

Marc Elrich
County Executive




Michael J. Coveyou
Director

DEPARTMENT OF FINANCE

MEMORANDUM

May 15, 2024

TO: Marc Elrich, County Executive

FROM: Michael Coveyou, Director
Department of Finance 

SUBJECT: Revenue Estimating Group Report for May 15, 2024

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 2025 Recommended Budget ("FY25 Recommended") and a review of economic conditions and potential risk factors.

We would like to note that the State Board of Revenue Estimates stated in its March 2024 outlook presentation that they are monitoring a notable "deceleration in withholding income tax revenues" that is anomalous to the economic data, describing this as "a disconnect between economic data and revenue data." The State cannot yet tell if this slowdown is a harbinger of a broader Maryland recession, or if it is just random fluctuations in income tax revenues as "withholding can be noisy in shorter periods of time." The State specifically warns that "there is significant downside risk to the forecast if withholding continues to weaken."

The next report is due in September and will be the first report following the approval of the FY25 budget. The September report will discuss the preliminary operating results for FY24 and provide updated economic information for the period subsequent to the FY25 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
Caven West, 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
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
Rachel Silberman, Manager, Office of Management and Budget
Craig Howard, Deputy Director, County Council Staff
Bilal Ali, Legislative Analyst, County Council Staff
Logan Anbinder, Legislative Analyst, County Council Staff
Aron Trombka, Senior Legislative Analyst, Office of Legislative Oversight
Stephen Roblin, Performance Management and Data Analyst, Office of Legislative Oversight

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Montgomery County Maryland Revenue Estimating Group

Quarterly Report, May 15, 2024

FY25 Recommended Budget Tax Revenue Forecast

The FY25 revenue forecast included in the March 15th 2024 County Executive’s FY25 Recommended Budget (“FY25 Recommended”) is predominantly influenced by the continued assumption for a mild recession beginning sometime in CY24. 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 2024 mild recession scenario for Montgomery County, including resident employment, wage and salary income, capital gains income, and inflation. Following the historic peak in income tax in FY23, FY24 is forecast to experience a year over year decrease, before returning to growth from years FY25 to FY30. Transfer and recordation taxes also reach their nadir in FY24 before returning to growth between FY25 and FY30. The growth rate of property tax revenues is projected to moderate from the annual double-digit increases seen in the last few years to growth between FY25 and FY30 that is consistent with the historic trend of between 1.5% and 3.5%.

The FY25 tax revenue forecast reflects the facts and economic assumptions at the time revenue estimates were developed in February 2024 and that were published in the February Revenue Estimating Group (“REG”) Report. The FY25 Recommended’s estimated growth rates from FY24 to FY25 of Montgomery County’s income and property tax revenue are consistent with the State of Maryland’s income tax rate of growth projected by the Bureau of Revenue Estimates (BRE)¹ and the latest triennial real property assessment growth rates from the Maryland Department of Assessments and Taxation (SDAT).²

- The FY25 Recommended tax revenue estimate for FY25 of \$4.8 billion is expected to exceed the forecast for FY25 that had been included in the FY24 approved budget by approximately 2.3% (\$108.6 million). Total tax revenues in the FY25 Recommended are forecast to grow from FY25 to FY29 at a pace consistent with historic actuals, ranging between 2.9% and 3.8% (see Chart 2 and Table 1).
- While the year-over-year rate of growth in the FY25 Recommended is similar to the FY24 approved year-over-year rate of growth (see chart 2), the FY25 Recommended starts from a higher base due to better economic conditions as compared to those expected in the FY24 approved budget. The FY23 actual revenue receipts and the March 2024 estimates of FY24 tax revenues are both moderately higher than expected in the FY24 Approved Budget. The FY25 Recommended and the 6-year fiscal plan start with tax revenues in FY23 that are 2.7% higher

¹ [Maryland Revenue Estimates Revenues & Economic Outlook March 2024 \(mdbre.gov\)](https://mdbre.gov)

² [SDAT Reassessment Report January 2024 \(dat.maryland.gov\)](https://dat.maryland.gov) – Table R-1

than the FY24 Approved Budget and increases the FY24 revenue forecast by 3.0% over the FY24 Approved Budget (see Table 1).

- The FY25 Recommended forecasts moderate revenue growth as compared to growth rates experienced in recent years, declining from the robust FY23 growth to rates that are more consistent with what Montgomery County has attained historically. The FY25 Recommended growth rates and tax revenue are forecast at a reasonably expected level assuming a mild recession outlook.

Income Tax: Forecasted FY25 Recommended income tax revenues are expected to be 1.4% higher in FY25 as compared to the forecast for FY25 that had been included in the FY24 approved budget. The increase reflects expectations that the mild recession will now occur later in calendar year (CY) 2024 or early 2025 but will be milder than previously anticipated. However, in each of FY27- FY29, income tax revenues are forecast to be lower than in the six year fiscal plan reflecting the expectation that incomes will increase at a notably slower pace.

Property Tax: The FY25 Recommended property tax revenues are expected to be 5.8% higher in FY25 as compared to the forecast included in the FY24 approved budget. This increase reflects the release by SDAT in January 2024 of higher than anticipated reassessments for the property group undergoing reassessment in levy year 2024. Total property tax receipts are now expected to grow at between 1.5% and 3.6% from FY26 to FY30, a return to historically more normal growth rates as compared to the double-digit increases experienced during the COVID pandemic. The continued increase despite the anticipated mild recession reflects the ongoing strength in property values. The total assessable base will continue to increase in each year of the forecast due to the 3-year phase-in of each reassessment plus the value of expected new construction. The smallest increase in the total real property assessable base is expected to occur in FY29 after the pandemic-related reassessments are fully phased-in.

Transfer & Recordation Tax: The FY25 Recommended again revises expected transfer tax revenues down for FY25-29 by between 11.9% and 23.4% as compared to the forecasts for these years included in the FY24 approved budget, with a corresponding downward revision to the recordation tax. The downward movement in the volume of properties being transferred and recorded is the result of continued deterioration in the housing market as the Federal Reserve Bank keeps the federal funds rate high to combat inflation. The delay in the reduction in the fed funds rate keeps the rate for new mortgages high, depressing the supply of homes for sale as few current owners are willing to sell a property that enjoys low mortgage interest rates and raising mortgage costs for buyers. This downward revision to transfer and recordation tax revenues is the direct result of the assumptions regarding the sales of existing single-family homes detailed in the February 2024 Revenue Estimating Group report and available on the Montgomery County Department of Finance website.³

For additional details on the FY25 Recommended tax revenues and the growth of specific revenue sources, see Chart 1, Chart 2, and Table 1 below.

³ For details of the FY25 Recommended economic assumptions, see page 3 of the [February 2024 REG report](#).

Economic Conditions

National indicators continue to send mixed signals about the health and trajectory of the economy. Most of the recent data suggests that the economy continues to grow, bolstered by a strong job market with more people working and earning more than before the COVID pandemic. However, while annual inflation has come down in the past year, it remains above 3% through the past quarter and is stubbornly higher than the Federal Reserve’s stated goal. The April 26 release of the March personal consumption and outlays price index by the Bureau for Economic Analysis highlighted the challenge decreasing inflation further, with year-over-year price changes excluding food and energy up 2.8%, the same pace as February; The year-over-year inflation in prices excluding food and energy has changed little each month since December.⁴ The interest rates futures market now predicts that the Federal Reserve will not decrease the federal funds rate until September of 2024 at the earliest, a pessimistic turn in market expectations.⁵ Persistent high interest rates raise the risk that financial markets restrict access to credit and consumers cut back on credit-sensitive spending, tipping the economy into recession.

The State of Maryland’s Bureau of Revenue Estimates notes that the macroeconomic assumptions underpinning their March 2024 revenue forecast is “virtually unchanged [from the October 2023 forecast]”⁶, incorporating “moderate, slowing growth rates with no recession.” However, the State is monitoring a notable “deceleration in withholding income tax revenues” that is anomalous to the economic data, describing this as “a disconnect between economic data and revenue data.” The State cannot yet tell if this slowdown is a harbinger of a broader Maryland recession, or if it is just random fluctuations in income tax revenues as “withholding can be noisy in shorter periods of time.” The State specifically warns that “there is significant downside risk to the forecast if withholding continues to weaken.”

The FY25 Recommended revenue forecast balances the uncertainty generated by inconsistent national macro-economic indicators, warning signals from Maryland income tax withholding data, and the continued years-long trend of Maryland economic underperformance compared to the national economy. As a result, the incorporation of a mild recession into the forecast is a prudent hedge against the elevated risk of a downturn in the Maryland and Montgomery County economies.

The Revenue Estimating Group

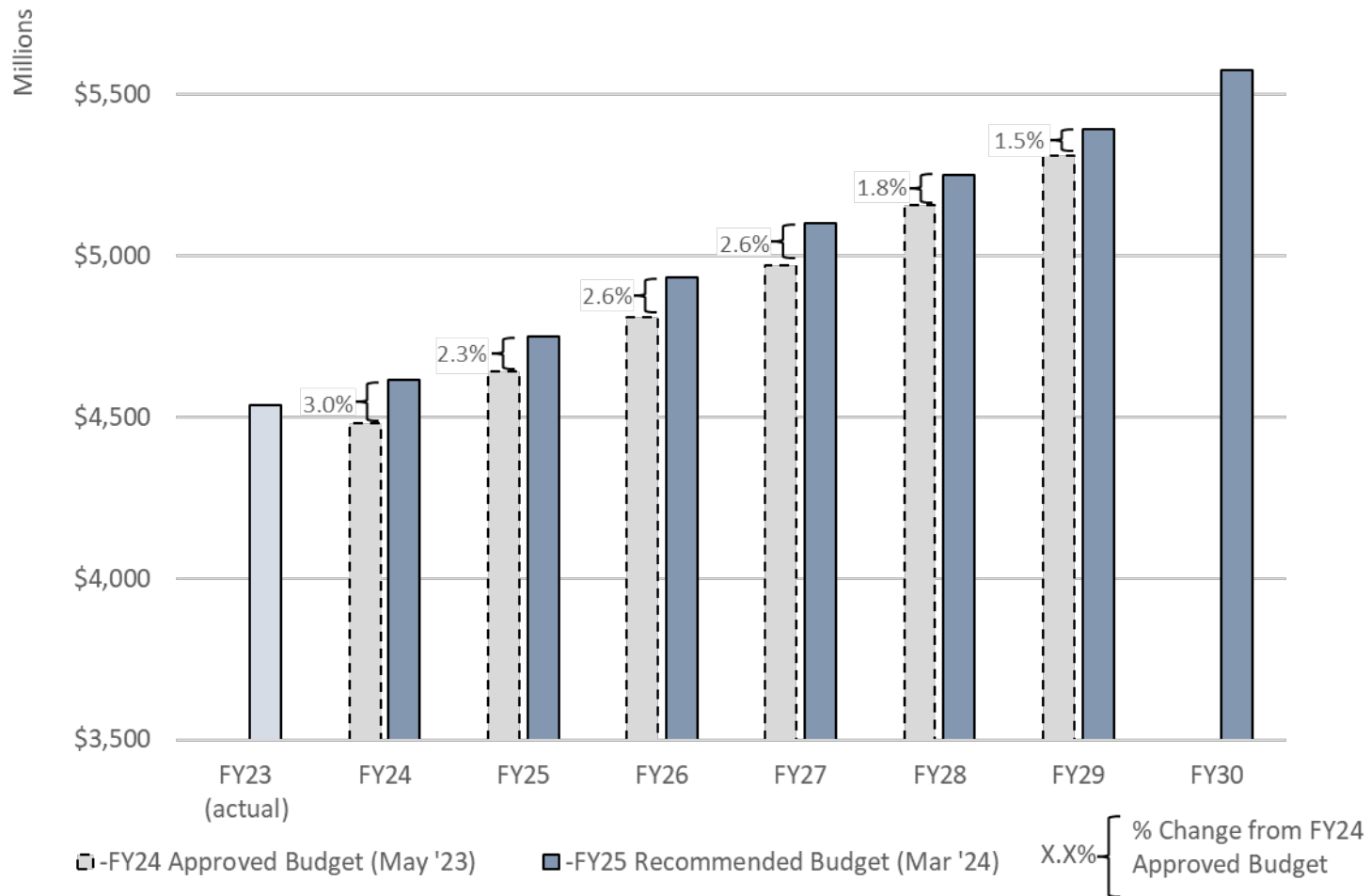
Section 20-84 was added to the Montgomery County Code in March 2021 pursuant to Bill 6-21. Section 20-84 established a Revenue Estimating Group (the “Group”) to review and forecast County revenues and provide for the membership and duties of the Group. The Group must submit reports to the County Executive and the County Council on revenue projections and quarterly attainment of revenue on February 15, May 15, September 15, and December 15. This May 2024 Report covers the revenue estimates during the period ending March 31, 2024 that were used to develop the revenue forecast for the Fiscal Year 2025 recommended budget that the County Executive transmitted to Council on March 15.

⁴ Bureau for Revenue Analysis

⁵ Source: CME Group

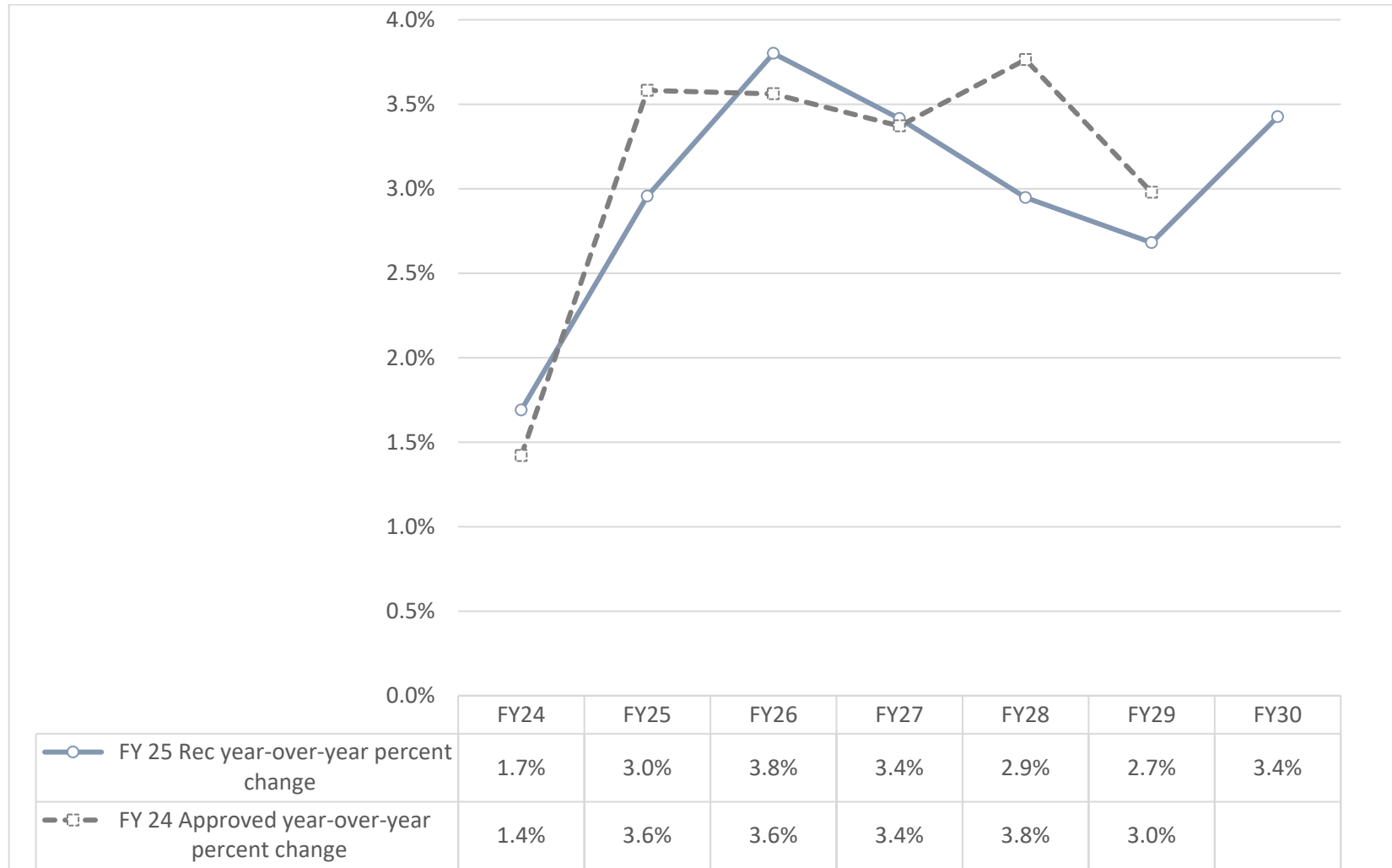
⁶ [Maryland Revenue Estimates Revenues & Economic Outlook March 2024 \(mdbre.gov\)](https://mdbre.gov); See slides 4 and 5

Chart 1: FY25 Recommended Budget Tax Revenue Forecast Compared to the FY24 Approved Budget⁷



⁷ FY25 Recommended estimate for FY24 is the latest estimated revenues for that fiscal year that is included in the FY25 Recommended

Chart 2: FY25 Recommended Year-over-Year % Change in Tax Revenues Compared to FY24 Approved⁸



⁸ FY25 Recommended estimate for FY24 is the latest estimated revenues for that fiscal year that is included in the FY25 Recommended

Table 1: Detailed Tax Revenue Budget Comparison⁹

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
INCOME TAX	FY25 Rec = Actual							
-FY24 Approved Budget (May '23)	\$2,044.357	\$1,925.076	\$2,023.557	\$2,128.017	\$2,241.214	\$2,400.054	\$2,526.234	
-FY25 Recommended Budget (Mar '24)	\$2,139.966	\$2,008.240	\$2,051.147	\$2,137.044	\$2,226.097	\$2,314.274	\$2,406.572	\$2,496.668
Difference from FY24 Approved Budget	\$95.610	\$83.163	\$27.589	\$9.027	(\$15.116)	(\$85.780)	(\$119.662)	
FY25 Rec Year-over-Year percent change		-6.2%	2.1%	4.2%	4.2%	4.0%	4.0%	3.7%
% difference from FY24 approved budget	4.7%	4.3%	1.4%	0.4%	-0.7%	-3.6%	-4.7%	
PROPERTY TAX								
-FY24 Approved Budget (May '23)	\$1,931.679	\$2,107.039	\$2,160.224	\$2,219.363	\$2,258.160	\$2,276.288	\$2,289.585	
-FY25 Recommended Budget (Mar '24)	\$1,971.096	\$2,205.435	\$2,285.559	\$2,367.105	\$2,429.394	\$2,479.740	\$2,516.118	\$2,601.411
Difference from FY24 Approved Budget	\$39.418	\$98.397	\$125.335	\$147.742	\$171.234	\$203.452	\$226.533	
FY25 Rec Year-over-Year percent change		11.9%	3.6%	3.6%	2.6%	2.1%	1.5%	3.4%
% difference from FY24 approved budget	2.0%	4.7%	5.8%	6.7%	7.6%	8.9%	9.9%	
TRANSFER TAX								
-FY24 Approved Budget (May '23)	\$118.432	\$118.050	\$123.578	\$124.299	\$130.807	\$137.431	\$146.281	
-FY25 Recommended Budget (Mar '24)	\$110.459	\$90.513	\$94.722	\$102.387	\$113.514	\$121.084	\$128.847	\$134.728
Difference from FY24 Approved Budget	(\$7.974)	(\$27.537)	(\$28.856)	(\$21.912)	(\$17.293)	(\$16.347)	(\$17.434)	
FY25 Rec Year-over-Year percent change		-18.1%	4.7%	8.1%	10.9%	6.7%	6.4%	4.6%
% difference from FY24 approved budget	-6.7%	-23.3%	-23.4%	-17.6%	-13.2%	-11.9%	-11.9%	
RECORDATION TAX (GENERAL FUND)								
-FY24 Approved Budget (May '23)	\$56.684	\$56.501	\$59.147	\$59.492	\$62.607	\$65.777	\$70.013	
-FY25 Recommended Budget (Mar '24)	\$53.289	\$42.885	\$44.879	\$48.510	\$53.782	\$57.369	\$61.047	\$63.833
Difference from FY24 Approved Budget	(\$3.396)	(\$13.616)	(\$14.268)	(\$10.981)	(\$8.825)	(\$8.408)	(\$8.966)	
FY25 Rec Year-over-Year percent change		-19.5%	4.7%	8.1%	10.9%	6.7%	6.4%	4.6%
% difference from FY24 approved budget	-6.0%	-24.1%	-24.1%	-18.5%	-14.1%	-12.8%	-12.8%	

⁹ All revenue numbers in \$ millions.

Table 1: Detailed Tax Revenue Budget Comparison(continued)

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
FUEL / ENERGY TAX	FY25 Rec = Actual							
-FY24 Approved Budget (May '23)	\$189.541	\$193.151	\$193.294	\$193.405	\$193.504	\$193.615	\$193.729	
-FY25 Recommended Budget (Mar '24)	\$181.288	\$184.227	\$191.262	\$191.753	\$192.132	\$192.456	\$192.750	\$193.033
Difference from FY24 Approved Budget	(\$8.254)	(\$8.925)	(\$2.032)	(\$1.652)	(\$1.372)	(\$1.158)	(\$0.980)	\$193.033
FY25 Rec Year-over-Year percent change		1.6%	3.8%	0.3%	0.2%	0.2%	0.2%	0.1%
% difference from FY24 approved budget	-4.4%	-4.6%	-1.1%	-0.9%	-0.7%	-0.6%	-0.5%	
OTHER EXCISE TAXES								
-FY24 Approved Budget (May '23)	\$79.023	\$82.662	\$83.229	\$83.804	\$84.189	\$84.393	\$85.323	
-FY25 Recommended Budget (Mar '24)	\$82.430	\$83.948	\$84.132	\$85.507	\$85.843	\$86.189	\$86.545	\$86.906
Difference from FY24 Approved Budget	\$3.407	\$1.285	\$0.903	\$1.704	\$1.654	\$1.796	\$1.222	\$86.906
FY25 Rec Year-over-Year percent change		1.8%	0.2%	1.6%	0.4%	0.4%	0.4%	0.4%
% difference from FY24 approved budget	4.3%	1.6%	1.1%	2.0%	2.0%	2.1%	1.4%	
TOTAL REVENUES INCLUDING ALL EXCISE TAXES	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	FY25 Rec = Actual							
-FY24 Approved Budget (May '23)	\$4,419.717	\$4,482.480	\$4,643.029	\$4,808.379	\$4,970.481	\$5,157.557	\$5,311.166	
-FY25 Recommended Budget (Mar '24)	\$4,538.528	\$4,615.247	\$4,751.701	\$4,932.307	\$5,100.763	\$5,251.112	\$5,391.878	\$5,576.580
Difference from FY24 Approved Budget	\$118.811	\$132.767	\$108.672	\$123.928	\$130.281	\$93.555	\$80.712	\$5,576.580
FY25 Rec Year-over-Year percent change		1.7%	3.0%	3.8%	3.4%	2.9%	2.7%	3.4%
% difference from FY24 approved budget	2.7%	3.0%	2.3%	2.6%	2.6%	1.8%	1.5%	