



**OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850**

Marc Elrich
County Executive

MEMORANDUM

March 15, 2019

TO: Nancy Navarro, President, Montgomery County Council

FROM: Marc Elrich, County Executive

SUBJECT: FY20 Recommended Operating Budget and Public Services Program FY20-FY25

I am pleased to submit to you my Fiscal Year 2020 Operating Budget, my first recommended budget. The total FY20 budget request is \$5.723 billion in all funds, with a 2.3 percent increase in tax-supported dollars.

FY20 Recommended Budget by Agency

Agency	Total Budget	Tax Supported
Montgomery County Government	\$2,043,314,959	\$1,571,753,169
Montgomery County Public Schools	2,647,536,627	2,483,699,617
Montgomery College	310,382,217	262,402,381
M-NCPPC (including Debt Service)	155,471,285	133,723,257
Retiree Health Insurance	127,026,286	121,417,116
Debt Service (MCG)	439,224,240	423,238,640
TOTAL	5,722,955,614	4,996,234,180

OVERVIEW

This budget is a progressive and prudent plan reflecting the values of Montgomery County. This budget also begins to deliver on the promises I made to our residents during the campaign.

To that end, I am proposing a down payment on expanding access to quality early childhood education so that

Montgomery County's young children have a future of opportunity regardless of their family's economic circumstances. I am increasing our investment in a strong, multimodal transportation system that can serve as the backbone of a growing economy. I am focusing our economic development programs on the small businesses of our County to foster long-lasting wealth for our community. Finally, I am proposing several budget modifications to correct several long-term structural deficiencies while simultaneously satisfying the County's longstanding goal to provide 10 percent of total adjusted governmental revenues in reserve. Balancing these competing priorities was not an easy task.

The last decade has been an extremely challenging period for governments across the country - and particularly in the National Capital region. During this time, Montgomery County has been buffeted by the 2008 global economic meltdown and the painful 2013 regional recession, the ripple effects of which are still felt. Solid economic growth is in a dance with lingering uncertainty. The new federal tax law has introduced more uncertainty and volatility in revenue forecasting for all governments. Repeated needless shutdowns of the federal government, including one of historic length just weeks ago, hurt families and businesses across our region. Trade disputes with countries across the globe and inhumane federal immigration enforcement policies at home have derailed and delayed important financial decisions in our community. Finally, the Supreme Court's *Wynne* decision has permanently reduced income tax revenues by an estimated \$30.0 million annually.

As a result of these trends, within days of taking office, I was presented with the troubling news that the final closeout of Fiscal Year 2018 had turned up an unexpected gap of \$44 million due to an underperformance of revenues and higher spending than budgeted in Transit and Fire and Rescue Services (FRS). FY18 revenue growth unexpectedly slowed to an anemic 0.3 percent or \$14.5 million over FY17 actuals. Income tax revenue estimates flatlined due to the massive changes to Federal tax law. Property tax receipts underperformed due to unanticipated reductions in commercial property valuations. Finally, transfer and recordation taxes fell as the square footage of new construction dropped. Unexpected increases in motor fuel prices and vehicle maintenance costs lead to higher than anticipated spending in operating expenses for FRS and Transit, while increased overtime utilization drove higher spending for personnel expenses particularly in FRS.

Unfortunately, the volatility of the income tax has continued into FY19 and FY20. Estimated quarterly payments were down by more than 30 percent in the final quarter of Calendar Year 2018. This necessitated a downward revision of income tax estimates of \$85 million across the two fiscal years. This decline is in line with recent downward revisions in State income tax receipts made by the Maryland Board of Revenue Estimates. The combination of steady job growth with declining quarterly payments suggests volatility in the highest income brackets caused by fluctuations in capital gains. I am hopeful our revenues will regain equilibrium as our residents get through the first tax year cycle with the new Federal tax code.

To address the gap in the current fiscal year, the County Council and I worked together to enact a \$45.7 million savings plan in January. Unfortunately, the decline in revenue estimates requires additional action. Therefore, I am proposing we forgo our contribution to the OPEB Trust Fund for FY19. Instead, I am directing these funds into our reserve accounts to satisfy our longstanding fiscal policy goal of holding 10 percent of adjusted governmental revenues in reserve as protection from additional economic shocks. Quite frankly, we do not have the revenues available at this time to satisfy both our OPEB funding policy and our reserves funding policy without making substantial reductions in current services. I will not layoff or furlough current employees to pay for their future retirement healthcare benefits.

The decision to delay OPEB funding for a year is, I believe, the most prudent course of action with just months left in the fiscal year. It is important to note that this action does not alter our commitment to current or future retirees. Their healthcare benefits are fully funded in this budget. However, this action will allow us to closeout our FY19 budget with 9.7 percent in reserve. It also allows me to propose an FY20 budget that funds services, provides a fair compensation increase for our dedicated County employees as fully bargained with their representatives, adheres to our adopted fiscal policies, and addresses some of the structural budget problems which have plagued County government over the last few years.

I intend to put County government on a more sustainable path, and this budget begins that process. I have already directed my senior management team to develop a 10-year financial plan that is grounded in reality and sustainability. As I learned from my own formative years as a manager with a once-iconic department store chain, organizations that do not plan

adequately for the future do not have a future. I envision a plan that details the challenges our community faces and presents affordable ways to address them. This budget provides funding to correct several long-term deficiencies. The budget provides new resources to a variety of departments from FRS and Corrections to Health and Human Services to address budget conditions that drive expensive overtime expenditures and to fix chronic underfunding of programs where appropriations have not kept pace with demands for services. The budget recognizes that computer systems and data storage needs must be adequately funded, or else other programs are cannibalized to pay the bills and snow removal must be accounted for properly. Almost all new programmatic funding in the budget is offset by an equal amount of reductions. Most other new funding in the budget for County government is to cover expenses related to fixed costs and legal obligations ranging from debt service and risk management to employee contracts and healthcare.

In fulfillment of recently concluded labor negotiations, I am including funding for compensation adjustments for the County's workforce. These increases include general wage adjustments of 2.4 percent for employees in the Municipal and County Government Employees Organization (MCGEO) and International Association of Fire Fighters (IAFF) bargaining units (effective November 2019), and 2 percent for non-represented employees (effective July 1, 2019). There is also funding for service increments and longevity steps for eligible employees, as well as performance-based increases for employees in Management Leadership Services and Police Leadership Services. I have also included funding for a deferred service increment for eligible employees in the FOP and MCGEO bargaining units.

THRIVING YOUTH AND FAMILIES

As I indicated during my inaugural address, one of the primary goals of my Administration will be to significantly expand early childhood education. As a former teacher, I know firsthand that the biggest barriers to student success are poverty and economic inequality. Evidence shows that an upfront investment in early childhood education yields large dividends in the future - for both children and society.

My Administration's FY20 recommended budget includes \$7 million for an Early Care and Education Initiative, a joint effort of the County Government, Montgomery County Public Schools, and Montgomery College to ensure that the achievement gap gets closed. We will increase the number of seats in school-based classroom and family- and center-based child care settings, improve access to child care, expand training and professional development opportunities for the childcare workforce, and establish a workgroup to resolve barriers to quality childcare in the County.

Closing the achievement gap is not only accomplished in those critical early years, but also during a child's school-age years. In addition to the Early Care and Education Initiative, my FY20 recommended budget includes a total of \$2.6 billion for the Montgomery County Public School System (MCPS) - a 2.0 percent increase over FY19 approved. Our County contribution to MCPS increases by \$12.0 million and is \$2.5 million above the State's Maintenance of Effort level. In addition, MCPS will receive \$1 million from the new Early Care and Education Fund. This amount, when combined with an increase in State education funding means that the MCPS budget will increase by \$51.1 million in FY20. Despite difficult fiscal conditions, it is imperative that we continue to make investments in K-12 education, including new initiatives to reduce elementary school class sizes and improve programming for special education students and English Language Learners. I remain hopeful that the General Assembly will increase State aid beyond current levels. If current fiscal estimates hold true, this new, higher level of State Funding would provide MCPS resources beyond their requested FY20 budget.

Our children and families also need access to top-notch library and recreational facilities in order to thrive. That's why my FY20 recommended budget includes over \$800,000 to ensure that the Wheaton Library and Recreation Center opens on-time and adequate staffing in late summer 2019.

During my time on the County Council and as County Executive, my appreciation for the County's nonprofit community has deepened, as these organizations provide quality services to our residents. I'm recommending over \$9.1 million in grants for individual human services programs through community grants. Among other things, services offered by

these organizations help address poverty, provide emergency services, serve disconnected youth in our community, bolster services for seniors and those with disabilities, and help ensure that our immigrant neighbors can access services to become thriving members of our community and defend themselves against unwarranted deportation. The FY20 recommended budget also preserves funding for the County Council's community grants.

A GROWING ECONOMY

The County's economy is at a crossroads. Many of our communities are facing challenges beyond our control, like an aging population, shrinking Federal budgets, and increased poverty. But we are also presented with opportunities to foster continuous economic growth in the County by focusing efforts on starting and expanding local businesses. I believe successful modern economies are built on a foundation of vibrant entrepreneurship, efficient infrastructure, a world-class workforce, and sensible regulations to promote and protect growth opportunities for all. Good neighborhoods, strong schools, and a good quality of life are the result of a healthy economy and the hallmark of Montgomery County for the last 75 years.

My first recommended budget begins paving the way to support opportunities that will create, retain, and attract good jobs by helping businesses grow in our County. My FY20 budget recommendations include the creation of a Regional Business Service Hub Program that will proactively interact and reach out to local businesses and entrepreneurs for assistance needed to grow and expand jobs. We will start developing a County-based Kitchen Incubator/Food Hall to help entrepreneurs translate their great ideas into successful products and to train a workforce to for the County's vibrant food and hospitality industry. Locating the small business solutions teams in our Regional Service Centers allows for additional boots on the ground and more direct in-person access to residents and business Countywide.

While local redevelopment efforts provide greater economic opportunities for our communities, many local businesses are facing difficult challenges thriving during the construction phase. My FY20 recommended budget will add funds to continue providing technical and financial support through the Small Business Assistance Program and the Impact Assistance Fund to eligible small businesses adversely impacted by County-led redevelopment projects. Funding for the Microlending Program will allow continued financial and technical assistance to County entrepreneurs. I will also continue supporting the MOVE Program to attract new businesses and expand local ones to reduce the County's vacant office space.

For growing an innovative economy in the 21st century, Montgomery County has a competitive advantage over other areas because of our proximity to major Federal research and development organizations, including the National Institute of Health (NIH), Federal Drug Administration (FDA), the National Institute of Standards and Technology (NIST), and many others. Over the past decade, we have witnessed the steady growth of key strategic industries like biotech, life sciences, cybersecurity, and health tech in the County.

My budget recommendations continue needed funding to expand the County's bioscience and high-tech industries at all talent levels. The budget retools the County's business incubator system to better serve start-ups and early-stage technology companies with technical mentorship and capital access opportunities. It provides County matching funds to local recipients of Federal Small Business Innovation Research and Small Business Technology Transfer (SBIR/STTR) grants from the NIH, and it continues the UltraMontgomery Initiative to provide a high-speed fiber network that connect people with opportunities and drives economic growth by linking our business, academic and Federal institutions, and transit-oriented smart-growth communities.

County's funding support for two economic development and workforce organizations will continue in FY20. The Montgomery County Economic Development Corporation (MCEDC) will continue leading the County's efforts in growing and diversifying the local economy through marketing, business attraction and retention, and cultivating a local ecosystem of entrepreneurship and innovation. Through collaborative partnerships among public institutions, and our nonprofit and business partners, the County will prepare our students with needed skills and job experience, while also providing

unemployed and underemployed residents with in-demand job-ready skills.

A GREENER COUNTY

Montgomery County must be a leader on environmental issues. My Administration recognizes the urgency of global warming and will take concrete steps to address climate change by exploring creative and common-sense ways to address greenhouse gas emissions at the local level - through clean energy, energy efficiency, enhanced building design, reduction of waste, and better transit options that get cars off our roads. My Administration's FY20 recommended budget begins to accomplish these goals by funding a number of targeted initiatives to help move our environmental objectives forward.

I believe climate change is the defining environmental issue of our time and my Administration is committed to reducing the County's greenhouse gas emissions and impact on climate. Transportation is one of the largest greenhouse gas emissions contributors and my FY20 recommended budget aims to mitigate this impact by including \$1.5 million for the new limited stop FLASH service on US 29 to bolster public transportation options. In addition, the Department of Transportation will purchase ten electric Ride On buses in FY20 and continue its efforts to convert street lights to more energy efficient Light Emitting Diode (LED) fixtures through the capital budget. My recommended budget continues support for the Department of General Services program to install solar and other clean energy technologies on County facilities. To date, the program has produced enough clean energy to power more than 800 homes.

EASIER COMMUTES

Congestion continues to be a significant issue for County residents. My Administration's FY20 recommended budget includes funds to continue implementation of a new limited stop, high frequency FLASH bus service on US 29 between the Burtonsville Park-and-Ride Lot and the Silver Spring Transit Center. The new service will open in May 2020. The line will include 18 new state-of-the art stations and a fleet of sixteen 60-foot articulated buses. The FLASH will improve mobility and transit reliability on the corridor with 7.5-minute headways in the morning and afternoon peak periods and 15 minutes at other times. It supports my commitment to improve transit equity in a corridor where 65 percent of residents are minorities, 31 percent speak a language other than English at home, 30 percent of households earn less than half of the area median income, and 12 percent of households have no car. This service will improve travel times along the corridor and provide a higher level of service, but I am also interested in doing more to develop Bus Rapid Transit (BRT) on US 29. A study, expected to be concluded in 2019, is underway to identify modifications that can be made to US 29 between Tech Road and Downtown Silver Spring to enhance the performance of the FLASH bus system and the overall corridor. The study is exploring options to minimize traffic bottlenecks, reduce travel time, improve safety, expand walking access to the FLASH stations, and improve travel time reliability.

Work on other critical transit projects continue as well. This summer a Recommended Alternative will be selected for this BRT on the MD355 corridor. My budget includes funding for environmental studies necessary to move this project forward. After many discussions with State officials, the Maryland Department of Transportation has agreed to reengage on the Corridor Cities Transitway and our County's Department of Transportation is looking at adding additional road capacity (for cars and transit) to upper parts of MD355. In total these improvements will address some of the major bottleneck in Upcounty.

In addition, my FY20 budget continues investment in other critical transportation infrastructure, committing over \$30 million to road resurfacing programs and \$14 million to bridge maintenance and construction. It is my intention to propose additional funding for street paving should extra dollars remain in our FY19 set asides. Out of an abundance of caution, I have not programmed these Funds until after the winter weather has passed.

A MORE AFFORDABLE AND WELCOMING COUNTY

We have a moral obligation to create a more economically and socially just society. To do so means that we must focus on providing access to safe and affordable housing for our residents.

Within weeks of taking office my Administration launched a housing code enforcement campaign to protect tenant rights and address troubled properties. Rigorous inspections of rental units are critical to safe, affordable housing. To address this issue, my FY20 recommended budget for the Department of Housing and Community Affairs includes over \$500,000 in budget enhancements to bolster inspections and tenant rights - including \$218,000 in additional funding for the Renter's Alliance to provide information and services to tenants, \$144,450 to fund two vacant housing code inspector positions, \$102,647 for tenant advocacy services, \$100,000 to enhance the Housing Code Inspections Delivery System, and \$74,365 for tenant-landlord outreach and educational activities. In addition, a Deputy Director position is being created to focus on preservation and the creation of more affordable housing. To help offset the costs for these enhancements, we are proposing a small (\$3.00) increase to rental license fees.

In addition to working for tenant rights as part of an affordable and welcoming community, my Administration continues to support efforts to expand affordable housing and we continue to strive to end chronic homelessness in the County. In FY20, I am recommending a \$41.3 million budget for the Montgomery Housing Initiative Fund (HIF), a 16 percent increase (\$5.7 million) from the FY19 approved budget. Part of this increase is an additional \$2.6 million transfer from the General Fund to HIF. Furthermore, \$4.8 million in loan repayments have been added in FY19 and \$17 million in funding is planned for FY20 for the Affordable Housing Acquisition and Preservation CIP Project.

I am also recommending funding for the creation of a Senior Home Sharing Pilot Program. This innovative program will connect senior home providers who have a spare room with home seekers interested in a long-term housing option. This home sharing arrangement can work when renters find it difficult to find affordable rental housing and home providers either need extra income or prefer living with another person who can offer social connection and/or assist with tasks, errands, and costs related to property maintenance.

Thanks to prior efforts of the Council, Montgomery County was one of the first jurisdictions in the Country to reach functional zero for veteran homelessness. We've been able to sustain this status due to the County's ongoing commitment to ending homelessness. The County is now aiming to end chronic homelessness in our community. To that end, I am recommending an additional \$1 million in the Services to End and Prevent Homelessness budget to help us continue on this path to reach functional zero chronic homelessness in Montgomery County.

SAFE NEIGHBORHOODS

One of my highest priorities while in office is to ensure every neighborhood in the County is a safe neighborhood, not just safe from crime but safe for pedestrians to walk and move about. I am paying close attention to pedestrian safety by overseeing Vision Zero implementation and the County's plans for short- and long-term improvements for the busiest County-maintained roads. Areas with traffic calming improvements like these have seen significant declines in pedestrian collisions.

To ensure those who break the law are held accountable for their actions, I recommend adding funds for the Gang Unit of the State's Attorney's Office and for a new forensic scientist in the Crime Lab to ensure DNA and other evidence is analyzed in a timely manner.

To ensure the public trust, I also recommend adding funds to purchase 250 new dashboard cameras for our Police patrol cars and adding a position to process public information requests for footage created by those cameras and the Police

Department's body-worn camera program. My budget additionally funds the full annual contract for Next Generation 911 service, which will expand the ways people can seek assistance from just a phone call to text and video.

My Administration is building a sustainable and realistic budget. Towards that goal, I am adding twenty positions in FRS to begin closing the structural budget deficiency identified in our analysis of the Net Annual Work Hours. I am also increasing the overtime budget to address actual wages that in previous years had not been used in calculating overtime, leading to an underestimate of what overtime would actually cost. I am also adding overtime to address failures to respond during the periods in the morning and evening when our career personnel are being replaced by our community's volunteers, who cannot always match the career shift hours when transitioning from the work that supports their families to the unpaid work that supports our community.

EFFECTIVE, SUSTAINABLE GOVERNMENT

As County Executive, it is my goal to make County government work better for its residents. This means that government must operate more cost effectively and ensure that the programs it implements are back by evidence of success. It also means that we must implement a budget process that is more transparent and one where public input in the process is encouraged.

In order to get to a more effective and sustainable government; however, we must true up our budget to reflect where actual expenditures occur. To this end, my FY20 recommended budget resolves several long-standing budget deficiencies in several departments. Without resolving these issues, these Departments must either spend beyond their approved budget level or use funding intended for other programs to pay for those obligations. Due to fiscal constraints, we were not able to fully resolve all of these structural issues; however, I am recommending a total of \$12 million in increases to address many of them as described below:

- Snow Removal and Storm Cleanup NDA: \$5 million to bring our contingency funding closer to historical actual expenditures;
- Fire and Rescue Service: \$2.4 million to begin to fund actual overtime wage rates;
- Correction and Rehabilitation: \$2.0 million to restore lapse increases, address medical and food expenses, and electronic monitoring expenditures;
- Health and Human Services: \$1.6 million to budget for actual IT expenditures; address the structural deficit in the mandated Community First Choice: Nurse
- Monitoring Program; align the budget for translation services to reflect actual demand;
- General Services and Fleet: \$836,391 to address overtime and lapse issues in facilities management and fleet services; and
- County Attorney's Office and Sheriff's Office: \$174,329 to address structural budget deficiencies in these offices.

Over the coming months, I look forward to working with Council in implementing a number of changes to the way that County government operates. My Administration will align budgets and our budget decision-making process to our Key Priority Outcomes. Similar to the Capital Improvements Program, the development of the County's operating budget and Public Services Program should occur on a two-year basis. It is my intent that the FY20 budget will be the final one-year operating budget for the County. Moving to a two-year budget cycle will provide more stability for our County departments, agencies, and nonprofit partners; and it will provide us with time to evaluate the effectiveness of programs to ensure that limited tax dollars are being spent in the most efficient way possible.

While my recommended budget ensures that the County meets its policy of holding 10 percent of adjusted governmental revenues in reserve, we intend to reevaluate our reserve policy and move us toward a risk-based reserve policy. In addition, we will be examining the way we estimate our revenues to implement an approach to which mitigates revenue

volatility.

Finally, I have left \$10 million set aside for the County Council to allocate for the budget reconciliation process. I tried to address our shared priorities within this constrained budget, but I know there's more to be done and I know other issues will arise. Therefore, I wanted to make sure the Council had resources to address those needs during the appropriations process.

As promised, my budget includes no tax increases. In fact, the property tax rate is decreased slightly to stay within the Charter Limit. However, some property owners will see an increase in their property tax bill due to increased property assessments. The property tax for each owner-occupied residence will include a credit of \$692 to limit the burden on homeowners and to maintain a progressive property tax structure in the County.

In order to encourage the implementation of creative ways to strengthen both program performance and customer service for County residents, we have established a new Innovation Fund as a non-departmental account. This fund will be a revolving loan fund internal to County government that will be administered by the Office of Performance and Innovation (formerly CountyStat) and will complement the County's new Lean business process improvement initiative. Loans will be made from the fund on a rolling basis to projects with strong potential to improve customer service and performance results while at the same time reducing costs or generating new County revenue within three to five years. There will be a rigorous application process, and the review committee will be comprised of Administration and Council representative, and members of the community who will make recommendations to the Chief Administrative Officer.

While I am recommending no change to the Water Quality Protection Charge in FY20, I am recommending small increases in the solid waste charges for County residents. These rates have not changed for several years, despite rising costs; the increases are needed to finally address those costs and cover growing operational needs.

In addition, I recommend you approve the FY20 operating budget for the Washington Suburban Sanitary Commission (WSSC) as proposed by the Commission, including the 5 percent increase to the water and sewer rates paid by WSSC ratepayers.

Given the volatility of the capital gains taxes, we cannot simply assume one year's tax revenue forecasts will form an accurate basis for the following year. This year we will begin work in earnest on lean business processes, procurement reform, working toward optimal efficiency, and making sure we get the best value for the dollars we spend.

In conclusion, I look forward to working with you, your Council colleagues, and your outstanding staff in passing this budget. The resources of the Executive Branch are at your disposal as you begin the next phase in the budget process.