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**Montgomery County, Maryland**

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**DECEMBER 2011  
REVENUE UPDATE AND  
SELECTED ECONOMIC  
INDICATORS**

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**Department of Finance**

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**December 13, 2011**

## ***Overview***

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

# ***Economic Recovery vs. Fiscal Recovery***

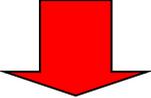
- While economic indicators can point to recovery in certain tax revenues, some revenues, such as the property tax and excise taxes, will continue to decline.**
- This can be due to lags in the receipt of revenues related to the fiscal improvement and distribution formula (e.g. income tax) or built in process lags (e.g. triennial reassessment cycle).**
- Lags can also be behavioral – e.g., consumer spending, real estate market.**
- The recent length (last three cycles) of an economic recovery and expansion (e.g., from trough to peak) has averaged about 95 months according to the National Bureau of Economic Research.**

## ***Current Signs of Economic Recovery***

- Slight drop in unemployment rate from 5.5 percent to 5.2 percent in October but has remained above the 5.0 percent level for nearly three years.**
- The growth in the stock market has remained virtually flat over the past year.**
- Home prices show signs of modest improvement**
- Montgomery County has experienced modest growth in employment to date in 2011.**

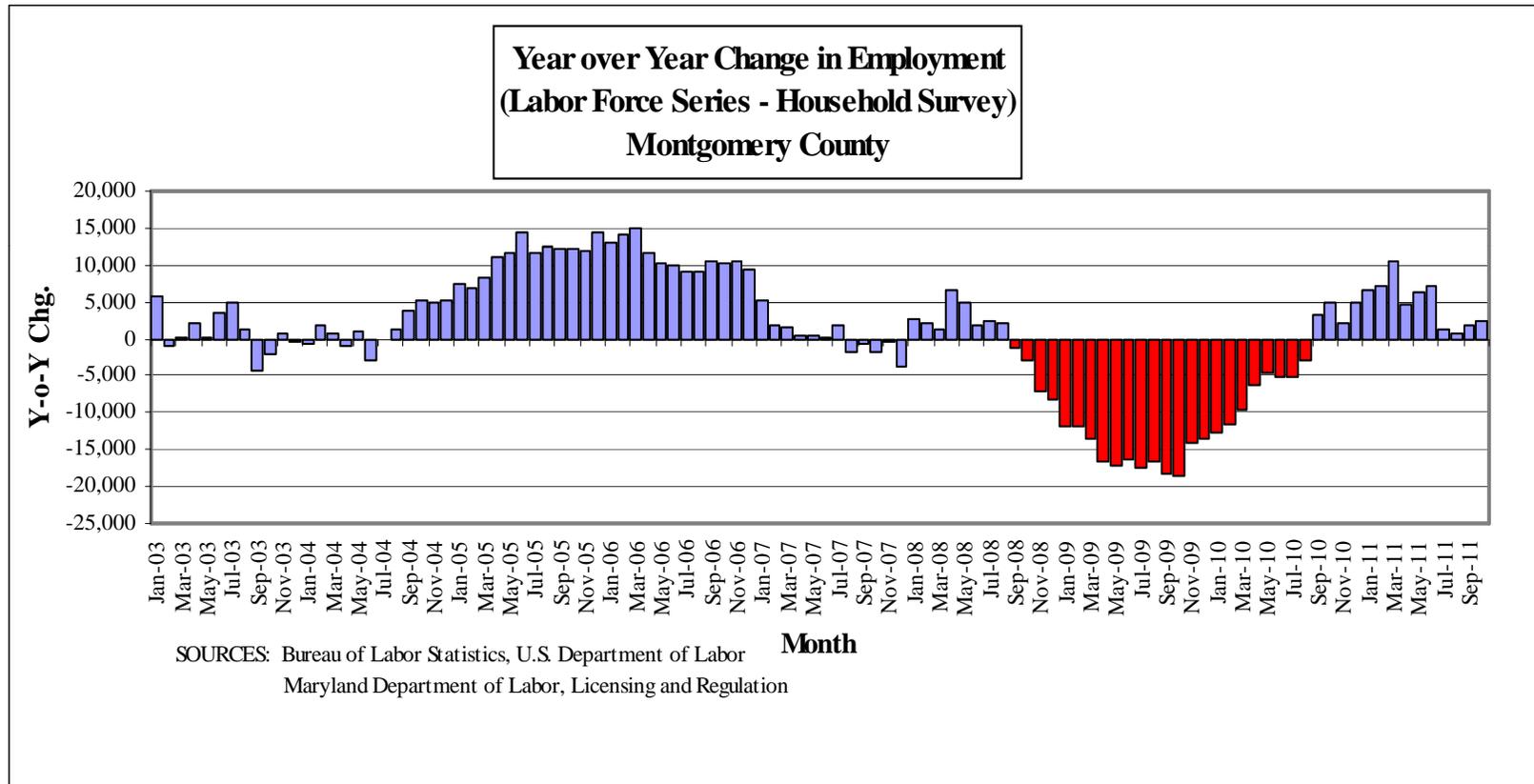
## ***Continued Causes of Concern***

- Pull backs in federal spending with the failure of the Congressional Super Committee**
- Continued soft housing market due to weak home sales**
- Fed funds rate expected to remain flat through first half of CY2013**

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON	DIRECTION (yr.-over-yr.)
INFLATION	3.3% 2011 est.	Property Taxes	Key determinant of property tax revenues at the Charter Limit	2010: 1.72% 2009: 0.23%	
UNEMPLOYMENT RATE	5.2% 2011 est.	Income Taxes	Indicates overall health of the job market	2010: 5.6% 2009: 5.4%	
RESIDENT EMPLOYMENT	490,160 2011 est.	Income Taxes	Primary determinant of income tax receipts	2010: 485,050 2009: 488,607	
PAYROLL EMPLOYMENT (Estimated)	468,890 2011 est.	Income Taxes	Another determinant of income tax receipts	2010: 464,000 2009: 464,300	
STOCK MARKET - S&P 500	1244.28 As of Dec. 2nd	Income Taxes	Key determinant of capital gains portion of the income tax	December 31st: 2010: 1257.64 2009: 1,115.10	
HOME SALES	8,995 2011 est.	Transfer/ Recordation Taxes	Indicates activity affecting receipts	2010: 10,401 2009: 10,376	
HOME PRICES (Average Price Sold)	\$460,11 2011 est.	Transfer/ Recordation Taxes	Taxes are based on values, affects amount of taxes collected	2010: \$441,482 2009: \$434,297	
FEDERAL FUNDS RATE	0.07% Oct. 2011	Investment Income	County's return on investments closely correlated with the Fed Fund rates	Sept. 2011: 0.08% Oct. 2010: 0.19%	

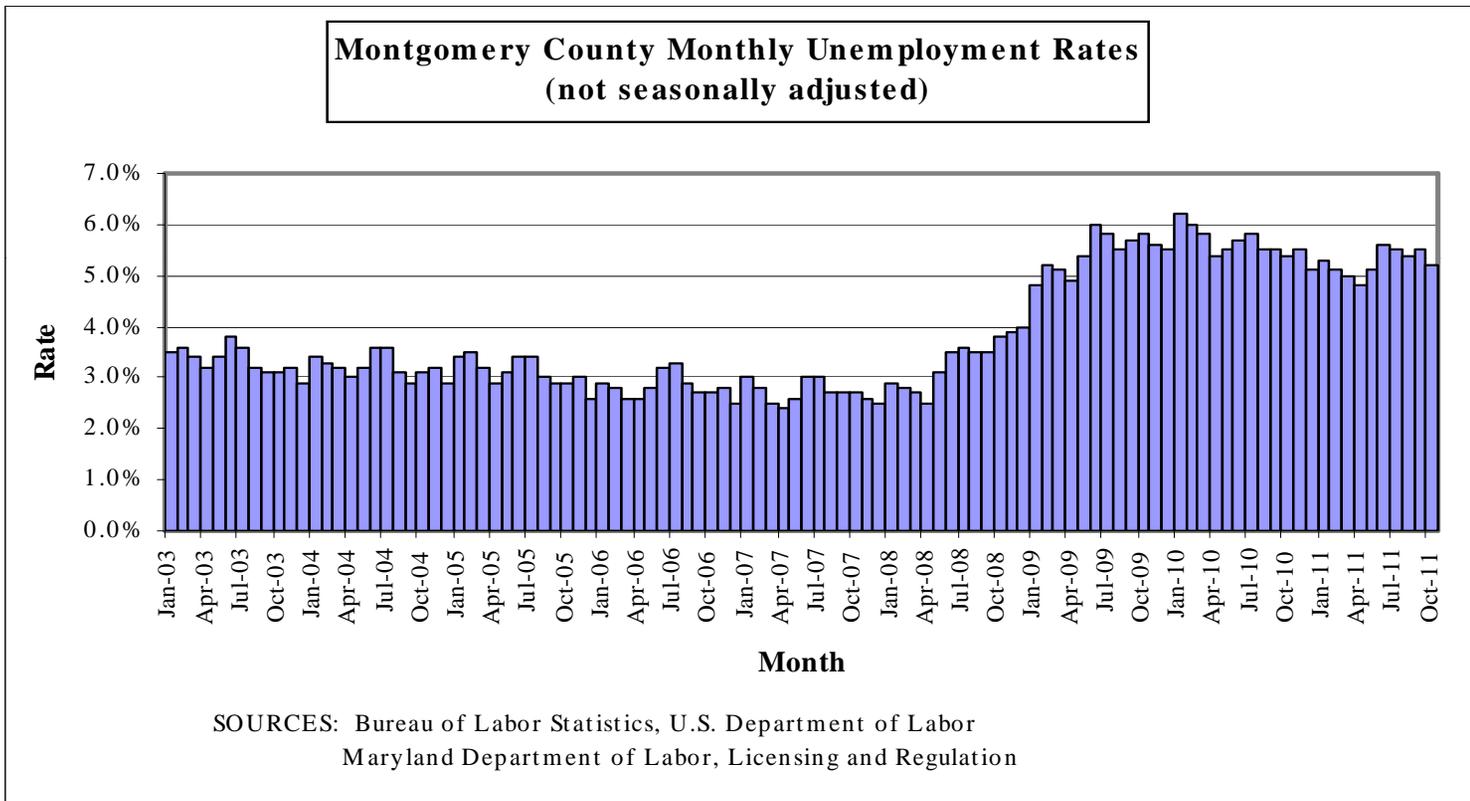
# Resident Employment is Rising

Resident employment in Montgomery County was 490,898 in October compared to 488,594 in October'10 - an increase of over 2,300. October's increase was the fourteenth consecutive year-over-year increase.



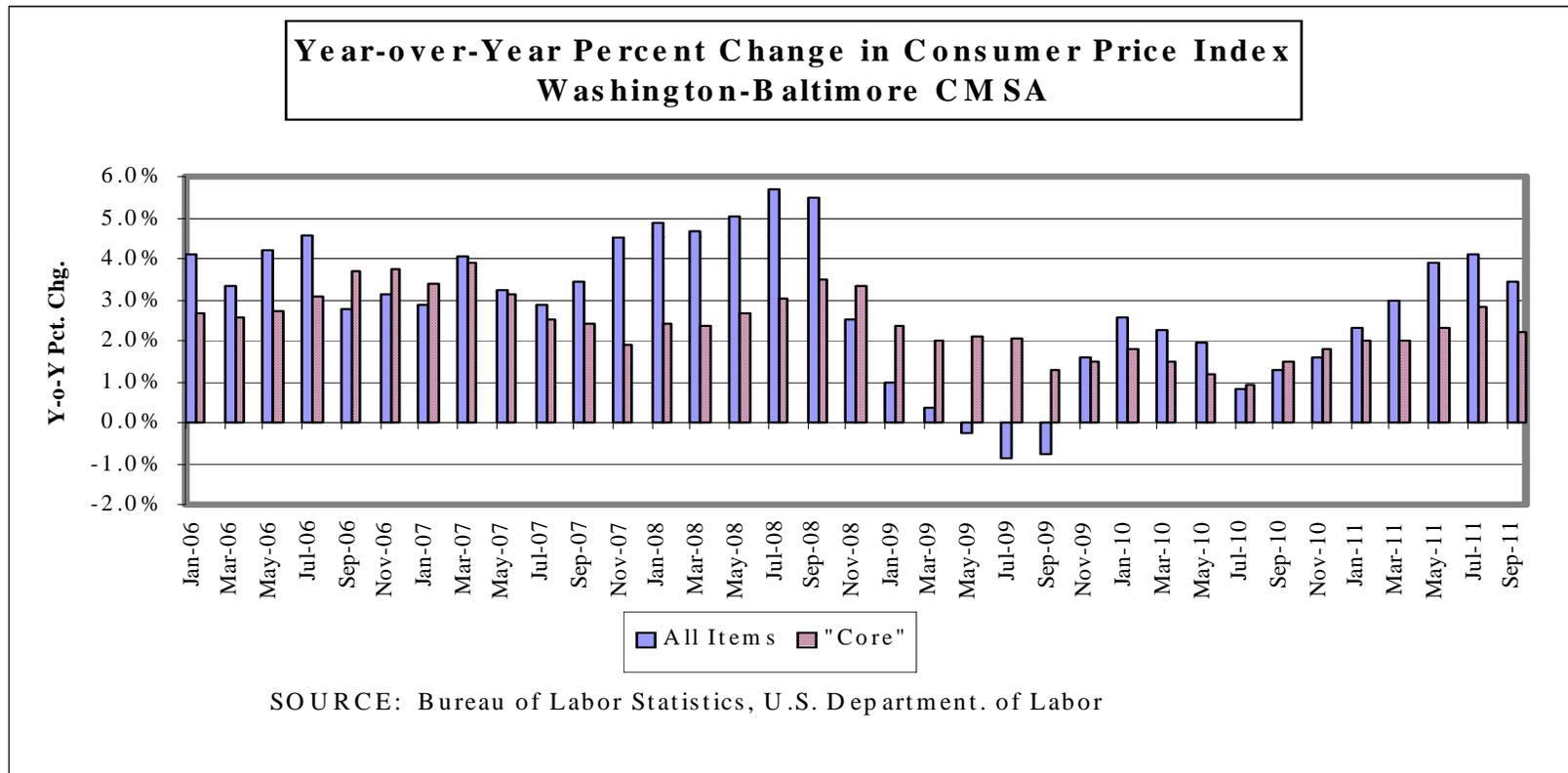
# The Unemployment Rate has Decreased

Because of the steady increase in the County's resident employment over the past year, the unemployment rate has declined from 5.8 percent in July '10 to 5.2 percent in October of this year but remains above the 5.0 percent level.



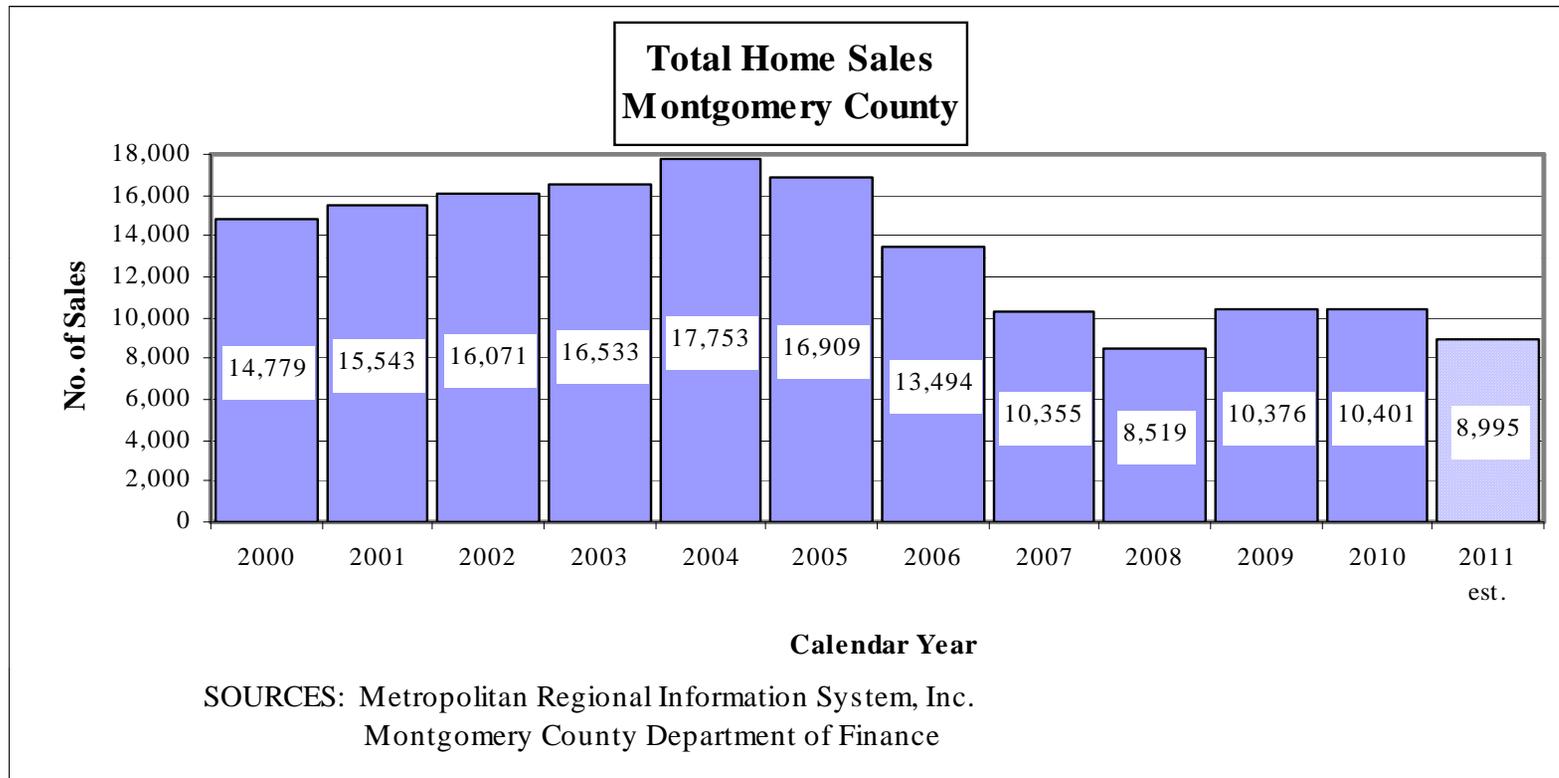
# The consumer price index (CPI) accelerated in 2011

Overall for the Washington-Baltimore consolidated region the CPI increased 3.4 percent in September compared to September '10. For the calendar year to date (January through September), the index increased 3.4 percent compared to 1.8 percent in 2010.



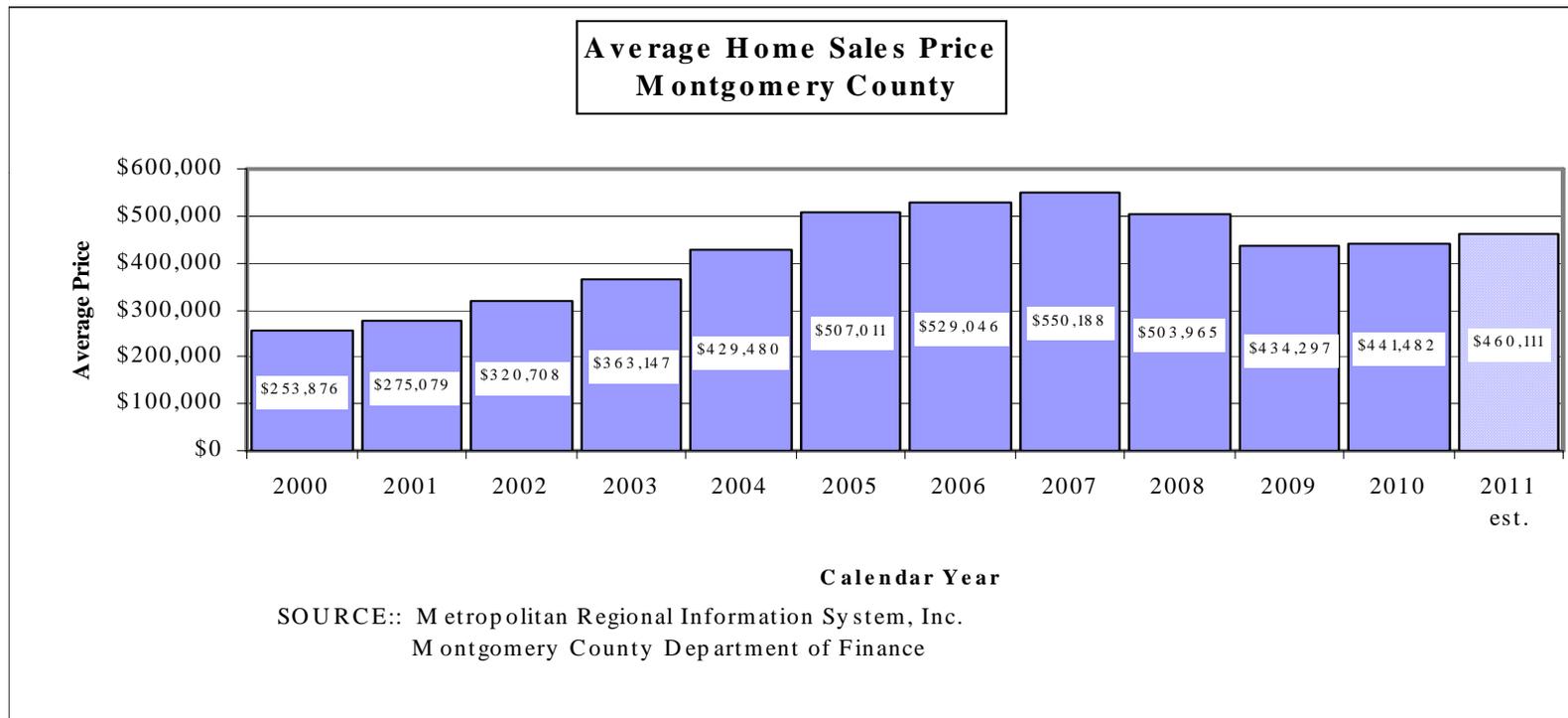
# Home Sales are Down

Total sales of existing homes are expected to decrease 13.5 percent in 2011 compared to an increase of 0.2 percent in 2010. Most of that increase occurred during the first half of the calendar year.



# Average Home Sales Prices are Up

While the sales of existing homes in the County are expected to decrease in 2011, the average sales price is expected to increase by 4.2 percent, which follows a decrease of 13.8 percent (2009) and a modest increase of 1.7 percent (2010).



# **REVENUE UPDATE**

## ***FY12 and FY13 Summary***

**The outlook for the remainder of this fiscal year (FY12) and next year (FY13) suggests an increase in revenues compared to the estimates prepared for the FY12 budget. This increase is solely attributed to revisions to income tax revenues. The combined increase in FY12 and FY13 is nearly \$115.6 million higher than previously estimated.**

# Revenue Update

*December revised revenues for FY12 are \$79.3 million above the FY12 Budget estimates. The only contributor is the estimated increase in income tax revenues.*

	<b>FY12 BUDGET - DECEMBER 2011 UPDATE (\$MIL)</b>		
	<b>FY12 Budget</b>	<b>Dec. Update</b>	<b>Difference</b>
<b>Income</b>	\$1,117.243	\$1,238.197	\$120.954
<b>Property</b>	\$1,462.247	\$1,444.679	(\$17.568)
<b>Transfer/Recordation</b>	\$143.538	\$130.784	(\$12.754)
<b>Other Taxes:</b>			
–Admissions	\$2.581	\$2.412	(\$0.169)
–Fuel/Energy	\$251.200	\$241.500	(\$9.700)
–Telephone	\$51.528	\$50.217	(\$1.311)
–Hotel/Motel	\$19.968	\$19.765	(\$0.204)
<b>Investment Income</b>	\$1.606	\$1.606	\$0.000
<b>Other Revenues</b>	\$842.200	\$842.200	\$0.000
<b>TOTAL</b>	<b>\$3,892.111</b>	<b>\$3,971.360</b>	<b>\$79.248</b>

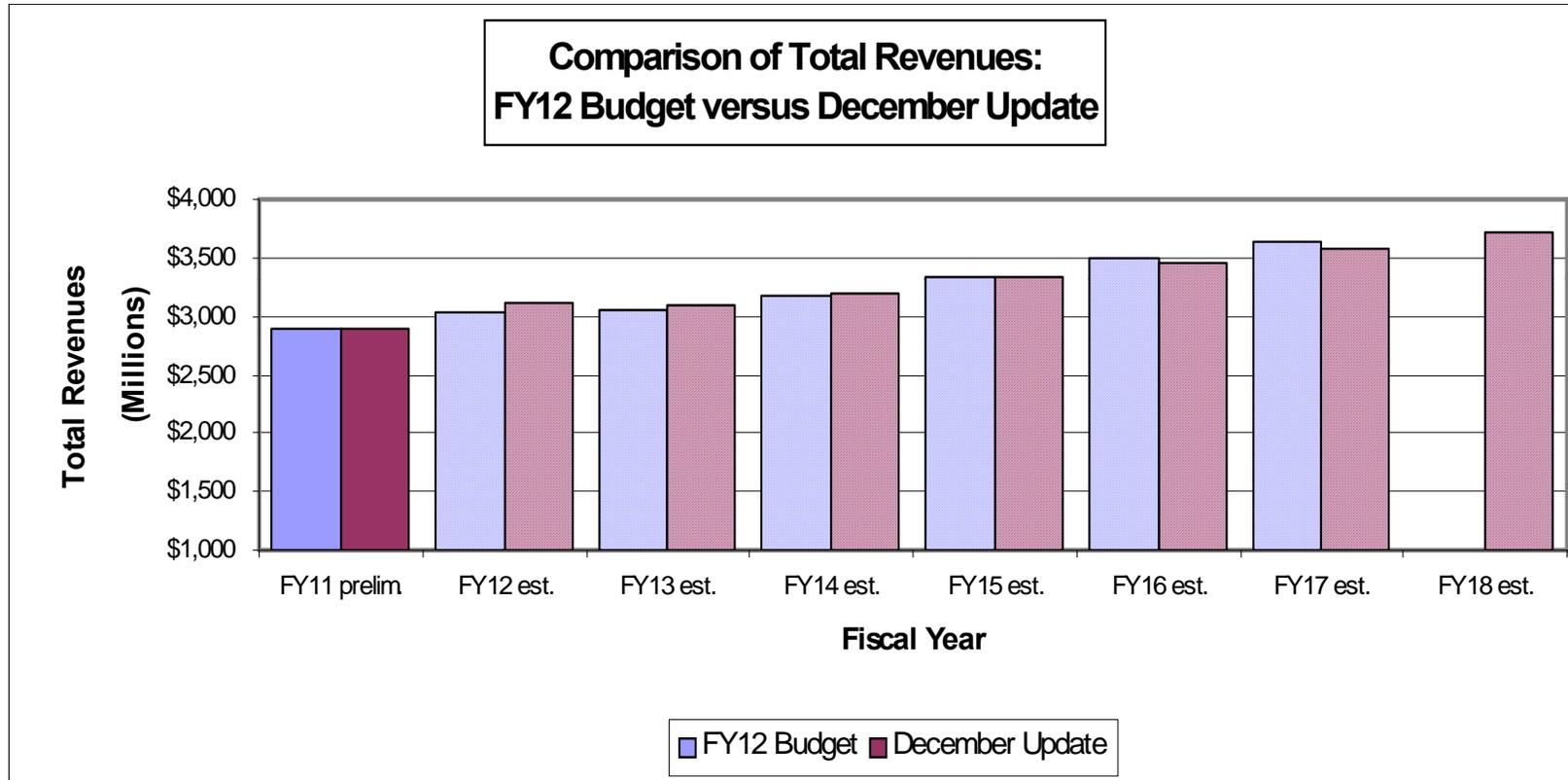
# Revenue Update

*December revised revenue estimates for FY13 are \$36.4 million above the FY12 Budget estimates. The only contributor is the estimated increase in income tax revenues.*

	<b>FY12 BUDGET - DECEMBER 2011 UPDATE (\$ML)</b>		
	<b>FY13 Estimate</b>	<b>Dec. Update</b>	<b>Difference</b>
<b>Income</b>	\$1,188.561	\$1,252.121	\$63.560
<b>Property</b>	\$1,498.620	\$1,492.182	(\$6.438)
<b>Transfer/Recordation</b>	\$149.980	\$139.366	(\$10.614)
<b>Other Taxes:</b>			
–Admissions	\$2.673	\$2.494	(\$0.179)
–Fuel/Energy (sunset)	\$139.510	\$130.630	(\$8.880)
–Telephone	\$53.709	\$53.000	(\$0.709)
–Hotel/Motel	\$20.902	\$20.561	(\$0.341)
<b>Investment Income</b>	\$2.719	\$2.719	\$0.000
<b>Other Revenues</b>	\$845.900	\$845.900	\$0.000
<b>TOTAL</b>	<b>\$3,902.573</b>	<b>\$3,938.973</b>	<b>\$36.399</b>

# Revenue Trend FY12-17

During the current five year period (FY12-FY17), total revenues are expected to be approximately \$38.4 million above FY12 budget estimates.

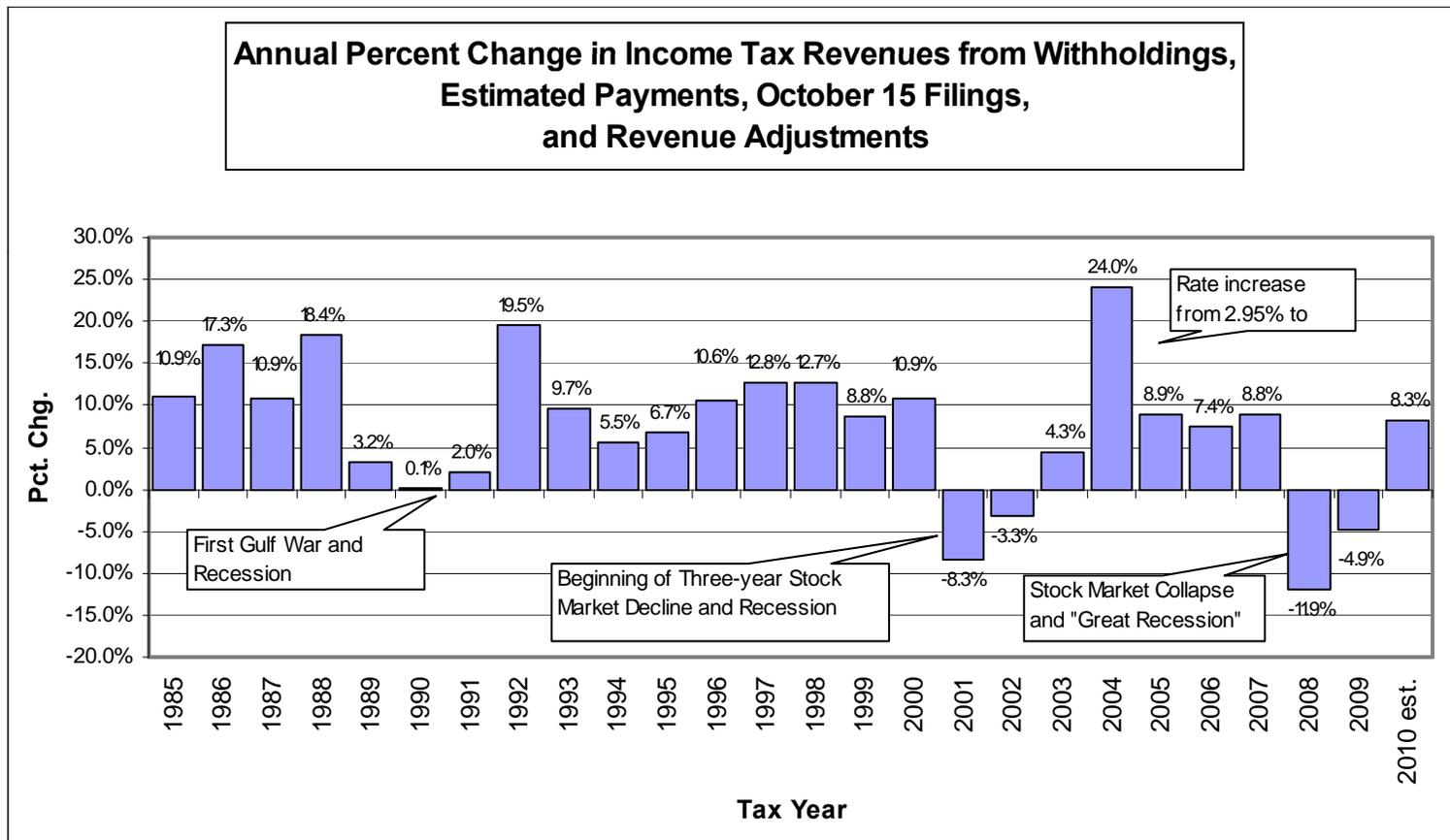


## ***Income Tax – Tax Year Liability***

- **Income tax revenues through November for Montgomery County *and* local jurisdictions increased 9.6 percent in tax year (TY) 2010 from TY2009 - the largest increase among the twenty-three counties and the City of Baltimore. That increase followed a 5.7 percent decline in TY2009.**
- **Because of the increase in 2010, Montgomery County's share of total local tax liability in Maryland increased from 27.9 percent (TY09) to 28.6 percent (TY10).**

# Income Tax Volatility

*Year-over-year percent changes in the income tax are volatile and sensitive to economic events especially capital gains in Montgomery County.*



## ***Income Tax – November Distribution***

- **The largest share (five year average of 77%) 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 2010 in November 2011) and provides a near final review of last year's tax liability – this provides a base for future projections.**
- **The Comptroller's Office also adjusts its distribution formula for the current tax year based on the prior year results (e.g., 2010 tax year final results affect quarterly distributions for this fiscal year).**
- **Income tax revenues represent 40 percent of estimated total tax-supported revenues in FY12 and nearly 32 percent of the County's total revenues.**

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

(millions)	Actual FY09	Actual FY10	Actual FY11	Estimated FY12	Actual FY12	Difference
October 15 <sup>th</sup> Filings and Adjustments	\$146.10	\$9.60	\$17.00	\$36.37	\$134.76	\$98.39
Withholding and Estimated payments for 3 <sup>rd</sup> Quarter	\$242.70	\$210.60	\$212.90	\$226.20	\$242.79	\$16.59
Total November Distribution	\$388.80	\$220.20	\$229.90	\$262.57	\$377.55	\$114.98

•Increase in receipts from October 15th Filings and Adjustments is based on an adjustment to reflect increased income tax receipts due the County for tax year 2010 as compared to tax year 2009. Overall, the State has indicated that the County's income tax receipts for 2010 are 8.3% higher than for 2009.

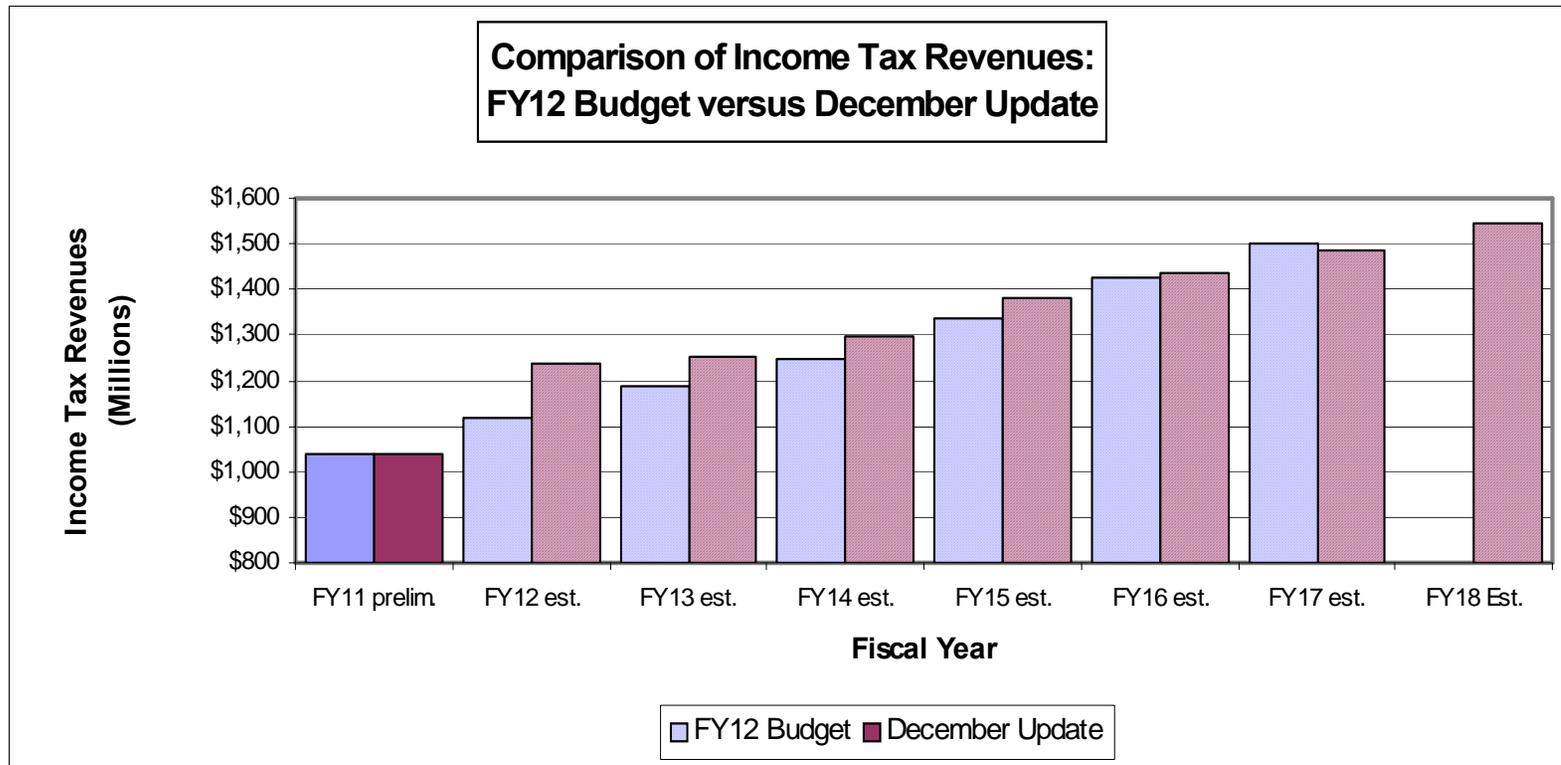
•Increase in withholdings and estimated payments is due to an increase in income tax receipts statewide and a change in the distribution formula, which is updated by the State in November to reflect the overall increase in prior year income tax receipts.

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

- Resident employment is expected to increase 1.1 percent (↑1.1%) in CY11 and increase a modest 0.3 percent (↑0.3%) in CY12. This is compared to March economic assumptions of 0.7 percent increase in 2011 and 1.1 percent in 2012.**
- Personal income is estimated to increase 5.4 percent in CY11 and 4.5 percent in CY12.**
- Wage and salary income is expected to increase 4.5 percent in 2011 and increase 5.0 percent in 2012.**

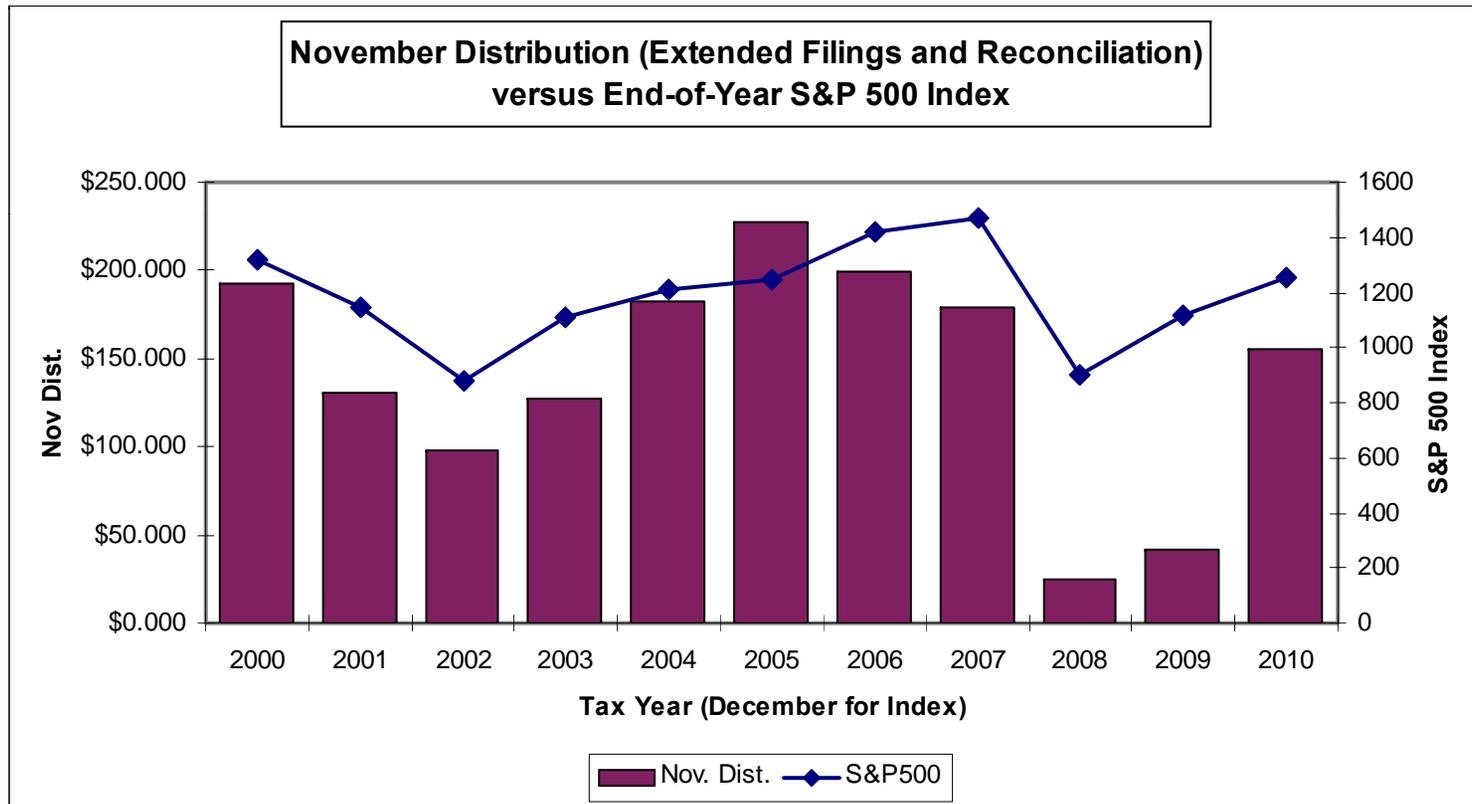
# Income Tax FY12-17

Over the current five year period (FY12-FY17), income tax revenues are expected to be approximately \$268.0 million above FY12 budget estimates.



# Income Tax

*The amount of revenues from the November distribution has been associated with the stock market (S&P 500 Index)*



## ***Property Tax***

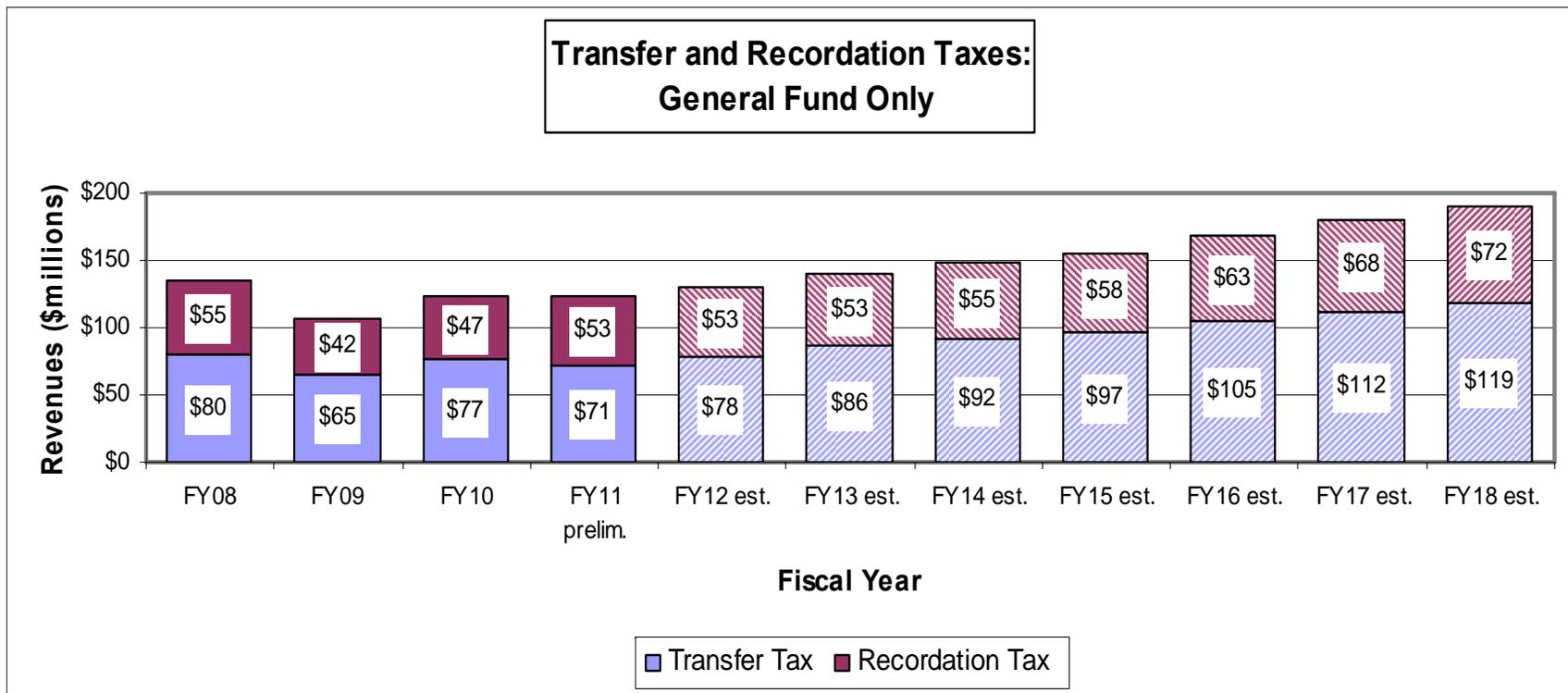
- **The inflation rate is expected to be 3.3 percent in calendar year 2011, which follows a 1.7 percent increase in CY10 and a meager 0.2 percent in CY09. Inflation is used to estimate real property tax under the Charter Limit excluding new construction.**
- **The reassessment rates for real property for Group 3 in fiscal year 2013 are expected to 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 a decline in the real property tax base.**

## ***Transfer and Recordation Taxes***

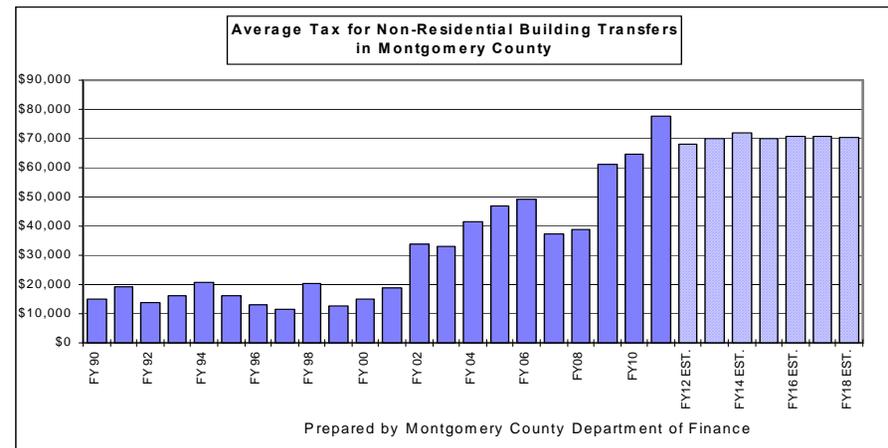
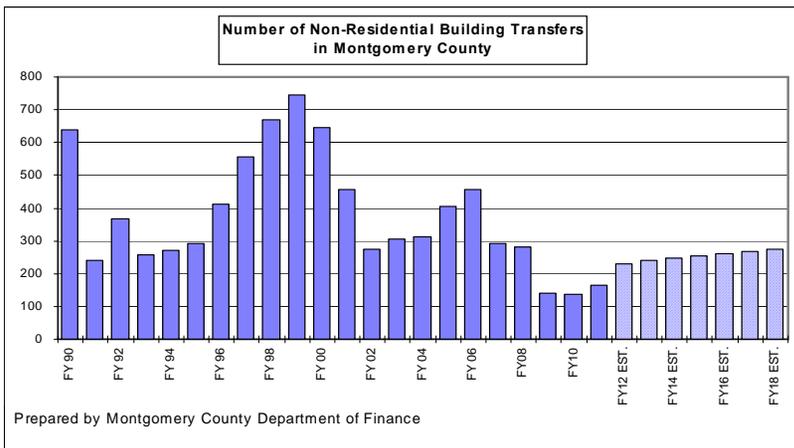
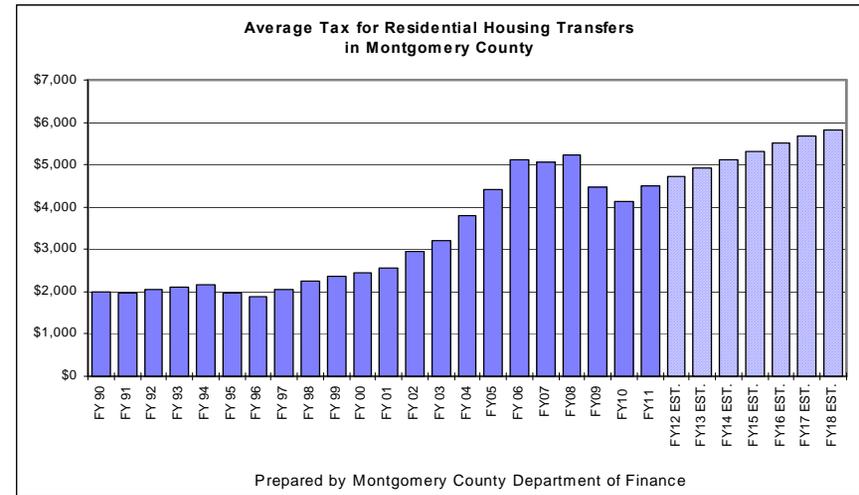
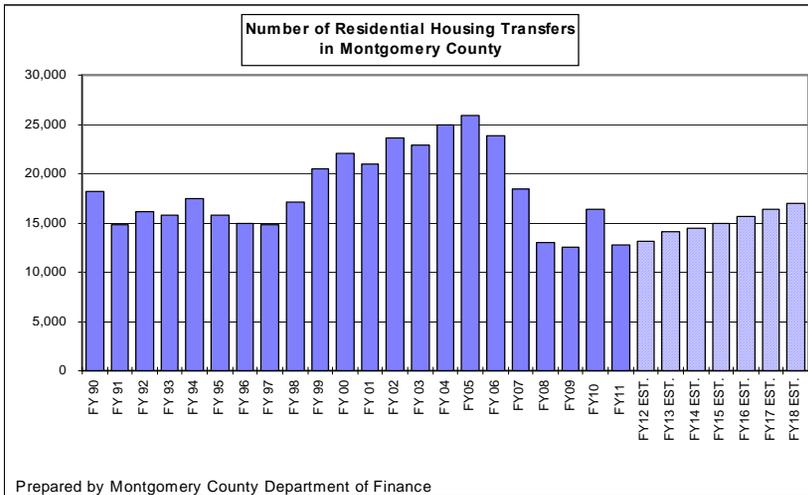
- Home sales are expected to increase 3.0 percent in FY12 and prices are also anticipated to increase 4.5 percent. Based on collections to date, the non-residential real estate market is estimated to experience a significant increase in FY12.**
- Because of the estimated increase in home sales during the latter half of FY12, Finance estimates that the number of residential transfers may increase 3.0 percent in FY12 the same as the increase in home sales.**
- Because average sales prices are also anticipated to increase, the average transfer tax amount on a residential sale is expected to increase 4.7 percent in FY12.**
- Because of the expected increase in the number of non-residential transactions, non-residential transfer tax revenues are estimated to increase by over 20.0 percent in FY12.**

# Transfer and Recordation Taxes

Since reaching \$241.7 million in FY06, transfer and recordation taxes declined to a low of \$123.7 million in FY11. By FY18, transfer and recordation taxes are estimated to reach \$190.4 million – nearly \$51.3 million below the FY06 peak.



# Transfer and Recordation Taxes



# Other Tax Revenues

*Due to the rate increases in FY11 for the fuel/energy tax and for the telephone tax, the combined total estimated revenues for FY11 and FY12 are expected to be nearly \$206.7 million above FY10. However, revenues are estimated to decline in FY13 from FY12 due to the sunset provision in the fuel/energy tax. Over the current five-year period (FY12-FY17), total other tax revenues are estimated to be \$77.8 million below FY12 budget estimates.*

