

Revenue Working Group Summary December 8, 2015

The Revenue Working Group was established by the Town Council in June 2015 to help develop ways to better predict future income tax receipts after a **\$1 million drop in income tax revenue between FY14 and FY15**. Of note, the **Town of Chevy Chase reserves were \$7.5 million at the end of FY15**.

To complete its mission, the Group requested data from the State of Maryland on tax filings and discovered that the **drop in income tax revenue was the result of two separate issues**:

- 1) The way the State allocates taxes over the year is based on forecasts with reconciliation payments in November every year. **When those reconciliation payments are significantly different between years, the amount available for the fiscal year changes significantly**. The reason forecasts are needed is that people often file extensions, and the actual payments for a tax year aren't known for a year later. So, Maryland begins paying the Town in May 2013 for Tax Year 2013, but doesn't know final taxes owed until November 2014.

The Group figured out a way for the Town to reduce the volatility of the estimate of tax receipts for upcoming fiscal years, but these will still be estimates and not exact numbers.

- 2) **Town residents paid less in income taxes** that directly resulted in a drop in Town income tax revenues.

During the course of its work, **the Revenue Working Group uncovered that the State of Maryland mistakenly allocated taxes to the Town from people who don't live in the Town**. This mistake coincides with the State's introduction of a geolocation system in 2010 that allowed software to match addresses with jurisdictions for tax purposes. Following the implementation of the geolocation system, the number of tax filings from the Town jumped by 49 percent.

As a result of the State's mistake, **the State may have provided an estimated \$4.9 million extra to the Town**. This number is still tentative because we don't have final data from the State – they are starting an

audit because the geolocation mistake didn't just affect the Town of Chevy Chase. It affects other jurisdictions as well.

It is not clear if, when or how much the State will request that the Town return of the roughly \$4.9 million in excess tax receipts that were inadvertently sent to the Town's coffers. The Revenue Working Group expects the State to start that discussion with the Town and other affected jurisdictions after their audit is completed in six months.

The Town will also have to contend with the revenue effects of the Wynne case that should show up in tax year 14 and hit the budget in FY16. Initially, **cumulative repayment owed by the Town over 2 years as a result of the Wynne case was \$500,000**. On one hand, since excess households might be included in this estimate because of the geolocation mistake, the amount owed may end up being lower. On the other hand, depending on the outcome of the court case that may extend the amount of years of necessary repayment, the amount owed may be higher.

For FY16, the Town's budget included the expectation of \$2.95 million, and the Revenue Working Group estimates that the actual revenue will be closer to \$1.8 million, resulting in a \$1.15 million difference between expected and actual income. **The Town Council will need to figure out how to deal with the FY16 \$1.15 million shortfall – this was not discussed by the Revenue Working Group.**

The Revenue Working Group relies on the State to provide most of the tax information and, as soon as the necessary data is provided, the Group will be able to refine ongoing income tax estimates and determine the total excess payments to the Town (i.e. double check to see if it is really \$4.9 million). The Group will also examine options on the implementation of a property tax and if even a small tax will trigger a \$130,000 reimbursement from the County.