



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Jennifer A. Hughes
Director

MEMORANDUM

May 14, 2014

TO: Craig Rice, President, County Council

FROM: Jennifer A. Hughes, Director, Office of Management and Budget
Joseph F. Beach, Director, Department of Finance

SUBJECT: FY14 Third Quarterly Analysis

Attached please find the Third Quarterly Analysis for Montgomery County Government. Third quarter results are consistent with the results reported at second quarter and in line with the reserve assumptions in the Executive's recommended budget. The Executive's supplemental appropriation request for snow removal/wind and rain storm cleanup costs is reflected in the third quarter estimates for the Department of Transportation and the Department of General Services. Significant expenditure variances are described below.

Third Quarter Expenditure Results

The Board of Elections projected overage is due to additional unbudgeted costs for overtime, postage, sample ballot printing, and other expenses related to the expansion of early voting.

The Office of Consumer Protection expects an overage due to an unbudgeted salary adjustment for one of its employees.

The Department of Correction and Rehabilitation's projected overage is because of medical expenses, food, and higher than budgeted retirement costs.

The Office of County Attorney expects an overage due to unbudgeted contract expenses.

The Department of Economic Development has incurred unbudgeted costs related to Federal and State lobbying contracts, sponsorships, consultant work, and other expenses.

The Department of General Services has experienced significant unbudgeted expenditures for emergency maintenance services to repair critical equipment and services.

Office of the Director

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The Office of Human Resources' projected overage is from filling lapsed positions to handle an increased workload.

The Department of Police's estimated overage results from the opening of the new animal shelter and higher than budgeted retirement costs.

The Sheriff's Office is projecting to be overspent because of higher than budgeted compensatory leave payment, overtime, extradition and security costs, and absorbing the cost of terminated federal grants.

The State's Attorney's projected overage is due to the expiration of the Arrest Grant (replaced with general operating budget funds) and increased costs for expert witnesses, translation services, and transportation.

The Department of Technology Services' projected overage is due to not being able to meet its budgeted lapse assumption and unbudgeted spending on cyber security.

Transit Services' projected overage is due to overtime, higher than budgeted fuel and motor pool costs, higher than budgeted utilities costs and increased reimbursements to WMATA for Kids Ride Free and Seniors Ride Free.

Fire and Rescue Service is projected to be overspent because of higher than expected retirement costs and backfill overtime to meet minimum staffing requirements.

DOT – Vacuum Leaf Collection's projected overage is due to motor pool charges for replacement leafing equipment and additional contract costs due to the extended leaf collection season.

The following non-departmental accounts are projected to be overspent: Tacoma Park Library Annual Payment and Takoma Park Police Rebate because of increased formula payments and State Positions Supplemental due to unbudgeted benefits.

This analysis assumes \$200,000 in FY14 expenses to implement the requirements of the *DeWolfe v. Richmond* decision and is the best estimate available at this time. This court decision will have a fuller effect on the FY15 budget with current estimates for the provision of lawyers to indigent defendants estimated to be approximately \$2 million. There are likely to be additional significant costs to the criminal justice system, for which a reliable cost estimate is not available at this time. The remaining FY14 set aside is currently estimated to be \$1.86 million. Given the potential costs of the *DeWolfe v. Richmond* decision we would urge caution in the use of the remaining set aside.

Third Quarter Revenue Update

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

Reserves

The County's FY14 total ending reserves are estimated to be \$428.4 million, or 9.6 percent of adjusted governmental revenues. This is in line with the reserves reported at second quarter.

Craig Rice, President, County Council

May 14, 2014

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The set aside included in the County Executive's March 17 Recommended Budget has been reduced, as anticipated, to fund his recommended budget adjustments of April 28 and the snow removal supplemental appropriation request transmitted to the County Council on May 7.

JAH/JFB:cm

cc: Isiah Leggett, County Executive

Timothy L. Firestine, Chief Administrative Officer

Bonnie Kirkland, Assistant Chief Administrative Officer

All County Government Department Heads and Merit Directors

Attachments: Third Quarterly Analysis of Expenditures

Tax Revenue Collections: Through 3/31/14

FY14 3RD QUARTERLY ANALYSIS

Department	Original Budget (A)	Latest Budget (B)	Estimate (3rd QA) (C)	Variance to Budget (B-C)	% Change to Budget (B-C)/(B)
Tax Supported					
General Fund					
Board of Appeals	592,558	597,937	544,346	53,591	9.0 %
Board of Elections	6,026,413	6,034,389	6,387,982	-353,593	-5.9 %
Circuit Court	10,999,995	10,999,995	10,824,290	175,705	1.6 %
Community Engagement Cluster	3,302,582	3,313,363	3,312,727	636	0.0 %
Consumer Protection	2,148,716	2,150,048	2,171,888	-21,840	-1.0 %
Correction and Rehabilitation	66,598,101	66,749,096	68,722,226	-1,973,130	-3.0 %
County Attorney	5,351,793	5,373,100	5,410,382	-37,282	-0.7 %
County Council	9,841,525	9,913,815	9,873,013	40,802	0.4 %
County Executive	4,769,707	4,792,156	4,687,801	104,355	2.2 %
Economic Development	8,769,515	8,793,670	9,703,639	-909,969	-10.3 %
Emergency Management and Homeland Security	1,317,312	1,326,403	1,228,708	97,695	7.4 %
Environmental Protection	1,568,831	1,580,659	1,535,599	45,060	2.9 %
Ethics Commission	337,007	343,183	306,089	37,094	10.8 %
Finance	12,299,265	12,382,755	12,382,755	0	0.0 %
General Services	26,647,551	34,225,756	37,130,994	-2,905,238	-8.5 %
Health and Human Services	193,225,217	193,464,510	192,617,101	847,409	0.4 %
Housing and Community Affairs	4,797,178	4,813,073	4,755,384	57,689	1.2 %
Human Resources	7,656,440	7,691,955	7,922,542	-230,587	-3.0 %
Human Rights	942,673	950,413	950,413	0	0.0 %
Inspector General	830,100	834,955	832,965	1,990	0.2 %
Intergovernmental Relations	864,912	864,912	738,099	126,813	14.7 %
Legislative Oversight	1,354,602	1,381,427	1,356,948	24,479	1.8 %
Management and Budget	3,870,467	3,880,874	3,751,611	129,263	3.3 %
Merit System Protection Board	174,737	174,737	162,781	11,956	6.8 %
Non-Departmental Accounts	280,507,642	273,836,241	272,183,109	1,653,132	0.6 %
Police	260,429,650	260,484,810	261,675,949	-1,191,139	-0.5 %
Public Information	4,660,061	4,670,982	4,660,618	10,364	0.2 %
Public Libraries	34,769,584	34,842,372	34,260,090	582,282	1.7 %
Sheriff	21,933,890	21,933,608	23,326,493	-1,392,885	-6.4 %
State's Attorney	13,790,836	13,790,836	13,961,213	-170,377	-1.2 %
Technology Services	28,754,504	28,822,802	29,611,391	-788,589	-2.7 %
Transportation	42,132,940	70,478,952	70,468,746	10,206	0.0 %
Utilities	25,696,647	25,679,365	25,679,365	0	0.0 %
Zoning and Administrative Hearings	611,779	611,779	534,673	77,106	12.6 %
General Fund Total	1,087,574,730	1,117,784,928	1,123,671,930	-5,887,002	-0.5 %
Special Funds					
<u>Bethesda Urban District</u>					
Urban Districts	3,513,396	3,513,396	3,517,674	-4,278	-0.1 %
<u>Silver Spring Urban District</u>					
Urban Districts	2,880,043	2,880,043	2,886,056	-6,013	-0.2 %

FY14 3RD QUARTERLY ANALYSIS

Department	Original Budget (A)	Latest Budget (B)	Estimate (3rd QA) (C)	Variance to Budget (B-C)	% Change to Budget (B-C)/(B)
<u>Wheaton Urban District</u>					
Urban Districts	1,800,402	1,800,402	1,520,814	279,588	15.5 %
<u>Mass Transit</u>					
Transit Services	116,665,732	116,465,233	118,003,784	-1,538,551	-1.3 %
<u>Fire</u>					
Fire and Rescue Service	217,018,693	218,394,226	224,197,077	-5,802,851	-2.7 %
<u>Recreation</u>					
Recreation	28,008,455	28,039,132	27,741,814	297,318	1.1 %
<u>Economic Development Fund</u>					
Economic Development Fund	3,396,828	10,026,508	10,026,508	0	0.0 %
Special Funds Total	373,283,549	381,118,940	387,893,727	-6,774,787	-1.8 %
TAX SUPPORTED TOTAL	1,460,858,279	1,498,903,867	1,511,565,657	-12,661,790	-0.8 %

Non-Tax Supported

Special Funds

Water Quality Protection Fund

Environmental Protection	18,992,327	19,013,414	18,551,519	461,895	2.4 %
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Cable Television

Cable Television	13,622,905	13,625,615	13,251,044	374,571	2.7 %
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Montgomery Housing Initiative

Housing and Community Affairs	28,641,730	35,823,360	32,862,952	2,960,408	8.3 %
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Special Funds Total

Special Funds Total	61,256,962	68,462,389	64,665,515	3,796,874	5.5 %
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Enterprise Fund

Community Use of Public Facilities

Community Use of Public Facilities	9,896,271	9,911,013	9,399,671	511,342	5.2 %
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Bethesda Parking District

Parking District Services	13,299,181	13,309,232	13,302,968	6,264	0.0 %
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Montgomery Hills Parking District

Parking District Services	136,899	136,985	134,751	2,234	1.6 %
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Silver Spring Parking District

Parking District Services	11,097,834	11,108,133	10,241,303	866,830	7.8 %
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Wheaton Parking District

Parking District Services	1,322,481	1,324,873	1,323,572	1,301	0.1 %
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Permitting Services

Permitting Services	29,642,071	29,735,360	27,689,579	2,045,781	6.9 %
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Solid Waste Collection

Solid Waste Services	6,179,974	6,183,621	6,143,621	40,000	0.6 %
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Solid Waste Disposal

Solid Waste Services	95,182,597	95,212,701	92,185,621	3,027,080	3.2 %
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Vacuum Leaf Collection

Transportation	5,155,303	5,155,303	5,988,030	-832,727	-16.2 %
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FY14 3RD QUARTERLY ANALYSIS

Department	Original Budget (A)	Latest Budget (B)	Estimate (3rd QA) (C)	Variance to Budget (B-C)	% Change to Budget (B-C)/(B)
<u>Liquor Control</u>					
Liquor Control	55,324,556	55,324,556	55,324,555	1	0.0 %
Enterprise Fund Total	227,237,167	227,401,777	221,733,671	5,668,106	2.5 %
NON-TAX SUPPORTED TOTAL	288,494,129	295,864,166	286,399,186	9,464,980	3.2 %
TAX AND NON-TAX SUPPORTED TOTAL	1,749,352,408	1,794,768,033	1,797,964,843	-3,196,810	2.4 %

Internal Service Funds

Employee Health Benefit Self Insurance Fund

Human Resources	198,690,600	198,690,600	191,772,851	6,917,749	3.5 %
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Motor Pool Internal Service Fund

Fleet Management Services	79,639,041	79,658,891	79,525,666	133,225	0.2 %
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Printing and Mail Internal Service Fund

General Services	8,340,516	8,340,516	6,661,429	1,679,087	20.1 %
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Self Insurance Internal Service Fund

Finance	56,843,190	56,843,190	53,853,642	2,989,548	5.3 %
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INTERNAL SERVICE FUNDS TOTAL	343,513,347	343,533,197	331,813,588	11,719,609	3.4 %
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FY14 3RD QUARTERLY ANALYSIS

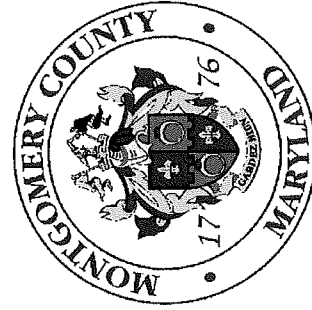
Department	Original Budget (A)	Latest Budget (B)	Estimate (3rd QA) (C)	Variance to Budget (B-C)	% Change to Budget (B-C)/(B)
NDA: Tax Supported - County General Fund					
NDA - Arts and Humanities Council	3,792,700	3,792,700	3,792,700	0	0.0 %
NDA - Boards, Committees and Commissions	22,950	22,950	22,854	96	0.4 %
NDA - Charter Review Commission	1,150	1,150	1,150	0	0.0 %
NDA - Community Grants	7,198,997	7,198,997	7,203,068	-4,071	-0.1 %
NDA - Compensation and Employee Benefits Adjustment	1,985,456	1,199,045	847,337	351,708	29.3 %
NDA - Conference and Visitors Bureau	1,242,696	1,242,696	1,242,696	0	0.0 %
NDA - Conference Center	606,256	606,256	256,417	349,839	57.7 %
NDA - Consolidated Retiree Health Benefits Trust (MCPS)	83,700,000	83,700,000	83,700,000	0	0.0 %
NDA - Consolidated Retiree Health Benefits Trust (Montgom)	2,372,000	2,372,000	2,372,000	0	0.0 %
NDA - Council of Governments	796,668	796,668	796,196	472	0.1 %
NDA - County Associations	72,710	72,710	72,710	0	0.0 %
NDA - Desktop Modernization	5,315,030	5,315,030	5,315,030	0	0.0 %
NDA - Grants to Municipalities in Lieu of Shares Tax	28,020	28,020	28,020	0	0.0 %
NDA - Group Insurance-Retirees	32,462,450	32,462,450	32,462,450	0	0.0 %
NDA - Historical Activities	77,250	77,250	77,250	0	0.0 %
NDA - Homeowners' Association-Roads	49,250	49,250	49,250	0	0.0 %
NDA - Housing Opportunities Commission	6,093,310	6,093,310	6,093,310	0	0.0 %
NDA - Independent Audit	420,820	420,820	399,168	21,652	5.1 %
NDA - Interagency Technology Policy and Coordination Com	5,850	5,850	5,850	0	0.0 %
NDA - Leases	23,546,404	23,546,404	23,546,404	0	0.0 %
NDA - Legislative Branch Communications Outreach	400,000	400,000	369,437	30,563	7.6 %
NDA - Montgomery Coalition for Adult English Literacy (MCA)	927,058	927,058	927,058	0	0.0 %
NDA - Motor Pool Fund Contribution	2,184,191	2,184,191	2,184,191	0	0.0 %
NDA - Municipal Tax Duplication	8,149,310	8,149,310	8,042,438	106,872	1.3 %
NDA - Prisoner Medical Services	50,000	50,000	50,000	0	0.0 %
NDA - Public Technology, Inc.	20,000	20,000	20,000	0	0.0 %
NDA - Retiree Health Benefits Trust	48,902,589	48,902,589	48,902,589	0	0.0 %
NDA - Risk Management	20,564,342	20,564,342	20,564,342	0	0.0 %
NDA - Rockville Parking District	382,250	382,250	374,250	8,000	2.1 %
NDA - Snow Removal and Storm Cleanup	5,884,990	0	0	0	0.0 %
NDA - State Positions Supplement	44,662	44,662	57,731	-13,069	-29.3 %
NDA - State Property Tax Services	3,333,398	3,333,398	3,153,760	179,638	5.4 %
NDA - State Retirement Contribution	1,192,180	1,192,180	1,192,182	-2	0.0 %
NDA - Takoma Park Library Annual Payment	108,810	108,810	133,959	-25,149	-23.1 %
NDA - Takoma Park Police Rebate	916,295	916,295	952,413	-36,118	-3.9 %
NDA - Working Families Income Supplement	17,657,600	17,657,600	16,974,900	682,700	3.9 %
NDA: Tax Supported - County General Fund Total	280,507,642	273,836,241	272,183,109	1,653,132	0.6 %

Montgomery County, Maryland

**FY2014 THIRD QUARTER 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 \$2.211 billion and were 5.6% above the same period in FY13 due to revenues from the income tax (↑5.5%), the property tax – General Fund (↑6.4%), transfer tax (↑17.7%), telephone tax (↑20.4%), and investment income (↑438.2%). However, in January 2014, there was a one-time payment of over \$5.525 million in telephone tax revenues from Verizon for underreporting revenues from prior years. Excluding that payment, total tax revenues totaled \$2.205 billion and 5.4% above FY13.

- **Income Taxes:**

- Income tax revenues through March stood at \$830.9 million and approximately \$43.5 million above revenues for the same period in FY13. The increase was partly attributed to higher final payments from taxpayers filing for an extension, and the reconciliation for tax year 2012.

- **Property Taxes:**

- The General Fund (G.F.) portion of property tax collections (including penalties and interest) was \$1.075 billion (↑6.4%) through March compared to the same period in FY13. The increase is primarily due to an increase in the real property tax rate from \$0.724 to \$0.759 per \$100 of assessed value.

Revenue Update

Three Quarter Fiscal Year Results

- **Property Taxes (continued):**
 - After two consecutive yearly declines in real property taxable assessments, real property taxable assessment is estimated to increase 1.0 percent in FY14.
- **Transfer and Recordation Taxes:**
 - Revenues from the transfer tax (excluding condominium conversions) through March of FY14 were nearly \$68.0 million, or 17.7% above the same period last fiscal year.
 - Revenues from the recordation tax (excluding the CIP portion and the rate premium) were \$41.9 million, a decrease of 0.3% over last fiscal year.
 - The increase in the transfer tax is due to an increase in revenues from residential transactions (↑18.1%) and a slight increase in non-residential revenues (↑0.8%). The total volume of transfers, not including condo conversions, was up 13.0% during the three quarters of FY14 compared to the same period last fiscal year. However, the total volume of recordation tax transactions (excluding CIP portion and rate premium) was down 48.5% compared to the three quarters of fiscal year 2013. The increase in the transfer tax transactions were attributed to a rebound in housing sales during the first three quarters of FY14 (↑13.0%) and the reduction in recordation tax transactions is attributed to the significant decline in mortgage refinancing and the increase in the limited exemption for indemnity deed of trust – IDOT (↓59.6%).
 - The combined amount of revenues from the transfer and recordation taxes (excluding condo conversions, CIP portion, and rate premium) was \$109.8 million compared to \$99.8 million for the same period last year (↑10.1%).

Revenue Update

Three Quarter Fiscal Year Results

- **Consumption Taxes:**

- Total revenues from the consumption taxes (fuel/energy, hotel/motel, telephone, and admissions) totaled \$194.7 million, which were 0.2% below the three quarters of FY13. The decrease is attributed to the decline in the rates for the fuel/energy tax and a decline of 10.5 percent in hotel-motel tax revenues to date.
- Fuel/energy tax collections totaled \$146.5 million and 3.5% below the same period in FY13. The decline is attributed to the decline in the rates enacted by the County Council in May 2013.
- Revenues from the telephone tax were \$35.9 million and 20.4% above the previous fiscal year. The increase in total revenues is attributed to the one-time payment by Verizon. Excluding that payment, revenues increased 1.9 percent.
- Revenues from the hotel/motel tax were 10.5% below the same period last fiscal year. This decrease is due to the shutdown of the federal government during the fall of 2013 and the impacts of federal sequestration on federal government related travel.
- Revenues from the admissions tax were down 1.8% compared to the same period last fiscal year and largely attributed to receipts from coin-operated arcades (↓13.0%), golf facilities (↓12.5%), and athletic facilities (↓10.3%).

Revenue Summary Sheet

MAJOR REVENUE COLLECTIONS				
	Fiscal Year 2014	Fiscal Year 2013	Variance FY14-FY13	Percent Change
<u>TAXES:</u>				
Income Tax	\$830,909,008	\$787,401,373	\$43,507,635	5.5%
Property Tax (General Fund only)	\$1,075,136,959	\$1,010,687,956	\$64,449,004	6.4%
Transfer Tax (1)	\$67,993,106	\$57,755,541	\$10,237,565	17.7%
Recordation Tax (2)	\$41,856,778	\$41,998,201	(\$141,422)	-0.3%
Fuel/Energy Tax	\$146,518,886	\$151,781,253	(\$5,262,367)	-3.5%
Telephone Tax (3)	\$35,936,453	\$29,849,870	\$6,086,583	20.4%
Hotel/Motel Tax	\$10,492,979	\$11,727,358	(\$1,234,379)	-10.5%
Admissions Tax	\$1,742,566	\$1,775,232	(\$32,666)	-1.8%
<u>MISCELLANEOUS:</u>				
Investment Income (4)	\$447,982	\$83,232	\$364,750	438.2%
<u>TOTAL</u>	\$2,211,034,717	\$2,093,060,015	\$117,974,702	5.6%

SOURCE: Revenue data excluding income taxes from the County's Oracle eBusiness system.

- NOTES: (1) Excludes revenue from condominium conversions
 (2) Excludes School CIP and tax premium allocation
 (3) Telephone tax includes a one time payment of \$5,525,682.62. Excluding that payment, telephone tax revenues were \$30,410,770 or an increase of 1.9 percent.
 (4) Pooled investment income only