OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Jennifer A. Hughes
Director

MEMORANDUM

December 2, 2015

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 and the approved FY16 Savings Plan have been incorporated in the fiscal plan. Other assumptions in the fiscal plan, including FY15 year-end results, current year expenditure estimates (other than the approved Savings Plan), funding for the Capital Improvements Program, and other non-agency spending 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

When the Council adopted the FY16-21 Fiscal Plan in June, we prepared an additional version of the fiscal plan that projected a $175 million decline in resources available to fund the operating budget in FY17 due to updated fiscal information on the *Wynne* decision and FY15 year-to-date income tax receipts. As a result, the County Executive immediately proposed more than $50 million in expenditure reductions shortly after the beginning of the current fiscal year. This updated fiscal plan projects a decline of $179 million, even after incorporating the expenditure reductions approved in the FY16 Savings Plan. This clearly underscores the importance of continued expenditure restraint as we begin the FY17 budget process.

The Department of Finance's updated revenue forecast is down for all revenues except for recordation and transfer taxes. Income tax revenues are substantially below the estimates approved in June, but consistent with the trends we informed the Council about prior to approval of the FY16 budget. These updated revenues were reflected in the "illustrative" fiscal plan referenced above. In total over FY16 and FY17, the updated revenue forecast is $135.1 million below the approved June forecast.

While our original estimate forecasted an increase in the County's November 2015 income tax distribution, the actual distribution was nearly the same as November 2014. Based on an apparent disparity between the County's distribution and the State's receipts, the Department of Finance is requesting more information from the State. We will update the Council as we receive more information from the State. However, until and unless there is a substantive change in the information received from the State, we must assume a further significant reduction in projected income tax revenues.

Based on current assumptions, the fiscal plan would require a 4.5 percent reduction in agency spending to produce a balanced budget in FY17. However, due to the State legal requirements to fund MCPS and the College at maintenance of effort, the projected decline in resources available to fund the County Government and MNCPPC under these assumptions is even greater – 11.5 percent.

I want to highlight a few aspects of this update:

1. **Revenues**: As detailed in the Department of Finance's December 2015 Revenue Update and Selected Economic Indicators report, the revenue forecast has been revised downward a total of $135.1 million ($37.1 million in FY16 and $98 million in FY17) compared to the estimates in the approved fiscal plan. Income tax revenues have been revised downward by $119.8 million ($50.9 million in FY16 and $68.9 million in FY17). As noted above, the November distribution was estimated to increase 16.1 percent, but actually only increased 2.1 percent. In addition, the estimated loss of revenue from the *Wynne* decision has been updated based on more recent information from the State Comptroller from $10 million in FY16, $55 million in FY17 and FY18, and $25 million after FY18 to $0 in FY16, $76 million in both FY17 and FY18, $31 million in FY19, and $16 million after FY19. We expect to revise this estimate again next March.

   The revised property tax estimate is at the Charter Limit[1] but is $27.7 million less than the estimate in the approved fiscal plan primarily due to a significant decline in the projected rate of inflation.

2. **Intergovernmental Aid**: State Aid assumptions will be updated after budget requests from Montgomery County Public Schools and Montgomery College are received and the Governor releases his budget in January 2016.

3. **FY17 Expenditures**: The fiscal plan assumes FY17 expenditures for MCPS and Montgomery College[2] at maintenance-of-effort. To produce a balanced fiscal plan, FY17 expenditures for the County Government and MNCPPC are reduced 11.5 percent. In total, agency expenditures decline 4.5 percent, or $178.5 million, compared to the FY16 budget. **This shortfall does not account for a number of anticipated cost increases including compensation and benefits, inflation adjustments, program annualizations, and other costs that will likely increase the gap as we go forward in the budget process.**

4. **Reserves**: Prior fiscal year results are not yet finalized. The projection reflects the impact of the revised revenue forecast and the FY16 Savings Plan. According to the Revenue Stabilization Fund law (MCC 20-68) adopted by the Council in June 2010, the mandatory contribution to the RSF must be the greater of 50 percent of excess revenues[3] or 0.5 percent of Adjusted Governmental Revenues[4].

[1] Section 305 of the County Charter limits the growth in real property tax revenues in a fiscal year to the rate of inflation, excluding new construction, development districts, and other minor exceptions. The Council may override this limitation with an affirmative vote of nine Councilmembers.
[2] The fiscal plan update does not assume additional resources that may be available to fund the appropriations of Montgomery College and MCPS, such as agency fund balance or increases in State Aid. This information will be available once the budget proposals from the President of Montgomery College and the Superintendent of Schools are released. Since the fiscal plan does not assume these additional resources at this time, projected FY17 spending for MCPS and Montgomery College appears level or decrease relative to FY16 because of one-time funding included in the FY16 budget.
[3] Defined as the amount, if positive, by which total revenues from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund for the fiscal year exceed the original projections for these amounts.

Under this law, $24 million must be contributed to the RSF in FY16. Total reserves are projected to be 8.0 percent at the end of FY16 due to the revised revenue forecast. The fiscal plan projects increases to the General Fund reserve up to its Charter Limit[5] and contributions to the Revenue Stabilization Fund, consistent with the County's fiscal policies and the Revenue Stabilization Fund law. Total reserves are projected to increase from 9.3 percent at the end of FY17 to 10 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 March 2016 as part of his Recommended FY17 Operating Budget and FY17-22 Public Services Program. The March update will include several changes that are not part of the attached fiscal plan because the information is currently not available or is dependent on events that will occur subsequent to the transmittal of this fiscal plan including:

1. The County Executive's recommended FY17-22 CIP and FY17 recommended operating budget.
2. The mid-December update by the State Board of Revenue Estimates on its economic forecast.
3. The February 2016 income tax distribution and data on the County's excise taxes for November 2015 through February 2016.
4. Revisions to estimates of the assessable base by the State Department of Assessments and Taxation expected in January 2016.
5. Federal and State budget decisions that may affect the County's budget.

In summary, disappointing revenue growth continues to challenge our ability to meet increasing expenditure demands. Not only is continued restraint in the County's spending plans necessary, but more aggressive actions may be necessary to align on-going spending obligations with on-going revenues.

JAH:aae

Attachments

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

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[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.

Fiscal Plan December 2015

Tax Supported Fiscal Plan Summary

($ in Millions)

		App. FY16	Est. FY16	% Chg. FY16-17	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22
		5-21-15	12-8-15	App/Proj	Est/Proj	12-8-15										
	Total Revenues															
1	Property Tax	1,582.6	1,578.3	1.2%	1.4%	1,600.8	2.3%	1,638.0	2.5%	1,679.1	3.1%	1,731.2	3.1%	1,784.4	3.3%	1,843.4
2	Income Tax	1,433.4	1,382.6	-2.3%	1.3%	1,400.8	6.7%	1,494.4	7.9%	1,612.8	4.8%	1,689.9	4.8%	1,771.6	4.9%	1,857.5
3	Transfer/Recordation Tax	153.8	174.7	13.2%	-0.4%	174.1	3.2%	179.7	4.5%	187.8	3.8%	194.9	7.7%	209.9	6.8%	224.2
4	Other Taxes	280.3	278.0	-0.1%	0.7%	280.1	1.1%	283.3	1.0%	286.0	1.1%	289.1	1.1%	292.4	1.2%	295.8
5	Other Revenues	990.1	989.7	-0.7%	-0.6%	983.7	0.5%	988.4	0.5%	993.7	0.6%	999.5	0.7%	1,006.1	0.4%	1,010.6
6	**Total Revenues**	**4,440.3**	**4,403.2**	**0.0%**	**0.8%**	**4,439.4**	**3.3%**	**4,583.9**	**3.8%**	**4,759.4**	**3.1%**	**4,904.6**	**3.3%**	**5,064.4**	**3.3%**	**5,231.5**
7																
8	**Net Transfers In (Out)**	**24.9**	**25.0**	**-13.9%**	**-14.2%**	**21.4**	**2.0%**	**21.8**	**2.3%**	**22.3**	**2.6%**	**22.9**	**2.6%**	**23.5**	**2.6%**	**24.2**
9	**Total Revenues and Transfers Available**	**4,465.2**	**4,428.2**	**-0.1%**	**0.7%**	**4,460.9**	**3.2%**	**4,605.7**	**3.8%**	**4,781.7**	**3.1%**	**4,927.6**	**3.3%**	**5,088.0**	**3.3%**	**5,255.7**
10																
11	**Non-Operating Budget Use of Revenues**															
12	Debt Service	354.0	354.0	12.8%	12.8%	399.4	2.6%	409.7	4.0%	426.0	4.0%	443.2	3.6%	459.3	0.0%	459.3
13	PAYGO	34.0	34.0	0.0%	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0
14	CIP Current Revenue	57.7	31.6	21.2%	120.8%	69.9	2.0%	71.3	11.2%	79.3	-1.5%	78.1	0.0%	78.1	0.0%	78.1
15	Change in Montgomery College Reserves	-7.1	-4.6	64.9%	45.8%	-2.5	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
16	Change in MNCPPC Reserves	-3.1	-1.5	51.0%	2.1%	-1.5	106.6%	0.1	10.6%	0.1	26.5%	0.1	3.2%	0.1	9.3%	0.2
17	Change in MCPS Reserves	-33.2	-23.2	69.8%	56.8%	-10.0	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
18	Change in MCG Special Fund Reserves	-7.5	-7.5	102.3%	102.3%	0.2	-92.5%	0.0	240.2%	0.0	22.6%	0.1	-21.2%	0.0	11.0%	0.0
19	Contribution to General Fund Undesignated Reserves	-22.0	-34.0	269.8%	210.0%	37.4	-94.9%	1.9	240.2%	6.5	22.6%	8.0	-21.2%	6.3	11.0%	7.0
20	Contribution to Revenue Stabilization Reserves	24.2	24.0	2.7%	3.5%	24.8	5.2%	26.1	5.7%	27.6	-59.2%	11.3	-10.4%	10.1	0.5%	10.1
21	Retiree Health Insurance Pre-Funding	108.5	108.5	1.3%	1.3%	109.9	-2.9%	106.7	-3.8%	102.7	-3.1%	99.5	-3.2%	96.3	0.0%	96.3
22	Set Aside for other uses (supplemental appropriations)	2.0	17.0	900.0%	17.6%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
23	**Total Other Uses of Resources**	**507.5**	**498.3**	**34.3%**	**36.8%**	**681.6**	**-1.7%**	**669.8**	**4.0%**	**696.3**	**-0.3%**	**694.3**	**1.4%**	**704.2**	**0.1%**	**705.0**
24	**Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)**	**3,957.8**	**3,929.9**	**-4.5%**	**-3.8%**	**3,779.3**	**4.1%**	**3,935.9**	**3.8%**	**4,085.4**	**3.6%**	**4,233.3**	**3.6%**	**4,383.7**	**3.8%**	**4,550.6**
25																
26	**Agency Uses**															
27																
28	Montgomery County Public Schools (MCPS)	2,176.5	2,166.5	0.0%	0.5%	2,176.9										
29	Montgomery College (MC)	252.2	249.7	-1.2%	-0.2%	249.2										
30	MNCPPC (w/o Debt Service)	115.6	114.1	-11.5%	-10.3%	102.3										
31	MCG	1,413.4	1,399.6	-11.5%	-10.6%	1,251.0										
32	**Agency Uses**	**3,957.8**	**3,929.9**	**-4.5%**	**-3.8%**	**3,779.3**	**4.1%**	**3,935.9**	**3.8%**	**4,085.4**	**3.6%**	**4,233.3**	**3.6%**	**4,383.7**	**3.8%**	**4,550.6**
33	**Total Uses**	**4,465.2**	**4,428.2**	**-0.1%**	**0.7%**	**4,460.9**	**3.2%**	**4,605.7**	**3.8%**	**4,781.7**	**3.1%**	**4,927.6**	**3.3%**	**5,088.0**	**3.3%**	**5,255.7**
34	**(Gap)/Available**	**0.0**	**0.0**			**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**

Assumptions:

1. Property taxes are at the Charter Limit with a $692 credit. Other taxes are at current rates.
2. Reserve contributions are at the policy level and consistent with legal requirements.
3. PAYGO, debt service, and current revenue reflect the Amended FY15-20 Capital Improvements Program.
4. Retiree health insurance (OPEB) is fully funded.
5. State Aid, including MCPS and Montgomery College, is not projected to increase in FY17-22.
6. Projected FY17 allocations for MCPS and Montgomery College assume County funding at maintenance of effort. The allocations do not include potential increases to State Aid or other possible agency resources, such as use of additional fund balance. Additional State Aid or use of fund balance would increase the rate of growth for MCPS and Montgomery College.
7. Estimated FY16 expenditures reflect the FY16 Approved Savings Plan.

Fiscal Plan December 2015

Tax Supported Fiscal Plan Summary

($ in Millions)

		App. FY16	Est. FY16	% Chg. FY16-17	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22
35	**Beginning Reserves**															
36	**Unrestricted General Fund**	149.8	149.8	-22.7%	-22.7%	115.8	32.3%	153.2	1.3%	155.2	4.2%	161.7	4.9%	169.7	3.7%	176.0
37	**Revenue Stabilization Fund**	230.7	230.7	10.4%	10.4%	254.7	9.8%	279.5	9.4%	305.7	9.0%	333.3	3.4%	344.5	2.9%	354.6
38	**Total Reserves**	380.5	380.5	-2.6%	-2.6%	370.5	16.8%	432.8	6.5%	460.8	7.4%	495.0	3.9%	514.2	3.2%	530.6
39																
40	**Additions to Reserves**															
41	**Unrestricted General Fund**	-22.0	-34.0	269.8%	210.0%	37.4	-94.9%	1.9	240.2%	6.5	22.6%	8.0	-21.2%	6.3	11.0%	7.0
42	**Revenue Stabilization Fund**	24.2	24.0	2.7%	3.5%	24.8	5.2%	26.1	5.7%	27.6	-59.2%	11.3	-10.4%	10.1	0.5%	10.1
43	**Total Change in Reserves**	2.2	-10.0	2783.2%	722.0%	62.3	-54.9%	28.1	21.7%	34.1	-43.6%	19.3	-14.9%	16.4	4.5%	17.1
44																
45	**Ending Reserves**															
46	**Unrestricted General Fund**	127.8	115.8	19.9%	32.3%	153.2	1.3%	155.2	4.2%	161.7	4.9%	169.7	3.7%	176.0	4.0%	183.0
47	**Revenue Stabilization Fund**	254.9	254.7	9.7%	9.8%	279.5	9.4%	305.7	9.0%	333.3	3.4%	344.5	2.9%	354.6	2.9%	364.8
48	**Total Reserves**	382.7	370.5	13.1%	16.8%	432.8	6.5%	460.8	7.4%	495.0	3.9%	514.2	3.2%	530.6	3.2%	547.7
49	**Reserves as a % of Adjusted Governmental Revenues**	**8.2%**	**8.0%**			**9.3%**		**9.6%**		**9.9%**		**10.0%**		**10.0%**		**10.0%**
50	**Other Reserves**															
51	**Montgomery College**	3.5	6.0	0.0%	-41.5%	3.5	0.0%	3.5	0.0%	3.5	0.0%	3.5	0.0%	3.5	0.0%	3.5
52	**M-NCPPC**	4.3	5.8	0.7%	-25.9%	4.3	2.3%	4.4	2.5%	4.5	3.1%	4.6	3.1%	4.8	3.3%	4.9
53	**MCPS**	0.0	10.0	n/a	-100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
54	**MCG Special Funds**	0.9	0.9	19.9%	19.9%	1.0	1.3%	1.1	4.2%	1.1	4.9%	1.2	3.7%	1.2	4.0%	1.3
55	**MCG + Agency Reserves as a % of Adjusted Govt Revenues**	**8.4%**	**8.5%**			**9.5%**		**9.8%**		**10.1%**		**10.2%**		**10.2%**		**10.2%**
56	**Retiree Health Insurance Pre-Funding**															
57	Montgomery County Public Schools (MCPS)	**61.7**	**61.7**			**63.1**		**61.3**		**59.0**		**56.7**		**54.4**		**54.4**
58	Montgomery College (MC)	**1.4**	**1.4**			**1.5**		**1.6**		**1.6**		**1.5**		**1.6**		**1.6**
59	MNCPPC	**1.8**	**1.8**			**1.8**		**1.8**		**1.8**		**1.8**		**1.8**		**1.8**
60	MCG	**43.5**	**43.5**			**43.5**		**42.0**		**40.4**		**39.5**		**38.6**		**38.6**
61	**Subtotal Retiree Health Insurance Pre-Funding**	**108.5**	**108.5**			**109.9**		**106.7**		**102.7**		**99.5**		**96.3**		**96.3**
62	**Adjusted Governmental Revenues**															
63	**Total Tax Supported Revenues**	**4,440.3**	**4,403.2**	0.0%	0.8%	**4,439.4**	3.3%	**4,583.9**	3.8%	**4,759.4**	**3.1%**	**4,904.6**	**3.3%**	**5,064.4**	**3.3%**	**5,231.5**
64	**Capital Projects Fund**	**123.6**	**123.6**	-12.4%	-12.4%	**108.2**	-7.7%	**99.9**	-2.2%	**97.7**	**7.7%**	**105.2**	**0.0%**	**105.2**	**0.0%**	**105.2**
65	**Grants**	**120.1**	**120.1**	2.2%	2.2%	**122.7**	2.3%	**125.6**	2.5%	**128.7**	**2.8%**	**132.3**	**3.1%**	**136.5**	**3.1%**	**140.8**
66	**Total Adjusted Governmental Revenues**	**4,684.0**	**4,646.9**	-0.3%	0.5%	**4,670.4**	3.0%	**4,809.3**	3.7%	**4,985.8**	**3.1%**	**5,142.2**	**3.2%**	**5,306.1**	**3.2%**	**5,477.5**

REVENUE SUMMARY
TAX SUPPORTED BUDGETS
($ Millions)

#	KEY REVENUE CATEGORIES	App. FY16	Estimate FY16	% Chg. FY16-17	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22
	TAXES	5-21-15	12-8-15	App/App	Est/App	12-8-15										
1	Property Tax	1,582.6	1,578.3	1.2%	1.4%	1,600.8	2.3%	1,638.0	2.5%	1,679.1	3.1%	1,731.2	3.1%	1,784.4	3.3%	1,843.4
2	Income Tax	1,433.4	1,382.6	-2.3%	1.3%	1,400.8	6.7%	1,494.4	7.9%	1,612.8	4.8%	1,689.9	4.8%	1,771.6	4.9%	1,857.5
3	Transfer Tax	96.2	109.3	12.7%	-0.8%	108.4	3.0%	111.7	4.1%	116.3	4.5%	121.5	7.7%	130.9	6.7%	139.6
4	Recordation Tax	57.6	65.4	14.0%	0.4%	65.7	3.5%	68.0	5.2%	71.5	2.6%	73.3	7.9%	79.1	6.9%	84.6
5	Energy Tax	206.2	205.1	0.0%	0.5%	206.1	0.9%	207.9	0.6%	209.1	0.7%	210.6	0.7%	212.2	0.7%	213.8
6	Telephone Tax	50.4	50.0	-0.2%	0.7%	50.3	0.9%	50.8	1.1%	51.3	1.2%	52.0	1.4%	52.7	1.5%	53.5
7	Hotel/Motel Tax	20.3	19.9	1.5%	3.6%	20.6	3.6%	21.4	3.5%	22.1	3.4%	22.9	3.3%	23.6	3.3%	24.4
8	Admissions Tax	3.2	2.9	-5.6%	5.4%	3.1	5.8%	3.2	6.3%	3.4	6.3%	3.7	6.2%	3.9	6.2%	4.1
9	E-Cigarette Tax	0.1	0.1	0.0%	0.0%	0.1	0.0%	0.1	0.0%	0.1	0.0%	0.1	0.0%	0.1	0.0%	0.1
10	**Total Local Taxes**	**3,450.2**	**3,413.6**	**0.2%**	**1.2%**	**3,455.9**	**4.0%**	**3,595.6**	**4.7%**	**3,765.8**	**3.7%**	**3,905.3**	**3.9%**	**4,058.4**	**4.0%**	**4,221.0**
	INTERGOVERNMENTAL AID															
11	Highway User	4.1	3.6	-11.2%	1.0%	3.7	0.0%	3.7	0.0%	3.7	0.0%	3.7	0.0%	3.7	0.0%	3.7
12	Police Protection	13.8	13.8	0.0%	0.0%	13.8	0.0%	13.8	0.0%	13.8	0.0%	13.8	0.0%	13.8	0.0%	13.8
13	Libraries	5.1	5.1	0.0%	0.0%	5.1	0.0%	5.1	0.0%	5.1	0.0%	5.1	0.0%	5.1	0.0%	5.1
14	Health Services Case Formula	4.0	4.0	0.0%	0.0%	4.0	0.0%	4.0	0.0%	4.0	0.0%	4.0	0.0%	4.0	0.0%	4.0
15	Mass Transit	39.8	39.8	0.0%	0.0%	39.8	0.0%	39.8	0.0%	39.8	0.0%	39.8	0.0%	39.8	0.0%	39.8
16	Public Schools	631.4	631.4	0.0%	0.0%	631.4	0.0%	631.4	0.0%	631.4	0.0%	631.4	0.0%	631.4	0.0%	631.4
17	Community College	34.0	34.0	0.0%	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0	0.0%	34.0
18	Other	54.0	54.0	-21.3%	-21.3%	42.5	0.0%	42.5	0.0%	42.5	0.0%	42.5	0.0%	42.5	0.0%	42.5
19	**Total Intergovernmental Aid**	**786.2**	**785.7**	**-1.5%**	**-1.5%**	**774.2**	**0.0%**	**774.2**	**0.0%**	**774.2**	**0.0%**	**774.2**	**0.0%**	**774.2**	**0.0%**	**774.2**
	FEES AND FINES															
20	Licenses & Permits	13.0	13.0	1.5%	1.5%	13.2	1.5%	13.4	1.5%	13.6	1.5%	13.8	1.5%	14.0	1.5%	14.3
21	Charges for Services	71.8	71.8	1.8%	1.8%	73.0	1.6%	74.2	1.8%	75.5	2.1%	77.1	2.1%	78.7	2.1%	80.4
22	Fines & Forfeitures	24.3	24.3	1.6%	1.6%	24.7	1.6%	25.1	1.6%	25.5	1.6%	25.9	1.6%	26.3	1.6%	26.7
23	Montgomery College Tuition	81.2	81.2	1.8%	1.8%	82.6	1.6%	83.9	1.8%	85.5	2.1%	87.3	2.1%	89.1	2.1%	91.0
24	**Total Fees and Fines**	**190.3**	**190.3**	**1.7%**	**1.7%**	**193.6**	**1.6%**	**196.6**	**1.8%**	**200.1**	**2.0%**	**204.1**	**2.0%**	**208.2**	**2.0%**	**212.3**
	MISCELLANEOUS															
25	Investment Income	2.1	2.1	86.4%	86.4%	3.9	38.2%	5.4	27.8%	6.8	21.8%	8.3	26.5%	10.5	0.0%	10.5
26	Other Miscellaneous	11.6	11.6	2.2%	2.2%	11.9	2.0%	12.1	2.3%	12.4	2.6%	12.7	2.6%	13.1	2.6%	13.4
27	**Total Miscellaneous**	**13.7**	**13.7**	**15.0%**	**15.0%**	**15.8**	**10.9%**	**17.5**	**10.1%**	**19.2**	**9.4%**	**21.0**	**12.1%**	**23.6**	**1.5%**	**23.9**
28	**TOTAL REVENUES**	**4,440.3**	**4,403.2**	**0.0%**	**0.8%**	**4,439.4**	**3.3%**	**4,583.9**	**3.8%**	**4,759.4**	**3.1%**	**4,904.6**	**3.3%**	**5,064.4**	**3.3%**	**5,231.5**
29																
	Calculation for Adjusted Governmental Revenues															
29	**Total Tax Supported Revenues**	**4,440.3**	**4,403.2**	**0.0%**	**0.8%**	**4,439.4**	**3.3%**	**4,583.9**	**3.8%**	**4,759.4**	**3.1%**	**4,904.6**	**3.3%**	**5,064.4**	**3.3%**	**5,231.5**
30	**Capital Projects Fund**	**123.6**	**123.6**	**-12.4%**	**-12.4%**	**108.2**	**-7.7%**	**99.9**	**-2.2%**	**97.7**	**7.7%**	**105.2**	**0.0%**	**105.2**	**0.0%**	**105.2**
31	**Grants**	**120.1**	**120.1**	**2.2%**	**2.2%**	**122.7**	**2.3%**	**125.6**	**2.5%**	**128.7**	**2.8%**	**132.3**	**3.1%**	**136.5**	**3.1%**	**140.8**
32	**MCG Adjusted Revenues**	**4,684.0**	**4,646.9**	**-0.3%**	**0.5%**	**4,670.4**	**3.0%**	**4,809.3**	**3.7%**	**4,985.8**	**3.1%**	**5,142.2**	**3.2%**	**5,306.1**	**3.2%**	**5,477.5**

Montgomery County, Maryland

DECEMBER 2015 REVENUE UPDATE AND SELECTED ECONOMIC INDICATORS

Department of Finance

December 8, 2015

Overview

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

ECONOMIC OUTLOOK - SUMMARY

Signs of a Continued Economic Recovery

- A drop in unemployment rate from 4.4 percent in September 2014 to 4.0 percent in September 2015, a significant increase in resident employment estimated for CY15, and an estimated increase in wage and salary income in CY15 (↑4.4%) that follows an increase of 3.6 percent in CY14.
- Payroll employment is expected to increase 1.6 percent in CY15 that follows a 0.8 percent increase in CY14.
- Sales for existing homes are expected to increase 10.6 percent after declining 4.2 percent in CY14.

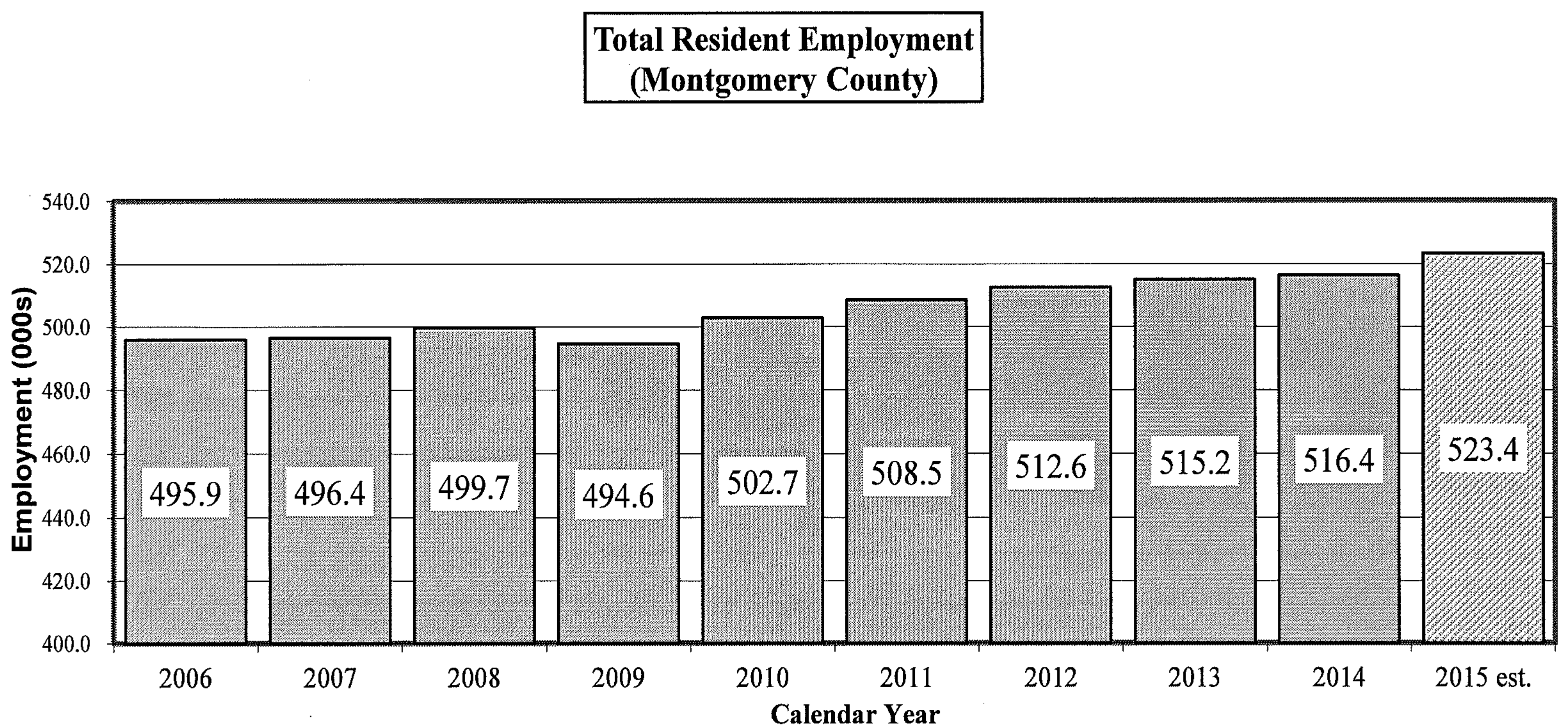
Causes of Concern

- The month-to-month volatility in the stock market to date has contributed to a decline in the Dow Jones Industrial Average (↓0.05%) and a modest increase in the S&P 500 index (↑1.46%) through November 25.
- Inflation through September (↑0.25%) is running well below CY14 (↑1.54%) and CY13 (↑1.52%).
- Median home prices are estimated to decline 0.13 percent in CY15 after no change in CY14.
- Fed funds rates have remained unchanged through November but with a 78 percent probability (CME Group – November 25) of a rate increase in December.

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON	DIRECTION (yr.-over-yr.)
INFLATION	0.25% Jan.-Sept. 2015	Property Taxes	Key determinant of property tax revenues at the Charter Limit	2014: 1.54%	↓
UNEMPLOYMENT RATE	4.0% Sept. 2015	Income Taxes	Indicates overall health of the job market	4.4% Sept. 2014	↓
RESIDENT EMPLOYMENT	522,387 Sept. 2015	Income Taxes	Primary determinant of income tax receipts	513,816 Sept. 2014	↑
PAYROLL EMPLOYMENT (Estimated)	487,800 Sept. 2015	Income Taxes	Another determinant of income tax receipts	476,700 Sept. 2014	↑
STOCK MARKET - S&P 500	2,088.87 Nov. 24, 2015	Income Taxes	Key determinant of capital gains portion of the income tax	2,058.90 Dec. 31, 2014	↑
HOME SALES	935 Oct. 2015	Transfer/ Recordation Taxes	Indicates activity affecting receipts	888 Oct. 2014	↑
HOME PRICES (Median Price Sol)	$389,000 Oct. 2015	Transfer/ Recordation Taxes	Taxes are based on values, affects amount of taxes collected	$387,310 Oct. 2014	↑
FEDERAL FUNDS RATE	0.12% Oct. 2015	Investment Income	County's return on investments closely correlated with the Fed Funds	0.09% Oct. 2014	↔

Department of Finance estimates that the County's resident employment will reach an all-time high of 523,400 in CY15 (↑1.4%) over CY14.

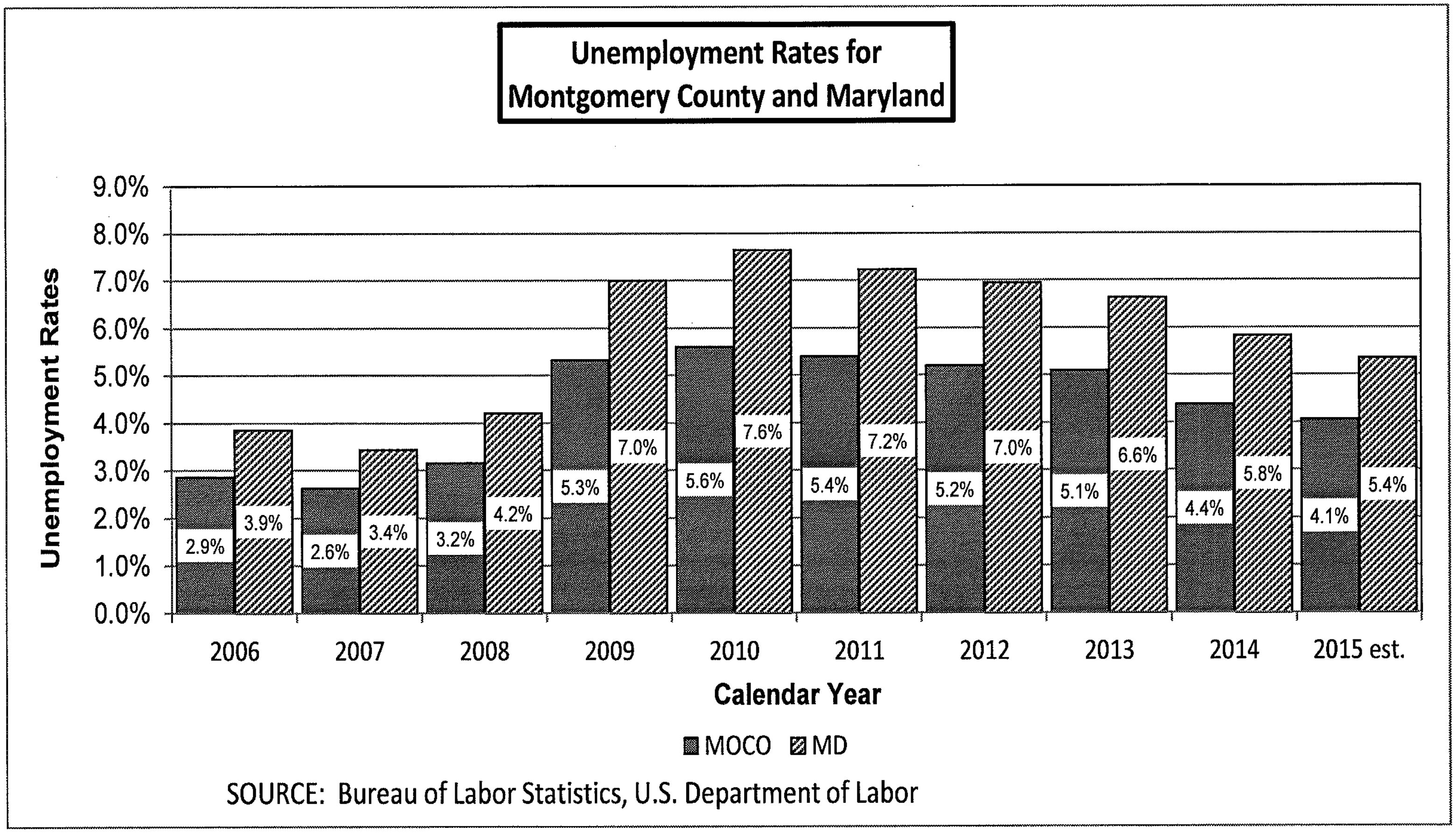
On a year-over-year basis, resident employment increased by nearly 8,600 from September 2014 to September of this year.



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

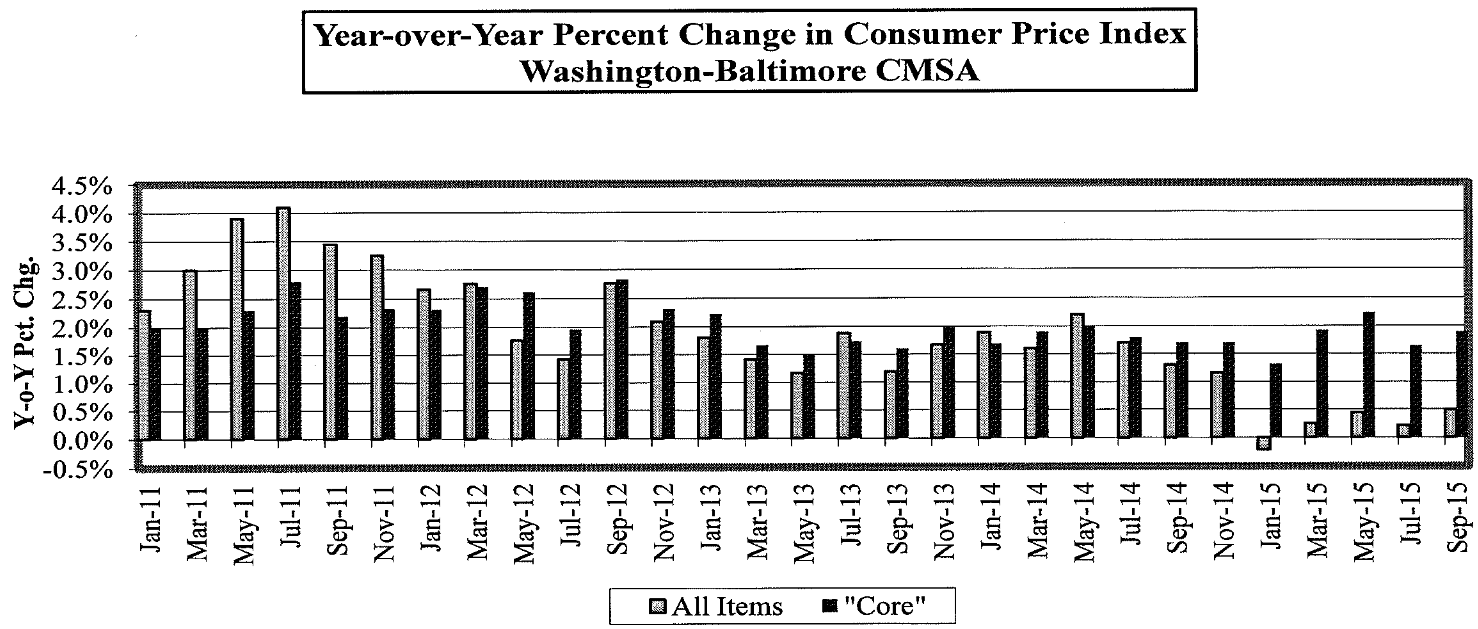
The Department of Finance estimates that the County's unemployment rate will be 4.1 percent in CY15 compared to 4.4 percent in CY14.

The unemployment rate in September was 4.0 percent compared to 4.4 percent in September 2014.



Inflation was 0.49 percent in September 2015.

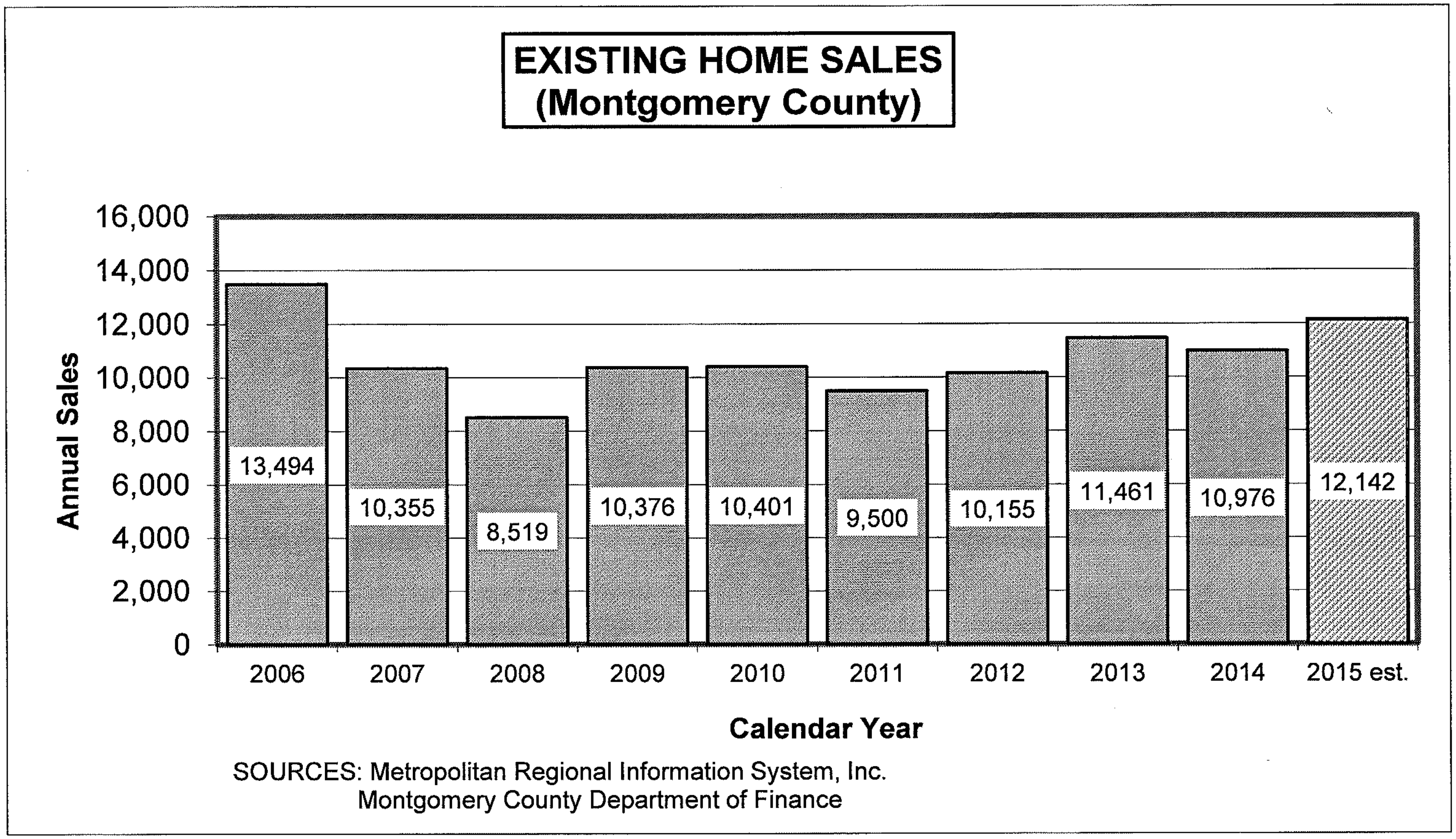
Overall for the Washington-Baltimore consolidated region, the CPI increased a modest 0.25 percent for the calendar year ending in September. For calendar year 2014, the index increased 1.54 percent compared to 1.52 percent in CY13.



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

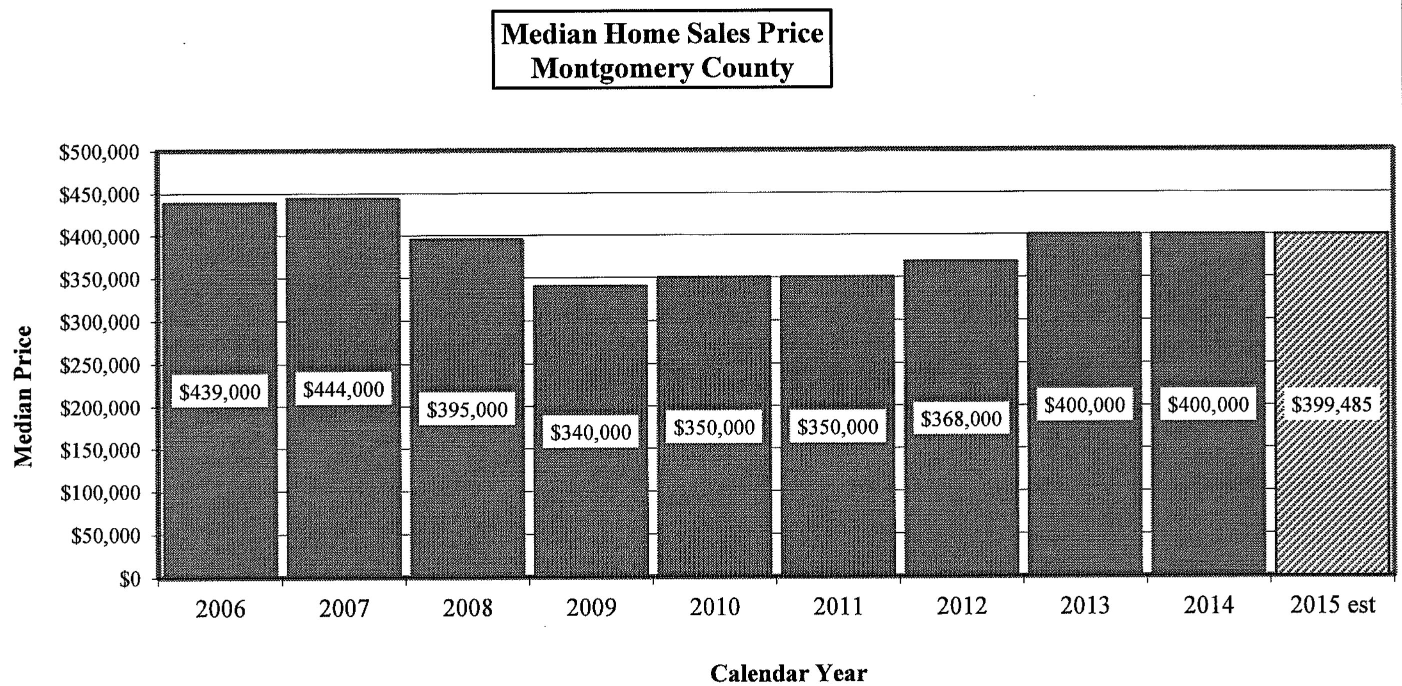
Home sales are estimated to increase 10.6 percent this year.

Total sales of existing homes increased 12.9 percent in CY13 but declined 4.2 percent in CY14.



Median home sales prices are expected to decrease 0.13 percent in CY15 following no increase in CY14.

The estimated decrease in the median sales price this calendar year, potentially offsets the effect on tax revenues from the double-digit increase in sales of existing homes.



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

REVENUE UPDATE

FY16 and FY17 Summary

The outlook for the remainder of this fiscal year (FY16) and next year (FY17) suggests a decline in revenues over the two-year period compared to the estimates prepared for the FY16 budget. This decrease is mainly attributed to revisions to income tax and property tax revenues. The combined decrease of all tax-supported revenues in FY16 and FY17 is $134.549 million lower than previously estimated.

Revenue Update

December revised revenues for FY16 are $37.090 million below the FY16 Budget estimates. The major contributor is the estimated decrease income tax revenues but partially offset by stronger real estate transfer/recordation taxes.

	FY16 BUDGET - DECEMBER 2015 UPDATE ($MIL.)		
	FY16 Budget	Dec. Update	Difference
Income	$1,433.417	$1,382.555	($50.862)
Property	$1,582.612	$1,578.295	($4.317)
Transfer/Recordation	$153.833	$174.709	$20.875
Other Taxes:			
--Admissions	$3.248	$2.909	($0.339)
--Fuel/Energy	$206.190	$205.123	($1.067)
--Telephone	$50.417	$49.959	($0.458)
--Hotel/Motel	$20.340	$19.914	($0.426)
Investment Income	n.a	n.a	n.a
Highway User Revenue	$4.125	$3.628	($0.497)
TOTAL	**$3,454.182**	**$3,417.092**	**($37.090)**

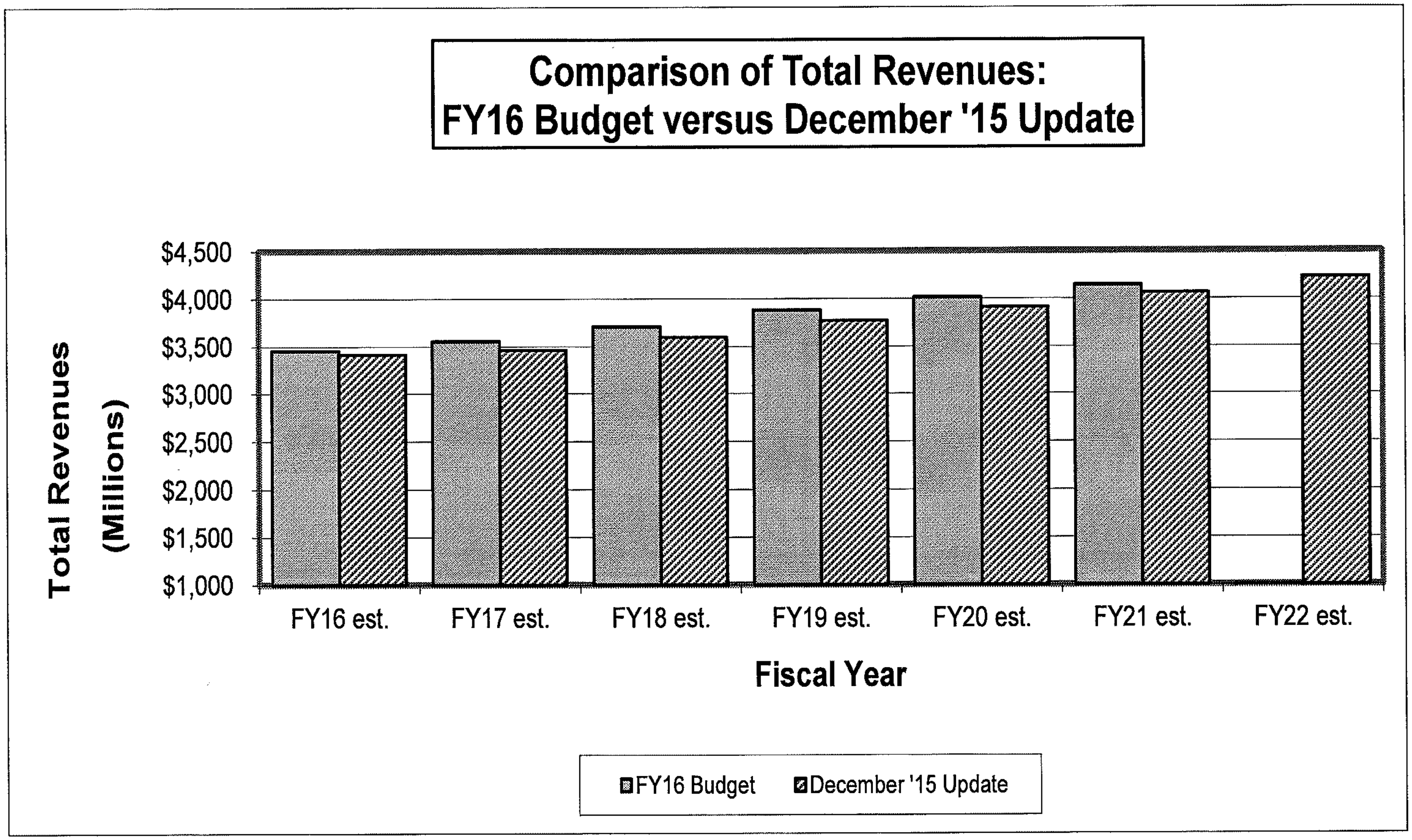
Revenue Update

December revised revenue estimates for FY17 are $97.459 million below the FY16 Budget estimates. The decrease is attributed to weaker income and property tax revenues.

	FY16 BUDGET - DECEMBER 2015 UPDATE ($MIL.)		
	FY17 Estimate	Dec. Update	Difference
Income	$1,469.727	$1,400.757	($68.970)
Property	$1,624.156	$1,600.836	($23.320)
Transfer/Recordation	$175.647	$174.097	($1.551)
Other Taxes:			
--Admissions	$3.457	$3.066	($0.391)
--Fuel/Energy	$207.910	$206.090	($1.820)
--Telephone	$51.309	$50.309	($0.999)
--Hotel/Motel	$21.069	$20.637	($0.431)
Investment Income	n.a	n.a	n.a
Highway User Revenue	$3.640	$3.663	$0.023
TOTAL	**$3,556.914**	**$3,459.455**	**($97.459)**

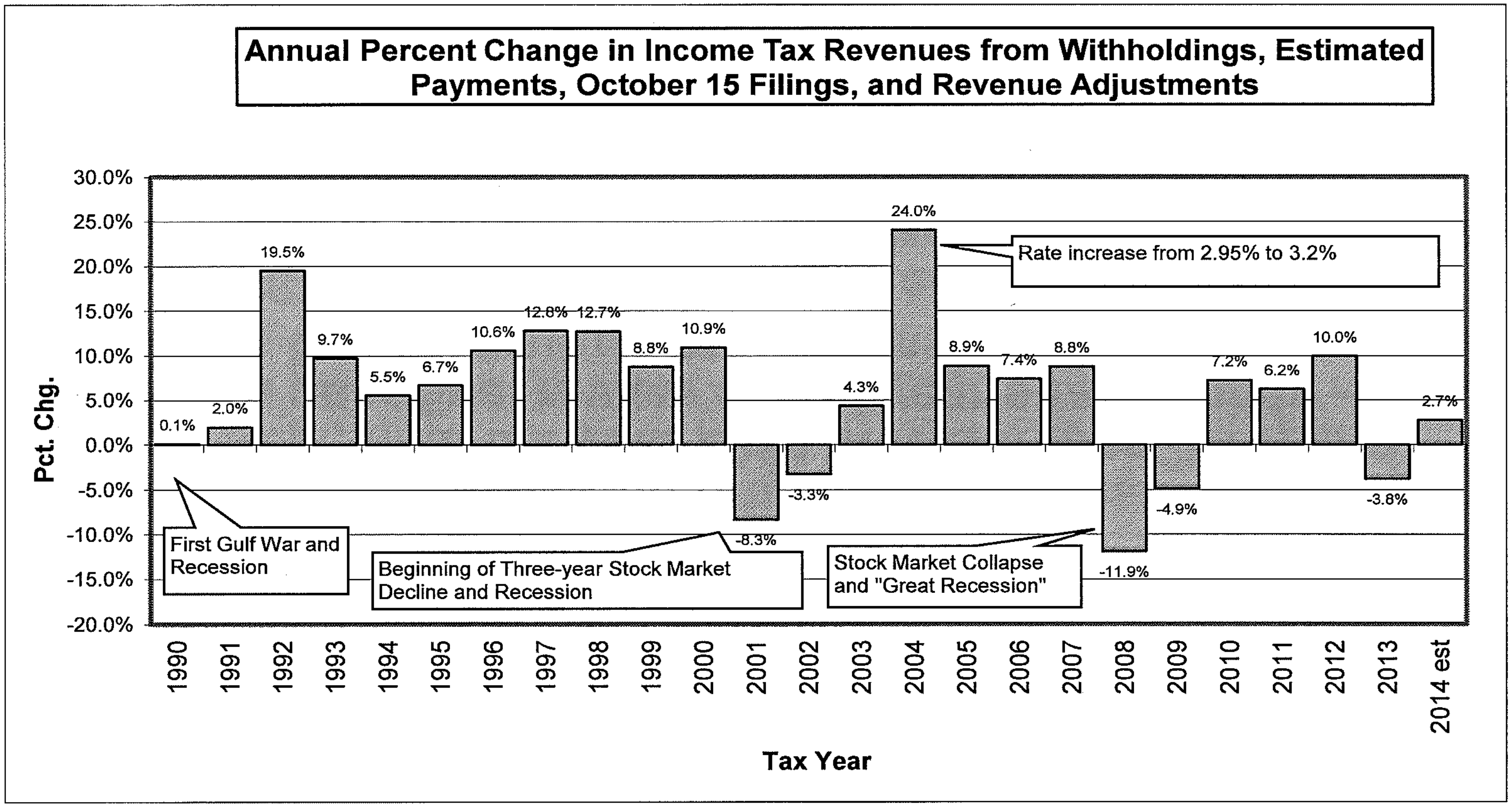
Revenue Trend FY16-22

During the current six year period (FY16-FY21), total revenues are expected to be approximately $454.1 million below FY16 budget estimates.



Income Tax Volatility

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



Income Tax – "It is all about the November distribution".

- **The largest share (five year average of nearly 82.0%) 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 2014 in November 2015) 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., 2014 tax year final results affect quarterly distributions for this fiscal year).**
- **Income tax revenues represented 46.4 percent of total General Fund tax revenues in FY15 and nearly 44.5 percent of the County's total General Fund revenues.**

Income Tax – November distributions

(millions)	Actual FY13	Actual FY14	Actual FY15	Estimated FY16	Actual FY16	Difference
October 15th Filings and Adjustments	$144.74	$167.61	$79.13	$119.50	76.80*	($42.70)
Withholding and Estimated payments for 3rd Quarter	$250.76	$258.47	$261.64	$276.00	$271.10	($4.90)
Total November Distribution	$395.50	$426.08	$340.77	$395.50	$347.90	($47.60)

* Includes $6.7 million reduction from Wynne decision for TY2014.

•Decrease in receipts from October 15th Filings and Adjustments is based on an adjustment to reflect final income tax receipts due the County for tax year 2014 as compared to tax year 2013. The State has indicated that the County's income tax receipts from withholdings and estimated payments for the third quarter of tax year 2015 are 3.6% higher than for tax year 2014 but below the estimate for the FY16 Budget.

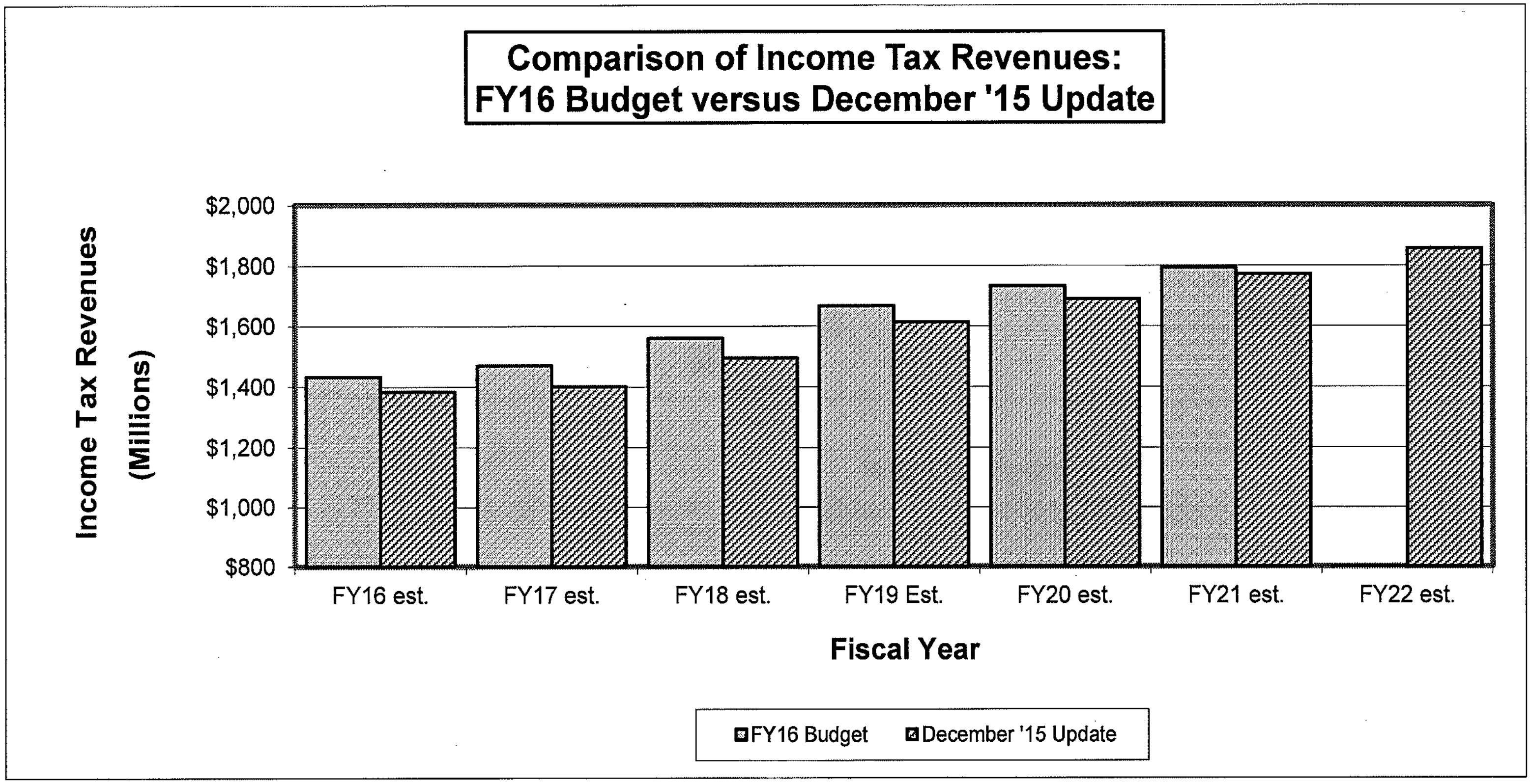
•Increase in actual withholdings and estimated payments compared to last year is due to a 3.3% increase in income tax collections from withholdings and estimated payments statewide from November 2014 to November 2015.

Income Tax – Economic Factors

- **Resident employment is expected to increase 1.4 percent in CY15 and increase 0.8 percent in CY16. Those increases are different compared to March economic assumptions of 0.4 percent increase in CY15 and 2.9 percent in CY16. The lower employment growth in CY16 is based on the State's Board of Revenue Estimates' recent September forecast that lowered employment growth in the State.**
- **Personal income is estimated to increase 3.5 percent in CY15 and 6.4 percent in CY16.**
- **Wage and salary income is expected to increase 4.4 percent in CY15 and increase 4.5 percent in CY16.**

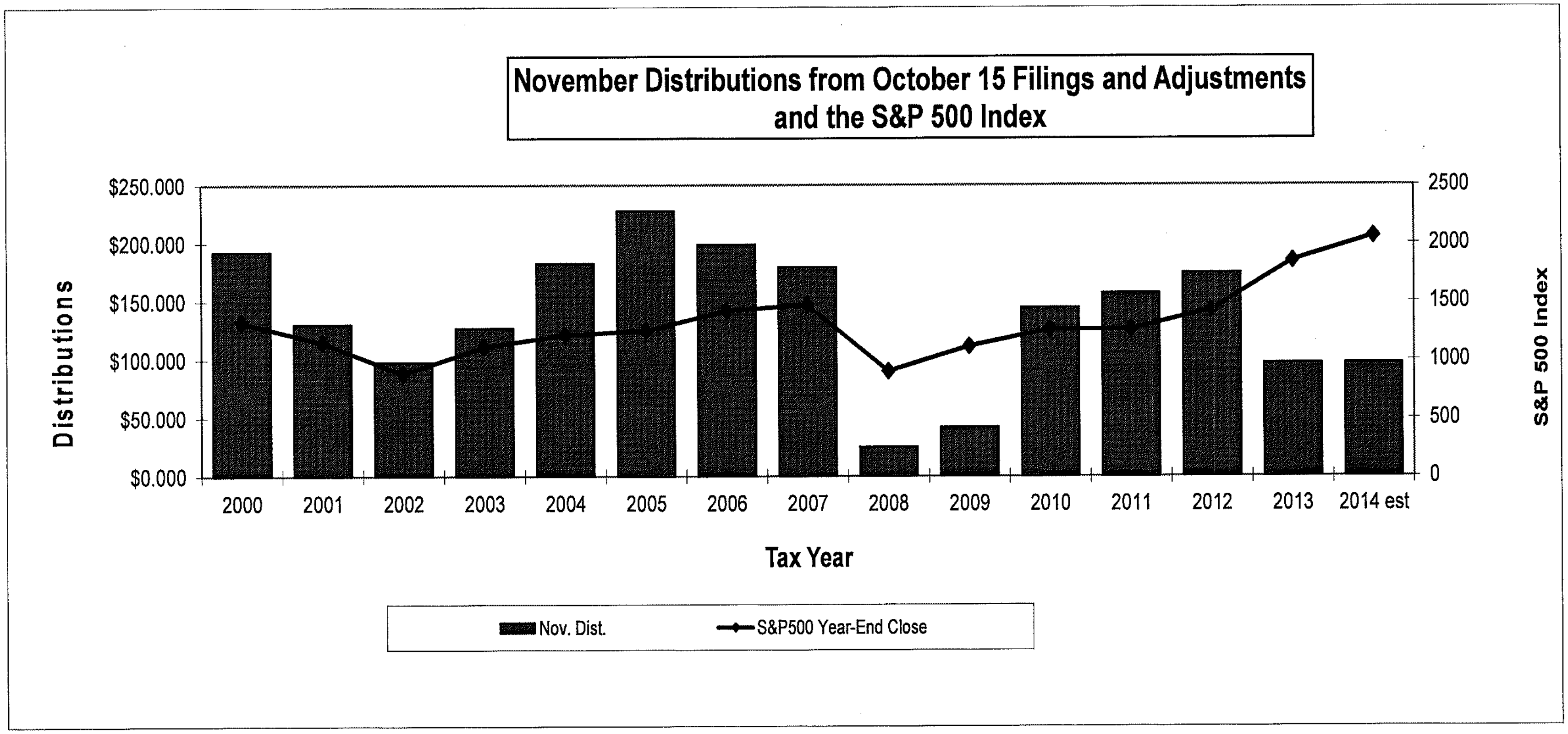
Income Tax FY16-21

Over the current six year period (FY16-FY21), income tax revenues are expected to be approximately $304.1 million below FY16 budget estimates reflecting the estimated $50.9 million and $69.0 million declines in FY16 and FY17, respectively.



Income Tax

The amount of revenues from the November distribution had been correlated to the stock market (S&P 500 Index) until tax year 2013. That relationship ended starting in 2013 due to the fiscal cliff (TY2013) and possibly to non-stock market related income (TY2014).



Property Tax

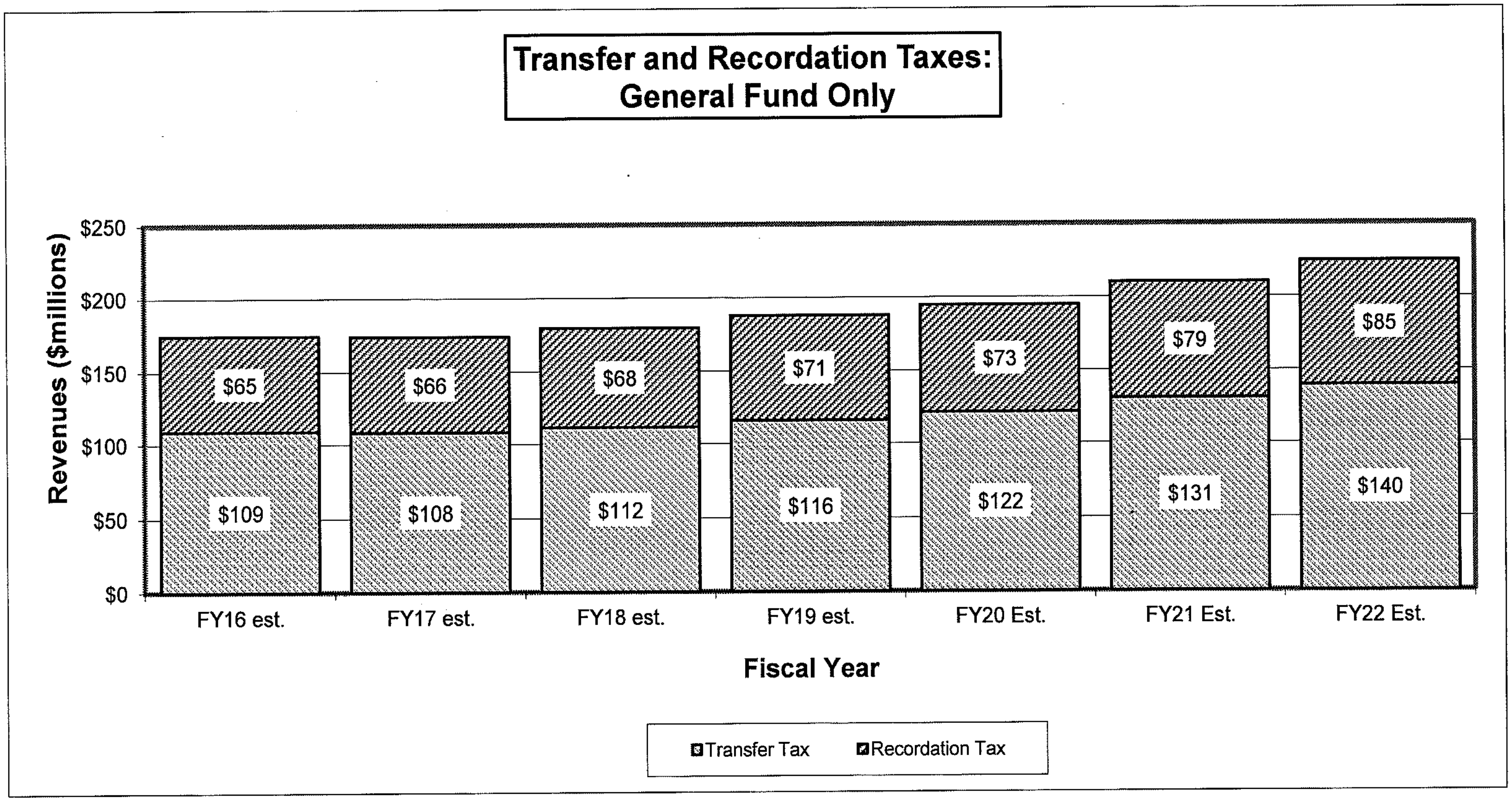
- **The inflation rate is expected to be 0.62 percent in calendar year 2015, which follows a 1.54 percent increase in CY14 and 1.52 percent in CY13. Inflation is used to estimate real property tax revenues under the Charter Limit excluding new construction.**
- **The reassessment rates for real property for Group Three for fiscal year 2017 will 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 10.6 percent in CY15 but median prices are estimated to decrease 0.13 percent. Based on collections to date, the residential and non-residential real estate market is estimated to experience solid growth in FY16.
- Because of the estimated increase of home sales in CY15, Finance estimates that the number of residential transfers increases 7.4 percent in FY16.
- Because of collections to date, total transfer tax revenues on residential transactions are expected to increase 10.5 percent in FY16.
- Because of the dramatic increase in the average transfer tax on non-residential transactions to date, total non-residential transfer tax revenues are estimated to increase by over 45.0 percent in FY16.

Transfer and Recordation Taxes

Since reaching $241.7 million in FY06, transfer and recordation taxes declined to $127.3 million in FY12. By FY22, transfer and recordation taxes for the General Fund are estimated to reach $224.2 million – $17.5 million below the FY06 peak.



Other Tax Revenues

Other tax revenues are estimated to decrease 1.3 percent in FY16 over budget estimates due to estimated decrease in fuel and energy tax revenues. Over the current six-year period (FY16-FY21), total other tax revenues are estimated to be $22.2 million below FY16 budget estimates.