

**From: Council President's Office - Budget Team**

**Date: 8/15/16**

**RE: PRELIMINARY ANALYSIS: Controller's June Economic Report: Evaluation of Controller's Revenue Projection for FY16, with Focus on BIRT**

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### **Summary**

This document assesses the Controller's June Economic Report's tax revenue projections compared to the Administration's tax revenue projections, with a specific focus on Business Income and Receipts Tax (BIRT) revenues. The Administration believes – and we agree -- that the Controller's Report's preliminary estimate of BIRT revenues does not appear to account for the tax credits that businesses will likely claim at the end of the fiscal year. Those anticipated tax credits constitute the primary reason why the Administration projected BIRT revenues for FY16 to be \$435 million in its March 31 quarterly report – which represented a reduction of approximately \$19 million from its original projection issued in June 2015.

**More recently**, the Administration submitted its Modified FY17 Five-Year Plan (FYP) to PICA, which includes updated projections of **BIRT revenues, equal to \$455 million for FY16**. This is likely due to signs of stronger growth. Note, however, that the Administration's projection still remains about \$44 million under the Controller's preliminary estimate of \$499 million. The revised Administration projection reflects an approximate increase of 4.6% (or \$20 million) in BIRT revenue compared to its projection released at the end of the 3<sup>rd</sup> quarter, to signify a modest level of growth.

The Administration has also updated most of the other tax revenue projections for FY16, which is now expected to bring in approximately **\$2.951 billion in total tax revenue**, or about \$15 million more than what was anticipated to be collected as of the 3<sup>rd</sup> Quarterly Report. This, however, is also almost \$50 million less than what the Controller's Report anticipates the City to collect. The Administration is projecting slight decreases in Wage and Net Profits, Sales, and Real Estate taxes (compared to the earlier projection), which partially offsets the anticipated \$20 million increase in BIRT. We will have a more definite number on BIRT collections, and all tax revenue collections, at the end of August (which is the end of the fiscal year's accrual period).

### **Comparison of Projections**

Included on the following pages are three tables and three charts highlighting the differences between tax revenue projections – estimated at four different snapshots in time.

**Table 1 and Chart 1** show the **major tax revenue categories** at these different projection timeframes: the Administration's "Adopted" projections (as of June 2015); the Administration's 3<sup>rd</sup> Quarter - Quarterly Report projections (as of 3/31/16); the Controller's Report preliminary estimate projections (as of 6/31/16); and the Administration's Modified FY17 FYP projections (as of early August 2016). The Administration updated its projections for the City on March 31<sup>st</sup> of this year to reflect a combined \$29

million increase in the major revenue streams compared to the Adopted Budget, and again in August 2016 to reflect a combined \$39 million increase in major tax revenue streams compared to the Adopted Budget. Total FY16 projected revenues in the Controller's Report are approximately \$88 million above the Administration's FY16 Adopted projections, mostly due to their preliminary estimate of BIRT revenues equaling \$499 million. Regardless of which BIRT projection ends up being more accurate, the jump in overall tax revenues represents stronger than projected growth in Wage, BIRT, and Realty Transfer taxes, likely due to more positive business forecasts (as outlined in the Controller's Report).

**Table 2 and Chart 2** highlight the differences between **BIRT** projections at the different snapshots in time referenced above, over the past 5 fiscal years. We also included the Administration's most recent projection of **\$455 million for BIRT, as of early August 2016** in **Chart 1**. As you can see, BIRT is very volatile and hard to predict, and the City has both over-stated and under-stated its projections over the past 5 years. Last fiscal year (FY15), for example, the Administration over-estimated BIRT revenues by about \$28 million. Overall, the average between the difference of actual and projected BIRT revenues, as of the end of the 3<sup>rd</sup> quarter of the relevant fiscal year, is about 1.3% (or \$4.6 million), which is nominal relative to the size of the tax.

**Table 3 and Chart 3** show the differences between **Sales Tax** projections at different snapshots in time (the same time periods as referenced above), also over the past 5 fiscal years. The Administration has updated its projection for the Sales Tax in the Modified FY17 FYP, and expects it to bring in **approximately \$168 million**. This amount would allow approximately \$9 million to be dispensed into the Pension Fund, after the first \$120 million of the proceeds of the 1% Sales Tax is paid to the School District, followed by \$15 million to repay debt service borrowed by the City for the School District's benefit. This would mark the first year that the Pension Fund would receive any additional dollars from the Sales Tax extension legislation passed by Council a few years ago. As seen in the table, the Sales Tax is also volatile throughout the year, and depends on many macro-economic conditions.

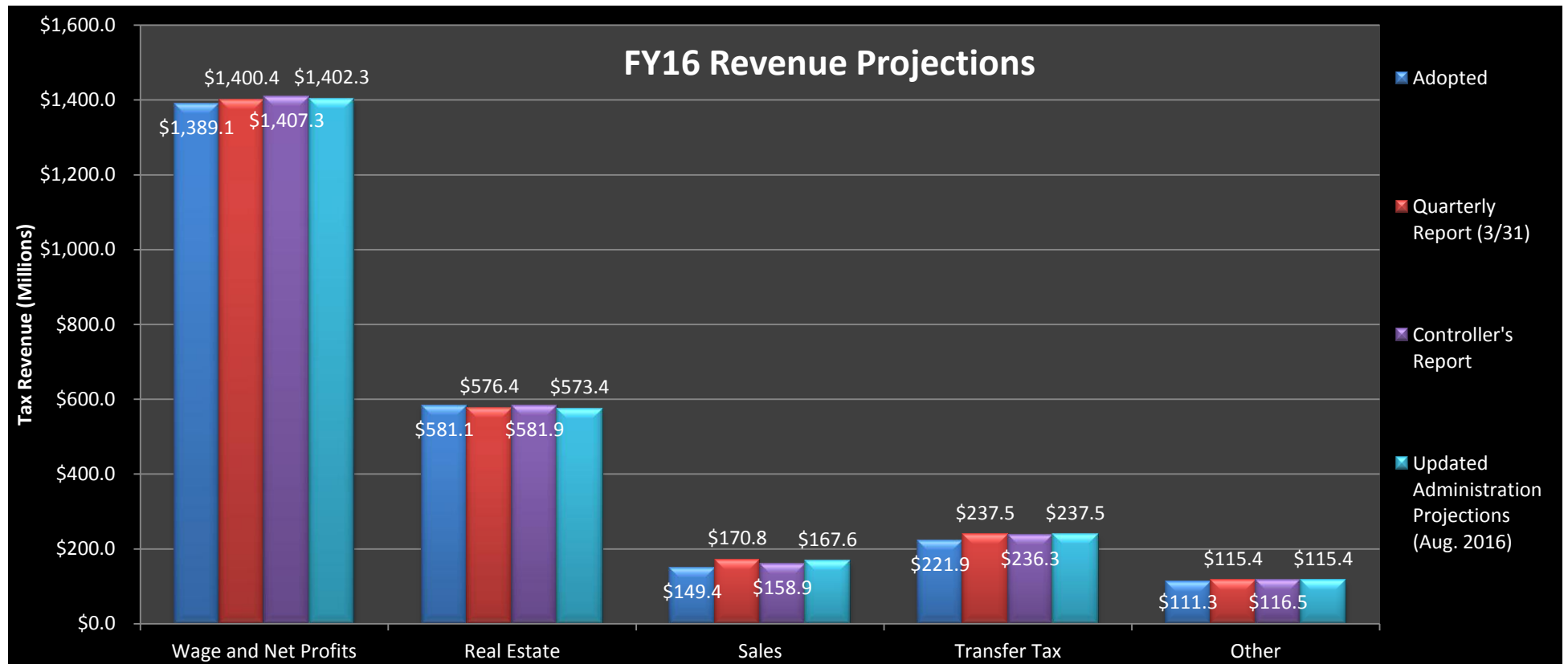
Please let me know if you need any additional information or have any further questions. At the end of this month, we will also prepare a summary comparing the FY17 Modified Five-Year Plan to the Original FY17 Five-Year Plan (introduced in Council this spring). The last PICA meeting to consider the revised plan will occur later this month. Once the PICA meeting is concluded, we will have a better idea of the approval status of the Modified Five-Year Plan, and the associated tax revenue projections and expenditure estimates for this year and next. A large cost driver in the Modified FY17 FYP is the additional dollars set aside for labor costs (including the costs associated with the recent contract agreed upon between the City and DC33). Please keep in mind that the revenue projections are not likely to change between now and the end of August; we did not want to report on the Five-Year Plan's expenditure adjustments until the Plan is approved, since there is more flexibility within spending measures. The final, audited revenue numbers will be available this Fall once the books are closed at the end of August.

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**Table 1:**

Controller's Report vs. Quarterly Report and Budget in Brief and Modified FYP				
(Amounts in Millions)	Adopted	Quarterly Report (3/31)	Controller's Report	Modified FYP (Aug. 2016)
Wage and Net Profits	\$1,389.1	\$1,400.4	\$1,407.3	\$1,402.3
Real Estate	\$581.1	\$576.4	\$581.9	\$573.4
BIRT	\$453.9	\$435.2	\$499.2	\$455.2
Sales	\$149.4	\$170.8	\$158.9	\$167.6
Transfer Tax	\$221.9	\$237.5	\$236.3	\$237.5
Other	\$111.3	\$115.4	\$116.5	\$115.4
Data Warehouse- Enhanced Collection	\$5.7	-	-	-
<b>Total</b>	<b>\$2,912.4</b>	<b>\$2,935.7</b>	<b>\$3,000.1</b>	<b>\$2,951.4</b>

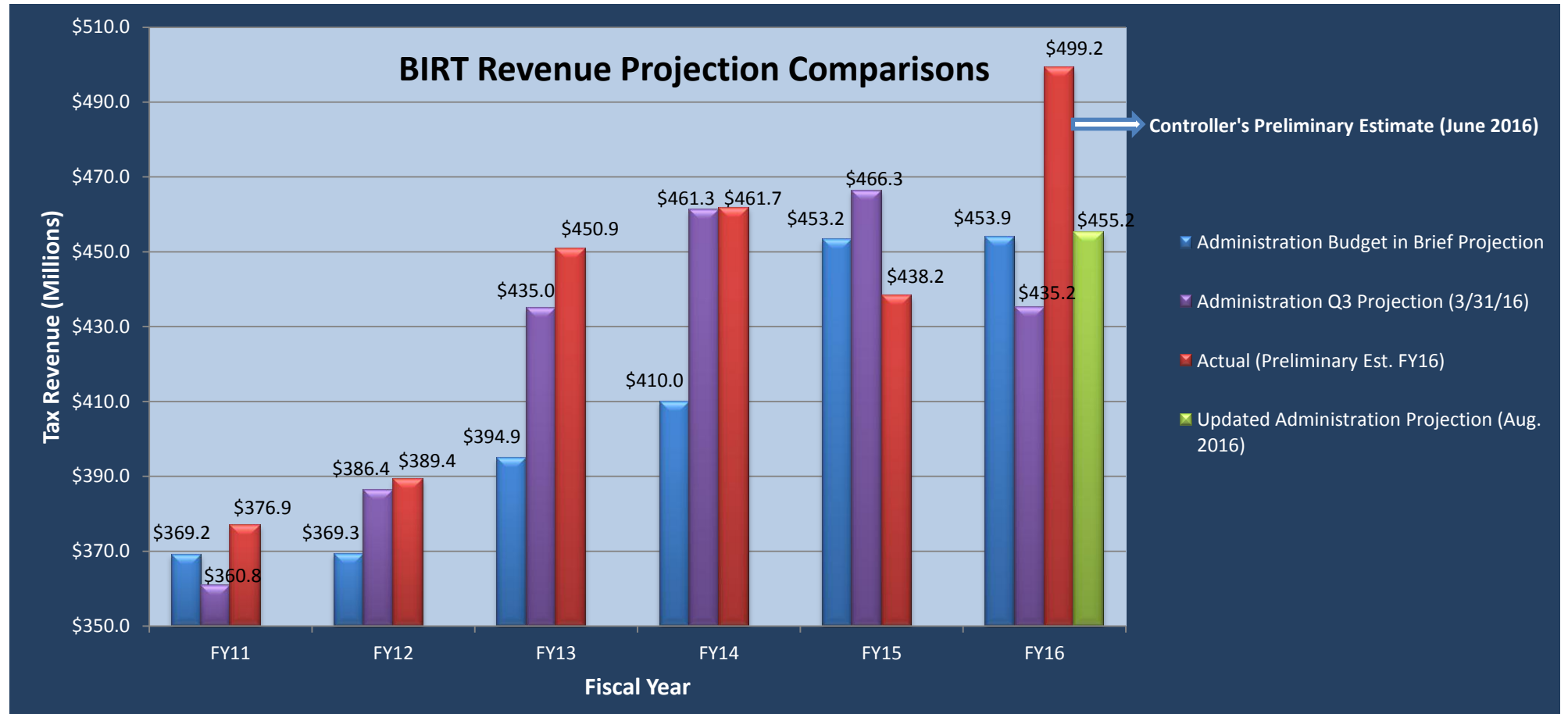
**Chart 1:**



**Table 2:**

BIRT Revenue Projections - Comparing Budget in Brief to Q3 Managers Report to Modified FYP and Actual Revenues Collected								
(Amounts in Millions)	FY11	FY12	FY13	FY14	FY15	FY16		
Administration Budget in Brief Projection	\$369.2	\$369.3	\$394.9	\$410.0	\$453.2	\$453.9		
Administration Q3 Projection (3/31/16)	\$360.8	\$386.4	\$435.0	\$461.3	\$466.3	\$435.2		
Actual (Preliminary Est. FY16)	\$376.9	\$389.4	\$450.9	\$461.7	\$438.2	\$499.2		
<b>Updated Administration Projection (Aug. 2016)</b>							<b>\$455.2</b>	<b>Average</b>
Difference: Actual (or Projection) minus Q3	\$16.1	\$3.0	\$16.0	\$0.4	-\$28.1	\$20.0	<b>\$4.6</b>	
% Difference	<b>4%</b>	<b>1%</b>	<b>4%</b>	<b>0%</b>	<b>-6%</b>	<b>5%</b>	<b>1.3%</b>	
Difference: Actual (or Projection) minus Adopted	\$7.8	\$20.1	\$56.0	\$51.7	-\$15.0	\$1.3	<b>\$20.3</b>	
% Difference	<b>2%</b>	<b>5%</b>	<b>14%</b>	<b>13%</b>	<b>-3%</b>	<b>0%</b>	<b>5.2%</b>	

**Chart 2:**



**Table 3**

Sales Revenue Projections - Comparing Budget in Brief to Q3 Managers Report to Modified FYP and Actual Revenues Collected								
(Amounts in Millions)	FY11	FY12	FY13	FY14	FY15	FY16		
Administration Budget in Brief Projection	\$241.9	\$256.5	\$259.3	\$272.6	\$154.6	\$149.4		
Administration Q3 Projection (3/31/16)	\$247.5	\$250.2	\$259.3	\$264.9	\$143.8	\$170.8		
Actual (Preliminary Est. FY16)	\$244.6	\$253.5	\$257.6	\$263.1	\$149.5	\$158.9		
<b>Updated Administration Projection (Aug. 2016)</b>							<b>\$167.60</b>	<b>Average</b>
Difference: Actual (or Projection) minus Q3	-\$2.9	\$3.3	-\$1.7	-\$1.8	\$5.7	-\$3.2	<b>-\$0.1</b>	
% Difference	<b>-1%</b>	<b>1%</b>	<b>-1%</b>	<b>-1%</b>	<b>4%</b>	<b>-2%</b>	<b>0.2%</b>	
Difference: Actual (or Projection) minus Adopted	\$2.7	-\$3.0	-\$1.7	-\$9.5	-\$5.1	\$18.2	<b>\$0.3</b>	
% Difference	<b>1%</b>	<b>-1%</b>	<b>-1%</b>	<b>-3%</b>	<b>-3%</b>	<b>12%</b>	<b>0.8%</b>	

**Chart 3**

