

**MEMORANDUM**

January 30, 2014

TO: Government Operations and Fiscal Policy Committee

FROM: Jacob Sesker, Senior Legislative Analyst *JS*

SUBJECT: **Worksession:** Spending Affordability Guidelines for the FY15 Operating Budget

**Staff Recommendations:**

1. **Set the ceiling on property tax revenues at the Charter limit with tax credits.**
2. **Set the ceiling on the Aggregate Operating Budget (AOB) at 1.80% above the FY14 AOB.**
3. **Allocate the AOB as follows:**
  - a. **Debt service \$348.6 million**
  - b. **Current revenue for capital projects \$61.1 million**
  - c. **PAYGO \$40.5 million**
  - d. **OPEB \$134.3 million**
  - e. **MCPS \$2,127.2 million**
  - f. **Montgomery College \$142.9million**
  - g. **Montgomery County Government \$1,310.2 million**
  - h. **M-NCPPC \$103.6 million**
4. **Set limits on community grants:**
  - a. **Overall limit \$6.8 million**
  - b. **Divided evenly between Council and Executive grants (\$3.4 million each)**

**Introduction**

The purpose of this worksession is to recommend spending affordability guidelines for the FY15 operating budget. On January 28<sup>th</sup>, a public hearing was held. Testimony from the Board of Education was submitted and is attached at © 20. Council action is scheduled for February 11. The deadline for the Council to adopt the guidelines is the second Tuesday in February, which falls this year on February 11.<sup>1</sup>

---

<sup>1</sup> Before FY10, the Council was required to set the guidelines in December and could amend the guidelines in April. On September 16, 2008, the Council unanimously approved Bill 28-89, which made significant changes to the Council's process related to the guidelines. To wit, Bill 28-89 specified that the Council must set the guidelines no later than the second Tuesday in February and that the guidelines could not thereafter be amended.

Under the County Charter and Code,<sup>2</sup> the Council must set three spending affordability guidelines for the FY15 operating budget:

1. Ceiling on property tax revenues
2. Ceiling on the aggregate operating budget (AOB)
3. Allocation of that AOB

In recent years, Council practice has been to concurrently establish a spending target for community grants as part of the spending affordability process. That portion of this memo was prepared by Joan Schaffer, Council Grants Manager.

Under §20-61 of the Code, the Council should consider several factors when adopting its guidelines. Those factors are the condition of the economy, the level of economic activity in the County, trends in personal income, and the impact of economic and population growth on projected revenues.<sup>3</sup>

### **Economic factors**

Unemployment in Montgomery County fell to 4.5% in November of 2013, below the calendar year 2013 average rate of 5.1% but still well above the 2.6% unemployment rate in 2007. In fact, the County's unemployment rate had not reached 4.0% in the past two decades. Resident employment grew at a rate that exceeded the rate of population growth last year.

Total personal income increased 1.8% in calendar year 2013, below Finance's February 2013 projection of 2.6%. Wage and salary income overall increased by 2.2%, which was well below Finance's February 2013 projection of 3.2% used in preparing the FY14 Operating Budget. Non-wage and salary income fared better, but gains from dividends and capital gains are spread less evenly throughout the County's population. Finance revised downward projections for total personal income, wage and salary income, and per capita personal income not just for FY15 but also for subsequent years. See ©22.

OMB Director Jennifer Hughes, in her transmittal of the December Fiscal Plan Update, urged "continued restraint in the County's spending plans." See © 8. While the County's November income tax distribution was strong, most of the increase in income tax revenue reflected increases in one-time elements of the distribution, such as extended filings, estimated payments, and reconciliations.

**Staff urges caution and restraint.** While population and job growth trends remain positive, underlying economic trends do not indicate that recent increases in total personal income are broad-based. Furthermore, many potential signs of strength remain uncertain. For example, capital gains income could be negatively affected by the tapering of the Federal Reserve's Quantitative Easing, which had buoyed the recent surge in the S&P 500. The tapering of Quantitative Easing could lead to an

---

<sup>2</sup> On November 6, 1990, voters amended the Charter to add to §305 the requirement that "The Council shall annually adopt spending affordability guidelines for the capital and operating budgets, including guidelines for the aggregate capital and aggregate operating budgets. The Council shall by law establish the process and criteria for adopting spending affordability guidelines." The resulting law is in §20-59 through §20-63 of the Code.

<sup>3</sup> Under §20-61(b), the Finance Director must, "each January, and at other times as necessary, consult with independent experts, who need not be County residents, from major sectors of the County economy. The experts should advise on trends in economic activity in the County and how activity in each sector of the economy may affect County revenues. The Director must report the experts' views, if any are received, to the Executive and Council." In recent years, the Business Advisory Panel has met in February and the results of that meeting have been transmitted to the Council in March. This practice should change starting with FY16 in order to ensure future compliance with §20-61(b).

increase in interest rates and inflation, resulting in downward pressure on disposable income and housing prices.

### **Spending Affordability Guidelines for the FY15 Operating Budget**

#### **1. Ceiling on property tax revenue.**

##### ***(a) Background***

Under §305 of the Charter, nine affirmative votes are required to set the property tax rates in May/June if the amount of property tax revenue from existing real property exceeds the previous year's tax by more than the rate of inflation. "Charter limit" is a term that is frequently used to mean the maximum amount of property tax revenue the Council can approve without requiring nine affirmative votes.

The limit applies only to property tax revenue from existing real property. "This limit does not apply to revenue from: (1) newly constructed property, (2) newly rezoned property, (3) property that, because of a change in state law, is assessed differently than it was assessed in the previous tax year, (4) property that has undergone a change in use, and (5) any development district tax used to fund capital improvement projects." Finally, the limit applies to revenue from taxes on real property only and does not apply to revenue from taxes on personal property.

Note that it is the amount of real property tax revenue from existing real property, not the property tax rate, which cannot increase by more than the rate of inflation. Interestingly, there is no single "Charter limit" number—the maximum amount of property tax revenue that can be raised without affirmative votes of nine Councilmembers varies depending upon the specific combination of rate increases and credits that the Council chooses during its deliberations in May.<sup>4</sup>

##### ***(b) Recommendation***

**Staff recommends setting property tax revenue at the Charter limit, consistent with the approved fiscal plan.** The Council adopted the County's Tax Supported Fiscal Plan Summary for the FY13-18 Public Services Program (Resolution 17-800) on June 25, 2013. *See* C2-5. For FY14, the Council set property tax revenue at the Charter limit with a \$692 income tax offset credit. The approved fiscal plan assumes property tax revenue at the Charter limit in FY15-20.

---

<sup>4</sup> The Council approves the final calculation of the Charter limit when it sets the tax rates and credit amount in May or June of each year.

## 2. Ceiling on the aggregate operating budget.

### *(a) Background*

The aggregate operating budget (AOB) is defined as total appropriation from current operating revenues for the next fiscal year, **including** current revenue funding for capital projects, but **excluding** any appropriation made for the following: specific grants, enterprise funds, tuition and tuition-related charges at Montgomery College, and the Washington Suburban Sanitary Commission.

The components of the AOB are referred to as “tax supported” budgets, as opposed to the other components, which are not funded by County taxes. The so-called “tax supported” budgets are not funded exclusively by taxes; non-tax sources of funding for “tax supported” budgets include state and federal aid, interest income, and some user fees.

In setting the ceiling on the AOB, the Council is trying to set a maximum on the amount the Council will approve in May based on how much the Council thinks in February the County’s residents can afford in the following fiscal year.

- The Council is **not** setting a target for the AOB.
- The Council is **not** predicting the total amount the agencies will request.
- The Council is **not** predicting the total amount the Executive will recommend.
- The Council is **not** predicting the total amount the Council will approve in May/June.

Whatever AOB the Council sets will result in tax burdens that are more affordable for some residents and less affordable for others. The spirit of the spending affordability guidelines is to ensure that the tax burden on residents generally is affordable.

The effect of establishing this guideline is to establish an amount above which a supermajority of Councilmembers must support any aggregate operating budget approved. The affirmative votes of a majority of Councilmembers are all that is required to approve an AOB that exceeds the previous year’s AOB by less than the rate of inflation. Under the Charter, any AOB that exceeds the previous year’s AOB by more than the rate of inflation (to wit, 1.50 %) requires the affirmative votes of six members. Seven affirmative votes are required to approve an AOB that exceeds the AOB ceiling established by the Council through the SAG process.

Neither the Charter nor the Code specifies how to set the ceiling on the AOB. Until FY09, the ceiling was set using revenue projections based on current tax rates. This approach implied an assumption that a budget funded by taxes at current rates was “affordable.”

In the last five fiscal years, the Council has not used projected resources as a basis for establishing this spending affordability guideline. During that five year period, the Council has taken five different approaches:

- In FY10, the ceiling on the AOB was set at 5.9% of personal income (4.7% increase above FY09 approved AOB).
- In FY11, the ceiling on the AOB was set at the FY10 approved AOB (no change from FY10 approved AOB).
- In FY12, the ceiling on the AOB was set at the FY11 approved AOB plus inflation (1.7% increase above FY11 approved AOB).
- In FY13, the ceiling on the AOB was set at the FY12 approved AOB plus the year-over-year increase in personal income (4.8% increase above FY12 approved AOB).

- In FY14, the ceiling on the AOB was set at the FY13 approved AOB plus the year-over-year increase in personal income, plus any additional increases in State aid to MCPS and Montgomery College.

As the recent history indicates, there are multiple rational approaches to setting the ceiling on the AOB. Council staff presents four potential options for FY15 on © 1:

- Under Option #1, the AOB ceiling is held at the level of the FY14 approved AOB (no change).
- Under Option #2, AOB increases (FY14 to FY15) by 1.50%, the estimated rate of inflation for the 12 month period through November 2013.
- Under Option #3, AOB increases 1.64%, which represents the sum of (a) estimated population growth rate for Calendar Year 2013; and (b) the estimated rate of inflation for the twelve month period through November 2013.<sup>5</sup>
- Under Option #4, AOB increases by 1.80%, the increase in Total Personal Income for the 12 month period through November 2013.

Option #3 is included here not because it provides an option for FY15 that is substantially different from either Option #2 or Option #4, but rather because it is an alternative proposed in a recent paper published by the George Mason University Mercatus Center’s State and Local Policy Project (“The Appearance of Fiscal Prudence,” 2012).

***(b) Recommendation***

**Staff recommends establishing a ceiling on the AOB at an amount equal to the increase in Personal Income for the 12 month period ending November 2013 (Option #4).** Using this recommendation, the ceiling on the AOB would be set at 1.80% above the FY14 AOB. Notably, this number is much closer to inflation than in years past; consequently, the range of options presented to the Council this year is narrower.

**3. Allocation of the AOB among the following: debt service; current revenue funding for the capital budget; retiree health insurance pre-funding (OPEB); and operating expenses for MCPS, Montgomery College, County Government, and M-NCPPC.**

***(a) Background***

The County Code requires the Council to set agency (and non-agency) allocations as part of the SAG process. However, these allocations are not predictions of the actual budgets. It is through the budget process that the Council considers competing demands, establishes priorities, and allocates resources. Actual allocations will be determined during the Council’s budget process in April and May.

**No supermajority requirement is triggered if the Council, in approving the budget, allocates either more or less to any agency or non-agency category than was allocated through the SAG process.** This spending affordability guideline is merely a guideline for the Council. The only requirement triggered by this guideline affects the agencies rather than the Council—under County Code

---

<sup>5</sup> Option #3 is clearly very similar to Option #2 insofar as it is largely driven by inflation; clearly, the distinguishing characteristic of Option #3 is that it also takes into account an increase in population (which is one driver of government service costs). While Option #3 is very similar to Option #4 in this discussion of the FY15 guidelines (1.64% to 1.80%), the spread between the numbers would have been greater in last year’s discussion of the FY14 guidelines (2.86% vs. 4.43%).

§20-63, any agency requesting more than the Council's spending affordability guidelines must submit to the Council by March 31 prioritized expenditure reductions that would be necessary to comply with the adopted budget allocation and a summary of the effect on the agency's program of the recommended prioritization.

The spending affordability guidelines approved in 2013 included an exemption for State aid in excess of projected State aid. This exemption helped ensure that no agency (e.g., MCPS) would need to write a letter prioritizing expenditure reductions that would be necessary to comply with the adopted budget allocation solely as a result of receiving more State aid than projected. This year's proposed resolution includes the following provision:

- b) Notwithstanding the above, the Council intends that any agency spending allocations which, as a result of additional increases in State aid, exceed the ceilings specified in (b) do not trigger the requirements of §20-63(b).*

The SAG allocations that the Council approves are not the final allocations that the Council will approve in May. At least three factors could change the allocations by then:

- Factor #1: Revenue estimates could be revised up or down from the December 2013 Fiscal Plan Update. *See* © 6.
- Factor #2: Some of the current revenue funding and the pre-funding for OPEB from the Fiscal Plan Update could be shifted to the agency allocations.
- Factor #3: After reviewing each agency's request and considering the Council's priorities for the many and varied services the agencies provide, the Council may decide that different agencies should have a different percentage change from FY14.

### ***(b) Recommendations***

#### Debt Service

Debt service is a fixed charge that must be paid before making the allocation of any resources to the four agencies. Long-term leases are included, since these payments are virtually identical to debt. Debt service is in the County Government's debt service fund and also in the budget for M-NCPPC. **The amount of debt service next year should be based on the amount of debt currently outstanding and estimated to be issued, \$348.6 million, consistent with the December 2013 Fiscal Plan Update.** That figure includes \$344.4 million for County debt service and \$4.2 million for M-NCPPC debt service.

#### Current Revenue Funding for the Capital Budget

There are two types of current revenue funding for the capital budget. One type is funding for capital projects that do not meet the criteria for bond funding and must be funded with current revenue, or not funded at all. **Council staff recommends \$61.1 million, consistent with the December 2013 Fiscal Plan Update.**

The other type is referred to as "PAYGO from Current Revenue for Bond Offset" (pay as you go). PAYGO is funding for projects that are eligible for bond funding but for which the Council has decided to use current revenue to decrease the need for bonds. The substitution of current revenue for bonds helps protect Montgomery County's AAA bond rating by reducing indebtedness and decreasing

future operating budget expenses for debt service. **Council staff recommends \$40.5 million, consistent with the December 2013 Fiscal Plan Update.**

Retiree health insurance pre-funding (OPEB)

Total tax-supported contributions in FY10-13 (\$12.0 million, \$0, \$49.6 million, and \$105.4 million, respectively) were held down by budget pressures. FY14 contributions are estimated at \$138.0 million. **Council staff recommends allocating \$134.3 million to OPEB, consistent with the December 2013 Fiscal Plan Update.**<sup>6</sup> That figure includes \$74.4 million for MCPS, \$3.3 million for Montgomery College, \$54.1 million for County Government, and \$2.5 million for M-NCPPC.

Agency Allocations (County Government, MCPS, Montgomery College, and M-NCPPC)

The spending affordability guidelines are merely guidelines. As noted above, any agency requesting more than the Council's spending affordability guidelines must submit to the Council by March 31 prioritized expenditure reductions that would be necessary to comply with the adopted budget allocation and a summary of the effect on the agency's program of the recommended prioritization. However, Staff recommends that the resolution should state that a projected increase in State aid should not, by itself, trigger this requirement.

**Staff recommends allocations to MCPS and Montgomery College at maintenance of effort levels, including formula funding for state aid.** The allocation of aggregate operating budget to MCPS (\$2,127.2 million) includes the local contribution, local contribution to MCPS retirement, State aid as estimated in the Superintendent's recommended budget, and fund balance. The allocation of aggregate operating budget to Montgomery College is \$142.9 million—equal to the FY14 allocation in the approved AOB. It may be necessary to revise Montgomery College's allocation after further review of assumed FY15 tuition and non-tuition revenue.

**Staff recommends allocating the remainder to County Government and M-NCPPC in proportion to their FY14 allocations.**

**4. Overall Spending Target for Community Grants** (prepared by Council Grants Manager)

For the last 6 years, the County Council has set an overall spending target for Community Grants as part of its actions establishing spending affordability guidelines for the operating budget. While the target is not binding, it assists the Council in budget planning. For FY14, the target set by the Council was \$5.8 million, split equally between the Council and Executive at \$2.9 million each. In May 2014, the Council approved \$2.2 million in Council Community Grants that had gone through the Council's grants process and \$4.6 million in Executive-recommended Community Grants, for a total of \$6.8 million.

Three options are presented:

**Option #1. An overall target for Council and Executive Community Grants of \$6.8 million would be the same overall level of funding for Community Grants as the Council approved last**

---

<sup>6</sup> For purposes of setting the Council's spending affordability guidelines, OPEB contributions (MCPS, Montgomery College, Montgomery County Government, and M-NCPPC) are treated as non-agency allocations, similar to debt service.

spring for the FY14 budget.

Staff recommends this option as the target spending level for Community Grants for FY15, with the amount split equally between the Council and Executive at \$3.4 million each. This is the approach that has been used for the past several years.

An equal split of the amount between Council and Executive Grants for FY15 would be an increase in Council grants from the amount approved for FY14 and a decrease in the amount recommended by the County Executive and approved by the Council in the FY14 budget.

**Option #2.** Alternatively, the Council could set a separate target amount for both Council and Executive grants at the amount approved in the FY14 budget (\$2.2 million/Council and \$4.6 million/Executive).

**Option #3.** Establish a target for Council grants only.

Proposed language for the Council Resolution on spending affordability guidelines would state:

“The Council’s intent is that \$xxx million of the County Government’s allocation will be appropriated for Community Grants (this amount excludes Community Service Grants), with Executive-recommended Community Grants totaling \$xxx million and Council Community Grants totaling \$xxx million.”

Schedule:

January 14	Introduction
January 28	Public hearing
February 3	GO
February 11	Council action

Contents:

©	Item
1	Council staff’s calculations
2	Approved Fiscal Plan Summary
6	December 2013 Fiscal Plan Update
14	FY14 Aggregate Operating Budget
17	Resolution
20	Testimony of Montgomery County Board of Education
22	Demographic and Economic Assumptions, December 2013

	A	B	C	D	E	F	G
1	<b>Table 1: Spending Affordability Guideline 2 (Ceiling on the FY15 AOB, \$millions)</b>						
2	<i>FY14 Approved AOB</i>	4,193.0		Option 1	Option 2	Option 3	Option 4
3	1. No change FY13 to FY14			+0.00%			
4	2. Inflation CY13				+1.50%		
5	3. Inflation CY13 plus population growth CY13					+1.64%	
6	4. Change in personal income CY 13						+1.80%
7	<b>Ceiling on FY15 AOB</b>			<b>\$4,193.0</b>	<b>\$4,255.9</b>	<b>\$4,261.8</b>	<b>\$4,268.3</b>
8	% change from FY14 Approved			+0.00%	+1.50%	+1.64%	+1.80%
10							
11	<b>Table 2: Spending Affordability Guideline 3 (Allocation of FY15 AOB, \$millions)</b>						
12		FY14	%	Option 1	Option 2	Option 3	Option 4
13	<b>A. Non agency allocations</b>	App	agency total				
14	Debt service						
15	County debt service	\$309.2		\$344.4	\$344.4	\$344.4	\$344.4
16	MNCPPC debt service	4.2		4.2	4.2	4.2	4.2
17	Current revenue, specific projects	54.2		61.1	61.1	61.1	61.1
18	Current revenue, PAYGO	29.5		40.5	40.5	40.5	40.5
19	Retiree health insurance prefunding (OPEB)						
20	OPEB for MCPS	83.7		74.4	74.4	74.4	74.4
21	OPEB for Montgomery College	2.4		3.3	3.3	3.3	3.3
22	OPEB for County Government	48.9		54.1	54.1	54.1	54.1
23	OPEB for MNCPPC	3.0		2.5	2.5	2.5	2.5
24	<b>Subtotal, non-agencies</b>	<b>535.0</b>		<b>584.4</b>	<b>584.4</b>	<b>584.4</b>	<b>584.4</b>
25							
26	<b>B. Agency allocations</b>						
27	MCPS	2,084.3	57.0%	2,127.2	2,127.2	2,127.2	2,127.2
28	College excl. expen. funded by tuition	142.9	3.9%	142.9	142.9	142.9	142.9
29	County Government	1,325.9	36.2%	1,240.4	1,298.7	1,304.1	1,310.2
30	MNCPPC	104.8	2.9%	98.1	102.7	103.1	103.6
31	<b>Subtotal, agencies</b>	<b>3,657.9</b>	<b>100%</b>	<b>3,608.5</b>	<b>3,671.4</b>	<b>3,677.3</b>	<b>3,683.9</b>
32	<b>Aggregate Operating Budget</b>	<b>4,193.0</b>		<b>4,193.0</b>	<b>4,255.9</b>	<b>4,261.8</b>	<b>4,268.3</b>
33							
34	<b>Table 3: Change in Agency Allocations, FY14 approved to FY15 recommended</b>						
35				Option 1	Option 2	Option 3	Option 4
36	MCPS			+2.06%	+2.06%	+2.06%	+2.06%
37	College excl. expen. funded by tuition			0.00%	0.00%	0.00%	0.00%
38	County Government			-6.45%	-2.05%	-1.64%	-1.18%
39	MNCPPC			-6.45%	-2.05%	-1.64%	-1.18%
40	<b>Total</b>			<b>-1.35%</b>	<b>+0.37%</b>	<b>+0.53%</b>	<b>+0.71%</b>

Resolution No.: 17-800  
Introduced: June 18, 2013  
Adopted: June 25, 2013

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

---

By: Government Operations and Fiscal Policy Committee

---

**SUBJECT:** Approval of the County's Tax Supported Fiscal Plan Summary for the FY14-19 Public Services Program

**Background**

1. Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*
2. Over the last two decades the Council's Government Operations and Fiscal Policy Committee (known until December 2010 as the Management and Fiscal Policy Committee) has collaborated with the Office of Management and Budget and the Department of Finance to develop and refine County fiscal projections. The result has been continuous improvement in how best to display such factors as economic and demographic assumptions, individual agency funds, major known commitments, illustrative expenditure pressures, gaps between projected revenues and expenditures, and productivity improvements. This work has also increased the County's ability to harmonize the fiscal planning methodologies of the four tax supported agencies. Each version of the fiscal projections, or six-year fiscal plan, is a snapshot in time that reflects the best estimate of future revenues and expenditures as of that moment, as well as a specific set of fiscal policy assumptions.
3. On June 29, 2010 the Council approved policies on reserve and other fiscal matters in Resolution No. 16-1415. Action clause 5 states: *The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.* On November 29, 2011 the Council clarified and strengthened these policies in Resolution No. 17-312, which retained the fiscal plan language and replaced the earlier resolution.

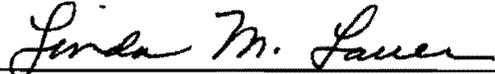
4. On June 29, 2010, pursuant to these polices, the Council approved the Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program in Resolution No. 16-1416. On June 28, 2011 the Council approved the Tax Supported Fiscal Plan Summary for the FY12-17 Public Services Program in Resolution No. 17-184. On June 26, 2012 the Council approved the Tax Supported Fiscal Plan Summary for the FY13-18 Public Services Program in Resolution No. 17-479.
5. On June 18, 2013 the Council introduced a resolution on the Tax Supported Fiscal Plan Summary for the FY14-19 Public Services Program. On June 24, 2013 the Government Operations and Fiscal Policy Committee reviewed the Plan Summary.

**Action**

The County Council for Montgomery County, Maryland approves the Tax Supported Fiscal Plan Summary for the FY14-19 Public Services Program, as outlined on the attached pages. This summary reflects:

- (1) current information on projected revenues and non-agency expenditures for the six-year period, which must be updated as conditions change. To keep abreast of changed conditions the Council regularly reviews reports on economic indicators, revenue estimates, and other fiscal data.
- (2) the policy on expanded County reserves established in Resolution No. 17-312 and the amendments to the Revenue Stabilization Fund law in Bill 36-10, which the Council approved on June 29, 2010.
- (3) other specific fiscal assumptions listed in the summary.

This is a correct copy of Council action.

  
\_\_\_\_\_  
Linda M. Lauer, Clerk of the Council

**County Council Approved FY14-19 Public Services Program  
Tax Supported Fiscal Plan Summary**

(\$ in Millions)														
	App FY13 5-24-12	Est FY13	% Chg. FY13-14 App/Bud	App FY14 5-23-13	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19
<b>Total Revenues</b>														
1 Property Tax (less PDs)	1462.2	1,461.4	2.9%	1,504.9	2.6%	1,544.3	2.8%	1,587.8	2.9%	1,633.6	3.4%	1,688.6	3.8%	1,752.7
2 Income Tax	1263.6	1,331.4	2.8%	1,299.2	-1.0%	1,285.7	10.1%	1,415.4	6.8%	1,511.7	6.7%	1,613.6	5.1%	1,695.4
3 Transfer/Recordation Tax	136.6	136.5	4.2%	142.3	2.5%	145.9	5.4%	153.7	7.0%	164.4	8.2%	177.9	6.7%	189.8
4 Investment Income	0.5	1.5	-52.4%	0.2	41.0%	0.3	86.9%	0.6	92.3%	1.2	36.6%	1.6	24.1%	2.0
5 Other Taxes	304.1	286.1	-9.0%	276.6	1.3%	280.2	1.2%	283.6	0.9%	286.2	0.5%	287.7	0.5%	289.3
6 Other Revenues	863.4	891.8	5.5%	932.0	0.7%	939.0	-1.0%	929.7	0.3%	932.4	0.3%	935.3	0.3%	938.6
7 <b>Total Revenues</b>	<b>4,050.4</b>	<b>4,108.6</b>	<b>2.8%</b>	<b>4,155.3</b>	<b>1.0%</b>	<b>4,195.3</b>	<b>4.2%</b>	<b>4,370.8</b>	<b>3.6%</b>	<b>4,529.5</b>	<b>3.9%</b>	<b>4,704.7</b>	<b>3.5%</b>	<b>4,867.7</b>
8														
9 <b>Net Transfers In (Out)</b>	<b>38.7</b>	<b>49.1</b>	<b>-0.7%</b>	<b>38.4</b>	<b>-20.2%</b>	<b>30.6</b>	<b>2.7%</b>	<b>31.5</b>	<b>3.2%</b>	<b>32.5</b>	<b>3.9%</b>	<b>33.6</b>	<b>3.7%</b>	<b>34.8</b>
10 <b>Total Revenues and Transfers Available</b>	<b>4,089.0</b>	<b>4,157.8</b>	<b>2.6%</b>	<b>4,193.7</b>	<b>0.8%</b>	<b>4,226.0</b>	<b>4.2%</b>	<b>4,402.3</b>	<b>3.6%</b>	<b>4,562.0</b>	<b>3.9%</b>	<b>4,738.3</b>	<b>3.5%</b>	<b>4,902.5</b>
11														
12 <b>Non-Operating Budget Use of Revenues</b>														
13 Debt Service	303.5	297.6	3.2%	313.3	11.2%	348.6	6.4%	370.7	4.2%	386.4	1.3%	391.4	1.4%	396.8
14 PAYGO	29.5	29.5	0.0%	29.5	37.3%	40.5	0.0%	40.5	24.7%	50.5	0.0%	50.5	0.0%	50.5
15 CIP Current Revenue	50.2	49.8	8.0%	54.2	12.6%	61.1	-2.5%	59.6	-2.5%	58.1	18.8%	69.0	0.0%	69.0
16 Change in Montgomery College Reserves	(4.6)	(0.8)	-73.1%	(8.3)	42.6%	(4.8)	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0
17 Change in MNCPPC Reserves	(1.1)	(1.4)	-347.2%	(4.7)	98.1%	(0.1)	235.6%	0.1	3.9%	0.1	29.3%	0.2	-1.3%	0.2
18 Change in MCPS Reserves	(17.0)	1.2	-58.7%	(27.0)	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
19 Change in MCG Special Fund Reserves	20.0	17.8	-132.8%	(6.6)	100.3%	0.0	-29.3%	0.0	650.1%	0.1	-17.0%	0.1	9.6%	0.1
20 Contribution to General Fund Undesignated Reserves	(29.6)	11.2	-103.8%	(60.2)	102.7%	1.6	-29.3%	1.2	650.1%	8.7	-17.0%	7.2	9.6%	7.9
21 Contribution to Revenue Stabilization Reserves	21.2	33.7	3.1%	21.8	1.0%	22.0	3.5%	22.8	3.7%	23.6	3.8%	24.5	3.5%	25.4
22 Retiree Health Insurance Pre-Funding	105.4	105.4	31.0%	138.0	32.2%	182.4	-2.6%	177.7	-2.9%	172.5	-3.6%	166.3	-4.5%	158.8
23 Set Aside for other uses (supplemental appropriations)	0.1	0.0	7.9%	0.1	28125.5%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
24 <b>Total Other Uses of Resources</b>	<b>477.5</b>	<b>544.1</b>	<b>-5.7%</b>	<b>450.2</b>	<b>49.1%</b>	<b>671.3</b>	<b>3.2%</b>	<b>692.6</b>	<b>4.0%</b>	<b>720.0</b>	<b>1.3%</b>	<b>729.2</b>	<b>-0.1%</b>	<b>728.6</b>
25 <b>Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)</b>	<b>3,611.5</b>	<b>3,613.6</b>	<b>3.7%</b>	<b>3,743.4</b>	<b>-5.0%</b>	<b>3,554.6</b>	<b>4.4%</b>	<b>3,709.7</b>	<b>3.6%</b>	<b>3,841.9</b>	<b>4.4%</b>	<b>4,009.1</b>	<b>4.1%</b>	<b>4,173.9</b>
26														
27														
28 <b>Agency Uses</b>														
29 Montgomery County Public Schools (MCPS)	2028.9	2,013.4	2.7%	2,084.3										
30 Montgomery College (MC)	218.8	213.3	4.4%	228.5										
31 MNCPPC (w/o Debt Service)	98.9	99.2	5.9%	104.7										
32 MCG	1265.0	1,287.8	4.8%	1,325.9										
33 <b>Agency Uses</b>	<b>3,611.5</b>	<b>3,613.6</b>	<b>3.7%</b>	<b>3,743.4</b>	<b>-5.0%</b>	<b>3,554.6</b>	<b>4.4%</b>	<b>3,709.7</b>	<b>3.6%</b>	<b>3,841.9</b>	<b>4.4%</b>	<b>4,009.1</b>	<b>4.1%</b>	<b>4,173.9</b>
34 <b>Total Uses</b>	<b>4,089.0</b>	<b>4,157.8</b>	<b>2.8%</b>	<b>4,193.7</b>	<b>0.8%</b>	<b>4,226.0</b>	<b>4.2%</b>	<b>4,402.3</b>	<b>3.6%</b>	<b>4,562.0</b>	<b>3.9%</b>	<b>4,738.3</b>	<b>3.5%</b>	<b>4,902.5</b>
35 <b>(Gap)/Available</b>	<b>0.0</b>	<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>

**Assumptions:**

1. FY14 property tax revenue is at the Charter Limit with a \$692 income tax offset credit. The Charter Limit is assumed in FY15-19.
2. May 2010 fuel/energy tax revenue increase is reduced by 20 percent in FY14-19.
3. Reserve contributions are at the policy level and consistent with legal requirements.
4. PAYGO, debt service, and current revenue reflect the Amended FY13-18 Capital Improvements Program.
5. Retiree health insurance pre-funding is increased up to full funding by FY15. FY14 is year 7 of the 8-year funding schedule. The FY15-19 projection reflects the latest actuarial funding schedule.
6. State aid for MCPS and Montgomery College is flat in FY15-19.

7

**County Council Approved FY14-19 Public Services Program  
Tax Supported Fiscal Plan Summary**

(\$ in Millions)

	App FY13	Est FY13	% Chg FY13-14	App FY14	% Chg FY14-16	Projected FY15	% Chg FY15-16	Projected FY16	% Chg FY16-17	Projected FY17	% Chg FY17-18	Projected FY18	% Chg FY18-19	Projected FY19
<b>Beginning Reserves</b>														
Unrestricted General Fund	168.6	192.9	21.1%	204.1	-29.5%	143.9	1.1%	145.5	0.8%	146.7	5.9%	155.3	4.6%	162.5
Revenue Stabilization Fund	139.6	155.3	35.4%	199.0	11.5%	210.8	10.4%	232.8	9.8%	255.6	9.2%	279.3	8.8%	309.8
<b>Total Reserves</b>	<b>308.1</b>	<b>348.2</b>	<b>27.6%</b>	<b>393.1</b>	<b>-9.8%</b>	<b>354.7</b>	<b>6.7%</b>	<b>378.3</b>	<b>6.3%</b>	<b>402.3</b>	<b>8.0%</b>	<b>434.6</b>	<b>7.3%</b>	<b>466.3</b>
<b>Additions to Reserves</b>														
Unrestricted General Fund	(29.6)	11.2	-103.8%	(60.2)	102.7%	1.6	-29.3%	1.2	650.1%	8.7	-17.0%	7.2	9.5%	7.9
Revenue Stabilization Fund	21.2	33.7	3.1%	21.8	1.0%	22.0	3.5%	22.8	3.7%	23.6	3.8%	24.5	3.5%	25.4
<b>Total Change in Reserves</b>	<b>(8.4)</b>	<b>44.9</b>	<b>-358.1%</b>	<b>(38.4)</b>	<b>161.6%</b>	<b>23.7</b>	<b>1.2%</b>	<b>23.9</b>	<b>34.9%</b>	<b>32.3</b>	<b>-1.8%</b>	<b>31.7</b>	<b>4.9%</b>	<b>33.3</b>
<b>Ending Reserves</b>														
Unrestricted General Fund	139.0	204.1	3.5%	143.9	1.1%	145.5	0.8%	146.7	5.9%	155.3	4.6%	162.5	4.9%	170.4
Revenue Stabilization Fund	160.8	189.0	31.1%	210.8	10.4%	232.8	9.8%	255.6	9.2%	279.3	8.8%	303.8	8.4%	329.2
<b>Total Reserves</b>	<b>299.8</b>	<b>393.1</b>	<b>18.3%</b>	<b>354.7</b>	<b>6.7%</b>	<b>378.3</b>	<b>6.3%</b>	<b>402.3</b>	<b>8.0%</b>	<b>434.6</b>	<b>7.3%</b>	<b>466.3</b>	<b>7.1%</b>	<b>499.6</b>
<b>Reserves as a % of Adjusted Governmental Revenues</b>	<b>7.1%</b>	<b>8.1%</b>		<b>8.1%</b>		<b>8.8%</b>		<b>8.8%</b>		<b>9.2%</b>		<b>9.6%</b>		<b>9.9%</b>
<b>Other Reserves</b>														
Montgomery College	6.4	13.1	-25.8%	4.8	-100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
M-NCPPC	3.8	9.0	13.8%	4.3	-2.1%	4.2	2.9%	4.3	2.9%	4.4	3.7%	4.6	3.5%	4.8
MCPS	16.3	41.7	-9.7%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7
MCG Special Funds	1.6	8.5	20.0%	1.9	1.1%	1.9	0.8%	2.0	5.9%	2.1	4.6%	2.2	4.9%	2.3
<b>MCG + Agency Reserves as a % of Adjusted Govt Revenues</b>	<b>7.8%</b>	<b>10.8%</b>		<b>8.7%</b>		<b>9.1%</b>		<b>9.3%</b>		<b>9.7%</b>		<b>10.0%</b>		<b>10.3%</b>
<b>Retiree Health Insurance Pre-Funding</b>														
Montgomery County Public Schools (MCPS)	58.9	58.9		83.7		110.5		107.6		104.1		99.8		96.3
Montgomery College (MC)	1.8	1.8		2.4		3.3		3.4		3.4		3.5		3.6
MNCPPC	3.4	3.4		3.0		2.6		2.6		2.5		2.5		2.5
MCG	41.4	41.4		48.8		66.1		64.2		62.6		60.4		57.4
<b>Subtotal Retiree Health Insurance Pre-Funding</b>	<b>105.4</b>	<b>105.4</b>		<b>138.0</b>		<b>182.4</b>		<b>177.7</b>		<b>172.6</b>		<b>166.3</b>		<b>168.8</b>
<b>Adjusted Governmental Revenues</b>														
Total Tax Supported Revenues	4,050.4	4,108.6	2.6%	4,165.3	1.0%	4,195.3	4.2%	4,370.8	3.6%	4,529.6	3.9%	4,704.7	3.5%	4,867.7
Capital Projects Fund	66.5	81.6	51.7%	89.3	-1.7%	87.6	-27.6%	70.7	2.7%	72.6	-0.8%	72.0	0.0%	72.0
Grants	107.0	105.0	1.1%	108.2	2.4%	110.8	2.7%	113.8	3.2%	117.4	3.5%	121.4	3.7%	125.9
<b>Total Adjusted Governmental Revenues</b>	<b>4,223.9</b>	<b>4,305.2</b>	<b>3.3%</b>	<b>4,362.7</b>	<b>0.9%</b>	<b>4,403.7</b>	<b>3.4%</b>	<b>4,555.3</b>	<b>3.6%</b>	<b>4,719.6</b>	<b>3.8%</b>	<b>4,898.1</b>	<b>3.4%</b>	<b>5,066.6</b>

5

BUD, FIN &  
ECON DEV



SBF  
CC  
BSH  
LLhas -

OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett  
County Executive

Jennifer A. Hughes  
Director

MEMORANDUM

December 3, 2013

RECEIVED  
MONTGOMERY COUNTY  
COUNCIL  
2013 DEC - 6 AM 9:56

TO: Stephen B. Farber, Council Administrator, County Council  
FROM: Jennifer A. Hughes, Director, Office of Management and Budget  
SUBJECT: Fiscal Plan Update

Attached please find the updated fiscal plan and supporting documents. The Department of Finance's updated revenue forecast has been incorporated in the fiscal plan. Other assumptions in the fiscal plan, including FY13 year-end results, current year expenditure updates, funding for the Capital Improvements Program, and other non-agency spending (except for retiree health insurance prefunding described below) have not been changed. Because this is a limited update to fiscal assumptions, the projections are preliminary and the fiscal plan included as part of the County Executive's recommended budget next March will be different than this one.

**Update to Revenue Projections and Reserves**

Based on current assumptions, the fiscal plan would require a 0.9 percent reduction in the spending of all County agencies to produce a balanced budget in FY15. Because of Montgomery County Public Schools and Montgomery College Maintenance-Of-Effort requirements, spending for the Maryland National Capital Park and Planning Commission (M-NCPPC) and the County Government would have to be reduced 2.4 percent to balance the budget in FY15. This forecast is an improvement compared to the fiscal plan the Council approved in June, but a challenging fiscal environment remains as we begin working on the FY15 operating budget. I want to highlight a few aspects of this update:

- 1. **Revenues:** As detailed in the Department of Finance's December 2013 Revenue Update and Selected Economic Indicators report, the revenue forecast has been revised upward by a total of \$153.6 million (\$99.3 million in FY14 and \$54.3 million in FY15) compared to the estimates in the approved fiscal plan. Income tax revenues have been revised upward by \$125 million (\$86.5 million in FY14 and \$38.5 million in FY15). The estimated increase in income tax revenues results primarily from the more volatile component of the November income tax distribution related to extended filings, estimated payments, and reconciliations. The forecast for FY15 and beyond reflects the largely one-time nature of most of the increased November 2013 distribution. The forecast also incorporates updated economic assumptions from the State Board of Revenue Estimates, which reflect the

Office of the Director

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



6

continued effects of Federal budget sequestration, and a writedown of \$85 million related to the Wynne income tax case.<sup>1</sup> Transfer and recordation taxes have also been revised upward by nearly \$32 million over FY14 and FY15 based on better than expected real estate market activity and housing price appreciation. The revised property tax estimate is at the Charter Limit<sup>2</sup> but is \$4.6 million less than the estimate in the approved fiscal plan because of a decline in the rate of inflation. All other tax revenues are essentially flat compared to the approved fiscal plan.

2. **Intergovernmental Aid:** State Aid assumptions will be updated after budget requests from Montgomery County Public Schools and Montgomery College are received and the Governor releases his budget in January 2014. The State's most recent fiscal outlook indicates a structural deficit of more than \$400 million, resulting from a writedown in revenues and increased expenditure obligations.
3. **FY15 Expenditures:** Attached is a chart of the "Major Known Commitments" that shows the projected cost increases by agency. While not included in the estimate of agency expenditures in the updated fiscal plan, FY15 expenditures are estimated to grow by \$132 million or 3.5 percent. The estimate does not include the cost of general wage increases for MCPS or MNCPPC, both of which are negotiating FY15 compensation. Montgomery College and the County government have wage agreements covering FY15.

The fiscal plan reflects the possible implementation of changes to the MCPS and County Government retiree prescription drug insurance programs to take advantage of more favorable subsidies available as part of the Patient Protection and Affordable Care Act. Both agencies will receive updated actuarial valuations reflecting this change, but a preliminary order of magnitude estimate indicates a potential reduction of approximately \$48 million in previously anticipated retiree health insurance prefunding costs in FY15. The recommended budget will reflect the results of the County Executive's final decisions and actuarial valuations once we have completed our discussions with employee and retiree organizations.

4. **Rate of Growth:** The impact of revised revenue estimates will require a 0.9 percent reduction in the size of agency operating budgets in FY15 to produce a balanced budget. Assuming maintenance-of-effort increases for MCPS and Montgomery College, this means 2.4 percent reductions to the operating budgets of MNCPPC and County Government. Assuming the estimated increase in expenditures identified by each agency would equate to an imbalance of approximately \$166 million.
5. **Reserves:** Prior fiscal year results are not yet finalized. The projection reflects the impact of the revised revenue forecast. According to the Revenue Stabilization Fund law (MCC 20-68) adopted by the Council in June 2010, the mandatory contribution to the RSF must be the greater of 50 percent of

---

<sup>1</sup> Maryland State Comptroller of the Treasury v. Brian Wynne, No. 107, September Term 2011. The Maryland tax code allows a credit for income taxes paid to other states with respect to the state income tax, but not the county income tax. Under both federal and Maryland law, a subchapter S corporation is deemed to "pass through" its income to its shareholders who are taxed on that income at the shareholder's level. The Court of Appeals held that the failure to allow a credit with respect to the county income tax for out-of-state income taxes paid to other states on "pass through" income earned in those states violates the Commerce Clause of the United States Constitution.

<sup>2</sup> Section 305 of the County Charter limits the growth in real property tax revenues in a fiscal year to the rate of inflation, excluding new construction, development districts, and other minor exceptions. The Council may override this limitation with an affirmative vote of nine Councilmembers.

excess revenues<sup>3</sup> or 0.5 percent of Adjusted Governmental Revenues<sup>4</sup>. Under this law, \$48.4 million must be contributed to the RSF in FY14, which is \$26 million more than assumed in the approved budget. Total reserves are projected to increase to 9.8 percent at the end of FY14 due to the higher than budgeted contribution to the RSF and the General Fund balance temporarily exceeding its 5 percent limitation.<sup>5</sup> After normalizing the General Fund reserve to its Charter Limit, total reserves are projected to increase from 9.2 percent at the end of FY15 to 10.7 percent in FY20. The County's policy is to have a total reserve of 10 percent by FY20.

### Looking Ahead

As you know, the Executive will update the fiscal plan in April 2014 as part of his Recommended FY15 Operating Budget and FY15-20 Public Services Program. The April update will include several changes that are not part of the attached fiscal plan because the information is currently not available or is dependent on events that will occur subsequent to the transmittal of this fiscal plan including:

1. The County Executive's recommendations for the FY15-20 CIP and the FY15 operating budget.
2. The mid December update by the State Board of Revenue Estimates on its economic forecast.
3. A decision by the Supreme Court on whether to grant the Attorney General's appeal of the *Wynne* decision expected in January 2014.
4. The February 2014 income tax distribution and data on the County's excise taxes for November 2013 through February 2014.
5. Revisions to estimates of the assessable base by the State Department of Assessments and Taxation expected in January 2014.
6. Decisions by the Federal Government on the budget, debt ceiling, and whether there will be another shutdown of the federal government in February 2014.

In summary, the modest economic recovery, continued State and Federal budget uncertainty, the ultimate effect of the *Wynne* income tax case, and other factors, demonstrate the need for continued restraint in the County's spending plans.

JAH:ae

### Attachments

cc: Timothy L. Firestine, Chief Administrative Officer  
Joseph F. Beach, Director, Department of Finance  
Bonnie Kirkland, Assistant Chief Administrative Officer

---

<sup>3</sup> Defined as the amount, if positive, by which total revenues from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund for the fiscal year exceed the original projections for these amounts.

<sup>4</sup> Defined as the tax supported revenues of the four County agencies, excluding the local contributions to MCPS and Montgomery College, plus revenues of the County Government's Grants and Capital Projects Funds.

<sup>5</sup> Section 310 of the County Charter limits any unappropriated surplus to 5 percent of the General Fund revenue for the preceding fiscal year.

## Fiscal Plan December 2013 Tax Supported Fiscal Plan Summary

(\$ in Millions)															
	App FY14 5-23-13	Est FY14	% Chg. FY14-15 App/Proj	% Chg. FY14-15 Est/Proj	Projected FY15 12-10-13	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20
<b>Total Revenues</b>															
1 Property Tax (less PDs)	1,504.9	1,506.7	2.2%	2.1%	1,537.9	2.7%	1,579.1	2.9%	1,625.3	3.1%	1,676.4	3.6%	1,736.2	3.9%	1,804.7
2 Income Tax	1,299.2	1,385.7	1.9%	-4.4%	1,324.1	8.7%	1,439.1	5.2%	1,513.8	6.2%	1,608.1	5.4%	1,695.1	5.2%	1,783.8
3 Transfer/Recordation Tax	142.3	152.5	17.8%	9.9%	167.6	5.1%	176.1	4.5%	184.1	3.8%	191.2	3.4%	197.6	2.6%	202.8
4 Investment Income	0.2	0.2	41.0%	41.0%	0.3	86.9%	0.6	92.3%	1.2	36.6%	1.6	24.1%	2.0	0.0%	2.0
5 Other Taxes	276.6	277.4	1.4%	1.1%	280.6	1.2%	283.8	1.0%	286.8	1.5%	291.0	1.5%	295.3	1.5%	299.7
6 Other Revenues	932.0	932.1	0.8%	0.8%	939.2	-1.0%	929.7	0.3%	932.2	0.3%	935.1	0.3%	938.3	0.4%	941.9
7 <b>Total Revenues</b>	<b>4,155.3</b>	<b>4,254.6</b>	<b>-2.3%</b>	<b>-0.1%</b>	<b>4,249.7</b>	<b>3.7%</b>	<b>4,408.5</b>	<b>3.1%</b>	<b>4,543.3</b>	<b>3.5%</b>	<b>4,703.4</b>	<b>3.4%</b>	<b>4,864.4</b>	<b>3.5%</b>	<b>5,034.9</b>
8															
9 <b>Net Transfers In (Out)</b>	<b>38.4</b>	<b>38.4</b>	<b>-20.2%</b>	<b>-20.2%</b>	<b>30.6</b>	<b>2.5%</b>	<b>31.4</b>	<b>2.9%</b>	<b>32.3</b>	<b>3.3%</b>	<b>33.4</b>	<b>3.7%</b>	<b>34.6</b>	<b>4.1%</b>	<b>36.0</b>
10 <b>Total Revenues and Transfers Available</b>	<b>4,193.7</b>	<b>4,293.0</b>	<b>2.1%</b>	<b>-0.3%</b>	<b>4,280.3</b>	<b>3.7%</b>	<b>4,439.9</b>	<b>3.1%</b>	<b>4,575.6</b>	<b>3.5%</b>	<b>4,736.7</b>	<b>3.4%</b>	<b>4,899.0</b>	<b>3.5%</b>	<b>5,070.9</b>
11															
12 <b>Non-Operating Budget Use of Revenues</b>															
13 Debt Service	313.3	313.3	11.2%	11.2%	348.6	6.4%	370.7	4.2%	386.4	1.3%	391.4	1.4%	396.8	0.0%	396.8
14 PAYGO	29.5	29.5	37.3%	37.3%	40.5	0.0%	40.5	24.7%	50.5	0.0%	50.5	0.0%	50.5	0.0%	50.5
15 CIP Current Revenue	54.2	54.2	12.6%	12.6%	61.1	-2.5%	59.6	-2.5%	58.1	18.8%	69.0	0.0%	69.0	0.0%	69.0
16 Change in Montgomery College Reserves	(8.3)	(8.3)	42.6%	42.6%	(4.8)	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
17 Change in MNCPPC Reserves	(4.7)	(4.7)	95.9%	95.9%	(0.2)	273.3%	0.3	-61.2%	0.1	10.4%	0.1	16.7%	0.2	14.6%	0.2
18 Change in MCPS Reserves	(27.0)	(27.0)	100.0%	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
19 Change in MCG Special Fund Reserves	(6.6)	(6.6)	101.3%	101.3%	0.1	-118.5%	(0.0)	765.6%	0.1	-25.9%	0.1	19.7%	0.1	-1.1%	0.1
20 Contribution to General Fund Undesignated Reserves	(60.2)	(2.4)	15.0%	-2005.6%	(51.2)	97.6%	(1.2)	765.6%	8.1	-25.9%	6.0	19.7%	7.2	-1.1%	7.1
21 Contribution to Revenue Stabilization Reserves	21.8	48.4	2.2%	-53.9%	22.3	3.1%	23.0	3.1%	23.7	3.5%	24.5	3.4%	25.4	3.5%	26.2
22 Retiree Health Insurance Pre-Funding	138.0	138.0	-2.7%	-2.7%	134.3	32.3%	177.7	-2.9%	172.5	-3.6%	166.3	-4.5%	158.8	0.0%	158.8
23 Set Aside for other uses (supplemental appropriations)	0.1	15.1	28125.5%	32.7%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
24 <b>Total Other Uses of Resources</b>	<b>450.2</b>	<b>549.6</b>	<b>26.7%</b>	<b>3.8%</b>	<b>570.6</b>	<b>21.0%</b>	<b>690.6</b>	<b>4.2%</b>	<b>719.5</b>	<b>1.2%</b>	<b>728.0</b>	<b>0.0%</b>	<b>727.9</b>	<b>0.1%</b>	<b>728.7</b>
25 <b>Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)</b>	<b>3,743.4</b>	<b>3,743.4</b>	<b>-0.9%</b>	<b>-0.9%</b>	<b>3,709.7</b>	<b>1.1%</b>	<b>3,749.4</b>	<b>2.8%</b>	<b>3,856.1</b>	<b>4.0%</b>	<b>4,008.8</b>	<b>4.0%</b>	<b>4,171.1</b>	<b>4.1%</b>	<b>4,342.2</b>
26															
27 <b>Agency Uses</b>															
28															
29 Montgomery County Public Schools (MCPS)	2,084.3	2,084.3	0.0%	0.0%	2,084.2										
30 Montgomery College (MC)	228.5	228.5	0.0%	0.0%	228.5										
31 MNCPPC (w/o Debt Service)	104.7	104.7	-2.4%	-2.4%	102.3										
32 MCG	1,325.9	1,325.9	-2.4%	-2.4%	1,294.7										
33 <b>Agency Uses</b>	<b>3,743.4</b>	<b>3,743.4</b>	<b>-0.9%</b>	<b>-0.9%</b>	<b>3,709.7</b>	<b>1.1%</b>	<b>3,749.4</b>	<b>2.8%</b>	<b>3,856.1</b>	<b>4.0%</b>	<b>4,008.8</b>	<b>4.0%</b>	<b>4,171.1</b>	<b>4.1%</b>	<b>4,342.2</b>
34 <b>Total Uses</b>	<b>4,193.7</b>	<b>4,293.0</b>	<b>2.1%</b>	<b>-0.3%</b>	<b>4,280.3</b>	<b>3.7%</b>	<b>4,439.9</b>	<b>3.1%</b>	<b>4,575.6</b>	<b>3.5%</b>	<b>4,736.7</b>	<b>3.4%</b>	<b>4,899.0</b>	<b>3.5%</b>	<b>5,070.9</b>
35 <b>{Gap}/Available</b>	<b>0.0</b>	<b>0.0</b>			<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>

**Assumptions:**

1. Revenues incorporate the Department of Finance's latest forecast. Property taxes are at the Charter Limit. Other taxes are at current rates.
2. Reserve contributions are at the policy level and consistent with legal requirements.
3. PAYGO, debt service, and current revenue reflect the Amended FY13-18 Capital Improvements Program.
4. FY15 retiree health insurance pre-funding is at full funding and reflects changes to MCPS and County Government retiree drug insurance to take advantage of increased subsidies made available by the Patient Protection and Affordable Care Act. The FY15-20 projection will be updated after revised actuarial valuations are completed.
5. State aid for MCPS and Montgomery College is flat in FY15-20.
6. The projected FY15 allocation for MCPS and Montgomery College assumes County funding at maintenance of effort. The allocation does not include potential increases to State aid or other possible agency resources, such as use of additional fund balance.

2

**Fiscal Plan December 2013  
Tax Supported Fiscal Plan Summary**

(\$ in Millions)															
	App. FY14	Est FY14	% Chg. FY14-15	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20
36 <b>Beginning Reserves</b>															
37 <b>Unrestricted General Fund</b>	204.1	204.1	-1.2%	-1.2%	201.7	-25.4%	150.4	-0.8%	149.2	5.4%	157.3	3.8%	163.4	4.4%	170.6
38 <b>Revenue Stabilization Fund</b>	189.0	189.0	25.6%	25.6%	237.4	9.4%	259.7	8.9%	282.6	8.4%	306.3	8.0%	330.9	7.7%	356.2
39 <b>Total Reserves</b>	393.1	393.1	11.7%	11.7%	439.0	-6.6%	410.1	5.3%	431.9	7.4%	463.7	6.6%	494.2	6.6%	526.8
40															
41 <b>Additions to Reserves</b>															
42 <b>Unrestricted General Fund</b>	(60.2)	(2.4)	15.0%	-2005.6%	-51.2	97.6%	-1.2	765.6%	8.1	-25.9%	6.0	19.7%	7.2	-1.1%	7.1
43 <b>Revenue Stabilization Fund</b>	21.8	48.4	2.2%	-53.9%	22.3	3.1%	23.0	3.1%	23.7	3.5%	24.5	3.4%	25.4	3.5%	26.2
44 <b>Total Change in Reserves</b>	-38.4	45.9	24.7%	-163.0%	-28.9	175.2%	21.8	46.2%	31.8	-4.0%	30.5	6.6%	32.6	2.4%	33.4
45															
46 <b>Ending Reserves</b>															
47 <b>Unrestricted General Fund</b>	143.9	201.7	4.6%	-25.4%	150.4	-0.8%	149.2	5.4%	157.3	3.8%	163.4	4.4%	170.6	4.2%	177.7
48 <b>Revenue Stabilization Fund</b>	210.8	237.4	23.2%	9.4%	259.7	8.9%	282.6	8.4%	306.3	8.0%	330.9	7.7%	356.2	7.4%	382.5
49 <b>Total Reserves</b>	354.7	439.0	15.6%	-6.6%	410.1	5.3%	431.9	7.4%	463.7	6.6%	494.2	6.6%	526.8	6.3%	560.1
50 <b>Reserves as a % of Adjusted Governmental Revenues</b>	8.1%	9.8%			9.2%		9.4%		9.8%		10.1%		10.4%		10.7%
51 <b>Other Reserves</b>															
52 <b>Montgomery College</b>	4.8	4.8	-100.0%	-100.0%	0.0	n/a	0.0								
53 <b>M-NCPPC</b>	4.3	4.3	-4.5%	-4.5%	4.1	8.2%	4.4	2.9%	4.6	3.1%	4.7	3.6%	4.9	3.9%	5.1
54 <b>MCPS</b>	14.7	14.7	0.0%	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7
55 <b>MCG Special Funds</b>	1.9	1.9	4.6%	4.6%	2.0	-0.8%	2.0	5.4%	2.1	3.8%	2.2	4.4%	2.3	4.2%	2.4
56 <b>MCG + Agency Reserves as a % of Adjusted Govt Revenues</b>	8.7%	10.4%			9.7%		9.9%		10.2%		10.5%		10.8%		11.1%
57 <b>Retiree Health Insurance Pre-Funding</b>															
58 <b>Montgomery County Public Schools (MCPS)</b>	83.7	83.7			74.4		107.6		104.1		99.9		95.3		95.3
59 <b>Montgomery College (MC)</b>	2.4	2.4			3.3		3.4		3.4		3.5		3.6		3.6
60 <b>MNCPPC</b>	3.0	3.0			2.5		2.5		2.5		2.5		2.5		2.5
61 <b>MCG</b>	48.9	48.9			54.1		64.2		62.5		60.4		57.4		57.4
62 <b>Subtotal Retiree Health Insurance Pre-Funding</b>	138.0	138.0			134.3		177.7		172.5		166.3		158.8		158.8
63 <b>Adjusted Governmental Revenues</b>															
64 <b>Total Tax Supported Revenues</b>	4,155.3	4,254.6	2.3%	-0.1%	4,249.7	3.7%	4,408.5	3.1%	4,543.3	3.5%	4,703.4	3.4%	4,864.4	3.5%	5,034.9
65 <b>Capital Projects Fund</b>	99.3	99.3	-1.7%	-1.7%	97.6	-27.6%	70.7	2.7%	72.6	-0.8%	72.0	0.0%	72.0	0.0%	72.0
66 <b>Grants</b>	108.2	108.2	2.4%	2.4%	110.8	2.7%	113.8	3.2%	117.4	3.5%	121.4	3.7%	125.9	3.7%	130.6
67 <b>Total Adjusted Governmental Revenues</b>	4,362.7	4,462.1	2.2%	-0.1%	4,458.1	3.0%	4,593.0	3.1%	4,733.3	3.5%	4,896.8	3.4%	5,062.4	3.5%	5,237.5

10

**REVENUE SUMMARY**  
**TAX SUPPORTED BUDGETS**  
(\$ Millions)

KEY REVENUE CATEGORIES	App. FY14	Estimate FY14	% Chg. FY14-15	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20
<b>TAXES</b>	5-23-13	12-10-13	App/Proj	Est/Proj	12-10-13										
1 Property Tax (less PDs)	1,504.9	1,506.7	2.2%	2.1%	1,537.9	2.7%	1,579.1	2.9%	1,625.3	3.1%	1,676.4	3.6%	1,736.2	3.9%	1,804.7
2 Income Tax	1,299.2	1,385.7	1.9%	-4.4%	1,324.1	8.7%	1,439.1	5.2%	1,513.8	6.2%	1,608.1	5.4%	1,695.1	5.2%	1,783.8
3 Transfer Tax	85.7	90.4	15.8%	9.8%	99.3	4.3%	103.5	5.5%	109.3	3.8%	113.4	3.4%	117.2	2.9%	120.6
4 Recordation Tax	56.6	62.1	20.7%	10.0%	68.3	6.2%	72.6	3.1%	74.8	4.0%	77.8	3.4%	80.4	2.3%	82.2
5 Energy Tax	210.7	211.3	1.8%	1.5%	214.5	1.5%	217.6	1.2%	220.2	1.3%	223.1	1.3%	225.9	1.3%	228.8
6 Telephone Tax	45.1	45.4	-0.1%	-0.7%	45.1	-1.1%	44.6	-0.9%	44.2	-0.7%	43.8	-0.6%	43.6	-0.5%	43.4
7 Hotel/Motel Tax	17.8	17.5	0.2%	1.5%	17.8	3.0%	18.3	3.3%	18.9	8.3%	20.5	7.4%	22.0	7.4%	23.6
8 Admissions Tax	3.0	3.1	5.5%	3.0%	3.2	3.3%	3.3	3.9%	3.4	4.3%	3.6	4.7%	3.8	5.1%	4.0
9 Total Local Taxes	3,223.0	3,322.3	2.7%	-0.4%	3,310.2	5.1%	3,478.2	3.8%	3,609.9	4.3%	3,766.7	4.2%	3,924.2	4.3%	4,091.0
<b>INTERGOVERNMENTAL AID</b>															
10 Highway User	3.4	3.5	5.9%	3.8%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6
11 Police Protection	13.7	13.7	0.0%	0.0%	13.7	0.0%	13.7	0.0%	13.7	0.0%	13.7	0.0%	13.7	0.0%	13.7
12 Libraries	5.3	5.3	0.0%	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3
13 Health Services Case Formula	3.8	3.8	0.0%	0.0%	3.8	0.0%	3.8	0.0%	3.8	0.0%	3.8	0.0%	3.8	0.0%	3.8
14 Mass Transit	34.5	34.5	13.8%	13.8%	39.2	-41.8%	22.8	0.0%	22.8	0.0%	22.8	0.0%	22.8	0.0%	22.8
15 Public Schools	605.0	605.0	0.0%	0.0%	605.0	0.0%	605.0	0.0%	605.0	0.0%	605.0	0.0%	605.0	0.0%	605.0
16 Community College	31.7	31.7	0.0%	0.0%	31.7	0.0%	31.7	0.0%	31.7	0.0%	31.7	0.0%	31.7	0.0%	31.7
17 Other	34.6	34.6	-9.8%	-9.8%	31.2	0.0%	31.2	0.0%	31.2	0.0%	31.2	0.0%	31.2	0.0%	31.2
18 Total Intergovernmental Aid	732.1	732.2	0.2%	0.2%	733.7	-2.2%	717.2	0.0%	717.2	0.0%	717.2	0.0%	717.2	0.0%	717.2
<b>FEES AND FINES</b>															
19 Licenses & Permits	11.4	11.4	1.5%	1.5%	11.6	1.5%	11.8	1.5%	11.9	1.5%	12.1	1.5%	12.3	1.5%	12.5
20 Charges for Services	69.3	69.3	1.9%	1.9%	70.6	2.0%	72.0	2.3%	73.7	2.6%	75.6	3.0%	77.8	3.3%	80.4
21 Fines & Forfeitures	21.9	21.9	1.6%	1.6%	22.3	1.6%	22.6	1.6%	23.0	1.6%	23.4	1.6%	23.7	1.6%	24.1
22 Montgomery College Tuition	87.3	87.3	4.1%	4.1%	90.8	5.2%	95.6	0.0%	95.6	0.0%	95.6	0.0%	95.6	0.0%	95.6
23 Total Fees and Fines	189.8	189.8	2.8%	2.8%	195.2	3.4%	201.9	1.1%	204.2	1.2%	206.6	1.4%	209.4	1.5%	212.6
<b>MISCELLANEOUS</b>															
24 Investment Income	0.2	0.2	41.0%	41.0%	0.3	86.9%	0.6	92.3%	1.2	36.6%	1.6	24.1%	2.0	0.0%	2.0
25 Other Miscellaneous	10.0	10.0	2.4%	2.4%	10.3	2.5%	10.5	2.9%	10.8	3.3%	11.2	3.7%	11.6	4.1%	12.1
26 Total Miscellaneous	10.3	10.3	3.3%	3.3%	10.6	5.0%	11.1	7.7%	12.0	6.5%	12.8	6.2%	13.6	3.5%	14.0
27 TOTAL REVENUES	4,155.3	4,254.6	2.3%	-0.1%	4,249.7	3.7%	4,408.5	3.1%	4,543.3	3.5%	4,703.4	3.4%	4,864.4	3.5%	5,034.9
28 \$ Change from prior Budget	104.9	146.0			94.4		158.9		134.8		160.1		161.1		170.4
<b>Calculation for Adjusted Governmental Revenues</b>															
29 Total Tax Supported Revenues	4,155.3	4,254.6	2.3%	-0.1%	4,249.7	3.7%	4,408.5	3.1%	4,543.3	3.5%	4,703.4	3.4%	4,864.4	3.5%	5,034.9
30 Capital Projects Fund	99.3	99.3	-1.7%	-1.7%	97.6	-27.6%	70.7	2.7%	72.6	-0.8%	72.0	0.0%	72.0	0.0%	72.0
31 Grants	108.2	108.2	2.4%	2.4%	110.8	2.7%	113.8	3.2%	117.4	3.5%	121.4	3.7%	125.9	3.7%	130.6
32 MCG Adjusted Revenues	4,362.7	4,462.1	2.2%	-0.1%	4,458.1	3.0%	4,593.0	3.1%	4,733.3	3.5%	4,896.8	3.4%	5,062.4	3.5%	5,237.5

11

Major Known Commitments (MKCs)						
		MCPS	MCG	College	MNCPPC	Total
1	FY14 Approved Budget	2,084,338,368	1,460,858,279	228,477,695	107,782,461	3,881,456,803
2	Retiree Health Insurance Pre-Funding (OPEB)		134,974,589		3,032,535	138,007,124
3	Agency Budgets Net of OPEB	2,084,338,368	1,325,883,690	228,477,695	104,749,926	3,743,449,679
4						
5	Potential or Negotiated Compensation					
6	Wages		16,400,000	3,336,761		19,736,761
7	Steps/service increments	26,450,188	6,400,000	4,282,928		37,133,116
8	Other projected bargaining costs		3,200,000		951,900	4,151,900
9	Annualization of FY14 Compensation		7,700,000			7,700,000
10	Group insurance cost increases	11,864,326	4,600,000	528,000	1,073,604	18,065,930
11	Retirement cost increases	3,420,289	5,700,000	150,970	1,044,592	10,315,851
12	Other benefit costs	9,639,464		124,000	431,280	10,194,744
13	Annualization of Program Expenses		4,756,266	476,330		5,232,596
14	Cost increase due to enrollment	11,090,092		(2,004,353)		9,085,739
15	Elimination of One-Time Items	(1,800,000)	(13,891,206)		(725,000)	(16,416,206)
16	Operating Impact of Capital Projects	1,007,636	1,917,454	4,543,822	400,000	7,868,912
17	Programmatic obligations:					
18	Election Cycle Changes/Early Voting		793,340			793,340
19	Voting System Costs		2,388,000			2,388,000
20	Community Grants: CIP Cost Sharing		500,000			500,000
21	Community Grants NDA		4,460,398			4,460,398
22	Fire Rescue (civilianization, SAFER)		(466,068)			(466,068)
23	Animal Services Reorganization		1,625,535			1,625,535
24	Working Families Income Supplement		488,800			488,800
25	Working Families Income Supplement - Bill 8-13		1,016,400			1,016,400
26	EDF Commitments		1,300,000			1,300,000
27	Information Technology cost increases		1,127,000			1,127,000
28	Classification and Compensation Audit		500,000			500,000
29	Leases		(2,802,148)			(2,802,148)
30	Other programmatic cost changes		646,242	100,000		746,242
31	Inflation:					
32	Service/Materials Contracts		420,509	420,509		841,018
33	Energy/utility costs	(1,022,887)	0	180,591	452,000	(390,296)
34	Fuel/rate increases	202,363	2,150,000			2,352,363
35	Nonpublic placements	938,776				938,776
36	Other	355,900		200,000		555,900

②

		<b>MCPS</b>	<b>MCG</b>	<b>College</b>	<b>MNCPPC</b>	<b>Total</b>
37	Other required cost increases:					
38	Liability insurance, workers compensation	765,134	1,200,000	150,000	(72,262)	2,042,872
39	Maintenance, transportation, etc.	1,289,375				1,289,375
40						
41	Total Major Known Commitments	64,200,656	52,130,522	12,489,558	3,556,114	132,376,850
42						
43	<b>Total Projected FY13 Agency Spending</b>	<b>2,148,539,024</b>	<b>1,378,014,212</b>	<b>240,967,253</b>	<b>108,306,040</b>	<b>3,875,826,529</b>
44	% Change	3.1%	3.9%	5.5%	3.4%	3.5%

13

#15 - Aggregate Operating Budget – Requires 6 affirmative votes

Resolution No.: 17-767  
Introduced: May 23, 2013  
Adopted: May 23, 2013

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

---

By: County Council

---

**SUBJECT:** Approval of the FY 2014 Aggregate Operating Budget

**Background**

1. Section 305 of the County Charter requires the affirmative vote of 7 Councilmembers to approve the aggregate operating budget if that budget exceeds the adopted spending affordability guidelines then in effect. Section 305 excludes from the aggregate operating budget:
  - Specific grants;
  - Enterprise Funds;
  - Tuition and tuition-related charges at Montgomery College;
  - Washington Suburban Sanitary Commission.
2. Section 20-60 of the County Code requires the Council to set spending affordability guidelines by resolution no later than the second Tuesday in February. The guidelines must specify a ceiling on the aggregate operating budget for FY 2014.
3. Section 305 of the Charter requires that at least 6 Councilmembers must approve the aggregate operating budget if that budget exceeds the budget for the preceding year by more than the rate of inflation, as measured by the annual average increase in the Consumer Price Index for all urban consumers in the Washington-Baltimore Metropolitan area for the 12-month period preceding December 1, which was 2.23 percent for the 12-month period preceding December 1, 2012.
4. On May 24, 2012, in Resolution 17-448, the Council approved the FY 2013 aggregate operating budget in the amount of \$4,014,738,287. If that aggregate operating budget increased at the 2.23 percent rate of inflation for the 12-month period preceding December 1, 2012, it would be \$4,104,266,951.

5. In Resolution No. 17-682, adopted February 12, 2013, the Council adopted the following spending affordability guideline for the FY 2014 aggregate operating budget.
- FY 2014 ceiling on the aggregate operating budget \$4,209.3 million

Action

The County Council for Montgomery County, Maryland approves the following resolution:

The Council approves the FY 2014 aggregate operating budget in the amount of \$4,192,987,481, as calculated on the attached page. Because the FY 2014 aggregate operating budget exceeds the FY 2013 aggregate operating budget as increased for inflation of \$4,104,266,951, 6 affirmative votes are required to adopt this resolution.

This is a correct copy of Council action.



Linda M. Lauer  
Linda M. Lauer, Clerk of the Council

The FY 2014 aggregate operating budget excludes enterprise funds, specific grants, and tuition and tuition-related charges at the College and it is calculated as follows.

<b>Fund or District</b>	<b>Appropriation</b>
General Fund	1,087,574,730
Fire District	217,018,693
Economic Development Fund	3,396,828
Mass Transit	116,665,732
Recreation District	28,008,455
Urban District	8,193,841
Montgomery County Public Schools	2,084,338,368
Montgomery College	228,477,695
Maryland-National Park and Planning Commission:	
Administration Fund	27,680,994
Park Fund	80,101,467
Debt Service on County Bonds and Leases	309,156,470
Debt Service on Park Bonds	4,184,700
Current Revenue for the Capital Budget	54,245,000
Current Revenue for PAYGO	29,500,000
Total Appropriations	4,278,542,973
Less College Tuition and Tuition-Related Charges	(85,555,492)
<b>AGGREGATE OPERATING BUDGET</b>	<b>4,192,987,481</b>
<b>SUMMARY:</b>	
Montgomery County Public Schools	2,084,338,368
Montgomery College Total	228,477,695
Less College Tuition and Tuition-Related Charges	(85,555,492)
Montgomery College Net	142,922,203
County Government	1,325,883,690
Maryland-National Park and Planning Commission	104,749,926
Retiree Health Insurance Pre-Funding	138,007,124
Debt Service on County Bonds and Park Bonds	313,341,170
Current Revenue and PAYGO for Capital Budget	83,745,000
<b>TOTAL APPROPRIATIONS</b>	<b>4,278,542,973</b>
Less College Tuition and Tuition-Related Charges	(85,555,492)
<b>AGGREGATE OPERATING BUDGET</b>	<b>4,192,987,481</b>
Aggregate Operating Budget for FY 2013	4,014,738,287
\$ increase	178,249,194
% change	4.44%
Inflation in prior calendar year	2.23%
FY2013 Aggregate Operating Budget + inflation	4,104,266,951

Resolution No.: \_\_\_\_\_  
Introduced: January 14, 2014  
Adopted: \_\_\_\_\_

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

---

By: County Council

---

**SUBJECT:** Spending Affordability Guidelines for the FY15 Operating Budget

**Background**

1. Section 305 of the Charter and Chapter 20-60 of the County Code require the Council to set spending affordability guidelines for the operating budget for the next fiscal year.
2. The guidelines must specify:
  - a) A ceiling on property tax revenues, which are used to fund the aggregate operating budget.
  - b) A ceiling on the aggregate operating budget. The aggregate operating budget is the total appropriation from current operating revenues, including appropriations for capital projects but excluding appropriations for: enterprise funds, the Washington Suburban Sanitary Commission, specific grants for which the spending is contingent on the grants, and expenditures equal to the estimated tuition and tuition-related charges at Montgomery College.
  - c) The spending allocations for the County Government, the Board of Education, Montgomery College, the Maryland-National Capital Park and Planning Commission, debt service, and current revenue funding of capital projects. As noted above, the College's allocation excludes expenditures equal to the estimated tuition and tuition-related charges.
3. Chapter 20-61 of the County Code lists a number of economic and financial factors to be considered in adopting the guidelines, requires a public hearing before the Council adopts guidelines, and requires that the Council adopt guidelines no later than the second Tuesday in February for the fiscal year starting the following July 1.

4. At the public hearing on January 28, 2014, the public had the opportunity to comment on the following guidelines.
- a) The amount of property tax revenue will not exceed the amount calculated in accordance with §305 of the Charter that would require nine affirmative votes.
  - b) The proposed ceiling on the aggregate operating budget and the agency allocations in millions of dollars are:

Debt Service	\$ 348.6
Current revenue, specific projects	\$ 61.1
Current revenue, PAYGO	\$ 40.5
Retiree health insurance prefunding	\$ 134.3
MCPS	\$2,127.2
Montgomery College	\$ 142.9
County Government	\$1,310.2
M-NCPPC	\$ 103.6
<b>Total = Aggregate Operating Budget</b>	<b>\$4,268.3</b>

**Action**

The County Council for Montgomery County approves the following resolution:

- 1. The spending affordability guidelines for the FY14 Operating Budget are:
  - a) The amount of property tax revenue will not exceed the amount calculated in accordance with §305 of the Charter that would require nine affirmative votes.
  - b) The ceiling on the aggregate operating budget and the agency spending allocations in **millions** of dollars are:

Debt Service	\$
Current revenue, specific projects	\$
Current revenue, PAYGO	\$
Retiree health insurance prefunding	\$
MCPS	\$
Montgomery College	\$
County Government	\$
M-NCPPC	\$
<b>Total = Aggregate Operating Budget</b>	<b>\$</b>

- c) Notwithstanding the above, the Council intends that any agency spending allocations which, as a result of additional increases in State aid, exceed the ceilings specified in (b) do not trigger the requirements of §20-63(b).
2. The Council's intent is that \$xxx million of the County Government's allocation will be appropriated for Community Grants (this amount excludes Community Service Grants), with Executive-recommended Community Grants totaling \$xxx million and Council Community Grants totaling \$xxx million.

This is a correct copy of Council action.

---

Linda M. Lauer, Clerk of the Council

8

**Testimony of the Montgomery County Board of Education**

**Public Hearing on the  
Fiscal Year 2015 Operating Budget  
Spending Affordability Guidelines**

**Presented by Mr. Philip Kauffman, President**

**January 28, 2014**

Good afternoon, President Rice and members of the County Council. I am Philip Kauffman, president of the Montgomery County Board of Education (the Board). Thank you for the opportunity to testify on behalf of the Board on the proposed Spending Affordability Guidelines (SAG) for Fiscal Year (FY) 2015.

We look forward to working collaboratively with the Council in supporting the needs of all our students. The Board, the County Council, and the county executive have been and continue to be partners in providing a high-quality education to all the children of our county.

The superintendent of schools' FY 2015 Operating Budget request is 1.2 percent or \$17.4 million more than the minimum county funding level required by state law. At this time, we still are engaged in collective bargaining with our three employee associations, and the superintendent of schools' budget did not include a funding estimate for the outcome of these negotiations. Council staff has recommended \$2.127 billion in SAG for the MCPS tax-supported budget in FY 2015. Although this is an increase of \$42.9 million or 2 percent more than FY 2014, it reflects funding at the Maintenance of Effort (MOE) level for MCPS.

Our budget process continues to be guided by collaboration with key stakeholders. In spring 2013, MCPS staff met with focus groups of teachers, support staff, administrators, parents, students, and community members to gather input on the priorities that should guide the MCPS budget in the coming years. In addition, small teams were established to discuss the work of elementary, middle, and high schools to identify the structures, resources, and processes that should be in place for MCPS to

20

continue to provide our students with a world-class education. This process allowed input from more than 200 individuals, many of whom had not previously participated in the budget process.

The Board of Education adopted its FY 2015 Operating Budget Interests on September 10, 2013, and these interests, along with the new Strategic Planning Framework, *Building Our Future Together: Students, Staff, and Community*, helped inform the development of the superintendent's recommended budget.

Nearly 85 percent of the superintendent of schools' FY 2015 Recommended Operating Budget increase is simply to allow MCPS to keep up with its continued enrollment growth and the increased cost of doing business. At the same time, more students require specific services and support to ensure success across the school district. A total of 20,250 students are projected to require English for Speakers of Other Languages services in FY 2015. This is more than 13 percent of total enrollment. The number of students eligible for Free and Reduced-price Meals System services has increased by more than 14,000 during the past five years, for a total of 51,842 students. This is more than one third of our total enrollment.

The Board is pleased that the county's recent fiscal outlook provides some optimism for FY 2015 and beyond. As the County Council adopts the SAG allocations, we ask that you not just fund our schools at the minimum funding level required by state law, but provide additional funding to address the continuing needs of our students in the county. Funding beyond the MOE level for our school district is essential to eliminate the achievement gap and maintain our academic excellence.

I welcome your questions.

**DEMOGRAPHIC AND ECONOMIC ASSUMPTIONS**  
**OMB MONTGOMERY COUNTY**  
**UPDATED ECONOMIC ASSUMPTIONS TO SUPPORT DECEMBER FISCAL PLAN**

CALENDAR YEAR	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>POPULATION (1)</b>												
Fiscal Plan (Dec '13)	959,013	975,439	989,794	999,300	1,000,700	1,008,800	1,016,900	1,024,600	1,034,500	1,044,500	1,054,600	1,064,800
-Percent Change		1.7%	1.5%	1.0%	0.1%	0.8%	0.8%	0.8%	1.0%	1.0%	1.0%	1.0%
Budget FY14 (Feb '13)	959,013	975,439	989,794	991,247	999,247	1,007,311	1,015,441	1,025,250	1,035,153	1,045,153	1,055,249	
-Percent Change		1.7%	1.5%	0.1%	0.8%	0.8%	0.8%	1.0%	1.0%	1.0%	1.0%	
Difference				8,053	1,453	1,489	1,459	(650)	(653)	(653)	(649)	
Persons per Household	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
<b>HOUSEHOLDS (2)</b>												
Fiscal Plan (Dec '13)	345,000	357,886	360,887	364,100	368,000	371,900	375,900	380,300	384,500	388,700	392,900	397,200
-Percent Change		3.5%	1.1%	0.9%	1.1%	1.1%	1.1%	1.2%	1.1%	1.1%	1.1%	1.1%
Budget FY14 (Feb '13)	345,000	357,886	360,887	364,728	368,611	372,535	376,500	380,609	384,763	388,963	393,208	
-Percent Change		3.5%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	
Difference				(628)	(611)	(635)	(600)	(309)	(263)	(263)	(308)	
<b>RESIDENT EMPLOYMENT (3)</b>												
Fiscal Plan (Dec '13)	493,501	494,889	501,697	506,730	511,800	518,570	525,780	532,870	537,610	544,010	550,490	557,040
-Percent Change		0.3%	1.4%	1.0%	1.0%	1.3%	1.4%	1.3%	0.9%	1.2%	1.2%	1.2%
Budget FY14 (Feb '13)	492,034	492,574	498,057	504,389	510,556	518,771	528,684	538,767	544,428	546,278	547,848	
-Percent Change		0.1%	1.1%	1.3%	1.2%	1.6%	1.9%	1.9%	1.1%	0.3%	0.3%	
Difference	1,467	2,315	3,640	2,341	1,244	(201)	(2,904)	(5,897)	(6,818)	(2,268)	2,642	
-Resident employment to total population	51.5%	50.7%	50.7%	50.7%	51.1%	51.4%	51.7%	52.0%	52.0%	52.1%	52.2%	52.3%
<b>PAYROLL EMPLOYMENT (4)</b>												
Fiscal Plan (Dec '13)	464,600	463,300	469,800	475,300	480,900	487,600	495,800	504,100	510,300	517,400	524,500	531,800
-Percent Change		-0.3%	1.4%	1.2%	1.2%	1.4%	1.7%	1.7%	1.2%	1.4%	1.4%	1.4%
Budget FY14 (Feb '13)	464,600	463,300	468,500	473,600	479,450	487,170	496,470	505,940	511,260	513,000	514,470	
-Percent Change		-0.3%	1.1%	1.1%	1.2%	1.6%	1.9%	1.9%	1.1%	0.3%	0.3%	
Difference			1,300	1,700	1,350	430	(670)	(1,840)	(960)	4,400	10,030	
<b>TOTAL PERSONAL INCOME - (\$Millions) (5)</b>												
Fiscal Plan (Dec '13)	\$62,960	\$65,900	\$69,050	\$71,800	\$73,090	\$76,340	\$79,820	\$83,650	\$87,950	\$91,670	\$95,360	\$99,330
-Percent Change		4.7%	4.8%	4.0%	1.8%	4.4%	4.6%	4.8%	5.1%	4.2%	4.0%	4.2%
Budget FY14 (Feb '13)	\$62,960	\$65,900	\$69,050	\$71,540	\$73,420	\$77,480	\$82,290	\$87,120	\$91,510	\$95,440	\$99,550	
-Percent Change		4.7%	4.8%	3.6%	2.6%	5.5%	6.2%	5.9%	5.0%	4.3%	4.3%	
Difference				260	(330)	(1,140)	(2,470)	(3,470)	(3,560)	(3,770)	(4,190)	
<b>WAGE AND SALARY INCOME - (\$Millions) (6)</b>												
Fiscal Plan (Dec '13)	\$30,700	\$31,630	\$33,090	\$34,120	\$34,860	\$36,350	\$38,110	\$40,000	\$41,840	\$43,630	\$45,090	\$46,590
-Percent Change		3.0%	4.3%	3.1%	2.2%	4.4%	4.8%	5.0%	4.6%	4.3%	3.3%	3.3%
Budget FY14 (Feb '13)	\$30,700	\$31,630	\$33,090	\$34,520	\$35,630	\$37,270	\$39,310	\$41,460	\$43,520	\$45,320	\$46,820	
-Percent Change				4.3%	3.2%	4.6%	5.5%	5.4%	5.0%	4.1%	3.3%	
Difference				(400)	(770)	(920)	(1,200)	(1,460)	(1,680)	(1,690)	(1,730)	
<b>DIVIDENDS, INTEREST, AND RENTAL INCOME - (\$Millions)</b>												
Fiscal Plan (Dec '13)	\$11,750	\$11,960	\$12,830	\$13,650	\$14,150	\$15,040	\$15,850	\$16,900	\$18,440	\$19,730	\$20,460	\$21,540
-Percent Change		1.8%	6.4%	6.0%	3.7%	6.3%	5.4%	6.6%	9.1%	7.0%	3.7%	5.3%
Budget FY14 (Feb '13)	\$11,750	\$11,960	\$12,830	\$13,800	\$14,140	\$15,000	\$16,200	\$17,400	\$18,500	\$19,500	\$20,600	
-Percent Change				7.6%	2.5%	6.1%	8.0%	7.4%	6.3%	5.4%	5.6%	
Difference				(150)	10	40	(350)	(500)	(60)	230	(140)	
<b>PER CAPITA PERSONAL INCOME (8)</b>												
Fiscal Plan (Dec '13)	\$65,650	\$67,560	\$69,760	\$71,850	\$73,040	\$75,670	\$78,490	\$81,640	\$85,020	\$87,760	\$90,420	\$93,290
-Percent Change		2.9%	3.2%	3.0%	1.7%	3.6%	3.7%	4.0%	4.1%	3.2%	3.0%	3.2%
Budget FY14 (Feb '13)	\$65,650	\$67,560	\$69,760	\$72,170	\$73,460	\$76,920	\$81,040	\$84,970	\$88,400	\$91,320	\$94,340	
-Percent Change				3.5%	1.8%	4.7%	5.4%	4.8%	4.0%	3.3%	3.3%	
Difference				(320)	(440)	(1,250)	(2,550)	(3,330)	(3,380)	(3,560)	(3,920)	
<b>AVERAGE HOUSEHOLD INCOME</b>												
Fiscal Plan (Dec '13)	\$182,490	\$184,550	\$191,330	\$197,200	\$198,610	\$205,270	\$212,340	\$219,960	\$228,740	\$235,840	\$242,710	\$250,080
-Percent Change		1.1%	3.7%	3.1%	0.7%	3.4%	3.4%	3.6%	4.0%	3.1%	2.9%	3.0%
Budget FY14 (Feb '13)	\$182,490	\$184,550	\$191,330	\$196,150	\$199,180	\$207,980	\$218,570	\$228,900	\$237,830	\$245,370	\$253,170	
-Percent Change				2.5%	1.5%	4.4%	5.1%	4.7%	3.9%	3.2%	3.2%	
Difference				1,050	(570)	(2,710)	(6,230)	(8,940)	(9,090)	(9,530)	(10,460)	
<b>CPI-U BALTIMORE/WASHINGTON (Calendar Year)</b>												
Fiscal Plan (Dec '13)	0.23%	1.72%	3.35%	2.20%	1.50%	2.10%	2.30%	2.70%	3.10%	3.50%	3.90%	4.30%
Budget FY14 (Feb '13)	0.23%	1.72%	3.35%	2.20%	2.28%	2.35%	2.45%	3.00%	3.30%	3.60%	3.85%	
<b>CPI-U BALTIMORE/WASHINGTON (Fiscal Year)</b>												
Fiscal Plan (Dec '13)	2.15%	1.17%	2.28%	2.87%	1.79%	1.80%	2.20%	2.50%	2.90%	3.30%	3.70%	4.10%
Budget FY14 (Feb '13)	2.15%	1.17%	2.28%	2.87%	2.24%	2.32%	2.40%	2.73%	3.15%	3.45%	3.73%	
<b>INVESTMENT INCOME YIELD (Fiscal Year)</b>												
Fiscal Plan (Dec '13)	1.71%	0.22%	0.10%	0.02%	0.16%	0.30%	0.55%	1.25%	1.75%	2.25%	2.75%	3.25%
Budget FY14 (Feb '13)	1.71%	0.22%	0.10%	0.02%	0.16%	0.19%	0.36%	0.75%	1.35%	1.80%	2.15%	

**NOTES:**

- (1) Population data from 2009 to 2011 from Bureau of Economic Analysis, U.S. Department of Commerce. Data from 2012 to 2019 are derived from Metropolitan Washington Council of Governments (Round 8.2) for 2010, 2015, and 2020 with revised growth rates for intervening years.
- (2) Household data for 2009 from American Community Survey, U.S. Census Bureau. Data for 2010 from Decennial Census and from 2011 to 2019 are derived from Metropolitan Washington Council of Governments (Round 8.2) for 2010, 2015, and 2020 with revised growth rates for intervening years.
- (3) Resident Employment from 2009 to 2012 from the Bureau of Labor Statistics (BLS), U.S. Department of Labor, revised for 2009 through 2012 and data from 2013 to 2020 estimated by the Department of Finance using previous year data from the BLS, the Maryland Department of Labor, Licensing and Regulation (DLR), and Moody's Analytics forecast.
- (4) Payroll Employment from 2009 to 2012 based on data series from BLS revised for 2011 and 2012 and data from 2013 to 2020 derived by the Department of Finance from BLS employment series, the Maryland Comptroller's (Comptroller) Board of Revenue Estimates September '13 State forecast, and Moody's Analytics forecast (September 2013).
- (5) Personal Income data from the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, through 2011. Data from 2012 to 2020 based on Comptroller's Board of Revenue Estimates September '13 State forecast and Moody's Analytics forecast (September 2013).
- (6) Wage and salary data from 2009 to 2011 from BEA. Data from 2012 to 2020 based on Comptroller's Board of Revenue Estimates September '13 State forecast and Moody's Analytics forecast (September 2013).
- (7) Dividend, interest, and rental income data from 2009 to 2011 from BEA. Data from 2012 to 2020 derived by the Department of Finance based on Comptroller's Board of Revenue Estimates September '13 State forecast and Moody's Analytics forecast (September 2013).
- (8) Per capita income from 2009 to 2011 from BEA. Data from 2012 to 2020 derived by the Department of Finance.

SOURCE: Montgomery County Department of Finance  
DATE: December 2013

(22)