Agenda Item 7
April 17, 2018
Worksession

MEMORANDUM

April 13, 2018

TO: County Council

FROM: Marlene Michaelson, Executive Director MM
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SUBJECT: Overview – FY19 Operating Budget

PURPOSE: The Council is scheduled to make final decisions on the FY19 operating budget on May 17, and to adopt the budget resolutions on May 24. This packet outlines the budget issues and decisions facing the Council over the next 6 weeks.

1. Executive Summary

The proposed FY19 budget recommends funding levels with small increases or decreases in all budgets (except Montgomery County Public Schools - MCPS), that are generally less than needed to support a same services budget. The 3.1% budget increase for MCPS fully funds the Board of Education's request, and allows it to deliver necessary services to a growing student body.

- Total tax supported expenditure of $4,949.5 million is recommended for FY19, 2.0% above FY18. Agency tax supported budgets (excluding debt service, CIP current revenue, and CIP PAYGO) are up 1.7%.
- Montgomery College and M-NCPPC are both up 0.8%, and County Government is 0.1% below FY18. Few significant changes in appropriation or workforce size are recommended to the operating budgets for Montgomery County Government's many departments and offices.

While local economic indicators have generally been positive, FY18 County revenue receipts and FY19 revenue projections are down. This is primarily due to the volatility of our income tax, but also due to declines in other revenue sources.

- FY18 tax revenue is now estimated to be $106.1 million below the FY18 approved budget, and $11.1 million below December's estimate.
- Looking ahead, FY19 tax revenue projections are now $6.9 million above December's projection, but are still projected to be $76.8 million below the FY19 projections made less than one year ago.

- Income tax revenue is affected by several factors – taxpayer behavior; changes to federal and Maryland income tax laws; the impacts of the *Wynne* case; and the County's changing demographic profile. These factors are either causes of considerable uncertainty, or structural pressures that will not be relieved in the near term.

Significant gaps identified at the end of 2017 and earlier this year were closed by a combination of the FY18 Savings Plan, proposed adjustments to FY18 Retiree Health Benefit Trust, transfers from non-tax-supported funds, intergovernmental funding, a delay in payments required by the Wynne case, and a restrained FY19 recommended budget.

- In January, the Executive and Council together found mid-year operating budget savings of $53.6 million, and capital budget current revenue savings of $9.3 million in FY18.[1]
- The County Executive has also proposed additional savings of $62.4 million from retiree health pre-funding that would create additional fiscal room in FY18 without affecting retiree health benefits. See © 36-37.

The recommended budget provides for the increases in reserves and contributions to PAYGO and OPEB that ensure the County's fiscal strength and continued AAA bond rating.

- Reserves are at the policy level for FY18 (8.9%) and FY19 (9.4%), as the County ramps up to its reserve target (10%) in FY20.
- The budget pre-funds retiree health benefits at the actuarially determined contribution amount for FY19.

Taken together, the underlying economic and fiscal conditions described above warrant a cautious approach to the FY19 budget. The Council is hearing from citizens, many of whom are asking for additional funding for programs they support. At the same time, the recommended budget includes reductions to critical services. Staff recommends that the Council consider focusing on efficiencies and cost savings, and on restoration of critical services. Staff also recommends taking a cautious approach to adding positions or recurring costs that may be difficult to sustain in this uncertain fiscal environment.

Committee worksessions on the recommended budget are underway. Compensation and benefits, which together comprise 80% of agency operating budget expenditure, will be discussed in the Government Operations and Fiscal Policy Committee on April 27, and at Council on May 1. Following Committee and Council budget worksessions, Council straw votes and reconciliation are scheduled for May 17. The Council's final approval of the budget resolutions is scheduled for May 24.

For further detail regarding the County Executive's request, see his transmittal at © 1-13. See also the transmittals from the Board of Education President Michael Durso at © 14-16; from the Montgomery College Board of Trustees Chair Mike Knapp at © 17-26; from Planning Board Chair Casey Anderson at © 27-35. The April 12, 2018 transmittal from the County Executive to the Council President regarding spending reductions related to the Consolidated Retiree Health Benefit Trust is attached at © 36-37. The findings of the County Executive's

[1] See Resolution 18-1018 at:
https://www.montgomerycountymd.gov/COUNCIL/Resources/Files/res/2018/20180130_18-1018.pdf

Business Advisory Panel are attached at © 38-42. Budget Schedule B-3, expenditures by agency, fund, function and department, is attached at © 43-46. An excerpt from OLO Report 2013-1, *Fiscal Planning and the New Maintenance of Effort Law*, is attached at © 47-49. The recommended Tax Supported Fiscal Plan Summary is attached at © 50-52. Finance's most recent *Financial Impact of a Downgrade* is attached at © 53-54. The Council President's memorandum describing his approach to the operating budget it attached at © 55.

2. Economic Context

The national unemployment rate for March 2018 was 4.1%, far below its peak of 10.0% in October 2009 and equal to its pre-recession level in November 2007. There were 6.7 million unemployed workers, 20.7% of them for 27 weeks or more (compared to the pre-recession level of 17.0%). The seasonally adjusted rate of "total" unemployment, which includes underemployed and discouraged workers, was 8.0%, which is more than 1.0% below the rate just one year ago.

Wages are increasing in this tight labor market, but not as quickly as they did the last time that unemployment was this low (in late 2000). And rising wages have not had a significant impact on the labor force participation rate, which at 62.9% is still near the smallest share of adults participating in the labor force since the late 1970s.

Federal spending, tax laws, trade policy, and monetary policy will affect the national and regional economy. Inconsistent messaging has made it increasingly difficult to distinguish the signal from the noise. Even as the administration promises to "drain the swamp", Congress passed a massive spending bill; for his part President Trump signed the bill, though only a few days later his administration threatened to rescind portions of it. And as new spending and new tax policy stimulate an economy that is already nearing full employment, monetary policy will presumably continue to tap the brakes to prevent the economy from overheating. Inflationary pressures from new retaliatory tariffs will add to concerns about both consumer and producer prices.

Regional economic indicators remain positive. According to the Steven Fuller Institute at George Mason University, the leading index for the Washington region's economy continues to climb, indicating no imminent economic decline. The coincident index (12-month moving average) has increased every month since April 2014, indicating continuous expansion for nearly four consecutive years.[2] And while federal employment has remained flat, federal procurement has rebounded following its steep decline in 2013.

FY13-FY19 KEY ECONOMIC INDICATORS					
	2013	2014	2015	2016	2017
Resident Employment (000s)	515.7	520.3	527	533.2	546.7
Payroll Employment (000s)	472.8	474.6	485	489.1	498.1
Unemployment Rate	5.0%	4.4%	3.9%	3.3%	3.2%
Sales of Existing Homes	11,461	10,976	12,191	12,896	12,869
Median Sales Price - Existing Homes	400,000	400,000	400,000	409,700	420,000

[2] See http://sfullerinstitute.gmu.edu/wp-content/uploads/2018/02/SFI_Economy_Watch_0218.pdf

Local employment indicators are positive, with resident employment and payroll employment both accelerating in 2017.[3] A recent downward adjustment to 2017 payroll employment has tempered enthusiasm about the strong gains, but the fact remains that the region's economic expansion accelerated over the past year. A tight housing market has pushed up average sale prices, and it is likely that a tightening job market will place similar upward pressure on wages. The County Executive's Business Advisory Panel expressed "cautious optimism" regarding the regional and local economies. See © 38-42.

Montgomery County continues to compete well when compared to other large, mature suburban jurisdictions. For example, from 2010 to 2016 Montgomery County outpaced Virginia's Fairfax County with respect to private sector job growth (4.4% vs. 3.7%), private sector resident employment (6.1% vs. 3.8%), and the increase in private sector average annual wages (12.8% vs. 9.2%). Early this year, Amazon identified Montgomery County as one of 20 jurisdictions short-listed for its "HQ2".

3. Tax Supported Budget Allocations

a. Agency Allocations

Total tax supported expenditure of $4,949.5 million is recommended for FY19, 2.0% above FY18. This amount includes $497.7 million in non-agency expenditure (debt service, PAYGO and CIP current revenue, changes to reserves and other set asides). Agency tax supported budgets are up 1.7% overall. MCPS is up 3.1%, while Montgomery College and M-NCPPC are both up 0.8%. Montgomery County Government is 0.1% below FY18.

With a tax supported budget of $2,443.2 million, MCPS represents nearly half (49.6%) of the recommended budget. Tax supported debt service, including debt service on Park bonds, is $420.1 million, or 8.5% of total tax supported expenditure—more than the combined tax supported allocations to Montgomery College ($264.8 million, or 5.4%) and M-NCPPC ($126.9 million, or 2.6%). County Government, at $1,617.0 million excluding debt service, represents 32.7% of the total tax supported budget. A full listing of expenditures by agency, fund, function and department is attached at © 43-46.

AGENCY TAX SUPPORTED BUDGETS
FY18 and FY19 (Appropriations and FTEs)

	FY18		FY19	
FUNCTION	**Appropriation ($ millions)**	**FTEs**	**Appropriation ($ millions)**	**FTEs**
Montgomery County Public Schools	2,368.7	21,090	2,443.2	21,254
Montgomery County Government	1,618.5	8,384	1,617.0	8,381
Montgomery College	262.8	1,802	264.8	1,810
M-NCPPC	125.9	914	126.9	923
Total All Agency Tax Supported	*4,375.8*	*32,192*	*4,451.8*	*32,369*

[3] See https://www.montgomerycountymd.gov/Finance/Resources/Files/data/economic/EconomicUpdate_February2018.pdf.

MCPS has a current year enrollment of more than 161,000 students and projected growth of 1,882. The tax supported portion of the Executive's FY18 recommendation, **$2,443.2 million,**[4] is $74.5 million (3.1%) above the original FY18 appropriation, and $72.4 million above the total budget (which includes the $2.1 million the Council appropriated to MCPS to expand Head Start classes).

Additional recommended support for MCPS totaling $326.9 million comes from the budgets of other departments and agencies. This critical support is outside of the MCPS budget and beyond the County's MOE obligations. It includes: $155.0 million for debt service on school construction bonds; $79.4 million for pre-funding retiree health benefits; $69.6 million for support services; and $22.9 million for technology modernization.

Allocations to agencies reflect the State Maintenance of Effort (MOE) laws. State law requires local jurisdictions to fund school systems at the same amount per pupil as the prior year, and to fund community colleges at the same amount of local funding as the previous year. Any increase to the County contribution of new dollars above MOE adds to the base calculation for the next year and cannot be reduced in future years (absent a waiver).

With respect to MCPS, Since MOE is a per pupil amount, **total funding level adjusts according to enrollment changes.** Recent enrollment increases have resulted in County contributions increasing by $24.2 million in FY16, $20.0 million in FY17, $28.1 million in FY18, and $24.5 million in FY19 to meet MOE.

The most significant cost associated with MOE is not the annual increases tied to enrollment growth, but rather the long-term effects of exceeding it. From FY01 to FY09, Montgomery County funded the school system a cumulative $576 million above MOE. During the Great Recession, this level of local funding became unsustainable. In FY10 and FY11 the County sought waivers from the State Board of Education, and ultimately rebased MOE to a lower level in FY12. The MOE law, as revised by the General Assembly in 2012, requires a State waiver before a county can reduce the MOE level. The law also authorizes intercepting counties' income tax revenue to meet the level and overriding voter-approved limits on property taxes. See © 47-49 for a description of the 2012 changes to MOE, excerpted from OLO Report 2013-1, *Fiscal Planning and the New Maintenance of Effort Law.*

Montgomery College's budget request for the Current Fund is $265.9 million, up $3.9 million (1.5%). The local contribution would be $143.7 million, up $4.3 million. In contrast, the Executive recommends a Current Fund budget of $264.0 million, an increase of $2.0 million (0.8%) from FY18, including a local contribution of $141.3 million, up $2.0 million (1.4%). After several years of growing enrollment, enrollment has been declining since FY13. The Executive notes that the local contribution has increased by $4,370 (83%) per full time equivalent student since FY13.

M-NCPPC's tax supported budget request is $133.5 million. The Executive recommends $126.9 million, including $95.9 million for the Park Fund (excluding debt service) and $31.0

[4] The FY18 base includes an original FY18 local contribution of $1,663.3 million, and a mid-year FY18 appropriation of $2.1 million to expand Head Start classes. FY19 additions to that base include: $24.5 million to fund enrollment increases at Maintenance of Effort (MOE); FY18 fund balance carry-forward of $25.0 million; local funding above MOE of $17.7 million; and current fund revenues/State aid of $710.5 million.

million for the Administration Fund, up 0.9% and 0.6% respectively compared to FY18, but in both cases the Executive's recommendation is well below the agency's request.

b. County Government Allocations

COUNTY GOVERNMENT TAX SUPPORTED BUDGETS FY18 and FY19 (Appropriations and FTEs)				
	FY18		FY19	
FUNCTION	**Appropriation (millions$)**	**FTEs**	**Appropriation (millions$)**	**FTEs**
Public Safety	584.1	3,983	583.4	3,959
Health and Human Services	234.1	1,211	237.5	1,227
General Government	192.1	1,139	191.4	1,149
Transportation	182.0	1,110	178.1	1,114
Libraries, Culture, and Recreation	80.1	853	80.7	845
Community Development & Housing	12.6	64	13.4	64
Environment	2.9	16	2.7	16
Other governmental (non-departmental)	330.5	4	329.7	4
Total MCG Tax Supported	1,618.5	8,384	1,617.0	8,381

The FY19 budget for County Government does not reflect a significant change in priorities, with funding and FTEs for most functions of County Government changed very little from FY18. For example, Police and DHHS budgets are both up by 1.5% compared to FY18, while General Services (down 3.2%) and Technology Services (down 2.0%) were both reduced. However, the County Executive recommends larger year-over-year reductions to some tax supported departmental budgets – for example, Transportation is 8.2% below FY18, and Environmental Protection is 6.6% below FY18.

The recommended budget sets aside $6.3 million for the County's weather-related costs in FY19, including $2.9 million in the Snow Removal and Storm Cleanup NDA.[5] FY18 snow and storm cleanup costs are projected to increase as a result of the March snow event, and the Council anticipates receiving a supplemental appropriation request to fund FY18 snow-related costs already incurred.

4. Revenue

FY18 tax revenue is now estimated to be $106.1 million below the FY18 approved budget, and $11.1 million below December's estimate. FY18 tax revenue is relevant because it is the source of the fiscal pressure that led the Executive and Council to jointly take extraordinary actions to reduce spending mid-year, and which so defines the parameters of the FY19 budget.

[5] The FY19 recommended budget does not include any set aside for other uses (supplemental and special appropriations).

FY19 tax revenue is now projected to be $76.8 million below the May 2017 projection, and $6.9 million above the projection from this past December.

- The November income tax distribution was $80 million below projection, stemming in large part from a significant decline in revenue from capital gains during the 4th quarter of calendar year 2016.

- The March estimate of FY18 income tax revenue is now $75.9 million below the amount assumed when the budget was approved last May.

- The fiscal impact of the property tax credit for Elderly Individuals and Military Retirees has been more than double the original projection, resulting in a write-down of FY18 property tax revenue.

- Other FY18 revenue is also soft – transfer and recordation taxes are down by $12.7 million combined, and fuel/energy tax is down $13.6 million.

- Finance projects FY18's broad declines to continue in FY19, with tax revenue now projected to be $77.2 million below the May 2017 projection for FY19.

- FY19 intergovernmental aid is up $34.4 million versus the FY18 approved budget, and $38.1 million versus December (out of a total projected FY19 revenue increase of $47.5 million versus the December projection).

- FY19 tax revenue bright spots are limited. Income tax revenue is up $16.2 million from the dismal December projection, but is still $38.1 million below the May 2017 projection. Almost all of the $16.2 million improvement is attributable to an assumption that state legislation would delay the County's Wynne-related repayments to the local income tax reserve fund from FY19 to FY21.

- The budget assumes increased intergovernmental aid in FY19 -- $38.1 million above the amount assumed in December, and $37.7 million above the amount assumed last May.

- Total tax supported revenue in FY19 is $4,924.8 million, whereas total use of resources is $4,949.5 million. Net transfers of $24.7 million from non tax supported funds to tax supported funds make up the difference.

- In terms of tax burden, the real (inflation adjusted) tax burden under the recommended budget is $15 above the current year, and County taxes as a share of personal income is unchanged.

FY18 & FY19 REVENUE COMPARISONS (May-Dec-Mar) TAX SUPPORTED BUDGETS ($ Millions)							
		FY18			FY19		
	KEY REVENUE CATEGORIES	App. FY18	Estimate FY18	Estimate FY18	Projected FY19	Projected FY19	Projected FY19
	TAXES	5-25-17	12-12-17	3-15-18	5-25-17	12-12-17	3-15-18
1	Property Tax	1,770.2	1,769.3	1,766.8	1,822.6	1,811.5	1,808.4
2	Income Tax	1,557.9	1,479.1	1,482.0	1,623.3	1,569.0	1,585.2
3	Transfer Tax	114.3	112.6	106.1	117.1	114.7	109.5
4	Recordation Tax	56.2	55.3	51.7	57.5	56.3	53.4
5	Energy Tax	204.3	192.1	190.7	206.1	192.0	194.0
6	Telephone Tax	52.5	51.8	51.6	54.1	53.5	53.3
7	Hotel/Motel Tax	21.9	21.8	22.0	22.5	22.3	22.2
8	Admissions Tax	3.3	3.5	3.5	3.4	3.6	3.6
9	E-Cigarette Tax	0.4	0.5	0.6	0.4	0.5	0.7
10	**Total Local Taxes**	**3,781.0**	**3,686.0**	**3,674.9**	**3,907.0**	**3,823.3**	**3,830.2**
	INTERGOVERNMENTAL AID						
11	Highway User	3.7	3.7	3.7	3.7	3.8	3.8
12	Police Protection	14.7	14.7	14.7	14.7	14.7	14.7
13	Libraries	6.3	6.3	6.3	6.3	6.3	6.4
14	Health Services Case Formula	4.6	4.6	4.6	4.6	4.6	4.6
15	Mass Transit	39.5	39.5	40.3	39.5	39.5	40.3
16	Public Schools	679.1	679.1	679.1	679.2	679.1	706.9
17	Community College	35.8	35.8	35.8	35.8	35.8	36.6
18	Other	59.0	59.0	63.7	55.6	55.2	63.7
19	**Total Intergovernmental Aid**	**842.6**	**842.6**	**848.2**	**839.3**	**838.9**	**877.0**
	FEES AND FINES						
20	Licenses & Permits	12.9	12.9	12.9	12.8	13.1	13.1
21	Charges for Services	70.3	70.3	70.6	70.9	71.6	72.7
22	Fines & Forfeitures	28.7	28.7	28.9	29.1	29.1	29.1
23	Montgomery College Tuition	80.4	80.4	74.3	83.2	81.9	78.2
24	**Total Fees and Fines**	**192.2**	**192.2**	**186.7**	**196.1**	**195.7**	**193.0**
	MISCELLANEOUS						
25	Investment Income	4.0	4.0	3.9	5.4	5.4	5.3
26	Other Miscellaneous	13.7	13.7	17.2	14.5	14.0	19.2
27	**Total Miscellaneous**	**17.7**	**17.7**	**21.1**	**19.9**	**19.4**	**24.6**
28	**TOTAL REVENUES**	**4,833.5**	**4,738.6**	**4,730.9**	**4,962.3**	**4,877.3**	**4,924.8**

a. Property tax

The County Executive's budget assumes that property tax revenue will be at the Charter Limit with a property tax credit of $692. His budget assumes property tax revenue of $1,808.4 million in FY19, which is $38.2 million above the FY18 approved budget, but $3.1 million below the FY19 projection from December. One factor suppressing property tax revenue in FY18 and throughout FY19-24 is that the number of households eligible for the Property Tax Credit for Elderly Individuals and Military Retirees has exceeded original projections, resulting in a larger fiscal impact than previously anticipated.

A sixth consecutive year of rising assessments has relieved pressure on property tax rates. The County Executive recommended a General Fund property tax rate of $0.7386 per $100, and a weighted average property tax rate of $0.9814 per $100, which is 1.98¢ below the weighted average rate in FY18.

b. Income tax

FY18 income tax revenue is now estimated at $1,482.0 million, which is $75.9 million below the amount assumed when the FY18 budget was approved last May. This unexpected current year decline in income tax revenue represents close to three-fourths of the FY18 shortfall.

The recommended budget assumes FY19 income tax revenue of $1,585.2 million, which is $38.1 million below the FY19 projection from last May. While FY19 income tax revenue assumed to be up sharply compared to the current estimate for FY18 ($1,482.0 million), it is up only modestly when compared with the approved FY18 budget ($1,557.9 million).

Income tax revenue volatility is a fact of life for Montgomery County. The volatility of income tax revenue from year to year, and within any year, presents challenges for fiscal planning.[6] In the pre-recession years (FY05-08), revenue rose 37% from $941 million to $1,291 million. Income tax revenue was flat in FY09 before falling 19% to $1,042 million in FY10. Income tax revenue bottomed in FY11 at $1,039 million before rising 21% in FY12 to $1,255 million. For FY18, it had been projected to reach $1,558 million, but now is projected to come in $75.9 million below that number.

To a large degree, that volatility is the result of the year-to-year variations in the capital gains income of a small number of County residents. In FY18, income tax revenue has fallen short of projection in large part because of a sharp decline in the 2016 capital gains of the County's top 50 taxpayers. In 2015, the top 50 taxpayers realized capital gains of $1.2 billion. In 2016, the capital gains income of those same taxpayers was reduced by half. Consequently, County income tax revenue from those 50 taxpayers dropped by $21 million (Revenue Administration Division of the Maryland Comptroller). Similarly, a review of tax return data published by the Comptroller indicates that roughly 1.8% of Montgomery County returns report income of $500,000 or greater. On average, these returns explain more than half of any year-to-year increases in income tax revenue and more than 100% of any year-to-year declines in income tax revenue.

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[6]A November 2016 State report, *Report on Revenue Volatility and Approaches to Reduce Risk to the State Budget*, suggested capping the amount of non-withholding revenue that will be appropriated in the budget. See http://mgaleg.maryland.gov/pubs/budgetfiscal/2016-revenue-volatility-report.pdf

It is impossible to discuss the County's income tax revenue situation without discussing three forces that will potentially affect that revenue over the next several years. Those forces are (1) the *Wynne* case, (2) H.R. 1 (the Tax Cuts and Jobs Act of 2017), and (3) the changing demographic profile of the County.

The U.S. Supreme Court's 2015 decision ***Maryland State Comptroller of the Treasury v. Brian Wynne, et ux.*** stems from the Maryland tax code provision that allowed a credit for income taxes paid to other states with respect to the state income tax, but not the county income tax. The Court of Appeals ruled on January 28, 2013 that "failure to allow a credit with respect to the county income tax for out-of-state income taxes paid to other states on 'pass-through' income earned in those states discriminates against interstate commerce and violates the Commerce Clause of the federal Constitution."[7] On May 18, 2015 the Court, by a vote of five to four, affirmed the Court of Appeals holding that Maryland's personal income tax scheme violates the Commerce Clause.[8]

- The total future cost (including interest) of repaying the State for past claims is now estimated to be $136.6 million.
- In addition to the repayment obligations, the current estimate of ongoing annual revenue loss from *Wynne*, starting in FY17, is $30 million (up from $16.7 million one year ago).
- For FY19, the projected revenue loss associated with *Wynne* is $43.7 million, followed by $57.3 million in FY20-23, $43.7 million in FY24, and $30 million each year thereafter.
- The State legislature extended the repayment schedule (SB 742, Income Tax - Wynne Case - Local Government Repayments to the Local Reserve Account, cross-filed as HB 686), thereby delaying repayments from 2019 to 2021. The net fiscal impact for Montgomery County is significant, resulting in more than $14 million in additional income tax revenue in FY19.

Over the long term, Federal income tax reform and Maryland legislative reactions to the federal changes will impact Montgomery County's income tax revenue.[9] The Tax Cuts and Jobs Act of 2017 reduced rates and broadened the base, resulting in significant reductions in the federal tax obligations of many households.

- In January, the State's Comptroller analyzed the impact of the Tax Cuts and Jobs Act on Maryland taxpayers. According to the analysis, 71% of Maryland taxpayers will experience a reduction in their federal income tax obligations while 13% will experience an increase.[10] According to that January analysis, 12% of Maryland households were likely to experience an increase in their combined federal/Maryland income tax obligations.

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[7] See http://mdcourts.gov/opinions/coa/2013/107a11.pdf for the Court of Appeals opinion. Brian and Karen Wynne filed suit after the Comptroller ruled that they could not deduct from their Howard County tax bill the $84,550 they paid in income taxes to other states in 2006. The income stemmed from their ownership share in a Maryland company that does business nationwide.

[8] See http://www.scotusblog.com/case-files/cases/comptroller-v-wynne/ for a detailed history of the case. Also see http://www.scotusblog.com/2015/05/opinion-analysis-marylands-personal-income-tax-violates-the-commerce-clause/ for an analysis of the decision.

[9] See the February 5 Council packet addressing H.R.1 at: http://montgomerycountymd.granicus.com/MetaViewer.php?view_id=169&clip_id=14480&meta_id=148596

[10] See the Comptroller's analysis at: http://comptroller.marylandtaxes.gov/Media_Services/wp-content/upLoads/1-25-18_BRE_Tax_Plan_Report.pdf

- Concerned about the potential impact of the TCJA on the Maryland income taxes of Maryland residents, the State legislature considered several income tax related bills during the 2018 legislative session. In the end, the following tax reform bills passed:
    - SB 184 / HB 365: This bill clarifies that a Maryland taxpayer may deduct personal exemptions from Maryland income.
    - SB 318 / HB 570: This bill increases the maximum value of Maryland's standard deduction and indexes that amount to inflation.
    - SB 646 / HB 308: This bill decouples the Maryland estate tax from the federal estate tax by establishing that the maximum amount that may be excluded from the Maryland estate tax is $5 million.
- It is likely that the impact of the TCJA will be increased income tax revenue in FY20 and FY21. Finance is currently working with a consultant to further analyze the potential impacts of federal and Maryland tax reforms on Montgomery County's income tax projections for FY20 and beyond.

Finally, demographic factors are also affecting income tax revenue. An aging population[11] places downward pressure on productivity and wage growth, thereby reducing the taxable income of County residents.

- This trend is unlikely to abate soon, with the population of residents 65 and over expected to grow from its current 120,000 to 244,000 in the year 2040.
- A recent report by the Maryland Comptroller estimates that between 2010 and 2014, the change in Maryland's age structure reduced Maryland income tax revenue by 1.6%.[12]

c. ***Fuel/Energy tax***[13]

Fuel/energy tax revenue, after consecutive warm winters, is down in FY18. The current estimate of $190.7 million is well below the $204.3 million that was assumed when the Council approved the FY18 budget. The FY19 budget assumes $194 million from this source, up slightly from the December revenue update, but well below the level of recent years. **The County Executive did not recommend any change to rates in FY19.**

The fuel/energy tax—the County's third largest tax revenue source—generates 5.4% of local tax revenue. Revenue from this tax depends on consumption, and consumption is affected by weather conditions, economic conditions, and other public policy interventions that are intended to reduce fuel/energy consumption.

The history of the fuel/energy tax tracks the two most recent fiscal crises facing state and local governments. In FY03 receipts from the energy tax were $24 million. The following year, in the face of a revenue shortfall, the tax was tripled. In 2010, when governments nationwide

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[11] The portion of the County population that is age 60+ increased from 17.29% in 2007 to 20.68% in 2016. Over that same decade, the portion of the Washington, D.C. metropolitan statistical area population that is 60+ increased somewhat less, from 14.55% in 2007 to 17.73% in 2016 (US Census Bureau).

[12] See: http://finances.marylandtaxes.gov/static_files/revenue/BRE_reports/FY_2018/BRE%20Report%20on%20Age%20Demographics.pdf

[13] The tax is imposed on providers of electricity, fuel oil, gas, steam, or liquefied petroleum gas. Providers then pass the cost of the tax on to their customers. One-third of revenue is from energy provided to residential users and two-thirds is from energy provided to non-residential users. Electricity accounts for the lion's share of revenue, with the much smaller amount of revenue from natural gas.

once again faced severe revenue shortfalls, the Executive proposed a significant rate increase in his recommended FY11 budget and subsequently revised that number twice, ultimately recommending that rates be set to double fuel/energy tax revenue. [14] When the dust had settled, revenue from the tax in FY12 was $243 million.

From FY11 through FY15, the fuel/energy tax was central to the Council's budget deliberations.

- The County Executive, after originally recommending that the increase in fuel/energy tax rates sunset after FY12, did not propose any reduction to fuel/energy tax rates in his recommended FY13 budget.
- The Council instead reduced the increase by 10% ($11.4 million) for FY13. The Council reduced the increase by another 10% for FY14 and by 7% more for FY15.
- The Council declined to make further reductions in FY16, FY17 and FY18.

d. *Transfer and recordation taxes*

Revenue from both the transfer tax and the recordation tax are generally volatile, but the current trendline is pointing down. The FY18 operating budget portion of the revenue from these taxes is down $12.7 million since May. For FY19, the current projection is nearly $10 million below the FY19 projection from last year's approved fiscal plan.

- Slow home sales and relatively flat home sale prices are among the factors that have led to sluggish revenue.
- Large commercial transactions, and the absence thereof, are a significant driver of revenue volatility.
- Other factors potentially affecting these revenues include the declining portion of the residential properties changing hands that are single-family detached homes[15] and the reduced frequency at which households move.[16]
- Prospectively, it is possible that changes to federal tax law (e.g., limiting deductions for state and local taxes, limiting mortgage interest deductions to $750,000) will place downward pressure on sale prices. Moody's Analytics estimates that changes to federal income tax law will result in a 3.2% reduction in Montgomery County home values.

5. Workforce

Total net FTE changes in FY19 are up 191.43 (0.5%) from FY18, with almost all of that increase in the MCPS workforce. Tax supported FTEs are up 177.16, which includes: MCPS (+163.71), Montgomery College (+8.0), M-NCPPC (+8.22), and County Government (-2.77). Non tax supported FTEs for County Government are up by 9.25, and are virtually unchanged

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[14]See http://www.montgomerycountymd.gov/council/Resources/Files/REPORTS/FY10-11_BudgetAdjustments.pdf.

[15] According to the American Community Survey, in 2010 single family units were 67.4% of total units in Montgomery County. Between 2010 and 2015, five-eighths of net new units were multi-family, and the SF share dropped 2 points.

[16]Seemingly every year, the mover rate sets all-time lows. See, for example: https://www.census.gov/newsroom/press-releases/2017/mover-rates.html Comparing 2010 and 2015 illustrates the point. For 18- to 24-year-olds, 45.2% moved in 2015, down from 48.0% in 2010. Among 25- to 29-year-olds, 61.2% moved in 2015, down from 65.5% in 2010. For 30- to 34-year-olds, 52.5% moved in 2015, while 57.0% moved in 2010.

for the other agencies (MCPS is up by 4.22, Montgomery College is unchanged, and M-NCPPC is up 0.80).

TAX SUPPORTED FTEs BY AGENCY - FY17-FY19 Rec.					
	FY17	*Chg.*	**FY18**	*Chg.*	**FY19 Rec.**
Total Four Agencies					
Tax Supported	**31,957.42**	*+234.68*	**32,192.10**	*+177.16*	**32,369.26**
Non Tax Supported	**3,288.38**	*+37.72*	**3,326.10**	*+14.27*	**3,340.37**
County Government					
Tax Supported	*8,203.46*	*+181.01*	*8,384.47*	*-2.77*	*8,381.70*
Non Tax Supported	*1,827.82*	*+23.34*	*1,851.16*	*+9.25*	*1,860.41*
MCPS					
Tax Supported	*21,059.52*	*+31.12*	*21,090.64*	*+163.71*	*21,254.35*
Non Tax Supported	*1,189.21*	*+4.48*	*1,193.69*	*+4.22*	*1,197.91*
Montgomery College					
Tax Supported	*1,805.10*	*-3.00*	*1,802.10*	*+8.00*	*1,810.10*
Non Tax Supported	*115.50*	*+0.00*	*115.50*	*+0.00*	*115.50*
M-NCPPC (Montgomery)					
Tax Supported	*889.34*	*+25.55*	*914.89*	*+8.22*	*923.11*
Non Tax Supported	*155.85*	*+9.90*	*165.75*	*+0.80*	*166.55*

Tax supported Montgomery County Government workforce changes are limited. Notable changes include the following: State's Attorney (+3.88 FTEs), Technology Services (-2.65), Fire and Rescue (-28.50), Police (+3.65) Health and Human Services (+15.97), and Recreation (-8.35 FTEs).

During the 15 years from FY04 to FY18, the County's population has grown by 14%, the number of households has increased by 11%, and K-12 enrollment increased by 17%. Understandably, this growth has created additional demand for services, and has resulted in growth in the size of the tax supported workforce. From FY04 through FY18, total tax supported FTEs across all agencies increased by 16.2%. During that period, workforce growth varied by agency: Montgomery College's workforce increased by 24.9%; MCPS by 17.2%; County Government by 13.5%; and M-NCPPC by only 6.2%.

Workforce size at MCPS and Montgomery College has tracked their enrollment trends – steady enrollment increases and workforce growth at MCPS, in contrast to the College's uneven pattern of large enrollment and workforce growth in the aftermath of the Great Recession, followed by a period of declining enrollment. In contrast, the fiscal pressure of the Great Recession led to decisions to reduce the size of the workforce for County Government and M-NCPPC. In the current constrained resource environment, one way to minimize fiscal pressure is to limit the expansion of the workforce.

6. Compensation and benefits

Here as throughout the nation, compensation was severely constrained during the Great Recession. For example, in the FY10-13 period County Government employees received no general wage adjustments (COLAs) for all four years and no service increments (step increases) for three years; their share of health and retirement benefit costs was increased; and there were progressive furloughs in FY11. These measures – which resulted in savings of $469 million and annual ongoing savings of $156 million – helped the County manage large position cuts with almost no layoffs.

The picture for the FY14-18 period was quite different. From FY14 through FY18, County Government employees received annual general wage adjustments ranging from 1.0% to 3.25% (depending on the year and the bargaining unit) in addition to service increments of 3.5% each year. In those same years, MCPS employees received general wage adjustments between from 1.0% to 2.0% each year as well as service increments ranging from 1.5% to 5.5% per year (depending on the year, the bargaining unit, and the employee's years of service). All told, most County agency employees have seen their pay increase by a minimum of 4.5% each of the last five years.[17]

Government is a labor-intensive enterprise. Across the four County-funded agencies, employee salaries and wages comprise 56% of all agency operating expenditures, and benefits for employees and retirees comprise an additional 24% of all agency operating expenditures. As such, the cost of government is driven by both the number of employees and the cost per employee.

For the FY19-24 period, total revenues in the tax supported budgets are projected to increase at rates between 1.9% and 3.0% annually – well below the recent average annual pay increases for most County agency employees. Looking ahead, the County's ability to sustain labor-intensive public services will be severely compromised if the pace of compensation cost growth exceeds the pace of revenue growth. To sustain government service levels and to meet ever increasing service demands, County agencies may need to re-evaluate their approach to employee compensation. In FY11, for example, the County Government modified its pension plan design to reduce costs. Going forward, similar actions may be necessary.

Benefits for employees and retirees comprise nearly one-quarter of agency spending. Given that some cost drivers (such as health care inflation) are outside of the County's control, to protect the critical services that the community expects and deserves will require a concerted effort to contain the cost of employee and retiree benefits. For this reason, the Council has encouraged MCPS to examine benefit provisions (such as employee health insurance cost share) that are not in line with the benefits offered by other County agencies, and to address the annual cost of the county-funded supplement to the State pension benefit, which alone cost more than $25 million in FY17. The history, fiscal impact, and potential options for change in the supplement are the subject of OLO Memorandum Report 2016-5, *MCPS Local Pension Plan and Supplement.*[18]

7. FY19-24 Fiscal Plan

The Executive Summary of the County Executive's recommended **FY19-24 Fiscal Plan Summary** and accompanying tables can be found on ©50-52.[19] This edition of the Fiscal Plan,

[17] For merit system County Government employees not at their maximum salary (now 67% of the total workforce), the compound pay increases negotiated by the Executive and approved by the Council for the three year period from FY14 through FY16 totaled 20.6% for general government employees and still more for public safety employees eligible for make-up service increments.

[18] See http://www.montgomerycountymd.gov/OLO/Resources/Files/2016%20Reports/OLOReport2016-5.pdf.

[19] See the complete document at http://www.montgomerycountymd.gov/OMB/Resources/Files/omb/pdfs/fy19/psprec/FY19-24_Fiscal_Plan.pdf

like others, is shaped by tax receipts, economic conditions affecting revenue projections, and other key policy assumptions.

The December 2017 edition—reflecting broad tax revenue shortfalls—projected a very challenging budget for FY19. The current edition is more positive, in part because it reflects January's FY18 Savings Plan, and in part because it reflects actions that have yet to be taken by the Council that would result in additional savings through reduced FY18 funding for the Consolidated Retiree Health Benefit Trust. The current plan also reflects **stronger intergovernmental aid revenue**, and the State legislature's actions to delay county repayments to the Local Income Tax Reserve Account related to the Wynne case.

For FY20-24, resources available for agency budgets are projected to increase only modestly – a 0.5% increase in FY20, followed by increases of 3.0%, 2.7%, 2.3%, and 3.2%. These numbers, which will of course change over time, are below the pre-recession historical growth rates that the agencies, their excellent workforces, and the community came to expect. Given these modest projections, it will be difficult to sustain the current trajectory of employee compensation and benefits, both of which are growing faster than available resources. The **Interactive Fiscal Plan** model developed by the Office of Legislative Oversight is an excellent resource that enables users to assess the impact of different tax and spending scenarios over the six-year period.[20]

Taking the multi-year view, the challenges facing the County and outlined in this operating budget overview are clear: economic uncertainty; income tax volatility and soft tax revenue growth; the cost of maintaining the excellence of our rapidly growing school system and other County functions and services; the cost of providing the salary and benefit increases that our outstanding workforce expects and deserves; and the cost of pension and retiree health benefits. An additional claim on resources over the six year period will be restoring fund balances, some of which are well below historical norms.

Historically, Councils and Executives have addressed economic and fiscal challenges head-on. To address the challenges the County now confronts and to make fiscal room for service and infrastructure priorities going forward will require a commitment to slowing future workforce growth, improving productivity, and aligning compensation and benefits with available resources.

8. Reserve, PAYGO, OPEB, and Debt Service

The County allocates substantial resources each year to pay for costs already incurred or set aside resources for known future obligations. The County's rigorous standards for sound financial management are outlined in Resolution No. 16-1415, *Reserve and Selected Fiscal Policies* (June 29, 2010), which the Council adopted during the depth of the Great Recession. The Council added specific annual reserve targets in Resolution No. 17-312 (November 29, 2011).[21]

a. Reserve

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[20] See http://www.montgomerycountymd.gov/OLO/Resources/Files/Programs/IntroductionQuickGuide2.pdf.

[21] The resolution also called for the annual adoption of a fiscal plan that is balanced in each year of the six-year period. The Council approved the first such plan in June 2010 and has done so each June since then. See Resolution 17-312: https://www.montgomerycountymd.gov/council/resources/files/res/2011/20111129_17-312.pdf

Our difficult experience during the recession confirmed that a large reserve, consisting of unrestricted General Fund reserve and the Revenue Stabilization Fund, is essential to sound financial management. Without it, funds for core County services may not be available when residents need them most.[22] Before the recession our policy called for a 6% reserve. Under current policy, the target rises until it reaches 10% for FY20 and after.

The target for FY19 is 9.4%, or $492 million. The County Executive recommends reserves at the policy level for FY19, including $337.9 million in the Revenue Stabilization Fund[23] and $154.6 million in unrestricted General Fund reserve.[24] In the current fiscal plan, the FY20 target (10%) is $535.5 million—this is $214 million more than would have been required under the previous 6% reserve policy.

The County's reserve policy is essential to maintaining the County's AAA bond rating. For more than four decades, Councils and Executives have given top priority to maintaining the AAA bond rating, even in the face of extreme fiscal pressures. The County has held a AAA rating since 1973—longer than any other county in the nation—and is currently one of 45 of the more than 3,000 counties nationwide with a AAA rating from all three rating agencies. Last October, the agencies again reaffirmed the AAA rating. From time to time we are asked what the fiscal impact – leaving aside the reputational impact – of a rating agency downgrade would be. **The Finance Department's thorough analysis on © 53-54 confirms the fiscal importance of maintaining a AAA rating.**

b. PAYGO

Resolution No. 17-312 also states: "The County should allocate to the CIP each year as PAYGO [cash] at least 10% of the amount of general obligation bonds planned for issue that year." PAYGO was $34.0 million in FY18, and following the Council's actions to reduce general obligation borrowing by $10 million this year, **FY19 PAYGO is $33.0 million.**[25]

c. Pre-funding OPEB (Other Post-Employment Benefits)

While most governments have made little progress towards pre-funding retiree health benefits, the County began fully funding its actuarially determined contribution in FY15. The tax supported cost for OPEB pre-funding for all agencies in FY18 was $122.2 million; **the tax supported cost increases to $128.8 million in FY19.**[26]

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[22] The purpose of maintaining a reserve is not just fiscal, but also economic. Countercyclical economic programs – such as the earned income tax credit, workforce training, and business attraction – are most valuable during economic downturns when resources are often scarce.

[23] In 1994, following the severe recession, the balance in the Revenue Stabilization Fund was only $10 million.

[24] As an additional reserve starting in FY12, there is a Snow and Storm Cleanup Non-Departmental Account to supplement the amounts budgeted for the Departments of Transportation and General Services. The Executive recommends $2.9 million, consistent with the approved budget for the NDA in FY18.

[25] The cost of this fiscal policy is driven by the amount of GO debt to be issued. Assuming that GO debt issued in FY19 is $330 million (down from $340 million), then PAYGO will be $33 million (rather than $34 million).

[26] Meeting the full annual required contribution for OPEB represents a dramatic turnaround from the recession years. In FY11 the County's original five-year phase-in schedule called for a $149 million tax supported contribution, but the actual contribution was zero. Starting in FY15, the annual required contribution was sharply reduced when all four agencies implemented the Medicare Part D Employee Group Waiver Program (EGWP). For OPEB details, see http://montgomerycountymd.granicus.com/MetaViewer.php?view_id=169&clip_id=13125&meta_id=135144 for the April 20, 2017 Council packet on FY18 compensation and benefits for all agencies, pages 10-14.

As previously indicated, the recommended budget assumes a reduction in FY18 spending on two non-departmental accounts (Consolidated Retiree Health Benefit Trust-College and Consolidated Retiree Health Benefit Trust-MCPS), and increasing the extent to which the Consolidated Trust is used to pay for County Government retiree health claims in FY18. Together, those actions would save $62.4 million in FY18. Retirees will see no change to their benefits as a result of these savings, and health benefit claims will continue to be paid as they have been in the past. This item is tentatively scheduled for review by the Government Operations and Fiscal Policy Committee on April 27.

d. Debt Service

Debt service represents 8.5% of the FY19 tax supported budget, $420.1 million—far more than Montgomery College, M-NCPPC, or any department of County Government. Debt service is projected to rise steadily to $487.1 million by FY24.

The debt service budget and its current trajectory reflect decisions already made. The County's capital improvements program (CIP) has been much more robust than that of most other jurisdictions. While other counties rarely provide more local funding than is needed to match their State school construction aid, the County is funding $1.4 billion of MCPS's $1.8 billion CIP. The County's FY19 $251.8 million allocation for road construction is lower than it has been, but it dwarfs that of other jurisdictions in the region. The County also has a significant program to add, replace, or renovate fire stations, police stations, libraries, recreation centers, parks, bridges, hiker-biker trails, and public amenities. In the past two decades, it has also invested heavily in the campuses of Montgomery College, and is currently investing in a new headquarters for several departments, including the Parks and Planning departments of the Maryland-National Capital Park and Planning Commission.

As the size of the County's CIP has grown, operating budget expenditures for debt service and other spending related to capital projects has grown as well. This spending places pressure on the County's ability to provide services in the operating budget. Last fall, the Council decided to address this increasing pressure by slowly ratcheting back the size of the debt-funded CIP. This would allow time for growth in the assessable base, population, and income to catch up to the growth in debt, and avoids the shocks that would necessarily be involved in a substantial immediate reduction to the CIP.[27]

9. The Role of the Council

As the County's final budget authority under the Charter, the Council has historically viewed the budget recommended by the Executive as a strong starting point and re-shaped it with its own initiatives. Past Councils have also worked closely with past Executives to aggressively address serious fiscal challenges. For example, a mid-year budget savings plan in FY18 resulted in totaling $58 million in savings, and a similar action in FY16 resulted in savings of $54 million. Other examples noted in this packet included the substantial reduction to the CIP in 1992, and the

[27] While such a sudden reduction in the CIP could be shocking, it is an approach that the Council has successfully used in the past. In October 1992, in the midst of a recession, the Council approved guidelines that reduced the G.O. bond portion of the CIP from $810 million to $600 million – a 26% reduction – while public demands for schools, transportation, and other public facilities were arguably as high as they are now. That course correction set the County's debt service situation on a healthy fiscal path for the next two decades.

sweeping measures required and jointly taken at the depth of the recession in 2010, several of which are described below.

- In 2010 the Council asked the Office of Legislative Oversight to assess the fiscal challenge and ways to address it. OLO's report provided the analytical framework for much of the County's response to the recession.[28] The Council also rescinded the "imputed" pension COLA negotiated by the Executive in 2009, saving nearly $300 million over a 40-year period, and approved the first Fiscal Plan that was balanced in each year of the six-year period.[29]

- In 2011 the Council approved benefit changes, based on the OLO report, that were fairer to employees and more comprehensive than the Executive's proposals.[30] The Council also established the Consolidated Retiree Health Benefits Trust for County Government, MCPS, and the College to make the OPEB funding process more transparent, and "rebased" the MCPS budget to create a more sustainable approach to school funding.

- In 2016 the Council recalibrated the FY17 recommended budget by modifying agency compensation packages and channeling resources to class size and the opportunity gap at MCPS, in collaboration with the Board of Education, and other top priorities.

- Each year the Council also makes extensive changes in the budgets, to reflect its priorities and initiatives. The Council's annual Reconciliation List has historically provided more support than the recommended budget proposes for education, public safety, health and human services, libraries, transportation, and other key functions, including non-profit groups.

- In FY17, for example, the Council added $150,000 through the reconciliation list to increase the ability of three non-profits to provide weekend food bags (or "Smartsnacks") to elementary school children in need. The goal was to increase the number of children served by 964, or about 20%, from a base of 4,600 children. Last spring, the Council learned that the funding resulted in 1,055 additional children receiving weekend food, well in excess of the 20% target. Based on that initial success, the Council added an additional $150,000 through the FY18 reconciliation list.

10. Approach for Committee and Council Budget Review

The Council's five public hearings on the budget were conducted on April 10-12. County residents and stakeholders are also communicating their views via email, regular mail, and the Council's budget hotline. The Council's website promptly updates Committee and Council budget actions. Committee worksessions are scheduled to start on April 16; Council worksessions will

[28] The links to OLO Report 2011-2, *Achieving a Structurally Balanced Budget in Montgomery County*, are:
http://www.montgomerycountymd.gov/olo/resources/files/2011-2.pdf
http://www.montgomerycountymd.gov/olo/resources/files/2011-2Part-II.pdf

[29] Previous editions of the Fiscal Plan had shown large imbalances if projected resources fell short of projected expenditures. The Council's tax supported Fiscal Plan for FY11-16, approved in June 2010, achieved balance in each year by limiting expenditures to projected resources.

[30] See http://montgomerycountymd.granicus.com/MetaViewer.php?view_id=6&clip_id=1341&meta_id=21322 for full details on the Council's actions and a comparison with the Executive's recommendations.

start on May 8. Revenue day and reconciliation day are scheduled for May 16 and 17. Our budget tracking system, which records all Committee and Council actions, will prepare regular updates through May 24, the date for final budget approval.

Council President Riemer has suggested how our analysts and Committees can most effectively approach individual department and agency budgets. See his memo on © 55.

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OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

March 15, 2018

TO: Hans Riemer, President, Montgomery County Council

FROM: Isiah Leggett, County Executive

SUBJECT: FY19 Recommended Operating Budget and Public Services Program FY19-FY24

I am pleased to transmit to you my Fiscal Year 2019 Operating Budget, my twelfth and final recommended budget. The total FY19 Operating Budget request is $5.56 billion in total funds, with a 2.0% increase in tax-supported dollars. I am recommending the following for each County Agency.

FY19 Recommended Budget by Agency

Agency	Total Budget	Tax Supported	Tax-Supported % Change from FY18
Montgomery County Government	$1,939,752,559	$1,491,171,849	-0.5%
Montgomery County Public Schools	2,592,240,711	2,443,168,218	3.1%
Montgomery College	312,997,974	264,799,723	0.8%
M-NCPPC	151,934,854	130,524,583	0.8%
Retiree Health Insurance	135,906,867	128,842,523	5.4%
Debt Service	429,074,110	413,424,000	4.9%
TOTAL	5,561,907,075	4,871,930,896	2.0%

In addition, I recommend you approve the FY19 operating budget for the Washington Suburban Sanitary Commission (WSSC) as proposed by the Commission - including a 4.5 percent rate increase to the water and sewer rates paid by the WSSC rate payers.

OVERVIEW

It has been said that within the dry numbers and outlines of a budget lies the true articulation of a community's priorities and policies. I believe that in the twelve budgets I have proposed, I have been true to the priorities that we have mutually embraced. Even in the depths of the Great Recession and the ensuing fitful recovery, we have invested in providing our community with quality educational opportunities, improving public safety, meeting the housing needs of our growing population, ensuring that our senior population can age in place, welcoming our diverse immigrant community, growing our economic base with quality jobs and revitalized neighborhoods, funding cutting-edge environmental and energy programs and policies, expanding transportation services and infrastructure, and providing an accountable and transparent government.

My recommended FY19 Operating Budget furthers and sustains these goals and should be viewed in the larger context of what has been accomplished over the last twelve years, despite a crippling loss of revenue during the recession, seismic changes in our population, and increasing demands on our services.

We continue to face significant challenges to our revenues that have necessitated continued expenditure reductions. This recommended budget assumes a property tax rate within the Charter Limit ($0.98, which is a decrease of approximately two cents). I continue to assume a $692 credit for homeowners. The property tax bill for a homeowner with a house at the County median price of $400,000, will see a monthly property tax bill increase of $2.25.

Despite the revenue constraints, I remain committed to ensuring the Board of Education and the Superintendent have funding that meets the needs of our growing and changing school population. Thus, I am recommending full funding of the Board's request - a 3.1 percent increase. I have also continued my support of the College's mission by providing a $2 million increase above their Maintenance of Effort (MOE) level, representing a 2.8 percent increase in per student FTE expenditures.

Maryland-National Capital Park and Planning Commission (M-NCPPC) will see a 0.8 percent increase (exclusive of OPEB prefunding), while County Government will take a 0.5 percent **decrease** from the approved FY19 Operating Budget. These reductions were very difficult to identify but have preserved the basic and essential services within County Government. Due to the Great Recession and uneven recovery in our revenues, I have closed gaps of over $3.7 billion in my twelve budgets. Each year, the task of closing the gap becomes more difficult as the options winnow.

However, we should be proud that we have moved the County forward while righting the fiscal ship and ensuring a sustainable fiscal infrastructure to meet the evolving needs of the community. I believe that when I leave office, I will leave the County in a better position to meet the many challenges of the future.

Since taking office as County Executive, I have overseen the shoring up of County finances by increasing our reserves from $77.6 million (2.1 percent) in FY10, during the depths of the Great Recession, to $492.6 million (9.4 percent) proposed for FY19. We remain on track to achieve the ten percent reserves by FY20 - a commitment we have made to our residents and taxpayers. This level of reserves is critical to sound fiscal management. As we learned in the depths of the Great Recession, a substantial reserve is essential to weathering unexpected economic downturns. We must never again put the taxpayer and the functioning of this government at risk. Additionally, we are complying with the prefunding requirements laid out by GASB, with a prefunding contribution of $132.9 million in FY19.

The County, along with state and local jurisdictions around the country, is faced with assessing and planning for the impact of changes to Federal tax code approved by the Congress in December 2017. This legislation's most notable changes include a significantly lower corporate tax rate, reduces the deductibility of state and local taxes, and increases the minimum tax deduction. These changes could have significant impacts on our income tax revenues though the impact is impossible to predict at this time. The extent to which any potential additional income tax revenue would be offset by either State tax law changes or shifts by taxpayers to corporate tax status (meaning a complete loss in income tax revenue from those taxpayers) is unknown and unpredictable. As a result, we have not reflected the impact of the Federal legislation in our current tax revenue projections.

The County also faces other headwinds from an unpredictable Federal administration with budget proposals that could significantly impact the County's federal workforce and trade policies that could negatively impact the national economy. These unknowns, along with where we are in the normal economic cycle, strongly suggests we should be prudent in both our spending and our level of reserves.

My budget accomplishes both those goals while furthering our shared priorities.

EDUCATION

Since I took office in December 2006, total enrollment for Montgomery County Public Schools (MCPS) has grown by 25,386 students or 18.4 percent. At the same time that enrollment continues to grow, the student population has become more diverse and experienced a growth in the number of students qualifying for Free and Reduced Meals (FARMS). From 2007 to 2017, English language learners have grown by 76 percent and FARMS students by 63 percent.

Despite challenging fiscal conditions, since the FY07 Operating Budget, the County has provided MCPS with increases totaling $349.7 million, while per pupil expenditures have grown by 18.2 percent since FY08.

These additional funds have been used by MCPS to improve programs including mathematics and computer science; extended learning opportunities for our students most impacted by poverty; language opportunities for students; and the social, physical, and psychological well-being of students.

Over the past two years, MCPS has identified and reprogrammed over $31 million in administrative savings to the benefit of the classroom. This approach to classroom funding has helped meet some of the most critical classroom needs without increasing costs to the taxpayer.

My FY19 Recommended Operating Budget continues my commitment to our world-class public education system. I am recommending the Board of Education's full request, a 3.1 percent tax-support increase - or $19 million above MOE. The FY19 budget requested by the Board of Education includes increased summer and extended-day programming, additional pre-K seats, increased extended year programming at highly impacted elementary and middle schools, increased graduation programming, increased access to programs and materials for literacy and mathematics, and expanded opportunities for students in areas including cybersecurity, public safety, emergency medical fields, fire safety, agricultural science, and aviation.

Since I took office as County Executive, thirteen new school facilities have been added. An additional 21,043 classroom seats have been added through classroom additions as well, helping to accommodate the swelling school population and the changing needs of our school community. The County has invested well over $246.2 million in new technology for our student population over the last twelve years, ensuring they have the modern tools necessary to learn and compete in our technology-driven world.

Funding for Montgomery College increased by 61.9 percent on a per pupil basis since the FY07 operating budget, providing new programs and resources to those choosing to continue their education in one of the finest community colleges in the nation. With County funding, the College has opened new and modern facilities for science, math, student services, arts, and social sciences. In addition, the Takoma Park/Silver Spring campus expansion was completed, which nearly doubled its size.

The College successfully prepared countless students for the work world or further education. Over the last twelve years, the College awarded over 25,000 degrees and certificates, and over 18,000 students transferred to a four-year institution to complete their degree. These impressive figures do not even include individuals who enroll in a small number of classes for personal fulfillment or learn a new skill and improve their position in the workforce. The resources provided to the College, coupled with the partnerships we have encouraged between the College and other public and private entities, ensures that our businesses workforce needs are met, while we build an educated and resilient community.

My recommended funding for Montgomery College provides an increase of 1.4 percent and exceeds the MOE by $2 million. With this recommendation, the per student FTE rate increases by $266 or an additional 2.8 percent. The County's commitment to Montgomery College is matched by no other jurisdiction in the State and has supported over 350,000 students' education over the last twelve years.

As a former college professor who was among the first in his family to pursue higher education, I realize community colleges are often the port of entry to the world of college and university for the less privileged among us.

While not directly funded through the County, we cannot forget the incredible partnership we also enjoy with the Universities at Shady Grove. This uniquely flexible collection of programs and degree offerings is a model for how a university can best meet the needs of a diverse community while addressing the ever-changing workforce needs of a growing economy. I have been proud to partner with the University system on a variety of projects and programs and am confident this partnership will live on.

PUBLIC SAFETY

One of the most critical functions any government entity performs is ensuring the safety of our residents and businesses. I take that responsibility seriously and have increased funding for the total Public Safety function by 25.7 percent over the last twelve years. Initiatives in the Montgomery County Police Department include adding 132 patrol officers, instituting District Community Action Teams in each of the 6 Police districts, opening several smaller Police substations to increase our reach in the community, and building a new Public Safety Training Academy so officers and other public safety personnel can train in state-of-the-art facilities. I also oversaw acquisition of the new Public Safety Headquarters building and the co-location of administration for the County's major public safety departments, allowing for better coordination and interaction between the departments.

These initiatives were centered around my Safe Streets and Secure Neighborhoods priority, and the outcomes are significant. During my time in office, total crime has declined 28.0 percent despite significant population growth over the past twelve years. The more serious crimes declined by over 33 percent, a testament to the investment in public safety throughout my tenure. Less crime means fewer inmates, and there are now on average 118 fewer individuals in the County jail than when I came into office. This is not because I am soft on crime, but because there is simply less crime.

The County also assumed responsibility for all animal control and adoption services with the construction of a modern County Animal Services and Adoption Center building.

Finally, I opened the Family Justice Center, providing individuals and families affected by domestic violence and child abuse a single location for assistance from the County and nonprofit organizations. We have also provided funding to the Courts for a monitoring and exchange center which ensures the safe exchange of children between estranged parents.

In my Recommended FY19 Operating Budget, I have added funds for the Criminal Street Gang Units in both the Police Department and the State's Attorney's Office. These units will focus on the organized crime aspect of gang activity, allowing for more modern crime prevention and suppression approaches. Additionally, the County has made a significant investment in the acquisition, maintenance, and use of body-worn cameras in nearly all our law enforcement agencies. At my request, my staff has initiated a coordinated approach with all these agencies to ensure that we are storing and processing the data from the many electronic evidence sources as cost-effectively and efficiently as possible. This group will continue their work for the foreseeable future.

With the renewed national attention placed on school safety, our investment in School Resource Officers (SRO's) has been critical. As recently as this February, one of the SRO's, with information provided by a trusting student, was able to possibly prevent a gun violence incident in one of our high schools. Embedding officers in schools has proven its worth.

I have also overseen the opening of three new fire stations (Travilah, Kingsview, Milestone), and four substantial renovation/reconstruction projects including Glenmont, Takoma Park, Wheaton Rescue Squad, and Kensington (Aspen Hill). These new stations, renovations and expansions came with a related increase in staffing of 64 fire fighters. In addition, one new station is under construction (Clarksburg), and one is planned in the next six years (White Flint). These fire stations and their staff have brought Department of Fire and Rescue Services (MCFRS) resources closer to our growing population. As a result of the Department's many efforts, MCFRS is recognized as a premier department nationally. During my tenure as County Executive, the Department acquired national accreditation and has seen it renewed in 2013.

The Department is also using its resources in innovative ways. To more effectively use MCFRS staff and equipment, we have implemented a "chase car" program which optimizes deployment of limited Advanced Life Support resources by separating paramedics from the ambulance. In so doing, we can dedicate limited paramedic resources to patients that require Advanced Life Support care, while Emergency Medical Technicians serve patients needing Basic Life Support care. This allows faster paramedic response to critical incidents.

I have included funding for full implementation of the Mobile Integrated Health Program (MIH). This program serves community members who make disproportionate use of our emergency medical services by proactively identifying them and linking them to more appropriate community health services. The pilot, conducted in FY18, showed great promise and I am certain that this approach will better serve those in need and preserve our more expensive emergency services.

We have also invested significantly in our aging fire vehicle fleet. From FY07 through FY14, the County acquired 29 EMS units, three engines, and two tractor-drawn aerial ladders. Starting in FY15, we implemented a fire apparatus replacement program that includes recommended funding through FY24, at an average annual rate of $8.9 million. I have also supported the local fire and rescue departments (LFRD) through approval of apparatus replacement projects funded by Senator Amoss and Emergency Medical Service Transportation funds, which has allowed the LFRDs to replace numerous vehicles.

I fought hard for the implementation of an emergency medical transport fee (EMTF) and in the five years since its implementation, it has provided over $86.6 million for fire services that otherwise would not have been available, or would have required the use of scarce tax resources. Since this fee is only imposed on private insurers and Medicare/Medicaid, we have saved our taxpayers these many millions of dollars. This revenue has helped fund critical Fire and Rescue Services equipment and provided a steady source of revenue to our LFRD.

AFFORDABLE HOUSING

Without affordable and decent housing, individuals and families cannot hope to improve their health, their education, or their financial security. Affordable housing is the basic building block to a just and productive society and has therefore been one of my top priorities. The resource recommendations I have made over the last twelve years have provided families the opportunity to live in safe and sanitary conditions, near transit-oriented developments and employment centers, and in areas approximate to County resources such as libraries, parks, and recreational facilities. My FY19 Recommended Operating Budget adds $51.6 million to this commitment and brings the County's total investment in affordable housing since FY08 to over $1.01 billion. This averages approximately $84 million per year. This funding has enabled us to preserve and create nearly 70,000 affordable housing units.

Despite the upheaval in the nation's financial markets, the County funds have leveraged over $1 billion in housing development and rehabilitation resources from other sources including the private sector. The total County resources contributed in my FY19 budget is equivalent to my desired goal of 2.5 percent of property tax revenue.

Permanent affordable housing opportunities benefit everyone, especially our seniors. The investments I have made to increase the affordable housing stock available to the County's growing senior population ensures that senior residents will be able to continue to call Montgomery County home. Through strategic partnerships with our for-profit and non-profit development community, combined with multi-departmental coordination and public outreach, my administration has developed 17 senior housing projects. In all, these projects will produce or preserve over 2,100 total senior rental units, including approximately 1,700 units affordable to seniors at or below 60 percent of the area median income. During my tenure, the County has dedicated $71 million for senior housing while leveraging $363 million in other non-County financing.

While most funds have been used to create or preserve tangible brick and mortar housing units, we have also used some of these resources to provide direct rental assistance to benefit over 3,000 households. Using creative tools, I have been able to allocate funding to provide rental assistance upfront during the development stage of a project rather than annually through rental subsidies. This method allows buy down of the rents to the range of 30 to 40 percent of Area Median Income (AMI) so County residents with much lower incomes can afford to live at these communities.

This budget also promotes homeownership. My recommendation provides funding for a homeownership initiative, the Montgomery Homeownership Program. The Montgomery Homeownership Program, a partnership between the Maryland Mortgage Program and Montgomery County, gives eligible homebuyers purchasing in Montgomery County up to $25,000 in down payment assistance. This financial incentive is provided to assist working families and first-time home buyers in the quest to achieve affordable homeownership in the County.

Along with these affordable housing initiatives, this budget provides resources for key community programs providing valuable outreach and education to the public. In FY19, the County will continue its focus to enhance landlord-tenant outreach, tenant protections, and housing code enforcement. Funding in this budget also provides enhanced housing inspections for the Office of Housing Code Enforcement, which annually performs thousands of inspections of the County's single-family, multifamily, and condominium rental units to ensure safe and sanitary conditions.

My commitment to affordable housing is further advanced by the County's support of the core mission of the Housing Opportunities Commission (HOC). My recommended budget is consistent with the support that has been provided for HOC over the years and includes funding of $6.7 million for HOC to continue providing affordable housing to low- and moderate-income eligible residents, it also includes funds for supportive services. This partnership is integral in rendering affordable housing options for our most vulnerable residents.

ECONOMIC DEVELOPMENT

Over the past decade, Montgomery County has witnessed steady job growth despite setbacks caused by the Great Recession. The estimated rate of job growth is more than thirteen percent between 2007 and 2018. Furthermore, County investment in establishing a business innovation network since 2012 has attracted more than 60 early-stage and/or startup companies and created more than 275 new jobs to continuously support the growth of key strategic industries (i.e., biotech/life sciences, cybersectuiry, health tech, etc.) in the County. This innovative business model has expanded the County's biosciences and high-tech networks at all talent levels.

Over the years, I have implemented a variety of innovative economic development tools to foster the County's economic growth, including the following:

- MC Square - a set of new and expanding programs to build the County's innovation ecosystem and foster entrepreneurship through strategic public private partnerships;
- MOVE (Make Office Vacancy Extinct) - a program designed to attract new businesses and reduce County's vacant office space;
- ultraMontgomery - supports deployment and use of high-speed fiber networks to expand access to networks through

public-private partnerships, and to attract knowledge-based employers, innovators and entrepreneurs in County's target industries;

- Entrepreneur-in-Residence Program - partnered with BioHealth Innovation and other community stakeholders to support and attract startups and early-stage technology companies with technical mentorship and capital access to stimulate the County's entrepreneurial growth; and
- Excellence in Business Services Initiative - an integrated business portal to streamline and improve the experience and perception of doing business in Montgomery County.

I have elevated the economic development function by restructuring and privatizing economic development and workforce functions in the County with creation of two private, non-profit corporations - Montgomery County Economic Development Corporation (MCEDC) and WorkSource Montgomery, Inc (WSM). MCEDC is leading the County's efforts in marketing, business attraction and retention, entrepreneurship, and promoting the growth of the County's economic base while WSM focuses on developing industry-focused job training and placement strategies to meet the talent needs of industries and businesses.

To continue to support the vitality of Montgomery County as a business destination and a burgeoning innovation and tech-driven economy, I have supported grants funded through the Economic Development Fund to retain and expand cooperate headquarters located in the County, including Marriott, Host Hotels & Resorts, United Therapeutics, JBG-smith, Fox 5 Television Station, and many others.

In addition, in order to ensure the County maintains its economic vitality well into the future, I initiated a number of redevelopment and revitalization projects which provide:

- Quality high paying jobs;
- Sufficient and affordable housing near mass transit;
- Transportation improvements needed to support and attract economic development;
- Redevelopment and clean-up of underutilized industrial sites; and
- Improvements to older residential and commercial areas.

These redevelopment efforts strategically leverage County assets to generate large-scale private sector investment in Shady Grove, White Flint, White Oak and Wheaton and smaller scale neighborhood revitalization throughout the County.

While most of the funds for these efforts are included in the Capital Improvements Program, a number of operating budget functions also support redevelopment. For example, the County Executive's Office and the Department of General Services' Office of Planning and Development coordinate with other County departments such as the Department of Transportation to give input on Planning Board redevelopment deliberations and to mitigate any negative impacts associated with redevelopment activities. The Finance Department provides funding and technical assistance and the Regional Services Centers and Urban Districts provide signage and wayfinding assistance to assist small businesses impacted by redevelopment projects. The Urban Districts also provide enhanced services to maintain urban cores as attractive, business centers. And, the Department of Housing and Community Affairs works with other partner agencies, such as the Department of Permitting Services to ensure the County's housing stock is well maintained and that older community business centers are upgraded to ensure their vitality.

TRANSPORTATION

Transportation infrastructure is critical to facilitate economic development, a high quality of life, and commercial and personal mobility. During my tenure as County Executive, we have developed and funded transit solutions in a number of corridors by focusing on transit-oriented development; expanding or adding bus routes; implementing transit improvements including bus rapid transit (BRT); development of transit centers in Silver Spring, Montgomery Mall, Takoma/Langley Park, and White Oak; non-vehicular transportation elements such as sidewalks, shared-use paths, bike lanes, and a bikeshare system which has expanded to 73 stations with more on the way, and significantly increased funding levels for highway maintenance and road resurfacing programs.

I also recently launched the multi-departmental Vision Zero initiative with a two-year goal of reducing severe and fatal traffic collisions by 35 percent with the long-term goal of eliminating such collisions by 2030. This builds on the Pedestrian Safety Initiative, established in FY10, through which 250 severe and 33 fatal collisions have been prevented. Seventeen High Incidence Areas (HIA) were identified and studied, with short-term improvements completed and many long-term improvements in progress. The Montgomery County Department of Transportation (MCDOT) has constructed 30 miles of new sidewalk segments, completed over 3,204 bus stop improvements, and undertaken 1,282 new Americans with Disabilities Act (ADA) ramps aimed at improving pedestrian safety. Areas with traffic calming improvements have seen pedestrian collisions decline by 44 percent, and education efforts in the HIAs have reduced pedestrian collisions in those areas by 52 percent.

Development continues on the US 29 and MD 355 BRT (FLASH) corridors. The FLASH will provide a new high-quality transit option in the County, making efficient use of existing roadways to provide a more robust and reliable system that will increase transit ridership. Final design on the US 29 FLASH line will be completed in Fall 2018 with construction commencing shortly thereafter. Service is scheduled to begin in mid 2020. In the meantime, Ride On will operate a new overlay service to alleviate traffic congestion beginning in May 2018. The MD 355 project will complete the Recommended Alternative Phase in 2018.

I have also implemented eight new Ride On routes in the past twelve years as part of my effort to provide our residents and businesses with viable non-auto transportation options.

For FY19, Ride On will operate a new pilot neighborhood service from Olney into Rockville with smaller circulator buses that are more reasonable and flexible to operate along small neighborhood roads. The new circulator routes will run every ten minutes during rush hour and will take all current forms of fare media like other larger Ride On buses. Transferability to other buses and Metrorail will be easier. The opportunity to get closer into the neighborhoods and utilize a new "app" to arrange for pickup should attract new riders and revitalize transit use in these areas.

SAFETY NET SERVICES

Care and compassion for our less fortunate neighbors distinguishes Montgomery County from many other communities. During my time as County Executive, we have effectively achieved our goal of zero homelessness for veterans and the medically vulnerable, and we are on track to end homelessness for chronically homeless single adults. We have also expanded health care services for the uninsured and underinsured through the funding of the Montgomery Cares network of clinics and through services provided directly at County health clinics; enhanced medical services for ethnic and cultural minorities through the African American Health Program, the Asian American Health Initiative, and the Latino Health Initiative; and ensured that individuals who are eligible for medical coverage under the Affordable Care Act are enrolled (the County has had the highest enrollment rates in the State for the past five years).

In my Recommended FY19 Operating budget, I am including $17.2 million for developmental disabilities providers to pay direct service professionals at 123 percent of the County's minimum wage. This is a year-over-year increase of $2.5 million. Of this enhanced funding, $1.3 million is directly related to the increase in the County's minimum wage. The remainder due to an increase in the number of hours worked. In addition, as a result of the minimum wage increase, I am also including over $800,000 to support adult medical daycare workers' wages and almost $62,000 to support public service interns' wages at the new minimum wage. The total increase in funding needed for these three groups as a result of the minimum wage increases in FY19 is $2.2 million. This total will continue to rise as the County minimum wage continues to increase.

My FY19 Recommended Operating Budget continues to provide funding for the East County Opportunity Zone to create an opportunity for collaboration between the County and community partners to provide a menu of services to those most in need in the East County area. I am also adding an additional School Cluster project to our successful initiative in the Kennedy and Watkins Mill clusters. The new Cluster Project will be implemented in the Paint Branch and Springbrook High Schools. This program's goal is to offer critical comprehensive services to help close the achievement gap for students.

SENIORS

My FY19 Recommended Budget includes approximately $38.5 million in tax supported resources identified for seniors in Montgomery County, including funds for community organizations that augment County services for seniors and respond to the needs identified in the County Executive's 2015 Summit on Aging. In addition, the Recommended Budget includes $15.1 million in non-tax supported resources for seniors such as support from the Emergency Medical Transport Fee and Medicare/ Medicaid funding for health services and transportation.

In 2008, I hosted a Senior Summit with nearly 400 participants to identify key areas to promote seniors. One of the major accomplishments of this Summit was the creation of the Subcabinet on Senior Vital Living whose mission is to increase senior connectedness, community engagement, and knowledge of and access to available resources.

Isolation can be debilitating for seniors and convenient, affordable transportation is one way to combat this problem. In FY13, I established a new Escorted Transportation Program for low-income adults with disabilities who require an escort for the duration of their trips which has served 337 residents for a total of 3,064 trips. I also initiated "Seniors Ride Free" on metrobus and Ride On during non-peak hours, and began providing, in partnership with the Jewish Council for the Aging, free curb-to-curb transportation service to residents living within a three to five-mile radius of the County's senior centers.

In 2015, the County enrolled in the American Association of Retired Persons (AARP)/World Health Organization (WHO) Age-Friendly Communities Network and earned designation as an "Age Friendly Community." The initiative provides a framework for developing a comprehensive approach toward ensuring that the needs of older adults and all County residents are recognized and acknowledged. In partnership with BrightFocus Foundation, the County enrolled in the Dementia Friendly America Initiative. This national initiative fosters the creation of communities that better recognize and help those affected by dementia, their families, and care partners.

In 2017, I completed a three-year strategic plan to maintain the County's WHO/AARP Age Friendly Initiative status. The Three-Year Plan includes activities and programs to be completed over three years to enhance services for older adults in the community in ten domain areas.

I have also directed the implementation of the Mobile Integrated Healthcare pilot program to address the issue of a disproportionate number of repeat 911 calls by seniors. This collaborative initiative of Health and Human Services (HHS) and Fire and Rescue Services (FRS) incorporates the skills of both Departments to better meet the needs of patients who utilize EMS services frequently. In its first year, the pilot program reduced non-emergency calls by 55 percent for the population served by the program.

POSITIVE YOUTH DEVELOPMENT

When I took office as County Executive, I articulated a new coordinated vision regarding the increasing need to provide our school-age youth with positive activities that would help prevent criminal activity, promote educational attainment, and enhance the opportunities available to our youth. Over my Administration, the three central pillars we have used to tackle gang activity have been prevention, intervention, and suppression. This new vision also encompassed a broader approach for positive youth development involving a greater partnership between County Government and our community organizations.

Programs have been funded through several County departments including, the Recreation Department, Health and Human Services, the Police Department, and the State's Attorney's Office. These programs have had an impact on the lives of thousands of our youth over the last twelve years and have helped lower truancy rates, prevented youth from engaging in negative behaviors, provided recreational and learning opportunities, and provided critical social services for vulnerable youth.

My FY19 Recommended Budget includes $27.3 million for Positive Youth Development programs. Some of the larger programs in this area include Excel Beyond the Bell; TeenWorks; Food, Fun, and Fitness; RecZone; Youth Opportunity Centers; the Street Outreach Network, the Safe Space Program; Teen Writing Clubs; the Truancy Prevention Program; and the Police Cadet Program. My FY19 budget also provides for a new cluster project in the East County Area and for the Strong Families Initiative. In addition, programs have been funded by the County through our community partners, such as the Collaboration Council, the County's local management board for children, youth, and families. Also included within the total recommended Positive Youth Development funding is $2.4 million in community grants for our nonprofit partners to implement programs related to Positive Youth Development.

LIBRARIES

Libraries are the primary educational resource for a vast portion of our community. They offer anyone with a library card access to books, magazines, research resources, the internet, videos, music, and a place to read and learn. In my twelve years as County Executive, we have opened four new or renovated libraries, refreshed six libraries, expanded library hours, increased the materials budget, provided more than $2.6 million for modern technology infrastructure, and expanded library offerings to include electronic media. Circulation of all materials has grown to more than 11.8 million annually.

Since the depths of the Great Recession, we have increased funding for the Department of Public Libraries by over 50 percent. My FY19 Recommended Operating Budget includes $42.9 million for the Department, a slight increase of 0.3 percent from their FY18 approved budget.

ENVIRONMENT

Montgomery County has long been a leader in the area of environmental policies and programs and I have worked hard over the last twelve years to maintain our progressive approach. Montgomery County was the first jurisdiction in the State to receive a NPDES permit under the Maryland Stormwater Act of 2007. We are currently working toward meeting the requirements of the third-generation permit issued in 2010. We have made significant progress in meeting the goal of watershed restoration of 20 percent of the County's impervious area not already controlled to the Maximum Extent Practicable (MEP). This requirement translated into an additional 3,778 acres of impervious area restoration to be completed by the County. Over 2,927 impervious acres have been restored, achieving 77 percent of the restoration goal. Already, the County has spent well over $100 million on water quality goals. My FY19 operating and capital budgets increase this investment to $55.3 million in FY19 and $75.2 million in capital expenditures from FY20 through FY24.

In addition, I established the Residential Energy program to assist residents, including low-income residents, reduce their energy costs and greenhouse gas emissions through implementation of energy efficiency and renewable energy measures. County Government also is leading the way by reducing the combined annual greenhouse gas emissions of County buildings and fleets through the purchase of electricity generated by clean energy technologies, solar energy installations on County facilities, building efficiency initiatives, improved fleet vehicle mileage and fleet alternative fuel use. To assist the private sector in these same goals, the Department of Finance and DEP developed a Commercial Property Assessed Clean

Energy (PACE) program, which will allow commercial property owners to borrow money for energy efficiency improvements and renewable energy projects and repay the loan via their property tax bill.

One of my first reorganizations when I became County Executive was to put the Department of Environmental Protection in charge of our Solid Waste Program in order to refocus the solid waste function on our environmental goals. Since then, DEP installed a new system to reduce nitrogen oxide emissions by half at the County's Resource Recovery Facility. This measure serves to improve air quality in a cost-effective manner.

I have also increased recycling efforts with a goal of reaching a 70 percent recycling rate by 2020. Currently 61 percent of all municipal solid waste is recycled. In order to help attain this important goal, I am including funding in my FY19 Operating Budget for a new Commercial Organics Recycling Program. This program is a cost-effective approach to increasing commercial recycling and will help determine the viability of extending the effort to residential properties.

COMMUNITY GRANTS

As our County grows larger and more diverse, it becomes more challenging to meet the needs of that growing population. County Government cannot and should not do it alone, and we depend on the incredibly rich array of community organizations to supplement and augment County services. Very often, these groups are able to accomplish our mutual goals in a more flexible, cost effective, and culturally appropriate manner that best serves the community. They may also be able to leverage other resources that are simply unavailable to County Government. Included in my recommended budget is $8,811,504 for community grants, an increase of $941,324 or twelve percent, from FY18. Also included in my recommended budget is a twelve percent enhancement for County Council Grants. Our community partners funded by these grants provide services related to public health, behavioral health, safety net services, housing, the arts, early childhood, positive youth, seniors, veterans' services, immigrant services, and many other community building services.

TECHNOLOGY

Since becoming County Executive, the pace of technology advancements is more rapid than ever. This pace poses a constant challenge, a challenge I embrace and have committed to using technology to create efficiencies, reduce costs, enhance services and promote transparency. During my tenure, we established many vital technology initiatives that greatly improve County operations, services and resources. These sustainable initiatives will continue to serve the County for years to come and have a positive impact on the daily lives of Montgomery County's residents. Some examples of these improvements are:

- The establishment of MC311 which provides a one-stop, non-emergency phone and online information system. We have also used the data from this system in making resource allocation decisions and tracking department responsiveness.
- Creation of a Public Safety System Modernization program which represents a multi-year effort to upgrade the essential technology used by our public safety personnel.
- Our ground breaking openMontgomery system which provides our residents with unparalleled access to nearly every data set maintained by the County.
- The Office of Management and Budget (OMB) developed an in-house budget analysis and statistical information application called BASIS. Using an intuitive and accessible user-interface design, BASIS provides residents, analysts, departments and executive leaders with instant access to operating budget, capital project, and performance data in a clear and concise fashion.
- The County's Fibernet system provides a County wide fiber-based, electro-optical communication network with the capacity to support voice, public-safety, traffic management, data, Internet access, wireless networking (including public WiFi), and video transmissions among all County agencies and departments.

- ultraMontgomery is a keystone of my economic development strategy. This program will grow knowledge-based jobs by making gigabit broadband more affordable and widely available to public, private, education and government institutions in major corridors and transit-oriented smart growth communities within the County. ultraMontgomery will leverage capacity within the County's extensive fiber network, *FiberNet*, to expand broadband services across the County and throughout the region, lower the cost of providing fiber and wireless services to schools, recreation centers, and libraries, and will also stimulate gigabit broadband deployment throughout our commercial office sector. The innovation economy is growing exponentially, creating jobs and spurring business start-ups, and its continued growth in our County depends on a robust fiber and wireless network such as ultraMontgomery.

FISCAL SUSTAINABILITY

This budget strikes a prudent balance of spending restraint and directing resources to our highest priorities. It provides funding of our major fiscal policies: reserves, retiree health insurance prefunding, and CIP Pay As You Go; however, budget pressures and revenue uncertainty are likely to remain challenges.

When we last updated the County Council in December, income tax revenues had significantly missed expectations. It appears that taxpayers likely altered their behavior in anticipation of federal tax reform after the November 2016 Presidential election. As a result, the November 2017 income tax distribution was eighteen percent below the original estimate. It is likely that income tax revenues will remain volatile as the effects of federal tax reform unfold over the next one to two years. With that in mind, my recommended budget includes no adjustments to anticipate the effects of H.R. 1, the Tax Cuts and Jobs Act of 2017 (TCJA). I believe it is too early to make any judgments about the impact the TCJA might have on County revenues. For one, the State is considering legislation to roll back the effect of certain provisions in the law that would increase State and local income tax revenues. And, secondly, until individuals and corporate entities begin to adjust to the new tax regime, the extent to which the reduction in the corporate tax rate and other changes to business taxes will affect our income tax revenues is uncertain. One thing is certain, however, there will be an incentive for certain individuals with business income to restructure to reduce taxes, which will have a negative impact on our income tax revenues. Given this context, I believe it is critical we adhere to our fiscal policies, and my recommended budget maintains that commitment.

The revenue forecast assumes a two-year delay in the Wynne repayment schedule. Since legislation has passed each chamber of the General Assembly (SB742 and HB686), I am comfortable assuming the two-year delay becomes law, which increases FY19 income tax revenues by $14.3 million.

As you know, we had to take difficult action to address the revenue shortfall experienced in FY18. The approved FY18 savings plan identified more than $60 million in reductions that will be made in the current year. However, with a projected FY18 revenue shortfall exceeding $100 million, additional action needs to be taken. As such, I am recommending that the County reduce the FY18 prefunding contribution to the OPEB trust funds as a one-time measure to strengthen reserves and for temporary budget relief. The current fiscal situation is not the result of a declining economy, but likely a one-time event driven by speculation on changes to tax law. Within this context, it is appropriate to isolate the corrective action to the current year.

I am proposing that the FY18 OPEB prefunding amount be reduced by about $21 million. More than $100 million will be contributed to the OPEB trust as originally planned. I am also proposing that an additional $41 million in OPEB trust assets be used to pay for FY18, current year claims, creating equivalent savings for the General Fund. These actions will allow us to meet our current year benefit cost obligation, while still providing for partial pre-funding of future liabilities. Further, the current year savings resulting from these actions will help us to end FY18 closer to our reserve target of 8.9 percent, despite the unexpected shortfall in revenues. As stated above, this approach will be a one-time diversion from our policy of pre-funding retiree health benefits. My FY19 recommended budget assumes that full pre-funding will be restored in the coming year.

FUNDING THE BUDGET

My budget includes a decrease of approximately two cents to the property tax rate. Due to increasing home values, the median County homeowner will see a $2.25 per month increase in property taxes over the next year, due to higher property values. As I noted above, holding taxes to the Charter Limit is appropriate given the significant increase in the property tax rate approved by the Council in FY17. The property tax for each owner-occupied residence will include a credit of $692 to limit the burden on homeowners and maintain a progressive property tax structure in the County.

I am recommending no change to the Water Quality Protection Charge in FY19.

I am recommending no changes to the solid waste charges for County residents in FY19.

I am recommending a Washington Suburban Sanitary Commission budget that would result in an increase in water and sewer rates of 4.5 percent in FY19 in accordance with the budget recently proposed by the WSSC.

MONTGOMERY COUNTY BOARD OF EDUCATION

850 Hungerford Drive ♦ Room 123 ♦ Rockville, Maryland 20850

Malcolm Baldrige National Quality Award 2010 Award Recipient

March 1, 2018

The Honorable Isiah Leggett, County Executive
Executive Office Building
101 Monroe Street, 2nd Floor
Rockville, Maryland 20850

The Honorable Hans Riemer, President,
and Members of the Montgomery County Council
Stella B. Werner Council Officer Building
100 Maryland Avenue, 6th Floor
Rockville, Maryland 20850

Dear Mr. Leggett, Mr. Riemer, and Councilmembers:

I am pleased to submit the Montgomery County Board of Education's Fiscal Year (FY) 2019 Operating Budget Request for Montgomery County Public Schools (MCPS). It is a result of the internal and external feedback coupled with extensive analysis of our programs and our outcomes.

The Board of Education is requesting an operating budget of $2,592,240,711 for MCPS for FY 2019. This is an increase of $72,960,690, or 2.9 percent, compared to the current FY 2018 Operating Budget. This increase is needed to fund the same level of services for a growing number of students enrolled in MCPS, rising costs, and strategic accelerators to intensify efforts to close the persistent opportunity gap and improve academic excellence for all. This budget will continue to build on the foundation and structure that are needed to ensure that all MCPS students are able to achieve at higher levels.

The MCPS tax-supported operating budget (excluding grants and enterprise funds) for FY 2019 is $2,443,168,218. This budget assumes Montgomery County will continue to fund $27,200,000 of MCPS retiree health benefits costs from the county's Consolidated Other Post-employment Benefits Trust Fund.

State law requires the county to provide, at a minimum, $24,576,194 in increased funding for MCPS based on the Maintenance of Effort law to account for enrollment growth. However, the need is greater in FY 2019, and the Board's budget request seeks $17,672,644 more than the minimum funding level required by the state law. This additional investment is essential if we are to maintain the quality of our school system and address the much needed work to improve the educational outcomes for all MCPS students.

Phone 301-279-3617 ♦ Fax 301-279-3860 ♦ boe@mcpsmd.org ♦ www.montgomeryschoolsmd.org

Governor Lawrence J. Hogan's FY 2019 budget submitted to the Maryland General Assembly on January 17, 2018, reflected a total of $707,765,916 for MCPS. This is an increase of $26,848,764 compared to FY 2018. Our enrollment increase in the 2017–2018 school year used to calculate state aid was the largest of any school district in the state. Of the statewide enrollment increase of 8,286.25 eligible students for allocating state aid, 2,408.75 of the increase, or 29.1 percent, were students enrolled in MCPS. In addition, MCPS is projected to receive an increase of $972,177 in revenue from the state of Maryland for students with disabilities placed in non-public schools.

This budget also assumes that it will be funded, in part, by end-of-year MCPS fund balance. The amount projected to be available to fund the FY 2019 budget is $25,000,000. This is $2,216,697 more than the amount of MCPS fund balance used to fund the FY 2018 budget.

During FY 2017, the Board reached agreement on comprehensive three-year agreements covering economic and non-economic terms with its three employee associations, effective July 1, 2017, through June 30, 2020. All three contracts are open for negotiations on wages alone for the second (FY 2019) and third (FY 2020) years. We are making progress on negotiations with our employee associations. Funding is included in this FY 2019 budget to plan for the requirements of these contracts.

Since FY 2009, our K-12 enrollment has increased by more than 21,000 for an increase of more than 2,300 students per year. In addition, we have expanded the pre-kindergarten program, which has further increased the number of students in MCPS. We expect similar enrollment trends to continue. This growth places significant operational and capital demands on the school district for which we must budget. The requirements in the FY 2019 budget for enrollment growth including the opening of Richard Montgomery Elementary School #5, along with adding Grade 8 to the Silver Creek Middle School, and partial year funding for the Clarksburg Elementary School #2 scheduled to open in FY 2020, increase the budget by $17,711,821. This amount does not include the decrease for nonrecurring costs of $1,353,875 from the FY 2018 budget.

The Board is recommending targeted, strategic accelerators for key bodies of work totaling 20.4 Full-time Equivalent (FTE) positions and $16,123,509. The strategic accelerators are grouped by the five strategic priorities that were outlined by the superintendent of schools in fall 2016. This includes the core or principal strategy of improving teaching and learning. The second strategy is a focus on learning, accountability, and results. The third strategy focuses on our human capital. The fourth strategy focuses on community partnerships and engagement, and the fifth strategy focuses on operational excellence.

At the same time, we have closely reviewed the MCPS operating budget and identified program efficiencies, reductions, and other adjustments totaling 68.1 FTE and $10,432,711 in FY 2019. While these reductions are difficult, given the other funding requirements in this budget, coupled with our commitment to excellence for all our students, they help offset the total budget request for FY 2019.

As in the past, this FY 2019 Operating Budget request was developed through a variety of collaborations. The Board held two public hearings in early January and heard testimony from approximately 90 individuals. The Board held two evening work sessions on the budget on January 18 and 25, 2018. Board members spent countless hours analyzing the budget and submitted a number of formal questions to MCPS staff that eventually led to the Board's adopted budget request on February 26, 2018.

This budget builds on investments the county and the school district have made in recent years that reflect our core values of learning, relationships, respect, excellence, and equity while still managing a significant enrollment growth. It defines a clear path to improved achievement for all students and instills confidence that MCPS will fulfill its core purpose of preparing all students to strive in the future. The Board of Education looks forward to working with you in the coming weeks and months to fund an operating budget for MCPS for FY 2019 that meets the needs of all our students.

Sincerely,

Michael A. Durso
President

MAD:JRS:ND:jp

Enclosure

BOARD OF TRUSTEES

February 6, 2018

The Honorable Isiah Leggett
County Executive
Executive Office Building
101 Monroe Street
Rockville, Maryland 20850

The Honorable Hans Riemer
President, Montgomery County Council
Stella B. Werner Council Office Building
100 Maryland Avenue
Rockville, Maryland 20850

Dear Mr. Leggett and Mr. Riemer:

The Board of Trustees of Montgomery College and the College community are grateful for your long-standing commitment to affordable, high quality postsecondary education for our county. Because of your enduring support, the College stands ready to deliver our mission-driven work: to empower students to change their lives and enrich our community.

We recognize that, for several of you, this will be the last county budget you will oversee in your current role. Your commitment to the College demonstrates an enduring legacy to expand opportunity, to ensure all Montgomery County residents can fully realize their potential and thereby enrich the life of our community. **The generous support to your community's college through the years, despite fiscal challenges, is a living testament of your service to this county.**

The College understands its obligation to honor your generosity with fiscally prudent operations. We have taken several actions to ensure our fiscal house is in order. We have made $12 million in net reductions over the last four years, commensurate with changes in enrollment revenues. To ensure the long-term fiscal sustainability, we implemented a new compensation model that includes market-based wage bands. We eliminated several leases and consolidated office space. We instituted a task force to find greater efficiencies and target spending on our highest priority, student success. Additionally, a revised lapse calculation policy advanced our work toward greater fiscal sustainability.

Today, we ask for your sustained commitment for the coming year to help the College continue to deliver excellent and affordable education and training for county residents. This year, the College requests a total appropriation of $314,858,489—an increase of 0.28 percent over last year. We have made $3.7 million in reductions and agreed to the county's savings request for fiscal year 2018. To reflect this, we committed to save an additional $1.3 million this year for a total of $4.4 million in fund balance, which we will use to support the fiscal year 2019 budget. We also agreed to cut $1.9 million from our capital budget to support the county savings plan. Through reductions and reallocations of resources, state aid, and student tuition, we lowered our projected gap for fiscal year 2019 by almost 73 percent, or $11.7 million. A county contribution of $4.32 million will close the gap and support employee wage adjustments.

Next year, we will continue to drive student success to seek outcomes like those produced by Achieving Collegiate Excellence and Success (ACES) program, now present in 13 Montgomery County Public Schools (MCPS) high schools. ACES has served 3,500 students with good results: ACES students at MC have an 82 percent retention rate. Currently, 99 students have graduated from MC and 42 additional students have transferred to a four-year institution before completing their degree at MC.

However, we hear the clarion call: **we must renew our attention to access.** As we prepare for continued growth in MCPS high schools, projections show that future graduating classes are going to be different—a true reflection of our county. Projections also reveal that the college-going rate of future classes may decrease—a troubling forecast that must be addressed. We must reach out to embolden more students to pursue postsecondary education and strengthen the college-going rate of our county.

While access will be the primary focus of our initiatives next year, this budget carefully balances our budget priorities: fiscal prudence, excellence, affordability, access, and student success.

BUDGET PRIORITIES

Fiscal Prudence

As noted, for fiscal year 2019, we narrowed our projected budget gap using several measures: a reduction and reallocation of existing resources, use of fund balance, a tuition increase, and use of an increase in state aid.

Budget reductions totaled $3.7 million and came from across the College. For example, our community engagement office carefully reduced printing costs in outreach promotions. The Student Affairs Division eliminated the contracts for student mental health services by utilizing existing staff to assume these duties. The Academic Affairs Division reduced instructional salaries by $925,000 to reflect lower enrollment and realized savings through seat utilization strategies that maximize space and talent. In addition, we saved $265,000 in utilities.

We expect to use $4.4 million of our fund balance to support fiscal year 2019, as requested and approved by the County Council on January 30, 2018, as part of the county's fiscal year 2018 savings plan.

To address long-term fiscal sustainability, we implemented a new compensation model, which we expect to produce positive budget impacts for the future. This process allowed us to analyze competitive market research to assess our pay practices, ensure we are aligned with the market, and determine the competitiveness of our current compensation program. We redesigned our pay structure using market pay data. As a result, we have instituted new pay grades and pay ranges that will move us into a more secure, sustainable, and affordable financial future. Our preliminary analysis indicates foregone expenses of $1 million from the use of the new model.

Educational excellence
We rise to the challenge of serving 55,343 credit and Workforce Development & Continuing Education (WD&CE) students with the determination of our extraordinary faculty and staff—employees who are firmly committed to meeting the needs and demands for postsecondary education for all students. Award-winning faculty provide extraordinary teaching. Employees—from custodians to counselors—give students the support needed to get to-and-through the College.

We have an employee agreement with our part-time faculty. While the economic terms of our two other employee agreements are not definitive, in order to plan for the fiscal year 2019 operating budget, we have included $5.3 million to support all employee agreements.

Affordability
County residents look to us for affordable postsecondary education—without which, our community cannot grow to meet the needs of the future. As we seek to strengthen the county's college-going rate, affordability remains critical to ensure access. Poverty is the number one barrier to the completion of a college degree. Yet, an education is the surest path out of poverty. Your investment helps keep the College affordable and gives all residents equitable access to climb the ladder of opportunity.

With this proposed budget, students will contribute 29.4 percent of our operating costs through tuition—down from 40 percent in fiscal year 2013. This is a reflection of your commitment to our students.

In continuing our commitment to access, our scholarship funding will rise commensurate with the tuition increase.

Additionally, the facility that housed the former Takoma Park/Silver Spring Campus early learning center was sold earlier this year. The Board of Trustees designated the proceeds of $744,131 to be distributed over the next four years to scholarships for students pursuing a degree in education, including early childhood education. With appropriation authority, next year we will award $160,000 in scholarships for 70 students each semester that will support growing the county's teacher workforce. The balance will be available for scholarships in subsequent years.

Access
The college-going rate of our high school graduates needs renewed attention so that all of Montgomery's children and families understand that a postsecondary education is both possible and necessary. **Today's students must prepare for tomorrow's jobs, and those jobs will require more than a high school education. In 2017, 76 percent of all job postings in the county required at least a postsecondary education.** New strategies are required to help connect students with education and training to help them swiftly join the workforce as ready workers.

Together, we can write Montgomery's future with several initiatives to open our doors wider—to help more students find their path to postsecondary education and training.

The College will launch a series of efforts next year to tackle just this, **beginning with an Early College effort in partnership with MCPS.** Two full-time coordinators will initiate this dual enrollment program to give students access to college while still in high school. High school juniors and seniors from all MCPS high schools will attend classes on an MC campus to complete their high school requirements while simultaneously earning a college degree. Students will participate in cohorts, attend classes taught by MC faculty, and receive guidance. Students benefit because this program reduces time to complete a degree by two years. Once students hold a degree, they will be able to transfer to a four-year institution. This effort will leverage lessons learned from piloted efforts at Northwood and Northwest high schools. Scheduled to begin in the fall 2018, the College plans to serve 110 students during the first year, then 310 students in the fall of 2019. Students in the program will pursue an associate of arts in teaching in mathematics or an associate of arts in mathematics. Offering a teaching degree is intentional: to set students on a path to become teachers in our county to address workforce shortages and the goal to diversify ranks of the teaching cadre. Additional degrees will be offered in the future. This effort will reduce time-to-degree for students, help to ameliorate crowding in high schools, and prepare the teacher workforce of the future.

To help students understand the broad swath of educational programs they can access at MC in both credit and non-credit programs and make direct connections to employment, the College will hire two career navigators. These navigators will reach students on our campuses as well as at MCPS high schools to open doors for students to the relevant education and training programs in our academic programs as well as WD&CE that lead to jobs. Each career navigator will help students find a program that fits their interests, support students to complete their education and training, and then help connect them with jobs and internships.

In a knowledge-based economy, access to education and training for incumbent workers is also crucial to advancing opportunity in our community—helping residents access promotions to middle and high skill jobs. Additionally, talent development, acquisition, and retention are important goals for our county to ensure a robust economy. The College is a lynchpin institution in meeting these important goals, particularly through WD&CE. Today, the College can train as many as 3,000 workers a year. But, with a dynamic economy and a county of more than one million residents, we must do more.

Given these factors, the College plans to hire a full time position to scale up our workforce development efforts. The key goal of this position will be to expand access to training and education for incumbent workers—to collaborate with WorkSource Montgomery and partner with employers to craft relevant programs to improve the strength and vitality of the county's current workforce. The position will deepen our outreach and connections to key industry sectors to help employers improve the knowledge, skills, and abilities of existing employees to close skill gaps, advance innovation, and improve productivity. The position will build on lessons learned from our industry partnerships in cybersecurity, cloud computing, and bioinformatics. By broadening access to education and training for incumbent workers, the College can help refuel employees with new credentials and the skills they need to move up the career ladder, improve the productivity of local employers, and contribute to a thriving county.

The College is committed to meet residents where they are and our two community engagement centers (in Gaithersburg and Silver Spring) exemplify the value of bringing the College closer to residents: since they opened, 15,706 residents have visited, over 1,000 have attended information sessions about MC programs, and almost 700 have taken a class at a center. To expand this important endeavor and leverage the work at the existing centers, we will hire two full-time "mobile" community engagement staff members to take our services where they are needed most at various partner nonprofit locations throughout the county. This year, we successfully piloted this work part-time at the Ethiopian Community Center with a staff person who conducted workshops and over 900 information consultations. With each of these positions, we will serve 80 individuals each month and conduct one workshop monthly.

This year, **we began "Raptor Rising," a robust recruitment and access plan that takes our faculty and staff into MCPS high schools so we can more readily shape the college-going culture.** These face-to-face recruitment efforts will be combined with an enhanced visibility campaign led by the Advancement and Community Engagement Division. New funds will advance these strategies using traditional communication vehicles as well as modern social media and digital communications tools. Communications will be honed to target audiences: high school students, low-income residents, non-English-speaking communities, military/veterans, single parents, and other underserved communities. To fully maximize funds, the team will use modern digital tools to increase our reach and frequency of our messages, enhancing our overall visibility.

We hope this small investment in funds in the above initiatives will enhance access and help more students see a clear path to postsecondary education.

Student Success
Students need us to help them succeed—to complete their degree or certificate so they can transfer or move into the workforce. As we unravel the ever-changing needs of our students, we find new ways to meet them where they are and lift them up so they can succeed.

This year, we successfully launched The Achieving the Promise Academy (ATPA), a collegewide program that provides academic coaching for students, both one-on-one as well as embedded classroom coaches. The goal is simple: to increase student performance, retention, and completion. This past fall, embedded coaches worked closely with classroom instructors to provide additional student support in 63 critical required courses with traditionally high failure rates, and served 1,500 students. One-on-one academic coaches supported an additional 200 students. This spring, ATPA coaches are embedded in 100 courses, serving at least 2,000 students. The efforts are fruitful: students highly engaged with coaches earned an average GPA of 2.65, as compared with students with low engagement who had an average GPA of 2.37. With this success, we plan to expand the ATPA by hiring one additional full-time coordinator position to help an additional 1,500 students succeed.

Additionally, we will support students by continuing to enhance the safety and security on our campuses so learning can flourish. The safety of our students and employees remains a high priority for the College. We will hire two additional security officers, bringing our security staff up to 67 full-time officers to protect more than 55,343 students and 3,154 full-time and part-time faculty and staff along with a myriad of visitors. With enhanced security, students, faculty, and staff can focus on what is important: student success.

FISCAL BACKGROUND

Enrollment

The College is a large higher education institution, today enrolling 55,343 students, including 22,875 credit students. Each fall term since 1988, we have consistently enrolled more than 20,000 credit students. Our WD&CE course enrollments exceed 40,000 each fiscal year. Annually, about 25 percent of MCPS graduates enroll at Montgomery College the fall semester directly after high school. The College continues to have the largest enrollment of all community colleges in Maryland and is one of the largest higher education institutions in Maryland—only University of Maryland College Park and University of Maryland University College enroll more undergraduate students.

Throughout its 70-year history, MC has demonstrated consistent, significant, and sustained growth. Enrollment grew in 53 of our 70 fall terms. When enrollment has decreased, the contractions have never lasted more than six fall terms.

Each year, we carefully examine historical and projected data regarding enrollment because these figures guide many institutional decisions including tuition rates, personnel and operations, and spending targeted at student success. As noted, our analysis predicts an enrollment increase coming in fall 2020 that will continue at least through 2022, following a decrease of approximately 3,000 students from 2014 to 2017. It is important to note: with 3,200 classes, the current enrollment contraction amounts to one fewer student per classroom. We are attentive to fiscal strategies to lower operational costs where appropriate when student numbers are lower while we continue to serve the 22,875 credit students who still need our services both inside and outside the classrooms.

We look to our projections to help us prepare for the changing needs of our student population. As noted, MCPS projects an increase in its graduates in the coming years and we must be ready to serve these students and the different college-going rates for various populations within MCPS. With targeted plans to address the college-going rates, we will reach out to students and show them the path to the College through recruitment programs.

With 22,875 credit students enrolled this fall 2017, the College's enrollment reflects the national picture in higher education and for almost all of Maryland's community colleges. Nationwide, all college enrollment decreased by 1.4 percent in 2016. Enrollment has decreased by 3.9 percent for two-year public colleges nationwide. Several additional factors may play a role in this enrollment decrease, including the decreased county unemployment rate, the rise in poverty, and affordability.

With sustained growth and a long history of serving our county, the College continues to be flexible and responsive to economic trends and the changing needs of students. Our student body reflects our county's population. Students come from every high school in the county, Whitman to Wheaton. With no majority race, 75 percent of our students are non-White.

Enrollment increases and decreases are complex matters with a natural ebb and flow. Ultimately, credit-hour enrollment determines our tuition revenue. In fiscal year 2019, credit hour enrollment of just over 440,000 hours is the basis for the calculation of the College's tuition revenue.

Revenue

Fund Balance Use—$4.4 million

Reductions and Reallocations—$3.7 million

Auxiliary Fund Transfer—$846,000
Anticipated revenue from the Follett Higher Education Group contract for bookstore retail operations is expected to be $846,000.

Property Sale Proceeds—$160,000

Tuition—$78.2 million
The budget, as adopted by the Board of Trustees on January 24, anticipates a 2.9 percent tuition increase. The consolidated fee charged to students will also increase because it is calculated as a percentage of tuition. Tuition and related fees are expected to generate $78.2 million.

The board will act on tuition rates in April. At this juncture, we expect to decline the Governor's proposed community college supplemental grant to cap tuition increases to two percent or less. We appreciate the Governor's commitment to affordability; however, because of the county's longstanding commitment to the College, we meet our obligation under state policy to limit student tuition to 30 percent of operating costs.

State Aid—$43.9 million
Currently, the College's budget reflects the amount from the Governor's fiscal year 2019 budget, $43.9 million, of which $36.6 million is allocated to the Current Fund and $7.3 million is allocated to the WD&CE Fund. Final action by the Maryland General Assembly on the state's budget will occur in April.

County Support—$143.7 million

EXPENDITURES

The following include our request and initiatives included in our fiscal year 2019 budget:

Educational excellence through employee compensation—$5.3 million

Achieving the Promise Academy coordinator—$470,000

Enhanced communications—$400,000

Career navigators—$200,000

Incumbent worker training—$100,000

Early College coordinators—$290,000

Scholarships—$267,000

Community engagement mobile staff—$160,000

Security—$160,000

OTHER FUNDS

Emergency Plant Maintenance and Repair Fund—$350,000
The Emergency Plant Maintenance and Repair Fund is a spending affordability fund. We request an appropriation of $350,000 and county funding equal to last year's amount ($250,000), plus the use of $100,000 in fund balance. This funding is crucial for our emergency maintenance needs.

WD&CE Fund—$17.7 million
We request appropriation authority to spend $17,677,384 for the WD&CE Fund. Compared to fiscal year 2018, this is a decrease of less than one percent. These funds arise from tuition, fees, and state aid.

WD&CE students access career programs and certifications in the health sciences, trades, cybersecurity, and management, as well as programs for personal enrichment and lifelong learning. The College also welcomes adults earning high school equivalency, adult basic education, and English for speakers of other languages.

Auxiliary Enterprises Fund—$1.7 million
We request appropriation authority to spend $1.7 million for the Auxiliary Enterprises Fund. These funds will cover revenue and expenditures associated with the Parilla Performing Arts Center and the Cultural Arts Center rentals, the student-operated Macklin Business Institute Café, the Summer Dinner Theatre program, other facility rentals, and a pilot of athletic camps for county resident youth.

50th Anniversary Endowment Fund—$263,000
We request appropriation authority to spend $263,000 from the 50th Anniversary Endowment Fund for planning with the Pinkney Innovation Complex for Science and Technology at the Germantown Campus.

Cable TV Fund—$1.7 million
We request appropriation authority to spend $1.7 million. The county's cable plan is the source of revenue.

The Cable TV Fund will continue to provide opportunities for student involvement in MCTV productions using varied media platforms for student recruitment and expanded programming. MCTV supports community outreach by increasing multicultural and foreign language programming in the six most common languages used in the county.

Grants Fund—$20 million
We request grant appropriation authority to spend $20 million. Of this amount, $400,000 is requested in county funds for the Adult ESOL/Adult Basic Education/GED program. This is the same amount as appropriated last year.

The College leverages significant grant funds for our innovative training programs. For example, the College has three US Department of Labor Employment and Training Administration (DOLETA) totaling $25 million.

Transportation Fund—$4.2 million
We request appropriation authority to spend $4.2 million. This fund is comprised entirely of user fees from students and employees, including parking enforcement revenue. The revenue will fund transportation alternatives for students—Ride On bus service and the MC shuttle. It

will also pay the leases for the Takoma Park/Silver Spring West Parking Garage and the Rockville North Garage.

This is the second year the College will allocate $500,000 to fund our parking lot resurfacing capital project. This will be appropriated in the capital budget.

Major Facilities Reserve Fund—$3 million
We request appropriation authority to spend $3 million to pay the Montgomery College Foundation for lease of The Morris and Gwendolyn Cafritz Foundation Arts Center. This fund is entirely comprised of user fees and no county funds are requested.

For your information, in fiscal year 2019, $1.5 million will fund the capital projects for continued physical education renovations and complete the conversion of a baseball field on the Rockville Campus to a soccer field, which will support the College athletic program. This will be appropriated in the capital budget.

CONCLUSION
On behalf of the Montgomery College Board of Trustees, we respectfully request total appropriation authority of $314,858,489 million.

Thank you for your support of the College and for your consideration of our request.

Sincerely,

Michael J. Knapp
Chair, Board of Trustees

DeRionne P. Pollard, PhD
President

MONTGOMERY COUNTY PLANNING BOARD
THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

January 15, 2018

The Honorable Isiah Leggett
Montgomery County Executive
Executive Office Building
101 Monroe Street
Rockville, MD 20850

The Honorable Hans Riemer
President, Montgomery County Council
Stella B. Werner Council Office Building
100 Maryland Avenue
Rockville, MD 20850

Dear Mr. Leggett and Mr. Riemer:

Pursuant to §18-104 of the Land Use Article of the Annotated Code of Maryland, the Montgomery County Planning Board is pleased to transmit the FY19 Proposed Budget for the operations of the Maryland-National Capital Park and Planning Commission in Montgomery County. This comprehensive document is presented at the budget appropriate departmental and divisional levels, including lists of the programs and services provided by each division.

We have been made aware of the County's fiscal challenges, both in the current year and in FY19. Consequently, we have adopted a savings plan for FY18. However, our budget development and submission calendar did not allow for adequate and timely consideration of the direction provided to the County's internal departments and agencies, and therefore this document is submitted as proposed.

Although we have proposed increases where needed to address critical needs, we fully understand the ongoing economic challenges and will work with the Council and Executive to incorporate adjustments as needed.

On-going Service Provision

The Commission's primary mission remains unchanged: providing clean and safe parks, and delivering a timely, comprehensive development review program, key master plans, and other critical planning programs which drive economic development. It is our goal to continue to give our customers/residents excellent service. We are proud to have been awarded the National Gold Medal Award for excellence in Parks and Recreation Management in 2015. This is the sixth time we have been so recognized by the American Academy for Park and Recreation Administration in partnership with the National Recreation and Park Association.

Cognizant of the limited resources available, we will continue to work with the County to reach an appropriate balance with service delivery demands. The FY19 Proposed Budget focuses on maintaining service levels, responding to federal/state/local mandates, and addressing a limited number of critical needs. The FY19 Proposed Budget includes increases related to necessary planning studies, legislative mandates, and operating costs of new parks.

The FY19 proposed tax-supported operating budget is $143.5 million. This is $8.4 million more than the FY18 adopted budget, a 6.2 percent change, reflecting the critical needs requests. The total

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proposed budget, including Enterprise operations, Property Management, Park Debt Service and Special Revenue funds, is $171.9 million, an increase of $14.1 million or 8.9 percent from the FY18 adopted budget.

Summary of FY19 Proposed Operating Budget Expenditures
(net reserves, ALARF, Internal Service Funds, and Capital Projects Funds)

	FY18 Adopted	FY19 Proposed	$ Change	% Change
Administration (1)	$ 31,728,741	$ 33,241,989	$ 1,513,248	4.8%
Park (2)	101,362,780	108,196,921	6,834,141	6.7%
ALA Debt	1,941,740	2,031,100	89,360	4.6%
Subtotal Tax Supported	**135,033,261**	**143,470,010**	**8,436,749**	**6.2%**
Enterprise (3)	10,347,797	13,902,775	3,554,978	34.4%
Property Management	1,311,100	1,532,800	221,700	16.9%
Special Revenue	5,634,625	6,519,833	885,208	15.7%
Park Debt	5,511,210	6,521,285	1,010,075	18.3%
Total Montgomery	**$157,837,993**	**$171,946,703**	**$ 14,108,710**	**8.9%**

(1) Includes transfer to Special Revenue Fund in both years, and to Park Fund in FY18
(2) Includes transfer to Park Debt Service and Capital Projects
(3) Includes transfer to Capital Projects in both years

Fiscal challenges remain at all levels of government, including the Commission. Although for FY19 there are several positive indicators – assessable base is projected to grow at a rate of about 4.26 percent; the Economic and Revenue Update from the Montgomery County Department of Finance released in December 2017 shows a drop in unemployment from 3.4 percent in October 2016 to 3.1 percent in October 2017, an increase in resident employment, and an estimated 4.1 percent increase in wage and salary income for 2017 – the County is experiencing a shortfall of income tax receipts that is necessitating a retrenchment of expenditures in FY18, and which will also impact the FY19 budget process.

Costs, however, continue to grow at higher rates than the revenues that support them. National Pollutant Discharge Elimination System (NPDES) and American with Disabilities Act (ADA) mandates and Operating Budget Impacts (OBI) from previously approved CIP projects impact the base budget. Maintenance needs are more expensive to address the longer they are deferred. With property tax revenue making up more than 94 percent of operating revenues, growth, although modest, means the Commission must manage its resources carefully to sustain a stable financial position.

The following table begins with our FY18 adopted budget total and adds each of the elements that make up the proposed General Fund increase, totaling 6.3 percent.

M-NCPPC
Summary of FY19 Proposed Budget Major Changes
Montgomery County General Fund Accounts
Administration and Park Funds (excludes property management and reserves)

		Budget Amount	% Change
FY18 Adopted Budget	$	133,091,521	
FY19 Major Changes- increase (decrease)			
Major Personnel Cost Changes			
OPEB Paygo and prefunding		1,864,259	
Health Insurance		(414,307)	
Pension (ERS)		(240,845)	
Employee Compensation Marker		2,008,875	
Reclassification Marker		191,459	
Subtotal Major Personnel Changes		**3,409,441**	2.6%
Major Non-Personnel Cost Changes			
Debt Service		1,010,075	
Transfer to Development Review		200,000	
Transfer from Admin Fund to Park Fund		(500,000)	
Park- NPDES		526,834	
OBI		343,995	
Investment in Critical Needs		2,644,462	
Operating Major Known Commitments		712,582	
Subtotal FY18 Major NonPersonnel Changes		**4,937,948**	**3.7%**
Total Dollar Change for Major Changes		**8,347,389**	**6.3%**
TOTAL FY19 Proposed Budget	**$**	**141,438,910**	**6.3%**

OVERVIEW OF BUDGET DEVELOPMENT AND ASSUMPTIONS

The Commission is putting forth a budget for FY19 that includes increases for major known commitments and investments in critical needs, and seeks to continue to rebuild service levels.

The Proposed Budget includes the following major known commitments for personnel costs in FY19:

- Medical insurance and benefit costs;
- Full funding of OPEB PayGo and Pre-Funding as determined by the actuarial study;
- Full funding of pension contribution as determined by the actuarial study; and
- Dollar markers to adjust employee compensation, and possible reclassification due to a multi-year classification study.

In recent years, the Commission has taken a number of pro-active steps to reduce or slow the growth of benefit costs. These have included instituting a new pension plan and adopting a credited service model for retiree medical benefits for new hires; new health related initiatives such as incentives for annual exams and offering a lower cost health plan, while continuing to ask our employees to share more of the cost. These actions continue to free up resources to support our delivery of services.

As shown in the following table, personnel expenses reflect an increase of $3.41 million.

The compensation marker represents the largest cost increase, followed by the increased cost for Other Post-Employment Benefits (OPEB).

FY19 Proposed Budget
Summary of Changes in Major Personnel Costs
Montgomery County Administration Fund and Park Fund

	FY18 Adopted	FY19 Proposed	$ Change	% Change
OPEB				
OPEB Paygo & Prefunding	$ 6,382,400	$ 8,246,659	$ 1,864,259	29.2%
Pension (ERS)				
Pension (ERS)	10,418,528	10,177,683	(240,845)	-2.3%
Health and Benefits(1)				
Employee Health Benefits	13,591,548	13,177,241	(414,307)	-3.0%
Subtotal Personnel Costs	**$ 30,392,476**	**$ 31,601,583**	**$ 1,209,107**	**4.0%**
Employee Compensation				
Marker for Changes to Employee Comp.		2,008,875	2,008,875	
Marker for Possible Reclassifications	412,094	603,553	191,459	
Total Major Personnel Costs			**$ 3,409,441**	

(1)Health and Benefits includes medical insurances (health, dental, vision, prescription), long-term disability, accidental death and dismemberment, and life insurance.

The net change for total OPEB costs is $1.86 million, an increase of 29.2 percent. Total OPEB funding is $8.25 million. This increase is a result of a new actuary utilizing updated medical trend projections, which are more in line with those used by our parent counties. OPEB is shown in the Non-Departmental accounts in individual funds rather than being allocated to each department.

As determined by the actuary, pension costs will decrease by 2.3 percent in FY19, representing a savings of $241 thousand from the FY18 budget. Health benefit costs are projected to decrease by 3.0 percent, resulting in savings of $414 thousand from the FY18 Budget.

As for employee compensation, the budget includes a dollar marker of $2.01 million. We are in the second year of our contract with the FOP and are in full contract negotiations with MCGEO for FY19, the results of which will be presented for approval at the Joint County Council Meeting in May 2018. Also included is $604 thousand for possible reclassification adjustments based on the multi-year classification study that is under way.

Investing to Meet Critical Equipment, Maintenance, and Essential Service Needs

Included in the funding levels of the Administration Fund and Park Fund is a funding request of approximately $2.7 million to address critical maintenance, equipment, and essential service needs. Each department's budget sections provide detailed information on how this increased investment is proposed to be used. The following is a summary of the requests by department.

Fund	Department	Essential Needs Investment Amount
Administration	Planning	$ 531,609
Administration	Commissioners' Office	-
Administration	DHRM	98,655
Administration	Legal	37,729
Administration	Finance	74,757
Administration	Inspector General	5,969
Administration	Corporate IT	43,700
Park	Parks	1,852,043
Total		**$ 2,644,462**

Summary of FY19 Proposed Budgets for General Fund

The following table provides a comparative summary of the FY19 proposed budget to the FY18 adopted budget for the General Fund. Specific changes in each of the departments are explained in full detail in the Department sections of the Budget Book.

M-NCPPC
Summary of FY19 Proposed Budget General Fund Accounts
By Fund by Department (excludes reserves)

	FY18 Adopted	FY19 Proposed	$ Change	% Change
Administration Fund				
Commissioners' Office	$ 1,204,588	$ 1,262,647	$ 58,059	4.8%
Planning Department Operating	19,909,147	20,298,849	389,702	2.0%
CAS	8,028,346	8,392,153	363,807	4.5%
Transfer to Development Review	300,000	500,000	200,000	66.7%
Transfer to Park	500,000	-	(500,000)	-100.0%
Grants	150,000	150,000	-	0.0%
Non-Departmental (1)	1,636,660	2,638,340	1,001,680	61.2%
Subtotal Admin Fund	**31,728,741**	**33,241,989**	**1,513,248**	**4.8%**
Park Fund				
Park Department Operating	89,935,434	92,699,689	2,764,255	3.1%
Transfer to Debt Service	5,511,210	6,521,285	1,010,075	18.3%
Transfer to Capital Projects	350,000	350,000	-	0.0%
Grants	400,000	400,000	-	0.0%
Non-Departmental (1)	5,166,136	8,225,947	3,059,811	59.2%
Subtotal Park Operating	**101,362,780**	**108,196,921**	**6,834,141**	**6.7%**
Montgomery Operating Subtotal	**133,091,521**	**141,438,910**	**8,347,389**	**6.3%**
Property Management	1,311,100	1,532,800	221,700	16.9%
Montgomery General Fund Total	**$ 134,402,621**	**$ 142,971,710**	**$ 8,569,089**	**6.4%**

(1) Non-Departmental for both years include OPEB prefunding and OPEB paygo, and a budget marker for compensation adjustments.

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PROGRAM HIGHLIGHTS

We are committed to a FY19 work program that helps achieve our goal of maintaining Montgomery County as one of the nation's best places to live. Below are some highlights of the program budget focus in each of the departments. A more detailed discussion of department budgets is provided in each Department's section of the Budget Book.

Parks Department

The Department of Parks will focus on delivering core services to properly operate, maintain and protect our park system.

The Commission continues to develop and maintain one of the largest and most diverse park systems in the nation with over 36,800 acres in 419 parks. Montgomery Parks has balanced the dual roles of providing developed parkland for active and passive recreational opportunities that promote healthy, active life styles, and serving as stewards and interpreters of Montgomery County's natural and cultural resources by conserving parkland. From playgrounds and sports fields to park benches and trails, parks offer opportunities for people of all ages to communicate, compete, interact, learn and grow. Proximity to parks has been shown to increase property values.

Montgomery Parks seeks to provide quality recreational and educational opportunities through its operation, construction, development and maintenance of a wide variety of facilities to meet the varied needs and interests of the County's residents. Montgomery Parks' Vision 2030 plan, prepared together with the County's Department of Recreation, is a comprehensive planning effort to develop long range plans and serves as a guide for future park development and resource protection to better address changing needs and growth forecasts through 2030.

The Department's FY19 budget includes increases for:

- Compensation adjustments;
- Unfunded Operating Budget Obligations, including Operating Budget Impacts from Capital Improvement Projects;
- Known operating commitments;
- Debt service on general obligation park bonds, capital equipment and Commission-wide information technology initiatives; and
- National Pollutant Discharge Elimination System (NPDES) mandates.

In addition, the FY19 budget includes funding to address identified deficiencies in our work program as well as emerging trends aimed at meeting the future needs of the department such as:

- Delivering Urban Parks through Placemaking;
- Maintaining and Improving Existing Facilities;
- Enhancing Social Equity; and
- Expanding Wi-Fi in the Parks (funded by County's Cable Fund).

Together, we have created a highly popular, valued and nationally-recognized park system. Our entire team remains committed to honoring our core vision to provide "...an enjoyable, accessible, safe, and green park system that promotes a strong sense of community through shared spaces and experiences and is treasured by the people it serves." We will continue to aggressively seek new funding opportunities and to improve work program efficiencies. We remain committed to forming viable partnerships and strong relationships with our stakeholders and within our communities.

The FY19 budget request will enable us to continue to provide safe, clean parks, keep our programs and facilities accessible and affordable, and maintain the quality of life for which Montgomery County is renowned.

Planning Department

The Planning Department continues to deliver its core services to improve the quality of life in Montgomery County by conserving and enhancing both natural and man-made environments for current and future generations. Central to this role, the Department develops master plans, reviews development applications, and researches, analyzes and presents information to the community and public officials to aid in planning for Montgomery County's future.

In addition to the FY19 work plan that is detailed in the Department's budget section, the following critical needs are proposed:

One-Time projects:

- Aspen Hill Vision Zero Pedestrian Study and Zoning Analysis
- Shady Grove Sector Plan - Minor Master Plan
- Ashton Minor Master Plan Amendment
- General Plan Update
- University of Maryland's National Center for Smart Growth assistance on General Plan Update; Bicycle Master Plan; Pedestrian Connectivity Mapping; Purple Line Impacts to Small Business
- Implementation of Traffic Generation from Mixed-Use Development Projects Study
- Creative Sector Needs Assessment Study
- Pedestrian Connectivity Mapping
- Open Space Benefits and Values Assessment Study
- White Flint II Implementation
- Policy Area and Local Area Transportation Test Update (every four years)

On-going projects:

- **New County Legislation – Land Use Information – Burial Sites – New Position and One-time Supplies/Vehicle**
- **Increase in Transfer to Development Review Special Revenue Fund**

Central Administrative Services (CAS)

For FY19, CAS Departments' work priorities will center on continuing to meet the needs of the operating departments. Critical needs are proposed as follows:

- DHRM:
  - Two career positions in the Corporate Policy and Management Operations Division, one to address a critically understaffed Division, and one to provide administrative support to a Division chief currently with none.
  - Two career positions in Human Resources Division to support the ERP system. Positions will review and validate personnel transactions, provide guidance to field offices, and perform complex transaction analysis, business process reviews, develop reports and train operating department staff.
- Finance Department: One career position to focus on IT purchasing.
- Legal Department: One career position to provide administrative support.
- Corporate IT Division (split off from Finance and now under the CIO's office) – funding for a regular computer replacement schedule.

Commissioners' Office

The role of the Commissioners' Office staff is to support the Chair and Planning Board in the performance of their official duties, serve as the point of contact for meeting related issues, and coordinate prompt responses to issues and inquiries from agencies and the general public. This also includes preparing and web posting the Board's meeting agenda; producing and preserving records of official Board proceedings; and managing correspondence between the Board and other agencies and the public.

In addition to known operating commitments, the FY19 Proposed Budget for the Commissioners' Office includes increased training funds for the Commissioners, and freezes a part-time position in order to fund a full-time administrative position.

Capital Budget

This transmittal also includes the Capital Budget (the second year of the six year Capital Improvements Program (CIP), since the County adopts the CIP every other year). Highlights of this budget can be found within the Department of Parks detail pages.

TAX RATES AND LONG-TERM FISCAL SUSTAINABILITY

Beyond meeting the immediate FY19 challenges, the Commission continues to strive for long-term fiscal sustainability. Property taxes comprise more than 94 percent of operating revenue in the tax-supported funds. The Commission, in proposing this budget, is requesting a change in the property tax rates for the Park Fund. The requested increase in the real property tax rate 0.14 cent for the Park Fund. At this level, the total tax rate is still below what it was in FY07.

The FY19 Proposed Budget requests a total tax rate for property tax supported funds of 7.50 cents real property and 18.75 cents personal property. The breakdown by fund is as follows:

- Administration Fund: 1.72 cents real and 4.30 cents personal, unchanged;
- Park Fund: 5.68 cents real and 14.20 cents personal, an increase of .14 and .35, respectively; and
- Advanced Land Acquisition Fund: 0.10 cents real and 0.25 cents personal, unchanged.

At these tax rates, the Commission will have sufficient property tax revenues to meet the FY19 proposed expenditures and reserve requirements for the Administration and Park Funds provided the tax increase is approved.

MONTGOMERY COUNTY PROPERTY TAX RATES (Cents per $100 of assessed value)													
FUNDS	ACTUAL FY07	ACTUAL FY08	ACTUAL FY09	ACTUAL FY10	ACTUAL FY11	ACTUAL FY12	ACTUAL FY13	ACTUAL FY14	ACTUAL FY15	ACTUAL FY16	ACTUAL FY17	ADOPTED FY18	PROPOSED FY19
Administration Fund													
Real	2.00	1.90	1.90	1.80	1.50	1.70	1.80	1.80	1.70	1.80	1.70	1.72	1.72
Personal	5.00	4.70	4.70	4.50	3.80	4.30	4.50	4.50	4.25	4.50	4.25	4.30	4.30
Park Fund													
Real	5.70	5.80	5.30	5.00	4.50	4.80	5.40	5.30	5.60	5.52	5.48	5.54	5.68
Personal	14.30	14.50	13.20	12.50	11.20	12.00	13.50	13.25	14.00	13.80	13.70	13.85	14.20
Advance Land Acquisition Fund													
Real	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Personal	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.25	0.25	0.25	0.25	0.25	0.25
Total Tax Rates (Cents)													
Real	7.80	7.80	7.30	6.90	6.10	6.60	7.30	7.20	7.40	7.42	7.28	7.36	7.50
Personal	19.60	19.50	18.20	17.30	15.30	16.60	18.30	18.00	18.50	18.55	18.20	18.40	18.75

CONCLUSION

The Proposed 2019 Budget is respectfully submitted for your consideration. In this document, we are proposing a budget that not only moves us forward incrementally, but allows us to address several critical needs and planning and parks initiatives. We continue to explore potential collaborative efforts across departments and counties in our effort to provide efficient, effective quality service, while maintaining our fiscal responsibility and commitment to the community we serve.

We continue to strive to find new ways to save taxpayer dollars while providing quality service and achieving progress in our many areas of focus. We look forward to working with you and your staffs on this budget. Working together, we will do everything in our power to ensure that taxpayer dollars are invested wisely in our collective future.

Sincerely,

Casey Anderson
Chair

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

April 12, 2018

TO: Hans Riemer, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: FY18 Savings Plan: NDA – Group Insurance Retirees ($41,412,000); NDA – Consolidated Retiree Health Benefit Trust – College ($2,000,000); and NDA – Consolidated Retiree Health Benefit Trust – MCPS ($19,026,619)

My FY19 Recommended Operating Budget assumed additional FY18 expenditure savings needed to fully restore current year reserves to the level assumed in the FY18 Approved Budget and to keep us on track to meeting our commitment to fund reserves at 10 percent of revenues by FY20. Please find attached my recommended FY18 savings plan to achieve those goals. In total, these expenditure reductions will increase the FY18 General Fund reserve by $62.4 million.

As you are aware, the savings plan approved by the County Council in January only partially closed the current year budget gap of more than $100 million. After updating our forecast in late February, additional expenditure reductions are necessary to close the remaining gap. The current fiscal situation is likely not the result of a declining economy, but likely caused by changes in taxpayer behavior driven by speculation about federal tax reform. Within this context, it is appropriate to isolate this corrective action to the current year.

The recommended expenditure savings reduce FY18 OPEB prefunding by $21 million and direct an additional $41.4 million from OPEB trust assets to pay for current year retiree health insurance claims costs. As noted above, given the unexpected shortfall in current year revenues, this approach will be a one-time departure from our policy of prefunding retiree health insurance benefits. My FY19 Recommended Operating Budget restores prefunding consistent with our fiscal policy. It should be noted that retirees will see no change to their benefits as a result of my recommendation, and their benefit claims will continue to be paid as they have been in the past.

It is important that the Council join me in this approach as it is aligned with our reserve funding target and commitment to fund our retiree health insurance obligations. My staff is available to assist the Council in its review of the attached proposal.

IL:cmm

Attachment: Recommended FY18 Savings Plan Montgomery County Government

County Executive's Recommended FY18 Savings Plan
Montgomery County Government
April 2018

NDA	AMOUNT	DESCRIPTION
NDA - Group Insurance Retirees	-41,412,000	Reduce spending to restore General Fund reserve
NDA - Consolidated Retiree Health Benefit Trust - College	-2,000,000	Reduce spending to restore General Fund reserve
NDA - Consolidated Retiree Health Benefit Trust - MCPS	-19,026,619	Reduce spending to restore General Fund reserve
TOTAL	**-62,438,619**	

FINDINGS OF THE EIGHTEENTH ANNUAL
BUSINESS ADVISORY PANEL
FEBRUARY 22, 2018

Pursuant to Article XI, Section 20-61, of the Montgomery County Code, the Department of Finance (Finance) convened a meeting of the Business Advisory Panel (BAP) on February 22, 2018. The County Council of Montgomery County established the BAP in 1999 to seek the advice of industry experts in key sectors of the County's business community concerning the current and future state of the County's economy. The law requires that the Director of Finance convene the panel annually and relay the panel's advice to the County Executive and County Council. This report provides such advice.

The BAP members representing real estate, finance, bioresearch, health services, government, and trade associations, were joined by the County Executive Isiah Leggett and County Council President Hans Riemer.

The meeting was structured to allow all participants to provide a briefing on the local, state, and regional economic trends and to share their insights about future economic prospects in the County. The participants also discussed Finance's economic assumptions for the next six fiscal years. For purposes of this report, the results of the discussions are presented in two parts. The first part discusses the Finance's economic assumptions and the Director of the Bureau of Revenue Estimates (BRE), Comptroller of Maryland, outlook for the Maryland economy and an update on the individual income tax. The second section discusses the participant's view of their respective industry sector.

The County Executive opened the meeting by addressing the County's expenditure constraints attributed to revenue projections. The uncertainty of revenues offers a challenge to the County's fiscal position while protecting the County's most critical services. That challenge is to maintain the County's commitment to increase reserves to the 10 percent target by fiscal year 2020 and not increase taxes.

I. Current Economic Conditions and Future Economic Assumptions

Finance asked the participants to provide comments to a paper prepared by staff that analyzed the County's economy and provided assumptions about the economic outlook for the next six years. The paper analyzed a number of economic indicators including employment, personal income, real estate, inflation, construction, and interest rates. A detailed report on the County's economy and economic assumptions follows these findings. The following is a summary of those assumptions:

Payroll Employment. Payroll employment will continue to increase from CY2017 to CY2024 and grow at an average annual rate of 0.9 percent over that period. This is slightly below the average annual rate growth rate of 1.1 percent experienced between CY2010 and CY2017.

Resident Employment. Resident employment will increase at an average annual rate of 0.7 percent from CY2017 to CY2024. However, that rate is slightly below the average annual rate of 1.2 percent between CY2010 and CY2017.

Wage and Salary Income. Wage and salary income to grow at an average annual rate of 3.8 percent between CY2016, the latest date for which actual data are available from the Bureau of Economic Analysis, U.S. Department of Commerce, and CY2024. Total wage and salary income is estimated to reach $49.8 billion by CY2024.

Personal Income. Total personal income in Montgomery County will grow at an average annual rate of 4.0 percent from CY2016 to CY2024. By CY2024, total personal income will reach $115.2 billion.

Inflation (annual average). The overall regional inflation index will steadily increase from 1.25 percent in CY2017 to 2.45 percent by CY2024.

Interest Rates. Since the yield on the County's short-term investments are highly correlated with the federal funds rate, the County is expected to earn an average of 1.20 percent from FY2018 to 3.20 percent by FY2024. This assumption is based on two rate increases in the targeted federal funds rate by the FOMC each year between FY2018 and FY2022, and no increases in FY2023 and FY2024, respectively.

Maryland Economy

The Director of BRE presented an economic outlook on the national economy, the Maryland economy, BRE's economic forecast for the Maryland economy, and selected income tax data to the County Executive, County Council President, and the participants. A copy of the BRE Director's presentation is included in this report. Highlights of that presentation are:

- ***Economic and Demographic Data***
  - The post Great Recession recovery and expansion has experienced an unprecedented slow growth in gross domestic product (GDP) compared to the previous post-recession recoveries and expansion cycles.
  - Real GDP growth for Maryland was essentially flat from the third quarter of 2011 to the first quarter of 2014. This recession in the state's economy was attributed to federal sequestration. Since the first quarter of 2014, the state's economy has outperformed the national economy. BRE Director is more optimistic about the Maryland economy than any time during his tenure at the Bureau.

- Between 2010 and 2016, the growth rate in the average annual productivity growth was 0.8 percent and the lowest rate for the past six decades. However, the average annual rate has increased to 1.5 percent or nearly doubled during the first three quarters of 2017.

- The percentage of the total population aged 65 and over has increased from approximately 11 percent in 2005 to 14 percent by 2015. BRE estimates that this age cohort will reach nearly 18 percent by 2025 and over 21 percent by 2035.

- BRE's forecast for selected economic indicators are:

  - ***Personal income:*** 3.9 percent (CY2018), 4.0 percent (CY2019); 4.1 percent (CY2020), and 3.8 percent (CY2021);

  - ***Payroll employment:*** 0.8 percent (CY2018), 0.5 percent (CY2019), 0.6 percent (CY2020), and 0.4 percent (CY2021);

  - ***Average Wage***: 3.2 percent (CY2018), 3.2 percent (CY2019), 3.4 percent (CY2020), and 2.9 percent (CY2021).

- ***Income Tax Data.***

  - In tax year 2016, 99,300 Maryland tax returns with Maryland adjusted gross income represented 4.1 percent of the total number of statewide returns and paid 33.6 percent of the state's income tax.

  - According to data provided by BRE, the average federal adjusted gross income for Montgomery County income tax returns declined approximately 0.1 percent in tax year 2016 and 10.0 percent for the top 100 tax return filers. This is the first decline since 2013 and attributed to the fiscal cliff.

  - In tax year 2016, 36,400 Montgomery County tax returns with Maryland adjusted gross income represented 8.6 percent of the total number of County tax returns and paid 30.5 percent of the County's state income tax.

  - BRE summarized the impact on Maryland from the Tax Cut and Jobs Act (TCJA) enacted by the United States Congress on December 22, 2017:

    - The state's general fund increases $29 million in FY2018, $392 million in FY2019, and $284 million in FY2020;
    - As a result of the TCJA, seventy-one percent of taxpayers in the State of Maryland will experience a reduction it their federal income tax, 13 percent an increase, and 16 percent no change;

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- However, only 4 percent of Maryland taxpayers will experience a reduction in their state income tax, 28 percent an increase, and 68 percent no change.
- BRE estimates that potentially 700,000 Maryland residents may opt for the federal standard tax deduction (which nearly doubled in 2018) instead of using the itemized tax deduction and therefore are required to take the state's standard tax deduction.
- Based on BRE's calculations, of those 700,000, 333,000 would be better served by taking the itemized deduction and pay a higher federal tax but offset by a lower state tax.

II. Specific Industry Sectors

Representatives from the Washington regional associations discussed the state of the economy in the Washington metropolitan area and Montgomery County. The representative from the real estate market stated that the real estate market is experiencing slow growth in sales. The new federal tax law (TCJA) will have a greater impact on this County than on many other jurisdictions attributed to the limit on mortgage interest deductions. The representative agreed with Finance assumptions that future home sales will remain flat.

The representative from the Health Care industry noted that hospitals experience a cap on revenues thereby operating on a fixed budget and uncertainty in the insurance market. In order to address the fixed budget, hospitals are reviewing utilization as an investment target, that is, an investment in providing service rather than equipment. Another challenge to the health care industry is demographics with people living longer and who may require increased assistance but may not have saved enough for future retirement. Hospitals, pharmacies, and insurance companies have created partnerships to address health care costs and delivery of services.

A representative from the bio-health industry stated that the industry depends heavily on people, lab space, and research. There are many small bio-health companies coming into the County. Large venture capital firms and commercial/investment banks are now funding the small bio-health firms. However, the vacancy rate for wet lab space is a mere 1.5 percent, and, therefore, there is a strong demand for such space. Currently, there is some conversion of vacant office space to wet lab space but the cost of that conversion is high.

The representatives from the Chambers of Commerce discussed the major issue of retention of institutional knowledge in the County and the impact of artificial intelligence on the County's employment and revenue structure. The second issue is the need for Metro improvements and expansion and their funding request for $170 million. Also, as part of the transportation situation in the County, there is the need for improvement in transportation infrastructure to alleviate congestion. They also discussed the need for affordable and workforce housing, the decline in office space, and a positive approach to economic development. A theme also mentioned by other representatives was the demand for skilled workers.

Participant representing economic development stated the need to attract employment and new talent into the County. The goal is to maintain the presence of current businesses with innovative ideas and to invest in those businesses.

The participant representing the workforce industry noted that talent drives competitiveness and the importance of a government-business partnership to enhance economic competitiveness. A major issue also mentioned by the other participants is the retention of workers. There is greater opportunity of workers to quickly change jobs.

Representative from the real estate development industry stated that retail construction is down. Second, the current ratio of 65 percent for residential construction versus 35 percent for commercial construction is too high for residential. According to the representative, the ideal ratio is 55 percent for residential construction versus 45 percent for commercial construction. Also, the representative stated that construction costs have accelerated.

Representative from the financial industry stated that the banking industry is transforming from "teller lines or foot traffic" to more automation with the elimination of tellers. Because of this transformation, employment at commercial banks was 40 to 50 percent higher only five years ago. Another issue of concern in the financial industry is cyber fraud. It happens every day and the concern by the representative is the lack of cyber training in the business community.

III. Conclusion

The representatives expressed cautious optimism regarding the region's and County's economy. The major issues discussed by the representatives are the lack of lab space for the bio-health industry, the decline in retail construction, the need for obtaining and retaining skilled talent, and the need for affordable housing. The focus on business development should be on retaining current businesses, and the transformation to automation by the financial industry. A number of representatives discussed that Metro currently is not a reliable transit system and there is a critical need for funding. Finally, the representative from the County Executive's staff also stated the need to make the County more attractive for younger workers.

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Schedule B-3

Expenditures Detailed By Agency, Fund Type, Government Function and Department

	ACTUAL FY17	BUDGET FY18	EST FY18	REC FY19	%CHG BUD/REC
MONTGOMERY COUNTY GOVERNMENT					
GENERAL FUND TAX SUPPORTED					
General Government					
Board of Appeals	554,108	541,752	530,460	559,230	3.2%
Board of Elections	8,179,483	8,213,700	8,199,294	8,053,422	-2.0%
Circuit Court	11,510,727	12,066,554	11,824,306	11,982,488	-0.7%
Community Engagement Cluster	3,618,844	3,772,050	3,708,907	3,781,762	0.3%
County Attorney	6,323,929	6,319,482	6,463,117	6,189,525	-2.1%
County Council	11,257,728	11,651,722	11,434,383	11,646,525	—
County Executive	5,411,165	5,947,305	5,587,305	5,872,922	-1.3%
Ethics Commission	578,703	429,607	431,820	443,283	3.2%
Finance	13,944,807	14,446,096	14,171,258	14,498,017	0.4%
General Services	32,491,254	30,965,577	31,692,368	29,963,204	-3.2%
Human Resources	8,217,358	8,355,091	8,212,579	8,755,692	4.8%
Human Rights	1,179,630	1,242,813	1,222,957	1,247,047	0.3%
Inspector General	993,871	1,071,872	1,056,356	1,140,590	6.4%
Intergovernmental Relations	1,038,204	1,125,673	1,061,367	1,096,489	-2.6%
Legislative Oversight	1,581,166	1,661,695	1,619,105	1,644,087	-1.1%
Management and Budget	4,130,038	4,730,931	4,800,042	4,920,305	4.0%
Merit System Protection Board	475,974	367,688	234,333	249,689	-32.1%
Procurement	4,425,768	4,512,962	4,457,699	4,445,369	-1.5%
Public Information	5,165,495	5,079,351	4,989,073	5,361,431	5.6%
State's Attorney	16,515,918	17,188,455	17,290,833	17,843,310	3.8%
Technology Services	40,014,254	43,022,058	39,111,367	42,171,965	-2.0%
Zoning and Administrative Hearings	642,538	689,591	605,724	694,059	0.6%
Total General Government	**178,250,962**	**183,402,025**	**178,704,653**	**182,560,411**	**-0.5%**
Public Safety					
Consumer Protection	2,082,691	2,364,597	2,182,415	2,337,140	-1.2%
Correction and Rehabilitation	67,876,028	66,716,261	66,081,827	66,278,818	-0.7%
Emergency Management and Homeland Security	1,229,900	1,317,571	1,273,108	1,343,368	2.0%
Police	259,455,336	275,474,370	270,853,995	279,629,362	1.5%
Sheriff	22,449,457	23,366,446	23,713,567	23,082,666	-1.2%
Total Public Safety	**353,093,412**	**369,239,245**	**364,104,912**	**372,671,354**	**0.9%**
Transportation					
Transportation	56,379,638	49,809,920	48,409,930	45,714,082	-8.2%
Health and Human Services					
Health and Human Services	216,655,048	234,084,840	230,642,057	237,536,471	1.5%
Libraries, Culture, and Recreation					
Public Libraries	39,747,769	42,437,576	41,461,061	42,554,538	0.3%
Community Development and Housing					
Agriculture	961,684	989,195	929,862	972,187	-1.7%
Housing and Community Affairs	5,977,817	7,538,618	7,363,241	7,462,110	-1.0%
Total Community Development and Housing	**6,939,501**	**8,527,813**	**8,293,103**	**8,434,297**	**-1.1%**
Environment					
Environmental Protection	2,584,423	2,907,343	2,644,176	2,714,393	-6.6%
Other County Government Functions					
Non-Departmental Accounts	284,347,861	304,294,410	242,804,976	303,177,750	-0.4%

Expenditures Detailed By Agency, Fund Type, Government Function and Department

	ACTUAL FY17	BUDGET FY18	EST FY18	REC FY19	%CHG BUD/REC
Utilities	25,603,043	26,235,645	25,835,645	26,552,746	1.2%
Total Other County Government Functions	**309,950,904**	**330,530,055**	**268,640,621**	**329,730,496**	**-0.2%**
TOTAL GENERAL FUND TAX SUPPORTED	**1,163,601,657**	**1,220,938,817**	**1,142,900,513**	**1,221,916,042**	**0.1%**
SPECIAL FUNDS TAX SUPPORTED					
General Government					
Urban Districts	8,602,216	8,690,049	8,516,965	8,836,905	1.7%
Public Safety					
Fire and Rescue Service	226,653,689	214,862,420	223,063,658	210,725,257	-1.9%
Transportation					
Transit Services	123,703,546	132,226,957	126,792,070	132,432,153	0.2%
Libraries, Culture, and Recreation					
Recreation	33,828,785	37,687,311	36,971,488	38,154,835	1.2%
Community Development and Housing					
Economic Development Fund	2,483,425	4,110,738	7,298,748	4,919,317	19.7%
ENTERPRISE FUNDS NON-TAX SUPPORTED					
Transportation					
Parking District Services	25,907,262	27,777,906	27,799,849	27,829,266	0.2%
Transportation	5,581,810	6,124,584	6,343,439	6,204,721	1.3%
Total Transportation	**31,489,072**	**33,902,490**	**34,143,288**	**34,033,987**	**0.4%**
Libraries, Culture, and Recreation					
Community Use of Public Facilities	10,599,195	11,691,144	11,568,054	12,669,899	8.4%
Community Development and Housing					
Permitting Services	36,868,045	38,874,829	37,469,803	40,234,230	3.5%
Environment					
Solid Waste Services	90,196,928	96,543,375	97,957,896	109,960,362	13.9%
Other County Government Functions					
Liquor Control	68,734,031	65,161,319	66,397,598	63,990,451	-1.8%
SPECIAL FUNDS NON-TAX SUPPORTED					
General Government					
Circuit Court	2,414,763	2,729,128	2,729,128	2,618,139	-4.1%
Community Engagement Cluster	95,647	67,320	67,320	67,320	—
County Executive	190,785	137,662	137,662	0	-100.0%
General Services	230,529	0	0	0	—
Human Resources	855	0	0	0	—
Intergovernmental Relations	30,666	30,670	30,670	30,670	—
Legislative Oversight	27,550	0	0	0	—
State's Attorney	185,626	134,867	134,867	276,744	105.2%
Total General Government	**3,176,421**	**3,099,647**	**3,099,647**	**2,992,873**	**-3.4%**
Public Safety					
Emergency Management and Homeland Security	5,769,153	768,405	768,405	822,491	7.0%
Fire and Rescue Service	2,142,542	0	0	588,990	—
Police	1,023,710	165,000	165,000	165,000	—
Sheriff	848,247	832,081	832,081	846,961	1.8%
Total Public Safety	**9,783,652**	**1,765,486**	**1,765,486**	**2,423,442**	**37.3%**
Transportation					
Transit Services	4,432,855	5,065,639	5,065,639	5,079,130	0.3%

Expenditures Detailed By Agency, Fund Type, Government Function and Department

	ACTUAL FY17	BUDGET FY18	EST FY18	REC FY19	% CHG BUD/REC
Health and Human Services					
Health and Human Services	84,127,822	78,876,556	78,876,556	79,135,569	0.3%
Libraries, Culture, and Recreation					
Public Libraries	98,972	287,577	287,577	305,577	6.3%
Recreation	105,299	82,563	82,563	79,073	-4.2%
Total Libraries, Culture, and Recreation	**204,271**	**370,140**	**370,140**	**384,650**	**3.9%**
Community Development and Housing					
Housing and Community Affairs	38,045,365	44,798,378	43,713,880	43,011,760	-4.0%
Permitting Services	8,149	0	0	0	—
Total Community Development and Housing	**38,053,514**	**44,798,378**	**43,713,880**	**43,011,760**	**-4.0%**
Environment					
Environmental Protection	24,327,270	27,364,649	26,849,984	27,945,464	2.1%
Other County Government Functions					
Cable Television Communications Plan	15,618,017	16,071,604	15,626,050	16,193,212	0.8%
Liquor Control	32,026	0	0	0	—
Non-Departmental Accounts	0	20,619,888	20,619,888	20,619,888	—
Total Other County Government Functions	**15,650,043**	**36,691,492**	**36,245,938**	**36,813,100**	**0.3%**
TOTAL SPECIAL FUNDS NON-TAX SUPPORTED	**179,755,848**	**198,031,987**	**195,987,270**	**197,785,988**	**-0.1%**
TOTAL MONTGOMERY COUNTY GOVERNMENT	**1,976,516,437**	**2,062,721,436**	**1,989,067,351**	**2,075,659,426**	**0.6%**
DEBT SERVICE					
DEBT SERVICE FUND TAX SUPPORTED					
Debt Service	374,111,312	394,279,660	386,502,315	413,424,000	4.9%
SPECIAL FUNDS NON-TAX SUPPORTED					
Debt Service	13,347,406	13,954,010	13,354,010	15,650,110	12.2%
TOTAL DEBT SERVICE	**387,458,718**	**408,233,670**	**399,856,325**	**429,074,110**	**5.1%**
MONTGOMERY COUNTY PUBLIC SCHOOLS					
CURRENT FUND MCPS TAX SUPPORTED					
Montgomery County Public Schools	2,312,490,723	2,368,655,562	2,347,331,555	2,443,168,218	3.1%
ENTREPRENEURIAL ACTIVITIES FUND NON-TAX SUPPORTED					
Montgomery County Public Schools	3,875,067	4,090,053	4,090,053	4,090,053	—
FIELD TRIP FUND NON-TAX SUPPORTED					
Montgomery County Public Schools	2,006,344	2,313,743	2,313,743	2,513,743	8.6%
FOOD SERVICE FUND NON-TAX SUPPORTED					
Montgomery County Public Schools	58,125,752	54,213,534	54,213,534	54,647,748	0.8%
INSTRUCTIONAL TELEVISION FUND NON-TAX SUPPORTED					
Montgomery County Public Schools	1,727,601	1,697,504	1,697,504	1,697,504	—
REAL ESTATE FUND NON-TAX SUPPORTED					
Montgomery County Public Schools	3,226,308	3,932,647	3,932,647	3,932,647	—
SPECIAL FUNDS NON-TAX SUPPORTED					
Montgomery County Public Schools	74,657,887	82,190,798	82,190,798	82,190,798	—
TOTAL MONTGOMERY COUNTY PUBLIC SCHOOLS	**2,456,109,682**	**2,517,093,841**	**2,495,769,834**	**2,592,240,711**	**3.0%**
MONTGOMERY COLLEGE					
CURRENT FUND MC TAX SUPPORTED					
Montgomery College	254,915,795	262,009,376	254,065,520	264,049,723	0.8%

Expenditures Detailed By Agency, Fund Type, Government Function and Department

	ACTUAL FY17	BUDGET FY18	EST FY18	REC FY19	%CHG BUD/REC
SPECIAL FUNDS TAX SUPPORTED					
Montgomery College	571,758	750,000	700,000	750,000	—
TOTAL SPECIAL FUNDS TAX SUPPORTED	**571,758**	**750,000**	**700,000**	**750,000**	**—**
AUXILIARY FUND NON-TAX SUPPORTED					
Montgomery College	992,000	1,638,620	1,214,000	1,700,000	3.7%
CABLE TELEVISION FUND NON-TAX SUPPORTED					
Montgomery College	1,699,280	1,683,725	1,658,000	1,726,867	2.6%
MAJOR FACILITIES RESERVE FUND NON-TAX SUPPORTED					
Montgomery College	1,712,206	3,500,000	1,700,000	3,000,000	-14.3%
SPECIAL FUNDS NON-TAX SUPPORTED					
Montgomery College	14,986,612	22,507,655	15,000,000	19,894,000	-11.6%
TOTAL SPECIAL FUNDS NON-TAX SUPPORTED	**14,986,612**	**22,507,655**	**15,000,000**	**19,894,000**	**-11.6%**
TRANSPORTATION FUND NON-TAX SUPPORTED					
Montgomery College	3,594,351	4,100,000	4,100,000	4,200,000	2.4%
WORKFORCE DEVELOPMENT & CONTINUING ED NON-TAX SUPPORTED					
Montgomery College	15,233,874	17,784,950	15,790,000	17,677,384	-0.6%
TOTAL MONTGOMERY COLLEGE	**293,705,876**	**313,974,326**	**294,227,520**	**312,997,974**	**-0.3%**
MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION					
SPECIAL FUNDS TAX SUPPORTED					
Maryland-National Capital Park and Planning Commission	121,219,730	131,547,071	129,430,195	133,554,446	1.5%
TOTAL SPECIAL FUNDS TAX SUPPORTED	**121,219,730**	**131,547,071**	**129,430,195**	**133,554,446**	**1.5%**
ENTERPRISE FUND NON-TAX SUPPORTED					
Maryland-National Capital Park and Planning Commission	8,795,713	9,297,797	9,518,687	9,777,775	5.2%
PROP MGMT MNCPPC NON-TAX SUPPORTED					
Maryland-National Capital Park and Planning Commission	1,267,784	1,311,100	1,287,331	1,532,800	16.9%
SPECIAL FUNDS NON-TAX SUPPORTED					
Maryland-National Capital Park and Planning Commission	101,408	550,000	550,000	550,000	—
SPECIAL REVENUE FUNDS NON-TAX SUPPORTED					
Maryland-National Capital Park and Planning Commission	5,352,881	5,634,625	5,535,093	6,519,833	15.7%
TOTAL M-NCPPC	**136,737,516**	**148,340,593**	**146,321,306**	**151,934,854**	**2.4%**
SUMMARY					
TOTAL EXPENDITURES ALL AGENCIES	5,250,528,229	5,450,363,866	5,325,242,336	5,561,907,075	2.0%

Excerpt from Companion Document to OLO Report 2013-1,
***Fiscal Planning and the New Maintenance of Effort Law* (October 16, 2012)**

2012 Amendments

The amendments approved by the General Assembly in 2012 made changes to all three parts of the MOE law. Generally, the amendments establish the State's 5 year moving average of education effort as a new funding parameter and limit a county's fiscal authority set their own per pupil funding levels.

Amendments to the funding level provisions

These amendments establish the 5 year moving average of education effort as a new funding parameter for determining per pupil MOE amounts for some counties and exclude debt service from any MOE calculation.[1] To ensure local share revenue exists to meet per pupil MOE requirements, the law also creates the authority to exceed a county charter's local property tax limits.

Changes to the per pupil MOE requirements. The new law adds a provision §5-202 (d)(2) that could increase the per pupil MOE requirement of counties whose education effort is below the statewide 5-year moving average. The provision states that if a county's education effort is below the statewide 5-year moving average, beginning in 2015 its per pupil amount will be increased by the lesser of: A) a county's increase in local wealth per pupil; B) the statewide average increase in local wealth per pupil; or C) 2.5%.

This provision ensures that the statewide average of education effort will not decrease. It could stay the same if local wealth tax bases remain static and counties do not increase their education appropriations. Or, it could be driven up if those factors or other economic conditions increase.

This statewide education effort 5-year average is an eligibility measure for one of the new waiver provisions, described below. As such, this requirement puts potential upward pressure on the average and on all counties' appropriations.

Debt service exclusion. The new law explicitly excludes debt service incurred for school construction from any MOE calculation.

Authority to exceed charter property tax limits to fund education. Md. Code, Educ. §5-104 (a) provides that counties "shall levy and collect a tax on the assessable property of the county which, together with other local revenue available,...will produce the amounts necessary to meet the appropriations made in the approved annual budget of the county board."

The new law adds §5-104 (d), which allows property tax collection above any limit on rate or revenues set by a county charter "for the sole purpose of funding the approved

[1] Education effort is a measure of education appropriation relative to the local wealth base. The calculation of local wealth includes 100% of net taxable income; 40% of the real property tax base; and 100% of the personal property and utility assessable tax bases.

budget of the county's board." It goes on to specify that all revenues collected above the charter limited amount be appropriated to the county board.

Amendments to the Waiver Provisions

The MOE law passed in the 2012 session establishes three processes for counties to obtain waivers from the MOE requirement. There is still no process to appeal the State Board's decision for any of the new waivers.

Fiscal condition waiver. Similar to the previous waiver process, this waiver allows counties to apply for a one-year waiver from the MOE requirement if the county can show that its fiscal condition "significantly impedes" its ability to fund MOE.

Counties must apply to the State Board of Education, which must hold a public hearing and receive a preliminary assessment of the request from the State Superintendent. Then, the State Board can approve or deny the request in whole or in part. The law now specifies several factors for the State Board to consider in making its determination[2]. If a county receives this type of waiver, its next year's MOE requirement returns to the per pupil amount before the waiver.

Recurring cost waiver. This waiver allows a county to reduce its per pupil contribution by an amount attributable to recurring cost savings. The MOE reduction can be less than but cannot be more than the amount of the identified reduction in recurring costs. This amount must be agreed to by the local board of education and, if the reduction relates to personnel or personnel costs, by the employee bargaining unit. If this waiver is granted, the MOE per pupil amount is reduced by the agreed to amount going forward.

Rebasing waiver. A county that has applied for and received the one-year fiscal condition waiver can also request a waiver to reduce the per pupil amount going forward if it has "submitted sufficient evidence that the factors...will affect the county's ongoing ability" to meet MOE.

To be eligible to receive this waiver a county must have an education appropriation greater than the statewide 5-year moving average of education effort (adjusted for local wealth). If a county meets both the waiver and funding criteria to apply, the State Board considers factors such as taxing authority and history of exceeding MOE in determining whether to approve the waiver. If the State Board approves the rebasing waiver, a county can be eligible for a waiver of 1, 2, or 3 percent of its MOE depending on the difference between the statewide 5-year moving average of education effort and the county's 5-year average education effort.

[2] The factors for consideration are: external environmental or economic factors; a county's tax base; rate of inflation relative to student population growth; statutory ability to raise revenues; history of exceeding MOE; agreement between a county and a local board; reductions in State aid; number of waivers a county has received in the last five years; and the history of compensation adjustments for county and local board employees.

In sum, the waiver processes remain uncertain and ultimately out of the Council's control:

- The State Board of Education continues to have decision-making authority over MOE requests.
- One of the two processes to lower the per pupil requirement for more than one year requires approval of the local board and employee associations, who have a strong incentive to keep and reallocate any identified savings rather than reduce the required funding level.
- The other rebasing process has a high funding bar to clear for eligibility and a constrained waiver amount even if successful. The eligibility criteria of exceeding the statewide average will also be a moving target varying by statewide economic conditions, jurisdictions' relative wealth, and other counties funding decisions.

Amendments to the Penalty Provisions

Income tax revenue penalty for noncompliance. The new penalty provision states that if a county is certified to be noncompliant with MOE, the Comptroller shall intercept county income tax revenue equal to the amount by which the county failed to meet MOE. The law then states that the Comptroller shall distribute that amount to the local board.[3] The end result of this process is that it is impossible to fail to meet MOE.

Again, this is an unprecedented overreach by the State into local control of local fiscal resources and places funding for one agency above all others, regardless of local circumstances. Combined with the requirement that MOE must always be reset, this could result in a continuous cycle of reductions and penalties that disrupts counties' fiscal balance for years in a row.

[3] The 2012 session added a new penalty section that follows the same process for a county's failure to meet the local share of the foundation floor amount; however, this funding requirement is very low and not likely to be an issue.

REVENUE SUMMARY
TAX SUPPORTED BUDGETS
($ Millions)

	KEY REVENUE CATEGORIES	App. FY18	Estimate FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24
	TAXES	5-25-17	12-12-17	App/Rec	3-15-18										
1	Property Tax	1,770.2	1,766.8	2.2%	1,808.4	2.8%	1,858.9	2.9%	1,913.1	3.0%	1,970.6	3.2%	2,033.5	3.3%	2,099.6
2	Income Tax	1,557.9	1,482.0	1.8%	1,585.2	6.2%	1,683.0	3.4%	1,740.8	3.1%	1,794.1	4.2%	1,870.0	4.8%	1,959.3
3	Transfer Tax	114.3	106.1	-4.1%	109.5	3.4%	113.3	3.2%	116.9	3.2%	120.6	2.1%	123.1	3.4%	127.3
4	Recordation Tax	56.2	51.7	-4.9%	53.4	3.6%	55.3	3.1%	57.0	4.1%	59.4	1.2%	60.1	3.4%	62.1
5	Energy Tax	204.3	190.7	-5.1%	194.0	-0.8%	192.4	-0.1%	192.1	0.1%	192.3	0.0%	192.3	0.0%	192.3
6	Telephone Tax	52.5	51.6	1.4%	53.3	3.1%	54.9	2.8%	56.5	0.8%	56.9	0.0%	56.9	0.0%	56.9
7	Hotel/Motel Tax	21.9	22.0	1.4%	22.2	0.8%	22.4	0.8%	22.6	0.8%	22.8	0.8%	23.0	0.8%	23.1
8	Admissions Tax	3.3	3.5	8.8%	3.6	3.3%	3.7	3.3%	3.8	3.3%	3.9	3.3%	4.1	3.3%	4.2
9	E-Cigarette Tax	0.4	0.6	58.2%	0.7	6.2%	0.7	5.8%	0.7	5.5%	0.8	5.2%	0.8	5.0%	0.9
10	**Total Local Taxes**	**3,781.0**	**3,674.9**	**1.3%**	**3,830.2**	**4.0%**	**3,984.6**	**3.0%**	**4,103.5**	**2.9%**	**4,221.2**	**3.4%**	**4,363.7**	**3.7%**	**4,525.8**
	INTERGOVERNMENTAL AID														
11	Highway User	3.7	3.7	1.7%	3.8	0.0%	3.8	0.0%	3.8	0.0%	3.8	0.0%	3.8	0.0%	3.8
12	Police Protection	14.7	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7
13	Libraries	6.3	6.3	2.9%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4
14	Health Services Case Formula	4.6	4.6	0.0%	4.6	0.0%	4.6	0.0%	4.6	0.0%	4.6	0.0%	4.6	0.0%	4.6
15	Mass Transit	39.5	40.3	2.2%	40.3	0.0%	40.3	0.0%	40.3	0.0%	40.3	0.0%	40.3	0.0%	40.3
16	Public Schools	679.1	679.1	4.1%	706.9	0.0%	706.9	0.0%	706.9	0.0%	706.9	0.0%	706.9	0.0%	706.9
17	Community College	35.8	35.8	2.2%	36.6	0.0%	36.6	0.0%	36.6	0.0%	36.6	0.0%	36.6	0.0%	36.6
18	Other	59.0	63.7	8.0%	63.7	-30.0%	44.6	-15.2%	37.8	0.0%	37.8	0.0%	37.8	0.0%	37.8
19	**Total Intergovernmental Aid**	**842.6**	**848.2**	**4.1%**	**877.0**	**-2.2%**	**857.9**	**-0.8%**	**851.1**	**0.0%**	**851.1**	**0.0%**	**851.1**	**0.0%**	**851.1**
	FEES AND FINES														
20	Licenses & Permits	12.9	12.9	1.9%	13.1	1.5%	13.3	1.5%	13.5	1.5%	13.7	1.5%	13.9	1.5%	14.1
21	Charges for Services	70.3	70.6	3.4%	72.7	1.7%	73.9	1.8%	75.2	1.8%	76.6	1.9%	78.0	1.9%	79.5
22	Fines & Forfeitures	28.7	28.9	1.4%	29.1	1.6%	29.5	1.6%	30.0	1.6%	30.5	1.6%	31.0	1.6%	31.5
23	Montgomery College Tuition	80.4	74.3	-2.8%	78.2	1.7%	79.5	1.8%	80.9	1.8%	82.4	1.9%	83.9	0.0%	83.9
24	**Total Fees and Fines**	**192.2**	**186.7**	**0.4%**	**193.0**	**1.6%**	**196.2**	**1.7%**	**199.6**	**1.8%**	**203.1**	**1.8%**	**206.8**	**1.1%**	**209.1**
	MISCELLANEOUS														
25	Investment Income	4.0	3.9	33.4%	5.3	27.5%	6.8	21.4%	8.3	17.6%	9.7	0.0%	9.7	0.0%	9.7
26	Other Miscellaneous	13.7	17.2	40.1%	19.2	2.1%	19.6	2.2%	20.1	2.3%	20.5	2.4%	21.0	2.4%	21.5
27	**Total Miscellaneous**	**17.7**	**21.1**	**38.6%**	**24.6**	**7.6%**	**26.4**	**7.1%**	**28.3**	**6.8%**	**30.2**	**1.6%**	**30.7**	**1.7%**	**31.2**
28	**TOTAL REVENUES**	**4,833.5**	**4,730.9**	**1.9%**	**4,924.8**	**2.8%**	**5,065.1**	**2.3%**	**5,182.5**	**2.4%**	**5,305.7**	**2.8%**	**5,452.3**	**3.0%**	**5,617.3**
	Calculation for Adjusted Governmental Revenues														
29	**Total Tax Supported Revenues**	**4,833.5**	**4,730.9**	**1.9%**	**4,924.8**	**2.8%**	**5,065.1**	**2.3%**	**5,182.5**	**2.4%**	**5,305.7**	**2.8%**	**5,452.3**	**3.0%**	**5,617.3**
30	**Capital Projects Fund**	**176.0**	**176.0**	**6.4%**	**187.2**	**-11.6%**	**165.5**	**-14.8%**	**141.0**	**3.3%**	**145.7**	**4.4%**	**152.0**	**3.8%**	**157.8**
31	**Grants**	**117.4**	**117.4**	**0.0%**	**117.4**	**2.1%**	**119.9**	**2.2%**	**122.5**	**2.3%**	**125.3**	**2.4%**	**128.3**	**2.4%**	**131.4**
32	**MCG Adjusted Revenues**	**5,126.9**	**5,024.3**	**2.0%**	**5,229.5**	**2.3%**	**5,350.5**	**1.8%**	**5,446.0**	**2.4%**	**5,576.7**	**2.8%**	**5,732.7**	**3.0%**	**5,906.4**

County Executive's Recommended FY19-24 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

		App. FY18	Est. FY18	% Chg. FY18-19	Rec. FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24
		5-25-17	3-15-18	App/Rec	3-15-18										
	Total Revenues														
1	Property Tax	1,770.2	1,766.8	2.2%	1,808.4	2.8%	1,858.9	2.9%	1,913.1	3.0%	1,970.6	3.2%	2,033.5	3.3%	2,099.6
2	Income Tax	1,557.9	1,482.0	1.8%	1,585.2	6.2%	1,683.0	3.4%	1,740.8	3.1%	1,794.1	4.2%	1,870.0	4.8%	1,959.3
3	Transfer/Recordation Tax	170.4	157.7	-4.4%	162.9	3.5%	168.6	3.1%	173.9	3.5%	179.9	1.8%	183.2	3.4%	189.4
4	Other Taxes	282.5	268.4	-3.1%	273.7	0.1%	274.1	0.6%	275.7	0.3%	276.7	0.1%	277.1	0.1%	277.4
5	Other Revenues	1,052.5	1,056.0	4.0%	1,094.6	-1.3%	1,080.5	-0.1%	1,079.0	0.5%	1,084.5	0.4%	1,088.7	0.3%	1,091.4
6	**Total Revenues**	**4,833.5**	**4,730.9**	**1.9%**	**4,924.8**	**2.8%**	**5,065.1**	**2.3%**	**5,182.5**	**2.4%**	**5,305.7**	**2.8%**	**5,452.3**	**3.0%**	**5,617.3**
7															
8	**Net Transfers In (Out)**	**34.3**	**48.8**	**-28.2%**	**24.7**	**-2.2%**	**24.1**	**2.2%**	**24.6**	**2.3%**	**25.2**	**2.4%**	**25.8**	**2.4%**	**26.4**
9	**Total Revenues and Transfers Available**	**4,867.8**	**4,779.7**	**1.7%**	**4,949.5**	**2.8%**	**5,089.2**	**2.3%**	**5,207.2**	**2.4%**	**5,330.9**	**2.8%**	**5,478.2**	**3.0%**	**5,643.7**
10															
11	**Non-Operating Budget Use of Revenues**														
12	Debt Service	399.9	392.2	5.0%	420.1	4.3%	438.0	2.0%	447.0	2.7%	458.9	2.8%	471.8	0.5%	474.1
13	PAYGO	34.0	34.0	-2.9%	33.0	-3.0%	32.0	-3.1%	31.0	-3.2%	30.0	0.0%	30.0	0.0%	30.0
14	CIP Current Revenue	66.2	62.0	-46.2%	35.6	121.3%	78.7	10.1%	86.6	-14.2%	74.4	30.2%	96.9	0.1%	97.0
15	Change in Other Reserves	-42.2	-21.2	12.6%	-36.9	101.8%	0.7	-70.9%	0.2	-1.4%	0.2	7.5%	0.2	3957.4%	8.4
16	Contribution to General Fund Undesignated Reserves	6.4	20.1	153.1%	16.2	14.6%	18.6	-59.8%	7.5	-29.1%	5.3	-2.2%	5.2	22.2%	6.3
17	Contribution to Revenue Stabilization Reserves	27.7	27.6	7.2%	29.7	-14.0%	25.5	-88.0%	3.1	150.8%	7.6	30.7%	10.0	3.0%	10.3
18	Set Aside for other uses (supplemental appropriations)	0.0	-6.4	n/a	0.0	n/a	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
19	**Total Other Uses of Resources**	**492.0**	**508.3**	**1.1%**	**497.7**	**23.3%**	**613.5**	**-3.0%**	**595.4**	**0.2%**	**596.4**	**6.3%**	**634.1**	**1.9%**	**646.1**
20	**Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)**	**4,375.8**	**4,271.4**	**1.7%**	**4,451.8**	**0.5%**	**4,475.7**	**3.0%**	**4,611.8**	**2.7%**	**4,734.5**	**2.3%**	**4,844.1**	**3.2%**	**4,997.6**
21															
22	**Agency Uses**														
23															
24	Montgomery County Public Schools (MCPS)	2,368.7	2,347.3	3.1%	2,443.2										
25	Montgomery College (MC)	262.8	254.8	0.8%	264.8										
26	MNCPPC (w/o Debt Service)	125.9	123.8	0.8%	126.9										
27	MCG	1,618.5	1,545.5	-0.1%	1,617.0										
28	**Agency Uses**	**4,375.8**	**4,271.4**	**1.7%**	**4,451.8**	**0.5%**	**4,475.7**	**3.0%**	**4,611.8**	**2.7%**	**4,734.5**	**2.3%**	**4,844.1**	**3.2%**	**4,997.6**
29	**Total Uses**	**4,867.8**	**4,779.7**	**1.7%**	**4,949.5**	**2.8%**	**5,089.2**	**2.3%**	**5,207.2**	**2.4%**	**5,330.9**	**2.8%**	**5,478.2**	**3.0%**	**5,643.7**
30	**(Gap)/Available**	0.0	0.0		0.0		0.0		0.0		0.0		0.0		0.0

Assumptions:
1. Property taxes are at the Charter Limit with a $692 credit. The FY19 weighted property tax rate is 1.98 cents lower than FY18. 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 County Executive's Recommended FY19-24 Capital Improvements Program and additional proposed current revenue amendments.
4. State Aid, including MCPS and Montgomery College, is not projected to increase from FY19-24.

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County Executive's Recommended FY19-24 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

#		App. FY18	Est. FY18	% Chg. FY18-19	Rec. FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24
31	**Beginning Reserves**														
32	**Unrestricted General Fund**	142.8	118.4	-3.1%	138.4	11.7%	154.6	12.0%	173.2	4.3%	180.7	2.9%	186.0	2.8%	191.2
33	**Revenue Stabilization Fund**	280.4	280.7	9.9%	308.3	9.6%	337.9	7.5%	363.4	0.8%	366.5	2.1%	374.1	2.7%	384.1
34	**Total Reserves**	423.2	399.0	5.5%	446.7	10.3%	492.6	9.0%	536.7	2.0%	547.2	2.4%	560.1	2.7%	575.3
35															
36	**Additions to Reserves**														
37	**Unrestricted General Fund**	6.4	20.1	153.1%	16.2	14.6%	18.6	-59.8%	7.5	-29.1%	5.3	-2.2%	5.2	22.2%	6.3
38	**Revenue Stabilization Fund**	27.7	27.6	7.2%	29.7	-14.0%	25.5	-88.0%	3.1	150.8%	7.6	30.7%	10.0	3.0%	10.3
39	**Total Change in Reserves**	34.1	47.7	34.6%	45.9	-3.9%	44.1	-76.1%	10.5	23.0%	13.0	17.2%	15.2	9.5%	16.6
40															
41	**Ending Reserves**														
42	**Unrestricted General Fund**	149.2	138.4	3.7%	154.6	12.0%	173.2	4.3%	180.7	2.9%	186.0	2.8%	191.2	3.3%	197.5
43	**Revenue Stabilization Fund**	308.1	308.3	9.7%	337.9	7.5%	363.4	0.8%	366.5	2.1%	374.1	2.7%	384.1	2.7%	394.4
44	**Total Reserves**	457.3	446.7	7.7%	492.6	9.0%	536.7	2.0%	547.2	2.4%	560.1	2.7%	575.3	2.9%	592.0
45	**Reserves as a % of Adjusted Governmental Revenues**	8.9%	8.9%		9.4%		10.0%		10.0%		10.0%		10.0%		10.0%
46	**Other Reserves**														
47	**Montgomery College**	4.6	9.4	1.1%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7
48	**M-NCPPC**	5.0	11.7	-3.5%	4.8	11.9%	5.4	2.9%	5.6	3.0%	5.7	3.1%	5.9	141.7%	14.3
49	**MCPS**	0.0	25.0	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**	0.7	1.1	8.4%	0.8	12.0%	0.9	4.3%	0.9	2.9%	1.0	2.8%	1.0	3.3%	1.0
51	**MCG + Agency Reserves as a % of Adjusted Govt Revenues**	9.1%	9.8%		9.6%		10.2%		10.3%		10.2%		10.2%		10.4%
52	**Retiree Health Insurance Pre-Funding**														
53	Montgomery County Public Schools (MCPS)	74.2	55.2		79.4		88.7		96.8		103.7		105.0		105.0
54	Montgomery College (MC)	2.6	0.6		2.8		3.0		3.1		3.3		3.3		3.3
55	MNCPPC	2.1	2.1		3.0		2.9		2.8		2.8		2.7		2.7
56	MCG	43.4	43.4		43.6		47.0		50.2		53.4		51.9		51.9
57	**Subtotal Retiree Health Insurance Pre-Funding**	122.2	101.2		128.8		141.6		152.9		163.2		163.0		162.9
58	**Adjusted Governmental Revenues**														
59	**Total Tax Supported Revenues**	4,833.5	4,730.9	1.9%	4,924.8	2.8%	5,065.1	2.3%	5,182.5	2.4%	5,305.7	2.8%	5,452.3	3.0%	5,617.3
60	**Capital Projects Fund**	176.0	176.0	6.4%	187.2	-11.6%	165.5	-14.8%	141.0	3.3%	145.7	4.4%	152.0	3.8%	157.8
61	**Grants**	117.4	117.4	0.0%	117.4	2.1%	119.9	2.2%	122.5	2.3%	125.3	2.4%	128.3	2.4%	131.4
62	**Total Adjusted Governmental Revenues**	5,126.9	5,024.3	2.0%	5,229.5	2.3%	5,350.5	1.8%	5,446.0	2.4%	5,576.7	2.8%	5,732.7	3.0%	5,906.4

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The Financial Impact of a Credit Rating Downgrade

April 2017

Prepared by the Montgomery County Department of Finance

A credit rating reflects a nationally recognized statistical rating organization's independent opinion of the creditworthiness of an issuer of bonds and the likelihood the issuer will make timely and required debt service payments on outstanding bonds. The question as to the relative costs associated with being downgraded from an AAA rated county is not answered with a simple mathematical calculation. Below, we attempt to both define and quantify the impacts of a downgrade in the County's general obligation bond rating on various components of the County's financial operations, and especially on its borrowing and transaction costs.

Nearly every single financial transaction that the County enters into with a financial institution has some element of risk for that institution and that risk has a price associated with it. So from a more subjective standpoint, a lower rated county pays more for banking services and credit card merchant fees, receives less interest on investments, pays higher lockbox fees, has a less lucrative P-card rebate program, pays higher fees for financial advisors and bond counsel, pays higher underwriting and remarketing fees, etc.

It would be difficult, if not impossible, to quantify all of the additional costs associated with being a lower rated county. Too many subjective and objective attributes are calculated and considered in pricing certain financial services. However, as a triple AAA rated issuer of debt, and one of the top 250 counties in the nation issuing debt, it is highly probable that Montgomery County is paying some of the lowest fees for its financial services and, more importantly, has one of the lowest costs of funds.

It is not difficult to quantify in dollars some of the more obvious differences in higher and lower rated general obligation debt. For example, if the County priced its $340 million of general obligation bonds sold on November 30, 2016 as an AA+ rated issuer, over the 20-year life of that bond issue, the County would pay approximately $6.0 million more in interest expense. In the current market the average spread between AAA and AA+ interest rates is about 17 basis points (0.17%). To place this additional cost in the context of the County's 6-year CIP program, if one assumes equal future annual borrowings; debt service would increase by about $36 million.

The County maintains standby liquidity facilities to back its $600 million variable rate note programs. These programs include the County's $500 million commercial paper program (BANs) and its $100 variable rate demand obligation program. Based on information provided by the County's financial advisor, as an AA+ rated issuer of short-term notes, the County would pay an additional 20 basis points for its lines of credit. In real terms, the additional annual fee would be $1.2 million.

Typically, debt issued by the County that is subject to annual appropriation, including lease revenue bonds and certificates of participation, is rated one or two notches below the County's AAA rated general obligation bonds. Each rating notch costs approximately 15 basis points in the current market. Therefore, if the general obligation bonds are downgraded from AAA to AA+, the appropriation backed debt would also be downgraded from AA+ or AA to AA or AA-.

The average basis point spread over the last year between an AA+ bond and an AA bond with a maturity of 10 years is about 11 basis points. The County issued certificates of participation for $24.8 million in July 2016. The certificates were rated Aa1; had they been rated Aa2, the additional debt service cost over the life of the certificates would have been about $275,000.

Another example of the benefit of the AAA rating is the access to the credit markets. During and after the Great Recession and financial crisis, the County was able to maintain its access to a liquidity facility for its commercial paper program because of its strong credit rating. During this same time period other lower rated municipalities were not able to access the credit markets or paid significant premium for market access.

The last few examples of costs associated with being a lower rated county are probably some of the most obvious and expensive examples. Since FY12 the County has been able to save over $82.8 million in long term debt service savings through bond refundings. This level of savings would not have been possible without the County's strong credit rating. The County has a $70 million master lease program, through which over the last 12 years it has leased various assets such as computer equipment, fire trucks, ambulances, buses and other vehicles. The County also has a $40 million master lease line of credit to finance energy performance savings contracts. Without question, the cost of these leases would have been higher if the County had lower ratings. Over the last few decades, the County frequently issued debt that did not fall into the categories described above. The County issued development district bonds, various varieties of revenue bonds, term notes, short term debt for buses, fire apparatus, information technology,and other equipment financings, and acted as a conduit issuer for not-for-profit borrowers. Suffice it to say, all those terms would have been more costly had the County been lower rated.

Further, in April 2017, Fitch Ratings upgraded the County's West Germantown Development District Bonds from A+ to AAA and upgraded the County's Water Quality Protection Charge Revenue Bonds from AA to AAA due to the strength and credit quality of the County's underlying General Obligation Bond rating.

Finally, one should remember that a credit rating downgrade has an adverse impact on the price and yield of debt offered in the primary market, but it also has an adverse impact on the price and yield on existing debt in the secondary market. After a credit rating downgrade, the investor who owns a AAA rated County bond, now owns a lower rated security that is worth less than before the credit rating downgrade. Credit rating downgrades, or the perceived risk of a potential credit rating downgrade, are viewed negatively by investors and typically result in lower bond prices and higher interest rates paid by the County.

For decades, the County has enjoyed and benefited from having the highest ratings from all three rating agencies. In the municipal bond market, the name Montgomery County, Maryland is synonymous with the highest quality bonds. County bonds often trade at levels equal in price and yield to similarly rated state bonds. There are only 47 other counties in the United States enjoy AAA ratings from all three rating agencies and only 14 of those have populations greater than 900,000 people. While it is difficult to achieve and maintain that status, from a financial perspective the rewards are voluminous.

MEMORANDUM

March 20, 2018

TO: Councilmembers

FROM: Hans Riemer, Council President

SUBJECT: Council Approach to the FY19 Operating Budget

With the transmittal of the Executive's FY19 recommended operating budget, the Council now begins the task of making our own final funding decisions. In FY19 – as every year – the Council will address questions related to revenue, expenditure, fund balances, and community grants to non-profit organizations that provide services to individuals and families in need. As in past years, together we will do our best to protect essential services. The decisions that we will face this year will be particularly challenging given current and projected resource constraints.

If you have specific questions for our analysts to review in their packets, please alert Marlene Michaelson as soon as possible. The sooner your questions are relayed to the analysts, the sooner the analysts can request relevant information from departments and the Office of Management and Budget.

I suggest that we ask our analysts and Committees to identify:

- Which items – either in the base or new –warrant full, reduced or no funding in FY19;
- Which items may warrant future funding but require additional information or analysis;
- Which items should be considered for funding, without regard for whether the item was included in the recommended budget.

Committee recommendations to the Council will be reflected in the packets and in our regular budget tracking reports. As in years past, any Committee-proposed additions to the recommended budget will go on the Council's reconciliation list. Given our current fiscal constraints, Committees should focus on identifying savings, and should only place items on the reconciliation list that are top priorities for Councilmembers.

Please let me know if you have questions about the approach I am suggesting. I look forward to hearing from each of you regarding your individual priorities. I look forward to working together to transform the Executive's recommended budget into the Council's approved budget for FY19.

c: Council and OLO Staff