ROCKVILLE, MARYLAND

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MAY 3 2010
MD STATE BOARD OF EDUCATION

May 3, 2010

Mr. James H. DeGraffenreidt, Jr.
President
Maryland State Board of Education
200 West Baltimore Street
Baltimore, Maryland 21201

Dear Mr. DeGraffenreidt:

Pursuant to Section 5-202(d)(7) of Maryland Code, Education Article, Montgomery County requests a waiver from the State's Maintenance of Effort (MOE) requirement as defined under Section 5-202(d)(1)-(6). The following will demonstrate not only that the County's fiscal condition significantly impedes it from funding the MOE requirement[1], but that it's fiscal condition is unique from the general economic crisis that affects all counties in the State.

Fueled by steep increases in income tax revenues, the County has, for many years, invested local funds in K-12 education above that required by the State MOE law[2]. This investment has paid handsome dividends in improving the educational results achieved by Montgomery County Public Schools (MCPS). Unfortunately, beginning in FY10, the County has endured a steep decline in its income tax revenues, which "significantly impedes" the County's ability to fund MOE. This loss of revenue is attributable to a disproportionately high decline in high income taxpayers that is unique to Montgomery County.

Despite being unable to meet its MOE target in FY11, the County has made every effort to minimize the impact of this decline in revenue on K-12 education. The County has proposed to proportionately take steeper budget reductions in County government and other County funded agencies such as the Maryland National Park and Planning Commission (M-NCPPC) than the County has proposed for MCPS. There is no reasonable alternative to making these painful cuts. As will be explained below, all reasonable avenues for increasing taxes are already being pursued in the FY11 budget.

<u>Montgomery County Requests Waiver to Provide MCPS Appropriation of $1.415 billion.</u>

The County Executive's Recommended FY11 Operating Budget includes local funding of $1,415,085,344 for K-12 public education. Montgomery County requests a waiver of its MOE requirement to permit local funding at the level of $1,415,085,344.

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1 1 Md. Code Ann., § 5-202 (d) (7).
2 See MOE table, page 2; Income Tax Revenue table, page 5.

This amount is below the County's MOE requirement by either $138,848,943 (8.9 percent of the total MOE amount) or $58,043,862 (3.9 percent of the total MOE amount). The latter amount reflects advice rendered by Assistant Attorney General Bonnie Kirkland in a February 26, 2010 letter to Senator Richard Madaleno; in that letter Ms. Kirkland advised that $79.5 million in debt service appropriated to MCPS in FY10 should not be counted in calculating the County's MOE requirement for FY11. A copy of Ms. Kirkland's advice is attached. A final resolution of this issue, however, is not necessary for the purpose of resolving the County's request for an MOE waiver for FY11 because the waiver can be quantified at the local funding level of $1,415,085,344.

The County Executive's total FY11 Recommended Operating Budget for MCPS including local funding, State education aid, federal grants, and other revenues is $2,125,542,225. [3]

Montgomery County Has a History Of Consistently Exceeding MOE Requirements.

With the exception of FY92, when Maryland permitted a State-wide waiver of the MOE requirement, and arguably FY10, Montgomery County has not only met its MOE requirement but significantly exceeded it. In the last ten years, Montgomery County has increased its local contribution to K-12 Education by nearly $660 million to over $1.4 billion. This represents an 75.6 percent increase in local funding – an average annual increase of 5.8 percent – that has enabled Montgomery County to reduce class size, raise test scores, and meet the needs of the growing number of students eligible for FARMS and ESOL services.

Maintenance of Effort (MOE)
and Local Funding
(in millions)

Fiscal Year	MOE	App. Budget	$ Difference	% Difference
FY01	884.1	959.8	75.7	8.6%
FY02	983.0	1,029.7	46.7	4.8%
FY03	1,050.7	1,079.2	28.5	2.7%
FY04	1,101.6	1,136.4	34.8	3.2%
FY05	1,144.3	1,217.2	72.9	6.4%
FY06	1,224.2	1,285.8	61.6	5.0%
FY07	1,290.3	1,384.7	94.4	7.3%
FY08	1,373.7	1,456.9	83.2	6.1%
FY09	1,452.5	1,531.5	79.0	5.4%
FY10	1,529.6	1,529.6	0.0	0.0%
TOTAL			576.8	

Montgomery County Invests In Education Outside of MOE.

The County Executive's Recommended FY11-16 Capital Improvements Program (CIP) budget includes over $1.2 billion in locally supported funding for school construction, renovation, information technology, and other capital improvements in support of K-12 public education.

In addition to the County's direct local contribution to MCPS and its funding of capital projects, the County Government also funds over $37 million to operate several programs in support of the Public Schools' mission, including:

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[3] The Executive's Recommended Budget for MCPS does not include funding for debt service reimbursements. The Council has not completed work on the FY11 Operating Budget. The Council will communicate any relevant results of its deliberations at or before the State Board's May 25, 2010 public hearing.

- School Safety: Providing 173 Crossing Guards, 5 support staff, and 7 Police Officer positions, at a cost of $5.5 million;
- School Safety: Providing 33 Police Officers as Educational Facility Officers assigned to 25 Public High Schools and 2 Middle Schools, at a cost of $3.5 million;
- School Health: Providing 314 positions including nurses and health room technicians, at a cost of $19.2 million;
- Wellness: Funding for various wellness programs, including School Suspension programs; reading, tutoring and mentoring programs; Infant and Toddlers programs; and Pre-Kindergarten programs, at a cost of $3.9 million;
- Linkages to Learning: Providing early intervention services to students and families of elementary and middle school communities with the highest indicators of poverty to address non-academic issues that may interfere with a child's success at school, at a cost of $4.8 million; and
- Stormwater Facility Maintenance: To comply with the terms of the State issued Municipal Separate Storm Sewer System permit, the County Government invests $717,000 in maintenance of the School system's stormwater facilities.

Dividends Received On County's Investment In MCPS.

In 2009, the MCPS graduation rate of 80.7 percent was tied for first among the nation's large school districts. A historic high of 28,575 Advanced Placement (AP) exams were taken by MCPS students in 2009. Students scored a 3 or higher on 72.3 percent of AP exams taken, compared with 61 percent for Maryland and 57 percent for the nation. In 2009, nearly 48 percent of AP exams taken by African American students scored a 3 or better, significantly higher than the 28 percent for Maryland and 25 percent for the nation. The percentage of African American and Hispanic graduates in the class of 2009 with at least one AP score of 3 or higher surpassed the national average of 15.9 percent for all graduates. The class of 2009 scored a 1615 average combined SAT score surpassing both national and state averages. Nearly 50 percent of graduates in the MCPS classes of 2001-2004 earned a bachelor's degree within 6 years, compared with 27.5 percent nationwide. More than 90 percent of kindergartners have met or exceeded reading targets in each of the past 3 years, essentially closing the achievement gap by race, ethnicity, and socioeconomic status at this grade level. Nearly 55 percent of Grade 5 students took advanced math in 2008-2009.

Denying A Waiver Will Discourage The County From Exceeding MOE In The Future And Is Contrary To The Intent Of The MOE Law.

In denying Montgomery County's MOE waiver request for FY10, the State Board stated that it "must consider carefully the full implications of that request, not only at the local level, but statewide as well, because any crumbling in the cornerstone of the State/local share formula for funding education can affect the structural soundness of the education formula going forward." But by the Board's taking a "narrow" view of the waiver criteria as a basis for denying the County's FY10 MOE waiver request, the Board has undermined the "cornerstone of the State/local share for funding education."

If a County that experiences a dramatic decline in tax revenues as the result of a deep, broad based recession cannot count on obtaining a waiver during lean years, a strong fiscal incentive is created to not fund local education above the MOE mark. The reason is simple: from the County's perspective, its strong support of local education by exceeding MOE over the years is punished by eliminating budget flexibility when a MOE waiver for a County the size and complexity of Montgomery is virtually impossible to obtain. Surely, this is not the outcome the General Assembly intended when it gave the Board the authority to waive MOE.

In approving HB 223 - Maintenance of Effort Penalty, it would appear that the General Assembly validated Montgomery County's rationale for its MOE waiver request. Also, while HB304/SB310 - Education-Maintenance of Effort Requirement – Process and Factors was not approved by the General Assembly for technical, not substantive reasons, it was clear there was significant support for the involvement of the State Superintendent in evaluating waiver requests as well as revised criteria including:

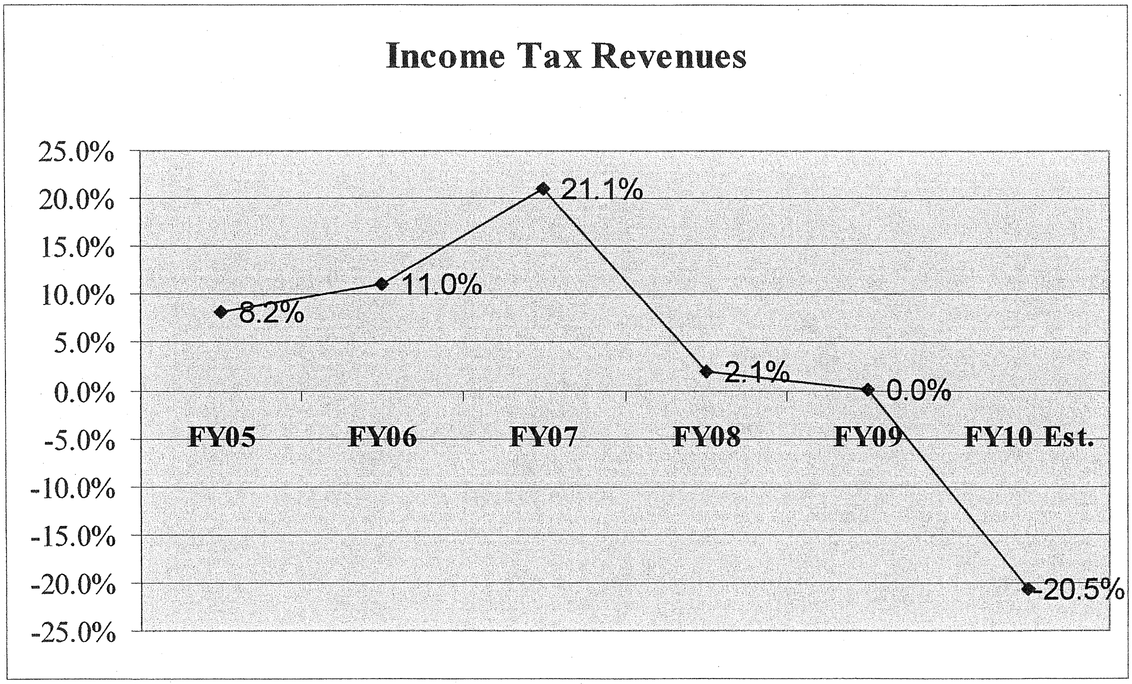
- a county governing body's history of exceeding the required maintenance of effort amount;
- the existence of an agreement between a county governing body and a county board that a waiver should be granted;
- significant reductions in State aid to a county and municipalities of the county for the fiscal year for which a waiver is applied;
- external environmental factors such as a loss of a major employer or industry affecting a county or a broad economic downturn affecting more than one county;
- a county's tax bases;
- rate of inflation relative to growth of student population in a county; and
- maintenance of effort requirement relative to a county's statutory ability to raise revenues.

Montgomery County's Projected Fiscal Condition for FY2011 Continues to Deteriorate Rapidly. This Deterioration is Attributable to a Decline in Income Tax Revenue that is Unique to Montgomery County.

In developing the County's FY11 operating budget, Montgomery County was faced with closing a budget shortfall of $975 million (over 26 percent of the County's tax-supported budget). This serious shortfall resulted from the national economic recession which caused tax revenues, especially income tax revenues, to decline dramatically. Since May 2009, when the County Council approved the FY10 operating budget, the County has revised its FY10 and FY11 tax-supported revenue projections downward by over $494 million. Montgomery County's net taxable income declined by over $4.6 billion in tax year 2008, which has contributed to reducing income tax collections down by over $265 million in the current year.

Subsequent to the County's March 31 waiver request letter, the County Executive was required to substantially amend, and reduce, his original recommended FY11 budget to account for a write-down of revenues of $168 million. Part of this write-down included a reduction of $24.5 million in the expected distribution of income tax revenues from the Comptroller's Office in March of 2010. As noted by staff in the Comptroller's Office: "…the distribution for Montgomery County fell substantially, greater than the total $12.6 million decline [for the entire state]. There appear to be several factors at play ***which are unique to the county*** and are currently under investigation; we are working with county officials to explain the situation (*emphasis added*)."

A top priority in the County Executive's post March 31 amendments to the operating budget was to restore a greater amount of funds to reserves to protect against further deterioration in the County's revenue streams and preserve the County's AAA bond rating. The Chart below shows not only the volatility in the County's income tax revenues, but also the dramatic reduction in these revenues over the past three years.



Montgomery County's revenue structure is highly, and for a local government, unusually dependent on income tax revenues which as recently as FY09 comprised 33.5 percent of the budgeted resources, but in FY11 are only 28 percent of those resources. This change reflects not only the significant volatility of this revenue source, but also indicates the disruption a revenue write down of this magnitude will have on the County's capacity to fund services to the local community including K-12 education. The County's ability to fund and even significantly exceed MOE in the past was dependent on a high level of income tax revenues. The County's proportion of high net worth individuals is higher than other jurisdictions in the State. The recent recession and changes in the State's tax code have adversely impacted Montgomery County disproportionately. As the table below shows, the County's net taxable income declined by over $4.6 billion in tax year 2008 with over $4 billion of that decline coming from tax payers with incomes exceeding $500,000 a year. This is the equivalent of the loss of a major employer or industry in the County (COMAR 13A.02.05.04C.2a).

Range of Taxable Income	Net Taxable Income		Change	%Change
	2007	2008		
$1 - 1,000	$5,242,542	$2,156,741	(3,085,801)	-59%
$1,001 - 2,000	$15,454,542	$6,788,395	(8,666,147)	-56%
$2,001 - 3,000	$24,462,619	$12,171,670	(12,290,949)	-50%
$3,001 - 150,000	$17,688,803,084	$17,307,287,601	(381,515,483)	-2%
$150,001 - 300,000	$4,583,476,473	$4,669,495,527	86,019,054	2%
$300,001 - 500,000	$2,149,744,636	$2,018,594,698	(131,149,938)	-6%
$500,001 - $1,000,000	$3,254,721,956	$2,870,497,029	(384,224,927)	-12%
$1,000,001 or more	$9,755,275,833	$5,989,456,954	(3,765,818,879)	-39%
Total	$37,477,181,685	$32,876,448,615	(4,600,733,070)	-12%

As the table below indicates, of all of the State's urban jurisdictions, Montgomery County experienced a disproportionately large share of the loss in the amount of net taxable income and the reduction in the number of income tax returns for individuals with income of $500,000 or more.

Maryland Adjusted Gross Income (Tax Returns >= $500,000)

	No. of Returns		No. of Returns Change: TY08-TY07	Share of Reduction
	Tax Year 2007	**Tax Year 2008**		
Montgomery	*9,272*	*7,719*	*(1,553)*	*49.0%*
Prince George's	361	306	*(55)*	*1.7%*
Frederick	580	447	*(133)*	*4.2%*
Anne Arundel	2,099	1,723	*(376)*	*11.9%*
Howard	1,581	1,385	*(196)*	*6.2%*
Baltimore County	3,589	2,922	*(667)*	*21.0%*
Baltimore City	941	752	*(189)*	*6.0%*
Total All Counties	**18,423**	**15,254**	**-3,169**	

	Tax Year 2007 Taxable Income	Tax Year 2008 Taxable Income	Taxable Income Change: TY08-TY07	Share of Reduction
Montgomery	*$13,183,902,115*	*$9,395,525,221*	*($3,788,376,894)*	*52.4%*
Prince George's	$416,008,227	$312,117,404	($103,890,823)	*1.4%*
Frederick	$635,916,083	$480,120,174	($155,795,909)	*2.2%*
Anne Arundel	$2,564,890,087	$2,201,800,543	($363,089,544)	*5.0%*
Howard	$1,902,931,623	$1,454,650,901	($448,280,722)	*6.2%*
Baltimore County	$5,524,234,911	$3,536,499,251	($1,987,735,660)	*27.5%*
Baltimore City	$1,273,720,212	$892,663,783	($381,056,429)	*5.3%*
Total All Counties	**$25,501,603,258**	**$18,273,377,277**	**($7,228,225,981)**	

In addition to the loss in income tax revenues, non-K-12 education aid has been reduced by over $18 million in FY10 by the Board of Public Works and by nearly $32 million in FY11 due to proposed changes in funding formulas in the Governor's budget. In fact, Highway User Revenues have been reduced from $36.6 million in FY08 to less than $1 million in FY10. During FY10, State support for the County's Health and Human Services programs was reduced by nearly $5 million, including reductions to health services, homeless services, drug and alcohol treatment, and other critical safety net services.

The chart below shows the impact of the recession on the County's major tax supported revenue streams for FY10 and FY11:

Cumulative FY10 and FY11 Revenue losses relative to original projections

CATEGORIES	Total FY10+FY11
TAXES	
Property Tax	(46.9)
Income Tax	(407.6)
Transfer/Recordation Tax	(0.8)
Other Taxes	(11.4)
Total Local Taxes	**(466.7)**
Non K-12 State Aid	
Highway User	(30.2)
Other State Aid	(13.7)
Subtotal Non K-12	**(43.9)**
K-12 State Aid	**44.0**
Fees and Fines	**(21.6)**
Investment Income & Misc.	**(6.5)**
TOTAL REVENUES	**(494.7)**

Attached is a copy of the County's latest review of economic indicators. In addition, some pertinent facts provided below indicate how the recession has impacted Montgomery County residents and led to this sharp decrease in revenues:

- Since December 2007, Montgomery County's unemployment rate has more than doubled to 5.7 percent in March 2010. This is one of the highest unemployment rates in Montgomery County in 20 years of record keeping by the Bureau of Labor Statistics, U.S. Department of Labor, and the Maryland Department of Labor, Licensing and Regulation.
- Resident employment in 2009 was at its lowest level since 2004, with little or no increase in resident employment, despite the entry of thousands of residents into the job market.
- Average home sale prices have declined for two consecutive years: ↓8.4 percent in CY2008 and ↓13.8 percent in CY2009.
- The most recent residential assessments plummeted 19.4 percent.
- The value of new construction (~$600 million) in CY2009 was the lowest in over thirteen years.

These economic factors, coupled with the stock market plunge and the resulting loss of capital gains tax revenues, have dramatically decreased the County's revenue collections for income, transfer, and recordation taxes. Moreover, the Federal Reserve rate cuts have reduced estimated FY10 tax-supported investment income by 95.0 percent since FY08 and projected FY11 tax-supported investment income by 86.7 percent since FY08.

Recommended FY11 Budget Includes Major Reductions to All Agencies, With Nearly Level Funding for MCPS.

To close the budget deficit, produce a balanced budget as required by law, and fund essential services including K-12 education, the County Executive and the County Council have made a number of significant budget reductions for FY10, and the County Executive has also recommended major reductions for FY11, including the following:

- Total mid-year FY10 reductions of nearly $100 million in Montgomery County Government, Montgomery College, the Maryland-National Capital Park and Planning Commission, and MCPS;
- Total FY11 reductions of over $198 million across the same four agencies;
- The abolishment of 466 positions in Montgomery County Government, with over half of these positions filled. In fact, since FY08, the County Government has abolished 1,091 positions or approximately 10 percent of all positions.
- The elimination of all General Wage Adjustments and merit pay increases for all employees across all agencies of local government;
- A ten day furlough for all non-public safety employees in FY11 resulting in a nearly 4 percent wage reduction for these public employees;
- The elimination of the planned $64 million increase in pre-funding of retiree health insurance;
- A reduction of over $53 million in current revenue funding to the capital budget; and
- A withdrawal from the County's Rainy Day Fund to cover a projected County General Fund deficit of nearly $82 million.

The County made every effort to minimize the impact of the decline in revenues on the MCPS budget and reduce the size of the MOE waiver request. The County Government tax-supported budget, for example is recommended to be reduced by $96.1 million or 7.7 percent from FY10. All County Government departments and agencies were reduced from the FY10 budget levels including:

- County Executive's Office: -26.3 percent
- Housing and Community Affairs: -24.3 percent
- Transportation: -24.8 percent
- Libraries: -24.2 percent
- Maryland-National Park and Planning Commission: -15.1 percent
- Health and Human Services: -10.9 percent
- Transit Services: -8.1 percent
- Correction and Rehabilitation: -5.5 percent
- Police: -5.0 percent
- Montgomery College: -3.7 percent

These reductions included the following impact on critical County Government services:

- Eighteen Bus routes (three weekday, 10 Saturday and five Sunday) would be eliminated and another 16 restructured, saving $2.7 million
- Reduce bus route frequency on 16 weekday routes and 3 Saturday routes.
- Transportation vouchers to low income residents would be reduced in half
- One Fire and Rescue truck and one ambulance would be taken out of service and the a recruit class is cancelled
- Forty Police positions, including 24 sworn officers, would be eliminated including eliminating 16 of the 33 officers stationed in Montgomery County Public Schools.
- Four satellite police sub-stations would be closed.
- Thirty-three Corrections positions would be eliminated.
- Library Hours reduced by 8.7 percent and library materials reduced by over 40 percent

With all of these actions, the total County tax supported budget contracted by 4.9 percent. If the County were required to meet the MOE local contribution, it would mean unacceptable deeper reductions in locally funded services, including public safety, services to the most vulnerable residents, post-secondary education, library and recreation services, and other vital locally funded public programs. These damaging reductions would come at a time when local public safety needs are rising and the need for emergency assistance for individuals and families in crisis is steeply increasing. In 2009, for example, requests for Temporary Cash Assistance (TCA) and food stamps have each increased by 34 percent; Medicaid caseloads have grown by 17 percent; and the number of home energy assistance recipients grew by 18 percent. Further reductions simply cannot be made.

By way of comparison, the MCPS budget reflects a slight increase over the FY10 budget when adjusting for the debt service reimbursement of $79.5 million in FY10.

<u>Montgomery County is Facing a Potential Bond Rating Downgrade</u>

Because of the County's revenue volatility and significant reductions in the reserve levels noted above, the County has been placed on a watch list for a possible downgrade of its AAA bond rating by Moody's investor services. In taking this action, Moody's stated the following concerning the County's financial situation: "Placement on watchlist for possible downgrade ***reflects deterioration of the county's financial position driven primarily by income tax revenue shortfalls, which is expected to result in the use of a significant portion of the county's General Fund and Revenue Stabilization Fund as of fiscal 2010*** (year ends June 30th). Future rating reviews will factor (a) management's ability to mitigate the projected current year operating deficit, given identification of a number of potential gap closing measures that are largely non-recurring in nature; (b) steps taken in the 2011 budget to restore structurally balanced operations, and (c) development of a plan to restore financial flexibility to levels in keeping with the current rating category (*emphasis added).*"

Loss of the AAA bond rating will significantly increase the County's cost of borrowing and consequently impair its ability to provide local support for school construction services. In FY11 alone, the County is projected to allocate $187.8 million in General Obligation bonds for MCPS capital projects ($957.7 million for the FY11-16 MCPS Capital Improvements Program). Annual Debt Service costs for MCPS in FY11 will be $112.9 million. Additionally, higher debt service payments in the future will adversely affect the County's ability to fund a variety of operating budget needs, including those for education.

Reserve Funds Are Not Available to Meet MOE

As the chart below indicates, the County is projected to end FY10 with a balance of zero in its General Fund. The only reason that the County will not end FY10 with a deficit of at least $82 million is because of a transfer of $82 million from the County's Revenue Stabilization (or Rainy Day Fund). The balance of the Rainy Day Fund at the end of FY10 after this transfer is only $37.7 million compared to annual General Fund disbursements of $2.5 billion – a reserve of only 1.5 percent. After the expenditure reductions discussed above and the tax increases to be discussed below, the County General Fund is projected to end FY11 with a balance of $121.5 million. The Rainy Day Fund is estimated to end FY11 with a balance of $92.8 million.

County General Fund and Revenue Stabilization Fund Ending Balances: Historical Trend

	FY07	FY08	FY09	FY10 Estimated
Cash Balance	$ 239,433,271	$ 86,743,201	$ 17,037,504	TBD
Unreserved/Undesignated	$ 140,650,260	$ 83,580,559	$ 28,853,996	$ -
Revenue Stabilization Fund	$ 119,647,620	$ 119,647,620	$ 119,647,620	$ 37,680,370

According to State law[4], the Rainy Day fund may only be used to support appropriations that have become unfunded. Moreover, even in the absence of State law, the County's General Fund Reserves and Rainy Day Fund should not be used to meet the MOE requirement because doing so would leave the County Government with practically no reserves to address unanticipated mid-year revenue declines and expenditure increases. The combined General Fund and Rainy Day Fund reserves are projected to be $214.3 million. The County's reduction in income tax revenues alone in FY10 is over $265 million. Snow removal costs in FY10 were approximately $60 million (approximately four times the amount normally expended for snow removal) due to the blizzards in December and February.

As noted above, this revenue volatility and need for enhanced reserves to provide improved flexibility in the County's finances were noted by all of the Bond Rating Agency's in their review of the County's finances. The absence of these reserves because of depletion to meet MOE requirements will almost definitely result in the loss of the County's AAA bond rating.

Federal ARRA Funds Will Not Make Meeting MOE Affordable

Montgomery County has benefited in several ways from funding received or expected to be received from the Federal Fiscal Stabilization Act and the American Recovery and Reinvestment Act (ARRA) of 2009. In FY11, MCPS will receive $5.9 million for Title I programs for disadvantaged children and $16.5 million for Individuals with Disabilities Education Act (IDEA) programs. This funding will provide 3 additional schools with Title I support and add 8 new full-day Head Start classes, so that all Title I schools that have Head Start classes can offer full-day

[4] Md. Code Ann., § 9-1201

Head Start classes. The Title I funding will also allow recipient schools to restore teacher positions to reduce class size, support reading and mathematics intervention, and provide ESOL support.

The IDEA funding will allow for the restoration of reductions originally proposed for the FY11 budget, including 20.5 special education teachers, 5 secondary intensive reading teachers, tuition for students in non-public placement, and special educational instructional materials. The IDEA funding will also allow the addition of hours-based staffing at 15 additional middle schools, technology to implement the Universal Design for Learning program, and other program improvements.

The additional funds from the Title I grants and IDEA grants, however, are targeted grants for specific purposes and do not represent general aid. Although a portion of this funding will allow MCPS to restore certain positions and activities that may have otherwise been eliminated in the FY11 budget, this aid generally did not have a positive or negative impact on meeting the State MOE requirement.

While we are still exploring other formula funding and competitive grant opportunities under the ARRA, Montgomery County Government and other local public agencies expect to receive approximately $36 million in funding for a variety of specific purposes, including transportation projects, bus replacement, workforce training, energy projects, public safety equipment, housing, weatherization, emergency shelter grants, Community Development Block Grants, homelessness prevention, and Community Services Block Grants. Since this funding is targeted for specific purposes and frequently carries standard Federal non-supplantation requirements, it cannot be used to supplement the County's local contribution or provide capacity for Montgomery County to increase its local contribution for K-12 schools.

MCPS also anticipates receiving $31.3 million in unrestricted federal aid as part of the State Fiscal Stabilization Fund (SFSF). This unrestricted revenue is used for general operating expenses. Although it reduces the burden on the State through FY11, the unrestricted ARRA aid will expire after FY11. Without further state or federal assistance, local governments will have to resume responsibility for these expenditures in FY12, called the "funding cliff." This looming responsibility makes it even more difficult for county government to increase its contribution to school aid in FY11.

Granting A Waiver Will Not Adversely Affect Educational Programs.

We are confident that granting this waiver request will not adversely affect the quality of our local public schools. In fact, the County Executive's recommended budget for FY11 would fund nearly 96 percent of the Montgomery County Board of Education's request (net of a request from the Board for $37.2 million in funding for a reserve account for future obligations). The reductions that would result from the County Executive's recommended level of funding include pre-funding for retiree health insurance ($42.9 million) and merit pay increases for employees ($25.8 million). The other reductions will be specified by the local Board of Education.

Finally, in this regard it is important to note that the Montgomery County Board of Education supports the County's request for a MOE waiver at the $1,415,085,344 level.

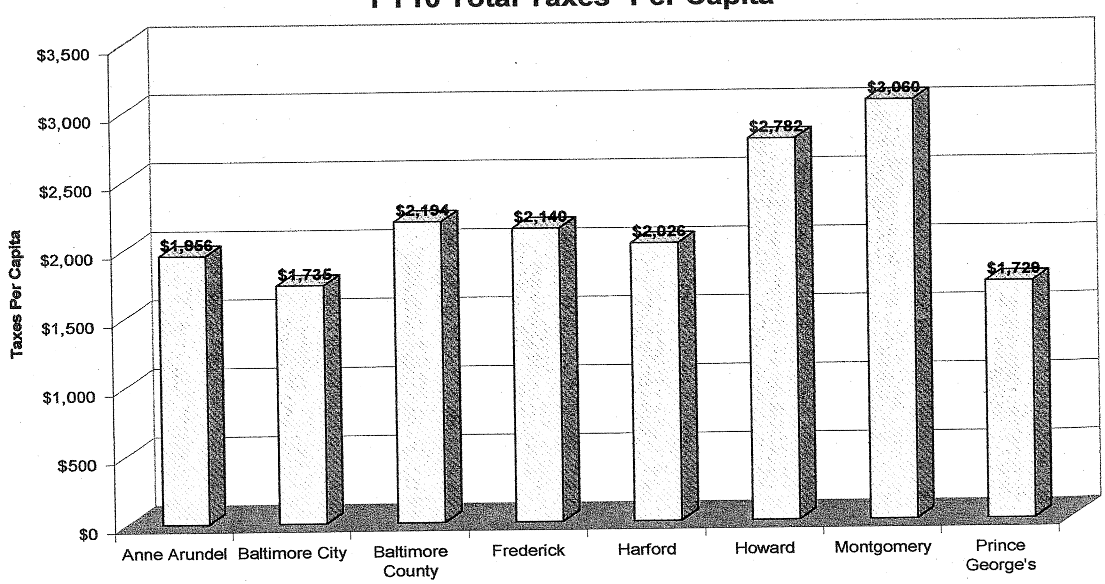
The County's Ability To Raise Additional Revenue Is Limited.

Montgomery County's ability to raise further revenue from additional local taxes has two major constraints. First, Section 305 of the Montgomery County Charter (see attached) requires the unanimous vote of the nine members of the County Council to increase real property tax revenue beyond the rate of inflation (less new construction and other minor categories). We do not support such an increase in the property tax rate, since it would impose an additional burden on families and businesses during this difficult economic time, and also given the fact that the County exceeded the limits imposed by Section 305 of the Charter in FY09 (an increase of 13 percent). Second, Montgomery County's income tax rate is currently at the State-allowed maximum rate, 3.2 percent.

However, the County Executive is recommending an increase in the local fuel energy tax of 100 percent to raise $151.3 million in additional revenues. In addition, the Executive is recommending an increase in the monthly wireless phone tax from $2 per line per month to $3 per line per month to raise an additional $11.853 million. But even with these significant revenue enhancements, the County will be unable to avoid deep service reductions even if the MOE requirement is not fully funded.

In short, the taxpayers of Montgomery County have been "tapped out" by existing local tax rates, as well as, the additional revenue enhancements recommended by the County Executive. As the chart below indicates, based on information provided by the Maryland Association of Counties, Montgomery County residents pay the highest per capita taxes of any of the major urban jurisdictions in the State.

FY10 Total Taxes* Per Capita



*Includes property, income, transfer and recordation, energy, phone, and admissions and amusement taxes; and solid waste fees.

Source: Maryland Association of Counties. *Budgets, Tax Rates, & Selected Statistics Fiscal Year 2010*.

Conclusion.

In closing, we want to stress that education, especially K-12 education, is one of the most important priorities of Montgomery County. We are very proud of the accomplishments of our Public School system in reducing class size, significantly improving test scores, and preparing our children to be productive, well-educated, and responsible citizens. We are committed to investing the resources necessary to achieve these important results for our County and the State.

However, the severity and duration of the current economic recession and the consequent reduction in revenues leave us no responsible choice except to temporarily reduce the County's local contribution. The Montgomery County Board of Education voted on Monday, March 22, 2010 to support this waiver request (see attached resolution). We urge the State Board of Education to approve this request quickly in view of the County's fast-approaching budget deadlines. Thank you for your consideration.

Sincerely,

Isiah Leggett
Montgomery County Executive

Nancy Floreen, President
Montgomery County Council

IL/NN:jb

c: Anthony South, Executive Director, Maryland State Board of Education
Montgomery County Council
Patricia O'Neill, President, Montgomery County Board of Education
Jerry D. Weast, Ed.D, Superintendent, Montgomery County Public Schools
Richard S. Madaleno, Jr., Senator, District 18
Brian J. Feldman, Delegate, District 15

Attachments:

- Tax Supported Current Revenue FY09-FY11
- Revenues: Excerpt from County Executive's Recommended FY11 Operating Budget
- Section 305 of the Montgomery County Charter: Approval of the Budget; Tax Levies
- Overview of Economic Indicators and Revenues, Montgomery County Department of Finance, March 15, 2010
- Montgomery County Board of Education, Resolution in support of MOE Waiver, March 22, 2010
- Comprehensive Annual Financial Reports (Audited) FYs 2007-2009
- County Executive's Recommended FY11 Operating Budget
- Approved Montgomery County Operating Budget FY10
- Supplemental Information on County Fiscal Condition for FY10 and FY11:
  - Memorandum from County Executive Isiah Leggett, FY10 and FY11 Budget Adjustments, April 22, 2010
  - Memorandum from County Executive Isiah Leggett, Additional Revenue Write-down, April 13, 2010

- Memorandum from County Executive Isiah Leggett, March Income Tax Distribution and Rating Agency Feedback, April 5, 2010
- Memorandum from County Executive Isiah Leggett, Additional FY10 and FY11 Budget Actions, March 25, 2010
- County Fiscal Update to Montgomery County Council: February 23, 2010
- Memorandum from County Executive Isiah Leggett, FY10 Savings Plan Round II, January 7, 2010
- Memorandum from Joseph Beach, Director, Office of Management and Budget, Fiscal Plan Update, November 30, 2009
- Memorandum from County Executive Isiah Leggett on the FY10 Savings Plan Round I, October 28, 2009

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

April 22, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive

Isiah Leggett

SUBJECT: FY10 and FY11 Budget Adjustments

Attached please find my recommendations for adjustments to the FY10 and FY11 operating and capital budgets to respond to the write down of over $168 million in income tax revenues in FY10 and FY11 and to provide enhanced reserve levels and financial flexibility to the County during these volatile and uncertain economic times.

The revised revenue estimates and the need to restore our reserve levels to the 6% policy level have created an additional fiscal gap of approximately $200 million. Combined with the budget gap closed in my March 15 recommended budget, the total FY11 budgetary gap was estimated at close to $1 billion - a staggering and unprecedented challenge for this County. These amendments to my Recommended FY11 Operating Budget and FY11-16 Capital Improvements Program (CIP) will significantly improve the County's FY10 and FY11 reserves, provide needed flexibility in the event of further adverse economic and fiscal changes, and establish a stronger financial footing for the County going forward.

While the details of my proposed adjustments are contained in the attached tables and charts, I want to call attention to some of the primary components of the recommended strategy to close the current budget gap.

Reserves

The actions which I am recommending will provide the County with an ending FY10 balance of $37.6 million in the Revenue Stabilization Fund (RSF) after a transfer of $81.9 million from the RSF to the General Fund in FY10. The FY11 projected ending reserve is restored to the 6% policy level. The ending General Fund reserve is $121.5 million which is nearly 5% of general fund revenues. The Revenue Stabilization Fund would end FY11 with a balance of $92.8 million after a transfer of $55 million from the General Fund to the RSF during FY11.

This year (FY10) has demonstrated more than ever before the extent to which the County's primary revenue streams are sensitive to economic cycles and have extreme volatility. The County's largest revenue source to the General Fund, the income tax, is projected to plummet 20.5% this year, bringing in $265 million less than the amount collected in FY09. Tax revenues and investment income for FY10 and FY11 are expected to be down a combined $476 million compared to previous budget estimates.

Also in FY10, the County weathered extraordinary expenditure requirements associated with the H1N1 flu virus and successive and historic winter blizzards. These combined revenue shortfalls and extraordinary expenditure needs created unprecedented stress on the County's already low reserve levels. The resulting required reductions in the operating budgets of County departments and agencies that receive funding from the General Fund have severely challenged our ability to provide consistent levels of services in all areas. Successive mid-year savings plans and budget reductions have similarly stressed constituents and employees.

To more appropriately position ourselves to be able to weather economic cycles in the future, and to achieve structural balance in future budgets, I am recommending the following five principles I believe we must achieve regarding the County's reserves:

1. Achieve and maintain the charter maximum reserve level for the General Fund of 5% of prior year revenues.
2. Build revenue stabilization fund reserves to a minimum of 3%, and also remove the cap on the Revenue Stabilization Fund.
3. Restore and maintain PAYGO at the policy level of 10% of General Obligation bonds planned for issue.
4. Budgeted expenditures should match new revenues projected to occur in that fiscal year; do not draw down on any excess reserves that may occur to fund ongoing expenses. Instead, direct revenues exceeding projections in priority order to a) the Revenue Stabilization Fund, b) PAYGO, c) retiree health benefit pre-funding, and d) one-time expenditures.
5. Achieve a fiscal plan that is structurally balanced – that matches expenditures to available revenues without any draw down of reserves or unanticipated revenues.

I believe that we can accomplish this full set of actions no later than FY13. For the upcoming budget year, FY11, it is critically important that we restore our reserves as there remains a great deal of uncertainty regarding the strength and timing of the economic recovery that we all expect. Furthermore, given the volatility of our income tax revenues, we must continue to maintain these reserve policies into the future. We should target reserves at 6% by the end of the fiscal year, and should strive to achieve a combined 7% by the end of FY12 and 8% by the end of FY13.

The County's financial advisor, Public Financial Management (PFM), is assisting the Department of Finance in a review of our reserve policies, including a review of the reserve policies of similarly rated jurisdictions, and a review of the volatility in our revenue stream. For example, over the past five years, the standard deviation[1] for year over year tax collections is 5.8% overall, but is a stunning 15.5% for the income tax and 17.4% for the transfer and recordation taxes.

[1] The standard deviation measures the spread of individual results around a mean (average) of all of the results (robertniles.com).

I will transmit an updated reserve policy and fiscal plan for achieving long-term structural balance for County Council adoption in May, as well as recommended changes to the Revenue Stabilization Fund law. In the meantime, the policies I have outlined above are certain to set us on the right track, and should provide a framework for the Council's additional review of my amended FY11 Operating Budget and FY11-16 CIP in the coming weeks.

Expenditure Reductions

Working Families Income Supplement

Montgomery County is one of the few local governments in the nation that provides a local Earned Income Tax Credit (EITC) for its residents. This program, which began in FY00 at a cost of $2.2 million, was based on matching the State's EITC which, at that time was 10% of the Federal EITC. Participation in the program included 12,322 total recipients. Since that time, the State match of the Federal EITC has grown to 25% at an estimated cost in FY11 of $16.2 million and 30,505 recipients. The average EITC payment has grown from $178 in FY00 to an estimated $530 in FY11. In order to respond to the current fiscal crisis, I am recommending that we reduce this payment by 33%. This would create savings of $5,394,100 and would change the average EITC payment to $353 which is approximately the level this payment was in FY05.

Council Bill 16-10: Imputed Compensation Limit

The attached charts detailing the resolution of the County's remaining budget gap include an assumption that the County Council will approve Council Bill 16-10: Imputed Compensation Limit. The County's Actuary estimates that approval of this legislation would result in tax-supported savings of approximately $6.6 million per year and provide additional fiscal relief of approximately $424,000/per year to the County's non tax-supported funds.

Encumbrance Liquidations

In order to create balance in the FY10 budget, I have directed all departments to aggressively liquidate prior year and current year contract encumbrances to reach a goal of $35 million in liquidations. We have achieved approximately half of this goal so far and will continue our efforts until this goal is met or exceeded. Within the next two weeks, we will provide the Council with additional information on this effort including the affected contracts.

Restructuring

We are continuing to pursue other options for additional restructuring and cost efficiency improvements both within the County Government, through the Cross Agency Resource-Sharing Committee, and in partnership with employee representative organizations. As part of our efforts in developing the FY11 budget including internal focus groups, a major theme emerged, that our greatest opportunities for real cost-savings and long-term sustainability rely on cross-agency related cost efficacies and consolidations. We will shortly provide the Council with a comprehensive list of options for additional organizational restructuring and cost saving proposals for review during FY11 and implementation in FY12.

The following recommended reorganizations are in addition to the other restructuring proposals in my Recommended FY11 budget including transferring the Ethics Commission staff to the Office of the County Attorney and the Equal Employment and Diversity Management Office from the Office of Human Resources to the Office of Human Rights; restructuring the organization and service levels in the Department of Public Libraries, Department of Recreation, the Department of Correction and Rehabilitation, and the Regional Services Centers, which resulted in substantial cost savings and staffing reductions.

Park Police and County Police

I am recommending a reduction of $2 million to the Parks Department of the Maryland-National Capital Park and Planning Commission (M-NCPPC) in anticipation of savings that will be achieved through integration of the operations of the Montgomery County Police and the M-NCPPC Parks Police including integration of Parks call dispatching efforts with the County's E911 Center. We believe substantial savings and improved operational efficiencies can be achieved through consolidated command, combined call dispatch, and redeployment of Park Police officers.

While the recommended reduction of $2 million is an estimate of savings to be achieved through this service integration, I believe that potentially greater savings are possible with Council and M-NCPPC support of this effort. The current fiscal climate is causing all County agencies to seriously reassess how services are provided, how savings can be achieved, and how existing resources can be better deployed to serve the residents of the County. I realize that amendments to existing Mutual Aid Agreements and to Article 28 of the State Code will be necessary to fully implement this change. However, I believe that we can begin this transition in FY11 by cooperatively working together, within current legal restrictions, to jointly accomplish this restructuring of these critical public safety services.

Fire and Rescue Services (FRS)

My Recommended Amendments includes a proposal to merge the duties of the Division of Community Risk Reduction Services with other FRS divisions producing savings of over $193,000 thorough the abolishment of the Division Chief position.

Fuel Energy Tax

Due to the severity and most recent income tax write down, I am recommending a higher increase in the County's fuel energy tax. This increase, combined with the increases recommended on March 25 will raise an additional $21.4 million in FY10 and $79.8 million in FY11. Recognizing the significant impact that this increase will have on County residents and businesses, I am recommending that the FY11 total increase in the Fuel Energy Tax sunset at the end of FY12. Based on our analysis, we estimate the average monthly tax increase for residential rate payers will be approximately $8 per month and $289 per month for non residential rate payers. Since the Fuel Energy Tax is based on consumption, these increases can be reduced by decreased energy usage, and I have supported a number of programs that provide incentives for residents to do so.

I understand that a request has been made by the business community and utilities to consider altering the rate structure of this tax to equalize or at least to make more comparable the rates for residential (including agriculture) and non residential rate payers. The Department of Finance staff are analyzing this proposal and we will shortly report back to the Council on the impact of other options for County residents and businesses tax bills.

Telephone Tax

In addition to the Fuel Energy Tax increase recommended above, I am also recommending an increase to the wireless portion of the County's telephone tax. Current rates for wireless customers are $2/line per month. I am recommending that we increase this rate to $3/line per month to raise an additional $11.853 million in FY11. Landline rates would remain the same.

CIP Current Revenue

A major part of the recommended strategy for closing the budget gap includes reductions to Current Revenue funded projects in FY10 and FY11. The attached charts and project description forms describe the recommended changes which are estimated to produce savings of $2.509 million in FY10 and $7.347 million in FY11. These amendments will require changes to projects within the Capital Improvements Program for Montgomery County Government, M-NCPPC, and Montgomery College. With these amendments I am recommending that we amend the County Code with respect to the use of recordation tax revenues, which were previously dedicated to Montgomery County Public Schools CIP projects and College IT projects.

Conclusion

I acknowledge the complexity and difficulty these recommended actions will present to the Council in addition to the other issues in the FY11 Operating Budget. Having served as a County Councilmember for 16 years, I understand the enormity of the challenges you are facing now. I want to express my appreciation to the Council for your partnership in working through these difficult issues and making the tough choices that we all have to make in this difficult economic environment.

Details of my recommended budget amendments are described in the attachments. Executive Branch staff are prepared to assist you in your review of these materials. I urge the Council to approve these amendments to my Recommended FY11 Operating Budget and FY11-16 CIP.

IL:jb

Attachments

Reconciliation of the Gap From December 1, 2009 to March 15, 2010

Gap on December 1, 2009	$ (608.291)
Major resource changes since December:	
Non K-12 State Aid reduction	(32.922)
Less FFP and other HHS reimbursements	(22.134)
Less Speed Camera revenues	(25.172)
Additional snow removal	(44.359)
February revene write-down	(52.964)
Other revenues (College tuition, inauguration reimb., other)	6.986
Revised FY11 Gap as of March 1	(778.855)
Resource changes closing the gap:	
K-12 State Aid	43.004
Revised Savings Plan	69.784
Increase net transfers from non-tax supported funds	36.977
Adjustments to MCPS, College to assume fund balance	0.020
MCG expenditure savings above savings plan and reappropriated carryover	2.026
Federal Reimbursement for Snow Storms	25.000
Increase Montgomery College Tuition	4.334
Federal Reimbursement for Debt Service	3.858
Additional FY10 Debt Service savings	5.467
Additional FY10 PAYGO savings (due to revised investment income estimate	1.005
Release Set Aside for State Aid Reversions	5.080
Charter Limit with Income Tax Offset Credit	11.479
Additional Mass Transit Property Tax from Reduction in Bethesda PLD Rate	0.711
EMS Transport Fee	14.700
Redirect Recordation Tax Premium to General Fund	8.221
Energy Tax	50.000
Net effect on reserves [1]	(10.315)
Change in uses to close the gap:	
Reserves from 6% to 5%	36.793
Release Set Aside for State Aid Reversions	2.540
Remove CIP PAYGO	31.500
Reduce CIP Current Revenue	3.732
Reduce FY11 Debt Service	14.809
Remove General Wage Adjustments -- All Agencies	122.018
Remove Steps/Increments -- All Agencies	34.695
Remove FY11 Retiree Health Insurance Pre-Funding -- All Agencies	64.425
Additional Agency Reductions from MKCs in Fiscal Plan:	
County Government	124.524
MCPS	40.930
Montgomery College	15.459
MNCPPC	16.078
Gap on March 15, 2010	0.000

[1] Includes FY10 withdrawal of $102 million from the Revenue Stabilization Fund to eliminate General Fund deficit.

S:\PSP\Fiscal Plan\FY 11\FY11 Fiscal Plan Reconciliations\Gap Reconciliation -- Working Draft March 6.xls

County Executive's Recommended Revisions to the Fiscal Plan

($ in Millions)

(Negative numbers increase the gap; positive numbers close the gap)

1	Gap on December 1, 2009	$	(608.291)
2			
3	Major resource changes since December:		
4	Non K-12 State Aid reduction		(32.922)
5	Less FFP and other HHS reimbursements		(22.134)
6	Less Speed Camera revenues		(25.172)
7	Additional snow removal		(44.359)
8	February revene write-down		(52.964)
9	Other revenues (College tuition, inauguration reimb., other)		6.986
10			
11	Revised FY11 Gap as of March 1		(778.855)
12			
13	Major resource changes since March 15, 2010:		
14	Revised Income Tax Estimate (FY10 and FY11)		(168.470)
15	Net effect on reserves (at 5% level recommended on March 15)		8.423
16	Restore Reserves to 6%		(36.608)
17			
18	Revised FY11 Gap as of April 12		(975.510)
19	Measures recommended by the Executive in March 15 budget to close the gap		778.855
20	Gap Remaining to be Closed as of April 12, 2010		(196.655)
21			
22	Technical Budget Amendments		
23	Revised EMS Transport Fee Estimate		(0.557)
24	HHS Reimbursement Disallowances		(0.643)
25	K-12 State Aid		1.145
26	Police Motor Pool chargebacks for vehicle equipment		0.387
27	WFIS NDA -- Participant adjustment in Earned Income Tax Credit program		0.474
28	Allocate Speed Camera Revenues to municipalities		(0.297)
29			
30	Additional Measures to Close Remaining Gap:		
31	Resources		
32	Increase Energy Tax and implement May 1, sunset increase in FY13		101.264
33	Increase Telephone Tax on Wireless Telephones		11.853
35	Additional non-tax supported fund balance transfers		17.858
37	Unallocated Property Tax		5.600
38	MCPS Reimbursement for Educational Facility Officers		1.962
39	Redirect Recordation Tax for Montgomery College IT CIP Projects to General Fund		5.000
40	Bethesda Library Parking Meter Revenue		0.120
41	Recreation Revenues -- Teen Center		(0.075)
42	Transit Fares -- Reduced Frequency		(0.085)
43			
44	Expenditures		
45	County Government CIP Current Revenue		2.509
46	MNCPPC CIP Current Revenue		0.350
47	Montgomery College CIP Current Revenue		0.500
48	Reduce FY10 set aside for snow removal costs		3.000
49	County Government encumbrance liquidations		35.000
50	Additional FY10 expenditure savings (EDF, HHS WPA, Leases NDA)		0.798
51	FY11 Debt Service		1.000
52	Appropriation Adjustments:		
53	Increase appropriations for Energy Tax increase		(0.787)
54	Expedited Bill 16-10 - Imputed Compensation Limit		6.600
55	Reduce Earned Income Tax Credit Match by 33%		5.394
56	Transportation and Transit Services reductions		1.896
57	Park Police and CAD Consolidation		2.000
58	Fire Rescue defer recruit class, master leases, and position reductions		1.473
59	Eliminate MCVFRA Contract Increases		0.390
60	Public Libraries materials and staffing		0.593
61	Recreation expenditure reductions		0.312
62	Furloughs of Public Safety Managers		0.132
63	HHS Developmental Disabilities		0.182
64	Circuit Court expenditure reductions		0.075
65	NDAs -- DCM, Inauguration, Rockville Parking, Historical Activities, Tax Duplication		2.316
66			
67	Net effect on reserves (at 6%)		(11.085)
68			
69	Gap on April 22, 2010		0.000

Appropriation Adjustments and Fund Balance Transfers

		Transfer to General Fund			
	FY11 Budget	FY10	FY11	Total	Note
PLD -- Bethesda		38,050	(38,050)	0	Accelerated Transfer
PLD -- Wheaton		6,140	(6,140)	0	Accelerated Transfer
PLD -- Silver Spring		1,902,120	(1,902,120)	0	Accelerated Transfer
PLD -- Silver Spring[1]		1,000,000		1,000,000	FY10 Fund Balance Transfer
PLD -- Montgomery Hills		700	(700)	0	FY10 Fund Balance Transfer
Liquor Control	(6,135,000)	1,000,000	6,135,000	7,135,000	FY10 Fund Balance Transfer; Reduced FY11 debt service
Liquor Control		1,000,000	(1,000,000)	0	Accelerated Transfer
Motor Pool			2,500,000	2,500,000	FY11 Fund Balance Transfer
Central Duplicating		279,000		279,000	FY10 Fund Balance Transfer
Cable TV		800,000	(800,000)	0	Accelerated Transfer
Cable TV			2,340,240	2,340,240	Fibernet, PEG equipment; leave $200k balance
MHI		2,642,800		2,642,800	Assume add'l FY10 revenue from liquidation to reduce GF transfer
Health Insurance Fund		2,000,000		2,000,000	FY10 Fund Balance Transfer
Total	**(6,135,000)**	**10,668,810**	**7,228,230**	**17,897,040**	
Indirect Cost Transfers to the General Fund			**(38,980)**	(38,980)	
Total Net Transfers to General Fund		**10,668,810**	**7,189,250**	**17,858,060**	

[1] $155,000 PLD transfer to Mass Transit shifted to General Fund after eliminating Silver Spring Super Fare Share.

AMENDMENTS TO THE CE RECOMMENDED BUDGET

FY11 OPERATING BUDGET

Tax Supported

RESOURCE AMENDMENTS

Montgomery County Government

DTS	Ride On Service	-85,000
FRS	Revised EMS Transport Fee Revenue	-556,860
HHS	Disallowance of Reimbursements	-643,320
POL	MCPS Reimbursement for Remaining 17 Educational Facilities Officers (EFO)	1,961,590
REC	Teen Centers	-75,000
TRN	Installing Parking Meters and Signs for Bethesda Library	120,000
ZZM	Increase Net Transfers from Non Tax Supported Funds	17,845,890
ZZZ	Energy Tax	101,263,915
ZZZ	Redirect Recordation Tax to General Fund	5,000,000
ZZZ	Unallocated Property Tax Accounts	5,600,000
ZZZ	Wireless Telephone Tax	11,853,000
ZZZ	Reduce FY10 Set Aside for Snow Removal	3,000,000
ZZZ	FY10 Encumbrance Liquidations	35,000,000
ZZZ	Additional FY10 Expenditure Savings	798,000
	Subtotal MCG Resources	**181,082,215**

Montgomery County Public Schools

MCPS	K-12 State Aid	1,144,560
	Subtotal MCPS Resources	**1,144,560**
	Total Tax Supported Resources	**182,226,775**

EXPENDITURE AMENDMENTS

Montgomery County Government

CAT	Technical Adj: Shift funding from Human Rights to County Attorney for EEO investigations and Defense of Complaints	44,200
CCT	Decrease Cost: Circuit Court Expenditure Reduction	-75,000
DTS	Reduce: Ride On Service	-756,000
DTS	Increase Cost: Energy Tax Increase	6,980
DTS	Decrease Cost: Abolish Transit Supervisor	-100,040
DTS	Decrease Cost: Staff Friendship Heights Fare Media Store with Transit Aides	-50,000
DTS	Decrease Cost: Increase Lapse	-190,190
DTS	Eliminate: Silver Spring Super Fare Share	-155,000
FRS	Decrease Cost: Delay Master Lease Payments for Ambulances and a Tanker	-371,530
FRS	Decrease Cost: Montgomery County Volunteer Fire and Rescue Association Contract Increases	-389,910
FRS	Eliminate: Abolish the Community Risk Reduction Services Division Chief	-193,160
FRS	Decrease Cost: Lapse the Apparatus Manager Position and a Lieutenant Position	-237,370
FRS	Decrease Cost: Furlough Public Safety Managers	-98,840
FRS	Decrease Cost: Delay May 2011 Recruit Class Until FY12	-671,150

HHS	Decrease Cost: Supplement to Providers of Developmental Disabilities (DD) Services	-181,900
HRC	Technical Adj: Shift funding from Human Rights to County Attorney for EEO Investigations and Defense of Complaints	-44,200
LIB	Reduce: Information Technology: Specialist and equipment	-168,000
LIB	Reduce: Substitutes and Pages	-136,290
LIB	Reduce: Materials	-138,000
LIB	Reduce: Administrative support: Administrative Specialist II	-115,710
LIB	Reduce: Miscellaneous OE	-35,000
NDA	Reduce: Inauguration & Transition (NDA)	-45,000
NDA	Reduce: Earned Income Tax Credit (EITC) Match by 33%	-5,394,100
NDA	Decrease Cost: EITC based on fewer number of program participants	-474,100
NDA	Eliminate: Community Grant to Capital PC User Group, Inc.	-2,500
NDA	Eliminate: Free Patron Parking at the Rockville Library	-143,540
NDA	Decrease Cost: Defer DCM Server Replacements	-450,000
NDA	Reduce: Historical Activities NDA	-177,670
NDA	Decrease Cost: Municipal Tax Duplication Payments an Additional 20%	-1,497,640
NDA	Increase Cost: Allocate Speed Camera Revenues to Municipalities	297,110
POL	Decrease Cost: Police Vehicle Equipment	-387,300
POL	Decrease Cost: Furlough Public Safety Managers	-27,860
REC	Increase Cost: Energy Tax Increase	258,440
REC	Decrease Cost: Gilchrist Center Program Manager	-67,570
REC	Eliminate: Teen Centers	-181,000
REC	Reduce: Close All Community Recreation and Senior Centers - 6 Days (December 24, 2010 - January 1, 2011)	-22,650
REC	Reduce: Planned Lifecycle Asset Replacement (PLAR)	-41,000
SHF	Decrease Cost: Furlough Public Safety Managers	-5,580
TRN	Reduce: Pedestrian Safety Programs	-483,010
TRN	Decrease Cost: Increase Lapse	-177,220
TRN	Increase Cost: Installing Parking Meters and Signs for Bethesda Library	15,000
MCG	Decrease Cost: Expedited Bill 16-10 - Imputed Compensation Limit	-6,599,550
	Subtotal MCG Expenditures	**-19,662,850**

Montgomery College

MCC	Increase Cost: Energy Tax Increase	357,490
	Subtotal MC Expenditures	**357,490**

Maryland-National Capital Park and Planning Commission

PPC	Increase Cost: Energy Tax Increase - Administration Fund	42,580
PPC	Increase Cost: Energy Tax Increase - Park Fund	121,190
PPC	Decrease Cost: Park Police and CAD Consolidation	-2,000,000
	Subtotal M-NCPPC Expenditures	**-1,836,230**

Debt Service

DBS	Decrease Cost: Commercial Paper Expenditures	-1,000,000
	Subtotal DS Expenditures	**-1,000,000**
	Total Tax Supported Expenditures	**-22,141,590**

Non-Tax Supported

RESOURCE AMENDMENTS

Montgomery County Government

HCA	Miscellaneous Revenue from Liquidation of FY10 Encumbrances	2,630,630
HCA	Community Development Block Grant Entitlement for FY11	420,640
	Subtotal MCG Resources	**3,051,270**

Montgomery County Public Schools

MCPS	Reduced ARRA Funds	-1,805
	Subtotal MCPS Resources	**-1,805**
	Total Non-Tax Supported Resources	**3,049,465**

EXPENDITURE AMENDMENTS

Montgomery County Government

CTV	Reduce: Defer PEG Equipment Replacement	-515,000
DLC	Increase Cost: Energy Tax Increase	75,330
DLC	Decrease Cost: Debt Service Expenditures	-6,135,000
HCA	Enhance: Community Development Block Grant Entitlement for FY11	420,640
HHS	Technical Adj: ERP Implementation: Move Senior Nutrition Grant Program Allocation from HHS to Recreation	-64,010
PKG	Increase Cost: Energy Tax Increase - Bethesda	98,890
PKG	Increase Cost: Energy Tax Increase - Montgomery Hills	160
PKG	Increase Cost: Energy Tax Increase - Silver Spring	146,950
PKG	Increase Cost: Energy Tax Increase - Wheaton	8,230
POL	Technical Adj: ERP Implementation: Move Weed and Seed Grant Allocation from RSCs to Police	37,500
POL	Technical Adj: ERP Implementation: Move CSAFE Grant Allocation from Police to States Attorney	-71,780
REC	Technical Adj: ERP Implementation: Move Senior Nutrition Grant Program Allocation from HHS to Recreation	64,010
RSC	Technical Adj: ERP Implementation: Move Weed and Seed Grant Allocation from RSCs to Police	-37,500
SAO	Technical Adj: ERP Implementation: Move CSAFE Grant Allocation from Police to States Attorney	71,780
SWS	Increase Cost: Energy Tax Increase	11,070
MCG	Decrease Cost: Expedited Bill 16-10 - Imputed Compensation Limit	-323,180
	Subtotal MCG Expenditures	**-6,211,910**

Montgomery County Public Schools

MCPS	Decrease Cost: Reduced ARRA Funds	-1,805
	Subtotal MCPS Expenditures	**-1,805**
	Total Non-Tax Supported Expenditures	**-6,213,715**

Internal Service Funds

EXPENDITURE AMENDMENTS

Montgomery County Government

EQP	Decrease Cost: Police Vehicle Equipment	-387,300
EQP	Increase Cost: Energy Tax Increase	85,660
MCG	Decrease Cost: Expedited Bill 16-10 - Imputed Compensation Limit	-101,330
	Subtotal MCG Expenditures	**-402,970**
	Total Internal Service Funds Expenditures	**-402,970**

DETAIL ON RECOMMENDED FY11 CE AMENDMENTS

Tax Supported

RESOURCE AMENDMENTS

DOT-Transit Services

RIDE ON SERVICE Adjust frequency of certain Ride On routes (revenue impact).	-85,000

Fire and Rescue Service

REVISED EMS TRANSPORT FEE REVENUE A decrease in estimated EMST fee revenue is due to the following factors: available ePCR data (since January 2010) and updated dispatch data; Medicare implementing a 0% inflation factor in 2010, down from 5% in 2009 (due to uncertainty for the federal health care reform); and the lowering of the Geographic Practice Cost index from 1.08 to 1.057 (used by Medicare to calculate ambulance fee schedule reimbursement rates).	-556,860

Health and Human Services

DISALLOWANCE OF REIMBURSEMENTS Revenue loss from Department of Health and Mental Hygiene audit for the period between June 1, 2004-June 30, 2007. Primary audit findings relate to over-accruals and corrective actions have been implemented by the Department.	-643,320

Police

MCPS REIMBURSEMENT FOR REMAINING 17 EDUCATIONAL FACILITIES OFFICERS (EFO) In order to preserve this program, MCPS has agreed to reimburse the County during FY11 for the cost the remaining EFO program in County schools.	1,961,590

Recreation

TEEN CENTERS Elimination of teen centers is recommended due to lower than anticipated participation levels.	-75,000

Transportation

INSTALLING PARKING METERS AND SIGNS FOR BETHESDA LIBRARY The Executive recommends reinstituting parking fees at hte Bethesda Library. The Department of Transportation would require $15,000 in FY11 for new signage and the installation of meters in the Bethesda Library Parking Lot. This action is estimated to raise $120,000 in General Fund revenue.	120,000

zz] Other MCG

ENERGY TAX Due to the severity and most recent income tax write down the Executive recommends a higher increase in the County's fuel energy tax. This increase, combined with the increase recommended on March 25 will raise an additional $21.4 million in FY10 and $79.8 million in FY11. Recognizing the significant impact that this increase will have on County residents and businesses, the Executive recommends that the FY11 total increase in the Fuel Energy Tax sunset at the end of FY12.	101,263,915
REDIRECT RECORDATION TAX TO GENERAL FUND The County Executive recommends redirecting $5 million in recordation tax revenues from the College's CIP IT projects to the County General Fund. Detail on the affected College CIP projects are provided with this transmittal. This action will require a change to the County	5,000,000

Code.

UNALLOCATED PROPERTY TAX ACCOUNTS	**5,600,000**

The Department of Finance has determined that $5.6 million in unallocated Property Tax revenues in the Property Tax Fund may be transferred to the General Fund and other tax supported funds. The transfer to the other tax supported funds will ultimately be transferred to the County General Fund before the end of FY10 to maintain balance in that fund.

WIRELESS TELEPHONE TAX	**11,853,000**

The Executive recommends an increase to the wireless portion of the County's telephone tax. Current rates for wireless customers are $2/line per month. The Executive recommeds an increase to this rate to $3/line per month to raise an additional $11.853 million in FY11. Landline rates would remain the same.

REDUCE FY10 SET ASIDE FOR SNOW REMOVAL	**3,000,000**

The FY11 Recommended Budget included a set aside of approximately $63 million for snow removal costs during FY10. This action would release $3 million from that set aside based on revised estimates of the cost of snow removal.

FY10 ENCUMBRANCE LIQUIDATIONS	**35,000,000**

In order to create balance in the FY10 budget the Executive has directed all departments to aggressively liquidate prior year and current year contract encumbrances to reach a goal of $35 million in liquidations.

ADDITIONAL FY10 EXPENDITURE SAVINGS	**798,000**

The estimate of FY10 operating budget savings may be increased by $798.000 due to additional savings identified in the following areas: $178,000 in Health and Human Services due to reduced caseloads in the Working Parents Assistance program; $370,000 in reduced lease costs related to the GE Technology Park lease; and $250,000 reduction in the Economic Development Fund related to the Impact Assistance Fund ($150,000) and the Small Business Revolving Loan Program ($100,000).

zz| Transfers to MCG General Fund

INCREASE NET TRANSFERS FROM NON TAX SUPPORTED FUNDS	**17,845,890**

The Executive recommends additional transfers from the County's non-tax supported funds to the General Fund in FY10 and FY11. See the attached table for details related to these recommended transfers.

Montgomery County Public Schools

K-12 STATE AID	**1,144,560**
Total Tax Supported Resources	**182,226,775**

EXPENDITURE AMENDMENTS

Circuit Court

DECREASE COST: CIRCUIT COURT EXPENDITURE REDUCTION	**-75,000**

Increased lapse or another reduction to be determined by the Circuit Court.

County Attorney

TECHNICAL ADJ: SHIFT FUNDING FROM HUMAN RIGHTS TO COUNTY ATTORNEY FOR EEO INVESTIGATIONS AND DEFENSE OF COMPLAINTS	**44,200**

Shift funding from the Office of Human Rights to the County Attorney to perform the EEO function regarding the investigation and defense of complaints filed against the County. The County Attorney will add 12 hours per week to a part-time attorney to absorb this function. The cost of this additional time is $44, 200.

DOT-Transit Services

REDUCE: RIDE ON SERVICE The additional $671,000 in Ride On service reductions is comprised primarily of reductions to service frequency: 16 weekday routes and 3 Saturday routes. In addition, on the route 30 (Medical Center to Bethesda via Pooks Hill) midday service would be eliminated, leaving only peak period service. On the route 33 (Glenmont to Bethesda), the southern portion of the route (Medical Center to Bethesda) would be eliminated.	-756,000
INCREASE COST: ENERGY TAX INCREASE	6,980
DECREASE COST: ABOLISH TRANSIT SUPERVISOR Abolish vacant supervisor in Silver Spring.	-100,040
DECREASE COST: STAFF FRIENDSHIP HEIGHTS FARE MEDIA STORE WITH TRANSIT AIDES The two Public Adminstration Aides Transit has for media sales, complaint management and walk ups will move to the Friendship Heights store and respond from there and replace the temporary staff ($50K).	-50,000
DECREASE COST: INCREASE LAPSE Hold position vacancies open for a longer period of time	-190,190
ELIMINATE: SILVER SPRING SUPER FARE SHARE Eliminate employer based fare subsidy program in Silver Spring	-155,000

Fire and Rescue Service

DECREASE COST: DELAY MASTER LEASE PAYMENTS FOR AMBULANCES AND A TANKER Master lease payments for the tanker will not be needed until FY12 (savings of $121,530) and only one payment will be needed for 14 replacement ambulances in FY11(savings of $588,103).	-371,530
DECREASE COST: MONTGOMERY COUNTY VOLUNTEER FIRE AND RESCUE ASSOCIATION CONTRACT INCREASES The Executive recommends deferring funding for increases in the contract with the MCVFRA including the following: $40,000 for a new vehicle for Association business; $233,350 for leather turn-out boots for active members on the IECS (874); $39,330 for gear bags for active members on the IECS (874); and $77,230 for an increase in the nominal fee.	-389,910
ELIMINATE: ABOLISH THE COMMUNITY RISK REDUCTION SERVICES DIVISION CHIEF MCFRS will now operate with four divisions and the sections under Community Risk Reduction Services will be moved to other divisions within the department.	-193,160
DECREASE COST: LAPSE THE APPARATUS MANAGER POSITION AND A LIEUTENANT POSITION	-237,370
DECREASE COST: FURLOUGH PUBLIC SAFETY MANAGERS The Executive recommends expanding the 80 hour furlough to public safety managers including the Fire Chief, Division Chiefs, and Assistant Chiefs.	-98,840
DECREASE COST: DELAY MAY 2011 RECRUIT CLASS UNTIL FY12 The Executive recommends delaying the May 2011 recruit class until July 2011.	-671,150

Health and Human Services

DECREASE COST: SUPPLEMENT TO PROVIDERS OF DEVELOPMENTAL DISABILITIES (DD) SERVICES This reduction brings the total percent reduction to the DD supplement for non –Individual Support Services (ISS) and Family Support Services (FSS) from 4.7% to 7%. Funding for the supplement for ISS/FSS services was eliminated in the CE Recommended Budget because the ISS/FSS services are fully reimbursable by the State and therefore do not need a supplement. The 7% reduction is in line with the contract reductions taken department-wide.	**-181,900**

Human Rights

TECHNICAL ADJ: SHIFT FUNDING FROM HUMAN RIGHTS TO COUNTY ATTORNEY FOR EEO INVESTIGATIONS AND DEFENSE OF COMPLAINTS Shift funding from the Office of Human Rights to the County Attorney to perform the EEO function regarding the investigation and defense of complaints filed against the County.	**-44,200**

NDA - Community Grants

ELIMINATE: COMMUNITY GRANT TO CAPITAL PC USER GROUP, INC. Nonprofit withdrew the request.	**-2,500**

NDA - Desktop Modernization

DECREASE COST: DEFER DCM SERVER REPLACEMENTS Suspension of Enterprise and Public Safety server replacements.	**-450,000**

NDA - Historical Activities

REDUCE: HISTORICAL ACTIVITIES NDA The Executive recommends a reduction of 50% in the General Fund support for this Non-departmental Account.	**-177,670**

NDA - Inauguration & Transition

REDUCE: INAUGURATION & TRANSITION (NDA) Reduce funding for fiscal considerations. In FY11, $5,000 would remain for related expenses.	**-45,000**

NDA - Municipal Tax Duplication

DECREASE COST: MUNICIPAL TAX DUPLICATION PAYMENTS AN ADDITIONAL 20% The Executive recommends an additional 20% reduction to the Municipal Tax Duplication payment. This is in addition to the 5% reduction including in the March 15 Recommended Budget.	**-1,497,640**
INCREASE COST: ALLOCATE SPEED CAMERA REVENUES TO MUNICIPALITIES In order to efficiently and effectively deploy speed detection cameras within municipalities, the Executive has negotiated Memorandum of Agreements (MOA) with Chevy Chase View, Kensington, and Poolesville for sharing speed camera revenues collected in the municipalities. Under recently approved amendments to State Law, municipalities are authorized to deploy their own speed cameras. However, since the County has an existing program it was more efficient and served broader public safety purposes to deploy these cameras under the auspices of the County's speed camera program provided the municipalities received the same amount of revenues (net of expenses) they would be due as if they issued these cameras on their own. The following distributions would be made pursuant to the MOA: Chevy Chase View ($104,010); Kensington ($144,980); and Poolesville ($48,120)	**297,110**

NDA - Rockville Parking District

ELIMINATE: FREE PATRON PARKING AT THE ROCKVILLE LIBRARY The County Executive Recommends eliminating free patron parking at the Rockville Library.	**-143,540**

NDA - Working Families Income Supplement

REDUCE: EARNED INCOME TAX CREDIT (EITC) MATCH BY 33% — -5,394,100

Montgomery County is one of the few local governments in the nation that provides a local Earned Income Tax Credit (EITC) for its residents. This program, which began in FY00 at a cost of $2.2 million, was based on matching the State's EITC which, at that time was 10% of the Federal EITC. Participation in the program included 12,322 total recipients. Since that time, the State match of the Federal EITC has grown to 25% at an estimated cost in FY11 of $16.2 million and 30,505 recipients. The average EITC payment has grown from $178 in FY00 to an estimated $530 in FY11. The Executive recommends reducing this payment by 33%. This would change the average EITC payment to $353 which is approximately the level this payment was in FY2005.

DECREASE COST: EITC BASED ON FEWER NUMBER OF PROGRAM PARTICIPANTS — -474,100

The Executive's Recommended budget included an assumption of 32,180 program participants. Based on updated information from the Comptroller's Office the most recent estimate of participants in FY11 is 30,505 which reduces the estimated total payments by $474,100.

Police

DECREASE COST: POLICE VEHICLE EQUIPMENT — -387,300

The Executive recommends a reduction of $387,300 that was included in the March 15 budget for replacement of light bars and other vehicle equipment since there will be no vehicle replacments in FY11 except for emergency replacements. The full amount currently budgeted is $447,300; the cost of three packages is recommended to be retained to replace failures that occasionally occur.

DECREASE COST: FURLOUGH PUBLIC SAFETY MANAGERS — -27,860

The Executive recommends expanding the 80 hour furlough to public safety managers including the Police Chief, and Assistant Police Chiefs.

Public Libraries

REDUCE: INFORMATION TECHNOLOGY: SPECIALIST AND EQUIPMENT — -168,000

The recommended position abolishment will result in a slower response to computer problems in the branches.

REDUCE: SUBSTITUTES AND PAGES — -136,290

Information desks may become uncovered for brief periods, and it will slow down reshelving.

REDUCE: MATERIALS — -138,000

Reduces materials budget to 41% of the FY10 Original.

REDUCE: ADMINISTRATIVE SUPPORT: ADMINISTRATIVE SPECIALIST II — -115,710

The recommended abolishment of this position in the Business Office will increase procurement and other administrative process times

REDUCE: MISCELLANEOUS OE — -35,000

The Executive recommends the following reductions: reduce Interpreter Services by $15,000 to $20,000 total; reduce systemwide equipment replacement by $10,000 to $3,000; and reduce branch unit office supplies by $10,000.

Recreation

INCREASE COST: ENERGY TAX INCREASE — 258,440

An increase is recommended to provide funds for the proposed increase in the County's Energy Tax.

DECREASE COST: GILCHRIST CENTER PROGRAM MANAGER — -67,570

This work will be done by a Program Manager in the Office of Community Partnerships.

ELIMINATE: TEEN CENTERS -181,000
Elimination of teen centers is recommended due to lower than anticipated participation levels.

REDUCE: CLOSE ALL COMMUNITY RECREATION AND SENIOR CENTERS - 6 DAYS (DECEMBER 24, 2010 - JANUARY 1, 2011) -22,650
This will close all Community Recreation and Senior Centers for six days starting December 24, 2010 through January 1, 2011.

REDUCE: PLANNED LIFECYCLE ASSET REPLACEMENT (PLAR) -41,000
This is a reduction of the capacity to repair or replace furniture, fixtures or equipment at facilities.

Sheriff

DECREASE COST: FURLOUGH PUBLIC SAFETY MANAGERS -5,580
The Executive recommends expanding the 80 hour furlough to public safety managers including the Chief Deputy Sheriff.

Transportation

REDUCE: PEDESTRIAN SAFETY PROGRAMS -483,010
This item includes reductions to the following programs:
- Regional Street Smart Campaign Contribution: $22,000
- Pedestrian Timing Initiative: $137,250
- Safe Route to School Program: $173,760
- Contractual Crosswalk Marking: $150,000

DECREASE COST: INCREASE LAPSE -177,220

INCREASE COST: INSTALLING PARKING METERS AND SIGNS FOR BETHESDA LIBRARY 15,000
The Executive recommends reinstituting parking fees at hte Bethesda Library. The Department of Transportation would require $15,000 in FY11 for new signage and the installation of meters in the Bethesda Library Parking Lot. This action is estimated to raise $120,000 in General Fund revenue.

MCG

DECREASE COST: EXPEDITED BILL 16-10 - IMPUTED COMPENSATION LIMIT -6,599,550
This expenditure reduction assumes Council approval of pending legislation regarding the effect of imputed compensation on retirement benefits for County employees. The allocation of the expenditure reduction across County departments is attached to this transmittal.

Montgomery College

INCREASE COST: ENERGY TAX INCREASE 357,490
An increase is recommended to provide funds for the proposed increase in the County's Energy Tax.

Maryland-National Capital Park and Planning Commission

INCREASE COST: ENERGY TAX INCREASE - ADMINISTRATION FUND 42,580
An increase is recommended to provide funds for the proposed increase in the County's Energy Tax.

INCREASE COST: ENERGY TAX INCREASE - PARK FUND 121,190
An increase is recommended to provide funds for the proposed increase in the County's Energy Tax.

DECREASE COST: PARK POLICE AND CAD CONSOLIDATION -2,000,000

The Executive recommends a reduction of $2 million to the Parks Department of the Maryland-National Capital Park and Planning Commission (M-NCPPC) in anticipation of savings that will be achieved through integration of the operations of the Montgomery County Police and the M-NCPPC Parks Police including integration of Parks call dispatching efforts with the County's E911 Center. Substantial savings and improved operational efficiencies can be achieved through consolidated command, combined call dispatch, and redeployment of Park Police officers.

The current fiscal climate is causing all County agencies to seriously reassess how services are provided, how savings can be achieved, and how existing resources can be better deployed to serve the residents of the County. The recommended reorganization will require amendments to existing Mutual Aid Agreements and to Article 28 of the State Code.

Debt Service

DECREASE COST: COMMERCIAL PAPER EXPENDITURES **-1,000,000**

Debt Service expenditures can be reduced due to lower interest costs realized through a recently accepted liquidity facility bid that was lower than anticipated

Total Tax Supported Expenditures **-22,141,590**

Non-Tax Supported

RESOURCE AMENDMENTS

Housing and Community Affairs

MISCELLANEOUS REVENUE FROM LIQUIDATION OF FY10 ENCUMBRANCES This is revenue to the Montgomery Housing Initiative fund from FY10 encumbrance liquidations.	2,630,630
COMMUNITY DEVELOPMENT BLOCK GRANT ENTITLEMENT FOR FY11 This change in Federal support is reflective of the actual Department Housing and Urban Development entitlement for Community Development Block Grant funding in FY11.	420,640

Montgomery County Public Schools

REDUCED ARRA FUNDS	-1,805
Total Non-Tax Supported Resources	**3,049,465**

EXPENDITURE AMENDMENTS

Cable Communications Plan

REDUCE: DEFER PEG EQUIPMENT REPLACEMENT Defer the replacement of public, education, government (PEG) access television stations analog equipment with digital equipment.	-515,000

DEP-Solid Waste Services

INCREASE COST: ENERGY TAX INCREASE	11,070

DOT-Parking Lot Districts

INCREASE COST: ENERGY TAX INCREASE - BETHESDA	98,890
INCREASE COST: ENERGY TAX INCREASE - MONTGOMERY HILLS	160
INCREASE COST: ENERGY TAX INCREASE - SILVER SPRING	146,950
INCREASE COST: ENERGY TAX INCREASE - WHEATON	8,230

Health and Human Services

TECHNICAL ADJ: ERP IMPLEMENTATION: MOVE SENIOR NUTRITION GRANT PROGRAM ALLOCATION FROM HHS TO RECREATION	-64,010

Housing and Community Affairs

ENHANCE: COMMUNITY DEVELOPMENT BLOCK GRANT ENTITLEMENT FOR FY11 This change in Federal support is reflective of the actual Department Housing and Urban Development entitlement for Community Development Block Grant funding in FY11.	420,640

Liquor Control

INCREASE COST: ENERGY TAX INCREASE	75,330
DECREASE COST: DEBT SERVICE EXPENDITURES	-6,135,000

Police	
TECHNICAL ADJ: ERP IMPLEMENTATION: MOVE WEED AND SEED GRANT ALLOCATION FROM RSCS TO POLICE	37,500
TECHNICAL ADJ: ERP IMPLEMENTATION: MOVE CSAFE GRANT ALLOCATION FROM POLICE TO STATES ATTORNEY	-71,780
Recreation	
TECHNICAL ADJ: ERP IMPLEMENTATION: MOVE SENIOR NUTRITION GRANT PROGRAM ALLOCATION FROM HHS TO RECREATION	64,010
Regional Services Centers	
TECHNICAL ADJ: ERP IMPLEMENTATION: MOVE WEED AND SEED GRANT ALLOCATION FROM RSCS TO POLICE	-37,500
State's Attorney	
TECHNICAL ADJ: ERP IMPLEMENTATION: MOVE CSAFE GRANT ALLOCATION FROM POLICE TO STATES ATTORNEY	71,780
MCG	
DECREASE COST: EXPEDITED BILL 16-10 - IMPUTED COMPENSATION LIMIT This expenditure reduction assumes Council approval of pending legislation regarding the effect of imputed compensation on retirement benefits for County employees. The allocation of the expenditure reduction across County departments is attached to this transmittal.	-323,180
Montgomery County Public Schools	
DECREASE COST: REDUCED ARRA FUNDS	-1,805
Total Non-Tax Supported Expenditures	-6,213,715

Internal Service Funds

EXPENDITURE AMENDMENTS

DGS-Fleet Management Services

DECREASE COST: POLICE VEHICLE EQUIPMENT The Executive recommends a reduction of $387,300 that was included in the March 15 budget for replacement of light bars and other vehicle equipment since there will be no vehicle replacments in FY11 except for emergency replacements. The full amount currently budgeted is $447,300; the cost of three packages is recommended to be retained to replace failures that occasionally occur.	**-387,300**
INCREASE COST: ENERGY TAX INCREASE	**85,660**

MCG

DECREASE COST: EXPEDITED BILL 16-10 - IMPUTED COMPENSATION LIMIT This expenditure reduction assumes Council approval of pending legislation regarding the effect of imputed compensation on retirement benefits for County employees. The allocation of the expenditure reduction across County departments is attached to this transmittal.	**-101,330**
Total Internal Service Funds Expenditures	**-402,970**

FY11-16 RECOMMENDED CIP BUDGET ADJUSTMENTS ('$000) APRIL 22, 2010				
DEPT	PROJECT NAME	EXPLANATION OF ADJUSTMENT (Note 1)	TOTAL REDUCTION ($000)	FUNDING SOURCES
		FY11 ADJUSTMENTS/REDUCTIONS		
DTS	Fibernet	Defer and revise implementation plan	(1,497)	Cable TV
COLL	Student Learning Support System	Reduce project scope	(500)	Current Revenue - General
COLL	Network OperatingCenter	Reduce project scope	(1,000)	Recordation Tax
COLL	Network Infrastructure and Support	Reduce project scope	(1,000)	Recordation Tax
COLL	Information Technology: College	Reduce project scope	(3,000)	Recordation Tax
REC	Public Arts Trust	Reduce project scope	(100)	Current Revenue - General
M-NCPPC	Planned Lifecycle Replacement (PLAR) Non-Local Parks	Reduce project scope	(250)	Current Revenue - General
		FY10 AMENDMENTS/REDUCTIONS		
DOT	Ride On Bus Fleet	Substitute bond premium revenue for Mass Transit revenue ($956K)	-	Bond Premium, Mass Transit
DOT	Bus Stop Improvements	Shift to FY12 to reflect current implementation plan	(380)	Mass Transit
DTS	Voice Mail Replacement System (Pending Closeout)	Reduce to reflect current implementation plan	(44)	Current Revenue - General
M-NCPPC	Facility Planning Local Parks	Reduce project scope	(100)	Current Revenue - P&P
HHS	School Based Health & Linkages to Learning	Northwood High School planning complete - funds not required	(100)	Current Revenue - General
DPL	Rockville Library (Pending Closeout)	Project complete - funds not required	(325)	Current Revenue - General
REC	Public Arts Trust	Reduce project scope	(40)	Current Revenue - General
FRS	Rockville Fire Station	Defer to FY13 to reflect current implementation plan	(500)	Fire Consolidated
DGS	Judicial Center Annex	Substitute GO bonds for current revenue ($25K)	-	GO Bonds, Current Revenue - General
DOT	Resurfacing: Residential/Rural Roads	Substitute GO bonds for current revenue ($24K)	-	GO Bonds, Current Revenue - General
DGS	Planned Lifecycle Replacement (PLAR) (MCG)	Substitute GO bonds for current revenue (15K)	-	GO Bonds, Current Revenue - General

Note (1) See details in attached PDFs

Total Tax-Supported Resources

FY10	2,509
FY11	7,347

OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

MEMORANDUM

April 5, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive

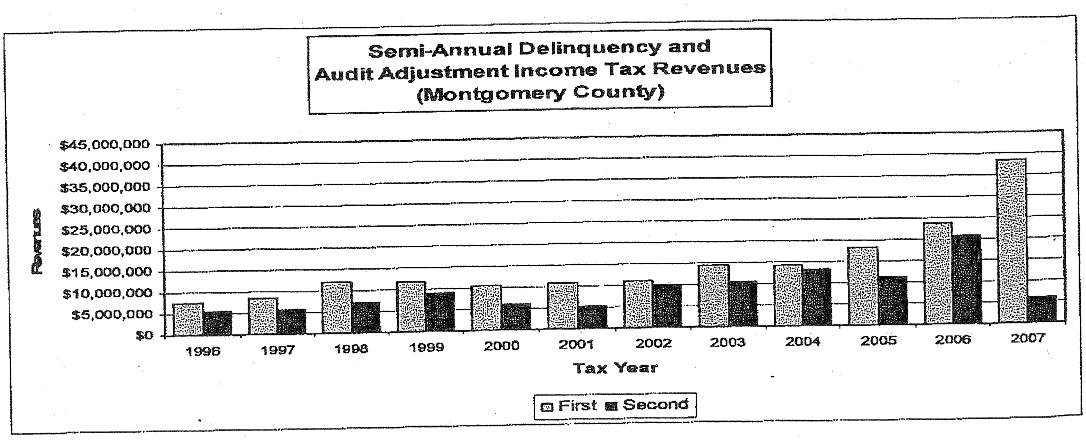
SUBJECT: March Income Tax Distribution and Rating Agency Feedback

The purpose of this memorandum is to brief the County Council on: the March income tax distribution; additional reactions we have received from rating agencies regarding our impending bond sale; and actions I am exploring to address these developments.

Background: March Distribution

The income tax distribution anticipated from the State Comptroller's office for March of this year was $24.5 million below our estimate. The March distribution consists of two parts: 1) delinquency payments and audited adjustments; and 2) fiduciary payments.

The portion of the March 2010 income tax distribution related to delinquency and audit adjustments was dramatically below the October 2009 distribution (↓86.7%), and below the March 2009 distribution (↓71.8%), and was the lowest amount since tax year 2001.



Finance Department staff are still discussing with the Comptroller's Office the basis for this significant reduction in the expected distribution in March which, as we understand it, is due to factors which are unique to Montgomery County. As soon as this analysis is complete, I will be able to share it with you. As I have noted before, the historic snowfalls of this past year, the dramatic drop in our income tax revenue and other unanticipated revenue losses and expenditure requirement due to the Great Recession, have brought our reserves to historically low levels.

Therefore, regardless of the causes, this results in a further unanticipated material change in the ending FY10 fund balance for Montgomery County and must be addressed in order to restore some flexibility in the event of additional unanticipated expenditure increases or revenue declines.

Rating Agency Reviews

In my March 25 memo I indicated that Montgomery County is issuing a Certificates of Participation (COPs) for the Affordable Housing Acquisition Programs and for the Ride-On Bus fleet. We shared the Fitch Rating with the Council in my previous memo. Approximately a week later, Standard and Poor issued its own rating of the County financing which re-affirmed the County's AAA rating with a stable outlook, but stated in pertinent part, "The stable outlook reflects the inherent strength of the county's economy and S&P's expectation that the county will continue to take the steps necessary to restore its financial footing by addressing ongoing revenue declines. **If the county fails to take actions to stabilize its finances, we may revise the outlook to negative.**" (emphasis added).

Moody's issued its own rating which placed Montgomery County GO Rating on a watchlist for a possible downgrade stating that: "Placement on watchlist for possible downgrade reflects deterioration of the county's financial position driven primarily by income tax revenue shortfalls, which is expected to result in the use of a significant portion of the county's General Fund and Revenue Stabilization Fund as of fiscal 2010 (year ends June 30th). Future rating reviews will factor (a) management's ability to mitigate the projected current year operating deficit, given identification of a number of potential gap closing measures that are largely non-recurring in nature; (b) steps taken in the 2011 budget to restore structurally balanced operations, and (c) development of a plan to restore financial flexibility to levels in keeping with the current rating category." The rating also stated, "The ability of the county to stabilize and replenish reserve levels and to restore financial flexibility will be a key credit consideration going forward."

Additional Actions

Consistent with the concerns I raised previously with the Council, I will continue to pursue different strategies in addition to those outlined in my March 25, 2010 memo to the County Council to address this unanticipated loss of revenue. While I have not come to a final conclusion on a revised savings target to supplement our existing FY10 reserves I am reviewing the following options:

1. Review of select non-tax supported funds to transfer additional resources to the general fund: any transfer from a non-tax supported fund must be consistent with existing law, policy, revenue bond covenants or other appropriate restrictions.
2. Liquidate current year and prior year contractual obligations: We made significant progress in FY2009 and FY2010 by liquidating these encumbrances however additional opportunities may exist to provide resources by more aggressively liquidating these obligations. However, it should be noted that these actions may impact departmental flexibility or services for the balance of FY10 or during FY11.

3. CIP Current Revenue: The Council has already approved significant reductions in CIP current revenue in FY10, but I have asked staff to review existing project balances to determine if any of these resources can be re-directed to the County's general fund. I will work with Council on any appropriate amendments to the Capital budget to accomplish this objective.
4. Expenditure/Revenue planning: I have also asked the OMB and Finance Directors to meet with the department heads of all large County Government departments to identify outstanding, remaining purchases and reimbursements for FY10 or early FY11.

The events of the last month have underscored the continuing risk and uncertainty and reduced flexibility that the County is operating under during this year. It also should reinforce the need to continue to be prudent in our management of the County's resources and work together to maintain a sound and sustainable financial footing for the County government.

I will work closely with the Council on these actions and keep you apprised of any material changes in the County's fiscal position for the balance of FY10. The fluidity and rapid changes in the fiscal situation require even greater coordination and cooperation between our two branches of government. I am optimistic that by taking the proactive measures outlined above as well as in my March 25th memorandum, we can continue to maintain the fiscal health of the County.

IL:jb

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

March 25, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Additional FY10 and FY11 Budget Actions

Budget Process

I am sending this memorandum to recommend that we jointly take additional actions to strengthen the County's financial position in the current fiscal year and for FY11.

There is no perfect time to formulate a budget. Since I recommended my budget earlier this month, we have already received more bad news that points to additional fiscal deterioration. This includes a dramatic increase in the County's unemployment rate from 5.2% to 6.2% and may signal further erosion of income tax revenue. In addition, Anne Arundel County's bond rating was recently downgraded from a AA+ to a AA rating due to several factors including the deteriorating condition of Anne Arundel's reserves. At the same time, the Department of Finance has been in discussions with the bond rating agencies relative to an upcoming bond sale and is concerned about feedback they have received from the rating agencies on our fiscal position.

Events Subsequent to County Executive's FY11 Budget Transmittal

Increase in County's Unemployment Rate

Last week we learned through the State Department of Labor, Licensing, and Regulation that the County's unemployment rate increased to 6.2%. The unemployment rate which averaged 5.4% between May and December '09, has reached an unprecedented level for the County. Our assumption prior to this announcement was that the unemployment rate reached its peak given a ±0.1 percentage point change either way over the next three months based on the recent national situation and the County's performance since May of last year.

While the data are "not seasonally adjusted", the number of County residents employed in January was 480,493 (↓1.0% from January '09) and the lowest level since 2004. If the January data are an indicator of the employment situation in the near term, we could expect a further strain on income tax revenues over the next six months (particularly the May, June, and July distributions) than we had estimated for the FY11 budget. Our economic assumption for resident employment assumed a modest 0.3% increase for calendar year 2010 for the FY11 Recommended Budget.

This significant increase in the unemployment rate should not be easily dismissed as just "more people entering the labor force". It is in fact, a more accurate estimate of the number of people out of work in the County which contributes to the strain on the County's safety net services and has serious implications for future estimates of income tax revenues.

Anne Arundel County Bond Rating Downgrade

Fitch Ratings, in downgrading Anne Arundel County's bond rating from AA+ to AA noted the following as a basis for their action: "The rating downgrade from 'AA+' to 'AA' reflects Anne Arundel's (the county) continued diminished reserve levels and financial flexibility, underscored by recent failures to achieve structurally balanced budgets. A charter-imposed cap on property tax growth somewhat limits the county's ability to offset other tax and fee revenue declines, although a substantial taxable assessed valuation cushion bolsters the consistency of property tax collections. The county's low income tax rate provides revenue-raising flexibility."[1]

The relevance of this analysis to Montgomery County is obvious given the trend in our own general fund balance and property tax cap limitations. In addition, unlike

[1] Fitch Ratings, Anne Arundel County, Maryland, March 22, 2010, page 1

Anne Arundel County, Montgomery County is at the State authorized maximum income tax rate.

Rating Agency Feedback

As you know, like many jurisdictions, Montgomery County is in the bond market at multiple times during the year. This spring, the County is issuing bonds for its Affordable Housing Acquisition Program and seeking financing for its Ride On Bus fleet. In their analysis of the County's credit worthiness, the ratings analysts have focused their attention on the County's reserve levels, particularly in light of the extraordinary fiscal pressures we have faced this year. As mentioned above, a recent review of another Maryland county's credit, Anne Arundel, highlighted the need for strong reserve levels and a structurally balanced budget.

As stated in the attached press release from Fitch Ratings: " The proposed fiscal 2011 budget includes a proposed energy tax increase as well as furloughs, lay-offs, and programmatic reductions that are intended to eliminate the $780 million deficit, restore $37 million to the RSF, and increase the undesignated general fund balance to $126.9 million. Should the county attain its objectives, it will restore reserves to the modified 5% policy, although Fitch is concerned **that insufficiently conservative revenue projections may impede the county's attainment of its goal**. The county has stated that by fiscal 2012 it will eliminate the currently projected $212 million structural deficit and will restore reserves to its 6% policy. **Fitch's current rating and Stable Outlook assume the county will be successful, but failure to achieve the fiscal 2011 and 2012 financial goals could result in a credit profile that is inconsistent with the current rating category."**[2] *(Emphasis added)*

Recommended Actions

As you are aware, my Recommended FY11 Operating Budget substantially reduced the rate of growth in the County budget. Based on the dramatic decline in income tax receipts, unexpected costs related to snow removal, and other drains on our budget this year, we are projecting a reduction in our general fund reserves to $27.7 million in FY10. These reserves include $10.0 million in the County General Fund and $17.7 million remaining in the Revenue Stabilization Fund.

Based on additional fiscal challenges that relate to a dramatically higher unemployment rate and the strong signals from the bond rating agencies that we demonstrate and implement a plan to meet our reserve targets in FY11 and FY12, I am recommending the following additional actions which total $48.4 million and that this amount be added to the Revenue Stabilization Fund to help restore the balance in that fund:

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[2] Fitch Ratings, Montgomery County, Maryland, March 25, 2010

Fuel Energy Tax Increase - In my Recommended budget I proposed raising an additional $50 million through an increase in the fuel energy tax to begin in FY11. I now recommend that we increase the fuel energy tax to raise an additional $13.6 million in FY10 and $31.8 million in FY11 for total additional revenues of $45.4 million. This will, regrettably, increase the average residential utility bill by approximately $5 per month.

Accelerate FY11 Fund Balance Transfers- I am recommending that we accelerate certain planned FY11 transfers from non-tax supported funds into the County's General Fund in FY10. This will increase General Fund resources by $3.7 million in FY10 and will not compromise the financial position of the funds from which the transfers will be taken.

Reduce FY10 Set Aside - the FY11 Budget includes 63.1 million for snow removal costs. Based on a more recent estimate of snow removal costs, we can reduce this set aside amount by $3 million.

Recommended Use of Additional Resources

The combination of these actions will produce additional resources of approximately $48.4 million for FY10 and FY11. I very strongly recommend that all of these resources be restored to the County's Revenue Stabilization Fund to provide additional flexibility to the County in FY10 and FY11 to respond to further adverse economic and fiscal conditions. I fully appreciate the pressures that the Council is under to support additional spending in FY11 to restore pay increases for County employees, preserve County services at existing levels, address the requests from our non-profit partners, and address other important and meritorious public needs. However, it is imperative for the long term fiscal health of this County that we jointly resist these pressures in order to bring stability and sustainability back to the County's financial condition.

Conclusion

In closing, I want to be clear that I will not support using any of these resources to add back continuing costs into the County's budget. All of these additional resources need to be restored to the County's Revenue Stabilization Fund.

Attachment

MEMORANDUM

April 13, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Additional Revenue Write-down

Isiah Leggett

The purpose of this memorandum is to provide the Council with an update on our need for a further write-down of our income tax forecast following a meeting with the State Comptroller's Office last Friday in Annapolis. At that meeting, we received new information about actual current year collections that was not previously available. I believe it is important that this information be shared with the Council as soon as possible so that we can be proactive and stay ahead of the fiscal situation as it continues to unfold.

On April 5, 2010, I informed the Council of an unprecedented shortfall in the March Income Tax distribution. At that time, I noted that Finance Department staff were planning to meet with the Maryland Comptroller's Office to understand the basis for this significant reduction. I also asked the Finance Department to work with the Comptroller's Office to assure that we have the latest information about actual State collections in order to gauge the validity of our forecast of the income tax for the remainder of this fiscal year and for next fiscal year.

At the Friday meeting, the Comptroller's Office noted that income tax withholdings and estimated payments decreased nearly four percent in January and February with March still being processed. These first quarter receipts will be distributed to the counties in May. The County forecast had assumed these receipts would increase one percent. Based on the reported decrease and other information provided about the upcoming distributions and Montgomery County's declining share of total receipts, and at the recommendation of the Department of Finance, I believe it is prudent to write-down FY2010 Income Tax revenue by $44 million and FY2011 revenue by another $100 million. This is in addition to the reduction of $24 million already reported on April 5th. The total write-down is $168 million over the two years. Department of Finance staff will provide Council staff with further specifics of the write-down.

I plan to transmit specific measures to the Council early next week to address these unanticipated losses in revenue. Based on our recent experiences, we must demonstrate that our plan is fiscally viable. The Plan must:

- Reflect the reality of the lower revenue stream we are experiencing and most likely will experience into the near future; and

- Rebuild reserves to a level that more appropriately addresses the volatility of Income Tax receipts.

Given the situation, it is clear to me that the Council has no room to increase expenditures and must work to identify additional cuts. Any additional reductions the Council identifies should be added to reserves rather than be used to restore or enhance programs. Additionally, the Council should immediately act on the revenue measures before it including the increase to the Energy tax and the implementation of the EMS fee.

As I mentioned before, we have no choice but to be proactive and work together to maintain a sound and sustainable financial footing for the County government.

IL:tf

MONTGOMERY COUNTY GOVERNMENT
TAX-SUPPORTED REVENUE ESTIMATES FOR FY2009-2011
REVISED REVENUE ESTIMATES: FEBRUARY 2010
($000)

	FY09 Actual	FY10	FY11
COUNTY INCOME TAX			
Budget Estimate (1)	$1,325.400	$1,214.800	$1,279.800
- FY11 Budget	$1,291.717	$1,094.555	$1,160.880
- Variance	(33.683)	(120.245)	(118.920)
PROPERTY TAX			
Budget Estimate	$1,364.900	$1,440.900	$1,487.400
- FY11 Budget	$1,363.078	$1,442.470	$1,449.154
- Variance	(1.822)	1.570	(38.246)
TRANSFER TAX			
Budget Estimate	$80.900	$65.000	$68.100
- FY11 Budget	$64.772	$68.670	$75.650
- Variance	(16.128)	3.670	7.550
RECORDATION TAX			
Budget Estimate	$68.100	$51.900	$53.900
- FY11 Budget	$42.437	$49.226	$51.020
- Variance	(25.663)	(2.674)	(2.880)
ADMISSIONS TAX			
Budget Estimate	$2.400	$2.100	$2.100
- FY11 Budget	$2.169	$2.058	$2.043
- Variance	(0.231)	(0.042)	(0.057)
FUEL / ENERGY TAX (2)			
Budget Estimate	$132.700	$130.400	$133.400
- FY11 Budget	$129.328	$132.194	$135.120
- Variance	(3.372)	1.794	1.720
TELEPHONE TAX			
Budget Estimate	$30.900	$32.800	$33.800
- FY11 Budget	$30.906	$29.542	$30.589
- Variance	0.006	(3.258)	(3.211)
HOTEL / MOTEL TAX			
Budget Estimate	$19.900	$20.000	$21.500
- FY11 Budget	$16.829	$15.813	$17.353
- Variance	(3.071)	(4.187)	(4.147)
INVESTMENT INCOME			
Budget Estimate	$14.600	$5.900	$9.100
- FY11 Budget	$8.487	$1.369	$3.386
- Variance	(6.113)	(4.531)	(5.714)
HIGHWAY USE FUND			
Budget Estimate	$39.700	$10.300	$21.800
- FY11 Budget	$32.936	$0.968	$0.900
- Variance	(6.764)	(9.332)	(20.900)
Total: Tax Supported Revenues			
Budget Estimate	$3,079.500	$2,974.100	$3,110.900
- FY11 Budget	$2,982.660	$2,836.865	$2,926.095
- Variance	($96.840)	($137.235)	($184.805)
Cumulative Budgetary Revenue Losses FY09-11			($418.880)

Notes:

(1) Budget Estimates are as of May 2008 for FY2009 and May 2009 for FY2010 and FY2011

(2) The County Executive Recommends a 63.7% rate increase that is projected to raise an additiona. $13.5 million in FY10 and $83.1 million in FY11

Revenues

INTRODUCTION

This chapter provides demographic and economic assumptions, including detailed discussions of the national, State and local economies. Revenue sources, both tax supported and non-tax supported, used to fund the County Executive's Recommended FY11 Operating Budget incorporate policy recommendations.

ESTIMATING SIX-YEAR COSTS

Demographic Assumptions

The revenue projections of the Public Services Program (PSP) incorporate demographic assumptions based on Council of Governments (COG) Round 7.2A estimates, as prepared by M-NCPPC, and are based on fiscal and economic data and analyses used or prepared by the Department of Finance. *A Demographic and Economic Assumptions* chart located at the end of this chapter provides several demographic and planning indicators.

- County population, which was estimated at 957,200 in 2009, will continue to increase an average of approximately 11,200 persons each year throughout the next seven years reaching over one million by 2013 and 1,035,000 by 2016. This reflects an average annual growth rate of 1.1 percent, which is below the average annual growth rate of 1.6 percent during the late 1990s.
- There were an estimated 359,000 households in the County in 2009 and current projections estimate the number of housholds to increase to 362,000 in 2010. Household growth throughout the subsequent six years is now projected to grow at an average annual rate of 1.3 percent. As a result, current projections estimate 390,000 households by 2016.
- The County's senior population continues to grow with an estimated 104,805 persons 65 or older living here in 2005 and projected to increase to 134,838 by 2015.
- County births, which are one indicator of future elementary school populations and child day care demand, are projected to gradually increase, from an estimated 13,850 in 2010 to 14,640 by 2016.
- Montgomery County Public School enrollments are projected to increase moderately over the next six years. The County expects an enrollment increase of 4,734 students from FY11 to FY16.
- Montgomery College enrollments are projected to increase from 26,144 in September 2010 to 27,198 in September 2015 (FY16). These estimates are based on a continuation of growth in fall enrollment.

Using moderate economic and demographic assumptions to develop fiscal projections does not mean that all possible factors have been considered. It is likely that entirely unanticipated events will affect long-term projections of revenue or expenditure pressures. Although they cannot be quantified, such potential factors should not be ignored in considering possible future developments. These potential factors include the following:

- Changes in the level of local economic activity,
- Federal economic and workforce changes,
- State tax and expenditure policies,
- Federal and State mandates requiring local expenditures,
- Devolution of Federal responsibilities to states and localities,
- Local tax policy changes,
- Changes in financial markets,
- Major demographic changes,
- Military conflicts and acts of terrorism, and
- Major international economic and political changes.

Policy Assumptions

Revenue and resource estimates presented are the result of the recommended policies of the County Executive for the FY11 budget. Even though it is assumed that these policies will be effective throughout the six-year period, subsequent Council actions, State law and budgetary changes, actual economic conditions, and revised revenue projections may result in policy changes in later years.

Economic Assumptions

Revenue projections depend on the current and projected indicators of the national, regional, and local economy. National economic indicators also influence the County's revenue projections. Such indicators include short-term interest rates, mortgage interest rates, and the stock market. Local economic indicators include employment, residential and nonresidential construction, housing sales, retail sales, and inflation. The assumptions for each of those indicators will affect the revenue projections over the six-year horizon. Because of the large presence of the federal government, in terms of employment, procurement, and federal retirees, Montgomery County's economy, generally, does not experience the volatility that is experienced nationally.

The economic projections for the next six fiscal years assume a slow but sustainable growth rate. However, growth will be significantly weaker in the early part of this forecast period and dependent on the current forecasts for the national and regional economies. Such projections are dependent on a number of factors – fiscal and monetary policy, real estate, employment, consumer and business confidence, the stock market, mortgage interest rates, and geopolitical risks.

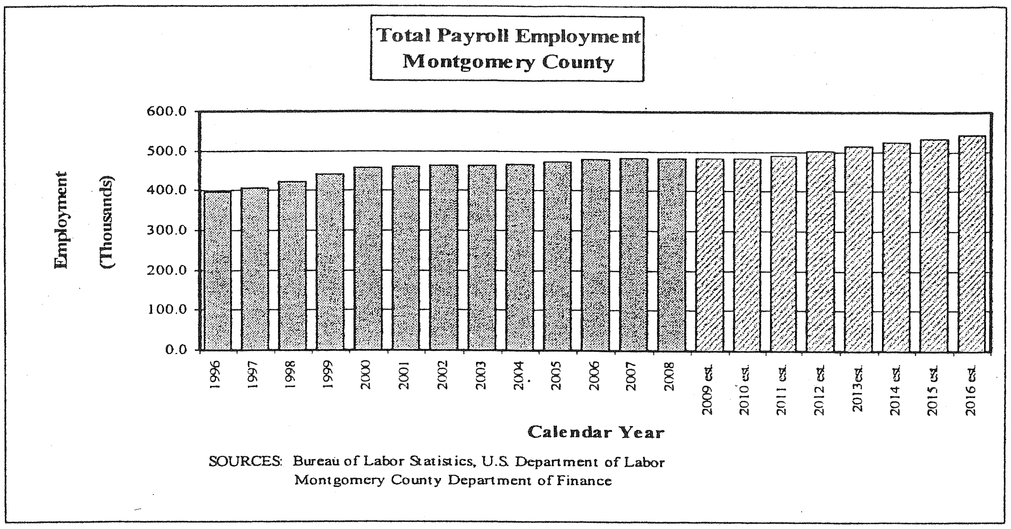
The national economy experienced an economic recession during calendar year 2009. For the year, real gross domestic product (GDP) declined 2.4 percent with the decline attributable to consumer purchases of goods (↓1.9%), investment in non-residential construction (↓19.6%), equipment and software (↓16.7%), and residential construction (↓20.4%). According to the Federal Reserve's (Fed) *Monetary Report to the Congress* (February 24, 2010), real GDP is expected to increase between 2.8 and 3.5 percent in 2010. That range is based on the Fed's assessment of "the continued expansion of economic activity, including accommodative monetary policy, ongoing improvements in the conditions of financial markets and institutions, and a pickup in global economic growth, especially in emerging market economies."

The Washington region lost nearly 26,000 jobs during 2009. Between 2003 and 2006, the region's economy added an average of nearly 59,800 new jobs per year which was significantly above the 23,300 new jobs created in 2007 and 16,700 in 2008. From 2006 to 2008, the region's unemployment rate increased slightly from 3.1 percent in 2006 to 3.8 percent in 2008, one of the lowest among the nation's largest metropolitan areas. However, because of the decline in employment in 2009, the unemployment rate increased to an estimated 6.1 percent

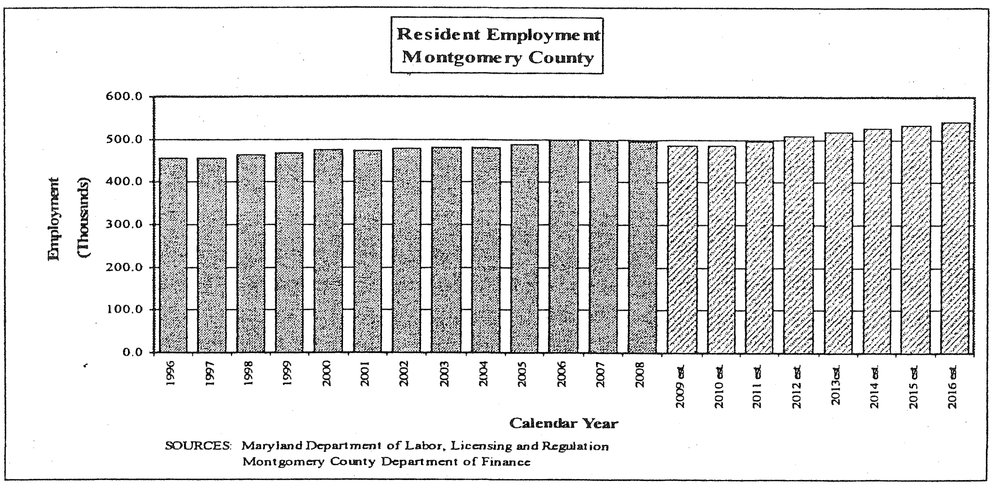
Because of the national recession, Montgomery County's economy continued to experience a slowdown in 2009. The primary reasons for the economic slowdown were the decline in housing prices, a reduction in residential and non-residential construction, and a decline in resident employment and, as a result, an increase in the unemployment rate.

Employment Situation

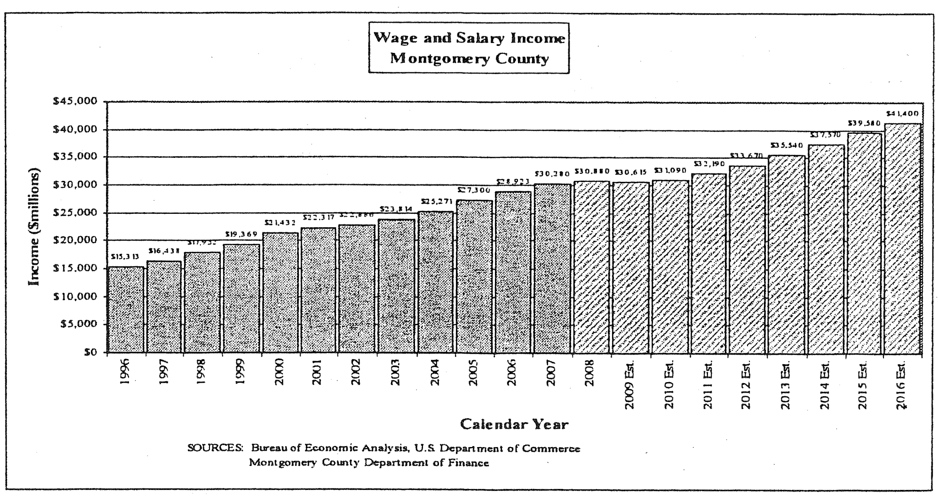
During the past fourteen years, total payroll employment in Montgomery County, which is based on the survey of establishments, experienced two distinct cycles: significant growth from 1996 to 2000 of 3.6 percent per year, and a period of weak growth between 2000 and 2009 estimate with an average annual growth rate of 0.6 percent. The Department of Finance (Finance) assumes payroll employment to grow, on average, 1.7 percent per year between 2009 and 2016. In terms of the number of jobs added to the County's total payroll employment, an average of 8,760 jobs per year is estimated between 2009 and 2016 with most of that growth occurring between 2012 and 2014.



Resident employment in the County, which is based on a survey of County households, provides a slightly different picture of employment growth. For example, resident employment grew only 1.10 percent, on average, between 1996 and 2000 (compared to the 3.6 percent for payroll employment). Following declines in employment between 2007 and the preliminary 2009 estimate, Finance assumes that employment is expected to increase at an average annual rate of 1.6 percent from 2009 to 2016.



Finance expects that wage and salary income for the County to grow, on average, 4.4 percent per year between 2009 and 2016, with total wage and salary income reaching $41.4 billion dollars by 2016.

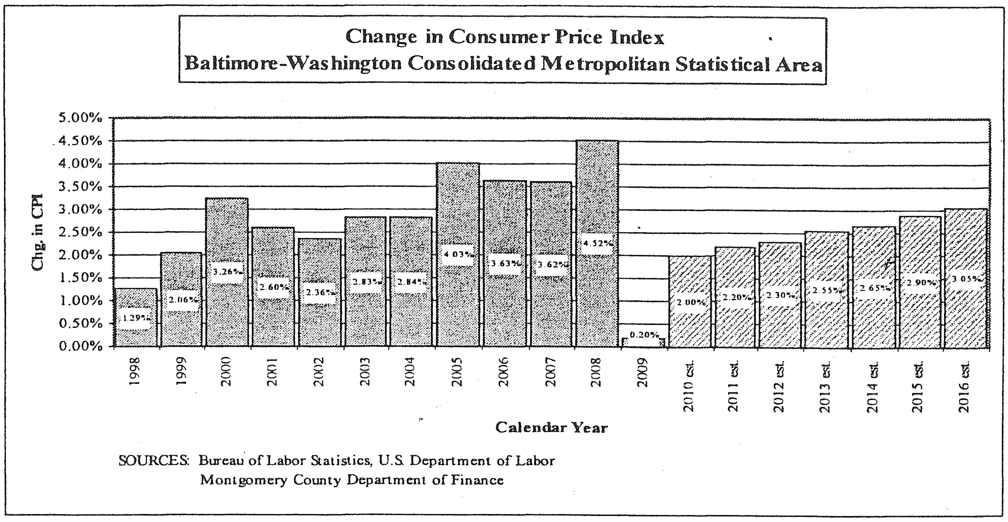


Personal Income

Finance estimates that total personal income will grow at an average annual rate of 4.5 percent from 2009 to 2016, which is lower than the thirteen-year average between 1996 and 2009 (5.6%). By 2016, Finance assumes that total personal income will reach $89.7 billion.

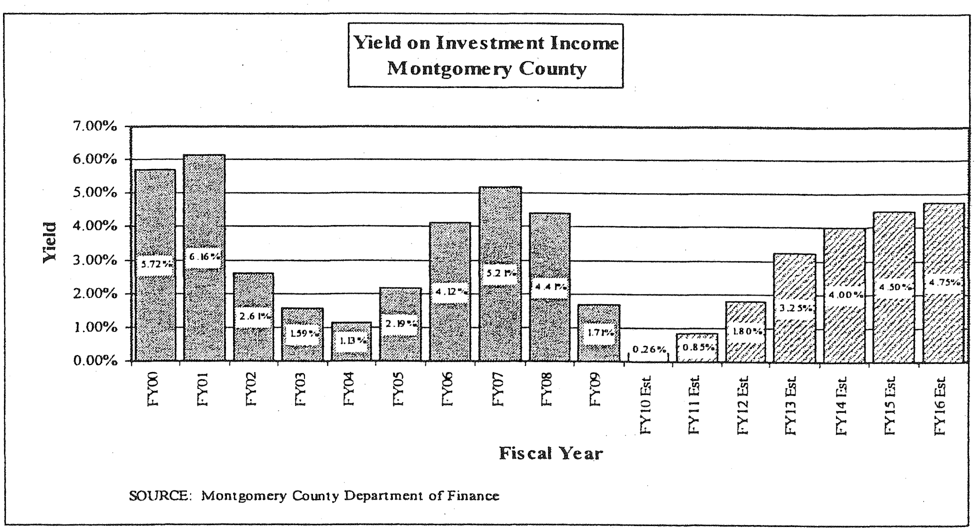
Inflation

As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore consolidated statistical metropolitan area was above the national average in 2009 (0.2% compared to -0.4% for the nation). Finance assumes that overall inflation rate, which is the percent change in the annual regional index, will gradually increase from 2.00 percent in 2010 to 3.05 percent by 2016.



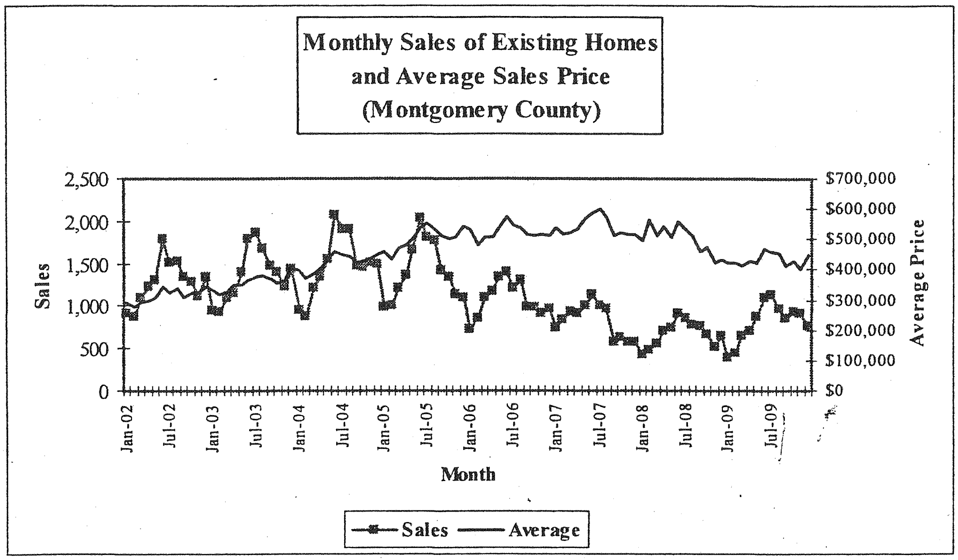
Interest Rates

Beginning September 2007 and continued through December 2008, the Fed, through its Federal Open Market Committee, aggressively cut the effective target rate on federal funds from 5.25 percent to a range of 0.00-0.25 percent. The ten rate cuts were in response to the credit crisis that had significantly affected the financial markets (both bonds and stock markets) and the national economy since the summer of 2007. Based on data from the federal funds futures market (Chicago Mercantile Exchange), Finance assumes that the FOMC will maintain its current position of an effective target rate of 0.00-0.25 percent through the first three quarters of calendar year 2010 at which time interest rates may increase modestly during the final quarter of this year. Since the yield on the County's short-term investments is highly correlated with the federal funds rate, Finance estimates that the County will earn an average of 0.26 percent on its short-term portfolio for fiscal year (FY) 2010 and 0.85 percent for FY2011.



Real Estate Market

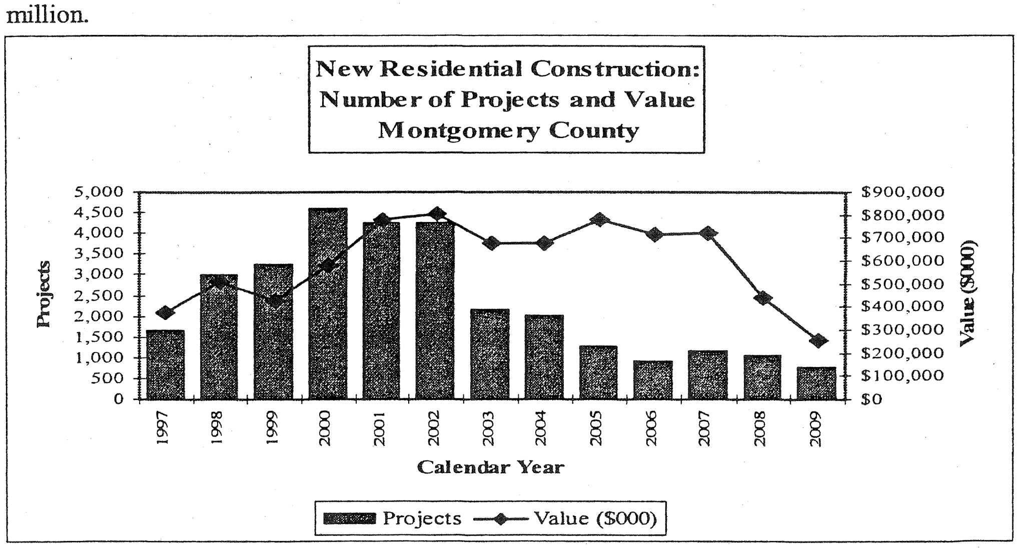
The housing market in Montgomery County experienced two different trends in 2009: 1) a dramatic increase in home sales since March 2009, and 2) and a decline in the average sales price. Existing home sales increased 21.8 percent in 2009 which followed declines of 23.5 percent and 18.3 percent in 2007 and 2008, respectively. After four consecutive years of double-digit price increases between 2002 and 2005 and modest increases of 4.4 percent in 2006 and 3.6 percent in 2007, the average selling price decreased 7.6 percent in 2008 and 13.8 percent in 2009.



Construction Activity

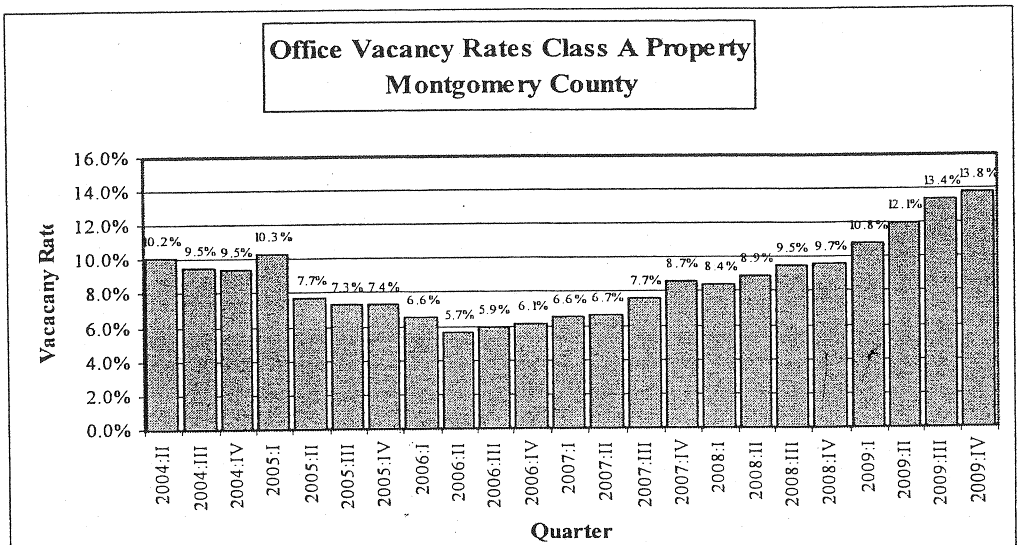
Construction is a cyclical activity that can have a significant effect on a local economy and employment owing to secondary and tertiary effects on construction supply and service industries. Permits and starts are key indicators of the near-term economic condition of the housing industry and are considered leading indicators for the local economy. Of lesser note, new single-family home sales and construction outlays are important indicators for monitoring the level of current investment activity. Construction starts measure initial activity as opposed to permits, which measure planned activity. However, permits and starts closely track each other and therefore, a four-month moving average provides a more reliable indicator of the housing trend compared to month-to-month changes. The primary source of construction data for the County is McGraw-Hill Construction, formerly known as Dodge Analytics.

The value of additional residential property declined 41.6 percent, which followed a decrease of 39.0 percent in 2008. The value of new residential construction stood at $256.6 million in 2009, which was significantly below the previous five-year average of $665.3 million.



The value of new non-residential construction in the County decreased 39.7 percent in calendar year 2009 from $569.5 million to $343.6 million. The dramatic 60 percent decrease in the value was led by commercial construction ($323.1 million in 2008 compared to $127.3 million in 2009). The value of other non-residential construction, which includes manufacturing, education and science, hospital, and health treatment facilities, decreased 12.2 percent in 2009 from $246.4 million to $216.3 million.

The decline in non-residential construction can be attributed to an increase in the vacancy rate for Class A property during 2009 reaching its highest level of 13.8 percent by the fourth quarter. While that rate is the same as the regional average, it represents an uninterrupted series of increases that began in the first quarter of 2008.



SOURCES: Planning Division, MNCPPC-MC
Montgomery County Department of Finance

Retail Sales

Using sales tax receipts as a measure of the level of retail sales for the County, purchases of durable and nondurable goods adjusted for the rate increase from 5 percent to 6 percent decreased 6.6 percent in 2009 compared to a decrease of 3.4 percent in 2008. The sale of nondurable goods, which includes food and beverage, apparel, general merchandise, and utilities and transportation, decreased 4.3 percent while sales of durable goods declined 12.3 percent. Sales of apparel and general merchandise items, which declined 6.7 percent and 8.1 percent, respectively, contributed to the decrease in purchases of nondurable goods. Sales of furniture and appliances (↓22.3%) and hardware, machinery, and equipment (↓17.1%) led the decline in purchases of durable goods.

REVENUE SOURCES

The major revenue sources for all County funds of the Operating Budget and the Public Services Program are described below. Revenue sources which fund department and agency budgets are included in the respective budget presentations. Six-year projections of revenues and resources available for allocation are made for all County funds. This section displays projections of total revenues available for the tax supported portion of the program. Tax supported funds are those funds subject to the Spending Affordability Guideline (SAG) limitations. The SAG limitations were designed and intended to provide guidance prior to the preparation of the recommended budget as to the level of expenditure that is affordable based on the latest revenue estimates.

The PSP also includes multi-year projections of non-tax supported funds. These funds represent another type of financial burden on households and businesses and, therefore, should be considered in determining the "affordability" of all services that affect most of the County's population. Projections for non-tax supported funds within County government are presented in the budget section for each of those funds.

IMPACT ON REVENUES AND THE CAPITAL BUDGET

The use of resources represented in this section includes appropriations to the Operating Funds of the various agencies of the County as well as other resource requirements, such as current revenue funding of the Capital Budget, Debt Service, and Fund

Balance (operating margin). These other uses, commonly called "Non-Agency Uses of Resources," affect the total level of resources available for allocation to agency programs. Some of these factors are determined by County policy; others depend, in part, on actual revenue receipts and expenditure patterns.

The level of PSP-related spending indirectly impacts the local economy and, hence, the level of County revenues. However, the effect on revenues from expenditures of the Executive's Recommended Operating Budget and PSP are expected to be minimal. The PSP also impacts revenues available to fund the Capital Budget. The revenue projections included in this section subtract projected uses of current revenues for both debt eligible and non-debt eligible capital investments. Therefore, the Executive's Recommended Operating Budget and PSP provide the allocations of annual resources to the Capital Budget as planned for in the County Executive's Recommended FY11-16 Capital Improvements Program (as of January 15, 2010). These allocations will vary because of adjustments to current revenues for the CIP as part of the Executive's Recommended Operating Budget.

Prior Year Fund Balance

The prior year fund balance for the previous fiscal year is the audited FY09 closing fund balance for all tax supported funds. The current year fund balance results from an analysis of revenues and expenditures for the balance of the fiscal year. Prior year fund balance for future fiscal years is assumed to equal the target fund balance for the preceding year.

Net Transfers

Net transfers are the net of transfers between all tax supported and non-tax supported funds in all agencies. The largest single item is the earnings transfer from the Liquor Control Fund to the General Fund. The transfer from the General Fund to Montgomery Housing Initiative to support the Executive's housing policy is the largest transfer to a non-tax supported fund. The payment from the General Fund to the Solid Waste Disposal Fund for disposal of solid waste collected at County facilities is the next largest transfer to a non-tax supported fund. The level of transfers is an estimate based on individual estimates of component transfers.

Debt Service Obligations

Debt service estimates are those made to support the County Executive's Recommended FY11-16 Capital Improvements Program (as of January 15, 2010). Debt service obligations over the six years are based on servicing debt issued to fund planned capital projects, as well as amounts necessary for short-term and long-term leases. Debt service requirements have the single largest impact on the Operating Budget/Public Services Program by the Capital Improvements Program. The Charter-required CIP contains a plan or schedule of project expenditures for schools, transportation, and infrastructure modernization. Approximately 56.5 percent of the CIP is funded with G.O. bonds. Each G.O. bond issue used to fund the CIP translates to a draw against the Operating Budget each year for 20 years. Debt requirements for past and future G.O. bond issues are calculated each fiscal year, and provision for the payment of Debt Service is included as part of the annual estimation of resources available for other Operating Budget requirements. As Debt Service grows over the years, increased pressures are placed on other PSP programs competing for scarce resources.

In accordance with the County's Fiscal Policy, these obligations are expected to stay manageable, representing less than 10.0 percent of General Fund revenues. Maintaining this guideline ensures that taxpayer resources are not overextended during fiscal downturns and that services are not reduced over time due to increased Debt Service burdens.

The State authorizes borrowing of funds and issuance of bonds up to a maximum of 6.0 percent of the assessed valuation of all real property and 15.0 percent of the assessed value of all personal property within the County. The County's outstanding G.O. debt plus short-term commercial paper as of June 30, 2009, is 1.17 percent of assessed value, well within the legal debt limit and safely within the County's financial capabilities.

CIP Current Revenue and PAYGO

Estimates of transfers of current revenue and PAYGO to the CIP are based on the most current County Executive recommendations for the Capital Budget and CIP. These estimates are based on programmed current revenue and PAYGO funding in the six years, as well as additional current revenue amounts allocated to the CIP for future projects and inflation.

Revenue Stabilization

Mandatory contributions to the Revenue Stabilization Fund (Rainy Day Fund) are made if certain revenues increase above their budgeted projections and/or if projected revenue growth is stronger than in a selected historical period. Revenues include County Income Tax, Transfer Tax, General Fund Investment Income, and Recordation Tax excluding the amount dedicated to the MCPS CIP, College information technology projects, and rental assistance programs. The projection assumes that no mandatory transfer will be made to this fund at the end of FY10. The County Executive recommends a transfer of approximately $102.0 million from the fund, leaving a fund balance of $17.7 million at the end of FY10. The County Executive also recommends a transfer of $37.0 million into the fund in FY11 bringing the fund balance to $57.8 million, which includes interest earned.

Since the fund reached more than half of its maximum size in FY10, interest earned must be used as an offset to the issuance of General Obligation debt. The estimate of the interest in FY10 is slightly more than $311,000. Funding of PAYGO from earned interest was made in FY02 ($2.2 million), FY03 ($1.3 million), FY04 ($1.1 million), FY05 ($2.4 million), FY06 ($4.7 million), FY07 ($6.2 million), FY08 ($5.8 million), FY09 ($2.0 million), FY10 ($312,000). **Because of the estimated fund balance in FY11, there will be no transfer of the $150,000 interest earned to PAYGO.**

Other Uses

This category is used to set aside funds for such items as possible legal settlement payments and other special circumstances such as set-aside of revenues to fund future years.

Reserves

The County will maintain total reserves for tax supported funds that include both an operating margin reserve and the Revenue Stabilization Fund (or "Rainy Day Fund"). For tax supported funds in FY11, the budgeted total reserve of the operating margin and the Revenue Stabilization Fund will be 5.0 percent of total resources (i.e., revenues, transfers, prior year undesignated and designated fund balance). Future year projections assume restoration of total tax supported reserves to 6.0 percent of total resources.

REVENUE ASSUMPTIONS

Projections for revenues are included in six-year schedules for County Government Special Funds and for Montgomery College, M-NCPPC, and WSSC in the relevant sections of this document. See the MCPS Budget Document for six-year projections of MCPS funds. Projections for revenues funding County government appropriations are provided to the Council and public as fiscal projections. Such projections are based on estimates of County income from its own sources such as taxes, user fees, charges, and fines, as well as expectations of other assistance from the State and Federal government. The most likely economic, demographic, and governmental policy assumptions that will cause a change in revenue projections are included in this section.

TAX REVENUES

Tax supported revenues come from a number of sources including but not limited to property and income taxes, real estate transfer and recordation taxes, excise taxes, intergovernmental revenues, service charges, fees and licenses, college tuition, and investment income. In order of magnitude, however, the property tax and the income tax are the most important with 38.2 percent and 30.6 percent, respectively, of the estimated total tax supported revenues in FY11. The third category is the combined real estate transfer and recordation taxes estimated for the General Fund with a 3.6 percent share. In fact, these three revenue sources represent 72.4 percent of total tax supported revenues. Income and transfer and recordation taxes are the most sensitive to economic and, increasingly, financial market conditions. By contrast, the property tax exhibits the least volatility because of the three year re-assessment phase-in and the ten percent "homestead tax credit" that spreads out changes evenly over several years.

In the late 1990s and early 2000s, the property tax stood in the shadow of the income tax in terms of growth. In fact, in FY99 measured by General Fund revenues, the income tax surpassed the property tax for the first time as the largest tax source in the County. At the time, the low single-digit growth in property tax revenue was dwarfed by the double-digit growth in the income tax. But with all this explosive growth in the income tax also came considerable volatility. For that reason, it was a welcome sign to observe that the property tax – the most stable of all revenue sources – gained considerable ground at a time that the income tax has experienced considerable weakness due to the economy. Because of adhering to the Charter Limit through tax rate cuts and income tax offset credit, the growth rates in property taxes were lower than would have been under current rates.

Property Tax

Using *proposed* rates (levy year 2010) and a recommended $693 credit to meet the Charter Limit, total estimated FY11 tax supported property tax revenues of $1,449.9 million are 1.2 percent above the revised FY10 estimate. The general countywide rate for FY11 is $0.697 per $100 of assessed real property, while a rate of $1.743 per $100 is levied on personal property. In addition to the general countywide tax rate, there are special district area tax rates. The 1990 Charter amendment (FIT) limits the growth in property tax revenues to the sum of the previous year's estimated revenue, increased by the rate of inflation, and an amount based on the value of new construction and other minor factors. This Charter limit, however, may be overridden by a unanimous vote of the nine members of the County Council. Growth in the previous calendar year's CPI-U for the Washington-Baltimore Consolidated Metropolitan Statistical Area is used to measure inflation. Since reassessments grew faster than the rate of inflation during the previous six fiscal years, current rates generate revenues that are $168.8 million above the Charter limit for FY11 assuming the income tax offset (rebate) is used to achieve the Charter Limit. The County Executive's proposal to recommend an income tax offset credit (rebate) of $693 for each owner-occupied residence (principal residence) reduces property tax revenues in FY11 by $168.8 million below what the levy year 2009 rates would have generated. As a result, property tax revenues in FY11 are reduced sufficiently to eliminate the variance between revenues at current rates and at the Charter Limit.

The countywide total property tax assessable base is estimated to increase 1.1 percent from a revised $172.8 billion in FY10 to $174.6 billion in FY11. The base is comprised of real property and personal property. In FY11, the Department of Finance estimates real property of approximately $170.5 billion with the remaining $4.1 billion in personal property. The growth in the total property base has fluctuated significantly over time, with an annual average of 10.2 percent growth during the late 1980s and early 1990s, followed by considerable deceleration with base growth generally close to an average 3.0 percent between FY93 and FY99. In FY00, the total property tax base increased 2.8 percent and since that time, it has improved steadily reaching a near term high of 13.4 percent by FY07 then decelerating to 10.8 percent by FY09. Reflecting changes in new construction and a slowdown in reassessments attributed to negative reassessment rates for Group 3 (levy year 2009) and Group 1 (levy year 2010), the real property tax base is expected to grow a revised 6.6 percent in FY10 and 1.1 percent in FY11.

The real property base is divided into three groups based on their geographic location in the County. Each group is reassessed triennially by the State Department of Assessments and Taxation (SDAT), which has the responsibility for assessing properties in Maryland. The amount of the change in the established market value (full cash value) of one-third of the properties reassessed each year is phased in over a three-year period. Declines in assessed values, however, are effective in the first year. Because of the different phase-ins of increases and declines during periods of modest reassessment growth, the reassessment cycle for a particular group may produce either no growth or a decline in the first year, followed by reassessment gains in the two subsequent years. The decline in reassessments effective for FY11 for Group I (↓19.4% residential and ↑8.1% for commercial of 17.0 percent follows a decline in FY10 for Group III of 10.6 percent (↓16.3% for residential and ↑6.0% for commercial) follows growth in reassessments for Group II of 16.2 percent (↑14.6% for residential and ↑23.2% for commercial properties).

There is a ten percent annual assessment growth limitation for residential property that is owner-occupied. As a result of this "homestead tax credit," these taxable reassessments in Montgomery County may not grow more than ten percent in any one year. Due to strong reassessment growth in the late 1980s and early 1990s, this assessment limitation credit topped the $2.5 billion mark in FY92 (using the current 100 percent full cash value method). As growth in home prices decelerated in subsequent years, reassessments either declined or grew less rapidly. The homestead tax credit reflected this trend, with the aggregate credit dropping steadily to $48.0 million in FY01. However, as the real estate market rebounded in the County starting in the late 1990s, home prices rose at a faster clip causing a sharp increase in reassessments. This is reflected in an increase in the credit to $1.3 billion in FY04, $3.8 billion in FY05, $8.47 billion in FY06, $15.0 billion in FY07, $21.5 billion in FY08, $23.8 billion in FY09, which is an all time record, and declining to $14.9 billion in FY10 and declining further to an estimated $5.3 billion in FY11. The outlook for the remainder of the six-year forecast period is for the homestead tax credit to continue its sharp decline through FY12.

Decreases in the personal property base between FY04 and FY06 reflected the residual effects of weak labor market conditions that occurred between calendar years 2001 and 2003 and resulted in a lower number of new businesses and associated investments. This was exacerbated by tax law changes, including partial exemption of electricity generating equipment (energy deregulation), other exemptions (e.g., manufacturing, Research and Development, and certain computer software), and new depreciation rules (e.g., for computer equipment). Personal property includes public utility equipment, business furniture and equipment, and computers. Finance estimates that the corporate personal property base is projected to increase 0.7 percent in FY10. The public utility portion, which accounted for 39.8 percent of the personal property base in FY09, is projected to increase 1.0 percent in FY11.

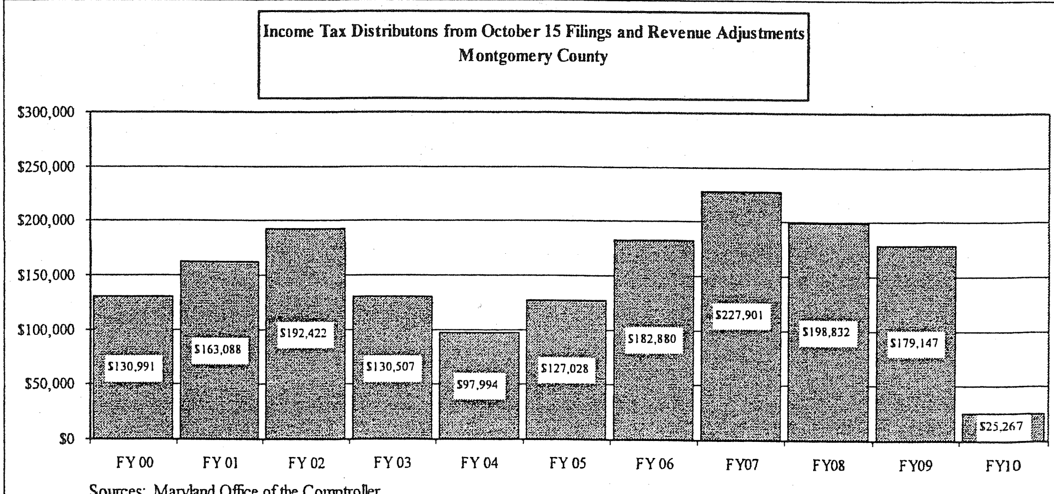
The real property base of $170.5 billion in FY11 is estimated to grow $1.8 billion compared to a revised FY10 estimate. The level of new reassessments in FY11 is attributed to the dramatic decline in Group I reassessment rates. While growth in construction is projected to decrease in FY10, it is expected to gradually increase over the next six fiscal years reaching $1.1 billion by FY16. Similarly, reassessments remain the largest contributor to the taxable base during this six-year forecast period.

Income Tax

Estimated FY11 income tax revenues of $1,160.9 million are 6.1 percent above the revised FY10 estimate. Growth slowed during the early part of the decade reflecting moderation in the trend attributed to very weak growth in County employment – an average annual growth rate of 0.5 percent between calendar years 2001 and 2003. For example, adjusted for the changes in the tax rate, the percent change in withholdings and estimated payments declined steadily from a peak of 10.5 percent in tax year 2000 to an annual average growth rate of 0.9 percent between tax years 2001 and 2003. However, since 2003 withholdings and estimated payments rebounded with an increase of 10.5 percent in 2004, 5.0 percent in 2005, 13.4 percent in 2006, and 13.0 percent in 2007, then decelerated to only 1.5 percent in 2008, and actually declined 6.7 percent in 2009.

Since, during any one fiscal year, the County receives income tax distributions pertaining to at least three different tax years, it is important to analyze the data on a tax year basis. During the 1990s, average annual tax liability grew considerably slower in the first half (7.5 percent) of the decade compared to the second half (10.4 percent). During the second half of the 1990s, quarterly income tax distributions grew rapidly, with ten percent growth rates in the years 1997 through 1999. However, such growth decelerated rapidly to only 6.8 percent in 2000, 1.1 percent in 2001, 1.4 percent in 2002, and 0.3 percent in 2003. Following a subsequent economic and stock market rebound and the County Council raising the local tax to the maximum rate of 3.2 percent effective tax year 2004, revenues from withholdings and estimated payments increased 19.9 percent, 5.0 percent in 2005, 13.4 percent in 2006, 13.0 percent in 2007, 1.5 percent in 2008, but declined 6.7 percent in 2009.

In addition to the quarterly distributions that represent withholdings and estimated payments, receipts from late filers, who had underestimated their tax liability, and adjustments to prior year distributions by the Maryland Comptroller jumped to unprecedented levels during the late 1990s and 2000. For example, while a total of only $37.0 million was received for tax year 1990, that amount gradually increased and peaked at $192.4 million in fiscal year 2002, but fell sharply in the two subsequent years to $98.0 million by FY04. Since that time, revenues from later filers and distribution adjustments have rebounded dramatically reaching $127.0 million in FY05, $183.0 million in FY06, $227.9 million in FY07, declined to $198.9 million in FY08, and declined further to $179.2 million in FY09. Because of the dramatic decline in the stock market, that distribution declined dramatically in FY10 to a mere $25.3 million. As taxpayers underestimate their tax liability from non-employment related earnings, additional payments are made when tax returns are filed. Taxpayers with more complicated tax returns, reflecting significant non-employment related earnings such as stock options and capital gains (from either the stock market or real estate), increasingly file for an extension. However, recent federal tax law now allows a taxpayer to get a six-month extension rather than a four-month extension with a request for an extra two months. Since taxpayers now file for one extension (through October 15th), income tax receipts from late filers are distributed to the County primarily in November and to a much smaller degree in January. These extended-filer distributions reflect significant shifts in one-time tax liability and, thus, represent the most volatile component of the income tax. Even though, in aggregate, this tax liability may continue to shift over a longer period of time, the shift remains one-time in the sense that tax liability changes as a result of the one-time exercise of a stock option or sale of stock or real estate at a price that is different from the original issuance or purchase. Once that action has been taken, gains (or losses) are recognized, with no addition to future tax liability. By contrast, employment growth is an addition to the base that increases tax liability through wage growth in future years and is, thus, a more predictable indicator of future revenue growth.



Sources: Maryland Office of the Comptroller
Montgomery County Department of Finance

Transfer and Recordation Taxes

Estimated FY11 revenues for the tax-supported funds of $134.9 million, which *excludes* the school CIP portion and condominium conversions are 17.5 percent above the revised FY10 estimate. This reflects an FY11 estimate of $75.7 million in the transfer tax and $59.2 million in the recordation tax. Transfer and recordation tax revenues have fluctuated greatly over time and primarily reflect shifting trends in the real estate market. In FY09, 86.6 percent of transfer tax revenue came from the residential sector compared to 87.7 percent in FY04, 85.5 percent in FY05, 83.6 percent in FY06, 87.1 percent in FY07, and 85.7 percent in FY08. The transfer tax rate is generally one percent of the value of the property transferred to a new owner. This applies to both improved (i.e., building) and unimproved (i.e., land) residential and commercial properties. The recordation tax is levied when changes occur in deeds, mortgages, leases, and other contracts pertaining to the title of either real or personal property. Through FY02 the recordation tax was generally $4.40 per $1,000 of the value of the contract (0.44%). Beginning in FY03, the recordation tax rate was raised to $6.90 per $1,000 of the value of the contract (0.69%) with the first $50,000 of the consideration exempted from the tax for owner-occupied residential properties. The Council earmarked the revenues attributed to the rate increase for school capital programs and college information technology projects. Generally, both transfer and recordation taxes are levied when properties are sold. In some cases, only one of the two taxes is levied. One example is refinancing of a mortgage, in which case there may be an increase in the mortgage amount and, hence, recordation tax, but since there is no transfer of property, there is no transfer tax. Beginning March 1, 2008, the Council also levied an additional recordation tax (premium) of 0.31 percent on transactions above $500,000 for the Housing Initiative and CIP for County government.

Residential transfer tax revenues are affected by the trends in real estate sales for existing and new homes. Real estate sales, in turn, are highly correlated with specific economic indicators such as growth in employment and wages and salaries, formation of households, mortgage lending conditions, and mortgage interest rates. The same holds true for the commercial sector, which is equally affected by business activity and investment, office vacancy rates, property values, and financing costs. The volatility in revenues from the transfer and recordation is best illustrated in the trend since FY99. The growth rate in the number of residential transfers slowed to 7.5 percent in FY00 when the number of residential transfers peaked at nearly 22,000, decreased 4.5 percent in FY01 (21,005), increased 12.5 percent in FY02 (23,633), decreased 3.6 percent in FY03 (22,771), increased 9.3 percent in FY04 (24,897), increased modestly to 3.8 percent in FY05 (25,852), but declined 7.9 percent in FY06 (23,803), declined 22.7 percent in FY07 (18,389), declined 28.9 percent in FY08 (13,066), and declined 3.7 percent in FY09 (12,572). While the number of residential transfers exhibited significant volatility since FY99, the acceleration in home prices during FY04, FY05, and FY06 had a significant effect on revenues and partially offset the volatility in the number of transfers especially in FY06. Due to the strong demand for new and existing homes, property values increased such that total transfer taxes from the residential sector increased 29.6 percent in FY04, 20.3 percent in FY05, and 6.5 percent in FY06.

However, conditions in the real estate market for Montgomery County began to weaken in FY06 and deteriorated further in FY07 through FY09. Home sales declined 15.7 percent in FY06, 21.4 percent in FY07, 31.3 percent in FY08, but increased a modest 2.9 percent in FY09. While sales increased slightly in FY09, the average sales price for an existing home declined nearly 16 percent in FY09. Because of the dramatic increase in home sales that began near the end of FY09, Finance assumes that the number of residential transfers will increase 24.0 percent in FY10 and increase a modest 3.6 percent in FY11. Average sales prices decelerated in FY07 (↑2.0%) and FY08 (↑0.4%) but declined dramatically in FY09 (↓15.8%). Finance estimates that average prices will decline 10.6 percent in FY10 and 1.5 percent in FY11. Because of the projected increase in the number of transfers that will offset the decline in average prices, revenues from the residential portion of the transfer tax are expected to increase 10.9 percent in FY10 and 3.0 percent in FY11.

At the same time that revenues from the residential portion of the transfer tax experienced significant growth since FY99, revenues from non-residential properties experienced a more medium-term cyclical pattern that began in FY99. Beginning in FY99, revenues from non-residential property (excluding farms and rezoning) declined for three consecutive years: ↓36.2 percent in FY99, ↓2.6 percent in FY00, and ↓17.3 percent in FY01. However, based on a healthy commercial boom since FY01, non-residential transfer taxes recovered in FY02 (↑3.0%), FY03 (↑18.6%), FY04 (↑33.9%), FY05 (↑48.5%), and FY06 (↑13.4%). By contrast, in FY07 revenues from non-residential properties declined 51.4 percent, decreased 0.6 percent in FY08 and decreased 27.3 percent in FY09, and estimated to decrease 22.5 percent in FY10 before rebounding in FY11.

Recordation tax revenues (excluding the school CIP portion) generally track the trend in transfer tax revenues. Revenues from the recordation tax increased 35.7 percent in FY02, 17.7 percent in FY03, 27.8 percent in FY04, 13.9 percent in FY05, and 9.8 percent in FY06, before declining 24.5 percent in FY07, 24.8 percent in FY08, and 22.4 percent in FY09. The revised estimate for FY10 reflects an increase of 16.0 percent reaching $52.3 million, although conditions are expected to improve in the next year resulting in an increase of 3.6 percent in FY11 to $51.0 million. The combined transfer and recordation taxes are projected to reach $126.6 million in FY11.

Energy Tax

Estimated FY11 revenues of $185.1 million are 40.0 percent above the revised FY10 estimate. The County Executive recommends a $50 million increase in the energy tax beginning in FY11. The fuel-energy tax is imposed on persons transmitting, distributing, manufacturing, producing, or supplying electricity, gas, steam, coal, fuel oil, or liquefied petroleum gas. Different rates apply to residential and nonresidential consumption and to the various types of energy. Effective FY04, the previous rate schedule was increased threefold by the County Council on May 14, 2003. The rate schedule was changed again on May 20, 2004, with rates increasing 52.15 percent for FY05 and again with enactment of Resolution Number 16-553 on May 14, 2008. The latest resolution levied a carbon surtax by increasing the electricity, oil, and steam rates by 10.0 percent, increasing the natural gas rate by 5.0 percent, and increasing the coal rate by 20.0 percent. Since the rates per unit of energy consumed are fixed, collections change only with shifts in energy consumption and not with changes in the price of the energy product. Based on partial fiscal year data for FY10, Finance assumes that residential consumption as a percentage of total energy consumption will remain at 46.6 percent. Due to a different rate schedule, the share of receipts from residential users is approximately 27.0 percent of total collections, with the larger share received from the non-residential sector. Measured for all energy types, the two largest sources of revenues in FY09 were electricity (78.6%) and natural gas (19.9%). Since actual collections vary with weather conditions, a harsh winter weather increases usage of electricity, natural gas, and heating oil, while milder summer weather reduces electricity usage for climate control systems. The impact of weather patterns is partly offset by an expansion of the user base with more businesses and households.

Telephone Tax

Estimated FY11 revenues of $30.6 million are 3.5 percent above the revised FY10 estimate. The telephone tax is levied as a fixed amount per landline, wireless lines, and other communication devices. The tax on a traditional landline is $2.00 per month, while multiple business lines (Centrex) are taxed at $0.20 per month. The tax rate on wireless lines is $2.00 per month. With business expansion combined with a surge in new home sales in the County in FY00 and FY01, and an increased demand for second phone lines for computer access to the internet, collections from the telephone tax grew 12.0 percent in FY00 and 4.1 percent in FY01. With the slowdown in the local economy during FY02 and FY03 and alternative computer internet access, collections declined 5.8 percent and 8.6 percent, respectively. Assuming modest growth in businesses and households, revenues are expected to increase a modest 3.5 percent in FY11 primarily due to an increase in wireless communication. Reflecting, in part, modest growth in new household and business formations, the outlook for FY11 through FY16 is for revenues from wireless communication to increase at an average rate of 3.7 percent per year, while the number of landlines is expected to experience a continued decline in FY11.

Hotel/Motel Tax

Estimated FY11 revenues of $17.4 million are 9.7 percent above the revised FY10 estimate. The hotel/motel tax is levied as a percentage of the hotel bill. The current tax rate of 7 percent in FY10 is also assumed for FY11. In FY97, the rate was increased from 5 percent to 7 percent with the increase earmarked for funding the Montgomery County Conference Center located in North Bethesda. Collections grow with the costs of hotel rooms and the combined effect of room supply and hotel occupancy rate in the County. Occupancy rates in the County are generally the highest in the spring (April and May) and autumn (September and October) as tourists and schools visit the nation's capital for such events as the Cherry Blossom Festival and school trips, while organizations often schedule conferences during such periods. During peak periods, many visitors to Washington, D.C. use hotels in the County, especially those in the lower county. Reflecting improved economic conditions during the mid and late 1990s and the presidential primaries and presidential inauguration during 2000 and early 2001, respectively, spurred both business travel and tourism, hotel occupancy rates grew from 67.1 percent in FY96 to a record high 72.1 percent in FY01. The second component – average room rate – grew at an average annual rate of 4.1 percent between FY95 and FY09 to a record $133.89. The third component that makes up revenues – room supply – grew at an average annual rate of 1.5 percent from FY95 to FY09. As a result, total hotel revenues more than doubled between FY95 and FY09 to over $16.9 million.

Because of the economic slowdown in the County and the national recession that began in December 2007, the average occupancy rate is expected to decrease slightly from a revised 64.8 percent in FY08 to an estimated 62.4 percent in FY10 but increase to 65.0 percent in FY11. Room rates are expected to climb to $132.53 in FY11 from $131.44 in FY10 as a countywide average, resulting in 9.7 percent growth in the hotel/motel tax in FY11 which follows a revised estimate of 6.0 percent decrease in FY10. Long-term estimates are tied to projected room occupancy and rate increases, partially reflecting the forecast of inflation and population growth that result in annual projected revenues through FY16 in the $17.3 million and $27.8 million range.

Admissions Tax

Estimated FY11 revenues of $2.0 million are 0.7 percent below the revised FY10 estimate. Admissions and amusement taxes are State-administered local taxes on the gross receipts of various categories of amusement, recreation, and sports activities. Taxpayers are required to file a return and pay the tax monthly while the County receives quarterly distributions of the receipts from the State. Montgomery County levies a seven percent tax, except for categories subject to State sales and use tax, where the County rate would be lower. Such categories include rentals of athletic equipment, boats, golf carts, skates, skis, horses; and sales related to entertainment. Gross receipts are exempt from the County tax when a Municipal admissions and amusement tax is in effect. For FY09, coin and non-coin-operated amusement devices accounted for 26.1 percent of total collections, while other major categories include golf green fees, driving ranges and golf cart rentals (21.4%), and motion picture theaters (31.1%). Revenues for the period FY11 through FY16 are expected to average $1.9 million.

NON-TAX REVENUES

Non-tax revenues throughout all tax supported funds (excluding Enterprise Funds,. such as Permitting Services, Parking Districts, Solid Waste Disposal, and Solid Waste Collection Funds) are estimated at $812.9 million in FY11. This is a $20.3 million decrease, or ↓2.4 percent, from the revised FY10 estimate, primarily attributed to a decline in other miscellaneous revenues (↓84.8%). Non-tax revenues include: intergovernmental aid; investment income; licenses and permits; user fees, fines, and forfeitures; and miscellaneous revenues.

General Intergovernmental Revenues

General Intergovernmental Revenues are received from the State or Federal governments as general aid for certain purposes, not tied, like grants, to particular expenditures. The majority of this money comes from the State based on particular formulas set in law. Total aid is specified in the Governor's annual budget. Since the final results are not known until the General Assembly session is completed and the State budget adopted, estimates in the March 15 County Executive Recommended Public Services Program are, generally, based on the Governor's budget estimates for FY11, unless those estimates assume a change in existing law. If additional information on the State budget is available to the County Executive, this information will be incorporated into the budgeted projection of State aid. For future years, it is difficult to know confidently how State aid policy may change. The projection does not assume that State aid formulas will necessarily remain in place. It is assumed that State aid will increase with either the projected rate of inflation, by an amount based on the projected increase in County population, or a combination of those two factors. The Recommended Budget for FY11 assumes a $44.9 million, or 7.9 percent, increase in Intergovernmental Revenues from the revised FY10 estimate, of which 79.5 percent is allocated to the Montgomery County Public Schools, 5.0 percent to Montgomery Community College, and 3.7 percent to Mass Transit. Total Intergovernmental Aid is estimated to total $614.4 million in FY11 or 75.6 percent of all non-tax revenues.

Licenses and Permits

Licenses and permits include General Fund business licenses (primarily public health, traders, and liquor licenses) and non-business licenses (primarily marriage licenses and Clerk of the Court business licenses). Licenses and permits in the Permitting Services Enterprise Fund, which include building, electrical, and sediment control permits, are Enterprise Funds and thus not included in tax supported projections. The Recommended Budget for FY11 assumes a 1.9 percent decrease over the revised projections for FY10, resulting in $12.1 million in available resources in FY11.

Charges for Services (User Fees)

Excluding intergovernmental revenues to Montgomery County public schools, Montgomery Community College, and college tuition, charges for services, or user fees, is the largest non-tax revenue source such as activity fees, Ride On fares, and parking revenues are considered. Tax supported fee revenues come primarily from fees imposed on the recipients of certain County services including mass transit, human services, and recreation services and are included in the tax supported funds. Without rate increases, these revenues tend to show little growth although there is some variance because of weather, population changes, the economy, and changes in commuting patterns. However, it is the policy of the County to increase rates or fees to keep up with inflation. It is not always possible to achieve this goal for each fee, either because of market competition or because prices normally rise in rounded steps. The Recommended Budget for FY11 assumes 33.9 percent growth over the revised projections for FY10, resulting in $64.9 million in available resources in FY11. Contributing to this growth is the County Executive's recommendation to levy an Emergency Medical Services Transport fee.

Fines and Forfeitures

Revenues from fines and forfeitures relate primarily to photo red light citations, speed camera citations, and library and parking fines (excluding the County's four Parking Districts). The Recommended Budget for FY11 assumes that fines and forfeitures will increase a meager $10,450 (↑0.04%) over the revised estimates for FY10, resulting in $26.0 million in available resources in FY11.

College Tuition

Although College tuition is no longer included in the County Council Spending Affordability Guideline Limits (SAG), it remains in the tax supported College Current Fund. Calculation of the aggregate operating budget is under the SAG Limits. Tuition revenue depends on the number of registered students and the tuition rate. The Recommended Budget for FY11 assumes an increase of 1.8 percent over the revised projections for FY10 resulting in $76.6 million in available resources in FY11.

Investment Income

Investment income includes the County's pooled investment and non-pooled investment and interest income of other County agencies and funds. The County operates an investment pool directed by an investment manager who invests all County funds using an approved, prudent investment policy. The pool includes funds from tax supported funds as well as from Enterprise Funds, municipal taxing districts, and other governmental agencies. Two major factors determine pooled investment income: (1) the average daily investment balance which is affected by the level of revenues and expenditures, fund balances, and the timing of bond and commercial paper issues; and (2) the average yield percentage which reflects short-term interest rates and may vary considerably during the year.

The revised FY10 estimate of pooled investment income of $1.8 million assumes a 0.31 percent yield on equity and an average daily balance of $582.3 million. The FY11 projected estimate of $5.2 million assumes an increase to a 0.85 percent yield and a slightly higher average daily balance of $606.3 million. Reflecting robust growth in revenues in the second half of the 1990s, the amount of available funds for investments, measured by the daily cash balance, doubled between FY93 ($437.2 million) and FY00 ($890.5 million). As a result of weak economic and revenue conditions starting in calendar year 2001, the cash balance declined from $890.5 million to $566.0 million between FY00 and FY04. Because of the economic and revenue outlook, the cash balance rebounded to $710.2 million in FY05, $883.6 million in FY06, $930.5 million in FY07, $971.4 million in FY08, but declined dramatically to $695.7 million in FY09. Using current revenue projections, the daily cash balance is expected to decline to $582.3 million in FY10 but rebound over the following six fiscal years to $742.2 million by FY16. Yields have fluctuated significantly over time due to changes in the targeted federal funds rate set by the Federal Open Market Committee (FOMC) of the Federal Reserve Bank. Since August 2007, the FOMC has reduced the target rate for federal funds from 5.25 percent to a range of 0.00-0.25 percent in December 2008 and is expected to remain at that range through the remainder of FY10. The revisions to the FY10 estimate for pooled investments was revised downward to incorporate the significant decline in the average daily balance while the federal funds futures market expects no rate adjustments until the latter part of calendar year 2010.

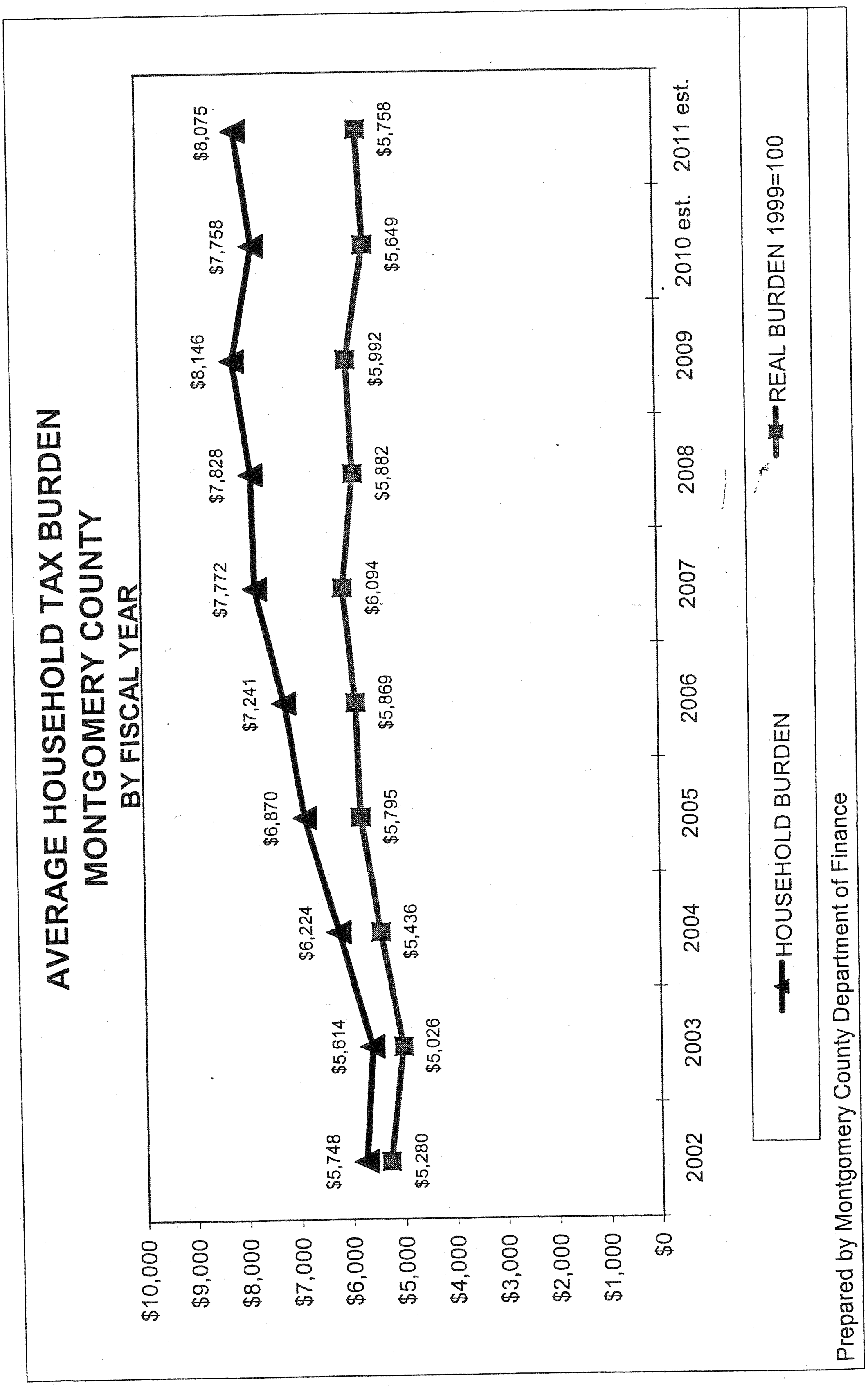
Other Miscellaneous

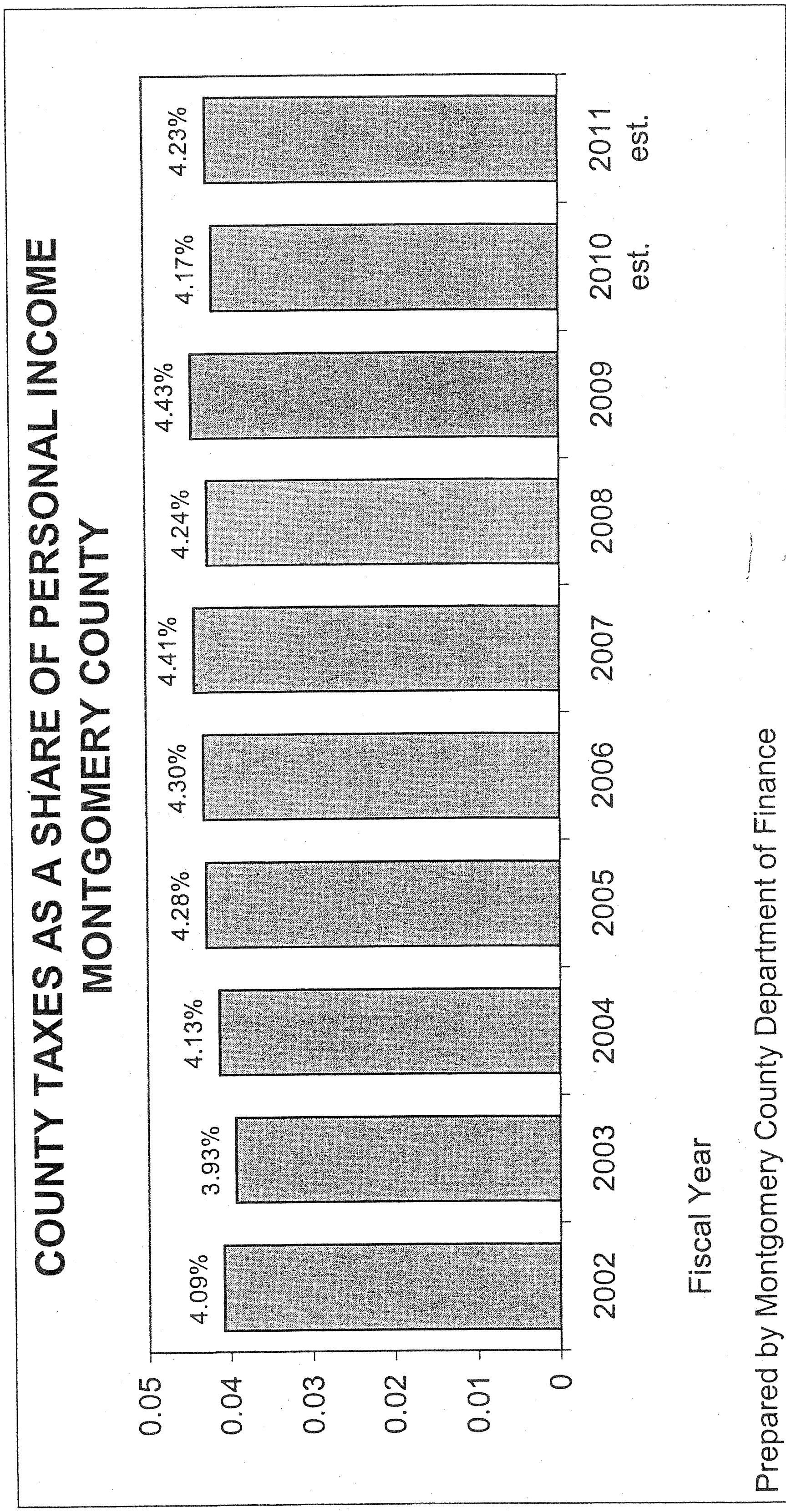
The County receives miscellaneous income from a variety of sources, the largest of which are rental income for the use of County property, operating revenue from the Conference Center, and prior year encumbrance liquidations. These three categories make up 59.1 percent of the total $15.2 million projected for FY11.

TRENDS AND PROJECTIONS

DEMOGRAPHIC AND PLANNING INDICATORS	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
POPULATION	**957,200**	**966,000**	**978,000**	**989,000**	**1,001,000**	**1,013,000**	**1,025,000**	**1,035,000**
Annual Increase	8,500	8,800	12,000	11,000	12,000	12,000	12,000	10,000
Population Growth Since 2002	5.7%	6.6%	7.9%	9.2%	10.5%	11.8%	13.1%	14.2%
County Resident Births (Prior Calendar Year)	13,681	13,850	14,010	14,160	14,300	14,420	14,530	14,640
HOUSEHOLDS	**359,000**	**362,000**	**367,000**	**371,000**	**376,000**	**381,000**	**386,000**	**390,000**
Household Annual Growth (%)	0.7%	0.8%	1.4%	1.1%	1.3%	1.3%	1.3%	1.0%
Household Growth Since 2002	7.3%	8.2%	9.7%	10.9%	12.4%	13.9%	15.4%	16.6%
Household Growth Since 1992	23.3%	24.3%	26.0%	27.4%	29.1%	30.8%	32.6%	33.9%
Household Size	2.67	2.67	2.66	2.67	2.66	2.66	2.66	2.65
RESIDENT EMPLOYMENT (Jan = Calendar Year)	**485,762**	**487,316**	**495,462**	**508,034**	**519,706**	**526,368**	**533,246**	**541,331**
Resident Employment Annual Growth (%)	-2.3%	0.3%	1.7%	2.5%	2.3%	1.3%	1.3%	1.5%
Resident Employment Growth Since 2002	1.5%	1.9%	3.6%	6.2%	8.6%	10.0%	11.5%	13.2%
Resident Employment Per Household	1.35	1.35	1.35	1.37	1.38	1.38	1.38	1.39
Jobs in County	504,694	506,000	511,600	518,000	524,700	532,000	540,000	548,400
PERSONAL INCOME ($ Millions)	**$66,060**	**$67,430**	**$70,020**	**$73,420**	**$77,520**	**$81,850**	**$86,150**	**$89,650**
Per Capita Personal Income	**$69,000**	**$69,800**	**$71,600**	**$74,200**	**$77,400**	**$80,800**	**$84,000**	**$86,600**
Annual Growth (%)	-0.4%	1.2%	2.6%	3.6%	4.3%	4.4%	4.0%	3.1%
CONSUMER PRICE INDEX (CPI) - Fiscal Year	**2.15%**	**1.03%**	**2.10%**	**2.25%**	**2.45%**	**2.60%**	**2.80%**	**3.00%**
Inflation Growth (Fiscal Year) Since 2002 (%)	-4.4%	-54.2%	-6.7%	0.0%	8.9%	15.6%	24.4%	33.3%
CONSUMER PRICE INDEX (CPI) - Calendar Year (%)	**0.06%**	**2.00%**	**2.20%**	**2.30%**	**2.55%**	**2.65%**	**2.90%**	**3.05%**
ASSESSABLE TAX BASE ($ Millions)	**$162,054**	**$172,778**	**$174,623**	**$179,088**	**$188,154**	**$197,355**	**$211,266**	**$227,240**
Annual Growth (%)	10.8%	6.6%	1.1%	2.6%	5.1%	4.9%	7.0%	7.6%
Growth of Base Since 1992 (%)	170.9%	188.8%	191.9%	199.4%	214.5%	229.9%	253.2%	279.9%
Growth of Base Since 2002 (%)	98.2%	111.3%	113.5%	119.0%	130.1%	141.3%	158.3%	177.9%
INVESTMENT INCOME YIELD (%)	**1.71%**	**0.26%**	**0.85%**	**1.80%**	**3.25%**	**4.00%**	**4.50%**	**4.75%**
MCPS ENROLLMENT (Sept = Calendar Year)	**139,276**	**141,777**	**143,309**	**144,356**	**145,241**	**146,048**	**146,922**	**148,043**
Annual Growth (%)	1.1%	1.8%	1.1%	0.7%	0.6%	0.6%	0.6%	0.8%
Annual Increase (Decrease)	1,531	2501	1532	1047	885	807	874	1121
MONTGOMERY COLLEGE ENROLLMENTS (a)	**24,452**	**26,144**	**26,763**	**27,054**	**27,192**	**27,193**	**27,198**	**27,198**
Annual Growth (%)	2.46%	6.92%	2.37%	1.09%	0.51%	0.00%	0.02%	0.00%
Full Time Equivalents (Sept = Calendar Year) (a)	**20,352**	**21,694**	**22,023**	**22,340**	**22,541**	**22,657**	**22,770**	**22,770**
Annual Growth in FTE's (%)	3.20%	6.59%	1.52%	1.44%	0.90%	0.51%	0.50%	0.00%

(a) Projections related to Montgomery College Enrollments and Full Time Equivalents are provided by Montgomery College and only include projections thru FY15. Since no projections are provided for FY16, the projections for FY15 were used for FY16.


AVERAGE HOUSEHOLD TAX BURDEN
MONTGOMERY COUNTY
BY FISCAL YEAR
$10,000
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
2002
2003
2004
2005
2006
2007
2008
2009
2010 est.
2011 est.
$5,748
$5,614
$6,224
$6,870
$7,241
$7,772
$7,828
$8,146
$7,758
$8,075
$5,280
$5,026
$5,436
$5,795
$5,869
$6,094
$5,882
$5,992
$5,649
$5,758
HOUSEHOLD BURDEN
REAL BURDEN 1999=100
Prepared by Montgomery County Department of Finance


COUNTY TAXES AS A SHARE OF PERSONAL INCOME
MONTGOMERY COUNTY
0.05
0.04
0.03
0.02
0.01
0
4.09%
3.93%
4.13%
4.28%
4.30%
4.41%
4.24%
4.43%
4.17%
4.23%
2002
2003
2004
2005
2006
2007
2008
2009
2010 est.
2011 est.
Fiscal Year
Prepared by Montgomery County Department of Finance

FY11 FEE AND FINE CHANGES*

DEPARTMENT/FEE AND FINE	FY11 REVENUE CHANGE	METHOD OF CHANGE	NOTE
MONTGOMERY COLLEGE			
Tuition rate increase	2,100,000	Board of Trustees action	Increase per semester hour rate from $102 to $105 for County residents, $209 to $215 for State residents, and $284 to $293 for non-residents.
ENVIRONMENTAL PROTECTION			
Water Quality Protection Charge	847,610	Council Resolution	Increase from $45.50 per equivalent unit (ERU) to $49.00 per (ERU) to cover increased expenditures in the Water Quality Protection Fund.
FIRE RESCUE SERVICE			
Ambulance/Emergency Transport Fee	14,700,000	Executive Regulation	To provide needed resources for MCFRS.
PUBLIC LIBRARIES			
Library Holds Not Picked Up	10,000	Library Board Approved	A new fine for placing holds and not picking them up.
RECREATION			
Activity Fees	50,000	Executive Regulation 12-05 Method 3	Charge an annual fee of $25 per person for Silver Sneakers Program
TRANSIT SERVICES			
Ride On Bus Fare	615,000	Council Resolution	Increase regular cash fare or token to $1.45, the regular fare paid with SmarTrip to $1.35, the express route cash fare to $3.20 and express routes SmarTrip fare to $3.10, the Metrorail-to Ride On bus transfer to $0.85 and the regional one day pass to $3.20. Effective 3-1-10
Ride On Bus Fare	905,000	Council Resolution	Increase regular cash fare or token to $1.60, the regular fare paid with SmarTrip to $1.50, the express route cash fare to $3.35 and express route SmarTrip fare to $3.25, the Metrorail-to-Ride On bus transfer to $1.00 and the regional one day pass to $3.50. Effective 7-4-10
DEPARTMENT OF TRANSPORTATION			
Parking Fines	980,940	Council Resolution	Raise all parking fines by $5 except those for parking in a fire lane or handicapped space, or illegal commercial vehicle parking. Effective 4-1-10
Parking Fees - Bethesda	670,600	Council Resolution	Raise Lon-Term Parking Fee from $0.65 Per Hour to $0.75 Per Hour
Parking Fees - Silver Spring	798,000	Council Resolution	Raise Long-Term Parking Fee from $0.50 Per Hour to $0.60 Per Hour
Decrease Vacuum Leaf Collection Fees	-370,060	Council Resolution	Decrease single family charge per household from $93.96 to $88.91 and decrease multi-family charge per unit from $4.06 to $3.83.
SOLID WASTE SERVICES			
Decrease Solid Waste Collection Fee	7,250	Council Resolution	Decrease single family charge per household from $75 to $74; increase in revenue due to increased number of households.
GRAND TOTAL	**21,314,340**		

*** All changes are assumed to be effective July 1, 2010 except as noted.**
Revenues above do not include implementation costs.

REVENUE SUMMARY
TAX SUPPORTED BUDGETS
($ Millions)

	A KEY REVENUE CATEGORIES	B App FY10	C Estimate FY10	D % Chg. FY10-11	E % Chg. FY10-11	F Rec. FY11	G % Chg. FY11-12	H Projected FY12	I % Chg. FY12-13	J Projected FY13	K % Chg. FY13-14	L Projected FY14	M % Chg. FY14-15	N Projected FY15	O % Chg. FY15-16	P Projected FY16
	TAXES	5-21-09	3-5-10	Rec/Bud	Rec/Est	3-5-10										
1	Property Tax (less PDs)	1,440.9	1,432.2	0.6%	1.2%	1,449.9	2.8%	1,489.9	3.0%	1,534.9	3.1%	1,582.6	3.4%	1,635.9	2.4%	1,675.3
2	Income Tax	1,214.8	1,094.6	-4.4%	6.1%	1,160.9	5.8%	1,227.8	6.5%	1,308.0	7.2%	1,401.6	9.6%	1,536.1	7.8%	1,656.3
3	Transfer Tax	65.0	68.7	16.4%	10.2%	75.7	17.0%	88.5	-1.9%	86.8	8.9%	94.5	7.3%	101.4	5.1%	106.6
4	Recordation Tax	51.9	46.1	-1.7%	10.6%	51.0	17.3%	59.8	-2.5%	58.4	8.5%	63.3	7.8%	68.3	5.1%	71.8
4a	Recordation Tax Premium	6.5	0.0	26.3%	0.0%	8.2	-100.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
5	Energy Tax	130.4	132.2	42.0%	40.0%	185.1	2.7%	190.1	3.0%	195.8	2.7%	201.1	2.5%	206.2	2.1%	210.6
6	Telephone Tax	32.8	29.5	-6.9%	3.5%	30.6	3.2%	31.6	3.4%	32.6	3.7%	33.8	3.9%	35.1	4.2%	36.6
7	Hotel/Motel Tax	20.0	15.8	-13.3%	9.7%	17.4	1.7%	17.7	0.0%	17.7	-0.1%	17.6	0.1%	17.7	1.0%	17.8
8	Admissions Tax	2.1	2.1	-4.1%	-0.7%	2.0	-4.3%	2.0	-4.0%	1.9	-3.8%	1.8	-3.7%	1.7	-3.7%	1.7
9	**Total Local Taxes**	**2,964.4**	**2,821.2**	**0.6%**	**5.7%**	**2,980.7**	**4.2%**	**3,107.4**	**4.1%**	**3,236.1**	**5.0%**	**3,396.4**	**6.1%**	**3,602.3**	**4.8%**	**3,776.6**
	INTERGOVERNMENTAL AID															
10	Highway User	10.3	1.0	-91.4%	-8.5%	0.9	2.3%	0.9	2.5%	0.9	2.6%	1.0	2.8%	1.0	3.0%	1.0
11	Police Protection	13.5	8.2	-39.3%	0.0%	8.2	1.1%	8.3	1.2%	8.4	1.2%	8.5	1.2%	8.6	1.0%	8.7
12	Libraries	5.4	5.4	0.0%	0.0%	5.4	1.1%	5.5	1.2%	5.5	1.2%	5.6	1.2%	5.7	1.0%	5.7
13	Health Services Case Formula	5.3	3.6	-31.5%	0.0%	3.6	2.3%	3.7	2.5%	3.8	2.6%	3.9	2.8%	4.0	3.0%	4.1
14	Mass Transit	22.8	44.9	0.1%	-49.2%	22.8	2.3%	23.3	2.5%	23.9	2.6%	24.5	2.8%	25.2	3.0%	26.0
15	Public Schools	440.1	441.1	11.0%	10.7%	488.5	0.0%	488.5	0.0%	488.5	0.0%	488.5	0.0%	488.5	0.0%	488.5
16	Community College	32.5	30.9	-4.8%	0.2%	30.9	0.0%	30.9	0.0%	30.9	0.0%	30.9	0.0%	30.9	0.0%	30.9
17	Direct Reimbursements	27.8	20.0	2.7%	2.7%	14.1	2.8%	14.5	3.1%	15.0	3.2%	15.4	3.4%	16.0	3.5%	16.5
17a	Direct Reimb: DSS Services	0.0	0.0	n/a	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
18	Other	10.0	10.0	2.7%	2.7%	9.4	2.8%	9.7	3.1%	10.0	3.2%	10.3	3.4%	10.6	3.5%	11.0
19	**Subtotal State Aid**	**567.7**	**565.1**	**2.9%**	**3.3%**	**583.9**	**0.2%**	**585.3**	**0.3%**	**586.9**	**0.3%**	**588.6**	**0.3%**	**590.5**	**0.3%**	**592.4**
20	Federal Aid	1.7	4.4	1.4%	1.4%	30.6	1.4%	5.6	1.5%	5.7	1.6%	5.8	1.7%	5.9	1.7%	6.0
21	**Total Intergovernmental Aid**	**569.3**	**569.5**	**7.9%**	**7.9%**	**614.4**	**-3.8%**	**590.9**	**0.3%**	**592.6**	**0.3%**	**594.4**	**0.3%**	**596.4**	**0.3%**	**598.5**
	FEES AND FINES															
22	Licenses & Permits	11.8	12.3	1.5%	1.5%	12.1	1.5%	12.3	1.5%	12.5	1.5%	12.7	1.5%	12.8	1.5%	13.0
23	Charges for Services	48.8	48.4	1.7%	1.7%	64.9	1.8%	66.0	2.0%	67.3	2.1%	68.7	2.2%	70.3	2.4%	72.0
24	Fines & Forfeitures	38.0	26.0	1.6%	1.6%	26.0	1.6%	26.4	1.6%	26.8	1.6%	27.3	1.6%	27.7	1.6%	28.1
25	Montgomery College Tuition	71.1	75.3	7.7%	1.8%	76.6	1.8%	78.0	2.0%	79.5	2.1%	81.2	2.2%	83.0	2.4%	85.0
26	**Total Fees and Fines**	**169.8**	**162.0**	**5.8%**	**10.8%**	**179.6**	**1.8%**	**182.7**	**1.9%**	**186.2**	**2.0%**	**189.8**	**2.1%**	**193.8**	**2.2%**	**198.1**
	MISCELLANEOUS															
27	Investment Income	5.9	1.3	-38.2%	171.0%	3.6	88.3%	6.9	95.1%	13.4	28.0%	17.1	16.8%	20.0	8.8%	21.7
28	Other Miscellaneous	95.5	100.2	2.1%	2.1%	15.2	2.3%	15.6	2.5%	15.9	2.6%	16.3	2.8%	16.8	3.0%	17.3
29	**Total Miscellaneous**	**101.4**	**101.6**	**-81.4%**	**-81.4%**	**18.9**	**18.9%**	**22.4**	**30.8%**	**29.3**	**14.2%**	**33.5**	**9.9%**	**36.8**	**6.1%**	**39.0**
30	**TOTAL REVENUES**	**3,804.9**	**3,654.3**	**-0.3%**	**3.8%**	**3,793.6**	**2.9%**	**3,903.5**	**3.6%**	**4,044.2**	**4.2%**	**4,214.1**	**5.1%**	**4,429.3**	**4.1%**	**4,612.2**
31	$ Change from prior Budget	123.9	(26.7)			139.3		109.8		140.7		169.9		215.2		182.9

PROJECTED TOTAL USES OF RESOURCES (COMBINED USES)

($ Millions)

A USE OF RESOURCES	B App. FY10	C Estimate FY10	D % Chg. FY10-11	E % Chg. FY10-11	F Projected FY11	G % Chg. FY11-12	H Projected FY12	I % Chg. FY12-13	J Projected FY13	K % Chg. FY13-14	L Projected FY14	M % Chg. FY14-15	N Projected FY15	O % Chg. FY15-16	P Projected FY16
	5-21-09	3-6-10	Rec / Bud	Rec / Est	3-6-10										
1 Total Resources															
2 Revenues	3,804.9	3,654.3	-0.3%	3.8%	3,793.6	2.9%	3,903.5	3.6%	4,044.2	4.2%	4,214.1	5.1%	4,429.3	4.1%	4,612.2
3 Beginning Reserves Undesignated	115.5	110.2	-48.7%	-46.2%	59.3	135.1%	139.4	35.2%	188.6	6.1%	200.0	5.5%	210.9	6.4%	224.5
4 Beginning Reserves Designated	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
5 Net Transfers In	37.2	51.4	-12.2%	-36.5%	32.7	-57.0%	14.0	2.4%	14.4	2.6%	14.8	2.8%	15.2	3.0%	15.6
6 Total Resources	3,957.7	3,815.9	-1.8%	1.8%	3,885.6	4.4%	4,056.9	4.7%	4,247.1	4.3%	4,428.8	5.1%	4,655.4	4.2%	4,852.3
7 $ Change from prior Budget	77.0	(64.7)			69.7		171.3		190.2		181.7		226.6		196.9
8 Uses: Non-Agency															
9 Capital Investment (a)															
10 Debt Service: GO Bonds for all Agy's.	224.8	221.3	5.5%	7.2%	237.1	11.9%	265.3	10.5%	293.3	7.5%	315.4	6.4%	335.4	6.0%	355.7
11 Debt Service: Local Parks	5.0	5.0	-0.3%	-0.3%	4.9	0.0%	4.9	0.0%	4.9	0.0%	4.9	0.0%	4.9	0.0%	4.9
12 Debt Service: Leases	21.7	17.6	5.9%	30.5%	23.0	11.0%	25.5	27.2%	32.4	18.5%	38.4	2.7%	39.4	-16.4%	33.0
13 CIP Current Revenue	30.7	24.6	-10.1%	12.3%	27.6	46.7%	40.6	40.4%	56.9	42.2%	81.0	3.9%	84.2	-24.7%	63.4
14 CIP Paygo	1.3	0.3	-100.0%	-100.0%	0.0	0.0%	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5
14a CIP Paygo Rec Tax	0.0	0.0	0.0%	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
15 Sub-total Capital	283.5	268.8	3.2%	8.9%	292.7	26.0%	368.8	13.9%	420.1	12.4%	472.2	5.1%	496.5	-1.4%	489.5
16 Other Uses															
17 Set Aside: Potential Supplementals	0.0	63.1			0.0		20.0		20.0		20.0		20.0		20.0
18 Set Aside:Other Claims	2.5	0.0			0.3		2.5		2.5		2.5		0.0		0.0
19 Revenue Stabilization Fund	0.0	(102.0)			37.2		0.0		0.0		0.0		0.0		0.0
20 Sub-total Other	2.5	(38.9)			37.4		22.5		22.5		22.5		20.0		20.0
21 Reserves															
22 Revenue Stabilization Fund	119.6	17.7	-54.2%	210.0%	54.8	0.0%	54.8	0.0%	54.8	0.0%	54.8	0.0%	54.8	0.0%	54.8
23 Reserve Undesignated	76.2	59.3	83.0%	135.1%	139.4	135.2%	188.6	6.1%	200.0	5.5%	210.9	6.4%	224.5	5.3%	236.3
24 Reserve Designated	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
25 Sub-total Reserves	195.8	77.0	-0.8%	152.3%	194.3	25.3%	243.4	4.7%	254.8	4.3%	265.7	5.1%	279.3	4.2%	291.1
26 Less Revenue Stabilization Fund	(119.6)	(17.7)	-54.2%	210.0%	(54.8)	0.0%	(54.8)	0.0%	(54.8)	0.0%	(54.8)	0.0%	(54.8)	0.0%	(54.8)
27 Less Designated Reserve	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
28 Sub-total Undesignated Reserves	76.2	59.3	83.0%	135.1%	139.4	35.2%	188.6	6.1%	200.0	5.5%	210.9	6.4%	224.5	5.3%	236.3
29 Total Uses: Non-Agency	362.2	289.2	29.6%	62.3%	469.5	23.5%	579.9	10.8%	642.6	9.8%	705.6	5.0%	741.0	0.6%	745.8
30 Uses: Available for Agency Services	3,595.4	3,526.7	-5.0%	-3.1%	3,416.1	1.8%	3,477.0	3.7%	3,604.5	3.3%	3,723.2	5.1%	3,914.4	4.9%	4,106.6
31 $ Change from prior Budget	111.5	42.7			(110.6)		60.9		127.5		118.7		191.2		192.1

(a) See separate displays elsewhere in this book for allocation of Debt Service and CIP Current Revenue by Agency (A-3 Schedule).
(b) FY11-16 PAYGO, and CIP Current Revenue as recommended by the County Executive on January 15, 2010, with further changes to be transmitted shortly.

County Executive's Recommended FY11-16 Public Services Program
Tax Supported Fiscal Plan Summary

($ in Millions)

	App. FY10 5-21-09	Est. FY10 3-15-10	% Chg. FY10-11 Rec/Bud	% Chg. FY10-11 Rec/Est	Rec. FY11 3-15-10	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
Total Resources															
Revenues	3,804.9	3,654.3	-0.3%	3.8%	3,793.6	2.9%	3,903.5	3.6%	4,044.2	4.2%	4,214.1	5.1%	4,429.3	4.1%	4,612.2
Beginning Reserves Undesignated	115.5	110.2	-48.7%	-46.2%	59.3	135.1%	139.4	35.2%	188.6	6.1%	200.0	5.5%	210.9	6.4%	224.5
Beginning Reserves Designated	-	-	0.0%	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Net Transfers In (Out)	37.2	51.4	-12.2%	-36.5%	32.7	-57.0%	14.0	2.4%	14.4	2.6%	14.8	2.8%	15.2	3.0%	15.6
Total Resources Available	3,957.7	3,815.9	-1.8%	1.8%	3,885.6	4.4%	4,056.9	4.7%	4,247.1	4.3%	4,428.8	5.1%	4,655.4	4.2%	4,852.3
Less Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	289.2	29.6%	62.3%	469.5	23.5%	579.9	10.8%	642.6	9.8%	705.6	5.0%	741.0	0.6%	745.8
Available to Allocate to Agencies	**3,595.4**	**3,526.7**	**-5.0%**	**-3.1%**	**3,416.1**	**1.8%**	**3,477.0**	**3.7%**	**3,604.5**	**3.3%**	**3,723.2**	**5.1%**	**3,914.4**	**4.9%**	**4,106.6**
Agency Uses															
Montgomery County Public Schools (MCPS)	2,020.1	1,989.9	-3.9%	-2.5%	1,940.5	5.8%	2,053.3	5.8%	2,172.6	5.8%	2,298.8	5.8%	2,432.4	5.8%	2,573.7
Montgomery College (MC)	217.5	214.5	-3.8%	-2.4%	209.2	6.0%	221.9	6.0%	235.3	6.0%	249.5	6.0%	264.6	6.0%	280.5
MNCPPC (w/o Debt Service)	106.6	103.2	-14.1%	-11.3%	91.6	3.8%	95.1	3.8%	98.8	3.9%	102.6	3.9%	106.5	3.9%	110.6
MCG	1,251.2	1,219.1	-6.1%	-3.6%	1,174.7	5.1%	1,235.1	5.1%	1,298.6	5.1%	1,365.3	5.1%	1,435.5	5.1%	1,509.3
Subtotal Agency Uses	**3,595.4**	**3,526.7**	**-5.0%**	**-3.1%**	**3,416.1**	**5.5%**	**3,605.4**	**5.5%**	**3,805.2**	**5.5%**	**4,016.2**	**5.5%**	**4,239.0**	**5.5%**	**4,474.1**
Retiree Health Insurance Pre-Funding															
Montgomery County Public Schools (MCPS)					-		53.2		64.8		76.4		87.7		92.1
Montgomery College (MC)					-		1.0		1.2		1.3		1.4		1.5
MNCPPC (w/o Debt Service)					-		4.4		5.1		5.6		6.1		6.4
MCG					-		25.0		31.5		38.4		44.6		46.8
Subtotal Retiree Health Insurance Pre-Funding					-	-	**83.6**	-	**102.6**	-	**121.7**	-	**139.8**	-	**146.8**
Subtotal Other Uses of Resources (Capital, Debt Service,Reserve)	362.2	289.2	29.6%	62.3%	469.5	23.5%	579.9	10.8%	642.6	9.8%	705.6	5.0%	741.0	0.6%	745.8
Total Uses	**3,957.7**	**3,815.9**	-1.8%	1.8%	**3,885.6**	9.9%	**4,268.9**	6.6%	**4,550.4**	6.4%	**4,843.5**	5.7%	**5,119.7**	4.8%	**5,366.7**
(Gap)/Available	-	-			**0.0**		**(212.0)**		**(303.3)**		**(414.7)**		**(464.3)**		**(514.3)**

Notes:

1. **FY12-16 property tax revenues are at the Charter Limit assuming a tax credit.**
2. **Projected FY12-16 Agency Uses assume average 10-year rate of growth.**
3. **Reserves are restored to the policy level of 6% of total resources in FY12.**
4. **PAYGO restored to policy level in FY12.**
5. **Retiree Health Insurance assumed to resume at scheduled contribution levels in FY12.**

Sec. 305. Approval of the Budget; Tax Levies.

The Council may add to, delete from, increase or decrease any appropriation item in the operating or capital budget. The Council shall approve each budget, as amended, and appropriate the funds therefor not later than June 1 of the year in which it is submitted.

An aggregate operating budget which exceeds the aggregate operating budget for the preceding fiscal year by a percentage increase greater than the annual average increase of the Consumer Price Index for all urban consumers for the Washington-Baltimore metropolitan area, or any successor index, for the twelve months preceding December first of each year requires the affirmative vote of six Councilmembers. For the purposes of this section, the aggregate operating budget does not include: (1) the operating budget for any enterprise fund; (2) the operating budget for the Washington Suburban Sanitary Commission; (3) expenditures equal to tuition and tuition-related charges estimated to be received by Montgomery College; and (4) any grant which can only be spent for a specific purpose and which cannot be spent until receipt of the entire amount of revenue is assured from a source other than County government.

The Council shall annually adopt spending affordability guidelines for the capital and operating budgets, including guidelines for the aggregate capital and aggregate operating budgets. The Council shall by law establish the process and criteria for adopting spending affordability guidelines. Any aggregate capital budget or aggregate operating budget that exceeds the guidelines then in effect requires the affirmative vote of seven Councilmembers for approval.

By June 30 each year, the Council shall make tax levies deemed necessary to finance the budgets. Unless approved by an affirmative vote of nine, not seven, Councilmembers, the Council shall not levy an ad valorem tax on real property to finance the budgets that will produce total revenue that exceeds the total revenue produced by the tax on real property in the preceding fiscal year plus a percentage of the previous year's real property tax revenues that equals any increase in the Consumer Price Index as computed under this section. This limit does not apply to revenue from: (1) newly constructed property, (2) newly rezoned property, (3) property that, because of a change in state law, is assessed differently than it was assessed in the previous tax year, (4) property that has undergone a change in use, and (5) any development district tax used to fund capital improvement projects. (Election of 11-7-78; election of 11- 6-84; election of 11-6-90; election of 11-3-92; election of 11-8-94; election of 11-3-98; election of 11-4-08.)

Editor's note—See County Attorney Opinion dated 5/10/99 recognizing that authorized reimbursement for college tuition, training and/or education costs made to County employees do not violate the Charter. See County Attorney Opinion dated 4/7/99 clarifying that the Council may place conditions on appropriations prior to June 1, with certain limitations. See County Attorney Opinion dated 6/9/98 addressing the creation of Department of Liquor Control by State law and the department's funding and expenditures. See County Attorney Opinion dated 5/8/98 explaining that State law created the Department of Liquor Control and gives the Council oversight over the department, but does not give the Council budget or appropriation authority. See County Attorney Opinion dated 1/26/98 analyzing a petition to amend charter to require any increase in taxes to be approved by referendum. See County Attorney Opinion dated 7/14/94 explaining that the Education Article allows Council to place restrictions on tuition and fees by the Board of Trustees of Montgomery College, and that a proposed amendment to Charter § 305 re approval of budget, appropriation of funds, and levying taxes does not appear to conflict with State law. See County Attorney Opinion dated 9/3/92 explaining flaws in § 305 based on a misleading petition and an amendment that conflicts with State law. See County Attorney Opinion dated 10/30/91-A describing the additions to Charter § 305 by Question F as not conflicting with the TRIM amendment.

Montgomery County, Maryland

OVERVIEW OF ECONOMIC INDICATORS AND REVENUES

Rating Agencies

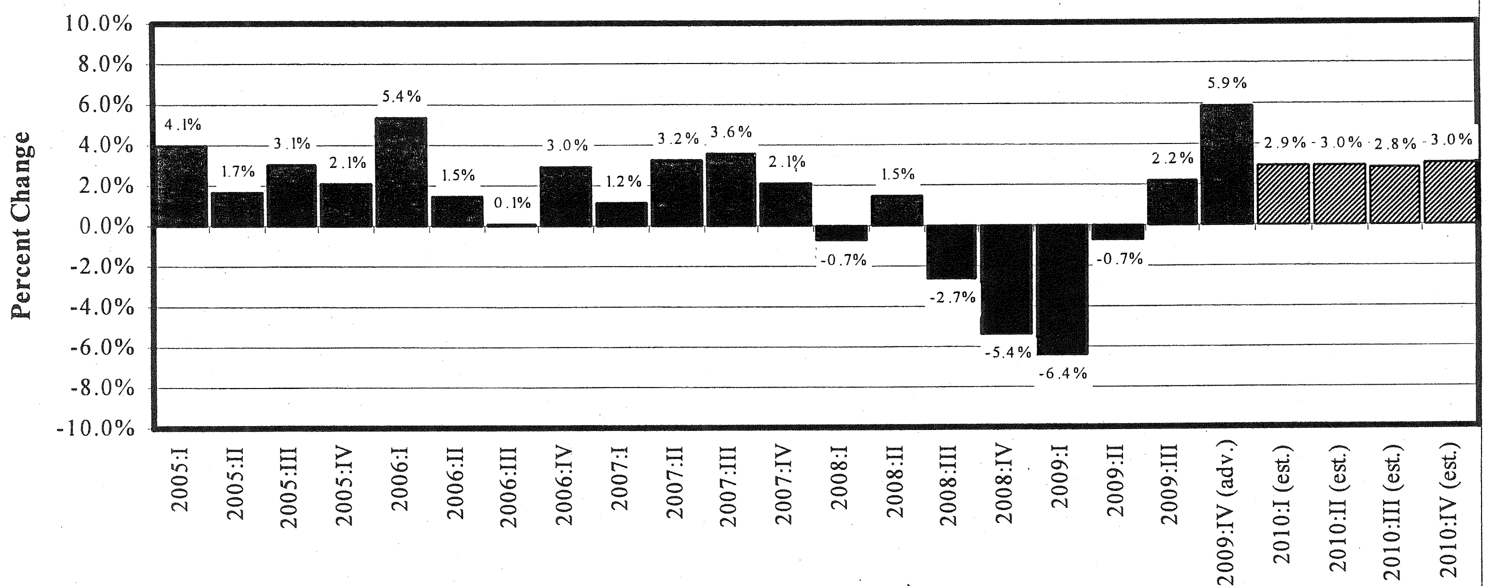
Department of Finance

March 15, 2010

National Economic Indicators

According to the National Bureau of Economic Research, the recession began in December 2007. The *Wall Street Journal Survey* conducted in March suggests that real GDP will increase 3.0 percent this year.

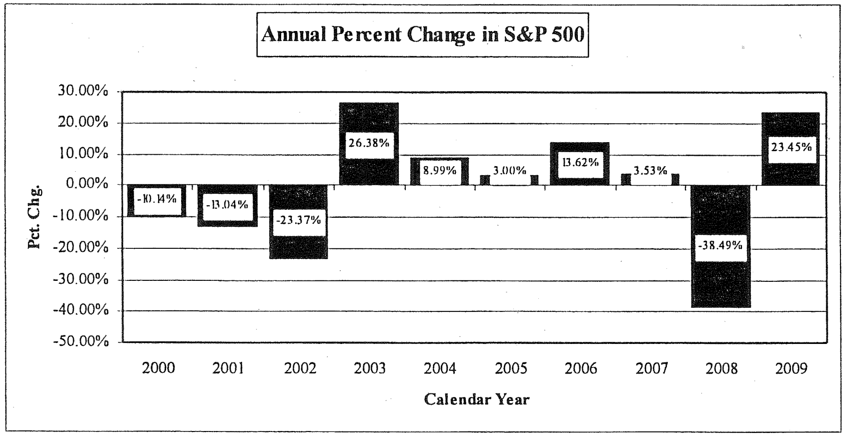
Percent Change in Real GDP

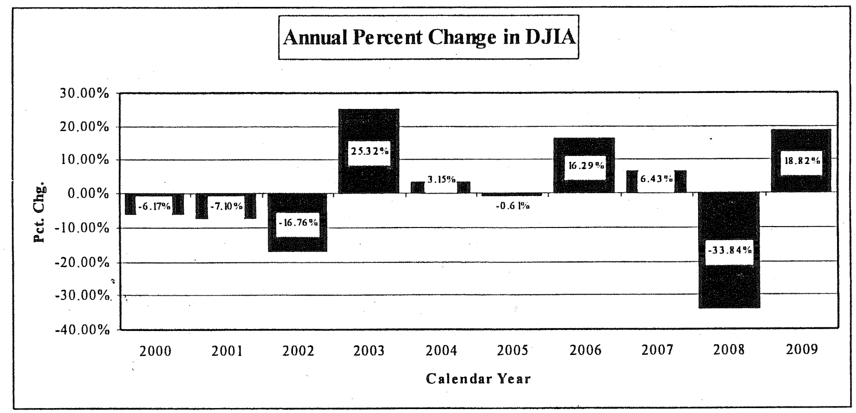


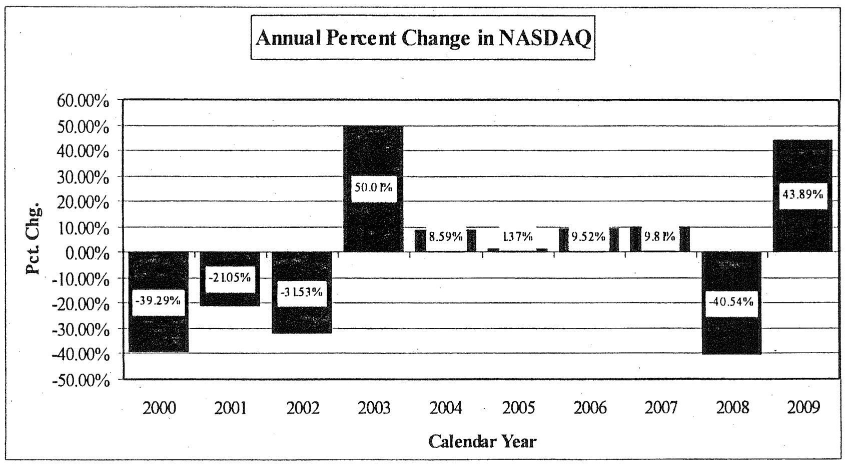
SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Hatched bars from *Wall Street Journal* survey conducted March 5-9, 2010.

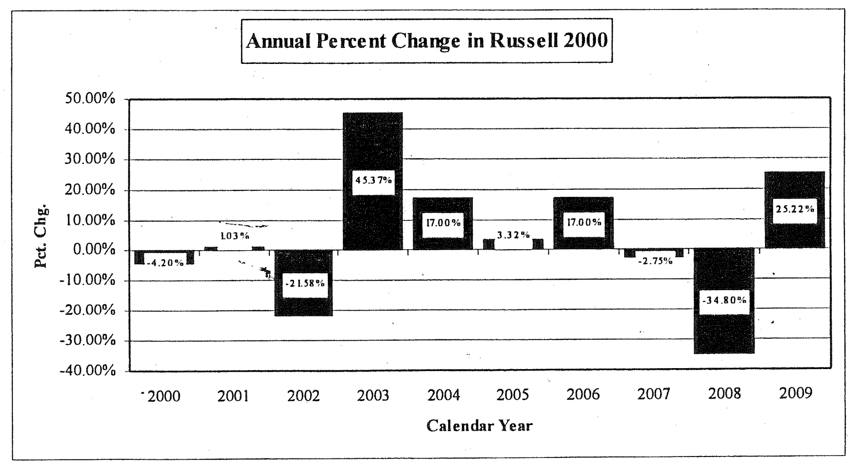
NOTE: Percent changes are at annual rates.

Because of the fallout from the Lehman Brothers bankruptcy, the stock market experienced a dramatic decrease during the fourth quarter of 2008. However, since March of 2009, the stock market has increased nearly 70 percent (S&P 500 for the week ending March 12).

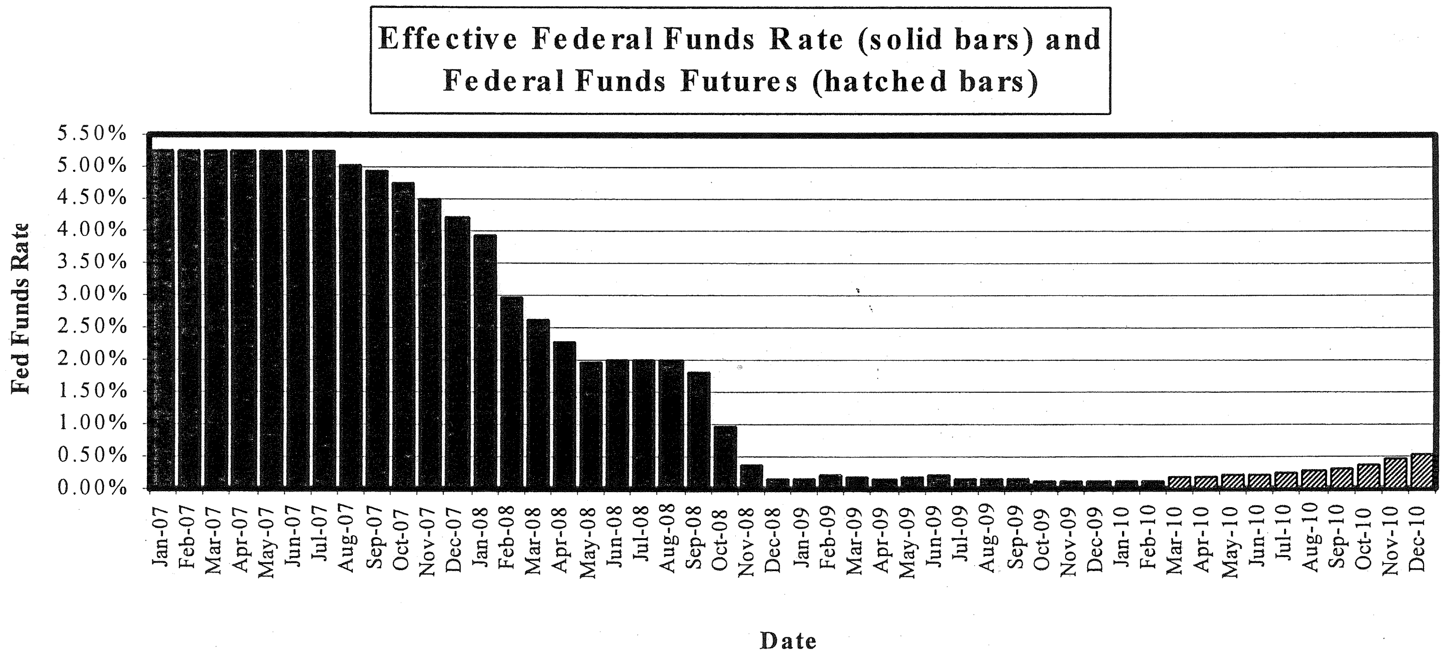








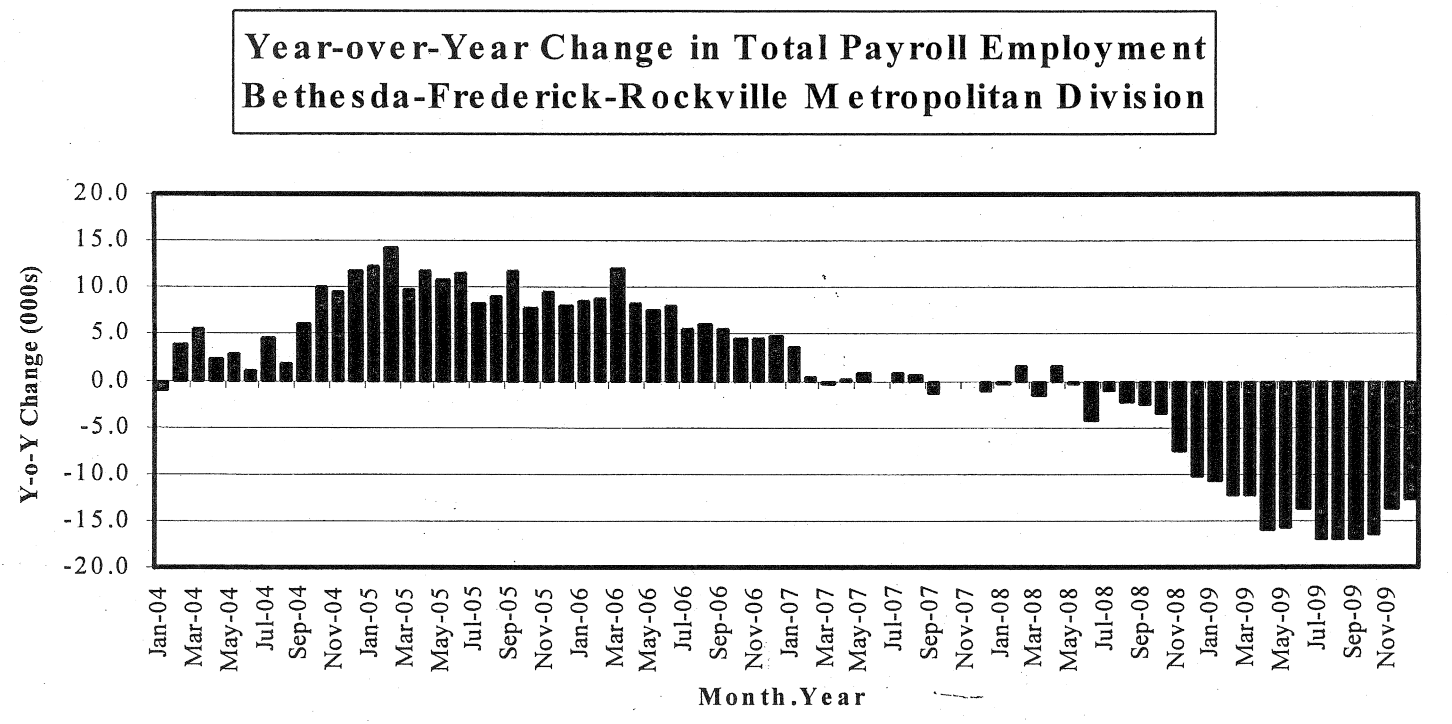
Subsequent to the Lehman bankruptcy, the Federal Open Market Committee cut the targeted fed funds rate to 1.00 percent and made further cuts until the target rate reached 0.00-0.25 percent where it remains today.



SOURCES: Federal Reserve Bank of St. Louis (solid bars) and the Chicago Board of Trade (hatched bars) as of March 15, 2010

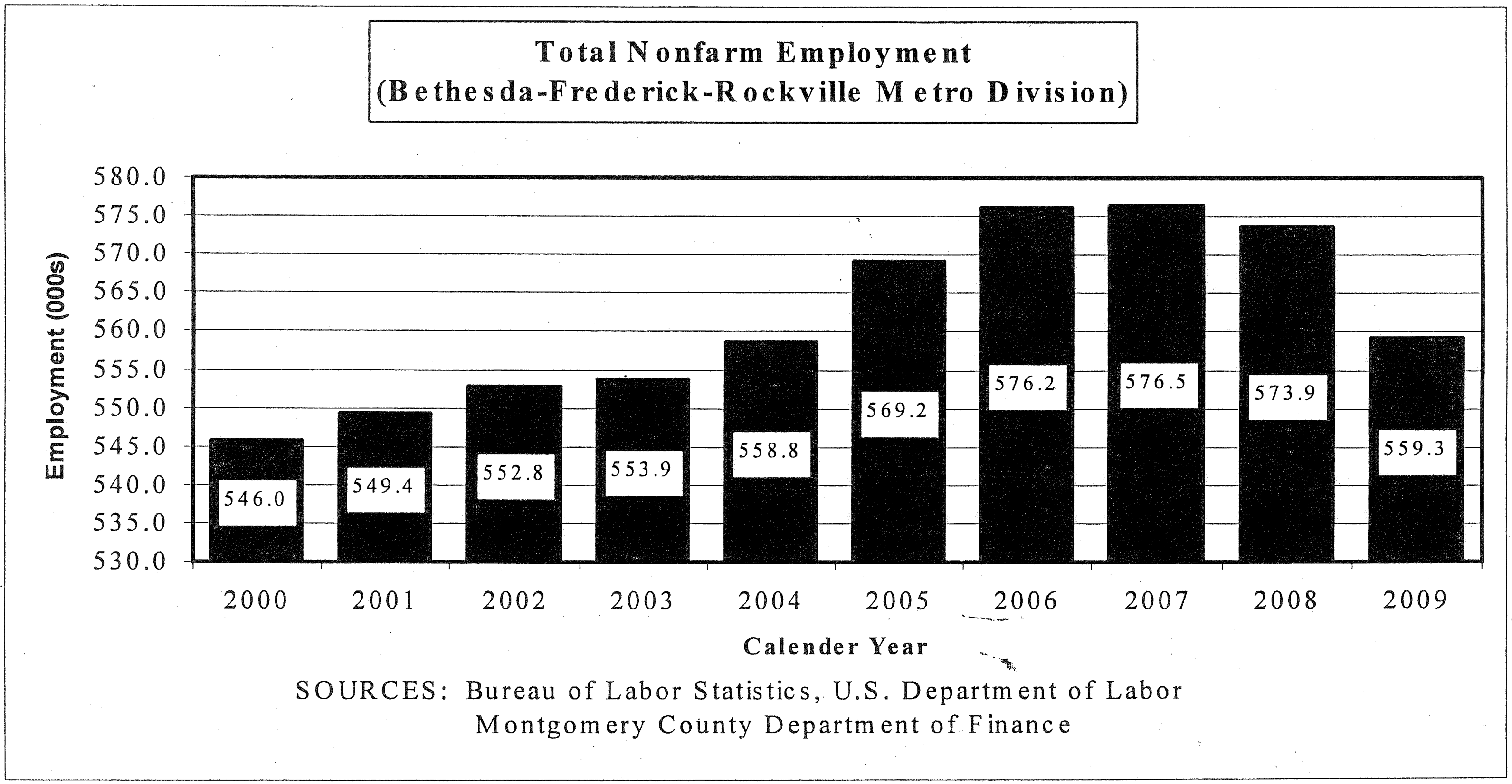
Regional Economic Indicators

Revised payroll employment for Montgomery and Frederick counties stood at 550,100 in December - a decrease of 12,900 jobs since December '08.



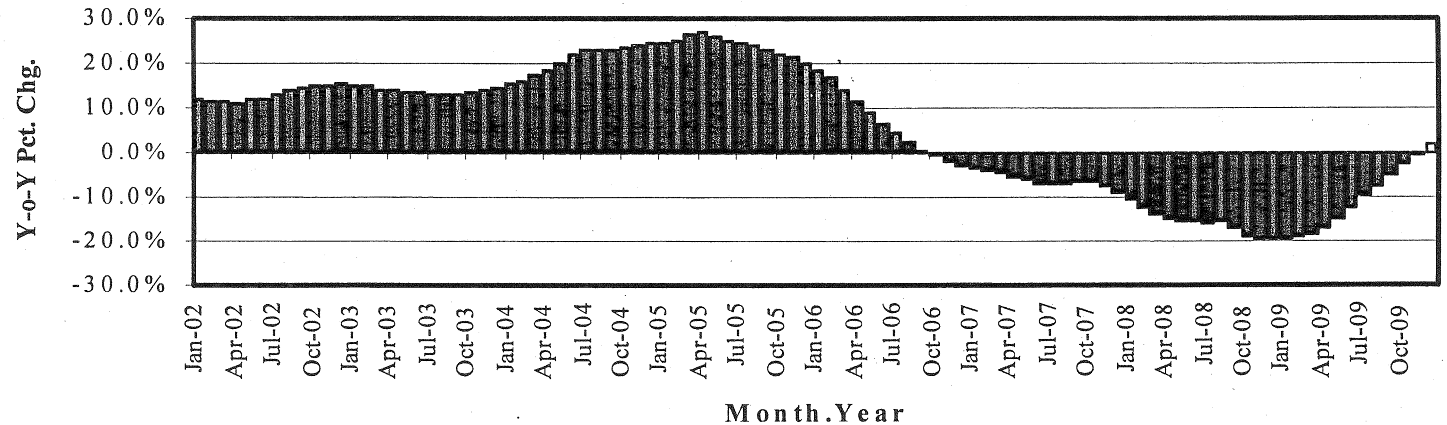
SOURCE: Bureau of Labor Statistics, U.S. Department of Labor

Total non-farm employment in Montgomery and Frederick counties declined 2.5 percent from 2008.



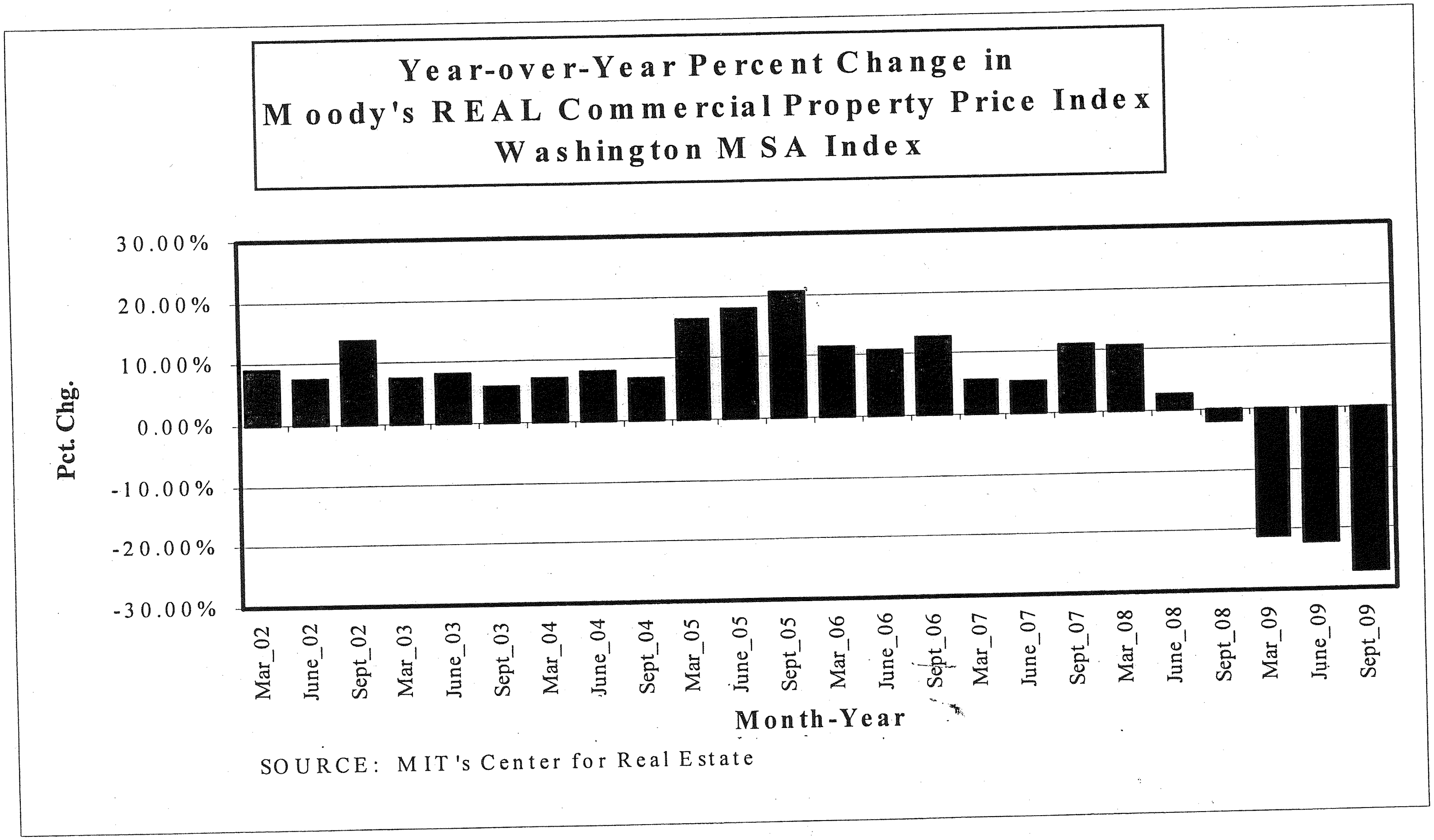
Based on the Case-Shiller® index, home prices in the Washington metropolitan region increased 1.9 percent in December'09 compared to December '08. Since March '09, the index increased 7.8 percent.

Year-over-Year Percent Change in S&P/Case-Shiller® Home Price Index Washington MSA

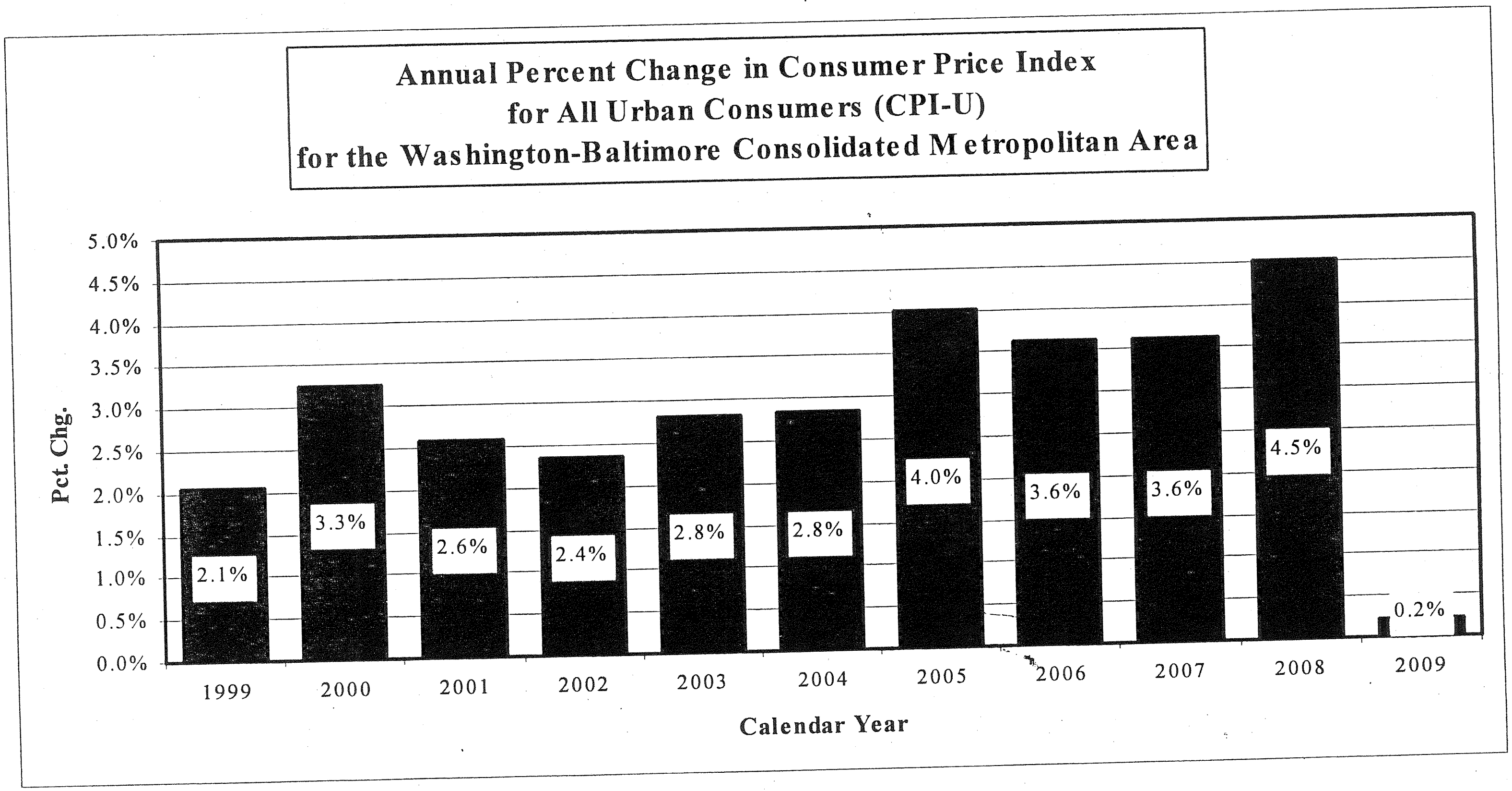


NOTE: S&P/Case-Shiller price index is a registered trademark of Standard and Poor's.

Based on the Moody's REAL® Commercial Property Index, prices for commercial property in the Washington metropolitan area decreased 27.0 percent in September '09 compared to September '08.

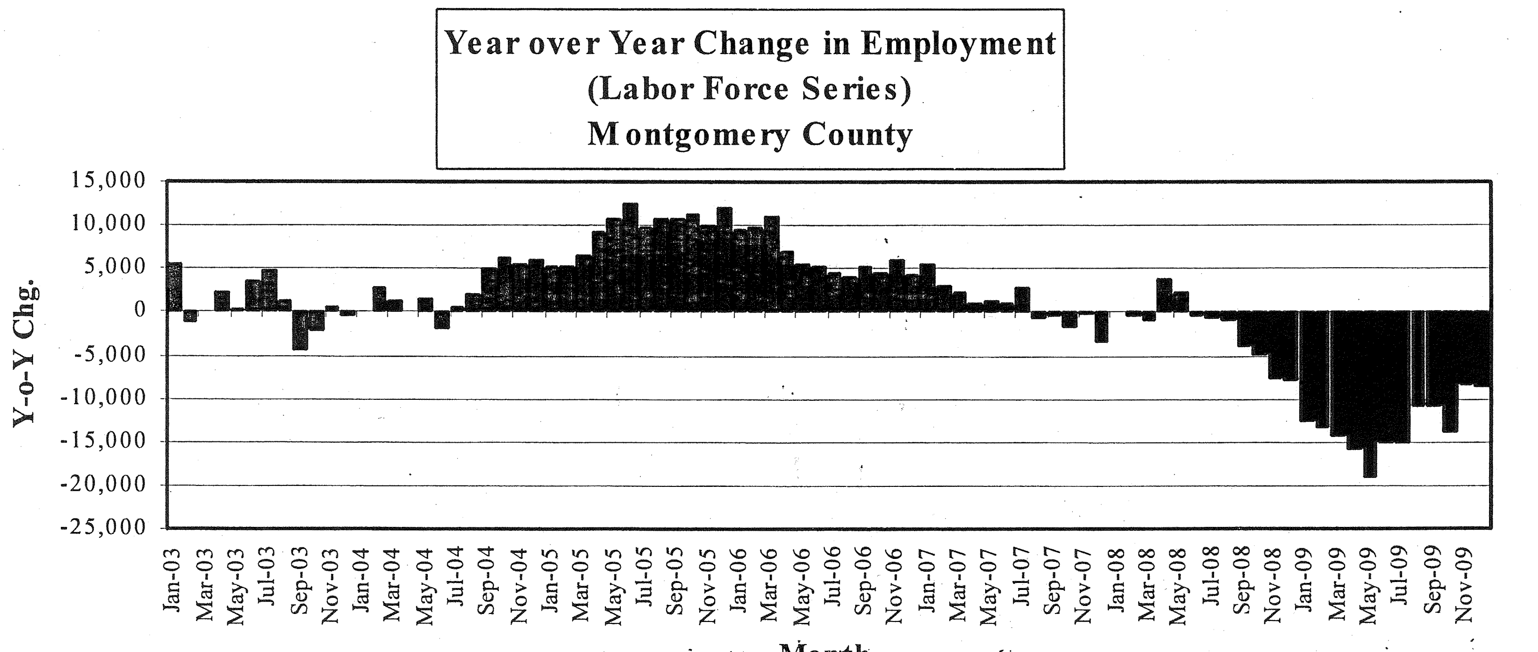


For calendar year 2009, the Consumer Price Index for All Urban Consumers increased a meager 0.2 percent.



Montgomery County
Economic Indicators

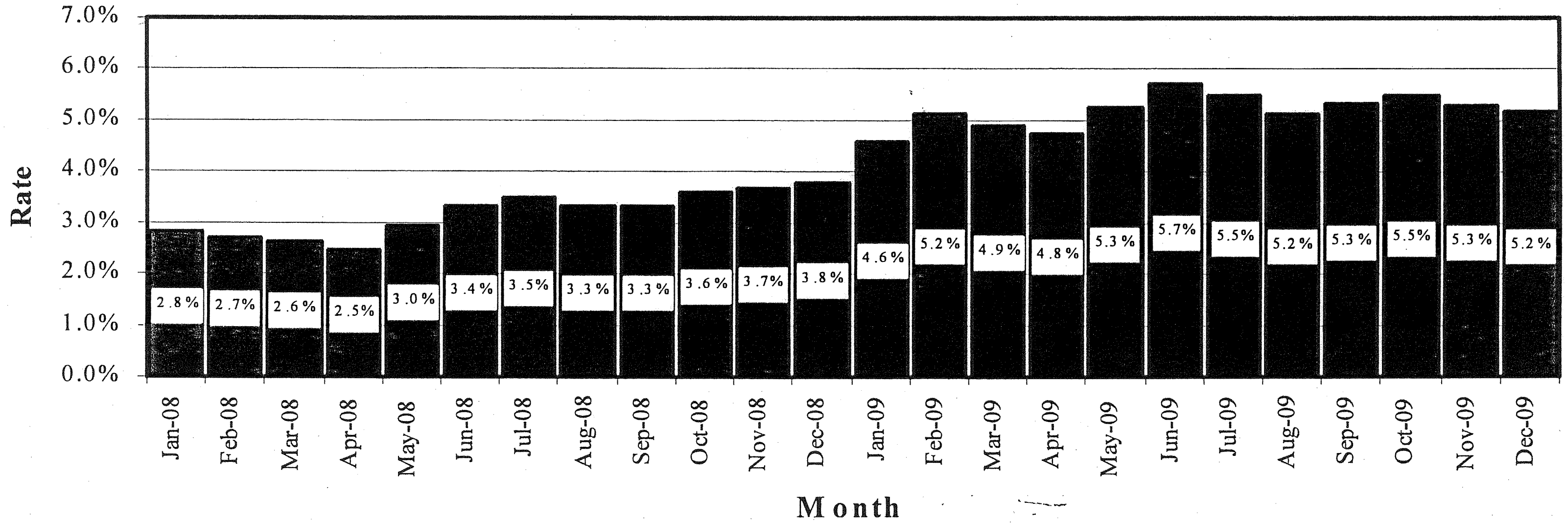
Total monthly resident employment in Montgomery County averaged 484,120 during 2009 compared to 497,250 during 2008 - a decline of 13,130 (↓2.6%). Since May of 2008, the year-over-year change in the County's monthly employment declined each month.



SOURCES: Bureau of Labor Statistics, U.S. Department of Labor
Montgomery County Department of Finance

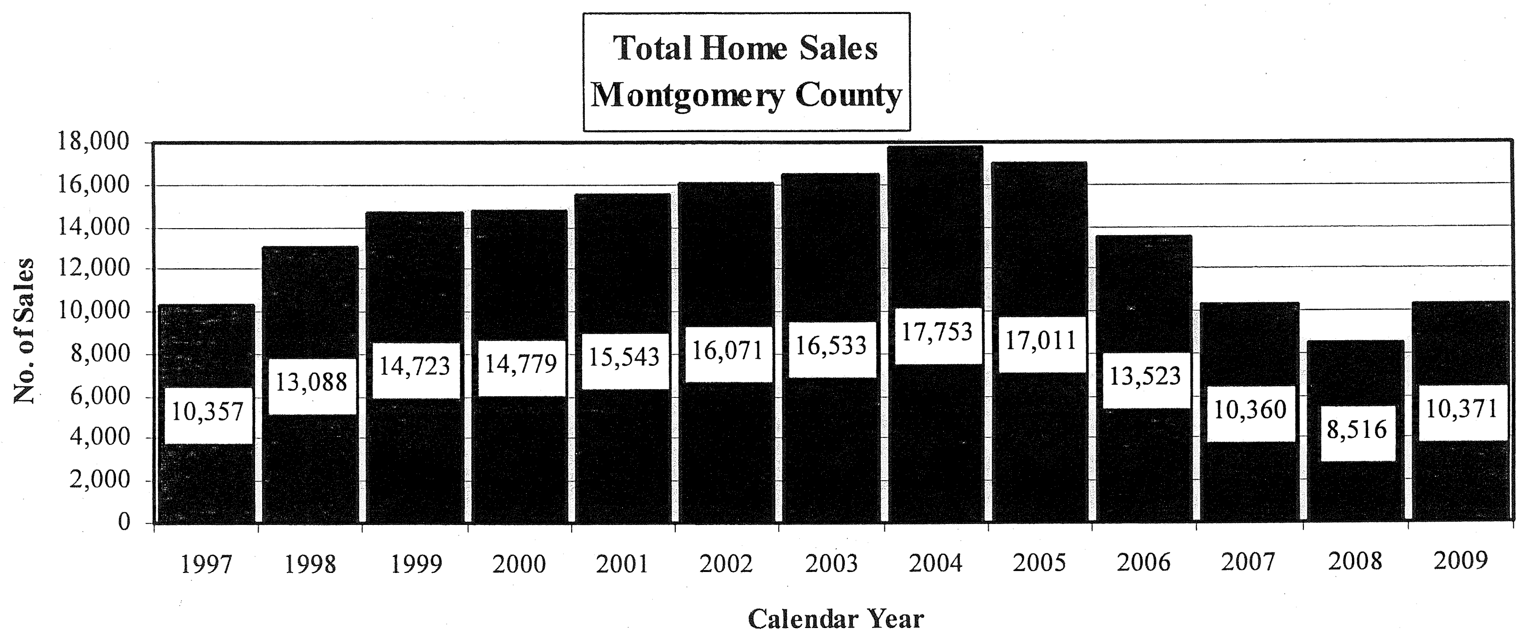
Because of the decline in resident employment during 2009, the unemployment rate increased from 3.8 percent in December '08 to 5.2 percent by December '09.

Monthly Unemployment Rates
Montgomery County



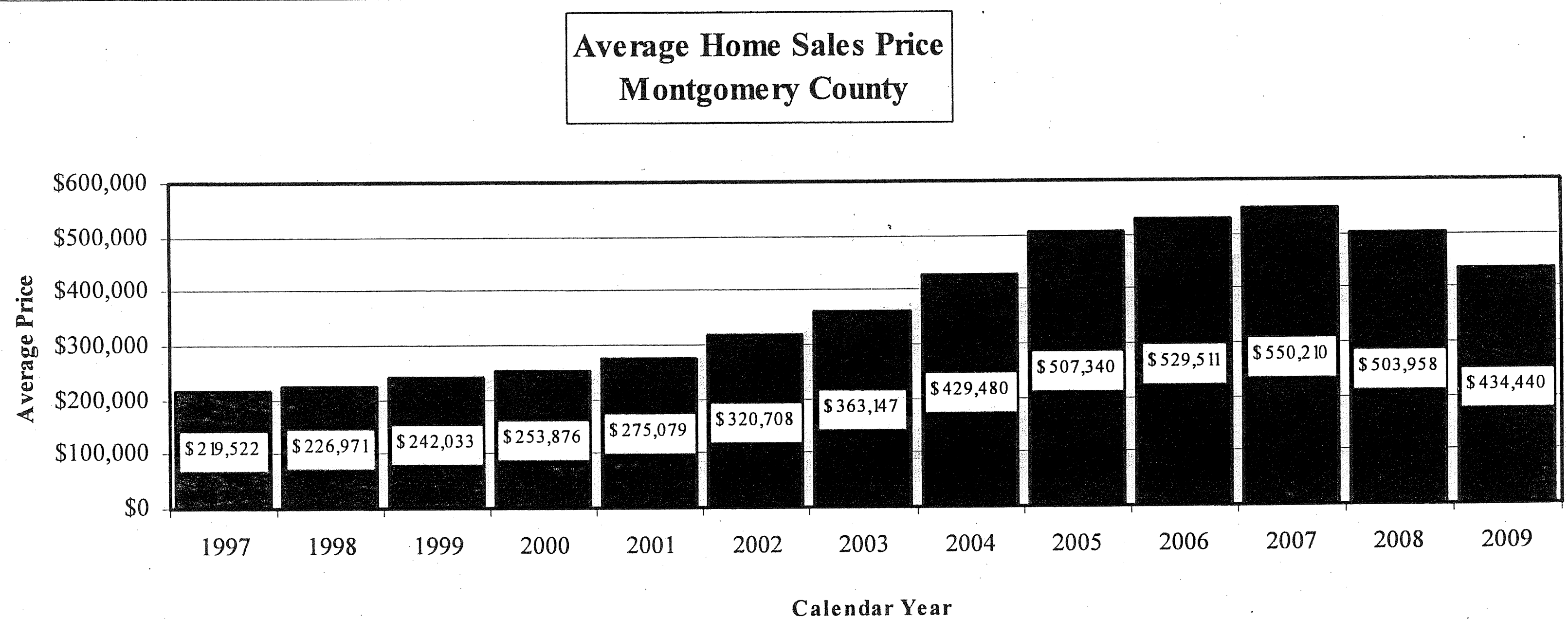
SOURCE: Bureau of Labor Statistics, U.S. Department of Labor
NOTE: Data are not seasonally adjusted

With home sales increasing at an average monthly rate of 170 units between March and December 2009 compared to the same period last year, total home sales increases 21.8 percent in 2009 compared to declines of 20.5 percent (2006), 23.4 percent (2007), and 17.8 percent (2008).



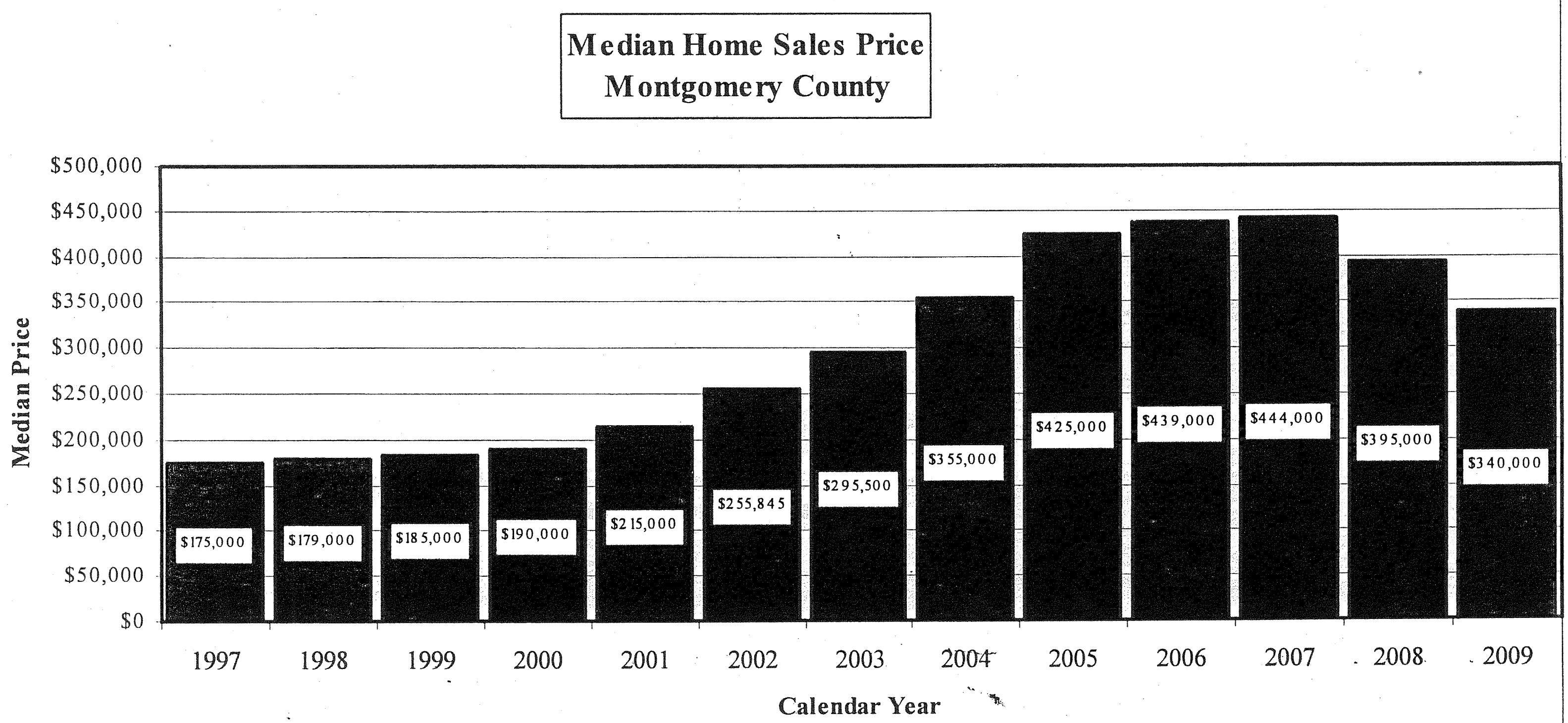
SOURCES: Metropolitan Regional Information System, Inc.
Montgomery County Department of Finance

While the sales of existing homes in the County increased in 2009, the average sales price declined 13.8 percent, which follows increases of 4.4 percent (2006), 3.9 percent (2007), and a decrease of 8.4 percent (2008).



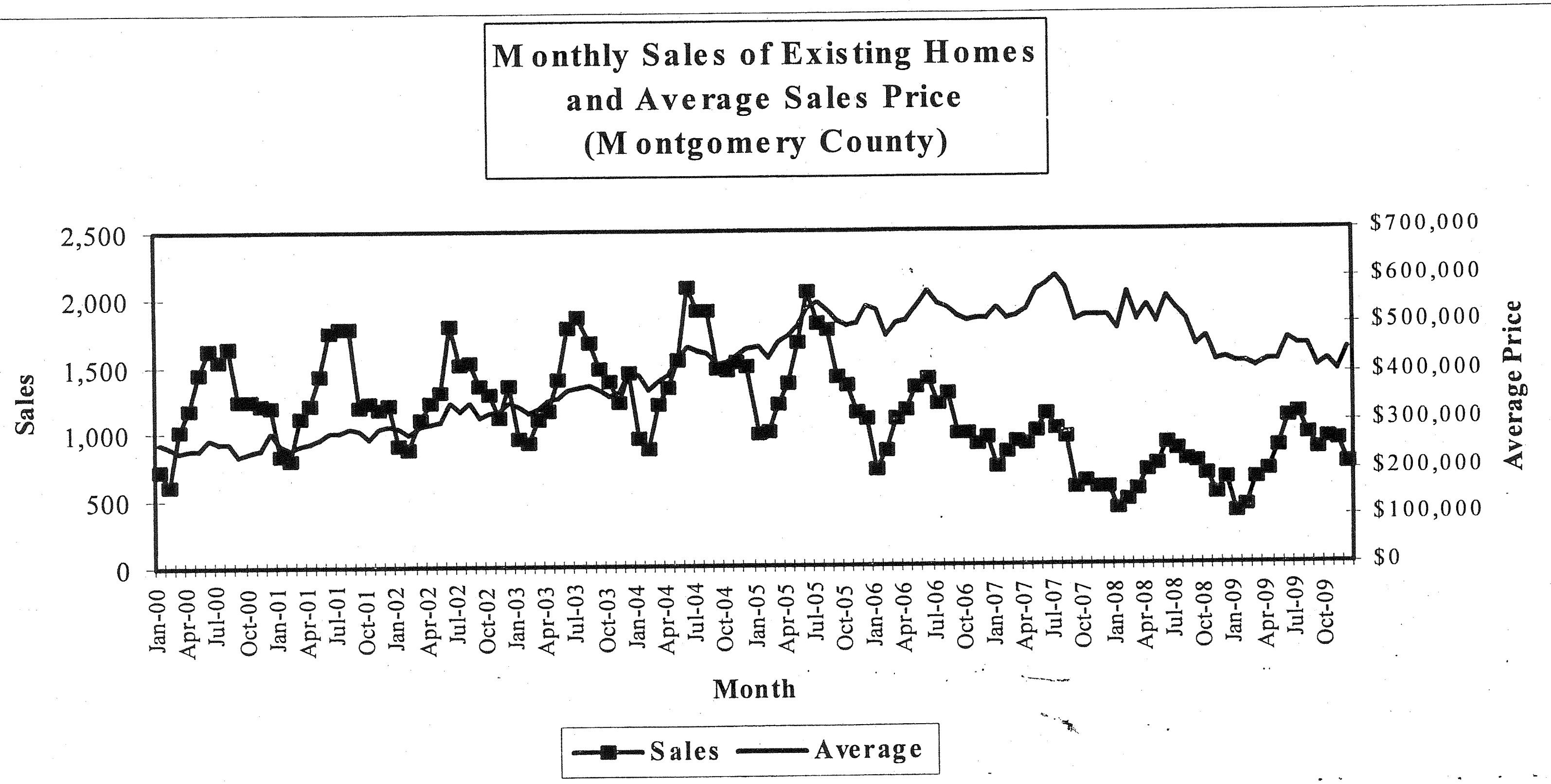
SOURCE:: Metropolitan Regional Information System, Inc.
Montgomery County Department of Finance

While average sales price declined 13.8 percent in 2009, median home prices declined 14.0 percent which followed an 11.1 percent decline in 2008.



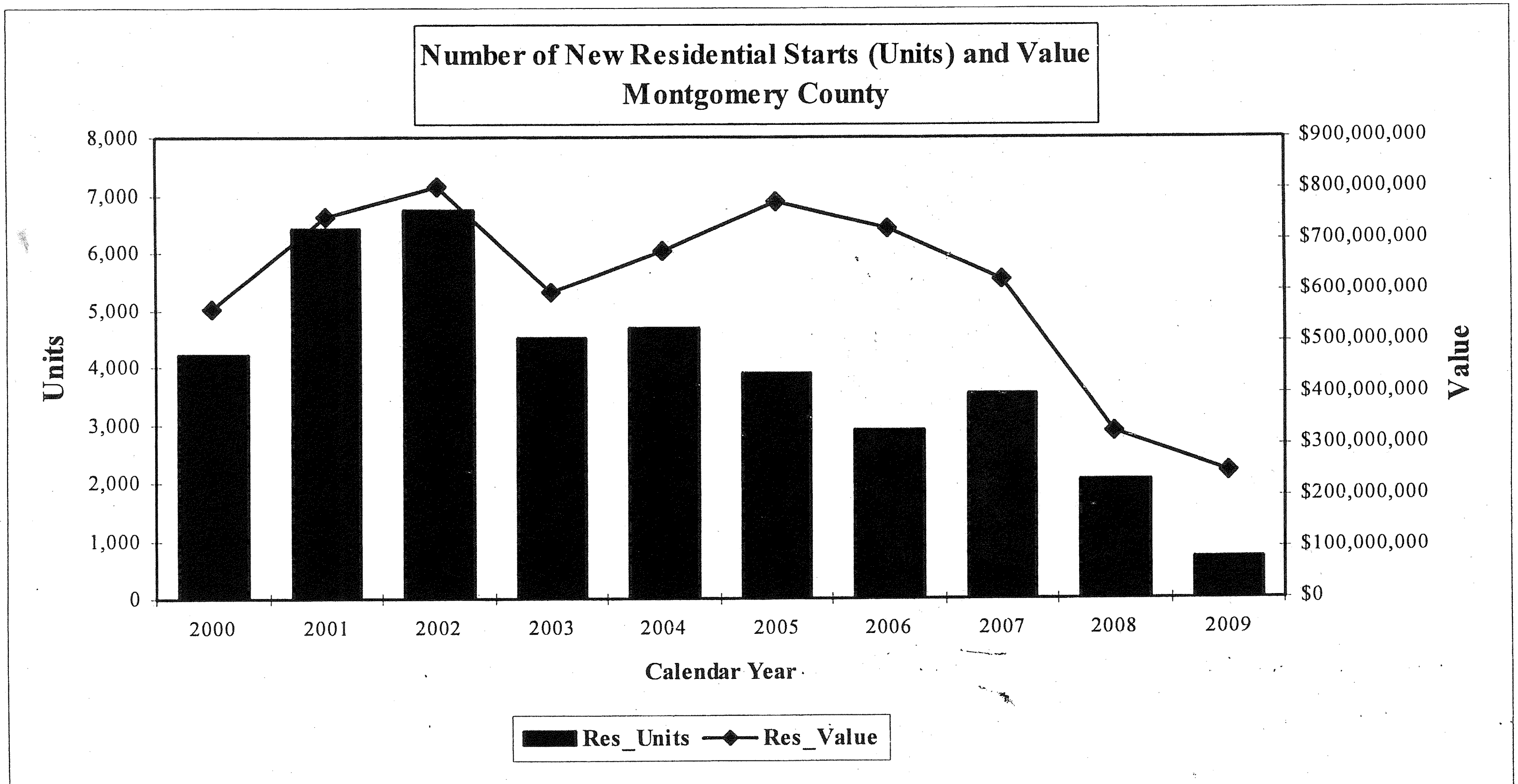
SOURCES: Metropolitan Regional Information System, In.c
Montgomery County Department of Finance

The peak in monthly home sales in Montgomery County occurred in June 2004 (2,073 units). Since that time, December sales were 63.5 percent below that level. Average monthly sales price peaked in July 2007 ($601,995), since that time, December average price was 25.1 percent below that peak.



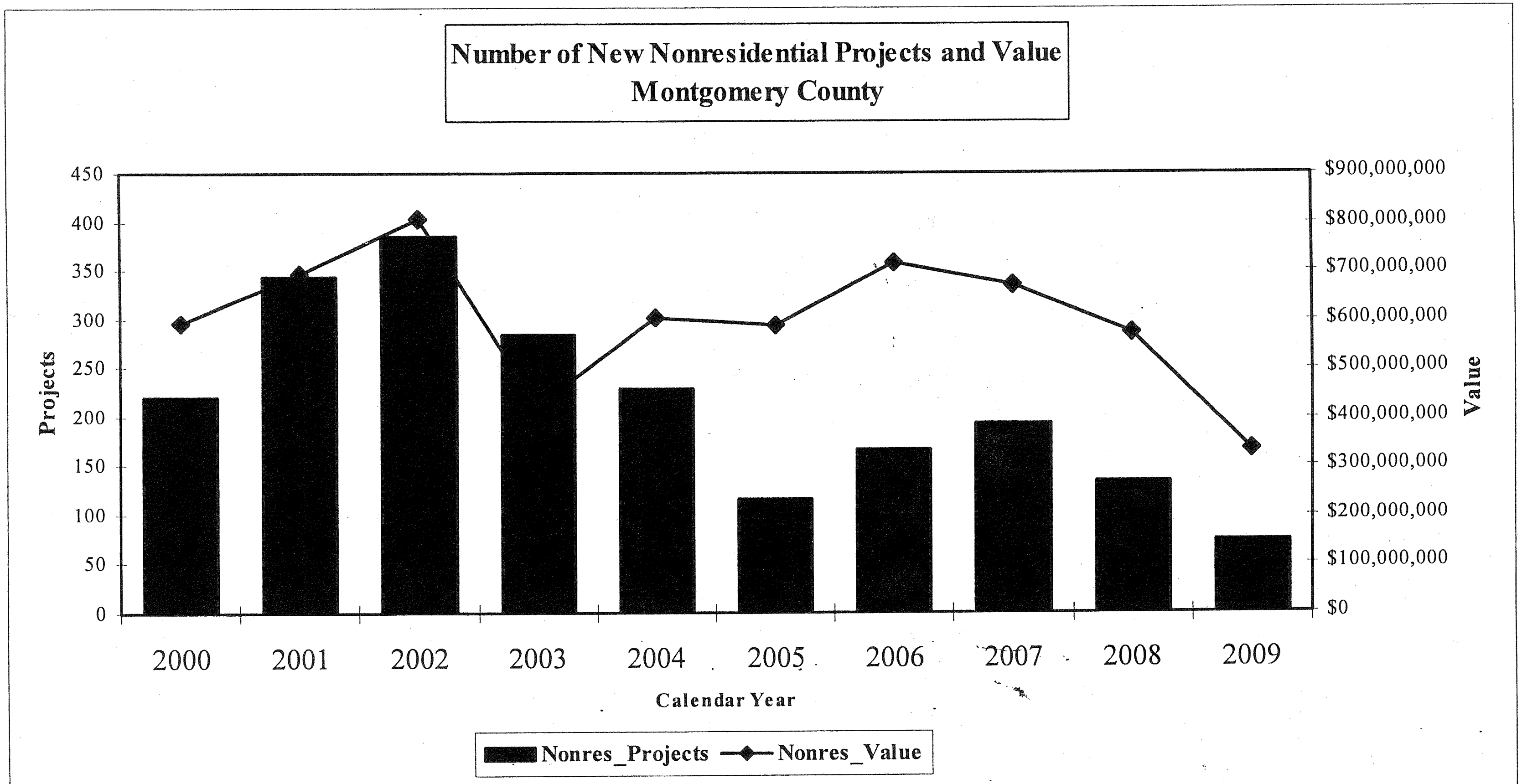
SOURCE: Metropolitan Regional Information System, Inc.

The number of new residential units under construction declined from slightly more than the 2,076 units in 2008 to 727 units during the same period in 2009 – a decrease of 65.0 percent.



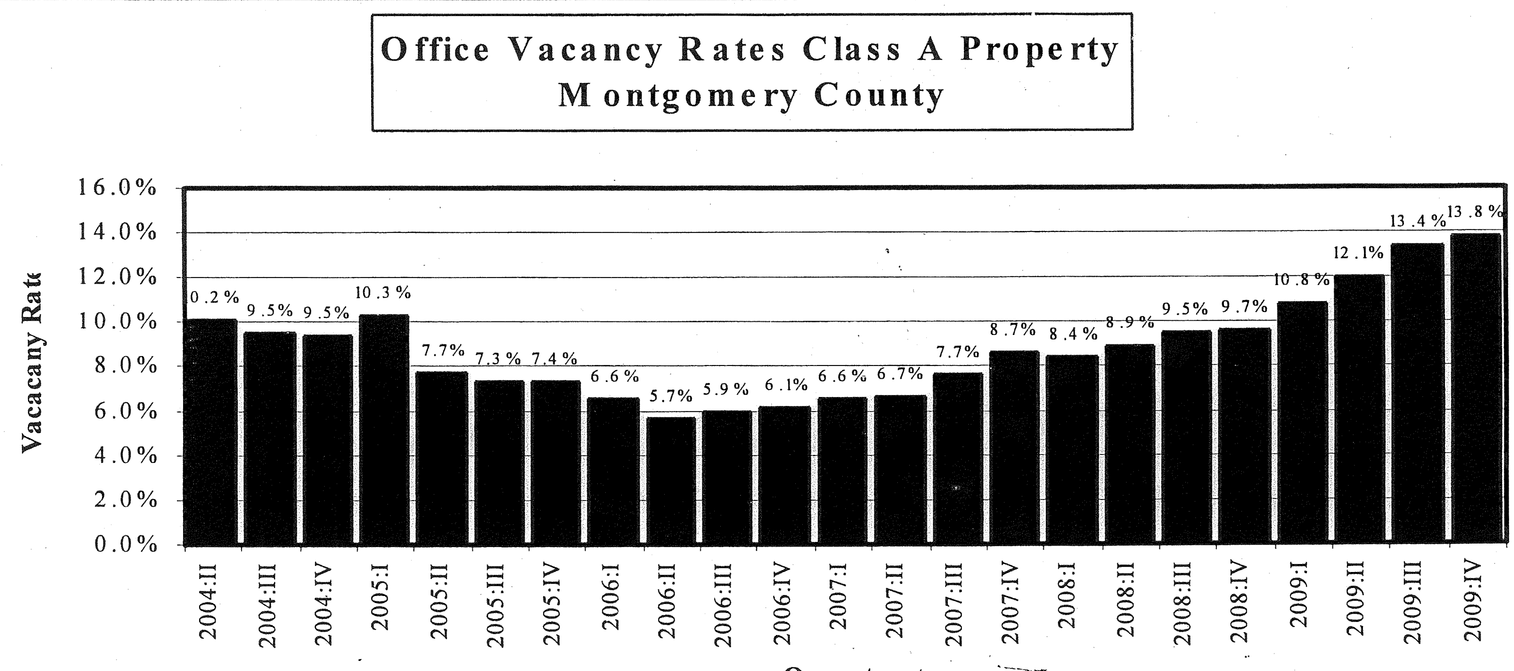
SOURCE: McGraw-Hill Construction

The number of non-residential project declined from 135 in 2008 to 75 in 2009 (↓44.4%). Also, the additional value decreased from $573.3 million in 2008 to $334.7 million in 2009 (↓41.6%).



SOURCE: McGraw-Hill Construction

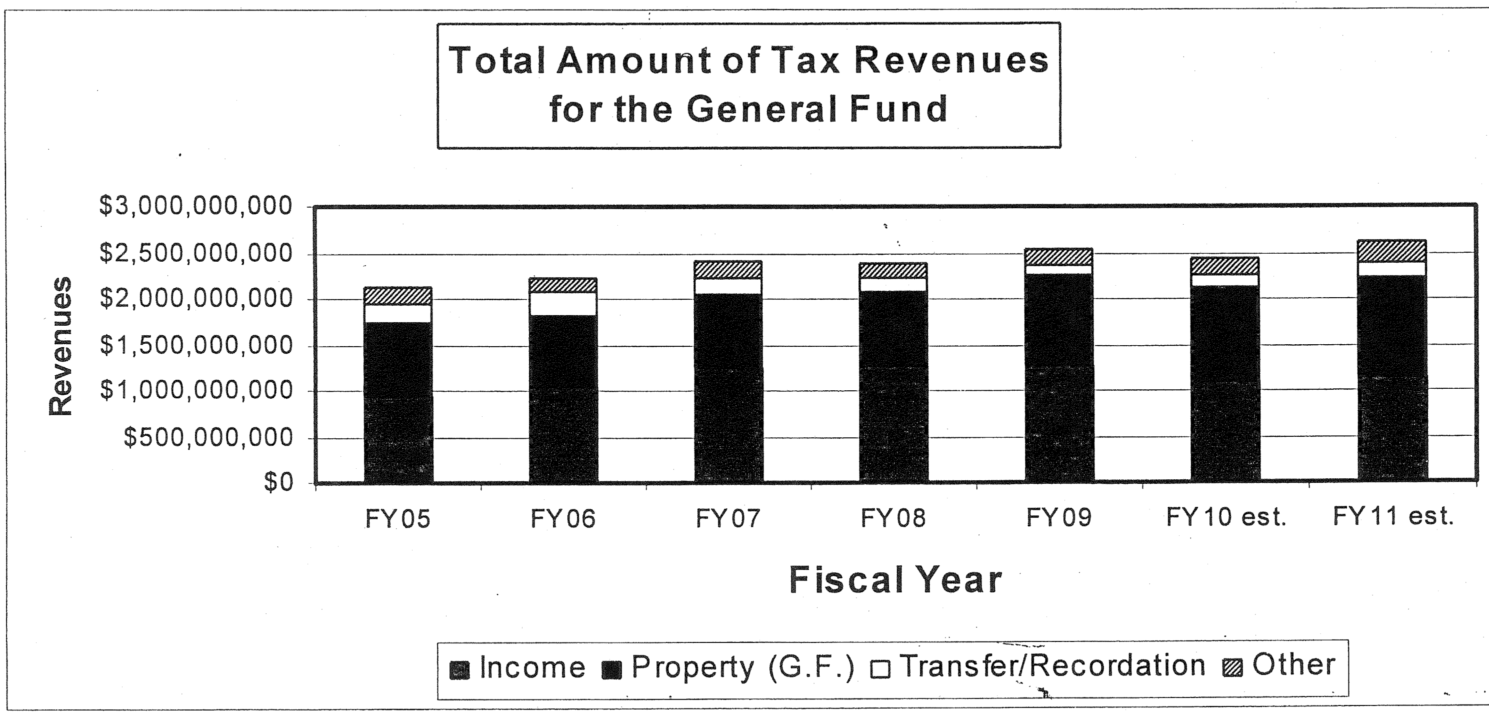
The decrease in non-residential construction is attributed to the steady increase in the vacancy rates of Class A property in the County. Since the second quarter of 2006, that rate increased from 5.7 percent to nearly 14 percent during the fourth quarter of 2009.



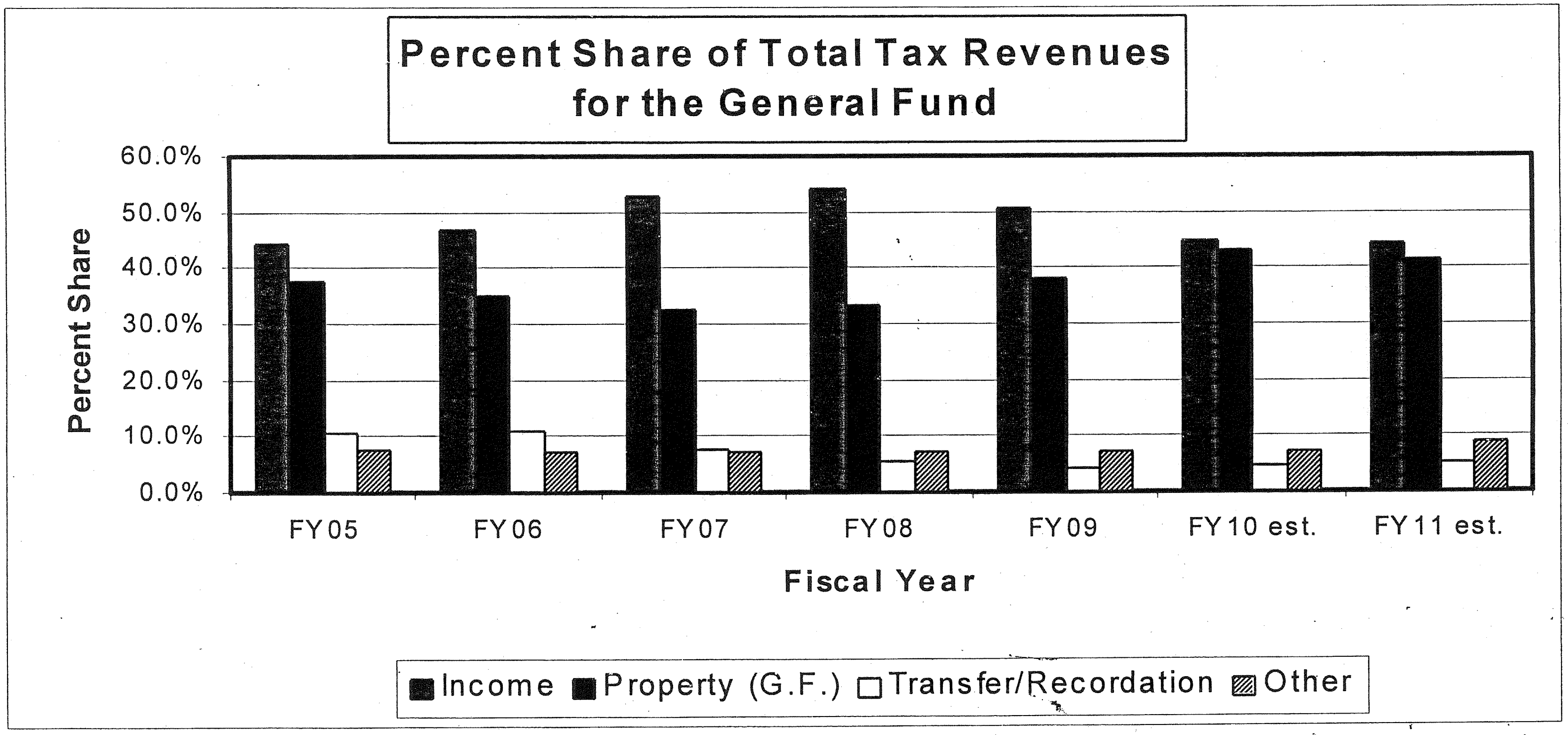
SOURCES: Planning Division, MNCPPC-MC
Montgomery County Department of Finance

Montgomery County
Revenues

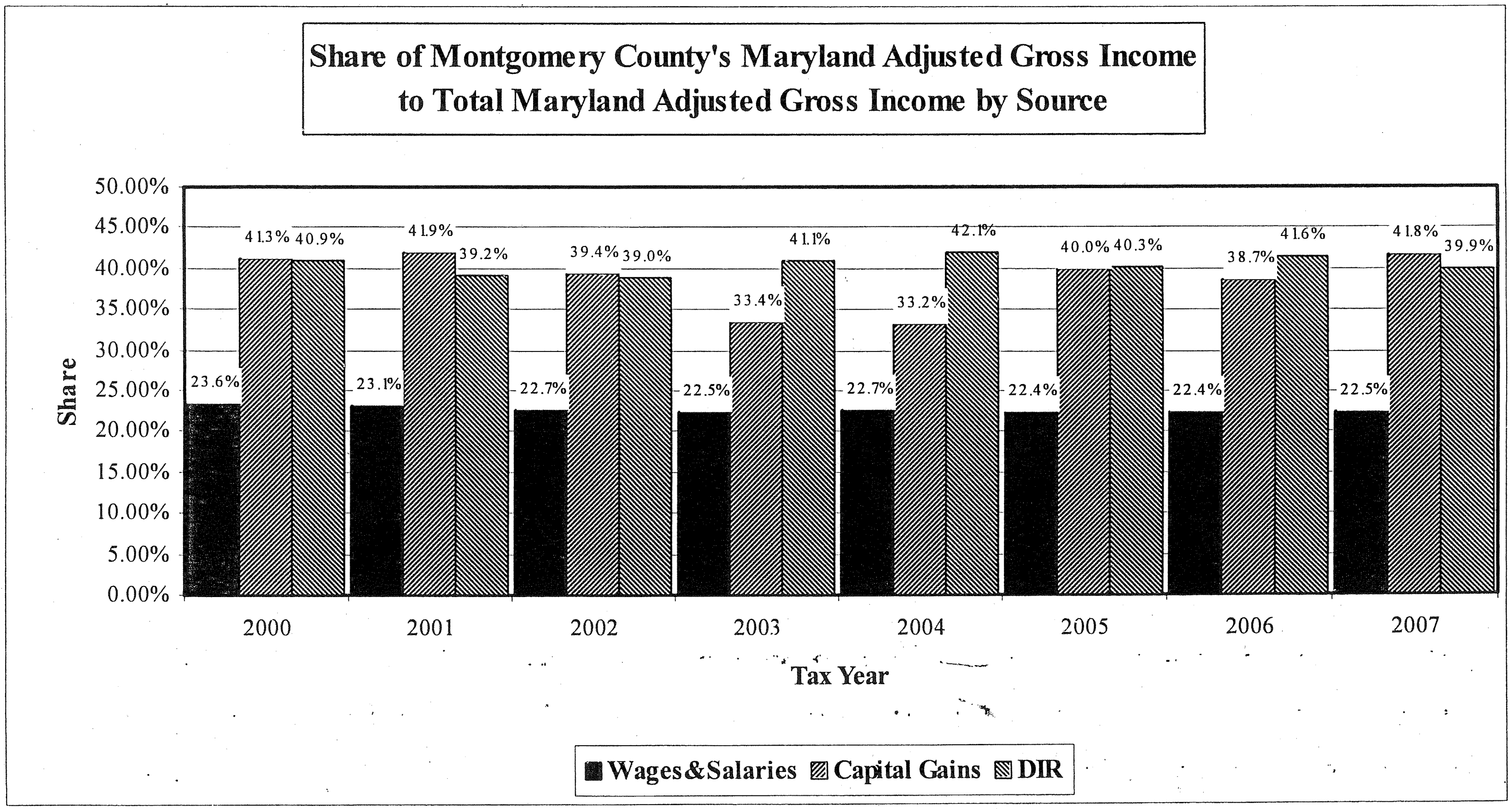
Between FY05 and FY09, revenues from the four major tax sources increased at an average annual rate of 4.8 percent. In FY10, revenues from those sources are estimated to decline 4.5 percent attributed solely to the decline in income tax revenues and are expected to increase 5.5 percent in FY11.



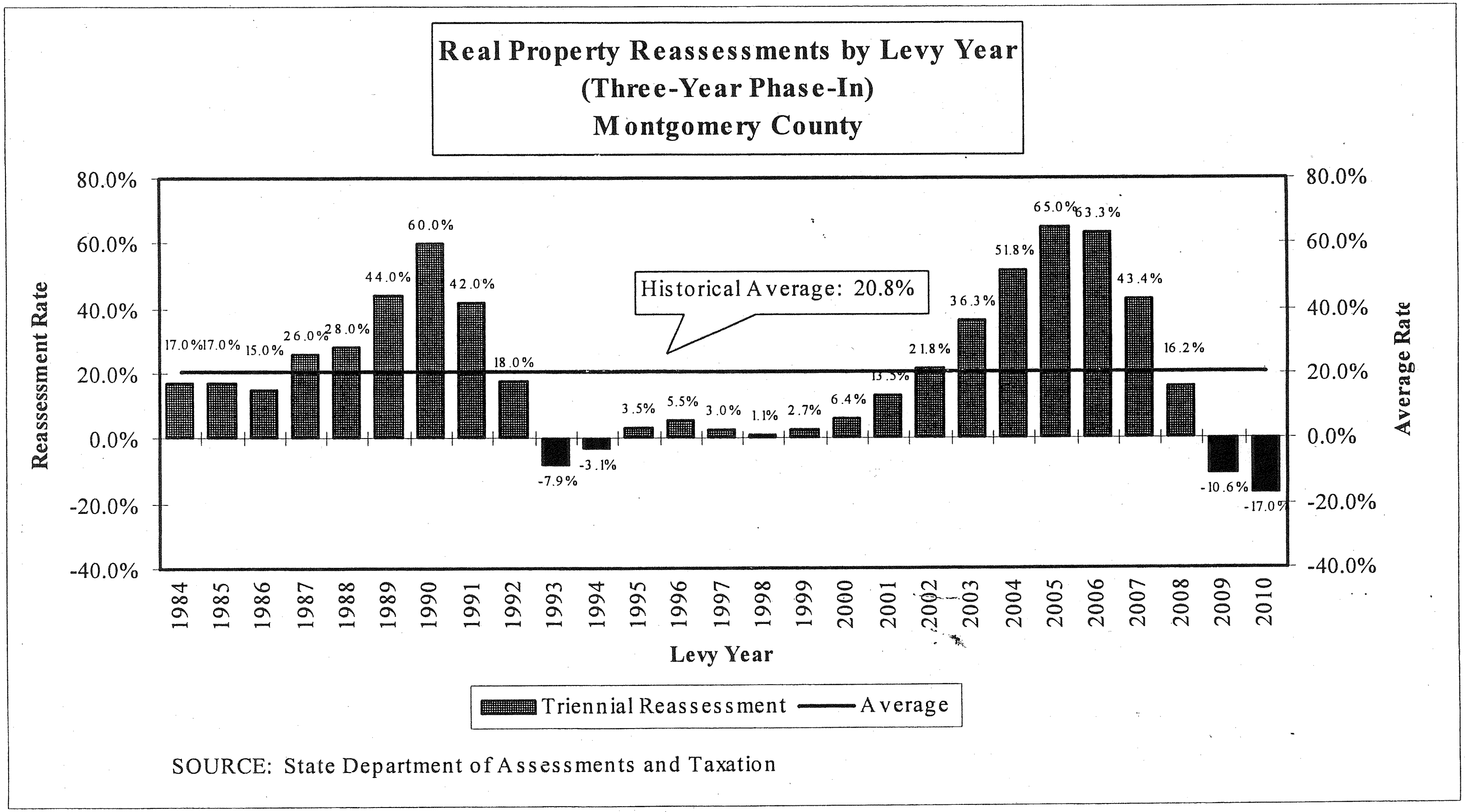
The share of income tax revenues is expected to decline from a peak of 54 percent in FY08 to 44 percent by FY11. Because of the increase in the property tax rate for the General Fund (while maintaining total revenues at the Charter Limit), its share of total revenues is expected to increase from 38 percent in FY09 to 43 percent in FY10 then decline slightly to 42 percent in FY11.



The share of the County's wage and salary and dividends, interest and rental incomes compared to the total State's income remained fairly constant between 2000-2007 (~22.7% and ~40.5%, respectively), whereas the shares of capital gains varied from a low of 33.2 percent (2004) to a high of 41.9 percent (2001).

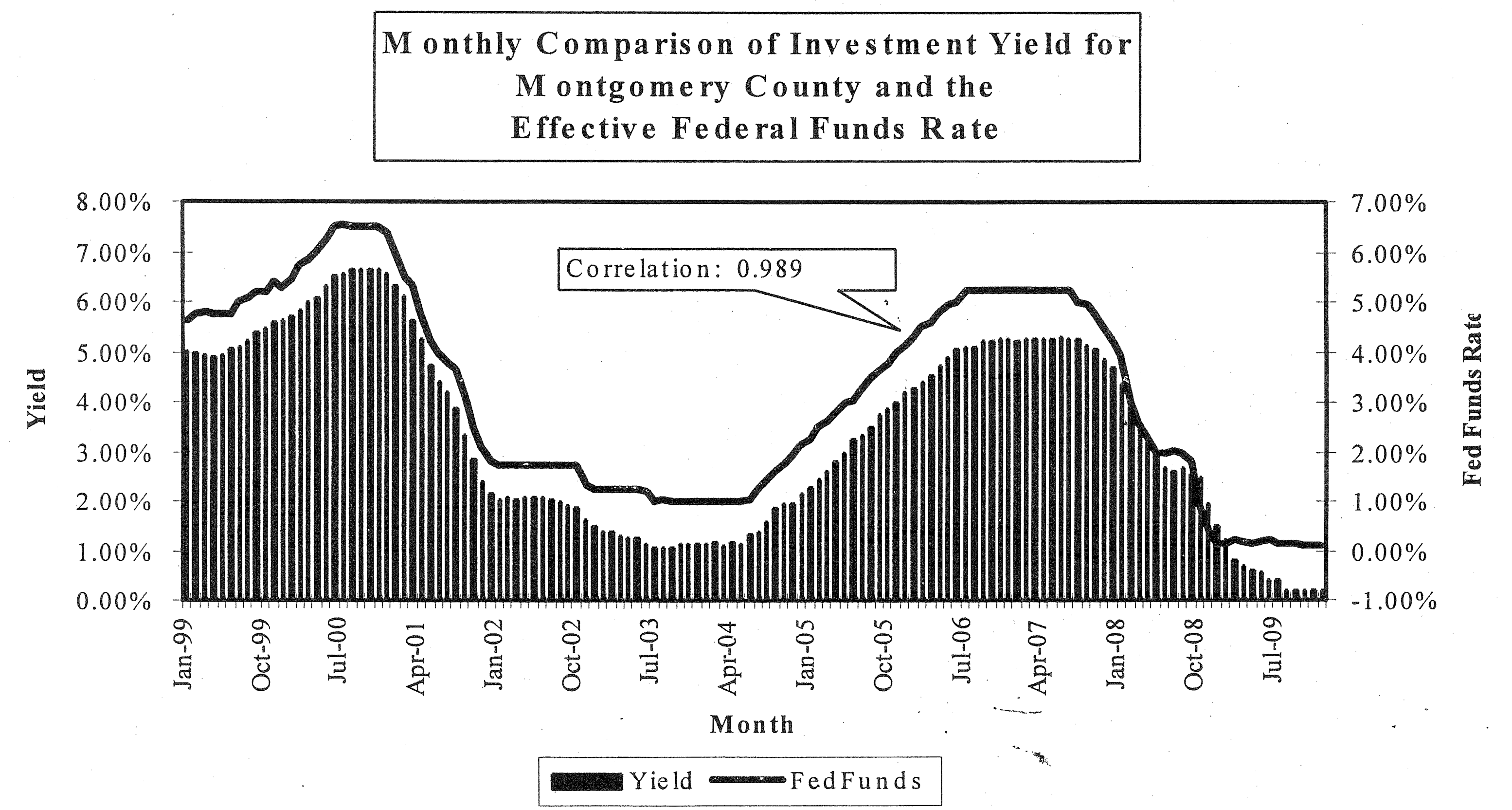


Since 1984, reassessment rates for real property experienced two dramatic cycles. The first between levy years 1987 (FY88) and 1994 (FY95) and between levy years 2000 (FY01) and 2010 (FY11). Each significant increase in the reassessment rates have preceded a dramatic decline in the rates. The recent negative reassessment rates are the result of the dramatic fall in average home prices in calendar years 2008 and 2009.



SOURCE: State Department of Assessments and Taxation

There has been and continues to be a strong association (correlation) between the effective interest rate on federal funds and the yield on the County's investments.



SOURCES: Board of Governors of the Federal Reserve System (Federal Funds Rate).
Montgomery County Department of Finance (Yield)

DISCUSSION/ACTION
7.0

Office of the Superintendent of Schools
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

March 22, 2010

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools

Subject: Maintenance of Effort Waiver

On March 15, 2010, County Executive Isiah Leggett presented his Fiscal Year 2011 Recommended Operating Budget. He recommended a total of $2,125,542,225 for Montgomery County Public Schools (MCPS), including $1,940,540,941 in tax-supported resources (excluding grants and enterprise funds) and $1,416,228,099 in local contribution. The county executive's recommendation, if approved by the County Council, will require reductions of $137.7 million (6.3 percent) from the Board of Education's FY 2011 Operating Budget Request. This reduction actually exceeds the total increase requested by the Board for FY 2011, and provides exactly the same amount for educational programs as the FY 2010 operating budget despite a projected increase of 2,809 students. These reductions will be extremely painful to schools and employees. Any possible further reductions will significantly endanger the quality of education for MCPS students.

The county executive's budget recommendation will require a waiver of the Maintenance of Effort (MOE) law. Based on the most recent revenue information, the local contribution required for Mr. Leggett's recommended tax-supported budget is $1,415,085,344. To avoid violating the MOE requirement, the county will need a waiver to be approved by the Maryland State Board of Education (State Board). Without a MOE waiver, MCPS may face a penalty of the loss of increased state aid up to $52.4 million. I am recommending to you that we join with the County Government in seeking a waiver from the MOE requirement. It is important to point out that MCPS has been exceedingly cooperative with the County Government as it confronts the worst economic downturn in decades.

Mr. Leggett intends to submit a request for a MOE waiver to the Maryland State Board of Education by the current deadline of March 31, 2010. Pursuant to Section 5-202 (d) (7) of the Annotated Code of Maryland, Education Article, he will state that the county's fiscal condition prevents it from funding the MOE requirement without seriously impairing other county services. A copy of the relevant section of the code is attached. Pursuant to State Board procedure, the Montgomery County Board of Education must state its position on this request no later than April 10, 2010. It is expected that the State Board will schedule a public hearing on the county request during April 2010. The Board of Education will have an opportunity to participate in that public hearing. Thus, it is important that the Board of Education make its position clear on the county's waiver request. The following resolution therefore is recommended for the Board's consideration.

WHEREAS, Montgomery County intends to request a waiver of the Maintenance of Effort requirement to permit a local contribution for FY 2011 of $1,415,085,344, pursuant to Section 5-202 (d) (7) of the Annotated Code of Maryland, Education Article, because the county's fiscal condition prevents it from funding the Maintenance of Effort requirement without seriously impairing other county services; and

WHEREAS, This amount of local contribution will result in a total of $1,940,540,941 in tax-supported resources (excluding grants and enterprise funds), which is exactly the same amount for educational programs in the FY 2010 operating budget despite a projected increase of 2,809 students; and

WHEREAS, Pursuant to Maryland State Board of Education procedures, the Montgomery County Board of Education must state its position on the county's waiver request no later than April 10, 2010; and

WHEREAS, Montgomery County Public Schools' staff has received information about the county's fiscal condition and has worked closely with county staff to review economic and revenue data; and

WHEREAS, The county executive's Recommended FY 2011 Operating Budget requires the Board of Education to make $137.7 million in nonrecommended reductions in its FY 2011 Operating Budget Request; and

WHEREAS, No further reductions can be made without seriously endangering the quality of education for Montgomery County Public Schools' students; now therefore be it

Resolved, That the Board of Education supports the Montgomery County request for a waiver of the Maintenance of Effort requirements for FY 2011, if the following conditions are agreed to by the county executive and the County Council and are included in the action of the Maryland State Board of Education:

1. The operating budget amount of $1,940,540,941 in tax–supported resources (excluding grants and enterprise funds) recommended by the county executive on March 15, 2010, is fully funded by the County Council. This amount necessitates $137.7 million in nonrecommended reductions in the Board of Education's Operating Budget Request.

2. The FY 2011 appropriation does not include any transfers of functions or expenditures from the County Government budget to the Board of Education budget unless the amount of the transfer is added to the amount recommended by the county executive.

3. The Maintenance of Effort requirement for FY 2012 will be based on the FY 2010 level of $11,249 per student, unless subsequent action of the General Assembly changes the amount of the FY 2012 requirement by law; and be it further

Resolved, That the president of the Board of Education be authorized to submit this resolution to the Maryland State Board of Education and to represent the Board of Education at a public hearing on the county's waiver request; and be it further

Resolved, That a copy of this resolution be sent to the county executive and the County Council.

JDW:LAB:MCS:jp

Attachment

Article- Education

§5–202.

(d) (1) To be eligible to receive the State share of the foundation program:

(i) The county governing body shall levy an annual tax sufficient to provide an amount of revenue for elementary and secondary public education purposes equal to the local share of the foundation program; and

(ii) The county governing body shall appropriate local funds to the school operating budget in an amount no less than the product of the county's full–time equivalent enrollment for the current fiscal year and the local appropriation on a per pupil basis for the prior fiscal year.

(2) Except as provided in paragraph (3) of this subsection, for purposes of this subsection, the local appropriation on a per pupil basis for the prior fiscal year for a county is derived by dividing the county's highest local appropriation to its school operating budget for the prior fiscal year by the county's full–time equivalent enrollment for the prior fiscal year. For example, the calculation of the foundation aid for fiscal year 2003 shall be based on the highest local appropriation for the school operating budget for a county for fiscal year 2002. Program shifts between a county operating budget and a county school operating budget may not be used to artificially satisfy the requirements of this paragraph.

(3) For purposes of this subsection, for fiscal year 1997 and each subsequent fiscal year, the calculation of the county's highest local appropriation to its school operating budget for the prior fiscal year shall exclude:

(i) A nonrecurring cost that is supplemental to the regular school operating budget, if the exclusion qualifies under regulations adopted by the State Board; and

(ii) A cost of a program that has been shifted from the county school operating budget to the county operating budget.

(4) The county board must present satisfactory evidence to the county government that any appropriation under paragraph (3)(i) of this subsection is used only for the purpose designated by the county government in its request for approval.

(5) Any appropriation that is not excluded under paragraph (3)(i) of this subsection as a qualifying nonrecurring cost shall be included in calculating the county's highest local appropriation to its school operating budget.

(6) Qualifying nonrecurring costs, as defined in regulations adopted by the State Board, shall include but are not limited to:

(i) Computer laboratories;

(ii) Technology enhancement;

(iii) New instructional program start–up costs; and

(iv) Books other than classroom textbooks.

(7) (i) The provisions of this subsection do not apply to a county if the county is granted a temporary waiver or partial waiver from the provisions by the State Board of Education based on a determination that the county's fiscal condition significantly impedes the county's ability to fund the maintenance of effort requirement.

(ii) After a public hearing, the State Board of Education may grant a waiver under this paragraph in accordance with its regulations.

(iii) In order to qualify for the waiver under this paragraph for a fiscal year, a county shall make a request for a waiver to the State Board of Education by April 1 of the prior fiscal year.

(iv) The State Board of Education shall inform the county whether the waiver for a fiscal year is approved or denied in whole or in part by May 15 of the prior fiscal year.

Overview of Montgomery County's Budget and Revenue Outlook

Montgomery County Council Briefing

February 23, 2010

THE BUDGET PROBLEM

Fiscal Plan Update
December 2009
Tax Supported Fiscal Plan Summary

($ in Millions)

#		App. FY10 5-21-09	Est. FY10 12-1-09	% Chg. FY10-11 Rec/Bud	Rec. FY11 12-1-09	Projected FY12	Projected FY13	Projected FY14	Projected FY15	Projected FY16
1	**Total Resources**									
2	Revenues	3,804.9	3,700.1	-2.7%	3,703.3	3,847.3	4,000.3	4,176.9	4,386.3	4,570.4
3	Beginning Reserves Undesignated	115.5	103.6	-127.4%	(31.6)	101.1	117.7	127.9	139.1	152.4
4	Beginning Reserves Designated	-	-	0.0%	-	-	-	-	-	-
5	Net Transfers In (Out)	37.2	37.1	-79.4%	7.7	7.9	8.1	8.4	8.6	9.0
6	**Total Resources Available**	3,957.7	3,840.8	-7.0%	3,679.3	3,956.3	4,126.2	4,313.2	4,534.1	4,731.8
7	**Less Other Uses of Resources (Capital, Debt Service,Reserve)**	362.2	269.5	25.1%	453.1	507.3	548.6	598.0	620.5	632.4
8	**Available to Allocate to Agencies**	**3,595.4**	**3,571.3**	**-10.3%**	**3,226.2**	**3,449.1**	**3,577.6**	**3,715.2**	**3,913.5**	**4,099.4**
9	**Agency Uses**									
10	Montgomery County Public Schools (MCPS)	2,020.1	2,010.2	3.6%	2,092.2	2,174.8	2,262.0	2,352.5	2,445.2	2,530.0
11	Montgomery College (MC)	217.5	216.5	7.5%	233.9	251.6	270.6	291.0	312.8	336.1
12	MNCPPC (w/o Debt Service)	106.6	104.5	3.4%	110.2	114.6	119.0	123.4	127.8	131.5
13	MCG	1,251.2	1,240.2	6.6%	1,333.6	1,427.1	1,526.1	1,631.6	1,742.9	1,853.8
14	**Subtotal Agency Uses**	**3,595.4**	**3,571.3**	**4.9%**	**3,769.9**	**3,968.1**	**4,177.7**	**4,398.5**	**4,628.7**	**4,851.4**
15	**Retiree Health Insurance Pre-Funding**									
16	Montgomery County Public Schools (MCPS)				30.9					
17	Montgomery College (MC)				0.8					
18	MNCPPC (w/o Debt Service)				3.6					
19	MCG				29.2					
20	**Subtotal Retiree Health Insurance Pre-Funding**				**64.5**					
21	**Subtotal Other Uses of Resources (Capital, Debt Service,Reserve)**	362.2	269.5	25.1%	453.1	507.3	548.6	598.0	620.5	632.4
22	**Total Uses**	**3,957.7**	**3,840.8**	8.3%	**4,287.6**	**4,475.4**	**4,726.4**	**4,996.5**	**5,249.2**	**5,483.8**
23	**(Gap)/Available**	**-**	**-**		**(608.3)**	**(519.1)**	**(600.2)**	**(683.3)**	**(715.2)**	**(752.0)**

Notes:

1. **FY11-15 property tax revenues are at the Charter Limit.**
2. **Projected agency spending is based on Major Known Commitments including compensation.**
3. **Retiree health insurance pre-funding is assumed at the scheduled FY11 amounts.**
4. **Reserves are restored to the policy level of 6% of total resources in FY11.**
5. **PAYGO is restored to the policy level of 10% of the planned bond issue in FY11.**

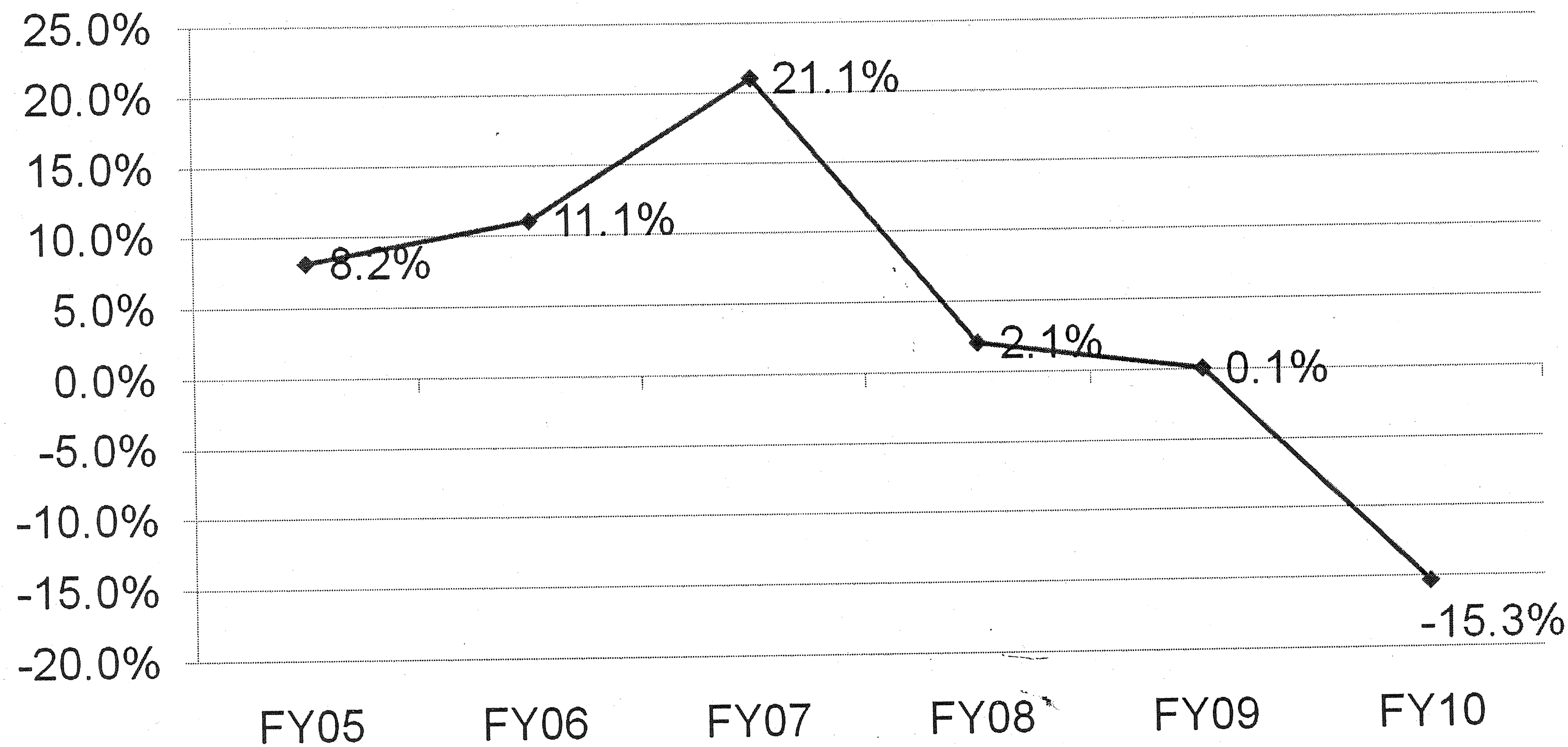
(31.8) Non-K-12 State Aid Reduction
(41.6) Less FFP & Speed Camera Rev
(25.0) Addl Snow Removal Costs
(54.9) February Revenue Write-down
(761.5) New FY11 Gap

WHAT HAPPENED?

Revenue Changes for FYs 10 and 11

CATEGORIES	TOTAL CHG FY10+FY11 ($ in mils)
TAXES	
Property Tax (less PDs)	(46.9)
Income Tax	(239.1)
Transfer/Recordation Tax	(0.8)
Other Taxes	(11.4)
Total Local Taxes	**(298.2)**
Non K-12 State Aid	
Highway User	(30.2)
Other State Aid	(13.7)
Subtotal Non K-12	**(43.9)**
K-12 State Aid	**44.0**
Fees and Fines	**(21.6)**
Investment Income & Misc.	**(6.5)**
TOTAL REVENUES	**(326.2)**

Montgomery County Income Tax Revenue
Annual Rate of Growth



FYs 05-07 = 40.3%

FYs 08-10 = -13.2%

Montgomery County
Number of Returns: 2007-2008 Tax Return Comparison

2007-2008 Comparison, Montgomery County only

$1 - 1,000	6,656	4,048	(2,608)	-39%
$1,001 - 2,000	6,803	4,539	(2,264)	-33%
$2,001 - 3,000	6,801	4,872	(1,929)	-28%
$3,001 - 150,000	340,530	335,814	(4,716)	-1%
$150,001 - 300,000	18,661	18,995	334	2%
$300,001 - 500,000	5,253	4,933	(320)	-6%
$500,001 - $1,000,000	4,737	4,217	(520)	-11%
$1,000,001 or more	3,172	2,321	(851)	-27%
Total	**392,613**	**379,739**	**(12,874)**	**-3%**

Source: Maryland Office of the Comptroller, Bureau of Revenue Estimates

**CountyStat received updated tax return data on 1/15/2010; these slides reflect those figures.*

Montgomery County
Net Taxable Income: 2007-2008 Tax Return Comparison

2007-2008 Comparison, Montgomery County only

[redacted]				
$1 - 1,000	$5,242,542	$2,156,741	(3,085,801)	-59%
$1,001 - 2,000	$15,454,542	$6,788,395	(8,666,147)	-56%
$2,001 - 3,000	$24,462,619	$12,171,670	(12,290,949)	-50%
$3,001 - 150,000	$17,688,803,084	$17,307,287,601	(381,515,483)	-2%
$150,001 - 300,000	$4,583,476,473	$4,669,495,527	86,019,054	2%
$300,001 - 500,000	$2,149,744,636	$2,018,594,698	(131,149,938)	-6%
$500,001 - $1,000,000	$3,254,721,956	$2,870,497,029	(384,224,927)	-12%
$1,000,001 or more	$9,755,275,833	$5,989,456,954	(3,765,818,879)	-39%
Total	**$37,477,181,685**	**$32,876,448,615**	**(4,600,733,070)**	**-12%**

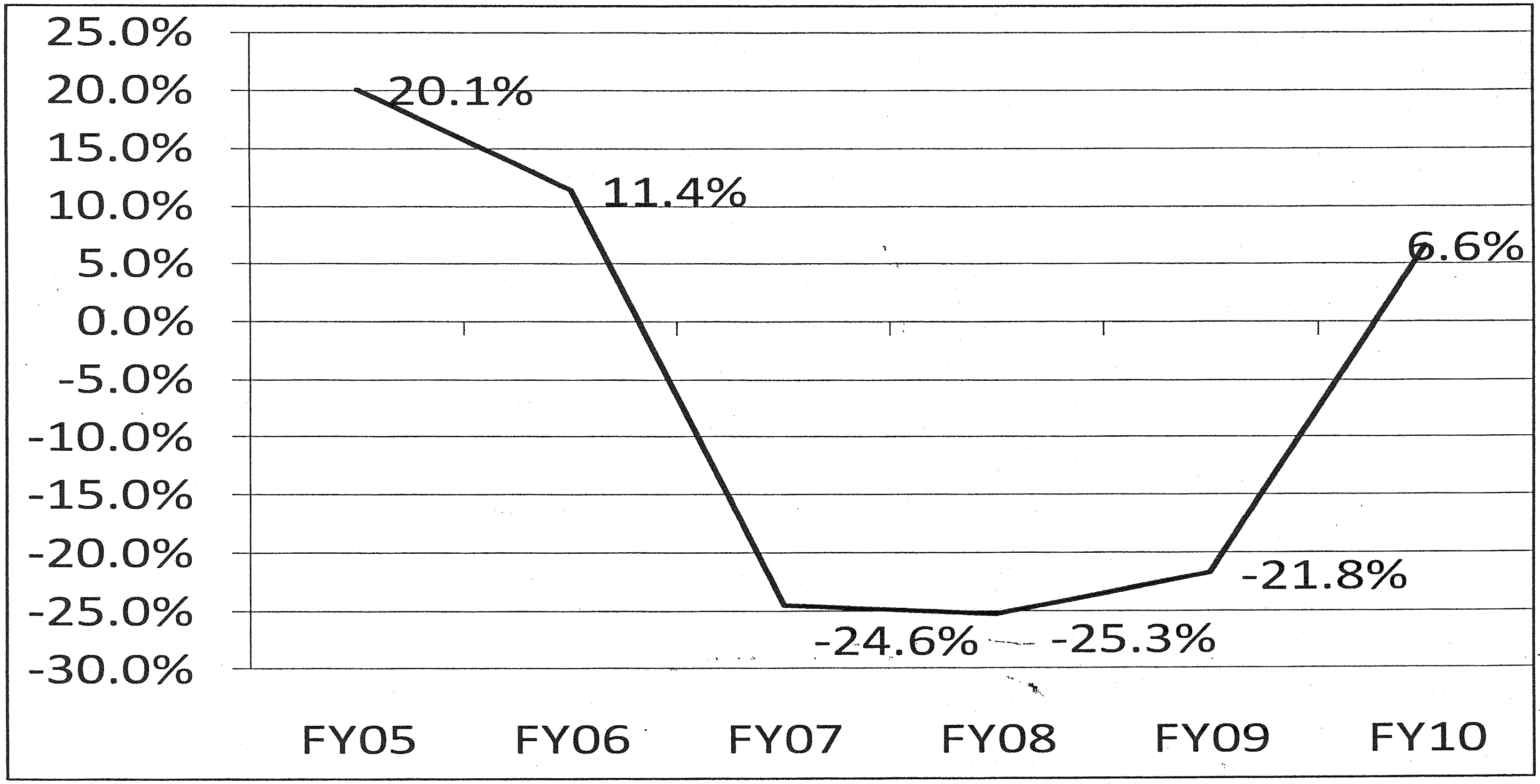
[redacted]

Equates to $150 mil. in Income Tax Revenue

Source: Maryland Office of the Comptroller, Bureau of Revenue Estimates

**CountyStat received updated tax return data on 1/15/2010; these slides reflect those figures.*

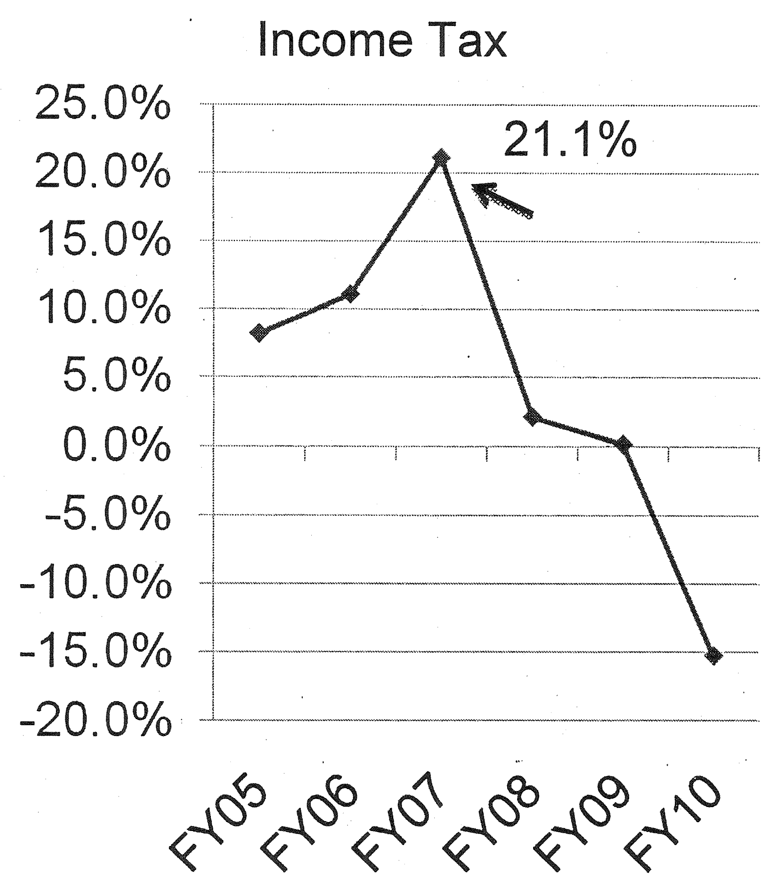
Montgomery County Transfer & Recordation Tax Annual Rate of Growth

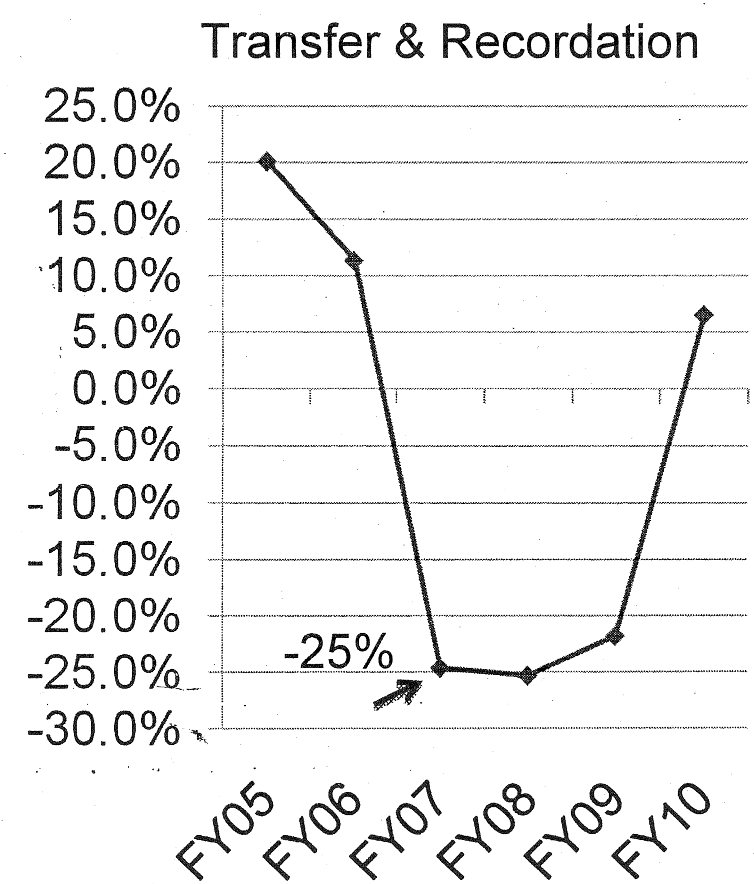


Fys 05-07 = 6.9%

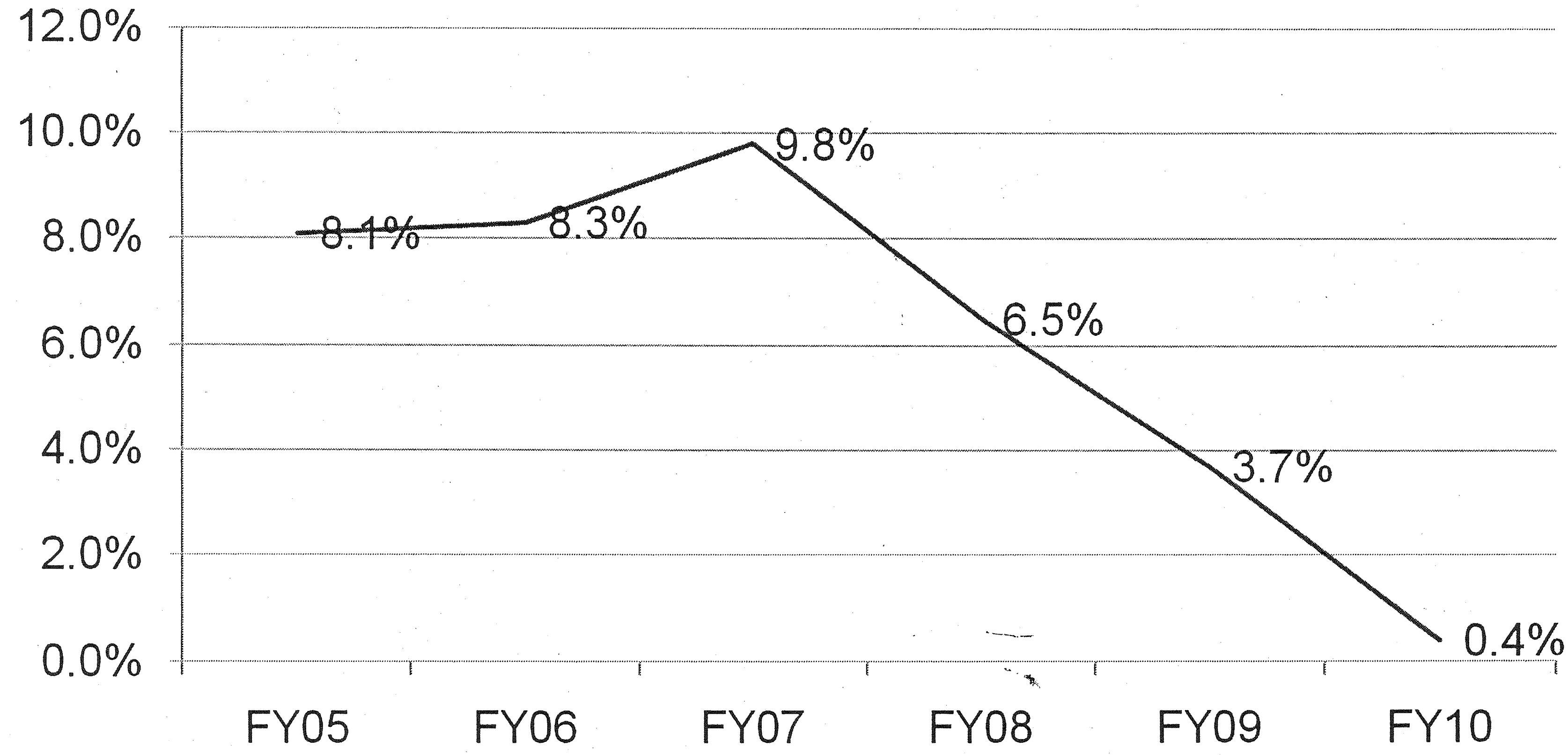
Fys 08-10 = -41%

Income tax growth in FY07 masks impact of the beginning of the housing market meltdown on transfer and recordation tax receipts





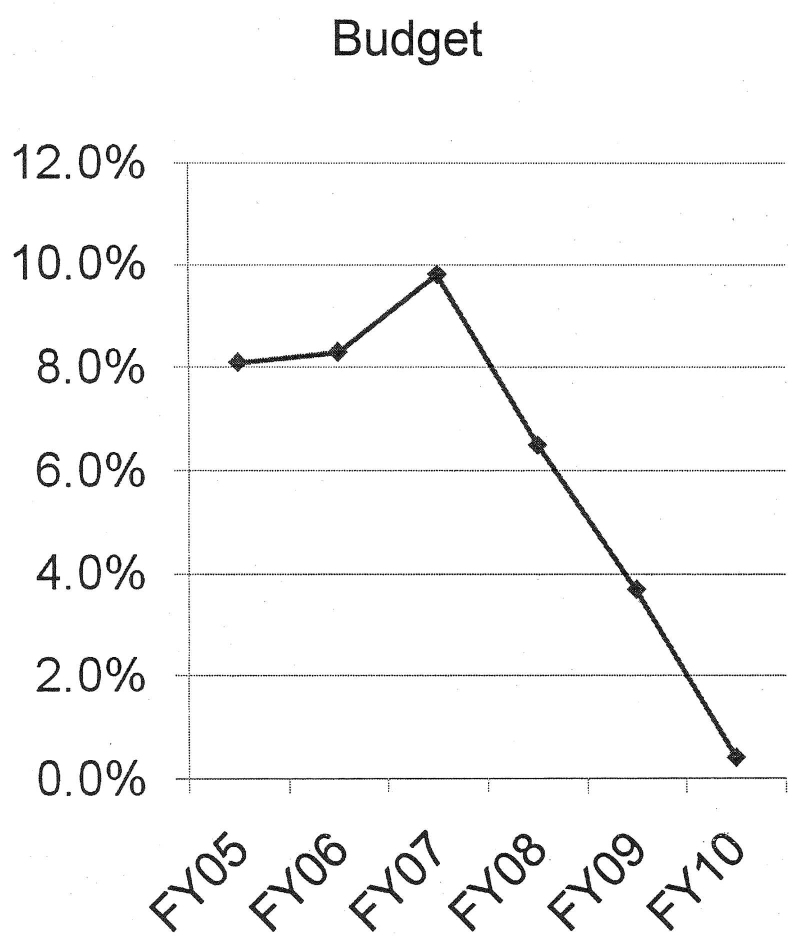
Montgomery County Total Budget Growth
Annual Rate of Growth

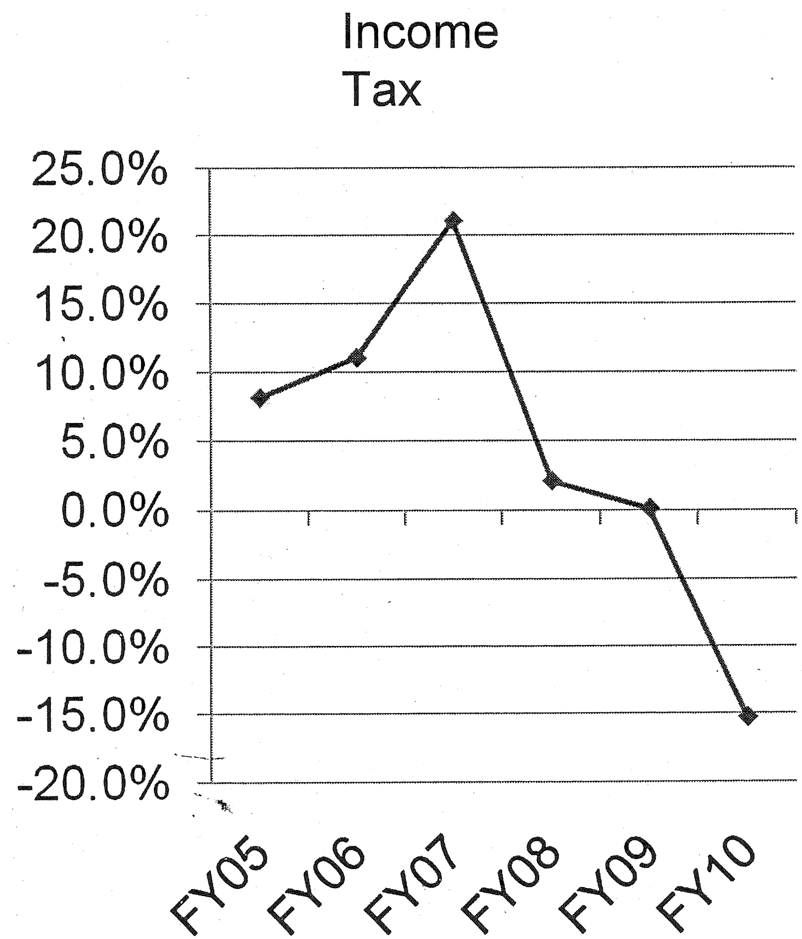


FYs 05-07 = 26.2%

FYs 08-10 = 10.6%

Budget Growth Compared to Income Tax Growth





Actions Taken to Date

- Hiring Freeze effective January 3, 2008
- Procurement Freeze effective December 1, 2009
- Liquidation of selected outstanding contracts
- FY10 Savings Plan: Identified savings of $30 million:
- Second FY10 Savings Plan anticipated to save $70 million
    - County Government: $57.4 M
    - Public Schools: $31.9 M.
    - Montgomery College: $4.6 M.
    - MNCPPC: $5.9 M.
- FY11 Reduction Targets for Montgomery County Departments
    - Non Public Safety: 20%
    - Public Safety/HHS/Transit: 7%

County Executive potential options/considerations to address the gap

Revised Gap 2-23-09	(761.5)	
Adjust Agency Requests FY11		
MCPS (Supt) at MOE	44.9	Lower relative to estimate of Major Know Commitments 12-1-09
Additional state aid for MCPS	43.0	Higher relative to 12-1-09 estimates
Montgomery College	10.9	Lower relative to estimate of Major Know Commitments 12-1-09
MNCPPC	(1.9)	Higher relative to estimate of Major Know Commitments 12-1-09
Considerations		
FY 10 Savings Plan Round II	70.1	
FY 11 Recommended CIP Cuts	41.6	PAYGO, Current Rev, Recordation Tax Redirect
Keep reserve target at 5%	36.8	
Property Tax at Charter limit with credit	10.3	Reduced from previous estimate due to revised assessable base
FY 11 Debt Service savings	14.9	From refunding and other savings
Additional Liquor Transfer	4.0	
Defer FY 11 Retire Health Payment(OPEB)	33.6	includes County Govt, College, Park and Planning -- not MCPS because of assumption at MOE level
Further Options		
Potential adjustments to employee GWAs	38.5	includes County Govt, College, Park and Planning -- not MCPS MOE
Make additional cuts to County Govt	100.0	On top of savings plan. Assumes all but $17 M in MARC cuts approved.
Gap after adjusting for requests, considerations, and further options	(314.8)	

Any reasonable adjustment to these items will still leave a significant gap. Some possible actions being considered include: personnel cost adjustments (steps, furloughs); resolution of MOE issue at MCPS; and, additional service cuts.

FY10 Approved Tax Supported Budgetary Allocations*

		Amounts		Cumulative Amounts	% Allocation
Education					
Public Schools	$	2,138.4			54.0%
College	$	231.7	$	2,370.1	5.9%
County Government					
Public Safety	$	552.5	$	2,922.6	14.0%
Health and Human Services	$	215.2	$	3,137.8	5.4%
Transit	$	108.5	$	3,246.3	2.7%
Other County Government**	$	515.2	$	3,761.5	13.0%
Park and Planning	$	111.9	$	3,873.4	2.8%
Other Reserves and Non Agency Uses	$	84.3	$	3,957.7	2.1%

* Amounts include debt service, CIP current revenues, and reserves but excludes grants and non-tax supported funds (grants and proprietary funds).

** Includes Recreation, Public Libraries, Transportation (non-Transit), Consumer Protection, Human Rights, and other departments

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

January 7, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: FY10 Revised Savings Plan

Isiah Leggett

Attached please find my Recommended FY10 Revised Savings Plan that identifies additional savings for the current year of over $70 million. These savings are necessary to respond to the significantly worsened economic and fiscal conditions that we are faced with. Combined with the Savings Plan I transmitted to you last October 28, 2009, this represents a total reduction in the current fiscal year of approximately $100 million. In developing this Savings Plan, our objectives were to identify real cost reduction opportunities that are continuing in nature, while prioritizing and preserving, to the extent possible, direct services and minimizing any reductions in force. However, given the magnitude and long-term nature of our fiscal challenge, it is necessary to make several reductions in existing services, including abolishing 70 County positions. We estimate that currently 44 of these positions slated for abolishment are filled and will require a Reduction in Force. We will make every effort to appropriately place the affected individuals into vacant positions.

The Revised Savings Plan includes several elements that are different from prior efforts. In addition to operating budget expenditure reductions, I am also recommending reductions in Capital Improvement Program (CIP) current revenue, liquidation of prior year contractual encumbrances, and a fund balance transfer.

Working together over the past three years we have been successful in closing gaps of nearly $1.2 billion and bringing the total tax supported rate of growth down from 9.8% in FY07 to 1.6% in FY10, and the County Government rate of growth from 14.1% in FY07 to -2.2% in FY10. The rate of growth for FY10 will actually be much less after accounting for the impact of both rounds of the FY10 Savings Plan.

It is important to understand that, as I have stated previously many times, I will not recommend exceeding the Charter limit on property taxes in the FY11 Operating Budget. The County's taxpayers continue to face their own unprecedented fiscal challenges.

As indicated to the Council previously, this Savings Plan is necessary not only to conserve resources to apply to closing the projected FY11 budgetary gap of $608 million, but also to maintaining a positive balance in the County's general fund for the current fiscal year. The FY10 revenue losses in income tax, transfer and recordation tax, investment income, and other receipts primarily impacted the general fund. As a result, even after the first round Savings Plan, and absent actions to address these losses, the general fund would end the year with a deficit of nearly over $64 million. Clearly, we can not allow this to happen. The County budget and finance staff will be working over the next two months to identify other actions necessary, in addition to the revised Savings Plan, to strengthen the condition of the general fund. We will work with the County Council and your staff on these other actions and a comprehensive description will be available in my Recommended FY11 Operating Budget.

While my funding priorities continue to be focused on education, public safety, and safety net services, it is not possible to provide a balanced budget without including significant reductions to programs within these priority areas. As the table below indicates, nearly 80% of our tax supported funding ($3.1 billion) is already dedicated to these priorities. In the absence of a major tax increase, it is not possible to close a looming $608 million budgetary gap in FY11 by making reductions to only 20% of the budget.

FY10 Approved Tax Supported Budgetary Allocations*

		Amounts		Cumulative Amounts	% Allocation	Cumulative % Allocation
Education						
Public Schools	$	2,138.4			54.0%	
College	$	231.7	$	2,370.1	5.9%	59.9%
County Government						
Public Safety	$	552.5	$	2,922.6	14.0%	73.8%
Health and Human Services	$	215.2	$	3,137.8	5.4%	79.3%
Transit	$	108.5	$	3,246.3	2.7%	82.0%
Other County Government**	$	515.2	$	3,761.5	13.0%	95.0%
Park and Planning	$	111.9	$	3,873.4	2.8%	97.9%
Other Reserves and Non Agency Uses	$	84.3	$	3,957.7	2.1%	

* Amounts include debt service, CIP current revenues, and reserves but excludes grants and non-tax supported funds (grants and proprietary funds).

** Includes Recreation, Public Libraries, Transportation (non-Transit), Consumer Protection, Human Rights, and other departments

If the Council does not support the attached proposed reductions, I strongly recommend that it propose offsetting reductions in other areas of the budget to maintain the total amount of savings. These savings must be available to close the projected FY11 budget gap. We are only in the first step of the process in resolving the FY11 budgetary gap. Many more difficult choices remain ahead in confronting these challenges. Deferring needed savings at this time will only temporarily postpone the urgent need to make difficult choices and indeed make future choices all the more difficult. The less time in which agencies have to make the necessary reductions, the deeper and more difficult those reductions will be in order to achieve the same savings. Resolution of the FY 11 budget gap is problematic because even more difficult and complex issues will need to be addressed during the Council's short time for reviewing and approving the annual budget.

Because of the weakness in the current local and national economy and the State's continuing fiscal challenges, I urge the Council to quickly approve the reductions proposed in the attached Savings Plan. The projected gap for FY11 may significantly worsen in the near future because of continued revenue deterioration, cost increases related to snow removal, and the very real potential for further substantive reductions in State aid. We have already absorbed cuts of nearly $20 million in State aid in this fiscal year and I believe the Governor's soon to be released budget will contain further Local aid reductions.

The attached plan includes proposed targets for Montgomery County Public Schools (MCPS), the Maryland-National Capital Park and Planning Commission (M-NCPPC), the Housing Opportunities Commission (HOC), and Montgomery College (the College). The principals of these agencies have expressed their willingness to cooperate in resolving our shared fiscal challenges.

I strongly urge the Council to expedite its review and approval of the attached Savings Plan, so that the necessary actions can be implemented as soon as possible. My staff is available to assist the Council in its review of the attached proposal. Thank you for your support of our efforts to preserve our most important services, while protecting the fiscal health of the County Government.

IL:jfb

Attachments

c: Timothy L. Firestine, Chief Administrative Officer
Department and Office Directors
Dr. Jerry Weast, Superintendent, Montgomery County Public Schools
Dr. Hercules Pinkney, Interim President, Montgomery College
Royce Hanson, Chair, Montgomery County Planning Board
Michael J. Kator, Chair, Housing Opportunities Commission
Kathleen Boucher, Assistant Chief Administrative Officer

	Revised FY10 Savings Plan Summary	
1	**Total FY10 Revised Savings Plan**	**70.088**
2		
3	**Expenditure Reductions**	**50.042**
4		
5	MCG Tax Supported Reductions	22.932
6		
7	Debt Service Exp. Reductions	2.159
8	MCPS	22.000
9	MC	1.700
10	MNCPPC	1.250
11		
12	**Fund Balance Transfers**	**4.800**
13	Reduce MHI Transfer	4.800
14		
15	**Revenue Changes**	**6.031**
16	Prior Year Encumbrance Liquidations	1.500
17	Debt Service premium & rebate revenues	4.531
18		
19	**CIP Current Revenue (CIP CR)**	**9.216**
20	Montgomery County Govt CIP	4.743
21	HOC CIP	0.121
22	MNCPPC CIP	2.502
23	College CIP	1.850
24		

Executive Recommended FY10 Savings Plan - Round 1 and 2

	Approved FY10 Budget	Round 1 Savings Plan Target	Agency as % of Total Budget	Target as % of Savings Plan	Round 1 Target as % of Budget	Round 2 Target [1]	Round 2 Target as % of SP	Total Target as % of Savings Plan
MCG	1,585,853,910	16,593,800	42.4%	55.8%	1.0%	40,785,950	58.2%	57.5%
MCPS	1,940,540,941	9,900,000	51.9%	33.3%	0.5%	22,000,000	31.4%	32.0%
College [2]	107,079,321	1,070,790	2.9%	3.6%	1.0%	3,550,000	5.1%	4.6%
MNCPPC	106,646,100	2,180,000	2.9%	7.3%	2.0%	3,752,000	5.4%	5.9%
Total	3,740,120,272	29,744,590			0.8%	70,087,950		

Notes:

1. Amounts above include debt service savings, CIP CR reductions, revenue increases, and encumbrance liquidations
2. The College budget above is the FY10 local contribution.

OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

November 30, 2009

TO: Stephen B. Farber, Staff Director, County Council

FROM: Joseph F. Beach, Director

SUBJECT: Fiscal Plan Update

Attached please find the updated fiscal plan and supporting documents. As the attached documents indicate, the projected gap for FY11 is now estimated at over $608 million including implementation of the recently approved FY10 Savings Plan. The various assumptions underlying this forecast are discussed below, but include the most recent revenue estimates prepared by the Department of Finance. A projected gap of this magnitude at this point in the budget cycle will present the County with significant challenges and many difficult choices. We are considering a variety of spending reduction solutions at this point, but we consider *all* services to be under consideration for significant reductions at this point. Please note the following concerning certain assumptions and issues in the fiscal plan:

1. **Revenues**: The latest revenue projections from the Department of Finance for tax revenues and investment income. All taxes are projected at current rates with the exception of property taxes, which are assumed to be at the charter limit through a rate cut.

2. **State Aid:** State Aid is projected at current formulas for FY10 and FY11 except in those cases where the Board of Public Works has approved reductions. Given the State's projected budget gap of $2 billion, it is likely that the Governor's FY11 Operating Budget, which will be published in January 2009, may include significant reductions to local aid. School Aid is projected at legally approved levels and we have made no assumptions regarding the imposition of a penalty related to the calculation of K-12 Maintenance of Effort.

3. **FY10 Expenditures**: The FY11 projection of Agency Expenditures is based on a same services estimate of next year's expenditures, not an average rate of growth, and the specific major known commitments that are included in the estimate are attached. While the Executive will not recommend an operating budget at same services, this approach is used to indicate the level of existing personnel cost and programmatic commitments and challenges that exist in the budget. These challenges include the cost of existing labor contracts and those currently being negotiated, benefit cost increases, Retiree Health Insurance, the operating cost of new capital facilities, inflationary escalation in existing service contracts, annualization of approved positions, and other programmatic costs. The FY11 budget cannot be balanced, in the absence of dramatic tax increases, without many of these costs being eliminated or significantly reduced.

Office of the Director

101 Monroe Street, 14th Floor • Rockville, Maryland 20850 • 240-777-2800
www.montgomerycountymd.gov

4. **Fund Balance**: One of the most troubling implications of the revised revenue estimates is that the FY10 ending/FY11 beginning undesignated fund balance for the tax supported funds (excluding proprietary funds and grants) is now showing a current year deficit of $31.6 million (line 3 of the fiscal plan summary). This is nearly $108 million *less* than the $76.2 million reserve the Council targeted when it approved the FY10 budget. The reduced reserve levels are due primarily to the write down in FY10 projected revenues of $105 million (tax revenues, investment income, and State aid). As you know, the tax supported reserves shown in the fiscal plan is a combination of all of the tax supported funds of all of the agencies. We are analyzing the fund-by-fund impact of the revenue losses to determine which funds may end FY10 in a negative position.

5. **Supplemental Appropriations**: The fiscal plan includes an assumption of $20 million in tax supported supplemental appropriations. The Council has approved only two such appropriations so far this year. The largest and most unpredictable item is for snow removal and storm response. The Executive Branch is strictly limiting the number and amount of any supplemental appropriations.

6. **Actions:** Given the gravity of the current challenges we face it is necessary to act quickly to address both the current year projected deficit and the projected FY11 budgetary gap. We will work collaboratively with the County Council on these solutions.

JFB:df

Attachments

c: Timothy L. Firestine, Chief Administrative Officer
Jennifer Barrett, Director, Department of Finance
Kathleen Boucher, Assistant Chief Administrative Officer

Fiscal Plan Update

December 2009

Tax Supported Fiscal Plan Summary

($ in Millions)

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12	MNCPPC (w/o Debt Service)	106.6	104.5	3.4%	5.5%	110.2
13	MCG	1,251.2	1,240.2	6.6%	7.5%	1,333.6
14	**Subtotal Agency Uses**	**3,595.4**	**3,571.3**	**4.9%**	**5.6%**	**3,769.9**
15	**Retiree Health Insurance Pre-Funding**					
16	Montgomery County Public Schools (MCPS)					30.9
17	Montgomery College (MC)					0.8
18	MNCPPC (w/o Debt Service)					3.6
19	MCG					29.2
20	**Subtotal Retiree Health Insurance Pre-Funding**					**64.5**
21	**Subtotal Other Uses of Resources (Capital, Debt Service,Reserve)**	362.2	269.5	25.1%	68.1%	453.1
22	**Total Uses**	3,957.7	3,840.8	8.3%	11.6%	4,287.6
23	**(Gap)/Available**	-	-			**(608.3)**

Notes:

1. **FY11 property tax revenues are at the Charter Limit.**
2. **Projected agency spending is based on Major Known Commitments including compensation.**
3. **Retiree health insurance pre-funding is assumed at the scheduled FY11 amounts.**
4. **Reserves are restored to the policy level of 6% of total resources in FY11.**
5. **PAYGO is restored to the policy level of 10% of the planned bond issue in FY11.**

Reconciliation of the Gap from September to December 2009

Gap on September 29, 2009	$	(369.886)
Revenue Update (FY10 and FY11)		(269.701)
Income Tax		(208.327)
Property Tax -- FY10		0.899
Property Tax -- reduced FY11 yield due to lower inflation		(48.467)
Transfer and Recordation Tax		(4.138)
Fuel/Energy Tax		6.093
Telephone Tax		(1.123)
Hotel/Motel Tax		(7.996)
Investment Income		(6.642)
State Aid (FY10)		(17.388)
Highway User Revenue		(9.285)
Police Protection		(4.855)
Health Services		(1.623)
Montgomery College		(1.625)
FY09 Year-End Closing		(11.878)
FY10 Savings Plan		24.316
County Government		11.165
MCPS		9.900
Montogmery College		1.071
MNCPPC		2.180
Other Adjustments		
Changes to FY11 revenues due to updated assumptions (CPI, population)		(1.058)
Shift supplemental set aside from FY11 to FY10		1.200
Impact of FY10 Savings Plan on Charges for Services		0.180
Updated FY10 MCPS revenues (November financial report)		0.400
Slippage of FY09 Mass Transit Aid to FY10		22.089
Slippage of FY09 Current Revenue reductions to FY10		4.631
Agency Spending -- MKC plus Compensation		
MCG		(6.100)
MCPS		0.000
Montgomery College		0.000
MNCPPC		0.000
Net Effect on Reserves of Resource Changes		14.905
Gap on December 1, 2009	$	(608.291)

	A	B	C	D	E	F	G
1	Major Known Commitments by Agency						
2							
3			MCPS	MCG	College	MNCPPC	Total
4	FY10 Appropriation		2,020,078,263	1,251,173,090	217,549,063	106,646,100	3,595,446,516
5		Debt Service Reimbursement	(79,537,322)				(79,537,322)
6	FY10 Appropriation (net)		1,940,540,941	1,251,173,090	217,549,063	106,646,100	3,515,909,194
7	Potential or Negotiated FY11 Compensation:						
8		(FY10 Level)					
9		General wage adjustment	84,775,000	28,847,581	6,984,015	2,682,200	123,288,796
10		Steps/service increments	18,859,068	5,513,250	2,313,659	910,900	27,596,877
11	Projected group insurance cost increases		26,048,866	16,000,000	828,500		42,877,366
12	Projected retirement cost increases		2,195,092	12,500,000			14,695,092
13	Retiree health insurance pre-funding		30,942,250	29,154,000	803,000	3,628,350	64,527,600
14	Other projected bargaining costs		400,000	593,820			993,820
15	Elimination of one-time items			(6,655,160)			(6,655,160)
16	Cost increase due to enrollment		6,537,580		1,236,305		7,773,885
17	Operating impact of new facilities		417,396	661,020	3,202,161		4,280,577
18	Annualizations						0
19		Annualization of FY10 increments		2,178,450			2,178,450
20		Other position annualizations		276,350	1,000,035		1,276,385
21		GE Facility Maintenance		717,440			717,440
22		MCFRS -- FROMS contract		(306,630)			(306,630)
23	Programmatic set-asides						0
24		Master Lease payment reductions		(1,371,120)			(1,371,120)
25		Community Grants		3,226,520			3,226,520
29		Working Families Income Supplement		1,455,200			1,455,200
30		Election cycle changes		4,104,840			4,104,840
35		County Attorney Disparity Study		500,000			500,000
46	Inflation:						
47		Energy/utility costs		682,070	159,576		841,646
48		Fuel/rate increases		3,069,320			3,069,320
49		Contracts		560,830			560,830
50		Instructional materials/other	5,420,285				5,420,285
51		Nonpublic placements	2,105,578				2,105,578
52		Other			600,000		600,000
53	Other inescapable cost increases:						
54		Self-insurance, workers compensation	2,447,053	9,912,000	25,000		12,384,053
55		Maintenance, transportation, etc.	2,407,573				2,407,573
59			182,555,741	111,619,781	17,152,251	7,221,450	318,549,223
60							
61	**Total**		**2,123,096,682**	**1,362,792,871**	**234,701,314**	**113,867,550**	**3,834,458,417**
62	**Percent increase**		**9.4%**	**8.9%**	**7.9%**	**6.8%**	**9.1%**

REVENUE SUMMARY
TAX SUPPORTED BUDGETS
($ Millions)

A KEY REVENUE CATEGORIES	B App FY10	C Estimate FY10	D % Chg. FY10-11	E % Chg. FY10-11	F Rec. FY11	G % Chg. FY11-12	H Projected FY12	I % Chg. FY12-13	J Projected FY13	K % Chg. FY13-14	L Projected FY14	M % Chg. FY14-15	N Projected FY15	O % Chg. FY15-16	P Projected FY16
TAXES	5-21-09	12-1-09	Rec/Bud	Rec/Est	12-1-09										
Property Tax (less PDs)	1,440.9	1,441.8	-0.1%	-0.2%	1,438.9	2.8%	1,479.3	3.4%	1,529.4	3.5%	1,583.7	3.8%	1,644.2	3.2%	1,696.9
Income Tax	1,214.8	1,120.7	-4.1%	4.0%	1,165.5	5.8%	1,232.7	6.5%	1,312.5	7.3%	1,408.0	8.9%	1,533.1	7.6%	1,649.1
Transfer Tax	65.0	65.5	18.2%	17.2%	76.8	2.9%	79.0	0.3%	79.2	3.2%	81.8	2.0%	83.4	2.3%	85.3
Recordation Tax	51.9	40.6	-0.2%	27.6%	51.8	3.2%	53.4	-0.3%	53.3	2.9%	54.8	2.4%	56.1	2.3%	57.4
a Recordation Tax Premium	6.5	6.5	-100.0%	-100.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
Energy Tax	130.4	133.5	4.5%	2.1%	136.3	2.6%	139.8	2.8%	143.7	2.4%	147.2	2.1%	150.3	1.8%	153.0
Telephone Tax	32.8	31.6	3.2%	7.2%	33.9	6.8%	36.2	6.6%	38.6	6.4%	41.0	6.2%	43.6	6.1%	46.3
Hotel/Motel Tax	20.0	16.0	-12.4%	9.7%	17.5	1.7%	17.8	0.2%	17.9	-0.2%	17.8	0.1%	17.8	1.0%	18.0
Admissions Tax	2.1	2.1	-0.3%	-0.3%	2.1	-3.8%	2.0	-3.4%	2.0	-3.2%	1.9	-3.0%	1.9	-3.1%	1.8
Total Local Taxes	**2,964.4**	**2,858.4**	**-1.4%**	**2.3%**	**2,922.8**	**4.0%**	**3,040.3**	**4.5%**	**3,176.5**	**5.0%**	**3,336.2**	**5.8%**	**3,530.5**	**5.0%**	**3,707.8**
INTERGOVERNMENTAL AID															
0 Highway User	10.3	1.0	113.1%	2157.5%	21.8	51.3%	33.0	0.0%	33.0	0.0%	33.0	0.0%	33.0	0.0%	33.0
1 Police Protection	13.5	8.6	1.2%	1.2%	13.7	1.1%	13.8	1.2%	14.0	1.2%	14.2	1.2%	14.3	1.0%	14.5
2 Libraries	5.4	5.4	1.2%	1.2%	5.5	1.1%	5.5	1.2%	5.6	1.2%	5.7	1.2%	5.8	1.0%	5.8
3 Health Services Case Formula	5.3	3.6	2.5%	2.5%	5.4	2.7%	5.5	3.0%	5.7	3.2%	5.9	3.4%	6.1	3.6%	6.3
4 Mass Transit	22.8	44.9	2.5%	2.5%	23.4	2.7%	24.0	3.0%	24.7	3.2%	25.5	3.4%	26.4	3.6%	27.3
5 Public Schools	440.1	441.1	1.2%	1.0%	445.5	1.2%	450.9	1.2%	456.4	1.2%	462.0	1.2%	467.7	0.0%	467.7
6 Community College	32.5	30.9	2.8%	8.2%	33.4	2.5%	34.2	2.5%	35.1	2.5%	36.0	2.5%	36.9	0.0%	36.9
7 Direct Reimbursements	27.8	27.8	3.1%	3.1%	28.7	3.3%	29.6	3.6%	30.7	3.8%	31.9	4.0%	33.1	4.1%	34.5
7a Direct Reimb: DSS Services	0.0	0.0	n/a	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
8 Other	10.0	10.0	3.1%	3.1%	10.3	3.3%	10.7	3.6%	11.1	3.8%	11.5	4.0%	11.9	4.1%	12.4
9 **Subtotal State Aid**	**567.7**	**573.4**	**3.5%**	**2.5%**	**587.7**	**3.4%**	**607.4**	**1.5%**	**616.4**	**1.5%**	**625.6**	**1.5%**	**635.2**	**0.5%**	**638.4**
0 Federal Aid	1.7	1.7	1.6%	1.6%	1.7	1.6%	1.7	1.8%	1.7	1.9%	1.8	2.0%	1.8	2.0%	1.8
1 **Total Intergovernmental Aid**	**569.3**	**575.0**	**3.5%**	**2.5%**	**589.3**	**3.4%**	**609.1**	**1.5%**	**618.1**	**1.5%**	**627.4**	**1.5%**	**637.0**	**0.5%**	**640.3**
FEES AND FINES															
2 Licenses & Permits	11.8	11.8	1.5%	1.5%	12.0	1.5%	12.2	1.5%	12.4	1.5%	12.6	1.5%	12.8	1.5%	12.9
3 Charges for Services	48.8	48.3	2.0%	2.0%	49.3	2.2%	50.3	2.4%	51.5	2.6%	52.8	2.7%	54.3	2.9%	55.8
4 Fines & Forfeitures	38.0	38.0	1.6%	1.6%	38.7	1.6%	39.3	1.6%	39.9	1.6%	40.5	1.6%	41.2	1.6%	41.8
5 Montgomery College Tuition	71.1	71.1	1.6%	1.6%	72.3	0.6%	72.7	0.5%	73.0	0.2%	73.2	0.0%	73.2	0.0%	73.2
6 **Total Fees and Fines**	**169.8**	**169.3**	**1.4%**	**1.7%**	**172.2**	**1.3%**	**174.5**	**1.3%**	**176.9**	**1.3%**	**179.1**	**1.3%**	**181.4**	**1.3%**	**183.8**
MISCELLANEOUS															
7 Investment Income	5.9	1.8	11.6%	261.5%	6.6	63.7%	10.8	47.3%	15.9	31.1%	20.8	13.1%	23.5	2.8%	24.2
8 Other Miscellaneous	95.5	95.5	2.5%	2.5%	12.3	2.7%	12.6	3.0%	13.0	3.2%	13.4	3.4%	13.9	3.6%	14.4
9 **Total Miscellaneous**	**101.4**	**97.3**	**-81.4%**	**-80.6%**	**18.9**	**24.0%**	**23.4**	**23.4%**	**28.9**	**18.6%**	**34.2**	**9.3%**	**37.4**	**3.1%**	**38.5**
0 **TOTAL REVENUES**	**3,804.9**	**3,700.1**	**-2.7%**	**0.1%**	**3,703.3**	**3.9%**	**3,847.3**	**4.0%**	**4,000.3**	**4.4%**	**4,176.9**	**5.0%**	**4,386.3**	**4.2%**	**4,570.4**
1 **$ Change from prior Budget**	96.3	(8.5)			3.2		144.1		153.0		176.6		209.3		184.1

2

PROJECTED TOTAL USES OF RESOURCES (COMBINED USES)

($ Millions)

	A USE OF RESOURCES	B App. FY10 5-21-09	C Estimate FY10 12-1-09	D % Chg. FY10-11 Rec / Bud	E % Chg. FY10-11 Rec / Est	F Projected FY11 12-1-09	G % Chg. FY11-12	H Projected FY12	I % Chg. FY12-13	J Projected FY13	K % Chg. FY13-14	L Projected FY14	M % Chg. FY14-15	N Projected FY15	O % Chg. FY15-16	P Projected FY16
1	**Total Resources**															
2	Revenues	3,804.9	3,700.1	-2.7%	0.1%	3,703.3	3.9%	3,847.3	4.0%	4,000.3	4.4%	4,176.9	5.0%	4,386.3	4.2%	4,570.4
3	Beginning Reserves Undesignated	115.5	103.6	-127.4%	-130.5%	(31.6)	-419.8%	101.1	16.4%	117.7	8.7%	127.9	8.8%	139.1	9.5%	152.4
4	Beginning Reserves Designated	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
5	Net Transfers In	37.2	37.1	-79.4%	-79.4%	7.7	2.7%	7.9	3.0%	8.1	3.2%	8.4	3.4%	8.6	3.6%	9.0
6	**Total Resources**	3,957.7	3,840.8	-7.0%	-4.2%	3,679.3	7.5%	3,956.3	4.3%	4,126.2	4.5%	4,313.2	5.1%	4,534.1	4.4%	4,731.8
7	$ Change from prior Budget	50.9	(66.0)			(161.5)		277.0		169.9		187.1		220.8		197.7
8	**Uses: Non-Agency**															
9	**Capital Investment (a)**															
10	Debt Service: GO Bonds for all Agy's.	224.8	224.8	9.8%	9.8%	246.8	10.0%	271.4	9.2%	296.3	6.2%	314.7	3.4%	325.4	0.0%	325.4
11	Debt Service: Local Parks	5.0	5.0	0.0%	0.0%	5.0	0.0%	5.0	0.0%	5.0	0.0%	5.0	0.0%	5.0	0.0%	5.0
12	Debt Service: Leases	21.7	21.7	29.8%	29.8%	28.1	8.8%	30.6	-15.3%	25.9	-2.7%	25.2	-5.7%	23.8	0.0%	23.8
13	CIP Current Revenue	30.7	26.1	24.0%	46.0%	38.1	-21.2%	30.1	48.3%	44.6	43.7%	64.0	0.0%	64.0	0.0%	64.0
14	CIP Paygo	1.3	1.3	2293.6%	2293.6%	31.5	3.2%	32.5	-10.8%	29.0	3.4%	30.0	0.0%	30.0	0.0%	30.0
4a	CIP Paygo Rec Tax	0.0	0.0	0.0%	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
15	**Sub-total Capital**	283.5	278.9	23.3%	25.3%	349.5	5.7%	369.5	8.4%	400.7	9.5%	438.9	2.1%	448.1	0.0%	448.1
16	**Other Uses**															
17	Set Aside: Potential Supplementals	0.0	19.7			0.0		20.0		20.0		20.0		20.0		20.0
18	Set Aside:Other Claims	2.5	2.5			2.5		0.0		0.0		0.0		0.0		0.0
19	Revenue Stabilization Fund	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
20	**Sub-total Other**	2.5	22.2			2.5		20.0		20.0		20.0		20.0		20.0
21	**Reserves**															
22	Revenue Stabilization Fund	119.6	119.6	0.0%	0.0%	119.6	0.0%	119.6	0.0%	119.6	0.0%	119.6	0.0%	119.6	0.0%	119.6
23	Reserve Undesignated	76.2	(31.6)	32.7%	-419.8%	101.1	116.4%	117.7	8.7%	127.9	8.8%	139.1	9.5%	152.4	7.8%	164.3
24	Reserve Designated	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
25	**Sub-total Reserves**	195.8	88.0	12.7%	150.8%	220.8	7.5%	237.4	4.3%	247.6	4.5%	258.8	5.1%	272.0	4.4%	283.9
26	Less Revenue Stabilization Fund	(119.6)	(119.6)	0.0%	0.0%	(119.6)	0.0%	(119.6)	0.0%	(119.6)	0.0%	(119.6)	0.0%	(119.6)	0.0%	(119.6)
27	Less Designated Reserve	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
28	**Sub-total Undesignated Reserves**	76.2	(31.6)	32.7%	-419.8%	101.1	16.4%	117.7	8.7%	127.9	8.8%	139.1	9.5%	152.4	7.8%	164.3
29	**Total Uses: Non-Agency**	362.2	269.5	25.1%	68.1%	453.1	11.9%	507.3	8.2%	548.6	9.0%	598.0	3.8%	620.5	1.9%	632.4
30	**Uses: Available for Agency Services**	3,595.4	3,571.3	-10.3%	-9.7%	3,226.2	6.9%	3,449.1	3.7%	3,577.6	3.8%	3,715.2	5.3%	3,913.5	4.7%	4,099.4
31	**$ Change from prior Budget**	86.0	61.8			(345.1)		222.9		128.5		137.7		198.3		185.8

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FY09 4TH QUARTERLY ANALYSIS

Department	Latest Budget 4th Qtr (A)	Actual 4thQA (B)	Variance to Budget (A-B)	% Change Actual to Budget (A-B)/A	FY09 Savings Plan (E)	Variance 4th QA vs. Approved Savings Plan
Tax Supported						
General Fund						
Board of Appeals	617,790	611,910	5,880	1.0%	15,480	(9,600)
Board of Elections	10,410,870	9,916,836	494,034	4.7%	-	494,034
Circuit Court	10,627,870	10,128,771	499,099	4.7%	268,690	230,409
Commission for Women	1,309,350	1,273,461	35,889	2.7%	32,940	2,949
Consumer Protection	2,642,690	2,567,048	75,642	2.9%	66,560	9,082
Correction and Rehabilitation	65,595,320	66,640,253	(1,044,933)	-1.6%	655,700	(1,700,633)
County Attorney	5,621,240	5,819,342	(198,102)	-3.5%	147,960	(346,062)
County Council	9,408,610	8,940,756	467,854	5.0%	237,000	230,854
County Executive	6,778,076	6,471,550	306,526	4.5%	174,500	132,026
Economic Development	8,026,370	8,408,186	(381,816)	-4.8%	182,660	(564,476)
Emergency Management and Homeland Security	1,593,470	1,249,732	343,738	21.6%	16,220	327,518
Environmental Protection	4,269,250	4,012,226	257,024	6.0%	108,240	148,784
Ethics Commission	264,310	279,257	(14,947)	-5.7%	-	(14,947)
Finance	10,363,806	9,522,203	841,603	8.1%	264,840	576,763
General Services	30,849,080	32,367,787	(1,518,707)	-4.9%	708,030	(2,226,737)
Health and Human Services	198,297,600	189,997,470	8,300,130	4.2%	3,020,250	5,279,880
Housing and Community Affairs	5,643,880	5,275,278	368,602	6.5%	139,050	229,552
Human Resources	9,338,460	8,759,640	578,820	6.2%	262,970	315,850
Human Rights	2,320,770	2,300,427	20,343	0.9%	61,600	(41,257)
Inspector General	687,180	603,862	83,318	12.1%	17,520	65,798
Intergovernmental Relations	876,740	859,997	16,743	1.9%	22,070	(5,327)
Legislative Oversight	1,349,590	1,277,772	71,818	5.3%	27,400	44,418
Management and Budget	3,986,400	3,826,525	159,875	4.0%	100,880	58,995
Merit System Protection Board	153,800	148,765	5,035	3.3%	-	5,035
Non-Departmental Accounts	127,125,060	118,516,136	8,608,924	6.8%	6,085,030	2,523,894
People's Counsel	250,170	239,347	10,823	4.3%		10,823
Police	240,988,148	235,431,978	5,556,170	2.3%	2,397,300	3,158,870
Public Information	1,305,940	1,326,188	(20,248)	-1.6%	32,720	(52,968)
Public Libraries	-	-	-			-
Administration, Outreach, and Support	3,650,668	3,474,302	176,366	4.8%	112,400	63,966
Library Services to the Public	26,379,190	26,191,158	188,032	0.7%	80,000	108,032
Collection Management	8,725,980	8,033,333	692,647	7.9%	787,420	(94,773)
Regional Services Centers	4,354,840	4,145,101	209,739	4.8%	110,910	98,829
Sheriff	20,091,954	20,286,876	(194,922)	-1.0%	205,180	(400,102)
State's Attorney	12,595,950	12,684,217	(88,267)	-0.7%	125,960	(214,227)
Technology Services	33,243,660	32,389,997	853,663	2.6%	1,357,920	(504,257)
Transportation	54,162,210	52,997,996	1,164,214	2.1%	1,145,150	19,064
Utilities	25,866,880	25,521,020	345,860	1.3%	-	345,860
Zoning and Administrative Hearings	541,520	490,754	50,766	9.4%	13,800	36,966
General Fund Total	950,314,692	922,987,457	27,327,235	2.9%	18,984,350	8,342,885

FY09 4TH QUARTERLY ANALYSIS

Department	Latest Budget 4th Qtr (A)	Actual 4thQA (B)	Variance to Budget (A-B)	% Change Actual to Budget (A-B)/A	FY09 Savings Plan (E)	Variance 4th QA vs. Approved Savings Plan
Special Funds						
Bethesda Urban District						
Urban Districts	3,397,940	3,396,480	1,460	0.0%	-	1,460
Silver Spring Urban District						
Urban Districts	2,846,410	2,600,926	245,484	8.6%	72,270	173,214
Wheaton Urban District						
Urban Districts	1,628,710	1,540,063	88,647	5.4%	41,510	47,137
Mass Transit						
Transit Services	110,545,885	108,203,623	2,342,262	2.1%	1,417,760	924,502
Fire						
Fire and Rescue Service	191,930,731	190,365,610	1,565,121	0.8%	1,455,322	109,799
Recreation						
Recreation	31,843,467	30,112,053	1,731,414	5.4%	795,430	935,984
Economic Development Fund						
Economic Development Fund	1,886,350	674,192	1,212,158	64.3%	-	1,212,158
Special Funds Total	344,079,493	336,892,947	7,186,546	2.1%	3,782,292	3,404,254
TAX SUPPORTED TOTAL	1,294,394,185	1,259,880,404	34,513,781	2.7%	22,766,642	11,747,139

Non-Tax Supported

Special Funds

Department	Latest Budget 4th Qtr (A)	Actual 4thQA (B)	Variance to Budget (A-B)	% Change Actual to Budget (A-B)/A
Grant Fund MCG				
Circuit Court	2,642,031	2,642,031	-	0.0%
Correction and Rehabilitation	75,000	75,000	-	0.0%
County Executive	737,025	737,025	-	0.0%
Economic Development	4,026,993	4,026,993	-	0.0%
Environmental Protection	443,000	443,000	-	0.0%
Emergency Management and Homeland Security	1,555,330	1,555,330	-	0.0%
Fire and Rescue Service	7,298,911	7,298,911	-	0.0%
Health and Human Services	75,071,134	75,071,134	-	0.0%
Housing and Community Affairs	24,524,473	24,524,473	-	0.0%
Intergovernmental Relations	34,000	34,000	-	0.0%
Liquor Control	40,395	40,395	-	0.0%
Non-Departmental Accounts	4,838,463	4,838,463	-	0.0%
Police	4,967,124	4,967,124	-	0.0%
Public Libraries	165,550	165,550	-	0.0%
Recreation	133,155	133,155	-	0.0%
Regional Services Center	150,000	150,000	-	0.0%
Sheriff	2,157,740	2,157,740	-	0.0%
State's Attorney	256,675	256,675	-	0.0%
Technology Services	581,375	581,375	-	0.0%
Transit Services	5,402,202	5,402,202	-	0.0%
Grant Fund MCG subtotal	135,100,576	135,100,576	-	0.0%

FY09 4TH QUARTERLY ANALYSIS

Department	Latest Budget 4th Qtr (A)	Actual 4thQA (B)	Variance to Budget (A-B)	% Change Actual to Budget (A-B)/A	FY09 Savings Plan (E)	Variance 4th QA vs. Approved Savings Plan
Cable Television						
Cable Television	11,922,900	11,811,637	111,263	0.9%		111,263
Montgomery Housing Initiative						
Housing and Community Affairs	38,844,546	21,771,102	17,073,444	44.0%		17,073,444
Water Quality Protection Fund						
Environmental Protection	6,986,640	6,540,117	446,523	6.4%		446,523
Restricted Donations						
Restricted Donations	1,336,925	534,719	802,206	60.0%		802,206
Special Funds Total	**59,091,011**	**40,657,575**	**18,433,436**	**31.2%**	**-**	**18,433,436**
Enterprise Funds						
Community Use of Public Facilities						
Community Use of Public Facilities	9,092,570	8,628,171	464,399	5.1%	-	464,399
Bethesda Parking District						
Parking District Services	12,509,070	12,394,929	114,141	0.9%	-	114,141
Montgomery Hills Parking District						
Parking District Services	113,310	98,668	14,642	12.9%	-	14,642
Silver Spring Parking District						
Parking District Services	11,004,350	10,510,058	494,292	4.5%	-	494,292
Wheaton Parking District						
Parking District Services	1,232,040	1,123,112	108,928	8.8%	-	108,928
Permitting Services						
Permitting Services	29,657,730	26,445,622	3,212,108	10.8%	-	3,212,108
Solid Waste Collection						
Solid Waste Services	6,755,900	6,246,999	508,901	7.5%	-	508,901
Solid Waste Disposal						
Solid Waste Services	94,106,590	88,862,968	5,243,622	5.6%	-	5,243,622
Vacuum Leaf Collection						
Solid Waste Services	5,277,860	4,779,670	498,190	9.4%	-	498,190
Liquor Control						
Liquor Control	72,672,129	69,512,915	3,159,214	4.3%	969,480	2,189,734
Enterprise Funds Total	**242,421,549**	**228,603,112**	**13,818,437**	**5.7%**	**969,480**	**12,848,957**
NON-TAX SUPPORTED TOTAL	**436,613,136**	**404,361,263**	**32,251,873**	**7.4%**	**969,480**	**31,282,393**
TAX and NON-TAX SUPPORTED TOTAL	**1,731,007,321**	**1,664,241,667**	**66,765,654**	**3.9%**	**23,736,122**	**43,029,532**
Internal Service Funds						
Employee Health Benefit Self Insurance Fund						
Human Resources	162,277,400	158,627,416	3,649,984	2.2%	-	3,649,984
Motor Pool Internal Service Fund						
Fleet Management Services	67,836,790	65,706,129	2,130,661	3.1%	1,499,540	631,121
Printing and Mail Internal Service Fund						
Public Works and Transportation	6,583,470	6,252,437	331,033	5.0%	162,650	168,383
Self Insurance Internal Service Fund						
Finance	43,430,390	48,122,807	(4,692,417)	-10.8%	-	(4,692,417)
INTERNAL SERVICE FUNDS TOTAL	**280,128,050**	**278,708,789**	**1,419,261**	**0.5%**	**1,662,190**	**(242,929)**

FY09 4TH QUARTERLY ANALYSIS

Department	Latest Budget 4th Qtr (A)	Actual 4thQA (B)	Variance to Budget (A-B)	% Change Actual to Budget (A-B)/A	FY09 Savings Plan (E)	Variance 4th QA vs. Approved Savings Plan
NDAs: Tax Supported - General Fund						
MISC. COMMUNITY GRANTS	5,783,460	5,636,892	146,568	2.5%	-	146,568
NDA - COUNTY LEASES	18,455,210	16,782,232	1,672,978	9.1%	461,380	1,211,598
NDA ARTS COUNCIL OF MONTGOMERY	5,315,480	5,306,781	8,699	0.2%	-	8,699
NDA BOARDS, COMMITTEES AND COMMISSIONS	20,000	22,959	(2,959)	-14.8%	-	(2,959)
NDA CHARTER REVIEW COMMISSION	150	135	15	10.0%	-	15
NDA CLIMATE CHANGE IMPLEMENTATION	1,561,000	1,262,801	298,199	19.1%	-	298,199
NDA CLOSING COST ASSISTANCE PROGRAM	33,790	33,790	-	0.0%	-	-
NDA COMPENSATION ADJUSTMENT	1,618,620	996,321	622,299	38.4%	809,420	(187,121)
NDA CONFERENCE AND VISITOR'S BUREAU	695,450	695,450	-	0.0%	-	-
NDA CONFERENCE CENTER	567,090	411,964	155,126	27.4%	-	155,126
NDA CONTRIBUTION TO MOTOR POOL	1,380,830	1,214,928	165,902	12.0%	-	165,902
NDA CONTRIB TO SELF INS FUND-RISK MGMT	9,809,740	9,397,551	412,189	4.2%	-	412,189
NDA COUNTY ASSOCIATIONS	70,450	69,953	497	0.7%	-	497
NDA DESKTOP COMPUTER MODERNIZATION	7,136,360	6,848,283	288,077	4.0%	828,410	(540,333)
NDA GRANTS TO MUNI IN LIEU SHARES TAXES	28,020	28,012	8	0.0%	-	8
NDA GROUP INSURANCE RETIREES	26,039,330	26,039,330	-	0.0%	-	-
NDA HISTORICAL ACTIVITIES	355,340	355,340	-	0.0%	-	-
NDA HOMEOWNERS' ASSOCIATION ROADS	337,700	337,549	151	0.0%	-	151
NDA HOUSING OPPORTUNITIES COMMISS.(HOC	6,140,640	5,987,120	153,520	2.5%	153,520	-
NDA INDEPENDENT AUDIT	394,000	290,805	103,195	26.2%	-	103,195
NDA ITPCC	30,000	6,555	23,445	78.2%		23,445
NDA METRO WASH COUNCIL OF GOV'TS	742,720	743,366	(646)	-0.1%	-	(646)
NDA MONTGOMERY COALITION FOR ADULT ENGLISH LITERACY (MCAEL)	745,000	745,000	-	0.0%	-	-
NDA MUNICIPAL TAX DUPLICATION	7,488,240	7,479,836	8,404	0.1%	-	8,404
NDA POLICE PRISONER MEDICAL	10,000	27,313	(17,313)	-173.1%	-	(17,313)
NDA PRODUCTIVITY ENHANCEMENTS AND PERSONNEL COST SAVINGS	-	-	-	0.0%	-	-
NDA PUBLIC TECHNOLOGIES, INC (PTI)	27,500	20,000	7,500	27.3%	-	7,500
NDA REBATE-TAKOMA PARK-POLICE PROTECTI	705,570	716,590	(11,020)	-1.6%	-	(11,020)
NDA RETIREE HEALTH BENEFITS TRUST	16,391,930	16,391,930	-	0.0%	-	-
NDA ROCKVILLE PARKING DISTRICT	377,500	485,109	(107,609)	-28.5%	-	(107,609)
NDA SPECIAL RETIREMENT CONTRIBUTNS-	3,740	3,749	(9)	-0.2%	-	(9)
NDA STATE POSITIONS SUPPLEMENT	144,950	114,954	29,996	20.7%	-	29,996
NDA STATE RETIREMENT CONTRIBUTION	934,920	934,919	1	0.0%	-	1
NDA -TAKOMA PARK-LIBRARIES TRANSITION	112,630	112,352	278	0.2%	-	278
NDA WORKING FAMILIES INCOME SUPPLEMENT	13,667,700	9,016,267	4,651,433	34.0%	3,832,300	819,133
NDAs: Tax Supported - General Fund Total	127,125,060	118,516,136	8,608,924	6.8%	6,085,030	2,523,894
NDAs: Non-Tax Supported - Grant Fund						
NDA COMPENSATION ADJUSTMENT	-	-	-			
NDA FUTURE FEDERAL/STATE/OTHER GRANTS	4,813,463	4,813,463	-	0.0%		
NDA HISTORICAL ACTIVITIES	25,000	25,000	-	0.0%		
NDAs: Non-Tax Supported - Grant Fund Total	4,838,463	4,838,463	-	0.0%		

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

October 28, 2009

TO: Phil Andrews, President
County Council

FROM: Isiah Leggett, County Executive

SUBJECT: FY10 Savings Plan

Attached please find my Recommended FY10 Savings Plan for Montgomery County Government, as well as the other tax supported County Agencies. The attached plan identifies savings of nearly $30 million from the current year that will be applied to close the projected gap of nearly $370 million in FY11. We have worked to identify savings that minimize the impact upon direct services, especially to public safety and our most vulnerable residents. However, service reductions are unavoidably included in the attached proposed plan.

It is critical to consider this proposed savings plan in the context of the looming budget gap for FY11. As I have previously noted, the projected FY11 budget gap is currently nearly $370 million. This projection does not include any shortfalls resulting from additional State aid reductions, additional revenue shortfalls or additional shortfalls that may result from the State Board of Education's maintenance of effort decision. We must realistically and responsibly plan for these challenges.

This proposed savings plan was also developed in the context of significant reductions made over the last three years. Even before the current economic downturn, I worked to bring our previously unsustainable rate of budget growth under control. As a result of three years of effort, I have brought the rate of growth down from over 14.1% to −0.4% and closed budget gaps totaling nearly $1.2 billion. There are few "easy" reductions left to make. Given the projected FY 2011 gap, we must roll up our sleeves and begin to make the difficult decisions now.

As in the past, the Council may not be supportive of some of my proposed reductions. If the Council insists on not supporting the attached proposed reductions, I strongly recommend that it propose offsetting reductions in other areas of the budget to maintain the total amount of savings that can be used to close the projected FY11 budget gap. We are only in the first step of the process in resolving the FY11 budgetary gap and more difficult choices remain ahead in confronting these challenges. Deferring needed savings at this time will only temporarily postpone the urgent need to make difficult choices in the future. In fact, the less time in which agencies have to make the necessary reductions, the deeper and more difficult those reductions will need to be to achieve the same savings. Resolution of the budget gap is problematic because even more difficult and complex issues will need to be addressed during the Council's short time for reviewing and approving the annual budget.

And as I have made clear, I do not support and will not recommend exceeding the charter limit on property taxes in the FY11 operating budget.

Because of the weakness in the current local and national economy and the State's continuing fiscal challenges, I urge the Council to quickly approve the reductions proposed in the attached Savings Plan. The projected gap for FY11 may significantly worsen in the near future because of continued revenue deterioration and the very real potential for further and substantive reductions in State Aid. We have already absorbed cuts of nearly $20 million in State Aid in this year and I believe further Aid reductions may be imminent.

The attached plan includes proposed targets for Montgomery County Public Schools (MCPS), the Maryland-National Capital Park and Planning Commission (M-NCPPC), the Housing Opportunities Commission (HOC), and Montgomery College (the College). The principals of these agencies have expressed their willingness to cooperate in resolving our shared fiscal challenges.

I strongly urge the Council to expedite its review and approval of the attached Savings Plan, so that the necessary actions can be implemented as soon as possible. My staff is available to assist the Council in its review of the attached proposal. Thank you for your support of our efforts to preserve our most important services while preserving the fiscal health of the County Government.

	Approved FY10 Budget	**Savings Plan Target**	**Agency as % of Total Budget**	**Target as % of Savings Plan**	**Target as % of Budget**
MCG	1,585,853,910	16,593,800	42.4%	56.4%	1.1%
MCPS	1,940,540,941	9,702,700	51.9%	32.7%	0.5%
College	107,079,321	1,070,790	2.9%	3.6%	1.0%
MNCPPC	106,646,100	2,180,000	2.9%	7.3%	2.0%
Total	**3,740,120,272**	**29,547,290**			0.8%

Notes:
1. Amounts above exclude debt service.
2. The College budget above is the FY10 local contribution.
3. MCG savings plan target above does not include approximately $89,000 in increased revenues

c: Timothy L. Firestine, Chief Administrative Officer
Department and Office Directors
Dr. Jerry Weast, Superintendent, Montgomery County Public Schools
Dr. Hercules Pinkney, Interim President, Montgomery College
Royce Hanson, Chair, Montgomery County Planning Board
Michael J. Kator, Chair, Housing Opportunities Commission
Kathleen Boucher, Assistant Chief Administrative Officer

Attachments