MFP COMMITTEE #2
May 6, 2010

MEMORANDUM

May 4, 2010

TO: Management and Fiscal Policy Committee

FROM: Stephen B. Farber, Council Staff Director SBF

SUBJECT: FY11-16 Public Services Program and Fiscal Policy

Charter section 302 states in part: *"The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval."*

For nearly two decades the MFP Committee has collaborated with OMB and Finance to develop and refine County fiscal projections. The result has been continuous improvement in how best to display such factors as economic and demographic assumptions, individual agency funds, major known commitments, illustrative expenditure pressures, gaps between projected revenues and expenditures, and productivity improvements, and in how to harmonize the four agencies' fiscal planning methodologies.

Notwithstanding this important work, the Council, in adopting approval resolutions each year for the operating and capital budgets, has not adopted "comprehensive six-year programs for public services and fiscal policy." One reason is the inherent difficulty in accurately projecting revenues and expenditures for one year, as this year has shown, let alone six; thus every edition of the County's fiscal projections has been only a snapshot in time that reflects the best judgment of economic and fiscal reality at that moment.

Another reason is that outside events can make a large difference. For example, several years ago our fiscal projections did not include pre-funding retiree health benefits (OPEB); now they must. Our current fiscal projections do not include any County funding of teacher pensions; in future years they may have to. On the revenue side, our pre-FY09 projections assumed property tax revenue at the Charter limit, but the Charter limit was exceeded that year by $118 million. Our income tax projections did not anticipate the fact that revenue would soar by 21 percent in FY07 and then fall by 21 percent in FY10. Federal stimulus funds that unexpectedly helped us in FY10-11 will probably not be available in FY12.

Council President Floreen has suggested that a useful step to initiate this year – particularly in view of the unprecedented fiscal challenge the County faces now and going forward – would be for the Council to adopt an Approved FY11-16 Public Services Program. The Council's action would focus on the Tax Supported Fiscal Plan Summary. In future years the Council could consider adoption of a more detailed fiscal policy.

As in past years, the Executive transmitted with his March 15 Recommended Operating Budget a Recommended Six-year Public Services Program and Tax Supported Fiscal Plan Summary. Then, following his budget revisions of March 25 and April 22, he transmitted revised versions of these plans. **Ms. Floreen suggests that the Council approve a Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program that reflects its final decisions on the FY11 budget.**

See ©1-4 for Mr. Beach's April 6 transmittal of the Executive's Recommended FY11-16 Fiscal Plan. This edition includes three scenarios for the Fiscal Plan Summary. See ©5-7. As noted above, each edition of the Fiscal Plan is a snapshot in time. Moreover, the assumptions that underlie it have a great impact on the projections. See the current assumptions in the lower left corner of each scenario.

The first scenario on ©5 (**"March 15"**) projects a $212 million gap in FY12, despite a large energy tax increase (39.6 percent) and service reductions, position abolishments, furloughs, and departures from County fiscal policies in FY11 on a scale that we have not seen before. This scenario also projects gaps in FY13-16 that exceed $303, $417, $464, and $514 million. The second scenario on ©6 (**"March 25"**) reflects the even larger energy tax increase (63.7 percent) proposed by the Executive on March 25. The gaps in FY12-16 are lower but still exceed $137, $272, $386, $436, and $486 million.

The third scenario on ©7 ("balanced") is offered this year for the first time. It displays no gaps in future years by sharply limiting projected expenditures to projected resources. The result of allowing of allowing no gaps for FY12-16 is that – using the plan's other assumptions – agency expenditures may increase only at the rate of 1.5, 1.9, 2.7, 4.8, and 4.9 percent. These increases are generous compared to the reductions of FY11, but they fall far short of historical growth rates for County agencies. This scenario illustrates the strong discipline required to balance the budget over the FY12-16 period, based on current fiscal data and assumptions. The steps needed to "bend the cost curve" in this way would be significant.

See ©8-9 for Mr. Beach's memo on the Revised Fiscal Plan for FY11-16 that reflects the Executive's proposed **April 22 adjustments** to the FY10 and FY11 budgets. These massive adjustments, which respond to an additional revenue writedown of $168 million in FY10-11, include a still larger energy tax increase (100 percent) and further large expenditure reductions. (Mr. Beach indicates that further changes to the plan's format are in prospect to reflect proposed changes to the County's reserve policies.) **This revised scenario projects that agency expenditures in FY12-16 may change only at the rate of 1.0, -1.8 (when the energy tax increases sunsets), 1.8, 4.3, and 4.8 percent.**

If the Council decides to adopt an Approved FY11-16 Tax Supported Fiscal Plan Summary on May 27, it would reflect whatever final decisions on revenues and expenditures the Council makes on the FY11 operating budget. Adoption of such a plan would fit well with Ms. Floreen's suggestion that OLO undertake an intensive review of the County's structural deficit. This review would include a focus on the assumptions behind the Fiscal Plan's future year projections, an analysis of the cost drivers associated with the long-term structural deficit, and a review of policy and budget options to address it. OLO has developed a proposed work plan for the Council's approval on May 27. See the memo on ©10-16.

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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 information[2] 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.

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 PAYGO[4] 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 FY11[6] 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
Annie B. Alston, Executive Director, Housing Opportunities Commission
Keith Miller, Executive Director, Revenue Authority
Jennifer Barrett, Director, Department of Finance
Kathleen Boucher, Assistant Chief Administrative Officer
Stephen Farber, Council Staff Director

March 15, 2010

County Executive's Recommended FY11-16 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

	App. FY10	Est. FY10	% Chg. FY10-11	Rec. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
	5-21-09	3-15-10	Rec/Bud	3-15-10										
Total Resources														
Revenues	3,804.9	3,654.3	-0.3%	3,793.6	2.9%	3,903.5	3.6%	4,044.2	4.2%	4,214.1	5.1%	4,429.3	4.1%	4,612.2
Beginning Reserves Undesignated	115.5	110.2	-48.7%	59.3	135.1%	139.4	35.2%	188.6	6.1%	200.0	5.5%	210.9	6.4%	224.5
Beginning Reserves Designated	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Net Transfers In (Out)	37.2	51.4	-12.2%	32.7	-57.0%	14.0	2.4%	14.4	2.6%	14.8	2.8%	15.2	3.0%	15.6
Total Resources Available	3,957.7	3,815.9	-1.8%	3,885.6	4.4%	4,056.9	4.7%	4,247.1	4.3%	4,428.8	5.1%	4,655.4	4.2%	4,852.3
Less Other Uses of Resources (Capital, Debt Service, Reserve)	362.2	289.2	29.6%	469.5	23.5%	579.9	10.8%	642.6	9.8%	705.6	5.0%	741.0	0.6%	745.8
Available to Allocate to Agencies	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**1.8%**	**3,477.0**	**3.7%**	**3,604.5**	**3.3%**	**3,723.2**	**5.1%**	**3,914.4**	**4.9%**	**4,106.6**
Agency Uses														
Montgomery County Public Schools (MCPS)	2,020.1	1,989.9	-3.9%	1,940.5	5.8%	2,053.3	5.8%	2,172.6	5.8%	2,298.8	5.8%	2,432.4	5.8%	2,573.7
Montgomery College (MC)	217.5	214.5	-3.8%	209.2	6.0%	221.9	6.0%	235.3	6.0%	249.5	6.0%	264.6	6.0%	280.5
MNCPPC (w/o Debt Service)	106.6	103.2	-14.1%	91.6	3.8%	95.1	3.8%	98.8	3.9%	102.6	3.9%	106.5	3.9%	110.6
MCG	1,251.2	1,219.1	-6.1%	1,174.7	5.1%	1,235.1	5.1%	1,298.6	5.1%	1,365.3	5.1%	1,435.5	5.1%	1,509.3
Subtotal Agency Uses	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**5.5%**	**3,605.4**	**5.5%**	**3,805.2**	**5.5%**	**4,016.2**	**5.5%**	**4,239.0**	**5.5%**	**4,474.1**
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)				-		**53.2**		**64.8**		**76.4**		**87.7**		**92.1**
Montgomery College (MC)				-		**1.0**		**1.2**		**1.3**		**1.4**		**1.5**
MNCPPC (w/o Debt Service)				-		**4.4**		**5.1**		**5.6**		**6.1**		**6.4**
MCG				-		**25.0**		**31.5**		**38.4**		**44.6**		**46.8**
Subtotal Retiree Health Insurance Pre-Funding				-	-	**83.6**	-	**102.6**	-	**121.7**	-	**139.8**	-	**146.8**
Subtotal Other Uses of Resources (Capital, Debt Service, Reserve)	362.2	289.2	29.6%	469.5	23.5%	579.9	10.8%	642.6	9.8%	705.6	5.0%	741.0	0.6%	745.8
Total Uses	**3,957.7**	**3,815.9**	-1.8%	**3,885.6**	9.9%	**4,268.9**	6.6%	**4,550.4**	6.4%	**4,843.5**	5.7%	**5,119.7**	4.8%	**5,366.7**
(Gap)/Available	-	-		**0.0**		**(212.0)**		**(303.3)**		**(414.7)**		**(464.3)**		**(514.3)**

Notes:

1. **FY12-16 property tax revenues are at the Charter Limit assuming a tax credit.**
2. **Projected FY12-16 Agency Uses assume average 10-year rate of growth.**
3. **Reserves are restored to the policy level of 6% of total resources in FY12-16.**
4. **PAYGO restored to policy level in FY12-16.**
5. **Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12.**

March 25, 2010

County Executive's Recommended FY11-16 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

	App. FY10	Est. FY10	% Chg. FY10-11	Rec. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
	5-21-09	3-31-10	Rec/Bud	3-31-10										
Total Resources														
Revenues	3,804.9	3,667.9	0.5%	3,825.5	2.9%	3,935.3	3.6%	4,076.0	4.2%	4,245.9	5.1%	4,461.2	4.1%	4,644.1
Beginning Reserves Undesignated	115.5	110.2	-57.3%	49.3	182.8%	139.4	1.7%	141.8	6.1%	150.4	7.1%	161.1	8.4%	174.7
Beginning Reserves Designated	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Net Transfers In (Out)	37.2	55.2	-22.3%	28.9	-64.7%	10.2	2.5%	10.5	2.6%	10.7	2.8%	11.0	3.0%	11.4
Total Resources Available	3,957.7	3,833.3	-1.4%	3,903.7	4.6%	4,085.0	3.5%	4,228.3	4.2%	4,407.1	5.1%	4,633.3	4.2%	4,830.1
Less Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	306.5	34.6%	487.6	9.3%	533.1	11.2%	593.0	10.6%	655.9	5.4%	691.2	0.7%	696.0
Available to Allocate to Agencies	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**4.0%**	**3,551.8**	**2.3%**	**3,635.2**	**3.2%**	**3,751.2**	**5.1%**	**3,942.1**	**4.9%**	**4,134.1**
Agency Uses														
Montgomery County Public Schools (MCPS)	2,020.1	1,989.9	-3.9%	1,940.5	5.8%	2,053.3	5.8%	2,172.6	5.8%	2,298.8	5.8%	2,432.4	5.8%	2,573.7
Montgomery College (MC)	217.5	214.5	-3.8%	209.2	6.0%	221.9	6.0%	235.3	6.0%	249.5	6.0%	264.6	6.0%	280.5
MNCPPC (w/o Debt Service)	106.6	103.2	-14.1%	91.6	3.8%	95.1	3.8%	98.8	3.9%	102.6	3.9%	106.5	3.9%	110.6
MCG	1,251.2	1,219.1	-6.1%	1,174.7	5.1%	1,235.1	5.1%	1,298.6	5.1%	1,365.3	5.1%	1,435.5	5.1%	1,509.3
Subtotal Agency Uses	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**5.5%**	**3,605.4**	**5.5%**	**3,805.2**	**5.5%**	**4,016.2**	**5.5%**	**4,239.0**	**5.5%**	**4,474.1**
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)				-		**53.2**		**64.8**		**76.4**		**87.7**		**92.1**
Montgomery College (MC)				-		**1.0**		**1.2**		**1.3**		**1.4**		**1.5**
MNCPPC (w/o Debt Service)				-		**4.4**		**5.1**		**5.6**		**6.1**		**6.4**
MCG				-		**25.0**		**31.5**		**38.4**		**44.6**		**46.8**
Subtotal Retiree Health Insurance Pre-Funding				-	-	**83.6**	-	**102.6**	-	**121.7**	-	**139.8**	-	**146.8**
Subtotal Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	306.5	34.6%	487.6	9.3%	533.1	11.2%	593.0	10.6%	655.9	5.4%	691.2	0.7%	696.0
Total Uses	**3,957.7**	**3,833.3**	-1.4%	**3,903.7**	8.2%	**4,222.1**	6.6%	**4,500.8**	6.5%	**4,793.7**	5.8%	**5,069.9**	4.9%	**5,316.9**
(Gap)/Available	-	-		-		**(137.2)**		**(272.6)**		**(386.7)**		**(436.6)**		**(486.8)**

Notes:

1. **FY12-16 property tax revenues are at the Charter Limit assuming a tax credit.**
2. **Revenues reflect higher Energy Tax rate increase recommended by the County Executive on March 25, 2010.**
3. **Projected FY12-16 Agency Uses assume average 10-year rate of growth.**
4. **Reserves are increased to the policy level of 6% of total resources in FY11 as a result of the Energy Tax increase and are maintained at that level in FY12-16.**
5. **PAYGO restored to policy level in FY12-16.**
6. **Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12.**

9

Balanced Fiscal Plan Scenario

County Executive's Recommended FY11-16 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

	App. FY10	Est. FY10	% Chg. FY10-11	Rec. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
	5-21-09	3-31-10	Rec/Bud	3-31-10										
Total Resources														
Revenues	3,804.9	3,667.9	0.5%	3,825.5	2.9%	3,935.3	3.6%	4,076.0	4.2%	4,245.9	5.1%	4,461.2	4.1%	4,644.1
Beginning Reserves Undesignated	115.5	110.2	-57.3%	49.3	182.8%	139.4	1.7%	141.8	6.1%	150.4	7.1%	161.1	8.4%	174.7
Beginning Reserves Designated	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Net Transfers In (Out)	37.2	55.2	-22.3%	28.9	-64.7%	10.2	2.5%	10.5	2.6%	10.7	2.8%	11.0	3.0%	11.4
Total Resources Available	3,957.7	3,833.3	-1.4%	3,903.7	4.6%	4,085.0	3.5%	4,228.3	4.2%	4,407.1	5.1%	4,633.3	4.2%	4,830.1
Less Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	306.5	34.6%	487.6	9.3%	533.1	11.2%	593.0	10.6%	655.9	5.4%	691.2	0.7%	696.0
Available to Allocate to Agencies	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**4.0%**	**3,551.8**	**2.3%**	**3,635.2**	**3.2%**	**3,751.2**	**5.1%**	**3,942.1**	**4.9%**	**4,134.1**
Agency Uses														
Montgomery County Public Schools (MCPS)	2,020.1	1,989.9	-3.9%	1,940.5	1.8%	1,975.2	2.1%	2,017.0	3.0%	2,077.5	5.0%	2,181.8	5.1%	2,293.7
Montgomery College (MC)	217.5	214.5	-3.8%	209.2	2.0%	213.4	2.3%	218.4	3.2%	225.5	5.3%	237.3	5.4%	250.0
MNCPPC (w/o Debt Service)	106.6	103.2	-14.1%	91.6	-0.1%	91.5	0.2%	91.7	1.1%	92.7	3.1%	95.6	3.2%	98.6
MCG	1,251.2	1,219.1	-6.1%	1,174.7	1.1%	1,188.1	1.5%	1,205.5	2.3%	1,233.9	4.4%	1,287.6	4.5%	1,345.1
Subtotal Agency Uses	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**1.5%**	**3,468.2**	**1.9%**	**3,532.6**	**2.7%**	**3,629.5**	**4.8%**	**3,802.4**	**4.9%**	**3,987.4**
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)				-		**53.2**		**64.8**		**76.4**		**87.7**		**92.1**
Montgomery College (MC)				-		**1.0**		**1.2**		**1.3**		**1.4**		**1.5**
MNCPPC (w/o Debt Service)				-		**4.4**		**5.1**		**5.6**		**6.1**		**6.4**
MCG				-		**25.0**		**31.5**		**38.4**		**44.6**		**46.8**
Subtotal Retiree Health Insurance Pre-Funding				-	-	**83.6**	-	**102.6**	-	**121.7**	-	**139.8**	-	**146.8**
Subtotal Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	306.5	34.6%	487.6	9.3%	533.1	11.2%	593.0	10.6%	655.9	5.4%	691.2	0.7%	696.0
Total Uses	**3,957.7**	**3,833.3**	-1.4%	**3,903.7**	4.6%	**4,085.0**	3.5%	**4,228.3**	4.2%	**4,407.1**	5.1%	**4,633.3**	4.2%	**4,830.1**
(Gap)/Available	-	-		-		-		-		-		-		-

Notes:

1. **FY12-16 property tax revenues are at the Charter Limit assuming a tax credit.**
2. **Revenues reflect higher Energy Tax rate increase recommended by the County Executive on March 25, 2010.**
3. **Reserves are increased to the policy level of 6% of total resources in FY11 as a result of the Energy Tax increase and are maintained at that level in FY12-16.**
4. **PAYGO restored to policy level in FY12-16.**
5. **Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12.**
6. **Projected FY12-16 rate of growth of Agency Uses is adjusted to balance the fiscal plan in FY12-16.**

OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

April 23, 2010

TO: Stephen B. Farber, County Council Staff Director

FROM: Joseph F. Beach, Director, Office of Management and Budget

SUBJECT: Revised Balanced Fiscal Plan FY11-16

Attached please find the subject fiscal plan based on the Executive's April 22, 2010 amendments to the FY10 and FY11 budgets. Please note that we will be making changes to the format of the fiscal plan to reflect an exclusion of prior year carryover of undesignated reserves as a resource and increasing the reserve requirement beginning in FY12 based on pending changes to the County's reserve policies.

copies:
Timothy L. Firestine, Chief Administrative Officer
Jennifer Barrett, Director of Finance
Alex Espinosa, Operating Budget Coordinator

Office of the Director

101 Monroe Street, 14th Floor • Rockville, Maryland 20850 • 240-777-2800
www.montgomerycountymd.gov

Balanced Fiscal Plan
Amended as of April 22, 2010

County Executive's Recommended FY11-16 Public Services Program
Tax Supported Fiscal Plan Summary

($ in Millions)

	App. FY10	Est. FY10	% Chg. FY10-11	Rec. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
	5-21-09	4-22-10	Rec/Bud	4-22-10										
Total Resources														
Revenues	3,804.9	3,612.4	-0.3%	3,792.6	2.9%	3,902.9	0.0%	3,901.2	3.6%	4,041.0	4.7%	4,230.1	4.1%	4,401.6
Beginning Reserves Undesignated	115.5	112.0	-57.2%	49.4	184.8%	140.7	6.9%	150.5	0.3%	151.0	5.6%	159.4	7.4%	171.3
Beginning Reserves Designated	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Net Transfers In (Out)	37.2	62.1	7.1%	39.9	-71.2%	11.5	2.4%	11.8	2.6%	12.1	2.8%	12.4	3.0%	12.8
Total Resources Available	3,957.7	3,786.5	-1.9%	3,881.9	4.5%	4,055.1	0.2%	4,063.4	3.5%	4,204.0	4.7%	4,402.0	4.2%	4,585.7
Less Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	295.6	34.4%	486.9	11.3%	541.8	9.6%	593.6	10.2%	654.1	5.1%	687.8	0.6%	691.8
Available to Allocate to Agencies	**3,595.4**	**3,490.9**	**-5.6%**	**3,394.9**	**3.5%**	**3,513.3**	**-1.2%**	**3,469.8**	**2.3%**	**3,549.9**	**4.6%**	**3,714.2**	**4.8%**	**3,893.9**
Agency Uses														
Montgomery County Public Schools (MCPS)	2,020.1	1,989.9	-3.9%	1,940.5	1.3%	1,965.5	-1.5%	1,935.3	2.1%	1,975.8	4.5%	2,065.4	5.1%	2,170.7
Montgomery College (MC)	217.5	214.5	-3.7%	209.6	1.5%	212.8	-1.3%	210.0	2.3%	215.0	4.8%	225.2	5.3%	237.2
MNCPPC (w/o Debt Service)	106.6	103.2	-15.8%	89.8	-0.7%	89.2	-3.6%	85.9	0.0%	85.9	2.5%	88.0	3.1%	90.7
MCG	1,251.2	1,183.3	-7.7%	1,155.0	0.6%	1,162.2	-2.3%	1,136.0	1.4%	1,151.5	3.8%	1,195.7	4.4%	1,248.4
Subtotal Agency Uses	**3,595.4**	**3,490.9**	**-5.6%**	**3,394.9**	**1.0%**	**3,429.6**	**-1.8%**	**3,367.2**	**1.8%**	**3,428.2**	**4.3%**	**3,574.4**	**4.8%**	**3,747.2**
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)				-		**53.2**		**64.8**		**76.4**		**87.7**		**92.1**
Montgomery College (MC)				-		**1.0**		**1.2**		**1.3**		**1.4**		**1.5**
MNCPPC (w/o Debt Service)				-		**4.4**		**5.1**		**5.6**		**6.1**		**6.4**
MCG				-		**25.0**		**31.5**		**38.4**		**44.6**		**46.8**
Subtotal Retiree Health Insurance Pre-Funding				-	-	**83.6**	-	**102.6**	-	**121.7**	-	**139.8**	-	**146.8**
Subtotal Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	295.6	34.4%	486.9	11.3%	541.8	9.6%	593.6	10.2%	654.1	5.1%	687.8	0.6%	691.8
Total Uses	**3,957.7**	**3,786.5**	-1.9%	**3,881.9**	4.5%	**4,055.1**	0.2%	**4,063.4**	3.5%	**4,204.0**	4.7%	**4,402.0**	4.2%	**4,585.7**
(Gap)/Available	-	-		-		-		-		-		-		-

Notes:

1. **FY12-16 property tax revenues are at the Charter Limit assuming a tax credit.**
2. **Revenues reflect Energy Tax and Wireless Telephone Tax increases recommended by the County Executive on April 22, 2010. Energy Tax increase sunsets at the end of FY12.**
3. **Reserves are at the policy level of 6% of total resources in FY11-16. Revisions to the County's reserve policy are under consideration and have not been included at this time.**
4. **PAYGO restored to policy level of 10% of planned GO Bond borrowing in FY12-16.**
5. **Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12.**
6. **Projected FY12-16 rate of growth of Agency Uses constrained to balance the fiscal plan in FY12-16.**

MEMORANDUM

April 29, 2010

TO: Councilmembers

FROM: Nancy Floreen, Council President

SUBJECT: **Office of Legislative Oversight Project on the Structural Budget Deficit**

Last month, I circulated a memo suggesting that the Council must begin the work of confronting the County's structural budget deficit. In March, the Executive had projected budget gaps of hundreds of millions of dollars in each of the next five years. As you are well aware, the County's fiscal situation has grown even more serious in the past few weeks.

My memo indicated that I planned to ask the Office of Legislative Oversight (OLO) to develop a recommended scope of work to address the following questions:

1. What are the assumptions behind the Executive's future year gap projections?
2. What are the major factors driving the projected budget deficits? Which of these factors represent fixed commitments?
3. What policy and budget options are available going forward to address the structural budget deficit?

In response to my request, Karen Orlansky prepared the attached memo proposing a scope of work for this project. Karen's memo discusses the timing and staffing of an OLO project as well as its relationship with other initiatives intended to address the County's ongoing fiscal challenges. **Please contact Karen directly if you have any questions or comments about the proposed scope of work.**

It is my goal is to have the Council add this project to OLO's Work Program in late May, concurrent with the Council's final action on the FY11 budget. I am asking for your support for this effort as an important component of the Council's work to address the County's future budget challenges.

Attachment: April 27, 2010 from OLO Director outlining a proposed scope of work

MEMORANDUM

April 27, 2010

TO: Nancy Floreen, Council President

FROM: Karen Orlansky KO, Director
Office of Legislative Oversight

SUBJECT: **OLO Project on Montgomery County's Structural Budget Deficit**

This memorandum proposes a scope of work for an Office of Legislative Oversight (OLO) project related to Montgomery County's structural budget deficit. It also addresses how this OLO project can and should be coordinated with other initiatives to address the County's fiscal challenges. I understand you would like the Council to formally add this project to OLO's Work Program in late May, concurrent with the Council's final action on the FY11 budget.

A. Purposes of an Office of Legislative Oversight Project

Based on our initial conversations about this project, there are multiple purposes to an OLO study on the County's structural budget deficit:

- To provide the basis for an informed dialogue about the County's fiscal future.
- To define a structural budget deficit and differentiate it from an annual budget gap.
- To identify the assumptions used in developing the County Executive's "Fiscal Plan;" and to show how changes in revenue and expenditure assumptions change the size of the future structural budget deficit.
- To develop guiding principles and a range of policy/budget options for the Council to consider in order to balance projected revenues and expenditures over a long-term period.
- To recommend action items and a timetable for Council decisions.

B. Coordination with Related Initiatives

Given the magnitude of the County's fiscal challenges, there is ample opportunity for multiple initiatives to examine the problem and offer potential solutions. It will be, however, incumbent upon those of us involved in the various, simultaneous endeavors to coordinate our work with the goal of avoiding duplicating one another's efforts. I would recommend that the principal staff involved across the different initiatives meet regularly so that we can all remain current with one another's progress and adjust our own work schedules and agendas accordingly.

As of this writing, I am aware of the following efforts that OLO would need to coordinate with throughout the study period. To the extent that the focus of the initiatives described below is to identify ways to reduce agency expenditures through resource-sharing and reorganization, this would free up OLO's time to study other options for reducing the structural budget deficit.

- **The Cross-Agency Resource-Sharing Committee** (CARS). On March 24th, the Chief Administrative Officer sent a memo to the principals of all County agencies and the County Council requesting their participation in a Cross-Agency Resource-Sharing Committee. The stated purpose of the Committee is to "develop common approaches to cost reduction, resource sharing, and improved operational efficiencies." The CAO identified nine separate functional areas for the Committee to focus on: Information Technology; Utilities; Facilities Planning, Design, Construction, and Maintenance Procurement; Space Utilization; Fleet; Mailing, Printing, and Document Management; Employees and Retirees Benefit Plans (health, retirement, etc.); and Administrative Functions (payroll, budget, finance, training).

  In addition to citing the Cross-Agency Resource-Sharing Committee, the County Executive's April 22, 2010 memo to the Council (transmitting his recommendation for adjustments to the FY10 and FY11 operating and capital budgets) states that he will "shortly provide the Council with a comprehensive list of options for additional organizational restructuring and cost saving proposals for review during FY11 and implementation in FY12."

- **Councilmember Berliner's Proposal for a Commission to Restructure County Government.** On April 19th, Councilmember Berliner proposed that the County Executive and Council jointly appoint a 14-person Reform Commission. As stated in Mr. Berliner's memo to other Councilmembers, "[t]his Commission, composed of Montgomery County residents with experience and expertise in efficient service delivery systems, would be briefed by Executive Branch staff, Council staff, workforce representatives and other stakeholders on a range of restructuring options. The Commission would then forward its findings and recommendations to the County Executive and the Council by January 31, 2011."

C. Recommended Approach and Scope of an Office of Legislative Oversight Project

This section outlines my proposal for the substance and timing of an OLO project on the structural budget deficit. In developing the proposed scope of work for OLO, I relied upon the three central questions you highlighted in your March 15, 2010 memorandum to Councilmembers (attached):

1. What are the assumptions behind the Executive's future year gap projections?
2. What are the major factors driving the projected budget deficits? Which of these factors represent fixed commitments, e.g., debt service, pension obligations?
3. What policy and budget options are available going forward to address the structural budget deficit?

I recommend the Council establish December 2010 as the target due date for this project. I would organize OLO's report back to the Council into two parts as follows:

Part	Topic
I	The County's Structural Budget Deficit: Defined, Quantified, and Explained
II	Options to Achieve Long-Term Fiscal Balance

A further description of what OLO would accomplish in each of the two parts follows.

Part I: The County's Structural Budget Deficit: Defined, Quantified, and Explained

The primary purpose of Part I would be to promote a full and fair understanding of the causes and size of Montgomery County's structural budget deficit. OLO's work on Part I will be divided into three tasks summarized below.

A. Defining a Structural Budget Deficit. OLO will begin its review by providing a working definition of a structural budget deficit (SBD). The report will explain the difference between a single year budget gap and an on-going, recurring imbalance of revenues and expenditures. In addition, OLO will describe the factors that contribute to the development of a structural imbalance between public sector revenues and expenditures.

B. A Review of Past Decisions and Trends in Montgomery County. Based on a review and analysis of data from the past ten years, OLO will present information on the major budgetary decisions, demographic changes, and economic trends that have combined to create the current picture of a recurring annual mismatch between revenues and expenditures. This analysis will identify:

- The annual rates of change in County revenues and expenditures over the last decade;
- Significant changes in the revenue structure, sources, and composition;
- Significant "macro-level" trends in County agency expenditures (the major "cost drivers");
- Major trends in local government service demands;
- Requirements in State and local law that affect revenues and expenditures (e.g., MOE law, Charter limit); and
- Growth in fixed expenditure obligations (e.g., debt, pension payments, OPEB obligations).

C. Projecting the Future Growth of Revenues and Expenditures in Montgomery County. OLO will conduct a critical assessment of the County's future year revenue and expenditure projections. OLO's work will include review of the assumptions and methodologies used in the Executive's most recent six-year Fiscal Plan, including projections of:

- Revenues generated from taxes, fees, and other sources during the next six years;
- County agency expenditures during the next six years;
- Changes in future year expenditure commitments;
- Changes in service demand (growth in population, MCPS enrollment, etc.); and
- Future year legal and other fixed obligations.

OLO's report to the Council will include examples to illustrate how changing key assumptions behind the six-year projections alter the size of the future years' gaps between revenues and expenditures.

Part II: Options to Achieve Long-Term Fiscal Balance

Based on the findings of Part I as well as research into strategies being implemented in other jurisdictions, OLO will present the Council with options to achieve a long-term projection of balanced revenues and expenditures. This analysis will be comprised of the following three tasks.

A. Guiding Principles. OLO will develop a set of guiding principles for Council consideration that would help shape future fiscal planning and budgetary decision-making. For example, these guiding principles could include policies that address:

- The use of projected future year revenue projections and economic indicators (e.g., inflation rate) in determining future expenditure levels;
- Measures to control future year expenditure obligations (including debt service, pension obligations, and other post-employment benefits);
- Fund reserve levels;
- The use of one-time resources;
- Cost recovery for fee-supported programs and services; and
- Capital programming of new facilities that will have future operating budget impacts.

B. Revenue Options. This task will involve researching, identifying advantages and disadvantages, and pricing different methods of increasing future year revenues. Options would include adjustments to tax and fee rates and imposition of new taxes and fees. OLO will estimate the amount of revenues that could be generated by the different options as well as the burden the options would place on ratepayers.

C. Expenditure Options. The purpose of this task is to generate options for containing future personnel and operating expenditures. Because personnel costs represent the largest portion of agency costs, OLO will focus on options for reducing the size of the workforce and controlling per employee compensation cost increases. In selecting the specific options to study and present to the Council, OLO will:

- Focus on ways to address the cost drivers identified in Part I;
- Apply lessons learned from other jurisdictions that are grappling with resolving their own structural budget deficits; and
- Place priority on strategies that have significant and ongoing fiscal impact.

As discussed earlier in this memo, it will be especially important that OLO's work on identifying expenditure options be coordinated with related Council and Executive-sponsored efforts.

D. Staffing

I am confident that the in-house OLO staff team can accomplish the bulk of this assignment within the above-referenced deadlines. However, there are several caveats to this statement. First, OLO staff will need to consult regularly with the experts on the Council's staff, including the Legislative Attorneys on legal issues and the Council's actuary (under contract) for certain cost projections. Outside of the Legislative Branch, OLO would conduct its work in close cooperation with Executive Branch staff (especially staff in CountyStat, Office of Management and Budget, Department of Finance, and Office of Human Resources), as well as their counterparts in the other County-funded agencies.

Second, if the Council assigns this ambitious project to OLO, then it will consume almost all of OLO's staff resources during the first half of FY11. In other words, few (if any) other new projects could be undertaken by the office until January 2011. This timing would allow for the newly elected Council to determine OLO's Work Program for the second half of FY11.

I look forward to receiving feedback on the ideas presented in this memo, and to integrating suggestions for how OLO's work on the structural budget deficit can be shaped to maximize its relevance and usefulness to the Council moving forward.

Attachment: March 15, 2010 memo from Council President Floreen to County Council

cc: Steve Farber, Council Staff Director

MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

OFFICE OF THE COUNCIL PRESIDENT

MEMORANDUM

March 15, 2010

TO: Councilmembers

FROM: Nancy Floreen, Council President

SUBJECT: Assessment of Montgomery County's Structural Budget Deficit

As you know, a structural budget deficit exists when ongoing expenditures consistently exceed ongoing revenues, even in periods of relative prosperity. The deficits that governments face today are not only cyclical – the result of the worst recession since the Great Depression – but structural as well. The federal government and many state and local governments, including the State of Maryland and Montgomery County, now confront deficits of both kinds. Many of us have raised this issue.

The County Executive's recommended FY11 operating budget and FY11-16 Fiscal Plan confirm this point. To close a gap most recently projected at $779 million, equal to about one-fifth of the approved aggregate operating budget for FY10, the Executive has proposed service reductions, position abolishments, furloughs, and departures from County fiscal policies on a scale that we have never seen before. But the FY11-16 Fiscal Plan shows that even after such actions to achieve a balanced budget in FY11 have been taken, large gaps in future years will persist – including FY12, when federal stimulus dollars will run out. The gaps projected for FY12-16, respectively, are currently estimated to exceed $212, $303, $417, $464, and $514 million.

Besides resolving the acute FY11 budget challenge that is now before us, we need to address the chronic budget challenges that lie ahead. I believe that we must address at least three central questions:

1. What are the assumptions behind the Executive's future year gap projections?
2. What are the cost drivers associated with the structural deficit in future years?
3. What policy and budget options are available going forward to address the structural deficit?

To start this process, I will ask the Office of Legislative Oversight to develop a recommended scope of work to answer these three questions. With regard to timetable, I suggest that the Council formally approve a project assignment to OLO at the time we approve the FY11 budget in late May, and that the project be completed by early December, when the new Council will take office. I believe that this project has the potential to produce not only useful information but real results.

As we move forward, answering these questions will require the Council to consult with the Executive and the leadership of MCPS, the College, and Park and Planning, as well as our employee organizations and community stakeholders. Please get back to me by the end of the week with your thoughts and suggestions on this proposal.

STELLA B. WERNER COUNCIL OFFICE BUILDING • 100 MARYLAND AVENUE • ROCKVILLE, MARYLAND 20850
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