



FY19 POPULAR ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2019

THE MESSAGE FROM OFFICIALS



January 30, 2020

Dear Citizens of Montgomery County:

We are pleased to present our third Popular Annual Financial Report (PAFR) of Montgomery County, Maryland (the County) as of the fiscal year ended June 30, 2019. Montgomery County received the Government Finance Officers Association (GFOA) Award for Outstanding Achievement in Popular Annual Financial Reporting for the County's PAFR as of the fiscal year ended June 30, 2018. This report is a companion document to the County's award-winning Comprehensive Annual Financial Report (CAFR) and is designed to present information about the County's finances and financial results in a more user-friendly format. This report represents the County's continuing commitment to both excellence in financial reporting and financial transparency for its citizens.

The CAFR is a detailed and complete financial report, prepared annually by the County's Department of Finance in conformity with Generally Accepted Accounting Principles in the United States of America (GAAP). The public accounting firm of CliftonLarsonAllen, LLP has performed an independent audit of, and issued an unmodified (clean) opinion on, the County's financial statements as of and for the year ended June 30, 2019.

This PAFR is the summarized and condensed version of the FY19 CAFR of Montgomery County. It also includes some information supplemental to the CAFR. This PAFR and the full CAFR are both available on our website www.montgomerycountymd.gov/Finance/financial.

Sincerely,



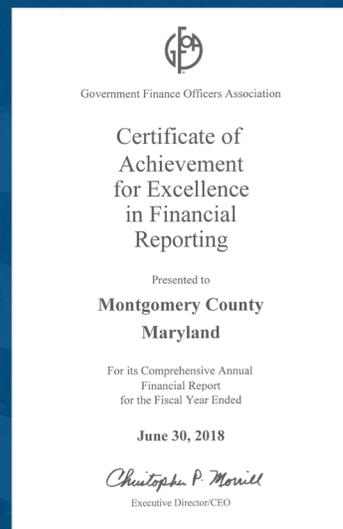
Andrew Kleine
Andrew Kleine
Chief Administrative Officer



Michael J. Coveyou
Michael J. Coveyou
Acting Director of Finance

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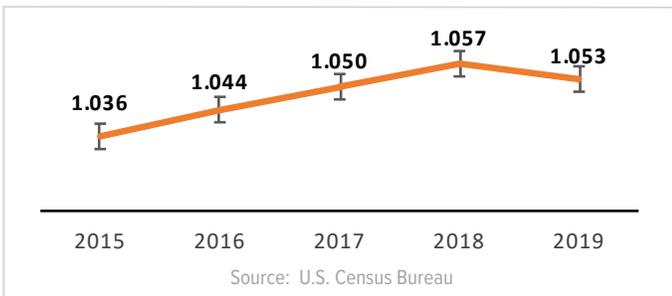
INTRODUCTION

Montgomery County At-A-Glance

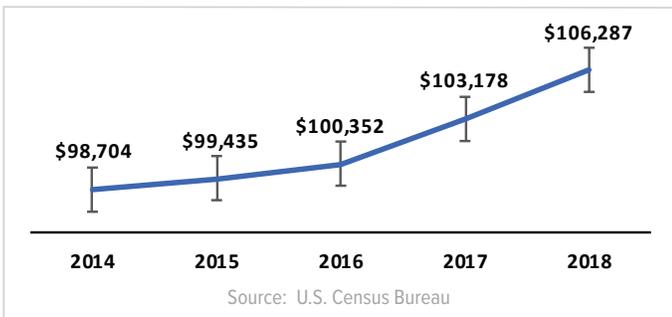
Montgomery County, named after the early American general, Richard Montgomery, was established in 1776 by the State Convention. Currently, Montgomery County has the highest population and is one of the most affluent jurisdictions in Maryland. Montgomery County enjoys the distinction of being named an All-American community.

County's Selected Demographics

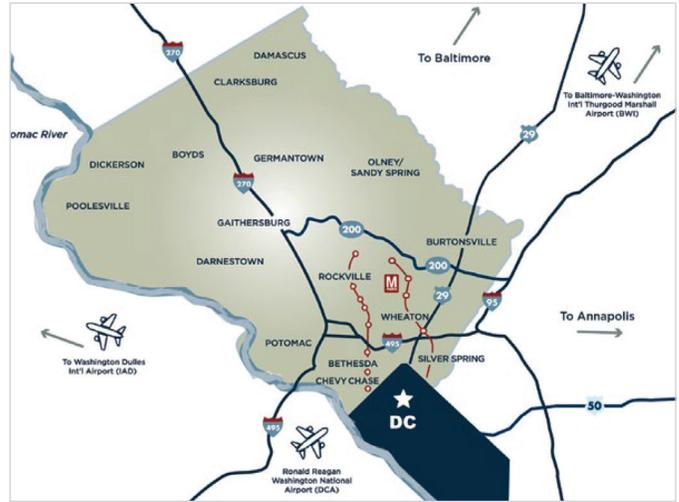
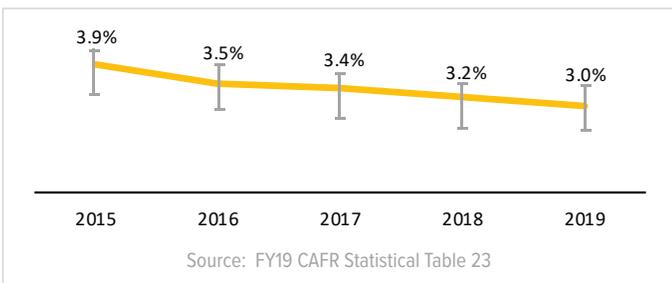
Population
(Millions of Persons)



Median Household Income



Unemployment Rates



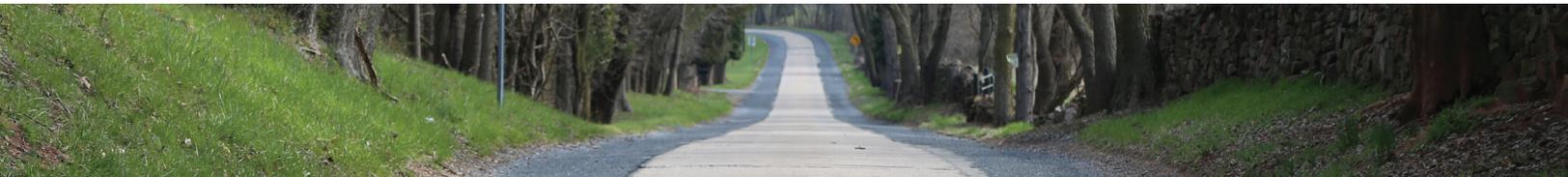
Top 10 Employers in Montgomery County

- 1.) U.S. Department of Health and Human Services
- 2.) Montgomery County Public Schools
- 3.) Montgomery County Government
- 4.) U.S. Department of Defense
- 5.) Adventist Healthcare
- 6.) Holy Cross Hospital of Silver Spring
- 7.) Marriott International, Inc. (Headquarters)
- 8.) Montgomery Community College
- 9.) Government Employees Insurance Co.
- 10.) U.S. Department of Commerce

Other Interesting Demographics

Population Rank in Maryland:	1st
Median Age:	39 years old
Number of Residential Households:	370,227
Average Household Size:	2.79 persons
Average Housing Value:	\$476,500
Homeownership:	65.4%
Bachelor's Degree or Higher:	59%
Diversity:	41.7% Persons with language other than English spoken at home

Source: FY19 CAFR Statistical Table 22



ELECTED OFFICIALS



Marc Elrich
County Executive



Hans Riemer
Council Member

Gabe Albornoz
Council Member

Craig Rice
Council Member

Andrew Friedson
Council Member

Tom Hucker
Council Member

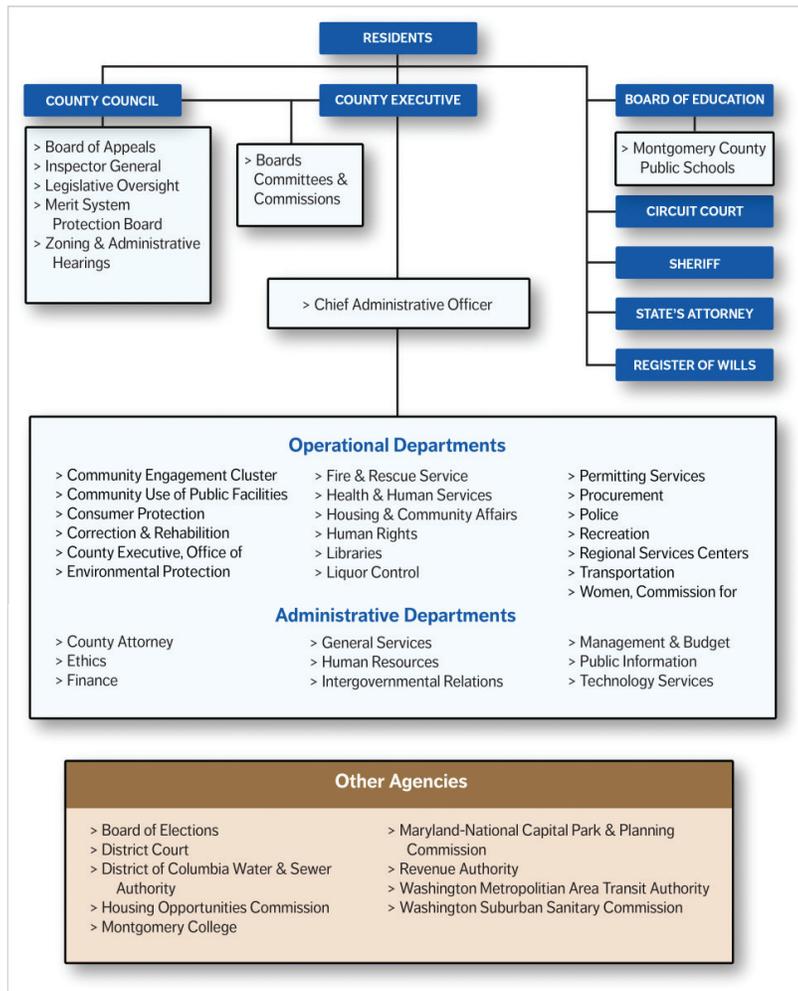
Will Jawando
Council Member

Sidney Katz
Council Vice President

Nancy Navarro
Council President

Evan Glass
Council Member

ORGANIZATIONAL CHART



The County government was structured under the County Commission system until 1948, when a home rule charter was adopted to replace the Commissioner form of government. The charter remains the governing authority of the County and was fully implemented in 1970 with the election of an executive and a council.

The Executive Branch implements and enforces Montgomery County's laws and provides executive direction to the government. Its chief executive officer is the County Executive. There are over 30 executive branch departments and agencies that deliver services to county residents.

The Charter defines the County Council's (Council) powers in three major areas: legislation, land use, and the budget. There are nine Council members. Five members are elected by the voters of their respective districts. Four members are elected at-large by all the voters of the County. There are six Council standing committees. Each Committee has budget review and program oversight responsibilities.

INITIATIVES AND ACCOMPLISHMENTS

7 Major initiatives of the County during FY19 that are expected to affect future financial position include the following:



Thriving Youth and Families

Launched the Early Care and Education Initiative. A four-year action plan to increase the number of child care seats for infants to 5 year-olds living in the highest need areas of the County. The initiative will create 600 new seats by February 2020; provide subsidies for eligible families to make care more affordable; and provide business training, financial supports, and professionalism.



A Growing Economy

4Business Initiative. Early in the year, County Executive Marc Elrich and County Council Vice President Sidney Katz launched a joint initiative: 4Business - Benchmarking to Be the Best for Business. Six listening sessions were held across the County to receive input from local business owners about what they need to thrive in Montgomery County.



A Greener County

Energy Efficiency Improvements to Buildings. Two projects accepted into the County's Commercial Property Assessed Clean Energy financing program were completed, resulting in the implementation of more the \$2.5 million in privately funded improvements to commercial buildings.



Easier Commutes

Faster Buses. Held groundbreaking on the new limited stop FLASH bus service on US 29 between Burtonsville and downtown Silver Spring. Construction is underway at 11 stations and the US 29 FLASH service will start in May 2020.



An Affordable and Welcoming County for a Lifetime

Reduced Homelessness. The number of families diverted from homelessness - 354 - represented 72% of all families in Montgomery County seeking shelter in FY19. Point-in-Time (PIT) Count of the homeless population in January 2019 showed a decrease of 23% from 2018 PIT.



Safe Neighborhoods

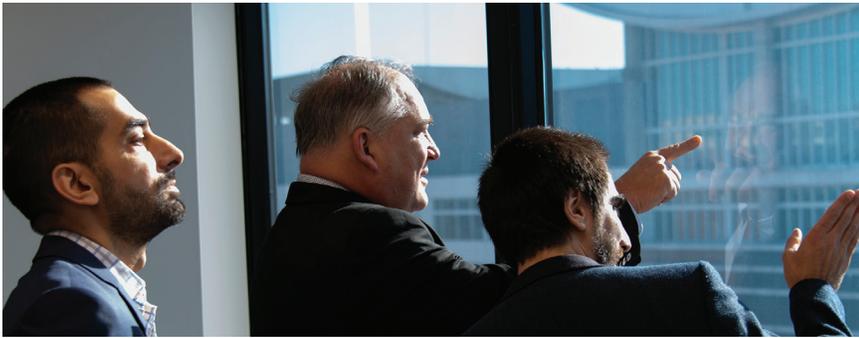
Improved Pedestrian Safety. Built and activated HAWK (High-intensity Activated Crosswalk) signals at Aspen Hill Road and Northgate Shopping Center, Muddy Branch Road and Harmony Hall Road, MacArthur Boulevard and Dunrobbin Drive, Randolph Road and Livingston Street, Democracy Boulevard and Walter Johnson High School, and Willard Avenue and The Hills Plaza.



Effective, Sustainable Government

Fiscal Accountability. Introduced Taxpayer Receipt, which gives residents an itemized accounting of how their tax dollars are used to fund County services. Initiated a Ten-Year Financial Plan, which will forecast County Government's long-term fiscal outlook and provide options for ensuring sustainability and achieving policy goals.

ECONOMIC DEVELOPMENT



In FY19, Montgomery County experienced continued growth, and strategic growth for the future. Montgomery County created the Montgomery County Economic Development Corporation (MCEDC), a public/private partnership, to promote economic growth in the County, in 2016. The FY 2019 MCEDC results are the following:



864 new jobs

Business retention/Expansion resulting in **574** new jobs plus **2,078** jobs retained



Capital investment from new/retained businesses in the amount of **\$84,100,950** and commercial space leased: **1,027,760 Square Feet**



41 Fast-Growing Montgomery County companies make the 2019 Inc. 5000 list.

Out of this list, 3 companies are in the top 100 (Homesnap **#38**, Real Estate/TalEx **#50**, Human Resources/Syndan Tech **#78** Government Services).

Several key projects are aimed toward strategic growth in the future. Some of these projects are as follows:

- **Marriott International (2021)**
 - \$600 million new Headquarters for 3,500 corporate employees
 - 230 key Hotel at 7750 Wisconsin Ave
- **Stonebridge Associates Avocet Tower (2021)**
 - \$300 million new 400,000 square foot trophy office building at 7359 Wisconsin Ave broke ground May 2019 with plans for a 225-room hotel and 500 space parking facility
- **Stonebridge Carras & Donohoe (2021)**
 - Premier 165,000 square foot life science building with commercial lab space near National Institutes of Health and Walter Reed National Medical Center at 8280 Wisconsin Ave
- **The Wilson and The Elm (2020 & 2021)**
 - Carr Properties' project The Wilson and The Elm, 23 story office building and two residential towers with 456 units will sit above the Red and Purple Line metro station

- **Transit Oriented Redevelopment at Wheaton Central Business District**
 - Over 700,000 square foot development
 - 14 story LEED Platinum public office building with 308,000 square feet and 12,000 square feet of retail space
 - Construction started in June 2017 and completion expected by April 2020
 - 397 spaces in 170,000 square foot public parking garage
 - Development of 35,000 square foot Town Square



TAXES

Taxes constitute the largest source of County revenues. Property, income, and other taxes together accounted for 88.2% of all County revenue sources. In FY 2019, property tax revenue accounted for \$1,839.5 million or 41.8% of total revenues of the County. Another major component of general revenues is income tax, which totaled \$1,593.6 million. The major tax supported functions are Education, Public Safety, Health & Human Services, and Transportation.

Applicable rates for key tax sources are as follows:

- Real Property direct rate was \$0.981 per \$100 of assessed value in FY 2019, which is 2 cents lower than the rate in FY 2018. The County's property tax rate is among the lowest of the jurisdictions in the surrounding area.
- The local income tax rate was 3.2% of the State taxable income for 2019. The rate remained the same as in FY 2018.

The taxable assessments for real property increased 2.7% from FY18 to FY19. This was the sixth consecutive increase starting in FY14.

The County's property values are higher than the previous peak value in 2010, while property value statewide has not yet returned to their 2010 peak level. Total property value per capita is much higher than the state's overall. The median price for single family in the County was \$488,120 in June 2019. This is a 2.2% year-over-year increase.

Changes in home prices may affect both the property tax assessments and the transfer and recordation taxes. The average price for existing home sales was up 2.3% in FY19 which resulted in an increase of 4.0% revenues from the residential transfer taxes and overall increase of 11.2% from the residential and non-residential recordation taxes.

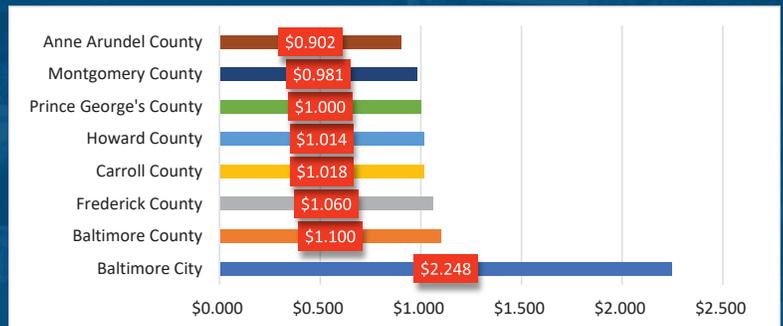
The homestead tax credit limits annual increases in homeowners' taxable assessments to 10% per year although other taxable assessments such as commercial and investment residential properties are not limited by this credit. The homestead credit is the amount of annual assessment growth above the 10% limit and the assessed value credited from the homestead tax credit was \$76.2 million in FY 2019.

Montgomery County Major Tax Rates

Real Property Tax <i>(per \$100 assessed value)</i>	\$0.981
Individual Local Income Tax	3.20%
Recordation Tax	\$3.45
Transfer Tax	.25% - 6%
Hotel/Motel Tax	7%
Admin & Amusements Tax	7%
Note: There is no local sales tax in the State of Maryland	

Source: Maryland Association of Counties Budgets, Tax Rates, & Selected Statistics FY19

Property Tax Rates (FY19)



Source: Maryland Association of Counties Budgets, Tax rates, & Selected Statistics FY19

Real Property Assessed Value Trend (Amount in Millions)



Source: Montgomery County FY19 CAFR Table 8

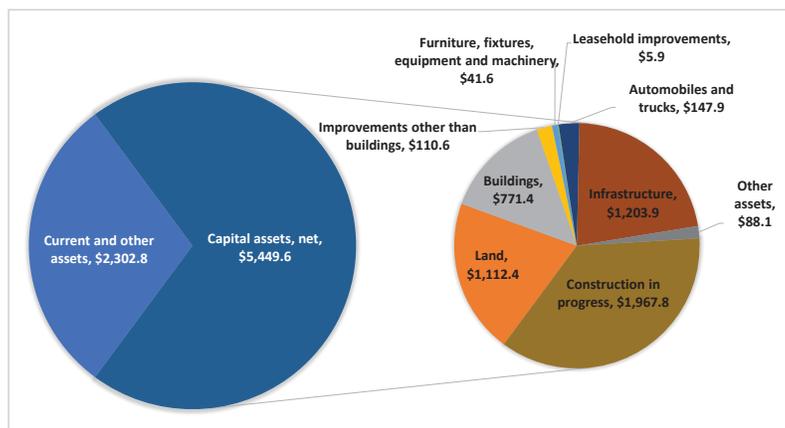
COUNTY FINANCIAL RESULTS

In the County's CAFR, the financial statements present the primary government and its five component units:



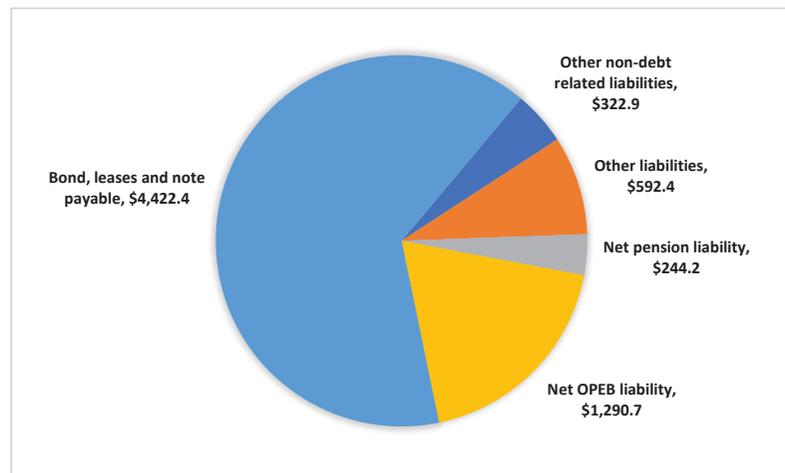
In contrast, this PAFR mainly focuses on the Primary Government and excludes discrete component units and fiduciary fund information. It contains condensed financial information and does not provide all the necessary financial statements and note disclosures required by GAAP.

Total Assets \$7,752.3 Million (Amount in Millions)

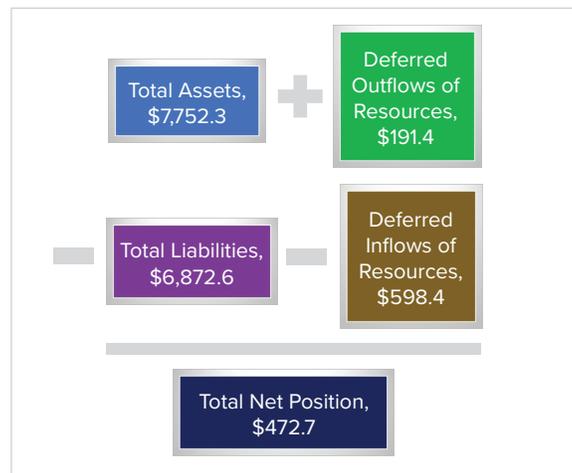


This PAFR also exclusively extracts the financial information from Government-wide financial statements, which present a long-term perspective about the County's assets, liabilities, deferred outflows/inflows of resources and net position. Government-wide financial statements are reported using the accrual basis of accounting. Net Position is the financial position of the County after subtracting liabilities and deferred inflows of resources (what the County owes) from assets and deferred outflows of resources (what the County owns).

Liabilities \$6,872.6 Million (Amount in Millions)



Summary of Net Position - Primary Government As Of June 30, 2019 (Amount in Millions)



COUNTY FINANCIAL RESULTS

The County provides a variety of services to its citizens and businesses. Like all governments, the County raises funds to pay for those services. These sources of funds, referred to as revenue, are raised mainly through taxes, charges for services and grants. Once the County collects taxes and other revenues, the funds must be spent efficiently to provide services.

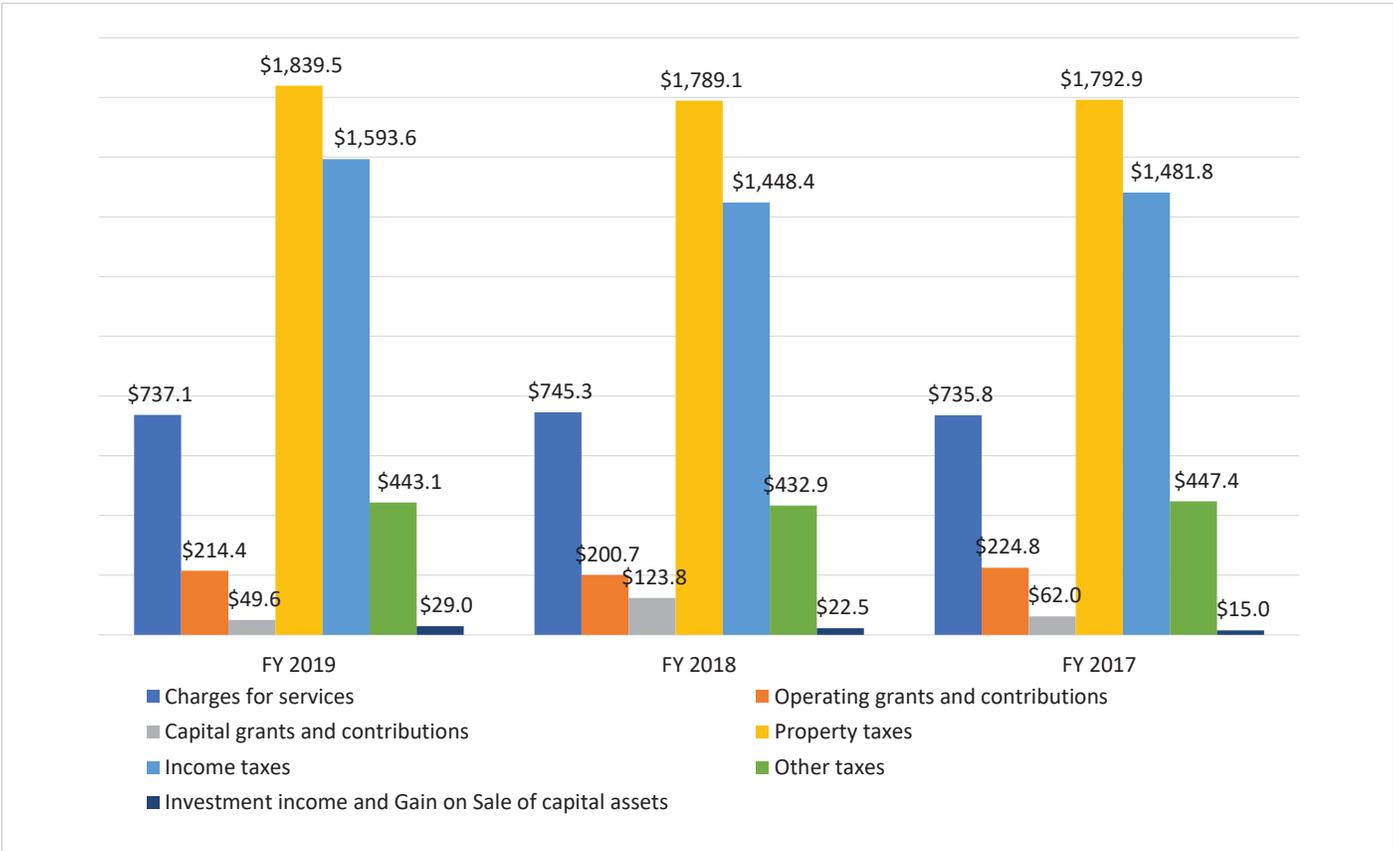
The condensed version of the summary of Changes in Net Position provides a snapshot of the flow of money in and out of the Primary Government. Change in Net Position is a good measure of the County's overall financial health. The County's FY19 total governmentwide net position increased by \$306.4 million from FY18. This increase means that the County's revenues were more than sufficient to cover all expenses, and the County's net worth increased.

Summary of Changes in Net Position
For the Fiscal Years Ended June 30, 2019 and 2018
(Amount in Thousands)

Total Primary Government		
	2019	2018
Total Revenues	\$4,906,360	\$4,762,745
Total Expenses	4,599,947	4,605,402
Change in Net Position	306,413	157,343
Net Position, Beginning of Year	166,348	9,005
Net Position, End of Year	\$ 472,761	\$ 166,348

The Chart below breaks down the sources of revenues coming into the County from the fiscal year 2017 to 2019.

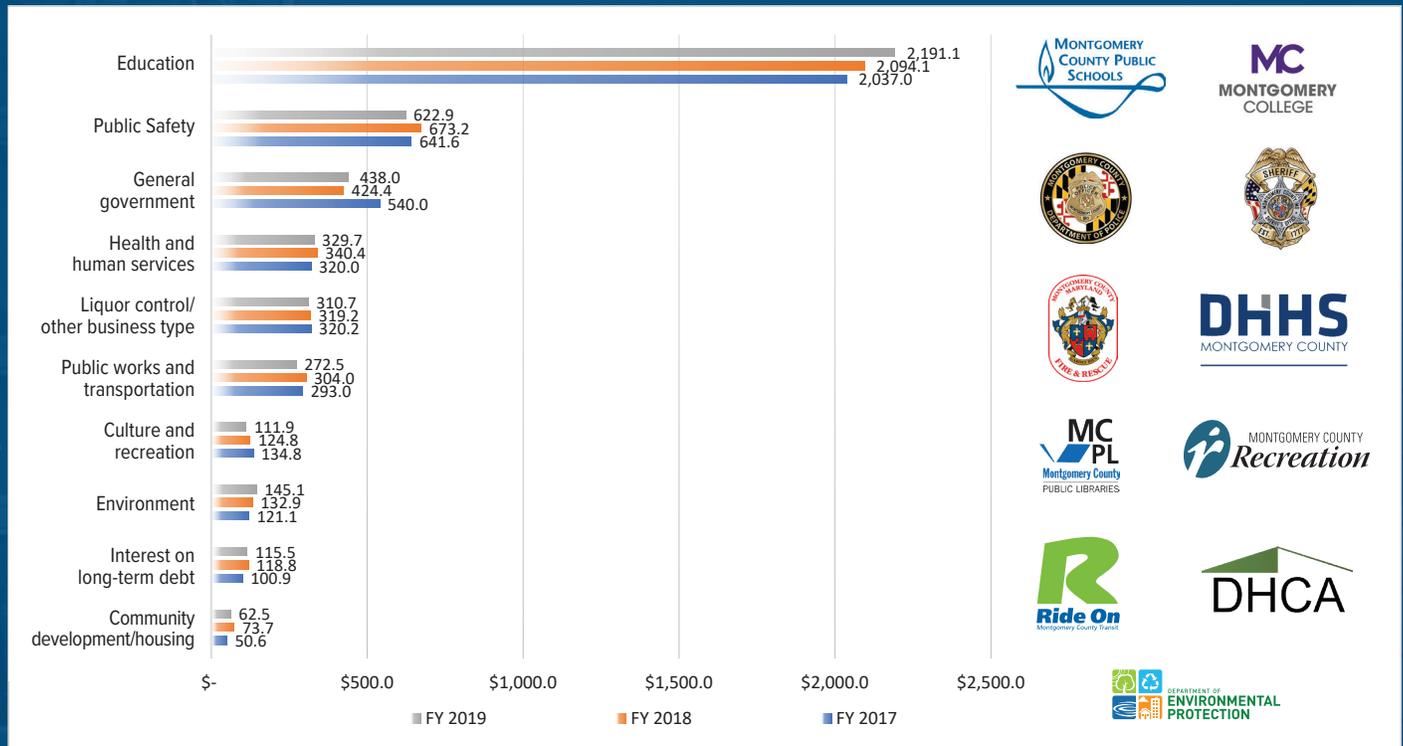
Revenues by Source - Primary Government
(Amount in Millions)



COUNTY FINANCIAL RESULTS

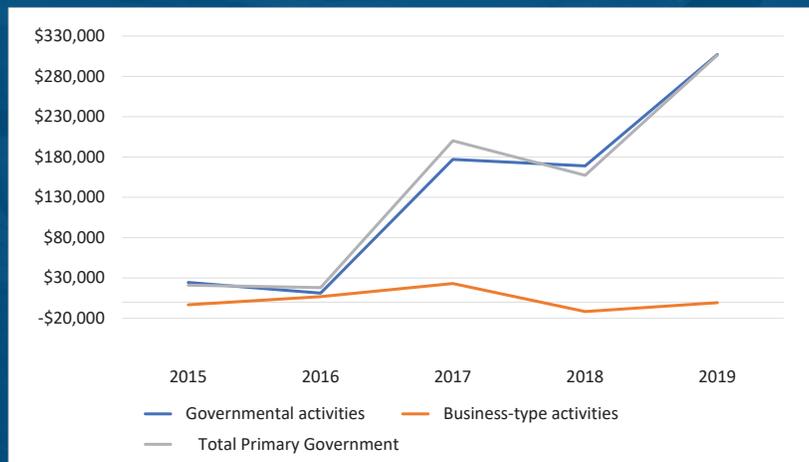
The chart below indicates how the County spent its money from FY17 to FY19. The Primary Government consists of Governmental activities and Business-Type activities. Governmental activities normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

Expenses by Function - Primary Government
(Amount in Millions)



- Education is the largest expense category that comprise 48% of total expenses in FY19.
- Public Safety comprise 14% of total expenses in FY19.

Change in Net Position
By Fiscal Year
(Amount in Thousands)



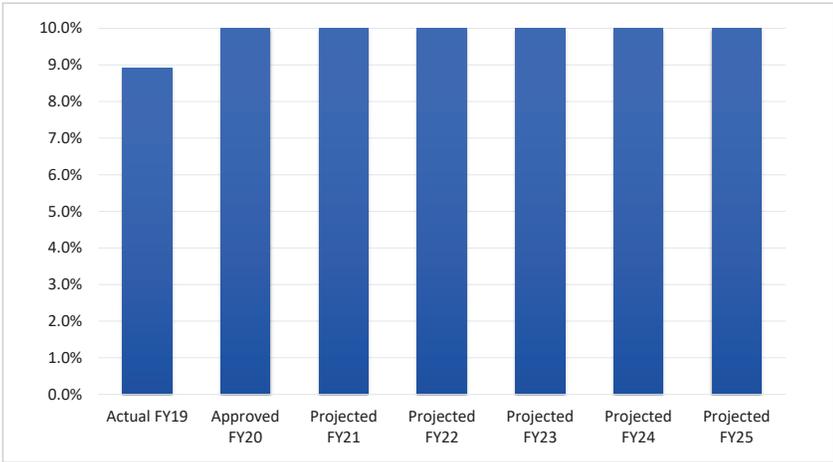
Government activities experienced an increase in net position of \$307.1 million for FY19; Business-Type activities experienced a decrease in net position of \$0.7 million for FY19 after total net transfer out of \$55.9 million. The FY19 total Change in Net Position of \$306.4 million for the Primary Government was the highest in the last five fiscal years. One of the largest components in achieving an increase in net position for FY19 can be attributed to expenditures that were \$104.6 million less than the final budget, which represents 10.0 percent of the final budget, and is attributable to savings achieved across numerous departments via the FY19 savings plan.

LONG-TERM FINANCIAL PLANNING

Reserves

As part of the annual operating budget process, the County develops a structurally balanced six-year fiscal plan. This plan addresses long-term structural issues in the budget, maintains the General Fund reserves at the required policy levels, and emphasizes the priorities of education, public safety, affordable housing, transportation, and health and human services.

The Projection of Reserves



Source: Fiscal Plan Update December 2019.

The County is required to budget for a reserve in the General Fund, which is the County’s chief operating fund. The County is also required to build up a total reserve of ten percent of revenues including the Revenue Stabilization Fund by FY2020, as defined in the County’s Revenue Stabilization Fund law. The Revenue Stabilization Fund, a rainy-day fund, was established by the County to accumulate funds during periods of strong economic growth to provide budgetary flexibility during times of funding shortfalls. Total reserves as of June 30, 2019 were \$444.9 million (8.9%) .

Other Postemployment Benefits (OPEB)

Beginning in FY08, the County implemented a plan to set aside funds for retiree health benefits, similar to the County’s 50-year-old practice of pre-funding for retiree pension benefits. The reasons for doing this are simple: due to growth in expected retiree health costs, the cost of funding these benefits, which were being paid out as the bills came due, would soon become unaffordable. Setting aside money now and investing it in a Trust Fund, which is invested in a similar manner as the pension fund, not only is a prudent and responsible approach, but will result in significant savings over the long-term. The amount the

County sets aside each year has been increasing steadily. During FY19, the County and other contributing entities contributed \$16.0 million toward prefunding future benefits.

In FY19, the County reported a Net OPEB liability of \$1,292.0 million. Further information regarding the County’s OPEB plan, funding policy and financial reporting can be found in the County’s FY19 CAFR and the Consolidated Retiree Health Benefits Trust’s FY19 annual report on the County’s website:

<https://www.montgomerycountymd.gov/mcerp/Resources/Files/FY19 CAFR Final.pdf>



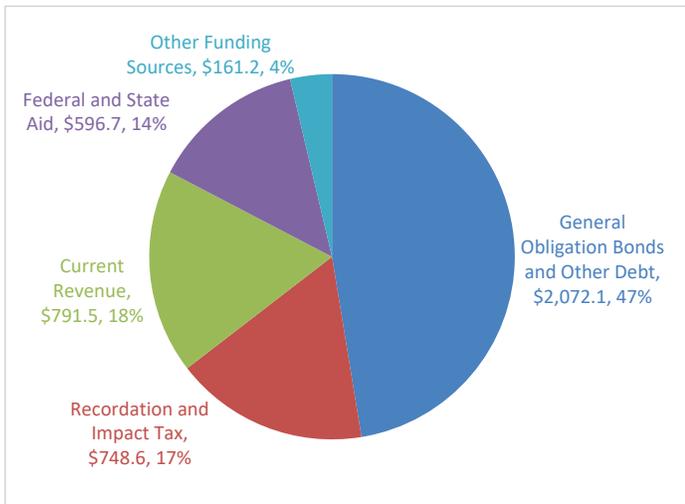
LONG-TERM CAPITAL PLANNING

Capital Improvements Program

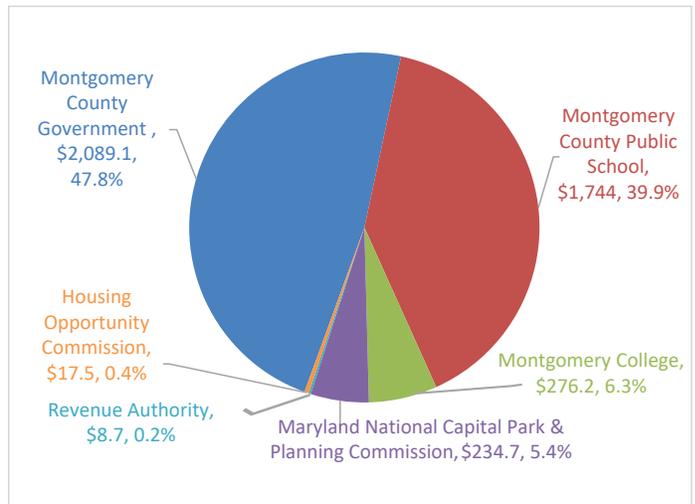
The Montgomery County Charter (Section 302) requires the County Executive to submit a comprehensive six-year program for capital improvements, called the Capital Improvements Program (CIP). The CIP is the presentation of capital project expenditure estimates, funding requirements, capital budget requests, and program data for the construction of all public buildings, roads, and other facilities planned by County agencies over a six-year

period. It includes all capital projects and programs of all agencies for which the county sets tax rates or approves budgets or programs. According to the FY20 Approved Capital Budget, there are 508 total projects. The following charts present how the total approved amended FY19-24 six-year \$4,370.1 million CIP excluding Washington Suburban Sanitary Commission are being expended by categories and funded by sources.

FY19-24 Six-year CIP Funding
(Amount in Millions)



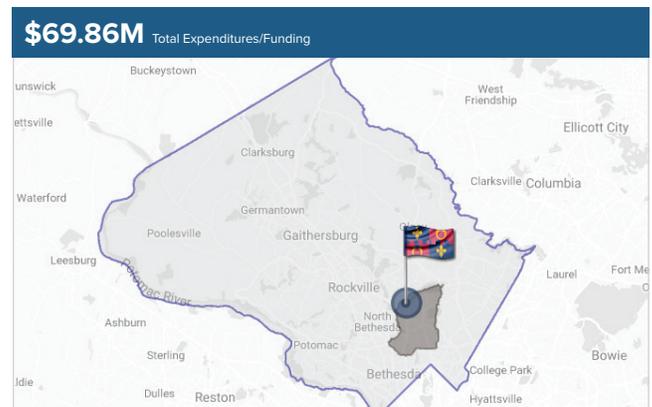
FY19-24 Six-year CIP Expenditure
(Amount in Millions)



Major Capital Project In Progress: Wheaton Library and Community Recreation Center

Wheaton Library and Community Recreation Center project provides for a combined facility to include the new Wheaton Library, a used book store run by a non-profit, with proceeds benefiting Montgomery County Public Libraries, and the Wheaton Community Recreation Center. The services formerly provided at the existing Wheaton Neighborhood Recreation Youth Center, will be replaced by the new Community Recreation Center. The demolition of the structure allows full use of the Park green space to support the community programs to be offered by the Maryland-National Capital Park and Planning Commission and the Department of Recreation. The project provides for a new road access from the relocated Hermitage Avenue. See details for this project and all other capital projects at:

<http://apps.montgomerycountymd.gov/BASISCAPITAL/>



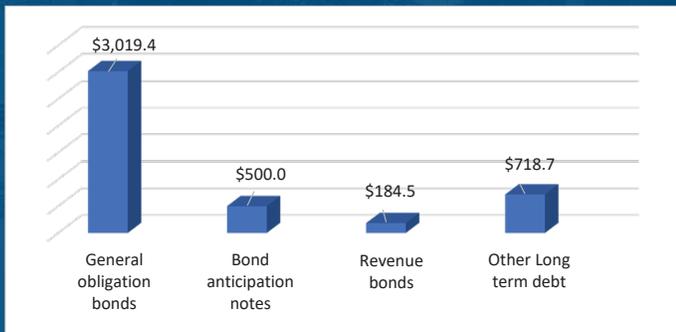
LONG-TERM DEBT

COURTYARD

The County Government, four of its agencies, and municipalities are authorized by State law and/or County Charter to issue debt to finance capital projects. Consistent with County fiscal policy, the County issues debt to finance a major portion of the construction of long-lived additions or improvements to the County's publicly-owned infrastructure. The County's budget and fiscal plan for these improvements is known as

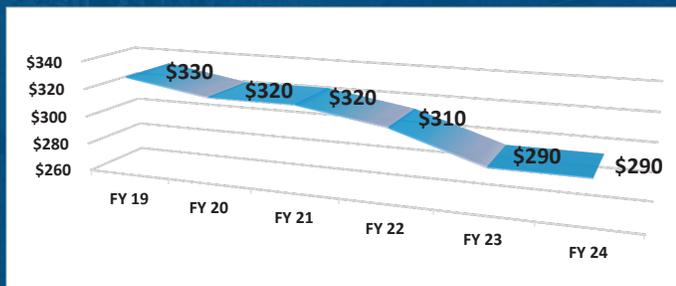
the Capital Improvements Program (CIP). Bonds are repaid to bondholders with a series of principal and interest payments over a period of years, known as debt service. In this manner, the initial high cost of capital improvements is absorbed over time and assigned to current and future citizens benefiting from the facilities. Due to various Federal, State, and Local tax policies, interest rates are lower than in the private sector.

**Long-Term Debt Outstanding - Primary Government
for the Fiscal Year Ended June 30, 2019**
(Amount in Millions)



As of June 30, 2019, the County's total bonds, leases and notes payable were \$4,422.6 million. Among all long-term debt, General Obligation (G.O.) bonds comprise 68.3 percent of the total. Currently G.O. bonds are anticipated to fund approximately 42.5 percent of the County's capital expenditures for the six years of the Amended FY19-24 CIP. The adjacent chart shows the County's long-term debt outstanding by the end of FY19.

Annual General Obligation Bond Issuance
(Amount in Millions)



Since 1973, the County has consistently had a Aaa rating from Moody's Investors Service, Inc. Bonds issued by the County since July 1976 have consistently been rated AAA by Standard and Poor's and by Fitch Inc since 1991. Montgomery County is one of only 16 "Triple AAA" rated counties in the nation with a population greater than 900,000. These highest-level ratings reflect the County's growing and diverse economy, its substantial tax base, strong financial position, and strong financial management. The AAA rating means the County pays lower interest rates and can therefore build more schools and facilities for the residents' tax dollars.

MONTGOMERY COUNTY'S

AAA Bond Rating

Best in Nation for Fiscal Responsibility

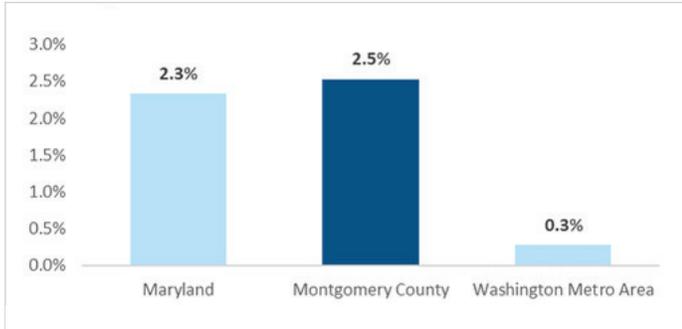
To improve the County's budget flexibility, to balance the needs of the operating and capital budgets, and to maintain the County's AAA credit rating, the County will gradually reduce the annual General Obligation bond issuance over the next five years from the current \$320 million to \$280 million a year, representing a net six-year reduction of \$99 million in General Obligation and Pay-As-You-Go (PAYGO) funding. It will slow the growth of the County's debt service payments and will help the funding of other critical programs and services.

ECONOMIC OUTLOOK & OPERATING BUDGET HIGHLIGHTS

Economic Outlook

Following FY19 in which the County's economy experienced an increase in resident employment (0.6%), a decline in the average monthly unemployment rate to 3.1 percent, an estimated increase in per capita income (3.5% in calendar year 2019), and an increase in the average sales prices of existing homes, the outlook for FY20 is expected to see a modest continuation of economic growth.

Strong Wage Growth Cumulative growth in inflation-adjusted average annual private-sector wages since 2010



Source: MDCEP analysis of Quarterly census of Employment and wages and Consumer Price Index

Washington Region Economic Indices



Source: The Stephen S. Fuller Institute at the Schar School, GMU

- Montgomery County is in a fundamentally strong economic position. The County continues to attract residents at a healthy pace, increasing in population significantly faster than the State of Maryland as a whole.
- The County has also seen strong private-sector wage growth in recent years, outpacing the Washington metro area by 2.3 percentage points.
- The County's property values are now 4 percent higher in nominal terms than they were in 2010 when statewide property values peaked.
- Washington area economy accelerated in September but its outlook weakens going forward due to further uncertainty from the FY20 federal appropriations waiting for Congressional approval.

FY20 Approved Operating Budget

Service Area	Appropriation	% of Total	FTE's
Montgomery County Public Schools	\$2,680.6M	46.5%	22,867.11
Public Safety	\$619.3M	10.7%	4,051.79
Debt Service	\$439.2M	7.6%	0.00
Other County Government Functions	\$437.1M	7.6%	464.93
Health and Human Services	\$327.9M	5.7%	1,683.09
Montgomery College	\$314.7M	5.5%	1,910.85
Transportation	\$226.2M	3.9%	1,244.20
General Govt. & Other Functions	\$203.9M	3.5%	1,495.59
Maryland-National Capital Park and Planning Commission	\$158.0M	2.7%	1,102.41
Environment	\$147.7M	2.6%	216.11
Community Development and Housing	\$107.1M	1.9%	351.85
Libraries, Culture, and Recreation	\$99.9M	1.7%	925.66

The County approved a total FY20 County Operating budget from all sources for all County agencies of \$5.8 billion which is \$180.7 million or 3.2 percent more than the FY19 budget. The chart indicates how the budget is distributed. For details, please visit the County's Office of Management and Budget website: <https://apps.montgomerycountymd.gov/basisoperating>.

ACKNOWLEDGEMENTS AND COUNTY'S OPEN DATA PORTAL

Popular Annual Financial Report developed and prepared by:

Department of Finance

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Acting Director of Finance

Karen Q. Hawkins, CPA, CGFM
Chief Operating Officer

Kim Williams, CPA, MPA, CGFM
Controller

Laurie M. Boyer, CEcD
Economic Development Manager

Jason Hsu
Senior Information Technology Specialist

Rachel Hsu
Accountant/Auditor Supervisor

Chong Lee, CPA
Program Manager

Yihui Brown
Accountant/Auditor

Timothy Hughes
Accountant/Auditor

Special Thanks To:

Efforts of the Finance Controller Division
Staff without which this project would
not have been possible.

Public Information Office

Ohene Gyapong
Deputy Director of
Public Information Office

Sean Clark
Visual Information
Specialist

Montgomery County Open Data Portal

More County's financial and budget
information can be found at:
data.montgomerycountymd.gov



 <p>dataMONTGOMERY</p> <p>Direct access to County data sets in consumable formats is available here. The public can review and analyze, and use the data sets for a variety of purposes.</p>	 <p>Open Budget</p> <p>Provides you with an intuitive way to understand how our budget is structured and get the answers you need.</p>	 <p>CountyStat</p> <p>See how the County and its departments are performing by exploring performance dashboards and data visualizations.</p>	 <p>Property Taxes</p> <p>View property tax records to view and/or make payments on-line by credit card or bank account as appropriate.</p>
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COURTYARD
ROCKVILLE



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