



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Jennifer A. Hughes
Director

MEMORANDUM

December 4, 2014

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 FY14 year-end results, current year expenditure updates, 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

The updated forecast is significantly worse than estimated in the fiscal plan approved by the County Council in June. In addition to the income tax estimate, the Department of Finance has reduced estimates for transfer and recordation taxes, the energy tax, and the property tax, reflecting the current state of the regional economy and consistent with recent reports of revenue shortfalls in Virginia and Maryland. Based on current assumptions, the fiscal plan would require a 6.1 percent reduction in the spending of all County agencies to produce a balanced budget in FY16. 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 – 15.2 percent. This revision to our earlier revenue projections will present significant challenges to the County, and the resulting approach to the FY16 budget will be different than the previous two budget cycles.

I want to highlight a few aspects of this update:

1. **Revenues:** As detailed in the Department of Finance's December 2014 Revenue Update and Selected Economic Indicators report, the revenue forecast has been revised downward a total of \$179.4 million (\$40.8 million in FY15 and \$138.6 million in FY16) compared to the estimates in the approved fiscal plan. Income tax revenues have been revised downward by \$132.9 million (\$14.9 million in FY15 and \$118 million in FY16). The estimated decrease in income tax revenues results primarily from the more volatile component of the November income tax distribution related to extended filings,

Office of the Director

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estimated payments, and reconciliation. The forecast for FY16 and beyond reflects the largely one-time nature of this distribution, and also incorporates updated economic assumptions from the State Board of Revenue Estimates. The income tax forecast retains the assumption in the approved fiscal plan regarding the Wynne¹ court case, but shifts the potential \$85 million liability from prior year refunds from FY15 to FY16 (and also includes an additional current refund exposure of \$25 million). This shift does not affect the estimate of resources available to fund the FY16 budget.

As we've observed over the last several months, the real estate market has weakened leading to a downward revision in transfer and recordation taxes of \$39.2 million in FY15 and FY16. The revised property tax estimate is at the Charter Limit² but is \$5.6 million less than the estimate in the approved fiscal plan because of a decline in the rate of inflation. Reduced energy tax revenues offset modest gains in the Hotel/Motel tax and other taxes.

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 2015. The State's most recent fiscal outlook indicates a shortfall of \$291 million in FY15 and \$593 million in FY16, resulting from a writedown in revenues due to weak economic conditions and increased expenditure obligations. Given the economic environment and the transition to a new administration, we should anticipate the possibility of being further negatively affected by measures taken by the State to resolve its budget shortfall.
3. **FY16 Expenditures:** The fiscal plan assumes FY16 expenditures for MCPS and Montgomery College³ at maintenance-of-effort. To produce a balanced fiscal plan, FY16 expenditures for the County Government and MNCPPC are reduced 15.2 percent. In total, agency expenditures decline 6.1 percent, or \$238 million, compared to the FY15 budget. This shortfall does not account for a number of anticipated cost increases including annualization of current year salary increases, inflation adjustments, program annualizations, and others that will likely increase the gap as we go forward in the budget process. As noted above, the revenue forecast assumes a total writedown in FY16 of \$110 million related to the Wynne court case. A positive outcome in that case would increase resources available for agency expenditures by that amount, potentially decreasing the current projected shortfall to \$128 million.

¹ No. 13-485, Comptroller of the Treasury of Maryland v. Wynne. 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. The Maryland 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 income earned in those states violates the Commerce Clause of the United States Constitution. The Court of Appeals' decision was appealed to the Supreme Court, which heard argument on the case November 12. The approved fiscal plan assumed a writedown of \$85 million in FY15 and \$25 million each year after FY15.

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.

³ 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 FY16 spending for MCPS and Montgomery College appears to decrease relative to FY15 because of one-time funding included in the FY15 budget.

4. **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 excess revenues⁴ or 0.5 percent of Adjusted Governmental Revenues⁵. Under this law, \$22.4 million must be contributed to the RSF in FY15. Total reserves are projected to be 7.2 percent at the end of FY15 due to the revised revenue forecast. The fiscal plan projects increases to the General Fund reserve up to its Charter Limit⁶ 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 8.8 percent at the end of FY16 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 April 2015 as part of his Recommended FY16 Operating Budget and FY16-21 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 recommended FY15-20 CIP amendments and FY16 recommended 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 the Wynne case, which may occur before June 2015.
4. The February 2015 income tax distribution and data on the County's excise taxes for November 2014 through February 2015.
5. Revisions to estimates of the assessable base by the State Department of Assessments and Taxation expected in January 2015.
6. Federal and State budget decisions that may affect the County's budget.

In summary, the soft housing market, weakness in resident employment and personal income growth, continued State and Federal budget uncertainty, the change in administration in Annapolis, the ultimate effect of the Wynne income tax case, and other factors, are contributing to a fiscal environment that is more challenging than at this time last year. 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

⁴ 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.

⁵ 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.

⁶ Section 310 of the County Charter limits any unappropriated surplus to 5 percent of the General Fund revenue for the preceding fiscal year.

Stephen B. Farber, Council Administrator
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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

Fiscal Plan December 2014 Tax Supported Fiscal Plan Summary

		(\$ in Millions)														
		App. FY15	Est FY15	% Chg. FY15-16	% Chg. FY15-16 Est/Proj	Projected FY16	% 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
	Total Revenues	5-22-14	12-9-14			12-9-14										
1	Property Tax (less PDs)	1,538.9	1,535.7	2.3%	2.5%	1,574.8	2.7%	1,616.8	2.9%	1,662.9	3.1%	1,715.2	3.4%	1,772.7	3.1%	1,828.0
2	Income Tax	1,340.6	1,325.7	1.1%	2.2%	1,355.5	11.9%	1,516.5	5.3%	1,597.5	4.2%	1,665.4	3.4%	1,722.0	3.2%	1,776.4
3	Transfer/Recordation Tax	160.7	138.7	-5.2%	9.9%	152.4	9.5%	166.9	2.4%	170.9	4.7%	178.9	3.2%	184.6	4.5%	192.9
4	Investment Income	0.5	0.5	153.4%	153.4%	1.3	49.4%	2.0	43.6%	2.8	39.5%	4.0	29.9%	5.2	0.0%	5.2
5	Other Taxes	277.7	277.0	1.0%	1.2%	280.4	1.3%	284.0	1.8%	288.9	1.6%	293.4	1.5%	297.8	1.1%	301.1
6	Other Revenues	955.8	955.8	-1.4%	-1.4%	942.8	0.3%	945.9	0.4%	949.3	0.4%	952.9	0.4%	956.8	0.4%	960.9
7	Total Revenues	4,274.3	4,233.5	0.8%	1.7%	4,307.3	5.2%	4,532.0	3.1%	4,672.4	2.9%	4,809.8	2.7%	4,939.1	2.5%	5,064.3
8																
9	Net Transfers In (Out)	43.3	43.3	-21.5%	-21.5%	34.0	1.9%	34.6	2.0%	35.3	2.2%	36.1	2.3%	37.0	2.4%	37.9
10	Total Revenues and Transfers Available	4,317.6	4,276.8	0.5%	1.5%	4,341.3	5.2%	4,566.7	3.1%	4,707.7	2.9%	4,845.9	2.7%	4,976.0	2.5%	5,102.2
11																
12	Non-Operating Budget Use of Revenues															
13	Debt Service	344.1	344.1	7.3%	7.3%	369.4	5.7%	390.4	1.4%	395.8	3.9%	411.3	3.6%	426.2	0.0%	426.2
14	PAYGO	30.0	30.0	8.3%	8.3%	32.5	0.8%	32.7	1.5%	33.2	0.0%	33.2	0.0%	33.2	0.0%	33.2
15	CJP Current Revenue	49.4	49.4	49.3%	49.3%	73.7	-6.9%	68.6	5.1%	72.1	8.3%	78.0	-0.1%	78.0	0.0%	78.0
16	Change in Montgomery College Reserves	-7.6	-7.6	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
17	Change in MNCPPC Reserves	-4.6	-4.6	102.4%	102.4%	0.1	0.4%	0.1	9.0%	0.1	13.4%	0.1	9.8%	0.2	-2.6%	0.1
18	Change in MCPS Reserves	-38.2	-38.2	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	1.6	1.6	-100.7%	-100.7%	0.0	249.8%	0.0	178.6%	0.0	-41.0%	0.0	-4.2%	0.0	-8.6%	0.0
20	Contribution to General Fund Undesignated Reserves	-92.2	-147.8	157.6%	135.9%	53.1	-92.9%	3.8	178.6%	10.5	-41.0%	6.2	-4.2%	5.9	-8.6%	5.4
21	Contribution to Revenue Stabilization Reserves	22.6	22.4	-0.3%	0.6%	22.6	5.5%	23.8	2.9%	24.5	2.8%	25.2	-29.2%	17.8	-56.9%	7.7
22	Retiree Health Insurance Pre-Funding	127.8	127.8	-3.5%	-3.5%	123.4	-0.4%	122.9	0.0%	123.0	-4.3%	117.6	-4.4%	112.5	0.0%	112.5
23	Set Aside for other uses (supplemental appropriations)	0.1	15.1	1590.0%	32.2%	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	433.1	392.3	60.4%	77.1%	694.7	-4.6%	662.4	2.5%	679.2	1.9%	691.8	0.3%	693.8	-1.5%	683.1
25	Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)	3,884.5	3,884.5	-6.1%	-6.1%	3,646.6	7.1%	3,904.3	3.2%	4,028.5	3.1%	4,154.2	3.1%	4,282.2	3.2%	4,419.0
26																
27	Agency Uses															
28																
29	Montgomery County Public Schools (MCPS)	2,138.1	2,138.1	-0.2%	-0.2%	2,134.6	-0.2%	2,134.6	-0.2%	2,134.6	-0.2%	2,134.6	-0.2%	2,134.6	-0.2%	2,134.6
30	Montgomery College (MC)	244.5	244.5	-2.5%	-2.5%	238.4	-2.5%	238.4	-2.5%	238.4	-2.5%	238.4	-2.5%	238.4	-2.5%	238.4
31	MNCPPC (w/o Debt Service)	111.9	111.9	-15.2%	-15.2%	94.9	-15.2%	94.9	-15.2%	94.9	-15.2%	94.9	-15.2%	94.9	-15.2%	94.9
32	MCG	1,390.0	1,390.0	-15.2%	-15.2%	1,178.6	-15.2%	1,178.6	-15.2%	1,178.6	-15.2%	1,178.6	-15.2%	1,178.6	-15.2%	1,178.6
33	Agency Uses	3,884.5	3,884.5	-6.1%	-6.1%	3,646.6	7.1%	3,904.3	3.2%	4,028.5	3.1%	4,154.2	3.1%	4,282.2	3.2%	4,419.0
34	Total Uses	4,317.6	4,276.8	0.5%	1.5%	4,341.3	5.2%	4,566.7	3.1%	4,707.7	2.9%	4,845.9	2.7%	4,976.0	2.5%	5,102.2
35	(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 Approved FY15-20 Capital Improvements Program.
4. Retiree health insurance Annual Required Contribution for pre-funding is fully funded.
5. State Aid, including MCPS and Montgomery College, is not projected to increase in FY16-21.
6. Projected FY16 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.

Fiscal Plan December 2014 **Tax Supported Fiscal Plan Summary**

(\$ in Millions)															
	App. FY15	Est FY15	% Chg. FY15-16	% 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	% Chg. FY20-21	Projected FY21
36 Beginning Reserves															
37 Unrestricted General Fund	241.5	241.5	-61.2%	-61.2%	93.7	56.6%	146.8	2.6%	150.5	7.0%	161.0	3.8%	167.2	3.5%	173.1
38 Revenue Stabilization Fund	207.2	207.2	10.9%	10.9%	229.8	9.8%	252.4	9.4%	276.2	8.9%	300.7	8.4%	325.9	5.5%	343.7
39 Total Reserves	448.7	448.7	-27.9%	-27.9%	323.5	23.4%	399.2	6.9%	426.7	8.2%	461.7	6.8%	493.1	4.8%	514.9
40															
41 Additions to Reserves															
42 Unrestricted General Fund	-92.2	-147.8	157.6%	135.9%	53.1	-92.9%	3.8	178.6%	10.5	-41.0%	6.2	-4.2%	5.9	-8.6%	4.4
43 Revenue Stabilization Fund	22.6	22.4	-0.3%	0.6%	22.6	5.5%	23.8	2.9%	24.5	2.8%	25.2	-29.2%	17.8	-56.9%	1.7
44 Total Change in Reserves	-69.6	-125.4	208.7%	160.3%	75.6	-63.6%	27.6	26.9%	35.0	-10.3%	31.4	-24.3%	23.8	-44.8%	13.1
45															
46 Ending Reserves															
47 Unrestricted General Fund	149.3	93.7	-1.7%	56.6%	146.8	2.6%	150.5	7.0%	161.0	3.8%	167.2	3.5%	173.1	3.1%	176.6
48 Revenue Stabilization Fund	229.8	229.6	9.8%	9.9%	252.4	9.4%	276.2	8.9%	300.7	8.4%	325.9	5.5%	343.7	2.2%	357.4
49 Total Reserves	379.1	323.3	5.3%	23.5%	399.2	6.9%	426.7	8.2%	461.7	6.8%	493.1	4.8%	516.9	2.5%	530.0
50 Reserves as a % of Adjusted Governmental Revenues	8.4%	7.2%			8.8%		9.0%		9.4%		9.8%		10.0%		10.1%
51 Other Reserves															
52 Montgomery College	4.6	4.6	0.0%	0.0%	4.6	0.0%	4.6	0.0%	4.6	0.0%	4.6	0.0%	4.6	0.0%	4.6
53 M-NCPPC	4.1	4.1	2.7%	2.7%	4.2	2.6%	4.3	2.8%	4.5	3.1%	4.6	3.3%	4.7	3.1%	4.9
54 MCPs	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
55 MCG Special Funds	0.6	0.6	-1.7%	-1.7%	0.6	2.6%	0.6	7.0%	0.7	3.8%	0.7	3.5%	0.7	3.1%	0.7
56 MCG + Agency Reserves as a % of Adjusted Govt Revenues	8.6%	7.4%			9.0%		9.2%		9.6%		10.0%		10.2%		10.2%
57 Retiree Health Insurance Pre-Funding															
58 Montgomery County Public Schools (MCPs)	85.5	85.5			82.8		85.1		87.2		84.6		81.9		81.9
59 Montgomery College (MC)	2.0	2.0			2.0		2.0		2.0		1.9		1.9		1.9
60 MNCPPC	1.8	1.8			1.5		1.0		0.7		0.3		0.0		0.0
61 MCG	38.6	38.6			37.0		34.9		33.1		30.8		28.6		21.6
62 Subtotal Retiree Health Insurance Pre-Funding	127.8	127.8			123.4		122.9		123.0		117.6		112.5		112.5
63 Adjusted Governmental Revenues															
64 Total Tax Supported Revenues	4,274.3	4,233.5	0.8%	1.7%	4,307.3	5.2%	4,532.0	3.1%	4,672.4	2.9%	4,809.8	2.7%	4,939.1	2.5%	5,064.3
65 Capital Projects Fund	123.4	123.4	1.9%	1.9%	125.7	-19.8%	100.8	-5.8%	94.9	-4.4%	90.8	3.9%	94.3	0.0%	94.3
66 Grants	116.6	116.6	2.2%	2.2%	119.2	2.5%	122.2	2.6%	125.4	2.4%	128.5	2.3%	131.4	2.3%	134.4
67 Total Adjusted Governmental Revenues	4,514.3	4,473.5	0.8%	1.8%	4,552.2	4.5%	4,755.1	2.9%	4,892.8	2.8%	5,029.1	2.7%	5,164.8	2.5%	5,293.0

REVENUE SUMMARY
TAX SUPPORTED BUDGETS
(\$ Millions)

KEY REVENUE CATEGORIES	App FY15	Estimate 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	% Chg. FY20-21	Projected FY21
TAXES	5-22-14	12-9-14	App/Proj	12-9-14	12-9-14									
1 Property Tax (less PDs)	1,538.9	1,535.7	2.3%	1,574.8	2.7%	1,616.8	2.9%	1,662.9	3.1%	1,715.2	3.4%	1,772.7	3.1%	1,828.0
2 Income Tax	1,340.6	1,355.7	1.1%	1,355.5	11.9%	1,516.5	5.3%	1,597.5	4.2%	1,665.4	3.4%	1,722.0	3.2%	1,776.4
3 Transfer Tax	97.9	85.9	-2.9%	95.2	9.0%	103.7	2.2%	106.0	4.2%	110.5	3.9%	114.7	4.3%	119.7
4 Recordation Tax	62.8	52.8	-8.9%	57.2	10.4%	63.2	2.8%	64.9	5.4%	68.5	2.1%	69.9	4.7%	73.2
5 Energy Tax	209.2	205.6	-0.8%	207.6	0.8%	209.3	1.2%	211.9	1.2%	214.4	1.1%	216.8	0.7%	218.3
6 Telephone Tax	47.8	49.1	4.0%	49.8	2.3%	50.9	3.3%	52.6	2.3%	53.8	2.2%	55.0	1.5%	55.8
7 Hotel/Motel Tax	17.5	19.2	12.5%	19.7	2.5%	20.2	2.4%	20.7	2.3%	21.1	2.2%	21.6	3.1%	22.3
8 Admissions Tax	3.2	3.2	5.5%	3.4	6.6%	3.6	6.6%	3.9	6.6%	4.1	6.6%	4.4	6.6%	4.7
9 Total Local Taxes	3,318.0	3,277.2	1.4%	3,363.2	6.6%	3,584.2	3.8%	3,720.3	3.6%	3,852.9	3.2%	3,977.1	3.0%	4,098.3
INTERGOVERNMENTAL AID														
10 Highway User	3.6	3.6	2.5%	3.7	0.0%	3.7	0.0%	3.7	0.0%	3.7	0.0%	3.7	0.0%	3.7
11 Police Protection	13.9	13.9	0.0%	13.9	0.0%	13.9	0.0%	13.9	0.0%	13.9	0.0%	13.9	0.0%	13.9
12 Libraries	5.5	5.5	0.0%	5.5	0.0%	5.5	0.0%	5.5	0.0%	5.5	0.0%	5.5	0.0%	5.5
13 Health Services Case Formula	4.4	4.4	0.0%	4.4	0.0%	4.4	0.0%	4.4	0.0%	4.4	0.0%	4.4	0.0%	4.4
14 Mass Transit	39.4	39.4	-42.1%	22.8	0.0%	22.8	0.0%	22.8	0.0%	22.8	0.0%	22.8	0.0%	22.8
15 Public Schools	618.8	618.8	0.0%	618.8	0.0%	618.8	0.0%	618.8	0.0%	618.8	0.0%	618.8	0.0%	618.8
16 Community College	34.2	34.2	0.0%	34.2	0.0%	34.2	0.0%	34.2	0.0%	34.2	0.0%	34.2	0.0%	34.2
17 Other	38.3	38.3	0.0%	38.3	0.0%	38.3	0.0%	38.3	0.0%	38.3	0.0%	38.3	0.0%	38.3
18 Total Intergovernmental Aid	758.1	758.1	-2.2%	741.6	0.0%	741.6	0.0%	741.6	0.0%	741.6	0.0%	741.6	0.0%	741.6
FEES AND FINES														
19 Licenses & Permits	12.6	12.6	1.5%	12.8	1.5%	13.0	1.5%	13.2	1.5%	13.4	1.5%	13.6	1.5%	13.8
20 Charges for Services	69.1	69.1	1.8%	70.3	1.5%	71.4	1.6%	72.6	1.8%	73.8	1.9%	75.2	1.9%	76.7
21 Fines & Forfeitures	22.0	22.0	1.6%	22.4	1.6%	22.7	1.6%	23.1	1.6%	23.5	1.6%	23.8	1.6%	24.2
22 Montgomery College Tuition	83.7	83.7	1.8%	85.1	1.5%	86.4	1.6%	87.9	1.8%	89.4	1.9%	91.1	1.9%	92.8
23 Total Fees and Fines	187.4	187.4	1.7%	190.7	1.5%	193.6	1.6%	196.7	1.7%	200.1	1.8%	203.7	1.9%	207.5
MISCELLANEOUS														
24 Investment Income	0.5	0.5	153.4%	1.3	49.4%	2.0	43.6%	2.8	39.5%	4.0	29.9%	5.2	0.0%	5.2
25 Other Miscellaneous	10.3	10.3	2.2%	10.5	1.9%	10.7	2.1%	10.9	2.2%	11.2	2.3%	11.4	2.4%	11.7
26 Total Miscellaneous	10.8	10.8	9.5%	11.8	7.2%	12.7	8.5%	13.8	9.9%	15.1	9.5%	16.6	1.7%	16.9
27 TOTAL REVENUES	4,274.3	4,233.5	0.8%	4,307.3	5.2%	4,532.0	3.1%	4,672.4	2.9%	4,809.8	2.7%	4,939.1	2.5%	5,064.3
Calculation for Adjusted Governmental Revenues														
29 Total Tax Supported Revenues	4,274.3	4,233.5	0.8%	4,307.3	5.2%	4,532.0	3.1%	4,672.4	2.9%	4,809.8	2.7%	4,939.1	2.5%	5,064.3
30 Capital Projects Fund	123.4	123.4	1.9%	125.7	-19.8%	100.8	-5.8%	94.9	-4.4%	90.8	3.9%	94.3	0.0%	94.3
31 Grants	116.6	116.6	2.2%	119.2	2.5%	122.2	2.6%	125.4	2.4%	128.5	2.3%	131.4	2.3%	134.4
32 MCG Adjusted Revenues	4,514.3	4,473.5	0.8%	4,552.2	4.5%	4,755.1	2.9%	4,892.8	2.8%	5,029.1	2.7%	5,164.8	2.5%	5,293.0

Montgomery County, Maryland

**DECEMBER 2014
REVENUE UPDATE AND
SELECTED ECONOMIC
INDICATORS**

Department of Finance



December 9, 2014

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

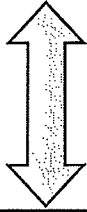
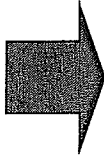
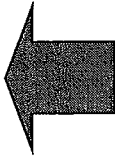
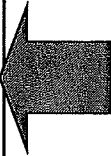
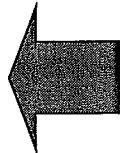

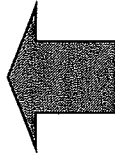
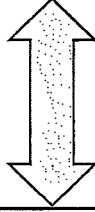
- While some economic indicators can point to recovery in certain tax revenues, some revenues, such as the income tax, transfer/recordation taxes, and the fuel-energy tax are estimated to decline from the previous fiscal year either because of rate cuts (fuel-energy), sequestration and fiscal cliff attributed to federal government and tax policies enacted in CY13, and a decline in the real estate market.
- This can be due to adjustments in consumer behavior that affect capital gains and consumer spending attributed to a decline in wage and salary income in CY13.
- 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.

Signs of a Modest Economic Recovery

- A drop in unemployment rate from 5.2 percent in October 2013 to 4.3 percent in October 2014, a modest increase in resident employment estimated for CY14, and an estimated increase in wage and salary income in CY14 that follows a decline in CY13.
- The growth in the stock market to date (S&P 500 index up 11.9 percent as of November 28th).
- Home prices continue to increase albeit at a much lower rate compared to CY13.

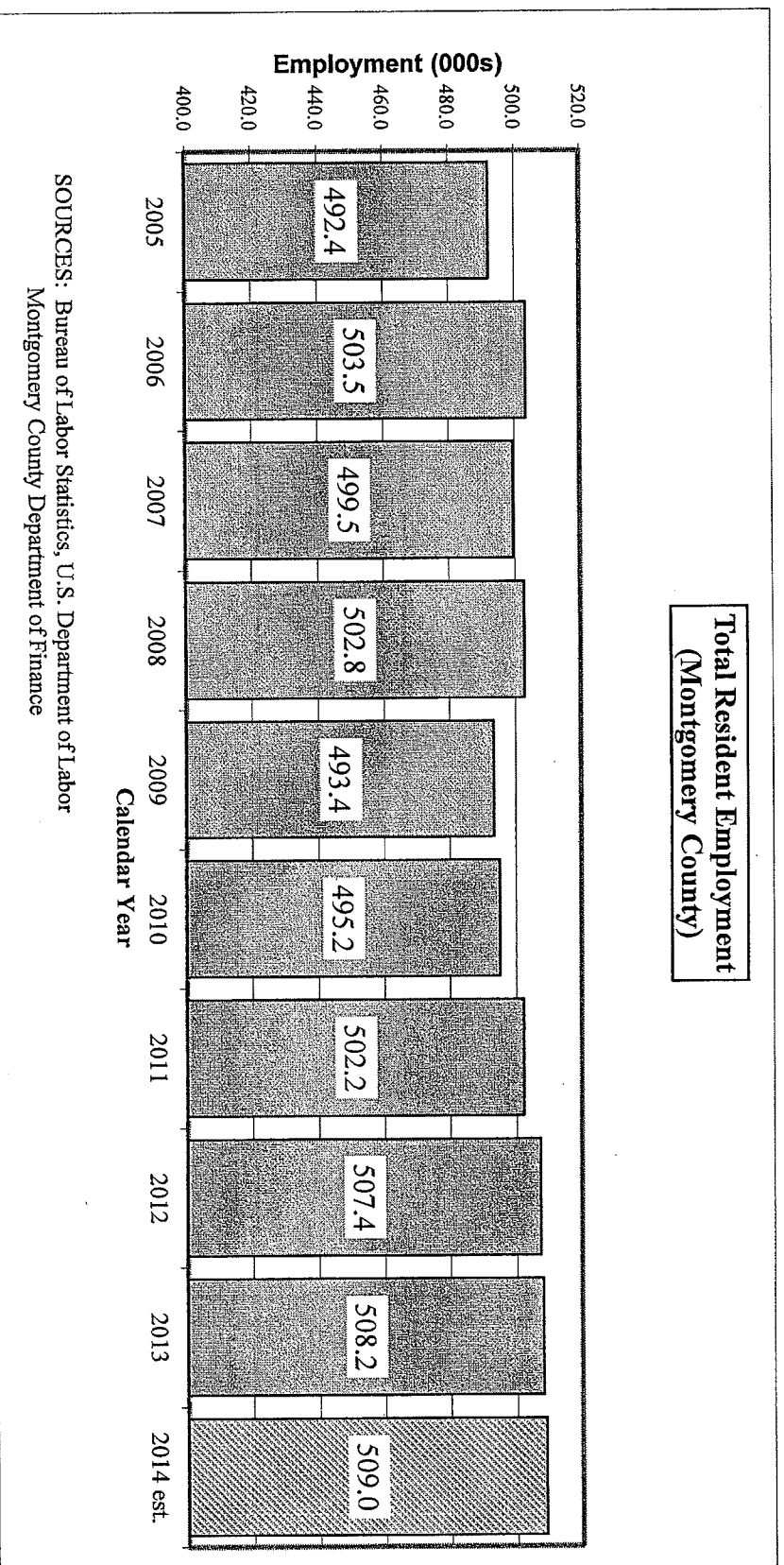
Causes of Concern

- Pull backs in revenue estimates attributed to sequestration that may continue to dampen the growth rates in employment and in wage and salary income in Montgomery County compared to estimates prepared for the FY15 Budget.
- Inflation through September (↑1.7%) is running slightly higher than CY13 (↑1.5%) but below CY12 (↑2.2%).
- Home Sales are estimated to decline 7.0 percent in CY14 after increasing 13.0 percent in CY13.
- Fed funds rate expected to remain flat through most of CY15.

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON	DIRECTION (Yr-over-yr)
INFLATION	1.74% Jan.-Sept. 2014	Property Taxes	Key determinant of property tax revenues at the Charter Limit	2013: 1.52%	
UNEMPLOYMENT RATE	4.3% Oct. 2014	Income Taxes	Indicates overall health of the job market	5.2% Oct. 2013	
RESIDENT EMPLOYMENT	508,007 Oct. 2014	Income Taxes	Primary determinant of income tax receipts	504,493 Oct. 2013	
PAYROLL EMPLOYMENT (Estimated)	476,900 Oct. 2014	Income Taxes	Another determinant of income tax receipts	474,600 Oct. 2013	
STOCK MARKET - S&P 500	2,067.56 As of Nov. 28th	Income Taxes	Key determinant of capital gains portion of the income tax	December 31st: 2013: 1,848.36	
HOME SALES	888 Oct. 2014	Transfer/Recordation Taxes	Indicates activity affecting receipts	915 Oct. 2013	
HOME PRICES (Median Price Sold)	\$387,310 Oct. 2014	Transfer/Recordation Taxes	Taxes are based on values, affects amount of taxes collected	\$379,000 Oct. 2013	
FEDERAL FUNDS RATE	0.09% Oct. 2014	Investment Income	County's return on investments closely correlated with the Fed Fund rates	0.09% Oct. 2013	

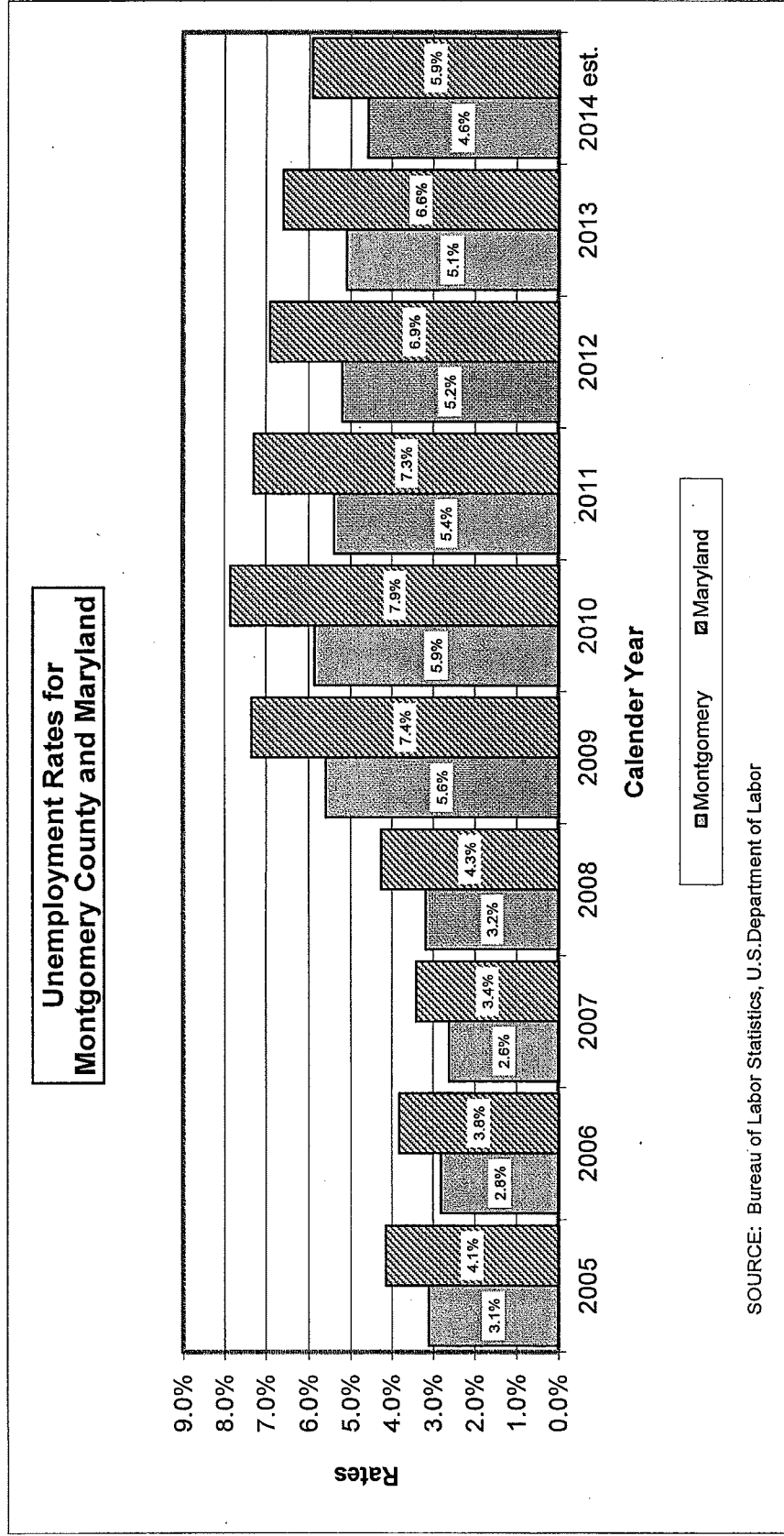
Department of Finance estimates that resident employment in Montgomery County will reach 509,000 in CY14 (↑0.2%) over CY13.

On a year-over-year basis, resident employment increased by over 3,500 from October 2013 to October of this year.



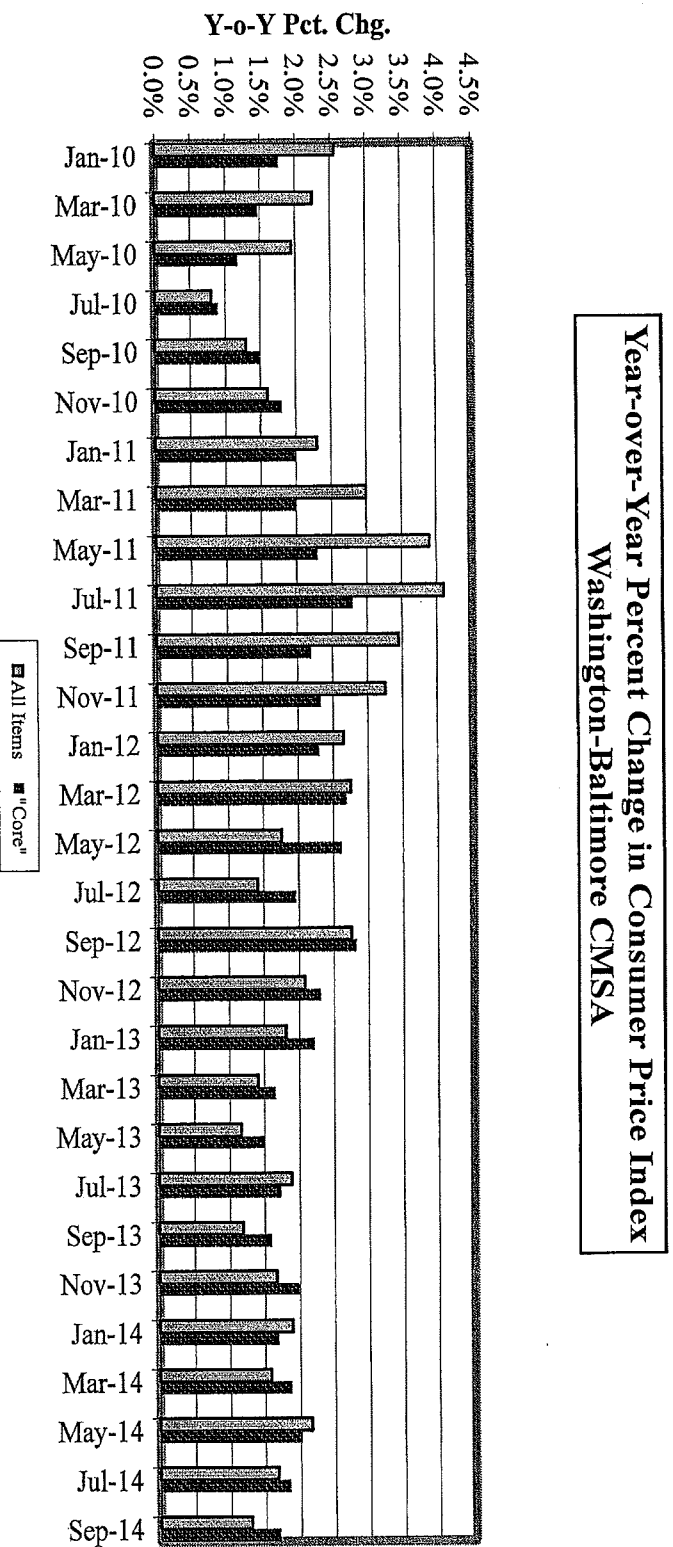
The Department of Finance estimates that the unemployment rate for Montgomery County will remain below 5.0 percent in CY14 compared to 5.1 percent in CY13.

The unemployment rate in October was 4.3 percent compared to 5.2 percent in October 2013.



The consumer price index (CPI) decelerated in September.

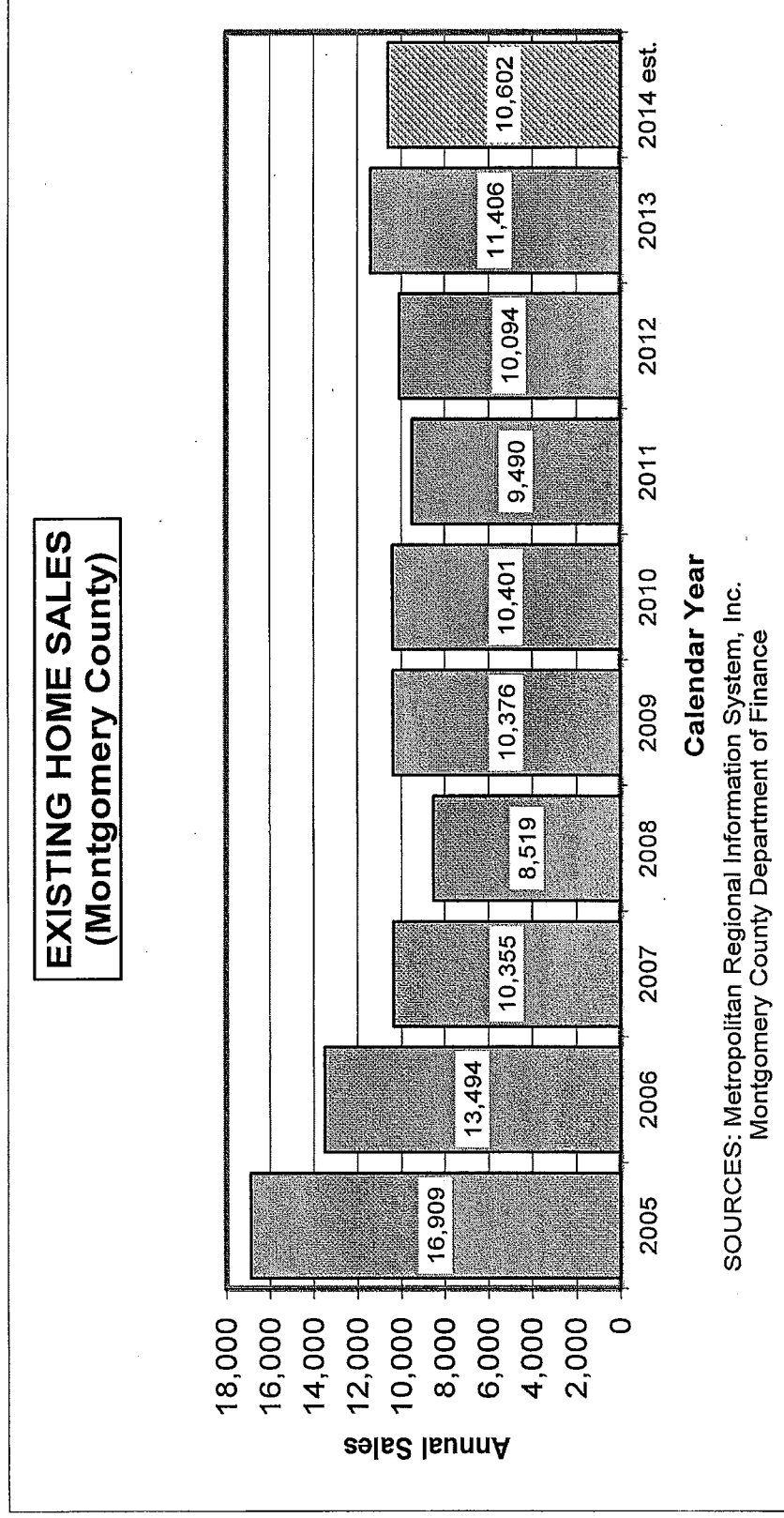
Overall for the Washington-Baltimore consolidated region, the CPI increased 1.7 percent in September '14 from September '13. For the calendar year 2013, the index increased 1.5 percent compared to 2.2 percent in CY12.



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

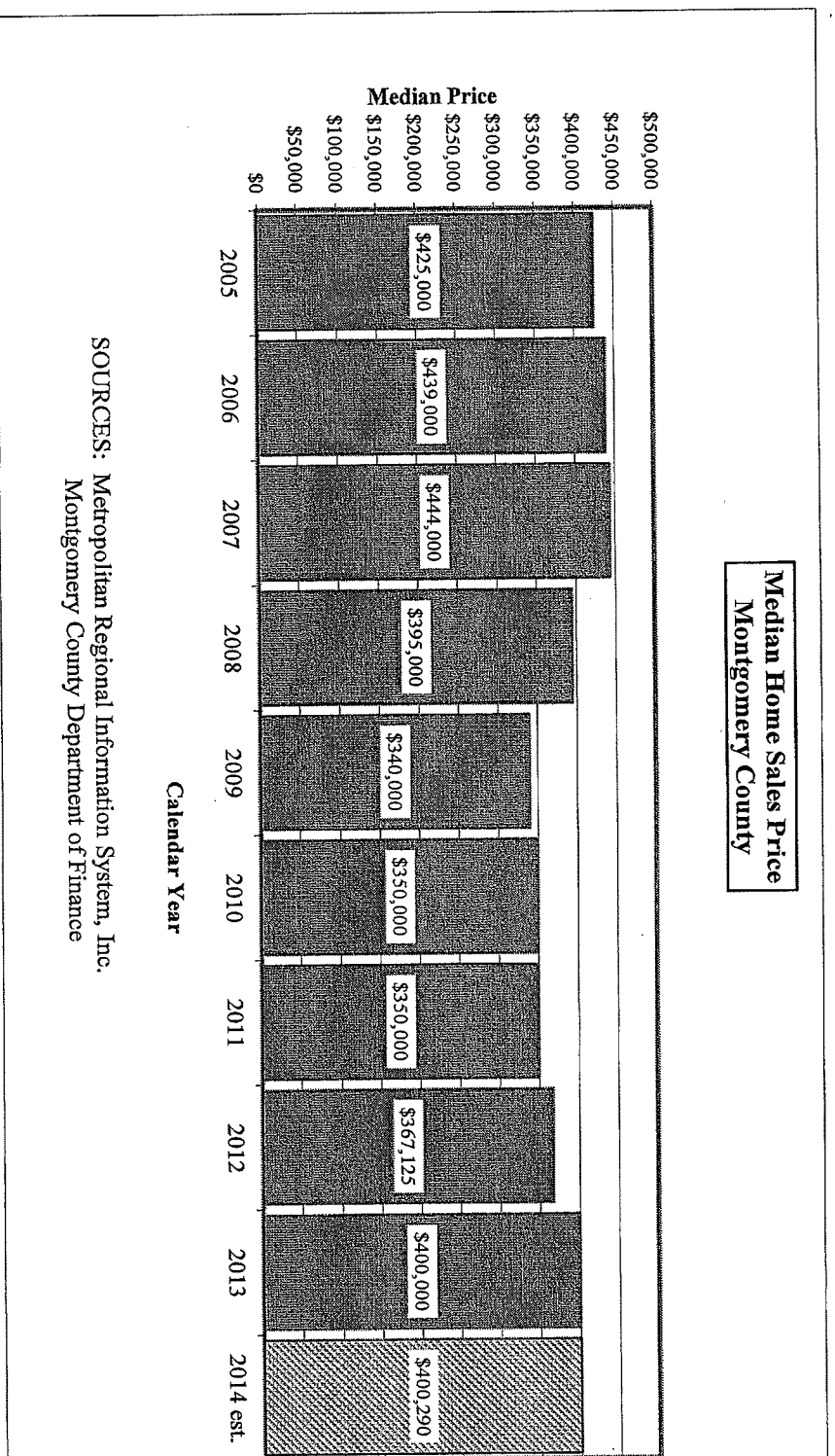
Home sales are estimated to decline 7.0 percent this year.

Total sales of existing homes increased 13.0 percent in CY13 compared to an increase of 6.4 percent in CY12.



Median home sales prices will increase in CY14 at a very low rate.

With the sales of existing homes in the County estimated to decline in 2014, the median sales price is estimated to increase a weak 0.07 percent, which follows an increase of 9.0 percent in CY13 and an increase of 4.9 percent in CY12.



REVENUE UPDATE

FY14 and FY15 Summary

The outlook for the remainder of this fiscal year (FY15) and next year (FY16) suggests a decline in revenues over the two-year period compared to the estimates prepared for the FY15 budget. This decrease is mainly attributed to revisions to income tax and the transfer and recordation tax revenues. The combined decrease in FY15 and FY16 is nearly \$179.539 million lower than previously estimated.

Revenue Update

December revised revenues for FY15 are \$40.794 million below the FY15 Budget estimates. The major contributors are the estimated decrease in income and transfer/recording tax revenues.

FY15 BUDGET - DECEMBER 2014 UPDATE (\$MIL.)			
	FY15 Budget	Dec. Update	Difference
Income	\$1,340.644	\$1,325.750	(\$14.895)
Property	\$1,538.880	\$1,535.692	(\$3.188)
Transfer/Recordation	\$160.694	\$138.680	(\$22.015)
Other Taxes:			
--Admissions	\$3.212	\$3.180	(\$0.032)
--Fuel/Energy	\$209.181	\$205.556	(\$3.625)
--Telephone	\$47.833	\$49.096	\$1.263
--Hotel/Motel	\$17.512	\$19.211	\$1.699
Investment Income	n.a	n.a	n.a
Highway User Revenue	\$3.587	\$3.586	(\$0.002)
TOTAL	\$3,321.544	\$3,280.750	(\$40.794)

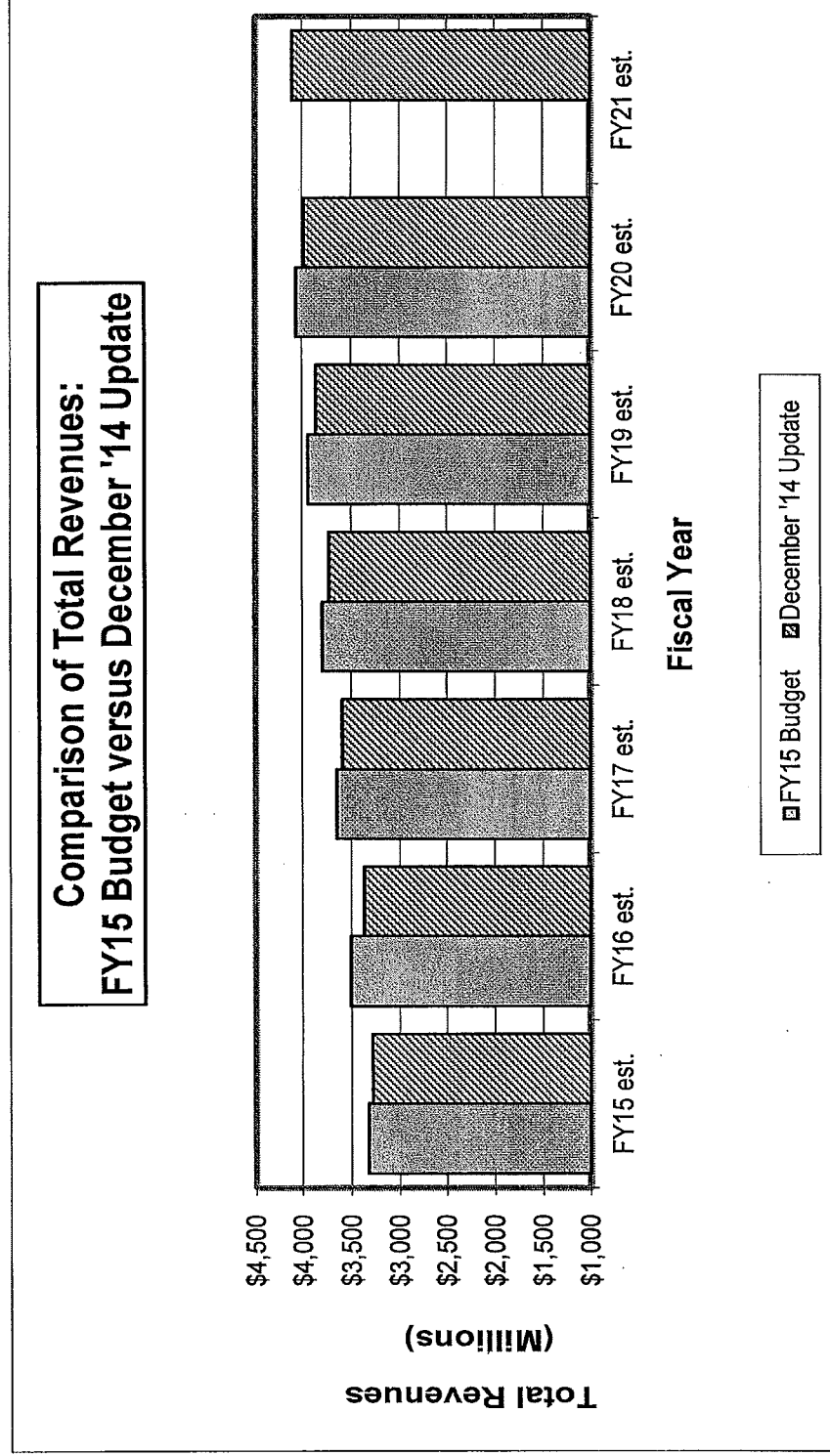
Revenue Update

December revised revenue estimates for FY16 are \$138.745 million below the FY15 Budget estimates. The decrease is attributed to income and transfer/recording tax revenues.

	FY15 BUDGET - DECEMBER 2013 UPDATE (\$MIL.)		
	FY16 Estimate	Dec. Update	Difference
Income	\$1,473.527	\$1,355.527	(\$118.000)
Property	\$1,577.216	\$1,574.807	(\$2.409)
Transfer/Recordation	\$169.576	\$152.403	(\$17.173)
Other Taxes:			
--Admissions	\$3.317	\$3.390	\$0.073
--Fuel/Energy	\$211.640	\$207.580	(\$4.060)
--Telephone	\$48.564	\$49.761	\$1.197
--Hotel/Motel	\$18.029	\$19.703	\$1.674
Investment Income	n.a	n.a	n.a
Highway User Revenue	\$3.722	\$3.676	(\$0.046)
TOTAL	\$3,505.592	\$3,366.847	(\$138.745)

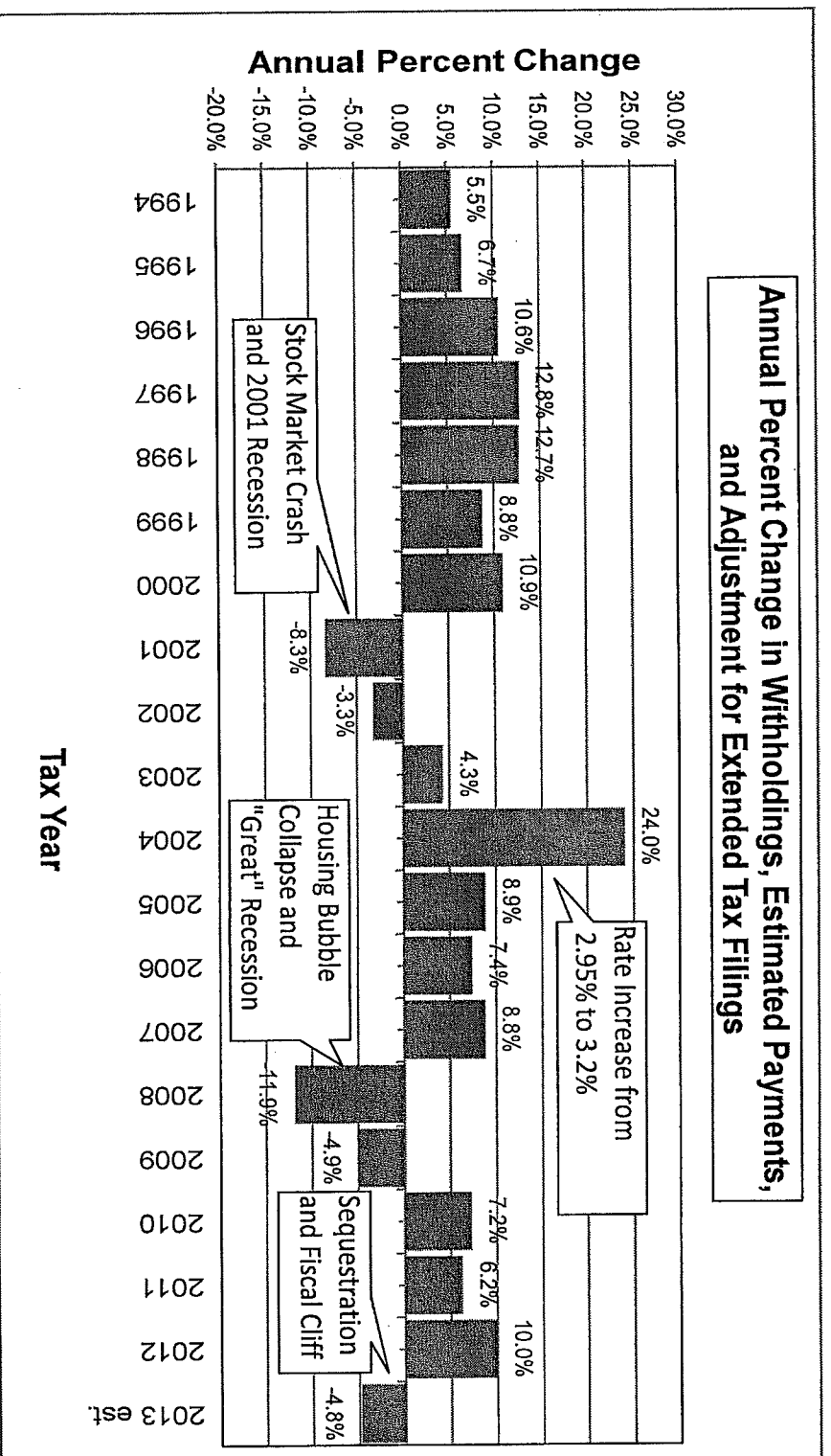
Revenue Trend FY15-20

During the current six year period (FY15-FY20), total revenues are expected to be approximately \$466.0 million below FY15 budget estimates.



Income Tax Volatility

Year-over-year percent changes in the income tax are volatile and sensitive to economic events possibly capital gains in Montgomery County for tax year 2013.



Income Tax – “It is all about the November distribution” .

- The largest share (five year average of over 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 2013 in November 2014) 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., 2013 tax year final results affect quarterly distributions for this fiscal year).
- Income tax revenues represented 47.2 percent of total General Fund tax revenues in FY13 and nearly 45.4 percent of the County’s total General Fund revenues.

Income Tax – November distributions

(millions)	Actual FY12	Actual FY13	Actual FY14	Estimated FY15	Actual FY15	Difference
October 15 th Filings and Adjustments	\$134.76	\$144.74	\$167.61	\$175.43	\$79.13	(\$96.30)
Withholding and Estimated payments for 3 rd Quarter	\$242.79	\$250.76	\$258.47	\$267.71	\$261.64	(\$6.07)
Total November Distribution	\$377.55	\$395.50	\$426.08	\$443.14	\$340.77	(\$102.37)

•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 2013 as compared to tax year 2012. The State has indicated that the County's income tax receipts from withholdings and estimated payments for the third quarter of tax year 2014 are 1.2% higher than for tax year 2013 but below the estimate for the FY15 Budget.

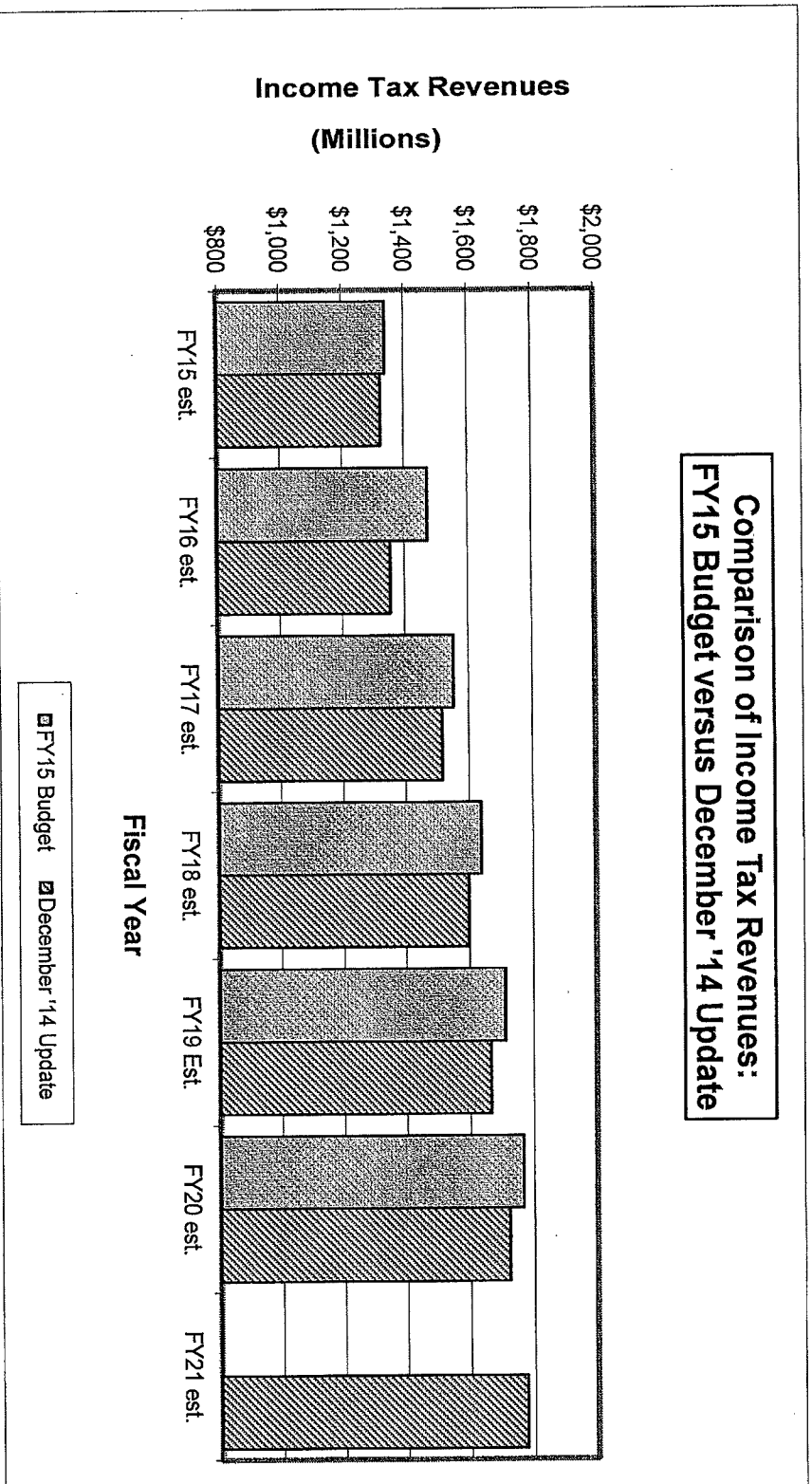
•Increase in actual withholdings and estimated payments compared to last year is due to an increase in income tax collections from withholdings and estimated payments statewide.

Income Tax – Economic Factors

- Resident employment is expected to increase 0.2 percent in CY14 and increase 1.0 percent in CY15. This is a slight decrease compared to March economic assumptions of 0.8 percent increase in CY14 and 1.1 percent in CY15. The lower employment growth 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 2.3 percent in CY14 and 4.3 percent in CY15.
- Wage and salary income is expected to increase 1.9 percent in CY14 and increase 4.0 percent in CY15.
- The effect of the Wynne Case on income tax revenues in FY15 was shifted to FY16 thereby ameliorating the impact of the November reconciliation distribution on the revised estimate.

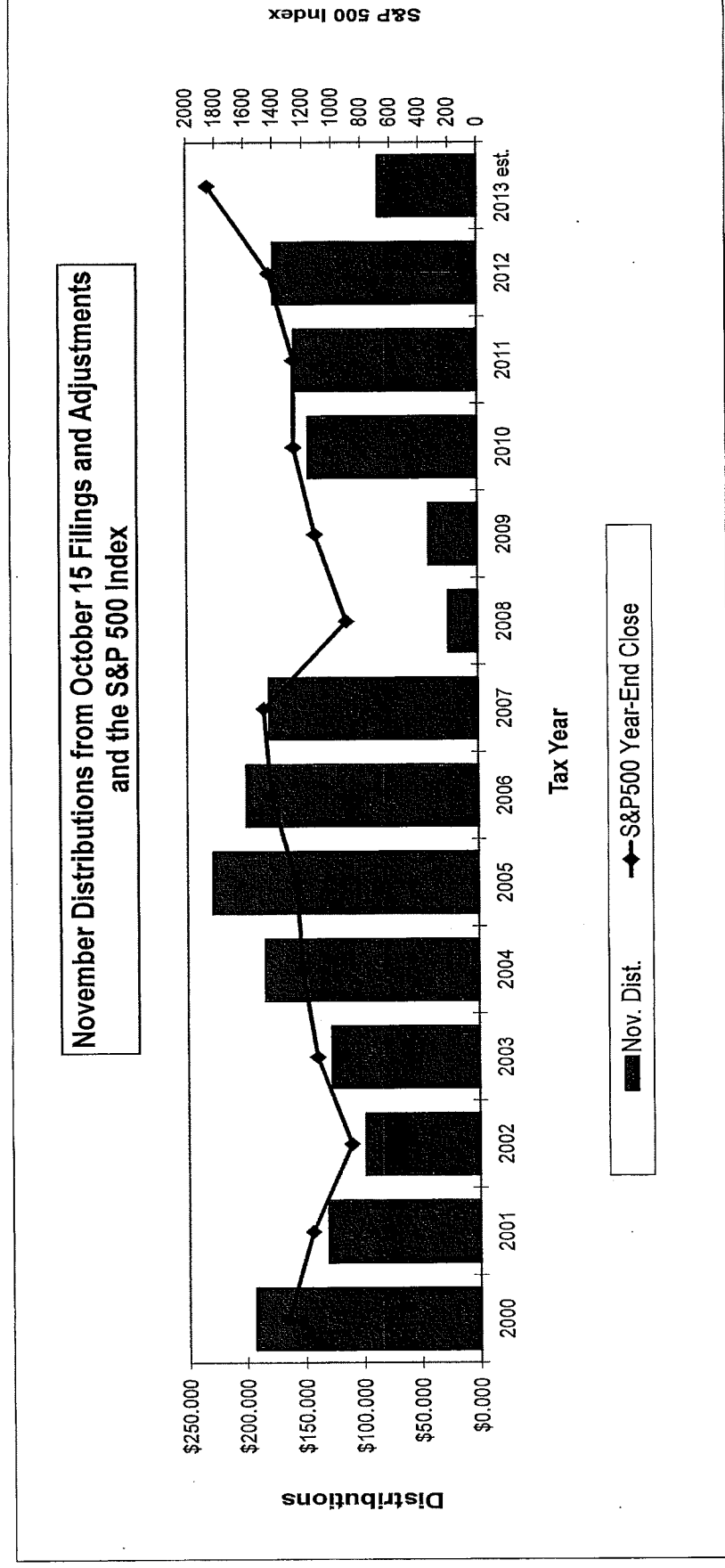
Income Tax FY15-20

Over the current six year period (FY15-FY20), income tax revenues are expected to be approximately \$298.1 million below FY15 budget estimates largely attributed to the estimated \$118.0 million decline in FY16.



Income Tax

The amount of revenues from the November distribution had been correlated to the stock market (S&P 500 Index). However, that relationship did not occur in tax year 2013 due to the fiscal cliff and possibly to the dramatic decrease in capital gains.



Property Tax

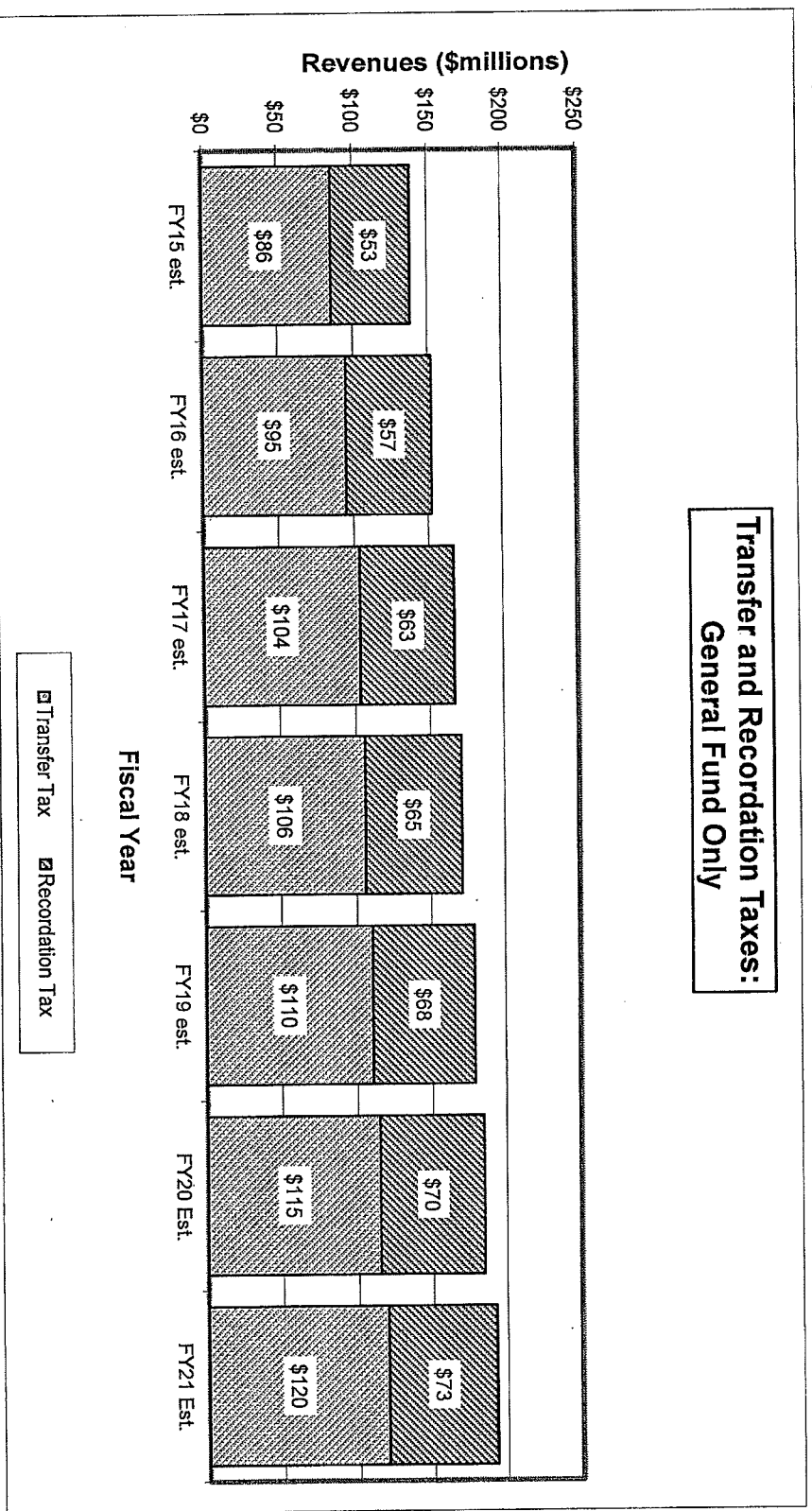
- The inflation rate is expected to be 1.7 percent in calendar year 2014, which follows a 1.5 percent increase in CY13 and 2.2 percent in CY12. Inflation is used to estimate real property tax revenues under the Charter Limit excluding new construction.
- The reassessment rates for real property for Group Three for fiscal year 2016 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 decrease 7.0 percent in CY14 and median prices are estimated to increase a very modest 0.07 percent. Based on collections to date, the non-residential real estate market is estimated to experience a decrease in FY15.
- Because of the estimated decrease of home sales in CY14, Finance estimates that the number of residential transfers may decrease 2.1 percent in FY15.
- Because of collections to date, total transfer tax revenues on residential transactions are expected to decrease 1.9 percent in FY15.
- Because of the expected decrease in the average transfer tax on non-residential transactions, total non-residential transfer tax revenues are estimated to decrease 11.0 percent in FY15.

Transfer and Recordation Taxes

Since reaching \$241.7 million in FY06, transfer and recordation taxes declined to \$127.3 million in FY12. By FY21, transfer and recordation taxes are estimated to reach \$192.9 million – \$48.8 million below the FY06 peak.



Other Tax Revenues

Other tax revenues are estimated to decrease 0.3 percent in FY15 over budget estimates due to estimated decrease in fuel and energy tax revenues. Over the current six-year period (FY15-FY20), total other tax revenues are estimated to be \$10.8 million below FY15 budget estimates.

