M E M O R A N D U M

April 13, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Additional Revenue Write-down

The purpose of this memorandum is to provide the Council with an update on our need for a further write-down of our income tax forecast following a meeting with the State Comptroller's Office last Friday in Annapolis. At that meeting, we received new information about actual current year collections that was not previously available. I believe it is important that this information be shared with the Council as soon as possible so that we can be proactive and stay ahead of the fiscal situation as it continues to unfold.

On April 5, 2010, I informed the Council of an unprecedented shortfall in the March Income Tax distribution. At that time, I noted that Finance Department staff were planning to meet with the Maryland Comptroller's Office to understand the basis for this significant reduction. I also asked the Finance Department to work with the Comptroller's Office to assure that we have the latest information about actual State collections in order to gauge the validity of our forecast of the income tax for the remainder of this fiscal year and for next fiscal year.

At the Friday meeting, the Comptroller's Office noted that income tax withholdings and estimated payments decreased nearly four percent in January and February with March still being processed. These first quarter receipts will be distributed to the counties in May. The County forecast had assumed these receipts would increase one percent. Based on the reported decrease and other information provided about the upcoming distributions and Montgomery County's declining share of total receipts, and at the recommendation of the Department of Finance, I believe it is prudent to write-down FY2010 Income Tax revenue by $44 million and FY2011 revenue by another $100 million. This is in addition to the reduction of $24 million already reported on April 5th. The total write-down is $168 million over the two years. Department of Finance staff will provide Council staff with further specifics of the write-down.

I plan to transmit specific measures to the Council early next week to address these unanticipated losses in revenue. Based on our recent experiences, we must demonstrate that our plan is fiscally viable. The Plan must:

- Reflect the reality of the lower revenue stream we are experiencing and most likely will experience into the near future; and
- Rebuild reserves to a level that more appropriately addresses the volatility of Income Tax receipts.

Given the situation, it is clear to me that the Council has no room to increase expenditures and must work to identify additional cuts. Any additional reductions the Council identifies should be added to reserves rather than be used to restore or enhance programs. Additionally, the Council should immediately act on the revenue measures before it including the increase to the Energy tax and the implementation of the EMS fee.

As I mentioned before, we have no choice but to be proactive and work together to maintain a sound and sustainable financial footing for the County government.

IL:tf