



OFFICE OF MANAGEMENT AND BUDGET

Marc Elrich
County Executive

Jennifer R. Bryant
Director

MEMORANDUM

December 5, 2024

TO: Craig Howard, Executive Director
Montgomery County Council

FROM: Jennifer R. Bryant, Director
Office of Management and Budget

SUBJECT: Fiscal Plan Update

Attached please find the updated Fiscal Plan and supporting documents. The Fiscal Plan is updated in December and includes limited updates to fiscal assumptions, in March with County Executive's Recommended Budget, and in June to reflect the decisions in the Approved Budget. Each version of the Fiscal Plan reflects assumptions and budget decisions at a specific point in time. The assumptions often change between each version of the Fiscal Plan.

This update to the Fiscal Plan includes the Department of Finance's updated Revenue Forecast. The plan also reflects FY24 Preliminary Year-End Results, FY25 expenditure projections based on the results of first quarter analysis, FY25 tax supported pending and approved supplemental appropriations, and a set-aside in FY25 for snow-related expenses as described below. Other assumptions in the Fiscal Plan, including funding for the Capital Improvements Program and other non-agency spending have not changed. Because this is a limited update to fiscal assumptions, the projections are preliminary and reflect many unknowns, and the Fiscal Plan included as part of the County Executive's recommended budget next March will inevitably differ from the updated plan. However, this Fiscal Update is critical for the County Executive's budget formulation process and will provide context for the many difficult decisions needed in developing his Recommended FY26 Operating Budget and regarding spending decisions for the remainder of FY25.

The updated Fiscal Plan reflects an upward revision in FY25 revenues of \$132.1 million and an upward revision in FY26 revenues of \$127.7 million compared to the FY25 Approved Fiscal Plan. The FY24 Preliminary Year-End Closeout results in an increase of approximately \$63.6 million in anticipated reserves compared to estimates in the approved fiscal plan. This results in FY24 preliminary actual reserves at 15.8 percent, exceeding the County's 10 percent reserve policy by \$375.1 million. FY25 projected year-end expenditures based on the first quarter analysis are more

than the FY25 Approved Budget mainly due to a higher than anticipated participation rate in the Working Families Income Supplement Program, increases to fuel costs, and anticipated overtime expenditures by Montgomery County Fire and Rescue Service, Transit Services, and Correction and Rehabilitation exceeding the budgeted amount. In keeping with practice from prior years, an FY25 set aside of \$15 million for snow and other storm related expenses has been assumed in the likely event that those actual expenditures will exceed the budgeted amount.

The increase in FY24 reserves carries forward to FY25 and, along with an upward revision of FY25 tax revenues and FY25 spending assumptions, currently projects FY25 estimated end-of-year reserves to be 13.1 percent of Adjusted Governmental Revenue (AGR), higher than the 10.8 percent assumed in the Approved Fiscal Plan. Due to these revised estimates, the County's reserves are estimated to remain at the 10 percent policy level in FY26 and beyond.

The fiscal plan model assumes that Montgomery County Public Schools (MCPS) and Montgomery College (MC) are funded at the Maintenance of Effort (MOE) level in FY26 at this time. For this update, MOE estimates are the same as what was contained in the Approved Fiscal Plan because the legal deadlines for MCPS and MC to submit their budget requests are after this update. County Government budgets and the Maryland-National Capital Park and Planning Commission (M-NCPPC) show increases in available resources of 10.6 percent, compared to the approved budget. In this version of the Fiscal Plan, because MCPS and MC allocations are assumed to be funded at MOE level, the remaining available resources are allocated proportionally to County Government and M-NCPPC based on their FY25 allocations – the allocations and growth rates for the four agencies likely will be different in the County Executive's FY26 Recommended Operating Budget. To be consistent with the County's fiscal policies, any one-time resources in this version of the Fiscal Plan should be used on one-time expenditures.

Update to Revenue Projection and Reserves

In addition to the revised revenue forecast, the updated Fiscal Plan includes revisions to the required reserve contributions, and a set aside for snow/storm-related spending in FY25. These changes are outlined in greater detail below:

1. Revenues:

The Department of Finance's December 2024 Revenue Update and Economic Indicators reflects an upward revision in FY25 tax revenues of \$132.1 million from the approved fiscal plan. This revision is based on updated economic assumptions and recent tax collections data and reflects the state of most tax revenues through November 2024. The taxes most affected are the income tax (up \$124.1 million from the approved fiscal plan); the property tax (up \$1.9 million); the combined transfer tax and recordation tax (up \$14.3 million); and excise taxes (down \$8.3 million). FY26 revenues are \$127.7 million more than estimated in the approved fiscal plan due to upward revisions in the income tax of \$66.7 million, \$56.5 million in the property tax, \$18.7 million for combined transfer and recordation taxes, and a downward revision in excise taxes of \$14.1 million.

Details on the revenue forecast will be included in the Revenue Estimating Group report that will be submitted to the County Executive and County Council by December 15.

2. FY26 Expenditures:

The fiscal plan assumes maintaining funding for MCPS and MC at the FY26 MOE level (as estimated in the Approved Fiscal Plan), and available resources for County Government budgets and M-NCPPC increase by 10.6 percent, compared to the FY25 budget. As stated above, any one-time resources should be used on one-time expenditures. **It also should be noted that this version of the fiscal plan does not yet account for potential cost increases for FY26, including annualization of FY25 compensation increases, FY26 compensation adjustments for County employees, increased benefits costs, Maintenance of Effort adjustments due to updated school enrollment estimates, and annualization of new programs, among other cost pressures likely to reduce available resources for the FY26 budget. These funding decisions as well as decisions on the use of surplus reserves will be considered as part of the County Executive's recommended budget and will be transmitted to the Council in March.**

3. Reserves:

Due to the FY24 closeout and current projections for FY25 spending and revenues, the updated fiscal plan currently projects total reserves to be 13.1 percent of AGR at the end of FY25. For FY26 and beyond, reserves are assumed to be maintained at the 10 percent policy level.

The fiscal plan assumes that in FY26 and beyond, the General Fund reserve will be funded at the Charter limit and contributions to the Revenue Stabilization Fund (RSF) will be made consistent with the County's fiscal policies and RSF law. Total reserves are projected to be at 10 percent in FY26 and beyond in accordance with the County's fiscal policies.

Looking Ahead

As you know, the County Executive will update the fiscal plan in March as part of his FY26 Recommended Operating Budget and FY26-31 Public Services Program. The March update will include several changes that are not part of the attached fiscal plan because the information is currently not available or is dependent on events that will occur subsequent to this transmittal, including:

1. The County Executive's recommendations for the Amended FY25-30 CIP and the FY26 Operating Budget;
2. The mid-December update by the State Board of Revenue Estimates on its economic forecast;
3. The January and February 2025 income tax distribution and data on the County's excise taxes for November 2024 through February 2025;
4. Revisions to estimates of the assessable base by the State Department of Assessments and Taxation expected in January 2025; and

5. Federal and State budget decisions that may affect the County's budget including the State's estimated structural deficit of approximately \$2.3 billion in FY26.

While the updated Fiscal Plan includes an upward revision of revenues for both FY25, FY26, and the out years, it is important to note that the FY25 Approved Budget used \$281.6 million in General Fund reserves. Of this amount, OMB estimates that over \$130 million was used for ongoing expenditures, creating a structural budget imbalance. The upward revision of the revenues largely, but not completely, offsets that imbalance.

In summary, this version of the fiscal plan reflects an increase in anticipated resources for FY25 and stable revenue growth in FY26 compared to the Approved Fiscal Plan. Since this version of the Fiscal Plan contains only limited updates, there are additional changes that will be incorporated into the County Executive's recommended budget and Fiscal Plan. The County Executive will need to balance the needs of the community while maintaining the fiscal health of the County. At this time, the Office of Management and Budget would continue to encourage fiscal restraint in order to maintain that level of flexibility.

JRB:cm

Enclosure: December Fiscal Plan

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