



DEPARTMENT OF FINANCE

Marc Elrich
County Executive

Michael Coveyou
Director

April 29, 2025

Honorable County Executive
Members of the Montgomery County Council

Ladies and Gentleman:

I am pleased to present the findings of the Twenty-Sixth Annual Business Advisory Panel that was convened on February 20, 2025. The enclosed report was prepared by the County's Department of Finance pursuant to Article XI, Section 20-61, of the Montgomery County Code.

The report consists of a summary of the presentation prepared for the panel by Dr. Daraius Irani, Vice President, Strategic Partnerships & Applied Research, Towson University, a summary of the panel's advice, a list of the panelists, and the information package that the Department of Finance ("Department" or "Finance") sent to the panelists in advance of the meeting. The information packet includes the agenda for the meeting, concise statements by the Department on the County's economic outlook, and the framework for discussion.

The accompanying materials reflects the economic advice given by the Business Advisory Panel.

Sincerely

Michael J. Coveyou

Department of Finance

101 Monroe Street, 15th Floor • Rockville, Maryland 20850 • (240) 777-8860
www.montgomerycountymd.gov

**FINDINGS OF THE TWENTY-SIXTH ANNUAL
BUSINESS ADVISORY PANEL
FEBRUARY 20, 2025**

Pursuant to Article XI, Section 20-61, of the Montgomery County Code, the Department of Finance (“Finance”) convened a meeting of the Business Advisory Panel (“BAP”) on February 20, 2025. The County Council of Montgomery County established the BAP in 1999 to seek the advice of industry experts in key sectors of the County’s business community concerning the current and future state of the County’s economy and the impact on revenues. The law requires that the Director of Finance convene the panel annually and relay the panel’s advice to the County Executive and County Council. The panel was convened in person in the Montgomery County Executive Office Building at 101 Monroe Street, Rockville, MD. The following report summarizes the BAP’s discussion and advice.

The BAP members representing various sectors of Montgomery County’s economy were joined by County Executive Marc Elrich and Council President Kate Stewart.

The meeting was structured to allow all participants to participate in a briefing on local, state, and regional economic trends and to share their insights about future economic prospects in the County. The participants also discussed Finance’s economic forecasts. For purposes of this report, the results of the discussions are presented in three sections. The first two sections present the key economic trends (a presentation of key regional trends by Daraius Irani, Ph.D., Vice President, Strategic Partnerships & Applied Research, Towson University followed by Finance’s economic assumptions). The third section summarizes the subsequent discussion with participants.

The Director of Finance, Michael Coveyou, opened the meeting and welcomed the participants. He further explained the purpose of the Business Advisory Panel and its use in the preparation of the County Executive’s recommended budget. The County Executive then delivered opening remarks which covered the timing of the State’s budget after the County’s budget is required to be introduced and the information gap that causes, particularly in a difficult budget year. He indicated that there were likely to be fewer new initiatives in the upcoming budget due to this being a challenging year. Nonetheless, he provided information regarding economic development initiatives undertaken this year, including international travel to make new connections in Europe and Asian markets to attract business to Montgomery County. Recent discussions with Governor Moore have focused on the need for increased State incentives to attract business to Maryland to better compete with other states and cities such as South Carolina and Texas and Boston.

Council President Stewart addressed the panel with some comments regarding the Council’s role in the budget process, notably that the Council is the last place that the budget goes for approval. This year she intends to make sure that the Council takes a holistic approach to the budget. She further noted the previous Council action on impact taxes and the creation of an infrastructure working group which is moving forward with a hearing at the end of February.

I. Key Regional Economic Trends

Dr. Daraius Irani, Ph.D. Vice President, Strategic Partnerships & Applied Research, Towson University presented a summary of key regional economic trends. Dr. Irani started his presentation with a focus on the national economy and then reviewed the state of the Maryland economy.

National Indicators:

The indicators are distinctly mixed with some showing strong economic conditions, while others are more concerning. He described the current disruptive approach from the federal government/Trump Administration as ‘break it first and see what happens’.

- The Federal Reserve is likely to pause the reduction of interest rates as inflation measures approach targets, but consumer prices and rents continue to rise and consumer sentiment struggles.
- Mortgage rates have dropped a full point from their high in November of 2023, but the US has a shortage of around 6 million homes and the income needed to afford housing payments on the median home exceeded median household income for the fourth year in a row. Additionally, the cost of building materials continues to surge indicating home supply will remain low.
- Output per worker in the US exceeds that of workers in other advanced economies. However, labor force participation has not recovered from the Pandemic and further workforce growth depends on immigration which is at risk from policies pursued by the Trump administration.
- The economy faces headwinds from long term factors such as required spending to mitigate adverse effects of climate change, funds that could otherwise have been used for other investments. Meanwhile hopes for an economic boom as a result of artificial intelligence have not yet materialized.

Maryland State Economy:

The state of Maryland faces various economic challenges, along with the challenges related to the Trump Administration’s effort to shrink the federal government. Additional challenges cited that could limit economic growth include:

- A structural state deficit
- Population decline
- Labor shortages
- Lack of affordable housing

II. Current Montgomery Economic Conditions and Future Economic Assumptions

Economic Conditions

Finance staff provided panel participants with a paper prepared by staff that analyzed the County’s economy and provided assumptions about the economic outlook. The paper analyzed a number of economic indicators including employment, personal income, real estate, inflation,

construction, and interest rates. The report on the County's economy and economic assumptions is included in the appendix. Summary of those assumptions are:

- Resident employment¹: Resident employment from calendar year (CY) 2023 to CY2024 grew by 0.27% and is forecast to grow at an average annual rate of 0.3% from CY2024 to CY2032
- Unemployment: The County's unemployment rate climbed from 1.9% in CY2023 to 2.7% in CY2024, the result of an increase in the labor force by 5,999 people but an increase of 1,428 employed residents. Finance assumes that the economy will remain at or near full employment, with unemployment between 2.9% and 3.4% through CY2032
- Residential Real Estate: Residential home sales in CY2024 continued at a reduced pace of 9,658 sales, comparable to CY2023 (9,253 sales) but notably down from the peak of 15,672 sales in 2021. Home sales are expected to decline in CY2025 to 8,823, before growing at a modest pace from CY2026 to CY2032.
- Construction Activity: The number of new residential units and the total value of those units dropped notably in CY2024, by 37.6% and by 25.3% respectively. This comes after a 5-year period during which the amount and value of new residential units remained relatively constant, potentially indicating that high interest rates and increased construction costs are affecting the financing and feasibility of new projects. Montgomery County does not forecast future construction activity. Non-residential projects and value in CY2024 were similar to the levels experienced in CY2023.

II. Discussion Summary

The discussion of the participants covered the following topics.

Reduction in Federal government spending and workforce:

Participants asked Dr. Irani about the potential for a reduction in the federal workforce in Maryland and the impacts to the state economy. Dr. Irani related that his team is anticipating a 10% reduction in the civilian government workforce in Maryland, around 14,300 jobs. In addition there could be a total workforce reduction of 45,000 when including contractors and other private sector employees. This would generate a loss of output of \$18.24 billion and reduce state income taxes by \$200 million.

Competitiveness of the Maryland economy and promotion of Montgomery County:

Participants noted that while Maryland does lack affordable housing, the cost of housing in the state is less expensive than in other parts of the region and so while this is a problem it cannot fully explain the state's perceived lack of competitiveness. They then asked if the economic headwinds stem from a mismatch of workforce skills to the available jobs, the overall tax burden, or the lower

¹ Resident employment includes those who live here but may be employed inside or outside of the County.

levels of investment in infrastructure. Dr. Irani acknowledged that Maryland is a high-tax state and that it has lagged behind in infrastructure development compared to its neighbors. When asked by County leaders what Montgomery County should promote or talk about to attract businesses participants opined that the County should look for opportunities to join neighbors to promote the region as the DC metropolitan area economy has to a large degree fallen behind the nation since the Pandemic.

Impact of rent stabilization on multifamily development:

Developers who engaged in the discussion stated that the investors needed to finance new multifamily projects are unwilling to invest due to Montgomery County's rent stabilization policy. One participant related that they know of a proposed project that stopped with the developer walking away from their \$2 million deposit to buy the land because they no-longer saw any profitable use of the property. Another participant stated that the economics of multifamily investment are unattractive right now with interest rates at 6.5% to 6.75%, and that even if interest rates decline to 5.5% new development would not be profitable.

Impact of federal government on the life science sector:

Participants discussed the life science sector as a key driver of the County economy and demand for space, noting that while it has been successful attracting investment it has been less investment in terms of total amount than competitive life science clusters elsewhere. Furthermore, participants worried that due to the reliance of the life science sector on federal investment, the sector could be at risk from Trump administration efforts to reduce federal government spending.

Changes in demand for space by tenants:

Participants discussed how demand by tenants for office space has changed since the Pandemic. Tenants are using less space per employee, have higher demand for the best quality office buildings ("trophy office"), and also require attractive amenities nearby. Participants acknowledged that the Pike & Rose district has done well at providing these types of spaces and amenities. However, the participants observed that the county as a whole has been relatively unsuccessful at attracting new business to locate here and that the occupants of new buildings primarily relocated from older properties elsewhere in the county.

**Business Advisory Panel
February 20, 2025**

Honorable Marc Elrich
County Executive

Ms. Kate Stewart
County Council President

Mr. Richard Madaleno
Chief Administrative Officer
Office of the County Executive

Mr. Michael Coveyou
Director
Department of Finance

PANELISTS

Mr. Andy Chodd
Partner
Minkoff Development Corporation

Ms. Cherylyn Freeman-Watkins
Co-Founder & President
Results One, LLC

Dr. Daraius Irani, Ph.D.
Vice President of Strategic Partnerships and Applied Research
Towson University

Mr. Devang Shah
Managing Partner
Law Office of Shah and Kishore

Mr. Kevin Beverly
Chair (Ex Officio)
Montgomery County Economic Development Corporation

Mr. Peter Briskman
Executive Managing Director
JLL

Mr. Todd Pearson
President & Chief Operation Officer
Saul Centers, Inc.

Ms. Silvani Nani
Chief Innovation Officer
Korabi Consulting Corp

Mr. Anthony Featherstone
Executive Director
WorkSource Montgomery

COUNTY STAFF

Ms. Jennifer Bryant
Director
Montgomery County Office of Management and Budget

Mr. Todd Fawley-King
Fiscal and Policy Analyst
Montgomery County Department of Finance

Ms. Nancy Feldman
Chief, Fiscal Management
Montgomery County Department of Finance

Mr. Ken Hartman
Assistant Chief Administrative Officer
Montgomery County Office of the Chief Executive

Mr. Dennis Hetman
Fiscal and Policy Manager
Montgomery County Department of Finance

Mr. Craig Howard
Executive Director
Montgomery County Council Staff

Mr. Scott Peterson
Manager of Media Relations and Communication Strategies
Montgomery County Office of the Chief Executive

Mr. David Platt
Chief Economist
Montgomery County Department of Finance

Debbie Spielberg
Special Assistant
Montgomery County Office of the Chief Executive

MONTGOMERY COUNTY

26TH ANNUAL

BUSINESS ADVISORY PANEL



FEBRUARY 20, 2025

Meeting

WHERE: EOB, 9th Floor, Large Conference Room

WHEN: Thursday, February 20, 2025, 3 PM

Agenda

- | | |
|-----------|---|
| 3:00 P.M. | Introduction, Michael Coveyou, Director,
Montgomery Department of Finance |
| 3:10 P.M. | Opening Remarks by Marc Elrich, County Executive |
| 3:20 P.M. | Daraius Irani, Ph.D., Vice President, Strategic Partnerships & Applied
Research, Towson University |
| 3:45 P.M. | Presentation of Department of Finance: Montgomery County economic
update and outlook |
| 4:00 P.M. | Roundtable discussion by participants |
| 5:00 P.M. | Adjournment |

ECONOMIC OUTLOOK

Montgomery County's economy continued to experience mixed economic performance during calendar year (CY) 2024, with growth in resident income levels and improved home sales, but flat resident employment, as well as a notable decrease in the number and value of construction projects. These mixed signals provide support for continued revenue growth in the short term, but possibly warn that in the long-term this growth may not be sustainable.

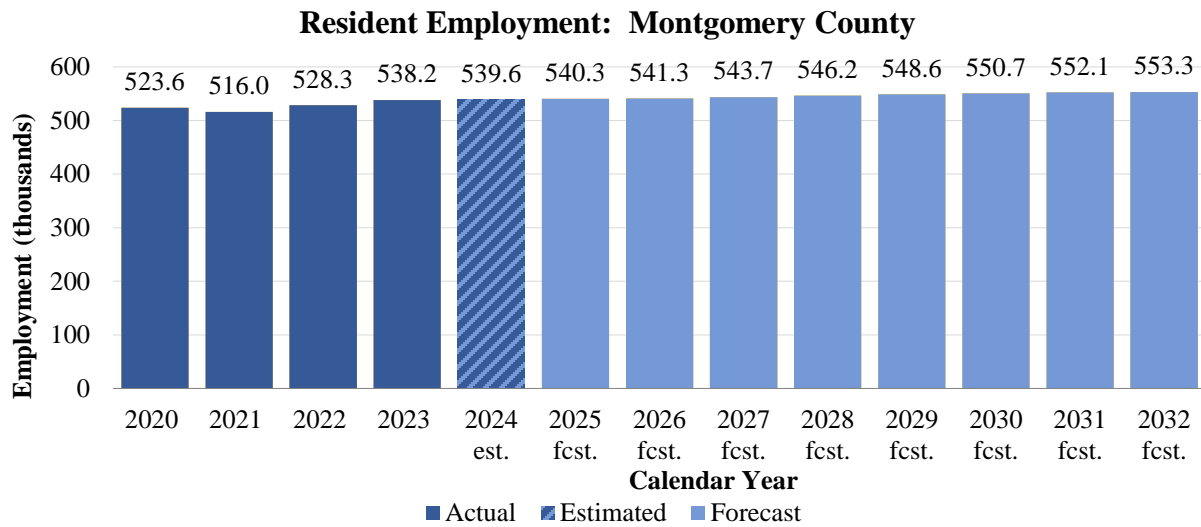
The future forecast for the local economy is also mixed. While resident income levels are anticipated to experience positive growth consistent with long term trends, resident employment and jobs located in Montgomery County (payroll employment) are expected to grow slower than past trends, by less than 1 percent each. The slow growth in both resident employment and payroll employment could generate considerable headwinds that limit local economic activity and ultimately revenue growth.

Finance's forecast incorporates the assumption that the United States will not experience a recession in the coming year. Despite considerable uncertainty in Federal policies and actions, economic indicators as yet do not broadly signal a potential slow-down in economic activity, supporting the decision not to incorporate a recession and assume a reduced level of revenue growth.

Employment

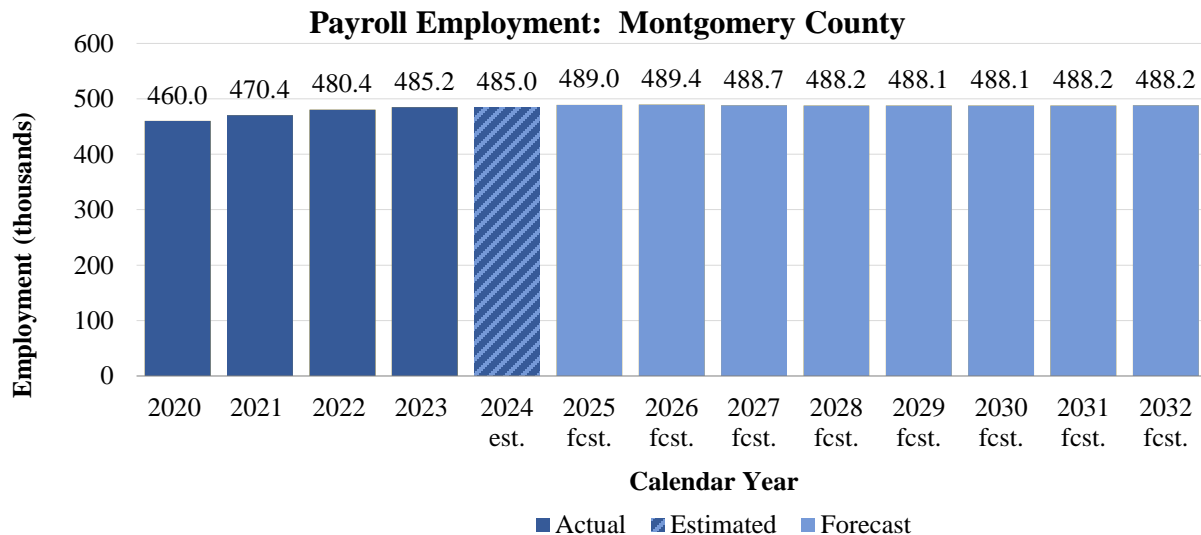
Resident employment refers to the number of residents employed, regardless of whether that job is located in Montgomery County or elsewhere. As Montgomery County receives income tax on resident income regardless of where income is earned, resident employment is a key indicator for income tax revenues.

Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics, U.S. Department of Labor, resident employment grew by 0.27% from CY2023 to CY2024, a slowdown from the prior two years. Finance forecasts that resident employment will increase at an average annual rate of 0.3% from CY2024 to CY2032. Resident employment is expected to attain its pre-pandemic levels by CY2030, a full decade after the pandemic occurred.



SOURCES: Maryland Department of Labor, Licensing and Regulation; Moody's Analytics; Montgomery County Department of Finance

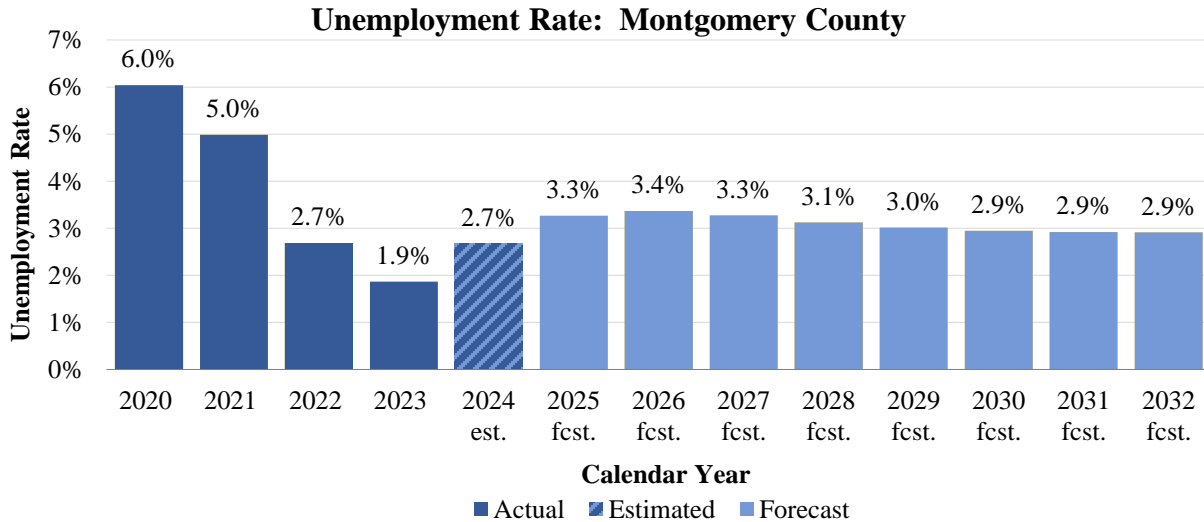
Payroll employment refers to the number of jobs located in Montgomery County and its growth is a result of business development and job creation locally, indicative of the strength of the local economy. Finance assumes that payroll employment will remain essentially unchanged from CY2025 to CY2032, neither increasing nor decreasing.



SOURCES: Bureau of Labor Statistics, U.S. Department of Labor; Moody's Analytics; Montgomery County Department of Finance

The unemployment rate is an indicator of general economic strength as a lower rate is usually associated with strong employment and with increasing wage income. In CY2024 the County's

unemployment rate climbed from 1.9% to 2.7%, the result of an increase in the labor force by 5,999 people but an increase of 1,428 employed residents. Finance assumes that the economy will remain at or near full employment, with unemployment between 2.9% and 3.4%, throughout the forecast period.

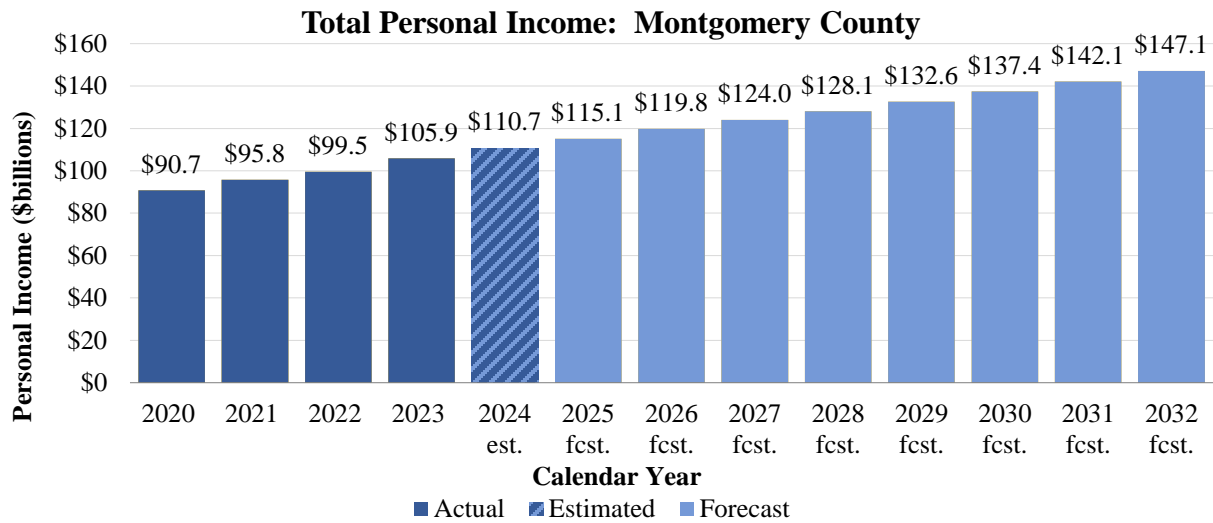


SOURCES: Bureau of Labor Statistics, Local Area Unemployment Statistics; Montgomery County Department of Finance

Resident Income

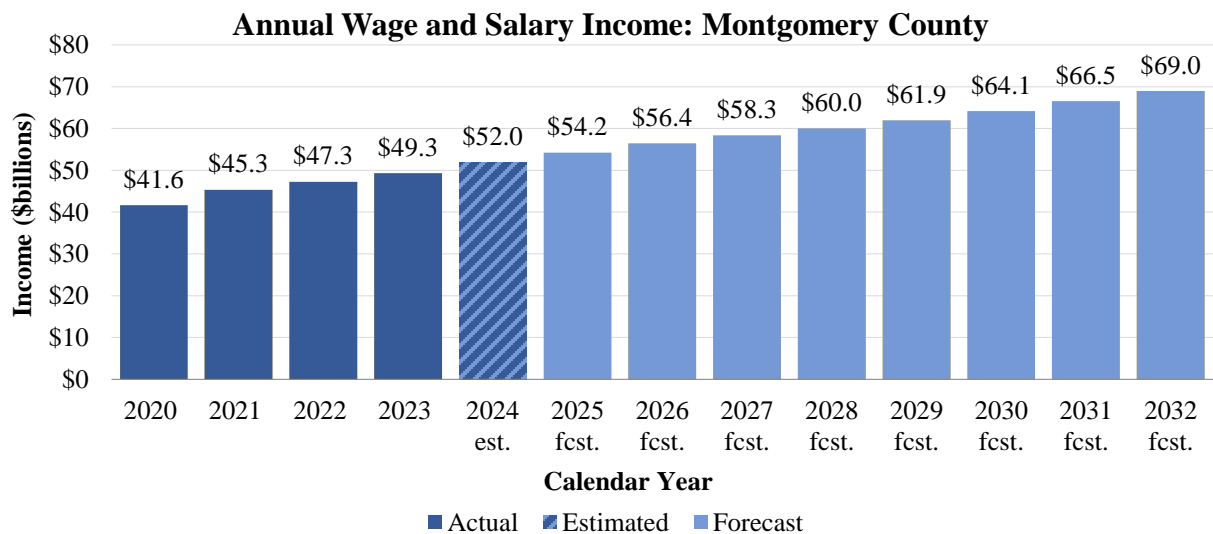
Total personal income refers to the sum of wage and salary income and non-wage income, which includes transfer payments, proprietor's income, dividends/interest/rental income, but excludes capital gains. Total personal income and its components are key factors for income tax revenues and the forecast growth in that revenue source.

Total personal income grew steadily coming out of the pandemic, at an annualized 4.25% pace from CY2019 to CY2024, reflecting the strength in the regional labor market and growth in household finances during this period. Finance assumes that total personal income in Montgomery County will continue to grow, increasing at an average annual rate of 3.6% from CY2024 to CY2032, an indication that income tax may continue increasing at a similar pace in nominal terms.



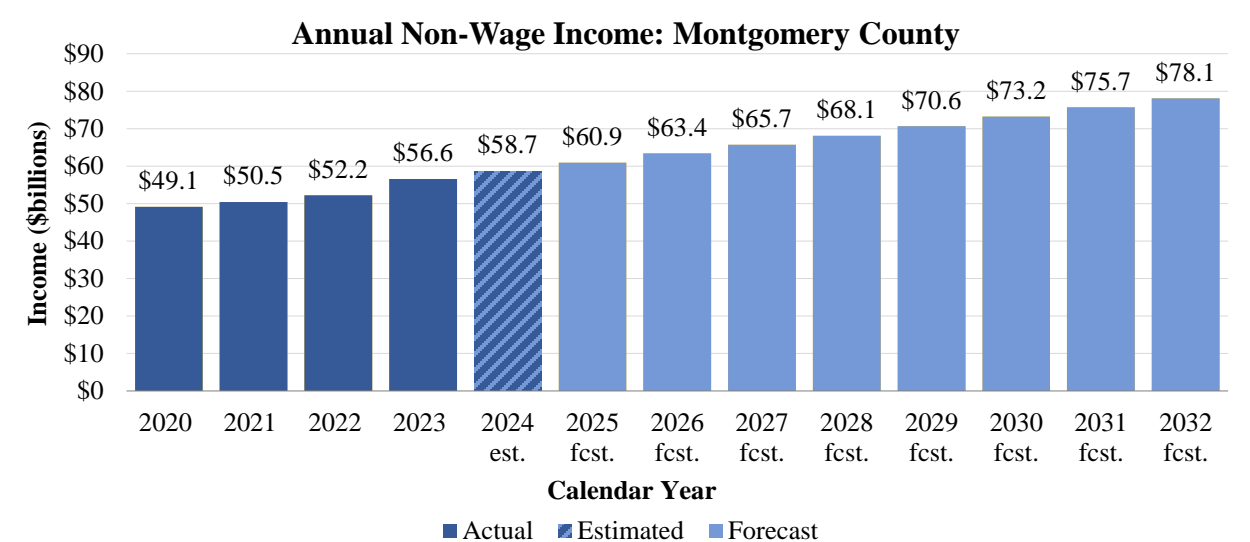
SOURCES: Bureau of Economic Analysis, U.S. Department of Commerce; Moody's Analytics; Montgomery County Department of Finance

Wage and salary income refers to employment income earned by salaried and waged employees and is impacted by labor market conditions, inflation patterns, and population growth/demographic changes in Montgomery County. Finance assumes wage and salary income will continue growing but at a slightly reduced pace from the recent past; wage and salary income grew at a 5.0% annualized pace from CY2019 to CY2024 and is expected to continue growing at a 3.6% annualized pace from CY2024 to CY2032. This growth rate is despite the fact that the number of employed residents is expected to stagnate, and thus reflects an increase in nominal terms in the wage per hour of employee labor.



SOURCES: Bureau of Economic Analysis, U.S. Department of Commerce; Moody's Analytics; Montgomery County Department of Finance

Non-Wage Income refers to various types of income not obtained through wages and salary, such as retirement and health benefits (see note below for specific components). Finance forecasts that non-wage income in Montgomery County will increase at an average annual rate of 3.6% from CY2024 to CY2032, unchanged from the 3.6% average annual growth from 2019 to 2024.



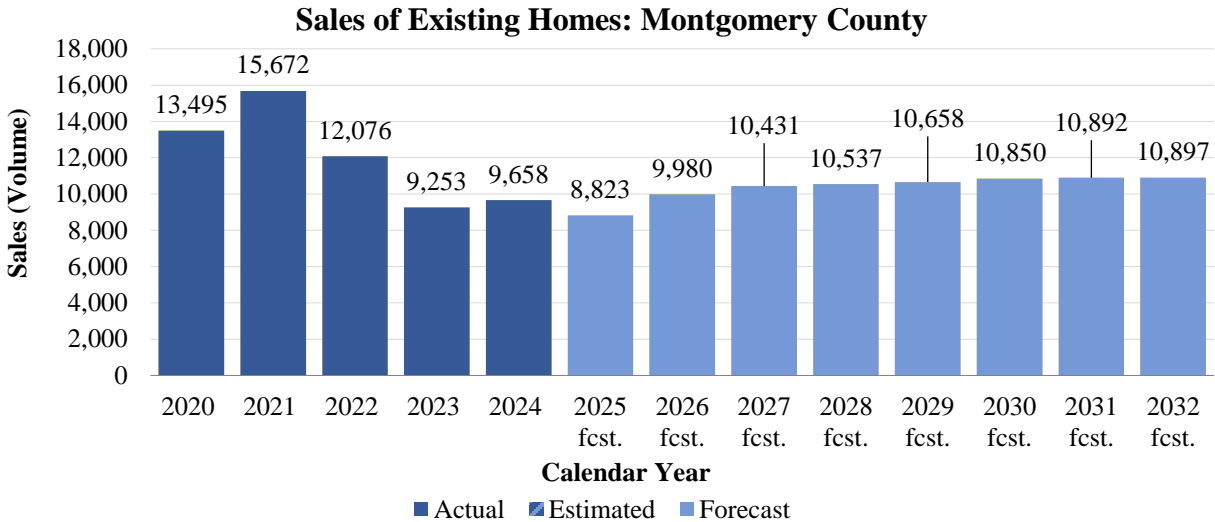
SOURCES: Bureau of Economic Analysis, U.S. Department of Commerce; Moody's Analytics; Montgomery County Department of Finance

*Non-wage income is the sum of proprietor's income, supplements to wages and salaries, transfer receipts, dividends/interest/rents, adjustment for residence, less contributions for government social insurance.

Residential Real Estate

The sales of existing homes in Montgomery County influences the amount of transfer and recordation tax revenue. The number of homes sold reflects dynamics in the real estate market, the demand and supply of homes for sale, and is highly influenced by the level of interest rates.

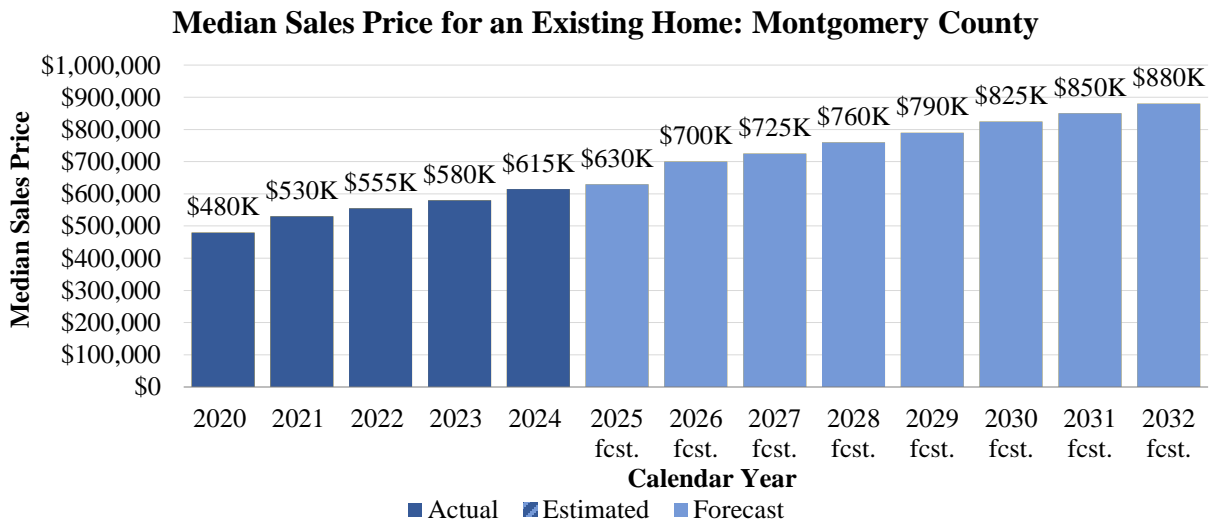
Finance anticipates that sales of existing homes will continue at the reduced pace experienced since CY2023 when the Federal Reserve began raising interest rates, and that during the forecast period sales will not again attain the elevated levels experienced during the pandemic. While interest rates have come down recently, the cost of new mortgages remains high and as a result the supply of homes for sale remains suppressed. Finance anticipates another downturn in home sales in CY2025 as the Federal Reserve pauses its recent downward movement of interest rates, followed by an uptick in home sales in CY2026 and CY2027 to levels similar to CY2024.



SOURCES: Metropolitan Regional Information Systems, Inc.; Moody's Analytics; Montgomery County Department of Finance

The median sales price for housing in Montgomery County reflects the value residents place on living within the County. The price of homes sold directly affects transfer and recordation tax revenues and influences the assessed value of property which in turn determines property tax revenues.

Home prices continue to reflect elevated desire to live in Montgomery County and the relative lack of supply of homes for sale, with prices increasing at a 6.5% average annualized pace since CY2019. Finance expects that growth to moderate only slightly to a 4.6% average annualized pace of growth from CY2024 to CY2032.

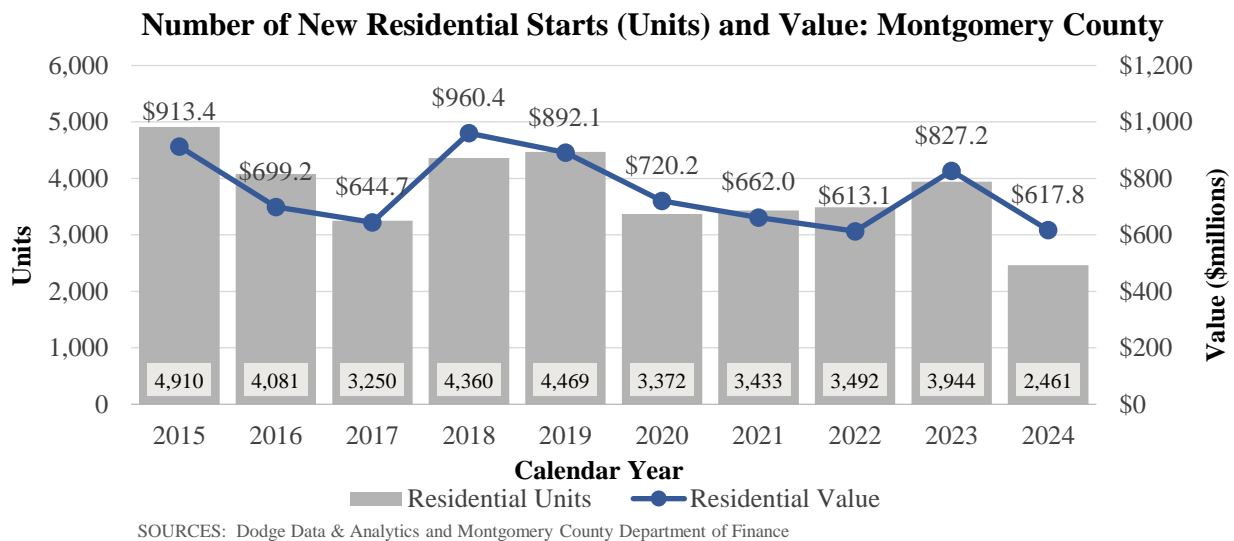


SOURCES: Metropolitan Regional Information Systems, Inc.; Moody's Analytics; Montgomery County Department of Finance

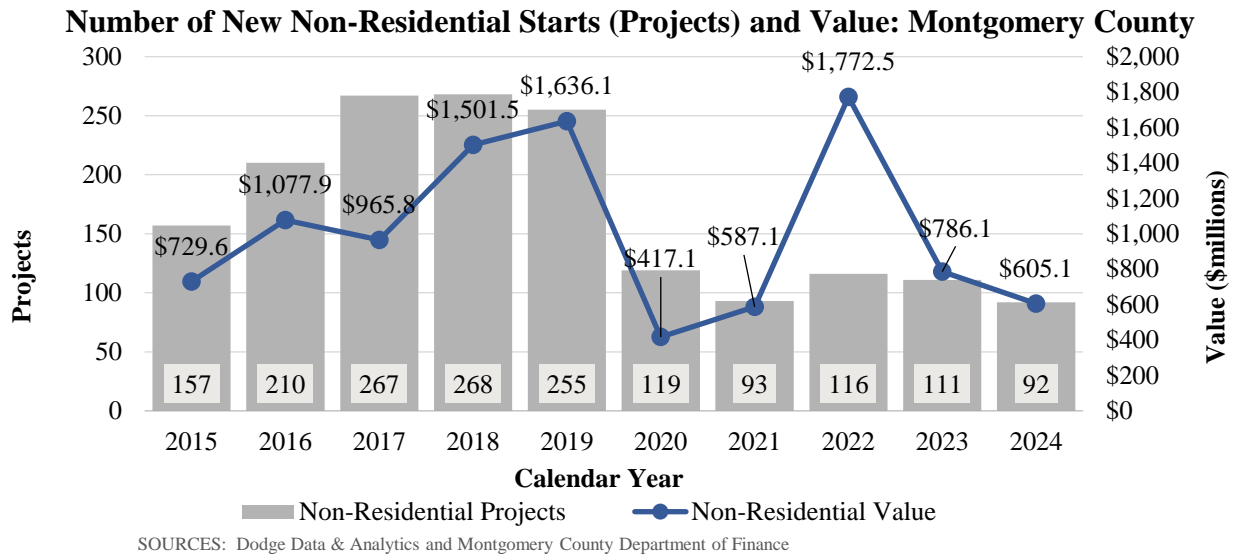
Construction Activity

Construction is one of the driving forces of the economy and provides insight into the future trajectory of assessed values and by extension property tax revenues.

The number of new residential units and the total value of those units dropped notably in CY2024, by 37.6% and by 25.3% respectively. This comes after a 5-year period during which the amount and value of new residential units remained relatively constant, potentially indicating that high interest rates and increased construction costs are affecting the ability to finance new projects. Montgomery County does not forecast future construction activity.



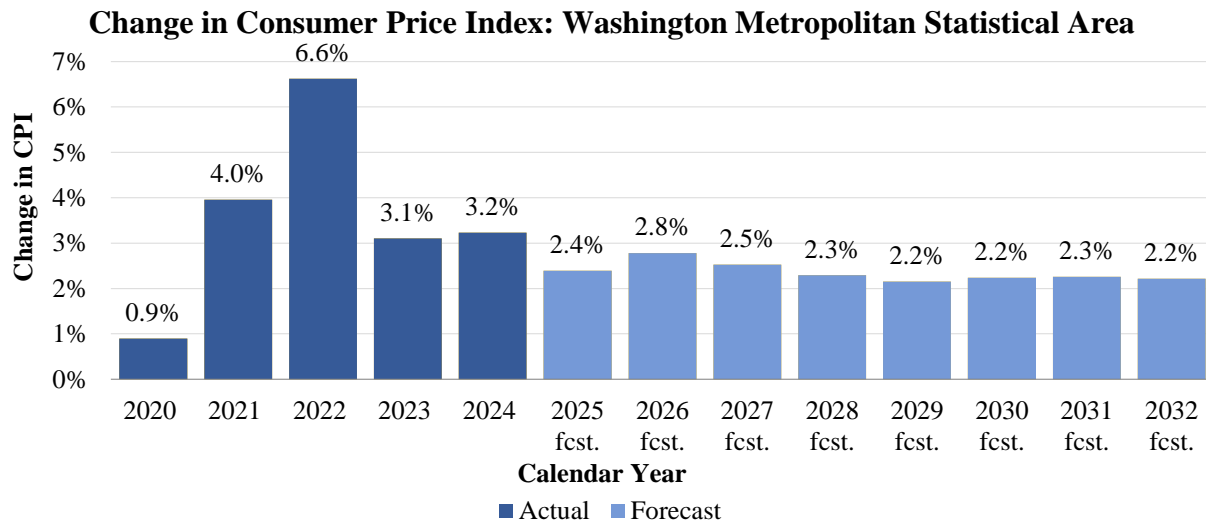
The number of projects and the value of new non-residential constructions projects in Montgomery County dropped notably after CY2019, a decline Finance attributes to the disruption COVID-19 caused to the use of space and by extension the non-residential real estate market. Non-residential projects continued at this lower rate in CY2024 with little change since CY2019 in number of projects and except for CY2022, in the value of those projects.



Inflation

The Consumer Price Index (CPI) is based on the prices of goods and services, both domestic and imported, that consumers purchase. Inflation is influenced by trends in labor costs and simultaneously influences future wage and salary demands, which in turn impacts the County's income tax revenues. The change in home values is also influenced by the pace of inflation, indirectly influencing the County's property tax revenues.

Finance assumes that while inflation in the Washington-Arlington-Alexandria, DC-VA-MD-WV metropolitan statistical area will not return to the heights experienced during the pandemic during the forecast period, Federal policies related to immigration and tariffs will cause a slight bump in inflation in CY2026. Finance expects that inflation will then moderate downward to 2.3% in CY2028 and stay at that general level until CY2032.

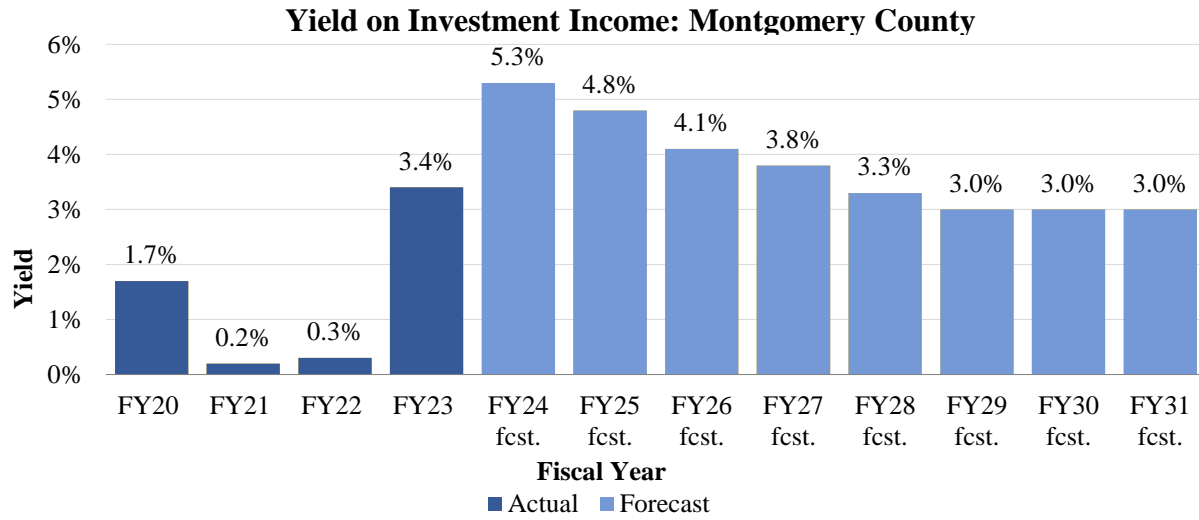


SOURCES: Bureau of Labor Statistics, U.S. Department of Labor; Moody's Analytics; Montgomery County Department of Finance

Interest Rates

Montgomery County invests public funds not needed for immediate expenditures in short term investments whose return is highly correlated with the Federal Funds rate. The County's yield on investment income drives the amount of revenue produced from the investment of operating cash and is also conversely an indicator of the rates the county must pay to borrow money.

Increases in the targeted federal funds rate from fiscal year (FY) 2022 to FY24 increased investment yields, with the County earning a 5.3% rate on its short-term portfolio for FY24. The Federal Reserve has since lowered interest rates during 2024 and Montgomery County's investment yield has already begun to fall. Finance expects to receive a yield of 4.8% in FY25, falling to 4.1% in FY26, and then moderating down further in FY27 and FY28 before reaching an assumed level of 3% from FY29 to the end of the forecast period.



SOURCES: Montgomery County Department of Finance

DISCUSSION FRAMEWORK

The economic assumptions provide a framework for the Department of Finance's revenue projections for FY26 through FY27. The following issues are suggested topics of focus for the Business Advisory Panel. To gain a better understanding of the direction of the major economic drivers in our county and region, it would be helpful if the participants of the Business Advisory Panel comment on our assumptions and discuss the major economic trends in the next several years that affect their industry sectors. The following list of items, if applicable to your sector, may be used to focus your discussion:

Risk to the Forecasts (Assumptions)

- Future federal fiscal policies and actions and their effects on Montgomery County
- Federal budget and potential for furloughs
- Need to increase the Federal debt ceiling
- Extension of the Tax Cut and Jobs Act
- Future interest rate policy by the FOMC
- Inflation outlook

Income

- Rising wages and salaries
- Private sector investment and employment
- Domestic stock market and its impact on capital gains and non-wage income
- Tax Policy Changes: federal and state
- Local (County) fiscal and policy changes

Real Estate

- Impact of interest rates on supply and demand for residential property
- Availability of developable land for new residential construction
- Factors influencing the demand and supply of new commercial property
- Loan conditions – residential and commercial sectors and refinancing
- Construction costs – materials and labor