MFP ITEM 2
April 23, 2009
Worksession 2

MEMORANDUM

TO: Management and Fiscal Policy Committee

FROM: Robert H. Drummer, Legislative Attorney

SUBJECT: **Worksession 2**: Expedited Bill 10-09, Personnel – Retirement Incentive Program 2009

Expedited Bill 10-09, Personnel – Retirement Incentive Program 2009, sponsored by the Council President at the request of the County Executive, was introduced on March 24. A public hearing was held on April 14.

Background

Bill 10-09 would establish a retirement incentive program (RIP) for certain members of the Employees' Retirement System. Group A, E or H members eligible for normal retirement as of June 1, 2009 or eligible for early retirement and within two years of meeting the criteria for normal retirement as of June 1, 2009 would be eligible for the RIP. Group A includes non-public safety employees hired before October 1, 1994 who are not represented. Group H includes non-public safety employees hired before October 1, 1994 who are represented by MCGEO. Group E includes all deputy sheriffs and correctional officers. The Chief Administrative Officer must approve applications from Executive Branch employees. The Council Staff Director must approve applications from Legislative Branch employees.

The retirement incentive would be no reduction for early retirement and an additional $40,000 payment. In addition, the enhanced benefit multiplier at Social Security age for a Group E member in the integrated retirement plan currently scheduled to take effect on July 1, 2009 would be effective on June 1, 2009 for a Group E member who is approved to participate in the RIP. Members must apply by April 1, complete all forms by May 1, and retire as of June 1, 2009.

Bill 10-09 would implement a provision of the Memorandum of Understanding recently negotiated by the Executive and the Municipal & County Government Employees Organization, United Food & Commercial Workers, Local 1994 (MCGEO). This Agreement amends the current collective bargaining agreement with MCGEO by postponing the 4.5% general wage adjustment scheduled for July 1, 2009 in return for certain changes to the Agreement requested by MCGEO. One of these new provisions is an agreement to submit legislation to the Council creating this new RIP. The Executive explained the purpose of the RIP in his transmittal letter as follows:

> This RIP is intended to coordinate with the anticipated Reduction in Force efforts by providing an incentive for senior employees to retire and preserve jobs for less senior staff whose positions may be slated for abolishment as a result of the RIF. See ©7.

The Executive's proposed operating budget includes the abolishment of 172 vacant positions and 234 currently filled positions. See the Executive's letter to employees dated March 16, 2009, attached at ©11-13. There is a pool of 685 employees who would be eligible for the RIP. The Office of Human Resources estimates that approximately 135 employees would elect to participate in the RIP. See Testimony of Joseph Adler at ©14-15.

Public Hearing

The Council held a public hearing on Expedited Bill 10-09 on April 14. Joseph Adler, Director of Human Resources, testified in support of the Bill. See ©14-15. State's Attorney John McCarthy also testified in support of the Bill and requested that the Bill be amended to include the employees in his office. Mr. McCarthy testified that there are 6 employees in his office who indicated an interest in participating in the RIP if the Bill is amended to include them. Finally, Gino Renne, President of MCGEO, testified in response to questions from Councilmembers.

The April 20 Worksession

The MFP Committee reviewed Bill 10-09 at its April 20 worksession. The Office of Legislative Oversight (OLO) briefed the Committee on their fiscal analysis of the estimated savings and long term costs for the 2009 RIP. See ©23-28. The Committee did not take any action on the Bill.

Issues

1. What is the fiscal impact of the Bill?

Joseph Beach, Director of the Office of Management and Budget (OMB), provided a fiscal impact statement for the Bill on April 14, 2009. See ©8-10. OMB assumed that 135 employees would accept the RIP in the Fiscal Impact Statement. OMB estimated savings of $2.6 million in FY10 if all of the positions vacated due to the RIP are refilled and FY10 savings of $3.6 million if 90% of the positions vacated are refilled.[1] These savings in the FY10 operating budget are primarily due to the fact that all funds used to pay the retirement incentives come

[1] The Executive's proposed FY10 budget shows a projected net savings in tax supported dollars of $1.01 million due to the 2009 RIP. See p. 68-11 of the Executive's Recommended FY10 Operating Budget at ©16 and the supporting spreadsheet at ©17. The Amendments to the Executive's Recommended FY10 Operating Budget increases these estimated savings by an additional $1.241 million. See ©35.

from the Employees' Retirement System (ERS) trust fund with a 10 year repayment schedule beginning in FY11. In other words, the FY10 savings result in large part by borrowing money from the ERS trust fund and beginning the payback in FY11.

Bill 10-09 would create a RIP that is similar to, but more generous than, the RIP approved by the Council at the request of the Executive in May 2008 for FY09. The 2008 RIP provided eligible employees within one or two years of normal retirement, a cash payment of $25,000, and a one-year reduction in the early retirement penalty. The Council recently directed the Office of Legislative Oversight (OLO) to prepare a research brief on the use of furloughs and buyouts as tools to minimize layoffs. The OLO Report, released to the public on April 14, 2009, included a fiscal analysis of the 2008 RIP. The Council heard a briefing from OLO on its findings at its April 21 meeting. OLO's fiscal analysis of the 2008 RIP is summarized in an excerpt from the report attached at ©18.

OLO presented a fiscal analysis for the 2009 RIP to the Committee on April 20. A fiscal analysis of the 2009 RIP requires an actuarial report to estimate the annual repayment amount to the ERS trust fund and an assumption of certain variables that would significantly affect the long term net savings or costs. These variables include the percentage of vacated positions that are refilled, the estimated number of years a participant leaves earlier due to the RIP, the salaries of the employees hired to refill vacated positions, the cost of leave payouts for the participants, and the amount of salary lapse before the positions are refilled. The greatest FY10 savings result when a vacated position is not refilled. If it is refilled, savings may still result from salary lapse and hiring a new employee at a lower salary.[2] Finally, the number of years that the participant leaves early will affect the savings attributed to the RIP, since the annual savings should not be counted when the employee would have retired without the RIP.[3]

OMB's Fiscal Impact Statement does not account for the full 10 years of the amortized payback.[4] OLO found that the 2009 RIP savings depend upon the number of positions that are actually abolished. The OMB Fiscal Impact Statement assumes that either no positions or only 10% of the positions will be abolished. OLO estimates the FY10 savings to be $3.1 million if 10% of the positions are abolished, but also concludes that the cost over the 10-year payback beginning in FY11 would be $20.2 million, leaving a net cost of the 2009 RIP of at least $17.1 million.[5]

OLO also calculated the break even point for the 2009 RIP under both the 5/5 scenario and the 2/4 scenario. The County would have to abolish 42% of the vacated positions if we use OMB's 5-year assumption to make the RIP 2009 cost neutral. The County would have to

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[2] The salary savings from hiring a new employee at a lower salary must be reduced by the leave payout to the participant and the increase in pay for any existing employee who is promoted to fill a vacated senior position.

[3] OMB assumed that each participant would have stayed 5 more years without the RIP. OLO assumed that each participant eligible for normal retirement would have stayed 2 more years and those eligible for early retirement would have stayed 4 more years without the RIP.

[4] OMB's Fiscal Impact Statement omits the last 5 years of the payback in its analysis of the costs.

[5] These numbers use the OMB assumption that the participants would stay an additional 5 years without the RIP. The overall costs are even greater if OLO uses their assumption that normal retirees will stay 2 more years and early retirees would stay 4 more years.

abolish 85% of the vacated positions to be cost neutral under OLO's 2-year and 4-year assumption. See ©26-28.

2. Should the 2009 RIP be targeted to include only those employees who are in positions subject to a reduction in force?

The OLO Report, at p. 59, (©19) concludes that an employee buyout is most cost-effective when it is implemented in concert with an organization's plans to downsize or reorganize. A buyout's short term savings are greatest when vacated positions are not refilled. A downsizing plan that is coordinated with the buyout plan can result in significant short term savings by encouraging employees to volunteer to create the necessary vacancies. Using buyouts instead of layoffs to create vacancies needed for a downsizing plan reduces employee anxiety and is likely to increase employee morale and acceptance of the downsizing plan. However, as the fiscal analysis summarized above shows, a buyout plan that does not result in position abolitions can result in significant long-term costs.

Although the County is not implementing a comprehensive or County-wide downsizing or reorganization plan for FY10, a reduction in force due to lack of funds can also provide a strong reason to consider an employee buyout, such as the 2009 RIP. The use of volunteers to retire to avoid a layoff of less senior employees can increase employee morale and productivity.[6] The Executive's proposed budget projected the abolition of 234 filled County positions. The use of a buyout could be justified to create vacancies that would prevent these 234 employees from losing their County jobs. In fact, this is the stated purpose of the 2009 RIP in the Executive's transmittal memorandum. However, the 2009 RIP, as proposed, is not likely to accomplish this noble purpose.

The County has had a hiring freeze in effect for most of FY09. We understand that OHR has been working hard to find alternative positions for the employees subject to layoff. To the extent that many of these employees have found vacant positions to move into, there is less justification for using the buyout to create more vacancies for them. Recent information from OHR indicates that by using vacant positions and the Discontinued Service Retirement (DSR) provisions of the Code, OHR has already placed all but 45 of the employees subject to the reduction in force. (There are also 48 part-time bus operators subject to layoff whose status may be affected by the Council's decision on whether to approve the Executive's proposed cuts in transit routes.) There are currently about 200 vacant positions, plus the DSR provisions, available to help OHR to place these 45 remaining employees. Although we do not have the most current numbers, the Committee would need this information to properly evaluate the Bill. In addition, it is unlikely that the open eligibility of the 2009 RIP would yield vacant positions that the employees who would be laid off are qualified to fill.

If the 2009 RIP is not necessary, or if it is unlikely, to save jobs, then it can only be justified if it saves money. It is unwise to look at the FY10 projected operating budget savings in

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[6] The County government also has an additional public responsibility to its citizens to avoid layoffs of County employees in an economic downturn for the overall economic health of the County.

a vacuum without also considering the long term costs to the County to repay this loan. As explained above, if all or most positions vacated by the participants are refilled, the County's cost savings may be minimal in FY10 and ultimately result in significantly increased costs to the County over time. Therefore, the 2009 RIP is most likely to fulfill its stated purpose if the incentive is limited to employees who are in positions that are within the classes that are subject to a reduction in force. Under the Bill, all ERS members in Groups A, E, and H who are within 2 years of normal retirement are eligible to participate. This will inevitably result in participants who are in positions that must be refilled with little or no savings.

Another problem with the RIP 2009 is its close proximity to the 2008 RIP. The County did this last year. Employees are likely to expect this to happen again in the near future. The use of multiple buyouts in consecutive years can lead it to become an expected part of the County's retirement plan. Why leave without one? **Council staff recommendation:** defer action on the 2009 RIP to determine whether it is actually needed to place employees subject to reduction in force and the extent to which the saving are outweighed by the costs. If any Bill is approved, it should target the 2009 RIP to those employees in positions that are within the classes of work already designated for the reduction in force. See Staff Amendment 1 at ©39.

3. Should employees in the State's Attorney's Office be eligible?

State's Attorney John McCarthy testified at the public hearing in support of the Bill and requested that the 2009 RIP be expanded to include employees in his office. Md. Criminal Procedure Art. §15-416 (c)(2)(ii) provides that each deputy and assistant State's Attorney is "entitled to the same benefits as a county employee under the merit system." These employees currently participate in the County retirement systems.[7] This State law would permit the Council to amend the Bill to include them, but it does not require it. Many other County employees would be excluded from eligibility for the 2009 RIP.

Mr. McCarthy testified that 6 employees told him that they would retire if eligible for the incentive. Mr. McCarthy testified that the combined salaries for these 6 senior employees is $697,500 and that he would replace each employee with a more junior person at an initial cost of $334,323, thereby saving a significant amount in his FY10 budget. Mr. McCarthy was less enthusiastic about this possibility if the $40,000 cash payments would be taken from his budget. Mr. McCarthy's testimony illustrates the need for a closer fiscal analysis of this Bill. What would help the State's Attorney's FY10 budget would not necessarily save the County money over time. If the $40,000 cash payments are taken out of ERS trust fund and paid back over time, does it still save money? What about the extra health insurance payments for both the new employee and the new retiree? These 6 retirements will not eliminate the County's annual ERS contribution allocated to these employees. As the OLO fiscal analysis shows, replacement of the participants with lower paid employees does not create savings for the County.

Including the State's Attorney's Office in the 2009 RIP would do nothing to further its stated goal of producing vacancies to avoid the projected layoffs. The vacated positions in the

[7] Employees who were hired before October 1, 1994 may be members of the ERS. The other employees would be members of the Retirement Savings Plan.

Office of the State's Attorney are not likely to be filled by a laid off County employee. **Council staff recommendation:** do not include the State's Attorney's Office in the 2009 RIP.

4. Should the dates for participation be extended?

OHR Director Adler, in his testimony, asked the Council to amend the dates for eligible employees to notify OHR of their intent to participate. Bill 10-09, as introduced, requires the employees to apply by April 1, complete all forms by May 1, and retire as of June 1, 2009. Since the earliest this Bill can be enacted is April 28, the application date in the Bill should be amended. Mr. Adler's suggestion that employees be required to apply by May 15 and retire by June 1 is reasonable if the Bill is enacted on April 28. If the Council defers action on this Bill, as suggested by Council staff, these dates need to be revisited. **Council staff recommendation:** amend the Bill to require employees to apply by May 15 and retire on June 1.

5. What is the effect on collective bargaining with MCGEO if the Council does not enact this Bill or substantially amends it?

County Code §33-108 (g) provides that:

> The employer must submit to the Council by April 1, unless extenuating circumstances require a later date, any term or condition of the collective bargaining agreement that *requires an appropriation of funds, or the enactment or adoption of any County law or regulation, or which has or may have a present or future fiscal impact.* (emphasis added)

County Code §§33-108 (i) and (j) govern the Council review process:

(i) The Council may accept or reject all or part of any term or condition that requires Council review under subsection (g). On or before May 1, the Council must indicate by resolution its intention to appropriate funds for or otherwise implement the items that require Council review or its intention not to do so, and must state its reasons for any intent to reject any such item. The Council, by majority vote taken on or before May 1, may defer the May 1 deadline to any date not later than May 15.

(j) If the Council indicates its intention to reject any item that requires Council review, the Council must designate a representative to meet with the parties and present the Council's views in the parties' further negotiation on items that the Council has indicated its intention to reject. This representative must also participate fully in stating the Council's position in any ensuing impasse procedure. The parties must meet as promptly as possible and attempt to negotiate an agreement acceptable to the Council. Either party may at this time initiate impasse procedures under this Section. The parties must submit the results of the negotiation, whether a complete or a partial agreement, to the Council on or before

> May 10. If the Council has deferred the May 1 deadline, that action automatically postpones the May 10 deadline by the same number of days. The Council then must consider the agreement as renegotiated by the parties and indicate by resolution its intention to appropriate funds for or otherwise implement the agreement, or its intention not to do so.

If the Council rejects the provision of the MCGEO collective bargaining agreement proposing the 2009 RIP or substantially modifies it, the parties and a representative of the Council must renegotiate that item. The renegotiated agreement must be resubmitted to the Council by May 10, or later if the Council postpones the date it indicates its intent to accept or reject the agreement. The parties may use the statutory impasse procedure to resolve a dispute. Ultimately, the Council has the final decision on this Bill. In Council staff's opinion, amending this Bill to limit buyout eligibility to employees who are in a class of positions subject to layoff would modify the provision as negotiated and require renegotiation by the parties.

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Expedited Bill No. 10-09
Concerning: Personnel - Retirement Incentive Program 2009
Revised: March 20, 2009
Draft No. 1
Introduced: March 24, 2009
Expires: September 24, 2010
Enacted: ____
Executive: ____
Effective: ____
Sunset Date: None
Ch. ____, Laws of Mont. Co. ____

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the Request of the County Executive

AN ACT to:
(1) provide a retirement incentive program for certain members of the Employees' Retirement System; and
(2) generally amend the law regarding the Employees' Retirement System.

By amending
Montgomery County Code
Chapter 33, Personnel and Human Resources
Sections 33-42

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. Section 33-42 is amended as follows:

Sec. 33-42. Amount of pension at normal retirement date or early retirement date.

* * *

(k) *Retirement Incentive Program 2009*

(1) *Eligibility.*

(A) A Group A, E or H member employed in a full-time position may apply to participate in the Retirement Incentive Program 2009 if the member is eligible for:

(i) normal retirement as of June 1, 2009; or

(ii) early retirement and within two years of meeting the criteria for normal retirement as of June 1, 2009.

(B) A member is not eligible to participate if the member:

(i) receives a disability retirement under Section 33-43;

(ii) receives a discontinued service retirement under Section 33-45(d);

(iii) is an elected or appointed official; or

(iv) is employed by a participating agency.

(C) A member must apply to participate in the Retirement Incentive Program 2009 with the Office of Human Resources in writing by April 1, 2009. A member chosen to participate must complete all required forms by May 1, 2009 and retire as of June 1, 2009.

(D) A member who applies for a disability retirement under Section 33-43 must not receive a benefit under this

Subsection unless the application for disability retirement is denied and all appeals exhausted.

(2) *Early retirement reduction.* A participant's pension benefit must not be reduced for early retirement if the member is eligible for early retirement and within two years of meeting the criteria for normal retirement.

(3) *Additional Retirement Benefit.* In addition to a participant's pension benefit calculated under this Subsection, a member must be paid an additional $40,000 retirement benefit. The member must elect to receive the additional $40,000 retirement benefit as:

(A) a lump sum on August 1, 2009:

(i) to the member;

(ii) as a direct rollover to an eligible retirement plan (as defined in the Internal Revenue Code); or

(iii) a combination of (i) and (ii); or

(B) 12 equal monthly payments beginning on August 1, 2009:

(i) to the member;

(ii) as a direct rollover to an eligible retirement plan (as defined in the Internal Revenue Code); or

(iii) a combination of (i) and (ii); or

(C) an additional retirement benefit paid over the member's lifetime in the pension option elected by the member under Section 33-44 beginning on August 1, 2009.

(4) *Group E Benefit.* The benefit for a Group E member in the integrated retirement plan must be calculated by substituting 1.65% for 1.25% in Section 33-42(b)(2)(C)(ii).

(5) *Cost of Living.* Cost of living adjustments do not apply to this benefit. A cost of living adjustment under Section 33-44(c) must not include the $40,000 additional retirement benefit.

(6) *Approval.* The Chief Administrative Officer must approve a request to participate in the program from a member employed in the Executive Branch. The Council Staff Director must approve a request to participate from a member employed in the Legislative Branch. If more than 30% of members eligible to participate in the Executive Branch either Countywide or by department apply to participate in the program, the Chief Administrative Officer may limit the number of participants, either on a Countywide or department basis. If more than 30% of members eligible to participate in the Legislative Branch apply to participate in the program, the Council Staff Director may limit the number of participants. The Chief Administrative Officer and the Council Staff Director must base any limits on the number of participants on years of service with the County. Years of service with the County must not include service with a participating agency, purchased service, or sick leave.

(7) *Survivor Benefit.* If a participant elects to receive the additional retirement benefit under Subsection 33-42(k)(3)(B) and the member dies before receiving all 12 monthly payments, the remaining payments must not be paid.

Sec. 2. Effective Date.

The Council declares that this legislation is necessary for the immediate protection of the public interest. This Act takes effect on the date on which it becomes law.

Approved:

Philip M. Andrews, President, County Council Date

Approved:

Isiah Leggett, County Executive Date

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council Date

LEGISLATIVE REQUEST REPORT

Expedited Bill 10-09, Personnel - Retirement Incentive Program 2009

DESCRIPTION: The requested expedited legislation provides a retirement incentive program for certain members of the Employees' Retirement System in Groups A, E, and H.

PROBLEM: As a result of the projected budget challenges for FY10 there is a need to reduce the size of the County workforce.

GOALS AND OBJECTIVES: The Bill would provide a financial incentive to employees to retire. This will enable the County to reduce its workforce while coordinating Reduction in Force (RIF) efforts so as to minimize the numbers of displaced employees due to the RIF.

COORDINATION: Office of Human Resources

FISCAL IMPACT: Office of Management and Budget

ECONOMIC IMPACT: Fiscal impact statement will be presented ASAP.

EVALUATION: N/A

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OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

March 16, 2009

TO: Council President Phil Andrews

FROM: Isiah Leggett, County Executive

SUBJECT: Expedited Bill - 2009 Retirement Incentive Plan

The purpose of this memorandum is to transmit draft legislation to introduce a retirement incentive plan for 2009.

The expedited bill amends the Employees' Retirement System (ERS) to provide a one-time retirement incentive program for full-time employees enrolled in ERS Groups A, E or H who are eligible for normal retirement or eligible for early retirement and within two years of normal retirement eligibility. This RIP is intended to coordinate with the anticipated Reduction in Force efforts by providing an incentive for senior employees to retire and preserve jobs for less senior staff whose positions may be slated for abolishment as a result of the RIF.

The proposed incentive would include a $40,000 incentive payment to eligible plan participants who retire June 1, 2009. The incentive will be paid either in a lump sum, or over time. Eligible employees who retire on an early retirement under the plan would have the early retirement penalties waived. In addition, a previously agreed upon plan feature scheduled to take effect on July 1 for Group E members will be made available one month earlier for those who elect to retire under the RIP. That feature would improve the multiplier for calculating the integrated benefit paid at social security age from 1.25% to 1.65%.

There is a pool of 685 employees who are eligible for the RIP and the expedited bill would cap incentive payments to 30 percent of eligible members, at the Chief Administrative Officer's discretion. Eligibility for the incentive in those departments where the cap is imposed will be based on seniority.

A fiscal impact statement will be provided to the Council as soon as possible.

BILL 10-09

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OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

041677

Joseph F. Beach
Director

MEMORANDUM

April 14, 2009

TO: Phil Andrews, President, County Council

FROM: Joseph F. Beach, Director

SUBJECT: Expedited Bill 10-09 Retirement Incentive Program 2009

The purpose of this memorandum is to transmit a fiscal impact statement to the Council on the subject legislation.

LEGISLATION SUMMARY

The expedited bill amends the Employees' Retirement System to provide a one-time Retirement Incentive Program (RIP) for members of retirement Groups A, E, and H, who are either eligible for normal retirement or eligible for early retirement and within two years of normal retirement eligibility. In his recommended FY10 Budget, the County Executive indicated he intended to offer a RIP designed to coordinate with the reduction in force proposed in the Budget, and allow less senior employees to continue working with the County, as more senior employees elect retirement. It should be noted that the recommended budget includes 406 position abolishments.

The proposed incentive provides a $40,000 payment to eligible full-time plan participants who retire June 1, 2009. The incentive payment may be paid in either a lump sum or over time, at the election of the retiree. The plan would also waive penalties for anyone retiring early, who would otherwise be subject to an early retirement penalty, and would improve the multiplier used to calculate the integrated benefit paid to Group E members at social security age. This improved multiplier is scheduled to take effect for all Group E plan members on July 1, 2009, but would be used to calculate the benefit of Group E plan members who retire June 1, 2009.

There is a pool of approximately 685 employees that qualify for this benefit, and the expedited bill would cap incentive payments to 30 percent of eligible members by department, at the discretion of the Chief Administrative Officer. In the event participation is capped, eligibility to participate would be determined on seniority.

FISCAL SUMMARY

The legislation is expected to generate estimated savings of $2.6 million in FY10, assuming all positions vacated as a result of the RIP are filled. If ten percent of the vacated positions are abolished, savings increase by about $1 million. Any positions abolished as part of the RIP are intended to be permanent abolishments to produce continuing savings. Savings estimates assume that 135 employees retire. The attached table outlines the components of the projected savings under two scenarios. The Office of Management and Budget will be evaluating all positions vacated as a result of this RIP, before permission to fill the position is granted. It is our expectation that additional opportunities to reduce the size of government will be identified.

The incentive payments will come from the Employees' Retirement System and the cost will be amortized over a ten year period.

The following contributed to and concurred with this analysis: G. Wesley Girling, Office of Human Resources, Alex Espinosa and Lori O'Brien, Office of Management and Budget.

JFB:lob

Attachment

c: Kathleen Boucher, Assistant Chief Administrative Officer
Dee Gonzalez, Offices of the County Executive
G. Wesley Girling, Office of Human Resources
Alex Espinosa, Office of Management and Budget
Brady Goldsmith, Office of Management and Budget
Lori O'Brien, Office of Management and Budget

$40,000 Incentive Payment, Early Penalty Waived

Assumptions:

- Applies to Groups A, E, and H
- Retirement Effective June 1, 2009
- Retiree Salary and Benefits $88,883
- Cost amortized over 10 years
- 135 people retire
- Replacement Salary and Benefits - $83,977

Scenario 1 - No Positions Abolished

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Salary and Benefits Savings	($11,999,306)	($11,999,306)	($11,999,306)	($11,999,306)	($11,999,306)	($11,999,306)
Normal Pension Cost Savings	($1,042,000)	($1,042,000)	($1,042,000)	($1,042,000)	($1,042,000)	($1,042,000)
Gross Savings	($13,041,306)	($13,041,306)	($13,041,306)	($13,041,306)	($13,041,306)	($13,041,306)
Amortized Pension Cost	$0	$2,308,000	$2,308,000	$2,308,000	$2,308,000	$2,308,000
New Hire Salary and Benefits (135 filled)	$10,391,391	$11,336,887	$11,336,887	$11,336,887	$11,336,887	$11,336,887
OPEB ARC Increase	$0	$384,750	$384,750	$384,750	$384,750	$384,750
Gross Cost	$10,391,391	$14,029,637	$14,029,637	$14,029,637	$14,029,637	$14,029,637
Cost/(Savings)	($2,649,915)	$988,331	$988,331	$988,331	$988,331	$988,331

Note: Actuarial Accrued Liability Increases by: $16,700,000

Scenario 2 - 10% of Positions Abolished

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Salary and Benefits Savings	($11,999,306)	($11,999,306)	($11,999,306)	($11,999,306)	($11,999,306)	($11,999,306)
Normal Pension Cost Savings	($1,042,000)	($1,042,000)	($1,042,000)	($1,042,000)	($1,042,000)	($1,042,000)
Gross Savings	($13,041,306)	($13,041,306)	($13,041,306)	($13,041,306)	($13,041,306)	($13,041,306)
Amortized Pension Cost	$0	$2,308,000	$2,308,000	$2,308,000	$2,308,000	$2,308,000
New Hire Salary and Benefits (121 filled)	$9,313,765	$10,161,210	$10,161,210	$10,161,210	$10,161,210	$10,161,210
OPEB ARC Increase	$0	$384,750	$384,750	$384,750	$384,750	$384,750
Gross Cost	$9,313,765	$12,853,960	$12,853,960	$12,853,960	$12,853,960	$12,853,960
Cost/(Savings)	($3,727,541)	($187,346)	($187,346)	($187,346)	($187,346)	($187,346)

Note: Actuarial Accrued Liability Increases by: $16,700,000

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

March 16, 2009

Dear Fellow County Employee:

This morning I will announce my Recommended Operating Budget for the fiscal year that begins July 1.

Before doing so, I want to inform you of the challenges we face and the tough choices that I have had to make as your County Executive.

Thanks to all of you who responded to my year-end message with expressions of support, as well as to those who sent in suggestions for budget savings and efficiencies. I have carefully considered cost savings and productivity improvement ideas and have incorporated a number of those suggestions in this budget. I truly appreciate your input.

I am very proud of our workforce – its professionalism, dedication and work ethic. Montgomery County is known for the quality of its employees, and nearly every department is nationally recognized for incredible accomplishments because of you. Over the past two-and-a-half years, I have witnessed firsthand your exemplary public service and commitment and every day I continue to appreciate it even more.

None of us need to be reminded about the difficulties caused by the downturn in the housing market and the national economic recession. Our region may be comparatively better off than most, but we are not immune. This is true for us as individuals and it is also true for County government.

Prior to the economic downturn, our County was spending far beyond its means with double-digit spending increases. In my first year as County Executive, I reduced the tax-supported County budget increase from 14.1 percent to 6.7 percent. In this current year, I reduced it even further to 3.3 percent. The budget I announce today represents a 0.4 percent decrease in County government tax-supported spending. This reverses a ten-year trend.

During my term as County Executive I have closed budget shortfalls of $200 million in the first year, $401 million for the current year and $587 million for next year. The three-year total reduction of nearly $1.2 billion is unprecedented.

This has not been easy. Sacrifices had to be made – by County taxpayers, contractors, service recipients, and by you as a County employee.

The budget I am releasing today has the lowest increase in spending in 18 years. My top priorities are to protect Public Safety, Education, and assistance to the most vulnerable County residents. However, there are spending reductions for nearly all other departments. All of us will be affected by this budget in one way or another.

Although I have resisted cutting County government positions, because 80 percent of the County's budget is allocated to pay employee wages and benefits, we have no choice this year but to make some personnel adjustments. The proposed budget eliminates 172 positions that are vacant and 234 positions that are currently filled, for a total reduction of 406 positions in County government.

My recommended budget includes no cost-of-living increases for County employees for the coming year, whether represented or not. Without this action the number of positions to be eliminated would be much higher.

It also includes a new early Retirement Incentive Plan that allows most full-time County employees who are in the defined benefit plan and within two years of retirement to retire before June 1, 2009 without penalty and receive $40,000. This is a voluntary program and it may help to reduce the number of filled positions planned to be abolished.

Under our personnel procedures and the relevant collective bargaining agreements, the Office of Human Resources will communicate with the employees affected by the reduction in force (RIF). These procedures require that preliminary notifications begin in mid-April. We also will communicate details to your respective employee organizations.

I know this will be difficult. We will work to place affected individuals in accordance with our RIF procedures and use every available tool to minimize the number of employees who are affected.

Personally, this is one of the most painful decisions I have had to make as County Executive. Our economic challenges leave me with very few options. And, even worse, those challenges may continue for the foreseeable future. This is a multi-year problem, with next year's shortfall projected to be over $370 million.

It is critical for us to make the appropriate decisions now in order to avoid even more difficult problems for the County in the future.

As you know, last year I raised the possibility of implementing two furlough days for County government employees to help fill an $8 million shortfall left by the County Council when they approved this year's budget. Other jurisdictions in the region have implemented such plans, including ten days in Prince George's County.

I have held off requiring the use of furloughs because I wanted to avoid the hardship this action would create for County employees and their families. Because we were able to achieve higher than expected savings from last year's retirement incentive program, limits on senior management pay, and other departmental reductions, we were able to close the gap without the use of furloughs. Barring unforeseen circumstances, I do not intend to implement furloughs for this current fiscal year.

These are challenging times. We need to protect our core services and use this opportunity to make County government more efficient and more effective. I am convinced that Montgomery County can weather this economic crisis and emerge in an even stronger position for the future.

I thank you for all that you have done and will continue to do to make our great County even better. Feel free to contact me at ocemail@montgomerycountymd.gov .

Sincerely,

Isiah Leggett

Ike Leggett

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OFFICE OF HUMAN RESOURCES

Isiah Leggett
County Executive

Joseph Adler
Director

2009 APR 10 PM 1:40

MONTGOMERY COUNTY COUNCIL

MEMORANDUM

April 10, 2009

TO: Philip M. Andrews, President
Montgomery County Council

FROM: Joseph Adler, Director
Office of Human Resources

SUBJECT: Testimony for Public Hearing on Tuesday, April 14, 2009 on Expedited Bill 10-09, Personnel – Retirement Incentive Program

Thank you for the opportunity to testify. I am here to express my support for Expedited Bill 10-09, which provides a one-time retirement incentive to active full-time employees in Groups A, E or H in the Employees' Retirement System. This bill implements an agreement between the County and MCGEO, UFCW Local 1994, the exclusive representative of the OPT/SLT bargaining units.

The purpose of this legislation is to provide a financial incentive to active employees to retire as of June 1, 2009. This would enable the County to reduce the number of employees that need to be RIFed as part of the cuts in the workforce to close budgetary shortfalls resulting from the national economic recession. The legislation provides a $40,000 retirement benefit in addition to normal retirement benefits to those employees eligible for normal retirement or eligible for early retirement and within two years of normal retirement eligibility. The legislation also provides for the elimination of any early retirement penalty for those employees eligible for early retirement and within two years of meeting the criteria for normal retirement. Under this bill, if more than 30 percent of eligible members apply to participate in the program, the Chief Administrative Officer may limit the number of participants either on a Countywide or department basis.

The timeline set forth in Section 33-42 (k)(1)(C) of the bill as drafted provides that employees had to apply by April 1 to participate in the 2009 Retirement Incentive Program, needed to complete all required forms by May 1, and retire as of June 1. Since the April 1 date has passed and we are approaching May 1, the bill needs to be amended. OHR has been registering eligible employees on-line to attend a worksession on the Retirement Incentive Program as a signal of their interest in the program. Subject to Council approval, we are asking employees to finalize their applications by May 15, and retire as of June 1. Based on the showing of interest that we have received from eligible employees, we are hopeful that 135 employees will elect to participate in the program. Last year we estimated that between 100 and 120 employees would join a similar program and 150 opted to do so.

Thank you for your time and attention. I would be pleased to answer any questions you may have.

by Workers' Compensation, personal medical insurance, the Federal government, or other appropriate and available outside resources). DOCR manages this account and, with the assistance of the County Attorney, determines which costs are the responsibility of the County. All bills are reviewed for appropriateness of cost by a private contractor prior to payment.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	10,000	0.0
FY10 CE Recommended	10,000	0.0

Productivity Enhancements and Personnel Cost Savings

The approved budget assumes implementation of a Retirement Incentive Program to generate savings of $1,011,260.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	-13,000,000	0.0
Increase Cost: Replace One-time Expenditure Reductions	7,191,080	0.0
Shift: Technical Adjustment for Permanent Savings from FY09 Retirement Incentive Program (RIP)	5,808,920	0.0
Decrease Cost: Savings from the FY10 Retirement Incentive Program (RIP)	-1,011,260	0.0
FY10 CE Recommended	-1,011,260	0.0

Public Technology, Inc.

Funds are budgeted each year to continue membership in Public Technology, Inc. (PTI) as the County's research and development link with the National Association of Counties. Annual dues, unchanged since 1991, cover research and development assistance for innovative projects; access to a computerized information-sharing network; and membership in the Urban Consortium. The County participates in, and has received grants as a result of, initiatives in task forces on energy, solid waste, and telecommunications. PTI, as an organization, specializes in the research and assessment of ideas of interest to local governments for increasing efficiency, reducing costs, improving services, and solving problems. A current emphasis is on public enterprise, toward helping local governments identify and capture potential sales from products and information that are outcomes of government investment.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	27,500	0.0
FY10 CE Recommended	27,500	0.0

Restricted Donations

This NDA was established to comply with the requirements of Government Accounting Standards Board Statement No. 34 (GASB 34) by budgeting for the receipt of private donations for County programs. The proceeds of the former Expendable Trust Fund accounts and other miscellaneous funds have been transferred to the Restricted Donations Special Revenue Fund. Appropriation authority to spend additional donations received during the year is provided through the County Council Resolution for the Approval of and Appropriation for the Operating Budget of the Montgomery County Government. The budget resolution provides that the unexpended balance in this fund at the end of the fiscal year is reappropriated by the County Council for the next fiscal year; and if needed, the Restricted Donations NDA can receive transfers from the Future Federal, State, or Other Grants NDA for any individual donations up to $200,000. Additional information relating to the financial activities of this NDA is displayed in Schedule A-4, Fiscal Summary by Fund, Non-Tax Supported, Montgomery County Government, Restricted Donations.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	0	0.0
FY10 CE Recommended	0	0.0

Retiree Health Benefits Trust

Retiree Health Benefits Trust: Beginning in FY08, the County implemented a plan to set aside funds for retiree health benefits, similar to what we have been doing for retiree pension benefits for more than 50 years. The reasons for doing this are simple: due to exponential growth in expected retiree health costs, the cost of funding these benefits, which are currently paid out as the bills come due, may soon become unaffordable. Setting aside money now and investing it in a Trust Fund, which will be invested in a similar manner as the pension fund, not only is a prudent and responsible approach, but will result in significant savings over the long term.

As a first step in addressing the future costs of retiree health benefits, County agencies developed current estimates of the costs of health benefits for current and future retirees. These estimates, made by actuarial consultants, concluded that the County's total future cost of retiree health benefits if paid out today, and in today's dollars, is $2.6 billion – more than half the total FY09 budget

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FY10 RETIREMENT INCENTIVE PLAN SAVINGS			
Total cost of Retirees		12,353,716	
Total Cost of Replacements		9,675,978	
Annual turnover		2,677,738	
Lapse 1 month		8,869,001	
Gross: 1st yr savings		3,484,715	
Less: Leave payouts		2,295,000	the average leave payout last time was 17,000 (including FICA), multiplied by our 135 estimated RIP participants
Total Net Savings 1st Year:		1,189,715	
Savings: Tax supported		**1,011,260**	
Savings: Non Tax Supported		178,455	
<u>Assumptions:</u>			
Acceptances	135		
Average pay	69,822	$ **61,444**	
Replacements will be between mid-point and pay grade maximum, or approximately 88% of top of grade			
Lapse 1 month of the fiscal year			
No positions are abolished			
<u>Benefit Assumptions:</u>	<u>Existing</u>	<u>Replacement</u>	
FICA/Medicare	0.0765	0.0765	
Life Insurance	0.0100	0.0100	
Retirement	0.2241	0.0800	
	0.3106	0.1665	

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2008 COUNTY GOVERNMENT BUYOUT

In May 2008, as recommended by the Executive, the Council approved a buyout program for non-public safety Employees' Retirement System (ERS) members, who were at normal retirement or within two years of normal retirement. The incentive consisted of a $25,000 payment and a reduction in the early retirement penalty. Buyout recipients had to retire by June 30, 2008.

Of the 838 eligible employees, 150 (or 18%) accepted the buyout. Three-fourths of the employees who accepted the 2008 buyout were eligible for normal retirement. Of the 150 positions vacated by the buyout, the County refilled 96 positions (64%) and abolished 54 positions (36%).

From FY09 – FY19, OLO's fiscal analysis shows that the 2008 County Government buyout will:

- Save $20.2 million (of which $8.5 million was saved in FY09)
- Cost $33.0 million
- Result in a net cost of $12.8 million

Almost half of the total savings of $20.2 million occurs in FY09 due to position abolishments and turnover savings. However, because the buyout program obligates the County to cover $33 million in new costs over the next decade, the net result is a cost increase of **$12.8 million.**

Beginning in FY10, and continuing for the next ten years, the County must pay back the ERS Trust Fund the $3.75 million it cost for the $25,000 per employee incentive payments. The buyout also resulted in retirees drawing pensions and health coverage for longer periods, which also increased the County's future liability.

Net Savings and Cost Increases Resulting from the 2008 County Government Buyout
($ in millions)

Fiscal Year	(A) Savings	(B) Cost Increases	(A) – (B) Net Savings or (Cost Increases)
FY09	$9.9	$1.4	$8.5
FY10-19	$10.3	$31.6	($21.3)
Total FY09-FY19	**$20.2**	**$33.0**	**($12.8)**

2009 PROPOSED COUNTY GOVERNMENT BUYOUT

As recommended by the Executive, the 2009 County Government buyout is being offered to Employees' Retirement System members who are eligible for normal retirement or within two years of normal retirement. The proposed 2009 incentive is $40,000 plus elimination of the early retirement penalty. The terms of the proposed 2009 buyout were bargained with MCGEO.

As the Council considers the proposed 2009 County Government buyout, OLO recommends the Council ask the Executive to address the following questions:

1. What are the estimated annual costs and savings of the 2009 buyout from FY10-FY20?
2. What percent of buyout-vacated positions will the Executive abolish permanently?
3. Is there a scenario whereby eligibility for the 2009 buyout could be targeted toward job classes that are subject to reductions in force?
4. What are the Executive's plans for coordinating the proposed 2009 buyout with the discontinued service retirement program?

F. LESSONS LEARNED AND APPLIED

Buyouts are any type of financial incentive offered by employers to encourage employees to voluntarily leave their job either through retirement or resignation. Buyout offers can include direct cash payments, contributions to health care or retirement savings accounts, and/or other non-pension post-employment benefits. For employees in a defined benefit retirement plan, a buyout often involves enhancing the calculation of an employee's stream of pension payments.

This final section of OLO's research on buyouts is divided into two parts:

- **Part 1** summarizes the themes or "lessons learned" about buyout programs based on the reported experiences of County agencies, other state and local governments, and the Federal Government; and

- **Part 2** suggests specific questions for the Council to pose about the 2009 buyout proposal for County Government employees, as recommended by the County Executive.

1. Lessons Learned

Based on the review of public sector buyout programs, OLO identified the following recurring themes or "lessons learned."

a. A buyout program can result in savings, especially when it is implemented in concert with an organization's plans to downsize or reorganize.

A buyout program affords an employer the opportunity to reduce compensation costs, and downsize or reorganize the workforce. Buyouts create position vacancies that then allow an employer to reshape the workforce to reflect current staffing needs and funding. Once a position is vacated, an employer can either downsize (by abolishing the position), or choose to refill the position with employees who earn lower salaries and/or have different skill sets.

Employers often find buyouts an attractive alternative to layoffs. Buyouts tend to mitigate the morale problems associated with layoffs. In addition, buyouts reduce an employer's exposure to unemployment compensation liability that can come with layoffs.

Buyouts generally result in immediate reductions in compensation costs, especially when an employer abolishes vacated positions. An organization may realize smaller savings when it refills a buyout-vacated position; this "turnover" savings comes from a combination of lapse and the lower salaries of new hires.

In structuring a buyout, an employer must decide whether to incur the costs of the program at the time of implementation or over time. When paying the costs (such as for lump-sum payments) at the outset, an employer generally reaps greater net buyout cost savings in the years following program implementation. Alternatively, buyout costs may be deferred until future years, such as with pension payment increases. When buyout costs are deferred, an employer experiences the largest net savings in the first year.

2008 County Government Buyout. OLO estimates that the County Government realized net savings of about \$8.5 million in FY09 as a result of the 2008 buyout. Because the County chose to finance most of the buyout out of the Employees' Retirement System Trust Fund and to amortize the repayments over a ten-year period, the costs of the buyout (including \$3.75 million for repayment of the \$25,000 awards) will not begin until FY10.

b. Depending upon how a buyout program is implemented and managed over time, the total cost of the program can exceed savings.

While buyouts can offer immediate reductions in compensation costs, the research evidences that buyouts often incur costs that offset program savings. Particularly when implemented independent of a downsizing or restructuring plan, a buyout can result in long-term costs that exceed savings.

Much of the fiscal benefit of a buyout is lost when, after the buyout, an employer continues to pay for the work previously performed by the departing employee. When an employer refills a vacated position, the compensation costs of the new hire consumes much of the potential savings. Alternatively, employers negate some or all of a buyout's savings when they pay for the same work, either through increased overtime or contracting.

The published evaluation research concludes that buyouts remain cost effective only as long as the employer implements the program in concert with a planned downsizing or reorganization that results in job abolishments. Consistent with this finding, federal and state evaluations of buyouts recommend targeting the program toward specific departments, programs, or job classes that are subject to reductions in force.

Buyouts that generate only one-time costs (such as lump sum cash payments) do not result in out-year costs that typically offset program savings. In contrast, buyouts that create long-term employer liabilities often result in total costs that are greater than program savings. Specifically, buyouts that extend the number of years that an employer must pay defined pension benefits and post-retirement health insurance coverage can prove extremely costly over time.

2008 County Government Buyout. Following the 2008 buyout, the County Government refilled 64% of the buyout-vacated positions. OLO's fiscal analysis finds that, over the next ten years, the 2008 buyout will have a net cost to the County of about \$12.8 million. This is because the total compensation savings of \$20.2 million are overtaken by the total increased costs of \$33.0 million.

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c. The experience of other jurisdictions evidence guiding principles for implementing a buyout program that is cost-effective.

The evaluation research and reported experience of other public sector employers suggest a number of "best practices" for increasing the likelihood of a cost-effective buyout program. In sum, before implementing a buyout, an employer should:

- Identify future staffing needs (based on operational requirements and resource availability);
- Consider how a change in workforce will affect productivity and service delivery;
- Determine how a buyout will help the organization restructure, downsize, or otherwise achieve its staffing needs;
- Perform an economic analysis to determine whether buyouts would be more cost effective than downsizing through natural attrition; and
- Determine whether actions planned to maintain productivity and service delivery do not cost more than the savings generated by the buyout.

Once a decision is made to offer a buyout, an employer should:

- Target buyouts to specific positions, programs, or departments that have been designated for reorganization or downsizing; and
- Minimize the refilling of vacated positions.

2. Applying Lessons Learned: Review of the Proposed 2009 Buyout

As recommended by the Executive, the 2009 buyout for County Government employees would offer payments of $40,000 to Employees' Retirement System (ERS) members who are either already eligible for or within two years of normal retirement. The proposal would eliminate the entire early retirement penalty for employees within two years of normal retirement. The terms of the proposed 2009 buyout are outlined in legislation proposed by the County Executive (Expedited Bill 10-09), currently pending Council action.

OLO recommends that the Council ask the Executive to address the following questions regarding the proposed 2009 County Government buyout:

a. What are the estimated costs and savings of the 2009 buyout, on an annual basis, from FY10-FY20? The Council should request the schedule of estimated annual costs and savings of the proposed 2009 buyout, beginning in FY10 and lasting through the next 10 years of increased payments to the ERS Trust Fund and the Retiree Health Benefits Trust Fund. The Council should ask the Executive to include a list of the assumptions that accompany the Executive's fiscal analysis.

b. **What percent of buyout-vacated positions will the Executive abolish?** Because refilling vacated positions negates much of a buyout's potential cost savings, the Council should find out more about the Executive's intent to abolish vs. refill positions vacated by the 2009 buyout.

c. **Is there a scenario whereby eligibility for the 2009 buyout could be targeted toward employees or job classes that are subject to reductions in force?** As recommended by the Executive, eligibility for the proposed 2009 buyout is purely a function of an employee's retirement status. In other words, eligibility for the buyout (similar to the 2008 buyout) is not limited to employees in job classes or departments identified for reductions in force. Because the research evidences that a cost-effective buyout must be accompanied by position abolishments, the Council should explore the feasibility of targeting the 2009 buyout to job classes or departments subject to a FY10 reduction-in-force.

d. **What are the Executive's plans for coordinating the proposed 2009 buyout with the use of discontinued service retirements (DSR)?** Both the buyout and the Discontinued Service Retirement option provide an early retirement incentive for eligible ERS members whose are subject to a reduction in force. The Council should ask the Executive his strategy for coordinating the use of the buyout program alongside the use of DSRs.

MFP Committee #6
April 20, 2009
Addendum

MEMORANDUM

April 20, 2009

TO: Management & Fiscal Policy Committee

FROM: Karen Orlansky, Director KO
Aron Trombka, Senior Legislative Analyst AT
Office of Legislative Oversight

SUBJECT: **County Government's Proposed 2009 Buyout: Fiscal Analysis**

Today, OLO staff will brief the MFP Committee on the estimated savings and costs resulting from the County Government proposed 2009 buyout, as proposed by the County Executive and outlined in Expedited Bill 10-09, Retirement Incentive Program 2009.

In sum, using the Executive Branch's assumptions about program design, participation, savings, and costs, OLO concludes that **the 2009 buyout would result in a net cost of at least $17.1 million over the next ten years.**

The following tables/graphs will be referenced during our briefing on the fiscal impact of the proposed buyout.

Attachment	
Characteristics of 2008 buyout vs. proposed 2009 buyout	©1
Average annual per employee savings/cost when buyout-vacated position is abolished vs. refilled	©2
First-year and 10-year net savings and costs of 2009 buyout	©3
Breakeven point analysis	©4-5

Comparison between 2008 Buyout and the Proposed 2009 Buyout

Characteristic	2008 Buyout	Proposed 2009 Buyout
Program Participation		
Program Eligibility	County Government ERS members at normal retirement, or within two years of normal retirement	County Government ERS members at normal retirement, or within two years of normal retirement
Exclusions	All public safety employees	Excludes police officers and firefighters
Maximum Participation	20% of any department	30% of any department
Retirement Incentive		
Incentive Payment Amount	$25,000	$40,000
Early Retirement Penalty Reduction	From 2% to 0%, for employees within one year of normal retirement	From 2% to 0%, for employees within one year of normal retirement
	From 5% to 2%, for employees within two years of normal retirement	From 5% to 0%, for employees within two years of normal retirement
Funding Source	ERS Trust Fund	ERS Trust Fund
Program Participation and Position Refill Rate		
Number of Participants	150 employees	135 employees (Executive estimate)
Percent of Vacated Positions Refilled	64%	90%-100% (Executive estimate)

Proposed 2009 County Government Buyout
Average Annual Per Employee Savings (Cost)

When Buyout-Vacated Position is Abolished

1	Retiree's Salary	$69,800
2	County Contribution - Health Insurance	$9,800
3	County Contribution - Retirement	$15,600
4	County Contribution - Soc. Sec. + Life Insurance	$6,000
5	**TOTAL**	**$101,200**
6	County Contribution - Retiree Health Insurance	($8,600)
7	Reallocation of County Retirement Contribution	($9,000)
8	Per Employee Buyout Costs (10 Years)	($19,900)
	BUYOUT SAVINGS	**$63,700**

When Buyout-Vacated Position is Refilled

1	Retiree's Salary	$69,800
2	County Contribution - Health Insurance	$9,800
3	County Contribution - Retirement	$15,600
4	County Contribution - Soc. Sec. + Life Insurance	$6,000
5	**TOTAL**	**$101,200**
6	County Contribution - Retiree Health Insurance	($8,600)
7	Reallocation of County Retirement Contribution	($9,000)
8	Per Employee Buyout Costs (10 Years)	($19,900)
9	Refill Employee's Salary + Benefits	($81,100)
	BUYOUT COSTS	**($17,400)**

One-Year and Ten-Year Net Savings/(Costs) Resulting from 2009 Buyout
Based on 10% of Buyout-Vacated Positions Abolished

(in $ millions)

Scenario "5/5"

Assumption: The buyout will encourage employees eligible for normal retirement to leave (on average) FIVE years early and employees within two years of normal retirement to leave (on average) FIVE years early.

Fiscal Year	(A) Savings	(B) Cost Increases	(A) - (B) Net Savings (Cost Increases)
FY10	$4.4	$1.3	$3.1
FY11-20	$7.6	$27.8	($20.2)
FY10-20 Total	$12.0	$29.1	($17.1)

Scenario "2/4"

Assumption: The buyout will encourage employees eligible for normal retirement to leave (on average) TWO years early and employees within two years of normal retirement to leave (on average) FOUR years early.

Fiscal Year	(A) Savings	(B) Cost Increases	(A) - (B) Net Savings (Cost Increases)
FY10	$4.4	$1.3	$3.1
FY11-20	$4.0	$27.8	($23.8)
FY10-20 Total	$8.4	$29.1	($20.7)

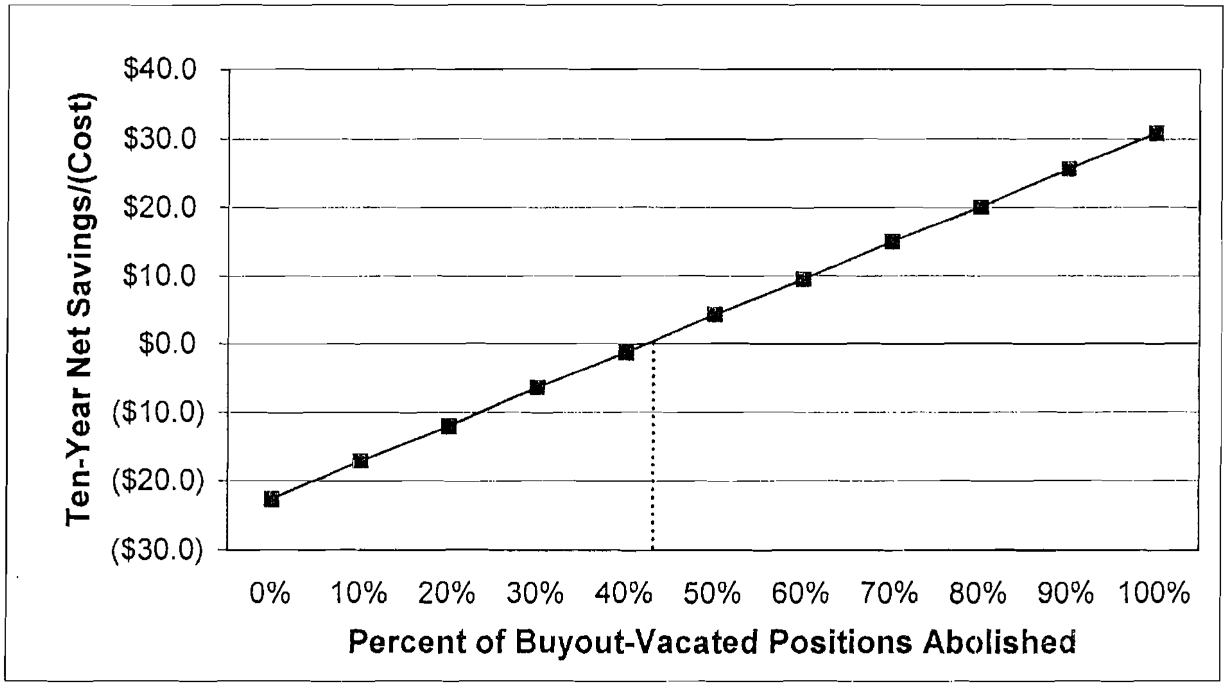
Ten-Year Net Savings/(Costs) Resulting from 2009 Buyout by Percent of Buyout-Vacated Positions Abolished

(in $ millions)

Scenario "5/5"

Assumption: The buyout will encourage employees eligible for normal retirement to leave (on average) FIVE years early and employees within two years of normal retirement to leave (on average) FIVE years early.

Percent of Positions Abolished	Ten-Year Net Savings/(Cost)
0%	($22.7)
10%	($17.1)
20%	($12.0)
30%	($6.4)
40%	($1.3)
50%	$4.2
60%	$9.4
70%	$14.9
80%	$20.0
90%	$25.6
100%	$30.8



Finding: The proposed buyout would be cost neutral over ten years if 42% of buyout-vacated positions are abolished.

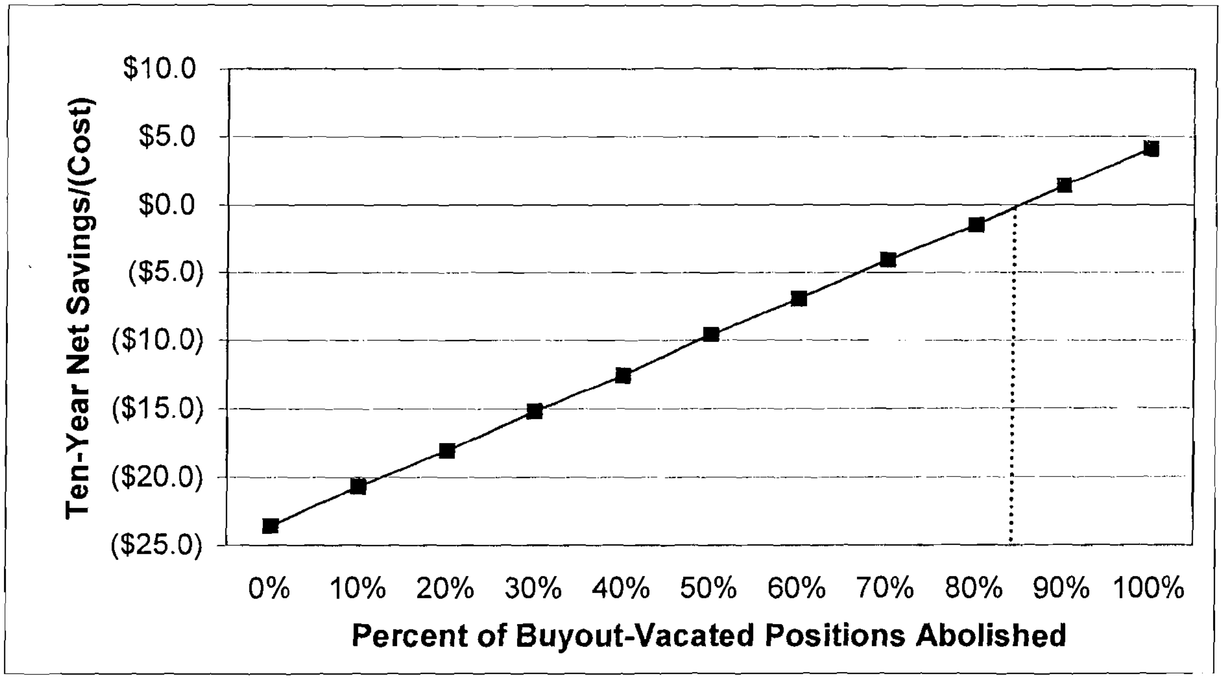
Ten-Year Net Savings/(Costs) Resulting from 2009 Buyout by Percent of Buyout-Vacated Positions Abolished

(in $ millions)

Scenario "2/4"

Assumption: The buyout will encourage employees eligible for normal retirement to leave (on average) TWO years early and employees within two years of normal retirement to leave (on average) FOUR years early.

Percent of Positions Abolished	Ten-Year Net Savings/(Cost)
0%	($23.6)
10%	($20.7)
20%	($18.1)
30%	($15.2)
40%	($12.6)
50%	($9.6)
60%	($7.0)
70%	($4.1)
80%	($1.5)
90%	$1.4
100%	$4.1



Finding: The proposed buyout would be cost neutral over ten years if 85% of buyout-vacated positions are abolished.

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

041770

MEMORANDUM

April 20, 2009

TO: Phil Andrews, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: FY10 Budget Adjustments

Set forth on the attached pages are adjustments to the FY10 Recommended Operating Budget, which I recommend the Council consider in its budget worksessions. This memorandum covers items not yet communicated to you by earlier actions. Each year, events subsequent to the transmittal of the budget in March, including actions by the General Assembly, require that certain changes should be proposed. I have reviewed a number of issues since March 16th, and the attached list reflects my recommendations on addressing the additional State aid reductions, as well as addressing some other budgetary issues.

My expenditure recommendations to date, if approved by the Council, would continue to maintain fiscal balance in both the Operating Budget and the CIP. Included in my proposed adjustments is recognition of the anticipated $31.5 million reduction in State Aid for Highway User Revenues, Montgomery College, Local Jail Reimbursement, Local Health Formula, and other Aid programs. To address these funding shortfalls, I am recommending a number of actions including a significant reduction in Retiree Health Benefits pre-funding across all four agencies and releasing the remaining snow supplemental set-aside to fund these actions and other FY10 adjustments to maintain fiscal balance.

I want to emphasize that it is only very reluctantly that I am recommending further reductions to Retiree Health Benefits pre-funding. The associated liabilities of this commitment certainly have not diminished, but under the existing, constrained economic circumstances it is necessary to temporarily *defer* these expenditures. While a short-term deferral of this obligation is appropriate at this time, we must resume this funding in FY11 and prudently set aside funds for this commitment.

The allocation of the reduction in the Retiree Health Benefits pre-funding amounts is structured in a manner to leave approximately $12 million with Montgomery County Public Schools (MCPS), since a further reduction to MCPS is dependent on approval of the County's pending Maintenance of Effort Waiver request.

Because we are projecting an FY11 budget gap of over $370 million with continuing stagnation in our property, income, and transfer and recordation taxes and the State is projecting a gap of over $1 billion, we strongly encourage the Council to accept these recommendations and not support further spending increases in FY10. Any additional resources identified in the Council's review of the operating budget should be used to replenish and strengthen the County's reserves, not increase spending pressures and exacerbate next year's projected budget gap. Given the significant challenges facing the County in this year and that we have exercised so many of our options in terms of continuing and short term savings, we have very little flexibility during FY10 and must strengthen our reserve position especially in this period of tremendous economic uncertainty.

It should be noted that *Moody's* [(1)] has recently assigned a "negative outlook" to the entire U.S. Local Government Sector. This was the first time that Moody's has assigned such a classification to the Local Government Sector, but they did so because, "...of the significant fiscal challenges local governments face as a result of the housing market collapse, dislocations in the financial markets, and a recession that is broader and deeper than any recent downturn."[1] The Report goes on to state that the critical factors that will drive rating decisions in the next twelve to eighteen months include, "...industries particularly at risk in the current economic downturn, including, among others, real estate development, auto manufacturing, and financial services; volatile and declining revenue sources, like sales and real estate transfer taxes, that are particularly sensitive to economic fluctuations, and; expenditures that are legally mandated and/or effectively fixed in the near-term." The report notes that a high exposure to one or more of these factors will project downward pressure on ratings, unless there are certain mitigating factors that would counterbalance these trends such as, "Above average reserve levels; demonstrated willingness to make rapid, if not multiple, mid-year budget adjustments; and consistently conservative budget assumptions."

These observations have obvious relevance to and serious implications for Montgomery County and should serve to guide our budgetary decisions in the coming months. A downgrade in the County's credit rating would further and significantly increase debt service costs well into the future and reduce our capacity to fund other priorities. It should also be noted that Anne Arundel County was recently placed on a "negative outlook" by Fitch because its, "...reserve levels are weakening and financial flexibility is diminishing, attributable, in part, to a reduction of housing-related revenues." This change in the rating status of an AA+ jurisdiction was assigned even though the report also noted that Anne Arundel County possessed, "A considerable economic base, concentrated in the governmental and military sectors, shows excellent prospects for continued development and expansion. [and that] Wealth levels are well above average."

In closing, I urge the Council to consider the long-term implications of its actions and approve these recommendations as presented.

IL:jfb

Attachment: Recommended Budget Adjustments

c: Timothy L. Firestine, Chief Administrative Officer
Dr. Jerry D. Weast, Superintendent, Montgomery County Public Schools
Dr. Brian K. Johnson, President, Montgomery College
Royce Hanson, Chair, Montgomery County Planning Board
Stephen B. Farber, Council Staff Director
Kathleen Boucher, Assistant Chief Administrative Officer
Department and Office Directors

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[1] Moody's U.S. Public Finance, April 2009, *Moody's Assigns Negative Outlook to U.S. Local Government Sector: Challenging Credit and Economic Environment Focuses Spotlight on Select Rating Factors*

AMENDMENTS TO THE CE RECOMMENDED BUDGET

FY10 OPERATING BUDGET

Tax Supported

RESOURCE AMENDMENTS

Montgomery County Government

COR	Eliminate Local Jail Reimbursement	-3,307,500
DTS	Ride-On Service	60,600
DTS	Implement Express Fare and Eliminate Discount Shuttle Bus Fare	550,000
HHS	Reduce Targeted Local Health Formula	-823,000
LIB	Increase State Aid for Libraries (change in State Aid relative to budget assumption)	143,740
TRN	Reduce Highway User State Aid	-22,793,100
	Subtotal MCG Resources	**-26,169,260**

Montgomery County Public Schools

MCPS	Reduce State Aid for Non-Public Placements	-1,614,963
	Subtotal MCPS Resources	**-1,614,963**

Montgomery College

MCC	State Aid	-1,004,413
MCC	Modify College Fund Balance Policy	919,115
	Subtotal MC Resources	**-85,298**

Other

ZZX	Release of FY09 Set Aside	2,203,700
	Subtotal Other Resources	**2,203,700**
	Total Tax Supported Resources	**-25,665,821**

EXPENDITURE AMENDMENTS

Montgomery County Government

DEP	Add: Support for the Maryland Clean Energy Center	270,000
DTS	Restore: Ride-On Service	600,000
NDA	Decrease Cost: Contribution to Retiree Health Benefits Trust	-16,391,930
NDA	Decrease Cost: FY10 Retirement Incentive Program	-1,241,170
NDA	Increase Cost: Allocation to Conference and Visitors Bureau	7,840
SHF	Increase Cost: Contribution to the State retirement system on behalf of the Sheriff	13,530
	Subtotal MCG Expenditures	**-16,741,730**

Montgomery County Public Schools

MCPS	Decrease Cost: Contribution to Retiree Health Benefits Trust	-6,300,000
	Subtotal MCPS Expenditures	**-6,300,000**

Montgomery College

MCC	Decrease Cost: Contribution to Retiree Health Benefits Trust	-700,000
	Subtotal MC Expenditures	**-700,000**

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Maryland-National Capital Park and Planning Commission

PPC	Decrease Cost: Contribution to Retiree Health Benefits Trust (Administration Fund)	-634,100
PPC	Decrease Cost: Contribution to Retiree Health Benefits Trust (Park Fund)	-1,290,000
	Subtotal M-NCPPC Expenditures	**-1,924,100**
	Total Tax Supported Expenditures	**-25,665,830**

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Non-Tax Supported

RESOURCE AMENDMENTS

Montgomery County Government

DED	Workforce Investment Act / Federal Economic Stimulus funding accelerated from FY10 to FY09	-1,339,860
HHS	Cigarette Restitution Funds	-778,930
	Subtotal MCG Resources	**-2,118,790**

Montgomery County Public Schools

MCPS	Elimination of Aging Schools grant from State	-1,023,000
	Subtotal MCPS Resources	**-1,023,000**

Montgomery College

MCC	WDCE expenditures to align with State Aid reductions	-188,335
	Subtotal MC Resources	**-188,335**

Maryland-National Capital Park and Planning Commission

PPC	Park Grant Expenditures	-69,000
	Subtotal M-NCPPC Resources	**-69,000**
	Total Non-Tax Supported Resources	**-3,399,125**

EXPENDITURE AMENDMENTS

Montgomery County Government

DED	Eliminate: Workforce Investment Act / Federal Economic Stimulus funding accelerated from FY10 to FY09	-1,339,860
HHS	Reduce: Cigarette Restitution Funds	-778,930
	Subtotal MCG Expenditures	**-2,118,790**

Montgomery County Public Schools

MCPS	Decrease Cost: Elimination of Aging Schools grant from State	-1,023,000
	Subtotal MCPS Expenditures	**-1,023,000**

Montgomery College

MCC	Reduce: WDCE expenditures to align with State Aid reductions	-188,335
	Subtotal MC Expenditures	**-188,335**

Maryland-National Capital Park and Planning Commission

PPC	Decrease Cost: Park Grant Expenditures	-69,000
	Subtotal M-NCPPC Expenditures	**-69,000**
	Total Non-Tax Supported Expenditures	**-3,399,125**

DETAIL ON RECOMMENDED FY10 CE AMENDMENTS

Tax Supported

RESOURCE AMENDMENTS

Correction and Rehabilitation

ELIMINATE LOCAL JAIL REIMBURSEMENT	-3,307,500

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

DOT-Transit Services

RIDE-ON SERVICE	60,600

Restore weekday service on route 53 and Saturday service on route 29; restore route 93 with less frequent service and less span; restore route 7 with same frequency of service and span, but eliminate part of the route.

IMPLEMENT EXPRESS FARE AND ELIMINATE DISCOUNT SHUTTLE BUS FARE	550,000

Implement Express Fare of $3.00/$3.10 (SmarTrip/cash) on Route 70 (Milestone-Bethesda) and abolish 35 cent shuttle fare on Routes 93 and 96.

Health and Human Services

REDUCE TARGETED LOCAL HEALTH FORMULA	-823,000

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Public Libraries

INCREASE STATE AID FOR LIBRARIES (CHANGE IN STATE AID RELATIVE TO BUDGET ASSUMPTION)	143,740

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Transportation

REDUCE HIGHWAY USER STATE AID	-22,793,100

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Montgomery County Public Schools

REDUCE STATE AID FOR NON-PUBLIC PLACEMENTS	-1,614,963

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget. The Executive recommends a corresponding increase in the County's local contribution to offset this loss in tax supported revenue.

Montgomery College

STATE AID	-1,004,413

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget. The difference between the change in fund balance policy and the State Aid loss will be made up by an increase in the local contribution.

MODIFY COLLEGE FUND BALANCE POLICY	919,115

The Executive recommends a change in the treatment of the College's available fund balance for

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budgetary purposes. All County agencies except Montgomery College calculate the available beginning fund balance as the amount estimated to be available after the end of the previous fiscal year. Montgomery College calculates the fund balance available for the next fiscal year as the amount available at the end of the fiscal year two years ago. For example, the ending FY08 fund balance is considered the amount available for FY10, whereas, Montgomery County Government, Montgomery County Public Schools, and the Maryland-National Capital Park and Planning Commission calculate the estimated ending FY09 fund balance as the amount available for FY10. This recommended change would put the calculation of the College fund balance on the same basis as the other agencies.

Other

RELEASE OF FY09 SET ASIDE **2,203,700**

When the Executive recommended the FY10 Budget, $11,584,070 was retained as a set aside for snow and storm removal costs and other unanticipated cost increases. Snow/Storm removal costs are estimated to be approximately $2.2 million below estimates and this amount is recommended to be released and used to offset State Aid Reductions referenced above.

Total Tax Supported Resources **-25,665,821**

EXPENDITURE AMENDMENTS

DOT-Transit Services

RESTORE: RIDE-ON SERVICE **600,000**

Restore weekday service on route 53 and Saturday service on route 29; restore route 93 with less frequent service and less span; restore route 7 with same frequency of service and span, but eliminate part of the route.

Environmental Protection

ADD: SUPPORT FOR THE MARYLAND CLEAN ENERGY CENTER **270,000**

To provide support for staffing the new Maryland Clean Energy Center, which will be located in Montgomery County at the Camille Kendall Academic Center at the Universities at Shady Grove. Under the joint proposal by the University of Maryland System and the County, Montgomery County pledged to provide funds for staffing the Center: $270,000 in FY10 and $286,200 in FY11. The FY10 total breaks down as follows:

Executive Director: $130,000
Senior Program Manager: $90,000
Analyst and Administrative: $50,000
TOTAL: $270,000

NDA - Conference and Visitors Bureau

INCREASE COST: ALLOCATION TO CONFERENCE AND VISITORS BUREAU **7,840**

The Executive recommends an additional $7,840 for the Conference and Visitor's Bureau to make the total amount of that Non-departmental Account 3.5 percent of total Hotel Motel tax revenues as required by the County Code.

NDA - Productivity Enhancements and Personnel Cost Savings

DECREASE COST: FY10 RETIREMENT INCENTIVE PROGRAM **-1,241,170**

This represents additional projected tax supported savings, based on information from the County Executive's actuary. Details are provided in the Fiscal Impact Statement related to Expedited Bill 10-09, Personnel - Retirement Incentive Program.

NDA - Retiree Health Benefits Trust

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DECREASE COST: CONTRIBUTION TO RETIREE HEALTH BENEFITS TRUST A budget adjustment is required to reduce the Montgomery County Government Retiree Health Benefits Trust contribution. This reduction will help offset the loss of State Aid.	-16,391,930

Sheriff

INCREASE COST: CONTRIBUTION TO THE STATE RETIREMENT SYSTEM ON BEHALF OF THE SHERIFF The Maryland General Assembly eliminated its contribution for the Sheriff's participation in the retirement system as part of its final actions on the FY10 State budget.	13,530

Montgomery County Public Schools

DECREASE COST: CONTRIBUTION TO RETIREE HEALTH BENEFITS TRUST A budget adjustment is required to reduce the Montgomery County Public Schools Retiree Health Benefits Trust contribution. This reduction will help offset the loss of State Aid.	-6,300,000

Montgomery College

DECREASE COST: CONTRIBUTION TO RETIREE HEALTH BENEFITS TRUST A budget adjustment is required to reduce the Montgomery College Retiree Health Benefits Trust contribution. This reduction will help offset the loss of State Aid.	-700,000

Maryland-National Capital Park and Planning Commission

DECREASE COST: CONTRIBUTION TO RETIREE HEALTH BENEFITS TRUST (ADMINISTRATION FUND) A budget adjustment is required to reduce the Maryland-National Capital Park and Planning Commission Retiree Health Benefits Trust contribution. This reduction will help offset the loss of State Aid.	-634,100
DECREASE COST: CONTRIBUTION TO RETIREE HEALTH BENEFITS TRUST (PARK FUND) A budget adjustment is required to reduce the Maryland-National Capital Park and Planning Commission Retiree Health Benefits Trust contribution. This reduction will help offset the loss of State Aid.	-1,290,000
Total Tax Supported Expenditures	**-25,665,830**

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Non-Tax Supported

RESOURCE AMENDMENTS

Economic Development

WORKFORCE INVESTMENT ACT / FEDERAL ECONOMIC STIMULUS FUNDING ACCELERATED FROM FY10 TO FY09	-1,339,860

The Executive recommends accelerating the budget for this federal economic stimulus aid from FY10 to FY09 based on more recent information provided by the Maryland Department of Labor and Licensing. The Executive will shortly request a supplemental appropriation of $1,301,992 to begin implementation of this grant opportunity.

Health and Human Services

CIGARETTE RESTITUTION FUNDS	-778,930

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Montgomery County Public Schools

ELIMINATION OF AGING SCHOOLS GRANT FROM STATE	-1,023,000

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Montgomery College

WDCE EXPENDITURES TO ALIGN WITH STATE AID REDUCTIONS	-188,335

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Maryland-National Capital Park and Planning Commission

PARK GRANT EXPENDITURES	-69,000

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Total Non-Tax Supported Resources	**-3,399,125**

EXPENDITURE AMENDMENTS

Economic Development

ELIMINATE: WORKFORCE INVESTMENT ACT / FEDERAL ECONOMIC STIMULUS FUNDING ACCELERATED FROM FY10 TO FY09	-1,339,860

The Executive recommends accelerating the budget for this federal economic stimulus aid from FY10 to FY09 based on more recent information provided by the Maryland Department of Labor and Licensing. The Executive will shortly request a supplemental appropriation of $1,301,992 to begin implementation of this grant opportunity.These funds will be used for the following programs:
Adult funds $184,793,
Youth funds $343,884,
Dislocated Workers funds $773,315.

Health and Human Services

REDUCE: CIGARETTE RESTITUTION FUNDS	-778,930

Based on reductions identified by the Maryland General Assembly in its approval of the FY10

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State budget, the Executive recommends the abolishment of two positions - a Management Leadership Service III and a Liquor Control Enforcement Officer and related operating expenses. This reduction significantly affects Public Health Services efforts in reducing tobacco use disparities.

Montgomery County Public Schools

DECREASE COST: ELIMINATION OF AGING SCHOOLS GRANT FROM STATE **-1,023,000**

The Executive recommends reductions of $1,023,000 in the MCPS grant fund due to reductions identified by the Maryland General Assembly in its approval of the FY10 State budget.

Montgomery College

REDUCE: WDCE EXPENDITURES TO ALIGN WITH STATE AID REDUCTIONS **-188,335**

The Executive recommends reductions of $188,335 in the Montgomery College Continuing Education fund due to reductions identified by the Maryland General Assembly in its approval of the FY10 State budget.

Maryland-National Capital Park and Planning Commission

DECREASE COST: PARK GRANT EXPENDITURES **-69,000**

The Executive recommends reductions of $69,000 in the MNCPPC Parks' Grant Fund due to reductions identified by the Maryland General Assembly in its approval of the FY10 State budget.

Total Non-Tax Supported Expenditures **-3,399,125**

Staff Amendment 1

Amend lines 5-12 as follows:

(1) *Eligibility.*

(A) A Group A, E or H member [[employed in a]] assigned to a full-time position in an affected class who has received a notice of intent or notification of a reduction-in-force may apply to participate in the Retirement Incentive Program 2009 if the member is eligible for:

(i) normal retirement as of June 1, 2009; or

(ii) early retirement and within two years of meeting the criteria for normal retirement as of June 1, 2009.