AGENDA ITEM #5
April 13, 2010

MEMORANDUM

April 9, 2010

TO: County Council

FROM: Stephen B. Farber, Council Staff Director SBF

SUBJECT: Overview of the FY11 Operating Budget

The Council is scheduled to make final decisions on the County's FY11 operating budget on May 20 and to adopt implementing resolutions on May 27. This overview outlines the core budget issues that the Council will address and resolve over the next six weeks.

Economic Context

The Great Recession that started in December 2007, the deepest downturn since the Great Depression, has started to ease. For the past two quarters, real gross domestic product is up, not sharply down. Buoyed by massive federal fiscal and monetary stimulus intended to prevent a worldwide financial meltdown in late 2008 and early 2009, credit availability, consumption, and employment have slowly improved. Fueled by higher corporate profits and productivity (achieved partly through layoffs), the Standard & Poor's 500 stock index is now 73 percent above its March 2009 low, but still 25 percent below its October 2007 high. Fears of a double dip recession have receded.

But the recovery has been, and is projected to remain, sluggish. Housing is still under pressure, while commercial real estate raises growing concern. In March 2009 the national unemployment rate was 8.5 percent, the highest in a quarter century. In October 2009 it reached 10.1 percent, with 8 million jobs lost since the start of the recession. In March 2010 the rate was 9.7 percent, with 15 million Americans unemployed, 6.5 million of them for more than six months. Nonfarm payrolls rose in March by 162,000 jobs (one third of them temporary Census jobs), but monthly growth must be at least 100,000 to absorb new labor force entrants alone. **(The rate of "total" unemployment, which includes underemployed and discouraged workers, is now 16.9 percent. Many states and localities face much higher rates.)** The Obama administration expects the national rate to remain above 9 percent in 2010 and then to fall very slowly, not reaching the November 2007 rate, 4.7 percent, **until 2016**.

Despite their great economic assets, this region and County have not been immune. The February unemployment rate for the Bethesda-Rockville-Frederick metropolitan division, 6.2 percent, was 5.4 percent one year ago and 2.8 percent two years ago. The County's February unemployment rate was 5.9 percent (following a spike to 6.2 percent in January), compared to 5.2 percent one year ago and 2.7 percent two years ago. The current County rate represents just over **30,000** workers (not counting underemployed and discouraged workers) in a labor force of about 510,000.[1]

For a brief update of the County's economic indicators for employment, construction, and housing, see the Finance Department's summary on ©1-2. For the full economic indicators update, go to http://www.montgomerycountymd.gov/content/council/pdf/agenda/col/2010/100413/20100413_EconomicIndicators.pdf. Also see ©86-102 for the 11th annual report of the Business Advisory Panel convened by Finance.

[1] Until January 2009 the County's rate had not reached even 4 percent at any time in at least 20 years, including recession years. The BRF and County rates are not seasonally adjusted.

Budget Framework

The severe fiscal squeeze produced by plummeting revenues and rising expenditure pressures has created huge budget gaps for state and local governments nationwide. Bridgewater Associates estimates that half the aggregate budget gap to date has been filled by federal stimulus, one-quarter by spending cuts and tax increases, and the remainder by budget maneuvers and borrowing. Going forward, Bridgewater expects the state and local sector, which normally adds 0.3 percent to real GDP, instead to reduce it by about 1.0 percent. While state and local tax collections have just started to improve slowly, they fell 5.6 percent in 2009 compared to 2008.

By now the Montgomery County version of this national story is well known. In September 2009 OMB estimated the budget gap for FY11 at $370 million.[2] By December, chiefly because of large revenue writedowns, the gap grew to $608 million. By March 15, even after the Council approved a $30 million FY10 savings plan, the gap was $779 million as a result of State aid cuts, large snow removal costs, and further revenue writedowns. These writedowns now total **$326 million** for FY10-11 combined.

The table on ©3 outlines how the Executive's recommended FY11 budget proposes to close this gap. Key factors in producing larger resources include a second Council-approved FY10 savings plan ($70 million), higher-than-projected K-12 State aid ($43 million), estimated federal reimbursement for snow removal ($25 million), an ambulance fee ($14 million), and an energy tax increase ($50 million). Key factors in lowering uses of funds include reducing the reserve from 6 percent to 5 percent of resources[3] ($37 million), shifting current revenue and PAYGO from the capital budget ($35 million), eliminating general wage adjustments ($122 million – the amount not funded in FY10) and step increases ($35 million) for all agencies, and removing retiree health insurance pre-funding for all agencies ($64 million). Other gap-closing steps include large reductions in agency spending (compared to Major Known Commitments as defined in the Fiscal Plan): $125 million for County Government, $41 million for MCPS, $15 million for the College, and $16 million for M-NCPPC. **This package of gap-closing measures is more far-reaching than for any County budget in memory.**

The Executive's recommended overall FY11 tax-supported operating budget is $3.681 billion, down $166 million (4.3 percent) from the Council-approved FY10 budget. The total recommended budget (including debt service, grants, and enterprise funds) is $4.304 billion, down $170 million (3.8 percent) from the FY10 approved budget. This is the first annual decline in the County budget since the current Charter was approved in 1968.[4]

The contrast with many past County budgets is stark. For example:

- The FY05-07 tax-supported increases for County Government, reflecting rapid revenue growth, were 11.0, 11.4, and 14.1 percent. The FY08-10 changes, reflecting rapid revenue decline, were 6.7, 1.5, and -2.2 percent. The proposed FY11 change is -6.1 percent.

[2] Numbers are rounded. The budget gap is the difference between projected expenditures and projected resources. For County agencies, projected expenditures are based on the 10-year average rate of growth plus the phase-in of retiree health benefits pre-funding. Other assumptions include property tax revenue at the Charter limit (using a tax credit) and the policy level for reserves (6 percent of resources) and PAYGO (10 percent of the G.O. bond ceiling).

[3] Reserves in the Council's approved FY03-10 budgets were 5.9, 5.5, 6.1, 6.0, 6.4, 6.0, 6.0 and 5.0 percent.

[4] The FY10 approved budget included $79.5 million for MCPS that was reimbursed to County Government for debt service payments for school construction projects. The FY11 recommended budget does not include this amount. Thus, on an apples-to-apples basis, both the tax-supported and the total budgets are about 2 percent larger than they appear. Even on this basis, however, both remain lower than the FY10 approved budget.

• In FY99-09 base salary increases for County Government employees who had not reached the top of their grade – including general wage adjustments (COLAs) and service increments (steps) but not including increases due to promotions or special pay categories – rose about 100 percent on average, while the CPI was up by 37 percent. By contrast, in FY10 there was no COLA, and the Executive's FY11 budget funds neither COLAs nor steps.

• In FY97-07 County Government added 2,200 jobs (28 percent) while population rose 15 percent. MCPS added 5,000 jobs (30 percent) while enrollment rose 7 percent. The tax-supported budget rose 80 percent. Similar increases since then have not been possible.

For further details on the FY11 recommended budget and the agencies' own requests, see the Executive's transmittal letter on ©4-17. See also the transmittal letters from Board of Education President O'Neill for MCPS on ©18-19, Board Chair Lin and Interim President Pinkney for the College on ©20-25, Chairman Hanson for M-NCPPC on ©26-36, and Chair Counihan for WSSC on ©37-38. See also the pie charts on ©39-41, the Spending Affordability table on ©42, and the Budget Summary table on ©43.

March 25 Budget Change: Stronger Reserves and Rating Agency Concerns

In late April each year the Executive transmits a list of "budget adjustments" that reflect late actions by the General Assembly or other developments that the March 15 budget could not anticipate. This year, on March 25, the Executive proposed a major change to his budget because of **"more bad news that points to additional fiscal deterioration."** See his memo on ©44-50. The Executive noted that the County's unemployment rate had spiked to 6.2 percent in January, while the number of County residents employed was down 1.0 percent from January 2009 to the lowest level since 2004. Also, Fitch Ratings downgraded Anne Arundel County and raised concern about the County's reserve levels.

The key March 25 proposal was to strengthen the reserve by raising and accelerating the energy tax increase included in the March 15 budget. The increase would rise from 39.6 percent to 63.7 percent and would take effect on May 1 rather than July 1. The revenue gain would rise by $45.4 million, from $50.0 million to $95.4 million – $13.6 million more in FY10 and $31.8 million more in FY11. This increment of $45.4 million, plus $3.0 million from a smaller set aside for snow removal costs, would be placed in the County's **Revenue Stabilization Fund** (RSF), or Rainy Day Fund.

Created with a $10.0 million transfer in FY94, the RSF has grown to $119.6 million. On March 15 the Executive proposed, because of the sharp $174 million decline in projected FY10 revenues in the County's General Fund and the extraordinary $60 million cost of snow removal, to withdraw $102 million from the RSF in FY10 – the first withdrawal in its history – to support the General Fund, which would otherwise be $91.9 million in deficit. In FY11 $37 million would be transferred back to the RSF. With the additional resources from the March 25 proposal, the revised withdrawal from the RSF would be $71.6 million in FY10, while the revised transfer back to the RSF in FY11 would be $55.1 million.

Three core points are important here. First, these reserve issues and the Executive's March 25 proposal confirm the challenge of our current fiscal position. Second, the General Fund is the largest fund, and its good health is essential, but there are ten other tax-supported funds in County Government and multiple other funds in the other tax-supported agencies. Third, even before the March 25 proposal, the March 15 budget projected that total ending reserve would be a positive $77.0 million (2.1 percent of resources) in FY10 and $194.3 million (5.0 percent) in FY11. **The March 25 proposal would raise the ending reserve to $97.3 million (2.6 percent) in FY10 and $242.7 million (6.2 percent) in FY11.** See Mr. Sherer's April 2 memo on ©51-58 for a thorough analysis of these reserve issues.

Further confirmation of the importance of strong reserves came shortly thereafter. See the Executive's April 5 memo on ©59-61. The memo reported that the State Comptroller's March distribution of County income tax revenue had fallen $24.5 million short of Finance's estimate. Much larger distributions totaling about half a billion dollars are due over the next few months. In addition, Moody's Investors Service placed the County on a watchlist for a possible ratings downgrade, citing the County's need to **"stabilize and replenish reserve levels and to restore financial flexibility."** (Moody's made specific reference to the Executive's expanded March 25 energy tax proposal.) While Fitch Ratings and Standard & Poor's affirmed the County's AAA rating with a stable outlook, both also stressed the need to address the County's serious revenue decline and reserve position.

The Executive's memo listed several options to supplement FY10 reserves, including further transfers from non tax-supported funds to the General Fund, further liquidation of contractual obligations, and further re-direction of CIP current revenue. The Council has already approved two rounds of savings in FY10 totaling $100 million, three times the size of any prior year's savings plan. **Although it is now late in FY10, a third round of specific savings would strengthen FY10 reserves. Strengthening reserves must be a top priority in FY11 as well.**

Comparison with Budgets Elsewhere

The measures proposed to balance the County's FY11 budget go well beyond those taken in the early 1990s, as hard as those years were. State and local budgets elsewhere include similar measures, and even more serious ones. FY11 would mark the first year in this recession for a complete pay freeze and furloughs here, but for the State and many counties in the region, it will be the third year. While the County budget would maintain full contributions to group insurance and retirement programs for current employees, many budgets elsewhere do not. Proposals here to increase class size and cut spending across the board, including, for the first time, public safety and safety net support, are also common elsewhere.

Many public and private sector budgets, both here and abroad, include sharp cuts in salaries and benefits. The new Baltimore Symphony Orchestra contract freezes pay in FY11 but reduces it by 16.6 percent in FY12-13, bringing it to the FY01 level. Facing a severe financial crisis, the Irish government has cut salaries by 5 percent for employees earning up to $40,000, and more for higher-paid employees.[5]

Almost all government budgets have been problematic this year. Maryland's FY11 budget relies heavily on local aid cuts and fund transfers. Virginia's budget has been cut to the 2006 level, when there were 100,000 fewer residents and far less economic distress, and is withholding $620 million from its annual pension fund contribution. New Jersey's governor would shrink state spending by 9 percent, including a 7 percent cut in school aid and layoffs for 2 percent of state employees. Arizona's budget removes 310,000 adults from state health coverage and ends a health-care program for 47,000 low-income children. The mayor of Los Angeles, which faces the threat of insolvency in a dispute with the municipal utility, is seeking to reduce the workforce by nearly one-tenth and has ordered all city departments except public safety to close two days a week. Districts in 17 states have a four-day school week.

For a more detailed review of state and local actions to close FY11 budget gaps, see the OLO memo at http://www.montgomerycountymd.gov/content/council/olo/reports/pdf/BudgetExamples.pdf.

[5] If the salary base for all four tax-supported County agencies were cut by 1 percent, the savings (including wages, social security, and retirement) would be about $24 million.

Recommended Allocations to Agencies

The Executive's reduction for County Government, compared to FY10, is **6.1 percent**. As in past years, his allocations for the three other tax-supported agencies are targets that provide less detail. He proposes a **3.8 percent** reduction for the College and a **13.5 percent** reduction for M-NCPPC.

The stated reduction for MCPS is **3.9 percent**. However, excluding the $79.5 million in debt service reimbursement in FY10 that does not recur in FY11, the FY11 MCPS allocation is identical to FY10. **When the FY11 County contribution, rolled-over current year savings, and higher State aid are combined, the tax-supported MCPS budget, $1.940 billion, is unchanged from FY10.**

The recommended budget supports a broad array of excellent services provided by all agencies.[6] But the proposed allocations do create difficult pressures. For example, while the MCPS allocation is not reduced from FY10 on an apples-to-apples basis, MCPS must provide for a 2.0 percent enrollment increase (about 2,800 students) and additional students receiving FARMS and ESOL services.

The Executive's allocation for MCPS is $137.7 million below the Board of Education's request. In a March 15 memo Dr. Weast outlined how this gap might be closed. Reserve funds (from higher State aid) can provide $37.2 million. Eliminating retiree health benefits pre-funding ($42.9 million) and step increases ($25.9 million), while not desirable, would match what is expected of the other agencies. Beyond these three measures, which total $106.0 million, other possible actions are central services cuts ($6.0 million), increasing class size by one student ($16.0 million), and other savings ($10.3 million).[7]

The challenges facing the College and M-NCPPC are at least as large. See the letter from Dr. Pinkney on ©64-67. Despite a 7.3 percent enrollment increase (about 1,200 students), the FY11 budget in the Current Fund would be down $8.3 million from FY10. See also the memo from Chairman Hanson on ©68-70 describing the program impact of the Executive's 13.5 percent reduction from FY10. As noted below, the reductions for many comparable departments in County Government are even larger.

Impact on County Government Operations

The recommended budget's impact on County Government operations is profound. Most individual departments received double-digit increases in FY07, moderate increases in FY08, and small increases in FY09 before running into actual reductions in FY10. Those reductions now seem generous. The table on ©71 shows how large the FY11 reductions from the FY10 approved budget are, including 22.2 percent for Libraries, 23.1 percent for DOT, 23.8 percent for DHCA, and 33.4 percent for the Regional Services Centers. Reductions to departments whose budgets have always been given priority, even in hard times, include 2.6 percent for Fire and Rescue, 3.9 percent for Police, 6.8 percent for Transit Services, and 10.6 percent for DHHS.[8]

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[6] See http://www.montgomerycountymd.gov/content/omb/FY11/psprec/pdf/psp-highlights.pdf for the highlights part of the budget document.

[7] The Executive's recommended budget for MCPS again requires a waiver from the State's Maintenance of Effort requirement. See ©62-63 for the County's March 31 cover letter for the FY11 waiver request. The Board of Education supports this request with certain conditions. The State Board of Education did not approve the County's FY10 waiver request and imposed a penalty of $23.4 million. The Legislature acted to void this penalty.

[8] Some departments show large reductions partly because of shifts or reorganizations – for example, the Executive's Office (26.0 percent) and the Office of Human Resources (33.8 percent). Both units have real reductions, but not on the scale of these numbers.

Proposed service reductions are extensive. For example, the budget would close the Noyes Library, cut library materials once again, and reduce library hours by 8.7 percent; close all non-aquatic recreational facilities one day per week; cut 18 Ride On routes, restructure 16 others, and reduce the Call-n-Ride program; cut 16 of the 33 educational facilities officers in schools; discontinue staffing for the ambulance at Hyattstown Station 9 and the ladder truck at Hillandale Station 12; and sharply reduce funds for maintenance of County facilities and replacement of vehicles and computers.

Department budgets reveal more specific details. In DHHS, for example, the 7 percent cut in most DHHS contracts with private agencies would affect, in ways not yet known, the number of clients served and/or the level of service. There are similar cuts in local supplements to providers of services to the developmentally disabled and residential services to the mentally ill. Cuts in Montgomery Cares include reducing the reimbursement to community clinics from $62 to $55 per primary care visit.

Impact on County Government Personnel

These service cuts are accompanied by sharp personnel reductions. For example, the Recreation Department will have lost 40 percent of its career workforce since FY08. School health aide positions would revert to .62 workyear from the current .73 workyear.

The overall reduction in County Government workyears is sobering. The approved budgets of FY05-10 had total workyear levels of 8837, 9089, 9512, 9914, 10033, and 9749, respectively. The recommended FY11 budget has 9002 workyears. This is a workyear reduction of more than 1,000, or 10 percent, in the last two years.

Full understanding of this workyear number, however, requires a careful review of the component parts, including abolished positions, lapse, reduced overtime, charges to the CIP, and furloughs. The 1,000+ workyear reduction is significant, but what it represents is less funding for work effort, not the cutting of 1,000 jobs.

The budget document lists the following sample tax-supported workyear reductions:

Workforce Changes (Tax Supported)	WYs
• Public Libraries: service hour reductions, staff reductions for the Gaithersburg renovation, and vacancy abolishments	-86.6
• Fire and Rescue Service: further civilianization of Public Safety Communication Center, public intern abolishments, and lapse increase	-79.5
• Police: position reductions in Traffic and Community Policing, education facilities, and fingerprinting divisions	-62.5
• Recreation: eliminate, reduce, and restructure programs; eliminate all Principal Administrative Aide positions	-56.8
• Correction and Rehabilitation: abolish sworn and civilian positions in a number of functions	-42.5
• Transportation: funding shifts and the elimination or reduction of programs	-42.0
• Technology Services: abolished positions in a number of different functions	-30.5
• General Services: position abolishments, largely focused in the carpentry, building services inspection, and management services functions	-18.1
• County Executive: reduced Volunteer Center staffing, clerical staff, and funding shifts	-14.7

Reduction in Force/Discontinued Service Retirements/Retirement Incentive Program

The recommended budget abolishes 452 County Government positions, 220 vacant and 232 filled. The County must therefore implement a formal Reduction-in-Force (RIF) process. To minimize the number of layoffs, the Executive proposes two main strategies: Discontinued Service Retirements (DSR) and a Retirement Incentive Program (RIP) offered to employees who belong to the occupational classes affected by the RIF. Both DSRs and the RIP are incentives for members of the Employees' Retirement System, the defined benefit pension plan for employees hired before October 1, 1994, to retire voluntarily. In turn, these voluntary retirements would reduce the number of employees who are vulnerable to layoff. OLO is reviewing the Executive's recommended RIF and associated use of DSRs and RIP. OLO's analysis includes:

- a breakdown of the number of proposed filled position abolishments by department and by occupational class and grade;
- details of the RIP, including eligibility criteria and the different incentive options;
- details of the RIF process and the associated process for using DSRs and the RIP; and
- a fiscal analysis of the short and long-term costs and savings resulting from the use of DSRs and the RIP.

The MFP Committee is scheduled to review these and other compensation issues on April 19 and 22. The Council is scheduled to consider them on April 27.

Furloughs

The Executive proposes that except for public safety employees, full-time County Government employees be furloughed for 80 hours. The furlough for affected part-time employees would be prorated. The assumed savings is $15 million. Furloughed employees' FY11 pay would be reduced by 3.8 percent. The Executive first proposed five fixed furlough days and five floating days selected by the employee (subject to supervisor approval). He has since proposed that all ten furlough days be floating. OLO is also reviewing the furlough plan. OLO's analysis includes:

- details of the recommended furlough and how it is being implemented;
- a fiscal analysis of the estimated savings;
- comparative information from other jurisdictions that have implemented furloughs on whether they achieved the anticipated savings;
- calculation of the percentage of the workforce that would be subject to the furlough, both within County Government and across all County-funded agencies; and
- an estimate of potential FY11 savings under alternative furlough structures, such as a progressive furlough like the one adopted by the State of Maryland.

The math of the proposed furlough is instructive. The 10 furlough days would apply to about 6,000 out of 9,000 County Government employees, chiefly those represented by MCGEO and non-represented employees, with each day saving $1.5 million. One furlough day for all four tax-supported agencies would save $9.9 million – $2.3 million for County Government, $6.7 million for MCPS, $0.6 million for the College, and $0.3 million for M-NCPPC. **Thus the $15 million savings goal could also be achieved by furloughing the 30,000+ employees of all four County agencies for 1.5 days each.** This change would require collaboration with the police and firefighters unions in County Government and the unions and governing boards of MCPS, the College, and M-NCPPC.

The argument against this approach is understandable reluctance, especially in this year of pay freezes. The argument for it is that this is the time to break the mold for the sake of the larger community. Cases of school and public safety employees taking furloughs **without disrupting services** abound nationwide – for example, in Anne Arundel (schools) and Prince George's (public safety) Counties.

The issue is not the ability to do so but the will to do so. If the entire workforce agreed to take a 0.6 percent salary hit for 1.5 furlough days, then one-fifth of the workforce – including the people who help clear the snow, drive the buses, clean the buildings, and care for the poor and disabled – would not have to take a 3.8 percent hit. To protect lower-wage employees at all agencies, the furlough could be progressive, with high-wage employees absorbing more of the burden. This would be a powerful message of solidarity and community.

Other Compensation Issues

As noted above, the Executive proposes no pay increases for County Government employees – including general wage adjustments (COLAs), service increments (step increases), and increases for longevity or performance – and urges the other agencies' governing boards to take the same approach. He states that while he regrets this action, the alternative would be further layoffs and service cuts, which he views not "appropriate, fair, or good public policy." The Executive also proposes no funds for tuition assistance for any County Government employee.

COLA reductions for County agencies are rare. In the deep recession of the early 1990s, County Government employees had no COLAs for three consecutive years. In FY04 COLAs for all agencies were deferred for four months. In FY10 they were eliminated (except for Park Police), saving $123 million. Agency step increases have always been funded in the past, even in the difficult budget years of the early 1990s, FY04, and FY10.

The Executive's budget does not reflect the arbitration award for FOP Lodge 35, which supported service increments and tuition assistance, or the final year of the contract with IAFF Local 1664, which includes a 3.5 percent COLA, a 3.5 percent pay plan adjustment, and a 3.5 percent service increment.

Revenue Issues

As usual, the budget includes recommended increases in a range of **fees and fines**. The list on ©72 totals $21.3 million. The largest revenue increases would come from College tuition ($2.1 million), Ride On fares ($1.5 million), parking fees and fines ($2.5 million), the Water Quality Protection charge ($0.8 million), and the ambulance fee ($14.7 million).[9] Council staff has proposed other fee options.

Property Tax

The Executive recommends adherence to the **Charter limit on property tax revenue.**[10] In the limit's 19-year history, the Council has exceeded it four times: in FY03-05 by $4.3 million, $29.2 million, and $37.3 million, and in FY09 by $117.5 million.

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[9] An updated estimate lowers the projected FY11 revenue to $14.1 million. Expenditures would be $1.2 million.

[10] The Charter limit, approved by County voters in 1990, permits annual growth in County property tax revenue from existing real property to increase only by the rate of inflation. The limit does not apply to revenue from new construction, several more minor factors, or personal property. With the voters' approval of Question B in 2008, the Council may exceed the Charter limit only with 9 votes (not the previous 7). No criteria, such as emergency conditions, are specified for doing so. The understanding in 1990 between Councilmembers who sponsored the

For FY06 Mr. Duncan proposed exceeding the Charter limit by $62.5 million. The Council was narrowly divided but ultimately adhered to the Charter limit and instead reduced his recommended budget. In FY06-08, with property assessments rising sharply, the Council met the Charter limit in several ways:

- in FY06, by cutting the rate 4 cents, providing a $116 income tax offset credit for owner-occupied principal residences,[11] and expanding the County supplement to the State's Homeowners Property Tax Credit Program (circuitbreaker).
- in FY07, by cutting the rate another 5 cents and providing a $221 credit.
- in FY08, by providing a $613 credit. Under this all-credit approach, owner-occupied residences with a taxable assessment of up to $475,200 actually had a **lower** bill in FY08 than in FY07, starting with 8.2 percent lower for a taxable assessment of $275,000.

In FY10 the Council met the Charter limit by providing a credit of $690. **For FY11 the Executive recommends a credit of $693.**

Energy Tax

On March 15 the Executive proposed increasing the energy tax[12] in FY11 by $50 million "as a last resort to avoid even further reductions in County services or layoffs of County employees." On March 25, as noted above, he proposed raising and accelerating this increase. The increase would be 63.7 percent, not 39.6 percent, and it would take effect on May 1, not July 1. The revenue gain would rise by $45.4 million, from $50.0 million to $95.4 million – $13.6 million more in FY10 and $31.8 million more in FY11. The monthly bill increase for the average homeowner, which was about $3.00 in the March 15 proposal, would rise to about $5.00, while the annual bill would rise from about $99 to $162. OLO is reviewing what the impact on non-residential accounts would be.

Starting from a relatively low base, energy tax increases in the last decade were large: 200 percent in FY04, 52.15 percent in FY05, and 9.1 percent in FY09. The new proposed increase would **raise energy costs for County agencies**, estimated for FY11 at $1.7 million for County Government, $2.3 million for MCPS, $210,000 for the College, $166,000 for M-NCPPC, and $1.9 million for WSSC (plus additional costs for the final two months of FY10). The Executive's forthcoming budget adjustments may address how to cover some of these higher costs.

Charter amendment (including Mr. Leggett) and Robert Denny, head of Fairness in Taxation, which had advocated a stricter alternative, was that this flexibility would enable the Council to deal with serious fiscal challenges over time.

[11] State and County laws authorize the Council each year by resolution to grant a property tax credit to owner-occupied principal residences "to offset in whole or in part increases in the county...income tax revenues resulting from a county income tax rate in excess of 2.6 percent." A key feature of the income tax offset credit is that it produces a smaller revenue loss than a rate cut. This is because a rate cut applies not only to existing property (which is subject to the Charter limit) but also to new construction and personal property (which are not). Also, this credit focuses the property tax relief on owner-occupied principal residences (as distinct from rental and non-residential property).

[12] This is a tax on fuel oil, natural gas, and electric utility providers that is passed on to all utility customers. The tax is based on energy use, not the bill size or unit energy cost. Residential customers pay about 27 percent of the tax; non-residential customers, including government agencies, pay the remainder.

"Tax Room"

The Executive has not proposed other rate increases, in part because of the economic climate and in part because the County has very little "tax room." The tax increases on property (above the Charter limit), income, energy, and telephones that were approved to balance the FY04-05 budgets have become an integral part of the County's revenue base, accounting for **$303.5 million or 10.2 percent of FY10 local tax revenue ($2,962.2 million)**. The FY10 revenue from the FY09 increases in property and energy taxes is an additional $133.8 million. This amount, combined with the impact of the FY04-05 tax increases, was projected to account for **$437.3 million or 14.8 percent of FY10 local tax revenue.**

The income tax, now at 3.2 percent (the maximum rate permitted by the State), cannot be raised further. The tax on telephone landlines (more than doubled to $2 per month and also applied to wireless lines) is already high and in any event has a small yield. Recordation taxes are also at high levels.

During the recession of the early 1990s the Council raised taxes on income, energy, and telephones, but as fiscal conditions improved later in the decade, the Council reduced those taxes (and also abolished the beverage container tax). The Council was then able to use this "tax room" to counter the sharp downturn in the early years of this decade. Similar "tax room" – except for the proposed energy tax increase – is not available now. Thus pressure will again grow to exceed the Charter limit on property tax revenue.

What About FY12?

Decisions on the FY11 budget must take into account the difficult fiscal prospects for FY12. Whether or not one agrees with PIMCO's Bill Gross that a world-wide process of "de-levering, de-globalization, and re-regulation" has created a "new normal" characterized by weak growth, the economic recovery will be slow. This region and County, while better positioned than most others, are not immune. The FY11-16 Fiscal Plan summary outlined in the March 15 budget document projects a FY12 budget gap of $212 million (but see below). **Moreover, as in past downturns, the fiscal cycle will lag the economic cycle, perhaps by at least one year.**

State aid flows will continue to be a challenge as well. Fiscal analysts project further large State deficits for FY12 and beyond. This year's efforts to export part of the State deficit to the counties will surely continue. State pension costs for county teachers and others remain in the cross-hairs for Senate President Miller and other key figures. Highway user revenue for the counties has all but disappeared.

The Fiscal Plan and the County's Structural Deficit

See ©73-76 for Mr. Beach's transmittal memo for the County's FY11-16 Fiscal plan. Each edition of the six-year Fiscal Plan is a snapshot in time, and the assumptions that underlie it are a subject of legitimate debate. This edition includes three scenarios for the Fiscal Plan summary. See ©77-79.

The first scenario on ©77 **("March 15")**, as noted above, projects a $212 million gap in FY12 despite service reductions, position abolishments, furloughs, and departures from County fiscal policies in FY11 on a scale that we have not seen before. This scenario also projects gaps in FY13-16 that exceed $303, $417, $464, and $514 million. The second scenario on ©78 **("March 25")** reflects the additional energy tax revenue proposed by the Executive on March 25. The gaps in FY12-16 are reduced but still exceed $137, $272, $386, $436, and $486 million.

The third scenario on ©79 ("balanced") is offered this year for the first time. It displays no gaps in future years by sharply limiting projected expenditures to projected resources. The result

of allowing no gaps for FY12-16 is that – using the plan's other assumptions – agency expenditures may increase only at the rate of 1.5, 1.9, 2.7, 4.8, and 4.9 percent. These increases are generous compared to the reductions of FY11, but they fall far short of historical growth rates for County agencies. This scenario illustrates the extreme fiscal discipline required to balance the budget over the six-year period. The steps required to **"bend the cost curve"** in this way would be sweeping.

Governments at all levels, both here and abroad, confront **structural budget deficits**. Speaking on April 7 of the federal deficit, Federal Reserve Chairman Bernanke said that "the nation will ultimately have to choose among higher taxes, modifications to entitlement programs such as Social Security and Medicare, less spending on everything else from education to defense, or some combination of the above." For his part, the Executive refers in his budget message to the importance of focusing on the County's structural deficit. One effort he cites is the new Cross-Agency Resource-Sharing Committee, which will seek operational efficiencies involving all agencies. See Mr. Firestine's memo on ©80-82.

Council President Floreen, in a March 15 memo on ©83, said that the deficits that governments face today are not only cyclical – the result of the worst recession since the Great Depression – but also structural. She suggested a focus on the assumptions behind the Fiscal Plan's future year gap projections, an analysis of the cost drivers associated with the long-term structural deficit, and a review of policy and budget options to address it. She has asked OLO to develop a proposed scope of work and suggested that **the Council approve a project assignment to OLO** in late May, to be completed by early December, when the new Council will take office.

One good example of the structural deficit challenge is the **pre-funding of retiree health benefits provided by County agencies**. For FY08 the Council supported the Executive's plan to phase in the pre-funding over five years to ensure that the agencies' commitments to retirees can be kept. For FY09, given the tight budget, he proposed an eight-year phase-in instead. For FY10, because of still more serious budget pressures, he ultimately proposed no tax-supported pre-funding with the exception of $12 million for MCPS. For FY11, given the state of the budget, he proposed no tax-supported funding at all. **If the County were following the five-year phase-in schedule that was projected and approved three years ago, the FY11 tax-supported allocation would be $148.9 million, not zero.**[13]

As the Executive has noted, the agencies' salary and benefit costs comprise **80 percent** of the County budget. These costs are affordable when times are good and revenue growth is strong. In serious downturns they are not, and fault lines between the County's promises to employees and its ability to pay for them emerge. Absent an economic recovery that is robust and has staying power, these fault lines will deepen. This problem helps to define the County's structural deficit challenge.

Approach for Committee and Council Budget Review

The Council's five public hearings on the budget were held on April 5-8. Committee worksessions have begun; Council worksessions will begin on May 10. Revenue day and reconciliation day are scheduled for May 19 and 20. Our budget tracking system, which records all Committee and Council actions, will prepare regular updates until May 27, the date for final budget approval.

Council President Floreen has suggested how our analysts and Committees can most productively approach individual department and agency budgets. See her memo on ©84-85. The problems to be addressed range from large familiar issues like the ambulance fee to small but important proposals like the transfer of the Ethics Commission to the County Attorney's Office.

[13] The budget recommends non tax-supported contributions in FY11 from proprietary funds and participating outside agencies but does not recommend contributions from the County agencies' tax-supported funds.

Taken together, the spending reductions the Executive has felt constrained to propose are, for this County, unprecedented in their scope and impact. In weighing its own policy and budget choices, the Council will be limited by a shortage of additional resources. **One possible way to free up funds – $7.2 million in FY11 – is to limit the "phantom COLA" to FY10 only for the 5,000 employees in the County's defined benefit plan (Employees' Retirement System).**

Last year's concession agreements between the Executive and County Government unions provided that the salary COLA that employees did not receive in FY10 would be included for the rest of their County career in the calculation of their defined benefit pension. The County's actuary estimated that this provision would cost **$8.6 million** per year for up to 40 years. The Council's actuarial adviser now estimates that limiting the provision to FY10 would save **$7.2 million** not only in FY11 but for future years as well. Total savings could exceed **$200 million**.

School and other agency employees who also received no salary COLA in FY10 did not receive this "phantom COLA" to enhance their future defined benefit pension. We are not aware of any extended provision of this kind elsewhere. Last year Anne Arundel County implemented a provision but limited it to FY10.

Last year's concession agreement with MCGEO also provided a "phantom COLA" for employees in the County's defined contribution plan (Retirement Savings Plan), who also number about 5,000. But significantly, this provision – unlike the provision for the defined benefit plan – was limited to FY10 only. **The estimated total cost is $919,750, compared to more than $200 million for employees in the defined benefit plan.**

The argument for retaining the "phantom COLA" for the defined benefit plan is that it was part of last year's concession agreements. The argument against retaining it is that the massive resources the change would free up could ease severe budget hardships in FY11 and future years.

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ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON (Year-over-Year) (Most Recent)	DIRECTION
INFLATION	2.60% January 2010	Property Taxes	Key determinant of property tax revenues at the Charter Limit	January 2009: 1.0% November 2009: 1.6%	↑
UNEMPLOYMENT RATE	5.9% February 2010	Income Taxes	Indicates overall health of the job market	February 2009: 5.2% January: 6.2%	↑
RESIDENT EMPLOYMENT	479,981 February 2010	Income Taxes	Primary determinant of income tax receipts	February 2009: 481,909 January: 480,465	↔
PAYROLL EMPLOYMENT (est.)	460,700 February 2010	Income Taxes	Another determinant of income tax receipts	February 2009: 463,300 January: 458,400	↔
STOCK MARKET - S&P 500	(Daily)	Income Taxes	Key determinant of capital gains portion of the income tax	End of Year: Dec 2008: 903.25 Dec 2009: 1,115.10 March 2010: 1,169.43	↑
HOME SALES	508 February 2010	Transfer/ Recordation Taxes	Indicates activity affecting receipts	February 2009: 448 January: 576	↑
HOME PRICES	$408,107 February 2010	Transfer/ Recordation Taxes	Taxes are based on values, affects amount of taxes collected	February 2009: $421,706 January: $403,122	↓
FEDERAL FUNDS RATE	0.16% March 2010	Investment Income	County's return on investments closely correlated with the Fed Fund rates	March 2009: 0.18% February: 0.13%	↔

Summary

- Employment:
  - The County's unemployment rate has risen 2 percentage points during the past fourteen months (from December '08 to February '10) to 5.9%.
  - Because the unemployment rate is a lagging indicator in terms of an economic recovery, it may not improve significantly and may remain at or above the 5.0 percent level through the remainder of this calendar year.
  - The County's resident employment was approximately 480,000 in February, a slower rate of decline of slightly more than 1,900 from February 2009, and the lowest level since May '04.
- Construction:
  - The value of new construction starts for residential and non-residential projects is below $513 million to date in fiscal year 2010 compared to approximately $535 million over the same period last year. Additional property assessments from new construction could, by FY11, be at their lowest level in over 10 years.
- Inflation:
  - While the recent figures for inflation are a welcome relief to the local consumer, it has had a significant effect on the amount of property tax revenues under the Charter Limit in FY11. Currently the index was 0.2 percent (or essentially flat) for calendar year 2009. However, inflation in January increased 2.6 percent over January '09 attributed to higher gasoline prices.
- Housing Sales and Average Sales Prices:
  - Home sales increased 21.8 percent in 2009 which was attributed to strong sales from March through December.
  - Average sales prices decreased 13.8 percent in 2009. The decline in average prices has offset the increase in the volume of sales reducing the amount of increase in residential transfer tax receipts.

How the FY11 Gap Was Closed
($ in Millions)

(Negative numbers increase the gap; positive numbers close the gap)

1	Gap on December 1, 2009	$	(608.291)
2			
3	Major resource changes since December:		
4	Non K-12 State Aid reduction		(32.922)
5	Less FFP and other HHS reimbursements		(22.134)
6	Less Speed Camera revenues		(25.172)
7	Additional snow removal		(44.359)
8	February revene write-down		(52.964)
9	Other revenues (College tuition, inauguration reimb., other)		6.986
10			
11	Revised FY11 Gap as of March 1		(778.855)
12			
13	Resource changes closing the gap:		
14	K-12 State Aid		43.004
15	Revised Savings Plan		69.784
16	Increase net transfers from non-tax supported funds		36.977
17	Adjustments to MCPS, College to assume fund balance		0.020
18	MCG expenditure savings above savings plan and reappropriated carryover		2.026
19	Federal Reimbursement for Snow Storms		25.000
20	Increase Montgomery College Tuition		4.334
21	Federal Reimbursement for Debt Service		3.858
22	Additional FY10 Debt Service savings		5.467
23	Additional FY10 PAYGO savings (due to revised investment income estimate)		1.005
24	Release Set Aside for State Aid Reversions		5.080
25	Charter Limit with Income Tax Offset Credit		11.479
26	Additional Mass Transit Property Tax from Reduction in Bethesda PLD Rate		0.711
27	EMS Transport Fee		14.700
28	Redirect Recordation Tax Premium to General Fund		8.221
29	Energy Tax		50.000
30	Net effect on reserves[1]		(10.315)
31			
32	Change in uses to close the gap:		
33	Reserves from 6% to 5%		36.793
34	Release Set Aside for State Aid Reversions		2.540
35	Remove CIP PAYGO		31.500
36	Reduce CIP Current Revenue		3.732
37	Reduce FY11 Debt Service		14.809
38	Remove General Wage Adjustments -- All Agencies		122.018
39	Remove Steps/Increments -- All Agencies		34.695
40	Remove FY11 Retiree Health Insurance Pre-Funding -- All Agencies		64.425
41	Additional Agency Reductions from MKCs in Fiscal Plan:		
42	County Government		124.524
43	MCPS		40.930
44	Montgomery College		15.459
45	MNCPPC		16.078
46			
47	Gap on March 15, 2010	$	0.000

[1]Includes FY10 withdrawal of $102 million from the Revenue Stabilization Fund to eliminate General Fund deficit.

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

March 15, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: FY11 Operating Budget and FY11-16 Public Services Program

I am pleased to transmit to you, in accordance with the County Charter, my Recommended FY11 Operating Budget and FY11-16 Public Services Program.

This budget reflects the concerns and policy issues that I heard County residents express during the many Town Hall Meetings, Budget Forums, On-Line Chats, and other community meetings I have held over the past year to better understand the hopes, expectations, and needs of the people of our County.

Consistent with existing resource constraints, this budget supports my priority policy objectives:

- Children Prepared to Live and Learn
- Affordable Housing in an Inclusive Community
- Safe Streets and Secure Neighborhoods
- A Responsive and Accountable County Government
- Healthy and Sustainable Communities
- An Effective and Efficient Transportation Network
- A Strong and Vibrant Economy
- Vital Living for All of Our Residents

As with each of the operating budgets that I have transmitted to the County Council, my top priorities have been to produce a fiscally sound and sustainable budget that preserves public safety services, education, and the County's safety net for the most vulnerable.

While it has been difficult in each of these years to balance these priorities, the FY11 budget has been uniquely challenging because of the continued, sharp decline in tax revenues and State aid, and the severe impact of the Great Recession on our residents. In addition, we have responded to other crises such as the H1N1 outbreak and snow removal from this winter's historic blizzards. While this budget responds to critical priorities, it is necessary for us to make very deep reductions in existing County programs, services, and staffing levels. Other reductions adversely impact employee compensation. Despite these serious fiscal constraints, our approach to this budget focuses not only on protecting essential services, but also on identifying long-term cost savings to minimize the burden on taxpayers and alleviate the negative impact on direct services required by our residents.

Economic Context and Fiscal Consequences

I said three years ago, even before the current economic downturn, that County Government spending was not sustainable. The combination of a growing workforce, expanding services, and sharply receding local revenues has created a long-term structural deficit in the County budget. Since taking office, I have made restoring fiscal prudence a major priority of my administration. Responsible fiscal practices are essential and the foundation for all else that government must do to protect and serve our nearly one million residents. To respond to this challenge, we established several cost containment, efficiency and productivity improvement actions, and cost reduction strategies that have dramatically slowed the rate of growth in the operating budget and have saved County taxpayers millions of dollars.

In my first budget as County Executive, the County faced a $200 million budget shortfall in FY08. We reduced the tax supported rate of increase in spending by County Government from 14.1 percent in FY07 to 6.9 percent in FY08. In FY09, as a result of a plummeting real estate market and the economic downturn, our projected shortfall increased to $401 million. In response to this challenge, we imposed a hiring freeze, produced midyear savings of over $30 million, abolished over 225 positions, implemented a retirement incentive program, and slowed the rate of growth in the County Government to 1.6 percent. In the FY10 budget, we closed a projected gap of $590 million without a tax increase, by reducing costs, abolishing nearly 400 positions, and eliminating general wage adjustments for most employees. In developing the FY11 budget, we faced a daunting and historic projected gap of nearly $780 million, which my proposed budget fully closes.

The cumulative amount of budgetary shortfalls that I have resolved in the four budgets that I have developed and recommended to the Council is nearly $2 billion. That, simply put, is unprecedented.

Before the economic recession, Montgomery County Government's tax supported budget had grown significantly including 11% in FY05, 11.4% in FY06, and 14.1% in FY07. These increases were supported by growing income tax revenues (over 21% in FY07 alone), transfer and recordation taxes, and property tax revenues. However, with a doubling in the local rate of unemployment, declining residential and commercial development activity, and continued challenges for the local business community, income tax revenues and almost all other tax revenues have dropped sharply. This has forced Montgomery County to restructure our expectations and our operations to align our expenditures with the new economic realities.

Closing the Gap and Creating a Sustainable Budget

To address the current year's fiscal crisis, I developed a multi-pronged strategy including:

- Directing all departments to meet aggressive cost savings targets in FY10 (including two different mid-year savings plans that totaled nearly $100 million) and in FY11 to identify and implement long term savings;

- Coordinating approximately 20 focus groups involving all directors, key Council staff, Management Leadership Service, and selected outside agencies collaboratively developing ideas for structurally improving the County's budget. Through this effort, a number of cost saving measures were implemented and several other potential solutions were identified for FY12 and beyond;

- Continuing the hiring freeze instituted over two years ago, and reducing current revenue funded expenditures in our capital budget;

- Meeting and coordinating our efforts with the principals and employee representatives of all County agencies;

- Negotiating and renegotiating bargaining agreements with our employee unions; and

- Establishing a freeze in FY10 on County contract procurements and liquidation of many outstanding contractual obligations.

To address our long-term budget challenges, I have reached out to our partners in Montgomery County Public Schools (MCPS), Maryland-National Capital Park and Planning Commission (M-NCPPC), Montgomery College, and Washington Suburban Sanitary Commission (WSSC) to establish a cross-agency committee that will be charged with establishing a number of cross-agency work groups to discuss and develop resource-sharing ideas and implementation strategies in areas such as information technology, space utilization, fleet, utilities, facilities planning, design, construction and maintenance, training, and other administrative services.

Because we are projecting a long term, structural imbalance between County expenditures and resources, our solutions must be weighted toward identifying long-term savings, sustainable and stable revenues, and adopting efficient, productive, and cost-effective business practices.

Eighty percent of the County budget goes toward compensation – wages and benefits for County employees. To continue my efforts to create a sustainable budget for the long term, I am recommending the abolishment of over 450 positions in County Government in FY11. Over 230 of these positions are filled. We will make every effort to appropriately place the affected individuals in available vacant positions. To alleviate the impact of these position reductions, I am recommending that the County Council adopt a Retirement Incentive Program (RIP). The program will be offered to employees in all occupational classes in which there will be a reduction in force (though capped at the number of position abolishments in that class). All positions vacated through the RIP will be permanently abolished to ensure that the savings are ongoing.

For FY11, I am recommending that we continue these actions and also implement a ten day furlough (80 working hours) of non-public safety County Government employees. I am recommending that the other County funded agencies also consider this cost reduction strategy in FY11, though such a decision is subject to the judgment of the governing board of each agency. The details of how the County Government furloughs will be implemented will be discussed more fully with the appropriate bargaining units.

My recommended budget does not contain any pay increases for County Government employees[1]. To promote equity among public employees, I recommend that the governing board of the other County funded agencies support this same approach to compensation in FY11. I regret that I have to take this action because I know how hard County employees work, how seriously they take their service to the public, and the difficult conditions under which they must provide public services. Nonetheless, under the dire economic and fiscal circumstances we are facing there really is no alternative, except further reductions in public safety and safety net services and further layoffs of County employees. Not only is funding these pay improvements not affordable, I do not consider it to be appropriate, fair, or good public policy to award pay increases to some employees while we are substantially reducing direct services to the community and laying off other public employees.

I realize that all of these compensation related actions will result in a financial sacrifice for County employees and their families. However, I make them after careful analysis and reflection upon the alternatives available to me to construct a budget that is fair to our residents and employees. I also want to add that whatever I ask of County employees, I will match, and so will my entire management team and all senior managers.

Past cost reduction efforts have focused on preserving direct services to the maximum extent possible. Regrettably, given the numerous rounds of expenditure reductions we have experienced in the last three years, this is no longer possible. This budget will include numerous reductions in County services across all programs including Health and Human Services, Public Safety, Transit, Libraries, Recreation, Technology Services, and other County services and functions. I have not exempted my own Office from these reductions: The Offices of the County Executive will be reduced by 26% in the FY11 Recommended Budget.

To those who may object to these reductions, I have a simple message: I do not like these any more than you do. Hard choices must be made, and not just talked about, in this difficult economic and fiscal environment.

Due to the continued severity of the current economic recession and the loss of over $320 million in tax and other revenues anticipated for this budget in FY10 and FY11, it is necessary to again recommend budgetary strategies that I have strongly resisted in the past. In this budget, I am reluctantly recommending that we temporarily reduce our tax supported reserves from 6 percent of resources to 5 percent. This will free up nearly $37 million in resources that I am recommending to help balance the FY11 budget and sustain existing critical services. The reserves used in FY11 should be replaced as quickly as possible, back to the 6 percent policy level. Adhering to consistent and strong reserve policies is a key element in maintaining the County's AAA bond rating that we have received from all three credit rating agencies.

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[1] This includes the arbitrated award for the Fraternal Order of Police, Lodge #35 and the contract with the International Association of Fire Fighters, Local #1664. The total tax supported cost in FY11 of funding step increases (also called service increments or merit pay increases) for all agencies is $34.7 million including $5.6 million for Montgomery County Government; $25.9 million for Montgomery County Public Schools; $2.3 million for Montgomery College; and $900,700 for the Maryland National Capital Park and Planning Commission. Additional details of the cost of implementing the IAFF and FOP agreements and other compensation and benefit costs can be found in the Workforce/Compensation section of this budget document.

Because of the dramatic revenue reductions in the current fiscal year and the record cost of snow removal which is currently estimated to exceed $60 million for the current year, we will withdraw approximately $102 million of the nearly $120 million in the County's Rainy Day Fund (Revenue Stabilization Fund) in order to preserve the County's general fund in a positive position at the end of FY10. These funds will be replenished in FY11 in order to keep the County's reserves at the five percent level. Our experience in this fiscal year has demonstrated the wisdom of maintaining strong reserves. If the Rainy Day fund had been accessed in the past for other priorities, it would not have been available in the current fiscal crisis.

I have also found it necessary to again seek a waiver of the State-required maintenance of effort in local funding of K-12 public education[2]. This is necessary to preserve vital services throughout the County Government and to provide a balanced and sustainable budget. We have communicated throughout this process with the Superintendent and the members of the Board of Education. We are near completion in the General Assembly with a legislative remedy to the FY10 waiver of the Maintenance of Effort and will continue to press for an FY11 remedy to this State mandate. I recommend reducing the local contribution by approximately $137 million below the Board's request and fund 96 percent of the Board's requested budget (excluding requested funding for the Reserve Account for Future Obligations).

I am recommending that we defer an increase in pre-funding for Retiree Health Benefits in FY11. While I remain committed to pre-funding this outstanding liability and seeking ways to minimize the burden on taxpayers, it will be necessary to defer funding for retiree benefit pre-funding in FY11, so that we can redirect approximately $64 million in projected increases to preserve existing services.

In order to avert more serious reductions in first response Fire Rescue and Emergency Medical services, I am again urging the County Council to institute an Emergency Medical Services (EMS) transport fee to provide $14.7 million in additional resources to sustain and grow our Fire and Rescue Services in the coming years. The projected level of tax-supported resources for the Fire Tax District Fund simply cannot meet the demands for apparatus management; volunteer enhancement, recruitment, and retention; performance based initiatives for the volunteer fire rescue departments; additional staffing for new stations opening in West Germantown, East Germantown, Travilah, Clarksburg, and other locations around the County; additional staffing to implement four-person staffing of apparatus; and compensation and benefits for our firefighters and emergency medical technicians.

Three years ago, I proposed that Council adopt an EMS transport fee. By delaying approval of the authorizing legislation for this fee, we have literally left tens of millions of dollars in insurance reimbursements uncollected. This is funding which could have been used to pay for much needed improvements to the County Fire and Rescue Services and which is sorely needed for the future.

This EMS Fee will be billed directly to an individual's health insurance, Medicaid, or Medicare. No County resident who is unable to pay will have any out-of-pocket expense for transport to the hospital. All of our surrounding jurisdictions have implemented similar programs with no impact on the willingness of individuals to call for emergency services. The program also will be structured to have no impact on the development and growth capabilities of local volunteer fire and rescue departments.

Other jurisdictions have used these resources to improve service and save lives with no adverse effects. We should do the same, too.

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[2] Maintenance of Effort (MOE) is a State mandate that requires that local funding, on a per pupil basis, must remain at least constant from one year to the next in order to qualify for an increase in certain categories of State K-12 Education Aid.

Because of financial burdens on County households as a result of the economic downturn, I once again made an early commitment to remain within the County charter limit[3] on property taxes for the FY11 budget. As was true for last year's budget, this budget keeps faith with that commitment. The property tax for each owner-occupied residence will include a credit of $693 to lower the burden on homeowners and maintain a progressive property tax structure in the County.

Finally, and as a last resort to avoid even further reductions in County services or layoffs of County employees, I am recommending an increase in the County's energy tax to raise an additional $50 million.

The County's energy tax is actually a tax on fuel oil, natural gas, and electric utility providers which is passed on to all utility customers. Because the energy tax is a broad-based tax, its impact on families is reduced by the fact that it is paid by businesses and households, and all levels of government, including federal agencies located in the County (that currently do not pay any other major County tax). Additionally, the energy tax is a consumption tax based on energy usage. It is not based on the overall size of the utility bill or the cost per unit of energy used as billed to the consumer. Therefore, the amount of the tax can be lessened by reduced energy usage. Based on existing usage patterns for the average homeowner, this increase will mean approximately an additional $2.90 per month. I am also recommending additional funding in the Health and Human Services budget for the County's Energy Assistance Program to minimize the impact to low-income households.

Water and sewer rates will increase by 8.5 percent in FY11 in accordance with the budget recently approved by the WSSC. Details on fee increases are provided in the Revenues section of my Recommended FY11 Operating Budget.

Due to these efforts, the cooperation and collaboration of our employee representatives and the governing boards and principals of other agencies, and other solutions to be discussed below, we have closed this budget gap and reversed the growth trends in budget expenditures that occurred before I took office, to an actual decrease in the County Government tax supported budget of 6.1 percent.

- I am recommending to the County Council, that tax-supported funding for Montgomery County Government decreases by $76.5 million – a 6.1 percent decrease from the FY10 Approved budget.
- The overall tax-supported budget of $3,681,109,876, will be down by $165,791,330 from the FY10 budget. This represents a 4.3 percent decrease.
- Tax Supported funding for the MCPS will decrease by $79.5 million – a 3.9 percent decrease from FY10. However, if the FY10 "debt service reimbursement"[4] amount is excluded, MCPS funding for educational programs in FY11 will be the same as in FY10. The budget funds 96 percent of the Board of Education request when adjusting for the Board's requested increase to its reserve account for future obligations.

[3] 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 through the unanimous vote of nine Councilmembers.

[4] The FY10 Approved Operating budget for MCPS included $79.5 million as a debt service reimbursement to Montgomery County Government for the interest and principal payments due from school construction projects. This amount is not included in the FY11 Recommended budget. Therefore, an accurate comparison of the budget should remove this amount in FY10.

- Funding for Montgomery College decreases by $8.3 million, a 3.8 percent decrease.
- Funding for the M-NCPPC is reduced by $15.1 million, a 13.5 percent decrease.
- I recommend a total County budget (which includes debt service, grants, and enterprise funds) for FY11 of $4,304,288,414, down $169.7 million from the FY10 Approved Budget – a 3.8 percent decrease. **This is the only time the annual County Budget has been reduced since the adoption of the current Charter in 1968.**

Unfortunately, our efforts at expenditure restraint are not completed with the FY11 Operating Budget. Given the severity of the current recession and subsequent declining tax revenues, FY11 and perhaps ensuing fiscal years will require continuing restructuring of County expenditures, especially personnel costs which comprise 80 percent of County costs.

Assuming that you approve my FY11 Budget as recommended, with all of the very difficult cost reductions and other budgetary solutions, there will still be a substantial budgetary gap in FY12. This projected gap of over $200 million is due to the significant ongoing costs of funding County services, the reduction in tax revenues related to the recent economic recession, and the scheduled expiration of federal economic stimulus funds at the State and Local level that have provided over $50 million in funding for MCPS. Even with an economic recovery, there will be a lag in the increase in income tax and other revenues as our collections catch up with the economic recovery.

The outlook on the economy remains highly uncertain, including the prolonged recession in the local real estate market and persistently high unemployment. In addition, final decisions by the General Assembly on the State's budget may further affect our capacity to provide local services. Therefore, resorting to one time solutions, quick fixes, and adding continuing costs back into the budget will only exacerbate the structural budget gaps long into the future rather than addressing them now through real, long-term solutions.

I realize that our approach to balancing the budget should not strictly be a matter of cost reduction, but we should make every effort to make our operations more efficient, productive, and cost effective. To accomplish these objectives, I have instituted several measures to make Montgomery County Government even better and more efficient in how we operate and provide services to the Community.

My CountyStat initiative has made significant progress in tracking the County's performance in addressing challenges using real-time data and holding departments and agencies accountable for the results in a number of operational and policy areas. The CountyStat program has provided a forum for ongoing monitoring and measurement of the effectiveness and efficiency of County Government services. This program has been a major success in improving the responsiveness and efficiency of the County Government.

CountyStat has added value by enforcing my philosophy of "results-based accountability" and empowering the Departments to make "data-driven" decisions. Although building upon previous "stat" programs, CountyStat represents a further evolution of this model by focusing on customer results, performance, and long-term strategies with a focus on effectiveness and efficiency. Specific examples of CountyStat's impact include:

- Analysis of overtime pay for public safety agencies and transportation which helped departments cut overtime hours by 16% and save the County $7.1 million in overtime pay in 2008 with $3.5 million in savings in Fire and Rescue Service alone. In 2009, departments not only sustained these overtime cuts, they trimmed overtime costs further resulting in an overtime reduction of $735,000 or 19%.

- Initiated and managed a paper reduction initiative that in FY10 saved the County approximately $1 million in paper, printing, and related costs while enhancing the County's commitment to environmental stewardship.

- Through examination of existing practices, inefficient programs and processes, such as distribution and management of cell phones, were closely reviewed resulting in savings across County departments.

- Continued managing departmental Performance Dashboard in order to monitor and report the County's successes and challenges, and issued the first progress report on the County's Community Indicators that represent a high-level barometer of County performance benchmarked against a regional and national grouping of comparable jurisdictions.

- Provided strategic and analytical analysis of a number of critical issues, programs, services, and policies including FY10 and FY11 cost saving ideas generated in "focus groups."

In my first year as County Executive I formed a task force to review the structure of County Government to determine what changes were necessary to improve the efficiency and effectiveness of County Government. The recommendations of this task force resulted in several changes to the structure of the County Government, including the creation of the Department of General Services and the Department of Transportation to better focus efforts of County facilities management and projects and transportation projects and services.

In this budget we are continuing our efforts at restructuring the County Government to improve its responsiveness and efficiency. The Department of Correction and Rehabilitation, the Department of Public Libraries, and the Recreation Department have implemented significant internal reorganizations to efficiently consolidate functions, reduce costs, and preserve service levels. In addition, I am recommending consolidating the staffing for the Ethics Commission into the County Attorney's Office and shifting the Equal Employment and Diversity Management Office from the Office of Human Resources to the Office of Human Rights. Both of these reorganizations took advantage of existing staffing resources to reduce costs and leverage the efforts of County staff to produce better outcomes for the community. The Regional Services Center budget is also substantially restructured to reflect the improvements and streamlining of constituent services through the implementation of the 311 Call Center in FY10 and also refocus their core activities as liaisons between the community and County Government.

The implementation of the centralized 311 Call Center and Constituent Relationship Management system (CRM) in this current fiscal year will significantly enhance community services. Residents are now able to call a centralized call center to respond to their information or service requests. Before the end of this fiscal year, residents will be able to call one three digit number (311) to access County Government non-emergency information and services and use the 311 website to directly enter and track service requests. In addition to allowing easier access to government information and services, MC311 has been implemented in a cost effective manner by consolidating five current call centers housed in various departments, and centralizing the information and referral calls currently received by each of the Executive Branch departments and offices. In the longer run, the information obtained from the CRM system, combined with financial information from the Enterprise Resource Planning (ERP) system, will provide us with important tools to make more informed decisions about how to best use our scarce resources.

We are also continuing to take steps to reevaluate our business processes and modernize our Core Business Systems to improve the efficiency, effectiveness, and responsiveness of the County Government. The Technology Modernization project will provide resources to develop an ERP system project that will provide a significant upgrade to the County's financial, procurement, human resource, and budgeting systems and will streamline existing business processes. The ERP system is critical to our ability to have real-time, useable, financial data to improve fiscal analysis, promote transparency in our financial affairs, and improve fiscal controls – essential tools for managing during these challenging fiscal times. The Technology Modernization capital project will also provide resources to continue to replace the County's manual employee timekeeping system with an automated, web-based system that will provide greater efficiency, functionality, and reporting features.

Final Thoughts

Despite the extraordinary challenges we are currently facing, I remain very optimistic about the future of our County. The quality and scope of services we offer our residents in the areas of education, affordable housing, public safety, and health and human services are still among the very best in the nation. We have made significant advancements in working collaboratively together at the local level among government agencies and with our employee representatives. Our efforts locally to update our land use plans, establish and maintain prudent financial management, take advantage of the emerging green energy market, and support the rapidly growing bio-tech market are positioning us well for the future.

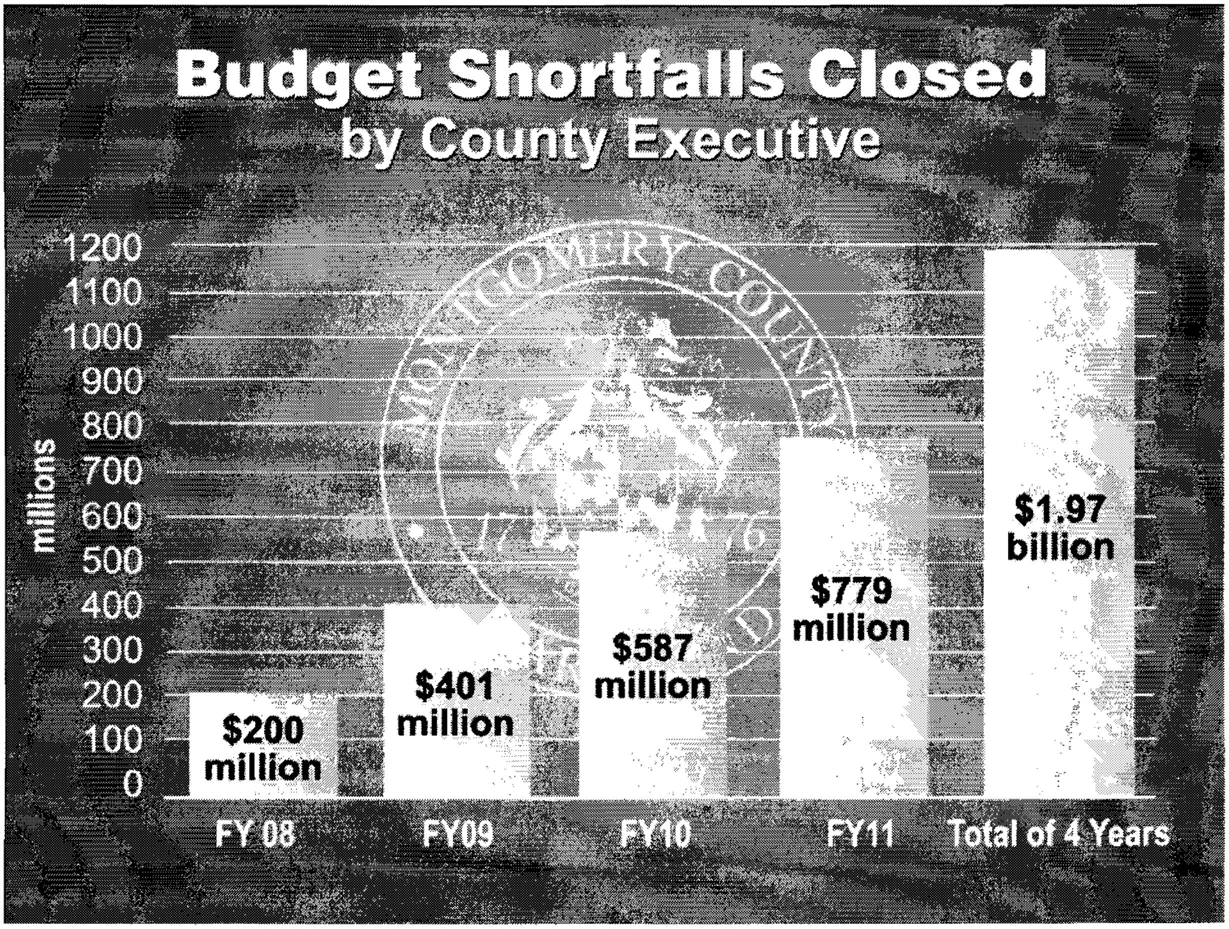
The recently approved White Flint Master Plan and the pending sector plan for the Gaithersburg West will significantly contribute to the growth in the local economy through job creation, residential and commercial development, support for transit-oriented development, and other improvements in the quality of life for County residents. We are actively and aggressively marketing Montgomery County as a business destination and have several pending offers of economic assistance to retain and recruit quality business to Montgomery County. With the Council's support, we are well on our way in implementing the Smart Growth Initiative which is key to developing the Shady Grove Sector Plan and improving the quality and safety of County facilities for the Police Department, Fire and Rescue Service, MCPS, and the M-NCPPC.

I want to thank those who contributed to the development of this spending plan including the Board of Education and Superintendent at Montgomery County Public Schools; the Trustees and President of Montgomery College; the Chair of the Maryland-National Capital Park and Planning Commission and the Planning Board; the Commissioners and General Manager of the Washington Suburban Sanitary Commission; individual residents, as well as members of boards, commissions, and committees; community-based organizations; and directors, employees, and employee representatives of departments in all agencies.

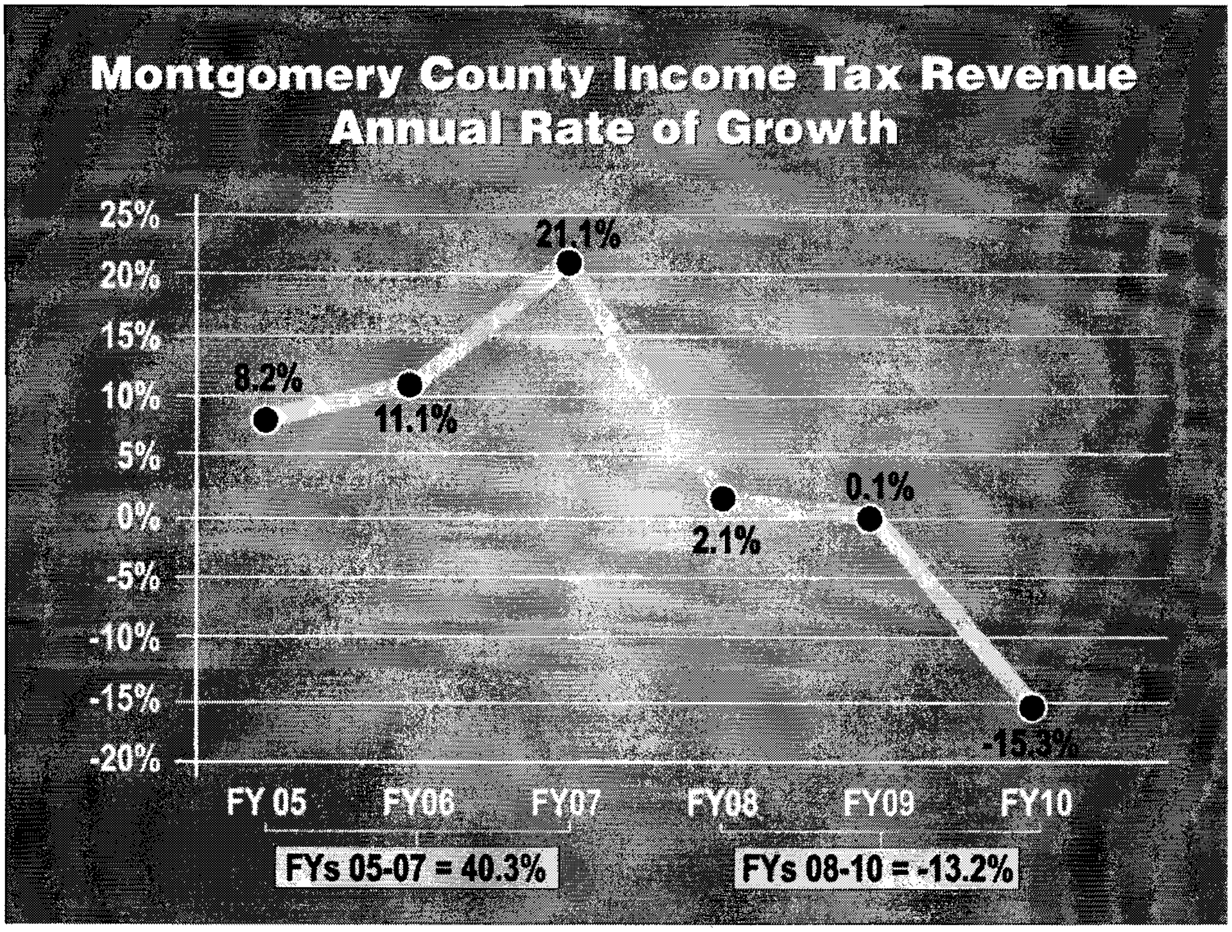
Throughout this budget process we have met with and conferred with the principals and board members of all County agencies, as well as with the representatives of employee organizations, to brief them on the nature and magnitude of our fiscal challenges and to jointly explore solutions. I am proposing that we continue this collaborative work throughout the process of adopting the FY11 budget and in crafting the FY12 operating budget. The challenges we will face in FY12 will be as great, if not greater, than they are for FY11. Many of the potential solutions we considered for FY11 were simply not possible to implement in the next fiscal year because of the numerous legal, policy, staffing, and other resource issues. However, we must take advantage of every opportunity to produce savings and preserve and enhance services for the residents of this County despite the resistance that we will encounter from settled ways of doing business.

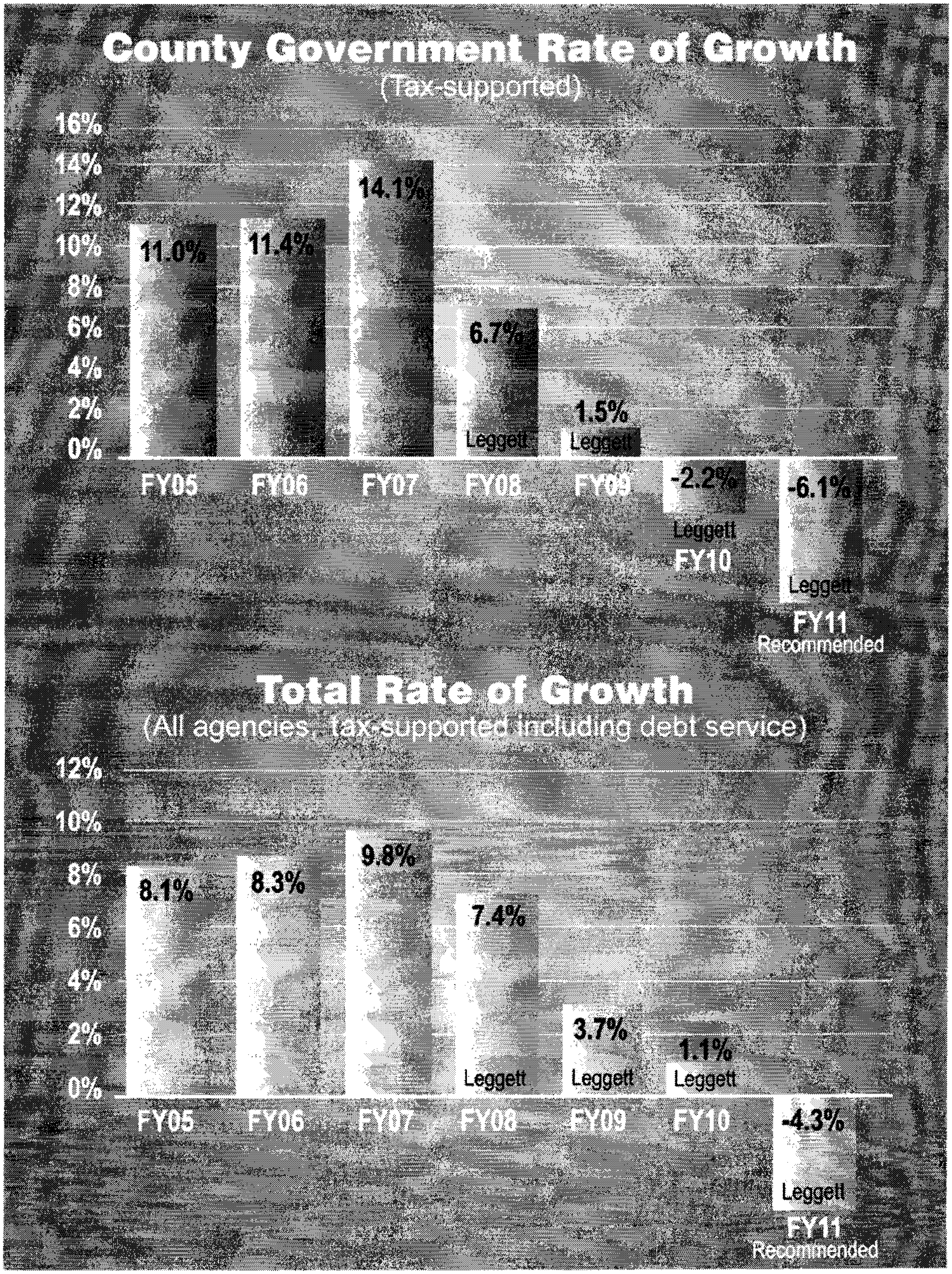
Highlights of my recommendations are set forth on the following pages and details can be found in the Departmental sections. The full budget can be viewed on the County's website at www. montgomerycountymd.gov/omb. Details of the budget requests for MCPS, Montgomery College, M-NCPPC, and WSSC can be seen in the separate budget documents produced by those agencies.

I look forward to working with the Council over the next two months on spending priorities and policy issues that arise and have asked Executive Branch staff to assist you in your deliberations.

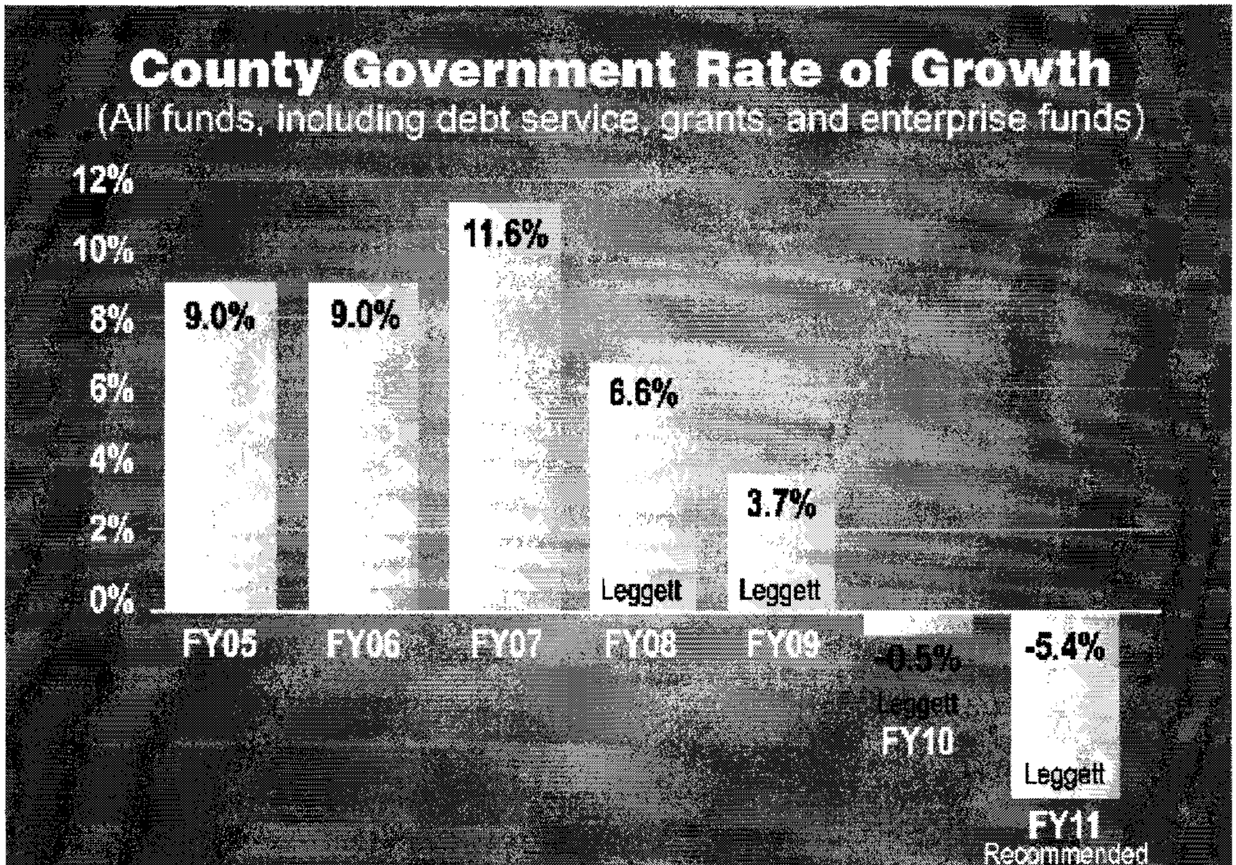

Budget Shortfalls Closed
by County Executive
millions
1200
1100
1000
900
800
700
600
500
400
300
200
100
0
$200 million
$401 million
$587 million
$779 million
$1.97 billion
FY 08
FY09
FY10
FY11
Total of 4 Years

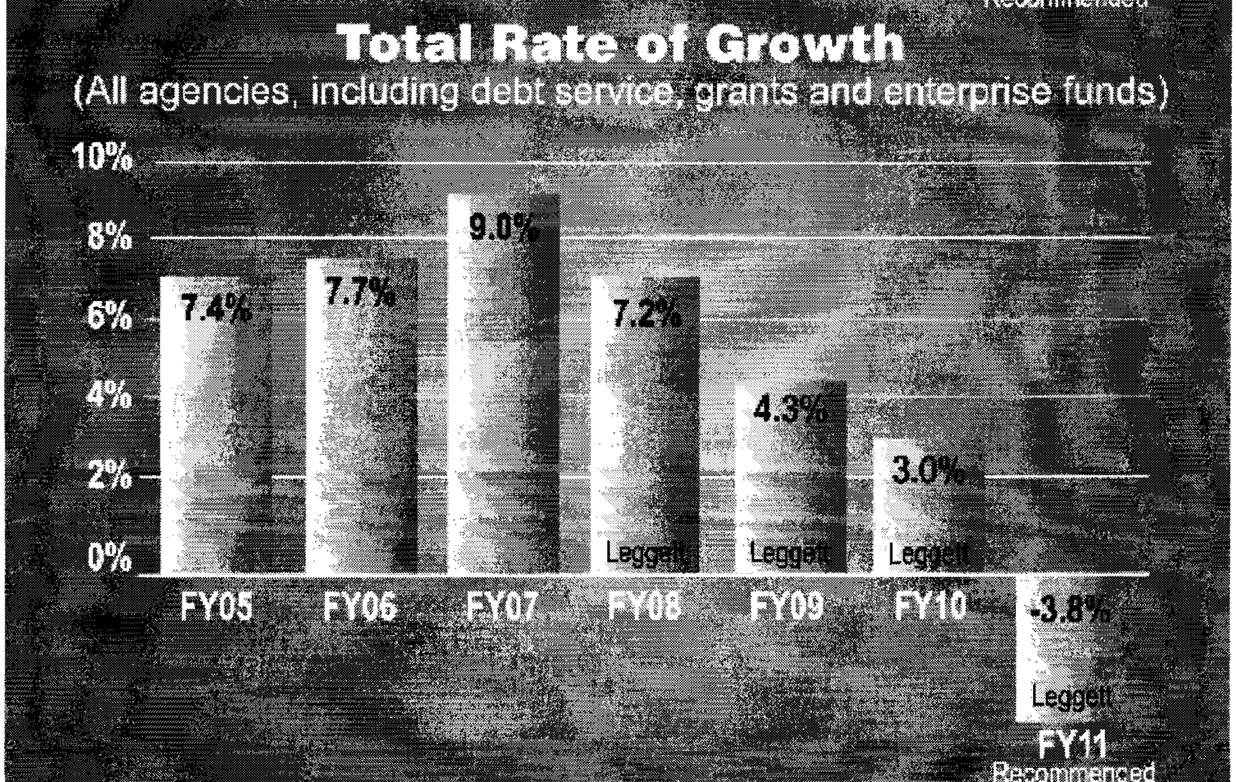
14


Montgomery County Income Tax Revenue
Annual Rate of Growth
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
-20%
8.2%
11.1%
21.1%
2.1%
0.1%
-15.3%
FY 05
FY06
FY07
FY08
FY09
FY10
FYs 05-07 = 40.3%
FYs 08-10 = -13.2%


County Government Rate of Growth
(Tax-supported)
16%
14%
12%
10%
8%
6%
4%
2%
0%
11.0%
11.4%
14.1%
6.7%
Leggett
1.5%
Leggett
-2.2%
Leggett
-6.1%
Leggett
FY05
FY06
FY07
FY08
FY09
FY10
FY11
Recommended
Total Rate of Growth
(All agencies, tax-supported including debt service)
12%
10%
8%
6%
4%
2%
0%
8.1%
8.3%
9.8%
7.4%
Leggett
3.7%
Leggett
1.1%
Leggett
-4.3%
Leggett
FY05
FY06
FY07
FY08
FY09
FY10
FY11
Recommended

16


County Government Rate of Growth
(All funds, including debt service, grants, and enterprise funds)
12%
10%
8%
6%
4%
2%
0%
9.0%
9.0%
11.6%
6.6%
3.7%
Leggett
Leggett
FY05
FY06
FY07
FY08
FY09
-0.5%
Leggett
FY10
-5.4%
Leggett
FY11
Recommended


Total Rate of Growth
(All agencies, including debt service, grants and enterprise funds)
10%
8%
6%
4%
2%
0%
7.4%
7.7%
9.0%
7.2%
4.3%
3.0%
Leggett
Leggett
Leggett
FY05
FY06
FY07
FY08
FY09
FY10
-3.8%
Leggett
FY11
Recommended

17

February 26, 2010

The Honorable Isiah Leggett, County Executive
The Honorable Nancy Floreen, President
Members of the Montgomery County Council
Montgomery County Government
Rockville, Maryland 20850

Dear Mr. Leggett, Ms. Floreen, and Council Members:

The Montgomery County Board of Education is pleased to submit the Fiscal Year 2011 (FY 2011) Operating Budget for Montgomery County Public Schools (MCPS), which was adopted by the Board on February 17, 2010.

The $2.263 billion budget contains no new initiatives but, as the state's "maintenance of effort" law requires, maintains the same local per-student funding amount for FY 2011—$11,249 per student—as the district received for the current fiscal year.

It is imperative that the FY 2011 Operating Budget be funded at the maintenance of effort level so that we can fulfill our mission of providing all students with a world-class education and continue the academic gains we have seen over the past decade. This also will ensure that we receive our full share of available state education funding. In the event that the county does not meet its maintenance of effort obligation, a fine as high as $51 million could be levied against the students and staff of Montgomery County Public Schools. During these austere economic times, we cannot afford to forego this critical funding.

As you are aware, on January 29, 2010, the Maryland State Board of Education fined the district $23.4 million for the county's failure to meet maintenance of effort for the current fiscal year. We still are hopeful a legislative solution will occur to waive this year's fine, but we cannot risk a penalty of more than twice that size next year.

Our FY 2011 Operating Budget includes $1.554 billion in revenue from the county, an increase of only 1.6 percent, to help fund the dramatic enrollment increases we have experienced in recent years. In 2009–2010, student enrollment climbed by more than 2,500 students overall. The number of students receiving Free and Reduced-price Meals System (FARMS) services increased by 10 percent, and the number of students receiving English for Speakers of Other Languages (ESOL) services increased by 6 percent. We expect our overall growth to continue next year and anticipate similar increases in the number of students receiving FARMS and ESOL services.

In addition, the $79.5 million that the County Council included in our FY 2010 Operating Budget for debt service will be used for direct operating expenses, since the Maryland State Board of Education has ruled that shifting debt service to the MCPS budget does not meet the maintenance of effort law.

The Montgomery County Board of Education recognizes the impact the economic downturn has had on the revenue available to fund education and other government services. The district has done a tremendous amount to help the county weather these difficult times. In the past two years, we have reduced spending by more than $200 million through staff reductions, expenditure controls, and systemwide efficiencies. For example, the 22,000 employees of MCPS voted to forego their cost-of-living increases last year, providing the county with ongoing annual savings of about $90 million. This was a very difficult sacrifice for all of our employees, but they have neither complained nor wavered in their commitment to the students. In fact, it's quite the opposite.

Over the past year, student achievement at MCPS has continued to grow from its already high level. For instance, about half of our 2009 graduates (48.7 percent) scored a three or higher on at least one Advanced Placement (AP) exam, a strong indicator of college readiness. This is nearly double the AP success rate for the state (24.8 percent) and more than triple the national rate (15.9 percent). Our African American and Hispanic students also outperformed all students across the state and the nation in AP participation and performance. We are seeing comparable success at all grade levels and in all subjects, even as our student population grows and faces more challenges than ever before.

If we are to continue to see our students achieve at such high levels, we must make a commitment to provide them the services, the resources, and the instruction they need. This budget request allows us to do just that—maintain our commitment to the students of Montgomery County and create a brighter future for them and for our county.

We realize these are unprecedented times in the history of Montgomery County, and difficult choices are going to have to be made. We look forward to working closely with you and your staff on a budget that balances the needs of the county and its children with our fiscal responsibility, given today's economic realities.

In closing, the members of the Board wish to thank those who worked so hard to develop this budget, including MCPS staff, our employee associations, and the Montgomery County Council of Parent Teacher Associations.

We also want to thank the large number of parents, staff, and students who contacted us or attended our budget hearings to advocate for their schools and programs. They have told us that even in difficult economic times, they want Montgomery County to continue to invest in education. We submit this budget on their behalf.

Sincerely,

Patricia B. O'Neill

Patricia B. O'Neill, President
Montgomery County Board of Education

Board of Trustees

February 16, 2010

The Honorable Isiah Leggett
Montgomery County Executive
Executive Office Building
101 Monroe Street
Rockville, Maryland 20850
and
The Honorable Nancy Floreen, President
Montgomery County Council
and
Members of the Montgomery County Council
Stella B. Werner Council Office Building
100 Maryland Avenue
Rockville, Maryland 20850

Dear Mr. Leggett, Ms. Floreen, and
Members of the Montgomery County Council:

The Board of Trustees of Montgomery College respectfully submits for your consideration the Adopted College Operating Budget for FY2011. The College worked diligently to submit a budget that is mindful of the current economic situation. At the same time, we must heed President Obama's message that in this economy, a high school diploma no longer guarantees a good job; that community colleges are a career pathway to the children of so many working families. It is essential that we continue to offer affordable, accessible higher education to County residents, and our budget priorities reflect that goal.

We have worked closely with our union leaders, our staff, and our faculty to identify a number of short- and long-term cost savings strategies. The budget we are presenting is one that is fiscally responsible, uses resources wisely, and funds high priority initiatives that are crucial to helping meet the education and training needs of Montgomery County. The specifics of our request are as follows:

ENROLLMENT
From the fall of 2004 to fall 2009, the College experienced a steady growth in student enrollment, increasing by 17.5%, or almost 4,000 students. Because an increasing number of these students are younger and attend Montgomery College full-time, our student credit hours have increased by an even higher percentage, 24%, or 47,000 credit hours. Compared to fall 2008, the number of students and credit hours of enrollment increased by nearly 7% (1,695 students) and 8.5% (18,920 credit hours), respectively. These increases are the largest the College has experienced since the fall of 1991, almost 20 years ago.

This past fall's enrollment and credit hours are the largest in College history, making it the largest community college in the state of Maryland and second by only 395 students to the University of Maryland at College Park in enrollment of undergraduate students.

The major factors driving these increases have been: 1) the growth in the number of high school graduates in the County who choose to attend Montgomery College; 2) the enrollment limitations at the University of Maryland College Park and other public four-year colleges and universities in the State; 3) Montgomery College's quality, affordability, proximity, and proven track record in preparing students for careers and transfers to four-year institutions. A fourth factor — for which we remain grateful — is the County's continued commitment to the College's facilities, faculty, staff, and programs. The County's investments in our facilities and, in particular, our Takoma Park/Silver Spring (TP/SS) Campus expansion have resulted in dramatically higher enrollments. Since fall 2004, TP/SS enrollment has grown by nearly 40% and enrollment hours are up by more than 43%. In the last year alone, our TP/SS Campus experienced an 8.5% enrollment increase, with an 11% increase in credit hours.

Clearly, these investments dramatically enhance the College's ability to serve our community. They enable us to expand access to postsecondary education, particularly for students who would otherwise be much less likely to attend college. College attendance rates for Hispanic and African-American high school graduates are traditionally lower than for other groups, but at Montgomery College, their attendance rates are increasing, a sure sign that our initiatives to encourage and support their education and retention are working.

REVENUE
The news from the state continues to deteriorate. The FY11 state aid is now $3.2 million less than the FY10 appropriated budget ($2.5 million current fund and $700,000 Workforce Development and Continuing Education). This latest reduction brings the College back almost to the FY08 funding level. In order to make up most of this difference, we are allocating an additional $1 million from WD & CE state aid and using an additional $1 million in fund balance. As with Federal stimulus funds, both these funding sources should be considered one-time revenues and cannot be counted on to fund future budgets.

This budget includes a \$3/\$6/\$9 credit hour increase in tuition (in-county, in-state, out-of-state). With these proposed increases, the average full-time student will pay almost \$4,200 annually. (It should be noted that the tuition increases are not final until the Board of Trustees officially acts on tuition rates in April.) Tuition and related fees are expected to generate \$76.6 million, an increase of 7.7%, which will generate \$5.5 million in revenue and become the primary source of funding for our budget request.

We are also using \$6.3 million in fund balance as follows: \$1.2 million from our FY09 Budget Savings Program, \$535,000 from the FY2010 Budget Savings Program, \$3.6 million regular use of fund balance per the Budget guidelines agreement, plus an additional \$1 million the College will save to help offset the \$2.5 million in state aid reduction.

After accounting for state aid reductions, our budget savings figures, and a tuition increase, we are asking the County for a 1.6% increase, or \$1.7 million, to fund the FY11 budget.

EXPENDITURE REQUEST
We developed the Current Fund budget with these priorities in mind: ensuring access to higher education by keeping Montgomery College affordable; protecting jobs and meeting our benefit cost increases; accountability; and continued funding for committed projects. The resulting budget request of \$223 million results in a 3% increase from FY2010, and is a significant reduction from the July estimate.

We are requesting the following:

<u>Compensation for our Employees</u>

- This budget does not include any COLAs or merit increases for our employees, including the newly unionized part-time faculty. We will need to revisit this issue should any of the County unions get an increase.
- In the benefits area, we have included funds for postretirement benefits in the amount of \$700,000, as well as a \$1.1 million increase primarily for group insurance and FICA. Benefit increases total \$1.8 million.

<u>Support for our Students</u>

- The College is requesting an additional \$97,000 in financial aid. Current federal and state financial aid is insufficient to serve our students. The College did not have sufficient institutional grant money to fund all of the students who qualified for assistance in 2009-2010. In fact, 8,125 students with demonstrated financial need qualified for institutional grant funds in fall 2009, but received no grant aid due to a lack of funds. Of this group, 2,675 students did not enroll at Montgomery College during the fall 2009 semester.

- Enrollment increases drive up the College's need for additional faculty. This budget includes 18 new faculty positions. Without these new faculty, the percentage of classes taught by full-time faculty would only be 51% - well below the 60%-40% full-time to part-time faculty ratio endorsed by the Board of Trustees and County Council. These new positions would raise the full-time to part-time ratio to 53%-47%. Eleven of the 18 faculty are in the high growth areas of science and math and are needed to meet demand which will be generated by the new science buildings. In addition, our younger students demand and require more time with full-time faculty. (Net cost $684,000)

- In order to meet the needs of our growing student population, the College must offer more classes and hire additional part-time faculty to teach classes which cannot be taught by full-time faculty. (Cost $1.6 million)

Support for the Rockville Science Center

- The Rockville Science Center will be complete by summer 2011. The Science Center, a 140,700 gross square foot facility, will house the Chemistry, Biology, Geology, Astronomy, Physics, and Engineering departments. The Science Center will provide up-to-date scientific laboratories, computer labs, recitation rooms, general purpose classrooms, faculty and staff offices, student collaboration spaces, a greenhouse, and an astronomy observatory. (Additional operating cost: $1.5 million)

Assistance with Offsite Leasing

- The College leases office space at several different sites and this amount is the increase in the leased costs. (Cost $100,000)

Increase in Utilities

- The projected increase in utilities (excluding the new building) is $300,000. We are anticipating rate increases such as Pepco's recently proposed distribution rate increase which will take effect July 2010. Also, the City of Rockville and WSSC are hiking water and sewer rates during the period. The College remains proactive in energy conservation matters and is an active member of the ICEUM.

OTHER FUNDS

Emergency Plant Maintenance and Repair Fund

The Emergency Plant Maintenance and Repair Fund (EPMRF) is a Spending Affordability Fund. We are requesting an appropriation of $350,000 and County funding equal to last year's amount ($250,000). This funding is crucial for supporting our emergency maintenance needs.

Workforce Development and Continuing Education (WD & CE)

The appropriation request for this fund is $16.1 million. WD & CE earns State Aid based on its share of FTEs generated and has also taken a significant reduction. However, in order to assist the Current Fund, $1 million of State aid is being transferred to the Current Fund for FY2011. WD & CE will use its Fund Balance to offset this adjustment.

WD & CE expects growth in the following programs: online course offerings, course offerings in vocational ESL, green technology training, Program Management Institute course series, contract GSA training, professional development course series for community ESL instructors, and expanded course offerings at the Germantown Campus. This fund is an enterprise fund and no County funding is requested.

Auxiliary Enterprises
The appropriation request for this fund is $6.5 million. Auxiliary Enterprises is requesting an increase in FY2011 funding for a one-time purchase to equip the new childcare center in Germantown, to expand the concept of a one-stop bookstore, copy/print shop, and snack shop operations to the Germantown and Rockville Campuses. This fund is an enterprise fund and no County funding is requested.

50th Anniversary Endowment Fund
The College is requesting appropriation authority of $250,000 for two endowments in the areas of business and arts. The Business Endowment will help fund the planning for the Germantown Biotechnology Park. The Arts Endowment will fund programs in our Arts Institute. No County contribution is requested.

Cable Fund
The amount requested is $1,334,250 and is funded through the County Cable Plan.

Grants
The College is requesting appropriation authority in the amount of $21.4 million. Of this amount, $400,000 is requested in County funds for the Adult ESL/ABE/GED program, which is the same amount as FY2010.

Transportation Fund
This fund is comprised entirely of user fees from our students, employees, and certain contract staff. The fund also includes parking enforcement revenue. All revenue will be used to pay for lease costs related to the Takoma Park/Silver Spring West Parking Garage, which opened January 2010. Through this fund, the College also pays the County for free Ride-On bus service. The appropriation request is $2.5 million.

Major Facilities Reserve Fund
The College is requesting appropriation authority in the amount of $2.4 million for lease payments to the Foundation for lease of The Morris and Gwendolyn Cafritz Foundation Arts Center. This fund is entirely comprised of user fees, and no County funds are requested.

Conclusion

In summary, the Montgomery College budget for FY2011 consists of a request of $223 million for the Current Operating Fund. Of this amount, we are requesting $108.1 million from the County. The College is also requesting $350,000 for the Emergency Plant Maintenance and Repair Fund, of which $250,000 is requested in County funds; $21,433,000 for federal, state and private grants and contracts, of which $400,000 is requested in County funds for the Adult ESL program; and $1,334,250 for Cable TV. An additional $25,101,144 is budgeted for the self-supporting funds of WD & CE, Auxiliary Enterprises and Transportation Fund, $2.4 million for the Major Facilities Reserve Fund, and $250,000 for the 50th Anniversary Endowment Fund.

The Board of Trustees respectfully requests total expenditure authority of $273.9 million. We appreciate your careful review and consideration of this budget request. We know that education remains a top priority for County officials; we also realize it will be another difficult year for all of us. We look forward to working closely with you to ensure that the higher education and training needs of our County's residents and businesses are as fully realized as possible.

Sincerely yours,

Michael C. Lin, Ph. D.
Chair, Board of Trustees

Hercules Pinkney
Hercules Pinkney, Ed. D.
Interim President

MCL/HP:dd

MONTGOMERY COUNTY PLANNING BOARD
THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

OFFICE OF THE CHAIRMAN

January 15, 2010

The Honorable Isiah Leggett
Montgomery County Executive
Executive Office Building
Rockville, MD 20850

The Honorable Nancy Floreen
President, Montgomery County Council
Stella B. Werner Council Office Building
Rockville, MD 20850

Dear Mr. Leggett and Ms. Floreen:

The Montgomery County Planning Board proposes a FY2011 "bite the bullet" operating budget in recognition of the County's challenging economic and fiscal environment. We request a total budget of $133,914,800, 3.9 % above the approved budget for FY10. The tax-supported portion of the budget is $117,587,600, a 4.9% increase over FY10. For the second year, the budget provides a lower level of service than was provided in FY09.

Mandatory increases such as pension, health benefits, and the annualization of merit pay from FY10 are included. Although the Commission is committed to funding its pension plan in a financially responsible manner, the employer contribution was budgeted assuming a temporary relaxing of the 80% to 120% market value corridor requirement to avoid a 100% increase in cost. For the second year, the proposal does not include prefunding for other post-employment benefits (OPEB). Compensation adjustments have been included for both represented and non-represented employees. The budget includes cost–of-living adjustments (COLA) totaling $1,446,500 for both non-represented and represented employees in recognition of the contractual obligations with the represented employees. In the Parks and Planning Departments' budgets, the COLA costs are separately contained in support services accounts and are not incorporated in work year budgets for programs. Other Departments do not have individual support services accounts at the departmental level, and hence include the amount in the divisions and programs. We fully understand the current fiscal challenges, and that the Counties will be discussing compensation adjustments during the budget work sessions.

8787 Georgia Avenue, Silver Spring, Maryland 20910 Phone: 301.495.4605 Fax: 301.495.1320
www.MCParkandPlanning.org E-Mail: mcp-chairman@mncppc.org

The proposed budget has been pared to enable basic delivery of our core park and planning services. It was constructed assuming achievement of the FY10 savings plans and assumes filling only critical positions.

The Planning Board proposes no major new initiatives and anticipates continuing the severe limitations on spending. In preparing this budget, the Planning Board reviewed alternate strategies to contain costs while striving to reduce long-term impacts on the communities we serve. This process included a comprehensive analysis to clearly identify core programs and services and distinguish discretionary from nondiscretionary costs. Based on that review, we propose reductions in areas with lower impacts and elimination of funding for non-mission driven services. As a result, this budget aligns staffing and organizational resources with core service delivery while curtailing capital spending and drawing down fund balances to the minimum required levels.

The total increase of $5,069,800 is primarily limited to unavoidable costs such as health insurance, retirement, and staff compensation, and also funding operation of new park facilities that have come on line.

Property taxes comprise 97.5% of revenue of the tax-supported funds and 85.7% of revenue for the Commission's total budget. The continued decline of actual property assessments compounded by the three year assessment cycle present the Commission with a projected revenue growth significantly trailing the future economic recovery. Due to the fact that other agencies have more diversified revenue sources, this revenue challenge is unique to the Commission and may require a reversal of the historical trend of significantly declining Commission property tax rates. In addition, reserve levels should be maintained to meet not only the uncertainty of the economic challenges of FY11, but of the fiscal years to come.

The FY11 proposed budget continues our commitment to program budgeting. The Planning and Parks Departments are fine-tuning their program elements and budget formats while continuing to work on performance measures. The Central Administrative Offices are enhancing their performance measures and beginning a transition to program budgeting with anticipated incorporation in FY12.

BUDGET SUMMARY

An overall summary of the proposed budget for the Commission is shown in Table 1:

Table 1. FY2011 Proposed Budget (Excluding Reserves)				
	FY10 Adopted (W/O Reserve)	FY11 Proposed (W/O Reserve)	$ Change	% Change
Commissioners' Office	1,208,400	1,281,600	73,200	6.1%
Planning Department	18,681,800	19,946,900	1,265,100	6.8%
Department of Human Resources & Mgt.	2,516,550	2,485,900	(30,650)	-1.2%
Finance Department	4,021,900	3,827,700	(194,200)	-4.8%
Legal Department	1,292,050	1,365,250	73,200	5.7%
Merit System Board	56,300	60,950	4,650	8.3%
CAS Support Services	-	525,500	525,500	100.0%
Central Administrative Services Subtotal	7,886,800	8,265,300	378,500	4.8%
Administration Fund Total	27,777,000	29,493,800	1,716,800	6.2%
Park Fund Total	83,748,500	87,462,100	3,713,600	4.4%
ALA Debt Service	649,600	631,700	(17,900)	-2.8%
Total Tax-Supported	**112,175,100**	**117,587,600**	**5,412,500**	**4.8%**
Enterprise Fund	10,374,800	9,239,800	(1,135,000)	-10.9%
Property Management Fund	1,026,700	1,067,000	40,300	3.9%
Special Revevenue Fund	5,268,400	6,020,400	752,000	14.3%
Total	**128,845,000**	**133,914,800**	**5,069,800**	**3.9%**

In anticipation of questions from the Montgomery County Council and the Executive branch, we have provided for illustrative purposes Table 2 below to show a revised proposed budget without COLA and merit increases. Excluding COLA and merit, the proposed FY11 budget for tax-supported funds would total $115.3 million, or 2.8% higher than the FY10 level. The total proposed budget, including enterprise funds and special revenue funds, would total $131.5 million, representing a 2.1% growth from FY10.

Table 2. Alternative Scenario - FY2011 Proposed Budget Without COLA or Merit				
	FY10 Adopted (W/O Reserve)	FY11 Proposed (W/O Reserve)	$ Change	% Change
Commissioners' Office	1,208,400	1,253,400	45,000	3.7%
Planning Department	18,681,800	19,483,500	801,700	4.3%
Department of Human Resources & Mgt.	2,516,550	2,444,200	(72,350)	-2.9%
Finance Department	4,021,900	3,727,800	(294,100)	-7.3%
Legal Department	1,292,050	1,332,550	40,500	3.1%
Merit System Board	56,300	59,250	2,950	5.2%
CAS Support Services	-	525,500	525,500	100.0%
Central Administrative Services Subtotal	7,886,800	8,089,300	202,500	2.6%
Administration Fund Total	27,777,000	28,826,200	1,049,200	3.8%
Park Fund Total	83,748,500	85,817,100	2,068,600	2.5%
ALA Debt Service	649,600	631,700	(17,900)	-2.8%
Total Tax-Supported	**112,175,100**	**115,275,000**	**3,099,900**	**2.8%**
Enterprise Fund	10,374,800	9,178,600	(1,196,200)	-11.5%
Property Management Fund	1,026,700	1,067,000	40,300	3.9%
Special Revevenue Fund	5,268,400	6,020,400	752,000	14.3%
Total	**128,845,000**	**131,541,000**	**2,696,000**	**2.1%**

Department of Parks

The FY11 Proposed Budget for the Department of Parks, excluding reserves, is $99,516,300. This includes the Park Fund, Property Management Fund, the Enterprise Fund, and the Park portion of the Special Revenue Fund.

The FY11 Proposed Park Fund Budget, excluding reserves, is $87,462,100, or 4.4% over the FY10 Adopted Budget. This level is well below the level needed to address the backlog of maintenance requirements. The proposed staffing level is 700.61 work years, net of a 7.5% salary lapse assessment of 52.25 work years. This lapse assessment is well above the normal attrition rate, thereby, requiring selected vacancies to remain unfilled to meet this mandate.

Details of changes in the Park Fund are as follows:

- $960,000 for annualization
- $232,200 for adjustments to employee health benefits
- $1,543,600 for increases to retirement including retiree health benefits (but not OPEB prefunding)
- $635,000 for merit increases
- $1,010,000 for cost-of-living adjustments for represented and non-represented employees
- $875,100 unfunded obligations impacting the operating budget (OBI for CIP and other new requirements not associated with the CIP)

These above increases are offset by a net decrease of $1,379,200 in non-personnel costs, including adjustments for unfunded obligations.

The Property Management Fund is proposed at $1,067,000 or 3.9% higher than FY10. A minimal increase is proposed to begin to address the backlog of maintenance on leased properties in dire need of care. Many of the properties are leased to third parties well below market and drain the Department's resources away from core functions. Some of these legacy leases do not even cover costs to the Department for ordinary maintenance. The Department is renegotiating all lease agreements as the terms expire. Given the budget reductions in recent years, we simply cannot sustain these properties and subsidize from the Park Fund entities that do not contribute to our core mission, however worthy their causes.

The Enterprise Fund is proposed at $9,239,800, a 10.9% reduction from FY10. The Enterprise facilities are revenue producing facilities with funding generated through user fees and other non-tax supported sources. The budget has been lowered by reducing costs through a number of efficiencies and repurposing the outdoor ice rink at Wheaton Regional Park. **This budget eliminates any transfer from the Park Fund to support Enterprise facilities, signifying significant improvements in management of these resources.**

The Park's portion of Special Revenue Funds is proposed at $1,747,400 or 146.2% increase over FY10. The increase is primarily the result of moving the Montgomery County Public School Ballfield contract to Special Revenue Funds as a reimbursable service. This change will more accurately reflect this service as provided to another agency and not a Park Tax supported program. In our 2010 second round savings plan, we recommended elimination of the unspent portion of that budget item. It represents an annual cost of approximately $750,000. If restored in FY11, we urge that it be provided with revenues other than those generated from the Park Tax and appropriated to a special revenue fund, as recommended here.

Planning Department

The FY11 Proposed Budget for the Planning Department, including COLA, merit increases, Special Revenue Fund transfer and $150,000 in grants, is $19,946,900, an increase of $1,265,100, or 6.8% over the FY10 budget. If COLA and Merit increases are not approved, the increase over FY2010 will be 4.3%. The proposed staffing level is 178.40 work years, 0.75 below the FY10 level, and the budget includes a lapse assessment of 4.5%. With only critical exceptions, the vacancies in the authorized work force will not be filled.

Details of changes are as follows:

- $184,300 for annualization
- $128,500 for adjustments to employee health benefits
- $474,800 for increases to retirement including retiree health benefits (but not OPEB prefunding)
- $239,100 for increases in other operating costs including assessments to internal service funds
- ($225,000) for exclusion of one-time expenditures from FY10
- $192,800 for merit increases
- $270,600 for cost-of-living adjustments

The Planning Department's budget reduced discretionary spending particularly for professional services including deferral of much needed funding for such consultant studies as Highway Mobility Report data collection and analysis, economic studies for master plans and engineering work to support master plans.

While the majority of the Planning Department's budget is funded through the tax-supported Administration Fund, there are also revenues achieved through charges for services, fees for materials and through established Special Revenue Funds. The largest of the Special Revenue Funds is for Development Review, a fee recovery fund to accommodate expenditures related to development applications. In the past three fiscal years, the Development Review Special Revenue Fund has required a transfer from the Administration Fund. For FY11, we estimate that this fund will generate $1,810,000 in application fees, but given the decline in applications due to the economy, we have budgeted a transfer of $1,528,000 from the Administration Fund, the same amount as in FY10.

Commissioners' Office

The FY11 Proposed Budget for the Commissioner's Office is $1,281,600, an increase of 6.1% from the FY10 budget. Proposed work years are unchanged from the FY10 budgeted level. The budget only funds projected increases in personnel costs attributable to compensation adjustments and fringe cost increases; non-personnel costs remain the same as the FY10 budgeted level.

Central Administrative Services (CAS)

The FY11 Proposed Budget for CAS departments in Montgomery County is $8,265,300, an increase of $378,500 or 4.8% over the FY10 budget. The proposed staffing level is 64.8 work years, which is 0.7 above the FY10 level. DHRM work years remain unchanged with 9% of the positions frozen. Finance work years decline by 0.3 with 4% of the positions frozen. The Legal Department budget adds 1.0 work year to handle the tort litigation cases previously handled by the Montgomery County Attorney's Office, which is projected to generate a net saving of at least $70,000 to the Commission primarily reflected in the Risk Management Fund budget.

Details of the changes are as follows:

- $ 79,200 for annualization
- $157,300 for increases to retirement including retiree health benefits (but not OPEB prefunding)
- $44,100 for adjustments in employee health benefits and other benefits
- $39,700 for non-discretionary increase in non-personnel costs, such as maintenance agreements
- $63,800 for merit increases
- $112,200 for cost-of-living adjustments
- (117,800) for adjustment in chargebacks and allocation of County share

In FY11, the CAS Support Services accounts are restored to achieve economies of scale and to provide consolidated oversight for stronger accountability. The CAS departments continue to seek to deliver core services through reallocating existing resources, focusing on priority programs and projects, and improving efficiencies through the establishment of new performance measures, analysis of data and restructured processes.

TAX RATES AND LONG-TERM FISCAL SUSTAINABILITY

The proposed budget assumes that tax rates in the Administration Fund and the Advance Land Acquisition Fund will stay unchanged from FY10. While no Administration Fund tax rate increase is needed in FY11, a structural imbalance is projected to cause the Fund to be in a deficit position by FY12.

In the Park Fund, however, to avoid a deficit the proposed budget proposes a tax rate increase of 0.3 cents to 5.3 cents for real property and of 0.8 cents to 13.3 for personal property. The proposed change basically restores the tax rates to the FY09 levels. In FY10, the adopted budget reduced the Park Fund's tax rates by 0.3 cents in real property tax and 0.7 cents in personal property tax.

Both funds confront long-term financial sustainability issues arising from both the repeated tax rate reductions and a slowdown of other revenue streams. The Commission's tax rates have been reduced significantly in the past several years as shown in the following table.

Table 3. The Commission's Property Tax Rates History (FY06-FY10)

Property Tax Rates (cents per $100 assessment)							
		FY06	**FY07**	**FY08**	**FY09**	**FY10**	**FY06-FY10**
Adm	**Real**	2.2	2.0	1.0	1.9	1.8	**-18.2%**
	Personal	5.5	5.0	4.7	4.7	4.5	**-18.2%**
Park	**Real**	6.1	5.7	5.8	5.3	5.0	**-18.0%**
	Personal	15.3	14.3	14.5	13.2	12.5	**-18.3%**
Combined	**Real**	8.3	7.7	6.8	7.2	6.8	**-18.1%**
	Personal	20.8	19.3	19.2	17.9	17.0	**-18.3%**

The tax rate reductions during FY06-FY10 have caused the Commission to lose a cumulative $54 million of revenue generation capacity. Moreover, the real property tax base growth has slowed drastically to only 3.6% in FY11 and is projected to increase slowly for at least a few more years. This situation combined with the significant reductions in taxing capacity in the past several years, produces a long-term fiscal sustainability issue for the Commission. The FY10 adopted budget was balanced by relying on prior year fund balances of $1,068,200 in Administration Fund and $4,574,300 in the Park Fund. While the Commission will continue to look for cost-saving opportunities, without gradual tax rate restoration, we will face further deterioration of our facilities and major reductions to core services in the coming years. The Park Tax base was further eroded by the reconfiguration of the Metropolitan (Park) District boundaries, removing land annexed by Rockville and Gaithersburg.

There are seven municipalities in the County, including the largest that pay no part of the Park Tax at all. This is a manifestly unfair arrangement. While some municipalities provide excellent local and neighborhood parks, they have basically no counterparts to the regional, recreational, conservation, and stream valley parks provided by M-NCPPC. Municipal residents use those parks extensively. Therefore, residents who live in the unincorporated parts of the county are subsidizing municipal residents' enjoyment of parks that serve all county residents, creating a burden on the remainder of County residents and fostering an inequitable situation. We estimate a fair sharing of the tax burden would result in more than $4 million a year in revenues for the Park Fund. We urge the Council and Executive to support legislation to correct this inequity.

PROGRAM HIGHLIGHTS

Despite the challenging budget year, we are committed to a FY11 work program that helps achieve our goal of maintaining Montgomery County as one of the nation's best places to live. Following are some of the main projects and initiatives on which we expect to focus in FY11.

Parks

The Department of Parks will focus on delivering core services to properly operate, maintain and protect our park system. A number of new parks and facilities have been added or are scheduled for completion in the next year which will continue to expand our inventory through the Capital Improvements Program (CIP), developer-built amenities, and Inter-County Connector projects. The Department's responsibilities will be further expanded to include the newly unfunded mandate to comply with National Pollutant Discharge Elimination System (NPDES) requirements.

In cooperation with the Department of Recreation, we will continue to promote and provide programming in our facilities. Jointly, we have begun developing the **Parks and Recreation 2030 Vision and Strategic Plan**. This plan will develop the tools necessary to make wise capital and operating investment decisions with respect to stewardship of the land, facilities and programs for the parks and recreation system.

We continue evaluating our services, programs and the use of all park facilities and repurposing buildings as appropriate to achieve efficiencies and carry out our core functions.

Other major programmatic efforts scheduled in FY11 are as follows:

- Expand SmartParks to document and update deferred maintenance needs and migrate other departmental sub-systems into one web-based system
- Improve customer service surveys and expand them to outdoor park facilities
- Update the fee structure for enterprise facilities and provide new innovative programming in the event centers
- Improve monitoring of park natural areas with emphasis on Best Natural and Biodiversity Areas
- Continue stabilization and interpretation of priority historical sites
- Increase volunteer opportunities, especially the number of volunteers enrolled in the trail ranger program in order to alleviate some of the maintenance performed by the region staff

- Pilot the use of parkland as an incubator for organic farming and add five new community gardens at selected local parks
- Use sampling techniques to identify park users' needs and preferences for facilities and programs
- Continue to delineate and map environmentally sensitive areas within park agricultural lands
- Expand the nature center programs in the Department's "No Child Left Inside" initiative and promote offsite programs and activities for schools and groups, especially reaching out to Title 1 and Special Focus schools
- Encourage private donations for facilities and maintenance by reviving the Montgomery Parks Foundation to develop new Park Legacy and Naming Partnership Donations Programs to provide for new long-term, sustainable park facilities
- Advance existing donor programs that support and sponsor Public Garden's programs, landscape renewal, and the Master Plan for Brookside Gardens
- Continue development of the new employee training database and Parks training curriculum
- Revise all lease agreements and prioritize those that meet the park's core mission and establish clear policies for leases that do not
- Develop new fee structures to reduce the reliance on tax-supported funding for special events in the parks and support to third parties
- Park Planning efforts will include:
    - Complete Urban Park Planning Guidelines
    - Update the PROS Plan
    - Participate in review of approximately 200 subdivision plans
    - Prepare park plan sections of community based master plans, such as Wheaton, Kensington, and Takoma/ Langley
    - Initiate Master Plans for Cabin John Regional Park, Ovid Hazen Wells area, and/or UpCounty Trail Plan

Planning

Master Plans shape communities by advancing the goals of the General Plan. The process used to develop master plans includes broad public involvement, detailed research into a variety of issues, analysis of functional areas such as transportation capacity and housing needs, and testing of alternative scenarios.

The FY11 proposed work program includes transmittal to the County Council/County Executive of the Takoma/Langley Crossroads Sector Plan (Purple Line Station Area Sector Plan), the Wheaton Central Business District and Vicinity Master Plan, the Master Plan of Highways, and two additional Purple Line Station Area Sector Plans--Long Branch and Chevy Chase Lake. The FY11 request contains the implementation of the 2009-2011 Growth Policy: *Reducing Our Footprint,* which integrates sustainability and smart growth concepts with traditional school capacity and traffic congestion measures.

The FY11 work program contains the Neighborhood Outreach and Planning effort, which responds to the need for quicker and more agile master planning. This effort will address community issues that do not rise to the level of a complete master/sector plan effort because the issues are confined to a specific neighborhood (e.g., very limited geography) and/or the concerns are limited and do not require examination of the full range of topics normally covered in a master plan.

The Planning Department will continue the Zoning Code Revision. In FY11, the Department will produce the Project Approach Report and Annotated Outline. These documents will serve as guidelines for drafting the new zoning code. Staff will work with the consultant team as all sections of the new Code are drafted. This is an iterative process of a series of comments and revisions while the product is being finalized to prepare a draft for public review.

A FY11 priority for the Department is the melding of Site Plan and Preliminary Plan processes by designing a new development review process. Instead of needing to go before the Board twice (preliminary and site plan) or three times (project, preliminary and site), applicants will only go to the Board once.

As part of the Planning Department's overall work on sustainability, the *Healthy and Sustainable Community Initiatives and Planning Activity* program will be updated in FY11. This effort is coordinated with the County Executive's Indicator Project and the Council of Governments' *Region Forward 2050* goals, targets and indicators.

Other major efforts and projects for FY11 include:

- Report on the results and analysis of the 2010 Census, American Community Survey and Census Update Survey
- Prepare annual report, entitled *Annual Report on Montgomery County Economy and Land Use*
- Review development and redevelopment projects for compliance with affordable housing policies and Transfer Development Rights program
- Complete the implementation of Phase II of the GIS Strategic Plan
- Continue to improve and develop GIS and commercial off the shelf software enhancements that support development review and regulatory functions (Project Dox & Hansen)
- Establish archive protocols for land use records
- Enhance web services including:
  - Increased transparency of Board actions
  - Increased public participation through online surveys, blogs and other mechanisms
  - Features such as narrated slide shows, videos and photo galleries that explain planning issues in more depth and make our processes more understandable to the public
  - Deploy web-based GIS tools

CAS

In FY11, major initiatives of the CAS departments include:

- Expand performance measures and the analysis of services to better support operating departments' needs
- Improve procurement, IT, and HR services to operating departments
- Implement Commission adopted CAS Study recommendations
- Enter into negotiations for a new Fraternal Order of Police collective bargaining contract
- Continue revision of Commission Practices and Administrative Procedures
- Develop improvements to the benefits system to address long-term affordability issues
- Continue implementing the new Enterprise Resource Planning system including accounting, budget, fixed assets and procurement
- Handle tort litigation cases in-house through the Legal Department
- Reform archives and records management through technology and revised policies and procedures
- Re-evaluate Commission-wide Facility Management Contract for printing, mail and copier leases, maintenance and supplies to reduce costs

During FY10, Council staff from the two counties conducted a study on CAS. The Commission is awaiting the final report for consideration.

CONCLUSION

In summary, the Commission is making efforts to maintain the current level of services with a focus on our core services primarily through improved efficiency and reallocation of resources. We fully understand the current economic situation and will make adjustments where needed while limiting unavoidable impacts on services.

We look forward to working with you and your staff on our FY11 budget proposal.

Sincerely,

Royce Hanson
Chairman

Washington Suburban Sanitary Commission
14501 Sweitzer Lane • Laurel, Maryland 20707-5902

March 1, 2010

The Honorable Isiah Leggett
Montgomery County Executive
Executive Office Building
101 Monroe Street – 2nd Floor
Rockville, MD 20850

The Honorable Jack Johnson
Prince George's County Executive
County Administration Building
14741 Governor Oden Bowie Drive
Upper Marlboro, MD 20772

Dear County Executive Leggett and County Executive Johnson:

Pursuant to the provisions of Section 1-204 (3), Article 29, Annotated Code of Maryland, transmitted herewith are the proposed capital and operating budgets for the Washington Suburban Sanitary Commission for the fiscal year commencing July 1, 2010. Public hearings were held on Wednesday, February 3 and Thursday, February 4. Given current economic conditions, both you and the County Councils have suggested to my fellow Commissioners and me to try and balance the level of the proposed rate increase with the requirements to maintain and operate safe and reliable water and sewer systems, both in FY'11 and in the future. In that regard, the Commissioners worked with the General Manager and staff in evaluating several alternatives to transmit a budget lower than our public hearing document, while mitigating the risk to our water and sewer operations. These deliberations continued through this afternoon, when the Commission agreed on a proposed budget as further explained below. Since we have just arrived at an agreed-upon budget, we are unable at this time to include a complete proposed budget document with this transmittal. We have, however, included several financial schedules that summarize the budget as well as the transcripts from the public hearings, along with written testimony received, and expect to send the complete document by the end of next week.

The Commission is proposing an 8.5 percent rate increase to pay for continued increases in water and sewer infrastructure improvements, cost increases at regional sewage disposal facilities where WSSC has purchased capacity, increased costs of Sanitary Sewer Overflow Consent Decree compliance and continued implementation of an Enterprise Resource Planning System (this is a major initiative that unifies and automates the Commission's financial and human resources, business and production processes and other information systems more effectively so that we can allocate and manage our assets to achieve our goals at the lowest cost.) The FY'11 rate increase will add approximately $4.60 per month to the average residential customer's bill. This proposed budget reflects our continued focus on providing safe and reliable water, returning clean water to the environment, and doing it in a financially responsible manner.

To reduce the proposed rate down to 8.5% from the initial 9.5% identified in our public hearing document, the adjustments identified on the following page have been made (listed in order of magnitude on water and sewer rate impact).

Item Description	Total	Water & Sewer Rate Impact
Eliminate high bill adjustment program for customers	$1,000,000	$1,000,000
Eliminate employee merit increases	926,000	727,000
Sell excess Renewable Energy Credits	474,000	474,000
Miscellaneous debt service adjustments	390,000	390,000
Reduce Miss Utility budget	388,000	388,000
Reduce trunk sewer inspections	320,000	320,000
Eliminate funding for various Information Technology projects	370,000	303,400
Reduce sewer pipe armoring expenses	314,200	293,000
Reduce street repair (paving) budget	218,400	218,400
Reduce miscellaneous staff office expenses	76,500	61,300
Reduce materials budget	100,000	43,000

Additional information about the effect of these adjustments on our operations will be provided in the complete Proposed Budget document.

The state of the WSSC infrastructure remains a significant concern. We continue to work with stakeholders in both counties to develop a long-term funding solution to meet the WSSC's infrastructure needs. In the interim, this FY'11 budget includes funding for the replacement and rehabilitation of 36 miles of water lines, 42 miles of sewer lines, and 14 miles of sewer laterals. In addition, the budget provides for 2 new capital projects for large diameter water and sewer pipe rehabilitation.

The FY'11 estimated expenditures for all funds amount to $1.1 billion or $138.6 million more than the FY'10 Approved Budget. The FY'11 Proposed Operating Budget of $605.6 million represents an increase of $15.0 million from the FY'10 Approved Budget. The FY'11 Proposed Capital Budget of $494.7 million represents an increase of $123.5 million from the FY'10 Approved Budget.

To keep the Councils apprised of the budget status, copies of this letter with the enclosures are being sent to Montgomery Council President Floreen and Prince George's Council Chair Dernoga. If any additional information is needed, please contact us.

Sincerely,

Gene W. Counihan

Gene W. Counihan
Chair

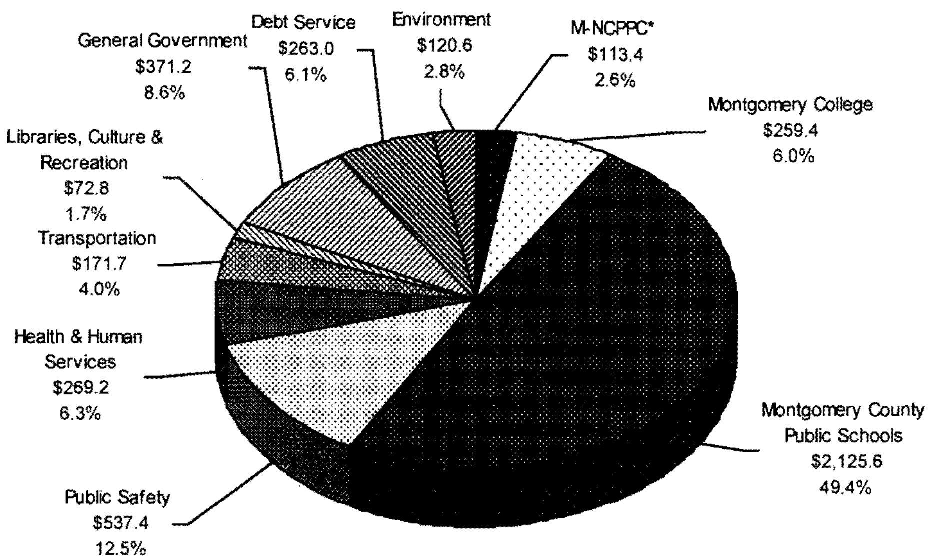
Enclosures

cc: The Honorable Nancy M. Floreen, President
Montgomery County Council

The Honorable Thomas E. Dernoga, Chair
Prince George's County Council

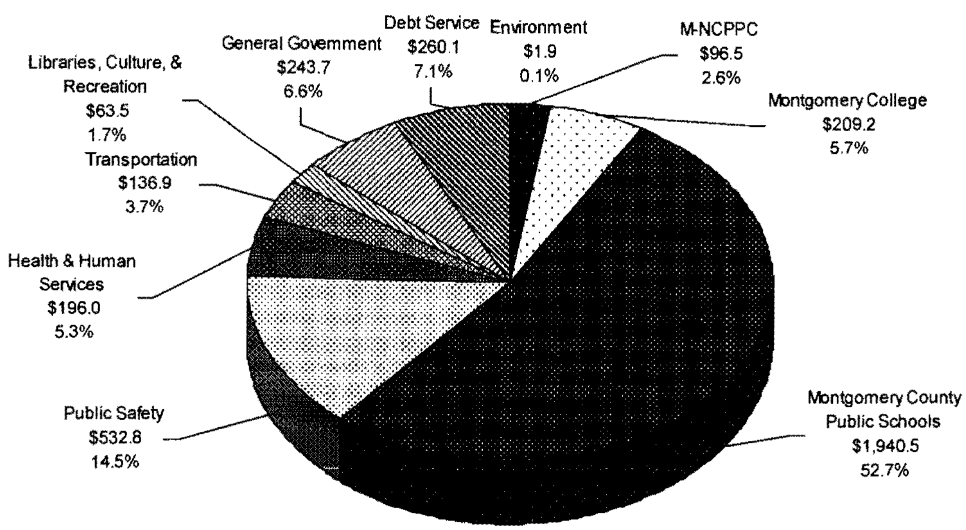
FY11 EXPENDITURES BY FUNCTION

TOTAL EXPENDITURES - $4,304.3 (million)



*Total M-NCPPC includes $4.9 million debt service.

TAX SUPPORTED EXPENDITURES - $3,681.1 (million)



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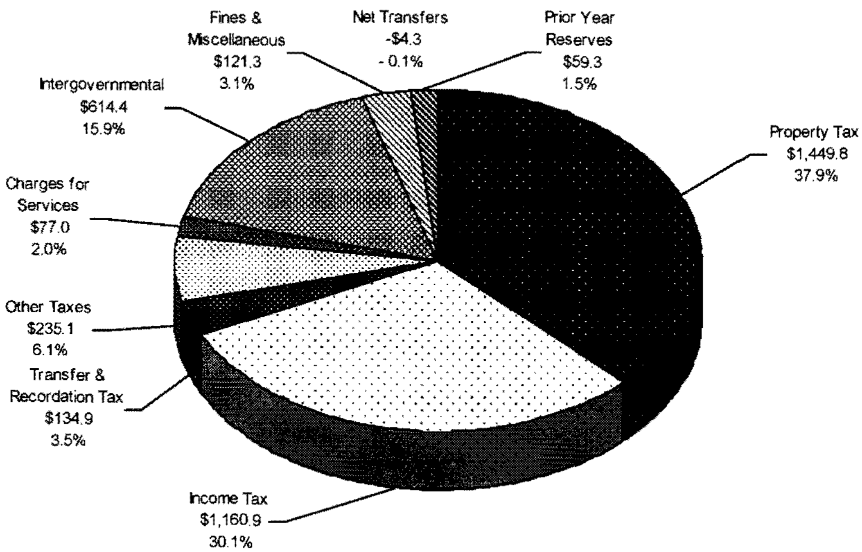
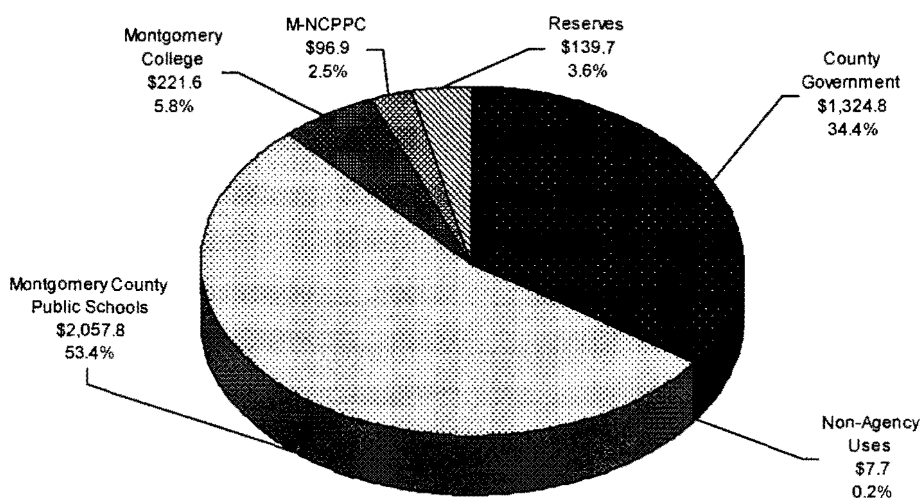
FY11 TAX SUPPORTED AGENCIES AND FUNDS

WHERE THE MONEY COMES FROM
TOTAL APPROVED RESOURCES - $3,848.4 (million)



WHERE THE MONEY GOES *
TOTAL APPROVED USES OF FUNDS - $3,848.4 (million)



*This total covers the full Operating Budget, and funds to the CIP, Debt Service, and Reserves. Of this amount $3,681,109,876 is approved in the Operating Budget.

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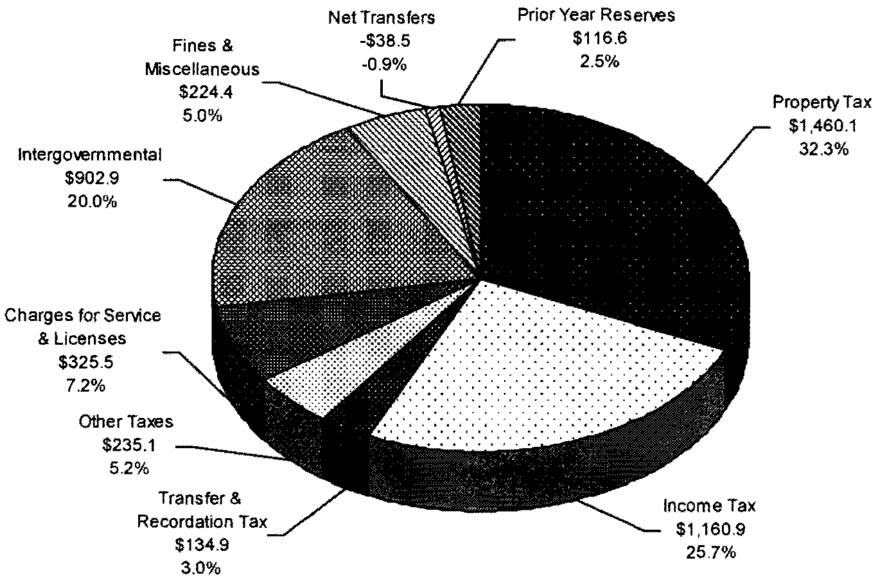
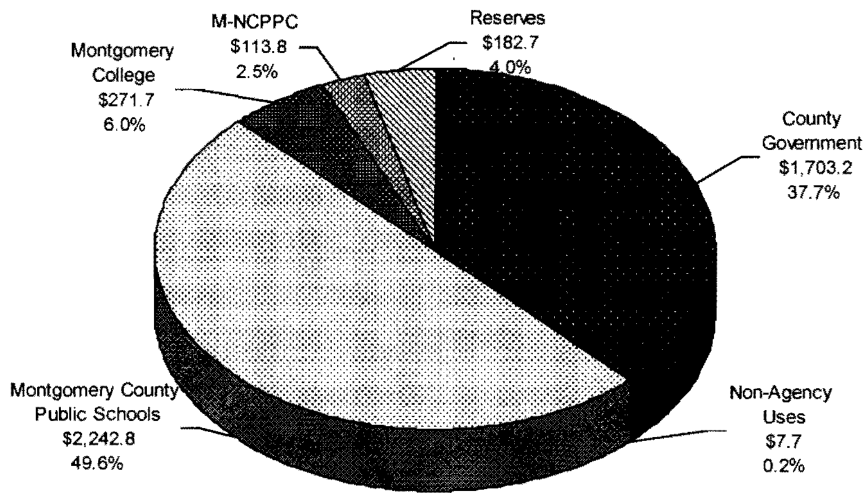
FY11 ALL AGENCIES / ALL FUNDS

WHERE THE MONEY COMES FROM
TOTAL APPROVED RESOURCES - $4,521.9 (million)



WHERE THE MONEY GOES *
TOTAL APPROVED USES OF FUNDS - $4,521.9 (million)



*This total covers the full Operating Budget, and funds to the CIP, Debt Service and Reserves. Of this amount $4,304,288,414 is approved in the Operating Budget.

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SPENDING AFFORDABILITY COMPARISON

(Dollars in Millions)

A CATEGORY	B FY10 CC Approved 5-21-09	C FY10 Estimate 3-15-10	D FY11 CC SAG 2-9-10	E FY11 CE Rec 3-15-10	F FY11 % Chg Rec / Est	G FY11 $ Chg Rec / Est
Property Tax	1,440.9	1,432.2		1,449.9	1.2%	17.6
Income Tax	1,214.8	1,094.6		1,160.9	6.1%	66.3
Transfer/Recordation Tax	123.4	114.8		134.9	17.5%	20.1
Other Tax	185.3	179.6		235.1	30.9%	55.5
General State/Fed/Other Aid	569.3	569.5		614.4	7.9%	44.9
All Other Revenue	271.2	263.6		198.4	-24.7%	(65.2)
Revenues	**3,804.9**	**3,654.3**		**3,793.6**	**3.8%**	**139.3**
Net Transfers In (Out)	37.2	51.4		32.7	-36.5%	(18.8)
Set Aside: Potential Supplementals	0.0	(63.1)		0.0	-100.0%	63.1
Set Aside: Other Claims	(2.5)	0.0		(0.3)	n/a	(0.3)
Beginning Reserve: Total	235.2	229.8		77.0	-66.5%	(152.8)
Revenue Stabilization Fund	119.6	119.6		17.7	-85.2%	(102.0)
Reserve: Designated	0.0	0.0		0.0	n/a	0.0
Reserve: Undesignated	115.5	110.2		59.3	-46.2%	(50.9)
TOTAL RESOURCES	**4,074.8**	**3,872.5**		**3,903.0**	**0.8%**	**30.6**
APPROPRIATIONS						
Capital Budget:						
CIP Current Revenue	(30.7)	(24.6)	(25.0)	(27.6)	12.3%	(3.0)
CIP PAYGO	(1.3)	(0.3)	(2.0)	0.0	-100.0%	0.3
CIP PAYGO Rec Tax Undesignated	0.0	0.0	0.0	0.0	0.0%	0.0
Operating Budget:						
MCPS	(2,020.1)	(1,989.9)	(2,044.5)	(1,940.5)	-2.5%	49.4
College, Total	(217.5)	(214.5)		(209.2)	-2.4%	5.2
Less College Tuition	70.1	74.2		75.3	1.4%	1.1
College, Net	(147.5)	(140.2)	(149.2)	(134.0)	-4.5%	6.3
County Government	(1,251.2)	(1,219.1)	(1,205.5)	(1,174.7)	-3.6%	44.5
M-NCPPC	(106.6)	(103.2)	(102.8)	(91.6)	-11.3%	11.6
Other: (Unallocated) / GAP	0.0	0.0		(0.0)	n/a	(0.0)
Total Operating Budget:	**(3,595.4)**	**(3,526.7)**		**(3,416.1)**	-3.1%	**110.6**
Debt Service:						
All County Debt Service	(224.8)	(221.3)	(246.8)	(237.1)	7.2%	(15.9)
M-NCPPC Debt Service	(5.0)	(5.0)	(5.0)	(4.9)	-0.3%	0.0
MCG Long Term Leases (b)	(21.7)	(17.6)	(28.1)	(23.0)	30.5%	(5.4)
TOTAL APPROPRIATIONS (incl. Capital, Operating & Debt Service)	**(3,879.0)**	**(3,795.5)**	**(3,808.9)**	**(3,708.8)**	**-2.3%**	**86.7**
Aggregate Operating Budget (excludes College tuition)	**(3,808.88)**	**(3,721.3)**	**(3,808.9)**	**(3,633.47)**	**-2.4%**	**87.8**
Revenue Stabilization Fund (new $s)	0.00	102.0		(37.15)	-136.4%	(139.1)
Ending Reserve: Total	**195.8**	**77.0**		**194.3**	**152.3%**	**117.3**
Revenue Stabilization Fund	**119.6**	**17.7**		**54.8**	**210.0%**	**37.2**
Ending Reserve: Designated	**0.0**	**0.0**		**0.0**	**n/a**	**0.0**
Ending Reserve: Undesignated	**76.2**	**59.3**		**139.4**	**135.1%**	**80.1**
Maximum AOB without 6 votes (c) (Prior Year AOB + inflation as shown)	**(3,941.7)** **4.50%**	**n/a**		**(3,831.7)** **0.60%**		

a) Based on latest revenue and expenditure estimates as prepared by Department of Finance and OMB.
b) Long term leases of Montgomery County Government are considered equivalent to debt service.

BUDGET SUMMARY BY AGENCY

($ In Millions)

A FISCAL YEAR	B TAX SUPPORTED	C GRANT SUPPORTED	D SELF SUPPORTED	E GRAND TOTAL
MONTGOMERY COUNTY GOVERNMENT				
FY10 Approved	1,251.2	115.6	263.5	1,630.3
FY11 Recommended	1,174.7	112.6	255.7	1,543.0
Percent Change From FY10	-6.1 %	-2.6 %	-2.9 %	-5.4 %
MONTGOMERY COUNTY PUBLIC SCHOOLS				
FY10 Approved	2,020.1	124.4	56.1	2,200.6
FY11 Recommended	1,940.5	128.4	56.6	2,125.5
Percent Change From FY10	-3.9 %	3.2 %	0.9 %	-3.4 %
MONTGOMERY COLLEGE				
FY10 Approved	217.5	19.1	28.9	265.6
FY11 Recommended	209.2	21.0	29.1	259.4
Percent Change From FY10	-3.8 %	9.8 %	0.6 %	-2.3 %
MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION				
FY10 Approved	106.6	0.6	16.7	123.9
FY11 Recommended	91.6	0.6	16.3	108.4
Percent Change From FY10	-14.1 %	0.0 %	-2.4 %	-12.5 %
ALL AGENCIES WITHOUT DEBT SERVICE				
FY10 Approved	3,595.4	259.7	365.2	4,220.3
FY11 Recommended	3,416.1	262.6	357.7	4,036.3
Percent Change From FY10	-5.0 %	1.1 %	-2.1 %	-4.4 %
DEBT SERVICE: GENERAL OBLIGATION & LONG TERM LEASES				
FY10 Approved	251.5	-	2.2	253.6
FY11 Recommended	265.0	-	2.9	267.9
Percent Change From FY10	5.4 %	0.0 %	33.6 %	5.6 %
TOTAL BUDGETS				
FY10 Approved	3,846.9	259.7	367.4	4,474.0
FY11 Recommended	3,681.1	262.6	360.6	4,304.3
Percent Change From FY10	-4.3 %	1.1 %	-1.8 %	-3.8 %

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OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

March 25, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive Isiah Leggett

SUBJECT: Additional FY10 and FY11 Budget Actions

Budget Process

I am sending this memorandum to recommend that we jointly take additional actions to strengthen the County's financial position in the current fiscal year and for FY11.

There is no perfect time to formulate a budget. Since I recommended my budget earlier this month, we have already received more bad news that points to additional fiscal deterioration. This includes a dramatic increase in the County's unemployment rate from 5.2% to 6.2% and may signal further erosion of income tax revenue. In addition, Anne Arundel County's bond rating was recently downgraded from a AA+ to a AA rating due to several factors including the deteriorating condition of Anne Arundel's reserves. At the same time, the Department of Finance has been in discussions with the bond rating agencies relative to an upcoming bond sale and is concerned about feedback they have received from the rating agencies on our fiscal position.

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Events Subsequent to County Executive's FY11 Budget Transmittal

Increase in County's Unemployment Rate

Last week we learned through the State Department of Labor, Licensing, and Regulation that the County's unemployment rate increased to 6.2%. The unemployment rate which averaged 5.4% between May and December '09, has reached an unprecedented level for the County. Our assumption prior to this announcement was that the unemployment rate reached its peak given a ±0.1 percentage point change either way over the next three months based on the recent national situation and the County's performance since May of last year.

While the data are "not seasonally adjusted", the number of County residents employed in January was 480,493 (↓1.0% from January '09) and the lowest level since 2004. If the January data are an indicator of the employment situation in the near term, we could expect a further strain on income tax revenues over the next six months (particularly the May, June, and July distributions) than we had estimated for the FY11 budget. Our economic assumption for resident employment assumed a modest 0.3% increase for calendar year 2010 for the FY11 Recommended Budget.

This significant increase in the unemployment rate should not be easily dismissed as just "more people entering the labor force". It is in fact, a more accurate estimate of the number of people out of work in the County which contributes to the strain on the County's safety net services and has serious implications for future estimates of income tax revenues.

Anne Arundel County Bond Rating Downgrade

Fitch Ratings, in downgrading Anne Arundel County's bond rating from AA+ to AA noted the following as a basis for their action: "The rating downgrade from 'AA+' to 'AA' reflects Anne Arundel's (the county) continued diminished reserve levels and financial flexibility, underscored by recent failures to achieve structurally balanced budgets. A charter-imposed cap on property tax growth somewhat limits the county's ability to offset other tax and fee revenue declines, although a substantial taxable assessed valuation cushion bolsters the consistency of property tax collections. The county's low income tax rate provides revenue-raising flexibility."[1]

The relevance of this analysis to Montgomery County is obvious given the trend in our own general fund balance and property tax cap limitations. In addition, unlike

[1] Fitch Ratings, Anne Arundel County, Maryland, March 22, 2010, page 1

Anne Arundel County, Montgomery County is at the State authorized maximum income tax rate.

Rating Agency Feedback

As you know, like many jurisdictions, Montgomery County is in the bond market at multiple times during the year. This spring, the County is issuing bonds for its Affordable Housing Acquisition Program and seeking financing for its Ride On Bus fleet. In their analysis of the County's credit worthiness, the ratings analysts have focused their attention on the County's reserve levels, particularly in light of the extraordinary fiscal pressures we have faced this year. As mentioned above, a recent review of another Maryland county's credit, Anne Arundel, highlighted the need for strong reserve levels and a structurally balanced budget.

As stated in the attached press release from Fitch Ratings: " The proposed fiscal 2011 budget includes a proposed energy tax increase as well as furloughs, lay-offs, and programmatic reductions that are intended to eliminate the $780 million deficit, restore $37 million to the RSF, and increase the undesignated general fund balance to $126.9 million. Should the county attain its objectives, it will restore reserves to the modified 5% policy, although Fitch is concerned **that insufficiently conservative revenue projections may impede the county's attainment of its goal**. The county has stated that by fiscal 2012 it will eliminate the currently projected $212 million structural deficit and will restore reserves to its 6% policy. **Fitch's current rating and Stable Outlook assume the county will be successful, but failure to achieve the fiscal 2011 and 2012 financial goals could result in a credit profile that is inconsistent with the current rating category."**[2] *(Emphasis added)*

Recommended Actions

As you are aware, my Recommended FY11 Operating Budget substantially reduced the rate of growth in the County budget. Based on the dramatic decline in income tax receipts, unexpected costs related to snow removal, and other drains on our budget this year, we are projecting a reduction in our general fund reserves to $27.7 million in FY10. These reserves include $10.0 million in the County General Fund and $17.7 million remaining in the Revenue Stabilization Fund.

Based on additional fiscal challenges that relate to a dramatically higher unemployment rate and the strong signals from the bond rating agencies that we demonstrate and implement a plan to meet our reserve targets in FY11 and FY12, I am recommending the following additional actions which total $48.4 million and that this amount be added to the Revenue Stabilization Fund to help restore the balance in that fund:

---

[2] Fitch Ratings, Montgomery County, Maryland, March 25, 2010

Fuel Energy Tax Increase - In my Recommended budget I proposed raising an additional $50 million through an increase in the fuel energy tax to begin in FY11. I now recommend that we increase the fuel energy tax to raise an additional $13.6 million in FY10 and $31.8 million in FY11 for total additional revenues of $45.4 million. This will, regrettably, increase the average residential utility bill by approximately $5 per month.

Accelerate FY11 Fund Balance Transfers- I am recommending that we accelerate certain planned FY11 transfers from non-tax supported funds into the County's General Fund in FY10. This will increase General Fund resources by $3.7 million in FY10 and will not compromise the financial position of the funds from which the transfers will be taken.

Reduce FY10 Set Aside - the FY11 Budget includes 63.1 million for snow removal costs. Based on a more recent estimate of snow removal costs, we can reduce this set aside amount by $3 million.

Recommended Use of Additional Resources

The combination of these actions will produce additional resources of approximately $48.4 million for FY10 and FY11. I very strongly recommend that all of these resources be restored to the County's Revenue Stabilization Fund to provide additional flexibility to the County in FY10 and FY11 to respond to further adverse economic and fiscal conditions. I fully appreciate the pressures that the Council is under to support additional spending in FY11 to restore pay increases for County employees, preserve County services at existing levels, address the requests from our non-profit partners, and address other important and meritorious public needs. However, it is imperative for the long term fiscal health of this County that we jointly resist these pressures in order to bring stability and sustainability back to the County's financial condition.

Conclusion

In closing, I want to be clear that I will not support using any of these resources to add back continuing costs into the County's budget. All of these additional resources need to be restored to the County's Revenue Stabilization Fund.

Attachment

FitchRatings
KNOW YOUR RISK

FITCH RATES MONTGOMERY COUNTY, MARYLAND'S $23MM COPS 'AA+'; $30MM LTD OBLIGS 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-25 March 2010: Fitch Ratings assigns the following ratings to Montgomery County, Maryland (the county) bonds:

--$22.9 million certificates of participation (public transportation equipment acquisition), series 2010 'AA+';
--$30.3 million taxable limited obligation certificates (facility and residential projects), series 2010A 'AA'.

Fitch also affirms the following outstanding ratings:

Montgomery County, Maryland
--$1.9 billion general obligation (GO) bonds at 'AAA';
--$30.5 million certificates of participation (Equipment Acquisition Program) at 'AA+';
--$35 million lease obligations (Metrorail Garage Projects) at 'AA'.

Maryland Economic Development Corporation
--$33.9 million lease revenue bonds at 'AA+'.

Montgomery County Revenue Authority
--$19.1 million lease obligations (Germantown Indoor Swim Center Project) at 'AA+';
--$11.8 million lease obligations (Conference Center Project) at 'AA'.

Maryland-National Capital Park and Planning Commission (M-NCPPC)
--$42.6 million Montgomery County GOs at 'AAA'.

The Rating Outlook is Stable.

RATING RATIONALE:

-- While reserves have declined, Montgomery County retains considerable flexibility to reverse a structural imbalance due in part to weakened revenues during the current recession. The rating encompasses the county's stated expectation that it will restore reserves to policy levels in fiscal 2012.
--A considerable and formidable economic base, anchored by the extensive presence of the U.S. government and expanding broadly into biotechnology, shows excellent prospects for continued expansion. Strong wealth and unemployment indicators underscore the county's economic strengths.
--Overall debt levels are moderate, amortization is rapid, and capital needs are expected to remain manageable.
--Payment on non-general obligation debt issues are subject to annual appropriation, and their ratings depend largely on sound legal provisions and the level of essentiality provided by assets that secure each series of debt.

KEY RATING DRIVERS:

--Failure to restore reserves to levels consistent with the 'AAA' rating and the county's long-standing policies could place downward pressure on the rating.
--Economic growth is expected to continue at a measured pace, allowing management to address infrastructure expansion and renewal in a timely manner without undue fiscal strain.

SECURITY:
The GOs are secured by the full faith, credit, and taxing power of Montgomery County. Non-general obligation debt is secured by payments subject to annual appropriation and the level of essentiality provided by assets that secure each series of debt.

CREDIT SUMMARY:

Bordering Washington, D.C. and northern Virginia, Montgomery County's wealthy suburban economy is fueled by a large U.S. government presence, with depth and diversity added by the strong and expanding biotechnology sector. Completion is expected in 2011 on the Silver Spring Inter-modal Transit Center, a $194 million mixed use development and transportation hub in one of the county's four central business districts. The county's unemployment rate has been well below state and national averages since at least 1998, with the December 2009 rate of 5.2% significantly below the state's 7.1% and the nation's 9.7% (rates are not seasonally adjusted). Various economic indexes have consistently ranked the county, which had an estimated 2008 population of 950,680, among the wealthiest in the nation.

The recent diminishment of reserves from historically sound levels reflects structural budget gaps that were increased by anemic income tax revenues. The fiscal 2008 budget somewhat reversed unsupportable spending growth trends, although at the conclusion of the fiscal year the county's unreserved general fund balance decreased from 11.8% to 5.9% of the $2.8 billion of expenditures, transfers out, and other uses. Fiscal 2009 income tax shortfalls propelled an additional fund balance draw-down, to 3.5% of spending, although inclusive of a fully funded $119.6 million revenue stabilization fund (RSF), total reserves were a sound 7.7% of spending and exceeded the county policy of 6% of total resources.

In response to steep mid-year revenue adjustments in fiscal 2010 totaling $145 million, inclusive of $120 million of projected income tax shortfalls, the county implemented rigorous expenditure controls totaling $100 million and ultimately projected utilizing up to $102 million of the RSF in addition to undesignated general fund balance. Total undesignated reserves across all tax-supported funds including the RSF are expected to decline to a low $77 million on a budgetary basis, and the county projects total reserves to equal approximately 2% of spending, below the 5% that was announced as a one-year revision to policy. The unreserved general fund balance coupled with the RSF, a measure consistent with Fitch's analysis of financial flexibility, is projected to equal a slim 2.7% of spending.

Fitch believes the county retains additional flexibility in its proven success in overriding charter limitations on property tax growth, although the income tax rate is currently at the state maximum of 3.2%. The proposed fiscal 2011 budget includes a proposed energy tax increase as well as furloughs, lay-offs, and programmatic reductions that are intended to eliminate the $780 million deficit, restore $37 million to the RSF, and increase the undesignated general fund balance to $126.9 million. Should the county attain its objectives, it will restore reserves to the modified 5% policy, although Fitch is concerned that insufficiently conservative revenue projections may impede the county's attainment of its goal. The county has stated that by fiscal 2012 it will eliminate the currently projected $212 million structural deficit and will restore reserves to its 6% policy. Fitch's current rating and Stable Outlook assume the county will be successful, but failure to achieve the fiscal 2011 and 2012 financial goals could result in a credit profile that is inconsistent with the current rating category.

Overall debt levels are moderate at $2,536 per capita and 1.5% of market value. Amortization remains rapid with 70.7% of outstanding principal retiring within 10 years. The fiscal years 2009-2014 amended capital improvement plan totals $3.7 billion and allocates substantial funding for schools (35%), transportation (27%), and public safety (9%). Major sources of funding include GO bonds and intergovernmental revenue. Although the county does not formally budget pay-as-you-go capital financing, it intends to return to $32.5 million annually beginning in fiscal 2012, in contrast to the minimal $300,000 projected for fiscal 2010.

Applicable criteria available on Fitch's web site at 'www.fitchratings.com' include:
--'Tax-Supported Rating Criteria' (Dec. 21, 2009;

--'U.S. Local Government Tax-Supported Rating Criteria' (Dec. 21, 2009).

Contact: Barbara Ruth Rosenberg +1-212-908-0731 or Michael Rinaldi +1-212-908-1833, New York.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

MEMORANDUM

April 2, 2010

TO: County Council

CHS

FROM: Charles H. Sherer, Legislative Analyst

SUBJECT: FY10 revenues, expenses, and ending reserve in the tax supported funds

The purpose of this memorandum is to explain what happened to FY10 revenues, expenses, and ending reserve in the period from May 2009 to March 2010; and why the Council must approve an FY10 transfer from the Revenue Stabilization Fund (RSF) to the General Fund. The explanation is based on the spreadsheets on ©1-5, which were based on schedules A2- A6 on pages 69-4 through 69-33 in the Executive's FY11 Operating Budget.

Focus on all tax supported funds The General Fund is the largest fund but not the only fund: schedule A2 shows that there are 10 other tax supported funds in County Government and three other tax supported agencies (MCPS, Montgomery College, and MNCPPC), each of which has several funds. Schedule A2 shows that the General Fund has roughly 70% of total revenues and roughly 23% of expenditures.

Rows 4-17 on ©1 show the FY10 budget the Council approved in May 2009 for the General Fund, all other funds, and the total for all funds. Rows 13 and 17 show that total ending reserve for all tax supported funds was budgeted to be $195.8 million/5.0% of revenues. Between May 2009 and March 2010, **two** major changes occurred, both of them bad.

1. The first major change in FY10 was that the estimate of General Fund revenues in FY10 decreased $174.0 million. The major decreases are shown in the table below.

Revenue in FY10	Date of estimate May 2009	March 2010	Change
Income tax	1,214.8	1,094.6	(120.2)
Recordation tax	58.4	46.2	(12.2)
Telephone tax	32.8	29.5	(3.3)
Hotel	20.0	15.8	(4.2)
Speed camera citations	28.8	15.8	(13.0)
State and federal aid	71.4	48.3	(23.1)
Total	1,426.2	1,250.2	(176.0)

<u>2. The second major change in FY10</u> was three major snow storms, the costs of which were not in the FY10 budget, and which OMB estimated will increase the FY10 "Set aside for future needs" by a net cost of $60.6 million (later decreased by $3.0 million, see below). The sum of these two events reduced projected FY10 ending reserve by $234.6 million!

Taking into account those two changes, the two budget savings plans that totaled $99.4 million, and various smaller changes, rows 29 and 33 shows that total ending reserve for all tax supported funds was estimated on March 15, 2010 to be $77.0 million/2.1%, not as much as 5.0% in May 2009, but still positive. No further revenue increases nor expenditure reductions were necessary in total. See the table below for a summary.

Summary of impact of major changes on FY10 reserve	Amount	%
Projected total ending reserve, May 2009	195.8	5.0
Decrease revenue in GF	(174.0)	
Unbudgeted costs of snow removal, net	(60.6)	
Two budget savings plans	99.4	
Miscellaneous changes, net	16.4	
Projected total ending reserve, March 2010	77.0	2.1
Decrease	(118.8)	(2.9)

<u>Focus on the General Fund</u> As just explained, in the March 15 latest estimate for FY10, **all funds** together still had a projected reserve at the end of FY10 of 2.1%. However, both of the changes mentioned above reduced the reserve in the **General Fund** from the May 2009 estimate of $64.3 million. If these two changes were the only changes to the General Fund in the May 2009 budget, then the General Fund would have a **<u>deficit</u>** at the end of FY10 of $170.3 million (64.3 – 174.0 – 60.6 = – 170.3). The Charter prohibits funds from having a deficit, so the projected deficit in the General Fund must be eliminated.

To eliminate this deficit, ©3 shows the results of the two savings plans and 11 proposed transfers **from** funds that have a surplus **to** the General Fund. Of the $99.4 million savings from both savings plans, ©4 shows that $48.3 million was in the General Fund and the remaining $51.2 million was in other funds.

Row 34 of column B on ©3 shows that the deficit in the General Fund would still be ($92.0 million) after both savings plans and after the 11 proposed transfers to the General Fund. To eliminate this deficit, the Executive proposed a $102.0 million transfer from the RSF to the General Fund, which would leave the General Fund a $10.0 million reserve at the end of FY10. The RSF was created for this purpose. The transfers do not change the total reserve in the tax supported funds. Rather, the transfers reallocate the total reserve among the tax supported funds (from funds with a surplus to the General Fund).

Additional FY10 and FY11 budget actions In a memorandum dated March 25, 2010, the Executive proposed three actions "to strengthen the County's financial position in FY10 and FY11." **He further recommended that all the additional resources be added to the RSF.**

March 25, 2010 Executive recommended budget actions ($millions)

Item	FY10	FY11	Total
Increase energy tax in addition to the $50 million increase proposed on March 15	13.6	31.8	45.4
Accelerate transfer from non-tax supported funds to the General Fund	3.7	(3.7)	0.0
Reduce set-aside for snow costs	3.0	0.0	3.0
Total	20.3	28.1	48.4

The results for FY10 are shown on ©2. For FY10, projected total ending reserve would increase by $20.3 million, from $77.0 million on March 15 to $97.3 million on March 25 as a result of the $20.3 million increase in FY10 resources. (The Council Staff Director noted that the additional energy tax revenue will have to be reduced to the extent that the Council increases the utility budgets for the four agencies to pay the additional energy tax.)

The impact on projected total reserve is shown on ©5 and summarized below, assuming that **all the additional $48.4 million in additional resources are added to the RSF (and not spent).**

1. FY10 The additional $20.3 million in resources would increase the projected total ending reserve from 2.1% on March 15 to 2.6% on March 25.

2. FY11 The additional $48.4 million in resources would increase the reserve from 5.0% on March 15 to 6.2% on March 25.

	A	B	C	D
1	FY10 FUND DATA: General Fund, all other funds, and total			
2				
3	**I. Approved in May 2009**			
4		General	All other	Total
5	Beginning fund balance	32.2	203.0	235.2
6	Revenues	2,717.6	1,087.3	3,804.9
7	Net transfers	(105.8)	143.0	37.2
8	Resources	2,644.0	1,433.3	4,077.3
9	Less contributions (from GF to MCPS and College)	(1,636.6)	1,636.6	0.0
10	Less current revenue for CIP	(30.2)	(1.9)	(32.1)
11	Less operating budget	(910.4)	(2,936.5)	(3,846.9)
12	Less claims on fund balance	(2.5)	0.0	(2.5)
13	= Projected total ending reserve	64.3	131.5	195.8
14	Less Revenue Stabilization Fund	0.0	(119.6)	(119.6)
15	= Undesignated reserve	64.3	11.9	76.2
16				76.2
17	**Projected % reserve**			**5.0%**
18				
19				
20	**II. Estimate in March 15 budget** Reflects both savings plans and various CE actions			
21	Beginning fund balance	34.1	195.7	229.8
22	Revenues	2,543.5	1,110.8	3,654.3
23	Net transfers (includes $102.0m from RSF to GF)	35.1	16.3	51.4
24	Resources	2,612.7	1,322.8	3,935.5
25	Less contributions (from GF to MCPS and College)	(1,634.6)	1,634.6	0.0
26	Less current revenue for CIP	(24.2)	(0.7)	(24.9)
27	Less operating budget (including snow supplemental)	(943.9)	(2,889.7)	(3,833.6)
28	Less claims on fund balance	0.0	0.0	0.0
29	= Projected total ending reserve	10.0	67.0	77.0
30	Less Revenue Stabilization Fund	0.0	(17.7)	(17.7)
31	= Undesignated reserve	10.0	49.3	59.3
32				59.3
33	**Projected % reserve**			**2.1%**
34				
35	**IIA. Summary of impact of major changes on reserve**			
36	Projected total ending reserve, May 2009, from above			195.8
37	Decrease revenue in GF			(174.0)
38	Unbudgeted costs of snow removal, net			(60.6)
39	Two budget savings plans			99.4
40	Miscellaneous changes, net			16.4
41	Projected total ending reserve, March 2010, same as above			77.0
42	Decrease projected ending reserve			(118.8)
43				

	A	B	C	D
4		General	All other	Total
44	**III. Executive recommended March 25**			
45	Beginning fund balance	34.1	195.7	229.8
46	Revenues	2,543.5	1,110.8	3,654.3
47	CE March 26, increase energy tax	13.6		13.6
48	CE March 26, accelerate transfer from non-tax supported funds from FY11 to FY10	3.7		3.7
49	Net transfers (includes $102.0m from RSF to GF)	35.1	16.3	51.4
50	Resources	2,630.0	1,322.8	3,952.8
51	Less contributions (from GF to MCPS and College)	(1,634.6)	1,634.6	0.0
52	Less current revenue for CIP	(24.2)	(0.7)	(24.9)
53	Less operating budget (including snow supplemental)	(943.9)	(2,889.7)	(3,833.6)
54	CE March 26, reduce cost snow removal	3.0	0.0	3.0
55	Less claims on fund balance	0.0	0.0	0.0
56	= Projected total ending reserve	30.3	67.0	97.3
57	Transfer all CE March 26 additional resources to RSF	(20.3)	20.3	0.0
58	Less Revenue Stabilization Fund	0.0	(38.0)	(38.0)
59	= Undesignated reserve	10.0	49.3	59.3
60				59.3
61	**Projected % reserve**			**2.6%**

	A	B
1	FY10 GENERAL FUND	
2	Why does the General Fund need a transfer from the Revenue Stabilization Fund of roughly	
3	$102 million? The Charter prohibits funds from having a deficit. Without the transfer, the	
4	General Fund would have a deficit of $92 million. Most of the savings from the savings plan	
5	were not accounted for in the General Fund, see attached table. The table below shows the	
6	major changes.	
7		
8		Change
9	Reserve at end of FY10 as estimated in May 2009	64,213,925
10	CHANGES	
11	Beginning fund balance	+1,833,241
12	Revenues	(174,032,930)
13	Set-aside for future needs (net change, snow removal)	(60,551,431)
14	Reserve at end of FY10 reflecting the changes above	(168,537,195)
15		
16	Transfers:	
17	From Grant Fund for lease payment for HHS facility on Picard Drive	+635,700
18	From DLC, earnings transfer	+667,430
19	From CATV Fund	+2,278,390
20	From parking districts, transfer savings plan	+630,530
21	Transfer fund balance from Mass Transit Fund	+7,937,170
22	Transfer fund balance from Fire District Fund	+6,362,430
23	Transfer fund balance from Recreation Fund	+5,016,830
24	Reduce transfer to MHI	+7,806,000
25	Reduce transfer to Economic Development Fund	+300,000
26	Reduce transfer to Debt Service Fund, savings plan	+7,606,470
27	Other transfers, net (no change or only small change)	(264,590)
28	Other changes	
29	Expenditures for County Government OB (reflects both savings plans)	+29,631,830
30	Current revenue for CIP (reflects both savings plans)	+5,977,000
31	Contribution to MCPS and College	+1,998,022
32	Total, transfers and other changes	+76,583,212
33		
34	Ending fund balance, before transfer from RSF	(91,953,983)
35	Transfer from RSF	+101,953,983
36	Ending fund balance, after transfer from RSF	10,000,000

	A	B	C	D
1	FY10 SAVINGS PLANS (there were 2)			
2	The Council approved savings plan #1 on November 17, 2009.			
3	The Council approved savings plan #2 on February 9, 2010			
4				
5	Fund/Agency	SP #1	SP #2	Total
6	General Fund OB	9,041,460	17,042,560	26,084,020
7	Other County Government Funds OB	7,552,340	5,501,990	13,054,330
8	Total County Government OB	16,593,800	22,544,550	39,138,350
9	MCPS	9,900,000	22,000,000	31,900,000
10	College	1,070,790	1,700,000	2,770,790
11	MNCPPC	2,180,000	1,250,000	3,430,000
12	Debt Service expense	0	2,159,450	2,159,450
13	Total expense in OB	29,744,590	49,654,000	79,398,590
14	Current revenue in CIP	0	9,216,000	9,216,000
15	Eliminate prior year encumbrances	0	1,500,000	1,500,000
16	Reduce transfer to MHI	0	4,800,000	4,800,000
17	Debt Service revenue	0	4,530,580	4,530,580
18	TOTAL	29,744,590	69,700,580	99,445,170
19				99,445,170
20				
21	General Fund savings			
22	General Fund OB	9,041,460	17,042,560	26,084,020
23	Debt Service expense	0	2,159,450	2,159,450
24	Current revenue in CIP	0	9,216,000	9,216,000
25	Eliminate prior year encumbrances	0	1,500,000	1,500,000
26	Reduce transfer to MHI	0	4,800,000	4,800,000
27	Debt Service revenue	0	4,530,580	4,530,580
28	Total General Fund savings	9,041,460	39,248,590	48,290,050
29				48,290,050
30				
31	Savings in other funds			51,155,120
32				
33				
34	**March 25, 2010 Executive recommended budget actions ($millions)**			
35	Item	FY10	FY11	Total
36	Additional increase energy tax	13.6	31.8	45.4
37	Accelerate transfer from non-tax supported funds to GF	3.7	(3.7)	0.0
38	Reduce set-aside for snow costs	3.0	0.0	3.0
39	Total	20.3	28.1	48.4
40				48.4

	A	B
1	REVENUE STABILIZATION FUND	
2		
3		
4	Balance, beginning of FY10	119.6
5	FY10 Transfer to General Fund, CE, March 15, 2010	(102.0)
6	Reduce the transfer, CE, March 25, 2010, for "additional budget actions" in FY10	20.3
7	Revised transfer in FY10 to General Fund	(81.7)
8	Balance, end of FY10/beginning of FY11	37.9
9	FY11 Transfer from General Fund, CE, March 15, 2010	37.0
10	Additional transfer in FY11, CE, March 25, 2010, for "additional budget actions" in FY10	28.1
11	Revised transfer in FY11 to RSF	65.1
12		
13	Balance in RSF, end of FY11, March 25	103.0
14	Undesignated reserve in all other tax supported funds, end of FY11, March 25	139.4
15	Total reserve, end of FY11, March 25	242.4
16		
17	**% reserve, OMB preliminary estimate on April 2** (see calculation below)	**6.2%**
18		
19		
20	FY11 resources, March 15	3,903.3
21	Additional resources, March 25	48.4
22	FY11 resources, March 25	3,951.7
23	Less RSF at beginning of year, from above	(37.9)
24	Net	3,913.8
25	Total reserve, end of FY11, March 25, from above	242.4
26	**% reserve**	**6.2%**
27		
28		
29		
30		

5

OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

MEMORANDUM

RECEIVED
MONTGOMERY COUNTY
COUNCIL
2010 APR -5 PM 4:56

April 5, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive

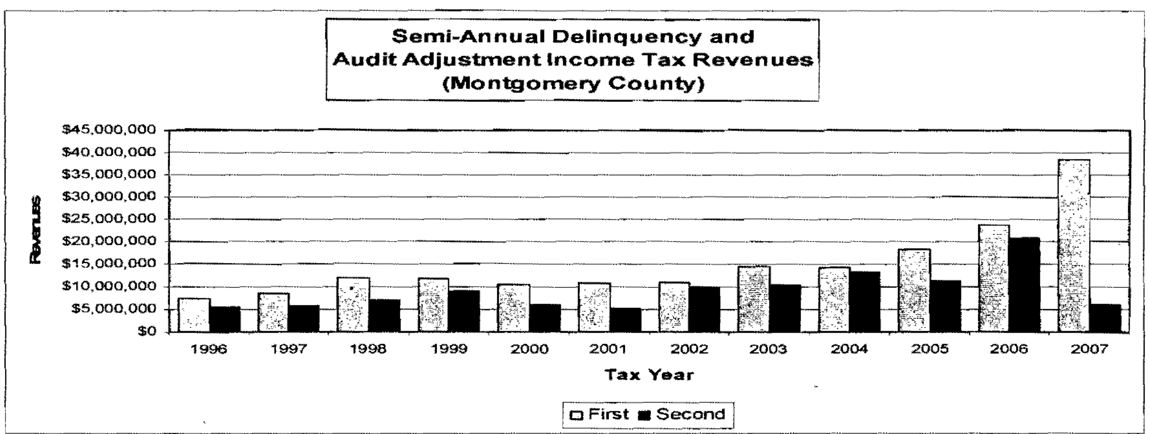
SUBJECT: March Income Tax Distribution and Rating Agency Feedback

The purpose of this memorandum is to brief the County Council on: the March income tax distribution; additional reactions we have received from rating agencies regarding our impending bond sale; and actions I am exploring to address these developments.

Background: March Distribution

The income tax distribution anticipated from the State Comptroller's office for March of this year was $24.5 million below our estimate. The March distribution consists of two parts: 1) delinquency payments and audited adjustments; and 2) fiduciary payments.

The portion of the March 2010 income tax distribution related to delinquency and audit adjustments was dramatically below the October 2009 distribution (↓86.7%), and below the March 2009 distribution (↓71.8%), and was the lowest amount since tax year 2001.



Finance Department staff are still discussing with the Comptroller's Office the basis for this significant reduction in the expected distribution in March which, as we understand it, is due to factors which are unique to Montgomery County. As soon as this analysis is complete, I will be able to share it with you. As I have noted before, the historic snowfalls of this past year, the dramatic drop in our income tax revenue and other unanticipated revenue losses and expenditure requirement due to the Great Recession, have brought our reserves to historically low levels.

Therefore, regardless of the causes, this results in a further unanticipated material change in the ending FY10 fund balance for Montgomery County and must be addressed in order to restore some flexibility in the event of additional unanticipated expenditure increases or revenue declines.

Rating Agency Reviews

In my March 25 memo I indicated that Montgomery County is issuing a Certificates of Participation (COPs) for the Affordable Housing Acquisition Programs and for the Ride-On Bus fleet. We shared the Fitch Rating with the Council in my previous memo. Approximately a week later, Standard and Poor issued its own rating of the County financing which re-affirmed the County's AAA rating with a stable outlook, but stated in pertinent part, "The stable outlook reflects the inherent strength of the county's economy and S&P's expectation that the county will continue to take the steps necessary to restore its financial footing by addressing ongoing revenue declines. **If the county fails to take actions to stabilize its finances, we may revise the outlook to negative.**" (emphasis added).

Moody's issued its own rating which placed Montgomery County GO Rating on a watchlist for a possible downgrade stating that: "Placement on watchlist for possible downgrade reflects deterioration of the county's financial position driven primarily by income tax revenue shortfalls, which is expected to result in the use of a significant portion of the county's General Fund and Revenue Stabilization Fund as of fiscal 2010 (year ends June 30^{th}). Future rating reviews will factor (a) management's ability to mitigate the projected current year operating deficit, given identification of a number of potential gap closing measures that are largely non-recurring in nature; (b) steps taken in the 2011 budget to restore structurally balanced operations, and (c) development of a plan to restore financial flexibility to levels in keeping with the current rating category." The rating also stated, "The ability of the county to stabilize and replenish reserve levels and to restore financial flexibility will be a key credit consideration going forward."

Additional Actions

Consistent with the concerns I raised previously with the Council, I will continue to pursue different strategies in addition to those outlined in my March 25, 2010 memo to the County Council to address this unanticipated loss of revenue. While I have not come to a final conclusion on a revised savings target to supplement our existing FY10 reserves I am reviewing the following options:

1. Review of select non-tax supported funds to transfer additional resources to the general fund: any transfer from a non-tax supported fund must be consistent with existing law, policy, revenue bond covenants or other appropriate restrictions.
2. Liquidate current year and prior year contractual obligations: We made significant progress in FY2009 and FY2010 by liquidating these encumbrances however additional opportunities may exist to provide resources by more aggressively liquidating these obligations. However, it should be noted that these actions may impact departmental flexibility or services for the balance of FY10 or during FY11.

3. CIP Current Revenue: The Council has already approved significant reductions in CIP current revenue in FY10, but I have asked staff to review existing project balances to determine if any of these resources can be re-directed to the County's general fund. I will work with Council on any appropriate amendments to the Capital budget to accomplish this objective.
4. Expenditure/Revenue planning: I have also asked the OMB and Finance Directors to meet with the department heads of all large County Government departments to identify outstanding, remaining purchases and reimbursements for FY10 or early FY11.

The events of the last month have underscored the continuing risk and uncertainty and reduced flexibility that the County is operating under during this year. It also should reinforce the need to continue to be prudent in our management of the County's resources and work together to maintain a sound and sustainable financial footing for the County government.

I will work closely with the Council on these actions and keep you apprised of any material changes in the County's fiscal position for the balance of FY10. The fluidity and rapid changes in the fiscal situation require even greater coordination and cooperation between our two branches of government. I am optimistic that by taking the proactive measures outlined above as well as in my March 25th memorandum, we can continue to maintain the fiscal health of the County.

IL:jb

ROCKVILLE, MARYLAND

March 31, 2010

Mr. Anthony South
Executive Director
Maryland State Board of Education
200 West Baltimore Street
Baltimore, Maryland 21201

Dear Mr. South:

Pursuant to Section 5-202(d)(7) of Maryland Code, Education Article, Montgomery County requests a waiver from the State's Maintenance of Effort (MOE) requirement as defined under Section 5-202(d)(1)-(6). The basis for this request is that the County's fiscal condition significantly impedes it from funding the MOE requirement. Based on the attached email of March 24, 2010, we are providing you with the amount of the requested waiver and the percentage of the total MOE amount the waiver request represents.

The County Executive's Recommended FY11 Operating Budget includes local funding of $1,415,085,344 for K-12 public education. Montgomery County requests a waiver of its MOE requirement to permit local funding at the level of $1,415,085,344.

This amount is below the County's MOE requirement by either $138,848,943 (8.9 percent of the total MOE amount) or $58,043,862 (3.9 percent of the total MOE amount). The latter amount reflects advice rendered by Assistant Attorney General Bonnie Kirkland in a February 26, 2010 letter to Senator Richard Madaleno; in that letter Ms. Kirkland advised that $79.5 million in debt service appropriated to MCPS in FY10 should not be counted in calculating the County's MOE requirement for FY11. A copy of Ms. Kirkland's advice is attached. A final resolution of this issue, however, is not necessary for the purpose of resolving the County's request for an MOE waiver for FY11 because the waiver can be quantified at the local funding level of $1,415,085,344.

The County Executive's total FY11 Recommended operating budget for MCPS including local funding, State education aid, federal grants, and other revenues is $2,125,542,225.

Thank you for your consideration.

Sincerely,

Isiah Leggett
Montgomery County Executive

Nancy Floreen, President
Montgomery County Council

IL/NF:jb

c: Montgomery County Council
Patricia O'Neill, President, Montgomery County Board of Education
Jerry D. Weast, Ed.D, Superintendent, Montgomery County Public Schools
Richard S. Madaleno, Jr., Senator, District 18
Brian J. Feldman, Delegate, District 15

Attachments: April 1, 2010 MOE Waiver Request Filing
Letter from Assistant Attorney General Bonnie A. Kirkland, February 26, 2010

Office of the President

April 5,2010

The Honorable Valerie Ervin
Chair of the Education Committee and
Members of the Education Committee
Montgomery County Council
100 Maryland Avenue
Rockville, Maryland 20850

Dear Councilmember Ervin and Members of the Education Committee:

The County Executive's FY 2011 recommended budget provides $15 million less in county funding than the Board of Trustees' request of $108.1 million. The County Executive's recommended county funding for Fiscal Year 2011 is $93.1 *million.* The funding the County provided for Fiscal Year 2010 was *$106.5 million.* That amounts to a one-year cut of $13.4 million in county support (a loss of 12.6%); it also comes at a time when our enrollment grew by 7%. The College also lost state aid – a $2.5 million reduction to our Current fund, which brings us back to FY2008 funding levels.

To give some context, the reductions are the equivalent of eliminating all the academic programs and student services at our Germantown Campus. As closing a campus is not an option, we are seriously considering a package of targeted program cuts, furloughs, and additional tuition increases beyond those already included in our FY 2011 budget request.

Even these combined measures do not close the $15 million gap in county funding. We are concerned that additional measures beyond these will severely compromise our open access mission. So despite the enormity of the fiscal challenges facing you, we must ask you to reconsider our reduction level. We know that restoring our county aid to last year's level is not possible, given the county's fiscal situation. Rather, we ask that you consider a reduction of $7.5 million instead of $15 million. Our goal is to protect the two principles central to our mission - access and quality - while also helping to address a countywide budget problem.

We respectfully ask the County Council to restore $7.5 million in funding for these essential categories, in priority order:

1) Funds to address enrollment growth ($2.5 million)

- Montgomery College has added 4,000 students in the last five years – the equivalent of two Montgomery County high schools. Our enrollment grew again by 7% this spring. If

900 Hungerford Drive, Rockville, Maryland *20850* | *240-567-5264* | www.monrgomerycollege.edu

we are unable to hire faculty to meet the growing demand for higher education, the end result will be to offer fewer classes, which counters the promise of access that is at the core of every community college. Without additional faculty; we may also have to introduce enrollment limits in high demand, high cost programs, such as nursing and engineering.

- We would have to offer fewer Board of Trustees scholarships, which provide financial support for needy students and are a key tool in expanding access. This is especially problematic in a climate of increased tuition and fees, as well as fewer job opportunities for students, both on- and off-campus.

2) Funds to operate essential facilities ($1.9 million)
This includes funds for the new Rockville Science Center (RSC) and utilities. Delaying staffing this building means delayed access to 21st century labs for our future engineers and scientists; it also jeopardizes the timing of the renovation of Science East and West. The budget for this new building was already pared back; we reduced the staffing request and delayed the staffing needs until late in the fiscal year. It is critical to open in time for Fall 2011 classes or the following will occur:

- Academic Program:
  Increased capacity for growing enrollments in science, engineering, and mathematics would not be realized for Fall 2011, thereby resulting in a continuing pattern of turning students away from these disciplines. Without the appropriate lab set-up and staffing in the Fall, Spring 2012 enrollments will also be limited in these high demand programs.

- Future Renovation of Science East and Science West buildings:
  These buildings are crucial to enhancing the physical capacity to serve more students. If the opening of the RSC is delayed, we cannot vacate Science East for renovation; thus both Science East and Science West renovations would be deferred, causing the possible loss of State funding for these constructions projects. With delays, the design teams, architects and engineers who worked on the project may no longer be available to .oversee the actual renovations.

- Other Facilities Considerations:
  Warranty periods for all new equipment in the new Science Building will begin as soon as there is "substantial completion" of the building and will last only a fixed time, usually one year. It is critical that the expected use patterns (level of demand) be experienced during this fixed time, so that needed repairs can be identified and made at no cost.

3) Funds for academic programs and services ($2 million)
Some examples of reductions of this magnitude may include but are not limited to:

- Reduced hours of operation for key student support areas, such as the Offices of Student Financial Aid and Admissions and Enrollment Management. These reductions would result in fewer face-to-face services for students, many of whom are first generation college students who are unfamiliar with college processes.

Reduction or elimination of partnership activities with MCPS, such as the College Institute and Gateway to College, which are designed to provide seamless transition from secondary to higher education.

- Additional reduced collaborations with MCPS, including those focused on the State of Maryland PreK-20 initiatives and the MCPS Seven Keys to Success. Examples include reductions in high school assessment testing in eleventh grade, an initiative that helps students identify needs for remediation while there is still time to address those needs during high school completion. Such interventions potentially reduce the numbers of students entering Montgomery College at the developmental course level in math, English, and/or reading.

- Reduced operating hours in the campus academic support and assessment (testing) centers, including reduced tutoring services. These services are designed in part to close the achievement gap and to provide needed support, particularly in reading, English, and math, with the latter being the biggest barrier to college graduation.

- Reduced support for labs like the medical learning center at TP/SS, which could impact ultimate student success in national registry examinations required for professional practice after graduation – examinations where the average pass rate ranges from 89% to 100%, depending on the discipline.

- Reduced access to open computing labs, exacerbating the digital divide in the community, as some of our students have very limited access to computers.

- Reduced size of Montgomery College honors programs, including Montgomery Scholars, a signature program highlighted in a *New **York Times*** article about outstanding community colleges. Other examples of exemplary programs that would need to be reduced in size or eliminated include the Renaissance Scholars (part-time honors program) and Biomedical Scholars.

4) **Funds for benefit rate increases ($1.1 million)**
Benefit rate increases for existing employees and retirees total $1.1 million (excluding OPEB). It is critical we meet our benefit obligations particularly at a time when our budget includes no salary improvement and we are considering up to ten furlough days for all employees.

As the Board of Trustees indicated in the public hearing testimony, the College is committed to finding solutions to close the budget gap. Our Budget Review Advisory Committee is considering both short term and long term reductions, including program cuts and furloughs. Any discussion of furloughs must include an implementation plan that is equitable across our employee base and has minimal impact on the classroom. The Board is also revisiting the tuition increase – going beyond the $3 per credit hour increase to a total increase of $5 a credit hour for county residents (tuition would increase more for out-of-county students). For a full-time student, this would make the annual tuition and fees $4,272. We are currently the second most expensive community college in the state; this increase could make us to the most expensive.

Taken together, these actions are not sufficient to fully close a $15 million gap. Further cuts could seriously jeopardize our core principles of access and quality. That is why we urge you to give serious consideration to our list of $7.5 million in non-recommended expenditure reductions. Given the County Council's history of support for the College, we hope you can help us to sustain the educational opportunities – the opportunity to Change Lives – that we have provided Montgomery County residents for almost 65 years.

In an economy like this one where expansion of our tax base is essential, the need for an educated workforce has never been more important. We hope to be an essential part of the solution to expanding that tax base, while offering opportunities to students who might otherwise never have a chance at college. That, after all, is the heart of our mission.

Thank you for your consideration.

Sincerely,

Hercules Pinkney

Hercules Pinkney, Ed.D.
Interim President

THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION
6611 Kenilworth Avenue • Riverdale, Maryland 20737

Office of the Chairman of the Montgomery County Planning Board

MEMORANDUM

April 5, 2010

TO: Planning, Housing and Economic Development Committee
Marlene Michaelson, Senior Legislative Analyst

FROM: Royce Hanson, Chairman, Montgomery County Planning Board

SUBJECT: Materials for Budget Work Session

In preparation for the upcoming work session on April 12th, the Planning Board directed each department to develop a list of non-recommended reductions to meet the County Executive's target funding level for the Commission's FY11 Proposed Budget. The attachments to this transmittal letter provide the responses to questions prepared by each department.

The Planning Board fully understands the fiscal challenges faced by the County, and we are prepared to work together with the PHED Committee and the Council to achieve a responsible level of reductions. However, the recommendation by the County Executive will cause a severe impact on core services by eliminating and/or delaying major Council directed planning initiatives which are necessary for future economic development, cut operating and maintenance efforts to levels that will result in a significant deterioration of our park system, and cripple our administrative corporate offices' ability to provide mandated services. These reductions will be painful for the residents we serve, the communities for which we plan, and our dedicated work force that has delivered services with shrinking resources as partners in meeting savings plans on a consistent basis in the past few years.

On January 15th, the Planning Board submitted a fiscally prudent budget that is designed to maintain services at a level lower than a few years ago, but largely comparable to its FY10 budget. The proposal tentatively included COLA and merit increases based on two ratified contracts. Other increases were limited to mandated cost increases, such as annualization and benefits growth. The Commission's proposed FY11 budget assumed no pre-funding for Other Post-Employment Benefits (OPEB) for a second year. The Commission also temporarily relaxed the 80%-120% market value corridor thereby contributing less to the pension fund than the level recommended by actuaries in response to the recognized need to constrain the budget. In recent years, our departments have implemented various cost-saving strategies including organizational restructuring, retirement incentives, streamlining processes, and significantly reduced non-discretionary spending, which limit the ability to absorb further reductions without devastating service implications.

On March 15th, the Montgomery County Executive released his recommended funding level for FY11. The recommended funding level for the Commission represents **the deepest** reduction of all government entities with a reduction target of 14.1% below its FY10 budget, excluding reserves, debt services and grants (Administration Fund: -15.4%: Park Fund: -13.7%). The reduction is more than double the recommended reduction level for the County Government's tax-supported funds (-6.1%), and more than three times the recommended reduction levels for the Board of Education (-3.9%) and the Community College (-3.8%) on a percentage basis.

The County Executive's proposal represents a reduction of $20.5 million, or 18.3% (Administration Fund: -20.3%; Park Fund: -17.5%) from the Commission's proposed FY11 budget. The Commission's budget was only $106.6 million in FY10, equivalent to only 3% of the total Montgomery County budget including all entities. A reduction this deep provides very limited help in closing a nearly $780 million projected budget gap and will cause a devastating impact to the Commission's delivery of mandated core services established under State law.

The County Executive's recommendations will have severe and long-term implications on the Planning Department. The work of the Department is crucial for the County to continue and sustain its high qualify of life. Planning provides the cornerstone for job creation, economic development, housing and retail development, public health, and transportation planning. If approved by Council, almost every work program of the Planning Department will be reduced, delayed, or eliminated. This includes much needed outreach and information services, studies and analyses as well as new plans such as White Flint II, Glenmont, and Chevy Chase Lake. Protected is the long-overdue Zoning Code Revision which is well underway.

The Department of Parks has continued to operate at a reduced level of funding since FY09 while the park system continues to grow. Parks are a critical factor to the health and economic welfare of the residents of the County. To reach a funding reduction of this magnitude, the Department will be forced to substantially reduce park services, resulting in unsightly park areas, degradation of amenities, and further increases in the backlog of deferred maintenance. Stewardship of natural and cultural resources will be curtailed for non-native invasive treatments, deer management and reforestation efforts. Capital Improvement Projects to add new amenities or expand existing parks will be postponed. Park planning efforts like the Ovid Hazen Wells Recreational Park Master Plan will be deferred. Although safety will remain a priority, parks or facilities not meeting safety standards will ultimately be closed.

The level of reduction in the Central Administrative Services (CAS) departments, the employees of which serve both counties, will result in a serious decline in the mandated financial, legal and human resources services provided to the Prince George's County Planning Department and the Parks and Recreation Department as well. The attached letter from the Chairman of the Prince George's County Planning Board expresses the concerns of their Board related to the potential weakening of the corporate core which puts the organization as a whole at risk.

The non-recommended reductions include freezing vacant positions, eliminating contract employees, **eliminating COLA and merit increases for all employees** (subject to labor renegotiations), a **10-days furlough**, various other cost-saving strategies and **197 current employees (calculated based on average salary) could lose their jobs.** The anticipated level of Reduction in Force (RIF) represents one of every five employees in the existing work force on top of budgeted lapse. The number of Commission employees losing their jobs will be close to that of the entire Montgomery County Government, whose tax-supported budget is almost 13 times that of the Commission.

We recognize the extremely difficult fiscal situation and are willing to take major steps to cut expenditures and contribute our fair share in helping to address the County's fiscal challenge. However, we believe core services provided by the Commission to the counties under Article 28 should not be compromised to this extent. Our organization is comparatively small consisting of mostly personnel costs which limits our flexibility. We do not agree that shouldering a significantly higher reduction target in terms of percentage is a fair and reasonable manner in which to meet those challenges. We ask that the Council carefully consider the potential impact of the Executive's Recommendation and arrive at a more balanced approach to setting the Commission's FY 11 spending level.

We look forward to the opportunity to work with the PHED Committee and the Council to develop a more acceptable reduction level and budget plan.

Attachments

1. Letter from Prince George's County Planning Board
2. Response from the Commissioners' Office
3. Response from Central Administrative Services Departments
4. Response from Planning Department
5. Response from Department of Parks

SCHEDULE B-3

Expenditures Detailed By Agency, Fund Type, Government Function and Department

	Actual FY09	Budget FY10	Estimated FY10	Recommended FY11	% Chg Bud/Rec
MONTGOMERY COUNTY GOVERNMENT					
GENERAL FUND TAX SUPPORTED					
General Government					
County Council	8,940,757	9,057,090	8,587,630	8,372,510	-7.6%
Board of Appeals	611,910	617,520	608,510	566,390	-8.3%
Inspector General	603,862	634,730	601,850	569,000	-10.4%
Legislative Oversight	1,277,771	1,341,070	1,287,230	1,241,310	-7.4%
Merit System Protection Board	148,764	159,960	153,450	147,460	-7.8%
People's Counsel	239,348	246,520	241,120	241,230	-2.1%
Zoning and Administrative Hearings	490,754	524,440	519,940	497,590	-5.1%
Circuit Court	10,128,772	10,410,980	9,996,960	9,744,330	-6.4%
State's Attorney	12,684,217	12,148,340	11,940,040	12,005,870	-1.2%
County Executive	6,469,618	6,399,960	5,921,490	4,733,550	-26.0%
Board of Elections	9,916,836	4,468,770	5,066,150	7,975,310	78.5%
Commission for Women	1,273,461	1,197,670	1,135,600	874,410	-27.0%
County Attorney	5,819,341	5,224,980	5,215,960	4,692,810	-10.2%
Ethics Commission	279,257	272,390	292,130	0	—
Finance	9,592,918	9,751,930	9,346,040	9,514,900	-2.4%
General Services	32,367,786	27,970,950	26,521,340	23,887,780	-14.6%
Human Resources	8,759,640	8,522,410	8,246,340	5,642,840	-33.8%
Human Rights	2,300,428	2,160,810	2,041,720	2,112,510	-2.2%
Intergovernmental Relations	859,996	877,400	726,900	806,680	-8.1%
Management and Budget	3,826,525	3,703,890	3,560,370	3,301,820	-10.9%
Public Information	1,326,187	1,215,210	1,215,210	939,470	-22.7%
Public Information (MC311 Customer Service Center)	0	0	0	4,006,950	—
Regional Services Centers	4,145,100	4,140,360	3,658,260	2,757,490	-33.4%
Technology Services	32,389,997	31,844,190	30,374,880	26,303,520	-17.4%
Total General Government	***154,453,245***	***142,891,570***	***137,259,120***	***130,935,730***	***-8.4%***
Public Safety					
Consumer Protection	2,567,048	2,442,010	2,348,320	2,077,310	-14.9%
Correction and Rehabilitation	66,640,253	65,414,400	64,753,180	62,457,100	-4.5%
Emergency Management and Homeland Security	1,249,733	1,346,940	1,156,890	1,319,600	-2.0%
Police	235,431,978	246,262,150	236,833,250	236,657,190	-3.9%
Sheriff	20,286,876	20,631,770	20,379,000	19,854,660	-3.8%
Total Public Safety	***326,175,888***	***336,097,270***	***325,470,640***	***322,365,860***	***-4.1%***
Transportation					
Public Works and Transportation	0	0	0	0	—
Transportation	52,997,997	46,573,220	44,117,620	35,812,430	-23.1%
Total Transportation	***52,997,997***	***46,573,220***	***44,117,620***	***35,812,430***	***-23.1%***
Health and Human Services					
Health and Human Services	190,088,359	194,074,350	187,943,500	173,558,430	-10.6%
Libraries, Culture, and Recreation					
Public Libraries	37,752,633	37,569,400	34,894,860	29,212,390	-22.2%
Community Development and Housing					
Economic Development	8,408,186	7,628,240	7,232,900	6,239,730	-18.2%
Housing and Community Affairs	5,275,278	5,066,790	4,803,170	3,859,710	-23.8%
Total Community Development and Housing	***13,683,464***	***12,695,030***	***12,036,070***	***10,099,440***	***-20.4%***
Environment					
Environmental Protection	4,012,226	3,013,960	2,755,260	1,936,460	-35.8%
Other County Government Functions					
Non-Departmental Accounts	118,516,137	110,230,320	108,636,220	117,737,630	6.8%
Utilities	25,521,020	27,282,900	27,682,900	29,823,370	9.3%
Total Other County Government Functions	***144,037,157***	***137,513,220***	***136,319,120***	***147,561,000***	***7.3%***
TOTAL GENERAL FUND TAX SUPPORTED	**923,200,969**	**910,428,020**	**880,796,190**	**851,481,740**	**-6.5%**
SPECIAL FUNDS TAX SUPPORTED					
General Government					
Urban Districts	7,537,469	7,932,220	7,569,200	7,378,470	-7.0%
Public Safety					
Fire and Rescue Service	191,604,135	192,974,090	191,235,140	187,967,970	-2.6%
Transportation					
Transportation	0	0	0	0	—
Transit Services	109,985,968	108,457,800	108,263,160	101,051,430	-6.8%
Total Transportation	***109,985,968***	***108,457,800***	***108,263,160***	***101,051,430***	***-6.8%***
Libraries, Culture, and Recreation					
Recreation	30,112,053	30,528,520	29,248,950	25,962,640	-15.0%
Community Development and Housing					
Economic Development Fund	674,192	852,440	2,032,490	852,440	—
TOTAL SPECIAL FUNDS TAX SUPPORTED	**339,913,817**	**340,745,070**	**338,348,940**	**323,212,950**	**-5.1%**

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FY11 FEE AND FINE CHANGES*			
DEPARTMENT/FEE AND FINE	**FY11 REVENUE CHANGE**	**METHOD OF CHANGE**	**NOTE**
MONTGOMERY COLLEGE			
Tuition rate increase	2,100,000	Board of Trustees action	Increase per semester hour rate from $102 to $105 for County residents, $209 to $215 for State residents, and $284 to $293 for non-residents.
ENVIRONMENTAL PROTECTION			
Water Quality Protection Charge	847,610	Council Resolution	Increase from $45.50 per equivalent unit (ERU) to $49.00 per (ERU) to cover increased expenditures in the Water Quality Protection Fund.
FIRE RESCUE SERVICE			
Ambulance/Emergency Transport Fee	14,700,000	Executive Regulation	To provide needed resources for MCFRS.
PUBLIC LIBRARIES			
Library Holds Not Picked Up	10,000	Library Board Approved	A new fine for placing holds and not picking them up.
RECREATION			
Activity Fees	50,000	Executive Regulation 12-05 Method 3	Charge an annual fee of $25 per person for Silver Sneakers Program
TRANSIT SERVICES			
Ride On Bus Fare	615,000	Council Resolution	Increase regular cash fare or token to $1.45, the regular fare paid with SmarTrip to $1.35, the express route cash fare to $3.20 and express routes SmarTrip fare to $3.10, the Metrorail-to Ride On bus transfer to $0.85 and the regional one day pass to $3.20. Effective 3-1-10
Ride On Bus Fare	905,000	Council Resolution	Increase regular cash fare or token to $1.60, the regular fare paid with SmarTrip to $1.50, the express route cash fare to $3.35 and express route SmarTrip fare to $3.25, the Metrorail-to-Ride On bus transfer to $1.00 and the regional one day pass to $3.50. Effective 7-4-10
DEPARTMENT OF TRANSPORTATION			
Parking Fines	980,940	Council Resolution	Raise all parking fines by $5 except those for parking in a fire lane or handicapped space, or illegal commercial vehicle parking. Effective 4-1-10
Parking Fees - Bethesda	670,600	Council Resolution	Raise Lon-Term Parking Fee from $0.65 Per Hour to $0.75 Per Hour
Parking Fees - Silver Spring	798,000	Council Resolution	Raise Long-Term Parking Fee from $0.50 Per Hour to $0.60 Per Hour
Decrease Vacuum Leaf Collection Fees	-370,060	Council Resolution	Decrease single family charge per household from $93.96 to $88.91 and decrease multi-family charge per unit from $4.06 to $3.83.
SOLID WASTE SERVICES			
Decrease Solid Waste Collection Fee	7,250	Council Resolution	Decrease single family charge per household from $75 to $74; increase in revenue due to increased number of households.
GRAND TOTAL	**21,314,340**		

*** All changes are assumed to be effective July 1, 2010 except as noted.**

Revenues above do not include implementation costs.

OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

April 6, 2010

TO: Interested Readers

FROM: Joseph F. Beach, Director

SUBJECT: FY11-16 Fiscal Plan

Executive Summary:

As with each of the operating budgets he has transmitted to the County Council, the County Executive's highest priority was to produce a fiscally sound and sustainable budget that preserves public safety services, education, and the County's safety net for its most vulnerable residents. The FY11 budget process was uniquely challenging because of the continued, sharp decline in tax revenues and State aid and the government's response to emergencies including the H1N1 outbreak and the record snow storms this winter, which combined to increase the projected budget gap to an historic level of nearly $780 million.

The Executive's recommended budget, released on March 15, 2010, closed this unprecedented budget gap and maintained property taxes at the Charter limit.[1] Since release of the operating budget, additional information[2] became available which led the County Executive on March 25 to recommend additional actions to improve the County's reserves. As part of this plan, the Executive recommended an additional increase to the Energy Tax, and he also recommended implementing the rate increase in FY10. In addition, $3 million was released from the FY10 supplemental appropriation set-aside, and $3.7 million in certain planned non-tax supported transfers were accelerated into FY10. In total, these actions will increase reserves by $48.4 million in FY11, and are reflected in the fiscal plans in this document.

The Executive's recommended budget includes a $693 credit for each owner-occupied residence which keeps property taxes at the Charter limit and supports a progressive property tax structure in the County. The budget reduces overall spending by 3.8 percent, the only time the total operating

[1] 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.

[2] The County's unemployment rate increased from 5.2 percent to 6.2 percent, Anne Arundel County's bond rating was downgraded, and rating agency feedback in connection with an upcoming bond sale reflected significant concerns with the County's reserve levels.

budget has decreased since the adoption of the current Charter in 1968. Tax supported spending across all agencies decreases $166 million, or 4.3 percent, while the County government tax supported budget decreases $76.5 million, or 6.1 percent compared to FY10. This pullback in spending, a continuation of the trend begun by this Executive when he took office three years ago, is necessary to correct the structural imbalance in the operating budget by bringing current and expected expenditures into alignment with revenues.

While this budget repositions Montgomery County for the future, it is unlikely these measures to restrain spending are complete with the FY11 operating budget. Given the severity of the recession, depressed employment levels, and the lag in revenue growth, FY12 and perhaps ensuing fiscal years will require continued restructuring of County expenditures, especially personnel costs which comprise 80 percent of County costs. Significant fiscal pressures remaining on the horizon include rising employee compensation and benefit costs, continued pre-funding of retiree health insurance expenses, increased demand for new and expanded services or restoration of service reductions, the impact on the operating budget from capital investment, and continued economic stagnation.

This challenge is evident in the current projected FY12 budget gap, not including potential additional reductions in Federal and State Aid, further complicating the County's ability to plan for the FY11-16 period. The Executive is addressing this long term structural imbalance by engaging our partners in Montgomery County Public Schools, Montgomery College, Maryland-National Capital Park and Planning Commission, and the Washington Suburban Sanitary Commission to establish a cross-agency committee that will be charged with developing resource sharing ideas and implementation strategies in areas such as information technology, space utilization, fleet management, utilities, facilities planning and design, construction and maintenance, training, and other administrative services.

Background:

The recommended FY11-16 Fiscal Plans for the tax supported and non-tax supported funds of the agencies of County government are provided for your information. Portions of this material were initially published in the FY11-16 Recommended Operating Budget and Public Services Program (March 15, 2010).[3] As in past years, this information is intended to assist the County Council and other interested parties review the County Executive's recommended budget during the Council's budget worksessions this spring.

Interested readers should note that the fiscal plans included in this publication are not intended to be prescriptive, but are instead intended to present one possible outcome of policy choices regarding taxes, user fees, and spending decisions. Other important assumptions are explained in footnotes at the bottom of each fiscal plan display. One significant benefit of presenting multi-year projections is that the potential future year impacts of current policy decisions can be considered by decision makers when making fiscal decisions in the near term. The Executive's fiscal policies support:

- prudent and sustainable fiscal management: constraining expenditure growth to expected resources;
- identifying and implementing productivity improvements;
- avoiding the programming of one-time revenues to on-going expenditures;
- growing the local economy and tax base;

[3] In addition to these two documents, the reader is encouraged to review other County fiscal materials such as the Comprehensive Annual Financial Report for the year ended June 30, 2009; the Annual Information Statement published by the Department of Finance on January 15, 2010; and Economic Indicators data. Budget and financial information for Montgomery County can also be accessed on the web at www.montgomerycountymd.gov.

- obtaining a fair share of State and Federal Aid;
- maintaining prudent reserve levels;
- minimizing the tax burden on residents; and
- managing indebtedness and debt service very carefully.

Because of the loss of more than $320 million in projected revenues since approval of the FY10 budget last May and the record cost of snow removal this winter, estimated to exceed $60 million, the Executive found it necessary to again recommend certain measures that he had strongly resisted in the past. The Executive recommends removing $31.5 million in PAYGO[4] and deferring the scheduled $64 million increase for retiree health insurance pre-funding. In addition, the Executive recommends withdrawing from the Revenue Stabilization Fund enough funds to maintain a positive FY10 year end fund balance in the County's General Fund.[5] These measures were necessary to balance the FY10 and FY11 budgets and avoid even more reductions to critical government programs and services. The Executive recommends replacement of these resources to their policy levels as quickly as possible.

Fiscal Plan for the Tax Supported Funds:

The recommended fiscal planning objectives for FY11-16 for the tax supported funds are:

- Adhere to sound fiscal policies.
- Tax supported reserves (operating margin and the Revenue Stabilization Fund) are recommended to be restored to the policy level of 6 percent of total resources in FY11[6] and maintained at the policy level in FY12-16 of the fiscal plan.
- Maintain property taxes at the Charter limit by providing a $693 credit to each owner-occupied household.
- Assume property tax revenues at the Charter Limit during FY12-16 in the fiscal plan using the income tax offset credit.
- Manage fund balances in the non-tax supported funds to established policy levels where applicable.
- Assume current State aid formulas, but continue successful strategies to increase State (and Federal) operating and capital funding.
- Maintain priority to economic development and tax base growth:
  - Seize opportunities to recruit and retain significant employers compatible with the County's priorities;
  - Give priority to capital investment that supports economic development/tax base growth.
- Maintain essential services.
- Limit exposure in future years to rising costs by controlling baseline costs and allocating one-time revenues to one-time expenditures, whenever possible.
- Manage all debt service commitments very carefully, consistent with standards used by the County to maintain high credit ratings and future budget flexibility. Recognize the fixed commitment inherent

[4] Current revenue that is substituted for debt in capital projects that are debt eligible or used in projects that are not debt eligible or qualified for tax-exempt financing is referred to as PAYGO, or "pay as you go" funding. The County's policy is to program at least 10 percent of planned General Obligation bond issues as PAYGO in the capital budget.

[5] This withdrawal was approximately $102 million in the March 15 operating budget. As a result of the additional actions recommended by the Executive on March 25, the withdrawal is now approximately $71.6 million.

[6] Reserves were initially assumed to be 5 percent of total resources in the March 15 operating budget, but were increased to the policy level as a result of the additional actions recommended by the Executive on March 25.

in all forms of multi-year financing (long-term bonds, shorter-term borrowing, and lease-backed revenue bonds) that must be accommodated within limited debt capacity.

- Program PAYGO to be at least 10 percent of anticipated General Obligation Bond levels to contain future borrowing costs in FY12-16.
- For capital investment, allocate debt, current revenue, and other resources made available by the fiscal objectives above according to priorities established by policy and program agendas.
- For services, allocate resources consistent with policy and program agendas.

The major challenges for FY11-16 will be to contain on-going costs, preserve essential services, and make improvements in other services including public safety, education, the social safety net, affordable housing, and transportation, as the local economy continues to recover from the recession.

Fiscal Plans for the Non-Tax Supported Funds:

By definition, each of the non-tax supported (fee-supported) funds is independent, covering all operating and capital investment expenses from its designated revenue sources. The fiscal health of each fund is satisfactory, though looking ahead some funds will need to meet expected challenges by rate adjustments and/or expenditure management decisions. One continuing challenge for some of these funds relates to the impact of pre-funding retiree health insurance costs.

Conclusion:

Montgomery County's long term fiscal health is strong as a result of its underlying economy and the financial management policies endorsed by its elected officials. Nonetheless, the County continues to face significant challenges in the years ahead. The FY11-16 Fiscal Plans reflect these challenges in their assumptions and projections.

Comments on the Fiscal Plans that follow are encouraged as opportunities for improvement. Office of Management and Budget and Finance staffs of the County government, and Finance staff of the other agencies, are available to assist in the Council's deliberations.

JFB:ae

Attachment: FY11-16 Fiscal Plan for Montgomery County, Maryland

c: Isiah Leggett, County Executive
Members, Montgomery County Council
Timothy L. Firestine, Chief Administrative Officer
Dr. Jerry D. Weast, Superintendent, MCPS
Dr. Hercules Pinckney, Interim President, Montgomery College
Royce Hanson, Chair, Montgomery County Planning Board
Jerry N. Johnson, General Manager, WSSC
Annie B. Alston, Executive Director, Housing Opportunities Commission
Keith Miller, Executive Director, Revenue Authority
Jennifer Barrett, Director, Department of Finance
Kathleen Boucher, Assistant Chief Administrative Officer
Stephen Farber, Council Staff Director

March 15, 2010

County Executive's Recommended FY11-16 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

	App. FY10	Est. FY10	% Chg. FY10-11	Rec. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
	5-21-09	3-15-10	Rec/Bud	3-15-10										
Total Resources														
Revenues	3,804.9	3,654.3	-0.3%	3,793.6	2.9%	3,903.5	3.6%	4,044.2	4.2%	4,214.1	5.1%	4,429.3	4.1%	4,612.2
Beginning Reserves Undesignated	115.5	110.2	-48.7%	59.3	135.1%	139.4	35.2%	188.6	6.1%	200.0	5.5%	210.9	6.4%	224.5
Beginning Reserves Designated	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Net Transfers In (Out)	37.2	51.4	-12.2%	32.7	-57.0%	14.0	2.4%	14.4	2.6%	14.8	2.8%	15.2	3.0%	15.6
Total Resources Available	3,957.7	3,815.9	-1.8%	3,885.6	4.4%	4,056.9	4.7%	4,247.1	4.3%	4,428.8	5.1%	4,655.4	4.2%	4,852.3
Less Other Uses of Resources (Capital, Debt Service, Reserve)	362.2	289.2	29.6%	469.5	23.5%	579.9	10.8%	642.6	9.8%	705.6	5.0%	741.0	0.6%	745.8
Available to Allocate to Agencies	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**1.8%**	**3,477.0**	**3.7%**	**3,604.5**	**3.3%**	**3,723.2**	**5.1%**	**3,914.4**	**4.9%**	**4,106.6**
Agency Uses														
Montgomery County Public Schools (MCPS)	2,020.1	1,989.9	-3.9%	1,940.5	5.8%	2,053.3	5.8%	2,172.6	5.8%	2,298.8	5.8%	2,432.4	5.8%	2,573.7
Montgomery College (MC)	217.5	214.5	-3.8%	209.2	6.0%	221.9	6.0%	235.3	6.0%	249.5	6.0%	264.6	6.0%	280.5
MNCPPC (w/o Debt Service)	106.6	103.2	-14.1%	91.6	3.8%	95.1	3.8%	98.8	3.9%	102.6	3.9%	106.5	3.9%	110.6
MCG	1,251.2	1,219.1	-6.1%	1,174.7	5.1%	1,235.1	5.1%	1,298.6	5.1%	1,365.3	5.1%	1,435.5	5.1%	1,509.3
Subtotal Agency Uses	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**5.5%**	**3,605.4**	**5.5%**	**3,805.2**	**5.5%**	**4,016.2**	**5.5%**	**4,239.0**	**5.5%**	**4,474.1**
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)				-		**53.2**		**64.8**		**76.4**		**87.7**		**92.1**
Montgomery College (MC)				-		**1.0**		**1.2**		**1.3**		**1.4**		**1.5**
MNCPPC (w/o Debt Service)				-		**4.4**		**5.1**		**5.6**		**6.1**		**6.4**
MCG				-		**25.0**		**31.5**		**38.4**		**44.6**		**46.8**
Subtotal Retiree Health Insurance Pre-Funding				-	-	**83.6**	-	**102.6**	-	**121.7**	-	**139.8**	-	**146.8**
Subtotal Other Uses of Resources (Capital, Debt Service, Reserve)	362.2	289.2	29.6%	469.5	23.5%	579.9	10.8%	642.6	9.8%	705.6	5.0%	741.0	0.6%	745.8
Total Uses	**3,957.7**	**3,815.9**	-1.8%	**3,885.6**	9.9%	**4,268.9**	6.6%	**4,550.4**	6.4%	**4,843.5**	5.7%	**5,119.7**	4.8%	**5,366.7**
(Gap)/Available	**-**	**-**		**0.0**		**(212.0)**		**(303.3)**		**(414.7)**		**(464.3)**		**(514.3)**

Notes:

1. **FY12-16 property tax revenues are at the Charter Limit assuming a tax credit.**
2. **Projected FY12-16 Agency Uses assume average 10-year rate of growth.**
3. **Reserves are restored to the policy level of 6% of total resources in FY12-16.**
4. **PAYGO restored to policy level in FY12-16.**
5. **Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12.**

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March 25, 2010

County Executive's Recommended FY11-16 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

	App. FY10	Est. FY10	% Chg. FY10-11	Rec. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
	5-21-09	3-31-10	Rec/Bud	3-31-10										
Total Resources														
Revenues	3,804.9	3,667.9	0.5%	3,825.5	2.9%	3,935.3	3.6%	4,076.0	4.2%	4,245.9	5.1%	4,461.2	4.1%	4,644.1
Beginning Reserves Undesignated	115.5	110.2	-57.3%	49.3	182.8%	139.4	1.7%	141.8	6.1%	150.4	7.1%	161.1	8.4%	174.7
Beginning Reserves Designated	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Net Transfers In (Out)	37.2	55.2	-22.3%	28.9	-64.7%	10.2	2.5%	10.5	2.6%	10.7	2.8%	11.0	3.0%	11.4
Total Resources Available	3,957.7	3,833.3	-1.4%	3,903.7	4.6%	4,085.0	3.5%	4,228.3	4.2%	4,407.1	5.1%	4,633.3	4.2%	4,830.1
Less Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	306.5	34.6%	487.6	9.3%	533.1	11.2%	593.0	10.6%	655.9	5.4%	691.2	0.7%	696.0
Available to Allocate to Agencies	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**4.0%**	**3,551.8**	**2.3%**	**3,635.2**	**3.2%**	**3,751.2**	**5.1%**	**3,942.1**	**4.9%**	**4,134.1**
Agency Uses														
Montgomery County Public Schools (MCPS)	2,020.1	1,989.9	-3.9%	1,940.5	5.8%	2,053.3	5.8%	2,172.6	5.8%	2,298.8	5.8%	2,432.4	5.8%	2,573.7
Montgomery College (MC)	217.5	214.5	-3.8%	209.2	6.0%	221.9	6.0%	235.3	6.0%	249.5	6.0%	264.6	6.0%	280.5
MNCPPC (w/o Debt Service)	106.6	103.2	-14.1%	91.6	3.8%	95.1	3.8%	98.8	3.9%	102.6	3.9%	106.5	3.9%	110.6
MCG	1,251.2	1,219.1	-6.1%	1,174.7	5.1%	1,235.1	5.1%	1,298.6	5.1%	1,365.3	5.1%	1,435.5	5.1%	1,509.3
Subtotal Agency Uses	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**5.5%**	**3,605.4**	**5.5%**	**3,805.2**	**5.5%**	**4,016.2**	**5.5%**	**4,239.0**	**5.5%**	**4,474.1**
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)				-		**53.2**		**64.8**		**76.4**		**87.7**		**92.1**
Montgomery College (MC)				-		**1.0**		**1.2**		**1.3**		**1.4**		**1.5**
MNCPPC (w/o Debt Service)				-		**4.4**		**5.1**		**5.6**		**6.1**		**6.4**
MCG				-		**25.0**		**31.5**		**38.4**		**44.6**		**46.8**
Subtotal Retiree Health Insurance Pre-Funding				-	-	**83.6**	-	**102.6**	-	**121.7**	-	**139.8**	-	**146.8**
Subtotal Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	306.5	34.6%	487.6	9.3%	533.1	11.2%	593.0	10.6%	655.9	5.4%	691.2	0.7%	696.0
Total Uses	**3,957.7**	**3,833.3**	-1.4%	**3,903.7**	8.2%	**4,222.1**	6.6%	**4,500.8**	6.5%	**4,793.7**	5.8%	**5,069.9**	4.9%	**5,316.9**
(Gap)/Available	-	-		-		**(137.2)**		**(272.6)**		**(386.7)**		**(436.6)**		**(486.8)**

Notes:

1. **FY12-16 property tax revenues are at the Charter Limit assuming a tax credit.**
2. **Revenues reflect higher Energy Tax rate increase recommended by the County Executive on March 25, 2010.**
3. **Projected FY12-16 Agency Uses assume average 10-year rate of growth.**
4. **Reserves are increased to the policy level of 6% of total resources in FY11 as a result of the Energy Tax increase and are maintained at that level in FY12-16.**
5. **PAYGO restored to policy level in FY12-16.**
6. **Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12.**

Balanced Fiscal Plan Scenario

County Executive's Recommended FY11-16 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

	App. FY10	Est. FY10	% Chg. FY10-11	Rec. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
	5-21-09	3-31-10	Rec/Bud	3-31-10										
Total Resources														
Revenues	3,804.9	3,667.9	0.5%	3,825.5	2.9%	3,935.3	3.6%	4,076.0	4.2%	4,245.9	5.1%	4,461.2	4.1%	4,644.1
Beginning Reserves Undesignated	115.5	110.2	-57.3%	49.3	182.8%	139.4	1.7%	141.8	6.1%	150.4	7.1%	161.1	8.4%	174.7
Beginning Reserves Designated	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Net Transfers In (Out)	37.2	55.2	-22.3%	28.9	-64.7%	10.2	2.5%	10.5	2.6%	10.7	2.8%	11.0	3.0%	11.4
Total Resources Available	3,957.7	3,833.3	-1.4%	3,903.7	4.6%	4,085.0	3.5%	4,228.3	4.2%	4,407.1	5.1%	4,633.3	4.2%	4,830.1
Less Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	306.5	34.6%	487.6	9.3%	533.1	11.2%	593.0	10.6%	655.9	5.4%	691.2	0.7%	696.0
Available to Allocate to Agencies	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**4.0%**	**3,551.8**	**2.3%**	**3,635.2**	**3.2%**	**3,751.2**	**5.1%**	**3,942.1**	**4.9%**	**4,134.1**
Agency Uses														
Montgomery County Public Schools (MCPS)	2,020.1	1,989.9	-3.9%	1,940.5	1.8%	1,975.2	2.1%	2,017.0	3.0%	2,077.5	5.0%	2,181.8	5.1%	2,293.7
Montgomery College (MC)	217.5	214.5	-3.8%	209.2	2.0%	213.4	2.3%	218.4	3.2%	225.5	5.3%	237.3	5.4%	250.0
MNCPPC (w/o Debt Service)	106.6	103.2	-14.1%	91.6	-0.1%	91.5	0.2%	91.7	1.1%	92.7	3.1%	95.6	3.2%	98.6
MCG	1,251.2	1,219.1	-6.1%	1,174.7	1.1%	1,188.1	1.5%	1,205.5	2.3%	1,233.9	4.4%	1,287.6	4.5%	1,345.1
Subtotal Agency Uses	**3,595.4**	**3,526.7**	**-5.0%**	**3,416.1**	**1.5%**	**3,468.2**	**1.9%**	**3,532.6**	**2.7%**	**3,629.5**	**4.8%**	**3,802.4**	**4.9%**	**3,987.4**
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)				-		**53.2**		**64.8**		**76.4**		**87.7**		**92.1**
Montgomery College (MC)				-		**1.0**		**1.2**		**1.3**		**1.4**		**1.5**
MNCPPC (w/o Debt Service)				-		**4.4**		**5.1**		**5.6**		**6.1**		**6.4**
MCG				-		**25.0**		**31.5**		**38.4**		**44.6**		**46.8**
Subtotal Retiree Health Insurance Pre-Funding				-	-	**83.6**	-	**102.6**	-	**121.7**	-	**139.8**	-	**146.8**
Subtotal Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	306.5	34.6%	487.6	9.3%	533.1	11.2%	593.0	10.6%	655.9	5.4%	691.2	0.7%	696.0
Total Uses	**3,957.7**	**3,833.3**	-1.4%	**3,903.7**	4.6%	**4,085.0**	3.5%	**4,228.3**	4.2%	**4,407.1**	5.1%	**4,633.3**	4.2%	**4,830.1**
(Gap)/Available	-	-		-		-		-		-		-		-

Notes:

1. **FY12-16 property tax revenues are at the Charter Limit assuming a tax credit.**
2. **Revenues reflect higher Energy Tax rate increase recommended by the County Executive on March 25, 2010.**
3. **Reserves are increased to the policy level of 6% of total resources in FY11 as a result of the Energy Tax increase and are maintained at that level in FY12-16.**
4. **PAYGO restored to policy level in FY12-16.**
5. **Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12.**
6. **Projected FY12-16 rate of growth of Agency Uses is adjusted to balance the fiscal plan in FY12-16.**

OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

MEMORANDUM

March 24, 2010

TO: Jerry Weast, Superintendent, Montgomery County Public Schools
Hercules Pinkney, Interim President, Montgomery College
Royce Hanson, Chairman, Montgomery County Planning Board
Jerry Johnson, General Manager, Washington Suburban Sanitary Commission
Steve Farber, Staff Director, Office of the County Council

FROM: Timothy L. Firestine, Chief Administrative Officer

SUBJECT: Cross-Agency Resource-Sharing Committee

Thank you for your participation in the Cross-Agency Resource-Sharing discussion on February 3rd. These are difficult times and the financial challenges before us are significant. As we agreed, the current budget situation offers us an opportunity to reexamine the way in which County government functions in order to be more efficient and effective. This is a great opportunity to work together and reach an unprecedented level of collaboration and partnership towards structurally improving our long-term budget challenges. To this end, I am offering the following for your review and comments before we formalize this process:

Overall Purpose: The purpose of the Cross-Agency Resource Sharing Committee is to provide a forum for coordination among Montgomery County agencies that seeks to share ideas/best practices, develop potential resource-sharing strategies to achieve operational efficiencies, reduce costs, and improve the quality of services offered to our residents.

Organizational Framework: It is essential that we create a framework that encourages cooperation and collaboration among our employees involved in this process, and also leverages the expertise of our organizations in a manner that generates new and creative ideas and fosters strong working relationships among our agencies. Therefore, I propose a two-tier organizational framework that contains an Executive Committee that is accountable for achieving results in a timely and transparent fashion, and a number of workgroups that will apply their expertise to sharing ideas and generating solutions to pressing issues faced by all of our agencies.

Executive Committee: The executive Committee will be composed of the following members with the authority to convene meetings on a quarterly basis, provide direction and act on the recommendations of each of the workgroups, and render decisions on future action items. The Executive Committee will also appoint representatives from their agency to serve on each of the workgroups.

- Timothy Firestine, Chief Administrative Officer, Montgomery County Government
- Jerry Weast, Superintendent, Montgomery County Public Schools
- Hercules Pinkney, Interim President, Montgomery College
- Royce Hanson, Chairman, Montgomery County Planning Board
- Jerry Johnson, General Manager, Washington Suburban Sanitary Commission
- Steve Farber, Staff Director, Office of the County Council

Workgroups: The workgroups will be composed of a representative from each of the agencies. Each workgroup will nominate a member to serve as the Workgroup Chair, who will have the responsibility of guiding overall efforts and reporting on the group's progress to the Executive Committee. The workgroups will meet on as-needed basis, to complete action items and foster the creation of new ideas.

Workgroups' Focus Areas: As we agreed at our February 3rd meeting, the initial cross-agency resources-sharing efforts will be focused on the following areas:
1. Information Technology – *utilize ITPCC*
2. Utilities – *utilize ICEUM*
3. Facilities Planning, Design, Construction and Maintenance
4. Procurement – *utilize IPACC*
5. Space Utilization
6. Fleet
7. Mailing, Printing and Document Management
8. Employees and Retirees Benefit Plans (health, retirement, etc.)
9. Administrative Functions (payroll, budget, finance, training, etc.)

<u>Next Steps</u>:

- By Friday, April 9th, members of the Executive Committee will come to agreement on the above-proposed organizational framework and workgroups' focus areas and designate representatives to serve on each of the eight workgroups.

- By the end of April, convene the first Cross-Agency Resource-Sharing Executive Committee kick-off meeting to provide direction and discuss the overall purpose, process and timelines for this effort. Select a chairperson for each of the workgroups.

- In order to encourage ideas from those with the greatest knowledge of their subject matter, initial action items and charge statements should be devised by each workgroup and subsequently presented to the Executive Committee at its first quarterly update meeting. Each workgroup should generate a list of both short-term (able to complete within one year) and long-term action items that will focus the efforts of each group. In addition to preparing action items, each workgroup should create a specific charge statement to guide their efforts. These charge statements could change from year to year as the workgroups prioritize different aspects of their specific topic areas.

- On quarterly basis, the Executive Committee meets to receive updates, provide directions and discuss progress made by each workgroup.

- In addition, I suggest we reach out to the community at large (business, residential, non-profit) to seek their input and guidance in this effort.

I look forward to working with you on this initiative. Please review the above-proposed process, provide any comments/suggestions you have about the process, as well as the name of the representative you designate to serve on each of the eight workgroups to Assistant Chief Administrative Officer Fariba Kassiri via e-mail at Fariba.Kassiri@montgomerycountymd.gov by Friday, April 9th. Upon receipt, she will compile and send you a complete package and notify you of the date and time of our first Executive Committee kick-off meeting. She can be reached by phone at (240) 777-2512 if you have any questions or need additional information.

Thank you for your help in this important effort. I believe we all see opportunities for greater efficiencies and I am hopeful that working together we can make these improvements for the good of our community.

TLF:st

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MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

OFFICE OF THE COUNCIL PRESIDENT

MEMORANDUM

March 15, 2010

TO: Councilmembers

FROM: Nancy Floreen, Council President

SUBJECT: Assessment of Montgomery County's Structural Budget Deficit

As you know, a structural budget deficit exists when ongoing expenditures consistently exceed ongoing revenues, even in periods of relative prosperity. The deficits that governments face today are not only cyclical – the result of the worst recession since the Great Depression – but structural as well. The federal government and many state and local governments, including the State of Maryland and Montgomery County, now confront deficits of both kinds. Many of us have raised this issue.

The County Executive's recommended FY11 operating budget and FY11-16 Fiscal Plan confirm this point. To close a gap most recently projected at $779 million, equal to about one-fifth of the approved aggregate operating budget for FY10, the Executive has proposed service reductions, position abolishments, furloughs, and departures from County fiscal policies on a scale that we have never seen before. But the FY11-16 Fiscal Plan shows that even after such actions to achieve a balanced budget in FY11 have been taken, large gaps in future years will persist – including FY12, when federal stimulus dollars will run out. The gaps projected for FY12-16, respectively, are currently estimated to exceed $212, $303, $417, $464, and $514 million.

Besides resolving the acute FY11 budget challenge that is now before us, we need to address the chronic budget challenges that lie ahead. I believe that we must address at least three central questions:

1. What are the assumptions behind the Executive's future year gap projections?
2. What are the cost drivers associated with the structural deficit in future years?
3. What policy and budget options are available going forward to address the structural deficit?

To start this process, I will ask the Office of Legislative Oversight to develop a recommended scope of work to answer these three questions. With regard to timetable, I suggest that the Council formally approve a project assignment to OLO at the time we approve the FY11 budget in late May, and that the project be completed by early December, when the new Council will take office. I believe that this project has the potential to produce not only useful information but real results.

As we move forward, answering these questions will require the Council to consult with the Executive and the leadership of MCPS, the College, and Park and Planning, as well as our employee organizations and community stakeholders. Please get back to me by the end of the week with your thoughts and suggestions on this proposal.

MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

OFFICE OF THE COUNCIL PRESIDENT

MEMORANDUM

March 31, 2010

TO: Councilmembers

FROM: Nancy Floreen, Council President nf

SUBJECT: Council Approach to the FY11 Recommended Operating Budget

The recommended operating budget for FY11 is the product of hard work by the Executive and his staff. Based on past experience, the Council will support many of the Executive's budget proposals, but we will also make our own funding decisions. While this budget poses historic challenges, together we will do our best to protect essential services, the safety net, and taxpayers alike.

On the revenue side, we will decide what changes in fees and taxes we will support and how they should be structured. On the expenditure side, we will start with the approved FY10 budget and determine what changes should be made. Once the FY11 State budget is final, we will assess any further impacts on the County budget. We will also identify resources for Council grants to non-profit organizations that are providing assistance to individuals and families in crisis.

I suggest that we ask our analysts and Committees, as they review the base budget and proposed changes for departments and agencies, to consider what was included in the FY10 approved budget, what has been added through supplementals (very little this year) or reduced in the FY10 savings plans, and what changes are being proposed to existing programs. For County Government, this information is summarized in three places: the "FY11 recommended changes" cross-walk for each department, OMB's monthly position report for FY10, and Council staff's weekly update of FY10 supplemental appropriations. For each budget, our analysts and Committees can then assess:

- which items – either in the base or new – warrant full, reduced, or no funding in FY11 (I am advocating carefully targeted rather than across-the-board percentage cuts);
- which items may warrant future funding but require further information and analysis; and
- which items that are recommended for elimination or reduction, or that are not in the recommended budget, should be considered for funding.

All such items will be reflected in Committee recommendations to the Council and in our regular budget tracking reports. **Any Committee-proposed additions to the recommended budget will go on our reconciliation list. Given the current fiscal situation, this list should consist only of those items that Councilmembers feel have top priority and should at least be offset by Committee-recommended reductions.** Committees should look surgically for savings as they review the proposed budget. When the full Council takes up Committee recommendations, we will decide how those recommendations fit with the Council's overall priorities.

Please let me know if you have questions about the approach I am suggesting here. Also, please raise any issues that you feel should be part of our upcoming review of the County's structural deficit. I look forward to working with you as we transform the Executive's recommended budget into the Council's approved budget.

c: Steve Farber, Karen Orlansky, Analysts, Confidential Aides

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MONTGOMERY COUNTY

11TH ANNUAL

BUSINESS ADVISORY PANEL

FEBRUARY 26, 2010

FINDINGS OF THE ELEVENTH ANNUAL BUSINESS ADVISORY PANEL FEBRUARY 26, 2010

Pursuant to Article XI, Section 20-61 of the Montgomery County Code, the Department of Finance (Department) convened a meeting of the Business Advisory Panel (BAP) on February 26, 2010. The County Council of Montgomery County established the BAP in 1999 to seek the advice of industry experts in key sectors of the County's business community concerning the current and future state of the County's economy. The law requires that the Director of the Department of Finance convene the panel annually and relay the panel's advice to the County Executive and the County Council. This report provides such advice.

The BAP consisted of members representing real estate, technology, finance, academia, and government and trade associations. The meeting was structured to allow participants to brief the panel on the local economic trends and to share their insights about future economic prospects in the County. The participants also discussed the Department's economic assumptions for the next six fiscal years. For purposes of this report, the results of the discussions are presented in two parts. The first part discusses the participants' professional judgments about the County's economy and the Department's economic assumptions. The second section discusses the participants' points about their respective industry sectors.

I. Current Economic Condition and Future Economic Assumptions

The participants were asked to provide comments to a paper prepared by the Department that analyzed the County's economy and provided assumptions about the economic outlook for the next six years. The paper analyzed a number of economic indicators including employment, personal income, real estate, inflation, construction, and interest rates. Because of the current national and regional economic climate, a majority of the discussion by the participants focused on the outlook for the region's economy.

The Center for Regional Analysis (CRA), George Mason University, presented a perspective on the national, regional, and Montgomery County economy. CRA stated that the national recession has been over for seven or eight months ending in either May or June of last year. The composite of national economic leading indicators has increased each month for the past eleven months (April – February) and gross domestic product (GDP) is expected to increase three percent during the first quarter of this year. The second quarter's GDP will be stronger than the first and will be a better indicator of future economic growth. The inventory cycle is ending, and the manufacturing index (Institute for Supply Management) has increased since May of last year. However, there are still weak sectors in the economy.

While some of the economic sectors are doing better, it is the labor market that is the last sector to recover. The decline in national unemployment rate to 9.7 percent in January is not a trend, and job growth will get worse before it gets better. The national unemployment rate will be between 8.8 and 9.0 percent one year from now. When the job market improves, CRA suggests that the housing market also will improve. Finally, while the economy begins to

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recover and expand, the fiscal recovery will not commence until eighteen to twenty-four months later.

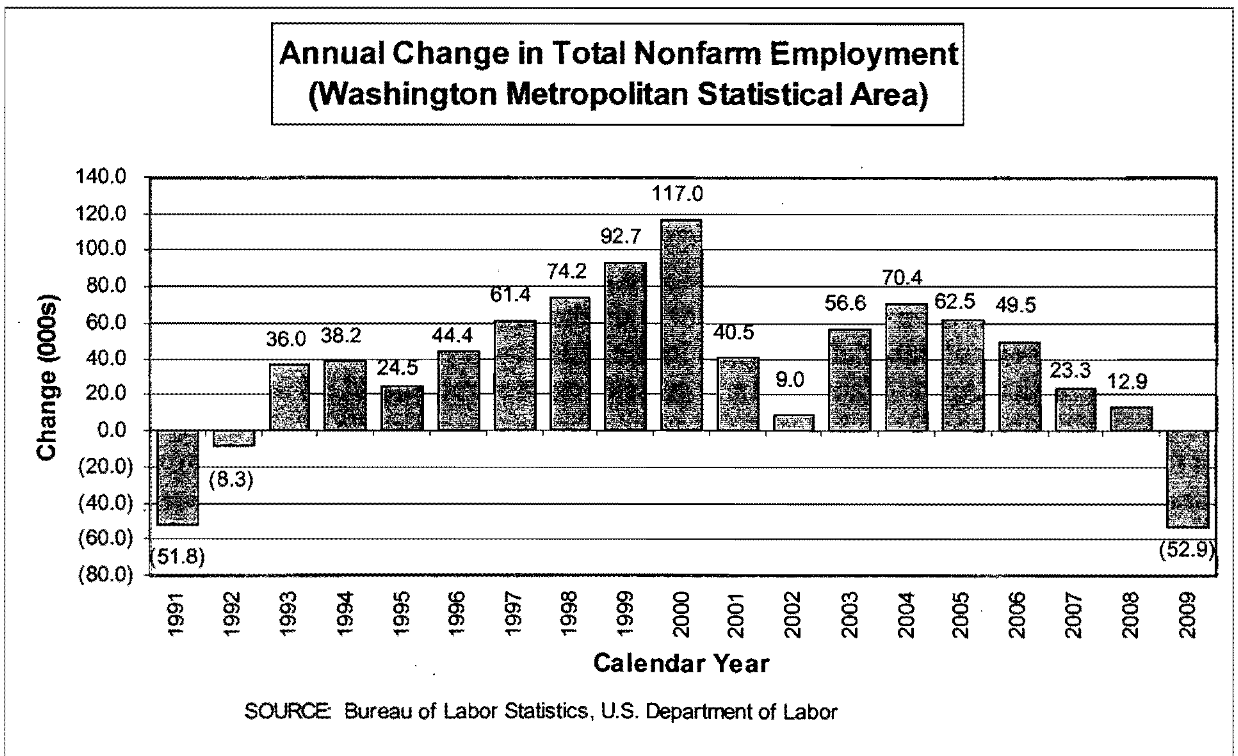
The region's economy lost jobs during the past year. There are 50,000 more unemployed in the area compared to one year ago. Construction and retail sectors are still losing jobs while health and education, a sub-sector of professional services, and government are gaining jobs.

Post-meeting Update

Since the meeting of the Business Advisory Panel in late February, the Bureau of Labor Statistics, U.S. Department of Labor, revised the establishment series, i.e., non-farm employment data, starting with April 2008. While the revisions do not change the points discussed or conclusions reached during the meeting, it is appropriate to present those revisions.

Salient points about the revisions include:

- The metropolitan region lost nearly 53,000 jobs in 2009. That decline is the largest decrease in 20 years of record keeping by BLS. Each of the major sectors except three lost jobs during the period: retail (↓1,800 jobs), construction (↓23,400), financial services (↓6,800 jobs), business services excluding the scientific and technology sub-sector (↓10,500), and the leisure sector (↓4,200). Three sectors gained jobs in 2009: business services – scientific and technology (↑2,300 jobs), education and health services sector (↑9,400), and government (↑14,000).



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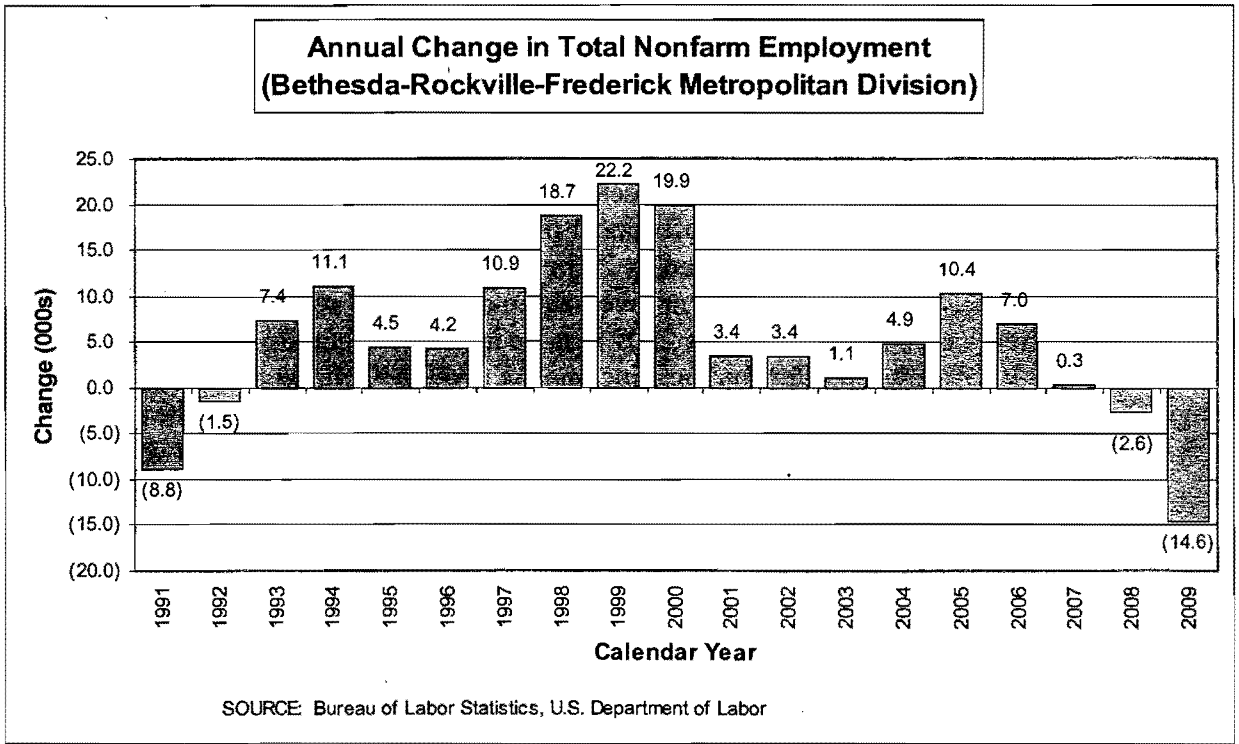
- The Bethesda-Rockville-Frederick metropolitan division, a portion of the metropolitan region, lost nearly 15,000 jobs in 2009. Similar to the metropolitan region, each of the major sectors except for three mentioned earlier shed jobs during this period. Construction led the decrease (↓6,200 jobs) followed by retail (↓4,600), then business professional services excluding scientific and technology sub-sector (↓2,400). Financial activities (↓1,900) and leisure sector (↓1,000) round out the declines. Three sectors, business professional services – scientific and technology (↑900 jobs), education and health services sector (↑2,000) and government (↑2,000) were the only major sectors to add jobs. The decline in non-farm employment of nearly 15,000 was the largest decline since BLS has data about the metropolitan division since 1990.



- Secondly, the unemployment rate for the metropolitan region jumped from 5.6 percent in January 2009 to 6.9 percent in January of this year. Employment based on the labor force series, i.e., survey of households, for the metropolitan region shows the same trend as the establishment series. Over the past year, the number of residents employed declined from 2,913,899 in 2008 to a preliminary 2,832,287 – a decline of over 81,000. However, BLS is in the process of revising this series, therefore, the resident employment for 2008 and 2009 may be adjusted over the next few months.

Finally, the CRA discussed factors that could lead to growth in the metropolitan region and Montgomery County. Those factors include the addition of top-end jobs, specifically in the scientific and technology services sector, and an increase in the number of part-time jobs. Montgomery County, in the opinion of the CRA, is reverting to a more suburban environment – more residential and less non-residential.

The representative from the Washington Metropolitan Council of Governments (COG) discussed recent developments in commercial construction. According to COG's latest report (June-July 2009), there were 402 new commercial projects started in the Washington metropolitan area. Those projects will add approximately 37.3 million square feet of office space at a cost of $6.3 billion. Of the new starts, office space is the dominant sector. Between 2007 and 2008, the amount of new construction increased nearly 4.5 million square feet or 14 percent. Additional commercial space doubled in the jurisdictions of Arlington County, Fairfax County, the City of Alexandria, and the District of Columbia between 2007 and 2008. COG estimates that there were fewer projects undertaken in 2009.

After CRA's and COG's presentations, the participants discussed the economic outlook for Montgomery County. The major discussion point regarding the County's economy is: where is the sustainable growth engine for the County, i.e., what private sectors are the sources for job growth? Currently, the public sector is the only source of growth in the County. Because of this concern about private sector growth, the discussion also questioned Finance's assumptions of growth in payroll employment in 2011 and beyond. While the payroll data showed an increase in professional services in 2009, that increase occurred in the scientific and technology sub-sector. According to participants, some professional firms are downsizing at an unprecedented rate. Law firms in particular have downsized by 20 percent. Only those companies that have a presence in international markets will see improvement in companies' revenues. It appears from the discussion that tax revenues for tax year 2009 may be just as challenging as the previous year. This outlook will have an effect on local income tax revenues. Since capital gains recognition experienced a significant decline in 2008, that loss will carry forward for the next few years. As such, tax revenues will lag behind the overall economy for the next two years.

After the discussion of the County's economic outlook, the discussion focused on specific industry sectors of the County's economy.

II. Specific Industry Sectors

Residential and Commercial Real Estate

The first sector that the participants discussed was the current situation in the housing and commercial real estate markets. To date, home sales are up 22 percent and average home prices are down 14 percent. Because of the dramatic increase in home sales, inventories have declined 46 percent. The inventory-to-sales ratio for existing homes averaged slightly above 3 months during the second half of 2009 and the number of days on the market averaged 84 days during the second half of last year compared to 102 days during the same period in 2008. The participants suggested that home prices have stabilized and are cautiously optimistic that the housing market will rebound in terms of sales and prices. One indicator of a rebound in the market is that nationally homebuilders are in the demand for lots, which could be viewed as an early precursor for a rebound in residential construction. However, employment is the major economic driver in home sales. Unless the employment situation begins to improve both locally and nationally, the housing market may experience only modest improvement over the short term.

The participants also discussed the current and future state of the commercial real estate market. The first topic discussed was the outlook for companies and commercial space. According to the participants, one-third of the businesses are giving up space. Three biotechnology companies no longer have facilities in the County. Vacancies are up and rents are down. For example, one twenty-one year tenant and another seventeen-year tenant have closed. The commercial market is witnessing under-leveraged/under-financed tenants, tighter financial rules such as letters of credit and bridge financing, more companies moving into Class B space, and tenants downsizing. Overall there will be less construction square footage per person in the County.

The discussion then focused on the County's growth philosophy and regulatory environment--specifically the permitting and inspection process. The participants contend that permits are too expensive and take too long to obtain. The concerns expressed by participants relate to what are perceived as new or stepped up enforcement actions by the Departments of Permitting Services and Fire and Rescue Services, which the participants view as unreasonable. Specific examples were provided about the effects that the permitting process has on the costs of construction by changing the original permitting orders. Participants asserted that the environmental designs imposed on new construction do not consider costs and the water quality standards imposed by the State add to the costs with no apparent benefit. [[Note: Interdepartmental meetings are in progress to address the concerns raised, and a recent change in the State regulations for water quality will provide some relief.]]

Hotel Industry

There will be an increase in the supply of hotel rooms in the County. Specifically, Hilton is planning to build 3 to 4 hotels which will add 400 rooms to the current supply. However, there have been challenges to the hotel industry during the past three years. The occupancy rate declined from 65 percent in calendar 2006 to 61 percent in 2009. Revenue per available room (REVPAR) was down from $83 per room in 2006 to $77 in 2009. Business activity in the County has remained flat for the last 3 to 5 years, and hotel activity in Rockville is down 20 percent. Because of the weak activity, there has been a job freeze in the industry for the past twelve months.

Financial Sector

Even with the credit crisis, banks that specialize in the commercial sector are lending to small businesses. Not all community banks are at risk and commercial real estate (CRE) is not an issue among some of the banks. However, if a bank has 300 percent of its capital reserves in CRE, they are considered at risk. Large commercial banks have invested in apartment buildings and large strip malls, but not all banks lend to such ventures. The issue in lending activity is not the supply of funds but the fall in demand. Most of the demand is from individuals or businesses moving from one lender to another. Banks, particularly community banks, have come under greater scrutiny and therefore conduct more sensitivity analysis in terms of reserve requirements for CRE loans.

Other Sectors

The participants from the health and professional business sectors provided an assessment of their industry and companies. The health sector in the economy has experienced an increase in demand but revenues and profitability are down. As discuss earlier, the employment situation in the health services sector has been "protected" from the economic downturn. Salaries are scheduled to increase between 1 and 1.5 percent for health employees, excluding management, and productivity has also increased. On the demand side, there is anticipated a six-fold increase in capacity for senior patients and an increase in in-patient and emergency cases. The challenge in the County is the supply of medical facilities to meet the growing demand. The participants stated that while some hospital facilities are expanding, there is a need for another hospital in the County.

The professional business sector, especially the science and technology sub-sector, is also experiencing growth. One of the businesses has renewed its lease and will increase employee salaries beginning this spring. Sales are expected to increase by 9 percent after being flat last year.

III. Other Comments and Conclusions

Overall, the participants were mixed in their outlook for the County's economy. One participant was slightly bullish about the local economy especially in the Rockville area. Business to government is positive while the participants were pessimistic about business to business activity and very pessimistic about business to consumer. While the small banks are increasing their lending to small businesses, the participants commented that there is weak demand for loans. While the economic cycle has improved starting the latter part of last year, the fiscal-revenue cycle may not improve until late 2011 or even later. If such conditions occur, the outlook for local revenue growth, particularly with the income tax, could remain weak over the next few fiscal years.

Attendees
Business Advisory Panel
February 26, 2010

Mr. Lawrence N. Rosenblum, CPA
Grossberg Company, LLP

Mr. Scot R. Browning
President and CEO
Capital Bank

Mr. Gary Vogan
Chief Financial Officer
Holy Cross Hospital

Mr. Michael Moran
Chief Executive Officer
Greater Capital Area Association of Realtors

Ms. Kelly Groff
Executive Director
Conference and Visitors Bureau
of Montgomery County, MD, Inc.

Mr. Chris Zindash
General Manager
Crowne Plaza

Dr. Stephen S. Fuller
Director, The Center for Regional Analysis
School of Public Policy
George Mason University

Mr. Greg Goodwin
Regional Planner
Department of Human Services, Planning and Public Safety
Metropolitan Council of Governments

Mr. Paul Chod
Corporate President, General Partner of Real Estate affiliates
Minkoff Development Corporation

Mr. Bradley Chod
Vice President
Minkoff Development Corporation

Ms. Sally Sternbach
Executive Director
Rockville Economic Development, Inc.

Mr. John Muir
Senior Vice President
Hughes Network Systems

Mr. Bryant Foulger
Vice President
Foulger Pratt Companies

Ms. Lisa Fadden
Vice President, Public Affairs
Montgomery County Chamber of Commerce

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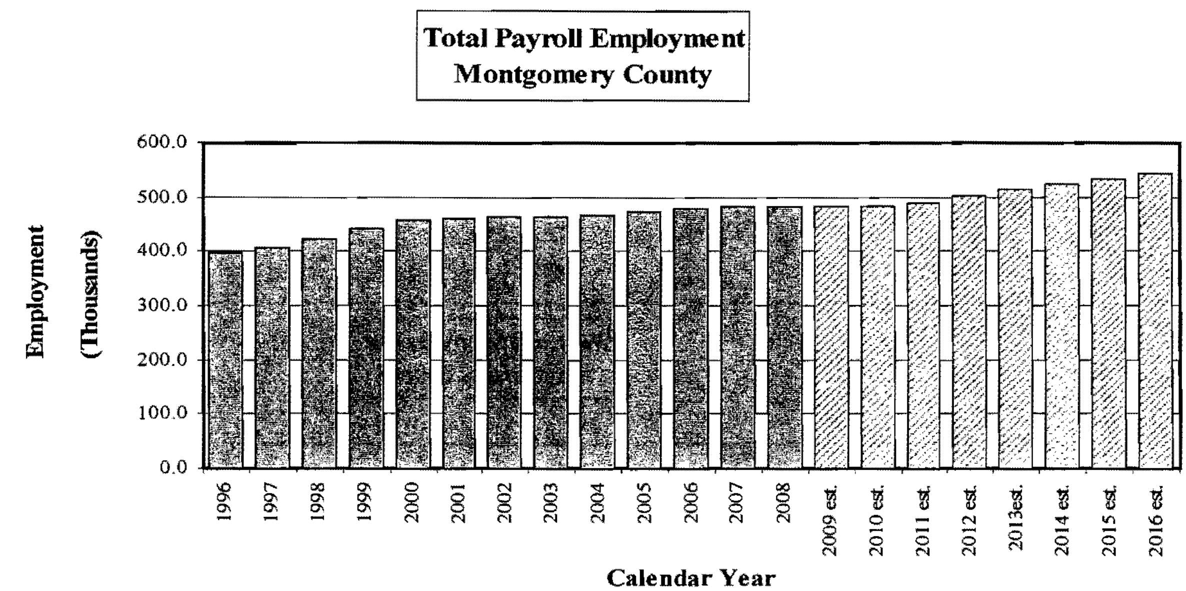
ECONOMIC CONDITIONS AND OUTLOOK

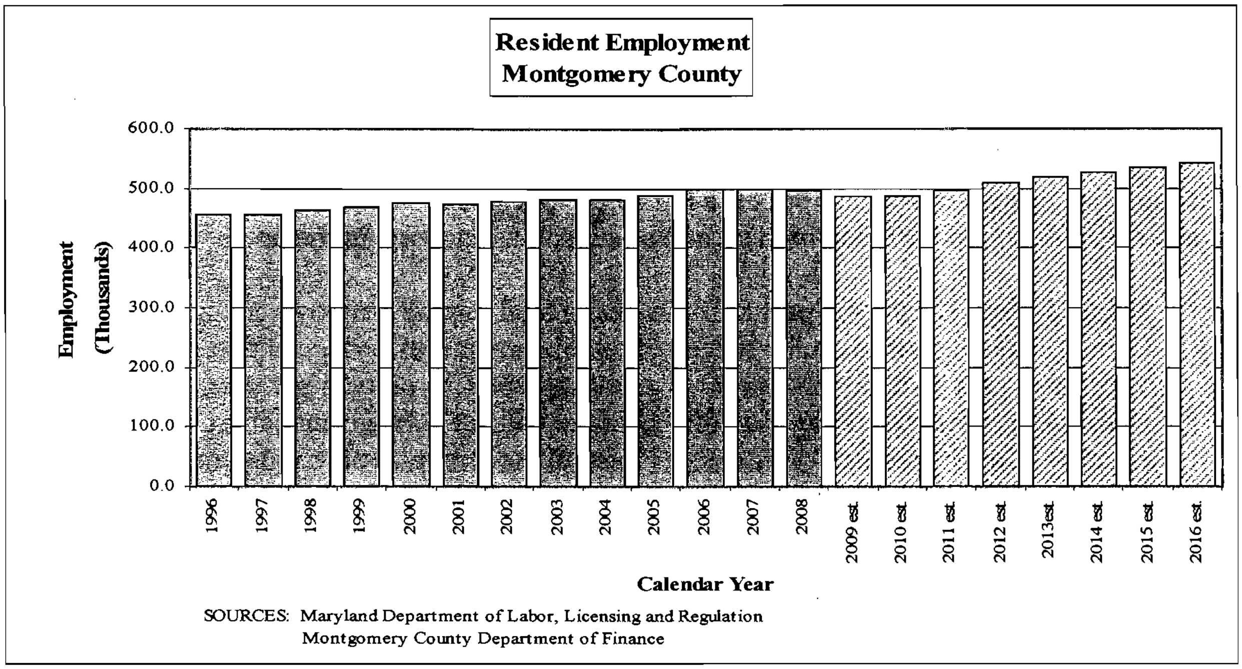
Impacted by the national recession, Montgomery County's economy continued to experience a slowdown in 2009. The primary reasons for the economic slowdown were the continuing decline in housing prices, a reduction in residential and non-residential construction, and a decline in resident employment and as a result an increase in the unemployment rate.

Employment. During the past fourteen years, total payroll employment in Montgomery County, which is based on the survey of establishments, experienced two distinct cycles: significant growth from 1996 to 2000 an average of 3.59 percent per year, and a period a weak growth between 2000 and 2009 estimate with an average annual growth rate of 0.55 percent. The Department of Finance (Finance) assumes payroll employment to grow, on average, 1.73 percent per year between 2009 and 2016. In terms of the number of jobs added to the County's total payroll employment, an average of 8,757 jobs per year is estimated between 2009 and 2016 with most of that growth occurring between 2012 and 2014.

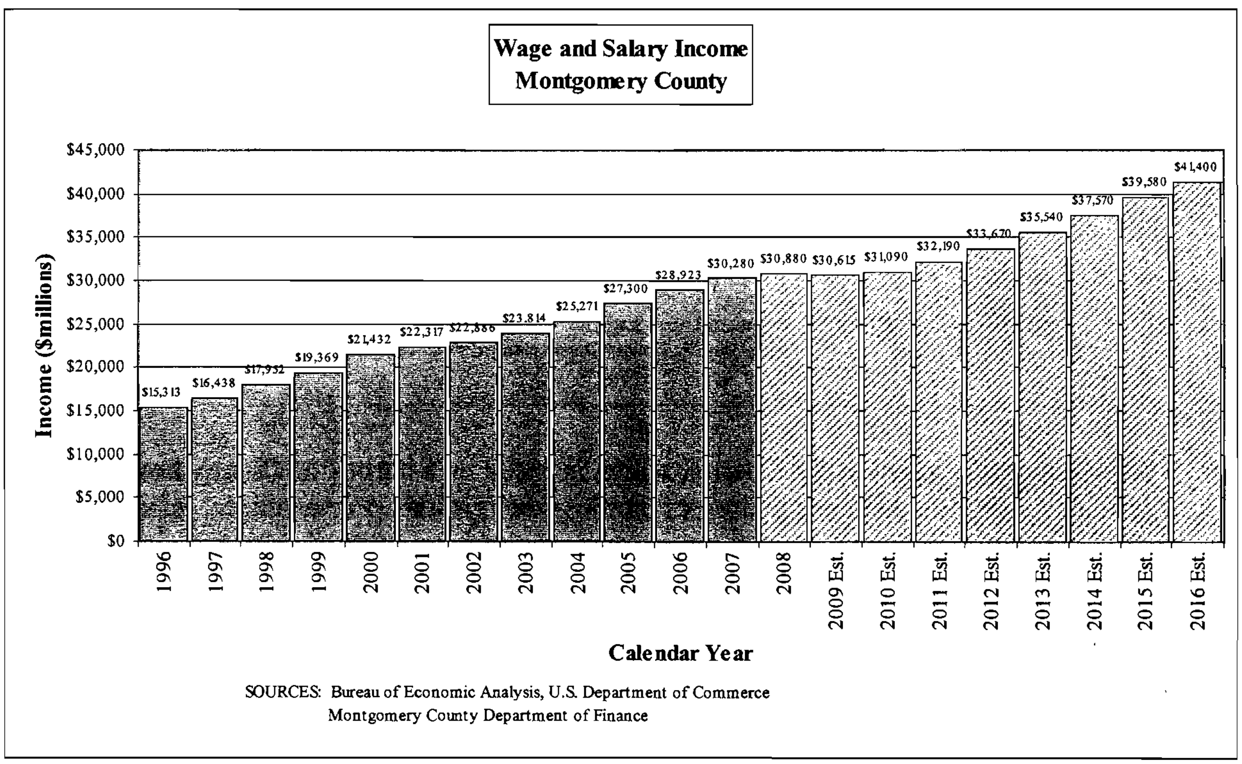


SOURCES: Bureau of Labor Statistics, U.S. Department of Labor
Montgomery County Department of Finance

Resident employment in the County, which is based on a survey of County households, provides a slightly different picture of employment growth. For example, resident employment grew only 1.10 percent, on average, between 1996 and 2000 (compared to the 3.59 percent for payroll employment). Following declines in employment between 2007 and 2009 estimate, Finance assumes that employment is expected to increase at an average annual rate of 1.56 percent from 2009 to 2016.



Finance expects that wage and salary income to grow, on average, 4.41 percent per year between 2009 and 2016, with total wage and salary income reaching $41.4 billion dollars by 2016.



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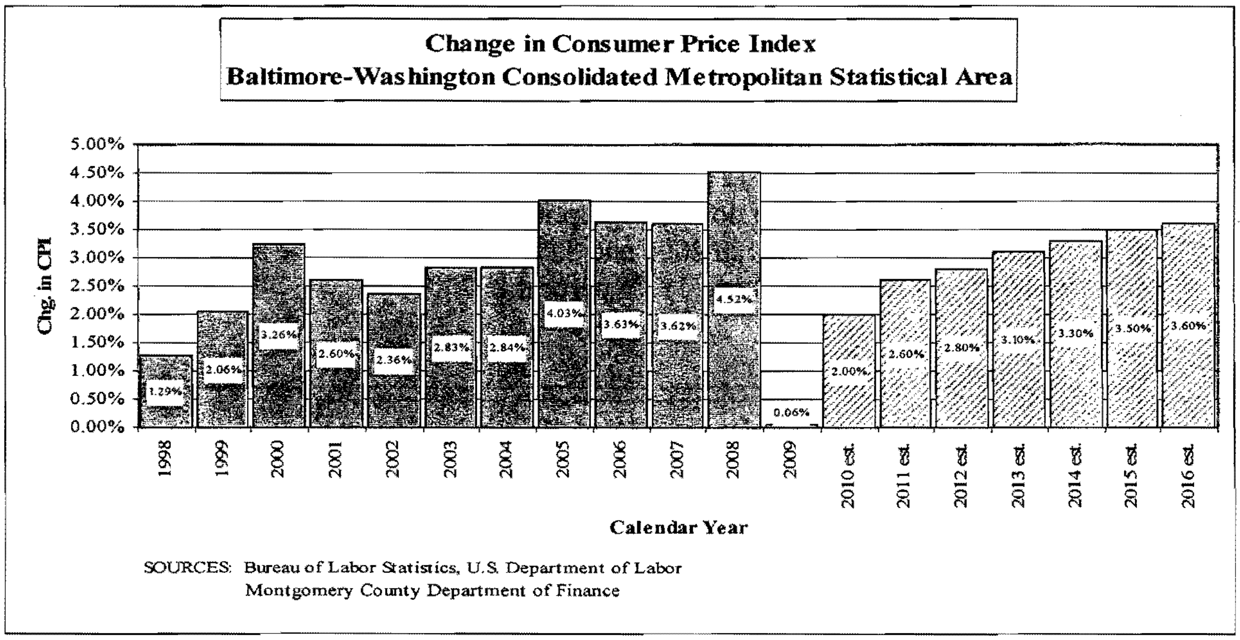
- ***Personal Income.*** Finance estimates that total personal income will grow at an average annual rate of 4.46 percent from 2009 to 2016, which is lower than the thirteen-year average between 1996 and 2009 (5.63%). By 2016, Finance assumes that total personal income will reach $89.7 billion.

- ***Inflation (annual average).*** As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore Consolidated Statistical Metropolitan Area was above the national average in 2009 (0.06% compared to -0.57% through November, respectively). While the low inflation rate was largely attributed to a decline in energy prices during 2009, the "core" inflation rate, which is the CPI excluding the volatile food and energy prices, increased 1.88 percent for the region through November compared to the nation's 1.72 percent. Finance assumes that overall inflation, which is the percent change in the annual regional index, will gradually increase from 2.00 percent in 2010 to 3.60 percent by 2016.



- ***Interest Rates.*** From September 2007 to December 2008, the Federal Reserve Board, through its Federal Open Market Committee, aggressively cut the target rate on federal funds from 5.25 percent to a range of 0.00-0.25 percent. The ten rate cuts were in response to the credit crisis that has significantly affected the financial markets (both bonds and stock markets) and the national economy since the summer of 2007. Based on data from the Federal Funds futures market (Chicago Board of Trade), Finance assumes that the FOMC will maintain its current position of an effective target rate of 0.00-0.25 percent through the first three quarters of this year at which time interest rates may increase modestly during the final quarter. Since the yield on the County's short-term investments are highly correlated with the federal funds rate, Finance estimates that the County will earn an average of 0.35 percent on its short-term portfolio for fiscal year (FY) 2010 and 1.50 percent for FY2011.

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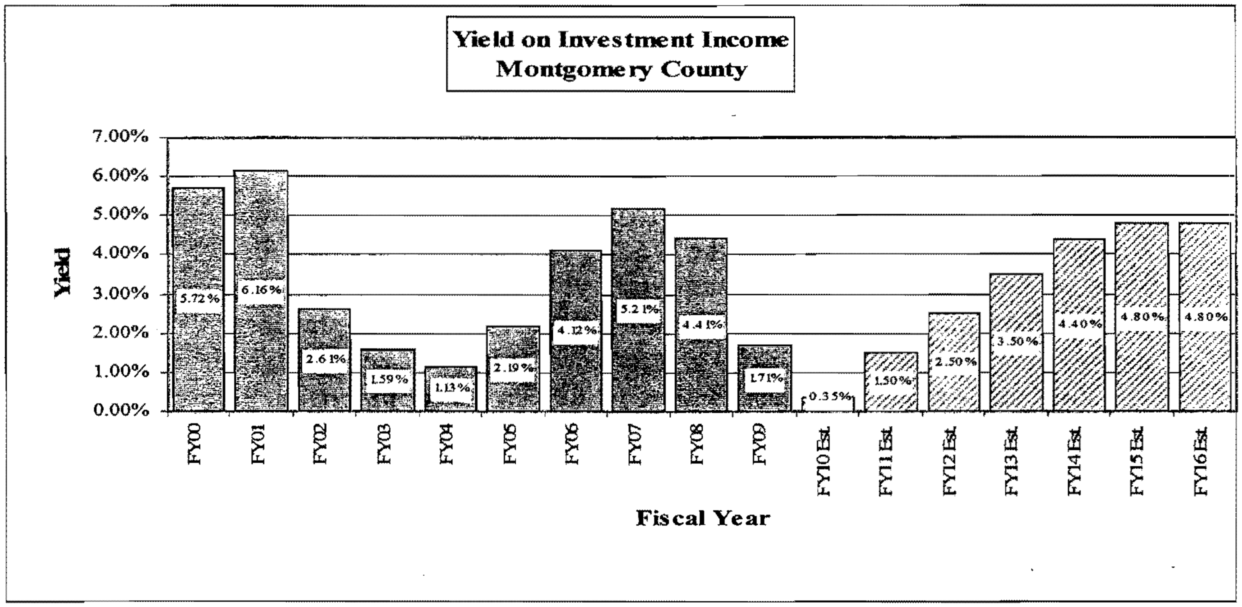
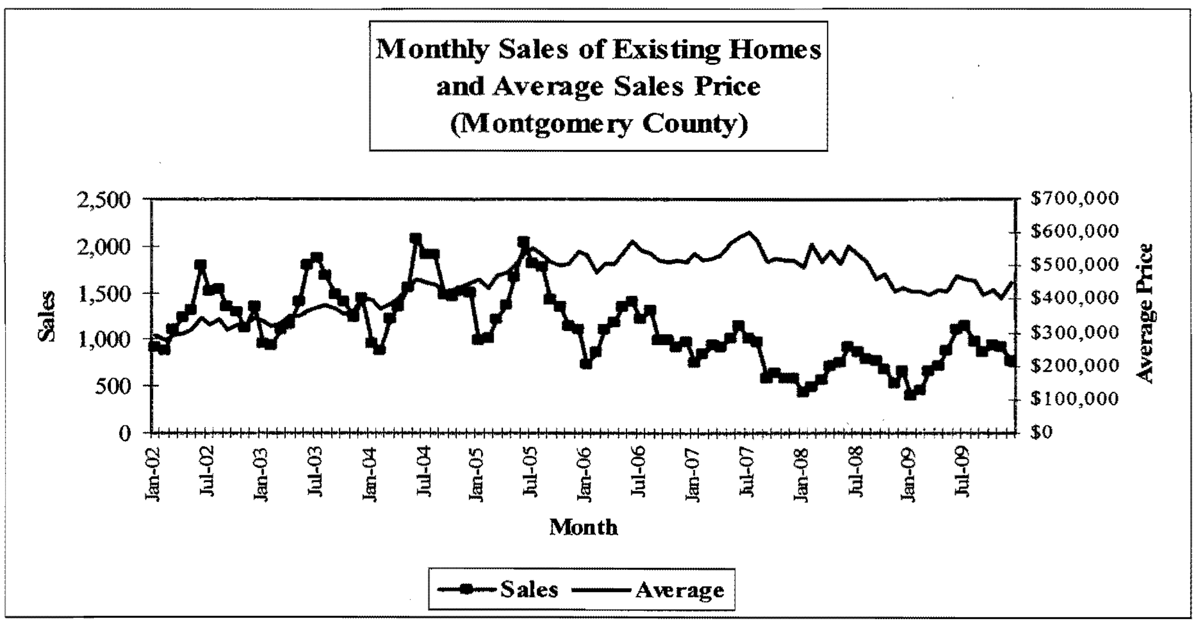


- ***Real Estate Market.*** The housing market in Montgomery County experienced two different trends in 2009: 1) a dramatic increase in home sales since March 2009, and 2) a continued decline in the average sales price. Existing home sales increased 20.08 percent in 2009 which followed declines of 23.45 percent and 18.25 percent in 2007 and 2008, respectively. After four consecutive years of double-digit price increases between 2002 and 2005 and modest increases of 4.4 percent in 2006 and 3.6 percent in 2007, the average selling price decreased 7.56 percent in 2008 and 13.75 percent in 2009.



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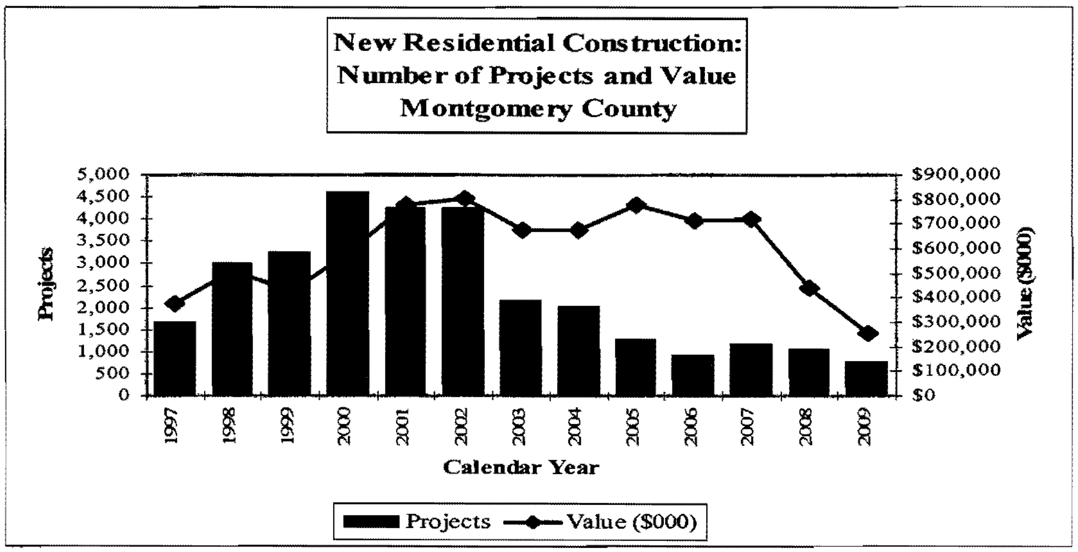
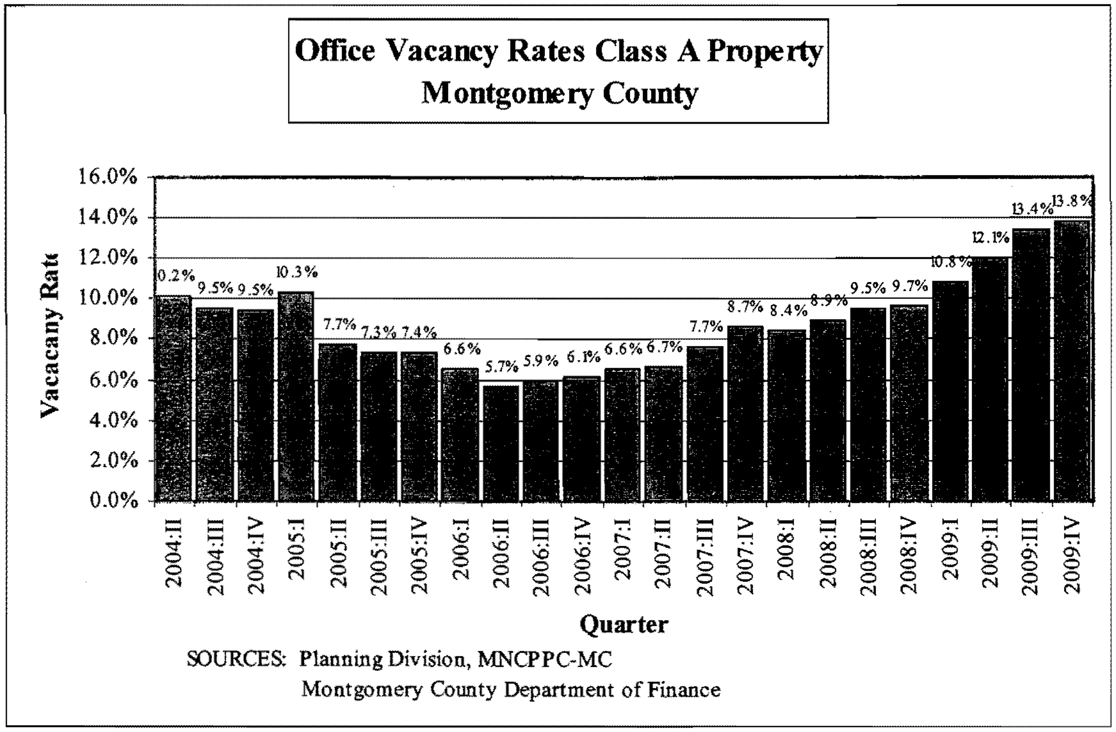
- ***Construction.*** Construction is a cyclical activity that can have a significant effect on a local economy and employment owing to secondary and tertiary effects on construction supply and service industries. Permits and starts are key indicators of the near-term economic condition of the housing industry and are considered crucial indicators for the local economy. Of lesser note, new single-family home sales and construction outlays are important indicators for monitoring the level of current investment activity. Construction starts measure initial activity as opposed to permits, which measure planned activity. However, permits and starts closely track each other and therefore, a four-month moving average provides a more reliable indicator of the housing trend compared to month-to-month changes. The primary source of construction data is McGraw-Hill Construction, formerly known as Dodge Analytics.

The value of additional residential property declined 41.59 percent, which followed a decrease of 39.00 percent in 2008. The value of new residential construction stood at $256.6 million in 2009, which was significantly below the previous five-year average of $665.3 million.



The value of new non-residential construction in the County added to the property tax base decreased 39.67 percent in calendar year 2009 from $569.5 million to $343.6 million. The dramatic decreased in the value was led by commercial construction ($323.1 million in 2008 compared to $127.3 million in 2009 - ↓60.60%). The value of other non-residential construction, which includes manufacturing, education and science, hospital and health treatment facilities, added to the property tax base decreased 12.2 percent in 2009 from $246.4 million to $216.3 million.

The decline in non-residential construction can be attributed to an increase in the vacancy rate for Class A property during 2009 reaching its highest level of 13.8 percent by the fourth quarter. While that rate is the same as the regional average, it represents an uninterrupted series of increases for the County that began in the first quarter of 2008.



Office Vacancy Rates Class A Property
Montgomery County
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Vacacany Rate
10.2%
9.5%
9.5%
10.3%
7.7%
7.3%
7.4%
6.6%
5.7%
5.9%
6.1%
6.6%
6.7%
7.7%
8.7%
8.4%
8.9%
9.5%
9.7%
10.8%
12.1%
13.4%
13.8%
2004:II
2004:III
2004:IV
2005:I
2005:II
2005:III
2005:IV
2006:I
2006:II
2006:III
2006:IV
2007:I
2007:II
2007:III
2007:IV
2008:I
2008:II
2008:III
2008:IV
2009:I
2009:II
2009:III
2009:IV
Quarter
SOURCES: Planning Division, MNCPPC-MC
Montgomery County Department of Finance

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DISCUSSION FRAMEWORK

The economic assumptions provide a framework for the Department of Finance's revenue projections for 2011 through 2016. The following issues create the framework for the discussion that is the focus of the Business Advisory Panel. In order to gain a better sense of the direction of the major industrial sectors, it would be helpful if the participants of the Business Advisory Panel could comment on our assumptions and discuss the major economic trends that affect your industry sector in the next six years. The following list of items, if applicable to your sector, may be used to focus your discussion:

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Real Estate

- Residential
- Commercial
- Foreclosures
- Prices
- Loan conditions – commercial sector
- Short sales

Income

- Capital gains

Industry Sectors

- Business activity
- Employment outlook
- Construction industry outlook
- Banking–Small business lending

Risk to the Forecasts (Assumptions)

- Employment
- Interest rates
- Inflation
- Stock market
- Residential/Commercial development
- Bankruptcies: (residential and commercial)