GO Committee #2
January 27, 2021
<u>Worksession</u>

M E M O R A N D U M

January 22, 2021

TO: Government Operations and Fiscal Policy (GO) Committee

FROM: Gene Smith, Legislative Analyst

SUBJECT: Spending Affordability Guidelines for the Amended FY21-26 Capital Improvements Program (CIP) and other CIP Assumptions

PURPOSE: Review and make recommendation to the Council

<u>Expected attendees</u>:
Mary Beck, Office of Management and Budget (OMB)
Veronica Jaua, OMB
Anita Aryeetey, OMB
David Platt, Department of Finance (Finance)
Mike Riley, Montgomery Parks (Parks)
Carl Morgan, Parks

The GO Committee will review the current economic conditions and affordability indicators and recommend to the Council the Spending Affordability Guidelines (SAG) for the amended FY21-26 CIP. The committee will also review the other CIP assumptions recommended by the Executive during this worksession. The Council will consider the GO Committee's recommendations on February 2, 2021.

Summary

Council staff recommends that the GO Committee retain the existing guidelines for the aggregate capital budget, both County and Park bonds. The conditions have not improved significantly to recommend a deviation from the current guidelines.

I. Background

The Council must set the aggregate capital budget SAG by the first Tuesday in October of odd-numbered calendar years. These guidelines include:

1) Total General Obligation (G.O.) debt that may be planned for expenditure in the first fiscal year of the CIP.
2) Total G.O. debt that may be planned for expenditure in the second fiscal year of the CIP.

3) Total G.O. debt that may be planned for the six-year CIP.
4) Total debt that may be planned for expenditure by the Maryland-National Capital Park and Planning Commission (M-NCPPC) in the first fiscal year of the CIP.
5) Total debt that may be planned for expenditure by M-NCPPC in the second fiscal year of the CIP.
6) Total debt that may be planned for expenditure by M-NCPPC for the six-year CIP.

The current guidelines were adopted by the Council in Resolution No. 19-251 on October 1, 2019. The Council supported a tapered reduction to the G.O. bond guidelines for the next six years. This decision was based on the continuing increasing trend (worsening) of the debt capacity indicators. Table 1 lists the guidelines adopted by the Council for the FY21-26 CIP.

Table 1: Council Adopted Aggregate Capital Budget SAG

Guideline	Council Approved Value ($ millions)
Total G.O. debt in FY21	320.0
Total G.O. debt in FY22	310.0
Total G.O. debt in FY21-26	1,770.0
Total M-NCPPC debt in FY21	8.0
Total M-NCPPC debt in FY22	8.0
Total M-NCPPC debt in FY21-26	42.7

The Council may change these guidelines no later than the first Tuesday of February each year if there is a significant change in the conditions, including the debt capacity indicators, economic conditions, and other relevant factors. After considering the conditions, the Council may keep the current guidelines, decrease the guidelines, or increase the guidelines when conditions allow. When increasing the guidelines, the Council may only increase the first or second fiscal year guidelines up to 10%. The Council has no restriction on increasing the six-year aggregate guidelines or on decreasing any of the guidelines.

The Council reviewed the conditions for the FY21-26 CIP in January 2020. The Council adopted Resolution No. 19-356 on February 4, 2020, which confirmed the original guidelines approved in October 2019.

II. SAG for Amended FY21-26 CIP

The Executive transmitted his recommended amendments to the FY21-26 CIP on January 15, 2021 (see ©1-7 for cover memo). The Executive is recommending a significant reduction in resources for the amended FY21-26 CIP. $93.2 million of these reductions are due to updated estimates for the impact tax revenues and the recordation tax revenues. The Executive's recommended amendments remain within the guidelines detailed in Table 1.

A. Debt Capacity Indicators

The debt capacity indicators are an important tool for the Council's consideration of the guidelines. There are several indicators that are published with each capital budget and updated for the Council's review of the aggregate capital budget SAG. Table 2 below provides details about the published indicators.

Table 2: Debt Affordability Indicators

Indicator	Policy Threshold
G.O. debt to assessed value	1.5%
Debt service to revenues	10.0%
Debt per capita	$2,400
Capita debt to capita income	3.5%
Payout ratio	60% - 75%

Executive staff updates the assumptions for each of these indicators based on new economic and fiscal conditions. Changes to these assumptions tend to drive a change in debt service indicators year-over-year because the County's total debt, which is about $3.4 billion, does not change quickly. See ©8 for the changes in assumptions between the approved FY21-26 CIP and the recommended amended FY21-26 CIP. Table 3 provides an overview of the differences for the assumptions.

Table 3: Updated Assumptions for SAG

Assumption Variable	Change
Bond interest rate	Unchanged from previous guideline review.
Operating budget growth	Decreased from previous review – FY22 displays negative growth, and FY23 and FY24 display lower growth than previously.
Population	Decreased from previous review – population growth for FY21-26 is less than projected previously.
Annual inflation	Decreased from previous review – the change in inflation for FY21-26 is projected to be less than previously estimated.
Assessable base	Decreased from previous review – the growth in assessable base is projected to be less in FY21-25 than previously estimated.
Personal income	Decreased from previous review – the growth in total personal income for residents is projected to be less in FY21-25 than previously estimated.

B. G.O. Bond Guidelines

Executive staff updated the debt capacity analysis based on the current assumptions and debt service values (see ©9). For comparison, the published indicators in March 2020 are on ©10. Below is a description of the changes between March 2020 and January 2021 for the debt indicators.

Overall. The debt capacity indicators, mostly, have marginally improved since March 2020. Total outstanding debt is about $100 million less than estimated in March 2020, and this factor is a reason for the improvement in the indicators for this review.

G.O. Debt to Assessed Value. This indicator has marginally improved since March 2020, but it is still greater than the policy threshold of 1.5%. This indicator is estimated to reach the policy threshold by FY26.

Debt service (plus lease payments) to revenues. This indicator is considerably worse than estimated in March 2020, and it still is well above the policy threshold of 10.0%. There are two reasons for the change – 1) County revenue estimates were decreased in December 2020 based on the impacts due to the pandemic; and 2) Executive staff anticipate the $50 million Housing Opportunity Commission bonds for the production fund to be approved later in FY21.

Debt per capita. This indicator has marginally improved since March 2020, but it is still greater than the policy threshold of $2,400. The indicator is estimated to decrease through FY26.

Capita debt to capita income. This indicator has marginally improved since March 2020, and it is below the policy threshold of 3.5%. It is projected to remain below the policy threshold through FY26.

Council staff recommends that the GO Committee retain the existing guidelines for the Capital Budget. The economic and fiscal indicators for the County are worse than a year ago, as detailed in the FY22 Operating Budget SAG report. While most of the debt service indicators have marginally improved, all but one remains greater than the policy thresholds for the foreseeable future. The Council's decision to taper the G.O. bond issuances is beginning to produce results, but additional time is still needed for the debt capacity indicators to return below the policy thresholds.

C. M-NCPPC Bond Guidelines

The Council also sets guidelines for M-NCPPC bonds, as was previously detailed in Table 1. During the FY21-26 SAG process, the Council increased the guidelines for FY21 and FY22 to $8.0 million a year to evaluate if this additional capacity would produce offsetting operations and maintenance cost savings. The Council plans to reevaluate these guidelines in October 2021 to see if these cost savings have occurred. The Executive's recommended amended FY21-26 continues with the Council's adopted guidelines.

Council staff recommends that the GO Committee retain the existing guidelines for M-NCPPC. The Council and Parks should be prepared to review the impact from the increased FY21 and FY22 guidelines in October 2021 to determine if further increases are warranted for FY23 and beyond.

D. PAYGO

Pay-as-you-go (PAYGO) funding is an important tool to reduce the County's debt burden by funding a portion of the CIP with current revenue instead of G.O. bonds. Resolution 17-312 sets PAYGO at a minimum of 10% of the issued G.O. bonds each fiscal year.

The Council approved $32.0 million in FY21 PAYGO expenditures in June for the FY21-26 CIP. The Executive's recommended July 2020 Savings Plan reduced the FY21 PAYGO by $23.4 million. The Council approved this reduction. The Executive recommends eliminating the remaining $8.6 million of PAYGO expenditures in FY21 in the recommended January 2021 Savings Plan to the Council to aid in balancing the FY21 budget.

The Executive also recommends reducing the FY22 PAYGO expenditures by 50% or $15.5 million. The Executive cites the current FY22 fiscal situation as the reason to assume this reduction prior to the submission of the recommended FY22 Operating Budget.

Council staff recommends that the Council maintain its current policy level of 10% PAYGO for FY22. The financial picture for FY21 and FY22 remains elusive. Executive staff continually note that Federal aid would dramatically improve the County's fiscal situation, but the County will not know more about Federal aid until later in 2021. Council staff believes it is premature to abandon the Council's PAYGO policy this early in the process. Also, the amended FY21-26 CIP's resources were significantly reduced in the Executive's recommended amendments. By retaining the 10% policy goal, the GO Committee would add $15.5 million to the current CIP to support critical projects.

III. Other CIP Assumptions

A. Inflation Rates

The inflation rate adjustments reflect the change general inflation (i.e., Consumer Price Index), not the growth in construction costs year-over-year. The CIP expenditures in the project description forms are based on estimates in constant dollars. The change in inflation rates translate into a more (or less) constrained CIP in the later years. Table 4 details the changes in the inflation rates assumed in the recommended amended FY21-26 CIP.

Table 4: Inflation Rate Adjustments for Amended FY21-26 CIP

	FY21	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**
FY21-26	2.53%	2.70%	2.70%	2.70%	2.70%	2.70%
FY21-26 Am	*1.59%*	*1.62%*	*1.99%*	*2.42%*	*2.44%*	*2.44%*

B. G.O. Bond Set-Asides

The Council always approves a CIP with some G.O. bond funding unprogrammed. This "set-aside" creates capacity within the CIP if funding is needed for unanticipated projects or expenditure increases. The Executive's recommended set-aside assumptions are on ©11. The set-aside percent for full CIP years (i.e., even calendar years) typically ranges between 8-9%; amended CIP years (i.e., odd calendar years) have a lower percent set-aside by virtue that the first year's expenditures are better defined. Table 5 details the recent CIP set-asides compared with the recommended set-asides for the amended FY21-26 CIP.

Table 5: G.O. Bond Set-Aside Comparisons ($ millions)

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	Total	%
FY19-24	15.1	19.5	20.4	23.6	42.6	45.4			166.7	8.5%
FY19-24 Am	0.0	12.0	15.8	21.5	51.9	58.1			159.4	8.1%
FY21-26			15.3	16.8	22.0	27.6	31.3	48.6	161.6	8.5%
FY21-26 Am			**11.2**	**22.4**	**15.7**	**22.6**	**35.1**	**40.1**	**147.0**	**8.0%**

Note: % is the percent of G.O. bond expenditure total for six-year CIP.

The Executive's recommended set-aside in FY21 and FY22 are greater than previous off-year CIPs with almost $11.2 million in FY21. The Executive is recommending this additional capacity to accommodate projects for an emergency homeless shelter and to stabilize the Lincoln High School building. **The Council should aim for maintaining these set-asides as it considers the aggregate expenditure-levels in the amended FY21-26 CIP**.

C. Recordation Taxes

The County's recordation tax includes three different tax rates that fund different priorities. Recordation taxes are applied to the value of any instrument of writing (e.g., a mortgage) for properties in the County. Each of these taxes are applied to every $500 or fraction of $500 for an instrument of writing, except the Recordation Tax Premium, only applies to values that are $500,000 or greater. There is also an exemption on the first $100,000 for owner-occupied residential properties. The three tax rates are:

1) **$2.08 for the General Fund obligations**. Revenues from this tax are not programmed in the CIP directly.
2) **$2.37 for Montgomery County Public Schools (MCPS) CIP projects** (the "Schools CIP RT").
3) $**2.30 for the Recordation Tax Premium**. Revenues from this tax are split 50/50 between the County Government's CIP projects and rental assistance.

Both the actual School CIP RT and Recordation Tax Premium revenues collected as of November 2020 are less than previous years. Tables 5 and 6 data bout the Schools CIP RT, and Tables 7 and 8 are the same comparisons for the Recordation Premium Tax. The first table for both taxes provides details about actual tax collections from July to November each fiscal year, and the second table for the taxes compare the estimates between the FY21-26 CIP and amended FY21-26 CIP. The Council, during the FY21 budget deliberations, decreased the estimated recordation taxes in FY21 for the CIP. These reductions were recommended by Finance based on estimated economic impacts from the pandemic.

Table 5: FY19-21 Schools CIP RT Collections (July to November)

FY	School CIP Tax Revenues ($)
FY19	27,843,292
FY20	31,035,798
FY21	*24,330,532*

Table 6: Comparison of Schools CIP RT between Approved and Amended CIP ($ thousands)

	FY21	FY22	FY23	FY24	FY25	FY26	Total
FY21-26	47,488	70,959	75,197	79,523	84,331	89,331	**447,184**
FY21-26 Am	*62,597*	*65,496*	*67,536*	*70,152*	*72,873*	*75,715*	***414,369***
Difference	15,109	(5,463)	(7,661)	(9,371)	(11,458)	(13,971)	**(32,815)**

Table 7: FY19-21 Recordation Tax Premium Collected Revenues (July to November)

FY	Recordation Tax Premium Revenues ($)
FY19	6,851,674
FY20	9,088,351
FY21	*5,381,473*

Table 8: Comparison of Recordation Tax Premium Approve and Amended CIP ($ thousands)

	FY21	FY22	FY23	FY24	FY25	FY26	Total
FY21-26	12,145	12,145	12,145	12,145	12,145	12,145	**114,000**
FY21-26 Am	*15,818*	*16,605*	*17,125*	*17,791*	*18,485*	*19,294*	***105,118***
Difference	3,673	(1,526)	(2,064)	(2,479)	(2,983)	(3,503)	**(8,882)**

The sizeable decrease to the amended FY21-26 CIP for the recordation taxes is based on current economic conditions and actual collections. There, however, is no decrease in FY21 because the Council already reduced this amount during the FY21 budget deliberations. Due to this foresight, the FY21 resources are slightly increased to aid in balancing the FY21 expenditures of the CIP.

The decrease in these taxes is mostly due to lower-than-expected commercial property sales in FY21, which are volatile. Residential properties have experienced a modest increase year-over-year for sales despite the disruption from the pandemic. Finance estimates a continued reduction through FY22-26 based on the updated assumptions for property sales and median sales values. Estimates for future years will continue to evolve as more is known about how the pandemic will impact property sales.

D. Impact Taxes

Impact taxes are applied to new construction projects in the County. There are two impact taxes that are applied – one for MCPS CIP projects and one for transportation projects. Residential properties pay both taxes, and commercial properties only pay the transportation impact tax. There are credits available for transportation impact taxes if a developer meets certain conditions. **Revenue from this tax is very difficult to predict due to fluctuations in building cycles and economic conditions, and for transportation impact taxes, when tax credits are applied**.

The Council during its deliberations of the Growth and Infrastructure Policy in November 2020 adjusted many of the rates to address economic development concerns and to balance the taxes based on current data. Executive staff have revised the estimates for these taxes to account for the changes in the new policy. Tables 9 and 10 compare the differences between the FY21-26 CIP and amended FY21-26 CIP for the school impact tax and the transportation impact tax, respectively.

Table 9: Comparison of Schools Impact Tax between Approved and Amended CIP ($ thousands)

	FY21	FY22	FY23	FY24	FY25	FY26	Total
FY21-26	20,218	20,218	20,218	20,218	20,218	20,218	**121,308**
FY21-26 Am	*18,958*	*18,958*	*13,409*	*13,409*	*13,409*	*13,409*	***86,003***
Difference	(1,260)	(6,809)	(6,809)	(6,809)	(6,809)	(6,809)	**(35,305)**

Table 10: Comparison of Transportation Impact Tax between Approved and Amended CIP ($ thousands)

	FY21	FY22	FY23	FY24	FY25	FY26	Total
FY21-26	9,752	9,752	9,752	9,752	9,752	9,752	**58,512**
FY21-26 Am	*8,661*	*6,725*	*6,725*	*6,725*	*6,725*	*6,725*	***42,286***
Difference	(1,091)	(3,027)	(3,027)	(3,027)	(3,027)	(3,027)	**(16,226)**

Executive staff, like prior years, used a 10-year moving average based on actual collections. The new tax rates were applied to this moving average to calculate the new estimates. As noted earlier, estimating these taxes are extremely difficult. **The current estimates are further complicated by the fact that County staff are unable to determine how the new tax rates may affect decisions by property owners**. For example, the reduced impact tax rates may result in additional construction. This data is not included in the current estimates because it is based on actual collections.

Council staff concurs with the current estimates. There is not enough data currently to provide an alternative analysis since the new impact tax rates have not been in effect. More will be known later in FY21 based on actual collections and in October 2021 when the Council considers the FY23-28 SAG.

E. Current Revenue

The Executive's recommended resources from current revenue are on ©12. Table 11 details the changes between the FY21-26 CIP and the recommended amended FY21-26 CIP. The Executive has already recommended a reduction of $18.0 million to the FY22 current revenue resources to aid in balancing the resources needs of the operating budget. Like all years, the current revenue estimates in FY22 are likely to experience additional reductions as the Executive considers the resource needs for the recommended FY22 Operating Budget.

Table 11: Comparison of Current Revenue between FY21-26 CIP and Amended FY21-26 CIP

	FY21	FY22	FY23	FY24	FY25	FY26
FY21-26	38.1	53.0	63.2	57.2	55.5	55.0
FY21-26 Am	*38.6*	*41.6*	*63.8*	*57.2*	*55.5*	*55.1*

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Marc Elrich
County Executive

MEMORANDUM

January 15, 2021

TO: Tom Hucker, President, County Council

FROM: Marc Elrich, County Executive

SUBJECT: Recommended FY22 Capital Budget and Amendments to the FY21-26 Capital Improvements Program (CIP)

I am pleased to transmit to you, in accordance with the County Charter, my Recommended FY22 Capital Budget and amendments to the FY21-26 Capital Improvements Program (CIP). This is a biennial year for the capital budget. As a result, amendments are limited to project changes that either meet the County's CIP amendment criteria, or that are necessary to address capital or operating budget constraints. The attached recommendations are affordable within our reduced resources, take advantage of opportunities to leverage non-County resources, and reflect our shared values of prioritizing education and core infrastructure while considering racial equity and climate change concerns.

Overall Fiscal Context

Unfortunately, both capital and operating budget revenues are estimated to experience significant reductions compared to the previously approved budgets and fiscal plan. For example, the Council's changes to the 2020-2024 Growth and Infrastructure Policy (Subdivision Staging Policy) resulted in a reduction of $51.5 million in impact taxes that fund critical school and transportation capital infrastructure. Additionally, recordation tax estimates that support Montgomery County Public Schools and Montgomery County CIP projects have been reduced to reflect the economic impacts of the COVID pandemic (-$41.7 million). Furthermore, the December fiscal plan update indicated that FY21 tax-supported revenues will be $101.5 million less than the FY21 approved budget, and FY22 tax-supported revenues are estimated to be $163.9 million less than the approved FY21-26 fiscal plan because of COVID-related fiscal impacts.

COVID-related cost pressures coupled with uncertainty regarding the speed of economic recovery and the availability of federal aid to mitigate some of the COVID fiscal impacts require significant modifications of the CIP to support the operating budget and to live within available resources. In July, the Council approved a savings plan that recognized project savings and delayed and reduced a number of CIP projects in order to reduce FY21 Pay-As-You-Go (PAYGO) cash contributions to the CIP by $23,412,000. In order to improve our FY21 and FY22 finances, my January CIP amendments assume an additional $8,588,000 in FY21 PAYGO reductions and reduced FY22 PAYGO funding ($15.5 million). The amendments also include project savings, delays and reductions designed to reduce FY22 tax-supported current revenue by $17,995,000.

My recommended amendments assume participation by all agencies in reconciling the CIP program in an affordable way. As in the past, I am recommending affordability adjustments for Montgomery County Public Schools (MCPS), Montgomery College, the Maryland-National Capital Park and Planning Commission (M-NCPPC), and the Housing Opportunities Commission. I have not specified particular project reductions or delays to allow the agencies maximum flexibility in balancing their varied capital budget needs.

Racial and Other Equity Considerations

The process of integrating racial and other equity considerations into our budgets is one that will evolve over time. This year, the Office of Management and Budget has worked with the Office of Racial Equity and Social Justice, the Maryland-National Capital Park and Planning Commission, and the Council of Governments to begin building the data that will help inform our budget decision making. All CIP projects with stand-alone addresses have been assigned to census tracts, and racial and median household income census data has been collected so that reports and maps can help measure the impact of the CIP on households that have historically been underserved. The Council of Governments has also identified census tracts which it considers Equity Emphasis Areas due to their significant concentrations of low-income and/or minority populations. The Office of Management and Budget has incorporated this data into its CIP project database so that reports and maps can easily identify projects in Equity Emphasis Areas. Likewise, MCPS data regarding the percent of children receiving free and reduced meals and racial profile data for school CIP projects have also been collected for consideration.

This year, when a number of reductions and delays were required in CIP projects, care was taken to consider who benefits and who is burdened by these recommendations to avoid negatively impacting communities that are already marginalized. For example, no projects in COG's Equity Emphasis Areas were reduced or delayed unless other factors warranted it. (For example, the Rockville Fire Station 3 and the Burtonsville Access Road projects were delayed for one year since the projects were not ready to proceed for non-County related reasons.) On a positive note, one of the few increases in the recommended CIP will add a Linkages to Learning and School Based Health Center at South Lakes Elementary School – a school where more than 85 percent of its students receive free and reduced meals and over 90 percent of the students are either African-American/Black or Hispanic.

While significant progress has been made this year, our work on this issue has only begun. We are still in the process of validating project location and demographic data. Furthermore, data has limitations and, in isolation, does not tell a complete story. For instance, census tracts may not be consistent with school attendance zones or facility service areas. Median household income data means very different things for a one-person or a four-person household. And, many transportation projects cross a number of census tracts which requires a more complex analytical approach. In addition, Maryland-National Capital Park and Planning Commission staff are developing an equity analysis tool for the County which will be considered in future budget deliberations. Most importantly, we will need to continue to consider the best ways to involve marginalized communities in developing and prioritizing CIP projects.

In making my affordability recommendations for MCPS, the College, and M-NCPPC, I have asked that the agencies consider racial and other equity impacts in their recommendations. As the Office of Management and Budget refines its equity related reports and maps, we will make them available to Council and agency staff to assist in these efforts.

New Projects and Scope Increases

Given the fiscal situation, new projects and increases to the CIP have been held to a minimum – addressing pressing health and safety needs, supporting economic development through transportation projects, maintaining essential government operations, or leveraging non-County resources.

Transit Projects

Two new projects have been included in my recommended CIP amendments to improve key transportation corridors, combat climate change, and support economic development. The Great Seneca Science Corridor Transit Improvements project will advance the planning, design and implementation of new premium transit services including new, upgraded transit stations, dedicated bus and bus and bicycle lanes, transit signal priority, new roadway connections, upgrades to transit centers, purchase of new transit vehicles, as well as pedestrian and bicycle improvements. Until the Corridor Cities Transitway (CCT) is implemented, these transit services will provide frequent and reliable connections between Kentlands, Crown Farm, King Farm, the Universities of Shady Grove (USG), Adventist Shady Grove Hospital, Shady Grove Metro, Rockville, and other key destinations to support the economic development envisioned in the Great Seneca Science Corridor Master Plan, and to provide better transit operations for USG students. We have begun conversations with the Mayors of Rockville and Gaithersburg about partnering on this exciting project and plan to have this included in updated Impact Tax Memorandums of Understanding with the cities later this year.

The US 29 Managed Lane Project will fund preliminary engineering to implement a managed lane along the US 29 corridor from Musgrove Road to Southwood Drive and from Dale Drive to Spring Street. The managed lanes will be restricted to use by high occupancy vehicles (HOV) and transit to improve roadway performance and persons throughput. The project will also include improvements at identified "hot spot" locations to improve overall traffic operations along the US 29 corridor. The project will provide for more reliable and faster travel times for buses and high-occupancy vehicles to support the White Oak Redevelopment corridor, environmental and Vision Zero goals, and improve bus operations in the southernmost part of US 29 without major expansion of the roadway.

Supporting Students in High Poverty Areas

As mentioned above, the recommended biennial CIP amendments also include funding for Linkages to Learning and School Based Health Centers at South Lakes Elementary School. Earlier this year, we partnered to accelerate needed renovation of this school that serves many at-risk children. Adding these important programmatic elements at South Lakes Elementary School will support our collective efforts to ensure success for all students. Similarly, the recommended amendments also add a Linkages to Learning site at Neelsville Middle School – a school where more than 65 percent of students receive free and reduced meals and African American and Hispanic students make up over 77 percent of the student body.

Other Critical Operations

Important government operations will also be maintained through other CIP amendments. The County Radio Replacement and Related Equipment and Master Leases: Transit Radio System Replacement projects will replace radios and related equipment for the Departments of Transportation and Correction and Rehabilitation to ensure compliance with the County's new 800 MHz radio system. The Council Office Building Renovations project has also been increased to reflect the costs of adding offices for the two new Councilmembers that were approved in a November 2020 charter amendment.

Three supplementals recently transmitted for the Stormwater Management Facility Major Structural Repair, Stormwater Management Retrofit: Countywide, and Facility Planning: Stormwater Management projects will support additional stormwater management improvements funded by refunds from the U.S. Army Corps of Engineers and developer contributions.

Affordable Housing

In December, I transmitted a supplemental appropriation request for the Affordable Housing Opportunity Fund project. It is my understanding that Council's technical questions regarding this project have been addressed, and I would ask that you approve this supplemental quickly so that the Department of Housing and Community Affairs can launch this innovative partnership to preserve and increase our supply of affordable housing.

White Flint Redevelopment

When the White Flint Development District was first established, there was an assumption that the district tax would cover the cost of specific infrastructure and that a repayment plan for any County advances would be established. Back in January 2018, the prior County Executive notified the Council that the district was generating far less revenue than originally projected, and that project costs had increased compared to the original estimates. As recently as December 2019, we added $11,425,000 to the White Flint West Workaround project to cover increased PEPCO charges related to undergrounding utilities in order to preserve developers' ability to maximize their development potential. With $42 million in project expenditures in FY21 and FY22, project costs will exceed the County's pledge to provide advance funding up to $45 million if we do not act quickly.

We have been working to develop a district financing and repayment plan to address these issues and will be sending that to you shortly after we have had an opportunity to communicate with key stakeholders.

Montgomery County Public Schools

The biennial CIP request from the Board of Education was very complex – incorporating scaled back, deferred, or eliminated projects in favor of alternative solutions, project accelerations, or other infrastructure priorities as indicated on the attached summary chart. In addition, MCPS was able to accelerate construction of several projects – particularly Seneca Valley High School – such that $68,377,000 in costs that were planned for FY21 and FY22 were actually spent in FY20. Although this acceleration appears as a reduction in the FY21-26 funding for MCPS, it does not represent a reduction in support for MCPS projects.

Schools Impact Taxes (-$35.3 million) and Recordation taxes (-$32.8 million) - two important funding sources for schools CIP projects – have decreased by over $68 million due to Growth Policy changes and COVID related revenue adjustments, respectively. My CIP amendments were able to mitigate some of these revenue losses by deferring and reducing other CIP projects, but MCPS reductions of $53,758,000 compared to the Board of Education's request will still be required to maintain overall affordability. MCPS' requested project accelerations and infrastructure increases in FY22 and FY23 will be particularly challenging.

Montgomery College

The College's request was very straightforward including a $1,590,000 increase in FY22 to cover State-approved escalation costs for the furniture, fixtures, and equipment for the Takoma Park/Silver Spring Math and Science Center. Half of the funding for these costs will be provided by the State. The College has also requested accelerating renovation of their libraries with 50 percent State Aid for the project. This acceleration was offset by the College's requested deferral of the Germantown

Student Services project. The Student Services project now assumes a $30.6 million cost increase – due in large part to extensive site work. While the recommended CIP supports these project initiatives, in order to maintain overall CIP affordability, my recommendations assume that the College can find $7,964,000 in General Obligation bond reductions or deferrals in FY24 – FY26, and $1,433,000 in current revenue reductions. Technical adjustments to the Collegewide Road/Parking Lot Repairs and Replacements and Planned Lifecycle Asset Replacement College projects are also included.

Maryland-National Capital Park and Planning Commission

My recommended CIP supports M-NCPPC's request to create the Mid-County Park Benefit Payments project. This new project is designed to use developer funding to purchase or develop new park amenities to serve the White Flint, Grosvenor-Strathmore, and Rock Spring areas.

My CIP recommendations also reflect the impact that COVID has had on projects funded through various enterprise funds. M-NCPPC's Enterprise Facilities' Improvements project has deferred funding for the Ridge Road Ice Rink to beyond the six-year period to allow time to assess the Enterprise Fund's financial capability to support the planned project costs. Similarly, as Council heard on December 1, the Community Use of Public Facilities enterprise fund is not able to afford the planned FY21 and FY22 contributions to M-NCPPC's Ballfields initiative project. This project is one that the Council and I have supported for many years, and so my CIP amendments assume that we will use G.O. bonds instead of the CUPF current revenue to maintain support for the project in FY21 and FY22. In addition to minor technical adjustments that the Office of Management and Budget staff have worked on with M-NCPPC staff, my only other changes to the M-NCPPC requested CIP are FY22 to FY25 affordability adjustments of $4,926,000. These reductions are needed due to reduced CIP and operating budget resources.

Savings and Other Cost Adjustments

Other projects have had relatively minor increases or decreases due to technical corrections, savings, or adjustments made for fiscal capacity reasons. Costs have been corrected for the FS Emergency Power System Upgrades and Kennedy Shriver Aquatic Center Building Envelope Improvement projects. The Cost Sharing: MCG project reflects Council's most recent supplemental for FY21 and FY22 funding. While this funding will not allow for additional FY22 Arts Facility Grants beyond those already assumed, the amendment does increase FY23 funding to $1 million as previously approved. Due to fiscal constraints, minor scope reductions have been included in the Advanced Transportation Management System, Traffic Signals System Modernization, 21st Century Library Enhancements Level of Effort, Facility Planning: HCD, and Supplemental Funds for Deeply Subsidized HOC Owned Units Improvements projects. Due to our difficult financial circumstances, the CIP amendments also assume that only half of the Council approved FY21 supplemental increase ($109,000) in the Public Arts Trust project will be affordable.

Schedule Adjustments

Delays in the following projects reflect updated implementation schedules: White Oak Science Gateway Redevelopment Project; Apparatus Replacement Program; Glen Echo Fire Station Renovation; Rockville Fire Station 3 Renovation; Purple Line; Franklin Avenue Sidewalk; Burtonsville Access Road; Noyes Library for Young Children Rehabilitation and Renovation; and Countywide Façade Easement Program.

Delays in the following projects are necessary due to fiscal constraints: White Flint Fire Station 23; White Flint Metro Station Northern Entrance; Facility Planning and Renovations in the Bethesda and Wheaton Parking Lot Districts; Bradley Boulevard (MD 191) Improvements; construction of the tunnel under Wisconsin Avenue portion of the Capital Crescent Trail project; Forest Glen Passageway; and Observation Drive Extended. In the case of the Northern Entrance for the White Flint Metro Station, our team working with WMATA on redevelopment of the White Flint Metro Station site will look for opportunities to leverage private sector funding for these enhancements. To provide an alternative approach to the Capital Crescent Trail tunnel under Wisconsin Avenue, the County has requested that the State consider alternative designs of the Purple Line tunnel to provide savings without sacrificing service. And, the Department of Transportation will also reach out to the State to consider whether more immediate traffic management measures can improve safety until we are able to fund a more permanent solution in Forest Glen.

Other Amendments/Updates

Also included in my recommended CIP are technical adjustments related to project acceleration prior to FY21, funding switches, appropriation and other corrections, and updated project description forms reflecting Council actions since the approved CIP in May.

General Obligation Bonds and PAYGO

I recommend maintaining the approved level of General Obligation (GO) bond issues in each of the remaining five years of the FY21-26 CIP with $310 million in FY22; $300 million in FY23; $290 million in FY24; $280 million in FY25; and $270 million in FY26. Council's recent decision to increase FY21 debt by $50 million to support Housing Opportunities Commission projects increases the constraints that we are facing.

As previously referenced, I recommend assuming no PAYGO in FY21 and only $15.5 million in FY22 due to fiscal constraints. I recommend maintaining FY23 to FY26 PAYGO funding at our policy level of 10 percent of planned General Obligation bond issuance.

Set-Aside Considerations

Set asides are funds that are intentionally left unprogrammed to provide capacity to respond to unexpected needs and opportunities. The recommended capital budget assumes a $147,002,000 set-aside with $33,521,000 available in FY21 and FY22. The FY21 and FY22 set-aside levels are being maintained at higher levels than usual to accommodate expected costs related to projects to provide emergency homeless shelter and to stabilize the Lincoln High School building. In addition, there may be a need to provide further support to the operating budget, and this set-aside can help accomplish that goal.

As required by State law, I am also providing today (under separate cover) the recommendations for both the FY22-FY27 Capital Improvements Program and the FY22 expenditures for the Washington Suburban Sanitary Commission (WSSC Water).

Many people have helped to shape the recommendations I submit to you in these amendments, and I am grateful for their efforts. I wish to thank the members of the Board of Education, the College Trustees, the WSSC Water Commissioners, and the Montgomery County Planning Board for their work.

As noted above, further recommendations relating to current revenue and other CIP initiatives will be provided once I have finalized my March 15th Operating Budget recommendations. I look forward to discussing these proposals with you. As always, Executive Branch staff is available to assist you in your deliberations on the Capital Budget and CIP.

ME: jb

Attachments:
Fiscal Summary Schedules
- FY21-26 Biennial Recommended CIP – January Budget Amendments Summary
- General Obligation Bond Adjustment Chart
- General Obligation Bond – Programming Adjustment for Unspent Prior Years
- Tax Supported Current Revenue Adjustment Chart
- M-NCPPC Bond Adjustment Chart

Recommended Capital Budgets
- MCG FY20 Capital Budget Appropriation and Closeout List
- MCPS FY20 Capital Budget Appropriation
- Montgomery College FY20 Capital Budget Appropriation
- MNCPPC FY20 Capital Budget Appropriation and Closeout List
- HOC FY20 Capital Budget Appropriation

Project Description Forms and Briefs (as needed)

c: Montgomery County Councilmembers
Marlene Michaelson, Executive Director, County Council
Brenda Wolff, President, Montgomery County Board of Education
Dr. Jack R. Smith, Superintendent, Montgomery County Public Schools
Dr. DeRionne P. Pollard, President, Montgomery College
Casey Anderson, Chair, Montgomery County Planning Board
Carla A. Reid, General Manager/CEO, Washington Suburban Sanitary Commission (WSSC Water)
Stacy Spann, Executive Director, Housing Opportunities Commission
Keith Miller, Executive Director, Revenue Authority
Executive Branch Department Heads and Office Directors
Office of Management and Budget Staff

	DEBT CAPACITY ANALYSIS KEY ASSUMPTIONS AND INPUTS SAG vs. CE RECOMMENDED AMENDED FY21-26 CIP (January, 2021)						
		Year 1 FY 21	Year 2 FY 22	Year 3 FY 23	Year 4 FY 24	Year 5 FY 25	Year 6 FY 26
1	INTEREST RATE ON BONDS						
	SAG	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	Amended FY21-26 CE Recommended - January 15, 2021	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
2	OPERATING GROWTH						
	SAG	2.00%	2.50%	2.90%	3.20%	3.00%	3.00%
	Amended FY21-26 CE Recommended - January 15, 2021	2.60%	-0.50%	2.40%	2.80%	3.00%	3.10%
3	POPULATION						
	SAG	1,099,020	1,099,300	1,119,690	1,130,170	1,130,170	1,130,170
	Amended FY21-26 CE Recommended - January 15, 2021	1,079,900	1,081,810	1,088,970	1,096,180	1,103,440	1,111,740
4	FY CPI INFLATION						
	SAG	2.53%	2.70%	2.70%	2.70%	2.70%	2.70%
	Amended FY21-26 CE Recommended - January 15, 2021	1.59%	1.62%	1.99%	2.42%	2.44%	2.44%
5	ASSESSABLE BASE-COUNTYWIDE						
	SAG	208,919,680	215,483,120	222,113,420	229,022,320	229,022,320	229,022,320
	Amended FY21-26 CE Recommended - January 15, 2021	201,675,889	206,541,052	211,932,382	217,474,357	223,300,239	229,325,643
6	TOTAL PERSONAL INCOME						
	SAG	106,300,000,000	110,800,000,000	115,400,000,000	120,200,000,000	120,200,000,000	120,200,000,000
	Amended FY21-26 CE Recommended - January 15, 2021	105,400,000,000	100,700,000,000	106,000,000,000	111,300,000,000	116,500,000,000	121,800,000,000

DEBT CAPACITY ANALYSIS

FY21-26 CAPITAL IMPROVEMENTS PROGRAM

January 2021

GO BOND 6 YR TOTAL = 1,770.0 MILLION

GO BOND FY21 TOTAL = 320.0.0 MILLION

GO BOND FY22 TOTAL = 310.0 MILLION

	FY20	FY21	FY22	FY23	FY24	FY25	FY26
1 GO Bond Guidelines ($000)	320,000	320,000	310,000	300,000	290,000	280,000	270,000
2 GO Debt/Assessed Value	1.70%	1.72%	1.69%	1.65%	1.61%	1.56%	1.50%
3 Debt Service + LTL + Short-Term Leases/Revenues (GF)	**11.54%**	**11.53%**	**12.19%**	**12.32%**	**12.02%**	**12.02%**	**11.81%**
4 $ Debt/Capita	3,159	3,204	3,228	3,218	3,193	3,151	3,090
5 $ Real Debt/Capita (FY20=100%)	3,159	3,204	3,176	3,105	3,008	2,897	2,774
6 Capita Debt/Capita Income	3.36%	3.28%	3.47%	3.31%	3.14%	2.98%	2.82%
7 Payout Ratio	70.19%	71.03%	71.81%	72.60%	73.41%	74.21%	74.72%
8 Total Debt Outstanding ($000s)	3,439,810	3,460,365	3,491,790	3,504,285	3,499,720	3,476,570	3,435,335
9 Real Debt Outstanding (FY20=100%)	3,439,810	3,460,365	3,436,238	3,381,347	3,297,110	3,197,174	3,083,895
10 Note: OP/PSP Growth Assumption (2)		2.6%	-0.5%	2.4%	2.8%	3.0%	3.1%

Notes:

(1) This analysis is used to determine the capacity of Montgomery County to pay debt service on long-term GO Bond debt, long-term leases, and substantial short-term financing.

(2) OP/PSP Growth Assumption equals change in revenues from FY21 approved budget to FY22 budget for FY22 and budget to budget for FY23-26.

CE Recommended Debt Capacity Analysis -Includes $50Mn HOC Loan

DEBT CAPACITY ANALYSIS

FY21-26 CAPITAL IMPROVEMENTS PROGRAM

March 16, 2020

GO BOND 6 YR TOTAL = 1,770.0 MILLION

GO BOND FY21 TOTAL = 320.0.0 MILLION

GO BOND FY22 TOTAL = 310.0 MILLION

	FY20	FY21	FY22	FY23	FY24	FY25	FY26
1 GO Bond Guidelines ($000)	320,000	320,000	310,000	290,000	290,000	280,000	280,000
2 GO Debt/Assessed Value	1.75%	1.78%	1.75%	1.71%	1.67%	1.62%	1.57%
3 Debt Service + LTL + Short-Term Leases/Revenues (GF)	**11.54%**	**11.28%**	**11.47%**	**11.57%**	**11.27%**	**11.32%**	**11.21%**
4 $ Debt/Capita	3,255	3,328	3,329	3,305	3,274	3,227	3,174
5 $ Real Debt/Capita (FY20=100%)	3,255	3,276	3,225	3,151	3,073	2,982	2,889
6 Capita Debt/Capita Income	3.46%	3.41%	3.30%	3.16%	3.03%	2.88%	2.72%
7 Payout Ratio	70.19%	71.03%	71.81%	72.67%	73.47%	74.27%	74.68%
8 Total Debt Outstanding ($000s)	3,543,810	3,594,365	3,625,790	3,628,285	3,623,720	3,600,570	3,569,335
9 Real Debt Outstanding (FY20=100%)	3,543,810	3,538,154	3,512,370	3,459,553	3,401,497	3,327,802	3,248,751
10 Note: OP/PSP Growth Assumption (2)		2.6%	2.7%	2.6%	2.8%	2.6%	2.4%

Notes:

(1) This analysis is used to determine the capacity of Montgomery County to pay debt service on long-term GO Bond debt, long-term leases, and substantial short-term financing.

(2) OP/PSP Growth Assumption equals change in revenues from FY20 approved budget to FY21 budget for FY21 and budget to budget for FY22-26.

GENERAL OBLIGATION BOND ADJUSTMENT CHART

FY21-26 Amended Capital Improvements Program

COUNTY EXECUTIVE RECOMMENDED

January 15, 2021

($ millions)	6 YEARS	FY21	FY22	FY23	FY24	FY25	FY26
BONDS PLANNED FOR ISSUE	1,770.000	320.000	310.000	300.000	290.000	280.000	270.000
Plus PAYGO Funded	129.500	-	15.500	30.000	29.000	28.000	27.000
Adjust for Future Inflation **	(66.281)	-	-	(6.439)	(13.615)	(20.168)	(26.059)
SUBTOTAL FUNDS AVAILABLE FOR DEBT ELIGIBLE PROJECTS (after adjustments)	1,833.219	320.000	325.500	323.561	305.385	287.832	270.941
Less Set Aside: Future Projects	**147.002**	**11.154**	**22.367**	**15.733**	**22.631**	**35.055**	**40.062**
	8.02%						
TOTAL FUNDS AVAILABLE FOR PROGRAMMING	1,686.217	308.846	303.133	307.828	282.754	252.777	230.879
MCPS	(549.411)	(127.622)	(98.952)	(123.347)	(98.411)	(58.790)	(42.289)
MONTGOMERY COLLEGE	(121.142)	(21.198)	(25.236)	(15.339)	(23.434)	(19.963)	(15.972)
M-NCPPC PARKS	(67.845)	(8.500)	(14.408)	(11.597)	(10.787)	(11.033)	(11.520)
TRANSPORTATION	(526.370)	(89.869)	(125.985)	(97.531)	(61.962)	(70.275)	(80.748)
MCG - OTHER	(473.962)	(75.848)	(76.874)	(60.014)	(88.160)	(92.716)	(80.350)
Programming Adjustment - Unspent Prior Years*	52.513	14.191	38.322				-
SUBTOTAL PROGRAMMED EXPENDITURES	(1,686.217)	(308.846)	(303.133)	(307.828)	(282.754)	(252.777)	(230.879)
AVAILABLE OR (GAP) TO BE SOLVED	-	-	-	-	-	-	-
NOTES: * See additional information on the GO Bond Programming Adjustment for Unspent Prior Year Detail Chart ** Adjustments Include: Inflation =		1.59%	1.62%	1.99%	2.42%	2.44%	2.44%

TAX SUPPORTED CURRENT REVENUES ADJUSTMENT CHART

Amended FY21-26 Capital Improvements Program
COUNTY EXECUTIVE RECOMMENDED
January 15, 2021

($ MILLIONS)	**6 YEARS**	FY21 APPROP	FY22 APPROP (1)	FY23 EXP	FY24 EXP	FY25 EXP	FY26 EXP
TAX SUPPORTED CURRENT REVENUES AVAILABLE	474.688	66.396	59.449	101.686	94.316	74.623	78.219
Adjust for Future Inflation *	(17.759)	-	-	(1.981)	(4.024)	(4.888)	(6.867)
SUBTOTAL CURRENT REVENUE FUNDS AVAILABLE FOR ELIGIBLE PROJECTS (after adjustments)	456.929	66.396	59.449	99.705	90.292	69.735	71.352
Less Set Aside: Future Projects	-	-	-	-	-	-	-
TOTAL FUNDS AVAILABLE FOR PROGRAMMING	456.929	66.396	59.449	99.705	90.292	69.735	71.352
GENERAL FUND							
MCPS	(118.610)	(9.770)	(14.705)	(27.657)	(21.602)	(22.438)	(22.438)
MONTGOMERY COLLEGE	(89.571)	(13.534)	(12.901)	(16.434)	(16.534)	(15.084)	(15.084)
M-NCPPC	(25.418)	(3.913)	(3.913)	(4.398)	(4.398)	(4.398)	(4.398)
HOC	(7.750)	(1.750)	(1.000)	(1.250)	(1.250)	(1.250)	(1.250)
TRANSPORTATION	(48.756)	(7.814)	(6.015)	(9.422)	(9.317)	(8.234)	(7.954)
MC GOVERNMENT	(21.792)	(1.831)	(3.091)	(4.666)	(4.119)	(4.122)	(3.963)
SUBTOTAL - GENERAL FUND	(311.897)	(38.612)	(41.625)	(63.827)	(57.220)	(55.526)	(55.087)
MASS TRANSIT FUND	(100.490)	(18.001)	(7.067)	(30.448)	(26.277)	(8.125)	(10.572)
FIRE CONSOLIDATED FUND	(30.942)	(3.933)	(4.807)	(4.980)	(6.345)	(5.634)	(5.243)
PARK FUND	(2.600)	(0.350)	(0.450)	(0.450)	(0.450)	(0.450)	(0.450)
ECONOMIC DEVELOPMENT FUND	(11.000)	(5.500)	(5.500)	-	-	-	-
RECREATION	-	-	-	-	-	-	-
SUBTOTAL - OTHER TAX SUPPORTED	(145.032)	(27.784)	(17.824)	(35.878)	(33.072)	(14.209)	(16.265)
TOTAL PROGRAMMED EXPENDITURES	(456.929)	(66.396)	(59.449)	(99.705)	(90.292)	(69.735)	(71.352)
AVAILABLE OR (GAP) TO BE SOLVED	-	-	-	-	-	-	-
* Inflation:		1.59%	1.62%	1.99%	2.42%	2.44%	2.44%

Note:
(1) FY22 APPROP equals new appropriation authority. Additional current revenue funded appropriations will require drawing on operating fund balances.