



Marc Elrich
County Executive


Michael J. Coveyou
Director

DEPARTMENT OF FINANCE

MEMORANDUM

September 15, 2022

TO: Marc Elrich, County Executive

FROM: Michael Coveyou, Director 
Department of Finance

SUBJECT: Revenue Estimating Group Report for September 15, 2022

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, 2022. 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
Marlene Michaelson, Executive Director, Office of the County Council
Chris Cihlar, Director of the Office of Legislative Oversight

Designees and Technical Committee members:

Nancy B. Feldman, Chief, Division of Fiscal Management (Dept. of Finance)
Dennis Hetman, Fiscal Manager, Division of Fiscal Management
David Platt, Chief Economist, Division of Fiscal Management
Jake Weissman, Assistant Chief Administrative Officer, Office of the County Executive
Josh Watters, Acting Deputy Director, Office of Management and Budget
Chris Mullin, Budget Manager, Office of Management and Budget
Mary Beck, Capital Budget Manager, Office of Management and Budget
Gene Smith, 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
Todd Fawley-King, Fiscal Policy Analyst, Division of Fiscal Management

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Montgomery County Maryland- Revenue Estimating Group

Quarterly Report, September 15, 2022

FY22 Economic Backdrop and Preliminary Results

Montgomery County experienced significant revenue growth in fiscal year 2022 (FY22) especially in the income, transfer, and recordation taxes that exceeded the approved budget revenue estimates.¹ The FY22 approved budget was passed during the COVID-19 pandemic and reflects the economic headwinds at that time. Because of those headwinds, the FY22 revenue estimates assumed that federal and State fiscal stimulus would ease, that the rapid increase in housing prices experienced in FY21 would ultimately be unsustainable, and that ongoing impacts of subsequent COVID-19 variants and supply chain disruptions would depress demand and cause a modest recession. Fortunately, those assumptions did not materialize in FY22, and the reduced economic impact of the pandemic enabled improvement in specific indicators that translated into higher than anticipated revenues. Specifically, in FY22:

- Wage and salary income rose to \$10.113 billion from the pre-pandemic level of \$8.965 billion in FY19, despite a decline in total employment since FY19;²
- Sales of existing homes were up by over 3,000 since FY19;³
- Median prices for existing homes were up nearly \$102,000 since FY19;⁴ and
- Construction for new residential and commercial properties was up in FY22 in both number and total value as compared to FY21.⁵

The increase in wage and salary income and the strong residential real estate market resulted in the preliminary FY22 collections for income (+10.9%), transfer (+53.8%), and recordation (+68.7%) taxes exceeding both the approved budget and the March 2022 estimates. Driven by these three taxes, preliminary tax revenues exceeded the approved budget by 7.6% (see Table 1).

¹ FY22 revenue estimates are unaudited preliminary estimates for FY22, including data from the Montgomery County Treasury Department, State Comptroller's staff 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 FY22 audited financial statements, which will be available later in calendar year 2022.

² Quarterly Census of Employment and Wages - Bureau of Labor Statistics - US Department of Labor; Montgomery County Department of Finance. QCEW data includes all wage and salary data for just employees covered by unemployment insurance

³ Metropolitan Regional Information System, Inc.; Montgomery County Department of Finance

⁴ Metropolitan Regional Information System, Inc.; Montgomery County Department of Finance

⁵ McGraw Hill Construction; Montgomery County Department of Finance

Table 1: FY22 All Tax Supported Funds

TAXES	ALL TAX SUPPORTED FUNDS			\$ Δ FY22 Prelim Final vs budget	% Δ FY22 Prelim Final vs budget
	Approved FY22 Budget (a) (May 2021)	Estimated FY22 (a) (Mar 2022)	FY22 Preliminary Final (b) (Jul 2022)		
Property Tax	\$1,884,667,305	\$1,899,987,778	\$1,878,757,059	-\$5,910,246	-0.3%
Income Tax	\$1,708,841,800	\$1,804,218,526	\$1,895,810,690	\$186,968,890	10.9%
Transfer Tax	\$117,155,198	\$149,499,748	\$180,217,441	\$63,062,243	53.8%
Recordation Tax	\$67,418,279	\$91,467,401	\$113,717,916	\$46,299,637	68.7%
Energy Tax	\$175,651,251	\$185,297,558	\$184,651,863	\$9,000,612	5.1%
Telephone Tax	\$55,072,985	\$53,886,864	\$55,449,830	\$376,845	0.7%
Hotel/Motel	\$11,837,621	\$16,563,525	\$14,405,669	\$2,568,048	21.7%
Admissions Tax	\$831,768	\$2,600,000	\$2,875,167	\$2,043,399	245.7%
E-Cigarette	\$976,585	\$1,109,127	\$1,115,107	\$138,522	14.2%
TOTAL	\$4,022,452,792	\$4,204,630,527	\$4,327,000,742	\$ 304,547,950	7.6%
Notes:					
(a) Source: Schedule C-3, FY23 Approved Budget					
(b) Sources: Selected Operations Summary Report, June 2022: Treasury Division, and Income Tax: Fiscal Management Division					

FY23 Economic Outlook and Year-over-Year Revenue Comparison

As the early months of fiscal year 2023 ('FY23') proceed, there is an unrealized concern that the Federal Open Market Committee's actions to decrease inflation by raising the federal funds rate could trigger a recession. Montgomery County economic indicators have not materially changed in the three months since the budget was approved and the Revenue Estimating Group and Department of Finance will continue to monitor economic indicators and revenues.

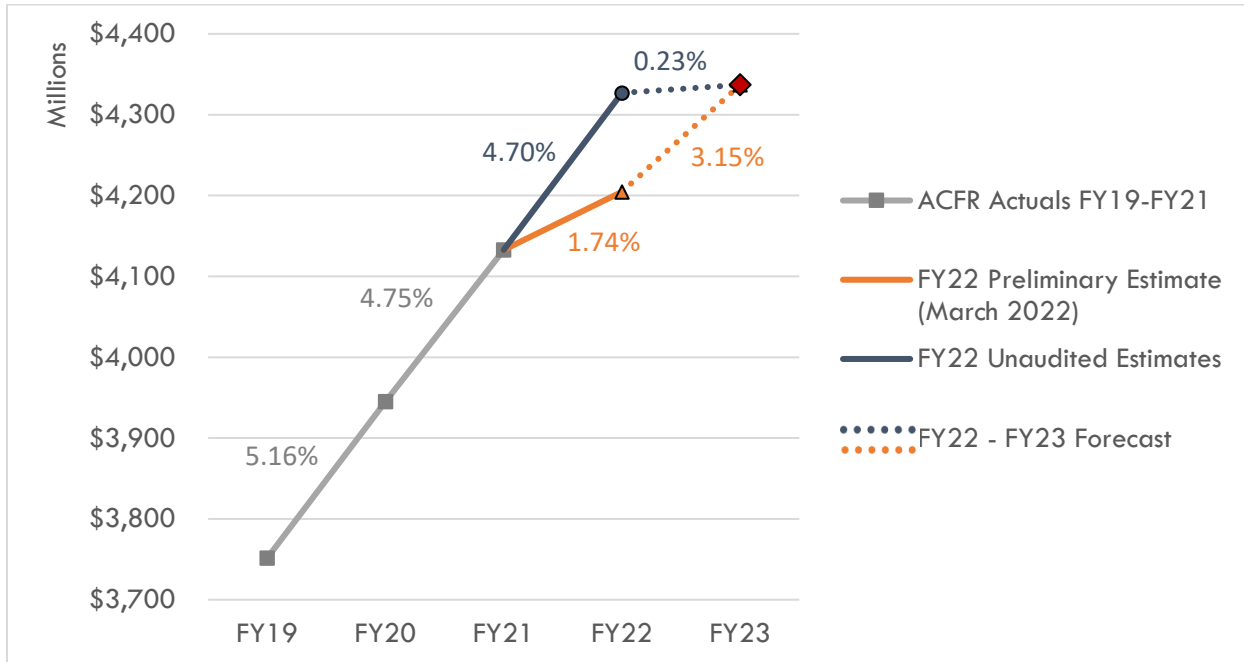
The FY23 approved revenue estimates were based on the economic indicators and FY22 revenue collections as of March 2022. Compared to the March 2022 estimate, the FY23 approved budget revenue estimates anticipated tax supported revenue growth of \$132.3M, or 3.15% between FY22 and FY23. Due to the higher than anticipated revenues for FY22, the growth of revenues from the FY22 unaudited preliminary final estimate to the FY23 approved revenue estimate is \$9.9M, or 0.23% (see Chart 1, and Appendix 1).

The FY23 approved budget revenues anticipated economic growth to slow from the pace of FY22 but aligned with a moderate growth trend from fiscal year 2021 ('FY21') audited revenues. Total tax supported revenues for FY23 are budgeted to be 4.9% greater than FY21 audited revenues – an average of 2.5% growth per year. Compared to fiscal FY22 preliminary revenue, FY23 income (-1.3%), transfer (-14.1%), and recordation (-17.6%) tax forecasts are all less than FY22's year-end preliminary final results. Total tax supported revenue in the FY23 approved budget is essentially the same as the FY22 year-end unaudited preliminary collections (+0.2%).

In contrast to the income, transfer, and recordation taxes in which revenues are forecast to decline, the property tax revenue forecast reflects a continuation of the recent growth in assessed valuation. This assumption reflects the structure and process of residential real estate assessments in the State of Maryland. The three-year assessment 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 this year is 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.

Chart 1: All Tax Supported Fund Revenue Growth (% change)



Sources: Schedule C-3, FY21, FY22 & FY23 Approved Budgets; Selected Operations Summary Report, June 2022; Treasury Division, and Income Tax: Fiscal Management Division

Appendix 1

Table 2: FY23 All Tax Supported Funds Compared to Prior Years

TAXES	ALL TAX SUPPORTED FUNDS			\$ Δ FY23 Approved vs Prelim Final	% Δ FY23 Approved vs Prelim Final
	Actual FY21 (a)	FY22 Preliminary Final (b) (Jul 2022)	Approved FY23 Budget (a) (May 2022)		
Property Tax	\$1,857,582,135	\$1,878,757,059	\$1,951,354,011	\$72,596,952	3.9%
Income Tax	\$1,820,178,820	\$1,895,810,690	\$1,870,513,719	-\$25,296,971	-1.3%
Transfer Tax	\$132,288,901	\$180,217,441	\$154,749,748	-\$25,467,693	-14.1%
Recordation Tax	\$76,886,481	\$113,717,916	\$93,668,368	-\$20,049,548	-17.6%
Energy Tax	\$184,419,771	\$184,651,863	\$186,479,565	\$1,827,702	1.0%
Telephone Tax	\$52,538,156	\$55,449,830	\$54,591,229	-\$858,601	-1.5%
Hotel/Motel	\$6,424,558	\$14,405,669	\$21,725,087	\$7,319,418	50.8%
Admissions Tax	\$1,261,063	\$2,875,167	\$2,677,768	-\$197,399	-6.9%
E-Cigarette	\$1,164,682	\$1,115,107	\$1,147,657	\$32,550	2.9%
TOTAL	\$4,132,744,567	\$4,327,000,742	\$4,336,907,152	\$9,906,410	0.2%
Notes:					
(a) Source: Schedule C-3, FY23 Approved Budget					
(b) Sources: Selected Operations Summary Report, June 2022: Treasury Division, and Income Tax: Fiscal Management Division					