OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

April 14, 2011

TO: Valerie Ervin, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Council Review of the FY12 Operating Budget

The purpose of this memorandum is to communicate my concerns to the County Council about certain actions the Council may be considering in its review of the FY12 budget. These potential actions could undermine the assurances we made to the credit rating agencies to help preserve the highest credit rating for the County and keep our borrowing costs as low as possible.

It was only last April that we were informed by Moody's Investor Service that the County was being placed on a watchlist for a possible downgrade in its credit rating. At the time Moody's noted that future rating reviews will consider, among other factors, "steps taken in the 2011 budget to restore structurally balanced operations, and ... development of a plan to restore financial flexibility to levels in keeping with the current rating category." They also noted that, "The failure to restore reserves to the policy requirement and the sustained narrowing of financial flexibility away from historical levels may introduce negative pressure on the county's credit profile."

We were able to respond quickly to this stunning development by committing to:

- increase and maintain our reserves;
- strengthen the Revenue Stabilization Fund (RSF) law;
- meet our existing fiscal policies (i.e., fund PAYGO at policy level);
- approve a structurally balanced budget and fiscal plan;
- appropriately use one-time revenues; and,
- budget for known expenditures at more realistic levels (i.e., snow removal).

While we were successful in avoiding a rating downgrade last year, DeKalb County, Georgia has not been so fortunate. As early as January of this year DeKalb County had a AAA credit rating. However, earlier this month, Standard and Poor's downgraded DeKalb to a BBB rating (barely above investment grade) and withdrew its rating altogether for new debt making it difficult for the county to access the debt markets. As the attached article from the Bond Buyer makes clear, the downgrade for DeKalb was due to several factors including declining revenues, funding operating costs from reserves, and a failure to maintain adequate reserves.

In order to address concerns expressed by the rating agencies and comply with Council Resolution 16-1415, CB 36-10, and the adequacy of budget appropriations, my Recommended FY12 Operating Budget included:

- $32 million for PAYGO for the CIP which is budgeted at 10% of the planned General Obligation bond issuance level as required by the Council's fiscal policy;
- Reserves at 6.3% of Adjusted Governmental Revenues including general fund reserves at 5% of General Fund revenues in the preceding fiscal year ($133.3 million) and a $24 million contribution to the Revenue Stabilization Fund (RSF) to bring the total RSF balance to $118.1 million;
- General fund contribution for pre-funding Retiree Health Insurance at $26.1 million;
- Elimination of over 200 positions in the County's headcount to bring down continuing labor costs;
- Long term, ongoing reductions to County Government health and retirement benefit costs to reduce the County's long term structural deficit and produce a sustainable budget going forward; and,
- Appropriations for snow removal and storm response consistent with actual experience.

In response to the rating agencies criticism of our drawdown of reserves for ongoing expenditures, such as snow removal, we committed to reviewing budgeting practices, and ensuring adequacy of appropriations for these expenditures. Therefore, I recommended programming $10 million in a newly created Non-departmental Account (NDA) for Snow Removal and Storm Response. When combined with the amount we budget in the Department of Transportation ($3.1 million), I considered this total of $13.1 million to be a bare minimum. It was based on the FY03-09 average costs. In fact, even in a relatively modest winter as we have just experienced, storm and snow removal costs are nearly $25 million and may exceed that before the end of the fiscal year.

As you know, in the past, the majority of these costs were not included in the original budget, but were funded through supplemental appropriations that were a draw on the County's reserves. Since the cost of snow removal almost always exceeds the amount budgeted (see attached chart), the County has drawn on reserves in almost all years to fund these costs. This practice has, in effect, overstated our reserve levels. A budget that does not include a realistic budget for snow removal and storm response is arguably not a "structurally balanced" budget since all of the known, or reasonably anticipated costs are not adequately accounted for in the budget.

I am extremely disappointed to learn that the Transportation and Environment Committee has recommended to eliminate this NDA and reduce the amount dedicated to snow removal by $4 million. Not only is this level of funding not supported by our experience in managing storms over the past several years[1], it is not prudent to move these costs, which are shared by the Department of General Services (DGS) and the Department of Transportation (DOT), out of an NDA and into the respective department's general fund budgets. An NDA is the appropriate mechanism for budgeting for these shared costs because the relative cost to each department is not known at the beginning of the year and therefore can be more effectively accounted for, allocated, and managed in an NDA and not commingled with the department's other costs. Further, to redirect the recommended Snow Removal and Storm Response

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[1] The attached chart on snow and storm cost trends indicate that in only two of the last 11 years have these costs been less than $9 million; that in the last ten years they have been $10.8 million (excluding FY10 and FY11); and that in the period from FY03-09 they were $12.9 million. Also, all of the data on the attached chart are not adjusted for wage and contract inflation. Adjusting these costs for wage and contract cost increases would significantly increase these historic averages and certainly well exceed the amount supported by the T&E Committee.

budget to other expenditures that are ongoing in nature only further undermines our efforts to address our structural budget challenges.

As discussed during the Council overview of the Operating Budget on April 12, the County will not meet its targeted general fund balance for FY11 due to revenue declines and unanticipated expenditure increases including costs related to storm response and snow removal. The chart below displays this shortfall and reinforces the need for conservative and realistic budgeting for both revenues and expenditures.

FY11 Ending		Approved		Estimate		Change
Unrestricted General Fund Reserves	$	136.8	$	53.1	$	(83.7)
Revenue Stabilization Fund	$	94.3	$	94.1	$	(0.2)
Total Reserves	**$**	**231.1**	**$**	**147.2**	**$**	**(83.9)**
Reserves as a Percent of Resources		6.0%		3.9%		-2.1%

I strongly encourage the Council to adhere to all of its newly adopted policies as well as my recommendations in complying with the policies. To depart from these policies in any substantive manner less than one year after the County adopted them could significantly undermine the County's credibility in our representations to the local community and with the credit rating agencies. The New York bond rating agencies will not act in a prescriptive manner with state or local governments to instruct them on how to use their resources or manage their finances. There are no bright lines established that would indicate that taking a specific action would result in a downgrade, negative outlook or any other derogatory review of the County's credit status. Rather, the County's policies and actions are viewed in their totality to determine its credit worthiness including consistent adherence to established policies, especially reserve policies, maintaining responsible and affordable debt levels, and overall sound financial management.

Last year we worked together in an expeditious and collaborative manner to make the necessary policy corrections to protect the County's credit rating. This year our shared task will be to adhere in practice to these policies, through our collective actions on the operating and capital budgets, to maintain a fiscally sound and sustainable budget for the community.

IL:jb

Attachments

Moody's
INVESTORS SERVICE

New Issue: MOODY'S PLACES MONTGOMERY COUNTY'S (MD) GO ULT RATING ON REVIEW FOR POSSIBLE DOWNGRADE AFFECTING $1.8 BILLION OF OUTSTANDING DEBT

Global Credit Research - 05 Apr 2010

ASSIGNS Aa1 RATING TO $23 MILLION CERTIFICATES OF PARTICIPATION (PUBLIC TRANSPORTATION EQUIPMENT ACQUISITION), SERIES OF 2010; ON REVIEW FOR POSSIBLE DOWNGRADE

County
MD

Moody's Rating

ISSUE		RATING
Certificates of Participation - Public Transportation Equipment Acquisition Series of 2010		Aa1
Sale Amount	$23,000,000	
Expected Sale Date	04/06/10	
Rating Description	Certificates of Participation	

Opinion

NEW YORK, Apr 5, 2010 -- Moody's Investors Service has assigned a Aa1 rating to Montgomery County's (MD) $23 million Certificates of Participation (Public Transportation Equipment Acquisition), Series 2010. The rating is on review for possible downgrade. The certificates are secured by the county's pledge to make lease payments subject to annual appropriation sufficient for debt service coverage, and by a first lien security interest in the financed equipment. At this time, Moody's has placed the county's Aaa general obligation rating on review for possible downgrade, as well as the county's certificate's of participation notes, taxable limited obligation certificates, lease revenue bonds, and General Obligation debt issued through the Maryland-National Parks and Planning Commission. The rating reflects the county's diverse and substantial economy, sizable tax base, affluent demographics, and manageable debt burden. Placement on watchlist for possible downgrade reflects deterioration of the county's financial position driven primarily by income tax revenue shortfalls, which is expected to result in the use of a significant portion of the county's General Fund and Revenue Stabilization Fund as of fiscal 2010 (year ends June 30th). Future rating reviews will factor (a) management's ability to mitigate the projected current year operating deficit, given identification of a number of potential gap closing measures that are largely non-recurring in nature; (b) steps taken in the 2011 budget to restore structurally balanced operations, and (c) development of a plan to restore financial flexibility to levels in keeping with the current rating category.

The Aa1 rating assigned to the current certificate is based upon the adequate legal provisions of the lease, the essential nature of the financed equipment, and the short repayment period. The rating also reflects the county's diverse and substantial economy, sizable tax base, affluent demographics, and significantly weakened financial operations although historically characterized by comprehensive fiscal policies and sound management practices. Proceeds will be used to acquire 64 replacement buses for the County's Ride-On bus fleet.

SATISFACTORY LEGAL PROVISIONS FOR THE CERTIFICATES; FINANCED EQUIPMENT IS ESSENTIAL TO COUNTY OPERATIONS

Moody's believes that the essential nature of the pledged assets mitigates the risk of non-appropriation by the county and that the legal provisions adequately protect certificate-holders. The proceeds will finance the acquisition of 64 replacement buses for the County's Ride-On bus fleet; in accordance with the Division of Transit Services' bus replacement plan; including 30 hybrid vehicles and 34 diesel vehicles. Under the Conditional Purchase Agreement, the county executive covenants to include funds in the proposed annual budget sufficient to cover lease payments to the trustee for the term of the lease. The county will make payments under the Conditional Purchase Agreement and the Trust Agreement directly to the trustee (U.S. Bank National Association, rated Sr. Unsec. Aa1) on the third business day preceding each debt service payment date, which Moody's considers adequate. Importantly, the seven-year repayment period corresponds to the expected useful life of the financed assets.

TAX BASE EXPANSION EXPECTED TO SLOW WITH MARKET DOWNTURN; EMPLOYMENT BASE DRAWS FROM BOTH PUBLIC AND PRIVATE SECTORS

Located directly northwest of Washington, D.C. (G.O. rated A1/stable) along the I-270 corridor, Montgomery County provides a significant economic and employment base to the Washington-Baltimore metropolitan region. The assessed valuation of the county's tax base has increased by an average 11.2% annually during the past five years, driven predominantly by the appreciation of existing properties. The full market value of the county reached a substantial $168 billion as of fiscal 2009. Residential real estate activity has slowed markedly following record rates of growth for home sales and homebuilding activity through 2005, a pattern that is expected to continue during the near term. Home sales volume declined by an average 20% annually from 2006 to 2008 but experienced a year-over-year increase of 22% during 2009. Sales price devaluation has trailed sales volume declines; the average sales price decreased 8% in 2008 from the 2007 peak and declined by an additional 13.8% in 2009. Despite these trends, Moody's believes that the county's tax base will continue to exhibit a steady, albeit slowed rate of expansion, given the statewide requirement to phase-in reassessment-related tax base growth over a three-year period, effectively smoothing the impact of property devaluation. Further, the county's homestead tax credit limits the county's ability to capture homestead appreciation for annual tax levy purposes to 10%, assuring steady annual growth in the tax levy as pent-up appreciation is added to the tax rolls.

The county's economy is anchored by a large federal government presence that employs approximately 68,000 civilians at 23 federal agencies including the National Institutes of Health, the Food and Drug Administration, the Naval Medical Command, and the National Oceanic and Atmospheric Administration. The county also is home to a large private sector that includes the health care, financial services, technology, defense, hospitality, and advanced manufacturing sectors. Unemployment in the county remains consistently below both state and national norms, with the December 2009 unemployment rate of 5.2% (county officials report it increased to 6.2% as of January 2010) below the 7.2% state and 9.7% U.S. levels. Wealth indicators are well above those for the state, with 1999 median family income equal to 136% of the state and 2006 per capita personal income at 146% of the state level (U.S. Bureau of Economic Analysis).

SIGNIFICANT NARROWING OF FINANCIAL FLEXIBILITY AND RELIANCE ON ECONOMICALLY-SENSITIVE REVENUES POSE CHALLENGES FOR THE NEAR TERM

Since November 2009, the county's financial flexibility has continued to erode driven in large part by shortfalls related to economically sensitive revenue sources totaling $171.9 million, of which $147.4 million is income tax related. The sheer magnitude of revenue underperformance has required management to utilize a significant portion of the county's reserves, constraining the availability of additional financial flexibility that may be required to adequately offset ongoing revenue variance in the current fiscal year and on into fiscal 2011. Year-to-date, approximately $100 million of budgetary savings have been implemented while the remaining revenue variance is expected to be offset by the use of reserves. Management continues to evaluate potential budget reductions and interfund transfers which could potentially provide short-term flexibility. Current projections for end-of-year fiscal 2010 show the county ending the year with an extremely narrow $23.5 million (0.9% of General Fund revenue) in available reserves (Unreserved Undesignated General Fund and Revenue Stabilization Fund), $13 million of which is dependent upon the approval and implementation of an energy tax increase during the final quarter of fiscal 2010.

As established by county policy, management strives to maintain combined fund equity - including unreserved General Fund balance and the separately-held Revenue Stabilization Fund (RSF) - at a level equal to 6% of annual budget. General Fund balance available above the policy minimum typically is appropriated in the subsequent year's budget to support operating and capital expenditures. While the 6% target affords satisfactory financial reserves, the appropriation of fund balance above the target represents a structural vulnerability for the county, as the availability of fund balance to support operations fluctuates with the economy. This structural risk has resulted in the narrowing of the county's financial flexibility during fiscal 2008 and 2009, concurrent with the economic downturn, following a period of sound financial performance during fiscal years 2004 through 2007. Risk has historically been mitigated by proactive management, including the development of multi-year financial forecasts and a demonstrated willingness to make significant mid-year budget adjustments when necessary. However, the county ended fiscal 2009 with available General Fund balance measurably below recent levels and appropriated additional resources from fund balance in fiscal 2010. The ability of the county to stabilize and replenish reserve levels and to restore financial flexibility will be a key credit consideration going forward.

The county's revenue base includes a number of economically-sensitive revenue sources (income, recordation and transfer taxes) that generated significant budgetary surpluses during the real estate market boom period of fiscal 2004 to fiscal 2007 but are driving the current financial deterioration. These surpluses offset annual fund balance appropriations during the four-year period and increased General Fund balance by a combined $190.3 million to a record $316.7 million in fiscal 2007 (11.9% of fund revenues). The county's separate RSF, which is supported by positive variances in certain General Fund revenue sources, increased by $32.4 million during the same four-year period to $119.6 million as of fiscal 2007. As of the end of fiscal 2009, total fund balance declined to a more narrow $108.1 million (3.9% of revenues), of which $28.9 million was unreserved undesignated. Taken together, unreserved undesignated fund balance and the RSF balance represented 5.3% of fiscal 2009 General Fund revenues, which afforded the county with a satisfactory financial flexibility. At year-end, the county utilized $65.3 million (more than the original appropriation of $44.5 million) of fund balance although $75.6 million was reportedly due to one-time expenditures.

During fiscal 2010, the county's governing board employed austere budget reduction measures to reduce the structural gap, including the renegotiation of fiscal 2010 salary adjustments ($125 million savings) and the elimination of pay-go funding ($30 million), but the use of fund balance is tied in part to the county's decision to uphold the 1990 voter-approved county charter amendment that limits property tax revenues to the prior year's total plus inflation and revenue derived from new construction. The revenue restriction can be overridden by a unanimous vote of the nine council members (increased from a required vote of seven of nine member as of November 2008), an option that has been exercised on four occasions since 1990 (2003, 2004, 2005, and 2008). The proposed fiscal 2011 budget does not exercise this option. The council's historical ability and willingness to override the charter tax limit when necessary has been a positive credit factor. However, the constraints of the charter tax limit may challenge the General Fund to stabilize and replenish available reserves to the 6% target level in the near term. Moody's will continue to monitor and evaluate the county's ability to progress toward policy compliance following the planned one-year deviation in fiscal 2010. The failure to restore reserves to the policy requirement and the sustained narrowing of financial flexibility away from historical levels may introduce negative pressure on the county's credit profile.

DEBT POSITION EXPECTED TO REMAIN MANAGEABLE

The county's debt burden, equal to a modest 1.3% of full valuation, will remain manageable given its debt affordability policies and the self-support of various enterprise debt obligations. Amortization of principal is average, with 70% repaid within 10 years, and debt service comprised 15.7% of fiscal 2009 operating expenditures. The county's $3.7 billion amended capital improvement program for fiscal years 2009-2014 focuses on public schools (34%), transportation facilities (27%), public safety (9%) and community college projects (9%). Primary funding sources include county general obligation bonds (49%), intergovernmental revenues (15%), and current revenue sources (9%). Including the current issue, the county will have $100 million in variable rate demand obligations (5% of total debt) and $185 million in commercial paper (9% of total debt), a level which Moody's deems manageable. The county is not party to any derivative agreements.

KEY STATISTICS

2008 population (est.): 956,000

Fiscal 2009 full valuation: $168 billion

Fiscal 2008 full valuation per capita: $175,732

December 2009 unemployment: 5.2%

County reported January 2010 unemployment: 6.2%

1999 Median Family Income: $84,035 (136% of state, 168% of nation)

1999 Per Capita Income: $35,684 (139% of state, 165% of nation)

FY 2009 General Fund balance (audited): $108.1 million (4.0% of fund revenues)

FY 2009 Available Reserves (General Fund and Revenue Stabilization Fund balances) (audited): $227 million (7.6% of General fund revenues)

Overall debt burden: 1.4%

Payout of principal (10 years): 70%

General obligation bonds outstanding: $2.27 billion

RECALIBRATION OF RATING TO THE GLOBAL RATING SCALE; PRINCIPAL METHODOLOGY

The current long-term rating assigned to Montgomery County, MD was issued on Moody's municipal rating scale. Moody's has announced its plans to recalibrate all U.S. municipal ratings to its global scale and therefore, upon implementation of the methodology published in conjunction with this initiative, the rating will be recalibrated to a global scale rating comparable to other credits with a similar risk profile. Market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in our credit opinion for rated municipal debt issuers. For further details regarding the recalibration please visit www.moodys.com/gsr.

The principal methodology used in rating the district was Moody's General Obligation Bonds Issued by U.S. Local

Governments, published in October 2009 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action on Montgomery County, MD was on December 23rd, 2009 when the county's Aaa rating with stable outlook was affirmed.

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Bond Buyer

DeKalb's Descent Startles Market
S&P Drops Credit By Five Notches

Thursday, April 7, 2011

BRADENTON, Fla. — Some municipal bond market observers say last week's stunning five-notch downgrade of Georgia's third-largest county highlights the importance of disclosure — or what Standard & Poor's sees as insufficient disclosure in the case of DeKalb County.

The downgrade to BBB from AA-minus, and withdrawal of the county's ratings, drew swift reaction from market observers and forced bondholders unable to hold the debt at the lower rating to shed their investments.

Standard & Poor's had given the county a gilt-edged AAA rating as recently as January.

Some experts said the situation should send a message to issuers about the importance of disclosure, and the potential higher cost of credit.

But they also rejected the idea that DeKalb's downgrade -supports predictions of widespread defaults by municipalities.

DeKalb has not defaulted on its debt and Standard & Poor's analysts said its action, while unusual, was indicative of a county with a rapidly deteriorating financial condition and inconsistent reporting on which to base a rating analysis.

"It was clearly the absence of information that contributed to that," Michael Marz, a vice chairman at First Southwest Co. and chairman of the Bond Dealers of America, said at the National Municipal Bond Summit in Miami Beach last week.

Marz said there is an expense associated with the lack of disclosure, and without the proper continuing disclosure agreement underwriters cannot bid on an issuer's bonds.

"We probably need to do a better job of helping issuers understand the need for timely disclosure," he added.

The fundamentals of municipal credits remain very strong and very sound, Noe Hinojosa, president of Estrada Hinojosa & Co., said at the summit.

"When you are an issuer it is important to tell your story," he said. "We tell clients that never has an A [rating] mattered so much."

The steep rating downgrade took many officials in DeKalb by surprise, according to County Commissioner Jeff Rader.

Rader said that the commission erred last October when reserves were used for operational needs and that, in combination with unexplained expenses at the end of the year, pushed a negative fund balance forward.

In response to the rating downgrade, Rader said he unveiled a proposal late last week designed to stabilize the county's finances with a "modest" 3.3 millage-rate increase later this year that would restore reserves at $45 million — one month's expenses — and provide $17.7 million for capital and operation needs that may arise.

"All the commissioners understand that we have to increase revenues," Rader said. "I'm proposing to do it now to give a signal to the bond market and … try to repair our credit. I hope that has a positive effect on what the market believes DeKalb is likely to do."

Standard & Poor's said several factors underpinned the county's rapid rating downfall, including multiple years of deficit operations that contributed to substantially weakened liquidity and a negative cash position at fiscal year end on Dec. 31 that necessitated internal fund borrowing to make GO debt-service payments on Jan. 1.

The county lacked set policies to guide cash management across funds and failed to implement timely solutions to offset the structural budget imbalance, analysts said, noting that county commissioners rejected tax increases last year and early this year.

At the end of 2009, the county had an unreserved fund balance of negative $34.5 million and preliminary unaudited results for fiscal 2010 indicated further deterioration of fund balance and liquidity, Standard & Poor's said.

Robin Prunty, a managing director at the agency, said analysts expected to receive timely, adequate information about cash flows and how overall liquidity is being managed in order to continue evaluating DeKalb's rating.

"It was our view that was lacking and the information we were getting was not as consistent as it needed to be to make an assessment of their liquidity," she said. "It's unusual to see a transition like that, and we certainly don't have a lot of them. I think that's pretty unique to DeKalb."

The swift downgrade of a highly rated credit is not a trend Standard & Poor's expects to see going forward, Prunty said.

DeKalb is dealing with liquidity stress, a factor that Standard & Poor's cited earlier this year as a challenge for some local governments in the years ahead.

Typically, the agency downgrades a credit incrementally before taking the step to withdraw its ratings.

"I think this was an unusual and swift financial deterioration for the county and the credit deterioration was pretty swift, too," Prunty said.

Analysts at Moody's Investors Service said they have received sufficient information from DeKalb to support a GO rating of Aa3, after a December downgrade from Aa1. Moody's lowered the county's rating to Aa1 from Aaa in 2009.

The rating incorporates a sizeable tax base outside Atlanta that has seen some decline, according to Moody's lead -analyst Lauren Von Bargen.

The release of audits and other financial information is typical of what Moody's see across the muni market generally, and not a concern, she said.

"When the 2010 audit comes out we'll see if it is in line with unaudited year-end results," Von Bargen said. "We're having an ongoing dialogue with them to see if there is any new information they can provide us because it is a high-profile pressured credit."

DeKalb, like other municipalities, has looked to fund balances and reserves to help bridge the budget gap, said Moody's managing director Anne Van Praagh, who stressed that the current issue deals with "revenue and spending" and is not a debt-service crisis.

"At Aa3 with a negative outlook we don't have concerns about their -willingness to repay their debt," Van Praagh said. "It is not unusual for state or local governments to rely on -interfund transfers to support operations. Local governments are looking at every -possible fund to find interim relief."

Rader said the county's seven-member commission, composed of one Republican and six Democrats, is not against raising taxes or laying off employees if necessary.

Commissioners and the county's elected chief executive officer are struggling to structure their government to match the new realities of taxing limitations and revenue collections that are not likely to increase for years to come, he said.

"Probably the biggest mistake the commission did was pressing an agenda for restructuring and continuing to squeeze the operational budget and not being sufficiently careful about maintaining budget reserves," Rader said.

In 2008, DeKalb lost a significant portion of its tax base when the city of Dunwoody incorporated as the recession gathered force in the county of more than 700,000 people.

In recent years, the Georgia -Legislature has clamped down on local -spending by prohibiting increases in assessed property values if no improvements are made in the previous year, and requiring that foreclosures be considered in assessing the value of -properties.

"What we're concerned about is how the administration can be structured differently so that we can withstand the expectation of the declining tax base over next couple of years," Rader said. "Our big mistake was to deplete that reserve."

Resolution No: 16-1415
Introduced: May 27, 2010
Adopted: June 29, 2010

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the Request of the County Executive

SUBJECT: Reserve and Selected Fiscal Policies

Background

1. Fiscal policy corresponds to the combined practices of government with respect to revenues, expenditures, debt management, and reserves.

2. Fiscal policies provide guidance for good public practice in the planning of expenditures, revenues, and funding arrangements for public services. They provide a framework within which budget, tax, and fee decisions should be made. Fiscal policies provide guidance toward a balance between program expenditure requirements and available sources of revenue to fund them.

3. As a best practice, governments must maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning. Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness.

4. In FY10, the County experienced an unprecedented $265 million decline in income tax revenues, and weathered extraordinary expenditure requirements associated with the H1N1 flu virus and successive and historic winter blizzards. The costs of these events totaled in excess of $60 million, only a portion of which was budgeted and planned for.

5. In a memorandum dated April 22, 2010, the County Executive recommended that the County Council restore reserves first to the current 6% policy level for FY11 and also to revise and strengthen policy levels in order to more appropriately position the County to weather economic cycles in the future, and to achieve structural balance in future budgets.

6. The County's financial advisor has recommended that the County strengthen its policy on reserves and other fiscal policies to ensure budget flexibility and structural stability, and has provided specific recommendations, which are reflected below.

Action

The County Council for Montgomery County, Maryland, approves the following policies regarding reserves and other fiscal matters:

1. Structurally Balanced Budget

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

2. Reserves

   Montgomery County must have a goal of achieving the Charter §310 maximum for the reserve in the General Fund of 5% of General Fund revenues in the preceding fiscal year, and of building up and maintaining the sum of Unrestricted General Fund Balance and Revenue Stabilization Fund Balance to 10% of Adjusted Governmental Fund revenues, as defined in the Revenue Stabilization Fund law. This goal must be reflected in the Revenue Stabilization Fund law.

3. Use of One-Time Revenues

   One-time revenues and revenues in excess of projections must be applied 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, PAYGO for the CIP in excess of the County's targeted goal, or to unfunded liabilities. Priority consideration should be given to unfunded liabilities for Retiree Health Benefits (OPEB) and Pension Benefits Prefunding.*

4. 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 issue that year.

5. 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 revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.

6. Reports to Council

The Executive must report to the Council:

a. *the prior year reserve and the current year reserve projection as part of the November fiscal plan update;*
b. *current and projected reserve balance in the Executive's Annual Recommended Operating Budget;*
c. *any material changes expected to have a permanent impact on ending reserve fund balance; and*
d. *current and projected reserve balances in any proposed mid-year savings plan.*

This is a correct copy of Council action.

Mary Anne Paradise

Mary Anne Paradise, Acting Clerk of the Council

Bill No. 36-10
Concerning: Finance – Revenue Stabilization Fund – Amendments
Revised: June 28, 2010 Draft No. 4
Introduced: May 27, 2010
Enacted: June 29, 2010
Executive: July 7, 2010
Effective: October 4, 2010
Sunset Date: None
Ch. 33, Laws of Mont. Co. 2010

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the Request of the County Executive

AN ACT to:
(1) repeal the limit on the size of the Revenue Stabilization Fund;
(2) modify the requirement for mandatory County contributions to the Revenue Stabilization Fund; and
(3) generally amend the law governing the Revenue Stabilization Fund.

By amending
Montgomery County Code
Chapter 20, Finance
Article XII
Sections 20-65, 20-66, 20-68, 20-69, 20-70, 20-71 and 20-72

By repealing
Montgomery County Code
Chapter 20, Finance
Article XII
Section 20-67

Boldface	*Heading or defined term.*
Underlining	*Added to existing law by original bill.*
[Single boldface brackets]	*Deleted from existing law by original bill.*
Double underlining	*Added by amendment.*
[[Double boldface brackets]]	*Deleted from existing law or the bill by amendment.*
* * *	*Existing law unaffected by bill.*

The County Council for Montgomery County, Maryland approves the following Act:

Sec. 1. Sections 20-65, 20-66, 20-68, 20-69, 20-70, 20-71 and 20-72 are amended and Section 20-67 is repealed as follows:

20-65. Definitions.

In this Article the following terms have the following meanings, unless the context clearly indicates a different meaning:

[(a)] *Actual total revenues* means the combined total of income tax, real property transfer tax, recordation tax, and investment income, as reported in the County's annual financial report.

Adjusted Governmental Revenues means tax-supported County Governmental Funds revenues, plus revenues of the:

(1) County Grants Fund;

(2) County Capital Projects Fund;

(3) tax supported funds of the Montgomery County Public Schools, not including the County's local contribution;

(4) tax supported funds of Montgomery College, not including the County's local contribution; and

(5) tax supported funds of the Montgomery County portion of the Maryland-National Capital Park and Planning Commission.

[(b) *Certified revenues* means revenues derived each fiscal year from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund as certified by the Director on or before June 15.]

[(c) *Debt Service Fund* means the fund used to accumulate funds to pay general long-term debt principal, interest and related costs.]

[(d)] *Director* means the Director of the Department of Finance.

Excess revenue means the amount, if positive, by which actual total revenues from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund for the fiscal year exceed the original projections for these amounts.

[(e)] *Fund* means the Revenue Stabilization Fund created under this Article.

[(f)] *General Fund* means the general operating fund of the County which is used to account for all revenues and expenditures, except revenues and expenditures required to be accounted for in another fund.

[(g)] *Income tax* means the County income tax imposed under state law.

[(h)] *Investment income of the General Fund* means income from the investment of revenues that is reported in the General Fund.

[(i)] *Original projection* means the projection of total General Fund revenues for the next fiscal year approved by the County Council in the "Schedule of Revenue Estimates and Appropriations" resolution or any similar resolution.

[(j)] *Real property transfer* tax means the tax imposed under Sections 51-19 et. seq.

[(k)] *Recordation tax* means the tax imposed under Sections 12-101 et. seq., Tax-Property Article, [Annotated Code of] Maryland Code.

[(l)] *Revised forecast* means any revised projection of total General Fund revenues for the next fiscal year prepared by the Department of Finance.

Total reserve means the sum of the reserve in the Fund plus the Unrestricted General Fund Balance.

Unrestricted General Fund Balance means the residual portion of the General Fund fund balance that has not been reserved, restricted, or encumbered for later years' expenditures.

20-66. Revenue Stabilization Fund.

(a) The Director may establish a Revenue Stabilization Fund to support appropriations which have become unfunded.

(b) The Fund is continuing and non-lapsing.

(c) The Fund is in addition to any surplus that is accumulated under Section 310 of the County Charter.

20-67. [Fund sources and maximum size.] Reserved.

[(a) The Fund must not exceed 10 percent of the average aggregate annual revenue derived from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund in the 3 preceding fiscal years.

(b) The Director must compute the maximum amount of the Fund annually and report that amount to the County Council not later than June 15.

(c) The Fund is in addition to any surplus that may be accumulated under Section 310 of the County Charter.]

20-68. Mandatory contribution to Fund.

[(a) Subject to the limit set in Section 20-67(a), the] The mandatory annual contribution to the Fund must equal the greater of:

(a) [50 percent of the product of the certified revenues estimated for the current fiscal year times the difference between:

(1) the annual percentage increase in the certified revenues projected for the next fiscal year, and

(2) the average annual percentage increase in the certified revenues collected in the 6 fiscal years immediately preceding the next fiscal year.] 50 percent of [[the]] any excess revenue [[amount

by which actual total revenues from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund for the next fiscal year exceed the original projections for these amounts]]; or

(b) an annual amount [[that does not exceed]] equal to the lesser of 0.5 percent of the Adjusted Governmental Revenues [[for the current year, but which does not result in the sum of the current year-end projected Unrestricted General Fund Balance and the Fund to exceed]] or the amount needed to obtain a total reserve of 10 percent of the Adjusted Governmental Revenues.

[(b) A growth or decline in certified revenues which results from either an increase or decrease in County tax rates must be:

(1) excluded from revenues projected for the next fiscal year, and

(2) phased in in the average annual percentage increase calculation in the third, fourth, fifth and sixth years.

(c) If actual total revenues from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund for the next fiscal year exceed the original projection, then 50 percent of the excess must be transferred to the Fund if doing so will not result in the 10 percent limit in Section 20-67(a) being exceeded.]

20-69. Discretionary contributions to Fund.

The County Executive may recommend and the County Council may by resolution approve additional contributions to the Fund [if doing so will not result in the 10 percent limit in Section 20-67(a) being exceeded].

20-70. Transfer of contributions.

The Director must transfer the mandatory contributions required by Section 20-68 and any discretionary contributions under Section 20-69 from the General [fund] <u>Fund</u> to the Fund at the end of each fiscal year.

20-71. Interest.

All interest earned on the Fund must be added to the Fund. [However, the Director must transfer interest earned on the Fund when the Fund exceeds 50 percent of the maximum Fund size authorized by Section 20-67(a) to the Debt Service Fund as an offset to the approved issuance of general obligation debt.]

20-72. Use of Fund.

[[(a) After holding a public hearing and seeking the recommendation of the Executive, and if the Council finds that reasonable reductions in expenditures are not sufficient to offset the shortfall in revenue, the Council may by resolution approved by the Executive transfer an amount from the Fund to compensate for no more than half of the difference between the original projection of total General [fund] <u>Fund</u> revenues for that fiscal year and a revised forecast of the General Fund revenues projected for the same fiscal year. If the Executive disapproves a resolution within 10 days after it is transmitted and the Council readopts it by a vote of 6 Councilmembers, or if the Executive does not act within 10 days after it is transmitted, the resolution takes effect.]]

[[(b) However, a transfer must not be approved unless 2 of the following conditions are met:

(1) The Director estimates that total General Fund revenues will fall more than 2 percent below the original projected revenues.

(2) Resident employment in the County has declined for 6 consecutive months compared to the same month in the previous year.

(3) The [local] most recent regional index of leading economic indicators, published by the Center for Regional Analysis, George Mason University, or a successor index determined by the Department of Finance, has declined for 3 consecutive months.]]

[[(c) The cumulative transfers from the Fund in any single fiscal year must not exceed half of the balance in the Fund at the start of that fiscal year.]]

[[(d) The funds transferred may only be used to support appropriations which have become unfunded.]]

[[(e)]] By an affirmative vote of 6 Councilmembers, the Council, after holding a public hearing, reviewing relevant economic indicators, and seeking the recommendation of the Executive, may transfer [[amounts]] any amount from the Fund to the General Fund [[without regard to the limits and conditions in subsections (a)-(c)]] to support appropriations which have become unfunded.

Approved:

Nancy Floreen

6/30/10

Nancy M. Floreen, President, County Council

Date

Approved:

Isiah Leggett

July 7, 2010

Isiah Leggett, County Executive

Date

This is a correct copy of Council action.

Linda M. Lauer

July 12, 2010

Linda M. Lauer, Clerk of the Council

Date

Article XII. Revenue Stabilization Fund. [Note]

Sec. 20-64. Findings and declaration of purpose.

Montgomery County, along with the State of Maryland and its other political subdivisions, has recently experienced substantial funding shortfalls. The State, in order to allow its political subdivisions greater budgetary and fiscal flexibility in addressing those shortfalls, has authorized political subdivisions to establish "rainy day" or reserve accounts to accommodate future funding shortfalls.

It is in the best interest of the citizens of the County that a Revenue Stabilization Fund provide the County with greater budgetary and fiscal flexibility to address funding shortfalls.

The Revenue Stabilization Fund created in this Article is designed to accrue a balance during periods of economic growth and prosperity, when revenue collections exceed estimates. The Fund may be drawn upon during periods of economic slowdown, when collections fall short of revenue estimates. (1993 L.M.C., ch. 41, § 1.)

Sec. 20-65. Definitions.

In this Article the following terms have the following meanings, unless the context clearly indicates a different meaning:

Actual total revenues means the combined total of income tax, real property transfer tax, recordation tax, and investment income, as reported in the County's annual financial report.

Adjusted Governmental Revenues means tax-supported County Governmental Funds revenues, plus revenues of the:

(1) County Grants Fund;

(2) County Capital Projects Fund;

(3) tax supported funds of the Montgomery County Public Schools, not including the County's local contribution;

(4) tax supported funds of Montgomery College, not including the County's local contribution; and

(5) tax supported funds of the Montgomery County portion of the Maryland-National Capital Park and Planning Commission.

Director means the Director of the Department of Finance.

Excess revenue means the amount, if positive, by which actual total revenues from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund for the fiscal year exceed the original projections for these amounts.

Fund means the Revenue Stabilization Fund created under this Article.

General Fund means the general operating fund of the County which is used to account for all revenues and expenditures, except revenues and expenditures required to be accounted for in another fund.

Income tax means the County income tax imposed under state law.

Investment income of the General Fund means income derived from the investment of revenues from the General Fund.

Original projection means the projection of total General Fund revenues for the next fiscal year approved by the County Council in the "Schedule of Revenue Estimates and Appropriations" resolution or any similar resolution.

Real property transfer tax means the tax imposed under Sections 52-19 et. seq.

Recordation tax means the tax imposed under Sections 12-101 et. seq., Tax-Property Article, Maryland Code.

Revised forecast means any revised projection of total General Fund revenues for the next fiscal year prepared by the Department of Finance.

Total reserve means the sum of the reserve in the Fund plus the Unrestricted General Fund Balance.

Unrestricted General Fund Balance means the residual portion of the General Fund fund balance that has not been reserved, restricted, or encumbered for later year's expenditures.(1993 L.M.C., ch. 41, § 1; 2010 L.M.C., ch. 33, § 1.)

Sec. 20-66. Revenue Stabilization Fund.

(a) The Director may establish a Revenue Stabilization Fund to support appropriations which have become unfunded.

(b) The Fund is continuing and non-lapsing.

(c) The Fund is in addition to any surplus that is accumulated under Section 310 of the County Charter. (1993 L.M.C., ch. 41, § 1; 2010 L.M.C., ch. 33 § 1.)

Sec. 20-67. Reserved.

Editor's note—Former Sec. 20-67, derived from 1993 L.M.C., ch. 41, § 1, was repealed by 2010 L.M.C., ch 33, § 1.

Sec. 20-68. Mandatory contributions to Fund.

The mandatory annual contribution to the Fund must equal the greater of:

(a) 50 percent of any excess revenue; or

(b) an annual amount equal to the lesser of 0.5 percent of the Adjusted Governmental Revenues or the amount needed to obtain a total reserve of 10 percent of the Adjusted Governmental Revenues. (1993 L.M.C., ch. 41, § 1; 2010 L.M.C., ch. 33, § 1.)

Sec. 20-69. Discretionary contributions to Fund.

The County Executive may recommend and the County Council may by resolution approve additional contributions to the Fund. (1993 L.M.C., ch. 41, § 1; 2010 L.M.C., ch. 33, § 1.)

Sec. 20-70. Transfer of contributions.

The Director must transfer the mandatory contributions required by Section 20-68 and any discretionary contributions under Section 20-69 from the General Fund to the Fund at the end of each fiscal year. (1993 L.M.C., ch. 41, § 1; 2010 L.M.C., ch. 33, § 1.)

Sec. 20-71. Interest.

All interest earned on the Fund must be added to the Fund. (1993 L.M.C , ch. 41, § 1; 2010 L.M.C., ch. 33, § 1.)

Sec. 20-72. Use of Fund.

By an affirmative vote of 6 Councilmembers, the Council, after holding a public hearing, reviewing relevant economic indicators, and seeking the recommendation of the Executive, may transfer any amount from the Fund to the General Fund to support appropriations which have become unfunded. (1993 L.M.C., ch. 41, § 1; 2010 L.M.C., ch. 33, § 1.)

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

May 21, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Reserve and Selected Fiscal Policies

In my April 22nd memorandum to the Council on Additional Budget Actions, I notified the Council of the need for revisions to the County's reserve policies. I made this recommendation in light of recent severe reductions in revenues, unanticipated expenditure pressures, and Moody's rating action putting the County on a negative watchlist. All three rating agencies included strong statements of concern regarding the County's reserves and budgetary structural balance in their most recent ratings.

As I indicated to you in April, I have asked for and received a careful review of the County's reserve policies by the County's Financial Advisor, PFM. As a result of that review, I am recommending a set of actions and policies which will set the County on a stronger fiscal path for FY11 and beyond. Attached to this memorandum you will find a resolution specifying these policies for Council's consideration and action, legislation to change the County's Revenue Stabilization Fund law, and a restructured balanced Fiscal Plan showing budgetary levels afforded within projected revenues and my plan for restoration of the County's key reserves to the recommended policy levels.

Specifically, the recommended reserve levels incorporate current and future risks, including:

- Potential for future State actions which may negatively affect the County's revenues and/or place additional expenditure requirements on the County.
- Numerous one-time actions taken to solve the FY10 and FY11 budget challenges.

Recommended Actions

The attached charts (Attachments A and B) provide background on the current status of the County's most key fiscal policies, detailing the recommendations I made to you in April, and those that I am making today. In addition, I will soon be transmitting to you a report from the County's Financial Advisor, PFM, that provides further analysis and detail on the concerns of Moody's and the other Rating Agencies, and the fiscal circumstances that support the need for the recommended actions.

Specifically, I am recommending the following policies and actions, which are further detailed in the attachments:

1. For FY11, budget reserves at the current policy level of 6%, and within 10 years (by 2020), bring total reserves to 10%
2. Bring General Fund reserves to the charter maximum of 5%
3. Require mandatory contributions to the Revenue Stabilization Fund to a combined reserve level of 10%
4. Restore and maintain PAYGO at the policy level of 10% of general obligation bonds planned for issue
5. Budget expenditures for a fiscal year only up to the amount of recurring revenues for that fiscal year
6. Direct one-time revenues exceeding projections to the Revenue Stabilization Fund, PAYGO, Pension or Retiree's Health Benefit pre-funding, and one-time expenditures
7. Achieve a fiscal plan for future years that is structurally balanced – that matches expenditures to available revenues without any draw down of reserves or unanticipated revenues
8. Review budgeting practices for significant, known expenditures, and ensure adequacy of appropriations and possible carry-over provisions for unspent amounts

The combination of these actions is estimated to achieve structural budgetary balance and grow reserve levels to 10% by 2020 or sooner, enough to sustain the County through a variety of the pressures noted above. The reserve amounts I am recommending will also help ensure sufficient working capital through the County's usual fiscal cycle.

I very strongly recommend restoring General Fund reserves to the maximum allowed Charter level, and planning for a series of mandatory contributions to the Revenue Stabilization Fund to achieve a total reserve level of 10%. I recommend we strengthen our policies regarding a balanced budget and use of one-time revenues, and commit to return to our existing PAYGO policy. This set of actions will provide additional flexibility to the County in FY12 and beyond to respond to further adverse economic and fiscal conditions.

These actions are only the beginning of the work before us. I believe that together, we must steer the County back to structurally balanced budgets and return it to its fiscally conservative roots, restoring sufficiently strong reserve levels, to ensure that we do not return to the budget stresses we currently face. I believe the set of recommendations before you will ensure that outcome, and I urge your approval.

Enclosures

Attachment A – Reserve Policies – Overview
Attachment B – Comparison of Fiscal Policies and Practices
Resolution – Reserve and Selected Fiscal Policies
Draft Bill - Revenue Stabilization Fund
Restructured Balanced Fiscal Plan – FY11-16

cc: Duchy Trachtenberg, Chair, MFP Committee
Timothy Firestine, Chief Administrative Officer
Jennifer Barrett, Director of Finance
Joseph Beach, Director, OMB
Stephen Farber, Council Staff Director
Kathleen Boucher, ACAO

ATTACHMENT A

RESERVE POLICIES – OVERVIEW

1. **CURRENT POLICIES**

Balanced Budget:	expenditures not to exceed resources (including prior year ending fund balance).
Reserves:	6% of combined all tax supported (including outside agencies) and revenue stabilization fund (RSF)
RSF:	mandatory contribution up to cap, investment earnings go to PAYGO
PAYGO:	10% of planned GO Bond issues
One Time Revenues:	whenever possible give highest priority to capital assets or other non-recurring expenditures

2. **APRIL 22nd MEMORANDUM**

Balanced Budget:	budgeted expenditures should match new revenues projected to occur in that fiscal year.
Reserves:	6% for FY11 and ramp up to 8% by end of FY13 General Fund (GF) at Charter Limit – 5% of prior year GF revenues
RSF:	mandatory contributions to RSF to 3% (total of 8%), remove cap
PAYGO:	restore and maintain at 10% policy level
One Time Revenues:	direct in priority order to RSF, PAYGO, Retiree Health pre-funding, and one-time expenditures
Fiscal Plan:	achieve a fiscal plan display that is structurally balanced consistent with balanced budget policy

3. **RECOMMENDED – PFM MAY 2010**

Balanced Budget:	expenditures not to exceed revenues
Reserves:	6% for FY11, then ramp up combined General Fund and RSF balances over ten years to 10% of adjusted governmental revenues–
RSF:	mandatory contributions up to 10% reserve policy, remove cap, investment earnings retained in RSF
PAYGO:	10% of planned GO Bond issues
One Time Revenues:	applied first to restoring reserves to policy levels or as required by law. If reserves have been fully funded, then one-time revenues should be applied to expenditures which are one-time in nature, PAYGO in excess of the County's targeted goal, or to unfunded liabilities such as Pension or OPEB

ATTACHMENT B

COMPARISON OF FISCAL POLICIES AND PRACTICES – CURRENT POLICY/PRACTICE vs. RECOMMENDED

	CURRENT POLICY/PRACTICE	PFM and FINANCE RECOMMENDED POLICIES
Structurally Balanced Budget	Current Fiscal Policy: ***It is the fiscal policy of Montgomery County to balance the budget. A balanced budget has its funding sources (revenues, undesignated carryover, and other resources) equal to its funding uses (expenditures, reserves, and other allocations). No deficit may be planned or incurred.***	Recommended Policy: ***Montgomery County will have a structurally balanced budget, that is, budgeted expenditures should not exceed projected recurring revenues for that fiscal year. Recurring revenues should fund recurring expenses. No deficit may be planned or incurred.***
Reserves	Current Fiscal Policy: ***The County will maintain total reserves for tax supported funds that include both an operating margin reserve and the RSF. For tax supported funds, the budgeted total reserve of the operating margin and the RSF should be at least 6.0 percent of total resources (i.e., revenues, transfers, prior year undesignated and designated fund balance).***	Recommended Policy: ***Montgomery County will have a goal over 10 years (by 2020) of building up and maintaining the sum of Unrestricted General Fund Balance and Revenue Stabilization Fund to an amount equal to approximately 10% of Adjusted Governmental Fund revenues.*** Higher reserves are recommended in keeping with: 1) revenue volatility 2) expenditure volatility 3) working capital needs 4) more in line with other large AAA jurisdictions
General Fund Reserves	Section 310 of Charter: *With respect to the General Fund, any unappropriated surplus shall not exceed five percent of the General Fund revenue for the preceding fiscal year.*	Retain, but policy reserves above Charter limitation will be included in target for RSF.

ATTACHMENT B (continued)

Revenue Stabilization Fund (RSF)	RSF is currently capped at 10% of average of prior 3 years specific revenue sources. Interest earned is transferred to PAYGO, and mandatory contributions are based on revenues exceeding estimates. (See County Code Ch 20 Article XII) If actual total revenues from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund for the next fiscal year exceed the original projection, then 50 percent of the excess must be transferred to the Fund.	Remove cap, retain interest earned in RSF, and require mandatory contributions to achieve total reserves of 10% and when revenues exceed estimates: ***Mandatory annual contributions to the Fund must equal the greater of:*** ***50 percent of the amount by which actual total revenues from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund for the next fiscal year exceed the original projection for these amounts.*** ***An annual amount not to exceed 0.5 percent of the Adjusted Governmental Revenues for the current year, but which does not result in the sum of the current year-end projected Unrestricted General Fund fund balance and the Revenue Stabilization Fund to exceed 10 percent of the Adjusted Governmental Revenues.***
Use of One-time Revenues	Current Fiscal Policy: ***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 expenditures so as not to incur ongoing obligations for which revenues may not be adequate in future years.***	Recommended Policy: ***One-time revenues and revenues in excess of projections will be applied first to restoring reserves to policy levels or as required by law. In the event that the County determines that reserves have been fully funded, then one-time revenues should be applied to expenditures which are one-time in nature, PAYGO for the CIP in excess of the County's targeted goal, or to unfunded liabilities such as Pension or OPEB.***

ATTACHMENT B (continued)

PAYGO	Current CIP Fiscal Policy: ***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.***	Recommended Policy: (unchanged) ***The County will 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.***
Fiscal Plan	Shows Resources and Uses balanced in the budget year. To the extent uses exceed resources in future years, deficit amounts are displayed as Gaps to be closed in future budgets.	Recommended Policy: ***The County will adopt a fiscal plan that is structurally balanced, and that displays expenditures and other uses of resources within annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.***
Adequacy of budget appropriations	Minimal levels are budgeted for certain known expenditures, not in line with actual experience.	Budget at more realistic levels, possibly in a separate account where unused balance can carry over to next year.

	Estimated Costs of Snow Removal and Wind & Rain Cleanup						
	As of April 4, 2011						
		Snow Removal		Wind & Rain*		Total	
	DOT						
1	Personnel Costs	$	4,491,300	$	2,069,519	$	6,560,819
2	Equipment	$	1,471,708	$	625,762	$	2,097,470
3	Materials	$	3,948,111	$	-	$	3,948,111
4	Contractual	$	7,367,000	$	1,129,900	$	8,496,900
5	Other Operating	$	-	$	42,128	$	42,128
6							
7	**Sub Total DOT**	**$**	**17,278,119**	**$**	**3,867,309**	**$**	**21,145,428**
8							
9	**DGS**						
10	Personnel Costs	$	38,585	$	36,535	$	75,120
11	Contractual	$	3,230,529	$	-	$	3,230,529
12	Other Operating	$	26,000	$	4,000	$	30,000
13	**Subtotal DGS**	**$**	**3,295,114**	**$**	**40,535**	**$**	**3,335,649**
14							
15	**Subtotal DOT and DGS**	**$**	**20,573,233**	**$**	**3,907,844**	**$**	**24,481,077**
16							
17	**15% Contingency (invoices not submitted, payroll pending, other storm damage e.g. Tree removal)**	**$**	**3,085,985**	**$**	**586,177**	**$**	**3,672,161**
18							
19	**Grand Total**	**$**	**23,659,218**	**$**	**4,494,021**	**$**	**28,153,238**
20							
21	**Amount in Base Budget**						
22	DGS	$	26,000	$	-	$	26,000
23	DOT Snow	$	2,334,668	$	-	$	2,334,668
24	DOT Wind and Rain	$	-	$	467,111	$	467,111
25	**Total in Base Budget**	**$**	**2,360,668**	**$**	**467,111**	**$**	**2,827,779**
26							
27	**Supplemental Appropriation**	**$**	**21,298,550**	**$**	**4,026,910**	**$**	**25,325,459**
28							
	*This includes the cost associated with the wild fire event						

Supplemental Appropriation: Snow Removal/Wind and Rain Storms Vs. Snow and Storm Budgets

Fiscal Year	Total Expenditures	Snow and Storm Budget	Difference	Supplemental Amount
FY01	$5,093,250	$2,811,530	$2,281,720	$1,859,660
FY02	$2,081,670	$2,489,830	($408,160)	$0
FY03	$14,854,951	$2,596,151	$12,258,800	$8,311,770
FY04	$16,550,495	$2,654,243	$13,896,252	$6,203,680
FY05	$10,549,283	$2,903,963	$7,645,320	$7,645,320
FY06	$8,816,030	$3,058,330	$5,757,700	$5,957,700
FY07	$15,203,575	$3,297,525	$11,906,050	$9,656,890
FY08	$11,750,600	$3,316,130	$8,434,470	$8,434,470
FY09	$12,785,170	$3,528,630	$9,256,540	$9,256,540
FY10	$64,097,250	$3,243,000	$60,854,250	$60,073,600
FY11 Estimate[1]	$28,153,238	$2,827,779	$25,325,459	$25,325,459
Average FY01-09	**$10,853,892**	**$2,961,815**	**$7,892,077**	**$6,369,559**
Average FY03-09	**$12,930,015**	**$3,050,710**	**$9,879,305**	**$7,923,767**
Average FY06-11 (excl. FY10)	**$15,341,723**	**$3,205,679**	**$12,136,044**	**$11,726,212**
Average FY01-11	**$17,266,865**	**$2,975,192**	**$14,291,673**	**$12,975,008**

1. Includes a 15% contingency for outstanding invoices, pending payroll, storm damage not identified, and potential spring storms