

Revenue Estimation

Predicting Unpredictable Revenue Streams

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MACO Summer Conference

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Typical Reaction

John, do you have to wear that same outfit every time you give me a revenue estimate for next year?

County Executive

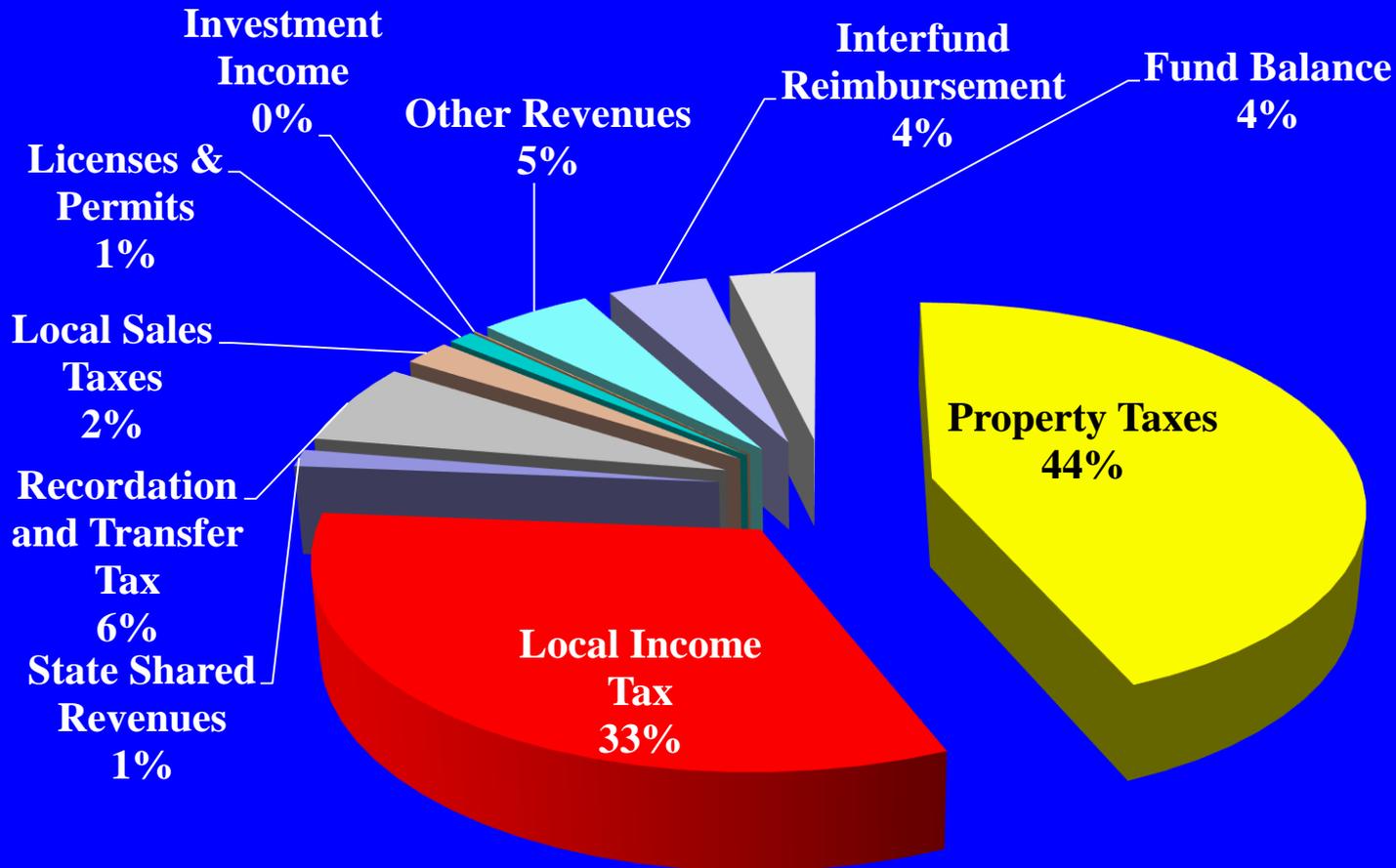


Revenue Estimator



General Fund Revenue

\$1,589,938,000



Revenue

	<u>FY19 Amt.</u> <u>(Millions \$)</u>	<u>Increase</u> <u>2018 Bud</u>	<u>Increase</u> <u>2018 Adj</u>
Property Tax	694.8	3.9%	2.8%
Income Tax	518.0	6.6%	2.7%
State Shared Revenue	21.6	2.1%	2.7%
Recordation & Transfer	102.0	2.0%	-2.9%
Local Sales Tax	31.9	-2.9%	-1.1%
Licenses & Permits	17.3	-0.6%	0.4%
Investment Income	1.2	100.0%	0.0%
Other	74.9	6.0%	4.1%
Interfund Reimbursements	<u>67.6</u>	<u>3.9%</u>	<u>10.5%</u>
Total Recurring Revenue	1,529.4	4.6%	2.6%
One-time Revenues	1.9		
Fund Balance	<u>58.5</u>		
Total	1,589.9	4.7%	4.7%

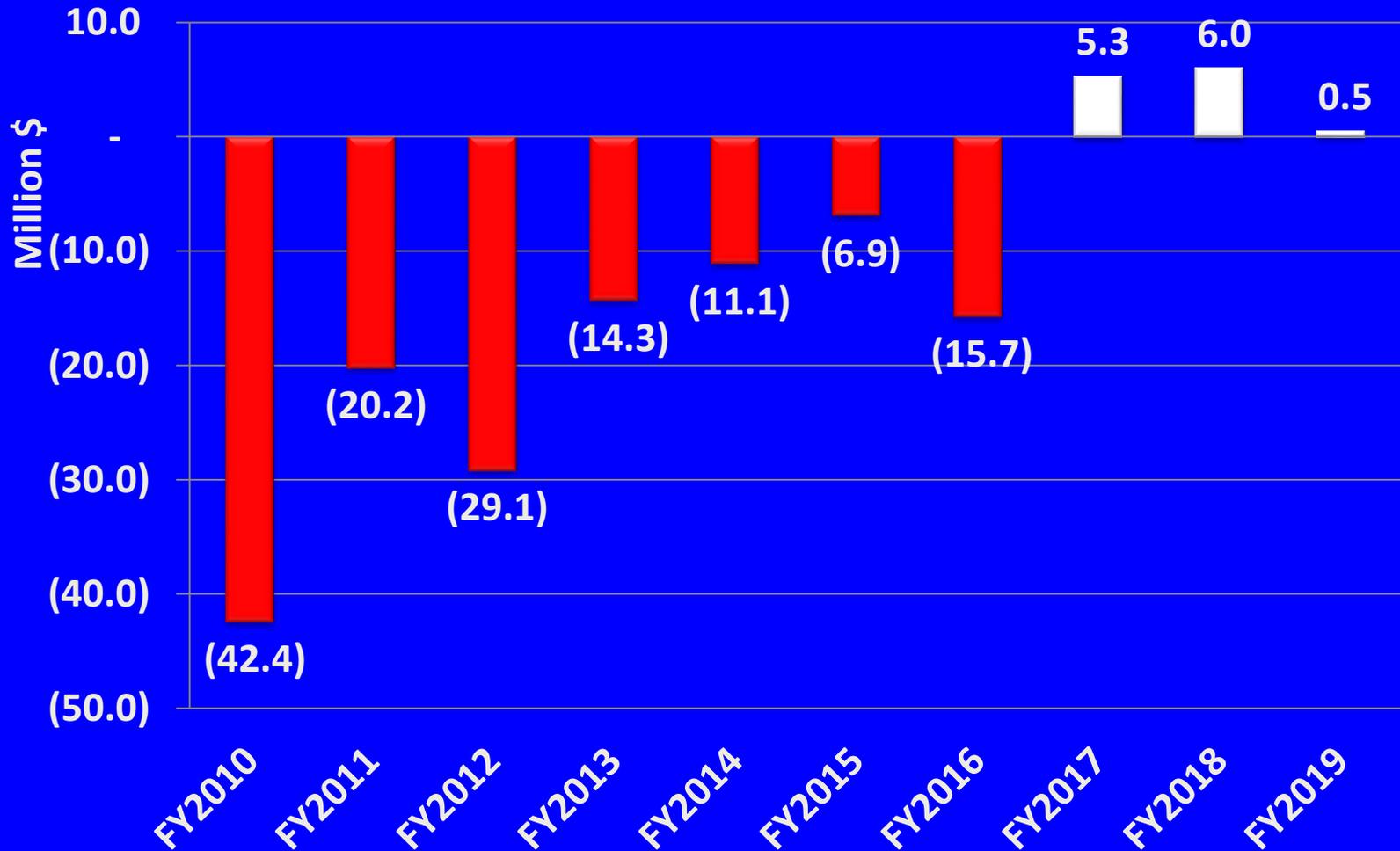
The BIG Three Revenues

	<u>Weight</u>	<u>Volatility</u>	<u>Recurring</u>
Property Tax	44%	Low	Yes
Local Income Tax	33%	Moderate	Mostly
Recordation & Transfer Tax	6%	High	To a Point

Recurring vs. One-time

- **Constitution and Charter Requires Balanced Budgets**
- **Public Policy - Predictability in Service Provision**
 - ✓ *Operating programs should be supported with recurring revenue streams*
 - ✓ *One-time revenue should support one-time expenditures – Capital Projects, Rainy Day Fund*
 - ✓ *Avoid Structural Deficits*

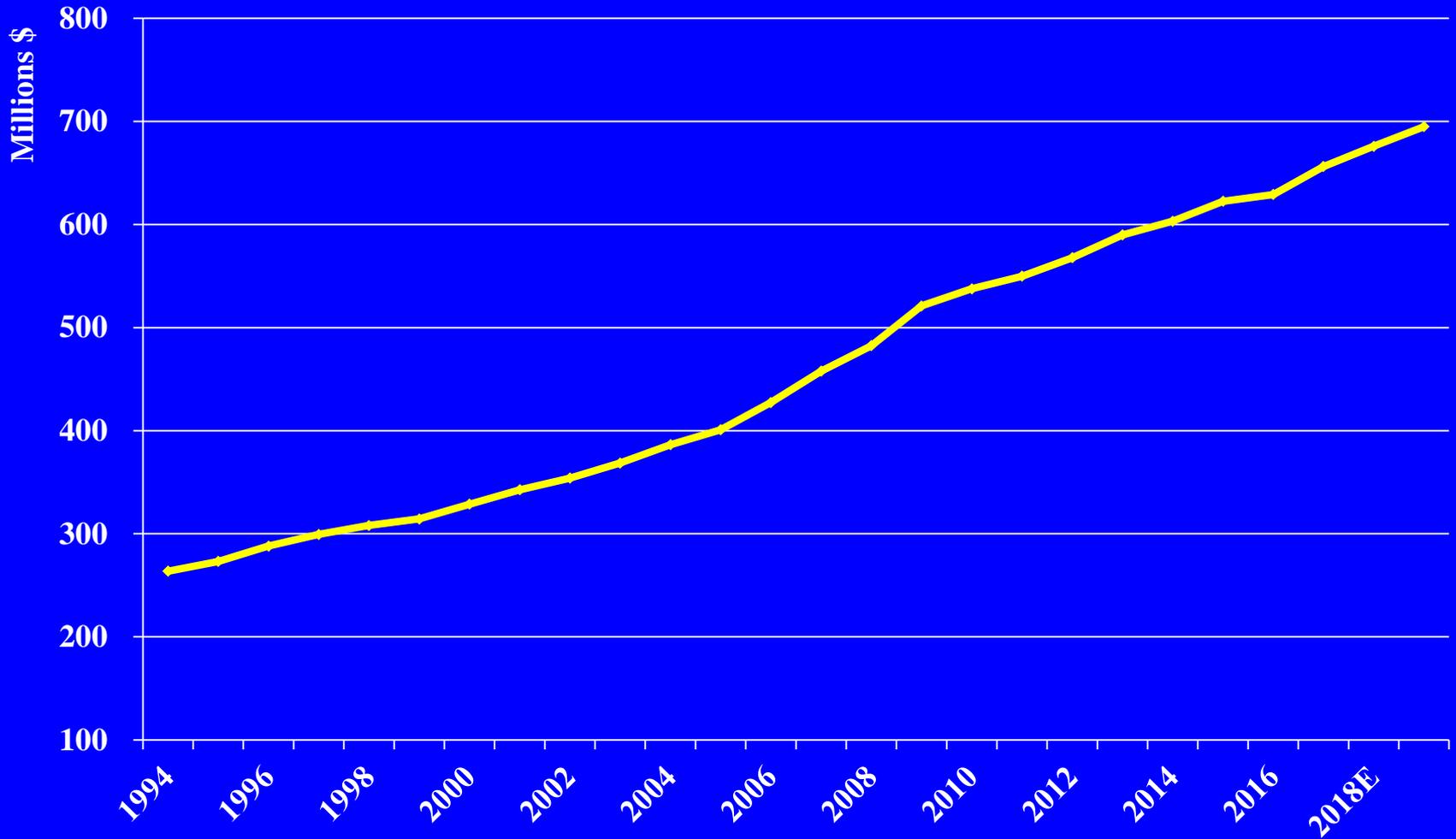
Structural (Deficit) Surplus in the Proposed Budget



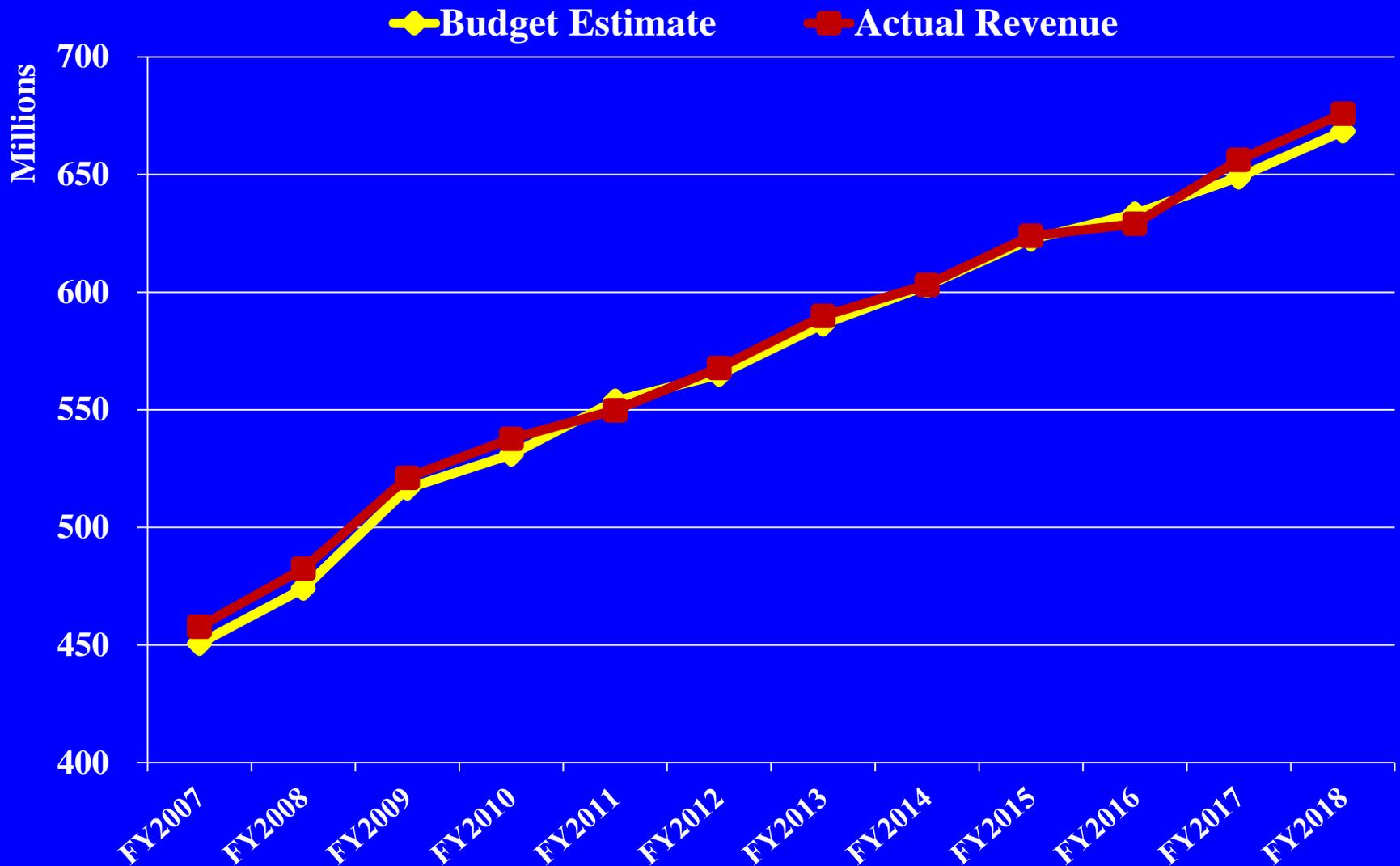
Property Tax

- **Underlying Variable – Property Assessment**
 - **Responsibility of the State Department of Assessments & Taxation (SDAT). Triennial assessment process designed to produce uniformity of assessments across the state.**
 - **Homestead Property Tax Credit Program allows owner occupied properties relief from rapidly escalating property values.**
 - **Assessment appeals process can result in under-achievement of property tax estimates**
 - **New construction can produce over-achievement of property tax estimates**
 - **Utility Generation Assets - Depreciation**

Property Tax Revenue Since 1994

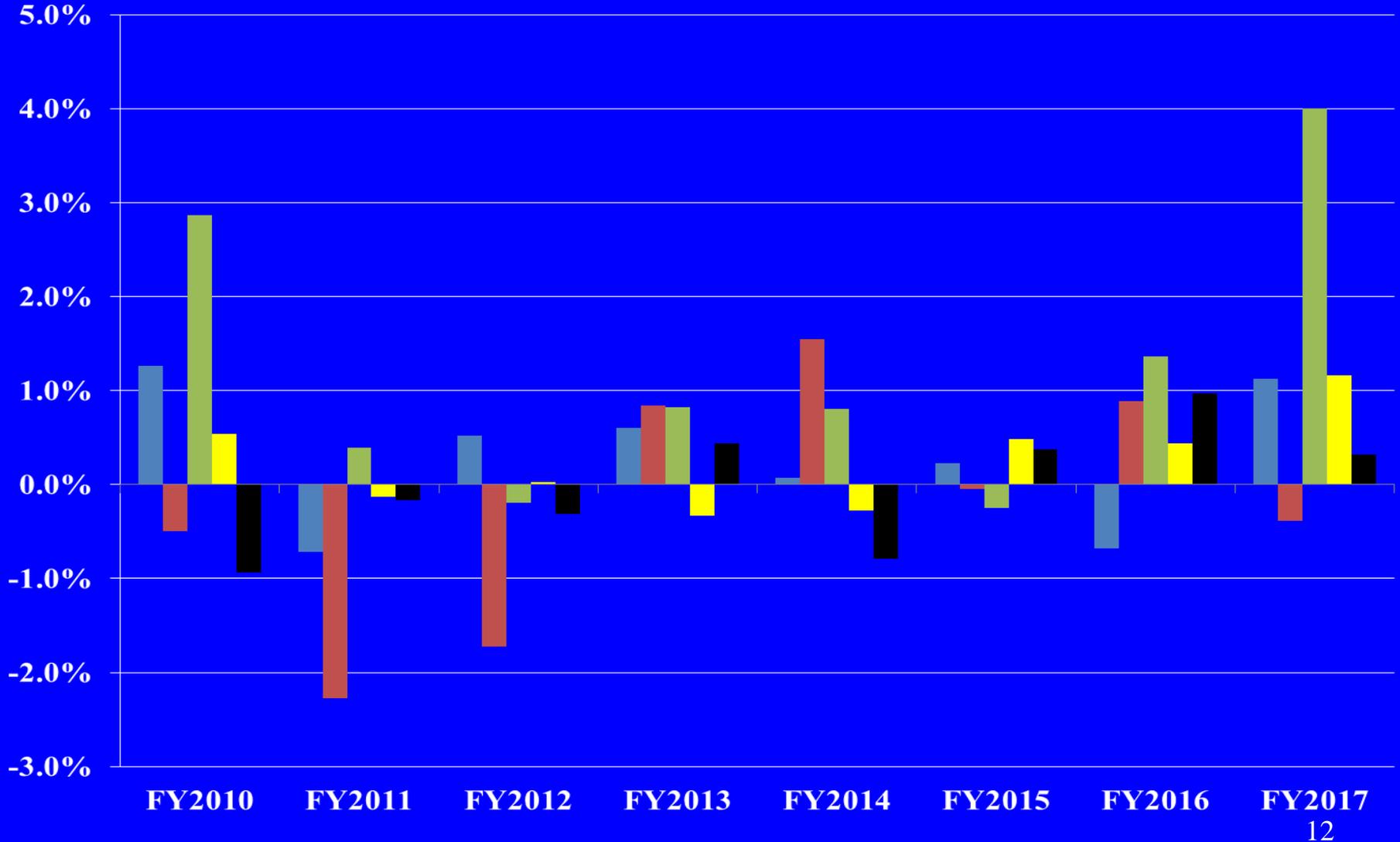


Property Tax Budget vs. Actual



Property Tax Budget to Actual

■ Anne Arundel ■ Montgomery ■ Prince George's ■ Howard ■ Baltimore



Local Income Tax

Underlying Variable - Economic Conditions

- **Personal Income Growth**
- **Employment**
- **Capital Gains**

Other Factors

- **Federal & State Tax Treatment**
- **Court Decisions – Wynne Case**

Categories of Income Tax Distributions

Fiscal Year		2014	2015	2016	2017	2018 Estimate	2019 Estimate
Withholdings & Est. Payments	Amount	356.8	375.8	385.3	401.3	418.7	437.6
	Weight	81.9%	84.6%	84.5%	81.6%	83.4%	85.5%
	YoY Growth		5.3%	2.5%	4.2%	4.3%	4.5%
Adjusted/Reconciling Distributions	Amount	46.7	39	38.2	43.3	45.6	42.6
	Weight	10.7%	8.8%	8.4%	8.8%	9.1%	8.3%
	YoY Growth	-100.0%	-16.5%	-2.1%	13.4%	5.3%	-6.6%
Other Distributions - Not Allocated to Specific TY	Amount	32.4	29.5	32.7	31.8	32.7	31.8
	Weight	7.4%	6.6%	7.2%	6.5%	6.5%	6.2%
	YoY Growth		-9.0%	10.8%	-2.8%	2.8%	-2.8%
One-Time Revenue				15.2	4.8		
Total	Amount	435.9	444.3	456.2	491.6	501.8	512
	YoY Growth		1.9%	2.7%	7.8%	2.1%	2.0%

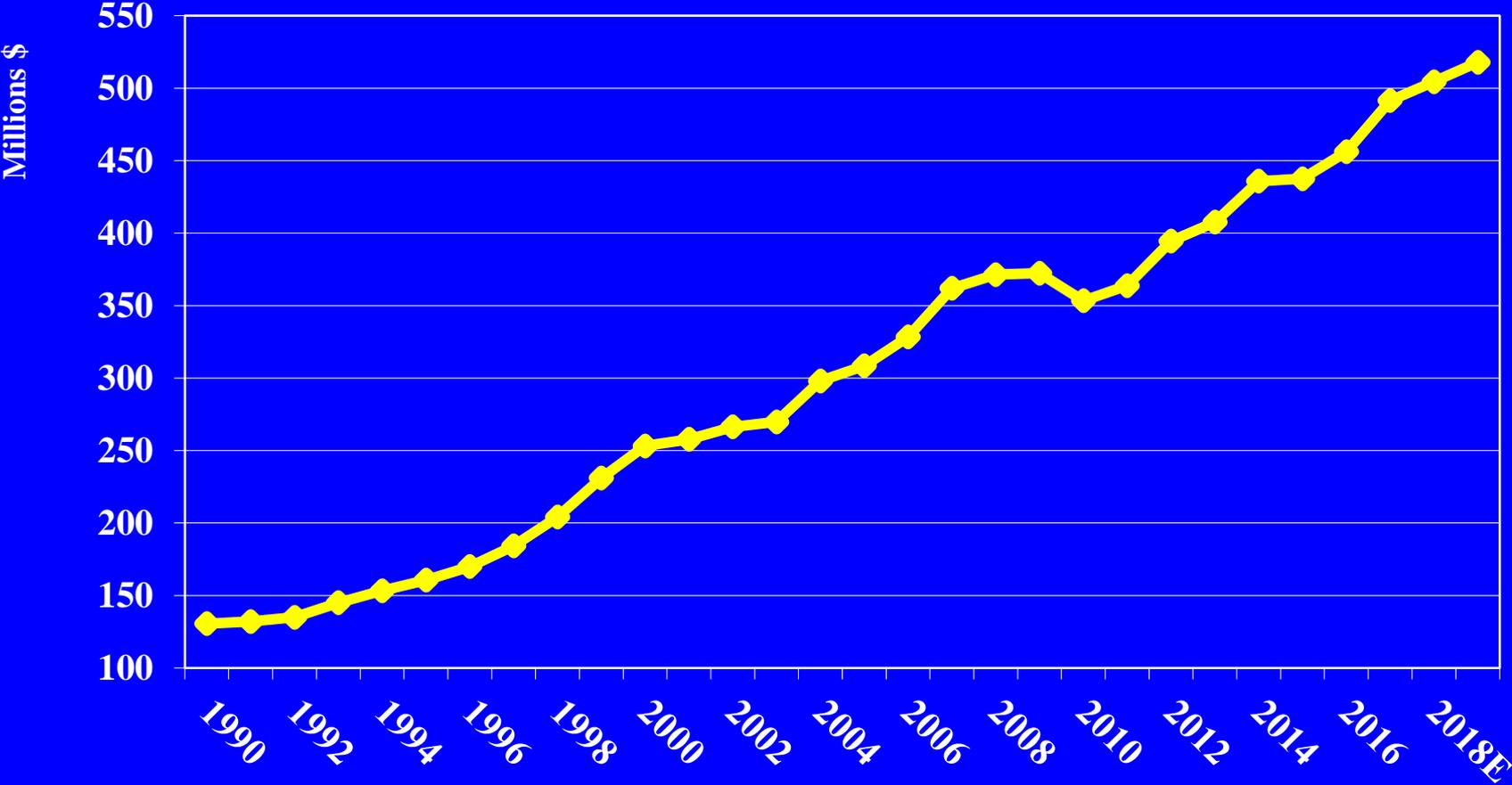
Adjusted/Reconciling Distributions are very volatile
An example of “the tail wagging the dog”

Income Tax Distributions

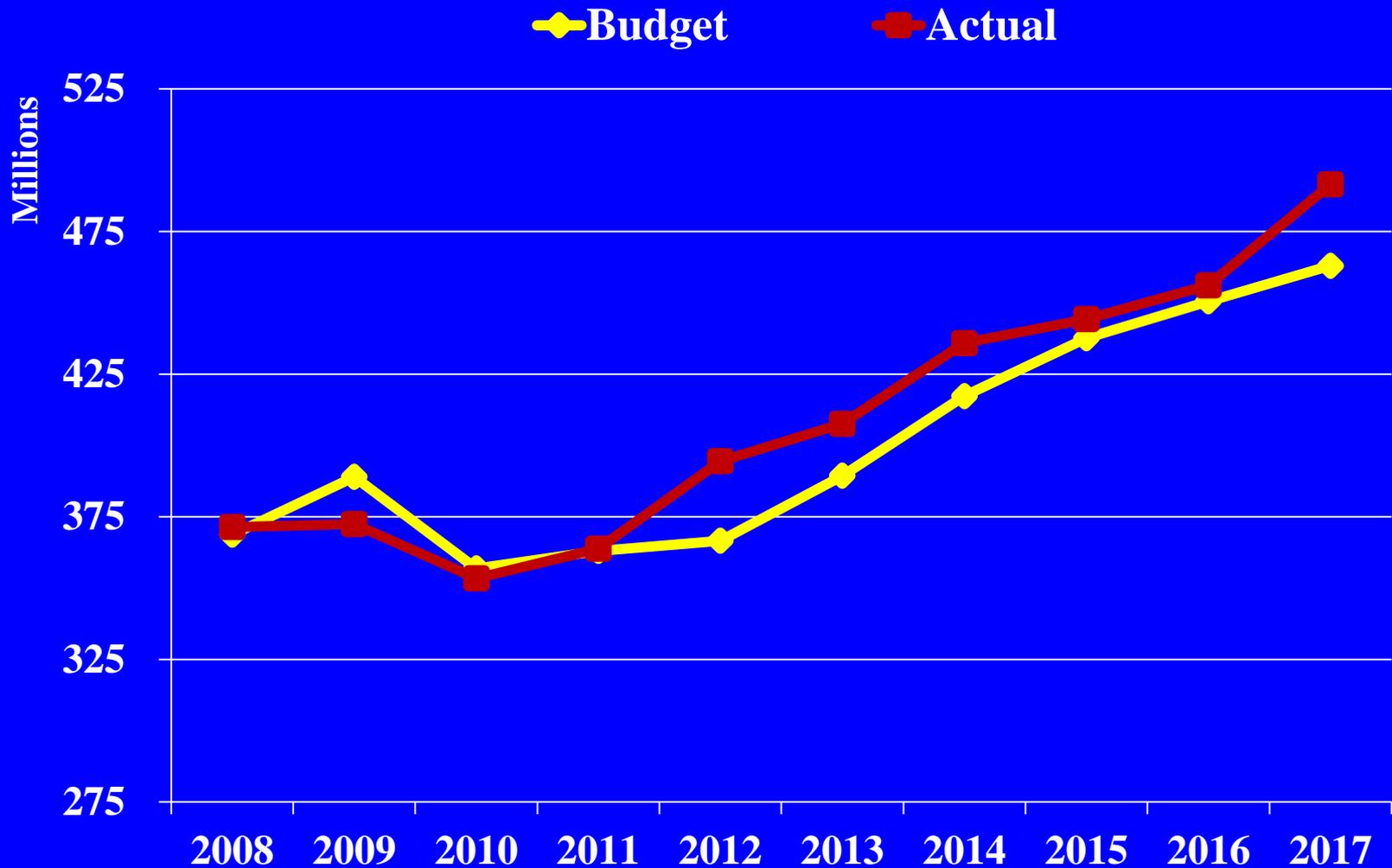
<u>Month</u>	<u>Distribution Type</u>	<u>Category</u>	<u>Weight</u>	<u>Volatility</u>
October	Fiduciary & Delinquent Returns	Other	7%	Random
November	3rd Quarter Withholding & Est. Payments	Withholding	83%	Predictable*
	Reconciling Distribution	Adjusting	10%	Volatile
January	Penalty & Interest, Additional Filings	Other	7%	Random
	Additional Filings	Adjusting	10%	Volatile
February	4th Quarter Withholding & Est. Payments	Withholding	83%	Predictable*
March	Fiduciary & Delinquent Returns	Other	7%	Random
May	1st Quarter Withholding & Est. Payments	Withholding	83%	Predictable*
June	2nd Quarter Withholding & Est. Payments	Withholding	83%	Predictable*
	Unallocated Withholdings	Other	7%	Random
July	2nd Quarter Withholding & Est. Payments	Withholding	83%	Predictable*
	Penalty & Interest	Other	7%	Random
August	2nd Quarter Withholding & Est. Payments	Withholding	83%	Predictable*
September	Adjusted Final Distribution	Adjusting	10%	Volatile

Note: Estimated payments are a volatile piece of the quarterly withholding distributions. Capital Gains are responsible for the volatility (10-15% of distribution).

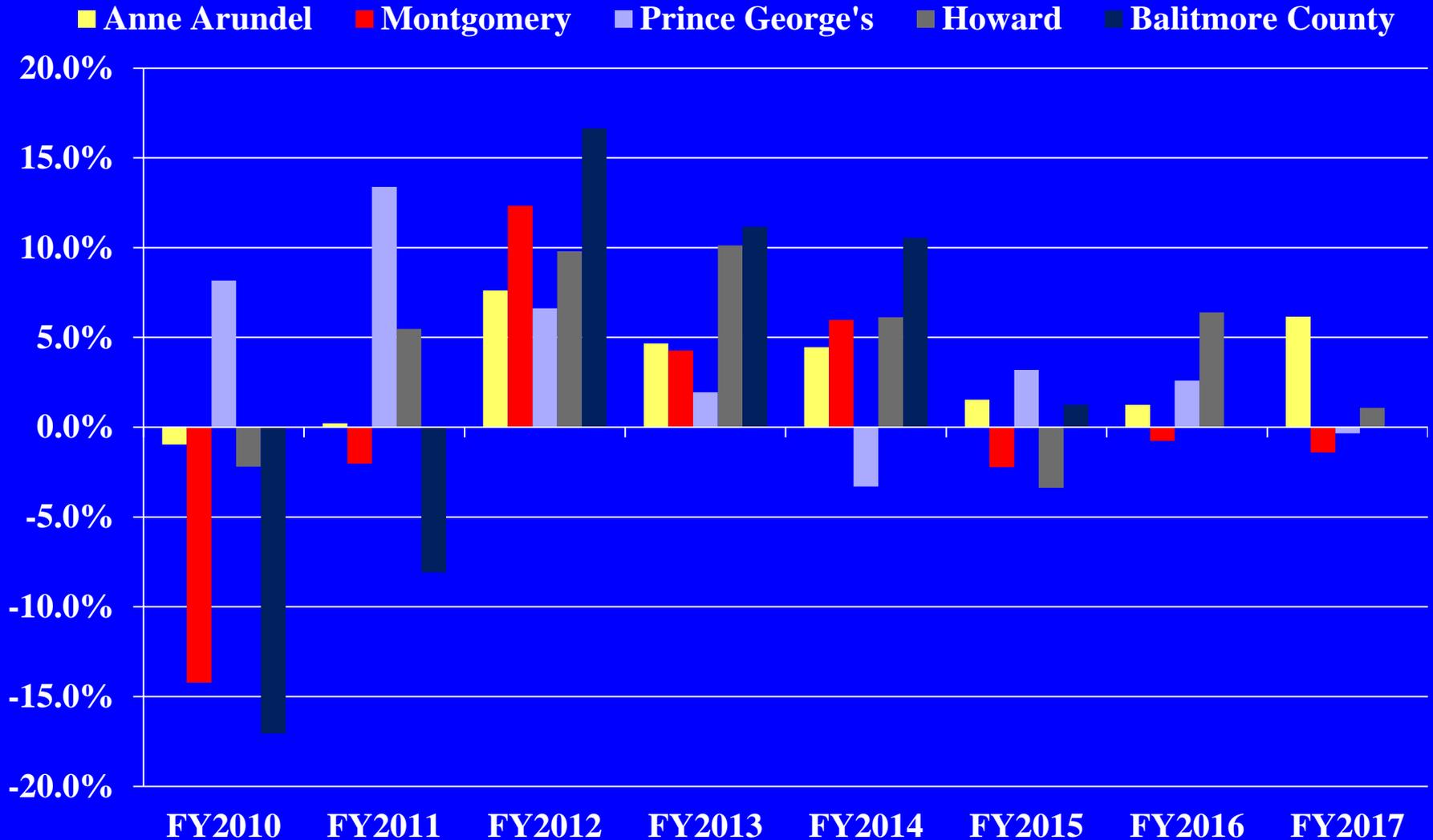
Income Tax Revenue Since 1990



Income Tax Budget to Actual



Income Tax Budget to Actual



Recordation & Transfer Tax

Underlying Variables – Housing Prices and Number of Transactions

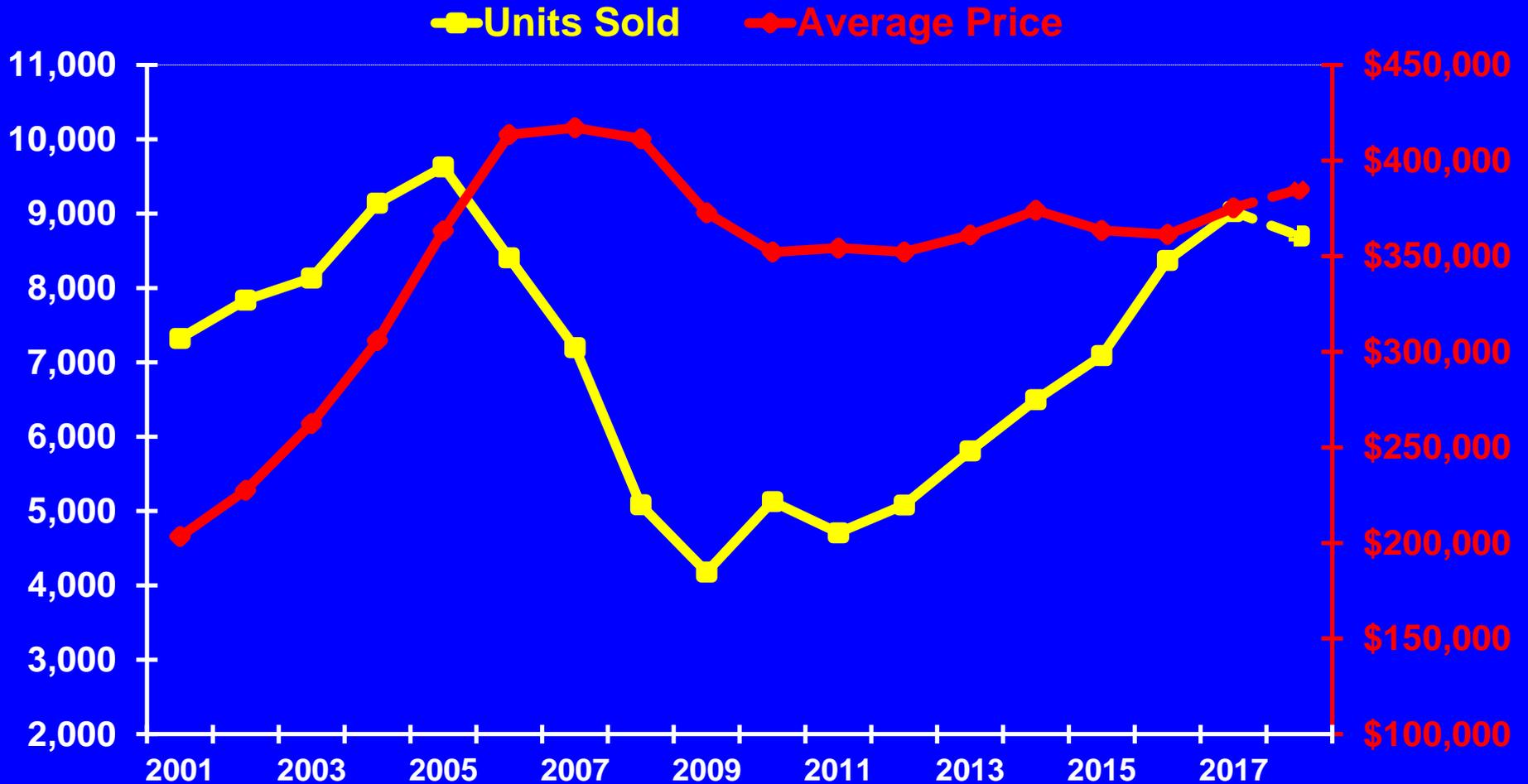
- **Secondary Market Home Sales**
- **Primary Market Home Sales**
- **Commercial Market Secondary Transactions**
- **Development Land Transactions**
- **Refinancing Transactions**

Economic Impacts

- **Mortgage Interest Rates**
- **Down Payments – Equity**
- **Tax Law**

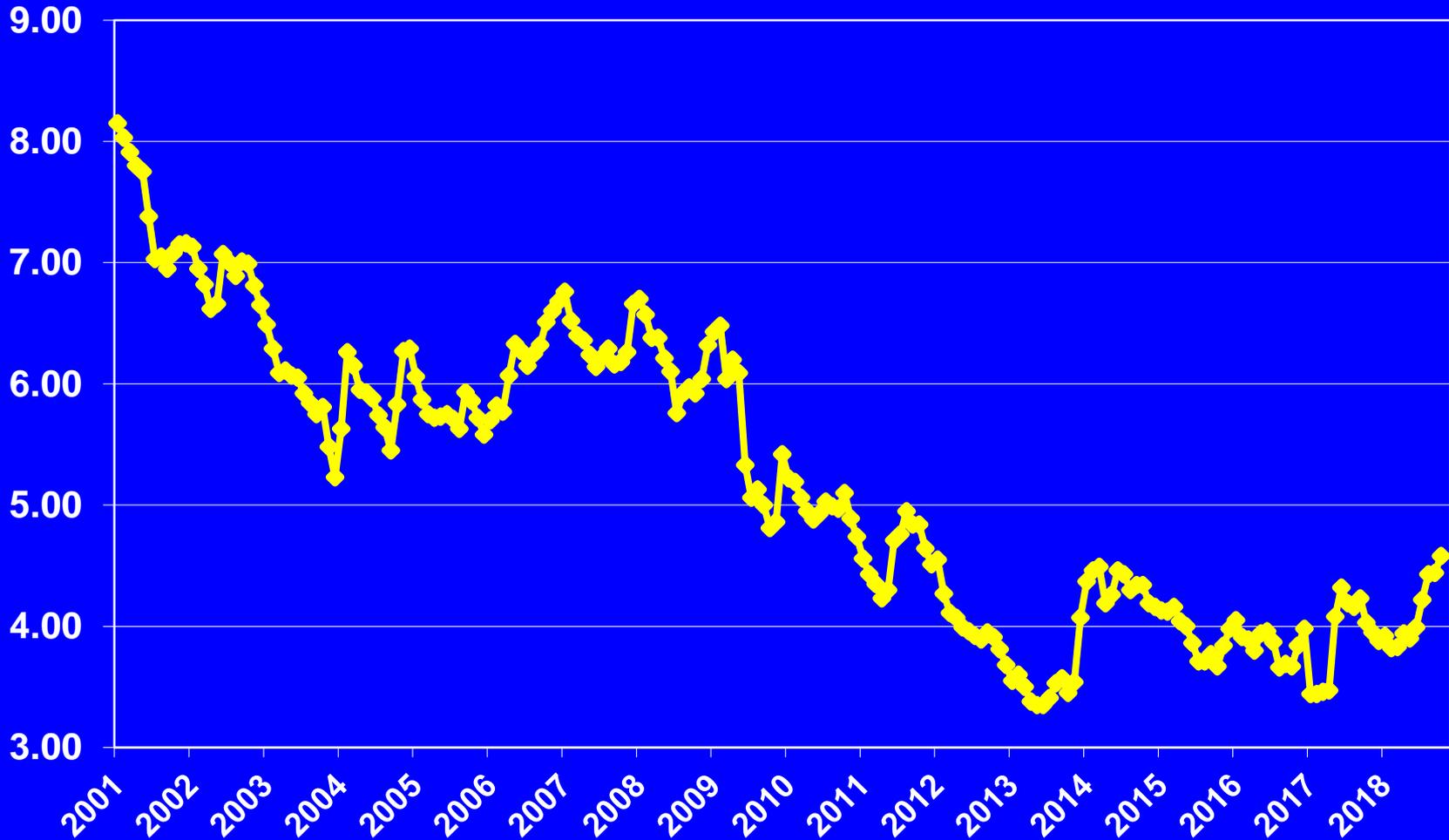
Anne Arundel Housing Transactions

Fiscal Year



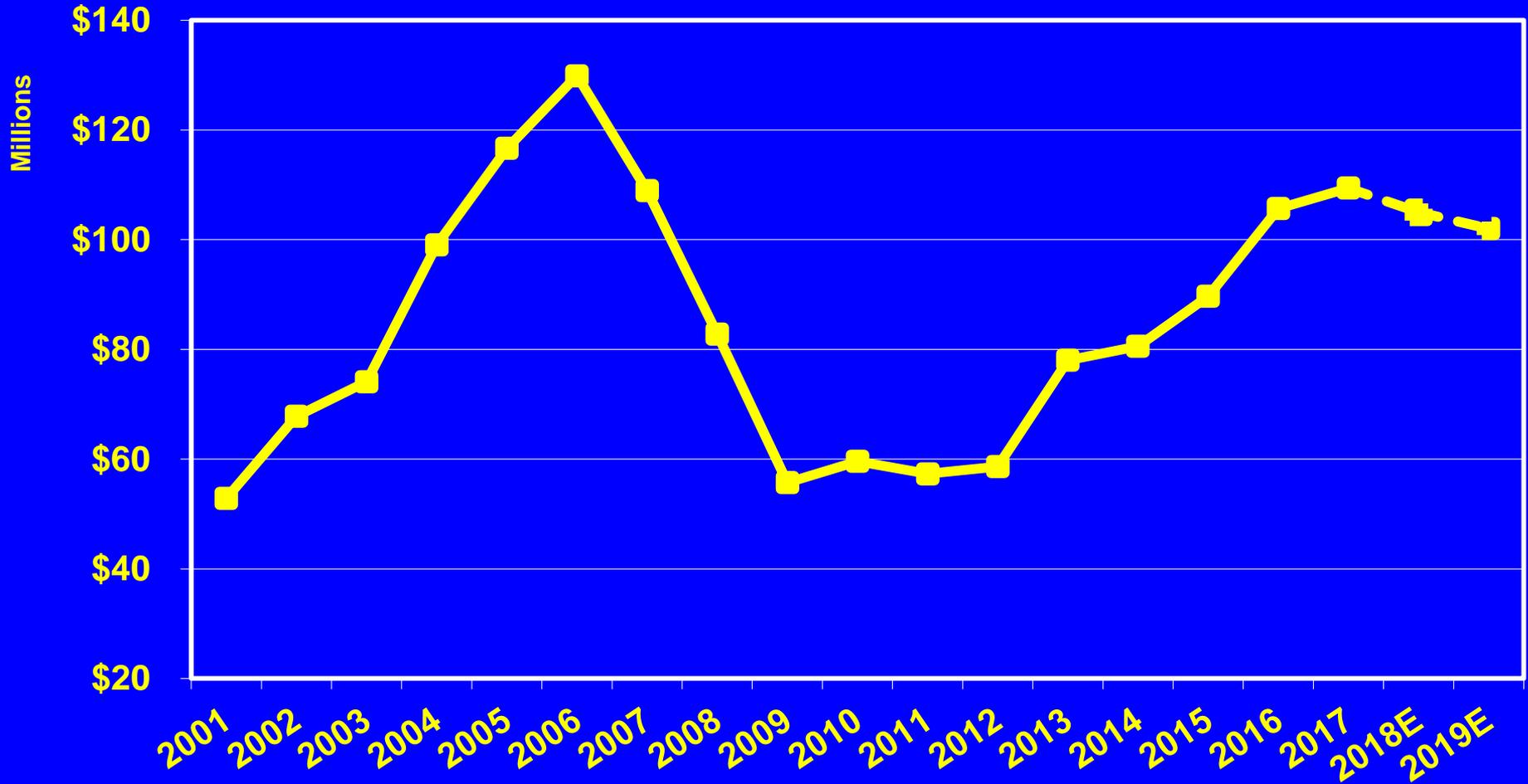
Mortgage Interest Rates

(Fiscal Years)

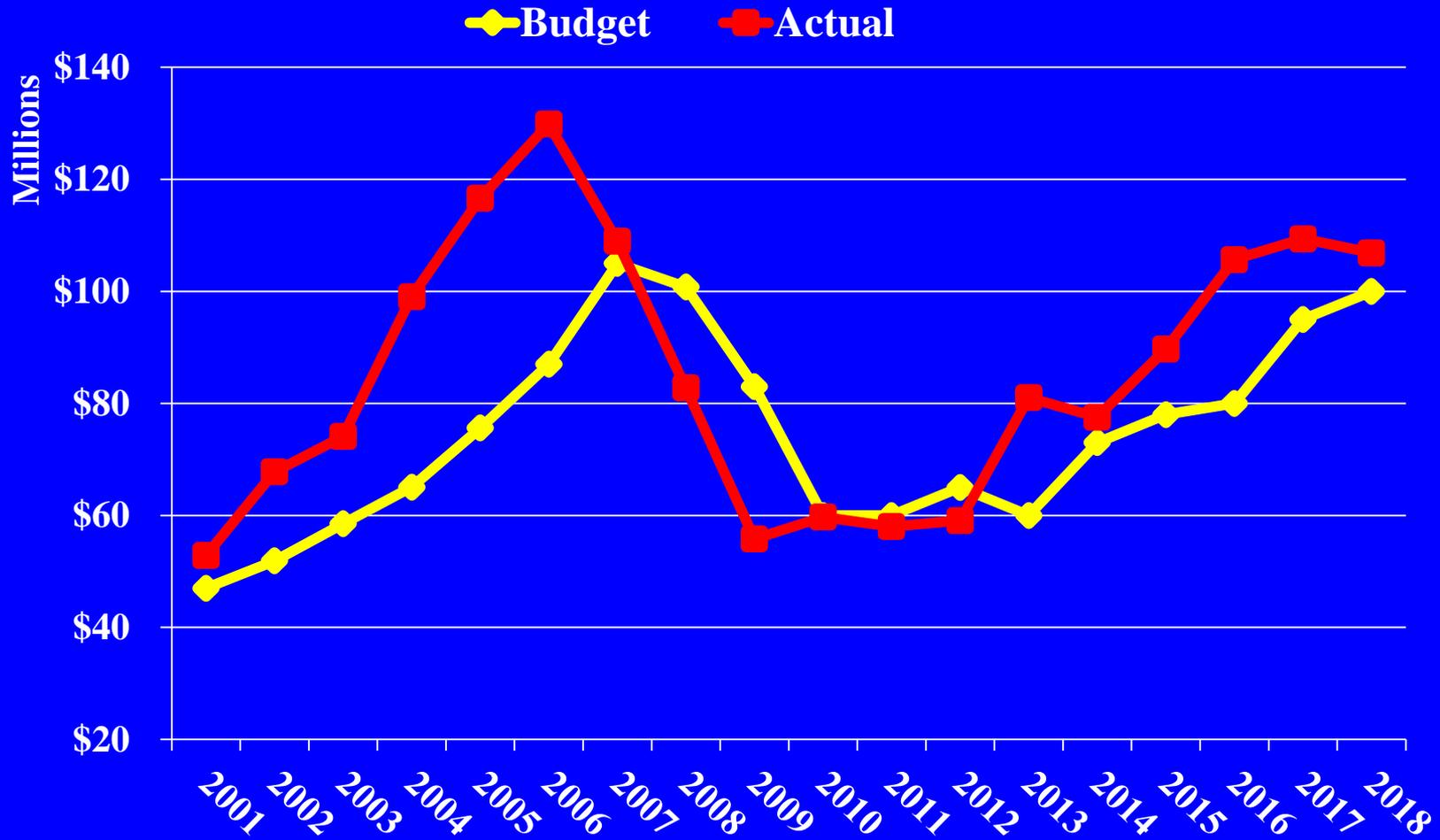


Recordation & Transfer Tax Revenue

Fiscal Year



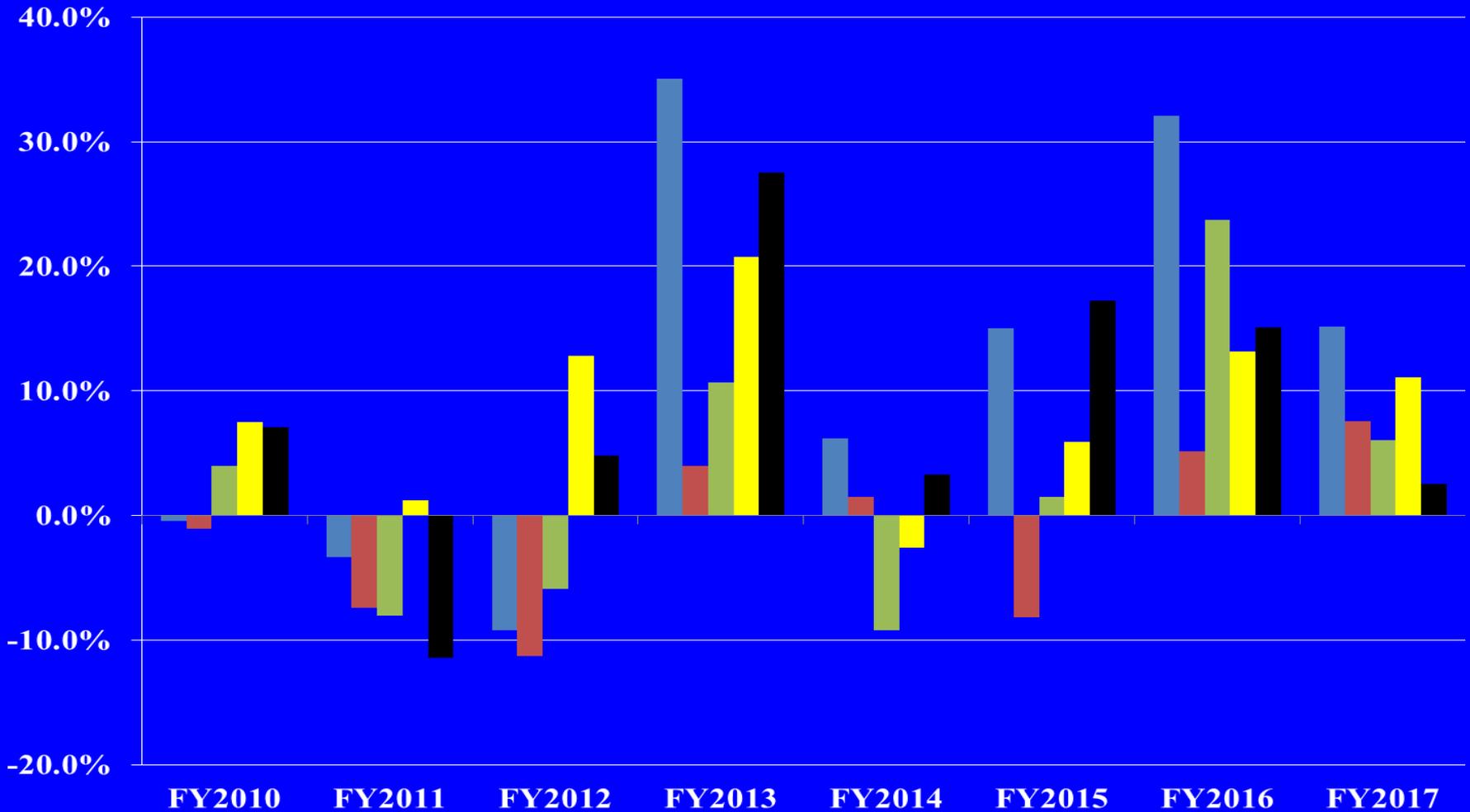
Recordation & Transfer Tax Budget to Actual



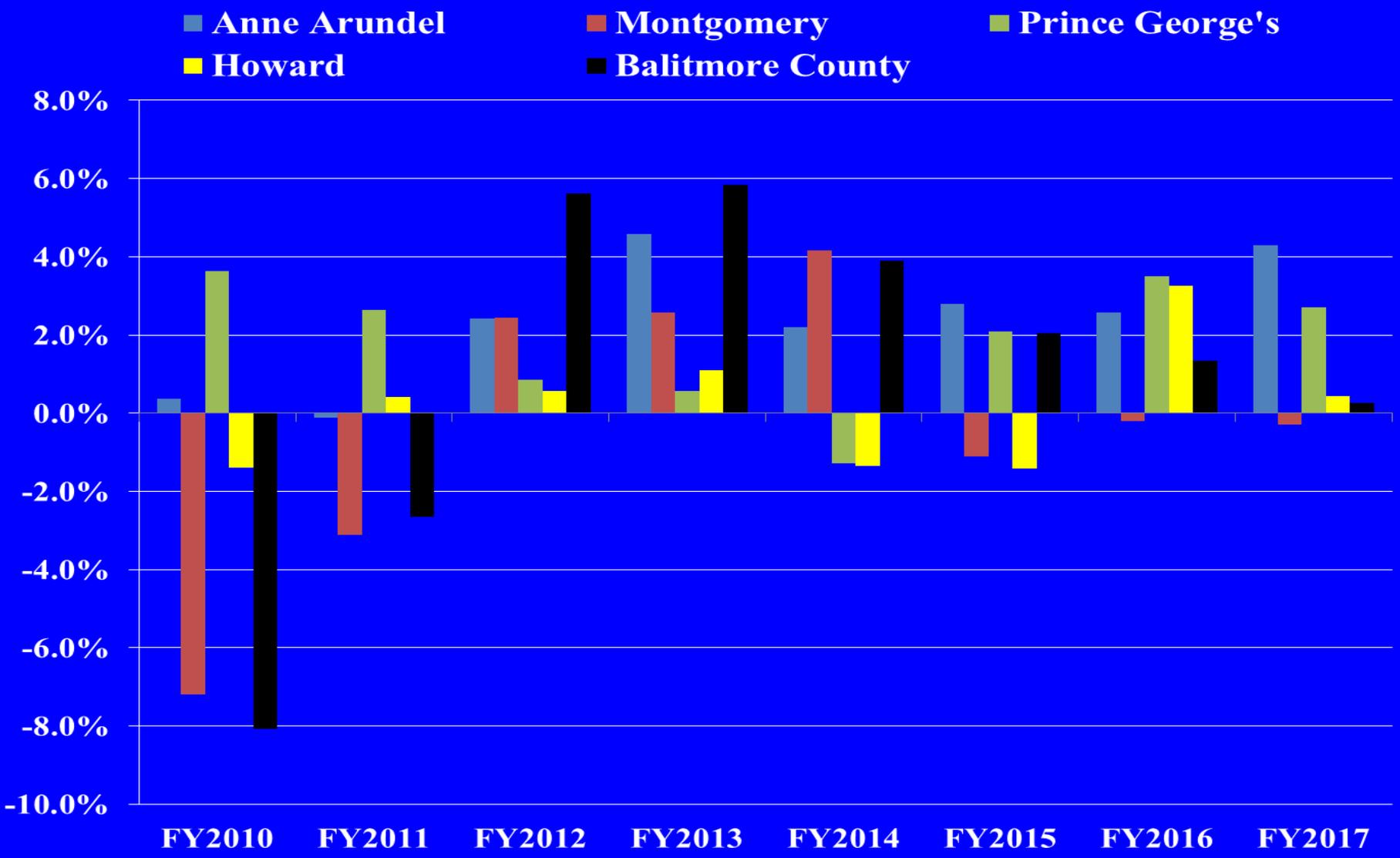
Recordation & Transfer Tax

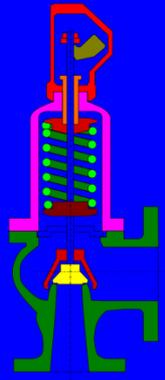
Budget to Actual

■ Anne Arundel ■ Montgomery ■ Prince George's ■ Howard ■ Baltimore



Total Revenue Budget to Actual

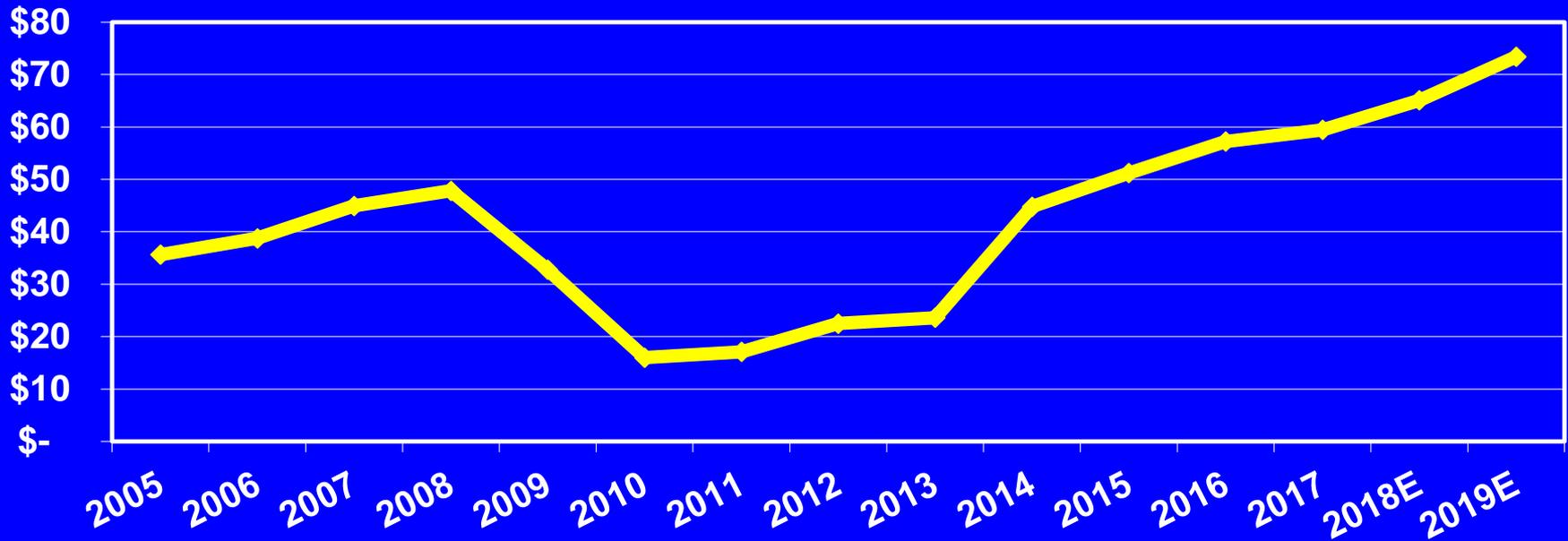




Rainy Day Fund

Revenue Estimator's Safety Valve

\$ in millions



**ROUGHLY RIGHT,
RATHER THAN
PRECISELY WRONG!!**