

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

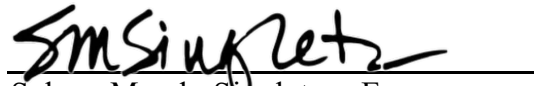
As a means to preserve long-term budget sustainability, the annual growth rate of total compensation costs (including all wage and benefit costs) should be similar to the annual growth rate of tax-supported revenues. In submitting a recommended annual operating budget, the Executive should indicate how 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.

A handwritten signature in black ink, appearing to read "SM Singleton", is written over a horizontal line.

Selena Mendy Singleton, Esq.
Clerk of the Council