



**Committee:** Directly to Council  
**Committee Review:** N/A  
**Staff:** Craig Howard, Deputy Director  
Gene Smith, Legislative Analyst  
**Purpose:** Receive briefing and discuss – no vote expected  
**Keywords:** Revenues, Fiscal Plan

AGENDA ITEM #4  
December 8, 2020  
**Briefing**

## SUBJECT

County Fiscal Plan Update

## EXPECTED ATTENDEES

Rich Madaleno, Chief Administrative Officer  
Mike Coveyou, Director, Department of Finance (Finance)  
Jennifer Bryant, Acting Director, Office of Management and Budget (OMB)  
David Platt, Chief Economist, Finance  
Chris Mullin, Budget Manager, OMB

## COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

- N/A

## DESCRIPTION/ISSUE

Each December the Council receives an update from Executive staff about the County's fiscal plan. The update typically focuses revised revenue estimates, which coincides with the November income tax distribution. Given the unique nature of this fiscal year amid a global health pandemic, this update also includes expenditure estimates for the Montgomery County Government (MCG) based on actual FY21 Quarter 1 expenditures. Today's discussion will be a high-level overview, and the Council will have a follow-up session in January to discuss this update in more detail. **Councilmembers should indicate during today's briefing the questions or data they want Executive and Council staff to prepare for January.**

## SUMMARY OF KEY DISCUSSION POINTS

- The December Fiscal Update provides the most complete picture of the County's fiscal situation to-date because it includes a comparison of the County's estimated revenues, expenditures, and reserves compared to the FY21 approved budget.

There are, however, still several unknowns that should become clear in time for the January discussion, including a better understanding of the actual reimbursements from FEMA and a better accounting of the CARES funding offsets for expenditures in FY21.

- Finance has updated the FY21 tax-supported revenues to reflect actual collections through November. **In summary, Finance estimates that FY21 tax-supported revenues will be \$100.6 million less than the FY21 approved budget** (lines 1-4 on ©5). Based on the updated estimates

for the FY21 tax-supported revenues, the FY22 tax-supported revenues are estimated to be \$163.2 million less than the approved FY21-26 Fiscal Plan.

- Property Tax Revenues. There is minimal deviation for this tax revenue compared to the FY21 approved budget. In addition, the FY22-26 estimates for property tax revenues are based on the approval of Question A from the November 2020 ballot (i.e., revenue growth is not based on the estimated inflation rate for these years).
  - Income Tax Revenues. Finance estimates income tax revenues will be **\$57.5 million less** when compared to the FY21 approved budget. This estimate includes the November distribution from the State, the largest for the year, which was less than estimated and less than the November 2019 distribution.
  - Transfer and Recordation Tax Revenues. Finance estimates that these tax revenues will be **\$18.9 million less** when compared to the FY21 approved budget. Actual recordation and transfer tax revenues collected from commercial properties are less than expected, which accounts for most of the estimated reduction.
  - Other Tax Revenues. Finance estimates that these tax revenues will be **\$25.1 million less** when compared to the FY21 approved budget. Hotel/Motel and Energy taxes account for most of the decrease – Finance estimates \$17.1 million less in Hotel/Motel taxes and \$6.4 million less in Energy taxes when compared to the FY21 approved budget.
- OMB staff conducted an analysis on FY21 estimated expenditures for MCG based on Quarter 1 (Q1) actuals. A Q1 analysis is not typically conducted because it only includes three months of the year; however, given the unique nature of 2020, this analysis provides additional information for this year's fiscal plan update.
    - OMB estimates that in FY21 MCG's expenditures will be \$194.0 million more than the FY21 approved Council appropriations. Some of these expenditures may be offset by CARES or FEMA funding.
    - This estimate assumes that the pay differential will continue through the remainder of FY21, adding about \$45 million in tax-supported expenditures for January through June 2021.
    - This estimate does not include additional appropriations that may be needed to respond to the pandemic or other unforeseen circumstances.
  - For this update, Executive staff made certain assumptions or adjustments to reflect the potential of FEMA reimbursements or to account for the CARES funding. Specifically:
    - Line 5 on ©3, Other Revenues, includes an \$103.6 million in projected FEMA reimbursement in FY21. This is based on two assumptions: 1) \$207.2 million in FEMA reimbursement will be submitted in FY21; and 2) a 50% reimbursement rate from FEMA for all reimbursable items. Changes to either assumption would impact the revenue projection.
    - Line 18 on ©3, Set Aside, does not include any appropriations that were introduced after late-November.

- Line 27 on ©3, MCG Expenditures, was reduced by \$86.0 million to reflect items that did not have a specific appropriation (e.g., pay differential) and are likely to be offset in FY21 once the CARES funding is reconciled.
- The fiscal plan updates the County’s reserves based on estimated revenues, expenditures, and FY20 year-end actuals.
  - FY20 Ending Reserves. The County ended FY20 with reserves \$62.4 million less than anticipated. This amount is about 8.8% of Adjusted Governmental Revenues (AGR). OMB notes that this estimate includes some offsets from CARES funding, and the reserve percent would be less had the County not received Federal funding.
  - FY21 Estimated Ending Reserves. **OMB estimates that the County will end FY21 with approximately \$413.0 million in reserves, or about 7.6% of AGR.** This estimate is \$139.1 million less than the FY21 approved budget and includes the current assumptions for FEMA reimbursements, offsets for CARES funding, and the pay differential continuing through the remainder of FY21.

The FY21 ending reserve estimate assumes no other considerations or changes prior to June 2021, including no additional Federal assistance, the Council’s consideration of other fiscal policies (e.g., PAYGO), consideration and approval of an additional FY21 savings plan, or discontinuing the pay differential for any portion of the remaining months.

- FY22 Estimated Ending Reserves. OMB estimates that FY22 can end with reserves back at 10.0%, per the policy-level of the Council, with a 5.0% decrease to Agency Uses in FY22 compared to the FY21 approved budget. Given that Montgomery County Public Schools and Montgomery College have funding formulas, this requires about a 12.1% decrease in the MCG and Park and Planning budget when compared to the FY21 approved budget.

**This report contains:**

OMB memo	© #1-4
2020 December Fiscal Plan Update	© #5-6
Finance Presentation	© #7-17

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OFFICE OF MANAGEMENT AND BUDGET


*Marc Elrich*  
County Executive

*Jennifer Bryant*  
Acting Director

**MEMORANDUM**

December 7, 2020

TO: Marlene Michaelson, Executive Director, County Council

FROM: Jennifer Bryant, Acting Director 

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 FY20 Preliminary Year-End Results, FY21 expenditure projections based on the results of first quarter analysis including an assumption for Federal reimbursement, and a set-aside in FY21 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. Due to the County's continuing response to the COVID-19 pandemic and because this is a limited update to fiscal assumptions, the projections are preliminary and reflect many unknowns, and the Fiscal Plan included as part of the County Executive's recommended budget next March will inevitably differ from the updated plan. However, this Fiscal Update is critical for the County Executive's budget formulation process and will provide context for the many difficult decisions needed in developing his Recommended FY22 Operating Budget and regarding spending decisions for the remainder of FY21.

The Updated Fiscal Plan reflects a downward revision in FY21 and FY22 revenues of \$265.5 million (FY21 down \$101.5 million, FY22 down \$164.0 million) compared to the FY21 Approved Fiscal Plan. However, this revenue forecast is an upward revision from Finance's July 2020 update to the County Council. The FY20 Preliminary Year-End Closeout results in a shortfall of approximately \$56.5 million in anticipated reserves compared to estimates in the approved fiscal plan. FY21 projected year-end expenditures based on the first quarter analysis are significantly more than the FY21 Approved Budget mainly due to the County's response to the COVID-19 pandemic, including differential pay. The County is aggressively seeking Federal reimbursement for all eligible COVID-19 expenditures. Also, a FY21 set aside of \$15 million for snow and other storm related expenses has been assumed. The shortfall in FY20 reserves carries forward to FY21 and, along with County's response to COVID-19 in FY21, currently projects FY21 estimated reserves to be 7.6 percent of Adjusted Governmental Revenue (AGR), lower than the 10.2 percent assumed in the Approved Fiscal Plan. Due to these revised estimates and assuming the County's FY22 reserves are at the 10 percent policy level along with other fiscal policies, without any other modifications, agency spending would need to be reduced by 5.0 percent—or \$231.2 million—from the FY21 approved level to balance the fiscal plan in FY22. This does not reflect a deficit but a gap in meeting our adopted fiscal policies. 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).

### **Update to Revenue Projection and Reserves**

In addition to the revised revenue forecast, the Updated Fiscal Plan includes revisions to the required reserve contributions, and a set aside for snow/storm-related spending in FY21. These changes are outlined in greater detail below:

#### **1. Revenues:**

The Department of Finance's December 2020 Revenue Update and Economic Indicators reflects a downward revision in FY21 revenues of \$101.5 million from the approved fiscal plan. This revision is based on more recent tax collections data and reflects the state of most tax revenues through November 2020. As noted in July 2020, the downward revision from the approved fiscal plan is due primarily to the effects of the current coronavirus pandemic. The taxes most affected are the income tax (down \$57.5 million from the approved fiscal plan); the transfer tax (down \$13.8 million); the recordation tax (down \$5.1 million); and the hotel-motel tax (down \$17.1 million). FY22 revenues are \$164.0 million less than estimated in the approved fiscal plan due to downward revisions of \$116.2 million in the income tax, \$9.1 million in the property tax, and \$17.8 for combined transfer and recordation taxes. Although FY21 and FY22 revenues are still forecast to be lower than the approved fiscal plan, both years are now forecast to be higher than predicted in the July 2020 update provided to the County Council.

Income tax receipts in the first four months of the current fiscal year are up approximately \$15.1 million due to FY21 distributions exceeding the estimates in the approved fiscal plan. However, all of this gain is attributed to the fact that the August distribution was \$29.1 million more than the approved fiscal plan estimate. That August distribution included income tax revenues that were shifted from FY20 to FY21 when both the Federal government and the State of Maryland shifted the normal April 15<sup>th</sup> filing date to July 15<sup>th</sup>. This shift is the main reason that August income tax revenues were much higher than expected. Meanwhile the total November distribution, consisting of the third quarter of the current tax year and the reconciling distribution from extended filings for tax year 2019, was \$12.2 million below the estimate in the approved fiscal plan.

Based on the composition of FY20 income tax distributions the increases in the February, May, June, and July distributions for FY21 have been reduced from what was assumed in the approved fiscal plan. Population growth has slowed down and therefore estimated resident employment is forecast to slow down--this contributes to a reduction in the estimate for income tax revenues. These factors along with slower wage growth results in the downward revision of \$57.5 million for the income tax estimate in FY21 as noted above.

Estimated property tax revenues, assumed at the (former) Charter Limit in FY21 of \$1.831 billion in the fiscal plan have been slightly revised upward to \$1.832 billion. This is due to a slight increase in the amount estimated for new construction. Property tax revenues are projected to increase 2.2 percent in FY21 and 2.5 percent in FY22. We are watching commercial property assessment appeals to gauge any future effect on property tax revenues that may result as businesses decide how to continue their operations (not necessarily in as much commercial space as in the past).

Transfer and recordation taxes combined are estimated at \$162.8 million for FY21 and are \$18.9 million below the approved fiscal plan. The reduction is attributed to a reduction in the transfer tax of \$13.8 million and a reduction in the recordation of \$5.1 million from the approved fiscal plan. The reductions in both the transfer and recordation taxes are attributed to estimated declines in non-residential transfer activity (caused primarily by the coronavirus pandemic as businesses try to determine how best to continue without necessarily needing the amount and type of space they used before the advent of the pandemic).

## **2. FY22 Expenditures:**

In order to remain in balance, the fiscal plan assumes FY22 agency expenditures decline 5.0 percent, or \$231.2 million, compared to the FY21 budget. Because the fiscal plan assumes FY22 expenditures for MCPS and MC at Maintenance of Effort, most of the 5.0 percent reduction is allocated to County Government and M-NCPPC. **It should be noted that this version of the fiscal plan does not yet account for potential cost increases for FY22, including adjustments to compensation, increased benefits costs, Maintenance of Effort adjustments due to updated school enrollment estimates (which may be reduced this year compared to the previous fiscal year), and annualization of new programs, among other cost pressures likely to increase the budget gap.**

## **3. Reserves:**

Due to the FY20 closeout and current projections for FY21 spending related to the County's COVID-19 response, the updated fiscal plan currently projects total reserves to be 7.6 percent of AGR at the end of FY21. However, there is much uncertainty in revenues and expenditures over the remaining seven months of the current fiscal year that may affect estimated reserves. Federal reimbursement for eligible COVID-19 expenditures that is different than what is assumed in first quarter analysis, any additional Federal stimulus that may become available to the County, and the results of departments second and third quarter analysis of projected year-end spending will affect the County's current year reserves.

As stated earlier, this version of the Fiscal Plan assumes that FY22 reserves are at the 10 percent policy level. This results in a 5.0 percent reduction in agency spending due to the limited updates available for other fiscal assumptions. The County Executive will make many difficult decisions in formulating his FY22 Recommended Budget as will the County Council during their spring budget deliberations. Because of the County's ongoing response to the COVID-19 pandemic, it might be necessary for the County Executive to recommend a use of reserves to fund critical needs in his recommended budget, resulting in FY22 ending reserves less than the 10 percent policy level. The County Executive must balance the County's response to the COVID-19 pandemic, the ever-changing needs of the community, and maintaining the County's reputation of strong fiscal management of which a strong reserve position is vital. Many tough and important decisions about the future of the County's fiscal position will be made between now and March 15 when the County Executive releases his FY22 Recommended budget.

The fiscal plan assumes that in FY23 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 projected to be at 10 percent in FY22 and beyond 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 FY22 Operating Budget and FY22-27 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 Amended FY21-26 CIP and the FY22 Operating Budget;
2. The mid-December update by the State Board of Revenue Estimates on its economic forecast;
3. The February 2021 income tax distribution and data on the County's excise taxes for November 2020 through February 2021;
4. Revisions to estimates of the assessable base by the State Department of Assessments and Taxation expected in January 2021; and
5. Federal and State budget decisions that may affect the County's budget including FEMA reimbursements.

In summary, the fiscal plan reflects a shortfall in anticipated resources for FY21 and FY22. This presents a significant challenge for the County as it continues to respond aggressively to the COVID-19 pandemic. Prudent fiscal decisions will be needed to maintain the fiscal health of the County through the COVID-19 pandemic and into the future.

JB:cm

Attachments: December Fiscal Plan  
December 2021 Revenue Update and Selected Economic Indicators

c: Richard S. Madaleno, Chief Administrative Officer  
Fariba Kassiri, Deputy Chief Administrative Officer  
Michael J. Coveyou, Director, Department of Finance  
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 2020 Tax Supported Fiscal Plan Summary

(\$ in Millions)															
	App. FY21	Est. FY21	% Chg. FY21-22	% Chg. FY21-22	Projected FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24	% Chg. FY24-25	Projected FY25	% Chg. FY25-26	Projected FY26	% Chg. FY26-27	Projected FY27
	5-21-20	12-8-20	App/Proj	Est/Proj	12-8-20										
<b>Total Revenues</b>															
1 Property Tax	1,830.8	1,831.5	2.5%	2.5%	1,877.3	2.8%	1,930.3	2.8%	1,984.5	2.9%	2,042.0	2.9%	2,101.5	2.9%	2,163.1
2 Income Tax	1,695.4	1,637.9	-2.8%	0.6%	1,647.2	3.2%	1,699.6	4.4%	1,774.9	5.1%	1,865.0	5.3%	1,964.2	5.5%	2,072.7
3 Transfer/Recordation Tax	181.6	162.8	-4.5%	6.5%	173.4	3.1%	178.8	3.9%	185.7	3.9%	192.9	3.9%	200.4	3.9%	208.3
4 Other Taxes	273.6	248.5	-7.2%	2.1%	253.8	2.7%	260.7	1.7%	265.3	0.5%	266.5	0.5%	267.8	1.3%	271.4
5 Other Revenues	1,177.4	1,280.1	0.2%	-7.8%	1,179.7	0.3%	1,183.5	0.4%	1,187.9	0.4%	1,192.4	0.4%	1,197.0	0.4%	1,201.7
6 <b>Total Revenues</b>	<b>5,158.7</b>	<b>5,160.8</b>	<b>-0.5%</b>	<b>-0.6%</b>	<b>5,131.4</b>	<b>2.4%</b>	<b>5,252.9</b>	<b>2.8%</b>	<b>5,398.3</b>	<b>3.0%</b>	<b>5,558.8</b>	<b>3.1%</b>	<b>5,730.9</b>	<b>3.3%</b>	<b>5,917.2</b>
7															
8 <b>Net Transfers In (Out)</b>	<b>24.9</b>	<b>24.9</b>	<b>-41.3%</b>	<b>-41.3%</b>	<b>14.6</b>	<b>2.0%</b>	<b>14.9</b>	<b>2.4%</b>	<b>15.3</b>	<b>2.4%</b>	<b>15.7</b>	<b>2.4%</b>	<b>16.0</b>	<b>2.4%</b>	<b>16.4</b>
9 <b>Total Revenues and Transfers Available</b>	<b>5,183.6</b>	<b>5,185.8</b>	<b>-0.7%</b>	<b>-0.8%</b>	<b>5,146.1</b>	<b>2.4%</b>	<b>5,267.8</b>	<b>2.8%</b>	<b>5,413.6</b>	<b>3.0%</b>	<b>5,574.5</b>	<b>3.1%</b>	<b>5,746.9</b>	<b>3.2%</b>	<b>5,933.6</b>
10															
11 <b>Non-Operating Budget Use of Revenues</b>															
12 Debt Service	422.5	422.5	4.5%	4.5%	441.5	3.4%	456.7	0.0%	456.8	2.8%	469.4	0.9%	473.8	0.0%	473.8
13 PAYGO	32.0	32.0	-3.1%	-3.1%	31.0	-3.2%	30.0	-3.3%	29.0	-3.4%	28.0	-3.6%	27.0	0.0%	27.0
14 CIP Current Revenue	65.9	65.9	17.5%	17.5%	77.4	23.1%	95.3	-3.4%	92.1	-20.7%	73.1	3.8%	75.8	0.0%	75.8
15 Change in Other Reserves	0.2	-43.9	17437.0%	190.2%	39.6	-99.7%	0.1	66.6%	0.2	8.0%	0.2	7.1%	0.2	3.5%	0.2
16 Contribution to General Fund Undesignated Reserves	7.2	-69.5	1968.2%	315.6%	149.9	-101.5%	-2.3	326.7%	5.1	22.5%	6.3	11.2%	7.0	7.8%	7.5
17 Contribution to Revenue Stabilization Reserves	8.6	8.6	-362.1%	-362.1%	-22.5	162.2%	14.0	-21.4%	11.0	0.0%	11.0	4.5%	11.5	0.0%	11.5
18 Set Aside for other uses (supplemental appropriations)	6.8	21.8	194.1%	-8.3%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
19 <b>Total Other Uses of Resources</b>	<b>543.3</b>	<b>437.4</b>	<b>35.6%</b>	<b>68.5%</b>	<b>736.9</b>	<b>-16.7%</b>	<b>613.9</b>	<b>0.0%</b>	<b>614.2</b>	<b>-1.0%</b>	<b>607.9</b>	<b>1.2%</b>	<b>615.3</b>	<b>0.1%</b>	<b>615.9</b>
20 <b>Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)</b>	<b>4,640.3</b>	<b>4,748.4</b>	<b>-5.0%</b>	<b>-7.1%</b>	<b>4,409.1</b>	<b>5.6%</b>	<b>4,653.9</b>	<b>3.1%</b>	<b>4,799.4</b>	<b>3.5%</b>	<b>4,966.5</b>	<b>3.3%</b>	<b>5,131.6</b>	<b>3.6%</b>	<b>5,317.7</b>
21															
22 <b>Agency Uses</b>															
23															
24 Montgomery County Public Schools (MCPS)	2,562.4	2,562.4	-0.5%	-0.5%	2,550.7	1.0%	2,576.2	0.7%	2,594.3	0.3%	2,602.6	0.2%	2,607.7	0.0%	2,607.8
25 Montgomery College (MC)	268.9	268.9	-0.5%	-0.5%	267.5	0.5%	268.8	0.6%	270.3	0.6%	272.0	0.6%	273.6	0.6%	275.3
26 MNCPPC (w/o Debt Service)	137.2	137.2	-12.1%	-12.1%	120.6	13.7%	137.2	7.0%	146.7	8.1%	158.6	7.6%	170.6	8.2%	184.6
27 MCG	1,671.9	1,779.9	-12.1%	-17.4%	1,470.3	13.7%	1,671.8	7.0%	1,788.1	8.1%	1,933.4	7.6%	2,079.7	8.2%	2,250.0
28 <b>Agency Uses</b>	<b>4,640.3</b>	<b>4,748.4</b>	<b>-5.0%</b>	<b>-7.1%</b>	<b>4,409.1</b>	<b>5.6%</b>	<b>4,653.9</b>	<b>3.1%</b>	<b>4,799.4</b>	<b>3.5%</b>	<b>4,966.5</b>	<b>3.3%</b>	<b>5,131.6</b>	<b>3.6%</b>	<b>5,317.7</b>
29 <b>Total Uses</b>	<b>5,183.6</b>	<b>5,185.8</b>	<b>-0.7%</b>	<b>-0.8%</b>	<b>5,146.1</b>	<b>2.4%</b>	<b>5,267.8</b>	<b>2.8%</b>	<b>5,413.6</b>	<b>3.0%</b>	<b>5,574.5</b>	<b>3.1%</b>	<b>5,746.9</b>	<b>3.2%</b>	<b>5,933.6</b>
30 <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>

**Assumptions:**

1. FY21 Property taxes are at the previous Charter Limit with a \$692 credit. FY22-27 property taxes reflect the passage of Ballot Question A with a \$692 credit. 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 FY21-26 Capital Improvements Program.
4. State Aid, including MCPS and Montgomery College, is not projected to increase from FY22-27.
5. Projected FY22 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.
6. MCG FY21 projected expenditures include the results of first quarter analysis. The County is aggressively seeking federal reimbursement for all eligible expenditures related to the County's COVID-19 pandemic response.



## Fiscal Plan December 2020 Tax Supported Fiscal Plan Summary

(\$ in Millions)

	App. FY21	Est. FY21	% Chg. FY21-22	% Chg. FY21-22	Projected FY22	% Chg. FY22-23	Projected FY23	% Chg. FY23-24	Projected FY24	% Chg. FY24-25	Projected FY25	% Chg. FY25-26	Projected FY26	% Chg. FY26-27	Projected FY27
31 <b>Beginning Reserves</b>															
32 <b>Unrestricted General Fund</b>	154.1	97.6	-81.8%	-71.2%	28.1	533.1%	178.0	-1.3%	175.7	2.9%	180.8	3.5%	187.1	3.7%	194.1
33 <b>Revenue Stabilization Fund</b>	382.2	376.3	0.7%	2.3%	384.9	-5.8%	362.4	3.9%	376.4	2.9%	387.4	2.8%	398.4	2.9%	409.9
34 <b>Total Reserves</b>	536.3	473.9	-23.0%	-12.9%	413.0	30.8%	540.4	2.2%	552.1	2.9%	568.2	3.0%	585.5	3.2%	603.9
35															
36 <b>Additions to Reserves</b>															
37 <b>Unrestricted General Fund</b>	7.2	-69.5	1968.2%	315.6%	149.9	-101.5%	-2.3	326.7%	5.1	22.5%	6.3	11.2%	7.0	7.8%	7.5
38 <b>Revenue Stabilization Fund</b>	8.6	8.6	-362.1%	-362.1%	-22.5	162.2%	14.0	-21.4%	11.0	0.0%	11.0	4.5%	11.5	0.0%	11.5
39 <b>Total Change in Reserves</b>	15.8	-60.9	704.6%	309.0%	127.4	-90.8%	11.7	37.2%	16.1	7.1%	17.3	7.0%	18.5	2.9%	19.0
40															
41 <b>Ending Reserves</b>															
42 <b>Unrestricted General Fund</b>	161.4	28.1	10.3%	533.1%	178.0	-1.3%	175.7	2.9%	180.8	3.5%	187.1	3.7%	194.1	3.9%	201.6
43 <b>Revenue Stabilization Fund</b>	390.8	384.9	-7.3%	-5.8%	362.4	3.9%	376.4	2.9%	387.4	2.8%	398.4	2.9%	409.9	2.8%	421.4
44 <b>Total Reserves</b>	552.1	413.0	-2.1%	30.8%	540.4	2.2%	552.1	2.9%	568.2	3.0%	585.5	3.2%	603.9	3.1%	622.9
45 <b>Reserves as a % of Adjusted Governmental Revenues</b>	<b>10.2%</b>	<b>7.6%</b>			<b>10.0%</b>		<b>10.0%</b>		<b>10.0%</b>		<b>10.0%</b>		<b>10.0%</b>		<b>10.0%</b>
46 <b>Other Reserves</b>															
47 <b>Montgomery College</b>	22.3	22.3	0.0%	0.0%	22.3	0.0%	22.3	0.0%	22.3	0.0%	22.3	0.0%	22.3	0.0%	22.3
48 <b>M-NCPPC</b>	5.0	5.0	2.5%	2.5%	5.1	2.7%	5.2	2.8%	5.4	2.8%	5.5	2.9%	5.7	2.9%	5.8
49 <b>MCPS</b>	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
50 <b>MCG Special Funds</b>	1.5	-37.8	10.3%	104.5%	1.7	-1.3%	1.7	2.9%	1.7	3.5%	1.8	3.7%	1.8	3.9%	1.9
51 <b>MCG + Agency Reserves as a % of Adjusted Govt Revenues</b>	<b>10.7%</b>	<b>7.4%</b>			<b>10.5%</b>		<b>10.5%</b>		<b>10.5%</b>		<b>10.5%</b>		<b>10.5%</b>		<b>10.5%</b>
52 <b>Retiree Health Insurance Pre-Funding</b>															
53 <b>Montgomery County Public Schools (MCPS)</b>	69.4	69.4			71.2		66.2		60.5		53.9		53.9		53.9
54 <b>Montgomery College (MC)</b>	5.5	5.5			5.6		5.4		5.3		5.2		5.2		5.2
55 <b>MNCPPC</b>	3.0	3.0			2.9		2.9		2.8		2.8		2.8		2.8
56 <b>MCG</b>	12.3	12.3			10.8		7.5		4.2		0.7		0.0		0.0
57 <b>Subtotal Retiree Health Insurance Pre-Funding</b>	<b>90.1</b>	<b>90.1</b>			<b>90.5</b>		<b>82.0</b>		<b>72.9</b>		<b>62.6</b>		<b>61.8</b>		<b>61.8</b>
58 <b>Adjusted Governmental Revenues</b>															
59 <b>Total Tax Supported Revenues</b>	<b>5,158.7</b>	<b>5,160.8</b>	<b>-0.5%</b>	<b>-0.6%</b>	<b>5,131.4</b>	<b>2.4%</b>	<b>5,252.9</b>	<b>2.8%</b>	<b>5,398.3</b>	<b>3.0%</b>	<b>5,558.8</b>	<b>3.1%</b>	<b>5,730.9</b>	<b>3.3%</b>	<b>5,917.2</b>
60 <b>Capital Projects Fund</b>	129.4	129.4	5.9%	5.9%	137.0	-2.6%	133.4	1.2%	135.0	6.5%	143.7	6.1%	152.4	0.0%	152.4
61 <b>Grants</b>	128.0	128.0	1.6%	1.6%	130.1	2.0%	132.6	2.4%	135.9	2.4%	139.2	2.4%	142.6	2.4%	146.0
62 <b>Total Adjusted Governmental Revenues</b>	<b>5,416.1</b>	<b>5,418.2</b>	<b>-0.3%</b>	<b>-0.4%</b>	<b>5,398.5</b>	<b>2.2%</b>	<b>5,519.0</b>	<b>2.7%</b>	<b>5,669.2</b>	<b>3.0%</b>	<b>5,841.7</b>	<b>3.2%</b>	<b>6,025.9</b>	<b>3.1%</b>	<b>6,215.6</b>

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**Montgomery County, Maryland**

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**DECEMBER 2020  
REVENUE UPDATE AND  
SELECTED ECONOMIC  
INDICATORS**

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**Department of Finance**

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**December 8, 2020**

# ***Overview***

- Finance provides an economic and revenue update in December of each year, after the November income tax distribution.
- At this time, near final data about tax year 2019 income tax receipts are known, and updates are available to certain economic factors.
- As the 2<sup>nd</sup> quarter of the fiscal year ends, an update that includes that data is completed for the March budget submission.

# **ECONOMIC OUTLOOK - SUMMARY**

# ***County's Economy***

- The unemployment rate increased from 2.7 percent in October 2019 to 7.5 percent in October 2020.
- Resident employment, labor force series grew 1.8 percent from CY18 to CY19 but is estimated to decline 2.9 percent from CY19 to CY20 attributed to the impact of COVID-19.
- Personal income is expected to increase 1.8 percent from CY18 to CY19 but decline 2.1 percent from CY19 to CY20 and wage and salary income is expected to increase 2.3 percent from CY18 to CY19 but decrease 0.7 percent from CY19 to CY20.
- Sales of existing homes increased 3.3 percent from CY18 to CY19 and have increased 5.2 percent through October 2020 over October 2019.
- Median home sales prices increased 2.3 percent from CY18 to CY19 and have increased 6.9 percent through October 2020 over October 2019.
- Inflation, as measured by the Consumer Price Index for the Washington Metropolitan Region, increased 1.3 percent in CY19 but estimated to increase only 0.7 percent in CY20.

# REVENUE UPDATE

## ***FY20 and FY21 Summary***

The outlook for the remainder of this fiscal year (FY21) suggests a decrease in total revenues of 1.2 percent from FY20 but an increase of 1.8 percent from FY21 to FY22. Changes in revenue estimates for FY21 and FY22 are mainly attributed to revisions to the income tax, the transfer-recordation tax, and the hotel and motel tax.

# ***Income Tax – Distribution Details***

- The largest share (five-year average of over 80%) 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 2019 in November 2020) 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., 2019 tax year final results affect quarterly distributions for this fiscal year starting in November).
- Because of the year-to-year volatility in the November reconciliation distributions, the State of Maryland Board of Revenue Estimates cautions against including the percent rate changes from the prior year into future estimates. For example, the November reconciliation distribution was \$151.575 million and 33.4 percent below the November 2019 reconciliation distribution of \$227.443 million.



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

- Resident employment is estimated to decrease 2.9 percent from CY19 to CY20 but increase a modest 0.2 percent from CY20 to CY21.
- Personal income is estimated to decrease 2.1 percent from CY19 to CY20 but increase 1.9 percent from CY 20 to CY21.
- Wage and salary income is expected to decrease 0.7 percent from FY19 to CY20 but increase 1.2 percent from CY20 to CY21.
- The estimates are based on the recent forecast from Moody's Analytics for Montgomery County.
- Income tax is expected to decrease 3.7 percent from FY20 to FY21, attributed to the economic impacts from COVID-19, but increase a modest 0.6 percent from FY21 to FY22.

# ***Property Tax***

- Inflation rate is expected to be less than 1.0 percent in calendar year 2020 but an increase of 1.7 for calendar year 2021.
- Under Question A on the November ballot, property tax rates as of FY22 are limited to the prior tax year's rate and cannot exceed the prior year's rate unless approved by all nine members of the County Council. Assuming the prior year's tax rate continues to be the tax rate, property tax revenues can only increase by the percentage increase in total property taxable assessments.
- Property tax revenues are estimated to increase 2.2 percent from FY20 FY21 and 2.5 percent from FY21 to FY22.
- New construction is expected to decrease by more than 5.0 percent from FY20 to FY21, increase 6.0 percent from FY21 to FY22, and is expected to grow at an average rate 4.1 percent per year from FY22 to FY31.

# ***Transfer and Recordation Taxes***

- Based on transfer tax collections for FY21 to date (through October 2020), the residential portion of the transfer tax experienced an increase of 16.5 percent but collections from the non-residential real estate market decreased 57.2 percent through October attributed to the decline in the number of transactions and average tax. Note that collections from non-residential transfers are subject to significant volatility during the fiscal year.
- Total transfer tax revenues are expected to decrease 6.1 percent from FY20 to FY21 attributed solely to the decrease in non-residential revenues but increase 6.5 percent from FY21 to FY22.
- Total recordation tax revenues for the General Fund are expected to be \$54.2 million in FY21, down 6.1 percent from FY20 but the tax is forecast to increase 6.5 percent from FY21 to FY22.

# ***Risks to Revenue Forecasts***

- The impact on the County income tax revenues during the latter part of FY20 and the forecast for FY21 is attributed to the impact of COVID-19 on employment and income.
- The decline in the November reconciliation from the prior year's distribution is attributed to the impact of capital gains and tax planning by wealthy County taxpayers reacting to the effects of Tax Cut and Jobs Act (TCJA).
- The growth in total taxable assessments from the prior fiscal year rather than the growth in inflation from the prior calendar year determines property tax revenues at the Charter Limit starting in FY22 from the passage of Question A in November.
- Sales of existing homes and prices through the remainder of CY20 and CY21 could be affected by COVID-19 because of continuing high unemployment and a reduction in personal income.
- A revised forecast of the state's economy and revenues by the Board of Revenue Estimates in December of this year and March of next year could affect the economic and revenue assumptions.
- Most important are the status of any extension of fiscal stimulus and unemployment insurance by the federal government and the availability and distribution of the coronavirus vaccine.