




OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Marc Elrich
County Executive

MEMORANDUM

January 15, 2021

TO: Tom Hucker, President, County Council

FROM: Marc Elrich, County Executive 

SUBJECT: FY21 Recommended Revised Spending Plan – Second Submission

The purpose of this memorandum is to transmit my second Recommended Fiscal Year 2021 Revised Spending Plan for Montgomery County Government departments and other tax-supported agencies. The attached plan identifies savings of approximately \$16.4 million from the County Government's Operating Budget and \$8.6 million in savings from the County's Capital Budget, for a total of \$25.0 million. When combined with the first approved revised spending plan, FY21 County government operations will be reduced by \$48.3 million and the tax-supported Current Revenue/PAYGO portions of the Capital Budget will be reduced by almost \$50.0 million.

As I indicated to the Council when I transmitted my initial FY21 Revised Spending Plan, the ongoing and unpredictable impacts of COVID-19 on the public health and economic vitality of our community would likely necessitate identifying additional savings to maintain the County's fiscal health. As we discussed with the Council in December, when compared to the FY21 approved budget and fiscal plan, FY21 tax supported revenues are projected to be \$101.5 million less than initially projected and FY22 tax supported revenues are projected to be \$163.9 million lower. At the same time, our first quarter spending analysis for FY21 projects, that spending will be \$194 million above the FY21 approved budget – much of this is due to the County's response to the COVID-19 pandemic. The December Fiscal Plan update estimated that without action, the County's reserves will be 7.6 percent of adjusted governmental revenues at the end of FY21 compared to the 10.2 percent estimated in the FY21 approved budget. Most of this increased spending is directly related to the County's response to the pandemic, and we anticipate that much of it will be covered through reimbursements from either the Federal Emergency Management Agency (FEMA) or the Federal Coronavirus Relief Fund.

In June, most County Government departments participated in the initial FY21 revised spending plan and identified savings while minimizing adverse impacts on service delivery to the residents of Montgomery County. Departments that achieved six percent in savings as a result of the approved July 2020 Savings Plan were not asked to identify additional savings. Because of pandemic response efforts and public safety concerns, the Department of Health and Human Services, Department of Correction and Rehabilitation, Fire and Rescue Service, and the Police Department were asked to identify only an additional two percent in savings. The Office of Management and Budget performed an impact analysis on items identified by the departments and proposed additional actions where savings could be achieved.

We are currently in active negotiations with our labor partners with regard to the continuation of the hazard pay differential. I am unable to share details of this negotiation at this time; however, a finalized agreement between my Administration and the County's labor representatives will be completed on this subject imminently. Providing this incentive to County employees who deliver vital services to our community, at great risk to their health, has been an important tool. However, the structure of the hazard pay differential is not currently fiscally sustainable. Moving forward, with the availability of vaccines and plentiful personal protective equipment, the need for the differential could be mitigated. The fiscal update provided to Council in December included an assumption that the differential payments would continue through the remainder of the fiscal year. Thus, any cost avoided by early termination of the differential or by decreasing the differential amount would revise our fiscal assumptions accordingly. I will transmit the details of any revised agreement along with an analysis of how it impacts the County's fiscal outlook to the Council as soon as it is finalized.

Capital budget amendments were developed to reduce PAYGO and Current Revenue funding in the CIP. The initial savings plan reduced all PAYGO funding but \$23.4 million. In order to support the FY21 operating budget, the CIP amendments sent under separate cover today include project savings, deferrals, and other adjustments that will make it possible to eliminate the remaining \$8.6 million in FY21 PAYGO. FY21 reductions and delays in current revenue spending, as well as FY22 adjustments, will be recognized in the FY22 CIP appropriation requests. All agencies are recommended to participate in these reductions.

While not reflected in the attached reports, Montgomery County Public Schools (MCPS) will participate in the FY21 Savings Plan by reverting to fund balance \$25 million of current-year appropriation and re-appropriate it in FY22. This provides General Fund relief by reducing the amount of County support needed in FY22 by \$25 million. The State's education maintenance of effort law precludes the County from recognizing this savings in FY21.

The hiring freeze and procurement freeze exemption process that I instituted on March 18, 2020 will continue for the duration of this crisis and will provide us with additional fiscal oversight.

In addition, work continues on the cost efficiency study to broadly evaluate the service delivery model of each department. Among the several goals of the study is to identify a minimum of 100 vacant positions across the Executive Branch that can be eliminated over the next one to two years. The impacts of the initial implementation will be included in my FY22 Recommended Budget.

As we move forward, we must recognize there are still several unknown variables that will impact County government finances, including the lasting impact of COVID-19 on the County's economy and our tax revenues, the need to maintain funds in reserve to continue to provide enhanced services to those most impacted by the pandemic, and whether there will be additional relief from the Federal government. While the incoming Federal administration has signaled its support for providing additional resources to states and local governments, that plan is not yet final. We will continue to monitor developments on that front and will work with Council to ensure that whatever funds we may receive are used to bolster vital services we must provide to County residents. I am greatly appreciative of our State's Congressional delegation for their continued assistance and leadership.

In the meantime, I urge the Council to work with the Executive Branch to ensure that our spending remains equitable, prudent, and socially responsible. I look forward to working with you and your colleagues as we strive to help County residents and businesses navigate these unprecedented times.

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Attachments

- c: County Council Members
- Marlene Michaelson, Executive Director, Montgomery County Council
- Richard S. Madaleno, Chief Administrative Officer
- Michael Coveyou, Director, Department of Finance
- Jennifer R. Bryant, Acting Director, Office of Management and Budget