
Montgomery County, Maryland

**DECEMBER 2015
REVENUE UPDATE AND
SELECTED ECONOMIC
INDICATORS**

Department of Finance



December 8, 2015

Overview

- **Finance provides a full revenue update in December of each year, after the November income tax distribution**
- **At this time, near 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**

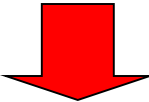




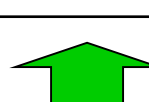
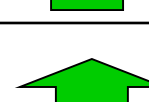
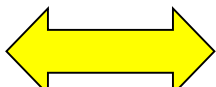
ECONOMIC OUTLOOK - SUMMARY

Signs of a Continued Economic Recovery

- A drop in unemployment rate from 4.4 percent in September 2014 to 4.0 percent in September 2015, a significant increase in resident employment estimated for CY15, and an estimated increase in wage and salary income in CY15 (↑4.4%) that follows an increase of 3.6 percent in CY14.**
- Payroll employment is expected to increase 1.6 percent in CY15 that follows a 0.8 percent increase in CY14.**
- Sales for existing homes are expected to increase 10.6 percent after declining 4.2 percent in CY14.**

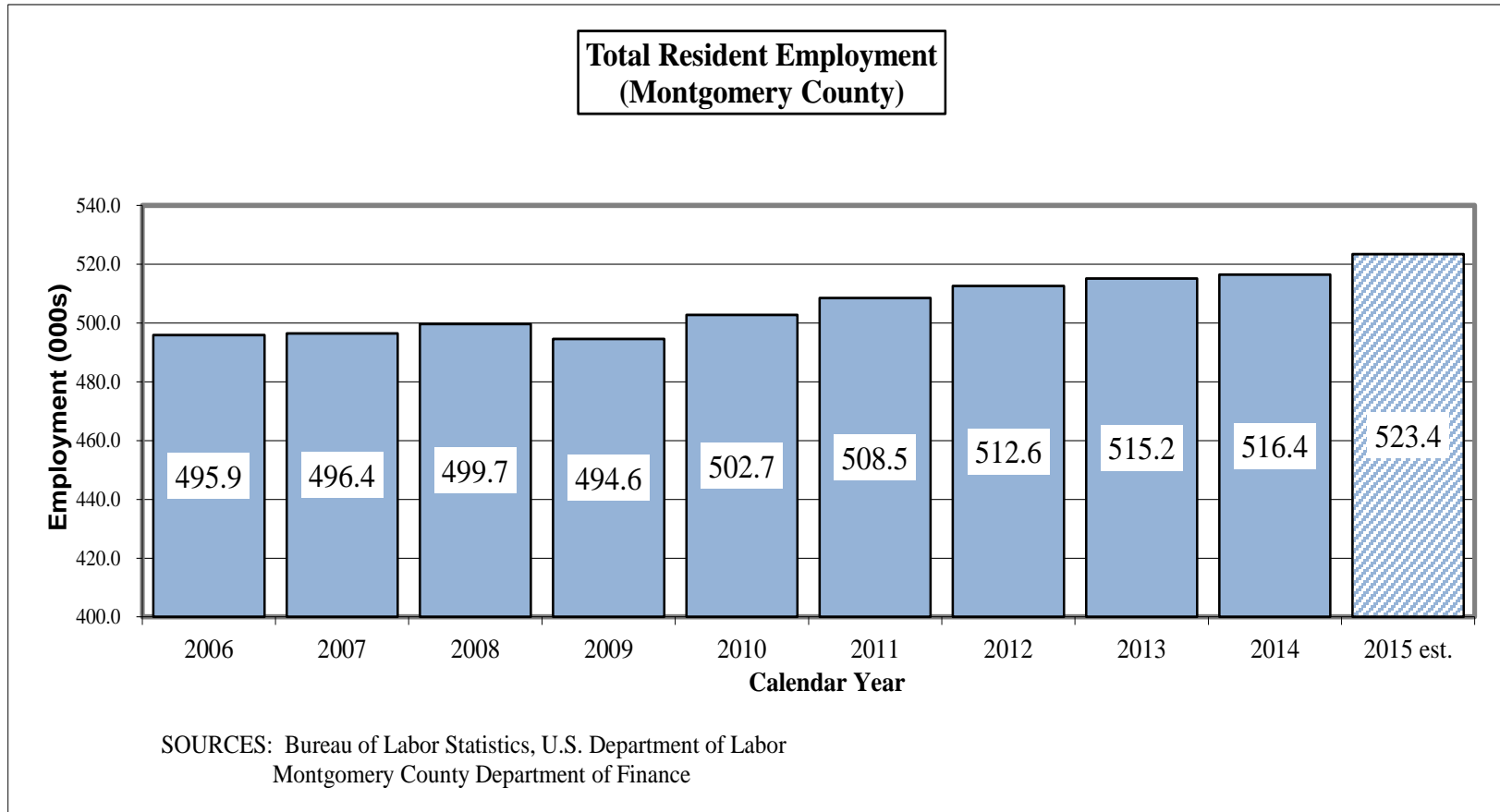
Causes of Concern

- The month-to-month volatility in the stock market to date has contributed to a decline in the Dow Jones Industrial Average ($\downarrow 0.05\%$) and a modest increase in the S&P 500 index ($\uparrow 1.46\%$) through November 25.**
- Inflation through September ($\uparrow 0.25\%$) is running well below CY14 ($\uparrow 1.54\%$) and CY13 ($\uparrow 1.52\%$).**
- Median home prices are estimated to decline 0.13 percent in CY15 after no change in CY14.**
- Fed funds rates have remained unchanged through November but with a 78 percent probability (CME Group – November 25) of a rate increase in December.**

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON	DIRECTION (yr.-over-yr.)
INFLATION	0.25% Jan.-Sept. 2015	Property Taxes	Key determinant of property tax revenues at the Charter Limit	2014: 1.54%	
UNEMPLOYMENT RATE	4.0% Sept. 2015	Income Taxes	Indicates overall health of the job market	4.4% Sept. 2014	
RESIDENT EMPLOYMENT	522,387 Sept. 2015	Income Taxes	Primary determinant of income tax receipts	513,816 Sept. 2014	
PAYROLL EMPLOYMENT (Estimated)	487,800 Sept. 2015	Income Taxes	Another determinant of income tax receipts	476,700 Sept. 2014	
STOCK MARKET - S&P 500	2,088.87 Nov. 24, 2015	Income Taxes	Key determinant of capital gains portion of the income tax	2,058.90 Dec. 31, 2014	
HOME SALES	935 Oct. 2015	Transfer/ Recordation Taxes	Indicates activity affecting receipts	888 Oct. 2014	
HOME PRICES (Median Price Sol)	\$389,000 Oct. 2015	Transfer/ Recordation Taxes	Taxes are based on values, affects amount of taxes collected	\$387,310 Oct. 2014	
FEDERAL FUNDS RATE	0.12% Oct. 2015	Investment Income	County's return on investments closely correlated with the Fed Funds	0.09% Oct. 2014	

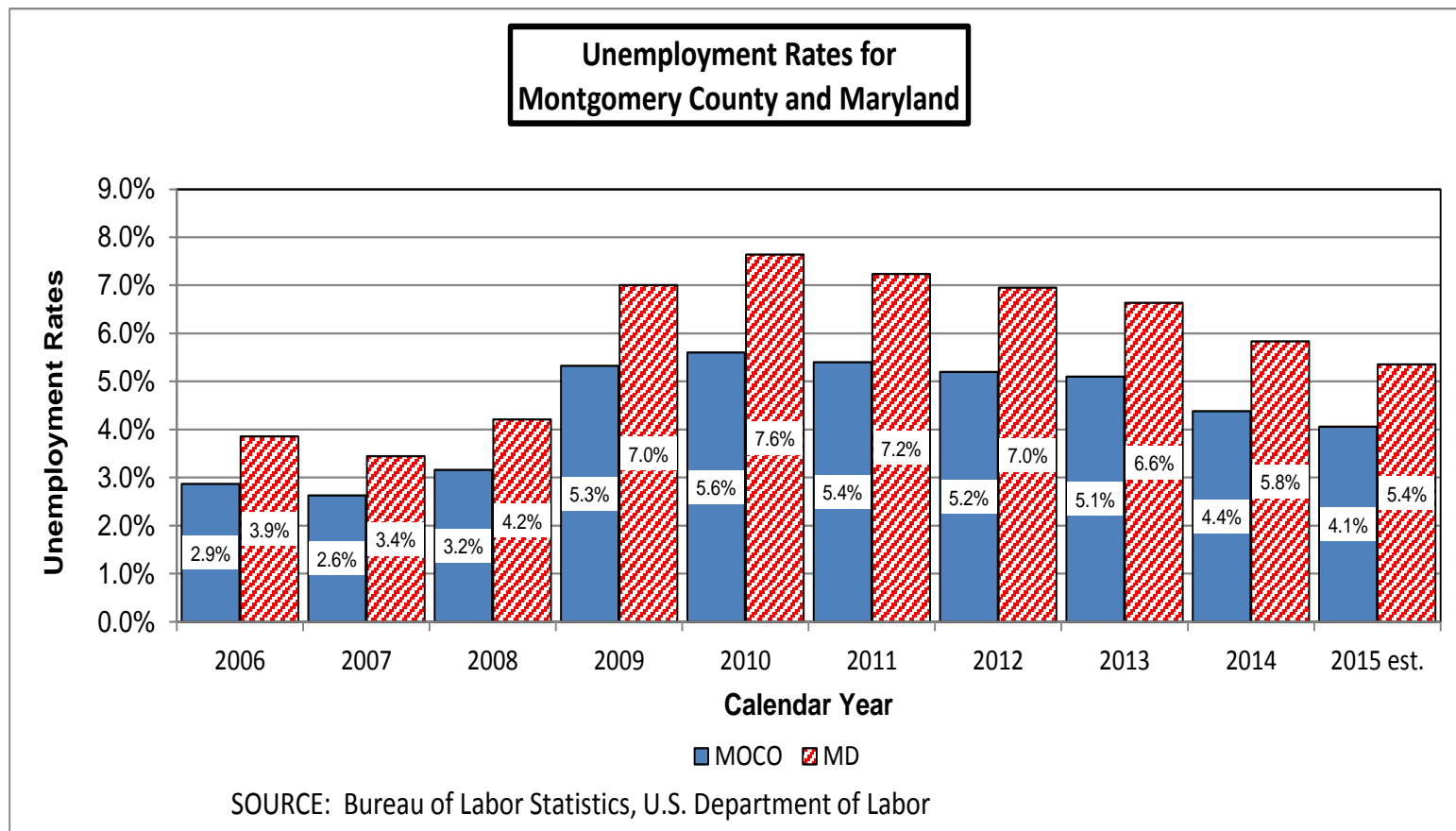
Department of Finance estimates that the County's resident employment will reach an all-time high of 523,400 in CY15 (↑1.4%) over CY14.

On a year-over-year basis, resident employment increased by nearly 8,600 from September 2014 to September of this year.



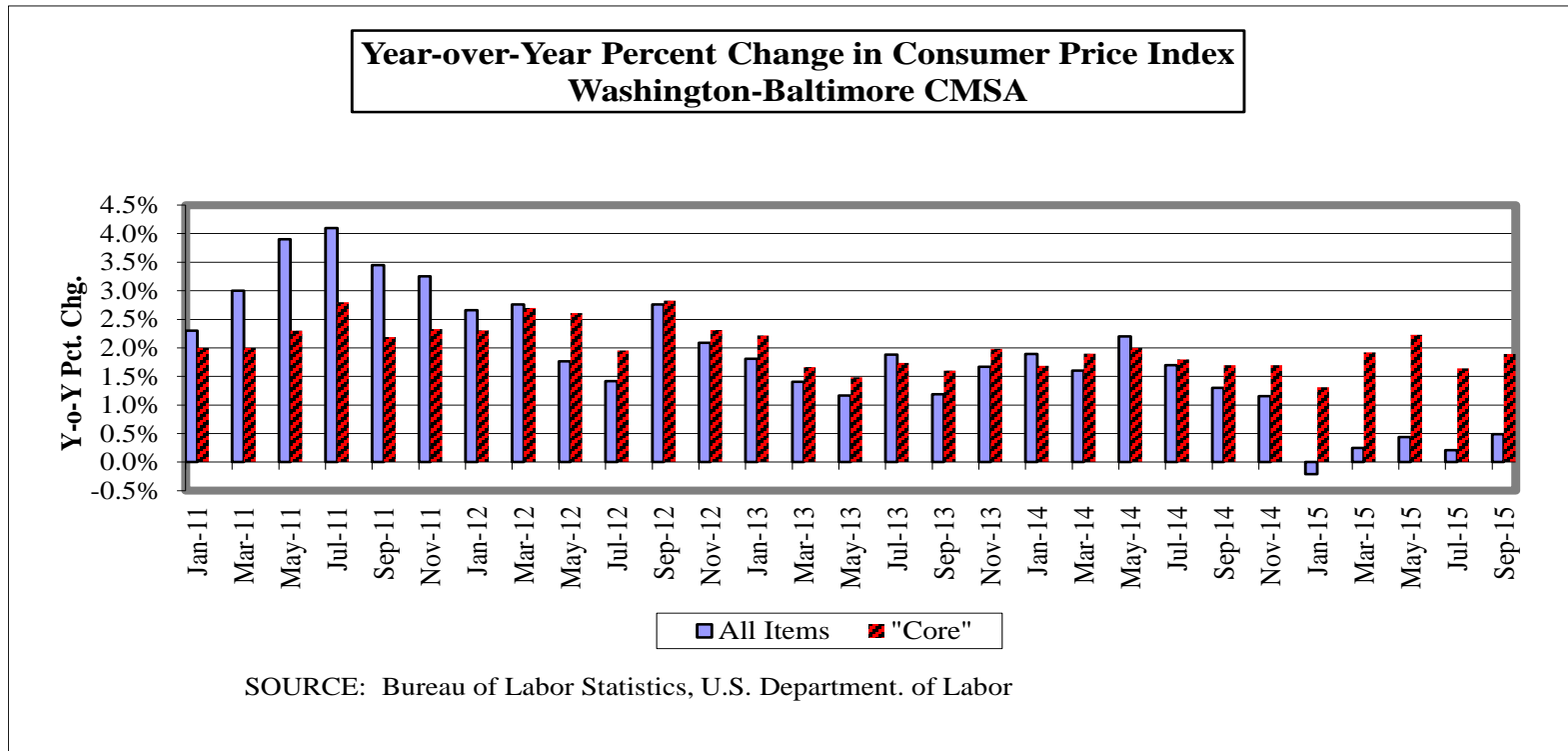
The Department of Finance estimates that the County's unemployment rate will be 4.1 percent in CY15 compared to 4.4 percent in CY14.

The unemployment rate in September was 4.0 percent compared to 4.4 percent in September 2014.

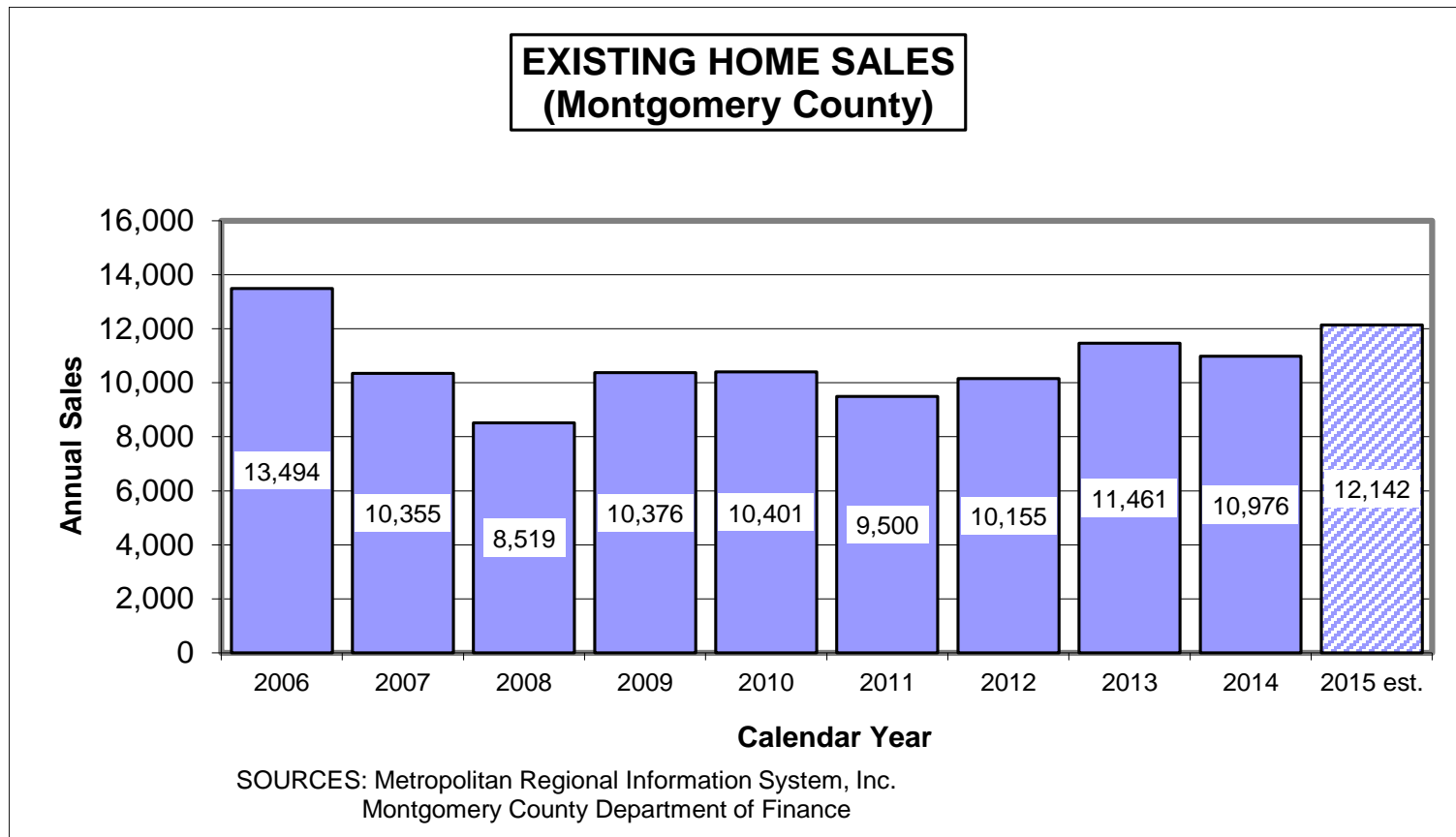


Inflation was 0.49 percent in September 2015.

Overall for the Washington-Baltimore consolidated region, the CPI increased a modest 0.25 percent for the calendar year ending in September. For calendar year 2014, the index increased 1.54 percent compared to 1.52 percent in CY13.

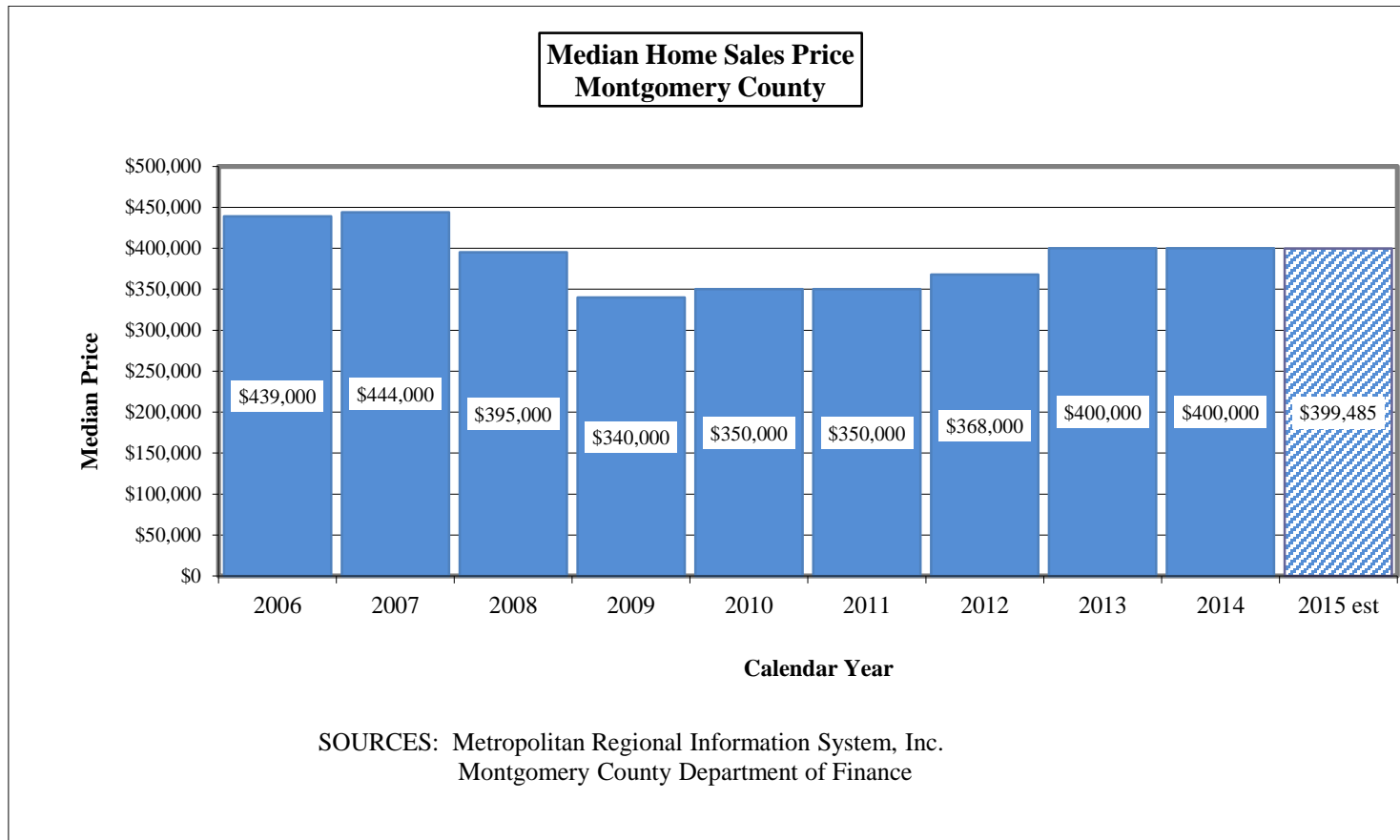


Home sales are estimated to increase 10.6 percent this year.
Total sales of existing homes increased 12.9 percent in CY13 but declined 4.2 percent in CY14.



Median home sales prices are expected to decrease 0.13 percent in CY15 following no increase in CY14.

The estimated decrease in the median sales price this calendar year, potentially offsets the effect on tax revenues from the double-digit increase in sales of existing homes.



REVENUE UPDATE

FY16 and FY17 Summary

The outlook for the remainder of this fiscal year (FY16) and next year (FY17) suggests a decline in revenues over the two-year period compared to the estimates prepared for the FY16 budget. This decrease is mainly attributed to revisions to income tax and property tax revenues. The combined decrease of all tax-supported revenues in FY16 and FY17 is \$134.549 million lower than previously estimated.

Revenue Update

December revised revenues for FY16 are \$37.090 million below the FY16 Budget estimates. The major contributor is the estimated decrease income tax revenues but partially offset by stronger real estate transfer/recordation taxes.

	FY16 BUDGET - DECEMBER 2015 UPDATE (\$MIL.)		
	FY16 Budget	Dec. Update	Difference
Income	\$1,433.417	\$1,382.555	(\$50.862)
Property	\$1,582.612	\$1,578.295	(\$4.317)
Transfer/Recordation	\$153.833	\$174.709	\$20.875
Other Taxes:			
--Admissions	\$3.248	\$2.909	(\$0.339)
--Fuel/Energy	\$206.190	\$205.123	(\$1.067)
--Telephone	\$50.417	\$49.959	(\$0.458)
--Hotel/Motel	\$20.340	\$19.914	(\$0.426)
Investment Income	n.a	n.a	n.a
Highway User Revenue	\$4.125	\$3.628	(\$0.497)
TOTAL	\$3,454.182	\$3,417.092	(\$37.090)

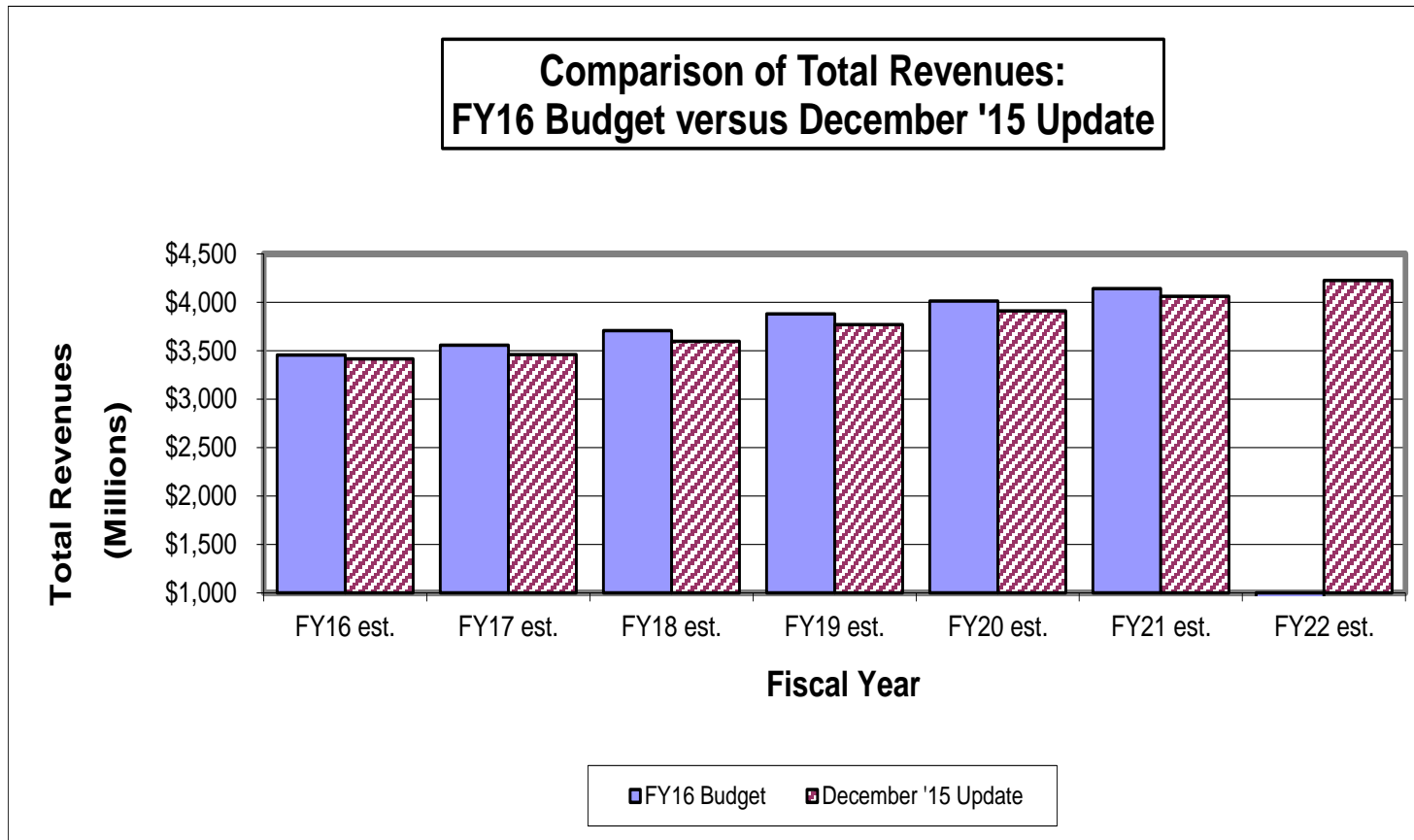
Revenue Update

December revised revenue estimates for FY17 are \$97.459 million below the FY16 Budget estimates. The decrease is attributed to weaker income and property tax revenues.

	FY16 BUDGET - DECEMBER 2015 UPDATE (\$MIL.)		
	FY17 Estimate	Dec. Update	Difference
Income	\$1,469.727	\$1,400.757	(\$68.970)
Property	\$1,624.156	\$1,600.836	(\$23.320)
Transfer/Recordation	\$175.647	\$174.097	(\$1.551)
Other Taxes:			
--Admissions	\$3.457	\$3.066	(\$0.391)
--Fuel/Energy	\$207.910	\$206.090	(\$1.820)
--Telephone	\$51.309	\$50.309	(\$0.999)
--Hotel/Motel	\$21.069	\$20.637	(\$0.431)
Investment Income	n.a	n.a	n.a
Highway User Revenue	\$3.640	\$3.663	\$0.023
TOTAL	\$3,556.914	\$3,459.455	(\$97.459)

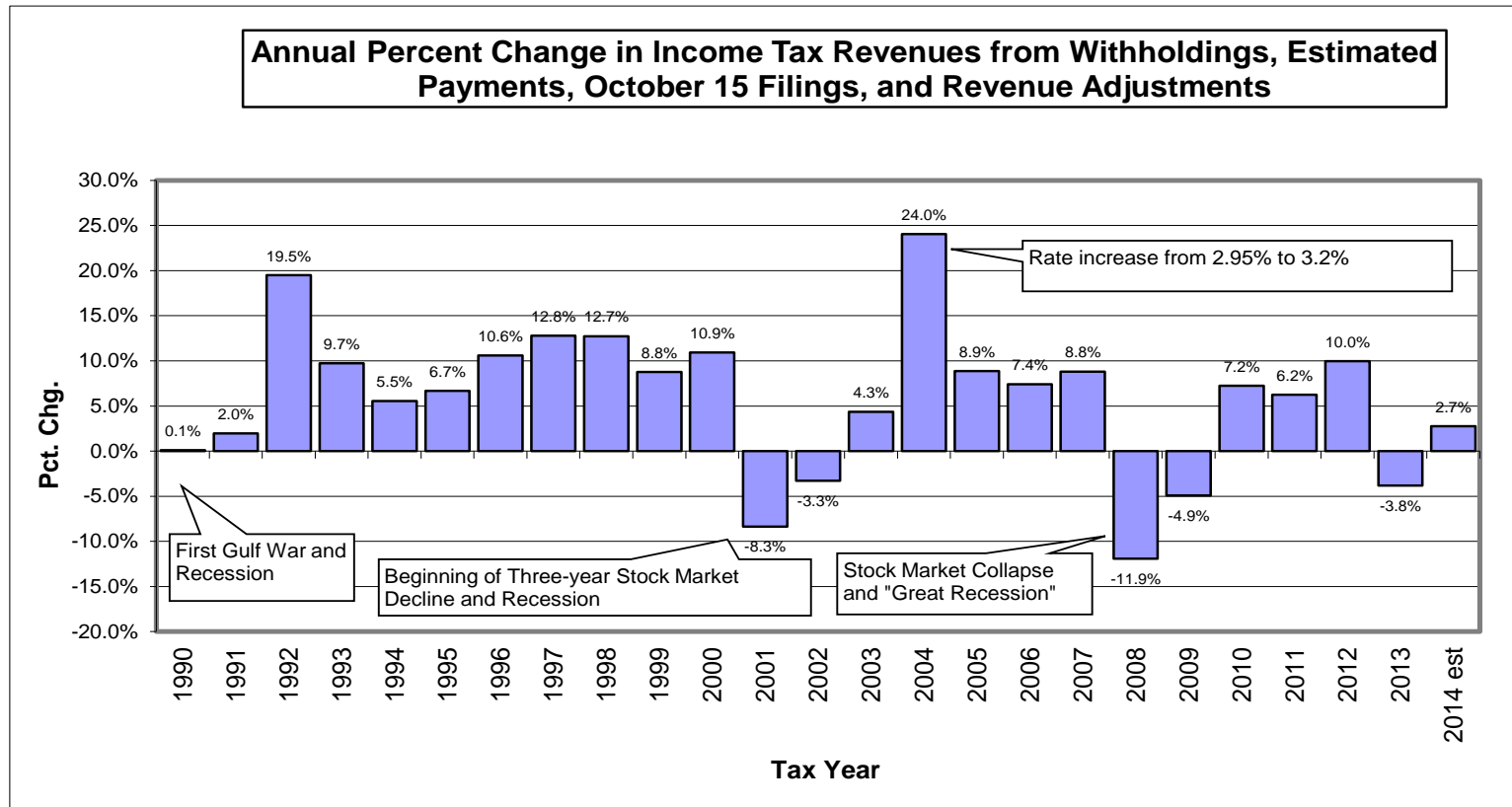
Revenue Trend FY16-22

During the current six year period (FY16-FY21), total revenues are expected to be approximately \$454.1 million below FY16 budget estimates.



Income Tax Volatility

Year-over-year percent changes in the income tax are volatile and highly sensitive to economic events such as recessions, changes in local, state, and federal tax rates, and capital gains.



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

- **The largest share (five year average of nearly 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 2014 in November 2015) 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., 2014 tax year final results affect quarterly distributions for this fiscal year).**
- **Income tax revenues represented 46.4 percent of total General Fund tax revenues in FY15 and nearly 44.5 percent of the County’s total General Fund revenues.**

Income Tax – November distributions

(millions)	Actual FY13	Actual FY14	Actual FY15	Estimated FY16	Actual FY16	Difference
October 15 th Filings and Adjustments	\$144.74	\$167.61	\$79.13	\$119.50	76.80*	(\$42.70)
Withholding and Estimated payments for 3 rd Quarter	\$250.76	\$258.47	\$261.64	\$276.00	\$271.10	(\$4.90)
Total November Distribution	\$395.50	\$426.08	\$340.77	\$395.50	\$347.90	(\$47.60)

* Includes \$6.7 million reduction from Wynne decision for TY2014.

• **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 2014 as compared to tax year 2013. The State has indicated that the County's income tax receipts from withholdings and estimated payments for the third quarter of tax year 2015 are 3.6% higher than for tax year 2014 but below the estimate for the FY16 Budget.**

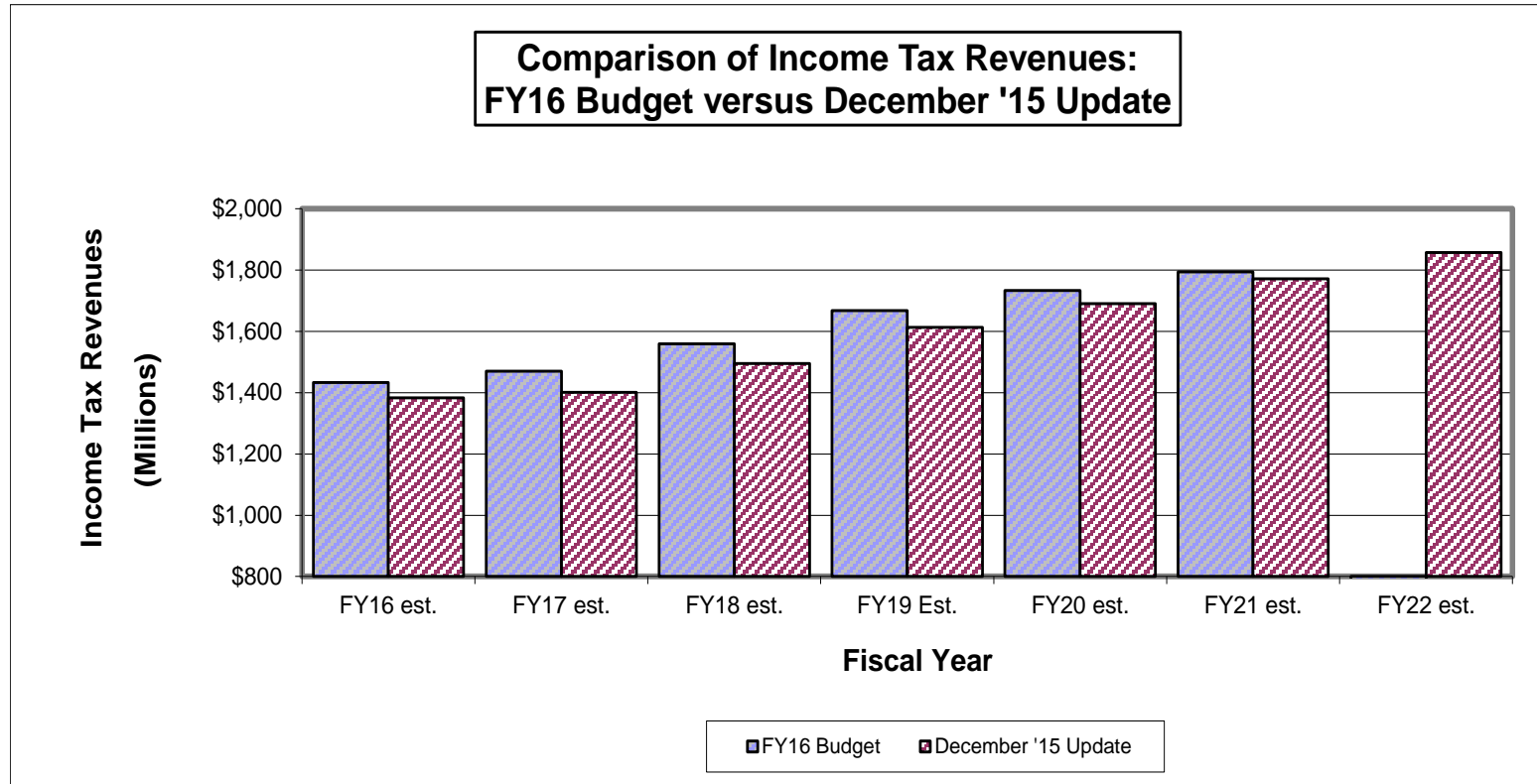
• **Increase in actual withholdings and estimated payments compared to last year is due to a 3.3% increase in income tax collections from withholdings and estimated payments statewide from November 2014 to November 2015.**

Income Tax – Economic Factors

- Resident employment is expected to increase 1.4 percent in CY15 and increase 0.8 percent in CY16. Those increases are different compared to March economic assumptions of 0.4 percent increase in CY15 and 2.9 percent in CY16. The lower employment growth in CY16 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 3.5 percent in CY15 and 6.4 percent in CY16.**
- Wage and salary income is expected to increase 4.4 percent in CY15 and increase 4.5 percent in CY16.**

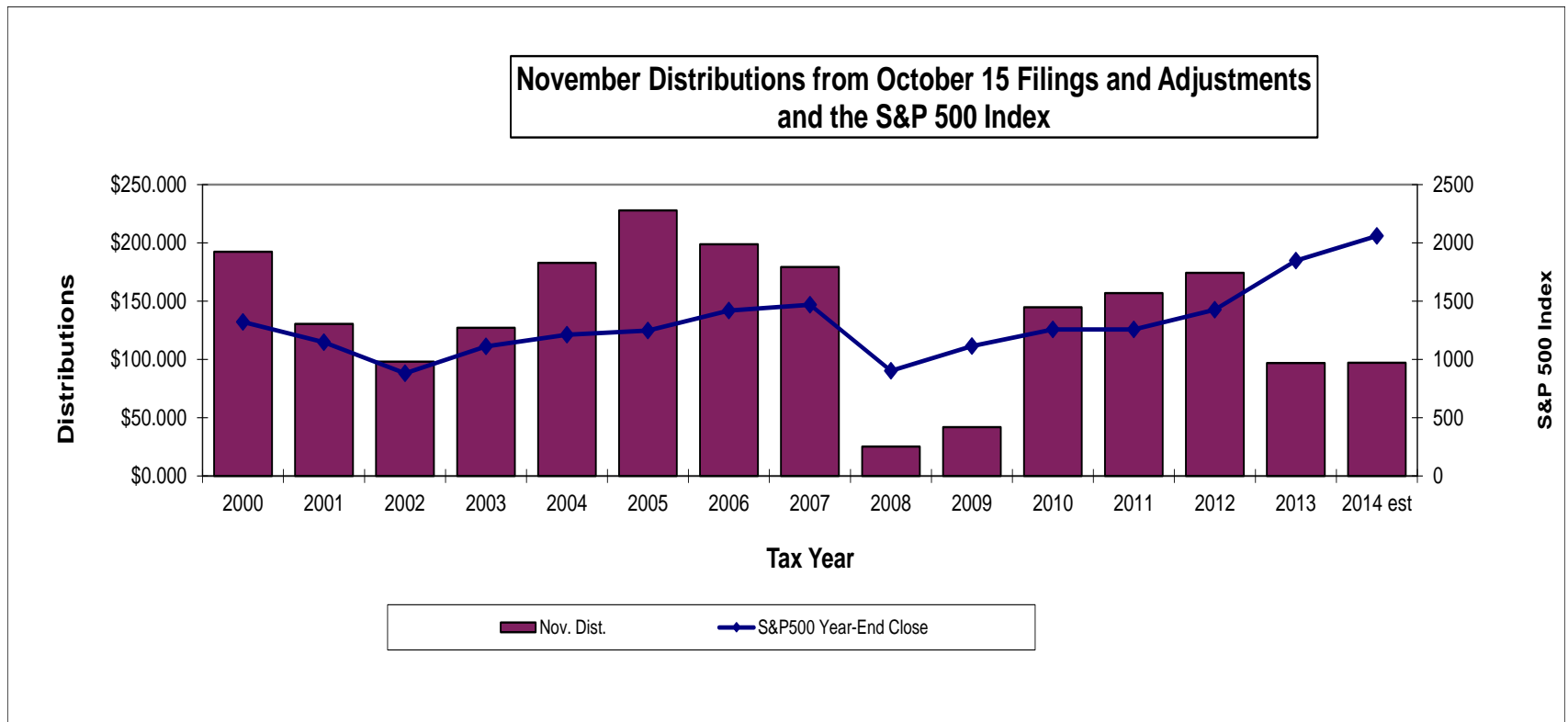
Income Tax FY16-21

Over the current six year period (FY16-FY21), income tax revenues are expected to be approximately \$304.1 million below FY16 budget estimates reflecting the estimated \$50.9 million and \$69.0 million declines in FY16 and FY17, respectively.



Income Tax

The amount of revenues from the November distribution had been correlated to the stock market (S&P 500 Index) until tax year 2013. That relationship ended starting in 2013 due to the fiscal cliff (TY2013) and possibly to non-stock market related income (TY2014).



Property Tax

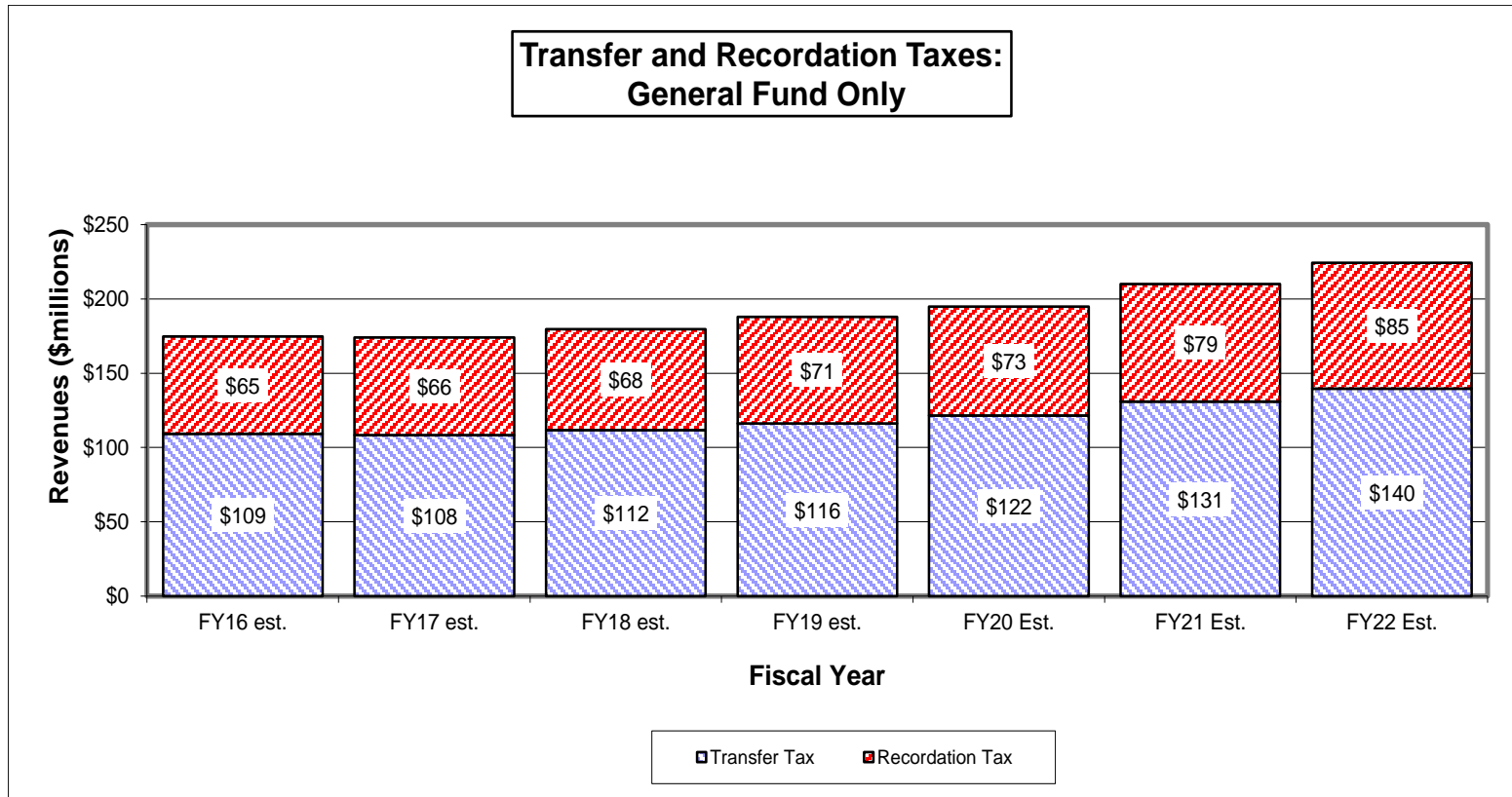
- **The inflation rate is expected to be 0.62 percent in calendar year 2015, which follows a 1.54 percent increase in CY14 and 1.52 percent in CY13. Inflation is used to estimate real property tax revenues under the Charter Limit excluding new construction.**
- **The reassessment rates for real property for Group Three for fiscal year 2017 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 increase 10.6 percent in CY15 but median prices are estimated to decrease 0.13 percent. Based on collections to date, the residential and non-residential real estate market is estimated to experience solid growth in FY16.**
- Because of the estimated increase of home sales in CY15, Finance estimates that the number of residential transfers increases 7.4 percent in FY16.**
- Because of collections to date, total transfer tax revenues on residential transactions are expected to increase 10.5 percent in FY16.**
- Because of the dramatic increase in the average transfer tax on non-residential transactions to date, total non-residential transfer tax revenues are estimated to increase by over 45.0 percent in FY16.**

Transfer and Recordation Taxes

Since reaching \$241.7 million in FY06, transfer and recordation taxes declined to \$127.3 million in FY12. By FY22, transfer and recordation taxes for the General Fund are estimated to reach \$224.2 million – \$17.5 million below the FY06 peak.



Other Tax Revenues

Other tax revenues are estimated to decrease 1.3 percent in FY16 over budget estimates due to estimated decrease in fuel and energy tax revenues. Over the current six-year period (FY16-FY21), total other tax revenues are estimated to be \$22.2 million below FY16 budget estimates.

