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**Montgomery County, Maryland**

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**DECEMBER 2018  
REVENUE UPDATE AND  
SELECTED ECONOMIC  
INDICATORS**

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**Department of Finance**

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**December 11, 2018**






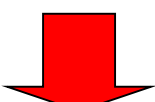


## ***Overview***

- **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**

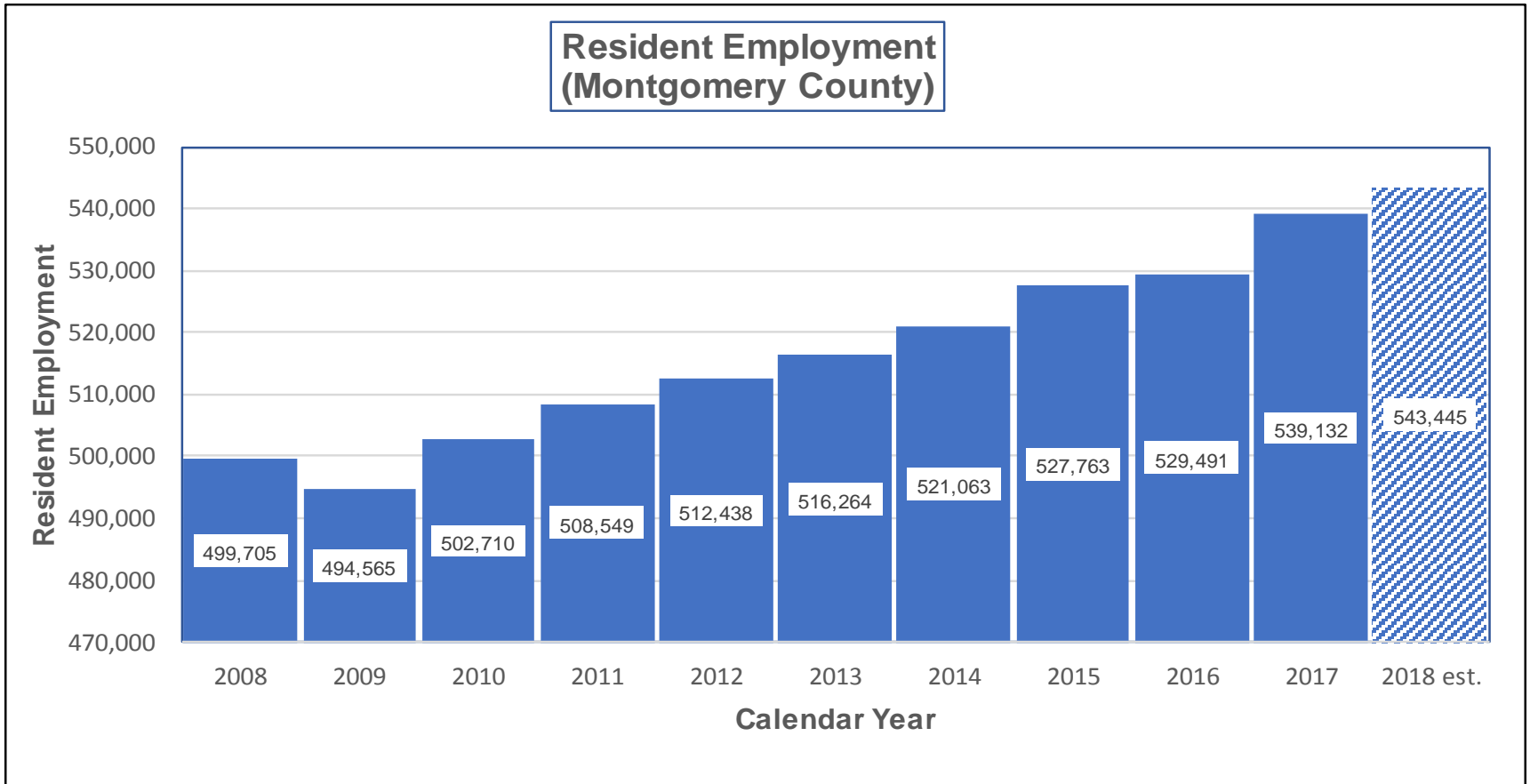
## ***Signs of Continued Economic Growth***

- A drop in unemployment rate from 3.3 percent in October 2017 to 3.1 percent in October 2018, an increase in resident employment estimated for CY18 ( $\uparrow 0.8\%$ ), and an estimated increase in wage and salary income in CY18 ( $\uparrow 4.4\%$ ) that follows an increase of 1.6 percent in CY17.**
- Payroll employment is expected to increase 0.9 percent in CY18 that follows a 1.1 percent increase in CY17.**
- Median sales price for existing homes is expected to increase 5.2 percent in CY18 following an increase of 2.5 percent in CY17.**

<b>ECONOMIC INDICATOR DASHBOARD</b>	<b>LATEST DATA</b>	<b>REVENUE AFFECTED</b>	<b>EXPLANATION</b>	<b>COMPARISON</b>	<b>DIRECTION (yr.-over-yr.)</b>
INFLATION	2.03% Sept. 2018	Property Taxes	Key determinant of property tax revenues at the Charter Limit	1.70% Sept. 2017	
UNEMPLOYMENT RATE	3.1% Oct. 2018	Income Taxes	Indicates overall health of the job market	3.3% Oct. 2017	
RESIDENT EMPLOYMENT	545,178 Oct. 2018	Income Taxes	Primary determinant of income tax receipts	539,919 Oct. 2017	
PAYROLL EMPLOYMENT (QCEW Data)	478,351 June 2018	Income Taxes	Another determinant of income tax receipts	477,835 June 2017	
STOCK MARKET - S&P 500	2,760.17 Nov. 30, 2018	Income Taxes	Key determinant of capital gains portion of the income tax	2,647.58 Nov 30, 2017	
HOME SALES	873 Oct. 2018	Transfer/ Recordation Taxes	Indicates activity affecting receipts	985 Oct. 2017	
HOME PRICES (Median Price Sold)	\$425,000 Oct. 2018	Transfer/ Recordation Taxes	Taxes are based on values, affects amount of taxes collected	\$398,000 Oct. 2017	
FEDERAL FUNDS RATE	2.20% Nov. 2018	Investment Income	County's return on investments closely correlated with the Fed Funds	1.16% Nov. 2017	

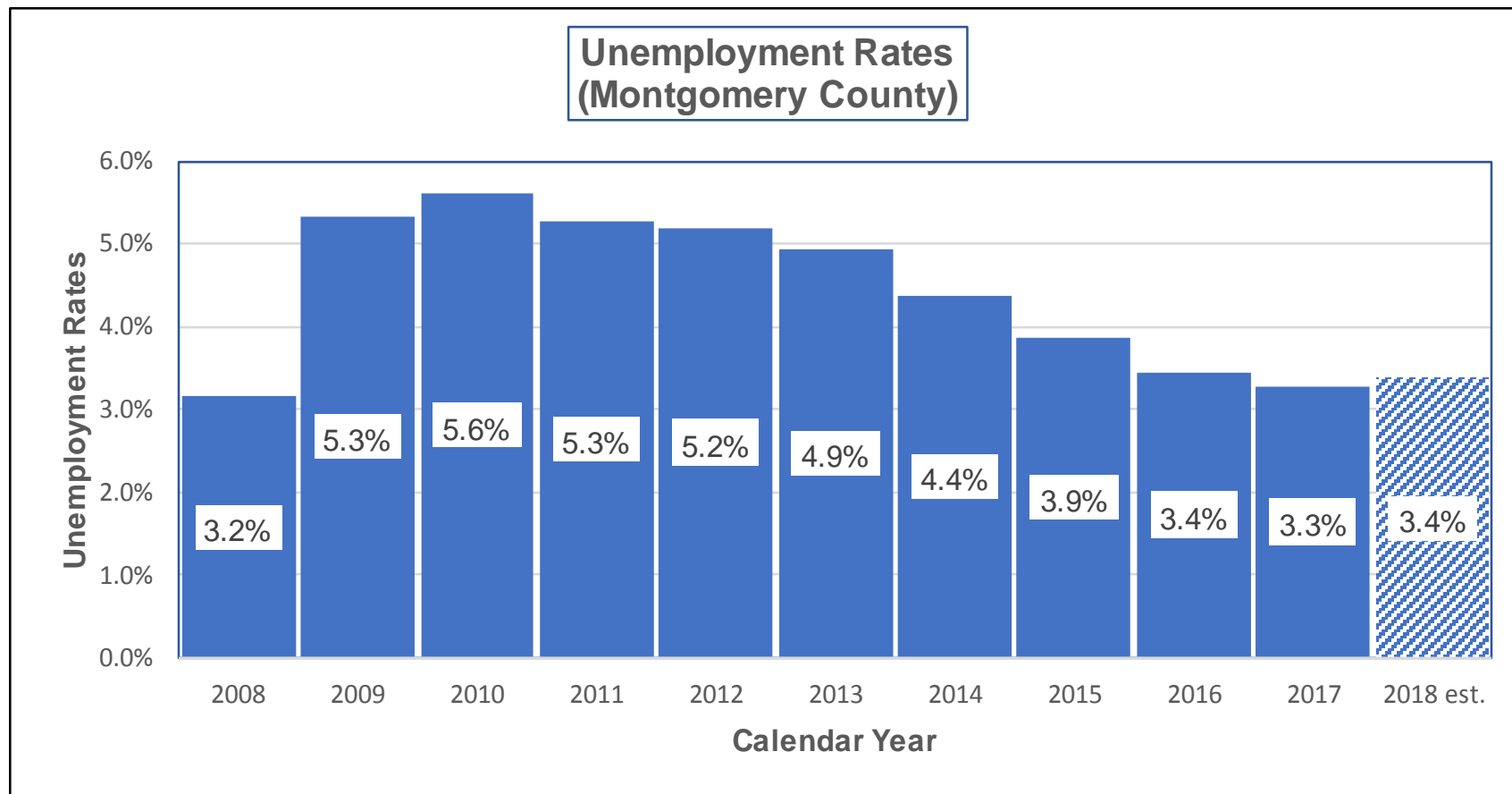
**Department of Finance estimates that resident employment will reach 543,445 in CY18 (↑0.8% over CY17).**

On a year-over-year basis, resident employment increased by nearly 5,300 from October 2017 to October of this year (↑1.0%).



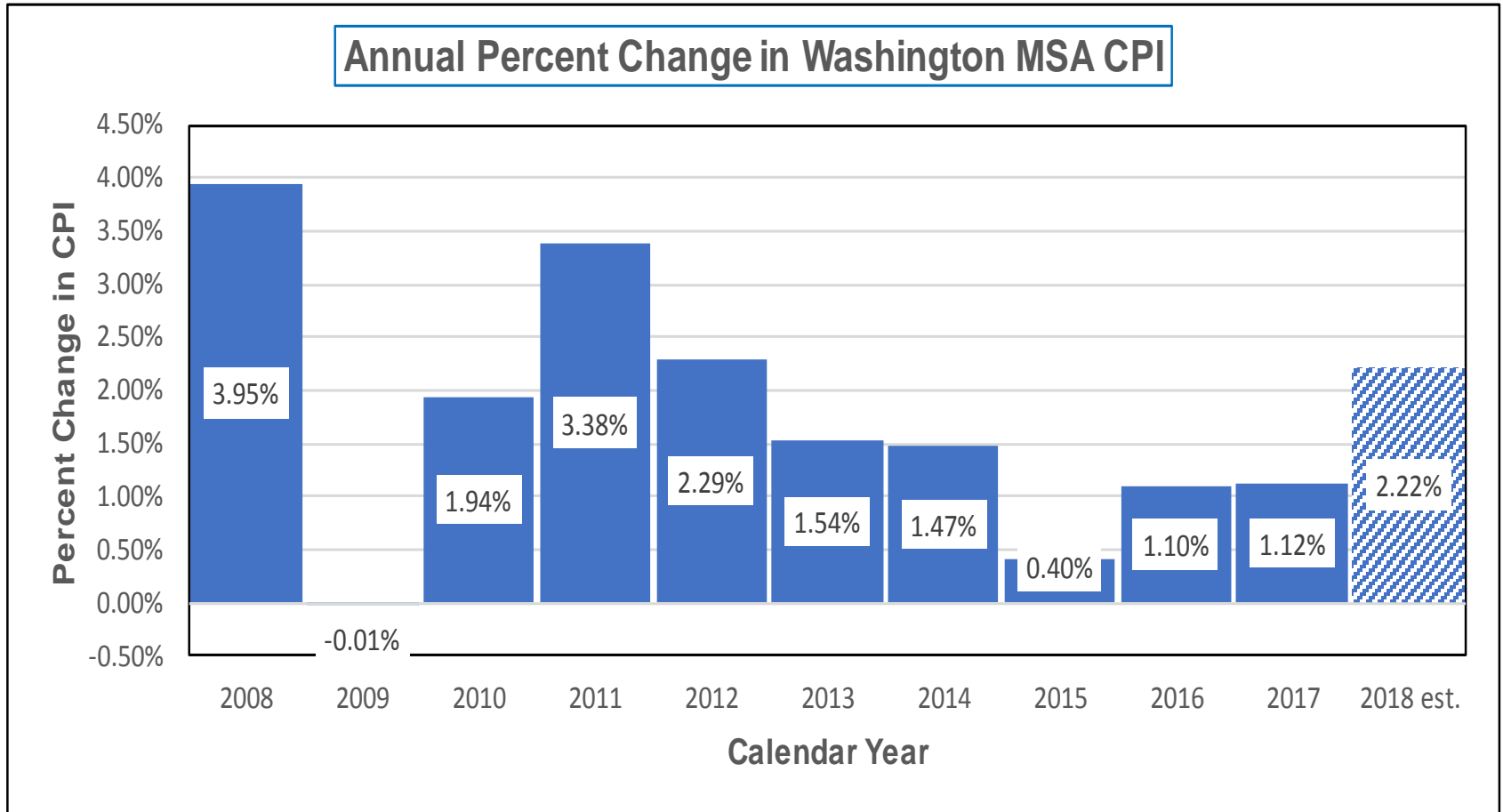
**The Department of Finance estimates that the unemployment rate will be 3.4 percent in CY18 – slightly above the unemployment rate in CY17 but well below the peak rate of 5.6 percent in CY10 .**

The unemployment rate in October was 3.1 percent compared to 3.3 percent in October 2017.



***Inflation is expected to increase 2.22 percent in CY2018.***

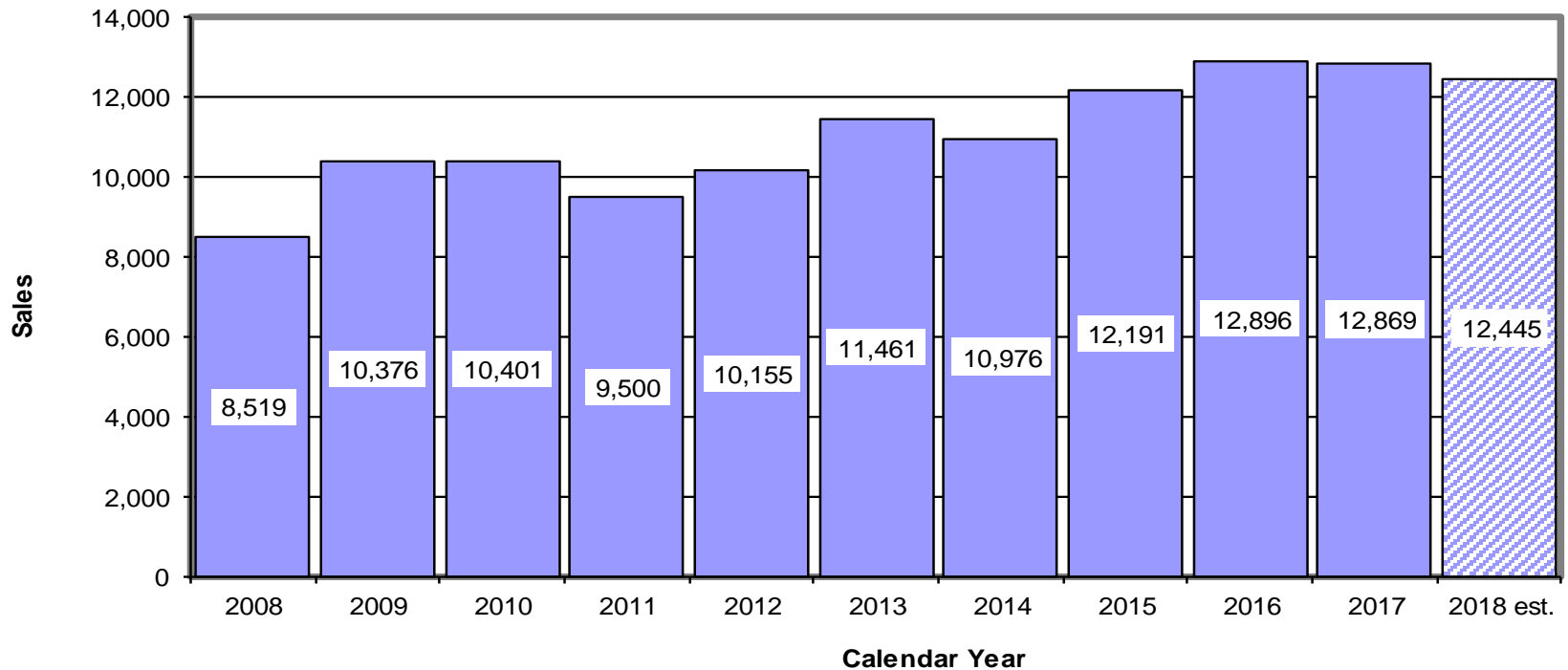
**For the Washington Metropolitan Statistical Area, the CPI increased 2.03 percent in September over September 2017.**





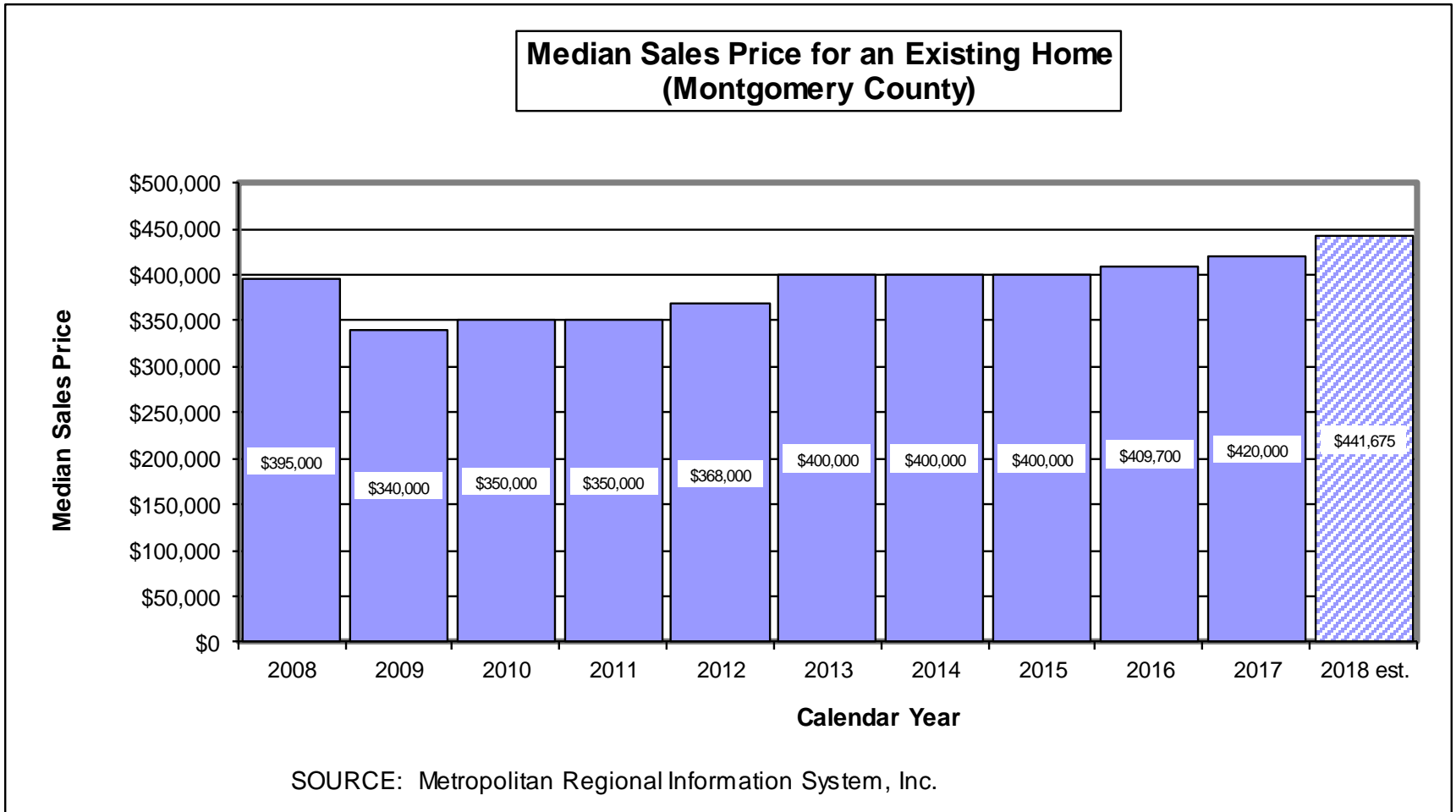
***Home sales are estimated to decrease 3.3 percent this year.***  
Total sales of existing homes increased 5.8 percent in CY16 but decreased a modest 0.2 percent in CY17.

**Sales of Existing Homes  
(Montgomery County)**



SOURCE: Metropolitan Regional Information System, Inc.

**Median home sales price is expected to increase 5.2 percent in CY18 following an increase of 2.5 percent in CY17.**



# REVENUE UPDATE

## ***FY19 and FY20 Summary***

**The outlook for the remainder of this fiscal year (FY19) and next year (FY20) suggests a modest increase in revenues over the two-year period compared to the estimates prepared for the FY19 budget. This increase is mainly attributed to revisions to income tax, transfer-recordation tax, and fuel-energy tax revenues in FY19. The combined increase of all tax-supported revenues in FY19 and FY20 is nearly \$3.5 million higher than previously estimated.**

## Revenue Update

December revised revenues for FY19 are \$7.0 million above the FY19 Budget estimates. The major contributors are the estimated increase in the income tax, transfer/recordation tax, and fuel-energy tax revenues. Revised property tax revenues are estimated to decrease attributed to the shortfall in actual revenues in FY18 due to the slower than expected growth in the final taxable assessable base in FY18 and estimated taxable assessable base in FY19 and an increase in credits.

	<b>FY19 BUDGET - DECEMBER 2018 UPDATE (\$MIL.)</b>		
	<b>FY19 Budget</b>	<b>Dec. Update</b>	<b>Difference</b>
<b>Income</b>	\$1,585.159	\$1,599.913	\$14.754
<b>Property</b>	\$1,808.404	\$1,787.125	(\$21.279)
<b>Transfer/Recordation</b>	\$162.947	\$174.412	\$11.465
<b>Other Taxes:</b>			
--Admissions	\$3.579	\$3.596	\$0.017
--Fuel/Energy	\$193.982	\$196.639	\$2.657
--Telephone	\$53.253	\$53.028	(\$0.225)
--Hotel/Motel	\$22.236	\$21.292	(\$0.944)
<b>Highway User Revenue</b>	\$3.765	\$3.759	(\$0.006)
<b>E-Cigarettes</b>	\$0.652	\$1.208	\$0.556
<b>TOTAL</b>	<b>\$3,833.977</b>	<b>\$3,840.972</b>	<b>\$6.995</b>

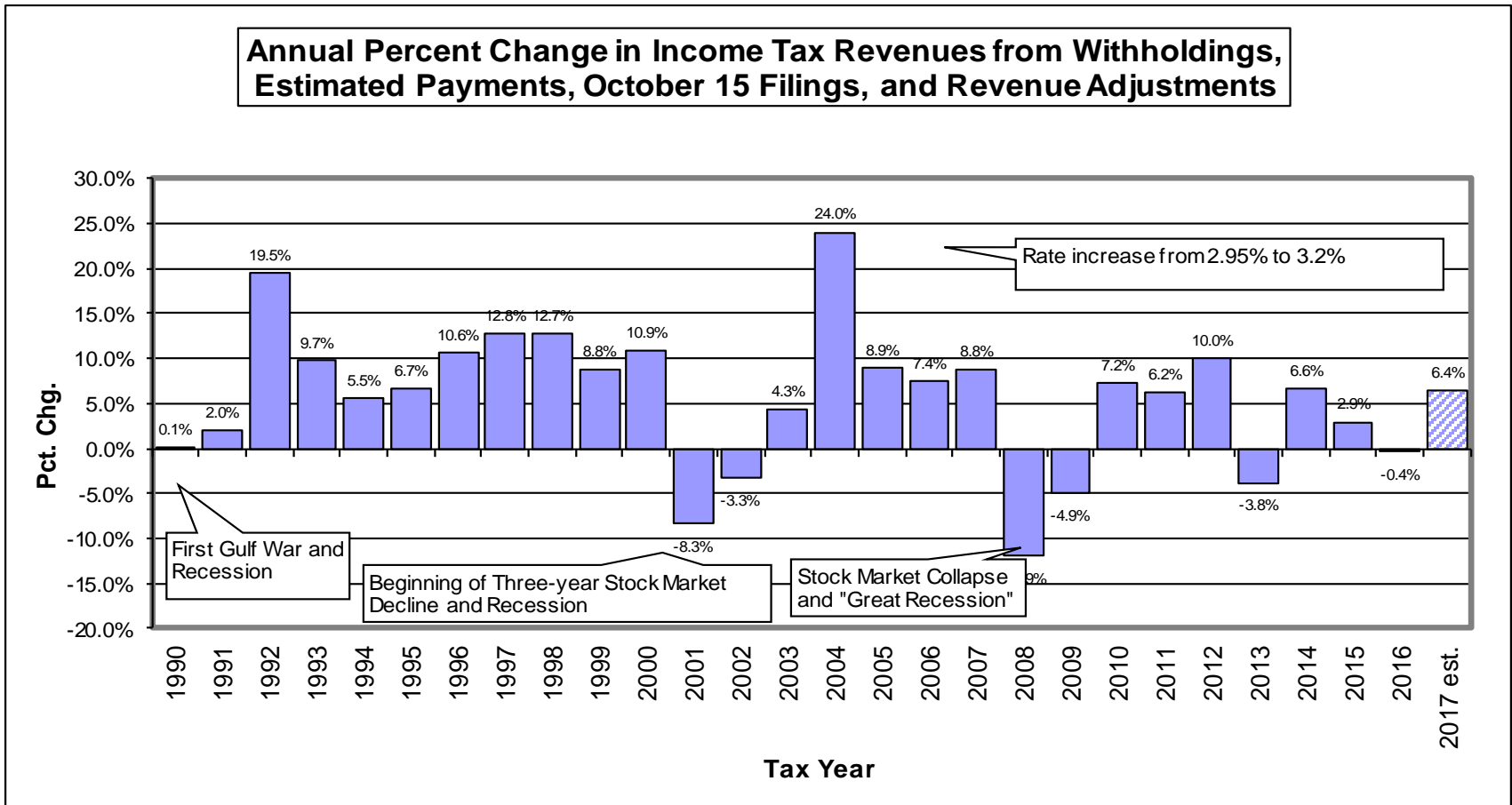
## Revenue Update

December revised revenue estimates for FY20 are \$3.5 million below the estimates prepared for the FY19 Budget. The decrease is attributed to lower estimated income and property tax revenues. The decline in the income tax is based on the revised assumption for capital gains. The revised property tax revenue estimate is attributed to a decline in the real property taxable assessment and an increase in credits compared to the previous forecast. The increase in the transfer/recordation tax is based on the forecast for residential sales and average median price for an existing home. Overall, the revised forecast over the two-year planning period is in line, slightly positive, with the previous forecast.

	FY19 BUDGET - DECEMBER 2018 UPDATE (\$MIL.)		
	FY20 Estimate	Dec. Update	Difference
Income	\$1,682.969	\$1,675.939	(\$7.030)
Property	\$1,858.904	\$1,846.858	(\$12.046)
Transfer/Recordation	\$168.596	\$178.957	\$10.361
Other Taxes:			
--Admissions	\$3.697	\$3.860	\$0.163
--Fuel/Energy	\$192.396	\$193.059	\$0.663
--Telephone	\$54.900	\$55.379	\$0.479
--Hotel/Motel	\$22.417	\$21.474	(\$0.943)
Highway User Revenue	\$3.773	\$8.031	\$4.258
E-Cigarettes	\$0.692	\$1.259	\$0.567
<b>TOTAL</b>	<b>\$3,988.344</b>	<b>\$3,984.816</b>	<b>(\$3.528)</b>

# 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 – Distribution Details***

- **The largest share (five year average of 83.3%) 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 2017 in November 2018) 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., 2017 tax year final results affect quarterly distributions for this fiscal year starting in November).**
- **Income tax revenues represented 46.4 percent of total General Fund tax revenues in FY18 and 44.6 percent of the County's total General Fund revenues.**



# ***Income Tax – November distributions***

(millions)	Actual FY16	Actual FY17	Actual FY18	Estimated FY19	Actual FY19	Difference Actual/Estimate FY19
October 15 <sup>th</sup> Filings and Adjustments	\$76.80	\$135.35	\$95.53	\$106.59	\$128.32	\$21.73
Withholding and Estimated payments for 3 <sup>rd</sup> Quarter	\$271.10	\$288.73	\$283.20	\$303.02	\$302.02	(\$1.00)
Total November Distribution	\$347.90	\$424.08	\$378.73	\$409.61	\$430.34	\$20.73

•Receipts from October 15th Filings and Adjustments are near final income tax receipts due the County for tax year 2017. The State has indicated that the County’s income tax receipts from statewide withholdings and estimated payments for the third quarter of tax year 2018 are 6.6% greater than for tax year 2017 and nearly the same as the estimate for the FY19 Budget.

•Increase of 6.6% in distributed withholdings and estimated payments compared to last year is due to a 6.8% increase in income tax collections from withholdings and estimated payments statewide from November 2017 to November 2018.

## ***Income Tax – Economic Factors***

- Resident employment is estimated to have increased 2.0 percent in CY17 and to increase 1.0 percent in CY18.**
- Personal income is estimated to have increased 4.2 percent in CY17 and to increase 4.8 percent in CY18. Those increases are below the March assumptions of 4.6 percent in CY17 and 5.2 percent in CY18.**
- Wage and salary income is expected to have increased 4.1 percent in CY17 and increase 4.7 percent in CY18. Both increases are below the March 2017 economic assumptions.**
- The revisions are based on the Bureau of Revenue Estimates' (Comptroller of Maryland) September forecasts.**

# ***Property Tax***

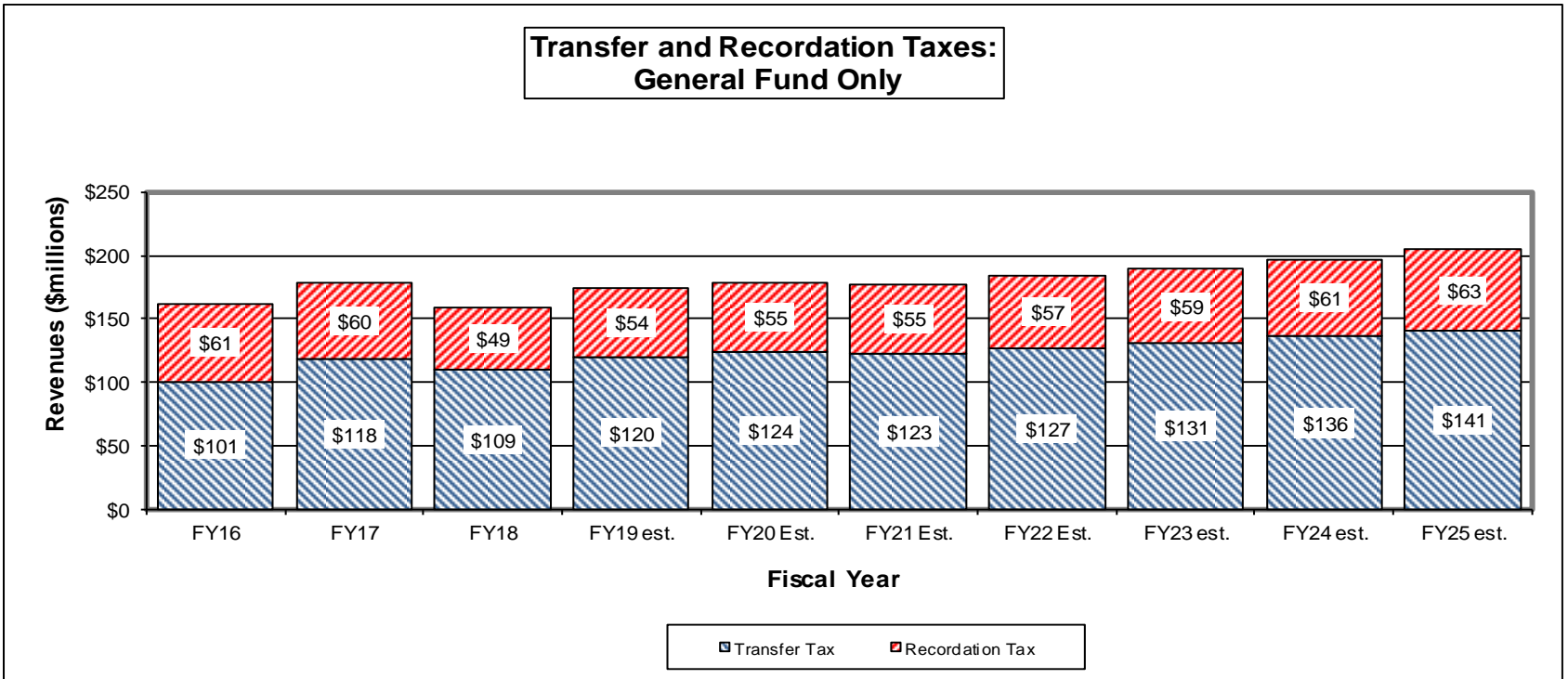
- **The inflation rate is expected to be 2.22 percent in calendar year 2018 (as of September 2018) and above the 1.90 percent assumed in the FY19 Budget.**
- **The reassessment rates for real property for Group One for 2019 (fiscal year 2020) will be released by the Maryland State Department of Assessments and Taxation (SDAT) at the end of December. Preliminary indications are that this group could experience another increase in the real property tax base.**

# ***Transfer and Recordation Taxes***

- Based on transfer tax collections to date, the residential portion of the transfer tax is estimated to experience an increase in FY19 attributed to the growth in the median sales price and above the FY19 budget estimates. Collections from the non-residential real estate market are estimated to experience a modest increase in FY19 attributed to growth in the average tax.**
- Based on transfer collections to date, Finance estimates that the number of residential transfers will increase in FY19 after declining 8.3 percent in FY18.**
- Total transfer tax revenues are expected to increase 10.1 percent in FY19.**
- Reflecting the General Fund rate cut in the recordation tax effective September 1, 2016, total recordation tax revenues are expected to be \$54.0 million in FY19.**

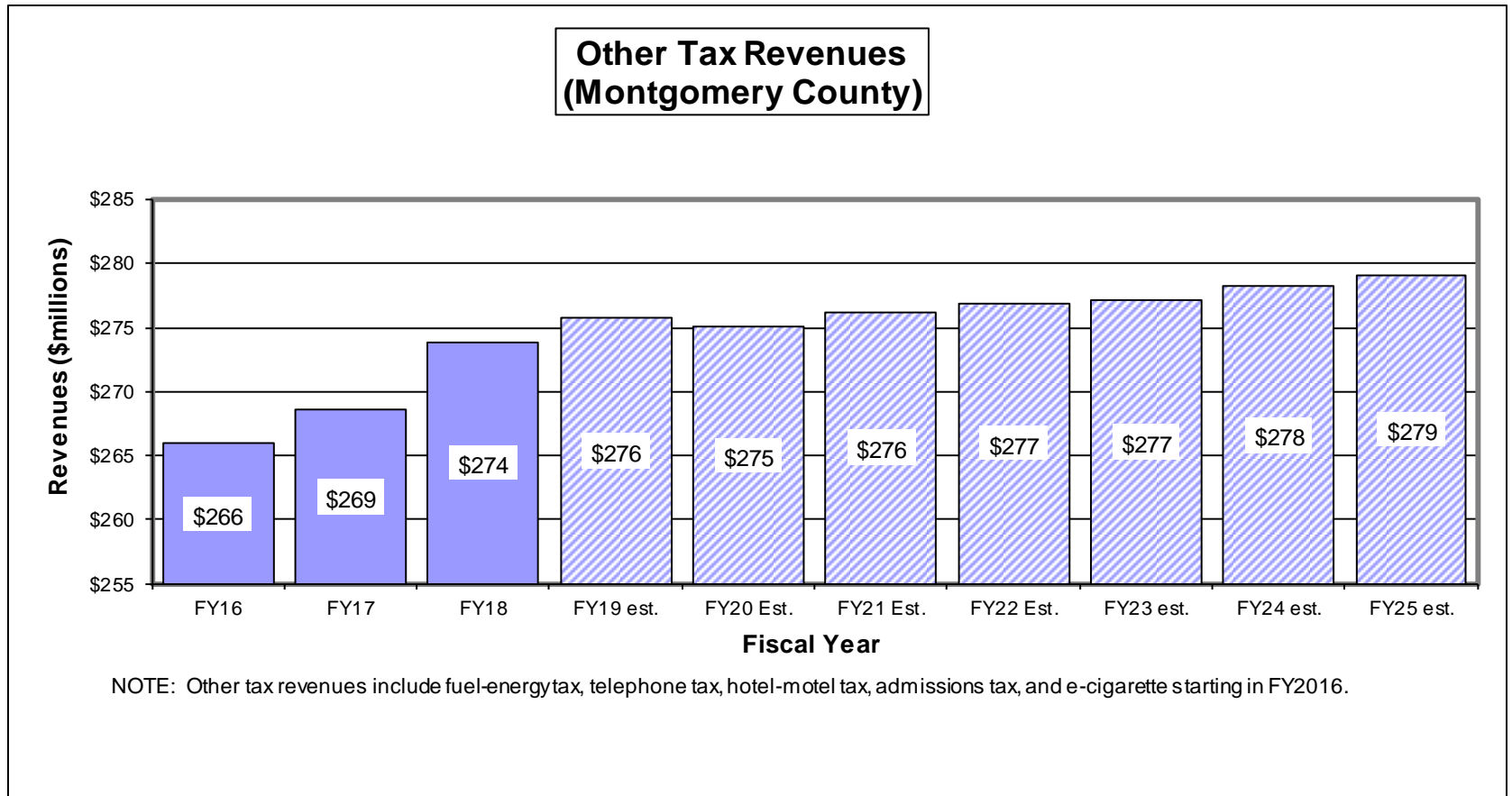
# Transfer and Recordation Taxes

Since reaching an all time high of \$241.7 million in FY06, transfer and recordation taxes declined to \$127.3 million in FY12. With the cut in the tax rate in the General Fund portion of the recordation tax, the transfer and recordation taxes for the General Fund are estimated to reach \$204.2 million by FY25 – \$37.5 million below the FY06 peak year but increase at an average annual rate of 3.7 percent since FY18.



# Other Tax Revenues

**Other tax revenues are estimated to increase 0.7 percent in FY19 over budget estimates due to an estimated increase in fuel-energy, admissions, and e-cigarette tax revenues. Over the current two-year period (FY19-FY20), total other tax revenues are estimated to be \$3 million above FY19 budget estimates largely attributed to the increase in energy tax revenues.**



# ***Risks to Revenue Forecasts***

- The impact on the County income tax revenues attributed to the Tax Cut and Jobs Act (TCJA) enacted by the Congress in December 22, 2017.**
- A stock market contraction and the effects of tax planning by wealthy County taxpayers attributed to the TCJA over the forecast period would affect the November reconciling income tax distribution and therefore total income tax revenues.**
- Inflation running below the economic assumptions that could affect property tax revenues at the Charter Limit.**
- Sales of existing homes and prices that could be affected by the effect of the TCJA and increases in ten year U.S. Treasury rate that impact mortgage rates.**
- A revised downward forecast of the state’s economy by the Board of Revenue Estimates that would affect the economic assumptions.**
- Revisions to current County employment and income data by federal and state agencies.**