

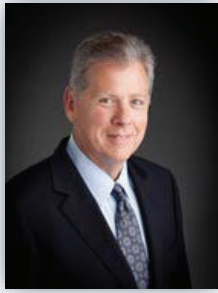


# Montgomery County, Maryland

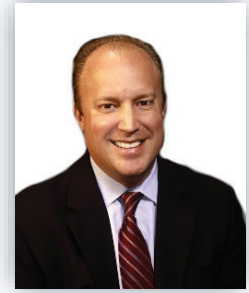
Popular Annual Financial Report  
Fiscal Year 2017  
July 1, 2016 - June 30, 2017



# The Message from Officials



**Timothy L. Firestine**  
Chief Administrative Officer



**Alexandre A. Espinosa**  
Director of Finance

## Popular Annual Financial Report FY 2017

January 30, 2018

Dear Citizens of Montgomery County:

We are pleased to present our very first Popular Annual Financial Report (PAFR) of Montgomery County, Maryland (the County) for the fiscal year ended June 30, 2017. The purpose of this report is to provide our citizens and other interested parties a less detailed overview of the County's Comprehensive Annual Financial Report (CAFR) in a user-friendly format.

The CAFR is a detailed and complete financial report, prepared annually by the County's Department of Finance in conformity with Generally Accepted Accounting Principles in the United States of America (GAAP). The public accounting firm of CliftonLarsonAllen, LLP has performed an independent audit of, and issued an unmodified (clean) opinion on, the County's financial statements as of and for the year ended June 30, 2017.

This new PAFR is the summarized and condensed version of the FY17 CAFR of Montgomery County. It also includes some information supplemental to the CAFR. We hope that the PAFR plays an important role in making the County's financial information more easily understandable, transparent and accessible to all County citizens. In addition, we hope the highlights and summaries shed light on key financial accomplishments, plans, and measures for the County. This PAFR and the full CAFR are both available on our website at [www.montgomerycountymd.gov/finance](http://www.montgomerycountymd.gov/finance).

Sincerely,

**Timothy L. Firestine**  
Chief Administrative Officer

**Alexandre A. Espinosa**  
Director of Finance

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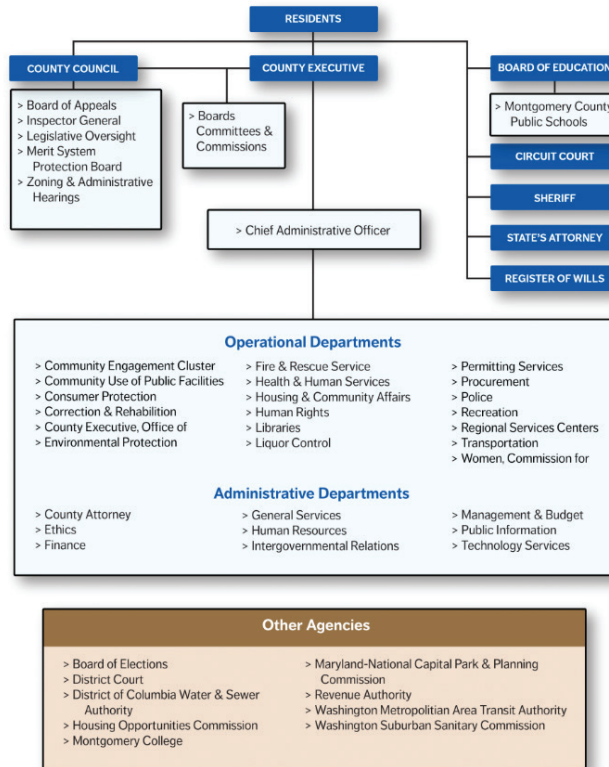




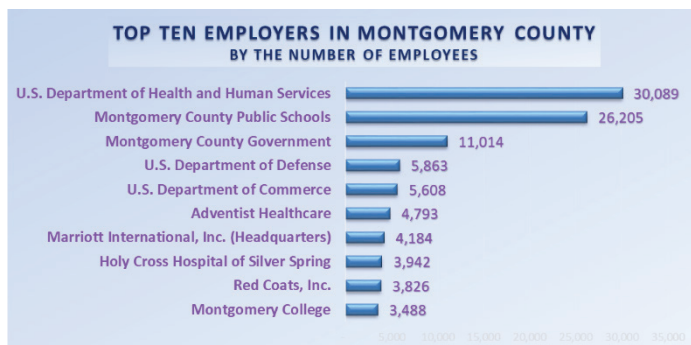
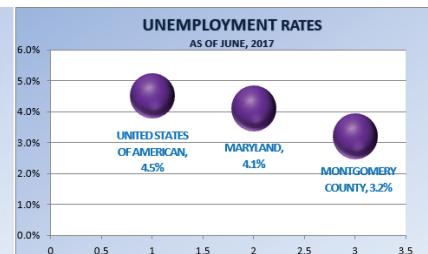
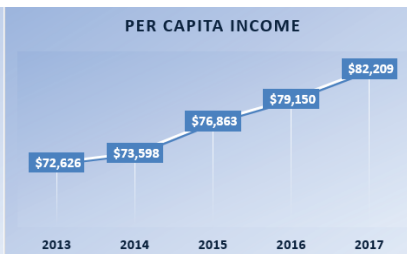


Montgomery County, named after the early American general, Richard Montgomery, was established in 1776 by the State Convention. Currently, Montgomery County is the most populated and one of the most affluent jurisdictions in Maryland and enjoys the distinction of being named an All-American community.

## MONTGOMERY COUNTY ORGANIZATIONAL CHART



## COUNTY'S SELECTED DEMOGRAPHICS



As one of the most affluent counties in the United States, Montgomery County residents are among the best-educated in the nation, the County has the highest percentage (29.2%) of residents over 25 years of age who hold post-graduate degrees.



Sources: FY17 CAFR Statistical Table 22, 23 and the Bureau of Labor Statistics, U.S. Department of Labor



# Elected Officials

## Montgomery County, Maryland



Isiah Leggett  
County Executive



Hans Riemer  
Council President



Nancy Navarro  
Council Vice President



Roger Berliner  
Council Member



Marc Elrich  
Council Member



Nancy Floreen  
Council Member



Tom Hucker  
Council Member



Sidney Katz  
Council Member



George Leventhal  
Council Member



Craig Rice  
Council Member





Major initiatives of the County during FY2017 that are expected to affect future financial position include the following:

## **Affordable Housing in an Inclusive Community**

The County invested over \$53.0 million in Affordable Housing including the Montgomery Housing Initiative (MHI) fund and utilized \$17.0 million from the Affordable Housing Acquisition and Preservation CIP project. This increase in dedicated funding provides for the renovations of distressed housing, the acquisition and preservation of affordable housing units, the creation of housing units for special needs residents, services to the “Building Neighborhoods to Call Home” and “Housing First” programs, and the creation of mixed income housing. The County has allocated funding to implement Bill 19-15, Landlord-Tenant Relations-Licensing of Rental Housing-Landlord-Tenant Obligations, to achieve goals of enhancing landlord-tenant outreach, tenant protections, and housing code enforcement.

## **An Effective and Efficient Transportation Network**

The County worked collaboratively with the Maryland Congressional delegation to secure a highly competitive transportation federal grant (\$10.0 million TIGER grant) that will be used to fund a Bus Rapid Transit (BRT) program on U.S. Route 29. The County began a new Rock Spring Express service in July 2016, which provides express bus service between Grosvenor Metrorail Station and five bus stops in the Rock Spring Business Park. The County also began new Route 301 service on October 2, 2016. This service operates from Tobytown Drive to Rockville Metrorail Station. The new Express Service from the Cabin Branch/Clarksburg community to the Shady Grove Metro Station was launched in May 2017.

## **Safe Streets and Secure Neighborhoods**

The County added sixteen new officer positions and one sergeant position to keep pace with population growth and calls for service. The County opened the new Public Safety Training Academy and a newly constructed Glenmont Fire Station 18.

## **Children Prepared to Live and Learn**

Montgomery County Public Schools has one of the highest graduation rates among the nation's largest school districts. Nine County schools made the U.S. News & World Report 2017 list of Best High Schools. The County increased the contribution to MCPS by \$135.9 million or 5.9%. The County's total contribution is \$89.3 million over the State required maintenance of effort (MOE) level of funding. The County's funding for Montgomery College is \$2.0 million over MOE for the fifth year in a row. The County's contribution increased by 37% in total and 50% on a per student full-time enrollment basis since 2013.

## **Vital Living for all our Residents**

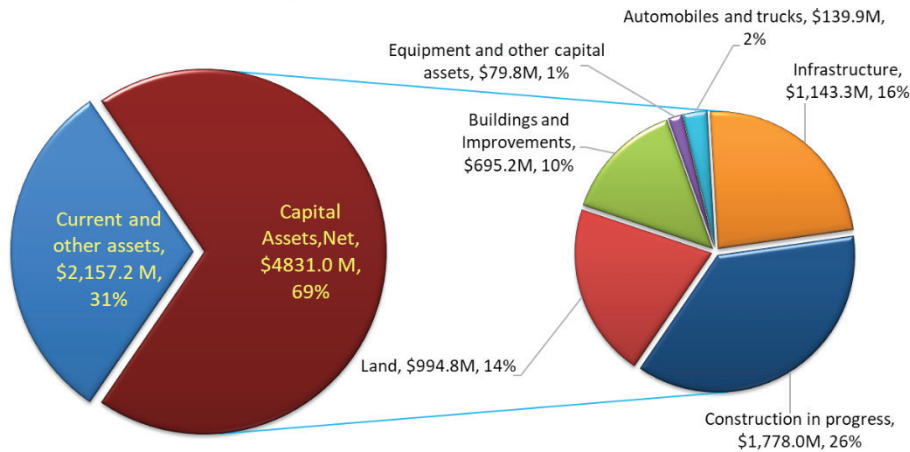
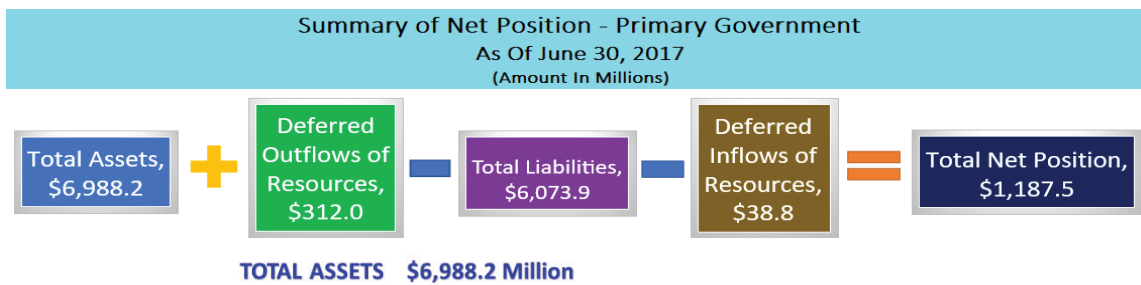
Montgomery County Public Libraries (MCPL) was awarded the Urban Libraries Council award for its Library Refresh program. Aspen Hill, Davis, and Little Falls libraries are currently undergoing facility refresh upgrades.



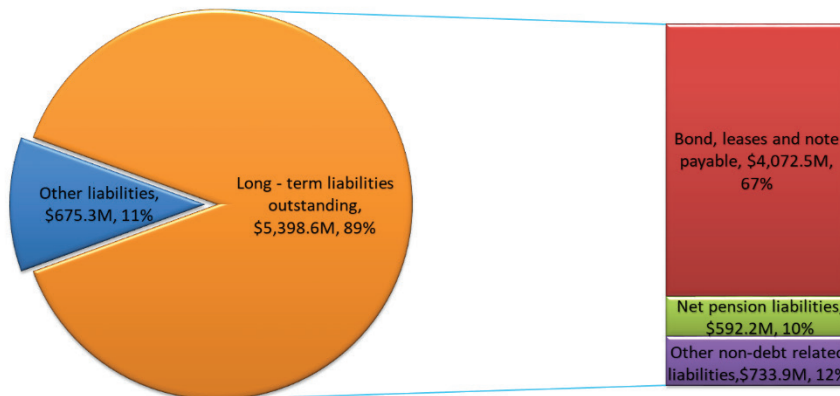
# County Financial Results

In the County's CAFR, the financial statements present the primary government and its five component units: Montgomery County Public Schools, Housing Opportunities Commissions of Montgomery County, Montgomery College, Montgomery County Revenue Authority, and Bethesda Urban Partnership, Inc. In contrast, this PAFR mainly focuses on the Primary Government and excludes discrete component unit and fiduciary fund information. It contains condensed financial information and does not provide all the necessary financial statements and note disclosures required by GAAP.

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



**TOTAL LIABILITIES \$6,073.9 Million**



# County Financial Results



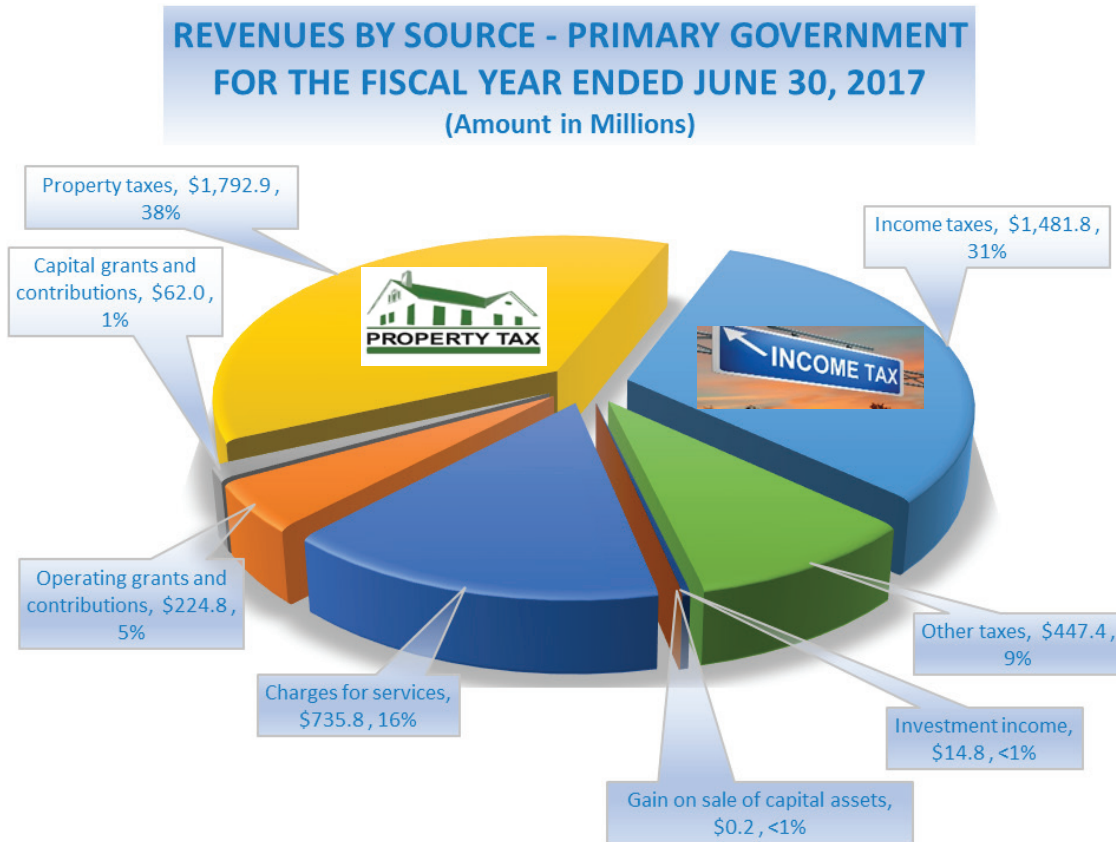
The County provides a variety of services exclusively to its citizens and businesses. Like all governments, the County raises funds to pay for those services. These sources of funds, referred to as revenue, are raised mainly through taxes, charges for services and grants. Once the County collects taxes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

The condensed version of the summary of Changes in Net Position provides a snapshot of the flow of money in and out of the Primary Government. Change in Net Position is a good measure of the County's overall financial health. The County's FY17 total government-wide net position increased by \$200.2 million from FY16. This increase means that the County's revenues were more than sufficient to cover all expenses, and the County's net worth increased.

Summary of Changes in Net Position For the Fiscal Years Ended June 30, 2017 and 2016 (Amount In Thousands)		
	Total Primary Government	
	2017	2016
Total Revenues	\$4,759,687	\$4,468,305
Total Expenses	4,559,465	4,450,274
Change in Net Position	200,222	18,031
Net Position, beginning of year, as restated	987,296	969,265
Net Position, end of year	\$1,187,518	\$ 987,296

Note: 2016 balances have been restated for the adoption of GASB No.73. See details in CAFR Note I-E.

The Chart below breaks down the sources of revenues coming into the County.



Taxes constitute the largest sources of County revenues. Property, income, and other taxes together account for 78% of all County revenues. Applicable rates for key tax sources are as follow:

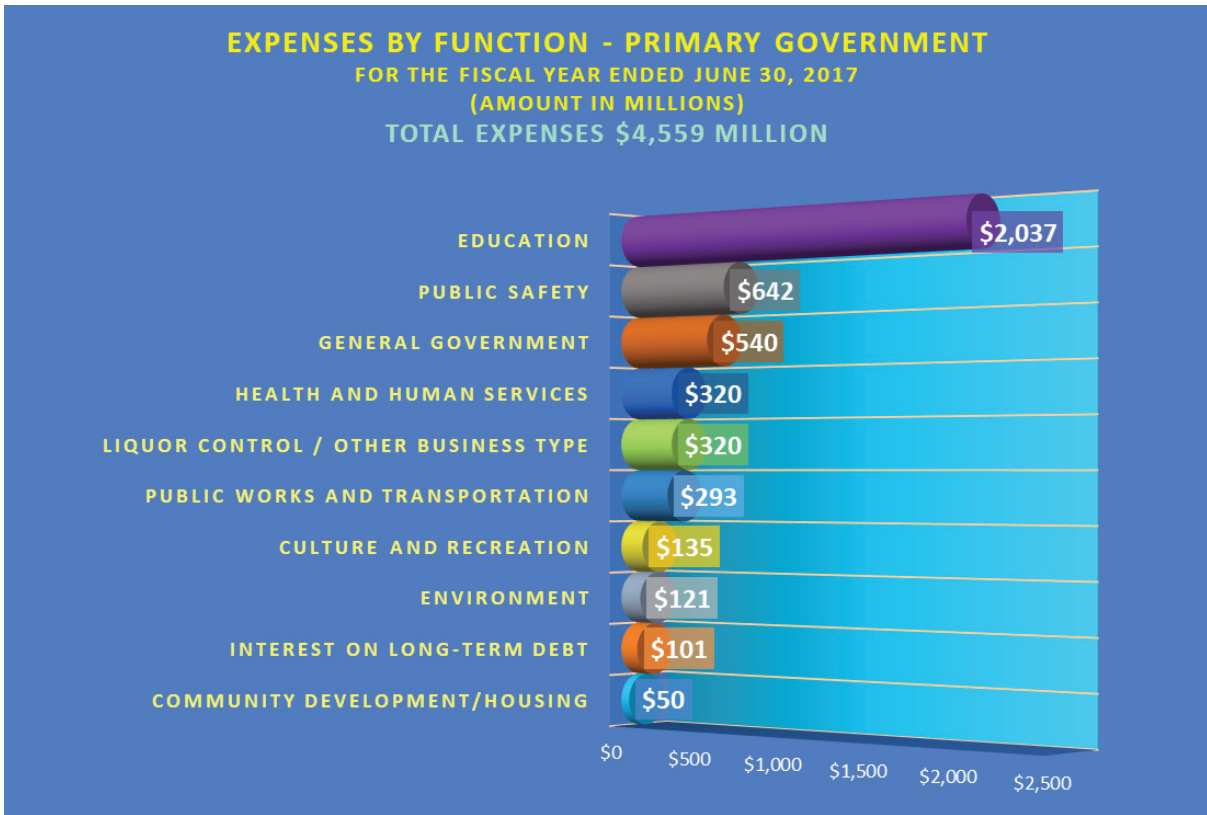
- Real Property direct tax rate was \$1.025 per \$100 of assessed value in 2017.
- Personal Property-Business and Public Utilities- direct tax rate was a combined 2.547 percent of assessed value in 2017.
- The local income tax rate was 3.2% of the state taxable income for 2017.





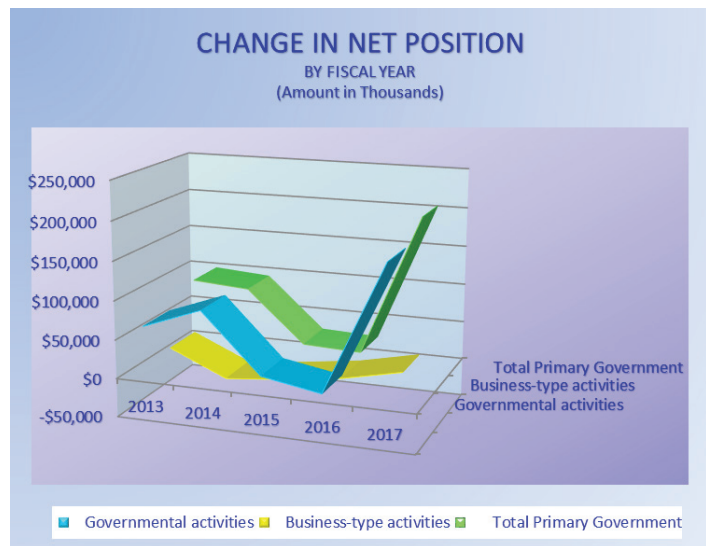
# County Financial Results

The chart below indicates how the County spent its money in FY17.



- Education is the largest expense category that comprise 45% of total expenses.
- Public Safety comprise 14% of total expenses.

The Primary Government consist of Governmental activities and Business-Type Activities. Governmental activities normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Government activities experienced an increase in net position of \$177.1 million for FY17; Business-Type activities experienced an increase in net position of \$23.1 million for FY17. FY17 total Change in Net Position \$200.2 million of the Primary Government was the highest in the last five fiscal years.



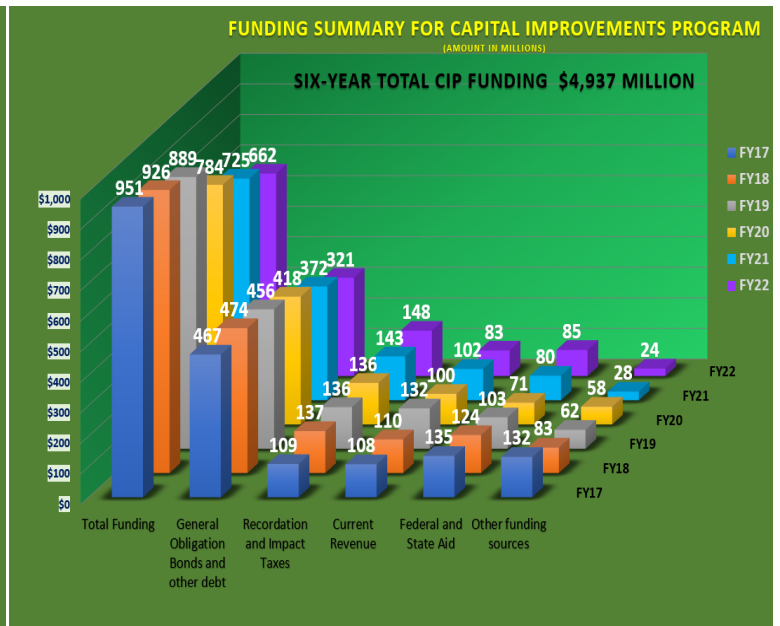
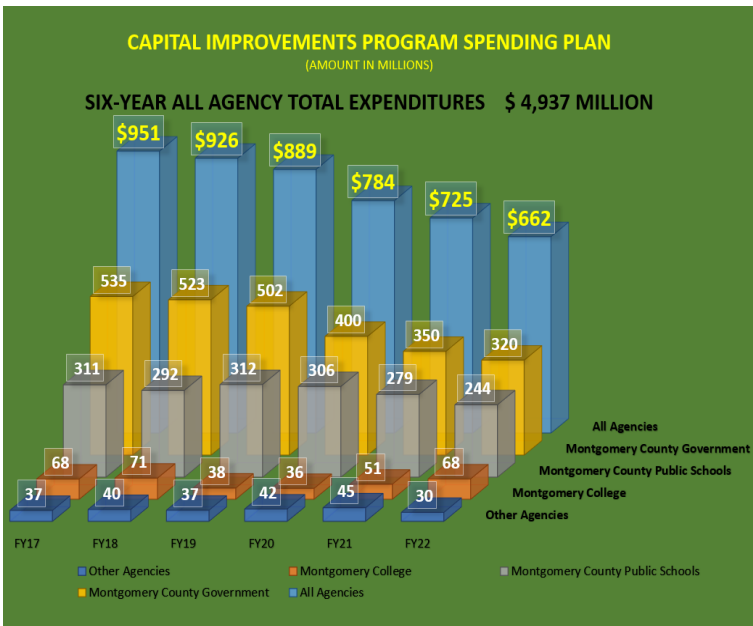
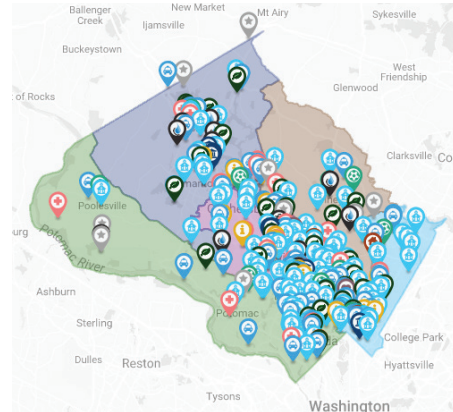
# Long-Term Capital Planning



## Capital Improvements Program

The Montgomery County Charter (Section 302) requires the County Executive to submit a comprehensive six-year program for capital improvements, called the Capital Improvements Program (CIP). The CIP is the presentation of capital project expenditure estimates, funding requirements, capital budget requests, and program data for the construction of all public buildings, roads, and other facilities planned by County agencies over a six-year period. It includes all capital projects and programs of all agencies for which the county sets tax rates or approves budgets or programs. The following charts present each year and six-year total spending and funding information for the CIP from FY17 to FY22 according to the Amended FY17-22 CIP.

## 556 PROJECTS FOR ALL COUNCIL DISTRICTS



Sources: Approved FY18 Capital Budget and Amendments to the FY17 – 22 Capital Improvements Program, CIP Schedules -All Agency Expenditures and Funding

## MAJOR CAPITAL PROJECT IN PROGRESS



**\$53.61M** Total Expenditures/Funding      **\$52.58M** 6 Year Total Expenditures/Funding

The Purple Line is a 16-mile light rail line being constructed by the Maryland Transit Administration (MTA) between Bethesda Metrorail Station in Montgomery County and New Carrollton Metrorail Station in Prince George's County. The project will include the construction of 21 light rail stations, ten of which are located in Montgomery County. The Purple Line, which is estimated to serve more than 65,000 daily riders, will operate both in its own right-of-way and in mixed traffic and provides a critical east-west connection linking Montgomery and Prince George's counties. See the details for this project and all other capital projects at <http://apps.montgomerycountymd.gov/BASISCAPITAL/>.



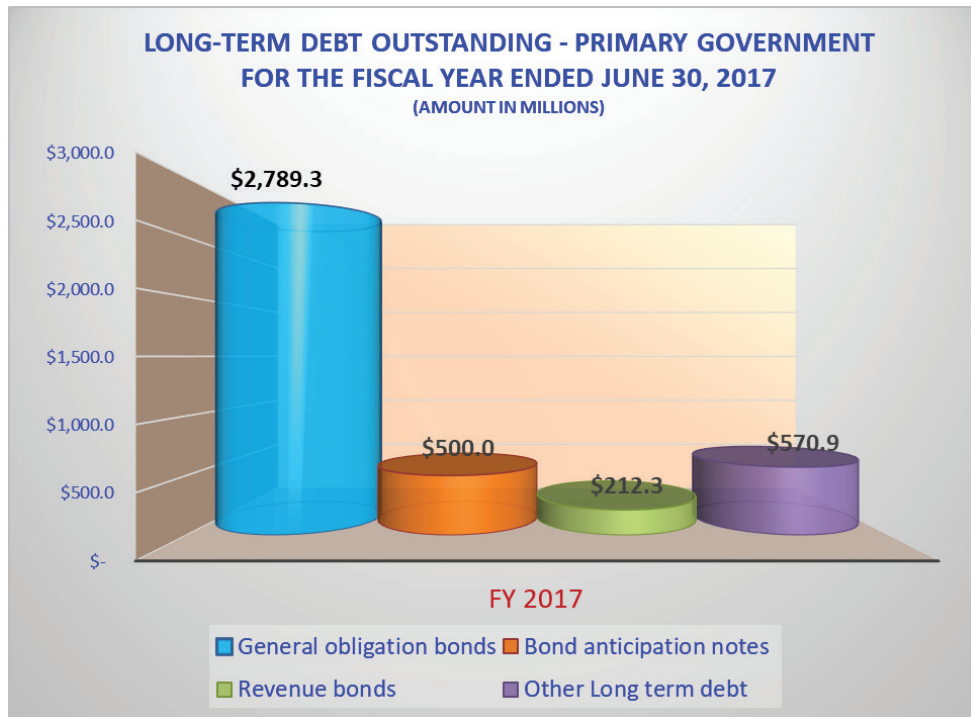


# Long-Term Debt

As of June 30, 2017, the County’s total bonds, leases and notes payable were \$4,072.5 million. Among all long-term debt, General Obligation (G.O.) bonds comprise 68.5 percent of total long-term debt. G.O. bonds are issued by the County to finance a major portion of the construction of long-lived additions or improvements to the County’s publicly-owned infrastructure. Currently, G.O. bonds are anticipated to fund approximately 42.0 percent of the County’s capital expenditures for the six years of the Amended FY17-22 CIP.

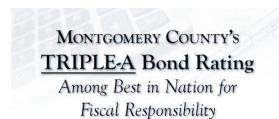
## WHAT ARE BONDS?

*Bonds are a form of long-term borrowing used by many local governments to finance public facilities and infrastructure.*



## BOND RATING GIVEN TO MONTGOMERY COUNTY BY FITCH, MOODY’S AND S&P

Bond ratings are a measure of the quality and safety of a bond and are based on the issuer’s financial condition. A higher rating of the municipal entity indicates strong financial conditions and practices that will result in lower interest rates and an improved ability to access the municipal debt market even when general financial market conditions are not favorable.



The County continues to maintain its status as a top-rated issuer of municipal securities, with the highest credit ratings possible for a local government. For its GO bonds, the County is a ‘Triple AAA’ rated County, and received ratings of Aaa from Moody’s Investors Service, Inc., AAA from Standard and Poor’s, and AAA from Fitch Ratings. County GO bonds have been consistently awarded the highest credit rating from Moody’s and Standard and Poor’s since 1973 and 1976, respectively, and from Fitch since 1991. Montgomery County is one of only 14 ‘Triple AAA’ rated counties in the nation with a population greater than 900,000. Factors contributing to the status are:



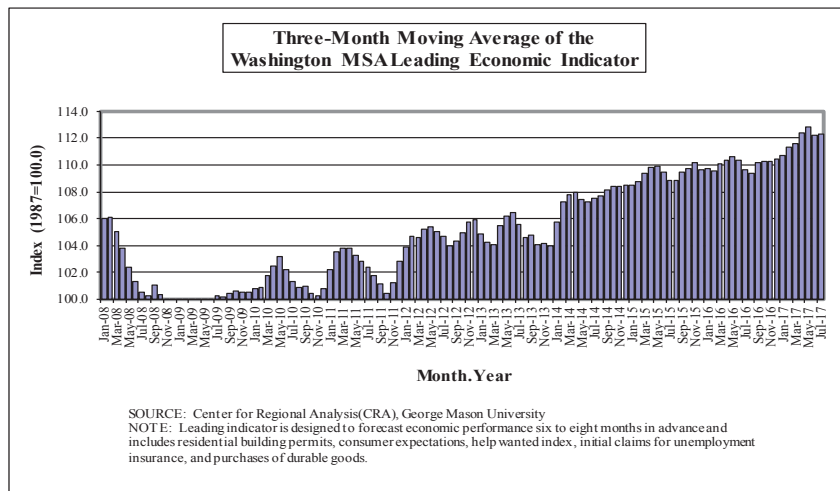
- Sound financial management and reputation
- Reserve policies
- Multi-year fiscal planning
- Stability in the bond markets, stable economy and revenue structure



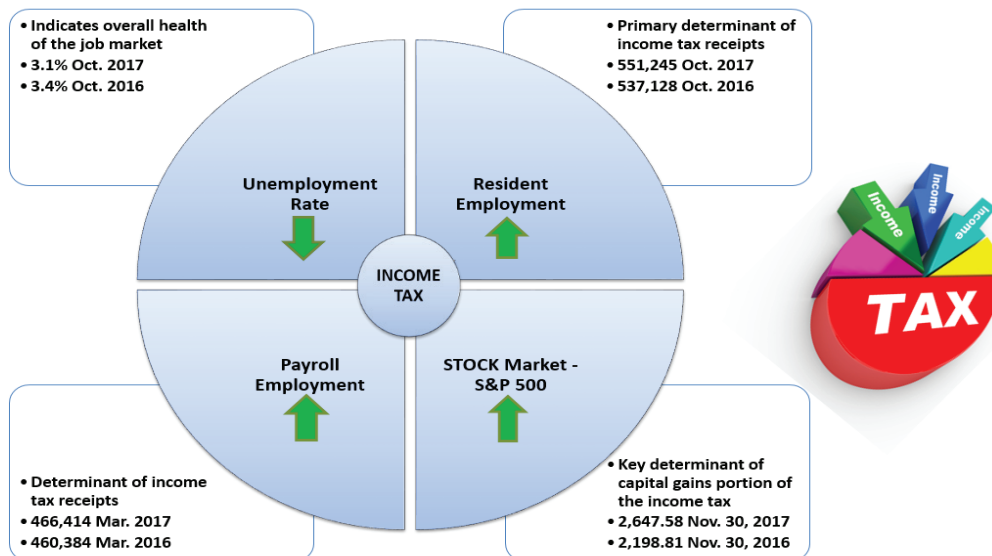


The outlook for FY18 is expected to see a modest continuation of economic growth with uncertainty regarding increases in interest rates, attributed to the actions by the Federal Reserve in FY18. Such increases could have an impact on mortgage rates and thereby affect the sales prices of homes in the County and affect both residential transfer and recordation tax revenues.

According to the Stephen S. Fuller Institute, the Washington Area Leading Index, which forecasts the performance of the region’s economy six to eight months in advance, the County’s performance increased by 3.3 percent from July 2016 to July 2017, which is the strongest increase since November 2014. The Leading Index has registered solid gains for six consecutive months in calendar year 2017 (from February through July). The strong performance of the Leading Index during this six-month period suggests further economic growth through FY18.



## Economic Indicators Affecting Income Tax Revenue



Source: Fiscal Plan Update in December 2017

Inflation is the key determinant of property tax revenues at the charter limit. It increased from 1.18% in 2016 to 1.73% in September 2017.



# FY 2018 Budget Highlights

## FY18 Approved Operating Budget Highlights - Funding for Budget

- Approved a total County budget from all sources for all County agencies of \$5,450.4 million which is \$148.5 million or 2.8 percent more than the FY17 budget.
- Approved tax-supported funding for Montgomery County Government of \$2,012.8 million (including debt service).
- Approved tax-supported funding for Montgomery County Government of \$1,618.5 million, an increase of 3.6 percent.
- Funding for Montgomery County Public Schools (MCPS) will increase by \$59.6 million or 2.4 percent. Within this total, the County contribution is \$19 million over Maintenance of Effort and 2.8 percent higher than FY17.
- Funding for Montgomery College's FY18 Approved Operating Budget totals \$314.0 million. The County's local contribution is \$2.0 million over MOE, making this the sixth year in a row of funding over MOE. The overall County contribution increases by 47 percent in total and 75.3 percent on a per student full-time enrollment basis since 2013.
- Tax-supported funding for the Maryland-National Capital Park and Planning Commission (M-NCPPC) increases by \$6,037,846 or 4.8 percent from FY17.
- Fund Washington Suburban Sanitary Commission (WSSC)'s FY18 operating and capital budgets with a 3.5 percent water and sewer rate increase as proposed by the Commission.
- Approved a property tax rate of \$1.00 per \$100 of assessed value, 2.51 cents below the current rate. The approved property tax rate is at the County's Charter limit.
- Promote existing mechanisms for senior citizens and those on limited incomes to assist them as needed with property tax increases, such as the Senior Tax Credit program that benefits eligible residents who are at least 65 years of age. This credit is calculated as 50 percent of the combined State Homeowners' Tax Credit and County Supplement.
- Retains the energy tax at the level approved by the Council for FY17, preserving an important stable and broad-based revenue source that includes federal institutions based in the County that otherwise pay no taxes in exchange for County services.

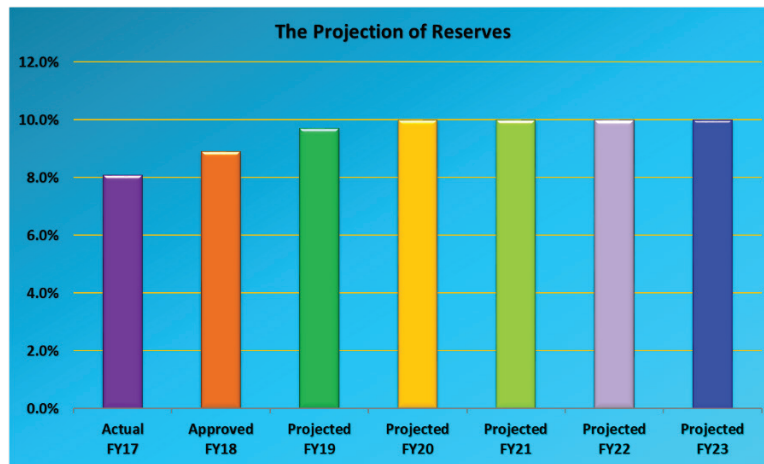
Service Area	Appropriation	% of Total	Graph of Total
Montgomery County Public Schools	\$2,517.1M	46.20%	
Public Safety	\$586.9M	10.80%	
Debt Service	\$413.9M	7.60%	
General Govt. & Other Functions	\$397.5M	7.30%	
Health and Human Services	\$349.1M	6.40%	
Montgomery College	\$314M	5.80%	
Transportation	\$224.4M	4.10%	
Retiree Health Insurance	\$163.4M	3.00%	
Maryland-National Capital Park and Planning Commission	\$142.7M	2.60%	
Environment	\$126.8M	2.30%	
Community Development and Housing	\$115.1M	2.10%	
Libraries, Culture, and Recreation	\$99.6M	1.80%	



## Reserves

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

The County is required to budget for a reserve in the General Fund, which is the County’s chief operating fund. The County is also required to build up a total reserve of ten percent of revenues including the Revenue Stabilization Fund by FY2020, as defined in the County’s Revenue Stabilization Fund law. Revenue Stabilization Fund, a rainy-day fund, was established by the County to accumulate funds during periods of strong economic growth to provide budgetary flexibility during times of funding shortfalls. Total reserves as of June 30, 2017 was \$399.0 million.

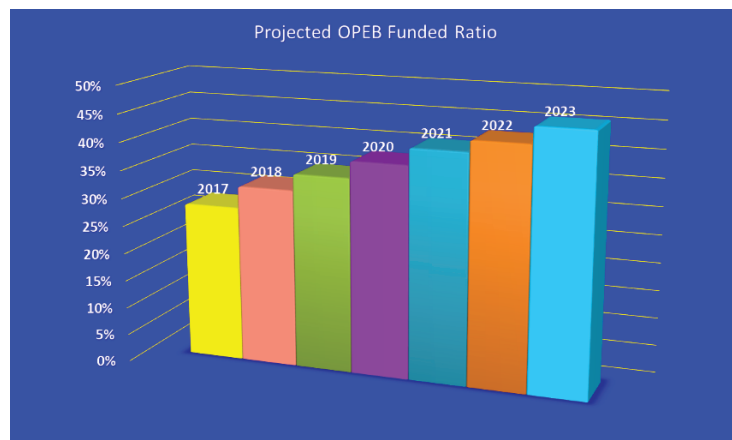


Source: Fiscal Plan Update December 2017.

## Other Postemployment Benefits (OPEB)

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

During FY17, the County and other contributing entities contributed \$50.3 million toward prefunding future benefits. As of June 30, 2016, the most recent actuarial valuation, there was \$334.9 million of actuarial plan assets to meet OPEB liabilities. Funded Ratio, which is the percent of Actuarial Value of Assets divided by Actuarial Accrued Liability, was 24.3%. The chart indicates the projected OPEB funded ratios by the County’s Actuary AON from its review of actuarial cost method and funding policy for Montgomery County, MD in April 2017.







# Acknowledgements and County's Open Data Portal

POPULAR ANNUAL FINANCIAL REPORT DEVELOPED AND PREPARED BY:

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## With Special thanks to:

Scott Coble, Manager – Office of Management and Budget

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

## Montgomery County Open Data Portal

More County's financial and budget information can be found at [data.montgomerycountymd.gov](http://data.montgomerycountymd.gov).







*Science Center at Montgomery College Rockville*



*Public Safety Headquarters*



*The Cafritz Foundation Arts Center*



*Pedestrian Bridge at Montgomery College Takoma Park*





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