

MEMORANDUM

June 16, 2023

TO: Government Operations and Fiscal Policy (GO) Committee

FROM: Craig Howard, Deputy Director
Logan Anbinder, Postgraduate Fellow

SUBJECT: Resolution to approve the Tax Supported Fiscal Plan Summary for the FY24-29 Public Services Program

PURPOSE: Make recommendations to the Council

Those expected for this worksession:

Josh Watters, Deputy Director, Office of Management and Budget (OMB)
Chris Mullin, Manager, OMB
Nancy Feldman, Fiscal Management Chief, Department of Finance
David Platt, Chief Economist, Department of Finance

See the proposed resolution and Tax Supported Fiscal Plan Summary for the FY24-29 Public Services Program on ©1-4. The resolution and fiscal plan summary are based upon the fiscal decisions the Council approved on May 25, 2023 for the FY24 Operating Budget. The Council introduced the proposed resolution and fiscal plan summary on June 20, 2023, and action is tentatively scheduled on June 27, 2023.

Council staff recommends approval of the resolution and attached fiscal plan based on the Council's decisions on May 25, 2023.

I. Context

Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least six Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*

[Council Resolution No. 19-753](#) states that the “*County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The*

fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals". The Council approved for the first time a six-year fiscal plan that was balanced for the entire period in June 2010. Each June since 2010, the Council has taken similar action. The fiscal plan is then updated every year in December, three months before the release of the Executive's next recommended budget.

The FY24-29 Tax Supported Fiscal Plan Summary, like all versions of the fiscal plan, reflects current fiscal projections and policy assumptions when the Council adopted the FY24 Operating Budget and the Amended FY23-FY28 Capital Improvements Program (CIP). **Future versions of the FY24-29 Tax Supported Fiscal Plan Summary will change as economic and fiscal conditions are better understood.** The December 2023 update will reflect changes to FY24-29 revenue estimates. The March 2024 version, included with the Executive's recommended budget, will include revised revenue projections and updated expenditures for the County Government and its agencies in FY24.

II. Fiscal Projections and Policy Assumptions

The policy assumptions for this version of the Fiscal Plan are listed in the notes on ©3 and below.

- a) Property taxes are based on no changes to the weighted average real property tax rate, a \$692 income tax offset credit, and a new 4.7 cent supplementary property tax to be used exclusively for MCPS as authorized by Maryland Code, Education § 5-104 (d)(1). Other taxes are at current rates.
- b) Reserve contributions are consistent with legal requirements and the minimum policy target. The calculation for Adjusted Governmental Revenues in FY23 excludes the County's allocation of Federal Emergency Grants received through the Coronavirus Relief Fund and the American Rescue Plan Act. In FY23, the mandatory contribution to the Revenue Stabilization Fund in the amount of 50 percent of excess revenues will not be made. Any excess revenues will be designated as General Fund unrestricted reserves. This is a one-time action for FY23 only.
- c) PAYGO, debt service, and current revenue reflect the Amended FY23-28 Capital Improvements Program.
- d) State Aid, including for MCPS and Montgomery College, is not projected to increase from FY24-29.

A. Revenues

Total revenues are estimated to increase from FY24 to FY29 at an annual average of 3.1% (see line 6 on ©3). Table 1 below details the annual percent change in total revenues included in the current fiscal plan. Following the estimated growth of 5.3% in FY23-24, the estimated average annual growth from FY25-29 is 2.7%. The higher growth rate for FY24 is primarily due to the 4.7 cent tax increase for MCPS.

Table 1: Annual Estimated Growth Rate in Total Revenues FY24-29

FY23-24	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29
5.3%	2.7%	2.8%	2.6%	3.0%	2.4%

Source: FY24-29 Fiscal Plan; note FY23-FY24 uses the approved values.

Below are highlights about specific revenue sources.

- Property taxes are estimated to increase at an annual average rate of 2.7% in the current fiscal plan. After an 8.0% increase in FY24 due to the rate increase, the average annual rate of growth from FY25-29 is 1.7%.
- Income taxes are estimated to increase at an annual average rate of 5.2% in the current fiscal plan. Income taxes are estimated to increase in FY24 by 2.9%, but then increase at an average annual rate of 5.6% from FY25-29.
- Recordation and transfer taxes are estimated to decrease at an annual average rate of 0.3% in the current fiscal plan, driven by an estimated decrease in revenue of 23.7% from FY23-24. The estimated annual average change from FY25-29 is a 4.4% increase.
- Other taxes are estimated to increase at an annual average rate of 0.8% in the current fiscal plan.

B. Resources available to allocate to agencies

Resources for agency use is an important element of the plan because it highlights the funding available for existing programs and services, as well as the opportunity to fund new programs and services if there are sufficient resources. In the current fiscal plan, resources for agency use (rows 24-27 on ©3) increased by 7.2% from the FY23 approved budget to the FY24 approved budget. However, growth rates in available resources are much more constrained in FY25-29.

Table 2 below details the growth rate estimated for agency use in FY24-29. Resources available to agencies are a function of estimated revenues, the County’s fixed commitments, and planned expenditures.

Table 2: Annual Estimated Growth Rate of Resources for Agency Use FY24-29

FY23-24	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29
7.2%	0.7%	1.2%	2.7%	3.4%	2.5%

Source: FY24-29 Fiscal Plan; note FY23-24 uses the approved values.

C. Fixed commitments

Debt service. Debt service is expected to increase at an annual average rate of 1.9% through FY29 in the FY24-29 Fiscal Plan. This annual average increase is slightly less than the estimated annual average increase of the County’s revenues during the same period. See row 12 on ©3.

PAYGO. Council Resolution No. 19-753 states: “*The County should allocate to the CIP each year as PAYGO [cash] at least 10% of the amount of general obligation bonds planned for issue that year.*” PAYGO in the fiscal plan is slightly higher than the 10% policy level for FY24-29. Additional resources for PAYGO reduces the borrowing needs of the County. See row 13 on ©3.

Current revenue funding for the CIP. Current revenue in the CIP is estimated to average about \$93.1 million a year from FY24-29. Changes to the CIP current revenue results in an increase or decrease to resources available for agency uses. See row 14 on ©3.

Reserves. The County’s goal, per Resolution No. 19-753, is 10.0%. The current fiscal plan summary meets the County’s policy for reserves. FY23 reserves are anticipated to end the year at 14.1%, and FY24 reserves are projected to end the year at 11.6%. The fiscal plan assumes reserves at the 10% policy goal in FY25-29.

OPEB. Resolution No. 19-753 also refers to OPEB (Other Post-Employment Benefits), including pre-funding for retiree health benefits. The tax supported cost for pre-funding retiree health benefits for all agencies in FY24 is \$65.6 million. See rows 53 through 56 on ©4.

<u>This packet contains:</u>	<u>Circle #</u>
Proposed resolution	1
Fiscal Plan Summary FY24-29	3

Resolution No.: _____
Introduced: _____
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

Lead Sponsor: Government Operations and Fiscal Policy Committee

SUBJECT: Approval of the County’s Tax Supported Fiscal Plan Summary for the FY24-FY29 Public Services Program

Background

1. Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least six Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*
2. Starting in 1992, the Council’s Government Operations and Fiscal Policy Committee (known until December 2010 as the Management and Fiscal Policy Committee) has collaborated with the Office of Management and Budget and the Department of Finance to develop and refine County fiscal projections. The result has been continuous improvement in how best to display such factors as economic and demographic assumptions, individual agency funds, major known commitments, illustrative expenditure pressures, gaps between projected revenues and expenditures, and productivity improvements. This work has also increased the County’s ability to harmonize the fiscal planning methodologies of the four tax supported agencies. Each version of the fiscal projections, or six-year fiscal plan, is a snapshot in time that reflects the best estimate of future revenues and expenditures as of that moment, as well as a specific set of fiscal policy assumptions.
3. On June 29, 2010, the Council approved policies on reserve and other fiscal matters in Resolution No. 16-1415. Action clause 5 stated: *The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.*
4. The Council adopted Resolution No. 17-312 on November 29, 2011, replacing Resolution No. 16-1415, to strengthen the County’s fiscal policies while still retaining the fiscal plan language. The Council adopted Resolution No. 19-753 on March 2, 2021, replacing

Resolution No. 17-312, to strengthen the County's reserve policy while still retaining the fiscal plan language.

5. Pursuant to these policies, the Council approved a balanced fiscal plan summary in June 2010 and has approved a balanced fiscal plan summary every June thereafter.
6. The Government Operations and Fiscal Policy Committee reviewed the Tax Supported Fiscal Plan Summary for the FY24-FY29 Public Services Program on June 22, 2023.

Action

The County Council for Montgomery County, Maryland approves the Tax Supported Fiscal Plan Summary for the FY24-FY29 Public Services Program, as outlined on the attached pages. This summary reflects:

- (1) current information on projected revenues and non-agency expenditures for the six-year period, which must be updated as conditions change. To keep abreast of changed conditions the Council regularly reviews reports on economic indicators, revenue estimates, and other fiscal data.
- (2) the policy on County reserves as described in Resolution No. 19-753 adopted on March 2, 2021, and the amendments to the Revenue Stabilization Fund law in Bill 36-10 approved by the Council on June 29, 2010.
- (3) other specific fiscal assumptions listed in the summary.

This is a correct copy of Council action.

Sara R. Tenenbaum, Clerk of the Council

County Council Approved FY24-29 Public Services Program Tax Supported Fiscal Plan Summary

(\$ in Millions)

	App. FY23 5-26-22	Est. FY23	% Chg. FY23-24 App/App	App. FY24 5-25-23	% Chg. FY24-25	Projected FY25	% Chg. FY25-26	Projected FY26	% Chg. FY26-27	Projected FY27	% Chg. FY27-28	Projected FY28	% Chg. FY28-29	Projected FY29
Total Revenues														
1 Property Tax	1,951.4	1,931.7	8.0%	2,107.0	2.5%	2,160.2	2.7%	2,219.4	1.7%	2,258.2	0.8%	2,276.3	0.6%	2,289.6
2 Income Tax	1,870.5	2,044.4	2.9%	1,925.1	5.1%	2,023.6	5.2%	2,128.0	5.3%	2,241.2	7.1%	2,400.1	5.3%	2,526.2
3 Transfer/Recordation Tax	228.9	175.1	-23.7%	174.6	4.7%	182.7	0.6%	183.8	5.2%	193.4	5.1%	203.2	6.4%	216.3
4 Other Taxes	266.6	268.6	3.4%	275.8	0.3%	276.5	0.2%	277.2	0.2%	277.7	0.1%	278.0	0.4%	279.1
5 Other Revenues	1,214.1	1,268.3	10.6%	1,343.1	-0.4%	1,337.4	0.2%	1,340.0	-0.2%	1,336.7	0.0%	1,336.6	0.3%	1,340.2
6 Total Revenues	5,531.5	5,688.0	5.3%	5,825.6	2.7%	5,980.4	2.8%	6,148.4	2.6%	6,307.1	3.0%	6,494.2	2.4%	6,651.4
7														
8 Net Transfers In (Out)	18.8	19.3	-70.2%	5.6	2.2%	5.7	2.2%	5.9	2.2%	6.0	2.3%	6.1	2.3%	6.3
9 Total Revenues and Transfers Available	5,550.4	5,707.2	5.1%	5,831.2	2.7%	5,986.1	2.8%	6,154.2	2.6%	6,313.1	3.0%	6,500.3	2.4%	6,657.7
10														
11 Non-Operating Budget Use of Revenues														
12 Debt Service	441.9	438.2	1.1%	446.7	3.8%	463.6	2.2%	473.7	1.6%	481.4	0.9%	485.9	1.8%	494.4
13 PAYGO	33.9	33.9	-3.2%	32.8	-4.9%	31.2	-6.4%	29.2	-0.7%	29.0	0.0%	29.0	0.0%	29.0
14 CIP Current Revenue	92.4	112.5	9.7%	101.4	-9.9%	91.3	-5.8%	86.0	12.8%	97.0	-5.9%	91.3	0.0%	91.3
15 Change in Other Reserves	-57.4	-44.7	43.8%	-32.3	100.5%	0.2	37.2%	0.2	-29.6%	0.1	-36.5%	0.1	-11.8%	0.1
16 Contribution to General Fund Undesignated Reserves	-15.6	56.2	-925.4%	-160.2	47.7%	-83.8	105.2%	4.3	-9.4%	3.9	47.8%	5.8	20.6%	7.0
17 Contribution to Revenue Stabilization Reserves	3.0	16.6	784.6%	26.2	-71.5%	7.5	145.9%	18.3	-41.6%	10.7	-42.3%	6.2	49.9%	9.3
18 Set Aside for other uses (supplemental appropriations)	-1.6	-1.6	-6.5%	-1.7	1257.8%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
19 Total Other Uses of Resources	496.5	611.1	-16.8%	412.9	28.3%	529.9	19.2%	631.8	1.7%	642.2	-0.6%	638.3	2.0%	651.1
20 Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)	5,053.9	5,096.2	7.2%	5,418.3	0.7%	5,456.3	1.2%	5,522.4	2.7%	5,670.9	3.4%	5,862.1	2.5%	6,006.6
21														
22 Agency Uses														
23														
24 Montgomery County Public Schools (MCPS)	2,729.7	2,717.6	8.2%	2,954.0										
25 Montgomery College (MC)	275.3	257.1	2.1%	281.0										
26 MNCPPC (w/o Debt Service)	153.9	153.9	6.2%	163.4										
27 MCG	1,895.1	1,967.7	6.6%	2,020.0										
28 Agency Uses	5,053.9	5,096.2	7.2%	5,418.3	0.7%	5,456.3	1.2%	5,522.4	2.7%	5,670.9	3.4%	5,862.1	2.5%	6,006.6
29 Total Uses	5,550.4	5,707.2	5.1%	5,831.2	2.7%	5,986.1	2.8%	6,154.2	2.6%	6,313.1	3.0%	6,500.3	2.4%	6,657.7
30 (Gap)/Available	0.0	0.0		0.0		0.0		0.0		0.0		0.0		0.0

Assumptions:

- Property taxes are at the Charter Limit with a \$692 credit. Property tax revenues include a 4.7 cent tax that is authorized by Maryland Code, Education § 5-104 (d)(1) to be used exclusively for MCPS. Other taxes are at current rates.
- Reserve contributions are consistent with legal requirements and the minimum policy target. The calculation for Adjusted Governmental Revenues in FY23 excludes the County's allocation of Federal Emergency Grants received through the Coronavirus Relief Fund and the American Rescue Plan Act. In FY23, the mandatory contribution to the Revenue Stabilization Fund in the amount of 50 percent of excess revenues will not be made. Any excess revenues will be designated as General Fund unrestricted reserves. This is a one-time action for FY23 only.
- PAYGO, debt service, and current revenue reflect the Amended FY23-28 Capital Improvements Program.
- State Aid, including MCPS and Montgomery College, is not projected to increase from FY24-29.

**County Council Approved FY24-29 Public Services Program
Tax Supported Fiscal Plan Summary**

(\$ in Millions)

	App. FY23	Est. FY23	% Chg. FY23-24	App. FY24	% Chg. FY24-25	Projected FY25	% Chg. FY25-26	Projected FY26	% Chg. FY26-27	Projected FY27	% Chg. FY27-28	Projected FY28	% Chg. FY28-29	Projected FY29
31 Beginning Reserves														
32 Unrestricted General Fund	90.9	188.5	169.3%	244.7	-65.5%	84.5	-99.1%	0.7	601.4%	5.0	77.6%	9.0	64.6%	14.7
33 Revenue Stabilization Fund	518.5	587.4	16.5%	604.0	4.3%	630.2	1.2%	637.6	2.9%	656.0	1.6%	666.7	0.9%	672.9
34 Total Reserves	609.4	775.9	39.3%	848.7	-15.8%	714.7	-10.7%	638.3	3.6%	661.0	2.2%	675.6	1.8%	687.6
35														
36 Additions to Reserves														
37 Unrestricted General Fund	-15.6	56.2	-925.4%	-160.2	47.7%	-83.8	105.2%	4.3	-9.4%	3.9	47.8%	5.8	20.6%	7.0
38 Revenue Stabilization Fund	3.0	16.6	784.6%	26.2	-71.5%	7.5	145.9%	18.3	-41.6%	10.7	-42.3%	6.2	49.9%	9.3
39 Total Change in Reserves	-12.7	72.8	-958.3%	-134.0	43.0%	-76.4	129.7%	22.7	-35.4%	14.6	-18.2%	12.0	35.7%	16.2
40														
41 Ending Reserves														
42 Unrestricted General Fund	75.2	244.7	12.4%	84.5	-99.1%	0.7	601.4%	5.0	77.6%	9.0	64.6%	14.7	47.3%	21.7
43 Revenue Stabilization Fund	521.5	604.0	20.8%	630.2	1.2%	637.6	2.9%	656.0	1.6%	666.7	0.9%	672.9	1.4%	682.1
44 Total Reserves	596.7	848.7	19.8%	714.7	-10.7%	638.3	3.6%	661.0	2.2%	675.6	1.8%	687.6	2.4%	703.8
45 Reserves as a % of Adjusted Governmental Revenues	10.2%	14.1%		11.6%		10.0%		10.0%		10.0%		10.0%		10.0%
46 Other Reserves														
47 Montgomery College	23.9	48.4	16.2%	27.8	0.0%	27.8	0.0%	27.8	0.0%	27.8	0.0%	27.8	0.0%	27.8
48 M-NCPPC	5.9	4.2	7.9%	6.4	2.5%	6.5	2.7%	6.7	1.7%	6.8	0.9%	6.9	0.6%	6.9
49 MCPS	0.0	25.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
50 MCG Special Funds	1.4	-10.3	-41.7%	0.8	-0.4%	0.8	3.6%	0.9	3.6%	0.9	3.5%	0.9	4.1%	1.0
51 MCG + Agency Reserves as a % of Adjusted Govt Revenues	10.8%	15.2%		12.1%		10.6%		10.6%		10.6%		10.6%		10.6%
52 Retiree Health Insurance Pre-Funding														
53 Montgomery County Public Schools (MCPS)	57.4	57.4		62.3		62.3		62.3		62.3		62.3		62.3
54 Montgomery College (MC)	1.7	1.7		0.0		0.0		0.0		0.0		0.0		0.0
55 MNCPPC	3.7	3.7		3.3		3.2		3.0		3.1		3.1		3.2
56 MCG	0.0	0.0		0.0		0.0		0.0		0.0		0.0		0.0
57 Subtotal Retiree Health Insurance Pre-Funding	62.8	62.8		65.6		65.5		65.3		65.3		65.4		65.5
58 Adjusted Governmental Revenues														
59 Total Tax Supported Revenues	5,531.5	5,688.0	5.3%	5,825.6	2.7%	5,980.4	2.8%	6,148.4	2.6%	6,307.1	3.0%	6,494.2	2.4%	6,651.4
60 Capital Projects Fund	154.3	207.5	27.4%	196.6	8.3%	212.8	25.5%	267.0	-6.4%	250.0	-28.6%	178.5	0.0%	178.5
61 Grants	136.3	136.3	17.0%	159.5	2.2%	163.0	2.2%	166.6	2.2%	170.3	2.3%	174.3	2.3%	178.3
62 Total Adjusted Governmental Revenues	5,822.1	6,031.9	6.2%	6,181.7	2.8%	6,356.2	3.6%	6,581.9	2.2%	6,727.4	1.8%	6,846.9	2.4%	7,008.2