

MEMORANDUM

April 5, 2010

TO: Management and Fiscal Policy Committee
FROM: ^{CN1} Charles H. Sherer, Legislative Analyst
SUBJECT: FY11 Operating Budget for four NDAs (section 68 in the budget)

The following may attend, all from OMB:
Beryl Feinberg, Alex Espinosa, Blaise DeFazio, Bryan Hunt

The four NDAs are shown in the table below.

NDA	FY10 Budget	FY11 Executive	
Future Federal/State/Other grants	\$20.0 million	\$20.0 million	
Grants to municipalities in lieu of shares tax	28,020	28,020	
Takoma Park police rebate	854,920	717,580	
Municipal Tax Duplication	7,488,240	7,113,830	

Summary of staff recommendations: Approve all four budgets as the Executive recommended.

I. Future Federal, State, or Other Grants (©1) This account is funded entirely from non-County sources and permits the County Government to accept and spend funds from grants by transferring funds from this account, rather than requesting a supplemental appropriation. This process saves time and paperwork. The appropriation can only be spent if grants are received.

In November 1994, the voters approved a Charter amendment that **excluded** all specific grants, such as these, from the calculation of the aggregate operating budget for spending affordability purposes. There is no "harm" done if the County receives less than the appropriated

amount. If the County receives more, then the Council will have to go through the effort and expense of processing a supplemental appropriation.

As the table above shows, the Executive recommends the same amount for FY11 as the Council approved for FY10. OMB provided the following report for this account through February 2010:

FY10 Original appropriation	\$20,000,000
Less FY10 use of funds	\$11,364,199
Current NDA fund balance	\$8,635,801

Based on the above report for FY10, \$20 million appears to be sufficient for FY11.

II. Grants to Municipalities in lieu of Shares Tax (©1). This budget is the same each year: \$28,020. In 1968, the State General Assembly revised the tax structure to permit a County income tax, to eliminate a tax on banks and other financial institutions (referred to as a “shares tax”), and to require counties to pay to municipalities each year the amount of the shares tax the municipalities received in 1968, which was \$28,020.

III. Takoma Park Police Rebate (©4) In accordance with the County Code, the County pays the City 4.8 cents per \$100 of the assessable base in the City. As the base increases or decreases, the rebate increases or decreases.

IV. Municipal Tax Duplication (©3) The joint Municipality-County task force is in the final stages of completing its report and presenting it to the Executive. After he sends it to the Council, a briefing will be scheduled for this Committee and/or the Council.

The FY11 payment is 5% less than the FY10 budget, for fiscal reasons. OMB explained that they tried to recognize the fiscal difficulties facing the municipalities, including State reductions in highway user revenue, and also to recognize the County’s fiscal difficulties.

The 5% reduction does not appear to Council staff to be unreasonable. As the Executive stated on page 6 of his budget message to the Council,

“I am recommending to the County Council that tax-supported funding for Montgomery County Government decreases by \$76.5 million – a 6.1 percent decrease from the FY10 Approved budget.”

The Executive reduced County Government 22% more than he reduced this payment (6.1% is 22% more than 5.0%),

Background to municipal tax duplication

Municipal tax duplication payments are required by section 6-305 of the State Tax Property Article and are implemented by chapter 30A of the County code. The Code assigns the responsibility for calculating the amount of reimbursement to the County Executive, not the municipalities. "The amount of reimbursement shall be limited to the amount the county executive estimates the county would expend if it were providing the services...subject to the limits of the funds appropriated by the County Council."

The amount the County would spend is the total cost the County would incur, less any revenue from non tax and non County sources associated with the service. Note that the County does not reimburse for services that the municipality provides but the County does not provide, because the County's cost would be zero. The County does not reimburse the municipalities' costs of providing the services. Instead, as stated above, the County reimburses the net cost the County would spend if the County provided the services.

The services and the amounts reimbursed are calculated according to an agreement among the County and the municipalities that the Council approved on September 10, 1996, in resolution #13-650. Under this agreement, the reimbursements are based on the last completed fiscal year (i.e., the FY07 reimbursements were based on FY05 actuals. The rationale for using actual data from two budget years ago is that the data are known several months before the Council approves the next budget, but actual data from one budget year ago is not known until several months after the next budget year starts.

The reimbursement to Takoma Park for police services is based on a memorandum of understanding between the CAO and the City Administrator signed by the CAO in December 2002 and by the City Administrator in January 2003. The parties believed the new formula more accurately measured the amount the County saves by not providing police services to the City. County and City staff are currently reviewing this MOU to make further improvements in the methodology.

The County Code follows.

Chapter 30A. MONTGOMERY COUNTY MUNICIPAL REVENUE PROGRAM

§ 30A-1. Established.

§ 30A-2. Qualification of municipal public services for county reimbursement.

§ 30A-3. Determination of amount of reimbursement.

§ 30A-4. Limitations on expenditures.

§ 30A-5. Application to participate in program.

Sec. 30A-1. Established. There is hereby established a program to reimburse municipalities within the county for those public services provided by the municipalities which would otherwise be provided by the county government. (1974 L.M.C., ch. 7, § 1.)

Sec. 30A-2. Qualification of municipal public services for county reimbursement.

Municipal public services shall qualify for county reimbursement if the following conditions are met: (1) The municipality provides the service to its residents and taxpayers; (2) the service would be provided by the county if it were not provided by the municipality; (3) the service is not actually provided by the county within the municipality; and (4) the comparable county service is funded from tax revenues derived partially from taxpayers in the participating municipality. (1974 L.M.C., ch. 7, § 1.)

Sec. 30A-3. Determination of amount of reimbursement. Subject to the provisions of section 30A-4, each participating municipality shall be reimbursed by an amount determined by the county executive to approximate the amount of municipal tax revenues required to fund the eligible services. The amount of reimbursement shall be limited to the amount the county executive estimates the county would expend if it were providing the services. (1974 L.M.C., ch. 7, § 1.)

Sec. 30A-4. Limitations on expenditures. All expenditures by the county under the authority of this chapter shall be subject to the limits of the funds appropriated by the county council. (1974 L.M.C., ch. 7, § 1.)

Sec. 30A-5. Application to participate in program. Any municipality within the county desiring to participate in the county municipal revenue program shall submit not later than November 15 of each year to the county an application which shall be in such form and contain such information as may be required by the county executive. (1974 L.M.C., ch. 7, § 1.)

Desktop Computer Modernization

The Desktop Computer Modernization (DCM) program is based on a best practices approach to maintaining a modern and cost effective computing environment in the County. The program reduces the Total Cost of Ownership (TCO) of personal computers (PCs) and laptops through standardization, asset management, and maintenance services. DCM includes the centralized management, support, and maintenance of PCs and targets the annual replacement of approximately one-fourth of managed PCs. The program also includes PC-related training and software. This NDA includes funding for Help Desk support, management, maintenance, and replacement of PCs.

FY11 Recommended Changes	Expenditures	WYs
FY10 Approved	6,839,290	0.0
Increase Cost: DCM - Professional Consultant Services	16,660	0.0
Decrease Cost: Reduce PC acquisitions, contract services, and software maintenance for Desktop Computer Modernization (DCM) program.	-375,000	0.0
Reduce: Reduce PC acquisitions, contract services, professional consultant services, hardware acquisition fees, and enterprise server acquisition for Desktop Computer Modernization (DCM) program.	-2,850,000	0.0
FY11 CE Recommended	3,630,950	0.0

→ Future Federal/State/Other Grants

This NDA enables the County to implement new grant-funded programs up to \$200,000 each and provides funds for grant continuations and enhancements without having to process individual supplemental appropriations through the County Council. Upon approval by the County Executive, funds in this program are transferred to the receiving department's grant account.

FY11 Recommended Changes	Expenditures	WYs
FY10 Approved	20,000,000	0.0
FY11 CE Recommended	20,000,000	0.0

→ Grants to Municipalities in Lieu of Shares Tax

This NDA funds payments required in accordance with State law. The 1968 Session of the General Assembly revised the tax structure to include a County income tax. As part of this restructuring, the shared tax on banks and financial institutions was eliminated, and a provision was adopted which requires counties to pay annually to municipalities the amount (\$28,020) which had been received by the municipalities in FY68.

FY11 Recommended Changes	Expenditures	WYs
FY10 Approved	28,020	0.0
FY11 CE Recommended	28,020	0.0

Group Insurance for Retirees

Group insurance is provided to an estimated 4,350 retired County employees and survivors, as well as retirees of participating outside agencies. Employees hired before January 1, 1987, are eligible upon retirement to pay 20 percent of the premium for health and life insurance for the same number of years (after retirement) that they were eligible to participate in the group insurance plan as an active employee. The County government pays the remaining 80 percent of the premium. Thereafter, these retirees pay 100 percent of the premium. Employees hired before January 1, 1987, are also offered the option at retirement to convert from the 20/80 arrangement to a lifetime cost sharing option.

Employees hired after January 1, 1987, are eligible upon retirement for a lifetime cost sharing option under which the County pays 70 percent of the premium and the retiree pays 30 percent of the premium for life for retirees who were eligible to participate in the County group insurance plan for 15 or more years as active employees. Minimum participation eligibility of five years as an active employee is necessary to be eligible for the lifetime plan. The County will pay 50 percent of the premium for retirees with five years of participation as an active employee. The County contribution to the payment of the premium increases by two percent for each additional year of participation up to the 70 percent maximum.

On March 5, 2002, the County Council approved a one-time opportunity for retirees still under the 20/80 arrangement with an expiration date to elect the lifetime cost sharing arrangement. The new percentage paid by the County for those electing this arrangement ranges from 50 percent to 68 percent, depending upon years of active eligibility under the plan and years since retirement. The cost sharing election process has been completed.

The budget does not include employer contributions from participating outside agencies.

FY11 Recommended Changes	Expenditures	WYs
FY10 Approved	3,740	0.0
FY11 CE Recommended	3,740	0.0

Leases

This NDA provides the funds necessary to lease privately owned real estate to accommodate County programs. Real property leased by the County includes office, warehouse, and retail space; hangar facilities; child care space in schools; parking spaces; and space for communication antennas. Leasing property allows the County the flexibility to locate programs in the communities they serve and provides space for programs to operate when there is no County-owned space available. Further, it is an economical way to procure highly specialized, location sensitive, or temporary space. Currently, there are approximately 75 leased facilities. The inventory of leases is constantly shifting as new leases are added and existing leases are terminated.

FY11 Recommended Changes	Expenditures	WYs
FY10 Approved	19,225,800	0.0
Increase Cost: Edison Park	4,459,900	0.0
Shift: Part of Department of Liquor Control lease at Southlawn	242,390	0.0
Increase Cost: Move Outpatient Addiction Services to 981 Rollins	90,420	0.0
Decrease Cost: Move Silver Spring Regional Services Center to Silver Spring Civic Building	-43,490	0.0
Decrease Cost: Move Inspector General to Grey Courthouse January 1	-44,270	0.0
Decrease Cost: Move Sheriff's Office from 199 E. Montgomery to Grey Courthouse January 1	-98,010	0.0
Decrease Cost: Move Corrections from 51 Monroe to County-owned Space	-215,980	0.0
Shift: DEP Lease at 255 Rockville Pike to Water Quality Protection Fund	-381,370	0.0
Decrease Cost: Renegotiations savings	-400,000	0.0
Decrease Cost: Move Commission for Women to County-owned Space	-479,790	0.0
Decrease Cost: FY11 Lease Complement miscellaneous changes	-1,410,060	0.0
FY11 CE Recommended	20,945,540	0.0

Montgomery Coalition for Adult English Literacy (MCAEL)

This NDA provides funding for the Montgomery Coalition for Adult English Literacy (MCAEL). MCAEL's mission is to strengthen the countywide adult English literacy community of providers' network with resources, training, collaborations, and advocacy to support a thriving community and an optimal workforce. Funding for MCAEL supports program grants to organizations that provide adult English literacy services; technical assistance, training, and networking opportunities that improve program quality and coordination; information resources for the community; and operating expenses to administer the grants and provide the support services. The County's contribution is implemented by a contract between the Department of Public Libraries and MCAEL.

FY11 Recommended Changes	Expenditures	WYs
FY10 Approved	842,420	0.0
Increase Cost: Rent for ESOL classes at Eastern	25,000	0.0
Reduce: Reduce Operational expenses and grants	-149,570	0.0
FY11 CE Recommended	717,850	0.0

Motor Pool Fund Contribution

This NDA funds the acquisition of new, additional Motor Pool fleet vehicles, as opposed to replacement vehicles, which are financed through an established chargeback mechanism.

FY11 Recommended Changes	Expenditures	WYs
FY10 Approved	30,000	0.0
Decrease Cost: Elimination of One-Time Items Approved in FY10	-30,000	0.0
FY11 CE Recommended	0	0.0

→ Municipal Tax Duplication

The Montgomery County Tax Duplication Program, authorized by Chapter 30A of the Montgomery County Code, reimburses municipalities for those public services they provide that would otherwise be provided by the County. County Council Resolution No. 9-1752, enacted April 27, 1982, increased the scope of program coverage from street-related expenditures to include other public services, such as police supplemental aid; animal control; elderly transportation; parks maintenance; Board of Appeals; and Human Rights.

This program was reviewed in FY96 and technical formula amendments proposed. The changes were approved, and payment calculations since then are prepared in accordance with County Council Resolution No. 13-650, adopted September 10, 1996. Specifically, as the exact payment amount for the current year cannot be determined until both municipal and County books are closed, reimbursements are based on the final audited cost of performing eligible services during the fiscal year two years prior to the budget year. Also, reimbursements are now made at the County's cost and not at "the lesser of County or Municipal costs" of eligible service provision.

Finally, payments to municipalities are also made from other sources, including Cable TV Franchise Fees, Grants in Lieu of Shares Tax, Non-Departmental Accounts, and as part of the County's Community Development Block Grant.

FY11 Recommended Changes	Expenditures	WYs
FY10 Approved	7,488,240	0.0
Decrease Cost: Reduce by Five Percent	-374,410	0.0
FY11 CE Recommended	7,113,830	0.0

Prisoner Medical Services

This NDA provides reimbursements to physicians and hospitals for medical care provided to individuals in the custody of any Montgomery County law enforcement agency, with the following exceptions:

- Offenders committed to the custody of the Department of Correction and Rehabilitation (DOCR) and receiving medical treatment paid for by the budget of that department,
- Medical treatment expenses covered by Workers' Compensation,
- Medical treatment expenses covered by personal medical insurance,
- Medical treatment expenses covered by the Federal government,
- Medical treatment expenses covered by other appropriate and available outside resources.

The Department of Police will manage this account, and, with the assistance of the County Attorney, will determine costs for which the County is responsible. All bills are to be reviewed for appropriateness of cost by a private contractor prior to payment.

FY11 Recommended Changes	Expenditures	WYs
FY10 Approved	10,000	0.0
FY11 CE Recommended	10,000	0.0

Public Technology, Inc.

Funds are budgeted each year to continue membership in Public Technology, Inc. (PTI) as the County's research and development link with the National Association of Counties. Annual dues cover research and development assistance for innovative projects; access to a computerized information-sharing network; and membership in the Urban Consortium. The County participates in, and has received grants as a result of, initiatives in task forces on energy, solid waste, and telecommunications. PTI, as an organization, specializes in the research and assessment of ideas of interest to local governments for increasing efficiency, reducing costs, improving services, and solving problems. A current emphasis is on public enterprise, toward helping local governments identify and capture potential sales from products and information that are outcomes of government investment.

FY11 Recommended Changes	Expenditures	WYs
FY10 Approved	20,000	0.0
FY11 CE Recommended	20,000	0.0

Restricted Donations

This NDA was established to comply with the requirements of Government Accounting Standards Board Statement No. 34 (GASB 34) by budgeting for the receipt of private donations for County programs. The proceeds of the former Expendable Trust Fund accounts and other miscellaneous funds have been transferred to the Restricted Donations Special Revenue Fund. Appropriation authority to spend additional donations received during the year is provided through the County Council Resolution for the Approval of and Appropriation for the Operating Budget of the Montgomery County Government. The budget resolution provides that the unexpended balance in this fund at the end of the fiscal year is reappropriated by the County Council for the next fiscal year; and if needed, the Restricted Donations NDA can receive transfers from the Future Federal, State, or Other Grants NDA for any individual donations up to \$200,000. Additional information relating to the financial activities of this NDA is displayed in Schedule A-4, Fiscal Summary by Fund, Non-Tax Supported, Montgomery County Government, Restricted Donations.

	Expenditures	WYs
Decrease Cost: Based on the estimated decline in Takoma Park's real property growth.	-20,050	0.0
FY11 CE Recommended	112,780	0.0

→ **Takoma Park Police Rebate**

The County provides financial support to the City of Takoma Park for police protection services in accordance with provisions of the County Code. This provision was enacted in 1949 and provides a payment to the City for protective services for the County residents of the City of Takoma Park. The payment is based on a formula, which uses \$0.048 per \$100 of assessable base tax rate with "full value assessment" levied on real property.

FY11 Recommended Changes	Expenditures	WYs
FY10 Approved	854,920	0.0
Decrease Cost: Based on the estimated decline in Takoma Park's real property growth.	-137,340	0.0
FY11 CE Recommended	717,580	0.0

Working Families Income Supplement

This NDA provides funds to match the State's Refundable Earned Income Tax Credit (EITC). The intent of the Working Families Income Supplement is to provide financial assistance to low-income working families in Montgomery County. The County, through the NDA, reimburses the State for the cost of the refund and related administrative expenses.

FY11 Recommended Changes	Expenditures	WYs
FY10 Approved	15,008,200	0.0
Increase Cost: Working Families Income Supplement	1,648,200	0.0
FY11 CE Recommended	16,656,400	0.0

Notes: Cost increase reflects the weaker economy and reduced earnings for many residents, a change in the State's Earned Income Tax Credit formula, and a resulting increase in the number of recipients of approximately 10,000.