



Montgomery County, MD Transit Task Force

Financial Analysis Summary September 10, 2015



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Agenda

- Summary of Key Assumptions
- Scenarios Tested
- Summary Results
- Observations

Costs of the Project

- VHB Transportation Planning & Engineering provided estimates for the RTS corridor capital and operating costs
- Corridor construction over ten year period 2016 – 2026
- Costs inflated at 3% to year of expenditure (YOE) or construction contract date

Corridor	Construction Period (FY)	Capital Cost		Maintenance Facility		Total		Operations and Maintenance	
		2015 (\$MM)	YOE (\$MM)	Allocated Capital Cost (\$MM)	YOE (\$MM)	2015 (\$MM)	YOE (\$MM)	Initial Year	Initial Cost (\$MM)
CCT	2016-2020	\$634.5	\$653.5			\$634.5	\$653.5	2021	\$14.1
Veirs Mill Road	2016-2022	\$276.3	\$284.5	\$13.7	\$14.6	\$290.0	\$299.1	2023	\$10.3
US 29	2016-2023	\$200.0	\$205.9	\$9.9	\$10.6	\$209.9	\$216.5	2024	\$19.2
355 North	2017-2026	\$619.6	\$638.2	\$30.8	\$32.7	\$650.4	\$670.9	2027	\$25.4
355 South	2016-2024	\$422.8	\$435.5	\$21.0	\$22.3	\$443.8	\$457.8	2025	\$23.9
Total	2016-2026	\$2,153.1	\$2,217.7	\$75.6	\$80.2	\$2,228.7	\$2,297.9		

Note: CCT costs include maintenance facility expenses.

Plan of Finance Objectives

- Fully fund RTS capital and operating needs
- Prudent use of debt to ensure timely completion
- Provide sufficient resources to fund reserves—cushion to protect the RTS from unanticipated expenses
- Assume that debt will be issued by an independent authority and will not be considered a general obligation of Montgomery County

Revenue Options

- Property Tax
- Excise Tax
- Sales Tax
- Fare Box

Tax Impacts Assessed Relative To

- Residential
- Commercial
- Amount
- Timing

Debt Structure

- Importance of issuing independent debt
- Actions taken to address concerns re:
 - Accountability
 - Process
 - Tax limit

Summary of Key Assumptions

- Capital reserve funded at 10% of construction costs
- 85% of construction costs are debt financed; 15% of construction costs are cash funded (“pay-as-you-go”)
- Operating reserve funded at 3 months of operations and maintenance expense
- Property tax revenue forecast based on County projections through 2021 and increase 4.2% thereafter

County-Wide Property Tax Base (\$MM)									
FY	2015	2016	2017	2018	2019	2020	2021	2022	2023
Assessable Base	168,372	175,060	181,910	190,526	196,972	203,828	212,125	221,034	230,317
Collection Rate	98.90%	98.90%	98.90%	98.90%	98.90%	98.90%	98.90%	98.90%	98.90%
Total Available Base	166,520	173,134	179,909	188,430	194,806	201,586	209,791	218,603	227,784
Percentage Growth From Prior Year		4.0%	3.9%	4.7%	3.4%	3.5%	4.1%	4.2%	4.2%

- Minimum debt service coverage ratio of 1.60x assumed if county-wide property tax / alternate revenue fund both capital and operating expenses
- Minimum debt service coverage ratio of 1.30x assumed if county-wide property tax / alternative revenue funds only capital expenses
- Total Debt Issued: \$2.2 Billion
- Bond Issuance Assumptions
 - Debt Service Reserve funded at maximum annual debt service
 - Bond interest rates estimate based on 10 year historical average of “AA” rated bonds
 - True Interest Cost (including issuance costs and underwriter’s discount): 3.86%
 - Amortization is 30 year level debt service (mortgage style)
 - Issuance expenses estimated at \$3/\$1000 and underwriting expenses estimated at \$5/\$1000

Scenarios Tested

- I. County-Wide Real Property Tax Only
 - A. Baseline: Annual tax rate adjustments equal to actual amounts required to defray capital and operating costs.
 - B. Baseline plus intergovernmental contribution: The same approach as Scenario IA with the addition of a \$40mm annual contribution from State and Federal governments.
 - C. Fixed Tax Rates: Setting a fixed tax rate for 10 years and a small increase in the fixed tax rate thereafter.
 - D. Fixed Tax Rate Plus: The same approach as Scenario IC, with the addition of a \$40mm annual contribution from State and Federal governments.

Summary Results

County-Wide Real Property Tax (\$ / \$100)															
Scenario	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
1A	-	0.0137	0.0353	0.0407	0.0489	0.0545	0.0694	0.0777	0.0776	0.0860	0.0865	0.0758	0.0713	0.0691	0.0671
1B	-	0.0137	0.0141	0.0202	0.0290	0.0354	0.0511	0.0601	0.0608	0.0698	0.0710	0.0609	0.0570	0.0554	0.0539
1C	-	0.0646	0.0646	0.0646	0.0646	0.0646	0.0646	0.0646	0.0646	0.0646	0.0646	0.0646	0.0646	0.0646	0.0646
1D	-	0.0488	0.0488	0.0488	0.0488	0.0488	0.0488	0.0488	0.0488	0.0488	0.0488	0.0488	0.0488	0.0488	0.0488

Summary Results

Scenario	Property Tax Rate Impact		Excise Tax Rate Impact	
	Maximum Rate	Assuming \$440,000 Assessed Value – Property Taxes Per Year*	Maximum Rate	Assuming 2,000 Sq. Ft. Business – Excise Taxes Per Year*
1A	0.0865	\$381	0.0000	\$0
1B	0.0710	\$312	0.0000	\$0
1C	0.0646	\$284	0.0000	\$0
1D	0.0488	\$215	0.0000	\$0

**Note: For Illustrative Purposes Only*

Summary Results

SCENARIO # and Description	Maximum Property Rate	Type of Tax on Residential & Commercial	RESIDENTIAL Total Tax Assume Average Assessment of \$440,000*	COMMERCIAL Total Tax Assume Average Assessment of \$440,000 (and ~2,000 sf)*
1A	0.0865	Real Property	\$381	\$381
Real Property Tax Only for all	0.0000	Excise	\$0	\$0
Capital AND Operating Costs		Total	\$381	\$381
		(After Income Tax @ 33%)**	\$255	\$255
1B	0.0710	Real Property	\$312	\$312
Same as 1A, but \$40MM Annual	0.0000	Excise	\$0	\$0
From State & Federal Gov't		Total	\$312	\$312
		(After Income Tax @ 33%)**	\$209	\$209
1C	0.0646	Real Property	\$284	\$284
Same as 1A, but Fixed Rate	0.0000	Excise	\$0	\$0
		Total	\$284	\$284
		(After Income Tax @ 33%)**	\$190	\$190
1D	0.0488	Real Property	\$215	\$215
Same as 1C, but \$40MM Annual	0.0000	Excise	\$0	\$0
From State & Federal Gov't		Total	\$215	\$215
		(After Income Tax @ 33%)**	\$144	\$144

* For Illustrative Purposes Only (with hypothetical residential and commercial property owners)

** For Illustrative Purposes Only (describing the extent of virtual federal and state "subsidies" through tax deductibility of payments, assuming a 33% marginal income tax bracket)

Scenarios Tested

- II. County-Wide Real Property Tax & County-Wide Excise Tax
 - A. Baseline: Under this approach both real property and excise tax rates adjust annually. Real property taxes are dedicated to capital costs. Excise taxes are dedicated to operating costs.
 - B. Baseline Plus: Same structure Scenario IIA; however, a \$40mm annual contribution is made by the State and Federal governments.
 - C. Combination with Fixed Rates: Real property tax and excise tax remain the foundation of the County's contributions. However, a fixed real property rate is set to fund capital costs and a fixed excise tax rate funds operating costs. Any surplus revenues, after setting aside the annual minimum in a sinking fund would be applied to capital costs on a "pay-go" basis.
 - D. Combination with Fixed Rates Plus. The same as Scenario IIC; however, a \$40mm contribution would be made by the State and Federal governments.

Summary Results

County-Wide Real Property Tax (\$ / \$100) & County-Wide Excise Tax (\$ / Sq.)															
Scenario	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
2A Property	-	0.0137	0.0353	0.0407	0.0489	0.0454	0.0621	0.0660	0.0592	0.0638	0.0661	0.0462	0.0443	0.0425	0.0408
2A Excise	-	-	-	-	-	0.0786	0.0654	0.1083	0.1777	0.2217	0.2117	0.3178	0.2997	0.3066	0.3136
2B Property	-	0.0137	0.0141	0.0202	0.0290	0.0357	0.0488	0.0519	0.0465	0.0502	0.0520	0.0363	0.0349	0.0335	0.0321
2B Excise	-	-	-	-	-	0.0618	0.0515	0.0851	0.1397	0.1744	0.1665	0.2499	0.2357	0.2411	0.2466
2C Property	-	0.0493	0.0493	0.0493	0.0493	0.0493	0.0493	0.0493	0.0493	0.0493	0.0493	0.0493	0.0493	0.0493	0.0493
2C Excise	-	-	-	-	-	0.2030	0.2030	0.2030	0.2030	0.2030	0.2030	0.2030	0.2030	0.2030	0.2030
2D Property	-	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375
2D Excise	-	-	-	-	-	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500

Summary Results

Scenario	Property Tax Rate Impact		Excise Tax Rate Impact	
	Maximum Rate	Assuming \$440,000 Assessed Value – Property Taxes Per Year*	Maximum Rate	Assuming 2,000 Sq. Ft. Business – Excise Taxes Per Year*
2A	0.0661	\$291	0.3178	\$636
2B	0.0520	\$229	0.2499	\$500
2C	0.0493	\$217	0.2030	\$406
2D	0.0375	\$165	0.1500	\$300

**Note: For Illustrative Purposes Only*

Summary Results

SCENARIO # and Description	Maximum Property Rate	Type of Tax on Residential & Commercial	RESIDENTIAL Total Tax Assume Average Assessment of \$440,000*	COMMERCIAL Total Tax Assume Average Assessment of \$440,000 (and ~2,000 sf)*
2A	0.0661	Real Property	\$291	\$291
Real Property Tax only for Capital	0.3178	Excise	\$0	\$636
Excise Tax only on Commercial For Operating (and Variable)		Total	\$291	\$927
		(After Income Tax @ 33%)**	\$195	\$621
2B	0.0520	Real Property	\$229	\$229
Same as 2A, but \$40MM Annual From State & Federal Gov't	0.2499	Excise	\$0	\$500
		Total	\$229	\$729
		(After Income Tax @ 33%)**	\$153	\$488
2C	0.0493	Real Property	\$217	\$217
Same as 2A, but Fixed Rate	0.2030	Excise	\$0	\$406
		Total	\$217	\$623
		(After Income Tax @ 33%)**	\$145	\$417
2D	0.0375	Real Property	\$165	\$165
Same as 2C, but \$40MM Annual From State & Federal Gov't	0.1500	Excise	\$0	\$300
		Total	\$165	\$465
		(After Income Tax @ 33%)**	\$111	\$312

* For Illustrative Purposes Only (with hypothetical residential and commercial property owners)

** For Illustrative Purposes Only (describing the extent of virtual federal and state "subsidies" through tax deductibility of payments, assuming a 33% marginal income tax bracket)

Scenarios Tested

III. Triple Revenue Source Combination

- A. Baseline: 100% of capital costs would be funded by Countywide real property taxes and an excise tax of \$0.205; a sales tax of 0.5% would fund operating costs and a sinking fund reserve.
- B. Baseline Plus: Same as Scenario IIIA above; however, a \$40mm contribution would be made by State and Federal governments

Summary Results

County-Wide Real Property Tax (\$ / \$100) & County-Wide Excise Tax (\$ / Sq.)															
Scenario	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
3A Property	-	0.0137	0.0353	0.0407	0.0489	0.0347	0.0347	0.0347	0.0347	0.0347	0.0347	0.0347	0.0347	0.0347	0.0347
3A Excise	-	-	-	-	-	0.2050	0.2050	0.2050	0.2050	0.2050	0.2050	0.2050	0.2050	0.2050	0.2050
3B Property	-	0.0137	0.0141	0.0202	0.0290	0.0190	0.0190	0.0190	0.0190	0.0190	0.0190	0.0190	0.0190	0.0190	0.0190
3B Excise	-	-	-	-	-	0.2050	0.2050	0.2050	0.2050	0.2050	0.2050	0.2050	0.2050	0.2050	0.2050

Summary Results

Scenario	Property Tax Rate Impact		Excise Tax Rate Impact	
	Maximum Rate	Assuming \$440,000 Assessed Value – Property Taxes Per Year*	Maximum Rate	Assuming 2,000 Sq. Ft. Business – Excise Taxes Per Year*
3A	0.0489	\$215	0.2050	\$410
3B	0.0290	\$128	0.2050	\$410

**Note: For Illustrative Purposes Only*

Summary Results

SCENARIO # and Description	Maximum Property Rate	Type of Tax on Residential & Commercial	RESIDENTIAL Total Tax Assume Average Assessment of \$440,000*	COMMERCIAL Total Tax Assume Average Assessment of \$440,000 (and ~2,000 sf)*
3A	0.0489	Real Property	\$215	\$215
Real Property Tax only for Capital	0.2050	Excise	\$0	\$410
Excise Tax only on Commercial		Total	\$215	\$625
For Operating (plus 0.5% Sales Tax)		(After Income Tax @ 33%)**	\$144	\$419
3B	0.0290	Real Property	\$128	\$128
Same as 3A, but \$40MM Annual	0.2050	Excise	\$0	\$410
From State & Federal Gov't		Total	\$128	\$538
		(After Income Tax @ 33%)**	\$86	\$360

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Observations

- Taxing options evaluated provide robust, sustainable revenue streams to support RTS needs and more likely to secure lowest cost of financing
- Taxing options seek to align contributors and beneficiaries
- Funding the RTS with one tax source may overburden a set of taxpayers
- Multiple sources, including external state/federal support, obviously, help to spread the tax burden among beneficiaries/contributors