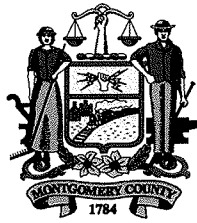


**MONTGOMERY COUNTY
BOARD OF COMMISSIONERS**

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URI Z. MONSON
CHIEF FINANCIAL OFFICER

June 6, 2012

To: Joshua D. Shapiro, Chair
Leslie S. Richards, Vice Chair
Bruce L. Castor, Jr., Commissioner
Lauren M. Lambrugo, Chief Operating Officer

RE: Fiscal Update

2012 Operating Budget

As we have previously discussed, the County began the fiscal year with an adopted budget that included a \$9.95 million budget gap. By the end of the first quarter, we were able to reduce the projected annual operating deficit to \$3.1 million, primarily through nearly \$6.5 million in spending cuts. Our efforts to continue narrowing that gap include pinpointing potential savings within operating departments and identifying potential new revenue sources. At the May 17th Commissioners' Meeting, the Board approved entering into a contract with the ICE program to house and transport detainees. That contract has been signed, and detainees will be housed at a rate of \$74.50 per night. After a few months we will be able to estimate the annual revenue that will be generated through this program.

A little later in this meeting, the Commissioners will be asked to consider a similar arrangement with Lancaster County. Although terms are still being negotiated, that contract would allow the County to house 40 inmates from Lancaster County. Lancaster County is prepared to transfer inmates as early as June 15, and the County could realize several hundred thousand dollars over the remainder of the year.

Additionally, the County's new grant writer has already begun assisting departments with identifying and preparing applications for grants, as well as identifying potential new sources of revenues.

2012 Capital Budget

The County is still awaiting reports on the condition of One Montgomery Plaza and the Main Street Garage, including remediation recommendations. The results of those analyses and the ultimate decision by the Commissioners of a course of action will determine the costs and timing associated with the key elements of the Capital Program.

I also need to make you aware that while the scope of the approved Capital Program will not change, the anticipated borrowing will need to be a few months earlier than originally anticipated, and may need to be broken into multiple borrowings in order to ensure that debt service does not increase to a level beyond what the Operating Budget can afford. When I presented the Capital Budget for your consideration in April, I indicated that the County had approximately \$29 million available in remaining capital dollars from previous borrowings. That information was based on a report which is provided to the Finance Department, which had indicated that this was the amount of funds available.

In the last few weeks, I learned that there were some inaccuracies in the report, the most dramatic of which impacted the accounting of available capital funds. In fact, at the time of the Capital Budget approval, the County had slightly more than \$12.5 million in available capital funds. Since that time, the County did receive a reimbursement of previous expenses from the Commonwealth of just under \$1 million, as well as expending some funds per the approved Capital Budget. As of yesterday, the total available capital funds (including Capital Reserves) are approximately \$13 million.

As the prime customer of this daily funds report, the Finance Office has spent the last two weeks working with the responsible parties to improve the report in terms of form, function, and accuracy. A new report format was completed on June 1, and is currently being tested and verified on a daily basis to ensure ongoing accuracy. Additionally, an annotated version of the report is being created which identifies the source for each figure and data point, to allow for easier spot verifications going forward. The report has been reformatted to ensure that the relevant information is readily apparent for all users. Finally, the report will now be shared in electronic format to reduce time delays and paper usage. I am confident that this new report will prevent any confusion regarding current fund balances as we move forward.

2013 Operating Budget

Zero Based Budget Process.

The Zero-Based Budgeting (ZBB) process began in earnest over the past two weeks. During a Department Head meeting on May 24, I introduced the basic outline of the first phase of the ZBB approach the County would utilize. On June 4th, I circulated a memo to Department Heads which outlined the four steps of Phase I. A copy of that memo is attached to this report.

In summary, the Departments will be stating their core missions, including any statutory or regulatory requirements, and identifying performance measures which measure Department outcomes that relate to the mission. The Departments will also be asked to highlight any activities they currently perform which are outside their mission, as well as any parts of their mission which they are currently failing to address. Finally, Departments are asked to design an ideal organizational chart for achieving their mission.

You will notice that this phase does not include any budget numbers. That is intentional as the focus of a ZBB approach is to literally start from zero and build a budget based on the activities a government should be performing, rather than what it has “traditionally spent.” The Row Offices have also been invited to participate in the ZBB process.

In addition to specific Department and Row Office budgets, the Finance Office will be evaluating all other line items in the budget to determine if they meet the core missions of the County, and how to properly measure the impacts of those funding streams. An update and recommendations on those budget lines will be provided to the Commissioners in the coming month.

Montgomery County Community College

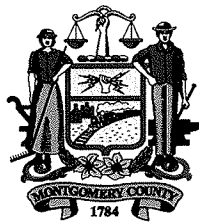
Although the County’s fiscal year parallels the calendar year, the Montgomery County Community College (MCCC) follows a July 1 fiscal year. As a result of these overlapping fiscal years, MCCC has traditionally asked the County to provide a budget figure for the allocation to MCCC that would appear in the new budget. In the past, the Chairman of the County Commissioners has drafted a non-binding letter, or the Commissioners have passed a funding resolution outside the normal annual budget process. As a result, the final budget has often included a lower funding figure, forcing MCCC to make mid-year budget adjustments.

In order to make the process more realistic, I sent a letter to Dr. Stout, President of MCCC, which highlighted the serious concerns I have in my preliminary review of the 2013 County budget, and the myriad of fiscal challenges facing the County. A copy of that letter is attached to this report. Based on that analysis, I indicated that if I were forced to make a recommendation now, it would be that the 2013 County Budget would fund the college at an amount of \$15,766,425 – a twenty-five percent reduction from the 2012 funding level. While I am hopeful that the efforts the County is undertaking to reduce costs, increase efficiencies, and develop new revenue streams will change the County’s fiscal outlook, this is the reality facing the County at this time.

A handwritten signature in black ink, appearing to be "M. Stout", written in a cursive style.

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URI Z. MONSON
CHIEF FINANCIAL OFFICER

To: Department Heads
RE: Zero-Based Budgeting, Phase I
DATE: June 4, 2012

The County will be utilizing a zero-based budgeting (ZBB) model as we put together a proposed budget for 2013. As I highlighted during the Department Head meeting on May 24, the first phase of implementation does not involve budget numbers. Below is a series of steps each Department or Authority should complete in order to accomplish the first phase. Most of the information would be best assembled by the individual Department or Authority, though the Finance Office is available to assist at any stage of the process.

Once the information for phase I has been collected, please contact the Finance Office to set up a meeting to review the information with Finance and the COO. Scheduling these meetings should be completed no later than June 22. I recognize that this is a new process for all; please feel free to contact me at any time with questions or concerns.

Elements of ZBB Phase I

1) Mission Identification

Identify the primary missions for the department/authority. Departments may have more than one primary mission, though ideally the overall mission should be expressed in no more than a paragraph. Departments should also identify any statutory or regulatory authority which dictates roles and activities consistent with the mission of the Department or Authority.

Resources:

<http://mystrategicplan.com/resources/mission-statements/> (business focused but has a lot of applicable information).

<http://www.wikihow.com/Write-a-Mission-Statement>

2) Performance Goals and Measures

Identify performance goals for the department/authority. Goals should relate directly to the mission statement, be measurable, and be outcome oriented wherever possible. If any of this data is already being collected, provide examples of recent results and how it reflects on the performance levels of the agency.

Resources:

<http://govinfo.library.unt.edu/npr/library/papers/benchmrk/nprbook.html#section1>

<http://www.orau.gov/pbm/documents/overview/uc.html>

<http://businessfinancemag.com/article/ten-most-common-errors-developing-performance-measures-0705>

3) Current Activities vs. Mission

Examine current department/authority activities to evaluate whether or not they contribute toward achieving the mission. Are there current activities which do not relate to the mission? Alternatively, are there activities that are not being performed even though they are central to achieving the mission? In either scenario, if there are historical reasons for why certain activities have or have not been performed, please provide a brief summary.

4) Organizational Structure

Disregard your current organizational structure. How would you ideally structure an organization to meet the performance goals and achieve the mission outlined in steps one and two? What types of skills, personnel, and support staff would be needed to succeed?



c: Joshua D. Shapiro, Chair
Leslie S. Richards, Commissioner
Bruce L. Castor, Commissioner
Lauren M. Lambrugo, Chief Operating Officer

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URI Z. MONSON
CHIEF FINANCIAL OFFICER

May 22, 2012

Karen A. Stout, Ed.D.
President
Montgomery County Community College
340 DeKalb Pike
Blue Bell, PA 19422

Dear Dr. Stout:

I am writing in reference to the ongoing discussions regarding the funding level for the Montgomery County Community College (MCCC) which will be included in the next County budget. As you know, this process is complicated by the very nature of the overlapping fiscal years of MCCC and the County, resulting in the College adopting its budget six months before the County has set the funding level. In the past the MCCC has received either a letter from the Chairman of the Board of Commissioners or a Board resolution regarding possible funding levels. These figures are not binding however, and often the funding level from the County has been adjusted downward as part of the adoption of the overall budget.

In order to facilitate your efforts to assemble a 2012-2013 budget for the College, and be able to rely on a figure from the County, this letter will give you my assessment of the funding level I am likely to recommend to the Commissioners when I present a proposed 2013 budget for their consideration. The final figure will ultimately be that which is included in the 2013 budget adopted by the Commissioners later in the calendar year.

I greatly appreciate the conversations that have occurred between you and your staff and the Commissioners and Senior Staff of the County, which have enabled us to understand the fiscal concerns facing the College. At the same time, there are several financial challenges confronting the County which will have to be taken into consideration as we put together our 2013 budget over the next six months.

As we have stated publicly, most notably in laying out the County's five-year capital program, the County will need to make significant investments in its own, long-neglected infrastructure. While we will not know the exact figures until proper evaluations are completed and recommended actions considered by the Commissioners, estimates for repairing the core buildings and garages of the County are expected to exceed \$60 million. Those buildings represent only one part of the necessary capital investment that will need to occur over the next several years.

As you may be aware, the County recently had the bond rating from Fitch downgraded from a "AAA" to a "AA+". While the rating analysis noted that the County's fundamental fiscal situation and economy are strong, they downgraded the County based on the sharp decline in the County's fund balance. Several years of structural operating deficits have resulted in the County's fund balance falling from nearly \$100 million to just \$20 million in four years.

It is important to note that the County would not make difficult fiscal choices simply to raise its bond rating. The concerns highlighted in this Fitch rating, and last fall by Moody's, are underlining the County's fiscal reality – the County's financial flexibility has sharply declined with a fund balance equal to less than 6 percent of budgeted expenditures. The County had to do a short-term revenue anticipation borrowing to ensure adequate cash flows in 2012, the first time the County has done such a borrowing in ten years. Maintaining fund balances at these low levels is simply not an option for the County.

Efforts to increase the fund balance are further challenges by previously unbudgeted expenses. Even though the County's Pension Fund is viewed as "well-funded" by Fitch, the County has not made its recommended Pension payment in three years, and the \$9.3 million payment for 2012 was left out of the budget. The funding levels of the Pension Fund have dropped over this period; failure to make necessary payments in 2013 and beyond will only serve to drive the Pension Fund to the dangerously underfunded levels that are constraining government entities across the Country. The County's fiscal challenge is also hampered by a budget which included unjustifiably low estimates for outside counsel expenses, and inadequate funding to cover approved staffing levels.

The State budget process for the next fiscal year remains unresolved, impacting both the County and the College. Under current proposals from the Governor and the state Senate, the County is facing cuts ranging from 10 to 20 percent in several human services areas. A loss of funding will result in either reduced services for County residents or require the County to increase its local funding by several million dollars to meet those social service needs. Either scenario increases the pressure on County finances.

The County is making efforts to meet its challenges. We are ensuring that we collect all appropriate revenues and implementing recommendation to streamline government and function in an efficient and effective means as possible. We are in the beginning stages of rebuilding our budget from the ground up, utilizing a zero-based budget model. However, many of these changes will take time to implement and time to realize savings. Again, the overlap of our fiscal years necessitates an estimated figure for the College before we can quantify these fiscal improvements and complete the County's fiscal picture for 2013.

As a result, if I were making a recommendation today to the Commissioners, it would be to fund the college at an amount of **\$15,766,425**, a twenty-five percent reduction from the current year's allocation. It is possible that the County's fiscal outlook will improve over the next few months, and of course the Commissioners have ultimate say over the funding levels in the budget. However, this is the realistic

fiscal outlook that faces the County today. I hope that by making you aware of the situation as early as possible, the College can make its fiscal plans accordingly. While I recognize that this will place additional burdens on the College, I must be cognizant of the fiscal challenges confronting the County.

If you have any questions or wish to discuss these issues further, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Uri Monson', with a long horizontal flourish extending to the right.

Uri Monson
Chief Financial Officer

C: Joshua D. Shapiro, Chair
Leslie S. Richards, Vice Chair
Bruce L. Castor, Jr., Commissioner
Lauren Lambrugo, COO
Michael J. D'Aniello, Chair of the Board of Trustees, MCCC