GO COMMITTEE #1
September 24, 2015

MEMORANDUM

September 22, 2015

TO: Government Operations & Fiscal Policy Committee

FROM: Glenn Orlin, GO Deputy Council Administrator

SUBJECT: Spending Affordability Guidelines for the FY17 Capital Budget and FY17-22 Capital Improvements Program

I. Establishment of guidelines

Section 305 of the Charter requires the Council to set spending affordability guidelines for the capital budget each year, and requires the Council to establish by law the process and criteria. Subsequent law requires the Council to set the guidelines for capital budgets by resolution biennially, and no later than the first Tuesday in October in odd-numbered years: October 6 in 2015. As the title of the law indicates, the guidelines are related to how much the Council believes the County can afford, not how much might be needed. The law is on ©1-3.

Until now the guidelines have applied to County General Obligation bonds and bonds issued by the Maryland-National Capital Park and Planning Commission (M-NCPPC) only; there are no limits on capital expenditures which are funded by other sources (except for the Washington Suburban Sanitary Commission (WSSC), for which there is a separate spending affordability process). Roughly 48.7% of the $4.58 billion Approved FY15-20 Capital Improvements Program (CIP) as amended (excluding WSSC) is financed by General Obligation bonds and about 1.0% is financed by M-NCPPC bonds.

The guidelines adopted on or before October 6 are to specify:

1. The total general obligation debt issued by the County that may be planned for spending in FY17.
2. The total general obligation debt issued by the County that may be planned for spending in FY18.
3. The total general obligation debt issued by the County that may be planned for spending in the 6-year period of FY17-22.
4. The Park and Planning bond debt issued by M-NCPPC to finance local park acquisition and development (County bonds are used for the regional parks) that may be planned for spending in FY17.
5. The Park and Planning bond debt issued by M-NCPPC that may be planned for spending in FY18.
6. The Park and Planning bond debt issued by M-NCPPC that may be planned for spending in the 6-year period of FY17-22.

II. Amending the resolution which set the guidelines

No later than the first Tuesday in February (February 2 in 2016) the law permits the Council to increase or decrease the guidelines "to reflect a significant change in conditions." A majority of the Council is needed to approve a change in the guidelines. The change in conditions would relate to an increase or decrease in the County's ability to afford the debt, not to an increase or decrease in need. The law places no limit on the amount of decrease permitted to any guideline or to the amount of increase for the 6-year guidelines. The law limits any increase to the first-year and second-year guidelines to 10% of the amounts which were set in October. In the second year of a biennial CIP cycle, the second-year guideline cannot be raised by more than 10% of that established in the prior year.

Therefore, for example, if the Council were now to establish the FY17 guideline at $340 million, the most it could raise it to in February 2016 is $374 million ($34 million more), and if it did so, the most it could raise it to in February 2017 is $411.4 million (another $37.4 million more). In the second year the law again places no limit on the amount of decrease permitted to any guideline or to the amount of increase for the 6-year guidelines.

The capital budget must be approved by June 1, 2016. Note that only a majority is needed to set the guidelines in October or to change the guidelines in February, but 7 affirmative votes are required to exceed the guidelines when the budget is approved in May.

III. Determining affordability, General Obligation bonds

The law suggests that the Council should consider a number of economic and financial factors, which are either part of the regular briefings on economic indicators (which the GO Committee developed) or will be considered in the discussion below on debt affordability indicators. The 6-year bond ceilings for general obligation debt since the FY01-06 CIP are shown below, as well as the percentage change from the prior year:

FY01-06	$798.0 million (+7.4%)
FY01-06 amended	$826.0 million (+3.5%)
FY03-08	$880.4 million (+6.6%)
FY03-08 amended	$895.2 million (+1.7%)
FY05-10	$1,140.0 million (+27.3%)
FY05-10 amended	$1,218.0 million (+6.8%)
FY07-12	$1,458.0 million (+19.7%)
FY07-12 amended	$1,650.0 million (+13.2%)
FY09-14	$1,800.0 million (+9.1%)
FY09-14 amended	$1,840.0 million (+2.2%)
FY11-16	$1,950.0 million (+6.0%)
FY11-16 amended	$1,910.0 million (-2.1%)
FY13-18	$1,770.0 million (-7.3%)
FY13-18 amended	$1,770.0 million (no change)
FY15-20	$1,947.0 million (+10.0%)
FY15-20 amended	$1,999.5 million (+2.7%)

To assist in determining debt capacity—how much debt the County can afford—the Council relies in part on the debt capacity analysis charts that show the value of various indicators of debt affordability at various levels of debt over the next 6 years. The indicators are:

1. Total debt should not exceed 1.5% of full market value of taxable real property.
2. Debt service (defined as expenditures plus long- and short-term leases) should not exceed 10% of the General Fund operating budget.
3. 60-75% of the debt at the beginning of any period should be paid off within ten years.
4. The ratio of debt to income should not exceed 3.5%.
5. Real debt per capita should not exceed $1,000 in FY91 dollars by a "significant" amount. (Reflecting inflation, we should now use an indicator of $2,200 in FY16 dollars.)

The calculation of these indicators depends not just on the amount of projected debt, but also on projections of assessed value, growth in the operating budget, population, and personal income. The chart on ©4 displays last winter's projections versus the more recent March 2015 forecasts from the Department of Finance. The county's total personal income is assumed to grow at a slightly slower pace, as is personal income. The county's total assessable base is assumed to grow a bit faster in FYs17-18, but slower from FY19 on. The projected growth of operating revenue is much lower in FY17 but slightly higher from FY18 on. Anticipated inflation is somewhat higher in each year. The population forecast is unchanged.

At the request of Council staff, the Office of Management and Budget has produced four scenarios reflecting different potential County bond guidelines and targets. (The bond 'targets' are the amounts for the third, fourth, fifth, and sixth years of the CIP. While the law would allow any of the targets to be exceeded, the Council's practice at CIP Reconciliation is to try to bring planned expenditures under or at the targets as well as the guidelines.) The 6-year totals for these scenarios (see below) range from a low of $1,980 million to a high of $2,160 million. Debt capacity analyses for these scenarios are on ©5-8.

Spending Affordability Scenarios ($ millions)

Scenario	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	6-yr Total	Change (%)
Existing	299.5	340	340	340	340	340	-	-	1,999.5	-
#1 (©5)	-	-	330	330	330	330	330	330	1,980.0	-19.5 (-1%)
#2 (©6)	-	-	340	340	340	340	340	340	2,040.0	+40.5 (+2%)
#3 (©7)	-	-	350	350	350	350	350	350	2,100.0	+100.5 (+5%)
#4 (©8)	-	-	360	360	360	360	360	360	2,160.0	+160.5 (+8%)

How each scenario meets the five debt indicators is shown below. The table notes the number of years within the CIP period the indicators would be met (maximum total score=30):

	#1	#2	#3	#4
FY17 Guideline ($ millions)	330	340	350	360
FY18 Guideline ($ millions)	330	340	350	360
FY17-22 Guideline ($ millions)	1,980	2,040	2,100	2,160
Debt Indicators				
Number of years that total debt is not greater than 1.5% of the market value of taxable real property	0	0	0	0
Number of years that debt service (plus leases) is not greater than 10% of the General Fund budget	0	0	0	0
Number of years that real debt/capita doesn't exceed $1,000 (in FY91 dollars) by a "significant" amount ($2,200 in FY16 dollars)	0	0	0	0
Number of years that payout ratio (percentage of debt to be paid out in 10 years) is 60-75%	6	6	6	6
Number of years that debt/income ratio doesn't exceed 3.5%	0	0	0	0
Total Score	**6**	**6**	**6**	**6**

These scores are extremely poor, especially compared to experience prior to the Great Recession. Debt has normally not exceeded 1.5% of real property value in any year, but the projection under every scenario is that it will exceed it in every one of the next six years, although the percentages trend slightly in the positive direction. The debt/income rate also normally has not exceeded the 3.5% standard, but the projection is that it will be exceeded in all years under all scenarios, although it, too, trends slightly better over time. The debt/capita standard has been exceeded by a wide margin for many years; every scenario shows the standard being exceeded by about 40%. The debt service as a percentage of operating revenue is often above 10%, but rarely above 11%; now the projection is for a ratio above 12% in every year under every scenario, except for FY19.

Overall, the comparative results of the debt indicators should not be surprising. Within this range of scenarios there is very little difference in the results for the indicators, since most debt service (the numerator in most of the indicators) is paid from prior bond issues.

Executive's recommendation and hearing testimony. The County Executive is recommending setting the G.O. bond guidelines and targets at $340 million annually, and $2,040 million for the six-year period. His transmittal letter is on ©9-15; his testimony is on ©16-18. He notes the rising proportion of debt service in the operating budget and counsels not exceeding the $340 million/year guidelines and targets the Council had set last February for FYs16-20. The Montgomery County Civic Federation raised concerns about how bus rapid transit funding would be affordable (©19-21), but that was not the subject of the public hearing. The Walter Johnson Cluster PSTA recommended setting guidelines and targets no lower than $340 million annually, given the capital needs of its schools (©22-23).

Analysis. The largest contributor to the worsening debt indicators was the Department of Finance's decision to issue about $200 million of General Obligation debt last year above and beyond the guidelines in order to offset Interim Finance payments for projects in the County Executive's Smart Growth Initiative. This was necessary because anticipated revenue from the Smart Growth Initiative has been practically non-existent. When proposed, these projects were purported to be revenue neutral; they have proven to be anything but.

The impact of this decision is substantial. Adding about $200 million more in debt in FY15 has roughly the same impact as if the Council had increased the SAG limits in FYs17-22 by $35 million annually: up from $340 million to $375 million each year. The table below shows how the failing indicators are now projected to fail by a wider margin from FY16-on, assuming guidelines and targets of $340 million/year henceforth:

	Standard	FY10	FY12	FY14	FY16	FY18	FY20	FY22
Debt/Assessable Base	**≤1.5%**	1.24%	1.56%	1.76%	1.87%	1.81%	1.78%	1.78%
Debt service % of GF	**≤10%**	8.75%	10.10%	10.31%	11.06%	12.08%	12.09%	12.38%
Debt/Capita	**≤$2,200**	$2,239	$2,675	$2,848	$3,180	$3,153	$3,080	$3,004
Debt/Income	**≤3.5%**	3.11%	3.60%	3.71%	3.93%	3.85%	3.77%	3.79%

In October 1992, in the midst of what in retrospect was a much smaller recession than the one experienced during the past few years, the Council approved guidelines that reduced the G.O. bond portion of the CIP from $810 million to $600 million—a 26% reduction—while the public demand for schools, transportation, and other public facilities were arguably as high as they are now. That course correction set the County's debt service situation on a healthy fiscal path for the next two decades. However, since FY12 the indicators have slipped into uncharted territory, well beyond the standards adopted in the early 1990s.

There has been considerable discussion of a potential property tax increase for FY17 that would exceed the Charter limit. If this were to occur, ironically, it would have a positive effect on the Debt Service % of General Fund indicator in FY17 and beyond, even assuming the property tax would remain at the Charter limit in subsequent years. However, it would do nothing to improve Debt/Assessable Base, Debt/Capita, and Debt/Income, which are all largely exogenous to Council decision-making.

There are really only two approaches that would bring these indicators back into a safer range. One is to substantially reduce the guidelines as was done in 1992, but there appears to be no appetite for that. The other is to slowly ratchet back the guidelines—or at least keep them stable—over the next several CIPs—10 or 12 years; this would allow time for growth in the assessable base, population, and income to catch up to the growth in debt. This was the approach we counseled in early 2014, but the Executive and the majority of the Council opted for a substantial 10% increase, and the Council approved a small (2.7%) increase on top of that last winter. These increases, plus the necessary issuing of debt to cover the Smart Growth Initiative shortfalls, have brought us to this place.

As noted above, the Council is supposed to set guidelines according to what is affordable, not what is needed or desired. There is no doubt that needs and desires creep into the decisions, however. With that in mind, the Council should recall that fully a third of the "fiscal space" in the FY17-22 CIP is new: funding for FYs21-22 has yet to be programmed explicitly. Certainly some of the fiscal space in FYs21-22 will be consumed with the continuation of "level of effort" projects like PLAR, resurfacing, roof replacement, etc. Furthermore, there are several projects in the FY15-20 CIP which show funding presumed "beyond six years": FYs21-22 and beyond. Nevertheless, it is possible to retain the current guidelines, and even ratchet them back slightly, and still have room to program some new projects.

Council staff recommendation: Do not increase the guidelines above $340 million annually.

IV. Determining affordability, Park and Planning bonds

The guidelines and targets adopted for the FY15-20 CIP and for the FY15-20 CIP as amended were $6.0 million in FY15 and $6.0 million annually in FYs16-20, with a six-year guideline of $36.0 million. The six-year planned expenditures for Park and Planning bonds since the FY01-06 CIP (and the percentage change from the prior year) are shown below:

FY01-06	$17.20 million (+3.6%)
FY01-06 amended	$17.45 million (+1.5%)
FY03-08	$18.00 million (+3.2%)
FY03-08 amended	$18.00 million (no change)
FY05-10	$22.60 million (+25.6%)
FY05-10 amended	$22.60 million (no change)
FY07-12	$23.50 million (+4.0%)
FY07-12 amended	$23.50 million (no change)
FY09-14	$30.00 million (+27.7%)
FY09-14 amended	$30.00 million (no change)
FY11-16	$37.50 million (+25.0%)
FY11-16 amended	$37.50 million (no change)
FY13-18	$36.00 million (-4.0%)
FY13-18 amended	$36.00 million (no change)
FY15-20	$36.00 million (no change)
FY15-20 amended	$36.00 million (no change)

The Committee advertised M-NCCPC guidelines in the range of $6.0-6.5 million annually, or $36-39 million over the six-year period. On July 30, 2015 the Parks Board, in the second of two CIP Strategy Sessions, supported a staff recommendation to maintain spending affordability guidelines at $6 million per year and $36 million for the six years for FY17-22. The Executive also recommends these guidelines.

Council staff recommendation: Retain the guidelines at $6.0 million annually and $36 million over the six-year period.

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c. In any agreement by the county relating to revenue bonds; and

(2) Compel the performance of all duties required by:

a. This article; or

b. A resolution authorizing revenue bonds; or

c. Any agreement by the county relating to revenue bonds, in accordance with law. (1986 L.M.C., ch. 52, § 1.)

Sec. 20-54. Credit of county not pledged.

(a) Revenue bonds are not indebtedness of the county within the meaning of the Charter and do not constitute a pledge of the full faith and credit of the county.

(b) All revenue bonds must contain a statement on their face to the effect that the full faith and credit of the county is not pledged to pay their principal, interest, or premium, if any. (1986 L.M.C., ch. 52, § 1.)

ARTICLE X. SPENDING AFFORDABILITY—CAPITAL BUDGETS*

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.)

***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.

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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.

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(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.)

DEBT CAPACITY ANALYSIS
KEY ASSUMPTIONS AND INPUTS
CE RECOMMENDED FY15-20 Amended CIP (January, 2015) VS. March, 2015

		Current Year FY 16	Year 1 FY 17	Year 2 FY 18	Year 3 FY 19	Year 4 FY 20	Year 5 FY 21	Year 6 FY 22
1	INTEREST RATE ON BONDS							
	FY15-20 Amended CIP - January 15, 2015		5.00%	5.00%	5.00%	5.00%		
	FY15-20 Amended CIP - March 15, 2015	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
2	OPERATING GROWTH							
	FY15-20 Amended CIP - January 15, 2015		5.20%	3.10%	2.90%	2.70%		
	June "Illustrative" Fiscal Plan w/Wynne case and Writedowns.	3.90%	1.80%	3.40%	5.00%	2.80%	2.70%	2.70%
3	POPULATION							
	FY15-20 Amended CIP - January 15, 2015		1,038,000	1,047,000	1,056,000	1,067,000		
	FY15-20 Amended CIP - March 15, 2015	1,029,000	1,038,000	1,047,000	1,056,000	1,067,000	1,075,000	1,075,000
4	FY CPI INFLATION							
	FY15-20 Amended CIP - January 15, 2015		1.91%	2.05%	2.20%	2.32%		
	FY15-20 Amended CIP - March 15, 2015	1.98%	2.20%	2.33%	2.53%	2.80%	3.13%	3.13%
5	ASSESSABLE BASE-COUNTYWIDE							
	FY15-20 Amended CIP - January 15, 2015		180,778,500	189,399,400	198,843,500	207,822,600		
	FY15-20 Amended CIP - March 15, 2015	175,060,000	181,910,200	190,525,900	196,972,300	203,828,400	212,124,800	212,124,800
6	TOTAL PERSONAL INCOME							
	FY15-20 Amended CIP - January 15, 2015		87,270,000,000	91,060,000,000	93,740,000,000	96,500,000,000		
	FY15-20 Amended CIP - March 15, 2015	83,360,000,000	86,850,000,000	89,720,000,000	92,260,000,000	95,970,000,000	99,870,000,000	99,870,000,000

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DEBT CAPACITY ANALYSIS

FY17-22 CAPITAL IMPROVEMENTS PROGRAM

DEBT CAPACITY ANALYSIS September 9, 2015 - COUNCIL REQUESTED SCENARIOS

6 Yr. Total ($Mn.) $1980.0 mn
FY17 Total ($Mn.) $330.0 mn
FY18 Total ($Mn.) $330.0 mn

	GUIDELINE	FY16	FY17	FY18	FY19	FY20	FY21	FY22
1. GO Bond Guidelines ($000s)		340,000	330,000	330,000	330,000	330,000	330,000	330,000
2. GO Debt/Assessed Value	1.5%	1.87%	1.85%	1.80%	1.78%	1.76%	1.73%	1.76%
3. Debt Service + LTL + Short-Term Leases/Revenues (GF)	**10%**	**11.06%**	**12.21%**	**12.07%**	**11.86%**	**12.03%**	**12.08%**	**12.27%**
4. $ Debt/Capita		3,180	3,234	3,279	3,312	3,360	3,407	3,470
5. $ Real Debt/Capita	$2,200	3,180	3,165	3,135	3,089	3,048	2,997	2,960
6. Capita Debt/Capita Income	3.5%	3.93%	3.87%	3.83%	3.79%	3.74%	3.67%	3.73%
7. Payout Ratio	60% - 75%	67.71%	68.17%	68.67%	69.56%	70.43%	68.19%	66.07%
8. Total Debt Outstanding ($000s)		3,272,290	3,357,265	3,432,835	3,497,605	3,584,810	3,662,170	3,730,080
9. Real Debt Outstanding ($000s)		3,272,290	3,284,995	3,282,457	3,261,865	3,252,132	3,221,481	3,181,634
10. OP/PSP Growth Assumption			1.8%	3.4%	5.0%	2.8%	2.7%	2.7%

(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 FY16 approved budget to FY17 budget for FY17 and budget to budget for FY18-22.

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DEBT SERVICE IMPACT	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Assumed Issue Size ($000)	340,000	330,000	330,000	330,000	330,000	330,000	330,000
GO Bond Debt Service ($000)	311,500	353,112	371,018	388,645	405,447	421,087	440,210
Dollar change in GO Bond debt service (year to year)	7,899	41,613	17,906	17,627	16,802	15,640	19,123
Percentage change in GO Bond debt service (year to year)	2.60%	13.36%	5.07%	4.75%	4.32%	3.86%	4.54%
Dollar change in GO Bond debt service from the base (FY16)		41,613	59,518	77,145	93,947	109,587	128,710
Percentage change in GO Bond debt service from the base (FY16)		13.36%	19.11%	24.77%	30.16%	35.18%	41.32%
STL and LTL Debt Service	37,645	40,156	30,365	25,618	26,328	24,293	24,293
Total Debt Service for Debt Capacity (GO Bond + STL and LTL)	349,145	393,268	401,383	414,263	431,775	445,380	464,502
Total Revenues	3,158,227	3,220,121	3,325,659	3,492,994	3,589,310	3,685,553	3,784,449

ASSUMED INCREASE IN DEBT ISSUANCE	Total Increase/(Decrease)							
Approved GO bond debt issuance		340,000	340,000	340,000	340,000	340,000	0	0
Assumed GO bond debt issuance		340,000	330,000	330,000	330,000	330,000	330,000	330,000
Increase/(Decrease) in GO bond debt issuance	620,000	0	(10,000)	(10,000)	(10,000)	(10,000)	330,000	330,000

DEBT CAPACITY ANALYSIS

FY17-22 CAPITAL IMPROVEMENTS PROGRAM

DEBT CAPACITY ANALYSIS September 9, 2015 - COUNCIL REQUESTED SCENARIOS

6 Yr. Total ($Mn.)	$2040.0 mn
FY17 Total ($Mn.)	$340.0 mn
FY18 Total ($Mn.)	$340.0 mn

	GUIDELINE	FY16	FY17	FY18	FY19	FY20	FY21	FY22
1. GO Bond Guidelines ($000s)		340,000	340,000	340,000	340,000	340,000	340,000	340,000
2. GO Debt/Assessed Value	1.5%	1.87%	1.85%	1.81%	1.79%	1.78%	1.75%	1.78%
3. Debt Service + LTL + Short-Term Leases/Revenues (GF)	**10%**	**11.06%**	**12.21%**	**12.08%**	**11.90%**	**12.09%**	**12.17%**	**12.38%**
4. $ Debt/Capita		3,180	3,244	3,297	3,339	3,395	3,450	3,521
5. $ Real Debt/Capita	**$2,200**	3,180	3,174	3,153	3,114	3,080	3,035	3,004
6. Capita Debt/Capita Income	**3.5%**	3.93%	3.88%	3.85%	3.82%	3.77%	3.71%	3.79%
7. Payout Ratio	**60% - 75%**	67.71%	68.11%	68.56%	69.41%	70.24%	67.98%	65.85%
8. Total Debt Outstanding ($000s)		3,272,290	3,367,265	3,452,335	3,526,105	3,622,810	3,709,170	3,785,580
9. Real Debt Outstanding ($000s)		3,272,290	3,294,780	3,301,103	3,288,444	3,286,606	3,262,825	3,228,973
10. OP/PSP Growth Assumption			1.8%	3.4%	5.0%	2.8%	2.7%	2.7%

(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 FY16 approved budget to FY17 budget for FY17 and budget to budget for FY18-22.

DEBT SERVICE IMPACT	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Assumed Issue Size ($000)	340,000	340,000	340,000	340,000	340,000	340,000	340,000
GO Bond Debt Service ($000)	311,500	353,112	371,268	389,895	407,672	424,262	444,310
Dollar change in GO Bond debt service (year to year)	7,899	41,613	18,156	18,627	17,777	16,590	20,047
Percentage change in GO Bond debt service (year to year)	2.60%	13.36%	5.14%	5.02%	4.56%	4.07%	4.73%
Dollar change in GO Bond debt service from the base (FY16)		41,613	59,768	78,395	96,172	112,762	132,810
Percentage change in GO Bond debt service from the base (FY16)		13.36%	19.19%	25.17%	30.87%	36.20%	42.64%
STL and LTL Debt Service	37,645	40,156	30,365	25,618	26,328	24,293	24,293
Total Debt Service for Debt Capacity (GO Bond + STL and LTL)	349,145	393,268	401,633	415,513	434,000	448,555	468,602
Total Revenues	3,158,227	3,220,121	3,325,659	3,492,994	3,589,310	3,685,553	3,784,449

ASSUMED INCREASE IN DEBT ISSUANCE	**Total Increase/(Decrease)**							
Approved GO bond debt issuance		340,000	340,000	340,000	340,000	340,000	0	0
Assumed GO bond debt issuance		340,000	340,000	340,000	340,000	340,000	340,000	340,000
Increase/(Decrease) in GO bond debt issuance	680,000	0	0	0	0	0	340,000	340,000

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DEBT CAPACITY ANALYSIS

FY17-22 CAPITAL IMPROVEMENTS PROGRAM
DEBT CAPACITY ANALYSIS September 9, 2015 - COUNCIL REQUESTED SCENARIOS

6 Yr. Total ($Mn.) $2,100.0 mn
FY17 Total ($Mn.) $350.0 mn
FY18 Total ($Mn.) $350.0 mn

	GUIDELINE	FY16	FY17	FY18	FY19	FY20	FY21	FY22
1. GO Bond Guidelines ($000s)		340,000	350,000	350,000	350,000	350,000	350,000	350,000
2. GO Debt/Assessed Value	1.5%	1.87%	1.86%	1.82%	1.80%	1.80%	1.77%	1.81%
3. Debt Service + LTL + Short-Term Leases/Revenues (GF)	**10%**	**11.06%**	**12.21%**	**12.08%**	**11.93%**	**12.15%**	**12.26%**	**12.49%**
4. $ Debt/Capita		3,180	3,254	3,316	3,366	3,431	3,494	3,573
5. $ Real Debt/Capita	**$2,200**	3,180	3,184	3,171	3,139	3,113	3,074	3,048
6. Capita Debt/Capita Income	**3.5%**	3.93%	3.89%	3.87%	3.85%	3.81%	3.76%	3.85%
7. Payout Ratio	**60% - 75%**	67.71%	68.05%	68.45%	69.26%	70.06%	67.78%	65.63%
8. Total Debt Outstanding ($000s)		3,272,290	3,377,265	3,471,835	3,554,605	3,660,810	3,756,170	3,841,080
9. Real Debt Outstanding ($000s)		3,272,290	3,304,565	3,319,749	3,315,023	3,321,079	3,304,169	3,276,313
10. OP/PSP Growth Assumption			1.8%	3.4%	5.0%	2.8%	2.7%	2.7%

(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 FY16 approved budget to FY17 budget for FY17 and budget to budget for FY18-22.

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DEBT SERVICE IMPACT	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Assumed Issue Size ($000)	340,000	350,000	350,000	350,000	350,000	350,000	350,000
GO Bond Debt Service ($000)	311,500	353,112	371,518	391,145	409,897	427,437	448,410
Dollar change in GO Bond debt service (year to year)	7,899	41,613	18,406	19,627	18,752	17,540	20,973
Percentage change in GO Bond debt service (year to year)	2.60%	13.36%	5.21%	5.28%	4.79%	4.28%	4.91%
Dollar change in GO Bond debt service from the base (FY16)		41,613	60,018	79,645	98,397	115,937	136,910
Percentage change in GO Bond debt service from the base (FY16)		13.36%	19.27%	25.57%	31.59%	37.22%	43.95%
STL and LTL Debt Service	37,645	40,156	30,365	25,618	26,328	24,293	24,293
Total Debt Service for Debt Capacity (GO Bond + STL and LTL)	349,145	393,268	401,883	416,763	436,225	451,730	472,702
Total Revenues	3,158,227	3,220,121	3,325,659	3,492,994	3,589,310	3,685,553	3,784,449

ASSUMED INCREASE IN DEBT ISSUANCE	**Total Increase/(Decrease)**							
Approved GO bond debt issuance		340,000	340,000	340,000	340,000	340,000	0	0
Assumed GO bond debt issuance		340,000	350,000	350,000	350,000	350,000	350,000	350,000
Increase/(Decrease) in GO bond debt issuance	740,000	0	10,000	10,000	10,000	10,000	350,000	350,000

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DEBT CAPACITY ANALYSIS

FY17-22 CAPITAL IMPROVEMENTS PROGRAM

DEBT CAPACITY ANALYSIS September 9, 2015 - COUNCIL REQUESTED SCENARIOS

6 Yr. Total ($Mn.) $2,160.0 mn
FY17 Total ($Mn.) $360.0 mn
FY18 Total ($Mn.) $360.0 mn

	GUIDELINE	FY16	FY17	FY18	FY19	FY20	FY21	FY22
1. GO Bond Guidelines ($000s)		340,000	360,000	360,000	360,000	360,000	360,000	360,000
2. GO Debt/Assessed Value	1.5%	1.87%	1.86%	1.83%	1.82%	1.81%	1.79%	1.84%
3. Debt Service + LTL + Short-Term Leases/Revenues (GF)	**10%**	**11.06%**	**12.21%**	**12.09%**	**11.97%**	**12.22%**	**12.34%**	**12.60%**
4. $ Debt/Capita		3,180	3,263	3,335	3,393	3,467	3,538	3,625
5. $ Real Debt/Capita	$2,200	3,180	3,193	3,189	3,164	3,145	3,112	3,092
6. Capita Debt/Capita Income	3.5%	3.93%	3.90%	3.89%	3.88%	3.85%	3.81%	3.90%
7. Payout Ratio	60% - 75%	67.71%	67.98%	68.34%	69.11%	69.88%	67.58%	65.43%
8. Total Debt Outstanding ($000s)		3,272,290	3,387,265	3,491,335	3,583,105	3,698,810	3,803,170	3,896,580
9. Real Debt Outstanding ($000s)		3,272,290	3,314,349	3,338,394	3,341,602	3,355,553	3,345,513	3,323,653
10. OP/PSP Growth Assumption			1.8%	3.4%	5.0%	2.8%	2.7%	2.7%

(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 FY16 approved budget to FY17 budget for FY17 and budget to budget for FY18-22.

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DEBT SERVICE IMPACT	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Assumed Issue Size ($000)	340,000	360,000	360,000	360,000	360,000	360,000	360,000
GO Bond Debt Service ($000)	311,500	353,112	371,768	392,395	412,122	430,612	452,510
Dollar change in GO Bond debt service (year to year)	7,899	41,613	18,656	20,627	19,727	18,490	21,897
Percentage change in GO Bond debt service (year to year)	2.60%	13.36%	5.28%	5.55%	5.03%	4.49%	5.09%
Dollar change in GO Bond debt service from the base (FY16)		41,613	60,268	80,895	100,622	119,112	141,010
Percentage change in GO Bond debt service from the base (FY16)		13.36%	19.35%	25.97%	32.30%	38.24%	45.27%
STL and LTL Debt Service	37,645	40,156	30,365	25,618	26,328	24,293	24,293
Total Debt Service for Debt Capacity (GO Bond + STL and LTL)	349,145	393,268	402,133	418,013	438,450	454,905	476,802
Total Revenues	3,158,227	3,220,121	3,325,659	3,492,994	3,589,310	3,685,553	3,784,449

ASSUMED INCREASE IN DEBT ISSUANCE	Total Increase/(Decrease)	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Approved GO bond debt issuance		340,000	340,000	340,000	340,000	340,000	0	0
Assumed GO bond debt issuance		340,000	360,000	360,000	360,000	360,000	360,000	360,000
Increase/(Decrease) in GO bond debt issuance	800,000	0	20,000	20,000	20,000	20,000	360,000	360,000

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OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

September 21, 2015

TO: George Leventhal, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Spending Affordability, FY17-22 Capital Improvements Program (CIP)

I recommend that the County Council adopt Spending Affordability Guidelines for County General Obligation bonds as displayed in the attached Debt Capacity scenario. These recommended guidelines would allow bond issuances of $340.0 million in FY17-FY22, for a total of $2.04 billion for the six-year period. I believe this recommendation will allow us to maintain current capital budget spending levels and provides a prudent, balanced approach.

Reasons to Constrain Further Debt Increases

In making my recommendation, I have considered operating budget impacts of the capital budget, operating budget flexibility, rating agency assessment criteria, and community input. Debt service payments supporting the CIP have a substantial and growing impact on the County's operating budget. Tax supported debt service expenditures will grow significantly, increasing from under $240 million a year in 2008 to an estimated $450 million a year by 2021 under current GO bond assumptions. (See attached Tax Supported Debt Service Expenditures FY08 Budget to FY21 Estimate chart.) This debt service commitment has priority over all other expenditures, thus "crowding out" other possible public safety, transportation, health and human services, parks and recreation, library program investments.

Over time, tax supported debt service has grown faster than funding for the College, Police, Fire and Rescue, Montgomery County Public Schools, Health and Human Services, Recreation, and Public Libraries. (See attached "Compounded Annual Growth Rates, FY08-16" chart.) Moreover, the projected growth rate of GO bond debt service is more than double that of estimated general fund revenues for the fiscal years 2008 to 2021. (See attached "Growth in GO Bond Debt Service and General Fund Revenues Compared to the FY08 Approved Budget" chart.) Costs to staff and operate new facilities funded through the CIP add additional expenditure pressures to the operating budget.

Operating budget flexibility going forward also needs to be a consideration – something we are likely to particularly appreciate during the coming two years with lower projected income tax revenues. In FY16, the approved Montgomery County Public Schools, Montgomery College, and tax-supported debt service budgets consumed approximately 64 percent of general fund revenues. (See attached FY16 Approved MOE and Tax Supported Debt Service as a Percent of General Fund Revenue chart.) The ongoing nature of these required expenditures make it more challenging for us to respond when only 36 percent of the remaining budget can be used to address revenue shortfalls. Additionally, future cost increases related to OPEB, health insurance and pension costs, or other necessary expenditures further reduce our flexibility within the remaining 36 percent of the operating budget.

In our meetings with the Citizen Advisory Boards we heard from residents about their priorities for the capital budget, but many residents also expressed concerns about the pace of debt service expenditures and need to temper the impact of debt service costs on services provided in the operating budget.

Even remaining at the approved GO bond levels of $340 million a year, annual GO bond debt service will increase by approximately $133 million from FY16 to FY22. This level of additional debt service payments will make it difficult to address other priorities given our current revenue forecast, the uncertain economic picture, and other operating budget pressures.

The capital budget affordability indicators we have used for the past several years have served us well. However, we should give consideration to better aligning these indicators with those used by the rating agencies and possibly other jurisdictions. I have asked my staff to work with Council staff to conduct a comprehensive review of our debt capacity indicators.

For Park and Planning bonds, I recommend annual Spending Affordability Guidelines of $6.0million in FY17-FY22, with a total of $36.0 million for the six-year period – an amount equal to the current guidelines. It is my understanding that this is the level of bond issuance that the Maryland National Capital Park and Planning Commission intends to request. Like the County, the Maryland National Capital Park and Planning Commission's operating budget has many pressures that are inflexible (i.e. labor agreements, utilities, maintenance to preserve core infrastructure, etc.). Increasing debt service, as indicated as a possible option in the Council Spending Affordability Guidelines public hearing packet, would just add to these difficulties during a time of lowered operating budget revenues.

Thank you for your consideration. Executive branch staff will be available to assist you in Council worksessions as we work together to balance the capital and operating budget needs.

IL:mcb

Attachments: FY17-22 CIP Debt Capacity Scenario
Tax Supported Debt Service Expenditures FY08 Budget to FY21 Estimate chart
Compounded Annual Growth Rates, FY08-16 chart
Growth in GO Bond Debt Service and General Fund Revenues Compared to the FY08 Approved Budget chart
FY16 Approved MOE and Tax Supported Debt Service as a Percent of General Fund Revenue chart

cc: Timothy Firestine, Chief Administrative Officer
Jennifer A. Hughes, Director, Office of Management and Budget
Joseph F. Beach, Director, Director of Finance
Melanie Wenger, Director, Office of Intergovernmental Relations
Casey Anderson, Chairman, Montgomery County Planning Board

DEBT CAPACITY ANALYSIS

FY17-22 Capital Improvements Program

DEBT CAPACITY ANALYSIS September 9, 2015 - COUNCIL REQUESTED SCENARIOS

September 9, 2015

GO BOND 6 YR TOTAL = 2,040.0 MILLION

GO BOND FY17 TOTAL = 340.0.0 MILLION

GO BOND FY18 TOTAL = 340.0 MILLION

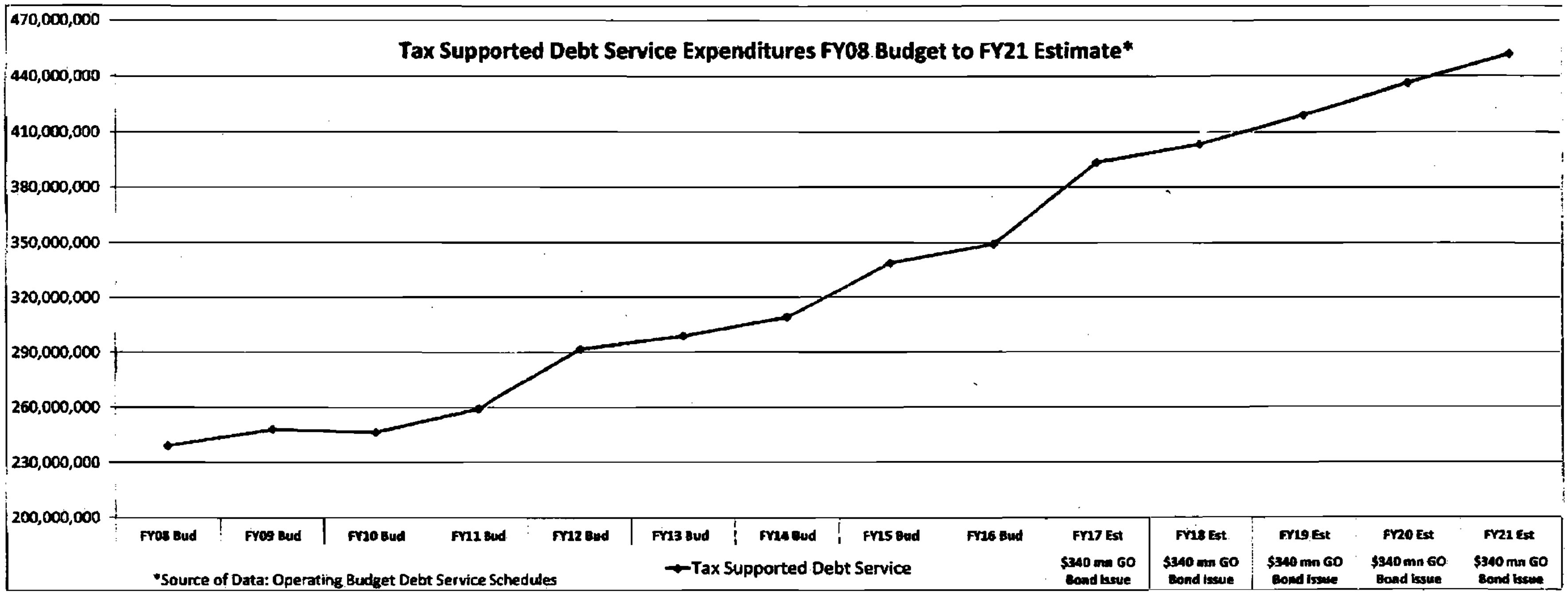
	FY16	FY17	FY18	FY19	FY20	FY21	FY22
1 GO Bond Guidelines ($000)	340,000	340,000	340,000	340,000	340,000	340,000	340,000
2 GO Debt/Assessed Value	1.87%	1.85%	1.81%	1.79%	1.78%	1.75%	1.78%
3 Debt Service + LTL + Short-Term Leases/Revenues (GF)	11.06%	12.21%	12.08%	11.90%	12.09%	12.17%	12.38%
4 $ Debt/Capita	3,180	3,244	3,297	3,339	3,395	3,450	3,521
5 $ Real Debt/Capita (FY14=100%)	3,180	3,174	3,153	3,114	3,080	3,035	3,004
6 Capita Debt/Capita Income	3.93%	3.88%	3.85%	3.82%	3.77%	3.71%	3.79%
7 Payout Ratio	67.71%	68.11%	68.56%	69.41%	70.24%	67.98%	65.85%
8 Total Debt Outstanding ($000s)	3,272,290	3,367,265	3,452,335	3,526,105	3,622,810	3,709,170	3,785,580
9 Real Debt Outstanding (FY14=100%)	3,272,290	3,294,780	3,301,103	3,288,444	3,286,606	3,262,825	3,228,973
10 Note: OP/PSP Growth Assumption (2)		1.8%	3.4%	5.0%	2.8%	2.7%	2.7%

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.

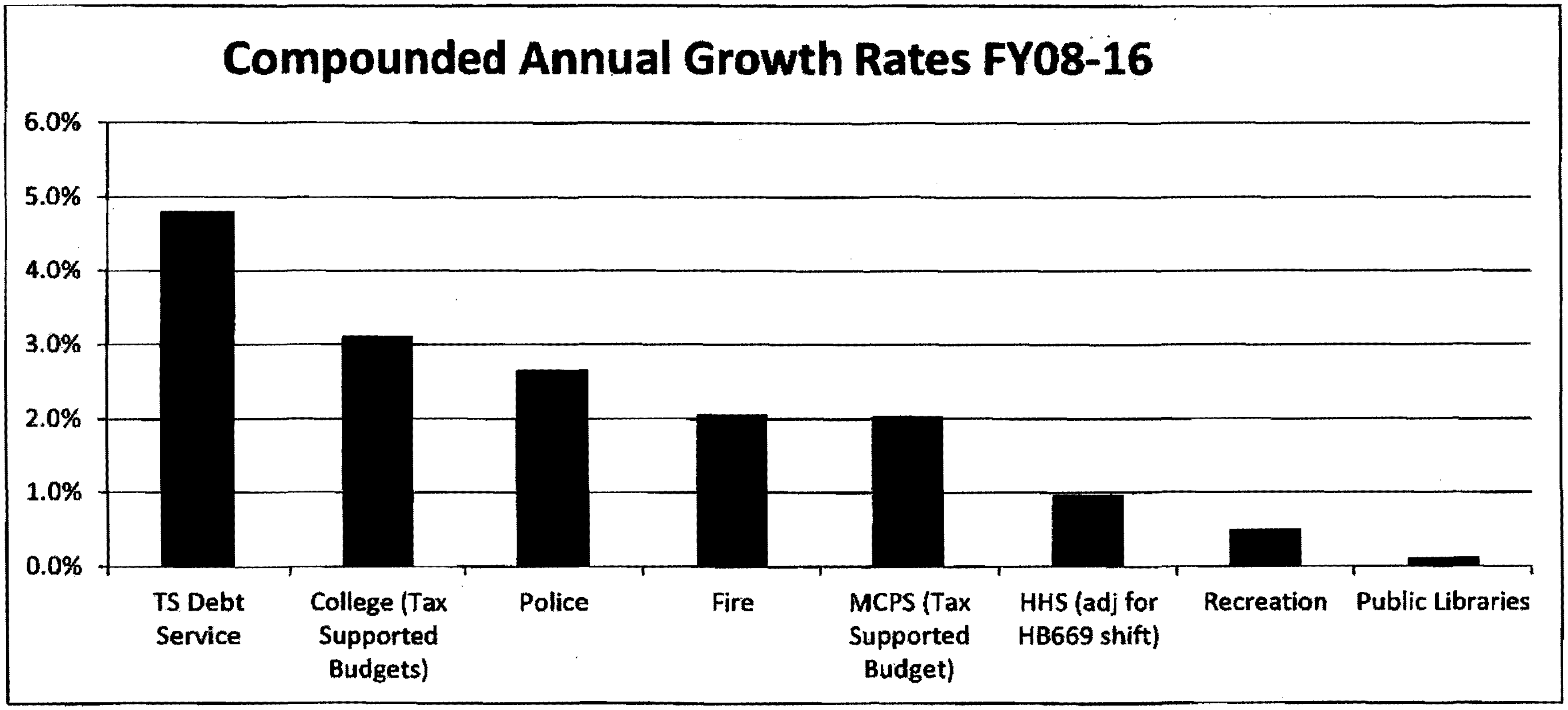
(2) OP/PSP Growth Assumption equals change in revenues from FY16 approved budget to FY17 budget for FY17 and budget to budget for FY18-22.

11



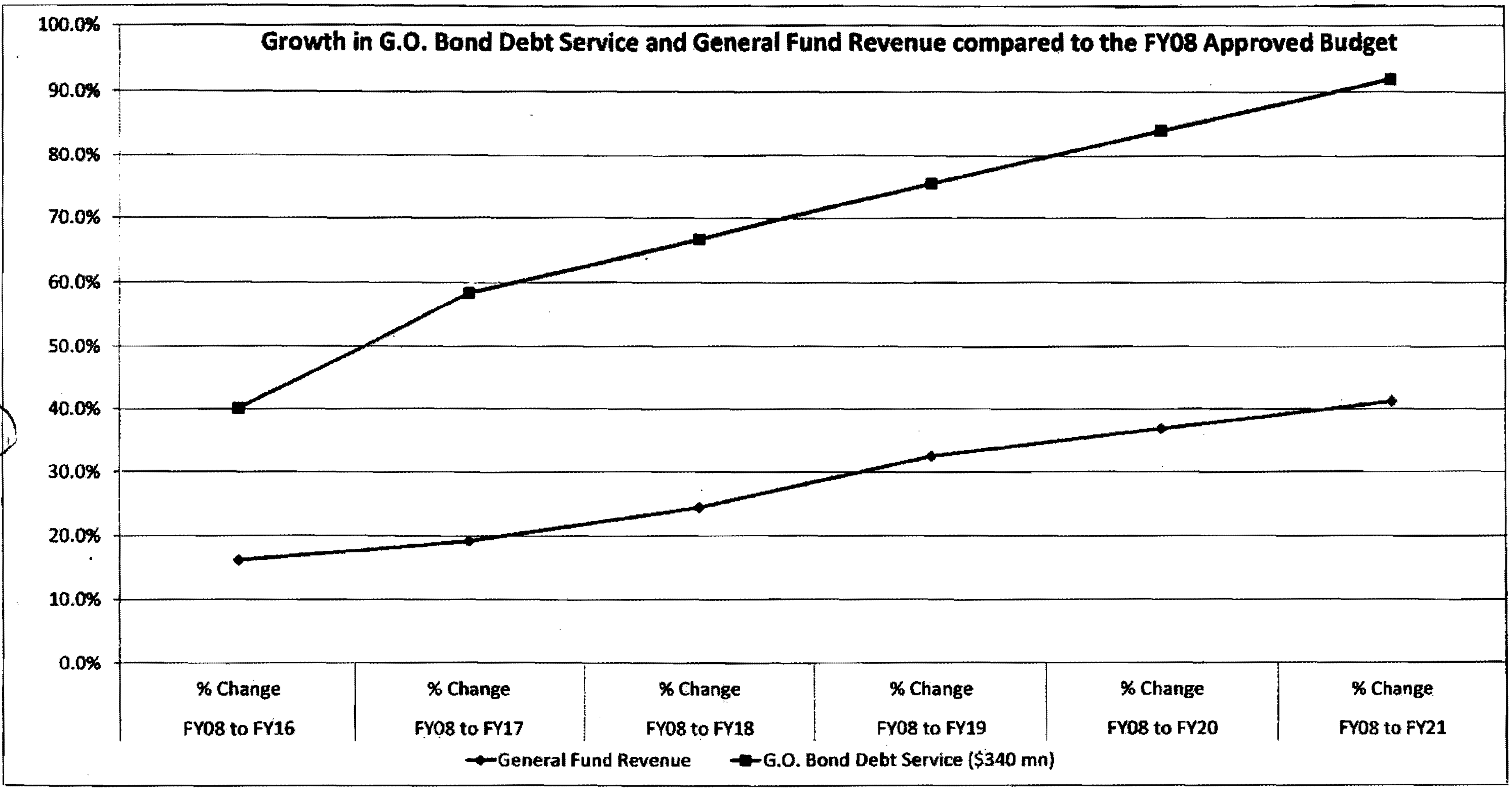
Tax Supported Debt Service Expenditures FY08 Budget to FY21 Estimate*
470,000,000
440,000,000
410,000,000
380,000,000
350,000,000
320,000,000
290,000,000
260,000,000
230,000,000
200,000,000
FY08 Bud
FY09 Bud
FY10 Bud
FY11 Bud
FY12 Bud
FY13 Bud
FY14 Bud
FY15 Bud
FY16 Bud
FY17 Est $340 mn GO Bond Issue
FY18 Est $340 mn GO Bond Issue
FY19 Est $340 mn GO Bond Issue
FY20 Est $340 mn GO Bond Issue
FY21 Est $340 mn GO Bond Issue
Tax Supported Debt Service
*Source of Data: Operating Budget Debt Service Schedules

(12)

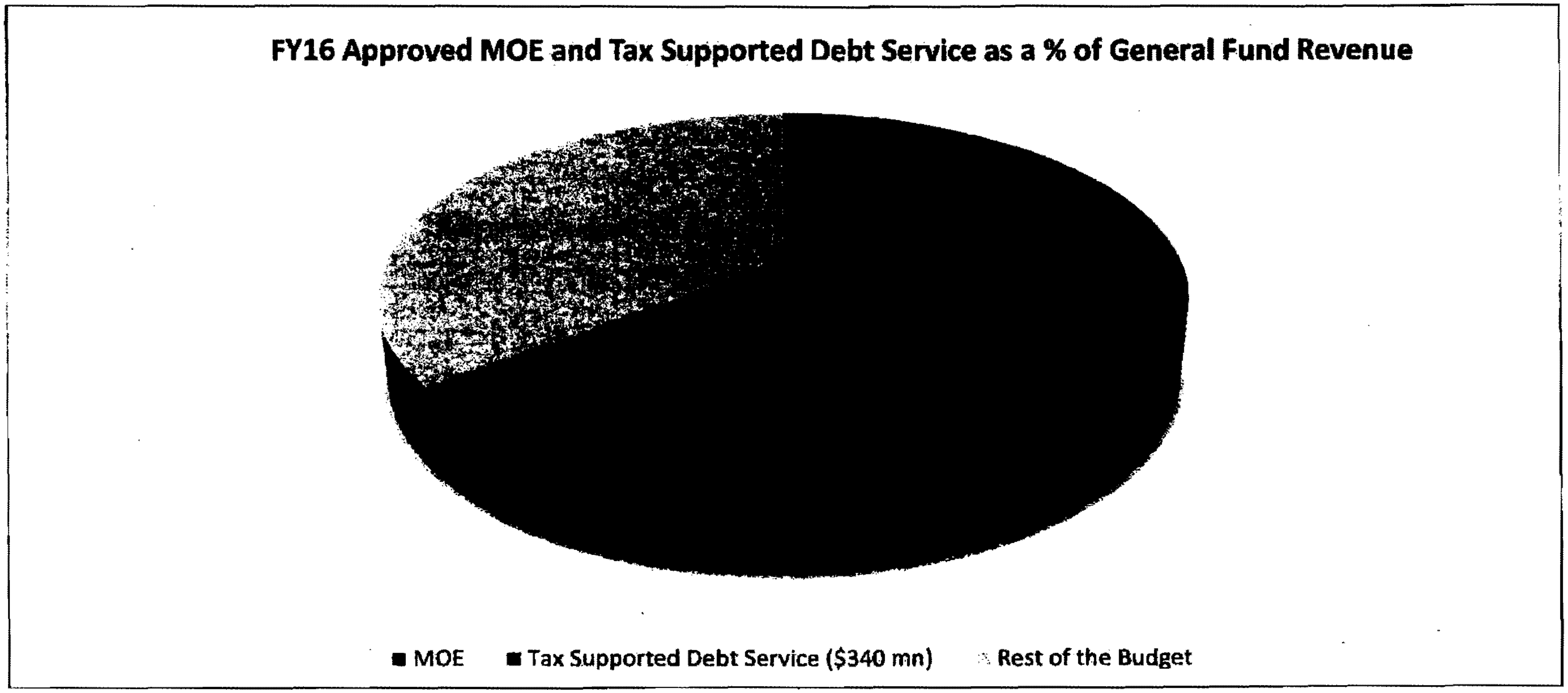

Compounded Annual Growth Rates FY08-16
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
TS Debt Service
College (Tax Supported Budgets)
Police
Fire
MCPS (Tax Supported Budget)
HHS (adj for HB669 shift)
Recreation
Public Libraries

(13)

14


Growth in G.O. Bond Debt Service and General Fund Revenue compared to the FY08 Approved Budget
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
% Change FY08 to FY16
% Change FY08 to FY17
% Change FY08 to FY18
% Change FY08 to FY19
% Change FY08 to FY20
% Change FY08 to FY21
General Fund Revenue
G.O. Bond Debt Service ($340 mn)

15


FY16 Approved MOE and Tax Supported Debt Service as a % of General Fund Revenue
MOE
Tax Supported Debt Service ($340 mn)
Rest of the Budget

COUNTY EXECUTIVE TESTIMONY

SPENDING AFFORDABILITY

FY17-22 CAPITAL IMPROVEMENTS PROGRAM

September 22, 2015

Good afternoon. I am Jennifer Hughes, Director of the Office of Management and Budget, and I am here to testify on behalf of County Executive Isiah Leggett regarding his recommendations on Spending Affordability Guidelines for the FY17-22 period.

The County Executive recommends that the Council adopt Spending Affordability Guidelines for County bonds at the $340 million bond issuance level in each year of the FY17 - FY22 period, for a six-year total of $2.040 billion. This will maintain the County's currently approved spending guidelines at a level that the County Executive feels will appropriately balance the needs of the capital budget with the operating budget.

The County Executive does not support increasing general obligation bond debt beyond the $340 million annual level due to a desire to 1) maintain greater operating budget flexibility, 2) avoid "crowding out" other vital services, 3) maintain a AAA bond rating which saves taxpayer dollars, and 4) acknowledge the community's interest in maintaining a balance between the capital and operating budgets.

The County already faces significant levels of mandated operating budget expenditures. In the FY16 approved budget, fully 64 percent of general fund revenues were dedicated to Montgomery County Public Schools, Montgomery College and tax-supported debt service with tax-supported debt service equaling more than 20 percent of mandated expenditures. Future mandatory budget pressures are likely to increase as the projected growth rate of GO bond debt service at the current approved bond levels is more than double the projected general fund revenue growth for the fiscal years 2008 to 2021. Increasing the bond limits further would erode our ability to respond to revenue shortfalls or expenditure pressures related to OPEB, health insurance and pensions, or to fund other vitally important services, including operating new facilities funded through the capital budget.

The potential for further debt service increases to "crowd out" funding for other worthy services is real. Debt service is currently the second largest budget, second only to Montgomery County Public Schools. This is not surprising since, over time, the tax supported debt service has grown faster than funding for the College, Police, Fire and Rescue, Montgomery County Public Schools, Health and Human Services, Recreation, and Public Libraries – increasing from $240 million in FY08 to an estimated $450 million projected by FY21 - and that is with current GO bond assumptions. At meetings with the five Citizens Advisory Boards, attendees voiced concerns about the need to balance operating and capital budget demands.

Under the recommended guidelines, annual debt service costs are estimated to increase by $133 million from FY16 to FY22. This is in addition to the current $348 million tax-supported debt service budget. So, by FY22 our debt service payments will total nearly half a billion dollars. Adding to that burden will reduce even further any operating budget flexibility.

Council members may want to consider reducing the annual bond issue since we will be exceeding our debt affordability indicators under the Executive's proposed $340 million bond guideline. However, the County Executive does not recommend further bond reductions at this time, given the tremendous school capacity, economic development, public safety, transportation, and infrastructure needs.

In summary, the County Executive recommends that we issue $340 million annually in bonds to support of our capital investment requirements. He recommends against higher levels at this time because of the constraints and inflexibility that non-negotiable, higher debt service costs will place on future operating budgets.

For Park and Planning bonds, the Executive recommends $6.0 million annually and $36 million for the six-year period. This recommendation is consistent with the current affordability guidelines and the anticipated Maryland-National Capital Park and Planning Commission request. Maintaining the current park and planning bond debt level will avoid limiting the Maryland-National Capital Park and Planning Commission's budget flexibility by adding additional debt.

Thank you for your consideration of the County Executive's views. Executive branch staff will be available to assist you in Council work sessions as we work together to balance the needs of the capital and operating budgets.

MONTGOMERY COUNTY
CIVIC FEDERATION

Serving the Public Interest Since 1925

Post Office Box 1123
Bethesda, MD 20827-1123

Testimony to the Montgomery County Council on the County Spending Affordability Guidelines

September 22, 2015

Council members:

Good afternoon, my name is Jerry Garson; I am representing the Montgomery County Civic Federation, Inc. (MCCF). The MCCF's member associations serve over 150,000 households or nearly half of the County's population.

The question posed to our residents and businesses is, are the Spending Affordability guidelines and targets for General Obligation Bonds correct and affordable.

Section 305 of the Charter requires the Council to set spending affordability guidelines for the Capital Budget each year. The real question is **can the residents and businesses in Montgomery County afford the increase in taxes proposed.**

We see in addition to these costs, a proposed Bus Rapid Transit routes on MD 355, US 29 and Viers Mill Road and the Corridor Cities Transitway that would cost **$2.2 Billion dollars** with operating costs exceeding **$80 million** per year.

These costs are not included in the spending affordability guidelines. We do not know why.

In January, the County Executive requested new State legislation that would allow Montgomery County to overhaul the current government structure for providing transit services, by creating an Independent Transit Authority (ITA), and perform an end-run around our County Charter and the County Charter's taxing limits.

The bill, would create a countywide special taxing district and raise real estate taxes above those allowed by our County Charter. The ITA would be an independent agency run by a five (now 7) person board appointed by one person - the County Executive. No oversight of its operations is provided for. It would have its own procurement process, the authority to enter into contracts with other governments and private parties, and take property through eminent domain. If the project is included in the CIP. CIP projects are normally limited to 3 or 4 pages of discussion, with no detailed list of properties to be condemned for public use, and hearings are held one night. It would be neither answerable to, nor accountable to us – the taxpayers and residents. The authority could **build bridges, tunnels, ports, freight or rail terminals, tracks, subways, parking areas, parking structures, and building structures**. The authority would have a significant payroll for Board members and administrative personal.

There are some easier, cheaper and faster alternatives that are possible.

Provide **free Ride On bus services**, which would provide more mobility and cost less than the costs of the BRT lines proposed. The cost last year for free ride on services would have been $22 Million. Next year it probably would be $ 23 million. This is the amount of fare contribution made by its riders.

Accept the WMATA proposals for the Q9 on Viers Mill road and the Z9 and Z29 on US Route 29. This is at no cost to the County and will be implemented by June 2016.

Implement the 355 Ride On Plus Transit Improvements a $21 Million proposal instead of Bus Rapid Transit saving $1,020.400,000 of capital cost along MD Route 355.

The principal reason for this radical change of bypassing the Spending Affordability limits in the County Government is to finance the construction and operations of the proposed BRT system, but the new ITA would have far-reaching powers that would extend to the creation of bridges, ports, subways, tunnels, and any other related projects it so desired. The extent of the County government's control would be limited to the approval of ITA projects in the County CIP budget and provisions in relevant master plans.

Page 4 of the Memorandum to the Council dated September 18, 2015 from Glen Orlin states:
"How each scenario meets the five debt indicators is shown below. The table indicates the number of years within the CIP period the indicators met (maximum total score=30)." The memo shows a total score of 6 out of 30 in scenario.

"These scores are extremely poor, especially compared with the experience prior to the Great Recession. Debt has normally not exceeded 1.5% of real property value in any year, but the projection under every scenario is that it will exceed 1.5% of real property value in every year".

On top of this debt the county wants to add the Debt of the BRT which by some method should be considered independent of the County Debt, however the taxpayers would still be required to pay for it as part of their property tax bill.

What are you going to do reduce operating and capital expenditures to help the taxpayers in this county and to stimulate job creation and economic development? Or are you trying to make Montgomery County less competitive with surrounding jurisdictions and the rest of the United States.

The County Executive's Transit Task Force Public Draft Report and Recommendations on page 17 states:

"The County has a pressing need to create better transportation access for people who earn less than the median County wage and rely on public transit to commute to their jobs, particularly given that the median wage is falling with the increasing proportion of lower-wage jobs in the County. These "captive" riders may find that owning and operating a car to commute to work either is cost prohibitive or takes a significant bite out of their household budget. At the same time, the limitations of our current transit system may reduce their economic as well as physical mobility, as some jobs are literally out of reach from the places where they can afford to live. "

Would these people prefer Free Ride on Service and a WMATA style BRT - commuter type system being implemented by June 2016, or would they rather wait until full completion in Fiscal Year 2026 of the $2.2 Billion dollar system.

Thank you for your time.

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											Change
Employment Trends, Montgomery County 2005-2014					Average Annual Payroll						2014
Industry	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	from
Government											2005
Federal Government	39,968	39,785	40,319	41,543	43,158	45,072	46,460	47,080	46,854	46,678	6,710
State Government	1,043	1,068	1,066	1,080	1,029	1,199	1,186	1,232	1,122	1,207	164
Local Government	36,935	37,397	37,469	37,860	37,834	37,140	38,450	39,669	40,707	41,695	4,760
Total Government	**77,946**	**78,250**	**78,854**	**80,483**	**82,021**	**83,411**	**86,096**	**87,981**	**88,683**	**89,580**	**11,634**
Private-Sector Employment											
Goods-Producing Services											
Natural Resources and Mining	709	745	806	873	719	796	620	393	258	304	(405)
Construction	29,444	30,891	30,449	28,503	24,223	22,291	23,425	23,263	23,363	23,662	(5,782)
Manufacturing	14,714	14,303	14,563	14,459	13,431	12,356	11,787	11,435	11,219	11,304	(3,410)
Total Goods-Producing	**44,867**	**45,939**	**45,818**	**43,835**	**38,373**	**35,443**	**35,832**	**35,091**	**34,840**	**35,270**	**(9,597)**
Service-Producing Sectors											
Trade, Transportation and Utilities	64,990	64,349	62,631	61,075	56,566	57,287	57,440	58,193	57,607	57,824	(7,166)
Information	15,105	15,208	14,089	14,335	14,117	12,818	12,634	12,232	12,359	12,608	(2,497)
Financial Activities	36,127	35,797	35,371	34,312	31,908	30,830	30,474	30,586	30,479	30,040	(6,087)
Professional and Business Services	101,111	106,477	103,189	102,413	99,577	100,075	101,751	99,317	98,510	98,782	(2,329)
Education and Health Services	56,698	58,365	58,983	60,422	61,977	63,188	64,234	65,780	66,767	67,618	10,920
Leisure and Hospitality	39,505	37,878	37,614	38,133	37,133	36,894	37,523	39,115	40,257	41,005	1,500
Other Services	21,701	21,962	22,125	21,918	21,460	21,637	21,800	22,579	22,307	22,616	915
Total Service-Producing	**335,237**	**340,036**	**334,002**	**332,608**	**322,738**	**322,729**	**325,856**	**327,802**	**328,286**	**330,493**	**(4,744)**
Unclassified	618	608	672	592	173	0	0	6	0	0	(618)
Total Private Employment	**380,722**	**386,583**	**380,492**	**377,035**	**361,284**	**358,172**	**361,688**	**362,899**	**363,126**	**365,763**	**(14,959)**
Total Employment											
Total Employment	**458,668**	**464,833**	**459,346**	**457,518**	**443,305**	**441,583**	**447,784**	**450,880**	**451,809**	**455,343**	**(3,325)**
Source Maryland Department of Labor, Licensing and Regulation											
Loss of Jobs 2005 to 2014		**(3,325)**									
Loss of Private Sector Employment		**(14,959)**									
Gain In Local Government Employment		**4,760**									

County Council SAG Hearing
September 22, 2015

Testimony presented by John King on behalf of Walter Johnson Cluster MCCPTA

Recognizing the reality of fiscal constraints, we are here to affirm that the Council maintain, at a minimum, the current $340M in General Obligation bonds for the upcoming Capital budget and 6-year CIP program.

The capital needs and pressures on MCPS are great.

- Construction costs are rising from a few years ago.
- Enrollment continues to increase, and our old schools age even faster with the additional wear and tear from overcrowding.

At the Education Committee meeting yesterday, staff highlighted the March, 2014 Infrastructure Task Force Report. MCPS should be spending $179M **per year** in various system replacement costs. The reality is that only $46M – or 26% – of that requirement could be funded. There is now an $800M backlog for things such as fire safety, HVAC, planned lifecycle asset replacement, roof replacement, restroom renovation, and energy conservation.

Of the Walter Johnson Cluster's 9 schools, 7 are over capacity or will be within 3 years. The other 2 will have about 25 vacant seats during that period – less than a single classroom. Several schools are at 140 percent of capacity. The Walter Johnson Cluster respectfully requests an increase to the Spending Affordability Guidelines, specifically for land payments. We are seeking land for an ES and a MS from plans the Council has approved or requested. The County would need to pay for some of that land because we will not have full dedications from the developers.

There's also the Shady Grove bus depot that must be replaced. The cost to purchase and build depot space is estimated in the tens of millions of dollars.

In the end, testimony needs to tell a story and make human the numbers that we are immersed in. I'd like to share some of the realities our WJ Cluster and county schools are facing as a result of chronic underfunding of the CIP:

- There is no sprinkler system at either Lee MS or Twinbrook ES.
- Carl Sandburg does not have a fully functional kitchen to ensure the children receive a hot meal at lunch.
- At Ashburton ES, lunch requires six periods – stretching from 10:45 in the morning to 1:50 - to serve all the students. Rachel Carson ES also requires 6 lunch periods.
- At Barnsley ES, two restrooms serve 280 students from 6 classrooms inside and the 10 portables outside.

- Asburton has converted a closet into a classroom. In other schools, specialized instruction is being delivered in hallways because there are no more closets available to press into that use.
- In elementary schools such as Asburton, you get art on a cart. In Garrett Park ES a computer lab was turned into a regular classroom. In high school across the county, you can get health taught in a music room and science taught in an art room.

These are the very real effects of overcrowding and aging schools.

MCCPTA will again be working with you, the Board of Education, and our delegation in Annapolis to secure as much funding for school construction and capital projects as possible, but the State cannot solve all our problems. The Council must step up the commitment to our children to provide safe and adequate educational facilities.

Thank you.