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MONTGOMERY COUNTY COUNCIL

ROCKVILLE, MARYLAND

Natali Fani

To: Councilmembers
From: Council President Fani-González
Date: April 17, 2026
Re: A progressive approach to the FY27 budget

After hearing from residents and conversations with many of you, it has become clear to me that we need to chart a fundamentally new course with this budget. To put it mildly, the County Executive's budget misses the mark across so many dimensions that we cannot let inertia take hold and simply make minor adjustments. The time for bold, progressive action is now. Not next year or the following.

In the spirit of full transparency with you and the public, I outline below a fiscally prudent approach to the FY27 operating budget that enables the Council to make income taxes progressive, eliminate the 6.3 cent property tax increase, and slow the growth in spending all while protecting the social safety net services for our most vulnerable residents.

We all know that residents are struggling to make ends meet in this economy. Ever expanding costs—energy, food, rent, and healthcare to name a few—are overwhelming any increase in wages. It is particularly hard for residents at or below the median income. Housing has become unaffordable for nearly a quarter of all County households, particularly for those who are starting a family and struggle to pay for child care. Increased housing costs, like the Executive's property tax increase, will make housing *more unaffordable* for families earning less than the median income.

And if things are bad for those with jobs and even worse for those with young children who need childcare, imagine how much worse it is for the former federal workers who lost their jobs, through no fault of their own, but because of cruel and irresponsible policies of this current federal administration. We know economic storm clouds are mounting on the horizon. From the horrific attacks on immigrant families, disregard of federal workers, the war in the Middle East, inflation, and tariffs, it is prudent to plan for a slow down, if not a full blown recession.

While it may be tempting to blame the federal government for our fiscal and economic predicament, the truth is that we bear responsibility for the choices we have control over. This is where my proposal comes in. Asking residents to swallow a 6.3 cent property tax increase and for everyone to see an increase in their income taxes is unreasonable. We cannot continue to raise taxes indiscriminately, particularly in such uncertain times. Fortunately, the Council doesn't have to accept that outcome.

Below I detail a better way forward.

Progressive Income Tax

For years, many of you, like me, have called for an income tax structure that asks a little bit more of those of greater means and a little less for those of more modest and lower incomes. Despite state enabling authority to do so for several years now, we have chosen not to take that step. I believe the time is now to do so.

This year I am proposing a progressive income tax structure that over the long run is close to fiscally neutral. The new rate structure is detailed below.

Proposed Progressive Income Tax Structure

Maryland Adjusted Gross Income (AGI)	New County Income Tax Rate	Change in Income Tax Rate
$0 to $50,000	2.50%	-0.70%
$50,001 to $150,000	2.80%	-0.40%
$150,001 to $300,000	3.20%	0%
Greater than $300,000	3.30%	0.10%

Under this structure, **96% of County households would receive a tax break**. For instance, a family of four earning the area median income of $164,300, would expect to receive an estimated $750 income tax cut.

To afford paying the reduction in rates at the lower incomes, I propose we eliminate the Income Tax Offset Credit (ITOC) and the Working Families Income Supplement (WFIS). While both of those programs are intended to provide "progressivity" to our current regressive income tax structure, they are highly imperfect. As was noted in last year's staff report, about 83% of County households that earn less than $50,000 do not benefit from the WFIS. My proposal would give relief to 100% of those earning less than $50,000. Likewise, the ITOC is designed to provide relief for a County income tax rate greater than 2.6%. By creating a progressive income tax structure, we're eliminating the need to provide this limited relief as a property tax credit, ensuring that the relief goes to those earning the income and not just those who own property.

The net effect of all these changes would generate just over $82 million of one-time resources in FY27 that can be used to help vulnerable families.

Furthermore, I propose that we utilize $50 million of these FY27 resources to bolster reserves, helping address our structural deficit and strengthening our triple-A bond rating. The remaining $32 million becomes available for one-time needs in the FY27 budget.

Slowing the Growth of Spending

The County Executive's proposed FY27 tax supported budget of $7 billion in spending represents a 5.7% (or $375 million) increase from FY26. Fifty percent of his increase is funded by raising taxes - approximately $165 million from the 6.3 cent property tax increase and another $24 million from the income tax increase.

To be completely upfront: we cannot give residents a tax break through one action and raise their taxes with another. We must identify strategic savings to eliminate the Executive's careless tax hikes, so we can give residents a meaningful break.

With the progressive income tax outlined above, we should consider targeted savings to slow the growth in spending by $156 million to not only eliminate the proposed property tax increase but also to set the County's fiscal situation on a more sustainable path for the future. Under this proposal, County growth in spending would still increase, but at a slower rate of 3.3% compared to 5.7% that the County Executive proposed. That's a significant difference.

To achieve this an equitable manner, I propose that the savings be distributed proportionally across the agencies (Montgomery County Government, MCPS, Montgomery College, and M-NCPPC) according to their relative size in the entire budget. I also suggest that we approve increases to compensation packages that are slightly smaller than those proposed by the County Executive.

Compensation ($45 million, 29% of the savings)

My proposal calls for a uniform 2.0% general wage adjustment (GWA) for all employees across agencies, with no changes to increments. This would allow reasonable and equitable pay growth for public employees across the agencies while achieving $40.4 million in savings. For County Government, I would also eliminate additional salary schedule adjustments as well as retirement and longevity changes that would create future year cost obligations for a net savings of $4.5 million. If approved as proposed, these items would carry future year cost obligations of at least $14 million.

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Every employee will still see increases in salaries that are as large or larger than most private sector and other public sector employees. As noted in the Council staff report on compensation and benefits, federal employees, at least those who were fortunate enough to keep their job, are only getting a 1% GWA this year while most state employees are getting a 1.5% GWA. Nevertheless, I understand that this will be a tough pill to swallow for partners in labor who negotiated in good faith; I would never suggest this change if there was another viable way that did not lead to us cutting direct services to the most vulnerable. Employees will still receive raises. Having a unified 2.0% GWA for all our labor unions helps us eliminate an increase to the property tax and forestalls much tougher decisions in the next few years.

Montgomery County Government ($55 million, 35% of the savings)
In addition to compensation adjustments, I propose a further savings of $55 million to County Government. As I indicated in my earlier memo on the budget, Council staff have identified new/enhanced spending items (with several caveats) for placement on the reconciliation list. They estimate that the list may contain up to $41 million in spending. If we can identify $30 million in reductions, we will need to find another $25 million in reductions in MCG, with an eye towards avoiding direct service impacts, particularly on social safety net services. Below is a non-exhaustive list of programs with their proposed FY27 funding.

To achieve targeted savings of $25 million, we should be considering adjustments to programs, including the following and potentially others:

Budget	FY27 Amount
Arts and Humanities	7,230,304
Community Grants	13,680,967
Conference and Visitors Bureau	953,290
Economic Development Fund	3,972,475
Incubator Programs	2,000,000
KID Museum	2,496,945
MCM	2,500,000
Montgomery Coalition for Adult English Literacy	2,652,078
Montgomery County Economic Development Corp.	5,261,076
Montgomery County Green Bank	19,385,726
Payments to Municipalities	26,123,663
Small Business Support Services	1,700,000
Total	**87,956,524**

Again, above is a list of about $88 million in a variety of programs; we need to find $25 million in cuts by reducing some of them or others you may think we need to target.

<u>MCPS ($59 million, 37% of the savings)</u>

In addition to the compensation adjustments, I am recommending that we find further savings from the Board of Education's request by $59 million. Ultimately the Board will determine how to allocate the funding they receive, but it is my hope that the Board will prioritize spending on key areas like special education, safety, and bridging the achievement gap.

This is not a cut. All told, MCPS would still receive a 3.8% increase ($90 million) year over year increase in local funding. MCPS will be receiving more funds this year compared to last year, yet it will not be as high as they requested because we cannot afford it. And this is on top of the $584.4 million in increased County funding provided to MCPS between FY22 and FY26, an average increase of $146.1 million per year. As I have said numerous times: numbers don't lie. I expect MCPS to continue working towards more transparency in their budgeting decisions and excellence in our schools.

<u>Montgomery College and M-NCPPC ($7.6 million, 5% of the savings)</u>

Montgomery College and M-NCPPC have the smallest asks of the agencies and continue to be extraordinary partners. At the same time, it is important that all the agencies participate in this plan to reduce spending for the Executive's recommendation. While the College and M-NCPPC would still receive an increase under this plan, I have asked Council staff to identify options for reductions in these agencies that could have no or minimal impact on service delivery. Stay tuned on those.

Council Priorities

Assuming all these changes are taken, there is $10.0 million remaining in fiscal capacity for Council priorities that the Executive failed to fund. While we would collaboratively decide on how to allocate these dollars, I strongly believe that the non-profit adjustment needs to be at least 4% (an increase of $2.6 million) and increase our investment in early care and education by increasing funding for the Working Parents Assistance program to at least another $1 million. We must face the reality that young families are leaving the county because they cannot afford to stay here and the cost of childcare is one of their main reasons for leaving. We must do something about that.

Structural Deficit

The County Executive's budget creates a structural deficit of approximately $257.3 million in FY28. All things being equal, that implies a 9 cent property tax increase next year. We cannot do that to Montgomery County families, particularly in unpredictable times during this federal administration.

That level of risk to our finances is irresponsible and unacceptable.

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Accordingly, my proposal makes a $50 million down payment on the structural deficit by parking into reserves a portion of the additional one-time revenues generated by the progressive income tax package.

Charting a better course on the FY27 Budget

We have an opportunity with this budget to shape a fairer, more sustainable future. We can finally deliver a progressive income tax. We can protect the most vulnerable with direct services. We can help keep costs down for residents struggling in this economy. We can deliver wage increases to our dedicated, hard-working public employees. We can further support our non-profits. We can increase assistance to working families with young kids. Even if you don't agree with every point of my proposal, I urge us all to work in a spirit of civility and collaboration to deliver a budget that our residents can be proud of.