GO Committee #2
February 22, 2021
Worksession

M E M O R A N D U M

February 18, 2021

TO: Government Operations and Fiscal Policy (GO) Committee

FROM: Gene Smith, Legislative Analyst
Craig Howard, Deputy Director
Marlene Michaelson, Executive Director

SUBJECT: Reserves and Select Fiscal Policies

PURPOSE: Review and make recommendation to the Council

Expected attendees:
Rich Madaleno, Chief Administrative Office, Office of the County Executive
Mike Coveyou, Director, Department of Finance (Finance)
Nancy Feldman, Division Chief, Finance
Jennifer Bryant, Director, Office of Management and Budget (OMB)
Chris Mullin, Manager, OMB

The GO Committee will review and make recommendations to the Council to update Resolution 17-312 – reserves and select fiscal policies. The Council last updated this resolution in 2011, and the Council should consider updating it to meet best practices for reserves and generally update it to be more comprehensive. Continuing to refine this resolution will strengthen the County's fiscal policies, aid in retention of its AAA bond rating, and aid in the County's response to the current and future emergencies.

I. Background

The Council and the Executive worked collaboratively during the last recession to protect the County's fiscal health and to preserve the County's AAA bond rating. The Great Recession created significant revenue shortfalls for the County, like many other local jurisdictions nationwide. Due to the recession, the Council and the Executive had to take several difficult budget actions to address both short- and long-term gaps while the Council also took action to adopt a comprehensive resolution on reserve and select fiscal policies. Specifically, addressing gaps caused by the recession required budget actions such as:

- Rebasing the local contribution to MCPS under the maintenance of effort (MOE) law from $10,244 per student in FY11 to $9,759 per student in FY12.

- Substantially reducing department and agency operating budgets.
- Implementing progressive furloughs for County Government employees in FY11.
- Enacting a package of changes to employee benefits to achieve long-term cost savings that included: 1) increasing group insurance cost share for active employees; 2) increasing employee contributions to defined benefit retirement plans; 3) capping the annual cost of living adjustment on pension benefits; 4) reducing the employer contribution to defined contribution retirement plans for one-year in FY12; and 5) revising eligibility requirement and increasing the cost share for retiree health benefits.

Those difficult budget decisions helped the County stabilize its financial position during the Great Recession, and the fiscal policy resolution provided a blueprint to strengthen the County's fiscal health to lessen or avoid the impact from future recessions or emergencies.

The County again faces a crisis due to the ongoing COVID-19 pandemic. This crisis has generated unique revenue and expenditure pressures for the County. Like the last the recession, the Council and Executive will need to determine the appropriate actions to preserve the County's fiscal health and position it for success following the crisis. The Council's review, and if necessary, adjustments to its fiscal policies is an important element to tackling budgetary challenges, guiding the County through the ongoing pandemic, and ensuring that the County continues to be able to provide support to residents most in need.

A. AAA Rating

The County is one of very few counties that holds a AAA rating from all three rating agencies. **The County has held this honor since 1973 through rigorous standards and strong financial management**. In addition to its fiscal management, the County continues to enhance its rating by seeking opportunities for economic development to grow its tax base and drive the regional economy.

The benefits of a AAA rating from all three rating agencies are measurable and important to the County's long-term growth and sustainability. First, this distinction provides the County with the lowest interest rates the market allows when issuing debt – either general obligation (G.O.) or other debt. With this rating, the County can more easily access markets to compete for low interest rates in a timely manner. The lower borrowing costs enable the County to fund many important projects to continue economic development, which in turn grows the tax base and allows for the County to maintain its strong financial position. Finally, there is an immeasurable but still important benefit of institutional pride and prestige by retaining the AAA rating from all three agencies.

The impact of a rating downgrade, like the benefits, is also measurable. A downgrade would result in greater borrowing costs for the County. A recent estimate conducted by the County's financial advisors notes that a "one notch" downgrade would result in increased borrowing costs of \$5 million to \$27 million for the current Capital Improvements Program (CIP). These additional costs will further restrict the County's budget since it will result in less flexibility for other uses, with potential negative impacts on overall economic development and growth. Finally, it is very difficult for a jurisdiction to reattain a AAA bond rating once it is lost.

It takes effort to retain the AAA rating from all three rating agencies. For more than 40 years, multiple Executives and Councils have given the retention of these ratings their top priority. It takes fiscal constraint and focus to budget the necessary resources to meet the County's policy goals.

B. County Government Reserves

The County's reserve levels are an important element of the County's financial picture and management. Adherence to strong reserve policies is an important factor considered by the rating agencies and is important to meeting the needs of the County's residents during emergencies. The Council updated the County's reserve policy during the last recession, including amending the Revenue Stabilization Fund (RSF) law. Generally, the County amended its reserve policy by:

- Increasing the reserve goal from 6% to 10%.
- Defining and broadening the reserve base to Adjusted Governmental Revenues (AGR), which included additional funds to correspond with the County's liabilities.
- Removing the cap from the RSF which would have prevented the County from meeting its new 10% reserve goal.
- Strengthening the definitions of a structurally balanced budget and use of reserves.

The County's reserves include three components – 1) the General Fund reserve; 2) the RSF; and 3) other certain County Government funds. The other County Government funds, as a policy, are set close to zero; therefore, the first two components are the only ones included when calculating the County's reserve level as a percent. The values for the General Fund reserve and RSF are reported each year in the Fiscal Plan Summary (see ©1-2). **Actual year-end reserves are based on actual revenues and expenditures, and the reported values are updated only a couple of times each year**. The December 2020 update is the most recent update for the FY21 year-end reserve values, which estimated the General Fund portion at $28.1 million and the RSF at $384.9 million.

The General Fund reserve is the most liquid of the two main reserve components. This fund includes the unappropriated portion of the County's tax-supported revenues each year. **The County Charter restricts this amount to a maximum of 5% of tax revenues from the previous year; Resolution 17-312 sets a goal to budget the maximum 5% each year**. Special or supplemental appropriations that are funded throughout the year use this reserve fund unless an alternative funding source is identified.

The RSF is created in County Code §§20-64 through 72. **The RSF is best understood as the County's "Rainy Day Fund**." Funding is added to the RSF when certain volatile tax revenues (e.g., income, recordation) exceed the estimated projections for those revenues during the fiscal year. Use of the RSF is more restrictive than the General Fund reserves. Specifically:

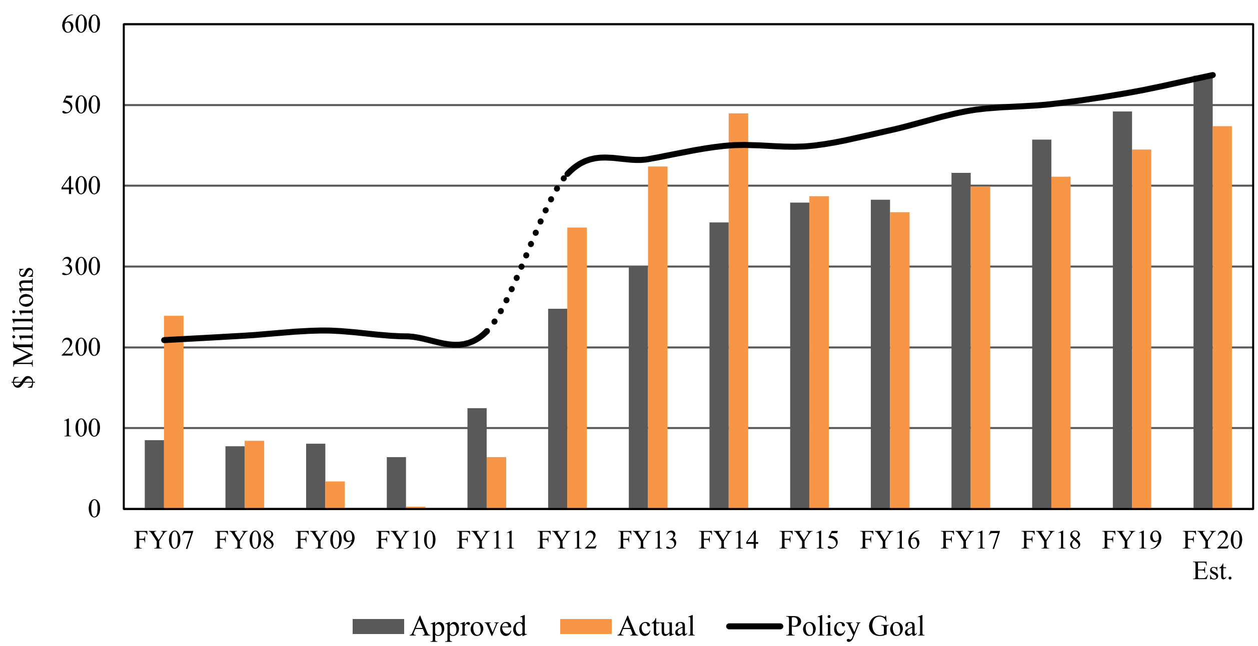
- The County can only use RSF funds by an affirmative vote of six Councilmembers, after a public hearing.
- The Council is expected to receive an update on relevant economic indicators and seek the Executive's recommendation before approving the use of RSF funds.
- Use of the RSF, if approved by the Council, is restricted to appropriations that have become unfunded during the fiscal year.

C. <u>County Government Reserves – Policy Goal</u>

The County's reserve goal is 10% of AGR. AGR is defined in the RSF law and includes all tax-supported general fund revenues plus other tax supported revenues, like Federal and State grants. The County's reserve calculation is more comprehensive than most jurisdictions, which typically only consider general fund tax revenues. The County's definition ensures that the County is positioned better for crises given its broad funding mandates for schools and other agencies.

Graph 1 details the County's budgeted reserves and actual reserves for FY07-20 compared to the policy goal. Resolution 17-312 amended the reserve policy goal from 6% to 10% beginning in FY12, with a long-term plan to gradually reach the 10% goal by FY20. The Council did budget 10% reserves in FY20, but the actual year-end reserves were less than budgeted due to the pandemic.

Graph 1: County Reserves – Approved Vs. Actual

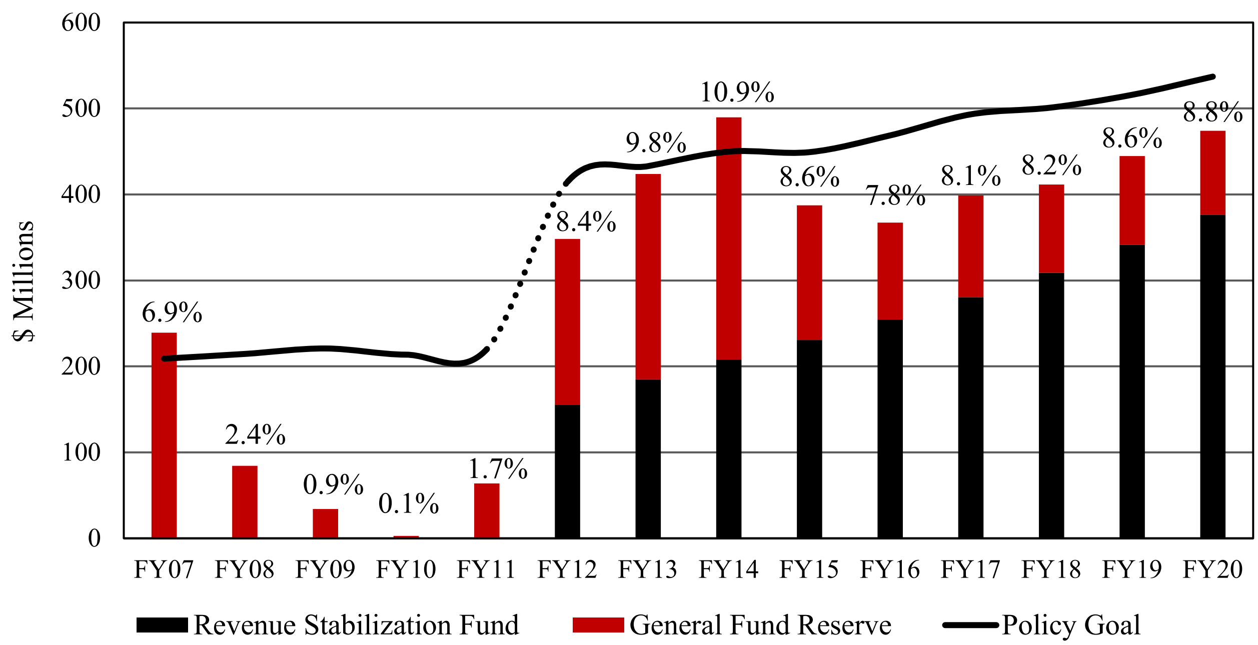


Graph 2 details the portion from each of the two reserve funds for the actual year-end reserve levels from FY07-20. Until FY12, the policy goal was 6% and excluded the RSF. The

RSF had a fund balance of about $120 million in FY07-09 but was reduced to about $75 million in FY10 due to the Great Recession. Below are a few highlights about this graph.

- The County's reserves were reduced to dangerous levels following the Great Recession.
- The County made significant strides to replenish reserves following the difficult years of the Great Recession.
- The FY14 reserves exceeded the 10% policy goal because the County received greater revenues than anticipated. Due to the Charter limitation of 5% for the General Fund balance, reserves were adjusted in FY15 to meet the Charter's requirement.
- The RSF balance continues to increase and buoy the County's reserve position.
- Conversely, the General Fund reserve balance, in total dollars and as a percentage of the reserves, continually decreases from FY15-20. This reduction has resulted in the County not reaching its 10% reserve policy goal.

Graph 2: County Reserve – Year-end Actuals by Fund



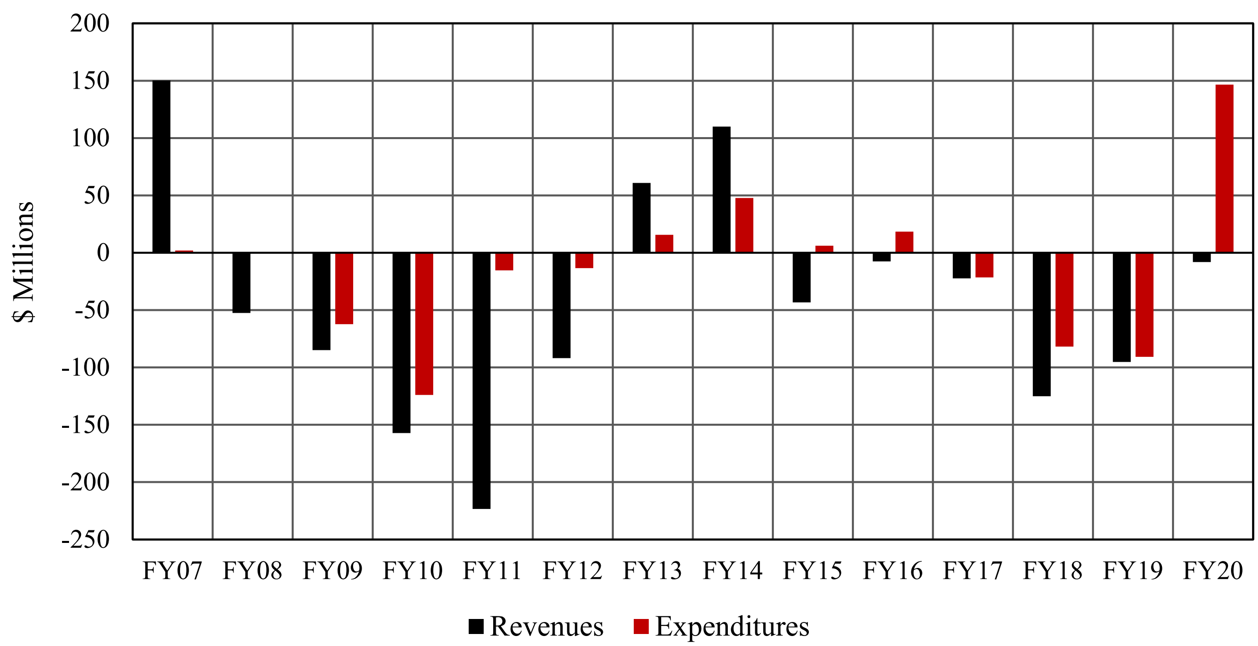
The General Fund reserve decreases in FY15-FY20 are mostly due to the difference from budgeted and actual revenues and expenditures. Table 1 compares the County's approved tax revenues and tax-supported expenditures to actual values for FY07-FY20.

Table 1: Comparison of Approved Vs. Actual Tax Revenues and Tax-Supported Expenditures

	Tax Revenues			Tax-Supported Expenditures		
	Approved	Actual	Difference	Approved	Actual	Difference
FY07	2,687.7	2,838.0	**150.3**	3,399.6	3,401.5	**1.9**
FY08	3,008.8	2,956.3	**- 52.6**	3,652.8	3,652.6	**- 0.2**
FY09	3,166.8	3,081.9	**- 84.8**	3,787.8	3,725.6	**- 62.2**
FY10	3,124.6	2,967.4	**- 157.3**	3,846.9	3,723.0	**- 123.9**
FY11	3,117.1	2,893.7	**- 223.4**	3,655.9	3,640.5	**- 15.4**
FY12	3,206.9	3,115.1	**- 91.8**	3,785.0	3,771.5	**- 13.4**
FY13	3,166.5	3,227.2	**60.7**	4,020.5	4,036.1	**15.6**
FY14	3,223.0	3,333.1	**110.1**	4,194.8	4,242.6	**47.8**
FY15	3,318.0	3,274.6	**- 43.4**	4,356.5	4,362.7	**6.2**
FY16	3,450.1	3,442.7	**- 7.4**	4,420.2	4,438.7	**18.5**
FY17	3,670.0	3,647.6	**- 22.5**	4,643.8	4,622.2	**- 21.6**
FY18	3,780.5	3,655.3	**- 125.2**	4,775.8	4,694.0	**- 81.8**
FY19	3,829.6	3,734.3	**- 95.3**	4,885.1	4,794.4	**- 90.7**
FY20	3,941.7	3,933.6	**- 8.1**	5,033.0	5,179.5	**146.5**

Graph 3 highlights approved vs. actual differences for revenues and expenditures from Table 1. The County's revenues have been consistently over budgeted in FY15-20. In recent years, the County has enacted mid-year savings plans to reduce spending because revenues have been over budgeted. The overall reduction in expenditures, however, rarely equaled the overall reduction in revenues. The use of General Fund reserves was one tool to balance the budget in recent years when revenues and expenditures were not equal.

Graph 3: Difference Actual and Approved Revenues and Expenditures



D. Other Fiscal Policies in Resolution 17-312

Resolution 17-312 includes fiscal policies in addition to the reserve policies. Below is a description of the other policies included in the resolution. **Other than clarifying the use of one-time revenues in this memorandum, Council staff does not recommend any changes to these policies.**

Structurally Balanced Budget. The County's goal is to have a structurally balanced budget – expenditures must not exceed recurring revenues and net transfers each year. A deficit is not allowed. The County achieves this goal each year when the Executive recommends a balanced budget, and the Council approves a balanced budget. It also continues to meet this goal through year-end transfers and use of General Fund reserves when actual revenues plus net transfers do not equal actual expenditures.

This provision also clearly indicates that it is the County's goal to avoid using reserves (not a recurring revenue) to fund any portion of the recommended or approved operating budget**. This means that each year that a budget is recommended or approved, the County expects to increase reserves or maintain reserves if the County is at its policy goal**.

Use of one-time Revenues. The County's goal is to use one-time revenues in the following prioritization:

1) Restore reserve to the policy goal; and
2) If reserves are met, excess funds may be applied to non-recurring expenditures, pay-as-you-go (PAYGO) for the Capital Improvements Program (CIP), or unfunded liabilities.

The resolution states that OPEB and pension benefits should be considered the priority for current unfunded liabilities.

PAYGO. The County's goal is that PAYGO for the CIP should be at least 10% of the amount of G.O. bonds planned for issue each year. The County meets this goal each year by approving a resolution to include at least 10% PAYGO in the next fiscal year's CIP.

Fiscal Plan. The County's goal is to adopt a six-year fiscal plan that is structurally balanced, which also includes separate displays for reserves. The County's current fiscal plan meets this goal. As discussed in a Council staff report in October 2019, the County could continue to refine the fiscal plan document as a tool for fiscal planning purposes.

II. Discussion – Short-term Recommendations

Resolution 17-312 contains many of the County's important fiscal policies, and it was also envisioned that the Council would continue to refine it. The COVID-19 pandemic, with its resulting revenue and expenditure pressures, has helped to identify some best-practice reserve provisions that will strengthen the County's fiscal policies. In addition, there are other policies reviewed by the Council that are not currently included in this comprehensive document.

Instead of amending portions of the resolution, Council staff recommends amending and restating Resolution 17-312 as a new resolution. The Council adopted a similar process following the previous recession as it refined its reserve policies. For each of the following sections, Council staff makes recommendations about how the Council could strengthen its fiscal policies. **The GO Committee will discuss each section and make recommendations about which items it wants to include in a revised resolution for Council consideration**.

A. Update Reserve Policy

The COVID-19 pandemic has clarified that the County's current reserve policy is lacking specific provisions related to use of reserves during emergencies and a replenishment policy for when reserves are used in emergencies. The GO Committee should consider amendments to Resolution 17-312 to strengthen the County's reserve policy to address these two items. This is good financial management, and it will strengthen the County's position with the rating agencies.

Below is a summary of the recommended amendments to strengthen the reserve policy.

1) Add a provision for use of reserve during emergencies. The current policy resolution does not envision the use of reserves, even during events that may require the use of reserves. Coupled with a replenishment policy, as described below, the inclusion of this provision provides a clear indication when the County believes reserves should be utilized and the process to return to the County's policy goal. This provision should also highlight that it is the County's goal to prioritize the reduction of expenditures during emergencies to limit the use of reserves for maintaining the most critical County services.

   Council staff recommends including a provision that allows for the use of reserves during recessions or national emergencies. Other jurisdictions use similar definitions for reserve use, and Council staff believes that these are easily defined events and are appropriate times to use reserves. Alternative definitions for when reserves could be used include: 1) a decrease by a certain percent in tax revenues; 2) broadening the types of emergencies (e.g., State emergency); or 3) generally unexpected events or events outside of the County's control. The Council should avoid a definition that is too broad that allows reserves to be used due to poor budget planning.

   Council staff also recommends that this provision clearly indicate that it is the County's goal to prioritize expenditure reductions to limit reserve use during certain situations. During the current emergency, the Council adopted a "Continuity of Services" budget to limit the impact on reserves and focus expenditures to address the emergency. It is important for the County to indicate that it will do all possible to focus reserves, and expenditures generally, on addressing the emergency.

2) Add a provision to replenish reserves. The Government Finance Officers Association (GOFA) recommends that jurisdictions have a policy to replenish reserves in no more than

three years if reserves are less than the policy goal. A three-year or less replenishment policy is also looked at favorably by the rating agencies. Even if the County supports the goal of a three-year replenishment policy, it is important that the Council clearly indicate that the County should avoid waiting until the third year to fully fund this goal.

Council staff recommends inclusion of a three-year reserve replenishment policy, including language that requires this outlay be included in the six-year fiscal plan and that the County avoid waiting to replenish the reserves until the last year.

The actual FY21 year-end reserves will be a critical metric to track. This estimate continues to fluctuate as the County receives additional information daily about revenues, expenditures, Federal aid, reimbursements, and other elements. The inclusion of a three-year replenishment policy is critical, but it may create additional pressures as the Council considers the FY22 and future budgets. Achieving a reserve level closer to the 10% policy goal in FY21 will reduce the amount of funding required to return to 10% within three years.

B. Clarify the Use of One-Time Revenues

The current policy states:

One-time revenues and revenues greater than projections must be applied first to restoring reserves to policy levels or as required by law. If the County determines that reserves have been fully funded, then one-time revenues should be applied to non-recurring expenditures that are one-time in nature, Pay-as-you-go (PAYGO) for the Capital Improvements Program (CIP) greater than the County's targeted goal, or unfunded liabilities. Priority consideration should be given to unfunded liabilities for retiree health benefits (OPEB) and pension prefunding.

While generally providing some guidance, the text could be strengthened by clearly indicating the order or groupings for the County's funding priorities. This is particularly important as the County has received several one-time revenues during this emergency. **Council staff recommends clarifying this language to provide a clear prioritization hierarchy as the original language intends**. Below is language for illustrative purposes.

Use of one-time revenues will be applied in the following order until the policy goal is met, or the new resources are fully utilized:

1) *Reserves to policy goal.*

2) *OPEB to the annual actuarial prefunding contribution and/or*
   Pension prefunding to the annual actuarial goal.

3) *Other unfunded liabilities and/or*
   Other non-recurring expenditures and/or
   PAYGO for the CIP more than the County's target goal.

Council staff notes that funding one-time initiatives related to the County's pandemic response are considered non-recurring expenditures.

C. Include Reference to Debt Policy

The current policy resolution mentions PAYGO for the CIP, but it is silent on the other debt policies of the County. Reducing debt service until the County is at or below the policy thresholds for the various debt indicators will strengthen the County's financial position and bolster the County's AAA ratings. These indicators are typically reviewed during the Council's process for the capital budget's spending affordability guidelines. While there is no need to specifically detail the policy thresholds in the current resolution, the County would benefit from including reference to these policies within this comprehensive resolution.

Council staff recommends the inclusion of language that the County will continue to evaluate and affirm the County's debt indicator policies during the review of the spending affordability guidelines for the capital budget.

D. Include OPEB Policy Reference

OPEB policy is currently included in Resolution 16-555. Council staff does not believe this language needs to be incorporated into this policy resolution since a separate resolution governs these goals. Like the debt policy, the public and future policy makers benefit from a reference in this policy resolution.

Council staff recommends the inclusion of a reference for the current OPEB policy resolution. As discussed in more detail on pages 10-11, Council staff recommends continuation of the current OPEB fiscal policies as part of the FY22 operating budget and looking more comprehensively at revisions to the OPEB policy resolution in advance of the FY23 budget.

E. Include Other Fund Balances Reference

The Council approves fund balance policies each year for all the special funds in the County. The current resolution only notes reserve policies for certain tax-supported funds. **Council staff believes that this resolution should reference that the Council will continue to review and approve other fund balance policies as it reviews the annual operating budget to clarify that other fund balances exist and are approved individually**.

F. Include Compensation Sustainability

In December 2019, the Council approved a policy statement about how compensation cost sustainability is addressed in the Executive's recommended operating budget (see ©3-4). Specifically, to preserve long-term budget sustainability, the Council stated that the annual growth rate of total compensation costs (including all wage and benefit costs) should be similar to the annual growth rate of tax supported revenues. If the rates differ, the Council asked the

Executive to explain how increases in total compensation costs requested in the budget will be supported by revenues or reductions in expenditures.

Council staff recommends adding the previously approved policy statement on compensation cost sustainability to the fiscal policy resolution so that all significant fiscal policy elements are referenced in the comprehensive resolution.

III. Discussion – Long-term options

This section describes fiscal policies or related topics that are still in process or will require additional research and consideration beyond the recommended amendments in this report for Resolution 17-312.

A. Other Post-Employment Benefits (OPEB)

The Council approves contributions to the OPEB Trust Fund each year as part of the operating budget in addition to approving the annual PAYGO funding for current retiree health care costs. Pre-funding OPEB benefits provides several long-term financial advantages compared to covering retiree health care costs solely on a PAYGO basis. These include: 1) lowering long-term costs by 25-40%; 2) helping the County maintain its AAA bond rating; and 3) protecting the benefit by ensuring long-term sustainability. Additionally, by fully funding the OPEB Trust Fund, the Council can eliminate the PAYGO contributions to OPEB in future years.

The County's current fiscal policy includes an important, albeit outdated OPEB milestone – to approve full funding of the annual actuarially determined OPEB pre-funding contribution. This milestone was achieved in FY15.

At a September 2019 worksession on OLO Report 2019-11: *Cost of Retiree Health Benefits (OPEB)*, the GO Committee asked Council, OLO, and Executive Branch staff to review and propose potential updates to the County's OPEB fiscal policies. Specifically, the Committee expressed interest in:

1. Creating a policy goal or milestone for future OPEB pre-funding progress. For example, to achieve a specified percent funded ratio by a certain fiscal year.
2. Determining the level of funding needed to begin using Trust assets for PAYGO costs. When then County reaches this point, it will result in significant savings since PAYGO costs (about $47 million for County Government in FY21) will no longer need to be included as part of the tax supported operating budget.
3. Developing an explicit policy for when appropriated pre-funding dollars are deposited into the OPEB Trust. This may include specified conditions under which deposits can be changed or delayed in times of extreme fiscal constraints.

The GO Committee was scheduled to have another worksession on OPEB issues in March 2020, but that worksession as well as the continued staff work on these issues was postponed due to the onset of the COVID-19 pandemic.

As part of the current review of fiscal policies, Council staff recommends that the Committee:

- **Endorse continuation of the current OPEB fiscal policies as part of the FY22 operating budget.** This includes: 1) fully funding the annual actuarily determined OPEB contribution as part of the approved operating budget; and 2) funding the annual PAYGO costs as part of the tax supported operating budget.

- **Request that Council, OLO, and Executive Branch staff re-engage the effort to review and propose potential updates to the County's OPEB fiscal policies.** The timeline for this review should be to have a draft policy options ready for GO Committee consideration by Fall 2021, plan for full Council review to follow before the end of the calendar year, and to have any have updated policies in place in advance of the FY23 operating budget process.

B. Exploring Additional Efforts to Maintain Structural Balance

Resolution 17-312 requires that the County have the goal of a structurally balanced budget. This goal is achieved each year, but as detailed in a prior section and through Graph 5, there is has been a measurable difference between the County's approved budget values for revenues and expenditures and the year-end actual values in recent years. This reality has created the need for several mid-year savings plans, which ensures that the County meets its policy goals but can lead to the perception that the County's fiscal management is less than exemplary.

Accurate revenue projections for local governments are challenging, and it is expected that there will be some variance year-to-year between estimates and actuals. Unfortunately, due to the volatile nature of several of the County's revenue sources and many factors outside of the County's control, the County's actual revenues have been less than estimated FY15-20. Considering alternative approaches or processes to avoid over budgeting revenues will strengthen the County's fiscal position and reduce the need for annual savings plans.

Another element that should be included in the broader discussion about the County's revenues is the County's economic development efforts. This element is less about budget projections and planning, but it still provides an important context to the County's revenues. Investments in the County's economic development efforts allow the County to grow its tax base.

Council staff believes that this discussion about exploring additional efforts to maintain structural balance is an effort that the GO Committee should undertake beginning this summer. This work can also continue the efforts by the GO Committee to update the fiscal plan document. Council and Executive staff will continue to work with our financial advisors to develop comparisons for alternative approaches by other jurisdictions and options for the County to consider.

C. Exploring Additional Efforts to Refine Reserve Policy

There are two areas that the County could explore for future refinement of the reserve policy. Both will require significant research before this work is ready for the Council's review. In addition, Council staff believes that it is important for the County to achieve and maintain its current policy goal for reserves before considering significant alterations.

Policy Goal. The current goal is 10% of the AGR. GOFA recommends that the local governments consider a reserve policy that is 60 days or two months of operating revenues. The County's 10% policy goal, while more comprehensive than most local jurisdictions, is still below the GOFA best practice. The County may want to consider a policy goal that is closer in alignment with this best practice.

Defining AGR. The current definition of the AGR is comprehensive and demonstrates the County's commitment to meeting rigorous standards. The current definition includes the requirement to have reserves for most of the County's tax-supported revenues, including Federal and State grants. Most governments focus on tax revenues within their control as the reserve base.[1] The County could consider refining this definition to be more aligned with other local governments, but this alternation must be considered along with other reserve policies to ensure that the County is continuing best practices and positioning it well for success.

[1] Each jurisdiction has a slightly different way it calculates reserves, so each rating agency has its own methodology to calculate reserves to compare jurisdictions on an "apple to apple" comparison.

Fiscal Plan December 2020

Tax Supported Fiscal Plan Summary

($ in Millions)

		App. FY21	Est. FY21	% Chg. FY21-22	% Chg. FY21-22	Projected FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24	% Chg. FY24-25	Projected FY25	% Chg. FY25-26	Projected FY26	% Chg. FY26-27	Projected FY27
		5-21-20	12-8-20	App/Proj	Est/Proj	12-8-20										
	Total Revenues															
1	Property Tax	1,830.8	1,831.5	2.5%	2.5%	1,877.3	2.8%	1,930.3	2.8%	1,984.5	2.9%	2,042.0	2.9%	2,101.5	2.9%	2,163.1
2	Income Tax	1,695.4	1,637.9	-2.8%	0.6%	1,647.2	3.2%	1,699.6	4.4%	1,774.9	5.1%	1,865.0	5.3%	1,964.2	5.5%	2,072.7
3	Transfer/Recordation Tax	181.6	162.8	-4.5%	6.5%	173.4	3.1%	178.8	3.9%	185.7	3.9%	192.9	3.9%	200.4	3.9%	208.3
4	Other Taxes	273.6	248.5	-7.2%	2.1%	253.8	2.7%	260.7	1.7%	265.3	0.5%	266.5	0.5%	267.8	1.3%	271.4
5	Other Revenues	1,177.4	1,280.1	0.2%	-7.8%	1,179.7	0.3%	1,183.5	0.4%	1,187.9	0.4%	1,192.4	0.4%	1,197.0	0.4%	1,201.7
6	**Total Revenues**	**5,158.7**	**5,160.8**	**-0.5%**	**-0.6%**	**5,131.4**	**2.4%**	**5,252.9**	**2.8%**	**5,398.3**	**3.0%**	**5,558.8**	**3.1%**	**5,730.9**	**3.3%**	**5,917.2**
7																
8	**Net Transfers In (Out)**	**24.9**	**24.9**	**-41.3%**	**-41.3%**	**14.6**	**2.0%**	**14.9**	**2.4%**	**15.3**	**2.4%**	**15.7**	**2.4%**	**16.0**	**2.4%**	**16.4**
9	**Total Revenues and Transfers Available**	**5,183.6**	**5,185.8**	**-0.7%**	**-0.8%**	**5,146.1**	**2.4%**	**5,267.8**	**2.8%**	**5,413.6**	**3.0%**	**5,574.5**	**3.1%**	**5,746.9**	**3.2%**	**5,933.6**
10																
11	**Non-Operating Budget Use of Revenues**															
12	Debt Service	422.5	422.5	4.5%	4.5%	441.5	3.4%	456.7	0.0%	456.8	2.8%	469.4	0.9%	473.8	0.0%	473.8
13	PAYGO	32.0	32.0	-3.1%	-3.1%	31.0	-3.2%	30.0	-3.3%	29.0	-3.4%	28.0	-3.6%	27.0	0.0%	27.0
14	CIP Current Revenue	65.9	65.9	17.5%	17.5%	77.4	23.1%	95.3	-3.4%	92.1	-20.7%	73.1	3.8%	75.8	0.0%	75.8
15	Change in Other Reserves	0.2	-43.9	17437.0%	190.2%	39.6	-99.7%	0.1	66.6%	0.2	8.0%	0.2	7.1%	0.2	3.5%	0.2
16	Contribution to General Fund Undesignated Reserves	7.2	-69.5	1968.2%	315.6%	149.9	-101.5%	-2.3	326.7%	5.1	22.5%	6.3	11.2%	7.0	7.8%	7.5
17	Contribution to Revenue Stabilization Reserves	8.6	8.6	-362.1%	-362.1%	-22.5	162.2%	14.0	-21.4%	11.0	0.0%	11.0	4.5%	11.5	0.0%	11.5
18	Set Aside for other uses (supplemental appropriations)	6.8	21.8	194.1%	-8.3%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
19	**Total Other Uses of Resources**	**543.3**	**437.4**	**35.6%**	**68.5%**	**736.9**	**-16.7%**	**613.9**	**0.0%**	**614.2**	**-1.0%**	**607.9**	**1.2%**	**615.3**	**0.1%**	**615.9**
20	**Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)**	**4,640.3**	**4,748.4**	**-5.0%**	**-7.1%**	**4,409.1**	**5.6%**	**4,653.9**	**3.1%**	**4,799.4**	**3.5%**	**4,966.5**	**3.3%**	**5,131.6**	**3.6%**	**5,317.7**
21																
22	**Agency Uses**															
23																
24	Montgomery County Public Schools (MCPS)	2,562.4	2,562.4	-0.5%	-0.5%	2,550.7	1.0%	2,576.2	0.7%	2,594.3	0.3%	2,602.6	0.2%	2,607.7	0.0%	2,607.8
25	Montgomery College (MC)	268.9	268.9	-0.5%	-0.5%	267.5	0.5%	268.8	0.6%	270.3	0.6%	272.0	0.6%	273.6	0.6%	275.3
26	MNCPPC (w/o Debt Service)	137.2	137.2	-12.1%	-12.1%	120.6	13.7%	137.2	7.0%	146.7	8.1%	158.6	7.6%	170.6	8.2%	184.6
27	MCG	1,671.9	1,779.9	-12.1%	-17.4%	1,470.3	13.7%	1,671.8	7.0%	1,788.1	8.1%	1,933.4	7.6%	2,079.7	8.2%	2,250.0
28	**Agency Uses**	**4,640.3**	**4,748.4**	**-5.0%**	**-7.1%**	**4,409.1**	**5.6%**	**4,653.9**	**3.1%**	**4,799.4**	**3.5%**	**4,966.5**	**3.3%**	**5,131.6**	**3.6%**	**5,317.7**
29	**Total Uses**	**5,183.6**	**5,185.8**	**-0.7%**	**-0.8%**	**5,146.1**	**2.4%**	**5,267.8**	**2.8%**	**5,413.6**	**3.0%**	**5,574.5**	**3.1%**	**5,746.9**	**3.2%**	**5,933.6**
30	**(Gap)/Available**	**0.0**	**0.0**			**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**

Assumptions:

1. FY21 Property taxes are at the previous Charter Limit with a $692 credit. FY22-27 property taxes reflect the passage of Ballot Question A with a $692 credit. Other taxes are at current rates.
2. Reserve contributions are consistent with legal requirements and the minimum policy target.
3. PAYGO, debt service, and current revenue reflect the Approved FY21-26 Capital Improvements Program.
4. State Aid, including MCPS and Montgomery College, is not projected to increase from FY22-27.
5. Projected FY22 allocations for MCPS and Montgomery College assume funding at maintenance of effort. The allocations do not include potential increases to State Aid or other possible agency resources, such as use of additional fund balance. Additional State Aid or use of fund balance would increase the rate of growth for MCPS and Montgomery College.
6. MCG FY21 projected expenditures include the results of first quarter analysis. The County is aggressively seeking federal reimbursement for all eligible expenditures related to the County's COVID-19 pandemic response.

Fiscal Plan December 2020

Tax Supported Fiscal Plan Summary

($ in Millions)

		App. FY21	Est. FY21	% Chg. FY21-22	% Chg. FY21-22	Projected FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24	% Chg. FY24-25	Projected FY25	% Chg. FY25-26	Projected FY26	% Chg. FY26-27	Projected FY27
31	**Beginning Reserves**															
32	**Unrestricted General Fund**	154.1	97.6	-81.8%	-71.2%	28.1	533.1%	178.0	-1.3%	175.7	2.9%	180.8	3.5%	187.1	3.7%	194.1
33	**Revenue Stabilization Fund**	382.2	376.3	0.7%	2.3%	384.9	-5.8%	362.4	3.9%	376.4	2.9%	387.4	2.8%	398.4	2.9%	409.9
34	**Total Reserves**	536.3	473.9	-23.0%	-12.9%	413.0	30.8%	540.4	2.2%	552.1	2.9%	568.2	3.0%	585.5	3.2%	603.9
35																
36	**Additions to Reserves**															
37	**Unrestricted General Fund**	7.2	-69.5	1968.2%	315.6%	149.9	-101.5%	-2.3	326.7%	5.1	22.5%	6.3	11.2%	7.0	7.8%	7.5
38	**Revenue Stabilization Fund**	8.6	8.6	-362.1%	-362.1%	-22.5	162.2%	14.0	-21.4%	11.0	0.0%	11.0	4.5%	11.5	0.0%	11.5
39	**Total Change in Reserves**	15.8	-60.9	704.6%	309.0%	127.4	-90.8%	11.7	37.2%	16.1	7.1%	17.3	7.0%	18.5	2.9%	19.0
40																
41	**Ending Reserves**															
42	**Unrestricted General Fund**	161.4	28.1	10.3%	533.1%	178.0	-1.3%	175.7	2.9%	180.8	3.5%	187.1	3.7%	194.1	3.9%	201.6
43	**Revenue Stabilization Fund**	390.8	384.9	-7.3%	-5.8%	362.4	3.9%	376.4	2.9%	387.4	2.8%	398.4	2.9%	409.9	2.8%	421.4
44	**Total Reserves**	552.1	413.0	-2.1%	30.8%	540.4	2.2%	552.1	2.9%	568.2	3.0%	585.5	3.2%	603.9	3.1%	622.9
45	**Reserves as a % of Adjusted Governmental Revenues**	**10.2%**	**7.6%**			**10.0%**		**10.0%**		**10.0%**		**10.0%**		**10.0%**		**10.0%**
46	**Other Reserves**															
47	**Montgomery College**	22.3	22.3	0.0%	0.0%	22.3	0.0%	22.3	0.0%	22.3	0.0%	22.3	0.0%	22.3	0.0%	22.3
48	**M-NCPPC**	5.0	5.0	2.5%	2.5%	5.1	2.7%	5.2	2.8%	5.4	2.8%	5.5	2.9%	5.7	2.9%	5.8
49	**MCPS**	0.0	0.0	n/a	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
50	**MCG Special Funds**	1.5	-37.8	10.3%	104.5%	1.7	-1.3%	1.7	2.9%	1.7	3.5%	1.8	3.7%	1.8	3.9%	1.9
51	**MCG + Agency Reserves as a % of Adjusted Govt Revenues**	**10.7%**	**7.4%**			**10.5%**		**10.5%**		**10.5%**		**10.5%**		**10.5%**		**10.5%**
52	**Retiree Health Insurance Pre-Funding**															
53	Montgomery County Public Schools (MCPS)	**69.4**	**69.4**			**71.2**		**66.2**		**60.5**		**53.9**		**53.9**		**53.9**
54	Montgomery College (MC)	**5.5**	**5.5**			**5.6**		**5.4**		**5.3**		**5.2**		**5.2**		**5.2**
55	MNCPPC	**3.0**	**3.0**			**2.9**		**2.9**		**2.8**		**2.8**		**2.8**		**2.8**
56	MCG	**12.3**	**12.3**			**10.8**		**7.5**		**4.2**		**0.7**		**0.0**		**0.0**
57	**Subtotal Retiree Health Insurance Pre-Funding**	**90.1**	**90.1**			**90.5**		**82.0**		**72.9**		**62.6**		**61.8**		**61.8**
58	**Adjusted Governmental Revenues**															
59	**Total Tax Supported Revenues**	**5,158.7**	**5,160.8**	**-0.5%**	**-0.6%**	**5,131.4**	**2.4%**	**5,252.9**	**2.8%**	**5,398.3**	**3.0%**	**5,558.8**	**3.1%**	**5,730.9**	**3.3%**	**5,917.2**
60	**Capital Projects Fund**	**129.4**	**129.4**	**5.9%**	**5.9%**	**137.0**	**-2.6%**	**133.4**	**1.2%**	**135.0**	**6.5%**	**143.7**	**6.1%**	**152.4**	**0.0%**	**152.4**
61	**Grants**	**128.0**	**128.0**	**1.6%**	**1.6%**	**130.1**	**2.0%**	**132.6**	**2.4%**	**135.9**	**2.4%**	**139.2**	**2.4%**	**142.6**	**2.4%**	**146.0**
62	**Total Adjusted Governmental Revenues**	**5,416.1**	**5,418.2**	**-0.3%**	**-0.4%**	**5,398.5**	**2.2%**	**5,519.0**	**2.7%**	**5,669.2**	**3.0%**	**5,841.7**	**3.2%**	**6,025.9**	**3.1%**	**6,215.6**

MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

OFFICE OF THE COUNCIL PRESIDENT

MEMORANDUM

December 19, 2019

TO: Marc Elrich
County Executive

FROM: Sidney A. Katz
Council President SAK

SUBJECT: Employee Compensation – Council Policy Statement

County residents are exceptionally well-served by the dedicated employees of the County Government. The County Council is committed to assuring that employees are fairly compensated for their hard work. During the difficult fiscal conditions of FY11 through FY13, County Government employees received no pay increases because of two contributing factors: (a) County revenues declined; and (b) in the previous years, County Government spending had increased at rate that well exceeded revenue growth. Had the County expenditures grown at a more sustainable rate prior to FY10, additional resources would have been available to award some employee pay raises even when revenues dipped during the recession.

It is in the interest of both employees and taxpayers for the County to adopt policies that help us weather economic challenges and avoid large year-to-year swings in County spending. As compensation costs are the dominant factor in County spending, long-term budget stability and sustainability is dependent upon maintaining a balance between compensation cost growth and revenue growth. When the rate compensation growth significantly outpaces the rate of revenue growth, it becomes ever more difficult to sustain the level of government services expected by our residents.

In considering the FY20 operating budget last spring, the Council raised concerns about the long-term sustainability of your recommended employee compensation cost increases. With that in mind, we asked you to renegotiate some bargaining unit agreements. At that time, the Council further indicated its intent to develop a policy statement on compensation cost sustainability.

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Last week, the Department of Finance informed us that FY21 revenue projections currently are well below those anticipated just five months ago. The latest revenue projections once again raise concerns about the sustainability of County spending and prompted the Council to approve the following policy statement:

> **As a means to preserve long-term budget sustainability, the annual growth rate of total compensation costs (including all wage and benefit costs) should be similar to the annual growth rate of tax-supported revenues. In submitting a recommended annual operating budget, the Executive should indicate how recommended compensation cost increases compare with projected rates of revenue growth. Should recommended compensation cost increases exceed the projected one-year or six-year rate of revenue growth, then the Executive should provide a written explanation of: (a) how operating budget resources are re-allocated to pay for total compensation costs; and (b) how the recommended rate of compensation cost growth can be sustained over time.**

The County Council looks forward to working with you to craft an FY21 operating budget that responds to the needs of the community and our employees while also demonstrating fiscal responsibility. When Council reviews your operating budget recommendations this upcoming spring, we intend to assess the long-term sustainability of compensation costs consistent with the above policy statement.

cc: Councilmembers
Confidential Aides
Berke Attila
Richard Madaleno
Chris Cihlar
Marlene Michaelson