



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Jennifer A. Hughes
Director

MEMORANDUM

December 3, 2013

TO: Stephen B. Farber, Council Administrator, County Council

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

SUBJECT: Fiscal Plan Update

Attached please find the updated fiscal plan and supporting documents. The Department of Finance's updated revenue forecast has been incorporated in the fiscal plan. Other assumptions in the fiscal plan, including FY13 year-end results, current year expenditure updates, funding for the Capital Improvements Program, and other non-agency spending (except for retiree health insurance prefunding described below) have not been changed. Because this is a limited update to fiscal assumptions, the projections are preliminary and the fiscal plan included as part of the County Executive's recommended budget next March will be different than this one.

Update to Revenue Projections and Reserves

Based on current assumptions, the fiscal plan would require a 0.9 percent reduction in the spending of all County agencies to produce a balanced budget in FY15. Because of Montgomery County Public Schools and Montgomery College Maintenance-Of-Effort requirements, spending for the Maryland National Capital Park and Planning Commission (M-NCPPC) and the County Government would have to be reduced 2.4 percent to balance the budget in FY15. This forecast is an improvement compared to the fiscal plan the Council approved in June, but a challenging fiscal environment remains as we begin working on the FY15 operating budget. I want to highlight a few aspects of this update:

1. **Revenues:** As detailed in the Department of Finance's December 2013 Revenue Update and Selected Economic Indicators report, the revenue forecast has been revised upward by a total of \$153.6 million (\$99.3 million in FY14 and \$54.3 million in FY15) compared to the estimates in the approved fiscal plan. Income tax revenues have been revised upward by \$125 million (\$86.5 million in FY14 and \$38.5 million in FY15). The estimated increase in income tax revenues results primarily from the more volatile component of the November income tax distribution related to extended filings, estimated payments, and reconciliations. The forecast for FY15 and beyond reflects the largely one-time nature of most of the increased November 2013 distribution. The forecast also incorporates updated economic assumptions from the State Board of Revenue Estimates, which reflect the

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continued effects of Federal budget sequestration, and a writedown of \$85 million related to the Wynne income tax case.¹ Transfer and recordation taxes have also been revised upward by nearly \$32 million over FY14 and FY15 based on better than expected real estate market activity and housing price appreciation. The revised property tax estimate is at the Charter Limit² but is \$4.6 million less than the estimate in the approved fiscal plan because of a decline in the rate of inflation. All other tax revenues are essentially flat compared to the approved fiscal plan.

2. **Intergovernmental Aid:** State Aid assumptions will be updated after budget requests from Montgomery County Public Schools and Montgomery College are received and the Governor releases his budget in January 2014. The State's most recent fiscal outlook indicates a structural deficit of more than \$400 million, resulting from a writedown in revenues and increased expenditure obligations.
3. **FY15 Expenditures:** Attached is a chart of the "Major Known Commitments" that shows the projected cost increases by agency. While not included in the estimate of agency expenditures in the updated fiscal plan, FY15 expenditures are estimated to grow by \$132 million or 3.5 percent. The estimate does not include the cost of general wage increases for MCPS or MNCPPC, both of which are negotiating FY15 compensation. Montgomery College and the County government have wage agreements covering FY15.

The fiscal plan reflects the possible implementation of changes to the MCPS and County Government retiree prescription drug insurance programs to take advantage of more favorable subsidies available as part of the Patient Protection and Affordable Care Act. Both agencies will receive updated actuarial valuations reflecting this change, but a preliminary order of magnitude estimate indicates a potential reduction of approximately \$48 million in previously anticipated retiree health insurance prefunding costs in FY15. The recommended budget will reflect the results of the County Executive's final decisions and actuarial valuations once we have completed our discussions with employee and retiree organizations.

4. **Rate of Growth:** The impact of revised revenue estimates will require a 0.9 percent reduction in the size of agency operating budgets in FY15 to produce a balanced budget. Assuming maintenance-of-effort increases for MCPS and Montgomery College, this means 2.4 percent reductions to the operating budgets of MNCPPC and County Government. Assuming the estimated increase in expenditures identified by each agency would equate to an imbalance of approximately \$166 million.
5. **Reserves:** Prior fiscal year results are not yet finalized. The projection reflects the impact of the revised revenue forecast. According to the Revenue Stabilization Fund law (MCC 20-68) adopted by the Council in June 2010, the mandatory contribution to the RSF must be the greater of 50 percent of

¹ Maryland State Comptroller of the Treasury v. Brian Wynne, No. 107, September Term 2011. The Maryland tax code allows a credit for income taxes paid to other states with respect to the state income tax, but not the county income tax. Under both federal and Maryland law, a subchapter S corporation is deemed to "pass through" its income to its shareholders who are taxed on that income at the shareholder's level. The Court of Appeals held that the failure to allow a credit with respect to the county income tax for out-of-state income taxes paid to other states on "pass through" income earned in those states violates the Commerce Clause of the United States Constitution.

² Section 305 of the County Charter limits the growth in real property tax revenues in a fiscal year to the rate of inflation, excluding new construction, development districts, and other minor exceptions. The Council may override this limitation with an affirmative vote of nine Councilmembers.

excess revenues³ or 0.5 percent of Adjusted Governmental Revenues⁴. Under this law, \$48.4 million must be contributed to the RSF in FY14, which is \$26 million more than assumed in the approved budget. Total reserves are projected to increase to 9.8 percent at the end of FY14 due to the higher than budgeted contribution to the RSF and the General Fund balance temporarily exceeding its 5 percent limitation.⁵ After normalizing the General Fund reserve to its Charter Limit, total reserves are projected to increase from 9.2 percent at the end of FY15 to 10.7 percent in FY20. The County's policy is to have a total reserve of 10 percent by FY20.

Looking Ahead

As you know, the Executive will update the fiscal plan in April 2014 as part of his Recommended FY15 Operating Budget and FY15-20 Public Services Program. The April update will include several changes that are not part of the attached fiscal plan because the information is currently not available or is dependent on events that will occur subsequent to the transmittal of this fiscal plan including:

1. The County Executive's recommendations for the FY15-20 CIP and the FY15 operating budget.
2. The mid December update by the State Board of Revenue Estimates on its economic forecast.
3. A decision by the Supreme Court on whether to grant the Attorney General's appeal of the *Wynne* decision expected in January 2014.
4. The February 2014 income tax distribution and data on the County's excise taxes for November 2013 through February 2014.
5. Revisions to estimates of the assessable base by the State Department of Assessments and Taxation expected in January 2014.
6. Decisions by the Federal Government on the budget, debt ceiling, and whether there will be another shutdown of the federal government in February 2014.

In summary, the modest economic recovery, continued State and Federal budget uncertainty, the ultimate effect of the *Wynne* income tax case, and other factors, demonstrate the need for continued restraint in the County's spending plans.

JAH:aae

Attachments

cc: Timothy L. Firestine, Chief Administrative Officer
Joseph F. Beach, Director, Department of Finance
Bonnie Kirkland, Assistant Chief Administrative Officer

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

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

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

**REVENUE SUMMARY
TAX SUPPORTED BUDGETS**

(\$ Millions)

KEY REVENUE CATEGORIES	App.	Estimate	% Chg.	% Chg.	Projected	% Chg.	Projected	% Chg.	Projected	% Chg.	Projected	% Chg.	Projected	% Chg.	Projected
	FY14	FY14	FY14-15	FY14-15	FY15	FY15-16	FY16	FY16-17	FY17	FY17-18	FY18	FY18-19	FY19	FY19-20	FY20
TAXES	5-23-13	12-10-13	App/Proj	Est/Proj	12-10-13										
1 Property Tax (less PDs)	1,504.9	1,506.7	2.2%	2.1%	1,537.9	2.7%	1,579.1	2.9%	1,625.3	3.1%	1,676.4	3.6%	1,736.2	3.9%	1,804.7
2 Income Tax	1,299.2	1,385.7	1.9%	-4.4%	1,324.1	8.7%	1,439.1	5.2%	1,513.8	6.2%	1,608.1	5.4%	1,695.1	5.2%	1,783.8
3 Transfer Tax	85.7	90.4	15.8%	9.8%	99.3	4.3%	103.5	5.5%	109.3	3.8%	113.4	3.4%	117.2	2.9%	120.6
4 Recordation Tax	56.6	62.1	20.7%	10.0%	68.3	6.2%	72.6	3.1%	74.8	4.0%	77.8	3.4%	80.4	2.3%	82.2
5 Energy Tax	210.7	211.3	1.8%	1.5%	214.5	1.5%	217.6	1.2%	220.2	1.3%	223.1	1.3%	225.9	1.3%	228.8
6 Telephone Tax	45.1	45.4	-0.1%	-0.7%	45.1	-1.1%	44.6	-0.9%	44.2	-0.7%	43.8	-0.6%	43.6	-0.5%	43.4
7 Hotel/Motel Tax	17.8	17.5	0.2%	1.5%	17.8	3.0%	18.3	3.3%	18.9	8.3%	20.5	7.4%	22.0	7.4%	23.6
8 Admissions Tax	3.0	3.1	5.5%	3.0%	3.2	3.3%	3.3	3.9%	3.4	4.3%	3.6	4.7%	3.8	5.1%	4.0
9 Total Local Taxes	3,223.0	3,322.3	2.7%	-0.4%	3,310.2	5.1%	3,478.2	3.8%	3,609.9	4.3%	3,766.7	4.2%	3,924.2	4.3%	4,091.0
INTERGOVERNMENTAL AID															
10 Highway User	3.4	3.5	5.9%	3.8%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6
11 Police Protection	13.7	13.7	0.0%	0.0%	13.7	0.0%	13.7	0.0%	13.7	0.0%	13.7	0.0%	13.7	0.0%	13.7
12 Libraries	5.3	5.3	0.0%	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3
13 Health Services Case Formula	3.8	3.8	0.0%	0.0%	3.8	0.0%	3.8	0.0%	3.8	0.0%	3.8	0.0%	3.8	0.0%	3.8
14 Mass Transit	34.5	34.5	13.8%	13.8%	39.2	-41.8%	22.8	0.0%	22.8	0.0%	22.8	0.0%	22.8	0.0%	22.8
15 Public Schools	605.0	605.0	0.0%	0.0%	605.0	0.0%	605.0	0.0%	605.0	0.0%	605.0	0.0%	605.0	0.0%	605.0
16 Community College	31.7	31.7	0.0%	0.0%	31.7	0.0%	31.7	0.0%	31.7	0.0%	31.7	0.0%	31.7	0.0%	31.7
17 Other	34.6	34.6	-9.8%	-9.8%	31.2	0.0%	31.2	0.0%	31.2	0.0%	31.2	0.0%	31.2	0.0%	31.2
18 Total Intergovernmental Aid	732.1	732.2	0.2%	0.2%	733.7	-2.2%	717.2	0.0%	717.2	0.0%	717.2	0.0%	717.2	0.0%	717.2
FEES AND FINES															
19 Licenses & Permits	11.4	11.4	1.5%	1.5%	11.6	1.5%	11.8	1.5%	11.9	1.5%	12.1	1.5%	12.3	1.5%	12.5
20 Charges for Services	69.3	69.3	1.9%	1.9%	70.6	2.0%	72.0	2.3%	73.7	2.6%	75.6	3.0%	77.8	3.3%	80.4
21 Fines & Forfeitures	21.9	21.9	1.6%	1.6%	22.3	1.6%	22.6	1.6%	23.0	1.6%	23.4	1.6%	23.7	1.6%	24.1
22 Montgomery College Tuition	87.3	87.3	4.1%	4.1%	90.8	5.2%	95.6	0.0%	95.6	0.0%	95.6	0.0%	95.6	0.0%	95.6
23 Total Fees and Fines	189.8	189.8	2.8%	2.8%	195.2	3.4%	201.9	1.1%	204.2	1.2%	206.6	1.4%	209.4	1.5%	212.6
MISCELLANEOUS															
24 Investment Income	0.2	0.2	41.0%	41.0%	0.3	86.9%	0.6	92.3%	1.2	36.6%	1.6	24.1%	2.0	0.0%	2.0
25 Other Miscellaneous	10.0	10.0	2.4%	2.4%	10.3	2.5%	10.5	2.9%	10.8	3.3%	11.2	3.7%	11.6	4.1%	12.1
26 Total Miscellaneous	10.3	10.3	3.3%	3.3%	10.6	5.0%	11.1	7.7%	12.0	6.5%	12.8	6.2%	13.6	3.5%	14.0
27 TOTAL REVENUES	4,155.3	4,254.6	2.3%	-0.1%	4,249.7	3.7%	4,408.5	3.1%	4,543.3	3.5%	4,703.4	3.4%	4,864.4	3.5%	5,034.9
28 \$ Change from prior Budget	104.9	146.0			94.4		158.9		134.8		160.1		161.1		170.4
Calculation for Adjusted Governmental Revenues															
29 Total Tax Supported Revenues	4,155.3	4,254.6	2.3%	-0.1%	4,249.7	3.7%	4,408.5	3.1%	4,543.3	3.5%	4,703.4	3.4%	4,864.4	3.5%	5,034.9
30 Capital Projects Fund	99.3	99.3	-1.7%	-1.7%	97.6	-27.6%	70.7	2.7%	72.6	-0.8%	72.0	0.0%	72.0	0.0%	72.0
31 Grants	108.2	108.2	2.4%	2.4%	110.8	2.7%	113.8	3.2%	117.4	3.5%	121.4	3.7%	125.9	3.7%	130.6
32 MCG Adjusted Revenues	4,362.7	4,462.1	2.2%	-0.1%	4,458.1	3.0%	4,593.0	3.1%	4,733.3	3.5%	4,896.8	3.4%	5,062.4	3.5%	5,237.5

Major Known Commitments (MKCs)						
		MCPS	MCG	College	MNCPPC	Total
1	FY14 Approved Budget	2,084,338,368	1,460,858,279	228,477,695	107,782,461	3,881,456,803
2	Retiree Health Insurance Pre-Funding (OPEB)		134,974,589		3,032,535	138,007,124
3	Agency Budgets Net of OPEB	2,084,338,368	1,325,883,690	228,477,695	104,749,926	3,743,449,679
4						
5	Potential or Negotiated Compensation					
6	Wages		16,400,000	3,336,761		19,736,761
7	Steps/service increments	26,450,188	6,400,000	4,282,928		37,133,116
8	Other projected bargaining costs		3,200,000		951,900	4,151,900
9	Annualization of FY14 Compensation		7,700,000			7,700,000
10	Group insurance cost increases	11,864,326	4,600,000	528,000	1,073,604	18,065,930
11	Retirement cost increases	3,420,289	5,700,000	150,970	1,044,592	10,315,851
12	Other benefit costs	9,639,464		124,000	431,280	10,194,744
13	Annualization of Program Expenses		4,756,266	476,330		5,232,596
14	Cost increase due to enrollment	11,090,092		(2,004,353)		9,085,739
15	Elimination of One-Time Items	(1,800,000)	(13,891,206)		(725,000)	(16,416,206)
16	Operating Impact of Capital Projects	1,007,636	1,917,454	4,543,822	400,000	7,868,912
17	Programmatic obligations:					
18	Election Cycle Changes/Early Voting		793,340			793,340
19	Voting System Costs		2,388,000			2,388,000
20	Community Grants: CIP Cost Sharing		500,000			500,000
21	Community Grants NDA		4,460,398			4,460,398
22	Fire Rescue (civilianization, SAFER)		(466,068)			(466,068)
23	Animal Services Reorganization		1,625,535			1,625,535
24	Working Families Income Supplement		488,800			488,800
25	Working Families Income Supplement - Bill 8-13		1,016,400			1,016,400
26	EDF Commitments		1,300,000			1,300,000
27	Information Technology cost increases		1,127,000			1,127,000
28	Classification and Compensation Audit		500,000			500,000
29	Leases		(2,802,148)			(2,802,148)
30	Other programmatic cost changes		646,242	100,000		746,242
31	Inflation:					
32	Service/Materials Contracts		420,509	420,509		841,018
33	Energy/utility costs	(1,022,887)	0	180,591	452,000	(390,296)
34	Fuel/rate increases	202,363	2,150,000			2,352,363
35	Nonpublic placements	938,776				938,776
36	Other	355,900		200,000		555,900

		MCPS	MCG	College	MNCPPC	Total
37	Other required cost increases:					
38	Liability insurance, workers compensation	765,134	1,200,000	150,000	(72,262)	2,042,872
39	Maintenance, transportation, etc.	1,289,375				1,289,375
40						
41	Total Major Known Commitments	64,200,656	52,130,522	12,489,558	3,556,114	132,376,850
42						
43	Total Projected FY13 Agency Spending	2,148,539,024	1,378,014,212	240,967,253	108,306,040	3,875,826,529
44	% Change	3.1%	3.9%	5.5%	3.4%	3.5%

Fiscal Plan December 2013 Tax Supported Fiscal Plan Summary

(\$ in Millions)															
	App FY14	Est FY14	% Chg. FY14-15	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20
	5-23-13		App/Proj	Est/Proj	12-10-13										
Total Revenues															
1 Property Tax (less PDs)	1,504.9	1,506.7	2.2%	2.1%	1,537.9	2.7%	1,579.1	2.9%	1,625.3	3.1%	1,676.4	3.6%	1,736.2	3.9%	1,804.7
2 Income Tax	1,299.2	1,385.7	1.9%	-4.4%	1,324.1	8.7%	1,439.1	5.2%	1,513.8	6.2%	1,608.1	5.4%	1,695.1	5.2%	1,783.8
3 Transfer/Recordation Tax	142.3	152.5	17.8%	9.9%	167.6	5.1%	176.1	4.5%	184.1	3.8%	191.2	3.4%	197.6	2.6%	202.8
4 Investment Income	0.2	0.2	41.0%	41.0%	0.3	86.9%	0.6	92.3%	1.2	36.6%	1.6	24.1%	2.0	0.0%	2.0
5 Other Taxes	276.6	277.4	1.4%	1.1%	280.6	1.2%	283.8	1.0%	286.8	1.5%	291.0	1.5%	295.3	1.5%	299.7
6 Other Revenues	932.0	932.1	0.8%	0.8%	939.2	-1.0%	929.7	0.3%	932.2	0.3%	935.1	0.3%	938.3	0.4%	941.9
7 Total Revenues	4,155.3	4,254.6	2.3%	-0.1%	4,249.7	3.7%	4,408.5	3.1%	4,543.3	3.5%	4,703.4	3.4%	4,864.4	3.5%	5,034.9
8															
9 Net Transfers In (Out)	38.4	38.4	-20.2%	-20.2%	30.6	2.5%	31.4	2.9%	32.3	3.3%	33.4	3.7%	34.6	4.1%	36.0
10 Total Revenues and Transfers Available	4,193.7	4,293.0	2.1%	-0.3%	4,280.3	3.7%	4,439.9	3.1%	4,575.6	3.5%	4,736.7	3.4%	4,899.0	3.5%	5,070.9
11															
12 Non-Operating Budget Use of Revenues															
13 Debt Service	313.3	313.3	11.2%	11.2%	348.6	6.4%	370.7	4.2%	386.4	1.3%	391.4	1.4%	396.8	0.0%	396.8
14 PAYGO	29.5	29.5	37.3%	37.3%	40.5	0.0%	40.5	24.7%	50.5	0.0%	50.5	0.0%	50.5	0.0%	50.5
15 CIP Current Revenue	54.2	54.2	12.6%	12.6%	61.1	-2.5%	59.6	18.8%	58.1	18.8%	69.0	0.0%	69.0	0.0%	69.0
16 Change in Montgomery College Reserves	(8.3)	(8.3)	42.6%	42.6%	(4.8)	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
17 Change in MNCPPC Reserves	(4.7)	(4.7)	95.9%	95.9%	(0.2)	273.3%	0.3	-61.2%	0.1	10.4%	0.1	16.7%	0.2	14.6%	0.2
18 Change in MCPS Reserves	(27.0)	(27.0)	100.0%	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
19 Change in MCG Special Fund Reserves	(6.6)	(6.6)	101.3%	101.3%	0.1	-118.5%	(0.0)	765.6%	0.1	-25.9%	0.1	19.7%	0.1	-1.1%	0.1
20 Contribution to General Fund Undesignated Reserves	(60.2)	(2.4)	15.0%	-2005.6%	(51.2)	97.6%	(1.2)	765.6%	8.1	-25.9%	6.0	19.7%	7.2	-1.1%	7.1
21 Contribution to Revenue Stabilization Reserves	21.8	48.4	2.2%	-53.9%	22.3	3.1%	23.0	3.1%	23.7	3.5%	24.5	3.4%	25.4	3.5%	26.2
22 Retiree Health Insurance Pre-Funding	138.0	138.0	-2.7%	-2.7%	134.3	32.3%	177.7	-2.9%	172.5	-3.6%	166.3	-4.5%	158.8	0.0%	158.8
23 Set Aside for other uses (supplemental appropriations)	0.1	15.1	28125.5%	32.7%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
24 Total Other Uses of Resources	450.2	549.6	26.7%	3.8%	570.6	21.0%	690.6	4.2%	719.5	1.2%	728.0	0.0%	727.9	0.1%	728.7
25 Available to Allocate to Agencies (Total Revenues + Net Transfers - Total Other Uses)	3,743.4	3,743.4	-0.9%	-0.9%	3,709.7	1.1%	3,749.4	2.8%	3,856.1	4.0%	4,008.8	4.0%	4,171.1	4.1%	4,342.2
26															
27 Agency Uses															
28															
29 Montgomery County Public Schools (MCPS)	2,084.3	2,084.3	0.0%	0.0%	2,084.2										
30 Montgomery College (MC)	228.5	228.5	0.0%	0.0%	228.5										
31 MNCPPC (w/o Debt Service)	104.7	104.7	-2.4%	-2.4%	102.3										
32 MCG	1,325.9	1,325.9	-2.4%	-2.4%	1,294.7										
33 Agency Uses	3,743.4	3,743.4	-0.9%	-0.9%	3,709.7	1.1%	3,749.4	2.8%	3,856.1	4.0%	4,008.8	4.0%	4,171.1	4.1%	4,342.2
34 Total Uses	4,193.7	4,293.0	2.1%	-0.3%	4,280.3	3.7%	4,439.9	3.1%	4,575.6	3.5%	4,736.7	3.4%	4,899.0	3.5%	5,070.9
35 (Gap)/Available	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0

Assumptions:

1. Revenues incorporate the Department of Finance's latest forecast. Property taxes are at the Charter Limit. Other taxes are at current rates.
2. Reserve contributions are at the policy level and consistent with legal requirements.
3. PAYGO, debt service, and current revenue reflect the Amended FY13-18 Capital Improvements Program.
4. FY15 retiree health insurance pre-funding is at full funding and reflects changes to MCPS and County Government retiree drug insurance to take advantage of increased subsidies made available by the Patient Protection and Affordable Care Act. The FY15-20 projection will be updated after revised actuarial valuations are completed.
5. State aid for MCPS and Montgomery College is flat in FY15-20.
6. The projected FY15 allocation for MCPS and Montgomery College assumes County funding at maintenance of effort. The allocation does not include potential increases to State aid or other possible agency resources, such as use of additional fund balance.

Fiscal Plan December 2013
Tax Supported Fiscal Plan Summary

(\$ in Millions)

	App. FY14	Est FY14	% Chg. FY14-15	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20
36 Beginning Reserves															
37 Unrestricted General Fund	204.1	204.1	-1.2%	-1.2%	201.7	-25.4%	150.4	-0.8%	149.2	5.4%	157.3	3.8%	163.4	4.4%	170.6
38 Revenue Stabilization Fund	189.0	189.0	25.6%	25.6%	237.4	9.4%	259.7	8.9%	282.6	8.4%	306.3	8.0%	330.9	7.7%	356.2
39 Total Reserves	393.1	393.1	11.7%	11.7%	439.0	-6.6%	410.1	5.3%	431.9	7.4%	463.7	6.6%	494.2	6.6%	526.8
40															
41 Additions to Reserves															
42 Unrestricted General Fund	(60.2)	(2.4)	15.0%	-2005.6%	-51.2	97.6%	-1.2	765.6%	8.1	-25.9%	6.0	19.7%	7.2	-1.1%	7.1
43 Revenue Stabilization Fund	21.8	48.4	2.2%	-53.9%	22.3	3.1%	23.0	3.1%	23.7	3.5%	24.5	3.4%	25.4	3.5%	26.2
44 Total Change in Reserves	-38.4	45.9	24.7%	-163.0%	-28.9	175.2%	21.8	46.2%	31.8	-4.0%	30.5	6.6%	32.6	2.4%	33.4
45															
46 Ending Reserves															
47 Unrestricted General Fund	143.9	201.7	4.6%	-25.4%	150.4	-0.8%	149.2	5.4%	157.3	3.8%	163.4	4.4%	170.6	4.2%	177.7
48 Revenue Stabilization Fund	210.8	237.4	23.2%	9.4%	259.7	8.9%	282.6	8.4%	306.3	8.0%	330.9	7.7%	356.2	7.4%	382.5
49 Total Reserves	354.7	439.0	15.6%	-6.6%	410.1	5.3%	431.9	7.4%	463.7	6.6%	494.2	6.6%	526.8	6.3%	560.1
50 Reserves as a % of Adjusted Governmental Revenues	8.1%	9.8%			9.2%		9.4%		9.8%		10.1%		10.4%		10.7%
51 Other Reserves															
52 Montgomery College	4.8	4.8	-100.0%	-100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
53 M-NCPPC	4.3	4.3	-4.5%	-4.5%	4.1	8.2%	4.4	2.9%	4.6	3.1%	4.7	3.6%	4.9	3.9%	5.1
54 MCPS	14.7	14.7	0.0%	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7
55 MCG Special Funds	1.9	1.9	4.6%	4.6%	2.0	-0.8%	2.0	5.4%	2.1	3.8%	2.2	4.4%	2.3	4.2%	2.4
56 MCG + Agency Reserves as a % of Adjusted Govt Revenues	8.7%	10.4%			9.7%		9.9%		10.2%		10.5%		10.8%		11.1%
57 Retiree Health Insurance Pre-Funding															
58 Montgomery County Public Schools (MCPS)	83.7	83.7			74.4		107.6		104.1		99.9		95.3		95.3
59 Montgomery College (MC)	2.4	2.4			3.3		3.4		3.4		3.5		3.6		3.6
60 MNCPPC	3.0	3.0			2.5		2.5		2.5		2.5		2.5		2.5
61 MCG	48.9	48.9			54.1		64.2		62.5		60.4		57.4		57.4
62 Subtotal Retiree Health Insurance Pre-Funding	138.0	138.0			134.3		177.7		172.5		166.3		158.8		158.8
63 Adjusted Governmental Revenues															
64 Total Tax Supported Revenues	4,155.3	4,254.6	2.3%	-0.1%	4,249.7	3.7%	4,408.5	3.1%	4,543.3	3.5%	4,703.4	3.4%	4,864.4	3.5%	5,034.9
65 Capital Projects Fund	99.3	99.3	-1.7%	-1.7%	97.6	-27.6%	70.7	2.7%	72.6	-0.8%	72.0	0.0%	72.0	0.0%	72.0
66 Grants	108.2	108.2	2.4%	2.4%	110.8	2.7%	113.8	3.2%	117.4	3.5%	121.4	3.7%	125.9	3.7%	130.6
67 Total Adjusted Governmental Revenues	4,362.7	4,462.1	2.2%	-0.1%	4,458.1	3.0%	4,593.0	3.1%	4,733.3	3.5%	4,896.8	3.4%	5,062.4	3.5%	5,237.5

Montgomery County, Maryland

**DECEMBER 2013
REVENUE UPDATE AND
SELECTED ECONOMIC
INDICATORS**

Department of Finance



December 10, 2013

Overview

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

ECONOMIC OUTLOOK - SUMMARY

Economic Recovery vs. Fiscal Recovery

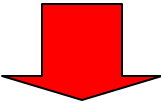
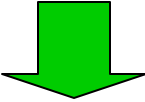
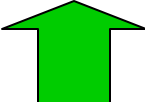
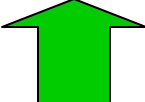
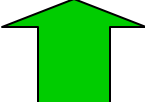
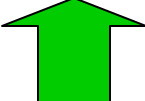
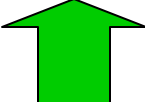
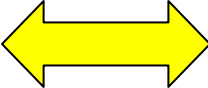
- While economic indicators can point to recovery in certain tax revenues, some revenues, such as excise taxes, can be expected to decline from the previous fiscal year either because of rate cuts (fuel-energy) or sequestration and federal government shutdown (hotel-motel).**
- This can be due to adjustments in consumer behavior that affect consumer spending for certain excise taxes.**
- The recent length (last three cycles) of an economic recovery and expansion (e.g., from trough to peak) has averaged about 95 months according to the National Bureau of Economic Research.**

Current Signs of Economic Recovery

- A drop in unemployment rate from 5.3 in August 2012 percent to 5.0 percent in August and a slight increase in the annual average rate from 5.2 percent in CY2012 to an estimated 5.3 percent in CY2013.**
- The growth in the stock market to date (S&P 500 index up 26.54 percent as of November 22nd).**
- Home prices show signs of improvement**
- Montgomery County has experienced modest growth in resident employment to date in CY2013 (↑1.0%).**

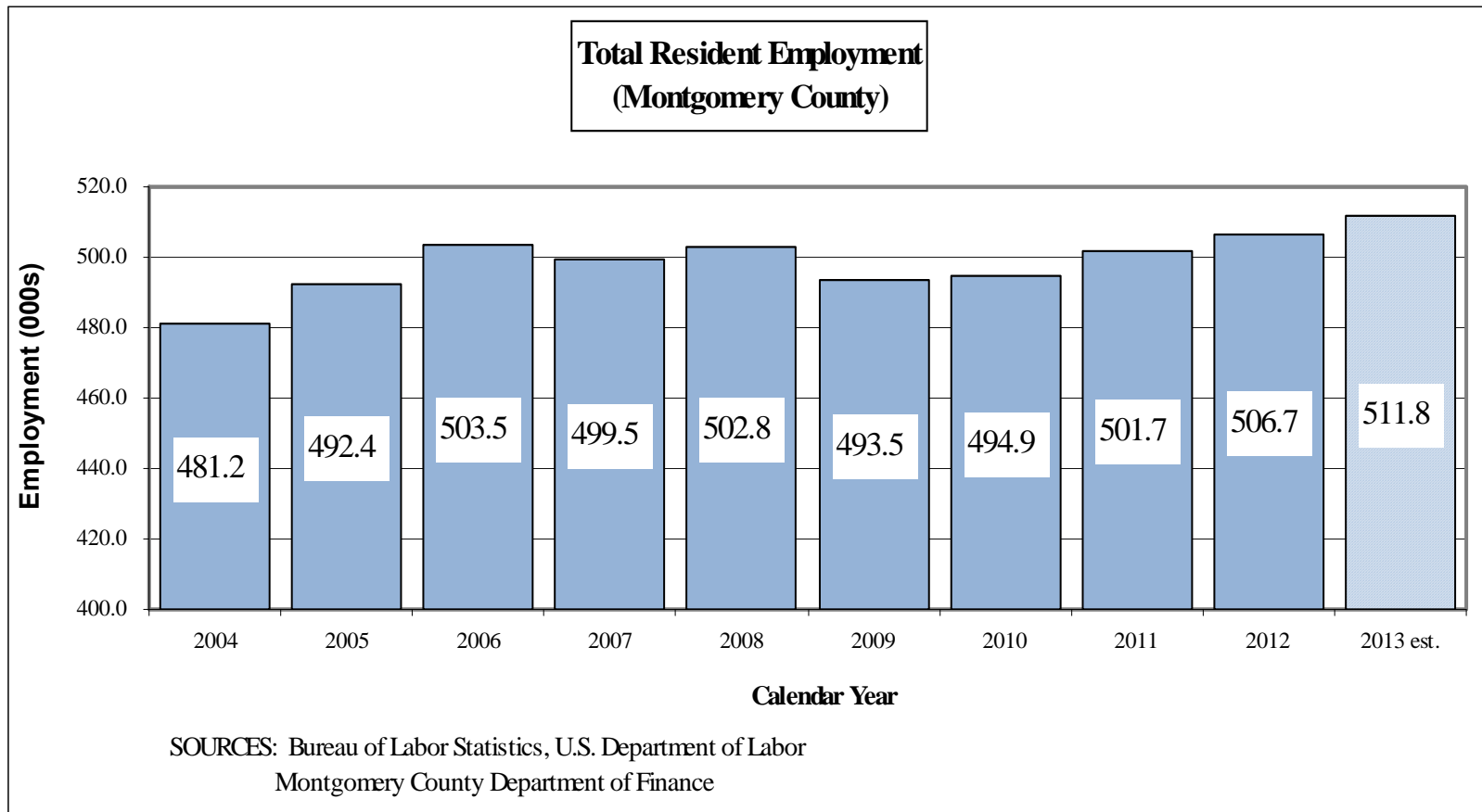
Continued Causes of Concern

- Pull backs attributed to sequestration may continue to dampen employment and income growth in Montgomery County.**
- Inflation year-to-date is running below rates for CY2011 and CY2012.**
- The unemployment rate remains at the 5 percent level.**
- Fed funds rate expected to remain flat through CY2014.**

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON	DIRECTION (yr.-over-yr.)
INFLATION	1.72% Jan.-Sept. 2013	Property Taxes	Key determinant of property tax revenues at the Charter Limit	2012: 2.20% 2011: 3.34%	
UNEMPLOYMENT RATE	5.0% Aug. 2013	Income Taxes	Indicates overall health of the job market	July 2013: 5.3% Aug. 2012: 5.3%	
RESIDENT EMPLOYMENT (n.s.a.)	511,602 Aug. 2013	Income Taxes	Primary determinant of income tax receipts	July 2013: 517,695 Aug. 2012: 507,091	
PAYROLL EMPLOYMENT (Estimated – n.s.a)	481,600 Aug. 2013	Income Taxes	Another determinant of income tax receipts	July 2013: 487,500 Aug. 2012: 472,500	
STOCK MARKET - S&P 500	1804.76 As of Nov. 22nd	Income Taxes	Key determinant of capital gains portion of the income tax	December 31st: 2012: 1,426.19 2011: 1,257.60	
HOME SALES	915 Oct. 2013	Transfer/ Recordation Taxes	Indicates activity affecting receipts	Sept. 2013: 871 Oct. 2012: 726	
HOME PRICES (Average Price Sold)	\$489,178 Oct. 2013	Transfer/ Recordation Taxes	Taxes are based on values, affects amount of taxes collected	Sept. 2013: \$476,910 Oct. 2012: \$443,907	
FEDERAL FUNDS RATE (preliminary)	0.09% Oct. 2013	Investment Income	County's return on investments closely correlated with the Fed Fund rates	Sept. 2013: 0.08% Oct. 2012: 0.16%	

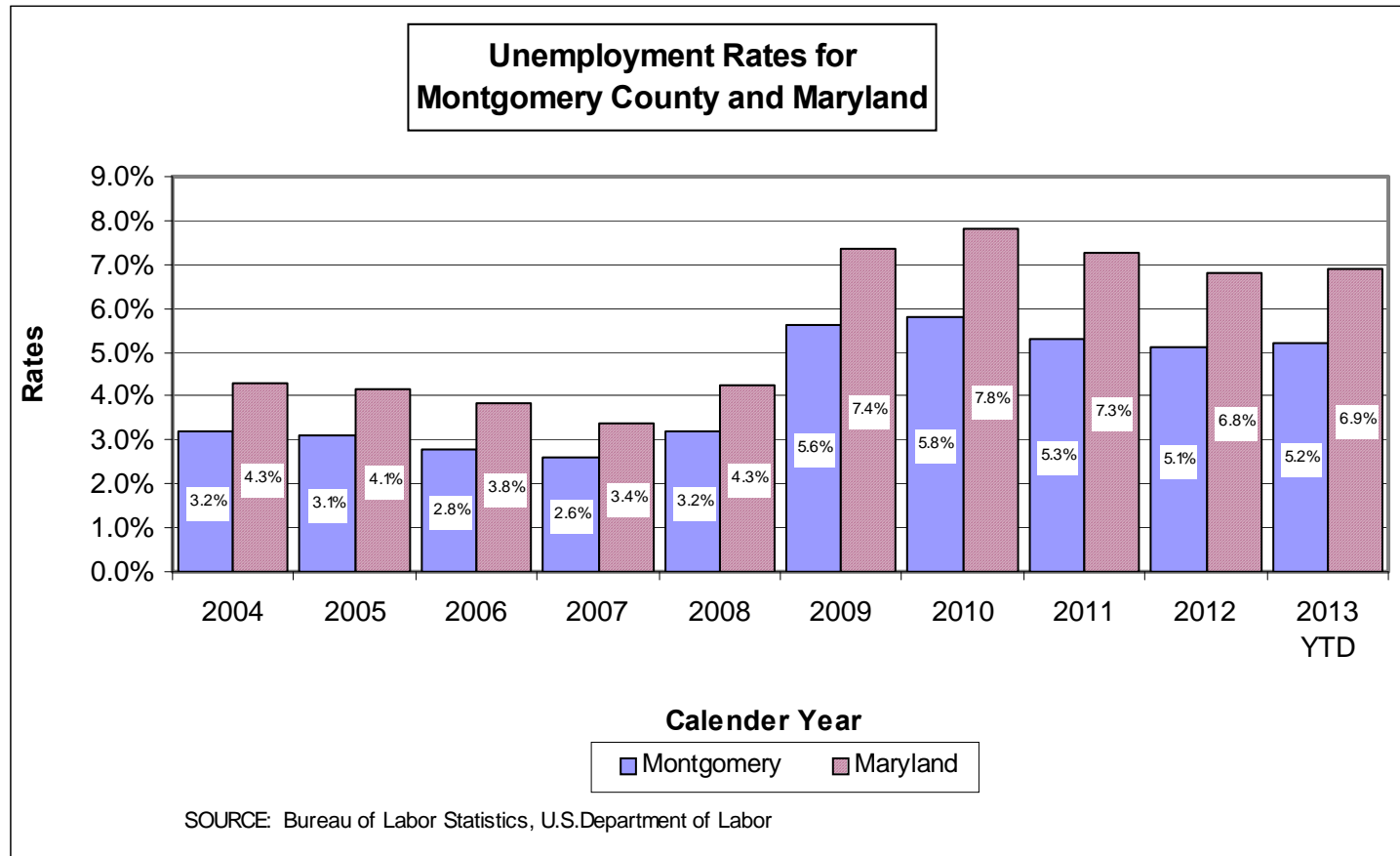
Department of Finance estimates that resident employment in Montgomery County exceeds 511,000 in CY2013 (↑1.0% over CY2012).

On a year-over-year basis, resident employment increased by over 4,500 from August 2012 to August of this year.



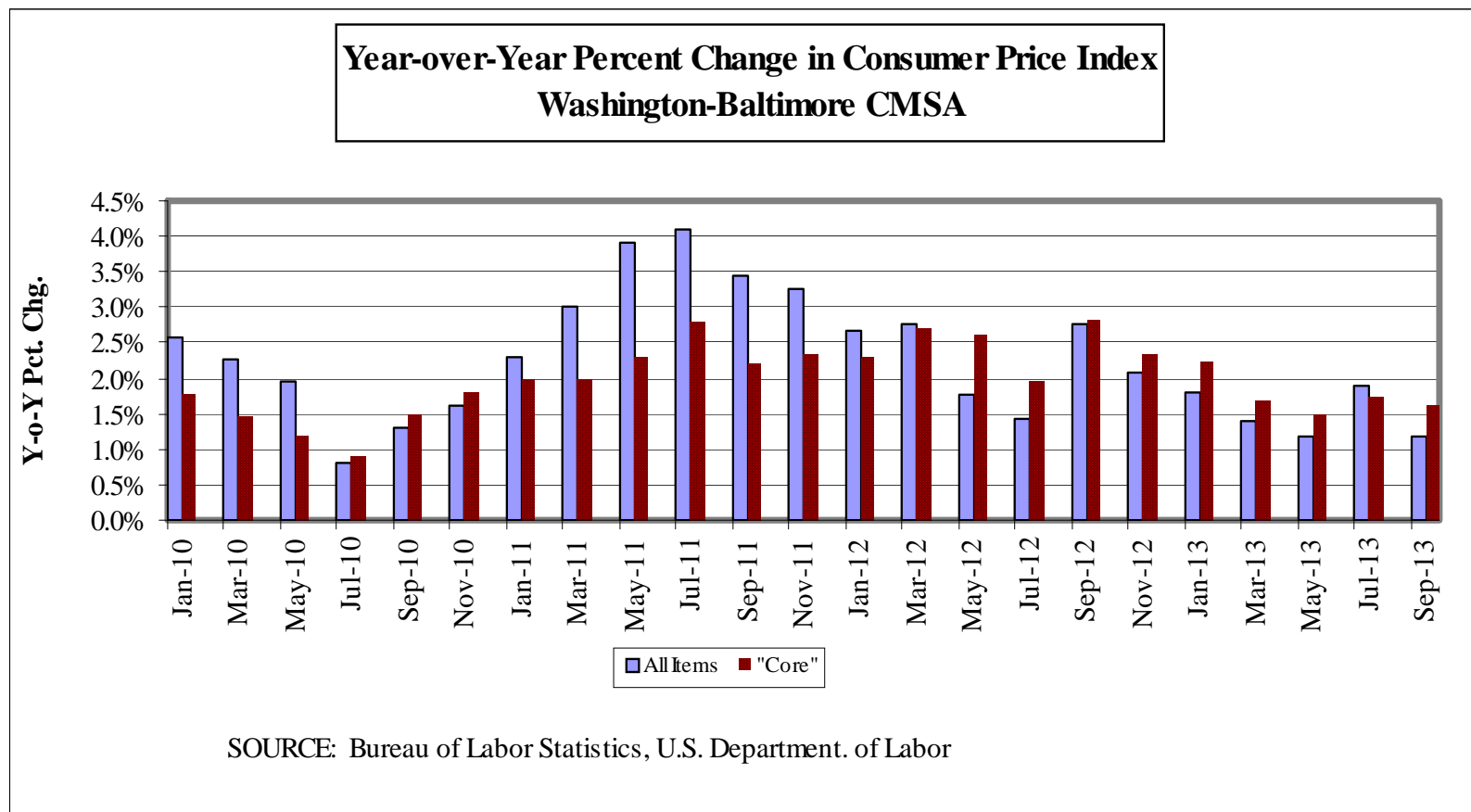
The Department of Finance estimates that the unemployment rate for Montgomery County remains above 5.0 percent in CY2013 – slightly above the rate during the previous calendar year.

The unemployment rate in August was 5.0 percent compared to 5.3 percent in August 2012.



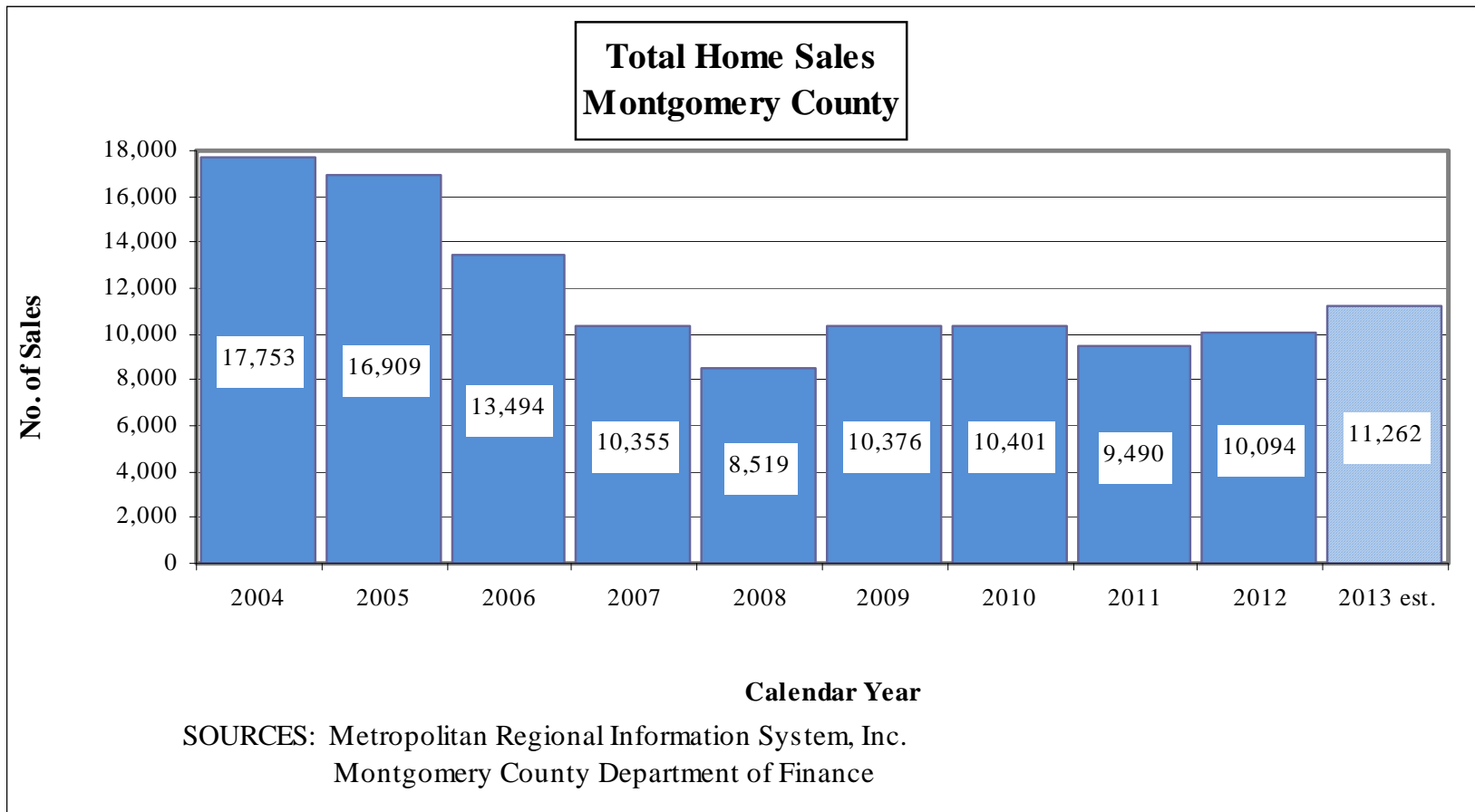
The consumer price index (CPI) decelerated in September.

Overall for the Washington-Baltimore consolidated region the CPI increased 1.2 percent in September '13 from September '12. For the calendar year 2012, the index increased 2.2 percent compared to 3.3 percent in CY2011.



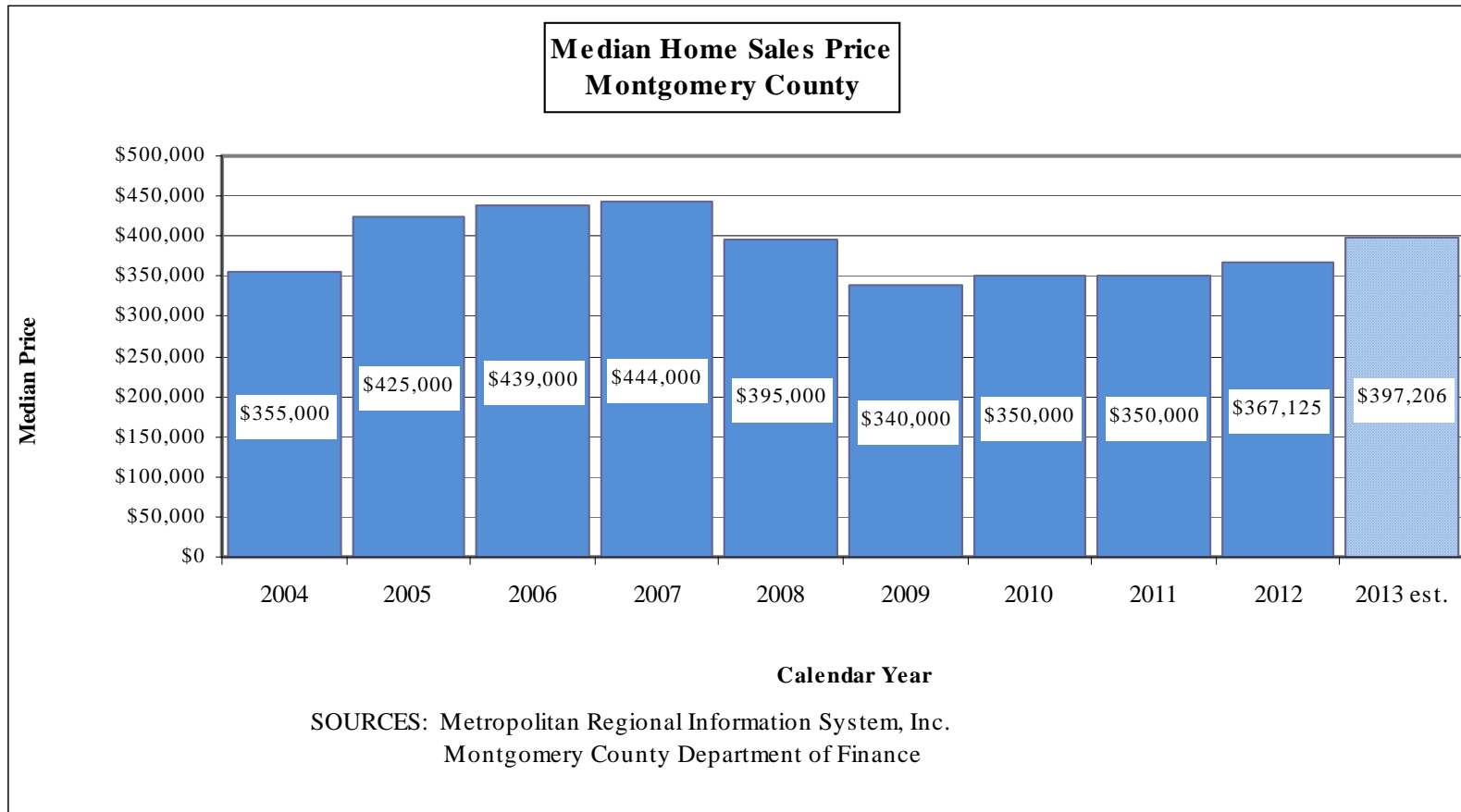
Home sales were up in CY2012.

Total sales of existing homes increased 6.4 percent in CY2012 compared to a decrease of 8.8 percent in CY2011. Finance estimates that home sales will increase 11.6 percent in CY2013.



Median home sales prices were up in CY2012.

With the sales of existing homes in the County increasing 6.4 percent in 2012, the median sales price increased 4.9 percent, which followed a modest increase of 2.9 percent (CY2010), but no increase in CY2011. Finance estimates that average home prices will increase 8.2 percent in CY2012.



REVENUE UPDATE

FY14 and FY15 Summary

The outlook for the remainder of this fiscal year (FY14) and next year (FY15) suggests an increase in revenues over the two-year period compared to the estimates prepared for the FY14 budget. This increase is solely attributed to revisions to income tax and the transfer and recordation tax revenues. The combined increase in FY14 and FY15 is nearly \$153.439 million higher than previously estimated.

Revenue Update

December revised revenues for FY14 are \$99.339 million above the FY14 Budget estimates. The major contributors are the estimated increase in income and transfer/recording tax revenues.

	FY14 BUDGET - DECEMBER 2013 UPDATE (\$MIL.)		
	FY14 Budget	Dec. Update	Difference
Income	\$1,299.191	\$1,385.698	\$86.507
Property	\$1,504.875	\$1,506.702	\$1.827
Transfer/Recordation	\$142.328	\$152.524	\$10.196
Other Taxes:			
--Admissions	\$3.043	\$3.118	\$0.075
--Fuel/Energy	\$210.728	\$211.341	\$0.613
--Telephone	\$45.126	\$45.393	\$0.267
--Hotel/Motel	\$17.753	\$17.537	(\$0.216)
Investment Income	n.a	n.a	n.a
Highway User Revenue	\$3.439	\$3.510	\$0.071
TOTAL	\$3,226.483	\$3,325.824	\$99.340

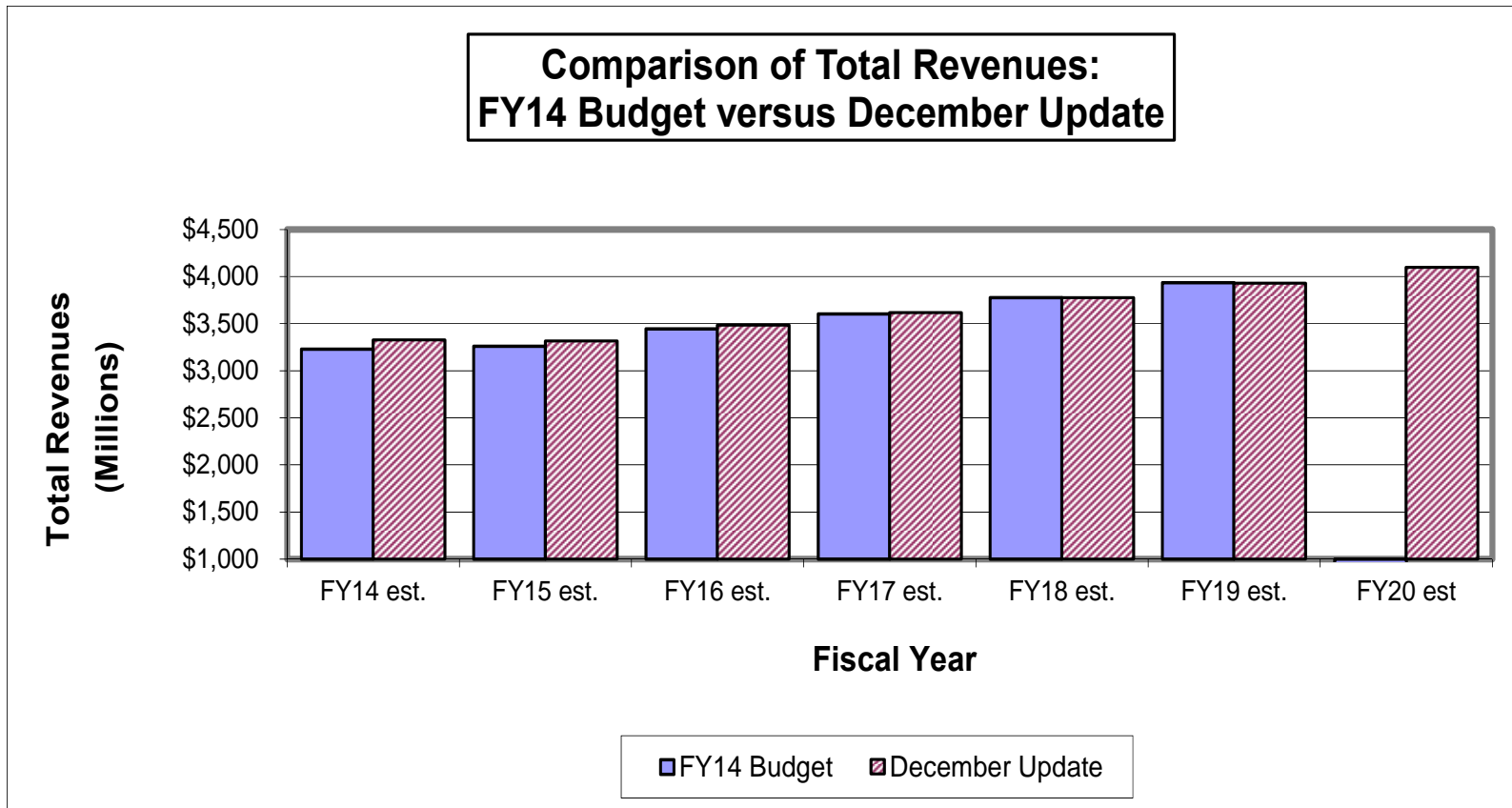
Revenue Update

December revised revenue estimates for FY15 are \$54.099 million above the FY14 Budget estimates. The increase is attributed to income and transfer/recordation tax revenues.

	FY14 BUDGET - DECEMBER 2013 UPDATE (\$MIL.)		
	FY15 Estimate	Dec. Update	Difference
Income	\$1,285.662	\$1,324.142	\$38.480
Property	\$1,544.326	\$1,537.878	(\$6.448)
Transfer/Recordation	\$145.920	\$167.609	\$21.689
Other Taxes:			
--Admissions	\$3.146	\$3.212	\$0.066
--Fuel/Energy	\$214.210	\$214.490	\$0.280
--Telephone	\$44.636	\$45.060	\$0.424
--Hotel/Motel	\$18.212	\$17.793	(\$0.419)
Investment Income	n.a	n.a	n.a
Highway User Revenue	\$3.617	\$3.643	\$0.027
TOTAL	\$3,259.728	\$3,313.827	\$54.099

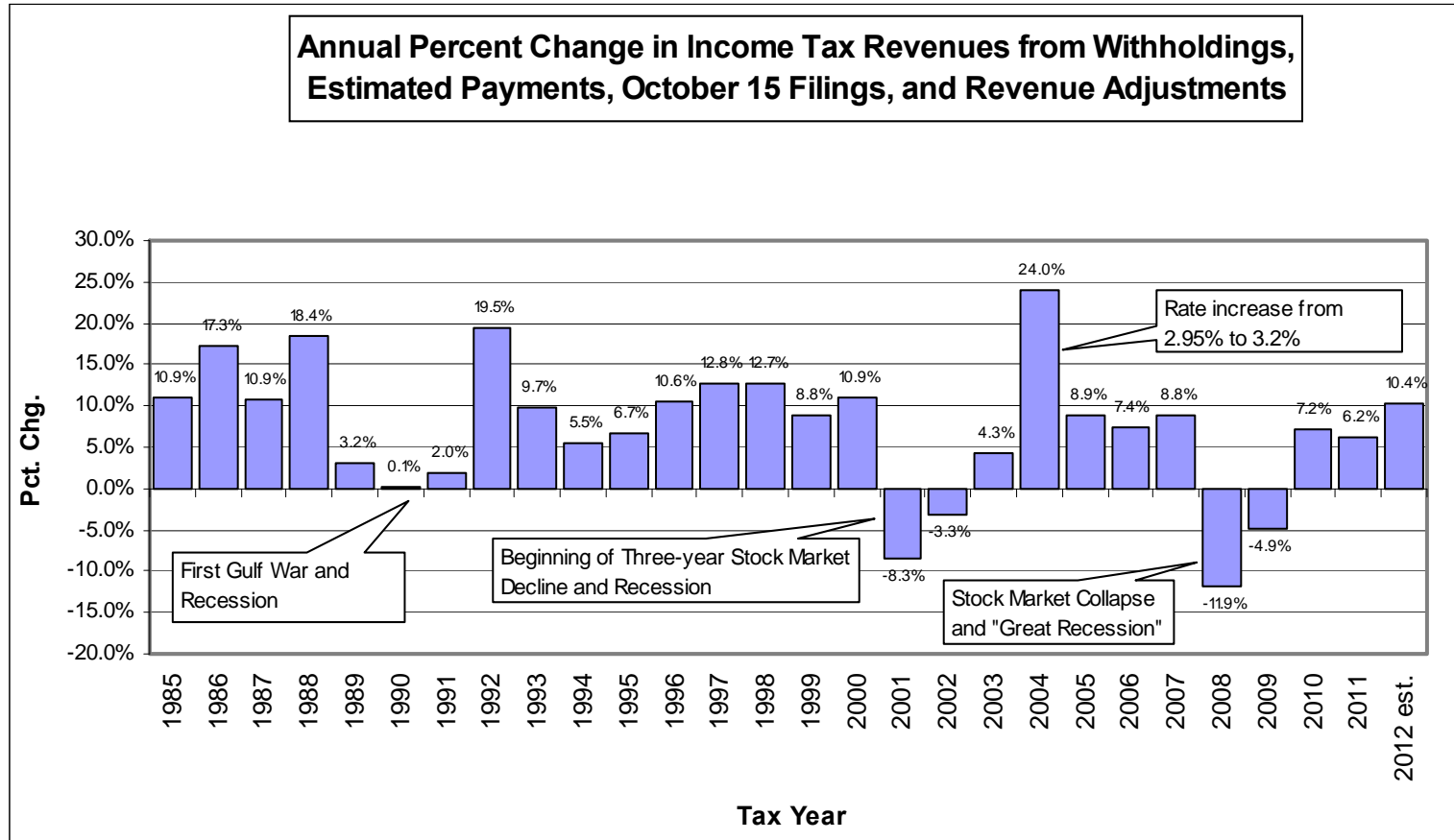
Revenue Trend FY14-19

During the current six year period (FY14-FY19), total revenues are expected to be approximately \$195.9 million above FY14 budget estimates.



Income Tax Volatility

Year-over-year percent changes in the income tax are volatile and sensitive to economic events especially capital gains in Montgomery County.



Income Tax – November Distribution

- **The largest share (five year average of 81.6%) of the County's income tax revenues for any tax year comes in quarterly distributions of withholdings and estimated payments.**
- **The November distribution reflects actual results from the prior tax year (e.g., final tax year 2012 in November 2013) and provides a near final review of last year's tax liability – this provides a base for future projections.**
- **The State Comptroller's Office also adjusts its distribution formula for the current fiscal year based on the prior tax year results (e.g., 2012 tax year final results affect quarterly distributions for this fiscal year).**
- **Income tax revenues represented 47.3 percent of total General Fund tax revenues in FY13 and nearly 45.5 percent of the County's total revenues.**

Income Tax – November distributions

(millions)	Actual FY11	Actual FY12	Actual FY13	Estimated FY14	Actual FY14	Difference
October 15 th Filings and Adjustments	\$17.00	\$134.76	\$144.74	\$122.05	\$167.61	\$45.56
Withholding and Estimated payments for 3 rd Quarter	\$212.90	\$242.79	\$250.76	\$255.81	\$258.47	\$2.66
Total November Distribution	\$229.90	\$377.55	\$395.50	\$377.86	\$426.08	\$48.22

• Increase in receipts from October 15th Filings and Adjustments is based on an adjustment to reflect increased income tax receipts due the County for tax year 2012 as compared to tax year 2011. The State has indicated that the County's income tax receipts from withholdings and estimated payments for the third quarter of tax year 2013 are 3.1% higher than for TY2012.

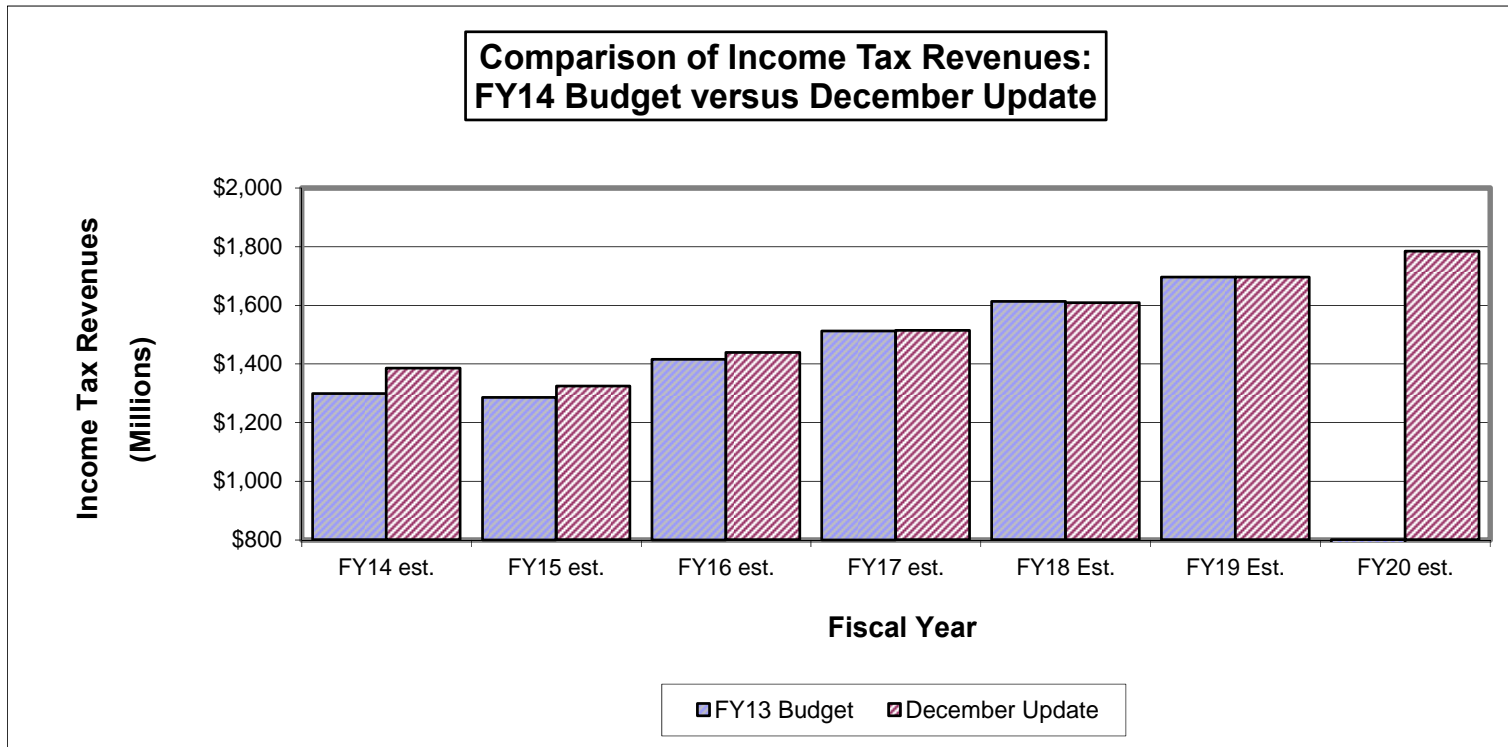
• Increase in withholdings and estimated payments is due to an increase in income tax receipts statewide and a change in the distribution formula, which is updated by the State in November to reflect the overall increase in prior year income tax receipts.

Income Tax – Economic Factors

- Resident employment is expected to increase 1.0 percent in CY2013 and increase 1.3 percent in CY2014. This is a slight decrease compared to March economic assumptions of 1.2 percent increase in CY2013 and 1.6 percent in CY2014. The lower employment growth is based on the State’s Board of Revenue Estimates’ recent assumption of sequestration in its September forecast that lowered employment growth in the State.**
- Personal income is estimated to increase 1.8 percent in CY2013 and 4.4 percent in CY2014.**
- Wage and salary income is expected to increase 2.2 percent in CY2013 and increase 4.3 percent in CY2014.**

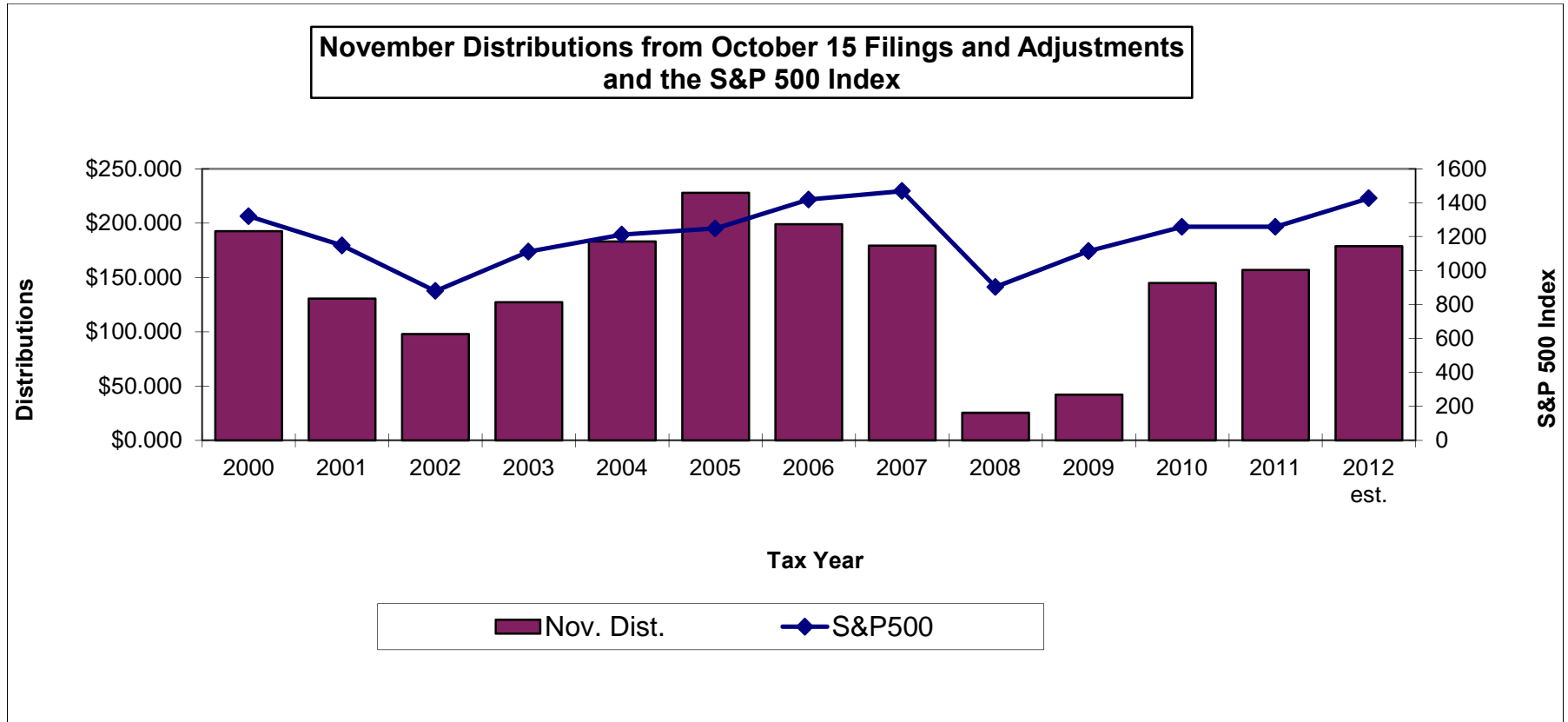
Income Tax FY14-19

Over the current six year period (FY14-FY19), income tax revenues are expected to be approximately \$144.3 million above FY14 budget estimates.



Income Tax

The amount of revenues from the November distribution is correlated to the stock market (S&P 500 Index)



Property Tax

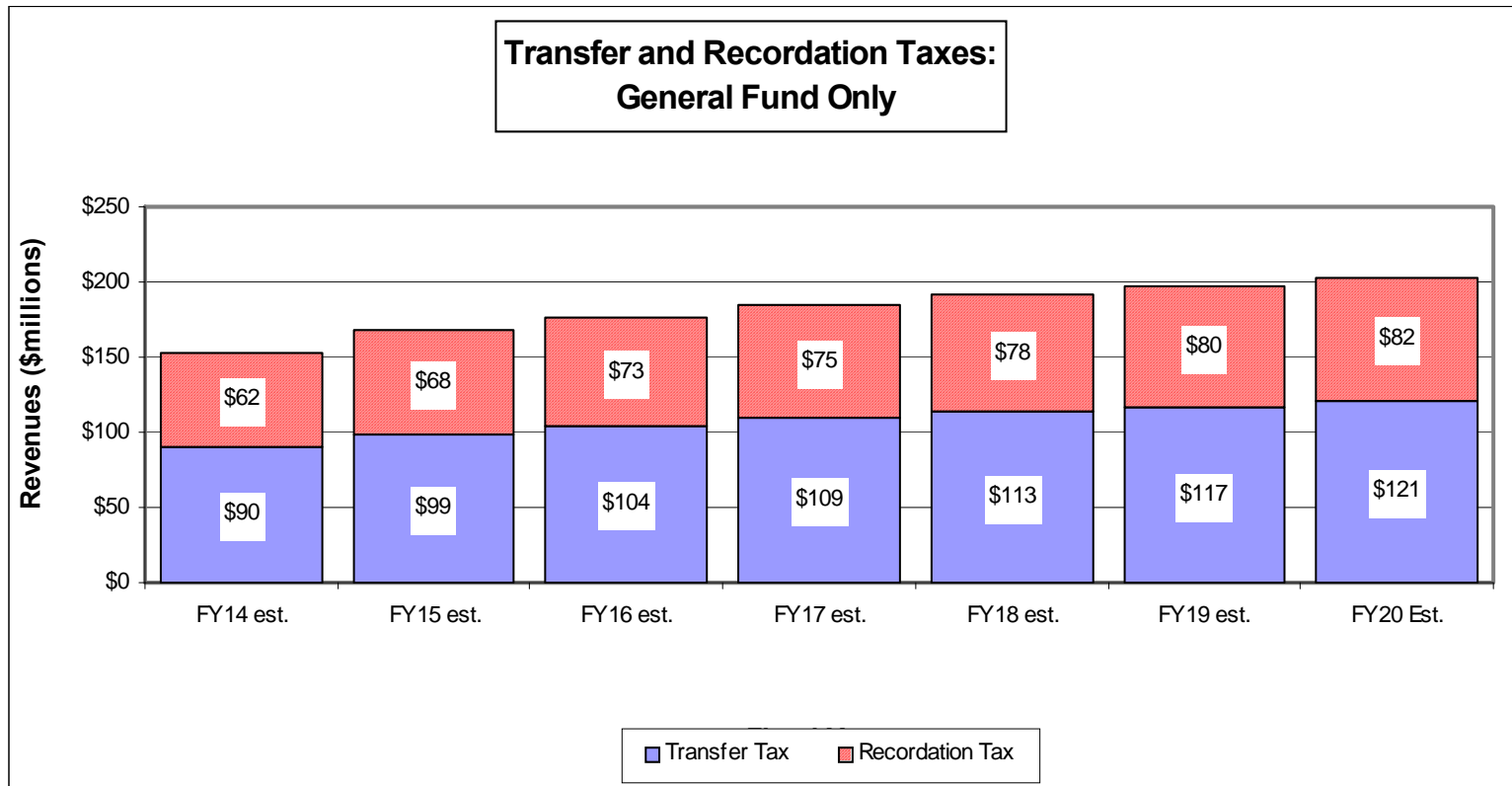
- **The inflation rate is expected to be 1.5 percent in calendar year 2013, which follows a 2.2 percent increase in CY12 and 3.4 percent in CY11. Inflation is used to estimate real property tax under the Charter Limit excluding new construction.**
- **The reassessment rates for real property for Group Two in fiscal year 2015 are expected to be released by the Maryland State Department of Assessments and Taxation (SDAT) at the end of this month. Preliminary indications are that this group may experience an increase in the real property tax base.**

Transfer and Recordation Taxes

- Home sales are expected to increase 11.6 percent in CY13 and median prices are also anticipated to increase 8.2 percent. Based on collections to date, the non-residential real estate market is estimated to experience a decrease in FY14.**
- Because of the estimated increase in home sales in CY13, Finance estimates that the number of residential transfers may increase 9.2 percent in FY14 nearly the same as the increase in home sales.**
- Because of collections to date, the average transfer tax amount on a residential sale is expected to increase 5.8 percent in FY14.**
- Because of the expected decrease in the average transfer tax on non-residential transactions, non-residential transfer tax revenues are estimated to decrease 29.3 percent in FY14.**

Transfer and Recordation Taxes

Since reaching \$241.7 million in FY06, transfer and recordation taxes declined to \$127.3 million in FY12. By FY20, transfer and recordation taxes are estimated to reach \$202.8 million – \$38.9 million below the FY06 peak.



Other Tax Revenues

Other tax revenues are estimated to increase a modest 0.2 percent in FY14 over budget estimates due to modest increases in fuel and energy, and telephone tax revenues. Over the current six-year period (FY14-FY19), total other tax revenues are estimated to be \$11.1 million above FY14 budget estimates.

