AGENDA ITEM #7
September 29, 2009

MEMORANDUM

September 25, 2009

TO: County Council

FROM: Stephen B. Farber, Council Staff Director SBF

SUBJECT: Update on Economic Indicators and County Fiscal Plan

OMB Director Joseph Beach, Finance Director Jennifer Barrett, and their colleagues will join the Council for this update on economic indicators and the County Fiscal Plan for FY10-11. They will discuss the County Executive's September 23 memo on ©1-2, the fiscal data on ©3-9, the quarterly revenue update on ©10-15, and the economic indicators update on ©16-41.

Overall Fiscal Context

One year ago the world's financial system seemed at risk of falling into the abyss of a second Great Depression. Iconic financial services firms collapsed one after another. Financial markets plummeted, as did credit availability, consumer spending, and gross domestic product, while unemployment and foreclosures soared. Extraordinary fiscal and monetary measures taken since then by federal policymakers have helped restore relative stability, and there are increasing signs that the economy is bottoming out and starting to grow, but severe problems persist.

As Federal Reserve Chairman Bernanke said on September 15, "Even though from a technical perspective the recession is very likely over at this point, it is still going to feel like a very weak economy for some time as many people still find their job security and their employment status is not what they wish it was." Or as Vice President Biden said on September 4 as nonfarm payroll employment fell by "only" 216,000 in August, "Less bad is not good."

Even if economic indicators generally continue to improve, state and local governments will remain hamstrung by **two lagging indicators: unemployment and revenues.** The national unemployment rate, now at a 26-year high of 9.7 percent,[1] is expected to exceed 10 percent before starting down. Until employment shows sustained solid growth and consumer spending rebounds strongly, state and local revenues will remain weak.

[1] A broader measure of unemployment that includes discouraged and underemployed workers is now 16.8 percent.

This is especially true where unemployment rates are at double-digits (14 states and D.C., including 12.2 percent in California, the highest rate in 70 years) and metro areas like Detroit (17.7 percent), but it also true of more fortunate states like Maryland (7.2 percent) and this metro area (6.2 percent). The County's rate is 5.5 percent, but it was just 2.5 percent in November 2007 and, until January 2009, had not reached even 4 percent at any time in at least 20 years.

Current Fiscal Plan Summary

The Executive's September 23 memo on ©1-2 notes that while the core elements of the Council's last Fiscal Update on July 28 remain in place, changes since then include $18.8 million in State aid reductions (see the list on ©6) and a proposed FY10 savings plan with a target of $30 million.[2] The list of FY10-11 issues on ©5 shows these and other changes in italics.

The Fiscal Plan Summary is on ©4. See also the list of Major Known Commitments (MKC) on ©7, the list of non-agency uses of resources on ©8, and the list of FY10 tax supported supplemental appropriations on ©9. Note that the Fiscal Summary and the MKC list **assume** general wage adjustments (COLAs) and step increases in FY11 at the FY10 level, as well as retiree health insurance pre-funding (OPEB), reserves, and PAYGO at the scheduled or policy levels. With these assumptions, **the gap for FY11 now stands at $364.4 million.**

Measures to reduce this gap could include the following:

	$ in millions
1. No general wage adjustments (COLAs)	123.3
2. No step increases	27.6
3. No retiree health insurance (OPEB) pre-funding	64.5
4. Reduce reserves from 6 to 5 percent	40.0
5. Eliminate most PAYGO from the capital program	30.0
	285.4

All these measures are controversial. The first two are subject to collective bargaining with agency employee organizations. (In FY10 there were steps but no COLAs, except for Park Police.) The last two were used to balance the FY10 budget but are inconsistent with County policy. OPEB pre-funding, which was eliminated in FY10 except for $12 million for MCPS, is important to ensure future resources for the agencies' retiree health insurance plans.

[2] The proposed target reductions from the FY10 approved budget for MCG, MCPS, M-NCPPC, and the College are $17.0, $9.7, $2.2, and $1.1 million, respectively. For MCG departments, the proposed reductions are 0.5 percent for Public Safety and HHS, 1.0 percent for Transit Services, and 2.25 percent for Non Public Safety. In view of the sharp reductions already made in the FY10 approved budget, making these further reductions will be more difficult than in past savings plans. This is especially the case for departments with many front-line employees. Of the $30 million savings target, tax supported expenditure reductions total $24.4 million. MCPS started its FY10 savings plan on August 20. The Executive will transmit his recommended savings plan in late October. The Council must approve the details of any recommended savings plan.

These measures, if all taken, would reduce the gap to $79.0 million, but other factors could increase the gap:

1. More State aid reductions in FY10 due to this month's writedown of State revenues
2. Further State aid reductions in FY11 as the Governor closes a $2 billion State gap
3. Inability to meet the proposed $30 million savings plan target for FY10
4. Possible writedown of County revenues in November 2009 or March 2010
5. Probable writedown of County property tax revenue at the Charter limit (perhaps by **$45 million**) because of the almost zero increase in the CPI
6. Possible State actions stemming from the Joint Legislative Workgroup to Study State, County, and Municipal Fiscal Relationships

The next Council Fiscal Update on November 24 will track these and other factors, as will subsequent Fiscal Updates. Anticipating a very large FY11 gap in any event, on September 24 OMB transmitted aggressive guidance to MCG departments regarding their Maximum Agency Request Ceilings (MARCs). **The MARCs include target reductions from the FY10 approved budget levels – which themselves were in most cases down sharply from FY09 – of 2.0 percent for Public Safety departments, HHS, and non tax supported departments and 8.0 percent for Non Public Safety departments.** Department budgets drafted to meet these MARCs will have to cut positions and curtail functions.

Furloughs

The Executive first raised the possibility of furloughs in September 2008. In a July 24, 2009 memo to the Council, he said that "due to the already clear magnitude of the problem, we will need to implement an FY10 Savings Plan and/or employee furloughs in FY10." He added that "any furlough should be implemented across all tax supported agencies to ensure equitable treatment of employees and to produce substantive savings." His September 23 memo and attachments on ©1-6 make no reference to furloughs, but they presumably remain an option.

The savings for one furlough day would be $2.3 million for MCG ($1.3 million if Public Safety is excluded), $6.7 million for MCPS, $0.6 million for Montgomery College, and $0.3 million for M-NCPPC.

Use of furloughs to achieve savings and avoid layoffs has been widespread across the nation by both governments and the private sector. In Maryland, for example, the Governor implemented furloughs and/or temporary salary reductions for Executive Branch employees of 4 to 5 days in FY09 and 3 to 10 days in FY10, depending on their salary level. Prince George's County imposed 10 days of furloughs in both FY09 and FY10. (The U.S. District Court held that the FY09 furloughs were unconstitutional. The issue has not yet been resolved.)

To review the pros and cons of furloughs and lessons learned from other jurisdictions, the Office of Legislative Oversight issued an April 2009 report, *A Research Brief on Furloughs and Buyouts*. OLO also issued an addendum on public sector furloughs dated September 21, 2009. Both are available at http://www.montgomerycountymd.gov/olo.

Fiscal Guidance to the Agencies

In unanimously approving Bill 28-08 on September 16, 2008 the Council modified the **annual spending affordability process** for the operating budget by agreeing to set guidelines for the coming fiscal year in February rather than the previous December. This change enables the Council to benefit from later information on revenues and expenditures and from a review of the Governor's proposed budget, which is released in January, before setting guidelines for the Executive's recommended budget, which is released on March 15.

As a corollary of this change, the Council's intent was to provide MCPS, the College, and M-NCPPC with fiscal guidance each September to help them prepare realistic budgets for their governing boards. These three budgets, which together represent nearly two-thirds of total agency expenditures, all go to the governing boards in mid-December and are well developed by Thanksgiving, just two months from now.

The Council's fiscal guidance for the agencies this September, as they prepare their budgets for FY11, is crystal clear from this Fiscal Update. The watchwords are caution and restraint.

Economic Indicators Update

The slides on ©26-41, prepared by Chief Economist David Platt, update the national, regional, and County economic indicators. The data they present show the difference between signs of recovery on Wall Street (with major stock market averages up 50 percent from their March lows, but still well below their late 2007 highs) and the real economy on Main Street. The summary of current County indicators on ©41 provides the backdrop for the sobering data in this Fiscal Update, including the weak FY09 revenue report on ©10-15.

The September 2009 edition of Howard County economic indicators on ©42-43 provides much comparable information. The diverse and usually vibrant Howard economy, like ours, continues to show resilience in many areas. But the report notes that overall, the county economy is "still in the grips of the downturn….Most business leaders are not optimistic about a return to any sense of normalcy in the near future….There is some fear that if conditions persist additional layoffs could be required….One area that is also hard hit is the non-profit sector…, [which has] seen donations decline by large percentages at a time when their services are most in need."

Longer-Term Fiscal Strategy

The County has stepped up to all its fiscal challenges in the past, and it is doing so now too. The longer-term question is whether the economy will bounce back to the point that our revenues will once again support something close to the spending patterns to which our various constituencies have become accustomed.

Another possibility is that the world has changed – that as PIMCO Managing Director Bill Gross puts it, the excesses that led to the current financial upheaval will be replaced by a "New Normal" characterized by slower growth and less consumption – and that even in this State and this County, revenue growth over the next decade or more will no longer be robust.

Like other jurisdictions across the nation, we are "managing" the current fiscal squeeze. Many have already had to take more aggressive steps than we have, including no step increases, furloughs, layoffs, and in some cases actual cuts in salary and benefits. If economic reality is now in fact the "New Normal," "managing" the fiscal squeeze going forward may not be enough. Instead, we will have to break new ground by making harder choices about budget priorities and focusing more systematically on the four-fifths of the budget that for us, as for other local governments, goes to salaries and benefits for our employees.

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OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

September 23, 2009

TO: Phil Andrews, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: FY10-11 Fiscal Update - September 2009

Attached please find the materials requested for the Fiscal Update for the Management and Fiscal Policy and the County Council for this coming week. These materials are, for the most part, similar to the fiscal update provided to the Council in late July. As additional information has become available to the County, we have updated our fiscal planning materials. This information includes State aid reductions of nearly $20 million announced in late August and my Recommended FY10 Savings Plan of approximately $30 million.

The continued deterioration in the State's budget estimates, which have put the projected budgetary gap for Maryland at $2 billion for FY11, has troubling implications for the County's budget. We have not made revised projections of FY10 or FY11 State aid, beyond what has already been announced by the Board of Public Works. However, it is not likely that the State will resolve its budget challenges without further reductions in local aid.

The attached fiscal materials reflect our best estimates with currently available information. We will update our fiscal projections in the future based on: revised revenue estimates in November; resolution of the County's approach to K-12 maintenance of effort in FY10; further action by the State on local aid; and other factors and information as appropriate.

While audited financial statements are not available, indications are that FY09 tax-supported revenue collections for the operating budget are, generally, on target with the March projections. This means that we cannot reasonably expect any budgetary relief from future increases in local revenues, and will monitor indicators carefully for the possibility of a slower than anticipated recovery. The fact that we are on track with our revenue estimates does not alter the projected $370 million gap for FY11.

I have recently asked all County departments and agencies to develop mid-year savings plans of nearly $30 million to identify savings that can be applied to resolution of the FY11 budget gap. I expect to transmit the recommended savings plan to the County Council in late October for its approval.

I look forward to working with the Council in navigating the County through these very difficult financial times.

IL:jb

Attachment

c: Timothy L. Firestine, Chief Administrative Officer
Kathleen Boucher, Assistant Chief Administrative Officer
Department and Office Directors
Dr. Jerry D. Weast, Superintendent, Montgomery County Public Schools
Royce Hanson, Planning Board Chairman, Maryland-National Capital Park and Planning Commission
Hercules Pinkney, Ed.D., Interim President, Montgomery College

FY09 Fourth Quarter Analysis - Revenues
($ millions)

	FY09 March Estimate	FY09 Prelim. (unaudited)	Difference
Income Tax	$1,281.790	$1,291.717	$9.927
Property Tax (1)	$1,365.704	$1,364.292	($1.412)
Transfer/Recordation (2)	$112.558	$107.209	($5.349)
Other Taxes (3)	$180.790	$179.233	($1.557)
Investment Income (4)	$6.725	n/a	n/a
Highway User Revenue	$32.936	$32.011	($0.925)

NOTES:
(1) Tax-supported only
(2) General fund only; recordation tax premium included per Bill 15-09
(3) Other taxes include adminssions/amusement, fuel/energy, telephone, and hotel/motel taxes.
(4) Tax-supported

Department of Finance: September 22, 2009

FY10-15 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

#		App. FY09 5-22-08	Est. FY09 5-21-09	% Chg. FY09-10 Rec/Bud	% Chg. FY09-10 Rec/Est	App. FY10 5-21-09	% Chg. FY10-11	Projected FY11
1	**Total Resources**							
2	Revenues	**3,776.3**	**3,708.6**	0.8%	2.6%	3,804.9	1.5%	3,863.8
3	Beginning Reserves Undesignated	**143.4**	**158.8**	-19.5%	-27.3%	115.5	-34.1%	76.2
4	Beginning Reserves Designated	**6.2**	**6.7**	-100.0%	-100.0%	-	0.0%	-
5	Net Transfers In (Out)	**33.3**	**32.7**	11.9%	14.0%	37.2	-79.1%	7.8
6	**Total Resources Available**	**3,959.3**	**3,906.8**	0.0%	1.3%	3,957.7	-0.3%	3,947.7
7	**Less Other Uses of Resources (Capital, Debt Service,Reserve)**	**424.1**	**397.3**	-14.6%	-8.8%	362.2	35.1%	489.2
8	**Available to Allocate to Agencies**	**3,535.2**	**3,509.5**	**1.7%**	**2.4%**	**3,595.4**	**-3.8%**	**3,458.5**
9	**Agency Uses**							
10	Montgomery County Public Schools (MCPS)	**1,937.0**	**1,917.9**	4.3%	5.3%	2,020.1	3.6%	2,092.2
11	Montgomery College (MC)	**212.4**	**205.7**	2.4%	5.7%	217.5	7.5%	233.9
12	MNCPPC (w/o Debt Service)	**106.4**	**103.9**	0.2%	2.6%	106.6	3.4%	110.2
13	MCG	**1,279.4**	**1,281.9**	-2.2%	-2.4%	1,251.2	6.1%	1,327.5
14	**Subtotal Agency Uses**	**3,535.2**	**3,509.5**	**1.7%**	**2.4%**	**3,595.4**	**4.7%**	**3,763.8**
15	**Retiree Health Insurance Pre-Funding**							
16	Montgomery County Public Schools (MCPS)							30.9
17	Montgomery College (MC)							0.8
18	MNCPPC (w/o Debt Service)							3.6
19	MCG							29.2
20	**Subtotal Retiree Health Insurance Pre-Funding**							**64.5**
21	**Subtotal Other Uses of Resources (Capital, Debt Service,Reserve)**	**424.1**	**397.3**	-14.6%	-8.8%	362.2	35.1%	489.2
22	**Total Uses**	3,959.3	**3,906.8**	0.0%	1.3%	**3,957.7**	9.1%	**4,317.6**
23	**(Gap)/Available**	-	-			-		**(369.9)**
	Changes since July 2009							
24	**1. Proposed FY10 Savings Plan (tax supported savings only)**							**24.2**
25	**2. State Aid reductions as of September 2009**							**(18.8)**
26	**3. Property taxes at the Charter Limit due to reduced inflation assumption**							**TBD**
	(Gap)/Available							**(364.4)**

Notes:

1. **FY11 property tax revenues are at the Charter Limit.**
2. **Projected agency spending is based on Major Known Commitments including compensation.**
3. **Retiree health insurance pre-funding is assumed at the scheduled FY11 amounts.**
4. **Reserves are restored to the policy level of 6% of total resources in FY11.**
5. **PAYGO is restored to the policy level of 10% of the planned bond issue in FY11.**

FY10-11 Fiscal Issues

Risk and Uncertainty (Not included in fiscal plan projections):

- State Gap and Pending Local Aid Reductions
    - ***Approximately $20 million in August***
    - ***Potential for additional FY10 cuts***
    - ***FY11 reductions in Governor's Budget***
    - ***Joint Legislative Workgroup to Study State, County and Municipal Fiscal Relationships***
- MOE Penalty: If the SBOE finds the County did not satisfy MOE requirements the penalty could range from $33 M. to $57 M.
- Local Revenue declines: Income, Transfer/Recordation, and Property tax (estimated ***$45*** million reduction at Charter limit due to reduced inflation)
- Fuel or other Price Spikes

Lack of Options/Flexibility

- Savings Plan limits: lapse reductions, vacant position reductions, MC311 cuts
- Large transfers from Liquor Control and other funds already taken in FY10
- Reserves are already dangerously low in light of risks
- Cash flow limitations
- Very little discretion in terms of tax increases – "tax room"
- Impact Taxes: Actual FY09 Receipts were significantly under budget ($26.5 million) and will be for FY10-14 as well and will need to be replaced with tax supporting funding or addressed through project delays.
- Further service reductions and additional layoffs may be required given the foregoing and the pending imposition of further state aid reductions.

Savings Plan

- ***Executive's Recommended Savings Plan of $30 million - delivery to Council in late October***
- Previous savings plans have relied heavily on lapse which is severely restricted due to additional lapse reduction of $2.7 million across departments and MC311 reductions of $1.875 million.
- Relies on inter-agency cooperation in attaining savings plan targets
- Service reductions and mid-year layoffs may be required to produce meaningful and reliable savings

Exit Strategy

- Need to present rating agencies with a plan for restoring reserves, OPEB, and PAYGO and aligning expenditures with revenues over the long term.
- Need to leave the recession with a stronger fiscal position as we did in early 90's with Revenue Stabilization Fund, Retirement Savings Plan, Changes in Health Insurance premium share, and "tax room"

8/26/2009

	App. FY09	Actual FY09	App FY10	Estimate FY10	FY10 Reductions	Muni Share	Net County Reductions	Remaining FY10
INTERGOVERNMENTAL AID	5-22-08	5-21-09	5-21-09	5-21-09				
Highway User	39.7	32.9	10.3	10.3	(13.7)	4.4	(9.3)	1.0
Police Protection	13.5	13.4	13.5	13.5	(5.3)	0.4	(4.9)	8.6
Health Services Case Formula	**6.3**	**6.1**	5.3	5.3	(1.6)	n/a	(1.6)	3.6
Community College (Current Fund)	31.5	30.3	32.5	32.5	(1.6)	n/a	(1.6)	30.9
Community College (Cont. Ed Fund)	6.5	5.9	7.2	7.2	(0.3)	n/a	(0.3)	6.9
HHS Reductions					(1.1)		(1.1)	
Subtotal State Aid	**97.5**	**88.6**	**68.7**	**68.7**	**(23.6)**	**4.8**	**(18.8)**	**51.0**

9

	A	B	C	D	E	F	G
1	Major Known Commitments by Agency						
2							
3			**MCPS**	**MCG**	**College**	**MNCPPC**	**Total**
4	FY10 Appropriation		2,020,078,263	1,251,173,090	217,549,063	106,646,100	3,595,446,516
5		Debt Service Reimbursement	(79,537,322)				(79,537,322)
6	FY10 Appropriation (net)		1,940,540,941	1,251,173,090	217,549,063	106,646,100	3,515,909,194
7	Potential or Negotiated FY11 Compensation:						
8		(FY10 Level)					
9		General wage adjustment	84,775,000	28,847,581	6,984,015	2,682,200	123,288,796
10		Steps/service increments	18,859,068	5,513,250	2,313,659	910,900	27,596,877
11	Projected group insurance cost increases		26,048,866	8,500,000	828,500		35,377,366
12	Projected retirement cost increases		2,195,092	17,000,000			19,195,092
13	Retiree health insurance pre-funding		30,942,250	29,154,000	803,000	3,628,350	64,527,600
14	Other projected bargaining costs		400,000	593,820			993,820
15	Elimination of one-time items			(6,655,160)			(6,655,160)
16	Cost increase due to enrollment		6,537,580		1,236,305		7,773,885
17	Operating impact of new facilities		417,396	661,020	3,202,161		4,280,577
18	Annualizations						0
19		Annualization of FY10 increments		2,178,450			2,178,450
20		Other position annualizations		276,350	1,000,035		1,276,385
21		GE Facility Maintenance		717,440			717,440
22		MCFRS -- FROMS contract		(306,630)			(306,630)
23	Programmatic set-asides						0
24		Master Lease payment reductions		(1,371,120)			(1,371,120)
25		Community Grants		3,226,520			3,226,520
29		Working Families Income Supplement		1,455,200			1,455,200
30		Election cycle changes		4,104,840			4,104,840
35		County Attorney Disparity Study		500,000			500,000
46	Inflation:						
47		Energy/utility costs		682,070	159,576		841,646
48		Fuel/rate increases		3,069,320			3,069,320
49		Contracts		560,830			560,830
50		Instructional materials/other	5,420,285				5,420,285
51		Nonpublic placements	2,105,578				2,105,578
52		Other			600,000		600,000
53	Other inescapable cost increases:						
54		Self-insurance, workers compensation	2,447,053	6,811,890	25,000		9,283,943
55		Maintenance, transportation, etc.	2,407,573				2,407,573
59			182,555,741	105,519,671	17,152,251	7,221,450	313,099,113
60							
61	**Total**		**2,123,096,682**	**1,356,692,761**	**234,701,314**	**113,867,550**	**3,829,008,307**
62	**Percent increase**		**9.4%**	**8.4%**	**7.9%**	**6.8%**	**8.9%**

PROJECTED TOTAL USES OF RESOURCES (COMBINED USES)

($ Millions)

	A USE OF RESOURCES	B App. FY09 5-13-08	C Est. FY09 5-21-09	D % Chg. FY09-10 Rec / Bud	E % Chg. FY09-10 Rec / Est	F App FY10 5-21-09	G % Chg. FY10-11	H Projected FY11
1	**Total Resources**							
2	Revenues	**3,776.3**	**3,708.6**	0.8%	2.6%	3,804.9	1.5%	3,863.8
3	Beginning Reserves Undesignated	**143.4**	**158.8**	-19.5%	-27.3%	115.5	-34.1%	76.2
4	Beginning Reserves Designated	**6.2**	**6.7**	-100.0%	-100.0%	0.0		0.0
5	Net Transfers In	**33.3**	**32.7**	11.9%	14.0%	37.2	-79.1%	7.8
6	**Total Resources**	**3,959.3**	**3,906.8**	**0.0%**	**1.3%**	**3,957.7**	**-0.3%**	**3,947.7**
7	$ Change from prior Budget	**94.8**	**42.4**			(1.6)		(10.0)
8	**Uses: Non-Agency**							
9	**Capital Investment** (a)							
10	Debt Service: GO Bonds for all Agy's.	**230.6**	**207.9**	-2.5%	8.2%	224.8	9.8%	246.8
11	Debt Service: Local Parks	**4.7**	**4.7**	5.8%	5.8%	5.0	0.0%	5.0
12	Debt Service: Leases	**17.4**	**16.5**	24.7%	31.4%	21.7	29.8%	28.1
13	CIP Current Revenue	**46.3**	**47.3**	-33.6%	-35.0%	30.7	24.0%	38.1
14	CIP Paygo	**5.4**	**5.4**	-75.7%	-75.7%	1.3	2293.6%	31.5
14a	CIP Paygo Rec Tax	**0.0**	**0.0**	0.0%	0.0%	0.0	0.0%	0.0
15	**Sub-total Capital**	**304.4**	**281.8**	**-6.8%**	**0.6%**	**283.5**	**23.3%**	**349.5**
16	**Other Uses**							
17	Set Aside: Potential Supplementals	**0.0**	**0.0**			0.0		20.0
18	Set Aside:Other Claims	**2.6**	**0.1**			2.5		2.5
19	Revenue Stabilization Fund	**0.0**	**0.0**			0.0		0.0
20	**Sub-total Other**	**2.6**	**0.1**			**2.5**		**22.5**
21	**Reserves**							
22	Revenue Stabilization Fund	**119.6**	**119.6**	0.0%	0.0%	119.6	0.0%	119.6
23	Reserve Undesignated	108.4	115.5	-29.7%	-34.1%	76.2	53.9%	117.2
24	Reserve Designated	**8.7**	**0.0**			0.0		0.0
25	**Sub-total Reserves**	**236.8**	**235.2**	**-17.3%**	**-16.7%**	**195.8**	**21.0%**	**236.9**
26	Less Revenue Stabilization Fund	**(119.6)**	**(119.6)**	0.0%	0.0%	(119.6)	0.0%	(119.6)
27	Less Designated Reserve	**(8.7)**	**0.0**			0.0		0.0
28	**Sub-total Undesignated Reserves**	**108.4**	**115.5**	**-29.7%**	**-34.1%**	**76.2**	**53.9%**	**117.2**
29	**Total Uses: Non-Agency**	**424.1**	**397.3**	**-14.6%**	**-8.8%**	**362.2**	**35.1%**	**489.2**
30	**Uses: Available for Agency Services**	**3,535.2**	**3,509.5**	**1.7%**	**2.4%**	**3,595.4**	**-3.8%**	**3,458.5**
31	**$ Change from prior Budget**	**142.8**	**117.1**			**60.3**		**(137.0)**

FY10 TAX SUPPORTED SUPPLEMENTAL APPROPRIATIONS	AMOUNT
Approved	
Operating Budget	
16-1052 Rockville Parking District NDA (approved 7-21-09)	147,430
Subtotal Approved PSP	147,430
CIP Current Revenue	
	0
Subtotal CIP CR	0
Subtotal Approved:PSP and CIP CR	147,430
FY10 Pending Supplemental Appropriations	
MNCPPC - Silver Place MRO Headquarters Mixed-Use Project - CIP Current Revenue (introduced 9-15-09)	1,385,681
MNCPPC - Sligo Golf Course Operations (introduced 9-15-09)	150,000
Potential Supplementals (see below for details)	18,316,889
Subtotal:Pending Tax Supported Supplemental Appropriations	**19,852,570**
FY10 Potential Supplemental Appropriations	
Snow Supplemental	15,000,000
Other Contingencies	3,316,889
Subtotal:Potential Tax Supported Supplemental Appropriations	**18,316,889**

Quarterly Update on Revenue Estimates
Montgomery County
FY 2009

Preliminary (Unaudited) Year End

Revenue Update

- **Preliminary Unaudited Final Results:**
  - Total tax collections for FY09, including investment income and highway user revenue, totaled $2.582 billion and were 4.6% above the same period in FY08 due primarily to property tax collections. Excluding property tax revenues, collections were $1.622 billion and down 3.1% from the same period of FY08. (Please note: the revenue data are unaudited yearend for FY09).
  - Income tax collections through July stood at $1.292 billion and approximately $377,000 (0.0% change) above collections for the same period in FY08.
  - The General Fund (G.F.) portion of property tax collections (including penalties and interest) was $960.4 million (↑21.0%) through June compared to the same period in FY08. The double-digit growth is a function of three factors: (1) increase in G.F. taxable assessments (↑11.2%), increase in G.F. real property rate (from $0.627 to $0.661), and a decrease in the credit (from $613 to $579).
- **Transfer and Recordation Taxes:**
  - Collections from the transfer tax (excluding condominium conversions) through June of FY09 were $64.8 million, or 19.4% below the same period last year.
  - Collections from the recordation tax (excluding the CIP portion and the rate premium) were $42.4 million, a decrease of 22.4% over last year.

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Revenue Update

- **Transfer and Recordation Taxes (continued):**
  - The decrease in the transfer and recordation taxes is due to continued decline in average sales prices and mortgage activity. Total recordation tax collections decreased 22.4%, while collections from mortgage refinancing decreased 37.9%.
  - The volume of transfers, not including condo conversions, was down 4.7% in FY09 compared to last year, and the volume of recordation tax transactions (excluding CIP portion and rate premium) was down 11.0% compared to fiscal year 2008.
  - The combined amount of revenues from the transfer and recordation taxes (excluding condo conversions, CIP portion, and rate premium) was \$107.2 million compared to \$135.1 million compared to the same period last year (↓20.6%).

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Revenue Update

- **Consumption Taxes:**
  - Total revenues from the consumption taxes (fuel/energy, hotel/motel, telephone, and admissions) totaled $179.2 million, which were 6.2% above the same period in FY08.
  - Fuel/energy tax collections totaled $129.3 million and 9.3% above FY08 attributed mainly to the rate increases for electricity, natural gas, fuel oil, and liquid propane gas.
  - Revenues from the telephone tax were $30.9 million and 1.4% above the previous fiscal year.
  - Revenues from the hotel/motel tax are 5.4% below the same period last year.
  - Revenues from the admissions tax were down 1.4% compared to the same period last year.

(13)

Revenue Update

- **Other Revenues:**
  - Revenues from the County's *pooled investment income* were $11.9 million through June of this fiscal year and 72.2% below the same period last year.
  - Highway user revenues received to date were $32.0 million and 12.7% below the same period in FY08.

Revenue Summary Sheet

MAJOR REVENUE COLLECTIONS FISCAL YEAR 2009					
TAXES :	*REPORTING PERIOD*	*FY09 prelim (1)*	*FY08*	*VARIANCE FY09/FY08*	*PERCENT CHANGE*
INCOME (2)	*Year end*	$1,291,716,935	$1,291,339,613	$377,322	0.0%
PROPERTY (General Fund)(3)	*Year end*	960,352,971	793,413,228	166,939,743	21.0%
TRANSFER (excl. condo conversion)	*Year end*	64,771,739	80,380,388	(15,608,648)	-19.4%
RECORDATION (excl. CIP and Premium)	*Year end*	42,437,217	54,658,377	(12,221,160)	-22.4%
FUEL/ENERGY(4)	*Year end*	129,328,307	118,277,973	11,050,334	9.3%
HOTEL/MOTEL	*Year end*	16,829,254	17,783,194	(953,940)	-5.4%
TELEPHONE	*Year end*	30,906,025	30,472,124	433,901	1.4%
ADMISSIONS	*Year end*	2,169,201	2,199,608	(30,407)	-1.4%
MISCELLANEOUS :					
INVESTMENT INCOME (Pooled Invesment)	*Year end*	$11,913,861	$42,849,042	(30,935,181)	-72.2%
HIGHWAY USER	*Year end*	32,011,346	36,650,848	(4,639,502)	-12.7%
TOTAL		$2,582,436,857	$2,468,024,394	$114,412,463	4.6%

SOURCE: All revenue data, excluding investment income data, from preliminary yearend revenue exhibits.

NOTES:
(1) Revenue data for FY09 are preliminary unaudited year end.
(2) Includes July distribution.
(3) Property Tax for General Fund includes adjustment for the income tax offset (rebate)
(4) Fuel/Energy tax rates increased 10% (electricity, fuel, and steam) and 5% (natural gas and L.P. gas) in FY09.

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Montgomery County, Maryland

ECONOMIC INDICATORS

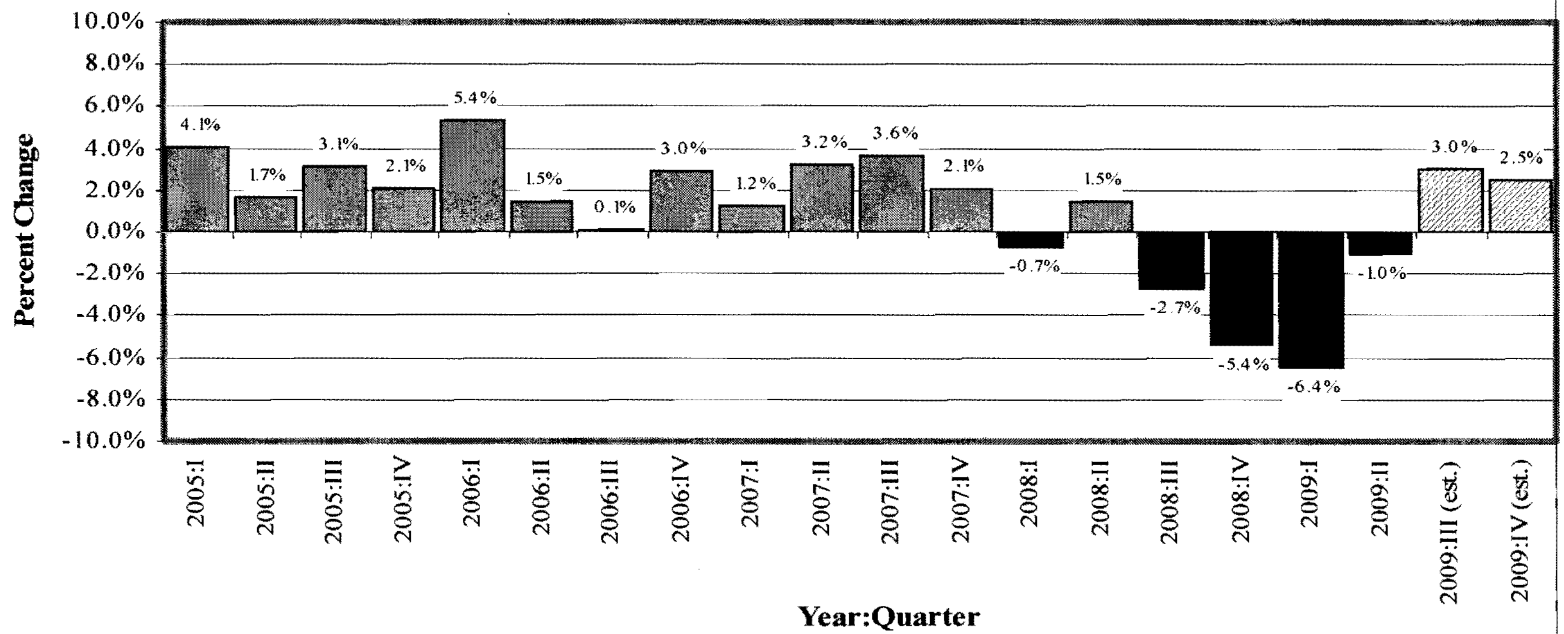
Presentation to the Montgomery County Council

Department of Finance

September 29, 2009

National Economic Indicators

BEA reported that real GDP decreased 1.0 percent during the second quarter. On average over 50 economists surveyed by *The Wall Street Journal* earlier this month expect GDP to increase 3.0 percent this quarter and 2.5 percent during the fourth quarter, respectively.



SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Hatched bars from *Wall Street Journal* survey conducted September 4-8.

NOTE: Percent changes are at annual rates.

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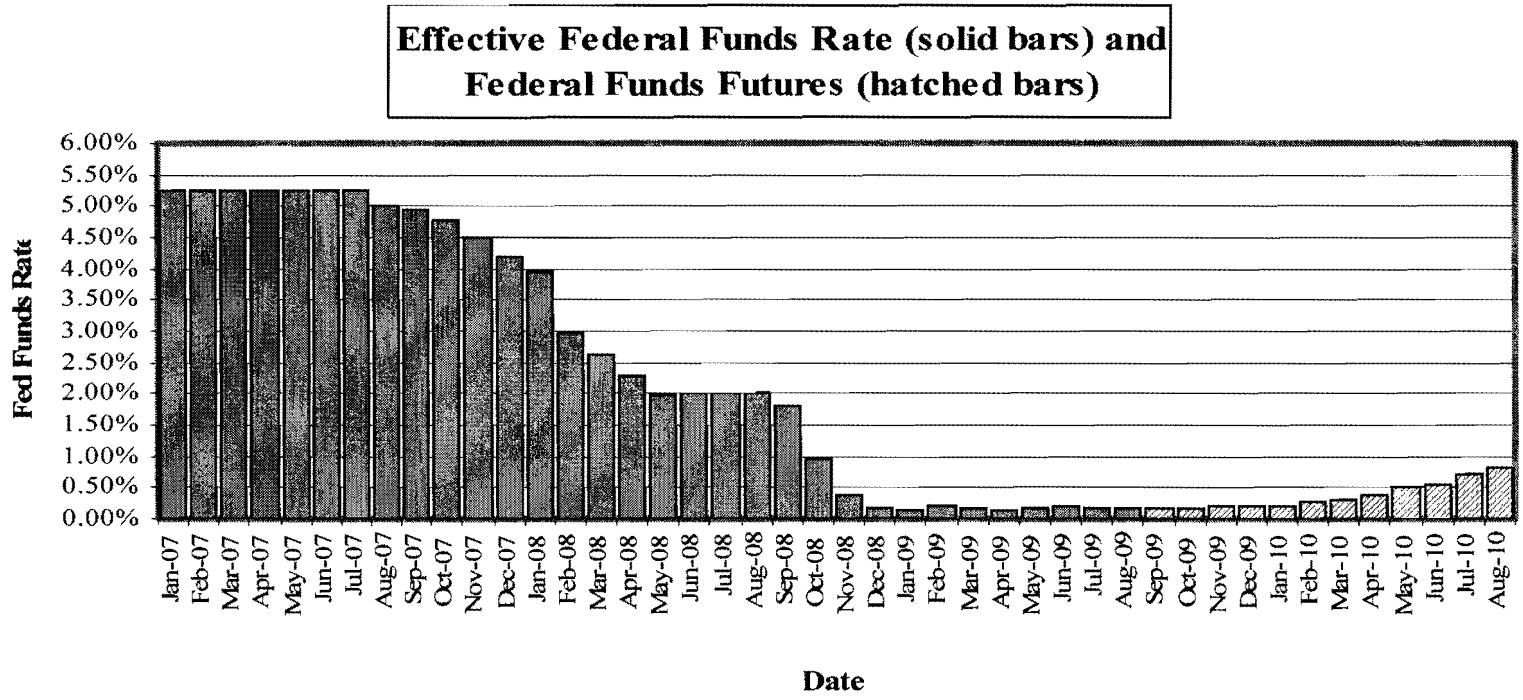
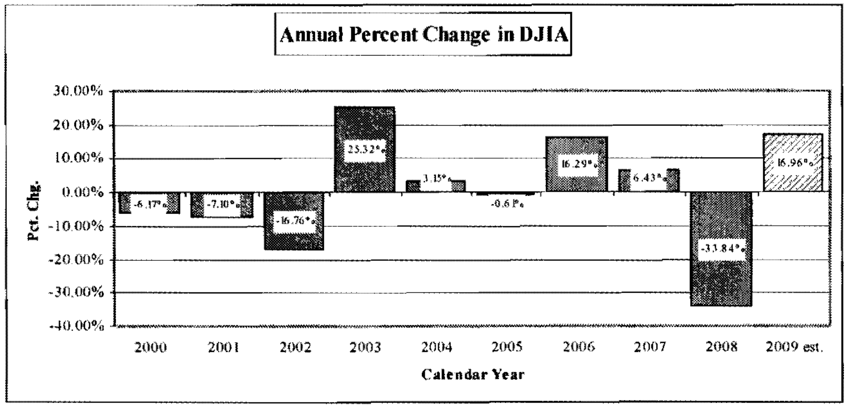
On August 12th, the Federal Open Market Committee of the Federal Reserve decided to keep its target range for the federal funds rate at 0.00 to 0.25 percent. The futures market anticipates no changes to the target range until late spring of next year.

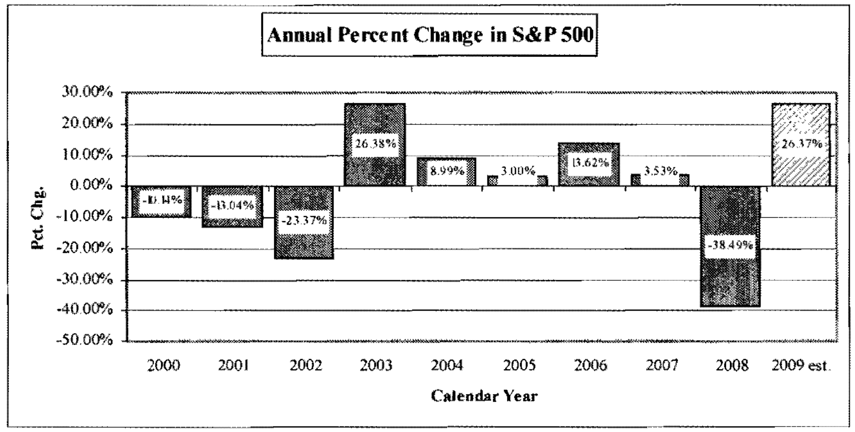


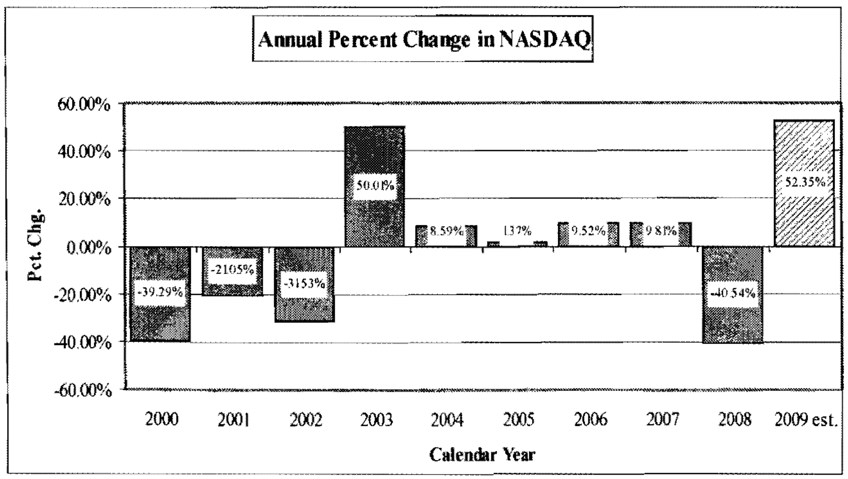
SOURCES: Federal Reserve Bank of St. Louis (solid bars) and the Chicago Board of Trade (hatched bars) as of September 15, 2009

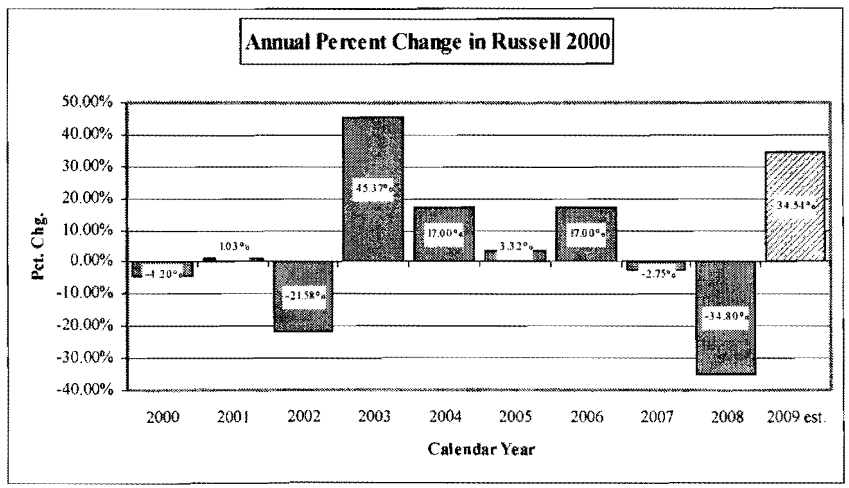
(61)

Due to the dramatic growth in the stock market since the trough on March 9th, all four stock indices have increased between 50 percent (DJIA) and 80 percent (Russell 2000). Because of that dramatic growth, Finance estimates that all four stock indices will experience double-digit growth by the end of the year.









Is the Recession Over?

- Federal Reserve Board Chairman Ben Bernanke remarked on September 15 that "after contracting sharply over the past year, economic activity appears to be leveling out, both in the United States and abroad, and the prospects for a return to growth in the near term appear good. Notwithstanding this noteworthy progress, critical challenges remain: strains persist in financial markets, financial institutions face additional loses, and businesses and households continue to experience difficulty in gaining access to credit."

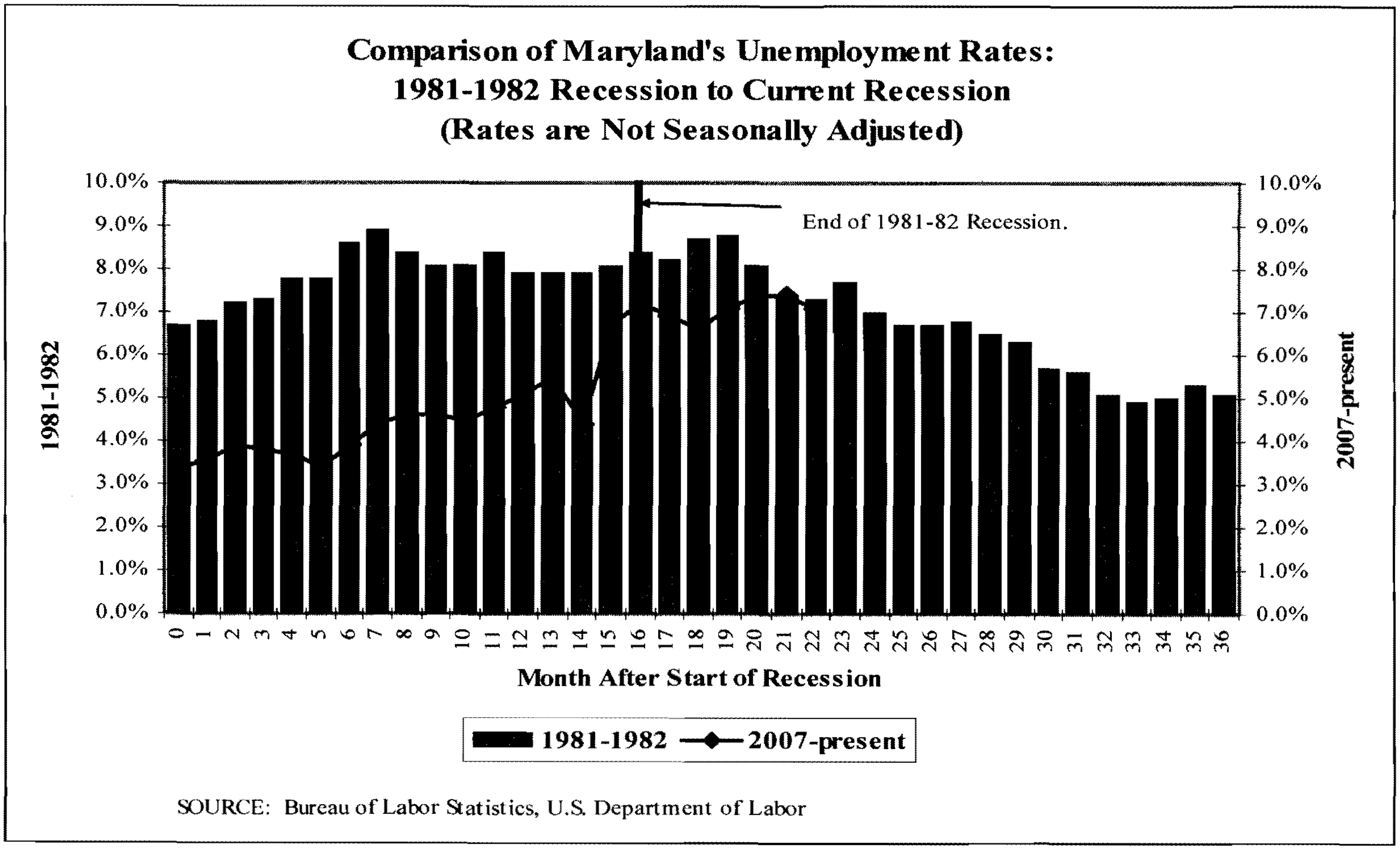
- The financial press has stated that the definition of a recession is of at least two consecutive quarters of a decline in GDP and a recovery is of at least two consecutive quarters of an increase in GDP. Using this "rule of thumb" coupled with the recent WSJ survey results, the recession ended either last quarter or the very beginning of this quarter.

Is the Recession Over? (continued)

- However, the Business Cycle Dating Committee of the National Bureau of Economic Research has the official responsibility for identifying when a recession begins and ends:
  - First, the Committee's procedure for identifying business cycles does not rely solely on changes in real GDP.
  - Second, the Committee places emphasis on monthly indicators rather than quarterly data.
  - Third, the Committee considers the depth of the decline in economic activity.
  - Fourth, the Committee considers both production indicators and income variables in determining the business cycle. Such factors include industrial production, monthly real personal income less transfers, monthly *payroll* employment, and monthly real manufacturing and trade sales.
  - Finally, the Committee does not forecast how long a recession will last.

- For County purposes, and from a non-technical perspective, this question may be summed up in the statement of one individual, who declared: **"Your recession may be over, but my recession is <u>not</u> over!"**

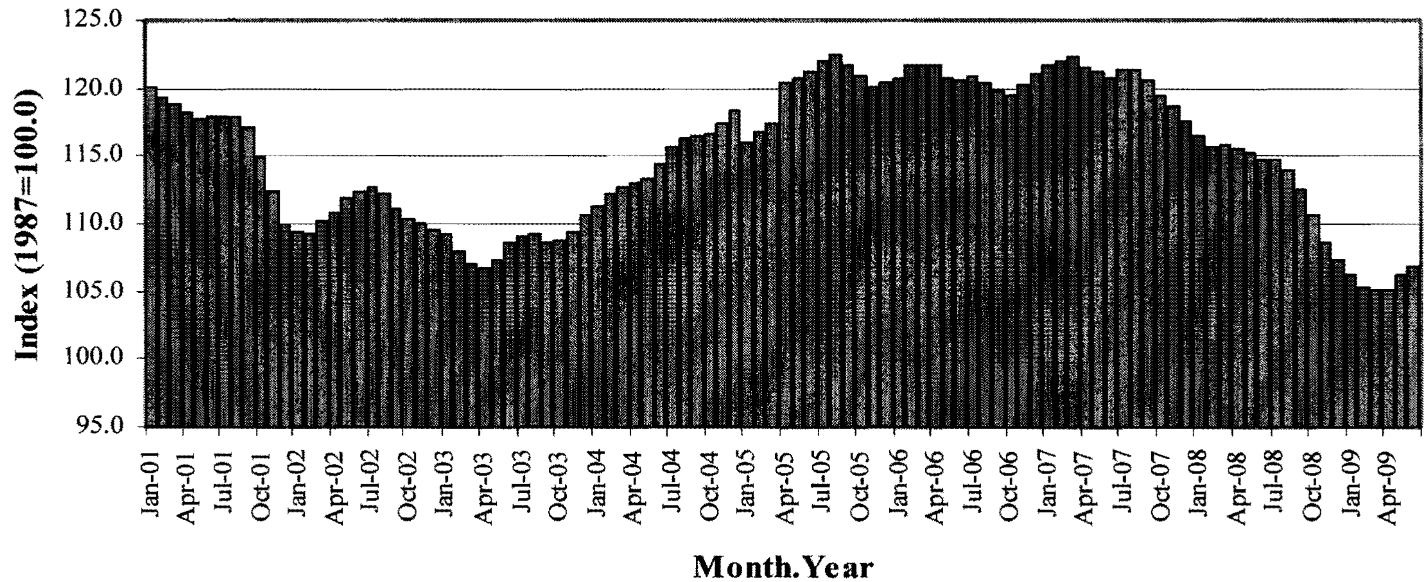
Comparison of Maryland's Unemployment Rates between the 1981-1982 Recession When the Unemployment Rate Reached 8.9 Percent Compared to the Current Recession.



Regional Economic Indicators

The Washington region's coincident economic indicator increased 0.6 percent (three-month moving average) in June over May for the second consecutive month after declining 14.1 percent since March '07.

Three-Month Moving Average of the Washington MSA Coincident Economic Indicator



SOURCE: Center for Regional Analysis(CRA), George Mason University

NOTE: Coincident indicator respresents the current state of the economy and includes total wage and salary employment, consumer confidence, domestic airport passengers, and purchases of nondurable goods.

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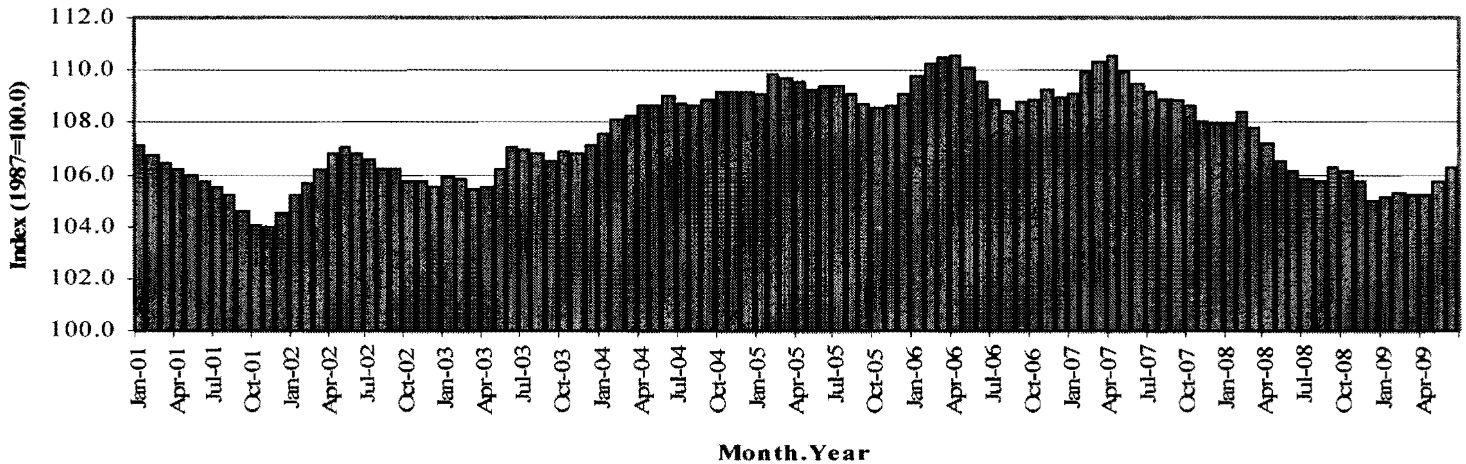
The leading index increased 0.5 percent (three-month moving average) in June over May, after declining 4.8 percent since its peak in April '07. The Center for Regional Analysis suggests that the region's economy has begun to improve albeit the recovery may be a slow and lengthy process through 2010.

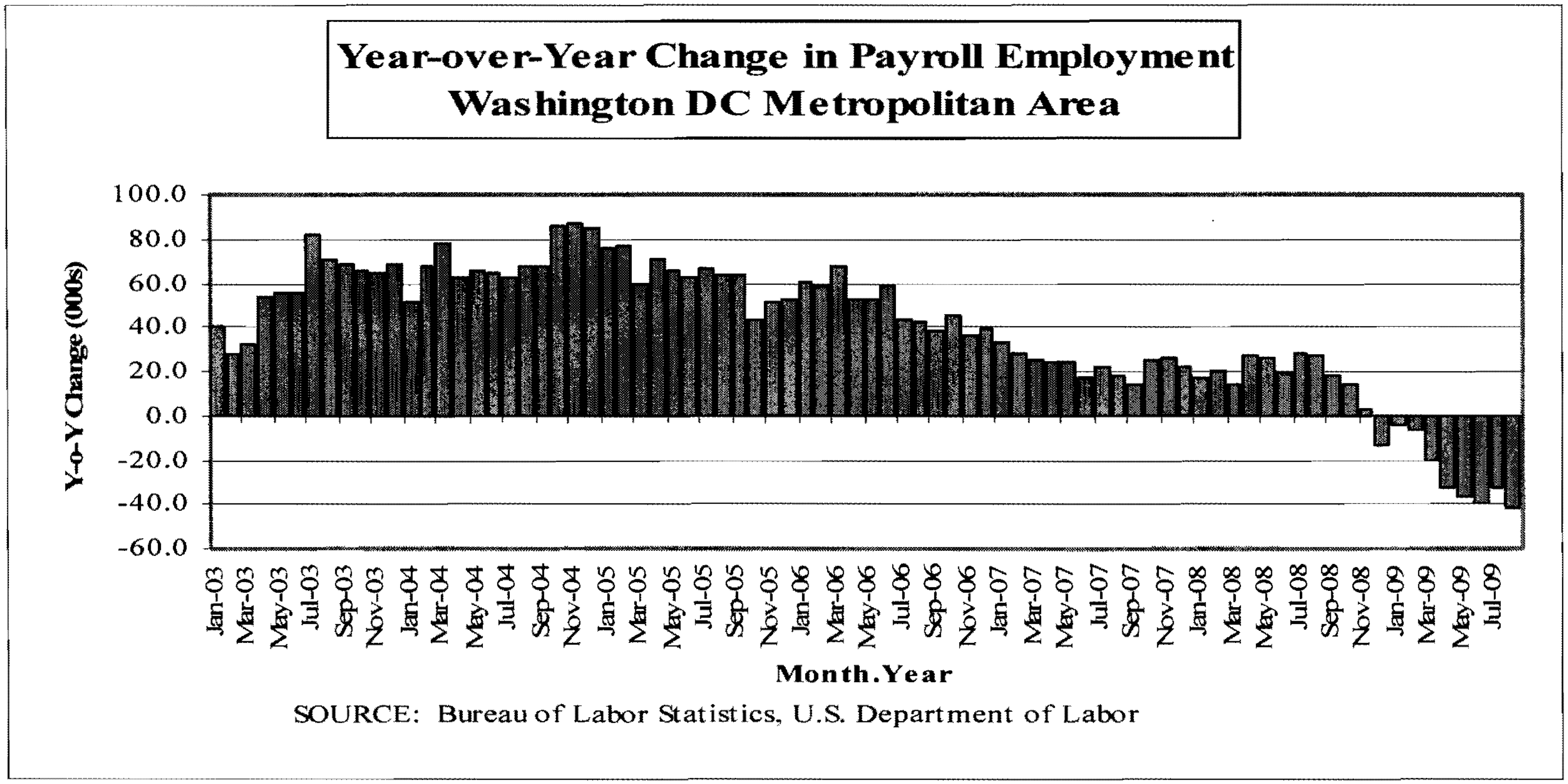
Three-Month Moving Average of the Washington MSA Leading Economic Indicator



SOURCE: Center for Regional Analysis(CRA), George Mason University
NOTE: Leading indicator is designed to forecast economic performance six to eight months in advance and includes residential building permits, consumer expectations, help wanted index, initial claims for unemployment insurance, and purchases of durable goods.

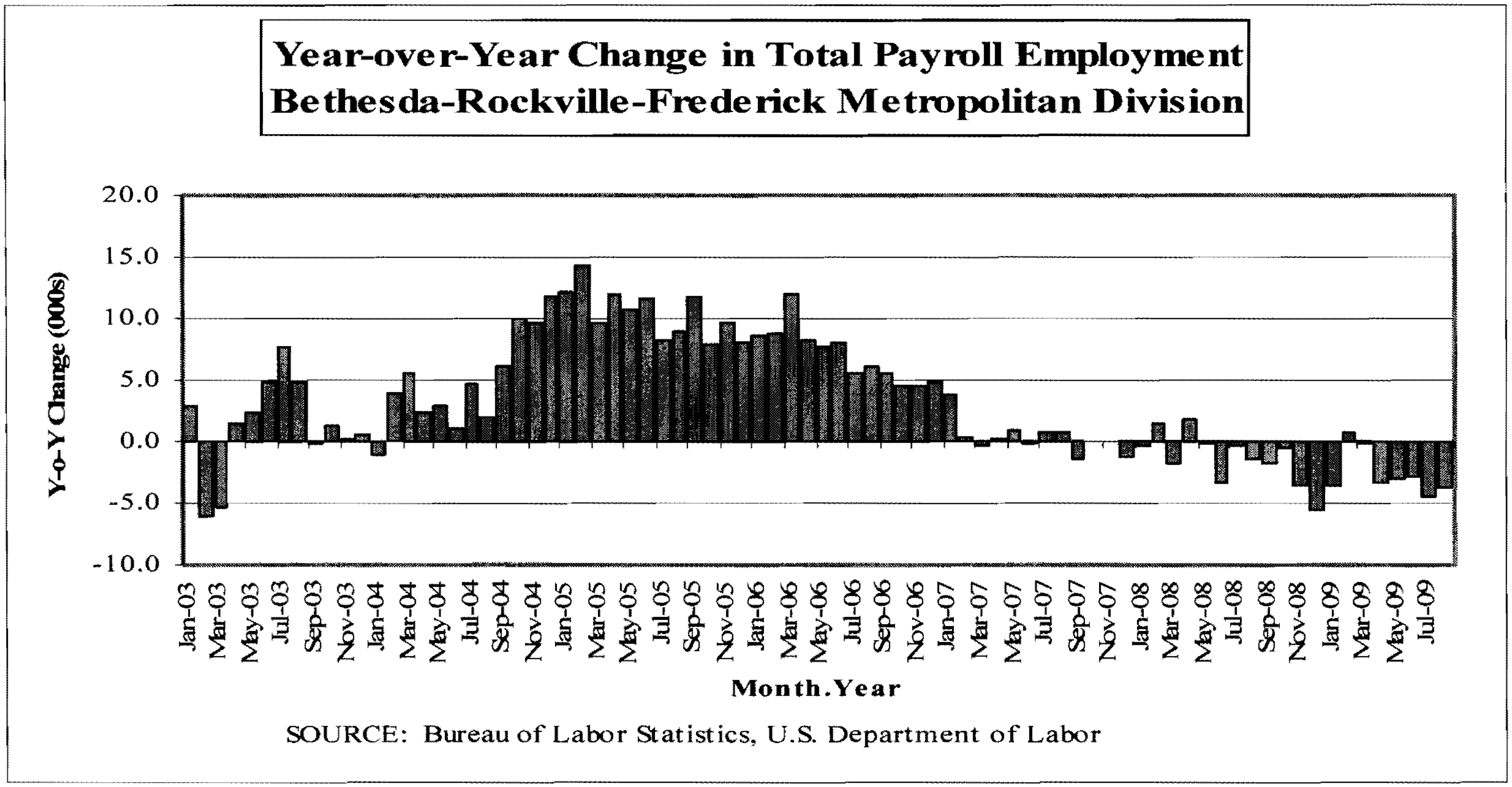
26

While CRA suggests that the region's economy has begun to improve, payroll employment, which is a lagging economic indicator, continues to show weakness. Employment in the metropolitan region stood at nearly 2.976 million in August compared to 3.018 million in August '08 - decline of 42,000.

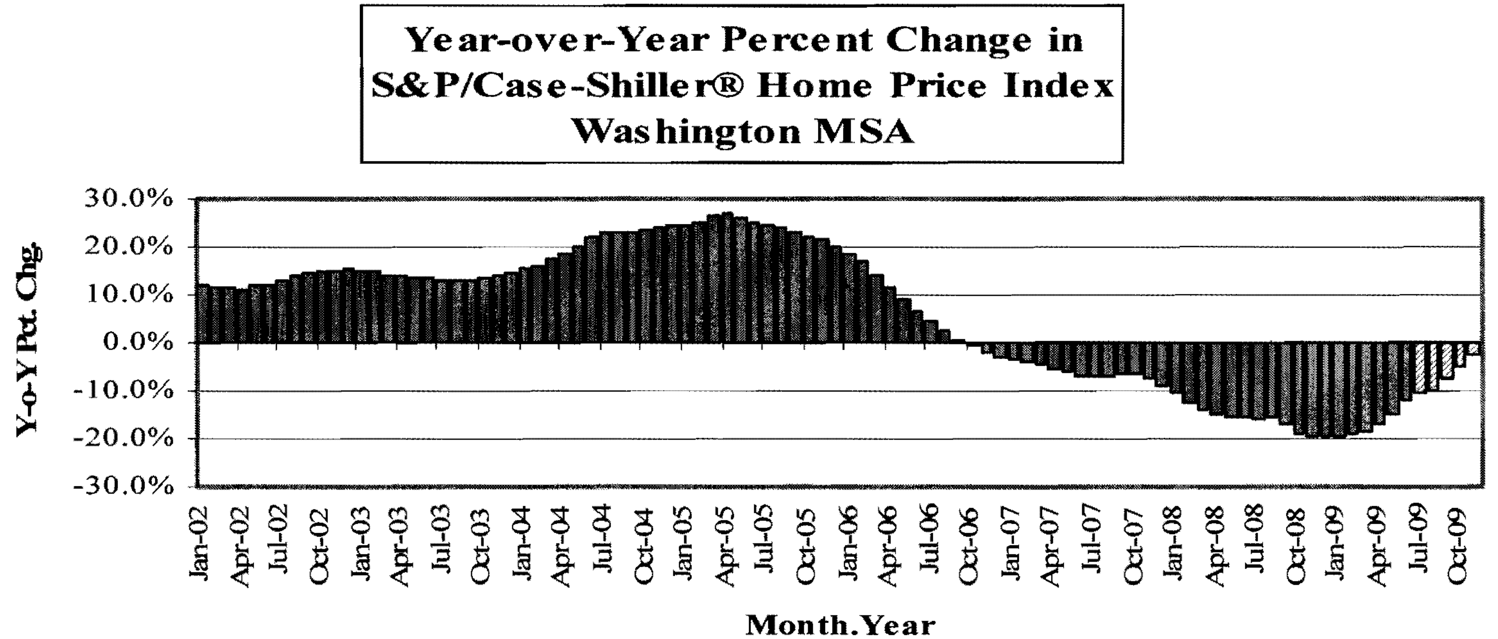


27

Payroll employment for Montgomery and Frederick counties stood at 573,000 in August - a decline of 3,800 jobs since August '08. For the first eight months of this year, monthly payroll employment averaged 572,100 – a 0.4 percent decline over the monthly average for the same period last year.



Based on the Case-Shiller® index, home prices in the Washington metropolitan region decreased 11.8 percent in June compared to June '08. The futures market suggests that the region may experience a year-over-year increase in prices by the beginning of next year.



NOTE: S&P/Case-Shiller price index is a registered trademark of Standard and Poor's. Data from July 2009 to November 2009 extrapolated from Chicago Mercantile Exchange futures data.

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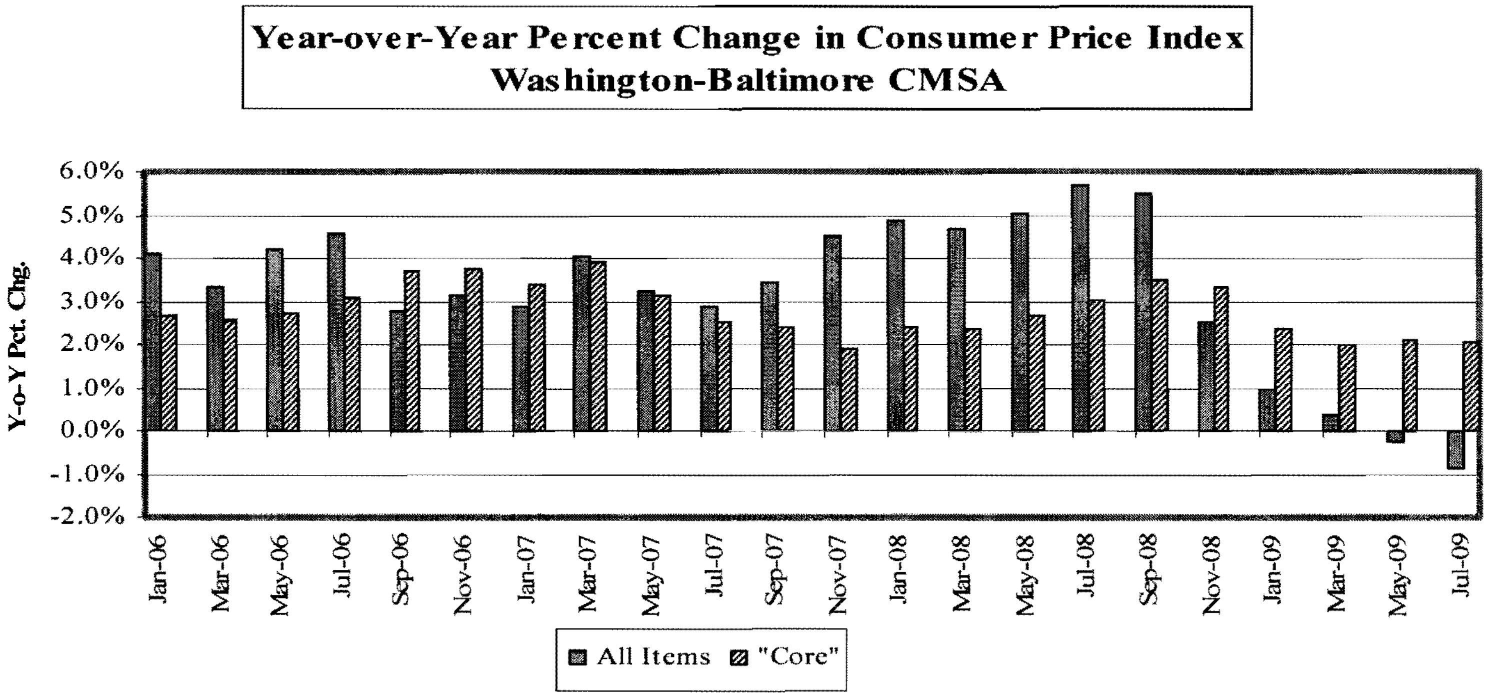
Because of the dramatic decrease in energy prices, the overall consumer price index for the Washington-Baltimore consolidated region declined 0.9 percent in July compared to July '08. For the calendar year (January through July), the index increased a meager *0.05 percent* compared to 4.52 percent in 2008.



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

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Montgomery County
Economic Indicators

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON	DIRECTION
INFLATION	0.05% Jan.-July 2009	Property Taxes	Key determinant of property tax revenues at the Charter Limit	2007: 3.62% 2008: 4.52%	↔
UNEMPLOYMENT RATE	5.5% July 2009	Income Taxes	Indicates overall health of the job market	June 2009: 5.7% July 2008: 3.5%	↔
RESIDENT EMPLOYMENT	493,161 July 2009	Income Taxes	Primary determinant of income tax receipts	June 2009: 485,872 July 2008: 507,151	↓
PAYROLL EMPLOYMENT	477,400 August 2009	Income Taxes	Another determinant of income tax receipts	July 2009: 478,900 Aug 2008: 480,500	↓
STOCK MARKET - S&P 500	(Changes Daily)	Income Taxes	Key determinant of capital gains portion of the income tax	December 31st: 2008: 903.25 2007: 1,468.36	↑
HOME SALES	967 August 2009	Transfer/ Recordation Taxes	Indicates activity affecting receipts	July 2009: 1,130 Aug 2008: 787	↑
HOME PRICES	$456,860 August 2009	Transfer/ Recordation Taxes	Taxes are based on values, affects amount of taxes collected	July 2009: $459,258 Aug 2008: $510,994	↓
FEDERAL FUNDS RATE	0.16% August 2009	Investment Income	County's return on investments closely correlated with the Fed Fund rates	July 2009: 0.16% Aug 2008: 2.00%	↔

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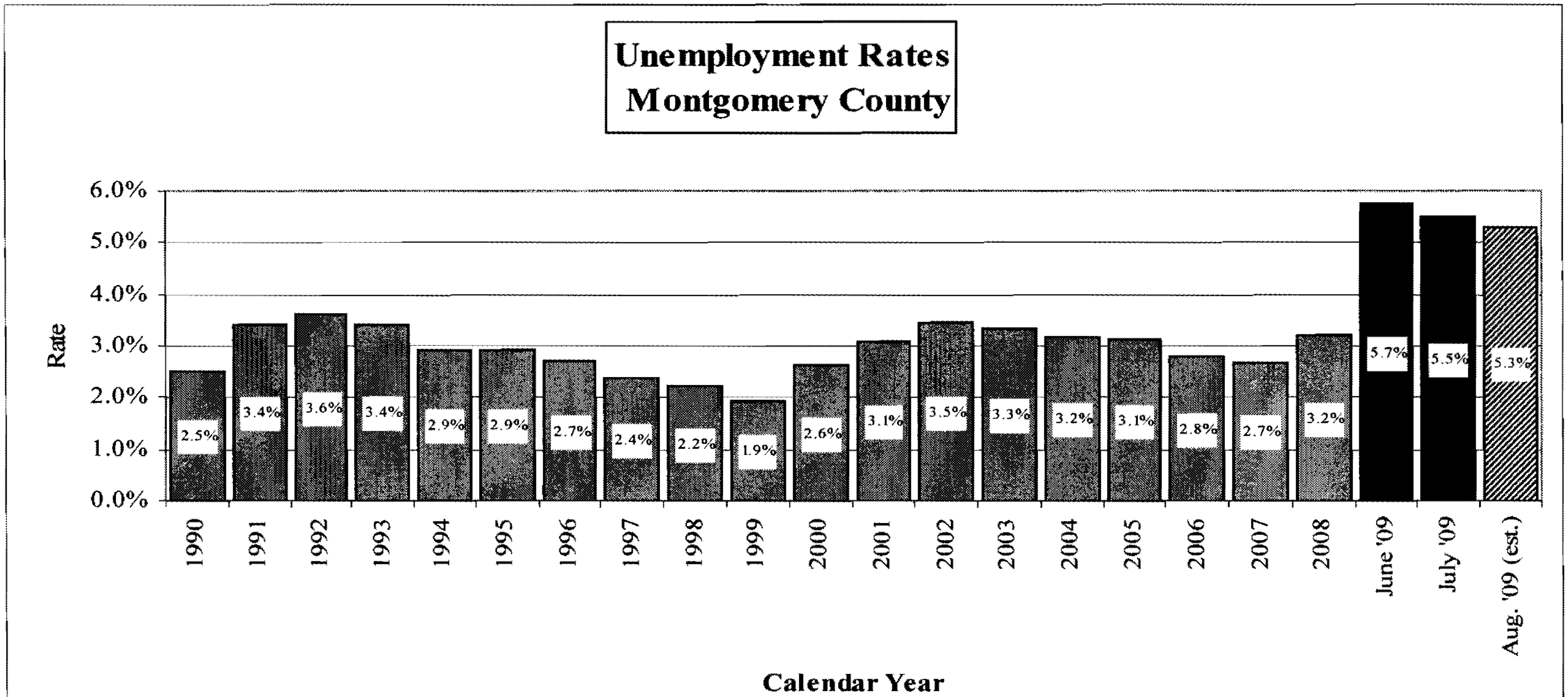
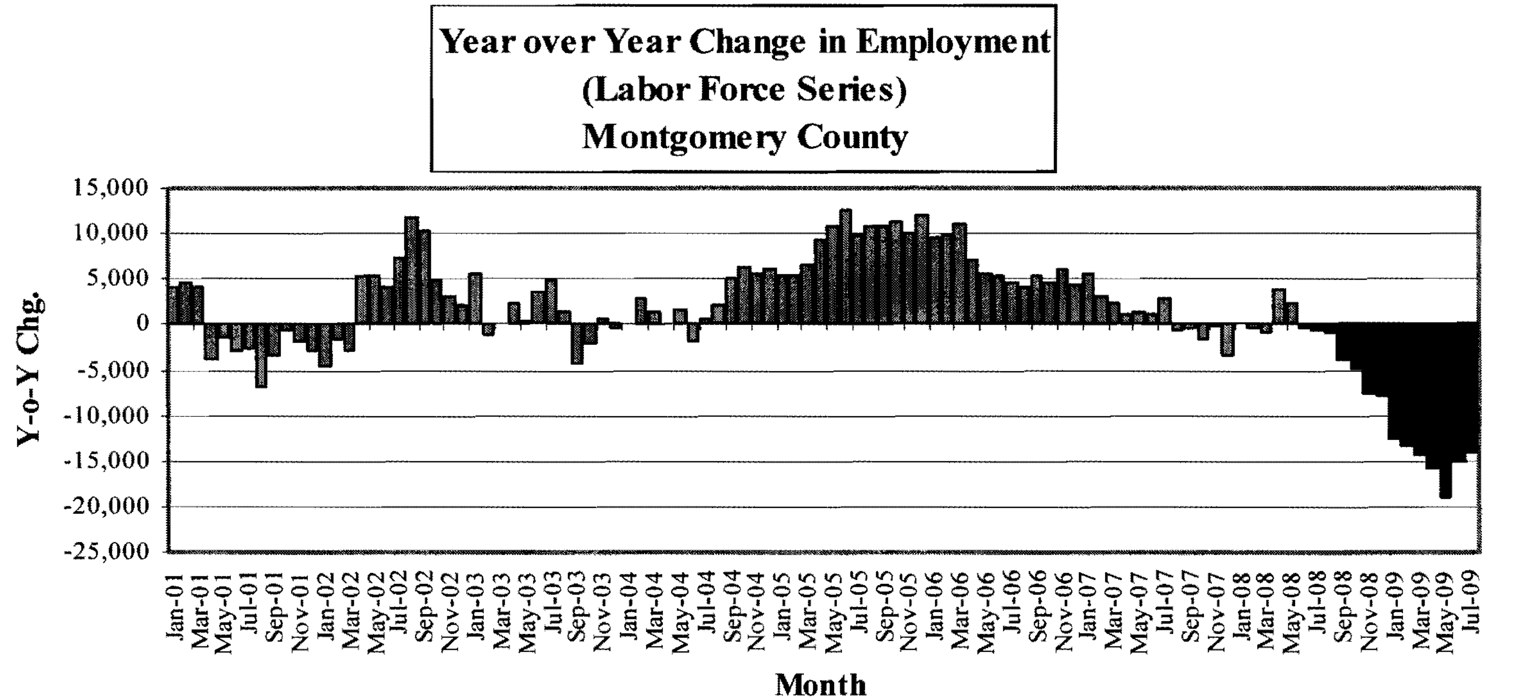
Because of the steady decline in the County's employment, the unemployment rate has jumped from 3.5 percent in July 2008 to 5.5 percent in July of this year. Finance estimates that the August unemployment rate will decline slightly to 5.3 percent.



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

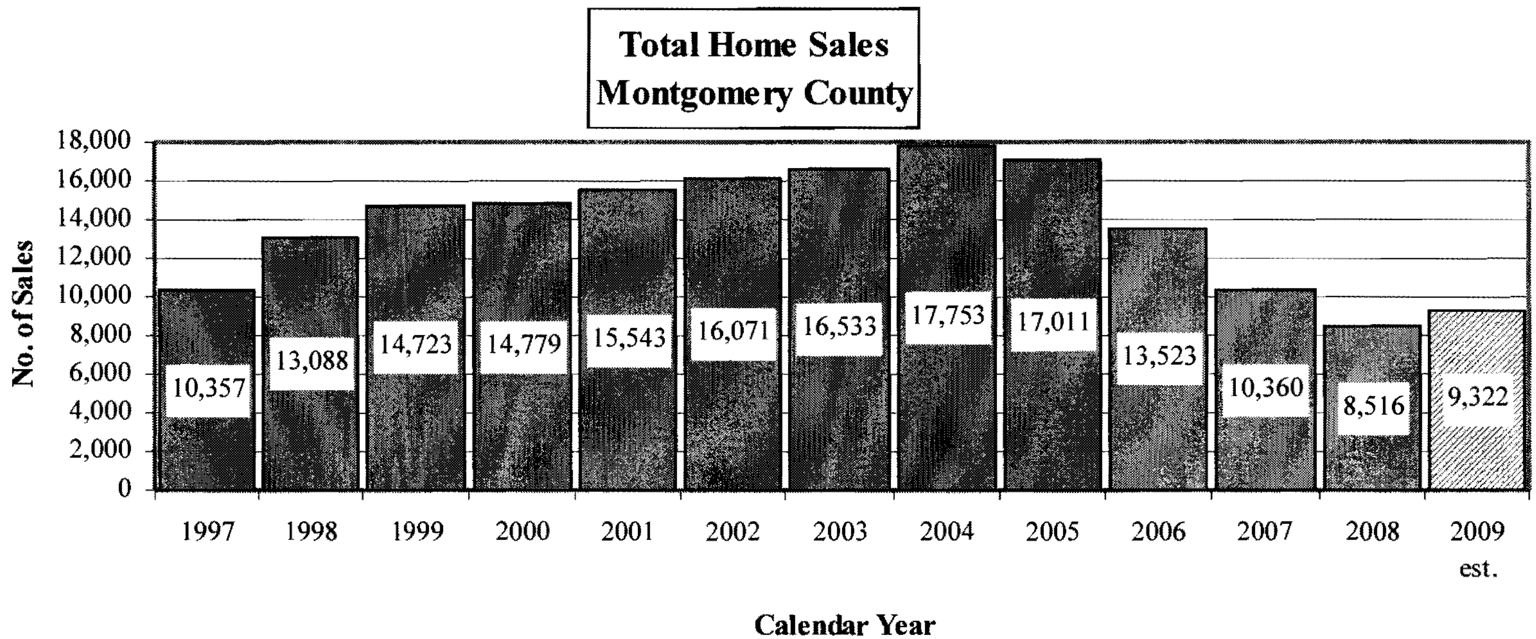
Resident employment in Montgomery County was 493,000 in July compared to almost 507,000 in July '08 - a decline of 14,000. Since May of last year, the year-over-year change in the County's monthly employment declined each month.



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

(34)

With home sales increasing at an average monthly rate of 140 units between March and August compared to the same period last year, total home sales are expected to increase 9.5 percent in 2009 compared to declines of 20.5 percent (2006), 23.4 percent (2007), and 17.8 percent (2008).



SOURCES: Metropolitan Regional Information System, Inc.
Montgomery County Department of Finance

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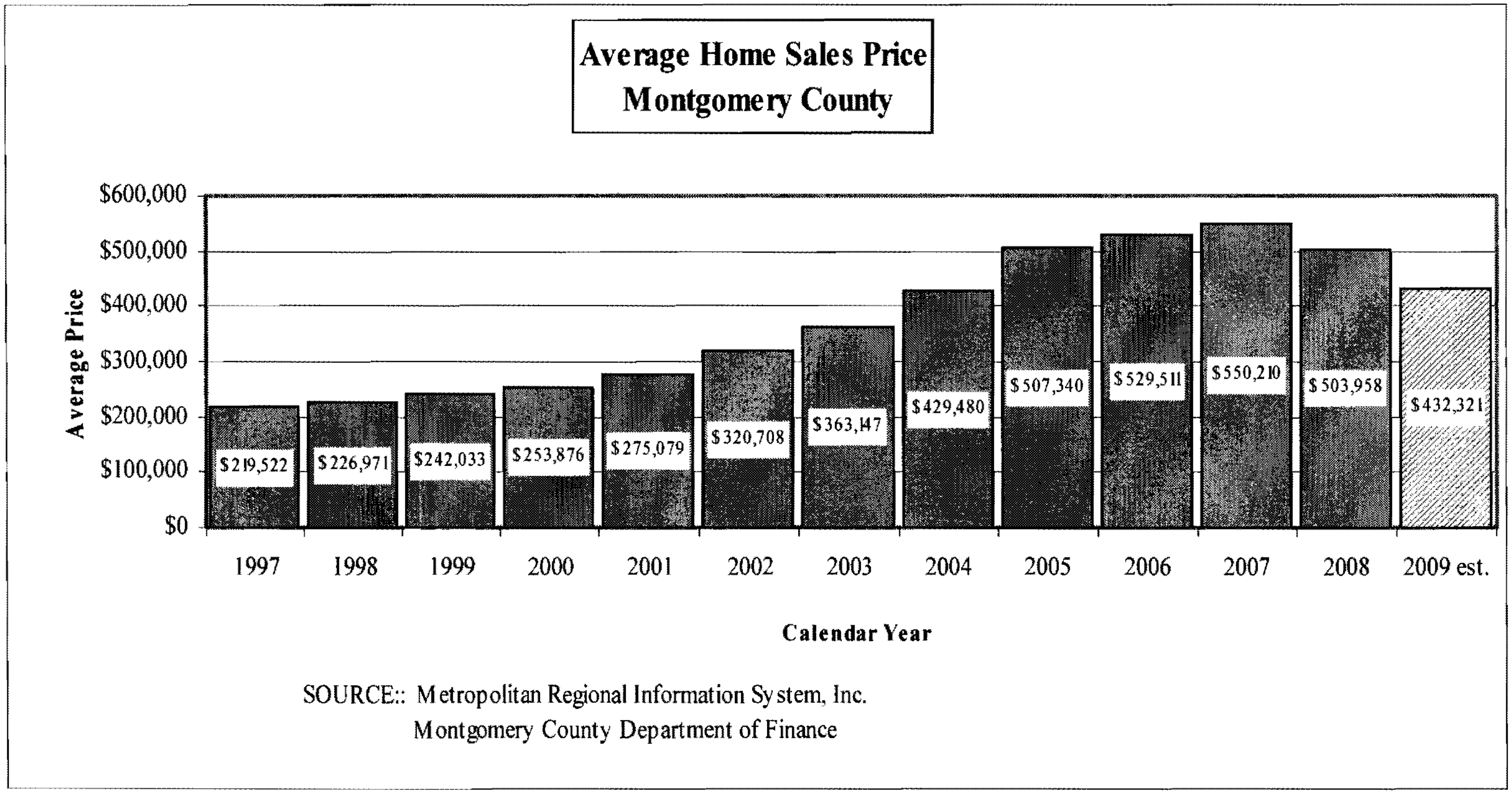
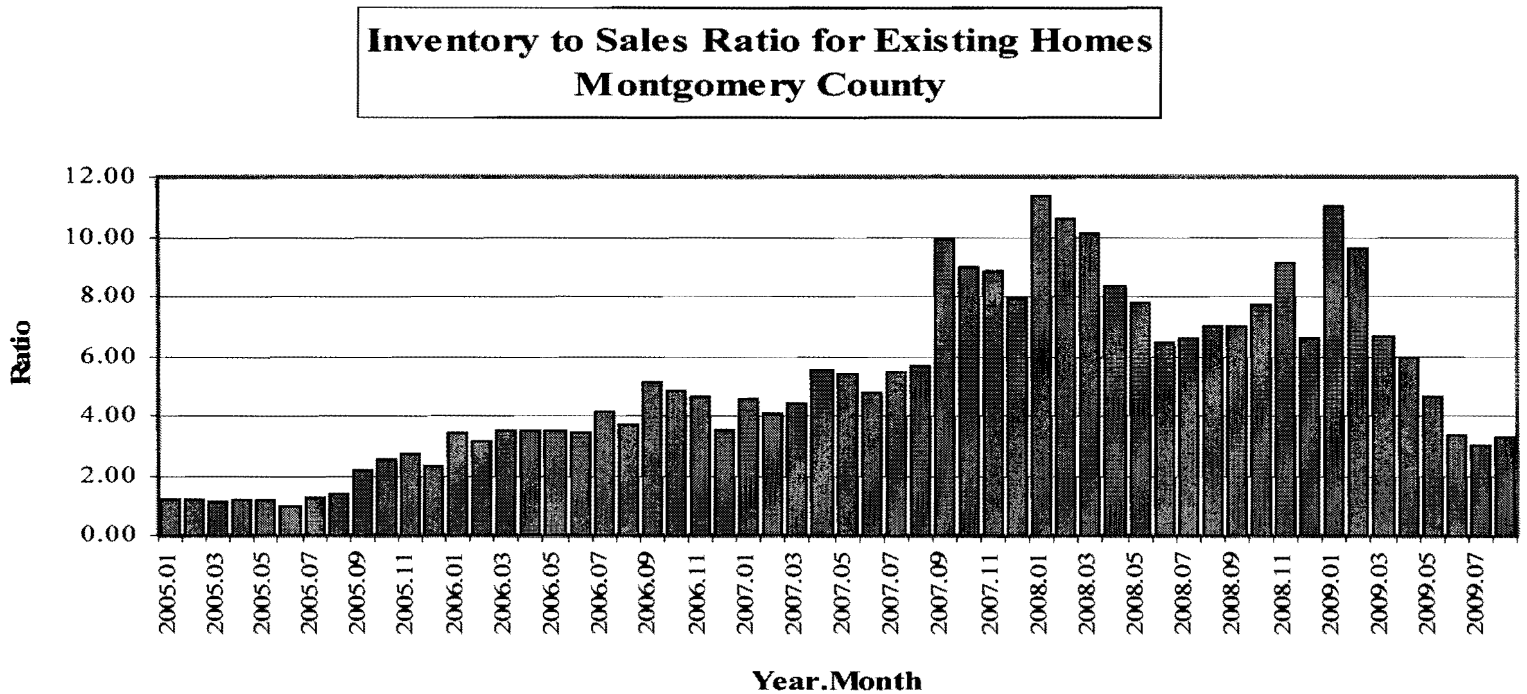
While the sales of existing homes in the County is expected to increase in 2009, the average sales price is expected to decline 14.2 percent, which follows increases of 4.4 percent (2006), 3.9 percent (2007), and a decrease of 8.4 percent (2008).



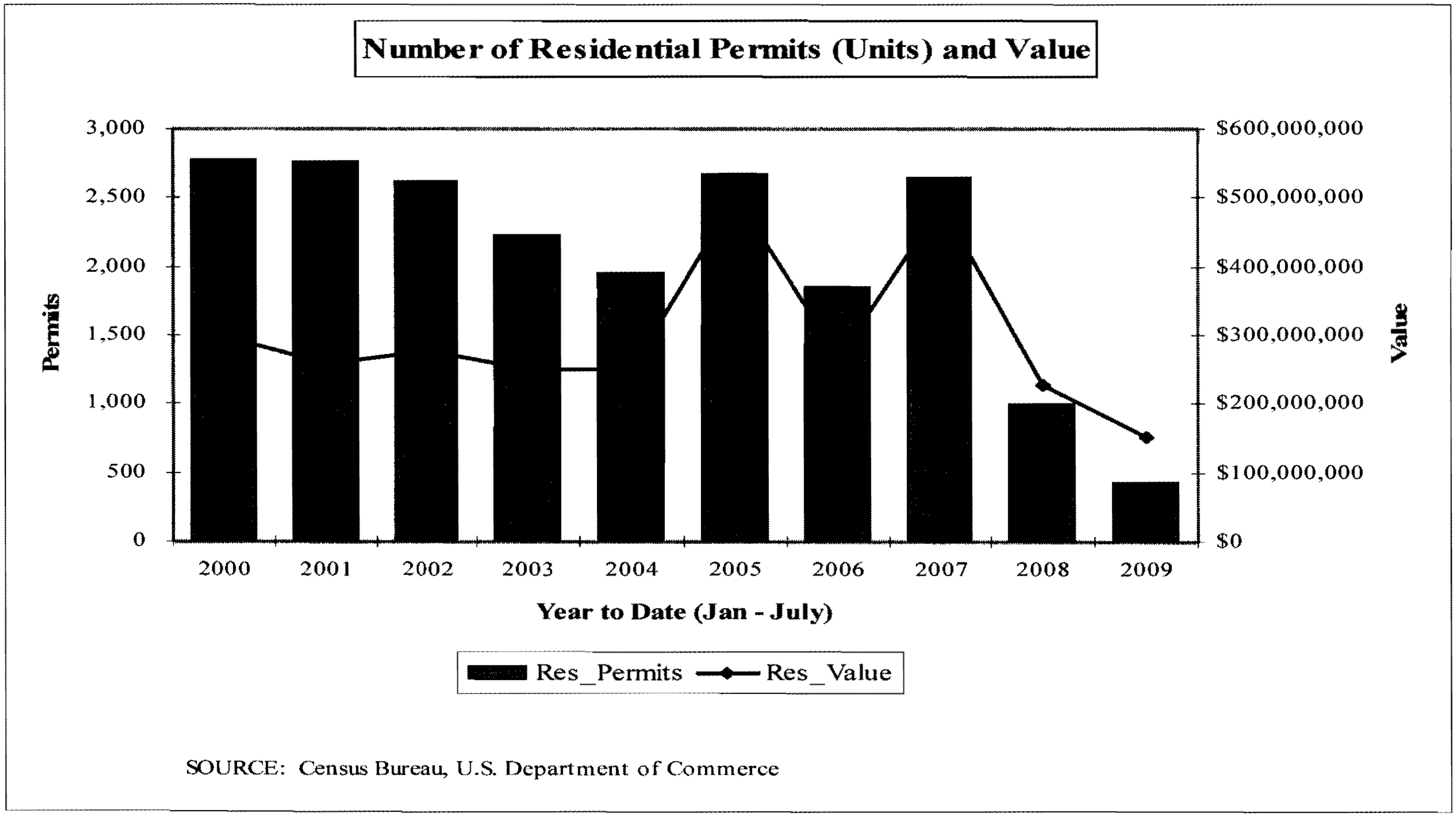
The inventory of existing homes for sale has declined significantly from its recent peak of an eleven-month supply in January to slightly more than a three-month supply in August. While August sales occur during the peak selling period, the latest inventory figure is below the 7-month figure of August 2008.



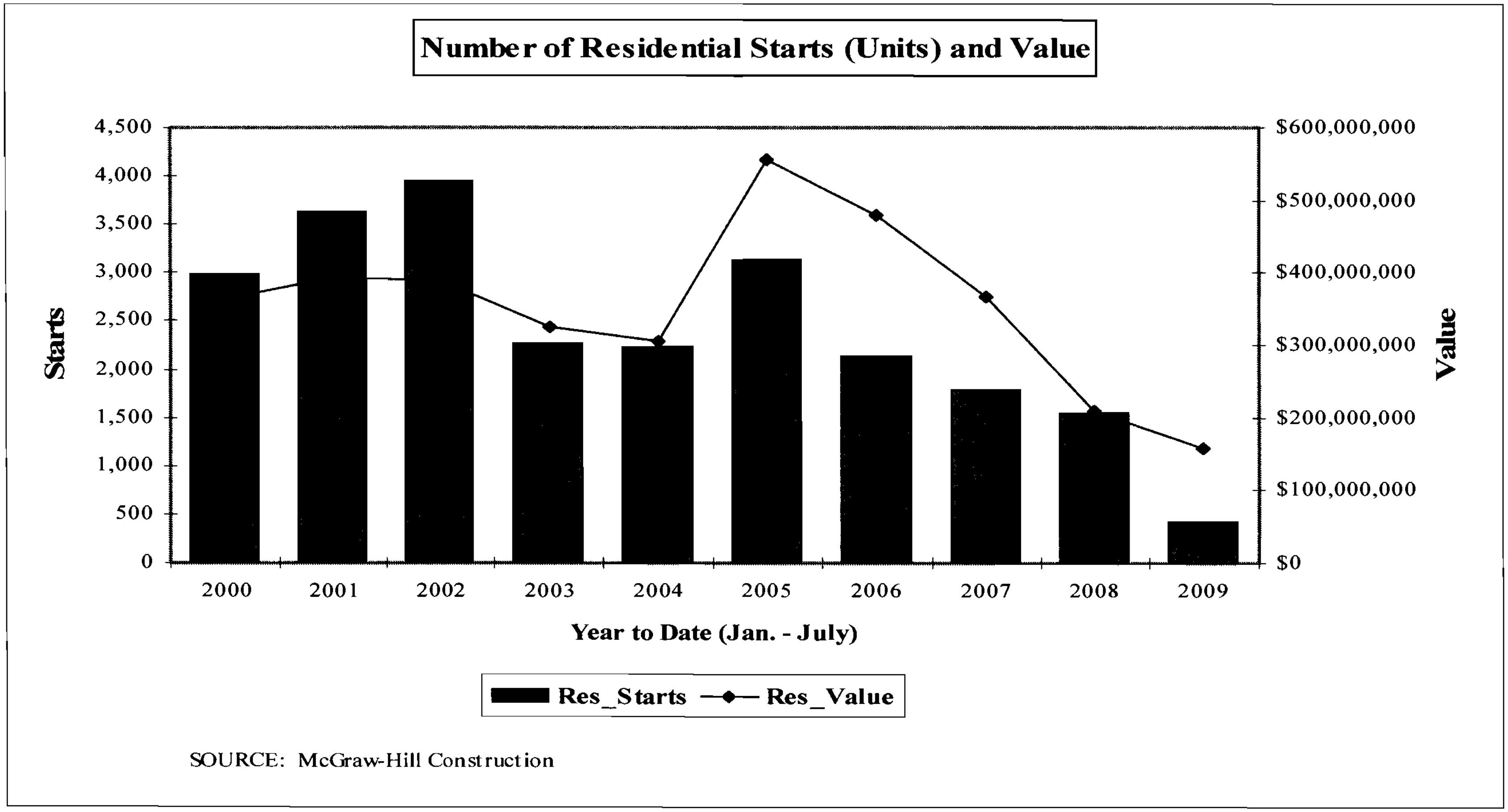
SOURCES: Metropolitan Regional Information System Inc.
Greater Capital Area Association of Realtors
Montgomery County Department of Finance

(37)

The decline and weakness in home sales over the past four years coupled with the increase in the inventory of homes for sale has affected new residential construction. The number of residential permits (units) declined from 2,700 in 2005 (January to July period) to 430 in 2009 – a decrease of 84.1 percent.



The decline in the number of permits is also mirrored in the number of residential construction starts. The number of new units under construction declined from slightly more than 3,100 units in 2005 (January to July) to 430 units this year – a decrease of 86.2 percent.



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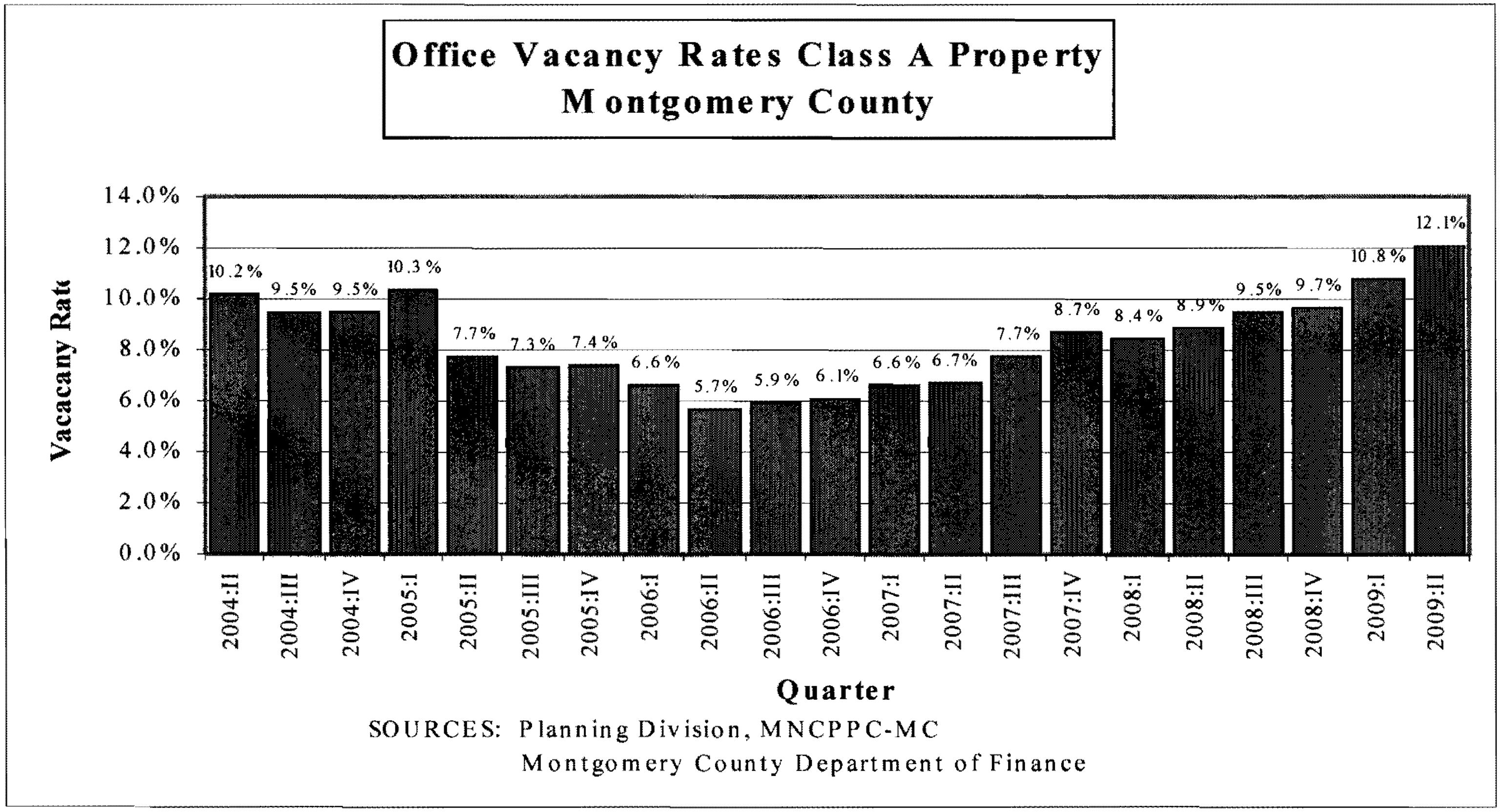
The decrease in non-residential construction is attributed to the steady increase in the vacancy rates of Class A property in the County. Since the second quarter of 2006, that rate increased from 5.7 percent to over 12 percent during the second quarter of this year.



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Summary

- Inflation:
  - While the recent figures for inflation are a welcome relief to the local consumer, it will have a significant effect on the amount of property tax revenues under the Charter Limit in FY11. Currently the index is less than a 0.05 percent annual rate (or essentially flat) for calendar year 2009.
- Employment:
  - The County's unemployment rate has risen by 2 percentage points during the past year (through June) to 5.5%.
  - Because the unemployment rate is a lagging indicator in terms of an economic recovery, it may not improve significantly over the next calendar year. If the economic forecasts are correct in that the national unemployment rate could reach 10 percent by the end of this year *(Wall Street Journal)*, employment will remain a drag on the economy for the foreseeable future.
  - The County's resident employment was 493,000 in July – a decline of nearly 14,000 from July 2008. With a decline in resident employment and possibly slow recovery, both factors may have a significant effect on income tax revenues in FY10 and possibly FY11.
- Construction:
  - With the value of new construction starts for residential projects below $158 million to date in 2009 compared to less than $210 million over the same period last year, additional property assessments from new construction could be at their lowest level by FY11 in over 10 years.
- Housing Sales and Average Sales Prices:
  - Home sales are expected to increase 9.5 percent which was attributed to strong sales in March through June.
  - Average sales prices are expected to decrease 14.2 percent in 2009. That decline and the futures market for the Case-Shiller index are consistent with Finance's assumption that prices will continue to decline, albeit at a decelerating rate, through the first half of FY10.

4

Howard County, Maryland

economic INDICATORS

Our Mission...

Review the most currently available economic indicators for Howard County and surrounding areas to assist in providing advance warning of possible shifts in the local economy that may be helpful in the evaluation of current and future government policies and private sector business decisions.

September 2009

Insight & Outlook

Banking...representatives reported most business owners remain either pessimistic or cautious about the economy over the next 6 to 12 months. Nervousness continues as backlog levels continue to decline. Bidding activity and RFP's have increased over the past three months, although start dates for projects continue to be delayed due to hesitancy on the part of clients and the difficulty in obtaining financing. Some of the bid activity is from customers hoping to obtain prices lower than 6 to 9 months ago, leading to a level of inflated activity. While there is activity in the residential mortgage market at the lower end financing for mortgages falling into the non-conforming or jumbo category are difficult to obtain and carry a considerably higher interest rate. Commercial mortgages from banks for investment projects are very difficult to obtain due to a combination of tight underwriting criterion, the lack of new potential tenants, compression of lease rates, and the reduced appraised values of properties. The permanent conduit mortgage market is virtually non-existent as liquidity remains tight. Business owners are monitoring the cash flow position of the business on a monthly basis and seeking to contain expenses, with no hiring or expansion plans for the immediate future.

Residential Construction...representatives reported the new home market remains poor and builders continue to lose money to sell product. It remains a very challenging market.The reduction in resale inventory is good news to builders as this will help to open up the "move up" market. July 2009 was a very positive month for local builders as sales were good. Margins however remain horrible. Home construction is now a cash flow business as builders struggle to compensate for high prices paid for lots during the period of upswing. Banks no longer lend as freely. In the past 90% of the cost of land & development could be borrowed. Now equity is required from investors or the builders' pocket, with banks providing 50% -60% of the total land & development costs. Media coverage of this market has been more positive than in the past, which hopefully is raising confidence levels of prospective buyers. The commercial real estate market in Howard County is seeing a decline in occupancy levels and rents have started to fall. Property values are falling due primarily to changes in capitalization rates. Reports of commercial real estate values declining by 30 to 40% from its peak are the result of increases in cap rates by similar levels. As loans become due, reappraisals are coming in lower and more equity is required from owners. The big fear in the commercial real estate sector is what happens to loans if they mature and are underwater. Atypically, midterm appraisals are appearing as some lenders are exercising this right, leading to calls for pay downs.

Retail...representatives reported sales without gas included are up significantly compared to last year, however when gas sales are included sales are flat. Lower gas prices have helped the stability of commodities prices. Major appliance sales are generally flat, but unit sales are up. This discrepancy is due in part to lower prices on big screen televisions. Commodities are showing good increases across the spectrum. Food sales are doing well, as meat, deli and dairy prices are good. Tire sales are high; an indication owners may be keeping vehicles a little longer. Larger national chains are seeing lower numbers nationally, but local stores are performing better. Luxury items are not selling well compared to a year ago. Businesses with online sales are reporting strong sales. Some of this increase is related to the demise of competitors. Margins tend to be flat. Transportation costs are down, which helps with lowering costs and gaining market share. Local car dealers reported the cash for clunkers program was successful, but the challenge now may be getting the dollars from the Treasury. Used car sales and service have been steady, reflecting consumer decisions to keep existing vehicles.

Agricultural...representatives reported farmers have been reasonably satisfied with weather conditions which are a major factor in the success or failure of the growing season. Grains continue to hold their prices. Soybean and corn production in Howard County is expected to be good this year as timely rainfall was received. Milk and pork prices on the other hand have plunged to extremely low levels since September. Dairy farmers for example, are losing as much as 30-50 cents per gallon produced and are threatened with their existence. Fruit and vegetable growers have reported crops have been plentiful and most are doing well. Some farmers are afraid if pricing conditions persist they may be forced to make difficult decisions about their ability to remain in farming.

A Joint Publication of Howard County Government & the Howard County Chamber of Commerce

	Reporting Period	Current Reporting Period	Last Year's Reporting Period	Current Fiscal Year Average-to-Date	Last Fiscal Year Average-to-Date	Percent Change
EMPLOYMENT (Source Maryland Department of Labor, Licensing and Regulation)						
Resident						
Resident Employment	June 2009	149,058	157,113	151,366	155,438	-2 6%
Unemployment Rate	June 2009	5.8%	3 2%	4.3%	2.7%	
At Place						
At Place Employment	December 2008	146,927	148,189	147,968	147,523	0 3%
Total Wages	December 2008	$2,054,535,021	$1,982,204,832	$1,974,247,052	$1,895,039,814	4.2%
Average Weekly Wage	December 2008	$1,074	$1,031	$1,027	$988	3 9%
COUNTY REVENUES (Source: Howard County Budget Office)						
Personal Income	June 2009	$49,482,153	$50,229,638	$299,055,653	$298,576,227	0.16%
Planning and Zoning Fees	June 2009	$49,365	$68,482	$656,055	$1,045,448	-37.2%
Transfer Tax	June 2009	$3,453,252	$4,393,255	$18,370,976	$24,006,139	-23 5%
REAL ESTATE (Source. Maryland Property View; and Cushman & Wakefield, Inc.)						
Single-family Dwellings						
Average Selling Price	April 2009	$435,394	$430,888	$447,300	$475,801	-6.0%
Number of Units Sold	April 2009	133	166	158	208	-24.1%
Condominiums						
Average Selling Price	April 2009	$233,000	$347,137	$324,186	$322,888	0 4%
Number of Units Sold	April 2009	3	11	6	7	-7.7%
Office Market						
Total Square Footage	June 2009	11,649,067	10,940,468	11,579,854	10,876,905	6.46%
Absorption	June 2009	220,521	-57,158	99,650	-35,581	-380.1%
Vacancy Rate Class A & B	June 2009	15 40%	13.90%	16 00%	13 20%	21.2%
SALES TAX (Source Office of Comptroller of the Treasury, Revenue Administration Division)						
Apparel	July 2009	$892,628	$991,933	$892,628	$991,933	-10.0%
Furniture and Appliance	July 2009	$1,331,885	$1,237,355	$1,331,885	$1,237,355	7 6%
General Merchandise	July 2009	$2,699,476	$3,125,918	$2,699,476	$3,125,918	-13 6%
CONSTRUCTION (Source Howard County Department of Inspections, Licenses, and Permits)						
All Building Permits Issued	July 2009	301	321	301	321	-6 2%
Residential Issuances						
Single-family Detached	July 2009	27	32	27	32	-15 6%
Single-family Attached	July 2009	31	18	31	18	72.2%
Multi-family Living Units	July 2009	0	0	0	0	0 0%
Nonresidential						
New & AAI Issuances	July 2009	42	46	42	46	-8.7%
Reported Square Footage	July 2009	42,600	35,558	42,600	35,558	19.8%
Estimated Construction Cost	July 2009	$16,250,000	$560,000	$16,250,000	$560,000	2801.8%
ECONOMIC INDICES (Source: The Conference Board, George Mason University Center for Regional Analysis)						
National						
Leading Economic Index	June 2009	100.9	101 9	99 6	INA	INA
Washington MSA						
Leading Economic Index	May 2009	106 8	106 4	105 7	108.0	-2.1%
Coincident Economic Index	May 2009	107.3	115 7	107.8	117.8	-8.5%

The fiscal year for Howard County runs from July 1 to June 30.

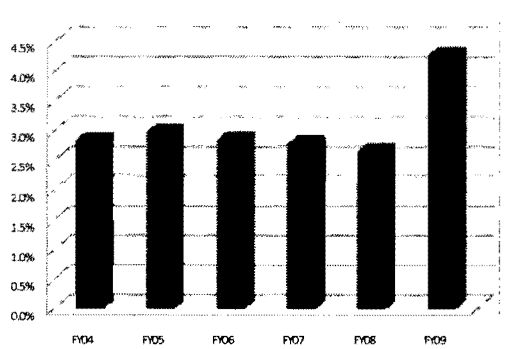
"This type of environment can be a hot bed for opportunity."

Residential Real Estate...representatives reported activity in local offices has definitely picked up. Inventories are starting to go down as sales of single-family homes and condos have increased over last year. Average prices have declined so although more units are sold less money is being made by agents & sellers. The average time a home is on the market is declining as well. Homes priced in the high $300-$400k range are selling the best. Townhomes in the $250k range are also moving well. Product priced over $800k moves extremely slow. Multiple offers are being seen, primarily on homes in very good shape and in a good location. Buyers tend to be first time buyers that qualify for the first time buyer stimulus. There is some concern about what the impact of the November 2009 expiration of the stimulus will be on this market. Most loans are FHA generated as these loans require substantially lower down payments than conventional loans. The rental market continues to do well, with 10-20 calls per day the norm. Short sales are occurring, but the length of time involved make these difficult and tedious.

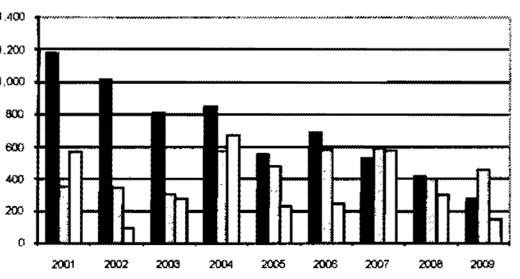
Service Industries...representatives reported businesses with government contracts are doing well. There are economic stimulus funds available for a wide variety of initiatives. Rental space rates are reported to be down; partially attributable to the move to telecommuting and efforts of businesses to lower overhead costs. Transportation services reported labor is plentiful and lower fuel prices have been helpful. Discretionary spending is very dependent upon gas prices, as the price of a gallon rises, consumer spending contracts. Convention business has been good & bookings are at high levels. This part of the business is very erratic and depends on how well conventions are attended. Business travel has been weak. Leisure travel was doing well through June, but has since tailed off. Small businesses with government subcontracts are awaiting the release of contract funds. Some cancelations have been noted.

Professional Service...industry representatives reported most local business owners are pessimistic about current economic conditions. Most are experiencing either flat or lower revenues. Confidence is low and there does not appear to be anything on the horizon that will change this in the short term. The banking system has ratcheted lending down so tight that there is reduced capacity for borrowing. Under this climate even if businesses want to borrow it is difficult to do so. Many underwriting decisions for banks are now being made out of the area, with prior relationships with local business owners playing no role. It is uncertain that a recovery can be sustained without credit creation. Most businesses have burned through any excess cash. Few businesses have added employees and most have trimmed in order to reach levels needed to service reduced volumes. Businesses in the federal sector tend to be more optimistic about future opportunities.

Average Unemployment Rates FY04-FY09
Howard County, Maryland



Residential Building Permits Issued
Howard County, MD FY 2001 thru FY 2009



Overall...it seems the Howard County economy is still in the grips of the downturn. Improvement has been noted in the local residential resale market. Most business leaders are not optimistic about a return to any sense of normalcy in the near future. Margins remain flat although sales increases have been reported. There is some fear that if conditions persist additional layoffs could be required. Growth related to DSIA, BRAC and Ft. Meade in general are expected to continue to insulate Howard County from major downturns. One area that is also hard hit is the non-profit sector. Many of these organizations have seen donations decline by large percentages at a time when their services are most in need. Businesses & government have hunkered down and are prepared to weather the storm. How long the storm lasts will ultimately determine how successful those preparations have been.

Summary

Employment... Resident employment in June 2009 reached 149,058 persons. The June 2009 unemployment rate of 5.8% was second lowest in the State of Maryland and significantly below the State rate of 7.3%. The unemployment rate for June 2008 was 3.2%. The FY09 average unemployment rate is now 4.3% compared to the FY08 average of 2.7 % thru June.

At Place Employment is reported for December 2008 and was 146,927 a decrease of .85% compared to the December 2007 level. Total wages reported for December 2008 grew 3.6% over the December 2007 level, rising from $1,982,204,832 to $2,054,535,021. The average weekly wage reported for December 2008 was $1,074 up $43 or 4.2% from the $1,031 reported for December 2007.

County Revenues... Personal income tax receipts as reported for June 2009 were 1.5% lower than income tax revenues collected for June 2008. Fiscal year to date FY09 income tax revenues are .16% above FY08 levels. Planning & Zoning fees are reported for June 2009 and are 28% lower than the June 2008 level. Fiscal year-to-date collections for these fees are 37% lower than the FY08 levels. Transfer tax is reported for June 2009. Compared to June 2008 current collections are down 21.4% in June 2009. Average fiscal year-to-date collections for FY09 are down 23.5% when compared to FY08.

Construction... Building permits issued in July 2009 decreased by 6.2% compared to the July 2008 level. Fiscal year '10 to date permit activity reflects a decline of 6.2%, or 20 fewer permits than the FY09 level of 321 permits. Single-family detached issuances for July 2009 reached 27 units compared to the July 2008 level of 32 units. FY10 to date SFD permits are down 15.6% when compared to FY09 year to date levels. Attached single-family issuances increased by 13 units in July 2009 compared to the prior year. Fiscal year to date the number of single family attached units is up 72.2% from FY09 to FY10. Multi-family permits posted 0 units in July 2009, the same level as reported for July 2008. Non-residential new and additions, alterations, interior completions (AAI) permits were down by 4 units in July 2009 compared to July 2008. Non-residential reported square footage fiscal year to date is reported thru July 2009. FY10 s.f. to date totals 42,600 compared to 35,558 reported for FY09 thru the same period. Estimated non-residential construction cost reported for July 2009 was 16.25 million compared to $560,000 in 2008.

Economic Indices... National Leading Economic Index (LEI) as reported for July 2009 was 101.6, up .02% from the July 2008 level of 101.4. The LEI for the Washington MSA was 106.8 in May 2009, up from the 106.4 reported in May 2008. The Coincident Index for the Washington MSA was 107.3 in May 2009, down from the May 2008 level of 115.7. Fiscal year to date averages for the Washington indices were both down. The leading index was down 2.1% at 105.7 for FY09 compared to 108.0 for FY08. The coincident was down 8.5% at 107.8 for FY09 compared to 117.8 for FY08.

Real Estate... The average sale price for a single-family home (includes single family detached and town homes) in April 2009 increased by 1.04% from the April 2008 average of $430,888, to $435,394. Fiscal year-to-date average prices declined by 6.0% thru this same period. A total of 133 single-family homes were sold during April 2009, a decrease of 19.8% or 33 fewer units than the 166 units sold in April 2008. Average units sold fiscal year to date were 158 compared to 208 units thru April 2008, a decrease of 24%. Condominium prices in FY09 thru April averaged $324,186 up a fraction from the average price of $322,888 thru April 2008. Sales of condo units in April 2009 decreased by 8 units compared to the numbers reported for April 2008 when 11 units were sold. The commercial office vacancy rate for June 2009 was 15.4%, up from 13.9% in June 2008. The vacancy rate does not reflect pre-leased new construction. Square footage available increased by 708,599 s.f. when comparing June 2009 to June 2008. Net absorption for the second quarter of calendar 2009 was 220,521 s.f. compared to net absorption of -57,158 s.f. through the second quarter of calendar 2008.

Sales Tax... July 2009 collections for Apparels declined by 10% compared to the level collected in the same month last year. FY10 average receipts to date decreased by 10% when compared to the prior year. Collections reported for July 2009 Furniture and Appliance sales increased by 7.6% compared to July 2008. Fiscal year-to-date, average revenues thru July 2009 increased by 7.6% from the previous fiscal year. General Merchandise collections decreased by 13.6% in July 2009 compared to July 2008. Fiscal year-to-date average levels increased by 13.6% compared to the prior year.

Economic Indicators Committee

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The Indicators is online at http://www.co.ho.md.us/DOA/DOApdfs/PrintReadyEcoIndSept09.pdf

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AGENDA ITEM #7
September 29, 2009

ADDENDUM

MEMORANDUM

September 28, 2009

TO: County Council

FROM: Stephen B. Farber, Council Staff Director SBF

SUBJECT: Update on Economic Indicators and County Fiscal Plan

To provide perspectives from our business community on the County's current economic situation, Council President Andrews and TIEE Committee Chair Floreen, in conjunction with PHED Committee Chair Knapp and MFP Committee Chair Trachtenberg, invited representatives from the Montgomery County Chamber of Commerce to participate in this update. The Council will be joined by:

Bill Eisig, CPA – Partner, BDO Seidman
Chris Zindash – General Manager, Crowne Plaza Rockville
Brett McMahon – Vice President of Business Development, Miller and Long
Andy Stern – President of Andy Stern's Office Furniture

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