

Department of Finance Performance Plan

Jennifer Barrett, Director
January 19, 2010

CountyStat Principles

- **Require Data-Driven Performance**
- **Promote Strategic Governance**
- **Increase Government Transparency**
- **Foster a Culture of Accountability**



Agenda

- Welcome and Introductions
- Performance Update: Headline Measures
- Special Topic: Effect of new tax brackets
- Wrap-up and Follow-up Items



Headline Measures

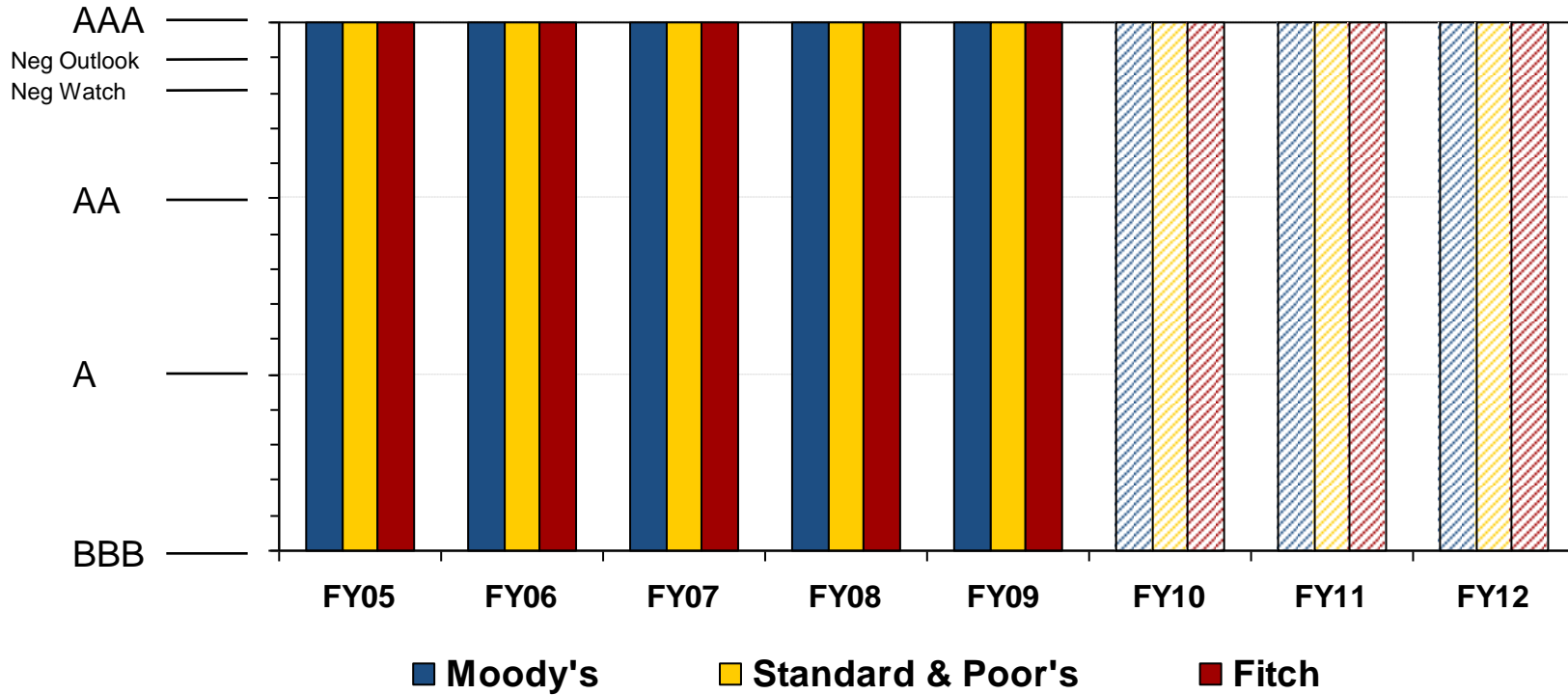
- **Sound Financial Management**
 1. Bond Rating
 2. Interest Rate Benchmarking
 3. Revenue Forecasting Performance
 4. Investment Returns Benchmarking

- **Customer Service**
 5. Call Center—Number of Seconds to Answer Call
 6. Service Tickets—Number of Days to Close

- **Promotion of a Safe and Healthy Work Environment**
 7. Workers Compensation—Cost per \$100 of Payroll
 8. Workers Compensation—Number of Cases Resulting in Lost Work Time



Headline Measure #1: Bond Rating

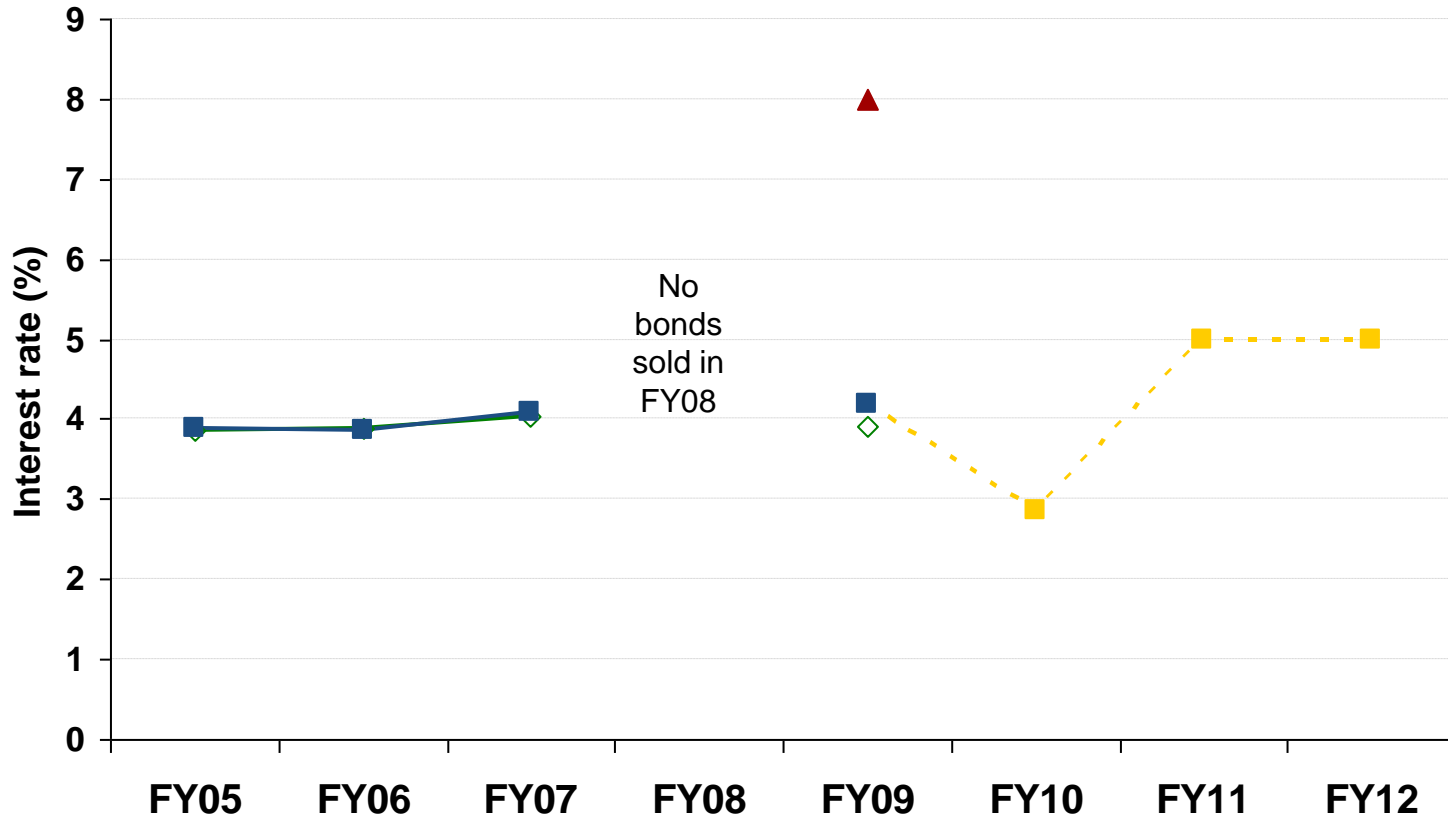


	FY07	FY08	FY09	FY10	FY11	FY12
Moody's	AAA	AAA	AAA	AAA	AAA	AAA
S&P	AAA	AAA	AAA	AAA	AAA	AAA
Fitch	AAA	AAA	AAA	AAA	AAA	AAA



Headline Measure #2: Interest Rate

Montgomery County General Obligation Bond True Interest Cost



Actual performance

Projected performance

Original Projected Performance - FY09

Benchmark Performance

CountyStat

Headline Measure #2: Interest Rate

Montgomery County General Obligation Bond True Interest Cost

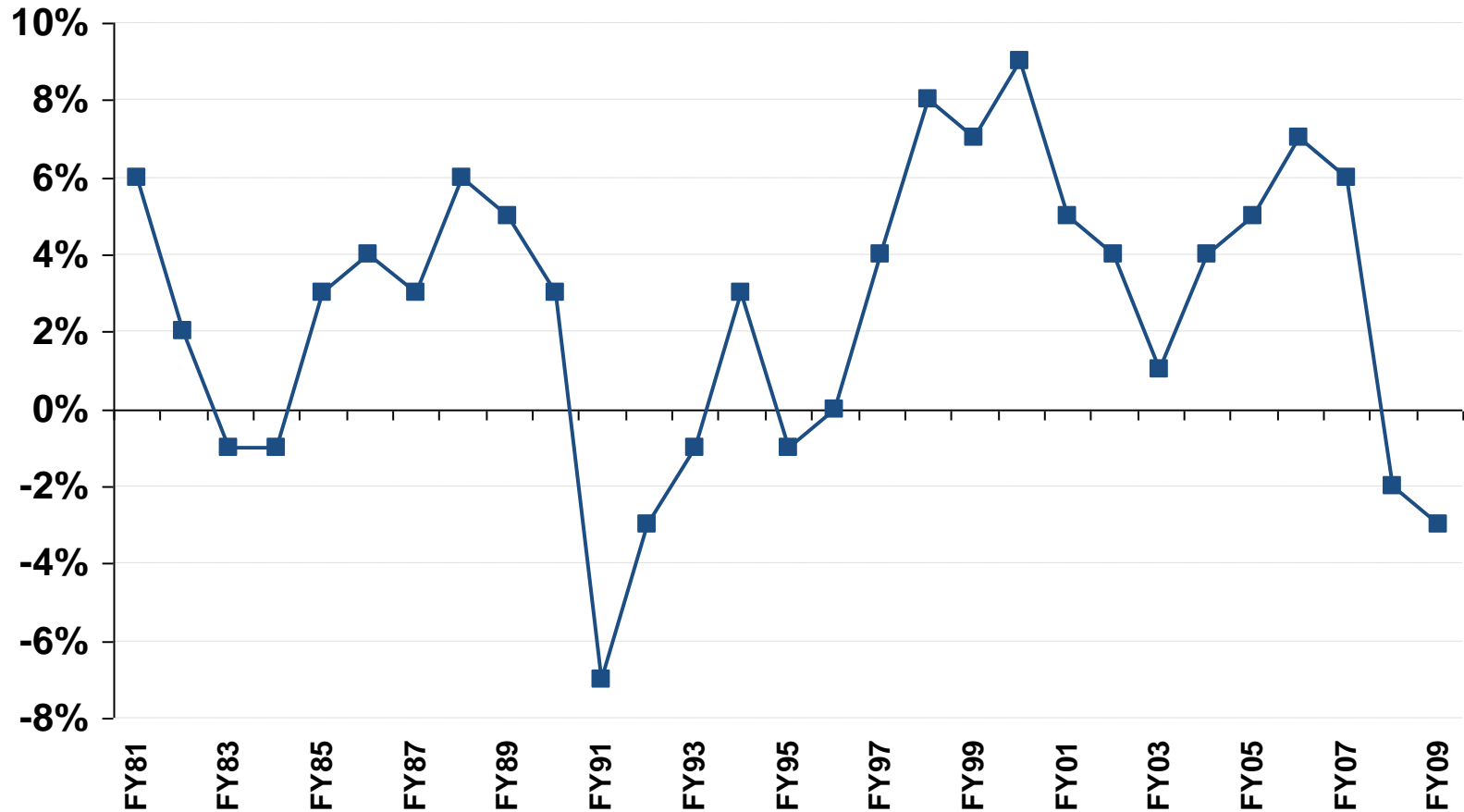
	FY05	FY06	FY07	FY08	FY09	FY10 est.	FY11 est.	FY12 est.
Mont. County ■	3.53	4.06	3.77	NA	4.06	2.86	5	5
MMDI ◆	3.51	4.08	3.73		3.79	3.03		
Basis point spread	2	-2	4	NA	27	-17		

MMDI = 10-yr Municipal Market Data Index



Headline Measure #3: Revenue Forecasting

Percent Variance Between Actual Revenue and Projected Revenue



Actual performance

Projected performance

Original Projected Performance – FY09

Headline Measure #3: Revenue Forecasting Percent Variance Between Actual Revenue and Projected Revenue

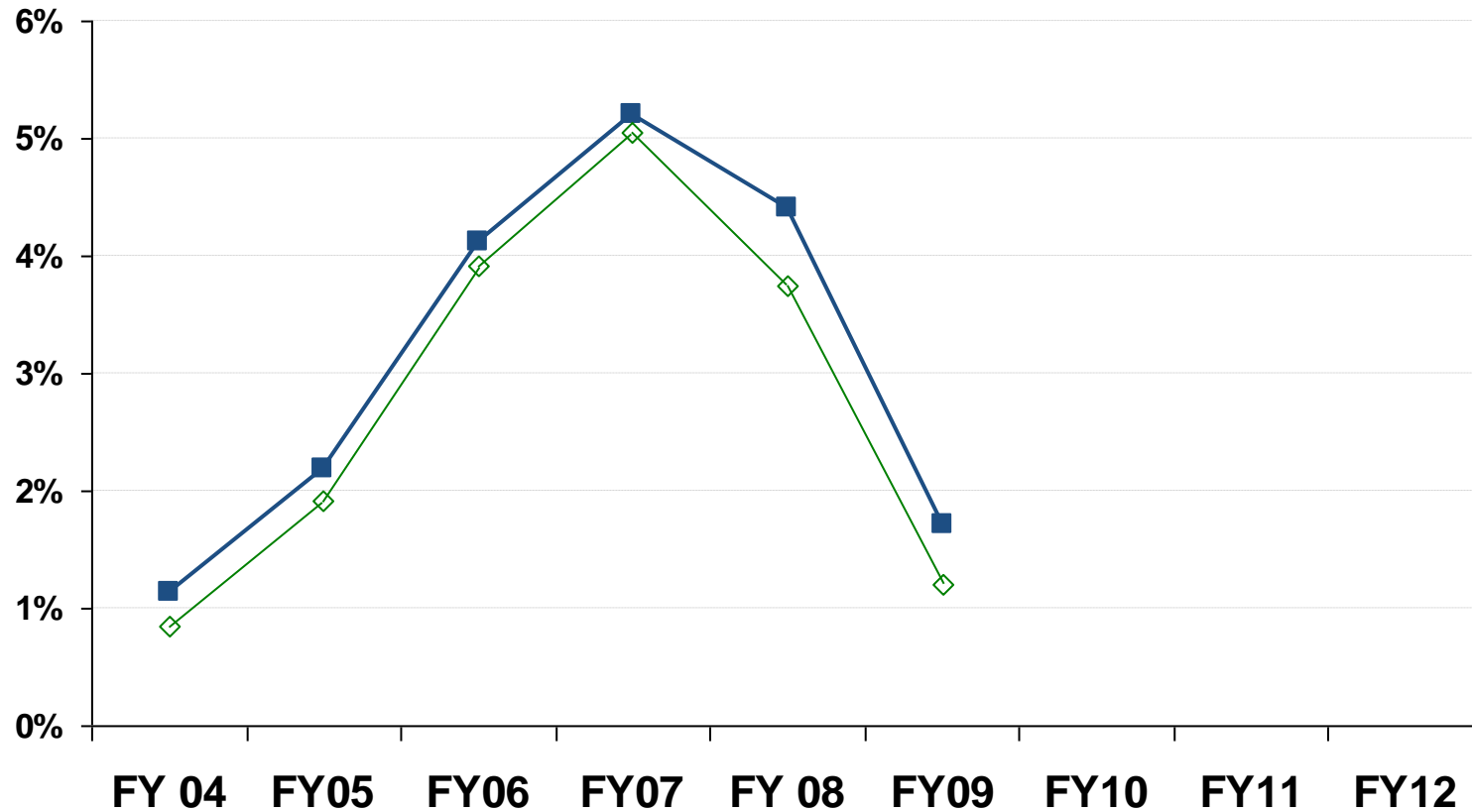
	FY05	FY06	FY07	FY08	FY09
Mont. Co. ■	5.0%	6.5%	5.7%	-1.8%	-2.9%
Mont. Co. (General Fund only)*	7.7%	7.5%	6.2%	-2.2%	-3.2%
Benchmark ◆	6.7%	8.9%	3.7%	0.7%	-3.3%
City of Baltimore	5.4%	6.4%	4.2%	3.2%	N/A
Baltimore County	7.9%	8.0%	5.1%	2.9%	N/A
Howard County	4.0%	6.1%	2.0%	1.6%	-1.9%
Anne Arundel County	3.2%	5.9%	5.8%	-0.8%	-4.2%
Prince George's County	11.1%	12.4%	3.2%	-3.7%	-3.7%

* The reported headline measure is difficult to benchmark against other jurisdictions because it is more comprehensive. This alternative, which uses data from the CAFR and is restricted to tax revenues in the General Fund, is comparable with other jurisdictions.



Headline Measure #4: Investment return

Rate of Return on Montgomery County's Investments



Actual performance

Projected performance

Original Projected Performance – FY09

Benchmark Performance

CountyStat

Finance Performance Plan

10

January 19, 2010

Headline Measure #4: Investment return Rate of Return on Montgomery County's Investments

	FY04	FY05	FY06	FY07	FY08	FY09
MC's Rate of Return ■	1.13%	2.19%	4.12%	5.21%	4.41%	1.71%
S&P Rated LGIP ◆	0.84%	1.91%	3.92%	5.05%	3.75%	1.21%
Basis Point Spread	29	28	20	16	66	50
Money Fund Rate	0.52%	1.64%	3.66%	4.73%	2.41%	0.87%
90 Day T-Bill	0.97%	2.25%	4.15%	5.00%	2.91%	0.50%

LGIP = Local Government Investment Pool



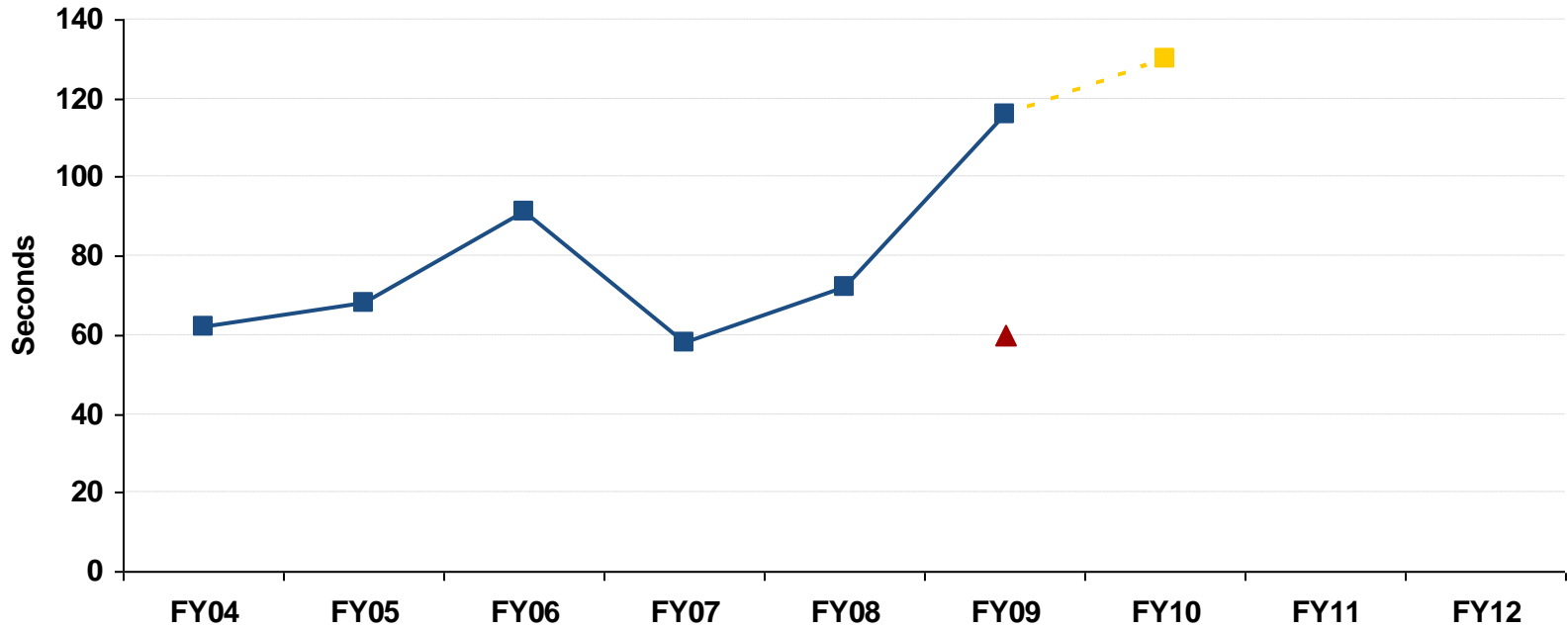
Headline Measure #4: Investment return Rate of Return on Montgomery County's Investments

	FY04	FY05	FY06	FY07	FY08	FY09
County Avg. Annual Portfolio Balance	\$565,962	\$710,179	\$883,588	\$930,855	\$971,351	\$695,692
County Annual Investment Income	\$6,411	\$15,553	\$36,423	\$48,473	\$42,849	\$11,914
County Investment Income @ LGIP Rate	\$4,754	\$13,564	\$34,637	\$47,008	\$36,426	\$9,809
Additional Income v. LGIP Rate	\$1,657	\$1,989	\$1,786	\$1,464	\$6,423	\$2,105

Amounts shown in thousands of dollars



Headline Measure #5: Call Center Number of Seconds to Answer Call



	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Seconds	62	68	91	58	72	116	130	MC311 will be answering calls	

MC311 took 4 out of 5 Call Center Employees in November 2009



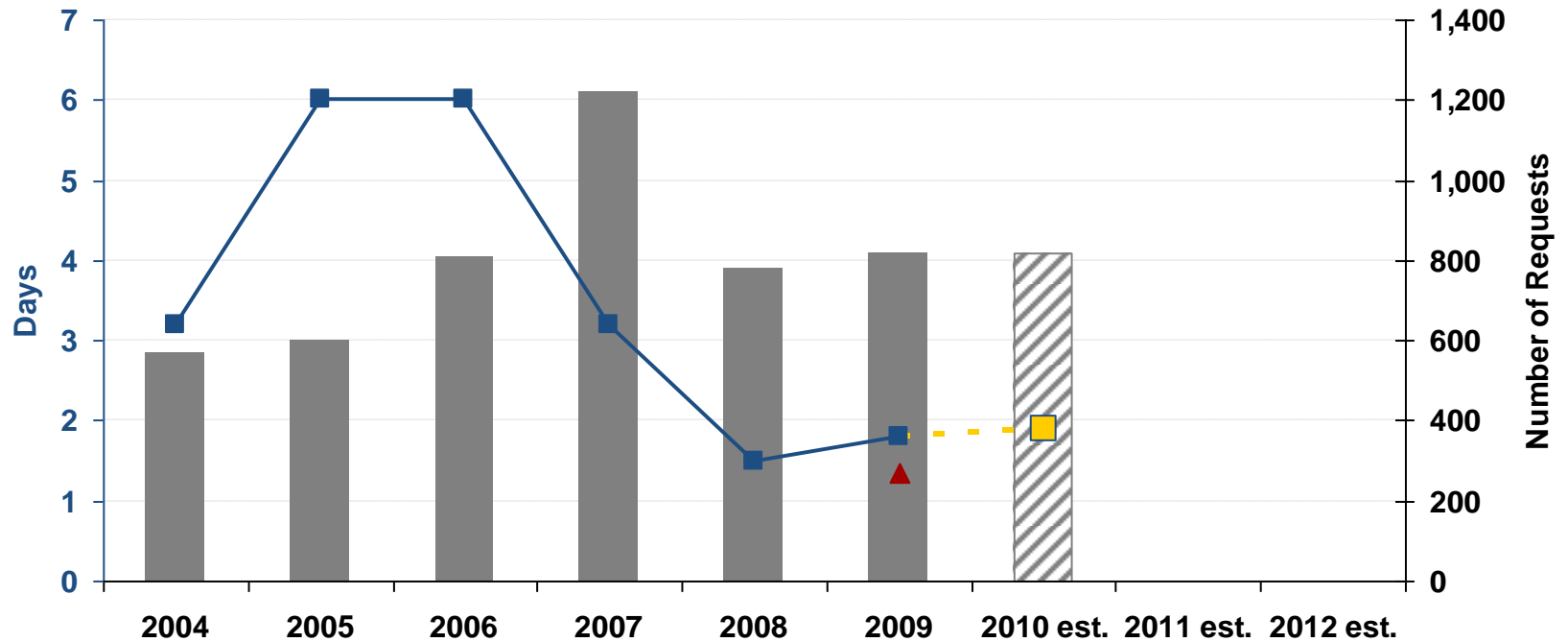
Actual performance

Projected performance

Original Projected Performance – FY09

Headline Measure #6: Requests for assistance with computer systems, i.e. Service Tickets

Average number of days to close



	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Requests ■	568	601	809	1,220	780	820	820	Beginning in FY11, this function will be in ERP.	
Days ■	3.2	6	6	3.2	1.5	1.8	1.9		

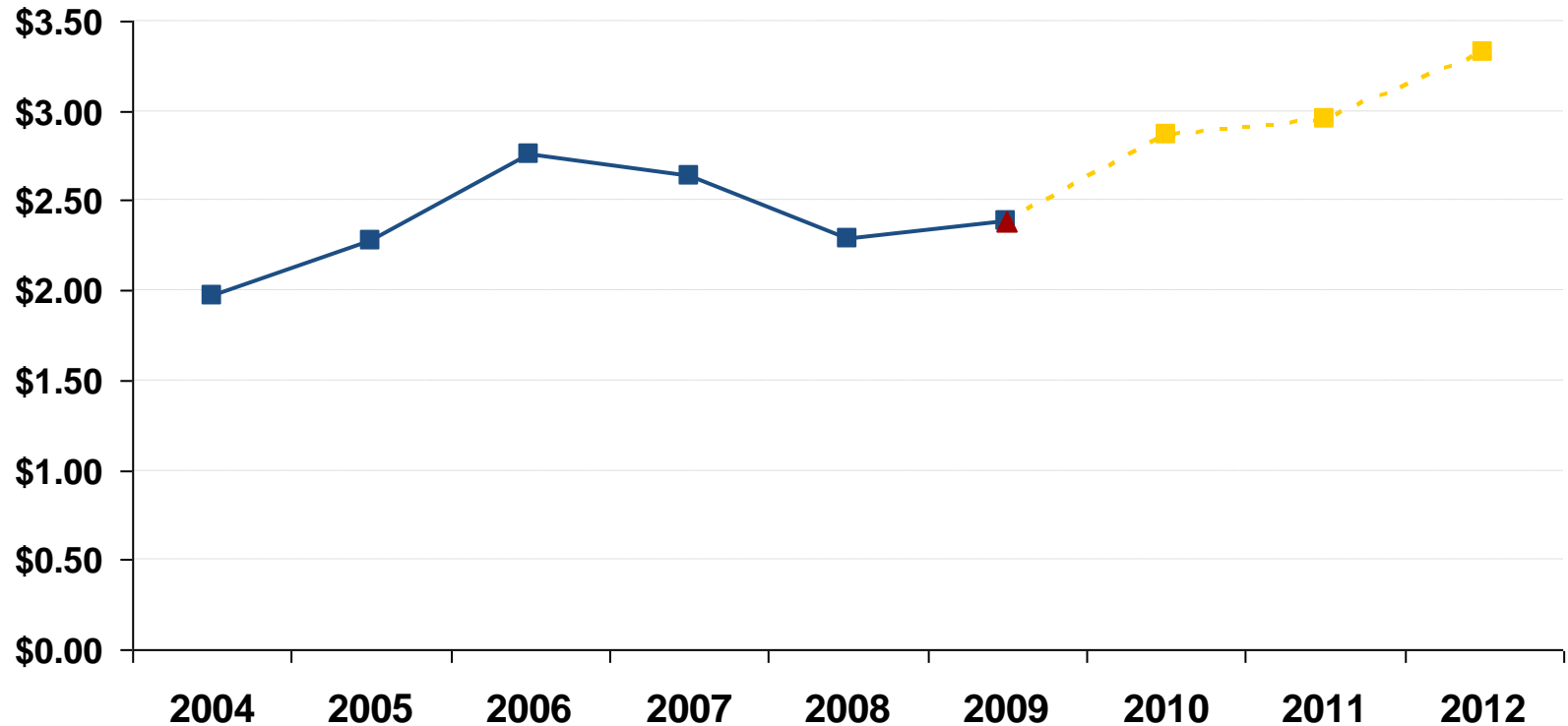


■ Actual performance

■ Projected performance

▲ Original Projected Performance – FY09

Headline Measure #7: Workers Compensation Cost per \$100 of payroll



	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Cost	\$1.97	\$2.28	\$2.76	\$2.64	\$2.29	\$2.38	\$2.87	\$2.95	\$3.32



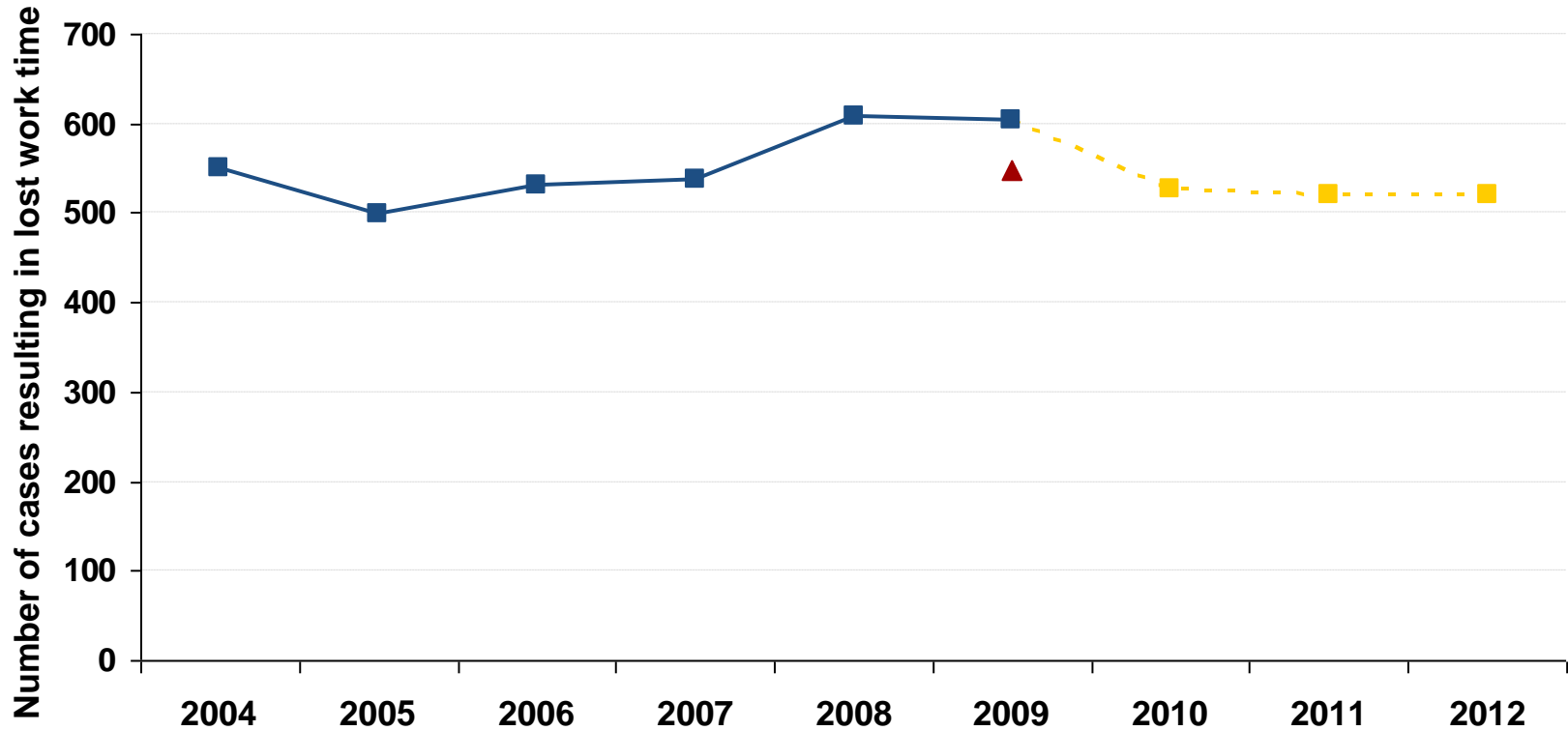
Actual performance

Projected performance

Original Projected Performance – FY09

Headline Measure #8: Workers Compensation

Number of cases resulting in lost work time



	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
# cases	550	498	531	537	609	603	526	521	521



Actual performance

Projected performance

Original Projected Performance – FY09

Measuring Transactional Parts of Finance's Responsibilities

- **The Department of Finance has a number of business responsibilities that are transactional in nature, such as**
 - Cashiering operations
 - Tax collections
 - Vendor payments
- **There is currently not a headline measure that addresses the performance of these operations**
- **Examples of measures used in Fairfax County**
 - Percent of investment transactions in compliance with policy guidelines (i.e., without need of exception approval)
 - Percentage of countywide obligations paid without requiring adjustment or correction
- **Moving to the Enterprise Resource Planning (ERP) system will significantly affect these operations and how they are measured**

CountyStat recommends developing a measure for transactional responsibilities to coincide with the start of ERP operations.



Impact of State Income Tax Changes on Montgomery County's Income Tax Burden

- Changes to the state income tax rate, in particular the addition of a new “millionaire’s tax” bracket, have increased the total income tax burden for tax payers filing in Montgomery County

Montgomery County Total Income Tax Rate, Before and After TY08

	Top Income Tax Rate (\$1 million +)	Local Income Tax Rate	Total Income Tax Burden
Before TY08 tax changes	4.75%	3.20%	7.95%
After TY08 tax changes	6.25%	3.20%	9.45%

*Prince George’s and Howard Counties both tax at the maximum local rate of 3.20%, similar to Montgomery County.

- Virginia, on the other hand, has a lower top rate (5.75%) with no additional local tax rates
- To assess the possible fiscal impacts of the change in brackets, CountyStat collected data from the Bureau of Revenue Estimates, and researched the impact on states which made a comparable change.



Changes in Income Tax Law

In the 2008 legislative session, the Maryland General Assembly amended state income tax rates and brackets for all individuals beginning 12/31/2007 (effective for the 2008 tax year).

Maryland State Income Tax Brackets, Prior to 2008

Range of Taxable Income	Tax Rate
\$0 - 1,000	2%
\$1,000 - 2,000	3%
\$2,000 - 3,000	4%
\$3,000 or more	4.75%

Prior to TY2008, Maryland essentially had a flat personal income tax.



Changes in Income Tax Law

In the 2008 legislative session, the Maryland General Assembly amended state income tax rates and brackets for all individuals beginning 12/31/2007 (effective for the 2008 tax year).

Maryland State Income Tax Brackets, Effective 2008

For Individual Taxpayers

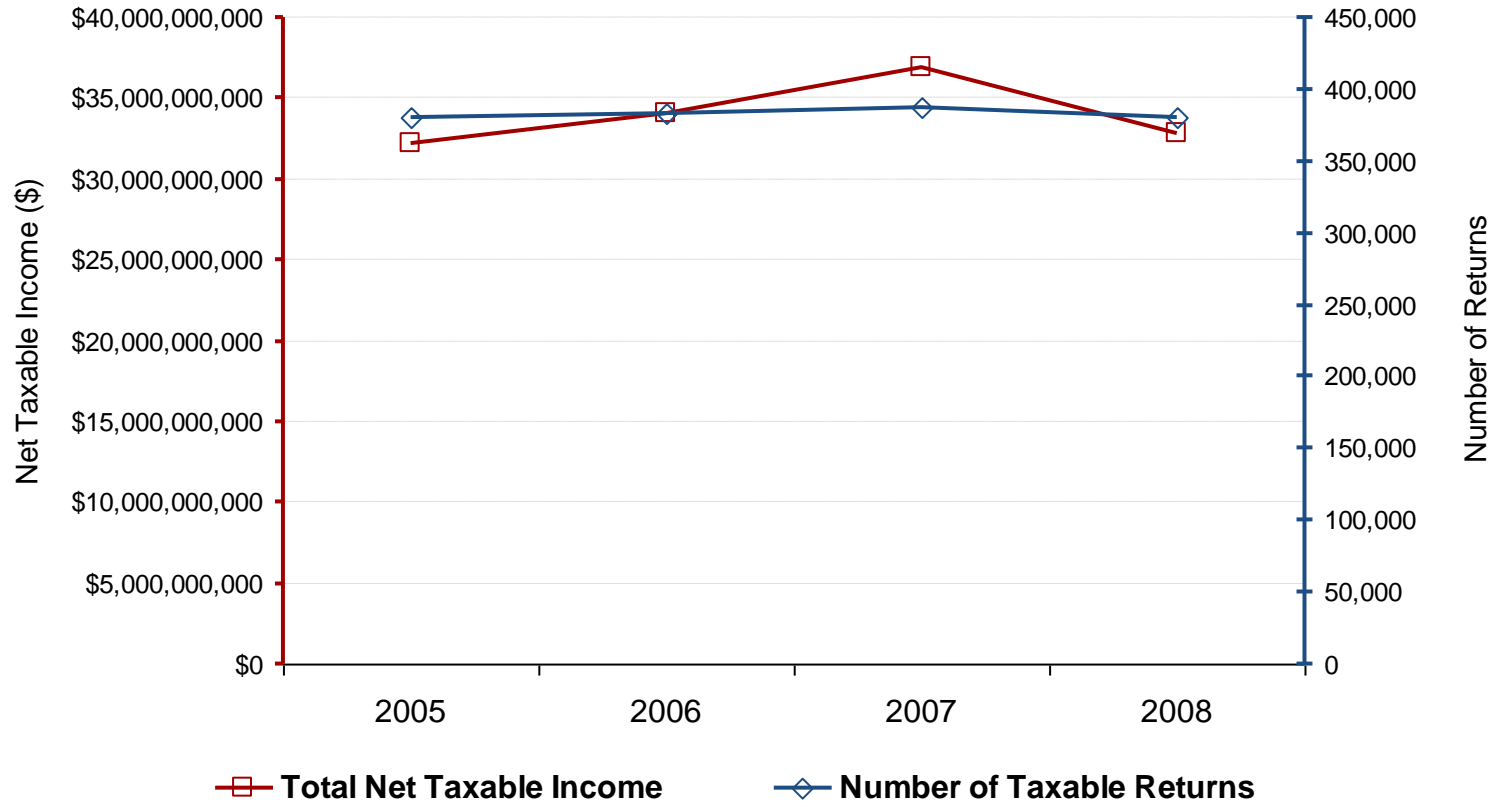
Range of Taxable Income	Tax Rate
\$0 - 1,000	2%
\$1,000 - 2,000	3%
\$2,000 - 3,000	4%
\$3,000 - 150,000	4.75%
\$150,000 - 300,000	5%
\$300,000 - 500,000	5.25%
\$500,000 - \$1,000,000	5.5%
\$1,000,000 or more	6.25%

Starting in TY2008, Maryland transitioned to a more progressive state income tax by creating 4 new brackets for incomes greater than \$200,000.



Tax Return Trends

TY2005-08 – Montgomery County Tax Return Trends



Source: Maryland Office of the Comptroller, Board of Revenue Estimates Annual Summaries (2005-2008)

TY2007 Tax Return Data

TY2007 – Returns with Net Taxable Income, Montgomery County only

Range of Taxable Income	Returns	% of Total	Net Taxable Income	% of Total
\$1 - 1,000	6,656	1.70%	\$5,242,542	0.01%
\$1,001 - 2,000	6,803	1.73%	\$15,454,542	0.04%
\$2,001 - 3,000	6,801	1.73%	\$24,462,619	0.07%
\$3,001 - 150,000	340,530	86.73%	\$17,688,803,084	47.20%
\$150,001 - 300,000	18,661	4.75%	\$4,583,476,473	12.23%
\$300,001 - 500,000	5,253	1.34%	\$2,149,744,636	5.74%
\$500,001 - \$1,000,000	4,737	1.21%	\$3,254,721,956	8.68%
\$1,000,001 or more	3,172	0.81%	\$9,755,275,833	26.03%
Total	392,613	100%	\$37,477,181,685	100%

Source: Maryland Office of the Comptroller, Bureau of Revenue Estimates

*CountyStat received updated tax return data on 1/15/2010; these slides reflect those figures.



TY2008 Tax Return Data

TY2008 – Returns with Net Taxable Income, Montgomery County only

Range of Taxable Income	Returns	% of Total	Net Taxable Income	% of Total
\$1 - 1,000	4,048	1.07%	\$2,156,741	0.01%
\$1,001 - 2,000	4,539	1.20%	\$6,788,395	0.02%
\$2,001 - 3,000	4,872	1.28%	\$12,171,670	0.04%
\$3,001 - 150,000	335,814	88.43%	\$17,307,287,601	52.64%
\$150,001 - 300,000	18,995	5.00%	\$4,669,495,527	14.20%
\$300,001 - 500,000	4,933	1.30%	\$2,018,594,698	6.14%
\$500,001 - \$1,000,000	4,217	1.11%	\$2,870,497,029	8.73%
\$1,000,001 or more	2,321	0.61%	\$5,989,456,954	18.22%
Total	379,739	100%	\$32,876,448,615	100%

Source: Maryland Office of the Comptroller, Bureau of Revenue Estimates

*CountyStat received updated tax return data on 1/15/2010; these slides reflect those figures.



Number of Returns

2007-2008 Tax Return Comparison

2007-2008 Comparison, Montgomery County only

Range of Taxable Income	Number of Returns		Change	%Change
	2007	2008		
\$1 - 1,000	6,656	4,048	(2,608)	-39%
\$1,001 - 2,000	6,803	4,539	(2,264)	-33%
\$2,001 - 3,000	6,801	4,872	(1,929)	-28%
\$3,001 - 150,000	340,530	335,814	(4,716)	-1%
\$150,001 - 300,000	18,661	18,995	334	2%
\$300,001 - 500,000	5,253	4,933	(320)	-6%
\$500,001 - \$1,000,000	4,737	4,217	(520)	-11%
\$1,000,001 or more	3,172	2,321	(851)	-27%
Total	392,613	379,739	(12,874)	-3%

In both number of returns and net taxable income, while there was a decrease in every category except for \$300,000-\$500,000.

Source: Maryland Office of the Comptroller, Bureau of Revenue Estimates

*CountyStat received updated tax return data on 1/15/2010; these slides reflect those figures.



Net Taxable Income

2007-2008 Tax Return Comparison

2007-2008 Comparison, Montgomery County only

Range of Taxable Income	Net Taxable Income		Change	%Change
	2007	2008		
\$1 - 1,000	\$5,242,542	\$2,156,741	(3,085,801)	-59%
\$1,001 - 2,000	\$15,454,542	\$6,788,395	(8,666,147)	-56%
\$2,001 - 3,000	\$24,462,619	\$12,171,670	(12,290,949)	-50%
\$3,001 - 150,000	\$17,688,803,084	\$17,307,287,601	(381,515,483)	-2%
\$150,001 - 300,000	\$4,583,476,473	\$4,669,495,527	86,019,054	2%
\$300,001 - 500,000	\$2,149,744,636	\$2,018,594,698	(131,149,938)	-6%
\$500,001 - \$1,000,000	\$3,254,721,956	\$2,870,497,029	(384,224,927)	-12%
\$1,000,001 or more	\$9,755,275,833	\$5,989,456,954	(3,765,818,879)	-39%
Total	\$37,477,181,685	\$32,876,448,615	(4,600,733,070)	-12%

In both number of returns and net taxable income, while there was a decrease in every category except for \$300,000-\$500,000.

Source: Maryland Office of the Comptroller, Bureau of Revenue Estimates

*CountyStat received updated tax return data on 1/15/2010; these slides reflect those figures.



Analysis of Tax Law Changes Impact of State Revenues

Is this Change Impacting Millionaires' Behavior?

Arguments Against a Millionaire's Bracket in Maryland

- Some analysts assert that Marylanders with high incomes typically own second homes in tax friendlier states like Florida, Delaware, South Carolina and Virginia, and therefore its relatively simple to change their residency. (Maryland Public Policy Institute)
- Maryland's situation may not be close enough to other states to warrant comparison to other states, since its neighbors are different, with varying tax rates.
- Looking beyond just the personal income tax, Maryland's overall state and local tax burden is now slightly higher than its neighbors, which might contribute to migration.

Argument For a Millionaire's Bracket in Maryland

- Declines in millionaire filers in Maryland are the result of the poor economy, rather than out-migration of those filers. (Maryland Board of Revenue Estimates)
- Examples from other states have demonstrated only small impacts as a result of a similar change. In New Jersey and California, studies have shown minimal impact on the movement of high earners, and an increase in tax revenue.



Analysis of Tax Law Changes Impact of State Revenues

Board of Revenue Estimates

- Changes to the individual income tax effective beginning in TY2008, including an increase in the maximum personal exemption, new income tax brackets, and an increase in the refundable earned income credit, resulted in a net increase in general funds in fiscal year 2009.
- Due to the recession and the slump in capital gains, high-income taxpayers are expected to have substantially reduced incomes in 2009 and 2010.
- Accordingly, the impact of these law changes is expected to fall to just \$20.9 million for fiscal year 2010, almost entirely a result of less taxable income in the new, higher tax brackets.

Source: Maryland Office of the Comptroller, Board of Revenue Estimates

*Report of the Maryland Board of Revenue Estimates on Estimated Maryland Revenues for FISCAL YEARS
ENDING JUNE 30, 2010 AND JUNE 30, 2011, Submitted to Governor December 16, 2009*



Analysis of Tax Law Changes Impact of State Revenues

Examples of Other States: Impacts Resulting from Income Tax Changes

- In the last 5 years, several states have enacted similar tax law changes to increase revenue gains from the highest-income households , including: New York, Connecticut, Oregon, Wisconsin, Hawaii, New Jersey, and California.
- There has been research on these changes in New Jersey and California which indicates that tax rate increases for high-income residents raise significant amounts of revenue, and those increases have only a small impact on interstate migration patterns.
 - **New Jersey:** “New Jersey’s ‘half millionaire’ tax appears to be an effective and efficient revenue-generation mechanism, having little impact on migration patterns among half-millionaire households.”
 - The study estimated that while NJ lost \$37.7 million a year from people leaving the state because of the 2004 tax increase, the state gained more than \$1 billion for Tax Year 2006. The study also found that household income has grown rapidly among wealthy New Jerseyans in recent years despite the tax. From 2002 to 2006, the number of New Jersey households with incomes of \$500,000 or more grew to 44,000 from 26,000, an increase of 70 percent.” (*Princeton University study*)

In the two instances listed, there was no substantial penalty to the state in terms of revenue due to tax law changes impacting high income earners.



Sources: Center for Budget Policy and Priorities; Princeton University; California Budget Project

Analysis of Tax Law Changes Impact of State Revenues

Examples of Other States: Impacts Resulting from Income Tax Changes

- **California:** “Analysis found that the number of high-income households in California has grown substantially during periods in which higher top income tax rates were in effect.
 - ‘The number of California’s joint personal income tax filers with incomes of \$200,000 or more rose between 1991 and 1995, a period where California imposed 10 percent and 11 percent tax rates on high income earners.’ More recently, California enacted a 1 percentage point increase on income over \$1 million. The tax generated new revenue totaling about \$1.5 billion in fiscal year 2008 alone. Much like the pattern observed following the tax increases of the early 1990s, the CBP analysis showed the number of taxpayers with incomes over \$1 million increased from 2004 to 2006.”
(*California Budget Project*)

In the two instances listed, there was no substantial penalty to the state in terms of revenue due to tax law changes impacting high income earners.



Sources: Center for Budget Policy and Priorities; Princeton University; California Budget Project

Analysis of Tax Law Changes Impact of State Revenues

Comparison of States Neighboring High Tax State

State	State Income Tax (Top Rate)	Local Income Tax
Maryland*	6.25%	All 23 counties and Baltimore City levy an income tax between 1.25 and 3.20%. Montgomery County = 3.20%
– Virginia	5.75%	None
– Pennsylvania	3.07%	Most of PA's townships and cities impose income taxes not exceeding 2%.
– D.C.	8.5%	None

* = State with a “Millionaire’s Tax”



Analysis of Tax Law Changes Impact of State Revenues

Comparison of States Neighboring High Tax State

Examples of Other States with a “Millionaire’s Tax Bracket”

State	State Income Tax (Top Rate)	Local Income Tax
New Jersey*	10.75%	Newark imposes a 1% income tax on employers.
– New York*	8.97%	NYC and Yonkers impose local income taxes. Rates vary.
– Pennsylvania	3.07%	Most of PA’s townships and cities impose income taxes not exceeding 2%.
– Delaware	6.95%	Wilmington imposes a local income tax of 1.25%.
California*	10.55%	San Francisco imposes a 1.5% tax on employers.
– Oregon*	11%	Several metro areas impose local income tax of less than 1%.
– Nevada	None	None
– Arizona	4.54%	None

The following slide displays a US map, noting the highest personal income tax bracket in each state and whether the state has a “millionaire’s tax.”



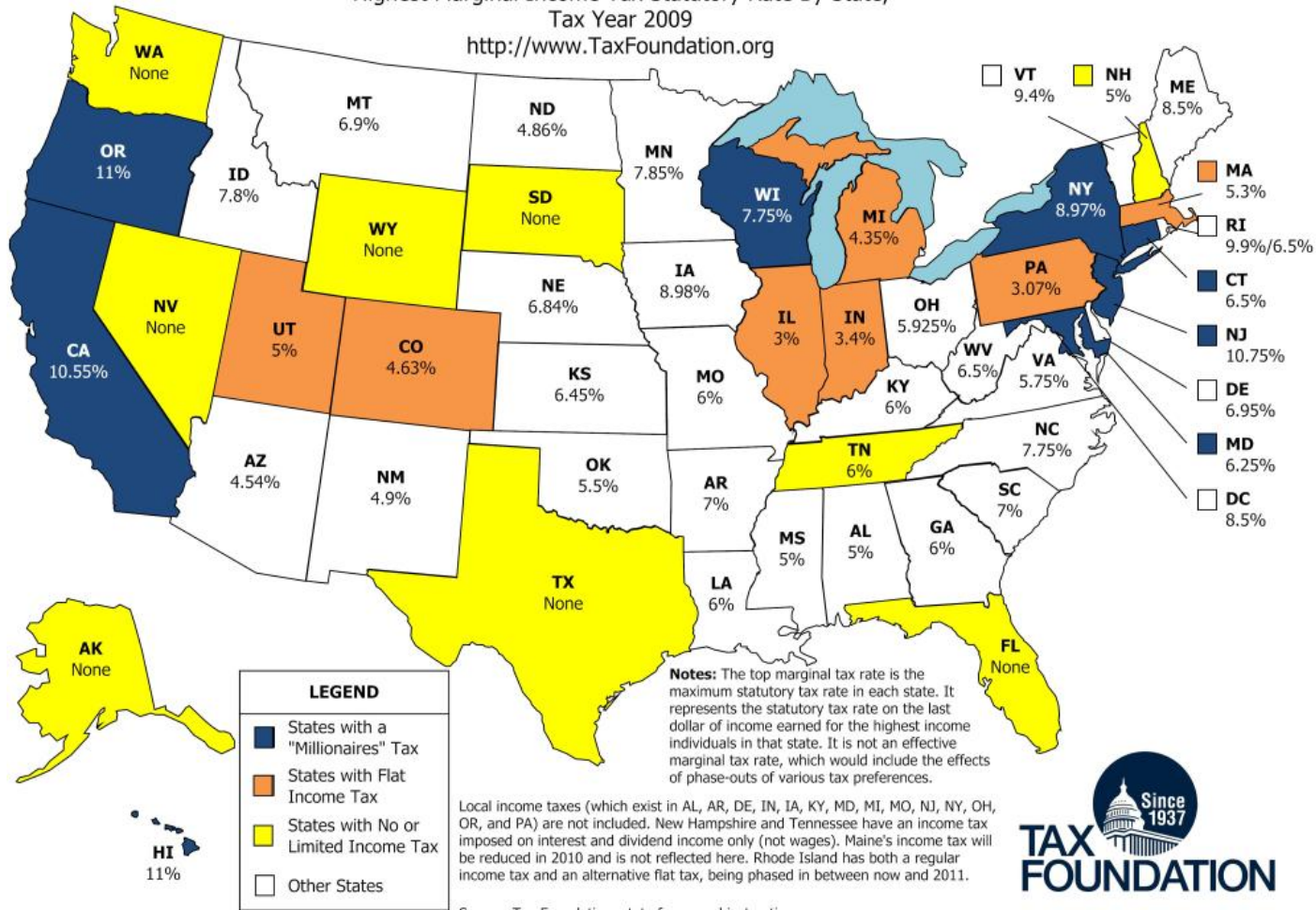
Analysis of Tax Law Changes Impact of State Revenues

Comparison of States Neighboring High Tax State

TOP STATE INCOME TAX RATES

Highest Marginal Income Tax Statutory Rate By State,
Tax Year 2009

<http://www.TaxFoundation.org>



Source: Tax Foundation; state forms and instructions.



Source: The Tax Foundation

Analysis of Tax Law Changes Impact of State Revenues

Tax Burden Comparison of States Neighboring High Tax State

Selected Comparison of State and Local Tax Burden for MD, VA, DC and PA - 2008

State	Rate** [(A) + (B)]/(C)	Per Capita Taxes Paid to Home State (A)	Per Capita Taxes Paid to Other States (B)	Total State and Local Per Capita Taxes Paid (A) + (B)	Per Capita Income (C)
Maryland	10.8%	\$4,062	\$1,607	\$5,669	\$52,709
Virginia	9.8%	\$3,281	\$1,388	\$4,669	\$47,666
District of Columbia	10.3%	\$4,344	\$2,964	\$7,308	\$70,730
Pennsylvania	10.2%	\$3,054	\$1,409	\$4,463	\$43,796

****Rate: The total amount paid by the residents in taxes, divided by the total income in each state to compute a "tax burden" measure**

Source: State and Local Tax Burden Estimates for 2008, The Tax Foundation

Tax Foundation calculations based on data from the Bureau of Economic Analysis, the Census Bureau, the Council on State Taxation, the Travel Industry Association, Department of Energy, and others.



Wrap-Up and Follow-Up Items

- **Follow-Up Items**
- **Performance Plan Updating**

