



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Jennifer A. Hughes
Director

MEMORANDUM

May 15, 2018

TO: Hans Riemer, President, County Council

FROM: Jennifer A. Hughes, Director, Office of Management and Budget
Alexandre A. Espinosa, Director, Department of Finance

SUBJECT: FY18 Third Quarterly Analysis

Attached is the Third Quarterly Analysis for Montgomery County Government. The results reported below reflect additional spending for snow removal and storm cleanup, as well as, reduced spending from the Public Elections Fund. All other expenditure results are consistent with the estimates at second quarter. Significant expenditure variances are described below.

Third Quarter Expenditure Results

The County Attorney's Office projected overspending results from higher than anticipated costs for outside counsel.

The Department of General Services' projected overspending results from staffing costs higher than the budgeted lapse rate and unbudgeted emergency maintenance services to repair critical equipment and systems.

The Sheriff's Office is estimated to overspend due to attrition being slower than anticipated.

Fire and Rescue is estimated to be overspent because of overtime costs related to vacant positions and training academy staffing needs. Operating costs are expected to be over budget due to higher than expected vehicle maintenance costs.

Leaf Vacuuming costs will exceed budget due to higher than anticipated motor pool charges.

Office of the Director

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Hans Riemer, President, County Council
May 15, 2018
Page 2

The Department of Liquor Control projects overspending due primarily to unbudgeted credit card fee expenses and the purchase of two additional delivery trucks in FY18.

The Division of Solid Waste Services is projected to overspend its budget due to a significant increase in the cost of collection contracts that were rebid for the first time in several years, and performance issues experienced with Potomac Disposal that necessitated emergency procurements.

The following non-departmental accounts are projected to be overspent: State Property Tax Services, due to higher reimbursement costs to the State Department of Taxation, and Takoma Park Library Payments and Takoma Park Police Rebate, due to increased formula payments.

Third Quarter Revenue Update

Attached is an update on tax revenue collections through the end of the third quarter.

Reserves

The County's FY18 total ending reserves are estimated to be \$442.3 million, or 8.8 percent of adjusted governmental revenues. This is \$4.4 million less than reported at second quarter because of higher snow removal and storm cleanup costs of \$5.7 million, offset by reduced spending in the Public Election Fund of \$1.3 million. This shortfall in reserves will be eliminated by the County Executive's May 3 FY19 Operating Budget amendments, which includes \$3.4 million in additional State Aid and \$1.0 million in expenditure reductions. We recognize that in the current fiscal environment revenue growth is uncertain and reserves are at the minimum policy level. For these reasons, it is important the Council remain within the parameters recommended by the County Executive as you make your final FY19 budget decisions.

JAH/AE;jn

Attachments: Third Quarterly Analysis of Expenditures
Tax Revenue Collections: Through 3/31/18

c: Isiah Leggett, County Executive
Timothy L. Firestine, Chief Administrative Officer
Marlene Michaelson, Council Executive Director
Bonnie Kirkland, Assistant Chief Administrative Officer
All County Government Department Heads and Merit Directors

FY18 3rd QUARTERLY ANALYSIS

Department	Orig Budget (A)	Latest Budget (B)	Est.(3rd QA) (C)	Variance to Bud. (B-C)	% Change to Bud (B-C)/B
Tax Supported					
General Fund					
Agriculture	989,195	994,275	929,862	64,413	6.5%
Board of Appeals	541,752	546,879	530,460	16,419	3.0%
Board of Elections	8,213,700	8,226,744	8,199,294	27,450	0.3%
Circuit Court	12,066,554	12,066,554	11,824,306	242,248	2.0%
Community Engagement Cluster	3,772,050	3,784,348	3,708,907	75,441	2.0%
Consumer Protection	2,364,597	2,368,277	2,182,415	185,862	7.8%
Correction and Rehabilitation	66,716,261	66,786,465	66,081,827	704,638	1.1%
County Attorney	6,319,482	6,348,398	6,463,117	-114,719	-1.8%
County Council	11,651,722	11,742,828	11,434,383	308,445	2.6%
County Executive	5,947,305	5,965,345	5,587,305	378,040	6.3%
Emergency Management and Homeland Security	1,317,571	1,338,208	1,273,108	65,100	4.9%
Environmental Protection	2,907,343	2,918,895	2,644,176	274,719	9.4%
Ethics Commission	429,607	435,905	431,820	4,085	0.9%
Finance	14,446,096	14,532,676	14,171,258	361,418	2.5%
General Services	30,965,577	33,713,180	34,367,061	-653,881	-1.9%
Health and Human Services	234,084,840	234,512,704	230,642,057	3,870,647	1.7%
Housing and Community Affairs	7,538,618	7,561,746	7,363,241	198,505	2.6%
Human Resources	8,355,091	8,382,076	8,212,579	169,497	2.0%
Human Rights	1,242,813	1,247,813	1,222,957	24,856	2.0%
Inspector General	1,071,872	1,077,793	1,056,356	21,437	2.0%
Intergovernmental Relations	1,125,673	1,128,515	1,061,367	67,148	6.0%
Legislative Oversight	1,661,695	1,688,909	1,619,105	69,804	4.1%
Management and Budget	4,730,931	4,896,314	4,800,042	96,272	2.0%
Merit System Protection Board	367,688	373,431	234,333	139,098	37.2%
Non-Departmental Accounts	330,530,055	326,831,798	257,430,631	69,401,167	21.2%
Police	275,474,370	276,156,092	270,853,995	5,302,097	1.9%
Procurement	4,512,962	4,550,268	4,457,699	92,569	2.0%
Public Information	5,079,351	5,094,329	4,989,073	105,256	2.1%
Public Libraries	42,437,576	42,513,867	41,461,061	1,052,806	2.5%
Sheriff	23,366,446	23,370,437	23,713,567	-343,130	-1.5%
State's Attorney	17,188,455	17,435,228	17,290,833	144,395	0.8%
Technology Services	43,022,058	43,000,026	39,111,367	3,888,659	9.0%
Transportation	49,809,920	62,841,714	61,345,680	1,496,034	2.4%
Zoning and Administrative Hearings	689,591	689,591	605,724	83,867	12.2%
General Fund Total:	1,220,938,817	1,235,121,628	1,147,300,966	87,820,662	7.11%
Special Funds					
Fire					
Fire and Rescue Service	214,862,420	217,248,574	223,063,658	-5,815,084	-2.7%
Recreation					
Recreation	37,687,311	37,727,385	36,971,488	755,897	2.0%
Bethesda Urban District					
Urban Districts	3,174,943	3,174,943	3,161,937	13,006	0.4%

FY18 3rd QUARTERLY ANALYSIS

Department	Orig Budget (A)	Latest Budget (B)	Est.(3rd QA) (C)	Variance to Bud. (B-C)	% Change to Bud (B-C)/B
<u>Silver Spring Urban District</u>					
Urban Districts	3,498,672	3,498,672	3,439,879	58,793	1.7%
<u>Wheaton Urban District</u>					
Urban Districts	2,016,434	2,016,434	1,915,149	101,285	5.0%
<u>Mass Transit</u>					
Transit Services	132,226,957	131,926,283	126,792,070	5,134,213	3.9%
<u>Economic Development Fund</u>					
Economic Development Fund	4,110,738	7,298,748	7,298,748	0	0.0%
Special Funds Total:	397,577,475	402,891,039	402,642,929	248,110	0.06%
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Tax Supported Total:	1,618,516,292	1,638,012,667	1,549,943,895	88,068,772	5.4%

FY18 3rd QUARTERLY ANALYSIS

Department	Orig Budget (A)	Latest Budget (B)	Est.(3rd QA) (C)	Variance to Bud. (B-C)	% Change to Bud (B-C)/B
NDA: Tax Supported - County General Fund					
General Fund					
NDA - Arts and Humanities Council	5,506,943	5,506,943	5,506,943	0	0.0%
NDA - Boards, Committees and Commissions	22,950	22,950	21,918	1,032	4.5%
NDA - Charter Review Commission	1,150	1,150	1,150	0	0.0%
NDA - Children's Opportunity Fund	375,000	375,000	375,000	0	0.0%
NDA - Community Grants: County Executive	11,075,881	11,075,881	11,075,881	0	0.0%
NDA - Compensation and Employee Benefit Adjustments	2,141,590	1,238,323	788,134	450,189	36.4%
NDA - Conference and Visitors Bureau	1,535,661	1,535,661	1,535,661	0	0.0%
NDA - Conference Center	632,769	632,769	632,769	0	0.0%
NDA - Consolidated Retiree Health Benefit Trust - College	2,552,000	2,552,000	552,000	2,000,000	78.4%
NDA - Consolidated Retiree Health Benefit Trust - MCPS	74,192,000	74,192,000	55,165,381	19,026,619	25.6%
NDA - County Associations	74,728	74,728	74,728	0	0.0%
NDA - Device Client Management	7,886,200	7,886,200	6,886,200	1,000,000	12.7%
NDA - Grants To Municipalities in Lieu Of Shares Tax	28,020	28,020	28,012	8	0.0%
NDA - Group Insurance Retirees	43,300,000	43,300,000	1,888,000	41,412,000	95.6%
NDA - Historical Activities	110,000	110,000	110,000	0	0.0%
NDA - Homeowners' Association Road Maintenance Reimb.	61,051	61,051	61,051	0	0.0%
NDA - Housing Opportunities Commission	6,536,889	6,536,889	6,406,151	130,738	2.0%
NDA - Incubator Programs - Economic Development Partnership	3,399,971	3,399,971	3,399,971	0	0.0%
NDA - Independent Audit	420,820	420,820	360,820	60,000	14.3%
NDA - Interagency Technology, Policy, and Coordination Commission	5,850	5,850	5,850	0	0.0%
NDA - Leases	20,334,394	20,334,394	20,128,894	205,500	1.0%
NDA - Legislative Branch Communications Outreach	540,000	540,000	540,000	0	0.0%
NDA - Metro Washington Council of Governments	876,710	876,710	876,710	0	0.0%
NDA - Montgomery Coalition for Adult English Literacy	1,657,058	1,657,058	1,657,058	0	0.0%
NDA - Montgomery County Economic Development Corporation	5,007,750	5,007,750	5,007,750	0	0.0%
NDA - Motor Pool Fund Contribution	973,258	973,258	973,258	0	0.0%
NDA - Municipal Tax Duplication	8,405,243	8,405,243	8,322,006	83,237	1.0%
NDA - Prisoner Medical Services	20,000	20,000	0	20,000	100.0%
NDA - Public Elections Fund	5,095,000	5,095,000	3,770,000	1,325,000	26.0%
NDA - Public Technology, Inc.	20,000	20,000	20,000	0	0.0%
NDA - Retiree Health Benefits Trust	43,398,320	43,398,320	43,398,320	0	0.0%
NDA - Risk Management (General Fund)	16,816,427	16,816,427	16,816,427	0	0.0%
NDA - Rockville Parking District	412,200	412,200	412,200	0	0.0%
NDA - Snow Removal and Storm Cleanup	2,884,990	0	0	0	0.0%
NDA - State Positions Supplement	60,756	60,756	0	60,756	100.0%
NDA - State Property Tax Services	3,565,615	3,565,615	3,640,379	-74,764	-2.1%
NDA - State Retirement Contribution	1,448,295	1,448,295	1,448,295	0	0.0%
NDA - Takoma Park Library Annual Payments	154,043	154,043	168,704	-14,661	-9.5%
NDA - Takoma Park Police Rebate	1,012,888	1,012,888	1,013,685	-797	-0.1%
NDA - Telecommunications	5,356,382	5,356,382	5,356,382	0	0.0%
NDA - Vision Zero	100,000	100,000	0	100,000	100.0%
NDA - Working Families Income Supplement	24,638,264	24,638,264	21,421,954	3,216,310	13.1%
NDA - WorkSource Montgomery, Inc.	1,657,344	1,747,344	1,747,344	0	0.0%

FY18 3rd QUARTERLY ANALYSIS

Department	Orig Budget (A)	Latest Budget (B)	Est.(3rd QA) (C)	Variance to Bud. (B-C)	% Change to Bud (B-C)/B
Utilities	26,235,645	26,235,645	25,835,645	400,000	1.5%
NDA: Tax Supported - County General Fund Total:	330,530,055	326,831,798	257,430,631	69,401,167	21.2%

FY18 3rd QUARTERLY ANALYSIS

Department	Orig Budget (A)	Latest Budget (B)	Est.(3rd QA) (C)	Variance to Bud. (B-C)	% Change to Bud (B-C)/B
Non-Tax Supported					
<u>Special Funds</u>					
<u>Montgomery Housing Initiative</u>					
Housing and Community Affairs	36,556,050	64,619,550	35,471,552	29,147,998	45.1%
<u>Cable TV</u>					
Cable Television Communications Plan	16,071,604	16,101,515	15,626,050	475,465	3.0%
<u>Water Quality Protection</u>					
Environmental Protection	27,364,649	27,382,782	26,849,984	532,798	1.9%
Special Funds Total:	79,992,303	108,103,847	77,947,586	30,156,261	27.90%
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<u>Enterprise Funds</u>					
<u>Liquor</u>					
Liquor Control	65,161,319	65,161,319	66,397,598	-1,236,279	-1.9%
<u>Solid Waste Disposal</u>					
Solid Waste Services	89,700,728	89,725,658	89,658,769	66,889	0.1%
<u>Solid Waste Collection</u>					
Solid Waste Services	6,842,647	6,845,710	8,299,127	-1,453,417	-21.2%
<u>Leaf Vacuuming</u>					
Transportation	6,124,584	6,124,584	6,343,439	-218,855	-3.6%
<u>Community Use of Public Facilities</u>					
Community Use of Public Facilities	11,691,144	11,720,706	11,568,054	152,652	1.3%
<u>Bethesda Parking</u>					
Parking District Services	14,936,872	14,943,419	14,956,568	-13,149	-0.1%
<u>Silver Spring Parking</u>					
Parking District Services	11,433,242	11,439,304	11,436,153	3,151	0.0%
<u>Montgomery Hills Parking</u>					
Parking District Services	0	0	0	0	0.0%
<u>Wheaton Parking</u>					
Parking District Services	1,407,792	1,408,886	1,407,128	1,758	0.1%
<u>Permitting Services</u>					
Permitting Services	38,874,829	39,000,611	37,469,803	1,530,808	3.9%
Enterprise Funds Total:	246,173,157	246,370,197	247,536,639	-1,166,442	-0.47%
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<u>Internal Service Funds</u>					
<u>Motor Pool</u>					
Fleet Management Services	80,056,028	80,056,028	77,068,063	2,987,965	3.7%
<u>Central Duplicating (Printing & Mail)</u>					
General Services	8,046,389	8,046,389	7,961,030	85,359	1.1%
<u>Risk Management (Self Insurance - ISF)</u>					
Finance	66,955,617	66,955,617	66,950,978	4,639	0.0%
<u>Employee Health Self Insurance</u>					
Human Resources	243,592,373	243,592,373	241,388,291	2,204,082	0.9%
Internal Service Funds Total:	398,650,407	398,650,407	393,368,362	5,282,045	1.32%
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Non-Tax Supported Total:	724,815,867	753,124,451	718,852,587	34,271,864	4.6%

Montgomery County, Maryland

**FY2018 THIRD QUARTERLY
REVENUE UPDATE**

Presentation to the Montgomery County Council

Department of Finance



Revenue Update

Three Quarter Fiscal Year Results

Total tax revenues, including investment income, totaled \$2.405 billion and down 2.0 percent compared to the same period in FY17. Revenues were down in the income tax, transfer and recordation taxes, hotel-motel tax, and admissions tax.

- **Income Taxes:**

- Income tax revenues through March 2018 stood at \$838.5 million and approximately \$25.7 million (↓3.0%) below revenues for the same period in FY17. The decrease was attributed to a change in the distribution formula in November 2017 based on tax year 2016 and to the decrease (↓29.4%) in the amount of revenues collected from taxpayers filing for an extension and reconciliation for tax year 2016.
- Revenues from extensions and reconciliation were \$95.5 million which was \$39.8 million below last fiscal year or down 29.4 percent.

- **Property Taxes:**

- The General Fund (G.F.) portion of property tax collections (including penalties and interest but excluding storm drainage) was \$1,268.5 million (↑0.1%) through March compared to the same period in FY17. The meager growth in General Fund revenues is attributed to a 3.2 percent decrease in the G.F. real property tax rate from FY17 to FY18 and an estimated increase of 3.9 percent in real property taxable assessments.

Revenue Update

Three Quarter Fiscal Year Results

- **Property Taxes (continued):**

- After the triennial reassessment rates for real property declined three years in a row, the real property taxable assessment increased 1.0 percent in FY14, 2.4 percent in FY15, 4.0 percent for FY16, 4.3 percent in FY17, and is estimated to increase 3.9 percent in FY18.

- **Transfer and Recordation Taxes:**

- Revenues from the transfer tax (excluding condominium conversions) through March of 2018 were \$72.1 million, or 20.2 percent below last fiscal year.
- Revenues from the recordation tax (excluding the CIP portion and the rate premium) were \$34.7 million, a decrease of 26.5 percent from the same three quarters of last fiscal year.
- The decrease in the transfer tax was due to a decrease in the total number of transfers, not including condo conversions which was down 8.9 percent during the three quarters of FY18 compared to last fiscal year, and a decrease in the average tax which was down 11.8 percent compared to last fiscal year. The volume of residential transfer tax transactions was down 8.7 percent and the volume of non-residential transactions was down 16.9 percent.
- The volume of residential recordation tax transactions decreased 6.2 percent compared to the three quarters of fiscal year 2017, and the volume of non-residential and other recordation tax transactions was down a combined 33.4 percent compared to last fiscal year.
- The combined amount of revenues from the transfer and recordation taxes (excluding condo conversions, CIP portion, and rate premium) was \$106.8 million compared to \$137.6 million for the same period last year (↓22.4%).

Revenue Update

Three Quarter Fiscal Year Results

- **Consumption Taxes:**

- Total revenues from the consumption taxes (fuel/energy, hotel/motel, telephone, admissions, and e-cigarettes) totaled \$183.4 million, which were 1.4 percent above the same three quarters of FY17.
- Fuel/energy tax collections totaled \$134.6 million during the three quarters of FY18 compared to \$132.5 million in FY17 (↑1.6%) reflecting the moderate weather and temperatures during the first three quarters.
- Revenues from the telephone tax were \$33.4 million and 2.0 percent above the \$32.7 million during three quarters of FY17 attributed to a 3.5 percent growth in cellular phones.
- Revenues from the hotel/motel tax were 1.5 percent below the same period last year. The average monthly occupancy rate was 64.8 percent in FY18 and the same rate in FY17. The average monthly room rate was \$125 in FY18 slightly below the average monthly room rate of \$126 in FY17.
- Revenues from the admissions tax were down 4.9 percent compared to the same period last year, but revenues from e-cigarettes were up 38.2 percent.

- **Investment Income:**

- From pooled investments increased 82.5 percent over FY17. That increase was attributed solely to an increase in the average portfolio yield of 1.22 percent year to date compared to 0.67 percent in FY17.

Revenue Summary Sheet

	MAJOR REVENUE COLLECTIONS			Percent Change
	July - March FY2018	July - March FY2017	Variance FY2018-FY2017	
<u>TAXES:</u>				
Income Tax	\$838,519,565	\$864,191,191	(\$25,671,626)	-3.0%
Property Tax (General Fund only)	\$1,268,492,552	\$1,267,106,213	\$1,386,339	0.1%
Transfer Tax (1)	\$72,142,414	\$90,416,628	(\$18,274,214)	-20.2%
Recordation Tax (2)	\$34,682,286	\$47,215,890	(\$12,533,604)	-26.5%
Fuel/Energy Tax	\$134,604,085	\$132,529,117	\$2,074,968	1.6%
Telephone Tax	\$33,398,634	\$32,744,483	\$654,151	2.0%
Hotel/Motel Tax	\$12,430,891	\$12,617,802	(\$186,910)	-1.5%
Admissions Tax	\$2,481,949	\$2,609,209	(\$127,260)	-4.9%
E-Cigarettes	\$480,869	\$347,979	\$132,890	38.2%
<u>MISCELLANEOUS:</u>				
Investment Income (3)	\$8,080,158	\$4,428,339	\$3,651,819	82.5%
TOTAL	\$2,405,313,404	\$2,454,206,851	(\$48,893,447)	-2.0%

SOURCE: Revenue data excluding income taxes and admissions tax from the County's Oracle eBusiness system. Revenue data for the income tax and admission tax from the Maryland State Comptroller.

- NOTES: (1) Excludes revenue from condominium conversions
 (2) Excludes School CJP and tax premium allocation
 (3) Pooled investment income only