Montgomery County Council

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

AGENDA ITEM #3
February 1, 2022
Action

SUBJECT

Spending Affordability Guidelines for the FY23 Aggregate Capital Budget and other assumptions in the Capital Improvements Program (CIP)

EXPECTED ATTENDEES

Mary Beck, Capital Budget Manager, Office of Management and Budget

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 during its worksession on January 27, 2022. The GO Committee recommends that the Council retain the Council-adopted guidelines from October 2021 because the conditions have not changed enough to warrant a change in the adopted guidelines. The GO Committee continues to support a tapering of the general obligation bond guidelines to meet the County's policy thresholds for debt capacity. Below are the guidelines reaffirmed by the GO Committee.

	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. The Council may revise these guidelines by the first February annually if the economic and fiscal conditions have changed significantly. 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).

<u>This report contains:</u>

GO Committee #1
January 27, 2022
Worksession

M E M O R A N D U M

January 24, 2022

TO: Government Operations and Fiscal Policy (GO) Committee

FROM: Gene Smith, Legislative Analyst

SUBJECT: Spending Affordability Guidelines for the FY23 Aggregate Capital Budget and other CIP assumptions

PURPOSE: Review and make recommendation to the Council

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

The GO Committee will review the current economic and fiscal conditions to determine whether the Council should revise the adopted Spending Affordability Guidelines (SAG) for the FY23 Aggregate Capital Budget. The Council will consider the GO Committee's recommendation on February 1, 2022. The committee will also review the other Capital Improvements Program (CIP) assumptions in the Executive's recommended FY23 Capital Budget and FY23-28 CIP.

Summary

Council staff recommends that the GO Committee retain the Council-approved bond guidelines from October 2021. The economic and fiscal conditions, as evidenced by the County's debt capacity indicators, do not demonstrate sufficient improvement to warrant an increase in the guidelines at this time. A decision to retain the guidelines does not impact FY23 and FY24 – the two most constrained years of the CIP. The Council should wait another fiscal year before it considers increasing bonds beyond FY25. The County would benefit from this additional time to learn more about how formulas for State aid and information about the Federal infrastructure bill recently passed will impact the County's CIP. The Council will have an opportunity to review the current conditions again in January 2023.

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 fiscal conditions from the County Code. Each indicator includes a specific policy threshold to evaluate the County's condition during the next six years of the CIP. Table 1 below provides details about the published indicators and the policy threshold for each.

Table 1: 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 fiscal 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. Managing affordable debt guidelines has numerous benefits, including maintaining the County's bond rating and ensuring the operating budget remains flexible for other expenditures.

The Council held a public hearing on September 21, 2021 and adopted the guidelines for the FY23 Aggregate Capital Budget in Council Resolution No. 19-999 on October 5, 2021. Table 2 below details the Council-adopted guidelines.

Table 2: Adopted Guidelines for FY23 Aggregate Capital Budget

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	8.0	8.0	8.0	8.0	8.0	8.0	48.0

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 any significant change in the conditions**. Like the process for adopting the guidelines, the "change in the conditions" relates to the County's economic or fiscal 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.

The purpose of this GO Committee worksession is to consider the current conditions and determine if the conditions require a revision to the adopted guidelines adopted October 2021.

II. G.O. bond guidelines for FY23-28

The Executive transmitted his recommended FY23-28 CIP on January 18, 2021 (see ©3-16 for the Executive's message).[1] **The Executive is recommending a $740.5 million increase, or 17.2%, for this six-year CIP when compared to the amended FY21-26 CIP**. Table 3 below compares the changes to the major funding sources between the amended FY21-26 CIP and the Executive's recommended FY23-28 CIP (see ©17 for a published version similar to this table in the recommended CIP). Council staff provides additional details about the assumptions for many of these funding sources later. **The Executive recommends exceeding the Council-approved guideline for the six-year aggregate G.O. bonds by $70 million**. Most of the additional bonds are programmed in FY26-28.

[1] The full CIP is available on OMB's Capital Budget website.

Table 3: Comparison of Major Funding Sources between the Amended FY21-26 CIP and the Recommended FY23-28 CIP ($ 000s)

Funding Source	Amended FY21-26 CIP	Recommended FY23-28 CIP	Difference
G.O. bonds	1,655,074	1,633,875	(21,199)
PAYGO	135,600	181,800	46,200
Agency bonds	40,819	45,871	5,052
Revenue bonds	57,838	107,573	49,735
Current revenue, tax-supported	486,058	537,600	51,542
Current revenue, non-tax supported	151,811	118,952	(32,859)
Recordation tax	393,789	511,680	117,891
Recordation premium tax	98,946	128,548	29,602
Intergovernmental	673,664	1,176,159	502,495
Impact taxes, transportation	48,191	57,382	9,191
Impact taxes, schools	97,671	135,780	38,109
Short & long-term financing	200,825	230,013	29,188
HIF	97,935	111,797	13,862
Contributions	35,550	28,383	(7,167)
Other	142,891	51,831	(91,060)
Total	**4,316,662**	**5,057,244**	**740,582**

A. Updated economic and fiscal assumptions

Executive staff periodically updates the assumptions for each of the debt capacity indicators based on the current conditions. **Changes to these assumptions tend to drive fluctuations to debt service indicators year-over-year because the County's total debt, which is about $3.5 billion, does not change much annually**. See ©18 for the changes in assumptions between the approved amended FY21-26 CIP and the recommended FY23-28 CIP. **The only assumption updated from the September 2021 is the County's estimated revenue growth**. This assumption was increased based on the updated revenue estimates in the December 2021 Fiscal Plan Update. The other assumptions will be updated with the Executive's recommended FY23 Operating Budget in March 2022.

B. Analysis of G.O. bond scenarios

Council staff requested that OMB provide a comparison of the County's debt capacity indicators for three scenarios – 1) the Council-approved guidelines; 2) the Executive recommended guidelines; and 3) keeping bonds at $300 million a year. The third scenario is as an illustrative example to analyze how a marginal increase to the Executive's recommendation would impact the debt capacity indicators. Table 4 below compares the differences amongst the three scenarios.

Table 4: Scenarios for FY23 Aggregate Capital Budget ($ millions)

Scenario	FY23	FY24	FY25	FY26	FY27	FY28	Total
#1 – Council-approved	300.0	290.0	280.0	270.0	270.0	270.0	**1,680.0**
#2 – CE recommended	300.0	290.0	290.0	290.0	290.0	290.0	**1,750.0**
#3 – Hold at $300 million	300.0	300.0	300.0	300.0	300.0	300.0	**1,800.0**

Note: The aggregate G.O. bond guideline for the previous CIP was $1,770.0 million.

See the debt capacity analysis for each scenario on ©19-21. Table 5 below summarizes certain debt capacity analyses for each scenario and whether that indicator is less than the policy threshold or greater than the policy threshold.

Table 5: 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 – Council-approved	(-)	(-)	(-)	(-)	(+)	(+)	**0**
#2 – CE recommended	(-)	(-)	(-)	(-)	(+)	(+)	**2**
#3 – Hold at $300 million	(-)	(-)	(-)	(-)	(+)	(+)	**2**
Debt Service to GF Rev.							
#1 – Council-approved	(-)	(-)	(-)	(-)	(-)	(-)	**0**
#2 – CE recommended	(-)	(-)	(-)	(-)	(-)	(-)	**0**
#3 – Hold at $300 million	(-)	(-)	(-)	(-)	(-)	(-)	**0**
Capita Debt							
#1 – Council-approved	(-)	(-)	(-)	(-)	(-)	(-)	**0**
#2 – CE recommended	(-)	(-)	(-)	(-)	(-)	(-)	**0**
#3 – Hold at $300 million	(-)	(-)	(-)	(-)	(-)	(-)	**0**
Capita Debt to Capita Income							
#1 – Council-approved	(+)	(+)	(+)	(+)	(+)	(+)	**6**
#2 – CE recommended	(+)	(+)	(+)	(+)	(+)	(+)	**6**
#3 – Hold at $300 million	(+)	(+)	(+)	(+)	(+)	(+)	**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.

Below is a description of the differences in the trends for the debt capacity indicators amongst the three scenarios.

Overall. None of the scenarios meet all or most of the indicator thresholds during this CIP. **While there are similarities to the overall trends, there is some variation amongst the three trends in the later years of the CIP where the total debt assumed diverges more significantly**. Scenario 3 results in a slightly worse position for all indicators, when compared to the other two scenarios, because it programs the most amount of debt in the six years. The Council-approved guidelines, however, results in the greatest overall improvement in the indicators because it includes the least amount of total planned debt.

G.O. Debt to Assessed Value. All three scenarios display marginal improvement through FY28, which each scenario meeting the policy threshold for this indicator by FY27. **The estimated**

growth in the total assessed value drives the improving trends more than any specific debt scenario, as evidenced by the equivalent improvement for all scenarios.

Debt service (plus lease payments) to revenues. This indicator exceeds the policy threshold for all three scenarios and all years analyzed. Even though County revenue estimates have increased since the Council's review in October 2021, this indicator remains greater than 11.0% through the six years analyzed for each scenario. **An additional decrease in the guidelines or a sustained tapering of the debt, as approved by the Council, will be necessary to achieve the policy threshold for this indicator in future fiscal years**.

Debt per capita. This indicator exceeds the policy threshold for all three scenarios, but there is improvement in the future fiscal years. Like the assessed value, the population growth estimate in the County is driving the improvement in the trend more than any specific debt scenario.

Capita debt to capita income. All three scenarios meet the policy threshold for all six fiscal years. The estimated growth in population and personal income drives the improvement in this trend more than any of the debt scenarios.

Council staff recommends that the GO Committee retain the existing guidelines for the FY23 Aggregate Capital Budget. The current economic and fiscal conditions do not warrant an increase for this CIP as evidenced by debt capacity indicators. Most of the debt capacity indicators are greater than the policy thresholds and remain greater than the thresholds through FY28. The Council began a sustained tapering of the guidelines several years ago, and the debt capacity indicator analysis continues to reinforce that the Council-approved guidelines is the appropriate approach for the long-term.

A decision to retain the previously approved guidelines does not impact FY23 and FY24 – the two most constrained fiscal years of the CIP. The Executive did not recommend any additional bonds in those fiscal years compared to the Council-adopted guidelines. As the committee considers its options, Council staff also notes that there are many unknowns for the future fiscal years. In particular, the County would benefit from additional information about the State aid for MCPS and about funding potential from the recent infrastructure bill signed into law. These factors might reduce the need to increase borrowing in future fiscal years. The Council will review these guidelines in January 2023.

Should the GO Committee support retaining the previously approved guidelines, the G.O. bond set aside will be reduced absent any other changes made by the Council during its review of the CIP.

III. M-NCPPC Bond Guidelines for FY23-28

The Council also sets guidelines for M-NCPPC bonds. The Council adopted M-NCPPC bond guidelines at $8.0 million a year for FY23-FY28. The Executive's recommended FY23-FY28 CIP assumes the same amount of M-NCPPC bonds as approved by the Council.

Council staff recommends that the GO Committee retain the existing guidelines for M-NCPPC.

IV. Other Assumptions in the Recommended FY23-28 CIP

A. PAYGO

Pay-as-you-go (PAYGO) funding is an important tool to reduce the County's debt burden by funding a portion of the CIP with current revenue instead of G.O. bonds. Council Resolution No. 19-753 sets PAYGO at a minimum of 10% of the issued G.O. bonds each fiscal year.

The County did not meet the PAYGO policy goal in FY21 and FY22. For FY21, the Executive recommended a reduction to PAYGO in the July 2020 Savings Plan and a further reduction in the January 2021 Savings Plan to balance the operating budget. The Council supported both recommended reductions to PAYGO for FY21. For FY22, the Executive proposed a 50% reduction to PAYGO to support his recommended FY22 Operating Budget. The Council approved the FY22 Operating Budget and FY22 Capital Budget at the Executive's recommended PAYGO level of $15.5 million.

The Executive's recommends funding PAYGO at or greater than the policy level for each year in the FY23-28 CIP. Table 6 below compares the Executive recommended PAYGO funding level and his recommended G.O. bond funding with the 10% policy goal for PAYGO. See ©22 for the G.O. bond adjustment chart as the source for these values. In aggregate, the Executive recommends funding PAYGO at $6.1 million greater than the 10% policy goal because of some shifts in G.O. bond funding from previous fiscal years that occurred due to the pandemic. **Council staff supports this approach to PAYGO to aid in the reduction of overall debt expenditures**.

Table 6: Recommended PAYGO Funding for FY23-FY28 ($ millions)

	FY23	FY24	FY25	FY26	FY27	FY28
CE recommended G.O. bonds	300.0	290.0	290.0	290.0	290.0	290.0
CE recommended PAYGO	33.9	30.8	29.2	29.2	29.0	29.0
PAYGO at 10% policy level	30.0	29.0	29.0	29.0	29.0	29.0
Difference in PAYGO	**3.9**	**1.8**	**0.2**	**0.2**	**0**	**0**

B. Inflation Rates

The inflation rate adjustments reflect the change in general inflation (i.e., Consumer Price Index), not the growth in construction costs year-over-year. The CIP expenditures in the project description forms are based on estimates in constant dollars. The change in inflation rates translate into a more (or less) constrained CIP in the later years. Table 7 details the changes in the inflation rates based on the Finance's updated values in the December 2021 Fiscal Plan Update and the amended FY21-26 CIP.

Table 7: Inflation Rate Adjustments for Amended FY21-26 CIP

	FY23	FY24	FY25	FY26	FY27	FY28
FY21-26 Am	1.59%	1.62%	1.99%	2.42%	2.44%	2.44%
Dec. 2021 Update	*3.26%*	*2.51%*	*2.43%*	*2.39%*	*2.31%*	*2.22%*

Note: Finance estimates the FY22 inflation rate will be 4.04%.

C. G.O. Bond Set-Asides

The Council always approves a CIP with some G.O. bond funding unprogrammed. This "set-aside" creates capacity within the CIP if funding is needed for unanticipated projects or expenditure increases. The Executive's recommended set-aside assumptions are on ©22. The set-aside percent for full CIP years (i.e., even calendar years) typically ranges between 8-9%; amended CIP years (i.e., odd calendar years) have a lower percent set-aside by virtue that the first year's expenditures are better defined. Table 8 details the recent CIP set-asides compared with the recommended set-asides for the recommended FY23-28 CIP.

Table 8: G.O. Bond Set-Aside Comparisons ($ millions)

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	Total	%
FY19-24	15.1	19.5	20.4	23.6	42.6	45.4					166.7	8.5%
FY19-24 Am	0.0	12.0	15.8	21.5	51.9	58.1					159.4	8.1%
FY21-26			15.3	16.8	22.0	27.6	31.3	48.6			161.6	8.5%
FY21-26 Am			11.2	22.4	15.7	22.6	35.1	40.1			147.0	8.0%
FY23-28					**14.8**	**19.6**	**26.0**	**30.1**	**36.6**	**43.7**	**170.7**	**9.2%**

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

The Executive's recommended set-aside is slightly greater when compared to recent full-year CIP recommendations. Should the GO Committee support retaining the previously approved G.O. bond guidelines, the G.O. bond set aside would be reduced absent any other changes within the CIP.

D. Recordation Taxes

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

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

The Executive's recommended FY23-28 CIP estimates that Schools CIP RT is about $97.3 million greater, or an increase of 23.5%, when compared to the amended FY21-26 CIP estimates. Similarly, the Executive's recommended FY23-28 CIP estimates that the Recordation Tax Premium is about $23.4 million greater, or an increase of 22.3%, when compared to the previous CIP. Table 9 compares the Schools CIP RT estimates between the amended FY21-26 CIP and the recommended FY23-28 CIP, and Table 10 is the same comparison for the Recordation Premium Tax.

Table 9: Comparison of Schools CIP RT between Amended FY21-26 CIP and Recommended FY23-28 CIP ($ thousands)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	Total
FY21-26 Am	62,597	65,496	67,536	70,152	72,873	75,715			**414,369**
FY23-28 Rec.			77,659	80,596	83,634	86,697	89,916	93,178	**511,680**

Table 10: Comparison of Recordation Tax Premium between Amended FY21-26 CIP and Recommended FY23-28 CIP ($ thousands)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	Total
FY21-26 Am	15,818	16,605	17,125	17,791	18,485	19,294			**105,118**
FY23-28 Rec.			19,510	20,248	21,011	21,780	22,590	23,409	**128,548**

The increase is due to the revised estimates to all recordation taxes based on actual collections through November 2021. The Council received a similar update about the recordation tax for the general fund on December 14, 2021 with the fiscal plan update. Property sales have experienced a significant increase, both in terms of number of sales and median sales price in the second half of 2021. County staff are evaluating the long-term trends to determine if this shift is a product of pent-up demand and resources from the pandemic or a broader shift in the market. The estimates for future fiscal years in the recommended FY23-28 CIP assumes that the increase in sales will subside and return to previous trends (i.e., the surge in demand will not continue).

E. Impact Taxes

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

The Council during its deliberations of the Growth and Infrastructure Policy in November 2020 adjusted many of the rates to address economic development concerns and to balance the taxes based on current data. Tables 11 and 12 compare the differences between the amended FY21-26 CIP and the recommended FY23-28 CIP for the school impact tax and the transportation impact tax, respectively.

Table 11: Comparison of Schools Impact Tax between recommended and previously approved CIP ($ thousands)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	Total
FY21-26 Am	18,958	18,958	13,409	13,409	13,409	13,409			**86,003**
FY23-28 Rec.			22,630	22,630	22,630	22,630	22,630	22,630	**135,780**

Table 12: Comparison of Transportation Impact Tax between recommended and previously approved CIP ($ thousands)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	Total
FY21-26 Am	8,661	6,725	6,725	6,725	6,725	6,725			**42,286**
FY23-28 Rec.			9,240	9,240	9,240	9,240	9,240	9,240	**55,440**

Executive staff, like prior years, used a 10-year moving average based on actual collections to estimate a baseline for each impact tax. The new tax rates were applied to this moving average to estimate the reduction in impact taxes collected. For the recommended FY23-28 CIP, Executive staff rebased the estimated reductions from 10 years to 17 years. This change was made based on historical development trends. This rebasing is the primary reason that both the schools and transportation impact taxes were estimated to be greater than the amended FY21-26 CIP.

F. Intergovernmental Aid

The Executive's recommended FY23-28 CIP assumes a significant increase in Federal and State aid when compared to the amended FY21-26 CIP. Specifically, the recommended CIP includes 1) an increase of $219.3 million in Federal aid, or a 551.1% increase; and 2) an increase of $283.0 million in State aid, or a 49.1% increase, when compared to the amended FY21-26 CIP. **Combined, the additional resources assumed for Federal and State aid account for 67.8% of the increase in resources for the recommended FY23-28 CIP when compared to the previous CIP**. Below are some additional notes about these assumptions.

Federal aid. Most of the additional Federal aid is assumed for certain Bus Rapid Transit projects. These projects have not been approved as Federal projects, yet, but the Executive assumes a normal Federal match should the projects be approved for Federal funding. Overall, these projects cannot proceed without the Federal aid assumed. The Council's Transportation and Energy (T&E) Committee will review the Executive's assumptions and recommendations in more detail and will make a recommendation to the Council.

State aid. For other projects in the CIP that assume State aid, the Executive recommended State aid funding at the previous State match levels. The Council's committees will review these projects and funding assumptions in more detail. There are two budget areas, however, that that Executive assumed an increase in State aid that are different than previous budgets.

Built to Learn. The Executive included a standalone project in MCPS's projects to account for the additional Built to Learn funding. The Education and Culture Committee will review the Executive's assumptions and recommendations for this State aid and make a recommendation to the Council.

OP Lanes Maryland Transit Funding. This is a separate resource item included in the recommended FY23-28 CIP this year, but this resource item fully supported by State funding. This funding is part of the $360 million in State funding commitment associated with the I-270/I-495 managed lanes project. The Council has scheduled a public hearing on February 15 to receive input on how the County should budget these funds. The Executive has recommended about $170 million of this amount for certain transit projects, which the T&E Committee will review.

G. Current Revenue

The Executive's recommended resources from current revenue are on ©23. Table 13 details the changes between the amended FY21-26 CIP and the recommended FY23-28 CIP. Current revenue is used to support the reduction of bonds and for projects that are not eligible for G.O. bond funding. The Executive has recommended an increase of $42.5 million, or about 8.7%, to the aggregate CIP for tax-supported current revenue when compared to the approved amended FY21-26 CIP. **Most of the recommended increases are from the general fund and the mass transit fund**. Like all years, it is likely that the Executive will use some of the additional current revenue in FY23 to support the recommended FY23 Operating Budget as those resource requirements are clarified. The Council will review the Executive's current revenue assumptions as its committees review the specifics for the recommended projects in this CIP.

Table 13: Comparison of Tax Supported Current Revenue between Amended FY21-26 CIP and Recommended FY23-28 CIP ($ millions)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	Total
FY21-26 Am	71.4	78.4	104.8	90.4	69.7	71.3			**485.9**
FY23-28 Rec.			85.0	96.6	87.6	81.0	90.6	87.7	**528.5**

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.)

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Marc Elrich
County Executive

MEMORANDUM

January 18, 2022

TO: Gabe Albornoz, President, Montgomery County Council

FROM: Marc Elrich, County Executive

SUBJECT: Recommended FY23 Capital Budget and
FY23-28 Capital Improvements Program (CIP)

In accordance with the County Charter, I am pleased to transmit my Recommended FY23 Capital Budget and FY23-28 Capital Improvements Program (CIP). As I release my second full CIP, I am proud of my administration's achievements that now allow us to leverage more State Aid for school construction, address climate change, and promote economic development through substantial transportation investments. With increased investments in our schools, affordable housing, early care centers for our youngest children, facilities to address barriers to residents' well-being, and maintenance of core infrastructure, this CIP strengthens the resiliency of County government, our local economy, and the residents we serve. Central to these efforts is our partnership to advance racial equity, social justice, and climate change in the County.

Incorporating racial equity and social justice into the CIP decision-making process has helped the County prioritize projects in new ways by:

- ***Using mapping and other tools to identify and address racial disparities***
- ***Considering the structural barriers that disproportionately impact communities of color and low-income communities***
- ***Examining the intersection of racial equity and climate change***

In this CIP, I am recommending a total six-year investment of $5,057,244,000 - a $740,582,000 increase over the previously approved CIP. This capital budget assumes my previously recommended Spending Affordability Guidelines (SAG) for General Obligation bonds ($1,750,000,000 over six years), leverages significant funding from non-County sources, and recognizes current revenue constraints due to COVID and other FY23 demands for Operating Budget support.

Despite the 17.2 percent increase in the CIP, I was not able to fund all of the worthy projects proposed by Montgomery County Public Schools (MCPS), Montgomery College, Maryland National Capital Park and Planning Commission, and Montgomery County departments on the requested schedule. This was particularly true for MCPS that requested more than a $385 million increase in funding in the first four years of the CIP when there is little fiscal flexibility.

We will need to work together creatively to adequately preserve existing infrastructure and to build the kinds of transportation and other facilities needed to ensure our continued economic competitiveness and quality of life. The attached fiscal summary compares the Recommended

CIP agency budgets to the previously approved CIP and the agency request as well as indicating the agency percentage of the overall Recommended CIP.

OVERALL FISCAL CONTEXT

Across the board, agencies and departments reported construction cost increases related to a tight construction market and COVID-related supply chain disruptions. Skilled labor shortages that existed before COVID were exacerbated by the pandemic. Labor and material shortages in manufacturing and transportation also resulted in cost increases in lumber, electrical and plumbing supplies, steel, and gypsum products. County departments and agencies reported instances of bids exceeding budget estimates by more than 50 percent for individual projects as contractors priced in labor and materials availability risks. Given these economic forces, it is not surprising that Montgomery County Public Schools reported a 23 percent increase in construction costs or that many previously approved projects reflect cost increases.

Consistent with my SAG recommendation, the six-year General Obligation (G.O.) bonds planned for issuance ($1.750 billion) are $70 million larger than the limits approved by Council -a $20 million reduction compared to the prior approved six-year CIP. I am recommending a $10 million increase in the G.O. bond limits in FY25 and a $20 million increase in FY26, FY27, and FY28 because I believe that they will be affordable as the economy continues to rebound and the charter limit revisions we worked together to achieve are implemented.

I am recommending that $58,750,000, or 83.9 percent, of the additional $70 million in G.O. bonds be invested in a Built to Learn Act State Aid Match project. The purpose of this project would be to hold fiscal capacity for MCPS future projects for the express purpose of supporting projects that are eligible for State Aid.

Six-year Pay-as-you-Go (PAYGO) funding is assumed to be $181.1 million - $6.1 million more than the 10 percent policy target. This additional cash investment reflects a partial repayment of the PAYGO reductions that were necessary in FY21 and FY22 when operating budget reductions were needed to address COVID related budget impacts.

Fortunately, staff have positioned the County to be able to leverage significant Federal and State funding for school construction, transportation, and other initiatives. Prior Council-funded work on County Bus Rapid Transit projects has progressed to the point where the projects can access approximately $170 million in new Op Lanes Maryland State transit funding and seek Federal New Starts/Small Starts program funding (over $200 million) as well. (The Op Lanes Maryland transit funding is the portion of the State's planned I-495 and I-270 Phase I toll lane proceeds which the Maryland Department of Transportation pledged to fund high priority public transit projects in Montgomery County.)

Similarly, County staff from the Office of Intergovernmental Relations, Office of Management and Budget, Council, the Office of Legislative Oversight, and Montgomery County Public Schools have worked collaboratively with our State delegation over the last few years to help the County realize the increased State Aid for school construction promised under the Built to Learn Act. Based on evolving feedback from the delegation, the Interagency Commission on School Construction (IAC), and the Maryland Stadium Authority, and in consultation with Montgomery County Public Schools and Council staff, my recommended CIP assumes $530.6 million in six-year State Aid for school construction.

Six-year recordation tax ($640.2 million) and impact tax ($191.2 million) estimates are also expected to exceed the prior approved budget by $195.8 million. The increase in recordation taxes is due to a combination of factors including FY21 and FY22 year to date increases in home prices and sales volume which were well above last year's COVID-19 influenced, more conservative estimates. Sales price and volume increases are expected to continue - but at more moderate rates during the six-year CIP. Impact tax estimates have been adjusted to reflect a more updated understanding of the likely annual impact of new Growth and Infrastructure Policy exemptions.

The most significant changes in funding sources are reflected in the chart below:

SIGNIFICANT FUNDING SOURCE CHANGES ($000s)

Funding Source	CE Recommended FY23-28	Approved Biennial FY21-26	Difference	Percent Difference
Recordation Taxes	511,680	393,789	117,891	29.9%
Recordation Tax Premium	128,548	98,946	29,602	29.9%
Schools Impact Taxes	135,780	97,671	38,109	39.0%
Transportation Impact Taxes	55,440	45,209	10,231	22.6%
State Aid (incl Op Lanes Transit Funding)	936,402	624,634	311,768	49.9%
Federal Aid	259,051	39,785	219,266	551.1%

The Capital Budget includes six-year funding from PAYGO ($181.1 million) and tax-supported current revenue ($537.6 million). As a result, it is very important to consider the status of the operating budget when making CIP cash decisions. Possible cost increases for COVID-related expenses, agency and County government compensation and benefits, as well as other programmatic enhancements could occur. As a result, decisions on nearly all current revenue funding requests were postponed until the March Operating Budget.

Even with the projected CIP revenue increases, it was not possible to fund all of the agency and department requests - particularly on the requested schedule. Priority was given to projects that address MCPS overcrowding and facility maintenance, advance racial equity, social justice, and climate goals, support economic development and affordable housing, leverage non-County resources, and preserve core infrastructure.

EDUCATION AND EARLY CARE INITIATIVES

Montgomery County Public Schools

The Recommended MCPS CIP budget is more than $1.822 billion which, if approved, will be the largest MCPS CIP ever. The recommended MCPS CIP is 103.1 percent of the Board of Education's original requested CIP due to the inclusion of prevailing wage construction costs needed to achieve maximum State Aid contributions. The MCPS CIP request was $1.767 billion, $148.3 million or 9.2 percent above the previously approved budget with a $385 million increase in the first four years of the CIP. The request included significant cost increases in construction due to an unparalleled increase in material costs, disruptions in supply chain, and labor shortages due to the COVID-19 pandemic. This request proposed the construction or renovation of fifteen elementary schools, five middle schools, and eight high schools and included increased investments in HVAC and Roof Replacements while preserving substantial investment in the Planned Life Cycle Asset Replacement, ADA Compliance, and other existing facility infrastructure projects. Early Childhood Center, Emergency Replacement of Major Building Components, Materials Management Building Relocation, and Sustainability Initiative new projects were also included in the submission.

Developing the MCPS CIP recommendations this year took on added complexity because of the need to consider the evolving information regarding State Aid for school construction and the availability and requirements of other funding sources for MCPS CIP projects. For example, it was necessary to create a $40.2 million Prevailing Wage project to allow the County to assume greater levels of State Aid, including funding from the Built to Learn Act. (An additional $21.9 million in prevailing wage costs have already been reflected in two approved MCPS project supplementals.)

The State Aid funding assumption developed for this budget cycle is over $530.6 million - a $82.5 million increase over the previously approved CIP. This assumption was generated as a result of a productive team effort between MCPS and OMB with input from Council and Intergovernmental Relations staff. MCPS provided project-level State Aid and prevailing wage estimates under various scenarios which allowed OMB to select those scenarios that had the greatest net cost benefit. We are grateful for this partnership since it is imperative to maximize State Aid to advance school construction.

During this year, staff from OIR, OMB, the County Council, and MCPS worked together with the Office of Legislative Oversight to identify changes in legislation and local practices that could yield greater levels of State Aid funding and to understand intricacies of State Aid procedures and policies - including those related to Built to Learn Act funds. This effort allowed the Office of Intergovernmental Relations to influence our State delegation's related legislative goals and the Interagency Commission on School Construction (IAC) and Maryland Stadium Authority Built to Learn Act implementation plans. The situation continues to be fluid, and we will need to work together with our State delegation to ensure that State Aid school construction policies and practices do not make it difficult to access Built to Learn and traditional State Aid funds.

To maximize future State Aid funding and improve transparency in our capital budgeting, I am recommending the creation of a new Built to Learn Act State Aid Match project with $58,750,000 in FY25 to FY28 funding. The purpose of this project would be to hold fiscal capacity for MCPS future projects for the express purpose of supporting projects that are eligible for State Aid.

Historically, the MCPS CIP has been very front loaded with significant spending in the first four years of the CIP and very little programmed in the last few years. (See the chart below.) This pattern exists because MCPS does not include most construction costs until planning is done. In addition, MCPS prefers not to identify specific potential construction projects too early so they can more easily respond to the most current enrollment and facility condition data.

COMPARISON OF MONTGOMERY COUNTY PUBLIC SCHOOLS FY23-28 CIP FUNDING:
FY23-28 REQUEST VS FY21-26 APPROVED ($000s)

	FY23-FY26 Total	FY23	FY24	FY25	FY26
FY23-FY28 Requested CIP	$1,467,579	$376,478	$439,562	$376,129	$275,410
Approved Amended FY21-FY26 CIP	$1,082,285	$318,965	$302,477	$250,646	$210,197
Difference	$385,294	$57,513	$137,085	$125,483	$65,213

The problem with this practice is that when MCPS ultimately submits construction cost requests for planned projects, there is not enough money set aside for them. To adequately fund schools in those later years, the County Executive and the County Council must then delay other projects. This pattern is frustrating for our residents and for decisionmakers.

The Built to Learn Act resulted in approximately $378 million being set aside for Montgomery County Public Schools construction projects to be spent within a 10-year period. In order to fully access these funds, the County will need to have sufficient matching local funds.

Despite increases in funding, MCPS' full CIP request was not affordable - particularly in the early years of the CIP when funds are already committed to other projects. Although it was not possible to fund $65.5 million of the original submission costs in the six-year period, the Recommended CIP does reflect a $203.6 million, or a 12.6 percent, increase in funding compared to the prior approved CIP. The Recommended CIP also includes sufficient funds to support the supplementals recently sent to the County Council by MCPS to cover prevailing wage costs needed to maximize State Aid support for projects at the Burnt Mills, Clarksburg Cluster #9, Stonegate, Southlake, and Woodlin Elementary Schools.

Montgomery College

Montgomery College requested a $347.1 million six-year CIP - a $63.0 million, or 22.2 percent, increase over the previously approved budget. The initial request was intended to:

- Expedite library improvements that are critical to low-income students who need the college's facilities to study effectively. This project also reflected increased, updated cost estimates;
- Increase State and County funding for the Germantown Student Services Center on a slightly delayed schedule;
- Increase funding for Planned Lifecycle Asset Replacement; and
- Provide flat-lined FY27 and FY28 funding for ongoing planning, maintenance, and information technology projects.

The Recommended Montgomery College budget is $327.1 million - a $42.9 million, or a 15.1 percent, increase over the previous CIP. Included in the Recommended CIP is $500,000 to support development of a new East County College Campus. Initial funding will cover facility planning, site evaluation, and other preliminary costs needed to ultimately establish a fourth campus. The East County is home to a very diverse population with significant concentrations of low-income residents. Eastern Montgomery County is a region with 73 percent of the population identifying as a person of color, and the population is projected to continue to diversify in the future. The area is home to many immigrants. Over 25 percent of new entrants into Montgomery County have immigrated from outside of the United States and are non-native English speakers, necessitating a different model of student services than at the other three legacy campuses. Furthermore, East County residents without a car are effectively cut off from the other three campuses since one-way public transportation to the other three campuses takes on average more than 90 minutes.

Due to affordability constraints, my Recommended CIP assumes that approximately $20 million in requested College funding will need to be delayed until FY29.

Early Care and Other Education Related Initiatives

Funding for a new Early Childhood Center ($16 million) is included in the MCPS CIP request. This project will provide funding for a permanent home for pre-kindergarten literacy, mathematics, and social/emotional skill development services on the Watkins Mill High School campus for children and families affected by poverty. Planning funds to further expand early childhood centers throughout the County are also included in the project funding request.

Funding is also recommended to add both a School Based Health Center and a Linkages to Learning Center at the JoAnn Leleck Elementary School. This school has over 81 percent of its students participating in the Free and Reduced Price Meals program, and 97 percent of the students are African American or Hispanic. Funding for projects at the Odessa Shannon Middle School, Silver Spring International Middle School, Gaithersburg Elementary School #8, Neelsville Middle School, and South Lake Elementary School has also been adjusted to reflect the latest cost estimates. These schools are all located in Equity Emphasis Areas [1], reflect high concentrations of African American and Hispanic children, and/or have high percentages of students participating in the Free and Reduced Price Meals program.

The Child Care Renovations project has been increased to reflect current childcare licensing requirements and other construction cost increases.

CLIMATE FRIENDLY TRANSPORTATION IMPROVEMENTS

Bus Rapid Transit and Other Mass Transit Investments

The Recommended CIP includes more than $394 million in funding for Bus Rapid Transit (BRT) projects along Maryland Routes 355 and 586 (Veirs Mill Road) using identified state and federal aid opportunities to support final design, land acquisition, and construction. As part of this CIP, I am recommending that the MD355 BRT project be funded for construction between Rockville and Germantown, terminating at the Montgomery College campuses at either end and extending fast, high-capacity transit service to residents and businesses along this corridor that is not currently served by Metrorail. I am also recommending funding construction of the Veirs Mill Road BRT connecting to MD 355 at Montgomery College. These projects will achieve an unprecedented expansion of the County's transit network to provide rapid transit service from Wheaton to Germantown and are consistent with priority recommendations in the draft Corridor Forward plan for I-270.

I am also recommending that we accelerate and fund construction of the Bicycle-Pedestrian Priority Area Improvement Priority Project (BiPPA) improvements along Veirs Mill and Randolph roads in conjunction with the Veirs Mill BRT project. By linking these two projects, the County can submit both as part of our Federal Small Starts grant application, further leveraging the County and State funding commitments. These improvements support safe walking and biking, which is critical to accessing improved transit services.

BRT service on these corridors will alleviate traffic congestion, reduce carbon emissions, stimulate economic growth, and provide more frequent and reliable transit service to some of the County's most racially and economically diverse communities where structural barriers have created a heavy reliance on public transit to get to work, school, and important services. My intention is that we complete the entire MD355 corridor as soon as possible, so I am also including design funding for the MD355 BRT between Rockville and Bethesda and Germantown and Clarksburg so that the entire project is ready to proceed as soon as we have a viable funding strategy for the remaining portions of the corridor.

I intend to fund these projects using revenues from the State's Op Lanes Maryland project, which have been pledged by the Maryland Department of Transportation to support high-priority transit projects in Montgomery County, in combination with County and Federal funding to be sought through the recently expanded Federal Transit Administration (FTA) Capital Grants (CIG) program. It is my intention that in the coming year, we can work together to identify funding opportunities that will advance implementation of BRT on the entire MD 355

[1]*The Washington Council of Governments has identified census tracts as Equity Emphasis Areas due to their significant concentrations of low-income households and/or people of color.*

corridor as one project, eventually providing high-quality transit service from Bethesda to Clarksburg, as well as accelerating the implementation of recommended BRT projects on other planned transit corridors.

In addition to continuing planning for New Hampshire Avenue BRT and the North Bethesda Transitway, my recommended capital budget expands funding for the Bus Priority Program. This program identifies and implements low-cost but high-impact initiatives, such as painted bus lanes and signal priority projects, to improve service on all bus routes in the County.

My budget also supports the transition to a zero emissions Ride On bus fleet, recommending over $40 million across FY23-24 for the purchase of electric buses to fully utilize the power generation capacity of the Silver Spring bus depot solar microgrid. By 2025, Ride On will have 70 electric buses in service, positioning the County as both a regional and national leader on the path to zero emissions transit. Many challenges remain, including the high cost of zero emission technologies, development of support infrastructure, and the need to ensure continued service quality. The Departments of Transportation and General Services are identifying creative means to address these challenges. To that end, my budget also funds a study that will develop a transition plan to a full zero emissions fleet within fiscal and operational constraints.

OTHER INITIATIVES TO ADDRESS CLIMATE CHANGE & OTHER ENVIRONMENTAL GOALS

Montgomery County is taking action on the major contributors to greenhouse gas emissions:

- ***Inefficient commercial buildings and;***
- ***Transportation impacts.***

County CIP priorities have focused on:

- ***Maximize energy efficiency of County buildings;***
- ***Zero emission vehicles and related infrastructure;***
- ***Enhanced public transportation; and***
- ***Improving major storm resiliency through infrastructure improvements and nature-based solutions.***

Energy Efficiency Initiatives

The easiest time to implement energy improvements in a building is during the original facility construction and major renovations. As a result, the Department of General Services will make design adjustments to achieve a Net Zero status for the 6th District Police Station and the White Flint Fire Station. The Kennedy Shriver Aquatic Center renovation will also incorporate improvements to achieve the highest levels of efficiency possible for an aquatic center. And the Department of General Services will go beyond the previously planned window replacements for the Holiday Park Senior Center, incorporating innovative energy efficiency enhancements such as additional solar panels and building envelope improvements to complement the building automation and mechanical systems upgrades already completed in a new project designed to achieve Net Zero status. Additional investments in HVAC and electrical system replacements will also allow the County to use more energy efficient mechanical equipment in County buildings.

These activities supplement DOT's work to issue a Request for Proposals for solar generation installations on the rooftops of several parking garages in the Silver Spring Parking Lot District with implementation within the next two years. Projects like Monitoring Based Commissioning have maximized Empower Maryland's energy efficiency incentive funds from prior CIP projects to fund ongoing investments in building automation systems. DGS will continue to pursue alternative capital investment through Power Purchase Agreements (PPA) to expand the deployment of renewable energy systems and microgrids to improve resilience and reduce the Greenhouse Gas Emissions of our facilities.

Stormwater Management

The Department of Environmental Protection and the Maryland-National Capital Park and Planning Commission have established a partnership to implement stream protection projects that help meet the State's MS-4 (Municipal Separate Storm Sewer System) permit requirements to improve water quality in the County. Due to the success of the initial projects M-NCPPC has implemented, the Department of Environmental Protection will be shifting approximately $8.8 million more to M-NCPPC in the FY23-28 CIP for additional permit-related projects. The Maryland Department of the Environment issued the County a new MS4 permit in November 2021. In anticipation of that permit DEP continued to complete stormwater management projects and upgrades which position the County very well to meet the restoration requirements of the new permit. Using an enhanced contracting strategy that relies on a variety of approaches as well as the DEP-M-NCPPC partnership, the CIP budget request is consistent with impervious surface permit requirements.

The CIP stormwater management budget also includes a continued focus on replacing stormwater infrastructure such as failing culverts and addressing drainage assistance requests to improve preparedness for flooding events. These activities increase the County's resiliency and its ability to manage the impacts of extreme weather due to climate change.

Recycling & Resource Management

My Recommended CIP continues funding for the Full Upgrade of the Recycling Center Complex project which will increase the County's processing capacity to handle 100 percent of the recyclable material residents and businesses generate with room for future growth. The County currently sends 40 to 45 percent of its recyclable material out of the State for processing which generates greenhouse gas emissions. Upon completion of the project, transporting recyclable materials will cease and the County will have the potential to increase the kinds of materials the County can recycle.

The Department of Environmental Protection will be receiving responses to a Request for Information (RFI) from commercial entities that may provide updated technologies that could enhance recycling and waste disposition. Upon review of the responses to the RFI, any appropriate modifications to the design of this upgrade will be made. The project is scheduled to start construction in the coming year and is an important component of our plans to eventually close the Dickerson incinerator.

SUMMARY OF KEY CLIMATE CHANGE INVESTMENTS

My Recommended CIP includes $1.29 billion in spending on projects that help address climate change, adding $653 million in funding for new projects or expansions of existing projects that reduce the County's greenhouse gas footprint, increase climate resilience, and/or make necessary adaptations to changing climate conditions. Climate-related spending in the CIP includes:

- $655 million in mass transit improvements to reduce the climate impact of transportation in the County, including $408 million for bus rapid transit planning and implementation and $152 million to begin to transition Ride On to a zero-emission fleet;
- $268 million for pedestrian and bicycle transportation facilities to encourage active modes of transportation and reduce short-distance car trips;
- $176 million to fund maintenance projects that increase the energy efficiency of county government, MCPS, Montgomery College, and M-NCPPC facilities through building envelope repair and replacement of obsolete mechanical and electrical systems;
- $12.5 million in added funding for projects to help achieve net zero energy use in new or renovated facilities, including Holiday Park Senior Center, the White Flint Fire Station, and the 6th District Police Station and $4.4 million to help achieve near net zero energy use in the renovated Kennedy Shriver Aquatic Center;[2] and
- $171 million for projects that maintain and improve the County's resilience to extreme weather through stormwater management and maintenance and rehabilitation of waterways.

The County continues its role as a leader in the fight to address climate change through environmentally friendly construction practices, progressing from past capital improvement programs that funded basic energy efficiency improvements, to achieving LEED Silver certification, to International Green Construction Code compliance for all new construction, to the current policy of net zero energy use where feasible for all new facilities and major renovations. In addition to our direct efforts to reduce the County's carbon footprint through new net zero facilities and the replacement of obsolete building systems, every county building construction or renovation project considers climate impact at all stages of planning, design, and construction, from locating buildings near public transit to efficient design standards to sourcing materials with the lowest possible environmental impacts.

Affordable Housing

The Recommended CIP will continue my practice of budgeting $22 million a year, totaling $132 million from FY23-28, for Affordable Housing Acquisition and Preservation investments. With a $14.8 million FY22 supplemental, more than $36 million will be available during the next 18 months to support affordable housing projects.

[2]*The full costs to construct Net Zero buildings are much larger. These costs represent only the incremental cost needed to attain a Net Zero standard compared to energy efficiencies that had already been incorporated into the building plans.*

Affordable Living Quarters

The Department of Housing and Community Affairs (DHCA) has been awarded $7.3 million of Federal HOME funds. After DHCA submits a final allocation plan for HUD's approval, it is expected that the bulk of the funds will be available to address unmet housing needs. In the meantime, the Department of Health and Human Services, the Department of General Services, and DHCA will use $100,000 to consider how acquisition and renovation of available buildings could best meet low-income households' needs for permanent Affordable Living Quarters. Once a suitable building has been found, additional appropriation will be requested to complete the project - moving us closer to our shared goal of increasing the supply of affordable housing to prevent homelessness and provide stable housing for our lowest income residents. An FY22 supplemental will be requested to fund initial planning and site selection work with additional funds requested once a site has been found.

Affordable Housing Opportunity Fund

Last May, Council approved funding for my new Affordable Housing Opportunity Fund project to provide short-term financing for affordable housing projects. By the end of March 2022, the Department of Housing and Community Affairs will complete the process of contracting with a Community Development Financial Institution to manage the offering of the initially appropriated $14 million funding. My recommended CIP will increase the fund by $6 million to $20 million.

Housing Opportunities Commission (HOC)

Critical funding has also been included in my Recommended CIP for the Housing Opportunities Commission's WSSC Sewer and Storm Line Improvements at Elizabeth Square project. These unanticipated costs are required to increase water, sewer, and stormwater capacity based on updated assessments by WSSC Water and delays in the Purple Line project. The Recommended CIP also continues to provide $7.5 million for needed HOC unit maintenance.

Expanding Broadband in Affordable Housing

The ultraMontgomery project uses capital technology funding to support the County's economic development and digital equity initiatives. In the FY23-28 CIP, the ultraMontgomery project assumes that the County will receive additional U.S. Treasury Infrastructure funding provided to the State of Maryland to support expanding broadband infrastructure to 8,000 units in affordable housing developments. Currently, grant programs tend to exclude urban areas where people are not subscribing to broadband due to income or other limitations. This effort not only addresses racial inequities related to digital connectivity, but it is also essential to accessing education, employment, medical, and other critical services, participation in the digital economy, and civic engagement for our low-income residents.

ADDRESSING FAILING FACILITIES AND INFRASTRUCTURE

Many of the new projects in my recommended CIP are designed to preserve prior infrastructure investments that support public safety, information technology, transportation, and general government operations.

Montgomery County Correctional Facilities Upgrades

New public safety investments are proposed to make safety upgrades and refresh the 20-year-old Montgomery County Correctional Facility and to provide Wi-Fi at correctional facilities to fully implement medical records software and support staff and client training.

County Radio System and Equipment Investments

Funding has also been included to fund County Radio Lifecycle Replacement. A new CIP project, funded through a transfer from the Public Safety System Modernization project, is also proposed to build a new Dickerson Radio Tower. The current location of the radio system equipment on the electric power plant's smokestack is planned for demolition in three years.

Other Public Safety Investments

The final completion of Heart Monitor/Defibrillator Replacement has been recommended for funding, as well as increases in funding for fire station HVAC and life safety systems.

Business Continuity Strategic Plan

Council recently approved a $7.2 million supplemental for FiberNet to implement the first phase of the County's Business Continuity

Strategic Plan. In March, we will forward a plan for additional FY23-FY28 investments in the County's FiberNet critical infrastructure when Cable Fund revenues, a primary but declining project funding source, are estimated.

Transportation Infrastructure Investments

Additional recommended transportation infrastructure projects include Monocacy Road Bridge deck replacement, Road Resurfacing (Primary/Arterial and Residential/Rural), parking facility renovations, storm drains and culverts.

Executive Office Building Improvements

It is also necessary to invest in facilities where core County services are performed. Just as it was important to renovate the Council Office Building (COB), it will be necessary to overhaul the Executive Office Building to replace core mechanical equipment, achieve energy efficiencies, and refresh offices for current service delivery needs. We anticipate that this project will be similar to the COB and Judicial Center Annex projects which required renovations to go on while operations continued. Funds to provide detailed renovation and funding plans are included in FY23 and FY24 due to the age of the mechanical systems and the heavy usage of the building.

Revenue Authority Projects

The Revenue Authority has requested six new projects to renovate and upgrade the Northwest, Falls Road, Little Bennett, Needwood, Poolesville, and Rattlewood Golf Courses, two new projects to improve safety at the Montgomery County Airpark, and a new project to consolidate staff in one office at the Rattlewood Golf Course.

ECONOMIC DEVELOPMENT

In addition to investments in education and transportation - necessary features of economically competitive jurisdictions, my Recommended CIP also includes significant investments in public-private partnerships designed to spark redevelopment in the White Flint and White Oak portions of the County.

White Flint/North Bethesda Redevelopment

Jones Lang LaSalle (JLL) has recently completed a market and feasibility study that supports the concept of a life science anchored development as the most economically feasible use for the WMATA-owned property at the White Flint (soon to be North Bethesda) Metro station in the current economic environment. That property, at the heart of the White Flint/North Bethesda area, is a key to addressing the current demand for life science development in this region. The County is working with WMATA to determine what specific infrastructure and other support would provide the impetus to spur this near-term life science development which is expected to support other private development in the area.

The WMATA project builds upon and supports the following notable White Flint private development activities:

- Site plan review of a Pike & Rose Phase II development amendment to increase density and include research and development laboratory space began in July;
- In October, a plan to include a mixed-use commercial/retail building including the new headquarters for Choice Hotels International was approved and is under construction;
- A Northpark at Montrose site plan was submitted in February for 107 townhomes and thirty-four 2 over 2 housing units;
- A Rose Village concept plan was submitted in March to redevelop more than 2.5 million square feet of mixed-use development; and
- A Preliminary Plan amendment for the North Bethesda Market II (NOBE II) was approved.

Consistent with requests from the community and the County Council, I will be moving the costs of White Flint Redevelopment coordination out of the capital budget into the General Fund operating budget.

White Oak Redevelopment

Redevelopment of the East County is a goal that the Council and I share. The Route 29 FLASH BRT service has been operating since October 2020. Planning funding for an East County Montgomery County College campus has been recommended.

The County completed its demolition and environmental cleanup responsibilities for the Site II portion of the Viva White Oak joint development in June 2019. With master plan, sketch plan and preliminary plan approvals and designation as a tax-favored opportunity zone, the private developer of Viva White Oak appears well positioned to begin implementing the plan's vision for approximately seven million square feet of commercial development as a life sciences hub with up to 5,000 residential units.

My Recommended CIP maintains the County's $40 million commitment to fund a portion of the development's required road construction costs. I look forward to hearing more about our private partner's progress in securing required site plan approvals - the next step in the development process.

Crossvines

The Recommended CIP also maintains funding for the Crossvines wine-crush and event facility. Once completed, Crossvines will support the County's long-range plan for economic and agricultural development, agri-tourism, education, and workforce development.

Life Sciences Lab Space

A Life Sciences and Technology Centers supplemental will also be transmitted separately to convert excess Germantown Innovation Center office space to lab space to meet the demand of small life science companies because updated cost estimates exceed the previously approved budget.

ultraMontgomery Broadband Projects

The ultraMontgomery project has also completed a public private partnership to expand shortest route, lowest latency, ultra-high speed broadband routes under the Potomac River to connect the Great Seneca Science Corridor and Bethesda to data centers in Ashburn, Virginia. Ninety percent of East Coast internet traffic is eventually routed through Ashburn, Virginia data centers. This direct fiber route is vital to supporting work by high tech companies and research institutions in Montgomery County. Work is also underway to complete regional connections to Howard County and expand connections to Prince George's County.

CREATIVE REUSE OF COUNTY PROPERTY

My Recommended CIP also includes funding to redevelop the site of the current Montgomery County Detention Center (MCDC) and the former 1st District Police Station to provide a new Restoration Center, a new Criminal Justice Center (CJC), and to house a new Montgomery County Public Schools bus depot to replace the depot currently located on Crabbs Branch Way.

Restoration Center

Oftentimes, residents with mental illness or substance abuse problems are being inappropriately incarcerated or sent to emergency rooms when crisis stabilization and appropriate warm handoffs to community-based services would be more effective. This can be particularly critical for residents of color and low-income residents who face barriers in accessing care. To prevent inappropriate, unnecessary incarceration, the Restoration Center will operate 24/7/365 to provide alternative crisis stabilization services under the Crisis Now model while also serving other residents with mental health and substance abuse issues.

The Department of Health and Human Services will be aggressively pursuing State Aid for construction costs and Medicaid reimbursement and private partner participation to reduce the net operating budget impact of the Restoration Center.

Criminal Justice Complex

The new Criminal Justice Complex (CJC) will replace the sprawling, deteriorating MCDC complex which has outlived its useful life and is extremely expensive to maintain. The new CJC will house Central Processing/Detention, District Court Commissioners, Department of Health and Human Services Mental Health Assessment and Placement Unit; Pre-Trial Services Assessment Unit; Public Defenders Unit; and the Police Warrants and Fugitive Unit in a smaller, more efficient building.

MCPS Crabbs Branch Bus Depot Replacement

Finally, since at least 2012, the County has struggled to find an appropriate site to replace the MCPS Crabbs Branch Bus Depot to realize the Shady Grove Sector plan's transit-oriented development vision. This site is already owned by the County and is well-located and appropriate for MCPS' fleet operations. This project cannot proceed until the Restoration Center and CJC project are completed so funding for this project is not expected to occur until after FY28.

MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION (M-NCPPC)

My Recommended CIP includes $254.5 million in six-year funding - a $14.9 million, or 6.2 percent increase over the prior approved CIP. The success of M-NCPPC's partnership with the Department of Environmental Protection in implementing stream restoration projects in support of the County's MS-4 permit has led me to recommend increasing their Stream Protection: SVP project to $14.5 million, an $8.8 million increase, to improve water quality in the County. I also support M-NCPPC's plans to conduct facility planning for a new Long Branch Parks Initiative. I have recommended a two-year delay in funding for a dog park in Norwood Park until alternative locations and community concerns can be considered.

Affordability adjustments of $14.4 million in General Obligation bonds are assumed in my Recommended CIP, and consideration of almost $5 million in requested increases in tax-supported current revenue are postponed until the March operating budget. A minor shifting of M-NCPPC bonds from FY25 to FY26 and FY27 is also recommended to reflect the impact of updated inflation estimates.

While not included in this CIP submission, I remain committed to working closely with our partners at M-NCPPC to redevelop the historic Bethesda property known as the Farm Women's Market and to include the Bethesda Parking Lot District's Lot 24 and Lot 10 with this redevelopment. The existing Farm Women's Market will be renovated, and the redevelopment will include new housing, retail space, outdoor park space, and underground parking.

I expect that all project partners - public and private - will contribute to the cost of the park, and that final development and park plan approvals will result in public space that is an asset to the community, meets the intent of the Bethesda Downtown Plan, and is attainable within the available financial resources of all parties.

WASHINGTON SUBURBAN SANITARY COMMISSION (WSSC WATER)

My Recommended CIP fully funds the Washington Suburban Sanitary Commission's $2.093 billion FY23-28 CIP request. This represents a $347.7 million, or 19.9 percent, increase above the FY22-27 approved total of $1.745 billion. The increase in six-year costs is the net result of project spending deferred from previous CIPs due to pandemic impacts, the addition of new projects focused on maintaining and upgrading WSSC Water's aging infrastructure, and the new State funded I-495/I-270 Traffic Relief Plan Pipeline Relocations project. The first year of the Commission's proposed CIP is consistent with the approved FY23 Council-approved spending control limits.

RACIAL EQUITY

This year, as County Government and its sister agencies worked to incorporate racial equity considerations into our budgeting processes, we carried out the following activities:

- Prioritized projects serving the Washington Council of Government's Equity Emphasis Areas. These areas have high concentrations of residents with low-incomes and/or high concentrations of residents of color;
- Sought to limit negative impacts of any fiscal delays or reductions on projects serving Equity Emphasis Areas;
- Considered how departments determine what subprojects are chosen for level of effort projects and how racial equity could be incorporated into those decision-making processes;
- Considered what population demographics tend to be served by different types of facilities when that data exists;
- Developed a CIP budget equity tool, manual, and training materials; and
- Used mapping tools to analyze some of the issues above.

Examples of recommended projects in Equity Emphasis Areas include:

- Public safety projects: 6th District Police Station, Rockville Fire Station 3 Renovation;
- Schools: South Lake Elementary, Gaithersburg Elementary #8, JoAnn Leleck Elementary, Highland View Elementary, Odessa Shannon Middle School Addition, and Kennedy High School Addition;
- Bridges: Garrett Park Road Bridge;
- Mass transit improvements: Bus Rapid Transit: Veirs Mill Road and portions of the MD: 355 route;

- Parking facilities: Silver Spring and Wheaton Parking Lot District improvements;
- Pedestrian and bikeway facilities: Life Sciences Center Loop Trail, Bicycle-Pedestrian Priority Area Improvements for the Purple Line, Veirs Mill/Randolph Roads and Wheaton CBD, Metropolitan Branch Trail, and Silver Spring Green Trail;
- Traffic improvements: White Oak Local Area Transportation Improvements;
- General government facilities: COB Renovation, EOB Renovation, and Red Brick Courthouse;
- Recreation facilities: South County Regional Recreation and Aquatic Center and Holiday Park; and
- Parks: Brookside Gardens and Wheaton Regional Park.

Other initiatives with likely racial equity implications include: East County redevelopment activities; the East County Montgomery College Campus project; affordable housing projects; the Wi-Fi project for Corrections facilities, the Restoration Center project, and the ultraMontgomery low-income broadband expansion initiative.

While level of effort maintenance projects must be prioritized based on safety and the condition of the facility, there are opportunities to incorporate racial equity considerations for level of effort projects that add new improvements. As a result of our racial equity conversations this budget cycle, the Department of Transportation will be moving away from a first come, first served approach to determining what new sidewalk segments to build. Instead, potential projects will be evaluated based on several factors, including safety, equity, pedestrian trip generators (i.e., proximity to schools, transit stops, commercial areas, etc.), constructability, and cost.

Similarly, the Two-Year Vision Zero Action Plan emphasizes the need for equitable project intake, selection, and advancement into the CIP.

The Department of Environmental Protection includes income and demographic information to prioritize stormwater management subprojects. The Department uses detailed maps showing where improvements are needed and overlaps them with Equity Emphasis Area maps. This allows the Department to ensure that at least one-third of projects are located in Equity Emphasis Areas and allows them to tailor the messaging to affected communities in public outreach efforts. As the County moves forward, more analysis will be done to determine whether these percentage targets are the right targets.

Next steps for further enhancements include working with departments that have fewer data resources and in-house skills, analyzing where gaps in services are, and further embedding a racial equity focus into program and project identification, development, and implementation.

VISION ZERO

The Recommended CIP includes $433.0 million to support the County's Vision Zero initiative with related projects included in the Transportation, Maryland National Capital Park and Planning Commission, and Montgomery County Public Schools portions of the CIP. Recommended enhancement funding will support:

- A new Sandy Spring Bikeway project;
- A new Tuckerman Lane Sidewalks project to improve safety around Herbert Hoover Middle School and Winston Churchill High School;
- A new US29 Pedestrian and Bicycle Improvements project to improve access to FLASH transit stations;
- The addition of the Central and Eastern sectors of the Bicycle-Pedestrian Priority Improvements subprojects for Veirs Mill Road and the Wheaton Central Business District;
- Increased funding for Safe Routes to School improvements and sidewalk and curb replacement;
- Community requested scope changes for the Dale Drive Shared Use Path and Fenton Street Cycletrack projects; and
- FY27 and FY28 funding for ADA, guardrail, traffic signals, neighborhood traffic calming, minor bikeway projects, intersection and spot improvements, street lighting, bus stop improvements, and improved access to schools, parks, and trails.

POOLESVILLE FACILITIES

The Recommended CIP includes facility planning funding to explore the best way to provide services to residents in the Poolesville area. In the coming months, County staff will be examining progress in addressing identified community needs and available space on the

Poolesville High School campus to develop a program of requirements.

OTHER PROJECT CHANGES

A number of projects experienced significant cost increases reflecting construction market cost pressures. The Bethesda Metro Station South Entrance project has the largest cost increase ($20 million) where State cost projections were significantly underestimated. (No increases in other Purple Line related project costs are included in the Recommended CIP.) Examples of other projects with cost increases include: ABS Retail Store Refresh, Apparatus Replacement Program, White Flint Fire Station, 6th District Police Station, Outdoor Firearms Training Center, White Flint Metro Station Access Improvements, Bethesda Bikeway and Pedestrian Facilities, Good Hope Road Shared Use Path, MacArthur Blvd Bikeway Improvements, Child Care Renovations, Noyes Library for Young Children Rehabilitation and Renovation, Collegewide Library Renovations, Germantown Student Services Center, and numerous MCPS projects.

Schedule delays based on fiscal considerations are also reflected for the following projects: White Flint Fire Station, Capital Crescent Trail tunnel, and Observation Drive.

OTHER FISCAL CONSIDERATIONS

The Recommended CIP assumes a $170.1 million General Obligation bond set-aside to cover unanticipated cost increases or revenue shortfalls. Due to construction market pressures, the FY23 and FY24 set asides are slightly larger than usual at approximately $15 and $20 million, respectively. New short- and long-term financing will average approximately $39 million a year - representing a six-year increase of approximately $29 million compared to the prior approved six-year period. This increase is primarily due to investments in County radio life-cycle replacement partially offset by reductions in other financing.

The proposals highlighted in the pages immediately following and detailed in the specific FY23-28 recommendations for County Government, Montgomery County Public Schools, Montgomery College, M-NCPPC, WSSC Water, the Housing Opportunities Commission, and the Revenue Authority, reflect the priorities of my administration. Companion supplemental appropriation requests and/or CIP amendments are being transmitted separately for the following projects: Dickerson Radio Tower, Public Safety System Modernization project, Life Sciences and Technology Centers, Affordable Living Quarters, Affordable Housing Acquisition and Preservation, Ag Land Preservation Easements, Storm Drains General, Storm Drain Culvert Replacement, Clarksburg Cluster ES #9 (New), and Major Capital Projects - Elementary projects.

Many people have helped to shape the recommendations I am submitting to you, and I am grateful for their efforts. I want to thank the members of the Board of Education, the College Trustees, the Planning Board, and WSSC Water and HOC Commissioners for their work.

As stated above, further recommendations relating to current revenue and other CIP initiatives will be provided once I have finalized my March 15th Operating Budget recommendations. I look forward to discussing with you any policy matters or major resource allocation issues that arise this spring. As always, Executive Branch staff will be available to assist in your deliberations on the Capital Budget and CIP.

ME:jb
c:

- Marlene Michaelson, Executive Director, County Council
- Brenda Wolff, President, Montgomery County Public Schools Board of Education
- Dr. Monifa B. McKnight, Acting Superintendent, Montgomery County Public Schools
- Dr. Charlene Mickens Dukes, Interim President, Montgomery College
- Casey Anderson, Chair, Montgomery County Planning Board
- Carla A. Reid, General Manager/CEO, Washington Suburban Sanitary Commission
- Kayrine Brown, Acting Secretary-Treasurer and Executive Director, Housing Opportunities Commission
- Keith Miller, Executive Director, Revenue Authority
- Executive Branch Department Heads and Office Directors

CAPITAL IMPROVEMENTS PLAN FISCAL COMPARISON SUMMARY: BY AGENCY

	Biennial FY21-26 Approved ($000s)	FY23-28 Request ($000s)	County Executive Recommended FY23-28 ($000s)	Recommended Percent Change vs. Biennial Approved	Percent of Request Recommended	Percent of Total Recommended
Montgomery County Public Schools	1,618,915	1,767,241	1,822,504	12.6 %	103.1%	36.0%
Montgomery College	284,152	347,128	327,088	15.1 %	94.2%	6.5%
M-NCPPC	239,565	265,066	254,474	6.2 %	96.0%	5.0%
Transportation	1,078,988	1,745,321	1,497,976	38.8 %	85.8%	29.6%
Montgomery County Govt - Other	1,067,962	1,032,540	1,129,663	5.8 %	109.4%	22.3%
Revenue Authority	19,205	17,334	17,334	-9.7 %	100.0%	0.3%
Housing Opportunities Commission	7,875	8,205	8,205	4.2 %	100.0%	0.2%
TOTAL	**4,316,662**	**5,182,835**	**5,057,244**	**17.2 %**	**97.6%**	**100.0%**

	FY22-27 Approved ($000s)	FY23-28 Request ($000s)	County Executive Recommended FY23-28 ($000s)	Recommended Percent Change vs. Approved	Percent of Request Recommended	Percent of Total Recommended
WSSC	**1,745,286**	**2,092,992**	**2,092,992**	**19.9 %**	**100.0%**	

Note: The large increases in funding for the Montgomery County Public Schools, Montgomery College, and Transportation categories is due in large part to increases in federal and State aid. For example, MCPS school construction State Aid increased by $82.5 million; Montgomery College State Aid increased by $17.2 million; and State Aid and federal aid for Transportation increased by $147.7 million and $199.3 million, respectively.

SIX-YEAR CIP
MAJOR FUNDING CATEGORIES

FUNDING SOURCE	FY21-26 AMENDED EXCLUDES WSSC ($000S)	FY23-28 CE RECOMMENDED EXCLUDES WSSC ($000S)	PERCENT CHANGE	PERCENT OF TOTAL RECOMMENDED
General Obligation Bonds	1,655,074	1,633,875	-1.3%	32.3%
General Paygo	135,600	181,800	34.1%	3.6%
Agency Bonds	40,819	45,871	12.4%	0.9%
Revenue Bonds	57,838	107,573	86.0%	2.1%
Current Revenue - General Fund	317,894	353,996	11.4%	7.0%
Current Revenue - Other Tax-Supported	168,164	183,604	9.2%	3.6%
Current Revenue - Non-Tax Supported	151,811	118,952	-21.6%	2.4%
Recordation Tax	393,789	511,680	29.9%	10.1%
Recordation Tax - Premium	98,946	128,548	29.9%	2.5%
Intergovernmental Revenues	673,664	1,176,159	74.6%	23.3%
Impact Taxes - Transportation	48,191	57,382	19.1%	1.1%
Impact Taxes - Schools	97,671	135,780	39.0%	2.7%
Short & Long Term Financing	200,825	230,013	14.5%	4.5%
HIF Revolving Program	97,935	111,797	14.2%	2.2%
Contributions	35,550	28,383	-20.2%	0.6%
Other	142,891	51,831	-63.7%	1.0%
TOTAL SIX-YEAR CIP	**4,316,662**	**5,057,244**	**17.2%**	**100.0%**

WSSC (Note)	FY22-27 APPROVED WSSC ONLY ($000S)	FY23-28 CE RECOMMENDED WSSC ONLY ($000S)	PERCENT CHANGE	PERCENT OF TOTAL RECOMMENDED
Agency Bonds	1,670,906	1,756,075	5.1%	83.9%
Intergovernmental Revenues	17,256	197,546	1044.8%	9.4%
Contributions	13,400	15,781	17.8%	0.8%
Other	43,724	123,590	182.7%	5.9%
TOTAL SIX-YEAR CIP	**1,745,286**	**2,092,992**	**19.9%**	**100.0%**

Note: WSSC is governed by state law and is the only agency for which the County Council adopts an annual CIP.

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%
	December Fiscal Plan for FY23-28 CE Rec	**2.50%**	**3.40%**	**3.10%**	**2.80%**	**3.00%**	**3.00%**
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

DEBT CAPACITY ANALYSIS

FY23-28 CAPITAL IMPROVEMENTS PROGRAM

January 21, 2022

COUNTY COUNCIL APPROVED SPENDING AFFORDABILITY GUIDELINE

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%**	**11.74%**	**11.35%**	**11.34%**	**11.20%**	**10.97%**	**11.17%**
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)		2.5%	3.4%	3.1%	2.8%	3.0%	3.0%

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.

DEBT CAPACITY ANALYSIS

FY23-28 CAPITAL IMPROVEMENTS PROGRAM

January 18, 2022

COUNTY EXECUTIVE RECOMMENDED

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%**	**11.74%**	**11.35%**	**11.35%**	**11.24%**	**11.05%**	**11.29%**
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)		2.5%	3.4%	3.1%	2.8%	3.0%	3.0%

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.

DEBT CAPACITY ANALYSIS

FY23-28 CAPITAL IMPROVEMENTS PROGRAM
COUNTY COUNCIL REQUESTED SCENARIO
January 18, 2022
GO BOND 6 YR TOTAL = 1,800.0 MILLION
GO BOND FY23 TOTAL = 300.0.0 MILLION
GO BOND FY24 TOTAL = 300.0 MILLION

	FY22	FY23	FY24	FY25	FY26	FY27	FY28
1 GO Bond Guidelines ($000)	310,000	300,000	300,000	300,000	300,000	300,000	300,000
2 GO Debt/Assessed Value	1.70%	1.67%	1.63%	1.58%	1.53%	1.49%	1.44%
3 Debt Service + LTL + Short-Term Leases/Revenues (GF)	**11.70%**	**11.74%**	**11.35%**	**11.38%**	**11.29%**	**11.12%**	**11.39%**
4 $ Debt/Capita	3,255	3,260	3,243	3,215	3,178	3,136	3,092
5 $ Real Debt/Capita (FY20=100%)	3,255	3,196	3,105	3,004	2,899	2,792	2,687
6 Capita Debt/Capita Income	3.67%	3.50%	3.30%	3.11%	2.93%	2.78%	2.64%
7 Payout Ratio	71.81%	72.67%	73.44%	74.08%	74.35%	74.57%	74.72%
8 Total Debt Outstanding ($000s)	3,520,835	3,533,330	3,539,750	3,532,410	3,516,060	3,493,165	3,467,300
9 Real Debt Outstanding (FY20=100%)	3,520,835	3,464,492	3,388,735	3,301,044	3,207,389	3,110,496	3,013,819
10 Note: OP/PSP Growth Assumption (2)		2.5%	3.4%	3.1%	2.8%	3.0%	3.0%

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.

GENERAL OBLIGATION BOND ADJUSTMENT CHART

FY23-28 Capital Improvements Program

COUNTY EXECUTIVE RECOMMENDED

January 18, 2022

($ millions)	6 YEARS	FY23	FY24	FY25	FY26	FY27	FY28
BONDS PLANNED FOR ISSUE	1,750.000	300.000	290.000	290.000	290.000	290.000	290.000
Does not assume Council SAG in FY09 and FY10*							
Plus PAYGO Funded	181.100	33.900	30.800	29.200	29.200	29.000	29.000
Adjust for Future Inflation **	(72.285)	-	-	(7.573)	(14.847)	(21.705)	(28.161)
SUBTOTAL FUNDS AVAILABLE FOR							
DEBT ELIGIBLE PROJECTS (after adjustments)	1,858.815	333.900	320.800	311.627	304.353	297.295	290.839
Less Set Aside: Future Projects	**170.722**	**14.779**	**19.565**	**26.037**	**30.079**	**36.600**	**43.661**
	9.18%						
TOTAL FUNDS AVAILABLE FOR PROGRAMMING	1,688.093	319.121	301.235	285.590	274.274	260.695	247.178
MCPS	(499.443)	(110.904)	(146.951)	(100.734)	(84.231)	(40.623)	(16.000)
MONTGOMERY COLLEGE	(144.128)	(20.807)	(23.015)	(21.253)	(15.504)	(27.463)	(36.086)
M-NCPPC PARKS	(76.450)	(13.997)	(12.637)	(10.933)	(12.961)	(12.961)	(12.961)
TRANSPORTATION	(595.979)	(129.525)	(104.930)	(67.016)	(75.031)	(108.013)	(111.464)
MCG - OTHER	(499.675)	(79.150)	(106.022)	(85.654)	(86.547)	(71.635)	(70.667)
Programming Adjustment - Unspent Prior Years*	127.582	35.262	92.320				-
SUBTOTAL PROGRAMMED EXPENDITURES	(1,688.093)	(319.121)	(301.235)	(285.590)	(274.274)	(260.695)	(247.178)
AVAILABLE OR (GAP) TO BE SOLVED	-	-	-	-	-	-	-
NOTES:							
* See additional information on the GO Bond Programming							
Inflation =		3.26%	2.51%	2.43%	2.39%	2.31%	2.22%

TAX SUPPORTED CURRENT REVENUES ADJUSTMENT CHART

FY23-28 Capital Improvements Program
COUNTY EXECUTIVE RECOMMENDED
January 18, 2022

($ MILLIONS)	6 YEARS	FY23 APPROP	FY24 EXP	FY25 EXP	FY26 EXP	FY27 EXP	FY28 EXP
TAX SUPPORTED CURRENT REVENUES AVAILABLE	549.661	84.999	96.595	89.736	84.912	97.207	96.211
Adjust for Future Inflation *	(21.193)	-	-	(2.129)	(3.953)	(6.614)	(8.496)
SUBTOTAL CURRENT REVENUE FUNDS AVAILABLE FOR ELIGIBLE PROJECTS (after adjustments)	528.468	84.999	96.595	87.607	80.959	90.593	87.715
Less Set Aside: Future Projects	-	-	-	-	-	-	-
TOTAL FUNDS AVAILABLE FOR PROGRAMMING	528.468	84.999	96.595	87.607	80.959	90.593	87.715
GENERAL FUND							
MCPS	(145.151)	(23.488)	(27.749)	(28.793)	(21.707)	(21.707)	(21.707)
MONTGOMERY COLLEGE	(93.804)	(16.434)	(17.034)	(15.084)	(15.084)	(15.084)	(15.084)
M-NCPPC	(26.588)	(4.398)	(4.598)	(4.398)	(4.398)	(4.398)	(4.398)
HOC	(8.205)	(1.955)	(1.250)	(1.250)	(1.250)	(1.250)	(1.250)
TRANSPORTATION	(52.902)	(8.832)	(8.887)	(8.827)	(8.922)	(8.757)	(8.677)
MC GOVERNMENT	(26.884)	(4.588)	(4.832)	(4.244)	(4.670)	(4.675)	(3.875)
SUBTOTAL - GENERAL FUND	(353.534)	(59.695)	(64.350)	(62.596)	(56.031)	(55.871)	(54.991)
MASS TRANSIT FUND	(135.395)	(20.390)	(24.915)	(18.565)	(18.885)	(27.345)	(25.295)
FIRE CONSOLIDATED FUND	(36.839)	(4.464)	(6.880)	(5.996)	(5.593)	(6.927)	(6.979)
PARK FUND	(2.700)	(0.450)	(0.450)	(0.450)	(0.450)	(0.450)	(0.450)
SUBTOTAL - OTHER TAX SUPPORTED	(174.934)	(25.304)	(32.245)	(25.011)	(24.928)	(34.722)	(32.724)
TOTAL PROGRAMMED EXPENDITURES	(528.468)	(84.999)	(96.595)	(87.607)	(80.959)	(90.593)	(87.715)
AVAILABLE OR (GAP) TO BE SOLVED	-	-	-	-	-	-	-
* Inflation:		3.26%	2.51%	2.43%	2.39%	2.31%	2.22%

Note:
(1) FY23 APPROP equals new appropriation authority. Additional current revenue funded appropriations will require drawing on operating fund balances.

Resolution No.: ____________
Introduced: ____________
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. Section 20-56 of the County Code lists several economic and financial factors that should be considered, requires a public hearing 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. A public hearing was held on September 21, 2021, and the guidelines were adopted on October 5, 2021 in Council Resolution No. 19-999.

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

5. Section 20-56 of the County Code allows the Council to amend the aggregate capital budget spending affordability guidelines by the first Tuesday in February if there is a significant change in conditions.

6. The Government Operations and Fiscal Policy Committee reviewed the relevant economic and fiscal conditions on January 27, 2022 and recommends that the Council retain the guidelines adopted by the Council on October 5, 2021.

Action

The County Council for Montgomery County approves the following resolution:

The County Council confirms the six guidelines adopted in Council Resolution No. 19-999. The current guidelines are listed below and remain in effect 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 2021;	$300 million
2.	The total general obligation bond debt issued by the County that may be planned for expenditure in Fiscal Year 2022;	$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 2021-2026;	$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 2021;	$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 2022; 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 2021-2026.	$48.0 million

This is a correct copy of Council action.

____

Selena Mendy Singleton, Esq.
Clerk of the Council