



Downtown Silver Spring



MONTGOMERY COUNTY MARYLAND

POPULAR ANNUAL FINANCIAL REPORT

FISCAL YEAR 2018
JULY 1, 2017 - JUNE 30, 2018

THE MESSAGE FROM OFFICIALS

Popular Annual Financial Report FY18



November 30, 2018

Dear Citizens of Montgomery County:

We are pleased to present our second Popular Annual Financial Report (PAFR) of Montgomery County, Maryland (the County) as of the fiscal year ended June 30, 2018. This report is a companion document to the County's award-winning Comprehensive Annual Financial Report (CAFR) and is designed to present information about the County's finances and financial results in a more user-friendly format. This report represents the County's continuing commitment to financial transparency to its citizens.

The CAFR is a detailed and complete financial report, prepared annually by the County's Department of Finance in conformity with Generally Accepted Accounting Principles in the United States of America (GAAP). The public accounting firm of CliftonLarsonAllen, LLP has performed an independent audit of, and issued an unmodified (clean) opinion on, the County's financial statements as of and for the year ended June 30, 2018.

This PAFR is the summarized and condensed version of the FY18 CAFR of Montgomery County. It also includes some information supplemental to the CAFR. We hope that the PAFR plays an important role in making the County's financial information more easily understandable, transparent and accessible to all County's citizens. In addition, we hope the highlights and summaries shed light on key financial accomplishments, plans, and measures for the County. This PAFR and the full CAFR are both available on our website: www.montgomerycountymd.gov/Finance/financial.

Sincerely,



Timothy L. Firestine

Timothy L. Firestine
Chief Administrative Officer



Alexandre A. Espinosa

Alexandre A. Espinosa
Director of Finance

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Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

**Montgomery County
Maryland**

For its Annual
Financial Report
for the Fiscal Year Ended

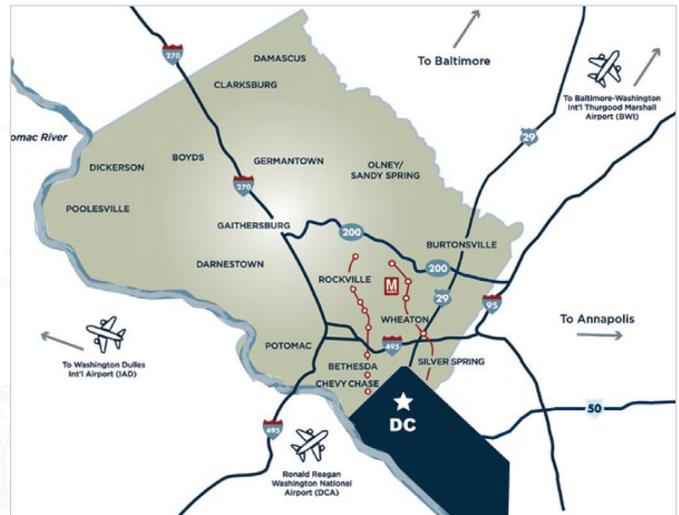
June 30, 2017

Christopher P. Morill
Executive Director/CEO

INTRODUCTION

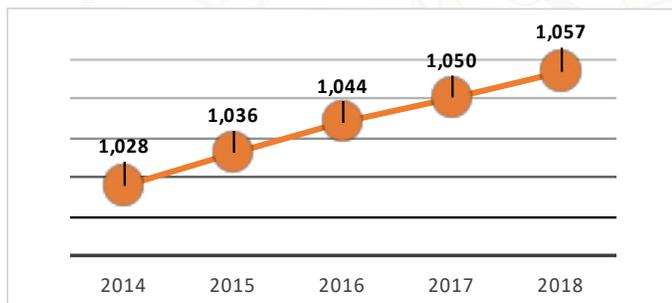
Montgomery County At-A-Glance

Montgomery County, named after the early American general, Richard Montgomery, was established in 1776 by the State Convention. Currently, Montgomery County is the most populated and one of the most affluent jurisdictions in Maryland and enjoys the distinction of being named an All-American community.



County's Selected Demographics

Population
(Thousands of Persons)

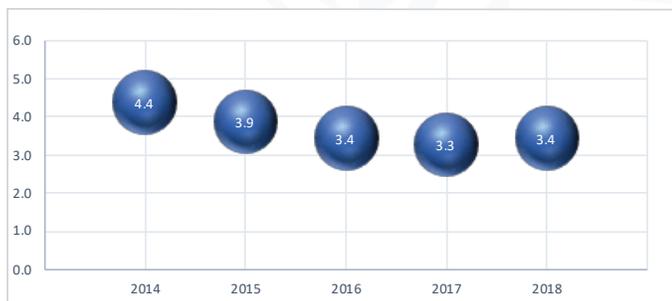


Median Household Income



Source: U.S. Census Bureau

Unemployment Rates



Top 10 Employers in Montgomery County

- 1.) U.S. Department of Health and Human Services
- 2.) Montgomery County Public Schools
- 3.) Montgomery County Government
- 4.) U.S. Department of Commerce
- 5.) U.S. Department of Defense
- 6.) Holy Cross Hospital of Silver Spring
- 7.) Adventist Healthcare
- 8.) Government Employees Insurance Co.
- 9.) Marriott International, Inc. (Headquarters)
- 10.) U.S. Nuclear Regulatory Commission

Other Interesting Demographics



Population Rank in Maryland: 1st

Median Age: 39 years old

Number of Residential Households: 367,764



Average Household Size: 2.77 persons

Average Housing Value: \$460,100

Homeownership: 65.6%



Bachelor's Degree or Higher:

58.3%, (U.S. rate: 32%)

Diversity: 41.6% persons with language other than English spoken at home

Source: FY18 CAFR Statistical Table 23, U.S. Census Bureau, and Bureau of Economic Analysis (BEA), U.S. Department of Commerce



ELECTED OFFICIALS

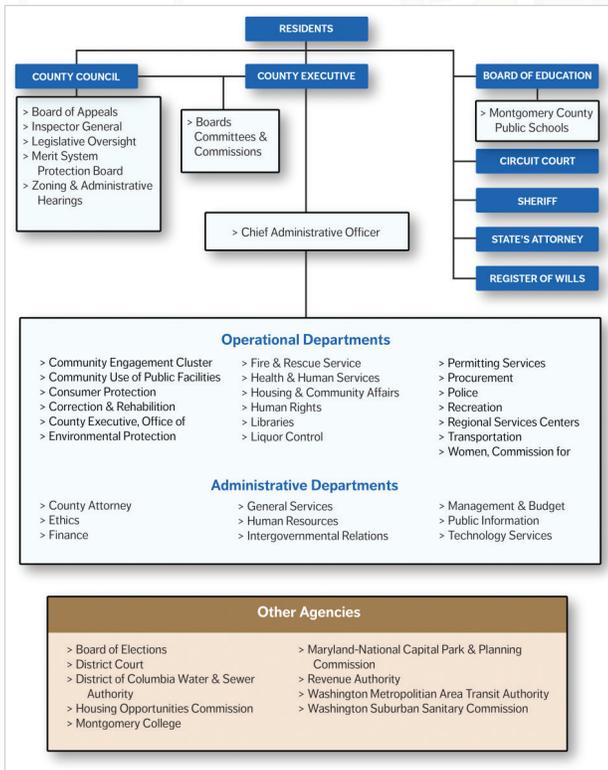


Isiah Leggett
County Executive



Marc Elrich Council Member **Roger Berliner** Council Member **Nancy Floreen** Council Member **Nancy Navarro** Council Vice President **Tom Hucker** Council Member
Sidney Katz Council Member **Craig Rice** Council Member **Hans Riemer** Council President **George Leventhal** Council Member

ORGANIZATIONAL CHART



The County government was structured under the County Commission system until 1948, when voters adopted a charter to give the County home rule and a council-manager form of government. The charter remains the governing authority of the County and was fully implemented in 1970 with the election of an executive and a council.

The Executive Branch implements and enforces Montgomery County's laws and provides executive direction to the government. Its chief executive officer is the County Executive. There are over 30 executive branch departments and agencies that help to deliver services to county residents. Libraries, Transportation and Police are just a few.

The Charter defines the Council's powers in three major areas: legislation, land use, and the budget. There are nine Council members. Five members are elected by the voters of their respective districts. Four members are elected at-large by all the voters of the County. There are six Council standing committees. Each Committee has budget review and program oversight responsibilities. Some cross-cutting issues may be reviewed by two committees meeting jointly.



INITIATIVES AND ACCOMPLISHMENTS

Major initiatives of the County during FY18 that are expected to affect future financial position include the following:

Education



- Montgomery College has an enrollment of nearly 60,000 students. The college is noted as being one of the most ethnically and culturally diverse in the nation, with students from over 170 countries. The County contribution increased by 49.9% in total and 84% on a per student full-time enrollment basis since 2013. In addition, in the County's approved FY19-24 CIP, the County allocated \$277.3 million to Montgomery College for its projects, such as a new Takoma Park/Silver Spring Math & Science Center.

- Montgomery County Public Schools (MCPS) is the 14th largest school system in the United States with 161,936 students and 205 schools in school year 2017-2018. Students are from 157 countries speaking 150 languages. MCPS has 39 National Blue Ribbon Schools.
- MCPS opened the new Thomas Edison High School of Technology building in October, 2018. Total expenditure to date for this new building is \$60.2 million. High school students at all MCPS schools have the option to apply for enrollment in one of Edison's 18 career and technology programs.
- In the County's approved FY19-24 Capital Improvements Program (CIP), the County allocated \$1,777.5 million to MCPS. This level of funding will support new schools, school additions, and renovations as well as provide significant investment in countywide infrastructure. In addition to CIP funding, the County increased the contribution to MCPS by \$79.3 million or 3.2%.

Housing, Culture and Recreation



- The new Good Hope Neighborhood Recreation Center opened on October 6, 2018. The new 14,000-square-foot building doubles the size of the previous facility. The center features a full-size gymnasium, social hall, kitchen, multipurpose room, fitness and weight room and more. The cost of the facility was \$10.7 million.

- The County allocated \$42.9 million for the department of Public Libraries. Since the depths of the great recession, the County has increased funding for the Department by over 50 percent.
- The County allocated over \$51.6 million to affordable housing including the Montgomery Housing Initiative (MHI) Fund and utilize \$16 million from the Affordable Housing Acquisition and Preservation CIP project. This increases dedicated funding and provides for renovation of distressed housing, the acquisition and preservation of affordable housing units, creation of housing units for special needs residents, services to the "Building Neighborhoods to Call Home" and "Housing First", and creation of mixed-income housing. Since FY08, \$1.01 billion has been invested in support of affordable housing, leveraging \$1.17 billion in non-County funding.

Public Safety and Transportation



- The County has increased the budget for public safety agencies nearly 26% over twelve years. With significant reduction in crime, there are now 118 fewer individuals in the County jail on an average day than twelve years ago.
- The County allocated \$118 million to the recently-launched multi-departmental Vision Zero initiative, which has a two-year goal of reducing severe and fatal traffic collisions by 35 percent with the long-term goal of eliminating such collisions by 2030. Montgomery County is one of the first counties in the United States to adopt Vision Zero concept.



ECONOMIC DEVELOPMENT

Transformative groundbreakings, record venture capital investment and the maturation of the County's economic development restructuring were some of the major economic development highlights of FY18.



In August 2017, the Purple Line broke ground, projected to eventually deliver billions in economic impact. The 16-mile light rail line will have 21 stops, 10 of which will be in Montgomery County and connect communities from Bethesda to New Carrollton. The County is contributing \$53 million for its construction. In conjunction with several recently approved Sector Plans, and an expanded Capital Crescent Trail, this major infrastructure project will have a transformative effect on Montgomery County.

Montgomery County lead the Washington metro region in venture capital investment for FY18. For example, the \$282 million Viela Bio investment spearheaded \$527 million in venture capital in FY18. A record high for the County.

Montgomery County completed the restructuring of its economic development operations in FY18. The Montgomery County Economic Development Corporation scaled up to become the first point of contact for business.

Last corporate fiscal year, MCEDC's direct involvement in business retention and attraction led to nearly 5,212 jobs being retained or added to the County and brought capital investments of \$375 million to the County. The County's workforce development corporation, Worksource Montgomery is also reaching scale. In FY18, 33,839 job seekers were served, 7,742 businesses were served with 23,578 external job referrals and 915 youth were served.

The Biohealth industry continued to experience positive momentum with billion-dollar acquisitions, major investments, and entrepreneurial activity which makes Montgomery County one of the premier locations worldwide for the Biohealth industry. The BioHealth Capital Region also increased its National Cluster ranking from 6th to 4th, in 2018, as recognized by Genetic Engineering News. A majority of the BioHealth Capital Region's assets are located within Montgomery County. The industry leaders set a goal to be a top 3 biohealth hub by 2023.

Montgomery County Ranked 4th Biopharma Centers in the Nation



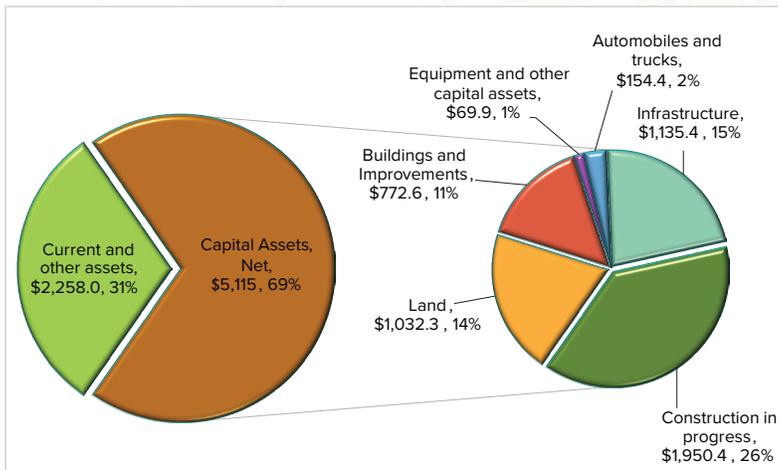
COUNTY FINANCIAL RESULTS

In the County's CAFR, the financial statements present the primary government and its five component units:



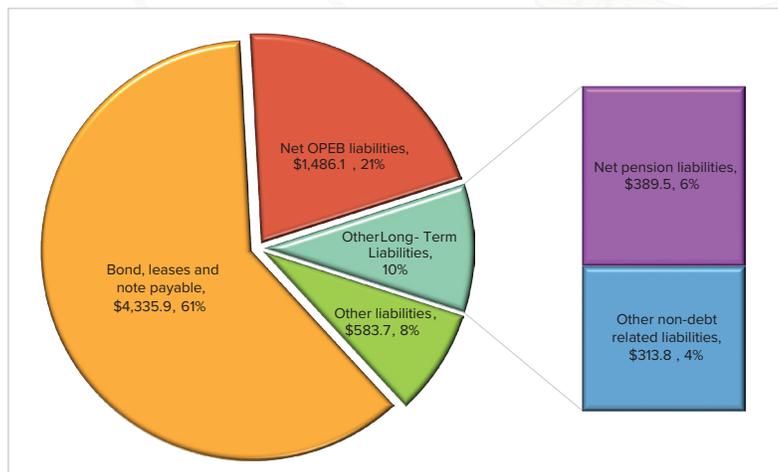
In contrast, this PAFR mainly focuses on the Primary Government and excludes discrete component unit and fiduciary fund information. It contains condensed financial information and does not provide all the necessary financial statements and note disclosures required by GAAP.

Total Assets \$7,373.0 Million (Amount in Millions)



This PAFR also exclusively extracts the financial information from Government-wide financial statements, which present a long-term perspective about the County's assets, liabilities, deferred outflows/inflows of resources and net position. Government-wide financial statements are reported using the accrual basis of accounting. Net Position is the financial position of the County after subtracting liabilities and deferred inflows of resources (what the County owes) from assets and deferred outflows of resources (what the County owns).

Total Liabilities \$7,109.0 Million (Amount in Millions)



Summary of Net Position - Primary Government As Of June 30, 2018 (Amount in Millions)



COUNTY FINANCIAL RESULTS

The County provides a variety of services exclusively to its citizens and businesses. Like all governments, the County raises funds to pay for those services. These sources of funds, referred to as revenue, are raised mainly through taxes, charges for services and grants. Once the County collects taxes and other revenues, the funds must be spent efficiently to provide services.

The condensed version of the summary of Changes in Net Position provides a snapshot of the flow of money in and out of the Primary Government. Change in Net Position is a good measure of the County's overall financial health. The County's FY18 total government-wide net position increased by \$157.3 million from FY17. This increase means that the County's revenues were more than sufficient to cover all expenses, and the County's net worth increased.

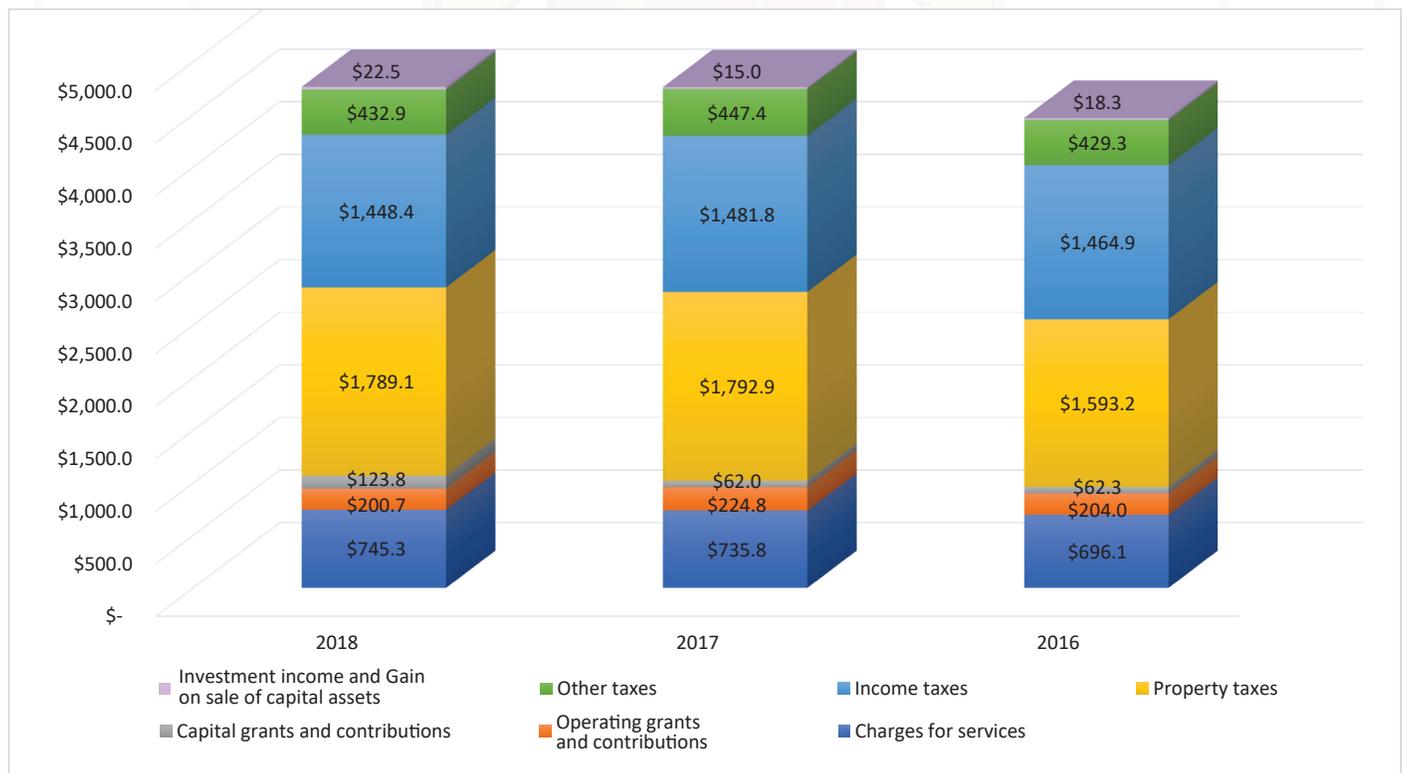
Summary of Changes in Net Position For the Fiscal Years Ended June 30, 2018 and 2017 (Amount in Thousands)

Total Primary Government		
	2018	2017
Total Revenues	\$4,762,745	\$4,759,687
Total Expenses	4,605,402	4,559,465
Change in Net Position	157,343	200,222
Net Position, beginning of year, as restated	9,005	(191,217)
Net Position, End of Year	\$ 166,348	\$ 9,005

Note: 2017 balances have been restated for the adoption of GASB No. 75. See details in CAFR Note I-E.

The Chart below breaks down the sources of revenues coming into the County from the fiscal year 2016 to 2018.

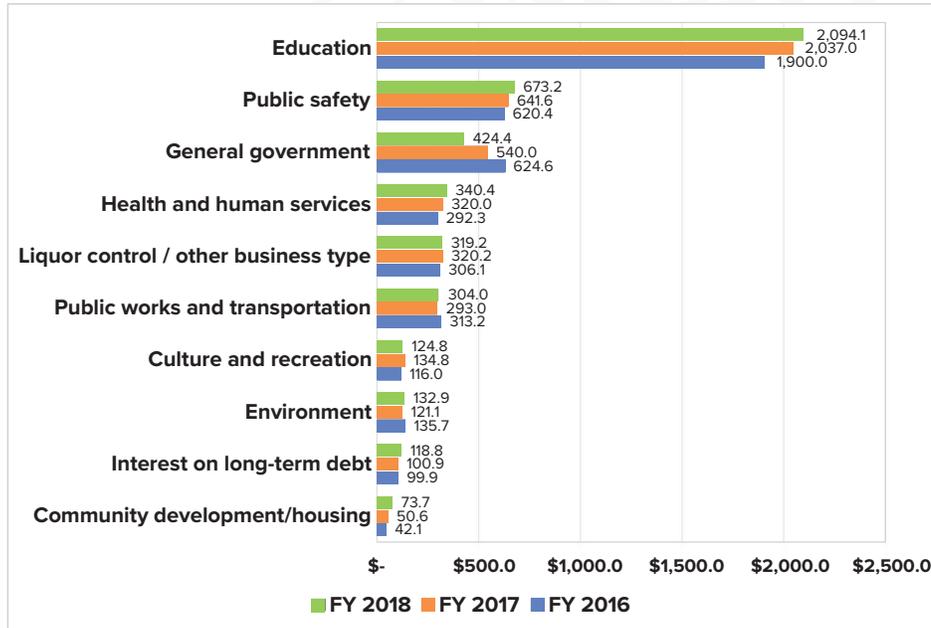
Revenues by Source - Primary Government (Amount in Millions)



COUNTY FINANCIAL RESULTS

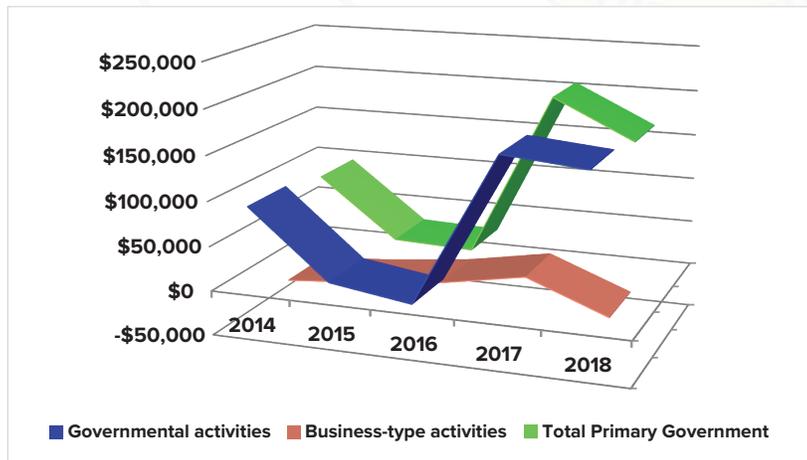
The chart below indicates how the County spent its money from FY16 to FY18. The Primary Government consists of Governmental activities and Business - Type activities. Governmental activities normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

Expenses by Function - Primary Government
(Amount in Millions)



- Education is the largest expense category that comprise 45% of total expenses in FY18.
- Public Safety comprise 15% of total expenses in FY18.

**Change in Net Position
By Fiscal Year**
(Amount in Thousands)



Government activities experienced an increase in net position of \$169.0 million for FY18; Business - Type activities experienced a decrease in net position of \$11.6 million for FY18 after total net transfer out of \$65.2 million. The FY18 total Change in Net Position of \$157.3 million for the Primary Government was the second highest in the last five fiscal years. The most significant component of the change was \$115.6 million decrease in General Government expenses primarily due to the County's FY18 savings plan including \$58.7 million of operating budget reduction and additional savings \$62.4 million in operating budget reductions.



TAXES

Taxes constitute the largest source of County revenues. Property, income, and other taxes together accounted for 77.1% of all County revenue sources. In FY18, property tax revenue accounted for \$1,789.1 million or 37.6% of total revenues of the County. Another major component of general revenues is income tax, which totaled \$1,448.4 million. The major tax supported functions are Education, Public Safety, Health & Human Services, and Transportation.

Property Tax Rates (FY18)



Source: Maryland Association of Counties Budgets, Tax rates, & Selected Statistics FY18

Applicable rates for key tax sources are as follow:

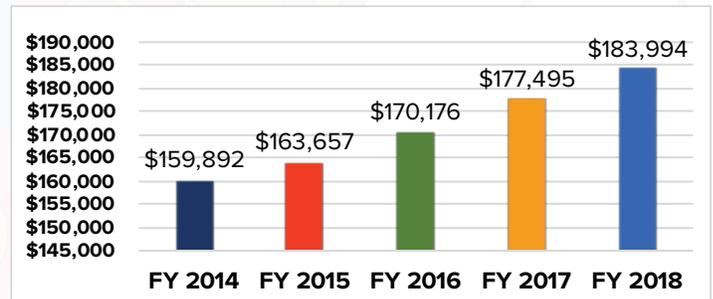
- Real Property direct rate was \$1.00 per \$100 of assessed value in FY18, which is 2.5 cents lower than the rate in FY17. The County's property tax rate is among the lowest of the jurisdictions in the surrounding area.
- The local income tax rate was 3.2% of the State taxable income for 2018. The rate remained the same in FY17.

The taxable assessments for real property increased 3.7 percent from FY17 to FY18. This was the fifth consecutive increase starting in FY14.

The County's property values are higher than the previous peak value in 2010, while property value statewide has not yet returned to their 2010 peak level. Total property value per capita is much higher than the state's overall. The median price for single family in the County was \$477,750 in June 2018. This is an 8.6% year-over-year increase.

Over the past 12 years, County property taxes for the average home have gone up less than one percent above inflation annually. Tax-supported County government spending has gone up only a little more than 2 percent a year. The percentage of residents' incomes that go to pay all County taxes has actually gone down 5 percent during that time.

Real Property Assessed Value Trend (Amount in Millions)



Source: Montgomery County FY18 CAFR table 8

This year, there is a new Elderly Individual and Military Retiree Property Tax Credit, for residents at least 65 years of age who are either retired from the Armed Services (or certain uniformed services) or who have owned and lived in their homes for at least 40 years. For levy year 2017, there was 5,045 recipients. Total credits received by all recipients were \$3.4 million.

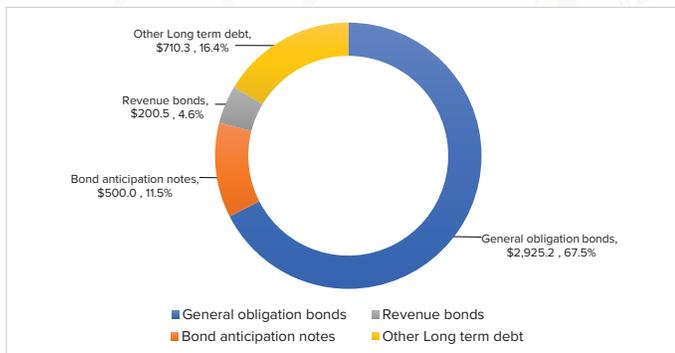


LONG-TERM DEBT

The County Government, four of its agencies, and municipalities are authorized by State law and/or County Charter to issue debt to finance capital projects. Consistent with County fiscal policy, the County issues debt to finance a major portion of the construction of long-lived additions or improvements to the County's publicly-owned infrastructure. Bonds are repaid to

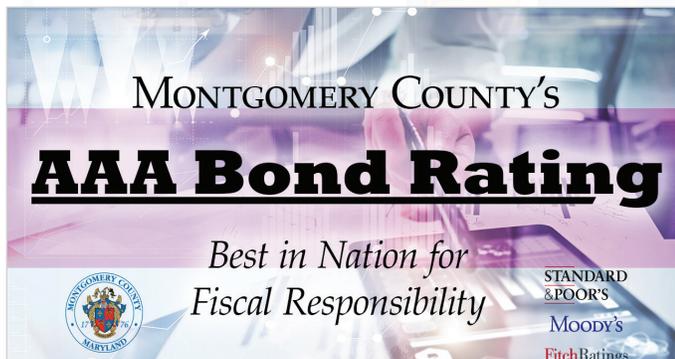
bondholders with a series of principal and interest payments over a period of years, known as debt service. In this manner, the initial high cost of capital improvements is absorbed over time and assigned to current and future citizens benefiting from the facilities. Due to various Federal, State, and local tax policies, interest rates are lower than in the private sector.

Long-Term Debt Outstanding - Primary Government for the Fiscal Year Ended June 30, 2018 (Amount in Millions)

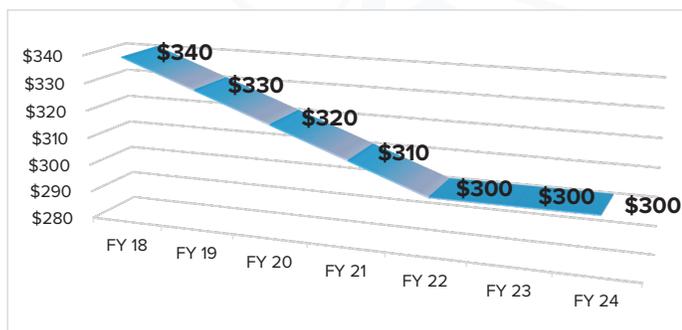


As of June 30, 2018, the County's total bonds, leases and notes payable were \$4,336.0 million. Among all long-term debt, General Obligation (G.O.) bonds comprise 67.5 percent of total longterm debt. G.O. bonds are backed by the County's full faith and credit and unlimited taxing power. Currently G.O. bonds are anticipated to fund approximately 42.5% percent of the County's capital expenditures for the six-year Approved FY19-24 CIP. The chart on the left shows the County's long-term debt outstanding by the end of FY18.

Since 1973, the County has consistently had a Aaa rating from Moody's Investors Service, Inc. Bonds issued by the County have consistently been rated AAA by Standard and Poor's since 1976 and Fitch Inc since 1991. Montgomery County is one of only 14 'Triple AAA' rated counties in the nation with a population greater than 900,000. These highest-level ratings reflect the County's growing and diverse economy, its substantial tax base, strong financial position, and strong financial management. The AAA rating means the County pay lower interest rates and can, therefore, build more schools and facilities for the residents' tax dollars.



Annual General Obligation Bond Issuance (Amount in Millions)



To improve the County's budget flexibility, to balance the needs of the operating and capital budgets, and to maintain the County's AAA credit rating, the County will gradually reduce annual General Obligation bond issuance over the next four years from the current \$340 million to \$300 million a year, representing a net six-year reduction of \$198 million in General Obligation and Pay-As-You-Go (PAYGO) funding. It will slow the growth of the County's debt service payments and will help the funding of other critical programs and services.

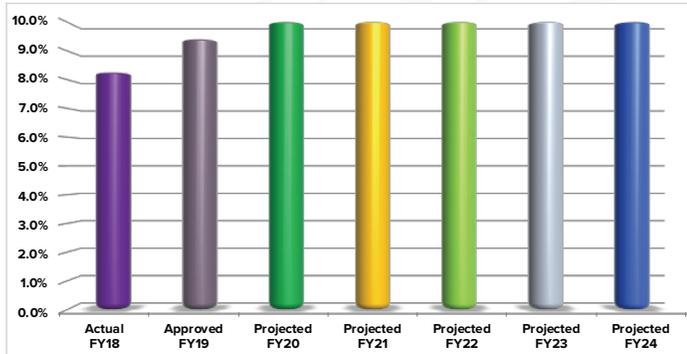


LONG-TERM FINANCIAL PLANNING

Reserves

As part of the annual operating budget process, the County develops a structurally balanced six-year fiscal plan. This plan addresses long-term structural issues in the budget, maintains the General Fund reserves at the required policy levels, and emphasizes the priorities of education, public safety, affordable housing, transportation, and health and human services.

The Projection of Reserves



Source: Fiscal Plan Update December 2018.

The County is required to budget for a reserve in the General Fund, which is the County's chief operating fund. The County is also required to build up a total reserve of ten percent of revenues including the Revenue Stabilization Fund by FY20, as defined in the County's Revenue Stabilization Fund law. Revenue Stabilization Fund, a rainy-day fund, was established by the County to accumulate funds during periods of strong economic growth to provide budgetary flexibility during times of funding shortfalls. Total reserves as of June 30, 2018 was \$411.4 million.

Other Postemployment Benefits (OPEB)

Beginning in FY08, the County implemented a plan to set aside funds for retiree health benefits, similar to the County's 50-year-old practice of pre-funding for retiree pension benefits. The reasons for doing this are simple: due to exponential growth in expected retiree health costs, the cost of funding these benefits, which were being paid out as the bills came due, would soon become unaffordable. Setting aside money now and investing it in a Trust Fund, which is invested in a similar manner as the pension fund, not only is a prudent and responsible

approach, but will result in significant savings over the long-term. The amount the County set aside each year has been increasing steadily. During FY18, the County and other contributing entities contributed \$50.4 million toward prefunding future benefits.

In FY18, the County reported a Net OPEB liability of \$1,486.1 million. Further information regarding the County's OPEB plan, funding policy and financial reporting can be found in the County's FY18 CAFR and the Consolidated Retiree Health Benefits Trust's FY18 annual report on the County's website.



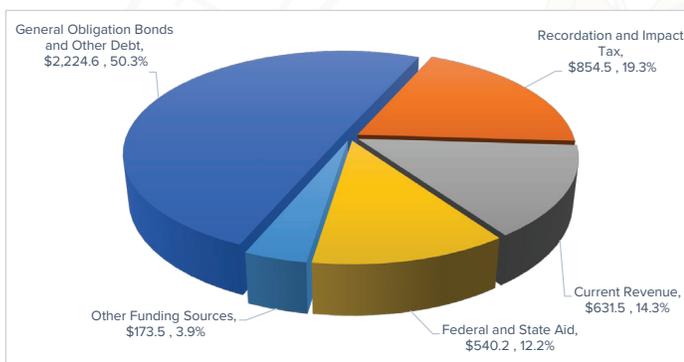
LONG-TERM CAPITAL PLANNING

Capital Improvements Program

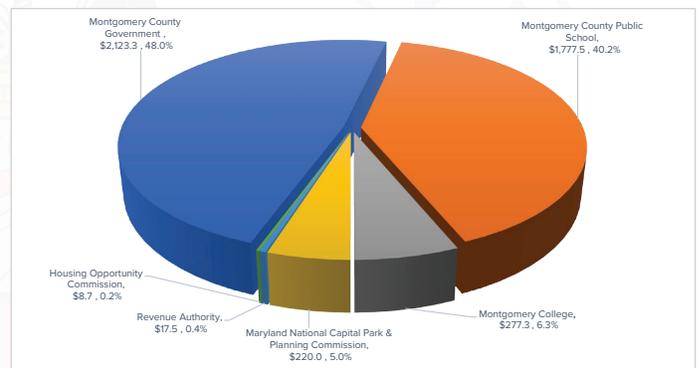
The Montgomery County Charter (Section 302) requires the County Executive to submit a comprehensive six-year program for capital improvements, called the Capital Improvements Program (CIP). The CIP is the presentation of capital project expenditure estimates, funding requirements, capital budget requests, and program data for the construction of all public buildings,

roads, and other facilities planned by County agencies over a six-year period. It includes all capital projects and programs of all agencies for which the county sets tax rates or approves budgets or programs. According to FY19 Capital budget and FY19-24 CIP, total projects of the County are 551. The following charts present how total approved FY19-24 six-year \$4,424.3 million CIP (excluding WSSC) are being expended by categories and funded by sources.

FY19-24 Six-year CIP Funding
(Amount in Millions)

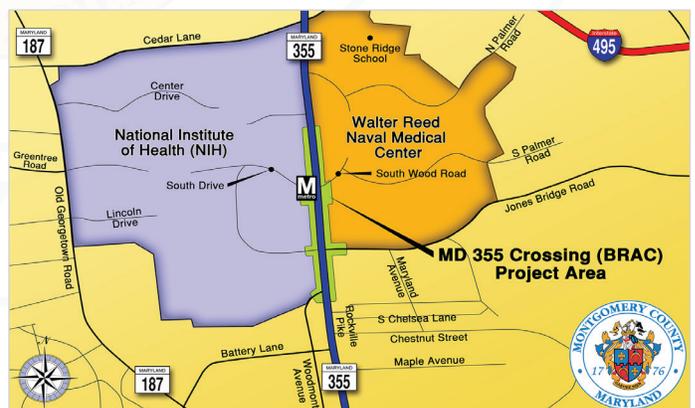
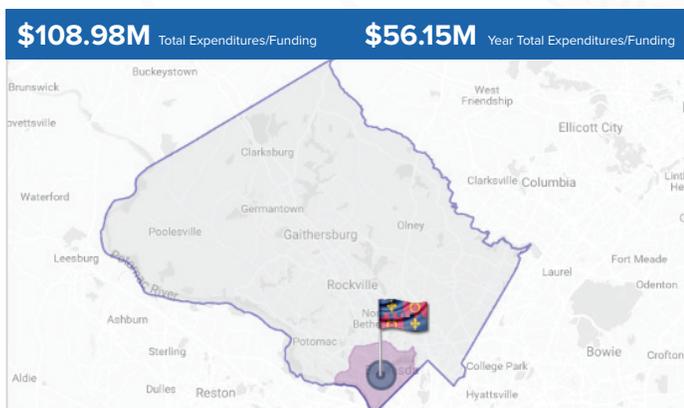


FY19-24 Six-year CIP Expenditure
(Amount in Millions)



Major Capital Project in Progress: MD 355 Crossing (BRAC)

MD 355 CROSSING (BRAC) is an implementation of the 2005 Base Realignment and Closure Act (BRAC). The purpose of the project is to improve the mobility, traffic operations, and safety of all facility users by reducing conflicts between pedestrians and vehicles in the area of Walter Reed National Military Medical Center and the Medical Center Metrorail station. The funding of the project is entirely from Federal Aid and State Aid, in coordination with multiple federal and state agencies. See details for this project and all other capital projects at <http://apps.montgomerycountymd.gov/BASISCAPITAL/>.

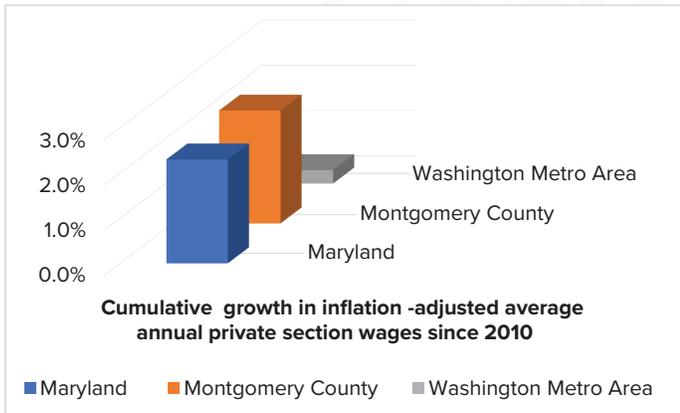


ECONOMIC OUTLOOK & OPERATING BUDGET HIGHLIGHTS

Economic Outlook

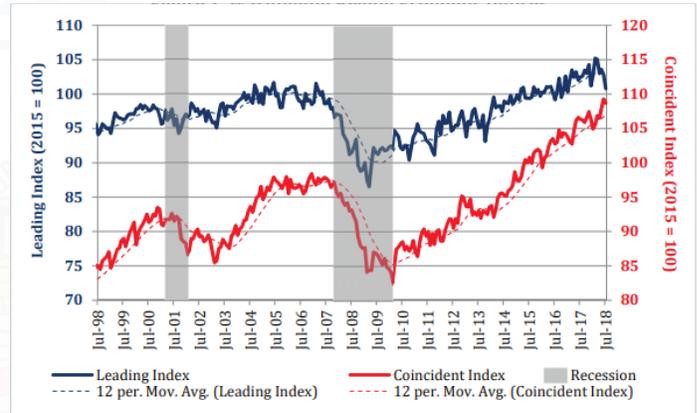
Following FY18 in which the County's economy experienced an increase in resident employment (0.7%), a decline in the average monthly unemployment rate to 3.4 percent, an estimated increase in per capita income (3.9% in calendar year 2018), and an increase in the average sales prices of existing homes, the outlook for FY19 is expected to see a modest continuation of economic growth.

Strong Wage Growth



Source: MDCEP analysis of Quarterly census of Employment and wages and Consumer Price Index

Washington Region Economic Indices



Source: The Stephen S. Fuller Institute at the Schar School, GMU

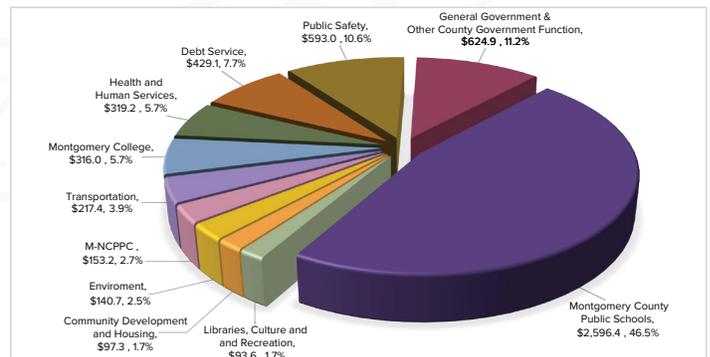
- Federal spending is forecasted to increase 5.6% year-over-year for the Federal FY19. This is the highest increase since FY09. This will help the County's economy, as the County has a large federal presence.
- The County continues to attract residents at a healthy pace, increasing in population significantly faster than Maryland as a whole. The cumulative population growth of the County since 2010 is 8%; the growth of Maryland is 5%.
- The County has strong private-sector wage growth in recent years in the Washington Metropolitan Area (WMA). The recent average wage was \$72,215.
- In 2017 real GDP for the WMA increased 2.1% year-over-year; the highest increase since 2010. The Washington Region Coincident Index, tracking the current economy, has continued to experience solid gains, but the Leading Index has softened.

The County's economy faces some uncertainty due to the increases in interest rates. The pace of Federal Reserve rate increases has become less certain for 2019. Such increases could have an impact on mortgage rates and therefore the sales prices of homes in the County and affect both residential transfer and recordation tax revenues.

FY19 Approved Operating Budget

The County approved a total County Operating budget from all sources for all County agencies of \$5.6 billion which is \$130.6 million or 2.4 percent more than the FY18 budget. The chart indicates how the budget is distributed. For the details, please visit the County's Office of Management and Budget website: <https://apps.montgomerycountymd.gov/basisoperating>.

FY19 Approved Operating Budget (Amount by Millions)



ACKNOWLEDGEMENTS AND COUNTY'S OPEN DATA PORTAL

Popular Annual Financial Report Developed and Prepared by:

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Financial Reporting

Chong Lee, CPA
Program Manager

Yihui Brown
Accountant/Auditor

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Director of Public Information

Brian Roberts
Public Information Officer

Sean Clark
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Office of the County Executive

Lily Qi
Assistant Chief Administration Officer

Benjamin J. Rickelman
Economic Analyst

Special Thanks To:

Efforts of the Finance Controller Division Staff without which this project would not have been possible.

Montgomery County Open Data Portal

More County's financial and budget information can be found at:
data.montgomerycountymd.gov

			
			
<h3>dataMONTGOMERY</h3>	<h3>Open Budget</h3>	<h3>CountyStat</h3>	<h3>Property Taxes</h3>
<p>Direct access to County data sets in consumable formats is available here. The public can review and analyze, and use the data sets for a variety of purposes.</p>	<p>Provides you with an intuitive way to understand how our budget is structured and get the answers you need.</p>	<p>See how the County and its departments are performing by exploring performance dashboards and data visualizations.</p>	<p>View property tax records to view and/or make payments on-line by credit card or bank account as appropriate.</p>





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