OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

January 15, 2013

TO: Nancy Navarro, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Recommended FY14 Capital Budget and Amendments to the FY13-18 Capital Improvements Program (CIP)

I am pleased to transmit to you, in accordance with the County Charter, my recommended FY14 Capital Budget and amendments to the FY13-18 Capital Improvements Program (CIP). My recommendations are limited to amendments required to fund critical capital needs to leverage outside funding, and to shift and scale back six year program costs to reflect improvements in meeting planning and construction schedules. The fiscal summary and highlights of my recommendations are presented below with details provided in the attachments.

Fiscal Summary

I recommend maintaining the level of General Obligation (GO) Bond issues of $295 million per year in each of the six years in the FY13-18 CIP. This level of bond issuances is what the Council and I agreed was a first step in bringing our burgeoning debt service payments under control. Reducing the growth in our CIP and the resulting debt service payments is a critical part of our overall strategy to restore order to our fiscal house. Given the many other needs that must be met through our operating budget, I believe that it would be unwise to increase our long-term debt service costs beyond these levels. Debt service costs, once incurred, are expenses that take precedence over all other County expenditures and as such, can limit our ability to fund other critical services. As we know, the County is facing significant fiscal pressures from a number of directions. The actions of the General Assembly, shifting teacher pension costs to the County, coupled with a stricter Maintenance of Effort law, constrain our flexibility in funding many important priorities. Additionally, after four years of highly constrained resources, there is significant demand for a variety of critical services provided by County Government – including safety maintenance to a number of our structures.

Last year, we worked together to maintain an affordable level of long-term debt. This cooperation and unity was something that the rating agencies saw as a positive contrast to the dysfunctional federal budget process, as well as the situation in many other jurisdictions. I strongly urge the Council to again maintain these recommended borrowing limits. As mandatory formula contributions have reduced our operating budget flexibility, it is imperative that we work in partnership to keep our debt service costs affordable. This will be necessary to preserve the County's AAA bond rating and to maintain our ability to weather economic downturns and respond to opportunities and other community needs.

For the time being, I am recommending maintaining the Council's increased pay-as-you-go (PAYGO) assumptions beyond the required policy level of ten percent of planned GO bond issuance for each year; however, I may need to revisit Council's approved budget assumption of an additional $6 million in FY14 PAYGO CIP funding, as well as tax-supported current revenue CIP funding, in the context of the FY 14 Operating Budget.

In planning the amount of GO bond funds that can be programmed each year, the County considers a number of factors including any lag in implementing the assumed construction schedule (implementation rates), inflation, and a certain level of funding that is set-aside to handle unforeseen capital expenditures that are in the County's best interests. An adequate set-aside is critical to meet its contractual commitments, address emergency safety needs, and maintain project schedules. An implementation rate of less than 100 percent allows the County to program more bonds than the intended amount to be issued, since only a portion of the costs will be incurred in a year.

From the FY 13-18 Approved CIP, the FY14-18 assumed implementation rate has increased significantly from 82.3 to 85.4 percent. In many ways, a higher implementation rate is positive. It means that projects are moving on the approved schedule and over the long term, an improved implementation rate should mean less expensive projects. But, in the short term, the improved implementation rate means that unless we reduce programmed expenditures, the set-aside will be reduced by $64.3 million from FY14-18 with only $794,000 and $7.43 million available in FY14 and FY15, respectively. These are unacceptably low numbers given the potential for cost increases and the overly optimistic PAYGO assumptions for FY15-FY18.

My CIP amendments are limited and are generally to provide for critical safety-related projects such as unforeseen bridge projects, storm drain culvert replacements, and the replacement of the unreliable Champion buses. Additionally, I have included projects to address the critical need to push the County's economic recovery along and plan for the future of the County. As a follow-up to my FY13 supplemental appropriation request, I am proposing multi-year funding to begin development of a Rapid Transit System in the County. After reviewing the Transit Task Force report transmitted to me last summer, I believe the County should begin the process of determining which elements of their proposal should be a top priority and move forward in a fiscally responsible manner. I am recommending starting with Phase 1 of the report and have included funding to perform preliminary planning and engineering for the corridors included in Phase I. This preliminary planning and engineering will provide us with the information necessary to more accurately estimate construction costs. Therefore, there are no funds included for construction at this time. Once critical planning has occurred and we have a clearer picture of potential funding mechanisms for this project, I will transmit my recommendations for construction.

To make room for these necessary investments in a fiscally responsible manner, I have had to recommend some project deferrals and reductions in the approved CIP. These reductions to the six-year program are shared across Montgomery County Government, Montgomery County Public Schools, and Montgomery College with reductions for Montgomery County Public Schools and the College occurring only in FY's 15-18. My first approach in making these changes was to defer funding for projects where schedule delays were likely.

Also, these reductions will allow us to maintain an adequate set-aside. This is particularly important since the CIP assumes an additional $26 million a year for PAYGO in FY15-18. Last year, we agreed to reduce the GO bond issue by $25 million a year due to our shared concerns about our ability to afford the related ongoing debt service costs. Given this shared goal and the continued constraint on our operating budget, it seems unlikely that an annual cash PAYGO contribution to the CIP of $26 million will be possible – particularly given the reduced flexibility the County will have in its operating budget going forward.

The following provides the highlights of my proposed FY2013 and FY2014 CIP amendments:

Health and Safety Related Project Increases

Elmhirst Parkway Bridge The proposed replacement work for this new $1,965,000 project is necessary to provide a safe roadway condition for the traveling public. The 2011 bridge inspection report revealed that there is severe steel corrosion with areas of 100 percent section loss along the arch springlines. The steel structural plate arch is rated in poor condition, and the bridge is considered structurally deficient. As a result, the bridge is weight restricted, and school buses are denied a waiver to cross the bridge due to safety concerns. Federal aid will fund $1,048,000 of the project costs.

Bridge Renovation An additional $2 million in GO bonds is needed to address critical safety issues. Unforeseen emergency projects added to the project include the: Cattail Lane culvert replacement; Jerusalem Road culvert replacement; Stoneybrook Drive bridge slope erosion onto CSX tracks; Germantown Road culvert lining; Fernmont Lane culvert replacement; and the Agricultural Farm entrance road culvert renovation.

Storm Drain Culvert Replacement This new project is needed to fund $6.3 million (GO bonds) in replacements of failed storm drain pipes and culverts. Pipe and culvert failures result in deep depressions, sinkholes, sediment build up, open pipe joints and unacceptable metal pipe deterioration which can result in safety hazards, property and environmental damage, and excessive emergency repair costs.

Ride On Bus Fleet This project amendment accelerates replacement of the remaining Champion buses which have had fire safety problems. The project is funded through the use of increased short-term financing in FY13 and FY14. The amendment also reflects updated bus replacement costs.

Gaithersburg Middle School Pool The enclosed $300,000 current revenue supplemental appropriation request will assist the City of Gaithersburg and Montgomery County Public Schools in funding safety repairs needed to reopen the pool at the Gaithersburg Middle School. The pool was unexpectedly closed in January 2012 due to structural problems. It is anticipated that the partnership between the City, MCPS, and Montgomery County Government will result in a waiver of increased fees for in-County, non-City residents who use the pool.

MCPS School Security Systems I am also recommending approval of the Board of Education's FY 2013 supplemental appropriation request to complete funding for the installation of security systems in all elementary schools in FY13.

Investments in Critical Infrastructure

Silver Spring Transit Center A $7.5 million GO bond supplemental appropriation is needed to cover site improvements, utilities and construction costs needed to prevent further opening delays. A portion of the costs included in the supplemental appropriation were caused by project delays, and the County intends to seek reimbursement for those project delay costs to the maximum extent allowed under law.

DPL Network and Telephone Infrastructure An additional $462,000 in short-term financing is requested to upgrade all Montgomery County Public Library branch network switches and Uninterruptible Power Supply (UPS) units. In addition, the project also converts the phone systems at the Bethesda, Davis, Potomac, Long Branch, and Wheaton Public Libraries to newer gateway technology. Many library branches have experienced voice and/or data service loss due to poor UPS performance following power surges and brownouts. The telephone system at the five branches has not been supported by the vendor since 2011, and replacement parts have become hard to find. Both the Bethesda and Wheaton libraries experienced recent phone service problems and waited three to five days before critical parts could be replaced. The Department of Technology Services has deemed this a "critical performance issue."

Projects that Enhance Job Growth or Leverage Private Funding

Rapid Transit System In addition to the $1 million supplemental appropriation pending with Council, I am recommending an additional $7.6 million in GO bond funding to carry out concept planning for MD355, US29 and Randolph Road. This planning is a critical next step to developing next generation transit operations that will support continued job growth in our urbanizing County.

Cost Sharing I am recommending a $5 million increase ($1 million a year) in GO bond funding to leverage private funding for Arts Facility grants. The Arts and Culture industry, through its organizations generate $151 million in annual economic activity in Montgomery County supporting 2,955 full-time equivalent jobs and generating $10.2 million in state and local government revenue. They support restaurants, hotels and other businesses by spending over $74 million in these businesses. Priority for these Arts Facility grants will be given to projects that leverage non-County funding.

Project Delays and Reductions

Six year GO bond funding for Montgomery County projects has been reduced by $20.32 million through the six month delay of the Bethesda Metro Station South and Capital Crescent Trail projects. Due to the current lack of state construction funding for these projects, this reduction is not likely to cause a delay in the project. A number of other County projects (Colesville Depot and North Potomac Community Center) were delayed for fiscal reasons since the projects had significant costs in FY14 and FY15, and they were not yet under contract. These County project deferrals provided needed fiscal relief in the early years of the CIP. Funding delays for the 2nd District Police Station, Good Hope Neighborhood Recreation Center, Platt Ridge, and Metropolitan Branch Trail projects reflect delays in project implementation schedules and also provided fiscal relief in the early years of the CIP.

Unspecified reductions in the Montgomery County Public Schools ($20 million) and Montgomery College ($5.2 million) have been assumed in my recommended capital budget. Since Montgomery County Government project delays covered FY13-FY14 funding needs, the MCPS and College reductions were only reflected in FY15-18, providing them with additional time to plan for these reductions.

Due to the previously noted fiscal constraints, MCPS requests for FY14 Capital Budget Amendments for additional Heating, Ventilation, and Air Conditioning (HVAC), Planned Life Cycle Asset Replacement (PLAR), and facility planning project funding as well as M-NCPPC requests for additional Trails: Hard Surface Renovation project funding were not included in my recommended amendments. As previously noted, my recommended amendments assume an FY13 supplemental appropriation to complete funding for security systems in all County elementary schools.

No changes have been requested or recommended for the Housing Opportunities Commission and Revenue Authority CIP.

Technical Adjustments

Other project changes are of a technical nature reflecting updated information regarding outside funding, adjustments related to the new Subdivision Staging policy, adjustments for fiscal capacity between years, and funding switches.

My FY14 Capital budget and FY13-18 CIP amendments are highlighted in the pages immediately following and detailed in the attached specific FY13-18 project description forms and reports for County Government, MCPS, Montgomery College, and the Housing Opportunities Commission and capture the priorities of my Administration. I am also including FY13 supplemental appropriations, as noted above, for the Gaithersburg Middle School Pool, the Silver Spring Transit Center, and the Ride On Bus Fleet. As part of the process of balancing GO bonds across years, I am also recommending shifting costs from FY14 to FY13 for the Resurfacing: Residential/Rural Roads, Residential and Rural Road Rehabilitation, Permanent Patching: Residential/Rural Roads, and Sidewalk & Infrastructure Rehabilitation projects. As a result, supplemental appropriations for these four projects are also attached.

As required by State law, I am also providing today (under separate cover) my recommendations for both the FY14-19 Capital Improvements Program and FY14 expenditures for the Washington Suburban Sanitary Commission (WSSC).

Many people have helped to shape the recommendations I bring to you in this budget and I appreciate their efforts. I wish to thank the members of the Board of Education, the College Trustees, and WSSC Commissioners, and the Planning Board for their work.

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

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Attachments:

Fiscal Summary Schedules
FY13-18 Biennial Recommended CIP – Budget Adjustments Summary
General Obligation Bond Adjustment Chart
General Obligation Bond Adjustment Chart Reconciliation
General Obligation Bond – Programming Adjustment for Unspent Prior Years
Tax Supported Current Revenues Adjustment Chart
Tax Supported Current Revenues Adjustment Chart Reconciliation
M-NCPPC Bond Adjustment Chart

Recommended Capital Budgets
MCG FY14 Capital Budget: Appropriation, Partial Closeout, and Closeout Lists
HOC FY14 Capital Budget: Appropriation
MCPS FY14 Capital Budget: Appropriation and Closeout Lists
Montgomery College FY14 Capital Budget: Appropriation and Closeout Lists
M-NCPPC FY14 Capital Budget: Appropriation, Partial Closeout, and Closeout Lists

Project Description Forms

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