Marc Elrich
County Executive

Michael J. Coveyou
Director

DEPARTMENT OF FINANCE

M E M O R A N D U M

December 15, 2024

TO: Marc Elrich, County Executive

FROM: Michael Coveyou, Director
Department of Finance

SUBJECT: Revenue Estimating Group Report for December 15, 2024

As chairperson of the Revenue Estimating Group, I am pleased to transmit to you the Group's December 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 December 15th report focuses on the December fiscal plan for the FY25 budget year. As noted in this report, the preliminary data may differ from the audited data that will be published in December after this report is completed, but we believe this unaudited data provides valuable information and serves as a baseline for reports that follow this one.

The next report will be due in February. 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 Adminstrative Officer, Office of the County Executive
Jennifer R. Bryant, Director, Office of Management and Budget
Craig Howard, 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
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
Ken Hartman-Espada, 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
Rachel Silberman, Manager, Office of Management and Budget
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
December 15, 2024

Executive Summary

Fiscal Year 2024 Final Review

- Fiscal Year 2024 ("FY24") estimated tax revenues exceeded the approved budget by $161.5 million (3.6%), primarily due to continued wage and salary growth supporting the income tax and increased assessed valuations resulting in increased property tax.
- FY24 Montgomery County Government (MCG) estimated non-tax revenues for the general fund and the tax supported special revenue funds are higher than the approved budget by $116.3 million.
- Key economic indicator growth rates, including resident employment, personal income, home sales and home prices, which strongly influence both income and property taxes, were above budget assumptions in FY24 since the assumed mild recession did not occur.

Fiscal Year 2025 Update

- Economic assumptions for the Approved Fiscal Year 2025 ("FY25") budget were similar to those underlying the approved FY24 budget both of which assumed a mild recession would occur. In light of the continued strength of the economy and the 'soft landing' that appears to have taken place, the FY25-30 Fiscal Plan[1] update presented to County Council on December 10, 2024 is based upon economic assumptions that no longer assume a recession occurring in FY25. In the past 8 months since the March revenue forecast for the Recommended FY25 budget was presented, the Federal reserve has reduced the federal funds rate by 75 basis points (.75%) to a range of 4.5%-4.75%, the national inflation rate has decreased from 3.5% to 2.6% and the Washington-Arlington-Alexandria region inflation rate has decreased from 3.4% to 2.6%. Employment rates and income have for the County remained steady. As a result, economic conditions no longer indicate a mild recession.
- However, with a new President taking the oath of office on January 20th and both the Senate and the House of Representatives led by the same party as the President-elect, there is

[1] Per the County's fiscal policy in Resolution No. 19-753, the Council approves a balanced six-year fiscal plan summary each year after approving the budget in May, which is updated for Council in December and again in March with the Executive's Recommended Budget.

significant uncertainty about the economic effects of policies promoted by the President-Elect as it is not clear which policies will be implemented nor when they will be implemented. Notably, multiple pronouncements regarding downsizing the federal workforce and moving federal agencies out of the DC-MD-VA region, if implemented, could have negative impacts on Maryland and Montgomery County that diverge from national economic conditions. The Revenue Estimating Group decided not to make any assumptions about the implications of potential future federal policy changes at this time but will continue to evaluate conditions and, if necessary, make adjustments for future budgets and fiscal plans. The Revenue Estimating Group further notes that the possibility of significant shifts in federal policy creates a new degree of uncertainty regarding County revenues, particularly in the out years.

- FY25 updated total tax revenues are forecast to exceed the Approved FY25 Budget by $132.1 million (2.8%) primarily due to income taxes exceeding forecast. The fiscal year 2026 ("FY26") forecast for total tax revenues is higher (+2.6%) than the approved June Fiscal Plan and projections in fiscal years 2027 and 2028 indicate growth rates approximately 1% above the growth rates in the approved FY25-30 Fiscal Plan.
- Total tax revenue in the first 4 months of FY25 (through October 31) are exceeding expectations from the FY25 approved budget primarily due to a positive variance in income tax receipts. The performance of this revenue and the economy support the upward revision in the total expected tax revenue for FY25.

Fiscal Year Ended June 30, 2024 Results – Final Review

Since the September 15, 2024 Revenue Estimating Group report was completed, the County's Controller and staff have been working with the auditors to complete the FY24 Annual Comprehensive Financial Report ("ACFR") for release prior to the end of CY24. At the time of compiling this report the FY24 results below remain unaudited. Please note that these near final FY24 tax revenues are approximately the same as those in the September report.[2]

[2] See Appendix I of the September report.
https://www.montgomerycountymd.gov/Finance/Resources/Files/REG_Quarterly_2024_09_15.pdf

FY24 Tax Revenues: Tax Supported Revenues	Approved Budget	Actual	Difference	Percent
Property Tax (excl. Parking Districts)	$2,107,038,755	$2,213,648,417	$106,609,662	5.1%
Income Tax	$1,925,076,241	$2,023,561,278	$98,485,037	5.1%
Transfer Tax	$118,050,247	$96,468,076	($21,582,171)	-18.3%
Recordation Tax	$56,501,236	$44,958,808	($11,542,428)	-20.4%
Energy Tax	$193,151,409	$182,130,483	($11,020,926)	-5.7%
Hotel Tax	$22,067,616	$23,084,973	$1,017,357	4.6%
Telelphone Tax	$55,641,296	$55,607,943	($33,353)	-0.1%
Admissions & E-Cigarette Taxes	$4,969,222	$ 4,505,085.75	($464,136)	-9.3%
TOTAL	**$4,482,496,022**	**$4,643,965,064**	**$161,469,042**	**3.6%**

SOURCES: Controller Division (all revenues except property tax) and Treasury Divison (property tax)

<u>FY24 Non-tax Revenues</u>

The non-tax revenue portion of the budget includes intergovernmental aid, charges for services, fines & forfeitures, licenses and permits, investment income and other miscellaneous revenue. Most intergovernmental aid for public schools. However, outside agency FY24 year-end results are not included in the text that follows. FY24 Montgomery County Government (MCG) estimated non-tax revenues for the general fund and the tax supported special revenue funds are higher than the approved budget by $116.3 million. Intergovernmental aid for MCG was $84.1 million more than the approved budget primarily due to FEMA reimbursements for COVID-19 expenditures and other Federal Reimbursements that came in greater than budgeted. Charges for services revenue was approximately $9.5 million less than the approved budget primarily due to Ride-On ridership being lower than projected. The Ride-On fare collection assumption was adjusted in the latest FY24 budget and Ride-On receipts are in line with that budget. Fine and forfeiture revenue was approximately $612k less than approved budget primarily due to lower speed camera revenue. Investment income revenue was approximately $36.3 million more than the approved budget due to favorable investment returns. Other miscellaneous revenue was approximately $5.7 million more than the approved budget.

The December Fiscal Plan update assumes FY25 non-tax revenues are in line the with the approved budget. Any adjustments to non-tax revenues will be updated prior to the transmittal of the Recommended Budget on March 15, 2025.

Economic Activity through September 30, 2024

National Economic Snapshot

The U.S. economy in 2024 has shown strong growth, with real GDP increasing at an annual rate of 2.8% in the third quarter, slower than the 4.9% in Q3 of 2023, but still quite strong. The 2024 growth is primarily driven by increased consumer spending, fueled by rising incomes. Additionally, exports, federal government spending, and business investment have contributed to the overall economic expansion.

Some key indicators of the strong economy include:

- GDP: Q3 2024 growth of 2.8%, slightly below Q3 2024 growth of 3.0%.
- Jobs: Average monthly gain of +194,000 over the 12 months to October 2024. The Bureau of Labor Statistics did report non-farm payroll employment increased by only +12,000 in October, however impacts from 2 major hurricanes and a strike at Boeing were contributing factors to the slow job growth that month. November non-farm payroll employment rebounded to +227,000.
- Consumer spending: Consumer spending increased 3.7% in the third quarter of 2024, the most since early 2023 according to the Department of Commerce.
- Inflation: Inflation has moderated from the elevated rates during the pandemic, with the Consumer Price Index (CPI) at 2.6% for the 12 months through October 2024 compared to 3.2% in the 12 months up through October 2023.
- Labor market: The unemployment rate continues to be historically low at 4.1% in October 2024 vs. 3.8% in October 2023. The unemployment rate has increased from its low of 3.4% in April 2023 and remains above its pre-pandemic rate of 3.5%.

The latest Blue Chip Economic Indicators report[3], a survey conducted by information services company Wolters Kluwer of 50-plus economists employed by large American firms, suggests a slowdown in GDP growth in 2025 averaging 2% per quarter. However, there are no longer any firms that anticipate any quarter in which GDP growth is below trend over the entire forecast horizon. It now appears that the consensus is no longer looking for a soft landing for the U.S. economy but rather for continued growth representing "no landing at all". The Federal Reserve Bank's (the "Fed") increases in the federal funds rate to fight inflation came to an end in July 2024. Survey respondents to the Blue Chip Economic Forecast predict that the Fed will continue to cut rates in 2025 by an average of 108 basis points (1.08%). The Federal Reserve's next meeting occurs on December 17-18th at which time the market expectation is that they will cut the federal funds rate by .25% to a range of 4.25%-4.50%. The consensus forecast for CPI in 2025 is 2.3%, which indicates a slow movement toward the Federal Reserve's 2.0% target rate, but still leaving a way to go to reach the target.

Moody's Analytics baseline forecast[4] for the US economy reflects "the U.S. economy performing well despite slower growth in the first half of 2024 than in the second half of 2023. Real GDP will be slightly stronger in the near term because of lower interest rates. However, the forecast remains that growth will be below trend in the near term in response to fiscal tightening and high interest rates, followed by a return to trend by 2026. The jobless rate will remain relatively steady through the second half of 2025 as job growth slows, consistent with the weaking trend in labor market data. "

State of Maryland Economic Snapshot[5]

Economic conditions in the State of Maryland are weaker than those nationally with the most recent State's payroll employment declining 0.3% in October and the unemployment rate increasing 0.1% to 3.0%. Maryland's unemployment rate of 3.0% in October 2024 continued to be below the U.S. rate of

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[3] https://intelliconnect.cch.com/docmedia/attach/WKUS-TAL-DOCS-PHC/27/BCEI1124email.pdf

[4] The baseline forecast assumes the probability that the economy will perform better than the projection is 50%, the same as the probability that it will perform worse.

[5] Source: Maryland Economic Snapshot, Federal Reserve Board of Richmond, October 2024 and Bureau of Labor Statistics

4.1%. However, the spread between the U.S. unemployment rate and the State's unemployment rate has narrowed due to the increase in the State unemployment rate. In October 2023 the State's unemployment rate of 1.7% was 2.2 percentage points lower than the U.S. rate of 3.9%, while now it is 1.0 percentage point lower than the national average. Year over year, (Oct. 2023 to October 2024), Maryland's labor force grew faster than employment at a 1.1% rate vs. employment growth of .4%, contributing to the increase in the unemployment rate. Payroll employment remains below the pre-pandemic level of February 2020. Over the period October 2023 to October 2024, the State added 24,400 jobs (+.9%) with the most jobs added in education and health services (17,500), government (+7,400) and professional and business services (+5,900) while Information Services experienced the biggest loss (-1200). From Q2 2023 to Q2 2024 the Bureau of Economic Analysis estimates that personal income in Maryland increased by 5.89%, down from the 6.45% from Q2 2021 to Q2 2022 but a pace substantially the same as experienced by the United States overall.

According to the Federal Reserve Bank of Richmond ("FRBR") October Survey of Business Activity, Maryland firms reported continued sluggishness in business activity, a potential indicator of a slowing economy.[6] The survey reports that the general business condition index for Maryland fell from -10 in September to -16 in October. However, the current sales index increased from -14 to -9 during that same time. These results indicate that more firms expect to contract than to expand and that more firms report decreasing sales than expanding sales, albeit fewer firms expect a decrease than in the previous month. The employment index inched down to -4 in October. Nonetheless more firms reported some improvement in their ability to find workers with the desired skills. Meanwhile, the wages index improved slightly but remained elevated.

The State of Maryland Bureau of Revenue Estimates met on September 26, 2024 and made minor changes to their revenue forecast for FY25 and FY26 which resulted in a net increase in State General Fund revenues of +.8% and +.9% in FY25 and FY26, respectively. The Bureau noted that while the Maryland economy continues to slow it does not shown signs of entering a recession. The Montgomery County revenue forecast detailed below is consistent with the State's expectations of statewide economic activity and tax revenue receipts in FY25 and FY26.

Montgomery County Economic Assumptions

With most of CY24 now complete, there is economic and revenue data for about 10 months of the calendar year and 4 months of FY25 (July 2024 - October 2024) that allows for a review of the assumptions upon which the FY25 budget was based. The economy shows positive employment and income growth and a return to a modestly positive pace of real estate activity while high and increasing home prices are expected to continue.

In the table below, several key assumptions upon which FY25 budgeted revenues were based are shown compared to the assumptions that are used for the December Fiscal Plan update. The FY25 budget was based upon mild recession economic assumptions that assumed a recession would occur in CY24. At this point in CY24, it does not appear that a recession has or will occur. In fact, due to moderation in the inflation rate and continued employment growth nationally, the Federal Reserve has already implemented 2 cuts to the Federal funds rate because they see the economy avoiding a recession. As a result, the economic assumptions for the December Fiscal Plan have been revised to assume a soft

[6] Within the survey a value of 0 means that equal numbers of firms are expanding activity as are contracting

landing has occurred and a recession is no longer expected. Despite the Federal Reserve Board's two Federal funds rate cuts in CY24, interest rates are still considered high and mortgage rates have not reduced enough to significantly loosen up the real estate market. As a result, while transfer and recordation taxes, which are dependent upon real estate activity, are forecast to improve more than forecast in the FY25 Approved Budget, the growth rate does not return to pre-FY22 levels due to the high interest rates and home prices which both negatively impact affordability.

Revised Economic Assumptions

- Changes to the economic assumptions in 2025-2030 reflect the elimination of the recession from the forecast and the anticipation of a return to historic growth trends in the economy in CY25. The assumptions are generated by Moody's Analytics for Montgomery County.
- Resident employment has been strong coming out of the pandemic and is now expected to grow at a 0.3% rate in 2024 vs. the mild recession assumption of -2.4%. The employment growth rate improves slightly to +0.5% in 2027 but remains muted for the remainder of the fiscal plan period.
- Personal income growth in 2024 is slower as compared to the expected growth assumptions in the FY25 approved budget but then grows more rapidly in 2025 at +4.3%. Personal income growth in 2026 continues at the same +4.3%, but then slows slightly to +3.8% in 2027 and thereafter.
- The sharp downturn in the housing market in 2022 that has continued in 2023 began to recover in 2024, earlier than previously anticipated. The volume of home sales is now forecast to increase +29.9% in 2024 versus a -15.1% decrease included in the Approved FY25 Budget. Home sales are forecast to return to a more moderate growth rate in 2026 and thereafter.
- Median home prices have continued to exceed forecasts due to an imbalance in supply and demand. The FY25 budget assumption had assumed the mild recession would reduce demand for housing and result in a -1.3% decrease in prices. The revised forecast assumes median sales prices continue to increase in 2024 at 5.7% and then continue to increase at a rate of approximately 3% to 4% per year.

FY25 Budget - Key Economic Assumptions

			Percentage change Year-Over-Year						
	2023 (est.)	2024 forecast	2024	2025	2026	2027	2028	2029	2030
Resident Employment (000's)	541.4	528.6	-2.4	0.1%	1.2%	0.6%	0.5%	0.5%	0.4%
December 2024	538.2	539.7	0.3%	0.3%	0.3%	0.5%	0.5%	0.4%	0.4%
Total Personal Income ($bn)	101.6	104.3	2.6%	3.0%	4.6%	4.4%	4.1%	3.6%	3.3%
December 2024	105.9	106.9	1.0%	4.3%	4.3%	3.8%	3.7%	3.5%	3.4%
Median Existing Home Sales (000's)	10.2	8.7	-15.1%	2.2%	14.6%	8.1%	5.5%	4.5%	0.4%
December 2024	8.5	11.1	29.9%	3.1%	1.9%	2.0%	1.9%	1.8%	1.4%
Median Sales Prices ($)	640,176	631,911	-1.3	0.4	2.3	2.8	3.0	3.3	3.1
December 2024	639,398	675,951	5.7	4.2	3.1	3.2	4.0	3.3	2.8
			Forecast (%)						
CPI-U Washington MSA (%)	5.1	2.9		2.2	2.3	2.3	2.2	2.2	2.3
December 2024	4.8	3.1		2.8	2.4	2.3	2.3	2.3	2.3

Risks to the Economic Assumptions

Any forecast is subject to both positive and negative risk factors. The County's budget assumptions and revenue forecast are no exception.

There are several key economic risks that could negatively impact the County in FY25 and beyond.

- A recession occurs even though economic indicators do not indicate such a recession is likely
- Employment unexpectedly declines due to events such as:
    - global economic instability emanating from the Russia/Ukraine war and food and fuel shortages
    - expansion of the Israel-Hamas war
    - hostilities in other parts of the world impacting the U.S. directly or indirectly including additional supply chain disruptions
    - the resurgence of COVID-19 or occurrence of another pandemic illness
- Slower personal income growth due to:
    - a slowdown in progression of inflation towards the Federal Reserve's 2% target
    - weak capital gains due to financial market volatility
- Assessed property values grow more slowly than forecast due to:
    - a slowdown in Federal Reserve Board cuts to the Federal funds rates keeping mortgage rates at still restrictive levels and causing reduced housing affordability and reduced home sales
    - uncertainty of commercial property assessments and appeals due to businesses downsizing as remote work has become structurally more permanent
- A financial crisis due to US Federal fiscal conditions related to the growing debt to GDP ratio
- Congressional action that adversely affects the national economy
- Executive actions by the incoming Presidential administration that impact inflation, employment and/or income such as policies that reduce immigration and exacerbate labor shortages or relocation of Federal agencies from the Washington DC region resulting in loss of jobs and income locally

There are also developments that could have a positive impact on economic activity in FY25 and result in revenues exceeding revised budget assumptions.

- Continued decreases in interest and mortgage rates that contribute to strengthening real estate activity
- Improvement in Montgomery County specific economic activities that are revenue drivers, including increased resident employment, personal income, and capital gains.
- Executive actions by the new President that positively impact inflation, employment and/or income
- Congressional action that positively impacts the national economy
- Further diminution of the COVID-19 pandemic contributing to improvement in labor force participation and broad-based wage gains.

FY25 Tax Revenues – Forecast Update

Fiscal Year 2025 revised total tax revenues are forecast to exceed the approved budget by $132.1 million (2.8%) primarily due to increases in the estimates for income tax revenues. The outyear forecast compared to the previously approved Fiscal Plan totals in FY26 through FY30 includes a small upward adjustment in FY26 followed by 3% to 4% increases in FY27-30 driven by the revised economic assumptions that no longer incorporate a mild recession.

FY25 Tax Supported Revenue - Through October 31st

	FY25 Budget	YTD FY25 Oct	YTD/Budget
Property tax	$2,285,558,724	$1,346,964,205	58.93%
Income Tax*	$2,051,146,619	$714,135,370	34.82%
Fuel/Energy Tax	$191,261,860	$45,816,398	23.95%
Transfer**	$94,722,310	$34,426,739	36.34%
Recordation**	$44,878,953	$18,067,505	40.26%
Telephone	$55,808,865	$14,140,392	25.34%
Hotel	$23,098,383	$5,742,960	24.86%

** The YTD Collected amount for the income tax is through November 30.*

** The *YTD Collected statistic is not adjusted for refunds.*

Income Tax (through November 30, 2023)

The income tax forecast for FY25 is revised upward by $124.1 million, (+6.1%) from the approved budget, consistent with total income tax receipts through November 30, 2024 being $176 million higher than estimated year-to-date ("YTD"). There is an expected timing differential included in this $176mm number reflecting the allocation of reconciling distributions between the Comptroller's November distribution and the January distribution. Until Montgomery County receives the January distribution, it is assumed that the total of the 2 distributions are approximately $66 million above the amount of reconciling distribution expected in the approved budget. The most recent information from the State Comptroller's office accompanying the November income tax distribution indicates that YTD Statewide withholdings are 8.0% above tax year 2023 and estimated tax payments are -3,7% lower. Following the 2021 and 2022's income tax return processing and reconciliation delays of pass-through-entity ("PTE") filings[7], the Maryland Comptroller's office has indicated that tax return processing has exceeded prior years' and appears to be returning to a more normal pattern. In the period August 31 to October 31, the State Comptroller processed 3% more returns than in the same period the prior year. Year to date, the Comptroller had processed 1.2% more income tax returns from Montgomery County residents than in the prior year.

Sensitivity and Outyears

Income taxes are among the most volatile of the County's tax revenues due to inherent lagged timing effects concerning when the County receives collections from the State, as well as frequent tax and policy changes, capital gains volatility, and unpredictable high income and PTE taxpayer behavior. For example, wage and salary income typically comprises around 45% to 50% of personal income, a key assumption for the County's income tax forecast. An additional 1% of growth above the expected rate in CY24 and CY25 could result in an additional 0.9% to the overall income tax forecast or approximately $19.7 million (holding all other variables constant) in FY25. Bandwidths of variability for the largest and most volatile taxes for FY25 are approximated using statistical analysis to arrive at distributions of likely values that depend on the realized values of the underlying assumptions. The income tax has a five-year

[7] The State Comptroller previously had identified complications in process tax returns due to a change in the State's tax code regarding pass-through-entity (i.e., partnerships, S-Corps) tax payments that required taxpayer education and tax form changes.

sample standard deviation[8] of approximately $171.6 million of realized income tax revenues during fiscal years of FY20-FY24.

Growth rates for the income tax in FY26 and beyond no longer assume a 2024 mild recession. The key input variables for income tax include resident employment, total personal income, wage and salary income, non-wage income, capital gains, and inflation expectations. Each of these variables has differing accelerations and decelerations based on their respective business and economic cycles.

Property Tax

The revised estimate for property tax revenues is $2.0 million above the FY25 approved budget. At this point in the year, the tax bills for FY25 were released and collections are nearly complete with second payment due by December 31. The assessable tax base as provided by the Maryland State Department of Assessments and Taxation (SDAT) that was used to forecast the FY25 budget for property taxes was on target. FY26 property taxes are forecast to exceed the June Fiscal Plan by 2.4% and continue to grow at 3-4% annual rates thereafter.

Sensitivity and Outyears

Property taxes are among the most stable of the County's tax revenues. State law provides for the reassessment of properties in a rotating three-year cycle. As a result, SDAT reassess roughly 1/3 of the properties in the County annually – so each year about 2/3 of the assessable base (not including new construction or successful assessment appeals) is not expected to materially change. The primary factor that could result in a change to property taxes is real estate values. Changes in real estate values impact property taxes on a lagged basis due to the reassessment cycle. However, successful tax appeals are incorporated into the tax base as they occur. Bandwidths of variability for the largest taxes for FY25 are approximated using statistical analysis to arrive at distributions of likely values that depend on the realized values of the underlying assumptions. The property tax has a five-year sample standard deviation of approximately $158.5 million of property tax revenues received during fiscal years FY20-FY24.

The growth rates for the property tax in FY26 and beyond are based assumptions for the input variables of median home sales price growth and assessed values that reflect the removal of the recession from the forecast. The property tax revenue increases in FY26 because of the lag effects inherent in the triennial assessment schedule and further vary in 2026-2029 due to assumptions for the housing market adjustments to supply, demand, and sales volume.

Transfer and Recordation Taxes

Both transfer and recordation taxes are directly affected by the real estate market. As of October 31, transfer taxes and transfer volume were up 1% and 9%, respectively, from the same period in FY24.

[8] The standard deviation is the measure of spread which tells us how much our data points are away from the average. A low standard deviation tells us that the points are closer to the average and a high standard deviation states that they are far. For tax revenues this number in comparison to the total amount raised by that tax indicates how much that tax revenue varies from one year to another.

FY25 transfer tax revenue is revised up by $9.8 million (+10.4%), reflecting the beginning of recovery in real estate market activity due to the soft landing of the economy and expectation of lower interest rates. There has been a significant increase in the volume of residential home sales, but non-residential activity continues to decline with a 60% decrease in revenues and a 15% decrease in volume so far in FY25 as compared to FY24.

Recordation tax receipts are similarly revised up by $4.5 million (+10.1%) reflecting the beginning of recovery in real estate market activity. While mortgage rates are expected to decline with the decrease in the Federal funds rate, rates still remain relatively high versus those available in 2020-2022 and refinancing activity has not yet recovered. Year-to-date recordation taxes for the general fund are higher by 10% and volume is higher by 17% versus FY24. Like the transfer tax, residential taxes are up 20.3% and volume is up by 9.4%. Non-residential recordation taxes are 60.8% lower and non-residential volume is down by 17.5% from FY24.

Sensitivity and Outyears

Transfer and recordation taxes are among the more volatile of the County's revenues as they reflect current real estate activity. The transfer tax and recordation taxes have a combined five-year sample standard deviation of approximately $47.6 million of transfer and recordation taxes during fiscal years FY20-FY24.

The growth rates for the transfer and recordation taxes in FY26 and beyond are based upon the revised assumptions that do not assume a recession for the input variables of median property sales price growth and assessed values. After the revised revenue increase for FY25, they grow at 10.1% for FY26 and 9.1% in FY27 before reverting to slower growth through FY29.

Other Selected Taxes

Other selected tax revenues received in the first 4 months of FY25 are slightly below target and are revised downward by $8.3 million (-2.9%) from the approved FY25 budget. Fuel/energy taxes are forecast to decline -4.5%. Hotel taxes are revised down by $2.2 million (-9.4%) due to reversion to a more normal growth pattern following the dramatic swings that occurred during the COVID-19 pandemic.

Fuel/energy tax growth rates consistently follow the seasonal usage trends for natural gas and electricity for both residential and commercial properties. Tax revenues are lower in outyears for the forecast period as a result of the impact of hybrid work on the commercial/residential composition of fuel/energy tax revenues. The persistence of hybrid work which has resulted in a lower commercial proportion of fuel/energy tax revenues than pre-COVID-19, which is expected to continue.

The hotel tax forecast assumes rates improve but fail to attain pre-Covid levels for occupancy, room supply, demand, and room rates in FY25 and are informed by research and analysis from Marriott[9], CB Richard Ellis[10], and Visit Montgomery.[11]

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[9] https://marriott.gcs-web.com/news-releases/news-release-details/marriott-international-reports-third-quarter-2024-results
[10] https://newslink.mba.org/mba-newslinks/2024/november/mba-newslink-thursday-nov-21-2024/cbre-hotel-growth-forecast-to-improve-in-late-2024-early-2025/
[11] https://visitmontgomery.com/resources/

Telephone tax growth rates in FY25 are primarily affected by the growth rate for wireless lines. Year-to-date revenues are 3.1% above FY24. FY25 revenues are revised up by $2.4 million and are relatively stable thereafter.

Appendix 1: Revenue Forecast, FY25 December Fiscal Plan

	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
TOTAL TAX REVENUES (excluding excise taxes)	**Final Estimate**	**Forecast**						
FY25 Approved Budget (S2 mild recession)	$4,378.637	$4,476.307	$4,655.046	$4,822.788	$4,972.467	$5,112.584	$5,296.641	
FY25 December Fiscal Plan (Baseline)	**$4,378.637**	**$4,616.758**	**$4,796.878**	**$5,015.093**	**$5,198.342**	**$5,377.025**	**$5,554.545**	**$5,727.641**
FY25 Dec Plan $ difference from FY25 Approved		**$140.451**	**$141.832**	**$192.305**	**$225.875**	**$264.442**	**$257.904**	
FY25 Dec Plan year-over-year percent change		**5.44%**	**3.90%**	**4.55%**	**3.65%**	**3.44%**	**3.30%**	**3.12%**
FY25 Dec Plan % change from FY25 Approved		3.14%	3.05%	3.99%	4.54%	5.17%	4.87%	
	FY24	**FY25**	**FY26**	**FY27**	**FY28**	**FY29**	**FY30**	**FY31**
INCOME TAX								
FY25 Approved Budget (S2 mild recession)	$2,023.561	$2,051.147	$2,137.044	$2,226.097	$2,314.274	$2,406.572	$2,496.668	
FY25 December Fiscal Plan (Baseline)	**$2,023.561**	**$2,175.294**	**$2,203.736**	**$2,290.682**	**$2,361.269**	**$2,436.674**	**$2,513.621**	**$2,592.122**
FY25 Dec Plan $ difference from FY25 Approved		**$124.147**	**$66.692**	**$64.585**	**$46.996**	**$30.101**	**$16.953**	
FY25 Dec Plan year-over-year percent change		**7.50%**	**1.31%**	**3.95%**	**3.08%**	**3.19%**	**3.16%**	**3.12%**
FY25 Dec Plan % change from FY25 Approved		6.05%	3.12%	2.90%	2.03%	1.25%	0.68%	
PROPERTY TAX								
FY25 Approved Budget (S2 mild recession)	$2,213.648	$2,285.559	$2,367.105	$2,429.394	$2,479.740	$2,516.118	$2,601.411	
FY25 December Fiscal Plan (Baseline)	**$2,213.648**	**$2,287.517**	**$2,423.577**	**$2,539.464**	**$2,643.344**	**$2,738.247**	**$2,831.388**	**$2,921.392**
FY25 Dec Plan $ difference from FY25 Approved		**$1.958**	**$56.472**	**$110.069**	**$163.604**	**$222.129**	**$229.977**	
FY25 Dec Plan year-over-year percent change		**3.34%**	**5.95%**	**4.78%**	**4.09%**	**3.59%**	**3.40%**	**3.18%**
FY25 Dec Plan % change from FY25 Approved		0.09%	2.39%	4.53%	6.60%	8.83%	8.84%	
TRANSFER TAX								
FY25 Approved Budget (S2 mild recession)	$96.468	$94.722	$102.387	$113.514	$121.084	$128.847	$134.728	
FY25 December Fiscal Plan (Baseline)	**$96.468**	**$104.537**	**$115.143**	**$125.588**	**$131.551**	**$137.239**	**$142.284**	**$145.402**
FY25 Dec Plan $ difference from FY25 Approved		**$9.815**	**$12.756**	**$12.074**	**$10.466**	**$8.392**	**$7.556**	
FY25 Dec Plan year-over-year percent change		**8.36%**	**10.14%**	**9.07%**	**4.75%**	**4.32%**	**3.68%**	**2.19%**
FY25 Dec Plan % change from FY25 Approved		10.36%	12.46%	10.64%	8.64%	6.51%	5.61%	
RECORDATION TAX								
FY25 Approved Budget (S2 mild recession)	$44.959	$44.879	$48.510	$53.782	$57.369	$61.047	$63.833	
FY25 December Fiscal Plan (Baseline)	**$44.959**	**$49.410**	**$54.422**	**$59.359**	**$62.178**	**$64.866**	**$67.251**	**$68.725**
FY25 Dec Plan $ difference from FY25 Approved		**$4.531**	**$5.912**	**$5.577**	**$4.809**	**$3.819**	**$3.418**	
FY25 Dec Plan year-over-year percent change		**9.90%**	**10.14%**	**9.07%**	**4.75%**	**4.32%**	**3.68%**	**2.19%**
FY25 Dec Plan % change from FY25 Approved		10.10%	12.19%	10.37%	8.38%	6.26%	5.35%	
Total Revenues including Excise Taxes	**FY24**	**FY25**	**FY26**	**FY27**	**FY28**	**FY29**	**FY30**	**FY31**
FY25 Approved Budget (S2 mild recession)	$4,654.381	$4,764.426	$4,945.803	$5,115.077	$5,266.293	$5,407.979	$5,593.655	
FY25 December Fiscal Plan (Baseline)	**$4,654.381**	**$4,896.553**	**$5,073.515**	**$5,293.528**	**$5,478.924**	**$5,660.613**	**$5,842.046**	**$6,019.080**
FY25 Dec Plan $ difference from FY25 Approved		**$132.127**	**$127.712**	**$178.451**	**$212.631**	**$252.635**	**$248.390**	
FY25 Dec Plan year-over-year percent change		**5.20%**	**3.61%**	**4.34%**	**3.50%**	**3.32%**	**3.21%**	**3.03%**
FY25 Dec Plan % change from FY25 Approved		2.77%	2.58%	3.49%	4.04%	4.67%	4.44%	

*Excise taxes include Admissions Tax, Fuel/Energy Tax, Telephone Tax, Hotel/Motel Tax, Highway User Fund, and the E-Cigarettes Tax

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.