

GO COMMITTEE #1  
June 23, 2016

## MEMORANDUM

June 21, 2016

TO: Government Operations and Fiscal Policy Committee

FROM: Stephen B. Farber, Council Administrator   
Jacob Sesker, Senior Legislative Analyst 

SUBJECT: Resolution to Approve the Tax Supported Fiscal Plan Summary for the FY17-22  
Public Services Program

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.*

### Background

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 strengthened these policies in Resolution No. 17-312, which retained the fiscal plan language and replaced the earlier resolution. See ©5-8.

Pursuant to these policies, on June 29, 2010 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. On June 25, 2013 the Council approved the Tax Supported Fiscal Plan Summary for the FY14-19 Public Services Program in Resolution No. 17-800. On June 17, 2014 the Council approved the Tax Supported Fiscal Plan Summary for the FY15-20 Public Services Program in Resolution No. 17-1137. On June 30, 2015 the Council approved the Tax Supported Fiscal Plan Summary for the FY16-21 Public Services Program in Resolution No. 18-205.

On June 21 the Council introduced a resolution to approve the Tax Supported Fiscal Plan Summary for the FY17-22 Public Services Program, based on the fiscal decisions it approved on May 26. See the resolution on ©1-4. Following the Committee’s worksession on June 23, the Council is scheduled to act on **June 28**.

**The FY17-22 Tax Supported Fiscal Plan Summary, like all versions of the Fiscal Plan, is a snapshot in time that reflects current fiscal projections and policy assumptions.** The one certainty from past experience is that as conditions change, future versions of the plan will change as well. What this version shows – as rows 20 and 28 on ©3 make clear – is that strict adherence to the County’s fiscal policies will limit the resources available to allocate to the agencies during the six-year period, particularly in FY18.

### Issues

**1. Fiscal projections and policy assumptions.** Fiscal projections change as local, national, and global economic and financial prospects change. Updated projections will be available for the next two versions of the Fiscal Plan, which are scheduled for December 2016 and March 2017. The policy assumptions for this version are listed in the notes on ©3:

- a. The FY17 average weighted property tax rate is 3.94 cents higher than in FY16, with a \$692 income tax offset credit. Property tax revenue at the Charter limit, with a \$692 credit, is assumed in FY18-22.
- b. Reserve contributions are at the policy level and consistent with legal requirements, ramping up to 10% by FY19. See ©4.<sup>1</sup>
- c. PAYGO, debt service, and current revenue reflect the Council’s Approved FY17-22 Capital Improvements Program.
- d. State aid, including MCPS and Montgomery College, is assumed to be flat in FY18-22 because while increases may well occur, the amounts are unknown at this time.

**2. Resources available to allocate to the agencies.** Rows 29 and 28 show that based on current fiscal projections and policy assumptions, overall resources available to allocate to the agencies in FY18-22 will change by **-0.1%**, **+2.9%**, **+2.9%**, **+3.3%**, and **+3.3%**, respectively. The change in agency resources in the approved budget for FY17 is **+4.7%**. The changes for FY13-16 were **+5.0%**, **+3.7%**, **+3.8%**, and **+1.9%**, respectively, following severely constrained budgets in FY10-12 caused by the Great Recession.

**3. Focus on FY18.** The projected overall 0.1% decline in agency resources for FY18, as noted above, reflects current fiscal projections and policy assumptions. Because of State

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<sup>1</sup> The FY16 minimum target for reserve as a percentage of Adjusted Governmental Revenues, as established in Resolution No. 17-312 (November 29, 2011), was 7.9%. See ©7. The FY16 ending reserve is currently projected at 8.0%. See ©4. The FY17 minimum target reserve is 8.4%. The Council’s approved FY17 reserve is **8.4% (\$415.8 million)**, a historical high. This number does not include \$11.6 million in other reserves from MCPS, Montgomery College, M-NCPPC, and MCG Special Funds. See rows 45-50 on ©4.

Maintenance of Effort (MOE) requirements for MCPS and Montgomery College, the decline for the other two tax supported agencies, MCG and M-NCPPC, would be much more than 0.1%. Note that agency **increase** requests in FY18 may in fact total 4.0% or more.

**The projected 0.1% decline in agency resources for FY18, compared to FY17, warrants close attention, but it also needs to be assessed in context.** Over the next nine months, as the Fiscal Plan is updated with new data on revenues and expenditures, projections that lead to the 0.1% decline may well be adjusted – up or down. Consider the following:

- In June 2013 the approved FY14-19 Fiscal Plan projected a 5.0% decline in agency resources for FY15 (to \$3.555 billion). The December 2013 Fiscal Plan update projected a smaller decline of 0.9% (to \$3.710 billion). Actual agency resources in the Council's FY15 approved budget in May 2014 were up 3.8% (to \$3.885 billion). **Thus agency resources for FY15 were \$330 million above the projection made one year earlier.**
- In June 2014 the approved FY15-20 Fiscal Plan projected a 1.2% decline in agency resources for FY16 (to \$3.838 billion). The December 2014 Fiscal plan update projected a larger decline of 6.1% (to \$3.647 billion). Actual agency resources in the Council's FY16 approved budget in May 2015 were up 1.9% (to \$3.958 billion). **Thus agency resources for FY16 were \$120 million above the projection made one year earlier (and \$311 million above the projection made five months earlier).**

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Resolution No.: \_\_\_\_\_  
Introduced: June 21, 2016  
Adopted: \_\_\_\_\_

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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By: Government Operations and Fiscal Policy Committee

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**SUBJECT:** Approval of the County's Tax Supported Fiscal Plan Summary for the FY17-22 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. Starting in 1992, 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 strengthened these policies in Resolution No. 17-312, which retained the fiscal plan language and replaced the earlier resolution.

4. Pursuant to these policies, on June 29, 2010 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. On June 25, 2013 the Council approved the Tax Supported Fiscal Plan Summary for the FY14-19 Public Services Program in Resolution No. 17-800. On June 17, 2014 the Council approved the Tax Supported Fiscal Plan Summary for the FY15-20 Public Services Program in Resolution No. 17-1137. On June 30, 2015 the Council approved the Tax Supported Fiscal Plan Summary for the FY16-21 Public Services Program in Resolution No. 18-205.
5. On June 21, 2016 the Council introduced a resolution on the Tax Supported Fiscal Plan Summary for the FY17-22 Public Services Program. On June 23, 2016 the Government Operations and Fiscal Policy Committee reviewed the Fiscal Plan Summary.

**Action**

The County Council for Montgomery County, Maryland approves the Tax Supported Fiscal Plan Summary for the FY17-22 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.

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Linda Lauer, Clerk of the Council

**County Council Approved FY17-22 Public Services Program  
Tax Supported Fiscal Plan Summary**

(\$ in Millions)

	App. FY16	Est. FY16	% Chg. FY16-17 App/App	App. 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
<b>Total Revenues</b>	5-21-15			5-26-18										
1 Property Tax	1,582.8	1,580.8	9.9%	1,738.7	2.3%	1,779.2	3.0%	1,833.3	3.2%	1,892.5	3.1%	1,951.7	3.3%	2,016.5
2 Income Tax	1,433.4	1,438.1	3.8%	1,467.8	6.4%	1,582.2	3.2%	1,633.3	3.4%	1,688.4	4.8%	1,766.3	4.3%	1,841.8
3 Transfer/Recordation Tax	153.8	174.7	7.6%	165.8	2.3%	169.6	4.5%	177.3	3.9%	184.1	7.8%	198.5	6.8%	212.0
4 Other Taxes	280.3	278.2	-0.7%	278.3	1.4%	282.3	1.3%	285.8	1.1%	289.0	1.1%	292.3	1.2%	295.9
5 Other Revenues	990.1	985.9	3.8%	1,027.7	-0.9%	1,018.3	0.2%	1,020.2	0.2%	1,022.5	0.6%	1,028.3	0.6%	1,034.1
6 <b>Total Revenues</b>	<b>4,440.3</b>	<b>4,455.8</b>	<b>5.8%</b>	<b>4,898.1</b>	<b>2.8%</b>	<b>4,831.8</b>	<b>2.4%</b>	<b>4,949.8</b>	<b>2.6%</b>	<b>5,076.6</b>	<b>3.2%</b>	<b>5,237.1</b>	<b>3.1%</b>	<b>5,400.2</b>
7														
8 <b>Net Transfers In (Out)</b>	<b>24.9</b>	<b>24.9</b>	<b>-43.7%</b>	<b>14.0</b>	<b>2.3%</b>	<b>14.3</b>	<b>2.5%</b>	<b>14.7</b>	<b>2.7%</b>	<b>15.1</b>	<b>2.7%</b>	<b>15.5</b>	<b>2.7%</b>	<b>15.9</b>
9 <b>Total Revenues and Transfers Available</b>	<b>4,465.2</b>	<b>4,480.5</b>	<b>5.5%</b>	<b>4,712.1</b>	<b>2.8%</b>	<b>4,846.0</b>	<b>2.4%</b>	<b>4,964.5</b>	<b>2.6%</b>	<b>5,091.7</b>	<b>3.2%</b>	<b>5,252.6</b>	<b>3.1%</b>	<b>5,416.1</b>
10														
11 <b>Non-Operating Budget Use of Revenues</b>														
12 Debt Service	354.0	346.9	9.7%	388.2	3.6%	402.0	4.3%	419.5	4.1%	436.5	3.9%	453.5	2.8%	466.1
13 PAYGO	34.0	34.0	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	61.9	-20.6%	45.8	76.5%	80.8	2.1%	82.5	-8.1%	75.0	3.7%	77.8	-7.6%	71.9
15 Change in Other Reserves	-50.8	-16.8	-4.9%	-53.3	101.7%	0.9	-73.9%	0.2	10.8%	0.3	2.7%	0.3	14.0%	0.3
16 Contribution to General Fund Undesignated Reserves	-22.0	-37.2	173.4%	18.2	92.7%	31.2	-85.6%	4.5	14.0%	5.1	6.5%	5.4	28.2%	7.0
17 Contribution to Revenue Stabilization Reserves	24.2	24.1	5.7%	25.8	5.9%	27.1	8.7%	28.9	-36.6%	18.4	-49.7%	9.2	5.4%	9.7
18 Set Aside for other uses (supplemental appropriations)	2.0	-0.4	-93.8%	0.1	16113.1%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
19 <b>Total Other Uses of Resources</b>	<b>399.0</b>	<b>412.5</b>	<b>14.4%</b>	<b>458.5</b>	<b>30.5%</b>	<b>596.0</b>	<b>-1.1%</b>	<b>589.7</b>	<b>-0.1%</b>	<b>589.2</b>	<b>1.9%</b>	<b>600.3</b>	<b>1.5%</b>	<b>609.0</b>
20 <b>Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)</b>	<b>4,066.2</b>	<b>4,068.0</b>	<b>4.7%</b>	<b>4,255.6</b>	<b>-0.1%</b>	<b>4,250.0</b>	<b>2.9%</b>	<b>4,374.9</b>	<b>2.9%</b>	<b>4,502.5</b>	<b>3.3%</b>	<b>4,652.3</b>	<b>3.3%</b>	<b>4,807.1</b>
21														
22 <b>Agency Uses</b>														
23														
24 Montgomery County Public Schools (MCPS)	2,176.5	2,145.8	6.2%	2,311.6										
25 Montgomery College (MC)	252.2	247.8	3.7%	261.8										
26 MNCPPC (w/o Debt Service)	117.4	117.1	2.7%	120.6										
27 MCG	1,520.1	1,557.2	2.7%	1,561.9										
28 <b>Agency Uses</b>	<b>4,066.2</b>	<b>4,068.0</b>	<b>4.7%</b>	<b>4,255.6</b>	<b>-0.1%</b>	<b>4,250.0</b>	<b>2.9%</b>	<b>4,374.9</b>	<b>2.9%</b>	<b>4,502.5</b>	<b>3.3%</b>	<b>4,652.3</b>	<b>3.3%</b>	<b>4,807.1</b>
29 <b>Total Uses</b>	<b>4,465.2</b>	<b>4,480.5</b>	<b>5.5%</b>	<b>4,712.1</b>	<b>2.8%</b>	<b>4,846.0</b>	<b>2.4%</b>	<b>4,964.5</b>	<b>2.6%</b>	<b>5,091.7</b>	<b>3.2%</b>	<b>5,252.6</b>	<b>3.1%</b>	<b>5,416.1</b>
30 <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. FY17 average weighted property tax rate is 3.94 cents higher than FY16. FY18-22 property taxes are at the Charter Limit with a \$692 credit.
2. Reserve contributions are consistent with legal requirements and the minimum policy target.
3. PAYGO, debt service, and current revenue reflect the Approved FY17-22 Capital Improvements Program.
4. State Aid, including MCPS and Montgomery College, is not projected to increase from FY17-22.

## County Council Approved FY17-22 Public Services Program

### Tax Supported Fiscal Plan Summary

(\$ in Millions)

	App. FY16	Est. FY16	% Chg. FY16-17	App. 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
31 <b>Beginning Reserves</b>														
32 <b>Unrestricted General Fund</b>	149.8	156.5	-20.4%	119.3	13.6%	135.5	23.0%	166.7	2.7%	171.2	3.0%	176.3	3.1%	181.7
33 <b>Revenue Stabilization Fund</b>	230.7	230.6	10.4%	254.7	10.0%	280.3	9.7%	307.4	9.4%	336.4	5.5%	354.7	2.6%	364.0
34 <b>Total Reserves</b>	380.5	387.2	-1.7%	374.1	11.2%	415.8	14.0%	474.1	7.0%	507.5	4.6%	531.0	2.8%	545.7
35														
36 <b>Additions to Reserves</b>														
37 <b>Unrestricted General Fund</b>	-22.0	-37.2	173.4%	16.2	92.7%	31.2	-85.6%	4.5	14.0%	5.1	6.5%	5.4	28.2%	7.0
38 <b>Revenue Stabilization Fund</b>	24.2	24.1	5.7%	25.6	5.9%	27.1	6.7%	28.9	-36.6%	18.4	-49.7%	9.2	5.4%	9.7
39 <b>Total Change in Reserves</b>	2.2	-13.1	1834.3%	41.8	39.6%	58.3	-42.7%	33.4	-29.8%	23.5	-37.4%	14.7	13.9%	16.7
40														
41 <b>Ending Reserves</b>														
42 <b>Unrestricted General Fund</b>	127.8	119.3	6.0%	135.5	23.0%	166.7	2.7%	171.2	3.0%	176.3	3.1%	181.7	3.8%	188.7
43 <b>Revenue Stabilization Fund</b>	254.9	254.7	10.0%	280.3	9.7%	307.4	9.4%	336.4	5.5%	354.7	2.6%	364.0	2.7%	373.7
44 <b>Total Reserves</b>	382.7	374.1	6.7%	415.8	14.0%	474.1	7.0%	507.5	4.6%	531.0	2.8%	545.7	3.1%	562.4
45 <b>Reserves as a % of Adjusted Governmental Revenues</b>	8.2%	8.0%		8.4%		9.3%		9.8%		10.0%		10.0%		10.0%
46														
47 <b>Other Reserves</b>														
47 <b>Montgomery College</b>	3.5	9.1	27.1%	4.5	0.0%	4.5	0.0%	4.5	0.0%	4.5	0.0%	4.5	0.0%	4.5
48 <b>M-NCPPC</b>	4.3	9.1	20.4%	5.1	8.5%	5.6	3.0%	5.7	3.2%	5.9	3.1%	6.1	3.3%	6.3
49 <b>MCPS</b>	0.0	33.2	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
50 <b>MCG Special Funds</b>	0.9	13.6	124.9%	2.0	23.0%	2.4	2.7%	2.5	3.0%	2.6	3.1%	2.6	3.8%	2.7
51 <b>MCG + Agency Reserves as a % of Adjusted Govt Revenues</b>	8.4%	9.3%		8.6%		9.6%		10.0%		10.3%		10.2%		10.2%
52 <b>Retiree Health Insurance Pre-Funding</b>														
53 <b>Montgomery County Public Schools (MCPS)</b>	61.7	61.7		63.1		61.3		69.0		66.7		64.4		64.4
54 <b>Montgomery College (MC)</b>	1.4	1.4		1.5		1.6		1.6		1.5		1.6		1.6
55 <b>MNCPPC</b>	1.8	1.8		1.8		1.8		1.8		1.8		1.8		1.8
56 <b>MCG</b>	43.5	43.6		43.5		42.0		40.4		39.5		36.6		38.6
57 <b>Subtotal Retiree Health Insurance Pre-Funding</b>	108.5	108.5		109.9		106.7		102.7		99.6		96.4		96.4
58 <b>Adjusted Governmental Revenues</b>														
59 <b>Total Tax Supported Revenues</b>	4,440.3	4,455.6	5.8%	4,698.1	2.8%	4,831.6	2.4%	4,949.8	2.6%	5,076.8	3.2%	5,237.1	3.1%	5,400.2
60 <b>Capital Projects Fund</b>	123.6	123.8	5.8%	130.7	-4.8%	124.8	-1.8%	122.5	-18.9%	99.3	4.5%	103.8	6.7%	110.7
61 <b>Grants</b>	120.1	120.1	-3.6%	115.8	2.3%	118.5	2.5%	121.4	2.7%	124.7	2.7%	128.1	2.7%	131.5
62 <b>Total Adjusted Governmental Revenues</b>	4,684.0	4,699.3	5.6%	4,944.7	2.6%	5,074.9	2.3%	5,193.8	2.1%	5,300.6	3.2%	5,468.9	3.2%	5,642.5

Resolution No: 17-312  
Introduced: November 29, 2011  
Adopted: November 29, 2011

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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By: Government Operations and Fiscal Policy Committee

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**SUBJECT:** Reserve and Selected Fiscal Policies

**Background**

1. Fiscal policy corresponds to the combined practices of government with respect to revenues, expenditures, debt management, and reserves.
2. Fiscal policies provide guidance for good public practice in the planning of expenditures, revenues, and funding arrangements for public services. They provide a framework within which budget, tax, and fee decisions should be made. Fiscal policies provide guidance toward a balance between program expenditure requirements and available sources of revenue to fund them.
3. As a best practice, governments must maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning. Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness.
4. In FY10, the County experienced an unprecedented \$265 million decline in income tax revenues, and weathered extraordinary expenditure requirements associated with the H1N1 flu virus and successive and historic winter blizzards. The costs of these events totaled in excess of \$60 million, only a portion of which was budgeted and planned for.
5. In a memorandum dated April 22, 2010, the County Executive recommended that the County Council restore reserves first to the current 6% policy level for FY11 and also revise and strengthen policy levels in order to more appropriately position the County to weather economic cycles in the future, and to achieve structural balance in future budgets.
6. The County's financial adviser recommended that the County strengthen its policy on reserves and other fiscal policies to ensure budget flexibility and structural stability, and provided specific recommendations, which are reflected below.

7. On June 29, 2010 the Council approved Resolution No. 16-1415, *Reserve and Selected Fiscal Policies*. This Resolution established a goal of achieving the Charter §310 maximum for the reserve in the General Fund of 5% of General Fund revenues in the preceding fiscal year, and of building up and maintaining the sum of Unrestricted General Fund Balance and Revenue Stabilization Fund Balance to 10% of Adjusted Governmental Revenues (AGR), as defined in the Revenue Stabilization Fund law.
8. The County's reserve policy should be further clarified and strengthened. This resolution replaces the reserve policy established in Resolution No. 16-1415.

Action

The County Council for Montgomery County, Maryland approves the following policies regarding reserve and selected fiscal matters:

1. Structurally Balanced Budget

Montgomery County must have a goal of a structurally balanced budget. Budgeted expenditures should not exceed projected recurring revenues plus recurring net transfers in minus the mandatory contribution to the required reserve for that fiscal year. Recurring revenues should fund recurring expenses. No deficit may be planned or incurred.

2. Use of One-Time Revenues

One-time revenues and revenues in excess of projections must be applied first to restoring reserves to policy levels or as required by law. If the County determines that reserves have been fully funded, then one-time revenues should be applied to non-recurring expenditures that are one-time in nature, PAYGO for the CIP in excess of the County's targeted goal, or unfunded liabilities. Priority consideration should be given to unfunded liabilities for retiree health benefits (OPEB) and pension benefits prefunding.

3. PAYGO

The County should allocate to the CIP each fiscal year as PAYGO at least 10% of the amount of general obligation bonds planned for issue that year.

4. Fiscal Plan

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.

5. County Government Reserve

- (a) **County Government Reserve.** The County Government Reserve has three components. The components of the budgeted reserve at the end of the next fiscal year are:
  - (i) **Reserve in the General Fund.** The County's goal is that this reserve will be the maximum permitted by §310 of the Charter, which is 5% of revenues in the General Fund in the previous fiscal year;
  - (ii) **Reserve in the Revenue Stabilization Fund (RSF).** This budgeted reserve at the end of the next fiscal year is the reserve at the beginning of the year, plus interest on the fund balance, plus a mandatory transfer from the General Fund, as defined in the Revenue Stabilization Fund law, plus a discretionary transfer if the Council approves one. The actual amount of the mandatory transfer is calculated in accordance with §20-68 of the Montgomery County Code; and
  - (iii) **Reserve in the other tax supported funds in County Government.** The budgeted reserve at the end of the next fiscal year for the following funds – Fire, Mass Transit, Recreation, Urban District, Noise Abatement, Economic Development, and Debt Service – and any other tax supported County Government fund established after adoption of this resolution, should be the minimum reserve possible (as close as possible to zero, but not negative), since the Council sets the property tax rate to the nearest one tenth of 1¢.
- (b) **Calculation of budgeted reserve as a percent of Adjusted Governmental Revenues.** The target reserve as a percent of Adjusted Governmental Revenues is the sum of the reserves in the General Fund and the Revenue Stabilization Fund divided by Adjusted Governmental Revenues, as defined in the Revenue Stabilization Fund law. The reserves in the other tax supported funds in County Government are not included in this calculation.
- (c) **Budgeted reserve as a percent of Adjusted Governmental Revenues.** To reach the County's goal of 10% of AGR in 2020, the annual minimum target goals are:

FY13	6.4%
FY14	6.9%
FY15	7.4%
FY16	7.9%
FY17	8.4%
FY18	8.9%
FY19	9.4%
FY20 and after	10.0%

The Council may make a discretionary transfer each year from the General Fund to the Revenue Stabilization Fund, if necessary, to reach the target goal for each year. The 10% goal for FY20 and after must be reflected in the Revenue Stabilization Fund law.

6. Reserves in other agencies

The reserves for the Montgomery County Public Schools (MCPS), the Maryland-National Capital Park and Planning Commission (M-NCPPC), and Montgomery College (MC) are not included in the target reserves for County Government. The County's reserve policies for these agencies are:

- (a) **MCPS.** The Council should not budget any reserve for the MCPS Current Fund.
- (b) **M-NCPPC.** The reserve in the Park Fund should be approximately 4.0% of budgeted resources. The reserve in the Administration Fund should be approximately 3.0% of budgeted resources. The reserve in the Advance Land Acquisition Debt Service Fund should be the minimum reserve possible, since the Council sets the property tax rate to the nearest one tenth of 1¢.
- (c) **Montgomery College.** The reserve in the Current Fund should be 3.0% - 5.0% of budgeted resources minus the annual contribution from the County. The target reserve in the Emergency Plant Maintenance and Repair Fund – as stated in Resolution No. 11-2292, approved by the Council on October 16, 1990 – “may accumulate up to \$1,000,000 in unappropriated fund balance, such goal to be attained over a period of years, as fiscal conditions permit.”

7. Reports to Council

The Executive must report to the Council:

- (a) the prior year reserve and the current year reserve projection as part of the annual November/December fiscal plan update;
- (b) current and projected reserve balance in the Executive's annual Recommended Operating Budget;
- (c) any material changes expected to have a permanent impact on ending reserve fund balance; and
- (d) current and projected reserve balances in any proposed mid-year savings plan.

This is a correct copy of Council action.

  
Linda M. Lauer, Clerk of the Council