

MEMORANDUM

June 9, 2021

TO: Government Operations and Fiscal Policy (GO) Committee

FROM: Gene Smith, Legislative Analyst

SUBJECT: Resolution to approve the Tax Supported Fiscal Plan Summary for the FY22-27 Public Services Program

PURPOSE: Make recommendations to the Council

Those expected for this worksession:

Mike Coveyou, Director, Department of Finance (Finance)
Jennifer Bryant, Director, Office of Management and Budget (OMB)
Chris Mullin, Manager, OMB
Nancy Feldman, Fiscal Management Chief, Finance
Dave Platt, Chief Economist, Finance

See the proposed resolution and Tax Supported Fiscal Plan Summary for the FY22-27 Public Services Program on ©1-4. The resolution and fiscal plan summary are based upon the fiscal decisions the Council approved on May 27, 2021. **Due to the timing of committee worksessions in June, the GO Committee will make its recommendation on the proposed resolution and fiscal plan summary prior to its introduction.** The Council will introduce the proposed resolution and fiscal plan summary on June 15, 2021, and the Council is tentatively scheduled to enact it on June 22, 2021.

I. Context

Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*

Council Resolution No. 19-753 states that the “*County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals*” (see ©5-10). The Council approved for the first time a six-year fiscal plan that was balanced for the entire period in June 2010. Each June since 2010, the Council has taken similar action. The fiscal plan is then updated every year in December, three months before the release of the Executive’s next recommended budget.

The FY22-FY27 Tax Supported Fiscal Plan Summary, like all versions of the fiscal plan, reflects current fiscal projections and policy assumptions when the Council adopted the FY22 Operating Budget and the Amended FY21-FY26 Capital Improvements Program (CIP). **Future versions of the FY22-27 Tax Supported Fiscal Plan Summary will change as economic and fiscal conditions are better understood.** The December 2021 update will reflect changes to FY22-FY27 revenue estimates. The March 2022 version, included with the Executive’s recommended budget, will include revised revenue projections and updated expenditures for the County Government and its agencies in FY22.

II. Fiscal Projections and Policy Assumptions

The policy assumptions for this version of the Fiscal Plan are listed in the notes on ©X and below.

- a) FY21 Property taxes are at the previous Charter Limit with a \$692 credit. FY22-FY27 property taxes reflect the passage of Ballot Question A with a \$692 credit. Other taxes are at current rates.
- b) Due to the County's response to the COVID-19 pandemic, reserves are estimated to be lower than the 10 percent policy target in FY21-FY23. When emergencies require reserves to dip below the 10 percent target, it is the County's policy to ensure reserves achieve the policy target within three fiscal years. The fiscal plan shows reserves increasing from 9.0 percent of Adjusted Governmental Revenue (AGR) in FY21 to 9.6 percent in FY22, 9.8 percent in FY23, and 10.0 percent in FY24. The calculation for AGR in FY21 and FY22 excludes the County's allocation of Federal Emergency Grants received through the Coronavirus Relief Fund and the American Rescue Plan Act.

See ©4 for reserve details in the FY22-FY27 fiscal plan.

- c) PAYGO, debt service, and current revenue reflect the Amended FY21-26 CIP.
- d) State Aid, including MCPS and Montgomery College, is not projected to increase from FY23-27.

A. Revenues

Total revenues are expected to increase from FY22 to FY27 at an annual average of 2.9% (see lines 1-6 on ©3). This average annual increase is equivalent to previous fiscal plans. Table 1 below details the annual percent change in total revenues included in the current fiscal plan. **The increase in total revenues from the FY21 approved values to the FY22 approved values is mostly due to the inclusion of one-time Federal resources as revenues in those fiscal years.** The estimated 0.8% increase in total revenues from FY22-FY23 reflects the removal of these one-time Federal resources from the County’s revenues (i.e., actual total revenue growth based on economic and fiscal conditions).

The total estimated growth in total revenues in FY23 from FY22 reflects that FY23’s budget may be more constrained than the FY22 budget.

Table 1: Annual Estimated Growth Rate in Total Revenues FY22-FY27

FY21-FY22	FY22-FY23	FY23-FY24	FY24-FY25	FY25-FY26	FY26-FY27
1.1%	0.8%	3.2%	2.8%	3.1%	3.5%

Source: FY22-FY27 Fiscal Plan; note FY21-FY22 uses the approved values, not FY21 estimate.

Below are highlights about specific revenue sources.

- Property taxes are estimated to increase at an annual average rate of 3.3% in the current fiscal plan. This growth rate is greater than the 2.4% average growth rate estimated in the FY21-FY26 fiscal plan. The change in the growth rate is entirely due to the new Charter Limit and related calculations.
- Income taxes are estimated to increase at an annual average rate of 5.1% in the current fiscal plan. This is equivalent to the 5.0% annual average rate estimated in the FY21-FY26 fiscal plan. The current six-year plan anticipates a strong economic recovery later in 2021 and 2022, which is reflected in the income tax revenue estimates in FY23 and FY24.
- Other taxes are estimated to increase at an annual average rate of 0.9% in the current fiscal plan. This is less than the 2.0% annual average growth rate estimated in the FY21-FY26 fiscal plan.

B. Resources available to allocate to agencies

Resources for agency use is an important element of the plan because it highlights the funding available for new and existing programs and services. In the current fiscal plan, resources for agency use (rows 24-27 on ©3) increased by 1.0% from FY21 approved budget to the FY22 approved budget. This growth rate is less than estimated in the Executive’s recommended FY22 Operating Budget because the American Rescue Plan Act funding in FY22 was moved to the Grant Fund. The Grant Fund is not a tax supported fund; therefore, it is not included in this summary.

Table 2 below details the growth rate estimated for agency use in FY22-FY27. Resources available to agencies are a function of estimated revenues, the County’s fixed commitments, and planned expenditures (e.g. debt service, current revenue spending for capital projects, retiree health pre-funding, etc.).

Table 2: Annual Estimated Growth Rate (Decline) of Resources for Agency Use FY22-FY27

FY21-FY22	FY22-FY23	FY23-FY24	FY24-FY25	FY25-FY26	FY26-FY27
1.0%	(0.8%)	3.6%	3.6%	3.3%	3.7%

Source: FY22-FY27 Fiscal Plan; note FY21-FY22 uses the approved values, not FY21 estimate.

The decrease in resources for Agency Use in FY23 is a function of the small increase in the County’s total revenues from FY22 to FY23 and of the significant increase in current revenue in FY23 for the CIP. FY24-FY27’s growth rate of resources for Agency Use is greater since the out years of the

fiscal plan experience greater growth in the revenue estimates with moderate growth in the County’s fixed commitments.

C. Fixed commitments

Debt service. Debt service is projected to increase by \$15.0 million, or 3.5%, in FY23 compared to FY22. See row 12 on ©3. Overall, debt service is expected to increase at an annual average rate of 1.8% through FY27. **This annual average increase is less than the estimated annual average increase of the County’s revenues during the same period.**

PAYGO. Council Resolution No. 19-753 states: “*The County should allocate to the CIP each year as PAYGO [cash] at least 10% of the amount of general obligation bonds planned for issue that year.*” PAYGO is not set at the 10% policy level for FY22 in the fiscal plan summary, as noted during the Council’s review and approval of the FY22 Operating Budget and Amended FY21-FY26 CIP. PAYGO is set at the 10% policy goal for FY23-FY27. See row 13 on ©3.

Current revenue funding for the CIP. Current revenue in the CIP is estimated to increase increases by \$28.4 million from FY22 to FY23. Increases in CIP current revenue results in a decrease to resources available for agency uses. See row 14 on ©3.

Reserves. The County’s goal, per Resolution No. 19-753, is 10.0%. Resolution No. 19-753 also allows for a repayment period of three years in certain events if the County must use reserves to respond to an emergency, like the pandemic during the past year. **The current fiscal plan summary is within the County’s policy of returning to 10.0% reserves within three years.** The total resources needed for reserves decreases after FY23 because the County achieves the 10.0% policy goal, thus reducing the need to contribute additional resources to return to the policy level.

OPEB. Resolution No. 19-753 also refers to OPEB (Other Post-Employment Benefits), including pre-funding for retiree health benefits. The tax supported cost for pre-funding retiree health benefits for all agencies in FY22 is **\$92.2 million**. See rows 53 through 56 on ©4.

This packet contains:

	<u>Circle #</u>
Proposed resolution	1
Fiscal Plan Summary FY22-FY27	3
Resolution 19-753	5

Resolution No.: _____
Introduced: _____
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

Lead Sponsor: Government Operations and Fiscal Policy Committee

SUBJECT: Approval of the County’s Tax Supported Fiscal Plan Summary for the FY22-FY27 Public Services Program

Background

1. Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*
2. Starting in 1992, the Council’s Government Operations and Fiscal Policy Committee (known until December 2010 as the Management and Fiscal Policy Committee) has collaborated with the Office of Management and Budget and the Department of Finance to develop and refine County fiscal projections. The result has been continuous improvement in how best to display such factors as economic and demographic assumptions, individual agency funds, major known commitments, illustrative expenditure pressures, gaps between projected revenues and expenditures, and productivity improvements. This work has also increased the County’s ability to harmonize the fiscal planning methodologies of the four tax supported agencies. Each version of the fiscal projections, or six-year fiscal plan, is a snapshot in time that reflects the best estimate of future revenues and expenditures as of that moment, as well as a specific set of fiscal policy assumptions.
3. On June 29, 2010 the Council approved policies on reserve and other fiscal matters in Resolution No. 16-1415. Action clause 5 stated: *The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.*
4. The Council has amended Resolution No. 16-1415 to strengthen the County’s fiscal policies while still retaining the fiscal plan language. The Council adopted Resolution No. 17-312 on November 29, 2011, replacing Resolution No. 16-1415. The Council adopted Resolution No. 19-753 on March 2, 2021, replacing Resolution No. 17-312.

5. Pursuant to these policies, the Council approved a balanced fiscal plan summary in June 2010 and has approved a balance fiscal plan summary every June thereafter.
6. On June 15, 2021, the Council introduced a resolution on the Tax Supported Fiscal Plan Summary for the FY22-FY27 Public Services Program. On June 14, 2021, the Government Operations and Fiscal Policy Committee reviewed the Tax Supported Fiscal Plan Summary for the FY22-FY27 Public Services Program.

Action

The County Council for Montgomery County, Maryland approves the Tax Supported Fiscal Plan Summary for the FY22-FY27 Public Services Program, as outlined on the attached pages. This summary reflects:

- (1) current information on projected revenues and non-agency expenditures for the six-year period, which must be updated as conditions change. To keep abreast of changed conditions the Council regularly reviews reports on economic indicators, revenue estimates, and other fiscal data.
- (2) the policy on County reserves as described in Resolution No. 19-753 adopted on March 2, 2021, and the amendments to the Revenue Stabilization Fund law in Bill 36-10 approved by the Council on June 29, 2010.
- (3) other specific fiscal assumptions listed in the summary.

This is a correct copy of Council action.

Selena Mendy Singleton, Esq.
Clerk of the Council

County Council Approved FY22-27 Public Services Program Tax Supported Fiscal Plan Summary

(\$ in Millions)

	App. FY21	Est. FY21	% Chg. FY21-22	App. FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24	% Chg. FY24-25	Projected FY25	% Chg. FY25-26	Projected FY26	% Chg. FY26-27	Projected FY27
Total Revenues	5-21-20		App/App	5-27-21										
Property Tax	1,830.8	1,830.9	2.9%	1,884.7	2.5%	1,931.0	2.8%	1,984.4	2.8%	2,040.5	2.8%	2,098.0	2.9%	2,157.8
Income Tax	1,695.4	1,707.7	0.8%	1,708.8	3.5%	1,769.1	5.4%	1,865.2	4.4%	1,947.8	5.2%	2,049.1	6.0%	2,171.1
Transfer/Recordation Tax	181.6	161.9	-6.5%	169.8	4.8%	178.0	5.6%	188.1	5.2%	197.9	4.8%	207.5	4.7%	217.3
Other Taxes	273.6	240.3	-10.7%	244.4	2.6%	250.6	1.6%	254.6	0.4%	255.7	0.4%	256.8	1.2%	259.9
Other Revenues	1,177.4	1,305.2	2.6%	1,208.4	-6.5%	1,129.8	0.2%	1,132.1	0.2%	1,134.4	0.3%	1,138.2	0.3%	1,142.0
Total Revenues	5,158.7	5,245.9	1.1%	5,216.1	0.8%	5,258.6	3.2%	5,424.3	2.8%	5,576.3	3.1%	5,749.6	3.5%	5,948.1
Net Transfers In (Out)	24.9	19.2	-57.4%	10.6	2.0%	10.8	2.4%	11.1	2.4%	11.3	2.4%	11.6	2.4%	11.9
Total Revenues and Transfers Available	5,183.6	5,265.2	0.8%	5,226.7	0.8%	5,269.4	3.1%	5,435.4	2.8%	5,587.6	3.1%	5,761.2	3.5%	5,960.0
Non-Operating Budget Use of Revenues														
Debt Service	422.5	419.8	1.2%	427.4	3.5%	442.4	-0.5%	440.1	2.8%	452.6	1.2%	458.0	0.9%	462.0
PAYGO	32.0	0.0	-51.6%	15.5	118.7%	33.9	-9.1%	30.8	-8.4%	28.2	-3.5%	27.2	0.0%	27.2
CIP Current Revenue	65.9	71.4	19.0%	78.4	36.2%	106.8	-11.7%	94.4	-21.0%	74.6	4.7%	78.1	0.0%	78.1
Change in Other Reserves	0.2	18.6	-10708.3%	-24.0	100.5%	0.1	44.7%	0.2	11.3%	0.2	1.9%	0.2	4.0%	0.2
Contribution to General Fund Undesignated Reserves	7.2	-15.6	83.1%	13.3	-207.4%	-14.3	129.8%	4.2	75.3%	7.4	-9.7%	6.7	14.6%	7.7
Contribution to Revenue Stabilization Reserves	8.6	27.5	220.5%	27.5	1.2%	27.8	-14.5%	23.8	-62.6%	8.9	23.5%	11.0	13.8%	12.5
Set Aside for other uses (supplemental appropriations)	6.8	-10.5	-100.0%	0.0	n/a	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
Total Other Uses of Resources	543.3	511.2	-0.9%	538.2	14.6%	616.8	-0.5%	613.5	-3.5%	591.9	1.6%	601.2	1.1%	607.7
Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)	4,640.3	4,753.9	1.0%	4,688.6	-0.8%	4,652.6	3.6%	4,821.9	3.6%	4,995.8	3.3%	5,160.0	3.7%	5,352.3
Agency Uses														
Montgomery County Public Schools (MCPS)	2,562.4	2,544.2	-0.4%	2,551.6										
Montgomery College (MC)	268.9	249.2	-1.3%	265.5										
MNCPPC (w/o Debt Service)	137.2	130.6	4.8%	143.8										
MCG	1,671.9	1,829.9	3.3%	1,727.8										
Agency Uses	4,640.3	4,753.9	1.0%	4,688.6	-0.8%	4,652.6	3.6%	4,821.9	3.6%	4,995.8	3.3%	5,160.0	3.7%	5,352.3
Total Uses	5,183.6	5,265.2	0.8%	5,226.7	0.8%	5,269.4	3.1%	5,435.4	2.8%	5,587.6	3.1%	5,761.2	3.5%	5,960.0
(Gap)/Available	0.0	0.0		0.0		0.0		0.0		0.0		0.0		0.0

Assumptions:

1. FY21 Property taxes are at the previous Charter Limit with a \$692 credit. FY22-FY27 property taxes reflect the passage of Ballot Question A with a \$692 credit. Other taxes are at current rates.
2. Due to the County's response to the COVID-19 pandemic, reserves are estimated to be lower than the 10 percent policy target in FY21-FY23. When emergencies require reserves to dip below the 10 percent target, it is the County's policy to ensure reserves achieve the policy target within three fiscal years. The fiscal plan shows reserves increasing from 9.0 percent of Adjusted Governmental Revenue (AGR) in FY21 to 9.6 percent in FY22, 9.8 percent in FY23, and 10.0 percent in FY24. The calculation for AGR in FY21 and FY22 excludes the County's allocation of Federal Emergency Grants received through the Coronavirus Relief Fund and the American Rescue Plan Act.
3. PAYGO, debt service, and current revenue reflect the Amended FY21-26 Capital Improvements Program.
4. State Aid, including MCPS and Montgomery College, is not projected to increase from FY23-27.

County Council Approved FY22-27 Public Services Program Tax Supported Fiscal Plan Summary

(\$ in Millions)														
	App. FY21	Est. FY21	% Chg. FY21-22	App. FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24	% Chg. FY24-25	Projected FY25	% Chg. FY25-26	Projected FY26	% Chg. FY26-27	Projected FY27
31 Beginning Reserves														
32 Unrestricted General Fund	154.1	97.7	-46.8%	82.1	16.2%	95.3	-14.9%	81.1	5.2%	85.3	8.7%	92.8	7.2%	99.5
33 Revenue Stabilization Fund	382.2	376.3	5.7%	403.8	6.8%	431.3	6.5%	459.2	5.2%	483.0	1.8%	491.9	2.2%	502.8
34 Total Reserves	536.3	474.0	-9.4%	485.9	8.4%	526.7	2.6%	540.2	5.2%	568.3	2.9%	584.6	3.0%	602.3
35														
36 Additions to Reserves														
37 Unrestricted General Fund	7.2	-15.6	83.1%	13.3	-207.4%	-14.3	129.8%	4.2	75.3%	7.4	-9.7%	6.7	14.6%	7.7
38 Revenue Stabilization Fund	8.6	27.5	220.5%	27.5	1.2%	27.8	-14.5%	23.8	-62.6%	8.9	23.5%	11.0	13.8%	12.5
39 Total Change in Reserves	15.8	11.9	157.6%	40.8	-66.7%	13.6	106.3%	28.0	-41.7%	16.3	8.4%	17.7	14.1%	20.2
40														
41 Ending Reserves														
42 Unrestricted General Fund	161.4	82.1	-40.9%	95.3	-14.9%	81.1	5.2%	85.3	8.7%	92.8	7.2%	99.5	7.7%	107.2
43 Revenue Stabilization Fund	390.8	403.8	10.4%	431.3	6.5%	459.2	5.2%	483.0	1.8%	491.9	2.2%	502.8	2.5%	515.3
44 Total Reserves	552.1	485.9	-4.6%	526.7	2.6%	540.2	5.2%	568.3	2.9%	584.6	3.0%	602.3	3.4%	622.5
45 Reserves as a % of Adjusted Governmental Revenues	10.2%	9.0%		9.6%		9.8%		10.0%		10.0%		10.0%		10.0%
46 Other Reserves														
47 Montgomery College	22.3	33.8	24.0%	27.7	0.0%	27.7	0.0%	27.7	0.0%	27.7	0.0%	27.7	0.0%	27.7
48 M-NCPPC	5.0	13.8	-1.4%	4.9	2.4%	5.0	2.8%	5.1	2.8%	5.3	2.8%	5.4	2.8%	5.6
49 MCPS	0.0	25.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
50 MCG Special Funds	1.5	-15.1	-44.5%	0.9	-0.8%	0.8	2.3%	0.9	4.0%	0.9	3.5%	0.9	3.9%	1.0
51 MCG + Agency Reserves as a % of Adjusted Govt Revenues	10.7%	10.0%		10.2%		10.4%		10.6%		10.6%		10.6%		10.6%
52 Retiree Health Insurance Pre-Funding														
53 Montgomery County Public Schools (MCPS)	69.4	69.4		73.0		66.2		60.5		53.9		53.9		53.9
54 Montgomery College (MC)	5.5	5.5		5.6		5.4		5.3		5.2		5.2		5.2
55 MNCPPC	3.0	3.0		2.7		2.7		2.7		2.8		2.8		2.7
56 MCG	12.3	12.3		10.8		7.5		4.2		0.7		0.0		0.0
57 Subtotal Retiree Health Insurance Pre-Funding	90.1	90.1		92.2		81.9		72.8		62.6		61.8		61.8
58 Adjusted Governmental Revenues														
59 Total Tax Supported Revenues	5,158.7	5,154.0	1.1%	5,214.7	0.8%	5,258.6	3.2%	5,424.3	2.8%	5,576.3	3.1%	5,749.6	3.5%	5,948.1
60 Capital Projects Fund	129.4	129.4	1.8%	131.7	-7.8%	121.5	1.1%	122.8	6.6%	130.9	0.3%	131.3	0.0%	131.3
61 Grants	128.0	128.0	0.9%	129.2	2.0%	131.7	2.4%	134.9	2.4%	138.2	2.4%	141.6	2.4%	145.0
62 Total Adjusted Governmental Revenues	5,416.1	5,411.4	1.1%	5,475.6	0.7%	5,511.9	3.1%	5,682.0	2.9%	5,845.4	3.0%	6,022.5	3.4%	6,224.4

Resolution No:	<u>19-753</u>
Introduced:	<u>March 2, 2021</u>
Adopted:	<u>March 2, 2021</u>

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

Lead Sponsor: Government Operations and Fiscal Policy Committee

SUBJECT: Reserve and Select Fiscal Policies

Background

1. Fiscal policy corresponds to the combined practices of government with respect to revenues, expenditures, debt management, and reserves.
2. Fiscal policies provide guidance for good public practice in the planning of expenditures, revenues, and funding arrangements for public services. They provide a framework within which budget, tax, and fee decisions should be made. Fiscal policies provide guidance toward a balance between program expenditure requirements and available sources of revenue to fund them.
3. As a best practice, governments must maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning. Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness.
4. In FY 2010, the County experienced an unprecedented \$265 million decline in income tax revenues and weathered extraordinary expenditure requirements associated with the H1N1 flu virus and successive and historic winter blizzards. The costs of these events totaled in excess of \$60 million, only a portion of which was budgeted and planned for.
5. In a memorandum dated April 22, 2010, the County Executive recommended that the County Council restore reserves first to the current 6% policy level for FY11 and also revise and strengthen policy levels in order to more appropriately position the County to weather economic cycles in the future, and to achieve structural balance in future budgets.
6. The County's financial advisor recommended that the County strengthen its policy on reserves and other fiscal policies to ensure budget flexibility and structural stability, and provided specific recommendations, which are reflected below.

7. On June 29, 2010, the Council approved Resolution No. 16-1415, *Reserve and Selected Fiscal Policies*. This resolution established a goal of achieving the Charter §310 maximum for the reserve in the General Fund of 5% of General Fund revenues in the preceding fiscal year and building up and maintaining the sum of Unrestricted General Fund Balance and Revenue Stabilization Fund Balance to 10% of Adjusted Governmental Revenues, as defined in the Revenue Stabilization Fund law.
8. On November 29, 2011, the Council adopted Resolution No. 17-312, *Reserve and Selected Fiscal Policies*. This resolution amended and replaced Resolution No. 16-1415 to further clarify and strengthen the County's reserve policy.
9. On February 22, 2021, the Government Operations and Fiscal Policy Committee reviewed Resolution No. 17-312, *Reserve and Selected Fiscal Policies* in response to the COVID-19 pandemic and its impact on the County's financial stability.
10. The County's reserve and selected fiscal policies should be further clarified and strengthened. This resolution replaces the reserve policy established in Resolution No. 17-312.

Action

The County Council for Montgomery County, Maryland approves the following policies regarding reserves and selected fiscal matters:

1. **Structurally Balanced Budget**

Montgomery County must have a goal of a structurally balanced budget. Budgeted expenditures should not exceed projected recurring revenues plus recurring net transfers in minus the mandatory contribution to the required reserve for that fiscal year. Recurring revenues should fund recurring expenses. No deficit may be planned or incurred.

2. **Use of One-Time Revenues**

One-time revenues and revenues greater than projections must be prioritized to meet the County's fiscal policy goals or budgeted as required by law. One-time revenues and revenues greater than projected that remain after any contributions required by law will be applied in the following order until the policy goal is met, or the resources are fully utilized:

- a) Reserves to policy goal.
- b) OPEB more than the annual actuarial prefunding contribution and/or Pension prefunding more than the annual actuarial goal, if unfunded liabilities exist.

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

3. PAYGO for the CIP

The County should allocate to the CIP each fiscal year as PAYGO at least 10% of the amount of general obligation bonds planned for issue that year.

4. Fiscal Plan

The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.

5. County Government Reserve

- (a) **County Government Reserve.** The County Government Reserve has three components. The components of the budgeted reserve at the end of the next fiscal year are:

- (i) **Reserve in the General Fund.** The County's goal is that this reserve will be the maximum permitted by §310 of the Charter, which is 5% of revenues in the General Fund in the previous year;

- (ii) **Reserve in the Revenues Stabilization Fund (RSF).** This budgeted reserve at the end of the next fiscal year is the reserve beginning of the year, plus interest on the fund balance, plus a mandatory transfer from the General Fund, as defined in the RSF law, plus a discretionary transfer if the Council approves one. The actual amount of the mandatory transfer is calculated in accordance with §20-68 of the County Code; and

- (iii) **Reserve in other tax supported funds in the County Government.** The budgeted reserve at the end of the next fiscal year for the following funds – Fire, Mass Transit, Recreation, Urban District, Noise Abatement, Economic Development, and Debt Service – and any other tax supported County Government fund established after adoption of this resolution, should be the minimum reserve possible (as close as possible to zero, but not negative), since the Council sets the property tax rate to the nearest one tenth of 1¢.

- (b) **Calculation of budgeted reserve as a percent of Adjusted Governmental Revenues (AGR).** The target reserve as a percent of AGR is the sum of the reserves in the General Fund and RSF divided by AGR, as defined in the RSF law. The reserves in the other tax supported funds in County Government are not included in this calculation.

- (c) **Budgeted reserve as a percent of AGR.** The County’s goal for County Government Reserves is to budget the amount necessary to achieve 10% of AGR annually, except for the emergencies described in paragraph (d) below. The Council may make a discretionary transfer each year from the General Fund to the Revenue Stabilization Fund, if necessary, to reach the County Government Reserve policy goal of 10% of AGR.
- (d) **Use of budgeted reserves during economic recessions or national emergencies.**
 - (i) Definitions: An **economic recession** is defined when the United States Gross Domestic Product, as published by the U.S. Department of Commerce Bureau of Economic Analysis, has experienced negative growth for at least two quarters; and/or the National Bureau of Economic Research has determined that the United States economy is in a recession. A **national emergency** is defined as an event that is a federally declared natural or national disaster or emergency in all or part of the County.
 - (ii) The County’s goal is to identify targeted budget reductions to reduce the use of the County Government Reserves during economic recessions or national emergencies. The Council and Executive will work collaboratively to identify targeted reductions that will minimize impact on the County’s service delivery in response to the economic recession or national emergency.
 - (iii) The County must replenish the County Government Reserves to its policy goal within three fiscal years following a decrease in County Government Reserves during an economic recession or national emergency. The replenishment schedule must be included in the County’s six-year fiscal plan. The County should avoid deferring the replenishment of reserves until the last year of the replenishment period.

6. Reserves in Other Agencies

The reserves for the Montgomery County Public Schools (MCPS), the Maryland-National Capital Park and Planning Commission (M-NCPPC), and Montgomery College are not included in the target reserves for the County Government. The County’s reserve policies for these agencies are:

- (a) **MCPS.** The Council should not budget any reserve for the MCPS Current Fund.
- (b) **M-NCPPC.** The reserve in the Park Fund should be approximately 4% of the budgeted resources. The reserve in the Administration Fund should be approximately 3% of the budgeted resources. The reserve in the Advance Land Acquisition Debt Service Fund should be the minimum reserve possible, since the Council sets that property tax rate to the nearest one tenth of 1¢.
- (c) **Montgomery College.** The reserve in the Current Fund should be 3% to 5% of the budgeted resources minus the annual contribution from the County. The target reserve

in the Emergency Plan Maintenance and Repair Fund – as stated in Resolution No. 11-2292, approved by the Council on October 16, 1990 – “may accumulate up to \$1,000,000 in unappropriated fund balance, such goal to be attained over a period of years, as fiscal conditions permit.”

7. Debt Policy

The County’s goal is to remain at or below the debt capacity indicators included in the annual capital budget publication. These indicators are reviewed annually during the spending affordability guideline process for the capital budget.

8. OPEB Policy

The County’s goal for OPEB is detailed in Resolution No. 16-555 or any successor resolution.

9. Other Fund Balances Generally

The County’s goal for fund balances not specifically detailed in this resolution are approved each year with the annual operating budget. These fund balances are reviewed annually during the operating budget review and approval process.

10. Compensation Sustainability Policy

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

11. Reports to Council

The Executive must report to the Council:

- (a) The prior year reserve and the current year reserve projection as part of the annual fiscal plan update, usually in December;
- (b) Current and projected reserve balance in the Executive’s annual recommended operating budget;
- (c) Any material changes expected to have a permanent impact on ending reserve fund balance; and
- (d) Current and projected reserve balances in any proposed mid-year savings plan.

This is a correct copy of Council action.



Selena Mendy Singleton, Esq.
Clerk of the Council