



Committee: Directly to Council
Committee Review: N/A
Staff: Marlene Michaelson, Executive Director
Purpose: Receive briefing and discuss
Keywords: FY23 Budget

AGENDA ITEM #2
April 19, 2022
Discussion

SUBJECT

FY23 Operating Budget Highlights and Approach

EXPECTED ATTENDEES

Jennifer Bryant, Director, Office of Management and Budget
Mike Coveyou, Director, Department of Finance

DESCRIPTION/ISSUE

The County Executive submitted his recommended FY23 Operating Budget on March 15, 2022. The Council will receive a briefing on the key elements of the recommended budget as it prepares its work to approve a budget in May.

SUMMARY OF KEY DISCUSSION POINTS

- The Council's budget process has been consumed by the pandemic for the last two years – which led to a same services budget in FY21 and modest increases in the FY22 budget largely attributable to one-time Federal resources.
- The County Executive's recommended FY23 Operating Budget communicates a very different narrative compared to the past two years. The Executive's budget includes unprecedented growth in both projected revenues and recommended expenditures in FY23.
- The level of budget growth proposed by the Executive has not been seen since the Great Recession and funds substantial programmatic and/or staffing enhancements across all County agencies.
- Council staff has significant concerns about the sustainability of the unprecedented level of spending, use of one-time resources, and multi-year funding commitments included in the recommended budget:
 - The Executive's assumed budget growth is a historical outlier, with FY23 revenues supported by the County's most volatile taxes and one-time resources.
 - The Executive's recommended use of \$20 million in OPEB Trust assets to pay current year retiree health costs does not align with current fiscal policies.
 - The Executive's recommended expenditures may create a structural imbalance as early as FY24 based on the assumed revenue growth in FY24-28.

- These concerns are intensified as the current economic and global news are signaling the potential for economic contraction in the coming years with inflation at a 40-year high, investment returns expected to decline, and global instability due to supply chain issues and the war in Ukraine.
- As part of his suggested budget approach memorandum, the Council President has asked staff to develop recommendations and options that address the concerns with the Executive’s recommended FY23 Budget by reducing growth in the base budget via: 1) outright reductions; 2) changing expenditures from increases to the base budget to one-time expenditures that would be reevaluated as part of the FY24 budget process; or 3) delaying expenditures for consideration until January 2023 after the Council will have revised FY23 revenue projections.
- Council staff has developed four target options to address concerns about fiscal sustainability as requested by the Council President. As a first step, Council staff recommends that Council indicate its intent to reject the County Executive’s decision to draw down on the OPEB Trust in FY23 to pay current year retiree health benefit costs.
- The budget target options present varying levels of reductions to eliminate the use of OPEB Trust assets, address Council-identified priorities, address the use of one-time resources for ongoing expenditures, eliminate future fiscal year structural imbalance, and to protect against revenue volatility or unbudgeted COVID expenses.

This report contains:

Staff Report	Pages 1-16
Cost Efficiency Study Group Report – Introduction and Executive Summary	©1-10
County Executive’s Racial Equity Framework for FY23 Operating Budget	©11-14
County Executive memo on Compensation Sustainability Policy	©15
Consolidated Retiree Health Benefits Trust Board memo on OPEB Trust Utilization	©16
Council President memo on FY23 Operating Budget Approach	©17-18

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MEMORANDUM

April 14, 2022

TO: County Council

FROM: Marlene Michaelson, Executive Director
Craig Howard, Deputy Director
Gene Smith, Legislative Analyst
Aron Trombka, Senior Legislative Analyst, OLO
Susan Farag, Legislative Analyst
Nicole Rodriguez-Hernandez, Legislative Analyst
Selena Mendy Singleton, Racial Equity and Social Justice Manager

SUBJECT: **FY23 Operating Budget Highlights and Approach**

I. FY23 Budget Context

The Council’s budget process has been consumed by the pandemic for the last two years. In FY21 the Council significantly adjusted the Executive’s recommended budget due to the onset of the COVID-19 pandemic, adopting a same services budget as a buffer from significant revenue reductions and to conserve resources for pandemic response. In FY22 the Council approved modest budget enhancements largely made possible by an influx of one-time federal assistance from the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the American Rescue Plan Act (ARPA), and assumed Federal Emergency Management Agency (FEMA) reimbursements.

The County Executive’s recommended FY23 Operating Budget communicates a very different narrative compared to the past two years. The Executive’s budget includes unprecedented growth in both projected revenues and recommended expenditures in FY23. The level of budget growth proposed by the Executive is an historic outlier since the Great Recession, and funds programmatic and/or staffing enhancements across all County agencies.

Council staff has significant concerns about the sustainability of the unprecedented level of spending, use of one-time resources, and multi-year funding commitments included in the recommended budget. These concerns are intensified as the current economic and global news are signaling the potential for economic contraction in the coming years.

- **Inflation is at a 40-year high.** The U.S. job market is strong, with low unemployment and a large number of job openings. The Consumer Price Index rose 8.5% in March 2022 compared with a year ago, the largest annual increase since December 1981. Despite an expectation or

hope by some that inflation would slow down, the monthly reports continue to show inflation is increasing at levels unseen since the 1980s. As news on inflation continues to trend negatively, this narrative has dampened business and consumer sentiment and clouded the future economic outlook.

The Federal Reserve Board has begun increasing interest rates and have signaled that it will continue to increase them throughout this year. More recently, there is news that the increases may be as great as 0.5%, instead of the traditional 0.25% increases. The hope is that the Federal Reserve Board will find the “sweet spot” when increasing interest rates to stem inflation while avoiding a recession. Despite this desired outcome, economists and analysts fear an economic slowdown is more likely than a year ago regardless of the Federal Reserve Board’s actions, including a [recent report from Bank of America](#) warning of an increased risk of recession.

- **Investment returns are expected to be at historic lows for the next ten years.** Closely connected with the news on inflation, financial institutions are expecting stock and bond returns to be well below past annualized averages. The County’s Board of Investment Trustees is signaling a similar picture. Investment experts who advise the Board are projecting annualized average returns of 6% for the next ten years – well below the 11% earned for the prior ten years.
- **The global market is unstable due to supply chain issues and the war in Ukraine.** The global marketplace has been in a state of disruption since the pandemic. The inconsistent lockdown measures deployed by national governments and uneven economic impacts have resulted in a disrupted supply chain with shortages of products and staffing to transport it. The war in Ukraine has further destabilized the global economy, leading to significant increases in energy costs as nations impose sanctions on Russia and general uncertainty regarding the impacts of a protracted war. Most recently, the World Trade Organization reduced this year’s growth forecast for global GDP from 4.1% to 2.8% due to the ongoing war.

In addition to the broad economic and global context, Council staff highlights the following concerns and explores each of these in more detail throughout the memorandum.

- **The Executive’s assumed budget growth is a historical outlier, with FY23 revenues supported by the County’s most volatile taxes and one-time resources.** The magnitude of projected tax supported revenue growth of 5.9% in FY23 is similar to growth from a tax increase or significant economic expansion during the property bubble that preceded the Great Recession. Most of the FY23 growth is predicated on the County’s most volatile taxes (income, recordation, and transfer). During the last two decades, the County’s actual revenues collected tend to follow the volatility of these taxes. The Executive’s recommended budget also assumes at least \$50.9 million in one-time resources to aid in balancing the recommended FY23 expenditures.
- **The Executive’s recommended use of \$20 million in OPEB Trust assets to pay current year retiree health costs does not align with current fiscal policies.** The Executive’s recommendation represents a significant policy change to OPEB funding for FY23. The County’s current fiscal policies are focused on increasing the assets of the OPEB Trust, and do not provide a mechanism to draw down on Trust assets. It is important that the Council

carefully considers and establishes any changes to OPEB funding policies prior to drawing down on assets to both ensure the long-term sustainability of retiree health benefits and protect the County's AAA bond rating.

- **The Executive's recommended expenditures may create a structural imbalance as early as FY24 based on the assumed revenue growth in FY24-28.** The recommended FY23 tax-supported agency expenditure growth is 7.0%, greater than the FY23 assumed revenue growth of 5.9%. In addition, the Executive's recommended Fiscal Plan estimates that \$54.2 million of additional resources will be available for agency uses in FY24, representing a 1.1% increase from the recommended FY23 uses. However, known or likely FY24 expenditures may exceed that estimate and a reduction in services might be required for the FY24 budget even if nothing else happens.

II. Summary of Executive's FY23 Recommended Operating Budget

The Executive transmitted the FY23 Recommended Operating Budget to the Council on March 15, 2022. This section provides a broad overview of the Executive's estimated resources and recommended funding and staffing for each agency in FY23.

A. Estimated Revenues

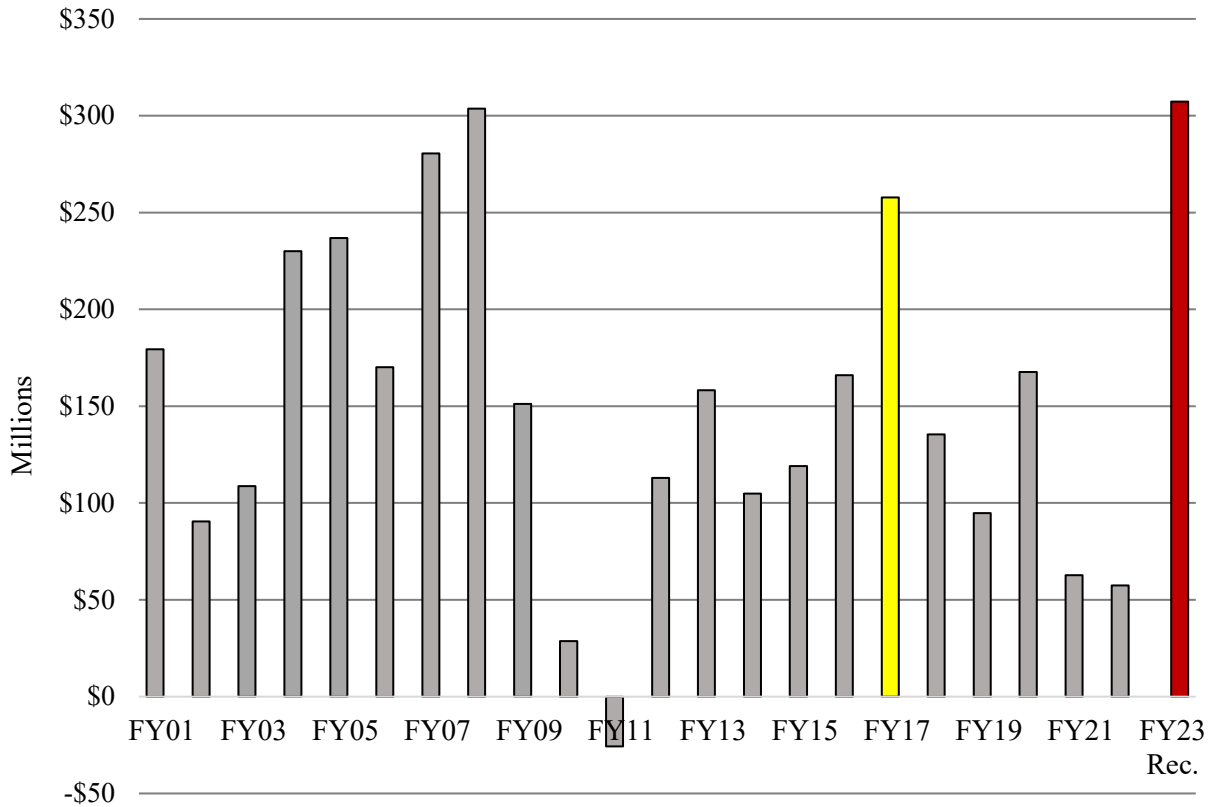
The County's assumptions and estimates for revenues drive the budget process each year. **The total value of estimated revenues determines the size of the "pie" that the County can spend on its fiscal policies and the agencies' programs and services.** The Executive's recommended revenues assume significant growth when compared to recent years, but this rate of growth is not sustained beyond the one fiscal year.

1. Revenue Context

The differences between the recommended tax supported revenues in FY22 and FY23 are stark. A year ago, the Council received a recommended FY22 Operating Budget that included anemic tax revenue growth and historic intergovernmental aid. **The FY22 Operating Budget expenditures were not possible without the inclusion of Federal aid and assumed reimbursements from FEMA.** In addition, Finance's revenue estimates in the FY22 Operating Budget assumed it would take years for the County's tax supported revenues to recover from the pandemic. The expectation in March 2021 was that the County's tax supported revenues would return to pre-pandemic levels in FY24 or later.

The recommended FY23 Operating Budget assumes significant growth in the County's revenue projections for FY23. **The growth of tax supported revenues in FY23 is a historical outlier since the Great Recession.** As seen in Chart 1 below, the County has not experienced a growth in revenues like FY23 except during years of the property bubble pre-Great Recession or from a tax increase post-Great Recession. Following the historic growth in revenues from the property bubble in FY07-08, the County quickly experienced a sharp decrease in revenue growth in FY09-11. The largest increase to revenues, since the Great Recession, was in FY17 when the Council approved a property tax increase (as shown by the yellow bar in the chart).

Chart 1: Change in Approved Tax Supported Revenues FY01-22, FY23 Rec.



The recommended FY23 Operating Budget includes \$5.5 billion in tax supported revenues, an increase of 5.9% from FY22 approved. Since the Great Recession, the County’s tax supported revenues have increased at annual average of 3.0%. **The recommended FY23 Operating Budget assumes an increase to tax supported revenues that is double the annual average the last twelve years.**

The historic growth assumed in FY23, however, is an outlier in the recommended FY23-28 Fiscal Plan. The Executive’s recommended fiscal plan assumes that the annual average rate of growth for tax supported revenues from FY23-28 is 3.4%. **More importantly, the projected growth rate from FY24-28 is only 2.7% - a rate that is lower than the previous annual average growth since the Great Recession.**

2. Tax Revenues

Revenues from County taxes are 77.9% of the recommended tax supported revenues in FY23. Property and income tax revenues are the largest component of the County’s taxes, accounting for 88.5% of the total estimated tax revenues. Below are details and concerns about the recommended FY23 tax revenues.

Property Taxes. Property taxes are anticipated to increase around 3.0% a year through the six-year fiscal plan. The six-year estimate assumes continued growth in assessable base, including no significant revisions to the commercial property sectors. **The commercial sector remains a significant unknown and the largest risk for future contraction in the County's property taxes.** Businesses have not universally chosen to remain fully remote or require a 100% return to the office. In addition, the Federal Government has an outsized role in the County's office market and remains mostly remote.

Income taxes. Income taxes are anticipated to increase around 4.8% a year through the six-year fiscal plan. **Income tax collections exceeded approved projections in FY21 and FY22 by \$210.2 million.** This unexpected excess allowed the County to replenish its reserves and address ongoing expenditures funded by one-time Federal aid assumed in the FY22 budget.

Finance's FY23 income tax estimate assumes significant growth to the County's income tax base. Per the recommended budget, Finance estimates that personal income will increase by 11.8% and wage/salary income will increase by 10.8% from calendar year 2020 to 2021. These two variables drive a significant portion of the annual estimated income tax revenues. **The assumed increases are an historical outlier when considering the County's annualized growth from calendar year 2010-2020 was 3.1% for personal income and 2.8% for wage/salary income.**¹

The County's income tax revenues are more sensitive to market fluctuations and conditions than property taxes. Unlike many Maryland counties, the County's income tax revenues include a larger share of revenues from individual taxes on capital gains. The County has experienced significant revisions to income tax estimates, almost yearly, as Finance adjusts projections based on current economic conditions and distribution information from the State.

Councilmember Navarro, as the chair of the Government Operations and Fiscal Policy (GO) Committee, requested a more detailed review of the County's income taxes at a committee worksession. The GO Committee is tentatively scheduled to discuss this item on April 22.

Recordation and transfer taxes. Collections from these taxes have exceeded estimates in FY22 by \$51.3 million. **The growth rate of these taxes is not anticipated to continue.** The FY23-28 Fiscal Plan estimates that these taxes will grow at an average of 1.6% a year following the growth in FY23. These taxes are very sensitive to consumer sentiment and market conditions as potential buyers react to rapidly increasing sales prices, increasing mortgage rates, and other inflationary pressures.

B. Recommended Funding by Agency

The recommended budget totals \$6,316.8 million, an increase of \$339.3 million or 5.7% from the approved FY22 Operating Budget. Total tax supported expenditures of \$5,474.4 million are recommended for FY23, an increase of \$358.3 million or 7.0% from FY22. Table 1 details the FY23 recommended budget by agency and debt service.

¹ www.bea.gov – CAINC4 Personal Income and Employment by Major Component for Montgomery County

Table 1: FY23 Recommended Budget by Agency (\$ millions)

Agency	Total Budget			Tax Supported Budget		
	FY23 CE Rec.	Change from FY22		FY23 CE Rec.	Change from FY22	
		\$	%		\$	%
Montgomery County Government	2,425.3	159.6	7.0	1,864.3	136.5	7.9
Montgomery County Public Schools	2,929.7	149.2	5.4	2,739.7	188.0	7.4
Montgomery College	321.3	8.7	2.8	274.8	9.3	3.5
M-NCPPC	180.7	10.6	6.2	153.1	10.2	6.8
Debt Service	459.9	11.2	2.5	442.5	14.8	3.5
Total	6,316.8	339.3	5.7	5,474.4	358.3	7.0

Montgomery County Government. The Executive recommends FY23 expenditures of \$2,425.3 million for the County Government, or about 37.8% of the total recommended FY23 expenditures. The recommendation for County Government represents the largest increase among the agencies, both for the total budget and for the tax supported portion. The Executive has recommended significant increases for most categories of the County Government as detailed in Table 2 below.

Table 2: Recommended FY23 Expenditure Increases by Category (\$ in millions)

Category	FY23 Increase	
	\$	%
Health and Human Services	57.9	15.9
Public Safety	33.1	5.3
Transportation	23.1	10.0
General Government	18.2	11.3
Environment	12.9	7.7
Libraries and Recreation	12.1	12.1
Debt Service	11.2	2.5
Housing	8.4	7.9
Other County Government Functions	(12.1)	(2.7)

MCPS. The Executive recommends FY23 expenditures of \$2,929.7 million for MCPS, an increase of 5.4% from the FY22 approved budget with a County Contribution that is \$117.1 million more than the required Maintenance of Effort (MOE) level. The Executive’s recommendation is 1.1% less than the Board of Education’s request. Due to the impact of COVID-19 related public school enrollment declines on MOE funding calculations, the Maryland General Assembly implemented different MOE calculations for recent fiscal years. The formula for FY24 is not yet confirmed by the Maryland State Department of Education.

Montgomery College. The Executive’s recommended budget for Montgomery College is a 2.8% increase from the FY22 approved budget. This recommendation is \$7.1 million above the required MOE level and fully funds the Board of Trustee’s request.

M-NCPPC. Recommended tax supported funding for Park and Planning is a 6.8% increase from FY22 but approximately 2.2% less than the agency’s request.

C. Recommended Staffing by Agency

Changes in Workforce. The Executive’s recommended FY23 Operating Budget provides tax-supported staffing increases for all agencies except Montgomery College (neutral). As shown in Table 3, the Executive recommends a total of 648.5 new FTEs, 505.7 of which are tax-supported. The recommendation for County Government includes an increase of 296.9 tax supported FTEs in FY23 and represents the majority (59%) of the total increase across all agencies.

Table 3: Total Staffing by Agency, FY21-FY23 CE Recommended

	FY21 Approved	FY22 Approved	Change FY21-22	FY23 CE Rec.	Change FY22-23
Total All Agencies					
Tax Supported	33,639.4	33,869.5	230.1	34,375.2	505.7
Non-Tax Supported	3,379.1	3,415.6	36.5	3,558.4	142.8
County Government					
Tax Supported	8,632.7	8,708.9	76.2	9,005.8	296.9
Non-Tax Supported	1,886.2	1,905.5	19.3	1,895.6	(9.9)
MCPS					
Tax Supported	22,257.3	22,399.3	142.0	22,585.9	186.6
Non-Tax Supported	1,219.5	1,237.3	17.8	1,390.6	153.3
Montgomery College					
Tax Supported	1,803.4	1,803.4	0	1,813.9	0
Non-Tax Supported	107.5	107.5	0	107.5	0
M-NCPPC (Montgomery)					
Tax Supported	946.1	957.9	11.8	969.9	12.0
Non-Tax Supported	165.9	165.4	(0.5)	164.7	(0.7)

As shown in Table 4 below, the Executive’s proposed growth rate for the tax supported County Government workforce totals 3.4%, which is double the annual average growth from FY13-22 (beginning after the County had exited the Great Recession). In total, the Executive’s recommended staffing increases would mean a total of 565 tax supported positions have been added to the County Government over the past four years.

Table 4. Annual Percent Growth in Montgomery County Government Tax Supported Workforce

Positions	Annual Average Growth FY13-22	FY23 CE Recommendation
Number of Position	+132.5 FTEs	+296.9 FTEs
Percent Change	+1.7%	+3.4%

Update on Cost Efficiency Study Group. In 2020, the Chief Administrative Officer informed the County that the County Executive and MCGEO had convened a study group to “analyze existing government operations and consider alternate service delivery methods and organizational structures to better serve the residents of Montgomery County...The primary charge of the Study Group is to identify at least 100 vacant positions that can be abolished across various levels of County government without impacting service delivery.”

The Study Group issued a report in April 2021; however, the report did not specify any positions to be abolished (executive summary attached at ©1-10). The report did recommend increasing the span of control of supervisory positions with a long-term goal of reducing up to 225 supervisory positions. The Executive Branch stated that aspects of the report were used in development of the FY23 budget.

D. Proposed Pay Adjustments

This section summarizes recommended pay adjustments for each agency, which will be reviewed in greater detail at a GO Committee worksession tentatively scheduled for April 21.

County Agencies. MCPS and M-NCPPC are still in negotiations with employee bargaining units and have not finalized proposed pay adjustments. Both agencies included a placeholder in their FY23 budget request for compensation adjustments (\$107 million for MCPS and \$3.9 million for M-NCPPC). Montgomery College’s requested FY23 budget includes pay adjustments of 3.5% for AFSME employees and a flat increase of \$3,270 for AAUP members. The estimated cost of the College’s FY23 compensation increases is \$3.8 million.

County Government. For FY23, the Executive negotiated pay and benefit adjustments with each bargaining unit. The recommended package of compensation represents an unprecedented single-year increase in personnel costs. As proposed by the Executive, tax supported County Government personnel costs would increase by 7.1% in FY23. This calculation includes the net cost of all FY23 compensation and benefit enhancements, the annualized cost of FY22 compensation enhancements and new positions, the costs associated with adding new FY23 positions, and the budgeted savings from assumed lapse and turnover. By way of comparison, the average Executive recommended increase in personnel costs during the previous decade (FY13-22) was 3.3%.

Executive recommended pay adjustments include:

- general wage adjustments;
- service increments;
- a past year service increments for MCGEO member;
- a salary schedule adjustment for FOP members;
- addition of a third longevity increment for IAFF and FOP members; and
- a lump sum bonus for certain MCGEO members.

Table 5 on the following page summarizes the major pay increases proposed by the Executive. The table shows that County Government employees could receive maximum cumulative FY23 pay increases of: 7.3% for non-represented employees (based on average salary), 8.5% for IAFF members, 9.3% for MCGEO members (based on average salary), and 13.5% for FOP members.

Table 5: Executive Recommended FY23 County Government Pay Increases

Employee Group	General Wage Adjustment	Service Increment	Salary Schedule Adjustment	Past Year Service Increment	Longevity Increment	Lump Sum Payment
MCGEO	\$4,333 (June 2023) Equivalent to 5.8% based on the average MCGEO salary	3.5% (effective employee anniversary date)	None	1.25% for employees who did not receive an increment in FY11 (July 2022)	<u>Non-Public Safety</u> 3.0% at 18 and 24 years of service <u>Public Safety</u> 3.5% at 20 years of service and 2.5% at 24 years of service	\$600 for employees who do not receive an increment in FY23
IAFF	4.0% (Oct. 2022) + 1.0% (Jan. 2023)			None	3.5% at 17, 20 and 24 years of service (addition of new longevity step)	None
FOP	3.5% (July 2022) + 3.0% (Jan. 2023)		3.5% (July 2022)	None	3.5% at 15, 17, and 20 years of service (revised schedule and addition of new longevity step)	None
Non-Represented	\$4,333 (June 2023) Equivalent to 3.8% based on the average Non-Rep. salary		Performance-based pay (July 2022)	None	None	2.0% at 20 years (employees with high performance ratings)
MLS/PLS		None			None	None

Table 6 shows that the pay adjustments recommended by the Executive would have a combined FY23 cost of \$29.4 million. These estimates include the salary and wage costs as well as employee benefit costs borne by the employer.

Table 6: Total Cost (all funds) of Executive Recommended Pay Adjustments for County Government

Component	FY23 Cost	Annualized Cost
General Wage Adjustments	\$11,114,488	\$51,646,546
Service Increments, Salary Schedule Adjustments, Pay for Performance	\$11,267,885	\$17,512,545
Longevity Increments	\$5,099,992	\$6,518,328
Other	\$1,938,717	\$974,011
Total	\$29,421,082	\$76,651,430

As many of the pay adjustments take effect in the middle or near the end of the fiscal year, the amount budgeted for FY23 does not reflect the full annualized cost (that is, the 12-month cost) of the Executive's recommendations. **The annualized cost of the adjustments is \$76.7 million, more than two-and-a-half times greater than the FY23 cost.** If approved, these costs will become part of the base budget in FY24 and all subsequent years. Future year annualized cost of the pay increases will have to be funded from on-going, as opposed to one-time, revenue sources.

E. Racial Equity and Social Justice Lens for FY23 Budget

The racial equity and social justice legislation requires the County Executive to detail how each management initiative or program that would be funded in the annual recommended budget promotes racial equity and social justice. The Executive's description of the RESJ framework used for the FY23 budget at attached ©11-14.

The Office of Racial Equity and Social Justice (ORESJ) developed an Operating Budget Equity Tool (BET), training, and guidance manual based on collaborative efforts with peer jurisdictions and an examination of best practices in the advancement of budget equity tools. Incorporated into the OMB oversight budget process, the goal of the BET was to raise awareness of racial inequities *before* finalizing budget decisions and allocating appropriate resources using methods that help to reduce and eventually eliminate racial inequities in the County. Departments were asked to explain or describe:

- How the department's budget allocations (including requests, reallocations, and reductions) advances racial equity in the County, reduces, or eliminate disparities, and improves outcomes for communities of color and low-income communities;
- How programs considered racial/ethnic disparities and/or disproportionalities in its outcomes;
- What insights the data provided and how the program proposal (budget submission) seeks to address the identified inequities;
- Potential disproportionate effects on communities of color and low-income communities as a result of the program or the initiative and how those effects will be mitigated; and
- How the program proposal builds capacity to engage with marginalized communities.

The GO Committee worksession on the ORESJ FY23 budget, tentatively scheduled for April 28, will include a more in-depth review and discussion of how the Executive incorporated racial equity and social justice considerations into the FY23 budget process.

Additionally, beginning later this spring, as Council staff works to develop its Racial Equity Action Plan, the staff will (1) evaluate what information departments are utilizing to apply a racial equity lens to budget decisions, and (2) discern how Council staff will incorporate this information in future budget analyses. The Racial Equity Manager will work with ORESJ and OMB to ensure coordination and alignment with between the legislative and executive branch efforts and to help inform a more robust racial equity and social justice analysis for FY24 budget cycles.

III. Federal Resources and Fiscal Policies in the Recommended Budget

This section identifies key federal resource assumptions included in the Executive’s recommended budget, and reviews adherence to the County’s fiscal policies in Council [Resolution No. 19-753](#).

A. Federal Resources in the FY23 Budget

The FY21 and FY22 operating budgets were impacted substantially by the receipt of COVID-related Federal Aid via the CARES Act and ARPA, as well as assumptions related to FEMA reimbursements. These assumptions bolstered the County’s year-end FY21 position, which freed up FY22 general fund resources to allow for additions and enhancements that would not otherwise have been possible. The projection of ending this fiscal year greater than the targeted 10.0% reserve would not have been possible without this federal funding.

The Executive’s FY23 recommended budget assumes \$28.5 million in ARPA funding previously set-aside by the Council for specific uses as part of the FY23 budget. Additionally, beginning with the December 2021 fiscal plan update, the Executive has removed any assumptions for FEMA reimbursement from the current and any future fiscal years. As of the preparation of this memorandum, the County has submitted and received \$36.2 million in FEMA reimbursement since the pandemic began. Additional reimbursements are still expected but the timing and exact amount are uncertain.

B. Fiscal Policies in the Recommended Budget

The Council approved an updated fiscal policies resolution in March 2021 which retained the previously approved fiscal policies while adding conditions to use and replenish reserves due to an emergency, clarifying the use of one-time revenues, and incorporating the Council’s fiscal policies adopted since 2010. Below are the highlights from the Executive’s recommended FY23 Operating Budget related to the County’s fiscal policies.

1. Reserves

The Executive’s recommended fiscal plan estimates that reserves will end FY22 at 10.4% of the County’s Adjusted Governmental Revenues (AGR) for a total of \$581.8 million. This assumption does not account for supplemental and special appropriations introduced after the March 2022 budget submission. Like all elements of the FY22 budget, the projected reserve is an estimate and is subject to change until the fiscal year closes. **The fiscal plan also estimates that the County will end FY23 at 10% of AGR or about \$599.3 million.** Potentially ending FY22 above the policy level is possible due to a combination of the infusion of federal funds in FY21 and FY22; and FY21 and FY22 revenues exceeding the approved projections. Ending FY23 at the targeted 10% level will depend on the accuracy of the projected FY23 revenues and actual FY22 and FY23 expenditures.

As part of its review of other agencies, the Council should consider whether the projected reserves are consistent with the targets established in the adopted fiscal policies.

2. PAYGO

The adopted fiscal policies require that the Council “allocate to the [Capital Improvement Program] CIP each fiscal year as [Pay-as-you-] PAYGO at least 10% of the amount of general obligation bonds planned for issue that year”. In FY21 and FY22, the Executive recommended suspending and then reducing contribution to the PAYGO contribution to the CIP due to fiscal constraints caused by COVID-19. In FY23 the contribution to PAYGO is recommended to more than double to \$33.9 million, exceeding the fiscal policy goal of \$30.0 million for FY23.

3. Use of One-Time Revenues

The County’s policy regarding one-time revenues states that “one-time revenues or revenues greater than projections must be prioritized to meet the County’s fiscal policy goals or budgeted as required by law.” This policy requires one-time revenues and revenues greater than projected to be applied in the following order until the policy goal is met, or the resources are fully utilized:

1. Reserves to policy goal;
2. Retiree health benefits (OPEB) more than the annual actuarial pre-funding contribution and/or pension pre-funding more than the annual actuarial goal;
3. Other unfunded liabilities and/or other non-recurring expenditures and/or PAYGO for the CIP in excess of the County’s targeted goal.

While the Executive’s recommended FY23 Operating Budget does not include the same level of one-time federal resources as FY22, it does include \$50.9 million in one-time resources that will not be available in FY24. This includes about \$22.4 million in one-time resources from the General Fund reserves that exceed the 10% policy goal for year-end FY22, and \$28.5 million in ARPA uses. Moreover, it fully uses all revenue generated by the historic 5.9% growth in revenues anticipated in FY23, even though it assumes a reduced revenue growth of 3.4% through FY23-FY28. As described further below, staff recommends that the Council ensure one-time resources are used for one-time expenditures, rather than additions to the base budget.

The County expects to receive additional FEMA reimbursement later in FY22 or FY23. Although these are not assumed in the FY23 budget, Council staff recommends that the Council clarify that any FEMA reimbursements be allocated to one time uses consistent with the adopted fiscal policy.

4. Other Post-Employment Benefits (OPEB)

The Executive’s recommended FY23 budget reduces OPEB pre-funding by \$30.3 million in total for all agencies compared to FY22 based on updated actuarial valuations, but also recommends drawing down \$20 million from the County Government’s OPEB Trust to pay for current year costs. The Executive’s recommendation represents a significant policy change to OPEB funding for FY23. The County’s current fiscal policies are focused on increasing the assets of the OPEB Trust, and do not provide a mechanism to draw down on Trust assets.

As described in more detail on page 15, staff recommends strongly against this withdrawal. It is important that the Council carefully considers and establishes any changes to OPEB funding policies prior to drawing down on assets to both ensure the long-term sustainability of retiree health benefits and protect the County’s AAA bond rating.

5. Compensation Sustainability

The Council's approved compensation sustainability policy states 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 policy asks the Executive to explain how increases in total compensation costs requested in the budget will be supported by revenues or reductions in expenditures.

The 7.1% compensation cost growth rate proposed by the Executive well exceeds the projected FY23 revenue increase of 5.9% and is more than double the Fiscal Plan FY23-28 average annual revenue growth rate of 3.4% As required by the policy, the Executive submitted a memorandum to the Council (attached ©15) stating that: *My FY23 Recommended Operating Budget includes total compensation and benefit increases, exclusive of new positions added or eliminated in FY23, of approximately \$59.2 million, for a growth rate of 4.88%. As shown in the fiscal plan, the one-year growth rate is 5.9%, while the six-year growth rate is 3.34%.*

Council staff notes that the cost of all positions – both existing and new – draw on available resources and comprise the base budget costs for subsequent years. As such, the calculation for this policy has always included the cost of new positions.

IV. FY23 Operating Budget Approach

This section provides additional detail on concerns with the Executive's FY23 recommended budget and provides budget approach options requested by the Council President.

A. Summary of Budget Concerns

Council staff has significant concerns about the sustainability of the unprecedented level of spending, use of one-time resources, and multi-year funding commitments included in the recommended budget.

1. **The Executive's assumed budget growth is a historical outlier, with FY23 revenues supported by the County's most volatile taxes and one-time resources.**

The Executive assumes that County tax supported revenues will increase by 5.9% in FY23. The County has not experienced this level of growth since the Great Recession, even after a property tax increase in FY17. Most of the FY23 growth is predicated on the County's most volatile taxes (income, recordation, and transfer). These three taxes account for 68.1% of the assumed growth in FY23. These three taxes, however, are also more sensitive to changing market conditions and fluctuations. During the last two decades, the County's actual revenues collected tend to follow the volatility of these taxes.

The Executive's recommended budget also assumes at least \$50.9 million in one-time resources to aid in balancing the recommended FY23 expenditures. \$28.5 million of this funding is from the Council's FY23 ARPA set aside, primarily for the Working Families Income Supplement. The other \$22.4 million is from the general fund resources available due to the estimated FY22 ending reserves at 10.4%. None of these resources will be available to fund ongoing or future expenditures in FY24.

2. The Executive’s recommended use of \$20 million in OPEB Trust assets to pay current year retiree health costs does not align with current fiscal policies.

The County Executive’s [recommended budget](#) (pg. 8-4) includes a significant policy change to OPEB funding for FY23 by proposing the use of \$20 million in OPEB Trust assets to pay current year retiree health claims for the County Government. Executive Branch staff have noted that the Trust draw down is assumed as **a one-time action** pending the development of a long-term OPEB utilization fiscal policy. Council staff has several concerns with the Executive’s FY23 recommendation which are detailed below.

- **It is premature to approve any use of Trust assets prior to thoroughly reviewing and updating the County’s long-term OPEB funding policy.** A complete policy update is necessary to ensure that all OPEB funding options are considered, including options that do not include a Trust draw down.
- **The County’s current fiscal policies are focused on increasing the assets of the OPEB Trust, and do not provide a mechanism to draw down on Trust assets.** The current OPEB policies, which were developed jointly by the Council and Executive, call for a build up to full pre-funding (which was achieved in FY15) and then continued funding at the Actuarially Determined Contribution (ADC). In addition to minimally funding the ADC, the County’s fiscal policies also state that a priority use for any one-time revenue is to fund OPEB above the ADC level as long as unfunded liabilities still exist.
- **Drawing down on the Trust without a long-term utilization policy may require changes to other OPEB assumptions that impact the funded status of the plan.** The Executive’s recommendation to use Trust assets to fund a portion of pay-as-you-go costs in FY23 is based on the ADC calculation and funded status. Removing funds from the Trust in the absence of an updated policy may require a reduction in the assumed rate of return or other assumptions. Changes to any assumptions will impact the funded ratio and may lead to different decisions related to a removing funds from the Trust.

The Council has received a letter (©16) from the Consolidated Retiree Health Benefit Board of Trustees, who is responsible for managing the OPEB Trust, stating that the Board’s position is to not draw down on Trust assets prior to adopting an updated utilization policy. The Montgomery County Retired Employees Association (MCREA) expressed the same position at its March 28, 2022 meeting with the Council.

3. The Executive’s recommended expenditures may create a structural imbalance as early as FY24 based on the projected revenue growth in FY24-28.

The recommended FY23 tax-supported agency expenditure growth is 7.0%, greater than the FY23 assumed revenue growth of 5.9%. In addition, the Executive’s recommended Fiscal Plan estimates that \$54.2 million of additional resources will be available for agency uses in FY24, representing a 1.1% increase from the recommended FY23 uses. However, known or likely FY24 expenditures may exceed that estimate and might require a reduction in services for the FY24 budget even if nothing else happens.

The annualization of recommended FY23 compensation enhancements (\$37 million), potential MOE increases for MCPS based on enrollment projections (\$33 million), and continuation of the Working Families Income Supplement enhancement (\$25 million) could result in an FY24 deficit of \$40 million. This estimated gap does not include any negative revisions to the County's revenue estimates or new FY24 expenditures for compensation enhancements, service enhancements, or inflationary adjustments.

The budget also does not provide any contingency for unexpected expenditures, including additional pandemic expenditures, without depleting reserves below 10%. A new COVID variant and/or pandemic surge in FY23 could create additional costs, possibly without the likelihood of additional federal funding to offset costs.

B. Budget Approach Options

As part of his suggested budget approach memorandum, the Council President has asked staff to develop recommendations and options that address the concerns with the Executive's recommended FY23 Budget (©17-18).

As the first step in determining a budget approach for FY23, Council staff recommends that Council indicate its intent to reject the County Executive's decision to draw down on the OPEB Trust to pay current year retiree health benefit costs. Council staff believes that the Council should not approve any use of Trust assets prior to thoroughly reviewing and updating the County's OPEB funding policy in the Fall. If the Council supports this action, it will require \$20 million in resources to fill that gap.

Budget Target Options. Staff has also developed four target options to address concerns about fiscal sustainability as requested by the Council President. The options are listed below. Each of the four options includes funding to prevent a withdrawal from the OPEB Trust. They also present varying levels of reductions to ensure that the Council's priorities can be funded (options 1-4), to reduce the use of one-time resources for ongoing expenses (options 2-4), and to protect against revenue volatility or unbudgeted COVID expenses (options 3 and 4).

The average negative revision to the County's most volatile revenues was approximately \$60 million since FY10. As a result, option 3 provides some protection of that level of volatility with a \$30 million reduction in ongoing expenses and option 4 provides a greater level of protection with a \$60 million reduction in ongoing expenses. While it is difficult to estimate the magnitude of potential reductions to the base budget the Council will be able to identify before the committees' review begins, the Council should strive to maximize reductions to the base while focusing on providing the most critical direct services.

Decreases to the base budget can be achieved through three strategies: 1) budget reductions that remove an expenditure from the FY23 budget; 2) converting expenditures in the FY23 base budget to a one-time expenditure, meaning that the funds would remain in FY23 but would need to be reevaluated as part of the FY24 budget process; or 3) delaying certain expenditures for consideration in January 2023 after the December Fiscal Plan update that will include revised FY23 revenue projections.

- | | |
|-------------------|---|
| Option #1: | \$35 million in reductions to eliminate drawdown of OPEB Trust and address Council-identified priorities. |
| Option #2: | \$65 million in reductions, conversions to one-time expenditures or delayed funding to eliminate drawdown of OPEB Trust, address Council-identified priorities, and address the use of one-time resources for ongoing expenditures. |
| Option #3: | \$95 million in reductions, conversions to one-time expenditures or delayed funding to eliminate drawdown of OPEB Trust, address Council-identified priorities, and address the use of one-time resources for ongoing expenditures, and reduce future fiscal year structural imbalance. |
| Option #4: | \$125 million in reductions, conversions to one-time expenditures or delayed funding to eliminate drawdown of OPEB Trust, address Council-identified priorities, and address the use of one-time resources for ongoing expenditures, and eliminate future fiscal year structural imbalance. |

The Council President's memorandum also acknowledges that in rightsizing the Executive's budget, it may be necessary for Councilmembers to identify critical additions to the budget not included by the Executive. Potential additions identified during the Committees' review should be categorized as critical additions to the base budget, one-time expenditures to be reassessed during the FY24 budget review, or expenditures that can be deferred pending the revenue update in December. The Council President has asked that additions greater than \$500,000 should be broken into multiple tiers.

Cost Efficiency Study Group Report

MONTGOMERY COUNTY, MARYLAND

April 15, 2021

matrix 
consulting group

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1. Introduction and Summary of Findings

The Matrix Consulting Group was retained by Montgomery County to work with the CEX Cost Efficiency Study Group to conduct a review of the organization with a focus on developing an approach to streamline the organization with an eye toward identifying opportunities to reduce the workforce by approximately 100 positions.

1. Background and Scope of the Study

Montgomery County noted in the issued RFP that the COVID-19 crisis was creating significant revenue loss to the County and added a sense of urgency to the need for workforce reduction and the implementation of additional cost saving measures. The crisis also highlighted opportunities for implementation of additional efficiencies such as expanded telework, automation of processes and enhanced customer self-service to name a few.

The County and the United Food and Commercial Workers Local 1994 (known as "MCGEO") had previously negotiated a term in the collective bargaining agreement establishing a Cost Efficiency Study Group. The terms of that article were:

"ARTICLE 55 – COST EFFICENCY STUDY GROUP

The parties shall establish a study group consisting of the Local 1994 President and two (2) other union representatives; the Director of OHR and two (2) other employer representatives and the purpose of the group shall include, but not be limited to any of the following:

- (1) Evaluate the service delivery model for each agency/program/department which employ bargaining unit members;
- (2) Evaluate the supervisor/management structure in each agency / program / department which employ bargaining unit members, to include the supervisor to employee ratio;
- (3) Evaluate the technology, equipment, and tools supplied to bargaining unit members to perform duties and responsibilities;
- (4) Evaluate the County Executive branch's operating budget to identify potential cost reductions that will not adversely impact same services;
- (5) Evaluate the cost effectiveness of current contracts with outside vendors who perform services that can otherwise be performed by bargaining unit members or via other more cost-effective ways;"

This group was activated as part of this engagement and began meeting in August of 2020.

The specific tasks outlined for review and consideration by the study group included the following items:

- Reviewing data on vacancies and retirement-eligible employees and recommending to the Study Group how to prioritize the analysis of activities;
- Analyzing activities selected for study to determine the need to fill existing and potential future vacancies;
- Developing recommendations for performing the work of each activity at the current or improved performance level with fewer employees;
- Reviewing the organizational structure of selected departments and offices to identify opportunities for management streamlining; and
- Evaluate the cost-effectiveness of current contracts with outside vendors who perform services that can otherwise be performed by bargaining unit members.

During the on-going weekly meetings, the group collectively established priority focus areas for next steps and provided input on findings as they were developed.

2. List of Study Group Members

This study took extensive work on the part of the study group members who served on the CEX Study Group and provided direction, input and guidance to the consultant project team. The group shared freely thoughts and approaches for consideration during the study and while often times there was strong disagreement on individual elements, the group maintained a strong collective focus on establishing a framework that would be transformational to the County and enable the implementation of a significant restructuring of County government based on a more streamlined service delivery approach that focused on future outcomes rather than historical approaches.

This strong working relationship has positioned the County well to move towards implementation with a shared vision.

The members of the committee include the following individuals:

- Amy Millar
- Berke Attila
- Corey Orlosky

- Fariba Kassiri
- Gino Renne
- Jennifer Bryant
- Kimberly Williams
- Lisa Blackwell-Sayles
- Richard Madaleno
- Ryan Conlon
- Steven Blivess

3. Project Methodology and Approach

The process employed by the consultants in providing these services consisted of the following activities:

- Weekly meetings were held with the CEX Study Group throughout the project to discuss topics, evaluate preliminary findings, provide input and direction and review preliminary findings.
- All covered County Department Directors, along with key other staff within the leadership organization, were interviewed individually to enable the project team to gain an understanding of the operations of the County and the current organizational structure, staffing approaches utilized, and services and service levels provided by the department.
- Individual interviews were conducted with MCGEO representatives from selected departments to provide input from frontline employees regarding service provision, staffing, and organizational approaches in place within the various departments.
- An employee survey was conducted in October 2020 to enable all employees of the organization an opportunity to provide input into the study by answering a series of standard questions. These questions covered issues related to staffing, organizational structure, service approaches, and various work environment related issues.
- Research was conducted regarding the organizational structure and staffing level of other similar-sized organizations to determine if there were approaches utilized by these organizations that would be beneficial to Montgomery County if implemented.

The following section outlines the key recommendations developed by the study group for consideration of implementation by Montgomery County.

4. Organizational Restructuring Goals

To move forward with the significant organizational restructuring contemplated by the CEX Study group to transform the organization, the County Executive should direct each department to develop a restructuring plan in alignment with the following set of guidelines for implementation over the next 12 to 18 months. This restructuring plan should be focused on implementing the following overarching goals:

1) Developing a new organizational structure for the organization in alignment with the following principles:

a. Organizational Layer¹ Targets should be established as follows:

- i. Large Departments (those of 200 or more employees) should be limited to 5 organizational layers.
- ii. Small departments (those below 200 employees) should be limited to 3 or fewer organizational layers.

b. Spans of Control² Targets should be established as follows:

- i. First Line Supervisors of administrative type staff – 1:9 (Ranging from 1:6 to 1:12)
- ii. First Line Supervisors of “routine” functions – 1:15 (ranging from 1:10 to 1:20)
- iii. Supervisors beyond first line supervisors - 1:6 (ranging from 1:4 to 1:8)
- iv. Priority focus should be on the significant reduction of the number of spans of control at 1:4 or less where no demonstrable and compelling business reason exists or it is in an extremely small operational unit where this span cannot be expanded due to limited numbers of supervisory position and a need exists for supervisory duties to be performed.

2) Identifying functional areas for implementing self-directed work teams. Self-directed work teams are, at their essence, ones where the work unit handles the majority of duties related to work assignment, monitoring of work completion and

¹ Organizational layers refer to the number of organizational layers having supervisory responsibilities. This is typically calculated as the number of layers in an organizational unit from the top executive position down to the front-line staff. Organizational layers further discussed starting on page 17.

² Span of control is defined as the number of people reporting directly to one individual and can include full-time, part-time, seasonal, and short-term positions. Additional discussion regarding spans of control can be found starting on page 9.

ensuring customer needs are met with less supervisory oversight than in traditional organizational structures (additional information on self-directed work teams can be found starting on page 26). This should be a high-priority approach to enable span of control modifications and to enhance the organizational culture and employee engagement. Each organizational unit should identify the opportunities within their organization where self-directed work teams, alone or in conjunction with supervisory changes, would be appropriate for their operation.

- 3) **Identifying specific opportunities to restructure that will align with the County's vision of broadening the County's supervisory span of control.** The current average span of control of approximately 1:6.4 should be broadened to at least 1:8 over the long-term. This would represent a 25% broadening of the supervisory span of control across the organization and will require the long-term elimination of 225 supervisory positions. While this is a bold and ambitious target and will take some time to implement, it is achievable with strong focus and determination to change the organizational structure. Departments should identify specific operational areas they will target for broadening spans of control.

Specifically, departments should be required in the next 180 days, to evaluate each position with a span of control of 4 or fewer positions, and answer the following questions:

- a) Is there a specific business reason for such a low span of control?
 - b) What opportunities exist to change this ratio now that it has been identified as outside the desired level?
 - c) What would be the impact if the position were simply eliminated?
 - d) What would be the impact if supervisor responsibilities were reassigned?
 - e) Are the duties performed by the subordinates under this position suitable for self-directed work teams?
- 4) **Critically evaluating all vacancies due to retirements.** All vacancies resulting from retirements should be critically evaluated prior to approval being granted for filling. While all positions will be critically evaluated, those with supervisory responsibilities should have extra evaluation to ensure mission-criticality prior to approval to fill being granted to further the organization's goal of broadening spans of control.

Specific steps to move the organization forward with the restructuring effort include adoption and implementation of the following items.

- 1) The nine positions identified during the study for elimination (through the vacancy review conducted with department heads) should be eliminated immediately. It is estimated that conservatively these will have salary costs savings of approximately \$600,000. A portion of the savings from the elimination of these positions could fund other efforts outlined in this report.
- 2) Any position vacant for more than 12 months, other than those held vacant for cost savings, should be treated like a request for a new position with a detailed justification made for the business necessity of maintaining the position. Except in the most unique circumstances, a position that has not been filled for over a year where no requirement was imposed on the organizational unit to hold it open is hard to define as mission critical for service delivery. The County should consider a policy that automatically defunds any vacancy after a 12 month period of time. This is perhaps another recommendation that would be viewed as bold, but is not intended to eliminate any judgement from decision-making but rather to ensure that each decision about a position is conducted in a consistent manner across the organization and against a set of adopted guidelines.
- 3) The County Executive should direct the appropriate staff to pilot several self-directed work team pilot projects to gain a real-world understanding of the support needed to effectuate their broad implementation throughout the organization. These should be conducted by the end of the year to enable the full implementation of this approach during the 2022 calendar year. The implementation of self-directed work teams will not only assist with the ability to reduce the number of front-line supervisors but should have beneficial organizational culture impacts including increased employee engagement and job satisfaction.
- 4) All organizational units should identify which operational areas within their organization would be suitable for implementation of self-directed work teams so that employment decisions can be made to align future hiring of supervisory vacancies with the future implementation of the self-directed work teams.

- 5) OHR should begin developing a training program that is designed to address the following areas:
 - a. Providing necessary skills to supervisors to oversee an increased number of subordinate staff,
 - b. Teaching supervisors how to supervise remotely. The last year has highlighted that many supervisors, even highly experienced ones, need additional support in learning how to effectively supervise staff remotely.
 - c. Self-directed work team support including training for supervisors on how to supervise self-directed work teams but also for employees regarding what it means to be a self-directed work team. This training will likely require components on supervision, communication, conflict resolution, team dynamics, etc.

- 6) For any retirement that occurs in the next 18 months, the County should seek to eliminate, either through modifications of spans of control, implementation of self-directed work teams or through position elimination, between 5 – 10% of these positions (10% would equal 23 positions) for an estimated \$2,231,000 - \$4,462,000 in savings. These positions are targeted for consideration of elimination as they would be vacant and would therefore not impact a current incumbent.

- 7) The County has a significant number of employees eligible for retirement but the actual number of retirements, based on historical data, will be much smaller than those eligible. While the County may desire to explore early retirement incentives (which was beyond the scope of this effort to analyze), but should only pursue implementation if the net cost is minimal or results in a savings to the organization. While the organization would find the major restructuring contemplated under this effort significantly easier if there were more retirements and therefore vacant positions to work with, the need for cost savings within the organization negates incentivizing retirements if there is a net cost to doing so.

- 8) Direct OHR to undertake a review of the classification and compensation program, identify areas that are not in alignment with this organizational structure initiative and outline steps necessary to bring the system into compliance. Specific focus should be placed on the following elements of the classification system:

- Ensuring all supervisory positions are spending a preponderance of their time on supervisory duties during classification / reclassification requests.
- Increasing the use of lead positions in the organization prior to establishment of new supervisory positions.
- Ensuring the compensation system doesn't incentivize position creep or job inflation to reward employees.
- Ensuring the classification and compensation program will accommodate implementation of self-directed work teams.
- Reevaluating whether the current approach with the MLS series is appropriate for the organization.



Racial Equity & Social Justice

Montgomery County government, with the establishment of the Office of Racial Equity and Social Justice, is committed to reducing and eliminating racial disparities and inequities in the County.

One aspect of advancing this work involves analyzing resource allocations that form the structures-programs, policies, practices, and procedures-that can either worsen or improve racially disparate outcomes across the County. Our goal is to identify these disparities, reduce them, and ultimately create structures that eliminate their existence and prevent disparities from emerging in the future.

To this end, and in accordance with Bill 44-20, Racial Equity and Social Justice - Impact Statements - Advisory Committee Amendments, the Office of Racial Equity and Social Justice developed a Budget Equity Tool to support departments and decision makers in applying a racial equity lens to the development of the County Executive's FY23 Recommended Operating Budget. This tool and process has supported the County's implementation of its guiding racial equity framework, adapted from the Government Alliance on Race and Equity (GARE), to normalize, organize, and operationalize for racial equity and social justice. This framework guides jurisdictions across the country in navigating the changes required to advance racial equity and social justice.



Building from this framework, the FY23 Recommended Operating Budget enables the County to continue developing its racial equity and social justice infrastructure, while fostering meaningful community partnerships, and piloting initiatives that address the symptoms and structures of inequality.

First, this budget reflects a greater awareness among departments about the human and other resources necessary to learn new skills and competencies for identifying and addressing barriers to racial equity and social justice in all aspects of the County's work. Departments specifically pointed to the leadership and reach of CORE teams-a structure used to normalize conversations about race and racism-in expanding staff knowledge and capacity to identify and discuss racial disparities and make necessary systems-level changes. These normalizing efforts help to equip decision makers with new perspectives and a deepened appreciation for the role of government in addressing long-standing racial and ethnic disparities in the County.

Second, this budget enables the County to continue partnerships with long-standing community groups who provide

essential services in response to the impacts of racial and ethnic disparities. Over time, the County will look for ways in its policies and processes to amplify voices of community members most excluded and impacted by structural inequities, enabling the government and community to cocreate solutions together.

Lastly, to operationalize racial equity, this budget provides resources to help mitigate against the harms of structural racism and initiates efforts to address racial disparities head on. The FY23 recommended budget was heavily impacted by the County's recovery from the COVID-19 pandemic. Much of this budget focuses on shoring up departments, programs, and services serving communities most impacted by the health and economic impacts of COVID-19. In Montgomery County, like much of the country, communities of color—due to long-standing inequities in education, employment, housing, and healthcare—are disproportionately impacted by the pandemic. While some of these programs and services don't eliminate racial disparities, they do prevent them from widening, enabling a more equitable pandemic recovery for all county residents.

FY23 Recommended Budget includes:

Departments and Non-Departmental Accounts (NDAs)

Cable Communications Television

- Deploy 40,000 free computers to low-income residents and seek grant funding to expand additional digital equity programs including assistance to low-income residents to enroll in home broadband subsidy programs and expand Senior Planet Montgomery to affordable housing developments.
- Leverage FY22 Community Communications Survey findings to strategically deploy County Cable Montgomery (CCM) resources. The goal is to provide communications over preferred communications platforms, in formats and languages that enable the County to reach more residents with information, especially those communities that are not currently engaging with the County.
- Add funds to support Montgomery County Media (MCM) operations, which provides media training for residents and operates the public television channels and website; programming is focused on communities of color. MCM operates a separate facility in a Housing Opportunities Commission affordable housing development in Silver Spring that provides media training for African American and Latino youth.
- Provide technical support to enable elected officials and departments to host hybrid in-person and remote community meetings to increase participation by new immigrants, low-income residents, and communities of color.
- Create a Connect Montgomery Alliance (CMA) Coordinator position to coordinate programming designed to serve low-income families, specific racial and ethnic communities (including African American and Latino households), and coordinate promotion of support service programs across the County, municipalities, and two educational agencies.

Community Grants

- Funding in the amount of \$70,000 for grants to provide non-profit technical assistance and management support.
- Funding in the amount of \$750,000 to provide grants for non-profit partners who serve underserved communities, children, youth, and families.

Community Engagement Cluster

- Establish an Office of Food System Resilience to coordinate food resilience efforts with community partners, government agencies, and regional partners.
- Funds are added to support the farm to food bank program, the Montgomery County Food Council, market money grants that allow farmers markets to match Federal Supplemental Nutrition Assistance Program funding for individuals, and community gardening and local resilience grants.

Department of Health and Human Services

- Expand funding for the Asian American Health Initiative, Latino Health Initiative, African American Health Programs

- Enhance funding to expand Health and Psychiatric Services to accommodate an increase in year-round clients at home shelters
- In addition to the investments made in the Montgomery Housing Initiative Fund, these resources will provide an additional \$2 million for Rapid Rehousing (General Fund)
- In addition to the investments made in the Montgomery Housing Initiative Fund, these resources will provide an additional \$3 million for Rental Assistance (General Fund)
- Fund the Bienvenidos Initiative, focused on expanding the County's capacity to address the unique needs of unaccompanied migrant children and asylum-seeking families including school-based health services, family reunification, Street Outreach Network supports, and youth leadership development. Related legal and representation services are funded in the Community Engagement Cluster.
- Increase mental health services for Montgomery County Public Schools at ten priority high schools without High School Wellness Centers and expand mental health services at six high schools with existing High School Wellness Centers to address growing demand
- Provide funding to continue the East County Opportunity Zone program
- Support food security through a \$4 million allocation for the direct purchase of food for distribution
- Add a Tuberculosis nurse to address health disparities and better serve the growing County immigrant population. Thirty percent of tuberculosis cases Statewide are in Montgomery County.

Department of Housing and Community Affairs

- Continue to leverage Federal grants including the Community Development Block Grant, the HOME Investment Partnership Grant, and the Emergency Solutions Grant to provide affordable housing, housing rehabilitation, commercial revitalization, focused neighborhood assistance, public services, and prevent homelessness.
- Allocate \$2 million in additional resources dedicated to the Rental Assistance Program to continue protecting lower-income residents from rent increases by working with nonprofits to identify and preserve at-risk naturally-occurring affordable housing and actively engaging purchasers with rental agreements to preserve affordable rents.
- Allocate \$3 million in additional resources dedicated to the Rental Assistance Program
- Continue to actively underwrite affordable housing loans to preserve and produce affordable housing. Five developments, including one senior and four family projects, have already been identified for potential funding in FY23. These developments would preserve or produce a total of 815 units, including 317 affordable units.

Office of Agriculture

- The Montgomery County Farm to Food Bank program - a partnership between the Montgomery County Food Security Task Force, the Department of Health and Human Services, Manna Food Center, the Montgomery County Food Council, the Montgomery County Office of Agriculture, and the Greater Washington Community Foundation - has collectively invested and committed over \$630,000 in local farms to support a sustained and resilient local food supply and provide more nutritious and culturally diverse produce to residents who experience hunger. Since July 2020, over 112,235 pounds of fresh, locally produced food has been purchased or donated to over 30 food assistance providers, creating over 90,000 meals for the Montgomery County community.

Office of Consumer Protection

- The Office expanded its language access program, establishing an in-house roster of volunteers that speak five different languages to assist residents and merchants with limited English proficiency.

Office of Grants Management

- Funding to create this Office to develop and oversee a grant funding mechanism for County departments to use for implementing programs and initiatives. This Office will develop, manage, advertise, and apply a racial equity lens into

the application and awarding processes for grant programs offered by the County.

Office of Human Rights

- Increase support for the Partnership Fund to provide partial compensation for property damage to victims of racial, ethnic, religion, sexual orientation, and disability-based hate/violence. The Partnership Fund aims to demonstrate community support for the victims and ease the financial consequences of such violence.

Office of the County Executive

- Add funding to address disparities in the black business community and to provide increased training and resources through grants to the Black Chamber of Commerce and to the Black Business Council. This support will facilitate increased outreach and engagement between the County and the business community; allow the development of a Small Business Lending Program; and provide funding for technical assistance, training, capacity building, and resources to businesses throughout the County. These funds will also support the growth of a database and information sharing initiative for the County's Minority, Female, and Disabled-owned Businesses Program.
- Add a Climate Funding and Performance Specialist position to seek out grant opportunities that can support the Climate Action Plan's racial equity and social justice actions, such as the Community Justice Academy.

Office of Public Information

- Funding provided to expand Spanish language communications outreach via Radio America, communicating directly with this specific segment of the County's Latino population.

Office of Racial Equity and Social Justice

- Add funding for consulting services to assist with community engagement and planning for the Montgomery County Lynching Memorial Project.
- Provide funding for increased staffing to support the mission of the Office of Racial Equity and Social Justice.

Parking Districts (Department of Transportation)

- Explore opportunities to install solar photovoltaic systems on garage rooftops within the PLDs (parking lot districts) that can provide discounted electricity to lower and moderate income (LMI) communities in the County as well as County-owned facilities.

Urban Districts

- Standup a fee reduction program to expand access to community spaces in the Wheaton Urban District.

WorkSource Montgomery Inc. (Non-Departmental Account)

- Funding for employment and training services for immigrants.

Overall, this budget provides resources for the County to deepen its efforts to normalize, organize, and operationalize for racial equity and social justice. It supports the County government in building the skills and competencies necessary to identify and address racial and ethnic disparities across issue areas, at the same time providing resources for engaging community partners and piloting innovative strategies for shrinking disparities and improving the well-being of all Montgomery County residents.



OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

MEMORANDUM

March 15, 2022

TO: Gabe Albornoz, President
Montgomery County Council

FROM: Marc Elrich, County Executive *Marc Elrich*

SUBJECT: Compensation Sustainability Policy

The Compensation Sustainability Policy identified within Resolution 19-753 states that the County Executive should provide a written explanation when the growth rate of total compensation costs exceeds the projected one-year or six-year rate of revenue growth. My FY23 Recommended Operating Budget includes total compensation and benefit increases, exclusive of new positions added or eliminated in FY23, of approximately \$59.2 million, for a growth rate of 4.88%. As shown in the fiscal plan, the one-year growth rate is 5.9%, while the six-year growth rate is 3.34%.

Operating budget resources did not need to be re-allocated in FY23 to accommodate these costs; the one-year growth rate exceeded the increase. These costs are sustainable over time as the total increase of \$59.2 million is far below the increase in growth associated with the 3.34% annual growth over the six-year projection, which amounts to \$175 million for FY23.

Furthermore, the composition of compensation elements that make up the \$59.2 million increase include items that take steps necessary to address major issues within County employee compensation structures. Included in the increases are:

- Collectively bargained compensation increases to ensure wage growth keeps pace with significantly higher than normal inflation
- Adjustments to transit bus operator salary schedules that resolves a decade-long wage inequity
- Increases to Police compensation to address severe comparability issues
- Health insurance funding to return the employer cost share to the levels established in the collective bargaining agreements

ME:co

cc: Richard S. Madaleno, Chief Administrative Officer
Dale Tibbitts, Special Assistant to the County Executive
Fariba Kassiri, Deputy Chief Administrative Officer
Ken Hartman, Director, Office of Strategic Partnership



CONSOLIDATED RETIREE HEALTH BENEFITS TRUST

April 11, 2022

TO: Council President Gabriel Albornoz

FROM: Barry Kaplan
Chair, Board of Trustees

Subject: OPEB Trust Utilization Policy / FY 2023 Funding

As you are aware, the County Executive's Fiscal Year 2023 operating budget includes a \$20 million outflow from the Consolidated Retiree Health Benefits Trust "CRHBT" to cover a portion of the County's health benefit costs. Historically, the Trust has been in the accumulation phase and Trust assets have not been drawn on for health benefit costs. While the Board appreciates that this Trust will one day be used for such a purpose, we do not believe it is prudent to utilize Trust assets without a long-term policy in place that sets parameters and guardrails to protect the long-term viability of the Trust. Without a long-term policy and strategy for this eventuality Staff and the Board will be challenged to make prudent asset allocation decisions, which may impact the expected investment return of the Trust and the ability to meet participant benefit needs.

The Board of Trustees approved a resolution at the March 25th, 2022 board meeting, stating our opposition to any Trust utilization until a long-term utilization policy and strategy is formalized. Such a policy should consider a variety of factors, including, actuarial funded status, demographic activity, investment return outlook, and future changes to the benefits structure. The Board recommends that the Council restore the funding for the CRHBT and continue working on a new utilization policy and strategy with clear parameters and guardrails that will allow strategic planning of asset allocation, timing of investments, and withdrawals in a more planful manner that optimizes portfolio management for the trust participants.

cc: Board of Trustees of the Consolidated Retiree Health Benefits Trust



MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

OFFICE OF THE COUNCIL PRESIDENT

M E M O R A N D U M

April 13, 2022

TO: County Council

FROM: Gabe Albornoz, Council President

SUBJECT: Proposed Process for Review of the FY23 Operating Budget

This memorandum presents my recommended approach to this year's operating budget. Our staff has already shared its concerns about the Executive-recommended FY23 budget, including the ways in which it deviates from adopted fiscal policies and the significant additions to the base budget, which may not be sustainable. Our challenge for this year will be adopt a budget that more closely adheres to adopted fiscal policies and reduces additions to the base budget, while simultaneously funding the most critical direct services. I am hoping the following recommendations can help us rise to this challenge.

1. I have asked staff to identify where the budget is not consistent with adopted fiscal policies and to make recommendations for adjustments where possible. For Other Post Employment Benefits (OPEB), I support the recommendation staff will share with the Council on April 19 that we not withdraw money from the Health Trust before the Council has adopted a new policy prescribing when withdrawals would be appropriate. I have asked them to develop this addition to our fiscal policies over the summer for the Council's consideration in the fall.
2. To ensure the ongoing sustainability of the budget, I have asked staff to identify options for the Council to consider that reduce the growth in the base budget proposed in the Executive's budget. This can be done through one of three options:
 - a. outright reductions,
 - b. changing additions from increases to the base budget to one-time expenditures that can be reconsidered during our review of the FY24 operating budget, and/or
 - c. delaying some expenditures until January 2023, when the Council will have updated information regarding FY23 revenues.

Potential targets for the Council's consideration will be identified in the staff overview on the operating budget scheduled for April 19. Specific reductions will be identified in the memoranda for the Committee worksessions.

3. I recognize that the Council may want to make some additions to the budget as well to ensure that its priorities are funded. We will need to find reductions that can allow us to make room in the budget for those additions. I ask that you make every effort to minimize additions to the base budget and whenever possible focus on one-time expenditures or additions that can be delayed until January 2023. Potential additions identified during the Committees' review should be categorized as additions to the base budget, one-time expenditures, or expenditures that can be delayed pending the December revenue update. Additions that are more than \$500,000 should be broken into more than one item which can be considered in tiers.
4. In determining where reductions to the budget are feasible and where additions are necessary, we should continue to maintain our focus on racial equity issues and supporting our most vulnerable citizens, many of whom are still struggling to recover from the impact of the pandemic. This has, and should continue to be, a Council priority.