Marc Elrich
County Executive

Michael J. Coveyou
Director

DEPARTMENT OF FINANCE

MEMORANDUM

December 15, 2023

TO: Marc Elrich, County Executive

FROM: Michael Coveyou, Director
Department of Finance

SUBJECT: Revenue Estimating Group Report for December 15, 2023

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 FY24 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
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
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

Marc Elrich
County Executive

Michael J. Coveyou
Director

DEPARTMENT OF FINANCE

M E M O R A N D U M

December 15, 2023

TO: County Council

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Department of Finance

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Montgomery County Maryland Revenue Estimating Group
Quarterly Report
December 15, 2023

Executive Summary

Fiscal Year 2023 Final Review

- Fiscal Year 2023 ("FY23") estimated tax revenues exceeded the approved budget by $220.6 million (5.1%), primarily due to continued wage and salary growth supporting the income tax.
- FY23 Montgomery County Government (MCG) estimated non-tax revenues for the General Fund and the tax supported special revenue funds are higher than the approved budget by $72.8 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 FY23 with a few key indicators above target.

Fiscal Year 2024 Update

- Economic assumptions for Fiscal Year 2024 ("FY24") are similar to those underlying the approved FY24 budget and are the same as in the Fiscal Plan[1] update presented to County Council on December 12, 2023, due to the continued assumption of a mild recession. The timing of a mild recession has shifted to calendar year 2024 ("CY24") since it has not happened in calendar year 2023 ("CY23") as had previously been assumed. Nonetheless, the economic conditions indicating a mild recession continue to exist, with a federal funds rate of 5.5%, a still high but declining inflation rate, slowing employment and income gains and volatile real estate and financial markets.
- FY24 revised total tax revenues are forecast to exceed the approved budget by $207.8 million (4.6%) primarily due to property and income taxes exceeding forecast. The fiscal year 2025 ("FY25") forecast for total tax revenues is slightly higher (+0.3%) than the approved Fiscal Plan, while projections in fiscal years 2026 and 2027 show small reductions from the approved Fiscal Plan totals driven by the delayed mild recession.

[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.

- Total tax revenue in the first 4 months of FY24 (through October 31) are exceeding expectations from the FY24 approved budget 1/3 of the way through the fiscal year primarily due to a positive variance in property tax collections and income tax receipts. The strength of these revenues support the upward revision in the total expected tax revenue for FY24.

Fiscal Year Ended June 30, 2023 Results – Final Review

Since the September 15, 2023 Revenue Estimating Group report was completed, the County's Controller and staff have been working with the auditors to complete the FY23 Annual Comprehensive Financial Report ("ACFR") for release prior to the end of CY23. At the time of compiling this report the FY23 results below remain unaudited. Please note that these near final FY23 tax revenues are approximately the same as those in the September report.[2]

FY23 Tax Revenues: Tax Supported Revenues				
	Final Budget	**Actual**	**Difference**	**Percent**
Property Tax (excl. Parking Districts)	$1,951,354,013	$1,971,096,308	$19,742,295	1.0%
Income Tax	$1,870,513,400	$2,139,966,489	$269,453,089	14.4%
Transfer Tax	$154,749,748	$110,458,782	($44,290,966)	-28.6%
Recordation Tax	$74,157,991	$53,288,501	($20,869,490)	-28.1%
Energy Tax	$186,479,565	$181,287,728	($5,191,837)	-2.8%
Hotel Tax	$21,725,087	$20,777,612	($947,475)	-4.4%
Telephone Tax	$54,591,229	$56,355,076	$1,763,847	3.2%
Admissions & E-Cigarette Taxes	$4,778,126	$ 5,297,008.26	$518,882	10.9%
TOTAL	**$4,318,349,158**	**$4,538,527,504**	**$220,178,346**	**5.1%**
SOURCES: Controller Division (all revenues except property tax) and Treasury Divison (property tax)				

FY23 Non-tax Revenues

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. Most intergovernmental aid is applied to the budget for public schools. However, outside agency FY23 year-end results are not included in the text that follows. FY23 MCG estimated non-tax revenues for the general fund and the tax supported special revenue funds are higher than the approved budget by $72.8 million. Intergovernmental aid for MCG was $31.3 million more than the approved budget primarily due to State Aid for Ride-On revenue and FEMA reimbursements for COVID-19 expenditures. Charges for services revenue was approximately $4.3 million less than the approved budget primarily due to Ride-On ridership being lower than projected. The Ride-On fare collection assumption was adjusted in the latest FY23 budget and Ride-On receipts are in line with that budget. Fines and forfeiture revenue was approximately $5.4 million less than budget primarily due to lower red light and speed camera revenue. Investment income revenue was approximately $38.8 million more than the approved budget due to

[2] See Appendix I of the September report. https://www.montgomerycountymd.gov/Finance/Resources/Files/REG_Quarterly_2023_09_15.pdf

favorable investment returns. Other miscellaneous revenue was approximately $8.3 million more than the approved budget.

The December Fiscal Plan update includes FEMA reimbursement revenues received by the County in FY24 and assumes other FY24 non-tax revenues are in line the with the approved budget. Any adjustments to non-tax revenues will be updated prior to the transmittal of the Recommended Budget on March 15, 2024.

Economic Activity through September 30, 2023

National Economic Snapshot

The latest Blue Chip Economic Indicators report[3], a survey conducted by information services company Wolters Kluwer of 50-plus economists employed by large American firms, suggests a mild recession will occur in CY24. The Federal Reserve Bank's (the "Fed") increases in the federal funds rate to fight inflation may have come to an end, but the rate will stay at the current level until inflation moves closer to the Federal Reserve's 2% target. Survey respondents to the Blue Chip Economic Forecast predict that the interest rate for federal funds has reached its peak range of 5.25% - 5.5% as of November 2023, with 75% of respondents forecasting the Fed will begin cutting the federal funds rate in the 2nd (44%) or 3rd (31%) quarter of CY24. According to Chair Powell's remarks at the Fed's press conference on December 13, members of the Federal Open Market Committee do not believe there will be a need to raise interest rates further, and if the economy evolves as projected, the appropriate level of the federal funds rate will be 4.6 percent at the end of CY2024, 3.6 percent at the end of CY2025, and 2.9 percent at the end of CY2026 (implying there will be cuts to the interest rate through CY2024).

While the real Gross Domestic Product ("GDP") increased 4.9% in the third quarter, [4] the Blue Chip Economic Indicators reports that the consensus of the respondents to their survey attach a nearly 50 percent probability to a recession beginning over the next 12 months and the 10 respondents that think a recession is most likely place the probability as high as 67 percent. Additionally:

- "While the U.S. economy has demonstrated a fair amount of resiliency this year, we still believe the most likely outcome is one where the United States falls into recession."
- "Demand and access to credit has softened, household finances may not be as robust as they were 12 months ago, and real interest rates are likely to remain in positive territory and result in passive tightening for the foreseeable future."
- "In our view, this combination is enough to result in two consecutive quarters of declining GDP (i.e., technical recession). With that said, we now believe a U.S. recession will materialize in Q2-2024 rather than around the turn of the new year."
- "Still strong consumer spending, buoyed by a healthy and tight labor market, is supporting the U.S. economy for now."
- "Inflation is also still headed lower, resulting in improved real household disposable incomes and overall purchasing power."

[3] https://intelliconnect.cch.com/docmedia/attach/WKUS-TAL-DOCS-PHC/34/BCFF1123email.pdf
[4] Subsequent to the release of the Blue Chip survey the estimate of third quarter GDP growth was revised from 4.9% to 5.2%

- "Pushing out the timing of recession results in a revised 2023 U.S. GDP growth forecast of 2.4%, up from 2.2% a month ago, while for 2024 our GDP growth forecast has been revised up to 0.9% from 0.5%."

Moody's Analytics mild recession forecast for the US economy reflects "the combination of the risk of a federal shutdown[5], rising political tensions, still elevated inflation, still elevated interest rates and reduced credit availability causing the economy to fall into a mild recession in the 4th quarter of 2023, The decline lasts for 3 quarters and peak-to-trough decline is 1%. The unemployment rate rises to a peak of 6.5% in the 3rd quarter of 2024".

State of Maryland Economic Snapshot[6]

Economic conditions in the State of Maryland are similar to those nationally, however the State's growth rate is somewhat slower than the U.S. in payroll employment and real personal income, while Maryland's unemployment rate of 1.7% in October 2023 was well below the U.S. rate of 3.9%. Employment remained 0.6% below its pre-pandemic level of February 2020. The most jobs were added over the year in government (16,100) and education and health services (14,900) while manufacturing experienced the biggest loss (-3,200). According to the most recent report from the Bureau of Labor Statistics, Maryland had the lowest unemployment rate in the country in October at 1.7% with an increase in employment of 43,900 from October 2022.

The Bureau of Revenue Estimates met on December 14th, 2023 and made few changes to their September revenue forecast. The Montgomery County revenue forecast detailed in the sections below remains consistent with the State's expectations of statewide economic activity and tax revenue receipts in FY2024 and FY2025.

According to the Federal Reserve Bank of Richmond ("FRBR") Survey of Business Activity, Maryland firms reported declines in business activity in October, a potential indicator of a slowing economy.[7] The survey reports that the general business conditions index fell from -10 in September to -24 in October and the current sales index declined from 7 in September to -18 in October. These results indicate that more firms expect to contract than to expand and that more firms report declining sales than expanding sales. Nonetheless, the equipment and software expenditures index increased from -5 in September to 8 in October, and the employment index also increased notably to 11 with more firms reporting improvement in their ability to find workers with the desired skills. Meanwhile, the wages index decreased slightly but remained elevated.

Montgomery County Economic Assumptions

With most of CY23 in the rearview mirror, there are now economic and revenue data for about 10 months of the calendar year and 4 months of FY24 (July 2023 - October 2023) that allows for a review of the assumptions upon which the FY24 budget was based. There continues to be uncertainty in the

[5] Moody's forecast was prepared in October 2023, prior to the November 16, 2023 passage of a continuing resolution (CR) delaying the possible date of a federal government shutdown until January and/or February 2024.

[6] Source: Maryland Economic Snapshot, Federal Reserve Board of Richmond, October 2023

[7] Within the survey a value of 0 means that equal numbers of firms are expanding activity as are contracting

economy, with inflation not yet tamed and weakened real estate activity and high home prices that are offset by stable employment and slowly rising personal income.

In the table below, several key assumptions upon which FY24 budgeted revenues were based are shown compared to the assumptions that are used for the December Fiscal Plan update. The FY24 budget was based upon mild recession economic assumptions that assumed a recession would occur in CY23. An assumption of a mild recession does not pinpoint its timing nor the certainty of its occurrence. At this point in CY23, it does not appear that a recession has or will occur in CY23, but as noted earlier the economic conditions indicating the likelihood of a mild recession continue to exist, with a federal funds rate of 5.5%, a still high but declining inflation rate, slowing employment and income gains and volatile real estate and financial markets. As a result, the economic assumptions for the December Fiscal Plan continue to assume a mild recession in CY24. Higher interest rates on mortgages continue to negatively affect real estate activity, which negatively impacts transfer and recordation taxes. These taxes are trending lower than had been assumed in the approved budget.

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 (CY22) is revised the subsequent years' expected total growth may correspondingly change even if there is no change in economic conditions.

Impact of Revised CY22 Data

- In CY22 resident employment was approximately the same and personal income was slightly higher than had been previously assumed, resulting in income taxes growing from a higher base.
- The higher CY22 base for resident employment and delay of a recession to CY24 results in a higher growth rate for resident employment in CY23. The estimate of personal income in CY22 increased, but the expected growth rate in personal income in CY23 was reduced, despite the delay in the recession. The net impact to employment and personal income in FY23 remains slightly positive even with a lower growth rate.
- Due to the dramatic increase in mortgage rates driven by the increased federal funds rate, median home sales declined more than expected in CY22 but due to the delayed recession did not decline as much as previously forecast in CY23. The delayed recession has now resulted in continued declining sales in CY24 from the higher CY23 base.

Revised Economic Assumptions

- Changes to the economic assumptions in 2024-2029 reflect the anticipated mild recession in CY24 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 2024 due to the assumed mild recession, recovers in 2025-2026 and then is close to prior growth expectations beginning in 2027.
- Personal income growth in 2023 is slower as compared to the expected growth assumptions that underpinned the FY24 approved budget. Total personal income growth in years 2024-2025 is weaker than previously forecast due to the delayed recession and gradual recovery, but in 2026 to 2029 growth is slightly higher.

- The sharp downturn in the housing market in 2022 that has continued in 2023 is expected to continue in 2024 and shifts expectations of a recovery/expansion cycle to 2025 and 2026 followed by a modest slowdown in 2027 then expansion in 2028 and 2029.
- The cycle for the median home prices lags the trend in median home sales, initially impacting sales volume before prices adjust.

FY24 Budget - Key Economic Assumptions

				Percentage change Year-Over-Year						
	2022*	2023 (est.)	2024 forecast	2023	2024	2025	2026	2027	2028	2029
Resident Employment (000's)	531.0	528.7	537.0	-0.4	1.6	2.0	0.9	0.7	0.7	0.6
December 2023	530.9	537.4	529.1	1.2	-1.6	0.9	1.0	0.6	0.5	0.5
Total Personal Income ($bn)	97.2	101.7	105.5	4.6	3.6	4.6	4.4	3.9	3.5	3.2
December 2023	98.3	101.3	104.0	3.1	2.6	3.3	4.6	4.3	3.9	3.4
Median Existing Home Sales (000's)	11.6	9.0	10.3	-22.6	14.8	0.0	6.6	5.5	1.9	-0.4
December 2023	10.7	9.8	8.9	-8.5	-9.5	15.1	6.0	-0.9	6.1	4.6
Median Sales Prices ($)	586,307	556,483	536,527	-5.1	-3.6	-1.1	2.0	2.2	3.5	3.9
December 2023	624,996	644,495	621,774	3.1	-3.5	1.3	1.9	2.8	2.9	3.5
				Forecast (%)						
CPI-U Washington MSA (%)	6.6	3.3	2.1			2.2	2.2	2.2	2.3	2.3
December 2023	6.6	3.0	2.0			2.2	2.2	2.2	2.3	2.2

* 2022 is estimated for the FY24 Budget, but actual for the December 2023 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 several key economic risks that could negatively impact the County in FY24 and beyond.

- A recession that is deeper and/or longer than the mild recession assumed in the FY24 budget and December Fiscal Plan
- Employment that does not remain stable or declines due to events such as:
    - a recession causing greater than expected employment losses
    - global economic instability due to the Russia/Ukraine war and food and fuel shortages
    - expansion of the Israel-Hamas war
    - hostilities in other parts of the world impact the U.S. directly or indirectly including additional supply chain disruptions
    - the resurgence of COVID-19 or occurrence of another pandemic illness
- Slower personal income growth due to:
    - reduced corporate profitability and persistent inflation that does not retreat to the Federal Reserve's 2% target during CY24-25
    - weak capital gains due to financial market volatility
- Assessed values grow more slowly than forecast due to:
    - persistent high mortgage rates causing reduced housing affordability and reduced home sales,
    - uncertainty of commercial property assessments and appeals, as well as new construction as offices downsize with remote work becoming structurally more permanent
- A financial crisis due to US Federal fiscal conditions related to the growing debt to GDP ratio or Congressional action that adversely affects the national economy

There are also developments that could have a positive impact on economic activity in FY24 and result in revenues exceeding revised budget assumptions.

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

FY24 Tax Revenues – Forecast Update

Fiscal Year 24 revised total tax revenues are forecast to exceed the approved budget by $207.1 million (4.6%) primarily due to increases in the estimates for income and property taxes. The outyear forecast compared to the previously approved Fiscal Plan totals in FY25 through FY29 includes a small upward adjustment in FY25 followed by small reductions in FY26-29 driven by the revised economic assumptions that reflect a delayed mild recession in CY24.

FY24 Tax Supported Revenue - Through October 31st

	FY24 Budget	YTD FY24 Oct	YTD/Budget
Property tax	$2,107,033,865	$1,303,127,374	61.85%
Income Tax*	$1,925,076,241	$602,871,339	31.32%
Fuel/Energy Tax	$193,151,409	$45,226,748	23.42%
Transfer**	$118,050,247	$34,820,099	29.50%
Recordation**	$56,501,236	$16,756,182	29.66%
Telephone	$55,641,296	$13,371,050	24.03%
Hotel	$22,067,616	$5,768,011	26.14%

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

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

Income Tax (through November 30, 2023)

The income tax forecast for FY24 is revised upward by $144 million, (+7.5%) from the approved budget, consistent with total income tax receipts through November 30, 2023 being $154.5 million higher than estimated year-to-date ("YTD"). The most recent information from the State Comptroller's office accompanying the November income tax distribution indicates that YTD Statewide withholdings are 0.7% lower than in tax year 2022 and estimated tax payments are 9.0% lower. Withholding receipts grew by 5.4% and 7.6% year-over-year in tax years 2022 and 2021, respectively, so this slowing of withholding receipts is noted and will be monitored in the next quarterly income tax distribution to see if it is a trend or an anomaly. The reduction in estimated payments is consistent with the expected reduction in capital gains taxes due to weak financial market activity in tax year 2022. Following the two prior years' income tax return processing and reconciliation delays of pass-through-entity ("PTE") filings[8], the Maryland Comptroller's office has indicated that tax return processing has exceeded prior years' and appears to be returning to a more normal pattern. As a result, the $69.1 million 'additional payments' from the tax year 2022 reconciliation that were received in November exceeded the prior year's distribution by $48.2 million but were still below the pre-Covid average from 2010 to 2019 of $134.1 million. The final 'additional payments' distribution in January 2024 representing the last of the tax year 2022 tax return processing is not expected to be as high as in the two prior years and may trend toward a more normal pattern.

Sensitivity and Outyears

Income taxes are among the most volatile of the County's tax revenues due to inherent lagged timing effects concerning when the County receives collections from the State, as well as frequent tax and policy changes, capital gains volatility, and unpredictable high income and PTE taxpayer behavior. For example, wage and salary income typically comprises 45% to 50% of 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 0.7% to the overall income tax forecast or approximately $13.5 million (holding all other variables constant). Bandwidths of variability for the largest and most volatile taxes for FY24 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[9] of approximately $226.8 million of realized income tax revenues during fiscal years of FY19-FY23.

Growth rates for the income tax in FY25 and beyond are based on an assumed 2024 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 decrease in income tax revenue in FY25 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.

Property Tax

The revised estimate for property tax revenues is $98.1 million above the FY24 approved budget. This increase reflects a slightly higher starting assessed valuation than in the FY24 approved budget, and actual year to date billing and collections data. Over $70 million of the increase in property tax revenue is due to a change in State law that required recipients of the County's Income Tax Offset Credit ("ITOC") to file a State Homestead Tax Credit application by May 1st of 2022 in order be eligible for the ITOC.[10]

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[8] The State Comptroller previously had identified complications in process 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.

[9] 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. For tax revenues this number in comparison to the total amount raised by that tax indicates how much that tax revenue varies from one year to another.

[10] House Bill 1200, Introduced 2/7/2020 and adopted 3/5/2020.

Despite an extensive outreach campaign exhorting property owners to file the required application, fewer than half of affected property owners filed their State Homestead Tax Credit application by the May 1st due date in both 2022 and 2023 and as a result these property owners did not receive the ITOC in either year. The reduction in the amount of credits provided to taxpayers resulted in higher property tax collections than initially forecast. These property tax collections are not expected to be recurring since the number of ITOC recipients is forecast to revert to its prior level during the fiscal plan forecast period.

Sensitivity and Outyears

Property taxes are among the most stable of the County's tax revenues. State law provides 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 materially 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 FY24 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 of approximately $86.7 million of property tax revenues received during fiscal years FY19-FY23.

The growth rates for the property tax in FY25 and beyond are based on mild recession assumptions for the input variables of median home sales price growth and assessed values. The property tax revenue declines in FY25 because of the lag effects inherent in the triennial assessment schedule and the increase in ITOC recipients and further vary in 2026-2029 due to assumptions for the housing market adjustments to supply, demand, and sales volume following the mild recession.

Transfer and Recordation Taxes

Both transfer and recordation taxes are directly affected by the real estate market. As of October 31, transfer taxes and transfer volume were down 21% and 25%, respectively, from the same period in FY23. FY24 transfer tax revenue is revised downward by $22.5 million (-19.1%), 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 minor decrease in residential real estate prices. Non-residential activity is also lower in value and volume so far in FY24.

Recordation tax receipts are similarly revised downward by $11.2 million (-19.9%) 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 27%, while volume is lower by 26% versus FY23. Like the transfer tax, residential volume is down 21%. Non-residential volume is down by 17% from FY23 and non-residential recordation tax revenue is 37% lower than FY23.

Sensitivity and Outyears

Transfer and recordation taxes are among the more volatile of the County's revenues as they reflect current real estate activity. The transfer tax and recordation taxes have a combined five-year sample standard deviation of approximately $43.3 million of transfer and recordation taxes during fiscal years FY19-FY23.

The growth rates for the transfer and recordation taxes in FY25 and beyond are based on mild recession assumptions for the input variables of median property sales price growth and assessed values. After the revenue decline in FY24, they begin to recover in FY25 and continue to recover through FY29. The return to growth has 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 FY24 are slightly below target and are revised downward by $1.6 million (-.6%) from the approved FY24 budget. Fuel/energy taxes are forecast to decline slightly while telephone taxes are essentially flat. Hotel taxes are performing well due to higher than anticipated occupancy and room rates.

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 mildly lower in outyears for the forecast period as a result of declining residential natural gas usage.

Telephone tax growth rates in FY24 are primarily affected by the growth rate for wireless lines, which has slowed in recent years but has maintained roughly 1% growth year-over-year.

The hotel tax forecast assumes pre-Covid levels for occupancy, room supply, demand, and room rates to occur in FY24 and are informed by research and analysis from Marriott[11], CB Richard Ellis[12], and Visit Montgomery.[13]

[11] https://news.marriott.com/news/2023/11/02/marriott-international-reports-third-quarter-2023-results
[12] https://www.cbre.com/press-releases/cbre-hotels-expects-revpar-growth-recovery-following-summer-slowdown
[13] https://visitmontgomery.com/resources/

Appendix 1: Revenue Forecast, FY24 December Fiscal Plan

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
TOTAL TAX REVENUES	Actual	Forecast						
FY24 Approved Budget		$4,206.662	$4,366.506	$4,531.170	$4,692.788	$4,879.550	$5,032.113	
-Fiscal Plan Update (Dec' 23)	$4,274.810	$4,415.332	$4,380.481	$4,509.381	$4,650.505	$4,840.293	$4,993.898	$5,140.673
$ - Difference from approved budget		$208.671	$13.975	($21.790)	($42.283)	($39.257)	($38.215)	$5,140.673
Year-over-Year Percent Change FP Update		3.29%	-0.79%	2.94%	3.13%	4.08%	3.17%	2.94%
% change from approved budget		4.96%	0.32%	-0.48%	-0.90%	-0.80%	-0.76%	
	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
INCOME TAX	Actual	Forecast						
FY24 Approved Budget		$1,925.076	$2,023.557	$2,128.017	$2,241.214	$2,400.054	$2,526.234	
-Fiscal Plan Update (Dec' 23)	$2,139.966	$2,069.457	$2,023.747	$2,082.695	$2,153.181	$2,267.882	$2,361.642	$2,448.538
$ - Difference from approved budget		$144.381	$0.190	($45.321)	($88.033)	($132.172)	($164.592)	$2,448.538
Year-over-Year Percent Change FP Update		-3.29%	-2.21%	2.91%	3.38%	5.33%	4.13%	3.68%
% change from approved budget		7.50%	0.01%	-2.13%	-3.93%	-5.51%	-6.52%	
PROPERTY TAX								
FY24 Approved Budget		$2,107.034	$2,160.224	$2,219.363	$2,258.160	$2,276.288	$2,289.585	
-Fiscal Plan Update (Dec' 23)	$1,971.096	$2,205.110	$2,204.589	$2,259.759	$2,322.928	$2,391.757	$2,439.386	$2,490.346
$ - Difference from approved budget		$98.076	$44.366	$40.396	$64.768	$115.469	$149.801	$2,490.346
Year-over-Year Percent Change FP Update		11.87%	-0.02%	2.50%	2.80%	2.96%	1.99%	2.09%
% change from approved budget		4.65%	2.05%	1.82%	2.87%	5.07%	6.54%	
TRANSFER TAX								
FY24 Approved Budget		$118.050	$123.578	$124.299	$130.807	$137.431	$146.281	
-Fiscal Plan Update (Dec' 23)	$110.459	$95.512	$103.233	$113.263	$118.331	$122.578	$130.866	$136.918
$ - Difference from approved budget		($22.538)	($20.345)	($11.036)	($12.476)	($14.853)	($15.415)	$136.918
Year-over-Year Percent Change FP Update		-13.53%	8.08%	9.72%	4.48%	3.59%	6.76%	4.62%
% change from approved budget		-19.09%	-16.46%	-8.88%	-9.54%	-10.81%	-10.54%	
RECORDATION TAX (GENERAL FUND)								
FY24 Approved Budget		$56.501	$59.147	$59.492	$62.607	$65.777	$70.013	
-Fiscal Plan Update (Dec' 23)	$53.289	$45.253	$48.911	$53.663	$56.065	$58.077	$62.004	$64.871
$ - Difference from approved budget		($11.248)	($10.236)	($5.828)	($6.542)	($7.700)	($8.009)	$64.871
Year-over-Year Percent Change FP Update		-15.08%	8.08%	9.72%	4.48%	3.59%	6.76%	4.62%
% change from approved budget		-19.91%	-17.31%	-9.80%	-10.45%	-11.71%	-11.44%	
Total Revenues including Excise Taxes	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
FY24 Approved Budget		$4,492.975	$4,654.120	$4,820.093	$4,982.854	$5,170.626	$5,324.969	
-Fiscal Plan Update (Dec' 23)	$4,547.099	$4,700.048	$4,668.320	$4,799.122	$4,941.951	$5,133.266	$5,289.064	$5,437.486
$ - Difference from approved budget		$207.073	$14.201	($20.971)	($40.903)	($37.360)	($35.906)	$5,437.486
Year-over-Year Percent Change FP Update		3.36%	-0.68%	2.80%	2.98%	3.87%	3.04%	2.81%
% change from approved budget		4.61%	0.31%	-0.44%	-0.82%	-0.72%	-0.67%	

*Excise taxes include Admissions Tax, Fuel/Energy Tax, Telephone Tax, Hotel/Motel Tax, Highway User Fund, 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.