
Montgomery County, Maryland

**DECEMBER 2016
REVENUE UPDATE AND
SELECTED ECONOMIC
INDICATORS**

Department of Finance



December 13, 2016

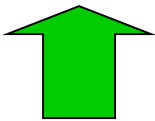
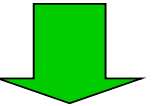

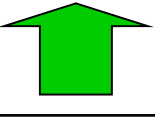
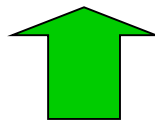
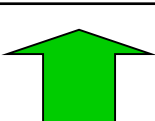
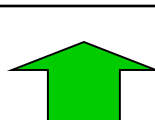
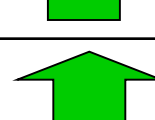
Overview

- **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

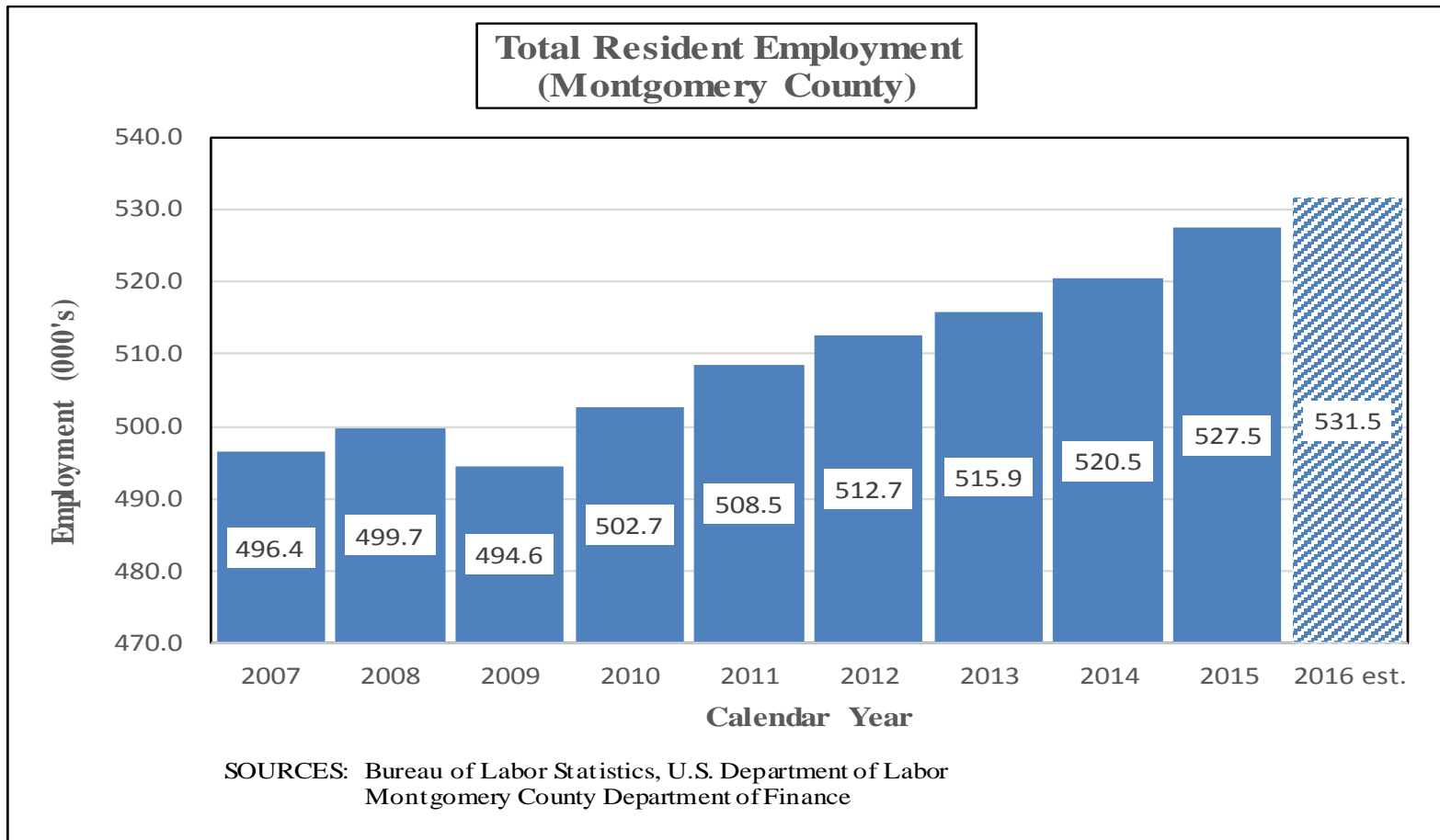
Signs of a Continued Economic Recovery

- A drop in unemployment rate from 4.0 percent in October 2015 to 3.4 percent in October 2016, a modest increase in resident employment estimated for CY16 ($\uparrow 0.8\%$), and an estimated increase in wage and salary income in CY16 ($\uparrow 4.6\%$) that follows an increase of 4.9 percent in CY15.**
- Payroll employment is expected to increase 0.7 percent in CY16 that follows a 1.4 percent increase in CY15.**
- Sales of existing homes are expected to increase 6.4 percent in CY16 after increasing 11.1 percent in CY15.**

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON	DIRECTION (yr.-over-yr.)
INFLATION	0.83% Sept. 2016	Property Taxes	Key determinant of property tax revenues at the Charter Limit	2015: 0.33%	
UNEMPLOYMENT RATE	3.4% Oct. 2016	Income Taxes	Indicates overall health of the job market	4.0% Oct. 2015	
RESIDENT EMPLOYMENT	537,935 Oct. 2016	Income Taxes	Primary determinant of income tax receipts	528,963 Oct. 2015	
PAYROLL EMPLOYMENT (Estimated)	495,200 Oct. 2016	Income Taxes	Another determinant of income tax receipts	487,200 Oct. 2015	
STOCK MARKET - S&P 500	2,198.81 Nov. 30, 2016	Income Taxes	Key determinant of capital gains portion of the income tax	2,043.94 Dec. 31, 2015	
HOME SALES	1,005 Oct. 2016	Transfer/Recordation Taxes	Indicates activity affecting receipts	935 Oct. 2015	
HOME PRICES (Median Price Sold)	\$403,488 Oct. 2016	Transfer/Recordation Taxes	Taxes are based on values, affects amount of taxes collected	\$389,000 Oct. 2015	
FEDERAL FUNDS RATE	0.40% Nov. 2016	Investment Income	County's return on investments closely correlated with the Fed Funds	0.12% Nov. 2015	

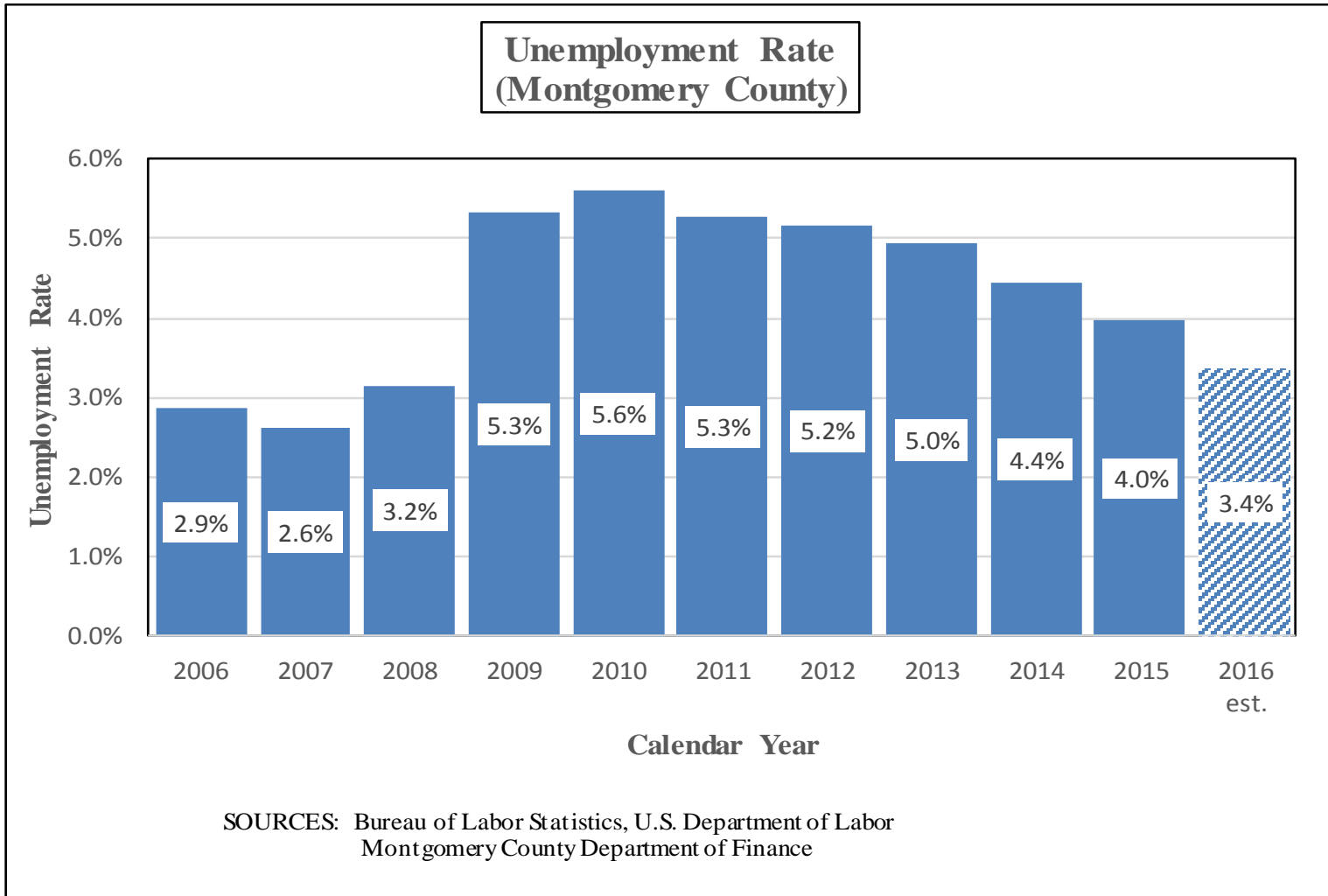
Department of Finance estimates that the County's resident employment will reach 531,500 in CY16 (↑0.8%) over CY15.

On a year-over-year basis, resident employment increased by over 8,900 from October 2015 to October of this year.



The Department of Finance estimates that the County's unemployment rate will decline to 3.4 percent in CY16 – an eight-year low.

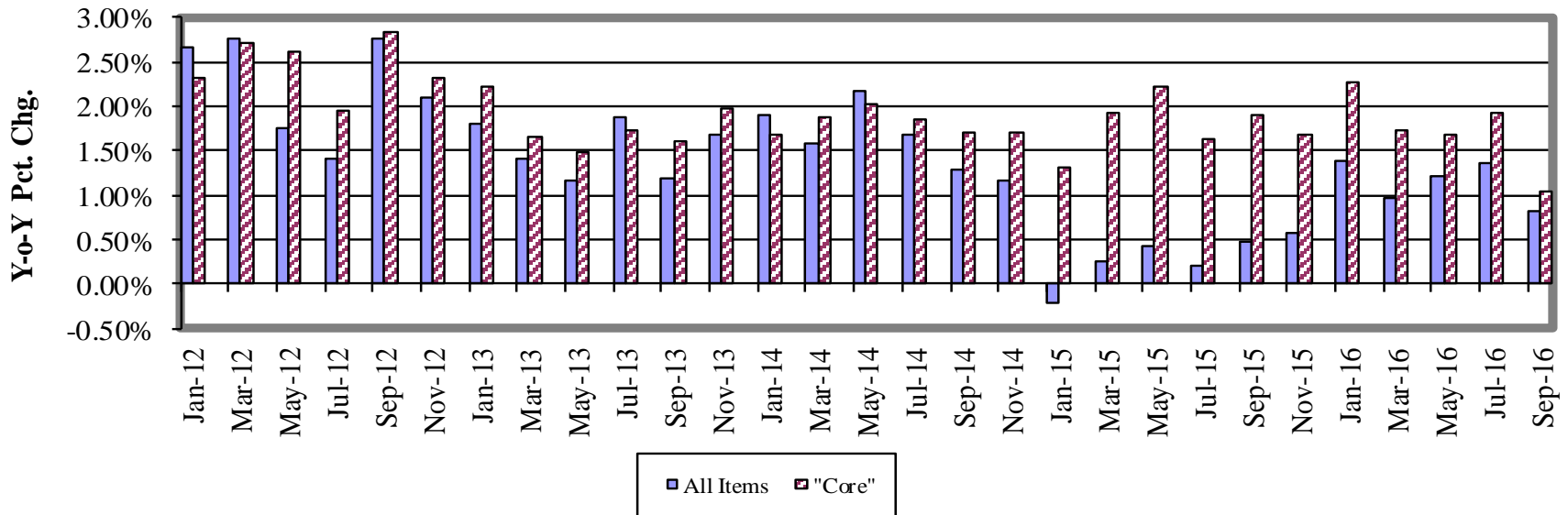
The unemployment rate in October was 3.4 percent compared to 4.0 percent in October 2015.



Inflation was 0.83 percent in September 2016.

Overall for the Washington-Baltimore consolidated region, the CPI has increased 1.16 percent for the calendar year ending in September. For calendar year 2015, the index increased a modest 0.33 percent compared to 1.54 percent in CY14.

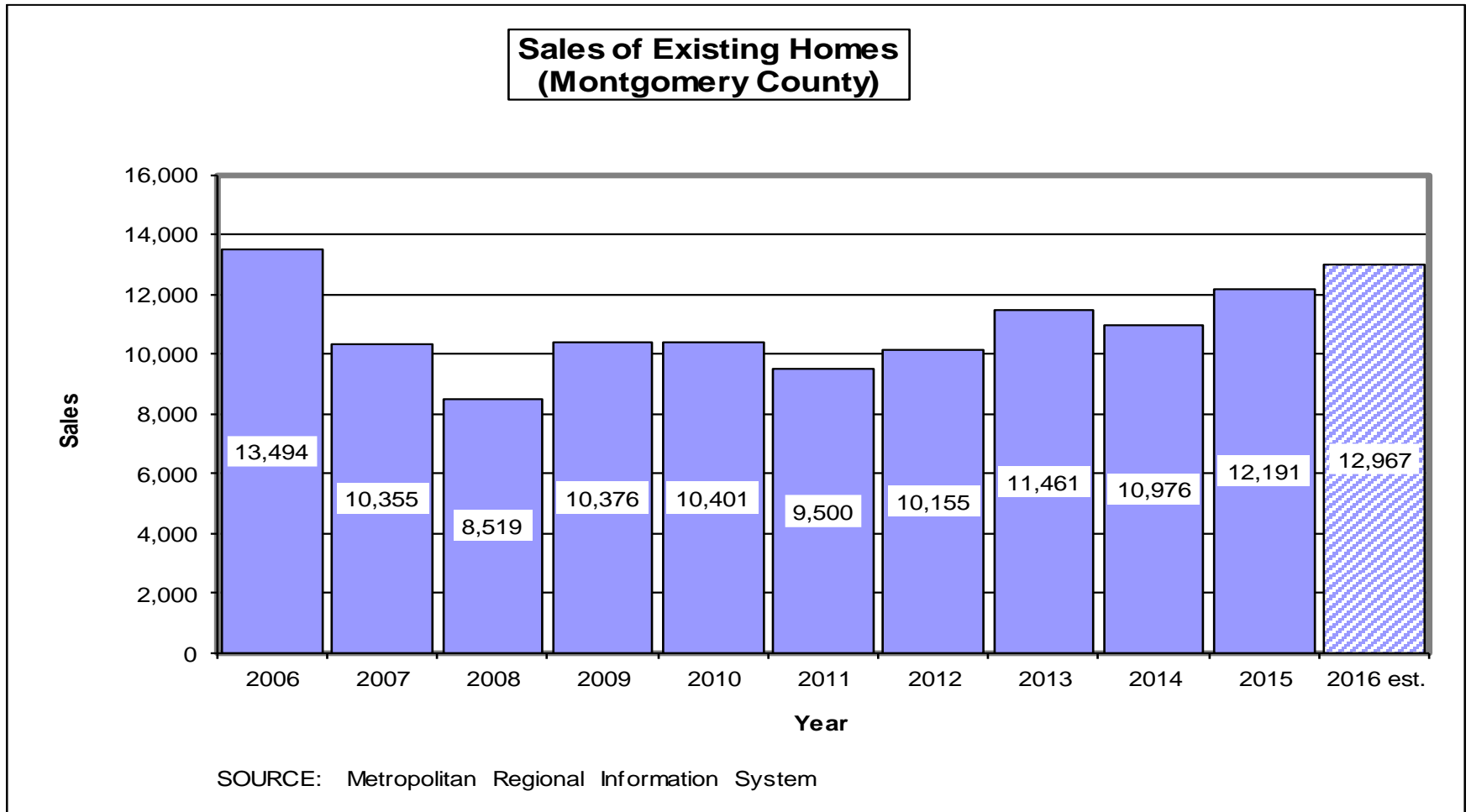
**Year-over-Year Percent Change in Consumer Price Index
Washington-Baltimore CMSA**



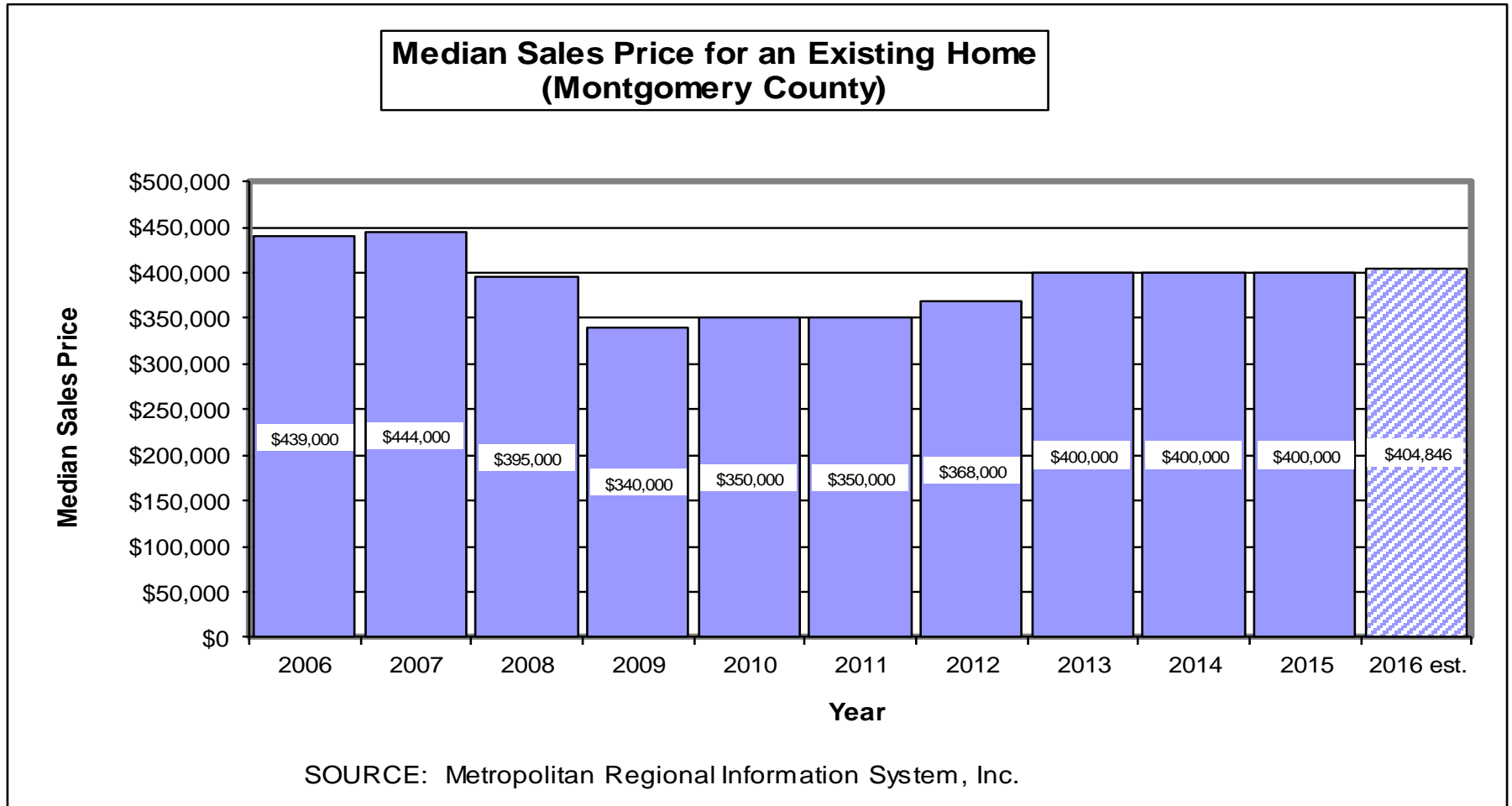
SOURCE: Bureau of Labor Statistics, U.S. Department. of Labor

Home sales are estimated to increase 6.4 percent this year to a ten-year high.

Total sales of existing homes decreased 4.2 percent in CY14 but increased 11.1 percent in CY15.



Median home sales prices are expected to increase 1.2 percent in CY16 following no increases in CY14 and CY15.



REVENUE UPDATE

FY17 and FY18 Summary

The outlook for the remainder of this fiscal year (FY17) and next year (FY18) suggests a modest decline in revenues over the two-year period compared to the estimates prepared for the FY17 budget. This decrease is mainly attributed to revisions to income tax, property tax, transfer-recordation, and fuel-energy tax revenues. The combined decrease of all tax-supported revenues in FY17 and FY18 is \$25.6 million lower than previously estimated.

Revenue Update

December revised revenues for FY17 are \$3.852 million below the FY17 Budget estimates. The major contributors are the estimated decreases in the property and transfer/recording tax revenues but partially offset by an increase in income taxes.

	FY17 BUDGET - DECEMBER 2016 UPDATE (\$MIL.)		
	FY17 Budget	Dec. Update	Difference
Income	\$1,487.577	\$1,497.201	\$9.624
Property	\$1,738.669	\$1,735.234	(\$3.435)
Transfer/Recordation	\$165.801	\$157.303	(\$8.498)
Other Taxes:			
--Admissions	\$3.066	\$3.194	\$0.128
--Fuel/Energy	\$203.990	\$202.204	(\$1.786)
--Telephone	\$50.309	\$50.957	\$0.648
--Hotel/Motel	\$20.637	\$20.053	(\$0.584)
Investment Income	n.a	n.a	n.a
Highway User Revenue	\$3.742	\$3.740	(\$0.002)
E-Cigarettes	\$0.338	\$0.393	\$0.054
TOTAL	\$3,674.130	\$3,670.278	(\$3.852)

Revenue Update

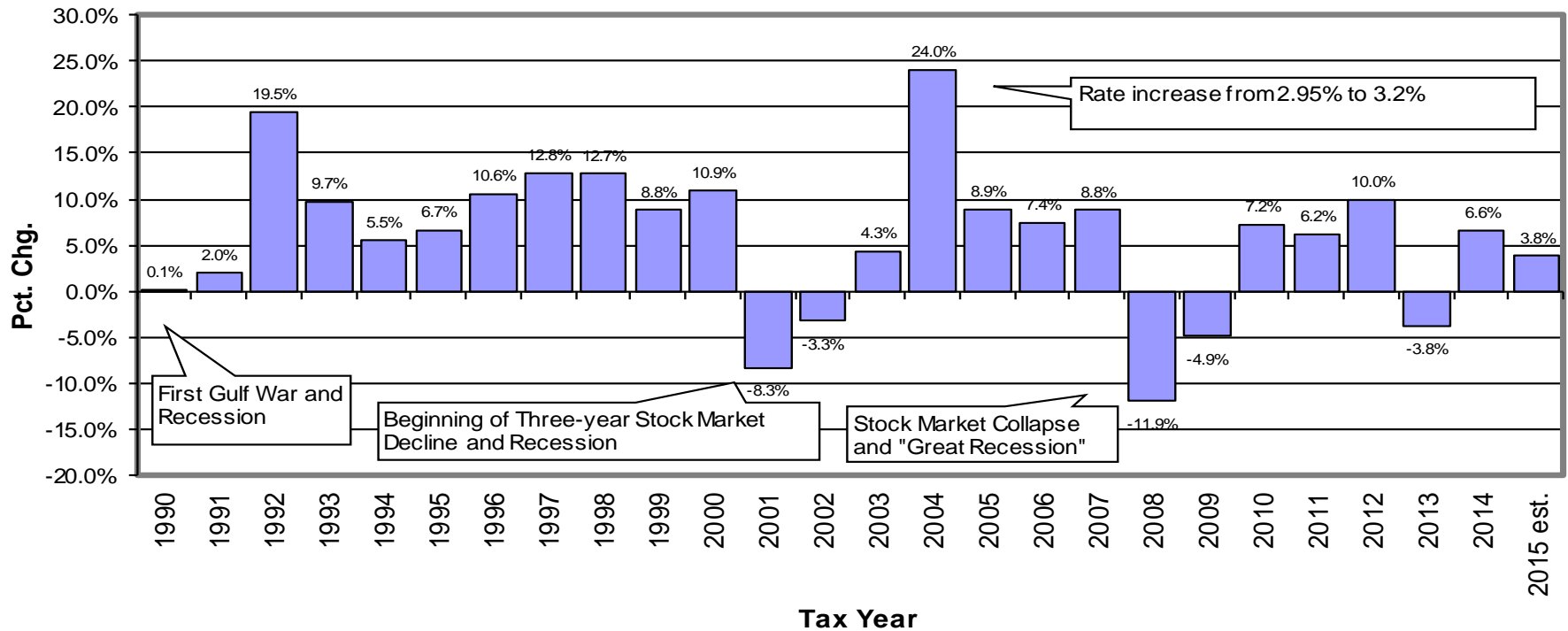
December revised revenue estimates for FY18 are \$21.613 million below the FY17 Budget estimates. The decrease is attributed to weaker income and property tax revenues.

	FY17 BUDGET - DECEMBER 2016 UPDATE (\$MIL.)		
	FY18 Estimate	Dec. Update	Difference
Income	\$1,582.157	\$1,570.447	(\$11.710)
Property	\$1,779.222	\$1,769.091	(\$10.131)
Transfer/Recordation	\$169.642	\$170.893	\$1.251
Other Taxes:			
--Admissions	\$3.244	\$3.290	\$0.046
--Fuel/Energy	\$206.554	\$204.333	(\$2.221)
--Telephone	\$50.767	\$52.504	\$1.737
--Hotel/Motel	\$21.371	\$20.676	(\$0.695)
Investment Income	n.a	n.a	n.a
Highway User Revenue	\$3.742	\$3.790	\$0.048
E-Cigarettes	\$0.349	\$0.412	\$0.063
TOTAL	\$3,817.048	\$3,795.435	(\$21.613)

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.

Annual Percent Change in Income Tax Revenues from Withholdings, Estimated Payments, October 15 Filings, and Revenue Adjustments



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

- **The largest share (five year average of nearly 81.2%) 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 2015 in November 2016) 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., 2015 tax year final results affect quarterly distributions for this fiscal year).**
- **Income tax revenues represented 47.8 percent of total General Fund tax revenues in FY16 and nearly 46.0 percent of the County’s total General Fund revenues.**

Income Tax – November distributions

(millions)	Actual FY14	Actual FY15	Actual FY16	Estimated FY17	Actual FY17	Difference Actual/Estimate FY17
October 15 th Filings and Adjustments	\$167.61	\$79.13	76.80*	\$135.02	\$135.35	\$0.33
Withholding and Estimated payments for 3 rd Quarter	\$258.47	\$261.64	\$271.10	\$283.28	\$288.73	\$5.45
Total November Distribution	\$426.08	\$340.77	\$347.90	\$418.30	\$424.08	\$5.78

* According to the Comptroller of Maryland, not all returns for October 15 filings were processed for the November distribution

•Increase 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 2015 as compared to tax year 2014. The State has indicated that the County’s income tax receipts from withholdings and estimated payments for the third quarter of tax year 2016 are 6.5% higher than for tax year 2015 and above the estimate for the FY17 Budget.

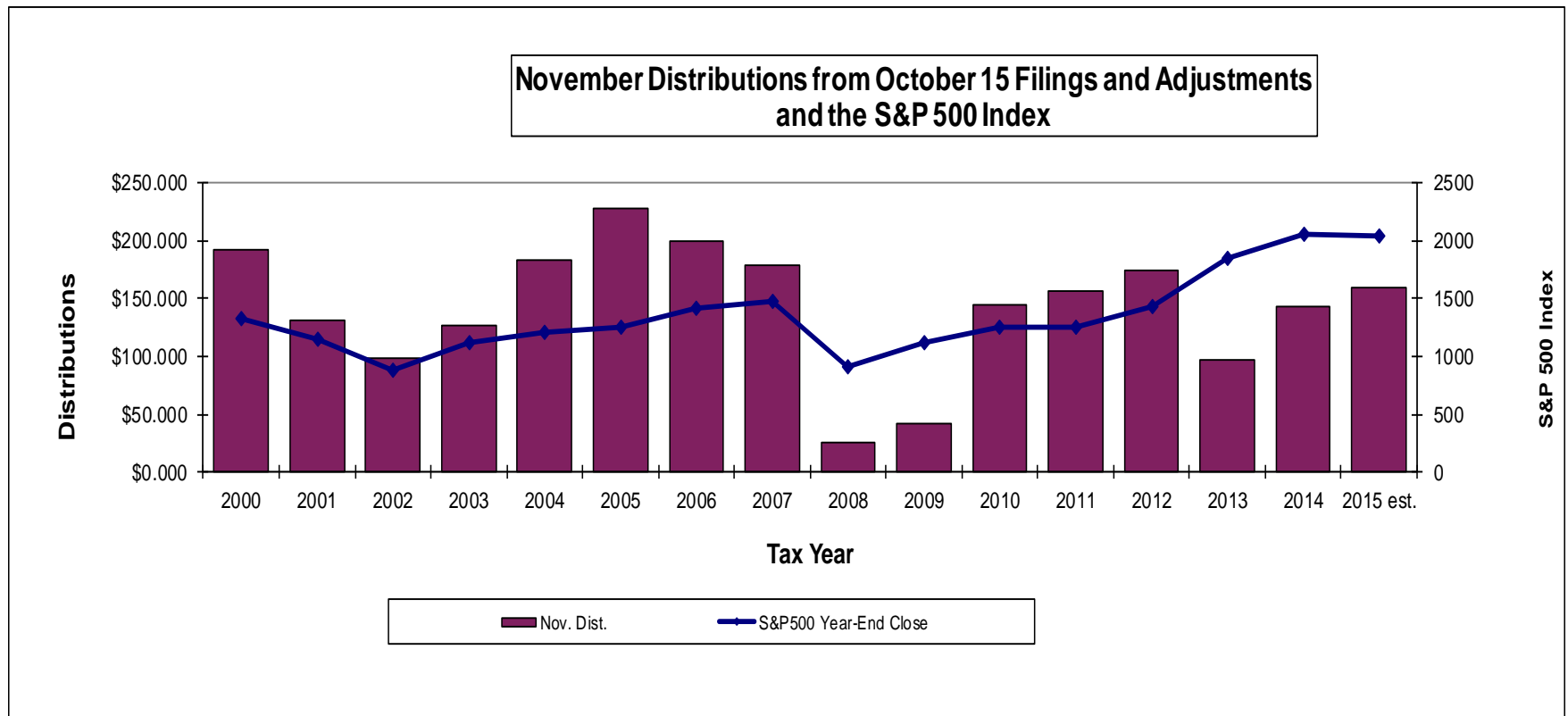
•Increase of 6.5% in actual withholdings and estimated payments compared to last year is due to a 6.2% increase in income tax collections from withholdings and estimated payments statewide from November 2015 to November 2016.

Income Tax – Economic Factors

- Resident employment is expected to increase 0.8 percent in CY16 and increase 0.5 percent in CY17. Those increases are lower compared to March 2016 economic assumptions of 1.1 percent increase in CY16 and 0.8 percent in CY17.**
- Personal income is estimated to increase 4.0 percent in CY16 and 4.6 percent in CY17. Those increases are below the March assumptions of 4.9 percent in CY16 and 5.5 percent in CY17.**
- Wage and salary income is expected to increase 4.6 percent in CY16 and increase 4.2 percent in CY17. The increase in CY16 is above the March 2016 economic assumption (4.4%) but below the CY17 March economic assumption of 4.5 percent.**
- The revisions are based on the Bureau of Revenue Estimates' (Comptroller of Maryland) September forecasts.**
- The revised economic assumptions will result in a reduction in the estimated income tax revenues from FY18 to FY22 compared to the estimates in the FY17 Approved Budget.**

Income Tax

The amount of revenues from the November distribution has been correlated to the stock market (S&P 500 Index) with the exception of 2013 attributed to fiscal cliff (TY2013).



Property Tax

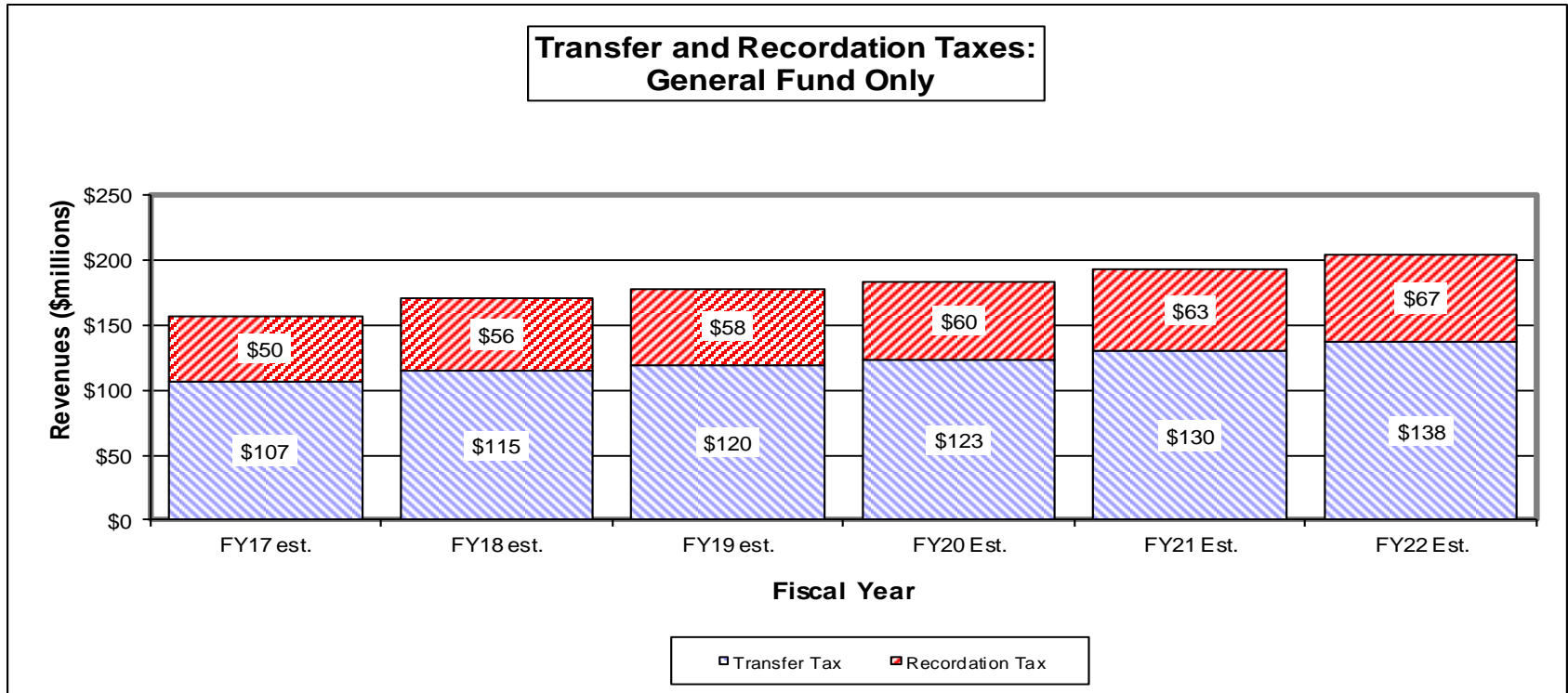
- **The inflation rate is expected to be 1.20 percent in calendar year 2016 which is lower than the 1.30 percent assumed in the FY17 Approved Budget. Since the previous inflation rate of 1.30 percent was used to derive the property tax revenues at the Charter Limit for FY18, the lower rate of 1.20 percent will reduce the estimated tax revenues for FY18 at the Charter Limit.**
- **The reassessment rates for real property for Group Two for fiscal year 2018 will be released by the Maryland State Department of Assessments and Taxation (SDAT) at the end of December. Preliminary indications are that this group will experience an increase in the real property tax base.**

Transfer and Recordation Taxes

- Home sales are expected to increase 6.4 percent in CY16 and median prices are estimated to increase 1.2 percent. Based on transfer tax collections to date, the residential and non-residential real estate market is estimated to experience growth in FY17 albeit below FY17 budget estimates.**
- Because of the estimated increase of home sales in CY16 and a modest increase in CY17, Finance estimates that the number of residential transfers increases 4.4 percent in FY17.**
- Total transfer tax revenues on residential transactions are expected to increase 9.8 percent in FY17.**
- Reflecting the General Fund rate cut in the recordation tax effective September 1, total recordation tax revenues are expected to be slightly above \$50.3 million.**

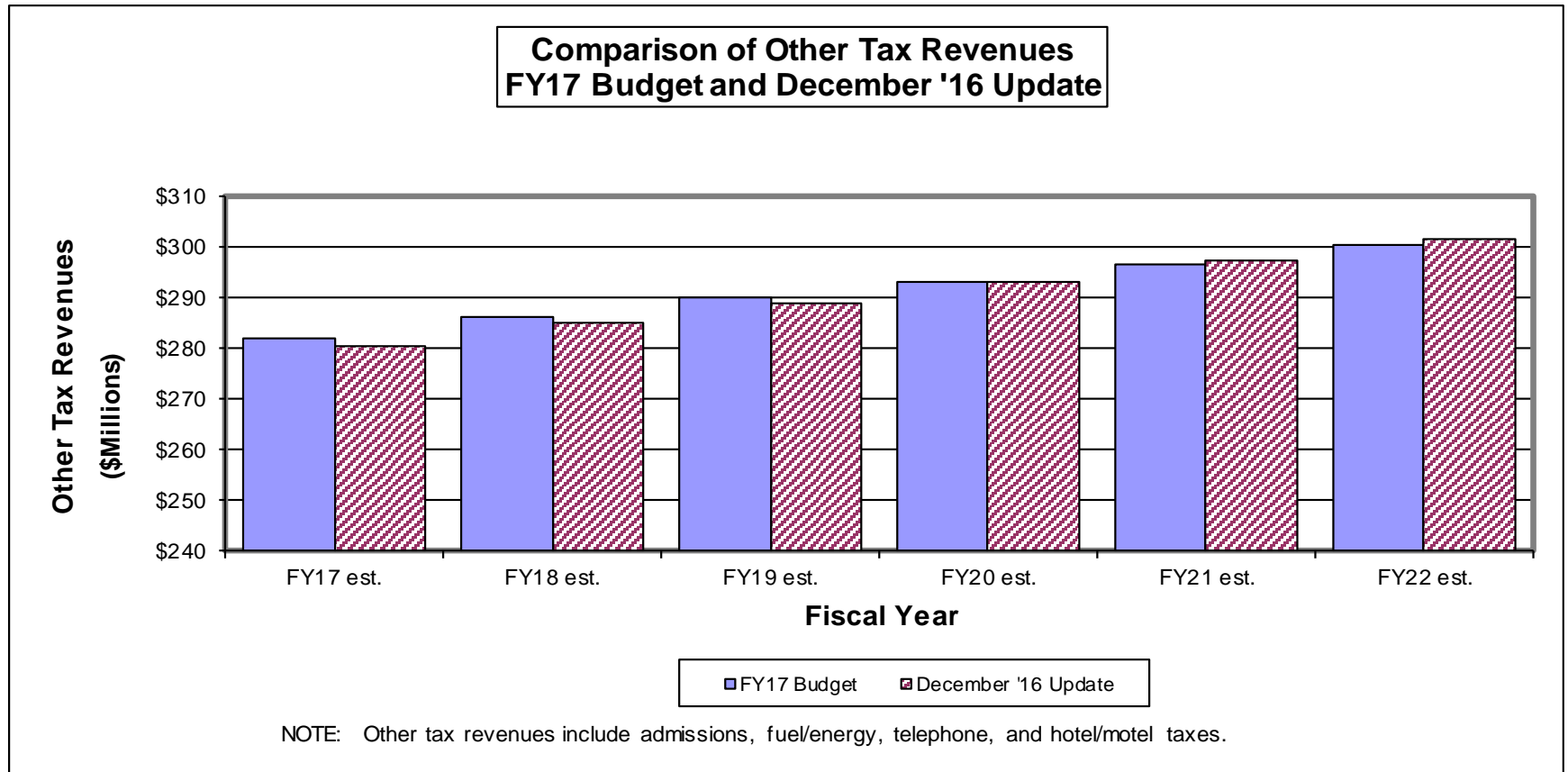
Transfer and Recordation Taxes

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 from \$4.40 per \$1,000 to \$4.16 per \$1,000, the transfer and recordation taxes for the General Fund are estimated to reach \$204.5 million by FY22 – \$37.2 million below the FY06 peak.



Other Tax Revenues

Other tax revenues are estimated to decrease 0.4 percent in FY17 over budget estimates due to estimated decrease in fuel and energy and hotel-motel tax revenues. Over the current six-year period (FY17-FY22), total other tax revenues are estimated to be \$1.6 million below FY17 budget estimates.



Risks to Revenue Forecasts

- A stock market contraction 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 rate changes in the recordation taxes and increases in ten year U.S. Treasury rate that would affect 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.**