

MEMORANDUM

December 17, 2010

TO: Councilmembers

FROM: Karen Orlansky, Director
Office of Legislative Oversight

SUBJECT: **Follow-up to OLO Report on Achieving a Structurally Balanced Budget:
Potential Savings for Part II Options, Sorted by Year**

This memorandum responds to Councilmember Floreen's request for a summary of when and how much savings is possible to achieve for the various options included in OLO's Part II report.

The attached tables summarize the potential savings or additional revenue by fiscal year through FY16, associated with the options included in OLO's Part II report. For quick reference, a column is included (on Tables 1, 2, and 3) to indicate whether there is potential for FY12 savings associated with the option. The tables are organized as follows:

Table 1, Summary of Options Related to Pay and Benefits (all agencies), shows the potential savings by fiscal year for the options related to pay and benefits. The summary in Table 1 assumes implementation of each option in FY12 across the four tax supported agencies (County Government, MCPS, Montgomery College, and M-NCPPC). Table 1 is attached at ©1.

Tables 1(a), 1(b), and 1(c), provide agency specific details about the potential savings from implementing the options related to pay and benefits. Table 1(a) shows the number of workyears that represent increments of \$10 million in personnel costs by agency; Table 1(b) shows estimated FY12 savings from a salary rollback by agency; and Table 1(c) shows the projected savings from the health benefits options for active employees by agency. These agency specific tables are attached at ©2-3.

Table 2, Summary of Operating Expenses and Debt Service Options, explains the potential savings by fiscal year for the operating expenses and debt service options. Table 2 is attached at ©4.

Table 3, Summary of Revenue Options, lists the estimated additional revenue by fiscal year associated with each of the revenue options. Table 3 is attached at ©4.

As you review these tables, keep in mind that there are many variations of the options presented that would yield a different amount and pattern of savings. Also remember that, as OLO explained in the report, options related to retirement benefits and retiree health benefits require the hiring of actuarial services to determine the exact amount and timeframe for potential savings.

Additional information on the options summarized can be found in the issues papers contained in OLO's Part II report. The order of issue papers is as follows:

- Issue Paper A: Employee Salaries
- Issue Paper B: Retirement/Pension Benefits
- Issue Paper C: Health Benefits for Active Employees
- Issue Paper D: Health Benefits for Retired Employees
- Issue Paper E: Workforce Size
- Issue Paper F: Operating Expenses
- Issue Paper G: Debt Service
- Issue Paper H: Revenue

As outlined in the Council President's December 13th memo on next steps, please send me your questions about either Part I or Part II of OLO's report so that we can get to work on preparing answers.

Copy: Steve Farber, Council Staff Director

Table 1. Summary of Options Related to Pay and Benefits (all agencies)

Option	Potential FY12 Savings	Estimated Savings Amount (\$ in millions)				
		FY12	FY13	FY14	FY15	FY16
Workforce size						
Reduce the size of the current workforce in one or more agency	✓	Depends on number and type of positions abolished; would need to abolish between 89-153 workyears for each \$10M in savings.				
Employee Salaries (assumes implementation across all four agencies in FY12)						
#1A: 1% Salary Rollback in FY12	✓	\$22.9	\$22.9	\$22.9	\$22.9	\$22.9
#1B: 3% Salary Rollback in FY12	✓	\$68.7	\$68.7	\$68.7	\$68.7	\$68.7
#1C: 5% Salary Rollback in FY12	✓	\$114.6	\$114.6	\$114.6	\$114.6	\$114.6
#2: Changes to GWA		Could lower rate of increase going forward				
#3: Changes to Step Increases						
Health Benefits for Active Employees (assumes implementation across all four agencies and includes non-tax supported savings)						
#1A: Change premium cost share to a 70/30 split, All-at-once	✓	\$35.2	\$73.4	\$79.8	\$86.8	\$94.4
#1B: Change premium cost share to a 70/30 split, 5% phase-in	✓	\$9.7	\$30.4	\$51.2	\$71.7	\$90.4
#2: Change to fixed employer contribution at 75% of lowest cost plan	✓	\$46.0	\$96.0	\$104.2	\$113.2	\$122.9
#3: Higher cost share for self+1 (by 2.5%) and family (by 5%) coverage	✓	\$7.2	\$14.9	\$16.3	\$17.7	\$19.2
#4: Higher premium cost share (60/40) for part-time employees	✓	\$12.2	\$25.5	\$27.7	\$30.1	\$32.7
Retirement/Pension Benefits (all options require actuarial analysis)						
MCG #3: Increase employee contributions to defined benefit plans	✓	FY12 savings if applied to <u>current employees</u>				
MCG #5: Lower the pension COLA cap	✓	FY12 savings if applied to <u>current retirees</u>				
MCG #1: Enroll all new MCG employees in defined contribution plan		Could provide significant long-term savings				
MCG #2: New hybrid plan for new public safety employees						
MCG #4: Increase retirement eligibility criteria for new public safety employees						
MCPS #3: Increase MCPS employee contributions to pension supplement	✓	FY12 savings if applied to <u>current employees</u>				
MCPS #1: Create a defined contribution plan for local-funded retirement benefits		Could provide significant long-term savings				
MCPS # 2: Eliminate MCPS' local pension supplement						
MCPS #4: Integrate local-funded MCPS pensions with Social Security						
Health Benefits for Retired Employees (all options require actuarial analysis)						
#2: Change premium cost sharing arrangements	✓	FY12 savings if applied to <u>current retirees</u>				
#1: Eliminate retiree health benefits for new hires		Could provide significant long-term savings				
#3: Change eligibility criteria and/or benefit levels						

Table 1(a). Number of FY11 Workyears that Represent Increments of \$10 Million in Personnel Costs by Agency

Agency	Average Cost per Workyear	Number of Workyears Equal to \$10 Million in Personnel Costs
County Government		
Public Safety Workyear	\$112,900	89 workyears
Non-Public Safety Workyear	\$91,700	109 workyears
MCPS*		
Agency Average Workyear	\$87,800	114 workyears
Teacher “New Hire” Workyear **	\$65,200	153 workyears
M-NCPPC		
Agency Average Workyear	\$84,000	119 workyears
Montgomery College*		
Agency Average Workyear	\$79,000	127 workyears

* The average cost per workyear for MCPS and Montgomery College only include locally-paid benefits.

** The teacher “new hire” category reflects the cost of reducing workyears by not hiring new teachers as opposed to laying off currently employed workyears.

Table 1(b). Estimated FY12 Savings by Agency from a Salary Rollback

% Salary Rollback	Estimated FY12 Tax Supported Personnel Cost Savings				
	County Government	MCPS	M-NCPPC	Montgomery College	Total
1%	\$6.2 million	\$14.7 million	\$0.7 million	\$1.3 million	\$22.9 million
3%	\$18.7 million	\$44.0 million	\$2.0 million	\$4.0 million	\$68.7 million
5%	\$31.2 million	\$73.4 million	\$3.3 million	\$6.7 million	\$114.6 million

* These calculations are based on the approved FY11 budget personnel cost data. The estimates include savings to salaries, social security, and locally paid pension/retirement costs

Table 1(c). Summary of Projected Savings from Options Related to Health Benefits for Active Employees (by Agency)

Cost Share Model	Estimated Savings Amount by Agency (\$ in millions)				
	FY12	FY13	FY14	FY15	FY16
Option # 1A: 70/ 30 Cost Share, “all at once”					
MCPS	\$28.7	\$59.9	\$65.0	\$70.6	\$76.5
County Government	\$5.5	\$11.6	\$12.8	\$14.1	\$15.5
M-NCPPC	\$0.5	\$1.1	\$1.2	\$1.3	\$1.4
Montgomery College	\$0.4	\$0.8	\$0.8	\$0.8	\$0.9
Total	\$35.2	\$73.4	\$79.8	\$86.8	\$94.4
Option # 1B: 70/ 30 Cost Share, “5% phase-in”					
MCPS	\$6.4	\$20.3	\$36.6	\$55.4	\$72.6
County Government	\$2.7	\$8.8	\$12.8	\$14.1	\$15.5
M-NCPPC	\$0.2	\$0.6	\$1.0	\$1.3	\$1.4
Montgomery College	\$0.4	\$0.8	\$0.8	\$0.8	\$0.9
Total	\$9.7	\$30.4	\$51.2	\$71.7	\$90.4
Option #2: Fixed Employer Contribution at 75% of Lowest Cost Plan					
MCPS	\$38.9	\$81.1	\$88.0	\$95.5	\$103.6
County Government	\$5.5	\$11.5	\$12.7	\$14.0	\$15.4
M-NCPPC	\$0.4	\$0.8	\$0.9	\$1.0	\$1.1
Montgomery College	\$1.2	\$2.5	\$2.6	\$2.7	\$2.8
Total	\$46.0	\$96.0	\$104.2	\$113.2	\$122.9
Option #3: Higher Cost Share for Self+1 (by 2.5%) and Family (by 5%) Coverage					
MCPS	\$4.6	\$9.7	\$10.5	\$11.4	\$12.3
County Government	\$2.1	\$4.4	\$4.9	\$5.4	\$5.9
M-NCPPC	\$0.1	\$0.3	\$0.3	\$0.3	\$0.3
Montgomery College	\$0.3	\$0.6	\$0.6	\$0.6	\$0.7
Total	\$7.2	\$14.9	\$16.3	\$17.7	\$19.2
Option #3: 60/40 Cost Share for Part-Time Employees					
MCPS	\$11.3	\$23.6	\$25.6	\$27.8	\$30.2
County Government	\$0.9	\$1.9	\$2.1	\$2.3	\$2.5
M-NCPPC	<\$0.1	<\$0.1	<\$0.1	<\$0.1	<\$0.1
Montgomery College	\$0	\$0	\$0	\$0	\$0
Total	\$12.2	\$25.5	\$27.7	\$30.1	\$32.7

Table 2. Summary of Operating Expenses and Debt Service Options

Option	Potential FY12 Savings	Estimated Savings Amount (\$ in millions)				
		FY12	FY13	FY14	FY15	FY16
Operating Expenses						
Reduce operating expenses through an “across-the-board” reduction or a targeted reduction using priority-based criteria	✓	<ul style="list-style-type: none"> • Depends on amount and type of reduction. • In County Government, a 2.7% reduction in total operating expenses would be required for each \$10 million in savings. • In MCPS, a 5.6% reduction in total operating expenses would be required for each \$10 million in savings. 				
Debt Service						
#1A: 25% reduction to bond issuance limit	✓	\$2	\$11	\$19	\$27	\$35
#1B: 50% reduction to bond issuance limit	✓	\$4	\$22	\$38	\$54	\$70

Table 3. Summary of Revenue Options

Option	Potential FY12 Revenue	Estimated Revenue Amount (\$ in millions)				
		FY12	FY13	FY14	FY15	FY16
Revenue						
#1: Override Charter limit by 1 cent	✓	\$17.9	\$18.8	\$19.7	\$21.1	\$22.7
#2A: Reduce municipal income tax distributions by 50% over 5 years	✓	\$3	\$6	\$9	\$12	\$15
#2B: Reduce municipal income tax distributions by 100% over 5 years	✓	\$6	\$12	\$18	\$24	\$30
#3A: Continue FY11 Energy Tax rates		--	\$108	\$108	\$108	\$108
#3B: Continue allocation of recordation taxes to the General Fund	✓	\$13	\$13	\$13	\$13	\$13
#4: Enact Transportation utility charge	✓	Depends on structure of charge				