



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Jennifer A. Hughes
Director

MEMORANDUM

March 30, 2012

TO: Interested Readers
FROM: Jennifer A. Hughes, Director
SUBJECT: FY13-18 Fiscal Plan

Executive Summary:

The County Executive's recommended budget, released on March 15, 2012, closed a \$135 million budget gap, raising the cumulative amount of budgetary shortfalls resolved in Mr. Leggett's six proposed budgets to over \$2.6 billion. The measures adopted to balance previous budgets and enhance long-term fiscal stability, though necessary, have resulted in significant service reductions to residents as well as to employee compensation. In his proposed FY13 operating budget, the County Executive's approach was to maintain his commitment to the prudent fiscal policies mutually agreed to with the County Council, and to strategically restore critical services in public safety, education, youth programs, libraries, and services for the most vulnerable including seniors. The increases he recommends do not restore the reductions made over the past five years, but they address current deficiencies in a prudent and sustainable manner. Also, given the still modest economic recovery and potential State and Federal budgetary actions, the County Executive believed it prudent to negotiate compensation increases that did not add to the County's wage base. His budget includes a one-time \$2,000 lump sum payment for County employees, consistent with the agreements reached with the County's three unions, and he assumes similar one-time adjustments within the amounts recommended for the County's other agencies.

The County Executive recommends a property tax rate to keep property tax revenue level with the FY12 approved budget and he provides for a \$692 credit for each owner-occupied residence to support a progressive property tax structure in the County. Property tax revenues are approximately \$26 million below the Charter limit.¹ The Executive recommends that the Council retain current energy tax rates rather than allowing them to sunset at the end of FY12. The energy tax is more broad-based than

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.

Office of the Director

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either property or income taxes since it includes taxes on energy usage of institutions and facilities, such as the federal government, that otherwise would not be taxed. Because of its broader base, this tax lowers the overall tax burden on residents and business in the County. Total spending increases 4.6 percent in FY13, and tax supported spending across all agencies increases 5 percent. This increased level of tax supported spending reflects inclusion of \$110.7 million for retiree health insurance pre-funding. Controlling for retiree health insurance pre-funding, the County's tax supported budget increases only 3.4 percent for programs and services.

While this budget positions Montgomery County for the future, it is likely additional measures to rebalance revenues and spending will be necessary, especially given the lasting effects of the recession, the decline in taxable assessments, increasingly volatile fuel costs, and continued economic uncertainty. This challenge is evident in the current fiscal plan, which would require a reduction of 0.3 percent to produce a balanced budget in FY14. This outlook assumes current assumptions hold, and perhaps most significantly, it does not account for any changes currently under consideration in Annapolis. While final legislation has not passed yet, some form of teacher pension costs will be shifted from the State increasing the County's costs next year. Other legislation altering the structure of the Maintenance of Effort requirement potentially endangers the County's ability to fund vital public services, as well as, its credit rating. Taken together, the pension shift and altering Maintenance of Effort would negatively affect the County's finances and long-term budget sustainability.

Background:

The recommended FY13-18 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 FY13-18 Recommended Operating Budget and Public Services Program (March 15, 2012).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.

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.

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, 2011; the Annual Information Statement published by the Department of Finance; and Economic Indicators data. Budget and financial information for Montgomery County can also be accessed on the web at www.montgomerycountymd.gov.

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 Revenues³ by 2020 (including mandatory contributions to the Revenue Stabilization Fund), fully funding PAYGO⁴, and increasing contributions to pre-fund retiree health insurance up to full funding of the annual required contribution by FY15.

Fiscal Plan for the Tax Supported Funds:

The recommended fiscal planning objectives for FY13-18 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 same level as the FY12 approved budget by providing a \$692 credit to each owner-occupied household. Property tax revenues are approximately \$26 million below the Charter Limit in FY13.
- Assume property tax revenues at the Charter Limit during FY14-18 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.
- 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 FY14-18.
- 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.

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.

The major challenges for FY13-18 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 and as the County responds to State-level actions affecting our resources and obligations.

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 increasing fees and/or expenditure reductions.

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 FY13-18 Fiscal Plans reflect these challenges in their assumptions and projections.

Comments on the Fiscal Plans that follow are encouraged as opportunities for improvement. 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: FY13-18 Fiscal Plan for Montgomery County, Maryland

- c: Isiah Leggett, County Executive
- Members, Montgomery County Council
- Timothy L. Firestine, Chief Administrative Officer
- Dr. Joshua Starr, Superintendent, MCPS
- Dr. DeRionne P. Pollard, President, Montgomery College
- Francoise Carrier, Chair, Montgomery County Planning Board
- Jerry N. Johnson, General Manager, WSSC
- Stacy Spann, Executive Director, Housing Opportunities Commission
- Keith Miller, Executive Director, Revenue Authority
- Joseph F. Beach, Director, Department of Finance
- Kathleen Boucher, Assistant Chief Administrative Officer
- Stephen Farber, Council Staff Director