

Marc Elrich
County Executive




Michael J. Coveyou
Director

DEPARTMENT OF FINANCE

MEMORANDUM

September 15, 2023

TO: Marc Elrich, County Executive

FROM: Michael Coveyou, Director
Department of Finance 

SUBJECT: Revenue Estimating Group Report for September 15, 2023

As chairperson of the Revenue Estimating Group, I am pleased to transmit to you the Group's September 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 September 15th report focuses on preliminary final tax revenues for the fiscal year ended June 30, 2023. As noted in this report, the preliminary data will differ from the audited data that will be available in December, but we believe this unaudited data provides valuable information and serves as a baseline for reports that follow this one. Under the current schedule mandated by Bill 6-21, the quarterly Revenue Estimating Group report for September will always be brief as a result of the limited data available just two months into the new fiscal year.

The next report will be due in December. 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 Administrative 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
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, September 15, 2023

FY23 Economic Backdrop and Preliminary Results

In fiscal year 2023 (FY23), Montgomery County experienced revenue growth that exceeded both the FY23 approved budget and the estimate of FY23 revenues from March of 2023 (FY24 recommended budget/FY23 preliminary estimate). Revenue growth was notable in income and property taxes, which exceeded the approved budget revenue estimates.¹

The FY23 approved budget reflected the economic conditions and uncertainties at the time, namely that wage and salary income, employment, business income, and capital gains would continue growing but at a reduced pace due to easing of federal and State pandemic fiscal stimulus. While fiscal stimulus did ease, wage growth and employment remained resilient, which fueled larger than expected growth in income taxes.

The FY23 approved budget anticipated a downturn in transfer and recordation tax, following strong growth in home prices and sales in FY21 and FY22. However, the expectation in March 2022 was that inflation would be transitory and so the budget did not anticipate that the inflation rate would increase as high as it did, leading to rapid increases in interest rates by the Federal Reserve. The increase of interest rates from historic lows led to sharp reductions in the supply of housing available for sale, housing starts (i.e., the beginning of construction of new houses), and a decline in the pace of housing price growth.² As a result, the FY23 approved budget overestimated revenues from transfer and recordation taxes.

Despite a more rapid slowdown in the volume of real estate sales than expected and home prices returning to slower growth rates consistent with Montgomery County's historical average, the national, regional, and County economies remained resilient due to low unemployment, continued wage and salary growth, and strong household balance sheets. Economic resiliency ultimately translated into higher than anticipated income tax revenues, which more than offset the declines in the County's transfer and recordation taxes. Indeed, preliminary FY23 collections for income (+14.4%) and property (+1%) taxes exceed both the FY23 approved budget and the FY24 recommended budget/FY23 preliminary estimate. FY23 tax revenues based on unaudited preliminary estimates exceed the approved

¹ Latest FY23 revenue estimates are unaudited preliminary estimates for FY23 ("FY23 preliminary estimate") including data from the Montgomery County Treasury Department, State Comptroller's staff and Maryland State Department of Assessments and Taxation ("SDAT"). Due to the preliminary, unaudited nature of the tax revenue data, it is likely to have differences from the final data in the FY23 audited financial statements, which will be available later in calendar year 2023.

² The 30-year fixed-rate mortgage average rate increased from 5.6% in August 2022 to 7.2% in August 2023. Home sales in Montgomery County declined by 32% from FY22 to FY23. The median house price value grew by 3.0% in FY23 as compared to growth of 7.4% in FY22. The volume of residential transfers declined by 37% from FY22 to FY23, and the amount of residential recordation tax values realized declined by over 37% from FY22 to FY23.

budget by 5.1% despite substantive shortfalls in the transfer (-28.9%) and recordation (-28.4%) collections versus the approved budget (see Table 1).

Table 1: FY23 All Tax Supported Funds

Preliminary Totals						
TAXES	Budget FY23 (a)	Estimate FY23 (a) (Mar 2023)	FY23 Preliminary Final (b) (Aug 2023)	\$ Δ FY23 Prelim Final to FY23 Approved Budget	% Δ FY23 Prelim Final to FY23 Approved Budget	
Property Tax (less Parking District)	\$1,951,354,006	\$1,931,678,771	\$1,971,135,869	\$19,781,863	1.0%	
Income Tax	\$1,870,513,719	\$2,044,356,944	\$2,139,966,489	\$269,452,770	14.4%	
Transfer Tax	\$154,749,748	\$118,432,408	\$110,047,553	-\$44,702,195	-28.9%	
Recordation Tax	\$74,157,991	\$56,684,146	\$53,110,958	-\$21,047,033	-28.4%	
Energy Tax	\$186,479,565	\$189,541,336	\$181,287,728	-\$5,191,837	-2.8%	
Telephone Tax	\$54,591,229	\$55,627,575	\$56,355,076	\$1,763,847	3.2%	
Hotel/Motel	\$21,725,087	\$18,617,272	\$20,777,612	-\$947,475	-4.4%	
Admissions Tax	\$2,677,768	\$3,791,198	\$4,392,615	\$1,714,847	64.0%	
E-Cigarette	\$1,147,657	\$986,928	\$904,393	-\$243,264	-21.2%	
TOTAL	\$4,317,396,770	\$4,419,716,578	\$4,537,978,293	\$ 220,581,523	5.1%	
Notes:						
(a) Source: Schedule C-3, FY24 Approved Budget: OMB						
(b) Sources: Selected Operations Summary Report, June 2023: Treasury Division, and Income Tax: Fiscal Management Division						

FY24 Economic Outlook and Year-over-Year Revenue Comparison

The FY24 approved budget revenue estimate assumed economic conditions in Montgomery County would experience a mild recession in FY24. This recession would result in lower levels of total personal income and labor force employment for Calendar Years 2023 and 2024 (CY23 and CY24) as compared to the levels assumed in the FY23 December fiscal plan update. As the early months of FY24 proceed, there are ongoing concerns that actions taken by the Federal Reserve Open Market Committee’s actions to decrease inflation (namely, raising the federal funds rate) could trigger a mild recession. However, the likelihood of a soft landing has improved as inflation has moderated, growth remains positive, and labor markets remain at near full employment. Montgomery County economic indicators have not materially changed in the three months since the budget was approved. The Revenue Estimating Group and Department of Finance will continue to monitor economic indicators and revenues.

While the FY24 approved budget expected FY24 revenues to grow modestly from FY23, higher than anticipated realized revenues for FY23 have resulted in forecasted FY24 revenues at a lower level than the FY23 preliminary final estimate (see Chart 1, and Appendix 1). The FY24 approved budget revenue estimates were based on the economic indicators and realized FY23 revenue collections as of March 2023 (the FY24 recommended budget/FY23 preliminary estimate).³ The FY24 approved budget revenue estimate forecasted tax revenue growth of \$68.6M, or 1.55% between FY23 and FY24. However, due to higher than anticipated revenues realized in FY23 as compared to the FY24 recommended budget/FY23 preliminary estimate, the change in revenues from the FY23 preliminary final estimate to the FY24 approved budget forecast for FY24 is -\$55.5M, or a decline of 1.22%. The FY24 approved budget estimate for income tax revenue in FY24 is forecast to be less than the FY23 year-end preliminary final

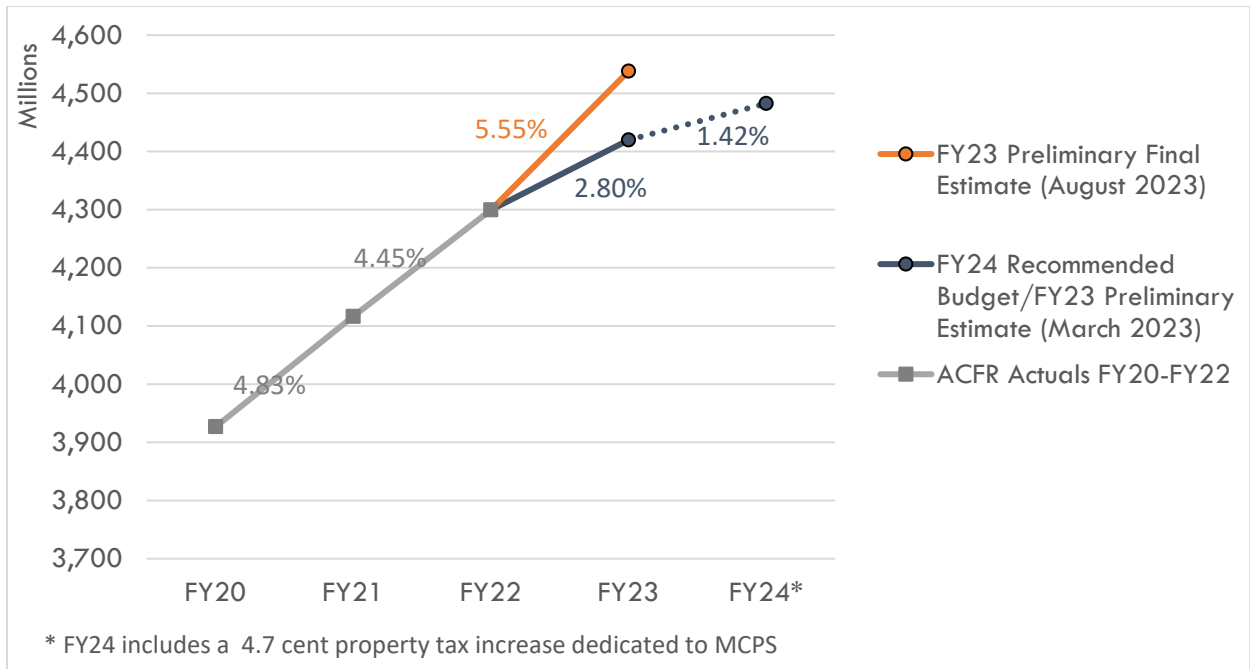
³ This quarterly report provides an update on realized FY23 revenue collections and does not update FY24 revenue projections from the FY24 approved budget. The December quarterly report will include any updates to FY24-FY29 revenue projections based on a review of economic conditions and indicators.

estimate (-10.0%). Compared to the FY23 preliminary final estimate transfer (+7.27%) and recordation tax (+6.38%) revenues are anticipated to increase in FY24 as the housing market begins to recover.

As a result of the FY23 preliminary final estimates exceeding the March estimate, the tax revenue forecast in the approved FY24 budget shows a small decline from the preliminary final FY23 estimate. The FY24 approved budget revenues align with a moderate growth trend since FY20 audited final tax revenues. Total tax supported revenues for FY24 are budgeted to be 14.2% greater than FY20 – an average of 3.36% growth per year.

The property tax revenue forecast reflects a continuation of the recent growth in assessed valuation. This assumption is consistent with the structure and process of residential real estate assessments in the State of Maryland. The three-year assessment cycle, phase-in of values, and focus on recent sales of comparable residential properties to determine values, means that the pace of property tax revenue growth this year is highly influenced by the rapidly rising property prices that occurred in the prior two years. The Department of Finance continues to monitor the trends in commercial property assessment valuations and in tax appeals and has not observed any data warranting a downward adjustment in expected future property tax revenues.

Chart 1: Tax Supported Revenue Growth (% change)



Sources: Schedule C-3, FY22, FY23 & FY24 Approved Budgets; June Select Operations Summary report, Treasury Division, Department of Finance

Appendix 1

Table 2: FY24 All Tax Supported Funds Compared to Prior Years

TAXES	ALL TAX SUPPORTED FUNDS			\$ Δ FY24 Approved vs FY23 Prelim Final
	Actual FY22 (a)	FY23 Preliminary Final (b) (Jul 2023)	Approved FY24 Budget (a) (May 2023)	
Property Tax (less Parking District)	\$1,879,169,219	\$1,971,135,869	\$2,107,033,865	\$135,897,996
Income Tax	\$1,895,810,690	\$2,139,966,489	\$1,925,076,241	-\$214,890,248
Transfer Tax	\$180,217,441	\$110,047,553	\$118,050,247	\$8,002,694
Recordation Tax	\$85,819,161	\$53,110,958	\$56,501,236	\$3,390,278
Energy Tax	\$184,651,863	\$181,287,728	\$193,151,409	\$11,863,681
Telephone Tax	\$55,449,830	\$56,355,076	\$55,641,296	-\$713,780
Hotel/Motel	\$14,405,669	\$20,777,612	\$22,067,616	\$1,290,004
Admissions Tax	\$2,875,167	\$4,392,615	\$3,904,620	-\$487,995
E-Cigarette	\$1,115,107	\$904,393	\$1,048,651	\$144,258
TOTAL	\$4,299,514,147	\$4,537,978,293	\$4,482,475,181	\$ (55,503,112)
Notes:				
(a) Source: Schedule C-3, FY24 Approved Budget: OMB				
(b) Sources: Selected Operations Summary Report, June 2023: Treasury Division, and Income Tax: Fiscal Management Division				

Appendix 2 – Glossary of Budget Estimates Terms

FY23 recommended budget: The forecast of tax revenues included in the recommended budget for FY23 transmitted from the Chief Executive to the Council on March 15, 2022. The estimate of tax revenues reflects the conditions and knowledge as of March 2022.

FY23 approved budget: The budget revenue forecast included in the budget approved by the County Council in May of 2022 which is not changed from the recommended budget forecast on March 15, except to reflect enacted changes in tax rates or new laws.

FY23 December fiscal plan update: The revenue forecast that is included in the Fiscal Plan Update in December of 2022. This revenue forecast may differ from the approved budget depending upon conditions at this time.

FY24 recommended budget/FY23 preliminary estimate: The estimated revenues for FY23 that are included in the FY24 Recommended budget transmitted to Council on March 15, 2023. The revenue estimate may differ from the Fiscal Plan Update produced in December 2022 as a result of changed conditions.

FY23 preliminary final estimate: The estimate of realized revenues for FY23 that is produced in August of 2023 after the fiscal year ends. This estimate is not yet audited and may change before the Annual Comprehensive Financial Report (ACFR) is published.

FY23 final audited revenues: The final accounting of FY23 revenues that will be published in the ACFR in December 2023.