



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Jennifer A. Hughes
Director

M E M O R A N D U M

December 6, 2016

TO: Stephen B. Farber, Council Administrator, County Council
[Handwritten signature of Jennifer A. Hughes]

FROM: Jennifer A. Hughes, Director, Office of Management and Budget

SUBJECT: Fiscal Plan Update

Attached please find the updated fiscal plan and supporting documents. The Department of Finance's updated revenue forecast has been incorporated in the fiscal plan. Because this is a limited update to fiscal assumptions, the projections are preliminary and the fiscal plan included as part of the County Executive's recommended budget next March will be different than this one. However, this fiscal update is critical for the Executive's budget formulation process and informs the guidance that he provides to Departments regarding their budget requests to him. It also will provide the context for the many difficult decisions that he is likely to make in developing his recommended FY18 Operating Budget, as well as decisions regarding spending requests for the duration of FY17.

In order to align the continued revenue uncertainties, as well as, the uncertainties created by the changing political climate at the State and Federal level and on-going expenditure increases, the County Executive is requesting that County Departments submit revised budget requests reflecting a two to three percent reduction in expenditures. As always, this reduction target is a starting point for discussions and may be adjusted to reflect his programmatic priorities. The County Executive had considered submitting a FY17 Savings plan to the Council. However, he believes that an earnest effort to control FY18 expenditures is a reasonable starting point for addressing the fiscal concerns. As always, further adjustments may be needed, depending on subsequent information we receive regarding revenues and expenditure pressures.

Update to Revenue Projections and Reserves

Based on current assumptions, the fiscal plan would require a 1.2 percent reduction in agency spending to produce a balanced budget in FY18. However, due to the State legal requirements to fund Montgomery County Public Schools (MCPS) and the Montgomery College at maintenance of effort, the projected decline in resources available to fund the County Government and The Maryland-National Capital Park & Planning Commission (MNCPPC) under these assumptions is even greater – 2.6 percent. Once we have also accounted for the shortfall in the ending balance for FY16 and assume a modest increase in agency spending of two percent, the projected gap between projected spending and revenues is over \$130 million. This gap assumes a same services budget with no increases for program initiatives or funding necessary for collective bargaining agreements or other major known commitments. It also assumes no change in funding from either the State or Federal governments.

Office of the Director

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The Council has also been discussing a number of bills and spending initiatives that if funded in FY17, would add to the gap projected for FY18 and use general reserves intended to cover revenue shortfalls. Both the County Council and the Executive have committed to increase these reserves to ten percent by FY20.

When the Council adopted the FY17-22 Fiscal Plan in June, we projected that revenues would total \$4,698.1 million dollars in FY17 and \$4,831.6 million in FY18. Due to slower anticipated growth in employment and personal income and lower inflation, the forecast for income tax and property tax revenues in FY17 and FY18 is slightly lower compared to the FY17 approved budget. Overall, the revenue forecast is about \$25 million below the estimate in the approved budget.

While this downward revision is relatively modest, the impact on budget planning for next fiscal year is significant. The approved fiscal plan already projected a decline in resources available to fund agency operating budgets next year. Therefore, even before accounting for expected cost pressures related to compensation and programmatic commitments, we are starting the budget process facing a larger gap than expected. This clearly underscores the importance of continued expenditure restraint as we begin the FY18 budget process.

I want to highlight a few aspects of this update:

1. **Revenues:** As detailed in the Department of Finance's December 2016 Revenue Update and Selected Economic Indicators report, the revenue forecast has been revised downward a total of \$25.5million (\$3.9 million in FY17 and \$21.6 million in FY18) compared to the estimates in the approved fiscal plan. Income tax revenues have been revised downward by \$11.7 million in FY 18. While income tax revenues are currently tracking ahead of the estimate in FY17, as noted above, the slower anticipated growth in employment and personal income have led to the reduced forecast in FY18. Still, income taxes are projected to increase 4.9 percent from FY17. The approved fiscal plan assumed an increase of 6.4 percent. These projections include the impact of the Wynne case repayment schedule starting in FY19.

The revised property tax estimate is at the Charter Limit¹ but is \$10.1 million less than the estimate in the approved fiscal plan primarily due to a decline in the projected rate of inflation.

2. **Intergovernmental Aid:** State Aid assumptions will be updated after budget requests from Montgomery County Public Schools and Montgomery College are received and the Governor releases his budget in January 2017.
3. **FY18 Expenditures:** The fiscal plan assumes FY18 expenditures for MCPS and Montgomery College² at maintenance-of-effort. To produce a balanced fiscal plan, FY18 expenditures for the

¹ Section 305 of the County Charter limits the growth in real property tax revenues in a fiscal year to the rate of inflation, excluding new construction, development districts, and other minor exceptions. The Council may override this limitation with an affirmative vote of nine Councilmembers.

² The fiscal plan update does not assume additional resources that may be available to fund the appropriations of Montgomery College and MCPS, such as agency fund balance or increases in State Aid. This information will be available once the budget proposals from the President of Montgomery College and the Superintendent of Schools are

4. County Government and MNCPPC are reduced 2.6 percent. In total, agency expenditures decline 1.2 percent, or \$52.4 million, compared to the FY17 budget. **This shortfall does not account for a number of anticipated cost increases including compensation and benefits, inflation adjustments, program annualizations, and other costs that will likely increase the gap as we go forward in the budget process.**
5. **Reserves:** Prior fiscal year results are not yet finalized. The projection reflects the impact of the revised revenue forecast. According to the Revenue Stabilization Fund law (MCC 20-68) adopted by the Council in June 2010, the mandatory contribution to the RSF must be the greater of 50 percent of excess revenues³ or 0.5 percent of Adjusted Governmental Revenues⁴. Under this law, \$27 million must be contributed to the RSF in FY18. Total reserves are projected to be 7.9 percent at the end of FY17, below the 8.4 percent that had been assumed in the approved budget. This reduction is due to a set-aside for snow removal costs (\$15 million), the road resurfacing supplemental approved by the Council (\$6.5 million) and a projected FY17 revenue shortfall of \$3.8 million.

The fiscal plan projects increases to the General Fund reserve up to its Charter Limit⁵ and contributions to the Revenue Stabilization Fund, consistent with the County's fiscal policies and the Revenue Stabilization Fund law. Total reserves are projected to increase from 9.4 percent at the end of FY18 to ten percent in FY20. The County's policy, and commitment, is to have a total reserve of ten percent by FY20.

Looking Ahead

As you know, the Executive will update the fiscal plan in March 2017 as part of his Recommended FY18 Operating Budget and FY18-23 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 the transmittal of this fiscal plan including:

1. The County Executive's recommended FY17-22 CIP, with recommended FY18 amendments and the FY18 recommended operating budget.
2. The mid-December update by the State Board of Revenue Estimates on its economic forecast.
3. The February 2017 income tax distribution and data on the County's excise taxes for November 2016 through February 2017.
4. Revisions to estimates of the assessable base by the State Department of Assessments and Taxation expected in January 2017.
5. Federal and State budget decisions that may affect the County's budget.

released. Since the fiscal plan does not assume these additional resources at this time, projected FY18 spending for MCPS and Montgomery College appears level or decrease relative to FY17 because of one-time funding included in the FY17 budget.

³ Defined as the amount, if positive, by which total revenues from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund for the fiscal year exceed the original projections for these amounts.

⁴ Defined as the tax supported revenues of the four County agencies, excluding the local contributions to MCPS and Montgomery College, plus revenues of the County Government's Grants and Capital Projects Funds.

⁵ Section 310 of the County Charter limits any unappropriated surplus to five percent of the General Fund revenue for the preceding fiscal year.

Stephen B. Farber, Council Administrator

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In summary, the pace of revenue growth continues to challenge our ability to meet increasing expenditure demands. The Executive's request to departments for a two to three percent reduction in FY18 is a first step toward resolving the projected FY18 gap. Not only is continued restraint in the County's spending plans necessary, but more aggressive actions may be necessary to align on-going spending obligations with on-going revenues.

JAH:mc

Attachments

cc: Timothy L. Firestine, Chief Administrative Officer
Alexandre Espinosa, Director, Department of Finance
Bonnie Kirkland, Assistant Chief Administrative Officer
Department Heads and Office Directors
Management Leadership Service Employees
Gino Renne, President, UFCW Local 1994
Jeff Buddle, President, International Association of Fire Fighters, Local 1664
Torri Cooke, President, Fraternal Order of Police, Lodge 35

Fiscal Plan December 2016
Tax Supported Fiscal Plan Summary

	App. FY17 5-26-16	Est. FY17 12-13-16	% Chg. FY17-18 App./Proj.	% Chg. FY17-18 Est./Proj.	Projected FY18 12-13-16	% Chg. FY18-19 App./Proj.	Projected FY19 FY19	% Chg. FY19-20 App./Proj.	Projected FY20 FY20	% Chg. FY20-21 App./Proj.	Projected FY21 FY21	% Chg. FY21-22 App./Proj.	Projected FY22 FY22	% Chg. FY22-23 App./Proj.	Projected FY23
Total Revenues															
Property Tax	1,738.7	1,735.2	1.7%	2.0%	1,769.1	3.1%	1,824.1	3.3%	1,884.6	3.0%	1,941.6	3.2%	2,003.7	3.2%	2,067.9
Income Tax	1,487.6	1,497.0	5.6%	4.9%	1,570.4	3.9%	1,630.9	3.7%	1,690.6	4.4%	1,764.7	4.8%	1,849.2	5.0%	1,941.2
Transfer/Recordation Tax	165.8	157.3	3.1%	8.6%	170.9	4.1%	177.9	3.0%	183.3	5.4%	193.1	5.9%	204.5	3.0%	210.6
Other Taxes	278.3	276.8	1.0%	1.6%	281.2	1.4%	285.2	1.4%	289.4	2.9%	293.5	1.4%	297.5	1.3%	301.4
Other Revenues	1,027.7	-0.9%	-0.9%	-0.9%	1,018.4	0.2%	1,020.2	0.2%	1,022.4	0.5%	1,028.0	0.6%	1,033.7	0.4%	1,038.3
Total Revenues	4,698.1	4,694.3	2.4%	2.5%	4,810.0	2.7%	4,938.4	2.7%	5,070.2	3.0%	5,221.0	3.2%	5,388.7	3.2%	5,559.4
Net Transfers In (Out)															
Total Revenues and Transfers Available	4,712.1	4,708.3	2.4%	2.5%	4,824.3	2.7%	4,953.1	2.7%	5,085.3	3.0%	5,236.4	3.2%	5,404.6	3.2%	5,575.7
Non-Operating Budget Use of Revenues															
Debt Service	388.2	388.2	3.6%	3.6%	402.0	4.3%	419.5	4.1%	436.5	3.9%	453.5	2.8%	466.1	0.0%	466.1
PAYGO	34.0	34.0	0.0%	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0
CIP Current Revenue	45.8	52.3	76.5%	54.5%	80.8	82.5	91.1%	75.0	75.0	73.7%	77.8	-7.6%	71.9	0.0%	71.9
Change in Other Reserves	-53.3	-53.3	101.6%	101.6%	0.9	-70.2%	0.3	5.1%	0.3	-2.7%	0.3	9.8%	0.3	5.8%	0.3
Contribution to General Fund Undesignated Reserves	16.2	-9.2	249.2%	717.3%	56.5	-89.6%	5.9	-3.2%	5.7	1.5%	5.8	14.6%	6.6	10.8%	7.3
Contribution to Revenue Stabilization Reserves	25.6	25.6	5.5%	5.6%	27.0	6.9%	28.9	-38.9%	17.7	-47.7%	9.2	5.4%	9.7	0.0%	9.7
Set Aside for other uses (supplemental appropriations)	0.1	15.1	16113.1%	32.2%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
Total Other Uses of Resources	456.5	452.7	36.1%	37.2%	621.2	-4.9%	591.0	-0.3%	589.1	1.9%	600.6	1.3%	608.6	0.1%	609.3
Available to Allocate to Agencies (Total Revenues+Net Transfers Total Other Uses)	4,255.6	4,255.6	-1.2%	-1.2%	4,203.2	3.8%	4,362.1	3.1%	4,496.2	3.1%	4,635.8	3.5%	4,796.0	3.6%	4,966.4
Agency Uses															
Montgomery County Public Schools (MCPSS)	2,311.6	2,311.6	-0.2%	-0.2%	2,306.1										
Montgomery College (MC)	261.6	261.6	-1.1%	-1.1%	258.7										
MNCPPC (W/o Debt Service)	120.6	120.6	-2.6%	-2.6%	117.4										
MCG	1,561.9	1,561.9	-2.6%	-2.6%	1,520.9										
Agency Uses	4,255.6	4,255.6	-1.2%	-1.2%	4,203.2	3.8%	4,362.1	3.1%	4,496.2	3.1%	4,635.8	3.5%	4,796.0	3.6%	4,966.4
Total Uses (Gdp)/Available	4,712.1	4,708.3	2.4%	2.5%	4,824.3	2.7%	4,953.1	2.7%	5,085.3	3.0%	5,236.4	3.2%	5,404.6	3.2%	5,575.7
	0.0	0.0					0.0		0.0		0.0		0.0		0.0

Assumptions:

1. Property taxes are at the Charter Limit with a \$692 credit. Other taxes are at current rates.

2. Reserve contributions are consistent with legal requirements and the minimum policy target.
 3. PAYGO and debt service reflect the Approved FY17-22 Capital Improvements Program (CIP).
 4. Current Revenue reflects the Approved FY17-22 CIP plus a FY17 special appropriation of \$6.5 million.
 5. State Aid, including MCPS and Montgomery College, is not projected to increase from FY18-23.
 6. Projected FY18 allocations for MCPS and Montgomery College assume County funding at maintenance of effort. The allocations do not include potential increases to State Aid or other possible agency resources, such as use of additional fund balance. Additional State Aid or use of fund balance would increase the rate of growth for MCPS and Montgomery College.

Fiscal Plan December 2016
Tax Supported Fiscal Plan Summary

31	<u>Beginning Reserves</u>													
32	<u>Unrestricted General Fund</u>													
33	Revenue Stabilization Fund	119.3	119.3	-7.7%	-7.7%	110.2	51.3%	166.7	3.5%	172.5	3.3%	178.2	3.2%	184.0
34	Total Reserves	254.7	254.7	10.0%	10.0%	280.3	9.6%	307.3	9.4%	336.2	5.3%	355.8	2.6%	363.1
35	<u>Additions to Reserves</u>	374.1	374.1	4.4%	4.4%	390.5	21.4%	474.0	7.3%	508.7	4.6%	532.1	2.8%	547.1
36	<u>Unrestricted General Fund</u>													
37	Revenue Stabilization Fund	16.2	-9.2	249.2%	717.3%	56.5	-89.6%	5.9	-3.2%	5.7	1.5%	5.8	14.6%	6.6
38	Total Change in Reserves	25.6	25.6	5.5%	5.6%	27.0	6.9%	28.9	-38.9%	17.7	-47.7%	9.2	5.4%	9.7
39	<u>Ending Reserves</u>	41.8	41.8	99.9%	408.6%	83.5	-58.4%	34.7	-32.8%	23.3	-35.7%	15.0	9.0%	16.4
40	<u>Unrestricted General Fund</u>													
41	Revenue Stabilization Fund	135.5	110.2	23.0%	51.3%	166.7	3.5%	172.5	3.3%	178.2	3.2%	184.0	3.6%	190.6
42	Total Reserves	280.3	280.3	9.6%	9.6%	307.3	9.4%	336.2	5.3%	353.8	2.6%	363.1	2.7%	372.3
43	<u>MCG + Agency Reserves as a % of Adjusted Governmental Revenues</u>	415.8	390.5	14.0%	21.4%	474.0	7.3%	508.7	4.6%	532.1	2.8%	547.1	3.0%	563.4
44		8.4%	7.9%			9.4%		9.8%		10.0%		10.0%		10.0%
45	<u>Other Reserves</u>													
46	Montgomery College	4.5	4.5	0.0%	0.0%	4.5	0.0%	4.5	0.0%	4.5	0.0%	4.5	0.0%	4.5
47	MNCPPC	5.1	5.1	7.9%	7.9%	5.5	3.1%	5.7	3.3%	5.9	3.0%	6.1	3.2%	6.3
48	MCPSC	0.0	0.0	n/a	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
49	MCG Special Funds	2.0	2.0	23.0%	23.0%	2.4	3.5%	2.5	3.3%	2.6	3.2%	2.7	3.6%	2.8
50	<u>MCG + Agency Reserves as a % of Adjusted Govt Revenues</u>	8.6%	8.1%			9.6%		10.1%		10.3%		10.3%		10.2%
51														
52	<u>Retiree Health Insurance Pre-Funding</u>													
53	Montgomery County Public Schools (MCPS)	63.1	63.1			61.3		59.0		56.7		54.4		54.4
54	Montgomery College (MC)	1.5	1.5			1.6		1.6		1.5		1.6		1.6
55	MNCPPC	1.8	1.8			1.8		1.8		1.8		1.8		1.8
56	MCG	43.5	43.5			42.0		40.4		39.5		38.6		38.6
57	<u>Subtotal Retiree Health Insurance Pre-Funding</u>	109.9	109.9			106.7		102.7		99.6		96.4		96.4
58	<u>Adjusted Governmental Revenues</u>													
59	Total Tax Supported Revenues	4,698.1	4,694.3	2.4%	2.5%	4,810.0	2.7%	4,938.4	2.7%	5,070.2	3.0%	5,221.0	3.2%	5,388.7
60	Capital Projects Fund	130.7	130.7	-4.6%	-4.6%	124.8	-1.8%	122.5	-18.9%	99.3	4.5%	103.8	6.7%	110.7
61	Grants	115.8	115.8	2.3%	2.3%	118.5	2.5%	121.4	2.7%	124.7	2.7%	128.1	2.7%	131.5
62	<u>Total Adjusted Governmental Revenues</u>	4,944.7	4,940.8	2.2%	2.3%	5,053.2	2.6%	5,182.3	2.2%	5,294.3	3.0%	5,452.8	3.3%	5,630.9
														3.1% 5,805.2

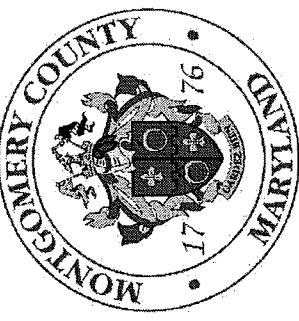
**REVENUE SUMMARY
TAX SUPPORTED BUDGETS
(\$ Millions)**

Revenue Summary Tax Supported Budgets (\$ Millions)															
Key Revenue Categories	App.-FY17	Estimate-FY17	% Chg.-FY17-18	Projected-FY18	% Chg.-FY18-19	Projected-FY19	% Chg.-FY19-20	Projected-FY20	% Chg.-FY20-21	Projected-FY21	% Chg.-FY21-22	Projected-FY22	% Chg.-FY22-23	Projected-FY23	
TAXES	5,261.6	72,131.6	App./Proj.	12,131.6	Es./Proj.	1,735.2	1.7%	1,769.1	3.1%	1,824.1	3.3%	1,884.6	3.0%	1,941.6	
1 Property Tax	1,738.7	1,487.6	5.6%	4.9%	1,570.4	3.9%	1,630.9	3.7%	1,690.6	4.4%	1,764.7	3.2%	2,003.7		
2 Income Tax	108.4	107.0	6.1%	7.5%	115.0	4.0%	119.7	3.0%	123.3	5.3%	129.9	4.8%	1,849.2		
3 Transfer Tax	57.4	50.3	-2.6%	11.0%	55.9	4.2%	58.2	3.0%	60.0	5.4%	63.2	6.0%	137.5		
4 Recordination Tax	204.0	202.2	0.2%	1.1%	204.3	0.8%	206.1	0.9%	207.8	0.9%	209.7	0.8%	67.0		
5 Energy Tax	50.3	51.0	4.4%	3.0%	52.5	2.9%	54.1	2.5%	55.6	2.5%	57.1	2.7%	211.4		
6 Telephone Tax	20.6	20.1	0.2%	3.1%	20.7	3.1%	21.3	3.0%	21.9	3.0%	22.6	2.9%	58.7		
7 Hotel/Hotel Tax	3.1	3.2	7.3%	3.0%	3.3	3.2%	3.4	3.3%	3.5	3.3%	3.6	3.3%	23.3		
8 Admissions Tax	0.3	0.4	21.8%	4.9%	0.4	4.9%	0.4	4.9%	0.5	4.9%	0.5	4.9%	3.7		
9 E-Cigarette Tax													0.5		
10 Total Local Taxes	3,650.4	3,666.5	3.3%	3.4%	3,791.6	3.3%	3,918.2	3.3%	4,047.8	3.6%	4,192.9	3.9%	4,355.0	3.8%	4,521.2
INTERGOVERNMENTAL AID															
11 Highway User	3.7	3.7	1.3%	1.3%	3.8	0.0%	3.8	0.0%	3.8	0.0%	3.8	0.0%	3.8	0.0%	3.8
12 Police Protection	14.7	14.7	0.0%	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7
13 Libraries	5.8	5.8	0.0%	0.0%	5.8	0.0%	5.8	0.0%	5.8	0.0%	5.8	0.0%	5.8	0.0%	5.8
14 Health Services Case Formula	4.3	4.3	0.0%	0.0%	4.3	0.0%	4.3	0.0%	4.3	0.0%	4.3	0.0%	4.3	0.0%	4.3
15 Mass Transit	39.0	39.0	0.0%	0.0%	39.0	0.0%	39.0	0.0%	39.0	0.0%	39.0	0.0%	39.0	0.0%	39.0
16 Public Schools	656.8	656.8	0.0%	0.0%	656.8	0.0%	656.8	0.0%	656.8	0.0%	656.8	0.0%	656.8	0.0%	656.8
17 Community College	36.1	36.1	0.0%	0.0%	36.1	0.0%	36.1	0.0%	36.1	0.0%	36.1	0.0%	36.1	0.0%	36.1
18 Other	62.2	23.2%	-23.2%	-23.2%	47.8	-7.2%	44.3	-7.5%	41.0	-0.0%	41.0	0.0%	41.0	0.0%	41.0
19 Total Intergovernmental Aid	822.6	822.6	-1.7%	0.0%	808.3	-0.4%	804.8	-0.4%	801.5	0.0%	801.5	0.0%	801.5	0.0%	801.5
FEES AND FINES															
20 Licenses & Permits	12.5	12.5	1.5%	1.5%	12.6	1.5%	12.8	1.5%	13.0	1.5%	13.2	1.5%	13.4	1.5%	13.6
21 Charges for Services	70.8	70.8	1.8%	1.8%	72.1	2.0%	73.6	2.1%	75.1	2.1%	76.7	2.1%	78.3	2.1%	79.9
22 Fines & Forfeitures	24.6	24.6	1.6%	1.6%	25.0	1.6%	25.4	1.6%	25.8	1.6%	26.2	1.6%	26.7	1.6%	27.1
23 Montgomery College Tuition	84.1	84.1	1.8%	1.8%	85.6	2.0%	87.3	2.0%	89.1	2.1%	91.0	2.1%	92.9	2.1%	94.8
24 Total Fees and Fines	192.0	192.0	1.8%	1.8%	195.4	1.9%	199.2	2.0%	203.1	2.0%	207.1	2.0%	211.3	2.0%	215.4
MISCELLANEOUS															
25 Investment Income	1.4	1.4	92.6%	92.6%	2.7	47.5%	3.9	32.2%	5.2	24.3%	6.5	19.6%	7.7	0.0%	7.7
26 Other Miscellaneous	11.7	11.7	2.3%	2.3%	12.0	2.5%	12.3	2.6%	12.6	2.6%	12.9	2.6%	13.3	2.6%	13.6
27 Total Miscellaneous	13.1	13.1	11.8%	11.8%	14.7	10.7%	16.2	9.8%	17.8	8.9%	19.4	8.3%	21.0	1.6%	21.3
28 TOTAL REVENUES	4,698.1	4,698.1	2.4%	2.5%	4,810.0	2.7%	4,938.4	2.7%	5,070.2	3.0%	5,221.0	3.2%	5,388.7	3.2%	5,559.4
Calculation for Adjusted Governmental Revenues															
29 Total Tax Supported Revenues	4,698.1	4,694.3	2.4%	2.5%	4,810.0	2.7%	4,938.4	2.7%	5,070.2	3.0%	5,221.0	3.2%	5,388.7	3.2%	5,559.4
30 Capital Projects Fund	130.7	130.7	-4.6%	-4.6%	124.8	-1.8%	122.5	-16.9%	99.3	4.5%	103.8	6.7%	110.7	0.0%	110.7
31 Grants	115.8	115.8	2.3%	2.3%	118.5	2.5%	121.4	2.7%	124.7	2.7%	128.1	2.7%	131.5	2.7%	135.1
32 MCG Adjusted Revenues	4,944.7	4,940.8	2.2%	2.3%	5,053.2	2.6%	5,182.3	2.2%	5,294.3	3.0%	5,452.8	3.3%	5,630.9	3.1%	5,805.2

Montgomery County, Maryland

DECEMBER 2016 REVENUE UPDATE AND SELECTED ECONOMIC INDICATORS

Department of Finance



December 13, 2016

Overview

- Finance provides a full revenue update in December of each year, after the November income tax distribution
- At this time, near final data about the prior year income tax receipts are known, and updates are available to certain economic factors
- Another full update is done for the March budget

ECONOMIC OUTLOOK - SUMMARY

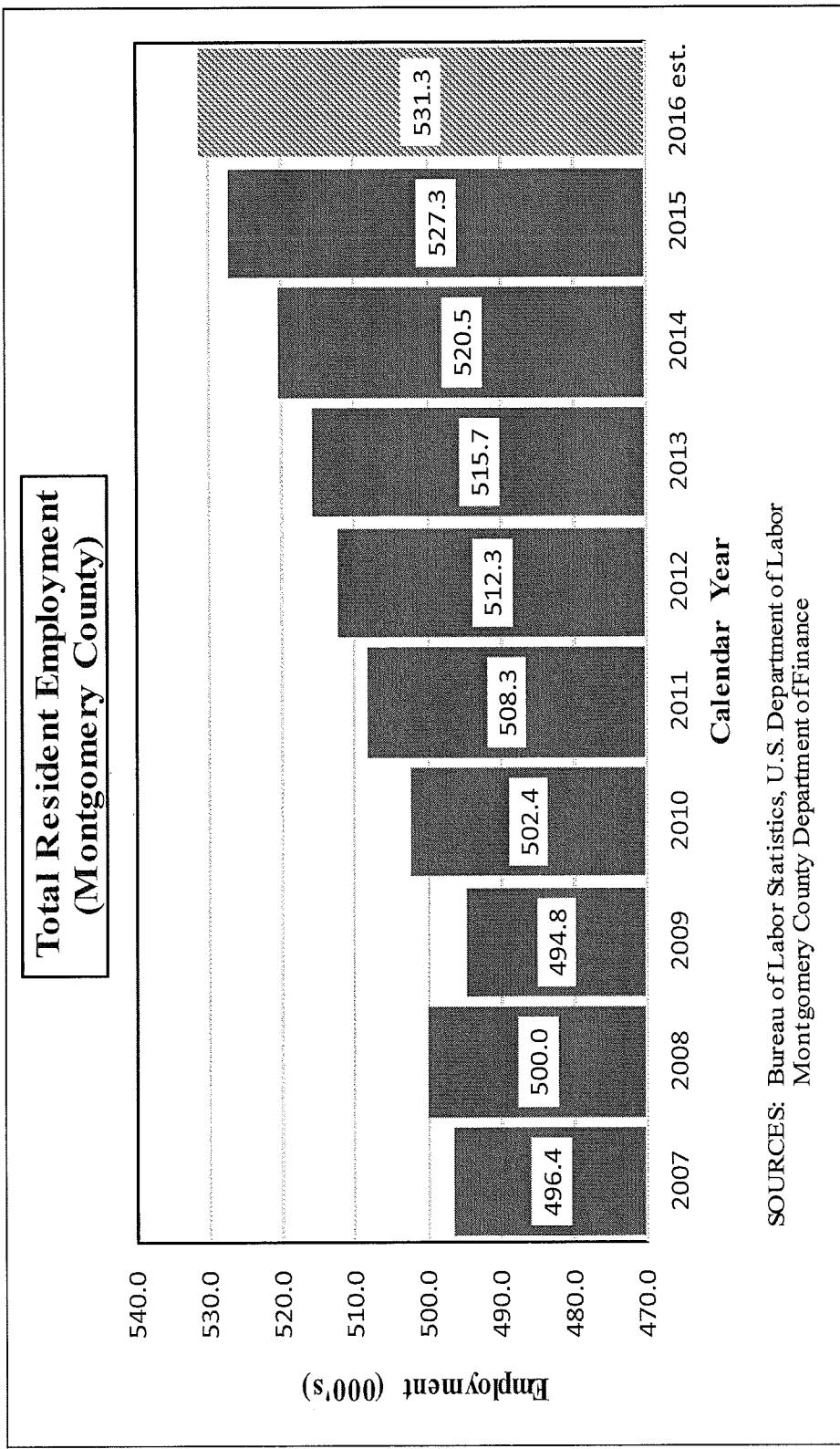
Signs of a Continued Economic Recovery

- A drop in unemployment rate from 4.0 percent in October 2015 to 3.4 percent in October 2016, a modest increase in resident employment estimated for CY16 ($\uparrow 0.8\%$), and an estimated increase in wage and salary income in CY16 ($\uparrow 4.6\%$) that follows an increase of 4.8 percent in CY15.
- Payroll employment is expected to increase 0.7 percent in CY16 that follows a 1.4 percent increase in CY15.
- Sales of existing homes are expected to increase 6.4 percent in CY16 after increasing 11.1 percent in CY15.

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON (Yr. over yr.)		DIRECTION
				2015:	0.33%	
INFLATION	0.83% Jan.-Sept. 2016	Property Taxes	Key determinant of property tax revenues at the Charter Limit			↑
UNEMPLOYMENT RATE	3.4% Oct. 2016	Income Taxes	Indicates overall health of the job market	4.0% Oct. 2015		↓
RESIDENT EMPLOYMENT	537,935 Oct. 2016	Income Taxes	Primary determinant of income tax receipts	528,963 Oct. 2015		↑
PAYROLL EMPLOYMENT (Estimated)	495,200 Oct. 2016	Income Taxes	Another determinant of income tax receipts	487,200 Oct. 2015		↑
STOCK MARKET - S&P 500	2,198.81 Nov. 30, 2016	Income Taxes	Key determinant of capital gains portion of the income tax	2,043.94 Dec. 31, 2015		↑
HOME SALES	1,005 Oct. 2016	Transfer/ Recordation Taxes	Indicates activity affecting receipts	935 Oct. 2015		↑
HOME PRICES (Median Price Sold)	\$403,488 Oct. 2016	Transfer/ Recordation Taxes	Taxes are based on values, affects amount of taxes collected	\$389,000 Oct. 2015		↑
FEDERAL FUNDS RATE	0.40% Nov. 2016	Investment Income	County's return on investments closely correlated with the Fed Funds	0.12% Nov. 2015		↑

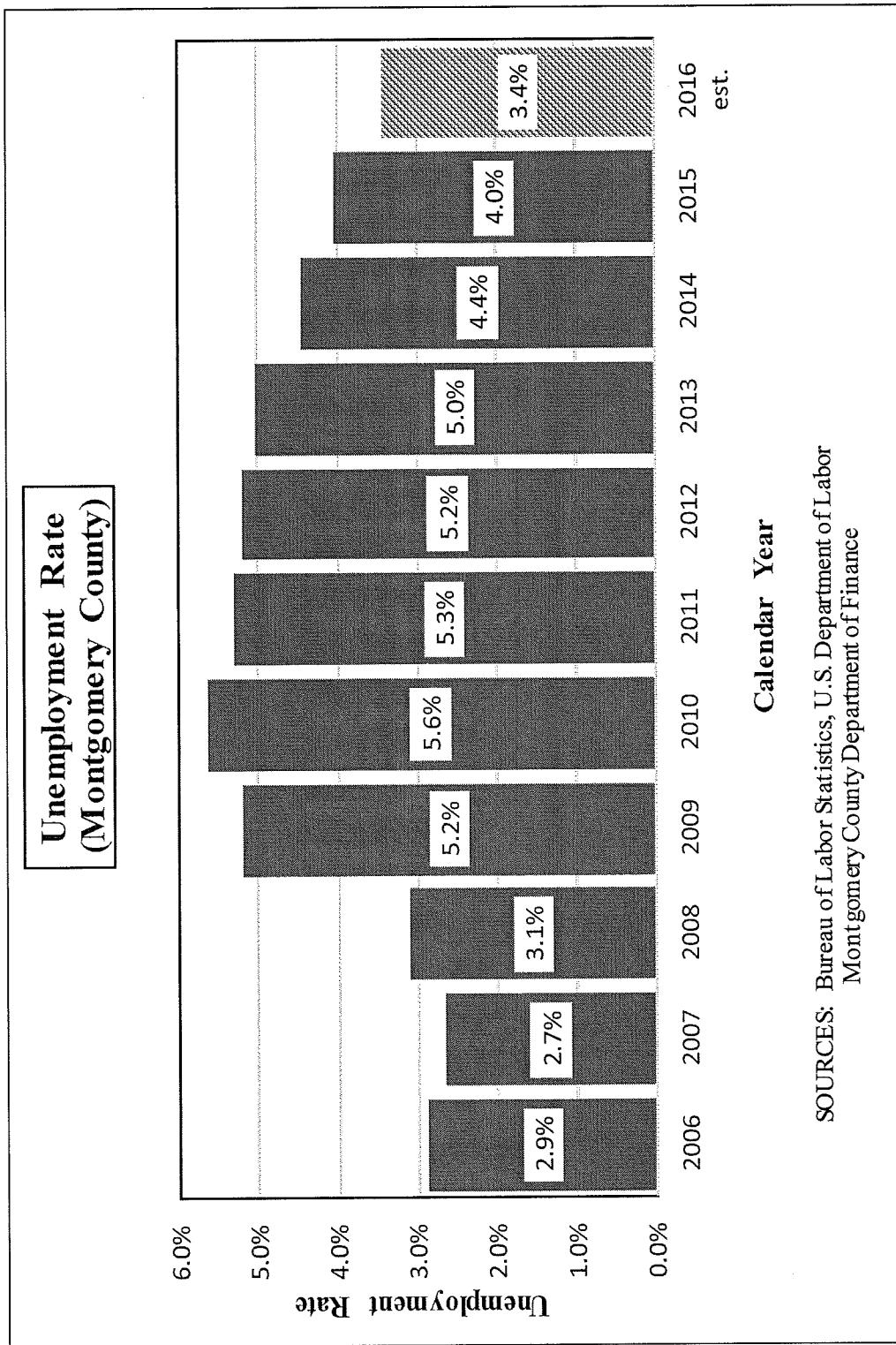
Department of Finance estimates that the County's resident employment will reach 531,300 in CY16 ($\uparrow 0.8\%$) over CY15.

On a year-over-year basis, resident employment increased by over 8,900 from October 2015 to October of this year.



The Department of Finance estimates that the County's unemployment rate will decline to 3.4 percent in CY16 – an eight-year low.

The unemployment rate in October was 3.4 percent compared to 4.0 percent in October 2015.

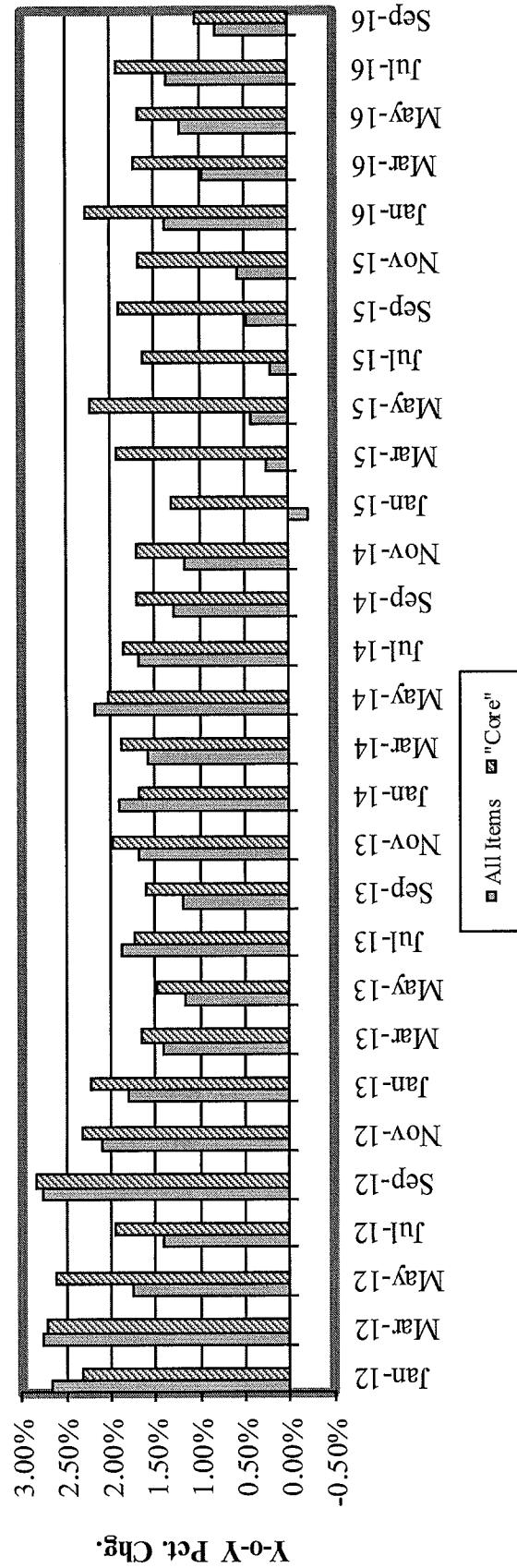


SOURCES: Bureau of Labor Statistics, U.S. Department of Labor
Montgomery County Department of Finance

Inflation was 0.83 percent in September 2016.

Overall for the Washington-Baltimore consolidated region, the CPI has increased 1.16 percent for the calendar year ending in September. For calendar year 2015, the index increased a modest 0.33 percent compared to 1.54 percent in CY14.

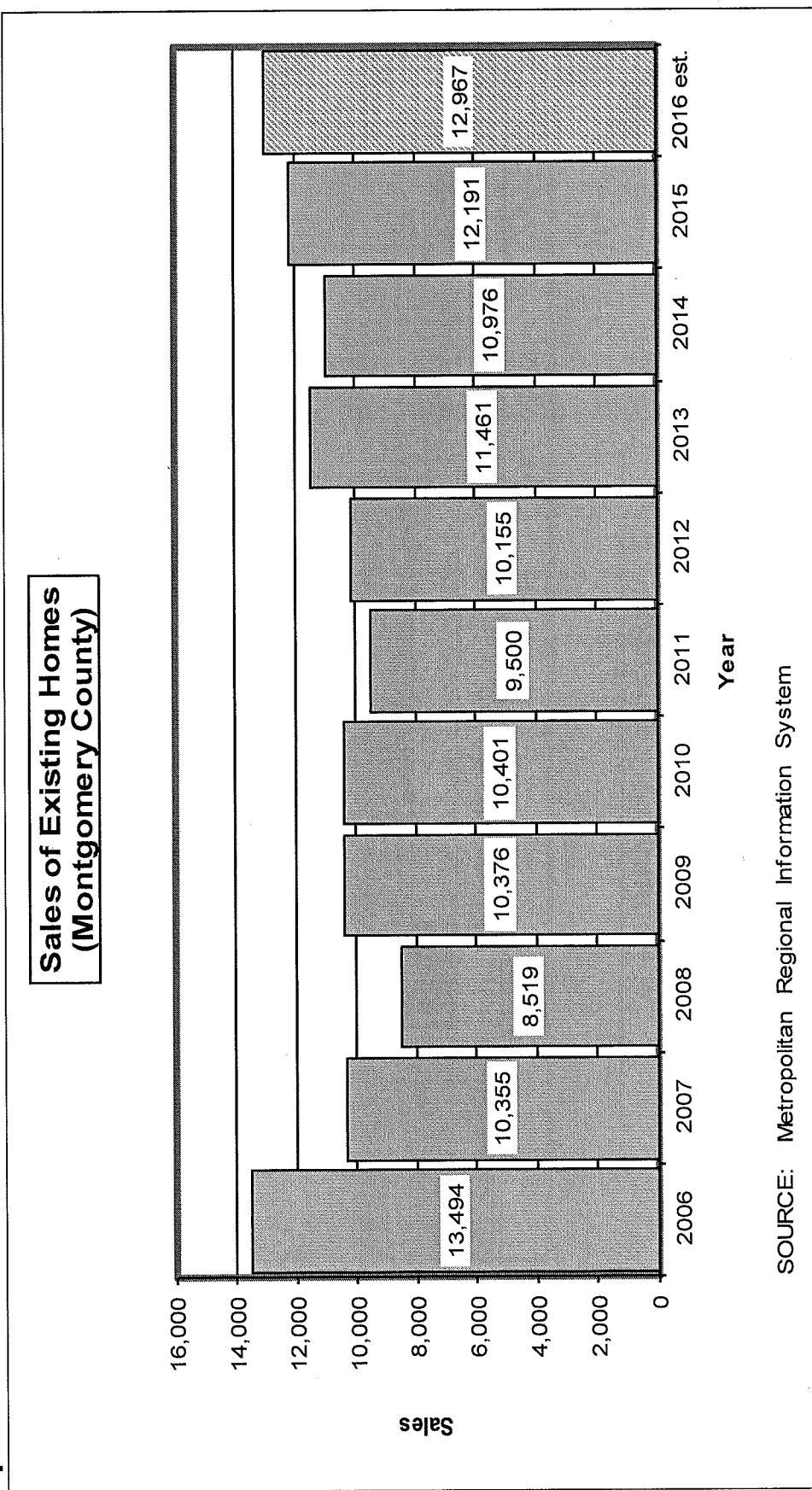
**Year-over-Year Percent Change in Consumer Price Index
Washington-Baltimore CMMSA**



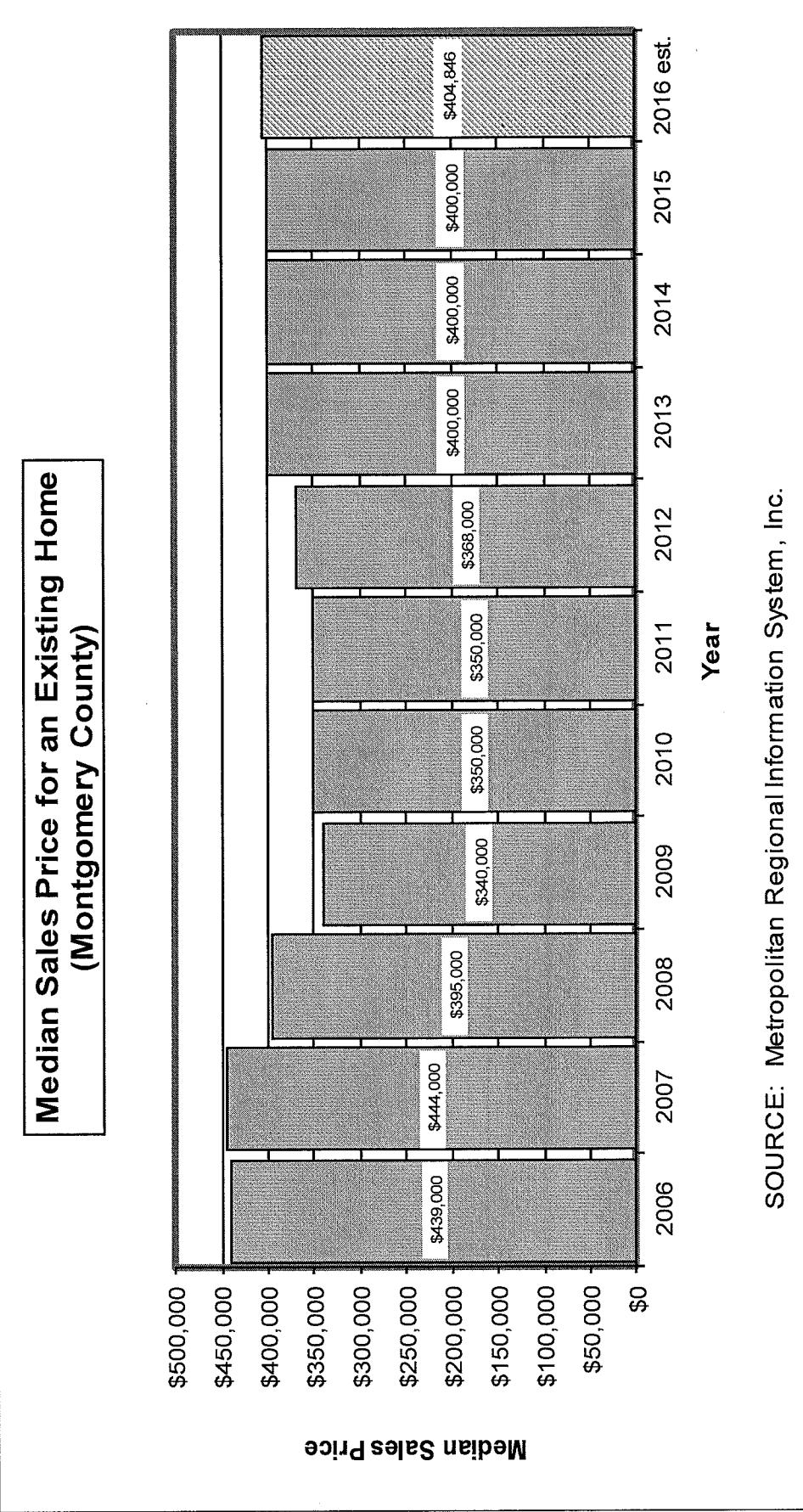
SOURCE: Bureau of Labor Statistics, U.S. Department of Labor

Home sales are estimated to increase 6.4 percent this year to a ten-year high.

Total sales of existing homes decreased 4.2 percent in CY14 but increased 11.1 percent in CY15.



Median home sales prices are expected to increase 1.2 percent in CY16 following no increases in CY14 and CY15.



REVENUE UPDATE

FY17 and FY18 Summary

The outlook for the remainder of this fiscal year (FY17) and next year (FY18) suggests a modest decline in revenues over the two-year period compared to the estimates prepared for the FY17 budget. This decrease is mainly attributed to revisions to income tax, property tax, transfer-recognition, and fuel-energy tax revenues. The combined decrease of all tax-supported revenues in FY17 and FY18 is \$25.5 million lower than previously estimated.

Revenue Update

December revised revenues for FY17 are \$3.852 million below the FY17 Budget estimates. The major contributors are the estimated decreases in the property and transfer/recording tax revenues but partially offset by an increase in income taxes.

	FY17 BUDGET - DECEMBER 2016 UPDATE (\$MIL.)		
	FY17 Budget	Dec. Update	Difference
Income	\$1,487.577	\$1,497.201	\$9.624
Property	\$1,738.669	\$1,735.234	(\$3.435)
Transfer/Recordation	\$165.801	\$157.303	(\$8.498)
Other Taxes:			
-Admissions	\$3.066	\$3.194	\$0.128
-Fuel/Energy	\$203.990	\$202.204	(\$1.786)
-Telephone	\$50.309	\$50.957	\$0.648
-Hotel/Motel	\$20.637	\$20.053	(\$0.584)
Investment Income	n.a.	n.a.	n.a.
Highway User Revenue	\$3.742	\$3.740	(\$0.002)
E-Cigarettes	\$0.338	\$0.393	\$0.054
TOTAL	\$3,674.130	\$3,670.278	(\$3.852)

Revenue Update

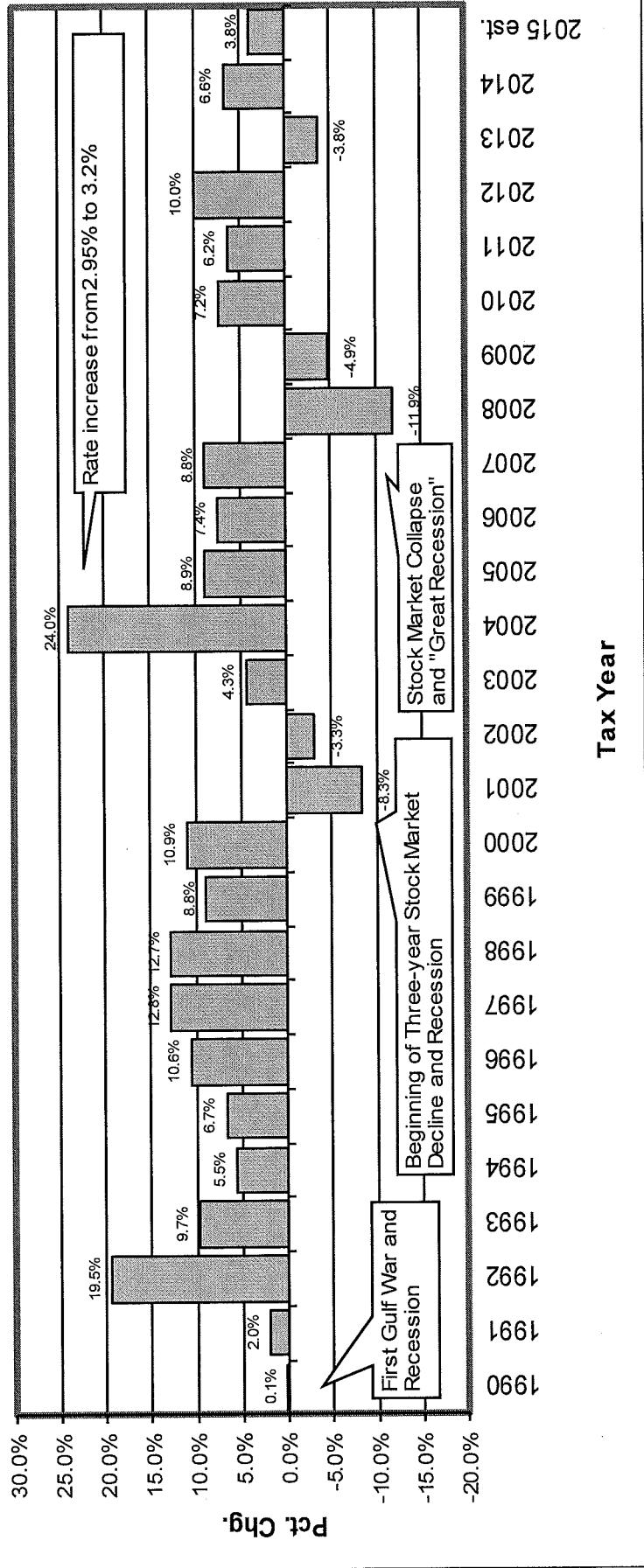
December revised revenue estimates for FY18 are \$21.613 million below the FY17 Budget estimates. The decrease is attributed to weaker income and property tax revenues.

	FY17 BUDGET - DECEMBER 2016 UPDATE (\$MIL.)		
	FY18 Estimate	Dec. Update	Difference
Income	\$1,582.157	\$1,570.447	(\$11.710)
Property	\$1,779.222	\$1,769.091	(\$10.131)
Transfer/Recordation	\$169.642	\$170.893	\$1.251
Other Taxes:			
--Admissions	\$3.244	\$3.290	\$0.046
--Fuel/Energy	\$206.554	\$204.333	(\$2.221)
--Telephone	\$50.767	\$52.504	\$1.737
--Hotel/Motel	\$21.371	\$20.676	(\$0.695)
Investment Income	n.a	n.a	n.a
Highway User Revenue	\$3.742	\$3.790	\$0.048
E-Cigarettes	\$0.349	\$0.412	\$0.063
TOTAL	\$3,817.048	\$3,795.435	(\$21.613)

Income Tax Volatility

Year-over-year percent changes in the income tax are volatile and highly sensitive to economic events such as recessions, changes in local, state, and federal tax rates, and capital gains.

Annual Percent Change in Income Tax Revenues from Withholdings, Estimated Payments, October 15 Filings, and Revenue Adjustments



Income Tax – “It is all about the November distribution”.

- The largest share (five year average of nearly 81.2%) of the County’s income tax revenues for any tax year comes in quarterly distributions of withholdings and estimated payments.
- The November distribution reflects actual results from the prior tax year (e.g., final tax year 2015 in November 2016) and provides a near final review of last year’s tax liability – this provides a base for future projections.
- The State Comptroller’s Office also adjusts its distribution formula for the current fiscal year based on the prior tax year results (e.g., 2015 tax year final results affect quarterly distributions for this fiscal year).
- Income tax revenues represented 47.8 percent of total General Fund tax revenues in FY16 and nearly 46.0 percent of the County’s total General Fund revenues.

Income Tax – November distributions

(millions)	Actual FY14	Actual FY15	Actual FY16	Estimated FY17	Actual FY17	Difference Actual/Estimate FY17
October 15 th Filings and Adjustments	\$167.61	\$79.13	76.80*	\$135.02	\$135.35	\$0.33
Withholding and Estimated payments for 3 rd Quarter	\$258.47	\$261.64	\$271.10	\$283.28	\$288.73	\$5.45
Total November Distribution	\$426.08	\$340.77	\$347.90	\$418.30	\$424.08	\$5.78

* According to the Comptroller of Maryland, not all returns for October 15 filings were processed for the November distribution

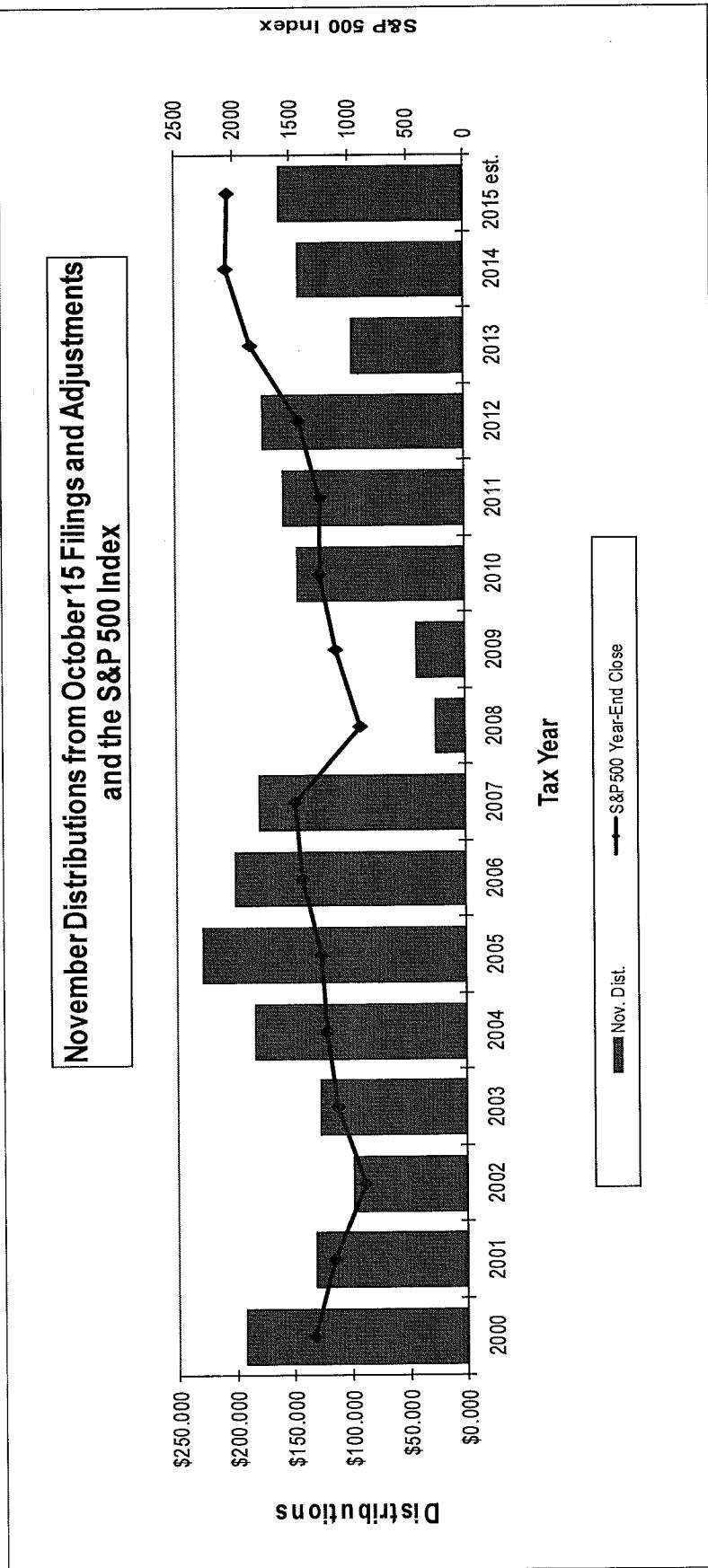
- Increase in receipts from October 15th Filings and Adjustments is based on an adjustment to reflect final income tax receipts due the County for tax year 2015 as compared to tax year 2014. The State has indicated that the County's income tax receipts from withholdings and estimated payments for the third quarter of tax year 2016 are 6.5% higher than for tax year 2015 and above the estimate for the FY17 Budget.
- Increase of 6.5% in actual withholdings and estimated payments compared to last year is due to a 6.2% increase in income tax collections from withholdings and estimated payments statewide from November 2015 to November 2016.

Income Tax – Economic Factors

- Resident employment is expected to increase 0.8 percent in CY16 and increase 0.5 percent in CY17. Those increases are lower compared to March 2016 economic assumptions of 1.1 percent increase in CY16 and 0.8 percent in CY17.
- Personal income is estimated to increase 4.0 percent in CY16 and 4.6 percent in CY17. Those increases are below the March assumptions of 4.9 percent in CY16 and 5.5 percent in CY17.
- Wage and salary income is expected to increase 4.6 percent in CY16 and increase 4.4 percent in CY17. The increase in CY16 is above the March 2016 economic assumption (4.4%) but below the CY17 March economic assumption of 4.5 percent.
- The revisions are based on the Bureau of Revenue Estimates' (Comptroller of Maryland) September forecasts.
- The revised economic assumptions will result in a reduction in the estimated income tax revenues from FY18 to FY22 compared to the estimates in the FY17 Approved Budget.

Income Tax

The amount of revenues from the November distribution has been correlated to the stock market (S&P 500 Index) with the exception of 2013 attributed to fiscal cliff (TY2013).



Property Tax

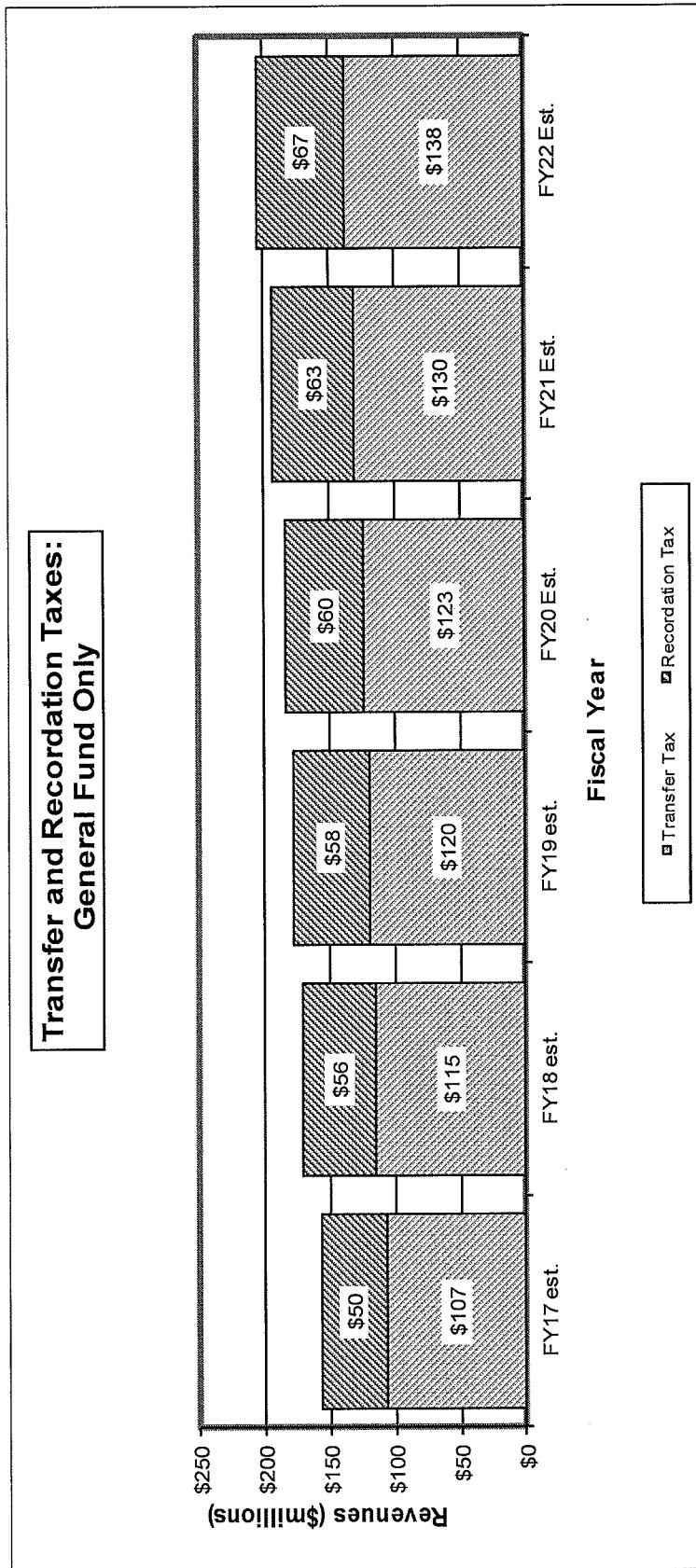
- The inflation rate is expected to be 1.20 percent in calendar year 2016 which is lower than the 1.30 percent assumed in the FY17 Approved Budget. Since the previous inflation rate of 1.30 percent was used to derive the property tax revenues at the Charter Limit for FY18, the lower rate of 1.20 percent will reduce the estimated tax revenues for FY18 at the Charter Limit.
- The reassessment rates for real property for Group Two for fiscal year 2018 will be released by the Maryland State Department of Assessments and Taxation (SDAT) at the end of December. Preliminary indications are that this group will experience an increase in the real property tax base.

Transfer and Recordation Taxes

- Home sales are expected to increase 6.4 percent in CY16 and median prices are estimated to increase 1.2 percent. Based on transfer tax collections to date, the residential and non-residential real estate market is estimated to experience growth in FY17 albeit below FY17 budget estimates.
- Because of the estimated increase of home sales in CY16 and a modest increase in CY17, Finance estimates that the number of residential transfers increases 4.4 percent in FY17.
- Total transfer tax revenues on residential transactions are expected to increase 9.8 percent in FY17.
- Reflecting the General Fund rate cut in the recordation tax effective September 1, total recordation tax revenues are expected to be slightly above \$50.3 million.

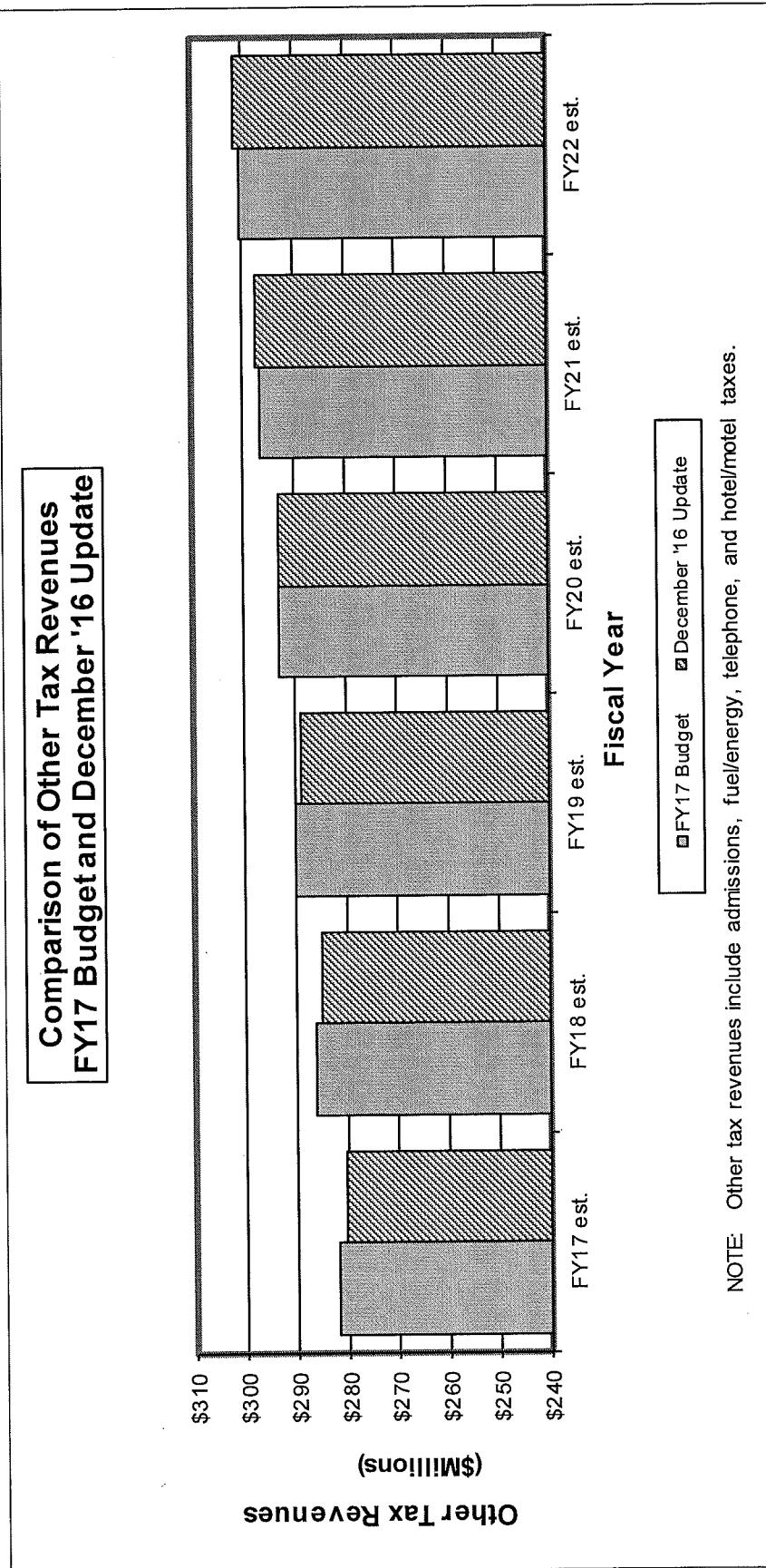
Transfer and Recordation Taxes

Since reaching an all time high of \$241.7 million in FY06, transfer and recordation taxes declined to \$127.3 million in FY12. With the cut in the tax rate in the General Fund portion of the recordation tax from \$4.40 per \$1,000 to \$4.16 per \$1,000, the transfer and recordation taxes for the General Fund are estimated to reach \$204.5 million by FY22 – \$37.2 million below the FY06 peak.



Other Tax Revenues

Other tax revenues are estimated to decrease 0.4 percent in FY17 over budget estimates due to estimated decrease in fuel and energy and hotel-motel tax revenues. Over the current six-year period (FY17-FY22), total other tax revenues are estimated to be \$1.6 million below FY17 budget estimates.



Risks to Revenue Forecasts

- A stock market contraction over the forecast period would affect the November reconciling income tax distribution and therefore total income tax revenues.
- Inflation running below the economic assumptions that could affect property tax revenues at the Charter Limit.
- Sales of existing homes and prices that could be affected by the rate changes in the recordation taxes and increases in ten year U.S. Treasury rate that would affect mortgage rates.
- A revised downward forecast of the state's economy by the Board of Revenue Estimates that would affect the economic assumptions.
- Revisions to current County employment and income data by federal and state agencies.