

MEMORANDUM

January 27, 2016

TO: County Council

FROM: Jacob Sesker, Senior Legislative Analyst

SUBJECT: Spending Affordability Guidelines for the FY17 Operating Budget

Introduction

The Council's public hearing has been rescheduled for February 2, 2016 at 1:30 p.m. to receive public comments regarding proposed spending affordability guidelines for the FY17 operating budget. (Staff anticipates receiving written public hearing testimony from MCPS.) The deadline for the Council to adopt the guidelines is the second Tuesday in February, which falls this year on February 9.

Under the County Charter and Code¹, the Council must set three spending affordability guidelines for the FY17 operating budgets:

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.

¹ On November 6, 1990, the 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.

Factors

1. Condition of the economy

- The Washington metro area's countercyclical economy—the envy of all metro areas during times of recession—has not fared as well as most other metro areas since the national economic recovery began. However, the recent budget deal has eased the effect of the sequester cuts and provided some much needed stability/certainty in the regional economy.
- Global and national stock market instability will affect the regional economy and local revenues.
- In the 2nd quarter of 2007, the unemployment rate for the Washington D.C. metro area was 2.9%. By the 4th quarter of 2009, the rate had risen to 6.7%. The current metro area unemployment rate (November 2015, seasonally adjusted) is 4.1%.
- According to the Center for Regional Analysis, the D.C. metro area economy experienced employment growth of 2.1% (+67,100 jobs) from October 2014 through October 2015, ranking #8 out of the 15 largest job markets.
- Of the 67,100 jobs added in the metro area from October 2014 to October 2015, nearly 40% were in the critical professional and business services occupations. Much of the job growth, both in professional and business services occupations specifically and in the economy generally, occurred in October 2015.
- Montgomery County's unemployment rate peaked at 6.2% in January 2010 and was 3.9% in November 2015, below the rate for the metro area.
- The number of employed Montgomery County residents increased sharply (+15,449) over the previous 12 months from 516,195 in December 2014 to 531,644 in November 2015.
- The number of unemployed Montgomery County residents increased modestly (+1,203) from 20,404 in December 2014 to 21,607 in November 2015.

2. Level of economic activity in the County

- According to the Bureau of Labor Statistics, inflation for urban consumers in the Washington-Baltimore area over the 12-month period ending with November of 2015 was 1.08%. The average monthly increase from December 2014 through November 2015 was only 0.32%.
- Montgomery County home sales increased by an estimated 10.6% in 2015.

- Class A office rents average \$30.37. The Class A office vacancy rate is 15.8% (nearly 5.9 million square feet of vacant space). Net absorption over the 12-month period is +190,133 square feet.
- Class B office rents average \$25.10. The Class B vacancy rate is 14.1%. Net absorption over the 12 month period was negative (-126,343 square feet).
- The Center for Regional Analysis projects strong job growth in Suburban Maryland for both 2016 (+22,400) and 2017 (+20,100).
- The Center for Regional Analysis projects Gross Regional Product to accelerate, catching up to and then passing the growth in U.S. GDP in 2018.

3. Trends in personal income

- Finance estimates that personal income will increase by 3.5% in the 12 months ending in November 2015, with wage and salary income increasing by an even more robust 4.4%.
- Finance projects a good year for personal income in 2016—a 6.4% increase in total personal income and a 4.5% increase in wage and salary income.
- Finance estimates that both per capita income and average household income increased by 2.5% in 2015.
- Stock market volatility will impact incomes for many residents.
- Social Security recipients and Federal retirees in the CSRS and FERS retirement systems will not receive a COLA increase in 2016. This will be the third time over the past 7 years that a COLA was not provided. The 2015 COLA was +1.7%.

4. Impact of economic and population growth on projected revenues

- Population increased by an estimated 0.9% in 2014 and 1.0% in 2015. Households increased by an estimated 0.9% in 2014 and 0.9% in 2015.
- Finance estimates that per capita personal income is estimated to have increased by 2.5% in 2015, population increased by 1.0% and total personal income increased by 3.5%. As such, roughly 1/3 of the estimated 2015 increase in total personal income is driven by population growth.
- Population, household, and resident employment affect income tax receipts and transfer/recording tax receipts. Both revenue streams are affected by other factors (e.g., stock market fluctuations affect income tax receipts; interest rates affect transfer/recording tax receipts).

- Changes to the composition of households and employment may be affecting the extent to which employment and household growth affect revenues.

Spending Affordability Guidelines for the FY16 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 in Montgomery County to mean the maximum amount of property tax revenue the Council can approve without requiring nine affirmative votes. However, Montgomery County's "charter limit" is more akin to other supermajority voting requirements than to the harder property tax caps that exist in other jurisdictions.

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.

- 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.²

(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 FY16-21 Public Services Program on June 30, 2015. For FY16, 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 FY16-21.³ See ©5-7.

² 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.

³ In the December 2015 Fiscal Plan Update, OMB estimated property tax revenue of \$1,600.8 million for FY17. The Fiscal Plan Update assumed that inflation for the 12 month period ending December 1, 2015 would be 0.62%. Property tax revenue may fall short of the \$1,600.8 estimate because inflation was actually only 0.32%.

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. 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 and does not exceed any spending affordability guideline then in place.
- The affirmative votes of six Councilmembers are required to approve an AOB that exceeds the previous year’s AOB by more than the rate of inflation but does not exceed any spending affordability guideline then in place. Under the Charter, any AOB that exceeds the previous year’s AOB by more than the rate of inflation (to wit, 0.32%) requires the affirmative votes of six Councilmembers.
- The affirmative votes of seven Councilmembers are required to approve an AOB that exceeds the ceiling on the AOB established by the Council.

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 six fiscal years, the Council has not used projected resources as a basis for establishing this spending affordability guideline. During that 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).
- From FY14 through FY16, the ceiling on the AOB was set at the previous year's 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 three potential options for FY17 on © 1:

- Under Option #1, the AOB ceiling is held at the level of the FY16 approved AOB (no change).
- Under Option #2, the AOB increases (FY16 to FY17) by 0.32% the average estimated rate of inflation for the 12-month period through November 2015.
- Under Option #3, the AOB increases by 3.45%, the estimated increase in Total Personal Income for the 12 month period through November 2015.

(b) Recommendation

Staff recommends establishing a ceiling on the AOB at an amount equal to the estimated increase in Personal Income for the 12-month period ending December 1, 2015 (Option #3). Using this recommendation, the ceiling on the AOB would be set at \$4,585.2 million, 3.45% above the FY16 AOB.

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.

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

- Factor #1: Revenue estimates could be revised up or down from the December 2015 Fiscal Plan Update. For example, the December 2014 Fiscal Plan Update estimated FY16 revenues at \$133.0 million below the revenues that funded the approved budget 6 months later.
- Factor #2: Some of the non-agency uses (e.g., pre-funding for OPEB) could be shifted to fund agency uses. For example, the December 2014 Fiscal Plan Update estimated non-agency uses at \$187.2 million above the amount in the budget that was approved 6 months later.
- Factor #3: Reserves as a percentage of adjusted governmental revenues could be set at the FY17 reserve policy level of 8.4%, rather than the 9.3% in the December 2015 Fiscal Plan Update. For example, the December 2014 Fiscal Plan Update estimated total reserves for FY16 at \$16.5 million above the level approved 6 months later.
- Factor #4: Agency allocations could be reduced if fund balances are not re-appropriated. For example, Montgomery College assumes re-appropriation of \$6 million in fund balance, and MCPS assumes re-appropriation of \$33.1 million for FY17.
- Factor #5: 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 FY16.

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. The only requirement triggered by this guideline affects the agencies rather than the Council—under County Code §20-63, any agency requesting more than the Council's spending affordability guidelines must submit to the Council by March 31 prioritized expenditure reductions (non-recommended cuts) that would be necessary to comply with the adopted budget allocation and a summary of the effect of those cuts on the agency's program.

Because State aid amounts are not known in January, the proposed resolution also 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).*

(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, \$399.4 million, consistent with the December 2015 Fiscal Plan Update.** That figure includes \$393.6 million for County debt service and \$5.8 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 \$69.9 million, consistent with the December 2015 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 \$34.0 million, consistent with the December 2015 Fiscal Plan Update.**

Retiree Health Insurance Pre-funding (OPEB)

Council staff recommends allocating \$109.9 million to OPEB, consistent with the December 2015 Fiscal Plan Update.⁴ That figure includes \$63.1 million for MCPS, \$1.5 million for Montgomery College, \$43.5 million for County Government, and \$1.8 million for M-NCPPC.

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

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 for FY17—as was the case for FY14 through FY16—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 (\$2,225.0 million) includes the local contribution (at MOE), local contribution to MCPS retirement, and State aid and re-appropriation of fund balance.⁵ The allocation of aggregate operating budget to Montgomery College is \$171.9 million, which assumes a local contribution (at MOE), level State aid, and re-appropriation of fund balance.

⁴ 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.

⁵ Re-appropriation of fund balance has not always been assumed as part of the spending affordability guideline process, although it is included in the calculation of the AOB. This change better aligns the guidelines with the AOB. While the amount of fund balance that will be re-appropriated is unknown, it will be greater than \$0. This year Staff’s the spending affordability guideline recommendations include \$33.1 million for MCPS fund balance and \$6 million for Montgomery College fund balance.

Staff recommends allocating the remainder to County Government and M-NCPPC in proportion to their FY16 allocations. Under Option #3, the allocation to Montgomery County Government is \$1,456.1 million and the allocation to M-NCPPC is \$119.1 million.

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

(a) Background

For the last 8 years, the 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 FY16, the target set by the Council was \$8 million. In May 2015, the Council approved \$2.71 million in Council Community Grants that had gone through the Council’s grants process and \$5.96 million in Executive-recommended Community Grants.

(b) Recommendation

Set an overall target for Council and Executive Community Grants of \$8.7 million. This is the same overall level of funding for Community Grants as the Council approved last spring for the FY16 budget.

Should Councilmembers prefer an alternative approach, it can be discussed at the January 28, 2016 Government Operations and Fiscal Policy Committee meeting.

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, Montgomery Cares Grants, and Cost-Sharing CIP Grants).”

Schedule:

January 12	Introduction
January 26	Public hearing
January 28	GQ
February 9	Council action

Contents:

©	Item
1	Council staff’s calculations
2	FY17 SAG Resolution
5	Approved Fiscal Plan Summary
8	FY17 Aggregate Operating Budget

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FY16 Approved AOB=\$4,432,104,671

\$4,432.1

	A	B	C	D	E	F
Table 1: Spending Affordability Guideline 2 (Ceiling on the FY17 AOB, Smillions)						
1						
2	<i>FY16 Approved AOB</i>	<i>4,432.1</i>		Option 1	Option 2	Option 3
3	1. No change FY16 to FY17			+0.00%		
4	2. Inflation CY15				+0.32%	
5	3. Change in personal income CY15					+3.45%
6	Ceiling on FY17 AOB			\$4,432.1	\$4,446.1	\$4,585.2
7						
Table 2: Spending Affordability Guideline 3 (Allocation of FY17 AOB, Smillions)						
8						
9		FY16 App		Option 1	Option 2	Option 3
10	A. Non agency allocations					
11	Debt service					
12	County debt service	\$348.8		\$393.5	\$393.5	\$393.5
13	MNCPPC debt service	5.2		5.8	5.8	5.8
14	Current revenue, specific projects	57.7		69.9	69.9	69.9
15	Current revenue, PAYGO	34.0		34.0	34.0	34.0
16	Retiree health insurance prefunding (OPEB)					
17	OPEB for MCPS	61.7		63.1	63.1	63.1
18	OPEB for Montgomery College	1.4		1.5	1.5	1.5
19	OPEB for County Government	43.5		43.5	43.5	43.5
20	OPEB for MNCPPC	1.8		1.8	1.8	1.8
21	Subtotal, non-agencies	554.1		613.1	613.1	613.1
22						
23	B. Agency allocations	FY16 App	% agency	Option 1	Option 2	Option 3
24	MCPS	2,176.5	56.1%	2,225.0	2,225.0	2,225.0
25	College excl. expen. funded by tuition	172.4	4.4%	171.9	171.9	171.9
26	County Government	1,413.4	36.4%	1,314.6	1,327.6	1,456.1
27	MNCPPC	115.6	3.0%	107.5	108.6	119.1
28	Subtotal, agencies	3,878.0	100%	3,819.0	3,833.0	3,972.1
29	Aggregate Operating Budget	4,432.1		4,432.1	4,446.1	4,585.2
30						
Table 3: Change in Agency Allocations, FY16 approved to FY17 recommended						
31						
32				Option 1	Option 2	Option 3
33	MCPS			+2.23%	+2.23%	+2.23%
34	College excl. expen. funded by tuition			(0.33%)	(0.33%)	(0.33%)
35	County Government			(6.99%)	(6.08%)	+3.02%
36	MNCPPC			(6.99%)	(6.08%)	+3.02%
37	Total Agency Allocation			(1.52%)	(1.16%)	+2.43%

Notes:

1. FY17 MNCPPC debt service assumes Park Fund: \$5,676,960; ALARF Fund: \$166,160.
2. All other FY17 non-agency allocations are from the December Fiscal Plan Update.
3. All FY16 agency allocations are from Resolution 18-155 (Approval of the Aggregate Operating Budget).
4. FY17 Montgomery College allocation assumes total tax supported budget of \$254.4 million less \$82.6 million of tuition and related charges; local contribution of \$127.6 million (MOE); State Aid set at FY16 level; tuition assumes increase of \$4/\$8/\$12; fund balance of \$6 million re-appropriated.
5. FY17 MCPS allocation assumes \$1,528.4 local contribution (MOE); formula state aid; re-appropriation of \$33.1 million in fund balance.

①

Resolution No.: _____
Introduced: _____
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

SUBJECT: Spending Affordability Guidelines for the FY17 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 26, 2016, 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	\$ 399.4
Current revenue, specific projects	\$ 69.9
Current revenue, PAYGO	\$ 34.0
Retiree health insurance prefunding	\$ 109.9
MCPS	\$2,225.0
Montgomery College	\$ 171.9
County Government	\$1,456.1
M-NCPPC	\$ 119.1
Total = Aggregate Operating Budget	\$4,585.2

Action

The County Council for Montgomery County approves the following resolution:

1. The spending affordability guidelines for the FY17 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	\$
Total = Aggregate Operating Budget	\$

- 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 \$8.7 million of the County Government's allocation will be appropriated for Community Grants (this amount excludes Community Service Grants, Montgomery Cares Grants, and Cost-Sharing CIP Grants).

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council

Fiscal Plan December 2015 Tax Supported Fiscal Plan Summary

(\$ in Millions)															
	App. FY16 5-21-15	Est. FY16 12-8-15	% Chg. FY16-17 App/Proj	% Chg. FY16-17 Est/Proj	Projected FY17 12-8-15	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22
Total Revenues															
1 Property Tax	1,582.6	1,578.3	1.2%	1.4%	1,600.8	2.3%	1,638.0	2.5%	1,679.1	3.1%	1,731.2	3.1%	1,784.4	3.3%	1,843.4
2 Income Tax	1,433.4	1,382.6	-2.3%	1.3%	1,400.8	6.7%	1,494.4	7.9%	1,612.8	4.8%	1,689.9	4.8%	1,771.6	4.9%	1,857.5
3 Transfer/Recordation Tax	153.8	174.7	13.2%	-0.4%	174.1	3.2%	179.7	4.5%	187.8	3.8%	194.9	7.7%	209.9	6.8%	224.2
4 Other Taxes	280.3	278.0	-0.1%	0.7%	280.1	1.1%	283.3	1.0%	286.0	1.1%	289.1	1.1%	292.4	1.2%	295.8
5 Other Revenues	990.1	989.7	-0.7%	-0.6%	983.7	0.5%	988.4	0.5%	993.7	0.6%	999.5	0.7%	1,006.1	0.4%	1,010.6
6 Total Revenues	4,440.3	4,403.2	0.0%	0.8%	4,439.4	3.3%	4,583.9	3.8%	4,759.4	3.1%	4,904.6	3.3%	5,064.4	3.3%	5,231.5
7															
8 Net Transfers In (Out)	24.9	25.0	-13.9%	-14.2%	21.4	2.0%	21.8	2.3%	22.3	2.6%	22.9	2.6%	23.5	2.6%	24.2
9 Total Revenues and Transfers Available	4,465.2	4,428.2	-0.1%	0.7%	4,460.9	3.2%	4,605.7	3.8%	4,781.7	3.1%	4,927.6	3.3%	5,088.0	3.3%	5,255.7
10															
11 Non-Operating Budget Use of Revenues															
12 Debt Service	354.0	354.0	12.8%	12.8%	399.4	2.6%	409.7	4.0%	426.0	4.0%	443.2	3.6%	459.3	0.0%	459.3
13 PAYGO	34.0	34.0	0.0%	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0
14 CIP Current Revenue	57.7	31.6	21.2%	120.8%	69.9	2.0%	71.3	11.2%	79.3	-1.5%	78.1	0.0%	78.1	0.0%	78.1
15 Change in Montgomery College Reserves	-7.1	-4.6	64.9%	45.8%	-2.5	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
16 Change in MNCPPC Reserves	-3.1	-1.5	51.0%	2.1%	-1.5	106.6%	0.1	10.6%	0.1	26.5%	0.1	3.2%	0.1	9.3%	0.2
17 Change in MCPS Reserves	-33.2	-23.2	69.8%	56.8%	-10.0	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
18 Change in MCG Special Fund Reserves	-7.5	-7.5	102.3%	102.3%	0.2	-92.5%	0.0	240.2%	0.0	22.6%	0.1	-21.2%	0.0	11.0%	0.0
19 Contribution to General Fund Undesignated Reserves	-22.0	-34.0	269.8%	210.0%	37.4	-94.9%	1.9	240.2%	6.5	22.6%	8.0	-21.2%	6.3	11.0%	7.0
20 Contribution to Revenue Stabilization Reserves	24.2	24.0	2.7%	3.5%	24.8	5.2%	26.1	5.7%	27.6	-59.2%	11.3	-10.4%	10.1	0.5%	10.1
21 Retiree Health Insurance Pre-Funding	108.5	108.5	1.3%	1.3%	109.9	-2.9%	106.7	-3.8%	102.7	-3.1%	99.5	-3.2%	96.3	0.0%	96.3
22 Set Aside for other uses (supplemental appropriations)	2.0	17.0	900.0%	17.6%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
23 Total Other Uses of Resources	507.5	498.3	34.3%	36.8%	681.6	-1.7%	669.8	4.0%	696.3	-0.3%	694.3	1.4%	704.2	0.1%	705.0
24 Available to Allocate to Agencies (Total Revenues + Net Transfers - Total Other Uses)	3,957.8	3,929.9	-4.5%	-3.8%	3,779.3	4.1%	3,935.9	3.8%	4,085.4	3.6%	4,233.2	3.6%	4,383.7	3.8%	4,550.6
25															
26 Agency Uses															
27															
28 Montgomery County Public Schools (MCPS)	2,176.5	2,166.5	0.0%	0.5%	2,176.9										
29 Montgomery College (MC)	252.2	249.7	-1.2%	-0.2%	249.2										
30 MNCPPC (w/o Debt Service)	115.6	114.1	-11.5%	-10.3%	102.3										
31 MCG	1,413.4	1,399.6	-11.5%	-10.6%	1,251.0										
32 Agency Uses	3,957.8	3,929.9	-4.5%	-3.8%	3,779.3	4.1%	3,935.9	3.8%	4,085.4	3.6%	4,233.2	3.6%	4,383.7	3.8%	4,550.6
33 Total Uses	4,465.2	4,428.2	-0.1%	0.7%	4,460.9	3.2%	4,605.7	3.8%	4,781.7	3.1%	4,927.6	3.3%	5,088.0	3.3%	5,255.7
34 (Gap)/Available	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0

Assumptions:

1. Property taxes are at the Charter Limit with a \$692 credit. 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 FY15-20 Capital Improvements Program.
4. Retiree health insurance (OPEB) is fully funded.
5. State Aid, including MCPS and Montgomery College, is not projected to increase in FY17-22.
6. Projected FY17 allocations for MCPS and Montgomery College assume County funding at maintenance of effort. The allocations do not include potential increases to State Aid or other possible agency resources, such as use of additional fund balance. Additional State Aid or use of fund balance would increase the rate of growth for MCPS and Montgomery College.
7. Estimated FY16 expenditures reflect the FY16 Approved Savings Plan.

5

Fiscal Plan December 2015
Tax Supported Fiscal Plan Summary

(\$ in Millions)

	App. FY16	Est. FY16	% Chg. FY16-17	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22
35 Beginning Reserves															
36 Unrestricted General Fund	149.8	149.8	-22.7%	-22.7%	115.8	32.3%	153.2	1.3%	155.2	4.2%	161.7	4.9%	169.7	3.7%	176.0
37 Revenue Stabilization Fund	230.7	230.7	10.4%	10.4%	254.7	9.8%	279.5	9.4%	305.7	9.0%	333.3	3.4%	344.5	2.9%	354.6
38 Total Reserves	380.5	380.5	-2.6%	-2.6%	370.5	16.8%	432.8	6.5%	460.8	7.4%	495.0	3.9%	514.2	3.2%	530.6
39															
40 Additions to Reserves															
41 Unrestricted General Fund	-22.0	-34.0	269.8%	210.0%	37.4	-94.9%	1.9	240.2%	6.5	22.6%	8.0	-21.2%	6.3	11.0%	7.0
42 Revenue Stabilization Fund	24.2	24.0	2.7%	3.5%	24.8	5.2%	26.1	5.7%	27.6	-59.2%	11.3	-10.4%	10.1	0.5%	10.1
43 Total Change in Reserves	2.2	-10.0	2783.2%	722.0%	62.3	-54.9%	28.1	21.7%	34.1	-43.6%	19.3	-14.9%	16.4	4.5%	17.1
44															
45 Ending Reserves															
46 Unrestricted General Fund	127.8	115.8	19.9%	32.3%	153.2	1.3%	155.2	4.2%	161.7	4.9%	169.7	3.7%	176.0	4.0%	183.0
47 Revenue Stabilization Fund	254.9	254.7	9.7%	9.8%	279.5	9.4%	305.7	9.0%	333.3	3.4%	344.5	2.9%	354.6	2.9%	364.8
48 Total Reserves	382.7	370.5	13.1%	16.8%	432.8	6.5%	460.8	7.4%	495.0	3.9%	514.2	3.2%	530.6	3.2%	547.7
49 Reserves as a % of Adjusted Governmental Revenues	8.2%	8.0%			9.3%		9.6%		9.9%		10.0%		10.0%		10.0%
50 Other Reserves															
51 Montgomery College	3.5	6.0	0.0%	-41.5%	3.5	0.0%	3.5	0.0%	3.5	0.0%	3.5	0.0%	3.5	0.0%	3.5
52 M-NCPPC	4.3	5.8	0.7%	-25.9%	4.3	2.3%	4.4	2.5%	4.5	3.1%	4.6	3.1%	4.8	3.3%	4.9
53 MCPS	0.0	10.0	n/a	-100.0%	0.0	n/a	0.0								
54 MCG Special Funds	0.9	0.9	19.9%	19.9%	1.0	1.3%	1.1	4.2%	1.1	4.9%	1.2	3.7%	1.2	4.0%	1.3
55 MCG + Agency Reserves as a % of Adjusted Govt Revenues	8.4%	8.5%			9.5%		9.8%		10.1%		10.2%		10.2%		10.2%
56 Retiree Health Insurance Pre-Funding															
57 Montgomery County Public Schools (MCPS)	61.7	61.7			63.1		61.3		59.0		56.7		54.4		54.4
58 Montgomery College (MC)	1.4	1.4			1.5		1.6		1.6		1.5		1.6		1.6
59 MNCPPC	1.8	1.8			1.8		1.8		1.8		1.8		1.8		1.8
60 MCG	43.5	43.5			43.5		42.0		40.4		39.5		38.6		38.6
61 Subtotal Retiree Health Insurance Pre-Funding	108.5	108.5			109.9		106.7		102.7		99.5		96.3		96.3
62 Adjusted Governmental Revenues															
63 Total Tax Supported Revenues	4,440.3	4,403.2	0.0%	0.8%	4,439.4	3.3%	4,583.9	3.8%	4,759.4	3.1%	4,904.6	3.3%	5,064.4	3.3%	5,231.5
64 Capital Projects Fund	123.6	123.6	-12.4%	-12.4%	108.2	-7.7%	99.9	-2.2%	97.7	7.7%	105.2	0.0%	105.2	0.0%	105.2
65 Grants	120.1	120.1	2.2%	2.2%	122.7	2.3%	125.6	2.5%	128.7	2.8%	132.3	3.1%	136.5	3.1%	140.8
66 Total Adjusted Governmental Revenues	4,684.0	4,646.9	-0.3%	0.5%	4,670.4	3.0%	4,809.3	3.7%	4,985.8	3.1%	5,142.2	3.2%	5,306.1	3.2%	5,477.5

REVENUE SUMMARY
TAX SUPPORTED BUDGETS
(\$ Millions)

KEY REVENUE CATEGORIES	App. FY16	Estimate FY16	% Chg. FY16-17	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22
TAXES	5-21-15	12-8-15	App/App	Est/App	12-8-15										
1 Property Tax	1,582.6	1,578.3	1.2%	1.4%	1,600.8	2.3%	1,638.0	2.5%	1,679.1	3.1%	1,731.2	3.1%	1,784.4	3.3%	1,843.4
2 Income Tax	1,433.4	1,382.6	-2.3%	1.3%	1,400.8	6.7%	1,494.4	7.9%	1,612.8	4.8%	1,689.9	4.8%	1,771.6	4.9%	1,857.5
3 Transfer Tax	96.2	109.3	12.7%	-0.8%	108.4	3.0%	111.7	4.1%	116.3	4.5%	121.5	7.7%	130.9	6.7%	139.6
4 Recordation Tax	57.6	65.4	14.0%	0.4%	65.7	3.5%	68.0	5.2%	71.5	2.6%	73.3	7.9%	79.1	6.9%	84.6
5 Energy Tax	206.2	205.1	0.0%	0.5%	206.1	0.9%	207.9	0.6%	209.1	0.7%	210.6	0.7%	212.2	0.7%	213.8
6 Telephone Tax	50.4	50.0	-0.2%	0.7%	50.3	0.9%	50.8	1.1%	51.3	1.2%	52.0	1.4%	52.7	1.5%	53.5
7 Hotel/Motel Tax	20.3	19.9	1.5%	3.6%	20.6	3.6%	21.4	3.5%	22.1	3.4%	22.9	3.3%	23.6	3.3%	24.4
8 Admissions Tax	3.2	2.9	-5.6%	5.4%	3.1	5.8%	3.2	6.3%	3.4	6.3%	3.7	6.2%	3.9	6.2%	4.1
9 E-Cigarette Tax	0.1	0.1	0.0%	0.0%	0.1	0.0%	0.1	0.0%	0.1	0.0%	0.1	0.0%	0.1	0.0%	0.1
10 Total Local Taxes	3,450.2	3,413.6	0.2%	1.2%	3,455.9	4.0%	3,595.6	4.7%	3,765.8	3.7%	3,905.3	3.9%	4,058.4	4.0%	4,221.0
INTERGOVERNMENTAL AID															
11 Highway User	4.1	3.6	-11.2%	1.0%	3.7	0.0%	3.7	0.0%	3.7	0.0%	3.7	0.0%	3.7	0.0%	3.7
12 Police Protection	13.8	13.8	0.0%	0.0%	13.8	0.0%	13.8	0.0%	13.8	0.0%	13.8	0.0%	13.8	0.0%	13.8
13 Libraries	5.1	5.1	0.0%	0.0%	5.1	0.0%	5.1	0.0%	5.1	0.0%	5.1	0.0%	5.1	0.0%	5.1
14 Health Services Case Formula	4.0	4.0	0.0%	0.0%	4.0	0.0%	4.0	0.0%	4.0	0.0%	4.0	0.0%	4.0	0.0%	4.0
15 Mass Transit	39.8	39.8	0.0%	0.0%	39.8	0.0%	39.8	0.0%	39.8	0.0%	39.8	0.0%	39.8	0.0%	39.8
16 Public Schools	631.4	631.4	0.0%	0.0%	631.4	0.0%	631.4	0.0%	631.4	0.0%	631.4	0.0%	631.4	0.0%	631.4
17 Community College	34.0	34.0	0.0%	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0
18 Other	54.0	54.0	-21.3%	-21.3%	42.5	0.0%	42.5	0.0%	42.5	0.0%	42.5	0.0%	42.5	0.0%	42.5
19 Total Intergovernmental Aid	786.2	785.7	-1.5%	-1.5%	774.2	0.0%	774.2	0.0%	774.2	0.0%	774.2	0.0%	774.2	0.0%	774.2
FEE AND FINES															
20 Licenses & Permits	13.0	13.0	1.5%	1.5%	13.2	1.5%	13.4	1.5%	13.6	1.5%	13.8	1.5%	14.0	1.5%	14.3
21 Charges for Services	71.8	71.8	1.8%	1.8%	73.0	1.6%	74.2	1.8%	75.5	2.1%	77.1	2.1%	78.7	2.1%	80.4
22 Fines & Forfeitures	24.3	24.3	1.6%	1.6%	24.7	1.6%	25.1	1.6%	25.5	1.6%	25.9	1.6%	26.3	1.6%	26.7
23 Montgomery College Tuition	81.2	81.2	1.8%	1.8%	82.6	1.6%	83.9	1.8%	85.5	2.1%	87.3	2.1%	89.1	2.1%	91.0
24 Total Fees and Fines	190.3	190.3	1.7%	1.7%	193.6	1.6%	196.6	1.8%	200.1	2.0%	204.1	2.0%	208.2	2.0%	212.3
MISCELLANEOUS															
25 Investment Income	2.1	2.1	86.4%	86.4%	3.9	38.2%	5.4	27.8%	6.8	21.8%	8.3	26.5%	10.5	0.0%	10.5
26 Other Miscellaneous	11.6	11.6	2.2%	2.2%	11.9	2.0%	12.1	2.3%	12.4	2.6%	12.7	2.6%	13.1	2.6%	13.4
27 Total Miscellaneous	13.7	13.7	15.0%	15.0%	15.8	10.9%	17.5	10.1%	19.2	9.4%	21.0	12.1%	23.6	1.5%	23.9
28 TOTAL REVENUES	4,440.3	4,403.2	0.0%	0.8%	4,439.4	3.3%	4,583.9	3.8%	4,759.4	3.1%	4,904.6	3.3%	5,064.4	3.3%	5,231.5
29															
Calculation for Adjusted Governmental Revenues															
29 Total Tax Supported Revenues	4,440.3	4,403.2	0.0%	0.8%	4,439.4	3.3%	4,583.9	3.8%	4,759.4	3.1%	4,904.6	3.3%	5,064.4	3.3%	5,231.5
30 Capital Projects Fund	123.6	123.6	-12.4%	-12.4%	108.2	-7.7%	99.9	-2.2%	97.7	7.7%	105.2	0.0%	105.2	0.0%	105.2
31 Grants	120.1	120.1	2.2%	2.2%	122.7	2.3%	125.6	2.5%	128.7	2.8%	132.3	3.1%	136.5	3.1%	140.8
32 MCG Adjusted Revenues	4,684.0	4,646.9	-0.3%	0.5%	4,670.4	3.0%	4,809.3	3.7%	4,985.8	3.1%	5,142.2	3.2%	5,306.1	3.2%	5,477.5

#15 - Aggregate Operating Budget – Requires 6 affirmative votes

Resolution No.:	<u>18-155</u>
Introduced:	<u>May 21, 2015</u>
Adopted:	<u>May 21, 2015</u>

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

SUBJECT: Approval of the FY 2016 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 2016.
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 1.65% percent for the 12-month period preceding December 1, 2014.
4. On May 22, 2014, in Resolution 17-1116, the Council approved the FY 2015 aggregate operating budget in the amount of \$4,353,574,409. If that aggregate operating budget increased at the 1.65% percent rate of inflation for the 12-month period preceding December 1, 2014, it would be \$4,425,408,387.

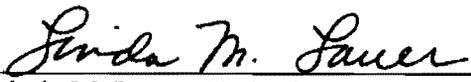
5. In Resolution No. 18-59, adopted February 10, 2015, the Council adopted the following spending affordability guideline for the FY 2015 aggregate operating budget.
- FY 2016 ceiling on the aggregate operating budget \$4,453,919,634

Action

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

The Council approves the FY 2016 aggregate operating budget in the amount of \$4,432,104,671, as calculated on the attached page. Because the FY 2016 aggregate operating budget exceeds the FY 2015 aggregate operating budget as increased for inflation of \$4,425,408,387, 6 affirmative votes are required to adopt this resolution.

This is a correct copy of Council action.


Linda M. Lauer, Clerk of the Council

The FY 2016 aggregate operating budget excludes enterprise funds, specific grants, and tuition and tuition-related charges at the College and it is calculated as follows.

Fund or District	Appropriation
General Fund	1,133,242,438
Fire District	222,299,388
Economic Development Fund	1,853,591
Mass Transit	121,491,890
Recreation District	32,339,234
Urban District	8,877,052
Montgomery County Public Schools	2,176,525,543
Montgomery College	252,218,195
Maryland-National Park and Planning Commission:	
Administration Fund	29,873,597
Park Fund	87,499,802
Debt Service on County Bonds and Leases	348,782,725
Debt Service on Park Bonds	5,225,245
Current Revenue for the Capital Budget	57,668,000
Current Revenue for PAYGO	34,000,000
Total Appropriations	4,511,896,700
Less College Tuition and Tuition-Related Charges	(79,792,029)
FY 2016 AGGREGATE OPERATING BUDGET	4,432,104,671
SUMMARY:	
Montgomery County Public Schools	2,176,525,543
Montgomery College Total	252,218,195
County Government	1,413,422,533
Maryland-National Park and Planning Commission	115,583,985
Retiree Health Insurance Pre-Funding	108,470,474
Debt Service on County Bonds and Park Bonds	354,007,970
Current Revenue and PAYGO for Capital Budget	91,668,000
TOTAL APPROPRIATIONS	4,511,896,700
Less College Tuition and Tuition-Related Charges	(79,792,029)
FY 2016 AGGREGATE OPERATING BUDGET	4,432,104,671
Aggregate Operating Budget for FY 2015	4,353,574,409
\$ increase	78,530,262
% change	1.80%
Inflation in prior calendar year	1.65%
FY2015 Aggregate Operating Budget + inflation	4,425,408,387