T&E Committee #2
February 5, 2015
Presentation and Discussion

MEMORANDUM

February 3, 2015

TO: Transportation, Infrastructure, Energy & Environment Committee

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SUBJECT: **Office of Legislative Oversight Report 2015-5: *Parking Lot District Fiscal Management and Budgeting***

The purpose of this worksession is for the Transportation, Infrastructure, Energy & Environment (T&E) Committee to receive a presentation on Office of Legislative Oversight Report 2015-5, *Parking Lot District Fiscal Management and Budgeting.*

COUNCILMEMBERS PREVIOUSLY RECEIVED A COPY OF REPORT 2015-5 AND SHOULD BRING THE REPORT TO THE T&E SESSION.

Montgomery County has established parking lot districts (PLDs) in Bethesda, Montgomery Hills, Silver Spring, and Wheaton. The purpose of these districts is to provide property owners an off-site alternative to the on-site parking requirements of the Zoning Ordinance. PLDs receive revenues from parking fees, parking fines, a special property tax, and other miscellaneous sources. The parking lot districts operate as enterprise funds.

During the FY15 operating budget approval process, the County Council considered the fiscal health of the PLDs. At that time, Council Central Staff reported that the Bethesda PLD's fiscal situation was in a "quite tenuous" position. The Council adopted a bill that allowed a one-time $1.5 million loan of Silver Spring PLD resource to cover the shortfall in the Bethesda PLD enterprise fund. In addition, the Council directed OLO to examine the long-term viability of the current parking lot district fiscal policies and practices. OLO Report 2015-5 analyzes multi-year revenue and expenditure projections, funding policies, restricted revenues, and funding transfers of the parking lot districts in the County. The report further examines and evaluates PLD fiscal management and budgeting practices and offers recommendations on achieving long-term fiscal stability for the four PLD enterprise funds. The executive summary of Report 2015-5 is attached to this memorandum.

Representatives of the Department of Transportation, the Office and Management and Budget, and the Department of Finance will attend the T&E session to present Executive Branch comments on Report 2015-5.

Executive Summary
PARKING LOT DISTRICT FISCAL MANAGEMENT AND BUDGETING

OLO Report Number 2015-5 January 27, 2015

Montgomery County's parking lot districts (PLDs) provide a collective pool of public parking for the benefit of businesses, patrons and commuters. In lieu of providing parking on-site as required by the Zoning Ordinance, non-residential property owners in a parking lot district (PLD) may opt to pay an annual ad valorem tax to fund the construction and maintenance of public parking facilities. Montgomery County has established parking lot districts in Bethesda, Montgomery Hills, Silver Spring, and Wheaton. This report examines and evaluates PLD fiscal management and budgeting practices.

PLD Fund Policies

Fund Balance: As enterprise funds, the PLDs should generate sufficient revenue on an on-going basis to cover the debt service, operating, and capital costs of providing public parking in the four districts. The County's Fiscal Policy recognizes the need to assure that enterprise funds maintain a sufficient fund balance, stating that the County "will, through pricing, inventory control, and other management practices, ensure appropriate fund balances for its enterprise funds while obtaining full cost-recovery for direct and indirect government support." However, no PLD fund balance policy appears in any County budget document.

A 2002 memorandum to the Council's Transportation and Environment Committee stated the County Executive's policy was to maintain an unrestricted fund balance for each PLD enterprise fund of at least 50% of the projected operating expenses for the subsequent fiscal year. However, this policy statement seems to have had minimal effect on recent year budgets. For example, the current fund balance for the Bethesda PLD is only at about 12% of FY15 operating expenses and is projected to fall below zero by FY20.

Transfer of Funds: Long established County policy permits use of PLD fund for certain specified non-PLD programs. However, the County Code does not address the relative priority of using PLD funds for parking-related purposes as opposed to transferring these resources for other purposes. Moreover, no standard or policy exists to adjust the amount of annual PLD transfers to account for the availability of resources.

PLD Revenues and Expenditures

Revenues: The PLD enterprise funds receive revenue from four sources: parking fees, parking fines, property taxes, and miscellaneous revenue. The relative contribution of the four PLD revenue sources varies significantly among the four districts. In Bethesda, FY15 parking fees will provide nearly two-thirds (64%) of the PLD's revenue, more than five times the revenue raised from property taxes (12%). In contrast, parking fees will provide about half (51%) of FY15 Silver Spring PLD revenues with property taxes supplying 38% of the district's revenues.

Historically, PLD revenues have been relatively stable and predictable. However, future year PLD property tax revenue generation may soon experience significant volatility. Recent amendments to Zoning Ordinance parking requirements likely will result in additional properties becoming eligible for a PLD property tax exemption. The fiscal impact of this change is unknown as the Executive Branch does not possess adequate data to determine which properties will become eligible for the property tax exemption. As a result, PLD revenues for FY16 and beyond could vary greatly from current projections.

1

Expenditures: PLD enterprise fund expenditures fall into four categories: operating expenses, current revenue capital expenditures, debt service, and transfers to other funds. PLD relative spending by category varies greatly by district. The Montgomery Hills PLD expends 97% of its spending on operating expenses compared to 42% for the Bethesda PLD. Bethesda – the sole PLD with current debt service obligations – expends 29% of current year spending on capital projects.

Chapter 60 of the County Code authorizes the transfer of resources from PLD enterprise funds to support urban districts and transportation management activities. The Bethesda, Silver Spring, and Wheaton PLDs also transfer fine revenues to the Mass Transit Fund. (OLO finds the County Code to be ambiguous as to whether PLD fine revenues may be transferred to the Mass Transit Fund.) The Bethesda PLD expends 29% of its resources on transfers to other funds; the Silver Spring PLD expends 27% of its resources on transfers.

Fiscal Conditions of the PLD Enterprise Funds

OLO analyzed current year and projected six-year revenues and expenditures for each of the four PLDs and developed the following summary assessments.

- The Bethesda PLD fund faces serious structural challenges that will cause the fund to fall into deficit unless corrective actions are taken. Under current policies and practices, the fund will annually spend more than it receives in revenues, driving its already precariously low fund balance toward zero. The lack of significant fund reserves leaves the PLD incapable of absorbing an unanticipated spike in expenses or a downturn in revenue generation.

  The extent of on-going structural deficiencies in the PLD fund is masked by anticipated infusions of one-time revenues in FY16 and FY18. Moreover, a significant increase in the number of PLD property tax exemptions could further deplete revenues and exacerbate the fund's financial troubles. In the very long-term, expiration of revenue bond reserve requirements in Year 2032 will provide some relief to the fiscal condition of the PLD fund.

- The Montgomery Hills PLD currently is in sound fiscal condition.

- The Silver Spring PLD fund is the most fiscally healthy and stable of the four PLD funds. Projected PLD expenditures are well balanced with projected revenues. Moreover, the fund enjoys a high fund balance percentage that should be more than sufficient to satisfy operating and capital obligations for several years even in the event of an unexpected downturn in revenue generation. However, two factors – the possible increase in the number of PLD property tax exemptions and the disposition of outstanding MEDCO debt service costs – could reduce the Silver Spring PLD enterprise fund balance and thereby warrant a reassessment of the fund's fiscal condition.

- The Wheaton PLD has a healthy fund balance and is projected to retain a strong fund balance in future years. Current and projected future year expenditures are well balanced with revenues creating a stable fiscal standing for the PLD fund. This stability is a result, in part, of previous decisions to adjust the amount of transfers to other funds to address Wheaton PLD fund balance requirements. Wheaton redevelopment, including the construction of a new garage, will affect future year revenues and expenditures.

This report also includes a detailed comparison of the fiscal characteristics of the two largest PLDs, Bethesda and Silver Spring. The revenue structures of the Bethesda and Silver Spring PLDs differ significantly. Bethesda has a greater dependence than Silver Spring on fees; Silver Spring has a greater dependence on property taxes. Bethesda parkers pay $5.32 in fees for every dollar paid through the PLD property tax compared with only $1.35 in parking fees for each property tax dollar in Silver Spring. The disparity in the funding structures is a function of the rate structure in the two districts. Parking rates are higher in Bethesda than in Silver Spring; property tax rates are two-and-a-half higher times in Silver Spring than in Bethesda.

3

OLO Recommendations

OLO offers the following four recommendations for Council consideration.

1. ***Approve a PLD fund balance policy; require that future year budgets and fiscal plans comply with the fund balance policy.***

OLO recommends that the Council adopt a policy that sets a target fund balance percentage (that is, the available end-of-year balance measured as a percent of total annual enterprise fund resources) for the PLDs. The purpose of this proposed policy is to assure that each PLD fund has sufficient resources to meet its debt service, operating, and capital budget obligations and to protect against unanticipated revenue shortfalls or cost increases. If a PLD fund balance is projected to deviate significantly from the target, the County would then take corrective measures – adjustments to revenues and/or expenditures – to comply with the policy.

OLO advises that budgetary adjustments should be made in the context of the long-term fiscal condition of the enterprise funds. Changes in revenues or expenditures need not be made if the fund balance percentage for a single fiscal year deviates significantly from the target level. Budget adjustments should be made when multi-year projections point to an on-going trend away from the fund balance target.

Based on our review of annual variations in PLD operating budgets, OLO recommends that the Council adopt a policy to maintain a 30% fund balance percentage for PLD enterprise funds.

2. ***Amend the County Code to clarify the conditions for transferring resources from a PLD enterprise fund.***

OLO recommends that the Council amend the County Code to specify that parking related debt service, operating, and capital obligations must be the primary uses of PLD resources. Further, the Code should restrict transfers from enterprise funds to available resources in excess of the fund balance target after parking related capital obligations have been fulfilled.

The County Code is ambiguous as to whether the current practice of transferring PLD fine revenues to the Mass Transit Fund is permissible. OLO recommends amending the Code to allow the transfer of PLD resources to the Mass Transit Fund subject to the availability of resources and consistent with fund balance requirements.

3. ***Request the Executive Branch recalculate projected PLD property tax revenues to account for properties newly exempted from the tax.***

OLO recommends that the Council request the Executive Branch recalculate PLD property tax revenue projections in light of the revised parking requirements and submit the updated projections no later than June 15, 2015. The Executive's should assess the volatility of future year PLD tax generation given the new parking requirements. In addition, the Executive should inform the Council on efforts to notify property owners of their potential eligibility for the tax exemption.

4. ***Develop a plan for the long-term fiscal stability of the PLD enterprise funds; solicit public comments on methods for achieving long-term PLD fiscal stability.***

Under the existing PLD fiscal structure, no established process exists to assure that the enterprise funds retain sufficient resources to meet long-term obligations. Rather, the County has made a series of one-year adjustments through the annual operating budget to temporarily address PLD funding needs. Annual budget decisions rarely have addressed the long-term structural conditions of the PLD enterprise funds.

OLO recommends that the County adopt a plan for long-term PLD fiscal stability. Absent a long-term plan, the County will be unable to assure the on-going maintenance of sufficient PLD enterprise fund reserves to fulfill debt service and operating obligations in the event of unforeseen revenue decreases or cost increases. The projected deficit currently facing the Bethesda PLD enterprise fund could be corrected through a plan to assure that – over the long-term – anticipated revenues meet or exceed planned expenditures. A similar approach would safeguard the other PLDs from encountering future deficits. OLO further suggests that the Council should solicit public comments on existing PLD fund conditions and alternative methods to correct fiscal deficiencies.

OLO offers the following alternative options as model approaches to achieve the goal of PLD fiscal stability.

Option 1.a: Adjust Spending and/or Revenue Generation to Comply with Fund Balance Policy
The County would set annual budgets for the PLD enterprise funds in the context of a fund balance policy. In the event that a PLD enterprise fund is projected to fall below the targeted fund balance, the County would either (a) limit the annual transfers to other funds to comply with the fund balance policy; and/or (b) increase parking fee, parking fine, or property tax rates. Under certain circumstances a PLD enterprise fund may have resources in excess of the fund balance policy requirements. In these instances, the County would lower parking fee, parking fine, or property tax rates (or hold these rates constant over time against inflation) to bring down the enterprise fund balance to the target level.
Option 1.b: Amend the Charter to Exempt PLD Taxes from the Charter Limit
This option is identical to the previous option but would also include a charter amendment exempting PLD property taxes from the charter limit.
Option 2: Provide General Fund Support to Assure Compliance with Fund Balance Policy
In any given year, the General Fund would assist any PLD enterprise fund that lacks sufficient resources to meet parking-related obligations, continue (or increase) transfers, and meet fund balance requirements.
Option 3: Limit PLD Expenditures to Parking-Related Functions
The County would restrict the use of PLD fee, fine, and property tax revenue to activities directly related to parking-related activities. The Code would be amended to remove authorization for the transfer of PLD resources to other funds. With the elimination of transfers, the PLDs would need to raise less revenue than under current practice. As a result, PLD fee, fine, and/or property tax rates could be lowered. Reductions in PLD property tax rates would permit a shift in revenue generation capacity to other property taxes under the charter limit.
Option 4: Create a Consolidated Enterprise Fund for the Four PLDs
All revenues from the four PLDs would be pooled into a single enterprise fund. All four districts would draw from the consolidated fund to pay for debt service, operating, and capital obligations. The consolidated enterprise fund would be subject to a fund balance policy with a target reserve level. Transfers from the consolidated enterprise fund for non-PLD purposes would be permitted subject to the availability of resources. The County Council would continue to annually set parking fee and fine rates for each district with rates varying by district, by duration, and by space location. However, the Council would set a single PLD property tax rate for all non-exempted properties in all four districts.