

Clerk's Note: Amended by Resolution No. 17-63, February 15, 2011.

Resolution No.:	<u>16-1419</u>
Introduced:	<u>June 29, 2010</u>
Adopted:	<u>July 13, 2010</u>

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

SUBJECT: Fiscal Year 2011 Work Program of the Office of Legislative Oversight

Background

1. Chapter 29A, Montgomery County Code, establishes the Office of Legislative Oversight (OLO) with the responsibility to serve as the principal means through which the County Council exercises its legislative oversight functions. This includes the responsibility to provide the Council with information and recommendations concerning the performance and operations of public and private agencies, programs, and functions for which funds are appropriated or approved by the Council.
2. Section 29A-6 provides that the Director, Office of Legislative Oversight, shall prepare an annual Work Program, which shall be submitted to the Council for approval.
3. The Director, Office of Legislative Oversight, submitted a proposed Work Program for the first half of Fiscal Year 2011. The focus of OLO's work during this time will be the project on Montgomery County's Structural Budget Deficit, which was added on May 18, 2010 to OLO's Work Program by Council Resolution. The OLO Director will return to the Council mid-year (after the general election) to solicit Councilmembers' recommendations for projects to include on the OLO Work Program for the second half of the fiscal year.
4. The Council's Management and Fiscal Policy Committee reviewed the proposed Work Program on June 24, 2010. The Council introduced the resolution on July 13, 2010.

Action

The County Council for Montgomery County, Maryland, approves the attached Fiscal Year 2011 Work Program for the Office of Legislative Oversight.

This is a correct copy of Council action.



Linda M. Lauer, Clerk of the Council

Project Number	Title	Resolution Page Number
1	Management of the Council's Independent Audit Contracts	3
2	Staff Support for the Council's Audit Function	4
3	Montgomery County's Structural Budget Deficit	5
4	Research on Family Planning Medicaid Waiver Programs	8
5	Follow-up on Previously Completed OLO Reports	9

PROJECT #1
MANAGEMENT OF THE COUNCIL'S INDEPENDENT AUDIT CONTRACTS

Principal agency: County Government

Origin of project: Council Resolution 12-154

Section 315 of the County Charter requires the Council to contract with a certified public accountant to perform an annual independent audit of the County Government's financial statements. The Council also contracts for the annual audit of the financial statements of the employee retirement plans, including the Montgomery County Union Employees Deferred Compensation Plan, and the local fire and rescue departments.

Since 1991, the Council has assigned Office of Legislative Oversight the responsibility to act as the Council's contract administrator and provide support to the Council during the period of audit engagement. OLO carries out these responsibilities with oversight and guidance from the Council's Management and Fiscal Policy Committee sitting as the Audit Committee.

The FY11 Independent Financial Audit NDA funds the independent audits of the FY10 financial statements issued by the County Government, the employee retirement plans, and the local fire and rescue departments. FY11 represents the third year of the Council's four-year audit contracts with Clifton Gunderson LLP and Rager, Lehman & Houck, P.C.

PROJECT #2
STAFF SUPPORT FOR THE COUNCIL'S AUDIT FUNCTION

Principal agencies: All County-funded agencies

Origin of project: Council Resolution 16-826

Council Resolution 16-826, adopted January 27, 2009, calls upon the Council's Management and Fiscal Policy Committee "to continue to strengthen the Council's independent review and oversight of the County's financial reporting, management control, and audit activities." When performing these functions, the MFP Committee is deemed the Council's "audit committee;" with the Council President and Vice President serving as ex-officio voting members. The resolution requires the MFP Committee to meet as the Council's audit committee at least four times a year.

A growing number of public sector organizations are forming audit committees, which can undertake tasks such as reviewing significant financial risks or exposures and steps taken to minimize risks, addressing significant findings on internal and independent audits, and ensuring policies and procedures are in place to facilitate reporting fraud or abuse and questionable accounting or auditing practices.

Council Resolution 16-826 assigns the Office of Legislative Oversight with the responsibility to coordinate staff support for the MFP Committee when it meets as the audit committee. During FY11, as directed by Council resolution, OLO will ensure that the Committee also receives "assistance from the Council staff, the OIG, Executive Branch and other County agency staff, and contractors with appropriate expertise" in carrying out its "oversight of financial reporting and risk assessment."

The MFP Committee held its first two meetings of the calendar year in March and April 2010. In March, the Committee received briefings from the Director of the Department of Health and Human Services and the Inspector General. In April, the Committee reviewed the management letters and reports on internal control from the County's external auditors, Clifton Gunderson and Rager, Lehman & Houck, for the fiscal year ended June 30, 2009. The Committee expects to set additional meetings at regular intervals throughout the year.

PROJECT #3
MONTGOMERY COUNTY'S STRUCTURAL BUDGET DEFICIT

Principal agencies: All County-funded agencies

Origin of project: Council Resolution 16-1343, Amendment to OLO's FY10 Work Program, adopted May 18, 2010

Purpose. The purpose of this OLO project on the County's structural budget deficit is:

- To provide the basis for an informed dialog about the County's fiscal future;
- To define a structural budget deficit and differentiate it from an annual budget gap;
- To identify the assumptions used in developing the County Executive's "Fiscal Plan;" and to show how changes in revenue and expenditure assumptions change the size of the future structural budget deficit;
- To develop guiding principles and a range of policy/budget options for the Council to consider in order to balance projected revenues and expenditures over a long-term period; and
- To recommend action items and a timetable for Council decisions.

Project Scope and Timing. OLO's project on the structural budget deficit will address the three central questions highlighted by the Council President in a March 15, 2010 memorandum (attached at page 10):

1. What are the assumptions behind the Executive's future year gap projections?
2. What are the major factors driving the projected budget deficits? Which of these factors represent fixed commitments, e.g., debt service, pension obligations?
3. What policy and budget options are available going forward to address the structural budget deficit?

OLO's report back to the Council will be organized into two parts:

- Part I: The County's Structural Budget Deficit: Defined, Quantified, and Explained
- Part II: Options to Achieve Long-Term Fiscal Balance.

On September 30, 2010, OLO will provide the Council with an interim status report of its work to date on this assignment. At minimum, this status report will include: a summary of key Part I findings, and a list of the options being examined in Part II for achieving long-term fiscal balance. The due date for completion of OLO's full report is December 2010.

**PART I: THE COUNTY'S STRUCTURAL BUDGET DEFICIT: DEFINED,
QUANTIFIED, AND EXPLAINED**

The primary purpose of Part I is to promote a full and fair understanding of the causes and size of Montgomery County's structural budget deficit. OLO's work on Part I will be divided into the three tasks summarized below.

A. Defining a Structural Budget Deficit. OLO will begin its review by providing a working definition of a structural budget deficit (SBD). The report will explain the difference between a single year budget gap and an on-going, recurring imbalance of revenues and expenditures. In addition, OLO will describe the factors that contribute to the development of a structural imbalance between public sector revenues and expenditures.

B. A Review of Past Decisions and Trends in Montgomery County. Based on a review and analysis of data from the past ten years, OLO will present information on the major budgetary decisions, demographic changes, and economic trends that have combined to create the current picture of a recurring annual mismatch between revenues and expenditures. This analysis will aim to identify:

- The annual rates of change in County revenues and expenditures over the last decade;
- Significant changes in the revenue structure, sources, and composition;
- Significant "macro-level" trends in County agency expenditures (the major "cost drivers");
- Major trends in local government service demands;
- Requirements in State and local law that affect revenues and expenditures (e.g., Charter limit, MOE law); and
- Growth in fixed expenditure obligations (e.g., debt, pension payments, OPEB obligations).

C. Projecting the Future Growth of Revenues and Expenditures in Montgomery County. OLO will conduct an assessment of the County's future year revenue and expenditure projections. OLO's work will include a critical review of the assumptions and methodologies used in the Executive's most recent six-year Fiscal Plan, including projections of:

- Revenues generated from taxes, fees, and other sources during the next six years;
- County agency expenditures during the next six years;
- Changes in future year expenditure commitments;
- Changes in service demand (e.g., growth in population, MCPS enrollment); and
- Future year legal and other fixed obligations.

OLO's report back to the Council will include examples to illustrate how changing key assumptions behind the six-year projections alter the size of the future years' gaps between revenues and expenditures.

PART II: OPTIONS TO ACHIEVE LONG-TERM FISCAL BALANCE

Based on the findings of Part I and research into strategies implemented elsewhere, OLO will present the Council with options that contribute towards a long-term balance between projected County revenues and projected County expenditures. Part II will include three component parts.

A. Guiding Principles. OLO will develop a set of guiding principles for Council consideration that would help shape future fiscal planning and budgetary decision-making. For example, these guiding principles could include policies that address:

- The use of projected future year revenue projections and economic indicators (e.g., inflation rate) in determining future expenditure levels;
- Measures to control future year expenditure obligations (including debt service, pension obligations, and other post-employment benefits);
- Fund reserve levels;
- The use of one-time resources;
- Cost recovery for fee-supported programs and services; and
- Capital programming of new facilities that will have future operating budget impacts.

B. Revenue Options. This task will involve researching, identifying advantages and disadvantages, and pricing different methods of increasing future year revenues. Options would include adjustments to tax and fee rates and imposition of new taxes and fees. OLO will estimate the amount of revenues that could be generated by the different options as well as the burden the options would place on ratepayers.

C. Expenditure Options. The purpose of this task is to generate options for containing future personnel and operating expenditures. Because personnel costs represent the largest portion of agency costs, OLO will focus on options for reducing the size of the workforce and controlling per employee compensation cost increases. In selecting the specific options to study and present to the Council, OLO will:

- Focus on ways to address the cost drivers identified in Part I;
- Apply lessons learned from other jurisdictions that are grappling with resolving their own structural budget deficits; and
- Place priority on strategies that have significant and ongoing fiscal impact.

OLO's work on identifying revenue and expenditure options will be coordinated with related Council and Executive-sponsored efforts, to include the Cross-Agency Resource -Sharing Committee and the Montgomery County Organizational Reform Commission.

PROJECT 4
RESEARCH ON FAMILY PLANNING MEDICAID WAIVER PROGRAMS

Principal agency: County Government

Origin of project: OLO's FY10 Work Program

OLO's FY10 Work Program included a placeholder project on some aspect of women's health, with the scope of work to be determined after the Reproductive Health, Education, and Advocacy Workgroup (convened by Councilmember Trachtenberg) submitted its report. Based on the Workgroup's findings and issues identified by the Health and Human Services Committee in April, Councilmember Trachtenberg recommended a scope of work (attached at page 11).

The Workgroup found a substantial need to enhance access to family planning services for teens and low-income women in Montgomery County, and suggested advocacy to expand Maryland's Medicaid waiver program. The HHS Committee also expressed an interest in pursuing this.

Currently, Maryland has a limited family planning waiver program that allows women who are not otherwise eligible for Medicaid to receive family planning services for up to five years postpartum. This existing waiver for family planning services is scheduled to expire in June, 2011. In 2009 the General Assembly introduced, but did not pass, legislation to expand family planning coverage under Maryland's Medicaid program to women with incomes up to 250% of the Federal poverty level (up from 116%).

This OLO project will provide a research summary of other states' Medicaid waiver laws that expand access to family planning services. The purpose will be to inform Council efforts to advocate for changes to Maryland's waiver program during the 2011 General Assembly session. Such an effort would be timely since Maryland's existing waiver for family planning services is scheduled to expire in June, 2011. OLO will use published studies and other readily available information to:

- Identify and describe different jurisdictions' Medicaid waiver approaches;
- Review and report the implementation experiences of these selected approaches; and
- Report available evaluation data for these existing Medicaid waiver programs.

OLO's work on this project is currently underway and will be completed in time for release by the Council in September.

PROJECT 5 FOLLOW-UP ON COMPLETED OLO REPORTS

This project consists of Office of Legislative Oversight staff time allocated to follow-up activities identified during the Council's review of previously completed OLO projects:

Project 5A is follow-up work related to OLO Memorandum Report 2010-8: History and Current Status of the Collaboration Council for Children, Youth and Families. OLO will staff a summer worksession on how the Collaboration Council has adjusted to changes in state and local funding; and provide support for the Council's decision regarding the Collaboration Council's designation as the County's Local Management Board. (In March 2010, the Council extended the current designation to June 30, 2011.)

Project 5B is follow-up work related to OLO Report 2010-7, Truancy in Montgomery County. A second Education/Public Safety Committee worksession to discuss the issues raised in the report is scheduled for this summer.

Project 5C is follow-up work related to OLO Report 2010-9, An Inventory and Assessment of Housing-Related Programs: Department of Housing and Community Affairs, Department of Health and Human Services, and Housing Opportunities Commission. A PHED Committee worksession to discuss issues raised in the report is expected to be scheduled during FY11.

Project 5D is follow-up work on OLO Report 2010-4, Evaluation of the Local Small Business Reserve Program. The Council requested that the Executive Branch provide a report back to the Council on all FY10 contracts awarded to local small businesses and non-profits and additional strategies that could be used to achieve the goals of the LSBRP. OLO staff will follow-up with the Executive Branch staff regarding this report, which is due by November 30, 2010.

Project 5E is follow-up work related to OLO Report 2010-3, Evaluation of the Safe Speed Program. Upon Councilmember request, OLO will assist with staffing worksessions on the effect of 2009 State law changes on factors such as collision rates, the issuance of citations, and program revenues.

One additional OLO report (assigned on the FY10 Work Program) will be completed and submitted to the Council for receipt and release before summer recess. During FY11, OLO will provide staff support for Committee and Council consideration of this report.

Project 5F will be work related to OLO's report on Fiscal Impact Statements, which is scheduled for completion this summer. An MFP Committee worksession on the report will be scheduled for the fall of 2010.



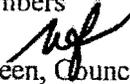
MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

OFFICE OF THE COUNCIL PRESIDENT

MEMORANDUM

March 15, 2010

TO: Councilmembers

FROM: Nancy Floreen,  Council President

SUBJECT: Assessment of Montgomery County's Structural Budget Deficit

As you know, a structural budget deficit exists when ongoing expenditures consistently exceed ongoing revenues, even in periods of relative prosperity. The deficits that governments face today are not only cyclical – the result of the worst recession since the Great Depression – but structural as well. The federal government and many state and local governments, including the State of Maryland and Montgomery County, now confront deficits of both kinds. Many of us have raised this issue.

The County Executive's recommended FY11 operating budget and FY11-16 Fiscal Plan confirm this point. To close a gap most recently projected at \$779 million, equal to about one-fifth of the approved aggregate operating budget for FY10, the Executive has proposed service reductions, position abolishments, furloughs, and departures from County fiscal policies on a scale that we have never seen before. But the FY11-16 Fiscal Plan shows that even after such actions to achieve a balanced budget in FY11 have been taken, large gaps in future years will persist – including FY12, when federal stimulus dollars will run out. The gaps projected for FY12-16, respectively, are currently estimated to exceed \$212, \$303, \$417, \$464, and \$514 million.

Besides resolving the acute FY11 budget challenge that is now before us, we need to address the chronic budget challenges that lie ahead. I believe that we must address at least three central questions:

1. What are the assumptions behind the Executive's future year gap projections?
2. What are the cost drivers associated with the structural deficit in future years?
3. What policy and budget options are available going forward to address the structural deficit?

To start this process, I will ask the Office of Legislative Oversight to develop a recommended scope of work to answer these three questions. With regard to timetable, I suggest that the Council formally approve a project assignment to OLO at the time we approve the FY11 budget in late May, and that the project be completed by early December, when the new Council will take office. I believe that this project has the potential to produce not only useful information but real results.

As we move forward, answering these questions will require the Council to consult with the Executive and the leadership of MCPS, the College, and Park and Planning, as well as our employee organizations and community stakeholders. Please get back to me by the end of the week with your thoughts and suggestions on this proposal.



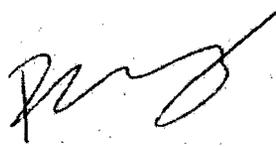
MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

DUCHY TRACHTENBERG
COUNCILMEMBER
AT-LARGE

MEMORANDUM

May 6, 2010

TO: County Council

FROM: Councilmember Duchy Trachtenberg 

SUBJECT: **Recommended Scope for FY10 OLO Project on Women's Health Programs**

Last year, I convened the Reproductive Health, Education, and Advocacy Workgroup to examine women's health services in the County. Last summer, the Council approved a placeholder project on the Office of Legislative Oversight's FY10 Work Program for a study on women's health services, with a scope of work to be finalized based on the Workgroup's findings.

The Workgroup finished its report in January, and the HHS Committee discussed the report at an April worksession. The Workgroup found a substantial need to enhance access to family planning services for teens and low-income women in Montgomery County, and suggested advocacy to expand Maryland's Medicaid waiver program. The Committee expressed an interest in pursuing this issue.

Based on the Workgroup's findings and issues identified by the HHS Committee last month, I recommend the following scope of work for OLO's project on Women's Health Programs.

Summary of OLO Project Scope. This OLO project will provide a research summary of other states' Medicaid waiver laws that expand access to family planning services. The purpose will be to inform Council efforts to advocate for changes to Maryland's waiver program during the 2011 General Assembly session. Such an effort would be timely since Maryland's existing waiver for family planning services is scheduled to expire in June, 2011.

OLO's report will use published studies and other readily available information to:

- Identify and describe different jurisdictions' Medicaid waiver approaches;
- Review and report the implementation experiences of these selected approaches; and
- Report available evaluation data for these existing Medicaid waiver programs.

Timing. OLO plans to complete this project before the Council's summer recess so findings are available in the fall when the County's State delegation begins preparing for the 2011 General Assembly session.

Please contact Jennifer Renkema (x77892) in the Office of Legislative Oversight if you have questions about the scope or timing of the report.

cc: Karen Orlansky, Director, OLO
Jennifer Renkema, Research Associate, OLO