
Montgomery County, Maryland

**DECEMBER 2014
REVENUE UPDATE AND
SELECTED ECONOMIC
INDICATORS**

Department of Finance



December 9, 2014

Overview

- **Finance provides a full revenue update in December of each year, after the November income tax distribution**
- **At this time, final data about the prior year income tax receipts are known, and updates are available to certain economic factors**
- **Another full update is done for the March budget**

ECONOMIC OUTLOOK - SUMMARY

Economic Recovery vs. Fiscal Recovery

- While some economic indicators can point to recovery in certain tax revenues, some revenues, such as the income tax, transfer/recordation taxes, and the fuel-energy tax are estimated to decline from the previous fiscal year either because of rate cuts (fuel-energy), sequestration and fiscal cliff attributed to federal government and tax policies enacted in CY13, and a decline in the real estate market.**
- This can be due to adjustments in consumer behavior that affect capital gains and consumer spending attributed to a decline in wage and salary income in CY13.**
- The recent length (last three cycles) of an economic recovery and expansion (e.g., from trough to peak) has averaged about 95 months according to the National Bureau of Economic Research.**

Signs of a Modest Economic Recovery

- A drop in unemployment rate from 5.2 percent in October 2013 to 4.3 percent in October 2014, a modest increase in resident employment estimated for CY14, and an estimated increase in wage and salary income in CY14 that follows a decline in CY13.**
- The growth in the stock market to date (S&P 500 index up 11.9 percent as of November 28th).**
- Home prices continue to increase albeit at a much lower rate compared to CY13.**

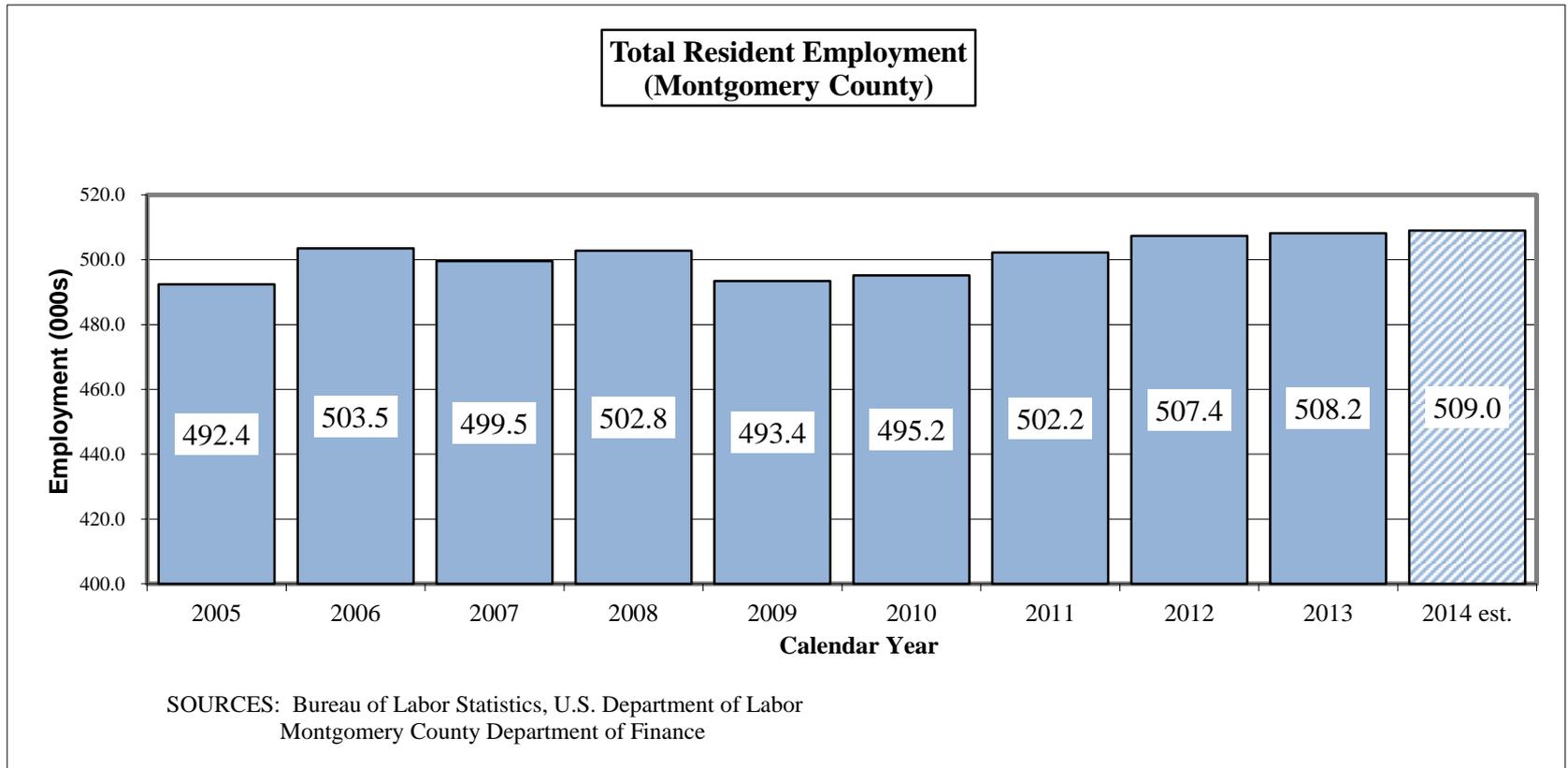
Causes of Concern

- Pull backs in revenue estimates attributed to sequestration that may continue to dampen the growth rates in employment and in wage and salary income in Montgomery County compared to estimates prepared for the FY15 Budget.**
- Inflation through September ($\uparrow 1.7\%$) is running slightly higher than CY13 ($\uparrow 1.5\%$) but below CY12 ($\uparrow 2.2\%$).**
- Home Sales are estimated to decline 7.0 percent in CY14 after increasing 13.0 percent in CY13.**
- Fed funds rate expected to remain flat through most of CY15.**

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON	DIRECTION (yr.-over-yr.)
INFLATION	1.74% Jan.-Sept. 2014	Property Taxes	Key determinant of property tax revenues at the Charter Limit	2013: 1.52%	
UNEMPLOYMENT RATE	4.3% Oct. 2014	Income Taxes	Indicates overall health of the job market	5.2% Oct. 2013	
RESIDENT EMPLOYMENT	508,007 Oct. 2014	Income Taxes	Primary determinant of income tax receipts	504,493 Oct. 2013	
PAYROLL EMPLOYMENT (Estimated)	476,900 Oct. 2014	Income Taxes	Another determinant of income tax receipts	474,600 Oct. 2013	
STOCK MARKET - S&P 500	2,067.56 As of Nov. 28th	Income Taxes	Key determinant of capital gains portion of the income tax	December 31st: 2013: 1,848.36	
HOME SALES	888 Oct. 2014	Transfer/ Recordation Taxes	Indicates activity affecting receipts	915 Oct. 2013	
HOME PRICES (Median Price Sold)	\$387,310 Oct. 2014	Transfer/ Recordation Taxes	Taxes are based on values, affects amount of taxes collected	\$379,000 Oct. 2013	
FEDERAL FUNDS RATE	0.09% Oct. 2014	Investment Income	County's return on investments closely correlated with the Fed Fund rates	0.09% Oct. 2013	

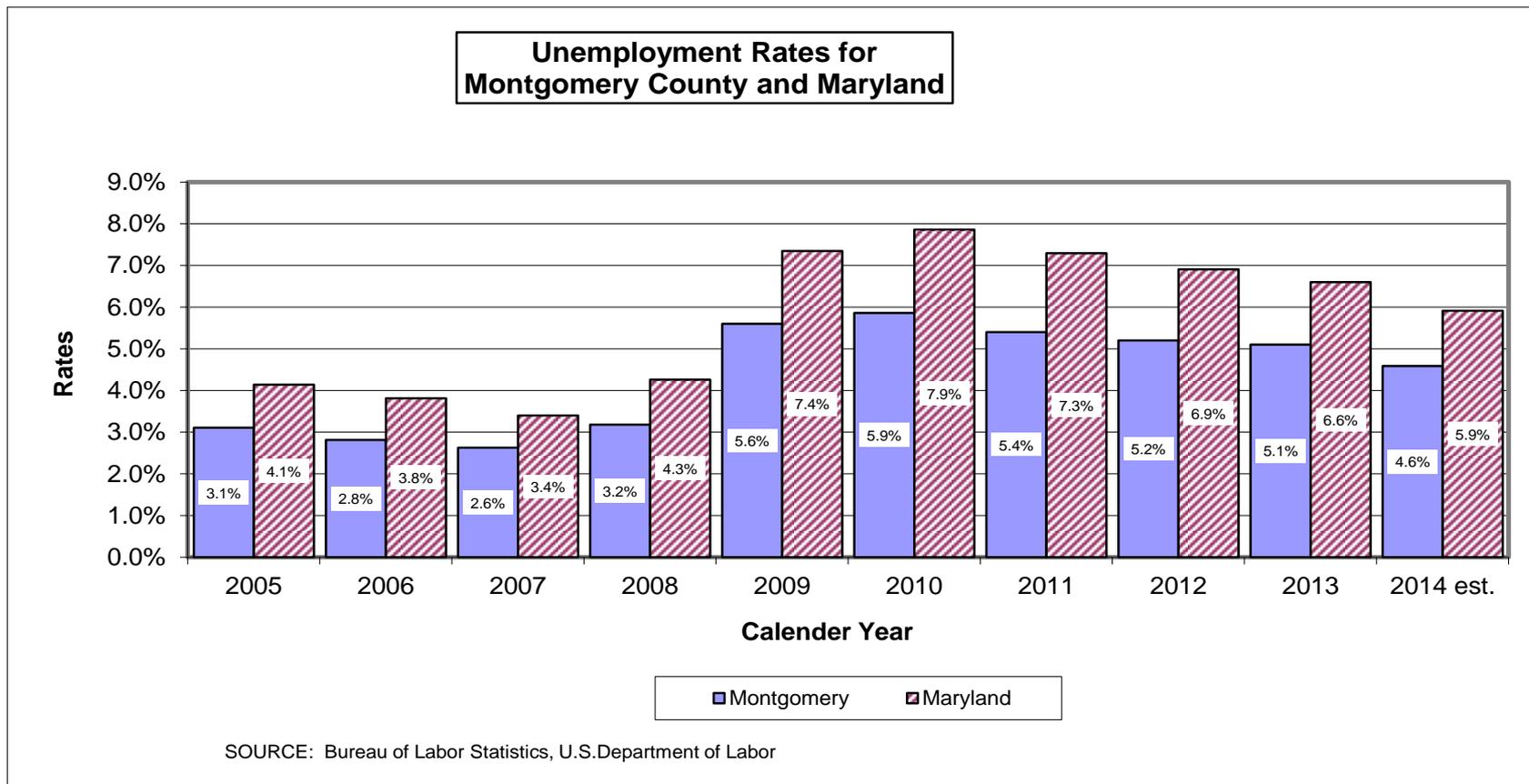
Department of Finance estimates that resident employment in Montgomery County will reach 509,000 in CY14 (↑0.2%) over CY13.

On a year-over-year basis, resident employment increased by over 3,500 from October 2013 to October of this year.



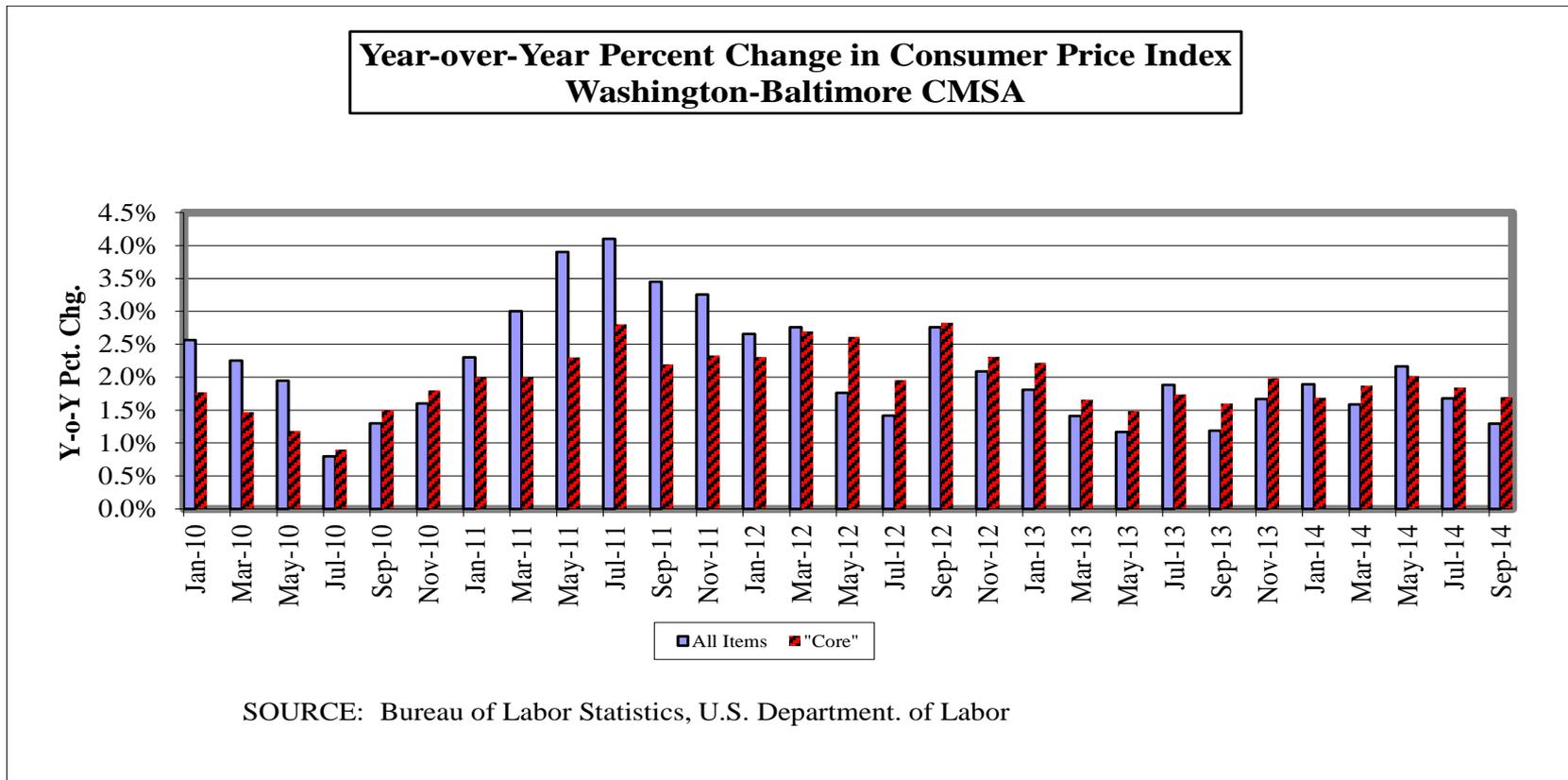
The Department of Finance estimates that the unemployment rate for Montgomery County will remain below 5.0 percent in CY14 compared to 5.1 percent in CY13.

The unemployment rate in October was 4.3 percent compared to 5.2 percent in October 2013.



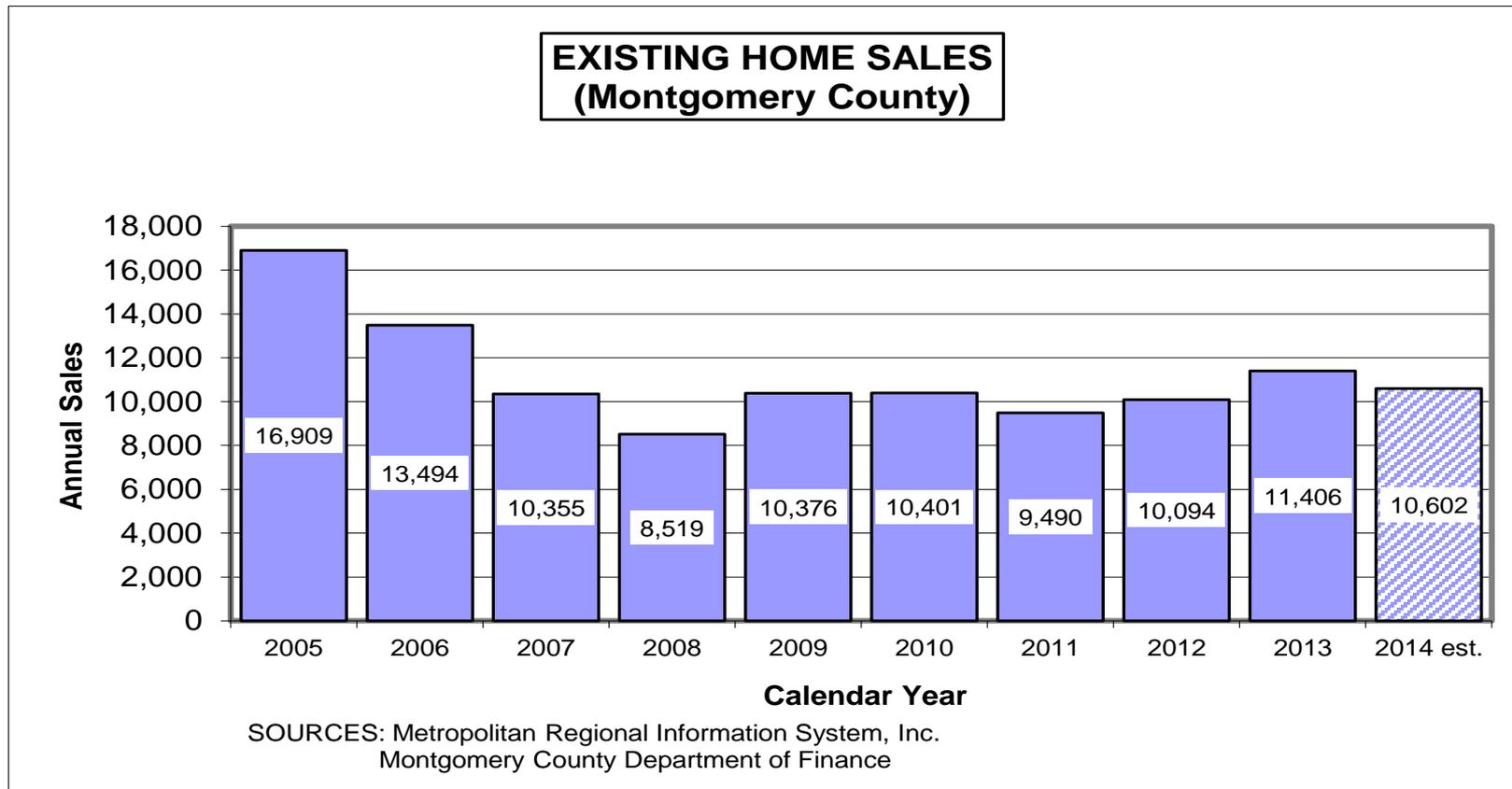
The consumer price index (CPI) decelerated in September.

Overall for the Washington-Baltimore consolidated region, the CPI increased 1.7 percent in September '14 from September '13. For the calendar year 2013, the index increased 1.5 percent compared to 2.2 percent in CY12.



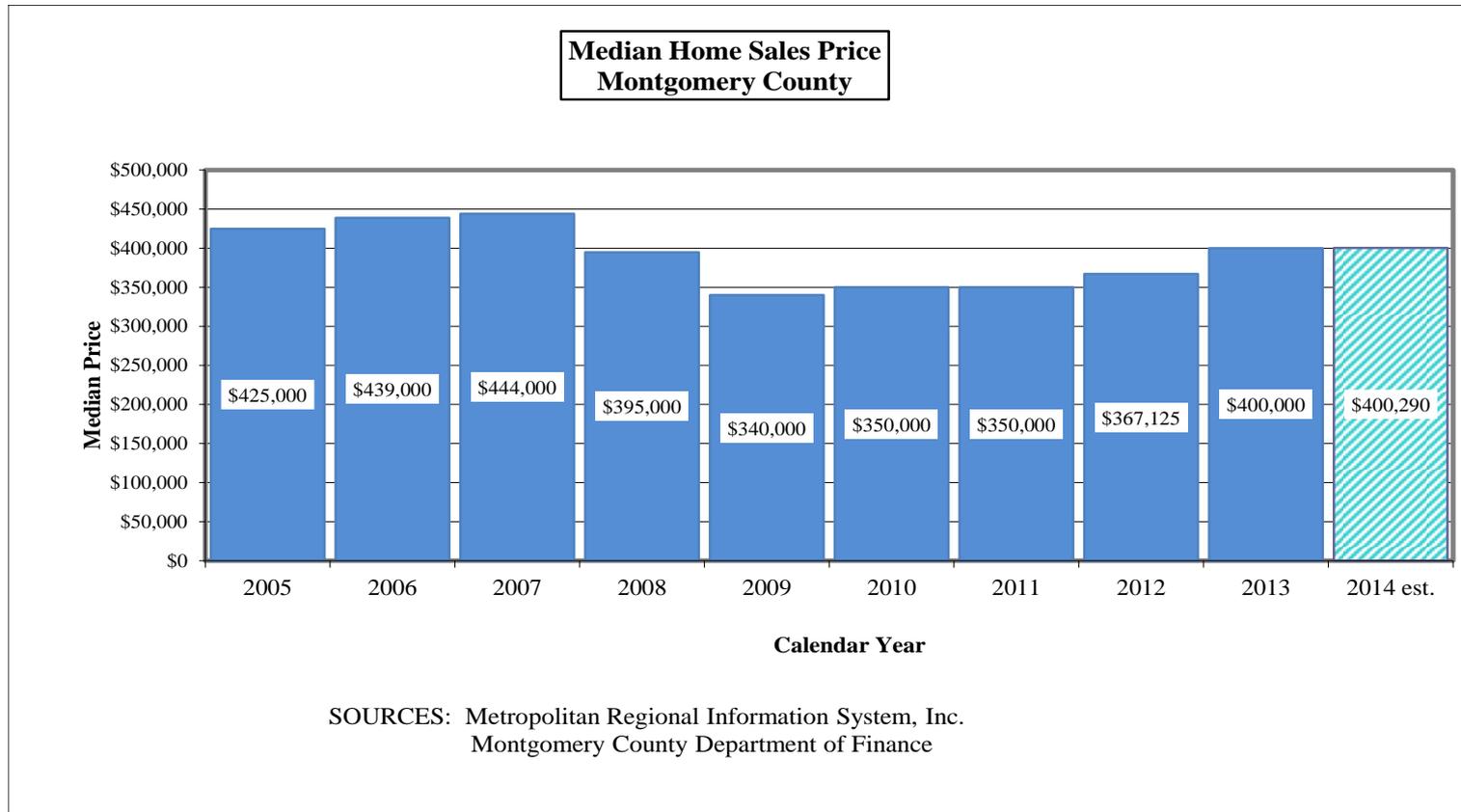
Home sales are estimated to decline 7.0 percent this year.

Total sales of existing homes increased 13.0 percent in CY13 compared to an increase of 6.4 percent in CY12.



Median home sales prices will increase in CY14 at a very low rate.

With the sales of existing homes in the County estimated to decline in 2014, the median sales price is estimated to increase a weak 0.07 percent, which follows an increase of 9.0 percent in CY13 and an increase of 4.9 percent in CY12.



REVENUE UPDATE

FY14 and FY15 Summary

The outlook for the remainder of this fiscal year (FY15) and next year (FY16) suggests a decline in revenues over the two-year period compared to the estimates prepared for the FY15 budget. This decrease is mainly attributed to revisions to income tax and the transfer and recordation tax revenues. The combined decrease in FY15 and FY16 is nearly \$179.539 million lower than previously estimated.

Revenue Update

December revised revenues for FY15 are \$40.794 million below the FY15 Budget estimates. The major contributors are the estimated decrease in income and transfer/recordation tax revenues.

	FY15 BUDGET - DECEMBER 2014 UPDATE (\$MIL.)		
	FY15 Budget	Dec. Update	Difference
Income	\$1,340.644	\$1,325.750	(\$14.895)
Property	\$1,538.880	\$1,535.692	(\$3.188)
Transfer/Recordation	\$160.694	\$138.680	(\$22.015)
Other Taxes:			
--Admissions	\$3.212	\$3.180	(\$0.032)
--Fuel/Energy	\$209.181	\$205.556	(\$3.625)
--Telephone	\$47.833	\$49.096	\$1.263
--Hotel/Motel	\$17.512	\$19.211	\$1.699
Investment Income	n.a	n.a	n.a
Highway User Revenue	\$3.587	\$3.586	(\$0.002)
TOTAL	\$3,321.544	\$3,280.750	(\$40.794)

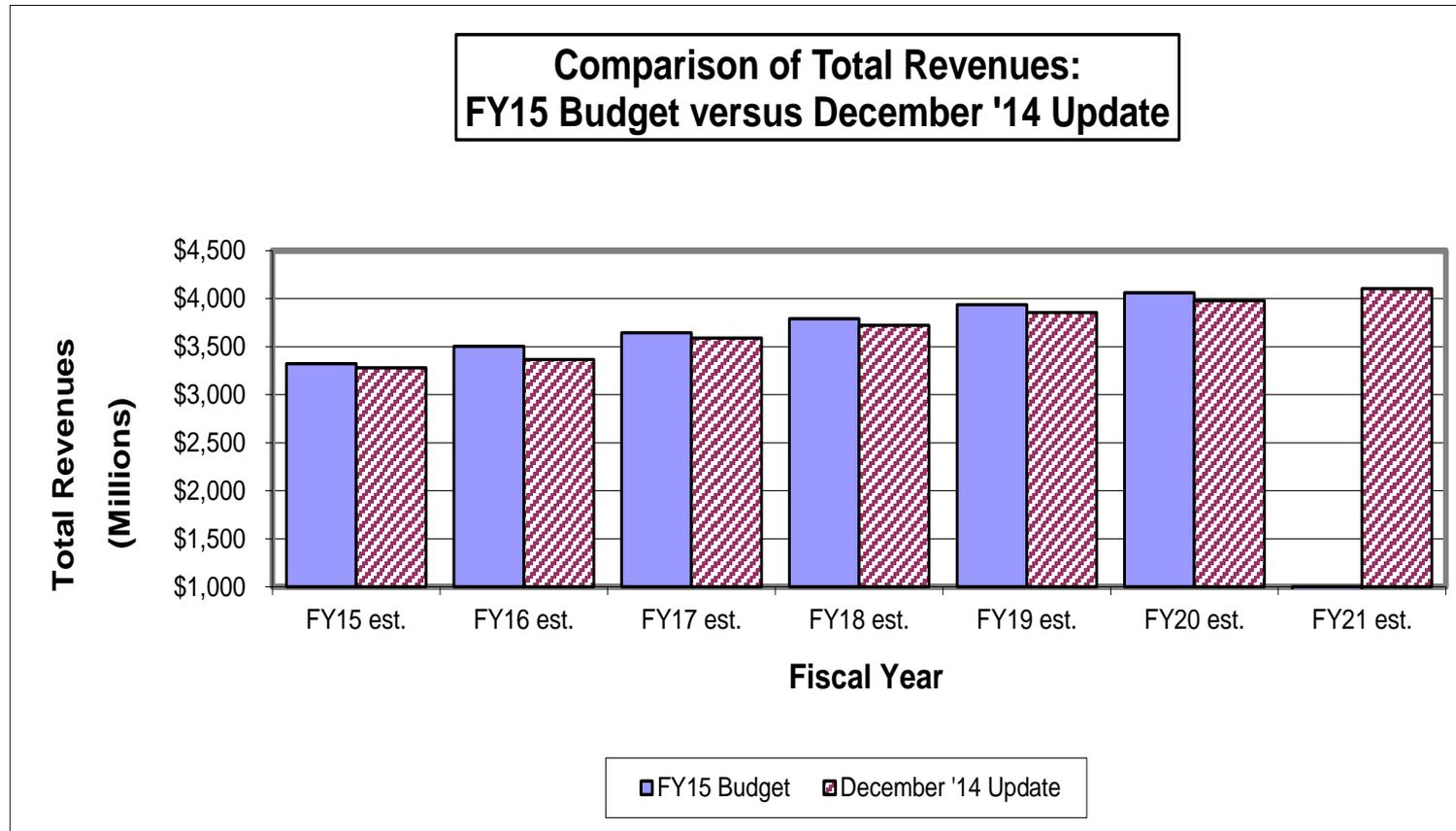
Revenue Update

December revised revenue estimates for FY16 are \$138.745 million below the FY15 Budget estimates. The decrease is attributed to income and transfer/recordation tax revenues.

	FY15 BUDGET - DECEMBER 2013 UPDATE (\$MIL.)		
	FY16 Estimate	Dec. Update	Difference
Income	\$1,473.527	\$1,355.527	(\$118.000)
Property	\$1,577.216	\$1,574.807	(\$2.409)
Transfer/Recordation	\$169.576	\$152.403	(\$17.173)
Other Taxes:			
--Admissions	\$3.317	\$3.390	\$0.073
--Fuel/Energy	\$211.640	\$207.580	(\$4.060)
--Telephone	\$48.564	\$49.761	\$1.197
--Hotel/Motel	\$18.029	\$19.703	\$1.674
Investment Income	n.a	n.a	n.a
Highway User Revenue	\$3.722	\$3.676	(\$0.046)
TOTAL	\$3,505.592	\$3,366.847	(\$138.745)

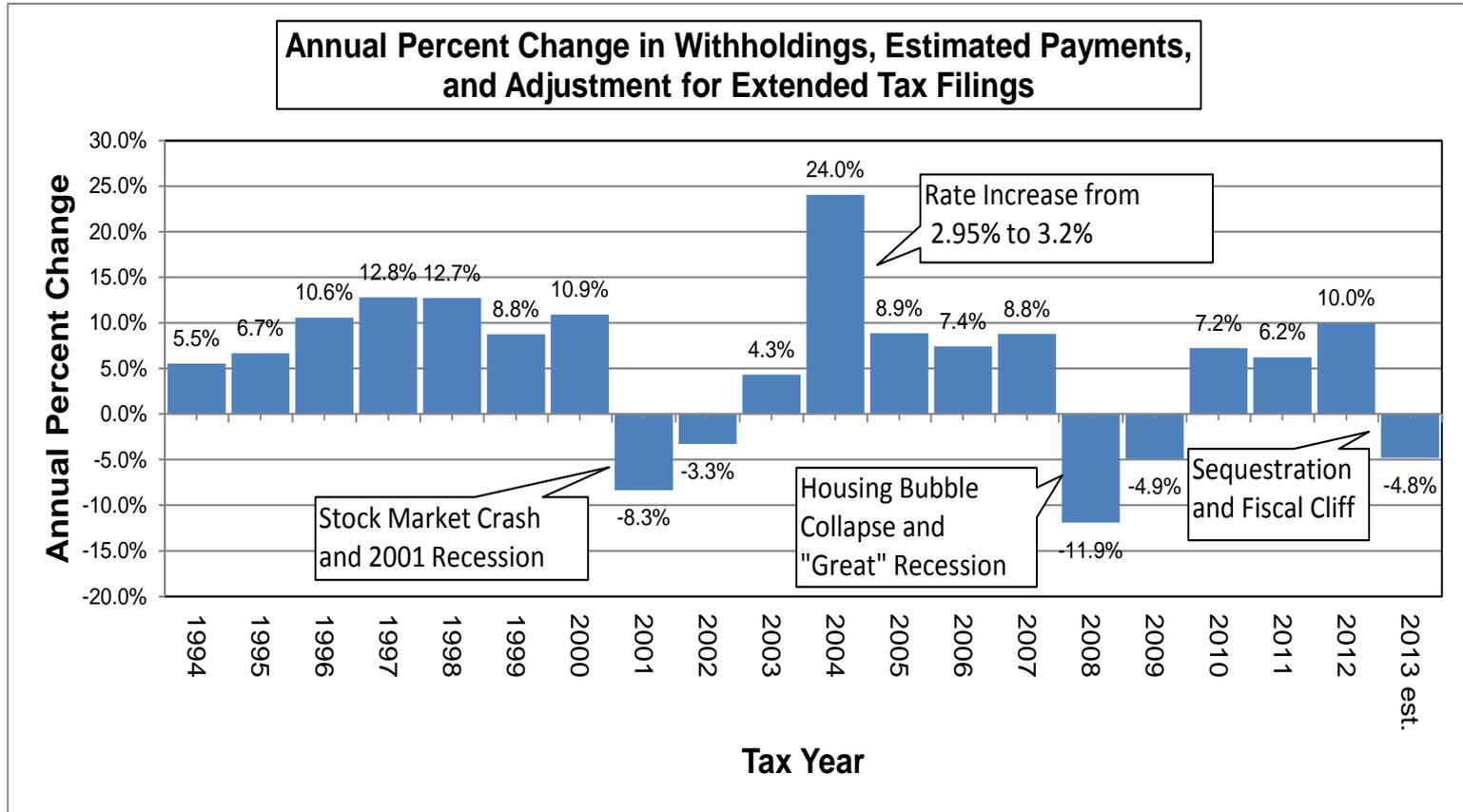
Revenue Trend FY15-20

During the current six year period (FY15-FY20), total revenues are expected to be approximately \$466.0 million below FY15 budget estimates.



Income Tax Volatility

Year-over-year percent changes in the income tax are volatile and sensitive to economic events possibly capital gains in Montgomery County for tax year 2013.



Income Tax – “It is all about the November distribution”.

- **The largest share (five year average of over 82.0%) 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 2013 in November 2014) 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., 2013 tax year final results affect quarterly distributions for this fiscal year).**
- **Income tax revenues represented 47.2 percent of total General Fund tax revenues in FY13 and nearly 45.4 percent of the County’s total General Fund revenues.**

Income Tax – November distributions

(millions)	Actual FY12	Actual FY13	Actual FY14	Estimated FY15	Actual FY15	Difference
October 15 th Filings and Adjustments	\$134.76	\$144.74	\$167.61	\$175.43	\$79.13	(\$96.30)
Withholding and Estimated payments for 3 rd Quarter	\$242.79	\$250.76	\$258.47	\$267.71	\$261.64	(\$6.07)
Total November Distribution	\$377.55	\$395.50	\$426.08	\$443.14	\$340.77	(\$102.37)

•Decrease in receipts from October 15th Filings and Adjustments is based on an adjustment to reflect final income tax receipts due the County for tax year 2013 as compared to tax year 2012. The State has indicated that the County’s income tax receipts from withholdings and estimated payments for the third quarter of tax year 2014 are 1.2% higher than for tax year 2013 but below the estimate for the FY15 Budget.

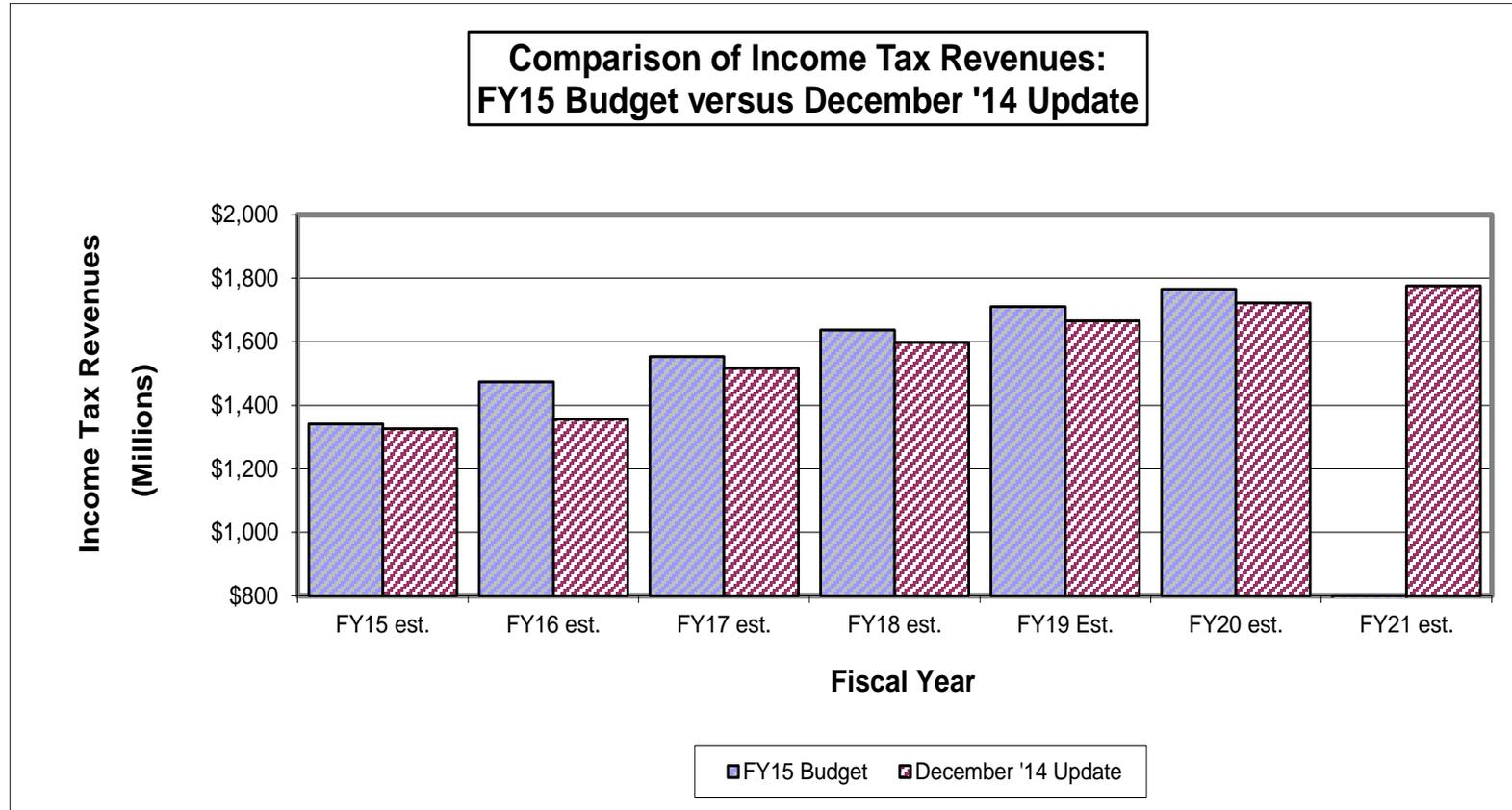
•Increase in actual withholdings and estimated payments compared to last year is due to an increase in income tax collections from withholdings and estimated payments statewide.

Income Tax – Economic Factors

- Resident employment is expected to increase 0.2 percent in CY14 and increase 1.0 percent in CY15. This is a slight decrease compared to March economic assumptions of 0.8 percent increase in CY14 and 1.1 percent in CY15. The lower employment growth is based on the State’s Board of Revenue Estimates’ recent September forecast that lowered employment growth in the State.**
- Personal income is estimated to increase 2.3 percent in CY14 and 4.3 percent in CY15.**
- Wage and salary income is expected to increase 1.9 percent in CY14 and increase 4.0 percent in CY15.**
- The effect of the Wynne Case on income tax revenues in FY15 was shifted to FY16 thereby ameliorating the impact of the November reconciliation distribution on the revised estimate.**

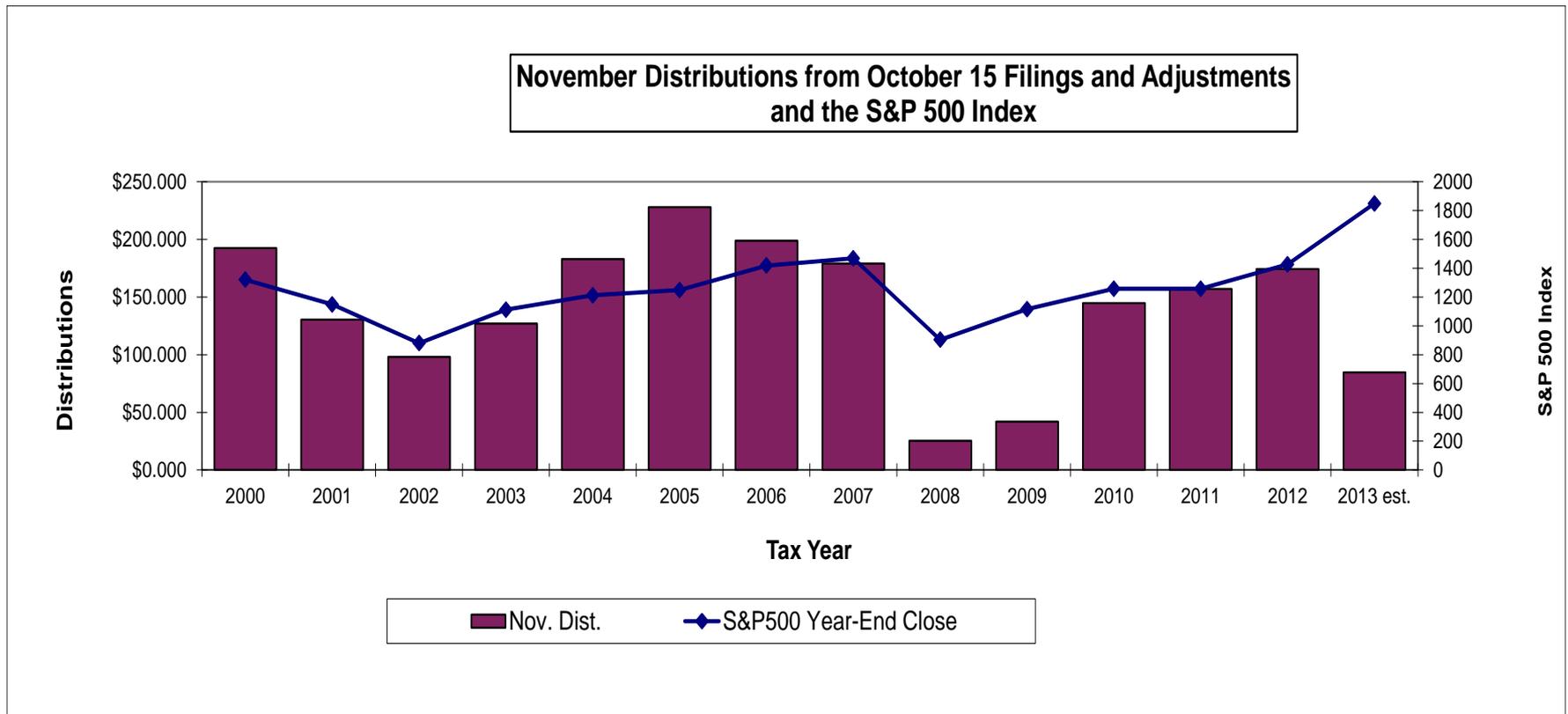
Income Tax FY15-20

Over the current six year period (FY15-FY20), income tax revenues are expected to be approximately \$298.1 million below FY15 budget estimates largely attributed to the estimated \$118.0 million decline in FY16.



Income Tax

The amount of revenues from the November distribution had been correlated to the stock market (S&P 500 Index). However, that relationship did not occur in tax year 2013 due to the fiscal cliff and possibly to the dramatic decrease in capital gains.



Property Tax

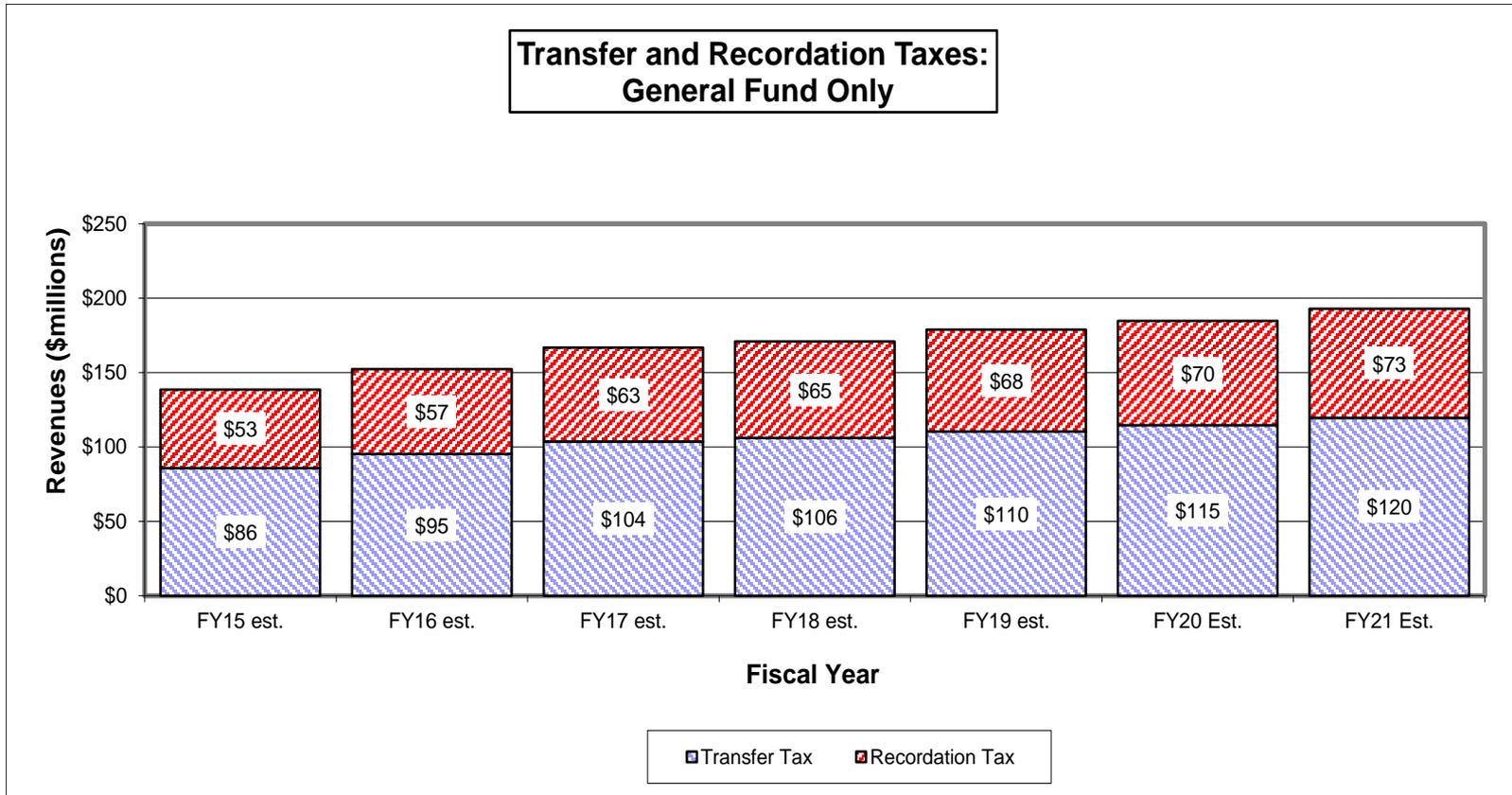
- **The inflation rate is expected to be 1.7 percent in calendar year 2014, which follows a 1.5 percent increase in CY13 and 2.2 percent in CY12. Inflation is used to estimate real property tax revenues under the Charter Limit excluding new construction.**
- **The reassessment rates for real property for Group Three for fiscal year 2016 will be released by the Maryland State Department of Assessments and Taxation (SDAT) at the end of this month. Preliminary indications are that this group may experience an increase in the real property tax base.**

Transfer and Recordation Taxes

- Home sales are expected to decrease 7.0 percent in CY14 and median prices are estimated to increase a very modest 0.07 percent. Based on collections to date, the non-residential real estate market is estimated to experience a decrease in FY15.**
- Because of the estimated decrease of home sales in CY14, Finance estimates that the number of residential transfers may decrease 2.1 percent in FY15.**
- Because of collections to date, total transfer tax revenues on residential transactions are expected to decrease 1.9 percent in FY15.**
- Because of the expected decrease in the average transfer tax on non-residential transactions, total non-residential transfer tax revenues are estimated to decrease 11.0 percent in FY15.**

Transfer and Recordation Taxes

Since reaching \$241.7 million in FY06, transfer and recordation taxes declined to \$127.3 million in FY12. By FY21, transfer and recordation taxes are estimated to reach \$192.9 million – \$48.8 million below the FY06 peak.



Other Tax Revenues

Other tax revenues are estimated to decrease 0.3 percent in FY15 over budget estimates due to estimated decrease in fuel and energy tax revenues. Over the current six-year period (FY15-FY20), total other tax revenues are estimated to be \$10.8 million below FY15 budget estimates.

