



OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Marc Elrich
County Executive

MEMORANDUM

January 15, 2019

TO: Nancy Navarro, President, County Council

FROM: Marc Elrich, County Executive *ME*

SUBJECT: Recommended FY20 Capital Budget and Amendments to the FY19-24 Capital Improvements Program (CIP)

I am pleased to transmit to you, in accordance with the County Charter, my Recommended FY20 Capital Budget and amendments to the FY19-24 Capital Improvements Program (CIP). This is a biennial year for the capital budget. **As a result, amendments are limited to project changes that either meet the County's CIP amendment criteria, or that are necessary to balance the CIP.** The attached recommendations are affordable within our constrained means, take advantage of opportunities to leverage non-County resources, and reflect our shared values of prioritizing education and core infrastructure.

Overall Fiscal Context

Impact Tax and Recordation Tax revenue estimates reflect a net reduction of almost \$122.0 million. While Recordation Tax revenues are expected to increase by \$11.6 million over the six-year period, Impact Tax revenue projections are expected to decrease by \$133.6 million. The largest component of the revenue shortfall relates to the Schools Impact Taxes (-\$120.7 million). The updated impact tax projections have been adjusted to reflect more reasonable collection assumptions. In addition, it appears that recent changes to the impact tax law, to promote the increased production of affordable housing, are also having a serious negative impact on revenue collections. While well intentioned, the changes are producing tradeoffs that mean we cannot fund schools as we would like. We intend to investigate this more and propose legislative changes to address it.

These revenue reductions are so severe that funding for any new projects or funding for cost increases will have to be offset by reductions, with even further reductions required to balance the CIP. The limited cost increases assumed in my Recommended CIP are necessary to maintain funding for critical, previously approved projects; leverage non-County resources; or fund critical infrastructure. Where possible, I have taken advantage of cost savings and have looked for opportunities to use other funding sources to help meet our capital budget needs.

Unfortunately, our operating budget is also severely constrained. As a result of the FY18 closeout, the December update to the Fiscal Plan showed a gap of \$44 million. When combined with known FY19 and FY20 cost pressures and commitments, the gap grows to more than \$100 million. Given these operating budget challenges, all proposed increases in current revenue or cash expenditures in the CIP will be considered in the context of other operating budget needs.

Montgomery County Public Schools (MCPS)

As County Executive, my top priority is maintaining and expanding funding to address the capacity and infrastructure needs of the public schools. That is why I exempted the MCPS CIP from any affordability reductions that other agencies are being asked to assume in this biennial CIP - even though almost all of the revenue shortfall relates to school CIP funding sources.

My biennial recommended CIP assumes \$1.775 billion in MCPS funding to build 625 classrooms in 26 new additions, three new schools, and one reopened school. This allocation is sufficient to maintain funding for all previously approved projects. My recommended capital budget also includes savings identified by the Board of Education related to the Silver Spring Elementary School Addition. According to new enrollment projections, that addition is no longer necessary.

The Board of Education's request included \$51.1 million in new funding for planning additions for Highland View, Thurgood Marshall, and Lake Seneca Elementary Schools; school security enhancements; restroom repairs; planned lifecycle asset replacement of core infrastructure; and other infrastructure investments. Unfortunately, due to the previously mentioned revenue shortfalls, my recommended CIP is not able to accommodate these increases.

Our collective ability to fund these requested increases is largely dependent on our ability to leverage more resources – either from the State or through revisions to the impact tax laws. I will work with the Council, the Board of Education, our state legislative delegation, the Governor, and advocates to pursue all options for funding our schools. My recommended FY19-24 CIP continues to assume \$355.7 million in State Aid. I am optimistic that the Governor and the state legislature can reach an agreement to generate more funding for school construction. If an agreement can be reached, I will dedicate those funds to addressing our school capacity and infrastructure needs.

I have chosen to allow the Board maximum flexibility to propose resource reallocations between previously approved funding and new proposals by not specifying particular changes in project-funding recommendations. With that said, I would ask that the Board and Council prioritize funding for projects that address capacity needs and critical failing infrastructure.

While I was on the Council, I had concerns when the Bethesda Elementary Schools Solution project was approved because I felt the Board's capacity study was too narrow. I was pleased to learn that the Board now intends to look at elementary school capacity from both the Bethesda-Chevy Chase and Walter Johnson Clusters when considering how to address overcrowding in Bethesda, and I would ask that the project name be changed to the Bethesda Area Elementary Schools Solution project to reflect this broader analysis. I see this action as another indication that the Superintendent and Board are willing to think creatively about ways to address our capital needs, and I am happy to be their partner in this endeavor.

As previously mentioned, due to the operating budget challenges ahead, I have deferred making any recommendation on the Board's requests for increased current revenue. Those requests will be considered in March in the context of the operating budget.

Montgomery College

I would like to acknowledge the College leadership for the collaborative approach they took in finding ways to fund their top priorities while also addressing the County's CIP revenue shortfalls. The College was very clear that including funding for State-allowed escalation increases for the Takoma Park/Silver Spring Math and Science Center project was their number one priority, and the College identified cost savings in the Rockville Garage, PLAR, and Germantown Observation Drive projects that helped fund the County's increased General Obligation (GO) bond costs and leveraged \$1.5 million in State funding.

In addition to supporting the requested Takoma Park/Silver Spring Math and Science Center cost increases, my recommended CIP also includes funding for the following:

- Increased support for the Collegewide Physical Education Renovations project (\$2.0 million) to renovate the Rockville Campus soccer facilities to Division 1 standards. The increase is funded by the Major Capital Facilities Fund;
- State-authorized cost escalation increases (\$2.4 million) for the Germantown Student Services Center which are reflected beyond the 6-year period due to affordability; and
- Increased State Aid (\$1,375,000) for a new Collegewide Central Plant & Distribution System project.

Due to significant revenue reductions, my CIP is not able to fund other College proposed project cost increases, and an additional affordability reduction of \$2.4 million spread across FY21 – FY24 has been assumed due to the previously mentioned revenue shortfalls.

Overall, FY19-24 funding for the College is \$279.6 million. This represents a \$2.3 million, or 0.8 percent, increase over the previously approved CIP. Non-County resources made this increase possible. State Aid is assumed to fund \$65.0 million of the FY19-24 College CIP.

Maryland National Capital Park & Planning Commission (M-NCPPC)

The recommended biennial CIP assumes increased M-NCPPC funding for contributions for the Small Grant/Donor-Assisted Capital Improvements project (\$800,000) and a new Bethesda Park Impact Payments project (\$10 million). This is in addition to \$2.1 million in FY19 supplemental appropriations which have already been approved for the Small Grants/Donor-Assisted Capital Improvements project, the Acquisition: Local Parks project, the ADA Compliance: Non-Local Parks (Seneca Landing Special Park) project, the Josiah Henson Historic Park project, and the Minor New Construction – Non-Local Parks (Maydale Nature Center) project.

I am particularly interested in efficiently maximizing park space in Bethesda, and I intend to stay involved as M-NCPPC's plans for the Bethesda Sector plan evolve. I also want to make sure that we are giving the community realistic expectations about how much can be accomplished in the near term. As a result, my recommended CIP includes only the requested FY20 funding (\$10 million) as these funds are based on revenues from developments with approved site plans. In the full CIP, I would expect that we will have updated data that can inform funding estimates for FY21 and FY22. If more funds become available before FY21, I will support a supplemental appropriation for the project.

The biennial CIP defers a recommendation on the increased utilization of Community Use of Public Facilities funds to renovate ballfields. This decision will be considered in March in the context of the operating budget and other competing needs – some of which benefit other Parks operations.

Due to the revenue reductions previously mentioned, a modest reduction in GO bonds (\$1,450,000) is included to help address revenue shortfalls. The reductions do not begin until FY21 and are spread over the last four years of the CIP. In total, M-NCPPC's FY19-24 CIP (\$231.1 million) will increase by \$11.2 million, or 5.1 percent, from the previously approved CIP – primarily funded with non-County resources.

Montgomery County Government Amendments

Although the vast majority of cost reductions and affordability-schedule adjustments came from County Government projects, there are some limited cost increases in County projects that leverage non-County funds, save money in the future, and maintain core infrastructure.

- South County Recreation and Aquatic Center. While costs on the project have increased significantly over original assumptions, we now have a competitively bid, fixed price contract that confirms market conditions. The project still provides significant cost savings through cost-sharing with the Housing Opportunities Commission's Elizabeth Square affordable housing project in Downtown Silver Spring. Once the Center is completed, it will serve as a focal point for aquatic, senior, and community activities for all ages in a part of the County that has been traditionally underserved by parks and recreation amenities.

- Streetlighting. The Department of Transportation (DOT) will undertake the second phase of an energy-savings performance contract to convert street lights to Light Emitting Diode (LED) fixtures. The \$6.5 million increase will be funded through Utility Incentives (\$3.6 million) and long-term financing backed by expected utility savings (\$2.9 million).
- Bridge Renovations. In July, a major sinkhole developed when a large culvert collapsed under Father Hurley Boulevard. Emergency repairs were initiated with existing project funding. This CIP amendment will replenish \$4 million in project funding to replace the Valleywood Drive pedestrian bridge and River Road, Belfast Road, and Falling Creek culverts.
- White Flint Fire Station Funding. \$1,100,000 has been added to construct additional space for a future Police substation to be co-located within the Fire station. Once the shell is built out, it will provide growth capacity for the 2nd District Police station as well as a local police presence in White Flint.
- Council Office Building Garage Renovations. As work progressed on the project, it became clear that additional stairwell, steel, and concrete deterioration had to be addressed. A supplemental appropriation request for \$1,990,000 is being transmitted to Council separately so that the project can be completed.

Acceleration of spending, where affordable, has been included for the Resurfacing: Residential/Rural Roads and Pedestrian Safety projects to advance important highway maintenance and Vision Zero objectives. A supplemental appropriation request for \$1 million is being transmitted to Council separately to support increased FY19 resurfacing.

A Facility Planning project amendment using existing funds to develop options for making County services more accessible to the Poolesville community is also recommended. This study will consider community needs as well as co-location options with Montgomery County Public Schools and other community resources. Planning funds for the Wheaton Arts Center continue to be included in our assumed FY20 project funding.

Project savings from the Dennis Avenue Health Clinic, the North Potomac Recreation Center, the Western County Outdoor Pool, the Burtonsville Community Revitalization, and the Public Safety System Modernization projects have been recognized. In some cases, these savings have helped fund cost increases for other projects.

Increases in Contributions and State Aid will fund Bikeway Program Minor Project improvements on the Emory Lane and Muncaster Mill Road Shared Use Path, while increases in Federal Aid will fund preliminary design of the Forest Glen Sidewalk as part of the Sidewalk Program Minor Projects effort.

Schedule adjustments based on updated implementation and billing information are included for the White Oak Science Gateway, Bethesda Metro Station South Entrance, Capital Crescent Trail, and Wall Park projects.

Adjustments related to identifying alternative approaches to accomplishing our capital goals have also been made. For example, DOT will be pursuing WMATA funding for the White Flint Metro Station Northern Entrance and the Forest Glen Metro Station Passageway projects. County funding for these projects has been delayed to allow time to pursue non-County funding and to reflect affordability considerations.

Placeholder funding for the KID Museum project has been assumed in FY20 as the Museum pursues an alternative permanent, larger location now that the previously proposed building is no longer a viable option. Once a specific proposal is put forward, costs and schedules will be updated.

Funding for the Montrose Parkway East project has been significantly reduced at this time. I have directed DOT staff to evaluate alternatives that address safety concerns regarding the railroad crossing and general traffic flow in a smaller, less costly manner. One million dollars has been retained in the project for planning.

Other project reductions and deferrals based on affordability considerations include:

- A one-year deferral of the Seven Locks Bikeway project;
- Deferral of the Dorsey Mill Road Bridge and the Bradley Boulevard Bikeway Improvements projects to beyond FY24; and
- Reductions in FY21, FY22, and FY23 when resources were particularly limited for the Bicycle-Pedestrian Priority Area Improvements and Sidewalk and Curb Replacement projects.

Technical Adjustments, including funding switches, project acceleration, previously approved transfers and supplementals, and other technical changes have also been made to a number of projects. These adjustments are itemized on the attached Budget Amendment Summary chart.

General Obligation Bonds

I recommend maintaining the approved level of General Obligation (GO) bond issues in each of the remaining five years of the FY19-24 CIP with \$320 million in FY20; \$310 million in FY21; and \$300 million per year in FY22, FY23, and FY24. As I look to begin to implement multi-year budgeting, it is important to balance the capital budget needs with the operating budget needs today and in the future. Furthermore, as we see the impacts that the federal government shutdown is having on our friends and neighbors, it is a reminder of the value of maintaining fiscal flexibility.

Set-Aside Considerations

Set-asides are funds that are intentionally not programmed to provide capacity to respond to unexpected needs and opportunities. The recommended capital budget assumes a \$135.2 million set-aside with \$18.6 million available in FY19 and FY20 for unanticipated needs. The recommended biennial set-aside allocates approximately \$31.4 million from last year's set-aside for project use.

As required by State law, I am also providing today (under separate cover) the recommendations for both the FY20-FY25 Capital Improvements Program and the FY20 expenditures for the Washington Suburban Sanitary Commission (WSSC).

Many people have helped to shape the recommendations I submit to you in these amendments, and I am grateful for their efforts. I wish to thank the members of the Board of Education, the College Trustees, the WSSC Commissioners, and the Planning Board for their work.

As noted 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 these proposals with you. As always, Executive Branch staff is available to assist you in your deliberations on the Capital Budget and CIP.

ME:rsm

Attachments:

Fiscal Summary Schedules

- FY19-24 Biennial Recommended CIP – January Budget Adjustments Summary
- General Obligation Bond Adjustment Chart
- General Obligation Bond – Programming Adjustment for Unspent Prior Years
- Tax Supported Current Revenues Adjustment Chart
- M-NCPPC Bond Adjustment Chart

Recommended Capital Budgets

- MCG FY20 Capital Budget: Appropriation and Closeout List
- MCPS FY20 Capital Budget: Appropriation
- Montgomery College FY20 Capital Budget: Appropriation
- M-NCPPC FY20 Capital Budget: Appropriation and Closeout List
- HOC FY20 Capital Budget: Appropriation and Closeout List

Project Description Forms

c: Montgomery County Councilmembers

Marlene Michaelson, Executive Director, County Council
Shebra Evans, Montgomery County Board of Education President
Dr. Jack R. Smith, Superintendent, Montgomery County Public Schools
Dr. DeRionne P. Pollard, President, Montgomery College
Casey Anderson, Chair, Montgomery County Planning Board
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