



OFFICE OF MANAGEMENT AND BUDGET


Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

April 6, 2010

TO: Interested Readers

FROM: Joseph F. Beach, Director 

SUBJECT: FY11-16 Fiscal Plan

Executive Summary:

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

The Executive's recommended budget, released on March 15, 2010, closed this unprecedented budget gap and maintained property taxes at the Charter limit.¹ Since release of the operating budget, additional information² became available which led the County Executive on March 25 to recommend additional actions to improve the County's reserves. As part of this plan, the Executive recommended an additional increase to the Energy Tax, and he also recommended implementing the rate increase in FY10. In addition, \$3 million was released from the FY10 supplemental appropriation set-aside, and \$3.7 million in certain planned non-tax supported transfers were accelerated into FY10. In total, these actions will increase reserves by \$48.4 million in FY11, and are reflected in the fiscal plans in this document.

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

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

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

Office of the Director

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

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

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

Background:

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

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

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

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

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

Because of the loss of more than \$320 million in projected revenues since approval of the FY10 budget last May and the record cost of snow removal this winter, estimated to exceed \$60 million, the Executive found it necessary to again recommend certain measures that he had strongly resisted in the past. The Executive recommends removing \$31.5 million in PAYGO⁴ and deferring the scheduled \$64 million increase for retiree health insurance pre-funding. In addition, the Executive recommends withdrawing from the Revenue Stabilization Fund enough funds to maintain a positive FY10 year end fund balance in the County's General Fund.⁵ These measures were necessary to balance the FY10 and FY11 budgets and avoid even more reductions to critical government programs and services. The Executive recommends replacement of these resources to their policy levels as quickly as possible.

Fiscal Plan for the Tax Supported Funds:

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

- Adhere to sound fiscal policies.
- Tax supported reserves (operating margin and the Revenue Stabilization Fund) are recommended to be restored to the policy level of 6 percent of total resources in FY11⁶ and maintained at the policy level in FY12-16 of the fiscal plan.
- Maintain property taxes at the Charter limit by providing a \$693 credit to each owner-occupied household.
- Assume property tax revenues at the Charter Limit during FY12-16 in the fiscal plan using the income tax offset credit.
- Manage fund balances in the non-tax supported funds to established policy levels where applicable.
- Assume current State aid formulas, but continue successful strategies to increase State (and Federal) operating and capital funding.
- Maintain priority to economic development and tax base growth:
 - Seize opportunities to recruit and retain significant employers compatible with the County's priorities;
 - Give priority to capital investment that supports economic development/tax base growth.
- Maintain essential services.
- Limit exposure in future years to rising costs by controlling baseline costs and allocating one-time revenues to one-time expenditures, whenever possible.
- Manage all debt service commitments very carefully, consistent with standards used by the County to maintain high credit ratings and future budget flexibility. Recognize the fixed commitment inherent

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

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

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

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

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

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

Fiscal Plans for the Non-Tax Supported Funds:

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

Conclusion:

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

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

JFB:ae

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

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