Marc Elrich
County Executive

Michael J. Coveyou
Director

DEPARTMENT OF FINANCE

MEMORANDUM

December 15, 2022

TO: Marc Elrich, County Executive

FROM: Michael Coveyou, Director
Department of Finance

SUBJECT: Revenue Estimating Group Report for December 15, 2022

As chairperson of the Revenue Estimating Group, I am pleased to transmit to you the Group's December report.

The Revenue Estimating Group was established in March 2021 per Bill 6-21 and requires the Group to provide quarterly reports to the County Executive and County Council each year on February 15, May 15, September 15 and December 15. This December 15th report focuses on the December fiscal plan for the FY23 budget year. As noted in this report, the preliminary data may differ from the audited data that will be published in December after this report is completed, but we believe this unaudited data provides valuable information and serves as a baseline for reports that follow this one.

The next report will be due in February. We welcome your feedback on the contents and format of this report and future reports. Please feel free to contact me with any questions that you may have at 240-777-8870.

MC/nbf
Enclosure

cc: Members of the Revenue Estimating Group (Addendum I attached)

ADDENDUM I

Members of the Revenue Estimating Group

Michael J. Coveyou, Director, Department of Finance
Richard Madaleno, Chief Adminstrative Officer, Office of the County Executive
Jennifer R. Bryant, Director, Office of Management and Budget
Marlene Michaelson, Executive Director, Office of the County Council
Chris Cihlar, Director of the Office of Legislative Oversight

Designees and Technical Committee members:
Nancy B. Feldman, Chief, Division of Fiscal Management (Dept. of Finance)
Dennis Hetman, Fiscal Manager, Division of Fiscal Management
David Platt, Chief Economist, Division of Fiscal Management
Todd Fawley-King, Fiscal Policy Analyst, Division of Fiscal Management
Jake Weissman**,** Assistant Chief Administrative Officer, Office of the County Executive
Josh Watters, Deputy Director, Office of Management and Budget
Chris Mullin, Budget Manager, Office of Management and Budget
Mary Beck, Capital Budget Manager, Office of Management and Budget
Craig Howard, Deputy Director, County Council Staff
Aron Trombka, Senior Legislative Analyst, Office of Legislative Oversight
Stephen Roblin, Performance Management and Data Analyst, Office of Legislative Oversight

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Montgomery County Maryland Revenue Estimating Group
Quarterly Report
December 15, 2022

Executive Summary

Fiscal Year 2022 Final Review

- Fiscal Year 2022 ("FY22") estimated tax revenues exceeded the approved budget by $291.765 million (7.3%), primarily due to continued wage and salary growth supporting the income tax and stronger transfer and recordation (general fund only) tax revenues.
- FY22 Montgomery County Government (MCG) estimated non-tax revenues for the General Fund and the tax supported special revenue funds are lower than the approved budget by $40.9 million.
- Key economic indicator growth rates, including resident employment, personal income, home sales and home prices, which strongly influence both income and property taxes, were mostly as anticipated in FY22 with a few key indicators above target.

Fiscal Year 2023 Update

- Economic assumptions for Fiscal Year 2023 ("FY23") are revised lower in the Fiscal Plan[1] update presented to County Council on December 13 due to the anticipation of a mild recession in calendar year 2023 ("CY23").
- FY23 revised total tax revenues are forecast to exceed the approved budget by $22.6 million (0.5%) primarily due to the income tax exceeding its forecast. Outyear projections beginning in Fiscal Year 2024 ("FY24") show reductions to approved Fiscal Plan totals driven by revised economic assumptions reflecting a mild recession. The related impacts first appear in reductions to the transfer and recordation taxes and then, in a lagged fashion, in the property tax estimates.
- Total tax revenue in the first 4 months of FY23 (through October 31) are near forecast primarily due to income tax distributions from the State of Maryland exceeding forecast. As was the case last year, a large component of the income tax distributions reflects reconciliation of prior year tax returns, which have not yet been fully processed by the State. In both FY22 and now in FY23,

[1] Per the County's fiscal policy in Resolution No. 19-753, the Council approves a balanced six-year fiscal plan summary each year after approving the budget in May, which is updated for Council in December and again in March with the Executive's Recommended Budget.

a delay in tax return processing led to a November distribution that was significantly lower than forecast. In FY22, the receipts from these delayed filings were received by the County in March and were well in excess of the November and January shortfalls. The revised income tax forecast for FY23 assumes continuation of the delay in processing and forecasts income tax revenues that are approximately $85.3 million above the approved budget.

Fiscal Year Ended June 30, 2022 Results – Final Review

Since the September 30, 2022 Revenue Estimating Group report was completed, the County's Controller and staff have been working with the auditors to complete the FY22 Annual Comprehensive Financial Report ("ACFR") for release prior to the end of calendar year 2022. At the time this Revenue Estimating Group report is released we anticipate that the ACFR will have been finalized, but at the time of compiling this report the FY22 results below remain unaudited. Please note that the near final FY22 tax revenues are approximately the same as those in the September report.[2]

FY22 Tax Revenues: Tax Supported Revenues

	Final Budget	Actual	Difference	Percent
Property Tax (excl. Parking Districts)	$1,884,667,305	$1,878,757,059	($5,910,246)	-0.3%
Income Tax	$1,708,841,800	$1,895,810,690	$186,968,890	10.9%
Transfer Tax	$117,155,198	$180,217,441	$63,062,243	53.8%
Recordation Tax	$52,665,092	$85,819,161	$33,154,069	63.0%
Energy Tax	$175,651,251	$184,651,863	$9,000,612	5.1%
Hotel Tax	$11,837,621	$14,405,669	$2,568,048	21.7%
Telelphone Tax	$55,072,985	$55,449,830	$376,845	0.7%
Other Taxes	$1,808,353	$4,352,393	$2,544,040	140.7%
TOTAL	**$4,007,699,605**	**$4,299,464,106**	**$291,764,501**	**7.3%**

SOURCES: Controller Division (all revenues except property tax) and Treasury Divison (property tax)

<u>FY22 Non-tax Revenues</u>

The non-tax revenue portion of the budget includes intergovernmental aid, charges for services, fines & forfeitures, licenses and permits, investment income and other miscellaneous revenue. The majority of intergovernmental aid is applied to the budget for public schools. However, outside agency FY22 year-end results are not included in the text that follows. FY22 MCG estimated non-tax revenues for the general fund and the tax supported special revenue funds are lower than the approved budget by $40.9 million. Intergovernmental aid for MCG was $19.6 million less than the approved budget primarily due to the approved budget including an estimate of approximately $23.7 million in FEMA reimbursements that were not received (this assumption was adjusted in the FY22 latest budget to only reflect actual FEMA receipts received by County). Charges for services revenue was approximately $12.2 million less than the approved budget primarily due to the continuation of the policy not to collect Ride-On fare during the pandemic. The Ride-On fare collection assumption was adjusted in the latest budget and

[2] See Appendix I of the September report. https://www.montgomerycountymd.gov/Finance/Resources/Files/REG_Quarterly_2022_09_15.pdf

Ride-On receipts are in line with the latest budget. Fines and forfeiture revenue was approximately $12.5 million less than budget due to less red light and speed camera revenue.

The December Fiscal Plan update assumes FY23 non-tax revenues are in line with the approved budget. Any adjustments to non-tax revenues will be updated prior to the transmittal of the Recommended Budget on March 15, 2023.

Economic Activity through September 30, 2022

National Economic Snapshot

The latest Blue Chip Economic Indicators[3] report, a survey conducted by information services company Wolters Kluwer of 50-plus economists employed by large American firms, suggests a mild recession will occur as the Federal Reserve continues to raise interest rates to fight inflation. Ninety two percent (92%) of survey respondents forecast a mild recession and attach a probability of 57 percent that the recession will begin in CY23. They also predict that the interest rate for federal funds will reach a peak of 4.95% by the first quarter of CY23 but there is no consensus in which quarter in CY23 that the Federal Reserve will begin to reduce the rate.

While the real gross domestic product ("GDP") increased 2.6 % in the third quarter, the Blue Chip Economic Indicators report forecasts that the economy will "fall into a mild recession in early CY23 with real GDP increasing only 0.2% for the year."

Looking ahead, Blue Chip also notes that:

- The economy will not benefit from a boost in trade. Because of the slowdown in the global economy and the rate increase by the Federal Reserve the dollar has strengthened and exacerbated the trade deficit;
- While real GDP increased 2.6% in the third quarter, real private demand was essentially unchanged at 0.1% and the weakest performance since CY20;
- While non-residential investment increased 3.7%, the increase overshadowed the weakness in construction of new structures;
- Because of the aggressive rate hikes by the Federal Reserve, mortgage rates have more than doubled; and
- Regardless of the aggressive rate increases by the Federal Reserve, there remains a "tight" labor market and an inflation rate well above its target rate of 2%.

While there may have been indications of systemic inflation risk early in CY22, as opposed to the transitory inflation risk that had been widely discussed at the time, the Federal Reserve Board ('The Fed') did not begin raising the federal funds rate to combat inflation until after the County's FY23 Recommended Budget was transmitted. The Fed has raised the federal funds rate a total of 6 times in CY22 by a total of 3.75% to its current target range of 3.75%-4.00%. Additional fed funds rate increases are expected by financial markets in December 2022 and January 2023 with many forecasts extending

[3] https://www.wolterskluwer.com/en/solutions/vitallaw-law-firms/blue-chip

increases further into CY23. Each increase could potentially combat inflation but is also anticipated to impact other economic activity and could cause a recession if not perfectly executed.

Moody's Analytics baseline forecast for the US economy is "for the Fed to engineer a soft landing and the economy to skirt a recession with inflation over time returning to the central bank's target. However, the forecast is for real GDP to grow at less than 1% next year. The economy is vulnerable and may need some luck to avoid a recession".

State of Maryland Economic Snapshot

Economic conditions in the State of Maryland are similar to the national economy with the exception of some recent weakness experienced in employment. According to the most recent report from the Bureau of Labor Statistics, Maryland lost a total of 10,500 total nonfarm jobs in October. This was the result of a decrease of 5,200 total private sector jobs, combined with a loss of 5,300 total government positions. In addition, the unemployment rate increased from 4.0% to 4.5% in October on a seasonally adjusted basis. This is higher than the U.S. unemployment rate of 3.7%.

According to the latest survey by the Federal Reserve Bank of Richmond ("FRBR"), Maryland firms reported worsened economic activity in November. The survey reports that:

"The general business conditions index calculated by the FRBR edged up to -14 in November, remaining solidly in negative territory. Survey participants were slightly less pessimistic about future business conditions, as the expectations index rose in November to -24. However, the sales index fell dramatically, decreasing from -13 in October to -29 in November. More firms also expected sales to decrease over the next six months. More firms reported decreased business services, total capital, and equipment spending in November, with the business services expenditures index falling the most, from 2 to -12. Fewer firms also reported increased hiring in November as the employment index fell from 6 to 2. On the other hand, fewer firms reported that it has become harder to find workers with the desired skillsets. Wage increases were widespread in November, but less so than in September. More firms expected wages to remain elevated over the next six months, as demonstrated by a notable increase in the wage expectations index in November. On average, year-over-year growth in prices paid decreased slightly, while growth in prices received increased somewhat in November. Firms continued to expect price growth to moderate over the next 12 month."

Montgomery County Economic Assumptions

With most of CY22 in the rearview mirror, we now have some economic and revenue data for about 10 months of the calendar year and 4 months of FY23 (July 2022- October 2022) that allows us to review the assumptions upon which the FY23 budget was based and consider current trends in the economy. There is uncertainty in the economy, with inflation not yet tamed and weakened real estate activity and home prices that are offset by the appearance of stable employment and rising personal income.

In the table below, several key assumptions upon which FY23 budgeted revenues were based are shown compared to the assumptions that are currently being used for the December Fiscal Plan update. The FY23 budget was based upon baseline economic assumptions that anticipated continuation of the growth in income tax revenue and real estate-based taxes building on the strength experienced in FY22. Updated economic assumptions anticipate a mild recession occurring in CY23. The assumption of a mild recession does not pinpoint its timing nor is it certain that one will occur. If no recession occurs, some tax revenues could meet or exceed the FY23 approved budget forecast, however, the negative impact of higher interest rates on mortgage rates and real estate activity are already impacting transfer and recordation taxes and could impact future assessed valuations – even without a recession. The impact of this change in assumptions on the County's tax revenue will vary in magnitude and timing depending upon the revenue type.

The changes to the economic assumptions include changes to prior years' data after a calendar year is completed and statistics are finalized. Once the base year data (CY21) is updated, the subsequent years growth rates change even if there is no change in economic conditions.

- In CY21 resident employment and personal income were higher than had been previously assumed, resulting in income taxes growing from a higher base.
- The higher CY21 base for resident employment and personal income results in lower growth rates for resident employment and total personal income in CY22. The net impact to employment and personal income in FY22 remains slightly positive even with a lower growth rate because of the higher base.
- Due to the revised budget assumption of a mild recession, the economic assumptions for growth rates in CY23 are reduced from the approved budget growth rates. Resident employment is forecast to decline slightly by 0.1% while personal income is forecast to increase by 1.4%.
- Due to the increase in mortgage rates well beyond expectations, median home sales declined significantly more than expected in CY22 and are now forecast to decline even further in CY23 from the lower CY22 base. Median home sales prices that continued to grow in CY22 are also now expected to decline in CY23 as the housing market further deteriorates.

Changes to the economic assumptions in 2024-2028 reflect revised expectations given the anticipated mild recession in 2023 and the most recent demographic and economic data. The assumptions are generated by Moody's Analytics for Montgomery County. The outyears generally reflect a return to historic growth trends after a post-recession recovery/expansion period and incorporate future business cycle fluctuations.

- Resident employment has been strong coming out of the pandemic and after a small decrease in 2023 due to the assumed mild recession, it recovers in 2024-2025 and then aligns with prior growth expectations beginning in 2026.
- Total personal income growth in years 2026 to 2028 slows slightly, following a period of higher growth in 2024 and 2025 that is typical of an economic recovery coming out of the expected 2023 mild recession.
- The sharp downturn in the housing market in 2022 that is expected to continue in 2023 shifts expectations of a recovery/expansion cycle to 2024 and 2025, followed by the next peak mild contraction phase in 2026 before returning to expansion in 2027 and 2028.
- The cycle for the median home prices lags the trend in median home sales, reflecting the trend of shifting demand to initially impact sales volume before prices adjust.

FY23 Budget - Key Economic Assumptions

				Percentage change Year-Over-Year						
	2021*	**2022 (est.)**	**2023 forecast**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Resident Employment	512,396	529,137	540,819	3.3	2.2	1.5	1.0	0.8	0.7	0.7
December 2022	517,358	531,293	530,546	2.7	-0.1	1.9	1.7	0.7	0.7	0.7
Total Personal Income ($mm)	99,800	102,500	107,500	2.7	4.9	4.7	4.8	4.7	4.5	4.5
December 2022	100,960	103,140	104,570	2.2	1.4	4.4	5.5	4.2	3.8	3.8
Median Existing Home Sales (thousands)	13.807	13.143	13.340	-4.8	1.5	10.7	-3.2	-8.9	-5.9	0.0
December 2022	13.731	9.295	7.687	-32.3	-17.3	10.5	8.8	-2.3	5.0	6.5
Median Sales Prices ($)	547,429	580,710	598,526	6.1	3.1	2.4	2.2	1.7	1.3	1.3
December 2022	561,424	593,540	527,194	5.7	-11.2	0.1	-0.8	0.2	2.7	6.7
				Forecast (%)						
CPI-U Washington MSA (%)	4.0	4.7	2.3			2.3	2.4	2.4	2.2	2.2
December 2022	4.0	7.2	4.2			1.4	1.9	2.2	2.2	2.3

* 2021 is estimated for the FY23 Budget, but actual for the December 2022 fiscal plan update

Risks to the Economic Assumptions

Any forecast is subject to both positive and negative risk factors. The County's budget assumptions and revenue forecast are no exception.

There are a number of key economic risks that could negatively impact the County in FY23 and beyond.

- A recession that is deeper and/or longer than the mild recession assumed in the December Fiscal Plan update.
- Employment that does not stay stable or declines more than forecast due to events such as:
    - resurgence of COVID-19,
    - a recession causes greater than expected employment losses,
    - global economic instability due to Russia/Ukraine war and food and fuel shortages, or
    - hostilities in other parts of the world impact the U.S. directly or indirectly including additional supply chain disruptions.
- Slower personal income growth due to:
    - reduced corporate profitability and persistent inflation that the Fed is not able to tame or
    - capital gains do not maintain their strength in the face of market volatility.
- Assessed values grow more slowly than forecast due to:
    - persistent high mortgage rates causing reduced housing affordability and reduced home sales or
    - uncertainty of commercial property assessments and new construction as offices downsize with remote work becoming structurally more permanent.

There are also developments that could have a positive impact on economic activity in FY23 and result in revenues exceeding revised budget assumptions.

- A successful soft landing of the national economy as engineered by The Fed results in a rapid decrease in interest and mortgage rates that contribute to strengthening in real estate activity.
- Further diminution of the COVID-19 pandemic contributing to improvement in labor force participation and broad-based wage gains.
- Improvement in Montgomery County specific economic factors that are revenue drivers, including increased resident employment, personal income, and capital gains.

FY23 Tax Revenues – Forecast Update

The FY23 revised total tax revenues are forecast to exceed the approved budget by $22.6 million (0.5%) primarily due to income taxes forecasted to exceed the approved budget. The outyear forecast from FY24 through FY28 reflects reductions from approved Fiscal Plan totals driven by the revised economic assumptions that reflect a mild recession. The effects of the mild recession first begin to appear as reductions to the transfer and recordation taxes and then, in a lagged fashion, in the property tax estimates.

Income Tax (through November 30, 2022)

The income tax forecast for FY23 is revised upward by $85.3 million, (+4.6%) from the approved budget. Despite the County's total income tax receipts through November 30, 2022 being $27.1 million lower than estimated year-to-date ("YTD") [see table below and Appendix 1], the most recent information from the State Comptroller's office accompanying the November income tax distribution continued to indicate that withholdings and estimated taxes are growing, and YTD are slightly above estimate for the FY23 budget. The shortfall is in the 'additional payments' from the tax year 2021 reconciliation that had been expected in November. However, there are multiple data points indicating Montgomery County will receive a distribution of tax year 2021 tax receipts as 'additional payments' in FY23 that support the upward revision in the FY23 income tax forecast.

As occurred in FY22, the 'additional filings', which represent final tax reconciliation for tax year 2021, are well below the estimate for the FY23 budget. However, as of November 30, there are still roughly 1,100 fewer Montgomery County tax returns processed than last year. In FY22, income tax receipts from additional filings for tax year 2020 had been well below FY22 budget estimates in November 2021 and January 2022. The State Comptroller identified complications in processing tax returns due to a change in the State's tax code regarding pass-through-entity (i.e. partnerships, S-Corps) tax payments that required taxpayer education and tax form changes. After an extensive evaluation of the tax filings, the Comptroller determined that there was an under-distribution of local income taxes associated with pass-through-entity ("PTE") tax filings and in March 2022 made a special distribution to local governments to rectify the situation. Montgomery County received $68.1 million, which was nearly the amount of the shortfall in distributions to that point in FY22.

During the September 2022 meeting of the Maryland Board of Revenue Estimates staff from the Bureau of Revenue Estimates stated that a large portion of the growth in Maryland personal income tax in tax year 2021 was due to PTE and other complex returns. They reported these filings are processed individually and the revenues distributed as part of the 'additional filings'.[4] This revenue was not distributed in the November distribution but should be received in the regular January distribution of these receipts. If the Comptroller has not been able to complete their processing in time for the scheduled January distribution, these revenues should be received in a future distribution.

Recent analysis by the Department of Finance estimates that there remains income tax liability outstanding from the 2021 tax year for which income tax revenues have not yet been distributed by the

[4] See the board presentation for and accompanying video of the September 2022 Board of Revenue Estimates meeting, both available at (https://www.mdbre.gov/revenue-estimates.php). Discussion of the growth in 2021 income tax payments and the prominence of PTEs occurs between minute 13:30 and 14:35 of the video of the meeting.

State of Maryland. These moneys are likely to be transmitted to the County in the form of additional filings.

Sensitivity and Outyears

Income taxes are among the most volatile of the County's tax revenues due to inherent lagged timing effects of when the County receives collections from the State, frequent tax and policy changes, capital gains volatility, and unpredictable high income and PTE taxpayer behavior. For example, wage and salary income typically comprises 80% of net taxable personal income, a key assumption for the County's income tax forecast. An additional 1% of growth above the historical annual growth rate could result in an additional 0.8% to the overall income tax forecast or approximately $15.6 million (holding all other variables constant). Bandwidths of variability for the largest and most volatile taxes for FY23 are approximated using statistical analysis to arrive at distributions of likely values that depend on the realized values of the underlying assumptions. The income tax has a five-year sample standard deviation[5] of approximately $156.7 million of realized income tax revenues during fiscal years of FY17-FY21.

Growth rates for the income tax in FY24 and beyond are based on an assumed 2023 mild recession. The key input variables for income tax include resident employment, total personal income, wage and salary income, non-wage income, capital gains, and inflation expectations. Each of these variables has differing accelerations and decelerations based on their respective business and economic cycles. For instance, the growth rate decline beginning in FY25 for income tax revenues is a result of the lag effects of wage and salary income, inflation, capital gains, and income composition that does not occur until one to two fiscal years after a recession.

FY23 Tax Supported Revenue - Through October 31st

	FY23 Budget	YTD Collected	YTD/Budget
Property tax	$1,951,354,013	$1,235,468,334	63.31%
Income Tax*	$1,870,513,400	$544,108,150	29.09%
Fuel/Energy Tax	$186,479,565	$60,100,840	32.2%
Transfer*	$154,749,748	$46,237,403	29.9%
Recordation*	$74,157,991	$22,919,481	30.9%
Telephone	$54,591,229	$18,923,467	34.7%
Hotel	$21,725,087	$6,938,403	31.9%

** The YTD Collected amount for the income tax is through November 30.*

** The *YTD Collected statistic is not adjusted for refunds.*

[5] The standard deviation is the measure of spread which tells us how much our data points are away from the average. A low standard deviation tells us that the points are closer to the average and a high standard deviation states that they are far.

Property Tax

The revised estimate for property tax revenues is lower than the FY23 estimate by $28.2 million (-1.4%). This decrease reflects a slightly lower starting assessed valuation than in the FY23 approved budget, updated taxable assessed valuations for properties in Montgomery County provided by the State Department of Assessments and Taxation ("SDAT"), actual YTD billing and collections data, and a reduction in personal property tax estimates.

Sensitivity and Outyears

Property taxes are among the most stable of the County's tax revenues. State law allows for the reassessment of properties in a rotating three-year cycle. As a result, SDAT reassess roughly 1/3 of the properties in the County annually – so each year about 2/3 of the assessable base (not including new construction or successful assessment appeals) is not expected to change. The primary factor that could result in a change to property taxes is real estate values. Changes in real estate values impact property taxes on a lagged basis due to the reassessment cycle. However, successful tax appeals are incorporated into the tax base as they occur. Bandwidths of variability for the largest taxes for FY23 are approximated using statistical analysis to arrive at distributions of likely values that depend on the realized values of the underlying assumptions. The property tax has a five-year sample standard deviation[6]of approximately $57.5 million of property tax revenues received during fiscal years FY17-FY21.

The growth rates for the property tax in FY24 and beyond are based on mild recession assumptions for the input variables of median home sales price growth and SDAT assessed values. The property tax revenue growth rate declines beginning in FY25 because of the lag effects inherent in the triennial assessment schedule and further vary in 2026-2028 due to assumptions for the housing market adjustments to supply, demand, and sales volume that typically occur in rising interest rate environments.

Transfer and Recordation Taxes

Both transfer and recordation taxes are directly affected by the real estate market. As of October 31, **transfer taxes** were down 29% from the same period in FY22. Transaction volume was down even more steeply than tax revenue - 80% below FY22 estimates. FY23 transfer tax revenue is revised downward by $22.4 million (-4.5%), reflecting the weakness in the real estate market caused largely by the increase in mortgage rates. There has been a significant reduction in the volume of residential home sales and some decrease in residential real estate prices. Non-residential activity is also lower in value but higher in volume so far in FY23.

Recordation tax receipts are similarly revised downward by $11.3 million (-15.6%) reflecting the weakness in the real estate market. Additionally, with higher mortgage rates, refinancing activity has effectively stopped. Year-to-date recordation taxes for the general fund are lower by 26%, while volume is lower by 58% versus FY22. Like the transfer tax, residential volume is down 34.6%. Non-residential

[6] The standard deviation is the measure of spread which tells us how much our data points are away from the average. A low standard deviation tells us that the points are closer to the average and a high standard deviation states that they are far.

volume is higher than FY22 at 10.8%, but non-residential recordation tax revenue is 11.4% lower than FY22.

Sensitivity and Outyears

Transfer and recordation taxes are among the more volatile of the County's revenues as they are collected monthly and reflect current real estate activity. The transfer tax and recordation taxes have a combined five-year sample standard deviation of approximately $13.1 million of transfer and recordation taxes during fiscal years FY17-FY21.

The growth rates for the transfer and recordation taxes in FY24 and beyond are based on mild recession assumptions for the input variables of median property sales price growth and assessed values. The declining growth rate beginning in FY23 for transfer and recordation tax revenues are similar to the property tax but impact 2024-2028 with almost no lag as the typical housing cycle adjustments to supply, demand, and sales volumes that occur in rising interest rate environments show up more immediately.

Other Selected Taxes

Other selected tax revenues received in the first 4 months of FY23 are approximately on target, as collections were approximately 33% of the annual budgeted amount. Other selected tax revenues are revised downward by $1.0 million (-.4%) from the approved FY23 budget. Fuel/energy taxes and telephone taxes are forecast to increase by $1 million (.6%) and $.6 million (1%), respectively. Hotel taxes appear to be near the 4-month proportion of annual revenues at 31.9%. However, hotel taxes are very seasonal. Based upon the County's actual collections through November 2022, the forecast is revised down by $3.2 million from $21.7 million to $18.6 million, a 14.6% decrease.

Outyears

Fuel/energy tax growth rates consistently follow the seasonal usage trends for natural gas and electricity for both residential and commercial properties. Tax revenues are nearly flat for the forecast period and have not changed measurably from the FY23 approved budget.

Telephone tax growth rates in 2023 are primarily affected by the growth rate for wireless lines, which has slowed in recent years but has maintained roughly 2% growth year-over-year.

The hotel tax forecast assumes pre-Covid levels for occupancy, room supply, demand, and room rates to occur in FY24 as opposed to FY23 and are informed by research and analysis from Marriott[7], CB Richard Ellis[8], and Visit Montgomery.[9]

[7] https://news.marriott.com/news/2022/10/27/marriott-international-publishes-latest-report-on-environmental-social-and-governance-progress
[8] https://pip.cbrehotels.com/publications-data-products/hotel-horizons?param1=value1&param2=value2&source=hotelhorizons-store&gclid=CjwKCAiAv9ucBhBXEiwA6N8nYHI1QE_0IL2YyOaNsIIFxUQLHII-E18wo_MoVpEYAGdn6uFbWsK__BoCvjgQAvD_BwE
[9] https://visitmontgomery.com/resources/

Appendix 1: Revenue Forecast, FY23 December Fiscal Plan

	FY22	FY23	FY24	FY25	FY26	FY27	FY28
INCOME TAX	Actual	Forecast					
FY23 Approved Budget	$1,895.811	$1,870.513	$1,965.526	$2,066.093	$2,150.218	$2,247.469	$2,356.397
-Fiscal Plan Update (Dec' 22)	$1,895.811	$1,955.854	$1,947.895	$2,018.860	$2,085.273	$2,157.716	$2,250.404
$ - Difference from approved budget		$85.341	($17.630)	($47.233)	($64.945)	($89.753)	($105.993)
Year-over-Year Percent Change FP Update		3.17%	-0.41%	3.64%	3.29%	3.47%	4.30%
% change from approved budget		4.56%	-0.90%	-2.29%	-3.02%	-3.99%	-4.50%
PROPERTY TAX							
FY23 Approved Budget	$1,878.757	$1,951.354	$2,005.331	$2,071.999	$2,134.415	$2,195.587	$2,258.620
-Fiscal Plan Update (Dec' 22)	$1,878.757	$1,923.178	$1,966.711	$2,007.522	$2,041.194	$2,056.911	$2,073.626
$ - Difference from approved budget		($28.176)	($38.620)	($64.477)	($93.222)	($138.676)	($184.995)
Year-over-Year Percent Change FP Update		2.36%	2.26%	2.08%	1.68%	0.77%	0.81%
% change from approved budget		-1.44%	-1.93%	-3.11%	-4.37%	-6.32%	-8.19%
TRANSFER TAX							
FY23 Approved Budget	$180.217	$154.750	$166.880	$176.150	$173.040	$167.780	$168.010
-Fiscal Plan Update (Dec' 22)	$180.217	$132.339	$130.039	$135.839	$137.759	$141.929	$152.669
$ - Difference from approved budget	$132.289	($22.411)	($36.841)	($40.311)	($35.281)	($25.851)	($15.341)
Year-over-Year Percent Change FP Update		-26.57%	-1.74%	4.46%	1.41%	3.03%	7.57%
% change from approved budget		-14.48%	-22.08%	-22.88%	-20.39%	-15.41%	-9.13%
RECORDATION TAX (GENERAL FUND)							
FY23 Approved Budget	$85.819	$74.158	$79.977	$84.421	$82.928	$80.406	$80.515
-Fiscal Plan Update (Dec' 22)	$85.819	$62.962	$61.864	$64.628	$65.541	$67.523	$72.638
$ - Difference from approved budget	$60.573	($11.196)	($18.112)	($19.794)	($17.387)	($12.884)	($7.877)
Year-over-Year Percent Change FP Update		-26.63%	-1.74%	4.47%	1.41%	3.02%	7.58%
% change from approved budget		-15.10%	-22.65%	-23.45%	-20.97%	-16.02%	-9.78%
EXCISE TAXES*							
FY23 Approved Budget	$265.510	$275.419	$276.347	$278.885	$280.119	$280.719	$281.338
-Fiscal Plan Update (Dec' 22)	$265.510	$274.447	$276.690	$278.244	$279.798	$281.154	$282.280
$ - Difference from approved budget	($2.421)	($0.972)	$0.343	($0.641)	($0.322)	$0.435	$0.941
Year-over-Year Percent Change FP Update		3.37%	0.82%	0.56%	0.56%	0.48%	0.40%
% change from approved budget		-0.35%	0.12%	-0.23%	-0.11%	0.15%	0.33%
	FY22	FY23	FY24	FY25	FY26	FY27	FY28
	Actual						
TOTAL TAX REVENUES							
FY23 Approved Budget	$4,308.536	$4,326.194	$4,494.060	$4,677.548	$4,820.720	$4,971.961	$5,144.881
-Fiscal Plan Update (Dec' 22)	$4,306.115	$4,348.781	$4,383.201	$4,505.092	$4,609.564	$4,705.233	$4,831.617
$ - Difference from approved budget		$22.587	($110.860)	($172.455)	($211.156)	($266.729)	($313.264)
Year-over-Year Percent Change FP Update		1.0%	0.8%	2.8%	2.3%	2.1%	2.7%
% change from approved budget		0.52%	-2.47%	-3.69%	-4.38%	-5.36%	-6.09%

*Excise taxes include Admissions Tax, Fuel/Energy Tax, Telephone Tax, Hotel/Motel Tax, Highway UserFund, and the E-Cigarettes Tax

The Revenue Estimating Group

Section 20-84 was added to the Montgomery County Code in March 2021 pursuant to Bill 6-21. Section 20-84 established a Revenue Estimating Group (the “Group”) to review and forecast County revenues and provide for the membership and duties of the Group. The Group must submit reports to the County Executive and the County Council on revenue projections and quarterly attainment of revenue on February 15, May 15, September 15, and December 15.