Montgomery County Taxpayers League

Taxpayers League Written Testimony
County FY 2021 Budget

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The Taxpayers League is a non-partisan civic organization dedicated to promoting good government through the bedrock principles of accountability, efficiency, and cost-effectiveness. Our membership and board are comprised of highly capable Democrats, Republicans and Independents who work together to develop findings. In a recent budget submission, the County adopted and published 65 "good government policies," which was distilled by the Taxpayers League's in its document, "Stewardship Principles" and are attached at the end of this report. The following is our initial commentary concerning the County Executive's budget request:

Summary. *The FY21 budget request calls for a 3.1% supplemental property tax increase, but very little in the way of cost-control, actions to better evaluate ongoing programs, or material cutbacks re proposed even for non-performing programs, which might have been expected from the county's "lean government" initiative. The biggest driver of the budget is overall employee compensation, and biggest incremental driver are the latest pay increases far exceeding inflation for MCGEO. We have good cause to expect continued revenue shortfalls, economic underperformance, and poor stewardship over the county's tax dollars. The following address some our concerns and recommended action items.*

1. **OF IMMEDIATE CONCERN**. At the writing of this testimony, the most pressing issue is response to the COVID-19 pandemic; most critically using the county's resources to help residents through this crisis, but also fiscally. The Taxpayers League doesn't pretend to be able to pass expert guidance on this fast-moving situation. Thus, we limit our comments on the pandemic to this single paragraph and use the remainder of this testimony to lay out our general commentary because they are relevant to fiscally responding to any crisis and will continue to be relevant as soon as the crisis passes. We agree with the view expressed by Councilmember Navarro for spending restraint in the face of the pandemic. At a minimum, the budget should be held to previous year's levels. But, the best measure to take is to develop a new, revised budget that reflects revenue shortfalls from income taxes of as much as the 20%, the decline projected by Maryland's Comptroller Peter Franchot. Further, the budget should address various revenue shortfall scenarios – assigning a percentage probability to each scenario. Since not all programs are equally important or effective, we recommend asking county departments to present cutback recommendations that distinguish the most effective programs and from the least under the various revenue scenarios. This would be very insightful. We also recommend tasking the OLO to work with departments on a long-overdue study to assess relative performance of various programs.

2. **Budget and Strategic (Policy) Process and Accountability.** As a better approach to management, the county should develop protocols for quantitatively justifying future budget allocations, priorities, and policy decisions and for continuously evaluating programs against performance outcomes. This is not adequately done now. Transportation, education, affordable housing and other priorities are not justified or substantiated, and often, are even at considerable odds with expected outcomes, cost-benefits, and experience. Each year requested budget amounts focus on incremental changes only. Base spending is not "cross-walked" to performance improvements. Among our concerns -- Why aren't strategic plans of major agencies and performance targets tied to baseline budget amounts requested, base and incremental increases?

Do budgets respond to increased recession service requirements? Where are the savings from "lean government" studies/reforms being by the Chief Administrative Officer? (If they are included in the $10M cited by the CE in his budget letter, pg 10, do they represent a reduction in spending or savings transferred to other functions? When can we expect the new law (Bill 19-10), requiring economic impact analyses of new bills by OLO be fully activated? In the important area of internal controls, since the OIG and the outside auditor do not reach a conclusion/opinion on the overall effectiveness of the County's internal controls, how can the Council and County residents be certain that budget controls are working?

3. **Compensation**. For years, large mid-year cuts and "savings plans" have been chronically needed to keep the budget in balance. This occurred during an extended period of unusually stable economic growth nationwide. As the largest driver of the budget, salaries and benefits of employees and retirees - which currently absorb more than 82% of the budget - need to be controlled. Further, they need to be based on productivity increases and performance improvements -- otherwise the future will bring more revenue shortfalls, higher costs, and poorer service to residents as we will be able to afford fewer employees to deliver these services. Instead, the Executive has proposed changes to the Charter limits to finance our way out of increasing labor costs. Last year, a destabilizing 7% pay raise was approved even though inflation was 2.3% - with no increases in program results. In FY21, requested increases range from 4.5% to 8.25% without any ties to productivity or performance improvements. The result is our employees remain among the highest paid in the region. For non-union employees, OLO found that in 2016-17, Director salaries were 18-24% above neighboring jurisdictions (18 % above Fairfax and 24% above Howard County) and 17% above Federal Executive Service. Manager salaries were 7.5% above Federal managers. When will the COA's "lean" government initiatives begin to address this? The county's chronic revenue shortfalls, unfunded transportation projects, is evidence that we are at an inflexion point and need to begin a process of formally "right-sizing" the county workforce by not filling vacancies that occur through normal attrition and asking departments to develop strategic plans to "do more with less."

4. **Other Post-Employment Benefits (OPEB).** This is another problematic area. The Consolidated Retiree Benefits Trust established in 2011 to pre-fund OPEB is currently only funded at little over 20% of future claims (as compared to 96% for the county's pension fund). Since 2016, a total of $302M have been diverted on three or four separate occasions to meet past budgetary shortfalls. We also have the costs of the Deferred Retirement Option Plan which allows employees to "double-dip" by being re-hired at a new position for an additional three years while continuing to receive pension benefits. This has been used to fill some of the highest -level positions in the county at great cost to taxpayers. The Taxpayers League recommends ending the practice of diverting retirement funds to balance the budget and taking steps to make whole past diversions. Steps should also be taken to control OPEB costs through adjustments such as higher co-pays and fewer benefits that are more in line with the private sector and which other jurisdictions employ.

5. **County Revenues-** Risk of a recession in the face of the coronavirus pandemic is high.

   Income Taxes- State revenue projections are down (a decline of 20% per Comptroller Franchot). The revise County projection in July will likely be below December's update. The income tax projection (pg 5-13) is only down 2.1% from FY'20 in spite of an expected capital gains drop, raising question about adequacy of 10% reserve. Why do we continue to over-rely on volatile income taxes?

   Property Taxes- Property Tax Revenues (letter pg 2 and pg 5-12)- The Taxpayers League opposes the Charter change replacing inflation-tied revenue cap with 3% assessment cap to finance last year's 7% pay raise with higher rates. We agree with the Council's rejection of a 3.1 cent supplemental tax rate increase, which would increase the school budget above MOE again, when per pupil spending is already above the national average even as school performance has failed to keep up with other states and jurisdictions. The CEs proposed Charter 3% cap would benefit under-assessed McMansions, especially with unrecorded home improvements, because underassessments can be only be corrected by a 10% annual increase while the problems of unrecorded improvements are left unaddressed. Structural change is needed to get assessments right. Why do we continue to rely on the SDAT for assessments when according to recent audit they failed to do 40% of assigned assessments? We recommend the county consider taking over assessments from SDAT – as is done in 48 other states -- in return for the 10% of property taxes we share with the State? We also support subjecting improvements with substantial demolition of existing property as "new construction" to property taxes above the Charter limit. Finally, we should all keep in mind that if our county doesn't increase the commercial property tax base by improving the county's business climate the property tax burden will be increasingly shifted to residents and their homes.

6. **MCPS (Education)**. The achievement gap has widened in math and stagnated for reading as teacher salaries grow and no progress has been made against State target to cut the gap in half by 2030**.** While county government funds our public schools, the County Executive and Council have limited input in how the money is spent, as that is the purview of the Board of Education. The following is how the CE and Council can impose further oversight on MCPS. Reject the recently proposed 3.1 cent supplemental property tax rate increase to cover the $39M in spending that exceeds Maintenance of Effort (pg 1-5). Continue to resist spending over MOE until budgets are tied to academic strategies and performance outcomes, and until MCPS produces a strategic plan to close achievement gap and respond to the Black and Brown Coalition and MCTL recommendations for increasing the number of highly qualified teachers and principals in at-risk schools. Demand a study to justify for our comparative high overhead (45% of total spending) and require a plan to lower overhead. Develop a strategy for moving from a defined benefit retirement plan and Cadillac health insurance to a defined contribution plan. Require MCPS to study incorporating educational alternatives such as PTECHS and public charter schools in neighborhoods with chronic academic under performance as a cost-effective way to improve quality of teachers and principals in these schools, and kickstart pre-K initiatives. Tie the County's supplemental spending for after school programs, Linkages to Learning, Pre-K to improvements in student outcomes – good intentions are not enough. Finally, invite Superintendent Smith to present to you his plans to improve performance in schools, close the achievement gap, and increase access to A&E programs in neighborhood schools. **The Taxpayers League released a 17-page "Education Report" last October and has been working with MCPS.**

7. **Public Safety**. There are no strategic plans or quantitative justifications tied to requested budget amounts, making it difficult to evaluate line items and proposed strategies. How will increasing trained paramedics improve performance? What are the savings from reducing firefighter overtime by adding 20 paramedic training employees (pg. 46-4)? How will increasing already bloated Police Investigation staffing improve performance (pg. 47-10). Fairfax has 1/3 fewer FTEs and the same closure rate – what are they doing more efficiently? Why isn't 911 service spun-off to increase revenues to pay for better policing, boost 911 service reliability, and incentivize innovative new services (e.g. text messaging)?

8. **Affordable Housing**. The $85M proposed for affordable housing is another program doesn't have a strategic plan. In addition, it could do more with less by reexamining program risks, costs, and the performance of our current partnerships with developers and preservation groups. As a start, we need to understand the reason produced units projected are expected to drop next year (housing administration pg. 64-6). Credit risks are another problem: they aren't addressed in the budget and will balloon if a recession causes foreclosure for projects in which the County has invested in a subordinate position. We recommend the Council making project-based locally funded housing **vouchers** and improving loan terms as its primary focus. Increases to MPDUs are less than half the affordable housing demand, don't help those with incomes less than 30% AMI, and don't help to close the supply gap. In addition, production and preservation budgets should be tied to unit targets and more competition is needed for HOCs preservation monopoly.

9. **Transportation**. Everyone agrees our region has severe transportation problems that need cost-effective long-term solutions. What is the strategic plan to fix this mess? Unfortunately, many transportation-related decisions are becoming increasingly detached from economic, cost-benefit analysis. The county needs to develop and codify strict protocols for conducting quantitative cost-benefit analyses to optimally prioritize options. All options – including monorail not previously evaluated - need to be on the table and analyzed equitably. There is presently a backlog (160) of unbuilt transportation projects, including CCT, M83, Montrose East, and free and/or expanded Ride On bus routes – even as one of the least economical solutions (BRT) is pushed forward. We are just a few years removed from when a Leggett-appointed citizens commission placed widening I270/I495 and building M83 highway among its top priorities and eliminated BRT from consideration as a recommended solution. Soon thereafter, BRT rose to the top priority while the top recommendations of the commission have been opposed.

10. **Alcohol Beverage Services.** Why isn't privatization of the distribution monopoly which is subsidizing county retail operations being considered? Montgomery County Taxpayers League analysis shows that privatization of the County's Liquor Operations is a win-win solution that would INCREASE County revenues, while enhancing service, product selection, and convenience for county restaurants, bars, and residents – which also improves the local economy. Much of these gains would result from the simple fact that residents would purchase more alcohol -- currently, in-county purchases of alcohol is less than half of its neighbors. Additional revenues would come from wholesale license fees and increased property taxes from private wholesalers and new and expanding retailers. All of the above doesn't even include gains from sales of buildings and other assets used by the county in its liquor operations. In the interim, why isn't ABS's budget adjusted when they miss targets for general fund contributions?

11. **WSSC.** Why are our rates double Fairfax county, our primary economic development competitor? One reason is that there is inadequate ROI analysis and ranking to justify and prioritize capital projects. This is driving up debt service costs which are already at the 40% underwriting limit and hindering WSSC's critical effort to rehab its seriously aged underground piping infrastructure. Why should 7% rate increases, and 5.9% pay raises, be approved when capital projects are approved for unjustified reasons even as consumption continues to decline? It begs the question of whether the PSC should take over ratemaking and oversight to make the budget approval process more credible.

**FY 2021 Salary increase request: general employees pg. 8-2, 1% general wage adjustment plus 3.5% Service/step increase; MCGEO 1.25% general wage adjustment, on top of 3.5% step increase (pg. 8-5) and deferred service increase of 3.5% for 2011 (pg. 8-6) bringing total to 8.25%; fire and rescue 2.5% general wage adjustment plus 3.5% step).*

About the Montgomery County Taxpayers League

Since 1975, the Montgomery County Taxpayers League has served as the foremost advocate for accountable, cost-effective government in our county. We have established and maintained a reputation for non-partisanship, objectivity and thoroughness in our research, analysis, reports, and testimony, having challenged and worked with county officials on nearly every aspect of the budget and operations. We keep residents educated and informed of county affairs, primarily through our regular monthly meetings, to which almost every important elected official and county department head has appeared to speak and answer questions from attendees. The Taxpayers League endeavors to represent all the residents of the county, and to ensure all interests and potential solutions are given consideration as the county establishes policies. The Taxpayers League continues to play a vital community and civic service to our county.
