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**Montgomery County, Maryland**

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**DECEMBER 2017  
REVENUE UPDATE AND  
SELECTED ECONOMIC  
INDICATORS**

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**Department of Finance**

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**December 12, 2017**

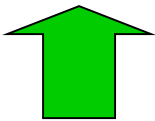
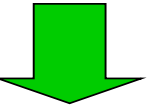


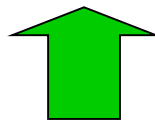
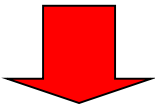


## *Overview*

- **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**

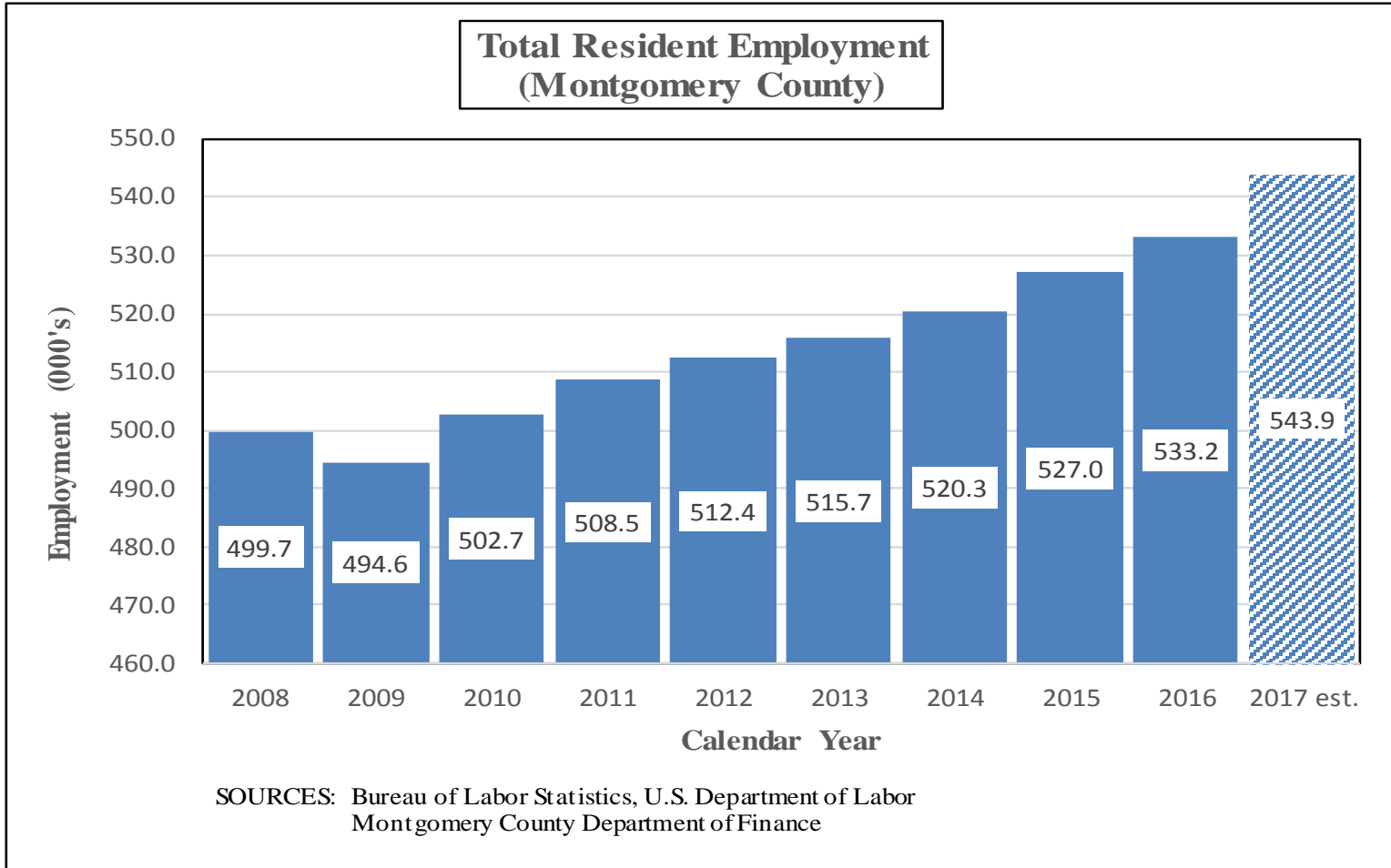
## ***Signs of a Continued Economic Growth***

- A drop in unemployment rate from 3.4 percent in October 2016 to 3.1 percent in October 2017, an increase in resident employment estimated for CY17 ( $\uparrow 2.0\%$ ), and an estimated increase in wage and salary income in CY17 ( $\uparrow 4.1\%$ ) that follows an increase of 4.2 percent in CY16.**
- Payroll employment is expected to increase 1.9 percent in CY17 that follows a 0.9 percent increase in CY16.**
- Sales of existing homes are expected to increase 0.1 percent in CY17 after increasing 5.8 percent in CY16.**

| <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                           | 1.73%<br>Sept. 2017       | Property Taxes                 | Key determinant of property tax revenues at the Charter Limit        | 2016: 1.18%              |    |
| UNEMPLOYMENT RATE                   | 3.1%<br>Oct. 2017         | Income Taxes                   | Indicates overall health of the job market                           | 3.4%<br>Oct. 2016        |    |
| RESIDENT EMPLOYMENT                 | 551,245<br>Oct. 2017      | Income Taxes                   | Primary determinant of income tax receipts                           | 537,128<br>Oct. 2016     |    |
| PAYROLL EMPLOYMENT (QCEW Data)      | 466,414<br>Mar. 2017      | Income Taxes                   | Another determinant of income tax receipts                           | 460,384<br>Mar. 2016     |    |
| STOCK MARKET - S&P 500              | 2,647.58<br>Nov. 30, 2017 | Income Taxes                   | Key determinant of capital gains portion of the income tax           | 2,198.81<br>Nov 30, 2016 |    |
| HOME SALES                          | 985<br>Oct. 2017          | Transfer/<br>Recordation Taxes | Indicates activity affecting receipts                                | 1,002<br>Oct. 2016       |    |
| HOME PRICES (Median Price Sold)     | \$398,000<br>Oct. 2017    | Transfer/<br>Recordation Taxes | Taxes are based on values, affects amount of taxes collected         | \$403,488<br>Oct. 2016   |  |
| FEDERAL FUNDS RATE                  | 1.16%<br>Nov. 2017        | Investment Income              | County's return on investments closely correlated with the Fed Funds | 0.41%<br>Nov. 2016       |  |

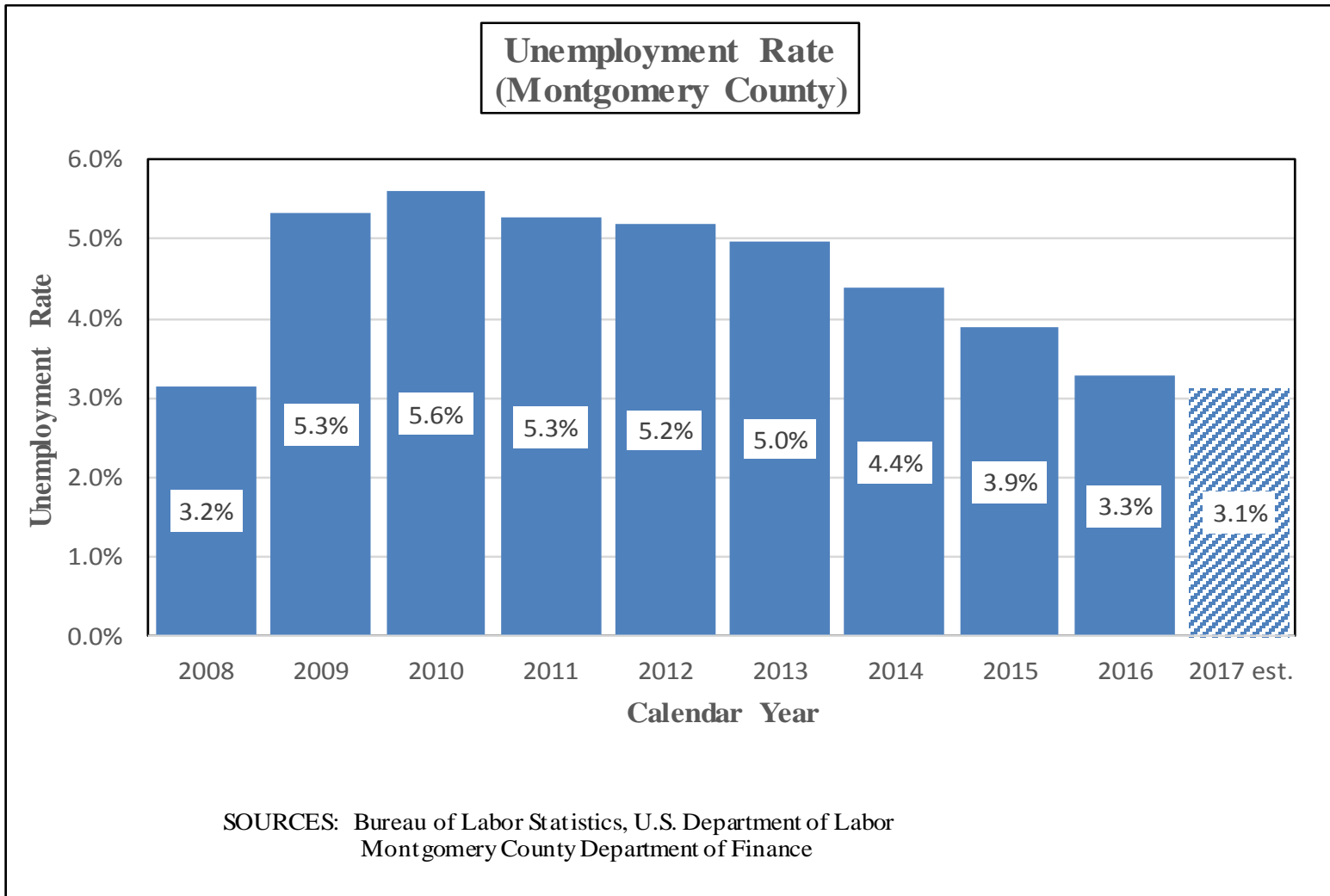
**Department of Finance estimates that the County's resident employment will reach 543,900 in CY17 (↑2.0%) over CY16.**

On a year-over-year basis, resident employment increased by over 14,000 from October 2016 to October of this year.



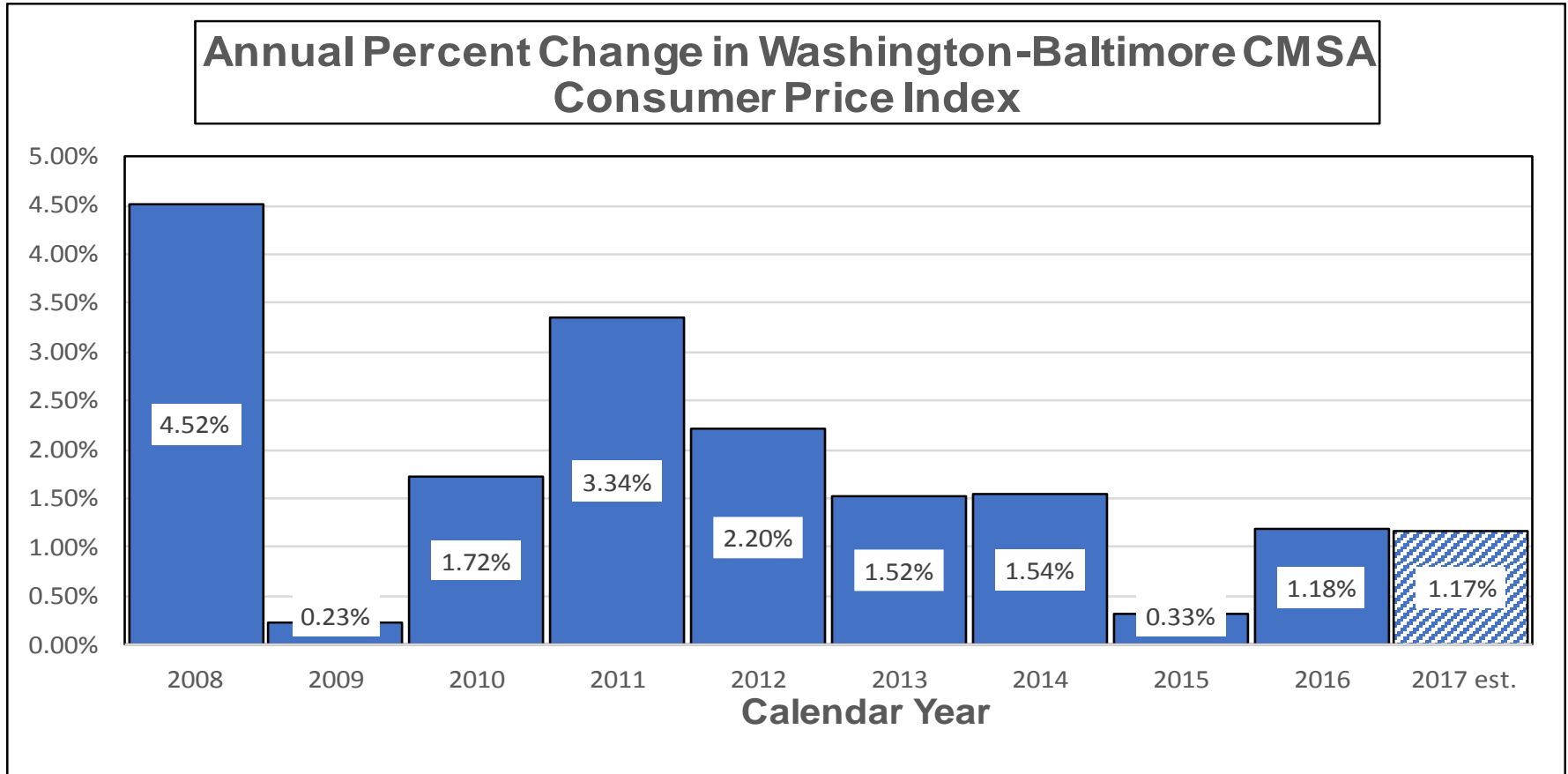
**The Department of Finance estimates that the County's unemployment rate will decline to 3.1 percent in CY17 – a ten-year low.**

The unemployment rate in October was 3.1 percent compared to 3.4 percent in October 2016.



## ***Inflation increased 1.73 percent in September 2017.***

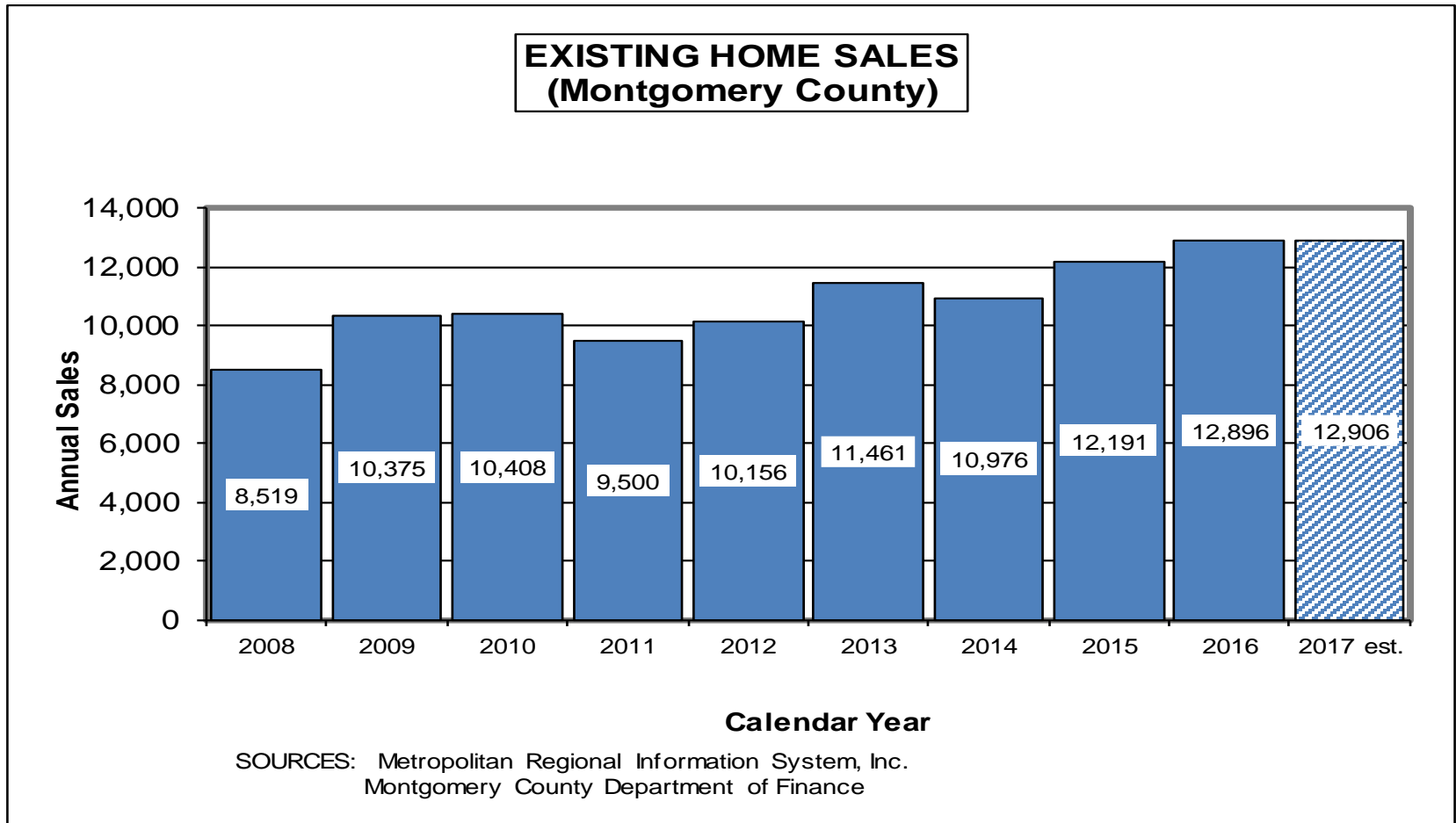
**Overall for the Washington-Baltimore consolidated region, the CPI has increased 1.17 percent for the calendar year ending in September. For calendar year 2016, the index increased a modest 1.18 percent compared to 0.33 percent in CY15.**



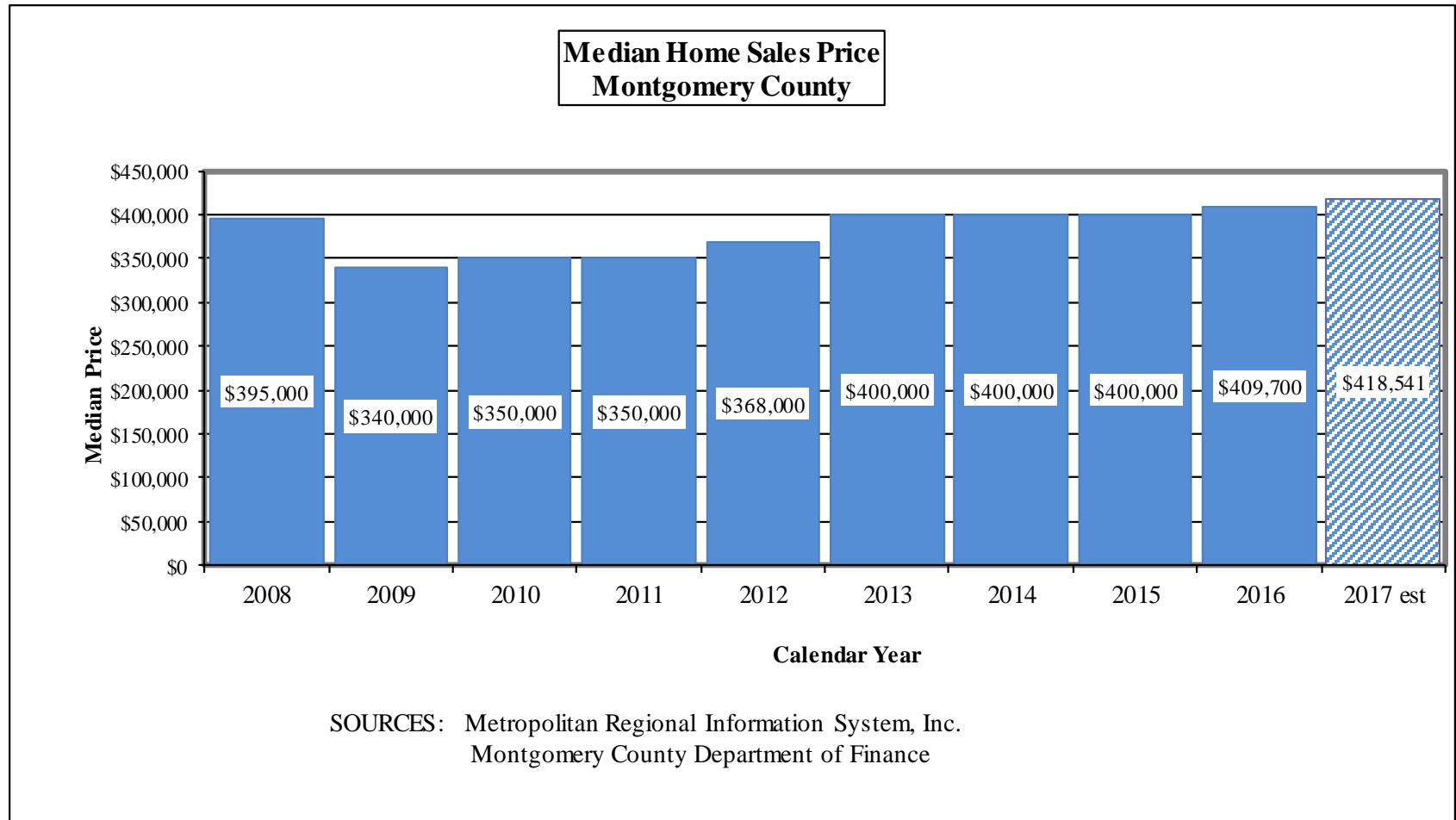


***Home sales are estimated to increase 0.1 percent this year.***

**Total sales of existing homes increased 11.1 percent in CY15 and increased 5.8 percent in CY16.**



**Median home sales prices are expected to increase 2.2 percent in CY17 following an increase of 2.4 percent in CY16.**



# REVENUE UPDATE

## ***FY18 and FY19 Summary***

**The outlook for the remainder of this fiscal year (FY18) and next year (FY19) suggests a decline in revenues over the two-year period compared to the estimates prepared for the FY18 budget. This decrease is mainly attributed to revisions to income tax, property tax, transfer-recordation tax, and fuel-energy tax revenues. The combined decrease of all tax-supported revenues in FY18 and FY19 is nearly \$181.0 million lower than previously estimated.**

# Revenue Update

*December revised revenues for FY18 are \$94.9 million below the FY18 Budget estimates. The major contributors are the estimated decreases in the income tax, transfer/recordation tax, and fuel-energy tax revenues.*

|                      | FY18 BUDGET - DECEMBER 2017 UPDATE (\$MIL.) |                    |                   |
|----------------------|---|--------------------|-------------------|
|                      | FY18 Budget                                 | Dec. Update        | Difference        |
| Income               | \$1,557.887                                 | \$1,479.083        | (\$78.805)        |
| Property             | \$1,770.152                                 | \$1,769.271        | (\$0.881)         |
| Transfer/Recordation | \$170.437                                   | \$167.894          | (\$2.542)         |
| Other Taxes:         |   |                    |                   |
| --Admissions         | \$3.290                                     | \$3.469            | \$0.179           |
| --Fuel/Energy        | \$204.333                                   | \$192.147          | (\$12.186)        |
| --Telephone          | \$52.504                                    | \$51.783           | (\$0.721)         |
| --Hotel/Motel        | \$21.938                                    | \$21.849           | (\$0.089)         |
| Investment Income    | n.a   | n.a                | n.a               |
| Highway User Revenue | \$3.702                                     | \$3.742            | \$0.039           |
| E-Cigarettes         | \$0.412                                     | \$0.502            | \$0.090           |
| <b>TOTAL</b>         | <b>\$3,784.655</b>                          | <b>\$3,689.739</b> | <b>(\$94.916)</b> |

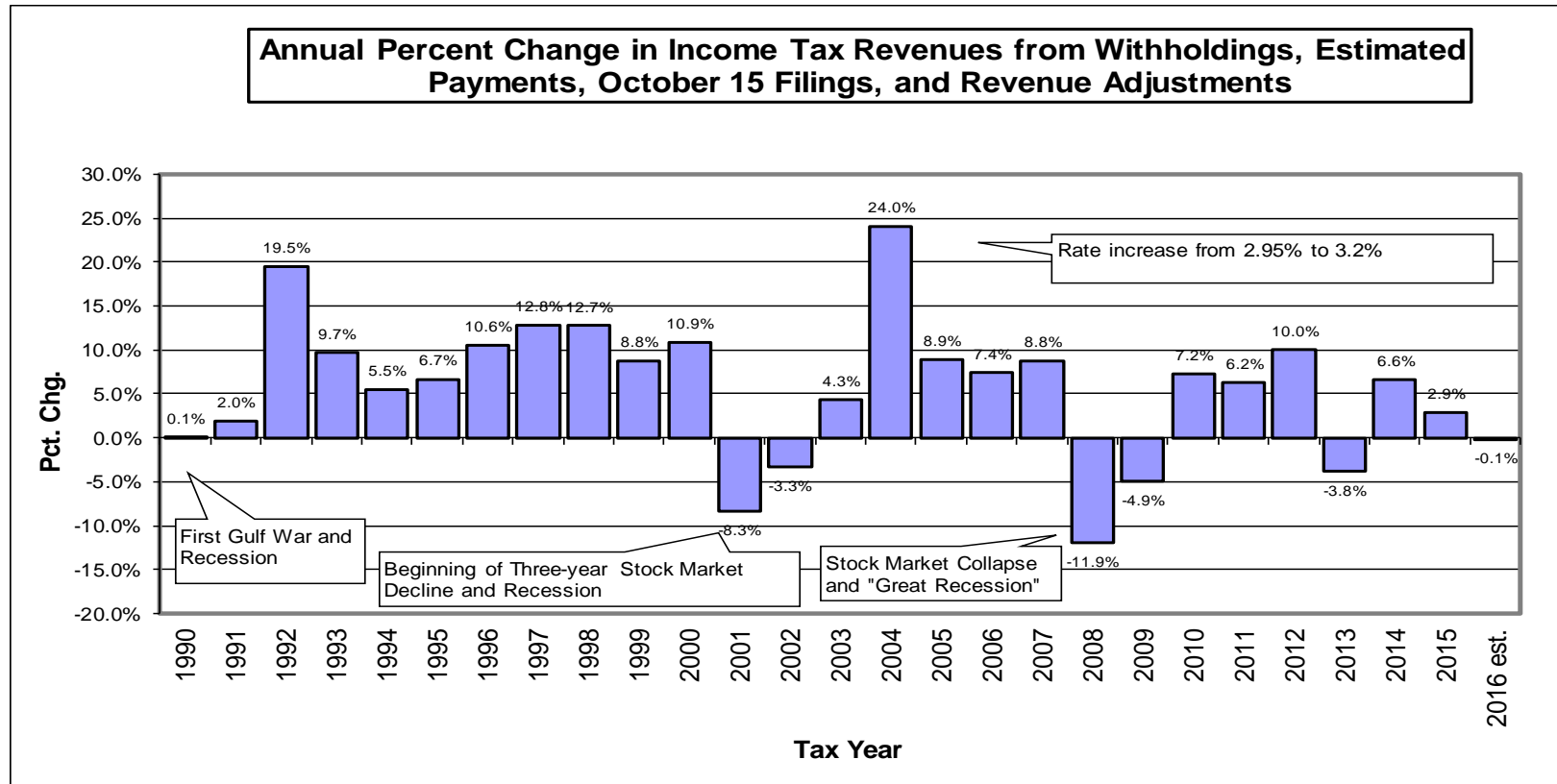
# Revenue Update

**December revised revenue estimates for FY19 are \$86.0 million below the FY18 Budget estimates. The decrease is attributed to weaker income, property, transfer-recordation, and fuel-energy tax revenues.**

|                      | FY18 BUDGET - DECEMBER 2017 UPDATE (\$MIL.) |                    |                   |
|----------------------|---|--------------------|-------------------|
|                      | FY19 Estimate                               | Dec. Update        | Difference        |
| Income               | \$1,623.341                                 | \$1,569.027        | (\$54.314)        |
| Property             | \$1,824.952                                 | \$1,811.454        | (\$13.498)        |
| Transfer/Recordation | \$174.636                                   | \$170.927          | (\$3.709)         |
| Other Taxes:         |   |                    |                   |
| --Admissions         | \$3.396                                     | \$3.580            | \$0.184           |
| --Fuel/Energy        | \$206.057                                   | \$192.029          | (\$14.028)        |
| --Telephone          | \$54.051                                    | \$53.469           | (\$0.582)         |
| --Hotel/Motel        | \$22.511                                    | \$22.266           | (\$0.245)         |
| Investment Income    | n.a   | n.a                | n.a               |
| Highway User Revenue | \$3.719                                     | \$3.799            | \$0.080           |
| E-Cigarettes         | \$0.430                                     | \$0.521            | \$0.091           |
| <b>TOTAL</b>         | <b>\$3,913.092</b>                          | <b>\$3,827.071</b> | <b>(\$86.021)</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 – “It is all about the November distribution”.***

- **The largest share (five year average of 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 2016 in November 2017) 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., 2016 tax year final results affect quarterly distributions for this fiscal year starting in November).**
- **Income tax revenues represented 46.1 percent of total General Fund tax revenues in FY17 and 44.1 percent of the County’s total General Fund revenues.**



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

| (millions)  | Actual<br>FY15 | Actual<br>FY16 | Actual<br>FY17 | Estimated<br>FY18 | Actual<br>FY18 | Difference<br>Actual/Estimate<br>FY18 |
|---|----------------|----------------|----------------|-------------------|----------------|---------------------------------------|
| October 15 <sup>th</sup> Filings and Adjustments                  | \$79.13        | \$76.80        | \$135.35       | \$156.73          | \$95.53        | (\$61.20)                             |
| Withholding and Estimated payments<br>for 3 <sup>rd</sup> Quarter | \$261.64       | \$271.10       | \$288.73       | \$303.74          | \$283.20       | (\$20.54)                             |
| Total November Distribution                                       | \$340.77       | \$347.90       | \$424.08       | \$460.47          | \$378.73       | (\$81.74)                             |

•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 2016 as compared to tax year 2015. The State has indicated that the County’s income tax receipts from withholdings and estimated payments for the third quarter of tax year 2017 are 1.9% lower than for tax year 2016 and below the estimate for the FY18 Budget.

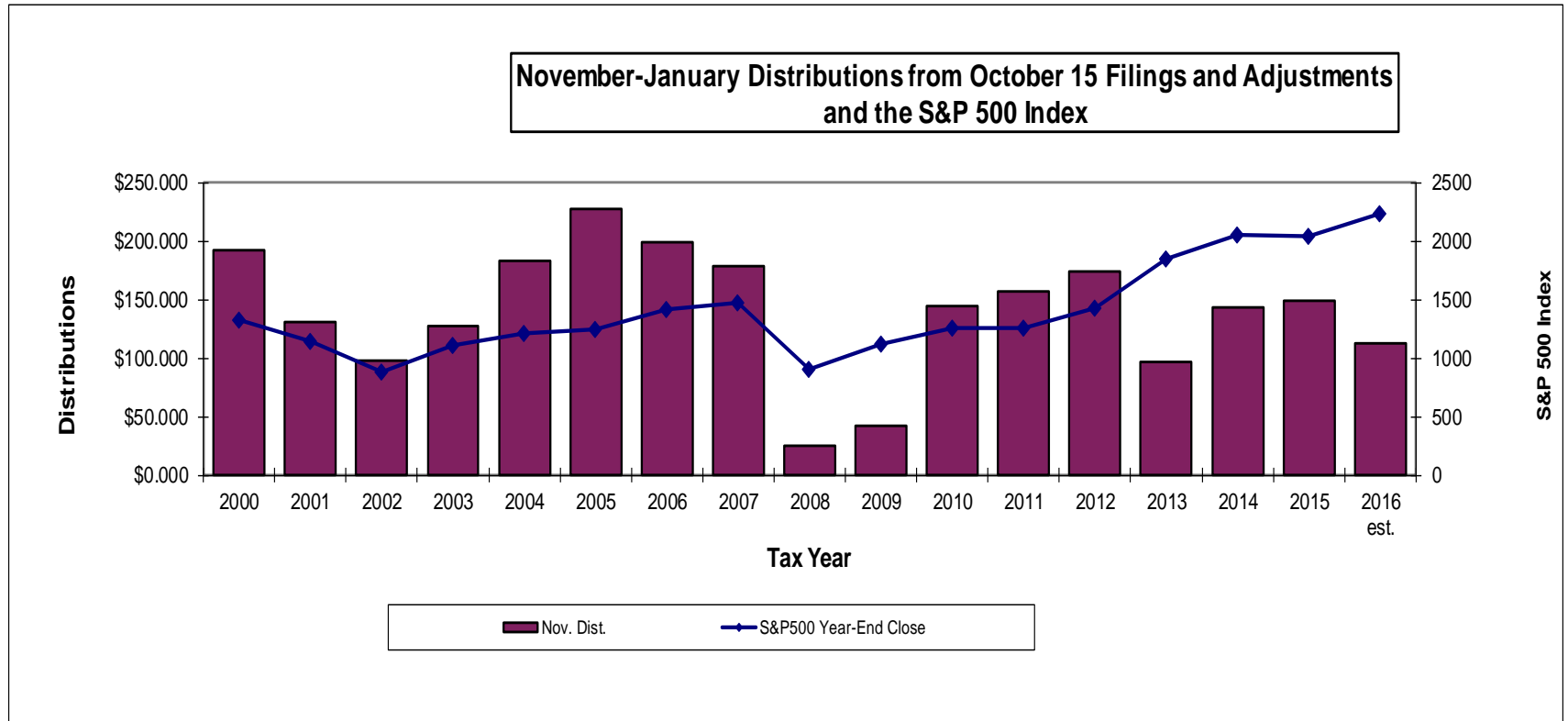
•Decrease of 1.9% in distributed withholdings and estimated payments compared to last year is due to a 0.03% decrease in income tax collections from withholdings and estimated payments statewide from November 2016 to November 2017.

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

- Resident employment is expected to increase 2.0 percent in CY17 and increase 1.0 percent in CY18.**
- Personal income is estimated to increase 4.2 percent in CY17 and 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 increase 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.**

# Income Tax

*The amount of revenues from the November distribution has been correlated to the stock market (S&P 500 Index) with the exceptions of 2013 (fiscal cliff) and 2016.*



# ***Property Tax***

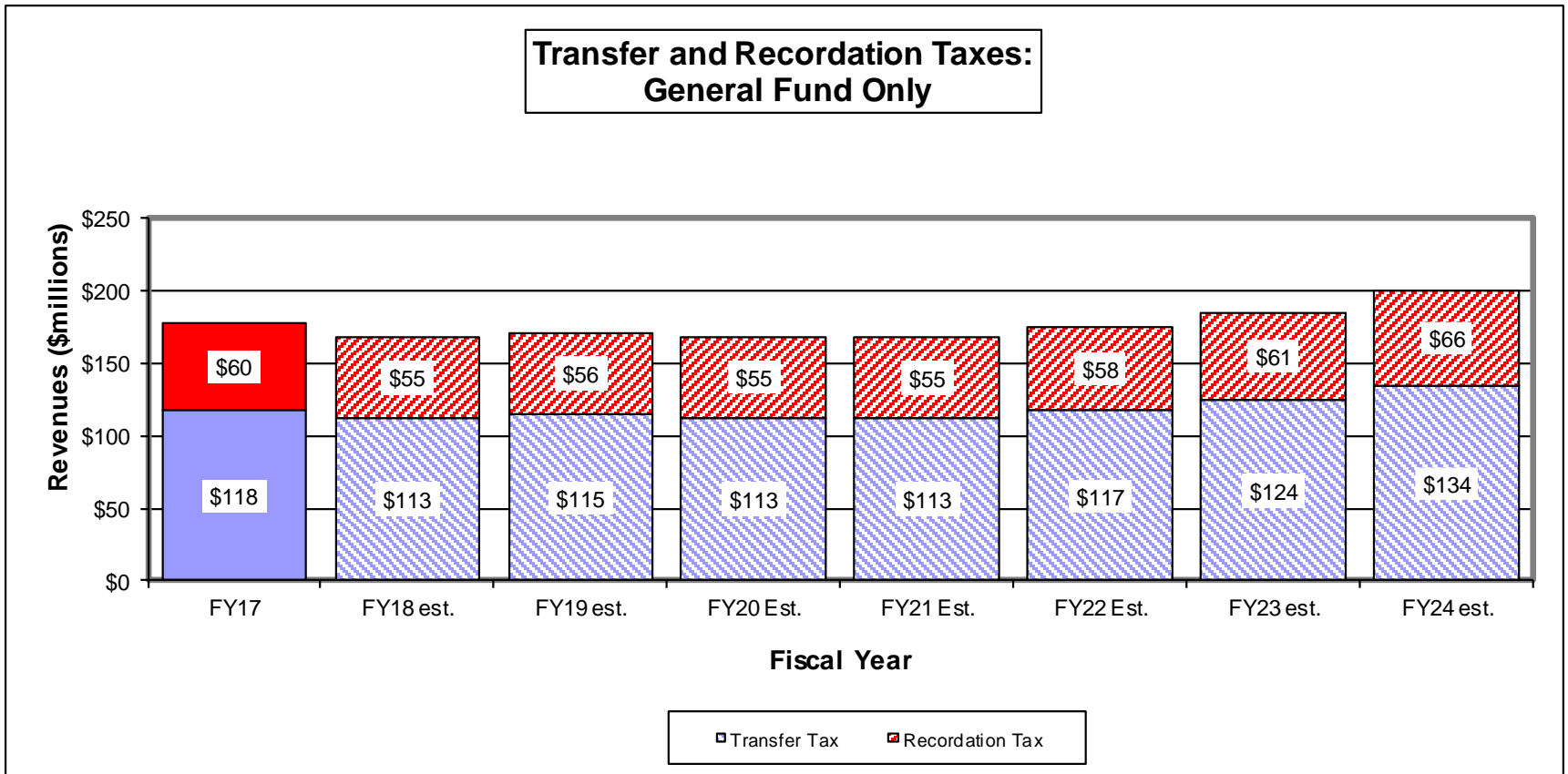
- **The inflation rate is expected to be 1.20 percent in calendar year 2017 and well below the 2.20 percent assumed in the FY18 Approved Budget. Since the previous inflation rate of 2.20 percent was used to derive the property tax revenues at the Charter Limit for FY19, the lower rate of 1.20 percent will reduce the estimated tax revenues for FY19 at the Charter Limit.**
- **The reassessment rates for real property for Group Three 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 0.1 percent in CY17 and median prices are estimated to increase 2.2 percent. Based on transfer tax collections to date, the residential real estate market is estimated to experience a modest growth in FY18 albeit below FY18 budget estimates and collections from the non-residential real estate market are estimated to decline in FY18.**
- Because of the estimated increases of home sales in CY17 and CY18, Finance estimates that the number of residential transfers increases 1.1 percent in FY18.**
- Total transfer tax revenues on residential transactions are expected to increase 3.8 percent in FY18.**
- Reflecting the General Fund rate cut in the recordation tax effective September 1, 2016, total recordation tax revenues are expected to be \$55.3 million in FY18.**

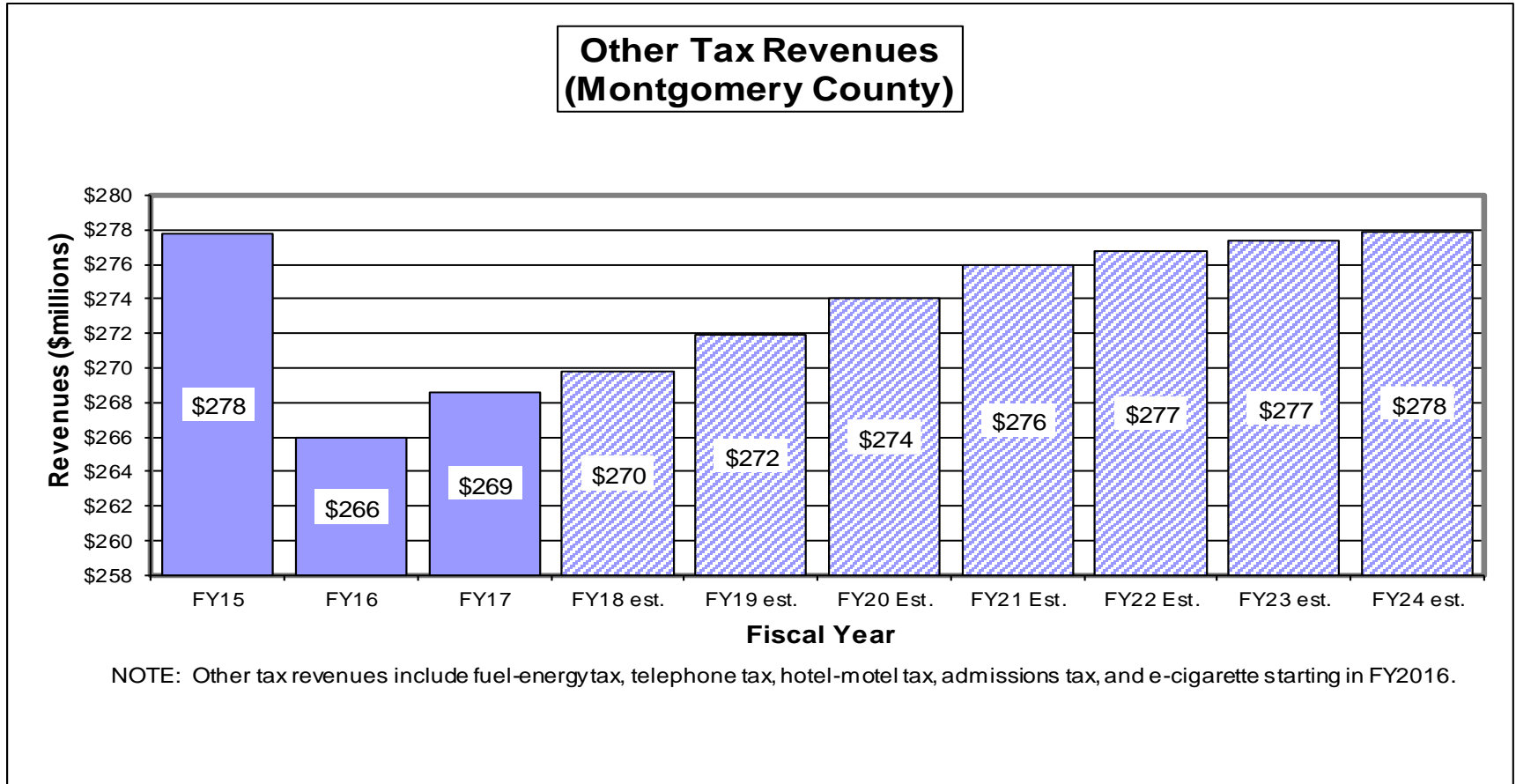
# Transfer and Recordation Taxes

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 FY24 – \$37.2 million below the FY06 peak.



# Other Tax Revenues

*Other tax revenues are estimated to increase 0.4 percent in FY18 over budget estimates due to estimated increased in telephone, hotel-motel tax, admissions, and e-cigarette tax revenues. Over the current two-year period (FY18-FY19), total other tax revenues are estimated to be \$27 million below FY18 budget estimates largely attributed to the reduction in energy tax revenues.*



# ***Risks to Revenue Forecasts***

- The impact on the County income tax revenues attributed to the changes to the federal income tax before Congress.**
- 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.**