



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett  
County Executive

Jennifer A. Hughes  
Director

MEMORANDUM

December 5, 2012

TO: Stephen B. Farber, Staff Director, 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 FY12 year-end results, current year expenditure updates, and other non-agency spending have not been changed, but will be updated as more information becomes available.

The fiscal plan would require a 1.0 percent reduction in the spending of all County agencies to produce a balanced budget in FY14. Because of Montgomery County Public Schools and Montgomery College maintenance-of-effort requirements, spending for MNCPPC and the County Government would actually have to be reduced 4.9 percent to balance the budget in FY14. This forecast is essentially unchanged from the fiscal plan the Council approved in June, which means the County will once again face a challenging fiscal environment with difficult choices ahead. I want to highlight a few aspects of this update:

1. **Revenues:** As detailed in the Department of Finance's December 2012 Revenue Update and Selected Economic Indicators report, income tax revenues have been revised upward by \$52 million (\$45.6 million in FY13 and \$6.4 million in FY14). The estimated increase in income tax revenues results primarily from the more volatile component of the November income tax distribution related to extended filings, estimated payments, and reconciliations. The forecast for FY14 and beyond reflects the largely one-time nature of most of the increased November 2012 distribution. The forecast also incorporates updated economic assumptions from the State Board of Revenue Estimates, which reflects the continued uncertainty related to Federal spending cuts and increased taxes scheduled to take effect on January 1.

While income tax revenues have been revised upward, the Department of Finance has reduced its forecast for all other taxes by a total of \$29.9 million, resulting in a net increase of \$22.1 million (\$30.9 million in FY13 and a reduction of \$8.8 million in FY14) above the estimate in the approved fiscal plan. The forecast reflects the continued effect of declining taxable assessments, a reduction in fuel energy taxes due to reduced consumption, and a continuation in the decline in phone tax revenue due to fewer land lines and wireless lines.

Office of the Director

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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 2013. While the State's fiscal outlook is improved compared to last year, the automatic Federal spending cuts and tax increases scheduled to begin in January 2013 could significantly affect the State economy and budget, and would likely also affect State Aid. Given the uncertainty surrounding resolution of the Federal budget issues, the updated fiscal plan does not reflect potential reductions in State Aid resulting from sequestration.
3. **FY14 Expenditures:** Attached is a chart of the "Major Known Commitments" that shows the projected cost increases by agency. While not included in the estimate of agency expenditures in the updated fiscal plan, FY14 expenditures are estimated to grow by \$99 million or 2.7 percent. Note the estimate assumes no wage increases, except for MCPS. Each agency is bargaining with its employee representatives so the fiscal plan does not reflect the potential outcome of these negotiations.
4. **Rate of Growth:** The impact of revised revenue estimates will require a 1.0 percent reduction in the size of agency operating budgets in FY14 to produce a balanced budget. Assuming maintenance-of-effort increases for MCPS and Montgomery College, this means 4.9 percent reductions to the operating budgets of MNCPPC and County Government. Assuming the estimated increase in expenditures identified by each agency would equate to an imbalance of \$136 million.
5. **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 revenues<sup>1</sup> or 0.5 percent of Adjusted Governmental Revenues<sup>2</sup>. Under this law, \$22.6 million must be contributed to the RSF in FY14, which is about \$1.4 million more than assumed in the budget. Total reserves are projected to increase to 7.5 percent at the end of FY14, increasing to 9.4 percent by FY19. The County's policy is to have a total reserve of 10 percent by FY20.

The fiscal plan update does not reflect decisions the Executive may consider as part of his budget recommendations in January and March. As noted above, there are many unknown factors that could significantly affect fiscal plan projections, including the Executive's choices regarding taxes, spending on the Capital Improvements Program, and other fiscal issues. These and other decisions will be incorporated into his recommendations later this winter and spring.

In summary, the fragile economic recovery, coupled with continued uncertainty regarding State and Federal revenues, argues for caution in the County's spending plans. Despite the projected increase in FY13 income tax revenues, we expect only modest growth in base income tax revenues going forward. The decline in property tax, fuel energy tax, and phone tax revenues buttresses the view that any income tax revenue increases should be viewed with caution.

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<sup>1</sup> 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.

<sup>2</sup> 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.

Stephen B. Farber  
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**Attachments**

c: Timothy L. Firestine, Chief Administrative Officer  
Joseph F. Beach, Director, Department of Finance  
Kathleen Boucher, Assistant Chief Administrative Officer

## Fiscal Plan December 2012 Tax Supported Fiscal Plan Summary

(\$ in Millions)															
	App FY13	Est FY13	% Chg. FY13-14 Rec/Bud	% Chg. FY13-14 Rec/Est	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19
<b>Total Revenues</b>	5-24-12	12-11-12			12-11-12										
1 Property Tax (less PDs)	1462.2	1,459.5	2.6%	2.8%	1,499.8	2.5%	1,537.2	2.9%	1,581.6	3.5%	1,637.3	3.6%	1,696.6	3.7%	1,758.7
2 Income Tax	1263.6	1,309.2	3.1%	-0.5%	1,303.0	4.7%	1,363.9	4.2%	1,421.8	7.0%	1,521.1	6.2%	1,615.7	3.7%	1,675.5
3 Transfer/Recordation Tax	136.6	136.1	4.2%	4.6%	142.3	7.1%	152.5	6.7%	162.7	4.6%	170.2	5.2%	179.1	3.6%	185.5
4 Investment Income	0.5	0.5	33.6%	33.6%	0.6	94.0%	1.2	134.2%	2.9	55.8%	4.5	26.3%	5.7	0.0%	5.7
5 Other Taxes	304.1	292.7	-2.2%	1.6%	297.4	1.4%	301.6	1.4%	305.7	0.9%	308.5	0.7%	310.6	1.4%	314.9
6 Other Revenues	883.4	883.3	0.8%	0.8%	890.3	0.2%	892.6	0.2%	894.7	0.2%	896.9	0.2%	899.1	0.3%	901.4
7 <b>Total Revenues</b>	<b>4,050.4</b>	<b>4,081.2</b>	<b>2.1%</b>	<b>1.3%</b>	<b>4,133.4</b>	<b>2.8%</b>	<b>4,249.0</b>	<b>2.8%</b>	<b>4,369.4</b>	<b>3.9%</b>	<b>4,538.6</b>	<b>3.7%</b>	<b>4,706.9</b>	<b>2.9%</b>	<b>4,841.7</b>
8															
9 <b>Net Transfers In (Out)</b>	<b>38.7</b>	<b>38.7</b>	<b>2.9%</b>	<b>2.9%</b>	<b>39.8</b>	<b>2.9%</b>	<b>40.9</b>	<b>2.7%</b>	<b>42.0</b>	<b>2.7%</b>	<b>43.1</b>	<b>2.7%</b>	<b>44.3</b>	<b>0.0%</b>	<b>44.3</b>
10 <b>Total Revenues and Transfers Available</b>	<b>4,089.0</b>	<b>4,119.9</b>	<b>2.1%</b>	<b>1.3%</b>	<b>4,173.2</b>	<b>2.8%</b>	<b>4,289.9</b>	<b>2.8%</b>	<b>4,411.4</b>	<b>3.9%</b>	<b>4,581.7</b>	<b>3.7%</b>	<b>4,751.2</b>	<b>2.8%</b>	<b>4,886.0</b>
11															
12 <b>Non-Operating Budget Use of Revenues</b>															
13 Debt Service	303.5	303.5	6.8%	6.8%	324.3	9.6%	355.3	5.4%	374.6	4.1%	389.8	0.0%	389.8	0.0%	389.8
14 PAYGO	29.5	29.5	20.3%	20.3%	35.5	56.3%	55.5	0.0%	55.5	0.0%	55.5	0.0%	55.5	0.0%	55.5
15 CIP Current Revenue	50.2	50.2	62.1%	62.1%	81.4	-26.8%	59.5	-2.7%	58.0	-1.8%	56.9	16.2%	66.1	0.0%	66.1
16 Change in Montgomery College Reserves	(4.8)	(4.8)	100.0%	100.0%	-	n/a	-								
17 Change in MNCPPC Reserves	(1.1)	(1.1)	127.0%	127.0%	0.3	-62.9%	0.1	16.2%	0.1	21.7%	0.1	51.1%	0.2	-56.8%	0.1
18 Change in MCPS Reserves	(17.0)	(17.0)	4.1%	4.1%	(16.3)	100.0%	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	20.0	20.0	-99.8%	-99.8%	0.0	-52.1%	0.0	201.3%	0.1	2.4%	0.1	43.5%	0.1	-1.3%	0.1
20 Contribution to General Fund Undesignated Reserves	(29.6)	(15.1)	63.2%	28.1%	(10.9)	115.7%	1.7	201.3%	5.1	2.4%	5.3	43.5%	7.6	-1.3%	7.5
21 Contribution to Revenue Stabilization Reserves	21.2	22.6	2.9%	-3.6%	21.8	3.3%	22.5	3.2%	23.2	4.5%	24.3	3.9%	25.2	2.7%	25.9
22 Retiree Health Insurance Pre-Funding	105.4	105.4	35.5%	35.5%	142.8	20.4%	171.9	0.0%	171.9	0.0%	171.9	0.0%	171.9	0.0%	171.9
23 Set Aside for other uses (supplemental appropriations)	0.1	15.1	30441.4%	33.2%	20.1	0.0%	20.1	0.0%	20.1	0.0%	20.1	0.0%	20.1	0.0%	20.1
24 <b>Total Other Uses of Resources</b>	<b>477.5</b>	<b>508.3</b>	<b>25.4%</b>	<b>17.8%</b>	<b>599.0</b>	<b>14.6%</b>	<b>686.7</b>	<b>3.2%</b>	<b>708.5</b>	<b>2.2%</b>	<b>723.9</b>	<b>1.7%</b>	<b>736.5</b>	<b>0.1%</b>	<b>737.0</b>
25 <b>Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)</b>	<b>3,611.5</b>	<b>3,611.5</b>	<b>-1.0%</b>	<b>-1.0%</b>	<b>3,574.2</b>	<b>0.8%</b>	<b>3,603.2</b>	<b>2.8%</b>	<b>3,702.9</b>	<b>4.2%</b>	<b>3,857.8</b>	<b>4.1%</b>	<b>4,014.7</b>	<b>3.3%</b>	<b>4,149.0</b>
26															
27 <b>Agency Uses</b>															
28															
29 Montgomery County Public Schools (MCPS)	2028.9	2,028.9	1.5%	1.5%	2,058.4										
30 Montgomery College (MC)	218.8	218.8	0.0%	0.0%	218.8										
31 MNCPPC (w/o Debt Service)	98.9	98.9	-4.9%	-4.9%	94.1										
32 MCG	1265.0	1,265.0	-4.9%	-4.9%	1,203.0										
33 Available to Allocate to Agencies FY15-19						n/a	3,603.2	2.8%	3,702.9	4.2%	3,857.8	4.1%	4,014.7	3.3%	4,149.0
34 <b>Agency Uses</b>	<b>3,611.5</b>	<b>3,611.5</b>	<b>-1.0%</b>	<b>-1.0%</b>	<b>3,574.2</b>	<b>0.8%</b>	<b>3,603.2</b>	<b>2.8%</b>	<b>3,702.9</b>	<b>4.2%</b>	<b>3,857.8</b>	<b>4.1%</b>	<b>4,014.7</b>	<b>3.3%</b>	<b>4,149.0</b>
35 <b>Total Uses</b>	<b>4,089.0</b>	<b>4,119.9</b>	<b>2.1%</b>	<b>1.3%</b>	<b>4,173.2</b>	<b>2.8%</b>	<b>4,289.9</b>	<b>2.8%</b>	<b>4,411.4</b>	<b>3.9%</b>	<b>4,581.7</b>	<b>3.7%</b>	<b>4,751.2</b>	<b>2.8%</b>	<b>4,886.0</b>
36 <b>(Gap)/Available</b>	<b>0.0</b>	<b>0.0</b>			<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>

- Notes:
1. Property taxes are at the Charter Limit using the income tax offset credit.
  2. Reserve contributions are at the policy level and consistent with legal requirements.
  3. PAYGO, debt service, and current revenue are at the current approved FY13-18 Capital Improvements Program.
  4. Retiree health insurance pre-funding is increased up to full funding by FY15 and then is flat beyond FY15. FY14 is year 7 of 8-year funding schedule.
  5. State aid and other intergovernmental revenues are flat in FY14-19.
  6. Projected FY14 allocation for MCPS and Montgomery College assumes County funding at maintenance of effort, plus the pension shift for MCPS. The allocation does not include potential increases to State aid and other possible agency resources, such as higher-than-expected fund balance.

	App. FY13	Est FY13	% Chg. FY13-14	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19
37 <b>Beginning Reserves</b>															
38 <b>Unrestricted General Fund</b>	168.6	168.6	-9.0%	-9.0%	153.4	-7.1%	142.6	1.2%	144.3	3.6%	149.4	3.5%	154.7	4.9%	162.2
39 <b>Revenue Stabilization Fund</b>	139.6	139.6	16.2%	16.2%	162.2	13.4%	184.0	12.2%	206.5	11.3%	229.7	10.6%	254.0	9.9%	279.2
40 <b>Total Reserves</b>	308.1	308.1	2.4%	2.4%	315.6	3.5%	326.5	7.4%	350.7	8.1%	379.1	7.8%	408.6	8.0%	441.4
41															
42 <b>Additions to Reserves</b>															
43 <b>Unrestricted General Fund</b>	-29.6	-15.1	63.2%	28.1%	(10.9)	115.7%	1.7	201.3%	5.1	2.4%	5.3	43.5%	7.6	-1.3%	7.5
44 <b>Revenue Stabilization Fund</b>	21.2	22.6	2.9%	-3.6%	21.8	3.3%	22.5	3.2%	23.2	4.5%	24.3	3.9%	25.2	2.7%	25.9
45 <b>Total Change in Reserves</b>	-8.4	7.5	230.1%	46.0%	10.9	121.8%	24.2	17.2%	28.4	4.2%	29.5	11.0%	32.8	1.8%	33.4
46															
47 <b>Ending Reserves</b>															
48 <b>Unrestricted General Fund</b>	139.0	153.4	2.6%	-7.1%	142.6	1.2%	144.3	3.6%	149.4	3.5%	154.7	4.9%	162.2	4.6%	169.7
49 <b>Revenue Stabilization Fund</b>	160.8	162.2	14.4%	13.4%	184.0	12.2%	206.5	11.3%	229.7	10.6%	254.0	9.9%	279.2	9.3%	305.1
50 <b>Total Reserves</b>	299.8	315.6	8.9%	3.5%	326.5	7.4%	350.7	8.1%	379.1	7.8%	408.6	8.0%	441.4	7.6%	474.8
51 <b>Reserves as a % of Adjusted Governmental Revenues</b>	7.1%	7.4%			7.5%		7.9%		8.3%		8.6%		9.0%		9.4%
52 <b>Other Reserves</b>															
53 <b>Montgomery College</b>	6.4	6.4	0.0%	0.0%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4
54 <b>M-NCPPC</b>	3.8	3.8	7.5%	7.5%	4.0	2.6%	4.2	2.9%	4.3	3.5%	4.4	5.1%	4.7	2.1%	4.7
55 <b>MCPS</b>	16.3	16.3	-100.0%	-100.0%	0.0	n/a	0.0								
56 <b>MCG Special Funds</b>	1.6	1.6	2.6%	2.6%	1.6	1.2%	1.7	3.6%	1.7	3.5%	1.8	4.9%	1.9	4.6%	1.9
57 <b>MCG + Agency Reserves as a % of Adjusted Govt Revenues</b>	7.8%	8.1%			7.8%		8.1%		8.6%		8.9%		9.3%		9.7%
58 <b>Retiree Health Insurance Pre-Funding</b>															
59 <b>Montgomery County Public Schools (MCPS)</b>	58.9	58.9			80.3		101.6		100.9		99.7		99.7		99.7
60 <b>Montgomery College (MC)</b>	1.8	1.8			2.4		3.1		3.0		2.8		2.8		2.8
61 <b>MNCPPC</b>	3.4	3.4			6.3		7.7		7.4		7.2		7.2		7.2
62 <b>MCG</b>	41.4	41.4			53.8		59.5		60.6		62.2		62.2		62.2
63 <b>Subtotal Retiree Health Insurance Pre-Funding</b>	105.4	105.4			142.8		171.9		171.9		171.9		171.9		171.9
64 <b>Adjusted Governmental Revenues</b>															
65 <b>Total Tax Supported Revenues</b>	4,050.4	4,081.2	2.1%	1.3%	4,133.4	2.8%	4,249.0	2.8%	4,369.4	3.9%	4,538.6	3.7%	4,706.9	2.9%	4,841.7
66 <b>Capital Projects Fund</b>	65.5	65.5	52.1%	52.1%	99.6	2.3%	101.9	-11.8%	89.9	1.1%	90.8	-11.0%	80.8	0.0%	80.8
67 <b>Grants</b>	107.0	107.0	2.9%	2.9%	110.1	2.9%	113.3	2.7%	116.3	2.7%	119.4	2.7%	122.6	2.7%	125.9
68 <b>Total Adjusted Governmental Revenues</b>	4,222.8	4,253.7	2.8%	2.1%	4,343.2	2.8%	4,464.1	2.5%	4,575.5	3.8%	4,748.8	3.4%	4,910.3	2.8%	5,048.4

Major Known Commitments (MKCs)						
		MCPs	MCG	College	MNCPPC	Total
1	FY13 Approved Budget	2,028,871,395	1,366,983,815	218,786,599	102,288,355	3,716,930,164
2	Retiree Health Insurance Pre-Funding (OPEB)		102,019,574		3,364,500	105,384,074
3	Agency Budgets Net of OPEB	2,028,871,395	1,264,964,241	218,786,599	98,923,855	3,611,546,090
4						
5	Potential or Negotiated Compensation					
6	Wages					0
7	Steps/service increments	12,556,048				12,556,048
8	Elimination of Lump Sum Increase		(14,267,504)			(14,267,504)
9	Group insurance cost increases	10,867,931	7,500,000	(350,000)	588,540	18,606,471
10	Retirement cost increases	6,690,386	6,000,000	700,000	1,663,628	15,054,014
11	Other benefit costs	7,284,136		594,500	405,600	
12	Annualization of Program Expenses		4,475,714			4,475,714
13	One-time expenditures/use of fund balance			2,800,000		
14	Cost increase due to enrollment	11,842,087		336,201		12,178,288
15	Elimination of One-Time Items		(16,191,041)		(372,000)	(16,563,041)
16	Deferred Costs					
17	Deferred Vehicle Replacement		4,000,000			4,000,000
18	Operating Impact of Capital Projects:					
19	Facilities	1,367,446	2,143,716	935,071	353,000	4,799,233
20	Tech Mod and other Information Technology		907,231			907,231
21	Programmatic obligations:					
22	Election Cycle Changes		(259,288)			(259,288)
23	Arts & Humanities Council NDA		500,190			500,190
24	Community Grants: CIP Cost Sharing		500,000			500,000
25	Community Grants NDA		3,777,890			3,777,890
26	Fire Rescue -- EMS revenue allocation		11,991,551			
27	Fire Rescue -- Travilah staffing		1,290,000			
28	Fire Rescue -- extend recruit class to 6 months		2,604,000			
29	Working Families Income Supplement		951,600			951,600
30	EDF Commitments		3,750,000			3,750,000
31	Information Technology cost increases		599,700			599,700
32	High School Wellness Center		1,594,000			1,594,000
33	Bikesharing Grant		693,150			693,150
34	Other programmatic cost changes		1,907,642			1,907,642
35	Inflation:					
36	Energy/utility costs	(945,530)		446,197	125,420	(373,913)

		MCPS	MCG	College	MNCPPC	Total
37	Fuel/rate increases		4,000,000			4,000,000
38	Nonpublic placements	2,295,827				2,295,827
39	Other			350,000	973,783	1,323,783
40	Other required cost increases:					
41	Liability insurance, workers compensation	702,497	6,793,295	300,000	430,570	8,226,362
42	Maintenance, transportation, etc.	563,507				563,507
43						
44	Total Major Known Commitments	53,224,335	35,261,846	6,111,969	4,168,541	98,766,691
45						
46	<b>Total Projected FY13 Agency Spending</b>	<b>2,082,095,730</b>	<b>1,300,226,087</b>	<b>224,898,568</b>	<b>103,092,396</b>	<b>3,710,312,781</b>
47	% Change	2.6%	2.8%	2.8%	4.2%	2.7%

**REVENUE SUMMARY**  
**TAX SUPPORTED BUDGETS**  
(\$ Millions)

KEY REVENUE CATEGORIES	App.	Estimate	% Chg.	% Chg.	Projected	% Chg.	Projected	% Chg.	Projected	% Chg.	Projected	% Chg.	Projected	% Chg.	Projected
	FY13	FY13	FY13-14	FY13-14	FY14	FY14-15	FY15	FY15-16	FY16	FY16-17	FY17	FY17-18	FY18	FY18-19	FY19
<b>TAXES</b>	5-24-12	12-11-12	Rec/Bud	Rec/Est	12-11-12										
1 Property Tax (less PDs)	1,462.2	1,459.5	2.6%	2.8%	1,499.8	2.5%	1,537.2	2.9%	1,581.6	3.5%	1,637.3	3.6%	1,696.6	3.7%	1,758.7
2 Income Tax	1,263.6	1,309.2	3.1%	-0.5%	1,303.0	4.7%	1,363.9	4.2%	1,421.8	7.0%	1,521.1	6.2%	1,615.7	3.7%	1,675.5
3 Transfer Tax	80.7	81.8	6.3%	4.8%	85.7	7.5%	92.1	7.0%	98.6	4.8%	103.3	5.4%	109.0	3.7%	113.0
4 Recordation Tax	55.9	54.3	1.2%	4.2%	56.6	6.6%	60.3	6.2%	64.1	4.3%	66.9	4.9%	70.1	3.4%	72.5
5 Energy Tax	233.8	224.7	-2.5%	1.5%	228.0	1.7%	231.8	1.5%	235.3	0.8%	237.2	0.4%	238.1	1.1%	240.8
6 Telephone Tax	48.7	46.1	-2.7%	2.8%	47.4	-0.2%	47.3	0.3%	47.5	0.9%	47.9	1.5%	48.6	2.2%	49.7
7 Hotel/Motel Tax	19.1	19.2	1.2%	0.4%	19.3	2.3%	19.7	1.7%	20.1	1.6%	20.4	1.9%	20.8	1.7%	21.1
8 Admissions Tax	2.5	2.6	8.0%	2.9%	2.7	3.2%	2.8	3.8%	2.9	4.1%	3.0	4.4%	3.1	4.7%	3.3
9 <b>Total Local Taxes</b>	<b>3,166.5</b>	<b>3,197.5</b>	<b>2.4%</b>	<b>1.4%</b>	<b>3,242.5</b>	<b>3.5%</b>	<b>3,355.2</b>	<b>3.5%</b>	<b>3,471.8</b>	<b>4.8%</b>	<b>3,637.2</b>	<b>4.5%</b>	<b>3,802.1</b>	<b>3.5%</b>	<b>3,934.6</b>
<b>INTERGOVERNMENTAL AID</b>															
10 Highway User	3.3	3.3	2.7%	5.2%	3.4	0.0%	3.4	0.0%	3.4	0.0%	3.4	0.0%	3.4	0.0%	3.4
11 Police Protection	8.7	8.7	0.0%	0.0%	8.7	0.0%	8.7	0.0%	8.7	0.0%	8.7	0.0%	8.7	0.0%	8.7
12 Libraries	5.3	5.3	0.0%	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3	0.0%	5.3
13 Health Services Case Formula	3.6	3.6	0.0%	0.0%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6	0.0%	3.6
14 Mass Transit	22.8	22.8	0.0%	0.0%	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	588.3	588.3	0.0%	0.0%	588.3	0.0%	588.3	0.0%	588.3	0.0%	588.3	0.0%	588.3	0.0%	588.3
16 Community College	30.2	30.2	0.0%	0.0%	30.2	0.0%	30.2	0.0%	30.2	0.0%	30.2	0.0%	30.2	0.0%	30.2
17 Other	31.4	31.4	0.0%	0.0%	31.4	0.0%	31.4	0.0%	31.4	0.0%	31.4	0.0%	31.4	0.0%	31.4
18 <b>Total Intergovernmental Aid</b>	<b>693.7</b>	<b>693.6</b>	<b>0.0%</b>	<b>0.0%</b>	<b>693.8</b>	<b>0.0%</b>	<b>693.8</b>	<b>0.0%</b>	<b>693.8</b>	<b>0.0%</b>	<b>693.8</b>	<b>0.0%</b>	<b>693.8</b>	<b>0.0%</b>	<b>693.8</b>
<b>FEES AND FINES</b>															
19 Licenses & Permits	11.3	11.3	1.5%	1.5%	11.5	1.5%	11.6	1.5%	11.8	1.5%	12.0	1.5%	12.2	1.5%	12.3
20 Charges for Services	61.2	61.2	2.3%	2.3%	62.6	2.3%	64.0	2.1%	65.4	2.1%	66.8	2.1%	68.2	2.1%	69.6
21 Fines & Forfeitures	20.8	20.8	1.6%	1.6%	21.1	1.6%	21.4	1.6%	21.8	1.6%	22.1	1.6%	22.5	1.6%	22.8
22 Montgomery College Tuition	87.1	87.1	5.4%	5.4%	91.8	0.0%	91.8	0.0%	91.8	0.0%	91.8	0.0%	91.8	0.0%	91.8
23 <b>Total Fees and Fines</b>	<b>180.3</b>	<b>180.3</b>	<b>3.7%</b>	<b>3.7%</b>	<b>186.9</b>	<b>1.0%</b>	<b>188.9</b>	<b>1.0%</b>	<b>190.7</b>	<b>1.0%</b>	<b>192.6</b>	<b>1.0%</b>	<b>194.6</b>	<b>1.0%</b>	<b>196.6</b>
<b>MISCELLANEOUS</b>															
24 Investment Income	0.5	0.5	33.6%	33.6%	0.6	94.0%	1.2	134.2%	2.9	55.8%	4.5	26.3%	5.7	0.0%	5.7
25 Other Miscellaneous	9.4	9.4	2.9%	-1.7%	9.6	2.9%	9.9	2.7%	10.2	2.7%	10.5	2.7%	10.7	2.7%	11.0
26 <b>Total Miscellaneous</b>	<b>9.9</b>	<b>9.9</b>	<b>4.4%</b>	<b>-99.1%</b>	<b>10.3</b>	<b>8.5%</b>	<b>11.2</b>	<b>17.2%</b>	<b>13.1</b>	<b>14.4%</b>	<b>15.0</b>	<b>9.8%</b>	<b>16.4</b>	<b>1.7%</b>	<b>16.7</b>
27 <b>TOTAL REVENUES</b>	<b>4,050.4</b>	<b>4,081.2</b>	<b>2.1%</b>	<b>1.3%</b>	<b>4,133.4</b>	<b>2.8%</b>	<b>4,249.0</b>	<b>2.8%</b>	<b>4,369.4</b>	<b>3.9%</b>	<b>4,538.6</b>	<b>3.7%</b>	<b>4,706.9</b>	<b>2.9%</b>	<b>4,841.7</b>
28 \$ Change from prior Budget	158.2	189.1			83.1		115.5		120.4		169.2		168.3		4,841.7
<b>Calculation for Adjusted Governmental Revenues</b>															
29 <b>Total Tax Supported Revenues</b>	<b>4,050.4</b>	<b>4,081.2</b>	<b>2.1%</b>	<b>-100.0%</b>	<b>4,133.4</b>	<b>2.8%</b>	<b>4,249.0</b>	<b>2.8%</b>	<b>4,369.4</b>	<b>3.9%</b>	<b>4,538.6</b>	<b>3.7%</b>	<b>4,706.9</b>	<b>2.9%</b>	<b>4,841.7</b>
30 <b>Capital Projects Fund</b>	<b>65.5</b>	<b>65.5</b>	<b>52.1%</b>	<b>-100.0%</b>	<b>99.6</b>	<b>2.3%</b>	<b>101.9</b>	<b>-11.8%</b>	<b>89.9</b>	<b>1.1%</b>	<b>90.8</b>	<b>-11.0%</b>	<b>80.8</b>	<b>0.0%</b>	<b>80.8</b>
31 <b>Grants</b>	<b>107.0</b>	<b>107.0</b>	<b>2.9%</b>	<b>-100.0%</b>	<b>110.1</b>	<b>2.9%</b>	<b>113.3</b>	<b>2.7%</b>	<b>116.3</b>	<b>2.7%</b>	<b>119.4</b>	<b>2.7%</b>	<b>122.6</b>	<b>2.7%</b>	<b>125.9</b>
32 <b>MCG Adjusted Revenues</b>	<b>4,222.8</b>	<b>4,253.7</b>	<b>2.8%</b>	<b>-100.0%</b>	<b>4,343.2</b>	<b>2.8%</b>	<b>4,464.1</b>	<b>2.5%</b>	<b>4,575.5</b>	<b>3.8%</b>	<b>4,748.8</b>	<b>3.4%</b>	<b>4,910.3</b>	<b>2.8%</b>	<b>5,048.4</b>

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**Montgomery County, Maryland**

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**DECEMBER 2012  
REVENUE UPDATE AND  
SELECTED ECONOMIC  
INDICATORS**

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**Department of Finance**

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**December 11, 2012**

## ***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***

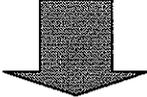
- While economic indicators can point to recovery in certain tax revenues, some revenues, such as excise taxes, are expected to continue to decline.**
- This can be due to adjustments in consumer behavior that affect consumer spending for certain excise taxes.**
- The recent length (last three cycles) 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.**

## ***Current Signs of Economic Recovery***

- A drop in unemployment rate from 5.1 percent in October 2011 to 4.7 percent in October 2012 and the annual average decline from 5.2 percent in CY2011 to an estimated 5.0 percent in CY2012.**
- The growth in the stock market to date (S&P 500 index up 11.9% as of November 26<sup>th</sup>).**
- Home prices show signs of modest improvement**
- Montgomery County has experienced modest growth in employment to date in CY2012.**

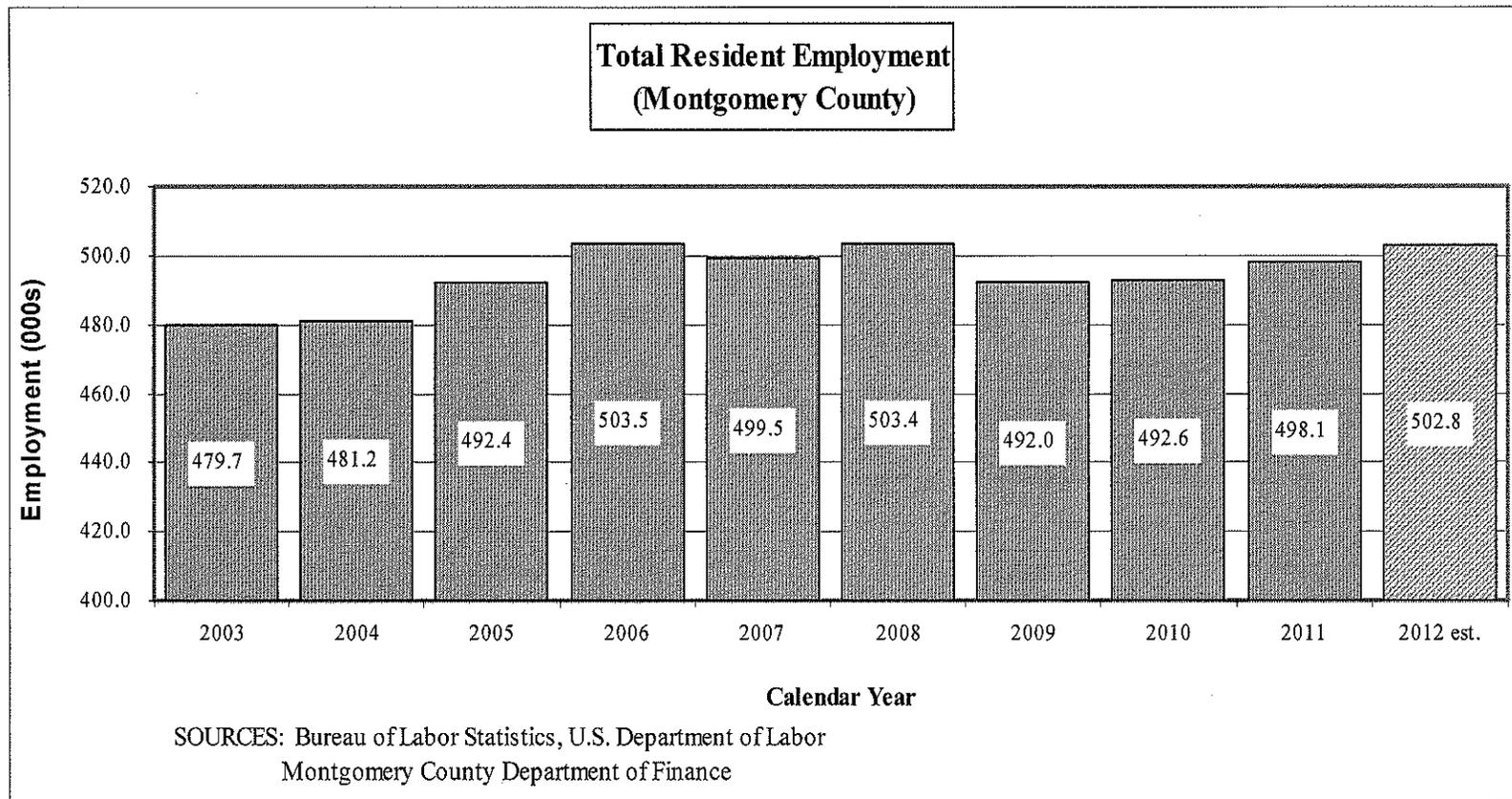
## ***Continued Causes of Concern***

- Pull backs attributed to the fiscal cliff and its effect on employment and income in Montgomery County**
- The secondary effects of the fiscal cliff on tax revenues other than the income tax particularly asset values and consumption**
- Fed funds rate expected to remain flat through first half of CY2014**

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON	DIRECTION (yr.-over-yr.)
INFLATION	2.22% Jan.-Sept. 2012	Property Taxes	Key determinant of property tax revenues at the Charter Limit	2011: 3.35% 2010: 1.72%	
UNEMPLOYMENT RATE	4.7% Oct. 2012	Income Taxes	Indicates overall health of the job market	Sept. 2012: 4.9% Oct. 2011: 5.1%	
RESIDENT EMPLOYMENT	512,014 Oct. 2012	Income Taxes	Primary determinant of income tax receipts	Sept. 2012: 507,607 Oct. 2011: 499,565	
PAYROLL EMPLOYMENT (Estimated)	482,700 Oct. 2012	Income Taxes	Another determinant of income tax receipts	Sept. 2012: 479,800 Oct. 2011: 469,600	
STOCK MARKET - S&P 500	1406.29 As of Nov. 26th	Income Taxes	Key determinant of capital gains portion of the income tax	December 31st: 2011: 1,257.60 2010: 1,257.64	
HOME SALES	726 Oct. 2012	Transfer/ Recordation Taxes	Indicates activity affecting receipts	Sept. 2012: 745 Oct. 2011: 634	
HOME PRICES (Average Price Sold)	\$443,907 Oct. 2012	Transfer/ Recordation Taxes	Taxes are based on values, affects amount of taxes collected	Sept. 2012: \$460,654 Oct. 2011: \$411,221	
FEDERAL FUNDS RATE (preliminary)	0.16% Oct. 2012	Investment Income	County's return on investments closely correlated with the Fed Fund rates	Sept. 2012: 0.14% Oct. 2011: 0.07%	

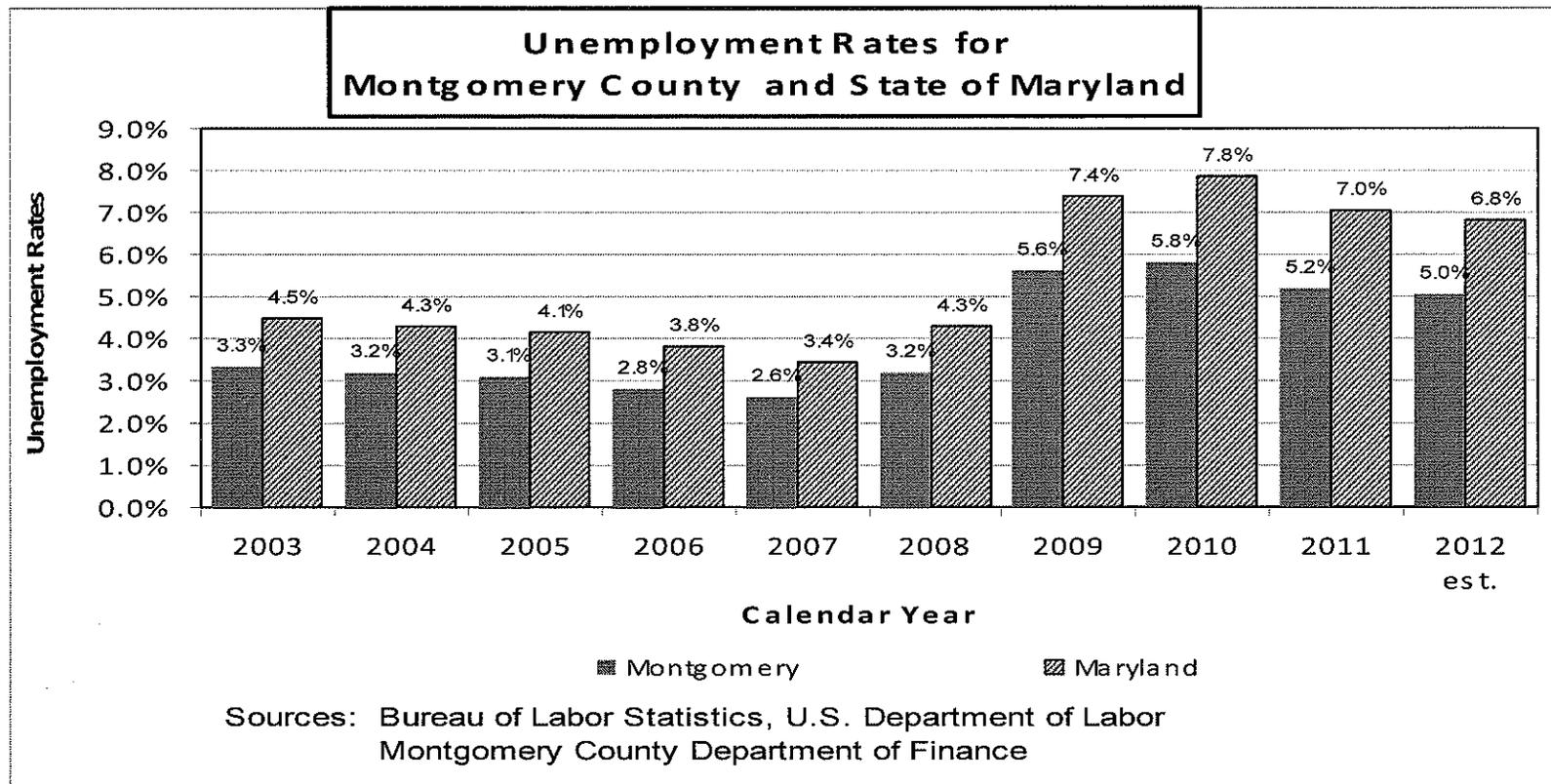
**Department of Finance estimates that resident employment in Montgomery County could exceed 500,000 in CY2012 (↑1.0% over CY2011).**

On a year-over-year basis, resident employment increased by nearly 12,540 from October 2011 to October of this year.



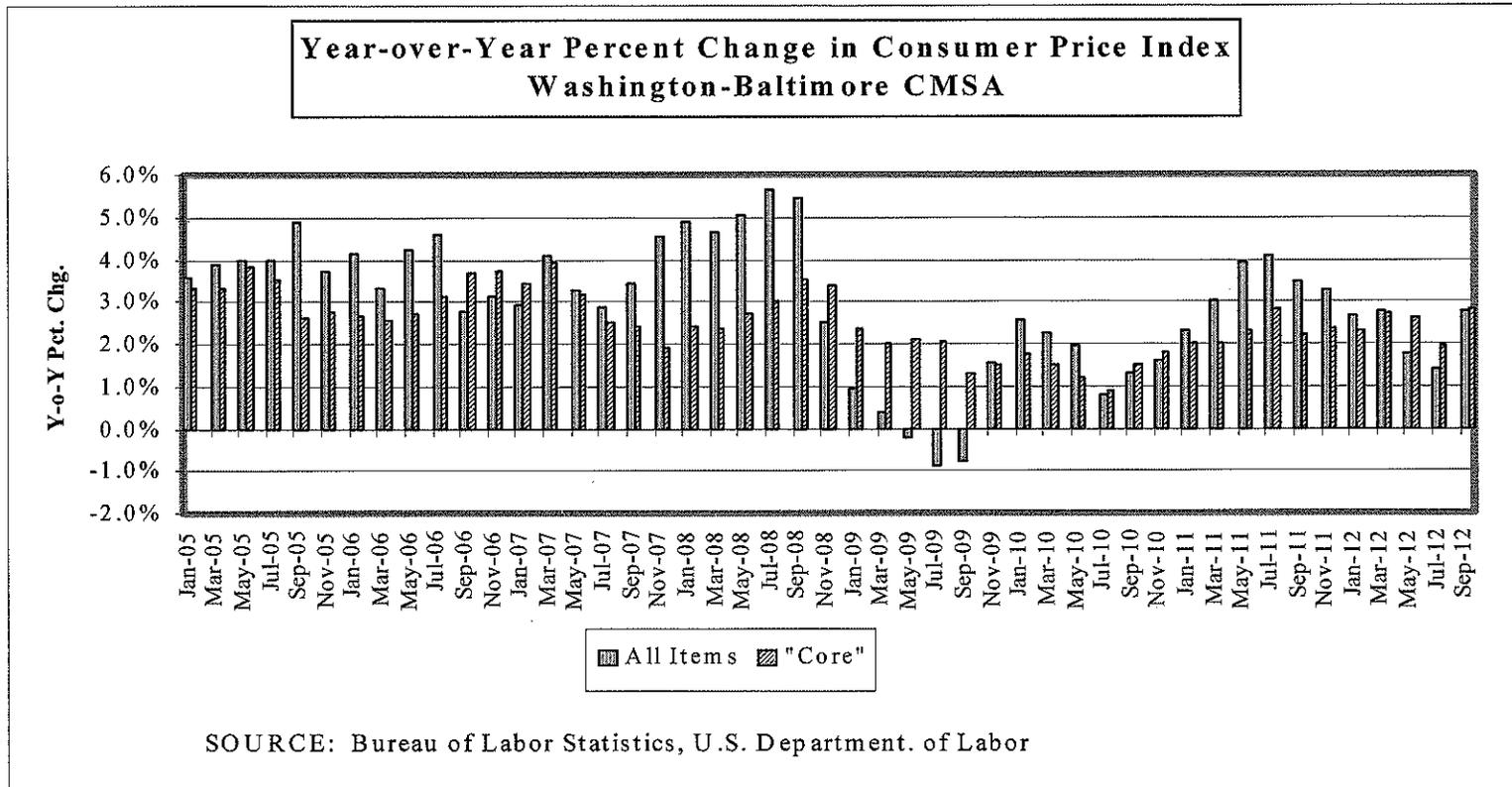
**The Department of Finance estimates that the unemployment rate for Montgomery County could decline to 5.0 percent in CY2012 – down slightly from 5.2 percent from the previous year.**

The unemployment rate in October was 4.7 percent compared to 5.1 percent in October 2011.



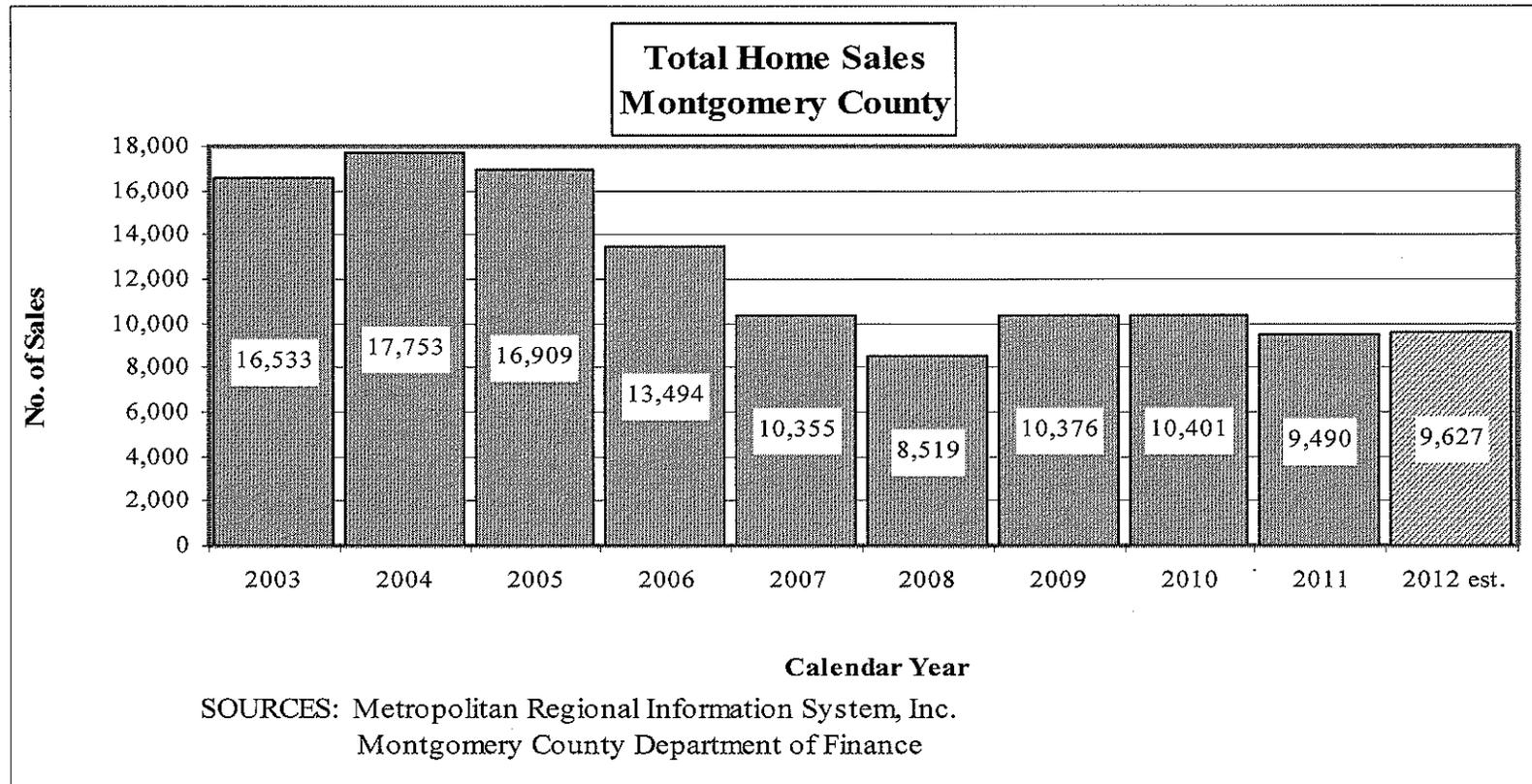
***The consumer price index (CPI) accelerated in September.***

Overall for the Washington-Baltimore consolidated region the CPI increased 2.8 percent in September '12 from September '11. For the calendar year 2011, the index increased 3.4 percent compared to 1.7 percent in CY2010.



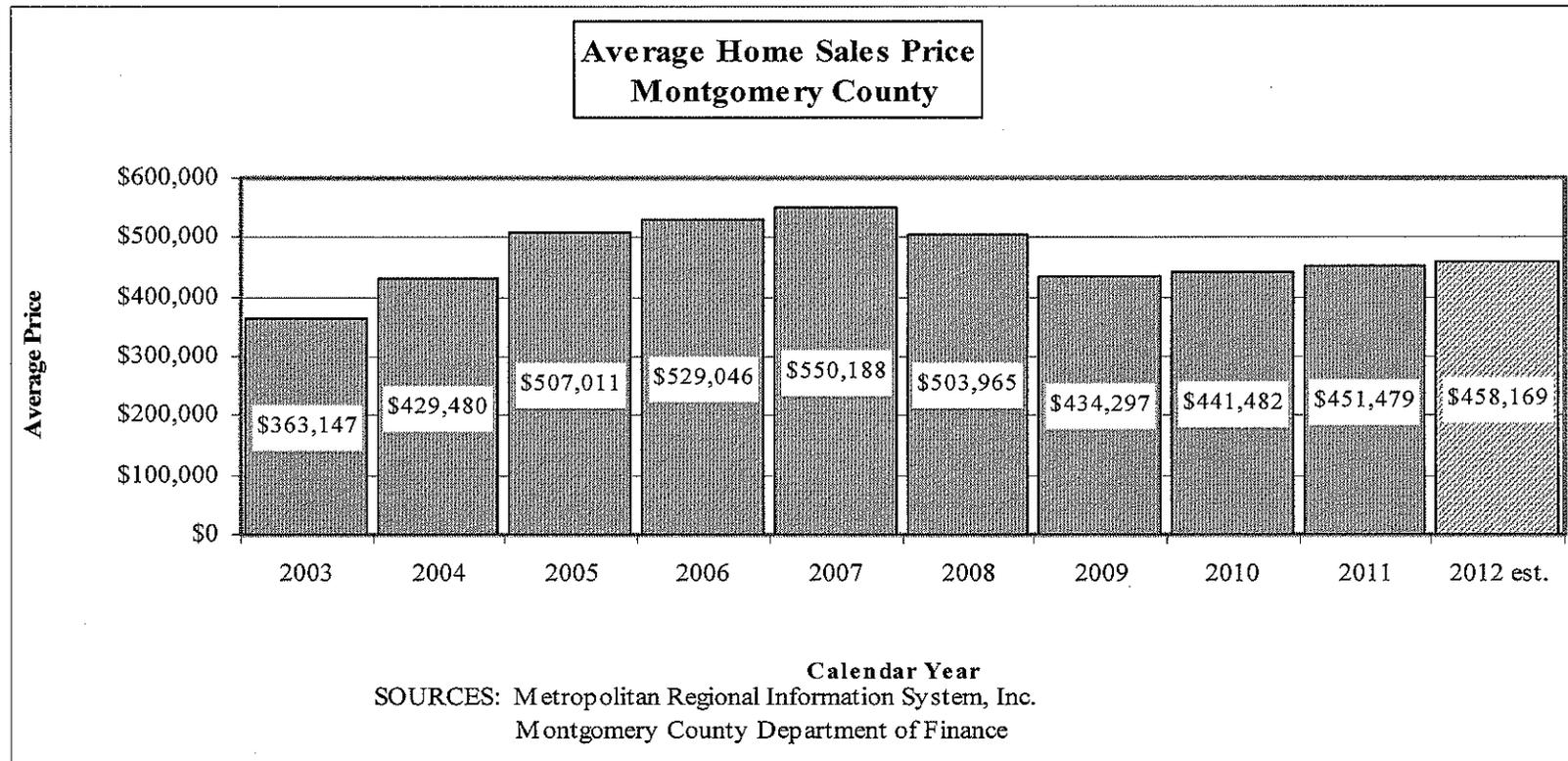
## Home sales were down in CY2011.

Total sales of existing homes decreased 8.8 percent in CY2011 compared to an increase of 0.2 percent in CY2010. Most of that increase in CY2010 occurred during the first half of the calendar year. Finance estimates that home sales could increase 1.4 percent in CY 2012.



## ***Average home sales prices were up in CY2011.***

While the sales of existing homes in the County decreased in 2011, the average sales price increased 2.3 percent, which followed a decrease of 13.8 percent (CY2009) and a modest increase of 1.7 percent (CY2010). Finance estimates that average home prices could increase 1.5 percent in CY2012.



# REVENUE UPDATE

## ***FY12 and FY13 Summary***

**The outlook for the remainder of this fiscal year (FY13) and next year (FY14) suggests a modest increase in revenues over the two-year period compared to the estimates prepared for the FY13 budget. This projected increase is largely attributable to revisions to income tax revenues projections. The combined increase in FY13 and FY14 is nearly \$22.1 million higher than previously estimated.**

# Revenue Update

*December revised revenues for FY13 are \$30.9 million above the FY13 Budget estimates. The major contributor is the estimated increase in income tax revenues.*

	FY13 BUDGET - DECEMBER 2012 UPDATE (\$MIL.)		
	FY13 Budget	Dec. Update	Difference
Income	\$1,263.586	\$1,309.177	\$45.591
Property	\$1,462.239	\$1,459.518	(\$2.721)
Transfer/Recordation	\$136.597	\$136.094	(\$0.504)
Other Taxes:			
--Admissions	\$2.501	\$2.625	\$0.124
--Fuel/Energy	\$233.770	\$224.730	(\$9.040)
--Telephone	\$48.749	\$46.122	(\$2.627)
--Hotel/Motel	\$19.052	\$19.188	\$0.136
Investment Income	n.a	n.a	n.a
Highway User Revenue	\$3.324	\$3.270	(\$0.054)
<b>TOTAL</b>	<b>\$3,169.817</b>	<b>\$3,200.722</b>	<b>\$30.905</b>

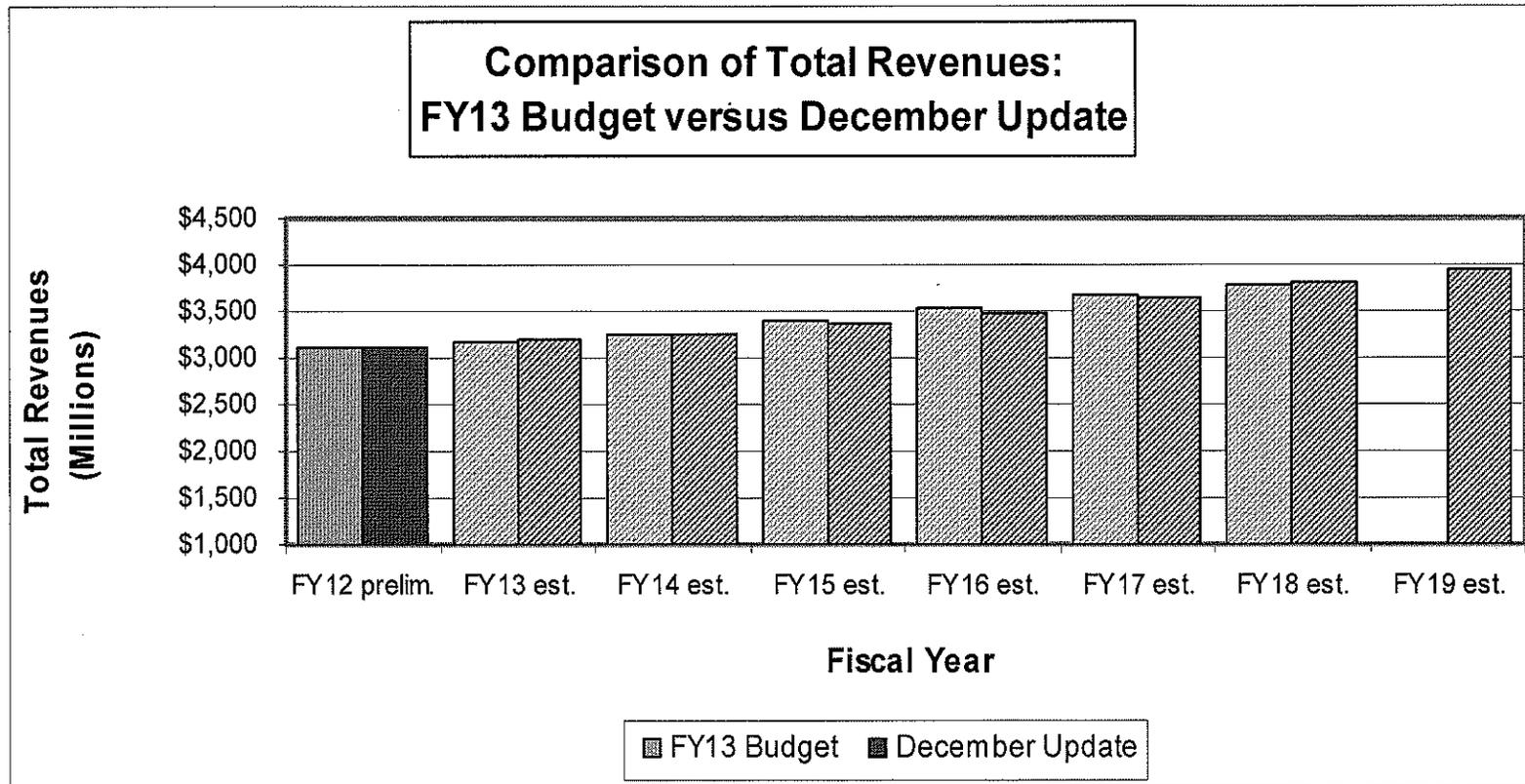
# Revenue Update

**December revised revenue estimates for FY14 are \$8.9 million below the FY13 Budget estimates. The decrease is mainly attributed to declines in the property tax, fuel/energy tax, and telephone tax revenues.**

	FY13 BUDGET - DECEMBER 2012 UPDATE (\$MIL.)		
	FY14 Estimate	Dec. Update	Difference
Income	\$1,296.556	\$1,302.961	\$6.405
Property	\$1,505.764	\$1,499.757	(\$6.007)
Transfer/Recordation	\$140.506	\$142.328	\$1.822
Other Taxes:			
--Admissions	\$2.596	\$2.702	\$0.106
--Fuel/Energy	\$236.850	\$228.030	(\$8.820)
--Telephone	\$49.419	\$47.416	(\$2.003)
--Hotel/Motel	\$19.571	\$19.272	(\$0.300)
Investment Income	n.a	n.a	n.a
Highway User Revenue	\$3.496	\$3.439	(\$0.057)
<b>TOTAL</b>	<b>\$3,254.758</b>	<b>\$3,245.904</b>	<b>(\$8.854)</b>

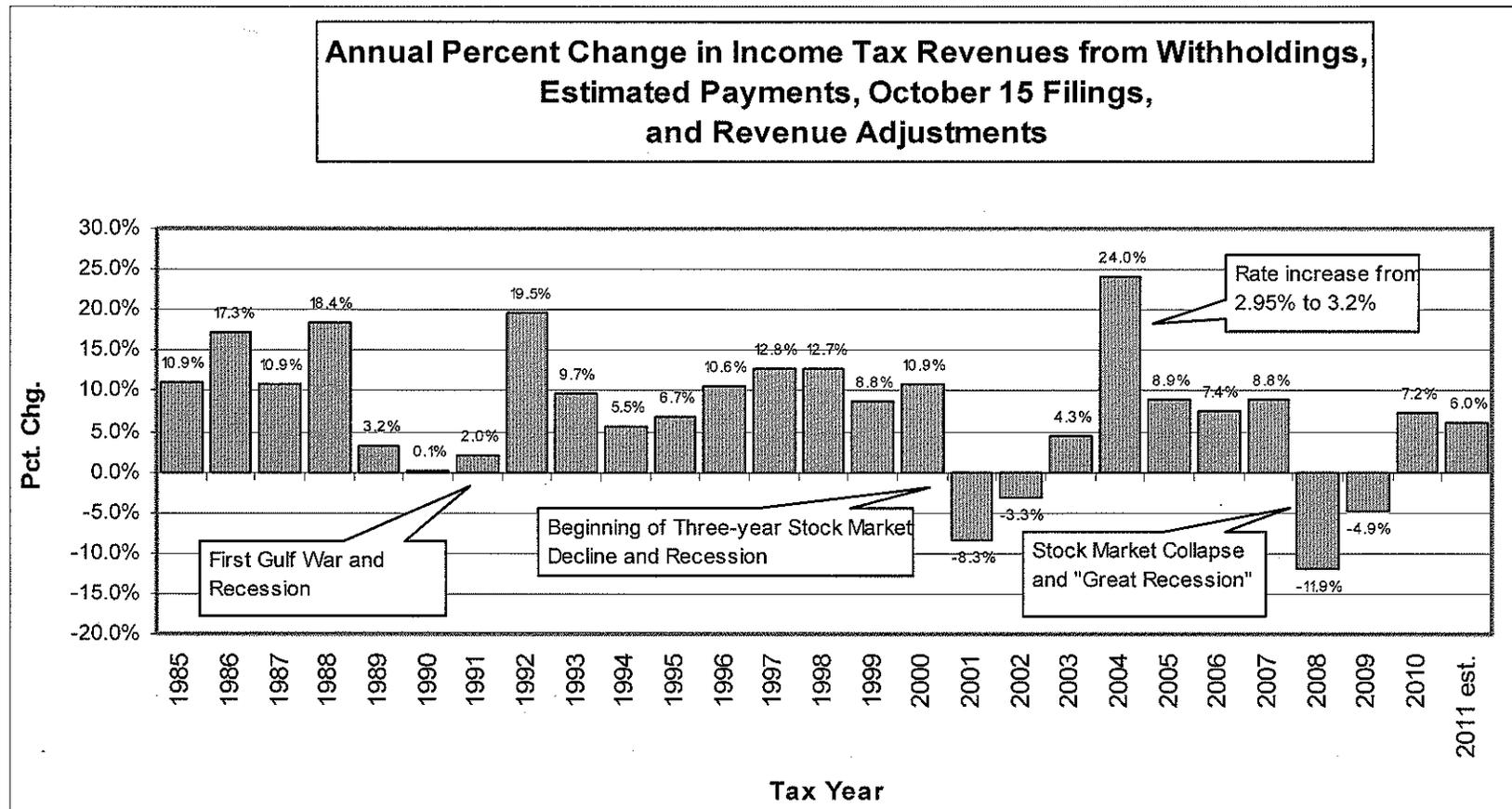
# Revenue Trend FY13-18

During the current six year period (FY13-FY18), total revenues are expected to be approximately \$73.8 million below FY13 budget estimates.



# Income Tax Volatility

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



## ***Income Tax – November Distribution***

- **The largest share (five year average of 81.6%) 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 2011 in November 2012) and provides a near final review of last year's tax liability – this provides a base for future projections.**
- **The Comptroller's Office also adjusts its distribution formula for the current fiscal year based on the prior tax year results (e.g., 2011 tax year final results affect quarterly distributions for this fiscal year).**

## ***Income Tax – November distributions***

(millions)	Actual FY10	Actual FY11	Actual FY12	Estimated FY13	Actual FY13	Difference
October 15 <sup>th</sup> Filings and Adjustments	\$9.60	\$17.00	\$134.76	\$111.21	\$144.74	\$33.53
Withholding and Estimated payments for 3 <sup>rd</sup> Quarter	\$210.60	\$212.90	\$242.79	\$256.51	\$250.76	(\$5.75)
Total November Distribution	\$220.20	\$229.90	\$377.55	\$367.71	\$395.50	\$27.79

•Increase in receipts from October 15th Filings and Adjustments is based on an adjustment to reflect increased income tax receipts due the County for tax year 2011 as compared to tax year 2010. The State has indicated that the County's income tax receipts from withholdings and estimated payments for 2011 are 6.8% higher than for 2010.

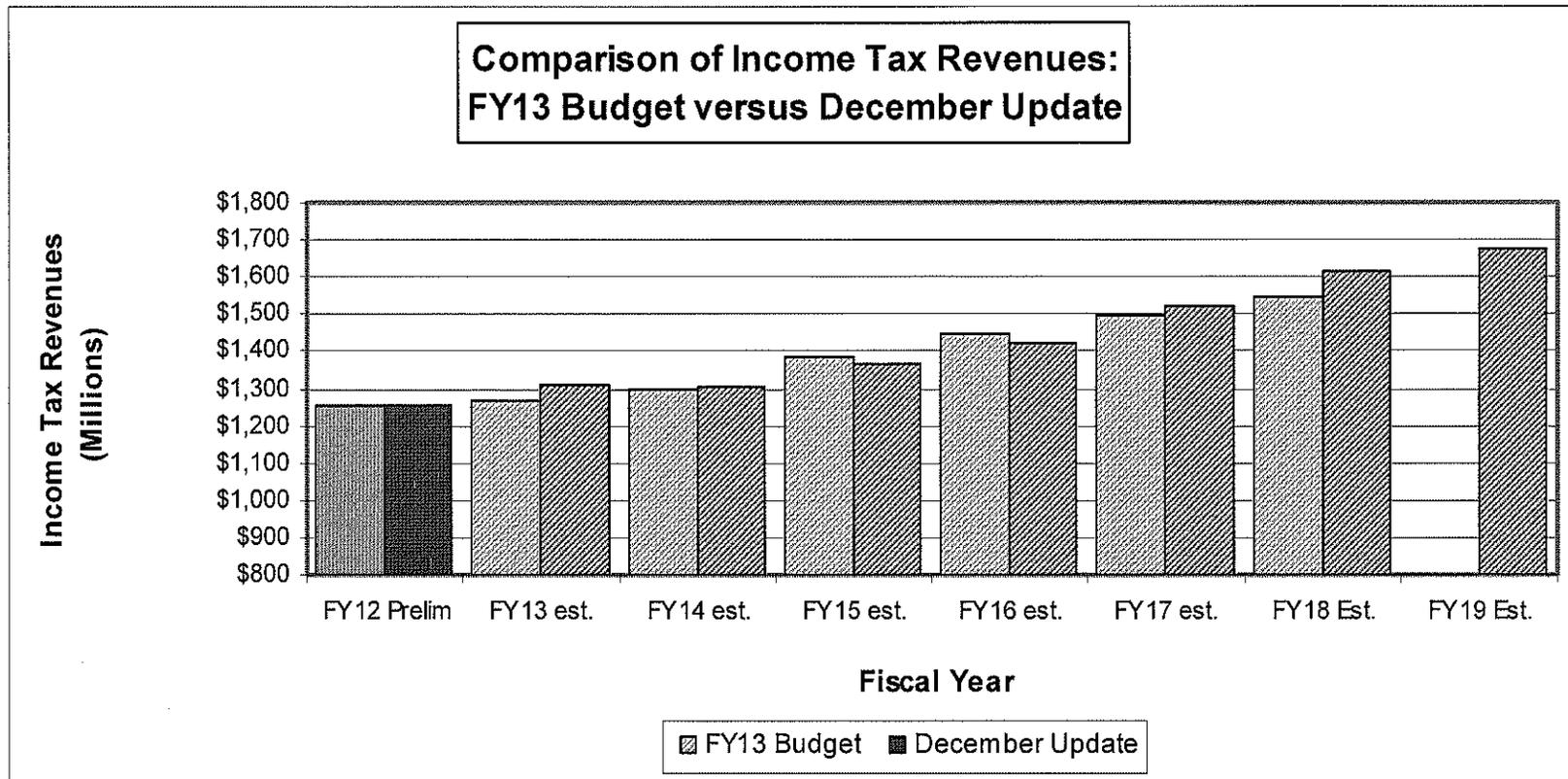
•Increase in withholdings and estimated payments is due to an increase in income tax receipts statewide and a change in the distribution formula, which is updated by the State in November to reflect the overall increase in prior year income tax receipts.

## ***Income Tax – Economic Factors***

- Resident employment is expected to increase 1.0 percent in CY2012 and increase a modest 0.3 percent in CY2013. This is compared to March economic assumptions of 0.9 percent increase in CY2012 and 1.3 percent in CY2013. The lower employment growth is based on the State’s Board of Revenue Estimates recent assumption of sequestration in its September forecast that lowered employment growth in the State.**
- Personal income is estimated to increase 3.7 percent in CY2012 and 3.6 percent in CY2013.**
- Wage and salary income is expected to increase 4.2 percent in CY2012 and increase 3.8 percent in CY2013.**

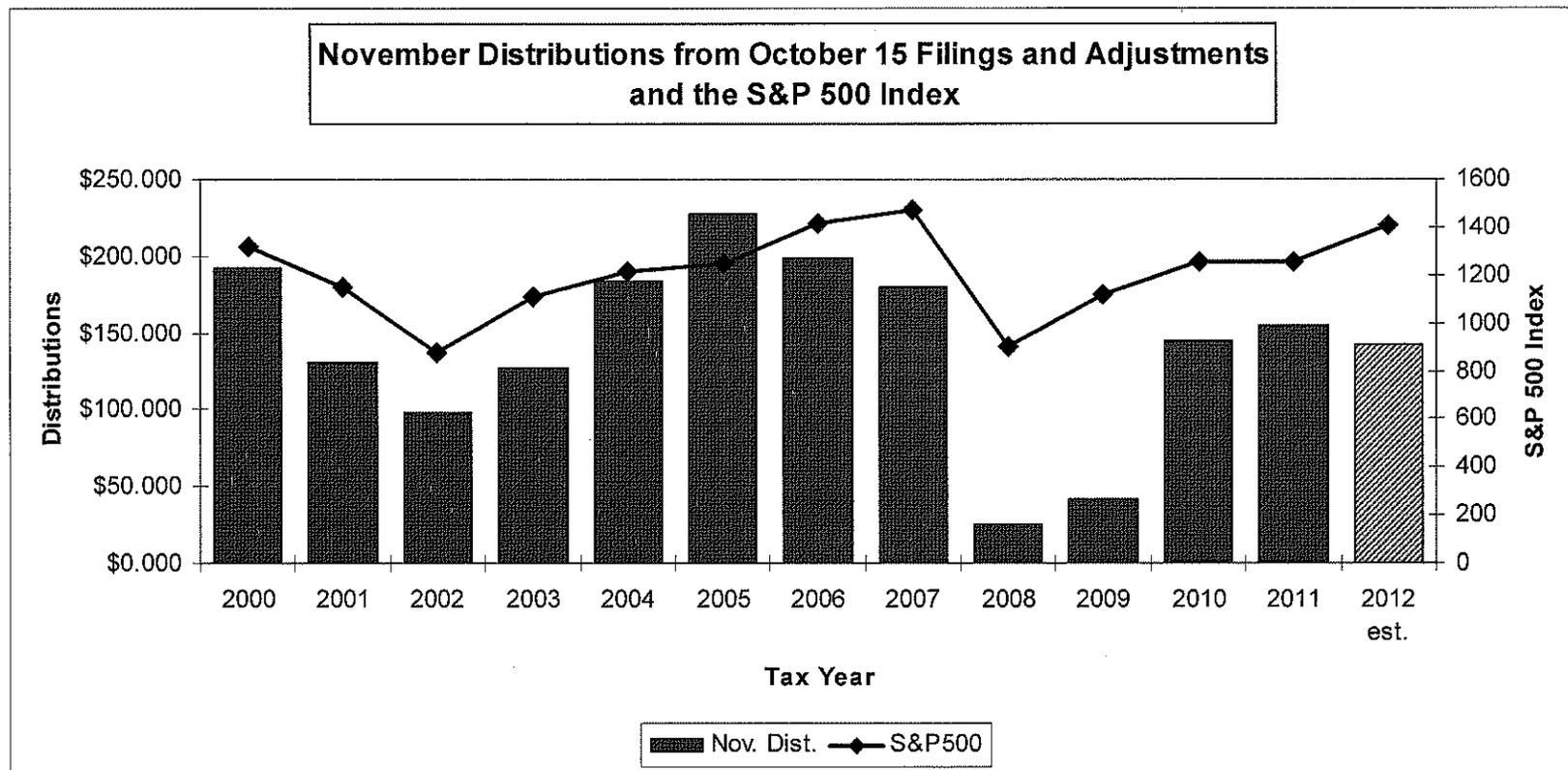
# Income Tax FY13-18

Over the current six year period (FY13-FY18), income tax revenues are expected to be approximately \$100.2 million above FY12 budget estimates.



# Income Tax

*The amount of revenues from the November distribution has been associated with the stock market (S&P 500 Index)*



## ***Property Tax***

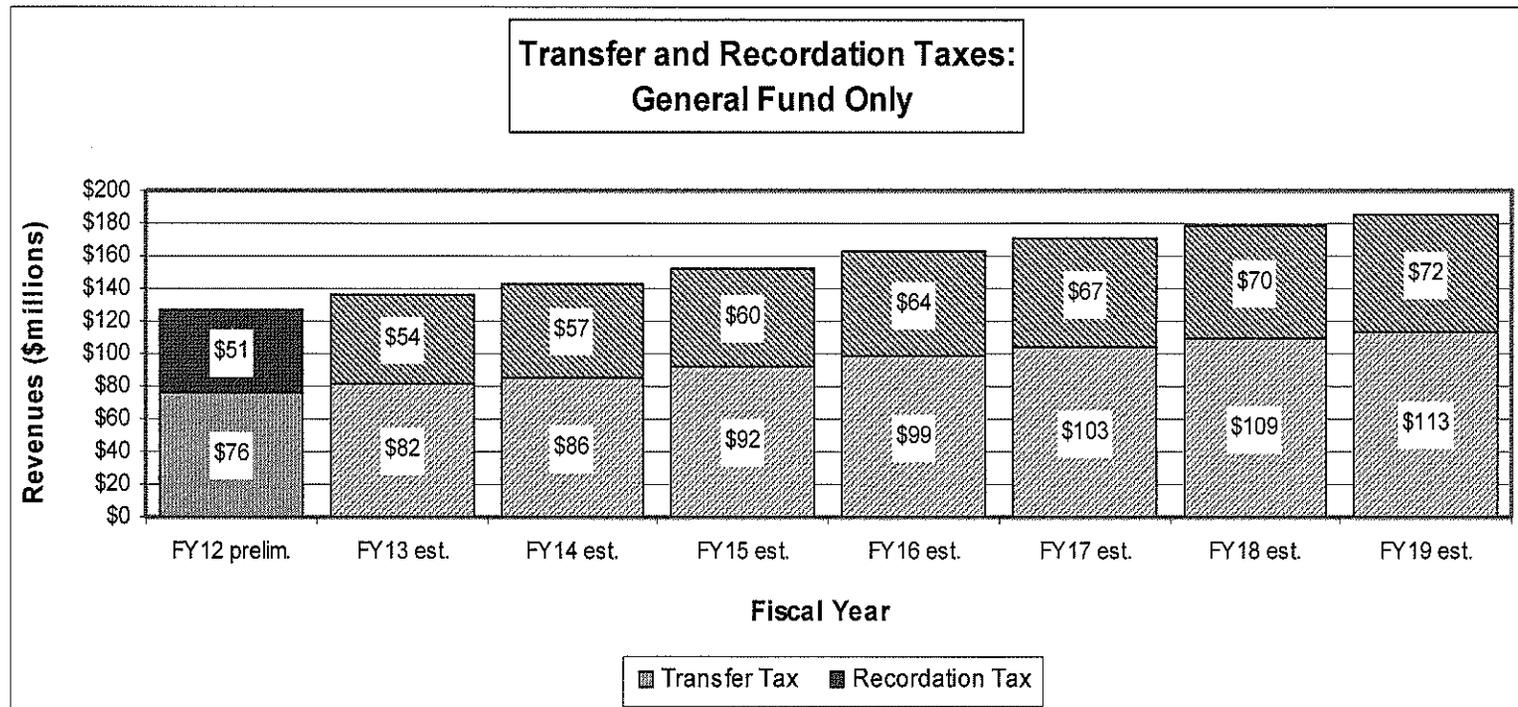
- **The inflation rate is expected to be 2.2 percent in calendar year 2012, which follows a 3.4 percent increase in CY11 and a meager 1.7 percent in CY10. Inflation is used to estimate real property tax under the Charter Limit excluding new construction.**
- **The reassessment rates for real property for Group One in fiscal year 2014 are expected to 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 increase 5.0 percent in CY13 and prices are also anticipated to increase 2.3 percent. Based on collections to date, the non-residential real estate market is estimated to experience a modest increase in FY13.**
- **Because of the estimated increase in home sales in CY13, Finance estimates that the number of residential transfers may increase 5.1 percent in FY13 the same as the increase in home sales.**
- **Because of collections to date, the average transfer tax amount on a residential sale is expected to increase 6.5 percent in FY13.**
- **Because of the expected increase in the average transfer tax on non-residential transactions, non-residential transfer tax revenues are estimated to increase by 1.4 percent in FY13.**

# Transfer and Recordation Taxes

Since reaching \$241.7 million in FY06, transfer and recordation taxes declined to \$127.3 million in FY12. By FY19, transfer and recordation taxes are estimated to reach \$190.4 million – nearly \$56.2 million below the FY06 peak.



# Other Tax Revenues

Other tax revenues are estimated to decrease 0.2 percent in FY13 from FY12 due an estimated decline in energy and telephone revenues. Over the current six-year period (FY13-FY18), total other tax revenues are estimated to be \$132.5 million below FY13 budget estimates.

