

MEMORANDUM

November 20, 2009

TO: County Council

FROM: Stephen B. Farber, Council Staff Director *SBF*

SUBJECT: Update – County Income Tax Revenue

Finance Director Jennifer Barrett will provide an update on County income tax revenue for FY10-11. While the Council's next full fiscal update is scheduled for December 1, Council President Andrews requested this update because the State's November 2009 distribution of County income tax revenue is **\$85.2 million** below the Finance Department's March 2009 estimate. The implications for the County budget in FY10 and FY11 are serious.

See ©1-3 for details on Finance's March 2009 estimate. Note on ©1 that to reflect the weak economy, Finance's estimate for FY10, **\$1.215 billion**, was **\$50.3 million** less than the November 2008 estimate, while the estimate for FY11, **\$1.280 billion**, was **\$76.5 million** less.

The State's November 2009 distribution reflects October 15 late filings, third quarter withholding and estimated payments, and adjustments for prior distributions by the State. Finance's March 2009 estimate for the late filings and adjusted distributions was **\$57.7 million**. As the table on ©2 shows, this estimate had already been reduced by **60.5 percent** to reflect the weak economy and other factors, but the November distribution was just **\$9.6 million**. Finance's March 2009 estimate for third quarter withholding and estimated payments was **\$247.7 million**, but the November distribution was just **\$210.6 million**. The total March 2009 estimate for the November distribution was **\$305.4 million**, but the total November distribution was **\$220.2 million**, **\$85.2 million** or **27.9 percent** less.

Given Finance's cautious approach to revenue estimates, and given also the writedowns that Finance had made in previous estimates, this distribution was surprising. One factor, apart from the weak economy, is that the State's formula for determining the counties' share of total income tax revenue may have overdistributed to the counties for tax year 2008 as a consequence of changes in State tax law. The revised formula, which went into effect with this November distribution, may now be correcting for that overdistribution.

Since earlier distributions in FY10 were **\$9.9 million** above the March 2009 estimate, the current net fiscal-year-to-date shortfall, compared to that estimate, is **\$75.3 million**. The total FY10 shortfall, based on the State's new formula, could be in the range of **\$95 million**, while the FY11 shortfall could be in the range of **\$110 million**. These writedowns alone could bring the County's estimated FY11 budget gap, which in September was projected at **\$364.4 million**,¹ to well over **\$500 million**, despite the Council's November 17 approval of a \$29.7 Savings Plan for FY10. Other factors could make the gap still larger.²

Further detail on these and other revenue and expenditure issues will be provided for the Council's fiscal update on December 1. **What is clear now is that further savings must be achieved in FY10 and that even harder fiscal choices loom for FY11.**

f:\farber\10opbud\county income tax update cc 11-24-09.doc

¹ This gap assumes general wage adjustments (COLAs) and step increases at the level originally bargained for FY10, as well as retiree health benefits pre-funding (OPEB), reserves, and PAYGO at the scheduled or policy levels. See http://www.montgomerycountymd.gov/content/council/pdf/agenda/col/2009/090929/20090929_7.pdf.

² For example, the current calculation of the Charter limit on property tax revenue in FY11 may be \$45 million lower than the March 2009 calculation because the projected increase in the CPI has not occurred. Other factors that could increase the gap include the possible impact of the FY10 Round 3 cuts to State agencies announced on November 18 by the Board of Public Works, further State aid reductions in the Governor's FY11 budget, the possible withholding of some FY10 State education aid related to the Maintenance of Effort issue, and further writedowns in County revenues.

**COUNTY INCOME TAX ESTIMATE
MONTGOMERY COUNTY, MARYLAND**

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
<u>Current Law</u>								
Collect	\$1,291,339,613							
% change	2.1%							
<u>Forecast</u>								
Old (11/08): November Estimate	\$1,273,790,000	\$1,265,030,000	\$1,356,230,000	\$1,455,010,000	\$1,566,110,000	\$1,675,770,000	\$1,809,260,000	
New (03/09)	\$1,281,790,000	\$1,212,770,000	\$1,278,780,000	\$1,362,850,000	\$1,482,570,000	\$1,559,120,000	\$1,679,340,000	
Difference	\$8,000,000	(\$50,260,000)	(\$76,450,000)	(\$92,160,000)	(\$111,540,000)	(\$116,650,000)	(\$129,920,000)	
% change								
Old (11/08): November Estimate	-1.4%	-0.7%	7.2%	7.3%	7.6%	7.0%	8.0%	
New (03/09)	-1.4%	-5.2%	-5.1%	6.5%	6.7%	7.2%	7.7%	

Montgomery County Department of Finance March 2009

①

**MONTGOMERY COUNTY ACTUAL AND ESTIMATED CALENDAR YEAR INCOME TAX REVENUES
CURRENT LAW**

CALENDAR YEAR DISTRIBUTIONS:	Est. 2007	Est. 2008	Est. 2009	Est. 2010	Est. 2011	Est. 2012	Est. 2013	Est. 2014	Est. 2015
EMPLOYER WITHHOLDINGS AND DECLARATIONS									
FIRST Quarter	221,082,000	222,082,000	\$232,260,000	\$242,550,000	\$258,560,000	\$269,510,000	\$287,680,000	\$301,280,000	\$322,420,000
% change	21.9%	1.4%	0.5%	4.4%	6.6%	4.2%	6.7%	4.7%	7.0%
growth factor									
SECOND Quarter									
April/May W/H & Est. Pmt	141,896,000	142,896,000	148,970,000	156,180,000	167,000,000	173,550,000	186,150,000	193,570,000	209,210,000
% change	18.2%	2.9%	0.6%	4.8%	6.9%	3.9%	7.3%	4.0%	8.1%
growth factor									
June W/H	125,135,627	125,135,627	67,340,000	70,440,000	74,660,000	78,250,000	82,790,000	87,840,000	92,310,000
% change	25.3%	2.9%	0.5%	4.6%	6.0%	4.8%	5.8%	6.1%	5.1%
growth factor									
June Est. Pmt + Reconciliation	22,100,000	22,100,000	24,100,000	25,210,000	26,420,000	27,830,000	29,450,000	31,250,000	32,840,000
% change	56.8%	-19.5%	1.6%	4.6%	4.8%	5.3%	5.8%	6.1%	5.1%
growth factor									
Adj. 2nd Quarter	0	0	0	0	0	0	0	0	0
% change									
THIRD Quarter									
THIRD Quarter	221,600,000	222,600,000	247,700,000	263,240,000	276,090,000	291,050,000	308,020,000	327,140,000	343,830,000
% change	6.3%	3.9%	2.1%	6.3%	4.9%	5.4%	5.8%	6.2%	5.1%
growth factor									
FOURTH Quarter									
FOURTH Quarter	222,320,000	222,320,000	297,980,000	316,640,000	331,970,000	349,930,000	370,310,000	393,240,000	413,290,000
% change	4.8%	0.7%	2.0%	6.3%	4.8%	5.4%	5.8%	6.2%	5.1%
growth factor									
SUBTOTAL									
Percent Change From Prior Year	13.0%	1.5%	1.4%	5.5%	5.6%	4.9%	6.2%	5.5%	6.0%
APRIL 15TH FILING DISTRIBUTIONS									
TENT. FINAL (June)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
FINAL (Aug.)	0	0	0	0	0	0	0	0	0
AJD. FINAL (Sept.)	0	0	0	0	0	0	0	0	0
ADDTL. FILINGS (Nov.)	146,070,000	57,700,000	48,640,000	64,200,000	67,990,000	83,950,000	94,410,000	111,170,000	124,460,000
% change	-13.7%	-60.5%	-15.7%	32.0%	5.9%	23.5%	12.5%	17.8%	12.0%
ADDTL. FILINGS (Jan.)	33,080,000	28,560,000	26,270,000	30,650,000	31,420,000	35,810,000	37,260,000	40,800,000	41,820,000
% change	12.2%	-13.7%	-8.0%	16.7%	2.5%	14.0%	4.0%	9.5%	2.5%
SUBTOTAL 1 /									
Percent Change From Prior Year	-9.9%	-51.9%	-13.2%	26.6%	4.8%	20.5%	9.9%	15.4%	9.4%
TOTAL ESTIMATED PAYMENTS AND WITHHOLDINGS									
AMOUNT	114,532,000	114,532,000	117,000,000	122,000,000	128,000,000	134,000,000	142,000,000	148,000,000	155,000,000
Percent Change From Prior Year	8.8%	-6.7%	0.2%	6.9%	5.6%	6.1%	6.6%	6.5%	6.3%

2

**MONTGOMERY COUNTY ACTUAL AND ESTIMATED CALENDAR YEAR INCOME TAX REVENUES
CURRENT LAW**

**CALENDAR YEAR
DISTRIBUTIONS:**

Est. 2007 Est. 2008 Est. 2009 Est. 2010 Est. 2011 Est. 2012 Est. 2013 Est. 2014 Est. 2015

OTHER COLLECTIONS

PENALTY AND INTEREST	\$9,980,000	\$10,280,000	\$10,420,000	\$10,980,000	\$11,600,000	\$12,180,000	\$12,940,000	\$13,640,000	\$14,460,000
- FIRST (or OLD)	4,920,000	5,140,000	5,210,000	5,490,000	5,800,000	6,090,000	6,470,000	6,820,000	7,230,000
- SECOND	5,060,000	5,140,000	5,210,000	5,490,000	5,800,000	6,090,000	6,470,000	6,820,000	7,230,000
UNALLOCATED WH FIDUCIARY	17,960,000	29,880,000	19,190,000	20,390,000	21,680,000	25,230,000	26,820,000	28,320,000	30,020,000
- FIRST	20,610,000	21,890,000	26,220,000	31,680,000	38,220,000	46,340,000	56,020,000	68,510,000	83,980,000
- SECOND	6,890,000	4,820,000	4,990,000	5,270,000	5,360,000	5,470,000	5,180,000	5,260,000	5,310,000
DELINQ. & AUDIT ADJMTS.	13,720,000	17,070,000	21,230,000	26,410,000	32,860,000	40,870,000	50,840,000	63,250,000	78,670,000
- FIRST (or OLD)	\$38,130,000	\$42,250,000	\$47,560,000	\$54,390,000	\$63,170,000	\$74,470,000	\$89,020,000	\$107,730,000	\$131,800,000
- SECOND	23,740,000	23,740,000	23,740,000	23,740,000	23,740,000	23,740,000	23,740,000	23,740,000	23,740,000
- SECOND	14,390,000	18,510,000	23,820,000	30,650,000	39,430,000	50,730,000	65,280,000	83,990,000	108,060,000

GRAND TOTAL

% Change (All Except Other)	8.8%	-6.7%	0.2%	6.9%	5.6%	6.1%	6.6%	6.5%	6.3%
% Change From Prior Year	9.6%	-6.3%	0.1%	7.5%	6.4%	7.3%	4.2%	7.3%	7.3%
% Change Personal Income	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%
% Change Taxable Income	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	0.0%

1 / April 15th filings reflect payments with returns, adjustments between what was distributed during the past quarters and what taxpayers reported on their returns, and adjustments concerning the reserve for refunds.

- (UNALLOCATED received in 6/94 relates to calendar 1990; the 12/93 distributions of DELINQUENT returns relates to 1967-91, FIDUCIARY to 1992)

2 / starting 1st quarter 1997 includes \$1.3 million from Takoma Park (ex. Prince Georges County, \$1.56 minus 17% for Municipalities)