Montgomery County Council

Committee: GO
Committee Review: Completed
Staff: Gene Smith, Legislative Analyst
Purpose: Final action – vote expected
Keywords: SAG, Capital Budget

AGENDA ITEM #2
October 5, 2021
Action

SUBJECT

Spending Affordability Guidelines for the FY23 Capital Budget and the FY23-FY28 Capital Improvements Program

EXPECTED ATTENDEES

Mary Beck, Capital Budget Manager, Office of Management and Budget
Mike Riley, Director, Montgomery Parks

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

The Government Operations and Fiscal Policy (GO) Committee reviewed the relevant economic and fiscal indicators about the County's debt levels and the debt capacity indicators during its worksession on September 30, 2021. The GO Committee recommends the following guidelines for the FY23 Aggregate Capital Budget:

	Spending Affordability Guideline	Amount
1.	The total general obligation bond debt issued by the County that may be planned for expenditure in Fiscal Year 2023;	$300 million
2.	The total general obligation bond debt issued by the County that may be planned for expenditure in Fiscal Year 2024;	$290 million
3.	The total general obligation bond debt issued by the County that may be approved for the capital improvements program for fiscal years 2023-2028;	$1,680 million
4.	The total debt, except refunding bonds, issued by the Maryland-National Capital Park and Planning Commission that may be planned for expenditure in Fiscal Year 2023;	$8.0 million
5.	The total debt, except refunding bonds, issued by the Maryland-National Capital Park and Planning Commission that may be planned for expenditure in Fiscal Year 2024; and	$8.0 million
6.	The total debt, except refunding bonds, issued by the Maryland-National Capital Park and Planning Commission that may be approved for the capital improvements program for fiscal years 2023-2028.	$48.0 million

DESCRIPTION/ISSUE

The Council must adopt spending affordability guidelines for the aggregate capital budget by the first Tuesday in October of every odd-numbered calendar year. These guidelines limit certain types of debt that may be programed for expenditures in the capital improvements program (CIP). These guidelines also set the Council's voting thresholds for the Capital Budget each year. By evaluating and setting appropriate debt levels every two years, the Council preserves the County's fiscal health and manages the amount of general funds required for debt service.

SUMMARY OF KEY DISCUSSION POINTS

- Sections 20-55 through 20-58 of the County Code describe the guidelines for the aggregate capital budget and the Council's process for setting those guidelines (see ©1-2).

- County law requires that the Council adopt six guidelines for the aggregate capital budget.

- The Council considers several economic and fiscal factors to determine what is affordable by the County and its residents before adopting the guidelines (see ©2).

- The Council will receive an update on the economic and fiscal factors in January 2022 and may adjust the guidelines it adopts today based on that updated information by the first Tuesday in February 2022.

This report contains:

GO Committee #2
September 30, 2021
<u>Worksession</u>

M E M O R A N D U M

September 27, 2021

TO: Government Operations and Fiscal Policy (GO) Committee

FROM: Gene Smith, Legislative Analyst

SUBJECT: Spending Affordability Guidelines for the FY23 Capital Budget and the FY23-28 Capital Improvements Program (CIP)

PURPOSE: Review and make recommendation to the Council

<u>Expected attendees</u>:
Mary Beck, Capital Budget Manager, Office of Management and Budget (OMB)
Veronica Jaua, Budget Analyst, OMB
Anita Aryeetey, Budget Analyst, OMB
David Platt, Chief Economist, Department of Finance (Finance)
Jackie Carter, Debt Manager, Finance
Mike Riley, Director, Montgomery Parks (Parks)
Miti Figueredo, Deputy Director, Parks
Andrew Frank, Division Chief for Parks Development, Parks
Carl Morgan, CIP Manager for Parks Development, Parks

The GO Committee will review the draft guidelines and the debt affordability indicators to recommend to the Council the Spending Affordability Guidelines (SAG) for the FY23 aggregate capital budget. The Council must adopt these guidelines by resolution by the first Tuesday in October in each odd-numbered calendar year.

Summary of recommendations

Council staff recommends that the GO Committee adopt the same trajectory for the guidelines as previously approved by the Council in FY21. The economic and fiscal conditions have not improved enough since February 2021 to warrant a change in the Council's approach for managing an affordable debt level in the County. The County has made progress since the Council's decision to decrease the guidelines in 2017, but a little more time is needed at the current trajectory of the previously approved guidelines. Table 1 below details the specific guidelines recommended for adoption.

Table 1: Council staff recommended FY23-28 Guidelines ($ millions)

Guideline	FY23	FY24	FY25	FY26	FY27	FY28	Six-year Total
G.O. Bonds	300.0	290.0	280.0	270.0	270.0	270.0	1,680.0
M-NCPPC Bonds	6.6	6.7	6.7	6.7	6.8	6.8	40.3

Note: The bolded borders are the specific fiscal years or aggregate guidelines that the Council must adopt. Other fiscal years are displayed to provide context for how the six-year total is disbursed, but these fiscal years are not adopted as part of the SAG process.

I. Background

Section 305 of the County Charter requires that the Council adopt SAG for the capital and operating budgets annually, including the guidelines for the aggregate capital and operating budgets. The process and criteria are detailed in the County Code for adopting these guidelines (see ©1-2 for the capital budget process and criteria). The capital budget guidelines are set biennially with the biennial CIP. **The Council's adopted guidelines become the threshold for the super majority requirement when the capital or operating budgets are adopted in May each year** – seven affirmative votes are required to exceed the adopted guidelines.

The Council must adopt the following six guidelines by the first Tuesday in October each odd-numbered calendar year for the aggregate capital budget:

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.

A. Process to adopt SAG – Aggregate Capital Budget

The Council must hold a public hearing and consider certain factors before adopting the SAG for the aggregate capital budget (see ©2). **The County Code, however, does not specify the thresholds that are or are not affordable for the Council's consideration**. To aid the Council's consideration, certain debt capacity indicators are published with the capital and operating budgets and are updated for the Council's review of the SAG for the aggregate capital budget each year. These debt capacity indicators include many of the economic and financial conditions from the County Code. Each indicator includes a specific policy threshold to ascertain the County's fiscal condition during the next six years of the CIP. Table 2 below provides details about the published indicators and the policy threshold for each.

Table 2: Published 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%

These indicators provide important context about the County's current and projected economic and financial conditions to determine the amount of debt that is affordable by the County and its residents. As the title of the law implies, the Council establishes guidelines based on affordability to guide policy decisions in the CIP, not based on the amount of need in the CIP.

The Council considers affordability for the largest funding source in the CIP, G.O. bonds, but it does not adopt affordability guidelines for all funding sources in the CIP. By law, the Council only needs to adopt guidelines for G.O. bonds and M-NCPPC bonds. In the amended FY21-26 CIP, these two funding sources are about 39.3% of the total funding sources in the $4.3 billion CIP, excluding WSSC. Some other CIP funding sources, like other long-term debt, can impact the County's debt capacity indicators.

B. Process to review or revise adopted guidelines

The Council reviews the adopted aggregate capital budget guidelines annually in January. **The County Code permits the Council to increase or decrease the aggregate capital budget guidelines annually by the first Tuesday in February to reflect a significant change in the conditions**. Like the process for adopting the guidelines, the "change in the conditions" relates to the County's economic or financial conditions, not need in the CIP. The County Code permits the Council to increase the single fiscal year guidelines (guidelines #1, #2, #4, and #5 above) by 10%. There is no limitation in the County Code for the amount that the Council may increase the six-year aggregate guidelines (guidelines #3 and #6 above) or decrease any of the six guidelines.

II. Proposed SAG for FY23 Capital Budget and FY23-28 CIP

The introduced resolution for the FY23 SAG continues the trajectory for the guidelines as previously approved by the Council in the FY21 SAG process (see ©3-4). The FY21 guidelines were adopted by the Council in Resolution No. 19-251 on October 1, 2019. Based on the worsening trend of the debt capacity indicators, the Council adopted a tapered reduction to the G.O. bond guidelines beginning in October 2017 for the FY19-24 CIP and continued the same trend in October 2019 for the FY21-26 CIP. The Council supported a moderate increase to M-NCPPC bonds in FY21 and FY22 based on the expectation that the additional debt might be offset by operating savings. The Council also programmed an additional $0.1 million every three years for M-NCPPC bonds in 2017, which is why the bonds modest increase in the proposed resolution.

Table 3 below details the proposed bond limits for FY23-FY28. The Council does not adopt specific annual guidelines for FY25-FY28, but it does evenly distribute the amount to be programmed based on the six-year aggregate guideline to aid in programming expenditures for those fiscal years.

Table 3: Proposed Bond Limits in SAG Resolution ($ millions)

Guideline	FY23	FY24	FY25	FY26	FY27	FY28	Six-year Total
G.O. Bonds	300.0	290.0	280.0	270.0	270.0	270.0	1,680.0
M-NCPPC Bonds	6.6	6.7	6.7	6.7	6.8	6.8	40.3

The proposed guidelines are different than the amended FY21-26 bond adjustment chart (see ©5). The Council recognized significant delays in projects, particularly those related to the Purple Line, as part of the biennial CIP reconciliation process for the FY22 Capital Budget. While significant programmed costs shifted from FY21 to FY23 and to FY24, the bonds to fund those expenditures were issued in FY22. For the recommended FY23-28 CIP, technical "slippage" adjustments will be made in FY23 and FY24 to reflect the deferral of bond capacity without necessitating the need to increase the guidelines in those fiscal years.

III. Public Testimony

The Council received testimony from an individual and several organizations during its public hearing on Tuesday, September 21, 2021 about the proposed guidelines. Included with these public comments were the Executive's recommended guidelines, which will be discussed in more detail with the options before the GO Committee. Mr. Nelson advocated for raising the guidelines to support additional projects, particularly in the "up County". The Montgomery County Councils of PTAs commended the Council for its work to address the County's debt levels and advocated that the Council identify other revenue sources to support school projects. The Sierra Club of Montgomery County and the Coalition for Smarter Growth advocated for specific priorities within the CIP, mostly related to transportation. The Council will consider its funding priorities within the CIP in January 2022, following the Executive's release of the recommended FY23-28 CIP.

IV. Review of conditions and indicators for FY23-28 SAG

A. Economic assumptions

Executive staff updates the assumptions for each of the debt capacity indicators based on the updated economic and fiscal conditions throughout the year. **Changes to these assumptions tend to drive the changes in the debt capacity indicators year-over-year because the County's total debt, estimated to be about $3.5 billion at the end of FY21, does not change much on annual-basis**. See ©6 and Table 4 below for the changes in assumptions between the Council's February 2021 review of SAG compared to the Council's review in September 2021.

Table 4: Updated Assumptions for October 2021 SAG

Assumption Variable	Change
Bond interest rate	Unchanged from previous guideline review.
Operating budget growth	Decreased from previous review – FY23 assumes a significant decrease in annual percentage growth; FY24-FY26, on average, is about the same as previously assumed. A decrease in operating budget growth may result in a worsening of the debt capacity indicator for debt service expenditures to operating revenues if all other variables are held constant.
Population	Decreased from previous review – population growth for FY23-26 is less than projected previously. A decrease in population estimates may result in a worsening of the debt capacity indicator for capita debt if all other variables are held constant.
Annual inflation	Unchanged from previous guideline review.
Assessable base	Statistically unchanged from previous guideline review.
Personal income	Decreased from previous review – the growth in total personal income for residents is projected to be less in FY23-26 than previously estimated. A decrease in personal income estimates may result in a worsening of the debt capacity indicator for capita debt to capita income if all other variables are held constant.

B. Current debt obligations

The County obligates operating expenditures for the next twenty years every time it issues bonds. These obligations accumulate when the County issues bonds at a greater rate than it retires. The converse is also true – retiring bonds at a greater rate than issued will eventually reduce the County's total debt obligations. **The County's current remaining principal of its debt obligations is a major variable in most of the debt capacity indicators that the Council evaluates**.

The County's total outstanding debt and its growth rate closely correlates to the six-year guideline's growth rate that the Council establishes every two years. See ©7 for a chart comparing the total debt outstanding with the six-year guideline adopted during those fiscal years; FY23-FY28 are projected based on the current trajectory of the approved guidelines. The following are important details of this chart:

- The average annual growth rate for the six-year guideline was 4.1% for FY94-04. The average annual growth rate for total debt outstanding was about the same during that period, 4.0%.
- The average annual growth rate for the six-year guideline was 7.3% for FY04-FY15. The average annual growth rate for total debt outstanding was about the same during that period, 7.1%.

- The County's total debt outstanding is projected to marginally decrease in FY24 and continue to decrease at the current trajectory for the approved guidelines. The County has not experienced a sustained decrease in total debt outstanding during the fiscal years displayed on the chart.[1] This is an important milestone and reflects the Council's disciplined approach to reduce the guidelines and hold firm beginning in 2017.

The projected leveling and decreasing of the County's total outstanding debt, however, will not immediately translate into debt service savings for the operating budget. Per the approved FY22 Operating Budget, debt service expenditures are estimated to increase modestly through FY27. The annualized growth rate is estimated at 1.7% and is based on the current approved guidelines for the capital budget.

C. Current debt capacity indicators

See ©8-11 for the historical measurements of the County's debt service indicators. These graphs include the current estimate for FY22 as of September 2021, which is subject to change as the County updates underlying assumptions during FY22. Below is a summary of the major indicators and the current measurements.

Overall. All the graphs share a similar theme. The County's debt capacity indicators remained at or below the policy threshold following fiscal years that had a slower annual growth in total outstanding debt as detailed on ©7. Fiscal years where the County's total debt outstanding grew more rapidly resulted in future fiscal years where the indicators exceeded the County's fiscal policy threshold. **The County is currently exceeding its policy threshold for most of the debt indicators as of FY22**.

G.O. Debt to Assessed Value (see ©8). The trend for this indicator has modestly improved in recent years. The indicator remains greater than the 1.5% policy threshold, despite recent growth in the County's assessable base. This suggests that the County's total G.O. debt continues to drive this indicator's value.

Debt Service Expenditures to General Fund Revenues (see ©9). The trend of this indicator does not indicate improvement in recent years. There are a couple of likely reasons that this indicator remains entrenched at a value greater than the policy threshold of 10.0%.

First, this indicator includes all debt service expenditures and some of those expenditures have increased rapidly in recent fiscal years. For example, the Council approved about $11.3 million in expenditures for other long-term debt in FY16. As of FY22, the Council approved $46.7 million for the same category, an increase of 313.1%. The Council only considers G.O. and M-NCPPC debt for the guidelines, but growth in other debt impacts the results of this indicator.

Second, this indicator fluctuates based on the estimated general fund revenues for the County. With the ongoing pandemic, the County's General Fund revenues have become more volatile. A

[1] There were times where the total debt outstanding decreased year-over-year in the graph on ©7. These decreases, however, were due to the timings of certain bond issuances, which is why the decrease was not sustained for multiple fiscal years.

decrease in overall general fund revenues can result in this indicator increasing (worsening), even if debt service expenditures remain constant.

Capita Debt (see ©10). The trend of this indicator indicates modest improvement in recent fiscal years, but this indicator remains greater than the policy threshold. The modest increase (worsening) in FY22 is likely due to the decrease in the estimated number of residents, not other debt measurements.

Capita Debt to Capita Income (see 11). This indicator had experienced significant improvement in recent years and met the County's policy threshold in FY21. The increase (worsening) of this trend in FY22 is due to the change in capita income assumption due to the pandemic, as highlight in Table 4 above.

V. FY23-28 G.O. Bond Guidelines

The Executive recommends an increase to the guidelines beginning in FY25 through FY28 (see ©12-14). The Executive's recommendation decreases the six-year guideline by $20 million compared to the approved FY21-26 guidelines, but it increases the six-year guideline by $70 million compared to the previously approved trajectory. In addition to the Executive's recommendation, Council staff requested that OMB provide an analysis of the debt service indicators for the previously approved trajectory of the guidelines and for a second alternative that continues a modest decrease in FY27 and FY28 for bond issuances. Table 5 below details the annual G.O. bond limit for all three scenarios that were analyzed for the Council's consideration.

Table 5: Scenarios for FY23-28 SAG ($ millions)

Scenario	FY23	FY24	FY25	FY26	FY27	FY28	Total
#1 – CE Rec.	300.0	290.0	290.0	290.0	290.0	290.0	**1,750.0**
#2 – Previous Trajectory	300.0	290.0	280.0	270.0	270.0	270.0	**1,680.0**
#3 – Additional tapering	300.0	290.0	280.0	270.0	260.0	260.0	**1,660.0**

See ©14-16 for the debt capacity analysis for each scenario. Table 6 below summarizes the debt capacity analyses for each scenario.

Table 6: Debt Capacity Indicators for each Scenario for FY23-28 SAG

Indicator/Scenario	FY23	FY24	FY25	FY26	FY27	FY28	Total
G.O. Debt to Assessed Value							
#1 – CE Rec.	(-)	(-)	(-)	(-)	(+)	(+)	**2**
#2 – Previous trajectory	(-)	(-)	(-)	(-)	(+)	(+)	**2**
#3 – Additional tapering	(-)	(-)	(-)	(-)	(+)	(+)	**2**
Debt Service to GF Rev.							
#1 – CE Rec.	(-)	(-)	(-)	(-)	(-)	(-)	**0**
#2 – Previous trajectory	(-)	(-)	(-)	(-)	(-)	(-)	**0**
#3 – Additional tapering	(-)	(-)	(-)	(-)	(-)	(-)	**0**
Capita Debt							
#1 – CE Rec.	(-)	(-)	(-)	(-)	(-)	(-)	**0**

#2 – Previous trajectory	(-)	(-)	(-)	(-)	(-)	(-)	**0**
#3 – Additional tapering	(-)	(-)	(-)	(-)	(-)	(-)	**0**
Capita Debt to Capita Income							
#1 – CE Rec.	(+)	(+)	(+)	(+)	(+)	(+)	**6**
#2 – Previous trajectory	(+)	(+)	(+)	(+)	(+)	(+)	**6**
#3 – Additional tapering	(+)	(+)	(+)	(+)	(+)	(+)	**6**

Note that a (-) indicates that the indicator exceeds the policy threshold for that fiscal year and a (+) indicates that the indicator meets the policy threshold for that fiscal year.

The Council decided to reduce the G.O. bond guidelines for the FY19-24 CIP and adopted an 8.8% decrease compared to the FY17-22 guidelines. **That decision occurred four years ago, and at the time, the Council acknowledged that it would take several fiscal years to see improvement in the County's debt levels and debt capacity indicators from that decision**. As evidenced in the graphs on ©7-11, the County has made progress on most of the indicators.

The same concept discussed by the Council in 2017 and 2019 remains true in 2021 – it takes time for the adopted guidelines to impact the County's debt levels and the debt capacity indicators. This is one of the reasons that there is not a significant difference amongst the three scenarios above. **Most of the improvement to the debt capacity indicators is due to the decision to reduce the guidelines in 2017, not the differences amongst the estimated guidelines in each scenario**. Beyond FY28, the differences in each of the scenarios will become more obvious since the Executive's recommendation increases the estimated issuances of debt, and therefore, will increase the total outstanding debt when compared to the other scenarios.

Council staff recommends that the GO Committee adopt Scenario #2, the previously approved trajectory for the G.O. bond guidelines in FY23-28. The economic and fiscal conditions have not improved drastically when compared to the Council's review in February 2021 to suggest that the Council should change its previous approach for managing an affordable debt level. Most of the debt capacity indicators do not meet the policy threshold in FY22-FY25; therefore, it is premature to consider increases to the guidelines, even in future fiscal years. Based on the current estimates, a few more years are needed at the current approach to achieve what the Council began in 2017. Under Scenario #2, the Council will have the same amount of G.O. bonds to program in the CIP for FY23-26, plus an additional $270 million in FY27 and in FY28.

VI. FY23-28 M-NCPPC Bond Guidelines

The Council also sets guidelines for M-NCPPC bonds through its biennial SAG process. See ©17-18 for M-NCPPC's recommendations the M-NCPPC bond guidelines for FY23-28. The Executive also made a recommendation for M-NCPPC's guidelines on ©13. The Planning Board is requesting that the Council consider increasing M-NCPPC bonds to $8.0 million per year for FY23-28, for a total of $48.0 million as the six-year aggregate guideline.

The Council approved a modest $1.4 million annual increase to the M-NCPPC guidelines for FY21 and FY22 based on the expectation that the increase in debt service expenditures would be offset by a decrease in other operating expenditures for the agency. As noted by the agency, these increases were applied intentionally to projects that primarily rehabilitate and renovate local parks. As of

September 2021, the agency has not identified any specific savings in operating expenditures from these additional investments in FY21 and FY22. This is not unexpected, since it is still early in FY22 and since the benefits of capital expenditures is measured during many fiscal years. **Considering the challenges of measuring direct operating expenditure impacts from a variety of capital improvements, Council staff suggests that moving forward the Council should consider M-NCPPC bonds based on affordability, like the G.O. bonds**.

The M-NCPPC guidelines represent a significantly smaller portion of the total bonds planned in each fiscal year, about 2.1% in FY23. This means that minor adjustments to the M-NCPPC guidelines likely have a negligible effect to the debt capacity indicators. As evidenced by the graphs on ©8-11, there was no noticeable direct impact to the debt capacity indicators from the additional $1.4 million in FY21 for M-NCPPC bonds.

Council staff recommends that the GO Committee adopt the previously approved trajectory for the M-NCPPC guidelines for FY23-28 as drafted in the proposed resolution. Like the County's G.O. bonds, the County's economic and fiscal conditions have not drastically improved since February 2021 to warrant an increase, even in future fiscal years for additional debt at this time. When the County is ready to increase its G.O. bonds due to the improvement of the economic and fiscal conditions, it should provide a commensurate increase to M-NCPPC bonds to reflect the improvement in affordability for all bonds.

Article X. Spending Affordability-Capital Budgets. [Note]

Notes

[Note] ***Editor's note**-See County Attorney Opinion dated 10/30/91-A describing the additions to Charter § 305 by Question F as not conflicting with the TRIM amendment.
Prior to its repeal and reenactment by CY 1991 L.M.C., ch. 29, Art. X was entitled "Spending Affordability;" consisted of §§ 20-55-20-59, and was derived from CY 1991 L.M.C., ch. 1, § 1.

Sec. 20-55. Definitions.

In this Article, the following terms have the meanings indicated:

(a) *"Aggregate capital budget"* means all capital budgets approved by the County Council.

(b) *"Capital improvements program"* means the comprehensive 6-year program for capital improvements submitted by the County Executive to the County Council under Section 302 of the Charter.

(c) *"Council"* means the County Council sitting as a spending affordability committee under Section 305 of the Charter. (CY 1991 L.M.C., ch. 29, § 2; 1997 L.M.C., ch. 33, § 1.)

Sec. 20-56. Establishment of Guidelines.

(a) *General.* The Council must adopt spending affordability guidelines for the aggregate capital budget under this Article.

(b) *Content.* The guidelines for the aggregate capital budget must specify the:

(1) total general obligation debt issued by the County that may be planned for expenditure in the first fiscal year under the capital improvements program;

(2) total general obligation debt issued by the County that may be planned for expenditure in the second fiscal year under the capital improvements program;

(3) total general obligation debt issued by the County that may be approved under the 6-year capital improvements program;

(4) total amount of debt, except refunding bonds, issued by the Maryland-National Capital Park and Planning Commission that may be planned for expenditure in the first fiscal year under the capital improvements program for projects in the County;

(5) total amount of debt, except refunding bonds, issued by the Maryland-National Capital Park and Planning Commission that may be planned for expenditure in the second fiscal year under the capital improvements program for projects in the County; and

(6) total amount of debt, except refunding bonds, issued by the Maryland-National Capital Park and Planning Commission for projects in the County that may be approved under the 6-year capital improvements program.

(c) *Procedures.*

(1) The Council must adopt spending affordability guidelines for the aggregate capital budget, by resolution, not later than the first Tuesday in October in each odd-numbered calendar year.

(2) The council must hold a public hearing before it adopts guidelines under paragraph (1).

(3) The Council may delegate responsibility for monitoring relevant affordability indicators to its standing committee with jurisdiction over spending affordability matters.

(4) Not later than the first Tuesday in February of each year, the Council may, subject to paragraph (5), amend the resolution establishing the guidelines to reflect a significant change in conditions. An amendment may alter a guideline by either an upward or downward adjustment in dollar amount.

(5) Any upward adjustment of a dollar amount under paragraph (4) for a guideline required by subsection (b)(1), (b)(2), (b)(4), or (b)(5) must not exceed 10%. (CY 1991 L.M.C., ch. 29, § 2; 1997 L.M.C., ch. 33, § 1.)

Sec. 20-57. Affordability Indicators.

In adopting its guidelines, the Council should consider, among other relevant factors:

(a) the growth and stability of the local economy and tax base;

(b) criteria used by major rating agencies related to creditworthiness, including maintenance of a "AAA" general obligation bond rating;

(c) County financial history;

(d) fund balances;

(e) bonded debt as a percentage of the full value of taxable real property;

(f) debt service as a percentage of operating expenditures;

(g) the effects of proposed borrowing on levels of debt per-capita, and the ability of County residents to support such debt as measured by per-capita debt as a percentage of per-capita income;

(h) the rate of repayment of debt principal;

(i) availability of State funds for County capital projects;

(j) potential operation and maintenance costs relating to debt financed projects; and

(k) the size of the total debt outstanding at the end of each fiscal year. (CY 1991 L.M.C., ch. 29, § 2; 1997 L.M.C., ch. 33, § 1.)

Sec. 20-58. Approval of Capital Budgets.

Any aggregate capital budget that exceeds the spending affordability guidelines in effect after the first Tuesday in February requires the affirmative vote of 7 councilmembers for approval. (CY 1991 L.M.C., ch. 29, § 2.)

Resolution No.:	
Introduced:	September 14, 2021
Adopted:	

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council

SUBJECT: Spending Affordability Guidelines for the FY 2023 Aggregate Capital Budget

Background

1. Emergency Bill 29-91 established a procedure for setting the spending affordability guidelines for the aggregate capital budget, as required by the amendment to Section 305 of the County Charter, which voters approved in November 1990. This procedure was amended by Emergency Bill 31-97 to reflect the biennial capital improvements program (CIP) process required by the amendment to Section 302 of the County Charter which voters approved in November 1996.

2. Section 20-56 of the County Code requires that the Council set six guidelines for the aggregate capital budget.

3. The County Code requires a public hearing, lists several economic and financial factors that should be considered before the Council adopts guidelines, and requires that the Council adopt these guidelines by resolution no later than the first Tuesday in October of odd-numbered years.

4. Notice of a public hearing was given and a public hearing was held on September 21, 2021.

5. The guidelines reflect adjustments for unprogrammed projects, inflation, and for funds unspent in prior years.

Action

The County Council for Montgomery County approves the following resolution:

The County Council sets the following guidelines for the Fiscal Year 2023 aggregate capital budget:

	Spending Affordability Guideline	**Amount**
1.	The total general obligation bond debt issued by the County that may be planned for expenditure in Fiscal Year 2023;	$300 million
2.	The total general obligation bond debt issued by the County that may be planned for expenditure in Fiscal Year 2024;	$290 million
3.	The total general obligation bond debt issued by the County that may be approved for the capital improvements program for fiscal years 2023-2028;	$1,680 million
4.	The total debt, except refunding bonds, issued by the Maryland-National Capital Park and Planning Commission that may be planned for expenditure in Fiscal Year 2023;	$8.0 million
5.	The total debt, except refunding bonds, issued by the Maryland-National Capital Park and Planning Commission that may be planned for expenditure in Fiscal Year 2024; and	$8.0 million
6.	The total debt, except refunding bonds, issued by the Maryland-National Capital Park and Planning Commission that may be approved for the capital improvements program for fiscal years 2023-2028.	$48.0 million

This is a correct copy of Council action.

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Selena Mendy Singleton, Esq.
Clerk of the Council

GENERAL OBLIGATION BOND ADJUSTMENT CHART

FY21-26 Amended Capital Improvements Program

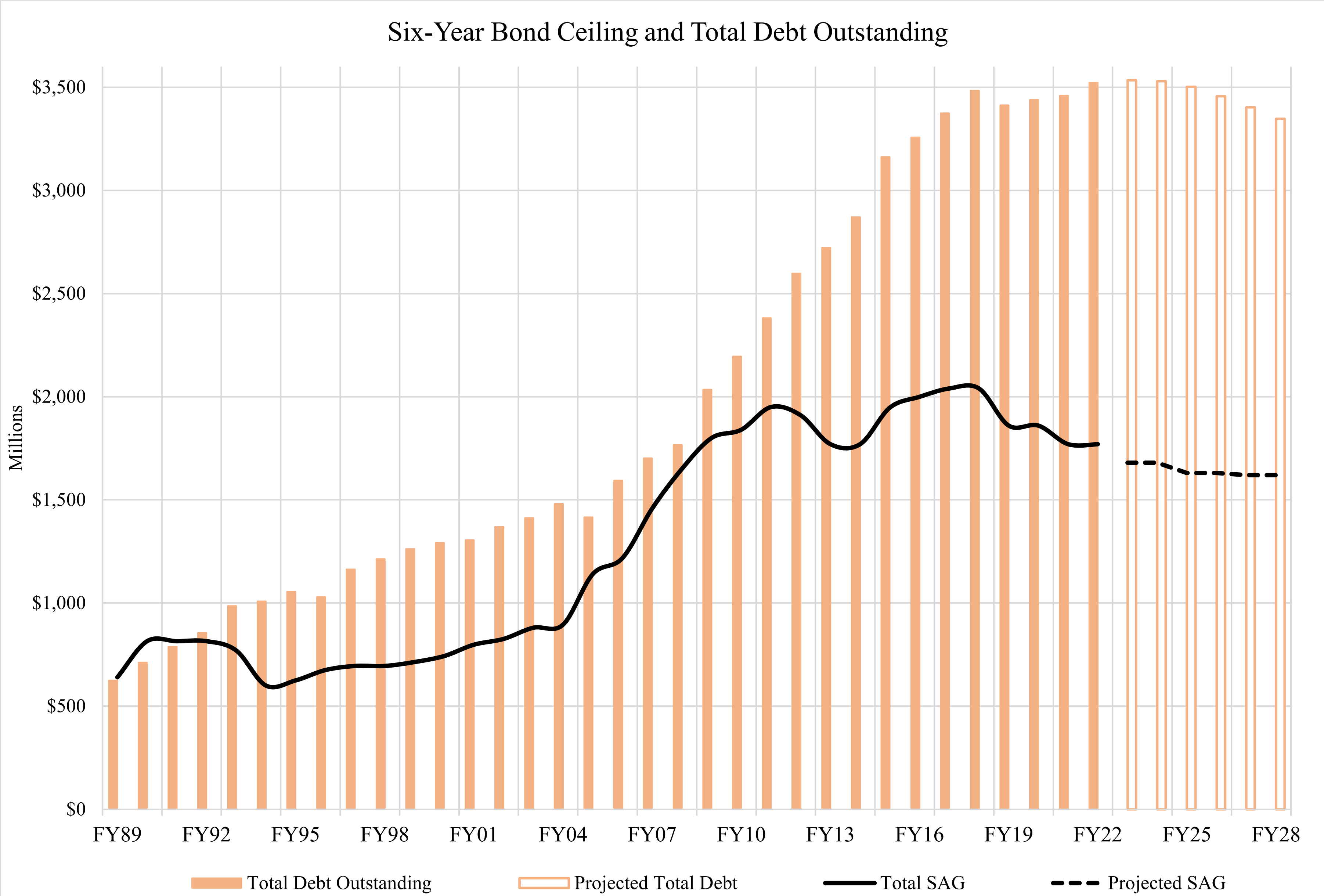
COUNTY COUNCIL APPROVED

May 27, 2021

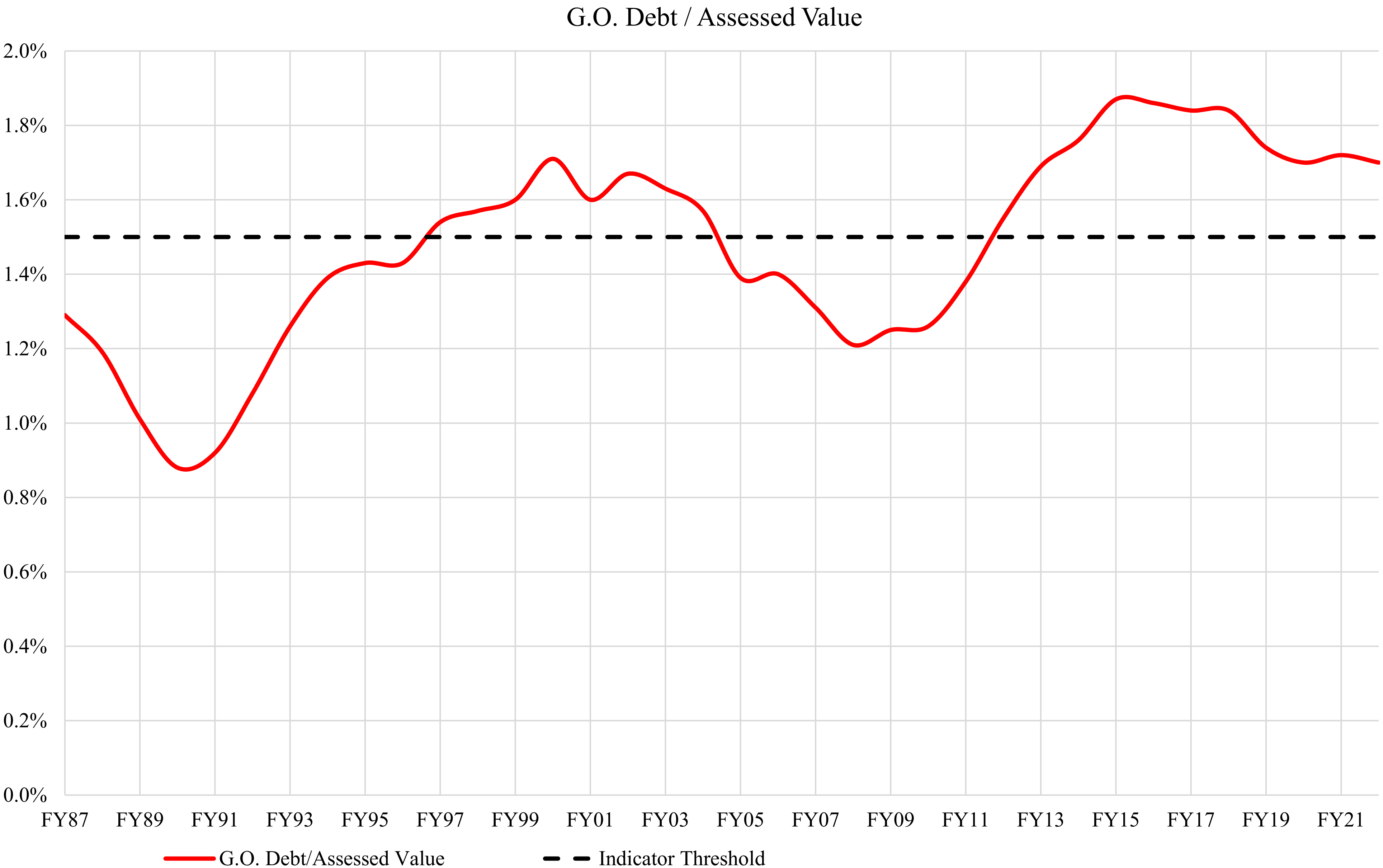
($ millions)	6 YEARS	FY21	FY22	FY23	FY24	FY25	FY26
BONDS PLANNED FOR ISSUE Does not assume Council SAG in FY09 and FY10*	1,770.000	259.000	310.000	339.000	308.000	282.000	272.000
Plus PAYGO Funded	135.600	-	15.500	33.900	30.800	28.200	27.200
Adjust for Future Inflation **	(68.300)	-	-	(7.276)	(14.460)	(20.312)	(26.252)
SUBTOTAL FUNDS AVAILABLE FOR DEBT ELIGIBLE PROJECTS (after adjustments)	1,837.300	259.000	325.500	365.624	324.340	289.888	272.948
Less Set Aside: Future Projects	**108.486** 5.90%	**0.850**	**17.743**	**19.582**	**22.160**	**22.646**	**25.505**
TOTAL FUNDS AVAILABLE FOR PROGRAMMING	1,728.814	258.150	307.757	346.042	302.180	267.242	247.443
MCPS	(554.142)	(109.944)	(104.176)	(136.854)	(104.978)	(61.941)	(36.249)
MONTGOMERY COLLEGE	(121.142)	(21.198)	(20.236)	(20.339)	(22.434)	(20.963)	(15.972)
M-NCPPC PARKS	(72.286)	(8.500)	(13.258)	(13.997)	(11.637)	(11.933)	(12.961)
TRANSPORTATION	(573.874)	(52.877)	(137.565)	(115.477)	(75.855)	(84.889)	(107.211)
MCG - OTHER	(469.230)	(65.638)	(94.375)	(59.375)	(87.276)	(87.516)	(75.050)
Programming Adjustment - Unspent Prior Years*	61.860 -	0.007	61.853				-
SUBTOTAL PROGRAMMED EXPENDITURES	(1,728.814)	(258.150)	(307.757)	(346.042)	(302.180)	(267.242)	(247.443)
AVAILABLE OR (GAP) TO BE SOLVED	-	-	-	-	-	-	-
NOTES: * See additional information on the GO Bond Programming Inflation =		1.59%	1.62%	1.99%	2.42%	2.44%	2.44%

DEBT CAPACITY ANALYSIS
KEY ASSUMPTIONS AND INPUTS
Fabruary SAG 2021 vs. CE RECOMMENDED FY23-28 CIP (September 2021)

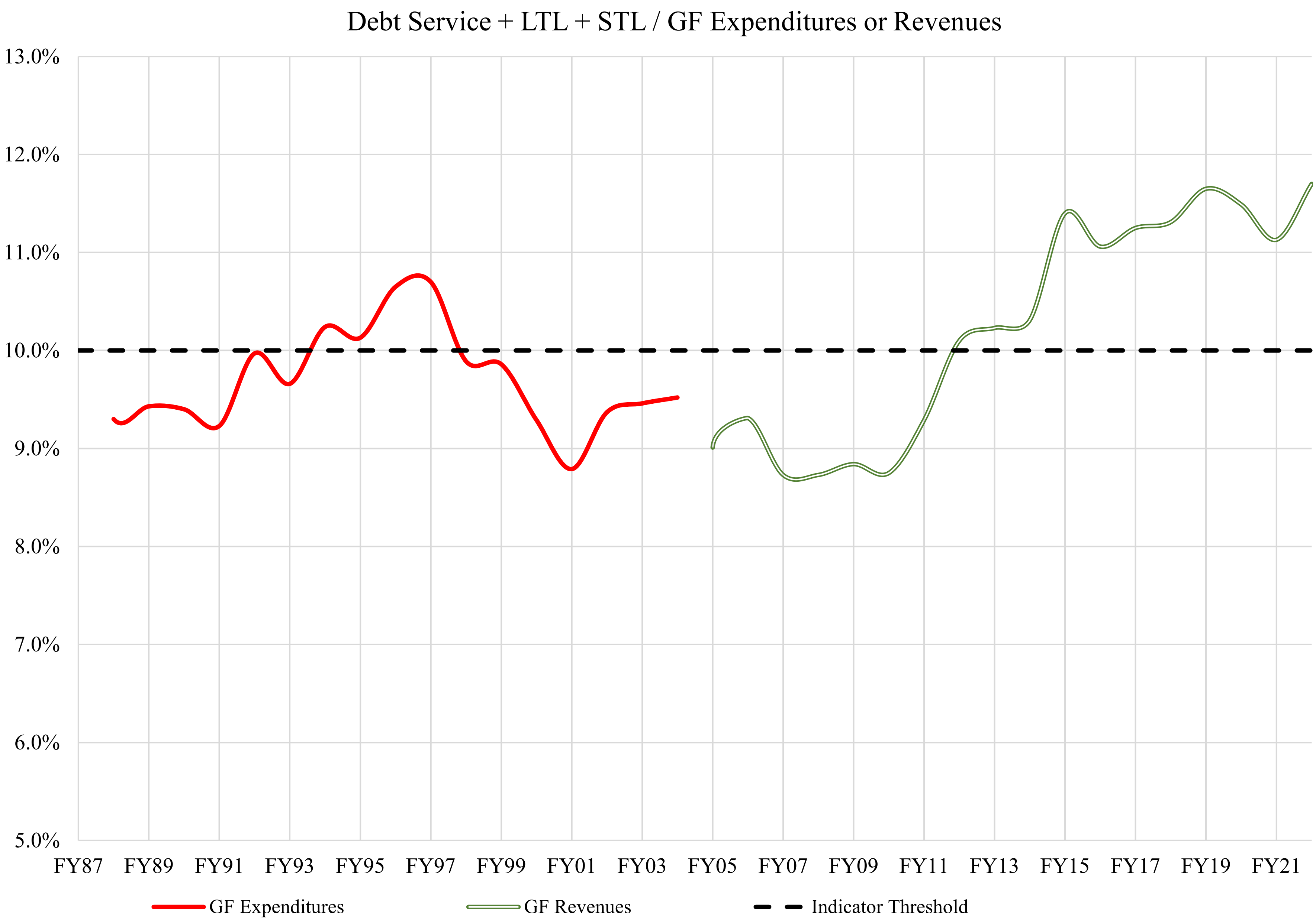
		Year 1 FY 23	Year 2 FY 24	Year 3 FY 25	Year 4 FY 26	Year 5 FY 27	Year 6 FY 28
1	INTEREST RATE ON BONDS						
	February SAG	5.00%	5.00%	5.00%	5.00%		
	FY23-28 CE Recommended - September 2021	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
2	OPERATING GROWTH						
	February SAG	2.90%	3.00%	3.00%	3.00%		
	FY23-28 CE Recommended - September 2021	0.80%	3.20%	2.80%	3.10%	3.50%	3.50%
3	POPULATION						
	February SAG	1,088,970	1,096,180	1,103,440	1,111,740		
	FY23-28 CE Recommended - September 2021	1,083,986	1,091,395	1,098,854	1,106,364	1,113,926	1,121,539
4	FY CPI INFLATION						
	February SAG	1.99%	2.42%	2.44%	2.44%		
	FY23-28 CE Recommended - September 2021	1.99%	2.42%	2.44%	2.44%	2.44%	2.44%
5	ASSESSABLE BASE-COUNTYWIDE						
	February SAG	211,932,382	217,474,357	223,300,239	229,325,643		
	FY23-28 CE Recommended - September 2021	212,070,282	217,522,457	223,208,339	229,079,243	235,148,962	241,436,625
6	TOTAL PERSONAL INCOME						
	February SAG	$106,000,000,000	$111,300,000,000	$116,500,000,000	$121,800,000,000		
	FY23-28 CE Recommended - September 2021	$101,000,000,000	$107,200,000,000	$113,600,000,000	$119,800,000,000	$125,600,000,000	$131,300,000,000



Source: FY87-22 Recommended Operating Budget or Capital Improvement Program Books; OMB projections

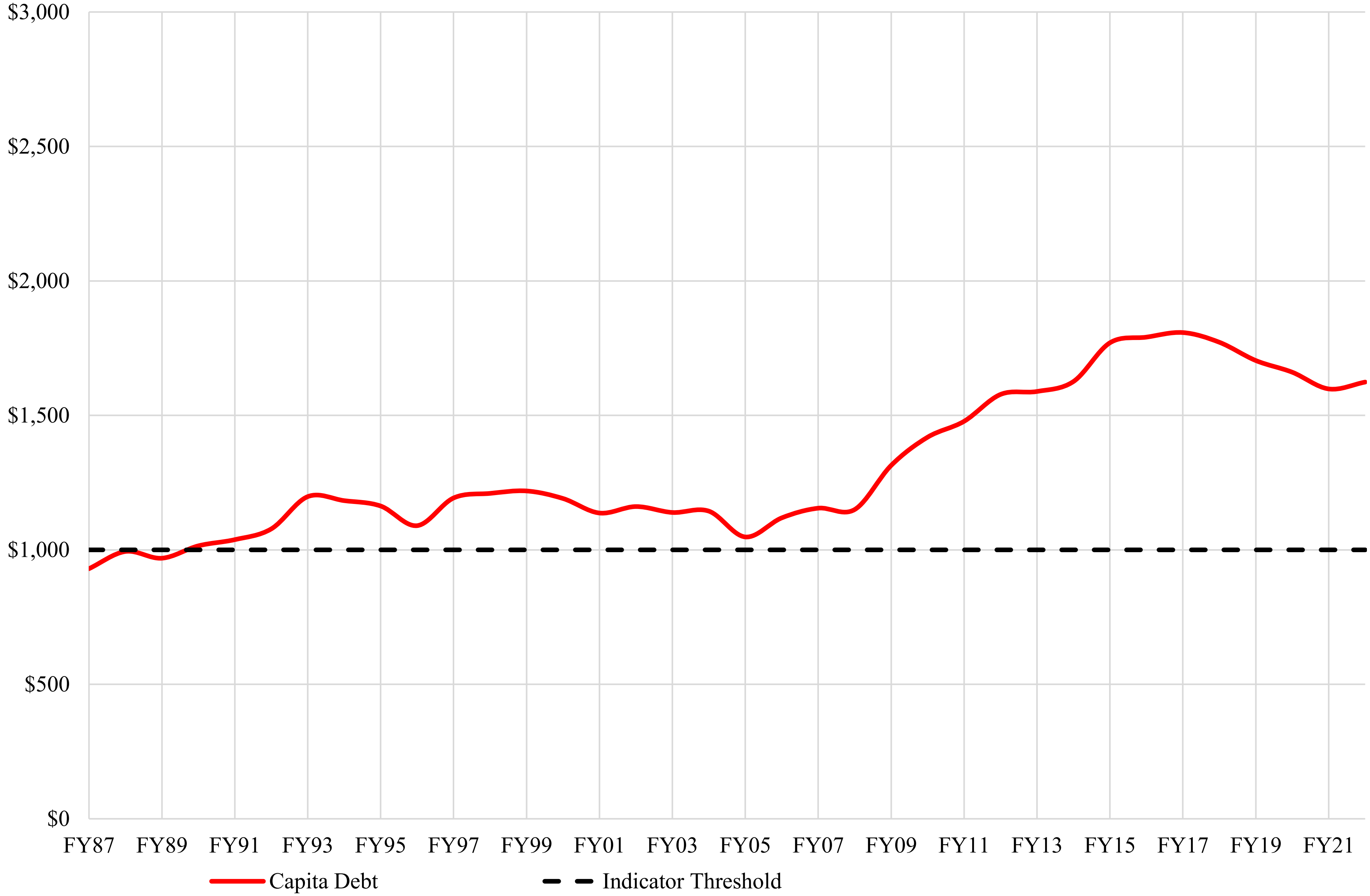


Source: FY86-22 Recommended Operating Budget or Capital Improvement Program Books, OMB Analysis FY22

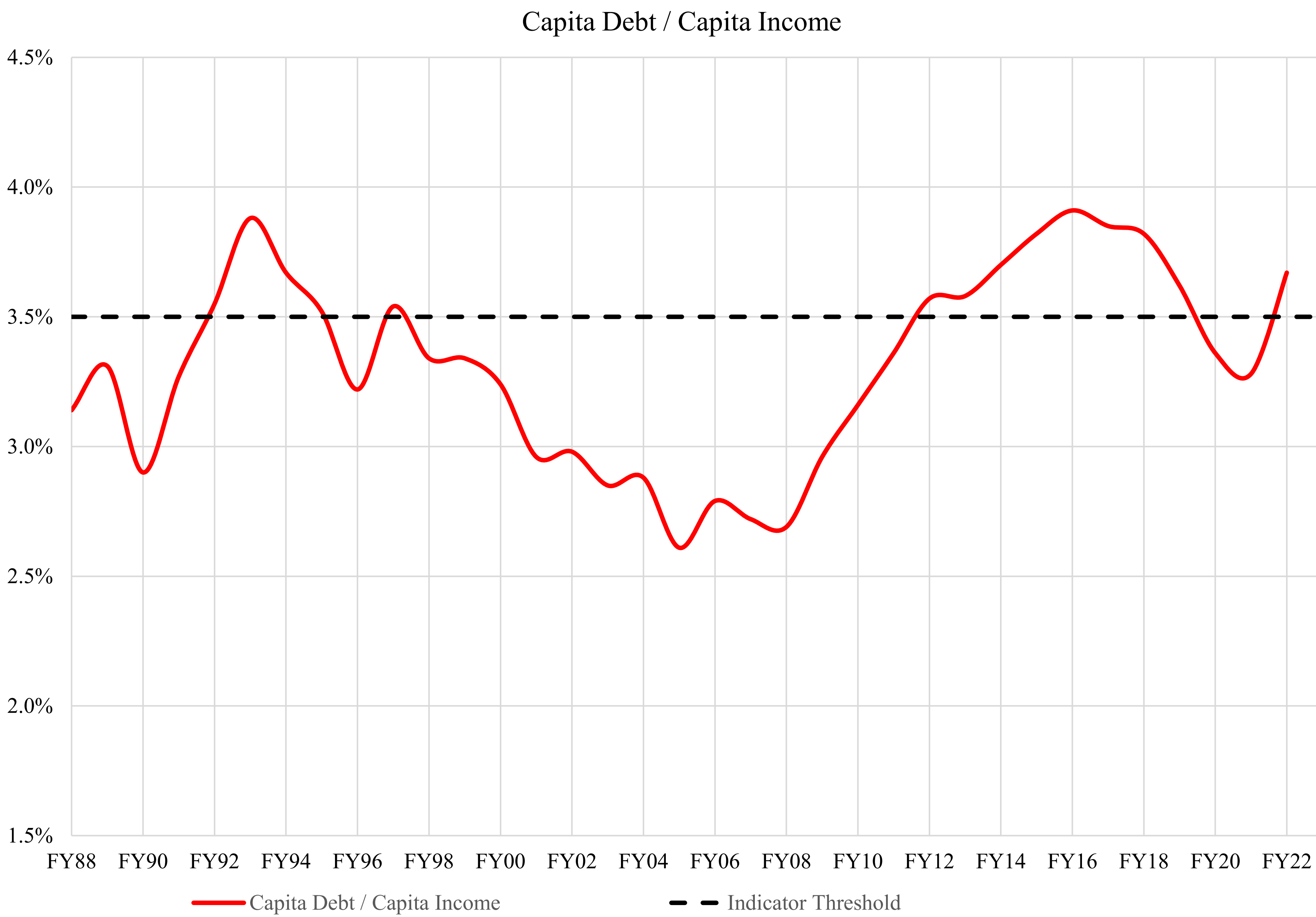


Source: FY86-22 Recommended Operating Budget or Capital Improvement Program Books, OMB Analysis FY22

Capita Debt (adjusted to 1991 $)



Source: FY86-22 Recommended Operating Budget or Capital Improvement Program Books, OMB Analysis FY22



Source: FY86-22 Recommended Operating Budget or Capital Improvement Program Books, OMB Analysis FY22

OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

M E M O R A N D U M

September 21, 2021

TO: Tom Hucker, President
County Council

FROM: Marc Elrich, County Executive

SUBJECT: Spending Affordability Guidelines

The capital budget Spending Affordability process is inherently an exercise in balancing the relative needs of the operating and capital budget. Recent Spending Affordability decisions have focused on reducing the annual level of General Obligation debt as a way to reduce the rate of growth of overall debt service. This was necessary not only from a rating agency perspective, but also to improve the County's overall fiscal flexibility. At the same time, the County Council and I are in agreement that capital investments in education, transportation and affordable housing are critical to the County's economic development future, achieving our equity goals, and ensuring a high quality of life for our residents.

With these thoughts in mind, I recommend that the County Council adopt Spending Affordability Guidelines for County General Obligation Bonds as displayed on the attached Debt Capacity scenario, with $300 million in bonds planned for issue in FY23 and $290 million in annual bonds planned for issue in FY24 through FY28, for a total of $1.75 billion for the six-year period. This recommended level of bond issuance is identical to last year's approved Spending Affordability Guidelines for FY23 to FY24 but holds annual funding levels beyond that at $290 million rather than decreasing to $270 million as indicated in the prior approved guidelines.

I feel comfortable stabilizing our annual General Obligation bond debt issuance at a slightly higher level due to improvements in revenue estimates and debt service costs compared to the data we considered last February. With this adjustment, the debt indicators that the rating agencies monitor will continue to improve without pulling back as much from our capital program. The overall six-year debt level will also be reduced from the FY21-26 capital improvements program – consistent with past communication with the rating agencies.

101 Monroe Street • Rockville, Maryland 20850
240-777-2500 • 240-777-2544 TTY • 240-777-2518 FAX
www.montgomerycountymd.gov

I have not recommended a higher level of bond issuance at this time because of concerns regarding preserving operating budget flexibility to expand and improve essential affordable housing, education, equity, and economic development initiatives that we both support. Annual tax-supported debt service costs have increased by 71 percent since 2011. In contrast, General Fund revenue growth over the same period was less than 33 percent. Even with the recommended constrained approach, annual debt service costs are projected to still increase by over $69.8 million from FY22 to FY28. Increasing debt levels beyond the proposed levels will increase the likelihood of crowding out other operating budget priorities.

Like you, I would prefer to be able to undertake more capital projects but the current structure of the County's capital and operating budgets constrain the pool of funds available to support critical investments in our educational institutions and transportation – factors that drive our economic competitiveness.

In order to move forward with key initiatives in any significant way we will need to transform the way we fund infrastructure. Executive branch staff are currently working on two initiatives to improve infrastructure funding with participation by Council representatives on both efforts. The Department of Transportation is leading a public-private Transportation Infrastructure Funding Workgroup to explore alternative funding models. Councilmembers Friedson and Glass are members of the group. At the same time, the Office of Management and Budget and Office of Intergovernmental Relations staff are working with County Councilmembers and Council staff, as well as our State delegation to improve the County's eligibility for State School Construction Aid. This will be essential to leverage additional funding established through the Built to Learn Act. I am grateful for Council's participation in these efforts and would welcome your input on other ideas to address our funding needs.

I recommend that the County Council adopt Spending Affordability Guidelines for Park and Planning annual bond limits of $6.6 million in FY23 and $6.7 million in each year from FY24 to FY28 for a six-year total of $40.1 million This recommendation is consistent with the previously approved Park and Planning bonds for FY23 to FY26 and continues the FY26 $6.7 million annual funding level for FY27 and FY28.

Thank you for your consideration. Executive staff are available to assist you in Council work sessions as we work together to continue the County's efforts to balance the competing needs of our County for our obligation to ensure long-term financial stability for the County.

ME:mb

CE RECOMMENDED SCENARIO - 300M 290M 290M 290M 290M 290M

DEBT CAPACITY ANALYSIS

FY23-28 CAPITAL IMPROVEMENTS PROGRAM

September 15, 2021

GO BOND 6 YR TOTAL = 1,750.0 MILLION

GO BOND FY23 TOTAL = 300.0.0 MILLION

GO BOND FY24 TOTAL = 290.0 MILLION

	FY22	FY23	FY24	FY25	FY26	FY27	FY28
1 GO Bond Guidelines ($000)	310,000	300,000	290,000	290,000	290,000	290,000	290,000
2 GO Debt/Assessed Value	1.70%	1.67%	1.62%	1.57%	1.52%	1.47%	1.42%
3 Debt Service + LTL + Short-Term Leases/Revenues (GF)	**11.70%**	**11.94%**	**11.56%**	**11.60%**	**11.44%**	**11.20%**	**11.39%**
4 $ Debt/Capita	3,255	3,260	3,234	3,196	3,151	3,100	3,047
5 $ Real Debt/Capita (FY20=100%)	3,255	3,196	3,096	2,987	2,874	2,760	2,648
6 Capita Debt/Capita Income	3.67%	3.50%	3.29%	3.09%	2.91%	2.75%	2.60%
7 Payout Ratio	71.81%	72.67%	73.51%	74.22%	74.54%	74.81%	74.99%
8 Total Debt Outstanding ($000s)	3,520,835	3,533,330	3,529,750	3,512,410	3,486,060	3,453,165	3,417,300
9 Real Debt Outstanding (FY20=100%)	3,520,835	3,464,492	3,379,162	3,282,354	3,180,023	3,074,878	2,970,358
10 Note: OP/PSP Growth Assumption (2)		0.8%	3.2%	2.8%	3.1%	3.5%	3.5%

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 FY22 approved budget to FY23 budget for FY23 and budget to budget for FY24-28.

BASE SCENARIO - 300M 290M 280M 270M 270M 270M

DEBT CAPACITY ANALYSIS

FY23-28 CAPITAL IMPROVEMENTS PROGRAM

September 15, 2021

GO BOND 6 YR TOTAL = 1,680.0 MILLION

GO BOND FY23 TOTAL = 300.0.0 MILLION

GO BOND FY24 TOTAL = 290.0 MILLION

	FY22	FY23	FY24	FY25	FY26	FY27	FY28
1 GO Bond Guidelines ($000)	310,000	300,000	290,000	280,000	270,000	270,000	270,000
2 GO Debt/Assessed Value	1.70%	1.67%	1.62%	1.57%	1.51%	1.45%	1.39%
3 Debt Service + LTL + Short-Term Leases/Revenues (GF)	**11.70%**	**11.94%**	**11.56%**	**11.58%**	**11.41%**	**11.12%**	**11.27%**
4 $ Debt/Capita	3,255	3,260	3,234	3,187	3,124	3,055	2,985
5 $ Real Debt/Capita (FY20=100%)	3,255	3,196	3,096	2,979	2,850	2,720	2,594
6 Capita Debt/Capita Income	3.67%	3.50%	3.29%	3.08%	2.88%	2.71%	2.55%
7 Payout Ratio	71.81%	72.67%	73.51%	74.29%	74.75%	75.15%	75.43%
8 Total Debt Outstanding ($000s)	3,520,835	3,533,330	3,529,750	3,502,410	3,456,060	3,403,165	3,347,300
9 Real Debt Outstanding (FY20=100%)	3,520,835	3,464,492	3,379,162	3,273,009	3,152,657	3,030,355	2,909,514
10 Note: OP/PSP Growth Assumption (2)		0.8%	3.2%	2.8%	3.1%	3.5%	3.5%

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 FY22 approved budget to FY23 budget for FY23 and budget to budget for FY24-28.

COUNCIL SCENARIO - 300M 290M 280M 270M 260M 260M

DEBT CAPACITY ANALYSIS

FY23-28 CAPITAL IMPROVEMENTS PROGRAM

September 15, 2021

GO BOND 6 YR TOTAL = 1,660.0 MILLION

GO BOND FY23 TOTAL = 300.0.0 MILLION

GO BOND FY24 TOTAL = 290.0 MILLION

	FY22	FY23	FY24	FY25	FY26	FY27	FY28
1 GO Bond Guidelines ($000)	310,000	300,000	290,000	280,000	270,000	260,000	260,000
2 GO Debt/Assessed Value	1.70%	1.67%	1.62%	1.57%	1.51%	1.44%	1.38%
3 Debt Service + LTL + Short-Term Leases/Revenues (GF)	**11.70%**	**11.94%**	**11.56%**	**11.58%**	**11.41%**	**11.11%**	**11.25%**
4 $ Debt/Capita	3,255	3,260	3,234	3,187	3,124	3,046	2,967
5 $ Real Debt/Capita (FY20=100%)	3,255	3,196	3,096	2,979	2,850	2,712	2,579
6 Capita Debt/Capita Income	3.67%	3.50%	3.29%	3.08%	2.88%	2.70%	2.53%
7 Payout Ratio	71.81%	72.67%	73.51%	74.29%	74.75%	75.22%	75.58%
8 Total Debt Outstanding ($000s)	3,520,835	3,533,330	3,529,750	3,502,410	3,456,060	3,393,165	3,327,300
9 Real Debt Outstanding (FY20=100%)	3,520,835	3,464,492	3,379,162	3,273,009	3,152,657	3,021,451	2,892,129
10 Note: OP/PSP Growth Assumption (2)		0.8%	3.2%	2.8%	3.1%	3.5%	3.5%

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 FY22 approved budget to FY23 budget for FY23 and budget to budget for FY24-28.

September 24, 2021

The Honorable Tom Hucker
President, Montgomery County Council
100 Maryland Avenue, 6th Floor
Rockville, Maryland 20850

Dear Mr. Hucker:

The Council is scheduled to revisit Spending Affordability Guidelines (SAG) in September and October for the FY23-28 Capital Improvement Program (CIP). On behalf of the Planning Board, I request that the Council raise the Spending Affordability Guidelines (SAG) for M-NCPPC Bonds in FY23-28 from the current level of $6.6-6.7 million per year to $8.0 million per year.

Each CIP cycle, as we begin to look at funding capital projects in local parks, we determine to what level we can affordably program bonds for the next CIP. As we have reviewed current debt service and the impacts of raising SAG, we believe that raising SAG to $8.0 million per year is affordable for all six years of the CIP.

The Board and Parks Department understand that decisions on SAG levels should be based on affordability rather than need. In making our decision, we first analyzed affordability and subsequently made decisions that prioritize stewardship, maintenance, and renovation of a 94-year-old park system. We consulted with the M-NCPPC Secretary Treasurer, who opined that our debt capacity supports the requested SAG. Considering this and other indicators presented to the Board on September 9, 2021, the Board recommended raising the guidelines to $8.0 million with an accompanying scenario for Park and Planning bond funded projects.

Two years ago, the Council responded favorably to the first two years of a similar six-year request and raised SAG in FY21-22. That action leveraged $3.8M of additional funding in the following projects that primarily rehabilitate and renovate local parks:

- Energy Conservation - Local Parks
- Minor New Construction - Local Parks
- Park Refreshers
- Planned Life-cycle Asset Replacements
    - PLAR: LP - Park Building Renovations
    - PLAR: LP - Play Equipment
    - PLAR: LP - Resurfacing Lots and Paths
    - PLAR: LP - Court Renovations
- Urban Park Elements

We understand that Council staff's earlier recommendation to increase SAG included the rationale that the additional investments would result in operations and maintenance cost savings to offset much or all the added debt service. We are confident that these cost savings will be realized considering the additional funding was applied intentionally to capital projects that primarily rehabilitate and renovate parks.

The Board has continued to work with the Department on the new FY23-28 CIP with the SAG increase factored into all six years. The rationale is still the same as it was in 2019 and in 2017 when we made the request and our most recent scenario includes funding increases in the exact same capital project mentioned above.

While the scenario does not fund every increase the Parks Department believes is necessary to maintain the park system to the highest standard, it did get us closer. More importantly, it also balances affordability with our strong commitment to stewardship of park resources and facilities.

Thank you for your consideration. Should you have additional questions or need more information, please do not hesitate to contact me.

Sincerely,

Casey Anderson
Chair

CA:ctm

cc: Montgomery County Council
Michael F. Riley, Director, Montgomery Parks
Miti Figueredo, Deputy Director, Montgomery Parks
Joe Zimmerman, Secretary Treasurer, M-NCPPC