

Marc Elrich
County Executive




Michael J. Coveyou
Director

DEPARTMENT OF FINANCE

MEMORANDUM

September 15, 2025

TO: Marc Elrich, County Executive

FROM: Michael Coveyou, Director
Department of Finance 

SUBJECT: Revenue Estimating Group Report for September 15, 2025

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, 2025 and current local economic conditions. 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
Chris Cihlar, Director of the Office of Legislative Oversight
Gene Smith, Deputy Director for Budget and Policy, Office of the County Council

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
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, September 15, 2025

Summary

- Preliminary revenue totals for FY25 indicate that tax receipts will exceed the FY26 recommended budget/FY25 preliminary budget by almost \$73.5 million (+1.5%), with the majority of this excess resulting from higher-than-expected income tax distributions in the spring of 2025.
- Since the release of the May 2025 REG report national data indicate a rising risk of an economic slowdown in the national economy; However, at this time, there are not consistent and reliable indicators that Montgomery County should prepare for less revenue than anticipated in the FY26 approved budget.

FY25 Economic Backdrop and Preliminary Results

In Fiscal Year 2025 ("FY25"), Montgomery County experienced revenue growth that exceeded both the approved FY25 budget and the revenue estimates from March 2025 ("FY26 recommended budget/FY25 preliminary estimate"). The primary driver of this outperformance compared to the approved FY25 budget was a stronger-than-anticipated economy and greater income tax receipts, while still higher-than-expected income tax distributions in the spring of 2025 resulted in revenues exceeding the FY25 preliminary estimate.

The FY25 approved budget, adopted in June 2024, reflected the economic outlook at that time, which included a heightened risk of a mild recession occurring during the remainder of Calendar Year 2024 (CY24) or in CY25. However, as national economic conditions improved throughout the fall and winter of CY24 and into CY25, the outlook shifted: The FY25 fiscal plan released in December 2024 shifted to an assumption of stable economic growth associated with higher revenues, an assumption maintained in the FY26 recommended budget from March of 2025.

Despite the initial recession concerns, the FY25 approved budget anticipated continued growth in property tax revenues, driven by the phase-in of reassessments and rising assessed property values. These increases were expected due to the triennial reassessment cycle and sustained home value appreciation, even amid lower home sales volume.

The FY25 approved budget assumed that an economic slowdown would suppress home sales and, consequently, transfer and recordation tax revenues. However, with no recession materializing and the Federal Reserve modestly reducing interest rates, home sales accelerated in the second half of CY24. In response, the Department of Finance raised its FY25 transfer and recordation tax revenue estimates in the December 2024 fiscal plan. With growing concerns about tariff-induced interest rate rises in

February and March 2025 the Finance Department revised back downward the FY26 recommended budget/FY25 preliminary estimate of transfer and recordation tax revenues. Ultimately, a strong spring housing market led to FY25 transfer and recordation tax revenues exceeding all prior projections (see table 1).

Additionally, a series of colder months after the development of the revenue forecast resulted in greater energy use than anticipated, leading to a energy taxes exceeding the FY26 recommended budget/FY25 by 5.6% see table 1).

Table 1: FY25 All Tax Supported Funds

TAXES	FY25 Preliminary			\$ Δ FY25 Prelim	
	Budget FY25 (a)	Estimate FY25 (a) (Mar 2025)	Final (b) (Aug 2025)	Final to estimate	% Δ FY25 Prelim Final to estimate
Property Tax (less Parking District)	\$2,285,558,724	\$2,289,730,667	\$2,300,154,228	\$10,423,561	0.5%
Income Tax	\$2,051,146,619	\$2,170,138,166	\$2,214,130,109	\$43,991,943	2.0%
Transfer Tax	\$94,722,310	\$99,675,771	\$106,097,868	\$6,422,097	6.4%
Recordation Tax	\$44,878,953	\$47,111,952	\$50,842,920	\$3,730,968	7.9%
Energy Tax	\$191,261,860	\$177,068,109	\$187,054,000	\$9,985,891	5.6%
Telephone Tax	\$55,808,865	\$56,755,557	\$56,450,450	-\$305,107	-0.5%
Hotel/Motel	\$23,098,383	\$22,115,252	\$22,063,109	-\$52,143	-0.2%
Admissions Tax	\$4,400,144	\$3,500,000	\$2,666,580	-\$833,420	-23.8%
E-Cigarette	\$824,999	\$630,000	\$699,758	\$69,758	11.1%
TOTAL	\$4,751,700,856	\$4,866,725,474	\$4,940,159,022	\$ 73,433,548	1.5%

Notes:

(a) Source: Schedule C-3, FY26 Approved Budget: OMB

(b) Sources: Selected Operations Summary Report, June 2025: Treasury Division, and
Income Tax: Fiscal Management Division

FY26 Economic Outlook

The FY26 approved budget revenue estimate assumes that Montgomery County will experience stable macro-economic conditions with no recession occurring in CY25 or CY26; this assumption is at risk due to the federal government's efforts to reduce the size of federal employment, rebalance global trade through higher tariffs, and control immigration. Since the release of the May 2025 REG report several indicators have emerged that suggest a potential slowdown in the national economy:

- Labor market weakness:
 - Job growth slowed in July and the Bureau of Labor Statistics revised May and June figures sharply downward;¹
 - The unemployment rate rose from 4.1% in June to 4.2% in July, but more concerning is the decline in labor force participation to its lowest level since 2022;

¹ https://www.bls.gov/news.release/archives/empisit_08012025.pdf

- Stagnant consumer spending amid shaken confidence:
 - Disposable personal income growth declined markedly from April to May and June;²
 - While consumer confidence partially rebounded from its nadir following the April tariff announcements, consumers remain concerned about future inflation and employment conditions worsening;³
- Widespread large tariff increases taking effect in August and early indicators of a jump in producer costs could lead to a future rise in inflation:
 - Despite the 2.7% year-over-year increase in July in the headline consumer price index (the most prominent measure of inflation) being largely within expectation, the Producer Price Index grew by 0.9% month-over-month, a much larger increase than expected;
- Rising concern among the Board of Governors of the Federal Reserve with the minutes from their August meeting reflecting worries about rising risks to employment, and uncertainty about tariffs. While the Board of Governors has held the federal funds rate stable since December, 2024 due to perceived economic uncertainty, recent comments by prominent members of the Board suggest a rate cut in September due to weakness in the labor market.

Following the disappointing July jobs report and the accompanying downward revisions to the number of jobs in May and June from the Bureau of Labor Statistics in particular, a number of economic commentators the REG group follows increased their predicted odds of a national downturn. However, as was the case detailed in the May 2025 REG report, there is still no clear evidence of deterioration in local economic conditions.

County level data from the BLS and Bureau of Economic Analysis for county level data typically lags by several months or quarters. Thus, any shifts in Montgomery County's economic conditions in July and August will not be reflected in data sources relied upon by the REG until after publication of this report.

Despite national economic concerns, actual CY25 2nd quarter local income tax distributions to Montgomery County from the State of Maryland were consistent with the FY26 approved budget forecast. The County received \$440.5 million across the June, July, and August distributions—1.2% above the forecasted \$435.3 million—supporting the continued assumption of stable local economic conditions.

At this time, there are not consistent and reliable indicators that Montgomery County should prepare for less revenue than anticipated in the FY26 approved budget. The REG will continue to monitor economic conditions and tax collections with particular attention to:

- The September meeting of the State of Maryland Board of Revenue Estimates providing updated FY26 State revenues collections and economic outlook;
- Monthly Montgomery County Selected Operations Summaries from the Division of Treasury, detailing actual collections of transfer, recordation, and excise taxes;
- The Q3 income tax distribution from the State of Maryland, scheduled for late November.

² <https://www.bea.gov/news/2025/personal-income-and-outlays-june-2025>

³ <https://www.sca.isr.umich.edu/>

Appendix – Glossary of Budget Estimates Terms

FY25 recommended budget: The forecast of tax revenues included in the recommended budget for FY25 transmitted from the Chief Executive to the Council on March 15, 2024. The estimate of tax revenues reflects the conditions and knowledge as of March 2024.

FY25 approved budget: The budget revenue forecast included in the budget approved by the County Council in May of 2024 which is not changed from the recommended budget forecast on March 15, except to reflect enacted changes in tax rates or new laws.

FY25 December fiscal plan update: The revenue forecast that is included in the Fiscal Plan update in December of 2024. This revenue forecast may differ from the approved budget depending upon conditions at this time.

FY26 recommended budget/FY25 preliminary estimate: The estimated revenues for FY25 that are included in the FY26 Recommended Budget transmitted to Council on March 15, 2025. The revenue estimate may differ from the Fiscal Plan update produced in December 2024 as a result of changed conditions.

FY25 preliminary final estimate: The estimate of realized tax revenues for FY25 that is produced in August of 2025 after the fiscal year ends. This estimate is not yet audited and may change before the Annual Comprehensive Financial Report (ACFR) is published.

FY25 final audited revenues: The final accounting of FY25 revenues that will be published in the ACFR in December 2025.