AGENDA ITEM 8
June 19, 2018
Action

MEMORANDUM

June 15, 2018

TO: County Council

FROM: Jacob Sesker, Senior Legislative Analyst JS

SUBJECT: Resolution to Approve the Tax Supported Fiscal Plan Summary for the FY19-24 Public Services Program

PURPOSE: Action on Resolution – Roll call vote required

Government Operations and Fiscal Policy Committee recommended (3-0) approval of the attached resolution.

Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*

Context

In June 2010 the Council approved for the first time a six-year Fiscal Plan that was balanced for the entire period.[1] Each June since then the Council has taken similar action. The Fiscal Plan is then updated every year in December, three months before the release of the Executive's next recommended budget. Updates to economic indicators and revenue projections can theoretically result in a six-year plan that is more (or less) constrained than the one approved by the Council in June.

The resolution the Council has introduced is based upon the fiscal decisions it approved on May 24, 2018. See ©1-4.

The FY19-24 Tax Supported Fiscal Plan Summary, like all versions of the Fiscal Plan, reflects current fiscal projections and policy assumptions. As economic and fiscal conditions change, future versions of the plan will change as well. For example, the December update will reflect changes to FY19 revenue estimates and FY20-24 revenue projections, while the March and May versions will reflect changes to State Aid based on the actions of the Maryland General Assembly.

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[1] On June 29, 2010 the Council approved policies on reserve and other fiscal matters in Resolution No. 16-1415. Action clause 5 states: *The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.* On November 29, 2011 the Council strengthened these policies in Resolution No. 17-312, which retained the fiscal plan language and replaced the earlier resolution. See ©5-8.

Fiscal projections and policy assumptions

Fiscal projections change as local, national, and global economic and financial prospects change. Updated projections will be available for the next two versions of the Fiscal Plan, which are scheduled for December 2018 and March 2019.

The policy assumptions for this version are listed in the notes on ©3:

a) The FY19 average weighted property tax rate is 1.98 cents lower than in FY18, with a $692 income tax offset credit. Property tax revenue at the Charter limit, with a $692 credit, is assumed throughout the 6-year period. Other taxes are at current rates.
b) Reserve contributions are at the policy level and consistent with legal requirements – 9.4% of adjusted governmental revenue in FY19, ramping up to 10% by FY20. See ©4.
c) PAYGO, debt service, and current revenue reflect the Council's Approved FY19-24 Capital Improvements Program.
d) State aid, including MCPS and Montgomery College, is assumed to be flat in FY20-24 because, while increases may well occur, the amounts are currently unknown.

Revenue

Total revenue is projected to increase throughout the 6-year period (2.8% in FY20, 2.3% in FY21, 2.4% in FY22, 2.8% in FY23, and 3.1% in FY24). These increases are below the recent increases of the many of the most significant drivers of demand for County resources – compensation for the County's excellent employees, benefits for both current employees and retired employees, growing demand for and cost of both government services and capital facilities.

Property tax revenue, 37% of total revenue in FY19, is projected to increase at rates between 2.8% and 3.3% for the remainder of FY19-24. See row 1 on ©3. Income tax revenue, 32% of total revenue in FY19, is projected to increase by 6.2% in FY20, 3.4% in FY21, 3.1% in FY22, 4.2% in FY23, and 4.8% in FY24. The sharp increase in FY20 reflects both the assumed strength of the economy and the likely impact of federal tax reform on the County's income tax revenue. See row 2 on ©3. Other tax and non-tax revenue is projected to increase more slowly. See rows 3 through 5 on ©3.

The volatility of income tax revenue from year to year, and within any year, presents challenges for fiscal planning. In FY18 the challenges were significant following an unexpected $80 million shortfall in the County's November income tax distribution. The County Executive and County Council responded to the unexpected shortfall with multiple savings plans. In January, the Executive and Council together found mid-year operating budget savings of $53.6 million, and capital budget current revenue savings of $9.3 million in FY18. Then in April the County Executive proposed and the Council approved additional savings of $62.4 million from retiree health pre-funding, which created additional fiscal room in FY18 without affecting retiree health benefits or drawing down General Fund undesignated reserves.

Resources available to allocate to agencies

The current projections for resources available to the agencies are for a 0.2% increase in FY20 followed by increases of 3.0%, 2.7%, 2.3%, and 3.4% in FY21-24. These numbers, which will of course change over time, are below the pre-recession historical growth rates that the agencies, the workforce, and the community came to expect.

Resources available to agencies are a function not only of revenues but also of fixed commitments and planned expenditures (e.g. debt service, current revenue spending for capital projects, retiree health pre-funding, etc.). In the absence of additional revenues or reduced fixed commitments, agency allocations will continue to be constrained. Constrained agency allocations, in conjunction with any future increases in employee compensation and benefits, will limit future service expansions and workforce growth.[2]

Fixed commitments

Debt service. Debt service is projected to increase by $19.2 million (↑4.6%) in FY20. See row 12 on © 3. That increase in debt service obligations contributes to the downward pressure on resources available for agency allocation in FY20. Debt service obligations increase by 2.3% in FY21, 2.6% in FY22, 2.8% in FY23, and 0.5% in FY24.

PAYGO. Resolution No. 17-312 states: "The County should allocate to the CIP each year as PAYGO [cash] at least 10% of the amount of general obligation bonds planned for issue that year." Consistent with the Council's actions earlier this year to slowly reduce the County's borrowing which gradually reduced general obligation bond limits from $340.0 million to $300.0 million over 4 years, PAYGO was set at **$33.0 million** in FY19 and is projected at $32.0 million in FY20, $31.0 million in FY21, and $30.0 million annually thereafter. See row 13 on © 3.

Current revenue funding for the CIP. Current revenue in the CIP increases by $43.1 million (↑121%) from FY19 to FY20. The FY19 amount, $35.6 million, is well below the FY19 amount in the previous approved fiscal plan ($97.7 million). Other changes from December include large increases in CIP current revenue in FY23 and FY24. These changes are the result of multiple factors, including FY18 savings shifted to FY19, funding switches, and delays to previously programmed expenditures. See row 14 on ©3.

Reserve. Before the recession the County's policy called for a 6% reserve. **The target for FY19 is 9.4%, or $492.0 million.** See row 44 on ©4. FY19 reserves include $338.0 million in the Revenue Stabilization Fund[3] and $154.1 million in unrestricted General Fund reserve.[4] In the current Fiscal Plan, the 10% target for FY20 is $537.1 million. FY19 contributions to reserves are estimated at $50.8 million, followed by $45.1 million in FY20, and then dropping to $10.1 million in FY21. Meeting the 10% reserve target in FY20 will reduce the fiscal pressure that has resulted in part from the County's aggressive efforts to restore and fortify reserves.

OPEB. Resolution 17-312 refers to OPEB (Other Post-Employment Benefits), including pre-funding for retiree health benefits. The tax supported cost for pre-funding retiree health benefits for all agencies in FY19 is **$128.8 million,** increasing to $141.6 million in FY20.[5] See rows 53 through 56 on ©4. **The GO Committee plans to review OPEB-related issues in early FY19.**

[3] In 1994, following the severe recession, the start-up balance in the Revenue Stabilization Fund was only $10 million.
[4] As an additional reserve starting in FY12, there is a Snow and Storm Cleanup Non-Departmental Account to supplement the amounts budgeted for the Departments of Transportation and General Services. The FY19 original appropriation for this reserve is $2.9 million.
[5] Meeting the full annual required contribution for OPEB represents a dramatic turnaround from the recession years. For example, in FY11, when the County's first five-year phase-in schedule called for a $149 million tax supported contribution, the actual contribution was zero.

Other relevant resources

Two documents prepared for the Council in April provide important context: the operating budget overview[6] and the review of compensation and benefits.[7]

An additional resource is the memorandum from the Council's January 16 review of the factors—both within and outside of the Council's control—that drive the cost of government.[8] A February 5 memorandum regarding the fiscal impact of the Tax Cuts and Jobs Act of 2017 is also relevant.[9]

Finally, the **Interactive Fiscal Plan** model developed by the Office of Legislative Oversight enables users to assess the impact of different tax and spending scenarios over the six-year period.[10] OLO will incorporate the data from this Fiscal Plan once it is approved.

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[6] See http://montgomerycountymd.granicus.com/MetaViewer.php?view_id=169&clip_id=14887&meta_id=153849

[7] See http://montgomerycountymd.granicus.com/MetaViewer.php?view_id=169&clip_id=14979&meta_id=155716

[8] See http://montgomerycountymd.granicus.com/MetaViewer.php?view_id=169&clip_id=14376&meta_id=147823

[9] See http://montgomerycountymd.granicus.com/MetaViewer.php?view_id=169&clip_id=14480&meta_id=148596

[10] See http://www.montgomerycountymd.gov/OLO/Resources/Files/Programs/IntroductionQuickGuide2.pdf.

Resolution No.: ______________
Introduced: June 12, 2018
Adopted: ______________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Government Operations and Fiscal Policy Committee

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SUBJECT: Approval of the County's Tax Supported Fiscal Plan Summary for the FY19-24 Public Services Program

Background

1. Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*

2. Starting in 1992, the Council's Government Operations and Fiscal Policy Committee (known until December 2010 as the Management and Fiscal Policy Committee) has collaborated with the Office of Management and Budget and the Department of Finance to develop and refine County fiscal projections. The result has been continuous improvement in how best to display such factors as economic and demographic assumptions, individual agency funds, major known commitments, illustrative expenditure pressures, gaps between projected revenues and expenditures, and productivity improvements. This work has also increased the County's ability to harmonize the fiscal planning methodologies of the four tax supported agencies. Each version of the fiscal projections, or six-year fiscal plan, is a snapshot in time that reflects the best estimate of future revenues and expenditures as of that moment, as well as a specific set of fiscal policy assumptions.

3. On June 29, 2010 the Council approved policies on reserve and other fiscal matters in Resolution No. 16-1415. Action clause 5 states: *The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.* On November 29, 2011 the Council strengthened these policies in Resolution No. 17-312, which retained the fiscal plan language and replaced the earlier resolution.

4. Pursuant to these policies, on June 29, 2010 the Council approved the Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program in Resolution No. 16-1416. On June 28, 2011 the Council approved the Tax Supported Fiscal Plan Summary for the FY12-17 Public Services Program in Resolution No. 17-184. On June 26, 2012 the Council approved the Tax Supported Fiscal Plan Summary for the FY13-18 Public Services Program in Resolution No. 17-479. On June 25, 2013 the Council approved the Tax Supported Fiscal Plan Summary for the FY14-19 Public Services Program in Resolution No. 17-800. On June 17, 2014 the Council approved the Tax Supported Fiscal Plan Summary for the FY15-20 Public Services Program in Resolution No. 17-1137. On June 30, 2015 the Council approved the Tax Supported Fiscal Plan Summary for the FY16-21 Public Services Program in Resolution No. 18-205. On June 28, 2016 the Council approved the Tax Supported Fiscal Plan Summary for the FY17-22 Public Services Program in Resolution No. 18-544. On June 27, 2017 the Council approved the Tax Supported Fiscal Plan Summary for the FY18-23 Public Services Program in Resolution No. 18-863.

5. On June 12, 2018 the Council introduced a resolution on the Tax Supported Fiscal Plan Summary for the FY19-24 Public Services Program. On June 14, 2018 the Government Operations and Fiscal Policy Committee reviewed the Fiscal Plan Summary.

Action

The County Council for Montgomery County, Maryland approves the Tax Supported Fiscal Plan Summary for the FY19-24 Public Services Program, as outlined on the attached pages. This summary reflects:

(1) current information on projected revenues and non-agency expenditures for the six-year period, which must be updated as conditions change. To keep abreast of changed conditions the Council regularly reviews reports on economic indicators, revenue estimates, and other fiscal data.

(2) the policy on expanded County reserves established in Resolution No. 17-312 and the amendments to the Revenue Stabilization Fund law in Bill 36-10, which the Council approved on June 29, 2010.

(3) other specific fiscal assumptions listed in the summary.

This is a correct copy of Council action.

Megan Davey Limarzi, Esq.
Clerk of the Council

County Council Approved FY19-24 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

		App. FY18	Est. FY18	% Chg. FY18-19	App. FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24
		5-25-17		App/App	5-24-18										
	Total Revenues														
1	Property Tax	1,770.2	1,766.8	2.2%	1,808.4	2.8%	1,858.9	2.9%	1,913.1	3.0%	1,970.6	3.2%	2,033.5	3.3%	2,099.6
2	Income Tax	1,557.9	1,482.0	1.8%	1,585.2	6.2%	1,683.0	3.4%	1,740.8	3.1%	1,794.1	4.2%	1,870.0	4.8%	1,959.3
3	Transfer/Recordation Tax	170.4	157.7	-4.4%	162.9	3.5%	168.6	3.1%	173.9	3.5%	179.9	1.8%	183.2	3.4%	189.4
4	Other Taxes	282.5	268.4	-3.1%	273.7	0.1%	274.1	0.6%	275.7	0.3%	276.7	0.1%	277.1	0.1%	277.4
5	Other Revenues	1,052.5	1,056.0	4.3%	1,098.1	-1.7%	1,080.0	-0.1%	1,078.5	0.5%	1,083.9	0.4%	1,088.1	0.4%	1,092.5
6	**Total Revenues**	**4,833.5**	**4,730.9**	**2.0%**	**4,928.3**	**2.8%**	**5,064.5**	**2.3%**	**5,182.0**	**2.4%**	**5,305.1**	**2.8%**	**5,451.8**	**3.1%**	**5,618.3**
7															
8	**Net Transfers In (Out)**	**34.3**	**49.6**	**1.8%**	**34.9**	**-31.6%**	**23.9**	**2.2%**	**24.4**	**2.3%**	**25.0**	**2.4%**	**25.6**	**2.4%**	**26.2**
9	**Total Revenues and Transfers Available**	**4,867.8**	**4,780.4**	**2.0%**	**4,963.3**	**2.5%**	**5,088.4**	**2.3%**	**5,206.4**	**2.4%**	**5,330.1**	**2.8%**	**5,477.4**	**3.1%**	**5,644.5**
10															
11	**Non-Operating Budget Use of Revenues**														
12	Debt Service	399.9	392.2	5.0%	420.0	4.6%	439.2	2.3%	449.3	2.6%	461.2	2.8%	474.1	0.5%	476.4
13	PAYGO	34.0	34.0	-2.9%	33.0	-3.0%	32.0	-3.1%	31.0	-3.2%	30.0	0.0%	30.0	0.0%	30.0
14	CIP Current Revenue	66.2	62.0	-46.2%	35.6	121.0%	78.7	9.9%	86.5	-14.2%	74.2	30.3%	96.7	0.2%	96.9
15	Change in Other Reserves	-42.2	-21.3	11.7%	-37.3	100.6%	0.2	-25.2%	0.2	-1.5%	0.2	7.2%	0.2	8.5%	0.2
16	Contribution to General Fund Undesignated Reserves	6.4	14.6	229.3%	21.1	-7.1%	19.6	-63.9%	7.1	-25.6%	5.3	-2.0%	5.2	22.5%	6.3
17	Contribution to Revenue Stabilization Reserves	27.7	27.6	7.3%	29.7	-14.1%	25.5	-88.0%	3.1	150.8%	7.6	30.7%	10.0	3.0%	10.3
18	Set Aside for other uses (supplemental appropriations)	0.0	-6.4	n/a	-4.0	600.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
19	**Total Other Uses of Resources**	**492.0**	**502.7**	**1.3%**	**498.2**	**23.5%**	**615.2**	**-2.9%**	**597.1**	**0.2%**	**598.5**	**6.3%**	**636.1**	**0.6%**	**640.1**
20	**Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)**	**4,375.8**	**4,277.7**	**2.0%**	**4,465.1**	**0.2%**	**4,473.2**	**3.0%**	**4,609.3**	**2.7%**	**4,731.7**	**2.3%**	**4,841.2**	**3.4%**	**5,004.4**
21															
22	**Agency Uses**														
23															
24	Montgomery County Public Schools (MCPS)	2,368.7	2,347.3	3.2%	2,444.1										
25	Montgomery College (MC)	262.8	254.8	1.1%	265.5										
26	MNCPPC (w/o Debt Service)	125.9	123.6	1.9%	128.3										
27	MCG	1,618.5	1,552.0	0.5%	1,627.2										
28	**Agency Uses**	**4,375.8**	**4,277.7**	**2.0%**	**4,465.1**	**0.2%**	**4,473.2**	**3.0%**	**4,609.3**	**2.7%**	**4,731.7**	**2.3%**	**4,841.2**	**3.4%**	**5,004.4**
29	**Total Uses**	**4,867.8**	**4,780.4**	**2.0%**	**4,963.3**	**2.5%**	**5,088.4**	**2.3%**	**5,206.4**	**2.4%**	**5,330.1**	**2.8%**	**5,477.4**	**3.1%**	**5,644.5**
30	(Gap)/Available	**0.0**	**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**

Assumptions:

1. Property taxes are at the Charter Limit with a $692 credit. The FY19 weighted property tax rate is 1.98 cents lower than FY18. Other taxes are at current rates.
2. Reserve contributions are consistent with legal requirements and the minimum policy target.
3. PAYGO, debt service, and current revenue reflect the Approved FY19-24 Capital Improvements Program.
4. State Aid, including MCPS and Montgomery College, is not projected to increase from FY19-24.

County Council Approved FY19-24 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

#		App. FY18	Est. FY18	% Chg. FY18-19	App. FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24
31	**Beginning Reserves**														
32	**Unrestricted General Fund**	142.8	118.4	-6.9%	133.0	15.9%	154.1	12.7%	173.7	4.1%	180.8	2.9%	186.1	2.8%	191.2
33	**Revenue Stabilization Fund**	280.4	280.7	9.9%	308.3	9.6%	338.0	7.5%	363.5	0.8%	366.5	2.1%	374.2	2.7%	384.2
34	**Total Reserves**	423.2	399.0	4.3%	441.2	11.5%	492.0	9.2%	537.1	1.9%	547.3	2.4%	560.2	2.7%	575.4
35															
36	**Additions to Reserves**														
37	**Unrestricted General Fund**	6.4	14.6	229.3%	21.1	-7.1%	19.6	-63.9%	7.1	-25.6%	5.3	-2.0%	5.2	22.5%	6.3
38	**Revenue Stabilization Fund**	27.7	27.6	7.3%	29.7	-14.1%	25.5	-88.0%	3.1	150.8%	7.6	30.7%	10.0	3.0%	10.3
39	**Total Change in Reserves**	34.1	42.2	49.0%	50.8	-11.2%	45.1	-77.5%	10.1	27.5%	12.9	17.4%	15.2	9.7%	16.6
40															
41	**Ending Reserves**														
42	**Unrestricted General Fund**	149.2	133.0	3.3%	154.1	12.7%	173.7	4.1%	180.8	2.9%	186.1	2.8%	191.2	3.3%	197.6
43	**Revenue Stabilization Fund**	308.1	308.3	9.7%	338.0	7.5%	363.5	0.8%	366.5	2.1%	374.2	2.7%	384.2	2.7%	394.5
44	**Total Reserves**	457.3	441.2	7.6%	492.0	9.2%	537.1	1.9%	547.3	2.4%	560.2	2.7%	575.4	2.9%	592.0
45	**Reserves as a % of Adjusted Governmental Revenues**	8.9%	8.8%		9.4%		10.0%		10.0%		10.0%		10.0%		10.0%
46	**Other Reserves**														
47	**Montgomery College**	4.6	9.4	1.1%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7
48	**M-NCPPC**	5.0	11.9	-13.4%	4.3	2.7%	4.5	2.9%	4.6	3.0%	4.7	3.1%	4.9	3.2%	5.0
49	**MCPS**	0.0	25.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
50	**MCG Special Funds**	0.7	0.9	9.8%	0.8	12.7%	0.9	4.1%	1.0	2.9%	1.0	2.8%	1.0	3.3%	1.1
51	**MCG + Agency Reserves as a % of Adjusted Govt Revenues**	9.1%	9.7%		9.6%		10.2%		10.2%		10.2%		10.2%		10.2%
52	**Retiree Health Insurance Pre-Funding**														
53	Montgomery County Public Schools (MCPS)	74.2	55.2		79.4		88.7		96.8		103.7		105.0		110.0
54	Montgomery College (MC)	2.6	0.6		2.8		3.0		3.1		3.3		3.3		3.3
55	MNCPPC	2.1	2.1		3.0		2.9		2.8		2.8		2.7		2.7
56	MCG	43.4	43.4		43.6		47.0		50.2		53.4		51.9		51.9
57	**Subtotal Retiree Health Insurance Pre-Funding**	122.2	101.2		128.8		141.6		152.9		163.2		163.0		167.9
58	**Adjusted Governmental Revenues**														
59	**Total Tax Supported Revenues**	4,833.5	4,730.9	2.0%	4,928.3	2.8%	5,064.5	2.3%	5,182.0	2.4%	5,305.1	2.8%	5,451.8	3.1%	5,618.3
60	**Capital Projects Fund**	176.0	176.0	6.4%	187.2	-11.6%	165.5	-14.8%	141.0	3.3%	145.7	4.4%	152.0	3.8%	157.8
61	**Grants**	117.4	117.4	0.9%	118.5	2.1%	120.9	2.2%	123.6	2.3%	126.4	2.4%	129.4	2.4%	132.6
62	**Total Adjusted Governmental Revenues**	5,126.9	5,024.3	2.1%	5,234.0	2.2%	5,351.0	1.8%	5,446.5	2.4%	5,577.3	2.8%	5,733.2	3.1%	5,908.7

4

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

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Government Operations and Fiscal Policy Committee

SUBJECT: Reserve and Selected Fiscal Policies

Background

1. Fiscal policy corresponds to the combined practices of government with respect to revenues, expenditures, debt management, and reserves.

2. Fiscal policies provide guidance for good public practice in the planning of expenditures, revenues, and funding arrangements for public services. They provide a framework within which budget, tax, and fee decisions should be made. Fiscal policies provide guidance toward a balance between program expenditure requirements and available sources of revenue to fund them.

3. As a best practice, governments must maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning. Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness.

4. In FY10, the County experienced an unprecedented $265 million decline in income tax revenues, and weathered extraordinary expenditure requirements associated with the H1N1 flu virus and successive and historic winter blizzards. The costs of these events totaled in excess of $60 million, only a portion of which was budgeted and planned for.

5. In a memorandum dated April 22, 2010, the County Executive recommended that the County Council restore reserves first to the current 6% policy level for FY11 and also revise and strengthen policy levels in order to more appropriately position the County to weather economic cycles in the future, and to achieve structural balance in future budgets.

6. The County's financial adviser recommended that the County strengthen its policy on reserves and other fiscal policies to ensure budget flexibility and structural stability, and provided specific recommendations, which are reflected below.

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

8. The County's reserve policy should be further clarified and strengthened. This resolution replaces the reserve policy established in Resolution No. 16-1415.

Action

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

1. *Structurally Balanced Budget*

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

2. *Use of One-Time Revenues*

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

3. *PAYGO*

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

4. *Fiscal Plan*

   The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.

5. *County Government Reserve*

(a) **County Government Reserve.** The County Government Reserve has three components. The components of the budgeted reserve at the end of the next fiscal year are:

(i) **Reserve in the General Fund**. The County's goal is that this reserve will be the maximum permitted by §310 of the Charter, which is 5% of revenues in the General Fund in the previous fiscal year;

(ii) **Reserve in the Revenue Stabilization Fund (RSF).** This budgeted reserve at the end of the next fiscal year is the reserve at the beginning of the year, plus interest on the fund balance, plus a mandatory transfer from the General Fund, as defined in the Revenue Stabilization Fund law, plus a discretionary transfer if the Council approves one. The actual amount of the mandatory transfer is calculated in accordance with §20-68 of the Montgomery County Code; and

(iii) **Reserve in the other tax supported funds in County Government.** The budgeted reserve at the end of the next fiscal year for the following funds – Fire, Mass Transit, Recreation, Urban District, Noise Abatement, Economic Development, and Debt Service – and any other tax supported County Government fund established after adoption of this resolution, should be the minimum reserve possible (as close as possible to zero, but not negative), since the Council sets the property tax rate to the nearest one tenth of 1¢.

(b) **Calculation of budgeted reserve as a percent of Adjusted Governmental Revenues.** The target reserve as a percent of Adjusted Governmental Revenues is the sum of the reserves in the General Fund and the Revenue Stabilization Fund divided by Adjusted Governmental Revenues, as defined in the Revenue Stabilization Fund law. The reserves in the other tax supported funds in County Government are not included in this calculation.

(c) **Budgeted reserve as a percent of Adjusted Governmental Revenues.** To reach the County's goal of 10% of AGR in 2020, the annual minimum target goals are:

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

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

6. *Reserves in other agencies*

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

(a) **MCPS**. The Council should not budget any reserve for the MCPS Current Fund.

(b) **M-NCPPC**. The reserve in the Park Fund should be approximately 4.0% of budgeted resources. The reserve in the Administration Fund should be approximately 3.0% of budgeted resources. The reserve in the Advance Land Acquisition Debt Service Fund should be the minimum reserve possible, since the Council sets the property tax rate to the nearest one tenth of 1¢.

(c) **Montgomery College**. The reserve in the Current Fund should be 3.0% - 5.0% of budgeted resources minus the annual contribution from the County. The target reserve in the Emergency Plant Maintenance and Repair Fund – as stated in Resolution No. 11-2292, approved by the Council on October 16, 1990 – "may accumulate up to $1,000,000 in unappropriated fund balance, such goal to be attained over a period of years, as fiscal conditions permit."

7. *Reports to Council*

The Executive must report to the Council:

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

This is a correct copy of Council action.

Linda M. Lauer

Linda M. Lauer, Clerk of the Council