



# Fiscal Policy

## INTRODUCTION

### Definition and Purpose of Fiscal Policy

Fiscal policy corresponds to the combined practices of government with respect to revenues, expenditures, and debt management. Fiscal planning, generally done within the context of the Public Services Program (PSP)/Operating Budget and the Capital Improvements Program (CIP)/Capital Budget, reflects and helps shape fiscal policy.

The budget process not only reflects those fiscal policies currently in force but is itself a major vehicle for determining and implementing such policies. The fiscal policy statements presented on the following pages are not static. They evolve as the economy and fiscal environment change and as the County's population and requirements for government programs and services change.

The purposes of fiscal policy for the PSP/Operating Budget are:

- **Fiscal Planning for Public Expenditures and Revenues.** Fiscal policy provides guidance for good public practice in the planning of expenditures, revenues, and funding arrangements for public services. It provides a framework within which budget, tax, and fee decisions should be made. Fiscal policy provides guidance towards a balance between program expenditure requirements and available sources of revenue to fund them. Fiscal planning considers long-term trends and projections in addition to annual budget planning.
- **Setting Priorities Among Programs.** Clearly defined and quantified fiscal limits encourage setting priorities by government managers and elected officials, thus helping to ensure that the most important programs receive relatively more funding.
- **Assuring Fiscal Controls.** Fiscal policies relating to County procurement of goods and services, payment of salaries and benefits, debt service, and other expenditures are all essential to maintaining control over government costs over time.

### Organization of this Section

Following are the major fiscal policies currently applied to the PSP/Operating Budget and financial management of Montgomery County (see the Recommended CIP Budget for more detailed policies that relate more directly to the CIP). Numerous other fiscal policies that relate to particular programs or issues are not included here but are believed to be consistent with the guiding principles expressed below.

The presentation of fiscal policies is in the following order:

- Policies for fiscal control
- Policies for expenditures and allocation of costs
- Short-term fiscal and service policies
- Current CIP fiscal policies
- Policies for governmental management

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- Policies for revenues and program funding
  - Fiscal policies for user fees and charges
  - Framework for fiscal policy

## FISCAL CONTROL POLICIES

### Structurally Balanced Budget

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

### Reserves

The County must have a goal of maintaining an unrestricted General Fund balance of five percent of the prior year's General Fund revenues and a total reserve of ten percent of revenues including the Revenue Stabilization Fund, as defined in the Revenue Stabilization Fund law (Section 20-65, Montgomery County Code). The County had originally planned to achieve the 10 percent target by FY20, but the COVID pandemic has negatively impacted reserves. Actions taken to achieve the 10 percent target by FY24 are outlined in the Short-term Fiscal and Service Policies section below.

### Use of One-Time Revenues

One-time revenues and revenues in excess of projections must be prioritized to meet the county's fiscal policy goals or budgeted as required by law. One-time revenues and revenues greater than projected that remain after any contribution required by law will be applied in the following order until the policy goal is met, or the resources are fully utilized: 1) Reserves to policy goal; 2) Retiree health benefits (OPEB) more than the annual actuarial pre-funding contribution and/or pension pre-funding more than the annual actuarial goal, if unfunded liabilities exist; and then 3) for other unfunded liabilities and/or other non-recurring expenditures and/or PAYGO for the CIP in excess of the County's targeted goal.

### PAYGO

The County should allocate to the CIP each fiscal year as PAYGO at least ten percent of the amount of general obligation bonds planned for issuance that year.

### 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 resources. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy-level goals.

### Budgetary Control

The County will exercise budgetary control (maximum spending authority) over Montgomery County Government through County Council approval of appropriation authority within each department and special fund in two categories: Personnel Costs and Operating Expenses; over the Montgomery County Public Schools and Montgomery College through appropriations in categories set forth by the State; over the County's portion of the Maryland-National Capital Park and Planning Commission (M-NCPPC) activities through approval of work programs and budgets; and over the Washington

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Suburban Transit Commission through appropriation of an operating contribution.

Budgetary control over the Washington Suburban Sanitary Commission (WSSC) is exercised following joint review with Prince George's County through approval of Operating and Capital Budgets, with recommended changes in sewer usage charges and rates for water consumption.

Budgetary control over the Housing Opportunities Commission (HOC) and the Montgomery County Revenue Authority is limited to approval of their capital improvements programs and to appropriation of an operating contribution to the Housing Opportunities Commission.

## Financial Management

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The County will manage and account for its Operating and Capital Budgets in accordance with Generally Accepted Accounting Principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB).

## Basis of Budgeting/Accounting Method

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The County's basis of accounting used in the preparation and presentation of its Annual Comprehensive Financial Report is consistent with GAAP for governments

The County maintains its accounting records for tax supported budgets (the General Fund, special revenue funds, and Capital Projects fund supported by general tax revenues) and permanent funds on a modified accrual basis, with revenues recorded when available and measurable, and expenditures recorded when the services or goods are received and the liabilities are incurred.

Accounting records for proprietary funds and fiduciary funds, including private-purpose trust funds, are maintained on the accrual basis, with all revenues recorded when earned and expenses recorded at the time liabilities are incurred, without regard to receipt or payment of cash. Custodial funds are also accounted for on the full accrual basis of accounting.

The County's basis of budgeting for tax-supported and proprietary and trust fund budgets is consistent with the existing accounting principles except as noted below:

- The County does not legally adopt budgets for trust funds.
- The County legally adopts the budgets for all enterprise funds.
- For the Motor Pool and Central Duplicating Internal Service Funds, the appropriated budgets for those funds are reflected in the appropriated budgets of the operating funds (General Fund, special revenue funds, etc.) that are charged back for such services, and in a reappropriation of the prior year's Internal Service Fund fund balance. For the Liability and Property Coverage Self-Insurance and Health Self-Insurance Internal Service Funds, appropriation exists both in a separate legally adopted budget for each fund, and in the appropriated budgets of the operating departments that are charged back for such services.
- Debt service payments and capital outlay are included in the operating budgets of proprietary funds.
- Proprietary fund budgets do not include depreciation and amortization. Instead, capital outlay and construction costs, as applicable, are budgeted in the operating and capital funds, respectively, at the time of purchase and/or encumbrance. Proprietary fund budgets also do not include bad debts.
- The County does not budget for the retirement of Commercial Paper Bond Anticipation Notes (BANs). The outstanding balance of any BANS issued are retired with the issuance of General Obligation Bonds.
- Certain amounts, such as those relating to the purchase of new fleet vehicles and certain inter-fund services such as permitting and solid waste services, are budgeted as fund expenditures but are reclassified to inter-fund transfers for accounting purposes.

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- Year-end GAAP incurred but not reported (IBNR) adjustment amounts in the self-insurance internal service funds are not budgeted; any such adjustments to IBNR claims reserve as of year-end are incorporated into the budget preparation process of the following fiscal year.
  - Proprietary fund budgets include the annual required contribution to pre-fund retiree health insurance benefit costs; however, certain pre-funded retiree health insurance-related costs in the proprietary funds and General Fund may be reclassified for accounting purposes.
  - Proceeds from debt issued specifically for Montgomery Housing Initiative (MHI) affordable housing/property acquisition is classified as a resource in the MHI fund.
  - The County does not budget for the annual change in fair market value of its investments, which is included in revenue for accounting purposes.
  - The County does not budget for the operating results of the Montgomery County Conference Center, owned by the County and administered by a third party; instead, the budget includes cash distributions between the parties that represent distribution of net operating revenues and reimbursement for net operating losses.

## Internal Accounting Controls

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The County will develop and manage its accounting system to provide reasonable assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. "Reasonable assurance" recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

## Audits

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The County will ensure the conduct of timely, effective, and periodic audit coverage of all financial records and actions of the County, its officials, and employees in compliance with local, state, and federal law.

# POLICIES FOR EXPENDITURES AND ALLOCATION OF COSTS

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## Content of Budgets

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The County will include in the Operating Budget all programs and facilities which are not included in the Capital Improvements Program. There are three major impacts of the Capital Improvements Program (CIP) on Operating Budgets: debt service; current revenues applied to the CIP for debt avoidance or for projects which are not debt-eligible; and presumed costs of operating newly opened facilities. Please refer to the Capital Improvements Program (CIP) section in this document for more detail.

## Expenditure Growth

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The County Charter (Section 305) requires that the County Council annually adopt and review spending affordability guidelines for the Operating Budget, including guidelines for the aggregate Operating Budget. The aggregate Operating Budget excludes Operating Budgets for: enterprise funds; grants; tuition and tuition-related charges of Montgomery College; and the Washington Suburban Sanitary Commission. County law implementing the Charter requires that the Council set expenditure limits for each agency, as well as for the total, to provide more effective guidance to the agencies in the preparation of their budget requests.

Spending affordability guidelines for the Capital Budget and Capital Improvements Program are adopted in odd-numbered

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calendar years. They have been interpreted in subsequent County law to be limits on the amount of General Obligation Debt and Park and Planning debt that may be approved for expenditure for the first and second years of the CIP and for the entire six years of the CIP.

Any aggregate budget that exceeds the guidelines then in effect requires the affirmative vote of seven of the nine Councilmembers for approval.

The Executive advises the Council on prudent spending affordability limits and makes budget recommendations for all agencies consistent with realistic prospects for the community's ability to pay, both in the upcoming fiscal year and in the ensuing years.

Consistent with the Charter (Section 302) requirement for a six-year Public Services Program, the Executive continues to improve long-range displays for operating programs.

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### Allocation of Costs

The County will balance the financial burden of programs and facilities as fairly as possible between the general taxpayers and those who benefit directly, recognizing the common good that flows from many public expenditures, the inability of some residents to pay the full costs of certain benefits, and the difficulty of measuring the relationship between public costs and public or private benefits of some services.

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### Tax Duplication Avoidance

In accordance with law, the County will reimburse those municipalities and special taxing districts which provide public services that would otherwise be provided by the County.

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### Expenditure Reduction

The County will seek expenditure reductions whenever possible through efficiencies, reorganization of services, and through the reduction or elimination of programs, policies, and practices which have outlived their usefulness. The County will seek interagency opportunities to improve productivity.

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### Shared Provision of Service

The County will encourage, through matching grants, subsidies, and other funding assistance, the participation of private organizations in the provision of desirable public services when public objectives can be more effectively met through private activity and expertise and where permitted by law.

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### Public Investment in Infrastructure

The County will, within available funds, plan and budget for those facilities and to the infrastructure necessary to support its economy and public programs determined to be necessary for the quality of life desired by its residents.

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### Cost Avoidance

The County will, within available funds, consider investment in equipment, land or facilities, and other expenditure actions, in the present, to reduce or avoid costs in the future.

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### Procurement

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The County will make direct or indirect purchases through a competitive process, except when an alternative method of procurement is specifically authorized by law, is in the County's best interest, or is the most cost-effective means of procuring goods and services.

## Use of Restricted Funds

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In order to align costs with designated resources for specific programs or services, the County will generally first charge expenses against a restricted revenue source prior to using general funds. The County may defer the use of restricted funds based on a review of the specific transaction.

## SHORT-TERM FISCAL AND SERVICE POLICIES

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Short-term policies are specific to the budget year. They address key issues and concerns that frame the task of preparing a balanced budget that achieves the County Executive's priorities within the context of current and expected economic realities.

In May 2015, the Supreme Court upheld the decision of the Maryland Court of Appeals in the Wynne income tax case, which held that the State of Maryland's failure to allow a credit with respect to the County income tax for out-of-state income taxes paid to other states for certain income earned in those states violates the Commerce Clause of the United States Constitution. As a result of the decision, the County's revenue baseline was reduced to reflect the retroactive liability from past income tax filings as well as the ongoing annual impact related to the change in the taxability of this source of income. The annual impact of this ruling is estimated to be approximately \$30.0 million, and the repayment to the State for retroactive liability from past income tax filings is estimated to be \$145.6 million spread over 80 quarters starting in the third quarter of FY21. The County's revenue forecasts reflect this repayment schedule.

The FY22 budget development was impacted by FY20 actuals, increased costs in FY21, and reduced tax and fee revenue estimates for FY21 and FY22 - primarily related to the fiscal impacts of the COVID-19 virus. The FY20 actual General Fund ending fund balance was \$56.6 million less than estimated in May 2020. This resulted in ending reserves of \$474.0 million, or 8.9 percent of Adjusted Governmental Revenues - short of the budgeted target of 10 percent. This was primarily due to COVID-19-related differential pay costs, overspending for Fire and Rescue Services and reduced revenues. Based on the comparison of estimated tax revenues for the FY20 Approved Budget and actual revenues for the property tax, income tax, transfer and general fund portion of the recordation taxes, and other taxes (Fuel Energy, Hotel-Motel, Telephone, Admissions, and E-Cigarettes taxes), actual revenues were \$17.1 million (or 0.43%) below the estimates for the FY20 Approved Budget. The shortfall in the property tax was attributed to the differences between the estimated actual value for new construction, the increase in appeals, and revisions by the State in the re-assessments post-adopted budget. The shortfall in the transfer and recordation taxes is due to the decline in collections from commercial transactions because of COVID-19. The impact of COVID-19 also contributed to the decline in non-residential collection from the Fuel and Energy Tax (FET), Hotel-Motel Tax, and Admissions Tax. However, actual income tax revenues were greater than the estimate for the FY20 Approved Budget, largely due to a 77.2% increase in the November 2019 reconciliation distribution compared to the November 2018 distribution. This is due to the earlier delay in revenues from taxpayers filing and extensions as a response to the 2017 Tax Cut and Jobs Act. Finally, the Department of Finance incorporated the shortfall in actual revenues and a decline in the November 2020 distribution from the November 2019 distribution for the income tax along with the economic forecast of a moderate recession provided by Moody's Analytics to derive the revenue estimates for FY21 and FY22. Finance also derived estimates for the property tax under the current Charter Limit for FY21 and the new Charter Limit voted in November 2020 for FY22. In FY21, Transfer/Recordation, Hotel/Motel, Energy, and other minor taxes are estimated to be more than \$50 million below budget, while fees and fines are also projected to be short by \$45.8 million. Similarly, FY21 expenditures are expected to exceed budgeted expenses by almost \$85 million due primarily to the costs of combatting the COVID-19 virus. A significant component of the COVID-19 related costs includes differential pay for front-facing and in-office employees (nearly \$89 million since March 2020). Fortunately, these revenue losses and cost increases

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were offset primarily by \$168 million in federal pandemic-related grants and Federal Emergency Management Administration (FEMA) grants and modest income tax gains (\$12.3 million).

FY22 expenditure and revenue estimates are challenging to predict. In FY21, the State has allowed taxpayers to defer tax payments and made unemployment benefits exempt from income taxes - making it difficult to estimate income tax revenues. Uncertainties regarding the ability to safely reopen the economy, the level of resident needs, and the rules for FEMA reimbursements and additional federal aid have made the FY22 budget development process very complex. While property taxes and income taxes are estimated to increase compared to FY20 actuals, other taxes and fees and fines are expected to decrease. Assuming an estimated \$85.7 million in COVID-19 federal grants and FEMA reimbursements, total FY22 revenues are estimated to increase to \$5.2 billion compared to FY20 actual revenues of \$5.1 billion. Due to increased costs, the FY22 reserves are expected to be \$521.9 million, or 9.6 percent of adjusted governmental revenues - again below the target of 10 percent, but an improvement over FY21 estimated year-end reserves.

To address the challenges of COVID-19 and its impacts on County residents, business and the County's budget, County leaders have:

- Adopted a "same services budget in FY21" since early in the COVID crisis it was difficult to predict the duration and severity of the virus' budgetary impacts.
- Adopted two mid-year savings plans to reduce FY21 spending when it became obvious that the COVID-19 crisis was going to be prolonged and have a negative impact on County revenues.
- Temporarily waived the policy of using PAYGO (pay-as-you-go) funding for capital expenditures in FY21 and recommended providing only half of the 10 percent of General Obligation debt PAYGO policy level in FY22. This represented \$47.5 million in savings for the Operating Budget.
- Reduced nearly \$18 million of other cash expenditures in the capital budget to support the Operating Budget.
- Renegotiated hazard pay provisions twice. The County's labor agreements did not envision long-lasting general emergencies and the bargained hazard pay provisions were too costly to maintain for an extended period.
- Aggressively pursued FEMA reimbursement for all eligible COVID-19 expenses. This has entailed extensive work with changing and sometimes unclear guidance from FEMA. From March through December 2020, the County incurred \$129.9 million of expenditures that will be submitted to FEMA for reimbursement. To date, \$23.9 million has been received, \$7.2 million is expected shortly, \$61.8 million is currently being reviewed by FEMA, and the remaining \$35.7 million is being prepared for submission. FY21 eligible expenditures will be submitted for reimbursement as well.
- Appropriated more than \$280 million of Federal and County funds to provide relief and support to County residents, businesses, and non-profits impacted by COVID-19. This support helped mitigate the pandemic's local impacts by providing the funds needed to maintain personal incomes and keep businesses open. Funding has supported business assistance, food security, economic and rental assistance to residents, targeted COVID-19 response to the our disproportionately impacted communities of color, childcare assistance, and County government response and service modifications due to COVID-19.
- Used the County's reserves to pay for expenditures related to the public health crisis that were likely to be reimbursed by FEMA or other Federal support. These costs included COVID-19 testing, food security, personal protective equipment acquisition and distribution, cleaning and sanitation supplies. While this meant the County did not achieve its 10 percent reserve target, the County will add funds to the reserves over the next three years to achieve that target by FY24.
- Accessed all available Federal funds to support County services. This included \$183.3 million in Coronavirus Relief Funds; \$53.2 million for transit funding; and over \$30 million for rental assistance with more rental assistance funding expected. The American Rescue Plan Act is expected to provide over \$200 million during FY21 and FY22.
- Refinanced debt to achieve savings.

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- Established one-year lines of credit worth \$250 million with two bank providers in August and October of 2020. These lines of credit have not been utilized but are available to ensure that the County has sufficient liquidity to meet its obligations.
  - Established a goal to identify budget reductions as the first action to reduce the use of reserves during an economic recession or national emergency. In the event the total reserves fall below 10% of Adjusted Gross Revenues, the County must replenish the County Government Reserves to its policy goal within three fiscal years.
  - The County Council has also requested that the County Executive follow a new practice as a means to preserve long-term budget sustainability, such that the annual growth rate of total compensation costs (including all wage and benefit costs) should be similar to the annual growth rate of tax-supported revenues; compensation costs in excess of the projected one-year or six-year rate of revenue growth should be explained as to how they will be affordable in the future.
  - Established a goal to identify budget reductions as the first action to reduce the use of reserves during an economic recession or national emergency.

The Office of Management and Budget coordinated with the Office of Racial Equity and Social Justice to incorporate racial equity considerations into the budgeting process, systems, meetings, and decision-making process. This year, this work focused on budget changes but in the future, base budget programs will also be evaluated through this lens.

In addition, the County has begun work on efforts that will improve the County's finances in FY23 and beyond. These include a Cost Containment Project, a reexamination of the County's Other Post-Employment Benefits (OPEB) policies and practices, and approval of a revised charter amendment regarding property tax increase limitations. The Cost Containment initiative is a collaborative effort with the MCGEO employee union to improve County Government functions and services through increased efficiency, use of technology, staffing planning, management streamlining, and collaboration. This project includes a review of all vacant positions, supervisory structures, and process evaluation and improvements. Regarding OPEB expenses, the County has continued its commitment to make the actuarially determined contributions in FY22 and is finalizing an updated OPEB funding policy to take effect after FY22.

In November 2020, County residents voted to amend Section 305 of the County Charter that prohibits the County Council from adopting a tax rate on real property that exceeds the tax rate on real property approved the previous year, unless all current Councilmembers vote affirmatively for the increase. The amendment to Section 305 replaces the prior Charter Limit that restricted the growth in property tax revenues to the sum of the previous year's estimated revenue, increased by the rate of inflation, and an amount based on the value of new construction and other minor factors.

There were also challenges in developing the Recommended Amended FY21-26 Capital Improvements Program (CIP) due to funding reductions related to 1) COVID-19 impacts on Recordation Taxes (-\$41.7 million); 2) changes in the Subdivision Staging Growth Policy which resulted in decreases in impact taxes (-\$51.5 million); and the County's decision to reduce PAYGO (-\$47.5 million) and other cash (-18.0 million) funding for the CIP to support the Operating Budget. While priority was given to maintaining support for key priorities such as education, critical transportation projects, core infrastructure, and economic development, given the scale of reduced funding, all agencies had some projects recommended for reduction or deferral. As part of this review, consideration was also given to equitably distributing projects throughout the County and to ensuring that racial equity was a factor in decision-making.

Together with the long-term policies described elsewhere in this chapter, the short-term policies described here have allowed the County to construct a balanced, fiscally responsible FY22 budget consistent with current economic and fiscal realities while achieving the County Executive's key priority outcomes.

## CURRENT CIP FISCAL POLICIES



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## Policy on Eligibility for Inclusion in the CIP

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Capital expenditures included as projects in the CIP should:

- Have a reasonably long useful life, add to the physical infrastructure and capital assets of the County, or enhance the productive capacity of County services. Examples are roads, utilities, buildings, and parks. Such projects are normally eligible for debt financing.
- Generally have a defined beginning and end, as differentiated from ongoing programs in the PSP.
- Be related to current or potential infrastructure projects. Examples include facility planning or major studies. Generally, such projects are funded with current revenues.
- Be carefully planned to enable decision makers to evaluate the project based on complete and accurate information. In order to permit projects to proceed to enter the CIP once satisfactory planning is complete, a portion of "programmable expenditures" (as used in the Bond Adjustment Chart) is deliberately left available in a set-aside for future needs.

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## Policy on Funding CIP with Debt

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Much of the CIP should be funded with debt. Capital projects usually have a long useful life and will serve future taxpayers as well as current taxpayers. It would be inequitable and an unreasonable fiscal burden to make current taxpayers pay for many projects out of current tax revenues. Bond issues, retired over approximately 20 years, are both necessary and equitable.

Projects deemed to be debt eligible should:

- Have a useful life at least approximately as long as the debt issue with which they are funded.
- Not be able to be funded entirely from other potential revenue sources, such as intergovernmental aid or private contributions.
- Special Note: With a trend towards more public/private partnerships, especially regarding projects aimed at the revitalization or redevelopment of the County's central business districts, there are more instances when public monies leverage private funds. These instances, however, generally bring with them the "private activity" or private benefit (to the County's partners) that make it necessary for the County to use current revenue or taxable debt as its funding source. It is County fiscal policy that financing in partnership situations ensures that tax-exempt debt is issued only for those improvements that meet the IRS requirements for the use of tax-exempt bond proceeds.

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## Policy on General Obligation Debt Limits

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General Obligation Debt usually takes the form of bond issues, and pledges general tax revenue for repayment. Paying principal and interest on General Obligation Debt is the first claim on County revenues. By virtue of prudent financial management and the long-term strength of the local economy, Montgomery County has maintained the highest quality rating of its General Obligation Bonds, AAA. This top rating by Wall Street rating agencies assures Montgomery County of a ready market for its bonds and the lowest available interest rates on that debt.

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## Debt Capacity

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To maintain our AAA rating, the County considers the following guidelines in deciding how much additional County General Obligation Debt may be issued in the six-year CIP period:

**Overall Debt as a Percentage of Assessed Valuation.** This ratio measures debt levels against the property tax base, which generates the tax revenues that are the main source of debt repayment. Total debt, both existing and proposed, should be

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kept at about 1.5 percent of full market value (substantially the same as assessed value) of taxable real property in the County.

**Debt Service as a Percentage of the General Fund.** This ratio reflects the County's budgetary flexibility to adapt spending levels and respond to economic condition changes. Required annual debt service expenditures should be kept at about ten percent of the County's total General Fund. The General Fund excludes other special revenue tax supported funds.

**Overall Debt per Capita.** This ratio measures the burden of debt placed on the population supporting the debt and is widely used as a measure of an issuer's ability to repay debt. Total debt outstanding and annual amounts issued, when adjusted for inflation, should not cause real debt per capita (i.e., after eliminating the effects of inflation) to rise significantly.

**Ten Year Payout Ratio.** This ratio reflects the amortization of the County's outstanding debt. A faster payout is considered a positive credit attribute. The rate of repayment of bond principal should be kept at existing high levels and in the 60-75 percent range during any ten-year period.

**Per Capita Debt to Per Capita Income.** This ratio reflects a community's economic strength as an indicator of income levels relative to debt. Total debt outstanding and annual amounts proposed should not cause the ratio of per capita debt to per capita income to rise significantly above about 3.5 percent.

These ratios will be calculated and reported each year in conjunction with the capital budget process, the annual financial audit and as needed for fiscal analysis.

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## Policy on Terms for General Obligation Bond Issues

Bonds are normally issued in a 20-year series, with 5 percent of the series retired each year. This practice produces equal annual payments of principal over the life of the bond issue, which means declining annual payments of interest on the outstanding bonds, positively affecting the pay-out ratio (see Debt Limits, above). Thus annual debt service on each bond issue is higher at the beginning and lower at the end. When bond market conditions warrant, or when a specific project would have a shorter useful life, different repayment terms may be used. General Obligation Bonds are secured by the unlimited taxing authority pledge of the County.

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## Policy on Other Forms of General Obligation Debt

The County may issue other forms of debt as appropriate and authorized by law. From time to time, the County issues Commercial Paper/Bond Anticipation Notes (BANs) for interim financing to take advantage of favorable interest rates within rules established by the Internal Revenue Service.

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## Policy on Use of Revenue Bonds

Revenue bonds are secured by the pledge of particular revenues to their repayment in contrast to general obligation debt, which pledges general tax revenues. The revenues pledged may be those of a Special Revenue fund, or they may be derived from the funds or revenues received from or in connection with a project. Amounts of revenue debt to be issued should be limited to ensure that debt service coverage ratios shall be sufficient to ensure ratings at least equal to or higher than ratings on outstanding parity debt. Such coverage ratios shall be maintained during the life of any bonds secured by that revenue stream.

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## Policy on Use of Appropriation-Backed Debt

Various forms of appropriation-backed debt may be used to fund capital improvements, facilities, or equipment issued directly by the County or using the Montgomery County Revenue Authority or another entity as a conduit issuer. Under

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such an arrangement, the County enters into a long-term lease with the conduit issuer and the County lease payments fund the debt service on the bonds. Appropriation-backed debt is useful in situations where a separate revenue stream is available to partially offset the lease payments, thereby differentiating the project from those typically funded with General Obligation Debt. Because these long-term leases constitute an obligation of the County similar to general debt, the value of the leases is included in debt capacity calculations.

### Policy on Issuance of Taxable Debt

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Issuance of taxable debt may be useful in situations where private activity or other considerations make tax-exempt debt disadvantageous or ineligible due to tax code requirements or other considerations. The cost of taxable debt will generally be higher because investors are not able to deduct interest earnings from taxable income. Taxable debt may be issued in instances where the additional cost of taxable debt, including legal, marketing, and other up-front costs and the interest cost over the life of the bonds is outweighed by the advantages in relation to the financing objectives to be achieved.

### Policy on Use of Interim Financing

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Interim Financing may be useful in situations where project expenditures are eligible for long-term debt, but permanent financing is delayed for specific reasons, other than affordability. Interim Financing should have an identified ultimate funding source, and should be repaid within the short-term. An example for interim financing would be in a situation where an offsetting revenue, such as land sale proceeds, will be available in the future to pay off a portion of the amounts borrowed, but the exact amounts and timing of the repayment are uncertain.

### Policy on Use of Short-Term Financing

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Short-term financing (terms of seven years or less) may be appropriate for certain types of equipment or system financings, where the term of the financing correlates to the useful life of the asset acquired, or in other cases where the expected useful life is long, but due to the nature of the system, upgrades are frequent and long-term financing is not appropriate. Short-term financings in the CIP are also of a larger size or magnitude than smaller purchases typically financed with short-term Master Lease financing.

### Policy on Use of Current Revenues

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Use of current revenues to fund capital projects is desirable as it constitutes "pay-as-you-go" financing and, when applied to debt-eligible projects, reduces the debt burden of the County. Decisions to use current revenue funding within the CIP have immediate impacts on resources available to annual operating budgets, and require recognition that certain costs of public facilities should be supported on a current basis rather than paid for over time.

Current revenues from the General Fund are used for designated projects which have broad public use and which fall outside any of the specialized funds. Current revenues from the Special and Enterprise Funds are used if the project is associated with the particular function for which these funds have been established.

The County has the following policies on the use of current revenues in the CIP:

- Current revenues must be used for any CIP projects not eligible for debt financing by virtue of limited useful life.
- Current revenues should be used for CIP projects consisting of limited renovations of facilities, for renovations of facilities which are not owned by the County, and for planning and feasibility studies.
- Current revenues may be used when the requirements for capital expenditures press the limits of bonding capacity.
- Except for excess revenues which must go to the Revenue Stabilization Fund, the County will, whenever possible, give highest priority for the use of one-time revenues from any source to the funding of capital assets or other nonrecurring

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expenditures so as not to incur ongoing expenditure obligations for which revenues may not be adequate in future years.

## Policy on Use of Federal and State Grants and Other Contributions

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Grants and other contributions should be sought and used to fund capital projects whenever they are available on terms that are to the County's long-term fiscal advantage. Such revenues should be used as current revenues for debt avoidance and not for debt service.

## Policy on Minimum Allocation of PAYGO

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PAYGO is current revenue set aside in the operating budget, but not appropriated, and is used to replace bonds for debt-eligible expenditures. To reduce the impact of capital programs on future years, the County will fund a portion of its CIP on a pay-as-you-go basis. Pay-as-you-go funding will save money by eliminating interest expense on the funded projects. Pay-as-you-go capital appropriations improve financial flexibility in the event of sudden revenue shortfalls or emergency spending. It is the County's policy to allocate to the CIP each fiscal year as PAYGO at least ten percent of the amount of general obligation bonds planned for issue that year.

## Policy on Operating Budget Impacts

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In the development of capital projects, the County evaluates the impact of a project on the operating budget and displays such impacts on the project description form. The County shall not incur debt or otherwise construct or acquire a public facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility.

## Policy on Taxing New Private Sector Development

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As part of a fair and balanced tax system, new development of housing, commercial, office, and other structures should contribute directly toward the cost of new and improved transportation and other infrastructure required to serve that development. To implement this policy, the County has established the following taxes:

**Impact Tax - Transportation.** In November 2020, the County Council approved the 2020-2024 Growth and Infrastructure Policy (formerly known as the Subdivision Staging Policy). The new policy continues existing rates but modifies geographic boundaries of the Red Policy Areas to include certain Metro stations. These taxes are levied at four zone rate schedules: transit-oriented and urban Red Policy Areas (former Metro Station Policy Areas); mixed urban/suburban Orange Policy Areas (formerly part of the general impact district); suburban Yellow Policy Areas (formerly part of the general impact tax district); and rural Green Policy areas (e.g., agricultural reserve). The new policy requires that non-exempt dwelling units in a development with at least 25% affordable units must pay a discounted tax rate by housing type applicable in the Red Policy Area. Except for a development located in the City of Rockville, a discounted rate is also applied to development in a Desired Growth and Investment Area within an Orange or Yellow Policy Area. The impact tax exemption is expanded to include development located in a Qualified Opportunity Zone certified by the U.S. Treasury Department.

**Impact Tax - Schools.** Most residential development in Montgomery County is subject to an impact tax for certain school facilities. The Growth and Infrastructure Policy eliminates residential development moratoria and designates neighborhoods by two School Impact Areas - Infill and Turnover - for the school impact taxes that vary by housing, commensurate with the average student generation rates of that type of residential development. Non-exempt dwelling units in a development with at least 25% affordable units must pay a discounted rate by housing type applicable in the Infill School Impact Area. A discounted rate is applied to residential development with multi-family dwelling units or in a Desired Growth and Investment Area. Exemption of school impact tax is applied to development in a Qualified Opportunity Zone.

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**Utilization Premium Payments.** The policy also requires developers of new housing to make Utilization Premium Payments (UPP) in areas with overcrowded schools, effective March 9, 2021. Three utilization thresholds for residential development at the individual school level were established; however, the UPP is exempt if any development plan was filed prior to February 26, 2021 that includes 25% affordable units, under a government regulation or binding agreement, or in a former Enterprise Zone that is filed and accepted before January 1, 2021.

**School Facilities Payment.** A school facilities payment is applied at subdivision review to residential development projects located in a school cluster where enrollment exceeds adopted standards. The school facilities payment is made on a per-student basis, based upon standard student generation rates of that type of residential development. As of March 1, 2017, the School Facilities Payment only applies to development projects that were included in a preliminary plan of subdivision prior to this date.

**Development Approval Payment (DAP).** In November 1993, the Council created an alternative voluntary review procedure for Metro Station Policy Areas as well as limited residential development. The DAP permits development projects to proceed in certain areas subject to development restrictions. Due to the voluntary nature of this payment, DAP revenue is an unpredictable funding source and is not programmed for specific transportation improvements until after the revenue has been collected. In October 2003, the County Council revised the Annual Growth Policy to replace the Development Approval Payment with an alternative payment mechanism based upon impact tax rates.

**Development Districts.** Legislation enacted in 1994 established a procedure by which the Council may create a development district. The creation of such a special taxing district allows the County to issue low-interest, tax-exempt bonds that are used to finance the infrastructure improvements needed to allow the development to proceed. Taxes or other assessments are levied on property within the district, the revenues from which are used to pay the debt service on the bonds. Development is, therefore, allowed to proceed, and improvements are built in a timely manner. Only the additional special tax revenues from the development district are pledged to repayment of the bonds. The County's general tax revenues are not pledged. The construction of improvements funded with development district bonds is required by law to follow the County's usual process for constructing capital improvements and, thus, must be included in the Capital Improvements Program.

**Systems Development Charge (SDC).** This charge, enacted by the 1993 Maryland General Assembly, authorized WSSC to assess charges based on the number and type of plumbing fixtures in new construction, effective July 19, 1993. SDC revenues may only be spent on new water and sewerage treatment, transmission, and collection facilities.

## GOVERNMENTAL MANAGEMENT POLICIES

### Productivity

The County will seek continuous improvement in the productivity of County programs in terms of quantity of services relative to resources expended, through all possible strategies.

### Employee Involvement

The County will actively encourage and make use of the experience and expertise of its workforce for optimum program effectiveness and cost-efficiency of public service delivery through training, teamwork, employee empowerment, and other precepts of quality management.

### Intergovernmental Program Efforts

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The County will seek program efficiencies and cost savings through cooperative agreements and joint program efforts with other County agencies, municipalities, regional organizations, and the State and Federal governments.

### Alternative Service Delivery

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The County will consider obtaining public service delivery through private or non-profit sectors via contract or service agreement, rather than through governmental programs and employees, when permitted by law, cost-effective, and consistent with other public objectives and policies.

### Risk Management

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The County will control its exposure to financial loss through a combination of commercial and self-insurance; self-insure against all but the highest cost risks; and aggressively control its future exposure through a risk management program that allocates premium shares among agencies based on loss history.

### Employee Compensation

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The County will seek to provide total compensation (pay plus employee benefits) that is comparable to jobs in the private sector; comparable among similar jobs in the several County departments and agencies; and comparable between employees in collective bargaining units and those outside such units.

The government will act to contain the growth of compensation costs using various strategies including organizational efficiencies within its departments and agencies, management efficiencies within its operations and service delivery, and productivity improvements within its workforce.

### Pension Funds

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The County will, to assure the security of benefits for current and future retirees and the solvency of the Employee Retirement System of Montgomery County, provide for the judicious management and investment of the fund's assets through the Board of Investment Trustees (BIT), and strive to increase the funding ratio of assets to accrued liability. The BIT also selects the service providers and investment options available for employees participating in the Retirement Savings Plan and the Deferred Compensation Plan. The Montgomery County Union Employees Deferred Compensation Plan is administered by the three unions representing Montgomery County employees.

### Retiree Health Benefits Trust

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The County phased-in full pre-funding of its Actuarially Determined Contribution (ADC), from the previous pay-as-you-go approach, beginning with contributions to one or more trust funds established for that purpose, over an eight-year period beginning with FY08. This approach allows the County to use a discount rate higher than its operating investment rate for accounting and budgeting purposes, which will result in lower costs and liabilities than if the County did not have a Trust in place.

### Surplus Property

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The County will maximize the residual value of land parcels or buildings declared excess to current public needs through public reuse, lease to appropriate private organizations, or sale, in order to return them to the tax base of the County. Disposition of goods which have become obsolete, unusable, or surplus to the needs of the County will be accomplished through bid, auction, or other lawful method to the purchaser offering the highest price except under circumstances as

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specified by law.

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## Fiscal Impact Reviews

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The County will review proposed local and State legislation, regulations, and master plans for specific findings and recommendations relative to financial and budgetary impacts and any continuing and potential long-term effects on the operations of government.

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## Economic Impact Statements

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The County will review proposed local and State legislation, and regulations for specific findings and recommendations relative to economic impacts for any continuing and potential long-term effects on the economic well-being of the County.

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## Resource Management

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The County will seek continued improvement in its budgetary and financial management capacity in order to reach the best possible decisions on resource allocation and the most effective use of budgeted resources.

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# POLICIES FOR REVENUES AND PROGRAM FUNDING

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## Diversification of Revenues

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The County will establish the broadest possible base of revenues and seek alternative revenues to fund its programs and services, in order to:

- Decrease reliance on general taxation for discretionary but desirable programs and services and rely more on user fees and charges;
- Decrease the vulnerability of programs and services to reductions in tax revenues as a result of economic fluctuations; and
- Increase the level of self-support for new program initiatives and enhancements.

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## Revenue Projections

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The County will estimate revenues in a realistic and conservative manner in order to minimize the risk of a funding shortfall.

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## Property Tax

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The County will, to the fullest extent possible, establish property tax rates in such a way as to:

- Limit annual levies so that tax revenues are held at or below the rate of inflation, or justify exceeding those levels if extraordinary circumstances require higher rates;
- Avoid wide annual fluctuations in property tax revenue as economic and fiscal conditions change; and
- Fully and equitably obtain revenues from new construction and changes in land or property use.

A November 2020 amendment to the County Charter (Section 305), prohibits the County Council from adopting a tax rate on real property that exceeds the tax rate on real property approved for the previous year, unless all current Councilmembers vote affirmatively for the increase. This amendment replaces the previous property tax limit, which

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required an affirmative vote of all current Councilmembers to levy a tax on real property that would produce total revenue that exceeded the total revenue produced by the tax on real property in the preceding fiscal year plus any increase in the Consumer Price Index (CPI-U for the Washington Metropolitan Statistical Area). The previous property tax limit exempted real property tax revenue derived from (1) newly constructed property; (2) newly rezoned property; (3) certain property assessed differently under State law; (4) property that had undergone a change in use; and (5) property in a development tax district to provide funding for capital improvements.

In addition, §5-104 of the State Education Article allows a county to set a property tax rate greater than what would otherwise be allowed under that county's charter limit.

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## County Income Tax

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The County will maintain the rate for the local personal income tax within the limits specified in the Maryland Annotated Code, Tax-General Article, Section 10-106.

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## Special Districts

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The County has established special districts within which extra services, generally not performed countywide, are provided and funded from revenues generated within those districts. Examples are the Urban, Recreation, and Parking Lot Districts. The County will also abolish special districts when the conditions which led to their creation have changed.

Most special districts have a property tax to pay all or part of the district expenses although some of the existing special districts do not currently impose a tax. Such property taxes are included in the overall limit set on annual real property tax revenue increases by Section 305 of the County Charter.

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## Special Funds

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The revenues and expenditures of special districts are accounted for in special revenue funds or, in the case of Parking Lot Districts, in enterprise funds. As a general principle, these special funds pay an overhead charge to the General Fund to cover the management and support services provided by General Fund departments to these special fund programs.

When the fund balances of special funds grow to exceed mandated or otherwise appropriate levels relative to district public purposes, the County may consider transferring part of the fund balance to support other programs, as allowed by law. For example, a portion of the PLDs' fee revenue is transferred to the Urban Districts.

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## Enterprise Funds

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The County will, through pricing, inventory control, and other management practices, ensure appropriate fund balances for its enterprise funds while obtaining full cost recovery for direct and indirect government support, as well as optimal levels of revenue transfer for General Fund purposes.

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## One-Time or "Windfall" Revenues

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One-time revenues and revenues in excess of projections must be prioritized 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 which are one-time in nature in the following priority order: OPEB more than the annual actuarial pre-funding contribution and/or pension prefunding more than the annual actuarial goal, if unfunded liabilities exist and then for other unfunded liabilities and/or other non-recurring expenditures and/or PAYGO for the CIP in excess of the County's targeted PAYGO goal. This assumes that excess revenues which must go to the Revenue Stabilization Fund (see below) have



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already been allocated to the RSF.

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## Intergovernmental Revenues

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The County will aggressively seek a fair share of available State and Federal financial support unless conditions attached to that assistance are contrary to the County's interest. Where possible, Federal or State funding for the full cost of a program will be requested, including any indirect costs of administering a grant-funded program. For reasons of fiscal prudence, the County may choose not to solicit grants that will require an undeclared fiscal commitment beyond the term of the grant.

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## User Fees and Charges

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The County will charge users directly for certain services and use of facilities where there is immediate and direct benefit to those users, as well as a high element of personal choice or individual discretion involved, rather than fund them through general taxation. Such charges include licenses, permits, user fees, charges for services, rents, tuition, and sales of goods. This policy will also be applied to fines and forfeitures. See also: "Policies for User Fees and Charges," later in this Fiscal Policy section.

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## Cash Management and Investments

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The objective of the County's cash management and investment program is to achieve maximum financial return on available funds while assuring a high level of safety. Cash will be pooled and invested on a daily basis reflecting the investment objective priorities of capital preservation, liquidity, and yield.

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## Reserves and Revenue Stabilization

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The County goal will be to budget for and maintain an unrestricted General Fund balance (or, an "operating margin reserve") of five percent of the prior year's General Fund revenues and the Revenue Stabilization Fund (or, "rainy day"), which together, will represent 10 percent of Adjusted Governmental Revenues, except for a period of economic recession or national emergency. This budget satisfies the County's policy given the current national pandemic emergency. As defined in the Revenue Stabilization Fund law, Adjusted Governmental Revenues include the tax supported revenues of the County government, Montgomery County Public Schools (less the County's local contribution), Montgomery College (less the County's local contribution), and Maryland-National Capital Park and Planning Commission, plus the revenues of the County Government's grant fund and capital projects fund.

Reserves in the County Government's other tax supported funds should be minimized to support the policy of maximizing reserves in the General Fund. The County's goal for reserves in funds other than the General Fund and Revenue Stabilization Fund are approved each year with the annual operating budget.

The County's Revenue Stabilization Fund was established to accumulate funds during periods of strong economic growth in order to provide budgetary flexibility during times of funding shortfalls. Contributions of at least 0.5 percent of Adjusted Governmental Revenues up to the 10 percent total reserve goal must be made to the Revenue Stabilization Fund. If greater, 50 percent of certain excess revenues must be transferred to the Fund. By an affirmative vote of six Councilmembers, the Council may transfer any amount from the Fund to the General Fund to support appropriations which have become unfunded.

The County's goal is to identify targeted budget reductions to reduce the use of reserves during an economic recession or national emergency. In the event that total reserves fall below 10 percent of Adjusted Gross Revenues, the County must replenish the County Government Reserves to its policy goal within three fiscal years following the decrease, which must be included in the County's six-year fiscal plan.

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The budgeted reserve levels for non-tax supported funds are established by each government agency and vary based on the particular fiscal requirements and business functions of the fund as well as any relevant laws, policies, or bond covenants.

The table at the end of this chapter displays the projected ending fund balance for each major fund in the County's operating budget and includes an explanation of changes greater than ten percent.

## POLICIES FOR USER FEES AND CHARGES

To control the growth of property taxation as the County's principal revenue source, there is a need to closely allocate certain costs to those who most use or directly benefit from specific government programs and services. Fees and charges are those amounts received from consumers of government services or users of facilities on the basis of personal consumption or private benefit rather than individual income, wealth, or property values. Significant government revenues are and should be obtained from licenses, permits, user fees, charges for services, transit fares, rents, tuition, sales, and fines. The terms "fee" and "charge" are used here interchangeably to include each of these types of charges.

### Purpose of User Fee Policy

**Access to programs and services.** The imposition of and level of fees and charges should be set generally to ensure economic and physical access by all residents to all programs and services provided by the government. Exceptions to this basic public policy are: the pricing of public goods (such as parking facilities) in order to attain other public policy objectives (such as public use and support of mass transit); and using a charge to enforce compliance with laws and regulations, such as fines for parking violations.

**Fairness.** User fees and charges are based on the principle of equity in the distribution of costs for government programs and services, with the objective of sharing those costs with the individual user when there is individual choice in the kind or amount of use, and of adjusting charges in accordance with individual ability to pay when there is no choice.

**Diversification of revenue sources.** User fees and charges enhance the government's ability to equitably provide programs and services which serve specific individuals and groups and for which there is no other alternative provider available. The policy objective is to decrease reliance on general revenues for those programs and services which produce direct private benefits and to fund such programs and services through revenues directly related to their costs and individual consumption.

### Goals

Goals for the imposition of user fees and charges include:

- Recovery of all, or part, of government costs for the provision of certain programs and services to the extent that they directly benefit private individuals or constituencies rather than the public at large;
- Most efficient allocation of available public resources to those programs meeting the broadest public need or demand;
- More effective planning and alternative choices for future programs, services, and facilities through "market" information from actual user demand;
- Improved cost-effectiveness and accountability for the spending of public funds by allowing individual citizens to choose their level of use from among those programs, services, and facilities where individual choice may be exercised; and
- Ensuring dedicated sources of funds to cover the costs of programs and services of direct benefit to designated special areas or user groups rather than the County as a whole.

Within these goals, government officials must consider a variety of factors in deciding whether to employ fees and charges and what rates to charge. Each proposal for a new or increased fee is evaluated according to these criteria.

**Public benefit.** Many programs benefit the public as a whole as well as those who directly use the service. By definition, all programs offered by government have some public benefit or they should not be undertaken. However, the rate set must balance the private benefit with the public good so that there is maximum overall benefit to the community, and the costs are fairly allocated.

This balance may be achieved either by specifying a percentage of cost recovery (from users) or by a tax subsidy for each service (from the general public). The greater the public benefit, the lower the percentage of cost recovery that is appropriate. On one end of the scale, public utilities such as water and sewer should be paid for almost entirely on the basis of individual consumption, with full cost recovery from consumer-users; on the other, public education and public safety (police and fire service) are required for the overall public good and so are almost entirely supported through general taxation.

In between are services such as public health inspections or clinic services which protect the public at large but which are provided to specific businesses or individuals; facilities such as parks which are available to and used by everyone; and playing fields, golf courses, or tennis courts which serve only special recreational interests. Services that have private benefit for only a limited number of persons (such as public housing, rent or fuel subsidies) should not be "free" unless they meet very stringent tests of public good, or some related criteria such as essential human needs.

**Ability to pay.** Meeting essential human needs is considered a basic function of government, and for this reason programs or services assisting the very poor are considered a "public good" even though the benefit may be entirely to individuals. Whether to assess fees and how much to charge, depends on the ability to pay by those who need and make use of programs and services provided by government.

Without adjustment, fees are "regressive" because rates do not relate to wealth or income. For this reason, services intended mainly for low-income persons may charge less than otherwise would be the case. Policies related to fee scales or waivers should be consistent within similar services or as applied to similar categories of users. Implementation of fee waivers or reductions requires a means for establishing eligibility that is fair and consistent among programs. The eligibility method also must preserve the privacy and dignity of the individual.

**User discretion.** Fees and charges are particularly appropriate if the user has a choice about whether or not to use a particular program or service. Individuals have choices as to: forming a business that requires a license; use of particular recreational facilities; obtaining post-secondary education; or in transportation and related facilities. When fines represent a penalty to enforce public law or regulation, citizens can avoid the charge by compliance; fines should be set at a point sufficient to deter non-compliant behavior. The rates for fines and licenses may exceed the government cost of providing the related "service" when either deterrence or rationing the special "benefit" is desired as a matter of public policy.

**Market demand.** Services which are fee-supported often compete for customer demand with similar services offered by private firms or by other public jurisdictions. Fees for publicly-provided goods cannot be raised above a competitive level without loss of patronage and potential reduction in cost-effectiveness. Transit fares, as a user charge, will compete with the individual's real or perceived cost of alternative choices such as the use of a private automobile. In certain cases, it may be advisable to accept a loss of volume if net revenue increases, while in others it may be desirable to set the fee to encourage use of some other public alternative.

**Specialized demand.** Programs with a narrow or specialized demand are particularly suitable for fees. The fee level or scale may be set to control the expansion of services or programs in which most of the public does not need or elect to participate. Services that have limitations on their availability may use fee structures as a means of rationing available capacity or distributing use over specific time periods. Examples include golf courses, parking fees, and transit fares, all of which have

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differentiated levels related to time of use. Even programs or services which benefit all or most residents may appropriately charge fees if their benefits are measurable but unequal among individuals. Charges based on consumption, such as water and sewer provision, are examples. In addition, because they do not pay taxes, non-residents may be charged higher rates than residents (as with community college tuition), or they may be charged a fee even if a program is entirely tax supported for County residents.

**Legal constraints.** State law may require, prohibit, regulate, or preempt certain existing or proposed user charges. In general, local government has no authority to tax unless specifically authorized by State law. Localities are generally able to charge for services if those charges are authorized by local ordinance and not prohibited, regulated, or preempted by State law. If a proposed fee is legally construed as a tax, then the fee may be invalidated until authorized as a tax by the State. Federal or State law may also prohibit or limit the use of charges for certain grant programs, and other Federal or State assistance may require the local authority to "match" certain amounts through imposition of charges. It should be noted that law on such issues is frequently in dispute; particular fees, or the level of charge, may be subject to legal challenge.

**Program cost.** The cost of a program or service is an important factor in setting user charges. Costs may include not only the direct personnel and other costs of operating a program, but also indirect costs such as overhead for government support services. In addition, a fee may be set to recover all or part of facilities construction or debt service costs attributable to a program.

Recovery of any part of the costs of programs benefiting specific individuals should identify and consider the full cost of such programs or services to acknowledge the cost share which will be borne by the public at large.

**Reimbursement.** A decision on whether to use fees is influenced by the possibility of reimbursement or shifting of real costs that can lower the net cost to the resident. For example, some County taxes are partially deductible from Federal or State income tax, while fees and charges may not be deducted. Hence, the same revenue to the County may cost less to the resident if it is a tax rather than a fee. Charges may also be reimbursed to (shifted from) the paying individual from (or to) other sources, either governmental or private. For example, ambulance transport charges may be payable under health insurance. In general, the County will use fees to minimize the real cost to residents, within the context of equity and other criteria noted.

**Administrative cost.** The government incurs administrative costs to measure, bill, and collect fee revenues. In general, it is less expensive to collect tax revenue. If a potential user fee revenue will cost more to collect than it will produce, it may not be appropriate to assess a fee even if otherwise desirable and appropriate. It is important to develop ways to measure the use of services which do not cost more than the usefulness or fairness of doing the measurement. For example, "front footage" has been used as a measurement basis for assessing certain charges related to road improvements and supply of water and sewer, to avoid the administrative cost of precisely measuring benefit. Similarly, the cost of effective collection enforcement must be weighed against total benefits of the charge, including the value of deterrence if the charge is punitive.

**Preserving the real value of the charge.** During the period when a fee has been in effect, costs have usually risen and inflation has cut the real value of revenue produced by the fee. In some instances, adjustments to user charges have either not been imposed or have lagged behind inflation. The rate of the charge should be increased regularly to restore the former value of the revenue involved. Most fees and charges should be indexed so that their per unit revenues will keep up with inflation.

## FRAMEWORK FOR FISCAL POLICY

### Legal Framework

Fiscal policy is developed and amended, as necessary, according to:

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- Federal law and regulation;
  - Maryland law and regulation;
  - Montgomery County Charter; and
  - Montgomery County law and regulation.

## Fiscal Planning Projections and Assumptions

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Various trends and economic indicators are projected and analyzed for their impacts on County programs and services and for their impact on fiscal policy as applied to annual Operating Budgets. Among these are:

- Inflation, as measured by change in the Consumer Price Index (CPI) for the Washington-Arlington-Alexandria, DC-VA-MD-WV area, is an important indicator of future costs of government goods and services, including anticipated wage and salary adjustments.
- Growth of population and jobs, which are principal indicators of requirements for new or expanded programs and services.
- Demographic change in the numbers or location within the County of specific age groups or other special groups, which provides an indication of the requirements and costs of various government programs and services.
- The assessable property tax base of the County which is the principal indicator of anticipated property tax collections, a major source of general revenues.
- Personal income earned by County residents, which is a principal basis for projecting income tax revenues as one of the County's major revenue sources, as well as being a basis for determining income eligibility status for certain government programs.
- Employment growth and unemployment rates within the County, as indicators of personal income growth as a revenue source, as well as being indicators of various service or program needs, such as day care or public welfare assistance.

## Generally Accepted Accounting Principles (GAAP)

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The application of fiscal policy in the financial management of annual operating expenditures must be in conformity with GAAP standards. This involves the separate identification of, and accounting for, the various operating funds; adherence to required procedures such as transfers between funds and agencies; and regular audits of general County operations and special financial transactions such as the disbursement of Federal grants.

## Credit Markets and Credit Reviews

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The County's ability to borrow cost-effectively depends upon its credit standing as assessed by the three major credit rating agencies: Moody's, Standard and Poor's, and Fitch. While key aspects of maintaining the highest credit rating are related to the management of the County's Capital Improvements Program (CIP), others are directly applicable to the annual Operating Budgets:

- Maintenance of positive fund balances (reserves) to ensure continued County liquidity for debt repayment; and
- Assurances through County law and practice of an absolute commitment to timely repayment of debt and other obligations.

## Intergovernmental Agreements

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Fiscal policy for operating budgets must provide guidance for, and be applied within, the context of agreements made

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between the County and other jurisdictions or levels of government relative to program or service provision. Examples include agreements with:

- Incorporated municipalities or special tax districts for reimbursement of the costs of various services provided by those units for their residents which would otherwise have to be expended by the County;
- State agencies for shared costs of various social service programs and for participation in various grant and loan programs;
- Federal agencies to obtain support to meet mutual program objectives through programs such as the Community Development Block Grant; and
- Prince George's County on the annual approval of the budgets of the Washington Suburban Sanitary Commission and the Maryland-National Capital Park and Planning Commission.

## Change in Ending Fund Balance

	FY21 Approved Ending Fund Balance	FY22 Recommended Ending Fund	Change in Fund Balance	% Change
<b>TAX SUPPORTED</b>				
<b>Montgomery County Government</b>				
County General Fund	161,391,947	90,774,285	-70,617,662	-43.8%
Bethesda Urban District	144,519	52,591	-91,928	-63.6%
Silver Spring Urban District	658,899	104,429	-554,470	-84.2%
Wheaton Urban District	286,412	70,411	-216,001	-75.4%
Mass Transit	96,209	878,617	782,408	813.2%
Fire	295,050	833,919	538,869	182.6%
Recreation	54,640	436,089	381,449	698.1%
Revenue Stabilization Fund	390,754,104	431,080,150	40,326,046	10.3%
<b>Montgomery College</b>				
Emergency Repair Fund	492,766	551,494	58,728	11.9%
Current Fund MC	21,844,206	24,710,876	2,866,670	13.1%
<b>Maryland-National Capital Park and Planning Commission</b>				
Administration Fund	1,030,535	1,223,338	192,803	18.7%
Park Fund	3,925,413	4,748,364	822,951	21.0%
<b>NON-TAX SUPPORTED</b>				
<b>Montgomery County Government</b>				
Water Quality Protection Fund	3,975,662	3,184,931	-790,731	-19.9%
Cable Television	1,076,040	200,000	-876,040	-81.4%
Community Use of Public Facilities	1,825,896	-565,832	-2,391,728	-131.0%
Bethesda Parking District	9,173,649	5,908,008	-3,265,641	-35.6%
Silver Spring Parking District	10,079,262	452,670	-9,626,592	-95.5%
Wheaton Parking District	351,026	109,675	-241,351	-68.8%
Permitting Services	5,961,092	9,292,876	3,331,784	55.9%
Solid Waste Collection	-3,774,813	-3,640,914	133,899	N/A
Vacuum Leaf Collection	450,156	749,739	299,583	66.6%
Liquor Control	1,836,960	12,313,078	10,476,118	570.3%

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