

The background features a large, light blue watermark of the Montgomery County Seal. The seal is circular with the words "MONTGOMERY COUNTY" at the top and "MARYLAND" at the bottom. In the center is a shield with various symbols, including a plow, a sheaf of wheat, and a sword, with the motto "GARDEZ BIEN" on a banner below. The year "1776" is also visible on either side of the shield.

# **FY21 Operating Budget Overview and Approach**

**Montgomery County Council**

**April 16, 2020**

At the bottom of the slide, there are three horizontal bars of different colors: a gold bar on top, a blue bar in the middle, and a red bar at the bottom.



# Overview of Presentation

- Summary of Executive's Recommended Budget
- Budget and Fiscal Changes Due to COVID-19
- Updated FY20 and FY21 Revenue Projection Scenarios
- Initial Data from FY21 "Same Services" Budget Analysis
- Council Options for FY21 Operating Budget Approval Process



# CE's Recommended FY21 Budget

(\$ millions)

Agency	Total Budget			Tax Supported Budget		
	FY21 CE Rec.	Change from FY20 \$	%	FY21 CE Rec.	Change from FY20 \$	%
<b>Montgomery County Government</b>	2,214.2	45.1	2.1%	1,704.2	13.4	0.8%
<b>Montgomery County Public Schools</b>	2,795.5	114.9	4.3%	2,603.7	89.4	3.6%
<b>Montgomery College</b>	318.4	3.7	1.2%	268.9	3.4	1.3%
<b>M-NCPPC</b>	161.2	3.2	2.0%	133.8	1.4	1.1%
<b>Debt Service</b>	436.7	(2.6)	(0.6%)	422.5	(7.5)	(1.7%)
<b>Total</b>	<b>5,926.0</b>	<b>164.3</b>	<b>2.9%</b>	<b>5,133.1</b>	<b>100.1</b>	<b>2.0%</b>



# CE's Recommended FY21 Budget: Changes in Workforce

Agency	Tax Supported FTE's		
	FY21 CE Rec.	Change from FY20 #	%
Montgomery County Government	8,727	147	1.7%
Montgomery County Public Schools	22,257	607	2.8%
Montgomery College	1,803	0	0.0%
M-NCPPC (Montgomery)	962	20	2.1%
<b>Total</b>	<b>33,749</b>	<b>775</b>	<b>2.4%</b>



# CE's Recommended FY21 Budget: Tax Revenues

- **Increased Income Tax Offset Credit (ITOC) from \$692 to \$800 for eligible properties.**
  - Adds \$1.66 million in the estimated property tax revenues for FY21.
  - The ITOC has been set at \$692 since FY11.
- **Added a 3.18 cent property tax increase for Montgomery County Public Schools.**
  - Adds \$65.52 million in the estimated property tax revenues for FY21.
  - Exceeds the inflation rate threshold established in Section 305 of the County Charter.
- **These two recommendations produce an increase of 4.78 cents to the weighted property tax rate compared to FY20's rate.**



# CE's Recommended FY21 Budget: Fiscal Policy

## Reserves

- Recommended budget includes resources to maintain 10.0% reserves throughout all fiscal years.
- Factors impacting reserves have changed significantly due to the COVID-19 health crisis.

## Debt Service

- Minimal decrease from FY20 by assuming \$15.0 million is savings from refunding bonds. These savings are not typically included in the recommended budget.
- The Council will need to consider this assumption during its review.



# CE's Recommended FY21 Budget: Fiscal Policy

## **OPEB**

- Recommended budget meets the actuarially determined contribution for OPEB pre-funding.
- Significant decrease for County Government pre-funding in FY21 of \$22.4 million based on an updated actuarial valuation. CE also recommends an FY20 savings plan of \$21.1 million for County Government based on the valuation.

## **PAYGO**

- FY21 PAYGO is \$32.0 million in line with policy requirements.
- PAYGO amounts may need to be revised as part of final CIP decisions.



# CE's Recommended FY21 Budget: Collective Bargaining Agreements

Employee Group	General Wage Adjustment	Service Increment	Past Year Service Increment	Salary Schedule Adjustment	Retirement Contribution Shift
<b>FOP</b>	1.0% (effective July)	3.5%	None	3.5% (effective July)	None
<b>IAFF</b>	2.25% (effective Aug.)	3.5%	None	None	None
<b>MCGEO</b>	1.25% (effective Oct.)	3.5%	1.25% from FY11 (effective July)	None	1.0%
<b>Non-Represented</b>	1.25% (effective Oct.)	3.5%	None	None	1.0%





# CE's Recommended FY21 Budget: Collective Bargaining Agreements

Pay Adjustment	Total Cost		Tax Supported Cost	
	FY21	Annualized	FY21	Annualized
<b>General Wage Adjustments</b>	\$9,548,459	\$12,076,289	\$8,061,102	\$10,034,249
<b>Service Increments (includes past year increment and schedule adjustment)</b>	\$10,386,368	\$16,581,886	\$8,607,855	\$13,447,410
<b>Retirement Contribution Shift</b>	\$2,519,285	\$5,417,946	\$1,850,378	\$3,964,747
<b>Other</b>	\$5,565,137	\$4,142,214	\$3,897,885	\$2,918,676
<b>Totals</b>	<b>\$28,019,249</b>	<b>\$38,218,335</b>	<b>\$22,417,220</b>	<b>\$30,365,082</b>



# CE's FY21 Recommended Budget: Productivity Improvements NDA

- **Funded at negative \$10 million** – Intended to identify cost efficiencies and is a collaboration between County leadership, management, and represented employees
- The County Attorney has previously concluded that the Council is not allowed to approve a negative appropriation.
- **Council could not approve the Executive's budget as recommended without finding an additional \$10 million in resources or reducing expenditures by \$10 million.**



# Budget and Fiscal Changes Since March 16

## **Additional FY20 Appropriations**

- Currently approved \$38.5 million, nearly all for COVID-19 emergency funding.
- Could impact FY20 year-end reserves.

## **COVID-19 Pay Differential**

- Agreements for additional pay for front-facing onsite (\$10/hr) and back-office onsite (\$3/hr) employees whose functions cannot be performed remotely.
- Effective for six pay periods, or the length of the MD State of Emergency.

## **Federal and State Reimbursement**

- \$183.2 million anticipated from the CARES Act.
- Funding is restricted to COVID-19 related activities.



# Updated Revenue Projections

- Council and Executive staff developed three scenarios to estimate the impact on the County's tax revenue due to the health crisis.
- **These are rough estimates based on current economic conditions with limited real-time and historical data.**
- None of the scenarios consider offsetting changes in expenditures or potential of additional Federal and State aid.



# Updated Revenue Projections

(\$ millions)

	FY20	FY21	FY20/21 Combined
<b>Scenario #1 – Short recession, quick recovery</b>			
Total Estimated Reductions in Tax Revenues	-60 to -100	-90 to -150	<b>-150 to -250</b>
<b>Scenario #2 – Short recession, long recovery</b>			
Total Estimated Reductions in Tax Revenues	-60 to -100	-200 to -400	<b>-260 to -500</b>
<b>Scenario #3 – Deep recession, long recovery</b>			
Total Estimated Reductions in Tax Revenues	-60 to -100	-300 to -500	<b>-360 to -600</b>



# Updated Revenue Projections

## Factors Impacting Revenue Changes

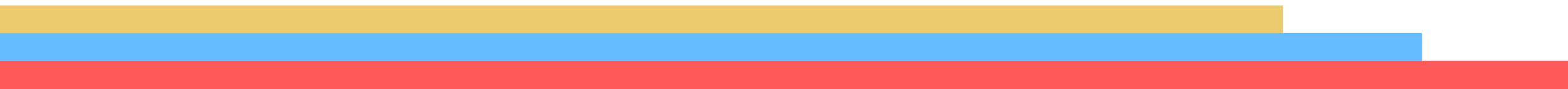
- Reductions in wage and salary income
- Reductions in capital gains income
- Reductions in property taxes due to appealed assessments and a decrease in new construction
- Reductions in property sales

## Unknown Factors

- Impact of CARES act benefits on unemployed or furloughed workers
- Recovery period when social distancing measures lifted
- Future stock market corrections and fluctuations in 2020
- Repositioning by businesses and industries after health crisis

The seal of Montgomery County, Maryland, is centered in the background. It features a central shield with a red and blue design, topped by a crest with a castle and two figures. The shield is surrounded by a circular border containing the text "MONTGOMERY COUNTY" at the top and "MARYLAND" at the bottom. The year "1776" is also visible on the seal.

# Council's FY21 Operating Budget Approach





# Framework for Review and Action on the FY21 Operating Budget

## Council Budget Deadlines

- May 1 - Intent to approve or reject collective bargaining agreements (or May 15 if extended)
- June 1 - Approve a balanced budget (current schedule for action on May 21)

## Council Resolution 19-388

- Council staff develop viable options for budget approval, including a “same services” budget option
- Options should include funding MCPS and College at MOE
- Include flexibility for future appropriations related to assisting County residents and businesses, additional resources for program and services, and employee wage and benefit enhancements if possible after the crisis is over.





# Initial Estimate – “Same Services” FY21 Operating Budget

## Agencies

- **Montgomery County Government:** see chart
- **MCPS:** funded at MOE
- **Montgomery College:** funded at MOE
- **M-NCPPC:** similar process to County Government

Budget Changes Included as “Same Services”	Budget Changes Not Included as “Same Services”
<ul style="list-style-type: none"> <li>• Annualization of FY20 compensation costs and positions</li> <li>• Adjustments to operational costs such as mail, motor pool, etc.</li> <li>• Shifts/realignments</li> <li>• Technical adjustments</li> <li>• Reductions recommended by the Executive</li> <li>• Increases due to legal or policy requirements to fund the same and/or required services. (e.g. school health nurses for new schools, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• FY21 compensation and benefit adjustments</li> <li>• Enhancements (unless required by law or policy)</li> <li>• Additions for new costs, staff, or programs.</li> <li>• Restoration of items that were not included in the FY20 budget</li> </ul>



# Initial Estimate – “Same Services” FY21 Operating Budget

- **Based on Council’s guidelines, approximately \$70 million could be reduced from agency uses.**
- Amount is slightly greater than the \$65.5 million levied from the proposed supplementary property tax increase in the recommended budget.
- Significant Council input required to finalize adjustments for each agency and department.
- Initial analysis did not explore adjustments to non-agency uses (debt service, PAYGO, CIP current revenue, reserves, OPEB).



# Options for Moving Forward

**Option A. Proceed with a “Same Services” Budget.** Under this approach the Council would:

1. Adopt a “same services” budget with critical adjustments, including review of fiscal policies.
2. Ask the Executive to submit revisions to the budget early in the fiscal year, when additional information is available on further required reductions.
3. Direct all agencies and departments to minimize expenses.



# Options for Moving Forward

## Next Steps for a “Same Services” Budget

- Council staff would work with the Executive Branch and agencies to further refine “same services” based on the Council’s guidance.
- Council would review the changes to each department and agency budget over the coming 3 weeks when it meets on Tuesdays and Thursdays.
- Council would review how a “same services” budget meets established fiscal policies (e.g., 10% reserve target), and whether to make further changes or temporarily change fiscal policy.



# Options for Moving Forward

## Option B. Develop Alternative Budget Scenarios

- If the Council believes that it should make further reductions now beyond a “same services” level, staff can identify reductions for the Council’s consideration.
- If the Council chooses this option, it may wish to identify parameters for potential reductions such as the following:
  - Avoid reductions that would result in having to layoff existing employees.
  - Minimize reductions for services that assist residents and businesses impacted by COVID-19.
  - Maintain the County’s financial stability and bond rating