Marc Elrich
County Executive

Michael J. Coveyou
Director

DEPARTMENT OF FINANCE

M E M O R A N D U M

February 15, 2025

TO: Marc Elrich, County Executive

FROM: Michael Coveyou, Director
Department of Finance

SUBJECT: Revenue Estimating Group Report for February 15, 2025

As chairperson of the Revenue Estimating Group, I am pleased to transmit to you the Group's February 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 February 15th report focuses on the economic assumptions to be used for the fiscal year 2026 recommended budget and year-to-date tax revenues through the end of December.

The next report is due in May and will review the fiscal year 2026 recommended budget tax revenue forecast. 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 my 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
Craig Howard, 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
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 ("REG")
Quarterly Report
February 15, 2025

Executive Summary

- Economic assumptions for Fiscal Year 2026 ("FY26") incorporate stable macro-economic conditions (i.e., neither a recession nor an expansion). This assumption of the macro-economy is consistent with the Fiscal Year 2025 ("FY25") December Fiscal Plan presented to the County Council on December 10, 2024, but differs from the FY25 approved budget which assumed a mild recession.
- While the assumptions for FY26 do not include a recession, the unpredictable Federal policies and actions of the Trump administration make forecasting the future state of the economy particularly challenging. The REG strongly emphasizes that there is elevated risk that Federal actions could have material impacts to Montgomery County revenues. There is no way to accurately anticipate or forecast future Federal actions due to the unpredictable nature of the executive orders that we have seen so far and uncertainty over the outcome of litigation or congressional action that could reverse those actions. Thus, the expected variance between forecasted revenues and realized revenues may be larger in FY26 due to the uncertainty that this has caused.
- In the December Fiscal Plan, the FY25 revised total tax revenues were forecast to exceed the approved budget by $140.5 million (+3.4%), primarily due to income tax revenues exceeding the amount forecast. As of the end of December total tax revenues are on track to meet the revised estimates.

Economic Assumptions

2025-31 Economic Assumptions

The economic assumptions that will be applied to develop the FY26 budget revenue forecast are shown below. The FY27-FY31 revenue forecasts assume the economy will experience stable conditions, meaning it will neither experience a recession nor an expansion. The FY25 approved budget assumed a mild recession would occur in calendar year ("CY") 2024 or the first half of CY2025, continuing a forecast from the FY24 approved budget for a mild recession that had not materialized. Economic conditions were better than anticipated in CY2024, and the Federal Reserve appears to have engineered a "soft landing" — that is, increasing interest rates to rein in inflation by reducing aggregate demand and then lowering them without causing a recession.

The FY26 budget revenue forecast incorporates assumptions from Moody's Analytics. Notwithstanding uncertainty regarding future actions of the Trump Administrations, Moody's made the following notable assumptions regarding its policies:

- Tariffs: 20% additional (on average) on China; 10% additional (on average) on Mexico and Vietnam, Thailand, others; 5% additional (on average) on Canada and Europe; 2% average additional on Japan, Korea, Taiwan
- Immigration: 500,000 undocumented migrants removed annually
- Revenues: Cut corporate tax rate from 21% to 15%; Extend tax cuts in the 2017 Tax Cut and Jobs Act
- Outlays: Maintain Medicare and investments in green energy transmission; Minor cuts to Medicaid (e.g. work requirements)
- Federal workforce: Slight reduction in government employment

The following summarizes the key inputs to the FY26 budget revenue forecast:

Resident Employment is a key component in forecasting income tax revenue. For CY2025-CY2031 resident employment is assumed to grow at a slower pace than was assumed in the December Fiscal Plan. This is due to a slowdown in resident employment from CY2025 to CY2027 and can largely be attributed to updated expectations that incorporate reduced Federal government hiring. Resident employment is expected to have positive growth rates in all years, but in no year does resident employment growth exceed +1%.

Total Personal Income is also a key component in forecasting income tax revenue. The assumption for total personal income growth remains positive in all years of the forecast, averaging +3.6% per year from CY2025-CY2031. The growth rate in CY2025 of +4.0% is lower than the December forecast but follows a notable increase in the estimated personal income levels for CY2024 (up from +1% in the December forecast to +4.5%). The result is higher total levels of personal income throughout the forecast period. The increase in the estimated levels for CY2024 appears to be due to the year-end actuals being higher than the original forecast.

Sales of existing single-family homes and median sales price of single-family homes are key components in forecasting property tax and transfer and recordation tax revenues. Transfer and recordation taxes are derived from both residential and non-residential transfer activity. The recordation tax is also applied to other instruments that are recorded in land records.

The assumption for the volume of single-family home sales in CY2025 and CY2026 has been revised downward due to an updated assumption that the Federal Reserve will pause its program of cutting the federal funds rates, leading to higher mortgage rates which will result in fewer existing homeowners selling their homes due to the cost of purchasing a new property. While the forecast now anticipates that home sales will grow again in CY2026, the total number of homes sold is expected to be lower in each year of the forecast as compared to the amount anticipated in the December Fiscal Plan.

In addition to the decrease in the volume of home sales, the forecast of the median value of homes sold has been revised downwards, showing lower growth from CY2025 to CY2031. This relative softness in home prices reflects anticipation that demand will weaken because of the lower growth in employment and the continued high cost of buying homes due to higher mortgage rates.

FY26 Budget - Key Economic Assumptions

				Percentage change Year-Over-Year						
	2023	**2024 (est.)***	**2025 forecast**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Resident Employment (000's)	538.2	539.6	540.3	0.1	0.2	0.4	0.5	0.4	0.4	0.3
December 2024	538.2	539.7	541.1	0.3	0.3	0.5	0.5	0.4	0.4	
Total Personal Income ($bn)	105.9	110.7	115.1	4.0	4.1	3.5	3.2	3.5	3.6	3.5
December 2024	105.9	106.9	111.5	4.3	4.3	3.8	3.7	3.5	3.4	
Median Existing Home Sales (000's)	8.8	10.5	9.6	-8.6	13.1	4.5	1.0	1.1	1.8	0.4
December 2024	8.5	11.1	11.4	3.1	1.9	2.0	1.9	1.8	1.4	
Median Sales Prices ($)	635,043	667,139	684,483	2.6	2.4	3.4	4.7	4.4	3.9	3.5
December 2024	639,398	675,951	704,206	4.2	3.1	3.2	4.0	3.3	2.8	
				Forecast (%)						
CPI-U Washington MSA (%)	3.1	3.2	2.4		2.8	2.5	2.3	2.2	2.2	2.3
December 2024	3.1	3.2	2.6		2.4	2.3	2.3	2.3	2.3	

*2024 data is estimated and 2025-2031 are forecasts

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. The February REG Report has typically provided a list of developments that could have positive or negative effects on economic activity resulting in revenues exceeding the forecast or falling short, such as capital gains and stock market valuations exceeding expectations, or property assessed values growing more slowly than forecast. While developments such as these remain problematic, the primary risk facing Montgomery County is from unpredictable Federal actions.

The Trump Administration has initiated various measures related to tariffs, immigration, federal grants, diversity-equity-inclusion, taxation and the Federal workforce. While some of these actions may be litigated and ultimately denied or abandoned, if implemented, they could materially change the macro-economic context. Prior episodes of economic weakness like past recessions are not direct parallels for current Federal actions. Therefore, it is not possible to realistically simulate how extensive these Federal actions might be and what the resulting impact could be for Montgomery County revenues. Due to the elevated risk inherent in current and future federal government actions, the REG will meet on an on-going basis to review developing federal actions and their effect on the County's economy and revenues.

Revenue Year to Date for the Period Ended December 31, 2024

Income tax receipts for the first half of FY24 were approximately 33% of the forecast in the December Fiscal Plan update.[1] At this half-way point in the fiscal year income tax receipts are consistent with fiscal

[1] Income tax receipts are accounted for on a modified accrual basis on an August through July fiscal year. Income taxes collected through December 31 reflect 5 months from August through December. Other taxes shown in the table below are on a cash basis on a July through June fiscal year.

years 2012- 2024 when income tax receipts for the same period tended to be between 30% and 35% of the December Fiscal Plan full year forecast and the amount ultimately realized.

Property taxes collected to date are near 94% of the December Fiscal Plan revised forecast since the final regular property tax due date passed on December 31, 2024, a level consistent with the amount received by this point in years past. During the second half of the fiscal year ad valorem property taxes that may be received include delinquent payments, taxes for construction projects in process or recently completed, and personal property taxes. The County has a long history of collecting over 99%[2] of its property taxes each year.

Transfer and recordation taxes: At the end of December recordation and transfer tax collections were approximately 52% and 55%, respectively, of the modestly increased December Fiscal Plan estimates. Total transfer and recordation tax revenues are similar to the amount received by this point last year but remain considerably reduced from levels experienced from FY20 to FY22 as a result of the combination of high mortgage rates reducing the number of existing homeowners willing to sell their home and high median home prices.

Other tax revenues collected through December 31 are on target considering expected seasonality and recovery from pandemic lows. Fuel energy tax and telephone tax collections were approximately 46% and 48%, respectively of the December Fiscal Plan estimates. Hotel/motel tax collections are approximately 53% of the approved budget and 58% of the December Fiscal Plan estimate. In December the FY25 hotel/motel tax estimate was reduced from $23.1 million to $20.9 million on concerns that in recent years the forecast has overestimated revenues to be received in the second half of the year.

TAXES	Year-to-Date (through December) (1)	FY25 Approved Budget	Fiscal Update December '24	YTD Share FY25 Approved	YTD Share Fiscal Update
Property Tax (includes MNCPPC)	$2,138,476,550	$2,285,558,724	$2,287,516,881	93.6%	93.5%
Income Tax	$712,314,883	$2,051,146,619	$2,175,293,738	34.7%	32.7%
Transfer Tax	$54,297,488	$94,722,310	$104,537,491	57.3%	51.9%
Recordation Tax (G.F.)	$26,948,452	$44,878,953	$49,409,853	60.0%	54.5%
Fuel and Energy Tax	$84,182,605	$191,261,860	$182,720,455	44.0%	46.1%
Telephone Tax	$28,099,247	$55,808,865	$58,216,866	50.3%	48.3%
Hotel/Motel Tax	$12,181,151	$23,098,383	$20,907,046	52.7%	58.3%
Admissions Tax	$918,417	$4,400,144	$4,400,144	20.9%	20.9%
E-Cigarette Tax	$328,031	$824,999	$824,999	39.8%	39.8%
TOTAL	$3,057,746,825	$4,751,700,856	$4,883,827,474	64.4%	62.6%

NOTE (1): data from MoCo accounting systems; provided by the Treasury Division, Department of Finance

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 "REG") to review and forecast County revenues and provide for the membership and duties of the REG. The REG 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.

[2] See Montgomery County Annual Comprehensive Report, Fiscal Year Ended June 30, 2024, Statistical Table 11 https://www.montgomerycountymd.gov/Finance/Resources/Files/data/financial/acfr/FY2024_ACFR.pdf