




OFFICE OF THE COUNTY EXECUTIVE  
ROCKVILLE, MARYLAND 20850

Isiah Leggett  
County Executive

MEMORANDUM

July 16, 2015

TO: George Leventhal, President, County Council

FROM: Isiah Leggett, County Executive 

SUBJECT: FY16 Savings Plan

I have received your July 13, 2015 memorandum to Councilmembers regarding my proposed FY 2016 Savings Plan. I am pleased that you urged Councilmembers to adopt a savings plan without delay, not only because the known shortfalls are significant but also because our revenues are likely to remain constrained for the foreseeable future. However, I would like to set the record straight on a number of issues that you have raised.

You state in your second paragraph, "FY16 is not the problem; our approved reserves are at their highest level ever, \$383 million or 8.2 percent of adjusted governmental revenues, \$12 million more than the target for FY16 that we set in 2011." In fact, FY16 *is* a problem, as is FY17, FY18 and possibly a number of years after that. The revenue shortfall between FY15 and FY16 is now projected to be nearly \$60 million. We cannot use our reserves to cover this shortfall and remain on track to reach the 10 percent goal to which we have mutually committed to the rating agencies. The math does not work. If you used our reserves to cover this \$60 million shortfall, we would be ***\$48 million short of the County's stated goal for FY 2016, assuming all other revenue estimates are met.***

During the PHED Committee's discussion of the proposed savings plan, you also stated that the Council was not aware of this significant shortfall. In fact, Executive staff briefed the Council on June 30, 2015 (see attached copies of the slides provided to the Council at that time) with an updated fiscal plan and detailed information regarding this projected shortfall. There was considerable discussion of this information at that briefing. Prior to that briefing, and as the Council considered its reconciliation list, Executive staff transmitted information on the significant May income tax revenue shortfall to you and your colleagues. In addition, there have been a number of discussions with Council staff prior to the Council's June 30 briefing regarding the revenue shortfalls and the impact of the Wynne decision.

Furthermore, the memorandum I sent on July 8, 2015 transmitting the proposed savings plan outlines the shortfalls as one of the reasons for the immediate need for a savings plan. Additionally, you and I have had several earlier conversations on these fiscal matters where I specifically spoke about these shortfalls and their effect. I am confused as to why you would now state that you were not aware of the magnitude of this shortfall.

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It is important that we acknowledge the gap we face in FY16 because failure to do so could force us into a deeper hole to climb out of in subsequent years. While my savings plan totaling \$50.8 million does not close the entire FY16 gap, it better positions us to make the difficult decisions necessary to close a potential gap of \$175 million in FY17. (See slide from Council presentation on page 4 of the attachment.) It is also important to note that this projected FY17 gap does not include funding for any compensation agreements, increases in benefit costs, snow removal costs, or additional MCPS funding requirements.

As I stated earlier, this gap is different from previous gaps we closed in that most of the options that were available to us in the past are no longer available. Because of this, it is imperative that the Council *not* wait for information on the November income tax distribution, which is unlikely to result in a significantly improved fiscal picture. Delaying appropriate action will only force deeper and more damaging cuts to programs and services than what is before you now. This is not a risk I believe we should take.

I also want to assure you that the proposed savings plan does not disproportionately target enhancements the Council made to the FY16 operating budget. The proposed reductions in the savings plan were developed based on a comprehensive review of programs and services funded in the FY16 budget. The Council's FY16 enhancements were viewed alongside all programs and services in the approved budget and nearly half of the Council's enhancements were preserved over other significant reductions. Overall, the vast majority of my recommended savings plan does not consist of reductions to the Council's FY16 enhancements.

Like you and your fellow Councilmembers, I share the values and priorities that are important to our community, including the needs of our most vulnerable residents. Clearly, all of the choices before us, whether Council enhancements or other reductions, will require sacrifices and prioritization of the many programs and services we fund to achieve our common goals. As previously indicated, if the Council has alternative reductions that you believe are more palatable and achieve the savings goal of \$50.8 million, I look forward to hearing about these alternatives.

You also assert that as an alternative to making difficult choices in our shared priorities, "we should take a hard look at the salaries of the County's high-level managers." I am always open to any analysis of this nature. But the reality is that with a total MLS payroll of \$64 million, the outcome of any such analysis is unlikely to resolve our current fiscal problems.

I would like to remind you that it was my position that a reasonable increase above the Charter Limit in FY16 was prudent due to the fiscal uncertainties we were facing at the time – along with other risks, the Wynne case, an uneven economic recovery and risks of lower than expected State funding. Yet, even as I was formulating the Recommended FY16 Operating Budget, you and several of your colleagues made it very clear to me that you would not approve a property tax increase above the Charter Limit. The constraint to maintain the property tax rate within the Charter Limit has affected our ability to be nimble with our fiscal challenges and further strained our ability to fund critical services. Even with relatively small growth in the FY16 budget, it was necessary to exercise options that cannot be repeated in future years and are short-term solutions.

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Additionally, while the Council narrowly voted to not decrease the energy tax rate this year, the Council, contrary to my recommendation, decreased the Energy Tax in fiscal years 2013, 2014 and 2015, resulting in cumulative revenue losses of nearly \$96 million over the last 4 years. Also contrary to my strong urging, the Council approved a budget for FY16 that increased spending by more than \$18 million – all funded with one time revenues, including dipping into our reserves.

I have also consistently urged the Council over the last several years to not add to my recommended budget, but rather to reprioritize within the recommended spending levels. This constraint was especially important for FY16 as we faced continued uncertainty and diminishing options for dealing with potential shortfalls.

In my initial savings plan memorandum to the Council, I outlined the nature of the problem and the need for immediate action and identifying a minimum of approximately \$51 million of savings. We must focus on this goal at this time in the interests of the fiscal health of the County.

While I know that we are facing difficult choices, I have confidence that the Council will be diligent in addressing a serious fiscal challenge. Thank you for considering my views. I look forward to working with you and the Council to resolve our difficult and long term fiscal situation.

IL:jah

cc: Councilmembers  
Stephen B. Farber, Council Administrator  
Timothy L. Firestine, Chief Administrative Officer  
Jennifer A. Hughes, Director, Office of Management and Budget  
Joseph F. Beach, Director, Department of Finance

Attachment: FY15-18 Income Tax Revenues and FY16 Savings Plan Presentation to County Council