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Good Evening. I am Jennifer Hughes, Director of the Montgomery County Office of Management and Budget. I appreciate this opportunity to give you a financial management perspective on this issue.

The County Executive believes that his responsibility as a financial steward for the County is not just to plan for the next fiscal year; it is to plan for the **future** fiscal health of the County. The time to act on fortifying our financial health is now. To take the analogy one step further…it is better to prevent illness than to try to treat it once it has arrived on your doorstep. To forego being reimbursed for EMS services that we provide – as we are for a number of other health services we provide – is contrary to prudent and fair fiscal management. This legislation is the only fair action for our taxpayers. Without it, you will be unnecessarily taxing them nearly $18 million a year -- $180 million over the next 10 years – or cutting services that in reality don't need to be cut.

I have heard folks say that our fiscal condition is improving so that the legislation is unjustified. Some have gone further and suggested that the likely State actions regarding the shift of teacher pension costs and Maintenance of Effort do not significantly affect us fiscally and therefore we don't need to seek reimbursement from insurance companies and the Federal Government. I would beg to differ.

The likely actions by the State legislature are clear – They <u>are</u> going to shift pension costs to Montgomery County to the tune of a certain $44 million <u>annually</u> by FY 2016. In the next ten years, we will be paying well over $400 million in additional costs for state-mandated pension costs. Furthermore, many believe that due to the State's own fiscal woes, this year's action is the camel's nose under the tent and portends future changes that will increase local governments' burden even further.

The state legislature has <u>already</u> tied your hands, forcing you to wall off approximately 50% of the County's Operating Budget for Montgomery County Public Schools. Had the law passed last month been in effect in FY 2009-12, the effect on our other County programs would have been disastrous and would have dwarfed the reductions you were already forced to make. In fact, **had we met Maintenance of Effort for Montgomery County Public Schools for just the last three years when we did not, we would be facing a MOE budget for FY 2013 that is $213 million greater than the current Board of Education request – let me repeat that -- $213 million more in operating funds.** Cumulatively, we would have had to provide MCPS with an additional $640 million from FY 10-13.

In exchange, the Legislature is offering us largely uncertain and speculative revenue offsets for these permanent obligations that are likely to grow. Proposed changes to tax laws provide us with an estimated additional $31.7million. However, of this amount, only $10 million of these "offset" revenues has any degree of long term certainty. Both the IDOT and the Income Tax Revenue dollars totaling a projected $21 million are estimates only and could very well be eliminated by economic forces beyond our control.

There are also additional potential reductions to a variety of other State programs that will impose additional costs on the County:

- Nearly $5.5 million in Police aid reductions;
- Over $1 million in cuts to Montgomery College;
- Nearly $300,000 in Library fund reductions; and
- Nearly $200,000 in direct health funds and yet to be determined reductions to State social services in Montgomery County.

The math could not be clearer – huge increases in expenditure shifts and burdens placed on the County from the pension shift and the MOE legislation dwarfing the $10 million in revenue increases. By most people's definition this is a lousy deal for our taxpayers that is likely to get worse over time.

For those who still doubt that this deal is problematic and sufficient reason for seeking reimbursement from insurance companies and the Federal Government, let me just point out that Moody's was very quick to state that they considered both the MOE legislation, coupled with the FY 2013 State budget as a credit negative for local governments. This has very troubling implications for Montgomery County since we are already on a negative outlook with Moody's because of the local economy's linkage to the federal government.

In reality, the County already is successfully reimbursed for a variety of medical services it provides. Our Department of HHS was reimbursed from Medicare, Medicaid and other insurers for over $5 million in medical services in FY 2011 for services it provided to patients. I have never heard of anyone objecting to this policy. It is reasonable and fair for the County to be reimbursed for these medical services. It is inconsistent and contradictory to raise objections to seeking insurance reimbursement of this other medical service provided by the County.

I would also note that the Council will continue to face significant future fiscal pressures from a number of other sources besides the shift of pension costs and MOE legislation which could easily top $100 million:

- We have committed to increase our OPEB payments by an additional $42 million in FY 2014;
- Our employees will have gone without base wage increases for four years by this time next year;
- We must continue to increase our reserve amounts;
- Fuel costs are extremely volatile, but are on a long term upward trajectory.
- There are likely to be student population increases, which will result in increases to the MCPS budget in order to meet MOE.
- The national economy continues to experience a very fragile and quixotic recovery. Given this uncertainty, it is not clear when our housing market will rebound and the erosion of property tax reverse. Our income tax revenue will also continue to be difficult to predict and volatile.

Given these realities, we should be seeking any reasonable revenue option. To leave approximately $180 million over the next 10 years on the table for the benefit of insurance companies and the federal government is at best fiscally imprudent.