

MFP COMMITTEE #2
September 22, 2008

ADDENDUM

MEMORANDUM

September 22, 2008

TO: Management and Fiscal Policy Committee

FROM: Stephen B. Farber, Council Staff Director *SBF*

SUBJECT: Update of the County Fiscal Plan

OMB and Finance have just released the information attached on ©1-8 regarding today's Committee review of the County Fiscal Plan update. OMB Director Joseph Beach and Finance Director Jennifer Barrett and their colleagues will present this information.

The attachment starts on ©2 with the FY09-10 Tax Supported Fiscal Plan Summary as of July 2008, which projected a budget gap in FY10 of **\$251.0 million**. A list of FY09-10 fiscal pressures is on ©2. Revenue trends are outlined on ©4-6. Potential FY09 supplemental appropriations totaling \$39.9 million are listed ©8.

The September 2008 Fiscal Plan Update on ©7, again focusing only on FY09-10 rather than the entire six-year period, reflects all this information. The key assumptions, including FY10 property tax revenue at the Charter limit and provision for potential FY09 supplemental appropriations, are listed in the footnotes.

Footnote 3 on projected agency uses of funds in FY10 is especially important. The table reflects the approved FY09 rate of expenditure growth, 3.7 percent, and adds a limited number of known cost increases, including fuel, utilities, retiree health insurance, operating impacts of capital projects, inflation on existing contracts, and program annualization. The resulting overall increase for agency uses in FY10 is **5.7 percent**. The projected budget gap is **\$251.2 million**, almost identical to the gap projected in the July 2008 Fiscal Plan Update on ©2.

But in the July update the projected increase for agency uses in FY10 was **7.9 percent**. This increase was based on the methodology that OMB has used in recent years: the ten-year average rate of growth plus the phase-in of the incremental cost of retiree health benefits prefunding. **The fact that the September projection shows the same gap, \$251 million, despite a much smaller increase in projected agency expenditures illustrates how much larger the FY10 fiscal challenge has become.**



FISCAL PLAN OVERVIEW
PRESENTATION TO COUNTY COUNCIL

Presented by: Office of Management and Budget and Department of Finance

September 2008

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County Executive's Recommended FY09-14 Public Services Program

Tax Supported Fiscal Plan Summary

(\$ in Millions)						
	App FY08 5-24-07	Est. FY08 5-22-08	% Chg. FY08-09 Rec/Bud	App. FY09 5-22-08	% Chg. FY09-10	Projected FY10
Total Resources						
Revenues	3,625.1	3,568.5	4.2%	3,776.3	4.2%	3,936.7
Beginning Reserves Undesignated	175.8	274.1	-18.4%	143.4	-24.4%	108.4
Beginning Reserves Designated	20.7	5.8	-69.8%	6.2	-0.9%	6.2
Net Transfers In (Out)	11.5	10.0	188.6%	33.3	-21.3%	26.2
Total Resources Available	3,833.1	3,858.4	3.3%	3,959.3	3.0%	4,077.5
Less Other Uses of Resources (Capital, Debt Service, Reserve)	424.5	474.5	-0.1%	424.1	21.6%	515.8
Available to Allocate to Agencies	3,408.6	3,383.9	3.7%	3,535.2	0.8%	3,561.7
Agency Uses						
Montgomery County Public Schools (MCPS)	1,852.2	1,838.0	4.6%	1,937.0	8.0%	2,091.2
Montgomery College (MC)	197.4	193.0	7.6%	212.4	8.4%	230.3
MNCPCC (w/o Debt Service)	98.4	97.4	8.1%	106.4	7.0%	113.9
MCG	1,260.6	1,255.5	1.5%	1,279.4	7.7%	1,377.4
Subtotal Agency Uses	3,408.6	3,383.9	3.7%	3,535.2	7.9%	3,812.7
Subtotal Other Uses of Resources (Capital, Debt Service, Reserve)	424.5	474.5	-0.1%	424.1	21.6%	515.8
Total Uses	3,833.1	3,858.4	3.3%	3,959.3	9.3%	4,328.5
(Gap)/Available	0.0	0.0		-		(251.0)

Notes:

1. Projected FY10-14 Agency Uses are based on 10-year average rate of growth plus phase-in of retiree health insurance pre-funding incremental cost.
2. FY10-14 property tax revenues are assumed at the Charter Limit.

FY09-10 FISCAL PRESSURES

1. Fuel Costs for County fleet, School buses, and Ride-On and Contractors
2. Fuel related costs for asphalt and other petroleum based products
3. Energy costs related to anticipated interagency electricity re-bids
4. Federal, State and Local Mandates:
 - a. Disparity Study
 - b. MSPB Classification Study
 - c. ePCR (Electronic Patient Care Reporting System for MCFRS)
 - d. Project Civic Access
 - e. NPDES Permit Requirements
5. Inflationary impact on contracts, food, and commodities
6. Expanding inmate population
7. Potential shifting of State responsibilities to local governments
8. Grant shortfalls from flat-lined, or terminated State and Federal Grants
9. Potential reduction to State Aid categories including K-12 Education, College, Transit Aid, and Highway User Revenues)
10. Health Insurance
11. Workers Compensation
12. Pension Costs -- Stock Market Experience
13. Operating Costs of capital facilities

Revenue Information available - September 2008

- Preliminary results are available for certain FY08 revenues
- Economic Indicators -- data for first 8 months of CY2008 compared to first 8 months of CY2007 except for inflation which is for the first 7 months of CY2008 compared to the first 6 months of CY2007 and investment income which is for the first two months of FY2009.
- Revenue trend conclusions based on information currently available.

Revenue Information Constraints - September 2008

- Revenue trends are based on only 7 or 8 months of indicator data for CY2008..
- Revenue trends are based on indicator data only -- no meaningful actual revenue data for FY2009 are available at this time.
- Trend data for the Other Taxes category is not available, as estimates are based primarily on trends in actual receipts, more so than on economic indicators

Economic Indicators and Preliminary Conclusions

Income Taxes

Economic Indicators:

	FY09 Budget	Preliminary (8 months data) Jan-Aug 2008 v. Jan-Aug 2007
Employment (Payroll)	0.7%	0.4%
Total Personal Income (1)	5.4%	5.1%
Wage and Salary Income (1)	5.2%	4.7%
Capital Gains	7.5%	-8.4%

Note: (1) Total personal and wage and salary income expressed as average annual growth rate from CY2005 actual to CY2008 estimate. CY2005 is the latest year for which Finance has actual "unrevised" data on total personal income (SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce).

Preliminary conclusions:

- Lower than expected growth in Employment indicates a lower base of salaried workers which affects the revenue assumption in FY09 and which carries forward into FY10 and beyond.
- Lower than expected growth in Personal Income.
- Capital gains declined based on the S&P 500 index which will affect taxable income from individuals filing for extensions in Tax Year 2008 and affect revenues for FY2010.

Property Taxes

Economic Indicators:

	FY09 Budget	Preliminary (7 months data) Jan-Jul 2008 v. Jan-Jul 2007
Inflation	3.3%	5.0%

Preliminary conclusions:

- At the Charter Limit, higher inflation indicates that property revenues will be higher for **FY10** than originally forecast.

Transfer and Recordation Taxes

Economic Indicators:

	FY09 Budget	Preliminary (8 months data) Jan-Aug 2008 v. Jan-Aug 2007
Home Sales (CY08)	-27.3%	-28.5%
Home Sales (CY09)	3.0%	
Housing Prices (CY08)	2.2%	-3.9%
Housing Prices (CY09)	2.2%	

Preliminary conclusions:

- With home sales down during CY2008 to date from the FY09 budget forecast, and Housing Prices down as well, a significant shortfall in transfer and recordation tax revenues is forecast in FY09 and carrying into FY10.
- Growth in housing prices is virtually the same as forecast.

Investment Income

Economic Indicators:

	FY09 Budget	Actual (2 months data) Average July-Aug 2008
Fed Funds Rate FY09	2.20%	2.00%
Fed Funds Rate FY10	3.00%	n/a
Investment Return	2.50%	2.63%

NOTE: Preliminary data pertain to the first two months of FY2009.

Preliminary conclusions:

- Finance forecasting slightly positive variance for investment income in FY09 based on expected investment return.
- Revised projections of expected Fed actions also factored in.

REVENUES - PRELIMINARY RESULTS FY08 - 10

	FY08 May Estimate	FY08 Prelim. (unaudited)	Difference
Income	\$1,285.000	\$1,291.340	\$6.340
Property	\$1,209.500	\$1,213.400	\$3.900
Transfer/Recordation (1)	\$133.500	\$135.039	\$1.539
Other Taxes (2)	\$169.900	\$168.700	(\$1.200)
Investment Income	\$25.599	n/a	n/a
Highway User Revenue	\$38.330	n/a	n/a

	FY09 Budget	FY09 Preliminary	Difference
Income	\$1,325.440	\$1,316.400	(\$9.040)
Property	\$1,364.932	\$1,364.932	\$0.000
Transfer/Recordation (1)	\$148.985	\$132.200	(\$16.785)
Other Taxes (2)	\$185.800	n/a	n/a
Investment Income	\$14.727	\$15.787	\$1.060
Highway User Revenue	\$39.672	\$35.739	(\$3.933)

	FY10 Estimate	FY10 Preliminary	Difference
Income	\$1,404.890	\$1,355.700	(\$49.190)
Property (3)	\$1,406.057	\$1,429.416	\$23.359
Transfer/Recordation (1)	\$156.764	\$150.900	(\$5.864)
Other Taxes (2)	\$190.110	n/a	n/a
Investment Income	\$23.925	\$21.385	(\$2.540)
Highway User Revenue	\$40.170	\$36.339	(\$3.831)

NOTES:

- (1) General fund only and includes controlling interest
- (2) Other taxes include admissions/amusement, fuel/energy, telephone, and hotel/motel taxes
- (3) Tax-supported at the Charter Limit

Fiscal Plan Update September 2008 Tax Supported Fiscal Plan Summary

(\$ in Millions)							
	App FY08	Estimate FY08	App. FY09	Est. FY09	% Chg. FY09-10 Rec/Bud	% Chg. FY09-10 FY09-10 Rec/Est	Rec. FY10
	5-24-07	5-22-08	5-22-08	9-17-08			9-17-08
Total Resources							
Revenues	3,625.1	3,568.5	3,776.3	3,747.6	3.2%	4.0%	3,898.7
Beginning Reserves Undesignated	175.8	274.1	143.4	143.4	-70.6%	-70.6%	42.2
Beginning Reserves Designated	20.7	5.8	6.2	6.2	-2.5%	-2.5%	6.1
Net Transfers In (Out)	11.5	10.0	33.3	33.3	-21.3%	-21.3%	26.2
Total Resources Available	3,833.1	3,858.4	3,959.3	3,930.6	0.4%	1.1%	3,973.2
Less Other Uses of Resources (Capital, Debt Service, Reserve)	424.5	474.5	424.1	395.1	14.7%	23.1%	486.4
Available to Allocate to Agencies	3,408.6	3,383.9	3,535.2	3,535.4	-1.4%	-1.4%	3,486.8
Agency Uses							
Montgomery County Public Schools (MCPS)	1,852.2	1,838.0	1,937.0	1,937.0	5.2%	5.2%	2,037.4
Montgomery College (MC)	197.4	193.0	212.4	212.4	5.5%	5.5%	224.1
MNCPPC (w/o Debt Service)	98.4	97.4	106.4	106.4	6.2%	6.2%	113.0
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Subtotal Agency Uses	3,408.6	3,383.9	3,535.2	3,535.4	5.7%	5.7%	3,737.9
Subtotal Other Uses of Resources (Capital, Debt Service, Reserve)	424.5	474.5	424.1	395.1	14.7%	23.1%	486.4
Total Uses	3,833.1	3,858.4	3,959.3	3,930.6	6.7%	7.5%	4,224.3
(Gap)/Available							(251.2)

Notes:

- Due to the following considerations, the fiscal plan assumes the same FY09 beginning fund balance as approved in the original budget:
 - The Department of Finance is continuing to process adjustments as part of the annual year-end closing process, which is not expected to be substantially complete until November.
 - As part of the year-end closing process, significant adjustments could occur due to accruals, encumbrance liquidations, reconciliation of grant funds, and other balance sheet adjustments which could significantly impact fund balance.
- Updated revenue estimates for major sources of revenue are assumed above.
- Projected FY10 Agency Uses assume FY09 approved rate of growth plus a limited number known cost increases including fuel, utilities, retiree health insurance, operating impacts of capital projects, inflation on existing contracts, and program annualization.
- FY10 property tax revenues are assumed at the Charter Limit.
- Updated estimates of potential FY09 supplemental appropriations are assumed above (see attached).

FY09 TAX SUPPORTED SUPPLEMENTAL APPROPRIATIONS		AMOUNT
Approved		
Operating Budget		
DGS - Central Vendor Registration Portal (ITF) (approved 7-29-08)		100,000
DHCA - Fire Sprinklers for Group Homes (approved 9-16-08)		150,000
Subtotal Approved PSP		250,000
CIP Current Revenue		
Subtotal CIP CR		0
Subtotal Approved:PSP and CIP CR		250,000
FY09 Pending Supplemental Appropriations		
Potential Supplementals (see below for details)		39,861,040
Subtotal:Pending Tax Supported Supplemental Appropriations		39,861,040
FY09 Potential Supplemental Appropriations		
FY09 Snow Supplemental		15,000,000
MCG - Board of Elections - Relocation to Leased Office Space and Build -Out		2,153,000
MCG - Fire Rescue Service - Electronic Patient Care Reporting System		2,612,000
MCG - DOT - Asphalt Cost Increases		816,850
MCG - Fuel Costs		9,597,660
MCPS - Fuel Costs		5,947,500
MNCPPC - Fuel Costs		737,000
MCG - Loving Charity Hall		150,000
MCG - IJIS Current Revenue		2,500,000
MCG - Police COPS Grant		347,030
Subtotal:Potential Tax Supported Supplemental Appropriations		39,861,040