




OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

MEMORANDUM

April 22, 2025

TO: Kate Stewart, President
Montgomery County Council 

FROM: Marc Elrich, County Executive

SUBJECT: Amendments to the FY26 Recommended Budget

When I transmitted my FY26 Recommended Operating Budget, I highlighted the great uncertainty regarding how the Maryland General Assembly would close the State's significant budget gap. Thus, my recommended budget did not consider any revenue enhancements resulting from State tax changes or many costs shifted to the County for either County government or Montgomery County Public Schools (MCPS). Now that the State budget package has passed the Maryland General Assembly, I am writing to communicate that I will send over budget amendments by the end of the week that will reflect changes to both revenues and expenditures in my recommended budget, and to offer some alternatives that you may want to consider as the Council is holding public hearings on the budget.

Revenues

As you are aware, my recommended budget included a modest 3.5 cent increase to the education supplemental property tax rate and a \$168 increase to the County's Income Tax Offset Credit (ITOC) Property Tax Credit to completely offset that increase for homeowners whose principal residence is assessed at or below \$495,000. These changes were estimated to increase County revenue by \$56.3 million to be used exclusively to fund MCPS. I intentionally coupled these two measures because they were the only tools available to introduce some progressivity; in fact, homeowners with homes assessed at less than \$495,000 would actually have seen a modest *decrease* in their property taxes.

The Maryland General Assembly has made several changes to the State's income tax structure – including changes to income tax brackets, income tax rates, the capital gains surcharge, standard

deduction amounts, and itemization. In addition, the Maryland General Assembly is allowing counties to increase their local income tax rates from 3.2 percent to 3.3 percent.

Given this change, I am proposing to withdraw the property tax increase and instead raise the income tax rate by .01 percent to 3.3 percent, and to make that rate change retroactive to January 1, 2025. This change, coupled with the other revisions to the State's tax code, is preliminarily estimated to generate between \$70 and \$80 million for County government in FY26 and \$60 to \$70 million annually thereafter. This change will allow us to continue to fund both MCPS and vital County services, while mitigating the impact on individuals who might find themselves without employment because of recent action by the Federal government.

To support homeowners facing multiple necessary tax and fee increases, I am modifying my recommended increase in the ITOC Property Tax Credit, which I now recommend be increased by \$60 to \$752. This increase will provide meaningful relief to homeowners who may be experiencing higher overall bills due to various budget adjustments this fiscal year.

Raising revenues via the income tax is generally more progressive than a property tax increase. Yet, I want to give some additional relief to our lowest earners and am recommending an increase in the Working Families Income Supplement (which piggybacks on the Federal Refundable Earned Income Tax Credit). I propose we increase our match of the State's REITC from 56 percent to 65 percent.

These changes will remove the property tax increase, give homeowners and low-income earners some relief, fully fund the MCPS request, address some of the Council's ongoing concern about a structural deficit, and leave reserves over 11% to address known upcoming FY26 expenses as well as impacts from the ongoing impacts of the Trump Administration.

In approving the FY25 Budget, the Council approved half of a requested rate change for the Department of Housing and Community Affairs. My recommended budget inadvertently omitted including the second phase of that rate change, and I will be submitting a technical change to account for this revenue.

The Fire and Rescue Service has completed a review of current trends in Emergency Medical Services Transport (EMST) and Mobile Integrated Health (MIH) fees, and I will be sending over amendments to adjust those fees.

Expenditures

Pension Cost Shifts - Teacher and Community College Personnel

The Maryland General Assembly has increased the County's contribution for pensions for teachers and community college personnel. When I submitted my budget, estimates for this cost shift ranged from \$20.9 million to \$41.7 million. Thankfully, it appears that the total cost shift will be the lower end of that range. Thus, I will submit a budget amendment next week to fully

support the Board of Education's FY26 Budget request, as well as covering the cost of the shift to Montgomery College.

Cost Sharing – Operation of the State Department of Assessments and Taxation's Montgomery County Office

The Maryland General Assembly has altered the cost-sharing formula for the State Department of Assessments and Taxation's Montgomery County Office. Currently, we share the cost of operating this office with the State on a 50-50 basis. The General Assembly has increased our share of operating the office, such that the County will now be responsible for 90 percent of the cost.

Parks Department

My FY26 Recommended Operating Budget inadvertently underfunded the amount necessary to fully fund the Parks Department's employee contract obligations. I intend to submit an amendment to increase the Parks Department's budget by approximately \$1 million to correct this error.

In the meantime, should you have any questions, please reach out to Jennifer Bryant, Director of the Office of Management and Budget.

cc: Cecily Thorne, Chief of Staff of the Council President, Montgomery County Council
Craig Howard, Executive Director, Montgomery County Council
Richard S. Madaleno, Chief Administrative Officer, Office of the County Executive
Tricia Swanson, Director of Strategic Partnerships, Office of the County Executive
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