



OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

April 24, 2015

TO: George Leventhal, President, County Council

FROM: Isiah Leggett, County Executive 

SUBJECT: Recommended Adjustments to the FY16 Operating Budget

Attached for your consideration and review are a number of recommended adjustments to the FY16 Recommended Operating Budget. These adjustments recognize recent developments such as State legislative actions and more current information.

As you consider these recommendations and my earlier capital and operating budget recommendations, I would note the challenging fiscal situation in which the County remains. The latest projections for the FY16-21 fiscal plan indicate that the County will remain under significant fiscal pressure. Under current assumptions, resource growth to support future programs is essentially flat in FY17, and this assumes a positive outcome in the *Wynne* court case. As Mr. Farber noted in his April 14 operating budget overview, an adverse decision in the case would only add to an already negative budget, especially in FY17 and FY18, when refunds claims are paid. This revenue loss alone would be enough to reduce agency growth by almost 1.5 percent, which is more than the amount of agency spending increases in my recommended operating budget. Labor negotiations this fall and the expenditure pressures building in the Montgomery County Public Schools operating budget will add to the challenge we face in balancing the budget next spring. Clearly, we need to be careful, thoughtful, and balanced in finalizing the FY16 budget because these decisions will have a direct impact on the choices facing us next year.

This is why I am especially concerned that the Council has introduced a resolution to reduce the energy tax rate 10 percent, which would reduce revenues by \$11.5 million in FY16 and \$69 million over six years. The fuel energy tax is a broad based tax that allows the County to collect revenue from the federal and State government. These entities are otherwise exempt from County taxes even though the County government incurs substantial costs in providing transportation, public safety, and other services to these entities, their employees, and contractors. The fuel energy tax is now the third largest source of tax revenues and is currently an important component in providing a sustainable and predictable budget for County services into the future. Reducing this tax at this time on an on-going basis will make it much more difficult in the near future to maintain a balanced budget, sustain public safety and safety net services, and provide fair and adequate compensation for County employees. I am not convinced that the relatively minor benefit that this would provide to the typical taxpayer is worth the significant cost to our mutual priorities. If in the future we find that our revenues from other sources become more stable and predictable, it may be prudent to reduce this tax. But to do so now is premature and ill-advised.

George Leventhal, President, County Council

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Additionally, Council Committees have so far placed millions of dollars of additional expenditures on the Council reconciliation list within the CIP. The Council has also signaled that it will be increasing spending to accommodate the renovation of the Council Office Building. This addition to the CIP will have an impact on the FY16 Operating Budget due to the need to fund an additional \$1.6 million in PAYGO. Further additions for debt service in FY16 and beyond will also be necessary. While the Council is entirely within its power to review my recommendations and reach different conclusions, I am concerned that its work so far hasn't demonstrated an acknowledgement that additional continuing costs must be funded with additional ongoing revenues.

For the reasons noted above, I urge the Council to avoid adding to the County's base of continuing costs, particularly without identifying offsetting ongoing expenditure reductions or equivalent ongoing increased revenues. To do otherwise would be to potentially rely on the County's reserves, which through adopted County fiscal policy we have mutually pledged to the ratings agencies. It is significant that the ratings agencies have noted our commitment to augment the reserves and our continued progress towards our stated goal.

While we have made significant progress in meeting this goal, we need to keep both the adequacy and appropriate uses of the reserves in perspective. According to Moody's, the County's reserves are "below-average ... compared to similarly-rated entities" which are over 30% of general fund operating revenues. During the last recession when tax revenues were severely constrained, the County's general fund revenues were drawn down very quickly from a high of \$239 million in FY08 to just \$2.7 million in FY10. In addition, in FY10 the County, for the first time in its history, had to withdraw over \$45 million from the Revenue Stabilization Fund (over 37% of the total fund) to maintain fiscal balance. Healthy reserves are not only useful for achieving the highest level of ratings on our debt for lower borrowing costs, but more importantly to provide operating flexibility and liquidity during economic downturns. Drawing down our reserves to fund continuing costs, especially given the cost pressures and risks that are already known to us presently, would be imprudent and jeopardize many of our mutual priorities.

FY16 Operating Budget Amendments

The amendments I am proposing are balanced and do not add unfunded continuing costs to the operating budget. Included in my proposed adjustments are changes to certain categories of State Aid that reflect updated information from the State. While the General Assembly has identified funding to fully fund the Geographic Cost of Education Index (GCEI), the Governor has not indicated that he will expend these funds. Therefore, my proposed amendment for MCPS recognizes the additional formula aid of approximately \$7.8 million that the General Assembly authorized but was not included in my recommended budget. Also, my proposed amendments for Montgomery College include the additional State Aid the General Assembly authorized for community colleges.

The Department of Finance successfully refunded Series 2005A bonds after the transmittal of my recommended budget. My proposed amendment reflects the reduction to the Debt Service budget of \$8,559,780 achieved by the successful refunding.

FY15 Supplemental Appropriation Requests

Concurrent with this transmittal, I am also recommending three supplemental appropriations. As noted below, these supplemental appropriation requests are consistent with, and maintain balance with, my recommended operating budget and proposed amendments.

Department of Technology Services. Similar to the agreement this year with Takoma Park, the County has entered into an agreement with Montgomery Municipal Cable (MMC) to increase support for the Fibernet project in exchange for increased operating support to MMC. In order to implement this agreement, a supplemental appropriation of \$349,000 to the Department of Technology Services is needed to authorize payment of these funds to MMC. This will allow the County's contribution to the Fibernet project to be reduced by \$769,000, which will result in a net increase of \$420,000 in the County General Fund. A revised Cable Plan reflecting the reduced FY15 Fibernet support and increased FY15 transfer to the General Fund is attached to this transmittal. This addition to the General Fund will offset some of the snow removal costs experience in FY15.

Department of Transportation and Department of General Services – Snow Removal. My recommended budget assumed a supplemental appropriation request for snow removal of \$20 million. The Department of Transportation and the Department of General Services have reported excess expenditures of \$24.8 million, exceeding the assumption in my recommended budget by \$4.8 million. These are expenditures that have already been incurred and must be funded. Debt service refunding savings will offset these additional costs without negatively affecting the County's reserve target.

Employee Health Benefits Self Insurance Fund. The County is experiencing higher than expected health insurance claims costs, primarily related to prescription drug claims, as reported to the Council in the second quarter expenditure report. I recommend approval of a supplemental appropriation to fund these incurred expenditures.

Other Considerations

We anticipate a decision in the *Wynne* court case at any time. An adverse decision in the case will change the fiscal landscape and may require a reconsideration of certain assumptions in the FY16 budget you are currently considering. My proposed amendments will leave a balance of approximately \$4 million as protection against a negative outcome in the case. I strongly recommend the Council hold these funds aside for the *Wynne* case and the other known cost pressures we are going to face as we start planning for the FY17 budget. Allocating these funds to other purposes – particularly increases in ongoing expenditures or decreases in ongoing revenues – unnecessarily diminishes the County's flexibility and increases the risk to sustaining many of our mutual priorities next year.

IL:jah

Attachments: Recommended Budget Adjustments
Cable Television Communications Fiscal Plan

c: Timothy L. Firestine, Chief Administrative Officer
Patricia O'Neill, President, Board of Education
Larry Bowers, Acting Superintendent, Montgomery County Public Schools
Dr. DeRionne Pollard, President, Montgomery College
Casey Anderson, Chair, Montgomery County Planning Board
Stephen B. Farber, Council Administrator
Bonnie Kirkland, Assistant Chief Administrative Officer
Department and Office Directors

DETAIL ON RECOMMENDED FY16 CE AMENDMENTS

Tax Supported

RESOURCE AMENDMENTS

Montgomery County Public Schools

STATE AID 7,764,591
Additional State aid provided by the General Assembly that was not included in the March 15 Recommended Operating Budget.

Montgomery College

STATE AID 272,594
Additional State Aid provided by the General Assembly that was not included in the March 15 Recommended Operating Budget.

Total Tax Supported Resources 8,037,185

EXPENDITURE AMENDMENTS

Montgomery County Public Schools

INCREASE COST: STATE AID 7,764,591
This amendment appropriates the additional State Aid provided by the General Assembly that was not included in the March 15 Recommended Operating Budget.

Montgomery College

INCREASE COST: STATE AID 272,594
This amendment appropriates the additional State Aid provided by the General Assembly that was not included in the March 15 Recommended Operating Budget.

Debt Service

DECREASE COST: G.O. BOND REFUNDING -8,559,780
FY16 tax-supported debt service savings of \$8.6 million resulted from refunding \$66.25 million of G.O. bonds in March 2015.

Total Tax Supported Expenditures -522,595

Non-Tax Supported

RESOURCE AMENDMENTS

Montgomery College

STATE AID 48,288
Additional State Aid for Continuing Education provided by the General Assembly that was not included in the March 15 Recommended Operating Budget.

Total Non-Tax Supported Resources 48,288

EXPENDITURE AMENDMENTS

Montgomery College

INCREASE COST: STATE AID 48,288
This amendment appropriates in the Continuing Education Fund the additional State Aid provided by the General Assembly that was not included in the March 15 Recommended Operating Budget.

Total Non-Tax Supported Expenditures 48,288

FY16 CE RECOMMENDED CABLE COMMUNICATIONS PLAN (in \$000's)

	App FY14	Actual FY14	App FY15	EST FY15	CE REC FY16	Proj. FY17	Proj. FY18	Proj. FY19	Proj. FY20	Proj. FY21
1 BEGINNING FUND BALANCE	1,023	817	(422)	136	1,231	299	1,404	1,413	1,422	1,431
2 REVENUES										
3 Franchise Fees ⁴	17,096	16,644	17,002	17,107	17,281	17,405	17,516	17,611	17,717	17,825
4 Gaithersburg PEG Contribution ⁵	189	178	175	172	168	165	162	161	161	161
5 PEG Operating Grant ^{4,5}	4,332	2,239	2,289	2,278	4,110	4,027	3,965	3,923	3,920	3,917
6 PEG Capital Grant ^{4,5}	5,855	6,064	6,277	6,497	6,298	6,456	6,585	6,683	6,751	6,818
7 FiberNet Operating & Equipment Grant ⁴	0	1,762	1,800	1,792	0	0	0	0	0	0
8 Interest Earned	10	2	0	3	11	22	30	39	48	48
9 TFCG Application Review Fees	100	156	120	150	150	120	120	120	120	120
10 Miscellaneous										
11 TOTAL ANNUAL REVENUES	27,583	27,044	27,663	27,999	28,019	28,193	28,378	28,537	28,716	28,888
12 TOTAL RESOURCES-CABLE FUND	28,606	27,862	27,241	28,135	29,250	28,492	29,782	29,951	30,138	30,318
13										
14 EXPENDITURE OF RESTRICTED FUNDS ⁶										
15 A. EXPENDITURE OF RESTRICTED CAPITAL FUNDS										
16 Municipal Capital Support ⁷										
17 Rockville Equipment	836	855	894	916	946	968	986	1,001	1,012	1,024
18 Takoma Park Equipment	125	855	894	916	946	968	986	1,001	1,012	1,024
19 Municipal League Equipment	125	855	824	916	946	968	986	1,001	1,012	1,024
20 SUBTOTAL	1,086	2,565	2,611	2,747	2,837	2,905	2,959	3,004	3,035	3,071
21 PEG Capital ⁸	852	246	852	852	714	852	2,204	2,580	2,616	2,647
22 FiberNet - CIP	3,916	3,916	3,748	2,979	4,098	3,945	1,422	1,100	1,100	1,100
23 (Must be greater or equal to Line 6) SUBTOTAL	5,855	6,727	7,211	6,578	7,649	7,702	6,585	6,683	6,751	6,818
24 B. EXPENDITURE OF OTHER RESTRICTED FUNDS										
25 Municipal Franchise Fee Distribution ⁹										
26 City of Rockville	682	661	668	693	700	704	708	711	715	719
27 City of Takoma Park	248	245	240	245	245	246	246	247	248	249
28 Other Municipalities	262	263	266	267	271	274	276	278	280	282
29 SUBTOTAL	1,191	1,168	1,174	1,205	1,216	1,223	1,230	1,236	1,243	1,250
30 Municipal Operating Support ⁹										
31 Rockville PEG Support	425	75	76	76	77	79	80	82	86	87
32 Takoma Park PEG Support	425	75	76	76	77	79	80	82	86	87
33 Muni. League PEG Support	425	75	146	76	77	79	80	82	86	87
34 SUBTOTAL	1,275	224	299	228	232	236	241	246	257	261
35 SUBTOTAL	2,466	1,392	1,473	1,433	1,448	1,460	1,471	1,483	1,499	1,511
36 TOTAL EXPENDITURES OF RESTRICTED FUNDS	8,321	8,119	8,684	8,011	9,097	9,161	8,055	8,166	8,250	8,329
37 NET TOTAL ANNUAL REVENUES	19,262	18,926	18,979	19,988	18,922	19,032	20,323	20,371	20,466	20,559
38 NET TOTAL RESOURCES-CABLE FUND	20,285	19,743	18,557	20,124	20,153	19,331	21,727	21,784	21,888	21,990
39 EXPENDITURES OF NON-RESTRICTED FUNDS										
40 A. Transmission Facilities Coordinating Group										
41 TFCG Application Review	175	163	175	175	190	194	198	202	207	211
42 SUBTOTAL	175	163	175	175	190	194	198	202	207	211
43 B. FRANCHISE ADMINISTRATION										
44 Personnel Costs - Cable Administration	834	805	840	840	885	919	956	997	1,040	1,085
45 Personnel Costs - DTS Administration	71	76	76	76	82	85	89	93	97	101
46 Personnel Costs - Charges for County Atty	103	110	110	110	119	123	128	134	139	146
47 Operating	80	74	81	81	75	51	52	53	55	56
48 Engineering & Inspection Services	88	70	88	88	98	99	101	104	106	108
49 Legal and Professional Services	275	174	268.161	268	168	171	175	179	183	187
50 SUBTOTAL	1,450	1,308	1,463	1,463	1,426	1,450	1,502	1,559	1,619	1,682
51 SUBTOTAL	1,625	1,471	1,638	1,638	1,616	1,644	1,700	1,761	1,826	1,894
52 C. MONTGOMERY COUNTY GOVERNMENT - CCM										
53 Media Production & Engineering										
54 Personnel Costs	856	867	907	877	647	673	700	729	761	794
55 Operating	31	10	31	41	31	32	33	33	34	35
56 Contracts - TV Production	86	42	87	77	87	89	91	93	95	97
57 New Media, Webstreaming & VOD Services	38	50	38	48	38	39	40	40	41	42
58 SUBTOTAL	1,012	969	1,064	1,044	804	832	863	896	931	968
59 Public Information Office										
60 Personnel Costs	733	740	774	774	796	828	861	897	936	976
61 Operating Expenses	12	9	12	12	12	12	13	13	13	14
62 Contracts - TV Production	83	98	0	0	0	0	0	0	0	0
63 SUBTOTAL	828	846	787	787	809	840	874	910	949	990
64 County Council										
65 Personnel Costs	169	170	179	179	485	504	525	547	571	595
66 Operating Expenses	13	41	13	13	13	13	14	14	14	14
67 Contracts - TV Production	140	148	152	152	152	154	158	161	165	169
68 General Sessions and Committee Meetings	101	101	101	101	101	103	105	107	110	113
69 Multi-Lingual/Cultural Production Services	91	49	91	91	91	93	95	97	99	101
70 SUBTOTAL	514	509	536	536	842	868	896	926	958	992
71 MNCPPC										
72 Contracts - TV Production	99	95	99	99	99	100	103	105	107	110
73 New Media, Webstreaming & VOD Services	24	23	24	24	24	25	25	26	26	27
74 SUBTOTAL	123	118	123	123	123	125	128	131	134	137
75 SUBTOTAL	2,477	2,442	2,509	2,489	2,578	2,666	2,760	2,863	2,973	3,087

FY16 CE RECOMMENDED CABLE COMMUNICATIONS PLAN (in \$000's)

	App FY14	Actual FY14	App FY15	EST FY15	CE REC FY16	Proj. FY17	Proj. FY18	Proj. FY19	Proj. FY20	Proj. FY21
76 D. MONTGOMERY COLLEGE - MC ITV										
77 Personnel Costs	1,260	1,260	1,344	1,344	1,456	1,513	1,575	1,641	1,712	1,785
78 Operating Expenses	86	86	86	86	86	88	89	91	94	96
79 SUBTOTAL	1,346	1,346	1,430	1,430	1,542	1,492	1,560	1,560	1,560	1,560
80 E. PUBLIC SCHOOLS - MCPS ITV										
81 Personnel Costs	1,371	1,380	1,490	1,490	1,548	1,609	1,674	1,744	1,820	1,898
82 Operating Expenses	106	97	106	106	106	108	110	112	115	118
83 SUBTOTAL	1,477	1,477	1,596	1,596	1,654	1,717	1,784	1,857	1,935	2,016
84 F. COMMUNITY ACCESS PROGRAMMING¹										
85 Personnel Costs	1,904	1,904	1,954	1,954	2,042	2,122	2,208	2,300	2,400	2,503
86 Operating Expenses	67	67	67	67	67	68	70	71	73	75
87 Rent & Utilities	374	374	385	385	396	404	412	421	431	441
88 New Media, Webstreaming & VOD Services	23	23	23	23	23	24	24	25	25	26
89 SUBTOTAL	2,369	2,369	2,429	2,429	2,528	2,618	2,714	2,818	2,929	3,045
90 G. PEG OPERATING										
91 Operating Expenses	107	77	116	116	206	185	189	193	197	202
92 Youth and Arts Community Media	50	50	150	150	100	102	104	106	109	111
93 Community Engagement	91	92	91	91	91	93	95	97	99	101
94 Closed Captioning	130	130	130	130	163	166	170	173	189	189
95 Technical Operations Center (TOC)	10	11	10	10	10	10	10	11	11	11
96 Mobile Production Vehicle	22	13	22	22	19	19	20	20	21	21
97 SUBTOTAL	409	372	518,288	518	590	575	587	600	626	636
98 H. FIBERNET OPERATING										
99 FiberNet - Personnel Charges for DTS	595	490	689	602	727	756	786	819	855	892
100 FiberNet - Operations & Maintenance DTS	1,131	1,143	1,131	1,202	1,126	1,147	1,171	1,197	1,224	1,253
101 FiberNet - Network Operations Center						729	743	758	775	793
102 FiberNet - Personnel Charges for DOT	74	74	76	76	101	105	109	114	118	124
103 FiberNet - Operations & Maintenance DOT	238	238	359	359	351	357	365	373	381	390
104 SUBTOTAL	2,038	1,945	2,255	2,240	3,034	3,108	3,189	3,277	3,372	3,470
105 I. MISS UTILITY COMPLIANCE										
106 Miss Utility Compliance	300	305	420	420	420	428	437	447	457	467
107 SUBTOTAL	300	305	420	420	420	428	437	447	457	467
108 TOTAL EXPENDITURE OF UNRESTRICTED FUNDS	12,041	11,727	12,796	12,760	13,963	14,247	14,731	15,182	15,677	16,175
109 TOTAL EXPENDITURE OF RESTRICTED FUNDS	8,321	8,119	8,684	8,011	9,097	9,161	8,055	8,166	8,250	8,329
110 TOTAL EXPENDITURES - PROGRAMS	20,362	19,846	21,480	20,771	23,059	23,408	22,787	23,348	23,927	24,504
111 J. OTHER										
112 Indirect Costs Transfer to Gen Fund	539	539	579	579	614	638	664	692	722	753
113 Indirect Costs Transfer to Gen Fund (ERP & MCTime)	25	25	30	30	-	0	0	0	0	0
114 Transfer to the General Fund	7,175	7,175	4,266	5,035	4,787	2,552	4,428	3,999	3,568	3,133
115 Legislative Community Communications NDA	400	400	488	488	490	490	490	490	490	490
116 SUBTOTAL	8,139	8,139	5,363	6,132	5,891	3,680	5,582	5,181	4,779	4,376
117 TOTAL EXPENDITURES	28,501	27,985	26,843	26,904	28,951	27,089	28,369	28,529	28,707	28,879
118 K. ADJUSTMENTS										
119 Prior Year Adjustments	-		0	0	0	0	0	0	0	0
120 Encumbrance Adjustment	-	(271)	0	0	0	0	0	0	0	0
121 Transfer for Vehicle		12	0	0	0	0	0	0	0	0
122 CIP - Designated Claim on Fund			0	0	0	0	0	0	0	0
123 TOTAL ADJUSTMENTS	-	(259)	0	0	0	0	0	0	0	0
124 FUND BALANCE	105	136	398	1,231	299	1,404	1,413	1,422	1,431	1,439
125 FUND BALANCE PER POLICY GUIDANCE⁵	1,377	1,344	1,370	1,381	1,395	1,404	1,413	1,422	1,431	1,439
126 L. SUMMARY - EXPENDITURES BY FUNDING SOURCE										
127 Transfer to Gen Fund-Indirect Costs	564	564	610	610	614	638	664	692	722	753
128 Transfer to Gen Fund-Mont Coll Cable Fund ⁶	1,346	1,346	1,430	1,430	1,542	1,492	1,560	1,560	1,560	1,560
129 Transfer to Gen Fund-Public Sch Cable Fund ⁶	1,477	1,477	1,596	1,596	1,654	1,717	1,784	1,857	1,935	2,016
130 Transfer to CIP Fund	3,916	3,916	3,748	2,979	4,098	3,945	4,422	1,100	1,100	1,100
131 Transfer to the General Fund-Other	7,175	7,175	4,266	5,035	4,787	2,552	4,428	3,999	3,568	3,133
132 Transfer to the General Fund-Legislative Branch NDA	400	400	488	488	490	490	490	490	490	490
133 FUND TRANSFERS SUBTOTAL	14,878	14,878	12,137	12,137	13,186	10,834	10,348	9,698	9,374	9,052
134 Cable Fund Expenditure of Unrestricted Funds	9,218	8,904	9,770	9,735	10,766	11,038	11,387	11,765	12,182	12,599
135 Cable Fund Direct Expenditures	13,623	13,107	14,706	14,767	15,765	16,255	18,020	18,831	19,333	19,827
136 Cable Fund Personnel	3,434	3,330	3,651	3,535	3,843	3,993	4,155	4,329	4,516	4,711
137 Cable Fund Operating	10,189	9,777	11,055	11,232	11,922	12,262	13,866	14,502	14,816	15,116

Notes: These projections are based on the Executive's Recommended budget and include the revenue and resource assumptions of that budget. The projected future expenditures, revenues, transfers, and fund balances may vary based on changes not assumed here to fee or tax rates, usage, inflation, future labor agreements, and other factors.

1. Subject to municipal pass-through payment.
2. Restricted revenue and expenditures: Certain Cable Fund revenues, required in excess of the federal limit on franchise fees, and corresponding expenditures (Municipal Franchise Fees/Pass-throughs, PEG Capital/Equipment Grants, and PEG Operating Revenue) are contractually required by franchise, municipal, and settlement agreements, and by the County Code, and may only be used for permissible federal purposes and in a manner consistent with applicable agreements.
3. The Comcast franchise renewal process is ongoing and specific elements of a final agreement are uncertain. Restricted categories such as PEG Capital and Operating support revenues, as well as Municipal Capital and Operating Support expenditures, will be affected. Municipal cost sharing is dependant on final negotiation of agreements between the County and municipalities. The County may require Capital Grants based on community needs. The County may negotiate, but may not require Operating Grants in addition to Franchise Fees. FY16-FY21 assumes that the County will receive payments from Comcast calculated at a new franchise agreement, but assumes Municipal payments as similar to the previous franchise agreement.
4. Montgomery Community Television, Inc., d/b/a Montgomery Community Media, is designated as a sole source contractor to provide community access media services.
5. Fund balance per policy guidance is calculated as 8% of total non-restricted revenues (franchise fees, tower fees, and investment income).
6. The Cable Fund makes a fund transfer to Montgomery College and MCPS to support MCPS ITV and MC ITV.