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**Leggett Closes \$300 Million Budget Gap, Bringing Five-Year Reductions to \$2.5 Billion; Hard Choices Made Include Significant Reductions in Employee Staffing and Compensation and Cuts in Programs and Services**

Montgomery County Executive Isiah Leggett today announced his recommended \$4.35 billion operating budget that closes a \$300 million gap for fiscal year (FY) 2012 that begins July 1. Leggett's budget focuses on protecting essential services and his priorities of education, public safety and the safety net for the most vulnerable, but includes significant reductions in services, staffing levels and employee compensation to address the County's long-term structural budget challenge. The only major County department seeing any increase is the Police Department.

Leggett's hard choices respond to the continued highly uncertain economic outlook; the sharp, upward pressure on energy prices; the prolonged downturn in the local real estate market; pending reductions in federal procurement and spending; and persistently high unemployment.

"I have made restoring fiscal prudence a major priority of my administration," said Leggett. "Even before the current economic downturn, the combination of a growing workforce, expanding services, and sharply receding local revenues created an untenable, long-term, structural deficit in the County budget.

"For the past five years, my budgets have reflected this new reality, dramatically slowing the growth rate in the operating budget and saving County taxpayers millions of dollars. These budgets have closed gaps of more than \$2.5 billion to address shortfalls every year – which is unprecedented.

"Continuing these efforts to put our financial house in order has required establishing responsible fiscal practices that protect and serve our nearly one million residents. With the long-term fiscal stability of Montgomery County at stake, I am committed to continuing the hard choices that address our current problems and ensure a better future. But, these practices come with a short-term price and great pain for our community and County employees."

Last year, Leggett continued his work to strengthen the County's fiscal policies and bolster its AAA bond rating by establishing higher reserve policies.

"We need to be sure Montgomery County puts money aside during good times and bad to help the County survive lean years," said Leggett. "It is imperative that we adhere to the new fiscal policies to maintain the County's AAA bond rating, responsibly fund ongoing obligations, and maintain a prudent and realistic level of reserves for future contingencies."

Leggett's budget keeps faith with tougher standards by maintaining reserves at their required levels, allocating funding for PAYGO at 10 percent of planned general obligation bond issue, budgeting over \$26.1 million in the County Government for pre-funding retiree health insurance, and allocating a more realistic \$10 million for snow removal and storm response rather than funding these expenses by drawing down reserves.

Not including the health insurance pre-funding and snow removal, the County government tax-supported budget actually declines by \$24.1 million – or a reduction of 2.1 percent. By adequately funding obligations up front, Leggett's budget recommendation increases the County government's tax-supported budget by \$11.9 million – a one percent increase from the FY11 approved budget.

In addition to the Montgomery County government budget, the overall recommendations include:

- Maintaining local funding for the Montgomery County Public Schools (MCPS) at the same level as the current year -- \$1.415 billion. This represents a reduction of \$82 million equaling 96 percent of the Board of Education's request. Overall, with increased state and federal funding, the MCPS budget increases by \$67.7 million, a 3.5 percent increase;
- Increasing the total County budget (all agencies, all tax-supported and non-tax-supported funds, and debt service) of \$76.5 million from the FY11 approved budget, a 1.8 percent increase;
- Increasing the overall tax-supported budget for all County agencies (including debt service) of \$111.9 million, a 3.1 percent increase;
- Funding increases for Montgomery College of \$1.5 million, a 0.7 percent increase; and
- Funding reductions for the Maryland-National Capital Park and Planning Commission (M-NCPPC) of \$1.7 million, a 1.8 percent decrease.

Among County government departments and initiatives, the largest reductions from FY11 levels include Community Grants (26 percent less), the Arts and Humanities Council (24 percent), Housing and Community Affairs (15 percent), Department of General Services (11 percent), County Attorney's Office (11 percent), and Public Libraries (10 percent).

Below are listed some of the services proposed to be eliminated or significantly impacted:

- Library staffing would be reduced in a number of libraries including Silver Spring, Twinbrook, Chevy Chase, and Long Branch. Information Service staff would be eliminated on Sundays, although Virtual Services would remain available;

- Recreation Center staffing would be reduced by six positions, and most youth sports programs would be eliminated, as well as teen special events;
- The Office of Commission for Women, Office of Human Rights, and the Regional Services Centers will be consolidated into the newly-created Office of Community Engagement, producing a savings of nearly \$2.8 million by eliminating several positions and related operating funds;
- In Health and Human Services, the Conservation Corps program will be eliminated, as well as the Energy Tax Rebate program. The opening of the Rolling Terrace school-based health center will be delayed for at least one year. Supplemental payments to developmental disability service providers will be reduced, as will the hours for dental services. Substance abuse treatment services will be reduced in the Adult Drug Court and in the Lawrence Court Halfway House program. In-home aide services for seniors will also be reduced. An annual co-pay of \$25 will be instituted for all Montgomery Cares Program participants, and the benefit level for participants in the County's Earned Income Tax Credit program will be reduced by over 34 percent;
- In public safety, the High School Cadet program in the Fire and Rescue Service would be eliminated. The School Resource Officer program in the Police Department will be eliminated as would Police neighborhood satellite stations in Piney Branch, Olney and East County. Front desk service at the 2nd District and 6th District will also be eliminated during overnight hours;
- Transportation incentive funds for commuters using transit or ridesharing in Bethesda would be eliminated; and
- Traffic signal relamping, roadway maintenance, and traffic studies would be curtailed.

The Police budget will increase by one-half percent, primarily to respond to growing public safety issues in the Silver Spring Central Business District and the Route 29 corridor. Fire and Rescue funding will decrease by 1.7 percent. The repeal of the Emergency Medical Services (EMS) transport fee, which cost the County \$14 million this year and \$160 million over 10 years, makes more difficult needed efforts to enhance Fire and Rescue in the future.

The budget includes no reductions in County transit routes and no reductions to senior transportation and nutrition programs. Library operating hours and materials costs were maintained. All County recreation centers remain open, and ambulance service levels were maintained. There are no reductions in Police Department specialty units, and County after-school Sports Academies and Recreation Extra programs continue at their current levels.

### **Fixing the Structural Deficit**

“In my first budget as County Executive, the County faced a \$200 million budget shortfall in FY08,” said Leggett. “We reduced the tax-supported rate of increase in spending by County government from 14.1 percent in FY07 to 6.9 percent in FY08.

“In FY09, as a result of a plummeting real estate market and the economic downturn, our projected shortfall increased to \$401 million. In response to this challenge, we imposed a hiring freeze, produced midyear savings of over \$30 million, abolished over 225 positions, implemented a retirement incentive program, and slowed the rate of growth in the County government to 1.6 percent.

“In the FY10 budget, we closed a projected gap of \$590 million without a tax increase by reducing costs, abolishing nearly 400 positions, and eliminating general wage adjustments for most employees.

“In developing the FY11 budget, we faced a daunting and historic projected gap of over \$970 million. To respond to this challenge we abolished nearly 450 positions, implemented furloughs across most agencies, and contracted the overall size of the government.

“This year, while the budget challenge of approximately \$300 million was small in relation to previous gaps, it was even more difficult to close because of the many deep reductions in County services that have been made in previous budgets.”

Despite all these previous efforts, Leggett stated that the County continues to experience an ongoing structural imbalance between County expenditures and resources.

“Our solutions must be weighted toward identifying long-term savings, sustainable and stable revenues, and adopting efficient, productive, and cost-effective business practices,” said Leggett. “We have to keep in mind that given the severe and lasting impacts of the recession, the subsequent decline in tax revenues, the scheduled sunset of the increase in the Fuel Energy Tax at the end of FY12, the possibility of more state budget cuts and continued economic uncertainty, we can expect our economic difficulties to continue in FY13 and perhaps beyond. The projected increases in debt service, Capital Improvement Projects current revenue, pre-funding retiree health insurance, and other funding obligations will continue to impose significant fiscal constraints on the County in FY13. Indications are that another \$142 million in reductions will be needed in FY13.”

### **Restructuring Employee Compensation**

With wages and benefits for County employees representing 80 percent of the County government’s budget, Leggett stated that it would be nearly impossible to rein in unsustainable future costs without rethinking employee compensation. “I am very proud of our workforce – its professionalism, dedication, and work ethic,” said Leggett. “However, fiscal prudence dictates making the hard choice to reduce ongoing and future compensation costs.”

To bring down future costs, Leggett has proposed abolishing 216 positions, of which 139 of them are currently filled. This brings the total of positions he has abolished to nearly 1,260 -- or more than 10 percent of the workforce over the past five years.

“When I started my review of the FY12 budget, there were over 500 positions that could have been eliminated,” said Leggett. “I wanted to reduce that number – and that’s why I have made the trade-offs I am proposing.”

Leggett’s budget recommends significantly changing the cost sharing arrangement for County government employees’ group insurance and retirement plans. The budget increases employee group insurance contributions from 20 to 30 percent. Leggett recommends that the County adjust the premium schedule into three tiers so that higher compensated employees pay a greater share of the costs. Employee contributions to the County’s defined benefit plans will also increase by two percent. Similarly, County contributions to employees’ defined contribution plans will decrease by two percent. Leggett is encouraging the governing boards of other County funded agencies to support similar approaches to compensation in FY12.

The budget continues the hiring freeze instituted over two years ago and again excludes cost-of-living and service increment increases for any County government employee. The recommended budget does not include furloughs for County employees.

“I realize that reductions in current compensation levels will result in additional financial sacrifice for County employees and their families,” said Leggett. “I am very aware of the substantial contributions that our employees have made in addressing the County’s financial challenges. Restructuring employee compensation is the most realistic alternative available to develop a budget that is fair to County taxpayers and employees. Whatever I ask of County employees, I will match, and so will my entire management team and all senior managers.”

### **Restructuring Services and Government**

The Regional Services Centers, the Office of Community Partnerships (currently in the Offices of the County Executive), the Office of Human Rights, the Gilchrist Center (in the Department of Recreation) and the Commission for Women will be combined to create the Office of Community Engagement. This consolidation is not only expected to produce continuing savings of almost \$2.8 million, but should also provide a more effective model for engaging the community and leveraging the expertise and resources of all parts of Montgomery County to address its most urgent challenges in the coming years.

As recommended by the Organizational Reform Commission, Leggett recommends moving ahead with the consolidation of the Housing Opportunities Commission (HOC) and the Department of Housing and Community Affairs (DHCA) to produce continuing savings and improve the coordination and effectiveness of affordable housing programs; merging the Maryland-National Capital Park and Planning (M-NCPPC) Park Police with

the Montgomery County Police Department to produce substantial savings and improve response time to incidents in the parks; and merging certain elements of the M-NCPPC Parks Department into the County's Department of Recreation to improve the coordination of local recreation programs, streamline resident access to these services, and produce continuing savings.

"We have to change the way County agencies do business," said Leggett. "Everybody wants to restructure in the abstract, but then many back away when it gets down to specifics. It is time for action, not talk."

### **Funding the Budget**

The recommended budget keeps faith with Leggett's commitment to continue to hold the line on property taxes at the Charter limit, including a credit of \$692 to lower the burden on homeowners and maintain a progressive property tax.

Water and sewer rates will increase by 8.5 percent in FY12 in accordance with the budget recently approved by the Washington Suburban Sanitary Commission.

While the budget takes many actions to bring down the long-term costs of the government, other investments will protect the quality of life in the County. Fees raised in the Water Quality Protection Fund will allow continued expansion of outreach, inspection and remediation efforts to comply with the requirements of the State's Municipal Separate Storm Sewer System (MS4) permit requirements. The MS4 permit requires the County to upgrade existing stormwater management facilities and improve efforts at controlling stormwater runoff, especially through the use of low impact design approaches.

To address the environmental and public health problems caused by disposable bags used by retail businesses, Leggett has recommended legislation to allow a five-cent excise tax on carryout bags provided by retailers to customers on or after January 1, 2012. This legislation will provide an incentive for individuals to reduce their use of disposable bags and reduce the number of bags that end up in the litter and trash stream. All revenues generated through this excise tax will be dedicated to the County's Water Quality Protection Fund and used for watershed protection activities including litter prevention and removal.

### **Improving Productivity and Performance**

Leggett has introduced numerous measures to make Montgomery County government operations more efficient, productive, and cost effective. The CountyStat initiative has been a major success in improving responsiveness and efficiency by tracking performance using real-time data and holding departments and agencies accountable for the results in a number of operational and policy areas. Savings realized by CountyStat include more than \$20 million by cutting public safety overtime hours 19 percent and \$2.1 million in reduced paper use.

Other initiatives that are saving money and improving operations include the implementation of the 311 Call Center (MC311) and the Constituent Relationship Management system that consolidated five call centers housed in various departments; on-time and within budget modernizations and upgrades to key elements of Core Business Systems that improve the efficiency, effectiveness and responsiveness of the County government; and the Technology Modernization capital project, which will also provide resources to replace fragmented budgeting systems with an automated, web-based system that will be more efficient and functional and have better reporting features.

## **The Future**

Leggett stated, “Despite the extraordinary challenges we are currently facing, I remain very optimistic about the future of our County. We will continue to take advantage of every opportunity to produce savings, increase efficiency, and preserve and enhance services for the residents of this County.

Leggett is hopeful that the recently approved land use plans for the White Flint Central Business District and the Great Seneca Sciences Corridor will significantly contribute to the growth of the local economy through job creation, residential and commercial development, support for transit-oriented development, and other improvements in the quality of life for County residents. Efforts continue to actively and aggressively market Montgomery County as a business destination and make strategic investments to retain and recruit quality businesses to Montgomery County. The County is also well on its way to implementing the Smart Growth Initiative, which is key to developing the Shady Grove Sector Plan and improving the quality and safety of County facilities for the Police Department, Fire and Rescue Services, MCPS, and the M-NCPPC.

To view the budget highlights and the full budget, go to the Office of Management and Budget homepage on the County’s website at [www.montgomerycountymd.gov/omb](http://www.montgomerycountymd.gov/omb).

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