



**Committee:** GO  
**Committee Review:** At a future date  
**Staff:** Craig Howard, Deputy Director  
**Purpose:** To introduce agenda item – no vote expected  
**Keywords:** SAG, Budget

AGENDA ITEM #6  
February 7, 2023  
**Public Hearing**

## SUBJECT

Spending Affordability Guidelines for the FY24 Operating Budget

## EXPECTED ATTENDEES

None

## COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

- N/A

## DESCRIPTION/ISSUE

The Council must adopt guidelines for the next operating budget by the second Tuesday in February. The spending affordability guidelines that must be adopted are: 1) a ceiling on the funding from ad valorem real property tax revenues; 2) a ceiling on the aggregate operating budget; and 3) separate budget allocations for all agencies and certain non-agency uses.

## SUMMARY OF KEY DISCUSSION POINTS

- The staff report provides analysis and recommendations for public consideration at the scheduled February 7, 2023 public hearing.
- The Government Operations and Fiscal Policy Committee will review the proposed options, including any public comments, on February 9, 2023 and make its recommendations to the Council.

### **This report contains:**

Staff Report	Pages 1-8
Proposed FY24 AOB calculations	Page 9
Proposed FY24 SAG resolution	©1-3
December 2022 Fiscal Plan update	©4-5

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**M E M O R A N D U M**

February 2, 2023

TO: County Council

FROM: Craig Howard, Deputy Director

SUBJECT: Spending Affordability Guidelines for the FY24 Operating Budget

PURPOSE: Hold a public hearing

The Council has scheduled a public hearing on February 7, 2023 regarding the proposed resolution setting the spending affordability guidelines for the FY24 Operating Budget (see ©1-3). The Government Operations and Fiscal Policy (GO) Committee will make a recommendation for Council action on February 9, 2023. The deadline for the Council to adopt these guidelines is the second Tuesday of February each year; the deadline this year is February 14, 2023.

**I. Background**

Sections 20-60 and 20-63 of the Council Code requires the Council to specify the following when adopting the spending affordability guidelines for the operating budget:

- 1) A ceiling on the funding from ad valorem real property tax revenues;
- 2) A ceiling on the aggregate operating budget (AOB); and
- 3) Separate budget allocations for the following:
  - County Government (“MCG”)
  - Board of Education (i.e., Montgomery County Public Schools or “MCPS”)
  - Montgomery College
  - Maryland-National Capital Park and Planning Commission (M-NCPPC)
  - Debt service; and
  - Current revenue funding of capital projects.

Section 20-61 of the County Code states for setting the spending affordability guidelines for the operating budget that “*the Council should consider, among other relevant factors, the condition of the economy, the level of economic activity in the County, trends in personal income, and the impact of economic and population growth on projected revenues.*” Pages 2-4 provide updates on these factors.

**Overall, economic indicators both locally and nationally show improvements from the pandemic. However, there is still considerable uncertainty with continued high inflation and signs of a potential recession – providing reason for caution that is reflected in near-term forecasts.**

## A. Summary of December Fiscal Plan Update

- **The December fiscal plan update showed higher than projected revenues for FY22 and FY23, but write-downs for all revenue sources beginning in FY24.**
  - The County's total tax revenues in FY22 were \$291.8 million **greater** than budgeted, resulting general fund reserve levels greater than the 10.0% policy level.
  - Finance estimates that FY23 total revenues will be \$22.6 million **greater** than the FY23 approved budget.
  - The update shows reductions in all revenue sources every year from FY24-FY28 (as shown in the table below). FY24 revenues are projected to be approximately \$100 million **lower** than estimated in June.

**FY23-28 Projected Tax Supported Revenues (\$ in millions)**

Tax Supported Revenues	FY23	Projected				
		FY24	FY25	FY26	FY27	FY28
Approved FY23-28 Fiscal Plan (June 2022)						
Total	5,531.5	5,690.5	5,875.0	6,021.2	6,175.6	6,351.2
Growth Rate	--	2.9%	3.2%	2.5%	2.6%	2.8%
Fiscal Plan Update (December 2022)						
Total	5,554.1	5,590.9	5,713.9	5,821.3	5,919.8	6,048.9
Growth Rate	--	0.7%*	2.2%	1.9%	1.7%	2.2%
Difference, December Update compared to June Approved						
Total	22.6	(99.6)	(161.1)	(199.9)	(255.8)	(302.3)
Growth Rate	--	(2.2%)	(1.0%)	(0.6%)	(0.9%)	(0.6%)

\*As noted in the Fiscal Plan update, when compared to FY23 approved total revenue the projected FY24 amount represents a 1.1% increase

## B. Condition of the Economy

- **The unemployment rate decreased year-over-year in the region and the County, moving closer to the pre-pandemic level.**
  - The Bureau of Labor Statistics (BLS) estimates that the [Washington metro area's](#) unemployment rate **decreased** year-over-year from 4.1% in October 2021 to 3.3% in October 2022.
  - The BLS estimates that the [County's unemployment rate](#) **decreased** year-over-year from 4.8% in October 2021 to 3.6% in October 2022.
  - The pre-pandemic [unemployment rate](#) for the region was 3.1% in February 2020.

- **Across the region, the total number of jobs has nearly returned to the pre-pandemic level.**
  - The Stephen Fuller Institute's *Washington Economy Watch* December 2022 update (©6-13) estimates that the Washington metro area **gained** 380,200 jobs between April 2020 and October 2022, nearly equaling the estimated 390,100 jobs **lost** during the COVID-19 recession between February 2020 and April 2020.
  - The Fuller Institute estimates that all industry sectors, apart from the Financial Activities sector, experienced job growth from April 2020 to October 2022. The sectors that experienced the greatest growth were those most impacted by the pandemic, including the Leisure and Hospitality sector, the Education and Health Services sector, and the Retail Trade sector.
- **The County's resident employment has increased but is still well below the pre-pandemic level.**
  - [Finance estimates](#) that the annual average number of employed residents **increased** by 2.7% from 517,358 in 2021 to 531,239 in 2022. However, resident employment is still 5.0% **below** the pre-pandemic level of 559,116 in 2019.
  - Finance estimates that the County will return to resident employment near pre-pandemic levels around 2027.

### C. Level of Economic Activity in the County

- **The inflation rate increased significantly in 2022. While expected to decrease in 2023, it will remain higher the pre-pandemic levels.**
  - [Finance estimates](#) that the Washington metro area inflation rate for 2022 was 7.2% and will decrease to 4.2% in 2023.
  - The inflation rate for the Washington metro area was 0.9% in 2020 and 4.0% in 2021. From 2017 to 2020, inflation averaged 1.3% per year.
  - The [Employment Cost Index](#) (ECI), which measures inflation in compensation costs, was 4.6% for State and Local Governments as of September 2022, an increase from 2.3% in September 2021.
- **The County's office market experienced an overall increase in vacancy rates in 2022, while changes in average rent varied by type of space.**
  - Costar estimates that the County's Class A office space average rent **decreased** in to \$32.59 per square foot in 2022 from \$33.06 per square foot in 2021. The vacancy rate for this type of office space **increased** in 2022 to an average of 18.3% from an average of 15.9% in 2021 (and 13.8% in 2020).
  - Costar estimates that the County's Class B office space average rent **increased** to \$28.85 per square foot in 2022 from \$27.74 per square foot in 2021. The vacancy rate for this type of office space **was unchanged** in 2022 with an average of 16.4% compared to an average of 16.3% in 2021.
- **After increases in 2021, the County's homes sales declined significantly in 2022 and the median sales value is expected to decline in 2023.**

- Finance estimates that existing home sales **decreased** by 32.3% in 2022 and are projected to **decrease** by another 17.3% in 2023.
- Finance estimates that the median home sales price **increased** by 5.7% from 2021 to 2022 but is projected to **decrease** by 11.2% in 2023.
- The State Department of Assessments and Taxation released the most recent triennial property assessments for [Group 2](#) – from 2020 to 2023 residential properties experienced an average 19.8% **increase** in property values, and commercial properties experienced an average 19.4% **increase** in property values.

#### D. Trends in Personal Income

- **Salary and personal income increased in 2022 but are projected to have smaller growth in 2023.**
  - Finance estimates that total personal income **increased** by 2.2% in 2022 and projects 1.4% growth in 2023.
  - Finance estimates that wage and salary income **increased** by 8.5% in 2022 and projects 0.3% growth in 2023.
  - Personal income and wage and salary income are both estimated to grow between 4-5.0% per year through 2028.
- **The COLA for Social Security recipients will be 8.7% in 2023.** The COLA was 5.9% in 2022 and 1.3% in 2021.

#### E. Other Relevant Factors

- Finance estimates that the County’s population will **increase** by about 0.7% or 7,100 residents a year, bringing the total residents to 1.1 million around 2026.
- The Federal Reserve **increased** interest rates seven times in 2022 to address inflation. **Additional rate increases are projected in 2023, with the overall impact on inflation and the economy remaining uncertain.**
- The [State of Maryland’s Board of Revenue Estimates](#) (BRE) December 2022 Report **decreased** the State’s income tax revenue estimates by \$33.9 million in FY23 and \$178.6 million in FY24 compared to the September 2022 revisions.

## II. Spending Affordability Guidelines for the FY23 Operating Budget

This section provides decision points for Council consideration on the three components of spending affordability guidelines: 1) ceiling on property tax revenue; 2) ceiling on the aggregate operating budget; and 3) aggregate operating budget recommendations.

## A. Ceiling on Property Tax Revenue

Section 305 of the County Charter was amended during the November 2020 General Election to change how the Charter Limit is calculated. The amended Charter Limit now requires an affirmative vote from all Councilmembers to exceed the real property tax rate from the prior fiscal year. Prior to the November 2020 amendment, the County Charter required an affirmative vote from all Councilmembers to exceed a tax rate that would have levied real property taxes that were greater than the growth in inflation from the real property taxes collected the prior year.

The Council's decision, as it pertains to the guidelines, is to specify the ceiling on real property tax revenue for FY24. The Charter amendment does not change the Council's requirement to set a guideline. The Council may still meet the requirement of the County Code, as it pertains to the guideline, by setting the revenues at the Charter Limit.

**Council staff recommends setting the ceiling on real property tax revenue at the Charter Limit, consistent with the Council's practice for the past decade plus.** The December 2022 Fiscal Plan update assumes this ceiling, including a \$692 Income Tax Offset Credit for qualified properties (see ©4).

## B. Ceiling on Aggregate Operating Budget

The Council sets a ceiling on the AOB as a benchmark for the upcoming FY24 budget process. The Council considers multiple factors, including the information detailed on pages 2-3, when setting the AOB. The intent of this guideline is to set an AOB that is generally affordable to County residents. **The AOB set by the Council does not restrict the Executive from recommending a budget that exceeds or is below the AOB threshold.**

The ceiling on the AOB established by the Council in February demarcates the threshold that requires eight affirmative votes if the Council chooses to exceed that ceiling when finalizing the budget in May. Regardless of the ceiling set by the Council in February, seven affirmative votes are required in May if the AOB exceeds the previous fiscal year's AOB by the rate of inflation for the 12-month period preceding the previous December – 7.16% for FY24's AOB. If the AOB does not exceed the previous fiscal year's AOB by this inflation rate, six votes are required.

Section 20-59 of the County Code defines the operating budget as *“the total amount appropriated from current operating revenues for the ensuing fiscal year, including any current revenue funding for capital budgets.”* The AOB includes the operating budget minus the amounts appropriated for (1) enterprise funds; (2) the Washington Suburban Sanitary Commission; (3) expenditures equal to the tuition and tuition-related charges estimated to be received by Montgomery College; and (4) any grant which can only be spent for a specific purpose.

The AOB and its elements are defined by law, but neither the Charter nor the Code specifies how to set the ceiling. The Council has taken multiple approaches in setting the ceiling throughout its history. Table 1 below details the Council's method for setting the ceiling since FY11. The most common factor used in setting the AOB since FY11 has been the estimated rate of total personal income growth, and the average annual AOB ceiling increase between FY11 and FY23 is 2.14%.

**Table 1: Council's History for Setting the AOB Ceiling**

Fiscal Year	Method	Increase
2011	No increase	0.00%
2012	Increase by rate of inflation	1.70%
2013	Increase by estimated rate of total personal income growth	4.80%
2014	Increase by estimated rate of total personal income growth	4.76%
2015	Increase by estimated rate of total personal income growth	1.80%
2016	Increase by estimated rate of total personal income growth	2.30%
2017	Increase by estimated rate of total personal income growth	3.45%
2018	Increase by half of estimated rate of total personal income growth	2.00%
2019	Increase by COLA for Social Security	2.00%
2020	Increase by amount needed to maintain prior year funding for MCG and M-NCPPC	1.43%
2021	Increase by rate of inflation	1.27%
2022	No increase	0.00%
2023	Increase by half of estimated rate of total personal income growth	2.31%

Council staff presents four options on page 9 for consideration in setting the ceiling on the AOB for the FY24 operating budget. The FY23 AOB was approved in [Council Resolution 19-1290](#).

- Option #1 – The FY24 ceiling is held at the FY23 approved AOB (*0.0% adjustment*)
- Option #2 – The FY24 ceiling increases from the FY23 approved AOB based on agency allocations estimated by Executive Staff in the December 2022 Update (*2.83% increase*)
- Option #3 – The FY24 ceiling increases the FY23 approved AOB by the estimated rate of inflation for 2022 (*7.16% increase*)
- Option #4 – The FY24 ceiling increases the FY23 approved AOB by the estimated increase in average personal income for 2022 (*2.16% increase*)
- Option #5 – The FY24 ceiling increases for the FY23 approved AOB based on the estimated increase in the Employment Cost Index for State and Local Governments for 2022 (*4.6% increase*)

**Council staff recommends establishing the ceiling on the FY24 AOB based on Option #4 – the increase in total personal income for 2022.** The County has weathered the pandemic better than expected, but uncertainty remains with continued high inflation and a slowing housing market that may indicate a recession. This recommended ceiling for the AOB balances the County's revenue growth with the projected drop in income tax revenue in FY24. Additionally, this amount aligns with the average increase in AOB approved by the Council since FY11. **This recommended method sets the ceiling at \$5,686.2 million.**

### C. Aggregate Operating Budget Allocations

Section 20-63 the County Code requires that the Council recommend budget allocations for certain portions of the budget. **These allocations are illustrative and not final.** The final allocations are set by Council during the budget process, when competing demands, priorities, and resources are evaluated. There are several factors that could change the allocations during the budget process from those set during the guideline process in February.

- Factor #1: Revenue estimates could change from the December 2022 Update.
- Factor #2: Some of the non-agency uses could be shifted to fund agency uses.
- Factor #3: Reserves as a percentage of adjusted governmental revenues could be set higher than the 10.0% policy level estimated in the December 2022 Update.
- Factor #4: Agency allocations could increase if fund balances are re-appropriated.

**The Council's decision to establish these allocations in February does not create a supermajority requirement during the budget process.** The Council's decision, however, does trigger a requirement for the agencies. Any agency requesting more than the Council's allocation must submit to the Council by March 31 a memorandum recommending "(1) prioritized expenditure reductions that would be necessary to comply with the adopted budget allocation, and (2) a summary of the effect on the agency's program of the recommended prioritization."

State aid amounts are not known in January. As in previous years, the proposed resolution includes the following provision to account for this factor:

- b) Notwithstanding the above, the Council intends that any agency spending allocations which, as a result of additional increases in State aid, exceed the ceilings specified in (b) do not trigger the requirements of §20-63(b).*

**Over the last several years, the Council has taken the following approach to determining allocations as part of the AOB process:**

- **Approve allocations for debt service, current revenue funding in the capital budget, and OPEB in line with current fiscal policies; and**
- **Approve allocations for agencies with MCPS and Montgomery College at maintenance of effort (MOE) levels, with the understanding the final decisions for those agencies will be made during the budget process and may differ from the MOE amount.**

**Consistent with this historical approach, Council staff recommends the following allocations:**

#### Debt Service

Debt service is a fixed charge that must be paid before making allocations to the other agencies. Long-term leases are included since these payments are virtually identical to debt. Debt service is in the County Government's debt service fund and in the budget for M-NCPPC. **Council staff recommends that debt service be set at \$446.2 million, the amount of debt currently outstanding and estimated to be issued.** The same value was assumed in the December 2022 update.

#### Current Revenue Funding for the Capital Budget

There are two types of current revenue funding for the capital budget. The first type is for specific projects in the Capital Improvements Program that do not meet the criteria for bond funding and must be funded with current revenue. **Council staff recommends setting this item at \$98.3 million, consistent with the December 2022 update.**



The second type, “PAYGO” (pay as you go), is funding for projects that are eligible for bond funding but for which the Council has decided to use current revenue to decrease the need for bonds. The substitution of current revenue for bonds helps protect Montgomery County’s AAA bond rating by reducing indebtedness and decreasing future operating budget expenses for debt service. **Council staff recommends setting PAYGO at \$30.8 million, consistent with the December 2022 update.**

Setting these allocations at the fiscal policy level **does not** limit the Council from providing additional current revenue funding during its review of the capital budget. For example, if the County receives additional one-time revenue from income taxes (or other sources) in FY23 the Council could use that to enhance either type of current revenue funding for the capital budget in FY24. In FY22, due to fiscal constraints, the Executive recommended and the Council approved a reduction in PAYGO of \$15.5 million, or 50% **below** the policy level.

#### Retiree Health Insurance Pre-funding (OPEB)

**Council staff recommends allocating \$62.6 million to OPEB, consistent with the December 2022 update.**

#### Agency Allocations (MCG, MCPS, Montgomery College, and M-NCPPC)

**Council staff recommends allocations to MCPS and Montgomery College at maintenance of effort levels.** The MCPS value is the same as the one in the December 2022 update, which assumes no change to State aid from FY23 and no appropriation of existing fund balance. Montgomery College’s allocation is based on the December 2022 update and assumes no fund balance appropriation.

As noted above, these allocations are illustrative and do not create any voting requirements related to agency budgets. Historically, the Council has approved allocations for MCPS and Montgomery College to signal its intent to meet the County’s obligations under State maintenance of effort laws.

**Council staff recommends allocating the remainder to the County Government and M-NCPPC in proportion to their FY23 allocations.**

Any agency requesting more than the Council’s spending affordability guidelines must submit to the Council by March 31 prioritized expenditure reductions that would be necessary to comply with the adopted budget allocation and a summary of the effect on the agency’s program of the recommended prioritization. However, Council staff recommends that the resolution for FY24 — as was the case in previous fiscal years — should state that a projected increase in State aid should not, by itself, trigger this requirement.

FY23 Approved AOB = \$5,565,968,417	\$5,566.0						
A	B	C	D	E	F		G
<b>Table 1: Spending Affordability Guideline 2 (Ceiling on the FY24 AOB, \$millions)</b>							
<i>FY23 Approved AOB</i>	<i>5,566.0</i>		Option 1	Option 2	Option 3	Option 4	Option 5
1. No change FY23 to FY24			+0.00%				
2. Use Agency allocations in December 2022 update				+2.83%			
3. Increase by inflation CY22					+7.16%		
4. Change in average personal income CY22						+2.16%	
5. ECI for State & Local Governments CY22							+4.60%
<b>Ceiling on FY24 AOB</b>			<b>\$5,566.0</b>	<b>\$5,723.6</b>	<b>\$5,964.4</b>	<b>\$5,686.2</b>	<b>\$5,822.0</b>
<b>Table 2: Spending Affordability Guideline 3 (Allocation of FY24 AOB, \$millions)</b>							
	FY23 App		Option 1	Option 2	Option 3	Option 4	Option 5
<b>A. Non agency allocations</b>							
Debt service							
County debt service	435.2		439.5	439.5	439.5	439.5	439.5
MNCPPC debt service	6.7		6.7	6.7	6.7	6.7	6.7
Current revenue, specific projects	92.4		98.3	98.3	98.3	98.3	98.3
Current revenue, PAYGO	33.9		30.8	30.8	30.8	30.8	30.8
Retiree health insurance prefunding (OPEB)							
OPEB for MCPS	57.4		57.4	57.4	57.4	57.4	57.4
OPEB for Montgomery College	1.7		1.7	1.7	1.7	1.7	1.7
OPEB for MNCPPC	3.7		3.5	3.5	3.5	3.5	3.5
OPEB for County Government	0.0		0.0	0.0	0.0	0.0	0.0
<b>Subtotal, non-agencies</b>	<b>631.0</b>		<b>637.9</b>	<b>637.9</b>	<b>637.9</b>	<b>637.9</b>	<b>637.9</b>
<b>B. Agency allocations</b>	FY23 App	%	Option 1	Option 2	Option 3	Option 4	Option 5
MCPS	2,729.7	55.3%	2,720.8	2,720.8	2,720.8	2,720.8	2,720.8
College excl. expen. funded by tuition	219.1	4.4%	208.8	208.8	208.8	208.8	208.8
MNCPPC	150.2	3.0%	151.1	161.9	181.2	160.2	170.5
County Government	1,836.0	37.2%	1,847.3	1,994.2	2,215.7	1,958.4	2,084.0
<b>Subtotal, agencies</b>	<b>4,935.0</b>		<b>4,928.1</b>	<b>5,085.7</b>	<b>5,326.5</b>	<b>5,048.2</b>	<b>5,184.1</b>
<b>Aggregate Operating Budget</b>	<b>5,566.0</b>		<b>5,566.0</b>	<b>5,723.6</b>	<b>5,964.4</b>	<b>5,686.2</b>	<b>5,822.0</b>
<b>Table 3: Change in Agency Allocations, FY23 approved to FY24 proposed allocation</b>							
			Option 1	Option 2	Option 3	Option 4	Option 5
MCPS			(0.32%)	(0.32%)	(0.32%)	(0.32%)	(0.32%)
College excl. expen. funded by tuition			(4.71%)	(4.71%)	(4.71%)	(4.71%)	(4.71%)
MNCPPC			+0.62%	+7.80%	+20.68%	+6.67%	+13.51%
County Government			+0.62%	+8.62%	+20.68%	+6.67%	+13.51%
<b>Total Agency Allocation</b>			<b>(0.14%)</b>	<b>+3.05%</b>	<b>+7.93%</b>	<b>+2.30%</b>	<b>+5.05%</b>
Notes:							
1. FY23 MNCPPC debt service assumes Park Fund: \$6,177,000; ALARF Fund: \$131,000.							
2. All FY23 allocations are from Resolution 19-877.							
3. All FY24 non-agency allocations are from the December Fiscal Plan Update.							
4. FY24 Montgomery College excludes tuition-funded expenditures and no appropriation from FY23 fund balance.							
5. FY24 MCPS allocation is from the December Fiscal Plan Update and assumes no appropriation from FY22 fund balance.							

Resolution No.:

Introduced:

January 24, 2023

Adopted:

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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By: County Council

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**SUBJECT:** Spending Affordability Guidelines for the FY24 Operating Budget

**Background**

1. Section 305 of the Charter and Chapter 20-60 of the County Code require the Council to set spending affordability guidelines for the operating budget for the next fiscal year.
2. The guidelines must specify:
  - a) A ceiling on property tax revenue, which is used to fund the aggregate operating budget.
  - b) A ceiling on the aggregate operating budget. The aggregate operating budget is the total appropriation from current operating revenues, including appropriations for capital projects but excluding appropriations for: enterprise funds, the Washington Suburban Sanitary Commission, specific grants for which the spending is contingent on the grants, and expenditures equal to the estimated tuition and tuition-related charges at Montgomery College.
  - c) The spending allocations for the County Government, the Board of Education, Montgomery College, the Maryland-National Capital Park and Planning Commission, debt service, and current revenue funding of capital projects. As noted above, the College's allocation excludes expenditures equal to the estimated tuition and tuition-related charges.
3. Chapter 20-61 of the County Code lists a number of economic and financial factors to be considered in adopting the guidelines, requires a public hearing before the Council adopts guidelines, and requires that the Council adopt guidelines no later than the second Tuesday in February for the fiscal year starting the following July 1.

4. At the public hearing on February 7, 2023, the public had the opportunity to comment on the following guidelines:
- a) The amount of property tax revenue will not exceed the amount calculated in accordance with §305 of the Charter that would require eleven affirmative votes.
  - b) The proposed ceiling on the aggregate operating budget and the agency allocations in millions of dollars are:

Debt Service	\$ 446.2
Current revenue, specific projects	\$ 98.3
Current revenue, PAYGO	\$ 30.8
Retiree health insurance prefunding	\$ 62.6
MCPS	\$ 2,720.8
Montgomery College	\$ 208.8
County Government	\$ 1,958.4
M-NCPPC	\$ 160.2
Total = Aggregate Operating Budget	\$ 5,686.2

### **Action**

The County Council for Montgomery County approves the following resolution:

1. The spending affordability guidelines for the FY23 Operating Budget are:
- a) The amount of property tax revenue will not exceed the amount calculated in accordance with §305 of the Charter that would require eleven affirmative votes.
  - b) The ceiling on the aggregate operating budget and the agency spending allocations in millions of dollars are:

Debt Service	\$ 446.2
Current revenue, specific projects	\$ 98.3
Current revenue, PAYGO	\$ 30.8
Retiree health insurance prefunding	\$ 62.6
MCPS	\$ 2,720.8
Montgomery College	\$ 208.8
County Government	\$ 1,958.4
M-NCPPC	\$ 160.2
Total = Aggregate Operating Budget	\$ 5,686.2

- c) Notwithstanding the above, the Council intends that any agency spending allocations which, as a result of additional increases in State aid, exceed the ceilings specified in (b) do not trigger the requirements of §20-63(b).

This is a correct copy of Council action.

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Judy Rupp  
Clerk of the Council

## Fiscal Plan December 2022

### Tax Supported Fiscal Plan Summary

(\$ in Millions)

	App. FY23	Est. FY23	% Chg. FY23-24	% Chg. FY23-24	Projected FY24	% Chg. FY24-25	Projected FY25	% Chg. FY25-26	Projected FY26	% Chg. FY26-27	Projected FY27	% Chg. FY27-28	Projected FY28	% Chg. FY28-29	Projected FY29
<b>Total Revenues</b>	5-26-22	12-13-22	App/Proj	Est/Proj	12-13-22										
Property Tax	1,951.4	1,923.2	0.8%	2.3%	1,966.7	2.1%	2,007.5	1.7%	2,041.2	0.8%	2,056.9	0.8%	2,073.6	1.1%	2,096.9
Income Tax	1,870.5	1,955.9	4.1%	-0.4%	1,947.9	3.6%	2,018.9	3.3%	2,085.3	3.5%	2,157.7	4.3%	2,250.4	4.4%	2,350.4
Transfer/Recordation Tax	228.9	195.3	-16.2%	-1.7%	191.9	4.5%	200.5	1.4%	203.3	3.0%	209.5	7.6%	225.3	8.1%	243.7
Other Taxes	266.6	265.7	-0.2%	0.2%	266.2	0.4%	267.2	0.4%	268.2	0.3%	268.9	0.2%	269.4	0.4%	270.4
Other Revenues	1,214.1	1,214.1	0.3%	0.3%	1,218.2	0.1%	1,219.9	0.3%	1,223.3	0.3%	1,226.8	0.3%	1,230.1	0.3%	1,233.4
<b>Total Revenues</b>	<b>5,531.5</b>	<b>5,554.1</b>	<b>1.1%</b>	<b>0.7%</b>	<b>5,590.9</b>	<b>2.2%</b>	<b>5,713.9</b>	<b>1.9%</b>	<b>5,821.3</b>	<b>1.7%</b>	<b>5,919.8</b>	<b>2.2%</b>	<b>6,048.9</b>	<b>2.4%</b>	<b>6,194.8</b>
<b>Net Transfers In (Out)</b>	<b>18.8</b>	<b>18.8</b>	<b>2.3%</b>	<b>2.3%</b>	<b>19.3</b>	<b>2.4%</b>	<b>19.7</b>	<b>2.4%</b>	<b>20.2</b>	<b>2.3%</b>	<b>20.7</b>	<b>2.2%</b>	<b>21.1</b>	<b>0.0%</b>	<b>21.1</b>
<b>Total Revenues and Transfers Available</b>	<b>5,550.4</b>	<b>5,573.0</b>	<b>1.1%</b>	<b>0.7%</b>	<b>5,610.1</b>	<b>2.2%</b>	<b>5,733.6</b>	<b>1.9%</b>	<b>5,841.5</b>	<b>1.7%</b>	<b>5,940.4</b>	<b>2.2%</b>	<b>6,070.0</b>	<b>2.4%</b>	<b>6,215.9</b>
<b>Non-Operating Budget Use of Revenues</b>															
Debt Service	441.9	441.9	1.0%	1.0%	446.2	3.6%	462.1	1.8%	470.5	1.7%	478.4	0.6%	481.2	0.0%	481.2
PAYGO	33.9	33.9	-9.1%	-9.1%	30.8	-5.2%	29.2	0.0%	29.2	-0.7%	29.0	0.0%	29.0	0.0%	29.0
CIP Current Revenue	92.4	92.4	6.4%	6.4%	98.3	-7.7%	90.7	-4.7%	86.4	12.3%	97.1	-4.1%	93.1	0.0%	93.1
Change in Other Reserves	-57.4	-70.4	100.2%	100.1%	0.1	23.1%	0.1	20.3%	0.1	-41.9%	0.1	7.0%	0.1	28.3%	0.1
Contribution to General Fund Undesignated Reserves	-15.6	-61.8	-745.5%	101.8%	-132.1	110.7%	14.1	-13.8%	12.2	-66.2%	4.1	-13.5%	3.6	140.8%	8.6
Contribution to Revenue Stabilization Reserves	3.0	3.0	30.9%	30.9%	3.9	3.8%	4.0	3.8%	4.2	3.8%	4.3	3.8%	4.5	0.0%	4.5
Set Aside for other uses (supplemental appropriations)	-1.6	60.7	1333.3%	-67.1%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
<b>Total Other Uses of Resources</b>	<b>496.5</b>	<b>499.7</b>	<b>-5.9%</b>	<b>-6.5%</b>	<b>467.2</b>	<b>32.8%</b>	<b>620.3</b>	<b>0.4%</b>	<b>622.6</b>	<b>1.7%</b>	<b>633.0</b>	<b>-0.2%</b>	<b>631.4</b>	<b>0.8%</b>	<b>636.5</b>
<b>Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)</b>	<b>5,053.9</b>	<b>5,073.3</b>	<b>1.8%</b>	<b>1.4%</b>	<b>5,142.9</b>	<b>-0.6%</b>	<b>5,113.3</b>	<b>2.1%</b>	<b>5,218.8</b>	<b>1.7%</b>	<b>5,307.4</b>	<b>2.5%</b>	<b>5,438.5</b>	<b>2.6%</b>	<b>5,579.4</b>
<b>Agency Uses</b>															
Montgomery County Public Schools (MCPS)	2,729.7	2,729.7	-0.3%	-0.3%	2,720.8										
Montgomery College (MC)	275.3	275.3	-3.4%	-3.4%	266.0										
MNCPPC (w/o Debt Service)	153.9	153.9	5.2%	5.2%	161.9										
MCG	1,895.1	1,914.5	5.2%	4.2%	1,994.2										
<b>Agency Uses</b>	<b>5,053.9</b>	<b>5,073.3</b>	<b>1.8%</b>	<b>1.4%</b>	<b>5,142.9</b>	<b>-0.6%</b>	<b>5,113.3</b>	<b>2.1%</b>	<b>5,218.8</b>	<b>1.7%</b>	<b>5,307.4</b>	<b>2.5%</b>	<b>5,438.5</b>	<b>2.6%</b>	<b>5,579.4</b>
<b>Total Uses</b>	<b>5,550.4</b>	<b>5,573.0</b>	<b>1.1%</b>	<b>0.7%</b>	<b>5,610.1</b>	<b>2.2%</b>	<b>5,733.6</b>	<b>1.9%</b>	<b>5,841.5</b>	<b>1.7%</b>	<b>5,940.4</b>	<b>2.2%</b>	<b>6,070.0</b>	<b>2.4%</b>	<b>6,215.9</b>
<b>(Gap)/Available</b>	<b>0.0</b>	<b>0.0</b>			<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>

#### Assumptions:

- Property taxes are at the Charter Limit with a \$692 credit. Other taxes are at current rates.
- Reserve contributions are consistent with legal requirements and the minimum policy target.
- PAYGO, debt service, and current revenue reflect the Approved FY23-28 Capital Improvements Program.
- State Aid, including MCPS and Montgomery College, is not projected to increase from FY24-29.
- Projected FY24 allocations for MCPS and Montgomery College assume funding at maintenance of effort (as estimated in the June 2023 Approved Fiscal Plan). The allocations do not include potential increases to State Aid or other possible agency resources, such as use of additional fund balance. Additional State Aid or use of fund balance would increase the rate of growth for MCPS and Montgomery College.
- MCG FY23 projected expenditures include the results of first quarter analysis.

## Fiscal Plan December 2022

### Tax Supported Fiscal Plan Summary

(\$ in Millions)

	App. FY23	Est. FY23	% Chg. FY23-24	% Chg. FY23-24	Projected FY24	% Chg. FY24-25	Projected FY25	% Chg. FY25-26	Projected FY26	% Chg. FY26-27	Projected FY27	% Chg. FY27-28	Projected FY28	% Chg. FY28-29	Projected FY29
<b>Beginning Reserves</b>															
Unrestricted General Fund	90.9	188.5	39.5%	-32.8%	126.7	-104.2%	-5.3	264.8%	8.8	138.4%	21.0	19.6%	25.1	14.2%	28.6
Revenue Stabilization Fund	518.5	587.4	13.8%	0.5%	590.3	0.7%	594.2	0.7%	598.2	0.7%	602.4	0.7%	606.8	0.7%	611.3
<b>Total Reserves</b>	<b>609.4</b>	<b>775.9</b>	<b>17.7%</b>	<b>-7.6%</b>	<b>717.1</b>	<b>-17.9%</b>	<b>588.9</b>	<b>3.1%</b>	<b>607.0</b>	<b>2.7%</b>	<b>623.4</b>	<b>1.4%</b>	<b>631.8</b>	<b>1.3%</b>	<b>639.9</b>
<b>Additions to Reserves</b>															
Unrestricted General Fund	-15.6	-61.8	-745.5%	-113.7%	-132.1	110.7%	14.1	-13.8%	12.2	-66.2%	4.1	-13.5%	3.6	140.8%	8.6
Revenue Stabilization Fund	3.0	3.0	30.9%	30.9%	3.9	3.8%	4.0	3.8%	4.2	3.8%	4.3	3.8%	4.5	0.0%	4.5
<b>Total Change in Reserves</b>	<b>-12.7</b>	<b>-58.8</b>	<b>-912.6%</b>	<b>-117.9%</b>	<b>-128.2</b>	<b>114.2%</b>	<b>18.2</b>	<b>-9.9%</b>	<b>16.4</b>	<b>-48.3%</b>	<b>8.5</b>	<b>-4.6%</b>	<b>8.1</b>	<b>62.2%</b>	<b>13.1</b>
<b>Ending Reserves</b>															
Unrestricted General Fund	75.2	126.7	-107.1%	-104.2%	-5.3	264.8%	8.8	138.4%	21.0	19.6%	25.1	14.2%	28.6	30.0%	37.2
Revenue Stabilization Fund	521.5	590.3	13.9%	0.7%	594.2	0.7%	598.2	0.7%	602.4	0.7%	606.8	0.7%	611.3	0.7%	615.8
<b>Total Reserves</b>	<b>596.7</b>	<b>717.1</b>	<b>-1.3%</b>	<b>-17.9%</b>	<b>588.9</b>	<b>3.1%</b>	<b>607.0</b>	<b>2.7%</b>	<b>623.4</b>	<b>1.4%</b>	<b>631.8</b>	<b>1.3%</b>	<b>639.9</b>	<b>2.0%</b>	<b>653.0</b>
<b>Reserves as a % of Adjusted Governmental Revenues</b>	<b>10.2%</b>	<b>12.3%</b>			<b>10.0%</b>		<b>10.0%</b>		<b>10.0%</b>		<b>10.0%</b>		<b>10.0%</b>		<b>10.0%</b>
<b>Other Reserves</b>															
Montgomery College	23.9	23.9	0.0%	0.0%	23.9	0.0%	23.9	0.0%	23.9	0.0%	23.9	0.0%	23.9	0.0%	23.9
M-NCPPC	5.9	5.9	0.9%	0.9%	6.0	2.1%	6.1	1.7%	6.2	0.8%	6.2	0.9%	6.3	1.1%	6.4
MCPS	0.0	0.0	n/a	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
MCG Special Funds	1.4	1.4	3.2%	3.2%	1.5	0.1%	1.5	2.8%	1.5	2.4%	1.6	2.2%	1.6	2.9%	1.6
<b>MCG + Agency Reserves as a % of Adjusted Govt Revenues</b>	<b>10.8%</b>	<b>12.8%</b>			<b>10.5%</b>		<b>10.5%</b>		<b>10.5%</b>		<b>10.5%</b>		<b>10.5%</b>		<b>10.5%</b>
<b>Retiree Health Insurance Pre-Funding</b>															
Montgomery County Public Schools (MCPS)	57.4	57.4			57.4		57.4		57.4		57.4		57.4		57.4
Montgomery College (MC)	1.7	1.7			1.7		1.7		1.7		1.7		1.7		1.7
MNCPPC	3.7	3.7			3.5		3.4		3.2		3.2		3.2		3.2
MCG	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
<b>Subtotal Retiree Health Insurance Pre-Funding</b>	<b>62.8</b>	<b>62.8</b>			<b>62.6</b>		<b>62.5</b>		<b>62.3</b>		<b>62.3</b>		<b>62.3</b>		<b>62.3</b>
<b>Adjusted Governmental Revenues</b>															
<b>Total Tax Supported Revenues</b>	<b>5,531.5</b>	<b>5,554.1</b>	<b>1.1%</b>	<b>0.7%</b>	<b>5,590.9</b>	<b>2.2%</b>	<b>5,713.9</b>	<b>1.9%</b>	<b>5,821.3</b>	<b>1.7%</b>	<b>5,919.8</b>	<b>2.2%</b>	<b>6,048.9</b>	<b>2.4%</b>	<b>6,194.8</b>
<b>Capital Projects Fund</b>	<b>154.3</b>	<b>154.3</b>	<b>0.4%</b>	<b>0.4%</b>	<b>154.9</b>	<b>31.0%</b>	<b>202.9</b>	<b>29.3%</b>	<b>262.4</b>	<b>-5.9%</b>	<b>246.8</b>	<b>-27.5%</b>	<b>179.0</b>	<b>0.0%</b>	<b>179.0</b>
<b>Grants</b>	<b>136.3</b>	<b>136.3</b>	<b>2.3%</b>	<b>2.3%</b>	<b>139.4</b>	<b>2.4%</b>	<b>142.7</b>	<b>2.4%</b>	<b>146.1</b>	<b>2.3%</b>	<b>149.4</b>	<b>2.2%</b>	<b>152.7</b>	<b>2.2%</b>	<b>156.0</b>
<b>Total Adjusted Governmental Revenues</b>	<b>5,822.1</b>	<b>5,844.7</b>	<b>1.1%</b>	<b>0.7%</b>	<b>5,885.2</b>	<b>3.0%</b>	<b>6,059.5</b>	<b>2.8%</b>	<b>6,229.8</b>	<b>1.4%</b>	<b>6,316.0</b>	<b>1.0%</b>	<b>6,380.5</b>	<b>2.3%</b>	<b>6,529.7</b>



The  
**STEPHEN S. FULLER INSTITUTE**  
for Research on the Washington Region's Economic Future



# **Washington Economy Watch**

## **Year-End Performance Review and Outlook**

**December 2022**

The Stephen S. Fuller Institute  
for Research on the Washington Region's Economic Future  
Schar School of Policy and Government  
George Mason University

*The Washington Economy Watch is a monthly report issued by The Stephen S. Fuller Institute that is intended to inform its readers regarding the current and near-term performance of the Washington region's economy. The Leading and Coincident Indices were first reported in February 1991 and have been calculated each month since that first release and reflect an underlying data base that dates from 1978 covering six complete business cycles in addition to the Post-COVID 19 cycle that began in May 2020.*



# Washington Economy Watch

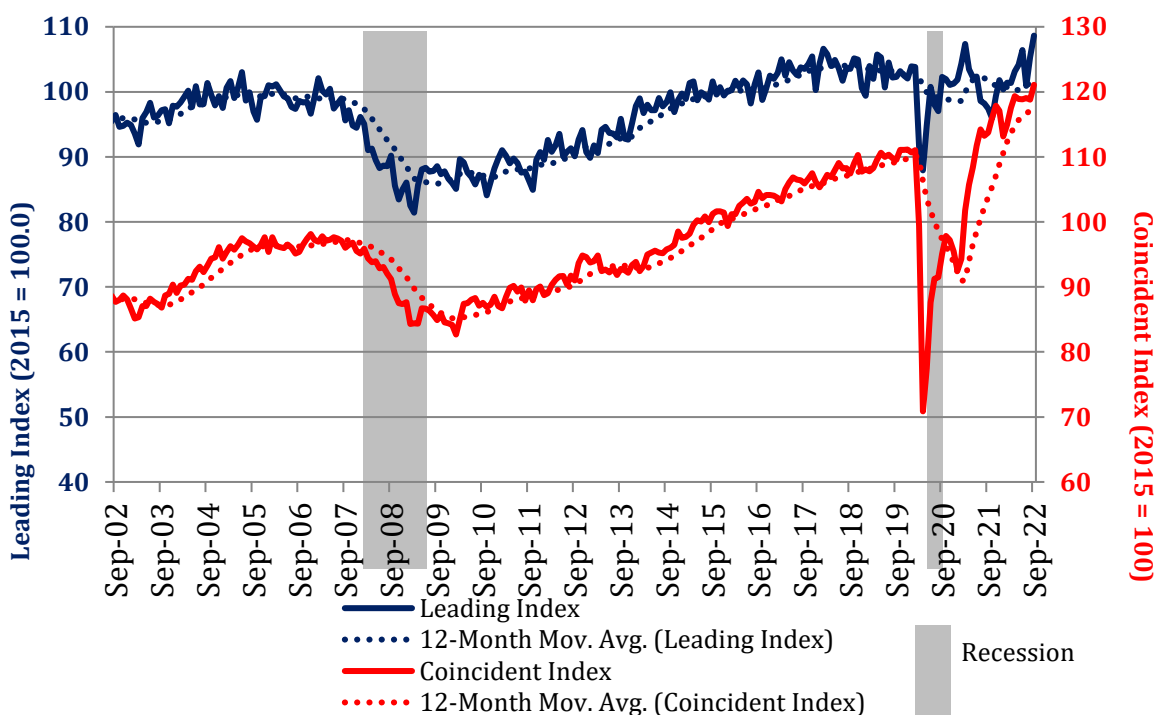
Year End Review

December 2022

## Washington Area Economy Still Recovering from Pandemic, New Challenges Lie Ahead

Throughout 2022 the national economy has struggled with inflationary pressures, a tight labor market, and rapidly rising interest rates, all of which will shape its performance during 2023. The Washington area economy has faced these same macro conditions, as seen in its 2022 performance. The Washington Area Coincident Index experienced a steady deceleration starting in February; it increased more slowly on a monthly over-the-year basis for seven consecutive months through July. However, it has accelerated in both August and September.

**Washington DC, Area Economic Indices**



Source: Stephen S. Fuller Institute

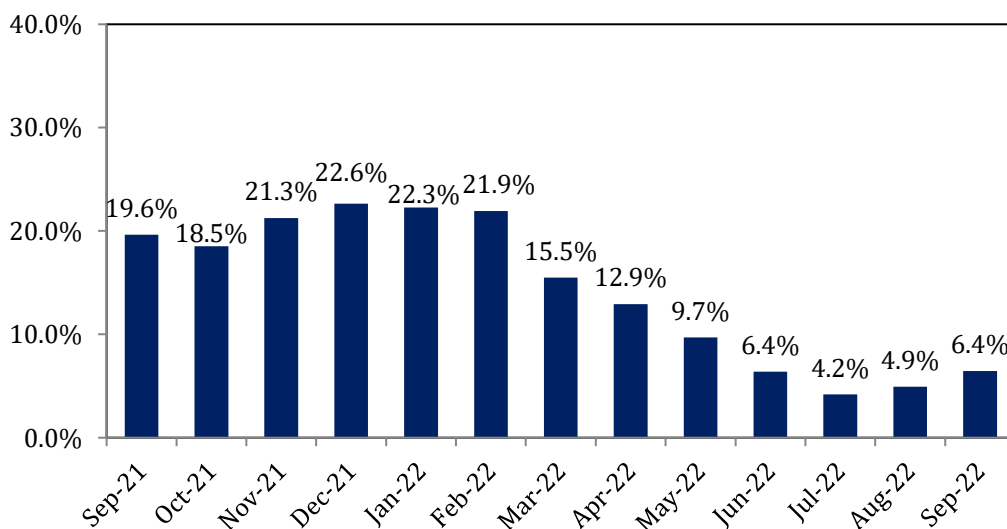
This pattern was predicted by the Washington Area's Leading Index, which declined, between August 2021 through April 2021, for nine months (including a small gain in December). Since then, it has accelerated each month registering its largest monthly over-the-year gain in more than a year in September. In normal times, this positive

trend in the Leading Index would be forecasting a strong performance for the fourth quarter of 2022 and the first quarter of 2023. However, these are not normal times.

The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, increased in September gaining 1.9 percent from its August value with all four of its components registering gains. For the four months prior to September, the Coincident Index has been relatively unchanged, on a month-to-month basis. On a monthly over-the-year basis, the Coincident Index continued to track higher extending its positive trajectory to a nineteenth month. While this trajectory has moderated since February, registering its smallest gain in July, it increased its growth rate in both August and September. Still, the component gains reported in September largely reflect the economy's recovery from losses experienced during the pandemic and not to the economy's post-recovery expansion.

- *Wage and salary employment* growth in the Washington area increased 2.6% between September 2021 and September 2022 although September's job total remained below its pre-recession level;
- *Consumer confidence (in the present)* reversed a four-month decline, gaining 6.2% in September; and,
- *Domestic passenger volume at Reagan National and Dulles Airports* continued its recovery from the pandemic although it continued to lag its pre-recession volume at both airports; while,
- *Non-durable goods retail sales* declined in September on a monthly over-the-year basis extending its downward trend to a seventh month.

### Washington Coincident Index, Monthly Over-the-Year Changes



Source: Stephen S. Fuller Institute

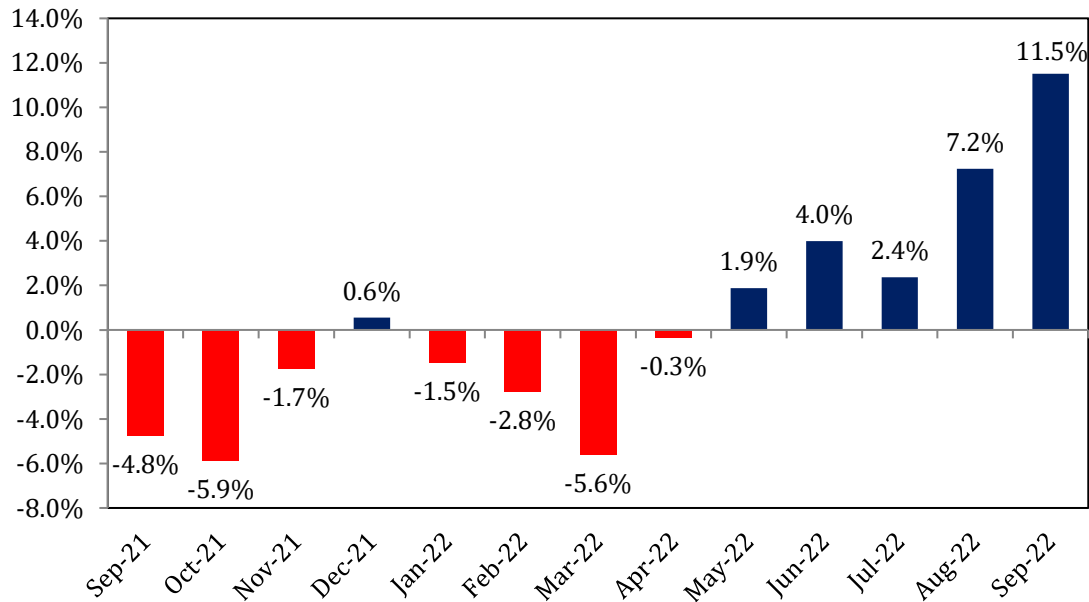
The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy six to eight months in advance, registered its fifth consecutive monthly over-the-year gain in September and its strongest gain since April 2021. Following its initial recovery in 2020, the Leading Index turned negative for a period spanning eight months from September 2021 through April 2022 reflecting the economy's struggle to recover to its post-recession levels. While the Leading Index has registered accelerating monthly over-the-year gains each month since April, these gains say more about the weak state of the economy in 2021 than the strength of the economy in 2022. The two components driving its gains in September—total residential building permits and initial unemployment claims—are pointing in worrisome directions and neither will be sustained if the economy encounters the headwinds of a national recession in 2023.

- *Total residential building permits* continued to grow despite a slowdown in new home sales and a broad-based weakening of the residential housing market due to rapidly rising home mortgage interest rates that are expected to increase further as the Federal Reserve Board raises its rates several more times into the first quarter of 2023; and,
- *Initial claims for unemployment insurance* decreased (improved) for the sixth consecutive month reflecting a continuing tightening of the area's labor market and pointing to rising labor costs fueling further inflationary pressures across all sectors of the economy; while,
- *Consumer expectations (consumer confidence six months hence)* declined for the eighth consecutive month underscoring consumers' economic uncertainty as inflation has become their primary concern shaping their future spending patterns; and,
- *Durable goods retail sales* decreased in September on a monthly over-the-year-basis continuing its downward trend for the year; it has been negative in 10 of the 12 months since September of 2021 reflecting consumers reducing their purchases of automobiles, furniture and appliances, products often purchased on time, as interest rates and economic uncertainty have both increased since the beginning of the year.

While the both the Coincident and Leading Indices appear to be pointing in positive directions and the gains achieved by the Washington area's economy during 2022 will complete its recovery, at least numerically, from the losses experienced during and associated with the COVID-19 recession in 2020, the underlying data behind these Indices may be telling a different story. The Washington area economy that has emerged through three-quarters of 2022 and that will provide the foundation for its performance in 2023, continues to struggle to regain its competitive edge and, as a consequence, its growth rate has lagged many other major metropolitan areas in recent years. An examination of the Washington area's readiness for the economic

turbulence that is likely to occur in 2023 reveals long-term challenges that is likely to magnify its short-term vulnerability going forward.

### Washington Leading Index, Monthly Over-the-Year Changes



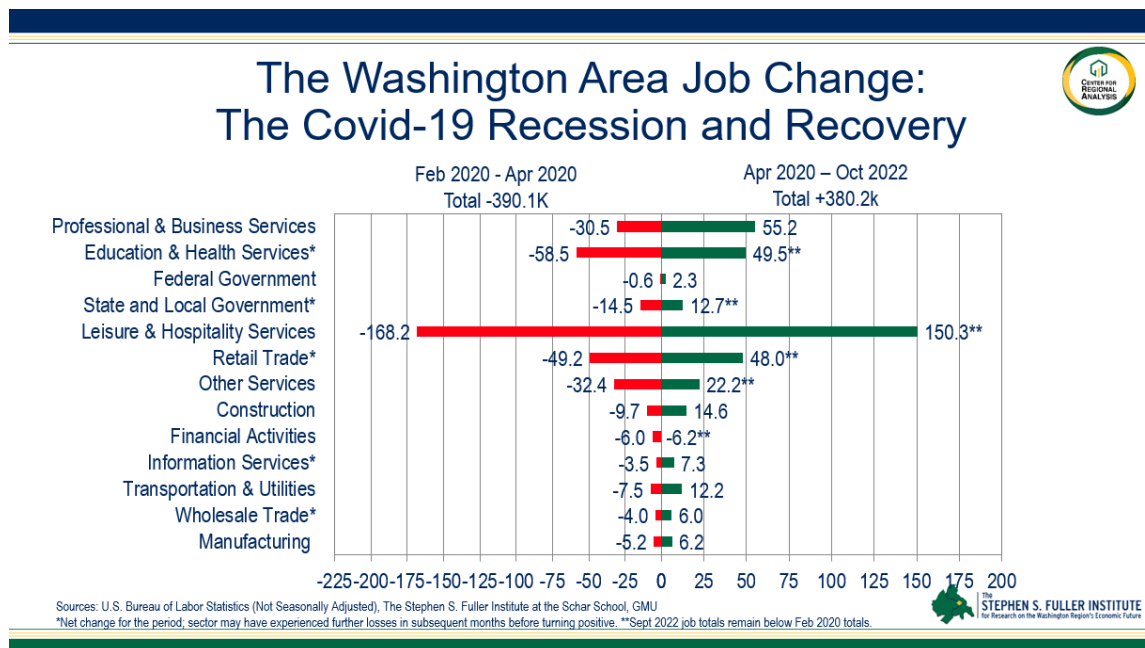
Source: Stephen S. Fuller Institute

### Current Performance

The Washington area economy is not the same economy that it was pre-pandemic. In fact, the area's economy was struggling pre-pandemic with slower growth rates post-Sequester that may have contributed to the rapidity and magnitude of losses experienced during the COVID-19 recession. During this short recession, the Washington area lost a total of 390,100 jobs, in just two months and, as of October 2022, it had regained 380,200 jobs. The vulnerability of the area's economy can be seen in the large job losses experienced by Leisure and Hospitality Services, Education and Health Services, Retail Trade, Other Services, and State and Local Government sectors; an 11.6 percent decline in two months. And, April 2020 was not the low point for many of these sectors; some did not turn around until June or July. At its worst, job losses for the Washington area totaled 428,000 jobs in July, a total loss of 12.8 percent.

One sector, the area's strongest and most important to generating future economic growth—Professional and Business Services—also the Washington area's largest sector with more than 800,000 jobs, experienced a small decline followed by a quick and strong recovery. In contrast, the government sectors—federal and state and local—that has been the mainstay of the area's economy since the beginning did little to protect it from the COVID-19 recession. The federal sector, while not losing many jobs, did not provide any counter-cyclical support as had occurred historically during down times in the national economy, and the magnitude of its rebound has not

materially affected the economy's performance. And, the state and local government sector, despite these governments running budget surpluses in 2020 and 2021, is not back to pre-recession employment levels.



While it is expected that the Washington area will have regained its re-recession job base by year's end, this employment base will continue to be vulnerable to cyclical changes at the national level. Additionally, labor shortages, numerically and qualitatively, could continue to dampen the area's economic growth potentials during and after the anticipated slowdown during the first half of 2023.

## Near-Term Outlook

The optimistic forecast for the national economy in 2023 is for a "soft landing" as the Federal Reserve Board's seven interest rate increases during 2022, and the one or two more expected during the first quarter of 2023, slow the national economy while bringing inflation steadily lower towards the annual goal of 2.0-2.5 percent by 2025. Because of these interest rate increases the cost of consumption has increased—money is more expensive—with consumers reducing their purchases of goods that generally involve loans or use of credit.

These consequences have already shown up in the monthly economic statistics. New housing sales have declined and prices on resales have softened in response to higher mortgage rates and new auto sales are down in response to higher financing costs and declining consumer expectations. Employment figures for the Financial Activities sector will drop substantially due to lower demand for mortgage origination services and continuing consolidation of regional retail banking. Declining consumer confidence may also reduce retail sales more broadly beyond the price effects that

are beginning to drag sales lower in face of decline effective buying power as inflation has driven price increases higher than increases in wages in 2022.

The prospects for a “soft landing” are at best 50/50 with the more likely scenario being that the Fed’s interest rate increases will result in a short and shallow recession as has occurred in eight of the last nine Federal Reserve Board rate-hike cycles. Whether a “soft landing” or a recession, multiple segments of the economy will contract as a result and the economic pain will be measurable. The housing sector is already in recession. Manufacturing, while not a large sector in the Washington area is reporting early signs of slowing down at the national level; the most recent ISM Manufacturing Index dropped below 50, signaling a contraction, with new orders, hiring, and prices declining in November.

This decline in manufacturing has been mirrored by an increase in spending for services in November with sales activity increasing between October and November at the highest rate since early 2021. This shift in consumer spending from “big ticket” items, often involving financing and sensitive to changes in interest rates, to consumer services provides further evidence of an economy shifting to a slower growth mode with a weaker outlook as services typically employ a less skilled and lower wage workforce and involve more discretionary purchases that can be discontinued quickly as the economy changes. Retailers are also reporting layoffs, and as other sectors move beyond the holiday sales period, unemployment can be expected to increase across multiple sectors. Currently the 3.7% unemployment rate nationally is expected to increase to 5% over the coming year with wage growth moderating helping to ease inflationary pressures.

The signs of an economic slowdown are already evident at the national level and the uneven performance of the Washington area’s economy during 2022 suggests that its ability to respond to these slowing national economic conditions may have been compromised. Furthermore, its declining competitive position relative to its peer metropolitan areas has reduced its attractiveness to younger workers to make long-term commitments to the Washington area as a good place to live and work over the length of their careers.

During previous national recessions positive net domestic migration (workers from elsewhere in the nation) has moderated the recession’s impacts on the Washington area and positioned it for a more rapid recovery than its peers. Since the Sequester in 2013, and its related local economic contraction, the Washington area has experienced net negative domestic migration, more people moving elsewhere in the nation from the Washington area than moving to the Washington area from elsewhere in the nation. This loss of largely younger workers has weakened the area economy’s ability to outperform its peers during hard times as well as good times. Consequently, the Washington area economy may more closely track the national economy’s performance in 2023 with both the magnitude and duration of any downturn and subsequent recovery following the national pattern more closely than in earlier times.

### Washington Area Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Sep-22 Prelim.	Aug-22 Final	Sep-21 Final	Aug-22 to Sep-22	Sep-21 to Sep-22
<b>Washington Area Business Cycle Indicators</b>					
Coincident Index (2015 = 100)	121.1	118.8	113.8	1.90%	6.44%
Leading Index (2015 = 100)	108.6	105.3	97.4	3.14%	11.51%
<b>Washington Area Coincident Index Components</b>					
Total Wage & Salary Employment ('000) <sup>a</sup>	3,315.2	3,304.8	3,232.1	0.31%	2.57%
Consumer Confidence (South Atlantic) <sup>a</sup>	158.8	149.3	149.5	6.36%	6.22%
Domestic Airport Passengers ('000) <sup>b</sup>	2,373.9	2,189.4	1,639.0	8.43%	44.84%
Nondurable Goods Retail Sales (\$000,000) <sup>c</sup>	4,232.9	4,142.2	4,276.1	2.19%	-1.01%
<b>Washington Area Leading Index Components</b>					
Total Residential Building Permits <sup>a</sup>	3,631.0	3,375.0	2,341.0	7.59%	55.10%
Consumer Expectations (South Atlantic) <sup>a</sup>	78.6	76.4	92.4	2.88%	-14.94%
Initial Unemployment Claims <sup>b</sup>	901.9	1,384.1	21,879.4	-34.84%	-95.88%
Durable Goods Retail Sales (\$000,000) <sup>c</sup>	3,937.1	3,807.9	4,043.7	3.39%	-2.64%
<b>Washington Area Labor Force</b>					
Total Labor Force ('000)	3,359.7	3,382.9	3,344.0	-0.68%	0.47%
Employed Labor Force ('000)	3,256.7	3,259.1	3,196.1	-0.07%	1.90%
Unemployed Labor Force ('000)	103.0	123.8	147.9	-16.79%	-30.35%
Unemployment Rate	3.1%	3.7%	4.4%	--	--
<b>Washington Area Wage and Salary Employment</b>					
Total ('000)	3,315.2	3,304.8	3,232.1	0.31%	2.57%
Construction ('000)	166.8	164.3	161.2	1.52%	3.47%
Manufacturing ('000)	56.6	56.6	54.9	0.00%	3.10%
Transportation & Public Utilities ('000)	79.9	80.1	73.8	-0.25%	8.27%
Wholesale & Retail Trade ('000)	326.5	328.2	316.8	-0.52%	3.06%
Services ('000)	1,973.4	1,978.9	1,912.2	-0.28%	3.20%
Total Government ('000)	712.0	696.7	713.2	2.20%	-0.17%
Federal Government ('000)	367.2	368.4	377.5	-0.33%	-2.73%

<sup>a</sup>Unadjusted data

<sup>b</sup>Seasonally adjusted data

<sup>c</sup>Seasonally adjusted constant (1996) dollars