



Committee: Directly to Council
Committee Review: N/A
Staff: Gene Smith, Legislative Analyst
Purpose: Receive briefing and have discussion – no vote expected
Keywords: Revenues, Fiscal Plan

AGENDA ITEM #6
December 10, 2019
Discussion

SUBJECT

Update on County Revenues

EXPECTED ATTENDEES

Mike Coveyou, Acting Director, Department of Finance (DOF)
Rich Madaleno, Director, Office of Management and Budget (OMB)
David Platt, Chief Economist, DOF

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

- N/A

DESCRIPTION/ISSUE

Each December the Council receives an update from DOF and OMB about the County's revenues. Today's discussion focuses on the revenue revisions since the Council approved the budget in June.

SUMMARY OF KEY DISCUSSION POINTS

- FY21 revenues are estimated to decrease by 0.2% from FY20. The County's total revenues for FY21 are \$99.8 million¹ less than the June approved fiscal plan. **DOF estimates a continued downward revision for property tax revenues and a downward revision to the income tax revenues to offset the one-time increase in FY20.**
- Beginning general fund reserves are less than the FY20 approved amount. The County ended FY19 with fewer resources than estimated in March. The result is FY20 began with \$60.1 million less in reserves than approved. **The updated fiscal plan displays FY20 ending with reserves at 8.9%, below the Council's policy level.**
- The FY19 closeout shortfall and reductions in revenue estimates for FY21 lead OMB to conclude that agency spending needs to be reduced by 2.8 percent or \$130.1 million.
- FY20 revenues are slightly above June's estimate. The County's total revenues are estimated to end FY20 with an additional \$17.7 million when compared to the June approved fiscal plan. **The**

¹ Numbers in the Council Staff Report are slightly different than those in the OMB memorandum since Council Staff used the rounded numbers in the fiscal plan update.

County experienced a one-time increase from income tax revenues, which is mostly offset by a downward revision from the property and transfer tax revenues.

- Non-agency allocations are at the policy level FY21 and beyond. 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 for FY21-26.

This report contains:

OMB memo	© #1-16
2019 December Fiscal Plan Update	© #4-5
2019 June Approved Fiscal Plan	© #17-18
Annual Council Budget Decision Points and Updates	© #19

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MEMORANDUM

December 6, 2019

TO: County Council

FROM: Gene Smith, Legislative Analyst
Marlene Michaelson, Executive Director

SUBJECT: **Discussion** – Update on County revenues

PURPOSE: Review and discuss updated revenue estimates

The Office of Management and Budget (OMB) memorandum provides the Council with an updated fiscal plan, including revenue estimates (see ©1-16). The FY20-25 Fiscal Plan approved by the Council in June is on ©17-18. Today's update focuses on changes in revenue since the Council approved the budget in June. The Council President will be scheduling an additional discussion in January to further explore these revenue revisions and potential budgetary impacts, given the limited time for today's discussion.

I. Background - The Fiscal Plan in Context

The December fiscal plan update is one element of the Council's ongoing budget discussions and process. See ©19 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.

The fiscal plan is approved by the Council each year in June. The fiscal plan is then updated for the Council in December and again in March with the Executive's recommended budget. **The document is an 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.** Recognizing the importance of this six-year window, the Government Operations and Fiscal Policy Committee recommended revising the display of the current fiscal plan summary to provide clarity on certain elements during an October 2019 work session (e.g., account for volatile revenues, growth in State aid, etc.).² Council and Executive staff are working to present a revised display for review in the early-2020.

The December update reflects changes in revenues and available resources from estimates 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**

² https://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2019/20191017/20191017_GO1.pdf.

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 estimates often result in a six-year plan that is more or less constrained than the one approved in June estimates. **In addition, this fiscal plan does not assume a recession or economic downturns that would result in further revisions to the revenue estimates.** While multiple years are displayed, the December update discussion focuses on the current and upcoming fiscal year, in this case FY20 and FY21.

II. Revenues and Economic Context

A. Revenues

The fiscal plan includes estimated revenues from taxes and other sources. State aid for Montgomery County Public Schools is most of the revenues for “other sources.” **A key assumption of the fiscal plan is that this State 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 FY20, 88% 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 ©20 for a historical chart of Tax Revenues from FY10-20. The table below compares the changes in the County’s estimates for taxes from June 2019 to December 2019. **The write-off of the one-time increase for income taxes in FY20 and significant downward revision for property taxes due to lower inflation for all six years results in a total downward revision of more than \$676 million³ in available resources for the six-year period.** For comparison, the December update one year ago estimated total resources would increase by approximately \$54 million during the six-year window from FY19-24.

Change in Tax Revenue Estimates December Vs. June 2019 (\$ millions)

Tax	FY20	FY21	FY22	FY23	FY24	FY25	6-Year Total
Property	- 43.1	- 62.2	- 79.2	- 104.8	- 132.0	- 156.0	- 577.3
Income	68.1	- 38.6	- 38.1	- 41.6	- 40.7	- 43.3	- 134.2
Record/Transfer	- 7.9	0.5	5.1	9.0	11.0	14.0	31.6
Energy	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Other	0.6	0.6	0.6	0.6	0.6	0.7	3.6
Total	17.7	- 99.8	- 111.5	- 136.8	- 161.2	- 184.6	- 676.2

Highlights of these revised estimates are as follows:

- FY21 revenues are estimated to decrease by 0.2% from FY20. The County’s total revenues for FY21 are \$99.8 million less than the June approved fiscal plan (\$62.2 less in property taxes and \$38.6 less in income taxes). The reduction in income taxes is due to a decrease in population growth estimates and slower than previously estimated wage growth. The decrease in property

³ Numbers in the Council Staff Report are slightly different than those in the OMB memorandum since Council Staff used the rounded numbers in the fiscal plan update.

tax is due to slower than expected growth in taxable assessable base and construction and a reduction in the inflation rate. **DOF estimates a continued downward revision for property tax revenues and a downward revision to the income tax revenues to offset the one-time increase in FY20.**

- Beginning general fund reserves are less than the FY20 approved amount. The County ended FY19 with fewer resources than estimated in March, mostly due to property tax and income tax revenues missing expectations. The result is FY20 began with \$60.1 million less in reserves than approved. **The updated fiscal plan displays FY20 ending with reserves at 8.9%, below the Council’s policy level.**
- The FY19 closeout shortfall and reductions in revenue estimates for FY21 lead OMB to conclude that agency spending needs to be reduced by 2.8 percent or \$130.1 million. This reduction would lead to a balanced budget in FY21 and a 10% reserve. The Executive has not yet determined how that reduction will happen but the memorandum from OMB notes that since the fiscal plan assumes that both the school system and college will be funded at maintenance of effort, most of the reduction will be allocated to County Government and the Maryland-National Park and Planning Commission (M-NCPPC).
- FY20 revenues are slightly above June’s estimate. The County’s total revenues are estimated to end FY20 with an additional \$17.7 million when compared to the June approved fiscal plan. **The County experienced a one-time increase from income tax revenues, which is mostly offset by a downward revision from the property and transfer tax revenues.**
- Non-agency allocations are at the policy level FY21 and beyond. 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 for FY21-26

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 FY20 and FY21 revisions.

Tax	Factors influencing actuals	Relevant factors impacting FY20 & 21 revisions
Property	<ul style="list-style-type: none"> • Inflation • Assessable base • Tax credits • Charter Limit 	<ul style="list-style-type: none"> • Inflation lower than estimated • Assessable base lower 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 • Revisions to national employment data
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"> • No revision

B. Economic context

The economic context is important because it provides the backdrop that impacts the County's revenue estimates. The Department of Finance (DOF) has provided an economic outlook for the County beginning on © 8. These slides highlight some of the trends that led to reduction in revenue estimates such as the decrease in resident employment (by 6000 for CY18) and decrease in inflation (from 2.0 percent in CY18 to 1.3 percent year-to-date in FY19). Circle 16 identifies risks to revenue forecasts. DOF staff will present data regarding the County's current economic conditions and indicators during today's update.

III. Follow up questions for January

The Council President will be scheduling a follow up discussion about these revisions to the County's revenues in January. Below are possible questions from Council staff to guide Executive staff preparation for the January discussion. Councilmembers should indicate additional questions for that meeting, too.

- Changes in revenue assumptions for property taxes and income taxes. The Council will need more information to understand the significant reductions in property and income tax. Among the questions that should be addressed are the following: What portions of the decrease in property tax are due to changes in the assessable base, lower than expected construction and lower than estimated inflation? What are alternative approaches to estimating the County property tax revenues to avoid future downward revisions. How does Finance reconcile the growth in development and redevelopment in the County with the downward revisions to property taxes? How has population growth slowed and what are the causes? Is the change in wage growth in the County consistent with regional and national trends or reflect something specific to the County?
- Executive response – When will the Executive recommend a strategy to address the \$130.1 million shortfall identified in the OMB memorandum? What option(s) are on the table?



OFFICE OF MANAGEMENT AND BUDGET

Marc Elrich
County Executive

Richard S. Madaleno
Director

MEMORANDUM

December 5, 2019

TO: Marlene Michaelson, Executive Director, County Council

FROM: Richard S. Madaleno, Director *RSM*

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 FY19 Preliminary Year-End Results and a set-aside in FY20 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 County Executive's budget formulation process and will provide context for the many difficult decisions he is likely to make in developing his Recommended FY21 Operating Budget and regarding spending decisions for the remainder of FY20.

The Updated Fiscal Plan reflects a downward revision in FY20 and FY21 revenues of \$82.1 million (FY20 up \$17.6 million, FY21 down \$99.7 million). The FY19 Preliminary Year-End Closeout Results in a shortfall of approximately \$59.6 million in anticipated reserves compared to estimates in the approved fiscal plan. The shortfall in FY19 Reserves carries forward to FY20 and currently projects FY20 Estimated Reserves to be at 8.9 percent, lower than the 10 percent assumed in the Approved Fiscal Plan. Also, a FY20 set aside of \$15 million for snow and storm related expense has been assumed. Due to these revised estimates and without any other modifications, **agency spending must be reduced by 2.8 percent—or \$130.1 million—from the FY20 approved level to balance the fiscal plan in FY21.** 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-related spending in FY20. These changes are outlined in greater detail below:

Office of the Director

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montgomerycountymd.gov/311 **311** Maryland Relay 711

①

1. Revenues:

The Department of Finance's December 2019 Revenue Update and Economic Indicators reflects an upward revision in FY20 revenues of \$17.6 million due to an increase in the income tax of \$68 million (primarily due to one-time capital gains recognition), offset by a reduction in the property tax of \$43 million and a reduction in the transfer tax of \$8 million. FY21 revenues are \$99 million less than estimated in the approved fiscal plan due to downward revisions of \$38.6 million in the income tax and \$62.1 million in the property tax.

Income tax receipts in the first five months of the current fiscal year are up approximately \$97 million due to the August, October, and November distributions exceeding the estimates in the approved fiscal plan. Most of this gain is attributed to a one-time capital gains recognition in response to federal tax law changes. Last year the November income tax distribution exceeded estimates as well only to have the February distribution come in less than estimates, resulting in a downward revision of FY19 income tax projections. In this light and to be cautious, the increase in the February distribution has been reduced from what was assumed in the approved fiscal plan. This results in a lower upward revision of \$68 million in FY20. Going forward, the increase in the capital gains in the November distribution is not built into projections due to one-time quality. As a result of a Statewide reduction in estimated population by the Census Bureau, the increase to the County's population is less than assumed in the approved fiscal plan; this slowdown in population growth has a similar effect on the estimate of resident employment. These factors along with slower wage growth results in a downward revision of \$38.6 million in FY21.

Estimated property tax revenues, assumed at the Charter Limit in FY21, have been revised downward \$43 million in FY20 and \$62.1 million in FY21. This is due to multiple factors. There is slower than expected growth in the final FY19 taxable assessable base and estimated FY20 taxable assessable base, while the amount of new construction added to the assessable base has lagged estimates. Also, the inflation rate used to calculate the Charter Limit for FY21 is now 1.0 percent lower than assumed in the approved fiscal plan for FY21. Still, property tax revenues are projected to increase 1.8 percent in FY20 and 2.1 percent in FY21.

2. FY21 Expenditures:

In order to remain in balance, the fiscal plan assumes FY21 agency expenditures decline 2.8 percent, or \$130.1 million, compared to the FY20 budget. Because the fiscal plan assumes FY21 expenditures for MCPS and MC at Maintenance of Effort, most of the 2.8 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 several cost increases anticipated for FY21, 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.**

3. Reserves:

Due to the FY19 closeout, the updated fiscal plan currently projects total reserves to be 8.9 percent of AGR at the end of FY20. The Executive is committed to strengthening our reserves. In order to achieve the 10 percent reserve target in the approved fiscal plan, constrained current year spending is likely necessary.

The fiscal plan assumes that in FY21 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 FY21 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 FY21 Operating Budget and FY21-26 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 FY21-26 CIP and the FY21 Operating Budget;
2. The mid-December update by the State Board of Revenue Estimates on its economic forecast;
3. The February 2020 income tax distribution and data on the County's excise taxes for November 2019 through February 2020;
4. Revisions to estimates of the assessable base by the State Department of Assessments and Taxation expected in January 2020; and
5. Federal and State budget decisions that may affect the County's budget.

In summary, the fiscal plan reflects a shortfall in anticipated resources for FY20 and FY21. Continued restraint in spending will be needed to maintain the fiscal health of the County going forward.

RSM:cm

Attachments: December Fiscal Plan
December 2019 Revenue Update and Selected Economic Indicators

c: Andrew Kleine, Chief Administrative Officer
Fariba Kassiri, Deputy Chief Administrative Officer
Michael J. Coveyou, Acting 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 2019
Tax Supported Fiscal Plan Summary

(\$ in Millions)

	App. FY20	Est. FY20	% Chg. FY20-21	% 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	% Chg. FY25-26	Projected FY26
Reserving Reserves															
Unrestricted General Fund	184.2	103.3	-29.8%	11.6%	115.3	56.5%	180.3	-1.1%	178.3	2.9%	183.5	3.1%	189.2	3.0%	198.0
Revenue Stabilization Fund	340.8	341.5	7.0%	6.8%	364.7	-2.5%	355.4	3.9%	369.4	2.6%	378.9	2.2%	387.4	2.3%	398.4
Total Reserves	505.0	444.8	-5.0%	7.9%	479.9	11.6%	535.8	2.2%	547.7	2.7%	562.4	2.5%	576.0	2.7%	592.4
Additions to Reserves															
Unrestricted General Fund	8.1	11.9	699.7%	445.2%	85.1	-103.1%	-2.0	352.0%	5.2	11.1%	5.7	19.1%	6.8	-4.0%	6.5
Revenue Stabilization Fund	23.1	23.1	-140.0%	-140.0%	-8.3	251.4%	14.0	-32.1%	9.5	-10.5%	8.3	5.9%	9.0	14.4%	10.3
Total Change in Reserves	31.3	35.1	78.6%	59.3%	55.8	-78.6%	12.0	22.7%	14.7	-2.9%	14.2	11.2%	15.8	6.5%	16.8
Ending Reserves															
Unrestricted General Fund	172.3	115.3	4.7%	56.5%	180.3	-1.1%	178.3	2.9%	183.5	3.1%	189.2	3.6%	198.0	3.3%	202.0
Revenue Stabilization Fund	363.9	364.7	-2.3%	-2.5%	355.4	3.9%	369.4	2.6%	378.9	2.2%	387.4	2.3%	396.4	2.6%	406.7
Total Reserves	536.2	479.9	-0.1%	11.6%	535.8	2.2%	547.7	2.7%	562.4	2.5%	576.0	2.7%	592.4	2.8%	609.3
Reserves as a % of Adjusted Governmental Revenues	16.6%	8.9%			16.6%		16.6%		16.6%		16.6%		16.6%		16.6%
Other Reserves															
Montgomery College	4.5	4.5	0.0%	0.0%	4.5	0.0%	4.5	0.0%	4.5	0.0%	4.5	0.0%	4.5	0.0%	4
M-NCPPC	5.0	5.0	-0.1%	-0.1%	5.0	2.2%	5.1	2.2%	5.2	2.3%	5.3	2.2%	5.4	2.3%	5
NCPS	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.
MCG Special Funds	0.8	0.8	4.7%	4.7%	0.8	-1.1%	0.8	2.9%	0.8	3.1%	0.9	3.6%	0.9	3.3%	0.9
MCG + Agency Reserves as a % of Adjusted Govt Revenues	10.2%	9.1%			10.2%		10.2%		10.2%		10.2%		10.2%		10.2%
Retiree Health Insurance Pre-Funding															
Montgomery County Public Schools (MCPS)	78.6	78.6			86.0		88.2		88.2		87.7		81.1		81.1
Montgomery College (MC)	5.4	5.4			5.5		5.9		5.4		6.3		6.2		5.2
MNCPPC	2.8	2.8			2.7		2.6		2.6		2.5		2.5		2.5
MCG	34.7	34.7			34.5		34.3		31.7		29.9		28.6		28.6
Subtotal Retiree Health Insurance Pre-Funding	121.4	121.4			127.7		131.6		128.0		128.6		117.4		117.4
Adjusted Governmental Revenues															
Total Tax Supported Revenues	5,066.9	5,113.5	0.1%	-0.3%	5,100.4	2.3%	5,217.5	2.5%	5,346.7	2.5%	5,488.0	2.7%	5,644.2	2.9%	5,810.2
Capital Projects Fund	146.7	146.7	-15.0%	-15.0%	123.9	1.2%	126.4	1.3%	128.9	1.7%	128.1	0.0%	128.1	0.0%	128.1
Grants	118.2	118.2	2.8%	2.8%	122.2	2.7%	125.5	2.7%	128.9	2.7%	132.4	2.7%	136.0	2.7%	138.7
Total Adjusted Governmental Revenues	5,388.9	5,378.5	-0.3%	-0.6%	5,346.5	2.3%	5,469.4	2.5%	5,602.4	2.6%	5,758.4	2.6%	5,908.2	2.6%	6,076.9

(15)

Fiscal Plan December 2019
Tax Supported Fiscal Plan Summary

(\$ in millions)															
	App. FY20	Est. FY20	% Chg. FY20-21	% 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	% Chg. FY25-26	Projected FY26
	5-23-19	12-10-19	AppProj	EstProj	12-10-19										
Total Revenues															
1 Property Tax	1,836.8	1,793.7	-0.3%	2.1%	1,831.6	2.2%	1,872.7	2.3%	1,915.7	2.3%	1,959.4	2.3%	2,004.7	2.3%	2,050.8
2 Income Tax	1,640.3	1,708.4	1.0%	-2.6%	1,694.3	3.6%	1,724.6	4.5%	1,801.6	4.9%	1,890.1	4.6%	1,977.8	5.3%	2,083.2
3 Transfer/Recordation Tax	182.8	174.9	0.8%	5.4%	184.3	4.6%	192.8	4.9%	202.3	5.6%	213.7	5.7%	225.6	6.0%	237.1
4 Other Taxes	283.2	283.7	-1.2%	-1.4%	279.9	1.6%	284.2	-1.2%	290.9	1.6%	295.6	-0.7%	293.6	0.0%	293.7
5 Other Revenues	1,162.8	1,152.8	-1.1%	-1.1%	1,140.3	0.3%	1,143.2	0.3%	1,148.2	0.3%	1,149.3	0.3%	1,152.3	0.3%	1,155.3
6 Total Revenues	5,098.9	5,113.6	0.1%	-0.3%	5,100.4	2.3%	5,217.5	2.8%	5,348.7	2.9%	5,496.8	2.7%	5,644.2	2.9%	5,818.2
7															
8 Net Transfers In (Out)	16.1	16.1	2.9%	2.6%	16.6	1.6%	16.8	1.6%	17.0	1.6%	17.3	1.6%	17.6	1.6%	17.8
9 Total Revenues and Transfers Available	5,112.6	5,129.8	6.1%	-0.2%	5,116.9	2.3%	5,234.3	2.9%	5,363.7	2.9%	5,515.3	2.7%	5,661.8	2.9%	5,828.0
10															
11 Non-Operating Budget Use of Revenues															
12 Debt Service	430.0	430.0	4.6%	4.6%	449.8	3.0%	463.0	3.4%	478.7	-0.2%	477.8	1.6%	485.5	0.0%	485.5
13 PAYGO	32.0	32.0	0.0%	0.0%	32.0	-3.1%	31.0	-6.5%	29.0	0.0%	29.0	0.0%	29.0	0.0%	29.0
14 CIP Current Revenue	33.5	33.6	158.6%	158.6%	86.6	-14.4%	74.1	33.5%	98.9	1.0%	99.9	0.0%	99.9	0.0%	99.9
15 Change in Other Reserves	-19.6	-20.8	100.2%	100.2%	0.0	208.2%	0.1	36.4%	0.1	6.3%	0.1	3.5%	0.1	2.6%	0.2
16 Contribution to General Fund Undesignated Reserves	8.1	11.9	999.7%	445.2%	65.1	-103.1%	-2.0	11.1%	6.7	19.1%	6.8	-4.0%	6.5		6.5
17 Contribution to Revenue Stabilization Reserves	23.1	23.1	-140.0%	-140.0%	-9.3	251.4%	14.0	-32.1%	9.6	-10.5%	8.5	5.9%	9.0	14.4%	10.3
18 Set Asides for other uses (supplemental appropriations)	1.9	16.9	942.5%	18.2%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
19 Total Other Uses of Resources	609.8	628.7	28.8%	22.3%	644.0	-6.6%	606.1	8.9%	641.4	-8.1%	641.1	1.4%	660.4	0.2%	661.4
20 Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)	4,603.0	4,603.0	-2.8%	-2.8%	4,472.9	3.6%	4,634.1	1.9%	4,722.3	3.2%	4,874.1	2.8%	5,011.4	3.3%	5,176.6
21															
22 Agency Uses															
23															
24 Montgomery County Public Schools (MCPS)	2,514.3	2,514.3	0.1%	0.1%	2,515.6										
25 Montgomery College (MC)	265.6	265.5	-1.1%	-1.1%	262.8										
26 MNCPPC (w/o Debt Service)	132.4	132.4	-7.0%	-7.0%	123.0										
27 MCG	1,690.8	1,690.8	-7.0%	-7.0%	1,571.8										
28 Agency Uses	4,603.0	4,603.0	-2.8%	-2.8%	4,472.9	3.6%	4,634.1	1.9%	4,722.3	3.2%	4,874.1	2.8%	5,011.4	3.3%	5,176.6
29 Total Uses	5,112.6	5,129.8	6.1%	-0.2%	5,116.9	2.3%	5,234.3	2.9%	5,363.7	2.9%	5,515.3	2.7%	5,661.8	2.9%	5,828.0
30 (Gap)/Available	0.0	0.0			0.0		8.0		0.0		8.0		0.0		0.0

Assumptions:

1. Property taxes are at the Charter Limit 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 Amended FY19-24 Capital Improvements Program.
4. State Aid, including MCPS and Montgomery College, is not projected to increase from FY21-26.
5. Projected FY21 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.

Montgomery County, Maryland

**DECEMBER 2019
REVENUE UPDATE AND
SELECTED ECONOMIC
INDICATORS**

Department of Finance



December 10, 2019

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.**
- **A final update is done for the March budget.**



ECONOMIC OUTLOOK - SUMMARY


Signs of County's Economy

- **The unemployment rate dropped from 3.0 percent in October 2018 to 2.7 percent in October 2019.**
- **Resident employment, labor force series, increased a modest 0.7 percent in CY18 and is estimated to increased 0.7 percent CY19.**
- **Personal income is expected to increase 3.9 percent in CY19 and wage and salary income is expected to increase 4.0 percent.**
- **The Bureau of Labor Statistics decreased the County's resident employment in March by nearly 6,000 for CY18. That significant decline will affect income tax revenues for FY20 and FY21.**
- **Sales of existing homes declined 4.3 percent in CY18 and have declined 1.0 percent year-to-date (through October) in CY19.**
- **Median sales prices increased 4.8 percent in CY18 but have only increased 2.2 percent year-to-date in CY19.**
- **Inflation, as measured by the Consumer Price Index, increased 2.0 percent in CY18 but only 1.3 percent year-to-date (through September) in FY19.**

10

REVENUE UPDATE

FY20 and FY21 Summary

 The outlook for the remainder of this fiscal year (FY20) suggests an increase in total revenues of 6.2 percent over FY19 but no increase in FY21. Revenue estimates for FY20 and FY21 are mainly attributed to revisions to income tax, property tax, transfer-recording 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 2018 in November 2019) 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., 2018 tax year final results affect quarterly distributions for this fiscal year starting in November).**
- **Income tax revenues represented 46.9 percent of total General Fund tax revenues in FY19 and 45.0 percent of the County's total General Fund revenues.**

②

Income Tax – Economic Factors

- Resident employment is estimated to increase 0.7 percent in CY19 and only 0.5 percent in CY20.
- Personal income is estimated to increase 3.9 percent in CY19 and increase 4.1 percent in CY20.
- Wage and salary income is expected to increase 4.0 percent in CY19 and increase 4.3 percent in CY20.
- The estimates are based on the Board of Revenue Estimates' (Comptroller of Maryland) September 2019 forecast for the State.
- Income tax is expected to increase 11.5 percent in FY20 attributed to the November reconciliation distribution but decrease 2.6 percent due to an estimated decline in the November 2020 reconciliation distribution.

3

Property Tax

- **The inflation rate is expected to be less than 1.30 percent in calendar year 2019 (as of September 2019) and below the rate assumed in the FY19 Budget.**
- **The reassessment rates for real property for Group Two for levy year 2020 (fiscal year 2021) 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 an increase in the real property tax base. Assessments for Group Two increased 7.8 percent in levy year 2017 (fiscal year 2018).**
- **Property tax revenues are estimated to increase 1.8 percent in FY20 and 2.1 percent in FY21.**

④

Transfer and Recordation Taxes

- Based on transfer tax collections to date (through October 2019), the residential portion of the transfer tax experienced a decrease of 18.8 percent but collections from the non-residential real estate market increased over 100 percent through October attributed to growth in the number of transactions and average tax. However, collections from non-residential transfers are subject to significant volatility during the fiscal year.
- Total transfer tax revenues are expected to increase 3.8 percent in FY20.
- Total recordation tax revenues for the General Fund are expected to be \$57.0 million in FY20, up 4.3 percent from FY19.

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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, capital gains, 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 in FY2021 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 such as limitation on state and local taxes and increases in ten-year U.S. Treasury rate that impact mortgage rates.**
- **A revised forecast of the state's economy by the Board of Revenue Estimates that would affect the economic assumptions.**
- **Further revisions to current County employment and income data by federal and state agencies.**

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County Council Approved FY20-25 Public Services Program
Tax Supported Fiscal Plan Summary

(\$ in Millions)														
	App. FY18	Est. FY19	% Chg. FY19-20	App. 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
	5-24-18		App/App	5-23-19										
Total Revenues														
Property Tax	1,808.4	1,785.5	1.6%	1,836.8	3.1%	1,893.8	3.1%	1,951.9	3.5%	2,020.5	3.5%	2,091.4	3.3%	2,160.8
Income Tax	1,585.2	1,542.9	3.5%	1,640.3	3.8%	1,702.9	3.5%	1,762.6	4.6%	1,843.2	4.8%	1,930.8	4.7%	2,021.1
Transfer/Recordation Tax	162.9	180.6	12.2%	182.8	0.5%	183.7	2.1%	187.7	3.0%	193.3	4.9%	202.7	4.5%	211.8
Other Taxes	273.7	278.3	3.5%	283.2	-1.4%	279.3	1.6%	283.7	-1.2%	280.3	1.6%	284.9	-0.7%	283.0
Other Revenues	1,088.1	1,110.1	5.0%	1,152.8	-1.1%	1,140.2	0.4%	1,144.6	0.4%	1,149.1	0.4%	1,153.8	0.4%	1,158.5
Total Revenues	4,928.3	4,898.4	3.4%	5,095.9	2.0%	5,199.9	2.5%	5,330.4	2.9%	5,486.4	3.2%	5,663.8	3.0%	5,838.2
Net Transfers in (Out)	34.9	28.1	-63.0%	16.1	2.8%	16.6	2.7%	16.9	2.7%	17.4	2.7%	17.9	2.7%	18.4
Total Revenues and Transfers Available	4,963.3	4,924.4	3.0%	5,112.0	2.0%	5,216.4	2.5%	5,347.3	2.9%	5,503.8	3.2%	5,681.4	3.0%	5,863.6
Non-Operating Budget Use of Revenues														
Debt Service	420.0	416.5	2.4%	430.0	4.6%	449.6	3.0%	463.0	3.4%	478.7	-0.2%	477.8	1.6%	485.5
PAYGO	33.0	33.0	-3.0%	32.0	0.0%	32.0	-3.1%	31.0	-6.5%	29.0	0.0%	29.0	0.0%	29.0
CIP Current Revenue	35.6	29.5	-6.0%	33.5	158.5%	86.5	-14.4%	74.1	33.5%	98.9	1.0%	99.9	0.0%	99.9
Change in Other Reserves	-37.3	-20.2	47.3%	-19.6	100.9%	0.2	1.3%	0.2	15.6%	0.2	6.1%	0.2	-0.3%	0.2
Contribution to General Fund Undesignated Reserves	21.1	61.5	-61.4%	8.1	-38.4%	5.0	0.7%	5.1	9.1%	5.5	20.2%	6.6	15.4%	7.6
Contribution to Revenue Stabilization Reserves	29.7	32.1	-22.1%	23.1	-82.7%	4.0	100.0%	8.0	35.6%	10.9	12.4%	12.2	-15.6%	10.3
Set Aside for other uses (supplemental appropriations)	-4.0	-6.1	148.0%	1.9	942.5%	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	544.3	2.2%	599.0	17.3%	697.3	0.7%	691.3	7.0%	643.2	0.4%	648.8	1.1%	652.6
Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)	4,465.1	4,378.2	3.1%	4,603.0	0.3%	4,619.1	2.7%	4,746.0	2.4%	4,860.6	3.6%	5,036.6	3.3%	5,201.0
Agency Uses														
Montgomery County Public Schools (MCPS)	2,444.1	2,425.9	2.9%	2,514.3										
Montgomery College (MC)	265.5	261.2	0.0%	265.5										
MNCPPC (w/o Debt Service)	128.3	126.5	3.2%	132.4										
MCG	1,627.2	1,564.4	3.9%	1,690.8										
Agency Uses	4,465.1	4,378.2	3.1%	4,603.0	0.3%	4,619.1	2.7%	4,746.0	2.4%	4,860.6	3.6%	5,036.6	3.3%	5,201.0
Total Uses	4,963.3	4,924.4	3.0%	5,112.0	2.0%	5,216.4	2.5%	5,347.3	2.9%	5,503.8	3.2%	5,681.4	3.0%	5,863.6
(Gap)/Available	0.0	0.0		0.0		0.0		0.0		0.0		0.0		0.0

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Assumptions:

1. Property taxes are at the Charter Limit 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 Amended FY19-24 Capital Improvements Program.
4. State Aid, including MCPS and Montgomery College, is not projected to increase from FY20-25.

**County Council Approved FY20-25 Public Services Program
Tax Supported Fiscal Plan Summary**

(\$ in Millions)

	App. FY19	Est. FY19	% Chg. FY19-20	App. 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														
Unrestricted General Fund	133.0	102.7	23.4%	164.2	5.0%	172.3	2.9%	177.3	2.9%	182.4	3.0%	187.9	3.5%	194.5
Revenue Stabilization Fund	308.3	308.7	10.8%	340.8	6.8%	363.9	1.1%	367.9	2.2%	375.9	2.8%	385.8	3.2%	399.0
Total Reserves	441.2	411.4	14.4%	505.0	6.2%	536.2	1.7%	545.2	2.4%	558.3	2.9%	574.7	3.3%	593.5
Additions to Reserves														
Unrestricted General Fund	21.1	61.5	-61.4%	8.1	-38.4%	5.0	0.7%	5.1	9.1%	5.5	20.2%	6.6	15.4%	7.6
Revenue Stabilization Fund	29.7	32.1	-22.1%	23.1	-82.7%	4.0	100.0%	8.0	35.6%	10.9	12.4%	12.2	-15.6%	10.3
Total Change in Reserves	50.8	93.6	-38.4%	31.3	-71.2%	9.0	44.8%	13.1	25.4%	16.4	15.1%	18.8	-4.7%	17.9
Ending Reserves														
Unrestricted General Fund	154.1	164.2	11.8%	172.3	2.8%	177.3	2.9%	182.4	3.0%	187.9	3.5%	194.5	3.9%	202.2
Revenue Stabilization Fund	338.0	340.8	7.7%	363.9	1.1%	367.9	2.2%	375.9	2.9%	385.8	3.2%	399.0	2.6%	409.3
Total Reserves	492.0	505.0	9.0%	536.2	1.7%	545.2	2.4%	558.3	2.9%	574.7	3.3%	593.5	3.0%	611.4
Reserves as a % of Adjusted Governmental Revenues	9.4%	9.7%		10.0%		10.0%		10.0%		10.0%		10.0%		10.0%
Other Reserves														
Montgomery College	4.7	7.5	-3.8%	4.5	0.0%	4.5	0.0%	4.5	0.0%	4.5	0.0%	4.5	0.0%	4.5
M-NCPPC	4.3	5.6	14.4%	5.0	3.1%	5.1	3.1%	5.3	3.5%	5.5	3.5%	5.6	3.3%	5.8
MCPS	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	0.8	-8.2	-4.4%	0.8	2.9%	0.8	2.9%	0.8	3.0%	0.9	3.5%	0.9	3.9%	0.9
MCG + Agency Reserves as a % of Adjusted Govt Revenues	9.8%	10.3%		10.2%		10.2%		10.2%		10.2%		10.2%		10.2%
Retiree Health Insurance Pre-Funding														
Montgomery County Public Schools (MCPS)	79.4	27.2		78.5		86.0		89.2		88.2		87.7		81.1
Montgomery College (MC)	2.8	0.0		5.4		6.6		8.6		6.4		5.3		5.2
MNCPPC	3.0	3.0		2.8		2.7		2.6		2.6		2.6		2.6
MCG	43.6	9.0		34.7		34.5		34.3		31.7		29.9		28.6
Subtotal Retiree Health Insurance Pre-Funding	128.8	39.2		121.4		127.7		131.6		128.0		126.5		117.4
Adjusted Governmental Revenues														
Total Tax Supported Revenues	4,926.3	4,898.4	3.4%	5,095.9	2.0%	5,199.9	2.5%	5,330.4	2.9%	5,466.4	3.2%	5,663.6	3.0%	5,838.2
Capital Projects Fund	187.2	187.2	-22.2%	145.7	-16.0%	123.9	1.2%	126.4	1.3%	128.9	1.7%	129.1	0.0%	129.1
Grants	118.5	118.5	0.8%	119.2	2.5%	122.2	2.7%	125.5	2.7%	128.9	2.7%	132.4	2.7%	136.0
Total Adjusted Governmental Revenues	5,234.0	5,204.1	2.4%	5,380.9	1.6%	5,446.0	2.6%	5,681.3	2.8%	5,742.3	3.2%	5,925.0	3.0%	6,100.2

12

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 - FY20 Approved Taxes

