



**Committee:** GO  
**Committee Review:** At a future date  
**Staff:** Gene Smith, Legislative Analyst  
**Purpose:** To introduce agenda item – no vote expected  
**Keywords:** SAG, Budget

AGENDA ITEM #4A  
January 12, 2021  
**Introduction**

## SUBJECT

Spending Affordability Guidelines for the FY22 Operating Budget

## EXPECTED ATTENDEES

None

## COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

- N/A

## DESCRIPTION/ISSUE

The Council must adopt guidelines for the next operating budget by the second Tuesday in February. The spending affordability guidelines that must be adopted are: 1) a ceiling on the funding from ad valorem real property tax revenues; 2) a ceiling on the aggregate operating budget; and 3) separate budget allocations for all agencies and certain non-agency uses.

## SUMMARY OF KEY DISCUSSION POINTS

- The staff report provides analysis and recommendations for public consideration at the scheduled January 26, 2021 public hearing.
- The Government Operations and Fiscal Policy Committee will review the proposed options, including any public comments, on February 1, 2021 and make its recommendations to the Council.

### **This report contains:**

|                                  |           |
|----------------------------------|-----------|
| Staff Report                     | Pages 1-7 |
| Proposed FY22 SAG resolution     | ©1        |
| December 2020 Fiscal Plan update | ©4        |
| Proposed FY22 AOB calculations   | ©5        |
| Approved FY21 AOB resolution     | ©6        |

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**MEMORANDUM**

January 7, 2021

TO: County Council

FROM: Gene Smith, Legislative Analyst

SUBJECT: Spending Affordability Guidelines for the FY22 Operating Budget

PURPOSE: Introduce proposed resolution

The Council has scheduled a public hearing on January 26, 2021 regarding the proposed resolution setting the spending affordability guidelines for the FY22 Operating Budget (see ©1-3). The Government Operations and Fiscal Policy (GO) Committee will make a recommendation for Council action on February 1, 2021. The deadline for the Council to adopt these guidelines is the second Tuesday of February each year; the deadline this year is February 9, 2021.

**I. Background**

Sections 20-60 and 20-63 of the Council Code requires the Council to specify the following when adopting the spending affordability guidelines for the operating budget:

- 1) A ceiling on the funding from ad valorem real property tax revenues;
- 2) A ceiling on the aggregate operating budget; and
- 3) Separate budget allocations for the following:
  - County Government (“MCG”)
  - Board of Education (i.e., Montgomery County Public Schools or “MCPS”)
  - Montgomery College
  - Maryland-National Capital Park and Planning Commission (M-NCPPC)
  - Debt service; and
  - Current revenue funding of capital projects.

The Council previously set an overall spending target for Community Grants as part of its actions establishing spending affordability guidelines for the operating budget in prior years. Starting in FY21, the County Executive and County Council Community Grants programs, applications, and corresponding budgets were combined; therefore, an overall spending target for Community Grants was not set. This practice will continue as the process shifts to an Office of Grants Management in FY22.

Section 20-61 of the County Code states that “*the Council should consider, among other relevant factors, the condition of the economy, the level of economic activity in the County, trends in personal income, and the impact of economic and population growth on projected revenues.*”

## A. Condition of the Economy

- **The unemployment rate increased year-over-year in the region and the County.**
  - The Washington metro area’s unemployment rate increased year-over-year from 2.9% in October 2019 to 6.6% in October 2020.
  - The County’s unemployment rate increased year-over-year from 2.7% in October 2019 to 7.5% in October 2020.
- **The total number of payroll jobs decreased year-over-year in the region and the County.**
  - The Center for Regional Analysis (CRA) estimated that the Washington metro area’s jobs decreased by approximately 271,000 from June 2019 to June 2020. There was a strong rebound from May 2020 to June 2020 following the state-mandated shutdowns, but year-over-year, the overall number of jobs in the region has decreased.
  - The CRA estimates that all industry sectors, apart from the Federal Government, experienced a loss of jobs from June 2019 to June 2020. The sectors that experienced the greatest decrease were: 1) Leisure and Hospitality sector at 131,700 fewer jobs; 2) Health Services with 42,000 fewer jobs; and 3) Retail Trade with 25,300 fewer jobs.
  - The CRA estimates that Suburban Maryland, which the County is part, lost 86,200 jobs from June 2019 to June 2020. The sectors most impacted were the same as the region – Leisure and Hospitality, Health Services, and Retail Trade.
  - Finance estimates that the County’s total payroll employment decreased by approximately 11,310 jobs from 2019 to 2020. Like resident employment, payroll employment is estimated to remain mostly flat through 2022.
- **The County’s resident employment has decreased.** This is a key indicator to estimate the County’s income tax.
  - Finance estimates that the annual average number of employed residents decreased from 549,310 in 2019 to 533,630 in 2020, a decrease of 2.9% year-over-year.
  - Finance estimates that the annual growth rate for this indicator will be less than 1.0% in 2021 and 2022.

## B. Level of Economic Activity in the County

- **The inflation rate is low and is estimated to remain depressed through 2021.**
  - The inflation rate for 2020 was 0.72%.
  - The inflation rate for the Washington metro area was 2.04% for 2018 and 1.27 for 2019.
- **The County’s office market experienced an increase in vacancy and rents in 2020.**
  - The County’s Class A office space average rent increased in 2020 to \$33.11 per square foot from the \$32.44 per square foot in 2019. The vacancy rate for this type of office space also increased in 2020 to an average of 13.1% from an average of 12.0% in 2019.
  - Class A office vacancy increased by about 1.0%, or about 600,000 square feet, in Quarter 3 of 2020 following the health orders shutting down much of the economy in late-March 2020.

- The County’s Class B office space average rent increased in 2020 to \$28.11 per square foot from the \$26.79 per square foot in 2019. The vacancy rate for this type of office space increased in 2020 to an average of 12.4% from an average of 11.4% in 2019.
- The net absorption of Class A and Class B office space in the County for 2020 was negative 468,809 square feet, meaning more office space became vacant.
- **The County’s home sales and median value increased in 2020.**
  - Finance states that existing home sales increased by 5.2% from and the median sales price increased by 6.9% October 2019 to October 2020.
  - The State Department of Assessments and Taxation released the most recent triennial property assessments for Group 3 (Gaithersburg, Rockville, Olney, and parts of east County) – residential properties in Group 3 experienced an average 6.6% increase in property values from 2018 to 2021, and commercial properties in Group 3 experienced an average 14.4% increase in property values from 2018 to 2021.

### C. Trends in Personal Income

- **Salary and personal income decreased in 2020.** These indicators had experienced growth for most years following the Great Recession, albeit the growth for some years was marginal.
  - Finance estimates that total personal income increased by 1.8% in 2019 but decreased by 2.1% in 2020. The estimated growth in total personal income is expected to be less than 2.0% in 2021 but rebound in 2022 to 5.0%.
  - Finance estimates that wage and salary income increased by 2.3% in 2019 but decreased by 0.7% in 2020. Like total personal income, the growth in wage and salary income is estimated to be less than 2.0% in 2021 but rebound to 4.1% in 2022.
- **The COLA for Social Security recipients will be 1.3% in 2021.** The 2020 COLA was 1.6%.

### D. Impact of Economic and Population Growth on Projected Revenues

- **The County’s population is estimated to continue to increase.**
  - Finance estimates that the County’s population will increase by 0.7% year-over-year for the next six years.
  - This estimate will add approximately 7,500 new residents a year, bringing the total residents to 1.1 million around 2024.
- **The County’s revenues are estimated to decline in FY22 when compared to the FY21 approved budget.**
  - The decrease in household income and salary income is the primary factor driving the decrease in income tax revenue.
  - Other economic activity, and therefore tax revenue, has also decreased due to the pandemic.

### E. Other Relevant Factors

- The Federal Reserve lowered interest rates to 0.00-0.25% in 2020 as a response to the economic impacts from the pandemic. It is anticipated that interest rates will remain at that level for most of 2021.

- The State of Maryland’s Board of Revenue Estimates (BRE) December 2020 Report increased the State’s tax revenue estimates by about \$63.8 million in FY21 and by about \$142.5 million in FY22 compared to the September 2020 revisions. Overall, the estimates for the State’s tax revenues remain below the March estimates before the pandemic.
- The COVID-19 pandemic and related State and County health orders have had uneven impacts depending on the individual. Residents and small businesses within certain industry sectors have seen the greatest losses, while residents and businesses that could transition to telework have seen less of an impact.

## **II. Spending Affordability Guidelines for the FY21 Operating Budget**

### **A. Ceiling on Property Tax Revenue**

Section 305 of the County Charter was amended during the November 2020 General Election to change how the Charter Limit is calculated. The amended Charter Limit now requires an affirmative vote from all Councilmembers to exceed the real property tax rate from the prior fiscal year. Prior to the November 2020 amendment, the County Charter required an affirmative vote from all Councilmembers to exceed a tax rate that would have levied real property taxes that were greater than the growth in inflation from the real property taxes collected the prior year.

The Council’s decision, as it pertains to the guidelines, is to specify the ceiling on real property tax revenue for FY21. The Charter amendment does not change the Council’s requirement to set a guideline. The Council may still meet the requirement of the County Code, as it pertains to the guideline, by setting the revenues at the Charter Limit. However, unlike prior years, the ceiling for the FY22 guideline will be the new Charter Limit based on real property tax revenues generated by keeping the real property tax rate equal to the tax rate from the prior fiscal year.

**Council staff recommends setting the ceiling on real property tax revenue at the Charter Limit.** The December 2020 Fiscal Plan update assumes this ceiling, including a \$692 Income Tax Offset Credit for qualified properties (see ©4).

### **B. Ceiling on Aggregate Operating Budget**

The Council sets a ceiling on the AOB as a benchmark for the upcoming FY22 budget process. The Council considers multiple factors, such as the current condition of the economy and trends in personal income, when setting the AOB. The intent of this guideline is to set an AOB that is generally affordable to County residents.

The ceiling on the AOB established by the Council in February demarcates the threshold that requires seven affirmative votes if the Council chooses to exceed that ceiling when finalizing the budget in May. Regardless of the ceiling set by the Council in February, six affirmative votes are required in May if the AOB exceeds the previous fiscal year’s AOB by the rate of inflation for the 12-month period preceding the previous December – 0.72% for FY22’s AOB. If the AOB does not exceed the previous fiscal year’s AOB by this inflation rate, five votes are required.

Section 20-59 of the County Code defines the operating budget as “the total amount appropriated from current operating revenues for the ensuing fiscal year, including any current revenue funding for capital budgets.” The AOB includes the operating budget minus the amounts appropriated for (1) enterprise funds; (2) the Washington Suburban Sanitary Commission; (3) expenditures equal to the tuition and tuition-related charges estimated to be received by Montgomery College; and (4) any grant which can only be spent for a specific purpose.

The AOB and its elements are defined by law, but neither the Charter nor the Code specifies how to set the ceiling. The Council has taken multiple approaches in setting the ceiling throughout its history. Below is a table detailing the Council’s method for setting the ceiling in recent fiscal years.

| <b>Fiscal Year</b> | <b>Method</b>  | <b>Increase</b> |
|--------------------|--|-----------------|
| 2011               | No increase  | 0.00%           |
| 2012               | Increase by rate of inflation  | 1.70%           |
| 2013               | Increase by estimated rate of total personal income growth                   | 4.80%           |
| 2014               | Increase by estimated rate of total personal income growth                   | 4.76%           |
| 2015               | Increase by estimated rate of total personal income growth                   | 1.80%           |
| 2016               | Increase by estimated rate of total personal income growth                   | 2.30%           |
| 2017               | Increase by estimated rate of total personal income growth                   | 3.45%           |
| 2018               | Increase by half of estimated rate of total personal income growth           | 2.00%           |
| 2019               | Increase by COLA for Social Security   | 2.00%           |
| 2020               | Increase by amount needed to maintain prior year funding for MCG and M-NCPPC | 1.43%           |
| 2021               | Increase by rate of inflation  | 1.27%           |

Council staff presents four options on ©5 for consideration in setting the ceiling on the AOB for the FY22 operating budget. The FY21 AOB was approved in Resolution 19-477 (see ©6-8).

- Option #1 – The FY22 ceiling is held at the FY21 approved AOB (0.0% adjustment).
- Option #2 – The FY22 ceiling decreases from the FY21 approved AOB based on agency allocations estimated by Executive Staff in the December 2020 Update to address projected revenue shortfalls for FY22 and beyond (0.71% reduction).
- Option #3 – The FY22 ceiling increases the FY22 approved AOB by the estimated rate of inflation for 2020 (0.72% increase).
- Option #4 – The FY22 ceiling decrease the FY21 approved AOB by the estimated decline in average household income for 2020 (2.91% reduction).

**Council staff recommends establishing the ceiling on the FY22 AOB based on Option #1 – keeping the FY21 approved AOB for FY22.** The Council did not approve an increase to the AOB following the Great Recession, and Council staff believes keeping the same AOB as FY21 is appropriate based on the current economic factors, specifically the decrease in salaries and household income. **This recommended method sets the ceiling at \$5,085.5 million.**

## C. AOB Allocations

Section 20-63 the County Code requires that the Council recommend budget allocations for certain portions of the budget. **These allocations are illustrative and not final.** The final allocations are set by Council during the budget process, when competing demands, priorities, and resources are evaluated. There are several factors that could change the allocations during the budget process from those set during the guideline process in February.

- Factor #1: Revenue estimates could change from the December 2020 Update.
- Factor #2: Some of the non-agency uses could be shifted to fund agency uses.
- Factor #3: Reserves as a percentage of adjusted governmental revenues could be set a level different from the estimated level in the December 2020 Update.
- Factor #4: Agency allocations could increase if fund balances are re-appropriated.

**The Council's decision to establish these allocations in February does not create a supermajority requirement during the budget process.** The Council's decision, however, does trigger a requirement for the agencies. Any agency requesting more than the Council's allocation must submit to the Council by March 31 a memorandum recommending "(1) prioritized expenditure reductions that would be necessary to comply with the adopted budget allocation, and (2) a summary of the effect on the agency's program of the recommended prioritization."

State aid amounts are not known in January. As in previous years, the proposed resolution includes the following provision to account for this factor:

- b) Notwithstanding the above, the Council intends that any agency spending allocations which, as a result of additional increases in State aid, exceed the ceilings specified in (b) do not trigger the requirements of §20-63(b).*

### *1. Council staff recommended allocations*

#### Debt Service

Debt service is a fixed charge that must be paid before making allocations to the other agencies. Long-term leases are included, since these payments are virtually identical to debt. Debt service is in the County Government's debt service fund and in the budget for M-NCPPC. **Council staff recommends that debt service be set at \$433.6 million, the amount of debt currently outstanding and estimated to be issued.** The same value was assumed in the December 2020 update.

#### Current Revenue Funding for the Capital Budget

There are two types of current revenue funding for the capital budget. The first type is for specific projects in the Capital Improvements Program that do not meet the criteria for bond funding and must be funded with current revenue. **Council staff recommends setting this item at \$77.4 million, consistent with the December 2020 update.**

The second type, “PAYGO” (pay as you go), is funding for projects that are eligible for bond funding but for which the Council has decided to use current revenue to decrease the need for bonds. The substitution of current revenue for bonds helps protect Montgomery County’s AAA bond rating by reducing indebtedness and decreasing future operating budget expenses for debt service. **Council staff recommends setting PAYGO at \$31.0 million, consistent with the December 2020 update.**

Retiree Health Insurance Pre-funding (OPEB)

**Council staff recommends allocating \$90.5 million to OPEB, consistent with the December 2020 update.**

Agency Allocations (MCG, MCPS, Montgomery College, and M-NCPPC)

**Council staff recommends allocations to MCPS and Montgomery College at maintenance of effort levels.** The MCPS value is the same as the one in the December 2020 update, which assumes no change to State aid from FY21 and no appropriation of existing fund balance. Montgomery College’s allocation is based on updated information provided by the College and assumes approximately \$9.8 million in fund balance appropriation for FY22.

**Council staff recommends allocating the remainder to the County Government and M-NCPPC in proportion to their FY21 allocations.**

As noted above, any agency requesting more than the Council’s spending affordability guidelines must submit to the Council by March 31 prioritized expenditure reductions that would be necessary to comply with the adopted budget allocation and a summary of the effect on the agency’s program of the recommended prioritization. However, Council staff recommends that the resolution for FY22 — as was the case in previous fiscal years — should state that a projected increase in State aid should not, by itself, trigger this requirement.

This packet contains:

|                                  | <u>Circle #</u> |
|----------------------------------|-----------------|
| Proposed FY22 SAG resolution     | 1               |
| December 2020 Fiscal Plan update | 4               |
| Proposed FY22 AOB calculations   | 5               |
| Approved FY21 AOB resolution     | 6               |



Resolution No.: \_\_\_\_\_  
Introduced: \_\_\_\_\_  
Adopted: \_\_\_\_\_

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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By: County Council

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**SUBJECT:** Spending Affordability Guidelines for the FY22 Operating Budget

**Background**

1. Section 305 of the Charter and Chapter 20-60 of the County Code require the Council to set spending affordability guidelines for the operating budget for the next fiscal year.
2. The guidelines must specify:
  - a) A ceiling on property tax revenue, which is used to fund the aggregate operating budget.
  - b) A ceiling on the aggregate operating budget. The aggregate operating budget is the total appropriation from current operating revenues, including appropriations for capital projects but excluding appropriations for: enterprise funds, the Washington Suburban Sanitary Commission, specific grants for which the spending is contingent on the grants, and expenditures equal to the estimated tuition and tuition-related charges at Montgomery College.
  - c) The spending allocations for the County Government, the Board of Education, Montgomery College, the Maryland-National Capital Park and Planning Commission, debt service, and current revenue funding of capital projects. As noted above, the College's allocation excludes expenditures equal to the estimated tuition and tuition-related charges.
3. Chapter 20-61 of the County Code lists a number of economic and financial factors to be considered in adopting the guidelines, requires a public hearing before the Council adopts guidelines, and requires that the Council adopt guidelines no later than the second Tuesday in February for the fiscal year starting the following July 1.

4. At the public hearing on January 26, 2021, the public had the opportunity to comment on the following guidelines:
- a) The amount of property tax revenue will not exceed the amount calculated in accordance with §305 of the Charter that would require nine affirmative votes.
  - b) The proposed ceiling on the aggregate operating budget and the agency allocations in millions of dollars are:

|                                     |            |
|-------------------------------------|------------|
| Debt Service                        | \$ 441.5   |
| Current revenue, specific projects  | \$ 77.4    |
| Current revenue, PAYGO              | \$ 31.0    |
| Retiree health insurance prefunding | \$ 90.5    |
| MCPS                                | \$ 2,550.7 |
| Montgomery College                  | \$ 196.9   |
| County Government                   | \$ 1,564.9 |
| M-NCPPC                             | \$ 132.5   |
| Total = Aggregate Operating Budget  | \$ 5,085.5 |

**Action**

The County Council for Montgomery County approves the following resolution:

- 1. The spending affordability guidelines for the FY22 Operating Budget are:
  - a) The amount of property tax revenue will not exceed the amount calculated in accordance with §305 of the Charter that would require nine affirmative votes.
  - b) The ceiling on the aggregate operating budget and the agency spending allocations in millions of dollars are:

|                                     |            |
|-------------------------------------|------------|
| Debt Service                        | \$ 441.5   |
| Current revenue, specific projects  | \$ 77.4    |
| Current revenue, PAYGO              | \$ 31.0    |
| Retiree health insurance prefunding | \$ 90.5    |
| MCPS                                | \$ 2,550.7 |
| Montgomery College                  | \$ 196.9   |
| County Government                   | \$ 1,564.9 |
| M-NCPPC                             | \$ 132.5   |
| Total = Aggregate Operating Budget  | \$ 5,085.5 |

- c) Notwithstanding the above, the Council intends that any agency spending allocations which, as a result of additional increases in State aid, exceed the ceilings specified in (b) do not trigger the requirements of §20-63(b).

This is a correct copy of Council action.

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Selena Mendy Singleton, Esq.  
Clerk of the Council

## Fiscal Plan December 2020 Tax Supported Fiscal Plan Summary

| (\$ in Millions)  |                |                |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
|---|----------------|----------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|   | App.<br>FY21   | Est.<br>FY21   | % Chg.<br>FY21-22 | % Chg.<br>FY21-22 | Projected<br>FY22 | % Chg.<br>FY22-23 | Projected<br>FY23 | % Chg.<br>FY23-24 | Projected<br>FY24 | % Chg.<br>FY24-25 | Projected<br>FY25 | % Chg.<br>FY25-26 | Projected<br>FY26 | % Chg.<br>FY26-27 | Projected<br>FY27 |
|   | 5-21-20        | 12-8-20        | App/Proj          | Est/Proj          | 12-8-20           |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| <b>Total Revenues</b>   |                |                |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| 1 Property Tax  | 1,830.8        | 1,831.5        | 2.5%              | 2.5%              | 1,877.3           | 2.8%              | 1,930.3           | 2.8%              | 1,984.5           | 2.9%              | 2,042.0           | 2.9%              | 2,101.5           | 2.9%              | 2,163.1           |
| 2 Income Tax  | 1,695.4        | 1,637.9        | -2.8%             | 0.6%              | 1,647.2           | 3.2%              | 1,699.6           | 4.4%              | 1,774.9           | 5.1%              | 1,865.0           | 5.3%              | 1,964.2           | 5.5%              | 2,072.7           |
| 3 Transfer/Recordation Tax  | 181.6          | 162.8          | -4.5%             | 6.5%              | 173.4             | 3.1%              | 178.8             | 3.9%              | 185.7             | 3.9%              | 192.9             | 3.9%              | 200.4             | 3.9%              | 208.3             |
| 4 Other Taxes   | 273.6          | 248.5          | -7.2%             | 2.1%              | 253.8             | 2.7%              | 260.7             | 1.7%              | 265.3             | 0.5%              | 266.5             | 0.5%              | 267.8             | 1.3%              | 271.4             |
| 5 Other Revenues  | 1,177.4        | 1,280.1        | 0.2%              | -7.8%             | 1,179.7           | 0.3%              | 1,183.5           | 0.4%              | 1,187.9           | 0.4%              | 1,192.4           | 0.4%              | 1,197.0           | 0.4%              | 1,201.7           |
| 6 <b>Total Revenues</b>   | <b>5,158.7</b> | <b>5,160.8</b> | <b>-0.5%</b>      | <b>-0.6%</b>      | <b>5,131.4</b>    | <b>2.4%</b>       | <b>5,252.9</b>    | <b>2.8%</b>       | <b>5,398.3</b>    | <b>3.0%</b>       | <b>5,558.8</b>    | <b>3.1%</b>       | <b>5,730.9</b>    | <b>3.3%</b>       | <b>5,917.2</b>    |
| 7   |                |                |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| 8 <b>Net Transfers In (Out)</b>   | <b>24.9</b>    | <b>24.9</b>    | <b>-41.3%</b>     | <b>-41.3%</b>     | <b>14.6</b>       | <b>2.0%</b>       | <b>14.9</b>       | <b>2.4%</b>       | <b>15.3</b>       | <b>2.4%</b>       | <b>15.7</b>       | <b>2.4%</b>       | <b>16.0</b>       | <b>2.4%</b>       | <b>16.4</b>       |
| 9 <b>Total Revenues and Transfers Available</b>   | <b>5,183.6</b> | <b>5,185.8</b> | <b>-0.7%</b>      | <b>-0.8%</b>      | <b>5,146.1</b>    | <b>2.4%</b>       | <b>5,267.8</b>    | <b>2.8%</b>       | <b>5,413.6</b>    | <b>3.0%</b>       | <b>5,574.5</b>    | <b>3.1%</b>       | <b>5,746.9</b>    | <b>3.2%</b>       | <b>5,933.6</b>    |
| 10  |                |                |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| 11 <b>Non-Operating Budget Use of Revenues</b>  |                |                |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| 12 Debt Service   | 422.5          | 422.5          | 4.5%              | 4.5%              | 441.5             | 3.4%              | 456.7             | 0.0%              | 456.8             | 2.8%              | 469.4             | 0.9%              | 473.8             | 0.0%              | 473.8             |
| 13 PAYGO  | 32.0           | 32.0           | -3.1%             | -3.1%             | 31.0              | -3.2%             | 30.0              | -3.3%             | 29.0              | -3.4%             | 28.0              | -3.6%             | 27.0              | 0.0%              | 27.0              |
| 14 CIP Current Revenue  | 65.9           | 65.9           | 17.5%             | 17.5%             | 77.4              | 23.1%             | 95.3              | -3.4%             | 92.1              | -20.7%            | 73.1              | 3.8%              | 75.8              | 0.0%              | 75.8              |
| 15 Change in Other Reserves   | 0.2            | -43.9          | 17437.0%          | 190.2%            | 39.6              | -99.7%            | 0.1               | 66.6%             | 0.2               | 8.0%              | 0.2               | 7.1%              | 0.2               | 3.5%              | 0.2               |
| 16 Contribution to General Fund Undesignated Reserves                                       | 7.2            | -69.5          | 1968.2%           | 315.6%            | 149.9             | -101.5%           | -2.3              | 326.7%            | 5.1               | 22.5%             | 6.3               | 11.2%             | 7.0               | 7.8%              | 7.5               |
| 17 Contribution to Revenue Stabilization Reserves   | 8.6            | 8.6            | -362.1%           | -362.1%           | -22.5             | 162.2%            | 14.0              | -21.4%            | 11.0              | 0.0%              | 11.0              | 4.5%              | 11.5              | 0.0%              | 11.5              |
| 18 Set Aside for other uses (supplemental appropriations)                                   | 6.8            | 21.8           | 194.1%            | -8.3%             | 20.0              | 0.0%              | 20.0              | 0.0%              | 20.0              | 0.0%              | 20.0              | 0.0%              | 20.0              | 0.0%              | 20.0              |
| 19 <b>Total Other Uses of Resources</b>   | <b>543.3</b>   | <b>437.4</b>   | <b>35.6%</b>      | <b>68.5%</b>      | <b>736.9</b>      | <b>-16.7%</b>     | <b>613.9</b>      | <b>0.0%</b>       | <b>614.2</b>      | <b>-1.0%</b>      | <b>607.9</b>      | <b>1.2%</b>       | <b>615.3</b>      | <b>0.1%</b>       | <b>615.9</b>      |
| 20 <b>Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)</b> | <b>4,640.3</b> | <b>4,748.4</b> | <b>-5.0%</b>      | <b>-7.1%</b>      | <b>4,409.1</b>    | <b>5.6%</b>       | <b>4,653.9</b>    | <b>3.1%</b>       | <b>4,799.4</b>    | <b>3.5%</b>       | <b>4,966.5</b>    | <b>3.3%</b>       | <b>5,131.6</b>    | <b>3.6%</b>       | <b>5,317.7</b>    |
| 21  |                |                |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| 22 <b>Agency Uses</b>   |                |                |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| 23  |                |                |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| 24 Montgomery County Public Schools (MCPS)  | 2,562.4        | 2,562.4        | -0.5%             | -0.5%             | 2,550.7           | 1.0%              | 2,576.2           | 0.7%              | 2,594.3           | 0.3%              | 2,602.6           | 0.2%              | 2,607.7           | 0.0%              | 2,607.8           |
| 25 Montgomery College (MC)  | 268.9          | 268.9          | -0.5%             | -0.5%             | 267.5             | 0.5%              | 268.8             | 0.6%              | 270.3             | 0.6%              | 272.0             | 0.6%              | 273.6             | 0.6%              | 275.3             |
| 26 MNCPPC (w/o Debt Service)  | 137.2          | 137.2          | -12.1%            | -12.1%            | 120.6             | 13.7%             | 137.2             | 7.0%              | 146.7             | 8.1%              | 158.6             | 7.6%              | 170.6             | 8.2%              | 184.6             |
| 27 MCG  | 1,671.9        | 1,779.9        | -12.1%            | -17.4%            | 1,470.3           | 13.7%             | 1,671.8           | 7.0%              | 1,788.1           | 8.1%              | 1,933.4           | 7.6%              | 2,079.7           | 8.2%              | 2,250.0           |
| 28 <b>Agency Uses</b>   | <b>4,640.3</b> | <b>4,748.4</b> | <b>-5.0%</b>      | <b>-7.1%</b>      | <b>4,409.1</b>    | <b>5.6%</b>       | <b>4,653.9</b>    | <b>3.1%</b>       | <b>4,799.4</b>    | <b>3.5%</b>       | <b>4,966.5</b>    | <b>3.3%</b>       | <b>5,131.6</b>    | <b>3.6%</b>       | <b>5,317.7</b>    |
| 29 <b>Total Uses</b>  | <b>5,183.6</b> | <b>5,185.8</b> | <b>-0.7%</b>      | <b>-0.8%</b>      | <b>5,146.1</b>    | <b>2.4%</b>       | <b>5,267.8</b>    | <b>2.8%</b>       | <b>5,413.6</b>    | <b>3.0%</b>       | <b>5,574.5</b>    | <b>3.1%</b>       | <b>5,746.9</b>    | <b>3.2%</b>       | <b>5,933.6</b>    |
| 30 <b>(Gap)/Available</b>   | <b>0.0</b>     | <b>0.0</b>     |                   |                   | <b>0.0</b>        |                   | <b>0.0</b>        |                   | <b>0.0</b>        |                   | <b>0.0</b>        |                   | <b>0.0</b>        |                   | <b>0.0</b>        |

**Assumptions:**

1. FY21 Property taxes are at the previous Charter Limit with a \$692 credit. FY22-27 property taxes reflect the passage of Ballot Question A with a \$692 credit. Other taxes are at current rates.
2. Reserve contributions are consistent with legal requirements and the minimum policy target.
3. PAYGO, debt service, and current revenue reflect the Approved FY21-26 Capital Improvements Program.
4. State Aid, including MCPS and Montgomery College, is not projected to increase from FY22-27.
5. Projected FY22 allocations for MCPS and Montgomery College assume funding at maintenance of effort. The allocations do not include potential increases to State Aid or other possible agency resources, such as use of additional fund balance. Additional State Aid or use of fund balance would increase the rate of growth for MCPS and Montgomery College.
6. MCG FY21 projected expenditures include the results of first quarter analysis. The County is aggressively seeking federal reimbursement for all eligible expenditures related to the County's COVID-19 pandemic response.

FY21 Approved AOB=\$5,085,507,002

\$5,085.5

|    | A  | B              | C     | D                | E                | F                | G                |
|----|--|----------------|-------|------------------|------------------|------------------|------------------|
| 1  | <b>Table 1: Spending Affordability Guideline 2 (Ceiling on the FY22 AOB, \$millions)</b> |                |       |                  |                  |                  |                  |
| 2  | <i>FY21 Approved AOB</i>   | 5,085.5        |       | Option 1         | Option 2         | Option 3         | Option 4         |
| 3  | 1. No change FY20 to FY21  |                |       | +0.00%           |                  |                  |                  |
| 4  | 2. Use Agency allocations in December 2020 update  |                |       |                  | -2.09%           |                  |                  |
| 5  | 3. Increase by inflation CY20  |                |       |                  |                  | +0.72%           |                  |
| 6  | 4. Change in average HH income CY20  |                |       |                  |                  |                  | -2.91%           |
| 8  | <b>Ceiling on FY21 AOB</b>   |                |       | <b>\$5,085.5</b> | <b>\$4,979.0</b> | <b>\$5,122.1</b> | <b>\$4,937.3</b> |
| 10 | <b>Table 2: Spending Affordability Guideline 3 (Allocation of FY22 AOB, \$millions)</b>  |                |       |                  |                  |                  |                  |
| 11 |  | FY20 App       |       | Option 1         | Option 2         | Option 3         | Option 4         |
| 12 | <b>A. Non agency allocations</b>   |                |       |                  |                  |                  |                  |
| 13 | Debt service   |                |       |                  |                  |                  |                  |
| 14 | County debt service  | 415.2          |       | 433.6            | 433.6            | 433.6            | 433.6            |
| 15 | MNCPPC debt service  | 7.3            |       | 7.9              | 7.9              | 7.9              | 7.9              |
| 16 | Current revenue, specific projects   | 65.9           |       | 77.4             | 77.4             | 77.4             | 77.4             |
| 17 | Current revenue, PAYGO   | 32.0           |       | 31.0             | 31.0             | 31.0             | 31.0             |
| 18 | Retiree health insurance prefunding (OPEB)   |                |       |                  |                  |                  |                  |
| 19 | OPEB for MCPS  | 69.4           |       | 71.2             | 71.2             | 71.2             | 71.2             |
| 20 | OPEB for Montgomery College  | 5.5            |       | 5.6              | 5.6              | 5.6              | 5.6              |
| 21 | OPEB for MNCPPC  | 3.0            |       | 2.9              | 2.9              | 2.9              | 2.9              |
| 22 | OPEB for County Government   | 12.3           |       | 10.8             | 10.8             | 10.8             | 10.8             |
| 23 | <b>Subtotal, non-agencies</b>  | <b>610.6</b>   |       | <b>640.5</b>     | <b>640.5</b>     | <b>640.5</b>     | <b>640.5</b>     |
| 25 | <b>B. Agency allocations</b>   |                |       |                  |                  |                  |                  |
| 26 |  | FY21 App       | %     | Option 1         | Option 2         | Option 3         | Option 4         |
| 26 | MCPS   | 2,562.4        | 57.3% | 2,550.7          | 2,550.7          | 2,550.7          | 2,550.7          |
| 27 | College excl. expen. funded by tuition   | 193.7          | 4.3%  | 196.9            | 196.9            | 196.9            | 196.9            |
| 26 | MNCPPC   | 134.2          | 3.0%  | 132.5            | 120.6            | 135.4            | 120.9            |
| 28 | County Government  | 1,584.7        | 35.4% | 1,564.9          | 1,470.3          | 1,598.7          | 1,428.3          |
| 29 | <b>Subtotal, agencies</b>  | <b>4,474.9</b> |       | <b>4,445.0</b>   | <b>4,338.5</b>   | <b>4,481.7</b>   | <b>4,296.9</b>   |
| 30 | <b>Aggregate Operating Budget</b>  | <b>5,085.5</b> |       | <b>5,085.5</b>   | <b>4,979.0</b>   | <b>5,122.1</b>   | <b>4,937.3</b>   |
| 32 | <b>Table 3: Change in Agency Allocations, FY21 approved to FY22 recommended</b>          |                |       |                  |                  |                  |                  |
| 33 |  |                |       | Option 1         | Option 2         | Option 3         | Option 4         |
| 34 | MCPS   |                |       | (0.46%)          | (0.46%)          | (0.46%)          | (0.46%)          |
| 36 | College excl. expen. funded by tuition   |                |       | +1.68%           | +1.68%           | +1.68%           | +1.68%           |
| 35 | MNCPPC   |                |       | (1.25%)          | (10.10%)         | +0.88%           | (9.87%)          |
| 37 | County Government  |                |       | (1.25%)          | (7.22%)          | +0.88%           | (9.87%)          |
| 38 | <b>Total Agency Allocation</b>   |                |       | <b>(0.67%)</b>   | <b>(3.05%)</b>   | <b>+0.15%</b>    | <b>(3.98%)</b>   |

Notes:

1. FY22 MNCPPC debt service assumes Park Fund: \$7,800,435; ALARF Fund: \$135,050.
2. All FY21 allocations are from Resolution 19-477.
3. All FY22 non-agency allocations are from the December Fiscal Plan Update
4. FY22 Montgomery College excludes tuition-funded expenditures but includes appropriation from FY21 fund balance
5. FY22 MCPS allocation is from the December Fiscal Plan Update and assumes no appropriation from FY21 fund balance.

|                 |                     |
|-----------------|---------------------|
| Resolution No.: | <u>19-477</u>       |
| Introduced:     | <u>May 21, 2020</u> |
| Adopted:        | <u>May 21, 2020</u> |

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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By: County Council

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**SUBJECT:** Approval of the FY 2021 Aggregate Operating Budget

**Background**

1. Section 305 of the County Charter requires the affirmative vote of 7 Councilmembers to approve the aggregate operating budget if that budget exceeds the adopted spending affordability guidelines then in effect. Section 305 excludes from the aggregate operating budget:
  - Specific grants;
  - Enterprise Funds;
  - Tuition and tuition-related charges at Montgomery College;
  - Washington Suburban Sanitary Commission.
2. Section 20-60 of the County Code requires the Council to set spending affordability guidelines by resolution no later than the second Tuesday in February. The guidelines must specify a ceiling on the aggregate operating budget for FY 2021.
3. Section 305 of the Charter requires that at least 6 Councilmembers must approve the aggregate operating budget if that budget exceeds the budget for the preceding year by more than the rate of inflation, as measured by the annual average increase in the Consumer Price Index for all urban consumers in the Washington-Baltimore Metropolitan area for the 12-month period preceding December 1, which was 1.27% percent for the 12-month period preceding December 1, 2019.
4. On May 23, 2019, in Resolution 19-133, the Council approved the FY 2020 aggregate operating budget in the amount of \$5,023,849,028. If that aggregate operating budget increased at the 1.27% percent rate of inflation for the 12-month period preceding December 1, 2019, it would be \$5,087,820,170.

5. In Resolution No. 19-357 adopted February 11, 2020, the Council adopted the following spending affordability guideline for the FY 2021 aggregate operating budget.

- FY 2021 ceiling on the aggregate operating budget \$5,087,820,170

**Action**

The County Council for Montgomery County, Maryland approves the following resolution:

The Council approves the FY 2021 aggregate operating budget in the amount of \$5,085,507,002, as calculated on the attached page. Because the FY 2021 aggregate operating budget does not exceed the FY 2021 ceiling on the aggregate operating budget of \$5,087,820,170, 7 affirmative votes are not required to adopt this resolution.

This is a correct copy of Council action.

  
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Selena Mendy Singleton, Esq.  
Clerk of the Council

The FY 2021 aggregate operating budget excludes enterprise funds, specific grants, and tuition and tuition-related charges at the College and is calculated as follows.

| <b>Fund or District</b>                                 | <b>Appropriation (\$)</b> |
|---|---------------------------|
| General Fund  | 1,239,718,284             |
| Fire District   | 224,869,427               |
| Economic Development Fund                               | 5,159,418                 |
| Mass Transit  | 149,364,876               |
| Recreation District                                     | 43,116,097                |
| Urban District  | 9,635,246                 |
| Montgomery County Public Schools                        | 2,562,357,999             |
| Montgomery College                                      | 268,915,660               |
| Maryland-National Capital Park and Planning Commission: |                           |
| Administration Fund                                     | 32,484,966                |
| Park Fund   | 104,698,536               |
| Debt Service on County Bonds and Leases                 | 415,203,210               |
| Debt Service on Park Bonds                              | 7,308,010                 |
| Current Revenue for the Capital Budget                  | 65,928,000                |
| Current Revenue for PAYGO                               | 32,000,000                |
| Total Appropriations                                    | 5,160,759,729             |
| Less College Tuition and Tuition-Related Charges        | (75,252,727)              |
| <b>FY 2021 AGGREGATE OPERATING BUDGET</b>               | <b>5,085,507,002</b>      |
|   |                           |
| <b>SUMMARY:</b>   |                           |
| Montgomery County Public Schools                        | 2,562,357,999             |
| Montgomery College                                      | 268,915,660               |
| County Government                                       | 1,584,725,809             |
| Maryland-National Capital Park and Planning Commission  | 134,191,109               |
| Retiree Health Insurance Pre-Funding                    | 90,129,932                |
| Debt Service on County Bonds and Park Bonds             | 422,511,220               |
| Current Revenue and PAYGO for Capital Budget            | 97,928,000                |
| Total Appropriations                                    | 5,160,759,729             |
| Less College Tuition and Tuition-Related Charges        | (75,252,727)              |
| <b>FY 2021 AGGREGATE OPERATING BUDGET</b>               | <b>5,085,507,002</b>      |
|   |                           |
| Aggregate Operating Budget for FY 2020                  | 5,023,849,028             |
| \$ increase   | 61,657,974                |
| % change  | 1.23%                     |