Office of the Superintendent of Schools
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

November 26, 2008

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools

Subject: Economic Indicators Report

On November 24, 2008, the Management and Fiscal Policy (MFP) Committee of the County Council met to review the quarterly report on economic indicators issued by the Montgomery County Department of Finance for the first three quarters of 2008. The MFP Committee includes Ms. Duchy Trachtenberg, chair; Ms. Valerie Ervin; and Mr. Donald Praisner. Staff also recently received a briefing on the state economic outlook from the Maryland Department of Legislative Services (DLS). Copies of both reports are attached. The overall county and state economic outlook remains weak. The same factors that have been responsible for the national economic slowdown have affected Montgomery County, but not to the same extent. It is expected that the state and county economies will be adversely affected by the effects of the national recession.

The national economy shows growing signs of weakness amid disorder in the financial markets. Current economic projections indicate that a recession began in the third quarter of this year and will extend at least well into 2009. Consumer spending and business investment have declined sharply this year. Unemployment has climbed to 6.5 percent with new jobless claims for unemployment insurance at the highest level in more than 20 years. The decline in the stock market this year, which affects future revenue from income taxes, is the greatest percentage decrease since 1932. Investment in residential property has declined for 11 consecutive quarters, dropping 19 percent in the third quarter, and is expected to continue to decline in 2009. With credit severely impaired, home prices have crashed, with housing starts falling to the lowest level in nearly 50 years. The weak economy is responsible for the recent decrease in gasoline prices.

The overall outlook for the stability of financial markets remained the most significant concern nationally. Financial risks include not only sub-prime mortgages, but also other home mortgages, car loans, and credit card debt. The rates for daily interbank loans remained far above rates available from the Federal Reserve, which suggests continued nervousness in financial markets. As a result, the biggest threat to the local economy is the potential impact of national financial problems.

Although the local economy has been affected by the same factors that have hurt the national economy, the impact has been significantly less. For example, although there has been a decline in jobs nationally, resident employment in Montgomery County increased by 1,900 jobs (0.4 percent) in September, compared to the previous year. However, this is the slowest growth in five years. The local unemployment rate was 3.3 percent in September, which is not only below the 6.5 percent national rate, but more than a full percentage point less than the Maryland statewide rate of 4.5 percent.

Sales of existing homes declined 5.4 percent in the third quarter, with home prices down 11.2 percent. The value of new residential construction in the county was the lowest since 1999. Non-residential construction also dropped as vacancies reached the highest level since 2005. This slow local economic growth is expected to limit the increase in income tax revenue and further reduce receipts from the transfer and recordation taxes on real estate. The Montgomery County Department of Finance expressed great concern about the effect of meager job growth on future income tax revenue growth. The decline in stock prices may be reflected in the amount of estimated payments included in the February quarterly distribution of income tax revenue.

The Maryland Department of Legislative Services (DLS) briefing painted a bleak picture of the state fiscal outlook with increased deficits expected for the current fiscal year and FY 2010. Sales tax revenue has declined significantly this year, including a 7.8 percent decline in September due to reduced consumer activity. State economists expect a continued decline at least into the third quarter of 2009. General fund revenues have increased 3.1 percent this year, but adjusting for tax rate increases, including the one cent increase in the sales tax, the revenue trend is really lower by 2.5 percent (Attachment 2, page 2). Although the slots referendum was adopted, significant revenue will not be available until FY 2012 at the earliest (page 7). By that time approximately $500 million is expected to be available for education. Even including reductions of $447 million already made by the Board of Public Works, DLS projects a $1.3 billion shortfall for FY 2010 (page 14).

DLS anticipates that direct state aid for schools will grow by $84.7 million statewide, but that includes the assumption that the Geographic Cost of Education Index (GCEI) will be fully funded in FY 2010 at an increase of $49.3 million (page 10), Without GCEI revenue, state education aid will increase less than 1 percent, excluding state retirement contributions. The possibility of withdrawing the GCEI payment for FY 2009 ($18 million for Montgomery County) also has been raised. Meanwhile, the state education budget will be severely constrained by the growing costs of state pension contributions, expected to increase from 12 percent of salary to 18 percent by 2015, even assuming 7.75 percent in annual earnings in 2011 and beyond (page 11). Some legislators have advocated transferring this expenditure to local governments. This would pose a serious problem for Montgomery County.

I will keep you informed of further developments on the county economy. If you have any questions, please call Mr. Larry A. Bowers, chief operating officer, at 301-279-3626 or Dr. Marshall Spatz at 301-279-3547.

JDW:vnb
Attachments
Copy to:
Executive Staff
Mr. Ikheloa