OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

March 31, 2011

TO: Interested Readers

FROM: Joseph F. Beach, Director

SUBJECT: FY12-17 Fiscal Plan

Executive Summary

The County Executive's highest priority was to produce a fiscally sound and sustainable budget that preserves public safety services, education, and the County's safety net for its most vulnerable residents. The budget maintains his principal goal of achieving economic objectives with balanced impacts on direct public services, taxpayers, and employees. The budget makes long term fiscal soundness a top priority through a commitment to a healthy reserve policy and funding existing obligations. While responding to critical priorities, it was necessary to make significant reductions in existing programs, services and staffing levels, and employee compensation in order to address the County's long-term structural budget challenge. Last year, the County Executive recommended significantly increased energy and cellular telephone taxes. In this budget, the Executive does not recommend any major tax increases.

The Executive's recommended budget, released on March 15, 2011, closed a $300 million budget gap and maintained property taxes at the Charter limit.[1] The budget includes a $692 credit for each owner-occupied residence which keeps property taxes at the Charter limit and supports a progressive property tax structure in the County. Total spending increases 1.8 percent in FY12, and tax supported spending across all agencies increases 3.1 percent. This increased level of tax supported spending reflects inclusion of approximately $49.6 million across all agencies for retiree health insurance pre-funding and $10 million in the County Government for snow removal. In the past, snow removal costs were not fully accounted for in the budget, but were funded by drawing down reserves. In order to adhere to the County's fiscal policies and maintain a prudent and realistic level of reserves, it is important to responsibly fund the County's obligations and known expenditure commitments. Controlling for retiree health insurance pre-funding and snow removal, the County's tax supported budget increases only 1.4 percent for programs and services.

[1] Section 305 of the County Charter limits the growth in real property tax revenues in a fiscal year to the rate of inflation, excluding new construction, development districts, and other minor exceptions. The Council may override this limitation with an affirmative vote of nine Councilmembers.

While this budget positions Montgomery County for the future, it is unlikely these measures to restrain spending are complete with the FY12 operating budget. Given the severe and lasting effects of the recession, the decline in tax revenues, the scheduled sunset of the increase in the Fuel Energy Tax at the end of FY12, the rejection of the Emergency Medical Services transport fee, increasingly volatile fuel costs, and continued economic uncertainty, FY13 and perhaps ensuing fiscal years will require continued restructuring of County expenditures, especially personnel costs which comprise 80 percent of County costs. Significant fiscal pressures remaining on the horizon include rising employee compensation and benefit costs, continued pre-funding of retiree health insurance expenses, increased demand for new and expanded services or restoration of service reductions, the impact on the operating budget from capital investment, and the lag in revenue growth as income tax and other tax receipts catch up with the economic recovery.

This challenge is evident in the current fiscal plan, which would require a reduction in agency tax supported operating budgets of $142.4 million, or -4.1 percent, in order to produce a balanced budget in FY13. This outlook assumes current assumptions hold, revenue growth is not sidetracked, and the County does not experience additional reductions in Federal and State Aid. The Executive is addressing this long term structural imbalance not only through cost reductions but by improving efficiency and productivity through CountyStat and MC311, which enforce results-based accountability and data-driven decision making, continued cross-agency collaboration through the Cross-Agency Resource Sharing Committee (CARS), and government restructuring. This budget includes consolidating the staffing of the Regional Services Centers, the Office of Community Partnerships, the Gilchrest Center, the Office of Human Rights, and the Commission for Women into a new Office of Community Engagement. This reorganization will produce continuing savings of $2.8 million and provide a more effective model for engaging the community. Finally, the Executive supports implementation of the Organization Reform Commission's (ORC) recommendations related to the consolidation of the Housing Opportunities Commission and the Department of Housing and Community Affairs, the merger of the M-NCPPC Park Police into the Montgomery County Police Department, and the merger of certain elements of the M-NCPPC Parks Department into the County's Department of Recreation. The Executive strongly believes these consolidations will improve public services and produce continuing savings to address the County's ongoing fiscal challenges.

Background

The recommended FY12-17 Fiscal Plans for the tax supported and non-tax supported funds of the agencies of County government are provided for your information. Portions of this material were initially published in the FY12-17 Recommended Operating Budget and Public Services Program (March 15, 2011).[2] As in past years, this information is intended to assist the County Council and other interested parties review the County Executive's recommended budget during the Council's budget worksessions this spring.

[2] In addition to these two documents, the reader is encouraged to review other County fiscal materials such as the Comprehensive Annual Financial Report for the year ended June 30, 2010; the Annual Information Statement published by the Department of Finance on January 18, 2011; and Economic Indicators data. Budget and financial information for Montgomery County can also be accessed on the web at www.montgomerycountymd.gov.

Interested readers should note that the fiscal plans included in this publication are not intended to be prescriptive, but are instead intended to present one possible outcome of policy choices regarding taxes, user fees, and spending decisions. Other important assumptions are explained in footnotes at the bottom of each fiscal plan display. One significant benefit of presenting multi-year projections is that the potential future year impacts of current policy decisions can be considered by decision makers when making fiscal decisions in the near term. The Executive's fiscal policies support:

- prudent and sustainable fiscal management: constraining expenditure growth to expected resources;
- identifying and implementing productivity improvements;
- avoiding the programming of one-time revenues to on-going expenditures;
- growing the local economy and tax base;
- obtaining a fair share of State and Federal Aid;
- maintaining prudent reserve levels;
- minimizing the tax burden on residents; and
- managing indebtedness and debt service very carefully.

The Recommended Budget is consistent with the fiscal policies recommended by the County Executive and approved by the County Council in June 2010. These policies include building total reserves to 10 percent of Adjusted Governmental Revenues[3] (including mandatory contributions to the Revenue Stabilization Fund), fully funding PAYGO[4], and funding a portion of the scheduled contribution for retiree health insurance pre-funding.

Fiscal Plan for the Tax Supported Funds

The recommended fiscal planning objectives for FY12-17 for the tax supported funds are:

- Adhere to sound fiscal policies.
- Tax supported reserves (operating margin and the Revenue Stabilization Fund) are at the policy level of maintaining an unrestricted General Fund balance of 5 percent of the prior year's General Fund revenues and increasing the Revenue Stabilization Fund consistent with the requirements of Section 20-65 of the Montgomery County Code.
- Maintain property taxes at the Charter limit by providing a $692 credit to each owner-occupied household.
- Assume property tax revenues at the Charter Limit during FY13-17 in the fiscal plan using the income tax offset credit.
- Manage fund balances in the non-tax supported funds to established policy levels where applicable.

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[3] The tax supported revenues of the County Government, Montgomery County Public Schools (less the local contribution), Montgomery College (less the local contribution), Maryland-National Park and Planning Commission, and the County Government's Capital Projects and Grants Funds.

[4] Current revenue that is substituted for debt in capital projects that are debt eligible or used in projects that are not debt eligible or qualified for tax-exempt financing is referred to as PAYGO, or "pay as you go" funding. The County's policy is to program at least 10 percent of planned General Obligation bond issues as PAYGO in the capital budget.

- Assume current State aid formulas, but continue successful strategies to increase State (and Federal) operating and capital funding.
- Maintain priority to economic development and tax base growth:
  - Seize opportunities to recruit and retain significant employers compatible with the County's priorities;
  - Give priority to capital investment that supports economic development/tax base growth.
- Maintain essential services.
- Limit exposure in future years to rising costs by controlling baseline costs and allocating one-time revenues to one-time expenditures, whenever possible.
- Manage all debt service commitments very carefully, consistent with standards used by the County to maintain high credit ratings and future budget flexibility. Recognize the fixed commitment inherent in all forms of multi-year financing (long-term bonds, shorter-term borrowing, and lease-backed revenue bonds) that must be accommodated within limited debt capacity.
- Program PAYGO to be at least 10 percent of anticipated General Obligation Bond levels to contain future borrowing costs in FY13-17.
- For capital investment, allocate debt, current revenue, and other resources made available by the fiscal objectives above according to priorities established by policy and program agendas.
- For services, allocate resources consistent with policy and program agendas.

The major challenges for FY12-17 will be to contain on-going costs, preserve essential services, and make improvements in other services including public safety, education, the social safety net, affordable housing, and transportation, as the local economy continues to recover from the recession.

Fiscal Plans for the Non-Tax Supported Funds

By definition, each of the non-tax supported (fee-supported) funds is independent, covering all operating and capital investment expenses from its designated revenue sources. The fiscal health of each fund is satisfactory, though looking ahead some funds will need to meet expected challenges by rate adjustments and/or expenditure management decisions. One continuing challenge for some of these funds relates to the impact of pre-funding retiree health insurance costs.

Conclusion

Montgomery County's long term fiscal health is strong as a result of its underlying economy and the financial management policies endorsed by its elected officials. Nonetheless, the County continues to face significant challenges in the years ahead. The FY12-17 Fiscal Plans reflect these challenges in their assumptions and projections.

Comments on the Fiscal Plans that follow are encouraged as opportunities for improvement. The Office of Management and Budget and Finance staffs of the County government, and Finance staff of the other agencies, are available to assist in the Council's deliberations.

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Attachment: FY12-17 Fiscal Plan for Montgomery County, Maryland

c: Isiah Leggett, County Executive
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