

MEMORANDUM

December 7, 2018

TO: County Council

FROM: Gene Smith, Legislative Analyst *JS*
Jacob Sesker, Senior Legislative Analyst *JSS*
Marlene Michaelson, Executive Director *MM*

SUBJECT: **Update** – County revenues

PURPOSE: Review and discuss updated revenue projections

Expected Attendees:

Alex Espinosa, Director, Department of Finance (DOF)

Robert Hagedoorn, Division Chief for Fiscal Management, DOF

David Platt, Chief Economist, DOF

The Office of Management and Budget's (OMB) memorandum provides the Council with an updated fiscal plan, including revenue projections (see ©1-6). The FY19-24 Fiscal Plan approved by the Council in June is on ©7-8. Due to the timing of this update relative to the transition, this discussion focuses on the revenue update, rather than on the possible implications for the budgets in FY19 and FY20. In addition to the FY19 Savings Plan discussed in the OMB memorandum, a discussion is scheduled for January to review the factors affecting government revenues and expenditures and the historical context of the Council's budget decisions.

I. Overview of the December fiscal plan update

- Revenues are on target. The County's total projected revenues are up by \$7.0 million in FY19 and down by \$3.5 million in FY20 when compared to the approved June Fiscal Plan. **This is a small, net positive, but overall total projected revenues are on target.**
- Beginning general fund reserves are down. The decline is due to lower than projected FY18 revenues and higher than projected FY18 expenditures, which together led to year-end FY18 reserves falling below projections. **As a result, a \$44.1 million gap exists between FY19 and FY20 for agency uses.** The OMB memorandum states that the Council will consider a FY19 Savings Plan to address this gap.
- Non-agency allocations are at the policy level. The updated fiscal plan continues to fund these items (e.g., debt service, additions to reserves, etc.) at the Council's recommended policy level and sets aside \$20 million for contingencies.

II. Background

A. Fiscal plan – Context with other Council decisions and updates.

The December fiscal plan update is one element of the Council's ongoing budget discussions and process. See ©9 for an overview of when certain annual updates and decision points occur. In addition to these recurring items, the Council periodically receives updates regarding fiscal expenditures. Some examples in 2018 include the November 15 report on compensation and benefits and a January update on the factors driving the costs of government.¹

B. What the fiscal plan is (and is not)

The fiscal plan is approved by the Council each year in June and updated for the Council in December and again in March with the Executive's recommended budget. **The document is a macro overview of the County's fiscal picture during a six-year window and represents a unique understanding of the economic and fiscal conditions of the County at a specific moment in time.**

The December update reflects changes in revenues and available resources from projections made in June. While the December update provides some additional clarity regarding future fiscal conditions, the update assumes many unknown items and does not reflect major known commitments or savings (see assumptions on ©5). **The fiscal plan does not provide a granular preview of the upcoming fiscal year's operating budget; these expenditures come into focus when the Council receives the Executive's recommended budget and begins its process to review the budget in April.**

Updates to the economic indicators and revenue projections often result in a six-year plan that is more (or less) constrained than the one approved in June. While multiple years are displayed, the December update discussion focuses on the current and upcoming fiscal year. The table below illustrates how December updates differed from the approved June for the upcoming fiscal year (e.g., FY20 in the 2018 update, FY19 in the 2017 update, etc.). During recent years, revenue projections were revised down, sometimes significantly, and agency uses were revised down to maintain policy levels of the non-agency uses. **While FY20's revenue revision is down, it is minor compared to prior years.**

Fiscal Plan – Major Categories: December Vs. June Projection (\$ millions)

	Total Revenues	Non-Agency Uses	Agency Uses
FY20	- 3.5	48.7	- 52.2
FY19	- 86.0	104.2	- 190.2
FY18	- 21.6	25.2	- 46.8
FY17	- 98.0	- 4.4	- 93.6
FY16	- 138.6	52.7	- 191.3

Non-Agency Uses include debt service, PAYGO, changes in reserves, etc.

¹ November 15 report:

https://www.montgomerycountymd.gov/council/Resources/Files/agenda/col/2018/20181115/20181115_-5.pdf

January 16 report:

http://montgomerycountymd.granicus.com/Viewer.php?view_id=169&clip_id=14376&meta_id=147823

III. Discussion on revenues and economic indicators

A. Revenues

The fiscal plan includes projected revenues from taxes and other sources. State aid for Montgomery County Public Schools is most of the revenues for “other sources,” and a key assumption of the fiscal plan is that this aid remain level. This assumption limits the resources available in the December update but is frequently a source of additional budgetary flexibility once the Council reviews the Executive’s recommended budget in April.

Most County revenues are derived from taxes. For FY19, 89% of the County’s taxes and 69% of the County’s total revenues are from the property and income tax, like most fiscal years. See ©10 for a historical chart of tax revenue from FY10-19. The table below compares the changes in the County’s projections for taxes from June 2018 to December 2018.

Change in Tax Revenue Projections December Vs. June 2018 (\$ millions)

Tax	FY19	FY20	FY21	FY22	FY23	FY24	6-Year Total
Property	- 21.3	- 12.0	- 4.0	- 0.4	12.7	25.2	0.2
Income	14.7	- 7.1	- 3.2	- 0.1	2.2	- 1.2	5.3
Record/Transfer	11.5	10.4	3.7	3.9	6.2	7.8	43.5
Energy	2.6	0.7	0.2	- 1.6	-1.3	- 0.6	0.0
Other	- 0.7	0.4	0.4	1.8	1.3	1.4	4.6
Total	6.8	- 7.6	- 2.9	3.6	21.1	32.6	53.6

Below are highlights about the limitations and factors that impact the four taxes that comprise 98% of the County tax revenues and the relevant factors impacting the FY19 and FY20 revisions.

Tax	Factors influencing actuals	Relevant factors impacting FY19 & 20 revisions
Property	<ul style="list-style-type: none"> • Inflation • Assessable base • Tax credits • Charter Limit 	<ul style="list-style-type: none"> • Assessable base lower than projected • Tax credits higher than projected
Income	<ul style="list-style-type: none"> • Set at State maximum • Economic conditions • Behavior of small number of high-income households 	<ul style="list-style-type: none"> • Behavior of small number of high-income households
Recordation & Transfer	<ul style="list-style-type: none"> • Economic conditions • Sale of small number of commercial properties 	<ul style="list-style-type: none"> • Sale of a small number of commercial properties
Energy	<ul style="list-style-type: none"> • Weather • Individual energy usage • Fuel prices 	<ul style="list-style-type: none"> • Warmer winters resulted in lower than projected consumption

B. Economic context

As always, current economic conditions are difficult to interpret, and future economic conditions are difficult to predict. As such, the updated fiscal plan does not assume an economic downturn of the magnitude of any recent recessions.

The economic context is important because it provides the backdrop that impacts the County's revenue projections. In its November press release, the Federal Reserve "*indicated that the [U.S.] labor market has continued to strengthen and that economic activity has been rising at a strong rate.*" The U.S. GDP grew for the second and third quarter of 2018, 4.2% and 3.5% respectively. The U.S. added 155,000 jobs in November, which was lower than projected but is still an indication of continued expansion, and unemployment remains at 3.7%, historically low.

See DOF's presentation slides on economic conditions and indicators on ©11-33. The County, likewise, is experiencing growth. Unemployment is 3.1% for October 2018, which is a 0.2% decrease from the previous year. Resident employment is up 0.8% from the previous year to a total of 545, 178. Finally, DOF estimates that wage and salary income grew by 4.4% in 2018.

While some signs point to continued growth in the near term, there are signs of headwinds for the national economy. A recent survey of economists by Reuters has increased the chance of a U.S. recession in the next two years to 35% from 30%. In addition, there are signs that the global economy is also slowing down. Recently, the Organization for Economic Cooperation and Development lowered its forecast for global economic growth to 3.5%, down from 3.7% for 2019. Finally, a more immediate reality is that volatility has returned to the stock market, and depending on the day, is interpreted as a signal for an impending slowdown or is a natural response to other factors, like rising interest rates, trade negotiations, oil supply and prices, geopolitical risk, etc. In the end, these factors are relevant to the Council's budget discussions though it is unlikely that the economists will have been able to distinguish the signal from the noise prior to the transmittal of the County Executive's budget in March.

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ROCKVILLE, MARYLAND

2018 DEC -7 PM 2:03

MEMORANDUM

RECEIVED
MONTGOMERY COUNTY
OFFICE

December 7, 2018

TO: Marlene Michaelson, Executive Director, County Council

FROM: Mary C. Beck, Acting Director, Office of Management and Budget *mcb*

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. The plan also reflects FY18 year-end results and a set-aside in FY19 for snow-related expenses as described below. Other assumptions in the fiscal plan, including funding for the Capital Improvements Program and other non-agency spending have not changed. Because this update is limited to fiscal assumptions, the projections are preliminary, and the fiscal plan included as part of the County Executive's recommended budget next March will inevitably differ from this one. However, this fiscal update is critical for the Executive's budget formulation process and will provide context for the many difficult decisions he is likely to make in developing his recommended FY20 Operating Budget and regarding spending decisions for the remainder of FY19.

The updated fiscal plan reflects a slight upward revision of \$3.5 million in FY19 and FY20 revenues (FY19 up \$7.0 million and FY20 down \$3.5 million) compared to the fiscal plan approved in May. However, FY18 year-end revenues and expenditures differed from estimates resulting in a shortfall of approximately \$41 million in anticipated reserves compared to the estimates in the approved fiscal plan. Also, a FY19 set aside of \$15 million for snow and storm related expense has been assumed. Due to these changes, **agency spending must be reduced by 1.0 percent—or \$44.1 million—from the FY19 approved level to balance the fiscal plan in FY20.** Because State maintenance of effort laws limit the extent to which appropriations can be reduced for the Montgomery County Public Schools (MCPS) and Montgomery College (MC), most of this reduction will need to be made to the budgets of County government and Maryland-National Park and Planning Commission (M-NCPPC). This translates to a 2.2 percent reduction to the budgets of these two agencies, or \$35.1 million for County government and \$2.8 million for M-NCPPC.

In response to the shortfall, the Executive has taken immediate action to control FY19 spending. County agencies are being asked to submit proposals for an FY19 Savings Plan for transmission to Council in mid-January. The County is also maintaining the existing position and procurement exemption processes. Please note that, because this is a limited update, the fiscal plan does not yet reflect the impact of these FY19 cost saving initiatives.

①

It is also important to note, while FY18 results were negative, cost savings measures of some type would have been necessary regardless as the fiscal plan approved in June indicated that the FY20 budget would be very constrained. It is prudent to implement these measures now, as difficult as they are, to ensure the County is on track to meet our 10 percent reserve target in FY20 and to avoid more draconian reductions in FY20.

Update to Revenue Projection and Reserves

In addition to the revised revenue forecast, the updated fiscal plan includes revisions to the required reserve contributions, FY19 approved supplemental appropriations, and a set aside for snow-related spending in FY19. These changes are outlined in greater detail below:

1. Revenues:

As detailed in the Department of Finance's December 2018 Revenue Update and Selected Economic Indicators report, the updated revenue forecast is essentially on track with the approved fiscal plan. Tax revenues have been revised upward by a total of \$3.5 million (up \$7 million in FY19, down \$3.5 million in FY20). As detailed below, the forecasted increases in income and transfer and recordation taxes are partially offset by reductions in estimated property tax revenues.

Income tax receipts had been lagging by about \$9 million, but the County's November income tax distribution was \$21 million more than expected due to October 15 filings and adjustments encompassing near final receipts for tax year 2017. Overall, income taxes have been revised upward by \$14.8 million in FY19, an increase of 8.9 percent from FY18. This follows last year's dramatic decline in the November distribution and subsequent writedown in the revenue forecast attributed to likely taxpayer behavior related to federal tax law changes. The forecast assumes some moderation in this growth to reflect the inherent volatility in these receipts and continued taxpayer adjustments to the tax law. As a result, the FY20 estimate has been revised downward by \$7 million, but total income tax revenues are still expected to grow 4.8 percent.

Based on collections to date, the forecast estimates an increase in transfer and recordation taxes of approximately \$22 million in FY19 and FY20 compared to the approved fiscal plan. The increase is based on anticipated residential sales and higher median home price.

Estimated property tax revenues, assumed at the Charter Limit in FY20, have been revised downward \$21 million in FY19 and \$12 million in FY20 primarily due to slower than expected growth in the final FY18 taxable assessable base and estimated FY19 taxable assessable base. Still, property tax revenues are projected to increase 2.0 percent in FY19 and 3.3 percent in FY20.

2. FY20 Expenditures:

The fiscal plan assumes FY20 expenditures for MCPS and MC at maintenance-of-effort. To balance the fiscal plan, FY20 expenditures for County government and M-NCPPC are reduced by 2.2 percent. In total, agency expenditures decline 1.0 percent, or \$44.1 million, compared to the FY19 budget. **It should be noted that this version of the fiscal plan does not account for**

several cost increases anticipated for FY20, including adjustments to compensation, increased benefits costs, Maintenance-of-Effort adjustments due to updated school enrollment estimates, and annualization of new programs, among other cost pressures likely to increase the budget gap. The current version of the fiscal plan also excludes the impact of FY19 savings plan initiatives.

3. Reserves:

The updated fiscal plan reflects the impact of the revised revenue forecast and FY18 year-end results. According to the Revenue Stabilization Fund (RSF) 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 or 0.5 percent of adjusted governmental revenues (AGR) or the amount needed to obtain a total reserve of 10 percent. Under this law, \$21.7 million must be contributed to the RSF in FY20.

The updated fiscal plan projects total reserves to be 8.4 percent of AGR at the end of FY19. This is significantly less than the 9.4 percent established as the minimum FY19 policy target as reflected in the approved fiscal plan. This reduction is due primarily to the negative variance in FY18 year-end results and a set-aside for snow removal costs in the amount of \$15 million.

The fiscal plan assumes that in FY20 and beyond, the General Fund reserve will be funded at the Charter limit and contributions to the RSF will be made consistent with the County's fiscal policies and RSF law. Total reserves are still projected to increase to 10 percent by FY20 in accordance with the County's fiscal policies.

Looking Ahead

As you know, the County Executive will update the fiscal plan in March as part of his Recommended FY20 Operating Budget and FY20-25 Public Services Program. The March update will include several changes that are not part of the attached fiscal plan because the information is currently not available or is dependent on events that will occur subsequent to this transmittal, including:

1. The County Executive's recommendations for the FY19-24 Amended CIP and the FY20 Operating Budget.
2. The results of the FY19 Savings Plan.
3. The mid-December update by the State Board of Revenue Estimates on its economic forecast.
4. The February 2019 income tax distribution and data on the County's excise taxes for November 2018 through February 2019.
5. Revisions to estimates of the assessable base by the State Department of Assessments and Taxation expected in January 2019.
6. Federal and State budget decisions that may affect the County's budget.

In summary, the fiscal plan reflects a shortfall in anticipated resources for FY19 and FY20. Immediate action must be taken to address this near-term shortfall, and continued restraint in spending plans will be needed to maintain the fiscal health of the County going forward.

Marlene Michaelson, Executive Director, County Council
December 7, 2018
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MB:cm

Attachments: December Fiscal Plan
December 2018 Revenue Update and Selected Economic Indicators

c: Fariba Kassiri, Acting Chief Administrative Officer
Alexandre A. Espinosa, Director, Department of Finance
Department Heads and Office Directors
Management and Leadership Service Employees
Gino Renne, President UFCW Local 1994
Jeff Buddle, President, International Association of Fire Fighters, Local 1664
Torri Cooke, President, Fraternal Order of Police, Lodge 35

Fiscal Plan December 2018

Tax Supported Fiscal Plan Summary

(\$ in Millions)															
	App. FY19	Est. FY19	% Chg. FY19-20	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24	% Chg. FY24-25	Projected FY25
Total Revenues	5-24-18	12-11-18	App/Proj	Est/Proj	12-11-18										
Property Tax	1,808.4	1,787.1	2.1%	3.3%	1,846.9	3.4%	1,909.1	3.2%	1,970.2	3.9%	2,046.2	3.8%	2,124.8	3.6%	2,202.3
Income Tax	1,585.2	1,589.9	5.7%	4.8%	1,675.9	3.7%	1,737.6	3.2%	1,794.0	4.4%	1,872.2	4.6%	1,958.1	4.3%	2,043.0
Transfer/Recordation Tax	162.9	174.4	9.8%	2.6%	179.0	-0.8%	177.6	3.6%	184.0	2.9%	189.4	4.1%	197.2	3.6%	204.2
Other Taxes	273.7	275.8	0.5%	-0.3%	275.0	0.4%	276.2	0.2%	276.9	0.1%	277.1	0.4%	278.2	0.3%	279.1
Other Revenues	1,098.1	1,098.1	-1.3%	-1.3%	1,084.2	-0.1%	1,082.7	0.5%	1,088.2	0.4%	1,092.4	0.4%	1,096.8	0.4%	1,101.2
Total Revenues	4,928.3	4,935.3	2.7%	2.5%	5,061.0	2.4%	5,183.3	2.5%	5,313.3	3.1%	5,477.3	3.2%	5,655.0	3.1%	5,829.8
Net Transfers in (Out)	34.9	34.9	-31.6%	-31.6%	23.9	2.2%	24.4	2.3%	25.0	2.4%	25.8	2.4%	26.2	2.4%	26.8
Total Revenues and Transfers Available	4,963.3	4,970.3	2.5%	2.3%	5,084.9	2.4%	5,207.7	2.5%	5,338.2	3.1%	5,502.8	3.2%	5,681.2	3.1%	5,856.7
Non-Operating Budget Use of Revenues															
Debt Service	420.0	420.0	4.6%	4.6%	439.2	2.3%	449.3	2.6%	461.2	2.8%	474.1	0.5%	476.4	0.0%	476.4
PAYGO	33.0	33.0	-3.0%	-3.0%	32.0	-3.1%	31.0	-3.2%	30.0	0.0%	30.0	0.0%	30.0	0.0%	30.0
CIP Current Revenue	35.6	35.6	121.0%	121.0%	78.7	9.9%	86.5	-14.2%	74.2	30.3%	96.7	0.2%	96.9	0.0%	96.9
Change in Other Reserves	-37.3	-26.2	100.5%	100.8%	0.2	-13.2%	0.2	-1.8%	0.2	19.7%	0.2	7.5%	0.2	-0.2%	0.2
Contribution to General Fund Undesignated Reserves	21.1	0.2	242.1%	33444.6%	72.2	-92.5%	5.4	-0.7%	5.4	1.0%	5.5	28.6%	7.0	9.2%	7.7
Contribution to Revenue Stabilization Reserves	29.7	29.7	-27.1%	-27.1%	21.7	-75.3%	5.4	43.0%	7.6	84.2%	12.6	-2.9%	12.2	-15.6%	10.3
Set Aside for other uses (supplemental appropriations)	-4.0	12.8	600.0%	56.4%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
Total Other Uses of Resources	498.2	505.2	33.3%	31.4%	663.9	-10.0%	597.8	0.1%	598.6	6.7%	639.0	0.6%	642.7	-0.2%	641.5
Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)	4,465.1	4,465.1	-1.0%	-1.0%	4,421.0	4.3%	4,609.9	2.8%	4,739.6	2.6%	4,863.8	3.6%	5,038.5	3.5%	5,215.2
Agency Uses															
Montgomery County Public Schools (MCPS)	2,444.1	2,444.1	-0.1%	-0.1%	2,442.3										
Montgomery College (MC)	265.5	265.5	-1.7%	-1.7%	261.0										
MNCPPC (w/o Debt Service)	128.3	128.3	-2.2%	-2.2%	125.5										
MCG	1,627.2	1,627.2	-2.2%	-2.2%	1,592.1										
Agency Uses	4,465.1	4,465.1	-1.0%	-1.0%	4,421.0	4.3%	4,609.9	2.8%	4,739.6	2.6%	4,863.8	3.6%	5,038.5	3.5%	5,215.2
Total Uses	4,963.3	4,970.3	2.5%	2.3%	5,084.9	2.4%	5,207.7	2.5%	5,338.2	3.1%	5,502.8	3.2%	5,681.2	3.1%	5,856.7
(Gap)/Available	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0

Assumptions:

- Property taxes are at the Charter Limit with a \$692 credit. Other taxes are at current rates.
- Reserve contributions are consistent with legal requirements and the minimum policy target.
- PAYGO, debt service, and current revenue reflect the Approved FY19-24 Capital Improvements Program.
- State Aid, including MCPS and Montgomery College, is not projected to increase from FY20-25.
- Projected FY20 allocations for MCPS and Montgomery College assume funding at maintenance of effort. The allocations do not include potential increases to State Aid or other possible agency resources, such as use of additional fund balance. Additional State Aid or use of fund balance would increase the rate of growth for MCPS and Montgomery College.

Fiscal Plan December 2018
Tax Supported Fiscal Plan Summary

(\$ in Millions)															
	App. FY19	Est. FY19	% Chg. FY19-20	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24	% Chg. FY24-25	Projected FY25
Beginning Reserves			App/Proj	Est/Proj											
Unrestricted General Fund	133.0	102.7	-22.6%	0.2%	102.9	70.1%	175.1	3.1%	180.6	3.0%	186.0	2.9%	191.4	3.7%	198.5
Revenue Stabilization Fund	308.3	308.3	9.6%	9.6%	338.0	6.4%	359.6	1.5%	365.0	2.1%	372.6	2.9%	385.2	3.2%	397.4
Total Reserves	441.2	411.0	-0.1%	7.3%	440.9	21.3%	534.7	2.0%	545.5	2.4%	558.6	3.2%	576.6	3.3%	595.9
Additions to Reserves															
Unrestricted General Fund	21.1	0.2	242.1%	3344.6%	72.2	-92.5%	5.4	-0.7%	5.4	1.0%	5.5	28.6%	7.0	9.2%	7.7
Revenue Stabilization Fund	29.7	29.7	-27.1%	-27.1%	21.7	-75.3%	5.4	43.0%	7.6	64.2%	12.6	-2.9%	12.2	-15.6%	10.3
Total Change in Reserves	50.8	29.9	84.8%	213.5%	93.8	-88.5%	10.8	21.0%	13.1	38.0%	18.0	6.7%	19.2	-6.5%	18.0
Ending Reserves															
Unrestricted General Fund	154.1	102.9	13.6%	70.1%	175.1	3.1%	180.6	3.0%	186.0	2.9%	191.4	3.7%	198.5	3.9%	206.1
Revenue Stabilization Fund	338.0	338.0	6.4%	6.4%	359.6	1.5%	365.0	2.1%	372.6	3.4%	385.2	3.2%	397.4	2.6%	407.7
Total Reserves	492.0	440.9	8.7%	21.3%	534.7	2.0%	545.5	2.4%	558.6	3.2%	576.6	3.3%	595.9	3.0%	613.8
Reserves as a % of Adjusted Governmental Revenues	9.4%	8.4%			10.0%		10.0%		10.0%		10.0%		10.0%		10.0%
Other Reserves															
Montgomery College	4.7	4.7	0.0%	0.0%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7
M-NCPPC	4.3	4.3	2.1%	2.1%	4.4	3.3%	4.6	3.2%	4.7	3.8%	4.9	3.8%	5.1	3.6%	5.3
MCPS	0.0	0.0	n/a	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
MCG Special Funds	0.8	0.8	13.6%	13.6%	0.9	3.1%	1.0	3.0%	1.0	2.9%	1.0	3.7%	1.1	3.9%	1.1
MCG + Agency Reserves as a % of Adjusted Govt Revenues	9.6%	8.6%			10.2%		10.2%		10.2%		10.2%		10.2%		10.2%
Retiree Health Insurance Pre-Funding															
Montgomery County Public Schools (MCPS)	79.4	79.4			88.7		96.8		103.7		105.0		110.0		110.0
Montgomery College (MC)	2.8	2.8			3.0		3.1		3.3		3.3		3.3		3.3
MNCPPC	3.0	3.0			2.9		2.8		2.8		2.7		2.7		2.7
MCG	43.6	43.6			47.0		50.2		53.4		51.9		51.9		51.9
Subtotal Retiree Health Insurance Pre-Funding	128.8	128.8			141.6		152.9		163.2		163.0		167.9		167.9
Adjusted Governmental Revenues															
Total Tax Supported Revenues	4,928.3	4,935.3	2.7%	2.5%	5,061.0	2.4%	5,183.3	2.5%	5,313.3	3.1%	5,477.3	3.2%	5,555.0	3.1%	5,829.8
Capital Projects Fund	187.2	187.2	-11.6%	-11.6%	166.5	-14.8%	141.0	3.3%	145.7	4.4%	152.0	3.8%	157.8	0.0%	157.8
Grants	118.5	118.5	2.1%	2.1%	120.9	2.2%	123.6	2.3%	126.4	2.4%	129.4	2.4%	132.6	2.4%	135.8
Total Adjusted Governmental Revenues	5,234.0	5,241.0	2.2%	2.0%	5,347.5	1.9%	5,447.9	2.5%	5,585.4	3.1%	5,758.7	3.2%	5,945.4	3.0%	6,123.4

County Council Approved FY19-24 Public Services Program
Tax Supported Fiscal Plan Summary

(\$ in Millions)														
	App. FY18	Est. FY18	% Chg. FY18-19	App. FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24
Total Revenues	5-25-17			App/App 5-24-18										
Property Tax	1,770.2	1,766.8	2.2%	1,808.4	2.8%	1,858.9	2.9%	1,913.1	3.0%	1,970.6	3.2%	2,033.5	3.3%	2,099.8
Income Tax	1,567.9	1,482.0	1.8%	1,585.2	6.2%	1,683.0	3.4%	1,740.8	3.1%	1,794.1	4.2%	1,870.0	4.8%	1,959.3
Transfer/Recordation Tax	170.4	157.7	-4.4%	162.8	3.5%	168.8	3.1%	173.9	3.5%	179.9	1.8%	183.2	3.4%	189.4
Other Taxes	282.5	268.4	-3.1%	273.7	0.1%	274.1	0.6%	275.7	0.3%	276.7	0.1%	277.1	0.1%	277.4
Other Revenues	1,052.5	1,056.0	4.3%	1,098.1	-1.7%	1,060.9	-0.1%	1,078.5	0.5%	1,083.9	0.4%	1,088.1	0.4%	1,092.5
Total Revenues	4,833.5	4,730.9	2.0%	4,928.3	2.8%	5,064.5	2.3%	5,182.0	2.4%	5,305.1	2.8%	5,451.8	3.1%	5,615.3
Net Transfers In (Out)	34.3	49.8	1.8%	34.9	-31.6%	23.9	2.2%	24.4	2.3%	26.0	2.4%	25.8	2.4%	26.2
Total Revenues and Transfers Available	4,867.8	4,780.4	2.0%	4,963.3	2.5%	5,088.4	2.3%	5,206.4	2.4%	5,330.1	2.8%	5,477.4	3.1%	5,644.6
Non-Operating Budget Use of Revenues														
Debt Service	399.9	392.2	5.0%	420.0	4.6%	439.2	2.3%	449.3	2.8%	461.2	2.8%	474.1	0.5%	478.4
PAYGO	34.0	34.0	-2.9%	33.0	-3.0%	32.0	-3.1%	31.0	-3.2%	30.0	0.0%	30.0	0.0%	30.0
CIP Current Revenue	86.2	62.0	-46.2%	35.6	121.0%	78.7	9.9%	88.5	-14.2%	74.2	30.3%	96.7	0.2%	95.9
Change in Other Reserves	-42.2	-21.3	11.7%	-37.3	100.8%	0.2	-25.2%	0.2	-1.5%	0.2	7.2%	0.2	8.5%	0.2
Contribution to General Fund Undesignated Reserves	6.4	14.8	229.3%	21.1	-7.1%	19.8	-63.9%	7.1	-25.8%	5.3	-2.0%	5.2	22.5%	6.3
Contribution to Revenue Stabilization Reserves	27.7	27.6	7.3%	29.7	-14.1%	25.5	-88.0%	3.1	150.8%	7.6	30.7%	10.0	3.0%	10.3
Set Aside for other uses (supplemental appropriations)	0.0	-8.4	n/a	-4.0	600.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
Total Other Uses of Resources	492.0	502.7	1.3%	498.2	23.6%	616.2	-2.8%	597.1	0.2%	598.8	6.3%	636.1	0.8%	640.1
Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)	4,375.8	4,277.7	2.0%	4,465.1	0.2%	4,473.2	3.0%	4,609.3	2.7%	4,731.7	2.3%	4,841.2	3.4%	5,004.4
Agency Uses														
Montgomery County Public Schools (MCPS)	2,368.7	2,347.3	3.2%	2,444.1										
Montgomery College (MC)	282.8	254.8	1.1%	265.5										
MNCPCC (w/o Debt Service)	125.8	123.6	1.9%	128.3										
MCG	1,618.5	1,552.0	0.5%	1,627.2										
Agency Uses	4,375.8	4,277.7	2.0%	4,465.1	0.2%	4,473.2	3.0%	4,609.3	2.7%	4,731.7	2.3%	4,841.2	3.4%	5,004.4
Total Uses	4,867.8	4,780.4	2.0%	4,963.3	2.5%	5,088.4	2.3%	5,206.4	2.4%	5,330.1	2.8%	5,477.4	3.1%	5,644.6
(Gap)/Available	0.0	0.0		0.0		0.0		0.0		0.0		0.0		0.0

Assumptions:

1. Property taxes are at the Charter Limit with a \$692 credit. The FY19 weighted property tax rate is 1.98 cents lower than FY18. Other taxes are at current rates.
2. Reserve contributions are consistent with legal requirements and the minimum policy target.
3. PAYGO, debt service, and current revenue reflect the Approved FY19-24 Capital Improvements Program.
4. State Aid, including MCPS and Montgomery College, is not projected to increase from FY19-24.

County Council Approved FY19-24 Public Services Program
Tax Supported Fiscal Plan Summary

(\$ in Millions)														
	App. FY18	Est. FY18	% Chg. FY18-19	App. FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21	% Chg. FY21-22	Projected FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24
Beginning Reserves														
Unrestricted General Fund	142.8	118.4	-0.8%	133.0	15.8%	154.1	12.7%	173.7	4.1%	180.8	2.9%	188.1	2.8%	191.2
Revenue Stabilization Fund	280.4	280.7	9.9%	308.3	9.6%	338.0	7.5%	363.5	0.8%	366.5	2.1%	374.2	2.7%	384.2
Total Reserves	423.2	399.0	4.3%	441.2	11.5%	492.0	9.2%	537.1	1.9%	547.3	2.4%	560.2	2.7%	575.4
Additions to Reserves														
Unrestricted General Fund	6.4	14.6	229.3%	21.1	-7.1%	19.6	-63.8%	7.1	-25.6%	5.3	-2.0%	5.2	22.5%	6.3
Revenue Stabilization Fund	27.7	27.6	7.3%	29.7	-14.1%	25.5	-88.0%	3.1	150.8%	7.6	30.7%	10.0	3.0%	10.3
Total Change in Reserves	34.1	42.2	49.0%	50.8	-11.2%	45.1	-77.5%	10.1	27.5%	12.9	17.4%	15.2	9.7%	16.6
Ending Reserves														
Unrestricted General Fund	149.2	133.0	3.3%	154.1	12.7%	173.7	4.1%	180.8	2.9%	186.1	2.8%	191.2	3.3%	197.6
Revenue Stabilization Fund	308.1	308.3	9.7%	338.0	7.5%	363.5	0.8%	366.5	2.1%	374.2	2.7%	384.2	2.7%	394.5
Total Reserves	457.3	441.2	7.6%	492.0	8.2%	537.1	1.9%	547.3	2.4%	560.2	2.7%	575.4	2.9%	592.0
Reserves as a % of Adjusted Governmental Revenues	8.9%	8.8%		8.4%		10.0%		10.0%		10.0%		10.0%		10.0%
Other Reserves														
Montgomery College	4.6	9.4	1.1%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7
M-MCPPC	5.0	11.9	-13.4%	4.3	2.7%	4.5	2.9%	4.6	3.0%	4.7	3.1%	4.9	3.2%	5.0
MCPB	0.0	25.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
MCG Special Funds	0.7	0.9	9.8%	0.8	12.7%	0.9	4.1%	1.0	2.8%	1.0	2.8%	1.0	3.3%	1.1
MCG + Agency Reserves as a % of Adjusted Govt Revenues	9.1%	9.7%		9.6%		10.2%		10.2%		10.2%		10.2%		10.2%
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)	74.2	55.2		79.4		88.7		96.8		103.7		106.0		110.0
Montgomery College (MC)	2.8	0.6		2.8		3.0		3.1		3.3		3.3		3.3
MNCPPC	2.1	2.1		3.0		2.9		2.9		2.8		2.7		2.7
MCG	43.4	43.4		43.6		47.0		50.2		53.4		51.9		51.9
Subtotal Retiree Health Insurance Pre-Funding	122.2	101.2		128.8		141.6		152.9		163.2		163.0		167.9
Adjusted Governmental Revenues														
Total Tax Supported Revenues	4,833.6	4,730.9	2.0%	4,928.3	2.8%	5,064.5	2.3%	5,182.0	2.4%	5,305.1	2.8%	5,451.8	3.1%	5,618.3
Capital Projects Fund	176.0	176.0	6.4%	187.2	-11.8%	166.5	-14.8%	141.0	3.3%	145.7	4.4%	162.0	3.8%	167.8
Grants	117.4	117.4	0.9%	118.5	2.1%	120.9	2.2%	123.8	2.3%	126.4	2.4%	128.4	2.4%	132.6
Total Adjusted Governmental Revenues	5,128.9	5,024.3	2.1%	5,234.0	2.2%	5,351.0	1.8%	5,446.5	2.4%	5,677.3	2.8%	5,733.2	3.1%	5,908.7

Annual Council Decision Points and Updates for the Budget

December: Fiscal plan update. The Council receives an update on the revenue projections and available resources compared to the approved fiscal plan from the prior June.

January: Spending affordability guidelines (SAG), Capital Improvements Program. The Council reviews the current guidelines that govern debt service expenditures.

January: SAG, Operating Budget. The Council reviews and sets expenditure levels that trigger super-majority voting requirements for the next fiscal year operating budget.

April: Operating budget overview. The Council reviews that major components of the Executive's recommended budget.

April-May: Budget review. The Council's committees review and make recommendations on the operating budgets for departments and agencies.

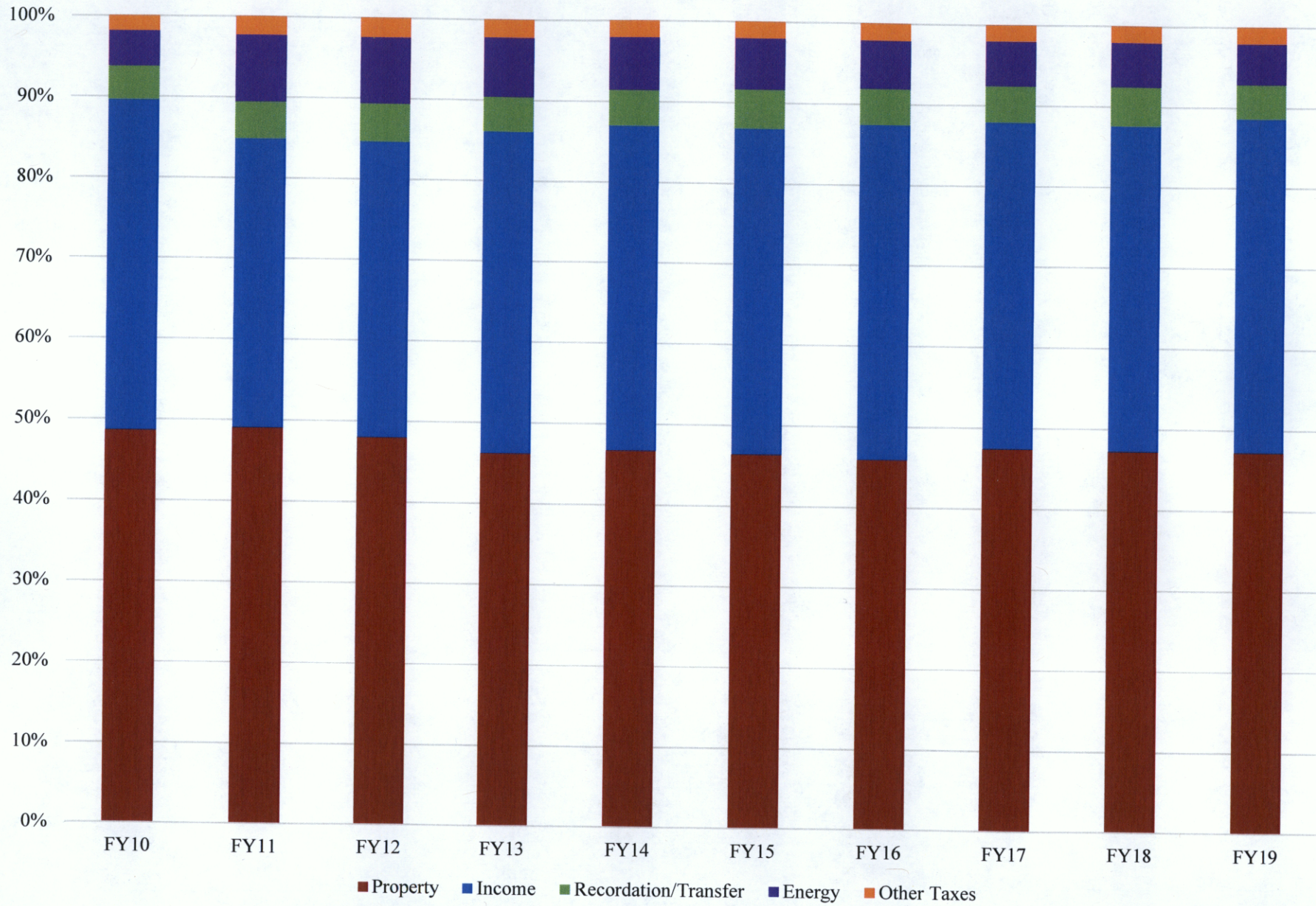
May 1: Collective Bargaining Agreements (CBA). The Council approves recently negotiated CBAs that govern compensation and benefits expenditures for the term of the agreements.

Late-May: Final budget decisions. The Council makes its final decisions regarding the next fiscal year's operating budget.

June: Fiscal Plan. The Council approves a six-year fiscal plan based on the approved operating budget, which becomes the basis for the following December update.

September: SAG, Capital Improvements Program. Every two years, the Council reviews and approves guidelines that govern debt service expenditures.

FY10 - FY19 Approved Taxes



Montgomery County, Maryland

**DECEMBER 2018
REVENUE UPDATE AND
SELECTED ECONOMIC
INDICATORS**

Department of Finance



December 11, 2018

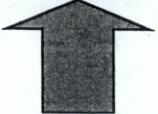



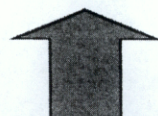


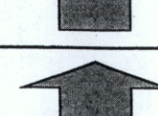
Overview

- **Finance provides a full revenue update in December of each year, after the November income tax distribution**
- **At this time, near 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

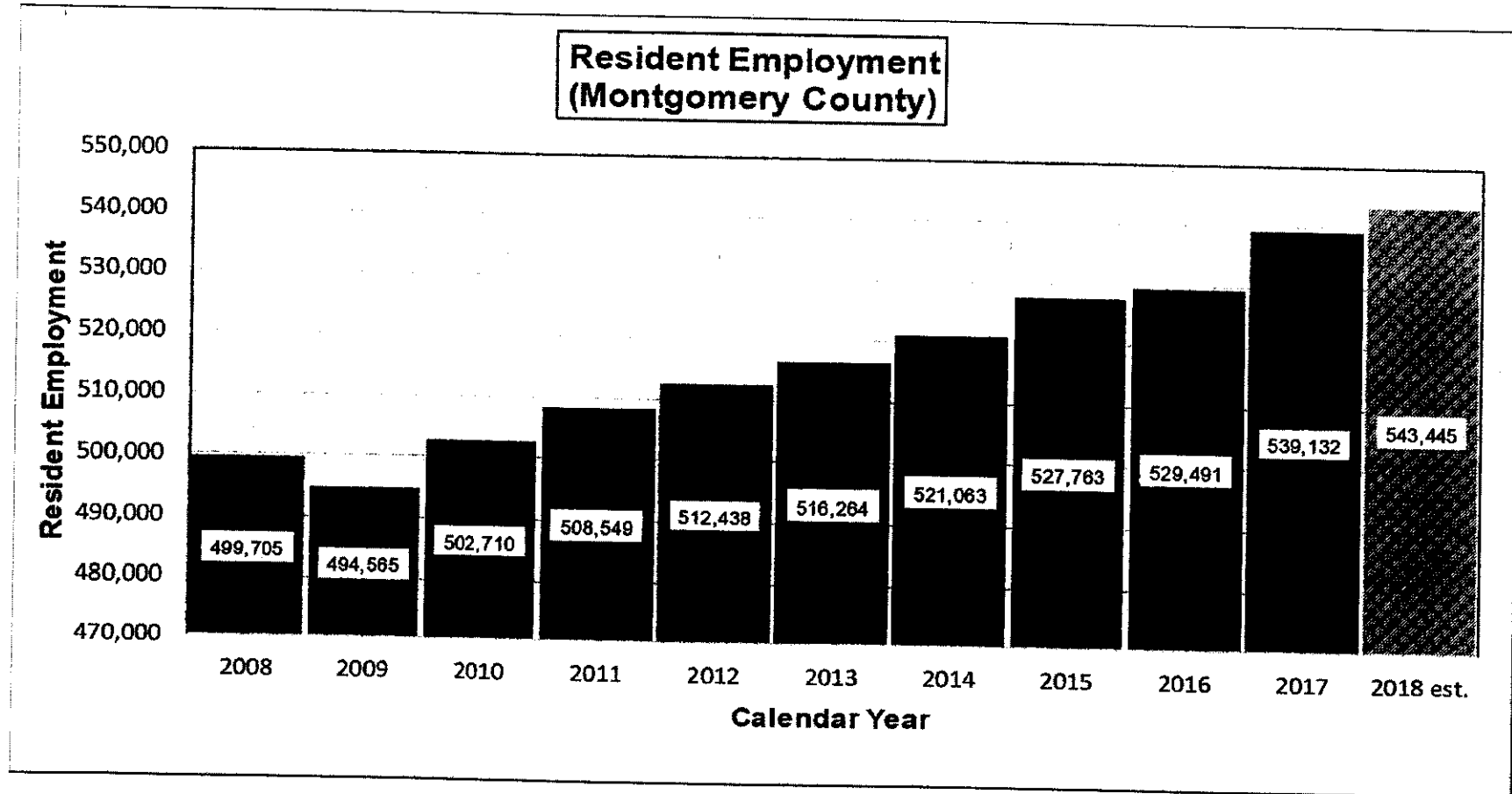
Signs of Continued Economic Growth

- A drop in unemployment rate from 3.3 percent in October 2017 to 3.1 percent in October 2018, an increase in resident employment estimated for CY18 ($\uparrow 0.8\%$), and an estimated increase in wage and salary income in CY18 ($\uparrow 4.4\%$) that follows an increase of 1.6 percent in CY17.**
- Payroll employment is expected to increase 0.9 percent in CY18 that follows a 1.1 percent increase in CY17.**
- Median sales price for existing homes is expected to increase 5.2 percent in CY18 following an increase of 2.5 percent in CY17.**

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON	DIRECTION (yr.-over-yr.)
INFLATION	2.03% Sept. 2018	Property Taxes	Key determinant of property tax revenues at the Charter Limit	1.70% Sept. 2017	
UNEMPLOYMENT RATE	3.1% Oct. 2018	Income Taxes	Indicates overall health of the job market	3.3% Oct. 2017	
RESIDENT EMPLOYMENT	545,178 Oct. 2018	Income Taxes	Primary determinant of income tax receipts	539,919 Oct. 2017	
PAYROLL EMPLOYMENT (QCEW Data)	478,351 June 2018	Income Taxes	Another determinant of income tax receipts	477,835 June 2017	
STOCK MARKET - S&P 500	2,760.17 Nov. 30, 2018	Income Taxes	Key determinant of capital gains portion of the income tax	2,647.58 Nov 30, 2017	
HOME SALES	873 Oct. 2018	Transfer/Recordation Taxes	Indicates activity affecting receipts	985 Oct. 2017	
HOME PRICES (Median Price Sold)	\$425,000 Oct. 2018	Transfer/Recordation Taxes	Taxes are based on values, affects amount of taxes collected	\$398,000 Oct. 2017	
FEDERAL FUNDS RATE	2.20% Nov. 2018	Investment Income	County's return on investments closely correlated with the Fed Funds	1.16% Nov. 2017	

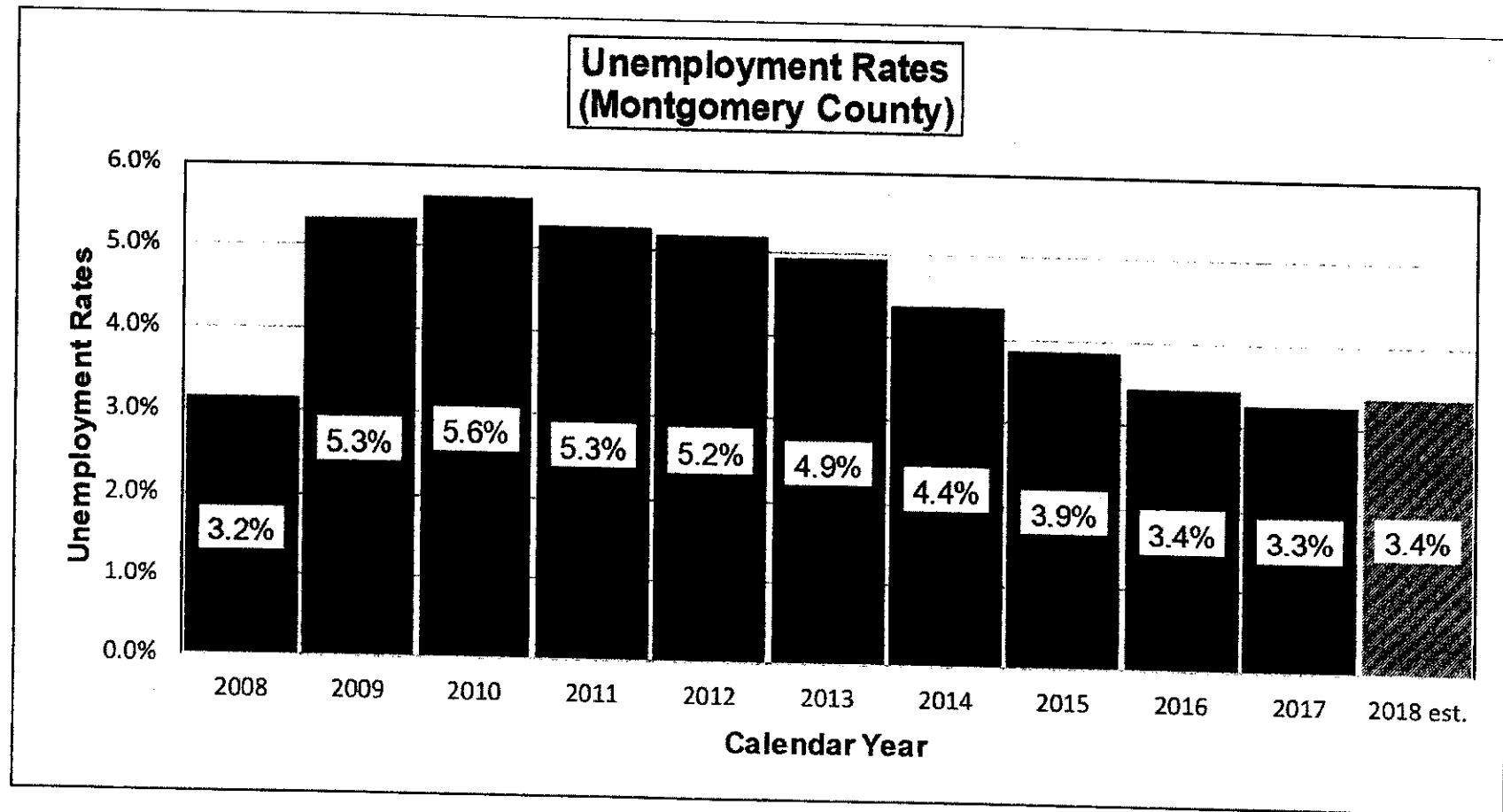
Department of Finance estimates that resident employment will reach 543,445 in CY18 (↑0.8% over CY17).

On a year-over-year basis, resident employment increased by nearly 5,300 from October 2017 to October of this year (↑1.0%).



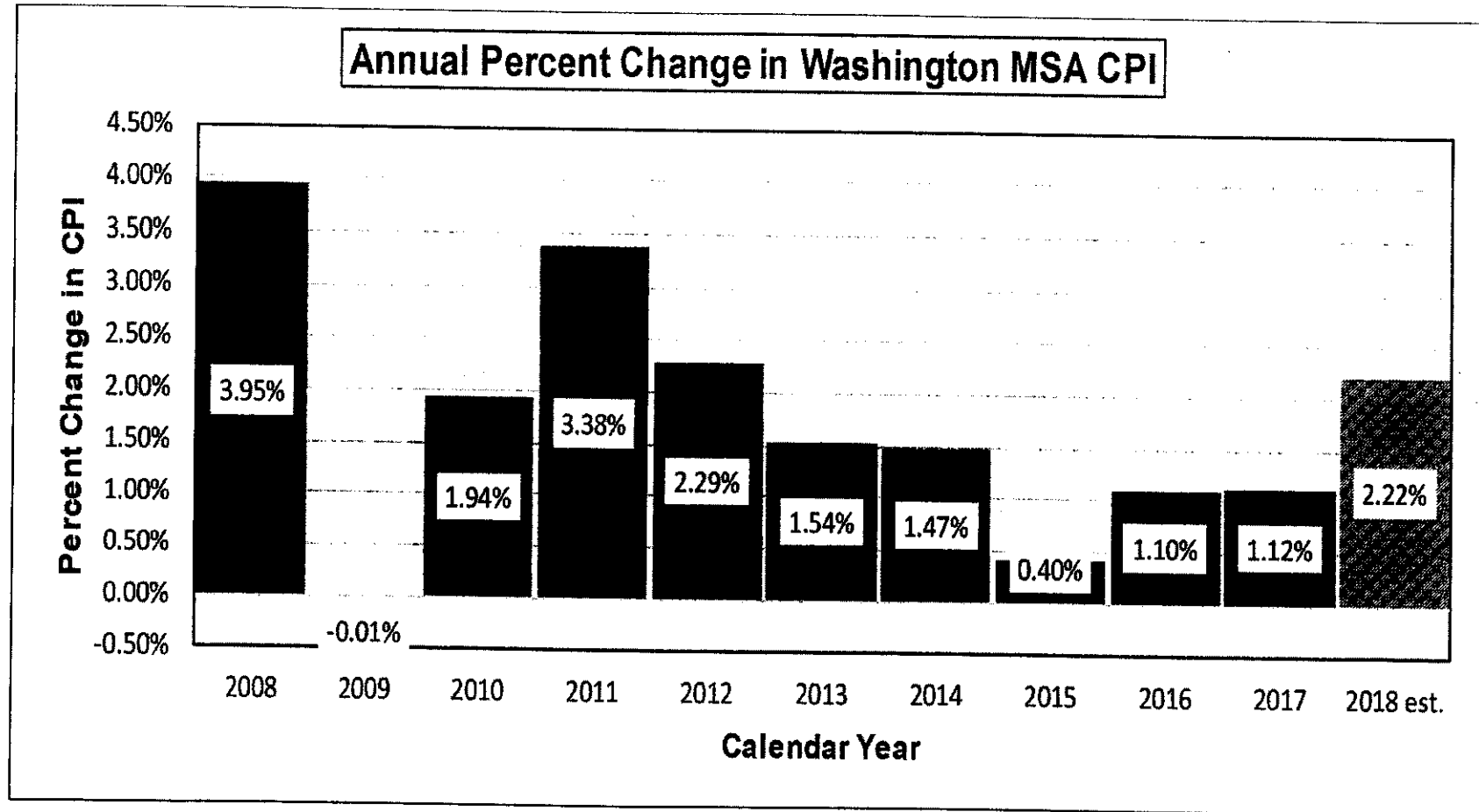
The Department of Finance estimates that the unemployment rate will be 3.4 percent in CY18 – slightly above the unemployment rate in CY17 but well below the peak rate of 5.6 percent in CY10 .

The unemployment rate in October was 3.1 percent compared to 3.3 percent in October 2017.

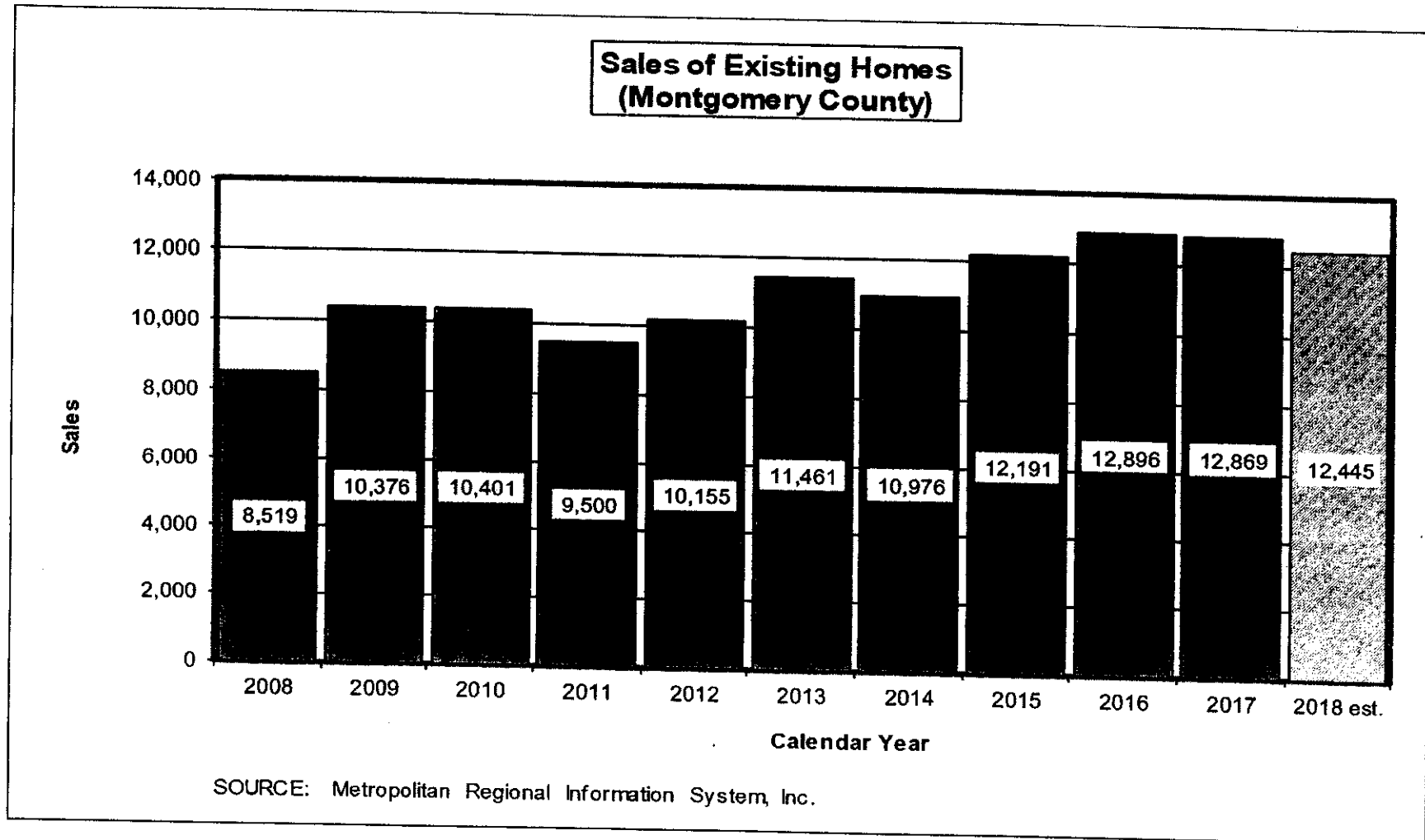


Inflation is expected to increase 2.22 percent in CY2018.

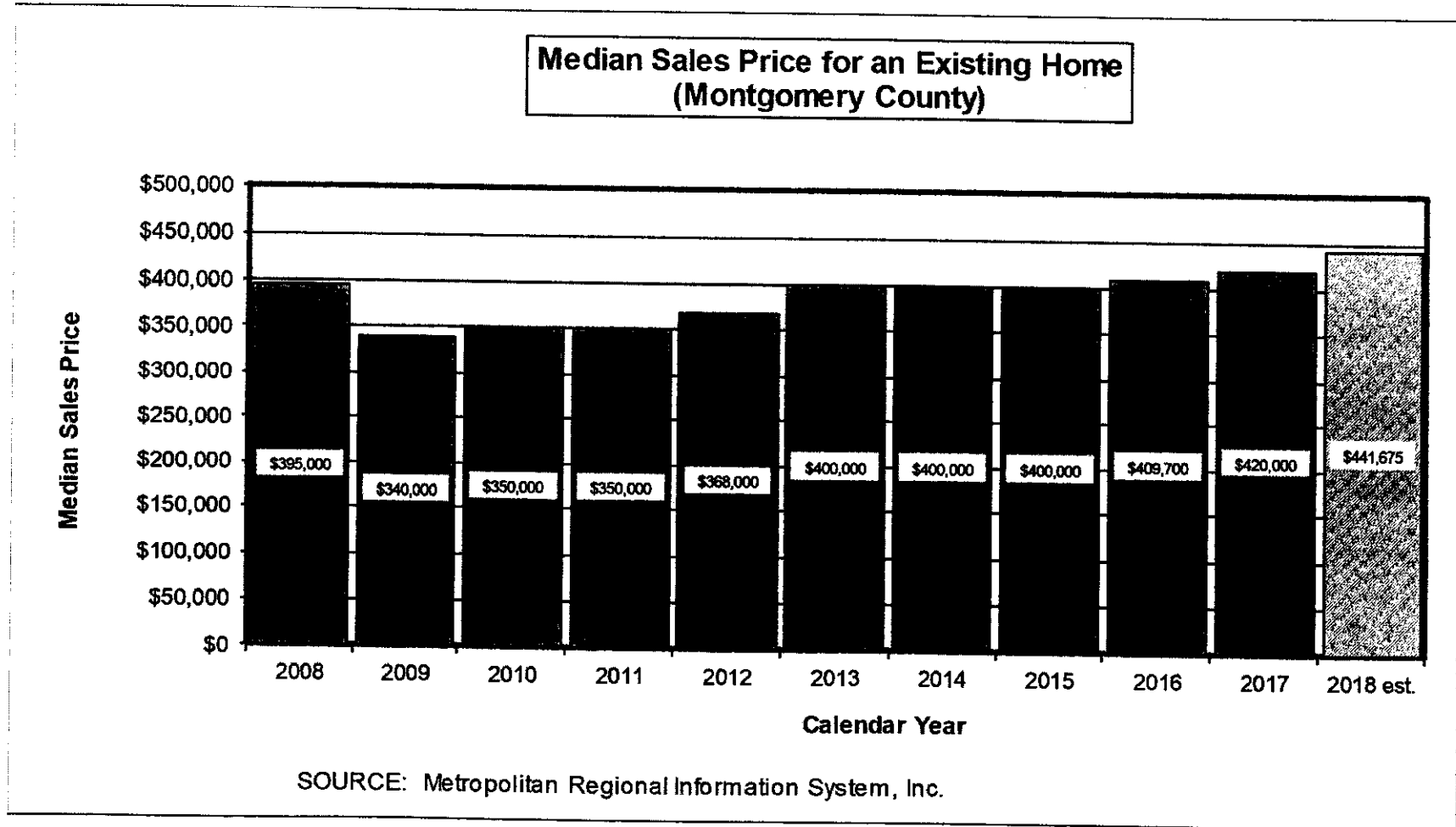
For the Washington Metropolitan Statistical Area, the CPI increased 2.03 percent in September over September 2017.



Home sales are estimated to decrease 3.3 percent this year.
Total sales of existing homes increased 5.8 percent in CY16 but decreased a modest 0.2 percent in CY17.



Median home sales price is expected to increase 5.2 percent in CY18 following an increase of 2.5 percent in CY17.



REVENUE UPDATE

FY19 and FY20 Summary

The outlook for the remainder of this fiscal year (FY19) and next year (FY20) suggests a modest increase in revenues over the two-year period compared to the estimates prepared for the FY19 budget. This increase is mainly attributed to revisions to income tax, transfer-recordation tax, and fuel-energy tax revenues in FY19. The combined increase of all tax-supported revenues in FY19 and FY20 is nearly \$3.5 million higher than previously estimated.

Revenue Update

December revised revenues for FY19 are \$7.0 million above the FY19 Budget estimates. The major contributors are the estimated increase in the income tax, transfer/recordation tax, and fuel-energy tax revenues. Revised property tax revenues are estimated to decrease attributed to the shortfall in actual revenues in FY18 due to the slower than expected growth in the final taxable assessable base in FY18 and estimated taxable assessable base in FY19 and an increase in credits.

	FY19 BUDGET - DECEMBER 2018 UPDATE (\$MIL.)		
	FY19 Budget	Dec. Update	Difference
Income	\$1,585.159	\$1,599.913	\$14.754
Property	\$1,808.404	\$1,787.125	(\$21.279)
Transfer/Recordation	\$162.947	\$174.412	\$11.465
Other Taxes:			
--Admissions	\$3.579	\$3.596	\$0.017
--Fuel/Energy	\$193.982	\$196.639	\$2.657
--Telephone	\$53.253	\$53.028	(\$0.225)
--Hotel/Motel	\$22.236	\$21.292	(\$0.944)
Highway User Revenue	\$3.765	\$3.759	(\$0.006)
E-Cigarettes	\$0.652	\$1.208	\$0.556
TOTAL	\$3,833.977	\$3,840.972	\$6.995

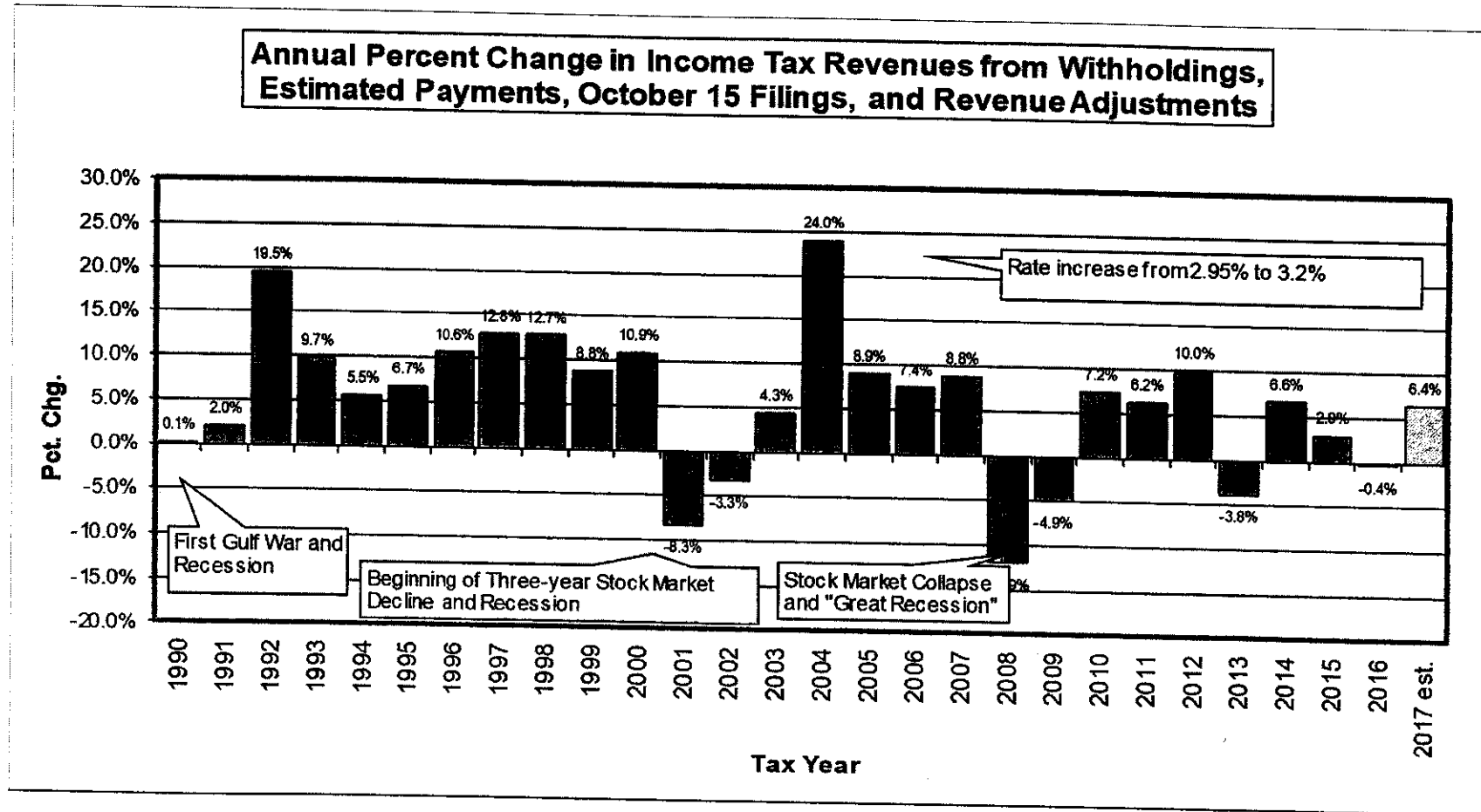
Revenue Update

December revised revenue estimates for FY20 are \$3.5 million below the estimates prepared for the FY19 Budget. The decrease is attributed to lower estimated income and property tax revenues. The decline in the income tax is based on the revised assumption for capital gains. The revised property tax revenue estimate is attributed to a decline in the real property taxable assessment and an increase in credits compared to the previous forecast. The increase in the transfer/recordation tax is based on the forecast for residential sales and average median price for an existing home. Overall, the revised forecast over the two-year planning period is in line, slightly positive, with the previous forecast.

	FY19 BUDGET - DECEMBER 2018 UPDATE (\$MIL.)		
	FY20 Estimate	Dec. Update	Difference
Income	\$1,682.969	\$1,675.939	(\$7.030)
Property	\$1,858.904	\$1,846.858	(\$12.046)
Transfer/Recordation	\$168.596	\$178.957	\$10.361
Other Taxes:			
--Admissions	\$3.697	\$3.860	\$0.163
--Fuel/Energy	\$192.396	\$193.059	\$0.663
--Telephone	\$54.900	\$55.379	\$0.479
--Hotel/Motel	\$22.417	\$21.474	(\$0.943)
Highway User Revenue	\$3.773	\$8.031	\$4.258
E-Cigarettes	\$0.692	\$1.259	\$0.567
TOTAL	\$3,988.344	\$3,984.816	(\$3.528)

Income Tax Volatility

Year-over-year percent changes in the income tax are volatile and highly sensitive to economic events such as recessions, changes in local, state, and federal tax rates, and capital gains.



Income Tax – Distribution Details

- **The largest share (five year average of 83.3%) 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 2017 in November 2018) and provides a near final review of last year's tax liability – this provides a base for future projections.**
- **The State Comptroller's Office also adjusts its distribution formula for the current fiscal year based on the prior tax year results (e.g., 2017 tax year final results affect quarterly distributions for this fiscal year starting in November).**
- **Income tax revenues represented 46.4 percent of total General Fund tax revenues in FY18 and 44.6 percent of the County's total General Fund revenues.**

Income Tax – November distributions

(millions)	Actual FY16	Actual FY17	Actual FY18	Estimated FY19	Actual FY19	Difference Actual/Estimate FY19
October 15 th Filings and Adjustments	\$76.80	\$135.35	\$95.53	\$106.69	\$128.32	\$21.73
Withholding and Estimated payments for 3 rd Quarter	\$271.10	\$288.73	\$283.20	\$303.02	\$302.02	(\$1.00)
Total November Distribution	\$347.90	\$424.08	\$378.73	\$409.61	\$430.34	\$20.73

•Receipts from October 15th Filings and Adjustments are near final income tax receipts due the County for tax year 2017. The State has indicated that the County's income tax receipts from statewide withholdings and estimated payments for the third quarter of tax year 2018 are 6.6% greater than for tax year 2017 and nearly the same as the estimate for the FY19 Budget.

•Increase of 6.6% in distributed withholdings and estimated payments compared to last year is due to a 6.8% increase in income tax collections from withholdings and estimated payments statewide from November 2017 to November 2018.

Income Tax – Economic Factors

- **Resident employment is estimated to have increased 2.0 percent in CY17 and to increase 1.0 percent in CY18.**
- **Personal income is estimated to have increased 4.2 percent in CY17 and to increase 4.8 percent in CY18. Those increases are below the March assumptions of 4.6 percent in CY17 and 5.2 percent in CY18.**
- **Wage and salary income is expected to have increased 4.1 percent in CY17 and increase 4.7 percent in CY18. Both increases are below the March 2017 economic assumptions.**
- **The revisions are based on the Bureau of Revenue Estimates' (Comptroller of Maryland) September forecasts.**

Property Tax

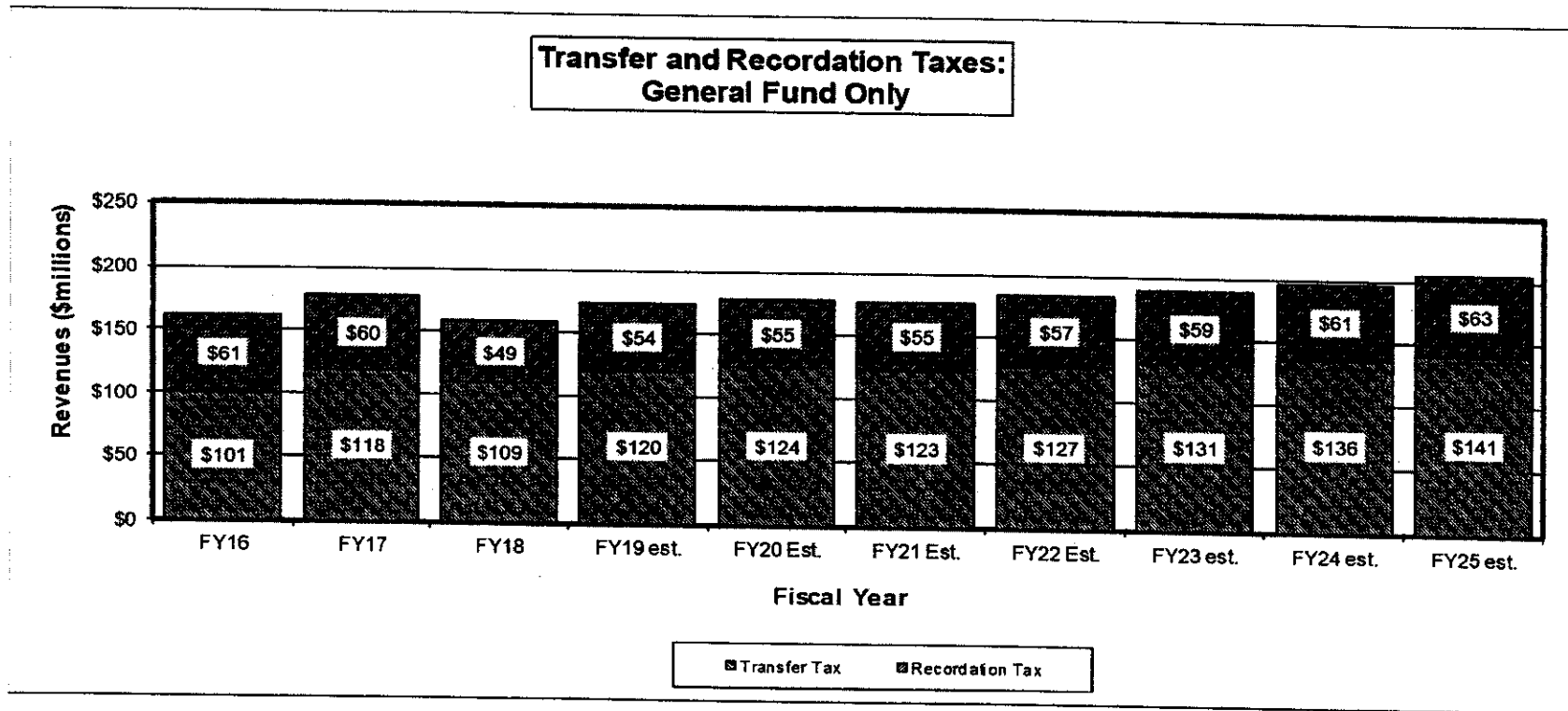
- **The inflation rate is expected to be 2.22 percent in calendar year 2018 (as of September 2018) and above the 1.90 percent assumed in the FY19 Budget.**
- **The reassessment rates for real property for Group One for 2019 (fiscal year 2020) will be released by the Maryland State Department of Assessments and Taxation (SDAT) at the end of December. Preliminary indications are that this group could experience another increase in the real property tax base.**

Transfer and Recordation Taxes

- **Based on transfer tax collections to date, the residential portion of the transfer tax is estimated to experience an increase in FY19 attributed to the growth in the median sales price and above the FY19 budget estimates. Collections from the non-residential real estate market are estimated to experience a modest increase in FY19 attributed to growth in the average tax.**
- **Based on transfer collections to date, Finance estimates that the number of residential transfers will increase in FY19 after declining 8.3 percent in FY18.**
- **Total transfer tax revenues are expected to increase 10.1 percent in FY19.**
- **Reflecting the General Fund rate cut in the recordation tax effective September 1, 2016, total recordation tax revenues are expected to be \$54.0 million in FY19.**

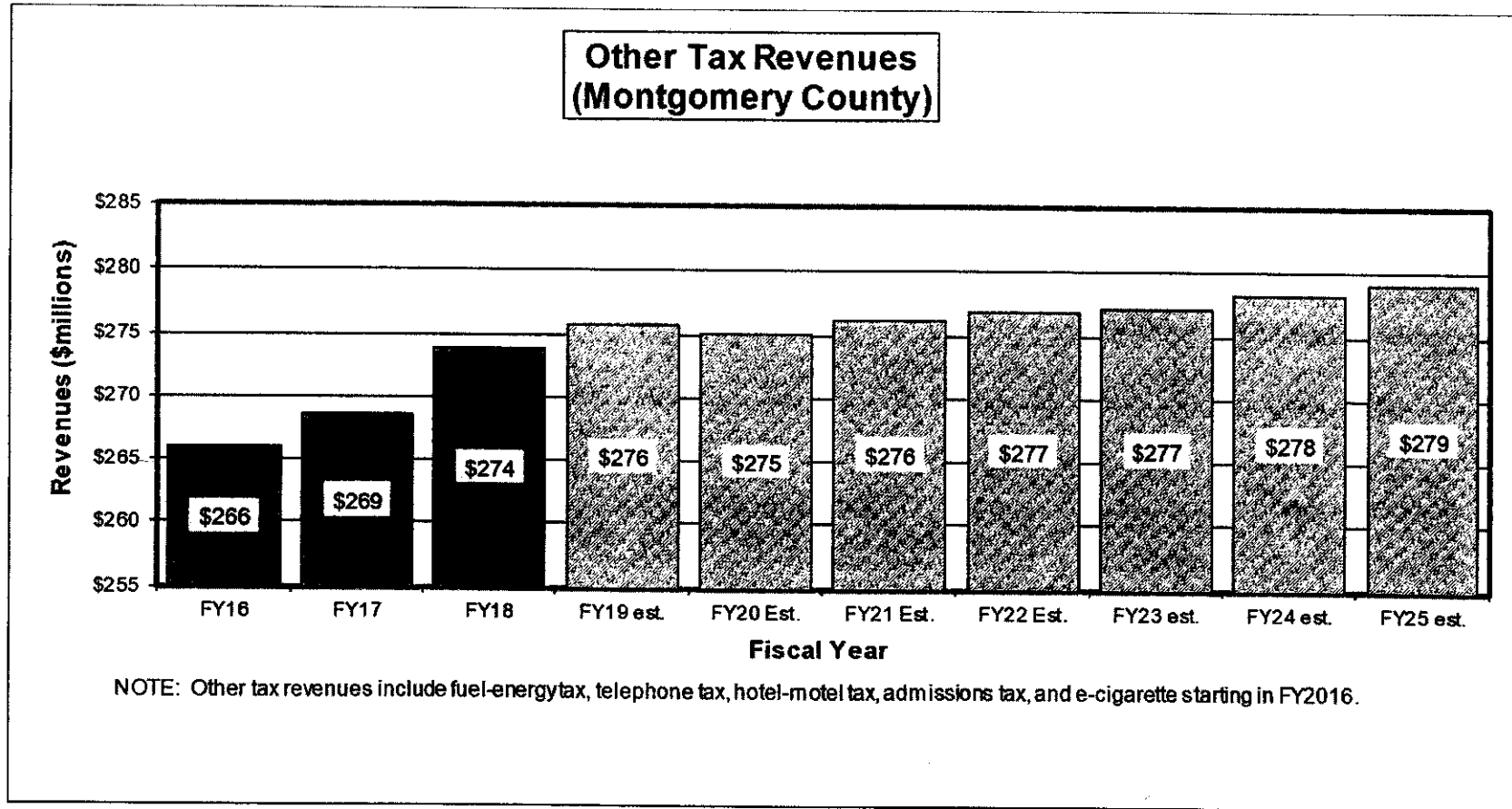
Transfer and Recordation Taxes

Since reaching an all time high of \$241.7 million in FY06, transfer and recordation taxes declined to \$127.3 million in FY12. With the cut in the tax rate in the General Fund portion of the recordation tax, the transfer and recordation taxes for the General Fund are estimated to reach \$204.2 million by FY25 – \$37.5 million below the FY06 peak year but increase at an average annual rate of 3.7 percent since FY18.



Other Tax Revenues

Other tax revenues are estimated to increase 0.7 percent in FY19 over budget estimates due to an estimated increase in fuel-energy, admissions, and e-cigarette tax revenues. Over the current two-year period (FY19-FY20), total other tax revenues are estimated to be \$3 million above FY19 budget estimates largely attributed to the increase in energy tax revenues.



Risks to Revenue Forecasts

- **The impact on the County income tax revenues attributed to the Tax Cut and Jobs Act (TCJA) enacted by the Congress in December 22, 2017.**
- **A stock market contraction and the effects of tax planning by wealthy County taxpayers attributed to the TCJA over the forecast period would affect the November reconciling income tax distribution and therefore total income tax revenues.**
- **Inflation running below the economic assumptions that could affect property tax revenues at the Charter Limit.**
- **Sales of existing homes and prices that could be affected by the effect of the TCJA and increases in ten year U.S. Treasury rate that impact mortgage rates.**
- **A revised downward forecast of the state's economy by the Board of Revenue Estimates that would affect the economic assumptions.**
- **Revisions to current County employment and income data by federal and state agencies.**