AGENDA ITEM #8
April 12, 2011

MEMORANDUM

April 8, 2011

TO: County Council

FROM: Stephen B. Farber, Council Staff Director SBF

SUBJECT: Overview of the FY12 Operating Budget

The Council is scheduled to make final decisions on the County's FY12 operating budget on **May 19** and to adopt implementing resolutions on **May 26**. This overview outlines the core budget issues that the Council will address and resolve over the next five weeks.

Economic Context

It is now 2½ years since the world's financial system seemed at risk of plummeting into a second Great Depression. Extraordinary fiscal and monetary measures taken since then by federal policymakers have helped restore relative stability. Economic recovery continues to progress slowly, while serious problems persist. In March the national unemployment rate was 8.8%, compared to its peak of 10.1% in October 2009. Private sector nonfarm payrolls rose by an encouraging 230,000 (125,000 new jobs are needed just to keep pace with labor force growth), while state and local governments **lost** 14,000 jobs. Hourly wages and hours worked were flat. About 13.5 million workers remain unemployed; those out of work for 6 months or more rose to 45.4%. The rate of "total" unemployment, which includes underemployed and discouraged workers, was 15.9%. **Under the current pace of monthly job growth, it would take at least 4 years to reach the pre-recession November 2007 unemployment rate, 4.7%.**

Other measures are mixed. The Standard & Poor's 500 stock index, up 97% from its March 2009 low, is still 15% below its October 2007 high. Fears of a double dip recession have receded and manufacturing shows increasing strength, but data on housing and capital investment are uneven. The impact of higher food and energy prices and the aftermath of the Japanese earthquake also raise questions. The recovery has clearly shifted into second gear, but it is not yet in overdrive. Declining fiscal and monetary stimulus may result in slower growth later this year.

The County's recovery is also progressing slowly. The County's February unemployment rate was 5.1%, compared to 5.9% one year ago and 2.5% in November 2007.[1] Resident employment, which fell 3.3% in 2009 and 0.6% in 2010, has started to improve. Home sales and home prices remain flat to slightly down. Economic data in 2011 should be stronger, but the margin is not yet clear.

For the Finance Department's economic update summary, see ©1-2. For the full update, see http://www.montgomerycountymd.gov/content/council/pdf/2011/economicindicatorscountycouncil041211.pdf. See http://www.montgomerycountymd.gov/content/council/pdf/2011/revisedreportandsupportingdocuments.pdf for the mixed views expressed by Finance's Business Advisory Panel.

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[1] The current 5.1% County unemployment rate represents just over 26,000 workers (not counting underemployed and discouraged workers) in a labor force of about 511,000. Until January 2009 the County's rate had not reached even 4 percent at any time in at least 20 years, including recession years.

Fiscal Context: The Structural Deficit

In his budget transmittal memo, the Executive notes that he has recommended not only "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." He describes his proposals as "aligned" with the work of the Council's Office of Legislative Oversight on achieving long-term budget sustainability.

Last year, faced with the most difficult budget in memory, the Council asked OLO to assess the County's structural budget challenge. OLO issued its two-part report in November and December 2010.[2] OLO found that apart from a **cyclical** budget gap that reflects the ups and downs of the economy, the County, like other governments nationwide, faces a **structural** gap that will persist even when revenues recover. Projected increases in the County's fixed spending commitments – including debt service, group insurance for active and retired employees, pension plan payments, current revenue contributions to the capital budget, and reserves – exceed projected growth in County revenues.

OLO also found that between FY02 and FY11, the primary driver behind higher personnel costs – which account for 82% of tax supported spending – was the increase in average costs per employee: "Across the four agencies, employee salaries grew by 50% in the aggregate and by higher amounts (up to 80%) for individual employees, while the costs of health and retirement/pension benefits increased upwards of **120%**....For County Government, the aggregate costs of employee benefits as a percent of salary increased from 35% in FY02 to 52% in FY11." **Aligning projected revenue and spending will require "raising more revenue or making reforms that bend the future cost curves downward."** Part II of OLO's report outlines a broad range of options for achieving long-term fiscal balance.

Another view is that the County's fiscal challenge is cyclical, not structural. In his March 28 decision on the arbitration between MCGEO and the County, Homer C. La Rue wrote that while the OLO report was part of the record and the County's fiscal experts confirmed its findings, the union's consultant "testified credibly that the County has consistently made the argument that there is a deficit, only to close the gap in the preparation of the actual budget. The actions of the County, together with the other evidence in this record, do not support a claim of a structural deficit."

It is of course true that the County closes its budget gap each year; unlike the federal government, it cannot print money and must balance its budget. **The question is: At what cost?** For FY11 the cost included unprecedented reductions in department and agency budgets (including such core functions as Police, Fire and Rescue, and HHS), frozen pay, furloughs, large tax increases, and the elimination of pre-funding for retiree health benefits and PAYGO for the capital program.[3] For FY12 additional tough measures are required. The outyears, FY13-17, are projected to require still more.

[2] The links to OLO Report 2011-2, *Achieving a Structurally Balanced Budget in Montgomery County*, are:
http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/2011-2.pdf
http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/2011-2Part-II.pdf

[3] The pre-funding of retiree health benefits (OPEB) provided by County agencies is a good example of the structural budget challenge. For FY08 the Council supported the Executive's plan to phase in the pre-funding over 5 years to ensure that the agencies' commitments to retirees can be kept. For FY09, given the tight budget, he proposed an 8-year phase-in instead. For FY10, because of still more serious budget pressures, he ultimately proposed no tax supported pre-funding with the exception of $12 million for MCPS. For FY11, given the state of the budget, he proposed no tax supported funding at all. If the County had followed the 5-year phase-in schedule that was projected and approved 4 years ago, the FY11 tax supported allocation would have been $149 million, not 0.

The Fiscal Plan and the Structural Deficit

Last June the Council approved for the first time a six-year Fiscal Plan that was balanced for the entire period. Each edition of the Fiscal Plan is a snapshot in time that reflects the most recent available data. The assumptions that underlie it are subject to legitimate debate.

The Executive's recommended FY12-17 Fiscal Plan summary is on ©3-4. Funds available for the 4 County agencies are shown on line 23. Note that for FY13 the plan projects a **4.1% decline**, in part because of the sunset of the large energy tax increase approved for FY11-12. Such a decline, coming on the heels of the reductions in FY10-12, would have a sweeping impact on services, employment, and compensation. (This projection does not reflect the potential impact of shifting the cost of teacher pensions to the County.) Note also that while the changes in "agency uses" projected for FY14-17 (2.4, 3.4, 4.8, and 3.7%) are positive rather than negative, they are well below the historical growth rates to which the agencies, the workforce, and the community have become accustomed.

FY12 Budget Framework

The FY12 budget process did not have an auspicious start.[4] In December, despite the massive revenue writedowns for FY10-11, the projection for FY11-12 fell by $159 million. The Council approved a FY11 savings plan of $32 million on top of the large reductions approved in May. The FY12 gap was estimated at $300 million. While this amount was less than a third of the ultimate FY11 gap, closing it would be complicated by the strong measures required to balance the last three budgets. The table on ©5 outlines how the Executive's recommended FY12 budget proposes to close this gap.

The Executive's recommended overall FY12 tax supported operating budget (including debt service) is $3.768 billion, up $112 million (3.1%) from the Council-approved FY11 budget. The total recommended budget (including grants and enterprise funds) is $4.347 billion, up $76 million (1.8%) from the FY11 approved budget. Despite its many reductions, the recommended budget supports a broad array of services, including many for which the County is a national leader.[5]

For further details on the FY12 recommended budget and the agencies' own requests, see the Executive's transmittal letter on ©6-14. See also the transmittal letters from Board of Education President Barclay for MCPS on ©15-16, Board Chair Lin and President Pollard for the College on ©17-21, Chair Carrier for M-NCPPC on ©22-33, and Chair Jones for WSSC on ©34-38. See also the pie charts on ©39-41, the Spending Affordability table on ©42, and the Budget Summary table on ©43.

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[4] To understand the FY12 budget context, it is useful to recall the County's grueling experience with the FY11 budget. In September 2009 OMB estimated the gap between projected revenues and projected expenditures for FY11 at $370 million. In November, in response, the Council approved a FY10 savings plan of $30 million, but by December, chiefly because of large revenue writedowns, the gap had grown $608 million. By March 15, even after the Council had approved a second FY10 savings plan of $70 million (for an unprecedented total of $100 million), the gap was $779 million because of State aid cuts, large snow removal costs, and further revenue writedowns. This was just the start. On March 25, April 5, and April 13 the Executive advised the Council of further grim fiscal news. Moody's Investors Service placed the County on a watchlist for a possible ratings downgrade, citing the County's need to "stabilize and replenish reserve levels and to restore financial flexibility." On April 22, with the budget gap now at $976 million, the Executive proposed a series of additional large tax increases and spending cuts totaling nearly $200 million. In May the Council's final action on the FY11 budget closed the gap; the budget was the first in at least 40 years to show a decline from the previous year's budget. In June the Council approved a multi-year policy to expand reserves. All three rating agencies confirmed the County's AAA bond rating.

[5] See http://www.montgomerycountymd.gov/content/omb/FY12/psprec/pdf/psp-highlights.pdf for the highlights part of the budget document.

Recommended Allocations to Agencies and Departments

AGENCY ALLOCATIONS (tax supported): FY11 Approved and FY12 Recommended
$millions

Agency	FY11 Approved	% change from FY10	FY12 Rec.
Debt service	$264.0	+5.0%	+12.4%
MCPS	1,919.8	-1.1%	+3.5%
College	215.8	-0.8%	+0.7%
County Government	1,164.4	-6.9%	+1.0%
MNCPPC	92.5	-13.2%	-2.2%

Sample budgets in County Government

	FY11 Approved	% change from FY10	FY12 Rec.
Fire & Rescue	$182.1	-5.6%	-1.7%
Police	231.3	-6.1%	+0.5%
HHS	177.8	-8.4%	-4.9%
Transit Services	104.3	-3.9%	-1.8%
Libraries	28.9	-23.1%	-9.8%*
Recreation	25.9	-15.4%	-5.5%
Transportation	35.5	-23.8%	-3.3%

*FY12 (rec.) v. FY09: -35.4%

The recommendation for **debt service**, up 12.4%, reflects past and projected bond issues.

The recommendation for **MCPS**, up 3.5%, is $82 million below the Board of Education's request and would require a waiver from the State Maintenance of Effort law.[6] New County funding would remain level at $1.415 billion, while State aid is up 7.6%. Enrollment is projected at 146,709, up 2,645 from actual enrollment in FY11. If funding for OPEB and steps in the Board's budget are excluded, the gap between the Board's and the Executive's tax supported recommendation is $7.1 million. (The Executive has suggested $20 million for OPEB at MCPS. The Superintendent had included $6 million.)

The recommendation for the **College**, up 0.7%, is $1.6 million below the College's request. The College sought the same level of County support in FY12 as in FY11. Instead, the Executive recommends that the College use $11.9 million of its $15.9 million reserve fund in FY12, $5.8 million more than the College proposed.

The recommendation for **M-NCPPC**, down 2.2%, is $13.4 million below the Planning Board's request, which was up 10.2% from the approved FY11 budget. The Board stated that all but 0.2% of the increase was due to "non-controllable" factors, including negotiated contracts.

The recommendation for **County Government** includes the sample department changes listed in the table above. See the complete list on ©44. (Some changes reflect the proposed new Office of Community Engagement.) The combined impact of actual FY11 and proposed FY12 cuts is large. For departments whose cuts began in FY10, like Libraries, it is still larger. Departments are to absorb the cuts through improved productivity and service and workforce reductions.

[6] The law establishes a formula through which local jurisdictions fund school systems at a minimum of the same per pupil level as the previous year, adjusted for enrollment, regardless of fiscal pressures or other circumstances. The consequence of not meeting this funding level is that a school system may not receive the increase in State aid over the prior year that it would otherwise be allocated. For FY12 this amount would be $26 million.

Recommended measures to promote fiscal soundness include expanded reserves (pursuant to the Council's June 2011 policy); a policy-level allocation for PAYGO ($32 million) and resumption of OPEB ($50 million), neither of which was funded in FY11; and $10 million for snow removal.

County Government Workforce Changes

The County Government workforce changes in FY05-11 were dramatic. Total approved workyear levels were 8837, 9089, 9512, 9914, 10033, 9749, and 8961 (partly because of the FY11 furloughs), respectively. The recommended FY12 budget has 8992 workyears, up 31. Much of the increase is attributable to restoring furloughs; there would otherwise be a net decrease of 213 workyears. The budget abolishes 216 positions, 140 of which are filled.

Full understanding of workyear numbers requires a review of the component parts, including abolished positions, lapse, reduced overtime, charges to the CIP, and furloughs. That said, **the workyear reduction between the FY09 peak, 10033, and the FY12 recommendation, 8992, is 1041, or 10.4%.** The FY12 budget document lists the following sample tax supported workyear reductions or shifts:

Workforce Changes (Tax Supported)	WY Change	WY Impact of Furlough Restoration Removed
• Police - elimination of School Resources Officers, reductions to Victim Witness Services; the School Safety/Education Program; and the Emergency Communication Center, offset by 3rd District Staffing Enhancements	40.2	6.7
• Transit Services - change is almost wholly attributable to restoration of furlough reductions	28.7	-0.8
• Fire and Rescue Service – elimination of local fire department administrative staff positions, lapse of code enforcement positions, elimination of the High School Cadet program; offset by the addition of a recruit class	7.6	-17.4
• Economic Development - abolish two Business Development Specialist positions and administrative positions	-6.3	-7.5
• Recreation - reduce staffing due to renovations at Plum Gar, Scotland NC, Germantown Indoor Swim Center; reduce seasonal staffing, center staffing, management oversight, and support for non-core site specific events; eliminate teen special events, youth sports (except basketball), and operational support for regional youth advisory groups	-18.7	-22.5
• Public Libraries - reducing information services on Sundays, substitute information staff throughout the week, and central administration and support services; eliminate the overflow staffing resulting from the Olney renovation; and reduce staffing through a redefinition of the Silver Spring, Twinbrook, Chevy Chase, & Long Branch from "community" to "popular" libraries	-18.8	-29.0
• Transportation - reductions in roadway maintenance and subdivision review, plus shifting positions to the Capital Improvement Plan and the Water Quality Protection Fund	-44.9	-56.9

Collective Bargaining

The Executive notes that his recommended budget is "inconsistent" with the arbitrated awards for the County unions, which are now challenging it. The County Attorney states that "the County Executive's submission of the recommended operating budget is a legislative function assigned to the County Executive under Charter §303. The collective bargaining laws cannot limit this legislative function." See his March 15 letter on ©45-46.

Compensation

The Executive recommends that once again in FY12 there should be **no pay increases for agency employees**, including general wage adjustments (GWAs), service increments (steps), and increases for longevity or performance. GWA reductions for County agencies are rare. In the deep recession of the early 1990s, County Government employees had no GWAs for 3 consecutive years. In FY04 GWAs for all agencies were deferred for four months. In FY10-11 they were eliminated. While agency step increases were consistently funded even in difficult budget years, they too were eliminated in FY11. **The total pay freeze in FY11 was unprecedented for County agencies. So is the total pay freeze proposed again for FY12.**

Group Insurance and Retirement Benefits

The Executive recommends changes in group insurance and retirement benefits for County Government employees that would save an estimated $29.6 million in FY12 and more in future years. He suggests that the governing boards of MCPS, the College, and M-NCPPC take a similar approach. **These structural changes are among the most important and controversial in the budget.**

The County share of group insurance, now 80% for most employees,[7] would become 70%. This change, combined with changes in current prescription drug, dental, and life insurance provisions and a 3-tiered premium, would save $18.7 million. Employees with salaries of $50,000 to $89,999 would pay an additional $910 per year. Those with salaries of $90,000 or more would pay an additional $1560.

For retirement, employees in the defined benefit plan would pay an additional 2% of salary into the pension fund. Those in the RSP or GRIP would receive 2% less in the County contribution to their account. The combined savings would be $10.9 million.

Governments nationwide (except for the federal government) have made or proposed changes of this kind. The issues are complex, and the impact on employees' take-home pay is real and large. Council and OLO staff will work together, as in past years, to fully vet all relevant issues and options. **For important information on how the proposals would affect different employees and issues to be addressed, see the memo from OLO Director Orlansky on ©47-58.** OLO's analysis will help the Council determine what the policy goals, scope, and timing of any changes should be. It will also assess changes just made in the FY12 State budget (but not proposed by the Executive), such as limits on GWAs and differences in pension benefits and retiree health insurance for newly hired employees.

Start Date: July 1, 2011 or January 1, 2012?

The Executive's proposed group insurance changes would start on July 1, 2011 rather than with the ordinary new plan year on January 1, 2012. This accelerated timing would save about $9 million of the estimated $18.7 million total. It would require employees, and the Office of Human Resources, to deal with new and difficult choices in an out-of-cycle open season starting in just 3 weeks. Employees could find it hard to meet their current plan requirements, such as deductibles and flexible spending accounts, by June 30 and to coordinate with family members' plans that start on January 1. Moreover, the Council will not make final decisions on the details of any changes until late May.

Whatever changes in group insurance the Council decides to approve must be implemented very carefully. January 1 seems to be a far more realistic start date than July 1. If the Council agrees, the $9 million savings from a July 1 start date assumed in the budget will have to be found elsewhere.

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[7] The County share for non-represented employees hired since October 1, 1994 is 76%.

Equity Among Agency Employees

A central issue here is equity among agency employees. While the Executive proposes shifting to a 70/30 employer/employee premium split in group insurance, **the effect of his plan, including the "additional salary-based premiums," would be a 60/40 split in overall costs. For individual employees the premium cost share would range from 30% to 58%.** At MCPS the overall split in group insurance costs is 92/8 (95/5 for those enrolled in HMOs).[8] Since the MCPS workforce of about 21,000 is two-thirds of the agencies' combined personnel complements, even a small change at MCPS could mitigate the proposed changes for County employees, who could face increases up to $3,700 (for the same coverage). The current disparity with MCPS employees would be sharply widened.[9]

Group insurance is the FY12 version of last year's furlough debate. Last year the Executive proposed 10 days of furloughs for all County Government employees except for public safety. The Council's final plan was progressive – 3, 5, or 8 days depending on salary – and applied to all employees. (Each furlough day is about 0.4% of annual pay. Employees' bi-weekly paychecks have been trimmed accordingly, but the government has remained open.) College employees had up to 8 days; M-NCPPC employees had up to 10 days. The Board of Education declined to have furloughs at MCPS.

If the Board had authorized furloughs for MCPS employees, the same total furlough savings, about $15 million, could have been achieved with just 1.5 days (0.6% of annual pay) for employees of all agencies. Instead, employees of County Government, the College, and M-NCPPC lost between 1% and 4% of annual pay while MCPS employees were held harmless. Also, just over 2 furlough days at MCPS would have produced the same savings as increasing class size by one student, but the Board chose to increase class size.

MCPS officials note correctly that in FY10-11 employees agreed to forgo negotiated pay increases and now face a pay freeze in FY12. But this is also true for employees of all other agencies. For example, in FY11 members of the firefighters bargaining unit, IAFF Local 1664, did not receive their negotiated pay increase, which was 7% for all unit members and 3.5% more for those not at top of grade. MCPS officials also note correctly that many supporting services employees have low salaries. But the Board is capable of taking a progressive approach to any benefit changes, just as the Council did with furloughs. Two other points are worth making.

- MCPS's average total annual premium (employer + employee share) for active employees is $12,663. **MCPS's annual employer share is $557 (5%) more per enrollee than the County's current employer share because of its more generous premium split.**[10]
- While benefit changes for MCPS employees, like those for other employees, would be hard to absorb, they would have no direct impact on the classroom.

Governments nationwide are revising generous employee health and retirement benefits to help address their structural budget deficits. The County must do the same, and all agencies must participate in order to ease the impact. **Forcing one-third of employees to bear the entire cost while two-thirds bear none, which happened with the FY11 furloughs, cannot be an option in FY12.**

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[8] The College already has a 75/25 premium split and a more restrictive plan design. M-NCPPC, a bi-county agency, is reviewing its group insurance and retirement benefits.

[9] The FY12 State budget provides that MCPS and College employees who participate in the State pension plan must contribute 7% of salary rather than the current 5%. This change is roughly similar to the Executive's proposed change for County employees in the defined benefit plan. OLO's analysis will address the details of these changes.

[10] For OLO's February 1 analysis of this issue, see http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/2-1-11AnswerstoQuestionsaboutthecostofHealthBenefitsforActiveEmployees.pdf. This analysis clarifies contentions made by MCEA.

Revenues

Revenues are projected to rise $103.5 million (2.7%) from the FY11 approved budget. The largest increases are in intergovernmental aid (6.7%) and income tax (5.3%). FY11 saw large increases in the energy tax (155% residential, 60% commercial) and cell phone tax (75%). The Executive recommends no comparable increases for FY12.

As usual, the budget includes increases in fees and fines. The list on ©59 totals $11.7 million. The largest revenue increases would come from increases in College tuition ($3.7 million), the Water Quality Protection charge ($3.6 million), parking fees ($2.1 million), Solid Waste service charges ($1.3 million), Ride On monthly passes ($0.6 million), and building permits ($0.5 million). Water and sewer rates would rise by 8.5%. The proposed 5-cent excise tax on carryout bags is now before the Council.

The Executive recommends adhering to the **Charter limit on property tax revenue.**[11] This would permit an increase of $30 million (2.3%) from the FY11 estimate. But since taxable values have fallen 2.75% from FY11, the Executive recommends a 4.2 cent rate increase, along with an income tax offset credit of $692 for owner-occupied principal residences, to go up to the Charter limit. Keeping the rate the same would require reducing the credit to $384. These and other options have competing equities that the Council will assess.

The County continues to have very limited **"tax room."** The income tax is at the maximum rate permitted by the State (3.2%). Nine votes are required to exceed the Charter limit on property tax revenue. Last year's large increases in the energy and cell phone taxes place make them hard to raise further. Recordation taxes are also at high levels. Other revenue sources are small.

During the recession of the early 1990s the Council raised taxes on income, energy, and telephones, but as fiscal conditions improved later in the decade, the Council reduced those taxes (and also abolished the beverage container tax). The Council was then able to use this "tax room" to counter the sharp downturn in the early years of the last decade. Similar "tax room" is not available now. Pressure will again grow to exceed the Charter limit, but the 9-vote requirement narrowly approved by voters in 2008 (following a 13% increase in average property tax bills) will make that difficult.

Approach for Committee and Council Budget Review

The Council's 5 public hearings on the budget were held on April 5-7. Committee worksessions have begun; Council worksessions will begin on May 9. Revenue day and reconciliation day are scheduled for May 18 and 19. Our budget tracking system, which records all Committee and Council actions, will prepare regular updates until May 26, the date for final budget approval.

Council President Ervin has suggested how our analysts and Committees can most productively approach individual department and agency budgets. See her March 28 memo on ©60-61.

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[11] Charter §305 limits the growth in real property tax revenue to the rate of inflation, excluding new construction, development districts, and other minor exceptions. Overriding this limit requires the vote of all 9 Councilmembers. In the limit's 20-year history, the Council has exceeded it 4 times: in FY03-05 by $4.3 million, $29.2 million, and $37.3 million, and in FY09 by $117.5 million.

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON	DIRECTION (yr.-over-yr.)
INFLATION	1.72% Jan.-Dec. 2010	Property Taxes	Key determinant of property tax revenues at the Charter Limit	2009: 0.23% 2008: 4.52%	↑
UNEMPLOYMENT RATE	5.1% Feb. 2011	Income Taxes	Indicates overall health of the job market	Jan. 2011: 5.3% Feb. 2010: 5.9%	↓
RESIDENT EMPLOYMENT	485,270 Feb. 2011	Income Taxes	Primary determinant of income tax receipts	Jan. 2011: 486,895 Feb. 2010: 479,049	↑
PAYROLL EMPLOYMENT (Estimated)	462,700 Feb. 2011	Income Taxes	Another determinant of income tax receipts	Jan. 2011: 461,700 Feb. 2010: 448,000	↑
STOCK MARKET - S&P 500	1325.83 As of Mar. 31st	Income Taxes	Key determinant of capital gains portion of the income tax	December 31st: 2010: 1,257.64 2009: 1,115.10	↑
HOME SALES	525 Feb. 2011	Transfer/ Recordation Taxes	Indicates activity affecting receipts	Jan. 2010: 557 Feb. 2010: 550	↓
HOME PRICES (Average Price Sold)	$390,022 Feb. 2011	Transfer/ Recordation Taxes	Taxes are based on values, affects amount of taxes collected	Jan. 2011: $436,443 Feb. 2010: $398,680	↓
FEDERAL FUNDS RATE (preliminary)	0.14% Mar. 2011	Investment Income	County's return on investments closely correlated with the Fed Fund rates	Feb. 2011: 0.16% Mar. 2010: 0.16%	↔

SUMMARY

- While the County's unemployment rate in 2010 and the first two months of 2011 has remained above 5 percent, the recent year-over-year increases in both the County's resident and payroll employment provide a positive outlook about the employment situation in the County.
- While average home prices have increased, albeit at a modest rate (1.7% in 2010), sales of existing homes experienced meager growth in 2010 and most of that growth occurred during the first half of the calendar year. Until home sales rebound, the housing market may dampen any significant increase in the transfer and recordation taxes.
- Inflation for the Washington-Baltimore region was less than 2.0 percent in 2010. However, prices increased 2.3 percent in January – the largest increase since March of last year.

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County Executive's Recommended FY12-17 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

#		App. FY11 5-27-10	Est FY11 3-15-11	% Chg. FY11-12 Rec/Bud	Projected FY12 3-15-11	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17
	Total Revenues														
1	Property Tax (less PDs)	1,450.1	1,430.0	0.8%	1,462.2	2.5%	1,498.6	3.4%	1,549.7	3.3%	1,601.5	3.6%	1,659.3	4.1%	1,727.6
2	Income Tax	1,060.7	1,043.7	5.3%	1,117.2	6.4%	1,188.6	5.0%	1,248.0	7.2%	1,337.6	6.7%	1,427.5	5.0%	1,498.7
3	Transfer/Recordation Tax	139.9	134.8	2.6%	143.5	4.5%	150.0	7.9%	161.8	-1.2%	159.8	6.6%	170.3	1.4%	172.7
4	Investment Income	3.6	0.7	-55.9%	1.6	69.4%	2.7	92.0%	5.2	37.3%	7.2	22.1%	8.8	17.8%	10.3
5	Other Taxes	313.2	316.4	3.8%	325.3	-33.4%	216.8	2.9%	223.2	2.6%	229.0	2.3%	234.3	2.8%	240.9
6	Other Revenues	811.6	754.7	2.6%	832.8	0.4%	836.5	0.5%	840.7	0.5%	845.2	0.6%	850.1	0.6%	855.4
7	**Total Revenues**	**3,779.2**	**3,680.3**	**2.7%**	**3,882.7**	**0.3%**	**3,893.2**	**3.5%**	**4,028.6**	**3.8%**	**4,180.2**	**4.1%**	**4,350.4**	**3.6%**	**4,505.5**
8															
9	**Net Transfers In (Out)**	**41.7**	**48.9**	**-6.9%**	**38.9**	**2.7%**	**39.9**	**3.0%**	**41.1**	**3.2%**	**42.4**	**3.4%**	**43.9**	**3.6%**	**45.5**
10	**Total Revenues and Transfers Available**	**3,821.0**	**3,729.2**	**2.6%**	**3,921.6**	**0.3%**	**3,933.1**	**3.5%**	**4,069.8**	**3.8%**	**4,222.7**	**4.1%**	**4,394.2**	**3.6%**	**4,551.0**
11															
12	**Non-Operating Budget Use of Revenues**														
13	Debt Service	264.0	263.8	12.4%	296.8	8.4%	321.6	6.9%	343.8	5.7%	363.4	6.0%	385.1	5.2%	405.1
14	PAYGO	-	-	n/a	32.0	0.0%	32.0	0.0%	32.0	0.0%	32.0	0.0%	32.0	0.0%	32.0
15	CIP Current Revenue	23.8	25.6	28.7%	30.6	93.3%	59.1	36.9%	81.0	0.6%	81.5	-21.1%	64.3	0.0%	64.3
16	Montgomery College Reserves		15.9		(12.0)	-100.5%	0.1	13.4%	0.1	9.2%	0.1	9.0%	0.1	8.7%	0.1
17	MNCPPC Reserves		5.3		(1.2)	-108.5%	0.1	44.5%	0.1	1.6%	0.1	10.4%	0.2	15.9%	0.2
18	Contribution to General Fund Undesignated Reserves	107.1	10.3	-25.1%	80.2	-95.1%	3.9	-103.7%	(0.1)	4108.7%	5.8	13.5%	6.6	81.0%	12.0
19	Contribution to Revenue Stabilization Reserves	33.9	19.2	-29.4%	24.0	-12.7%	20.9	7.3%	22.5	6.8%	24.0	6.1%	25.5	4.6%	26.6
20	Retiree Health Insurance Pre-Funding	-	-	n/a	-	n/a	146.6	11.3%	163.2	5.1%	171.5	-2.8%	166.8	-2.8%	162.0
21	Set Aside for other uses (supplemental appropriations)	0.3	32.1	-20.0%	0.2	10000.0%	20.2	0.0%	20.2	0.0%	20.2	0.0%	20.2	0.0%	20.2
22	**Total Other Uses of Resources**	**429.1**	**372.2**	**5.0%**	**450.6**	**34.2%**	**604.6**	**9.6%**	**662.7**	**5.4%**	**698.7**	**0.3%**	**700.7**	**3.1%**	**722.6**
23	**Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)**	**3,391.8**	**3,357.0**	**2.3%**	**3,471.0**	**-4.1%**	**3,328.6**	**2.4%**	**3,407.1**	**3.4%**	**3,524.0**	**4.8%**	**3,693.6**	**3.7%**	**3,828.4**
24															
25	**Agency Uses**														
26															
27	Montgomery County Public Schools (MCPS)	1,919.8	1,889.6	3.5%	1,987.6	-4.1%	1,906.1	2.4%	1,951.0	3.4%	2,017.9	4.8%	2,115.0	3.7%	2,192.3
28	Montgomery College (MC)	215.8	208.6	0.7%	217.3	-4.1%	208.4	2.4%	213.3	3.4%	220.6	4.8%	231.2	3.7%	239.6
29	MNCPPC (w/o Debt Service)	92.7	92.2	-2.2%	90.7	-4.1%	86.9	2.4%	89.0	3.4%	92.0	4.8%	96.5	3.7%	100.0
30	MCG	1,163.6	1,166.6	1.0%	1,175.5	-4.1%	1,127.2	2.4%	1,153.8	3.4%	1,193.4	4.8%	1,250.8	3.7%	1,296.5
31	**Subtotal Agency Uses**	**3,391.8**	**3,357.0**	**2.3%**	**3,471.0**	**-4.1%**	**3,328.6**	**2.4%**	**3,407.1**	**3.4%**	**3,524.0**	**4.8%**	**3,693.6**	**3.7%**	**3,828.4**
32	**Total Uses***	**3,821.0**	**3,729.2**	**2.6%**	**3,921.6**	**0.3%**	**3,933.1**	**3.5%**	**4,069.8**	**3.8%**	**4,222.7**	**4.1%**	**4,394.2**	**3.6%**	**4,551.0**
33	**(Gap)/Available**	**0.0**	**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**

Notes:

1. FY13-17 property tax revenues are at the Charter Limit assuming a tax credit. All other tax revenues at current rates except as noted below.
2. FY13 reduction in Other Taxes reflects scheduled sunset of the May 2010 Energy Tax increase.
3. PAYGO is programmed at policy level of 10% of planned GO Bond borrowing. See Row 14 above.
4. FY12 revenues reflect redirection of Recordation Tax Premium ($8.3 million).
5. FY13-17 Retiree Health Insurance Pre-Funding is reflected according to updated 8-year phase-in schedule. See Row 20 above.
6. Projected agency rate of growth is constrained to balance the fiscal plan in FY13-17.
7. Reserves are funded at policy levels including legally required contributions to the Revenue Stabilization Fund.
8. FY12 Retiree Health Insurance Pre-Funding is shown at the Agency Request level. See Rows 53-56.

County Executive's Recommended FY12-17 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

		App. FY11	Est. 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	% Chg. FY16-17	Projected FY17
34	**Beginning Reserves**														
35	**Unrestricted General Fund**	29.7	42.8	24.1%	53.1	150.9%	133.3	3.0%	137.3	-0.1%	137.1	4.3%	143.0	4.6%	149.6
36	**Revenue Stabilization Fund**	60.4	74.9	25.7%	94.1	25.5%	118.1	17.7%	139.0	16.2%	161.5	14.9%	185.4	13.7%	210.9
37	**Total Reserves**	90.1	117.7	25.1%	147.2	70.8%	251.4	9.9%	276.3	8.1%	298.6	10.0%	328.4	9.8%	360.5
38															
39	**Additions to Reserves**														
40	**Unrestricted General Fund**	107.1	10.3	677.4%	80.2	95.1%	3.9	-103.7%	-0.1	4108.7%	5.8	13.5%	6.6	81.0%	12.0
41	**Revenue Stabilization Fund**	33.9	19.2	24.8%	24.0	-12.7%	20.9	7.3%	22.5	6.8%	24.0	6.1%	25.5	4.6%	26.6
42	**Total Change in Reserves**	141.1	29.5	252.8%	104.2	-76.1%	24.9	-10.3%	22.3	33.7%	29.8	7.5%	32.1	20.4%	38.6
43															
44	**Ending Reserves**														
45	**Unrestricted General Fund**	136.8	53.1	150.9%	133.3	3.0%	137.3	-0.1%	137.1	4.3%	143.0	4.6%	149.6	8.0%	161.6
46	**Revenue Stabilization Fund**	94.3	94.1	25.5%	118.1	17.7%	139.0	16.2%	161.5	14.9%	185.4	13.7%	210.9	12.6%	237.5
47		231.2	147.2	70.8%	251.4	9.9%	276.3	8.1%	298.6	10.0%	328.4	9.8%	360.5	10.7%	399.1
48	**Reserves as a % of Total Tax Supported Revenues Plus CIP & Operating Grant Revenues**	6.0%	3.9%		6.3%		6.8%		7.1%		7.5%		7.9%		8.5%
49	**Agency Reserves**														
50	**Montgomery College**	0.0	15.9	-75.2%	4.0	1.6%	4.0	1.8%	4.1	1.9%	4.2	2.0%	4.2	2.1%	4.3
51	**M-NCPPC**	0.0	5.3	-22.5%	4.1	2.5%	4.2	3.5%	4.3	3.4%	4.5	3.7%	4.6	4.1%	4.8
	MCG + Agency Reserves as a % of Adjusted Govt Revenues		4.5%		6.5%		7.0%		7.3%		7.7%		8.1%		8.7%
52	**Retiree Health Insurance Pre-Funding**														
53	Montgomery County Public Schools (MCPS)	-	-		47.6		78.3		90.6		101.4		98.0		94.2
54	Montgomery College (MC)	-	-		1.0		2.4		2.7		3.1		2.9		2.7
55	MNCPPC (w/o Debt Service)	-	-		2.6		6.3		7.1		7.7		7.2		6.8
56	MCG	-	-		26.1		59.6		62.8		59.4		58.7		58.4
57	**Subtotal Retiree Health Insurance Pre-Funding**	-	-	-	77.2	-	146.6	-	163.2	-	171.5	-	166.8	-	162.0

4

How the FY12 Gap Was Closed
$ in Millions
(Negative numbers increase the gap; positive numbers close the gap)

1	Gap on December 14, 2010 ($ millions)	$ (299.921)
2		
3	Major resource changes since December:	
4	Updated beginning FY11 fund balance	4.586
5	February revenue update	30.117
6	Fines, licenses, fees, and other misc. revenues	(15.307)
7	MCPS revenues	31.261
8	Montgomery College revenues	(0.324)
9	MNCPPC revenues	(0.439)
10		
11	Expenditure changes since December:	
12	FY11 Spending:	
13	Montgomery County Public Schools	30.274
14	Montgomery College	0.439
15	MNCPPC	0.484
16	County Government	(3.093)
17		
18	FY12 Agency Requests:	
19	Montgomery County Public Schools	(64.072)
20	Montogmery College	5.166
21	MNCPPC	(1.966)
22		
23	Revised FY12 Gap as of March 1	(282.794)
24		
25	Recommended Measures to Close the Gap	
26		
27	Resources:	
28	Increase Net Transfers	32.679
29	Redirect Recordation Tax Premium	8.345
30		
31	Non-Agency Spending:	
32	CIP PAYGO to Policy Level	0.500
33	CIP Current Revenue Reductions	8.536
34	Revised Debt Service Expenditures	(1.231)
35	Decrease Set Aside	5.468
36	Allocate OPEB to Agency Appropriations	83.631
37	Contributions to Reserves	(4.126)
38		
39	FY12 Agency Spending:	
40	Montgomery County Public Schools	82.105
41	Montgomery College	1.585
42	MNCPPC	13.443
43	County Government	51.859
44		
45	Gap on March 15, 2011	$0.000

OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

MEMORANDUM

March 15, 2011

TO: Valerie Ervin, President, County Council

FROM: Isiah Leggett, County Executive Isiah Leggett

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 Association[1].

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 education[2]. 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 limit[3] 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.

Board of Education
MONTGOMERY COUNTY MARYLAND

MONTGOMERY COUNTY BOARD OF EDUCATION

850 Hungerford Drive ♦ Rockville, Maryland 20850

March 1, 2011

The Honorable Isiah Leggett, County Executive
The Honorable Valerie Ervin, President, Montgomery County Council
Members of the Montgomery County Council
Montgomery County Government
Rockville, Maryland 20850

Dear Mr. Leggett, Ms. Ervin, and Councilmembers:

On behalf of the outstanding students and employees in Montgomery County Public Schools (MCPS), I am submitting the Board of Education's Operating Budget request for Fiscal Year 2012 (FY 2012) for your consideration.

The members of the Board of Education are well aware of the fiscal challenges facing our county and that is why we are submitting a budget at the lowest level allowed under state law. This $2.2 billion request includes no new programs or initiatives, but allows us to continue to provide a high quality education to the growing number of students in Montgomery County.

As you are aware, the Board of Education has worked very closely with you to address the economic difficulties facing the county. We have endorsed efforts to waive the state's Maintenance of Effort (MOE) provision, allowing the County Council to fund our students' education at $250 million below MOE for the past two years. In fact, we are spending about $1,000 less per student this year (FY 2011) than we did last year. Working with MCPS leadership and staff, we have saved $300 million during the past three years through a variety of cost-saving measures, including:

- The elimination of more than 400 positions and an increase in class size by an average of one student across the system in FY 2011;
- A twenty percent reduction in our central administrative services, requiring us to realign several offices and eliminate others;
- Asking our employees to go without a cost of living increase for the past two years and the elimination of step increases last year, saving the county more than $115 million, annually; and
- Hiring freezes and expenditure restrictions for the past three years.

This budget request also includes $15 million in savings that will be carried forward to FY 2012—yet another indication of our commitment to austerity and responsible stewardship.

Despite these reductions in staff and resources, our students are performing at the highest levels ever. In fact, just last month, it was announced that exactly half of the MCPS graduating class of 2010 received a college-ready score of 3 or higher on at least one Advanced Placement (AP) exam—nearly twice the rate for the state and three times the rate of the nation. This record-setting performance comes on the heels of an all-time high for student performance on the SAT, record achievement in kindergarten reading proficiency, and an unprecedented number of students receiving college scholarships.

MCPS staff and student excellence has been recognized nationally at the highest levels. In November, MCPS was named a 2010 recipient of the Malcolm Baldrige National Quality Award, the highest presidential honor an American organization can receive. MCPS is just the sixth school district to ever receive the Baldrige award and is the largest by far. In October, MCPS was named a finalist for the Broad Prize for

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Urban Education, which honors large school districts that have raised student performance while narrowing racial and socioeconomic achievement gaps. MCPS is the first district in Maryland and the Washington DC region to be named a finalist.

These honors are an affirmation that MCPS is dedicated to sound business practices, financial responsibility, continuous improvement, and, most of all, outstanding results for all students. The credit for our progress belongs to the MCPS staff. It is even more impressive that this record- setting achievement has occurred during a time of dramatic fiscal reductions.

But we cannot reasonably expect these gains to continue. At some point, financial constrictions will cut deeply enough, to negatively impact student outcomes. The members of the Board of Education believe this point is perilously close.

Our budget request seeks an increase of approximately three percent in educational programs to account for a rise in enrollment of more than 3,300 students and continued increases in the number of students requiring English for Speakers of Other Languages and Free and Reduced-price Meals System services.

The budget assumes an $82 million increase in local funding in order to meet the state's MOE requirement. If we do not receive any additional revenue from the county, the consequences could be dire. While we have not discussed specific recommendations, the loss of local revenue will undoubtedly require such drastic actions as staff cuts, an increase in class size, and the elimination of valuable programs and support services. Additionally, if the county does not meet MOE, the district faces a fine of at least $22 million from the state, which will lead to even more difficult staff and programmatic cuts.

Montgomery County always has made education a top priority in its budget, even in the face of difficult economic times and for this we are grateful. Governor Martin O'Malley demonstrated his continued commitment to education in his FY 2012 budget by increasing state aid for Montgomery County by $64 million—about $37 million more than expected. We appreciate the Governor's ongoing commitment to education and ask you to follow his lead. We urge all Montgomery County leaders to work together to see that the Governor's proposal becomes law.

The Board of Education is ready and willing to work closely with the county executive and the County Council to pass a responsible budget that meets the needs of our community's children while being good stewards of the public's money. It is imperative that we not back away from our legal and moral obligation to provide an outstanding education to each and every student in our public schools. These children get but one chance at an education and we must give them every opportunity to succeed.

This community has been a steadfast supporter of its schools and I look forward to a continuation of that laudable tradition as we complete the work on the FY 2012 budget. On behalf of the entire MCPS community, thank you for your continued commitment to education.

Sincerely,

Christopher S. Barclay

Christopher S. Barclay
President

Office of the President

February 14, 2011

The Honorable Isiah Leggett
Montgomery County Executive
Executive Office Building
101 Monroe Street
Rockville, Maryland 20850
and
The Honorable Valerie Ervin, President
Montgomery County Council
and
Members of the Montgomery County Council
Stella B. Werner Council Office Building
100 Maryland Avenue
Rockville, Maryland 20850

Dear Mr. Leggett, Ms. Ervin, and
Members of the Montgomery County Council:

The Board of Trustees of Montgomery College respectfully submits for your consideration the Adopted College Operating Budget for FY 2012. The College understands the fiscal challenges that continue to face the county. At the same time, the College plays a crucial role in providing the training and education needed to ensure our county remains a leader in the innovation economy. This budget holds the line on spending, while recognizing that a strong Montgomery College is essential to preparing the skilled workforce so necessary to a thriving local economy.

We have worked closely with our employee organizations, staff and faculty to identify a number of short- and long-term cost savings strategies. Additionally, the College will continue to seek permanent reductions in its operations. The budget we are requesting is one that is fiscally responsible, uses resources wisely, operates efficiently and continues to meet the education and training needs of Montgomery County residents and employers. This budget does not rely on any additional local support; we ask the same county funding as provided in FY 11. Our summer fiscal projection originally showed an $8 million gap in our FY 12 budget. We closed that gap through a combination of reductions, capital project delays, reallocation of resources, and the use of savings plans. The specifics of our request are as follows:

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ENROLLMENT

Enrollment in credit programs at the College in the fall of 2010 declined slightly, by 132 students, from our record high fall 2009 enrollment of 26,147. This year's class of 26,115 is an increase of 17 percent from the fall 2005 student headcount. And, because an increasing number of these students are younger and attend Montgomery College full-time, our credit hours of enrollment have increased by an even larger 21 percent since the fall of 2005. Enrollment projections for FY 12 are projected to increase slightly from our actual FY 10 credit hours and our revised FY2011 projection.

The major factors driving increases in recent years are: 1) the growth in the number of high school graduates in the county who choose to attend Montgomery College; 2) the enrollment limitations at the University of Maryland College Park and other public four-year colleges and universities in the State; and 3) Montgomery College's quality, affordability, proximity, and proven track record in preparing students for careers and transfers to four-year institutions. A fourth factor – for which we remain grateful – is the county's continued commitment to the College's facilities, faculty, staff, and programs. The county's investments in our facilities and, in particular, our Takoma Park/Silver Spring (TP/SS) Campus expansion, have led to dramatically higher enrollments. Since fall 2005, TP/SS enrollment has grown by more than 27 percent and credit enrollment hours are up by more than 31 percent.

Clearly, these investments dramatically enhance the College's ability to serve our community. They enable us to expand access to postsecondary education, particularly for students who would otherwise be much less likely to attend college. College attendance rates for Hispanic and African-American high school graduates are traditionally lower than for other groups, but at Montgomery College, their attendance rates are increasing.

We would add that our Workforce Development and Continuing Education enrollments continue to number around 49,000 annually; students are enrolled in programs as varied as green technology certification, early childhood education and continuing education coursework for realtors. Both our credit and noncredit programs share a commitment to building a skilled workforce.

REVENUE

This budget assumes state and county aid at the same level as FY 2011 and also includes a \$3/\$6/\$9 credit hour increase in tuition (in-county, in-state, out-of-state). With these proposed increases, the average full-time student will pay almost \$4,400 annually. (It should be noted that the tuition increases are not final until the Board of Trustees officially acts on tuition rates in April.) Tuition and related fees are expected to generate \$82 million, an increase of 5 percent, which will generate \$3.9 million in additional revenue and are the primary source of funding for our budget request. For our students, the in-county and in-state tuition rates are less than a 3 percent increase over last year.

We are also using fund balance as follows: $535,395 from our FY 10 Budget Savings Program, $490,260 from the FY 2011 Budget Savings Program, $4 million regular use of fund balance per the Budget guidelines agreement, plus an additional $1 million the College will save to help fund some modest increases. The College is also using $1 million from Workforce Development and Continuing Education as a revenue source in the Current Fund.

As noted, this proposed budget does not request any additional local support over last year. Resources were reallocated to areas of the greatest need so that no new county funds would be requested; expenditures and capital projects were delayed to achieve a balanced budget.

EXPENDITURE REQUEST

We developed the Current fund budget with these priorities in mind: ensuring access to higher education by keeping Montgomery College affordable; working to improve college completion rates; protecting our employees and meeting our benefit cost increases; improving accountability; and continued funding for committed projects. The resulting proposed budget of $218 million results in only a 1.4 percent increase from FY 2011, and is a significant reduction from the summer estimate. Key elements of this budget include:

Compensation for our Employees

- This budget does not include any COLAs or merit increases for our employees. We will need to revisit this issue should any county agency employee organization receive an increase.
- Benefits include funds for postretirement benefits in the amount of $1 million. The rest of the increase is primarily driven by group insurance and retirement costs. Benefit increases total $2.5 million.

Support for our Students

- This budget includes an additional $96,000 in financial aid. Current federal and state financial aid is insufficient to serve our students. The College did not have sufficient institutional grant money to fund all of the students who qualified for assistance in 2009-2010. In fact, 10,645 students with demonstrated financial need qualified for institutional grant funds in academic year 2009-2010, but received no grant aid due to a lack of funds. Of this group, 3,985 students did not enroll at Montgomery College during the fall 2009 semester.

Support for the Rockville Science Center

- The Rockville Science Center will be complete by summer 2011. The Science Center, a 140,700 gross square foot facility, will house the Chemistry, Biology, Geology, Astronomy, Physics, and Engineering departments. Last fiscal year, one-quarter of the costs were included in the budget. The College is absorbing the remaining costs of operating a new facility through reallocation of existing resources and the elimination of positions. (Operating cost for ¾ of the year is $3.2 million.)

OTHER FUNDS

Emergency Plant Maintenance and Repair Fund

The Emergency Plant Maintenance and Repair Fund (EPMRF) is a Spending Affordability Fund. We are requesting an appropriation of $350,000 and county funding equal to last year's amount of $250,000. This funding is crucial for supporting our emergency maintenance needs.

Workforce Development and Continuing Education (WDCE)

The appropriation request fund is $16.1 million. WDCE is an enterprise fund and continues to be productive. This fund will support the current fund with the transfer of $1 million to help fund essential priorities. No county funds are requested.

Auxiliary Enterprises

The appropriation request for this fund is $6.5 million which is equivalent to the FY2011 funding level. This fund is an enterprise fund and no county funding is requested.

50th Anniversary Endowment Fund

The College is requesting appropriation authority of $250,000 and no county contribution is requested.

Grants

The College is requesting appropriation authority in the amount of $21.4 million. Of this amount, $400,000 is requested in county funds for the Adult ESL/ABE/GED program, which is the same amount as FY 2011.

Transportation Fund

This fund is comprised of user fees from our students, employees, certain contractors and parking enforcement revenue. Revenue will be used to pay for lease costs related to the Takoma Park/Silver Spring West Parking Garage, which opened January 2010. Through this fund, the College also pays the county for the free Ride-On bus service offered to our students. The appropriation request is $2.5 million.

Major Facilities Reserve Fund
The College is requesting appropriation authority in the amount of $2.4 million for lease payments to the Foundation for the Morris and Gwendolyn Cafritz Foundation Arts Center. This fund is entirely comprised of user fees, and no county funds are requested.

Cable Fund
The amount requested is $1,391,230 and is funded through the County Cable Plan.

CONCLUSION
In summary, the Montgomery College budget for FY 2012 requests appropriation authority as follows: $218 million for the Current Operating Fund, with $98.1 million in county funds; $350,000 for the Emergency Plant Maintenance and Repair fund, of which $250,000 are county funds; $21,433,000 for federal, state and private grants and contracts, of which $400,000 are county funds for the Adult ESL program; $1,391,230 for Cable TV; $25,087,756 for self-supporting funds of WDCE, Auxiliary Enterprises and the Transportation Fund; $2.4 million for the Major Facilities Reserve Fund; and $250,000 for the 50th Anniversary Endowment Fund. Again, there are no new county dollars requested in our budget.

The Board of Trustees respectfully requests total appropriation authority of $269 million. We appreciate your careful review and consideration of this budget request. We know that education remains a top priority for county officials; we also realize it will be another difficult budget year for all county-funded agencies. We look forward to working closely with you to ensure that the higher education and training needs of our county's residents and businesses are as fully realized as possible. We thank you again for your continued support of Montgomery College and our students.

Sincerely yours,

Michael C. Lin, Ph.D.
Chair, Board of Trustees

DeRionne P. Pollard

DeRionne P. Pollard, Ph.D.
President

MCL/DP:dd

Montgomery County Planning Board
Office of the Chairman

January 15, 2011

The Honorable Isiah Leggett
Montgomery County Executive
Executive Office Building
Rockville, MD 20850

The Honorable Valerie Ervin
President, Montgomery County Council
Stella B. Werner Council Office Building
Rockville, MD 20850

Dear Mr. Leggett and Ms. Ervin:

Pursuant to §2.118 of Article 28 of the Annotated Code of Maryland, the Montgomery County Planning Board is pleased to transmit the FY12 Proposed Operating budget for the Montgomery County operations of the Maryland-National Capital Park and Planning Commission. As discussed with Council and Budget staffs, this document is our first "budget in brief", presenting only the main elements of our budget to more efficiently meet our legislative January 15th deadline. Our commitment to program budgeting continues as the Planning and Parks Departments fine-tune their program elements. The comprehensive version of the budget document will be delivered in February.

Total Proposal – Expenditure Pressures

This proposed budget continues to force a decline in the Commission's previous levels of service resulting from the decreases in funding which began in FY08. The total proposal is $126.1 million, an increase of $11.7 million or 10.2 % from the adopted FY11 budget. The proposed budget for Tax-Supported Funds is $109.8 million, an increase of 11.9% from FY11 and a decrease of 2.1% from FY10. All but 0.2% of this increase is due to non-controllable factors such as prefunding of Other Post-Employment Benefits (OPEB), pension and retiree medical costs, other fringe benefits, negotiated contracts, restoration of funds associated with the extensive furlough program imposed in FY11, and debt service, along with CIP operating budget impact (OBI) and merit increases.

Tax-Supported Funds FY12 Proposed Budget Change Breakdown

OPEB Prefunding	Pension	COLA & Merit (Ratified Contract)	Merit (Other Employees)	No Furloughs	Debt Service	OBI	Other	Total Change (FY11-12)	Total Change (FY10-12)
2,523,950	4,519,300	788,500	606,300	1,994,600	249,300	799,000	210,880	**11,691,830**	**(2,340,600)**
2.6%	**4.6%**	**0.8%**	**0.6%**	**2.0%**	**0.3%**	**0.8%**	**0.2%**	**11.9%**	**-2.1%**

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The Commission is working closely with the County Government and other government entities through a number of committees to improve efficiencies and work collaboratively with the County to reduce costs. As noted in the Office of Legislative Oversight's Structural Balanced Budget Report, the Commission's total budget represents a very small portion of tax supported expenditures, and like other agencies the main cost drivers are related to compensation and benefits.

In FY11, the Commission's adopted budget was 14.5% below FY10 in the Administration Fund and 11.9% below FY10 in the Park Fund. These were among the deepest reductions of County agencies. To operate within the resources allocated, the Commission implemented hiring freezes for all non-critical positions, furloughs, and retirement incentive programs; conducted a reduction-in-force; abolished positions; eliminated contracts; and reduced services.

Budget Development

In developing the FY12 proposed budget, the Departments have adopted reorganization plans to incorporate the FY11 reduction of 86.9 career work years (8.7% of our workforce), and the Planning Board has continued to analyze our services and programs to reduce or eliminate those less critical to our County customers. Our focus remains providing clean and safe parks and delivering key master plans, sector plans, the Zoning Code rewrite and other critical planning programs. Recognizing the fiscal environment, we continue to defer expenditures for maintenance, infrastructure replacements, studies, and plans.

Budget Assumptions

The FY12 budget proposal includes known obligations as follows:

- Employer contributions to the Commission's Retirement System, the Maryland State Retirement System and pay-as-you-go funding for retiree medical costs
- Prefunding Other Post Employment Benefits (OPEB) assuming the 3rd year of the 8-year phase-in plan
- Non-discretionary cost increases such as unfunded obligations with an operating budget impact (OBI) to maintain and operate new facilities or meet federal mandates, and fringe benefit growth
- Salary adjustments for employees covered by the ratified contract
- Restoration of funding to eliminate the FY11 furlough (ten days for non union employees, eight days for MCGEO members and 50 hours for the park police)
- Merit increases for all eligible employees
- Maintaining reserves in the tax-supported funds at 3% of expenditures in Montgomery County, in accordance with the Commission's Fund Balance Policy

PROGRAM HIGHLIGHTS

Despite the challenging budget year, we are committed to an FY12 work program that helps achieve our goal of maintaining Montgomery County as one of the nation's best places to live.

Parks Department

The Department of Parks will focus on delivering core services to properly operate, maintain and protect our park system. A number of new parks and facilities have been added in the past two years through the Capital Improvements Program (CIP), developer-built amenities, and Inter-County Connector projects, without a commensurate increase in the operating budget. The Department's responsibilities will be further expanded in FY12 to include a new unfunded mandate to comply with National Pollutant Discharge Elimination System (NPDES) requirements.

The Department of Parks, in cooperation with the Department of Recreation, is completing the VISION 2030 project. This comprehensive needs assessment and strategic plan will help guide future parks and recreation decisions, ensuring our resources are focused where the need is greatest. The plan will also assist the Department in consistently determining the appropriate cost recovery level for its programs. We continue to examine ways to deliver services with the most productive use of limited resources. This includes assessing the value of our services, our programs and the use of all park facilities. We continue to consider repurposing amenities as appropriate to achieve efficiencies and carry out our core functions.

Other major program efforts scheduled in FY12 will focus on 1) Revenue Enhancement, 2) Improving Work Efficiencies, 3) Providing Programs and Amenities for the Community at Large, 4) Protecting Natural and Cultural Resources, and 5) Planning for the Future of the County. Specific efforts are as follows:

Revenue Enhancement

- Increase effectiveness of efforts to generate revenue through the creation or expansion of major gifts, sponsorships, grants, and individual donation programs, including a new, comprehensive tracking system.
- Position the Montgomery Parks Foundation to generate support for the Department of Parks through fundraising, membership, and naming rights programs.
- Employ Cost Recovery Model for services identified in the Vision 2030 Plan.
- Review all lease, rental and occupancy policies to ensure we are charging fairly and appropriately for park managed properties.

Improving Work Efficiencies

- Enhance SmartParks capabilities and efficiency by integrating work order management with the new Enterprise Resource Planning (ERP) system.
- Continue to improve the bidding process by fully implementing electronic procurement using eMaryland marketplace to list bids and proposals.

Providing Programs and Amenities for the Community at Large

- Take over operations of South Germantown Driving Range (formerly Germantown Golf Park) from a concessionaire. Improve the operations, physical conditions, and return on investment.

- Take over operations of Olney Manor Skate Park from the Montgomery County Recreation Department. Improve operations and return on investment; set hours, fees, and rules; create classes, camps, and special events; devise marketing and media strategies, etc.
- Implement programs at the Nature Centers and Brookside Gardens that meet the Maryland Literacy Standards for school programs.
- Install five additional community gardens on Park and Montgomery County Public School (MCPS) property and partner with MCPS to develop school community gardens.
- Continue to expand marketing and programming of Event Centers, including the new tent rental facility at Woodlawn Manor and facilities at the Agricultural History Farm Park.

Protecting Natural and Cultural Resources
- Create program to recycle and compost bio-degradable green material generated by Montgomery Parks. The Compost Program will provide approximately 1500 yards of new compost annually, saving money on purchasing compost materials and paying landfill tipping fees.
- Expand deer management program into at least one additional down-county park.
- Continue stabilization and interpretation of priority historical sites.
- Complete monitoring of park natural areas, with emphasis on Best Natural and Biodiversity Areas.
- Launch a Tree Steward Volunteer Program to assist with tree inspections, mulching through large group projects, and monitoring and maintaining historic and significant trees.

Planning for the Future of the County
- Develop an interpretive master plan for the Nature Centers and Brookside Gardens.
- Park Planning efforts will include:
  - Completing update to Countywide Park Trails Plan
  - Completing Urban Park Planning Guidelines
  - Updating Parks Recreation and Open Space (PROS) Plan for Montgomery County/ Land Preservation, Parks and Recreation Plan (LPPRP)
  - Providing Park Planning recommendations for community based master plans such as Wheaton, Long Branch, and Chevy Chase Lake

Planning Department

To meet the challenges of reduced resources, the Planning Department evaluated and reduced or eliminated non-core services and operating costs. Core functions as described below are identified from both the Maryland Code (predominantly Article 28) and the Montgomery County Code (predominantly Article 33A).

Growth Policy/Subdivision Staging Policy
Per Council direction, Growth Policy/Subdivision Staging Policy studies will begin in FY12. These include several elements:
- Replacement for Policy Area Mobility Review
- Next generation of Smart Growth Criteria

- Methodology to replace reliance on Critical Lane Volumes in Local Area Transportation Review
- Methodology to incorporate carbon offsets
- Evaluation of changes in trip generation rates/VMT (vehicle miles of travel) for neighborhood-serving retail types and proximity
- Changes to Policy Area boundaries

Master Plans and Sector Plans
Master Plans shape communities by advancing the goals of the General Plan and setting the stage for development that will benefit County residents and enhance quality of life. The process used to develop master plans includes broad public involvement, detailed research into a variety of issues, analysis of functional areas such as transportation capacity and housing needs, and testing alternative scenarios. The FY12 proposed budget includes completion of the Wheaton Central Business District and Vicinity Master Plan, the Master Plan of Highways, and two additional Purple Line Station Area Sector Plans: Long Branch and Chevy Chase Lake. Work is scheduled to begin in FY12 on the White Flint Phase II Sector Plan, Gaithersburg East/Montgomery Village Sector Plan and Brookville Road (Lyttonsville) Purple Line Station Area Sector Plan. Work will continue in FY12 on the Glenmont Sector Plan and the East County Science Center Master Plan.

A number of plans will continue to be deferred due to reduced staffing.

Neighborhood Outreach and Planning
The work program contains the Neighborhood Outreach and Planning effort, which responds to the need for quicker and more agile master planning. This effort will address community issues that do not rise to the level of a complete master/sector plan because issues are confined to a specific neighborhood (e.g., very limited geography), and/or the concerns are limited and do not require examining the full range of topics normally covered in a master plan. The FY12 work program includes finalizing the Burtonsville Neighborhood Plan and has the capacity to add one other neighborhood plan.

Zoning Code Rewrite
The Department will continue the Zoning Code Rewrite. Activities for FY12 include: creating a consolidated public review draft after all sections of the zoning code draft have been reviewed by staff, the Zoning Advisory Panel and the Council's Zoning Text Amendment Advisors; evaluating comments and modifying text if necessary; and introducing the draft in several large community forums around the County.

Development Review Process
With fewer resources, simplifying the Department's development application processes becomes more critical. Staff is working on designing new or modified development review processes that will improve service delivery and efficiency. Implementing the Project.Dox electronic plan submission and review software will continue, including a roll out to county agencies involved in reviewing development applications.

The Department is responsible for the *Forest Conservation Law* (Chapter 22A) and regulations. Regulated activities include natural resource inventory and forest stand delineations, forest conservation exemptions, forest conservation plans, and plans to save trees, as well as other tools to ensure full compliance with the law.

Public Access

The Planning Department provides the County with an important asset—information. Public access to information is available through the Website, in print and electronic formats, and through walk-in and phone-in services. Priorities for FY12 include:

- Implement an integrated Hansen (web based application tracking) and ProjectDox (on-line application intake) framework.
- Develop web based GIS tools designed to expose the agency's development pipeline, master plan staging process, and other extended planning information and analytics to County agencies, the land development community, and to the rest of the public.
- Continued address, parcel, and other County GIS base layer development derivative of/integrate with the application intake and land use monitoring functions.
- Enhance the County's land use forecasting model to better incorporate information from our existing development pipeline, newly proposed Master Plans, the new 2010 Census, and newly available economic datasets and models.
- Regular analysis and publications that give policy makers insight of the demographic and land use trends that shape the County.

Central Administrative Services (CAS)

The Department of Human Resources and Management, the Finance Department and the Legal Department were restructured to deliver mandatory services with significantly reduced resources. Programs impacted include: recruitment, records management, employee and labor relations, organizational development, information technology, accounting, auditing and legal services related to land use. The CAS Departments are focusing on core services while meeting increased customer needs.

In FY12, work priorities are centered on responsive customer service, improved governance and cost containment.

Responsive Customer Service

- Implement priority CAS Study recommendations.
- Continue the Enterprise Resource Planning System (ERP) project (corporate financial system) to more efficiently and effectively deliver services by CAS and to provide improved information access and system integration for operating departments.
- Continue to reallocate existing resources and adjust processes to mitigate on-going impact of positions eliminated/downgraded in FY11 on the delivery of core services.

Improved Governance

- Implement the new governance model for the Chief Information Officer (CIO) unit under which the CIO reports directly to the Executive Committee for Commission-wide focus and more effective strategic planning and coordination of IT projects.
- Implement the new governance model for the Internal Audit function whereby the Audit Chief reports to the Chair and Vice Chair with additional emphasis on the Audit Committee's role to improve the independence.
- Continue the revision of critical Commission policies and class specifications.

Cost Containment

- Study and implement Commission-wide strategies to slow the growth of fringe benefit costs.
- Lead collective bargaining negotiations with both unions.
- Streamline the records management program.

BUDGET SUMMARY

FY12 Proposed Budget Excluding Reserves

	Budget FY10	Budget FY11	Proposed FY12	FY11-12 % Chg	FY10-12 % Chg
Adm Fund - Operating					
Commissioners	1,208,400	1,022,660	1,136,400	11.1%	-6.0%
Planning	18,681,800	16,055,880	17,217,300	7.2%	-7.8%
DHRM	2,516,550	1,968,900	2,090,550	6.2%	-16.9%
Finance	4,021,900	3,174,450	3,322,600	4.7%	-17.4%
Legal	1,292,050	1,038,850	1,121,600	8.0%	-13.2%
Internal Audit Division	-	-	213,050	100.0%	100.0%
Merit System Board	56,300	47,650	66,750	40.1%	18.6%
CAS Support Services	-	444,700	508,800	14.4%	100.0%
CAS Subtotal	7,886,800	6,674,550	7,323,350	9.7%	-7.1%
Admin. Fund - Operating	27,777,000	23,753,090	25,677,050	8.1%	-7.6%
Admin. Fund - Non-Departmental (OPEB Prefunding)	-	-	831,750	100.0%	100.0%
Admin. Fund Total	**27,777,000**	**23,753,090**	**26,508,800**	**11.6%**	**-4.6%**
Park Fund - Operating	79,444,100	69,450,080	76,444,700	10.1%	-3.8%
Park Fund - Debt Service	4,304,400	4,307,800	4,867,900	13.0%	13.1%
Park Fund - NonDepartmental (OPEB Prefunding)	-	-	1,692,200	100.0%	100.0%
Park Fund Total	**83,748,500**	**73,757,880**	**83,004,800**	**12.5%**	**-0.9%**
ALA Debt Service Fund	649,600	631,700	320,900	-49.2%	-50.6%
Tax-Supported Fund Total	**112,175,100**	**98,142,670**	**109,834,500**	**11.9%**	**-2.1%**
Enterprise Fund	10,374,800	9,178,600	9,622,300	4.8%	-7.3%
Property Management Fund	1,026,700	1,067,000	938,000	-12.1%	-8.6%
Special Revenue Fund	5,268,400	5,959,400	5,670,140	-4.9%	7.6%
Total	**128,845,000**	**114,347,670**	**126,064,940**	**10.2%**	**-2.2%**
Tax-Supported Fund Total W/O OPEB Prefunding	**112,175,100**	**98,142,670**	**107,310,550**	**9.3%**	**-4.3%**
Total W/O OPEB Prefunding	**128,845,000**	**114,347,670**	**123,393,790**	**7.9%**	**-4.2%**

The proposal to set the FY12 budget higher than the heavily-reduced FY11 budget – but at a level that is still below FY10 – is attributable to non-controllable factors. The table below presents the Commission's proposal for changes in the Tax-supported Funds by item, shown with a comparison to FY11 and FY10.

(28)

	OPEB Prefunding	Pension	COLA & Merit (Ratified Contract)	Merit (Other Employees)	No Furloughs	Debt Service	OBI	Other	Total Change (FY11-12)	Total Change (FY10-12)
Admin. Fund	831,750	1,063,700	43,500	246,300	569,600	-	-	860	**2,755,710**	**(1,268,200)**
	3.5%	**4.5%**	**0.2%**	**1.0%**	**2.4%**	**0.0%**	**0.0%**	**0.0%**	**11.6%**	**-4.6%**
Park Fund	1,692,200	3,455,600	745,000	360,000	1,425,000	560,100	799,000	210,020	**9,246,920**	**(743,700)**
	2.3%	**4.7%**	**1.0%**	**0.5%**	**1.9%**	**0.8%**	**1.1%**	**0.3%**	**12.5%**	**-0.9%**
ALA	-	-	-	-	-	(310,800)	-	-	**(310,800)**	**(328,700)**
	0.0%	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**-49.2%**	**0.0%**	**0.0%**	**-49.2%**	**-50.6%**
Total	2,523,950	4,519,300	788,500	606,300	1,994,600	249,300	799,000	210,880	**11,691,830**	**(2,340,600)**
	2.6%	**4.6%**	**0.8%**	**0.6%**	**2.0%**	**0.3%**	**0.8%**	**0.2%**	**11.9%**	**-2.1%**

All departments' FY12 proposed budgets are significantly lower than their FY10 budget level: Commissioner's Office: -6%, Planning: -7.8%, CAS: -7.1%, and Parks operating: -3.8%.

Department of Parks

The FY12 Proposed Budget for the Department of Parks is $97.7 million. This includes the Park Fund, the Property Management Fund, the Enterprise Fund, and the Park portion of the Special Revenue Fund.

The FY12 Proposed Park Fund Budget, excluding reserves, is $83.0 million or 12.5% above the FY11 Adopted Budget. Without prefunding OPEB and the unfunded obligations impacting the operating budget, the growth would have been 8.9%. This level is well below the level needed to address the backlog of maintenance requirements. The proposed staffing level is 641 work years, net of a 5.0% salary lapse assessment of 33.5 work years.

The adopted budgets for the past several years have been significantly below the requested amount with the FY11 adopted budget being the most dramatic cut at 16.5% below the budget proposal. To meet the appropriated budget amounts, service reductions were taken in the last three fiscal years. In addition to the reduced budget levels, the Department also was required to meet mandatory savings plans each year further compromising services. In FY11, after reducing non-personnel costs to the bare bone, the Department underwent a major restructuring eliminating 2 of 12 divisions, abolishing 63 positions, eliminating most of the funding for seasonal staffing, and furloughing staff to meet the budget reductions. During this time, the Department of Parks was also asked to staff several legislatively mandated task groups as well as provide oversight on Inter County Connector (ICC) and other mitigation projects.

Staffing levels for Montgomery Parks are almost 11% lower than a decade ago, while the acreage to maintain has increased close to 11% during the same period. The maintenance backlog – already estimated to be in the millions of dollars – continues to grow, while the Department's capacity to respond to service requests and maintain established service levels continues to decline. Park acreage now represents more than 11% of the County's landmass. Montgomery Parks has received no funding or staffing for the new parks and amenities that came on line through the Capital Improvements Program (CIP) or from developer built parks for FY10 or FY11.

The current level of care can be best described as "Fair or Managed Care". The optimum level of care for a quality park system should be at "Good or Comprehensive Stewardship to Showpiece". If the park system is forced to sustain deeper cuts, the care will be reduced to

"Poor or Reactive Management/Crisis Response". The longer the maintenance is deferred, the longer it will take to reverse the trend back to a level needed to sustain a quality park system.

Continuing to defer required maintenance will eventually cause degradation of the assets. Regular maintenance will no longer be sufficient to sustain some of the parks and amenities. Ultimately, many park repairs will cost more in terms of capital improvements. In addition, federal mandates, such as the National Pollutant Discharge Eliminating System (NPDES) permit requirement and the Americans with Disabilities Act (ADA) standards and requirements will continue to draw resources away from other priority projects. The Department will attempt to continue addressing critical maintenance deficiencies and prioritize accordingly to keep the parks safe, accessible, and protected.

The Property Management Fund is proposed at $938,000 which is 12.1% lower than FY11 due to a reduction in park house inventory. The Department is renegotiating all lease agreements as the term expires in the effort to reset rent at the current fair market value of the properties based on real estate comparables. However, this fund still administers leases and performs property management functions for many Park properties that do not generate fair market revenue. The Department makes every attempt to repurpose properties and to place them in a lease situation at fair market value.

The Enterprise Fund is proposed at $9,622,300, a 3.7% increase over FY11 plus a 1.1% technical adjustment by including $100,000 CIP transfer in total appropriations. The Enterprise facilities are revenue producing facilities with funding generated through user fees and other non-tax supported sources. The increase is primarily due to filling two key positions in the Administrative Office, increases in retirement, fringe benefits, and OPEB, as well as a new chargeback to the Property Management Office for administration of leases and contracts. The FY12 Proposed Revenue Budget for the Enterprise Fund is $9,774,100, only $64,000 or 0.7% lower than FY11 budget. Despite the expenditure increases and slight revenue decrease, the Fund is projected to operate at a profit in FY12 without a transfer from the tax-supported Park Fund.

The Special Revenue Funds are used to account for proceeds from revenue sources that are earmarked for very specific purposes. The Park's portion of Special Revenue Funds expenditures is proposed at $1,764,400 or a $17,000 increase over FY11.

Planning Department

The FY12 Proposed Budget for the Planning Department, including COLAs per ratified contract, merit increases, Special Revenue Fund transfer and $150,000 in grants, is $17.2 million, an increase of $1.2 million or 7.2%. OPEB prefunding is listed separately in the Non-Departmental account in the Administration Fund and not reflected in the Department's budget. The proposed staffing level in the Administration Fund is 110.30 work years, 32.62 lower than the original FY11 budget, and the same as the FY11 restated work years based on the reorganization plan submitted to the County Council. The budget includes a lapse assessment of 4.5%. With only critical exceptions, vacancies in the authorized work force will not be filled.

While the majority of the Planning Department's budget is funded through the tax-supported Administration Fund, there are also revenues achieved through charges for services, fees for materials and through established Special Revenue Funds. The largest of the Special Revenue Funds is for Development Review, a fee recovery fund to accommodate expenditures related to development applications. In the past three fiscal years, the Development Review Special Revenue Fund has required a transfer from the Administration Fund. For FY12, we estimate that this fund will generate $1.8 million in application fees, and we still need a transfer of $1,528,000 from the Administration Fund, the same amount as in FY11.

Despite prudent fiscal planning and actions over the last three years, the adopted FY11 budget reduced the Department to a critical funding level. The Department's staffing level is 20% below FY10. Faced with an approved budget below the FY06 funding level, the Department could no longer avoid Reduction in Force in FY11, resulting in an authorized position count below the FY98 level. In response, the Department underwent a major restructuring.

Commissioners' Office

The FY12 Proposed Budget for the Commissioners' Office is $1,136,400, an increase of 11.1% from the FY11 budget. OPEB prefunding is listed separately in the Non-Departmental account in the Administration Fund and not reflected in the Department's budget. Proposed work years remain unchanged from the FY11 budgeted level at 9.5. The budget increases are primarily attributable to compensation adjustments and fringe benefit cost increases. In FY11 the Commissioners' Office absorbed a 15.4% reduction, mainly by freezing positions and converting one position from full-time to part time.

Central Administrative Services (CAS)

The FY12 Proposed Budget for CAS departments in Montgomery County is $7.3 million, an increase of $648,800 or 9.7% over the FY11 budget. OPEB prefunding is listed separately in the Non-Departmental account in the Administration Fund and not reflected in the CAS budget. The proposed staffing level in the Administration Fund is 56.15 work years, which is 8.4 work years (13%) lower than the adopted FY11 level. In FY11, CAS departments went through a re-organization due to fiscal constraints, including abolishing several positions per County, freezing all non-critical positions, and realigning resources within each department. Workyears in the Department of Human Resources and Management (DHRM) dropped by 3.5. Its proposed staffing level in FY12, after eliminating 4 positions (through abolishing or shifting out) and freezing 1.75 work years in Montgomery County, is 27.4% lower than its previous full capacity in Montgomery County. Finance work years declined by 3.5. Finance abolished 1 position per county, froze 1 position continuously per County, and also transferred 3 positions out of the Department (due to new governance models for the CIO and Internal Audit units). The Legal Department's work years dropped by 2.9, after reduction-in-force and freezing positions.

In FY11, CAS departments' adopted budget represented a 15.4% decrease from the FY10 budget. The significant decrease was achieved largely through implementing a retirement incentive program, abolishing and freezing positions, reduction-in-force in certain departments, minimizing discretionary non-personnel costs, lowering rent contributions through one-time use of Executive Office Building fund balances, and decreasing the Merit System Board budget to a level which may require other departments to offset potential cost overruns necessary to deliver mandated services. The significant cut in FY11 posed a great challenge for CAS delivery of core services and has left CAS departments with minimal capacity to absorb additional reductions. Some core services actually experienced an increase in demand, such as conducting labor negotiations; implementing labor contracts; studying, developing and implementing policies and strategies for various cost-saving options (furloughs, reduction-in-force, pension and health cost growth mitigation, etc.); providing legal and other services to departments and employees for personnel-related issues. We expect those demands to continue while the economic challenges remain.

TAX RATES AND LONG-TERM FISCAL SUSTAINABILITY

In addition to meeting the immediate FY12 challenges, the Commission is concerned about its long-term fiscal sustainability. Property taxes comprise 97.6% of revenue in the tax-supported funds. The continued decline of the actual property assessments, compounded by the three-year assessment cycle, present the Commission with a projected revenue growth significantly lagging the future economic recovery. Due to the fact that other agencies have more diversified revenue sources, this challenge is particularly severe for the Commission and calls for reversing the recent trend of significantly declining Commission property tax rates.

The County Council has reduced the Commission's tax rates in the past several years as shown in the following table.

The Commission's Property Tax Rates History (cents per $ of assessment)

		FY06	FY07	FY08	FY09	FY10	FY11	FY06-FY11
Admin.	Real	2.2	2.0	1.9	1.9	1.8	1.5	-31.8%
	Personal	5.5	5.0	4.7	4.7	4.5	3.8	-30.9%
Park	Real	6.1	5.7	5.8	5.3	5.0	4.5	-26.2%
	Personal	15.3	14.3	14.5	13.2	12.5	11.2	-26.8%
Combined	Real	8.3	7.7	7.7	7.2	6.8	6.0	-27.7%
	Personal	20.8	19.3	19.2	17.9	17.0	15.0	-27.9%

The proposed budget reflects Administration Fund tax rates restored to the FY10 level and the Park Fund tax rates restored to the FY09 level. The proposal limits the structural deficits created in recent years when fund balance was utilized for on-going expenditures. Like the County, the Commission supports a more fiscally responsible approach with current revenues almost fully funding current expenditures. The Advance Land Acquisition Fund tax rate is proposed to remain unchanged from FY11.

The real property tax base growth had slowed drastically and the countywide base is projected to decline (-2.7%) in FY12. Its future growth is projected to be slow for at least several years. While the Commission will continue to look for opportunities to reduce costs and increase revenues, without a gradual return of tax rates to past levels, we will face further deterioration of our facilities and major reductions to core services in the coming years. The Park Tax base was further eroded by the reconfiguration of the Metropolitan (Park) District boundaries, most significantly by removing land annexed by Rockville and Gaithersburg.

CONCLUSION

In summary, the Commission is making continuous efforts to maintain the current level of services with a reduced workforce by focusing on our core services, primarily through improved processes and reallocation of resources. We fully understand the current economic situation and look forward to working with the Council and Executive to incorporate adjustments where needed. We hope consideration will be given to the Commission's severe reductions in FY11, which place us at a disadvantage to absorb major reductions in FY12.

We look forward to working with you and your staffs on our FY12 budget proposal.

Sincerely,

Françoise M. Carrier

Françoise M. Carrier
Chair

Washington Suburban Sanitary Commission

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March 1, 2011

To The Honorable:

County Executives of Prince George's
and Montgomery Counties

Chair, President, and Members
of the County Councils of
Prince George's and Montgomery Counties

Valued Customers and Interested Citizens:

We are hereby transmitting the Fiscal Year 2012 (FY'12) Proposed Capital and Operating Budget Document for the Washington Suburban Sanitary Commission (WSSC). In January, a preliminary FY'12 budget was published and distributed for review by interested customers, citizens, and officials. Public Hearings were held on Wednesday, February 2, and Thursday, February 3, 2011. The FY'12 Proposed WSSC Budget is now submitted to the County Executives and Councils of Montgomery and Prince George's Counties for hearings and other procedures as directed by Section 17-202 of the Public Utilities Article, WSSD Laws, Annotated Code of Maryland, before a final budget is adopted for the next fiscal year, beginning July 1, 2011.

The Commission's commitment to our customers both now and in the future is incorporated in the programs, goals, and objectives included in this budget. This proposed budget reflects our continued focus on providing safe and reliable water, returning clean water to the environment, and doing it in an ethically and financially responsible manner.

However, we have many fiscal challenges directly related to our aging water and sewer infrastructure, Sanitary Sewer Overflow Consent Decree compliance, and cost increases at regional sewage disposal facilities where WSSC has purchased capacity. To meet these challenges an increase in our rates is required. The Proposed FY'12 combined average 8.5% rate increase will add approximately $5.05 per month to the bill of a customer who uses 210 gallons of water per day. The impact on customers' annual water and sewer bills at various consumption levels is shown on Table V (page 13).

Water and Sewer Infrastructure

The state of the WSSC's infrastructure remains a significant concern now and in the future. Water main break rates continue to increase (December 2010 was a record high month with 647 breaks or leaks) and major failures may continue to occur unless we re-invest in this critical infrastructure. We continue to work with stakeholders in both counties to develop a long-term funding solution to meet the WSSC service area's infrastructure needs. The Bi-County Working Group has met several times and is evaluating all options, both short and long-term, for infrastructure funding. In the interim, this budget includes additional rate-supported funding for the water reconstruction program, which focuses on small diameter pipe and appurtenances, as well as continuing funding for capital projects for large diameter water and large and small diameter sewer pipe rehabilitation. It also continues to include funding for inspection and repair of critical water and sewer infrastructure, including the large water main inspection program. Making decisions about funding requirements for re-investment in our water and sewer infrastructure so that we continue providing established levels of service is being accomplished through the implementation of an Asset Management Program (formerly known as the Utility Master Plan) and an Enterprise Resource Planning/Enterprise Asset Management System (this is a major initiative that unifies and automates the Commission's financial and human resources, business and production processes, and other information systems more effectively so that we can allocate and manage our assets to achieve our goals at the lowest cost) Simply put, these important initiatives will help WSSC ensure that we are doing the right projects at the right time and that infrastructure dollars are spent as wisely as possible.

WSSC is likely to continue to experience high numbers of water main breaks, especially in the winter, until substantially more water main replacement work is accomplished. As part of our continuing effort to provide the highest quality service to our customers, in the FY'11 budget, we began the process of doubling the in-house water main replacement crews and shifting the associated responsibility for replacement of up to six miles of water main from outside contractors to these crews. The in-house cost of water main replacement is the same as with outside contractors, so this shift of responsibility can be accomplished at no additional cost. This shift to in-house staff will also enable us to use our water main replacement crews for water main break repairs during periods when large numbers of water main breaks have an impact on our customers. This shift in approach toward water main replacement, which will be fully implemented in FY'12, will allow us to maintain our momentum in this program while providing better overall service to our customers at the same cost or less.

FY'12 Proposed Capital and Operating Budgets

Our Proposed Budget for FY'12 includes an 8.9% rate increase. Spending affordability limits adopted by the two County Councils specified a maximum 8.0% rate increase by the Prince George's County Council and a maximum 9.9% rate increase by the Montgomery County Council. We recognize that these are difficult economic times for many in the bi-county area, and this proposed budget is striving to balance the additional financial impact on our customers with the overall benefit to our customers of the planned operating and capital programs we believe are necessary to support water and sewer services. It should be noted that, at this time, a 2% Cost of Living adjustment (COLA) and merit increases for represented employees are included in this budget. The union items are included in accordance with the terms of the negotiated collective bargaining agreement between WSSC and the union representing certain employees. The combination of these items has a 0.14% effect on the rate increase.

Comparative Expenditures by Fund

	FY'11 Approved	FY'12 Proposed	FY'12 Over / (Under) FY'11	% Change
Capital Funds				
Water Supply	$181,815,000	$198,844,000	$17,029,000	9.4%
Sewage Disposal	276,524,000	332,424,000	55,900,000	20.2%
General Construction	36,361,000	34,654,000	(1,707,000)	(4.7%)
Total Capital	494,700,000	565,922,000	71,222,000	14.4%
Operating Funds				
Water Operating	243,455,000	251,595,000	8,140,000	3.3%
Sewer Operating	300,920,000	323,390,000	22,470,000	7.5%
Interest & Sinking	61,175,000	51,160,000	(10,015,000)	(16.4%)
Total Operating	605,550,000	626,145,000	20,595,000	3.4%
GRAND TOTAL	$1,100,250,000	$1,192,067,000	$91,817,000	8.3%

The FY'12 Proposed Capital Budget of $565.9 million represents an increase of $71.2 million (14.4%) from the FY'11 Approved Budget. The increase is primarily attributable to the Blue Plains Wastewater Treatment Plant Digester and Enhanced Nutrient Removal projects ramping up construction work, the Broad Creek Wastewater Pumping Station Augmentation project moving into construction, and planned increases in the Large Diameter Water Pipe Rehabilitation Program project.

In summary, the FY'12 estimated expenditures for all operating and capital funds total $1.2 billion or $91.8 million (8.3%) more than the FY'11 Approved Budget. The FY'12 Proposed Operating Budget of $626.1 million represents an increase of $20.6 million (3.4%) from the FY'11 Approved Operating Budget. The increase in the Operating Funds is driven by many factors, including cost increases at regional sewage disposal facilities; Sanitary Sewer Overflow Consent Decree compliance including increases in large diameter sewer main inspection and chemical root control; debt service costs; and increases in the water main corrosion monitoring program.

The proposed budget provides for:

- Funding the first year of the FYs 2012-2017 Capital Improvements Program as amended by mid-cycle update;
- Increased funding for the Water Reconstruction Program;
- Complying with the Sanitary Sewer Overflow Consent Order.
- Inspecting and monitoring our large diameter water main transmission system;
- Promptly paying $235.9 million in debt service on $1.7 billion in outstanding debt to WSSC bondholders;
- Meeting or surpassing all federal and state water and wastewater quality standards and permit requirements;
- Keeping maintenance service at a level consistent with the objective of arriving at the site of a customer's emergency maintenance situation within 2 hours of receiving the complaint and restoring service within 24 hours of a service interruption;
- Paying the WSSC's share of the cost of operating the District of Columbia Water and Sewer Authority's Blue Plains Wastewater Treatment Plant;
- Reinstatement of the unexplained high bill adjustment for those customers who experience an inexplicably high water and sewer bill;
- Funding for a 2% cost of living adjustment and merit increases for represented employees;
- Operating and maintaining a system of 3 reservoirs impounding 14 billion gallons of water, 2 water filtration plants, 7 wastewater treatment plants, 5,500 miles of water main, and 5,400 miles of sewer main 24 hours a day, 7 days a week;
- Continuing to increase the operating reserve from 5% to 10% of water and sewer rate revenues;
- Funding the fourth year of the implementation of an Enterprise Resource Planning/Enterprise Asset Management System; and
- Funding the fifth year of an 8-year ramp-up to achieve full funding of the annual required contribution for non-retirement post-employment benefits based on Government Accounting Standards Board Statement No. 45;

In addition to reviewing expenses and revenues for water and sewer services, we have analyzed the cost and current fee levels for other WSSC services. Based upon these analyses, some new fees and adjustments to current fees are recommended in Table VIII (page 16).

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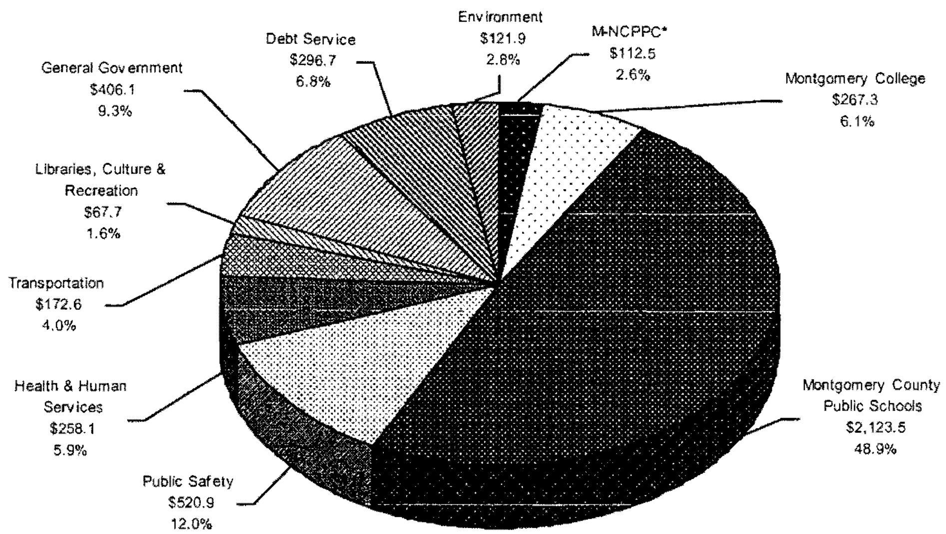
Budget Review Process

The Proposed Budget is subject to the Counties' hearings, procedures, and decisions, as provided under Section 17-202 of the Public Utilities Article, WSSD Laws, Annotated Code of Maryland, before the final budget is adopted for the fiscal year beginning July 1, 2011.

Antonio L. Jones, Chair
Washington Suburban Sanitary Commission

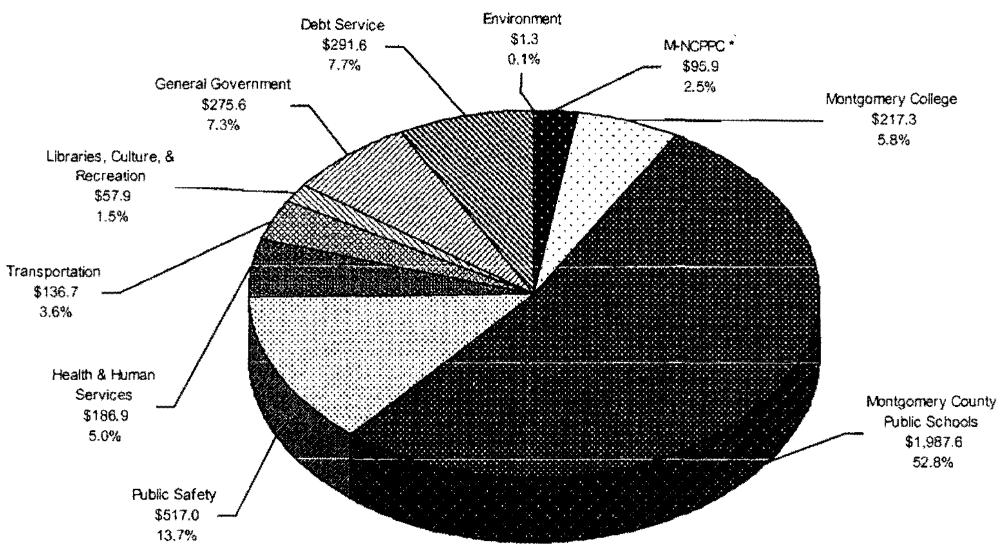
FY12 EXPENDITURES BY FUNCTION

TOTAL EXPENDITURES - $4,347.3 (million)



*Total M-NCPPC includes $5.1 million debt service.

TAX SUPPORTED EXPENDITURES - $3,767.8 (million)



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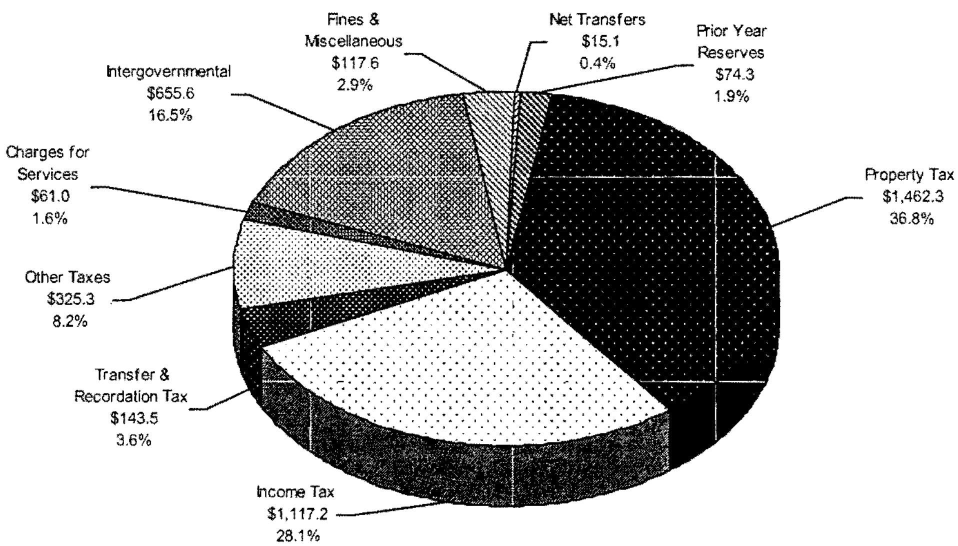
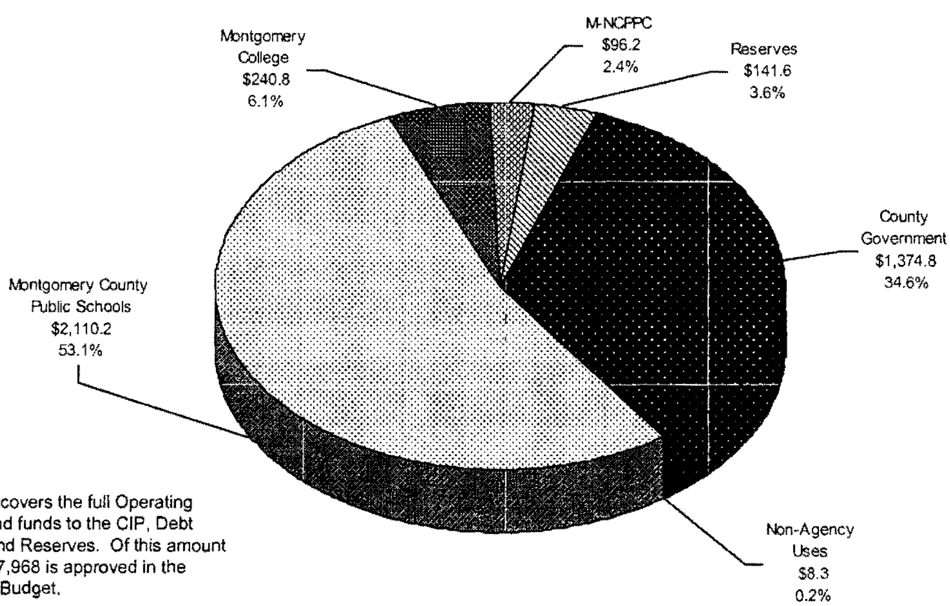
FY12 TAX SUPPORTED AGENCIES AND FUNDS

WHERE THE MONEY COMES FROM
TOTAL APPROVED RESOURCES - $3,971.9 (million)



WHERE THE MONEY GOES *
TOTAL APPROVED USES OF FUNDS - $3,971.9 (million)



*This total covers the full Operating Budget, and funds to the CIP, Debt Service, and Reserves. Of this amount $3,767,777,968 is approved in the Operating Budget.

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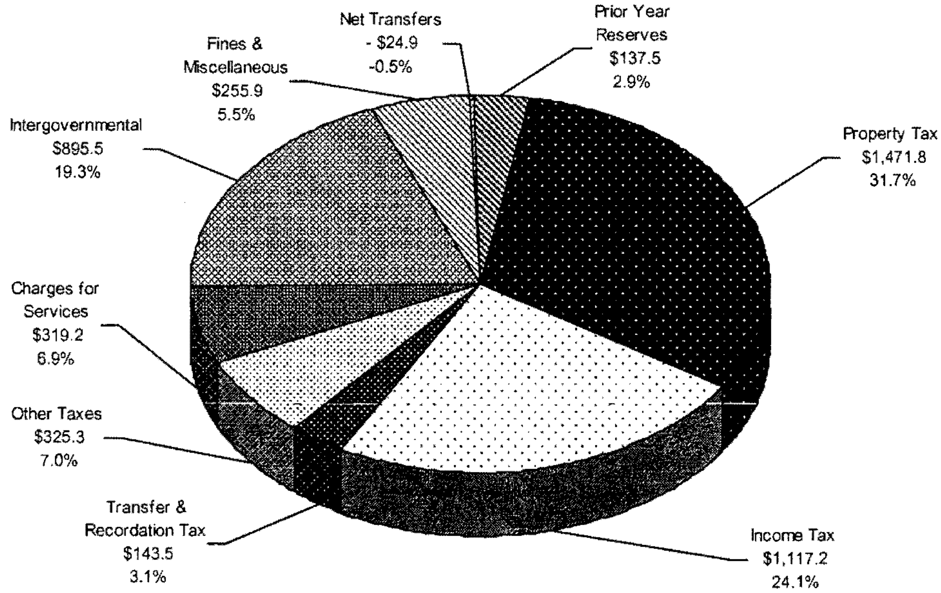
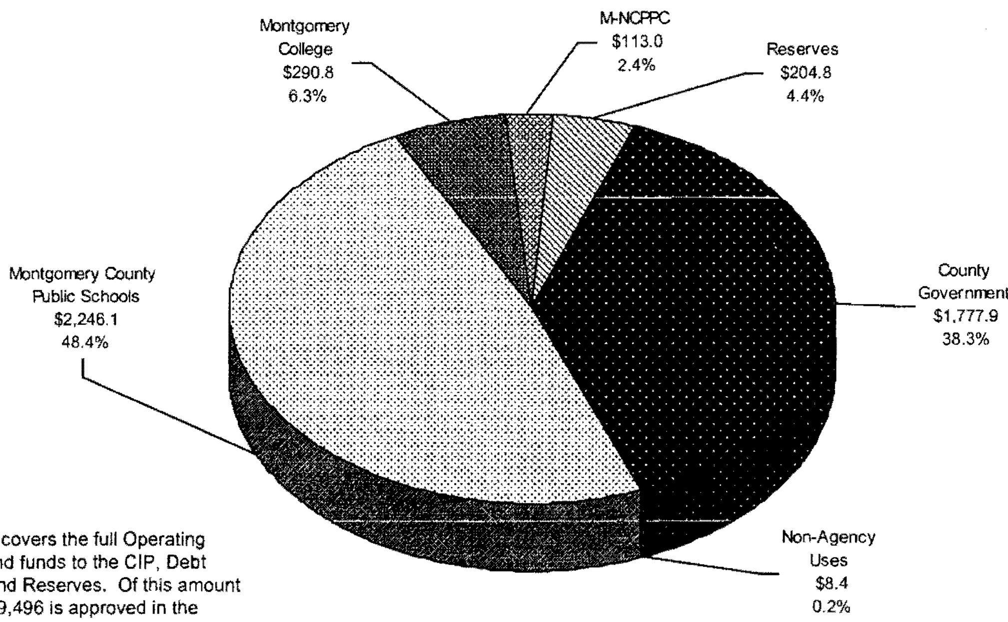
FY12 ALL AGENCIES / ALL FUNDS

WHERE THE MONEY COMES FROM
TOTAL APPROVED RESOURCES - $4,641.0 (million)



WHERE THE MONEY GOES *
TOTAL APPROVED USES OF FUNDS - $4,641.0 (million)



*This total covers the full Operating Budget, and funds to the CIP, Debt Service, and Reserves. Of this amount $4,347,309,496 is approved in the Operating Budget.

4H

SPENDING AFFORDABILITY COMPARISON						
(Dollars in Millions)						
A	B	C	D	E	F	G
CATEGORY	FY11 CC Approved 5-27-10	FY11 Estimate 3-15-11	FY12 CC SAG 2-8-11	FY12 CE Rec 3-15-11	FY12 % Chg Rec / App	FY12 $ Chg Rec / App
Property Tax	1,450.1	1,430.0		1,462.2	0.8%	12.1
Income Tax	1,060.7	1,043.7		1,117.2	5.3%	56.6
Transfer/Recordation Tax	139.9	134.8		143.5	2.6%	3.6
Other Tax	313.2	316.4		325.3	3.8%	12.0
General State/Fed/Other Aid	614.3	582.5		655.6	6.7%	41.2
All Other Revenue	200.9	172.9		178.9	-11.0%	(22.1)
Revenues	**3,779.2**	**3,680.3**		**3,882.7**	**2.7%**	**103.5**
Net Transfers In (Out)	41.7	48.9		38.9	-6.9%	(2.9)
Set Aside: Potential Supplementals	0.0	(31.9)		0.0	n/a	0.0
Set Aside: Other Claims	(0.3)	(0.3)		(0.2)	-20.0%	0.1
Beginning Reserve: Total	90.1	117.7		168.4	86.9%	78.3
Revenue Stabilization Fund	60.4	74.9		94.1	55.8%	33.7
Reserve: Designated	0.0	0.0		0.0	n/a	0.0
Reserve: Undesignated	29.7	42.8		74.3	150.1%	44.6
TOTAL RESOURCES	**3,910.8**	**3,814.8**		**4,089.8**	**4.6%**	**179.0**
APPROPRIATIONS						
Capital Budget:						
CIP Current Revenue	(23.8)	(25.6)	(34.6)	(30.6)	28.7%	(6.8)
CIP PAYGO	0.0	0.0	(32.0)	(32.0)	n/a	(32.0)
CIP PAYGO Rec Tax Undesignated	0.0	0.0	0.0	0.0	0.0%	0.0
Operating Budget:						
MCPS	(1,919.8)	(1,889.6)	(1,863.9)	(1,987.6)	3.5%	(67.8)
College, Total	(215.8)	(208.6)		(217.3)	0.7%	(1.5)
Less College Tuition	76.7	76.5		80.5	4.8%	3.7
College, Net	(139.0)	(132.1)	(135.0)	(136.8)	-1.6%	2.2
County Government	(1,163.6)	(1,166.6)	(1,129.7)	(1,175.5)	1.0%	(11.9)
M-NCPPC	(92.7)	(92.2)	(90.0)	(90.7)	-2.2%	2.0
Retiree Health Insurance Prefunding	0.0	0.0	(83.6)	0.0	0.0%	0.0
Other: (Unallocated) / GAP	0.0	0.0		0.0	n/a	0.0
Total Operating Budget:	**(3,391.8)**	**(3,357.0)**		**(3,471.0)**	**2.3%**	**(79.2)**
Debt Service:						
All County Debt Service	(236.1)	(236.1)	(265.7)	(262.1)	11.0%	(26.0)
M-NCPPC Debt Service	(4.9)	(4.9)	(4.5)	(5.2)	5.0%	(0.2)
MCG Long Term Leases (b)	(23.0)	(22.8)	(25.1)	(29.5)	28.4%	(6.5)
TOTAL APPROPRIATIONS (incl. Capital, Operating & Debt Service)	**(3,679.6)**	**(3,646.4)**	**(3,664.1)**	**(3,830.4)**	**4.1%**	**(150.7)**
Aggregate Operating Budget (excludes College tuition)	**(3,602.9)**	**(3,569.9)**	**(3,664.1)**	**(3,749.9)**	**4.1%**	**(147.0)**
Revenue Stabilization Fund (new $s)	(33.9)	(19.2)		(24.0)	-29.4%	10.0
Ending Reserve: Total	**231.2**	**168.4**		**259.4**	**12.2%**	**28.2**
Revenue Stabilization Fund	**94.3**	**94.1**		**118.1**	**25.1%**	**23.7**
Ending Reserve: Designated	**0.0**	**0.0**		**0.0**	**n/a**	**0.0**
Ending Reserve: Undesignated	**136.8**	**74.3**		**141.4**	**3.3%**	**4.5**
Maximum AOB without 6 votes (Prior Year AOB + inflation as shown)	**(3,831.7)** **0.60%**	**n/a**		**(3,689.4)** **2.40%**		

a) Based on latest revenue and expenditure estimates as prepared by Department of Finance and OMB.
b) Long term leases of Montgomery County Government are considered equivalent to debt service.

BUDGET SUMMARY BY AGENCY

($ In Millions)

A FISCAL YEAR	B TAX SUPPORTED	C GRANT SUPPORTED	D SELF SUPPORTED	E GRAND TOTAL
MONTGOMERY COUNTY GOVERNMENT				
FY11 Approved	1,163.6	113.0	247.9	1,524.4
FY12 Recommended	1,175.5	111.0	260.9	1,547.4
Percent Change From FY11	1.0%	-1.7%	5.2%	1.5%
MONTGOMERY COUNTY PUBLIC SCHOOLS				
FY11 Approved	1,919.8	128.2	56.1	2,104.2
FY12 Recommended	1,987.6	79.3	56.5	2,123.5
Percent Change From FY11	3.5%	-38.1%	0.7%	0.9%
MONTGOMERY COLLEGE				
FY11 Approved	215.8	21.0	29.1	265.9
FY12 Recommended	217.3	21.0	29.0	267.3
Percent Change From FY11	0.7%	0.0%	-0.3%	0.5%
MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION				
FY11 Approved	92.7	0.6	16.2	109.4
FY12 Recommended	90.7	0.6	16.1	107.3
Percent Change From FY11	-2.2%	0.0%	-0.5%	-1.9%
ALL AGENCIES WITHOUT DEBT SERVICE				
FY11 Approved	3,391.8	262.8	349.3	4,003.9
FY12 Recommended	3,471.0	211.9	362.5	4,045.5
Percent Change From FY11	2.3%	-19.3%	3.8%	1.0%
DEBT SERVICE: GENERAL OBLIGATION & LONG TERM LEASES				
FY11 Approved	264.0	-	2.9	266.9
FY12 Recommended	296.8	-	5.1	301.8
Percent Change From FY11	12.4%	0.0%	74.0%	13.1%
TOTAL BUDGETS				
FY11 Approved	3,655.9	262.8	352.2	4,270.8
FY12 Recommended	3,767.8	211.9	367.6	4,347.3
Percent Change From FY11	3.1%	-19.3%	4.4%	1.8%

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SCHEDULE B-3

Expenditures Detailed By Agency, Fund Type, Government Function and Department

	Actual FY10	Budget FY11	Estimated FY11	Recommended FY12	% Chg Bud/Rec
MONTGOMERY COUNTY GOVERNMENT					
GENERAL FUND TAX SUPPORTED					
General Government					
County Council	9,091,427	8,712,490	8,625,370	8,473,670	-2.7%
Board of Appeals	597,548	566,830	551,300	549,090	-3.1%
Inspector General	612,227	659,310	652,720	647,980	-1.7%
Legislative Oversight	1,199,960	1,246,420	1,177,940	1,228,860	-1.4%
Merit System Protection Board	150,283	148,530	151,990	146,760	-1.2%
People's Counsel	245,161	0	0	0	—
Zoning and Administrative Hearings	494,725	549,190	502,810	572,500	4.2%
Circuit Court	9,962,873	9,813,050	9,714,920	9,319,730	-5.0%
State's Attorney	12,468,814	12,342,270	12,150,670	11,911,280	-3.5%
County Executive	5,920,473	4,767,200	4,493,400	3,951,120	-17.1%
Board of Elections	3,376,670	7,971,680	7,891,980	4,891,160	-38.6%
Commission for Women	1,114,480	881,300	880,960	0	—
Community Engagement	0	0	0	3,155,900	—
County Attorney	5,408,704	4,552,550	4,575,120	4,039,500	-11.3%
Ethics Commission	292,881	218,250	213,210	191,430	-12.3%
Finance	8,885,844	9,596,890	9,498,370	9,652,550	0.6%
General Services	32,695,312	24,011,240	22,495,250	21,454,150	-10.6%
Human Resources	7,392,158	6,082,800	6,021,970	5,896,540	-3.1%
Human Rights	2,048,323	1,738,400	1,486,670	0	—
Intergovernmental Relations	770,338	808,960	808,960	815,480	0.8%
Management and Budget	3,582,493	3,318,790	3,276,380	3,381,500	1.9%
Public Information	1,154,392	4,960,350	4,910,750	4,748,650	-4.3%
Regional Services Centers	3,362,453	2,699,740	2,645,740	0	—
Technology Services	27,683,734	26,370,280	26,509,350	25,649,440	-2.7%
Total General Government	***138,511,273***	***132,016,520***	***129,235,830***	***120,677,290***	***-8.6%***
Public Safety					
Consumer Protection	2,376,469	2,079,200	1,989,830	1,948,320	-6.3%
Correction and Rehabilitation	65,666,060	61,806,240	62,928,100	61,187,930	-1.0%
Emergency Management and Homeland Security	786,253	1,333,090	1,298,970	1,247,900	-6.4%
Police	224,309,659	230,280,040	232,186,840	231,537,940	0.5%
Sheriff	20,254,518	19,484,030	19,685,340	19,747,550	1.4%
Total Public Safety	***313,392,959***	***314,982,600***	***318,089,080***	***315,669,640***	***0.2%***
Transportation					
Transportation	93,937,154	35,464,960	34,698,590	34,282,740	-3.3%
Health and Human Services					
Health and Human Services	181,834,191	177,832,030	174,843,070	169,118,080	-4.9%
Libraries, Culture, and Recreation					
Public Libraries	35,382,167	28,851,080	29,075,780	26,019,940	-9.8%
Community Development and Housing					
Economic Development	7,199,510	6,285,150	6,243,980	5,840,310	-7.1%
Housing and Community Affairs	4,443,941	3,901,690	3,850,380	3,307,560	-15.2%
Total Community Development and Housing	***11,643,451***	***10,186,840***	***10,094,360***	***9,147,870***	***-10.2%***
Environment					
Environmental Protection	2,664,608	1,947,210	1,907,890	1,319,760	-32.2%
Other County Government Functions					
Non-Departmental Accounts	107,775,160	112,999,840	114,228,020	152,430,370	34.9%
Utilities	25,724,051	28,630,440	28,630,440	28,426,380	-0.7%
Total Other County Government Functions	***133,499,211***	***141,630,280***	***142,858,460***	***180,856,750***	***27.7%***
TOTAL GENERAL FUND TAX SUPPORTED	**910,865,014**	**842,911,520**	**840,803,060**	**857,092,070**	**1.7%**
SPECIAL FUNDS TAX SUPPORTED					
General Government					
Urban Districts	7,043,969	7,437,830	7,449,020	7,399,320	-0.5%
Public Safety					
Fire and Rescue Service	192,856,427	182,148,330	185,896,740	179,140,610	-1.7%
Transportation					
Transportation	0	0	0	0	—
Transit Services	106,972,569	104,309,460	105,485,250	102,453,420	-1.8%
Total Transportation	***106,972,569***	***104,309,460***	***105,485,250***	***102,453,420***	***-1.8%***
Libraries, Culture, and Recreation					
Recreation	27,179,845	25,896,670	25,485,970	24,464,990	-5.5%
Community Development and Housing					
Economic Development Fund	1,478,209	852,440	1,528,770	4,922,280	477.4%
TOTAL SPECIAL FUNDS TAX SUPPORTED	**335,531,019**	**320,644,730**	**325,845,750**	**318,380,620**	**-0.7%**

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OFFICE OF THE COUNTY ATTORNEY

Isiah Leggett
County Executive

Marc P. Hansen
County Attorney

March 15, 2011

VIA FACSIMILE (301) 762-7390 and Mail
John Sparks, President, IAFF
Montgomery County Career Fire Fighters Ass'n., Inc.
932 Hungerford Drive, Suite 33A
Rockville, Maryland 20850-1713

VIA FACSIMILE (202) 223-8417 and Mail
Margo Pave, Esquire
Zwerdling, Paul, Kahn & Wolly, P.C.
1025 Connecticut Avenue, N.W., Suite 712
Washington, D.C. 20036-8417

Re: **County Executive Authority to Submit Proposed Operating Budget**

Dear Mr. Sparks and Ms. Pave:

I am writing in response to your letters of March 9 and March 14, 2011, threatening to file prohibited practice charges if the County Executive does not include full funding in his proposed budget of the impasse-arbitrated IAFF and FOP collective bargaining agreements. As you know, the County Executive's recommended operating budget for FY12 does not include full funding for any collective bargaining agreement.

An interpretation of the collective bargaining laws that the County Executive is required to recommend full funding of collective bargaining agreements in his annual recommended operating budget would violate § 303 of the Montgomery County Charter. The County budgetary process is a legislative one, and the County Executive's submission of the annual recommended operating budget to the Council is a part of that legislative process. Thus, the County Executive's submission of the recommended operating budget is a legislative function assigned to the County Executive under Charter § 303.[1] The collective bargaining laws cannot limit this legislative function. The provisions of the Charter that require the County Council to enact collective bargaining laws for firefighters and police officers do not limit the Executive's role in proposing an operating budget.

[1] *Haub v. Montgomery County, Maryland*, 353 Md. 448 (1999) (budget is a legislative enactment); *Judy v. Schaeffer*, 331 Md. 239, 266 (1993) (Governor's budget responsibilities are "quasi-legislative in nature").

An arbitrator's decision cannot bind the county executive and county council prior to the enactment of the budget. *Maryland Classified Employees Assoc. v. Anderson*, 281 Md. 496 (1977). In *Fraternal Order of Police v. Baltimore County*, 340 Md. 157 (1995), the Maryland Court of Appeals reiterated that a charter county cannot bind itself in the exercise of legislative discretion over compensation of its public employees. The Maryland Attorney General has opined that the courts would likely invalidate a collective bargaining law that purported to limit the budgetary discretion of a county executive in the face of a fiscal emergency. 65 Op. Att'y Gen. 136, 157 (1980).

Two years ago, LRA Andrew Strongin agreed with the County and concluded that the provision in the fire collective bargaining law that purported to require the Executive to recommend full funding of the IAFF collective bargaining agreement was invalid because it conflicted with the Executive's Charter-mandated role in recommending an annual operating budget. The fact that the parties eventually settled that particular case and agreed to have LRA Strongin vacate his award does not diminish the strength or correctness of the underlying argument.

If the IAFF or the FOP file a prohibited practice charge arising out of the County Executive's recommended operating budget, the County will represent these arguments to the LRA. In addition, the County will argue that the Charter provisions purporting to require the County Council to enact collective bargaining laws for firefighters and police officers are invalid under the logic of *Wicomico County Fraternal Order of Police, Lodge 111 v. Wicomico County*, 190 Md. App. 291 (2010).

By April 1, the County Executive will transmit, as required by the collective bargaining laws, the collective bargaining agreements to the Council along with an estimate of the cost for implementing those agreements.

Very truly yours,

Marc Hansen

Marc P. Hansen
County Attorney

cc: Timothy Firestine, CAO
Joseph Beach, Director, OMB
Joseph Adler, Director, OHR
Steven Sluchansky, Labor Relations Manager, OHR

I:\KQ\LATTNE\response to FOP and IAFF.doc

MEMORANDUM

April 8, 2011

TO: Stephen B. Farber, Council Staff Director

FROM: Karen Orlansky, Director
Office of Legislative Oversight

SUBJECT: **County Executive's FY12 Recommended Budget: Overview of Proposed Changes to County Government Employees' Retirement, Health, and Life Insurance Benefits**

This memorandum responds to your request for an overview of changes in the County Executive's FY12 Recommended Operating Budget to retirement, health insurance (including medical, prescription drug, dental, and vision coverage), and life insurance benefits for County Government employees.

Part A, Policy Issues, summarizes the key policy issues and related questions raised by the County Executive's proposed changes to the retirement and health benefits of County Government employees.

Part B, Summary of County Executive's Proposals, describes the Executive's recommended changes to retirement, health, life insurance, and long-term disability benefits. It highlights changes from the status quo and provides the Executive's estimated FY12 savings associated with specific changes.

Part C, Impact on Employees, contains illustrative examples of the financial impact the Executive's recommended changes to retirement and health benefits would have on individual employees.

A. Policy Issues and Related Questions Raised by the Executive's Proposals

The Executive's proposed changes to the benefits of County Government employees raise multiple policy issues and related questions for the Council to consider as part of its budget deliberations. Staff recommends that the Council's review of the Executive's proposed changes include explicit discussion of:

- The policy issues underlying the Executive's proposals; and
- The FY12 and future year fiscal impact of the proposed changes on individual County Government employees as well as on the County Government's costs.

The Council may want to consider dividing its discussion of employee benefit changes into two phases. The first phase would address where the County should "land" with respect to the parameters of employee benefits, e.g., level of benefits, division of costs between the County and its employees. The second phase would address whether to implement the changes all at once or over a multiple year time period. (The Executive's FY12 budget assumes that all benefit changes are implemented as of July 1, 2011.)

The table on the following page contains an initial list of the underlying policy questions that staff recommends the Council consider during its review of the County Executive's budget.

POLICY ISSUES AND RELATED QUESTIONS	OBSERVATIONS ON THE CE'S PROPOSALS FOR CHANGING COUNTY GOVT. EMPLOYEES' BENEFITS
General	
1. Should employees in all County agencies be offered a comparable package of retirement and health benefits? If not, then what factors should determine how the benefits differ?	Unless similar changes to employee benefits are implemented by the other agencies, the CE's proposals (if implemented) would increase the disparity among benefit packages provided to employees across the County-funded agencies.
2. Should changes implemented in FY12 be part of a multi-year plan designed to achieve an explicitly stated policy goal, e.g., limiting benefit costs to a set percent of personnel costs; modeling County benefits after those of the federal government?	The CE states that his proposals to restructure employee benefits will reduce costs. The CE does not indicate how these changes fit into a long-term compensation policy.
3. Should there be a limit established on the increased costs of benefits shifted to employees in one year? Over time?	In FY12, under the CE's proposals, an employee will pay between \$370 and \$3,700 more for the same health insurance coverage. In addition, defined benefit plan members will be required to contribute an additional 2% of their salaries towards their pension.
4. Should a portion of the County's structural budget problem be addressed by changing the compensation package for new hires?	The CE's FY12 budget does not include any proposals for modifying either the salaries or the benefits for employees not yet hired.
Retirement/Pension Benefits	
5. When considering changes to retirement benefits, should the County seek equivalent savings from employees in the defined contribution plan, which currently costs the County substantially less than the defined benefit pension plans?	The CE's proposal would result in an annual 2% salary "loss" for all employees. Defined benefit plan members would contribute 2% more of their salary; RSP & GRIP plan members would lose a retirement account contribution equal to 2% of salary.
Health Insurance Benefits for Active Employees	
6. In total, what portion of health insurance benefit costs (medical, prescription drug, dental, and vision) should the County Government cover for its employees?	The CE's proposed changes to health insurance would reduce the overall share paid for by the County from about 80% to about 60% of the total cost in FY12.
7. Should all employees pay the same percent share of their health insurance costs? If not, should an employee's cost share vary by his/her: • Annual salary? • Level of coverage (e.g., single, family)? • Plan choice (e.g., HMO, POS)?	Under the CE's proposals, the actual cost share of health insurance paid by employees would range from 30% to 58% of the combined premium. Further, for most employees (because of the added salary-based premium), the CE's pricing results in higher cost shares paid by those enrolled in the least expensive health plans, i.e., single or HMO coverage.
8. Should the cost of health care to County Government retirees be more, less, or the same as that for active employees?	Today, most retirees pay a higher cost share than active employees. Under the CE's proposals, most active County employees would end up paying more than retirees for group insurance.

B. Summary of County Executive's Proposed Changes to Employee Benefits

The Executive proposes a series of modifications to County Government employee benefits. The table below summarizes the Executive's proposed changes and shows his estimated FY12 savings that would result from implementation of the proposal. The proposed changes, if implemented, would produce recurring savings in future years. The Executive recommends implementing all changes on July 1, 2011.

Table 1: Summary of Executive's Proposed Changes to County Government Employees' Benefits

Benefit Type	County Executive's Proposal	CE Estimated FY12 Savings
Retirement	**Pension (Defined Benefit) Plans.** Employees would contribute an additional 2% of salary towards their pensions.	$6,044,180
	Retirement Account (Defined Contribution[1]) Plan. The employer's contribution to employee retirement accounts would be reduced by 2%.	$4,860,290
Health (Medical/ Prescription/ Dental/Vision)	**Minimum 30% Cost Share.** Employees' cost share of medical, prescription drug, dental and vision insurance premiums would increase from a minimum of 20% to a minimum of 30%.	$8,229,530
	Additional Salary-Based Charge. Employees with an annual salary between $50,000 and $89,999 who enroll in a medical and/or prescription drug plan would pay an additional $910 per year. Employees with an annual salary of $90,000 and above who enroll in a medical and/or prescription plan would pay an additional $1,560 per year.	$7,418,000
Prescription Drug	**Generics.** Employees who buy a brand name drug when a generic equivalent is available would always pay the generic drug copay plus the difference between the cost of the brand name drug and its generic equivalent. Currently, this requirement is waived if a physician prescribes a brand drug and writes "dispense as written" on the prescription.	$1,200,000
	Lifestyle Drugs. The County would eliminate coverage for medications used to treat erectile dysfunction.	$400,000
	Mail-Order Copays. The copay for mail order prescriptions (up to a 90-day supply) would increase from one time to two times the copay for a 30-day supply purchased through a retail pharmacy.	$200,000
Life Insurance	**30% Cost Share and Benefit Level.** The life insurance benefit provided to all employees would be reduced from two times to one time annual salary. Employees' cost share would increase from 20% to 30% of premium.	$1,200,000
Long-Term Disability	**30% Cost Share.** Employees' cost share for long-term disability insurance would increase from 20% to 30% of premium.	$48,000

[1] In this memo, the term, "defined contribution" plan, includes both the Retirement Savings Plan (RSP) and the Guaranteed Retirement Income Plan (GRIP).

The next three pages provide further detail on the two proposed changes that would have the greatest effect on the cost of benefits to County Government employees: retirement and health insurance benefits.

1. Executive's Proposed Retirement Plan Changes

The County Government will pay $124 million (from tax supported and non-tax supported funds) for employee retirement benefits in FY11: $105 million for the defined benefit plan and $19 million for the defined contribution plan. Currently, the defined benefit and the defined contribution plans have approximately the same number of enrollees. While defined benefit plans are more generous to employees and cost the County significantly more than defined contribution plans, the Executive proposes that employees in both plan types forego identical amounts (2% of salary).

a. Defined Benefit Plans: The County Executive has proposed that all employees in a defined benefit plan contribute an additional 2% of salary annually. As shown in the table below, the impact of the Executive's proposal varies among different employee groups.

Table 2: Executive's Proposed Increases in Employee Defined Benefit Contributions

Employee Group	Current Employee Contribution (% of salary) [2]	CE Proposed Employee Contribution (% of salary)	% Increase in Employee Contribution
Non-Public Safety (hired before 10/1/94)	4%	6%	+50%
Police and Deputy Sheriff/Corrections	4.75%	6.75%	+42%
Fire & Rescue	5.5%	7.5%	+36%

b. Defined Contribution Plans: Currently, the County Government contributes 8% of salary into a retirement account for most employees in a defined contribution plan.[3] The Executive proposes reducing the employer contribution to 6% of salary, a 25% reduction in the employer's contribution. Unlike the proposed defined benefit changes, the Executive's defined contribution proposal would not reduce take home pay but would reduce the amount of money available upon retirement.

Table 3: Executive's Proposed Reduction in Annual Retirement Account Contributions

Employee Group	Current Employer Contribution (% of salary)	CE Proposed Employer Contribution (% of salary)	% Reduction in Employee Contribution
Non-Public Safety (hired after 10/1/94)	8%	6%	-25%
Non-Represented Public Safety (hired after 10/1/94)	10%	8%	-20%

[2] Employees in the ERS who earn more than the Social Security Wage Base ($106,800 in 2012) contribute a higher percentage toward their pensions for salary earned above the Social Security Wage Base.
[3] A small number of non-represented public safety employees participate in a defined contribution plan in which the employee contributes 3% of salary and the County contributes 10% of salary.

2. Executive's Proposed Health Insurance Benefit Changes

In FY11, the County Government will pay about $90 million (from tax supported and non-tax supported funds) for employee health (medical, prescription drug, dental, and vision) insurance premiums.

a. Proposed Cost Share Changes: Currently, County Government employees pay at least 20% of health benefit premiums.[4] The Executive proposes a new two-part health care pricing approach.

(1) All employees would pay at least 30% of medical, prescription drug (standard), dental, vision, life, and long-term disability insurance premiums; AND

(2) Most employees who enroll in a medical and/or prescription plan would pay an additional salary-based charge.

Table 4: Executive Recommended Changes to MCG Employee Health Benefit Cost Share

Salary Level	Percent of Workforce *	Current Minimum Employee Health Premium Contribution [4]	CE's Proposed Minimum Annual Employee Health Premium Contribution
Under $50,000	20%	20% of premium	30% of premium
$50,000 - $89,999	65%		30% of premium + $910
$90,000+	16%		30% of premium + $1,560

* Source: *Personnel Management Review*, Montgomery County Office of Human Resources, April 2011.

b. Actual Cost Share: If the Executive's proposals are implemented, employees will pay an actual cost share ranging from **30% to 58%** of the total combined premium for medical, prescription drug, dental, and vision coverage. Because the salary-based charge proposed by the Executive does not vary based on plan choice (e.g., HMO vs. POS) or level of coverage (e.g., single vs. family), employees subject to the added charge will pay a higher percent of the total premium if enrolled in a less expensive plan (e.g., single coverage, HMO plans).

Table 5: Employee Cost Share for Combined Health Insurance Premium*
Current vs. Executive's Proposal

Salary Level	% of Annual Premium Paid by Employee [5]	
	Current Range	Range Under CE's Proposal
Under $50,000	20% to 32%	30% to 37%
$50,000-$89,999		34% to 49%
$90,000+		37% to 58%

*Includes costs for medical, prescription, dental, and vision coverage using calendar year 2011 premium rates.

[4] Non-represented employees hired since 10/1/94 ("Select" plan members) pay 24% of premiums. Also, an employee who chooses the "high option" prescription plan pays an additional 8% of total health insurance premium costs.

[5] The highest employee cost share under current pricing and as proposed by the Executive reflects the cost of high option prescription coverage.

c. Cost Share Increases Translated into Dollars: The Executive's proposal will require County Government employees to pay more to retain their current health care coverage. Employees in a higher cost plan (e.g., Carefirst High Option POS) could mitigate their additional cost of health insurance by switching to a lower cost plan (e.g., Kaiser HMO).

The following table shows the dollar amount of employee health benefit cost under current practice and as proposed by the Executive. The table shows the range of increase in employee health costs if employees stay in their current choice of health and prescription drug plans. The data include costs for medical, prescription drug, dental, and vision coverage using calendar year 2011 premium rates.

Table 6: Annual Employee Health Insurance Premium Costs
Current vs. Executive's Proposal

Salary Level	Annual Employee Health Insurance Premium Costs*		
	Current Range	**Range Under CE's Proposal**	**Increase**
Under $50,000	$1,237 to $7,290	$1,855 to $8,587	$371 to $2,163
$50,000-$89,999		$2,765 to $9,497	$1,281 to $3,073
$90,000+		$3,415 to $10,147	$1,931 to $3,723

*Includes costs for medical, prescription, dental, and vision coverage using calendar year 2011 premium rates.

Currently, employees pay different costs for their health benefits based on their plan choices (e.g., HMO vs. POS, standard vs. high option) and level of coverage (e.g., single vs. family). The changes proposed by the Executive would continue price differentials based on plan choices and level of coverage, but would add an employee's annual salary as a factor that determines the actual cost share and dollar amount paid for health benefits. The final section of this memo (beginning on the following page) illustrates how the changes proposed by the County Executive would impact individual employees.

C. Impact on Employees – Illustrative Examples

This section provides five examples to illustrate the effects of the Executive's proposed retirement and health care benefits changes on five hypothetical employees at different salary levels as listed below.

Example	Job Title	Annual Salary	Salary-Based Health Care Charge Category
1	Ride On Bus Operator	$45,000	Under $50,000
2	Code Enforcement Inspector	$55,000	$50,000 - $89,999
3	Police Sergeant	$85,000	$50,000 - $89,999
4	Senior Information Technology Specialist	$95,000	$90,000 +
5	Assistant County Attorney III	$115,000	$90,000 +

The examples on the following pages show how the Executive's retirement proposal would increase employees' pension contribution costs (for defined benefit plan participants) or retirement account contributions (for defined contribution plan participants). For health care benefits, the examples illustrate the effects of the Executive's proposals on employees with either single or family coverage enrolled in a relatively low cost plan (Kaiser HMO) and enrolled in relatively high cost plans (Carefirst point of service medical combined with Caremark high option prescription).

In reviewing the examples, please note:

- All health care premium costs reflect Calendar Year 2011 rates.
- The cost changes assumes that the employees retain their current health care choices.
- Employee "actual" cost share includes combined health premium costs plus the additional salary-based charge for employees earning $50,000 or more.
- The County provides two different high option prescription plans with different premiums and copays. Employees represented by MCGEO or IAFF are offered a plan with $4 (generic) or $8 (brand) drug copays while FOP and non-represented employees are offered a plan with $5 and $10 copays.
- The examples shown on the following pages do not encompass all the possible combinations of health plan choices available to County Government employees. Table 5 of this memo (page 5) of this memo shows that if the Executive's proposed changes were implemented, employees would pay a cost share ranging from 30% to 58% of the total combined health insurance premium. The high end of this range, 58%, would apply to an employee earning $90,000 or more, who opts for single coverage in the United Healthcare HMO and the Caremark High Option prescription plan.

Example #1: Ride On Bus Operator - Annual Salary: $45,000

Executive's Proposed Retirement Changes

Annual Loss to Employee	Effect on Employee	
$900	ERS:	Additional amount deducted from salary into pension fund
	RSP/GRIP:	Reduction in annual contribution to employee's retirement account

Executive's Proposed Health Care Changes

Medical & Prescription Plan: Kaiser HMO

Single

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical Prescription Drug	$1,146	$1,718	$572
Salary-based charge	*$0*	*$0*	*$0*
Dental	$82	$123	$41
Vision	$9	$13	$4
Health Benefit Total	**$1,237**	**$1,854**	**$617**
Employee "Actual" Cost Share	20%	30%	

Family

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical Prescription Drug	$3,391	$5,087	$1,696
Salary-based charge	*$0*	*$0*	*$0*
Dental	$263	$395	$132
Vision	$21	$32	$11
Health Benefit Total	**$3,675**	**$5,514**	**$1,839**
Employee "Actual" Cost Share	20%	30%	

Medical Plan: Carefirst POS High Option / Prescription Plan: Caremark High Option 4/8

Single

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical	$1,100	$1,650	$550
Prescription Drug	$1,024	$1,170	$146
Salary-based charge	*$0*	*$0*	*$0*
Dental	$82	$123	$41
Vision	$9	$13	$4
Health Benefit Total	**$2,215**	**$2,956**	**$741**
Employee "Actual" Cost Share	27%	36%	

Family

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical	$3,204	$4,806	$1,602
Prescription Drug	$2,936	$3,355	$419
Salary-based charge	*$0*	*$0*	*$0*
Dental	$263	$395	$132
Vision	$21	$32	$11
Health Benefit Total	**$6,424**	**$8,588**	**$2,164**
Employee "Actual" Cost Share	27%	36%	

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Example #2: Code Enforcement Inspector - Annual Salary: $55,000

Executive's Proposed Retirement Changes

Annual Loss to Employee	Effect on Employee	
$1,100	ERS:	Additional amount deducted from salary into pension fund
	RSP/GRIP:	Reduction in annual contribution to employee's retirement account

Executive's Proposed Health Care Changes

Medical & Prescription Plan: Kaiser HMO

Single

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical / Prescription Drug	$1,146	$1,718	$572
Salary-based charge	*$0*	*$910*	*$910*
Dental	$82	$123	$41
Vision	$9	$13	$4
Health Benefit Total	**$1,237**	**$2,764**	**$1,527**
Employee "Actual" Cost Share	20%	45%	

Family

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical / Prescription Drug	$3,391	$5,087	$1,696
Salary-based charge	*$0*	*$910*	*$910*
Dental	$263	$395	$132
Vision	$21	$32	$11
Health Benefit Total	**$3,675**	**$6,424**	**$2,749**
Employee "Actual" Cost Share	20%	35%	

Medical Plan: Carefirst POS High Option / Prescription Plan: Caremark High Option 4/8

Single

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical	$1,100	$1,650	$550
Prescription Drug	$1,024	$1,170	$146
Salary-based charge	*$0*	*$910*	*$910*
Dental	$82	$123	$41
Vision	$9	$13	$4
Health Benefit Total	**$2,215**	**$3,866**	**$1,651**
Employee "Actual" Cost Share	27%	47%	

Family

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical	$3,204	$4,806	$1,602
Prescription Drug	$2,936	$3,355	$419
Salary-based charge	*$0*	*$910*	*$910*
Dental	$263	$395	$132
Vision	$21	$32	$11
Health Benefit Total	**$6,424**	**$9,498**	**$3,074**
Employee "Actual" Cost Share	27%	40%	

Example #3: Police Sergeant - Annual Salary: $85,000

Executive's Proposed Retirement Changes

Annual Loss to Employee	Effect on Employee	
$1,700	ERS:	Additional amount deducted from salary into pension fund
	RSP/GRIP:	Reduction in annual contribution to employee's retirement account

Executive's Proposed Health Care Changes

Medical & Prescription Plan: Kaiser HMO

Single

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical / Prescription Drug	$1,146	$1,718	$572
Salary-based charge	*$0*	*$910*	*$910*
Dental	$82	$123	$41
Vision	$9	$13	$4
Health Benefit Total	**$1,237**	**$2,764**	**$1,527**
Employee "Actual" Cost Share	20%	45%	

Family

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical / Prescription Drug	$3,391	$5,087	$1,696
Salary-based charge	*$0*	*$910*	*$910*
Dental	$263	$395	$132
Vision	$21	$32	$11
Health Benefit Total	**$3,675**	**$6,424**	**$2,749**
Employee "Actual" Cost Share	20%	35%	

Medical Plan: Carefirst POS High Option / Prescription Plan: Caremark High Option 5/10

Single

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical	$1,100	$1,650	$550
Prescription Drug	$996	$1,141	$145
Salary-based charge	*$0*	*$910*	*$910*
Dental	$82	$123	$41
Vision	$9	$13	$4
Health Benefit Total	**$2,187**	**$3,837**	**$1,650**
Employee "Actual" Cost Share	27%	47%	

Family

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical	$3,204	$4,806	$1,602
Prescription Drug	$2,855	$3,274	$419
Salary-based charge	*$0*	*$910*	*$910*
Dental	$263	$395	$132
Vision	$21	$32	$11
Health Benefit Total	**$6,343**	**$9,417**	**$3,074**
Employee "Actual" Cost Share	27%	40%	

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Example #4: Senior Information Technology Specialist - Annual Salary: $95,000

Executive's Proposed Retirement Changes

Annual Loss to Employee	Effect on Employee	
$1,900	ERS:	Additional amount deducted from salary into pension fund
	RSP/GRIP:	Reduction in annual contribution to employee's retirement account

Executive's Proposed Health Care Changes

Medical & Prescription Plan: Kaiser HMO

Single

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical / Prescription Drug	$1,375	$1,718	$343
Salary-based charge	*$0*	*$1,560*	*$1,560*
Dental	$99	$123	$24
Vision	$11	$13	$2
Health Benefit Total	**$1,485**	**$3,414**	**$1,929**
Employee "Actual" Cost Share	24%	55%	

Family

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical / Prescription Drug	$4,069	$5,087	$1,018
Salary-based charge	*$0*	*$1,560*	*$1,560*
Dental	$316	$395	$79
Vision	$25	$32	$7
Health Benefit Total	**$4,410**	**$7,074**	**$2,664**
Employee "Actual" Cost Share	24%	38%	

Medical Plan: Carefirst POS High Option / Prescription Plan: Caremark High Option 5/10

Single

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical	$1,320	$1,650	$330
Prescription Drug	$1,054	$1,141	$87
Salary-based charge	*$0*	*$1,560*	*$1,560*
Dental	$99	$123	$24
Vision	$11	$13	$2
Health Benefit Total	**$2,484**	**$4,487**	**$2,003**
Employee "Actual" Cost Share	31%	55%	

Family

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical	$3,845	$4,806	$961
Prescription Drug	$3,023	$3,274	$251
Salary-based charge	*$0*	*$1,560*	*$1,560*
Dental	$316	$395	$79
Vision	$25	$32	$7
Health Benefit Total	**$7,209**	**$10,067**	**$2,858**
Employee "Actual" Cost Share	30%	43%	

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Example #5: Assistant County Attorney III - Annual Salary: $115,000

Executive's Proposed Retirement Changes

Annual Loss to Employee	Effect on Employee	
$2,300	ERS:	Additional amount deducted from salary into pension fund
	RSP/GRIP:	Reduction in annual contribution to employee's retirement account

Executive's Proposed Health Care Changes

Medical & Prescription Plan: Kaiser HMO

Single

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical / Prescription Drug	$1,375	$1,718	$343
Salary-based charge	*$0*	*$1,560*	*$1,560*
Dental	$99	$123	$24
Vision	$11	$13	$2
Health Benefit Total	**$1,485**	**$3,414**	**$1,929**
Employee "Actual" Cost Share	24%	55%	

Family

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical / Prescription Drug	$4,069	$5,087	$1,018
Salary-based charge	*$0*	*$1,560*	*$1,560*
Dental	$316	$395	$79
Vision	$25	$32	$7
Health Benefit Total	**$4,410**	**$7,074**	**$2,664**
Employee "Actual" Cost Share	24%	38%	

Medical Plan: Carefirst POS High Option / Prescription Plan: Caremark High Option 5/10

Single

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical	$1,320	$1,650	$330
Prescription Drug	$1,054	$1,141	$87
Salary-based charge	*$0*	*$1,560*	*$1,560*
Dental	$99	$123	$24
Vision	$11	$13	$2
Health Benefit Total	**$2,484**	**$4,487**	**$2,003**
Employee "Actual" Cost Share	31%	55%	

Family

Health Benefit	Annual Cost to Employee		
	Current	CE Proposed	Increase
Medical	$3,845	$4,806	$961
Prescription Drug	$3,023	$3,274	$251
Salary-based charge	*$0*	*$1,560*	*$1,560*
Dental	$316	$395	$79
Vision	$25	$32	$7
Health Benefit Total	**$7,209**	**$10,067**	**$2,858**
Employee "Actual" Cost Share	30%	43%	

FY12 FEE AND FINE CHANGES*			
DEPARTMENT/FEE AND FINE	**FY12 REVENUE CHANGE**	**METHOD OF CHANGE**	**NOTE**
MONTGOMERY COLLEGE			
Tuition and Related Fees	3,716,000	Board of Trustees Action	Increase per semester hour rate from $107 to $110 for County residents, $219 to $225 for State residents, and $299 to $308 for non-residents.
ENVIRONMENTAL PROTECTION			
Water Quality Protection Charge	3,599,780	Council Resolution	Increase charge from $49.00 to $62.00 per equivalent residential unit (ERU) to cover increased expenditures in the Water Quality Protection Fund.
PERMITTING SERVICES			
Building Permits	472,620	Executive Regulation	Remove the cap and adjust the current commercial building fee calculation for projects with construction costs greater than $8 million. Moderately priced dwelling units are excluded from the calculation.
Use and Occupancy	108,000	Executive Regulation	With the enactment of Zoning Text Amendment 09-03, a Use & Occupancy certificate is now required for all residential new construction building permits effective April 24, 2011. A fee will be associated with this certificate effective July 1, 2011.
Stormwater Management	50,000	Executive Regulation	The existing stormwater management fees will change as a result of the recently enacted Expedited Bill 40-10, Stormwater Management Revisions. The Bill now requires the submittal, review, and approval of a new Site Development Stormwater Management Plan and the associated fees.
HEALTH AND HUMAN SERVICES			
Licenses and Permits	253,220	Executive Regulation	Health Inspection fees for: 1. Electronic Amusement Licenses; 2. Living Facilities - Environment; 3. Living Facilities - Licenses; 4. Restaurants; 5. Swimming Pools; 6. Marriage Licenses - Battered Spouses; and 7. other miscellaneous inspections.
TRANSIT SERVICES			
Ride On Monthly Pass	598,630	Council Resolution	Increase monthly pass from $30 to $45. Increase effective 7/3/2011.
DEPARTMENT OF TRANSPORTATION			
Parking Fees - Bethesda	650,000	Council Resolution	Raise Long-Term Parking Fee from $0.65 Per Hour to $0.75 Per Hour.
Parking Fees - Bethesda	700,000	Council Resolution	Charge on Saturdays in Lots and Garages.
Parking Fees - Silver Spring	700,000	Council Resolution	Raise Long-Term Parking Fee from $0.50 Per Hour to $0.60 Per Hour.
SOLID WASTE SERVICES			
Solid Waste Service Charges	1,264,000	Council Resolution	Increase single family charge per household from $209.85 to $213.76.
Solid Waste Collection Fee	-394,820	Council Resolution	Decrease single family charge per household from $74 to $70.
GRAND TOTAL	**11,717,430**		

* All changes are assumed to be effective July 1, 2011 except as noted.
Revenues above do not include implementation costs.

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MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

MEMORANDUM

OFFICE OF THE COUNCIL PRESIDENT

March 28, 2011

TO: Councilmembers

FROM: Valerie Ervin, Council President VEL

SUBJECT: Council Approach to the FY12 Recommended Operating Budget

Since March 15, you have had the opportunity to review the County Executive's Recommended FY12 Operating Budget. Based on past experience, the Council is likely to support many of these budget proposals; however, we now begin the task of making our own funding decisions. While this budget poses historic challenges, together we will do our best to provide equity among our employees, protect essential services, and treat our taxpayers fairly.

On the revenue side, we will decide what changes in fees and taxes we will support and how they should be structured. On the expenditure side, we will start with the approved FY11 budget and determine what changes should be made. Once the FY12 State budget is final, we will assess any further impacts on the County budget. We will also identify resources for Council grants to non-profit organizations that are providing assistance to individuals and families in crisis.

I suggest that we ask our analysts and Committees, as they review the base budget and proposed changes for departments and agencies, to consider what was included in the FY11 approved budget, what has been added through supplementals or reduced in the FY11 savings plans, and what changes are being proposed to existing programs. For each budget, our analysts and Committees can then assess:

- which items – either in the base or new – warrant full, reduced, or no funding in FY12 (I am advocating carefully targeted rather than across-the-board percentage cuts);
- which items may warrant future funding but require further information and analysis; and
- which items that are recommended for elimination or reduction, or that are not in the recommended budget, should be considered for funding.

All such items will be reflected in Committee recommendations to the Council and in our regular budget tracking reports. **Any Committee-proposed additions to the recommended budget will go on the Council's reconciliation list. Given the current fiscal situation, this list should consist only of those items that are top priorities for Councilmembers.** Whenever possible, items placed on the reconciliation list should be offset by Committee-recommended reductions. Committees should also focus on any additional savings, as they review the proposed budget. When the full Council takes up Committee recommendations, we will decide how those recommendations fit with the Council's overall priorities.

Please let me know if you have questions about the approach I am suggesting here. I will also be around to visit with each office to determine what your individual priorities are as we work through the budget. I look forward to working with you and your staff as we transform the Executive's recommended budget into the Council's approved budget.

c: Steve Farber, Karen Orlansky, Analysts, Confidential Aides