OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

July 8, 2015

TO: George Leventhal, Council President

FROM: Isiah Leggett, County Executive

SUBJECT: FY16 Savings Plan

Attached please find my Recommended FY16 Savings Plan for Montgomery County Government and the other tax supported County Agencies. The attached plan identifies savings of approximately $51 million including $10 million in current revenue, the minimum I believe necessary at this time as we begin planning for the FY17 budget.

Only one income tax distribution remains for FY15, and year-to-date collections are $21.4 million short of the estimate included in the FY16 approved budget. Given the size of the final FY15 distribution and the pattern of shortfalls we have experienced, it is unlikely that the final distribution will result in additional revenues that would significantly offset the $21.4 million shortfall. Therefore, it is prudent to assume a significant overall shortfall will continue into FY16 and FY17. In addition, more recent information indicates that the recent Supreme Court decision in the case of Wynne v. Comptroller for the State of Maryland will further reduce income tax revenues by approximately $15.1 million in FY16 and $76.7 million in FY17. Altogether, the cumulative revenue loss by FY17 is currently projected to reach well over $150 million.

This potential revenue loss, combined with significant expenditure pressures, raises the possibility of a very substantial budget gap for FY17 in addition to the FY16 shortfall. Please keep in mind that we must close this substantial and growing gap without the options that have been available to us in the past. Therefore, it is critical for our taxpayers, residents and employees that we plan for and implement a savings plan now to avoid even more significant and potentially disruptive budget reductions later.

In the last County savings plan in FY11, Montgomery County Public Schools savings constituted a higher percentage of the total. I do not believe that it is possible today, given the elimination of over 380 positions and other constraints the school system has experienced within a maintenance-of-effort budget in recent years. However, I believe a $10 million savings target is realistic. Montgomery College has benefited from unprecedented increases in County funding in the last two years - 29 percent since FY14. While their programs and goals are worthy and I have supported the College with recommended increases in excess of all other County agencies, I believe they must also be part of this solution. I am recommending a $5 million operating budget savings target for Montgomery College and an additional $6.5 million savings plan reduction in capital budget current revenue. Even with this recommended savings, the College will experience a nearly 24 percent increase in County resources in the last two years. The savings plan target for Maryland National Capital Park and Planning Commission is approximately $1.5 million, or about 1.3 percent of its tax-supported budget (excluding debt service and retiree health insurance prefunding).

For Montgomery County Government, the total operating budget savings plan target is $24.1 million or 1.7 percent of the approved budget, and $3.64 million in capital budget current revenue. As a starting point, the operating budget savings plan target included a two percent across-the-board reduction in all tax supported budgets, and also included some of the enhancements added to the budget in FY16. The savings plan includes enhancements I recommended in my March 15th budget and some of those added by the Council. However, in order to meet the necessary savings goal for FY16 and beyond, we must find even greater savings beyond that which was added in FY16. This savings plan reflects reductions in service, though we have sought to minimize reductions to the most critical and basic services.

While no one disputes the value these new and expanded programs would provide, I am convinced they are not sustainable in the current fiscal environment we are facing for the foreseeable future. Therefore, I do not believe it is advisable to initiate them at this time. If, however, you reach a different conclusion, you should recommend additional programs and services that are part of the base budget for reduction or elimination. The Council should identify those reductions as alternatives but approve my overall savings target. Again, it is critical to pull back on our current spending as soon as possible, in order to address the revenue shortfalls.

Given the long-term nature of the fiscal problems, I have also maximized reductions to on-going expenditures. The Council's reductions should similarly avoid focusing on one-time items such as current revenue. While some one-time savings are part of my proposed savings plan, there are far more dollars assumed from ongoing expenditures. Without this approach, we will almost certainly be confronting the same difficult decisions at a later time when our flexibility is even more greatly diminished.

I want to emphasize that I do not believe a property tax increase alone, of the magnitude it will require to close next year's expected budget gap, can be the solution. The combination of reduced revenues and increased expenditure pressures is simply too great to overcome with a tax increase. As noted in the Council's discussion of the FY16-21 fiscal plan, just to close the existing gap, the property tax increase would have to exceed 10 cents to fund a same services budget next year. Additional revenue would need to be identified to pay for normal cost increases in the current budget such as increases to salaries in the collective bargaining agreements, fuel cost increases, interest rate increases, or inflation increases.

I understand the desire by some to wait until more information becomes available – for example, after the fiscal update – but the likelihood of a dramatic reversal in the revenue trend we have observed over the last year is low. In addition, the impact of the Wynne decision is likely to be substantial and could exceed our current estimates.

The sooner we can implement these cost control measures, the more likely they are to be achieved. Without these reductions, the already significant challenge of balancing the FY17 budget will be even more painful and less manageable. Deferring difficult decisions now not only increases the risk of limiting our choices later, but potentially makes those choices much worse than they would otherwise be. Delaying difficult decisions will also increase the later need for unsustainable and unrealistically high tax increases over the next several years. I believe that course of action would not be fiscally responsible or fair to our constituents, our residents and businesses, or our employees.

I appreciate the Council's willingness to collaborate on this important matter and the expedited scheduling of consideration and approval of the plan. My staff is available to assist the Council in its review of the attached proposal. Thank you for your support of our efforts to minimize the impact of these reductions on our most important services while preserving the fiscal health of the County Government.

Executive Recommended FY16 Savings Plan

Agency	Approved FY16 Budget	Savings Plan Reduction	Agency as % of Total FY16 Budget	Reduction as % of Savings Plan	Savings Plan Reduction as % of Budget
MCG	1,413,422,533	24,139,111	35.7%	59.3%	1.7%
MCPS	2,176,525,543	10,000,000	55.0%	24.6%	0.5%
College	252,218,195	5,000,000	6.4%	12.3%	2.0%
MNCPPC	115,583,985	1,529,329	2.9%	3.8%	1.3%
Total	**3,957,750,256**	**40,668,440**			**1.0%**

Notes:
1. Amounts above include only the operating budget, excluding debt service and retiree health insurance.
2. The County Executive's Recommended FY16 Savings Plan also includes capital budget current revenue reductions of $10.14 million, including $6.5 million from Montgomery College and $3.64 million from the County Government.

IL:jah

c: Timothy L. Firestine, Chief Administrative Officer
Larry A. Bowers, Interim Superintendent, Montgomery County Public Schools
Dr. DeRionne Pollard, President, Montgomery College
Casey Anderson, Chair, Montgomery County Planning Board
Stacy L. Spann, Executive Director, Housing Opportunities Commission
John W. Debelius III, Sixth Judicial Circuit and County Administrative Judge
John McCarthy, State's Attorney
Sheriff Darrin M. Popkin, Sheriff's Office
Steve Farber, Council Administrator
Jennifer A. Hughes, Director, Office of Management and Budget
Joseph F. Beach, Director, Department of Finance

Attachments