

Revenue Working Group

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Disclaimer: This presentation includes the most current data provided by the State Comptroller's office. Much of this data may change significantly once the State performs an audit of its income tax distributions and once the full impact of the Wynne case is determined.



Meetings

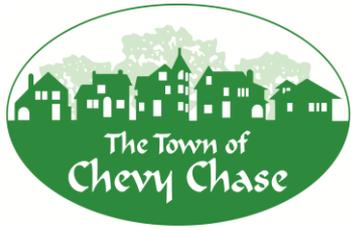
July 9, 2015

August 18, 2015

September 15, 2015

November 18, 2015

The group was tasked by the Town Council to research methodologies to better predict income tax revenue, as well as the property tax .



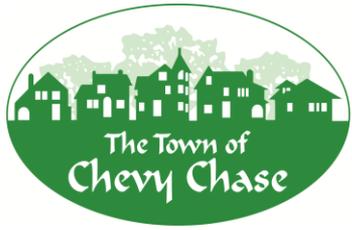
Two Separate Issues

- Fiscal Year Revenues Fell from \$4.0m in FY14 to \$3.0m FY15: The 'why'
 - The State's reimbursement process produced half of this decline
 - The other half was a decline in taxes paid by residents
- Issue Two: Ongoing Revenue
 - A State mistake over last five years
 - Trying to estimate this to the best of our ability



Annual Income Tax Revenue May Fall From \$4m to Less Than \$2m

- Fiscal Year 14 Revenue of \$4.0m included catch-up payments that didn't recur
 - \$3.5m was a more sustainable level
 - Fiscal Year vs. Tax Year
- Tax Year Revenue also fell to \$3.0m
- Tax Years 2010-2013 included a mistake at the State Level
 - Non-resident tax returns were included in the Town tax revenue



Fiscal Year vs. Tax Year

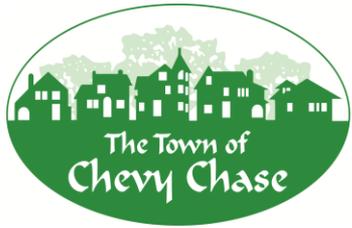
- The Town uses a Fiscal Year starting in July
- Taxes are paid on a calendar year basis
 - But.....taxpayers have until October of the following year
- Maryland begins paying the Town in May 2013 for Tax Year 2013, but doesn't know final taxes owed until November 2014
- The State estimates those payments using the last **actual** tax year
 - Two estimates using Tax Year 2011 Income
 - Two estimates using Tax Year 2012 Income
 - One final payment using Tax Year 2013 Actual Income
- That last payment is the key - it determines our Fiscal Year revenue – and we'll call it the 'Catch-up' payment



Tax Year 2013

	May 13	Jun 13	Nov 13	Feb 14	Nov 14	Total
\$ Paid	\$763,975	\$458,385	\$791,808	\$791,808	\$211,046	\$3,017,023
Town Fiscal Year	FY13	FY13	FY14	FY14	FY15	
Estimated Income	\$3,395,445	\$3,395,445	\$3,519,149	\$3,519,149	\$3,017,023	\$3,017,023
Estimate Basis	TY11	TY11	TY12	TY12	Actual	Actual

- The State estimates our entire Fiscal Year of payments using the Tax Year information we/they determine in November
- But, the Catch Up payment is volatile
 - If revenue has increased since the prior tax year, it can grow quite quickly
 - If revenue has decreased, it can be very little – as seen above



Tax Year 2013 Income Determines Fiscal Year 2015 Income

Fiscal Year 2015 Income By Source					
	Tax Year	Tax Year	Tax Year	Other	
	2013	2014	2015	Adjustments	Total
July				\$ 8,380	\$ 8,380
August					\$ -
September					\$ -
October				\$ 62,043	\$ 62,043
November	\$ 211,046	\$ 678,830			\$ 889,877
December					\$ -
January	\$ 20,515			\$ 7,657	\$ 28,171
February		\$ 678,830			\$ 678,830
March				\$ 5,195	\$ 5,195
April					\$ -
May			\$ 678,830		\$ 678,830
June			\$ 407,298		\$ 407,298
Total	\$ 231,561	\$ 1,357,661	\$ 1,086,128	\$ 83,275	\$ 2,758,625

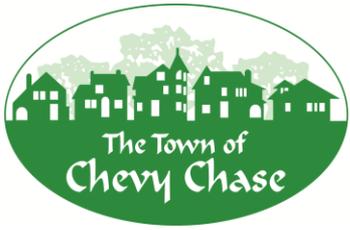
Other than adjustments, every Fiscal Year 2015 payment is based off the actual Tax Year 2013 income

TY 2013 Income: \$3,017,023

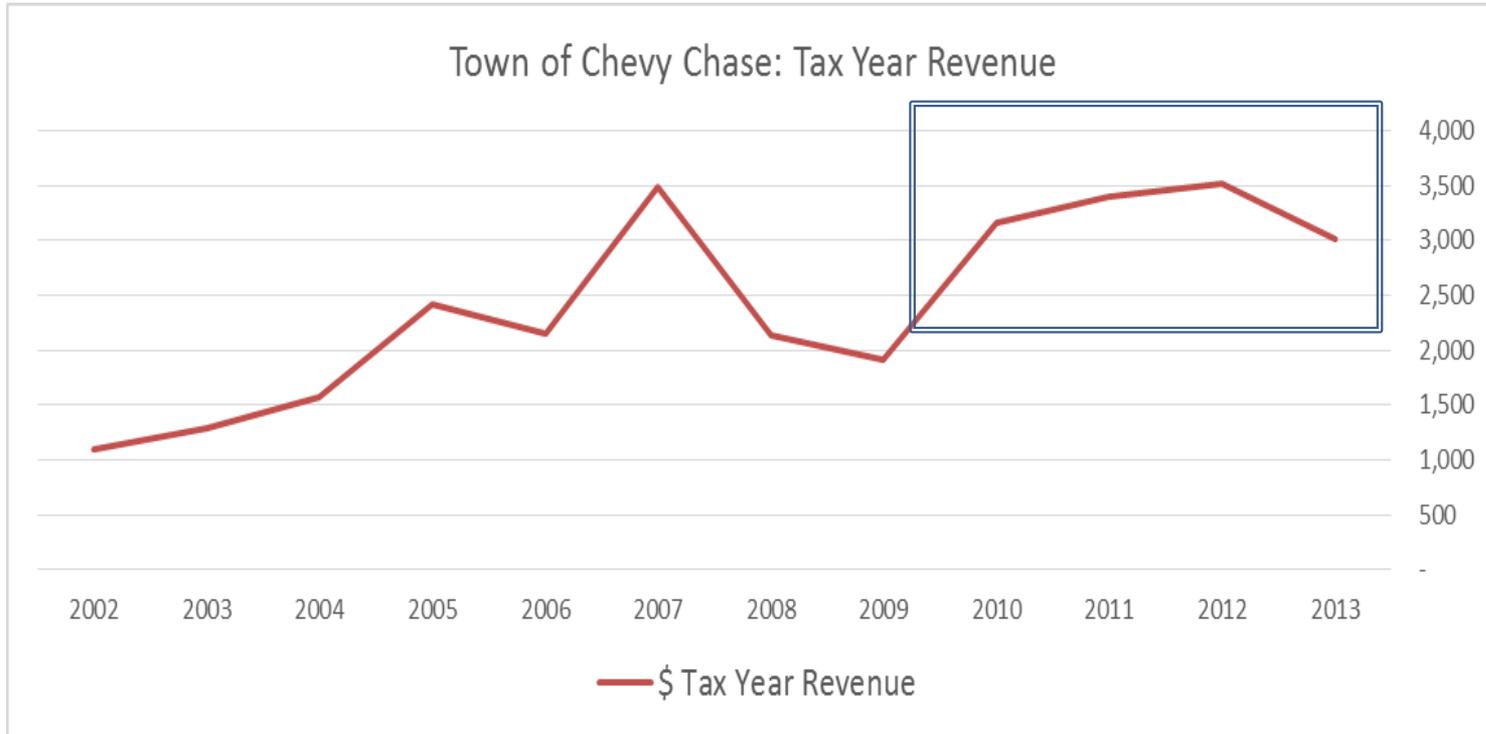
\$211,046 = Remaining payments on \$3,017,023 in income

Full estimated Payment: \$678,830 = \$3,017,023 * 90% * 25%

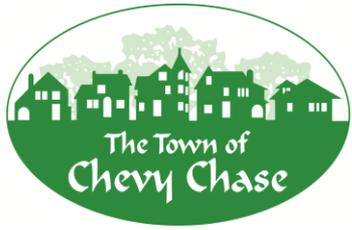
Partial Estimated Payment: \$407,298 = \$678,830 * 60%



Focus on Tax Year Revenue, Not Fiscal Year

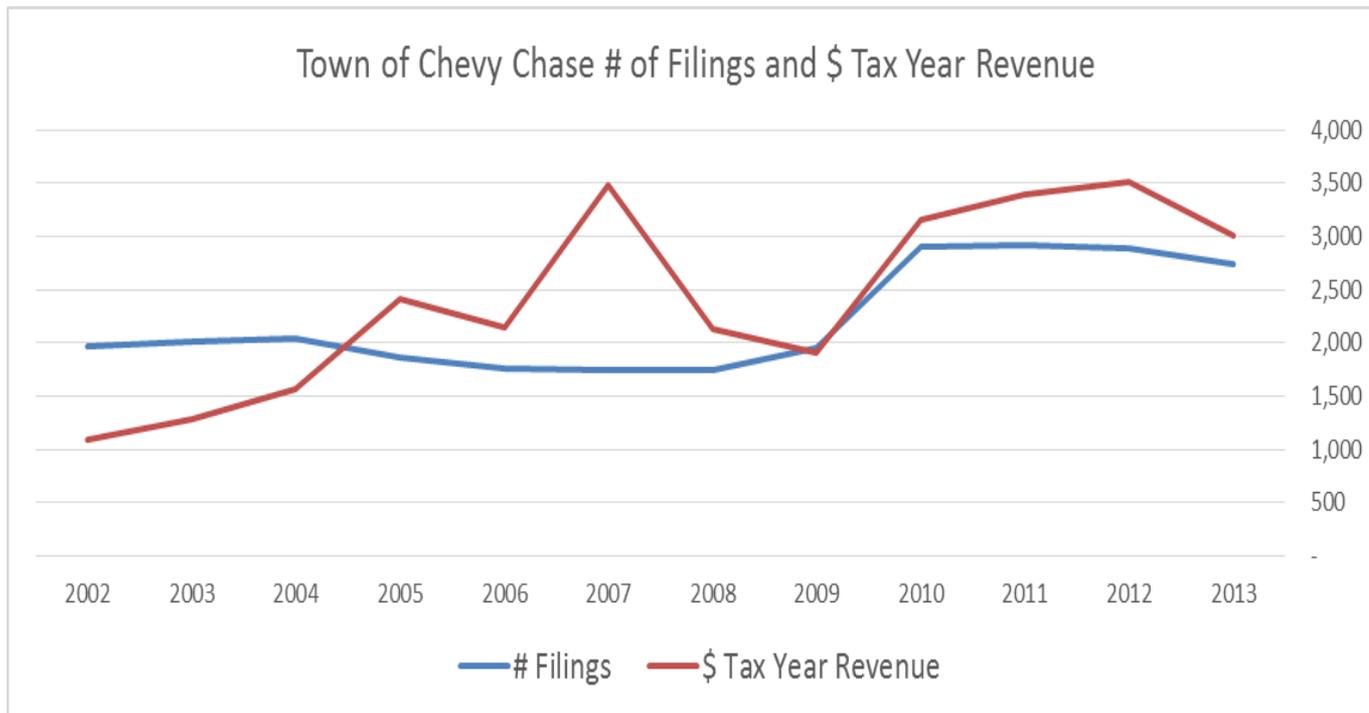


- Tax Year revenue fell \$500k between TY12 and TY13
- The other \$500k decline in Fiscal Year revenue came from a smaller Catch Up payment – we can anticipate this in the future

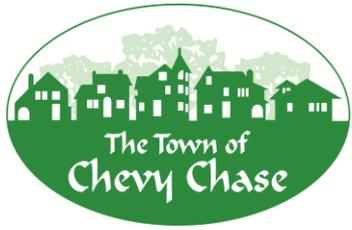


The Next Problem

- Adding one other data point to our chart revealed another issue

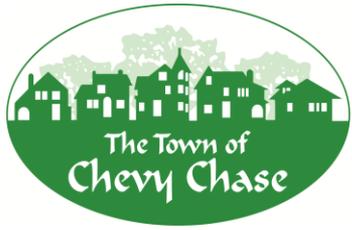


- When revenue increased in 2010, so did the number of tax returns



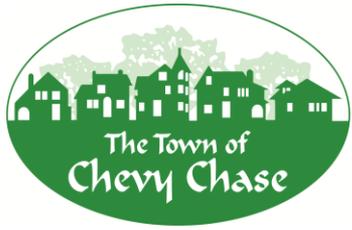
Background on Increase in Tax Returns Allocated to the Town in Tax Year 2010

- 2010 – State introduced new Geolocation system for allocation of tax revenue
- Town staff asked the State to confirm all the addresses assigned to the Town were correct
- State has confirmed that the increase in tax returns was an error on their part
 - The error is corrected in our Tax Year 14 revenue (but they may give us the excess amounts temporarily)
 - For 2010-2013, the State has not confirmed the exact amount of the error
- Rather than waiting approximately six months, we are proceeding with estimates for FY16 revenue (determined by TY14 data) and cumulative excess payments



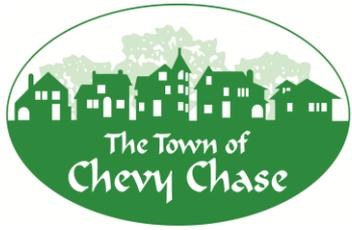
Tax Year 2014

- The Town's November distribution was \$444,414 for Tax Year 15
- The funding formula says the State will distribute 25% of 90% of the last known Tax Year to the Town (plus the Catch Up payment, which was \$0)
- Using algebra, Tax Year 14 revenue is \$1.975m
- We can use that figure to estimate **Fiscal Year Income Tax Revenue of +/- \$1.8m for FY2016**
- **Our current budget (FY2016) Income Tax Revenue is \$2.95m**
- The State, in the interim, is giving us the amounts they previously said were 'excess'



Estimating Excess Amounts Received

- Two basic methods for a rough estimate
 - Use % increase in filings as a proxy:
 - 45% increase suggests \$936k per year or \$3.7m from 2010-2013
 - Use % increase in revenue as a proxy:
 - 65% increase suggests \$1.25m per year or \$5.0m from 2010-2013
- Tax Year 2014 was overpaid as well though
 - \$2.6m received to date
 - \$1.975m is adjusted TY14 level
 - Therefore, overpayment to date is 625,000



Summary – Income Taxes

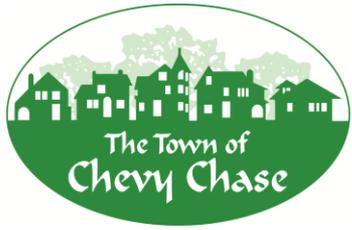
- Current fiscal year revenue may fall far short of budget by \$1.15m

	Budget	Estimated
FY16	2,950,000	1,800,000

- Cumulative excess payments received will be significant

	Low End	High End
Excess payments	4,300,000	5,600,000

- Town reserves were \$7.5m at the end of FY15



Next Steps

- Refine ongoing income tax estimates
 - Dependent on State for most information
- Determine cumulative excess payments
- Consider reinstating a Town property tax
 - \$120k reimbursement from County if Town has a property tax
- Wynne decision effect on tax revenue
 - Ongoing revenue effect should be mostly in TY14
 - Cumulative repayment owed over 2 years (\$500k estimate prior to allocation issue)