



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

MEMORANDUM

March 15, 2011

TO: Valerie Ervin, President, County Council

FROM: Isiah Leggett, County Executive 

SUBJECT: FY12 Operating Budget and FY12-17 Public Services Program

I am pleased to transmit to you, in accordance with the County Charter, my Recommended FY12 Operating Budget and FY12-17 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.

While necessarily reflecting current resource constraints, 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

As with each of the operating budgets that I have transmitted to the County Council, my top priorities have been to produce a fiscally sound and sustainable budget that preserves public safety services, education, and the County's safety net for the most vulnerable.

My approach to this budget maintains my principal goal of achieving our economic objectives with balanced impacts on direct public services, taxpayers, and employees. Furthermore, I continue to make reestablishing long-term fiscal soundness a top priority through our shared commitment to a healthy reserve policy and funding our obligations. While this budget responds to critical priorities, it was not only

necessary to make significant reductions in existing County programs, services, and staffing levels, but also to employee compensation in order to address the County's long-term structural budget challenge. Last year I recommended significantly increased energy and cell phone taxes. In this budget, I do not recommend any major tax increases.

Economic Context and Fiscal Consequences

When I became County Executive, even before the current economic downturn, I made it clear that County Government spending was not sustainable. The combination of a growing workforce, expanding services, and sharply receding local revenues has created a long-term structural deficit in the County budget. Since taking office, I have made restoring fiscal prudence a major priority of my administration. Responsible fiscal practices are essential and the foundation for all else that government must do to protect and serve our nearly one million residents, as well as our employees – both in the short term and in the long term. To respond to this challenge, we established several cost containment, efficiency and productivity improvement actions, and cost reduction strategies 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 worked to reestablish responsible reserve and other fiscal policies that will carry this County into the future with improved fiscal health.

In my first budget as County Executive, the County faced a \$200 million budget shortfall in FY08. We reduced the tax supported rate of increase in spending by County Government from 14.1 percent in FY07 to 6.9 percent in FY08. 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 over \$30 million, abolished over 225 positions, implemented a retirement incentive program, and slowed the rate of growth in the County Government to 1.6 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 government. This year, 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 have been made in previous budgets. Additional reductions not only would further constrain service levels, but, if not done carefully, could also compromise the County's ability to reliably deliver services.

The cumulative amount of budgetary shortfalls that I have resolved in the five budgets that I have developed and recommended to the Council is nearly \$2.5 billion. That, simply put, is unprecedented.

Closing the Gap and Creating a Sustainable Budget

To address the fiscal challenges in the FY12 budget, I developed a multi-pronged strategy including:

- Recommending a mid-year savings plan for all agencies and departments for a total of \$36.2 million;
- Requiring all County Government departments to identify and implement long-term savings of over \$80 million in their FY12 operating budgets;
- Participating actively in multi-agency efforts to identify long-term savings in restructuring government organization (Organizational Reform Commission) and in making County services more efficient and effective (Cross Agency Resource Sharing);

- Negotiating with our employee representative organizations to reduce ongoing costs related to employee compensation;
- Continuing the hiring freeze instituted over three years ago; continuing the procurement freeze initiated in December 2009; and reducing current revenue funded expenditures in our capital budget.

We are projecting an ongoing structural imbalance between County expenditures and resources in FY13. Therefore, our solutions must be carefully weighted toward identifying long-term savings, sustainable and stable revenues, and adopting efficient, productive, and cost-effective business practices.

Restructuring Employee Compensation

Eighty percent of the County budget goes toward compensation – wages and benefits for County employees. To continue my efforts to create a sustainable budget for the long term, I recommend the abolishment of an additional 216 positions in County Government in FY12. Nearly 140 of these positions are currently filled. Since taking office, I have reduced the size of the County workforce by over ten percent, abolishing over 1,254 positions.

For FY12, I recommend changing the cost sharing arrangements for County Government employees for their group insurance and retirement plans. Currently, the County pays up to 80% for most employees' group insurance. Effective July 1, 2011, I recommend that we change the ratio to 70% for all health plans. In addition, in order to provide ongoing savings, I am proposing a three tiered approach that would establish the 70/30 cost sharing arrangement for lower compensated employees while asking middle income and higher income plan participants to pay a greater share of the cost of group insurance coverage.

In addition, I recommend that employees in the defined benefit retirement plans pay 2% more in covered compensation for their retirement benefits and that we reduce the County contribution for employees in the defined contribution retirement plans by 2% of covered compensation. This change will reduce the ongoing cost of compensation for the County and produce real, sustainable savings in the operating budget in the short and long term. The above two budget proposals are aligned with the recent recommendations made by the County's Office of Legislative Oversight, as a way to bring long-term sustainability to employee benefit expenses.

My recommended changes to the County's benefits structure is the beginning of a continued effort to better structure our benefits to provide savings for both the County and its employees. I believe that over time, working together, we can develop additional cost efficient ways to further reduce benefit costs, while still maintaining a highly competitive benefits package for our workers. To promote equity among locally funded public employees and produce sustainable savings across the entire government, I recommend that the governing board of the other County funded agencies support a similar approach to compensation in FY12.

While my recommended budget does not contain any pay increases for County Government employees, I am also not recommending furloughs. As you know, in FY11 the employees of the County Government and Montgomery College took up to eight days in furloughs, and the employees of the Maryland National Park and Planning Commission (M-NCPPC) took up to ten days in furloughs. Furloughs are an effective means of providing one-time savings, but have little impact on our ongoing structural budget challenges. For this reason, my recommendation does not contain furloughs in FY12.

This budget recommendation is inconsistent with the arbitrated awards for the Fraternal Order of Police, Lodge #35, International Association of Fire Fighters, Local #1664, the Municipal and County Government Employee Organization, Local 1994, and the Montgomery County Volunteer Fire Rescue Association¹.

I realize that reductions in current compensation levels will result in additional financial sacrifice for County employees and their families. I am very aware of the substantial contributions that our employees have made over the last three years to address the County's financial challenges including forgoing negotiated pay increases, furloughs, and elimination of positions. However, the alternative to these reductions would be further layoffs and erosion of services including reductions in public safety staffing, education, and safety net programs, or substantially higher taxes for our residents and businesses. Restructuring employee compensation is the most viable option available to develop a budget that is fair to County taxpayers and employees and which also moves toward achieving our long-term objective of fiscal sustainability. I also want to add that whatever I ask of County employees, I will match, and so will my entire management team and all senior managers just as we have the last several years.

Restructuring County Services

Regrettably, this budget includes numerous reductions in County services across all programs including Health and Human Services, Public Safety, Transit, Libraries, Recreation, Parks, Planning, Technology Services, and other programs and functions.

To those who may object to these reductions, I have a simple message: I do not like these cuts any more than you do. However, hard choices must be made, and made now. It is difficult to avoid the economic and fiscal realities our County faces at this time without some painful impacts.

In developing the FY11 budget, the County experienced significant and frequent reductions in expected revenues which required several adjustments in not only our expenditure and revenue budgets, but also in the County's fiscal policies. With the full support of the County Council, we strengthened the County's fiscal policies including our policies on reserves, PAYGO for the CIP, and the use of non-recurring revenue. We recommended, and the Council approved, changes to the Revenue Stabilization Fund law that require us to further increase that essential reserve. The revenue losses of the past year, coinciding with the extraordinary weather events and unprecedented costs of storm clean up and snow removal, clearly illustrate the need for and wisdom of these strong reserve policies. This budget keeps faith with our six year fiscal plan and those policies by maintaining reserves at their required levels, allocates funding for PAYGO at 10% of planned general obligation bond issue, budgets over \$26 million in the County Government for pre-funding retiree health insurance, and budgets the minimum amount for snow removal and storm response. In the past, snow removal costs were not fully accounted for in the budget, but were funded by drawing down reserves. It is important that we adhere to these new policies to maintain the County's AAA bond rating, responsibly fund ongoing obligations, and maintain a prudent and realistic level of reserves for future contingencies.

I have also found it necessary to again seek a waiver of the State-required Maintenance of Effort in local funding of K-12 public education². I recommend that we seek a waiver in order to preserve vital

¹ As required by Chapters 33 and 21, I will provide the Council with the cost and other details necessary to implement these arbitration awards. Additional details on compensation and benefit costs can be found in the Workforce/ Compensation section of this budget document.

² Maintenance of Effort (MOE) is a State mandate that requires that local funding, on a per pupil basis, must remain at least constant from one year to the next in order to qualify for an increase in certain categories of State K-12 Education Aid.

services throughout the County and to provide a balanced and sustainable budget. We have both worked with the General Assembly in its current session to modify the existing Maintenance of Effort (MOE) law to provide flexibility to local governments throughout the State to respond to its fiscal challenges and fund K-12 education in a manner that does not deprive other important local government services of funding. Accordingly, I recommend reducing the County contribution by approximately \$82 million below the Board's request and funding 96 percent of the Board's requested budget.

While we have reduced the Board's request by \$82 million, I believe it is imperative that we do not reduce the local contribution below the level approved by the County Council in the FY11 Budget. Further reductions could harm our credibility with the State Board of Education in our MOE waiver request and our efforts to seek changes to the MOE law with the General Assembly. In addition, further reductions below the \$82 million could adversely affect our ongoing partnership with the School system on a number of important long-term budgetary issues.

Even though we have taken many actions to bring down the long-term costs of the government, including reducing and even eliminating some services and programs, we are also carefully making other investments to protect the quality of life in the County, especially in the areas of public safety and the environment.

To respond to growing public safety issues in the Silver Spring Central Business District and adjacent areas, I recommend enhancing our existing police staffing levels to help address this major concern.

Through the fees raised in the Water Quality Protection Fund (WQPF), 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 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. To fund these efforts, as well as to begin to integrate storm drain maintenance activities into the WQPF, the annual storm water management fee will increase from \$49 per equivalent residential unit in FY11 to \$62 in FY12.

Funding the Budget

Because of financial burdens on County households as a result of the economic downturn, I once again made an early commitment to remain within the County charter limit³ on property taxes for the FY12 budget. As was true for last year's budget, this budget keeps faith with that commitment. The property tax for each owner-occupied residence will include a credit of \$692 to lower the burden on homeowners and maintain a progressive property tax structure in the County.

Water and sewer rates will increase by 8.5 percent in FY12 in accordance with the budget recently approved by the WSSC. Details on fee increases are provided in the Revenues section of my Recommended FY12 Operating Budget.

In order to address the environmental and public health problems caused by disposable bags used by retail businesses, I recommend institution of a 5-cent excise tax on carryout bags provided by retailers to customers on or after January 1, 2012. This legislation will provide an incentive for individuals to reduce their use of disposable bags, thereby reducing the number of bags which end up as litter in the waste stream. All revenues

³ 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.

generated through this charge will be deposited in the County's Water Quality Protection Fund and used for watershed protection activities including litter prevention and removal. The ultimate goal of this charge is to change behavior and not to raise revenues.

For the first time in several years, this budget will not include funding from an Emergency Medical Services (EMS) transport fee. The result of the most recent referendum means the loss of over \$14 million this year, \$14 million for the coming year, and over \$160 million over ten 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. By comparison, the loss of \$28 million (both FY11 and FY12 estimated revenue) is equivalent to the entire annual budget for our public library system.

Building a Sustainable Budget

Due to the efforts discussed above, the cooperation and collaboration of our employee representatives and the governing boards and principals of other agencies, and other solutions to be discussed below, we have closed this budget gap and reversed the growth trends in budget expenditures that occurred before I took office.

- I recommend a total County budget (which includes debt service, grants, and enterprise funds) for FY12 of \$4,347,309,496 an increase of \$76.5 million from the FY11 Approved Budget – a 1.8 percent increase.
- I recommend to the County Council, that tax-supported funding for Montgomery County Government programs decline by \$24.2 million or 2.1 percent. Once the funds allocated for Retiree Health Insurance (\$26.1 million) and snow removal (\$10 million) are factored into the County Government there is a net increase of only \$11.9 million – a 1.0 percent increase from the FY11 Approved budget.
- Tax Supported funding for the MCPS will increase by \$67.8 million – a 3.5 percent increase from FY11. Local funding for MCPS will remain level at \$1.415 billion. The budget funds 96 percent of the Board of Education request.
- The overall tax-supported budget of \$3,767,777,968, (including debt service) will increase by \$111,920,246 from the FY11 budget. This represents a 3.1 percent increase.
- The budget for Montgomery College increases by \$1.5 million, a 0.7 percent increase.
- Funding for the M-NCPPC is reduced by \$1.7 million, a 1.8 percent decrease.

Unfortunately, our ongoing efforts at expenditure restraint are not completed with the FY12 Operating Budget. Given the severe and lasting impacts of the recession, the subsequent decline in tax revenues; the scheduled sunset of the increase in the Fuel Energy Tax at the end of FY12; the rejection of the EMS transfer fee; increasingly volatile fuel costs; and continued economic uncertainty, FY13 and perhaps ensuing fiscal years will require continuing restructuring of County expenditures, including personnel costs which comprise 80 percent of County costs.

Assuming that you approve my FY12 Budget as recommended, with all of the very difficult cost reductions and other budgetary solutions, the FY13 budget will require a reduction in tax-supported agency expenditure budgets of \$142.4 million or -4.1%, to produce a balanced budget. The projected decline in fuel energy tax revenues, as well as projected increases in debt service, CIP Current Revenue, pre-funding retiree

health insurance, and other funding obligations will continue to impose significant fiscal constraints on the County in FY13. Even with an economic recovery, there will be a lag in the increase in income tax and other revenues as our collections catch up with the economic recovery.

The outlook on the economy remains highly uncertain, including the ongoing turmoil in the Middle East and the sharp, upward pressure this unrest is causing on energy prices; the prolonged downturn in the local real estate market; pending reductions in federal procurement and spending; and persistently high unemployment. In addition, final decisions by the General Assembly on the State's budget may further affect our capacity to provide local services.

Therefore, I strongly recommend avoidance of one time solutions, quick fixes, and any additions of continuing costs back into the budget because such actions will only exacerbate the structural budget gaps long into the future, rather than addressing them now through real, long-term solutions.

Focusing on Productivity and Performance

I realize that our approach to balancing the budget should not strictly be a matter of cost reduction, but we should make every effort to make our operations more efficient, productive, and cost 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.

CountyStat has added value by enforcing my philosophy of "results-based accountability" and empowering the Departments to make "data-driven" decisions. Although building upon previous "stat" programs, CountyStat represents a further evolution of this model by focusing on customer results, performance, and long-term strategies with a focus on effectiveness and efficiency. Specific examples of CountyStat's impact include:

- Analysis of overtime pay for public safety agencies (Fire and Rescue, Police Department and Corrections) since 2008 has helped these departments cut overtime hours by 19% and save the County more than \$20 million dollars.
- Initiated and managed a paper reduction initiative that in FY11 saved the County approximately \$2.1 million in paper, printing, and related costs while enhancing the County's commitment to environmental stewardship.
- Thorough examination of existing practices, programs and processes, including strategic analysis and support for the ongoing development of the MC311 data reporting system, aiming to create a structure that allows departments to make operational decisions based on MC311 data.
- Managing the departmental Performance Dashboard to monitor and report the County's successes and challenges, and issuing the first progress report on the County's Community Indicators that represent a high-level barometer of County performance benchmarked against a regional and national grouping of comparable jurisdictions.

- Provided strategic and analytical review of a number of critical issues, programs, services, and policies including realignment and streamlining of government functions and ongoing audits of departmental fulfillment of MC311 generated customer requests to ensure that residents' requests for information or service are completed within acceptable parameters of timeliness.

The implementation of the centralized 311 Call Center and Constituent Relationship Management system (CRM) over the last year 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 from the CRM system, combined with financial information from the Enterprise Resource Planning (ERP) system, will provide us with important tools to make more informed decisions about how to best use our scarce resources.

Over the past year, we have successfully implemented important modernizations and upgrades to key elements of our Core Business Systems to improve the efficiency, effectiveness, and responsiveness of the County Government. In June of 2010, the County completed all phases of replacing its manual timekeeping system with an enterprise-wide electronic timecard system. In July of 2010, we went live with the upgraded financial and procurement components of the Technology Modernization project and in January 2011, the County implemented the human resource and payroll modules to continue to upgrade and streamline existing business processes. All of these systems have been implemented on time and on budget: a remarkable achievement for any Enterprise Resource Planning (ERP) project. The ERP system is critical to our ability to have real-time, useable, financial data to improve fiscal analysis, promote transparency in our financial affairs, and improve fiscal controls – essential tools for managing during these challenging fiscal times. The Technology Modernization capital project also provides resources to replace the County's current fragmented budgeting systems with an automated, web-based system that will provide greater efficiency, functionality, and reporting features.

Restructuring Government Organization

In this budget, we are continuing our efforts at restructuring the County Government to improve its responsiveness and efficiency. I recommend that we create the Office of Community Engagement by consolidating the staffing of the Regional Services Center, the Office of Community Partnerships (currently in the Offices of the County Executive), the Gilchrist Center (in the Department of Recreation), the Office of Human Rights, and the Commission for Women. This reorganization will not only produce continuing savings of nearly \$2.8 million, but will provide a more effective model for engaging the community and leveraging the expertise and resources of all parts of Montgomery County to address our most urgent challenges in the coming years.

As recommended by the Organizational Reform Commission (ORC), I am urging that we move ahead with the consolidation of the Housing Opportunities Commission (HOC) and the Department of Housing and Community Affairs (DHCA) to produce continuing savings and improve the coordination and effectiveness of our affordable housing programs; merge the M-NCPPC Park Police with the Montgomery County Police Department which will produce substantial savings and improve response time to incidents in our Parks; and merge certain elements of the M-NCPPC Parks Departments into the County's Department of Recreation. This merger will improve the coordination of our local recreation programs, streamline resident access to these services, and produce continuing savings to address our ongoing fiscal challenges.

Final Thoughts

Despite the extraordinary challenges we are currently facing, I remain very optimistic about the future of our County. The quality and scope of services we offer our residents in the areas of education, affordable housing, public safety, and health and human services are still among the very best in the nation. We have made significant advancements in working collaboratively together 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 results of the latest census objectively confirm what we have known: Montgomery County is one of the most dynamic, growing, and cosmopolitan areas in both the Washington region and the nation. We will continue to work with the Council and the other agencies to ensure that our policies support and encourage this growth and diversity.

The recently approved land use plans for the White Flint Central Business District and the Great Seneca Sciences Corridor will significantly contribute to the growth in the local economy through job creation, residential and commercial development, support for transit-oriented development, and other improvements in the quality of life for County residents. We are actively and aggressively marketing Montgomery County as a business destination and this budget includes funds to continue to make strategic investments to retain and recruit quality businesses to Montgomery County. With the Council's support, we are well on our way in implementing the Smart Growth Initiative which is key to developing the Shady Grove Sector Plan and improving the quality and safety of County facilities for the Police Department, Fire and Rescue Services, MCPS, and the M-NCPPC.

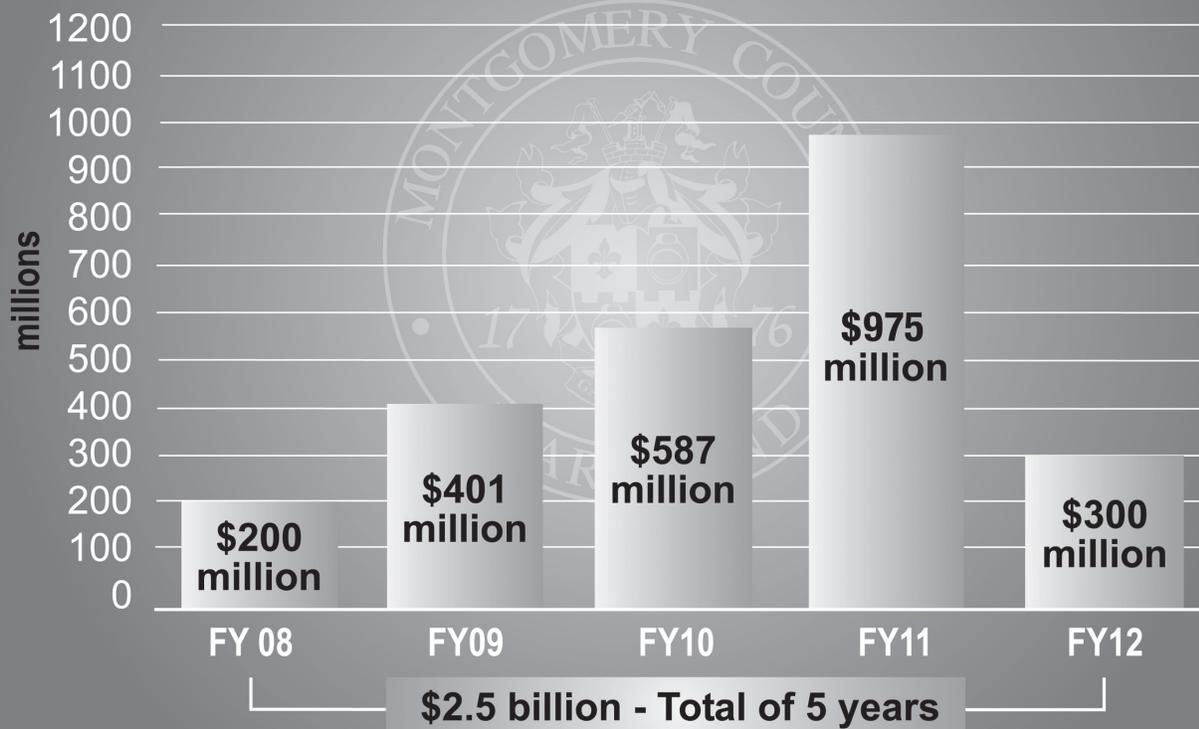
The wonderful people of this county are our greatest asset and continue to inspire my hope and confidence for our future. Nearly a million strong today, our people have sacrificed to maintain services during these trying economic times by contributing more in taxes, community service and by helping protect 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



Affordable Housing in an Inclusive Community...

- Invest over \$47 million in the Montgomery Housing Initiative fund to acquire and rehabilitate the County's affordable housing stock.
- Continue funding from federal grants for affordable housing, housing rehabilitation, commercial revitalization, and preventing homelessness.
- Continue to administer the Weatherization Program, which is funded by Maryland State Department of Housing and Community Development via a federal pass through provided by the Department of Energy, to provide energy saving housing renovations for income eligible county residents.
- Continue to provide housing code enforcement to neighborhoods for improving safety and sanitary living conditions.
- Invest in the creation and preservation of Special Needs housing.
- Continue to offer landlord tenant mediation services to an expanding immigrant population and provide emergency housing services for eviction prevention and special relocations.
- Fund the SuperNofa Samaritan Initiative to provide shelter and housing services for the homeless.
- Continue the Housing First Program to rapidly place homeless individuals and families in permanent housing.

Children Prepared to Live and Learn...

- Provide resources to accommodate the enrollment of 146,649 students.
- Continuation of youth-based programming to provide students the opportunity to participate in after-school programming in a safe, positive, and supervised environment.
- Make a County contribution to Montgomery County Public School (MCPS) of \$1,430.4 million, including \$15.3 million of carryover funds.
- Support MCPS programs through expenditures in other County departments, such as Health and Human Services, Public Libraries, Police, Recreation, Community Use of Public Facilities, and Environmental Protection.

