

Montgomery County Government

FY23-28 Capital Budget Kick-off

July 2021

Montgomery County Office of Management & Budget



Agenda



- ❖ **County Executive Priorities & Initiatives**
- ❖ **Operating Budget Fiscal Climate**
- ❖ **FY23-28 CIP Fiscal Outlook**
- ❖ **Racial Equity**
- ❖ **Climate Change**
- ❖ **The CIP Process**
- ❖ **BASIS – What's new?**
- ❖ **Questions**

County Executive's **Priority Outcomes**

- ❖ Thriving Youth and Families
- ❖ A Growing Economy
- ❖ A Greener County
- ❖ Easier Commutes
- ❖ A More Affordable and Welcoming County for a Lifetime
- ❖ Safe Neighborhoods
- ❖ Effective, Sustainable Government

County Executive's Signature Initiatives



- **Advancing** Racial Equity & Social Justice
- **Building** Bus Rapid Transit
- **Expanding** Early Care and Education
- **Fighting** Climate Change
- **Improving** Economic and Community Development
- **Preserving & Increasing** Affordable Housing
- **Reimagining** Public Safety

County Executive's CIP Priorities

Critical MCG Projects:

- Implementation of Rapid Transit System
- Smart Growth Initiative MCPS Bus Depot
- Imminent Safety Hazard (e.g. Bridge Repair)
- Completion of projects already under construction
- Other projects that support economic development

High Priority

- Renovation of existing infrastructure that needs capital repair
- Maintaining Level of Effort (LOE) projects (e.g. Roof Replacement, HVAC/Electrical Replacement, PLAR, Highway Maintenance, etc.)
- Affordable Housing Acquisition and Preservation
- New Projects that address 7 priority outcomes

Low Priority: Any new projects not contributing to the above priorities

FY23-28 Fiscal Outlook



Fiscally Responsible Government

Montgomery County is focused on financial sustainability

- ❖ Requirement of a balanced budget despite revenue volatility
- ❖ Slow down new debt to reduce the rate of growth in expenditures
- ❖ The approved FY22 budget projects reserves at 9.6%. When emergencies require reserves to dip below 10%, it is the County's policy to ensure reserves reach the 10% policy target within three fiscal years. Reserves are projected at 10% by FY24.
- ❖ Prefunding for pensions and Retiree Health Insurance (OPEB)

Fiscally Responsible Government

COVID-19 IMPACT SUMMARY

- ❖ **Year-end FY21 results are pending but preliminary information seems to indicate that federal support for individuals and businesses cushioned some of the COVID revenue impacts**
- ❖ **Received \$183.3 million in Coronavirus Relief Fund (CRF) dollars - COVID-19 expenses as well as additional federal aid for Mass Transit assistance and Housing assistance**
- ❖ **Allocated \$204.1 million in American Rescue Plan Act (ARPA) funds - \$102.1 million received in June 2021 and the remainder to be received before the end of FY22**
- ❖ **The County Executive recommended, and the County Council approved two FY21 Savings Plans (operating budget and CIP cash) to help improve FY21 estimated reserves**

FY23-28 Fiscal Outlook

COVID – 19

- ❖ Pursuing federal assistance –
 - ❖ Received \$31.8 million in FEMA/COVID reimbursements to date and continuing to apply for additional FEMA reimbursements
 - ❖ Received \$183.3 million in CRF dollars and other federal aid for Mass Transit assistance and Housing assistance
 - ❖ Has been allocated \$204.1 million in ARPA funding with \$102.1 million received in June 2021; the remainder is anticipated before the end of FY22
 - ❖ IGR-coordinated effort to leverage infrastructure bill, earmark, and other federal/state funding

FY23-28 Fiscal Outlook

Known Operating Budget Cost Pressures

- ❖ Student Enrollment rebound
- ❖ Operating budget impact of new facilities
- ❖ Cost & price spikes: fuel and energy costs; post-COVID inflation; supply chain issues; weather
- ❖ Debt Service

FY23-28 Fiscal Outlook

Continued Operating Budget Uncertainty

- ❖ **Level of ultimate FEMA reimbursement**
- ❖ **Office market future – property tax impacts**
- ❖ **Expenditure pressures – inflation, interest costs, community needs (i.e., rental assistance, etc.)**
- ❖ **Any COVID setbacks**

The County will need to make strategic use of one-time funding.

FY23-28 Fiscal Outlook

Biennial CIP Fiscal Factors

- ❖ **PAYGO (-\$41.400M) and Current Revenue (-\$16.5M) reductions to help fund the operating budget**
- ❖ **Impact tax reductions due to growth policy changes (-\$37.940M) – in Schools & Transportation**
- ❖ **Recordation tax reductions (-\$68.447M) – in Schools & Transportation**
- ❖ **Council reconciliation assumed additional State Aid for MCPS (\$15.245M) and the Capital Crescent Trail tunnel (\$21.0M) that may not materialize.**
- ❖ **Additional State Aid for transportation and other projects**

FY23-28 Fiscal Outlook

CIP Funding Considerations

- ❖ GO debt levels – TBD with October SAG
- ❖ Annual high at \$340M/year – now a low of \$270M in FY26
- ❖ Expect PAYGO to return to 10% of GO policy level
- ❖ Impact Taxes – Council reductions to be maintained
- ❖ Recordation Taxes – may be increased
- ❖ School State Aid – very uncertain
- ❖ Pre-election cycle – limited opportunities for tax increases
- ❖ IGR federal/state funding requests

FY23-28 Fiscal Outlook

CIP Expenditure Pressures

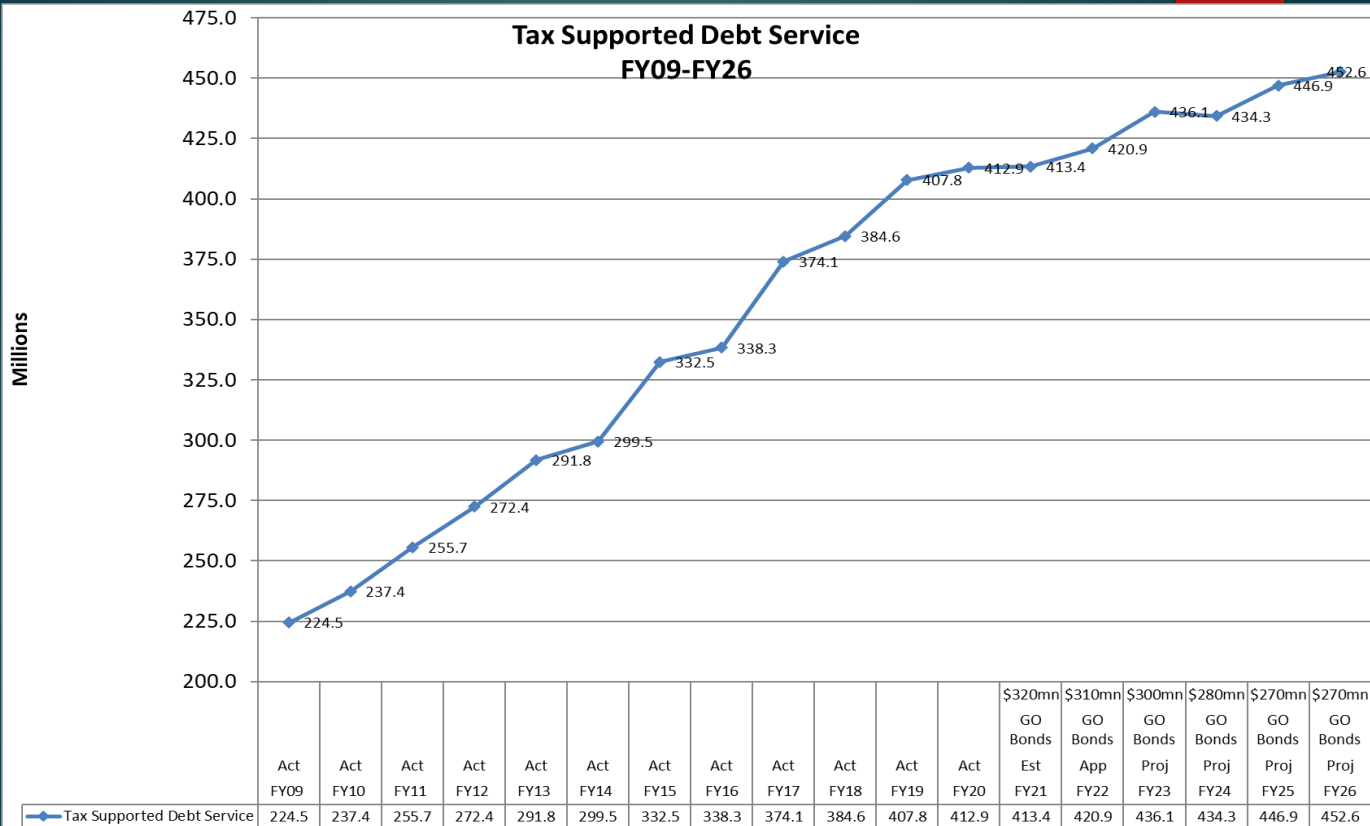
- ❖ Rebounding school enrollment
- ❖ Construction cost increases and supply chain issues
- ❖ HVAC, Roof Replacement, Road Resurfacing and other level of effort project needs
- ❖ Community expectations (i.e. master plans, etc.)
- ❖ Capital budget demands on the operating budget may be unaffordable.
- ❖ Debt Service affordability

CIP Impacts on the Operating Budget

- ❖ **Direct cash contributions in the FY22 approved budget**
 - ❑ PAYGO \$15.5M
 - ❑ Other Cash \$78.4M
- ❖ **Cost to Operate New/Expanded Facilities**
- ❖ **Debt Service – e.g. Every \$10 million in Debt increases annual debt service by \$1 million. Debt service payments continue for 20 years.**

FY23-27 Fiscal Outlook

Tax-Supported Debt Service, FY09-FY26



Debt Service Opportunity Costs

Every \$1 million used for debt service could also be used for:

- ❖ 14 public school teachers
- ❖ 9 police officers
- ❖ 9 fire fighters
- ❖ Operating 1 library for a year (except for large libraries such as Silver Spring and Rockville)
- ❖ Operating 8 Senior Centers
- ❖ Operating 5 Recreation Community centers
- ❖ Operating 3 Elementary School Excel Beyond the Bell Programs
- ❖ Rental assistance for 416 families
- ❖ Emergency shelter for 160 clients
- ❖ Respite care for 324 clients
- ❖ Child care subsidies for 143 children for a year
- ❖ Services for 4,428 Montgomery Cares clients
- ❖ 1,274 County-funded Maternity Partnership program
- ❖ 1,594 Housing Stabilization grants
- ❖ Pruning 2,150 trees
- ❖ Purchasing 2 buses
- ❖ Renovations for 250 bus stops

FY23-28 County Executive's Advancing Racial Equity and Climate Change Signature Initiatives



Advancing Racial Equity



- ❖ **Racial Equity means ... Closing the gaps so that race does not predict one's success, while also improving outcomes for all.**
- ❖ **To close the gap... we focus on communities of color to target improvements for those most burdened by racial inequity**
- ❖ **Moving beyond “services” to transform policies, institutions, and structures (i.e. systems)**
- ❖ **OMB and ORESJ will hold several listening/learning sessions in July/August to clarify expectations and help departments prepare their submissions**

Advancing Racial Equity



- ❖ **Justification Section** includes an opportunity to explain the project's potential racial equity impacts. Prior to moving to the justification Section, please check the box that most closely reflects your assessment of this project proposal:
 - A) Yes, this project considers potential racial equity impacts
 - B) I'm not sure whether this project considers potential racial equity impacts
 - C) No, this project does not consider potential racial equity impacts
- ❖ **Justification:** Explain what changes are needed to existing projects and why they are needed. Explain why new projects are needed (e.g., addressing poor facility condition, inadequate capacity, health and safety issues, racial disparities, and/or consistent with strategic facility or master plans, etc.). Include information about expected progress in advancing priority outcomes.

Advancing Racial Equity



If you answered option A or B in the previous question, please use the racial equity impacts prompts below in your justification:

- a. What racial inequities in Montgomery County have you considered in this new project request?
- b. How were these racial inequities considered? What data sources did you identify and analyze? What did the data tell you? Possible sources of information include quantitative and qualitative data:
 - i. the demographic composition of the neighborhood served (including demographic-specific indicators related to the proposed project such as race, ethnicity, age, disability)
 - ii. community feedback
 - iii. geographic location, and the location's proximity to communities of color.
- c. In what ways does this project aim to address or reduce the inequities you identified?

Fighting Climate Change

Impact on Greenhouse Gas Emissions:

- ❖ Indicate if the project will lead to an increase in greenhouse gas emissions or will contribute to the County's goal to reduce greenhouse gas emissions. Identify aspects of the project that will have an impact on greenhouse gas emissions.

Increase use of renewable energy:

- ❖ Identify how the project will increase the use or generation of renewable energy. For example, if solar panels are part of the plans, their inclusion will lessen the County's need for electricity from coal-fired power plants.

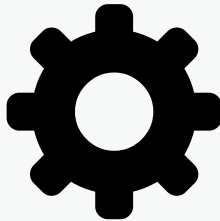
Increase the County's resiliency to withstand future impacts of climate change:

- ❖ Identify aspects of the project that will help the County withstand future impacts of climate change, like more severe storms, flooding, and high winds.

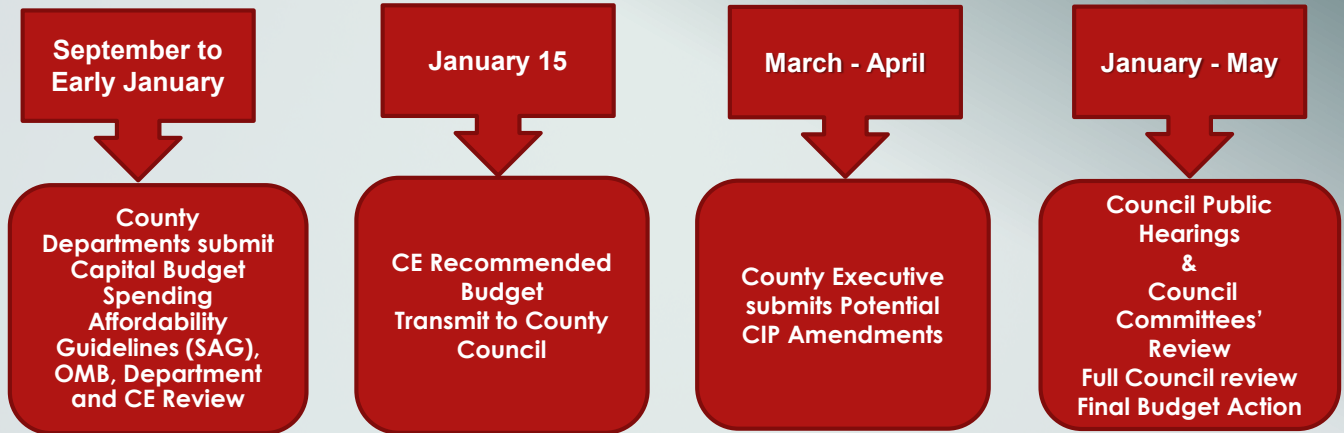
LEED Certification:

- ❖ Indicate if the project conforms to Leadership in Energy and Environmental Design certification for Silver, Gold, or Platinum certification.

CIP Process



CIP Budget Process Timeline



CIP Process – OMB's Role

- **Assess risk** in proposals
- **Prioritize projects** in accordance with policy priorities and mandates
- **Balance costs** across the 6-year period given fiscal constraints
- **Particular fiscal constraints** -
 - GO Bonds – Spending Affordability Guidelines (SAG) limits
 - Current Revenue (i.e. cash) - competes with the operating budget costs
- **Due diligence**, readiness to compete for resources, consideration of alternative project scenarios.
- **Analyze project contributions** to achieving priority goals.
- **Present recommendations** to the County Executive.

Due Diligence Review

Corner to corner review of the Project Description Form (PDF)

- Benchmarking
- Cost analyses
- Assess technical correctness

NOTE: County Departments - all scope changes and new projects should have been previously approved by the CE and CAO during the prescreening process.

Due Diligence Review (*continued*)

For Existing Projects

- ▶ **Identify** and understand changes
- ▶ **Identify** major cost increases, scope changes, and funding switches for further review
- ▶ **Do not change** funding sources for Thru FY21 and Est FY22 without consulting with OMB

For New Projects

- ▶ **No surprises:** DGS and OMB have been reaching out to departments on potential new projects
- ▶ **Understand** project fundamentals & justification for the project
- ▶ **Ensure** Program of Requirements documentation
- ▶ **All necessary parties involved;** all necessary components budgeted

Readiness

To Compete for Resources

Don't budget funding in a project that will not roll out in the stated time frame

- Justification of need and priorities
- Consistent with master plans
- Coordination with other relevant entities – including DTS
- Reliable cost estimates
- Public information requirements met (public hearings)
- All items included in costs - e.g. land, IT

CIP Process

- Program of Requirements development – involving OMB analyst throughout the POR development process
- Still need supporting documents - OBI spreadsheet and the Pedestrian Safety Impact (available on OMB's Intranet site)
- Child Care and Affordable Housing assessments will be submitted by departments later
- Indirect Cost Rate remains at 17.2%
- MCG, HOC submission deadline is **September 8th**
- Two half-day (10:00 a.m. – noon), virtual training for department preparers on the following dates:
 - **July 29th and August 12th**

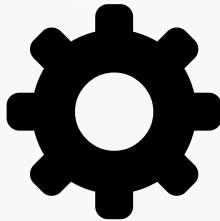
Reducing OMB Questions

- **Meet with your OMB analysts** before the submission; use them as a resource.
Your OMB analyst cannot support & advocate for a project, if they don't understand its purpose, need, benefits, etc.
- **Use PORs, Project Changes form**, and supplementary materials to make your case.
- Upload all documents in CIP BASIS as necessary.

NOTE: OMB analysts will be in touch with departments prior to submission. CE briefings may also occur prior to submissions.

CIP BASIS

What's new?



CIP BASIS - What's new?

- Enhanced reports
- Focus on Racial Equity
- Focus on Climate Change

Open Budget – there's something for everyone!

Interactive

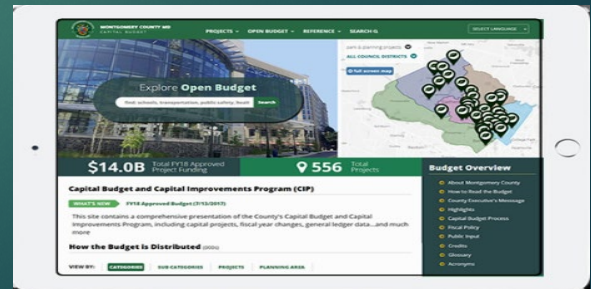
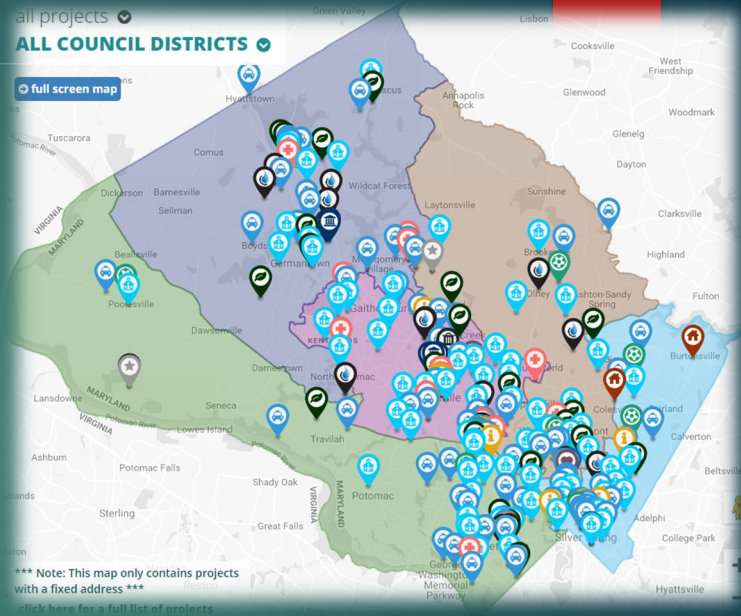
Accessible

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Sharable

montgomerycountymd.gov/openbudget



Questions?

