Montgomery County Council

Committee: Directly to Council
Committee Review: N/A
Staff: Marlene Michaelson, Executive Director
Purpose: Receive briefing and discuss
Keywords: FY24 Budget

AGENDA ITEM #2
April 11, 2023
Discussion

SUBJECT

FY24 Operating Budget Highlights and Approach

EXPECTED ATTENDEES

Jennifer Bryant, Director, Office of Management and Budget
Mike Coveyou, Director, Department of Finance

DESCRIPTION/ISSUE

The County Executive submitted his recommended FY24 Operating Budget on March 15, 2023. The Council will receive a briefing on the key elements of the recommended budget as it prepares its work to approve a budget in May.

SUMMARY OF KEY DISCUSSION POINTS

- The County Executive's recommended FY24 Operating Budget presents a second year of significant growth after two years of constrained budgets. A 10% property tax increase provides the underpinnings of a budget that meets most of the school system's request and allows for compensation increases and growth in many County programs.

- Global economic conditions and forecasts continue to show uncertainly and the potential for an economic contraction, and the County's fiscal plan continues to reflect a "mild recession" scenario for calendar year 2023.

- Council staff has concerns about the Executive's proposed use of one-time resources for ongoing expenditures, sustainability of spending growth given projected resources, and a potential structural deficit as early as FY25:

    - The Executive's proposed budget is not consistent with the Council's adopted fiscal policies on use of one-time reserves.
    - The Executive's budget would result in a 16.8% increase in tax supported expenditures from FY22-FY24, the largest two-year spending increase since prior to the Great Recession.
    - The Executive's budget commits the County to future funding increases for MCPS under the Maintenance of Effort law.
    - The Executive's recommended budget creates an estimated structural deficit of approximately $145 million in FY25.

- As part of his suggested budget approach memorandum, the Council President recommends that all of the Executive's tax supported additions and enhancements to the operating budget be placed on a reconciliation list along with any Council priorities added during the budget review process. This will allow the Council to consider each spending priority as a potential addition to the approved FY23 budget, rather than a potential reduction from the Executive's proposed FY24 budget.

- The Council President's memorandum details a specific process to implement this recommended budget approach, noting that the process is designed for the Council to fund the programs and policies that County residents need while also ensuring that taxpayer funds are used prudently.

This report contains:

AGENDA ITEM #2
April 11, 2023
Briefing

M E M O R A N D U M

April 6, 2023

TO: County Council

FROM: Marlene Michaelson, Executive Director
Craig Howard, Deputy Director
Aron Trombka, Senior Legislative Analyst, OLO
Selena Mendy Singleton, Racial Equity Manager

SUBJECT: **FY24 Operating Budget Highlights and Approach**

The proposed FY24 operating budget presents for a second year in a row significant growth after two years of constrained budgets. A 10% property tax increase provides the underpinnings of a budget that meets most of the school system's request and allows for compensation increases and growth in many County programs. This overview summarizes the major recommendations in the budget, staff's concerns regarding sustainability, and the Council President's recommended approach to reviewing the budget.

I. FY24 Budget Context

Operating budgets in FY21 and FY22 were shaped by the need to respond to the COVID-19 pandemic and federal resources made available to local governments. The FY23 Operating Budget allowed for significant increases in compensation and programmatic growth made possible by the remaining federal funding and increased revenues.

With the termination of federal funds provided during the pandemic, the FY24 proposed budget instead relies on a property tax increase and use of the excess reserves created by unanticipated income tax revenues in FY22 and FY23. The Executive's Fiscal Plan continues to assume a mild recession later this year and reduced revenue growth in future years, but the timing and magnitude of a future recession could have a greater negative or positive impact on revenues than currently projected.

While the Executive's recommended budget increases funding in several priority areas, Council staff has concerns about the use of one-time resources for ongoing expenditures, sustainability of the level of spending when compared to projected resources, and a potential structural deficit as early as FY25. As detailed below, these concerns are layered on top of the current economic and global news that continue to signal potential economic contraction, perhaps as early as this calendar year.

- **Inflation continues to be high**. The Consumer Price Index dropped from a recent high of 9.1% in June 2022 to 6.0% in February 2023 but is still well above the Federal Reserve Board goal of 2%. The Fed's continual increases in interest rates to tame inflation has been one of several factors causing markets to fluctuate. Increased mortgage rates have dampened the real estate market and associated County revenues, such as the transfer and recordation taxes.

- **There continue to be mixed signals about the health of the economy.** While unemployment remains low, United States Gross Domestic Product (GDP) dropped from 5.72% in 2021 to 0.91% in 2022 with projections keeping growth at less than 1% in 2023. Regional bank failures and historic layoffs in the Big Tech industry have fueled market turmoil and uncertainty about the near-term economic health.

- **The global market continues to be unstable as inflation, the war in Ukraine and energy prices continue to restrain the pace of global economic recovery**. Despite recent signs of improvement, the outlook remains fragile with considerable uncertainty and potential downside risks. Most recently, the World Trade Organization reduced the forecast for global economic growth to 2.4% in 2023, down from 3.0% in 2022 and 5.9% in 2021.

In addition to the broad economic and global context, Council staff highlights the following considerations and explores each of these in more detail throughout the memorandum.

- **The Executive's budget proposes a 10% property tax increase to generate an additional $223.3 million in FY24. Property owners are also experiencing increases in assessments.** The Executive's proposed 10-cent tax increase would be the County's first property tax increase since FY17, with each 1-cent of the increase equivalent to $22.3 million in revenue. For a residential property with an assessed value of $500,000, a homeowner would pay an additional $500 in taxes in FY24 under the Executive's proposal. Over the past three State re-assessment cycles, residential property values have increased 6.6%, 10.1%, and 19.8% on average. While these increases are spread over three years, homeowners would be paying the increased tax on a higher assessment base in FY24.

- **The Executive's proposed budget is not consistent with the Council's adopted fiscal policies on use of one-time reserves.** The Executive uses $159.3 million in reserves in FY24, mostly to fund ongoing expenditure. This action is not consistent with the Council's fiscal policies which requires that one-time revenues, such as excess reserves, only be used for one-time expenditures. The budget also uses over $30 million in additional one-time resources from a recapture of Income Tax Offset Credit revenues and an increase in assumed "lapse" savings from vacant positions in County Government.

- **The Executive's proposal funds nearly the entire FY24 MCPS request but will commit the County to future funding increases under the Maintenance of Effort (MOE) law.** The Executive's recommended funding for MCPS would raise the per pupil local contribution to $13,324. The MOE law requires the County to provide the same, or higher, local per pupil contribution in future years. Based on enrollment projections, the new per pupil contribution level would require $21.6 million in additional funding for MCPS in FY25. At the same time, the Council has raised questions around how it can ensure that increased funding for MCPS achieves intended outcomes.

- **The Executive's budget results in increased tax-supported expenditures of 16.8% over the two-year period from FY22 to FY24 - primarily to fund increased compensation costs in County Government and an increased local contribution for MCPS.** The Executive's recommendation would represent the largest two-year spending increase since prior to the Great Recession, and an increase of over 1,300 tax supported full-time equivalent (FTE) positions since FY22. At the same time, the County Government currently has around 1,200 tax supported vacant positions. The key building blocks of the FY24 expenditure increases by agency are detailed below.

FY23 Approved Tax Supported Expenditures	$5,495.8 million
Montgomery County Government	**$169.5 million**
Annualization of FY23 compensations adjustments and lapsed positions	$41.6 million
Proposed FY24 compensation adjustments	$51.6 million
Proposed FY24 new positions (net)	$8.8 million
One-time FY23 lapse assumption	($14.8 million)
All Other Changes (net)	$82.3 million
MCPS	**$291.2 million**
Increased local contribution	$223.3 million
Increased non-County funds	$67.9 million
Montgomery College (non-County funds)	**$5.7 million**
M-NCPPC	**$7.5 million**
Debt Service	**$4.8 million**
CE Recommended FY24 Tax Supported Expenditures	$5,974.5 million

- **The Executive's recommended budget creates an estimated structural deficit of approximately $145 million in FY25**. Even with continuing revenue from the proposed 10-cent tax increase, the Executive's recommended Fiscal Plan estimates that $37.8 million of additional tax supported resources will be available for agency uses in FY25, representing a 0.7% increase from the recommended FY24 uses. However, the Executive's budget includes known, or likely, FY25 tax supported expenditure increases totaling $183.1 million as detailed below. Absent any changes, addressing this gap may require spending reductions or revenue increases in FY25.

FY25 Known/Likely Commitments	
Annualization of MCG FY24 compensations enhancements/new positions	$32.9 million
MOE increase based on enrollment projections	$21.6 million
Replacing use of one-time reserves in FY24 for ongoing expenditures	$128.6 million
Total	**$183.1 million**
Projected FY25 Available Resources	**$37.8 million**
Projected FY25 Surplus/(Deficit)	**($145.3 million)**

II. Summary of Executive's FY24 Recommended Operating Budget

The Executive transmitted the FY24 Recommended Operating Budget to the Council on March 15, 2023. This section provides a broad overview of the Executive's estimated resources and recommended funding and staffing for each agency in FY24.

A. Estimated Revenues

The County's assumptions and estimates for revenues drive the budget process each year. **The total value of estimated revenues determines the size of the "pie" that the County can spend on its fiscal policies and the agencies' programs and services**. The Executive's projected revenues anticipate a mild recession during calendar year 2023 but are buoyed by the recommended property tax increase.

1. Revenue Context

In December 2022, based on updated economic data and indicators, the Department of Finance revised downward the FY24-28 projections of property, income, and transfer/recordation taxes to reflect a "mild recession" scenario in calendar year 2023. Revenues in the Executive's FY24 recommended budget continue to reflect an economic slowdown, with further write-downs to income tax and recordation/transfer taxes for FY24. Additionally, in March the Maryland Board of Revenue Estimates (BRE) wrote down the State's revenue estimates based on a similar economic slowdown scenario.

The recommended FY24 Operating Budget assumes significant growth of $411.8 million or 7.4% in the County's total tax supported revenues. **As detailed in Table 1 below, 54% of the FY24 growth ($223.3 million) is due to the Executive's proposed 10-cent property tax increase and 11% ($46.3 million) is related to changes in the County's tax base.**

Table 1. Summary of FY24 Tax Supported Revenue Growth

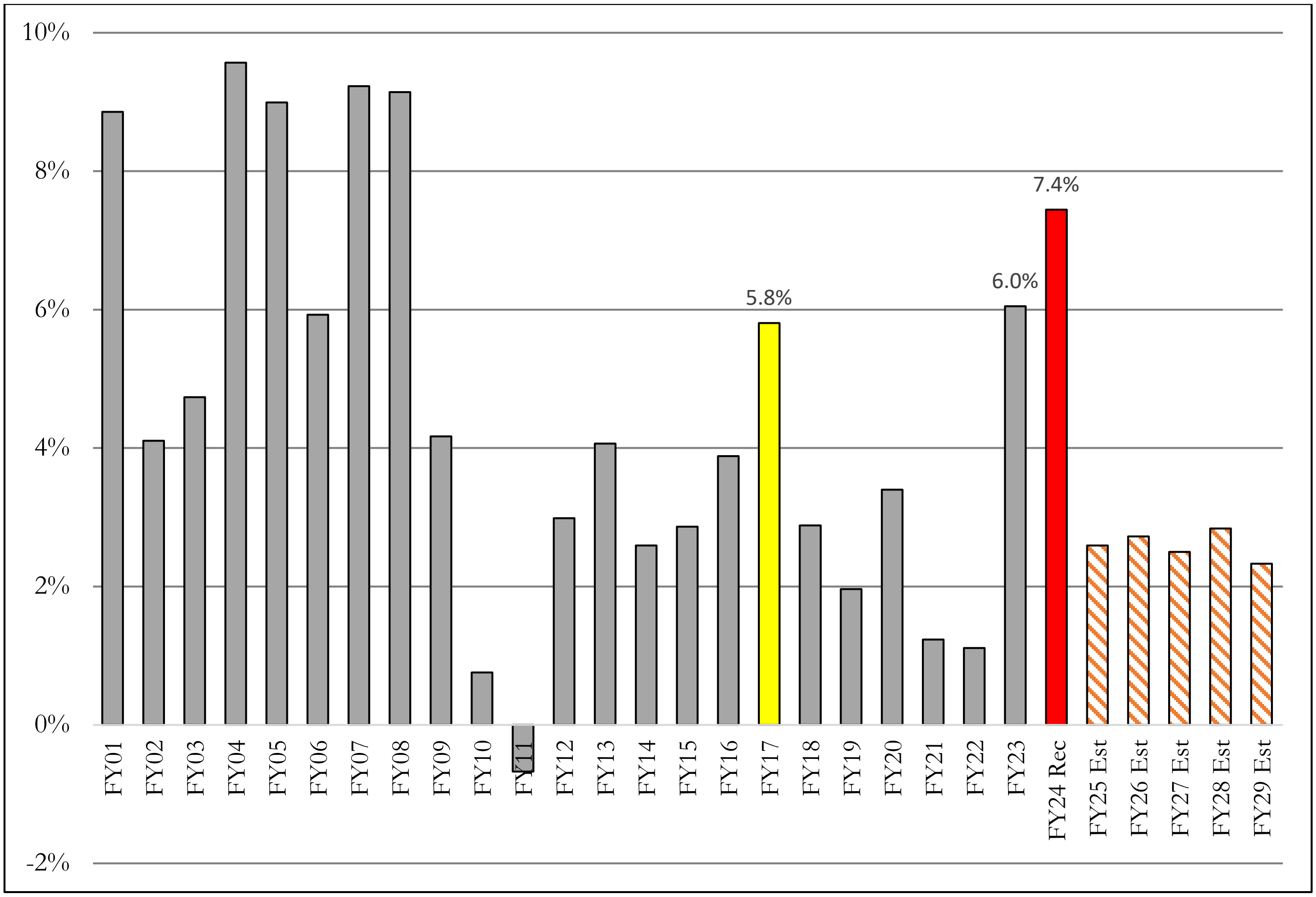
Revenue Source	Amount	% of Total
Tax Revenues		
10-cent property tax increase	$223.3 million	54.2%
Net growth in all taxes	$46.3 million	11.2%
Estimated Income Tax Offset Credit recapture	$13.8 million	3.4%
Non-Tax Revenues		
Intergovernmental aid	$92.0 million	22.3%
Investment income	$32.9 million	8.0%
All other	$3.5 million	0.8%
Total	**$411.8 million**	**100%**

Further details on tax revenue changes and investment income are included in Section 2 below. The growth in Intergovernmental Aid is nearly all related to increased State Aid for MCPS and Mass Transit.

The growth of tax supported revenues in FY23 (6.0%) and FY24 (7.4%) are the highest since the Great Recession as shown in Chart 1, and key details related to the County's revenue growth are summarized below:

- Following the historic growth in revenues from the property bubble in FY07-FY08, the County quickly experienced a sharp decrease in revenue growth in FY09-FY11.
- From FY12-FY22, the County's approved tax supported revenues increased at annual average of 3.0% and the largest increase was in FY17 when the Council approved a property tax increase (as shown by the yellow bar in the chart).
- Without the proposed tax increase, projected revenue growth for FY24 would be 3.2% - similar to the recent historical average.
- **The projected growth rate from FY25-29 is only 2.7% - a rate that is lower than the previous annual average growth since the Great Recession.**

Chart 1. Percent Change in Tax Supported Revenues:
FY02-FY23 Approved, FY24 CE Rec, FY25-29 Estimated



2. Tax Revenues

County taxes account for 77.4% of the recommended tax supported revenues in FY24. Property and income tax revenues are the largest component of the County's taxes, accounting for 90.2% of the total estimated tax revenues. Below are details and concerns about the recommended FY24 tax revenues.

Property taxes. Property taxes are projected to increase by 14% or $274.0 million in FY24. $223.3 million of that is due to the proposed 10-cent property tax increase, with each 1-cent increase equivalent to $22.3 million in revenue. For FY25-FY29, property taxes are anticipated to increase around 1.7% per year based on continued growth in the assessable base (but no further increases in tax rates). **Excluding revenue from the tax increase, the projected average annual growth rate in property tax revenues has decreased almost in half from the 3.0% assumed in the approved FY23-FY28 fiscal plan.**

- **Income Tax Offset Credit (ITOC).** For FY24, Finance includes a one-time increase in property tax revenue of $13.8 million for estimated recapture of ITOC revenue due to a new State requirement that a homeowner must apply for the Homestead Tax Credit to be eligible to keep their ITOC. As of March, there are approximately 80,000 property accounts in the County that do not have an application on file and therefore may no longer be eligible to receive the ITOC (recommended by the Executive to remain at $692 in FY24). **Finance does not assume the ITOC recapture funding in FY25-29.**

- **Impact of property tax increase and assessment increase.** Homeowners in Montgomery County will experience, on average, an increase in assessed value in FY24. The State Department of Assessment and Taxation's (SDAT) most recent triennial reassessment cycle resulted in average assessment increases of 6.6% for residential properties in Group 3 (effective FY22), 11.3% for residential properties in Group 2 (effective FY23) and 19.8% for residential properties in Group 1 (effective FY24). Since assessment increases are phased-in over three years, the average property owner will experience a 2.2%, 3.8%, or 6.6% assessment increase, respectively, for FY24. The table below shows the cumulative increase a homeowner would pay in FY24 due to assessment increases and the Executive's proposed 10% property tax increase based on assessed value.

Table 2. Range of Potential FY24 Tax Increase by Assessed Value

Assessed Value of Home	FY24 Cumulative Tax Increase
$300,000	$307-320
$500,000	$511-533
$700,000	$715-746
$1,000,000	$1,022-1,066

Of note, the County Charter requires a unanimous vote of all 11 Councilmembers to increase the weighted average property tax rate above the rate approved the prior year. However, the County Executive's proposed property tax increase would dedicate the increased revenue generated to MCPS. Under state law (Section 5-104 of the Education Article of the Maryland Code), counties can exceed any charter limits on property tax rates or revenues solely to fund their local school boards by a simple majority vote.

Income taxes. Income taxes are anticipated to increase around 5.2% a year through the six-year fiscal plan. **Income tax collections exceeded approved projections in FY22 and FY23 by a combined $360.9 million.** This unexpected excess, which is not projected to be reoccurring going forward, allowed the County to have actual FY22 and projected FY23 reserve levels exceeding the 10% policy target, cover funding gaps resulting from the end of Federal pandemic aid, and make-up for other revenue sources that were lower than projected. **The County's income tax revenues are more sensitive to market fluctuations and conditions than property taxes**. Unlike many Maryland counties, the County's income tax revenues include a larger share of revenues from individual taxes on capital gains.

In line with the projections of a mild recession, Finance's FY24 income tax estimate assumes reduced rates of growth to the County's income tax base. Per the recommended budget, Finance estimates that personal income will decrease by 0.6% and wage/salary income will increase by 4.4% from calendar year 2021 to 2022. These two variables drive a significant portion of the annual estimated income tax revenues.

Recordation and transfer taxes. Due to the weakening real estate market, collections from these taxes are projected to be **$53.8 million less** than the FY23 approved levels. The FY24 budget assumes continuation of the FY23 trends, with revenues that are 23.7% below the FY23 approved amount. These taxes are very sensitive to consumer sentiment and market conditions as potential buyers react to rapidly increasing sales prices, increasing mortgage rates, and other inflationary pressures.

3. Investment Income

Based on Federal Reserve increases to the targeted funds rate in response to inflation pressures, the County projects investment income of $36.5 million in FY24. This amount represents an increase of $32.9 million compared to the FY23 approved amount. However, most of this increase ($26.6 million) is from interest earned from funds in the County's Revenue Stabilization Funds (RSF). By law, this income must stay in the RSF and cannot be used for other General Fund expenditures.

B. Recommended Funding by Agency

Table 3 details the FY24 recommended budget by agency and debt service. The recommended total budget of $6,832.8 million is an increase of $486.3 million or 7.7% from FY23. FY24 tax supported expenditures of $5,974.6 million reflect an increase of $478.7 million or 8.7% from FY23. **Combined with the $379.8 in FY23 approved tax supported growth, the Executive's recommended budget would result in a two-year tax supported growth of $858.6 million or 16.8% for all agencies.**

Table 3. FY24 Recommended Budget by Agency ($ millions)

Agency	Total Budget			Tax Supported Budget		
	FY24 CE Rec.	Change from FY23 $	%	FY24 CE Rec.	Change from FY23 $	%
Montgomery County Government	2,621.1	161.1	6.5	2,604.6	169.5	8.9
Montgomery County Public Schools	3,208.5	288.5	9.9	3,020.9	291.2	10.7
Montgomery College	345.2	23.4	7.3	281.0	5.7	2.1
M-NCPPC	189.7	8.9	4.9	168.7	8.1	5.0
Debt Service	468.3	4.4	1.0	439.4	4.2	1.0
Total	**6,832.8**	**486.3**	**7.7**	**5,974.6**	**478.7**	**8.7**

Montgomery County Government. The Executive's recommended tax supported expenditures for County Government represent an increase of $169.5 million or 8.9% with significant components shown below:

Annualization of FY23 compensations adjustments and lapsed positions	$41.6 million
Proposed FY24 compensation adjustments	$51.6 million
Proposed FY24 new positions (net)	$8.8 million
One-time FY23 lapse assumption	($14.8 million)
All Other Changes (net)	$82.3 million

Outside of the compensation changes, the Executive does recommend continued support for virtually all existing programs. Reductions in the Executive's budget are primarily limited to elimination of one-time FY23 expenditures and miscellaneous reductions to operating costs or retirement adjustments rather than the elimination of any existing program. Additionally, the following items were switched from ARPA funding in FY23 to General Funds in FY24 totaling $12.8 million: 1) HHS: Eviction Prevention, $1.7 million; 2) HHS Mobile Health Clinic, $700K; 3) HHS Service Consolidation Hubs, $3.0 million; and 4) Working Families Income Supplement State Match, $7.4 million.

Over the past two years, nearly all County Government departments or offices have increased expenditures. Table 4 below shows all the departments and offices with a two-year net increase of at least $3 million, and a full list of the increases by department is attached at ©1. While the reasons behind the increases will vary by department and will be explored during Committee reviews (for example, the Council increase is due to the addition of two Councilmembers), a key takeaway is that the increases have been spread across departments and functions.

Table 4. Two-Year Recommended Expenditure Increases by Department ($ in millions)

Department/Office	Change from Prior Year		2-Year Change (FY22-FY24 Rec)	
	FY22-23	FY23-24 Rec	$	%
Health and Human Services	63.7	39.1	102.7	38.3%
Police	13.6	21.0	34.6	12.2%
Non-Departmental Accounts	10.7	23.5	34.2	11.6%
Fire and Rescue Services	19.4	14.1	33.6	14.4%
Transit Services	19.4	9.8	28.2	18.9%
Recreation	6.4	4.9	11.3	25.1%
Utilities	(1.0)	11.2	10.2	42.9%
TEBS	6.8	3.0	9.9	22.4%
Public Libraries	3.2	3.9	7.1	16.7%
General Services	0.6	5.9	6.5	19.7%
Environmental Protection	4.1	2.4	6.5	186.0%
Human Resources	1.2	3.8	4.9	60.7%
Correction and Rehabilitation	0.5	4.4	4.9	6.7%
Board of Elections	2.3	1.6	3.9	47.5%
County Council	2.4	1.4	3.8	29.1%

MCPS. The Executive recommends FY24 expenditures of $3,208.5 million for MCPS, an increase of 9.9% from the FY23 approved budget with a County Contribution that is $264.8 million more than the required Maintenance of Effort (MOE) level. The Executive's recommendation funds all but $7 million of the Board of Education's request. In total, the Board's request includes a $201 million placeholder for compensation increases and $46 million for new initiatives.

Montgomery College. The Executive's recommended budget for Montgomery College is a 7.3% increase from the FY23 approved budget. This recommendation is at the required MOE level and fully funds the Board of Trustee's request. The College increase is primarily from non-tax supported funds. The $5.7 million increase in tax supported funds reflects increased State Aid and tuition revenue.

M-NCPPC. Recommended tax supported funding for Park and Planning is a 4.9% increase from FY23 but approximately 4.1% less than the agency's request.

C. Recommended Staffing by Agency

Changes in Workforce. The Executive's recommended FY24 Operating Budget provides significant tax supported staffing increases for County Government and MCPS, which would result in a net increase of nearly 1,400 positions over the past two fiscal years (95% of which are tax supported). Table 5 shows the one- and two-year increase in FTEs for all agencies combined and broken down by agency.

Table 5: Total Staffing by Agency, FY22-FY24 CE Recommended

	FY22 Approved	FY23 Approved	FY24 CE Rec.	Change FY23-24		Change FY22-24	
				#	%	#	%
Total All Agencies	**37,285**	**37,954**	**38,679**	**+725**	**+1.9%**	**+1,394**	**+3.9%**
Tax Supported	33,869	34,433	35,194	+761	+2.2%	+1,324	+3.9%
Non-Tax Supported	3,416	3,521	3,485	-36	-1.0%	+69	+2.0%
County Government	**10,614**	**10,921**	**11,092**	**+171**	**+1.6%**	**+478**	**+4.5%**
Tax Supported	8,709	9,026	9,163	+137	+1.5%	+454	+5.2%
Non-Tax Supported	1,905	1,896	1,929	+33	+1.8%	+24	+1.2%
MCPS	**23,637**	**23,977**	**24,529**	**+553**	**+2.3%**	**+893**	**+3.8%**
Tax Supported	22,399	22,624	23,243	+619	+2.7%	+843	+3.8%
Non-Tax Supported	1,237	1,353	1,287	-66	-4.9%	+50	+4.0%
Montgomery College	**1,911**	**1,921**	**1,922**	**+1**	**+0.1%**	**+11**	**+0.6%**
Tax Supported	1,803	1,814	1,814	0	--	+10	+0.6%
Non-Tax Supported	108	108	109	+1	+0.9%	+1	+0.9%
M-NCPPC	**1,123**	**1,134**	**1,135**	**+1**	**+0.1%**	**+12**	**+1.1%**
Tax Supported	958	970	974	+5	+0.5%	+16	+1.7%
Non-Tax Supported	165	165	161	-4	-2.4%	-4	-2.8%

County Government. The Executive recommends adding 137 tax supported FTEs in FY24. Combined with the FY23 staffing increases, the Executive's proposed budget would result in a 5.2% increase in the County Government tax supported workforce over two years. The largest component of the County Government increase comes from Health and Human Services (+204 FTE), with increases as well within Public Safety (+74 FTE); General Government (+74 FTE); Libraries, Culture and Recreation (+73 FTE); and Environment (+31 FTE).

At the same time positions are being added, the County Government has significant vacancies. **As of early March, there were approximately 1,500 vacant positions in County Government – representing 13.7% of the 10,921 approved positions in FY23.** In part due to these high vacancy rates, the Executive assumed an additional $18 million in lapse savings (across all funds) to help fund FY24 expenditures.

MCPS. The Board of Education recommends adding 619 tax supported FTEs in FY24. Combined with the FY23 staffing increases, the Executive's proposed budget would support a 3.8% increase in MCPS' tax supported workforce over two years. Within MCPS, the largest components of that two-year increase come from Teacher positions (+262) and Instructional Support positions (+141).

D. Proposed Pay Adjustments

This section summarizes recommended pay adjustments for each agency, which will be reviewed in greater detail at a GO Committee worksession tentatively scheduled for April 14. In FY24, as was the case in FY23, compensation adjustments are occurring at a time of substantially higher inflation than compared to recent history.

County Agencies. MCPS currently is in contract negotiations with employee bargaining units and has not finalized proposed pay adjustments; the Board's recommended FY24 budget includes a $201.5 million placeholder for salary and benefit increases.

Montgomery College recently concluded negotiations with AFSCME for a 6.0% pay increase. The College also concluded negotiations with the AAUP for a flat salary increase of $2,700 plus a 3.0% salary adjustment. The College and SEIU recently negotiated a 6% wage adjustment for part-time faculty; SEIU members have yet to ratify the negotiated contract. The estimated combined cost of the College's FY24 compensation increases totals $1.05 million.

M-NCPPC's FY24 budget request includes $6.86 million for employee pay increases as well as an additional $1.31 million for possible employee reclassifications. The Commission currently is in negotiations with MCGEO. The Commission completed negotiations with the FOP for Park Police officers. The FY24 FOP contract includes a service increment of 3.5% and a cost-of-living adjustment of 5.5%

County Government. The Executive's budget would increase net compensation and benefit costs by 7.9% in FY24. Executive recommended compensation adjustments include:

- general wage adjustments (GWA);
- service increments;
- a two-step salary adjustment for IAFF members;
- past year service increments for MCGEO and members;
- new longevity increments for MCGEO members and non-represented employees;
- a lump sum bonus for FOP members;
- pension plan enhancements for MCGEO, IAFF, and FOP members;
- increased pay differentials, clothing allowances, stipends, retiree vision benefits, and other miscellaneous adjustments.

Table 6 summarizes the major pay increases proposed by the Executive. Based on the general wage adjustments, service increments, salary schedule adjustments, past year increments, longevity increments, and lump sum payments recommended by the Executive, County Government employees would receive cumulative FY24 pay increases ranging between:

- 6.0% and 13.0% for MCGEO members.
- 9.9% and 13.4% for IAFF members (based on average salary).[1]
- 7.0% and 10.5% for FOP members excluding the $1,500 lump sum payment.
- 6.0% and 9.5% for non-represented employees (excluding MLS/PLS members).

[1] The IAFF calculation includes the effect of the recommended salary schedule adjustment which would raise the average IAFF salary by 6.9%.

Employees at top of their salary grade would receive pay increases at the low end of the above ranges. Employees eligible a longevity or past year increment would receive pay increases at the top end of the ranges. Overall, the majority of County Government employees would qualify for a pay increase near 10% under the Executive's recommended budget.

Table 6. Summary of Major Executive Recommended FY24 Pay Increases

Employee Group	GWA	Service Increment	Salary Schedule Adjustment	Past Year Increment	Longevity Increment	Lump Sum Payment
MCGEO	3.0% (Jan. 2024) + 3.0% (June 2024)	3.5% (effective employee anniversary date)	Yes, for Correctional Officers III at top of grade	3.5% for employees who did not receive FY12 increment (Jan. 2024)	3.5% at 16, 20, and 25 years of service (addition of new longevity step)	None
IAFF	3.2% (July 2023)		Yes (equivalent to 6.9% of average salary)	3.5% for employees who did not receive FY13 increment (July 2023)	3.5% at 17, 20 and 24 years of service	None
FOP	4.0% (July 2023) + 3.0% (Jan. 2024)		No	None	3.5% at 15, 17, and 20 years of service	$1,500 (excluding new hires eligible for recruitment bonus)
Non-Represented	3.0% (Jan. 2024) + 3.0% (June 2024)		No	None	2.0% at 20 years (employees with high performance ratings)	None
MLS/PLS		Performance-based pay (July 2023)	No	None	None	None

Table 7 shows that the pay adjustments recommended by the Executive would have a combined FY24 cost of $61.1 million. These estimates include the salary and wage costs as well as employee benefit costs borne by the employer.

Table 7. Total Cost (all funds) of Executive Recommended Pay and Benefit Adjustments

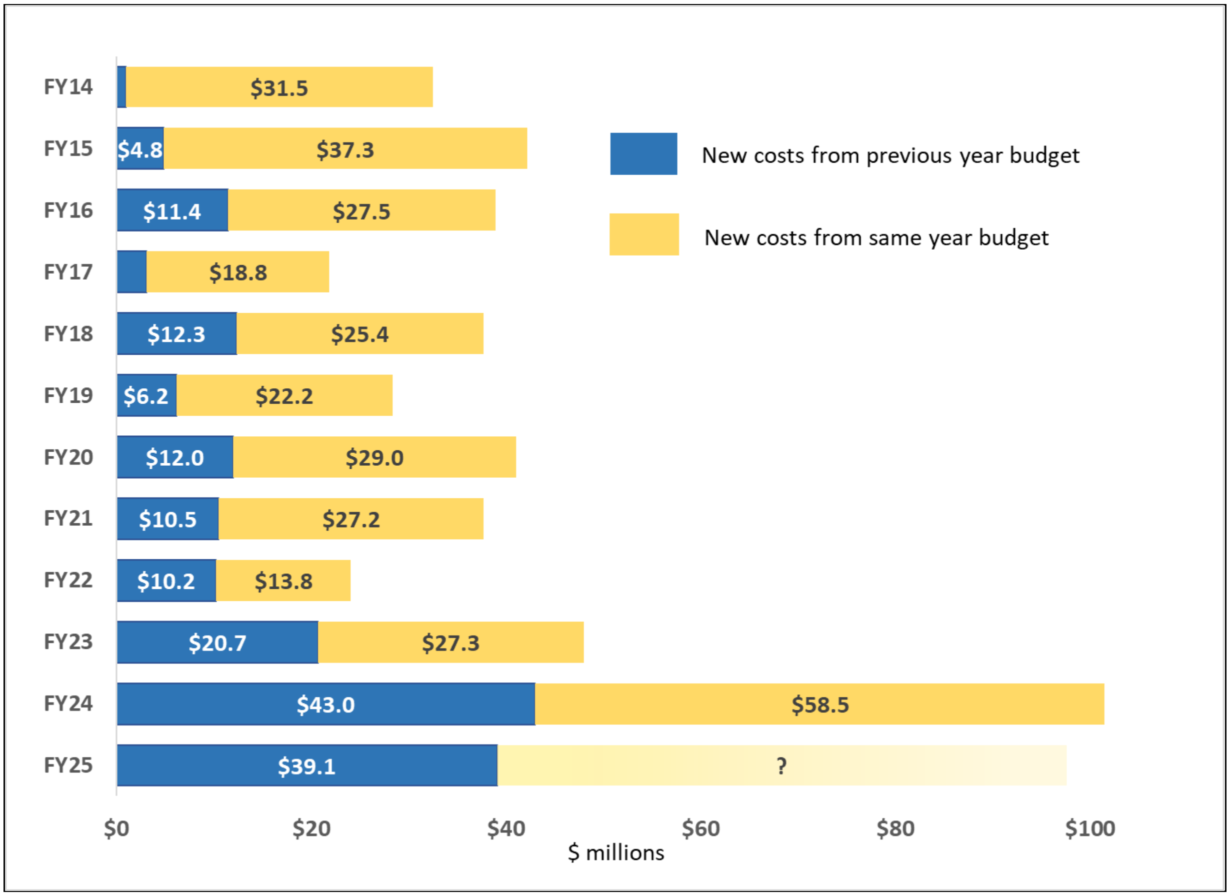
Component	FY24 Cost	Annualized Cost
General Wage Adjustments	$23,183,842	$59,869,186
Service Increments, Past Year Service Increments, Salary Schedule Adjustments, Pay for Performance	$15,336,557	$24,242,449
Longevity Increments	$7,464,063	$8,498,764
Pension Enhancements	$6,132,269	$269,516
Other	$8,965,928	$7,548,833
Total	**$61,082,659**	**$100,428,748**[2]

[2] This total corresponds with the fiscal impact statements submitted by the Executive. The fiscal impact statements exclude the future year effect of recommended pension enhancements on the County's annual pension fund contribution. An actuarial analysis of the pension enhancements estimated that these enhancements would increase County pension contributions by about $9.4 million annually for the next 20 years

As many of the pay adjustments take effect in the middle or near the end of the fiscal year, the amount budgeted for FY24 does not reflect the full annualized cost (that is, the 12-month cost) of the Executive's recommendations. **The annualized cost of the adjustments is $100.4 million, 64% greater than the FY24 cost**. If approved, these costs will become part of the base budget in FY25 and subsequent years.

The chart below illustrates the fiscal impact of the Executive recommended pay adjustments from FY14 to FY24, including both the annualized costs from the previous year's budget (blue bar) and the new costs for that fiscal year (gold bar).

Chart 2. Fiscal Impact of Pay and Benefit Adjustments in Executive Recommended Budgets[3]
(tax and non-tax supported, excludes cost of new positions)



E. Racial Equity and Social Justice Lens for FY24 Budget

The racial equity and social justice legislation requires the County Executive to detail how "each management initiative or program that would be funded in the Executive's annual recommended operating and capital budgets promotes racial equity and social justice". The Executive is required to develop tools to help departments apply a racial equity lens to budget decisions. The Executive's description of the Racial Equity and Social Justice (RESJ) framework used for the FY24 budget is attached at ©2-4.

[3] Data sources: New costs from same year budget copied from fiscal impact statements published in Executive's Recommended Operating Budget for each year. New costs from previous year budget copied from fiscal impact statements published in Executive's Recommended Operating Budget for the previous year for FY14-FY22 and for FY25. New costs from previous year budget for FY23 and FY24 copied from page 8-1 of Executive's Recommended Operating Budget.

The Office of Racial Equity and Social Justice (ORESJ) developed an Operating Budget Equity Tool (OBET) and prepared and circulated an FY24 OBET Guidance Manual. Incorporated into the Office of Management and Budget (OMB) oversight budget process, the goal of the OBET was to raise awareness of racial inequities before finalizing budget decisions and allocating appropriate resources using methods that help to reduce and eventually eliminate racial inequities and social injustices in the County. The OBET uses both, a department-level analysis and a program-level analysis, and departments were asked to answer the following questions:

Department-level questions

1. How will your overall budget support the department's commitment to advancing racial equity and social justice?
2. How does your department's budget allocate funds towards ensuring that public documents (including websites and related apps), policies, plans, meetings, and hearings are readily accessible to the public? Please describe how your budget targets resources towards translating documents, ensuring interpretation services, and ensuring accessibility for people with disabilities.
3. Advancing racial equity and social justice in any organization requires supportive systems and structures. How do the County's systems and structures affect your ability to implement the Government Alliance on Racial Equity (GARE) Framework (normalizing, organizing, and operationalizing)? What persistent gaps or limitations could inhibit your department's ability to advance racial equity and social justice?

Program-level questions

1. What is the purpose of this program (service, initiative, or activity); include outputs and outcomes the program seeks.
2. Describe the ways your department used (quantitative and qualitative) data, community engagement, research on racial disparities and inequities, and best practices for advancing racial equity to design/enhance the program.
3. How will this program specifically reach the people most negatively impacted by the challenges this program addresses?
4. How will you track and measure program and service outcomes?

The GO Committee worksession on the ORESJ FY24 budget, tentatively scheduled for April 24, will include a more in-depth review and discussion of how the Executive incorporated racial equity and social justice considerations into the FY24 budget process. Analysts will incorporate ORESJ ratings and justifications into their staff reports, and where appropriate, share additional observations.

Council staff is working on its Draft Racial Equity and Social Justice Action Plan. The staff is also (1) evaluating what information departments are utilizing to apply a racial equity lens to budget decisions, and (2) determining how Council staff will incorporate this information in future budget analyses. The Racial Equity Manager will work with ORESJ and OMB to ensure coordination and alignment with between the legislative and executive branch efforts and to help inform a more robust racial equity and social justice analysis for FY24 budget cycles.

III. Fiscal Policies and Federal Resources in the Recommended Budget

This section reviews adherence to the County's fiscal policies in Council Resolution No. 19-753 and identifies federal resource assumptions included in the Executive's recommended budget.

A. Fiscal Policies in the Recommended Budget

The Council approved an updated fiscal policies resolution in March 2021. Below are the highlights from the Executive's recommended FY24 Operating Budget related to the County's fiscal policies.

1. Reserves

The Executive's recommended fiscal plan estimates that reserves will end FY23 at 14.0% of the County's Adjusted Governmental Revenues (AGR) for a total of $842.0 million. This assumption does not account for supplemental and special appropriations from the General Fund that may be introduced after the March 2023 budget submission. Like all elements of the FY23 budget, the projected reserve is an estimate and is subject to change until the fiscal year closes. **The fiscal plan also estimates that the County will end FY24 at 11.4% of AGR or about $715.4 million**. Ending FY23 above the policy level is largely due to income tax revenues in FY22 and FY23 exceeding the approved projections. Ending FY24 at the projected level will depend on the accuracy of the projected FY24 revenues and actual FY23 and FY24 expenditures. As part of its review of other agencies, the Council should consider whether the projected reserves are consistent with the targets established in the adopted fiscal policies.

2. Revenue Stabilization Fund

The County's reserves consist of two primary components: 1) the Revenue Stabilization Fund (RSF), and 2) General Fund undesignated reserves. Together, the combined amount in these two components must equal 10% per the fiscal policy. The General Fund undesignated reserve is the most liquid of the two components and includes the unappropriated portion of the County's tax-supported revenues each year. The County Charter restricts this amount to a maximum of 5% of tax revenues from the prior year.

The RSF is created in County Code and is best understood as the County's "Rainy Day Fund." The law states that the County must make an annual mandatory contribution to the RSF that is the greater of: a) 50% of excess revenues (in the income tax, transfer tax, recordation tax, and General Fund investment income) or b) an annual amount equal to the lesser of 0.5% of AGR or the amount needed to obtain a total reserve of 10% of AGR. Use of the RSF is more restrictive than the General Fund reserves. Specifically:

- The County can only use RSF funds by an affirmative vote of seven Councilmembers, after a public hearing.
- The Council is expected to receive an update on relevant economic indicators and seek the Executive's recommendation before approving the use of RSF funds.
- Use of the RSF, if approved by the Council, is restricted to appropriations that have become unfunded during the fiscal year.

The Executive's recommended budget estimates total FY23 ending reserves at approximately 14.0% of AGR, with 10.0% in the RSF ($604 million) and 3.9% in the unrestricted General Fund reserves ($238 million). **To achieve this allocation between the RSF and unrestricted reserves, however, the Executive is recommending the Council approve a one-time deferral for FY23 of the mandatory contribution to the RSF due to excess revenues.** Executive Branch staff provided the following explanation for this recommendation:

> *Absent this one-time deferral, estimated total reserves would still be 14.0% of AGR, but 11.0% would be in the RSF and 2.9% would be in the unrestricted General Fund. Once transfers are made to the RSF, those resources can only be accessed during emergencies – i.e., when appropriations become unfunded. By not making the FY23 mandatory contribution, more resources are available in the unrestricted General Fund reserves for the Council and Executive to respond to unanticipated shortfalls or urgent expenditures that may occur during the course of the fiscal year. In FY24, there is no assumption of a mandatory transfer, as reserves are projected to be above 10.0%, so no additional contribution is needed to achieve 10% reserves. The CE recommended budget estimates investment income in the RSF at $16.6 million in FY23 and $26.2 million in FY24 - all of that would remain in the fund.*

The table below shows reserves by category as recommended by the Executive compared to what they would be without the one-time deferral.

Table 8. Comparison of Reserve Allocations

Reserves Category	CE Rec: With one-time deferral		Without one-time deferral	
	FY23	FY24	FY23	FY24
Unrestricted General Fund	238.0	85.2	175.2	22.4
Revenue Stabilization Fund	604.0	630.2	666.8	693.0
Total	**842.0**	**715.4**	**842.0**	**715.4**

Council staff will work with the Council President to schedule time for Council to decide on this issue during the budget process. If the Council supports the Executive's one-time RSF deferral for FY23, it will need to implement via the following proposed budget resolution language prepared by the Office of the County Attorney:

> *For FY 2023, the Director of Finance shall not make the mandatory contribution in the amount of 50% of excess revenue to the Revenue Stabilization Fund, as required by County Code Section 20-68. Such excess revenue, in lieu of the mandatory contribution, must be designated as General Fund unrestricted reserve. This action is a one-time action for FY 2023 only, due to the Revenue Stabilization Fund maintaining a total reserve of 10 percent of the Adjusted Governmental Revenues.*

3. PAYGO

The adopted fiscal policies require that the Council allocate to the CIP each fiscal year as PAYGO at least 10% of the amount of general obligation bonds planned for issue that year. In FY22, the Executive recommended and the Council approved reducing PAYGO by $15.5 million below the policy level due to fiscal constraints caused by COVID-19. In FY23, the approved contribution to PAYGO was $33.9 million, slightly higher than the fiscal policy goal of $30.0.

As part of the FY24 operating budget spending affordability guidelines, the Council recommended adding $80.0 million to PAYGO in order to: 1) cover the $40.0 million the Executive had recommended in additional GO Bonds that was not supported by the Council as part of the capital budget spending affordability process; 2) restore the $15.5 million in PAYGO which was reduced in FY22; and 3) provide $24.5 million in additional funding to address the gap between the Executive's recommendation and the agency requests.

The Executive's recommended budget includes FY24 PAYGO funding of $32.8 million, equivalent to the 10% policy level. The Executive's budget does not include the additional $80.0 million in PAYGO funding for FY24 recommended by the Council.

4. Use of One-Time Revenues

The County's policy regarding one-time revenues states that "one-time revenues or revenues greater than projections must be prioritized to meet the County's fiscal policy goals or budgeted as required by law." This policy requires one-time revenues and revenues greater than projected to be applied in the following order until the policy goal is met, or the resources are fully utilized:

1. Reserves to policy goal;
2. Retiree health benefits (OPEB) more than the annual actuarial pre-funding contribution and/or pension pre-funding more than the annual actuarial goal;
3. Other unfunded liabilities and/or other non-recurring expenditures and/or PAYGO for the CIP in excess of the County's targeted goal.

The Executive's recommended FY24 Operating Budget includes using $159.3 million in one-time resources from reserves that exceed the 10% policy goal for year-end FY23, stating that the use of these funds is intended to "continue to provide vital services for County residents, address inflationary pressures on County government, and help provide a bridge over a projected 2023 recession." However, the Executive's budget only includes $30.7 million in new one-time expenditures. As a result, approximately $128.6 million in ongoing expenditures are being funded with one-time revenues in the Executive's recommended budget.

5. Other Post-Employment Benefits (OPEB)

The Executive's recommended FY24 budget increased OPEB pre-funding by $2.7 million in total for all agencies compared to FY23 based on updated actuarial valuations. Unlike FY23, the Executive does not recommend drawing down from the County Government's OPEB Trust to pay for current year costs. The Executive also does not recommend including additional pre-funding for County Government based on the GO Committee's preliminary policy recommendations for an updated OPEB funding policy.

To achieve the goals of long-term sustainability, controlling costs over the long-term, and creating a clear and defined path to begin using Trust assets, the GO Committee developed preliminary recommendations for a new OPEB policy. The Committee will have the opportunity to revisit the policy as part of its review of compensation and benefits and at that time staff will provide updates to the investment returns and alternative funding strategies that can accomplish the goals of the policy.

6. Compensation Sustainability

The Council's approved compensation sustainability policy states that the annual growth rate of total compensation costs (including all pay and benefit costs) should be similar to the annual growth rate of tax supported revenues. If the rates differ, the policy asks the Executive to explain how increases in total compensation costs requested in the budget will be supported by revenues or reductions in expenditures (see ©5-6).

The Executive recommends a 7.9% increase in FY24 compensation costs for Montgomery County Government (with employee turnover savings incorporated into that total). Excluding revenue from the tax increase, since that can only be used for MCPS, this increase is nearly three times the projected FY24-FY29 average annual revenue growth rate of 2.8%.[4]

Even if compensation cost growth rates were to return to their recent average for the remainder of the Fiscal Plan time frame (an average of 3.6% from FY18-24), the effect of the Executive's recommendation would yield a six-year cumulative gap of almost $600 million between the pace of compensation growth and the pace of revenue growth. This spending pattern produces a budget sustainability challenge and could constrain the County's ability to meet future spending priorities (including future year pay adjustments) absent further revenue increases.

7. Aggregate Operating Budget

The County Code requires the Council to specify a ceiling on the aggregate operating budget (AOB) when adopting the operating budget spending affordability guidelines each February. The ceiling on the AOB established by the Council in February demarcates the threshold that requires eight affirmative votes if the Council chooses to exceed that ceiling when finalizing the budget in May.

For FY24, the Council established an AOB ceiling at $5,686.1 million. The Executive's recommended budget includes an AOB of $6,049.7, an increase of $363.6 from the Council's AOB ceiling. As a result, eight votes would be required to approve the FY24 operating budget as recommended by the Executive.

B. Federal Resources in the FY24 Budget

The FY21 and FY22 operating budgets were impacted substantially by the receipt of COVID-related Federal Aid via the CARES Act and ARPA, as well as assumptions related to FEMA reimbursements. The FY23 approved budget included $33.9 million in ARPA funding but removed any assumption of FEMA reimbursement.

As nearly all the County's ARPA funding has been appropriated, the Executive's FY24 recommended budget does not include any ARPA funding. Instead, $12.8 million and 6.0 FTE in programs and services that had been funded by ARPA dollars in FY23 have been switched to County tax supported funding. While the County expects to receive additional FEMA reimbursements in FY24, the Executive's recommended budget does not assume any FEMA resources.

[4] The 2.8% average annual growth rate excludes revenue from the proposed property tax increase because revenue from the higher tax rate would be dedicated exclusively to fund Montgomery County Public Schools, and so, would be unavailable to fund County Government personnel costs.

IV. FY24 Operating Budget Approach

As part of his proposed FY24 operating approach memorandum (©7-9), the Council President identifies several key issues that the Council will need to consider during its review, including:

- The need to support MCPS;
- The decrease in recordation tax revenue and its impact on the CIP;
- The Executive's recommended a 10% property tax increase;
- Use of reserves for ongoing expenditures; and
- Additional county positions and county vacancies.

In order for the Council to be able to address all these issues, the Council President recommends that all of the Executive's tax supported additions to the operating budget and any additional Council recommended priorities should be placed on a reconciliation list. Each spending priority should be considered as a potential addition to the Council adopted FY23 budget, rather than a potential reduction from the Executive's proposed FY24 budget.

The Council President's recommended process for implementing this approach follows, noting that the process is designed for the Council to fund the programs and policies that our residents need while also ensuring that taxpayer funds are used prudently:

1. Each tax supported increase, addition, enhancement, replacement, or restoration recommended by the County Executive would be placed on the reconciliation list. Similarly, any tax supported increases recommended by a committee would also be placed on the reconciliation list.
2. All items placed on the reconciliation list by a committee should be categorized as either a "priority" or "high priority" to assist our future decisions. When appropriate, an item should be divided into more than one category. Budgetary items should also be classified as one-time or ongoing expenses.
3. Committees should attempt to identify other reductions to departmental base budgets to free up ongoing resources for other priorities. While our current budget timeframe does not allow for a zero-based budgeting approach that would fully review each department's base expenditures, it is important to look for reductions as a first step.
4. Additional FY24 budget amendments received from the County Executive after March 15 would also be placed on the reconciliation list for Committee review.
5. Any cost shifts between departments (if budget neutral) and increases due to annualization of previously approved compensation/staffing costs do not need to be placed on the reconciliation list. We will ask staff to identify any increase due to a County or State law to determine if it must be funded or can be placed on the reconciliation list.
6. When creating the reconciliation list, staff should indicate whether the item was previously funded by federal funds, allowing us to carefully consider whether the County has the ability to maintain programs not previously supported by the County's general funds.
7. FY24 compensation and benefit enhancements will be reviewed separately by the Government Operations & Fiscal Policy Committee and the full Council.

Expenditure Increases by County Government Department/Office, FY22-FY24

	$ Change FY22-FY23	$ Change FY23-FY24	$ Change FY22-FY24	% Change FY22-FY24
Health and Human Services	$63,675,299	$39,065,008	$102,740,307	38.3%
Police	$13,550,094	$21,004,771	$34,554,865	12.2%
Non-Departmental Accounts	$10,709,965	$23,539,431	$34,249,396	11.6%
Fire and Rescue Service	$19,427,923	$14,153,205	$33,581,128	14.4%
Transit Services	$18,400,239	$9,771,109	$28,171,348	18.9%
Recreation	$6,408,957	$4,906,768	$11,315,725	25.1%
Utilities	($980,158)	$11,150,678	$10,170,520	42.9%
Technology and Enterprise Business Solutions	$6,849,973	$3,028,568	$9,878,541	22.4%
Transportation	$3,331,752	$4,498,840	$7,830,592	17.1%
Public Libraries	$3,168,834	$3,901,454	$7,070,288	16.7%
General Services	$629,728	$5,865,504	$6,495,232	19.7%
Environmental Protection	$4,077,765	$2,416,620	$6,494,385	186.0%
Human Resources	$1,220,061	$3,762,075	$4,982,136	60.7%
Correction and Rehabilitation	$492,034	$4,379,229	$4,871,263	6.7%
Board of Elections	$2,329,971	$1,609,656	$3,939,627	47.5%
County Council	$2,425,725	$1,425,765	$3,851,490	29.1%
State's Attorney	$1,792,295	$1,066,364	$2,858,659	15.0%
Community Engagement Cluster	$1,434,846	$1,254,066	$2,688,912	44.5%
Sheriff	$473,604	$2,207,758	$2,681,362	10.5%
Housing and Community Affairs	$625,537	$1,366,475	$1,992,012	22.4%
County Executive	$1,967,316	($140,596)	$1,826,720	32.0%
Urban Districts	$448,268	$1,267,044	$1,715,312	17.2%
Circuit Court	$961,385	$672,318	$1,633,703	12.8%
Animal Services	$599,841	$966,832	$1,566,673	19.3%
Finance	$502,792	$736,148	$1,238,940	7.9%
County Attorney	$332,363	$885,220	$1,217,583	18.9%
Public Information	$779,505	$423,108	$1,202,613	20.2%
Food Systems Resilience	$0	$1,118,131	$1,118,131	--
Inspector General	$359,583	$534,921	$894,504	41.6%
Management and Budget	$462,263	$362,998	$825,261	12.9%
Emergency Management and Homeland Security	$286,152	$395,268	$681,420	27.9%
Grants Management	$341,309	$268,069	$609,378	--
Merit System Protection Board	$404,631	$15,479	$420,110	156.8%
Racial Equity and Social Justice	$274,728	$122,539	$397,267	39.7%
Agriculture	$47,911	$293,717	$341,628	33.5%
Human Rights	($136,401)	$423,806	$287,405	16.2%
Peoples' Counsel	$0	$246,375	$246,375	--
Procurement	$71,225	$100,266	$171,491	3.5%
Consumer Protection	$24,106	$144,771	$168,877	6.9%
Legislative Oversight	$16,382	$151,440	$167,822	7.6%
Zoning and Administrative Hearings	$23,619	$50,987	$74,606	10.9%
Board of Appeals	$22,289	$40,106	$62,395	10.7%
Ethics Commission	$4,127	$15,497	$19,624	5.3%
Labor Relations	$19,941	($2,111)	$17,830	1.1%
Intergovernmental Relations	($265)	$13,409	$13,144	1.2%
Economic Development Fund	($494,352)	$15,657	($478,695)	-10.7%
Total Tax Supported	**$167,363,162**	**$169,494,743**	**$336,857,905**	**19.5%**

Source: Schedule B-3, FY24 Recommended and FY23 Approved Operating Budget

One aspect of advancing this work involves analyzing resource allocations that form the structures-programs, policies, practices, and procedures-that can either worsen or improve racially disparate outcomes across the County. Our goal is to identify these disparities, reduce them, and ultimately create structures that eliminate their existence and prevent disparities from emerging in the future.

To this end, and in accordance with Bill 27-19, Administration - Human Rights - Office of Racial Equity and Social Justice - Racial Equity and Social Justice Committee Established, the Office of Racial Equity and Social Justice (ORESJ) developed a Budget Equity Tool to support departments and decision makers in applying a racial equity lens to the development of the County Executive's FY24 Recommended Operating Budget. This tool, related trainings, and reports, have helped to assess the strength of the County's commitment to and implementation of its guiding racial equity framework, adapted from the Government Alliance on Race and Equity (GARE), to normalize, organize, and operationalize for racial equity and social justice. This framework guides jurisdictions across the country in navigating the changes required to advance racial equity and social justice.

ORESJ highlighted-with its structured analysis-areas of strength and opportunity related to how the FY24 recommended operating budget enables the County's commitment to advancing racial equity and social justice. FY24 resources continue to help the County build its racial equity and social justice infrastructure, with departments across the County targeting resources towards:

- **Allocating or supporting the use of staff time for capacity building activities**
- **Implementing a policy or plan to complete required racial equity and social justice trainings**
- **Using or creating department-specific racial equity tools or maps**

These targeted investments mean that while the County continues to carry out its core business it will strengthen staff knowledge and capacity to apply a racial equity lens to program design, collecting and analyzing data, utilizing best practices and research, and involving the community in program development. With this growing capacity, County Government will also be able to reflect on areas of opportunity, where changes to policy or process can help remove barriers, enable greater transparency and accountability, and drive more equitable outcomes for communities most burdened by structural racism and other inequities.

While many programs in the County help to fill gaps created by structural inequities, a few programs standout for taking concrete steps to reduce racial disparities:

- The **Office of Grants Management -** *Grants Management* which strengthens the office's operations, capacity, and capabilities to develop and implement ORESJ policies, practices, and procedures within and across the Office's major functions.
- The **Office of Consumer Protection -** *Consumer Protection* which enables targeted outreach and will help implement a minority homebuilder mentorship program primarily aimed at serving Black and Latino high school job seekers.
- The **Department of Recreation -** *Excel Beyond the Bell Sites* would expand to two new elementary schools, providing program participants with comprehensive, high-quality after-school programming providing opportunities for academic and recreational enrichment.
- The **Department of Recreation -** *TeenWorks Programming* will provide continued mentorship and job readiness training to Montgomery County teens as they navigate through their first job while earning a minimum wage.
- The **Department of Recreation -** *IT Enhancements for Hardware and Software* will lessen administrative burdens incurred during camp and field trips through the transition of paper to electronic health records management.

Overall, this budget provides resources for the County to expand its commitment to and implementation of the RESJ Act. It supports County Government in building the skills and competencies necessary to identify and address racial and ethnic disparities across issue areas, at the same time providing resources for programs that help to fill gaps created by structural inequities.

FY24 Recommended Budget includes:

Departments and Non-Departmental Accounts (NDAs)

Community Engagement Cluster

- Funding to expand translations services with a part-time Spanish Translation Specialist position

Office of Food System Resilience

- In FY23, established the Office of Food System Resilience to coordinate food resilience efforts with community partners, government agencies, and regional partners to develop and implement interagency budgetary, regulatory, and operational strategies to build a more equitable, efficient, resilient, and sustainable food system in Montgomery County.
- Funds are added to support the farm to food bank program, the Montgomery County Food Council, market money grants that allow farmers markets to match Federal Supplemental Nutrition Assistance Program funding for individuals, and community gardening and local resilience grants.

Department of Health and Human Services

- Expand funding for the Asian American Health Initiative, Latino Health Initiative, African American Health Programs
- Fund $3.0 million to continue services that was previously funded by ARPA (American Rescue Plan Act) for Service Consolidation Hubs
- Include $3.0 million in funding to address overflow sheltering in hotels
- Subsidize rent funding to keep pace with rent increases for Housing Initiative Program
- Funding $6 million to expand Children Youth and Families - Newcomers' Program
- Continue eviction prevention services that was previously funded by ARPA

- Allocate $6.1 million in resources for the Food Staples program

Department of Housing and Community Affairs

- Continue to leverage Federal grants including the Community Development Block Grant, the HOME Investment Partnership Grant, and the Emergency Solutions Grant to provide affordable housing, housing rehabilitation, commercial revitalization, focused neighborhood assistance, public services, and prevent homelessness.
- Continue to actively underwrite affordable housing loans to preserve and produce affordable housing. Three developments for multi-family projects have already been identified for potential funding in FY24. These developments would preserve or produce a total of 590 units, including 412 affordable units.

Fire and Rescue Service

- Funding for a civilian Diversity Equity Inclusion Officer to support efforts to normalize conversations on equity and operationalize new equity centered practices, policies, and procedures in the Fire and Rescue Service.

Office of Grants Management

- Funding for Outgoing Grants Compliance Program Manager to allow for a quicker, more intensive integration of RESJ considerations into County grants management practices. Specifically, the additional training and support provided by this position will allow greater flexibility and support to both departments and community partners who utilize grants agreements. This flexibility and support will allow departments to make County awards more accessible to smaller, less establishing organizations, who are often based in underserved communities.
- This Office will develop, manage, advertise, and apply a racial equity lens into the application and awarding processes for grant programs offered by the County. This Office will develop and support best practices for grants management throughout Montgomery County Government that are consistent with racial equity and social justice goals. In addition, the Office serves as a central point of contact regarding grants that the County receives or awards; provides technical assistance regarding grants management to Executive Branch departments and principal offices; and searches out and identifies Federal and State grant opportunities to Executive Branch departments and principal offices.

Legislative Branch Communications Outreach (Non-Departmental Account)

- Funding to enhance translation services and culturally competent advertising and support to the Asian American and Pacific Islander community.

Office of Human Rights

- Include funding for the County's Juneteenth celebration.
- Add funding for the Remembrance and Reconciliation Commission to support the planning and execution of educational programming, training for Commission members, and annual observances in connection with lynching sites in Montgomery County (Lynching Memorial Project).

Office of Racial Equity and Social Justice

- Provide funding for increased staffing to support the mission of the Office of Racial Equity and Social Justice.

Transit Services (Department of Transportation)

- Provide financial support through a co-payment subsidy from the Transportation Services Improvement Fund to provide affordable transportation for the lowes income residents.

OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

M E M O R A N D U M

March 15, 2023

TO: Evan Glass, President
Montgomery County Council

FROM: Marc Elrich, County Executive

SUBJECT: Compensation Sustainability Policy

The Compensation Sustainability Policy identified within Resolution 19-753 states that the County Executive should provide a written explanation when the growth rate of total compensation costs exceeds the projected one-year or six-year rate of revenue growth. My FY24 Recommended Operating Budget includes total compensation and benefit increases, excluding new positions added or eliminated in FY24, of approximately $91.5 million, for a growth rate of 7.07 percent.

As shown in the fiscal plan, the one-year revenue growth rate is 7.2 percent, while the six-year revenue growth rate is 3.4 percent. These growth rates include the additional tax revenue generated by the education supplemental property tax rate increase which I am recommending as part of the FY24 budget. If you exclude the impact of this action, the one-year revenue growth rate is 3.41 percent, while the six-year revenue growth rate is 2.82 percent.

Operating budget resources did not need to be reallocated in FY24 to accommodate these costs; the one-year revenue growth rate amounts to $188.6 million in FY24, which exceeds the compensation increase. These costs are sustainable over time as the total compensation increase of $91.5 million is far below the increase in growth associated with the average 2.82 percent annual revenue growth over the six-year projection, which amounts to $156.1 million for FY24.

Furthermore, the composition of compensation elements that make up the $91.5 million increase includes items that take steps necessary to address major issues within County employee compensation structures. Included in the increases are:

101 Monroe Street • Rockville, Maryland 20850
240-777-2500 • 240-777-2544 TTY • 240-777-2518 FAX
www.montgomerycountymd.gov

- Collectively bargained compensation increases to ensure wage growth keeps pace with significantly higher than normal inflation and increases provided to employees in neighboring jurisdictions
- Adjustments to longevity awards that resolve a long-standing wage inequity
- Retirement plan enhancements necessary to improve employee's post-employment financial security

ME:cbo

cc: Richard S. Madaleno, Chief Administrative Officer, Office of the County Executive
Fariba Kassiri, Deputy Chief Administrative Officer, Office of the County Executive
Dale Tibbitts, Special Assistant to the County Executive, Office of the County Executive
Ken Hartman, Director of Strategic Partnerships, Office of the County Executive
Jennifer Bryant, Director, Office of Management and Budget

MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

EVAN GLASS
PRESIDENT

TRANSPORTATION & ENVIRONMENT COMMITTEE, CHAIR
ECONOMIC DEVELOPMENT COMMITTEE

MEMORANDUM

DATE: April 4, 2023
TO: Councilmembers
FROM: Council President Evan Glass
SUBJECT: Approach to FY 24 Operating Budget

Each year the Council President proposes an approach for reviewing the operating budget. This memorandum presents the process I believe will serve the Council and our residents well.

Determining the county's $6.8 billion operating budget is an exercise in fiscal discipline and a reflection of the county's priorities. We must balance the needs of today with those of tomorrow, which include supporting our students, our teachers, our first responders, our healthcare professionals and other frontline workers. Afterall, budgets are moral documents.

The FY24 Operating Budget presents several challenges. From funding critical services and fairly compensating our employees to determining the impact of a potential tax increase, it is our responsibility to ensure that the budget meets the needs of our community and is fiscally sound.

My priority for this budget process is to ensure that schools are fully funded and that families can continue calling Montgomery County home. As such, these are the issues I believe we should consider:

- **The need to support MCPS.** The pandemic has significantly impacted our students, who lost valuable classroom time and suffered as a result. Our teachers have worked harder than ever and we must demonstrate our support for them. As part of this review, we also need to examine MCPS' current and proposed use of federal COVID relief funding.

- **The decrease in recordation tax revenue.** This has created significant gaps in the Capital Improvements Program (CIP). The Executive did not increase pay as you go (PAYGO) funding for the CIP by $80 million, as requested by the Council, which would have decreased this gap. The Council will need to determine whether it supports the lower level of CIP funding proposed by the Executive.

- **The Executive has recommended a 10% property tax increase.** The Council will need to carefully evaluate whether we believe a tax increase is necessary and, if so, the appropriate size of the increase. Each 1-cent of the proposed tax increase is equivalent to $22.3 million.

- **Use of reserves for ongoing expenditures.** The budget includes significant increases in the operating budget, in part by using unanticipated FY22 and FY23 income tax revenue.

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Our adopted fiscal policies require that these funds be used for one-time expenditures, not ongoing operating costs that cannot be sustained by future revenues; yet only $16 million of net new tax supported expenditures are categorized as "one-time". Council staff will provide additional information regarding sustainability at the April 11 overview of the budget.

- **Additional county positions and county vacancies.** The proposed budget includes 137 new tax supported full-time equivalent (FTE) positions in County Government and hundreds of new positions in other agencies. At the same time the Executive is adding new positions, the County Government has approximately 1,500 job vacancies. The Council will need to determine if funding new positions is sustainable, as relying on lapses from vacant positions is not a sound fiscal practice.

- **Funding OPEB.** The Government Operations & Fiscal Policy Committee has taken the first steps toward creating a policy that ensures the long-term viability of our retiree health insurance (known as Other Post Employee Benefits or OPEB), which includes having the trust fund pay annual costs. Such a policy would allow the County's general revenues to be used for other purposes. The Executive's budget does not provide funding identified in this preliminary policy.

To fully fund MCPS, fund the CIP, reach our OPEB goals, and reduce the size of or eliminate the need for a property tax increase, we will need to find reductions in the operating budget. This goal is always challenging.

To meet the diverse needs of our community, I believe that all of the Executive's recommended tax-supported additions to the operating budget should be placed on a reconciliation list. Any additional Council recommended priorities should be added to the same list. Each spending priority should be considered as a potential addition to the Council adopted FY23 budget, rather than a potential reduction from the Executive's proposed FY24 budget.

A recommended process and structure for implementing this approach for FY24 follows:

1. Each tax supported increase, addition, enhancement, replacement, or restoration recommended by the County Executive would be placed on the reconciliation list. Similarly, any tax supported increases recommended by a committee would also be placed on the reconciliation list.

2. All items placed on the reconciliation list by a committee should be categorized as either a "priority" or "high priority" to assist our future decisions. When appropriate, an item should be divided into more than one category. Budgetary items should also be classified as one-time or ongoing expenses.

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3. Committees should attempt to identify other reductions to departmental base budgets to free up ongoing resources for other priorities. While our current budget timeframe does not allow for a zero-based budgeting approach that would fully review each department's base expenditures, it is important to look for reductions as a first step.

4. Additional FY24 budget amendments received from the County Executive after March 15 would also be placed on the reconciliation list for Committee review.

5. Any cost shifts between departments (if budget neutral) and increases due to annualization of previously approved compensation/staffing costs do not need to be placed on the reconciliation list. We will ask staff to identify any increase due to a County or State law to determine if it must be funded or can be placed on the reconciliation list.

6. When creating the reconciliation list, staff should indicate whether the item was previously funded by federal funds, allowing us to carefully consider whether the County has the ability to maintain programs not previously supported by the County's general funds.

7. FY24 compensation and benefit enhancements will be reviewed separately by the Government Operations & Fiscal Policy Committee and the full Council.

This process is designed for the Council to fund the programs and policies that our residents need while also ensuring that taxpayer funds are used prudently.

Supporting our residents is our top priority. We must keep them in mind as we work collectively throughout this process.