

Marc Elrich
County Executive




Michael J. Coveyou
Director

DEPARTMENT OF FINANCE

MEMORANDUM

September 15, 2024

TO: Marc Elrich, County Executive

FROM: Michael Coveyou, Director 
Department of Finance

SUBJECT: Revenue Estimating Group Report for September 15, 2024

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, 2024. 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
Caven West, 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
Ken Hartman-Espada, 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
Rachel Silberman, Manager, Office of Management and Budget
Craig Howard, Deputy Director, County Council Staff
Bilal Ali, Legislative Analyst, County Council Staff
Logan Anbinder, Legislative Analyst, 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, 2024

FY24 Economic Backdrop and Preliminary Results

In Fiscal Year 2024 (“FY24”), Montgomery County experienced revenue growth that exceeded both the FY24 approved budget and the estimate of FY24 revenues from March of 2024 (“FY25 recommended budget/FY24 preliminary estimate”). Revenue growth was notable in income and property taxes, which exceeded the approved budget revenue estimates.¹

The FY24 approved budget reflected the economic conditions at the time of approval in June 2023, which assumed an elevated risk the County would experience a mild recession during the remainder of Calendar Year 2023 (“CY23”) or CY24. While this mild recession would have resulted in a slowdown in the labor market Montgomery County would continue to see modest growth in total personal income. The assumed mild softening in labor markets would have been the result of the significant increase in interest rates depressing investment and job creation nationwide and in the County.

Despite the assumption of a mild recession, the FY24 approved budget anticipated continued positive growth in property taxes due to reassessment phase-ins and an increase in assessed property values, as well as growth in income taxes due to the expected increase in total personal income. Assessed property values were expected to continue growing due to the triennial phase-in of reassessments from the prior two reassessment cycles plus the expected increase in assessed values due to the continued increase in home values despite lower sales volume.

The FY24 approved budget anticipated a continued downturn in transfer and recordation taxes, reflecting the weakened real estate market that followed the record transfer and recordation tax receipts in FY22 caused by strong growth in home prices and sales during the pandemic. Eleven increases in the Federal funds rate by the Federal Reserve between March 2022 and July 2023 subsequently led to sharp reductions in both the supply of housing available for sale and new housing starts as well as a decline in the pace of housing price growth.²

In contrast to the expectations in the FY24 approved budget, in FY24 the national, regional, and County economies remained unexpectantly resilient due to low unemployment, continued wage and salary growth, and strong household balance sheets. As a result, the assumed recession did not occur in FY24 and income tax and property tax revenues exceeded expectations, which offset the declines in the

¹ Latest FY24 tax revenue estimates are unaudited preliminary estimates for FY24 (“FY24 preliminary estimate”) including data from the Montgomery County Treasury Department, State Comptroller 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 FY24 audited financial statements, which will be available later in calendar year 2024.

² The Federal Reserve began to increase the fed funds rate in March 2022 from its previous target range of 0.00%-0.25% that had been in place since March 2020. Between March 2022 and July 2023, the Federal Reserve increased its target range to 5.25%-5.50% and has held the effective federal funds rate at 5.33% since this time.

County’s transfer and recordation taxes. Indeed, preliminary FY24 collections for income (+5.1%) and property (+5.1%) taxes exceeded the FY24 approved budget and slightly exceeded the FY25 recommended budget/FY24 preliminary estimate from March 2024. FY24 tax revenues based on unaudited preliminary estimates exceed the approved budget by 3.6% despite shortfalls in transfer (-18.3%) and recordation (-20.4%) tax collections versus the approved budget (see Table 1).

Table 1: FY24 All Tax Supported Funds

TAXES	FY24 Preliminary		FY24 Preliminary Final (b) (Aug 2024)	\$ Δ FY24 Prelim Final to estimate	% Δ FY24 Prelim Final to estimate
	Budget FY24 (a)	Estimate FY24 (a) (Mar 2024)			
Property Tax (less Parking District)	\$2,107,033,865	\$2,205,435,289	\$2,213,648,417	\$8,213,128	0.4%
Income Tax	\$1,925,076,241	\$2,008,239,723	\$2,023,561,278	\$15,321,555	0.8%
Transfer Tax	\$118,050,247	\$90,513,416	\$96,468,076	\$5,954,660	6.6%
Recordation Tax	\$56,501,236	\$42,884,800	\$44,958,808	\$2,074,008	4.8%
Energy Tax	\$193,151,409	\$184,226,624	\$182,130,483	-\$2,096,141	-1.1%
Telephone Tax	\$55,641,296	\$55,869,362	\$55,606,906	-\$262,456	-0.5%
Hotel/Motel	\$22,067,616	\$23,109,024	\$23,108,603	-\$421	0.0%
Admissions Tax	\$3,904,620	\$4,214,556	\$3,703,817	-\$510,739	-12.1%
E-Cigarette	\$1,048,651	\$754,666	\$801,269	\$46,603	6.2%
TOTAL	\$4,482,475,181	\$4,615,247,460	\$4,643,987,658	\$ 28,740,198	0.6%
Notes:					
(a) Source: Schedule C-3, FY25 Approved Budget: OMB					
(b) Sources: Selected Operations Summary Report, June 2024: Treasury Division, and Income Tax: Fiscal Management Division					

FY25 Economic Outlook and Year-over-Year Revenue Comparison

The FY25 approved budget revenue estimate assumed economic conditions in Montgomery County would experience a mild recession in FY25 with the mild recession occurring in the second half of CY24. The recession would result in slightly higher total personal income and lower resident employment in CY24 as compared to the levels assumed in the FY24 December fiscal plan update. Assumptions for CY25 indicate very slow year-over-year growth in both employment and income indicators. Recent economic indicators through the summer of CY24 indicate that the national rate of inflation is moderating and is now below 3% but not yet at the Federal Reserve Bank’s target of 2%, while at the same time nationally, growth in employment is slowing. Both the decrease in the rate of inflation and a slowdown in employment growth were the Federal Reserve’s goals for decreasing the federal funds rate. Based upon public statements made by Federal Reserve Chairman Jerome Powell at the end of August, the financial markets expect the Federal Open Market Committee to begin to reduce the federal funds rate at its

September 17-18th meeting.³ As a result, many analysts believe that the likelihood of a recession has decreased, however, interest rates still remain high which has a negative impact on housing and real estate values. Montgomery County economic indicators have not materially changed in the three months since the FY25 budget was approved. The Revenue Estimating Group and Department of Finance will continue to monitor economic indicators and revenues.

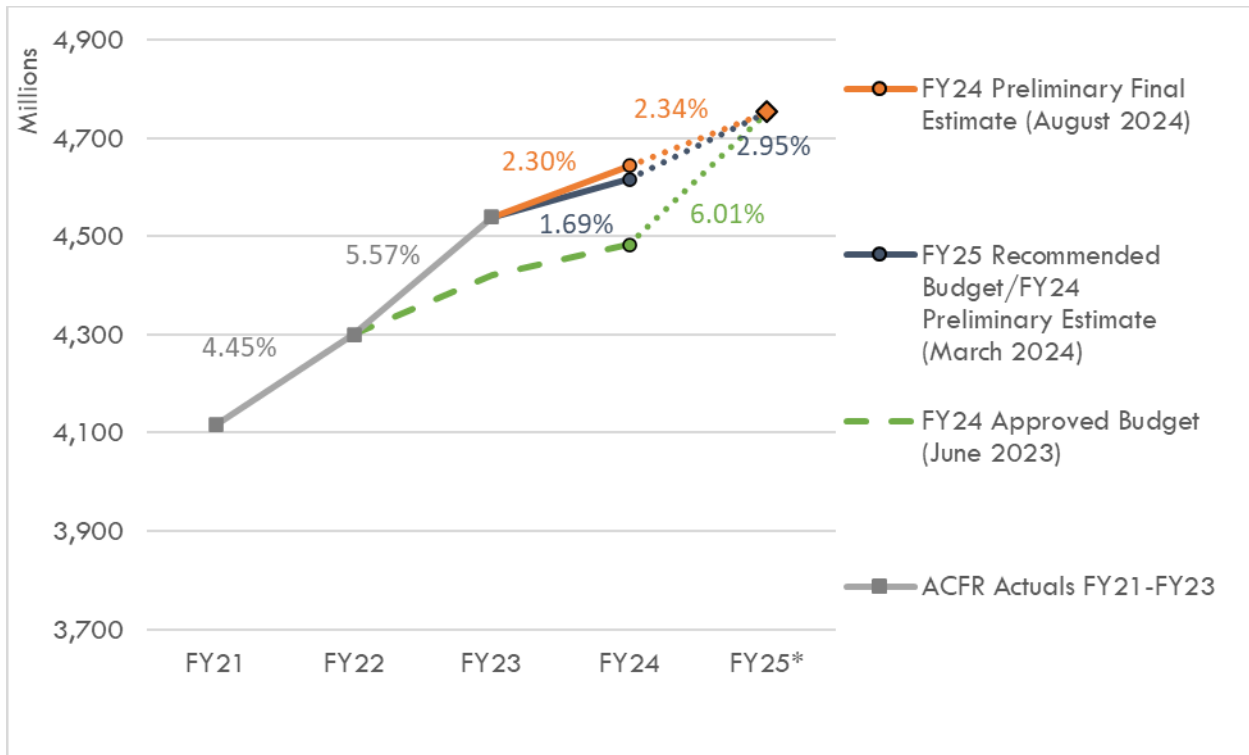
While the FY25 approved budget expected tax revenues to grow 6.0% (\$269.2M) from the FY24 approved budget, higher than anticipated actual revenues for FY24 have resulted in forecasted FY25 revenues at 2.3% (\$108.5M) above the FY24 preliminary final estimate (see Chart 1, and Appendix 1). The FY25 approved budget tax revenue estimates were based on the economic indicators and realized FY24 revenue collections as of March 2024 (the FY25 recommended budget/FY24 preliminary estimate).⁴ The FY25 approved budget estimate for income tax revenue is forecast to be \$27.6M greater than the FY24 year-end preliminary final estimate (+1.4%). Compared to the FY24 preliminary final estimate transfer (-1.8%) and recordation tax (-0.2%) revenues are anticipated to be slightly lower in FY25.

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 reassessment 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 in FY25 is still 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.

³ "Overall, the economy continues to grow at a solid pace. But the inflation and labor market data show an evolving situation. The upside risks to inflation have diminished. And the downside risks to employment have increased. As we highlighted in our last FOMC statement, we are attentive to the risks to both sides of our dual mandate. The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks." Jerome Powell.
<https://www.federalreserve.gov/newsevents/speech/powell20240823a.htm>

⁴ This quarterly report provides an update on realized FY24 revenue collections and does not update FY25 revenue projections from the FY25 approved budget. The December quarterly report will include any updates to FY25-FY30 revenue projections based on a review of economic conditions and indicators at that time.

Chart 1: Tax Supported Revenue Growth (% change) ⁵



Sources: Schedule C-3, FY23, FY24 & FY25 Approved Budgets; June Select Operations Summary report, Treasury Division, Department of Finance

⁵ FY24 revenues include a 4.7 cent per \$100 in taxable value property tax increase dedicated to funding Montgomery County Public Schools. This increase remains in effect for FY25.

Appendix 1

Table 2: FY25 All Tax Supported Funds Compared to Prior Years

TAXES	ALL TAX SUPPORTED FUNDS			\$ Δ FY25 Approved vs FY24 Prelim Final	% Δ FY25 Approved vs FY24 Prelim Final	\$ Δ FY24 Prelim Final to estimate	% Δ FY24 Prelim Final to estimate
	Actual FY23 (a)	FY24 Preliminary Final (b) (Aug 2024)	Approved FY25 Budget (a) (June 2024)				
Property Tax (less Parking District)	\$1,971,363,571	\$2,213,648,417	\$2,285,558,724	\$71,910,307	3.2%	\$8,213,128	0.4%
Income Tax	\$2,139,966,489	\$2,023,561,278	\$2,051,146,619	\$27,585,341	1.4%	\$15,321,555	0.8%
Transfer Tax	\$110,458,782	\$96,468,076	\$94,722,310	-\$1,745,766	-1.8%	\$5,954,660	6.6%
Recordation Tax	\$53,288,501	\$44,958,808	\$44,878,953	-\$79,855	-0.2%	\$2,074,008	4.8%
Energy Tax	\$181,287,728	\$182,130,483	\$191,261,860	\$9,131,377	5.0%	-\$2,096,141	-1.1%
Telephone Tax	\$56,355,076	\$55,606,906	\$55,808,865	\$201,959	0.4%	-\$262,456	-0.5%
Hotel/Motel	\$20,777,612	\$23,108,603	\$23,098,383	-\$10,220	0.0%	-\$421	0.0%
Admissions Tax	\$4,392,615	\$3,703,817	\$4,400,144	\$696,327	18.8%	-\$510,739	-12.1%
E-Cigarette	\$904,393	\$801,269	\$824,999	\$23,730	3.0%	\$46,603	6.2%
TOTAL	\$4,538,794,767	\$4,643,987,658	\$4,751,700,857	\$ 107,713,199	2.3%	\$ 28,740,198	3.0%
Notes:							
(a) Source: Schedule C-3, FY25 Approved Budget: OMB							
(b) Sources: Selected Operations Summary Report, June 2024: Treasury Division, and Income Tax: Fiscal Management Division							

Appendix 2 – Glossary of Budget Estimates Terms

FY24 recommended budget: The forecast of tax revenues included in the recommended budget for FY24 transmitted from the Chief Executive to the Council on March 15, 2023. The estimate of tax revenues reflects the conditions and knowledge as of March 2023.

FY24 approved budget: The budget revenue forecast included in the budget approved by the County Council in May of 2023 which is not changed from the recommended budget forecast on March 15, except to reflect enacted changes in tax rates or new laws.

FY24 December fiscal plan update: The revenue forecast that is included in the Fiscal Plan update in December of 2023. This revenue forecast may differ from the approved budget depending upon conditions at this time.

FY25 recommended budget/FY24 preliminary estimate: The estimated revenues for FY24 that are included in the FY25 Recommended Budget transmitted to Council on March 15, 2024. The revenue estimate may differ from the Fiscal Plan update produced in December 2023 as a result of changed conditions.

FY24 preliminary final estimate: The estimate of realized tax revenues for FY24 that is produced in August of 2024 after the fiscal year ends. This estimate is not yet audited and may change before the Annual Comprehensive Financial Report (ACFR) is published.

FY24 final audited revenues: The final accounting of FY24 revenues that will be published in the ACFR in December 2024.