



Committee: Directly to Council
Committee Review: N/A
Staff: Essie McGuire, Senior Legislative Analyst
Keith Levchenko, Senior Legislative Analyst
Naeem M. Mia, Legislative Analyst
Glenn Orlin, Senior Analyst
Purpose: Receive briefing and have discussion – no vote expected
Keywords: FY24 CIP, FY23-28 Amended CIP

AGENDA ITEM #1
April 11, 2023
Discussion

SUBJECT

FY23-28 Amended Capital Improvements Program (CIP): Status Update

EXPECTED ATTENDEES

None

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

- No decision is required at this time.
- The Council will receive a status update of the Amended FY23-28 CIP affordability at this point in the Council's review process, including changes in anticipated revenues and project amendments identified through Committee and Council review to date.

DESCRIPTION/ISSUE

- Attached (circle 4) is the most recent (as of April 4, 2023) General Obligation (GO) Bond "Gap" Chart showing the status of the CIP. The "gap" reflects the proposed and recommended GO Bond expenditures relative to the anticipated revenues and within the parameters of the Council's fiscal policies.
- **The total six-year gap has increased to \$207.5 million**, primarily due to the Department of Finance's revised (lower) projections for recordation tax revenue (-\$61.6 million in six-year revenue) and removing the \$80 million one-time PAYGO previously assumed by the Council in FY24, pending Council review of the Operating Budget.

This report contains:

- | | |
|----------------------------------|-----|
| 1. Staff report | © 1 |
| 2. Gap chart as of April 4, 2023 | © 4 |

Alternative format requests for people with disabilities. If you need assistance accessing this report you may [submit alternative format requests](#) to the ADA Compliance Manager. The ADA Compliance Manager can also be reached at 240-777-6197 (TTY 240-777-6196) or at adacompliance@montgomerycountymd.gov

MEMORANDUM

April 6, 2023

TO: County Council

FROM: Essie McGuire, Senior Legislative Analyst
Keith Levchenko, Senior Legislative Analyst
Naeem M. Mia, Legislative Analyst
Glenn Orlin, Senior Analyst

SUBJECT: **FY23-28 Amended Capital Improvements Program: Status Update**

This memorandum provides a status update on the affordability of the Amended FY23-28 CIP at this point in the Council's review process, including changes in anticipated revenues and project amendments identified through Committee and Council review to date.

Attached to this staff report (circle 4) is the most recent (as of April 4, 2023) General Obligation (GO) Bond "Gap" Chart showing the status of the CIP. The "gap" reflects the proposed and recommended GO Bond expenditures relative to the anticipated revenues and within the parameters of the Council's fiscal policies.

KEY POINTS:

- **The total six-year gap has increased to \$207.5 million**, primarily due to the Department of Finance's revised (lower) projections for recordation tax revenue (-\$61.6 million in six-year revenue) and removing the \$80 million one-time PAYGO previously assumed by the Council in FY24, pending Council review of the Operating Budget.
- **This gap assumes funding most requested expenditures** for both Montgomery County Public Schools (MCPS) and the County Department of Transportation (MCDOT); meaning the gap does not accept the bulk of the affordability reductions the Executive assumed for either MCPS or MCDOT.
- While applying the non-recommended reductions put forward by MCPS or accepting the MCDOT reductions in the Executive's transmittals would reduce the gap, **taking all of the non-recommended reductions put forward across all agencies does not fully close the \$207.5 million gap.**
- There are **several additional factors still to come**, such as final information on State Aid; Committee review of the remaining CIP amendments; and review of Bill 17-23 "Taxation – Recordation Tax Rates – Amendments." These factors could improve or worsen the gap.

GAP CHART

The complete April 4, 2023, General Obligation (GO) Bond “Gap” Chart is attached on circle 4. Major features are highlighted below.

The Gap Chart starts with the Executive’s Recommended Amendments and macro assumptions transmitted on January 17.

- The initial gap was created by the undesignated affordability reductions the Executive assumed in his CIP submission for MCPS, Montgomery College, and Park and Planning; and by the increased Spending Affordability level the Executive assumed above Council approved levels.
- The initial gap was improved by the Council identifying \$80 million in one-time revenues for use as PAYGO in the CIP.
- The Executive’s March 15 FY24 Recommended Operating Budget and CIP amendments increased the gap largely due to two factors:
 - The Executive’s FY24 Recommended Operating Budget and latest CIP macro assumptions did not include the additional \$80 million in PAYGO in FY24 that the Council identified. Since any additional PAYGO to the CIP would require increased revenues or reduced expenditures from the Executive’s FY24 Operating Budget, the latest Gap Chart has removed the \$80 million in PAYGO pending further Council review.
 - The March 15 transmittal assumes a write-down of recordation tax and recordation tax premium projected revenue based on more recent collection data. The six-year reduction in revenue for the CIP is \$61.6 million (about \$9m to \$11m per year).
- The Committee and Council actions to date include restorations in the White Flint Fire Station and in MCDOT, and non-recommended reductions in Montgomery College Germantown Student Services Center.
- **The net impact of these changes in assumptions regarding revenues and expenditures is a gap of \$207.5 million in GO Bonds above available revenues and approved fiscal policies.** This amount is a total across the six-year period; ultimately the CIP must reconcile both in total and within each year of the CIP.

ADDITIONAL FACTORS AND NEXT STEPS

- Additional “non-recommended” reductions received from MCPS, Montgomery College, and the Planning Board to meet the increased undesignated reductions in response to the Executive’s March 15 transmittal will be reviewed by the Education and Culture (E&C) and Planning, Housing, and Parks (PHP) Committees. Any additional reductions accepted by the Council would reduce the gap.

- The Executive transmitted additional amendments to the CIP on March 15. None of these amendments are reflected in the Gap Chart at this time (whether increases or decreases in General Obligation Bonds) since the Committees and Council have not reviewed these yet.
- Additional information about State Aid that may impact the CIP will be available after Sine Die and the conclusion of the State General Assembly Legislative Session.
- On March 21, 2023, the Council introduced Bill 17-23 “Taxation – Recordation Tax Rates – Amendments.” This bill would increase rates for the Recordation Tax and Recordation Tax Premium. If enacted as introduced, the Department of Finance estimates \$260.6 million in additional CIP revenue over the FY24-28 CIP period. A Government Operations and Fiscal Policy (GO) Committee worksession on Bill 17-23 “Taxation - Recordation Tax Rates – Amendments” is expected in late April. Additional scenarios and alternative tax rates may be discussed at Committee worksession.
- Council staff will continue to track changes and updates that occur throughout the Council’s ongoing CIP review, and work toward final reconciliation of revenues and expenditures in mid-May.

FY23-28 CIP General Obligation Bond Surplus (Gap) (in \$000s)

Macro Changes to January 17 CE Transmittal		FY23-28	FY23	FY24	FY25	FY26	FY27	FY28
1	- Affordability Reconciliation - MCPS	(40,593)		(33,909)	(13,514)	(20,912)	14,236	13,506
	- Affordability Reconciliation - College	(6,000)					(2,000)	(4,000)
	- Affordability Reconciliation - Parks	(1,500)				(500)	(500)	(500)
2	- Council Approved CIP May 2022 SAG Differences from CE Rec. SAG	(40,000)		(20,000)	(20,000)			
	- Impact of February 7, 2023 CIP SAG Action by Council	-	20,000	10,000	-	(10,000)	(10,000)	(10,000)
3	- Assume PAYGO at Approved FY23-28 CIP Level	(4,000)		(2,000)	(2,000)			
	- Increase FY24 and FY25 PAYGO to CE Recommended Level	4,000		2,000	2,000			
	- Increase FY24 PAYGO by \$80 million (per Council CIP SAG discussion)	80,000		80,000				
4	General Obligation Bond Surplus (GAP) as of February 7, 2023	(8,093)	20,000	36,091	(33,514)	(31,412)	1,736	(994)

Additional Macro Changes Per March 15 CE Transmittals		FY23-28	FY23	FY24	FY25	FY26	FY27	FY28
5	- Updated Recordation Tax Assumptions - March 15 CE	(52,291)	(9,118)	(8,066)	(8,292)	(8,953)	(7,766)	(10,096)
	- Updated Recordation Tax Premium Assumptions - March 15 CE	(9,310)	(1,688)	(1,426)	(1,455)	(1,617)	(1,287)	(1,837)
6	- Remove One-Time PAYGO Increase in FY24	(80,000)		(80,000)				
7	- Other Macro Adjustments by CE (Inflation, Slippage, Set-Aside)	3,980	7,998	(7,867)	(3,137)	5,132	(5,126)	6,980

Committee/Council Changes to January 17 CIP Amendme		FY23-28	FY23	FY24	FY25	FY26	FY27	FY28
8	- White Flint Fire Station (Keep on Schedule)	-		(5,500)	(6,812)	977	11,335	
	- Montgomery College Non-Rec. Red. - Germantown Student Serv. Ctr	6,000					2,000	4,000
	- Transportation Restorations (T&E March 20)	(67,791)	972	(6,628)	(12,835)	(20,219)	(24,741)	(4,340)

9	General Obligation Bond Surplus (GAP) as of April 4, 2023	(207,505)	18,164	(73,396)	(66,045)	(56,092)	(23,849)	(6,287)
---	--	------------------	---------------	-----------------	-----------------	-----------------	-----------------	----------------

Line Descriptions

1	In the Executive's January 17 Amended CIP transmittal, he recommended undesignated reductions in General Obligation Bond expenditures for the MCPS, College, and Parks CIP requests. Specific reductions and/or additional CIP revenue to offset these reductions will need to be identified.
2	CIP Spending Affordability Guidelines (SAG) Assumptions: The Executive recommended \$20 million more in both FY24 and FY25 in Bonds Planned for Issue than what was in the Approved SAG guidelines. On February 7, the Council supported the Approved SAG Six-Year and Annual Totals consistent with the Council's February 2022 action.
3	PAYGO: The Executive recommended slightly higher PAYGO amounts in FY24 and FY25. As part of its February 7 CIP SAG discussion, the Council concurred with these increases and also recommended a one-time increase in PAYGO in FY24 of \$80 million.
4	Taking into account Lines 1 through 3 results in a starting General Obligation Bond Gap of about \$8.1 million across the six-year period.
5	As part of the Executive's March 15 FY24 Recommended Operating Budget transmittal and additional CIP amendments, the Executive lowered projected Recordation Tax and Recordation Tax Premium revenues (-\$61.6 million) for FY23 through FY28 based on more recent collection experience.
6	The Executive's FY24 Recommended Operating Budget does not assume the additional \$80 million in PAYGO initially supported by the Council.
7	The Executive's March 15 CIP amendments assume adjustments in inflation, slippage, and the assumed General Obligation Bond set-aside.
8	The Council has preliminarily made some changes to the CIP amendments transmitted on January 17.
9	The latest estimated General Obligation Bond Gap is approximately \$207.5 million across the six-year period.