



Marc Elrich  
County Executive


Michael J. Coveyou  
Director

**DEPARTMENT OF FINANCE**

**MEMORANDUM**

May 15, 2023

TO: Marc Elrich, County Executive

FROM: Michael Coveyou, Director   
Department of Finance

SUBJECT: Revenue Estimating Group Report for May 15, 2023

As chairperson of the Revenue Estimating Group, I am pleased to transmit to you the Group's May 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 May 15th report includes an overview of the revenue forecast included in the Fiscal Year 2024 Recommended Budget ("FY24 Rec") and a review of economic conditions and potential risk factors.

The next report is due in September and will be the first report following the approval of the FY24 budget. The September report will discuss the preliminary operating results for FY23 and provide updated economic information for the period subsequent to the FY24 Recommended Budget. 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  
Todd Fawley-King, Fiscal Policy Analyst, Division of Fiscal Management  
Jake Weissman, 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  
Mary Beck, Capital Budget Manager, Office of Management and Budget  
Craig Howard, Deputy Director, County Council Staff  
Aron Trombka, Senior Legislative Analyst, Office of Legislative Oversight  
Stephen Roblin, Performance Management and Data Analyst, Office of Legislative Oversight

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# Montgomery County Maryland Revenue Estimating Group

*Quarterly Report, May 15, 2023*

## FY24 Recommended Budget Tax Revenue Forecast

The FY24 revenue forecast included in the March 15<sup>th</sup> 2023 County Executive’s FY24 Recommended Budget (“FY24 Rec”) is predominantly influenced by the continued assumption for a mild recession beginning sometime in CY23 as well as a newly proposed ten cent property tax increase. The revenue forecast presented in this report is subject to change dependent on Council action on individual tax rates; any changes to the revenue forecast due to Council action will be incorporated into the June Approved Fiscal Plan.

The revenue forecast is derived from Moody’s January 2023 mild recession scenario for Montgomery County, including resident employment, wage and salary income, capital gains income, and inflation. The mild recession is projected to result in flat income tax revenues, while transfer and recordation tax revenues continue to deteriorate in FY24. Growth rates for these three taxes rebound to rates more consistent with their historic trends between FY25 and FY29. The proposed property tax increase of ten cents (raising the rate from \$0.98 per \$100 of assessed value to \$1.08) is estimated to generate approximately \$223 million.

The FY24 revenue forecast reflects the facts and economic assumptions at the time revenue estimates were developed in February 2023 and that were published in the February Revenue Estimating Group (“REG”) Report. The FY24 Rec’s estimated growth rates from FY23 to FY24 of Montgomery County’s income and property tax revenue – excluding the proposed increase to the property tax rate - (both key drivers of overall revenue growth) are in alignment with the State of Maryland’s income tax rate of growth projected by the Bureau of Revenue Estimates (BRE)<sup>1</sup> and the latest triennial real property assessment growth rates from the Maryland Department of Assessments and Taxation (SDAT).<sup>2</sup>

- The FY24 Rec tax revenue estimate for FY24 of \$4.3 billion is expected to exceed the FY23 Approved Budget forecast for FY24 by approximately 2.6% (\$113.8 million). Tax revenues are forecast to grow at a moderate pace in the FY24 Rec, increasing 4.1% from FY23 anticipated actual revenues and growing annually by rates ranging between 2.9% and 3.7% from FY25 to FY29 (see Chart 2 and Table 1).
- While the year-over-year rate of growth in the FY24 Rec is similar to the FY23 approved year-over-year rate of growth (see chart 2), the FY24 Rec starts from a higher base due to improved economic conditions as compared to those expected in the FY23 approved budget. The March 2023 estimates of FY23 tax revenues are moderately higher than expected in the FY23 Approved Budget. The FY24 Rec and the 6-year fiscal plan increases tax revenues in FY23 by 3.0% over the

<sup>1</sup> [Maryland Revenue Estimates Revenues & Economic Outlook March 2023 \(mdbre.gov\)](https://mdbre.gov) - Page 15

<sup>2</sup> [SDAT Reassessment Report January 2023 \(dat.maryland.gov\)](https://dat.maryland.gov) – Table R-1

FY23 Approved Budget forecast and are between 2.3% to 3.2% higher annually from FY24 to FY28 (see Chart 1, and Table 1).

- The FY24 Rec forecasts moderate revenue growth as compared to actual growth rates experienced in recent years, declining from the robust FY22 growth to rates that are more consistent with what Montgomery County has attained historically; the FY24 Rec growth rates and tax revenue are forecast at a reasonably expected level assuming a mild recession outlook.

**Income Tax:** Forecasted FY24 Rec income tax revenues are expected to be 1.17% lower in FY24 as compared to the FY23 December fiscal plan update. The reduced FY24 revenues reflect expectations that the mild recession will have greater impact to FY24 revenues than previously thought, and that growth will return from FY25 to FY29 at a more rapid pace than was expected in December. This increased growth from FY25 to FY29 may reflect expectations of enhanced wage inflation driven by recent increases in the consumer price index, and expectations that the Federal Reserve will have difficulty bringing inflation to levels that were more typical before the pandemic.

**Property Tax:** The FY24 Rec includes a 10-cent property tax increase, expected to generate \$223 million in FY24. Not including this \$223 million, forecasted FY24 Rec property tax revenues are expected to be 1.97% higher in FY24 as compared to the FY23 December fiscal plan update. This increase reflects the release by SDAT in January 2023 of higher than anticipated initial reassessments for the property group undergoing reassessment in levy year 2023. Total property tax receipts are now expected to increase at a slightly higher pace, not including the tax rate increase, from FY25 to FY27 than was forecasted in the FY23 December fiscal plan update (0.50%-1.0% higher as compared to the FY23 December fiscal plan). This increase reflects ongoing strength in property values despite the decline in sales volume. The anticipated mild recession in FY24 may generate negative reassessments for each of the three property groups as they go through the triennial reassessment process, starting in FY25 and ending in FY29. However, at no time will the total assessable base decline due to the manner in which reassessments phase in for each group, and due to the expected increase in the assessable base from new construction. The smallest increase in the total real property assessable base is expected to occur in FY28, the one year in which the reassessments for each group is forecasted to be negative.

**Transfer & Recordation Tax:** The FY24 Rec revises downward expected transfer tax revenues by between 7.8% and 11.5% as compared to the FY23 Fiscal Plan December update. The FY24 Rec was developed before the County Council approved an increase in recordation tax premium rates effective October 1, 2023 and does not incorporate the increased revenue expected due to that legislation. Transfer and recordation tax receipts in FY22 appear increasingly like one-time outliers with residential and commercial property sales value and volume as well as refinancing activity far exceeding both historic norms and expected future levels. The downward movement in transfer volume is the result of continued deterioration in the housing market in the face of 10 consecutive increases to the federal funds rate by the Federal Reserve Bank, substantially increasing the cost of mortgages. The result has been an estimated 31.25% decline in residential transfers in FY23, to be followed by a further 3.8% decline in FY24 before volumes begin to recover in FY25. The expectation is that the average value of residential transfers will decline modestly in FY24 and FY25 (from \$6,800 per transfer to \$6,360) before the market begins to recover slowly.

For additional details on the FY24 Rec tax revenues and the growth of specific revenue sources, see Chart 1, Chart 2, and Table 1 below.

## Economic Conditions & Risks

As anticipated by both the County and State and discussed in the May 2022 REG report, the elevated economic and tax revenue growth resulting from the federal stimulus efforts in response to the COVID pandemic has declined and revenue growth is now more consistent with historical trends. The State's year-to-date revenue, which had been performing as expected, slowed in the last few months and in total is now below the December forecast. The State's March forecast includes greater decreases in nonwage income estimated payments, which had previously been increasing, but experienced a sharp decline for the 4th quarter of tax year 2022. Nonwage income is at historically high levels in terms of total income as well as percentage of income tax revenues and remains a risk with the magnitude and timing of any downturn particularly difficult to estimate. Preliminary data shows the Maryland economy is underperforming relative to the U.S. economy and labor market and that consumer spending in Maryland has slowed faster than anticipated.<sup>3</sup> While the State's March forecast is for slower growth rates it does not explicitly include a recession and is therefore slightly more optimistic than the revenue projection from Montgomery County which does incorporate a mild recession.

The economic outlook remains mixed. Most of the recent data suggests that the economy is strong with the job market largely in a better position today with more people working and earning more than in February 2020, before the coronavirus pandemic. Inflation is showing signs of dissipating with government data released recently showing that consumer prices were up 5% in March from a year earlier, the slowest pace in nearly two years. However, economists remain worried that a recession is on the way foreshadowed by turmoil in the banking sector; most of the recent strong data predates the collapse of Silicon Valley Bank and the disturbance in the banking system that followed. Small and midsize lenders may have begun to tighten their credit standards in response to the developments, which, in turn, could push the businesses that are their clients to cut back on hiring and investment. The extent of the economic effects won't be clear for months.

Additionally, while inflation has recently moderated, it may need to decrease significantly more before the Federal Reserve stops raising interest rates; some economists and stock market analysts note that an "earnings recession" may already be here, preordained by the Fed's large and rapid interest rate increases.<sup>4</sup> As revenue is collected in nominal dollars absent the onset of a recession this elevated inflation may result in higher collections and a higher growth trend.

**Employment:** The annual rates of change in resident employment in the FY24 Rec are slightly lower in CY22 and in CY23 (-0.4%) compared to the growth rates in the December Fiscal Plan Update. Resident employment is estimated to increase 2.63% from CY21 to CY22 in the FY24 Rec (compared to 2.69% for the December's Fiscal Plan Update) while employment is estimated to decrease 0.44% from CY22 to CY23 compared to a decrease of 0.14% for the December fiscal plan. Changes in future year rate assumptions are due to a combination of the revisions in the 2021 BEA personal income data particularly wage and salary disbursements. From CY23 to CY29 resident employment is assumed to grow at an average annual rate of 1.09% and at a similar pace as was assumed in December Fiscal Plan Update.

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<sup>3</sup> [Maryland Revenue Estimates Revenues & Economic Outlook March 2023 \(mdbre.gov\)](https://mdbre.gov)

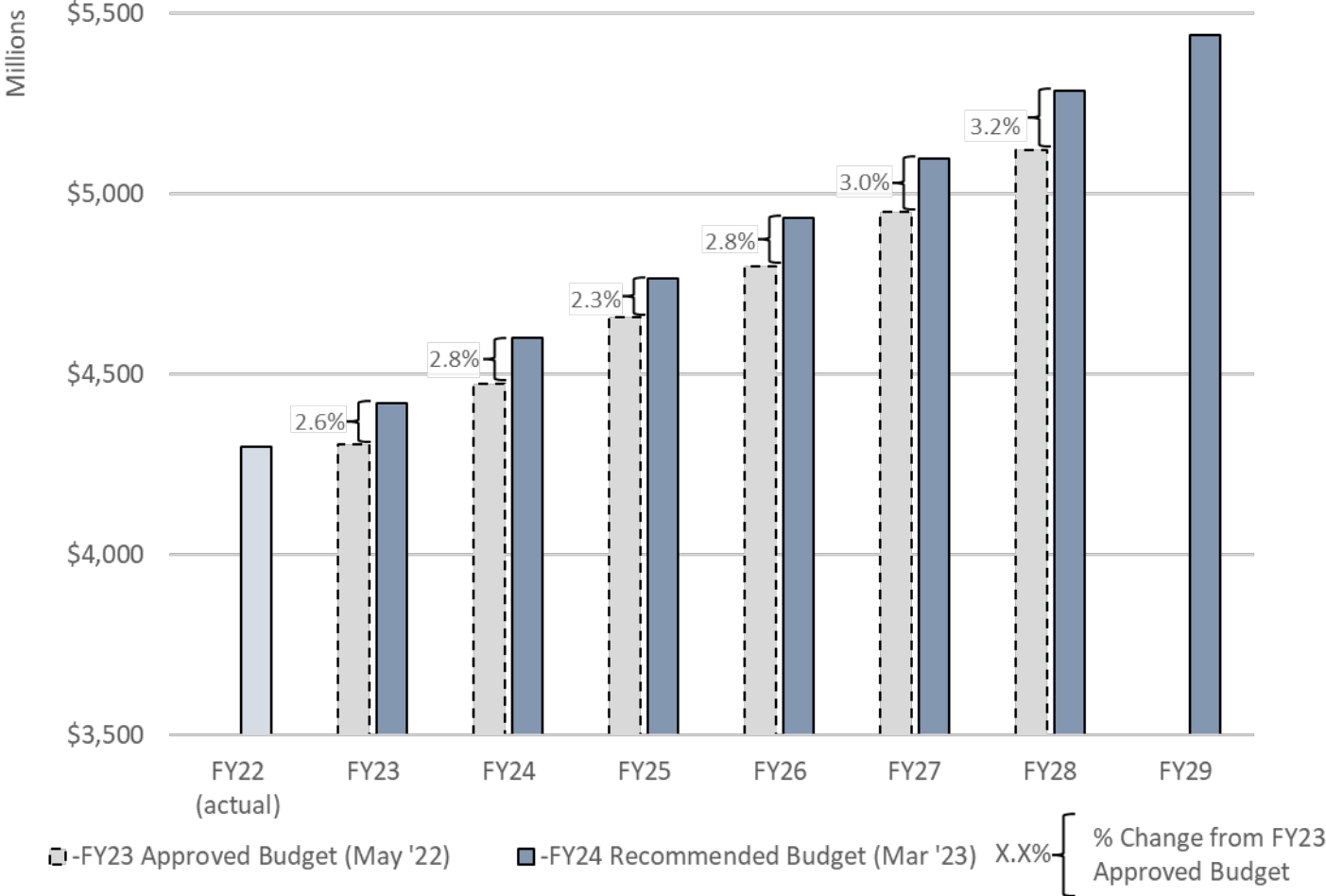
<sup>4</sup> [CNN, April 19<sup>th</sup> 2023](https://www.cnn.com)

**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 "Group") to review and forecast County revenues and provide for the membership and duties of the Group. The Group 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. This May 2023 Report covers the revenue estimates during the period ending March 31, 2023 that were used to develop the revenue forecast for the Fiscal Year 2024 recommended budget that the County Executive transmitted to Council on March 15.

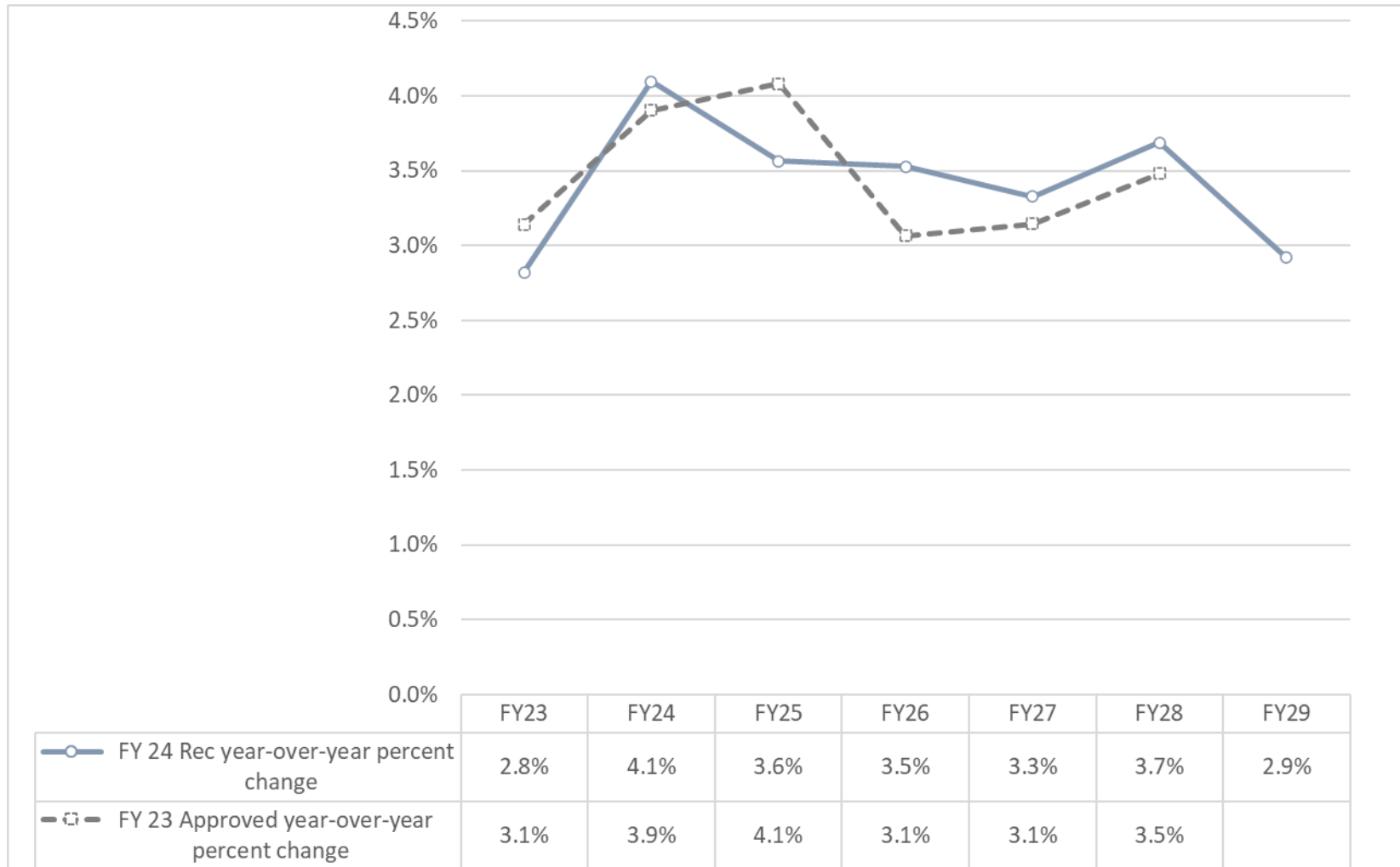


Chart 1: FY24 Recommended Budget Tax Revenue Forecast Compared to the FY23 Approved Budget<sup>5</sup>



<sup>5</sup> FY24 Rec estimate for FY23 is the latest estimated revenues for that fiscal year that is included in the FY24 Rec

Chart 2: FY23 Rec Year-over-Year % Change in Tax Revenues Compared to FY22 Approved<sup>6</sup>



<sup>6</sup> FY24 Rec estimate for FY23 is the latest estimated revenues for that fiscal year that is included in the FY24 Rec

Table 1: Detailed Tax Revenue Budget Comparison<sup>7</sup>

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
<b>INCOME TAX</b>	<b>FY24 Rec = Actual</b>							
-FY23 Approved Budget (May '22)	\$1,794.219	\$1,859.046	\$1,954.670	\$2,054.817	\$2,138.883	\$2,236.238	\$2,344.945	
-FY24 Recommended Budget (Mar '23)	\$1,895.811	\$2,044.357	\$1,925.076	\$2,023.557	\$2,128.017	\$2,241.214	\$2,400.054	\$2,526.234
Difference from FY23 Approved Budget	\$101.592	\$185.311	(\$29.594)	(\$31.259)	(\$10.867)	\$4.975	\$55.109	
FY24 Year-over-Year % change		7.8%	-5.8%	5.1%	5.2%	5.3%	7.1%	5.3%
% difference from FY23 approved budget	5.7%	10.0%	-1.5%	-1.5%	-0.5%	0.2%	2.4%	
<b>PROPERTY TAX</b>								
-FY23 Approved Budget (May '22)	\$1,899.988	\$1,951.354	\$2,005.331	\$2,071.999	\$2,134.415	\$2,195.587	\$2,258.620	
-FY24 Recommended Budget (Mar '23)	\$1,879.162	\$1,931.679	\$2,225.392	\$2,281.962	\$2,343.947	\$2,384.742	\$2,403.800	\$2,417.776
Difference from FY23 Approved Budget	(\$20.826)	(\$19.675)	\$220.061	\$209.963	\$209.531	\$189.155	\$145.179	
FY24 Year-over-Year % change		2.8%	15.2%	2.5%	2.7%	1.7%	0.8%	0.6%
% difference from FY23 approved budget	-1.1%	-1.0%	11.0%	10.1%	9.8%	8.6%	6.4%	
<b>TRANSFER TAX</b>								
-FY23 Approved Budget (May '22)	\$149.500	\$154.750	\$166.880	\$176.150	\$173.040	\$167.780	\$168.010	
-FY24 Recommended Budget (Mar '23)	\$180.217	\$118.432	\$118.050	\$123.578	\$124.299	\$130.807	\$137.431	\$146.281
Difference from FY23 Approved Budget	\$30.718	(\$36.317)	(\$48.830)	(\$52.572)	(\$48.741)	(\$36.972)	(\$30.579)	
FY24 Year-over-Year % change		-34.3%	-0.3%	4.7%	0.6%	5.2%	5.1%	6.4%
% difference from FY23 approved budget	20.5%	-23.5%	-29.3%	-29.8%	-28.2%	-22.0%	-18.2%	
<b>RECORDATION TAX (GENERAL FUND)</b>								
-FY23 Approved Budget (May '22)	\$71.642	\$74.158	\$79.977	\$84.421	\$82.928	\$80.406	\$80.515	
-FY24 Recommended Budget (Mar '23)	\$85.819	\$56.684	\$56.501	\$59.147	\$59.492	\$62.607	\$65.777	\$70.013
Difference from FY23 Approved Budget	\$14.178	(\$2.516)	(\$5.819)	(\$4.445)	\$1.493	\$2.522	(\$0.109)	
FY24 Year-over-Year % change		18.3%	3.5%	7.8%	5.6%	-1.8%	-3.0%	0.1%
% difference from FY23 approved budget	19.8%	-3.4%	-7.3%	-5.3%	1.8%	3.1%	-0.1%	

<sup>7</sup> All revenue numbers in \$ millions.

Table 1: Detailed Tax Revenue Budget Comparison(continued)

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
<b>FUEL / ENERGY TAX</b>								
	<b>FY24 Rec = Actual</b>							
-FY23 Approved Budget (May '22)	\$185.298	\$186.480	\$186.711	\$186.947	\$187.114	\$187.254	\$187.374	
-FY24 Recommended Budget (Mar '23)	\$184.821	\$189.541	\$193.151	\$193.294	\$193.405	\$193.504	\$193.615	\$193.729
Difference from FY23 Approved Budget	(\$0.476)	\$3.062	\$6.440	\$6.346	\$6.291	\$6.250	\$6.241	\$193.729
FY24 Year-over-Year % change		2.6%	1.9%	0.1%	0.1%	0.1%	0.1%	0.1%
% difference from FY23 approved budget	-0.3%	1.6%	3.4%	3.4%	3.4%	3.3%	3.3%	
<b>OTHER EXCISE TAXES<sup>8</sup></b>								
-FY23 Approved Budget (May '22)	\$74.160	\$80.142	\$80.503	\$82.456	\$83.162	\$83.246	\$83.356	
-FY24 Recommended Budget (Mar '23)	\$72.675	\$79.023	\$82.662	\$83.229	\$83.804	\$84.189	\$84.393	\$85.323
Difference from FY23 Approved Budget	(\$1.484)	(\$1.119)	\$2.159	\$0.774	\$0.641	\$0.943	\$1.037	\$85.323
FY24 Year-over-Year % change		8.7%	4.6%	0.7%	0.7%	0.5%	0.2%	1.1%
% difference from FY23 approved budget	-2.0%	-1.4%	2.7%	0.9%	0.8%	1.1%	1.2%	
<b>TOTAL REVENUES INCLUDING ALL EXCISE TAXES</b>								
	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>
	<b>FY24 Rec = Actual</b>							
-FY23 Approved Budget (May '22)	\$4,174.805	\$4,305.929	\$4,474.072	\$4,656.790	\$4,799.543	\$4,950.512	\$5,122.820	
-FY24 Recommended Budget (Mar '23)	\$4,298.506	\$4,419.717	\$4,600.833	\$4,764.768	\$4,932.963	\$5,097.063	\$5,285.069	\$5,439.358
Difference from FY23 Approved Budget	\$123.701	\$113.788	\$126.762	\$107.978	\$133.420	\$146.552	\$162.249	\$5,439.358
FY24 Year-over-Year % change		2.8%	4.1%	3.6%	3.5%	3.3%	3.7%	2.9%
% difference from FY23 approved budget	3.0%	2.6%	2.8%	2.3%	2.8%	3.0%	3.2%	
FY24 Rec. YoY % change from FY23 Approved		5.9%	6.8%	6.5%	5.9%	6.2%	6.8%	6.2%

<sup>8</sup> Other Excise Taxes include the admissions tax, telephone tax, hotel/motel tax, and e-cigarettes tax