Pursuant to Article XI, Section 20-61, of the Montgomery County Code, the Department of Finance (Finance) convened a meeting of the Business Advisory Panel (BAP) on February 18, 2020. The County Council of Montgomery County established the BAP in 1999 to seek the advice of industry experts in key sectors of the County’s business community concerning the current and future state of the County’s economy and the impact on revenues. The law requires that the Director of Finance convene the panel annually. The following report includes the material provided to the BAP panel. As a result of the national State of Emergency declared by the President on March 13, 2020 due to the COVID-19 pandemic and the effective shutdown of the economy, this 2020 report does not contain a summary of the discussion and advice.

The BAP members representing various sectors of Montgomery County’s economy were joined by County Executive Marc Elrich.
Business Advisory Panel  
February 24, 2022

Honorable Marc Elrich  
Montgomery County Executive

Honorable Sydney Katz  
President  
Montgomery County Council

PANELISTS

Ahmed Ali  
CEO/Founder  
TISTA Technologies

Mr. Brian Barkley  
Barkley & Kennedy  
Public Policy Committee  
Rockville Chamber of Commerce

Mr. Paul Chod  
President  
Minkoff Development Corporation

Mr. Paul DesJardin, Director  
Community Planning and Services  
Metropolitan Washington Council of Governments

Ms. Georgette Godwin  
President and Chief Executive Officer  
Montgomery County Chamber of Commerce

Ms. Kelly Groff  
President and Chief Executive Officer  
Visit Montgomery

Mr. Edward Harrington  
Regional President MD/DC  
John Marshall Bank  
Chair, Rockville Chamber of Commerce

Mr. Ed Krauze  
Chief Executive Officer  
Greater Capital Area Association of Realtors
Mr. Andrew Schaufele, Director
Bureau of Revenue Estimates
Comptroller of Maryland

Mr. Benjamin Wu
Chief Executive Officer
Montgomery County Economic Development Corporation

COUNTY STAFF

Mr. Andrew Kleine
Chief Administrative Officer
Office of the County Executive

Mr. Michael Coveyou
Acting Director
Montgomery County Department of Finance

Ms. Laurie Boyer, CEcD
Manager, Economic Development
Division of Fiscal Management
Montgomery County Department of Finance

Ms. Mary Casciotti
Fiscal and Policy Analyst
Division of Fiscal Management
Montgomery County Department of Finance

Mr. Jerome Fletcher
Assistant Chief Administrative Officer
Office of the County Executive

Mr. Richard Madaleno
Director
Office of Management and Budget

Ms. Marlene Michaelson
Executive Director
Montgomery County Council Staff

Mr. Dale Tibbitts
Special Assistant
Office of the County Executive
Mr. David Platt  
Chief Economist  
Division of Fiscal Management  
Montgomery County Department of Finance

Mr. Gene Smith  
Legislative Analyst  
Montgomery County Council
MEETING

WHERE: COUNTY EXECUTIVE’S CONFERENCE ROOM
EXECUTIVE OFFICE BUILDING
2nd FLOOR
101 MONROE STREET
ROCKVILLE, MARYLAND 20850
(240) 777-8877

WHEN: TUESDAY, FEBRUARY 18, 2020

AGENDA

10:00 A.M. Introduction, Michael Coveyou, Acting Director, Montgomery Department of Finance

10:05 A.M. Opening Remarks by Marc Elrich, County Executive

10:20 A.M. Presentation of Department of Finance economic assumptions

10:30 A.M. Presentation by Andrew Schaufele, Director, Bureau of Revenue Estimates, Comptroller of Maryland

11:00 A.M. Roundtable discussion by participants

12:30 A.M. Adjournment
ECONOMIC CONDITIONS AND OUTLOOK

Montgomery County’s economy experienced positive economic performance during 2019. The areas of strength included an increase in resident employment, a low unemployment rate, an increase in the sales of existing homes and in the median sales price for an existing home, an increase in the construction of residential housing, an increase in the added values of new construction for residential and non-residential properties, and a modest increase in retail sales through October.

Employment Situation

Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics, U.S. Department of Labor, resident employment (labor force series and not seasonally adjusted) in 2019 increased by nearly 8,300 from 2018 (↑1.5%). The County’s unemployment rate at 3.0 percent remained at its lowest level the past ten years.
Construction Activity

The construction of new residential units increased nearly 24.0 percent in FY19, and total value added increased from $816.7 million in 2018 to $1,039.8 million in 2019 (↑27.3%). The total value added from non-residential projects increased from $1,137.9 million in FY18 to $1,523.1 million (↑33.9%) in FY19.
**Residential Real Estate**

During calendar year 2019, existing home sales increased 3.3 percent which followed a decrease of 4.3 percent in 2018. The median sales price for existing homes increased 2.3 percent in 2019 following an increase of 4.8 percent in 2018.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Median Sales Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>10,408</td>
<td>$350,000</td>
</tr>
<tr>
<td>2011</td>
<td>9,500</td>
<td>$350,000</td>
</tr>
<tr>
<td>2012</td>
<td>10,155</td>
<td>$368,000</td>
</tr>
<tr>
<td>2013</td>
<td>11,461</td>
<td>$400,000</td>
</tr>
<tr>
<td>2014</td>
<td>10,976</td>
<td>$400,000</td>
</tr>
<tr>
<td>2015</td>
<td>12,191</td>
<td>$409,700</td>
</tr>
<tr>
<td>2016</td>
<td>12,896</td>
<td>$420,000</td>
</tr>
<tr>
<td>2017</td>
<td>12,869</td>
<td>$440,000</td>
</tr>
<tr>
<td>2018</td>
<td>12,312</td>
<td>$450,016</td>
</tr>
<tr>
<td>2019</td>
<td>12,719</td>
<td>$450,016</td>
</tr>
</tbody>
</table>

**Sales of Existing Homes (Montgomery County)**

**Median Sales Price for an Existing Home (Montgomery County)**

SOURCE: Metropolitan Regional Information System, Inc.
**Retail Sales**

Using sales tax receipts as a measure of retail sales activity in the County, retail sales, including assessment collections, increased 0.9 percent through October (the latest date available) compared to the same period in 2018. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, decreased 1.2 percent during this period but sales of durable goods were up 2.8 percent. The decrease in nondurable goods purchases was largely attributed to the decrease in general merchandise (↓7.3%), while the increase in purchases of durable goods was largely attributed to an increase in automobile sales and products (↑4.1%) and building and industrial supplies (↑3.9%).

**CONCLUSION**

The major economic indicators confirm that the County’s economy experienced positive performance during 2019. That performance included an increase in residential employment, a low unemployment rate, an increase in home sales and the median sales price for an existing home, and increases in added value of new residential and non-residential construction.

**ECONOMIC OUTLOOK**

The Department of Finance (Finance) forecasts that the Montgomery County’s economy will continue to improve through the next six years.

**Employment.** Finance assumes payroll employment will continue to increase from CY2019 to CY2026 and grow at an average annual rate of 0.7 percent over that period. This is the same average annual rate growth rate of 0.7 percent experienced between CY2012 and CY2019.
Finance assumes that resident employment will also increase at an average annual rate of 1.0 percent from CY2019 to CY2026. That rate is slightly above the average annual rate of 0.9 percent between CY2012 and CY2019.

Finance assumes wage and salary income to grow at an average annual rate of 4.0 percent between CY2018, the latest date for which actual data are available from the Bureau of Economic Analysis, U.S. Department of Commerce, and CY2026. Total wage and salary income are estimated to reach $54.6 billion by CY2026.

**Personal Income.** Finance assumes that total personal income in Montgomery County will grow at an average annual rate of 4.2 percent from CY2018 to CY2026. By CY2026, total personal income will reach $131.2 billion.

**Inflation (annual average).** Finance assumes that the overall regional inflation index will increase from 1.27 percent in CY2019 to 1.55 percent in CY2020 and to 1.62 percent in CY2021, and gradually decline after that.
**Interest Rates.** The target rate for federal funds were increased by the Federal Open Market Committee (FOMC) four times in 2018 by 25 basis points each to 2.25-2.50 percent by December 2018 but cut three times in 2019 to reach 1.50-1.75 percent by December 2019. Since the yield on the County’s short-term investments are highly correlated with the federal funds rate, the County earned an average of 2.33 percent in investment income on its short-term portfolio for fiscal year 2019 (FY19) but will earn an estimated average of 1.85 percent in FY20 due to the rate cuts in 2019 by the FOMC.
DISCUSSION FRAMEWORK

The economic assumptions provide a framework for the Department of Finance’s revenue projections for FY21 through FY26. The following issues create the framework for the discussion that is the focus of the Business Advisory Panel. In order to gain a better understanding of the direction of the major industrial sectors in our county and region, it would be helpful if the participants of the Business Advisory Panel comment on our assumptions and discuss the major economic trends in the next six years that affect their industry sector. The following list of items, if applicable to your sector, may be used to focus your discussion:

Risk to the Forecasts (Assumptions)
- Recession Risk
- Impact of federal government shutdown – both short term and long term
- Future federal and state government fiscal policies in response to Tax Cuts and Jobs Act
- Employment, both government and private
- Future interest rate policy by the FOMC
- Inflation outlook
- Domestic stock market volatility and its impact on capital gains and non-wage income
- Regional competition for businesses and high-skilled workers

Income
- Tax Cuts and Jobs Act (H.R. 1)
- Capital gains
- Estimated payments
- Tax Policy Changes: Federal and State

Real Estate
- Residential construction
- Commercial construction
- Prices/rents
- Vacancy rates
- Loan conditions – residential and commercial sectors and refinancing
MONTGOMERY COUNTY BUSINESS ADVISORY PANEL

FEBRUARY 2020

Office of the Comptroller
State of Maryland

Andrew Schaufele: Director, Bureau of Revenue Estimates
Historical Expansions -- % of Previous Peak GDP

- **Mid 1970's**
- **1980's Double Dip**
- **Early 1990's**
- **Early 2000's**
- **Great Recession**

1990s Expansion = 120 months
This Expansion (thru Feb) = 128 months

Source: US Bureau of Economic Analysis; MD Bureau of Revenue Estimates
Federal Employment Growth

Jobs Lost From Prior Peak

<table>
<thead>
<tr>
<th>Region</th>
<th>Jobs Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>MD</td>
<td>1,932</td>
</tr>
<tr>
<td>DC</td>
<td>6,236</td>
</tr>
<tr>
<td>MD &amp; DC</td>
<td>8,168</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics - QCEW; Bureau of Revenue Estimates
State Income Tax Withholding - 3Qtr Moving Average - By Attributable Period

Source: Comptroller of Maryland, Bureau of Revenue Estimates
Notes:
(1) In Great Recession, lost 76% of Capital Gains which was roughly 10% of total income tax
(2) In 2000s Recession, lost 67% of Capital Gains which was roughly 8% of total income tax
Historical Bull Markets - Indexed

- June 1932 to Mar 1937
- May 1942 to Apr 1946
- July 1949 to Nov 1961
- July 1962 to Oct 1968
- Aug 1970 to Jan 1973
- Jan 1975 to Nov 1980
- Sep 1982 to Aug 1987
- Jan 1988 to Apr 2000
- Nov 2002 to Oct 2007
- Apr 2009 to Current

Months

0 3 6 9 12 15 18 21 24 27 30 33 36 39 42 45 48 51 54 57 60 63 66 69 72 75 78 81 84 87 90 93 96 99 102 105 108 111 114 117 120 123 126 129 132 135 138 141 144 147

0.0% 10.0% 20.0% 30.0% 40.0% 50.0% 60.0%
Estimate of Taxable Income - Baseline - Dec 2019

Notes:
Actual TY18 Growth = 9.4%
TCJA was about 3.0% of that
Other: Also estimate that ~ $250M was shifted from 2017 into 2018
That is not reflected in this baseline, models handle that

CAGR
5-Yr  4.7%
15-Yr 3.5%
20-Yr  5.0%

Chart showing historical taxable income growth with recession periods shaded.
Cash Estimated Payments - BRE

TY19 = 13.6%
TY19 Est (Excl TCJA 126M) = 18%

Notes:
(1) These are BRE estimates of the quarters, may not correspond to local distributions
(2) 2019Q4 is an estimate, but most of the $$ is in the door
Sales Tax Collections By Pay Month From Certain Filers

Post_SCOTUS_Remote
Marketplace_Facilitators

Source: Bureau of Revenue Estimates
MONTGOMERY COUNTY

Comparison to State with Tax Data
### Income Concentration & Taxpayer Behavior

<table>
<thead>
<tr>
<th>Percentile</th>
<th># Tax Payers</th>
<th>Net Local Tax ($)</th>
<th>Average Federal Gross Income ($)</th>
<th>Share Local Net Tax (%)</th>
<th>Cum Share Local Net Tax (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 0.01%</td>
<td>49</td>
<td>43,642</td>
<td>31,824</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>&gt;0.01% &amp; &lt;=0.1%</td>
<td>441</td>
<td>84,033</td>
<td>6,676</td>
<td>5.6</td>
<td>8.5</td>
</tr>
<tr>
<td>&gt;0.1% &amp; &lt;=1.0%</td>
<td>4,410</td>
<td>197,485</td>
<td>1,624</td>
<td>13.1</td>
<td>21.6</td>
</tr>
<tr>
<td>&gt;1.0% &amp; &lt;=5.0%</td>
<td>19,600</td>
<td>289,656</td>
<td>521</td>
<td>19.2</td>
<td>40.8</td>
</tr>
<tr>
<td>&gt;5.0% &amp; &lt;=10.0%</td>
<td>24,501</td>
<td>197,244</td>
<td>285</td>
<td>13.1</td>
<td>53.9</td>
</tr>
<tr>
<td>&gt;10.0% &amp; &lt;=25.0%</td>
<td>73,502</td>
<td>343,942</td>
<td>175</td>
<td>22.8</td>
<td>76.7</td>
</tr>
<tr>
<td>&gt;25.0% &amp; &lt;=50.0%</td>
<td>122,503</td>
<td>259,174</td>
<td>88</td>
<td>17.2</td>
<td>93.8</td>
</tr>
<tr>
<td>&gt;50.0% &amp; &lt;=75.0%</td>
<td>122,503</td>
<td>90,899</td>
<td>39</td>
<td>6.0</td>
<td>99.9</td>
</tr>
<tr>
<td>&gt;75.0% &amp; &lt;=100.0%</td>
<td>122,503</td>
<td>1,902</td>
<td>10</td>
<td>0.1</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>490,012</strong></td>
<td><strong>1,507,978</strong></td>
<td><strong>119</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Notes: (1) Dollars in Thousands; (2) Ordered by Local Net Tax; (3) Tax Year 2018
Growth in Average Gross Income (AGI)

Source: Comptroller of Maryland, Bureau of Revenue Estimates
Growth in Average Gross Income (AGI)

Top 1% vs. Remaining 99%

<table>
<thead>
<tr>
<th>Year</th>
<th>Top 1%</th>
<th>Remaining 99%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>Avg 4.3%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2005</td>
<td>Med 6.8%</td>
<td>3.2%</td>
</tr>
<tr>
<td>2006</td>
<td>StDev 14.6%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

Source: Comptroller of Maryland, Bureau of Revenue Estimates
Growth in Taxpayers - Indexed to 2007

Source: Comptroller of Maryland, Bureau of Revenue Estimates
Thank You

Andrew Schaufele
Comptroller of Maryland
Director, Bureau of Revenue Estimates
410.260.7450
aschaufele@marylandtaxes.gov
andrewschaufele@gmail.com