

MEMORANDUM

April 21, 2021

TO: Government Operations and Fiscal Policy (GO) Committee

FROM: Gene Smith, Legislative Analyst

SUBJECT: **FY22 Operating Budget – Working Families Income Supplement (WFIS)
Non-Departmental Account (NDA)**

PURPOSE: Make recommendations for Council consideration

Expected Participants:

- Mike Coveyou, Department of Finance (Finance)
- Jed Millard, Finance
- Estela Boronat de Gomes, Office of Management and Budget (OMB)

Summary of FY22 Recommended Budget and Key Discussion Issues

WFIS NDA	FY21 Approved	FY22 CE Recommended	Change from FY21 Approved
General Fund	\$20,105,090	\$40,105,090	99.5%
Personnel Costs	\$0 0.00 FTEs	\$0 0.00 FTEs	0.0% 0.00 FTEs
Operating Costs	\$20,105,090	\$40,105,090	99.5%
Total Expenditures (All Funds)	\$20,105,090 0.00 FTEs	\$40,105,090 0.00 FTEs	99.5% 0.0%

Council staff has identified the following key issues/recommendations for Council discussion:

- The State increased the value of the tax refund for this program through the Relief Act, and it also expanded the program to allow taxpayers that file with an individual tax identification number (“ITIN”) to qualify.
- The County matches the State’s refund at a 100%. **The State’s approval of an increase and expansion results in an estimated fiscal impact of \$40 million in FY22, a \$20 million increase from FY21.**

I. Racial Equity and Social Justice Considerations

The Council adopted Bill 27-19 on December 2, 2019. This bill established and required several elements, including that the Executive submit a racial equity and social justice (RESJ) impact statement for each bill and each management initiative or program that would be funded in the operating and capital budgets.

For the FY22 operating budget development process, OMB, working with the Office of RESJ, developed and dedicated a section of the program proposal form to addressing racial equity. Departments and County partners were asked the following questions:

- Does your department use quantitative and qualitative data to track program access and/or service outcomes for different population groups?
- Which community residents will potentially benefit the most from your program proposal or be burdened by your program proposal?
- How does the program promote racial equity?

The County is still in the process of training staff on applying a racial equity and social justice lens to programming and budget decisions; therefore, OMB received a variety of responses to the above questions. Council staff are documenting these responses to establish an official baseline for each department and to identify promising practices and gaps in information.

Executive staff notes that the County is unable to collect taxpayer data about this program. The County receives aggregated data from the State. The County will need to analyze other public data to make indirect correlations about the recipients of this program.

Council staff will evaluate what information departments are utilizing, or could utilize, to apply a racial equity lens to budget decisions as Council staff works to develop its Racial Equity and Social Justice Action Plan this spring. Council staff will also coordinate with OMB and the Office of RESJ to help inform a more robust analysis for FY23 and future budget cycles.

II. Budget Overview

This NDA provides funds to supplement the State's Refundable Earned Income Tax Credit (EITC) and is intended to benefit low-income working families in the County. The federal government authorizes the federal EITC for working people with low to moderate income. Several states, including Maryland, provide state tax credits to residents who receive the federal EITC.

Maryland also provides refunds to eligible residents if their EITC exceeds their State tax liability. **The County supplements the State's refund by 100%, in effect doubling the amount received from the State for County residents.** The State administers the County refund, so the County provides funding to the State for any County-related refunds and the related administrative expenses.

The Executive’s FY22 recommendation for the WFIS NDA is \$40,105,090 (see ©1). This is an increase of \$20,000,000 or 99.5% compared to FY21. **The Executive recommends that the County use ARPA funding to support the expansion of this program.** The recommended increase is due to:

- the State’s increase of the refund in the Relief Act from 28% to 45% for tax years 2020 through 2022; and
- the State also expanded eligibility of the program through SB218, which provided the refund to taxpayers that file with an ITIN. SB218’s expansion is also for tax years 2020 through 2022.

The Council introduced Expediated Bill 14-21 on April 20, 2021. This expediated bill would expand the County’s 100% match to taxpayers that file with an ITIN. Without this amendment, the County would not be able to match the State’s refund for those residents. The Council’s expansion is expected to sunset along with the State’s following tax year 2022.

There is limited data for the County to analyze this program. The program is administered by the State, so the County does not have individual taxpayer data. The total number of recipients decreased from 2016-2019, likely due to increases to income, general awareness of the program, or a lack of urgency due to a “better” economy. The County anticipates that more recipients will benefit from this program due to the economic impact of the pandemic.

Table 1 below summarizes the WFIS data provided to the County for FY12-FY21, including the FY22 recommended allotments for the increase of the EITC in the Relief Act and the expansion in SB218. A table of the complete history for the WFIS program is on ©2.

Table 1: WFIS Summary FY11-FY21, FY22 Recommended

Fiscal Year	County Match	Admin. Cost	Cost of EITC Refunds	Total Cost	Total Recipients	Average EITC
2012	68.9%	\$33,231	\$12,805,177	\$12,838,409	34,290	\$373.44
2013	75.5%	\$34,058	\$14,686,507	\$14,720,565	34,876	\$421.11
2014	85.0%	\$38,663	\$16,847,181	\$16,885,860	37,281	\$451.90
2015	90.0%	\$40,811	\$18,919,815	\$18,960,626	38,824	\$488.37
2016	95.0%	\$41,650	\$20,724,479	\$20,766,129	40,076	\$518.17
2017	100.0%	\$40,346	\$21,978,370	\$22,018,716	39,452	\$557.09
2018	100.0%	\$36,120	\$21,384,743	\$21,420,863	37,898	\$564.27
2019	100.0%	\$38,430	\$21,101,873	\$21,140,303	36,301	\$581.30
2020	100.0%	\$37,983	\$20,883,964	\$20,921,947	38,424	\$543.51
2021 Est.	100.0%	\$36,973	\$21,707,570	\$21,744,543	40,000	\$542.69
2022 Rec. Relief Act	100.0%	\$38,000	\$35,323,591	35,361,591	39,000	\$907.00
2022 Rec. SB218	100.0%	--	4,986,861	4,986,861	5,500	\$907.00

Source: County Department of Finance, Division of Treasury

The County will reimburse the State for actual expenditures for this program, regardless of the Council’s appropriation in May. If additional funding is required in FY22, the Council will need to approve a special or supplemental appropriation.

The recommended appropriation is the best estimate by Finance and OMB currently. The Relief Act estimate is more easily determined. The County has historical data for the number of recipients, and the growth of the refund is known. For taxpayers with an ITIN, Executive staff relied on data from the Maryland Center of Economic Policy which estimated a total number of taxpayers that filed with an ITIN at 5,500. Executive staff provided the same average EITC benefit to these to estimate the value of refunds for ITIN taxpayers.

The Executive’s recommendation is to fund this program’s expansion with ARPA funding. ARPA funding is a one-time Federal grant that generally supports the County’s ongoing response to the pandemic, including negative economic impact or revenue loss. The County will receive half the funding in FY21 and half the funding the same time next year – near the end of FY22.

See ©3 for a list of the Executive’s recommended uses of ARPA in FY21 and FY22. Most of the funding supports revenue losses or direct responses to the pandemic. **The State’s increase to the refund and expansion of this program was in direct response to the pandemic to provide relief to working families in Maryland.** The State approved the refund increase and expansion through tax year 2022; therefore, the County’s expansion will continue for multiple years, but not indefinitely. For future fiscal years, the County will be required to provide general fund support for this program’s expansion if no ARPA funding remains after FY22.

Council staff recommends approval of the Executive’s recommendation for this NDA, including the use of ARPA funding to support the FY22 expansion.

<u>This packet contains:</u>	<u>Circle #</u>
Executive FY22 recommendation	1
WFIS historical table	2
Executive recommended FY21 and FY22 ARPA uses	3

Working Families Income Supplement

This NDA provides funds to supplement the State's Refundable Earned Income Tax Credit (EITC). The intent of the Working Families Income Supplement is to provide financial assistance to low-income working families in Montgomery County. The County, through the NDA, reimburses the State for the cost of the refund and related administrative expenses.

FY22 Recommended Changes	Expenditures	FTEs
FY21 Approved	20,105,090	0.00
Increase Cost: Working Families Income Supplemental	15,000,000	0.00
Increase Cost: EITC increase for TIN Tax Payers	5,000,000	0.00
FY22 Recommended	40,105,090	0.00

WORKING FAMILIES INCOME SUPPLEMENT NDA (EITC) – Historical Actuals

Fiscal Year	County Match	Admin. Cost	Cost of EITC Refunds	Total Cost	Total Recipients	Average EITC
2000	100.00%	\$11,813	\$2,199,592	\$2,211,405	12,322	\$178.51
2001	125.00%	\$9,740	\$2,544,412	\$2,554,152	10,917	\$233.08
2002	100.00%	\$10,921	\$3,952,062	\$3,962,983	14,122	\$279.86
2003	100.00%	\$10,732	\$4,585,128	\$4,595,860	14,814	\$309.51
2004	100.00%	\$12,910	\$6,012,089	\$6,024,999	18,074	\$332.64
2005	100.00%	\$14,109	\$7,907,451	\$7,921,560	20,805	\$380.08
2006	100.00%	\$25,376	\$10,236,647	\$10,262,023	20,789	\$492.40
2007	100.00%	\$16,027	\$9,970,176	\$9,986,203	20,210	\$493.33
2008	100.00%	\$17,577	\$12,910,993	\$12,928,570	26,584	\$485.66
2009	100.00%	\$15,361	\$9,000,906	\$9,016,267	19,559	\$460.19
2010	100.00%	\$19,448	\$15,063,537	\$15,082,985	30,189	\$498.97
2011	72.50%	\$32,726	\$12,920,388	\$12,953,114	33,840	\$381.81
2012	68.90%	\$33,231	\$12,805,177	\$12,838,409	34,290	\$373.44
2013	75.50%	\$34,058	\$14,686,507	\$14,720,565	34,876	\$421.11
2014	85.00%	\$38,663	\$16,847,181	\$16,885,860	37,281	\$451.90
2015	90.00%	\$40,811	\$18,919,815	\$18,960,626	38,824	\$487.32
2016	95.00%	\$41,650	\$20,724,479	\$20,766,129	40,076	\$517.13
2017	100.00%	\$40,346	\$21,978,370	\$22,018,716	39,452	\$557.09
2018	100.00%	\$36,120	\$21,384,743	\$21,420,863	37,898	\$564.27
2019	100.00%	\$38,430	\$21,101,873	\$21,140,303	36,301	\$581.30
2020	100.00%	\$37,983	\$20,883,964	\$20,921,947	38,424	\$543.51

Source: Montgomery County Department of Finance, Division of Treasury

Executive Recommended ARPA Uses for FY21 and FY22

	FY21	FY22
Previously approved special appropriations – funding shift		
19-683 Therapeutic Youth Services	0.31	
19-684 Youth Support and Engagement Hubs	0.41	
19-690 Streeteries Winterization	1.25	
19-695 Por Nuestra Salud y Bienestar	4.62	
19-696 AAHP COVID Response	3.34	
19-709 Conference Center	2.50	
Subtotal	12.43	
Bethesda PLD Debt Service Coverage	5.90	
FY21 Estimated Tax Revenue Losses	41.10	
RELIEF Act	25.00	6.20
FY22 Budget enhancements		
CCT – Remote Proceeding Facilitators & Schedulers		0.27
HHS – Therapeutic Recreation Services		0.75
HHS – Mobile Health Clinic		0.62
HHS – Mental Health Services for MCPS Students & Families		3.60
HHS – Rapid Rehousing Expansion		0.25
HHS – Rental Assistance		0.49
CVB – Backfill Revenue Shortfall Hotel/Motel Tax		1.00
Incubator NDA – Entrepreneurship Ecosystem		0.32
MCEDC – Entrepreneurship Development		0.30
MCEDC – White Flint Project		0.25
MCEDC – Inclusive Economy		0.10
MCEDC – Entrepreneurs in Residence		0.25
MCEDC – Talent Pipeline/Workforce Development		0.10
Working Families Income Supplement		20.00
DTS – FiberNet2 Maintenance		0.50
Cable – FiberNet3 Build Out		0.70
Cable – Digital Equity		0.10
Subtotal		30.41
Total		36.61
Unallocated		82.73

MEMORANDUM

April 22, 2021

TO: Government Operations and Fiscal Policy (GO) Committee

FROM: Gene Smith, Legislative Analyst

SUBJECT: **FY22 Operating Budget – Working Families Income Supplement (WFIS)
Non-Departmental Account (NDA)**

PURPOSE: Make recommendations for Council consideration

The Executive transmitted recommended budget amendments after the main report was published (see ©1-6). These amendments address several expenditures and resources assumptions for FY22, including the WFIS budget. Below is the recommended amendment to the WFIS budget.

- **The Executive recommends adding \$5.0 million to the FY22 expenditures for the WFIS budget.** This recommendation is based on the State’s analysis for taxpayers filing with an individual tax identification number (ITIN). The Executive has also recommended using American Rescue Plan Act (ARPA) funding to support this increase.

Council staff noted in the main report that the County will need to reimburse the State based on actual costs. This amendment provides additional expenditures if ITIN taxpayer refunds are greater than originally estimated. Council staff provided reasoning in the main report for why ARPA funds are appropriate for this expenditure. **Approval of this recommendation will reduce the Council’s “unallocated portion” noted in the Executive’s recommended budget by \$5.0 million.**

This packet contains:

Executive memorandum and budget amendments

Circle #

1




OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Marc Elrich
County Executive

MEMORANDUM

April 21, 2021

TO: Tom Hucker, President, County Council

FROM: Marc Elrich, County Executive 

SUBJECT: Amendments to the Recommended FY22 Operating Budget

Since I submitted my FY22 Recommended Operating Budget on March 15, there have been a number of developments that necessitate sending over amendments to the recommended budget. These amendments center around the Department of Health and Human Services, the Fire and Rescue Service, the Working Families Income Supplement Program, and Recycling and Resource Management. The amendments are described in detail below (including source of funds), and the attached report contains the necessary information for your analysts to account for them.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Developmental Disabilities Service Providers Supplement (\$323,368)

My FY22 Recommended Budget inadvertently left out the amount provided by Council in FY21 that added additional service providers to the Developmental Disabilities Supplement Program. This amendment corrects that error by adding funding consistent with Council intent in Resolution 19-534 for the providers that are still active in the supplement. Funding to provide for the inflationary adjustment for these additional organizations was already included in the FY22 Recommended Budget. The cost of this amendment is \$323,368 and will be funded with General Fund: Undesignated Reserves.

Seneca Valley High School Wellness Center (\$1,142,397 and 4.88 FTE)

When developing the FY22 Recommended Budget in late February and early March of this year, it was not entirely clear the direction the COVID-19 pandemic was taking and how it would impact our school system moving forward. As a result, my FY22 Recommended Budget did not include funds to operate the Seneca Valley High School Wellness Center, consistent with Council action on the FY21 Approved Budget. As vaccination rates have steadily increased and in-person education is resuming for high school students, I am now recommending that the Seneca Valley High School Wellness Center begin operations in FY22. The cost of this amendment is \$1,142,397 in FY22 plus 4.88 FTE and will be funded with General Fund: Undesignated Reserves.

Tom Hucker, President, County Council
April 21, 2021
Page 2

This wellness center will provide comprehensive somatic services, youth development, and family strengthening supports to children, youth, and families. The Department of Health and Human Services (DHHS) expects that more than 300 at-risk youth will be served at this wellness center. In addition, DHHS estimates that at least 200 Care for Kids (CFK) students, age 3-18, will be assigned to the Seneca Valley High School Wellness Center as their medical home.

MONTGOMERY COUNTY FIRE AND RESCUE SERVICES

Montgomery County Volunteer Fire and Rescue Association Agreement (\$206,123)

My FY22 Recommended Budget inadvertently left out the amount required to support provisions included in the Montgomery County Volunteer Fire and Rescue Association negotiated agreement effective FY22 as included in the three-year agreement transmitted to Council in 2020. This amendment corrects that error by adding funding to support an increase to the nominal fee stipend to \$525 or \$900 for active volunteers, a Length of Service Program increase of 2 percent for certain active members and negotiated association funding. The cost of this amendment is \$206,123. FY22 Fire Fund undesignated reserves are in line with my March 15 Recommended Budget and the County's Fiscal Policy for reserves in tax supported special revenue funds.

WORKING FAMILIES INCOME SUPPLEMENT (WFIS) NON-DEPARTMENTAL ACCOUNT

Working Families Income Supplement (\$5,000,000)

My FY22 Recommended Budget included a total increase of \$20,000,000 to fund the expansion of the Working Families Income Supplement consistent with actions by the General Assembly. The WFIS program provides funds to supplement the State's Refundable Earned Income Tax Credit (EITC). During its 2021 Session, the General Assembly increased the match for the Federal EITC from 28 percent to 45 percent (Chapter 39 of 2021). My FY22 Recommended Budget included \$15,000,000 in additional funding to provide the County's match for this enhancement.

The General Assembly also expanded the eligibility of the State and local EITC by allowing a taxpayer with an Individual Taxpayer Identification Number (ITIN) to claim the credit (Chapter 40 of 2021). Based on an analysis by the Department of Finance and the Office of Management and Budget, my FY22 Recommended Budget included \$5,000,000 in additional funding to provide the County's match for this enhancement. An initial analysis conducted by the Maryland Department of Legislative Services (DLS); however, suggests that the cost for this enhancement could be as high as \$16,000,000 – DLS is now working to refine its analysis. Since the exact number of ITIN filers in Montgomery County who would claim this credit is unknown at this time, the true cost of this enhancement cannot be estimated with complete reliability without experience under the expansion. Regardless of the amount budgeted, the County would be billed by the State for the County's match for this tax credit and the County would have to provide the funds. The initial invoice from the State, which will cover approximately 90 percent of our total cost for this supplement, will be provided in July – at which time we will be able to more reliably estimate the total cost of this enhancement. In the meantime, it would be prudent to provide additional funds for the WFIS program since this will likely cost more than what I initially proposed. The cost of this amendment is \$5,000,000 and will be funded from Federal Grant Funds received under the American Rescue Plan Act, consistent with my FY22 Recommended Budget.

DEPARTMENT OF ENVIRONMENTAL PROTECTION – RECYCLING AND RESOURCE MANAGEMENT

Recycling and Resource Management (\$1,123,711 Disposal Fund and \$59,784 Collection Fund)

The Recycling and Resource Management budget funds recycling collections from the entire County, broken into 13 regions. The collection contracts for regions 9-13 were recently rebid, as their 11-year term ends in October 2021, and negotiations for these contracts concluded after I transmitted the FY22 Recommended Budget to the Council. Although my recommended budget anticipated an increase for these contracts based on experience from recent years, the amount was not enough, and the winning bids total more than was budgeted. The cost of this amendment is \$1,183,495 (\$1,123,711 in the Disposal Fund and \$59,784 in the Collection Fund). Although the Collection Fund can absorb this increase without impacting rates, the Disposal Fund cannot, and the FY22 rate would need to be set at \$244.78, \$5.09 higher than the rate proposed in March.

TECHNICAL AMENDMENTS

Since the submission of my FY22 Recommended Budget, there are two technical amendments to the debt service budget. First, the FY22 debt service payment for the Wheaton Redevelopment project assumed that \$212,000 would be paid by rental income from retail tenants (the remaining \$2,143,550 of debt service is budgeted to be paid proportionally by CUPF, the Water Quality Protection Fund, and Permitting Services). Since rental income will not be available from retail tenants in FY22, a technical amendment is recommended to reduce rental income by \$212,000 and increase the transfer from the General Fund to the Debt Service Fund by \$212,000. This will increase the tax supported debt service appropriation by \$212,000 and reduce the non-tax supported debt service appropriation by \$212,000.

Second, as part of the total tax supported debt service appropriation, \$1,400,000 is assumed to cover the County's line of credit costs. My recommended budget assumed that the line of credit costs will be paid by the General Fund transfer to the Debt Service Fund. This technical amendment recommends that American Rescue Plan Act funds replace the General Fund as the funding source for line of credit costs. These two technical amendments provide \$1,188,000 in relief for the General Fund. This relief to the General Fund keeps the FY22 budgeted reserves at 9.6 percent, consistent with my March 15 Recommended Budget.

ADDITIONAL ITEMS

In addition to the amendments described above, there will likely be additional items that the Council will need to consider in the coming weeks.

Extension of County Use of 6 Taft Court as a Temporary Homelessness Facility

The original agreement between the County and the City of Rockville for the use of this facility as a temporary facility to house unsheltered individuals was scheduled to end April 30, 2021. However, the new homeless shelter facility is not scheduled to be completed until January 1, 2022. The Department of General Services has negotiated with the City of Rockville an extension of the use of 6 Taft Court until December 31, 2021. As a result, there will be additional unanticipated operating costs for this facility – including rent, mobile air conditioning, mobile bath house, utilities, and other costs. The Department of Housing and Community Affairs (DHCA) is working with the US Department of Housing and Urban

Tom Hucker, President, County Council
April 21, 2021
Page 4

Development (HUD) to determine if any of the County's unallocated CDBG funds can be repurposed to cover any of these expenditures. If repurposing is allowed, it would require an amendment to DHCA's Annual Action Plan with HUD. Once the total cost of this extension has been determined, and a determination has been made regarding the use of CDBG funds, I intend to submit a proposal to cover these costs.

Minority Health Initiatives

To date, the County has funded the Latino Health Initiative's (LHI) Por Nuestra Salud y Bienestar Program and the African American Health Program (AAHP) Executive Committee's COVID Response Program that have been instrumental in helping us address health disparities in our COVID-19 response. Because my FY22 Recommended Budget was largely formed in late February and early March, funds to continue these COVID response programs were not included in my budget as we did not have clarity as to additional Federal and State funds for immunization efforts, nor was it clear how the pandemic would continue. I have since instructed DHHS to work with LHI and AAHP on a proposal to extend the program by six months to ensure continuity of services for these vital COVID response programs.

In addition to the programs implemented by LHI and AAHP, the Asian American Health Initiative (AAHI) has come forward with a proposal to implement a COVID-19 response program for the Asian American population in the County. DHHS is currently working with this group to refine the proposal and develop a budget to provide services for these residents. Once the details have been finalized in the coming weeks, I intend to submit a proposal to continue to provide COVID-19 response services for these communities.

Department staff and staff from the Office of Management and Budget will be happy to answer any questions you may have about these amendments as we work together to finalize the FY22 operating budget.

Attachments: Detail on Recommended FY22 CE Amendments Report, Non-Tax Supported and Tax Supported

c: Richard S. Madaleno, Chief Administrative Officer
Fariba Kassiri, Deputy Chief Administrative Officer
Marlene Michaelson, Executive Director, County Council
Jennifer R. Bryant, Director, Office of Management and Budget
Michael Coveyou, Director, Department of Finance
Dave Kunes, Chief of Staff to Council President Hucker

Detail on Recommended FY22 CE Amendments

Non-Tax Supported

EXPENDITURE AMENDMENTS

Recycling and Resource Management

Increase Cost: New Recycling Contracts for Regions 9-13 -- Collection Fund	59,784
Increase Cost: New Recycling Contracts for Regions 9-13 -- Disposal Fund	1,123,711

Debt Service

Decrease Cost: Shift Portion of Wheaton Debt Service Costs from Non-tax Supported to Tax Supported Funds	-212,000
--	----------

Total Non-Tax Supported Expenditures	971,495
---	----------------

RESOURCE AMENDMENTS

Debt Service

Shift Portion of Wheaton Debt Service Costs from Non-tax Supported to Tax Supported Funds	-212,000
---	----------

Total Non-Tax Supported Resources	-212,000
--	-----------------

Detail on Recommended FY22 CE Amendments

Tax Supported

EXPENDITURE AMENDMENTS

Fire and Rescue Service

Increase Cost: MCVFRA - Negotiated Agreement **206,123**

Health and Human Services

Add: Operating Budget Impact to Open the Wellness Center at Seneca Valley High School **1,142,397**

Increase Cost: Developmental Disabilities Supplement Adjustment **323,368**

Debt Service

Increase Cost: Shift Portion of Wheaton Debt Service Costs from Non-tax Supported to Tax Supported Funds **212,000**

NDA - Working Families Income Supplement

Increase Cost: Working Families Income Supplement Adjustment for TIN Taxpayers **5,000,000**

Total Tax Supported Expenditures **6,883,888**

RESOURCE AMENDMENTS

Debt Service

Use ARPA Funds to Maintain County's Line of Credit Related to COVID-19 **1,400,000**

NDA - Working Families Income Supplement

Use ARPA Funds for the Working Families Income Supplement for TIN Taxpayers **5,000,000**

Total Tax Supported Resources **6,400,000**