Montgomery County Council

Committee: Directly to Council
Staff: Craig Howard, Deputy Director
Aron Trombka, Senior Legislative Analyst, OLO
Purpose: Receive briefing and have discussion – no vote expected
Keywords: FY21 Operating Budget

AGENDA ITEMS #1,2
April 23, 2020
Worksession

SUBJECT

FY21 Compensation and Benefits – All Agencies

EXPECTED ATTENDEES

- Rich Madaleno, Director, Office of Management and Budget
- Corey Orlosky, Office of Management and Budget

COUNCIL DECISION POINTS

None

DESCRIPTION/ISSUE

Council staff will review compensation and benefits for all agencies in the FY21 recommended operating budget, covering five key issue areas:

- FY21 budget and compensation context;
- Overview and analysis of FY21 agency requests for pay adjustments, retirement, and group insurance;
- Other Post-Employment Benefits (OPEB) pre-funding and the Executive's FY20 recommended OPEB Savings Plan;
- An analysis of compensation cost sustainability; and
- Compensation related Non-Departmental Accounts

This report contains:

M E M O R A N D U M

April 20, 2020

TO: County Council

FROM: Craig Howard, Deputy Director
Aron Trombka, Senior Legislative Analyst, OLO

SUBJECT: **Compensation and Benefits for All Agencies**

1. BUDGET AND COMPENSATION CONTEXT

The Executive's FY21 recommended tax supported aggregate operating budget is $5.133 billion, an increase of 2.0% above the FY20 amount. Across the four County-funded agencies, employee compensation costs (consisting of salaries as well as benefits) comprise about 80% of all agency operating expenditures. As such, the cost of government is driven by both the number of employees and the cost per employee.

Overall, the four County-funded agencies have requested tax supported FY21 operating budgets with a combined $3.63 billion for employee pay as well as employee and retiree benefits. The aggregate total request for employee/retiree compensation is up by 1.6% as compared to FY20.

FY20 Approved and FY21 Requested Tax Supported Compensation Costs by Agency

Agency	FY20	FY21	% Change
County Government	$1,057,638,540	$1,060,837,225	0.3%
MCPS	$2,182,131,542	$2,226,826,764	2.0%
Montgomery College	$217,168,057	$219,315,361	1.0%
M-NCPPC	$116,078,456	$123,070,997	6.0%
Totals	**$3,573,016,595**	**$3,630,050,346**	**1.6%**

Since compensation costs are the dominant factor in the cost of providing County services, the long-term sustainability of County agency operating budgets is dependent upon maintaining a balance between compensation cost growth and revenue growth. Increases in compensation costs will demand the expenditure of additional resources. The 1.6% increase in the aggregate four-agency compensation request is lower than the projected growth in tax supported revenues of 2.6% from FY20 to FY21 in the County Executive's March 16 budget.

However, the March 16 revenue projections assume the Executive's recommended tax increase and were produced prior to the current health crisis. As detailed in the Council's budget overview presentation last week, County tax revenues could be reduced by as much as $600 million over FY20 and FY21 combined due to the health crisis.

While the Council is exploring "continuity of service" budget options for FY21 based on the current fiscal and economic uncertainty related to the COVID-19 pandemic, no decisions been made on compensation and benefit costs. The Council will review detailed information on the various cost components and proposed increases as part of today's worksession, and is currently scheduled to take action on County Government compensation benefit costs and collective bargaining agreements on April 30. For MCPS, Montgomery College, and M-NCPPC, final decisions on proposed FY21 pay and benefit enhancements will be made by their respective governing bodies based on the ultimate funding levels approved by the Council.

2. PAY AND RETIREMENT

A. County Government FY21 Recommended Pay and Retirement Adjustments

For FY21, the Executive negotiated new three-year agreements with MCGEO and the FOP and a new two-year agreement with the IAFF. The Executive also has recommended pay adjustments for non-represented employees and members of the Management Leadership Service (MLS) and Police Leadership Service (PLS). The Executive proposes a different combination of general wage adjustments and service increment for each of the five employee groups. The table below shows the FY21 general wage adjustments and service increments negotiated by the Executive. In addition, the Executive recommends funding a "salary schedule adjustment" for eligible FOP members as well as a past year service increment for eligible MCGEO members who did not receive a service increment during the recession year of FY11.

Executive Recommended
FY21 County Government General Wage Adjustments and Service Increments

Employee Group	General Wage Adjustment	Service Increment[1]	Past-Year Service Increment	Salary Schedule Adjustment
MCGEO	1.25% (effective Oct. 2020)	3.5%	1.25% from FY11 (effective July 2020)	None
FOP	1.0% (effective July 2020)	3.5%	None	3.5% (effective July 2020)
IAFF	2.25% (effective Aug. 2020)	3.5%	None	None
Non-Represented [2]	1.25% (effective Oct. 2020)	3.5%	None	None
MLS/PLS	1.25% (effective Oct. 2020)	Performance-based pay increases in lieu of service increments.	None	None

[1] Non-MLS/PLS employees would receive the service increment at the first pay period following the employee's hiring anniversary date. The effective date for MLS/PLS performance-based pay increases is July 1, 2020.
[2] As detailed in Section 33-102 of the County Code, non-represented employees include employees in non-merit position and other senior managers; employees who provide direct staff or administrative support to senior managers; and all employees of the Office of the County Executive, the County Council, the Office of the County Attorney, the Office of Management and Budget, the Office of Intergovernmental Relations, the Office of Human Resources, the Merit System Protection Board, and the Ethics Commission.

The Executive's recommended operating budget also includes several additional forms of pay adjustments as described on the following pages.

General Wage Adjustments: The Executive recommends general wage adjustments (GWAs, also known as cost of living adjustments) of 1.25% for MCGEO members (effective October 1, 2020); 1.0% for FOP members (effective July 1, 2020); 2.25% for IAFF members (effective August 1, 2020); and 1.25% for non-represented employees (effective October 1, 2020).

Special General Wage Adjustment for Employees Not in Retirement Plan: The Executive's negotiated agreement with MCGEO includes a provision that would provide an additional 1.0% GWA (or lump sum) for part-time employees who have opted out of the County retirement benefit or who participate in a State retirement plan.

Service Increments: The Executive recommends that all County Government merit system employees (excluding Management Leadership Service) who are not at top of grade receive a 3.5% service increment (also known as a step increase) in FY21. An employee receives the service increment in the first pay period following his/her employment anniversary date.

MCGEO Past-Year Service Increment: The Council did not fund service increments for any County employees in FY11, FY12, and FY13 because of fiscal constraints. The Executive's agreement with MCGEO offers an additional service increment of 1.25% (effective July 1, 2020) for bargaining unit members who did not receive a service increment in FY11.

FOP Salary Schedule Adjustment: The contract negotiated by the Executive with the FOP includes a "salary schedule adjustment" of 3.5% for FOP members who earn a salary below the maximum base salary. In effect, this provision would provide a second FY21 service increment to FOP members who are not at top of grade. The Executive recommends awarding this pay adjustment July 1, 2020.

Performance-Based Pay: Employees in the Management Leadership Service (MLS) and the Police Leadership Service (PLS) are eligible for performance-based pay increases in lieu of service increments. The Executive's recommended FY21 operating budget includes $1,135,278 ($515,390 tax supported) in the Compensation Adjustment and Employee Benefits non-departmental account to fund performance-based pay increases for MLS/PLS employees. The budgeted amount for MLS performance-based pay increases is unchanged from FY20. Since MLS/PLS employees are non-represented, performance-based pay is not included in any collective bargaining agreement.

Lump Sum Payments: The Executive negotiated an agreement with MCGEO that includes a one-time lump sum payment of $1,000 for employees (including those at top of grade) who are not eligible for a service increment in FY21. The lump sum payment is categorized as a one-time cost since it does not recur in future years and does not raise future year employee salaries. The FY20 contract with MCGEO also includes a one-time lump sum payment of $1,200 for employees who will not receive a service increment this year.

Retirement Contribution Shift: For MGEO members and non-represented employees, the Executive recommends changing the percent of annual salary contributed by both the employee and the County Government. As proposed by the Executive, the County's contribution rate will increase by 1.0% of the employee's salary while the employee's contribution rate will decrease by 1.0% percent of salary.

The contribution shift would apply to employees participating in the Employees' Retirement System (ERS, the defined benefit pension plan for most uniformed public safety employees as well as general government employees hired before October 1994), the Retirement Savings Plan (RSP, the optional defined contribution plan for general government employees hired since October 1994), and the Guaranteed Retirement Income Plan (GRIP, the optional cash balance plan for general government employees hired since October 1994). The Executive recommends awarding this adjustment effective July 1, 2020. The table below summarizes the proposed changes in retirement benefit contributions recommended by the Executive.

Employee and County Retirement Benefit Contributions
Percent of Annual Salary

	Current		**Executive Recommended**	
	Employee[3]	**County**	**Employee**	**County**
Non-Public Safety **ERS** (Defined Benefit)	6.0%	Actuarial calculation of County's portion of normal cost.[4]	5.0%	Actuarial calculation of County's portion of normal cost.
Public Safety **ERS** (Defined Benefit Groups E & J)	6.75%		5.75%	
Non-Public Safety **RSP** (Defined Contribution)	4.0%	8.0%	3.0%	9.0%
Non-Public Safety **GRIP** (Cash Balance)	4.0%	Actuarially determined*	3.0%	Actuarially determined*
Public Safety **RSP** (Defined Contribution)	3.0%	10.0%	2.0%	11.0%
Public Safety **GRIP** (Cash Balance)	3.0%	Actuarially determined*	2.0%	Actuarially determined*

*The County's contribution is actuarially determined each year based on a variety of factors, including investment experience, salary growth, cost of living adjustments etc.

[3] The employee contribution rate shown in the table is for annual earnings up to the Social Security wage base (the maximum earnings subject to the full Social Security taxes). For 2020, the Social Security wage base is $137,700. The employee contribution rates for earnings greater than the Social Security wage rate is 8.0% for non-public safety ERS members; 10.5% for public safety ERS members; 8.0% for non-public safety RSP and GRIP members; and 10.0% for public safety RSP and GRIP members. *The rate above the SS Wage base would also be reduced by 1% based on the proposed legislation.*

[4] Normal cost is the actuarial present value of benefits accrued in the current year. In other words, the normal cost of a pension is the amount the employer must set aside in that year to cover the cost of an employee's benefit earned in the same year.

The contribution shift proposed by the Executive is not a pay adjustment as it would not alter an employee's annual salary. Nonetheless, the contribution would have effects that are similar to a pay increase from the perspective of both the employee and the County. The proposal would increase an employee's take home pay while adding to County costs.

Longevity Adjustments: County Government employees who have worked a specified number of years are eligible for a longevity adjustment to their base pay. As shown in the table below, longevity adjustments vary by employee group. MLS/PLS employees are not eligible for longevity adjustments. The Executive recommends funding existing longevity adjustments for eligible employees.

Executive Recommended FY21 Longevity Adjustments

Employee Group	Years of Service	Percent
MCGEO (non-public safety)	18	3.0%
	24	3.0%
MCGEO (public safety)	20	3.5%
	24	2.5%
FOP	16	3.5%
	20	3.5%
IAFF	20	3.5%
	24	3.5%
Non-Represented[5]	20	2.0%

Military Service Credit: The Executive negotiated a contract with MCGEO that would enhance the defined benefit (pension) benefit for Sheriffs and Correctional Officers. Under the current pension plan design, employees with past military service may purchase up to 48 months of credit to count toward the calculation of their years of service used to set their pension benefit. The amount an employee would pay to purchase a military service credit is based on a variety of factors including age, salary, and years of County Government service. The Executive recommends amending the pension plan design for Sheriffs and Correctional Officers to award a credit for up to 48 months of military service without the employing contributing to the pension fund for that service time.

Sick Leave Payout: The negotiated agreement with MCGEO includes a provision for the County to pay employees in the RSP or GRIP retirement plans for unused sick leave at separation from employment. The agreement states that employees with at least 10 years of service and a sick leave balance of at least 120 hours will receive a payment of $5,000 and employees with at least 20 years of service and a sick leave balance of at least 240 hours will receive $10,000.

[5] For non-represented employees, only those who are at top of grade and received performance ratings of "exceptional" or "highly successful" for the two most recent years are eligible for a longevity increase.

Miscellaneous Pay Adjustments: The negotiated agreements include various miscellaneous pay adjustments including increases in special duty differentials, uniform allowances, and transit subsidies.

Cost of Pay Adjustments: As shown in the table on page 7, the pay and retirement contribution adjustments recommended by the Executive will have a combined FY21 cost of $28.0 million ($22.4 million tax supported). These estimates include the salary and wage costs as well as salary-based benefit costs borne by the employer.[6] However, as many of the pay adjustments take effect several months into the fiscal year, the amount budgeted for FY21 does not reflect the full annualized cost (that is, the 12-month cost) of the Executive's recommendations. The annualized cost of the FY21 pay adjustments is $38.2 million ($30.4 million tax supported). The annualized cost of the pay adjustments exceeds the FY21 cost by almost $10.2 million ($7.8 million tax supported). These costs will become part of the FY22 budget base. Cost summaries by bargaining unit and for non-represented employees are attached at ©1-4.

B. County Government FY20 COVID-19 Pay Differential

On April 5, the Chief Administrative Officer announced that the County had reached an agreement with the three employee unions to provide a pay differential for staff whose jobs cannot be performed remotely during the COVID-19 health crisis. The agreements cover six pay periods starting March 29, or until the Maryland State of Emergency is lifted. The CAO also extended the same differential to non-represented employees on the general salary schedule (GSS). The differential does not apply to MLS, PLS, or Fire management employees. The details of the pay differential include:

- The differential pay will be uniform for FOP and IAFF members. For MCGEO-represented and GSS employees, the differential will distinguish between front-facing onsite and back office onsite work.
- The front-facing onsite employees will receive an additional $10/hour and the back-office onsite will receive $3/hour.
- Represented employees will also receive one week of compensatory time for the period from March 22-28.

The Office of Management and Budget currently estimates that the pay differential will cost approximately $3.2 million per pay period. Additional information will be available following the first pay period when the differential was in effect.

[6] The estimates include the additional costs of all salary-based benefits included Social Security, Medicare, defined benefit retirement, and defined contribution retirement.

Cost of Executive Recommended FY21 Pay and Retirement Contribution Adjustments
(collective bargaining agreements, non-represented pass-through, and MLS/PLS performance-based pay)

Pay Adjustment	Estimated Number of Employees	Total Cost		Tax Supported Cost	
		FY21 Budgeted Amount	Annualized Cost	FY21 Budgeted Amount	Annualized Cost
GWA – 1.25% for MCGEO	4,835	$3,828,275	$5,298,842	$2,745,350	$3,799,925
GWA – 1.0% for MCGEO members not in retirement plan	240	$107,654	$107,654	$77,188	$77,188
GWA – 1.0% for FOP	1,164	$1,166,707	$1,166,707	$1,166,707	$1,166,707
GWA – 2.25% for IAFF	1,114	$2,106,304	$2,289,461	$2,102,702	$2,285,546
GWA – 1.25% for Non-Represented	2,268	$2,339,519	$3,213,625	$1,969,155	$2,704,883
Increments – 3.5%	6,005	$7,522,883	$13,718,401	$6,000,216	$10,839,771
Past-Year Increment – 1.25% for MCGEO	979	$904,049	$904,049	$648,203	$648,203
Salary Sched. Adjustment – 3.5% for FOP	569	$1,959,436	$1,959,436	$1,959,436	$1,959,436
MLS/PLS Performance-Based Pay	456	$1,135,278	$1,135,278	$515,390	$515,390
Retirement Contribution Shift for MCGEO/ Non-Represented	7,103	$2,519,285	$5,417,946	$1,850,378	$3,964,747
Military Service Credit - MCGEO		$121,961	$121,961	$120,741	$120,741
Sick Leave Payout - MCGEO	35	$225,000	$225,000	$225,000	$225,000
Longevity Adjustments	337	$544,788	$1,045,103	$455,106	$854,859
Lump Sum - MCGEO	1,800	$1,923,238	N/A	$1,378,962	N/A
Other*		$1,614,872	$1,614,872	$1,202,686	$1,202,686
TOTALS		**$28,019,249**	**$38,218,335**	**$22,417,220**	**$30,365,082**

* Includes special duty differentials, uniform allowances, and transit subsidies, and other miscellaneous personnel costs.
Source: Office of Management and Budget

D. Pay Adjustments for Other Agencies

MCPS: Last fall, the Board of Education entered into contract negotiations with its employee bargaining units for contracts covering. As of the writing of this memorandum, the Board had not completed negotiations with any of its bargaining units.

Montgomery College: The College's budget includes pay increases totaling $4.9 million. The College has completed negotiations with its bargaining units AAUP and AFSCME. The contract with AAUP includes a 2.3% wage adjustment for faculty members in the bargaining unit for at least one semester; a $650 salary increase for any faculty member not at top of the FY20 salary range; and a one-time salary increase of $250 for any faculty hired before August 1, 2012 not at top of FY20 salary range. The agreement with AFSCME provides members in the bargaining unit for at least six months a wage adjustment of 3.0% up to the top of grade salary level; members at or above the maximum salary level will receive a one-time bonus of $500. The College has not yet completed contract negotiations with SEIU.

M-NCPPC: The Montgomery County portion of M-NCPPC's FY21 budget request includes $2.2 million for employee pay increases as well as an additional $0.7 million for possible employee reclassifications. As of the writing of this memorandum, FY21 pay adjustments for represented and non-represented employees have yet to be determined. The Commission is currently in negotiations with its two employee bargaining units, MCGEO and the FOP.

WSSC: The FY21 WSSC budget request includes $6.1 million for employee pay increases. The specific pay adjustment will be determined by joint agreement of the Montgomery and Prince George's County Councils.

E. County Government Retirement Costs

The Executive recommends two major changes to County Government employee retirement plan design in FY21.

1. As described above, the Executive recommends changing the percent of annual salary contributed by MGEO members and non-represented employees. As proposed by the Executive, the County's contribution rate would increase by 1.0% of the employee's salary while the employee's contribution rate will decrease by 1.0% percent of salary.

2. The Executive recommends creating a new defined benefit (pension) group for MCGEO Public Safety Emergency Communications Specialists. These employees currently are eligible to participate in the RSP and GRIP retirement plans (see descriptions below). Further discussion of this recommendation appears in Mr. Drummer's memorandum for agenda item #3.

The County Government operating budget includes contributions to pay for three different employee retirement plans.

Defined Benefit Plan (Employees' Retirement System). Uniformed public safety employees as well as general government employees hired before October 1, 1994 participate in a defined benefit pension plan, the Employees' Retirement System (ERS). To support this benefit, the County Government makes an annual contribution to the pension trust fund. The County's actuary annually calculates the amount of the pension plan contribution based on assessments of pension fund assets, accrued liabilities, and demographic assumptions. The annual contribution amount is intended to set aside funds to cover projected future pension payments ("normal costs") as well as the cost of amortized payments to cover past year benefit improvements and investment losses ("unfunded liability"). For FY21 the Executive's recommended ERS contribution is $55.4 million.

Defined Contribution Plan (Retirement Savings Plan). General government employees hired since October 1, 1994 participate in the Retirement Savings Plan (RSP). The County Government currently contributes a defined percentage of salary (currently 8%) into employee retirement savings accounts. For FY21 the County will contribute an estimated $22.9 million to employee RSP accounts.

Cash Balance Plan (Guaranteed Retirement Income Plan). Beginning in 2009, non-public safety employees hired since October 1, 1994 have had the option of participating in the Guaranteed Retirement Income Plan (GRIP). GRIP is a cash balance plan that guarantees a 7.25% annual return.[7] About 26% of eligible employees have chosen the GRIP option. The Executive estimates that the GRIP will cost the County Government $8.3 million in FY21.

Participation and Cost Comparisons. A large disparity exists in the costs of the County Government retirement plans. The table below shows the number of employees participating in each of the retirement plans and the total FY21 cost (excluding employee contributions) for each plan. The data show that while 40% of employees participate in the ERS, the ERS accounts for 64% of total County Government retirement plan costs. The average cost per employee for an ERS participant is more than double the cost per RSP participant and more than three times greater than the cost per GRIP participant.

	Plan Participants		FY21 Cost[8]		Average FY21 Cost/ Employee
	Employees	Percent	$ Amount (millions)	Percent	
ERS (Defined Benefit)	3,749	40.0%	$55.42	63.94%	$14,783
RSP (Defined Contribution)	3,380	36.0%	$22.92	26.45%	$6,781
GRIP (Cash Balance)	2,254	24.0%	$8.33	9.61%	$3,696

The County's FY21 retirement contribution rates (as a percentage of an employee's salary) are 18.2% for public safety employees in the ERS; 21.3% for non-public safety employees in the ERS; 8.0% for employees in the RSP; and 6.19% for employees in the GRIP.

[7] As a cash balance plan that guarantees an annual return, the GRIP is a type of defined benefit plan.
[8] Retirement costs shown in the table include both tax supported and non-tax supported costs.

3. GROUP INSURANCE FOR ACTIVE EMPLOYEES

The FY21 tax supported request for active employees' group insurance benefits for all agencies totals $403.9 million, an increase of 0.1% from FY20. These costs represent the employer share of annual group insurance premiums. **The requested funding for active employee group insurance accounts for approximately 8% of all tax supported spending.**

FY20 Approved and FY21 Requested Tax Supported Active Employee Group Insurance Costs[9]

Agency	FY20 Approved	FY21 Request	% Change, FY19-20
County Government	$108.7 million	$108.6 million	-0.1%
MCPS	$264.8 million	$263.0 million	-0.7%
Montgomery College	$15.9 million	$16.2 million	1.9%
M-NCPPC	$14.2 million	$16.1 million	13.4%
Total	**$403.6 million**	**$403.9 million**	**0.1%**

County Government. The FY21 group insurance costs for County Government active employees are essentially level with FY20 costs, primarily due to increases in prescription drug rebates. The Office of Human Resources (OHR) issued a new prescription benefit management contract that began on January 1, 2020. As part of this contract, OHR negotiated higher prescription drug rebates that result in cost savings to the County. The new contract increases the rebate from 11% of prescription drug costs (for all ages) to 33.0% costs for active employees and pre-65 retirees and 23.3% for post-65 retirees.

The expenditures from the County's self-insurance fund (i.e., the cost of health care claims) are projected to increase by $22.1 million or 8.1% in FY21 (see ©5). However, the additional prescription drug rebate revenue in FY21 is projected to cover the increase in claims expenditures, allowing premiums (and therefore the County contribution) to remain flat.

MCPS. MCPS' FY20 request is lowered by $12.8 million due to a draw down on its group insurance fund balance. Absent this action, the projected tax supported request for active employee group insurance benefits would be around $275.8 million.

MCPS continues to provide a health premium cost share split substantially different than the cost share split for County Government. For the past several years, the Council has encouraged MCPS to align its cost share for active employees with that of County Government. **If MCPS did so, it would result in estimated annual savings in the range of $25 million.**

[9] WSSC's FY20 proposed budget (non-tax supported) for group insurance total $30.7million – $17.9 million for active employees (down 6%) and $12.8 million for retired employees (down 2%).

4. GROUP INSURANCE FOR RETIREES (OPEB)

Other Post-Employment Benefits (OPEB) are non-pension benefits offered by an employer to qualified retirees (i.e., retiree health insurance, life insurance, etc.). Each agency sets OPEB benefit levels and eligibility criteria for their own retirees. OPEB includes two funding components:

- **Pay-as-you-go funding** refers to the annual cost of group insurance benefits for current retirees. Under this funding method, agencies annually budget resources to pay the current year's cost of health care premiums for retired employees and their dependents.
- **Pre-funding** sets aside assets at the time employees earn a benefit to cover cost obligations that will be paid in the future (the same as how all agencies pre-fund pension benefits). Annual pre-funding amounts are determined by actuarial valuation (updated every one or two years), and pre-funding payments are deposited into a designated Trust Fund. As with pension programs, different structural, market, or employee demographic factors can impact required pre-funding levels. In 2011, the Council established a Consolidated Retiree Health Benefits Trust (CRHBT) for the County Government, MCPS, and Montgomery College. M-NCPPC manages its own OPEB trust.

A. Retiree Group Insurance Pay-As-You-Go Funding

The FY21 tax supported request for retiree pay-as-you-go group insurance funding totals $85.4 million, a 1.8% increase from the funding level in FY20. These costs represent the employer share of annual group insurance premiums.

FY20 Approved and FY21 Recommended Retiree Health Pay-As-You-Go Funding by Agency

Agency	Funding Source	FY20 Approved	FY21 Request	% Change, FY20-21
County Government	Tax Supported	$46.1 million	$47.1 million	**2.2%**
MCPS	Tax Supported OPEB Trust **Total**	$29.1 million $27.2 million **$56.3 million**	$29.1 million $27.2 million **$56.3 million**	0.0% 0.0% **0.0%**
Montgomery College	Tax Supported	$3.9 million	$4.6 million	17.9%
M-NCPPC	Tax Supported	$4.1 million	$4.6 million	12.2%
All Agencies	Tax Supported OPEB Trust **Total**	$83.9 million $27.2 million **$111.1 million**	$85.4 million $27.2 million **$112.6 million**	1.8% 0.0% **1.4%**

County Government. As described in the section for active employee group insurance, additional prescription drug rebate revenue in FY21 is projected to cover the increase in claims expenditures, causing premiums (and therefore the County contribution) to increase slightly.

MCPS. The Board of Education's FY21 tax supported request is lowered by $7.3 million due to drawing down on its group insurance fund balance. Absent this action, the projected tax supported request for active employee group insurance benefits would be around $36.4 million. The Board's request and the County Executive's recommendation for MCPS includes $27.2 million in funding from MCPS' portion of the Consolidated OPEB Trust to fund retiree pay-as-you-go costs.

B. OPEB Pre-Funding

FY21 Recommended OPEB Pre-funding. The Executive recommends $90.1 million in tax supported OPEB pre-funding for FY21, fully meeting the actuarily determined contribution for each agency. **This represents a decrease of $31.3 million from the FY20 approved pre-funding of $121.4 million based on updated actuarial valuations (more details below).** The recommended OPEB pre-funding in FY21 includes an additional $2.0 million in non-tax supported contributions.

FY20 Approved and FY21 Recommended OPEB Pre-Funding by Agency

	FY20 Approved	FY21 Recommended	% Change FY20-21
Tax Supported			
County Government	$34.7 million	$12.3 million	-64.6%
MCPS	$78.5 million	$69.4 million	-11.6%
Montgomery College	$5.4 million	$5.5 million	1.9%
M-NCPPC[12]	$2.9 million	$3.0 million	3.4%
Total Tax Supported	**$121.4 million**	**$90.1 million**	**-25.8%**
Total Non-Tax Supported[10]	**$6.8 million**	**$2.0 million**	**-70.6%**

As shown in the table above, the Executive's FY21 recommendation includes a substantial decrease of $22.4 million in OPEB pre-funding for County Government, and a smaller but still significant decrease of $9.1 million in pre-funding for MCPS. Both reductions are based on updated actuarial valuations conducted in FY20.

[10] The FY21 non-tax supported OPEB pre-funding recommendation includes $1.9 million in County Government proprietary fund and participating agency contributions and $142,000 in M-NCPPC proprietary fund contributions.

While actuarial valuation updates typically result in increases or decreases to overall liability (and therefore funding requirements), the change for County Government is uncommonly large. The Government Operations and Fiscal Policy Committee had planned a March 19 worksession to discuss the valuation data and assumptions with County Government staff and the County's actuarial consultant, Bolton Partners. However, that worksession was postponed along with all other Committee session due to the COVID-19 health crisis.

Relevant portions from the staff report prepared for the worksession are included in the next section, and staff will work with the Committee Chair to re-schedule that discussion when Committee sessions resume.

C. County Government Updated OPEB Valuation Results

OPEB Liability and Funded Ratio As of the end of FY18 (June 30, 2018), the County's actuary calculated a net OPEB liability of $1,331.1 million and a funded ratio of 27.0% for the County Government. The County Executive recommended, and the County Council approved an FY20 tax supported OPEB pre-funding appropriation of $34.7 based on these data.

During 2019, the County Government contracted with a new actuarial firm, Bolton Partners, who prepared the required OPEB actuarial information as of the end of FY19 (June 30, 2019). As shown below, the new valuation calculated the County Government's net OPEB liability at $853 million, a reduction of $477.6 million or 36% from the previous year. As a result, the County's OPEB funded ratio increased to 39.4%.

MCG OPEB Liabilities, Assets, and Funded Ratio (Year-End FY18 vs. FY19)

County Government	Total OPEB Liability	Net Assets in Trust	Net OPEB Liability	Funded Ratio
Year-End FY18 (as of June 30, 2018)	$1,823,142,490	$492,078,607	$1,331,063,883	27.0%
Year-End FY19 (as of June 30, 2019)	$1,407,188,030	$553,755,856	$853,432,174	39.4%
Difference	**($415,954,460)**	**+$61,677,249**	**($477,631,709)**	**+12.4%**

Source: Montgomery County Government Post-Employment Medical Benefits GASB 74 Actuarial Information for the Year Ending June 30, 2019 (attached at ©1-12).

Changes to OPEB Liability Calculation. The table below shows the changes in different cost factors from Bolton's analysis that led to the new net liability calculation, and the three factors with the largest impact are summarized after the table.

Changes to Net OPEB Liability Calculation (Year-End FY18 vs. FY19)

GASB 74 Net OPEB Liability	
Prior Report (as of June 30, 2018)	**$1,331,064**
Change due to:	
Expected increase	$35,488
Change in discount rate	$28,330
Prescription drug contract	($201,755)
Medical cost trend	($158,901)
Claims experience	($109,707)
OPEB specific DROP assumptions	($24,545)
Demographic assumptions	($23,442)
Lives bases mortality assumptions	($13,359)
Data, assets, and change in actuary	($9,740)
2019 Report (as of June 30, 2019)	**$853,432**

Source: Bolton Partners

- **Prescription drug contract.** The Office of Human Resources (OHR) issued a new prescription benefit management contract that began on January 1, 2020. As part of this contract, OHR negotiated higher prescription drug rebates that result in cost savings to the County. The new contract increases the rebate from 11% of prescription drug costs (for all ages) to 23.3% of costs for post-65 retirees and 33.0% for pre-65 retirees.

- **Medical cost trend.** The assumed rate of health care inflation is an important component in projecting future retiree health care costs. The County Government's new actuarial firm used a different future health care inflation model than the previous actuary. The new actuary uses a medical cost trend model endorsed by the Society of Actuaries with lower assumed inflation rates (ultimate medical cost trend of 3.7%) than used in the County Government's prior year OPEB valuation (ultimate trend of 4.5%).

- **Claims experience.** Anticipated future year retiree health costs is calculated, in part, based on the actual health benefit claims made by retirees in a recent 12-month period. The County experienced a year-to-year change in actual retiree health benefit claims experience which contributed to lower actuarially projected future OPEB pay-as-you-go and pre-funding costs.

D. FY20 Executive Recommended Savings Plan - OPEB

On March 18, the Executive transmitted a FY20 Savings Plan (©6-7) to reduce the approved OPEB pre-funding expenditures for County Government by $21.1 million and instead increase the General Fund reserve by that same amount. The Executive's proposal would achieve $21.1 million in FY20 savings by reducing the OPEB pre-funding for County Government from $34.7 million as approved to $13.5 million based on the updated actuarial valuation.

This action would differ from OPEB savings plans approved in FY18 and FY19 which reduced OPEB pre-funding for County Government, MCPS, and Montgomery College below the actuarily determined contribution. The Executive's recommendation does not impact the approved pay-as-you-go funding in FY20 and current retirees would see no change to their retiree health benefits.

The Executive's FY21 recommended budget assumes this action, and as a result the Council will need to act on this proposal as part of its budget process. A decision to approve a savings plan that is less than the Executive proposed would reduce available resources for the FY21 budget by an equivalent amount.

5. COMPENSATION COST SUSTAINABILITY

During its review of the FY20 operating budget last spring, the Council raised concerns about the long-term sustainability of employee compensation cost increases when compared to projected revenue growth. Last December, the Council approved the following policy statement:

> *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.*

The Executive's March 16 budget shows that recommended FY21 compensation costs for County Government increase by 0.3% above the FY20 level while revenues are shown to grow by 2.6%. The low compensation cost growth rate is primarily due to large reductions in FY21 group insurance and retirement costs. As part of a long-term sustainability analysis for FY21, however, consideration should be given to both the nature of the cost changes and the potential impact on future revenues caused by the current health crisis.

Comparison of FY20 Approved and FY21 Executive Recommended Tax Supported Compensation Costs for Montgomery County Government

	FY20 Approved	FY21 CE Recommended	% Change
Wages	$726,880,681	$760,568,538	4.6%
Social Security	$54,198,980	$56,801,317	4.8%
Group Insurance	$189,459,675	$168,004,895	-11.3%
Retirement	$87,099,204	$75,462,475	-13.4%
Totals	**$1,057,638,540**	**$1,060,837,225**	**0.3%**

As shown in the table above, the Executive proposes 4.6% growth in tax supported wage spending, a recommendation that would add $36.2 million in expenditures (including associated Social Security cost increases) to the operating budget. Overall compensation costs would not grow significantly because of offsetting reductions in group insurance and retirement cost. The reduction in group insurance costs is entirely attributable to the change in retiree health (OPEB) expenditures (discussed on pages 12-14). Prior to the health crisis, the GO Committee had planned a March worksession to discuss the actuarial data and assumptions that produced the large decrease in the County's annual contribution.

Executive Branch staff report that the large decrease in County retirement costs result from multiple factors including: (a) an updated five-year experience study; (b) changes in inflation, payroll growth, mortality assumptions; and (c) greater than anticipated investment returns. Staff suggests that the GO Committee may also wish to review retirement cost trends and assumptions when the Council returns to considering non-COVID-19 related topics. These reviews may be particularly important as current investment market conditions likely will adversely affect the County OPEB trust and pension fund assets which, in turn, could increase future year County OPEB pre-funding and retirement contribution requirements.

Even more importantly, the County may experience revenue generation well below the March 16 projections. The Executive's recommended operating budget as of March 16 projected that County revenues would increase by 2.6% from FY20 to FY21, <u>including revenue generated by the proposed property tax increase</u>. Absent the property tax increase, the March 16 projection would have shown revenue growth of 1.3% in FY21. At the budget overview briefing last week, the Council received early estimates of how the current health crisis could affect County revenues. As shown in the table below, staff presented three scenarios that showed FY21 revenues falling as much as 8.5% below the March 16 projection.

		Approximate Reduction in FY 21 Tax Revenues	**Change Compared to March 16 Projection**
Scenario 1	Short Recession, Quick Recovery	$90 to $150 million	-0.5% to -1.6%
Scenario 2	Short Recession, Long Recovery	$200 to $400 million	-2.6% to -6.5%
Scenario 3	Deep Recession, Long Recovery	$300 to $500 million	-4.6% to -8.5%

This newly emerging – and still highly volatile – revenue picture will necessarily alter the definitions of affordability and sustainability for all expenditure categories, including compensation.

6. OTHER COMPENSATION ISSUES

The FY21 recommended budget contains eight compensation-related Non-Departmental Accounts (NDAs) shown on ©8-16.

A. Compensation and Employee Benefits Adjustments NDA (©8-9)

This NDA funds certain personnel costs related to adjustments in employee and retiree benefits, pay-for-performance awards for employees in the Management Leadership Service (MLS) and Police Leadership Service (PLS), deferred compensation management, and unemployment insurance. The recommended amount for FY21 is $3,504,318. The recommended amount includes a total of $2,319,118 in pay-for-performance funding, as well as $335,000 to fund the sick leave payout provisions negotiated with MCGEO and passed through to non-represented employees.

B. Group Insurance for Retirees NDA (©11)

This NDA funds the employer share of annual group insurance premiums for County Government retirees. The Executive's recommended amount for FY21 is $47,106,273.

C. Consolidated Retiree Health Benefits Trust NDAs (©10 and ©13-14)

The OPEB pre-funding for each is appropriated into a separate NDA. The Executive's FY21 recommended amounts are $12,255,660 (County Government), $69,358,879 (MCPS) and $5,523,000 (Montgomery College).

D. Montgomery County Employee Retirement Plans NDA (©12)

The operating budget includes an NDA for the Montgomery County Employee Retirement Plans (MCERP). Expenditures associated with the Retirement Program are funded from the ERS and the RSP, and from the General Fund on behalf of the DCP. As such, the NDA does not show any appropriation amounts.

E. State Positions Supplement NDA (©15)

This NDA funds the County supplement to State salaries and fringe benefits for secretarial assistance for the resident judges of the Maryland Appellate Courts. The recommended amount for FY20 is $60,756, the same amount as budgeted in FY20.

F. State Retirement Contribution NDA (©16)

This NDA funds the County's contribution to the Maryland State Retirement System (MSRS) for County employees who are members of the MSRS and to the State Library Retirement for Montgomery County Public Library retirees who receive a State retirement benefit. The MSRS contribution is determined by State actuaries. Beginning in Fiscal Year 1981, the payment due was placed on a 40-year amortization schedule. The funding of the 40-year schedule was completed in FY20. The recommended amount for FY21 is $3,754, a 99% decrease from the FY20 amount of $1,596,360 due to the end of the funding schedule.

Fraternal Order of Police County Lodge 35, Inc.
Fiscal Impact Summary*

Article	Item	Description	FY21	Annual Cost Beyond FY21	Estimated # affected***
28	Service Increments	Service Increment of 3.5 Percent for Eligible Employees	$1,139,939	$1,637,536	569
28	Longevity	Longevity Step Increase of 3.5 Percent for Eligible Employees	$98,414	$144,760	70
36	Wages	Salary Schedule Adjustment of 3.5 Percent for Eligible Employees	$1,959,436	$1,959,436	569
36	Wages	1 Percent General Wage Adjustment in July 2020	$1,166,707	$1,166,707	1,164
		Total	**$4,364,496**	**$4,908,439**	**1,164**

Police Uniformed Management Pass-Through Estimates**

Item	Description	FY21	Annual Cost Beyond FY21	Estimated # affected***
Wages	1.25 Percent General Wage Adjustment in October 2020	$79,735	$109,526	57
	Total	**$79,735**	**$109,526**	

* Estimates reflect the impact to all funds. Increases apply in the first full pay period during the month noted.

** Police Management converted to a new Police Leadership Service (PLS) Schedule in FY19.

***The estimated number of employees affected by the economic item is identified where known.

Montgomery County Career Fire Fighters Association, Inc
International Association of Fire Fighters, Local 1664
Fiscal Impact Summary*

Article	Item	Description	FY21	Annual Cost Beyond FY21	Estimated # affected**
17.1	Assignment Pay Differential	Addition of two Assignments to Assignment Pay Differential	$31,561	$31,561	11
19.1	Wages	2.25 Percent General Wage Adjustment in August 2020	$2,106,304	$2,289,461	1,114
19	Longevity	Longevity Step Increases of 3.5 Percent for Eligible Employees	$117,417	$199,613	49
54	Tuition Assistance	Dedicated Funding for Tuition Assistance	$65,000	$65,000	
55	Service Increments	Service Increment of 3.5 Percent for Eligible Employees	$810,408	$1,546,588	696
57.2	Special Duty Differential	Increase in the Special Duty Differential for Members Assigned to ECC	$9,870	$9,870	3
		Total	**$3,140,560**	**$4,142,093**	**1,114**

Fire and Rescue Uniformed Management Pass-Through Estimates

Item	Description	FY21	Annual Cost Beyond FY21	Estimated # affected**
Wages	2.25 Percent General Wage Adjustment in August 2020	$121,011	$131,534	41
Longevity	Longevity Step Increases of 3.5 Percent for Eligible Employees	$3,676	$10,001	2
Service Increments	Service Increment of 3.5 Percent for Eligible Employees	$1,868	$2,619	3
	Total	**$126,555**	**$144,154**	**41**

* Estimates reflect the impact to all funds. Increases apply in the first full pay period during the month noted.

** The estimated number of employees affected by the economic item is identified where known.

Municipal and County Government Employees Organization
United Food and Commercial Workers, Local 1994
Fiscal Impact Summary*

Article	Item	Description	FY21	Annual Cost Beyond FY21	Estimated # affected**
5	Wages	1.25 Percent General Wage Adjustment in October 2020	$3,935,929	$5,406,496	4,835
5	Wages	$1,000 Lump Sum to Eligible Employees not Eligible to Receive a Full Service Increment in FY21	$1,923,238	$0	1,800
5.1	Longevity	Longevity Step Increase of 2.5, 3, or 3.5 Percent for Eligible Employees	$258,430	$546,327	180
5.3	Shift Differential	Increase Shift Differential from $1.40 and $1.56 per hour Based on Shift Start Time to $1.42 and $1.87 per hour	$576,434	$576,434	
5.22	FTO Pay	Increase Classifications Eligible for Field Training Officer Pay	$19,522	$19,522	31
5.24	Meal Allowance	Increase in the Meal Allowance to $15	$5,000	$5,000	
5.31	Transit Subsidy	Increase the Get-In Program Transit Subsidy to up to $265 per month	$150,000	$150,000	
6	Service Increments	Service Increment of 3.5 Percent for Eligible Employees	$4,163,636	$7,869,507	3,317
6	Deferred Increment	Deferred Service Increment from FY11 for Eligible Employees, Second Phase of 1.25% Effective July 2020	$904,049	$904,049	979
20.7	Holiday Leave	Adjustment to Requirements to Receive Holiday Pay	$104,574	$104,574	
29.4	LMRC	Additional Funding for LMRC	$50,000	$25,000	
41.7	Retirement	Military Credit of up to 2 Years for Eligible Group E Members	$121,961	$121,961	
41	Retirement	Additional Cost for Retirement for Emergency Communications Center Eligible Employees	$200,000	$200,000	
43	Retirement Plan Contributions	Increase by 1 Percent in the Employer Contribution, with a 1 Percent Decrease in Employee Contribution	$1,389,781	$3,364,607	4,835
44.11	Retirement	Sick Leave Payout Program for Eligible Employees for $5,000 or $10,000 Based on Sick Leave Balance	$225,000	$225,000	
Appendix IV	DOCR Appendix	Uniform Allowance and Issue Resident Supervisor Uniforms, and Facilities Improvements	$49,363	$37,679	
Appendix IV	DOCR Appendix	Resident Supervisors Moved to Group E Additional Half-Hour per Shift	$171,634	$171,634	29
Appendix II	HHS Appendix	Crisis Center Stipend of $1,500	$50,057	$50,057	31
Appendix VI	DOT Appendix	Increase Boot Reimbursement from $145 to $200 for Highways Services Employees	$13,750	$13,750	
53	Seasonal Employees	Additional $0.50 for Eligible Seasonal Employees	$89,288	$89,288	
		Total	$14,401,646	$19,880,885	4,835

* Estimates reflect the impact to all funds. Increases apply in the first full pay period during the month noted.

** The estimated number of employees affected by the economic item is identified where known.

Non-Represented Pass-Through Estimates*

Item	Description	FY21	Annual Cost Beyond FY21	Estimated # affected**
Wages	1.25 Percent General Wage Adjustment in October 2020	$2,339,519	$3,213,625	2,268
Retirement Plan Contributions	Increase by 1 Percent in the Employer Contribution, with a 1 Percent Decrease in Employee Contribution	$1,129,504	$2,053,339	2,268
Longevity	Longevity Step Increase of 2 Percent for Eligible Employees	$66,851	$144,402	
Service Increments	Service Increment of 3.5 Percent for Eligible Employees	$1,407,032	$2,662,151	1,462
Shift Differential	Increase Shift Differential from $1.40 and $1.56 per hour Based on Shift Start Time to $1.42 and $1.87 per hour	$52,569	$52,569	
Retirement	Sick Leave Payout Program for Eligible Employees for $5,000 or $10,000 Based on Sick Leave Balance	$110,000	$110,000	
	Total	**$5,105,475**	**$8,236,086**	**2,268**

* Estimates reflect the impact to all funds. Increases apply in the first full pay period during the month noted.

** The estimated number of employees affected by the economic item is identified where known.

Montgomery County Volunteer Fire and Rescue Association Fiscal Impact Summary*

Article	Item	Description	FY21	Annual Cost Beyond FY21
12	Nominal Fee	Nominal fee of $500/$800 in FY21**	$45,685	$119,935
16	Training	Provide $10,000 funding for training and $5,000 for Pro-Board certification	$15,000	$15,000
22	Volunteer Basic Orientation	Training fee not to exceed $21,000 each year of the agreement	$21,000	$21,000
25	Length of Service Award Program	Provide 3 percent increase for all members, and an additional 2.5 percent increase for certain active members, on July 1, 2020	$55,822	$60,047
Side Letter	Association Operating Funds	Association funding effective July 1 each year of the agreement, including a new vehicle in FY21	$57,752	$26,141
		Total	**$195,259**	**$242,123**

* Estimates reflect the impact to all funds.

** Nominal fee paid to eligible volunteers on July 1 of the fiscal year.

Schedule B-5

Montgomery County Government Internal Service Funds

	ACTUAL FY19	BUDGET FY20	EST FY20	REC FY21	% CHG BUD/REC
INTERNAL SERVICE FUNDS					
Employee Health Self Insurance	259,051,552	272,856,318	272,984,841	295,021,240	8.1%
Motor Pool Internal Service Fund	75,466,298	84,759,177	94,845,756	89,737,826	5.9%
Printing & Mail Internal Service Fund	7,890,671	8,222,221	8,519,383	8,238,749	0.2%
Self Insurance Internal Service Fund	67,357,383	74,019,329	74,008,518	78,421,782	5.9%
TOTAL INTERNAL SERVICE FUNDS	**409,765,904**	**439,857,045**	**450,358,498**	**471,419,597**	**7.2%**

OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

MEMORANDUM

March 18, 2020

TO: Sidney Katz, President, County Council

FROM: Marc Elrich, County Executive

SUBJECT: FY20 Savings Plan: NDA – Retiree Health Benefits Trust ($21,136,470)

My Fiscal Year (FY) 2021 Recommended Operating Budget includes additional FY20 expenditure savings recognizing an adjustment to the valuation information used to determine the original FY20 Other Post-Employment Benefits (OPEB) expenditure amount. Please find attached my recommended FY20 savings plan to recognize this adjustment. The expenditure reduction will increase the FY20 General Fund reserve by $21.1 million.

As you are aware, the County changed actuaries for the Consolidated Retiree Health Benefit Trust during the final year of the Leggett Administration. It is common practice for a new actuary to revisit the assumptions used by a previous actuary for both the current year and the budget year. The assumption adjustments, combined with the work of the Office of Human Resources on a new prescription drug contract, resulted in a significant reduction in OPEB pre-funding requirements.

The recommended expenditure savings reduce FY20 OPEB prefunding by $21.1 million. Unlike previous one-time reductions, this adjustment is to the revised actuarially determined contribution (ADC) amount and maintains full funding within FY20. My FY21 Recommended Operating Budget continues prefunding consistent with our fiscal policy. It should be noted that retirees will see no change to their benefits as a result of my recommendation, and their benefit claims will continue to be paid as they have been in the past.

It is important that the Council join me in this approach as it is aligned with our reserve funding target and is prudent at this moment in time. My staff is available to assist the Council in its review of the attached proposal.

ME:cbo

Attachment: Recommended FY20 Savings Plan Montgomery County Government

County Executive's Recommended FY20 Savings Plan
Montgomery County Government
March 2020

NDA	AMOUNT	DESCRIPTION
NDA - Retiree Health Benefits Trust	-21,136,470	Reduce spending to recognize valuation adjustment
TOTAL	**-21,136,470**	

FY21 Recommended Changes	Expenditures	FTEs
Add: Community Services Grant: Identity, Inc. (Purchase workstations with Windows 10 operating suite.)	10,000	0.00
Add: Community Services Grant: Interfaith Works, Inc. (Provide IT resources to improve program performance.)	9,495	0.00
Add: Community Services Grant: Jewish Council for the Aging of Greater Washington, Inc. (Provide age appropriate furniture for program participants.)	2,750	0.00
Add: Community Services Grant: Mary's Center for Maternal and Child Care, Inc. (Provide handicap accessible medical exam chair to give persons with disabilities better medical treatment.)	8,452	0.00
Add: Community Services Grant: Shri Mangal Mandir religious Educ & Charitable Trust (Provide medical equipment.)	2,400	0.00
Add: Community Services Grant: Silver Spring Village, Inc. (Provide IT resources, phones, and office furniture for to improve program performance.)	8,901	0.00
Add: Community Services Grant: Vietnamese Literary and Artistic Club (Provide IT resources to improve program performance.)	2,000	0.00
Add: Funding for New Community Grants	250,000	0.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	(12,876,982)	0.00
FY21 Recommended	**10,045,238**	**0.00**

Compensation and Employee Benefit Adjustments

This NDA contains a General Fund appropriation and a non-tax appropriation, and provides funding for certain personnel costs related to adjustments in employee and retiree benefits; pay-for-performance awards for employees in the Management Leadership Service, Police Leadership Service, and non-represented employees; deferred compensation management; and unemployment insurance.

Non-Qualified Retirement Plan: This provides funding for that portion of a retiree's benefit payment that exceeds the Internal Revenue Code's §415 limits on payments from a qualified retirement plan. Payment of these benefits from the County's Employees' Retirement System (ERS) would jeopardize the qualified nature of the County's ERS. The amount in this NDA will vary based on future changes in the Consumer Price Index (CPI) affecting benefit payments, new retirees with a non-qualified level of benefits, and changes in Federal law governing the level of qualified benefits.

Deferred Compensation Management: These costs are for management expenses required for administration of the County's Deferred Compensation program. Management expenses include legal and consulting fees, office supplies, printing and postage, and County staff support.

Management Leadership Service Performance-Based Pay Awards: In FY99, the County implemented the Management Leadership Service (MLS), which includes high-level County employees with responsibility for developing and implementing policy and managing County programs and services. The MLS was formed for a number of reasons, including improving the quality and effectiveness of service delivery through management training, performance accountability, and appropriate compensation; providing organizational flexibility to respond to organizational needs; allowing managers to seek new challenges; and developing and encouraging a government-wide perspective among the County's managers. In FY19, the County implemented the Police Leadership Service (PLS) to include lieutenants and captains in the Department of Police. MLS and PLS employees are not eligible for service increments. Performance-Based awards for MLS and PLS employees are funded in FY20.

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Unemployment Insurance: The County is self-insured for unemployment claims resulting from separations of service. Unemployment insurance is managed by the Office of Human Resources through a third party administrator who advises the County and monitors claims experience.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**2,752,385**	**1.05**
Add: Performance Based Pay	848,840	0.00
Increase Cost: Retirement Savings Plan Administrative Fee	340,000	0.00
Increase Cost: Collective Bargaining Compensation Changes	335,000	0.00
Re-align: Staffing and Resource Adjustment Between Deferred Compensation Management Funds	76,933	0.13
Increase Cost: FY21 Compensation Adjustment	3,058	0.00
Decrease Cost: Annualization of FY20 Personnel Costs	(3,741)	0.00
Decrease Cost: MLS/PLS Pay for Performance Adjustment	(848,840)	0.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	683	0.00
FY21 Recommended	**3,504,318**	**1.18**

Conference and Visitors Bureau

The Conference and Visitors Bureau (CVB) promotes Montgomery County as a destination for meetings/conferences, student group travel, group tours, leisure travel, and amateur sports events. The CVB develops and distributes publications on points of interest to tourists, implements public information campaigns promoting tourism and event facilitation in Montgomery County, and attends trade shows and sales missions in target markets. The CVB also serves as a resource center assisting small and large hospitality businesses considering new product development and/or expansions. The CVB coordinates with the Maryland Office of Tourism Development (Visit Maryland), Maryland Film Office, Capital Region USA (CRUSA), TEAM Maryland, and national and regional events to promote tourism growth, increased visitor spending, and visitation in Montgomery County. The CVB manages the tourism marketing grant provided annually by the Maryland Tourism Development Board. The CVB operates on contract with the Department of Finance. Funding is based on seven percent of the total hotel/motel tax revenues.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**1,584,260**	**0.00**
Increase Cost: Expenses for Hosting Additional Conferences and Events in Montgomery County	85,000	0.00
Increase Cost: Revenue from the Updated Hotel/Motel Taxes	48,574	0.00
FY21 Recommended	**1,717,834**	**0.00**

Conference Center

Prior to FY06, the Conference Center NDA primarily provided for pre-opening expenses. Since the Conference Center opened in November 2004, the NDA has expanded its scope to fund:

- a full-time position to manage the operational and fiscal oversight of the Conference Center complex;
- non-routine repairs, alterations, improvements, renewals, and replacements; and
- the designated reserve required by the management agreement with Marriott International, Inc.

Funding is also included to reimburse the contractor for costs not covered by operations during accounting periods when losses

occur. These costs will be offset by contractor payments to the County during accounting periods with operating gains. To ensure fiscal and operational accountability, a management audit is conducted every two years and the program budget is increased by $50,000 during the year such audit is scheduled. Revenues consisting of net operating income from the Conference Center and land rent from the hotel are deposited into the general fund. Twenty percent of the County's net proceeds from Conference Center operations is retained for investment in marketing and facility improvements to increase Conference Center usage. All proposed investment expenditures are reviewed and approved by the Conference Center Management Committee.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**661,531**	**1.00**
Shift: Partial Funding from Business Advancement Team to Support Conversion of a Term-to-Merit Position for Managing the Conference Center NDA	76,908	1.00
Re-align: Partial Funding for Conversion of a Term-to-Merit Position	42,649	0.00
Increase Cost: FY21 Compensation Adjustment	4,130	0.00
Re-align: Operating Expenses to Offset Personnel Cost Increase	(42,649)	0.00
Decrease Cost: Conference Center - Management Audit	(50,000)	0.00
Shift: Staff Reassigned from Finance to the County Executive Office to Manage Incubator Programs	(159,085)	(1.00)
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	6,227	0.00
FY21 Recommended	**539,711**	**1.00**

Consolidated Retiree Health Benefit Trust - College

This NDA provides consolidated funding for Montgomery College's contribution to the Retiree Health Benefits Trust.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**5,391,000**	**0.00**
Increase Cost: County Contribution Based on Actuarial Valuation	132,000	0.00
FY21 Recommended	**5,523,000**	**0.00**

Consolidated Retiree Health Benefit Trust - MCPS

This NDA provides consolidated funding for Montgomery County Public Schools' contribution to the Retiree Health Benefits Trust.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**78,533,000**	**0.00**
Decrease Cost: County Contribution Based on Actuarial Valuation	(9,174,121)	0.00
FY21 Recommended	**69,358,879**	**0.00**

County Associations

This NDA funds Montgomery County membership dues to the National Association of Counties (NACo) and the Maryland Association of Counties (MACo).

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**74,728**	**0.00**
FY21 Recommended	**74,728**	**0.00**

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**28,020**	**0.00**
FY21 Recommended	**28,020**	**0.00**

Group Insurance Retirees

Group insurance is provided to retired County employees and survivors, as well as retirees of participating outside agencies. Employees hired before January 1, 1987, are eligible upon retirement to pay 20 percent of the premium for health and life insurance for the same number of years (after retirement) that they were eligible to participate in the group insurance plan as an active employee. The County government pays the remaining 80 percent of the premium. Thereafter, these retirees pay 100 percent of the premium. Employees hired before January 1, 1987, are also offered the option at retirement to convert from the 20/80 arrangement to a lifetime cost sharing option.

Employees hired after January 1, 1987, are eligible upon retirement for a lifetime cost sharing option under which the County pays 70 percent of the premium and the retiree pays 30 percent of the premium for life for retirees who were eligible to participate in the County group insurance plan for 15 or more years as active employees. Minimum participation eligibility of five years as an active employee is necessary to be eligible for the lifetime plan. The County will pay 50 percent of the premium for retirees with five years of participation as an active employee. The County contribution to the payment of the premium increases by two percent for each additional year of participation up to the 70 percent maximum.

On March 5, 2002, the County Council approved a one-time opportunity for retirees still under the 20/80 arrangement with an expiration date to elect the lifetime cost sharing arrangement. The new percentage paid by the County for those electing this arrangement ranges from 50 percent to 68 percent, depending upon years of active eligibility under the plan and years since retirement. The cost sharing election process has been completed. The budget does not include employer contributions from participating outside agencies.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**46,113,000**	**0.00**
Increase Cost: Group Insurance Claims Costs Based on Actual Annual Claims	993,273	0.00
FY21 Recommended	**47,106,273**	**0.00**

Historical Activities

This NDA provides funding for the Historical Society to support the Society's Education Program staff, educational and outreach programs for County residents, and to maintain the Historical Society's research library and museums.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**150,000**	**0.00**
Increase Cost: Operating Expenses	15,000	0.00
FY21 Recommended	**165,000**	**0.00**

Homeowners' Association Road Maintenance Reimburse

Montgomery Coalition for Adult English Literacy

This NDA provides funding for the Montgomery Coalition for Adult English Literacy (MCAEL). MCAEL's mission is to strengthen the Countywide adult English literacy providers' network with resources, training, collaborations, and advocacy to support a thriving community and an effective workforce. Funding for MCAEL supports grants to approximately 20 community organizations for 27 programs that provide adult English literacy classes. Additionally, MCAEL receives operating funding to provide technical assistance, coordination of new program initiatives, training, and networking opportunities to over 65 community organizations that improve program quality and coordination and provide critical information for the community to educate and engage them about the need for and benefits from adult English literacy classes. The County's contribution is implemented by a contract between the Department of Public Libraries and MCAEL.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**1,857,058**	**0.00**
Enhance: MCAEL Grants to Adult English as a Second Other Languages (ESOL) Programs and MCAEL Operating Initiatives	150,000	0.00
FY21 Recommended	**2,007,058**	**0.00**

Montgomery County Economic Development Corporation

This is the private non-profit corporation established by Council Bill 25-15 that serves as Montgomery County's lead economic development organization. The Economic Development Corporation is responsible for implementing the County's economic development strategic plan and related programs that include marketing, business retention and attraction, entrepreneurship, and promoting the development of the County's economic base.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**5,007,750**	**0.00**
FY21 Recommended	**5,007,750**	**0.00**

Montgomery County Employee Retirement Plans

The mission of this NDA is to manage prudent investment programs for the members of the Employee Retirement Plans and their beneficiaries. Expenditures associated with this program are funded from the Employees' Retirement System (ERS), Retirement Savings Plan (RSP), and the General Fund on behalf of the Montgomery County Deferred Compensation Plan (DCP) trust funds and are, therefore, not appropriated here. This NDA manages the assets of the ERS through its investment managers in accordance with the Board's asset allocation strategy and investment guidelines. The Board also administers the investment programs for the RSP and DCP. The Board consists of 13 trustees including the Directors of Human Resources, Finance, and Management and Budget; the County Council Executive Director; one member recommended by each employee organization; one active employee not represented by an employee organization; one retired employee; two members of the public recommended by the County Council; and two members of the general public.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**0**	**0.00**
FY21 Recommended	**0**	**0.00**

Productivity Improvements

This NDA recognizes cost efficiencies identified by Montgomery County Government staff through the evaluation of service delivery models, supervisory/management and workforce structures, relevant tools, equipment, and technologies, operating budgets, and contracts with outside vendors. The critical assessment of these factors and formulation of strategies to maintain, increase, or improve service delivery at a lower cost is a pillar of good government, especially in a fiscally challenging environment. The productivity and performance improvement effort is a collaborative initiative that involves County leadership, management, and represented employees.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**0**	**0.00**
Decrease Cost: Productivity Improvements	(10,000,000)	0.00
FY21 Recommended	**(10,000,000)**	**0.00**

Public Elections Fund

Article IV of Chapter 16 of the County Code requires the Director of Finance to create a Public Election Fund to provide public campaign financing for qualified candidates for County Executive or County Council. The law is intended to encourage more candidates who do not have access to large contributions from interest groups or individuals to run for County elective offices. This NDA provides for the distribution of public contributions to qualified candidates in a contested election. This funding level was recommended by the Committee to Recommend Funding for Public Election Fund.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**0**	**0.00**
Increase Cost: Public Election Fund (2022 Elections)	1,500,000	0.00
FY21 Recommended	**1,500,000**	**0.00**

Public Technology, Inc.

The Public Technology Institute (PTI) actively supports local government executives and elected officials through research, education, executive-level consulting services, and national recognition programs. As the only technology organization created by and for cities and counties, PTI works with a core network of leading local officials - the PTI membership - to identify research opportunities, provide thought leadership and professional development opportunities, share solutions, provide technology support services, recognize member achievements and address the many technology issues that impact local government.

Funds are budgeted each year to continue membership in PTI.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**20,000**	**0.00**
FY21 Recommended	**20,000**	**0.00**

Retiree Health Benefits Trust

Consolidated Retiree Health Benefits Trust: Beginning in FY08, the County implemented a plan to set aside funds for retiree health benefits, similar to the County's 50 year-old practice of prefunding for retiree pension benefits. Due to exponential growth

in expected retiree health costs, the County had determined the cost of funding these benefits, which were being paid out as the bills came due, would become unaffordable. Setting aside money now and investing it in a Trust Fund, which is invested in a similar manner as the pension fund, not only is a prudent and responsible approach but will result in significant savings over the long term.

The County's approach to address retiree health benefits funding is to determine an amount which, if set aside on an annual basis and actively invested through a trust vehicle, will build up over time and provide sufficient funds to pay future retiree health benefits and any accrued interest on unfunded liability. This amount, known as an Actuarially Determined Contribution or "ADC", normally consists of two pieces - the annual amount the County would usually pay out for health benefits for current retirees (the pay-as-you-go amount), plus the additional amount estimated to fund retirees' future health benefits (the pre-funding portion). The pay-as-you-go amount can be reasonably projected based on known facts about current retirees, and the pre-funding portion is estimated on an actuarial basis.

The County's policy is to pay the full amount of ADC each year. In FY11, the County Council enacted Bill 17-11 which established the Consolidated Retiree Health Benefits Trust. The Bill amended existing law and provided a funding mechanism to pay for other post employment benefits (OPEB) for employees of Montgomery County Public Schools and Montgomery County College. In FY15, the County and all other agencies implemented the Medicare Part D Employer Group Waiver Program for Medicare eligible retirees/survivors effective January 1, 2015. This has reduced retiree drug insurance costs and the County's OPEB liability. The County achieved full pre-funding in FY15, consistent with Council resolution No. 16-555. In FY20, these contributions were budgeted at $34.7 million (County General Fund), $78.5 million (MCPS Consolidated Trust), and $5.4 million (Montgomery College Consolidated Trust).

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**34,680,830**	**0.00**
Decrease Cost: County Contribution Based on Actuarial Valuation	(22,425,170)	0.00
FY21 Recommended	**12,255,660**	**0.00**

Risk Management (General Fund)

This NDA funds the General Fund contribution to the Liability and Property Coverage Self-Insurance Fund. The Self-Insurance Fund, managed by the Division of Risk Management in the Department of Finance, provides comprehensive insurance coverage to contributing agencies. Contribution levels are based on the results of an annual actuarial study. Special and Enterprise Funds, as well as outside agencies and other jurisdictions, contribute to the Self-Insurance Fund directly.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**19,791,523**	**0.00**
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	2,439,501	0.00
FY21 Recommended	**22,231,024**	**0.00**

Rockville Parking District

This NDA provides funding towards the redevelopment of the City of Rockville Town Center and the establishment of a parking district. The funding reflects a payment from the County to the City of Rockville for County buildings in the Town Center

development and is based on the commercial square footage of County buildings.

Also included are funds for the cost of library employee parking and the County's capital cost contribution for the garage facility as agreed in the General Development Agreement.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**420,000**	**0.00**
Decrease Cost: Rockville Parking District	(1,300)	0.00
FY21 Recommended	**418,700**	**0.00**

Skills for the Future

The Skills for the Future Non-Departmental Account was established in May 2019 to provide funding for high-quality Science, Technology, Engineering, Arts, and Mathematics (STEAM) programming in both academic and recreational settings to low-income youth. The intent of this funding is to build a pipeline of technical talent that will ensure equitable access to high-paying jobs and allow Montgomery County to continue to offer one of the best educated work forces in the world. The Department of Recreation will administer these funds that will provide grants and pilot projects that give low-income youth access to STEAM programming.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**250,000**	**0.00**
FY21 Recommended	**250,000**	**0.00**

State Positions Supplement

This NDA provides for the County supplement to State salaries and fringe benefits for secretarial assistance for the resident judges of the Maryland Appellate Courts.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**60,756**	**0.00**
FY21 Recommended	**60,756**	**0.00**

State Property Tax Services

This NDA funds the reimbursement to the State for three programs that support the property tax billing administration conducted by the Department of Finance: the Montgomery County's Homeowners Credit Supplement, the Homestead Credit Certification Program, and the County's share of the cost of conducting property tax assessments by the State Department of Assessments and Taxation. This NDA also funds the County Renters' Property Tax Relief Supplement (Bill 21-15) enacted in 2016 and administered by the Department of Finance.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**3,565,615**	**0.00**
FY21 Recommended	**3,565,615**	**0.00**

State Retirement Contribution

This NDA provides for the County's payment of two items to the State Retirement System:

- Maryland State Retirement System: Unfunded accrued liability, as established by the Maryland State Retirement System (MSRS), for employees hired prior to July 1, 1984, who are members of the MSRS (including former Department of Social Services employees hired prior to July 1, 1984), and for those who have retired (all County employees participated in the State Retirement System until 1965.) The County's contribution for this account is determined by State actuaries. Beginning in FY81, the amount due was placed on a 40-year amortization schedule. The funding of the 40-year amortization schedule was completed in FY20.
- State Library Retirement: Accrued liability for retirement costs for three Montgomery County Public Library retirees who are receiving a State retirement benefit. These were County employees prior to 1966 who opted to stay in the State plan.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**1,596,360**	**0.00**
Eliminate: Ending of Amortization for Employer Contributions	(1,592,606)	0.00
FY21 Recommended	**3,754**	**0.00**

Takoma Park Library Annual Payments

The annual amount provided in this NDA is a function of County expenditures for the Montgomery County Public Libraries (as a share of property tax-funded spending) and the City of Takoma Park's assessable base. The payment is authorized by Section 2-53 of the Montgomery County Code.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**188,329**	**0.00**
Decrease Cost: Formula Projection Adjustment	(2,356)	0.00
FY21 Recommended	**185,973**	**0.00**

Takoma Park Police Rebate

The County provides financial support to the City of Takoma Park for police protection services in accordance with provisions of the County Code. This provision was enacted in 1949 and provides a payment to the City for protective services for the County residents of the City of Takoma Park. The payment is based on a formula, which uses $0.048 per $100 of assessable base tax rate with "full value assessment" levied on real property.

FY21 Recommended Changes	Expenditures	FTEs
FY20 Approved	**1,126,765**	**0.00**
Increase Cost: Formula Projection Adjustment	100,807	0.00
FY21 Recommended	**1,227,572**	**0.00**

Telecommunications

This NDA provides the operating expenses appropriations for telecommunication charges incurred by departments, including land-line charges and Private Branch Exchange System (PBX) maintenance and support charges. Prior to FY17, the Department of