the economy and reductions in staff, many measures indicate that employee productivity is continuing to increase. These productivity improvements have occurred while we have reduced salaries and benefits and placed larger workloads on remaining staff as total staffing numbers have declined.

Despite these successes, the necessary steps we have taken to address the budget gaps have resulted in significant public service reductions which have negatively affected the quality of life that our taxpayers and residents expect. Library hours essential for the education and enrichment of our residents have been reduced and recreation centers serving all ages, from youth to seniors, have seen significant service cutbacks. Our public safety services have also not kept pace with our growing population, placing a strain on the public safety systems and placing our residents at higher risk. County facility maintenance has noticeably deteriorated and many County roads are awaiting repair.

The FY13 Operating Budget that I am presenting to you today seeks to strategically restore some of the most critical and important services that will more appropriately address the needs of our residents. I have also included funding for most County employees to receive a $2,000 lump sum payment that will not add to the employee's base salary. For Montgomery County Public Schools (MCPS), Montgomery College, Washington Suburban Sanitary Commission (WSSC) and Maryland-National Capital Park and Planning Commission (M-NCPPC), I am assuming that their respective governing bodies will provide their employees with comparable one-time payments.

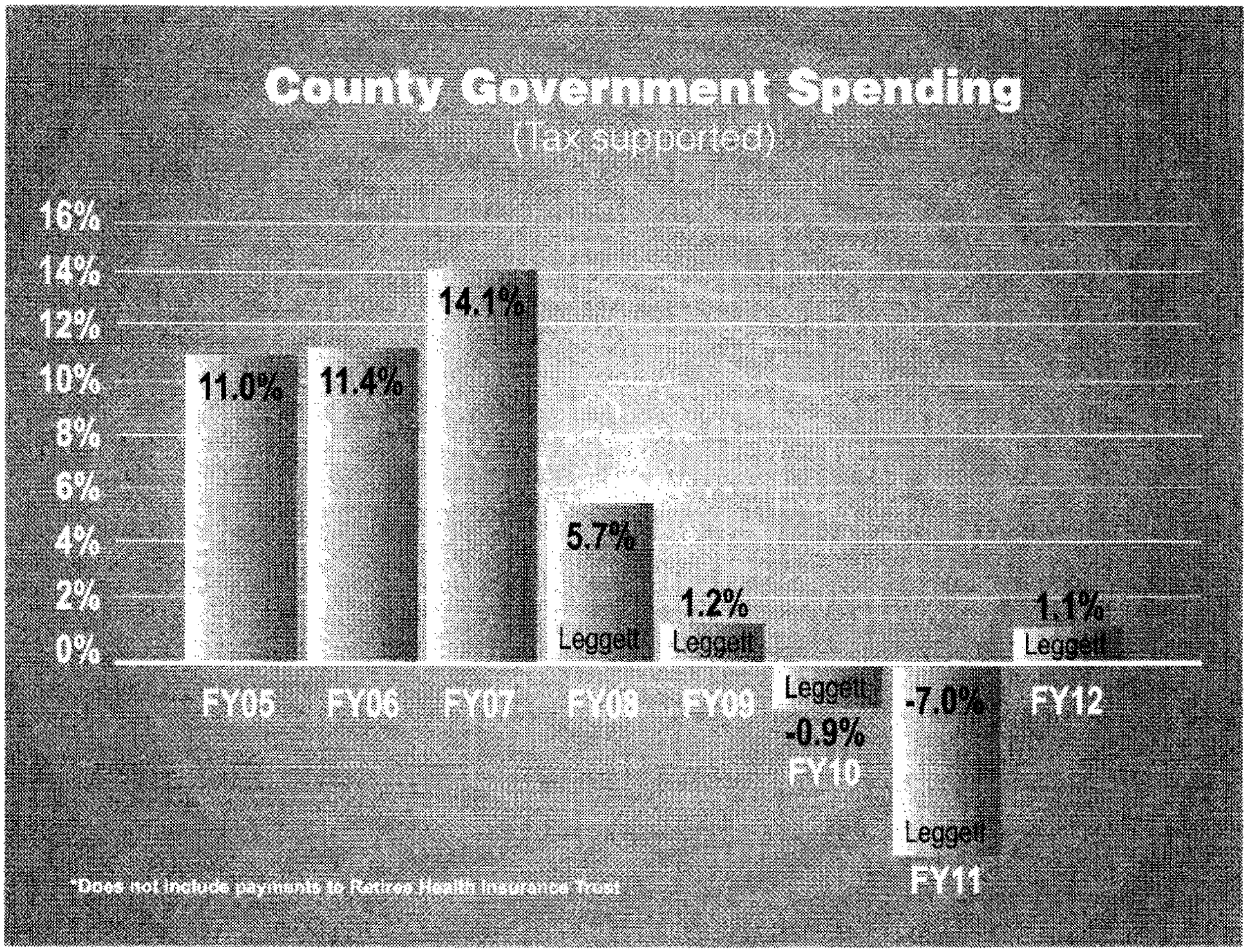
While addressing these concerns, I maintain my commitment to prudent and fiscal policies that we have mutually agreed are critical to maintaining the County's sound fiscal management. Consistent with County law and policy, I increased our reserve levels to cushion the County against any additional unanticipated economic setbacks. I have also included in the recommended budget increased funds for retiree health benefits, as required. The funding level for retiree health benefits that I am recommending is the minimum funding level that we need to contribute in order to maintain our commitment that we mutually made to the rating agencies. I have increased the County's contribution by $61 million in FY13 which maintains a deliberate, though not precipitous pace. My recommended amount keeps us on track to fund retiree health benefits by FY15 as we have committed to the rating agencies, while increasing our ability to fund necessary restorations in critical services.

My approach to this budget continues my principal goal of achieving our economic objectives with balanced impacts on direct public services, taxpayers, and employees. The budget continues prudent policies which advance long-term fiscal stability through commitments to a healthy reserve and funding our current and future obligations.

Economic Context and Fiscal Consequences

Targeted increases in critical services must be seen in the context of the drastic reductions that the County budget has experienced in the last several years. Rather than building on an ever increasing budget, I am recommending pulling back on some of the reductions that have most negatively affected the County's quality of life.

Below is a chart that illustrates the downward trend in the growth of the operating budget, culminating in an actual reduction from FY08 to FY12.



Since taking office, I have made restoring fiscal prudence a major priority of my Administration. Responsible fiscal practices are not only essential but are the foundation for ensuring that County government is able to serve our nearly one million residents, as well as our employees – both in the short term and in the long term. We established cost containment strategies and productivity improvements that have dramatically slowed the rate of growth in the operating budget and have saved County taxpayers millions of dollars. In partnership with the Council, I have also reestablished responsible reserve and other fiscal policies that will carry this County into the future with improved, sustainable fiscal health.

In my first FY08 budget, the County faced a $200 million budget shortfall. We reduced the tax supported rate of increase in spending by County Government from 14.1 percent to 5.7 percent. In FY09, as a result of a plummeting real estate market and the economic downturn, our projected shortfall increased to $401 million. In response to this challenge, we imposed a hiring freeze, produced midyear savings of more than $30 million, abolished over 225 positions, implemented a retirement incentive program, and slowed the rate of growth in the County Government to 1.2 percent. In the FY10 budget, we closed a projected gap of $590 million without a tax increase by reducing costs, abolishing nearly 400 positions, and eliminating general wage adjustments for most employees. In developing the FY11 budget, we faced a daunting and historic projected gap of over $970 million. To respond to this challenge, we abolished almost 450 positions, implemented furloughs across most agencies, and achieved a contraction in the overall size of the County Government of 7.0 percent. For FY12, while the budget challenge of approximately $300 million was relatively small compared to previous gaps, it was even more difficult to close because of the many deep reductions in County services that had been made in previous budgets.

The cumulative amount of budgetary shortfalls that I have resolved in the six budgets that I have developed and recommended to the Council is over $2.6 billion. That, simply put, is unprecedented.

The strategic increases that I am recommending in FY13 do not restore the reductions that have been made to most of the County Departments and agencies over the past five years. Rather, they address serious deficiencies in our ability to provide basic services.

Legislation currently under consideration in Annapolis would also do great damage to our County's finances and long-term budget sustainability. Bills to shift teacher pension costs to the counties are advancing and could potentially cost $47 million in FY13, climbing quickly to $71 million annually by FY17. Such an enormous shift in costs would mean either significant tax increases for our residents and businesses or further reductions in services than have already been sustained.

Other legislation that would alter the structure of the Maintenance of Effort provisions requiring local governments to level fund per pupil costs would impinge on our ability to allocate scarce resources. The proposed legislation would provide the State Board of Education with the unfettered ability to judge how dollars are distributed between school boards and other local government functions. This legislation is extraordinary in its usurpation of local government prerogatives and endangers our ability to fund vital services such as public safety.

We must work with our State delegation to defeat these bills and be mindful of the significant effect they could have on our revenues and our bond rating.

Creating a Sustainable Budget that Meets our Residents' Needs

As noted above, I am recommending strategic increases in a number of critical County services such as education, public safety, libraries, seniors, and youth that have experienced unsustainable reductions over the past few years.

My Recommended Budget:

- Fully funds tax-supported budget requests from the Montgomery County Public Schools (at Maintenance of Effort), Montgomery College, and the Maryland-National Capital Park & Planning Commission;
- Makes needed strategic investments by increasing resources for Police by providing additional patrol officers and investigative positions to target crime "hot spots" in each district;

- Provides additional Fire & Rescue Service funding to fill critically needed posts;
- Restores operating hours for libraries and increases the budget for reading materials – both print and electronic;
- Boosts spending on two of my major initiatives serving potentially at-risk populations – Positive Youth Development and Vital Living for Seniors – and continues to fund programs that protect our most vulnerable people;
- Increases funding for the creation of affordable housing units – particularly for low-income seniors;
- Funds our collective bargaining contracts with unions representing general government workers, firefighters, and police that provide for a $2,000 lump-sum payment for employees – in lieu of cost-of-living increases and increments – the first increases in three years;
- Fully funds County reserves at the policy level of $300.2 million;
- Funds PAYGO at 10 percent of current revenue in PAYGO to match bond funding in our capital budget:
- Funds $122 million to meet retiree health benefit obligations;
- Continues multi-agency efforts to identify long-term savings in restructuring government organization and make County services more efficient by identifying long-term savings, sustainable and stable revenues, and adopting productive and cost-effective business practices;
- Keeps property tax revenue at the current level by recommending a level below the Charter limit; and
- Retains the energy tax at the level approved by the Council in 2010, preserving a broad-based revenue source that includes federal institutions based in the County.

For the past five years, tax-supported program spending for County government has not increased. Said a different way, these expenditures have had a cumulative zero percent increase. That was necessary, first, to make County budgets more sustainable and, second, to respond to the severe economic downturn that began in the fall of 2008.

Working together, we protected the County's Triple-A bond rating. We changed our policy to increase the amount of money set aside in County reserves, renewed our commitment to phase-in full funding of our retiree health insurance obligations (Other Post-Employment Benefits, or OPEB), committed to meet our 10 percent PAYGO target, and, for the first time, set aside significant resources in advance to address snow and storm costs, which were funded previously by drawing down reserves.

Notwithstanding my longstanding (and continued) support for collective bargaining, I was unable at that time to include in my budget funding for wage agreements that would have compromised my obligation under the County Charter to present a fiscally responsible budget.

County government deferred purchases, stretched out the "life" of technology, vehicles, and other systems, deferred maintenance on County facilities, and stretched our existing resources – human and otherwise – so as to cause the least disruption in services to County residents.

None of this was easy. I made difficult choices.

Thanks to all this, I believe Montgomery County will emerge from this recession with a sustainable budget that maintains a commitment to quality services while increasing efficiency, and produces prudent fiscal policies that will serve us well into the future.

Although I have proposed strategic spending increases after five years of zero growth in tax-supported spending, I want there to be no mistake: we cannot return to the unsustainable spending of the past.

The restorations that I have proposed in FY13 are strategically focused on our highest priorities – public safety, our youth, education and our most vulnerable, including senior citizens. These restorations do not bring County spending even to the level it was five years ago.

This budget continues to balance meeting our critical needs with a prudent fiscal policy that funds our reserves, our PAYGO, and our retiree health obligations. It also keeps faith with the people who pay the bills – our County taxpayers – by matching our critical needs with the revenues available or necessary.

The Numbers

- I recommend a total County budget (which includes debt service, grants, and enterprise funds) for FY13 of $4,565,696,206, an increase of $199 million from the FY12 Approved Budget – a 4.6 percent increase.
- The overall FY13 tax-supported budget of $3,973,610,920 (including debt service) will increase by $188,637,223 from the FY12 budget. This represents a 5 percent increase.
- I recommend to the County Council that tax-supported funding for Montgomery County Government programs increase by $64.7 million or 5.5 percent, not including required payments to the Retiree Health Insurance Trust of $60.3 million.
- Of the $124.9 million spending increase for County Government, $60.3 million is for required Retiree Health Insurance Trust payments, $37,749,979 is for Public Safety, and $26,905,570 is for other employee compensation and benefits, fixed cost increases and non-public safety programs.
- Over the past three years, I have reduced the County Government workforce by 1,254 positions – over 10 percent. This budget strategically restores 92 positions – among them, 58 in the Police Department through increased staffing and the consolidation of 911 call-takers and 15 in libraries.
- Reductions totaling $14 million in current County Government spending, including $6 million in electricity costs through energy conservation savings.
- Funding for the Montgomery County Public Schools will increase by $50.7 million – a 2.6 percent increase from FY12. The budget funds 100 percent of the Board of Education tax-supported request.
- The budget for Montgomery College increases by $381,823, a 0.2 percent increase. The budget funds 100 percent of the College tax-supported request.
- Funding for the M-NCPPC increases by $5.4 million, a 5.3 percent increase and 100 percent of Park & Planning's tax-supported request.

FY08 to FY13 Operating Budget Agency Rate of Growth*

Tax Supported Budgets	FY08 Approved*	FY12 Approved*	FY13 Recommended Budget*	FY12-13 $ Change	FY12-13 % Change	FY08-13 % Change
Montgomery County Government	$1,248,525,220	$1,175,833,680	$1,240,489,229	$64,655,549	5.5%	-0.6%
Montgomery County Public Schools	$1,836,100,947	$1,950,909,291	$2,001,643,842	$50,734,551	2.6%	9.0%
Montgomery College	$196,811,472	$218,004,776	$218,386,599	$381,823	0.2%	11.0%
MD-National Capital Park & Planning Commission	$101,892,900	$99,017,030	$103,579,700	$4,562,670	4.6%	1.7%
Subtotal Tax Supported Agency Expenditures	**$3,383,330,539**	**$3,443,764,777**	**$3,564,099,370**	**$120,334,593**	**3.5%**	**5.3%**
Debt Service	**$239,480,290**	**$291,574,070**	**$298,792,040**	**$7,217,970**	**2.5%**	**24.8%**
Total Tax Supported Expenditures	**$3,622,810,829**	**$3,735,338,847**	**$3,862,891,410**	**$127,552,563**	**3.4%**	**6.6%**

* Excluding funds for pre-funding retiree health insurance. The FY13 County Government tax supported appropriation includes a total contribution of $107.4 million, including contributions of $61.9 million on behalf of Montgomery County Public Schools and $1.9 million on behalf of Montgomery College. The Park & Planning Commission tax supported appropriation includes a contribution of $3,364,500.

Priorities in the FY13 Recommended Budget

The chart above indicates that since my first budget as County Executive in FY08 through the FY13 operating budget, the total tax-supported funds for County Government have actually decreased – even with the targeted increases I am recommending. This reality is just one indication of the unsustainability of the reductions experienced by County Government in the last four years.

In that same five year time period, all tax-supported agency expenditures increased by 5.3%, also a modest level of growth. It is important to note that the growth in debt service surpassed all agency expenditure growth, climbing by nearly 25% from the FY08 approved to the FY13 recommended. This disproportionate growth underscores the need to carefully control our levels of debt issuance. In fact, by reducing our annual bonds from $320 million to $295 million, we will reduce the rate of growth in debt service from 8.5% to 2.5% in FY13.

Under this budget, our Police Department would see a 6.9 percent increase which will include an increase of 43 additional officers – part of my three-year plan to add 120 new sworn officers and 23 Police civilian employees. This increase will provide each Police District with the resources to address problem areas or issues when they arise and will use officers strategically and efficiently. This budget also adds a second new recruit class of 30 officers and moves the County to a unified 911 call center, which will help improve efficiency and response times to emergencies.

The Fire & Rescue Service (FRS) would see a 9.2 percent increase under this budget. This funding would increase the size of each of the two FRS recruit classes from 30 to 55 each and provide additional funding to ensure minimum staffing requirements are met with reduced overtime.

Over the past five years, the Department of Public Libraries has seen the deepest reductions, 29 percent between FY07 and FY12. This budget increases library spending by nearly 10 percent and adds 15 positions. It increases materials acquisitions, expands hours at libraries open on Sundays to five hours, funds two additional Sundays at those libraries open on Sundays for a total of 47 Sundays a year, and restores longer hours in the Rockville, Quince Orchard, Wheaton, Bethesda, and Germantown libraries.

As County Executive, I implemented two initiatives that cross departmental lines of responsibility – Positive Youth Development and Vital Living for Seniors. I believe that by focusing on these service areas in a more holistic manner, we can better serve County residents and businesses by ensuring that these services are provided in coordination and comprehensively. In the past few years, both of these service areas have been reduced significantly and as a result, essential services were eliminated or reduced. In this recommended budget, I am restoring funding for some of the most critical programs that serve these more vulnerable populations.

Funding for my Positive Youth Development initiative would increase in FY13. These increases would include: extending the "Excel Beyond the Bell" after-school program to Forest Oak (Clarksburg) and Neelsville (Germantown) middle schools; funding after-school programs for Scotland Community Center while the Center is under renovation; expanding weekend and evening teen programs for middle and high schoolers; and implementing the Summer Student/Team Employment Program (STEP). In addition, the County would replace expiring federal funding to operate the UpCounty Youth Opportunity Center, along with its family intervention program, and replace the expiring federal grant funds for the Kennedy Cluster/ Neighborhood Opportunity Center. The budget will enhance drug prevention and intervention at the Crossroads and UpCounty Opportunity Centers and boost the Street Outreach Network.

Assisting our seniors with options to age in place and retire with dignity and vitality are essential values. The FY13 Recommended Budget also increases resources for programs specifically dedicated to the County's growing senior population. Highlights include senior programming at the White Oak Community Center, restoring chore services, increasing home-delivered meals, reducing the price of the second Call 'N Ride coupon book, development of an Escorted Transportation Pilot Project, increasing contract staff for senior mental health services, and adding an Assistant State's Attorney position to protect seniors and vulnerable adults from financial harm and fraud. The budget also provides $1.5 million to support the development of 140 units of affordable housing for low-income seniors, the first part of a two-year commitment that will total $6 million.

Other highlights include, $19 million for our Montgomery Housing Initiative to create and preserve more affordable housing. The budget recommends additional funds for health care for the uninsured through Montgomery Cares. Additional resources will support the establishment of a new medical clinic in Aspen Hill. Other critical services will be expanded for home energy assistance, outreach to veterans, and winter overflow shelters.

The budget includes a 10.4 percent increase in transit (to hire more bus drivers, match the Bikesharing grant, and inaugurate new RideOn service in South Germantown, Potomac, and Gaithersburg); a $1 million increase to address cleaning of County facilities; and an increase in the County's Economic Development Fund.

This budget fully funds the MCPS tax-supported request at the Maintenance of Effort (MOE) level. We will continue to work with our Annapolis delegation in the General Assembly in its current session to modify the existing MOE law to provide flexibility to local governments throughout the State to respond to fiscal challenges and fund K-12 education in a manner that does not cripple other important local government services.

I fully appreciate the partnerships that the County has forged with community non-profits, County businesses, and the faith community over the past several years. These ties – through community volunteers and private funding – have been critical to maintaining a safety net for our neighbors in need and supporting activities that government cannot do alone. I have made continued support of these cost-effective, community-strengthening partnership efforts a budget priority.

Employee Compensation

Eighty percent of the County budget goes toward compensation – wages and benefits for County employees. Since taking office, I have reduced the size of the County workforce by over 10 percent, abolishing 1,254 positions. For three years County employees have not received cost-of-living increases and for the past two there have been no steps or increments as well. In FY11, all County Government employees were furloughed for between three and eight days, depending on income. Also, in FY12, the County changed the cost sharing arrangements for County Government employees for their group insurance and retirement plans, saving the County an estimated $14.5 million.

For FY13, I am recommending – consistent with agreements reached with the Fraternal Order of Police, Lodge #35; International Association of Fire Fighters, Local #1664; and the Municipal and County Government Employee Organization, Local #1994 – a lump-sum payment of $2,000 for most employees. This lump-sum payment would be in lieu of any cost-of-living and service increments. Until the County is on clearly more stable fiscal footings, I strongly recommend that all County employees – including those within MCPS, Montgomery College, Park and Planning and WSSC – be provided with compensation increases that do not add to our base budget.

It is important that there be parity among all of the County agencies' 30,000 plus employees. Therefore, I am assuming that within the dollars that I am recommending for MCPS, Montgomery College, Park and Planning and WSSC, their employees receive one-time adjustments that do not add to our base budget – similar to those I have negotiated with County Government employees. The economic and fiscal picture for the County remains too uncertain to add significant dollars to our wage base.

Funding the Budget

Because of financial burdens on County households as a result of the economic downturn, my budget holds the line on property taxes for County homeowners. I have set the property tax rates to provide the same level of property tax revenue, resulting in only a $4 average increase annually in property tax bills – essentially a flat amount. My recommendation is <u>below</u> the County charter limit[1] on property taxes. The property tax for each owner-occupied residence will include a credit of $692 to limit the burden on homeowners and maintain a progressive property tax structure in the County.

I am recommending to the County Council that the energy tax rate approved by the Council in 2010 be extended, rather than be allowed to sunset. The energy tax is far more broad-based than either the property or income taxes since it includes taxes on energy usage of institutions and facilities (such as the federal government) that otherwise do not pay anything in taxes to the County. Because of its broader base, this tax lowers the overall tax burden on residents and businesses of Montgomery County.

I am recommending a WSSC budget that would result in an increase in water and sewer rates of 7.5 percent in FY13 in accordance with the budget recently proposed by the WSSC.

The Water Quality Protection Fund charge will increase from $70.50 to $92.60 per average household annually. Through these fees, we are continuing to expand our outreach, inspection, and remediation efforts to comply with the requirements of the State's Municipal Separate Storm Sewer System (MS4) permit

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[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 through the unanimous vote of nine Councilmembers.

requirements. The MS4 permit requires the County to upgrade existing stormwater management facilities and improve our efforts at controlling stormwater runoff especially through the use of Low Impact Design approaches. Details on fee increases are provided in the Revenues section of my Recommended FY13 Operating Budget.

Again this year, the budget will not include funding from an Emergency Medical Services (EMS) transport fee. The result of the 2010 election year referendum meant the loss of over $14 million this year, $17 million for the coming year, and over $160 million over 10 years from insurance companies and the federal government. It is very unfortunate that the County is not able to avail itself of these additional, ongoing, non-tax supported resources to sustain and grow our Fire and Rescue Services in the coming years, at no cost to County taxpayers.

Focusing on Productivity and Performance

We should continue to make every effort to make our operations more efficient, productive, and effective. To accomplish these objectives, I have instituted several measures to make Montgomery County Government even better and more efficient in how we operate and provide services to the community.

My CountyStat initiative has made significant progress in tracking the County's performance in addressing challenges using real-time data and holding departments and agencies accountable for the results in a number of operational and policy areas. The CountyStat program has provided a forum for ongoing monitoring and measurement of the effectiveness and efficiency of County Government services. This program has been a major success in improving the responsiveness and efficiency of the County Government.

Our CountyStat meetings are open to the public and all CountyStat reports can be found at http://www.montgomerycountymd.gov/mcgtmpl.asp?url+/content/exec/stat/index.asp. The availability of information from this impartial source offers our residents and taxpayers an opportunity to fully examine some of the more critical resource issues in County Government.

The implementation of the centralized MC311 call center and MC311 web portal has enhanced community services by allowing our residents to use one number to call a centralized call center to respond to their information or service requests. In addition to allowing easier access to government information and services, MC311 has been implemented in a cost-effective manner by consolidating five current call centers housed in various departments, and centralizing the information and referral calls currently received by each of the Executive Branch departments and offices. Information obtained, combined with financial information from the Enterprise Resource Planning (ERP) system, provide important tools to make more informed decisions about how to best use our scarce resources.

Final Thoughts

Despite the extraordinary challenges we are currently facing, I remain very optimistic about the future of our County. The quality and effectiveness of services we offer our residents in the areas of education, affordable housing, public safety, and health and human services are among the very best in the nation. We have made significant advancements in working collaboratively at the local level among government agencies and with our employee representatives. We have long understood that Montgomery County is the economic engine for the State, and our efforts locally to update our land use plans, establish and maintain prudent financial management, take advantage of the emerging green energy market, and support the rapidly growing bio-tech market are positioning us well for the future. The silver lining of the economic downturn is that it has refocused our attention on providing our residents with essential services, while also reestablishing prudent fiscal policies that will guide us into the future.

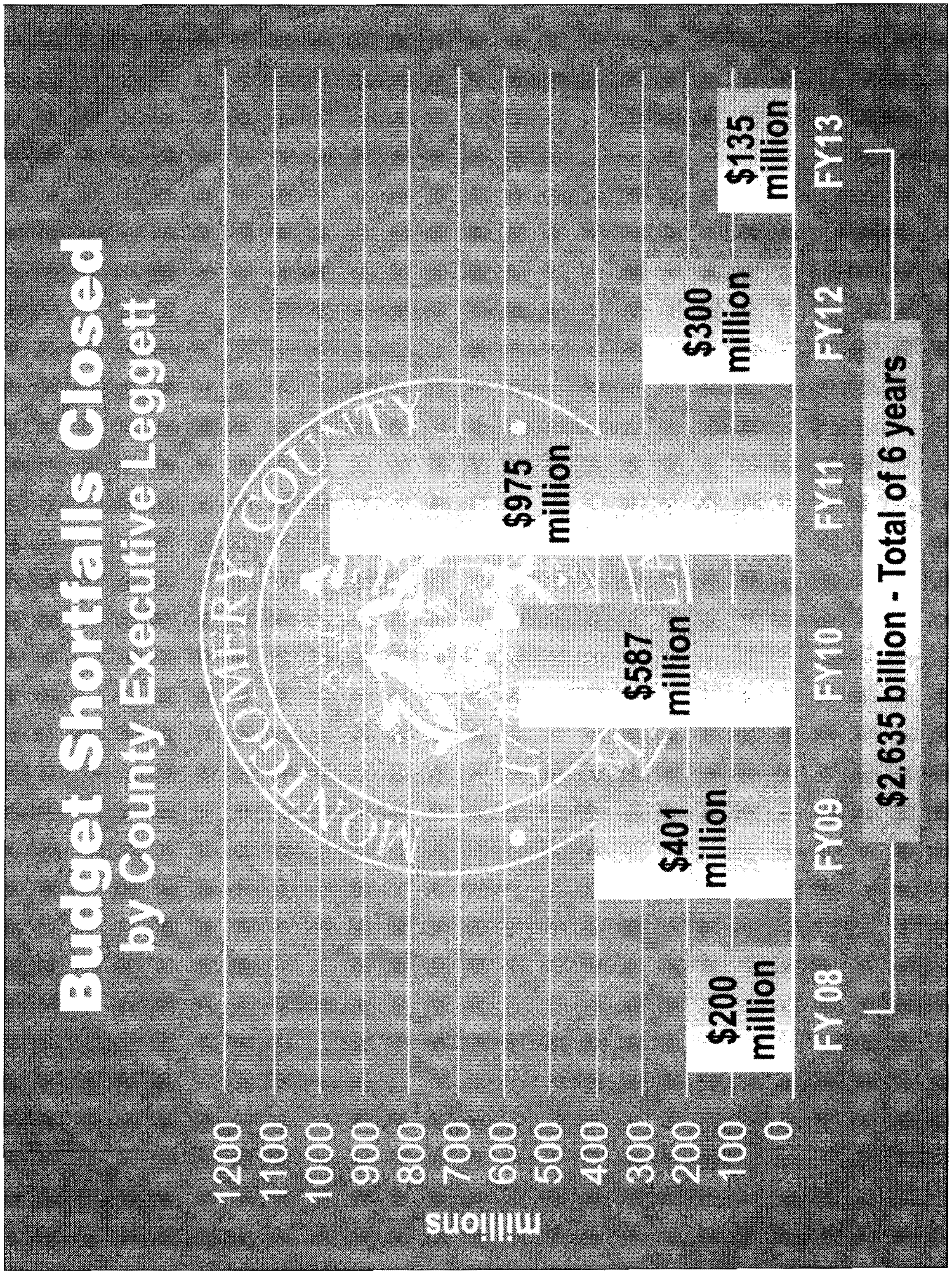
Montgomery County is one of the most dynamic, growing, and cosmopolitan areas in both the Washington region and the nation. I will continue to work with the Council and the other agencies to ensure that our policies support and encourage this growth and diversity.

The wonderful people of this county are our greatest asset and continue to inspire my hope and confidence for our future. Nearly a million strong today, our residents have sacrificed to maintain services during these trying economic times by contributing more in taxes, community service, and by helping protect and serve the most vulnerable in our County. I am deeply grateful to them and humbled to serve as their County Executive.

Finally, I want to thank those who contributed to the development of this spending plan including the Board of Education and Superintendent at Montgomery County Public Schools; the Trustees and President of Montgomery College; the Chair of the Maryland-National Capital Park and Planning Commission and the Planning Board; the Commissioners and General Manager of the Washington Suburban Sanitary Commission; individual residents, as well as members of boards, commissions, and committees; community-based organizations; and directors, employees, and employee representatives of departments in all agencies.

Highlights of my recommendations are set forth on the following pages and details can be found in the Departmental sections. The full budget can be viewed on the County's website at www.montgomerycountymd.gov/omb. Details of the budget requests for MCPS, the College, M-NCPPC, and WSSC can be seen in the separate budget documents produced by those agencies.

I look forward to working with the Council over the next two months on spending priorities and policy issues that arise and have asked Executive Branch staff to assist you in your deliberations.


Budget Shortfalls Closed
by County Executive Leggett
millions
1200
1100
1000
900
800
700
600
500
400
300
200
100
0
$200 million
$401 million
$587 million
$975 million
$300 million
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FY 08
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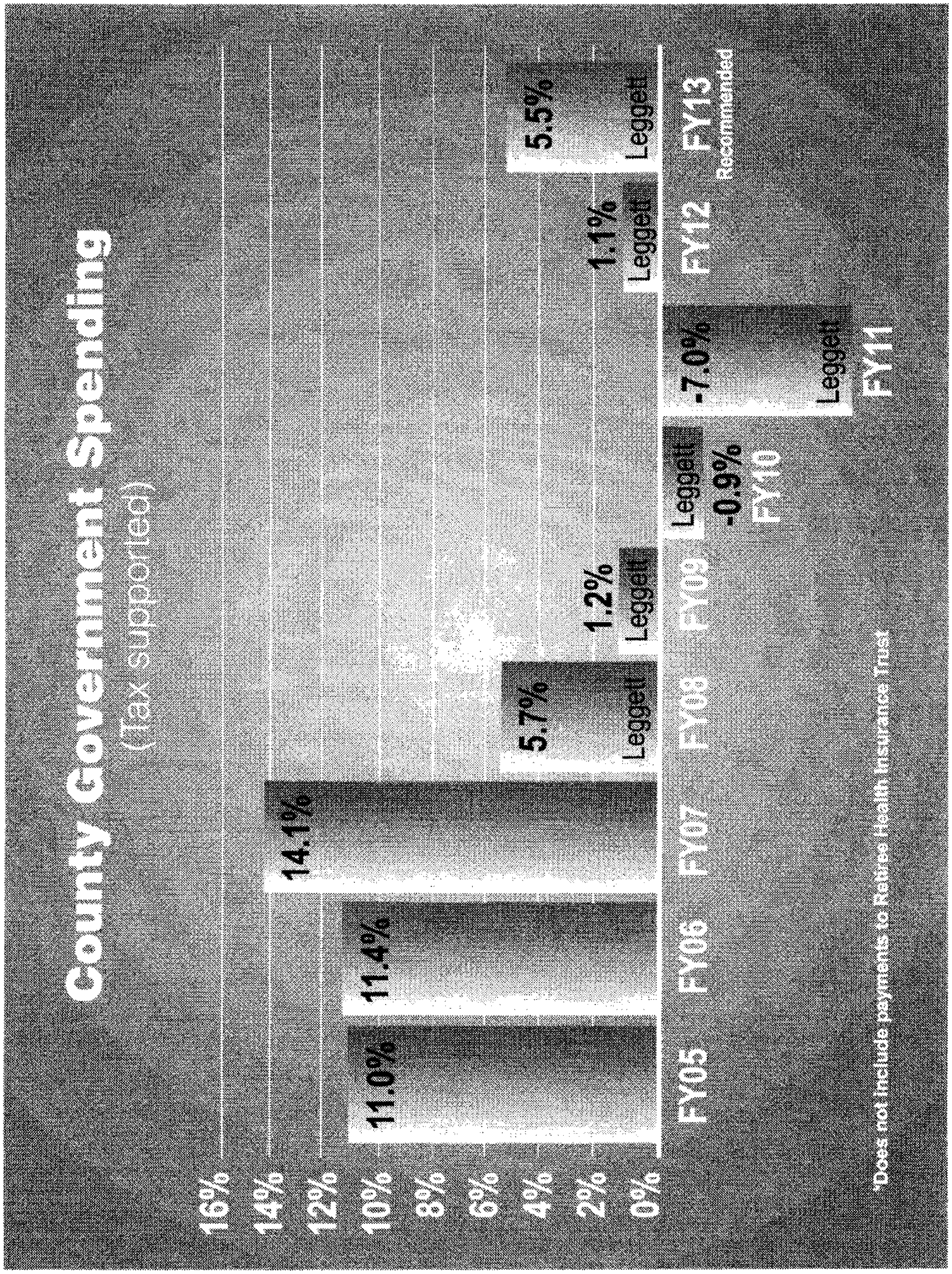
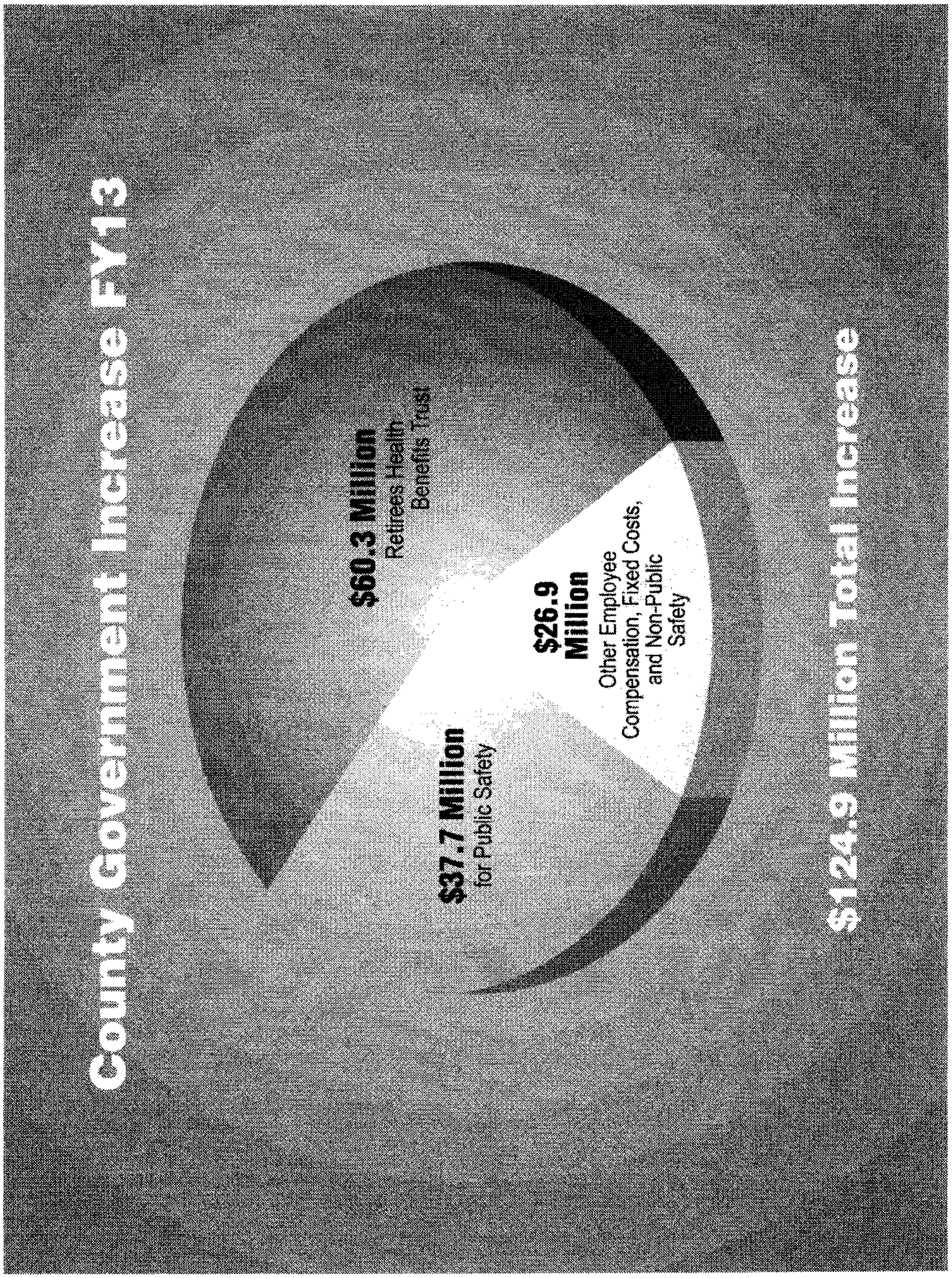
FY13
$2.635 billion - Total of 6 years


County Government Spending
(Tax Supported)
16%
14%
12%
10%
8%
6%
4%
2%
0%
11.0%
11.4%
14.1%
5.7%
Leggett
1.2%
Leggett
Leggett
-0.9%
-7.0%
Leggett
1.1%
Leggett
5.5%
Leggett
FY05
FY06
FY07
FY08
FY09
FY10
FY11
FY12
FY13
Recommended
*Does not include payments to Retiree Health Insurance Trust


County Government Increase FY13
$60.3 Million
Retirees Health
Benefits Trust
$37.7 Million
for Public Safety
$26.9
Million
Other Employee
Compensation, Fixed Costs,
and Non-Public
Safety
$124.9 Million Total Increase

Board of Education
MONTGOMERY COUNTY MARYLAND

MONTGOMERY COUNTY BOARD OF EDUCATION

850 Hungerford Drive ◆ Rockville, Maryland 20850

February 28, 2012

The Honorable Isiah Leggett, County Executive
The Honorable Roger Berliner, President
Members of the Montgomery County Council
Montgomery County Government
Rockville, Maryland 20850

Dear Mr. Leggett, Mr. Berliner and Councilmembers,

I am pleased to submit the Montgomery County Board of Education's Fiscal Year 2013 (FY 2013) Operating Budget Request for Montgomery County Public Schools (MCPS). The Board is submitting a request that holds the line steady on education funding while accounting for our continued rapid enrollment growth. This budget represents a measured approach to allocating educational resources as we work to be responsible, prudent stewards of taxpayer funds. We appreciate the public support members of the Council have already given to the Board's request and look forward to working with you in the coming months as you develop a budget for the citizens of Montgomery County.

The Board of Education is requesting a $2.133 billion budget for FY 2013. This represents a 2 percent increase over this fiscal year, which is the smallest percentage increase the Board has sought in more than a decade. The Board is seeking $1.39 billion in local funds from the county, a $22.2 million increase. This increase will allow the county to maintain its per-pupil investment at $9,759 per student and meet the state's Maintenance of Effort (MOE) provision.

As you are aware, the county has not met MOE in three years and, in that time, the county's per-pupil funding has fallen by $1,490 per child. This has required the Board and MCPS leadership to make more than $400 million in difficult reductions since FY 2009. Among the reductions:

- Class sizes have increased an average of approximately one student per classroom.
- Employees have agreed to forego cost-of-living increases for three consecutive years and step increases for the past two years, saving $144 million.
- More than 1,300 positions have been eliminated districtwide, mainly teachers and staff who directly support instruction.
- Our central services budget has been reduced by more than 20 percent.

These reductions would be difficult under any circumstances, but they have occurred as the student enrollment in MCPS has been undergoing historic growth and dramatic changes.

Since 2007, MCPS has added approximately 9,000 students and the district is projected to add another 9,000 students by 2017, with much of this growth occurring in the elementary grades. These students are coming to MCPS requiring more services, such as Free and Reduced-price Meals System (FARMS) and English for Speakers of Other Languages (ESOL) services. For instance, approximately 13.1 percent of our students require ESOL services systemwide, but in the elementary schools, that rate jumps to 22.5 percent and has increased more than 6 percentage points in 5 years. At the same time, since 2007, the number of students eligible for FARMS services has increased by 11,785 children systemwide. Our budget request simply seeks to allow us to keep pace with this growth.

The Board is placing $17 million of its budget surplus—achieved through cost efficiencies and expenditure restrictions—toward the FY 2013 Operating Budget. The Board's budget request also includes some additional reductions: a $6.1 million reduction for Central Services, including the elimination of nearly 18 positions, as well as $3.2 million in reductions for school-based support and services. However, the Board's request does not call for any reduction in the number of teachers or other school-based staff.

There also are no new initiatives or programs in our request, although we have worked with Superintendent of Schools Joshua P. Starr to realign funds in the budget to support strategic needs. Among those strategic areas are funds to support two middle schools that must develop alternative governance plans under the provisions of the No Child Left Behind Act of 2001 ($797,644); the addition of three prekindergarten classes to serve low-income students ($221,021); the addition of three consulting teacher positions to support new and underperforming educators ($221,532); and the expansion of the hours-based staffing model for special education to all middle schools ($773,000, including $603,000 in additional state aid).

To support these strategic areas, funds will be realigned from areas across the budget. Among the realignments, a reduction of more than $600,000 in stipends for part-time summer salaries, part-time instructional salaries and substitutes, and savings of $230,000 realized by ceasing the administration of the TerraNova 2 exam in second grade.

The Board's request also has put money aside to honor the hard work and excellence of the MCPS staff. As mentioned previously, our employees have given up their raises for the past three years and longevity increases for the past two years to help us through these difficult economic times. Even as we have had to ask them to do "more with less," they have helped our students achieve outstanding results. For example:

- Half of MCPS graduates from the Class of 2011 earned a 3 or higher on at least one Advanced Placement (AP) exam, far exceeding the performance of the state and the nation. The most significant growth was seen among Black or African American and Hispanic/Latino students.
- The Class of 2011 scored an average of 1637 on the SAT, which is 145 points higher than graduates from the state of Maryland and 137 points higher than the nation's seniors.
- Ninety-two (92) percent of MCPS kindergarten students are reading at grade level (text level 4) and more than seventy-five (75) percent are reading well above grade level (text level 6). Since 2006, the percentage of students reading at text level 6 or higher has increased 20 percentage points.

Negotiations with our employee associations are ongoing at this point, but the Board believes that we must recognize the collaboration and outstanding performance of our staff in a tangible way.

Of course, there continues to be tremendous uncertainty surrounding the budget, specifically in the area of state funding. While Governor Martin O'Malley has submitted a budget that includes a $28.5 million increase in state education formula funding for Montgomery County, two items before the General Assembly could have a dramatic impact on our budget.

Because the County Council did not meet MOE in FY 2012, and did not seek a state waiver, the state can withhold $26.2 million in funding as a penalty. Our state delegation is working on legislation to get that penalty waived and we appreciate and support their efforts. Our budget assumes that this waiver will be granted or the county will find a way to fund this penalty.

The greatest uncertainty surrounding our budget is related to Governor O'Malley's proposal to shift a significant portion of state pension costs to local governments. Under the governor's proposal, Montgomery County would have to pay an additional $47.4 million in retirement costs in FY 2013 and those costs would only increase in the coming years. We join the county executive and councilmembers in urging the General Assembly to reject this proposal, as it could have an immediate, negative impact on the important services we provide our citizens. We will continue to work with you and our state delegation to make sure the state pension remains a state responsibility.

Developing the Budget

This budget request was developed collaboratively with our employees, our parents, our students, and our entire community.

The process began in the fall when we shared our budget interests with Dr. Starr. It was an opportunity for Dr. Starr, then very early in his tenure at MCPS, to have a clear understanding of the Board's priorities regarding the budget. In October, the Board held two Community Conversations, which are annual events that are an integral part of our budget and strategic planning processes. These events allowed community members to engage in discussions pertaining to what they valued about MCPS and what they felt was most important to achieve as we continue with our vision to provide a world-class education to all students, even in financially challenging times.

In December 2011, Dr. Starr released his FY 2013 Budget Recommendation, which was developed in partnership with our three employee associations—the Montgomery County Education Association, the Montgomery County Association of Administrators and Principals, and the Service Employees International Union Local 500—as well as the Montgomery County Council of Parent Teacher Associations, Inc.

The Board held public hearings on Dr. Starr's recommendation on January 11 and 18, 2012, and then held two work sessions on the budget. Board members spent hours analyzing the budget and posing questions to staff, which informed the Board's ultimate modification of Dr. Starr's proposal. The Board passed a final budget recommendation at its business meeting on February 14, 2012.

Montgomery County has always made public education a top priority, and I believe that our employees have honored that investment by creating one of the best school districts in the nation. On behalf of the 146,500 students and 22,000 employees of MCPS, the Board wants to thank you for your continued commitment to our children and our citizens.

Sincerely,

Shirley Brandman, President
Montgomery County Board of Education

Office of the President

February 8, 2012

The Honorable Isiah Leggett
Montgomery County Executive
Executive Office Building
101 Monroe Street
Rockville, Maryland 20850
and
The Honorable Roger Berliner, President
Montgomery County Council
and
Members of the Montgomery County Council
Stella B. Werner Council Office Building
100 Maryland Avenue
Rockville, Maryland 20850

Dear Mr. Leggett, Mr. Berliner, and
Members of the Montgomery County Council:

The Board of Trustees of Montgomery College and the College community are grateful for your continued support of Montgomery College and the students we serve.

We respectfully submit for your consideration the Board of Trustees adopted College operating budget for FY13—a budget that seeks no additional funds from the county. The College worked diligently to submit a budget that recognizes the county's still challenging economic conditions, while also accommodating the 26,996 students enrolled in our degree and transfer programs this fall. Montgomery College now enrolls the largest undergraduate student body in the state of Maryland, surpassing the University of Maryland, College Park.

Our FY13 budget is focused on living within our means: offering quality, accessible education to our students, while, at the same time, finding cost savings. For example, we have undertaken multiple efforts to follow the Office of Legislative Oversight's recommendations for long-term fiscal health as outlined in the *Achieving a Structurally Balanced Budget* report. In keeping with the report, the College has made changes in health care benefits for active employees and changes to future retiree benefits. The College also limited compensation adjustments to a one-time lump sum payment in FY12, which does not permanently impact the budget in the years to come or require additional county support. Our employees, like other county employees, continue to make sacrifices; they were furloughed for up to eight days last year, and they have foregone salary increases for two years. Administrators have not had raises in three years.

The College is continuing austerity measures, which include constrained spending, and hiring only for those positions deemed the most critical. As a result, this budget seeks no additional county funds in FY13. As we did last year, the College closed an operating budget gap of almost $5 million with one-time resources yielded from austerity measures. Despite county funding declining by $12 million over the last two years (11.4 percent), we seek no increase in county funds; we only ask for the same amount of county funding as appropriated last year.

The specifics of our request are as follows:

ENROLLMENT

This fall, the College experienced a record high in both credit hours and enrollment, with nearly 27,000 students in the credit program. The College continued steady enrollment growth from fall 2000 through fall 2011, adding more than six thousand students (6,073) — an increase of more than 29 percent or the equivalent of three high schools over the decade. Because an increasing number of these students are younger and attending full time, our credit hours of enrollment have increased dramatically by 39 percent (more than 69,000 credit hours). Since last fall, our student headcount is up 3.8 percent and hours of enrollment are up 2.5 percent. Younger students are more likely to enroll full-time than older students, and full-time students have higher return rates—factors that support our enrollment projections for continued growth over the next several years.

The major factors driving enrollment increases have been: (1) the fluctuating, but overall growth in the number of high school graduates in the county; (2) the enrollment limitations and overall affordability of costs associated with four-year institutions, particularly at the University of Maryland, College Park and other public four-year colleges and universities in the state; (3) Montgomery College's quality, affordability, proximity, and proven track record in preparing students for careers and transfers to four-year institutions; and (4) expanded distance education and other alternative instructional delivery formats by the College.

An additional factor is the county's continued commitment to the College's facilities. We are grateful for your assistance in addressing our space deficits—the largest of any community college in Maryland—to help protect access and meet the demands for post-secondary education in Montgomery County. The County's investment in our facilities and related staff over the past several years has paid off with dramatically higher enrollments. Since the fall of 2000, enrollment at the Takoma Park/Silver Spring Campus has grown by 75 percent (3,200 more students) and credit hours of enrollment are up by 62 percent. The recently completed Science Center and the upcoming renovations to Science East and Science West will undoubtedly contribute to increased enrollments at the Rockville Campus. Planned expansions at the Germantown Campus will support continued increasing enrollment there. The Germantown Campus now enrolls approximately 7,000 students.

The above enrollment discussion is focused on our credit programs, which the county supports through funding. Given recent discussions about future workforce needs and the projected jobs of the future, it is important to note that 24,000 students also enrolled in Workforce Development & Continuing Education programs last year. The College continues to be popular with those seeking traditional transfer opportunities in order to succeed in "high skill" jobs such as engineering, but those students seeking "middle skills" career programs such construction trades and automotive technology rely heavily on our workforce development and continuing education programs. In today's economy, a post-secondary education—credit or noncredit—is vital to earning a living wage.

REVENUE

The College is not requesting an increase in county funding.

State aid increased in Governor O'Malley's budget by $945,310. State aid is allocated between the Current Fund and Workforce Development & Continuing Education (WD&CE) based on the numbers of FTEs earned which resulted in an increase to the current fund of $420,653. It is important to note total formula state aid has dropped $3.6 million over a three-year period (FY10–FY12). This FY13 increase is considerably less than the amount that would have been available had the governor used the John A. Cade funding formula for community colleges to determine state aid. The Budget Reconciliation and Financing Act of 2012 eliminates Cade for the next five years and substitutes an alternative funding methodology that will constrain state aid. Additionally, the governor did not increase the English for Speakers of Other Languages (ESOL) grant over last year's amount.

It is also important to note that 42 percent of College employees are enrolled in the so-called "teacher pension" system. The proposed shift of pension costs to counties in the governor's proposed FY13 budget is of serious concern to the College for two reasons: (1) the cost associated with College employees enrolled in this pension plan, and (2) the long-term ability of Montgomery County to afford its commitment to the College and to other important service providers.

This budget anticipates a $2/$4/$6 credit hour increase in tuition. This is an increase of 1.6 percent for students who reside in the county or recently graduated from Montgomery County Public Schools. Students who live outside Montgomery County will have to pay even more for their education. With these proposed increases, the average full-time student will pay almost $4,452 annually. (It should be noted that the tuition increases are not final until the Board of Trustees officially acts on tuition rates in April.) Tuition and related fees are expected to generate $87 million, an increase of 6.2 percent. Tuition and fees from students will represent 40 percent of total resources in the FY13 budget, up from 36 percent just two years ago.

We are also using the last $490,260 from our FY11 budget savings program and $4.2 million from our fund balance, derived through continued austerity measures, to fund the budget. The remainder of the College's revenue is "other revenue" comprised mostly of other fees, interest income, and sublease revenue.

EXPENDITURE REQUEST

We developed the current fund budget with these priorities in mind: fiscal prudence, affordability, and student success. We are committed to delivering quality instruction, remaining accountable, and aligning resources with strategic planning. The resulting current fund budget of $217.6 million is just $382,000 over last year—less than a 0.2 percent increase.

This budget has been pared back substantially. The full-time to part-time faculty ratio remains at 54:46, which is well below the trustees' goal of 65:35. The funds for scholarships do not adequately address the needs of our students. There are no pay increases in the FY13 request, and the College instituted a consumer-driven health plan, which is expected to contain costs and yield long-term savings.
We worked hard to adopt salary and benefits strategies in keeping with the Office of Legislative Oversight's recommendations. Our expenditure budget is detailed as followed:

Compensation and Benefits for our Employees

- We have negotiated our collective bargaining agreements and, as a result, there are no increases for salaries in the FY13 budget. In the event Montgomery County government or the Montgomery County Public Schools negotiate and implement more than a 2 percent increase or add to their salary base, the College will be required to reopen negotiations with our employee groups. As a result, the College may find it necessary to seek an adjustment from the county.

- In the benefits area, benefit costs have decreased by $230,000. In fact, we are not budgeting for cost increases for FY13 related to health care benefit plans, negating the need to seek the county's assistance for benefit cost increases next year. The College made changes in our health care benefit plans and implemented those changes during our open enrollment season last fall. We took the following steps: (1) eliminated a Preferred Provider Organization health care benefit plan; (2) implemented a new consumer-driven health care plan that includes a high deductible of $1,200 for an individual, $2,400 for a family of two, and $3,000 for a family of more than two; and (3) made significant plan design changes to the Point of Service plan that remained in place to contain benefit cost increases. As you know, College employees have historically paid the greatest contribution share in the county towards their health plans, amounting to 25 percent of the premium for over a decade. We will continue that practice even with the health care benefit changes.

- As you will recall, changes were made to the eligibility criteria for retiree health insurance last year to lower our future costs. Employees hired on or after July 1, 2011, are eligible for retiree health insurance at age 55 with at least 15 years of service. Retirees with 15 to 20 years of service will receive an employer contribution of 40 percent and retirees with 20 or greater years of service will receive an employer contribution of 60 percent. Employees hired prior to July 1, 2011, are eligible for a 40 percent employer contribution if they have at least five years of service and a 60 percent employer contribution if they have 10 or more years of service.

- Both efforts demonstrate our commitment to the long-term fiscal health of the College and Montgomery County. In keeping with the efforts to contain costs and address the structural deficit, the board and we believe that the College has also taken a fiscally prudent approach to compensation adjustments—a one-time lump sum payment using existing one-time resources. In doing so, the College implemented a compensation model suggested in the Office of Legislative Oversight's report.

<u>Support for our Students</u>

- Increased student credit hours necessitate additional faculty in the classroom. Due to funding limitations the College is not requesting new full-time faculty; part-time faculty salaries will add $800,000 based on the increase in credit hours.

- The College request includes $93,000 to increase financial aid. Current federal and state financial aid is insufficient to serve our students. The College did not have sufficient institutional grant money to fund all of the students who qualified for assistance in fall 2011. In fact, 4,000 students did not enroll at Montgomery College in fall 2011 after qualifying for, but failing to receive, grant aid due to a lack of funds.

- The College request includes $620,000 to help make the payment to the county for the Ride On service to our students. This represents the amount of the increase in charges from Ride On since FY11. The transportation fund would be in a deficit situation if the entire $1,258,000 due Ride On were charged to this fund.

OTHER FUNDS

<u>Emergency Plant Maintenance and Repair Fund</u>

The emergency plant maintenance and repair fund (EPMRF) is a spending affordability fund. We are requesting an appropriation of $350,000 and county funding equal to last year's amount ($250,000). This funding is crucial for supporting our emergency maintenance needs.

Workforce Development & Continuing Education (WD&CE)
The appropriation request for this fund is $16.1 million. New programming in high demand areas include: health information technology, cosmetology, veterinary technician, "greening" across the curriculum, and vocational English for Speakers of Other Languages. This fund is an enterprise fund and no county funding is requested.

Auxiliary Enterprises
The appropriation request for this fund is $6.4 million. These funds are comprised of child care, retail operations, food services, the Parilla Performing Arts Center, and other facilities rentals. A major expenditure in FY13 is to equip the new child care center in Germantown, which is scheduled to open in June 2012. This fund is an enterprise fund and no county funding is requested.

50th Anniversary Endowment Fund
The College is requesting appropriation authority of $263,000 to plan for the Life Sciences Park at the Germantown Campus. No county contribution is requested.

Cable Fund
The appropriation amount requested is $1,324,850 and is funded through the county cable plan.

Grants
The College is requesting appropriation authority in the amount of $20.5 million. Of this amount, $400,000 is requested in county funds for the Adult ESL/ABE/GED program, which is the same amount as FY12.

Transportation Fund
This fund is comprised entirely of user fees from our students, employees, and certain contract staff. The fund also includes parking enforcement revenue. All revenue will be used to pay for lease costs related to the Takoma Park/Silver Spring West Parking Garage. Through this fund, the College also pays the county for part of the free Ride On bus service for our students. In the past, this fund provided for the entire cost of Ride On but can no longer do so (see above). The appropriation request is $2.5 million.

Major Facilities Reserve Fund
The College is requesting appropriation authority in the amount of $2.4 million for lease payments to the Montgomery College Foundation for lease of The Morris and Gwendolyn Cafritz Foundation Arts Center. This fund is entirely comprised of user fees, and no county funds are requested.

CONCLUSION

In summary, the Montgomery College budget for FY13 consists of a request of $217,636,599 for the current operating fund. Of this amount, we are requesting flat funding of $94,368,755 from the county. The College is also requesting $350,000 for the emergency plant maintenance and repair fund, of which $250,000 is requested in county funds; $20,563,000 for federal, state and private grants, and contracts of which $400,000 is requested in county funds for the Adult ESOL program; and $1,324,850 for cable television. An additional $24,996,064 is budgeted for the self-supporting funds of WD&CE, auxiliary enterprises and transportation fund, $2.4 million for the major facilities reserve fund, and $263,000 for the 50th anniversary endowment fund.

The Board of Trustees respectfully requests total expenditure authority of $267.5 million. We appreciate your careful review and consideration of this budget request. Your ongoing support of Montgomery College is deeply appreciated, and we are grateful that you continue to value post-secondary education for our young people, our families, and our community.

Sincerely yours,

Stephen Z. Kaufman
Stephen Z. Kaufman
Chair, Board of Trustees

DeRionne P. Pollard
DeRionne P. Pollard, Ph.D.
President

MONTGOMERY COUNTY PLANNING BOARD
OFFICE OF THE CHAIRMAN

January 12, 2012

The Honorable Isiah Leggett
Montgomery County Executive
Executive Office Building
101 Monroe Street
Rockville, MD 20850

The Honorable Roger Berliner
President, Montgomery County Council
Stella B. Werner Council Office Building
100 Maryland Avenue
Rockville, MD 20850

Dear Mr. Leggett and Mr. Berliner:

Pursuant to §2.118 of Article 28 of the Annotated Code of Maryland, the Montgomery County Planning Board is pleased to transmit the FY13 Proposed Operating Budget for the Montgomery County funded operations of the Maryland-National Capital Park and Planning Commission. This document contains the comprehensive budget at the department and division summary level. The more detailed program level budget for the Planning and Parks departments will be provided in a Supplemental Program Budget Document in February.

Funding Major Known Commitments and Maintaining Services Levels

Over the last three years, Montgomery County has met the challenge of balancing its budget during difficult fiscal times. Difficult choices and sacrifices have been made by all agencies to meet this challenge. The Commission has been and continues to be a committed partner in meeting this challenge and prioritizing its funding request to ensure essential services can still be provided to the residents of Montgomery County. Our focus remains providing clean and safe parks, and delivering a timely, comprehensive development review program, key master plans, the Zoning Code rewrite and other critical planning programs which drive economic development.

Recognizing that the fiscal environment will again be difficult in FY13, we continue to make difficult choices. We realize that funding will not likely be available to restore previous services cuts or fund needed maintenance, needed infrastructure replacements, and certain studies or plans. Therefore, we developed our FY13 budget request with two guiding points: 1) maintain existing services, and 2) fund major known commitments. To meet major known commitments, the FY13 proposed budget is $123.9 million. This is $5.6 million more than the FY12 adopted budget, a 4.7 percent change.

M-NCPPC Summary of FY13 Proposed Budget
Montgomery County Funds
(net reserves, ALA Revolving, and Internal Service Funds)

	FY12 Adopted	FY13 Proposed	$$ Change	% Change
Montgomery Funds				
Administration	25,492,950	25,777,300	284,350	1.1%
Park	76,313,030	81,404,800	5,091,770	6.7%
ALA Debt	320,900	312,100	(8,800)	-2.7%
Subtotal Tax Supported	**102,126,880**	**107,494,200**	**5,367,320**	**5.3%**
Enterprise	9,622,300	9,853,730	231,430	2.4%
Property Management	938,000	867,700	(70,300)	-7.5%
Special Revenue	5,670,140	5,759,000	88,860	1.6%
Total Montgomery	**118,357,320**	**123,974,630**	**5,617,310**	**4.7%**

Like most state and local government agencies, managing the cost pressure of personnel expenses remains the biggest challenge. The cost pressure for personnel related expenses constitutes nearly all the 4.7 percent increase in the FY13 proposed budget. The table below begins with our FY12 adopted budget total and adds each of the elements that make up the proposed 4.7 percent increase. This itemization shows that the only element comprising that increase that is not a personnel expense is approximately $500,000 in operating major known commitments.

M-NCPPC Summary of FY13 Budget Major Changes Montgomery County Funds

(excludes reserves, internal service funds, and ALA Revolving)

	Amount	% Change
FY 12 Adopted	**118,357,320**	
FY13 Major Changes		
OPEB Paygo	711,200	
OPEB Prefunding	367,300	
Health Insurance	3,478,500	
Pension (ERS)	(1,334,300)	
Restore Temporary Pay Reduction	833,400	
Net Wage and Benefit Restructuring	1,059,400	
Subtotal Personnel Changes	**5,115,500**	**4.3%**
Operating Major Known Commitments	501,810	0.4%
TOTAL FY13 REQUEST	**123,974,630**	**4.7%**

When the cost pressure for personnel expenses is netted out, it is clear that we have held the line for the operating budgets, which have a slight increase of 0.4 percent or a bit more than $500,000. The difficulty with the cost pressure for personnel items is that most of the cost increase is either nondiscretionary, as is the case with health insurance costs, or more prudent to fund sooner rather than later, as is the case with Other Post Employment Benefit (OPEB) costs. The following section of this letter explains the growth in personnel costs in more detail.

In sum, the FY13 proposed budget is based on maintaining current service levels with changes for major known commitments. As outlined previously, the commitments require additional funding in FY13. Increasing cost pressure combined with projected declines in assessable base means that a small tax rate increase will be needed to maintain existing service levels and meet a 3 percent funding reserve. Based on current assessable base estimates, an additional tenth of a cent would be needed in the Administration Fund and five tenths of a cent would be necessary for the Park Fund. We respectfully request consideration of this tax rate change to address the current structural deficit and to avoid further deterioration of service levels.

OVERVIEW OF BUDGET DEVELOPMENT AND ASSUMPTIONS

With the projected decline in assessable base, the Commission is putting forth a flat service level budget for FY13 with modifications for major known commitments. The most significant part of the budget affected by major known commitments is personnel costs. Personnel costs make up 87 percent of the operating budgets for the General Fund in Montgomery County. Therefore, changes in these costs have a material impact on the total budget.

The FY13 proposed budget includes the following major known commitments for personnel costs, as well as a wage adjustment partially offset by benefit restructuring in FY13:

- No cost-of-living increase;
- No merit increases;
- Funding to eliminate the furlough equivalent temporary pay reduction that was applied to Montgomery Departments and CAS Departments in FY12;
- Medical Insurance and Benefit Costs;
- OPEB Pre-Funding at the level necessary to meet the 4th year target amount of the 8 year phase-in plan as determined by the actuarial study;
- OPEB Paygo funding as determined by the actuarial study;
- Full funding of pension contribution as determined by the actuarial study; and
- Wage and benefit restructuring targets.

As can be seen in the table below, imbedded cost pressure for personnel expenses is in excess of $4 million. In an economic climate of declining assessable base and falling property tax revenues, this creates immense fiscal stress in the budget. No inflation growth is budgeted for non-personnel cost increases.

Summary of Changes in Major Employee Benefit Costs
FY13 Proposed Budget Montgomery County Funds

	FY12 Adopted	FY13 Proposed	$$ Change	% Change
OPEB				
OPEB Prefunding	3,141,650	3,508,900	367,250	11.7%
OPEB Paygo	2,656,576	3,367,800	711,224	26.8%
Subtotal OPEB	**5,798,226**	**6,876,700**	**1,078,474**	**18.6%**
Pension (ERS)				
Subtotal Pension (ERS)	**12,598,790**	**11,264,500**	**(1,334,290)**	**-10.6%**
Health and Benefits(1)				
Employee Health Benefits	**8,061,859**	**11,540,400**	**3,478,541**	**43.1%**
Restoration of Temporary Pay Reduction (TPR) (2)				
Furlough Equivalent TPR		833,414	833,414	na
Total Change in Major Personnel Costs	**26,458,876**	**30,515,014**	**4,056,138**	**15.3%**

(1)Health and Benefits includes medical insurances (health, dental, vision, prescription), long-term disability, accidental death and dismemberment, and life insurance.

(2) A furlough equivalent temporary pay reduction was imposed on the Montgomery Departments and CAS Departments.

Note: The year over year difference in pension and health insurance cost is based on total cost and may exclude a reduction of that cost by salary lapse.

The largest personnel cost increase in the FY13 Proposed Budget is for employee health benefits, the cost of which is projected to rise by nearly $3.5 million. In large part, this increase is due to the fact that health insurance rates were kept the same for the last five years by drawing down excess reserves in the Group Insurance Fund. Due to the Commission-wide nature of the Group Insurance Fund, it has not been presented in the Commission's Montgomery County Proposed Budget in its entirety. Previously, the administrative costs were budgeted and consolidated with the Risk Management Fund. In the interest of improved transparency, all Commission-wide group insurance program costs have now been included in the Proposed Budget in the Other Funds Section.

The next largest cost increase is for OPEB, which is going up nearly $1.1 million, an 18.6 percent increase. OPEB refers to the long-term costs to provide retiree health benefits. Like pension costs, the Commission's annual contribution is determined by an actuary to ensure sufficient funding for current and future retiree health benefits. OPEB is funded through two contributions. One contribution is a prefunding of the long-term liability. The other contribution is referred to as OPEB Paygo. The Paygo contribution pays for the cost of retiree health insurance as the costs are incurred in that year. In other words, it is the pay as you go cost of the benefit.

Currently, less than 10 percent of the total OPEB liability is funded. In 2008, a plan was adopted to gradually increase the OPEB prefunding over 8 years up to fully funding the annual required contribution (ARC). Funding of the phase-in plan was suspended in fiscal years 2010 and 2011 because of the budget situation. However, prefunding was resumed for FY12, which was funded at year 3 of the 8 year phase in plan. The proposed budget contains OPEB prefunding to meet the required 4th year funding of the 8 year phase in plan. OPEB Paygo costs are the "pay as you go" cost for retiree medical insurance and claims in the coming budget year. The costs for both components of OPEB have been budgeted based on the most recent actuarial report. OPEB is shown in Non-Departmental accounts in individual funds rather than being allocated to each department.

Fortunately, total pension costs are going down by $1.3 million as a result of favorable market performance and a timing change in recognizing when the employer contribution is made. However, this will be a one-time decline, and it is anticipated that pension cost pressure will be reasserted in coming budget years.

Wage and Benefit Restructuring Approach and Targets

Continued growth in personnel costs presents sustainability challenges given the housing market, property tax revenue outlook, and structural deficits. If these costs continue to grow unabated, the Commission may be cutting one part of its budget to pay for increases in other parts. Moreover, the significance of this dilemma is understated because the personnel cost assumptions for FY13 do not assume cost growth for merit increases and cost of living adjustments, generally the two largest cost drivers of structural deficits.

The Commission recognizes that it must develop strategies to manage personnel costs without compounding the structural deficits and at the same time maintain wage competitiveness to retain and attract the talent necessary to deliver services. To this end, the FY13 proposed budget contains budget targets to reduce benefit costs by shifting more cost to the employee, as well as a small increase in employee compensation, intended as a one-time payment rather than an addition to base salary, to mitigate the impact on employees.

The proposed budget contains two strategies to help bend the cost curve for health insurance and pension. Health insurance costs are currently shared 85% employer and 15% employee. A savings target has been budgeted to shift the cost share to one that is more comparable to the cost share in Prince George's and Montgomery County governments. For pension costs, a savings target has also been budgeted to reduce the employer's pension contribution. Actual changes to employee compensation are subject to collective bargaining for represented employees, which may result in a different outcome. In addition, the Commission has partnered with MCGEO and the FOP Lodge No. 30 to engage a health benefits consultant to review our health benefits claims history and recommend changes to contain costs. The results of that review may influence the outcome of negotiations and the final benefit package.

With regard to wages, the FY13 proposed budget contains a one-time salary adjustment amount. Again, it is important to state that actual changes to employee compensation are subject to collective bargaining for represented employees, which may result in a different outcome. The net FY13 budget amount for benefit cost restructuring, savings and wage adjustments is $1.06 million. For FY13 the amount budgeted for the wage adjustments is greater than the anticipated first year savings from benefit restructuring. However, in future years the savings will offset the FY13 wage adjustment.

Summary of FY13 Proposed Budgets for General Fund

Departments have developed proposed operating budgets that meet the Commission's guidance of maintaining current service levels for FY13. In the General Fund, operating budgets are generally flat compared to the FY12 adopted budget. The substantial increases in health insurance cost are offset, and in some departments more than offset, by the declines in pension cost and the reclassification of the OPEB paygo cost. The material changes in the proposed budget are in the Non-Departmental accounts, which include the OPEB costs and compensation restructuring targets. The table below provides a comparative summary of the FY13 proposed budget to the FY12 adopted budget for the General Fund. Specific changes in each of the departments are explained in full detail in the department pages section of the Budget Book.

M-NCPPC Summary of FY13 Proposed Budget for Montgomery County General Fund (excluding reserves)

	FY12 Adopted	FY13 Proposed	$$ Change	% Change
Administration Fund				
Commissioners Office	1,081,400	1,080,200	(1,200)	-0.1%
Planning Department	17,196,150	16,404,900	(791,250)	-4.6%
CAS	6,383,650	6,525,500	141,850	2.2%
Non-Departmental (1)	831,750	1,766,700	934,950	112.4%
Subtotal Admin Fund	**25,492,950**	**25,777,300**	**284,350**	**1.1%**
Park Fund				
Park Fund Operating	74,620,830	75,561,200	940,370	1.3%
Non-Departmental (1)	1,692,200	5,843,600	4,151,400	245.3%
Subtotal Park Fund	**76,313,030**	**81,404,800**	**5,091,770**	**6.7%**
Montgomery Total General Funds	**101,805,980**	**107,182,100**	**5,376,120**	**5.3%**

(1) Non-Departmental includes (1) OPEB prefunding and OPEB paygo; (2) budget markers for savings from benefit cost restructuring; and (3) a marker for wage adjustments. In addition, OPEB Paygo costs were previously budgeted in department personnel budgets. For FY13, these costs have been recategorized and budgeted as Non-Departmental with the OPEB Prefunding costs.

PROGRAM HIGHLIGHTS

Despite the challenging budget year, we are committed to an FY13 work program that helps achieve our goal of maintaining Montgomery County as one of the nation's best places to live. Below are some highlights of the program budget focus in each of the departments. A more detailed discussion of department budgets is provided in the Department pages of the Budget Book.

Parks Department

The Department of Parks will focus on delivering core services to properly operate, maintain and protect our park system.

Specific efforts are as follows:

Providing Programs and Amenities for the Community at Large

- Establish and maintain opportunities for healthy activities in parks that contribute to the community and family well-being;
- Ensure the safety of park visitors, park staff, service providers, lessees/partners, and park community neighbors;
- Respond promptly to community complaints and comments regarding park facilities, programs, or other public areas managed by the department;
- Manage impacts to the Capital Crescent Trail and adjacent parkland as the Purple Line is planned;
- Expand community gardens program to 12 locations from the current 10, and work to sustain existing gardens, which doubled in past year;
- Maintain heavily used park areas (ball fields, playgrounds, trails, etc.) at the best level possible with a constrained budget;
- Begin construction of the long-awaited Germantown Town Center Park project, which was delayed due to the impact of debt service costs on our operating budget;
- Work to find sufficient funding to maintain new Woodstock equestrian facility outdoor ring area;
- Coordinate with the Department of Transportation for snow and ice removal;
- Cooperate with other County and State agencies to share resources to meet common goals, both emergency and non-emergency;
- Work with MCPS and other County agencies to develop programs to fulfill the State's new environmental literacy requirement for graduating seniors;
- Continue self-sufficiency in park Enterprise programs;
- Increase inclusionary programs and opportunities for diverse populations;
- Address mandated park accessibility requirements;
- Continue supporting the Maryland Partnership for Children in Nature through our own "No Child Left Inside" initiative, with our parks, nature centers, and schools.

Revenue Enhancement

- Increase revenue through the creation or expansion of major gifts, sponsorships, grants, and individual donation programs;
- Position the Montgomery Parks Foundation to generate support for the Department of Parks by successfully attracting major donors to our park system;
- Enhance revenue through increased rentals of park facilities, where appropriate, and employ the Vision 2030 Cost Recovery Model for services;
- Continue review of all lease, rental, former partnership, and occupancy policies to ensure we are charging fairly and appropriately for park managed properties.

Planning for the Future of the County

- Complete the Comprehensive Amendment to the Countywide Park Trails Plan;
- Complete the Urban Park Planning Guidelines;
- Complete the 2012 Update of Parks Recreation and Open Space (PROS) Plan for Montgomery County/ Land Preservation, Parks and Recreation Plan (LPPRP);
- Complete the amendment to the Agricultural History Farm Park Master Plan;
- Complete the Use Capacity and Repurposing Studies for Fields and Tennis Courts;
- Complete the Site Selection Studies for Skate Parks, Dog Parks, and Community Gardens;
- Provide Park's recommendations for community based master plans including Burtonsville, Long Branch, Chevy Chase Lakes, Glenmont, and White Oak Science Gateway;
- Participate actively in the work group with Montgomery County Public Schools on new school site selection to meet increasing demand for schools without hurting our parks.

Protecting Natural and Cultural Resources

- Expand Sustainable and Environmental Site Design and Low Impact Development to create more sustainable parks;
- Expand and enhance the coordination of the County's deer management program, which the Department of Parks manages and staffs for both parks and non-parklands;
- Continue stabilization and interpretation of priority historical sites;
- Improve stormwater and park stream management and protection.

Planning Department

The Planning Department continues to deliver its core services to improve the quality of life in Montgomery County by conserving and enhancing both natural and man-made environments for current and future generations. Central to this role, the Department develops master plans, reviews development applications, and researches, analyzes and presents information to the community and public officials to aid them in planning for Montgomery County's future. In FY12, the Department evaluated, reduced and/or eliminated non-core services and operating costs, through full implementation of a reorganization. In FY13, the Department's work program focuses on core functions as described in both the Maryland Code and the Montgomery County Code.

Master Planning and Major Projects

Master plans shape communities by advancing the goals of the General Plan and setting the stage for development that will benefit County residents, enhance quality of life, and improve future economic development potential. The process used to develop master plans includes broad public involvement, detailed research into a variety of issues, analysis of functional areas such as transportation capacity and housing needs, and testing alternative scenarios. The FY13 proposed budget includes completion of the Countywide Transitways Functional Master Plan and the Long Branch and Chevy Chase Sector Plans. Work will continue throughout FY13 on the White Oak Science Gateway, Glenmont, White Flint II and Gaithersburg East Sector Plans. Work is scheduled to begin in FY13 on an amendment to the Communities of Kensington/Wheaton Master Plan. The Department will also have capacity to complete two neighborhood plan/minor master plan amendments.

In addition, the Department will complete the 2012 update of the Subdivision Staging Policy/Growth Policy, a Special Project per Council's direction, including the following significant changes to existing policies and methodologies:

- Replacement for Policy Area Mobility Review;
- Next generation of Smart Growth Criteria;
- Methodology to replace reliance on Critical Lane Volumes in Local Area Transportation Review;
- Methodology to incorporate carbon offsets;
- Evaluation of changes in trip generation rates/VMT (vehicle miles of travel) for neighborhood-serving retail types and proximity;
- Changes to Policy Area boundaries.

The Department will continue its work on the Zoning Code Rewrite. Activities for FY13 include:

- Continuing the public outreach program that includes soliciting public input on a consolidated public review draft;
- Soliciting and evaluating stakeholder comments throughout the public, Planning Board and Council review;
- Developing a Staff Draft for the Planning Board that incorporates comments received on the public review draft;
- Engaging in work sessions with the Planning Board;
- Developing a Planning Board Draft for transmittal to the Council;
- Engaging in work sessions with the PHED committee and Council.

Regulatory Program

With fewer resources, simplifying the Department's development application processes becomes more critical. The Department has already made streamlining improvements such as allowing preliminary plan and site plan applications to be filed and reviewed simultaneously, and staff continues to work on designing a new or modified development review processes that will improve service delivery and efficiency. In FY13, the Department will fully implement the Project.Dox based electronic plan submission and review software, ePlan Montgomery, which includes an on-line review system that will allow all relevant county agencies to review applications on-line.

Information Resources

The Planning Department provides the County with an important asset—information. Public access to information is available through the Website, in print and electronic formats, and through walk-in and phone-in services. Priorities for FY13 include:

- Implement an integrated Hansen (web based application tracking) and Project.Dox (on-line application intake) framework.
- Develop web based GIS tools designed to share the agency's development pipeline, master plan staging process, and other extended planning information and analytics with County agencies, the land development community, and the rest of the public.
- Continue ongoing work on developing address, parcel, and other County GIS base layer data and integrating with application intake and land use monitoring functions.
- Enhance the County's land use forecasting model to better incorporate information from our existing development pipeline, newly proposed Master Plans, the new 2010 Census, and newly available economic datasets and models.
- Regular analysis and publications that give policy makers insight into the demographic and land use trends that shape the County.

Central Administrative Services (CAS)

Like the operating Departments, the CAS Departments/units were restructured in FY11 to deliver mandatory services with significantly reduced resources. The FY13 proposal is at a same service level. In FY13, work priorities continue to be centered on responsive customer service, improved governance and cost containment.

Responsive Customer Service

- Continue the Enterprise Resource Planning System (ERP) project (corporate financial and human resources system) to more efficiently and effectively deliver services by CAS and to provide improved information access and system integration for operating departments;
- Rebuild a more effective and efficient budget function to achieve best value-add through reengineering financial projections, cost allocation and other modeling processes;
- Identify opportunities for service improvements for the Legal Transactions Practice Team.

Improved Governance

- Under the leadership of the CIO and in collaboration with the IT Council and Departments' Chief Technology Officers, develop a Commission-wide strategic plan for enterprise IT projects;
- Continue the revision of critical Commission policies and class specifications;
- Continue implementing priority CAS Study recommendations.

Cost Containment

- Implement Commission-wide strategies to slow the growth of compensation costs;
- Pilot digital records management system in collaboration with departments and the State.

TAX RATES AND LONG-TERM FISCAL SUSTAINABILITY

In addition to meeting the immediate FY13 challenges, the Commission is concerned about its long-term fiscal sustainability. Property taxes comprise more than 95 percent of revenue in the tax-supported funds. The continued decline of the actual property assessments, compounded by the three-year assessment cycle, present the Commission with a projected revenue growth significantly lagging the future economic recovery. Due to the fact that other agencies have more diversified revenue sources, this challenge is particularly severe for the Commission and calls for reversing the recent trend of significantly declining Commission property tax rates.

The proposed budget reflects for the Administration Fund and Park Fund slightly increased tax rates, which are necessary to maintain operations and meet a 3 percent reserve requirement. This requires a tenth of a cent increase in the Administration Fund and five tenths of a cent increase in the Park Fund. Even with these slight increases, the combined tax rate remains lower than FY06. Like the County, the Commission supports a more fiscally responsible approach with current revenues almost fully funding current expenditures. Importantly, the proposed rate changes remove the structural deficits for FY13 and place both funds on more stable financial ground for the future; hopefully this will build a foundation for longer term financial sustainability. The Advance Land Acquisition Fund tax rate is proposed to remain unchanged from FY12.

MONTGOMERY COUNTY PROPERTY TAX RATES (Cents per $100 of assessed value)								
FUNDS	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ADOPTED	Proposed
	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13
Administration Fund								
Real	2.2	2.0	1.9	1.9	1.8	1.5	1.7	1.8
Personal	5.5	5.0	4.7	4.7	4.5	3.8	4.3	4.5
Park Fund								
Real	6.1	5.7	5.8	5.3	5.0	4.5	4.8	5.3
Personal	15.3	14.3	14.5	13.2	12.5	11.2	12.0	13.2
Adv. Land Acquisition Fund								
Real	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Personal	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total Tax Rates (Cents)								
Real	**8.4**	**7.8**	**7.8**	**7.3**	**6.9**	**6.1**	**6.6**	**7.2**
Personal	**21.1**	**19.6**	**19.5**	**18.2**	**17.3**	**15.3**	**16.6**	**18.0**

CONCLUSION

In summary, the Commission is making continuous efforts to maintain the current level of services with a reduced workforce by focusing on our core services, primarily through improved processes and reallocation of resources. We fully understand the current economic situation and look forward to working with the Council and Executive to incorporate adjustments where needed.

We look forward to working with you and your staffs on our FY13 budget proposal.

Sincerely,

Françoise M.

Françoise M. Carrier

Chair

Washington Suburban Sanitary Commission

14501 Sweitzer Lane Laurel, MD 20707-5901
(301) 206-8000 1(800) 828-6439 TTY: (301) 206-8345 www.wsscwater.com

March 1, 2012

To The Honorable:

County Executives of Montgomery
and Prince George's Counties

President, Chair, and Members
of the County Councils of
Montgomery and Prince George's Counties

Valued Customers and Interested Citizens:

We are hereby transmitting the Fiscal Year 2013 (FY'13) Proposed Capital and Operating Budget Document for the Washington Suburban Sanitary Commission (WSSC). In January, a preliminary FY'13 budget was published and distributed for review by interested customers, citizens, and officials. Public Hearings were held on Wednesday, February 1, and Thursday, February 2, 2012. The FY'13 Proposed WSSC Budget is now submitted to the County Executives and Councils of Montgomery and Prince George's Counties for hearings and other procedures as directed by Section 17-202 of the Public Utilities Article, WSSD Laws, Annotated Code of Maryland, before a final budget is adopted for the next fiscal year, beginning July 1, 2012.

The Commission's commitment to our customers both now and in the future is incorporated in the programs, goals, and objectives included in this budget. This proposed budget reflects our continued focus on providing safe and reliable water, returning clean water to the environment, and doing it in an ethically and financially responsible manner.

However, we have many fiscal challenges directly related to our aging water and sewer infrastructure, Sanitary Sewer Overflow Consent Decree compliance, and cost increases at regional sewage disposal facilities where WSSC has purchased capacity. To meet these challenges, an increase in our rates is required. The Proposed FY'13 combined average 7.5% rate increase will add approximately $4.86 per month to the bill of a customer who uses 210 gallons of water per day. The impact on customers' annual water and sewer bills at various consumption levels is shown on Table V (page 14).

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Water and Sewer Infrastructure

The state of the WSSC's infrastructure remains a significant concern now and in the future. Water main break rates continue to increase (December 2010 was a record high month with 647 breaks or leaks) and major failures may continue to occur unless we re-invest in this critical infrastructure. We continue to work with stakeholders in both counties to develop a long-term funding solution to meet the WSSC service area's infrastructure needs. The Bi-County Infrastructure Funding Working Group has made considerable progress over the past year and should be making recommendations to the Commission by the end of the fiscal year. In the interim, this budget includes additional rate-supported funding for the water and sewer reconstruction programs, which focus on small diameter pipe and appurtenances, as well as increased funding for capital projects for large diameter water and large diameter sewer pipe rehabilitation. It also continues to include funding for inspection and repair of critical water and sewer infrastructure, including the large water main inspection program. Making decisions about funding requirements for re-investment in our water and sewer infrastructure so that we continue providing established levels of service is being accomplished through the implementation of an Asset Management Program and an Enterprise Resource Planning/Enterprise Asset Management System (this is a major initiative that unifies and automates the Commission's financial and human resources, business and production processes, and other information systems more effectively so that we can allocate and manage our assets to achieve our goals at the lowest cost). Simply put, these important initiatives will help WSSC ensure that we are doing the right projects at the right time and that infrastructure dollars are spent as wisely as possible.

WSSC is likely to continue to experience high numbers of water main breaks, especially in the winter, until substantially more water main replacement work is accomplished. As part of our continuing effort to provide the highest quality service to our customers, in FY'11, we began the process of doubling the in-house water main replacement crews and shifting the associated responsibility for replacement of up to six miles of water main annually from outside contractors to these crews. The in-house cost of water main replacement is about the same as with outside contractors, so this shift of responsibility could be accomplished at no additional cost. This shift to in-house staff will also enable us to use our water main replacement crews for water main break repairs during periods when large numbers of water main breaks have an impact on our customers. This shift in approach toward water main replacement, which will be fully implemented in the current fiscal year, will allow us to maintain our momentum in this program while providing better overall service to our customers at the same cost or less.

FY'13 Proposed Capital and Operating Budgets

Our Proposed Budget for FY'13 includes a 7.5% rate increase. We recognize that these are difficult economic times for many in the bi-county area, and this proposed budget is striving to balance the additional financial impact on our customers with the overall benefit to our customers of the planned operating and capital programs we believe are necessary to support water and sewer services. It should be noted that, at this time, merit increases and a 2% cost-of-living adjustment (COLA) for all employees are included in this budget. For union-represented employees, these items are included in accordance with the terms of the negotiated collective bargaining agreement between WSSC and the union representing certain employees. These two items contribute 0.61% to the overall rate increase. As of the time of this letter, we do not have an indication from the Counties as to how they are approaching COLAs or merits for their employees. Therefore, we feel that it is incumbent upon us to identify the inclusion of these items in the budget, and to disclose their effect on the proposed rate increase.

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	FY'12 Approved	FY'13 Proposed	FY'13 Over / (Under) FY'12	% Change
Capital Funds				
Water Supply	$198,844,000	$240,107,000	$41,263,000	20.8 %
Sewage Disposal	332,424,000	536,771,000	204,347,000	61.5 %
General Construction	34,654,000	19,984,000	(14,670,000)	(42.3) %
Total Capital	565,922,000	796,862,000	230,940,000	40.8 %
Operating Funds				
Water Operating	251,595,000	269,337,000	17,742,000	7.1 %
Sewer Operating	323,390,000	350,271,000	26,881,000	8.3 %
General Bond Debt Service	51,160,000	41,455,000	(9,705,000)	(19.0) %
Total Operating	626,145,000	661,063,000	34,918,000	5.6 %
GRAND TOTAL	$1,192,067,000	$1,457,925,000	$265,858,000	22.3 %

The FY'13 Proposed Capital Budget of $796.9 million represents an increase of $230.9 million (40.8%) from the FY'12 Approved Budget. The significant increase is attributable to several major projects scheduled to move forward or to ramp up construction work in FY'13 including both the Blue Plains Wastewater Treatment Plant Digester and Enhanced Nutrient Removal projects, the Broad Creek Wastewater Pumping Station Augmentation, the Patuxent Water Filtration Plant Expansion, the Large Diameter Water Pipe Rehabilitation Program and both the small diameter Sewer Reconstruction Program and large diameter Trunk Sewer Reconstruction Program.

In summary, the FY'13 estimated expenditures for all operating and capital funds total $1.5 billion or $265.9 million (22.3%) more than the FY'12 Approved Budget. The FY'13 Proposed Operating Budget of $661.1 million represents an increase of $34.9 million (5.6%) from the FY'12 Approved Operating Budget. The primary driver of this increase is debt service associated with the increased Capital Budget. Water and sewer operating debt service costs are expected to exceed FY'12 budgeted debt service by $25.4 million. Other drivers include cost increases at regional sewage disposal facilities, Sanitary Sewer Overflow Consent Decree

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compliance including expansion of the Sewer Lateral Inspection Program, an increase in the operating reserve, and 12 new workyears in direct support of operations and maintenance of the water and sewer systems.

Spending Affordability

The Commission, in cooperation with the Montgomery County and Prince George's County governments, continues to participate in the spending affordability process. The spending affordability process focuses debate on balancing affordability considerations against providing the resources necessary to serve existing customers (including infrastructure replacement/rehabilitation), meet environmental mandates, and provide the facilities needed for growth. In October 2011, the Montgomery and Prince George's County Councils approved resolutions establishing the following four limits on the WSSC's FY'13 budget:

- New water and sewer debt will not exceed $481.8 million;
- Total water and sewer debt service will not exceed $212.7 million;
- Total water and sewer operating expenses will not exceed $629.0 million; and
- Water and sewer rates are limited to an increase of 8.5%.

As indicated in the following table, the proposed FY'13 budget is in compliance with all of the spending affordability limits. The Commission is pleased to be able to put forth a budget that maintains service levels; increases funding for infrastructure replacement and rehabilitation; and that requires a water and sewer rate increase that is less than the spending affordability limit.

WSSC FY'13 Proposed Budget vs. Spending Affordability Limits
($ in Millions)

	FY'13 Proposed Budget	Spending Affordability Limit	Over/(Under) Limit
New Water and Sewer Debt	$481.8	$481.8	-
Total Water and Sewer Debt Service	$211.3	$212.7	($1.4)
Total Water/Sewer Operating Expenses	$619.6	$629.0	($9.4)
Water/Sewer Bill Increase	7.5%	8.5%	(1.0%)

The proposed budget provides for:

- Funding the first year of the FYs 2013-2018 Capital Improvements Program;
- Increased funding for the Water and Sewer Reconstruction Programs;
- Complying with the Sanitary Sewer Overflow Consent Decree;
- Inspecting and monitoring our large diameter water main transmission system;
- Promptly paying $251.3 million in debt service on $2.0 billion in outstanding debt to WSSC bondholders;
- Meeting or surpassing all federal and state water and wastewater quality standards and permit requirements;
- Keeping maintenance service at a level consistent with the objective of arriving at the site of a customer's emergency maintenance situation within 2 hours of receiving the complaint and restoring service within 24 hours of a service interruption;
- Paying the WSSC's share of the cost of operating the District of Columbia Water and Sewer Authority's Blue Plains Wastewater Treatment Plant;
- Funding for merit increases and a 2% cost-of-living adjustment for all eligible employees;
- Operating and maintaining a system of 3 reservoirs impounding 14 billion gallons of water, 2 water filtration plants, 7 wastewater treatment plants, 5,500 miles of water main, and 5,400 miles of sewer main 24 hours a day, 7 days a week;
- Continuing to increase the operating reserve toward our goal of 10% of water and sewer rate revenues;
- Funding the implementation of an Enterprise Resource Planning/Enterprise Asset Management System; and
- Funding the sixth year of an 8-year ramp-up to achieve full funding of the annual required contribution for non-retirement post-employment benefits based on Government Accounting Standards Board Statement No. 45.

In addition to reviewing expenses and revenues for water and sewer services, we have analyzed the cost and current fee levels for other WSSC services. Based upon these analyses, some new fees and adjustments to current fees are recommended in Table VIII (page 17).

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Budget Review Process

The Proposed Budget is subject to the Counties' hearings, procedures, and decisions, as provided under Section 17-202 of the Public Utilities Article, WSSD Laws, Annotated Code of Maryland, before the final budget is adopted for the fiscal year beginning July 1, 2012.

2/15/2012

Dr. Roscoe M. Moore, Jr., Chair
Washington Suburban Sanitary Commission

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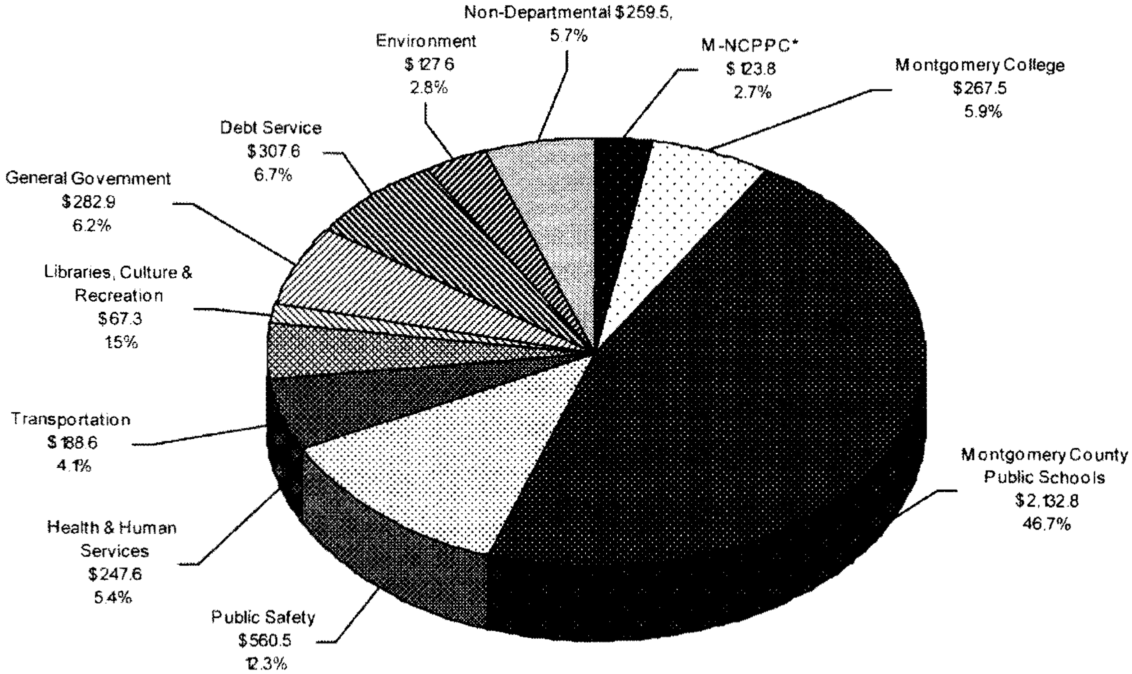
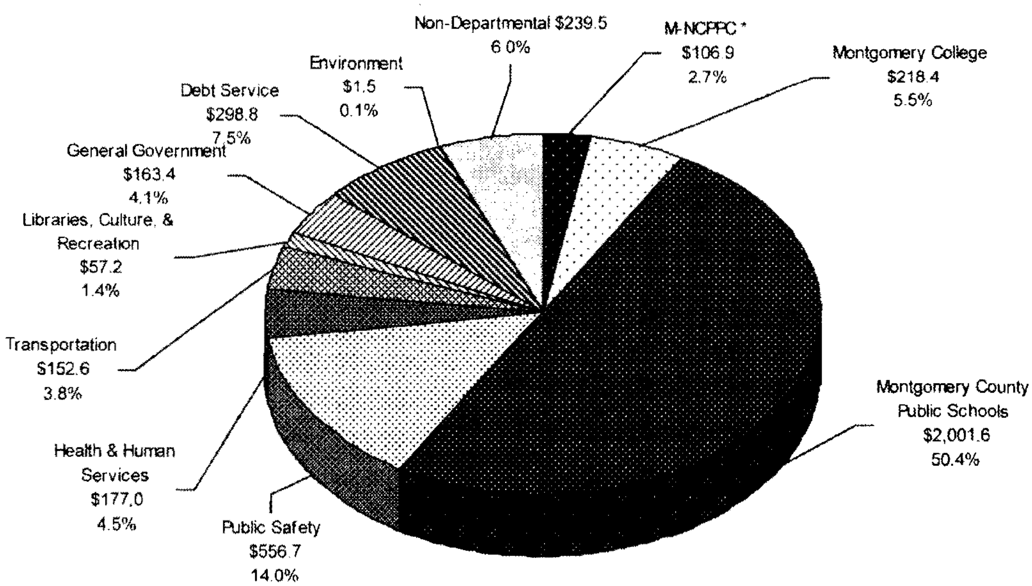
FY13 EXPENDITURES BY FUNCTION

TOTAL EXPENDITURES - $4,565.7 (million)



*Total M-NCPPC includes $4.8 million debt service.

TAX SUPPORTED EXPENDITURES - $3,973.6 (million)



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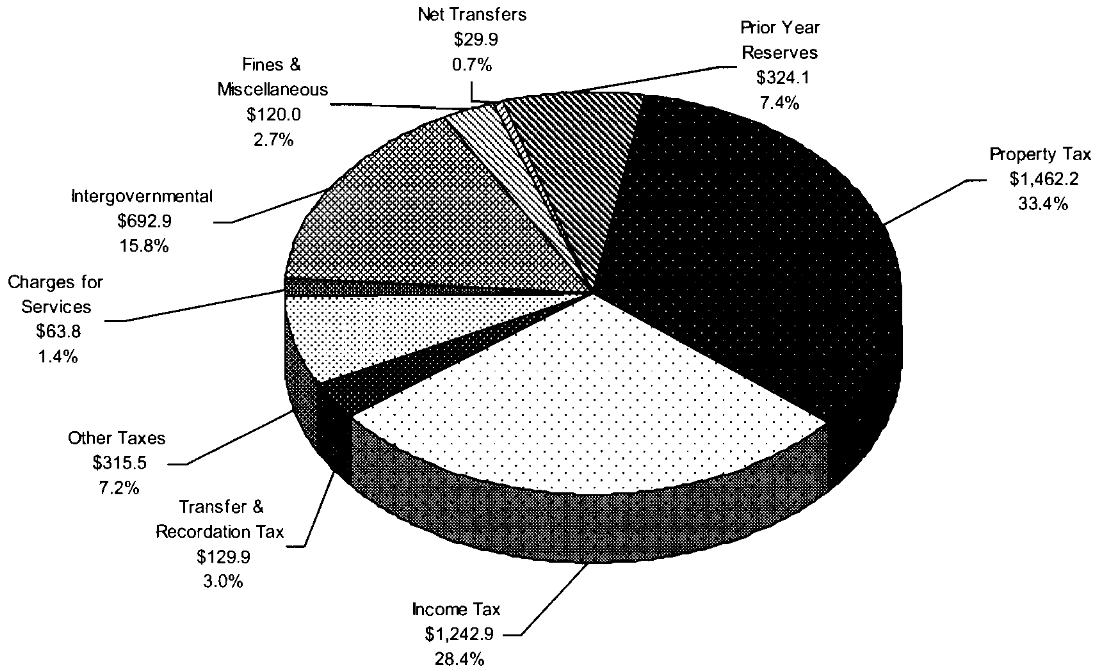
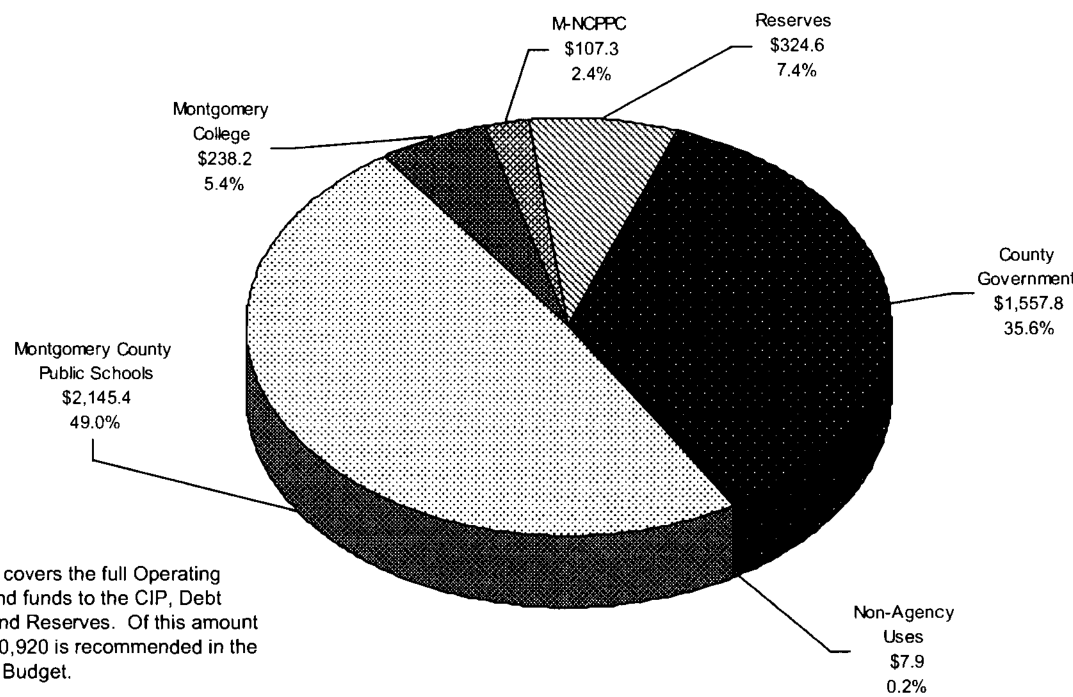
FY13 TAX SUPPORTED AGENCIES AND FUNDS

WHERE THE MONEY COMES FROM
TOTAL APPROVED RESOURCES - $4,381.2 (million)



WHERE THE MONEY GOES *
TOTAL APPROVED USES OF FUNDS - $4,381.2 (million)



*This total covers the full Operating Budget, and funds to the CIP, Debt Service, and Reserves. Of this amount $3,973,610,920 is recommended in the Operating Budget.

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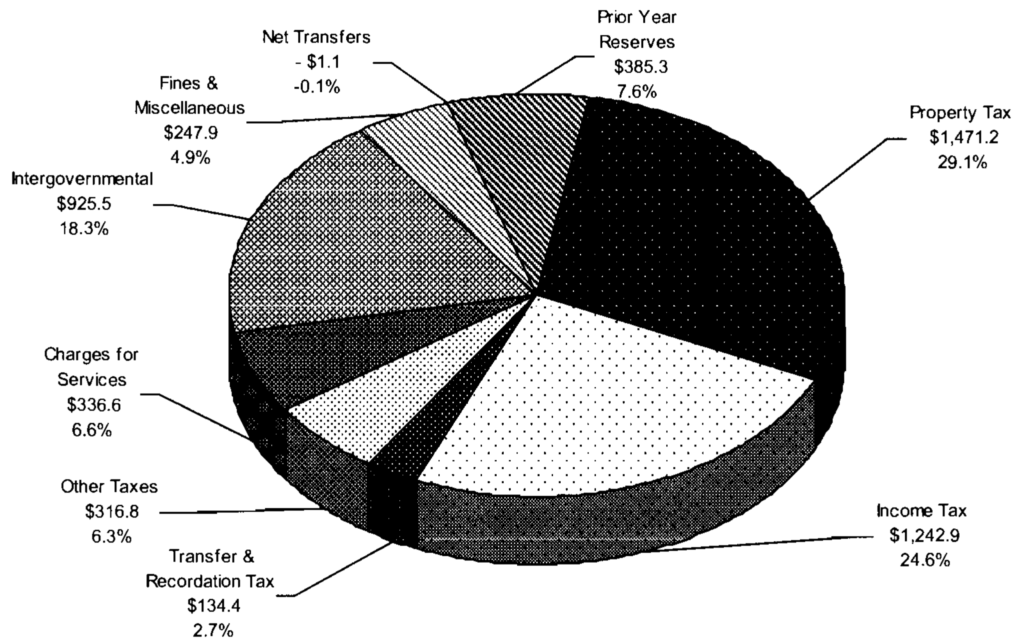
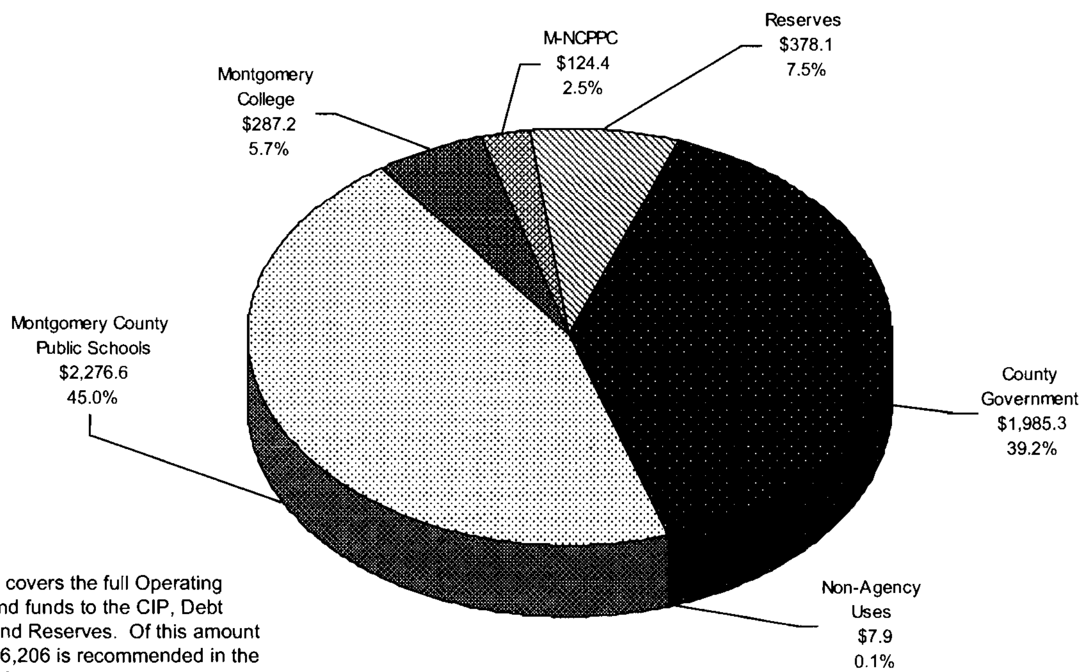
FY13 ALL AGENCIES / ALL FUNDS

WHERE THE MONEY COMES FROM
TOTAL APPROVED RESOURCES - $5,059.5 (million)



WHERE THE MONEY GOES *
TOTAL APPROVED USES OF FUNDS - $5,059.5 (million)



*This total covers the full Operating Budget, and funds to the CIP, Debt Service, and Reserves. Of this amount $4,565,696,206 is recommended in the Operating Budget.

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SPENDING AFFORDABILITY COMPARISON

(Dollars in Millions)

A CATEGORY	B FY12 CC Approved 5-26-11	C FY12 Estimate	D FY13 CC SAG 2-14-12	E FY13 Recommended 3-15-12	F FY13 % Chg Rec / App	G FY13 $ Chg Rec / App
Property Tax	1,462.2	1,437.0		1,462.2	0.0%	(0.0)
Income Tax	1,117.2	1,227.1		1,242.9	11.2%	125.6
Transfer/Recordation Tax	143.5	123.9		129.9	-9.5%	(13.6)
Other Tax	325.3	311.6		315.5	-3.0%	(9.8)
General State/Fed/Other Aid	665.0	662.2		692.9	4.2%	27.8
All Other Revenue	178.8	177.0		183.8	2.8%	5.0
Revenues	**3,892.1**	**3,938.7**		**4,027.2**	**3.5%**	**135.1**
Net Transfers In (Out)	41.3	35.9		29.9	-27.6%	(11.4)
Set Aside: Potential Supplementals	0.0	(10.0)		0.0	n/a	0.0
Set Aside: Other Claims	(0.2)	(0.2)		(0.1)	-67.2%	0.1
Beginning Reserve: Total	178.9	186.0		324.1	81.1%	145.2
Revenue Stabilization Fund	94.1	94.5		139.6	48.3%	45.5
Reserve: Designated	0.0	0.0		0.0	n/a	0.0
Reserve: Undesignated	84.8	91.5		184.5	117.6%	99.7
TOTAL RESOURCES	**4,112.1**	**4,150.4**		**4,381.1**	**6.5%**	**269.0**
APPROPRIATIONS						
Capital Budget:						
CIP Current Revenue	(35.0)	(35.0)	(59.2)	(53.5)	52.8%	(18.5)
CIP PAYGO	(31.0)	(31.0)	(29.5)	(29.5)	-4.8%	1.5
CIP PAYGO Rec Tax Undesignated	0.0	0.0	0.0	0.0	n/a	0.0
Operating Budget:						
MCPS	(1,950.9)	(1,926.8)	(1,997.0)	(2,001.6)	2.6%	(50.7)
College, Total	(218.0)	(214.6)		(218.4)	0.2%	(0.4)
Less College Tuition	80.5	81.7		85.5	6.2%	5.0
College, Net	(137.5)	(132.9)	(137.5)	(132.9)	-3.4%	4.6
County Government	(1,175.8)	(1,196.0)	(1,167.2)	(1,240.5)	5.5%	(64.7)
M-NCPPC	(94.3)	(94.3)	(93.6)	(98.8)	4.7%	(4.5)
Retiree Health Insurance Prefunding	(49.6)	(49.6)	(146.6)	(110.7)	123.1%	(61.1)
Other: (Unallocated) / GAP	0.0	0.0		0.0	n/a	0.0
Total Operating Budget:	**(3,488.7)**	**(3,481.4)**		**(3,670.1)**	5.2%	**(181.3)**
Debt Service:						
All County Debt Service	(262.1)	(248.7)	(315.0)	(268.9)	2.6%	(6.8)
M-NCPPC Debt Service	(4.7)	(4.2)	(6.0)	(4.8)	1.8%	(0.1)
MCG Long Term Leases (b)	(29.5)	(26.1)	0.0	(29.9)	1.4%	(0.4)
TOTAL APPROPRIATIONS (incl. Capital, Operating & Debt Service)	**(3,851.0)**	**(3,826.4)**	**(3,951.6)**	**(4,056.6)**	**5.3%**	**(205.6)**
Aggregate Operating Budget (excludes College tuition)	**(3,770.5)**	**(3,744.7)**	**(3,951.6)**	**(3,971.1)**	**5.3%**	**(200.6)**
Revenue Stabilization Fund (new $s)	(20.4)	(45.1)		(21.0)	3.0%	(0.6)
Ending Reserve: Total	**261.1**	**324.1**		**324.5**	**24.3%**	**63.4**
Revenue Stabilization Fund	**114.5**	**139.6**		**160.6**	**70.3%**	**46.1**
Ending Reserve: Designated	**0.0**	**0.0**		**0.0**	**n/a**	**0.0**
Ending Reserve: Undesignated	**146.6**	**184.5**		**163.9**	**11.8%**	**17.3**
Maximum AOB without 6 votes (Prior Year AOB + inflation as shown)	**(3,689.4)** **2.40%**	**(3,778.9)** **2.40%**		**(3,700.2)** **2.70%**		

a) Based on latest revenue and expenditure estimates as prepared by Department of Finance and OMB.
b) Long term leases of Montgomery County Government are considered equivalent to debt service.

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BUDGET SUMMARY BY AGENCY				
($ In Millions)				
A	B	C	D	E
FISCAL YEAR	**TAX SUPPORTED**	**GRANT SUPPORTED**	**SELF SUPPORTED**	**GRAND TOTAL**
MONTGOMERY COUNTY GOVERNMENT *				
FY12 Approved	1,222.9	111.3	262.8	1,597.0
FY13 Recommended	1,347.8	107.5	278.6	1,733.9
Percent Change From FY12	10.2%	-3.4%	6.0%	8.6%
MONTGOMERY COUNTY PUBLIC SCHOOLS				
FY12 Approved	1,950.9	79.3	56.5	2,086.8
FY13 Recommended	2,001.6	73.7	57.5	2,132.8
Percent Change From FY12	2.6%	-7.1%	1.7%	2.2%
MONTGOMERY COLLEGE				
FY12 Approved	218.0	21.0	29.0	268.0
FY13 Recommended	218.4	20.2	28.9	267.5
Percent Change From FY12	0.2%	-4.1%	-0.2%	-0.2%
MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION				
FY12 Approved	96.9	0.6	16.1	113.6
FY13 Recommended	102.2	0.6	16.4	119.1
Percent Change From FY12	5.5%	0.0%	1.5%	4.9%
ALL AGENCIES WITHOUT DEBT SERVICE				
FY12 Approved	3,488.7	212.2	364.4	4,065.4
FY13 Recommended	3,670.1	201.9	381.4	4,253.3
Percent Change From FY12	5.2%	-4.9%	4.6%	4.6%
DEBT SERVICE: GENERAL OBLIGATION & LONG TERM LEASES				
FY12 Approved	296.2	-	5.1	301.3
FY13 Recommended	303.5	-	8.9	312.4
Percent Change From FY12	2.5%	0.0%	74.7%	3.7%
TOTAL BUDGETS				
FY12 Approved	3,785.0	212.2	369.5	4,366.7
FY13 Recommended	3,973.6	201.9	390.2	4,565.7
Percent Change From FY12	5.0%	-4.9%	5.6%	4.6%

*Includes payments to Retirees Health Benefits Trust.

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REVENUE SUMMARY
TAX SUPPORTED BUDGETS
($ Millions)

	A KEY REVENUE CATEGORIES	B App. FY12	C Estimate FY12	D % Chg. FY12-13	E %Chg FY12-13	F Projected FY13	G % Chg. FY13-14	H Projected FY14	I % Chg. FY14-15	J Projected FY15	K % Chg. FY15-16	L Projected FY16	M % Chg. FY16-17	N Projected FY17	O % Chg. FY17-18	P Projected FY18
	TAXES	5-26-11		Rec/Bud	Rec/Est											
1	Property Tax (less PDs)	1,462.2	1,437.0	0.0%	1.8%	1,462.2	3.0%	1,505.8	3.1%	1,553.2	3.5%	1,608.2	3.5%	1,664.5	3.1%	1,715.4
2	Income Tax	1,117.2	1,227.1	11.2%	1.3%	1,242.9	2.9%	1,278.9	6.7%	1,364.4	4.7%	1,428.8	3.6%	1,480.0	4.2%	1,541.5
3	Transfer Tax	83.3	74.2	-3.2%	8.7%	80.7	9.2%	88.1	5.8%	93.2	6.9%	99.6	7.3%	106.9	5.7%	113.0
4	Recordation Tax	51.9	45.3	-4.9%	8.7%	49.3	6.4%	52.4	5.3%	55.2	8.3%	59.8	7.6%	64.4	5.4%	67.8
4a	Recordation Tax Premium	8.3	4.3	-100.0%	-100.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
4b	Recordation Tax CIP	0.0	0.0	0.0%	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
5	Energy Tax	251.2	243.1	-2.4%	0.9%	245.2	1.3%	248.5	2.4%	254.4	1.8%	259.0	0.9%	261.3	0.6%	262.7
6	Telephone Tax	51.5	47.5	-5.4%	2.6%	48.7	1.4%	49.4	1.7%	50.2	1.7%	51.1	1.8%	52.0	1.9%	53.0
7	Hotel/Motel Tax	20.0	18.6	-4.6%	2.4%	19.1	2.7%	19.6	2.0%	20.0	1.3%	20.2	1.6%	20.5	1.6%	20.9
8	Admissions Tax	2.6	2.4	-3.1%	3.6%	2.5	3.8%	2.6	3.8%	2.7	3.6%	2.8	3.6%	2.9	3.6%	3.0
9	**Total Local Taxes**	**3,048.3**	**3,099.6**	**3.4%**	**1.6%**	**3,150.6**	**3.0%**	**3,245.2**	**4.6%**	**3,393.3**	**4.0%**	**3,529.5**	**3.5%**	**3,652.4**	**3.4%**	**3,777.2**
	INTERGOVERNMENTAL AID															
10	Highway User	1.8	1.8	86.7%	85.1%	3.3	0.0%	3.3	0.0%	3.3	0.0%	3.3	0.0%	3.3	0.0%	3.3
11	Police Protection	8.2	8.7	5.9%	0.0%	8.7	0.0%	8.7	0.0%	8.7	0.0%	8.7	0.0%	8.7	0.0%	8.7
12	Libraries	5.5	5.8	-3.5%	-8.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3
13	Health Services Case Formula	3.6	3.6	0.0%	0.0%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6
14	Mass Transit	22.8	22.8	0.0%	0.0%	22.8	0.0%	22.8	0.0%	22.8	0.0%	22.8	0.0%	22.8	0.0%	22.8
15	Public Schools	559.8	559.5	5.1%	5.1%	588.3	0.0%	588.3	0.0%	588.3	0.0%	588.3	0.0%	588.3	0.0%	588.3
16	Community College	29.8	29.8	1.4%	1.4%	30.2	0.0%	30.2	0.0%	30.2	0.0%	30.2	0.0%	30.2	0.0%	30.2
17	Direct Reimbursements	14.3	0.0	-100.0%	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
18	Other	11.2	30.2	172.3%	1.4%	30.6	0.0%	30.6	0.0%	30.6	0.0%	30.6	0.0%	30.6	0.0%	30.6
19	**Subtotal State Aid**	**657.1**	**662.2**	**5.5%**	**4.6%**	**692.9**	**0.0%**	**692.9**	**0.0%**	**692.9**	**0.0%**	**692.9**	**0.0%**	**692.9**	**0.0%**	**692.9**
20	Federal Aid	8.0	0.0	-100.0%	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
21	**Total Intergovernmental Aid**	**665.0**	**662.2**	**4.2%**	**4.6%**	**692.9**	**0.0%**	**692.9**	**0.0%**	**692.9**	**0.0%**	**692.9**	**0.0%**	**692.9**	**0.0%**	**692.9**
	FEES AND FINES															
22	Licenses & Permits	11.8	11.9	-4.6%	-5.1%	11.3	1.5%	11.4	1.5%	11.6	1.5%	11.8	1.5%	11.9	1.5%	12.1
23	Charges for Services	49.2	52.4	6.9%	0.2%	52.6	2.3%	53.8	2.3%	55.0	2.1%	56.2	2.1%	57.4	2.1%	58.6
24	Fines & Forfeitures	19.8	19.3	16.4%	19.8%	23.1	1.6%	23.4	1.6%	23.8	1.6%	24.2	1.6%	24.6	1.6%	25.0
25	Montgomery College Tuition	82.0	83.2	6.2%	4.7%	87.1	2.3%	89.1	2.3%	91.1	2.1%	93.1	2.1%	95.1	2.1%	97.1
26	**Total Fees and Fines**	**162.8**	**166.7**	**6.9%**	**4.3%**	**173.9**	**2.2%**	**177.7**	**2.1%**	**181.5**	**2.0%**	**185.2**	**2.0%**	**188.9**	**2.0%**	**192.8**
	MISCELLANEOUS															
27	Investment Income	1.6	0.2	-70.3%	122.8%	0.5	33.6%	0.6	94.0%	1.2	134.2%	2.9	55.8%	4.5	26.3%	5.7
28	Other Miscellaneous	14.4	10.0	-35.0%	-6.3%	9.4	2.9%	9.6	2.9%	9.9	2.7%	10.2	2.7%	10.5	2.7%	10.7
29	**Total Miscellaneous**	**16.0**	**10.2**	**-38.5%**	**-3.6%**	**9.9**	**4.4%**	**10.3**	**8.5%**	**11.2**	**17.2%**	**13.1**	**14.4%**	**15.0**	**9.8%**	**16.4**
30	**TOTAL REVENUES**	**3,892.1**	**3,938.7**	**3.5%**	**2.2%**	**4,027.2**	**2.5%**	**4,126.1**	**3.7%**	**4,278.8**	**3.3%**	**4,420.7**	**2.9%**	**4,549.2**	**2.9%**	**4,679.3**
31	$ Change from prior Budget	112.9				135.1		98.9		152.7		141.8		128.5		130.1

Calculation for Adjusted Governmental Revenues

32	**Total Tax Supported Revenues**	3,892.1	3,938.7	3.5%	2.2%	4,027.2	2.5%	4,126.1	3.7%	4,278.8	3.3%	4,420.7	2.9%	4,549.2	2.9%	4,679.3
33	**Capital Projects Fund**	45.6	60.3	43.7%	8.5%	65.5	52.1%	99.6	2.3%	101.9	-11.8%	89.9	1.1%	90.8	-11.0%	80.8
34	**Grants**	108.9	108.9	-1.7%	-1.7%	107.0	2.9%	110.1	2.9%	113.3	2.7%	116.3	2.7%	119.4	2.7%	122.6
35	**MCG Adjusted Revenues***	4,046.6	4,108.0	3.8%	2.2%	4,199.7	3.2%	4,335.9	3.6%	4,494.0	3.0%	4,626.8	2.9%	4,759.4	2.6%	4,882.7

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County Executive's Recommended FY13-18 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

		App. FY12	Estimate FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18
		5-26-11		Rec/Bud	3-15-12										
	Total Revenues														
1	Property Tax (less PDs)	1,462.2	1,437.0	0.0%	1,462.2	3.0%	1,505.8	3.1%	1,553.2	3.5%	1,608.2	3.5%	1,664.5	3.1%	1,715.4
2	Income Tax	1,117.2	1,227.1	11.2%	1,242.9	2.9%	1,278.9	6.7%	1,364.4	4.7%	1,428.8	3.6%	1,480.0	4.2%	1,541.5
3	Transfer/Recordation Tax	143.5	123.9	-9.5%	129.9	8.1%	140.5	5.6%	148.4	7.4%	159.4	7.4%	171.2	5.6%	180.8
4	Investment Income	1.6	0.2	-70.3%	0.5	33.6%	0.6	94.0%	1.2	134.2%	2.9	55.8%	4.5	26.3%	5.7
5	Other Taxes	325.3	311.6	-3.0%	315.5	1.4%	320.1	2.3%	327.3	1.8%	333.1	1.1%	336.7	0.8%	339.6
6	Other Revenues	842.2	838.9	4.0%	876.2	0.5%	880.3	0.5%	884.3	0.4%	888.3	0.5%	892.3	0.5%	896.4
7	**Total Revenues**	**3,892.1**	**3,938.7**	**3.5%**	**4,027.2**	**2.5%**	**4,126.1**	**3.7%**	**4,278.8**	**3.3%**	**4,420.7**	**2.9%**	**4,549.2**	**2.9%**	**4,679.3**
8															
9	**Net Transfers In (Out)**	**41.3**	**35.9**	**-27.6%**	**29.9**	**2.9%**	**30.7**	**2.8%**	**31.6**	**2.6%**	**32.5**	**2.7%**	**33.3**	**2.7%**	**34.2**
10	**Total Revenues and Transfers Available**	**3,933.4**	**3,974.6**	3.1%	**4,057.1**	2.5%	**4,156.9**	3.7%	**4,310.5**	3.3%	**4,453.1**	2.9%	**4,582.5**	2.9%	**4,713.5**
11															
12	**Non-Operating Budget Use of Revenues**														
13	Debt Service	296.2	279.0	2.5%	303.5	6.8%	324.3	9.6%	355.3	5.4%	374.6	4.1%	389.8	0.0%	389.8
14	PAYGO	31.0	31.0	-4.8%	29.5	0.0%	29.5	0.0%	29.5	0.0%	29.5	0.0%	29.5	0.0%	29.5
15	CIP Current Revenue	35.0	35.0	52.8%	53.5	51.4%	81.0	-26.5%	59.5	-2.7%	58.0	-1.8%	56.9	16.2%	66.1
16	Change in Montgomery College Reserves	(9.0)	(4.0)	46.4%	(4.8)	102.3%	0.1	1.4%	0.1	-4.6%	0.1	2.1%	0.1	2.1%	0.1
17	Change in MNCPPC Reserves	(1.5)	(2.5)	37.1%	(1.0)	99.9%	(0.0)	9543.7%	0.1	14.1%	0.1	0.4%	0.1	35.5%	0.2
18	Change in MCPS Reserves	(17.0)	7.4	0.0%	(17.0)	22.1%	(13.3)	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0
19	Change in MCG Special Fund Reserves	22.8	1.4	-24.3%	17.3	-100.0%	0.0	532.7%	0.0	18.5%	0.0	-9.7%	0.0	-10.8%	0.0
20	Contribution to General Fund Undesignated Reserves	66.4	90.6	-122.8%	(15.1)	106.1%	0.9	527.6%	5.8	18.5%	6.8	-9.7%	6.2	-10.8%	5.5
21	Contribution to Revenue Stabilization Reserves	20.4	45.1	3.0%	21.0	3.3%	21.7	4.1%	22.6	3.7%	23.5	3.6%	24.3	3.1%	25.1
22	Retiree Health Insurance Pre-Funding	49.6	49.6	123.1%	110.7	28.9%	142.8	20.4%	171.9	0.0%	171.9	0.0%	171.9	0.0%	171.9
23	Set Aside for other uses (supplemental appropriations)	0.2	10.2	-67.2%	0.1	30441.4%	20.1	0.0%	20.1	0.0%	20.1	0.0%	20.1	0.0%	20.1
24	**Total Other Uses of Resources**	**494.3**	**542.9**	**0.7%**	**497.8**	**22.0%**	**607.2**	**9.5%**	**665.0**	**2.9%**	**684.6**	**2.1%**	**698.9**	**1.3%**	**708.3**
25	**Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)**	**3,439.1**	**3,431.7**	**3.5%**	**3,559.3**	**-0.3%**	**3,549.7**	**2.7%**	**3,645.5**	**3.4%**	**3,768.6**	**3.1%**	**3,883.6**	**3.1%**	**4,005.2**
26															
27	**Agency Uses**														
28															
29	Montgomery County Public Schools (MCPS)	**1,950.9**	**1,926.8**	2.6%	2,001.6	-0.3%	1,996.2	2.7%	2,050.1	3.4%	2,119.3	3.1%	2,184.0	3.1%	2,252.4
30	Montgomery College (MC)	**218.0**	**214.6**	0.2%	218.4	-0.3%	217.8	2.7%	223.7	3.4%	231.2	3.1%	238.3	3.1%	245.7
31	MNCPPC (w/o Debt Service)	**94.3**	**94.3**	4.7%	98.8	-0.3%	98.6	2.7%	101.2	3.4%	104.6	3.1%	107.8	3.1%	111.2
32	MCG	**1,175.8**	**1,196.0**	5.5%	1,240.5	-0.3%	1,237.1	2.7%	1,270.5	3.4%	1,313.4	3.1%	1,353.5	3.1%	1,395.9
33	**Agency Uses**	**3,439.1**	**3,431.7**	**3.5%**	**3,559.3**	**-0.3%**	**3,549.7**	**2.7%**	**3,645.5**	**3.4%**	**3,768.6**	**3.1%**	**3,883.6**	**3.1%**	**4,005.2**
34	**Total Uses**	**3,933.4**	**3,974.6**	**3.1%**	**4,057.1**	**2.5%**	**4,156.9**	**3.7%**	**4,310.5**	**3.3%**	**4,453.1**	**2.9%**	**4,582.5**	**2.9%**	**4,713.5**
35	**(Gap)/Available**	**0.0**	**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**

Assumptions:

1. Property tax revenue is $26 million below the Charter Limit and kept the same as the FY12 approved budget. Assumes $692 income tax offset credit.
2. May 2010 Energy Tax increase is retained.
3. Reserve contributions at the policy level and consistent with legal requirements.
4. PAYGO, Debt Service, and Current Revenue updated to reflect the FY13 recommended CIP and current revenue amendments.
5. Retiree health insurance pre-funding is increased up to full funding by FY15, and then kept level beyond FY15. FY13 is year 6 of 8-year funding schedule.

County Executive's Recommended FY13-18 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

		App. FY12	Est FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18
36	**Beginning Reserves**														
37	**Unrestricted General Fund**	66.9	64.0	131.2%	154.7	-9.8%	139.5	0.7%	140.4	4.1%	146.2	4.7%	153.0	4.0%	159.1
38	**Revenue Stabilization Fund**	94.5	94.5	47.7%	139.6	15.1%	160.6	13.5%	182.4	12.4%	205.0	11.5%	228.5	10.6%	252.9
39	**Total Reserves**	161.4	158.6	82.3%	294.2	2.0%	300.2	7.6%	322.8	8.8%	351.2	8.6%	381.5	8.0%	412.0
40															
41	**Additions to Reserves**														
42	**Unrestricted General Fund**	66.4	90.6	-122.8%	-15.1	106.1%	0.9	527.6%	5.8	18.5%	6.8	-9.7%	6.2	-10.8%	5.5
43	**Revenue Stabilization Fund**	20.0	45.1	5.4%	21.0	3.3%	21.7	4.1%	22.6	3.7%	23.5	3.6%	24.3	3.1%	25.1
44	**Total Change In Reserves**	86.4	135.7	-93.2%	5.9	283.5%	22.7	25.3%	28.4	6.7%	30.3	0.6%	30.5	0.3%	30.6
45															
46	**Ending Reserves**														
47	**Unrestricted General Fund**	133.3	154.7	4.6%	139.5	0.7%	140.4	4.1%	146.2	4.7%	153.0	4.0%	159.1	3.4%	164.6
48	**Revenue Stabilization Fund**	114.5	139.6	40.3%	160.6	13.5%	182.4	12.4%	205.0	11.5%	228.5	10.6%	252.9	9.9%	278.0
49	**Total Reserves**	247.8	294.2	21.1%	300.2	7.6%	322.8	8.8%	351.2	8.6%	381.5	8.0%	412.0	7.4%	442.6
50	**Reserves as a % of Adjusted Governmental Revenues**	**6.1%**	**7.2%**		**7.1%**		**7.4%**		**7.8%**		**8.2%**		**8.7%**		**9.1%**
51	**Other Reserves**														
52	**Montgomery College**	7.0	11.2	-7.6%	6.4	1.7%	6.5	1.7%	6.6	1.6%	6.7	1.6%	6.9	1.6%	7.0
53	**M-NCPPC**	3.7	4.8	3.3%	3.9	0.0%	3.9	3.2%	4.0	3.6%	4.1	3.5%	4.3	4.5%	4.5
54	**MCPS**	0.0	30.3	n/a	13.3	-100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
55	**MCG Special Funds**	2.6	(16.5)	-67.6%	0.8	0.7%	0.8	4.1%	0.9	4.7%	0.9	4.0%	0.9	3.4%	1.0
56	**MCG + Agency Reserves as a % of Adjusted Govt Revenues**	**6.5%**	**7.9%**		**7.7%**		**7.7%**		**8.1%**		**8.5%**		**8.9%**		**9.3%**
57	**Retiree Health Insurance Pre-Funding**														
58	Montgomery County Public Schools (MCPS)	**20.0**	**20.0**		**61.9**		**80.3**		**101.6**		**100.9**		**99.7**		**99.7**
59	Montgomery College (MC)	**1.0**	**1.0**		**1.9**		**2.4**		**3.1**		**3.0**		**2.8**		**2.8**
60	MNCPPC	**2.6**	**2.6**		**3.4**		**6.3**		**7.7**		**7.4**		**7.2**		**7.2**
61	MCG	**26.1**	**26.1**		**43.6**		**53.8**		**59.5**		**60.6**		**62.2**		**62.2**
62	**Subtotal Retiree Health Insurance Pre-Funding**	**49.6**	**49.6**		**110.7**		**142.8**		**171.9**		**171.9**		**171.9**		**171.9**
63	**Adjusted Governmental Revenues**														
64	**Total Tax Supported Revenues**	**3,892.1**	**3,938.7**	3.5%	**4,027.2**	2.5%	**4,126.1**	3.7%	**4,278.8**	3.3%	**4,420.7**	2.9%	**4,549.2**	2.9%	**4,679.3**
65	**Capital Projects Fund**	**45.6**	**60.3**	43.7%	**65.5**	52.1%	**99.6**	2.3%	**101.9**	-11.8%	**89.9**	1.1%	**90.8**	-11.0%	**80.8**
66	**Grants**	**108.9**	**108.9**	-1.7%	**107.0**	2.9%	**110.1**	2.9%	**113.3**	2.7%	**116.3**	2.7%	**119.4**	2.7%	**122.6**
67	**Total Adjusted Governmental Revenues**	**4,046.6**	**4,108.0**	3.8%	**4,199.7**	3.2%	**4,335.9**	3.6%	**4,494.0**	3.0%	**4,626.8**	2.9%	**4,759.4**	2.6%	**4,882.7**

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How the FY13 Gap Was Closed
$ in Millions
(Negative numbers increase the gap; positive numbers close the gap)

1	Gap as of December 2011	($135.442)
2		
3	Major resource changes since December:	
4	February revenue update	(54.238)
5	Fines, licenses, fees, and other misc. revenues	(10.280)
6	Change in net transfers from non-tax funds	(17.944)
7	FY12 spending	(13.785)
8		
9	FY13 Agency Budget Requests:	
10	Montgomery County Public Schools	42.094
11	Montgomery College	7.264
12	MNCPPC	0.686
13	County Government	(17.151)
14		
15	Revised Gap	($198.797)
16		
17	Recommended Measures to Close the Gap	
18		
19	Change in available resources:	
20	Retain Energy Tax at current rates	114.010
21	Maintain level property taxes -- below the Charter Limit	(25.971)
22		
23	Change in non-agency spending:	
24	CIP PAYGO to policy level	3.000
25	CIP current revenue	5.660
26	Debt service expenditures	34.742
27	Retiree health insurance pre-funding	35.879
28	Decrease set aside	25.134
29	Contributions to reserves	6.342
30		
31	Gap on March 15, 2012	0.000

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON	DIRECTION
INFLATION	3.38% 2011	Property Taxes	Key determinant of property tax revenues at the Charter Limit	2011: 1.72% 2010: 0.23%	↑
UNEMPLOYMENT RATE	5.2% 2011 est.	Income Taxes	Indicates overall health of the job market	2010: 5.6% 2009: 5.4%	↓
RESIDENT EMPLOYMENT	489,700 2011 est.	Income Taxes	Primary determinant of income tax receipts	2010: 485,050 2009: 488,607	↑
PAYROLL EMPLOYMENT (Estimated)	468,300 2011	Income Taxes	Another determinant of income tax receipts	2010: 463,300 2009: 464,600	↑
STOCK MARKET - S&P 500	1257.60 December 31st	Income Taxes	Key determinant of capital gains portion of the income tax	December 31st: 2010: 1257.64 2009: 1,115.10	↔
HOME SALES	9,490 2011	Transfer/ Recordation Taxes	Indicates activity affecting receipts	2010: 10,401 2009: 10,376	↓
HOME PRICES (Average Price Sold)	$451,479 2011	Transfer/ Recordation Taxes	Taxes are based on values, affects amount of taxes collected	2010: $441,482 2009: $434,297	↑
FEDERAL FUNDS RATE	0.13% Mar. 2012	Investment Income	County's return on investments closely correlated with the Fed Fund rates	Mar. 2011: 0.14% Mar. 2010: 0.16%	↔

FY13 FEE AND FINE CHANGES*

DEPARTMENT/FEE AND FINE	FY13 REVENUE CHANGE	METHOD OF CHANGE	NOTE
MONTGOMERY COLLEGE			
Tuition and Related Fees	3,124,000	Board of Trustees Action	Increase per semester hour rate from $110 to $112 for County residents, $225 to $229 for State residents, and $308 to $314 for non-residents.
ENVIRONMENTAL PROTECTION			
Water Quality Protection Charge	5,473,846	Council Resolution	Increase charge from $70.50 to $92.60 per equivalent residential unit (ERU) to cover increased expenditures in the Water Quality Protection Fund.
TRANSIT SERVICES			
Ride On Monthly Pass	107,890	Council Resolution	Increase monthly pass from $40 to $45.
Ride On Fares	491,000	Council Resolution	Increase base cash fare from $1.70 to $2.00; increase Smartrip fare from $1.50 to $1.60
DEPARTMENT OF TRANSPORTATION			
Parking Fees - Bethesda	569,500	Council Resolution	Raise Long-Term Parking Fee from $0.75 Per Hour to $0.85 Per Hour
Parking Fees - Bethesda	736,000	Council Resolution	Charge on Saturday in Lots and Garages
Parking Fees - Silver Spring	354,350	Council Resolution	Raise Long-Term Parking Fee from $0.60 Per Hour to $0.70 Per Hour
Parking Fees - Silver Spring	828,160	Council Resolution	Charge on Saturday in Lots, Garages, and On Street
Parking Fees - Wheaton	271,500	Council Resolution	Expand Enforcement hours to include 6pm-10pm Monday Through Saturday in Lots and On Street
SOLID WASTE SERVICES			
Solid Waste Collection Fee	-337,440	Council Resolution	Decrease single family charge per household from $70 to $66
GRAND TOTAL	**11,618,806**		

* All changes are assumed to be effective July 1, 2012 except as noted.
Revenues above do not include implementation costs.

SCHEDULE B-3

Expenditures Detailed By Agency, Fund Type, Government Function and Department

	Actual FY11	Budget FY12	Estimated FY12	Recommended FY13	% Chg Bud/Rec
MONTGOMERY COUNTY GOVERNMENT					
GENERAL FUND TAX SUPPORTED					
General Government					
County Council	8,606,781	8,673,670	8,629,316	9,188,282	5.9%
Board of Appeals	547,697	549,090	551,846	577,864	5.2%
Inspector General	457,856	665,510	545,271	688,529	3.5%
Legislative Oversight	1,166,442	1,228,860	1,242,407	1,332,613	8.4%
Merit System Protection Board	143,336	150,260	119,500	159,097	5.9%
Zoning and Administrative Hearings	490,902	572,500	531,225	592,188	3.4%
Circuit Court	10,076,039	9,319,730	9,439,688	10,330,453	10.8%
State's Attorney	12,385,930	11,911,280	12,211,382	12,597,550	5.8%
County Executive	4,467,117	4,051,120	3,904,647	4,273,683	5.5%
Board of Elections	7,389,386	4,891,160	4,957,363	6,141,182	25.6%
Commission for Women	898,087	0	0	0	—
Community Engagement Cluster	0	2,626,960	2,703,440	3,186,302	21.3%
County Attorney	4,955,606	4,039,500	4,082,182	5,139,791	27.2%
Ethics Commission	250,748	191,430	193,345	252,586	31.9%
Finance	8,974,950	9,701,210	9,869,837	10,797,865	11.3%
General Services	27,933,078	21,354,150	21,600,493	24,729,123	15.8%
Human Resources	5,822,018	5,996,540	6,060,019	6,894,273	15.0%
Human Rights	1,568,194	891,580	757,738	897,720	0.7%
Intergovernmental Relations	756,637	815,480	820,499	848,028	4.0%
Management and Budget	3,211,686	3,381,500	3,407,514	3,700,505	9.4%
Public Information	5,072,834	4,719,510	4,816,993	5,017,257	6.3%
Regional Services Centers	2,381,727	0	0	0	—
Technology Services	25,960,147	25,649,440	26,092,194	26,267,806	2.4%
Total General Government	***133,517,198***	***121,380,480***	***122,536,899***	***133,612,697***	***10.1%***
Public Safety					
Consumer Protection	2,019,975	1,948,320	2,038,542	2,052,033	5.3%
Correction and Rehabilitation	63,027,483	61,264,450	63,804,618	65,001,866	6.1%
Emergency Management and Homeland Security	1,098,048	1,247,900	1,021,502	1,283,272	2.8%
Police	223,639,391	232,153,140	238,101,706	248,195,468	6.9%
Sheriff	20,147,280	19,747,550	20,389,467	20,765,236	5.2%
Total Public Safety	***309,932,177***	***316,361,360***	***325,355,835***	***337,297,875***	***6.6%***
Transportation					
Transportation	54,053,675	36,059,030	37,292,813	38,808,923	7.6%
Health and Human Services					
Health and Human Services	170,022,902	171,748,980	172,703,618	176,998,499	3.1%
Libraries, Culture, and Recreation					
Public Libraries	28,861,891	28,353,010	29,214,659	31,134,810	9.8%
Community Development and Housing					
Economic Development	6,226,746	5,990,310	6,245,912	8,535,145	42.5%
Housing and Community Affairs	3,860,221	3,307,560	3,372,982	4,368,986	32.1%
Total Community Development and Housing	***10,086,967***	***9,297,870***	***9,618,894***	***12,904,131***	***38.8%***
Environment					
Environmental Protection	1,843,598	1,669,760	1,796,564	1,512,072	-9.4%
Other County Government Functions					
Non-Departmental Accounts	113,368,047	189,840,350	177,511,718	239,457,742	26.1%
Utilities	26,800,937	28,526,380	28,355,024	26,159,860	-8.3%
Total Other County Government Functions	***140,168,984***	***218,366,730***	***205,866,742***	***265,617,602***	***21.6%***
TOTAL GENERAL FUND TAX SUPPORTED	**848,487,392**	**903,237,220**	**904,386,024**	**997,886,609**	**10.5%**
SPECIAL FUNDS TAX SUPPORTED					
General Government					
Urban Districts	7,010,624	7,399,320	7,246,410	7,644,852	3.3%
Public Safety					
Fire and Rescue Service	187,118,730	179,769,870	191,168,151	196,500,294	9.3%
Transportation					
Transportation	0	0	0	0	—
Transit Services	107,427,756	102,750,000	108,353,994	113,826,279	10.8%
Total Transportation	***107,427,756***	***102,750,000***	***108,353,994***	***113,826,279***	***10.8%***
Libraries, Culture, and Recreation					
Recreation	24,014,522	24,829,990	25,428,091	25,996,185	4.7%
Community Development and Housing					
Economic Development Fund	751,883	4,922,280	6,522,486	5,990,020	21.7%
TOTAL SPECIAL FUNDS TAX SUPPORTED	**326,323,515**	**319,671,460**	**338,719,132**	**349,957,630**	**9.5%**

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Agency Budget Changes FY09-FY12

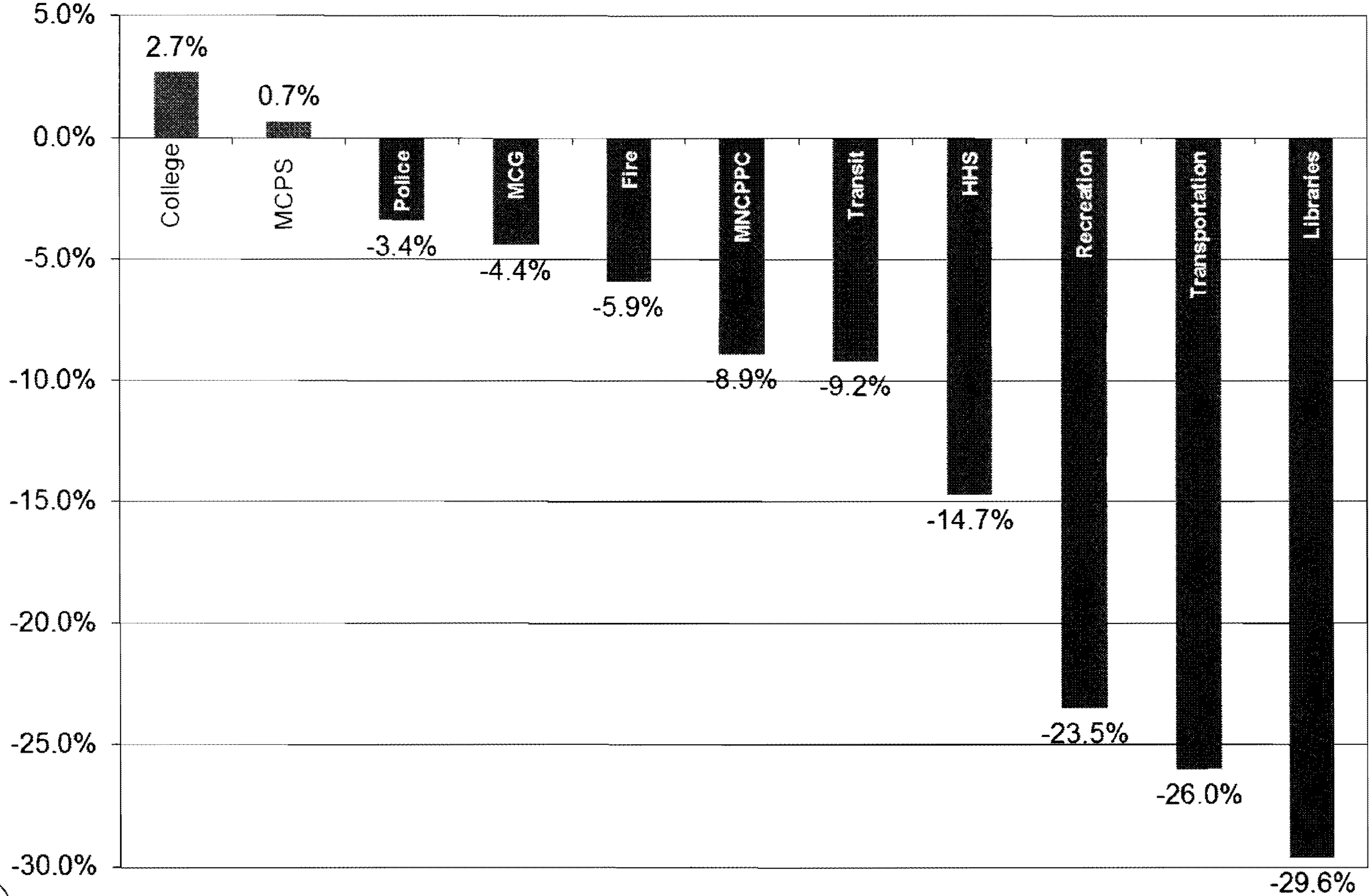

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Table 4: Positions by State Budget Category										
Category Instruction	FY09 Approved	FY09 %of total	FY10 Approved	FY10 %of total	FY11 Approved	FY11 %of total	FY12 Approved	FY12 %of total	FY13 Requested	FY13 %of total
2-Mid-Level Administration	1,667.675	8.0%	1,661.375	7.9%	1,682.875	8.1%	1,669.325	8.1%	1,670.775	8.0%
3-Instructional Salaries	10,959.740	52.8%	11,064.365	52.8%	10,804.200	52.1%	10,684.088	51.8%	10,842.413	52.0%
4-Textbooks and Instr Supplies	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
5-Other Instr Costs	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
6-Special Education	3,470.699	16.7%	3,612.989	17.2%	3,661.255	17.6%	3,661.735	17.8%	3,733.703	17.9%
Subtotal: Instruction	16,098.114	77.5%	16,338.729	78.0%	16,148.330	77.8%	16,015.148	77.7%	16,246.891	78.0%
School and Student Services										
7-Student Personnel Services	118.300	0.6%	110.900	0.5%	110.305	0.5%	108.705	0.5%	106.505	0.5%
8-Health Services	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
9-Student Transportation	1,744.750	8.4%	1,742.250	8.3%	1,742.250	8.4%	1,733.150	8.4%	1,733.150	8.3%
10-Operation of Plant and Equip	1,403.200	6.8%	1,398.200	6.7%	1,406.700	6.8%	1,429.700	6.9%	1,431.200	6.9%
11-Maintenance of Plant	396.000	1.9%	388.000	1.9%	380.000	1.8%	380.000	1.8%	380.000	1.8%
Subtotal: Sch and St Services	3,662.250	17.6%	3,639.350	17.4%	3,639.255	17.5%	3,651.555	17.7%	3,650.855	17.5%
Other										
12-Fixed Charges	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
1-Administration	371.962	1.8%	356.062	1.7%	338.650	1.6%	327.050	1.6%	325.050	1.6%
14-Community Services	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
Subtotal: Other	371.962	1.8%	356.062	1.7%	338.650	1.6%	327.050	1.6%	325.050	1.6%
37-Special Revenue Fund	14.000	0.1%	14.000	0.1%	14.000	0.1%	12.500	0.1%	12.500	0.1%
41-Adult Education Fund	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
51-Real Estate Fund	6.500	0.0%	6.500	0.0%	6.500	0.0%	6.500	0.0%	7.000	0.0%
61-Food Service Fund	604.660	2.9%	583.448	2.8%	583.448	2.8%	583.448	2.8%	582.948	2.8%
71-Field Trip Fund	4.000	0.0%	4.500	0.0%	4.500	0.0%	4.500	0.0%	4.500	0.0%
81-Entrepreneurial Activities	8.000	0.0%	10.000	0.0%	9.000	0.0%	9.000	0.0%	12.000	0.1%
Subtotal: Special/Ent Funds	637.160	3.1%	618.448	3.0%	617.448	3.0%	615.948	3.0%	618.948	3.0%
Grand Total	**20,769.486**	**100.0%**	**20,952.589**	**100.0%**	**20,743.683**	**100.0%**	**20,609.701**	**100.0%**	**20,841.744**	**100.0%**

Comparison of Executive's Proposal and Council's Package
Agency: County Government

GROUP INSURANCE

Implementation Date: Executive's estimates assumed July 1, 2011. Council assumes January 1, 2012

Benefit	Executive's Proposal	Council's Package	Savings ($ in millions)			
			Exec. Proposal		Council's Package	
			FY12	FY12-FY17	FY12	FY12-FY17
Health Insurance – Employee Cost Share	Increase from 80/20 to 70/30 for all medical, dental, vision, & standard prescription drug; add salary-based surcharge.	Keep HMOs at 80/20; change POS (Carefirst), dental, vision, & standard prescription drug plans to 75/25; eliminate salary-based surcharge.	$15.65	$120.72	$2.10	$30.29
Prescription Drug Coverage	Mandate the use of generic instead of brand name drugs when generic equivalent is available (or employee pays generic drug copay <u>plus</u> the difference between brand name and generic drug costs); eliminate coverage for erectile dysfunction medications.	Add waiver provision for medically necessary brand name drugs; limit (not eliminate) coverage for erectile dysfunction medications.	$1.60	$12.34	$0.70	$9.71
Prescription Drug Copays	Increase copay for mail-order prescriptions from one time to two times the copay for retail purchase.	Maintain current copays for mail-order prescriptions; add provision to allow purchase of maintenance drugs at CVS retail pharmacy for mail-order copay.	$0.20	$1.54	--	--
Life Insurance	Reduce coverage from two times to one time annual salary; increase cost share from 20% to 30% of premium.	Adopt Executive's proposal for coverage reduction; limit cost shift to 75/25.	$1.20	$9.26	$0.60	$8.66
Long-Term Disability	Increase cost share from 20% to 30% of premium.	Limit cost shift to 75/25.	$0.05	$0.37	$0.01	$0.09

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(continued on next page)

Comparison of Executive's Proposal and Council's Package
Agency: County Government (continued)

RETIREMENT Implementation Date: July 1, 2011						
Benefit	**Executive's Proposal**	**Council's Package**	**Savings ($ in millions)**			
			Exec. Proposal		**Council's Package**	
			FY12	**FY12-FY17**	**FY12**	**FY12-FY17**
Defined Contribution Retirement	Reduce employer's contribution by 2%.	Reduce employer contribution by 2% in FY12 only.	$4.86	$31.47	$4.86	$4.86
Defined Benefit - Employee Contribution	Increase employee contribution by 2%.	Phase in higher employee contribution; 1% in FY12, 2% in FY13 and beyond.	$6.04	$39.13	$3.02	$36.11
Defined Benefit - COLA Provision	No recommendation in Executive's FY12 budget.	Cap future COLAs for new hires and current employees (for years not yet served) at 2.5%.	--	--	$3.15	$18.90
Defined Benefit - New Hires	No recommendation in Executive's FY12 budget.	In June, consider changes to structure of defined benefit plan for employees hired on or after 10/1/11.	--	--	TBD	
RETIREE HEALTH Implementation Date: Changes apply to employees hired on or after July 1, 2011						
Retiree Health	No recommendation in Executive's FY12 budget.	Change eligibility and cost share for new hires.	--	--	Reduction in OPEB liability begins in FY13	
COUNTY GOVERNMENT SUBTOTALS			**$29.60**	**$214.83**	**$14.45**	**$108.63**

(continued on next page)

Council's Package
Agency: MCPS

The Council recognizes that decisions about MCPS employee benefits are the Board of Education's to make. As stated in his March 15 budget transmittal memo, the Executive recommended that all agencies adjust employee health insurance and retirement benefit structures "to promote equity among locally funded public employees." This page identifies savings that would result if the Board of Education takes action to modify employee benefit structures according to the examples described in the table below.

Benefit	Examples of Change	Savings ($ in millions)			
		Exec. Proposal		Council's Package	
		FY12	FY12-FY17	FY12	FY12-FY17
Health Insurance – Employee Cost Share	Beginning on January 1, 2012, change the employer/employee cost share for HMOs from 95/5 to 90/10; change the cost share for all other plans from 90/10 to 85/15.	--	--	$7.00	$91.06
Locally-Funded Defined Benefit Retirement: Core and Supplement	Change locally-funded pension plans (Core and Supplement) to parallel changes made by the State to the teachers' pension plan that increase employee contributions and cap future COLAs for new hires and current employees.	--	--	$11.70	$73.41
	MCPS SUBTOTALS	--	--	**$18.70**	**$164.47**

COMPARISON OF TOTAL SAVINGS
($ in millions)

	FY12	FY12-FY17
Executive's Proposal:	**$29.60**	**$214.83**
Council's Package:	**$33.15**	**$273.10**

(6) (5)

MEMORANDUM

April 11, 2012

TO: Steve Farber, Council Staff Director

FROM: Craig Howard, Office of Legislative Oversight CH

SUBJECT: **Comparison of MCPS and MCG Health Care Costs**

In response to your request, this memorandum summarizes information prepared by Aon-Hewitt that compares health care costs for employees in MCPS and County Government (MCG).

This past fall, in a report to the Task Force on Employee Wellness and Consolidation of Agency Group Insurance Programs, Aon-Hewitt (the health care consultant used by both MCPS and MCG) provided a comparative analysis of health care costs between MCPS and MCG:[1]

In sum, Aon-Hewitt's analysis shows that:

- **The average health care cost per member (associated with active employees only) is essentially the same in MCPS and MCG; and**
- **The primary factor behind differences in premium rates between the two agencies is that MCPS separates active and retired employees into separate pools for rate setting while MCG does not.**

Aon-Hewitt's report explained that while average group insurance premiums were lower in MCPS,[2] premium levels are not a valid measure for comparing actual health care costs between MCPS and MCG. Specifically, Aon-Hewitt wrote:

> Since MCPS and MCG utilize different methodologies for rate setting, the use of premium rates to compare costs does not provide the most valid comparison...In sum, a detailed comparative analysis indicates that the primary reason behind the differences in premium costs for MCPS and MCG is that MCG includes retirees with active employees in its pool for rate setting while MCPS separates active employee and retirees into separate pools. (page 17)

Aon-Hewitt reported that a more accurate comparison of health care costs between the agencies is to calculate the cost per covered member (i.e., all enrolled employees plus their dependents) and not to cross-compare active employees and retirees. In conducting this more accurate cost analysis, Aon-Hewitt found that when averaged out over all covered members associated with active employees, the annual amount spent per member is essentially the same in MCPS and MCG as shown in the table below.

Average cost per member (associated with active employees only) across all plan types

	MCPS	MCG
All Medical (includes Kaiser Rx)	$4,066	$4,028
All Prescription Drug	$1,273	$1,235

Source: Aon-Hewitt report, page 17.

[1] Aon-Hewitt, *Overview of Programs Offered by Montgomery County Agencies*, Nov. 21, 2011. Available at: http://www.montgomerycountymd.gov/content/council/wgitf/Report/appendix_b_aon_hewitt_report.pdf

[2] Aon-Hewitt reports that MCPS' average total premium for medical and Rx coverage across all plans and coverage levels is $13,206, while MCG's average total premium is $15,201.

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MONTGOMERY COUNTY COUNCIL'S
FISCAL PROTECTION PACKAGE
May 19, 2011

The Council took decisive actions to protect the County's AAA bond rating and create a sustainable budget going forward.

Council Action	Funding Level	
	FY11	FY12
Pre-fund Retiree Health (OPEB) for all agencies	$0	$49.8 million
Cash to replace bonds in CIP (PAYGO)	$0	$31.0 million
Create reserve fund for storm and snow removal	$0	$5.9 million
Total Funding	$0	$86.7 million

Other components of the Council's Fiscal Protection Package:

- **Control growth in compensation costs.** Approved structural changes to employee benefits to save $33 million in FY12 and $273 million over the next six years.

- **Control growth in debt service costs.** Lowered annual bond issuance ceiling from the level set last year, $325 million in FY11-16, to $310 million in FY12 and $320 million in FY13-16.

- **Fund future obligations.** Agreed to create a consolidated trust for retiree health benefit pre-funding across County agencies.

- **Strengthen County reserves.** Increased total fund reserves to 6.1% in FY12. The County's approved Fiscal Policy calls for gradually increasing reserve levels to 10% by 2020.

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The Financial Impact of a Downgrade

January 2012
Prepared by the Montgomery County Department of Finance

The purpose of bond ratings is to indicate to the investor community the relative likelihood that a bond issuer will make timely and required debt service payments on outstanding bonds. The question as to the relative costs associated with being downgraded from an AAA rated county is not answered with a simple mathematical cost. Below, we attempt to both define and quantify the impacts of a downgrade in the County's general obligation bond rating on various components of the County's financial operations, and especially on its borrowing and transaction costs.

Nearly every single financial transaction that the County enters into with a financial institution has some element of risk for that institution and that risk has a price associated with it. So from a more subjective standpoint, a lower rated county pays more for banking services and credit card merchant fees, receives less interest on investments, pays higher lockbox fees, has a less lucrative P-card rebate program, pays higher fees for financial advisors and bond counsel, pays higher underwriting and remarketing fees, etc., etc.

It would be difficult, if not impossible, to quantify all of the additional costs associated with being a lower rated county. Too many subjective and objective attributes are calculated and considered in pricing certain financial services. However, as a triple AAA rated issuer of debt, and one of the top 250 counties in the nation issuing debt, it is highly probable that Montgomery County is paying some of the lowest fees for its financial services and more importantly, has one of the lowest costs of funds.

It is not difficult to quantify in dollars some of the more obvious differences in higher and lower rated general obligation debt. For example, if the County issued its $320 million of general obligation bonds on August 3, 2011 as an AA rated issuer, over the 20-year life of that bond issue, the County would pay $6.7 million more in interest expenses.. The average spread between AAA and AA interest rates over the 20-year bond life on the day of sale was about 20 basis points. In a more typical market environment, where municipal interest rates are higher over all, that spread would be wider and the additional amount of interest paid would also be higher. To place this additional cost in the context of the County's 6-year CIP program, assuming equal future annual borrowing, debt service would increase by about $40 million.

The County maintains standby lines of credit to back its $600 million variable rate note programs. These programs include the County's $500 million commercial paper program (BANs) and its $100 variable rate demand obligation program. Based on information provided by the County's financial advisor, as an AA rated issuer of short-term notes, the County would pay an additional 20 basis points for its lines of credit. In real terms, the additional annual fee would be $1.2 million. Again, that is an annual fee for programs, which at different amounts, have been in place since 1988.

Typically, debt issued by the County that is "appropriation backed" or not "full faith and credit of the County" is priced slightly below the County's AAA scale. Appropriation backed debt issues, which would include lease revenue bonds and certificates of participation, are generally rated one step or notch below the County's GO rating. Therefore, appropriation backed debt now potentially becomes A rated debt instead of AA rated.

In those cases, the spread in interest rates is even greater. A debt issuer is competing with a far larger number of issuers in the A category than the AA group. The average basis point spread over the last year for a maturity of 10 years is about 75 basis points. The County issued certificates of participation for about $23 million in April 2010. The certificates were rated AA+; had they been rated A, the additional debt service cost over the seven-year life of the certificates would have been about $718,000.

Another example of the benefit of the AAA rating is the access to the credit markets. During the historic credit market disruptions of 2008 the County was able to maintain its access to a liquidity facility for its commercial paper program because of its strong credit rating. During this same time period other, lower rated municipalities were not able to access the credit markets.

The last few examples of costs associated with being a lower rated county are probably some of the most obvious and expensive examples. The County has a $25 million master lease program, where over the last 10 years it leased various assets such as computer equipment, fire trucks, ambulances, and buses. Without question, the cost of those leases would have been higher if the County maintained lower ratings. Over the last few decades, the County frequently issued debt that did not fall into the categories described above. The County issued development district bonds, various varieties of revenue bonds, term notes, and acted as a conduit issuer for not-for-profit borrowers. Suffice it to say, all those terms would have been more costly had the County been rated lower.

Finally, one should remember that a downgrade in a credit rating not only affects the issuer's new debt, but it also influences all existing debt of that issuer. That is, in the case of a downgrade, all the outstanding debt of the issuer becomes cheaper or the market value shrinks. A municipal investor who is holding onto an AAA rated County bond is now holding a lower rated security that is not worth as much as it was before the downgrade. That makes investors very unhappy and much less likely to want to purchase future County bonds – driving up the County's cost of funds.

For decades, the County has enjoyed and benefited from having the highest ratings from all three rating agencies. In the municipal bond market, the name Montgomery County, Maryland is synonymous with the highest quality bonds. County bonds often trade at levels equal in price and yield to similarly rated state bonds. In the US, only 38 counties enjoy AAA ratings from all three rating agencies. While it is difficult to achieve and maintain that status, from a financial perspective the rewards are voluminous.

MONTGOMERY COUNTY

Isiah Leggett
County Executive

Roger Berliner
Council President

March 12, 2012

The Honorable Jamin B. (Jamie) Raskin
Chair, Montgomery County Senate Delegation
James Senate Office Building, Room 122
Annapolis, Maryland 21401

The Honorable Brian J. Feldman
Chair, Montgomery County House Delegation
House Office Building, Room 350
Annapolis, Maryland 21401

Re: Proposed Pension Cost Shift and Maintenance of Effort Changes

Dear Senator Raskin and Delegate Feldman:

The proposed pension cost shift and Maintenance of Effort changes are matters of tremendous importance to our County's future. As you move toward resolution of these issues, we want to make sure that you know of our concerns.

Pension Cost Shift

As you know, we do not think the shift is justified on any policy basis. From a fiscal perspective, it is no more necessary now than it has been in past budgets. Nonetheless, if you conclude that there are not acceptable alternatives to a shift, we urge you to keep the cost impact on our community to a minimum, both now and in future years.

The shift embodied in the Senate measure is a significant improvement over the Governor's initial proposal. However, it effectively places 100% of "normal" costs (*i.e.*, the costs most associated with teacher salaries) on county governments that have no control over these costs.

We believe that in order to be fair and to provide for some modest incentive for school systems to control these costs going forward, "normal" costs should be split 50-50 between school systems and county governments during the phase-in. Under this approach, county governments would pay the State directly for their share of the costs, outside of the maintenance of effort calculation.

Maintenance of Effort

As you know from our recent letters and testimony, our County has deep concerns with the changes included in Senate Bill 848 as amended and House Bill 1412. We urge you to take a more measured, yet meaningful, approach to these issues.

While we appreciate that the Senate bill no longer calls into question the difficult decisions we made in FY 12, we nonetheless view these measures as (1) extremely overreaching and making profound and little understood changes in the structure of the law; (2) seriously intruding upon the most fundamental responsibilities of local government; (3) lacking benefit of the reflection legislators typically require before such significant changes are made, changes that will alter our County's obligation to over half its budget; (4) coming in the aftermath of one of the nation's gravest economic crises – hardly representative of our long history of extraordinary support for our schools; (5) inconsistent with the fact that our Board of Education has requested a rebased budget for FY 13, a budget that will apparently allow for more generous compensation adjustments than our County government employees will receive; (6) likely leading any future Council to be very reluctant to exceed maintenance of effort going forward; and (7) jeopardizing our County's AAA bond rating.

It is true that because of the Great Recession, for the last three years we could not meet the maintenance of effort threshold. A key reason is that in the previous decade we had exceeded the maintenance of effort level – and thus raised the schools' spending base – by $576 million. Nor could we see a path forward that would allow us to meet maintenance of effort in future years without rebasing. At the same time, since the State funded its increased support for local education with comparable cuts to county governments, we had fewer resources to meet the rest of our fundamental obligations. In point of fact, our "local" support for other vital services, including public safety, has been reduced far more severely precisely to minimize the impact on our schools.

We recognize that other counties have not been as generous to their schools as Montgomery County has been and that there is reason for concern. But the net cast by this legislation is too broad, and it would ultimately lead to extreme strife between the school community and every other constituency and service our County provides.

We support maintenance of effort reform, and we believe that the original version of Senate Bill 848 provides a sound framework for constructive changes to the law. Given the combination of the bill's profound impact on over 50% of our budget, its complexity, and the fact that it was so closely held and only recently released, we are still in the process of exploring possible amendments. However, in the absence of agreement on the new and complicated issues injected by the bills in their present form, we urge you to focus on the reforms on which there is common ground.

In our meetings in Annapolis with you and other leaders of our delegation, we have stressed that we will stand by you if at the end of the day the total package that emerges treats Montgomery County and its residents fairly. We stand by that pledge. However, in the absence of substantial changes to the pension cost shift and maintenance of effort legislation, we will not be able to say that.

We remain ready, willing, and able to work with you to achieve a fair result for our County.

Sincerely,

Isiah Leggett

Roger Berliner

cc: Montgomery County Delegation

Montgomery County Council Statement on Proposed Shift of Teacher Pension Costs

February 23, 2012

Maryland's counties and school systems face a serious problem in Annapolis right now. Governor O'Malley has proposed shifting half the cost of teacher and other pensions from the state to the counties. The County Council, County Executive Ike Leggett, and Montgomery County Public Schools (MCPS), as well as our employee organizations and our counterparts throughout the state, strongly oppose this shift. As Board of Education President Shirley Brandman said on Feb. 14, the shift "will have an immediate negative impact on the important services that our local governments provide."

For Montgomery County, the proposed pension shift would cost $47 million in Fiscal Year 2013 and $315 million over the next five years. The measures proposed to help counties pay the cost are inadequate and may not be enacted in any event.

How much is $47 million? It pays for the jobs of nearly 500 teachers, firefighters, police officers, and other vital County personnel. It is more than the County's general fund budgets for housing, transportation, and environmental protection combined. Our entire budget for libraries is less than $30 million.

The recessionary County budgets of the past three years required painful cuts that have seriously affected our residents and employees alike. For the coming year we face a further budget gap of $135 million and more hard decisions. If we now have to absorb another large burden from the state, there will be real damage to all our vital services—our schools, college, police, fire and rescue, safety net, libraries, parks, housing, transportation, recreation, and many others.

We understand that the state too must balance its budget and faces hard choices. But it is the state that sets the basic structure of pension benefits. In 2006 the state raised pension benefits by 29 percent, retroactive to 1998, but failed to provide sufficient funding. In fact, the state's financial support for the pension fund has fallen short for many years. Counties should not be asked to assume financial responsibility for costs not of their making. We have cut services to the bone, and we have reached our limit on taxes.

Elected officials and concerned organizations throughout the state, including the Maryland Association of Counties, the school community, and employee organizations, have joined together to convey this message to the Governor and the General Assembly. The coalition's web address is www.stoptheshiftmd.com/. There you can learn how you can make a difference. The General Assembly will make its decision on the pension shift soon, probably by mid-March. The stakes for all our County residents are very high.

####

Contingent Reduction Actions in Budget Bill (SB 150)

	$ in Millions
Contingent on Failure of SB 152 Local Contributions of Retirement Costs for Teachers	
Reduce per pupil foundation amount from $6,761 to $6,650	$70.9
Eliminate GCEI	128.8
Eliminate Teacher Quality Incentives and National Board Certification fees	5.2
Reduce disparity grant by 10%	12.0
Supplemental disparity grant	19.6
Reduce library and State library network funding by 10%	5.0
Eliminate local law enforcement grants	20.8
Subtotal	***$262.2***
Contingent on Failure of SB 523 Raising General Fund Revenues	
Eliminate Stem Cell Research Fund	$10.4
Eliminate Biotechnology Tax Credit	8.0
Eliminate Sustainable Communities Tax Credit	7.0
Eliminate provider increases for DDA, MHA, foster care, and nonpublic placements	15.2
Reduce capacity at the RICAs; patients can be absorbed in private RTCs	6.5
Reduce public higher education 10%	38.5
Reduce funding for community colleges 10% below BRFA	19.9
Reduce nonpublic higher education grants by 10%	3.8
Eliminate Delegate and Senatorial scholarships	11.8
Eliminate State employee COLA	33.8
Increase employee share of health insurance costs	15.0
Eliminate 500 positions	30.0
Reduce agency operating expenses by 8%	50.0
Subtotal	***$250.0***
Grand Total	**$512.2**

BRFA: Budget Reconciliation and Financing Act
COLA: cost-of-living adjustment
DDA: Developmental Disabilities Administration
GCEI: Geographic Cost of Education Index
MHA: Mental Hygiene Administration
RTC: Residential Treatment Center

Local Aid Reductions
Contingent on Failure of SB 152 and SB 523
Fiscal 2013

Jurisdiction	Supplemental Disparity Grants	Disparity Grants	GOCCP Local Law Enforcement Grants	Eliminate GCEI	Library Aid	Per Pupil Reduction to $6,650	Eliminate Teacher Quality Programs	10% Reduction to Community Colleges	Total
Allegany	-$1,632,106	-$729,851		$0	-$76,708	-$978,816	$0	-$477,499	-$3,894,980
Anne Arundel	0			-9,042,800	-211,364	-4,466,588	0	-2,724,631	-$16,445,383
Baltimore City	-6,972,596	-7,754,249	-$10,367,614	-22,396,367	-603,434	-11,566,137	0	0	-$59,660,397
Baltimore	0			-5,478,127	-525,589	-8,212,938	0	-3,441,201	-$17,657,855
Calvert	0			-2,291,041	-36,742	-1,184,926	0	-196,574	-$3,709,283
Caroline	-685,108	-213,178		0	-26,783	-608,735	0	-136,338	-$1,670,143
Carroll	0			-2,535,378	-94,122	-2,030,733	0	-685,440	-$5,345,673
Cecil	0			0	-70,258	-1,472,640	0	-464,748	-$2,007,646
Charles	0			-3,498,074	-86,112	-2,275,912	0	-651,582	-$6,511,680
Dorchester	-308,913	-202,269		0	-24,950	-469,360	0	-117,557	-$1,123,049
Frederick	0			-6,379,612	-129,825	-3,313,293	0	-815,032	-$10,637,762
Garrett	-406,400	-213,127		0	-11,943	-257,891	0	-224,728	-$1,114,089
Harford	0			0	-148,693	-3,068,799	0	-999,584	-$4,217,076
Howard	0			-5,119,581	-81,224	-3,193,176	0	-1,258,997	-$9,652,978
Kent	0			-137,992	-8,470	-105,274	0	-54,032	-$305,768
Montgomery	0			-32,796,296	-272,098	-8,339,924	0	-3,592,852	-$45,001,170
Prince George's	-7,628,702	-2,169,477	-3,760,902	-38,292,762	-628,925	-12,921,728	0	-2,202,292	-$67,604,788
Queen Anne's	0			-558,377	-13,383	-447,766	0	-150,276	-$1,169,802
St. Mary's	0			-226,253	-59,047	-1,367,348	0	-221,357	-$1,874,005
Somerset	-381,999	-490,817		0	-26,344	-323,924	0	-65,115	-$1,288,198
Talbot	0			0	-10,579	-162,421	0	-130,926	-$303,926
Washington	0			0	-115,805	-2,241,776	0	-696,793	-$3,054,374
Wicomico	-1,567,837	-219,704		0	-89,673	-1,675,144	0	-436,090	-$3,988,448
Worcester	0			0	-14,407	-251,541	0	-173,969	-$439,917
Unallocated	0	0	-6,639,484	0	-1,605,881	0	-5,232,000	0	-$13,477,365
Total State	**-$19,583,662**	**-$11,992,672**	**-$20,768,000**	**-$128,752,660**	**-$4,972,359**	**-$70,936,790**	**-$5,232,000**	**-$19,917,611**	**-$282,155,754**

GCEI: Geographic Cost of Education Index

GOCCP: Governor's Office of Crime Control and Prevention

Conference Committee Plan
Sharing of Teachers' Retirement Costs with Local Jurisdictions

- Shares retirement costs for school boards only (excludes libraries and community colleges).

- School boards to pay *normal cost* of retirement phased in over four years with concurrent county-paid maintenance of effort increases.

- The normal cost reflects the current cost of retirement for active employees, which does not include unfunded, accrued liabilities. The normal cost's dollar value grows primarily by the growth in salaries and the number of teachers employed.

- Required maintenance of effort paid by counties increases each year by additional pension costs during phase-in period.

- Pension costs offset by $37 million federal fund reimbursement relief to school boards, new county revenues, and local aid to counties and school boards.

- State maintains responsibility to pay for unfunded accrued liabilities and reinvestment, as well as a portion of the normal cost and any costs above the estimates during the phase-in period.

- This plan requires amendments to the budget bill (SB 150) and the Budget Reconciliation and Financing Act (SB 152).

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Conference Committee Plan

Shift of Retirement Costs to School Boards with Offsets/Maintenance of Effort Increase

"Normal Cost" of Teachers Retirement Shifted to Locals with Four-year Phase-in

Fiscal 2013-2016

($ in Millions)

	FY 2013	FY 2014	FY 2015	FY 2016
Normal Cost Shifted (School Boards) – 50/65/85/100%	-$136.6	-$173.2	-$221.6	-$254.8
Offset by:				
Relieve Reimbursement for Federally Funded Teachers[4]	0.0	0.0	37.8	38.2
Net Pension Costs Shifted to School Boards	**-$136.6**	**-$173.2**	**-$183.7**	**-$216.5**
Counties Increase in MOE Due to Shift([3]	**$136.6**	**$173.2**	**$183.7**	**$216.5**
Annual Increase in MOE Due to Shift		**$36.6**	**$10.5**	**$32.8**
Offset by:				
Additional Local Income Tax Revenues (SB 523)	$31.5	$21.6	$21.8	$22.1
Teachers' Retirement Supplemental Grant[1] (SB 152)	27.6	27.6	27.6	27.6
Recordation Tax Indemnity Mortgages (SB 523)	35.7	35.7	35.7	35.7
Local Income Tax Reserve Relief (SB 152)	36.7	36.7	36.7	36.7
Restore Local Police Aid (SB 150/SB 152)	0.0	22.1	22.8	23.5
Health Department Grants (SB 150/ SB 152)	0.0	2.2	3.0	4.0
Total County Offsets	***$131.5***	***$145.9***	***$147.6***	***$149.6***
Net Impact of Shift on Counties	**-$5.2**	**-$27.3**	**-$36.1**	**-$67.0**
Net Impact on State General Fund (Savings)/Cost[2]	**-$109.0**	**-$120.8**	**-$126.5**	**-$154.0**
Remaining State-paid Pension Costs (Non-normal)	**$768.4**	**$866.5**	**$870.0**	**$870.8**
Net Impact of Shift on School Boards	**$0.0**	**$0.0**	**$0.0**	**$0.0**
State Direct Aid Increase Current Law[2]	113.2	88.4	113.6	184.4

MOE: maintenance of effort

[1] Includes Miscellaneous Grant for Baltimore City.
[2] Includes increase in Guaranteed Tax Base program due to increased MOE.
[3] Fiscal 2016 county MOE increase will be included in per pupil MOE amount for fiscal 2017.
[4] Requirement to reimburse the State for federally funded teachers is repealed beginning in fiscal 2015.
Note: Includes school boards only; Governor's proposal also included community colleges and libraries.

SB 152 Impact of County Maintenance of Effort Increase Due to Sharing of Pension Costs
Conference Committee Plan – Fiscal 2013 and 2016
($ in Thousands)

	Fiscal 2013						Fiscal 2016							
County	**MOE Increase Due to Pension Shift**	**Local Income Tax Revenues**	**Disparity Grant Sup.**	**Indemnity Mortgage Rec. Tax**	**Local Income Reserve Relief**	**Net Impact**	**MOE Increase Due to Pension Shift**	**Local Income Tax Revenues**	**Disparity Grant Sup.**	**Indemnity Mortgage Rec. Tax**	**Local Income Reserve Relief**	**Restore Police Aid**	**Restore Health Dept. Grants**	**Net Impact**
Allegany	-$1,488	$70	$1,632	$107	$245	$566	-$2,203	$49	$1,632	$107	$245	$371	$93	$295
Anne Arundel	-11,494	3,018	0	2,925	3,356	-2,195	-18,694	2,117	0	2,925	3,356	2,672	340	-7,284
Baltimore City	-12,923	1,011	10,048	400	2,105	640	-17,901	709	10,048	400	2,105	0	721	-3,919
Baltimore	-15,756	3,237	3,000	2,100	4,840	-2,579	-24,843	2,270	3,000	2,100	4,840	3,869	475	-8,289
Calvert	-2,836	599	0	550	554	-1,133	-4,754	420	0	550	554	281	42	-2,907
Caroline	-794	35	685	100	100	126	-1,182	25	685	100	100	128	55	-89
Carroll	-4,006	1,057	0	800	1,087	-1,062	-6,702	741	0	800	1,087	604	130	-3,340
Cecil	-2,460	270	0	2,195	441	446	-3,944	189	0	2,195	441	390	85	-643
Charles	-3,937	842	0	1,000	823	-1,272	-6,591	591	0	1,000	823	524	106	-3,547
Dorchester	-657	31	309	185	97	-35	-932	22	309	185	97	150	44	-126
Frederick	-5,893	1,444	0	5,000	1,531	2,082	-9,858	1,013	0	5,000	1,531	902	160	-1,251
Garrett	-665	28	406	220	96	86	-955	20	406	220	96	87	45	-81
Harford	-5,530	1,291	0	1,020	1,531	-1,688	-8,803	906	0	1,020	1,531	1,110	184	-4,052
Howard	-9,821	3,514	0	2,903	2,918	-486	-17,284	2,465	0	2,903	2,918	1,360	134	-7,504
Kent	-366	45	0	70	91	-160	-533	32	0	70	91	81	34	-225
Montgomery	-27,228	10,203	0	11,000	10,503	4,479	-44,357	7,157	0	11,000	10,503	5,959	347	-9,391
Prince George's	-19,555	3,273	9,629	2,500	4,097	-56	-29,632	2,296	9,629	2,500	4,097	2,886	551	-7,673
Queen Anne's	-1,106	266	0	500	293	-47	-1,763	186	0	500	293	168	44	-573
St. Mary's	-2,486	590	0	500	636	-760	-4,015	414	0	500	636	375	85	-2,005
Somerset	-480	11	382	40	58	11	-610	8	382	40	58	99	44	21
Talbot	-628	117	0	565	209	262	-943	82	0	565	209	174	34	121
Washington	-3,094	279	0	455	585	-1,775	-4,842	196	0	455	585	581	144	-2,882
Wicomico	-2,174	167	1,568	350	376	287	-3,239	117	1,568	350	376	451	99	-279
Worcester	-1,272	53	0	250	107	-861	-1,952	37	0	250	107	260	34	-1,264
Total	**-$136,645**	**$31,451**	**$27,659**	**$35,735**	**$36,678**	**-$5,122**	**-$216,530**	**$22,062**	**$27,659**	**$35,735**	**$36,678**	**$23,480**	**$4,030**	**-$66,887**

MOE: maintenance of effort

SB 152 Impact of Pension Shift on Local School Boards
Conference Committee Plan – Fiscal 2013 and 2016
($ in Thousands)

	Fiscal 2013		Fiscal 2016		
School System	50% Normal Cost Pension Shift	County MOE Increase	100% Normal Cost Pension Shift	Relief FF Teacher Retirement	County MOE Increase
Allegany	-$1,488	-$1,488	-$2,774	$571	-$2,203
Anne Arundel	-11,494	-11,494	-21,428	2,734	-18,694
Baltimore City	-12,923	-12,923	-24,093	6,192	-17,901
Baltimore	-15,756	-15,756	-29,374	4,531	-24,843
Calvert	-2,836	-2,836	-5,287	533	-4,754
Caroline	-794	-794	-1,480	299	-1,182
Carroll	-4,006	-4,006	-7,468	766	-6,702
Cecil	-2,460	-2,460	-4,586	642	-3,944
Charles	-3,937	-3,937	-7,339	748	-6,591
Dorchester	-657	-657	-1,224	292	-932
Frederick	-5,893	-5,893	-10,987	1,129	-9,858
Garrett	-665	-665	-1,239	285	-955
Harford	-5,530	-5,530	-10,309	1,506	-8,803
Howard	-9,821	-9,821	-18,310	1,026	-17,284
Kent	-366	-366	-683	150	-533
Montgomery	-27,228	-27,228	-50,762	6,405	-44,357
Prince George's	-19,555	-19,555	-36,457	6,825	-29,632
Queen Anne's	-1,106	-1,106	-2,061	298	-1,763
St. Mary's	-2,486	-2,486	-4,634	619	-4,015
Somerset	-480	-480	-895	285	-610
Talbot	-628	-628	-1,172	229	-943
Washington	-3,094	-3,094	-5,769	927	-4,842
Wicomico	-2,174	-2,174	-4,052	813	-3,239
Worcester	-1,272	-1,272	-2,371	418	-1,952
Total	**-$136,645**	**-$136,645**	**-$254,755**	**$38,224**	**-$216,530**

FF: federal funds

MOE: maintenance of effort

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Senate Bill 523 – State and Local Revenue and Financing Act of 2012

- **Income Tax Rate Changes ($195.6 Million in Fiscal 2013)**

Single Taxpayers			*Joint Taxpayers*		
Lower	**Upper**	*Current/**Proposed***	**Lower**	**Upper**	*Current/**Proposed***
1	1,000	*2.00%*	1	1,000	*2.00%*
1,001	2,000	*3.00%*	1,001	2,000	*3.00%*
2,001	3,000	*4.00%*	2,001	3,000	*4.00%*
3,001	100,000	*4.75%*	3,001	150,000	*4.75%*
100,001	125,000	*4.75%/**5.00%***	150,001	175,000	*4.75%/**5.00%***
125,001	150,000	*4.75%/**5.25%***	175,001	225,000	*4.75%/5.00%/**5.25%***
150,001	250,000	*5.00%/**5.50%***	225,001	300,000	*5.00%/**5.50%***
250,001	500,000	*5.00%/5.25%/**5.75%***	300,001	500,000	*5.00%/5.25%/**5.75%***
500,001	99,999,999	*5.50%/**5.75%***	500,001	99,999,999	*5.50%/**5.75%***

- **Income Tax Personal Exemption Changes (State Revenues of $51.7 Million and Local Revenues of $31.4 Million in Fiscal 2013)**

Federal Adjusted Gross Income			***Amount Per Exemption***	
Lower	**Upper**	**Filing**	**Proposed**	***Current***
1	100,000	Single	3,200	*3,200*
100,001	125,000	Single	1,600	*2,400*
125,001	150,000	Single	800	*1,800*
150,001	200,000	Single	0	*1,200*
200,001	99,999,999	Single	0	*600*
1	150,000	Joint	3,200	*3,200*
150,001	175,000	Joint	1,600	*2,400*
175,001	200,000	Joint	800	*1,800*
200,001	250,000	Joint	0	*1,200*
250,001	99,999,999	Joint	0	*600*

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OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

RECEIVED
MONTGOMERY COUNTY

MEMORANDUM

April 12, 2012

TO: Roger Berliner, Council President

FROM: Isiah Leggett, County Executive

SUBJECT: Expedited Legislation - Emergency Medical Services (EMS) Reimbursement Act

I am attaching for Council's consideration an expedited bill which creates an Emergency Medical Services (EMS) Reimbursement Program under which the Fire and Rescue Service is authorized to seek reimbursement for the cost of EMS transport services provided to County residents from commercial insurers, Medicare, and Medicaid. Based on 2010 projections, EMS reimbursements are expected to generate $14 to $17 million annually. We are in the process of updating these projections and will provide them to Council in the very near future.

The bill is necessary to address unprecedented fiscal challenges facing the County as a result of the General Assembly's 2012 Regular Session and the 2012 Special Session that will inevitably be convened to complete work on the Budget Reconciliation and Financing Act (BRFA) and other budget related items. We simply can no longer afford to let millions of dollars go uncollected each year. It is fundamentally wrong for County taxpayers to foot the bill for costs that are covered by insurers in most jurisdictions in Maryland, the Washington Metropolitan area, and the nation.

If the State finalizes the budget "deal" reflected in the Conference Committee Report for the BRFA (Senate Bill 152), the deal will result in a massive and immediate shift of the State's teacher pension costs to counties that will cost Montgomery County $27 million in FY13 (50% of normal cost) and significantly more in the following three fiscal years (65%, 85%, and 100% of normal costs, respectively) until the cost reaches $50 million in FY16. Regrettably, this unprecedented and troublesome cost shift does nothing to improve the sustainability of State pension funding and bizarrely reallocates these costs away from the governmental entity which has complete control over benefit levels and investment decisions (i.e., the State).

The State has already enacted legislation (Senate Bill 848) that imposes an inflexible Maintenance of Effort (MOE) requirement that essentially places half the County budget "off limits" for spending reductions, restricts flexibility in dealing with economic

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downturns, and likely will require the County to put millions of dollars more into reserves to preserve the County's Triple-A bond rating. The bill completely transforms MOE from a condition that a County must meet to receive State funding to a complete State takeover of County budget decision-making by making both the local share of foundation funding and each year's MOE target as absolute requirements, and backing these mandates up with authority to raid County income taxes.

In addition to the State's seismic shift of teacher pension costs and inflexible MOE mandate, the State has continued an additional $8.2 million cost shift relating to the State Department of Assessments and Taxation ($5.3 million) and MCPS/Montgomery College retirement administration ($2.9 million) which began in FY12. All of these costs are paid by County taxpayers.

The State has also reduced aid for community colleges, police, open space, health, and library services by $9.4 million in FY13. Taken together, the State's FY13 cost shifts and aid reductions for Montgomery County total $44.8 million. These FY13 actions follow dramatic reductions in State aid for community colleges, police, open space, health, libraries, and highway user revenues in FY10, FY11, and FY12.

In light of the historic – albeit lamentable -- realignment of State and County roles and obligations reflected above and the resulting financial obligations for the County, there should be no doubt whatsoever that the EMS reimbursement program is needed to fund fire and rescue services in the County and that emergency response services to residents will be impaired if the program is not established immediately.

EMS reimbursement programs are widely employed throughout the nation and by local governments in Maryland and throughout the Washington region. The EMS reimbursement program seeks no reimbursement from County residents themselves. When County residents receive EMS services, the County will seek reimbursement only from commercial insurers, Medicare, or Medicaid in the same way that a doctor's office seeks reimbursement for the cost of health care services provided to a patient. However, unlike the normal doctor's office situation, County residents will not pay any out of pocket expenses for co-pays or deductibles.

Without the EMS reimbursement program, the County will face stark choices that will result in: (1) significant and painful service reductions in the Fire and Rescue Service or other vital programs; or (2) tax increases for County residents and businesses. Increasing taxes further on top of the dramatic tax increases imposed by the State this year would further damage the County's competitiveness in attracting and retaining business, as well as further burden County households. Reducing Fire and Rescue Services or other vital County programs after several years of programmatic reductions would seriously threaten the County's ability to meet some basic needs.

To provide the Council with a complete picture of the EMS reimbursement program created by this bill, I am attaching a copy of the proposed Executive Regulation to implement the fee. This proposed regulation will be published in the May 2012 County Register and submitted to Council after the 30-day public comment period ends on May 30.

On a related note, we are also in the process of preparing budget amendments to reconcile assumptions reflected in my March 15 recommended budget with final State action on the FY13 budget.

Attachments (3)

cc: Joseph Beach, Director, Finance Department
Timothy Firestine, CAO
Jennifer Hughes, Director, OMB
Kathleen Boucher, ACAO
Richard Bowers, Fire Chief, MCFRS
Marc Hansen, County Attorney

SB 848/HB 1412 as Amended – Maintenance of Effort Emergency Bill

1. **Mandatory Waiver Request** – Requires counties to apply for a waiver if they will not meet the maintenance of effort.

2. **Waiver Process** – Incorporates the 2010 conference committee version of the process bill plus two additional factors.

3. **Maintenance of Effort Calculation** – Excludes the cost of debt service as a recurring cost.

4. **Rebasing Waiver Request** – Limits the ability of a county to rebase the maintenance of effort to a lower amount to counties whose education effort is at least equal to the five-year moving State average (1.31% in fiscal 2012). Counties with effort below that level may not permanently rebase. A rebasing waiver may be granted by the State Board after considering additional criteria, and is capped each year at 97% of the required maintenance of effort amount.

5. **Recurring Cost Waiver Request** – Allows a county to apply for a rebasing waiver if the county and county board agree on a reduction in recurring costs, which may be less than the total savings. Exclusive representative must agree if reduction in compensation.

6. **Assurance** – Alters the penalty for not meeting the maintenance of effort to the amount by which a county does not make the maintenance of effort. State exercises right of setoff against local income tax revenues and redirects to county board. If a county goes below the local share of the foundation amount, the State also exercises right of setoff for State and local share of foundation amount and redirects to board.

7. **"Bounce back"** – If a county does not meet the maintenance of effort, the next year's per pupil maintenance of effort amount is set at the last time the county made the maintenance of effort unless a rebasing or recurring cost waiver is granted.

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8. **Increase Required Maintenance of Effort Amount** – Beginning in fiscal 2015, requires counties to maintain a constant education effort if a county's effort is below 100.0% of five-year moving State average by adjusting the per pupil maintenance of effort amount by a county's increase in local wealth per pupil, capped at 2.5% annual increase.

9. **Miscellaneous Provisions**

   a. Authorizes charter counties to increase property tax revenues in order to fund education.

   b. Waives all penalties for not meeting the fiscal 2012 maintenance of effort (Montgomery, Queen Anne's, and Anne Arundel (if applicable))

   c. For fiscal 2013 only, allows counties that missed maintenance of effort in fiscal 2012 and have local income tax rate of 3.2% to rebase at 2012 level.

   d. Does not allow rebasing in fiscal 2013 for any county that does not qualify under item c. above.

   e. Reports requirement for the Maryland State Department of Education on waiver requests, etc.

   f. Alters the timeframe by which the Maryland State Department of Education must certify whether a county has met maintenance of effort.

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MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

OFFICE OF THE COUNCIL PRESIDENT

MEMORANDUM

April 9, 2012

TO: Councilmembers

FROM: Roger Berliner, Council President

SUBJECT: Council Approach to the FY13 Recommended Operating Budget

Based on past experience, the Council is likely to support many of the proposals in the Executive's FY13 recommended operating budget. We now begin the task of making our own final funding decisions. As in past years, together we will do our best to protect essential services and to provide equitable treatment for our taxpayers and our employees.

On the revenue side, we will decide what changes in fees and taxes we will support and how they should be structured. On the expenditure side, we will start with the approved FY12 budget and determine what changes should be made. We will also identify resources for Council grants to non-profit organizations that are providing assistance to individuals and families in need.

I suggest that we ask our analysts and Committees, as they review the base budget and proposed changes for departments and agencies, to consider:

- which items – either in the base or new – warrant full, reduced, or no funding in FY13;
- which items may warrant future funding but require further information and analysis; and
- which items that are recommended for elimination or reduction, or that are not in the recommended budget, should be considered for funding.

All such items will be reflected in Committee recommendations to the Council and in our regular budget tracking reports. **As in past years, any Committee-proposed additions to the recommended budget will go on the Council's reconciliation list. Given the continued tight fiscal situation, this list should consist only of those items that are top priorities for Councilmembers.** Whenever possible, items placed on the reconciliation list should be offset by Committee-recommended reductions. Committees should also focus on any potential additional savings. When the Council takes up Committee recommendations, we will decide how those recommendations fit with the Council's overall priorities.

Please let me know if you have questions about the approach I am suggesting here. I will also be meeting with you to determine your individual priorities as we work through the budget. I look forward to working with you as we transform the Executive's recommended budget into the Council's approved budget for FY13.

cc: Steve Farber, Karen Orlansky, Analysts, Confidential Aides

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