

**THE TWENTY-FIRST ANNUAL  
BUSINESS ADVISORY PANEL  
FEBRUARY 18, 2020**

Pursuant to Article XI, Section 20-61, of the Montgomery County Code, the Department of Finance (Finance) convened a meeting of the Business Advisory Panel (BAP) on February 18, 2020. The County Council of Montgomery County established the BAP in 1999 to seek the advice of industry experts in key sectors of the County's business community concerning the current and future state of the County's economy and the impact on revenues. The law requires that the Director of Finance convene the panel annually. The following report includes the material provided to the BAP panel. As a result of the national State of Emergency declared by the President on March 13, 2020 due to the COVID-19 pandemic and the effective shutdown of the economy, this 2020 report does not contain a summary of the discussion and advice.

The BAP members representing various sectors of Montgomery County's economy were joined by County Executive Marc Elrich.

**Business Advisory Panel  
February 24, 2022**

Honorable Marc Elrich  
Montgomery County Executive

Honorable Sydney Katz  
President  
Montgomery County Council

**PANELISTS**

Ahmed Ali  
CEO/Founder  
TISTA Technologies

Mr. Brian Barkley  
Barkley & Kennedy  
Public Policy Committee  
Rockville Chamber of Commerce

Mr. Paul Chod  
President  
Minkoff Development Corporation

Mr. Paul DesJardin, Director  
Community Planning and Services  
Metropolitan Washington Council of Governments

Ms. Georgette Godwin  
President and Chief Executive Officer  
Montgomery County Chamber of Commerce

Ms. Kelly Groff  
President and Chief Executive Officer  
Visit Montgomery

Mr. Edward Harrington  
Regional President MD/DC  
John Marshall Bank  
Chair, Rockville Chamber of Commerce

Mr. Ed Krauze  
Chief Executive Officer  
Greater Capital Area Association of Realtors

Mr. Andrew Schaufele, Director  
Bureau of Revenue Estimates  
Comptroller of Maryland

Mr. Benjamin Wu  
Chief Executive Officer  
Montgomery County Economic Development Corporation

## **COUNTY STAFF**

Mr. Andrew Kleine  
Chief Administrative Officer  
Office of the County Executive

Mr. Michael Coveyou  
Acting Director  
Montgomery County Department of Finance

Ms. Laurie Boyer, CEcD  
Manager, Economic Development  
Division of Fiscal Management  
Montgomery County Department of Finance

Ms. Mary Casciotti  
Fiscal and Policy Analyst  
Division of Fiscal Management  
Montgomery County Department of Finance

Mr. Jerome Fletcher  
Assistant Chief Administrative Officer  
Office of the County Executive

Mr. Richard Madaleno  
Director  
Office of Management and Budget

Ms. Marlene Michaelson  
Executive Director  
Montgomery County Council Staff

Mr. Dale Tibbitts  
Special Assistant  
Office of the County Executive

Mr. David Platt  
Chief Economist  
Division of Fiscal Management  
Montgomery County Department of Finance

Mr. Gene Smith  
Legislative Analyst  
Montgomery County Council

**MONTGOMERY COUNTY**

**21<sup>ST</sup> ANNUAL**

**BUSINESS ADVISORY PANEL**



**FEBRUARY 18, 2020**

## **MEETING**

**WHERE:** COUNTY EXECUTIVE'S CONFERENCE ROOM  
EXECUTIVE OFFICE BUILDING  
2<sup>nd</sup> FLOOR  
101 MONROE STREET  
ROCKVILLE, MARYLAND 20850  
(240) 777-8877

**WHEN:** TUESDAY, FEBRUARY 18, 2020

## **AGENDA**

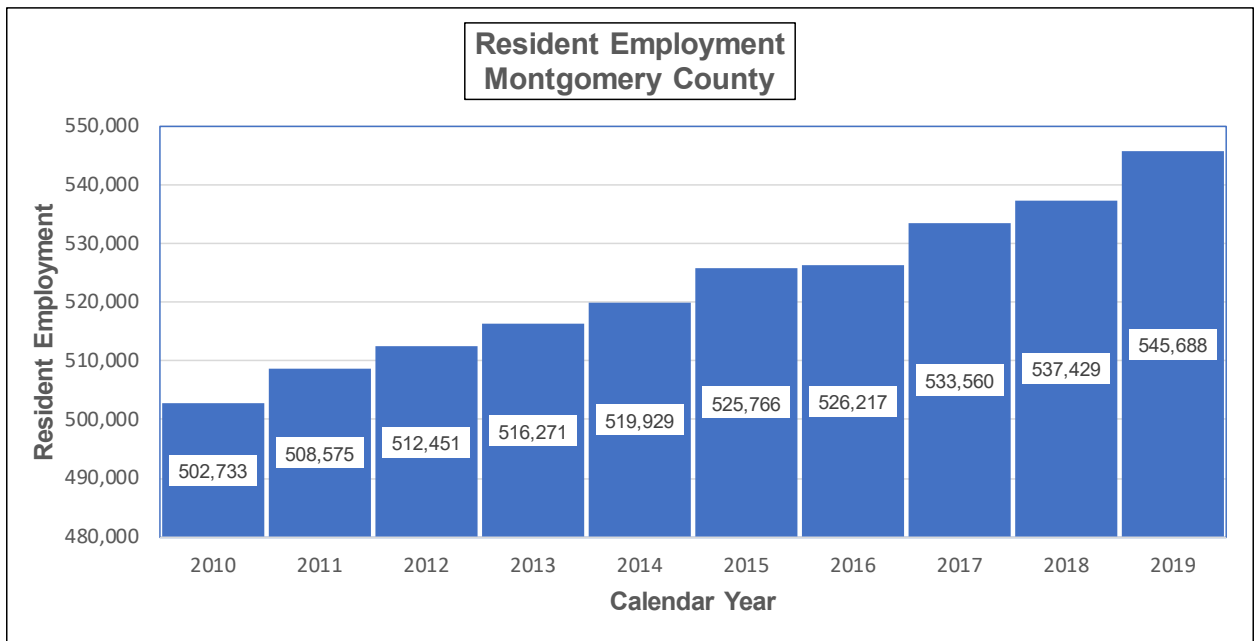
10:00 A.M.	Introduction, Michael Coveyou, Acting Director, Montgomery Department of Finance
10:05 A.M.	Opening Remarks by Marc Elrich, County Executive
10:20 A.M.	Presentation of Department of Finance economic assumptions
10:30 A.M.	Presentation by Andrew Schaufele, Director, Bureau of Revenue Estimates, Comptroller of Maryland
11:00 A.M.	Roundtable discussion by participants
12:30 A.M.	Adjournment

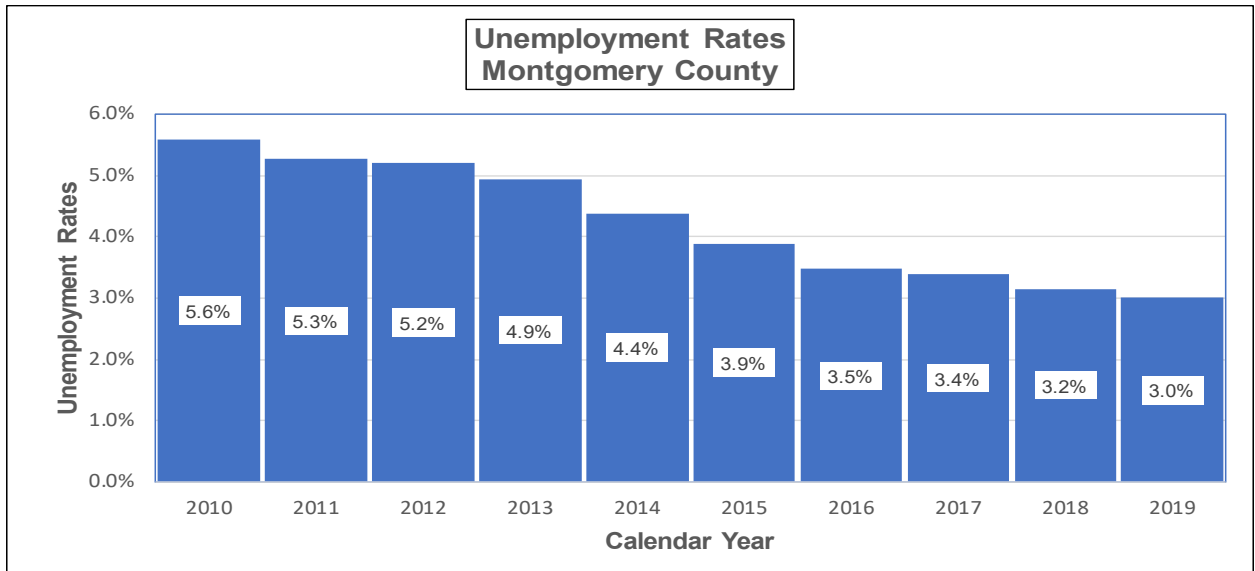
## ECONOMIC CONDITIONS AND OUTLOOK

Montgomery County's economy experienced positive economic performance during 2019. The areas of strength included an increase in resident employment, a low unemployment rate, an increase in the sales of existing homes and in the median sales price for an existing home, an increase in the construction of residential housing, an increase in the added values of new construction for residential and non-residential properties, and a modest increase in retail sales through October.

### *Employment Situation*

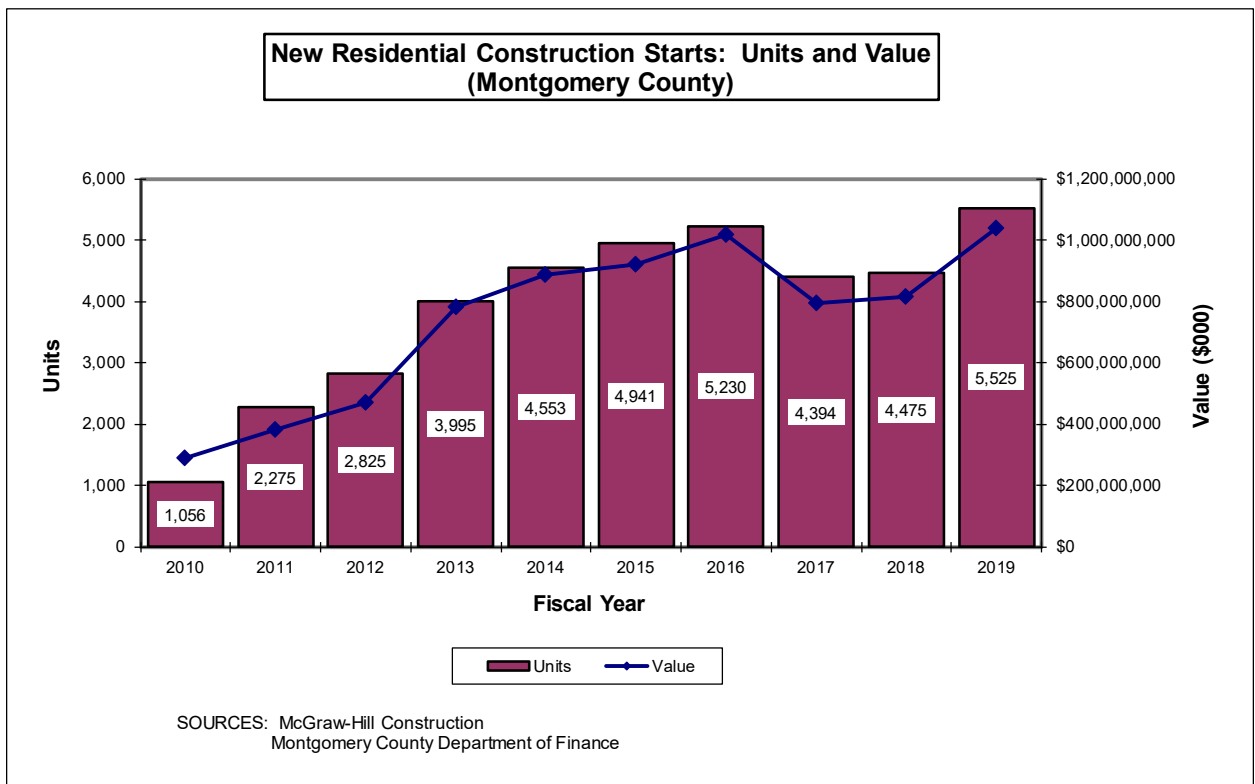
Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics, U.S. Department of Labor, resident employment (labor force series and not seasonally adjusted) in 2019 increased by nearly 8,300 from 2018 (↑1.5%). The County's unemployment rate at 3.0 percent remained at its lowest level the past ten years.





### *Construction Activity*

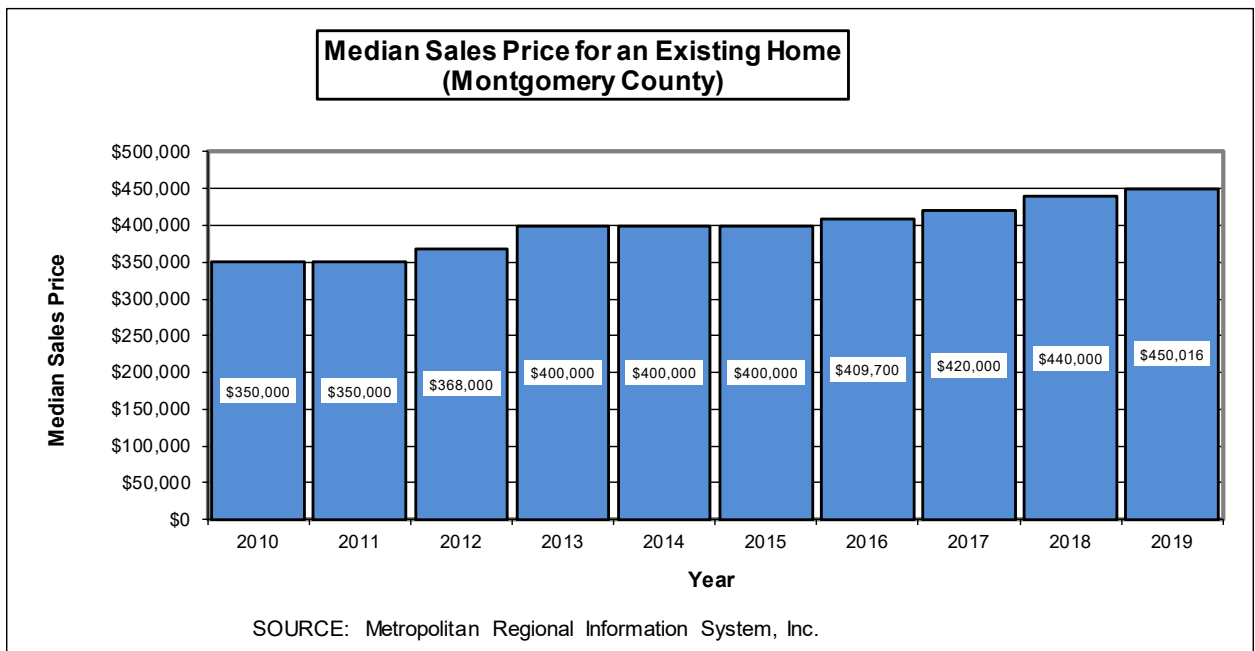
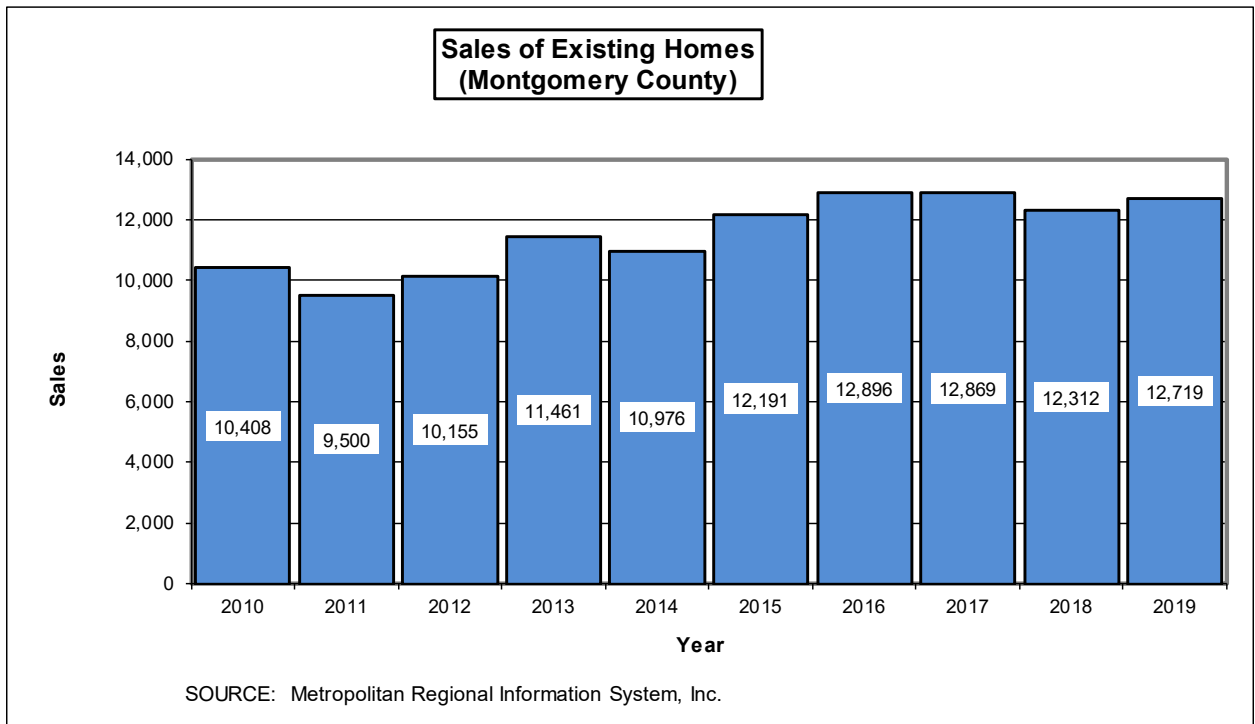
The construction of new residential units increased nearly 24.0 percent in FY19, and total value added increased from \$816.7 million in 2018 to \$1,039.8 million in 2019 (↑27.3%). The total value added from non-residential projects increased from \$1,137.9 million in FY18 to \$1,523.1 million (↑33.9%) in FY19.





## Residential Real Estate

During calendar year 2019, existing home sales increased 3.3 percent which followed a decrease of 4.3 percent in 2018. The median sales price for existing homes increased 2.3 percent in 2019 following an increase of 4.8 percent in 2018.



## Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, retail sales, including assessment collections, increased 0.9 percent through October (the latest date available) compared to the same period in 2018. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, decreased 1.2 percent during this period but sales of durable goods were up 2.8 percent. The decrease in nondurable goods purchases was largely attributed to the decrease in general merchandise (↓7.3%), while the increase in purchases of durable goods was largely attributed to an increase in automobile sales and products (↑4.1%) and building and industrial supplies (↑3.9%).

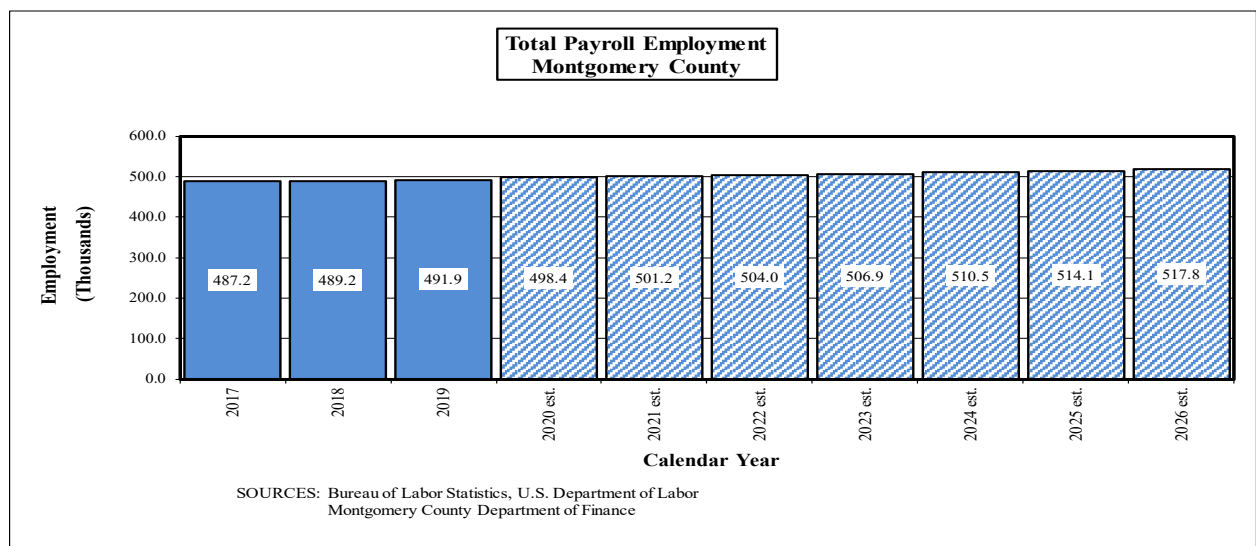
## CONCLUSION

The major economic indicators confirm that the County's economy experienced positive performance during 2019. That performance included an increase in residential employment, a low unemployment rate, an increase in home sales and the median sales price for an existing home, and increases in added value of new residential and non-residential construction.

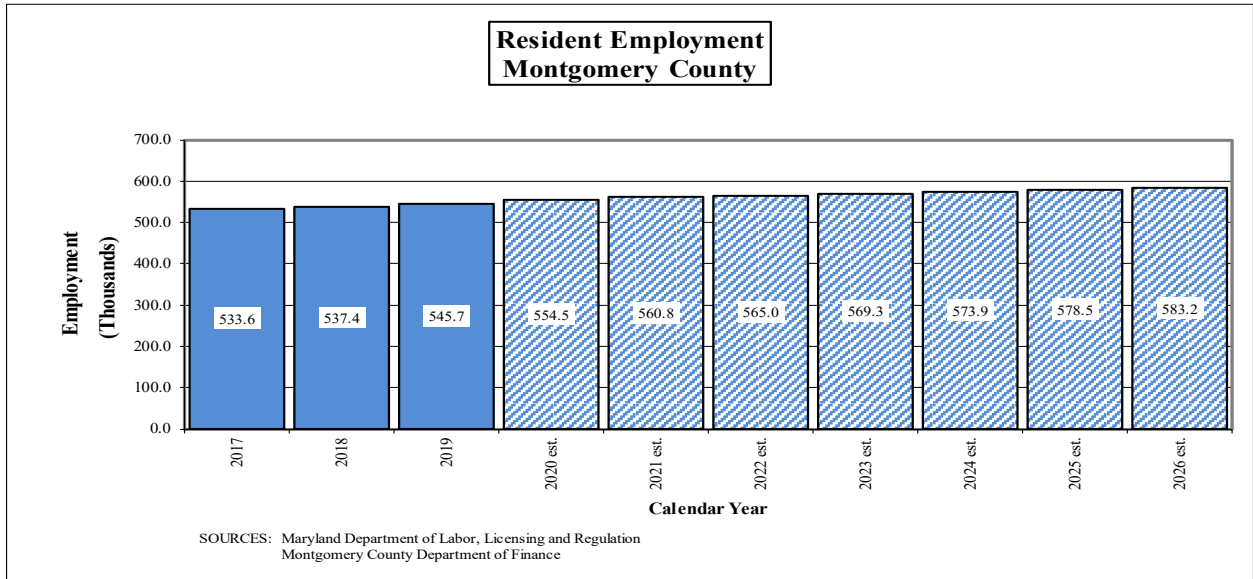
## ECONOMIC OUTLOOK

The Department of Finance (Finance) forecasts that the Montgomery County's economy will continue to improve through the next six years.

**Employment.** Finance assumes payroll employment will continue to increase from CY2019 to CY2026 and grow at an average annual rate of 0.7 percent over that period. This is the same average annual rate growth rate of 0.7 percent experienced between CY2012 and CY2019.



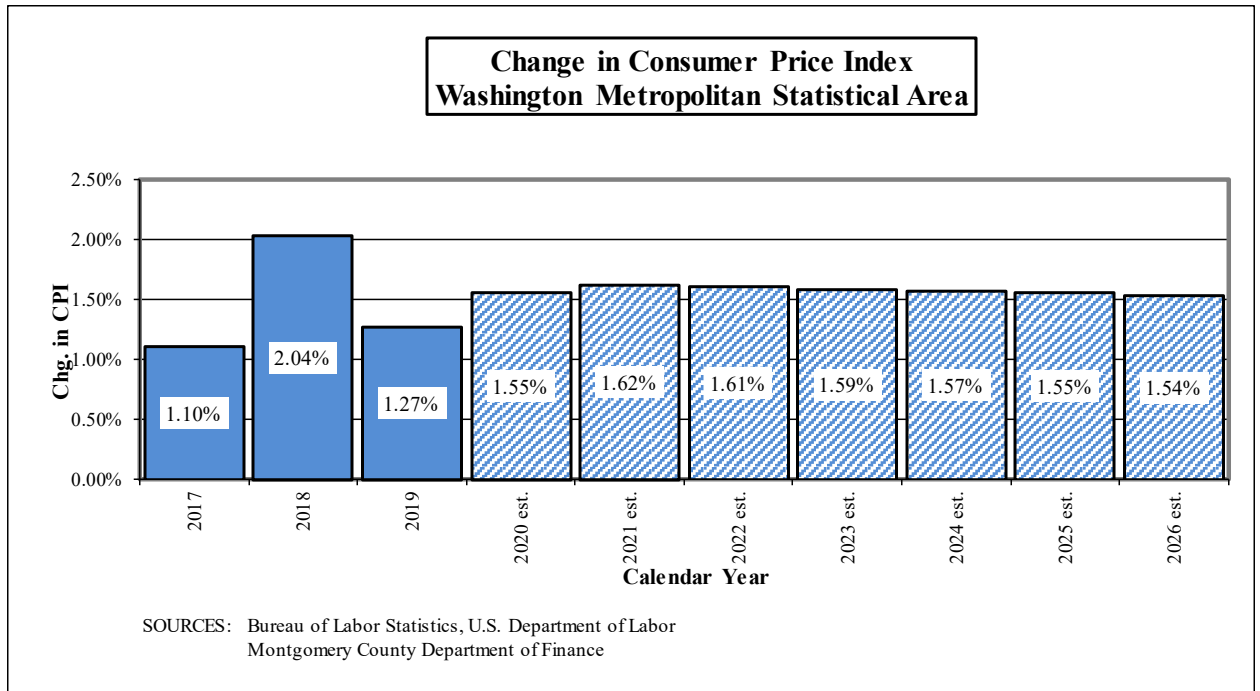
Finance assumes that resident employment will also increase at an average annual rate of 1.0 percent from CY2019 to CY2026. That rate is slightly above the average annual rate of 0.9 percent between CY2012 and CY2019.



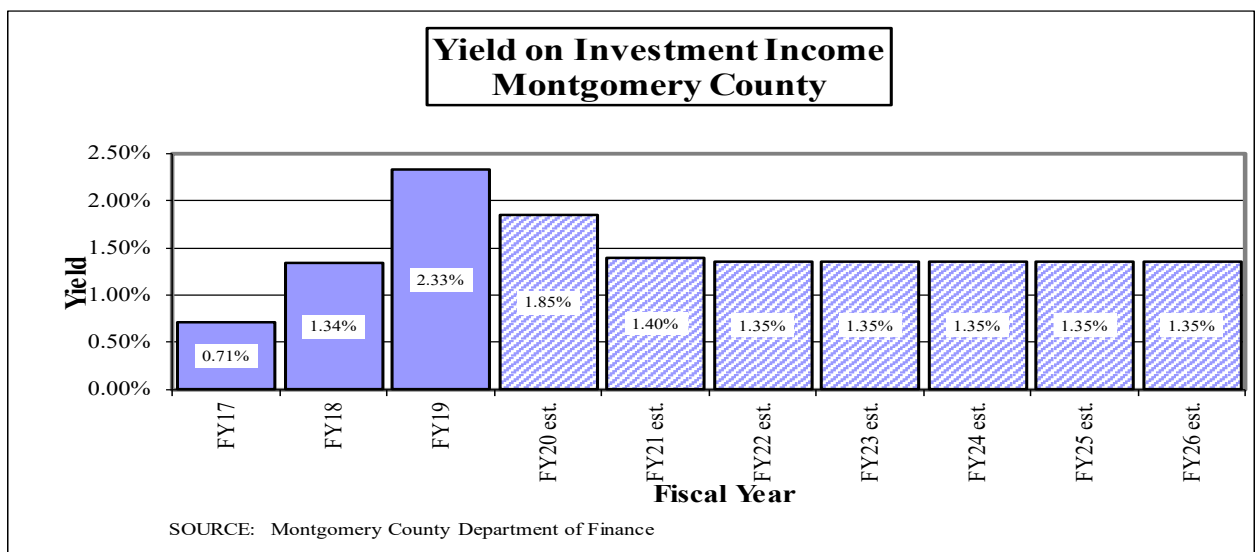
Finance assumes wage and salary income to grow at an average annual rate of 4.0 percent between CY2018, the latest date for which actual data are available from the Bureau of Economic Analysis, U.S. Department of Commerce, and CY2026. Total wage and salary income are estimated to reach \$54.6 billion by CY2026.

**Personal Income.** Finance assumes that total personal income in Montgomery County will grow at an average annual rate of 4.2 percent from CY2018 to CY2026. By CY2026, total personal income will reach \$131.2 billion

**Inflation (annual average).** Finance assumes that the overall regional inflation index will increase from 1.27 percent in CY2019 to 1.55 percent in CY2020 and to 1.62 percent in CY2021, and gradually decline after that.



**Interest Rates.** The target rate for federal funds were increased by the Federal Open Market Committee (FOMC) four times in 2018 by 25 basis points each to 2.25-2.50 percent by December 2018 but cut three times in 2019 to reach 1.50-1.75 percent by December 2019. Since the yield on the County's short-term investments are highly correlated with the federal funds rate, the County earned an average of 2.33 percent in investment income on its short-term portfolio for fiscal year 2019 (FY19) but will earn an estimated average of 1.85 percent in FY20 due to the rate cuts in 2019 by the FOMC.



## **DISCUSSION FRAMEWORK**

The economic assumptions provide a framework for the Department of Finance's revenue projections for FY21 through FY26. The following issues create the framework for the discussion that is the focus of the Business Advisory Panel. In order to gain a better understanding of the direction of the major industrial sectors in our county and region, it would be helpful if the participants of the Business Advisory Panel comment on our assumptions and discuss the major economic trends in the next six years that affect their industry sector. The following list of items, if applicable to your sector, may be used to focus your discussion:

### **Risk to the Forecasts (Assumptions)**

- Recession Risk
- Impact of federal government shutdown – both short term and long term
- Future federal and state government fiscal policies in response to Tax Cuts and Jobs Act
- Employment, both government and private
- Future interest rate policy by the FOMC
- Inflation outlook
- Domestic stock market volatility and its impact on capital gains and non-wage income
- Regional competition for businesses and high-skilled workers

### **Income**

- Tax Cuts and Jobs Act (H.R. 1)
- Capital gains
- Estimated payments
- Tax Policy Changes: Federal and State

### **Real Estate**

- Residential construction
- Commercial construction
- Prices/rents
- Vacancy rates
- Loan conditions – residential and commercial sectors and refinancing

# **MONTGOMERY COUNTY BUSINESS ADVISORY PANEL**

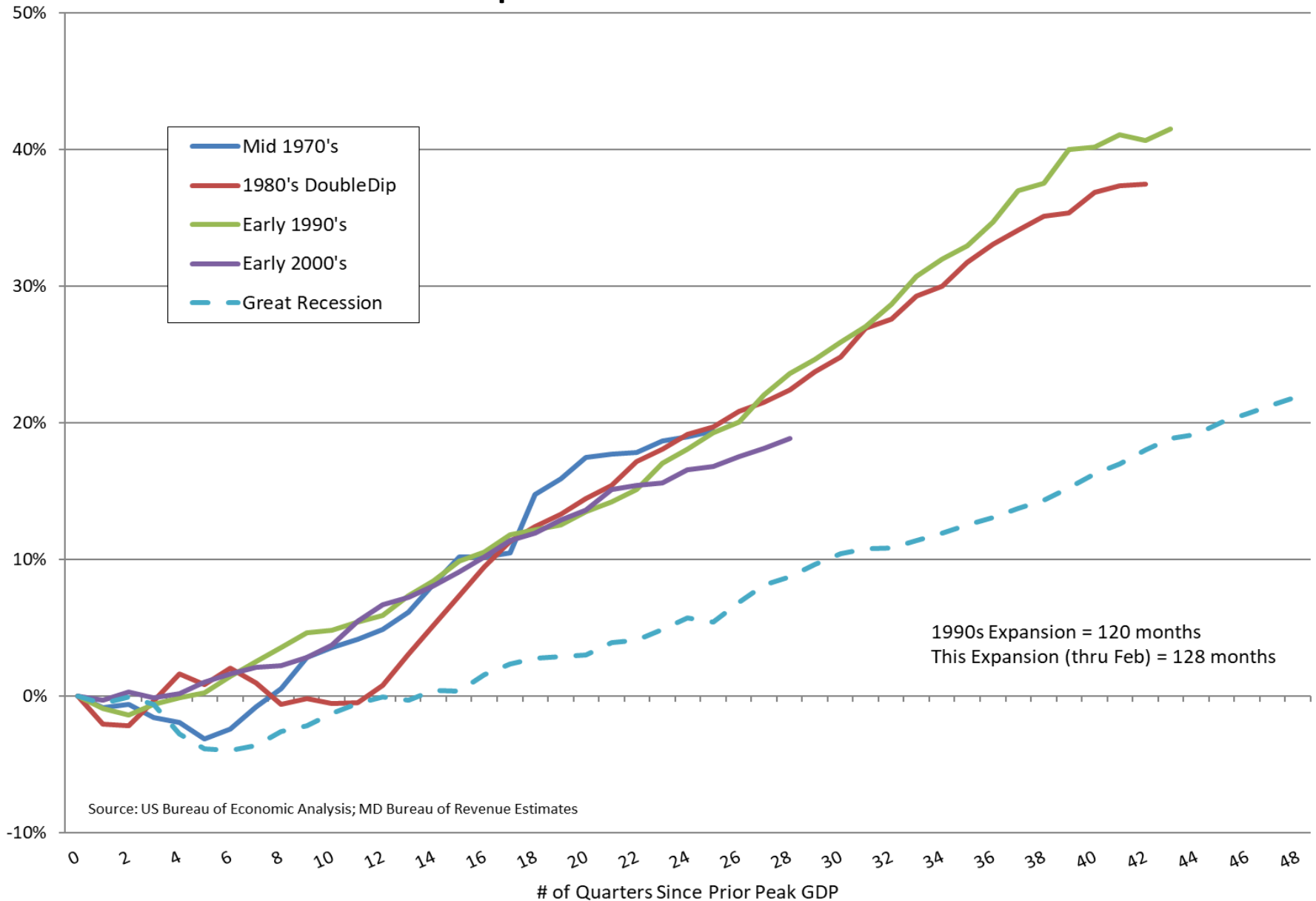
*FEBRUARY 2020*

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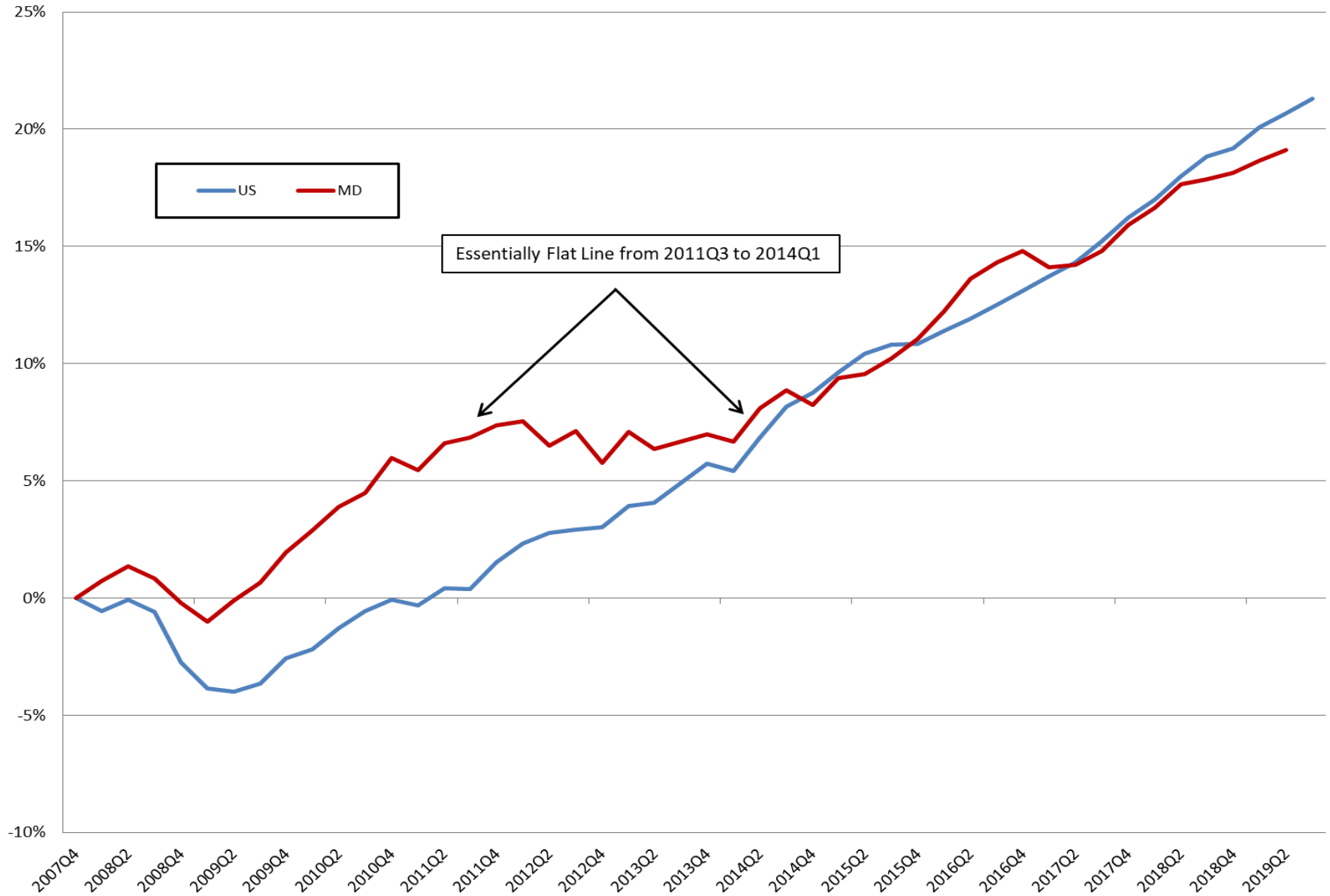
Office of the Comptroller  
State of Maryland

Andrew Schaufele: Director, Bureau of Revenue Estimates

## Historical Expansions -- % of Previous Peak GDP

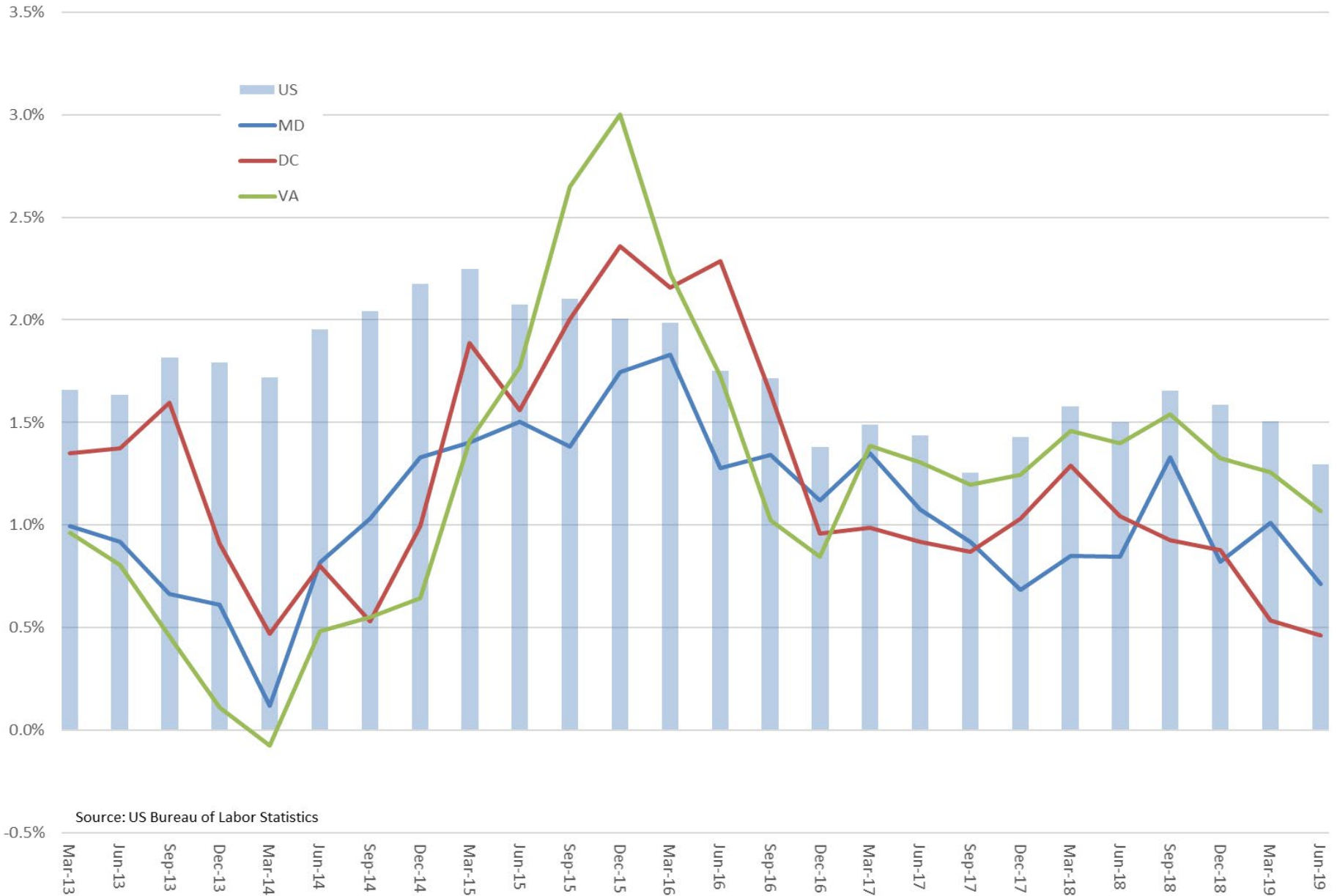


## Real GDP Growth, Indexed to 4th Qtr 2007



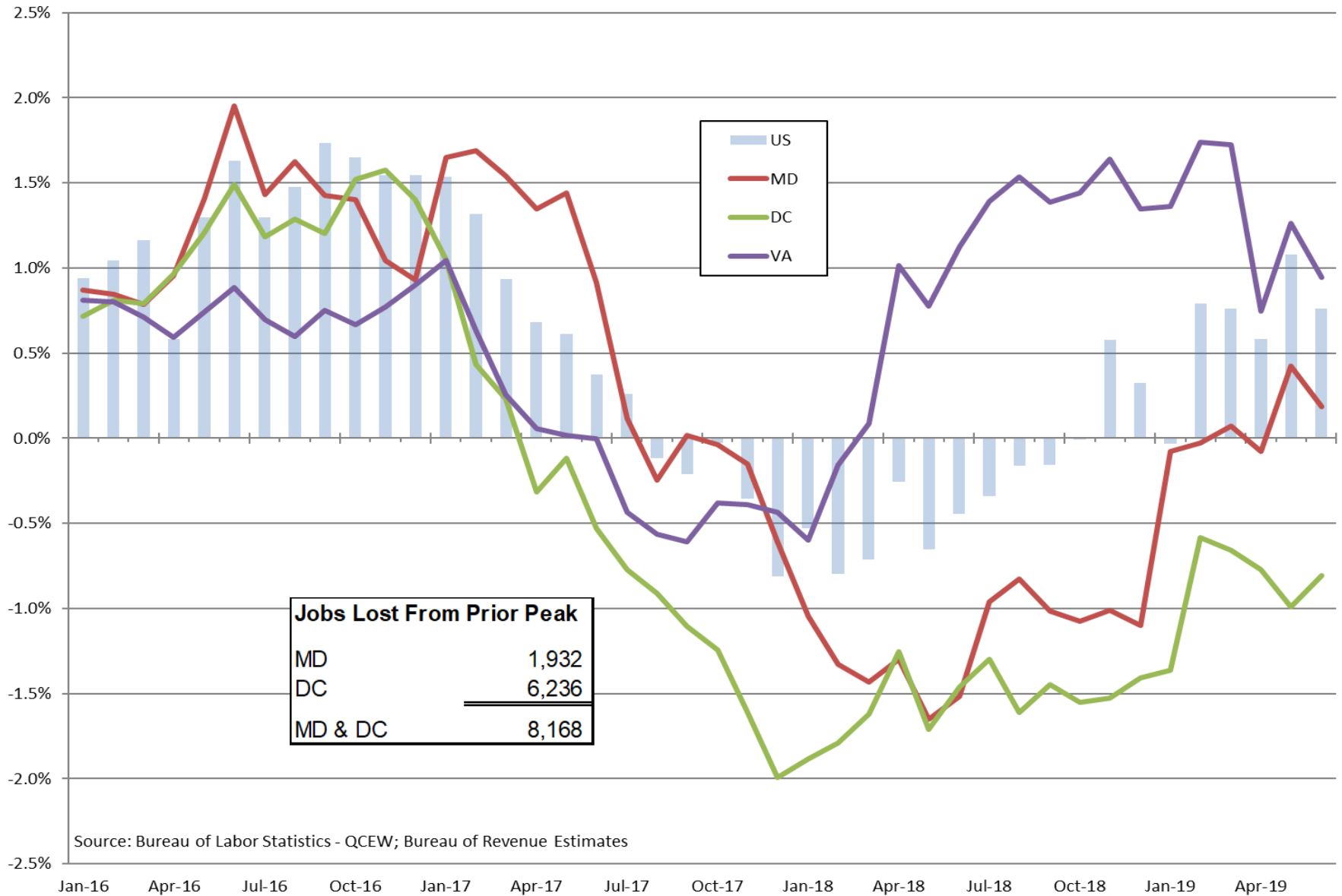


## QCEW Employment Y-o-Y Growth

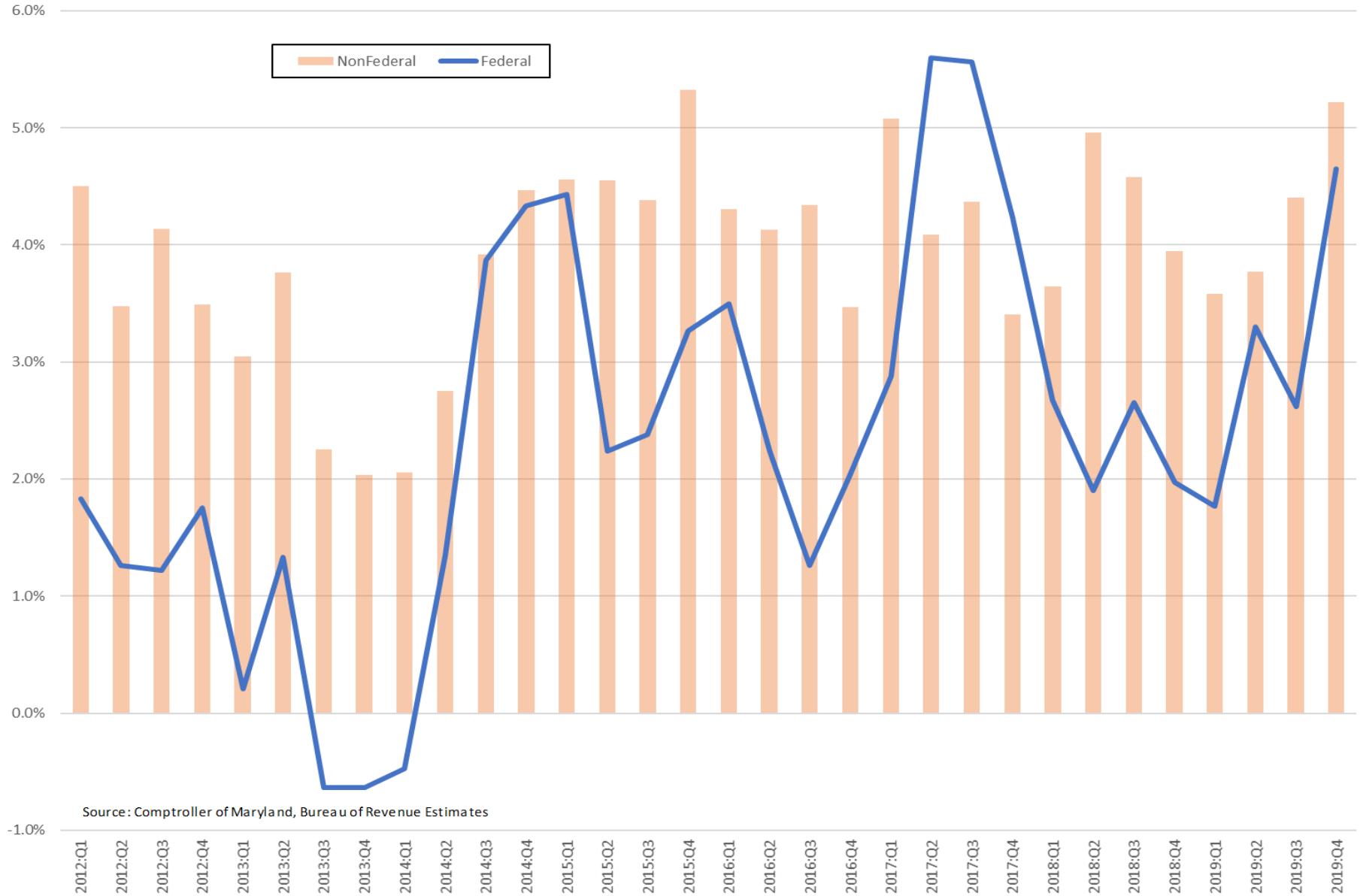


Source: US Bureau of Labor Statistics

# Federal Employment Growth

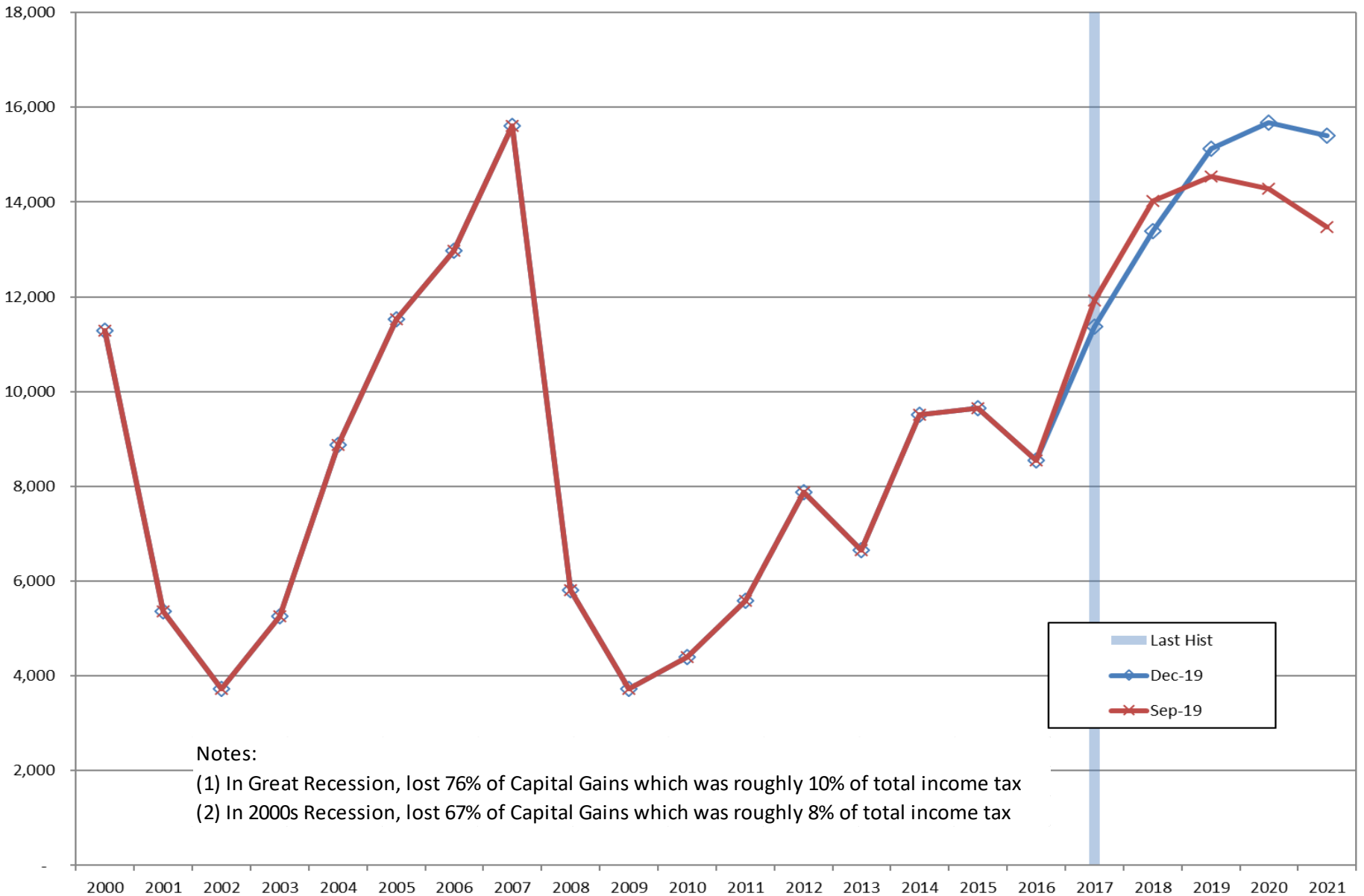


## State Income Tax Withholding - 3Qtr Moving Average - By Attributable Period

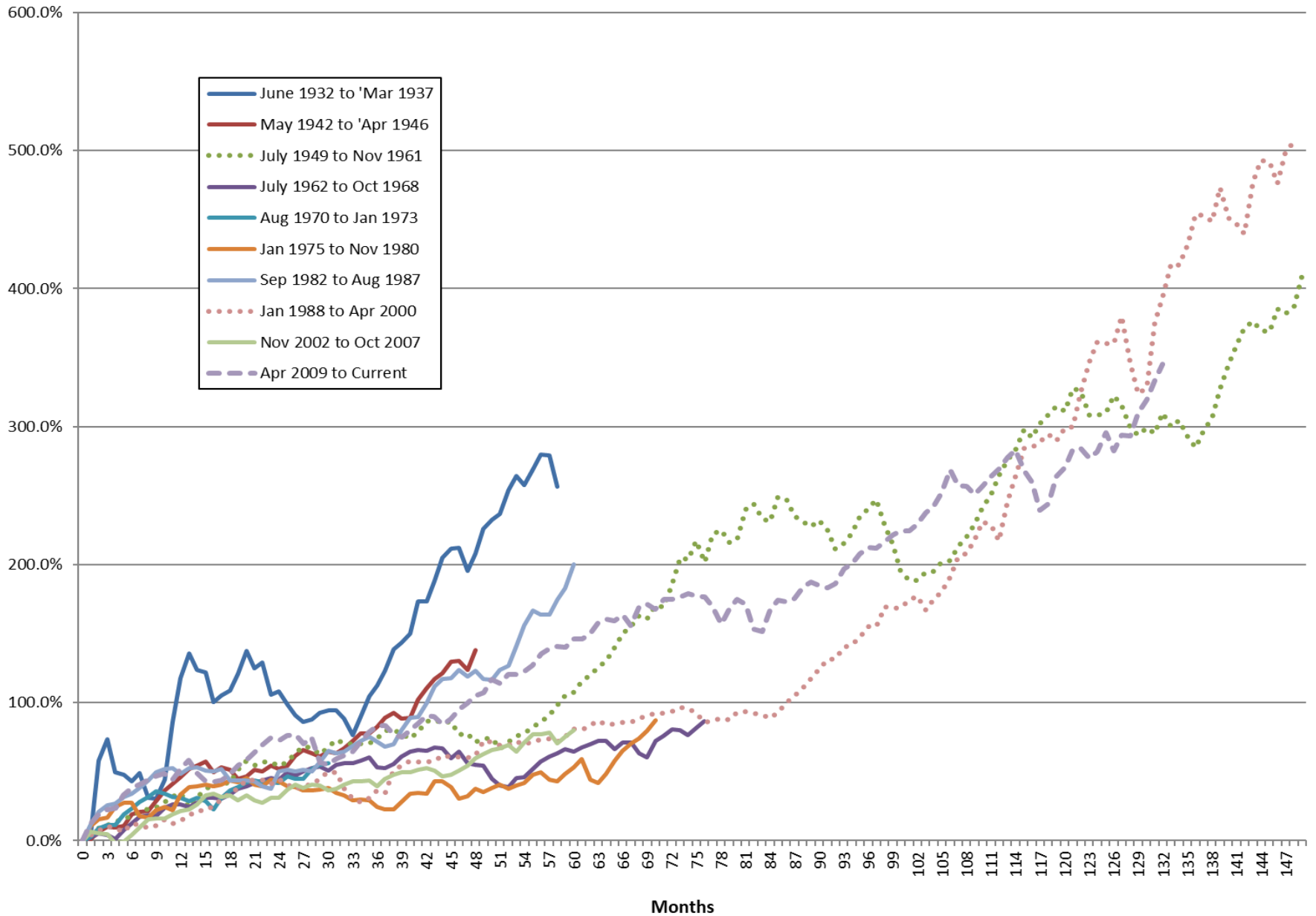


Source: Comptroller of Maryland, Bureau of Revenue Estimates

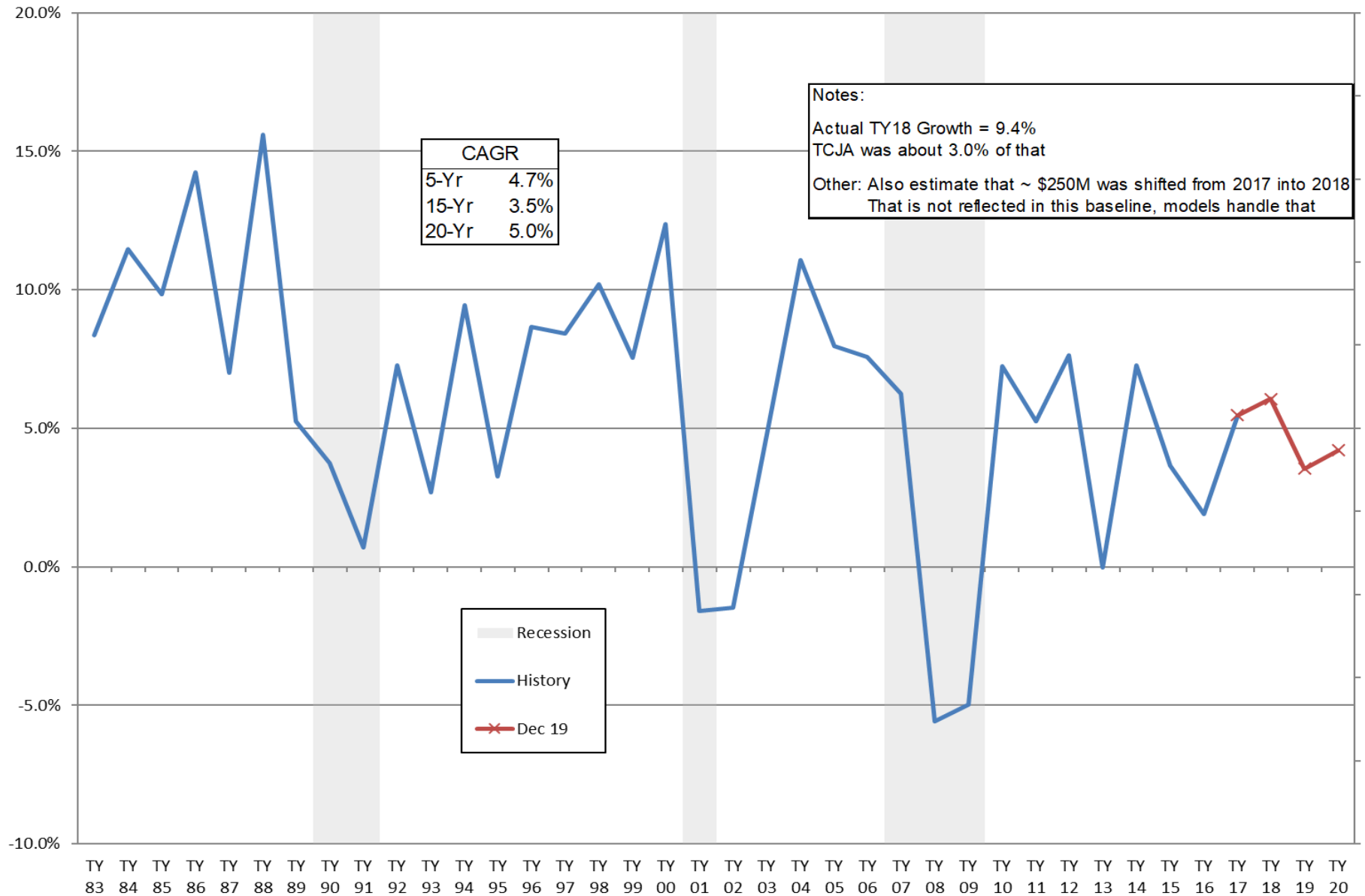
## Taxable Capital Gains



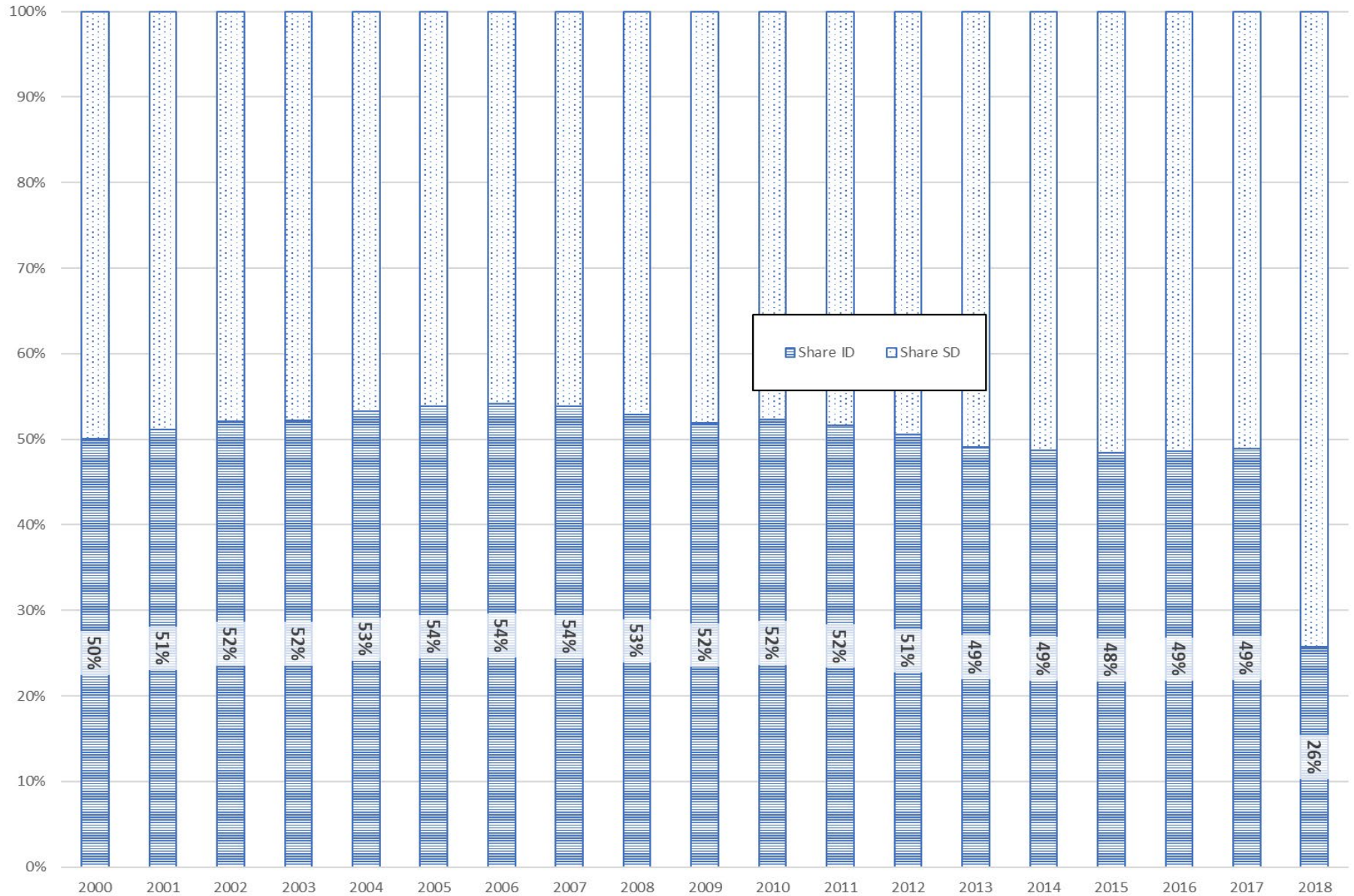
## Historical Bull Markets - Indexed



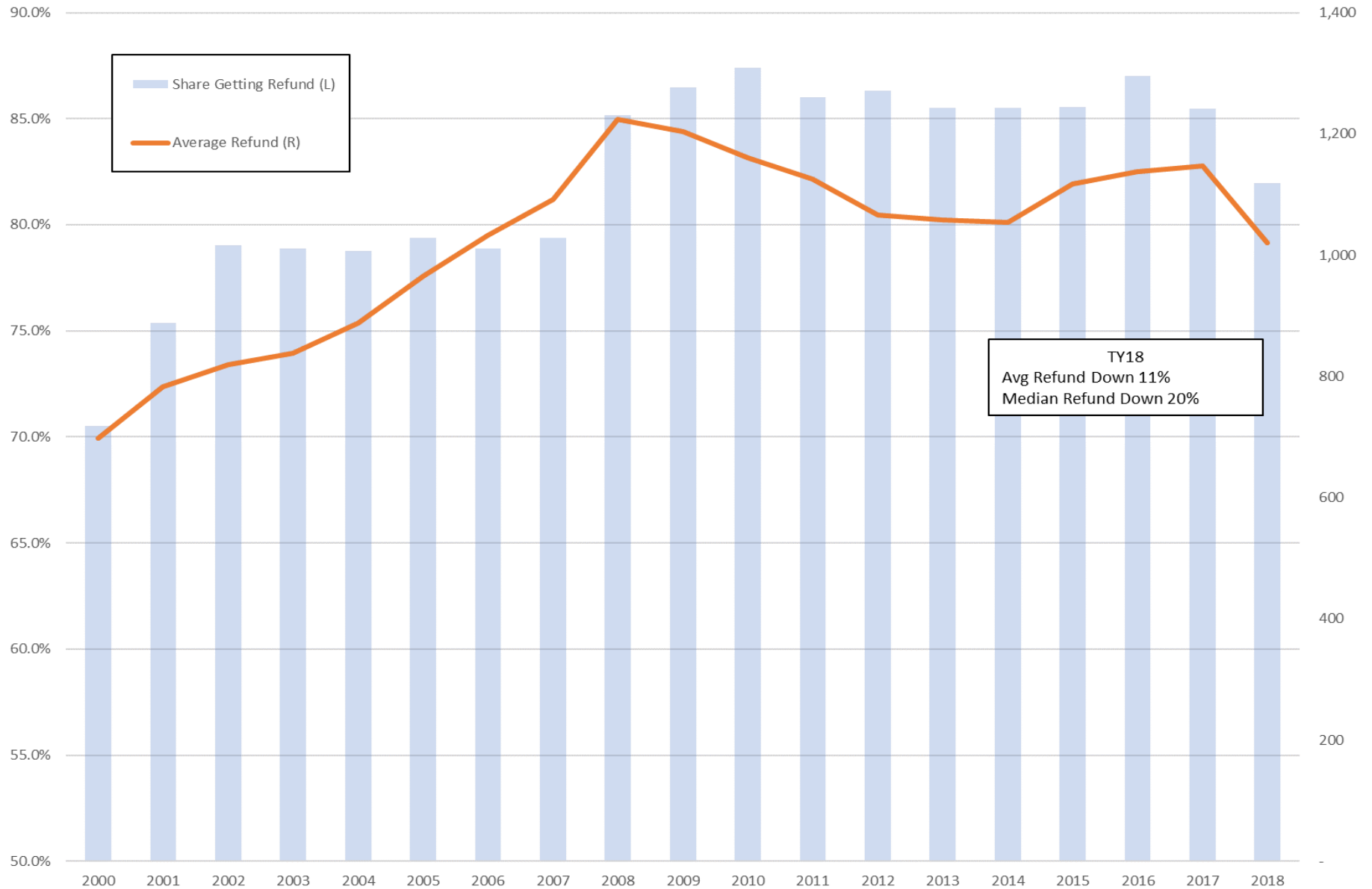
## Estimate of Taxable Income - Baseline - Dec 2019



Share of Returns by Deduction Type - Residents in Both Years - Through 365th Day of Processing Year

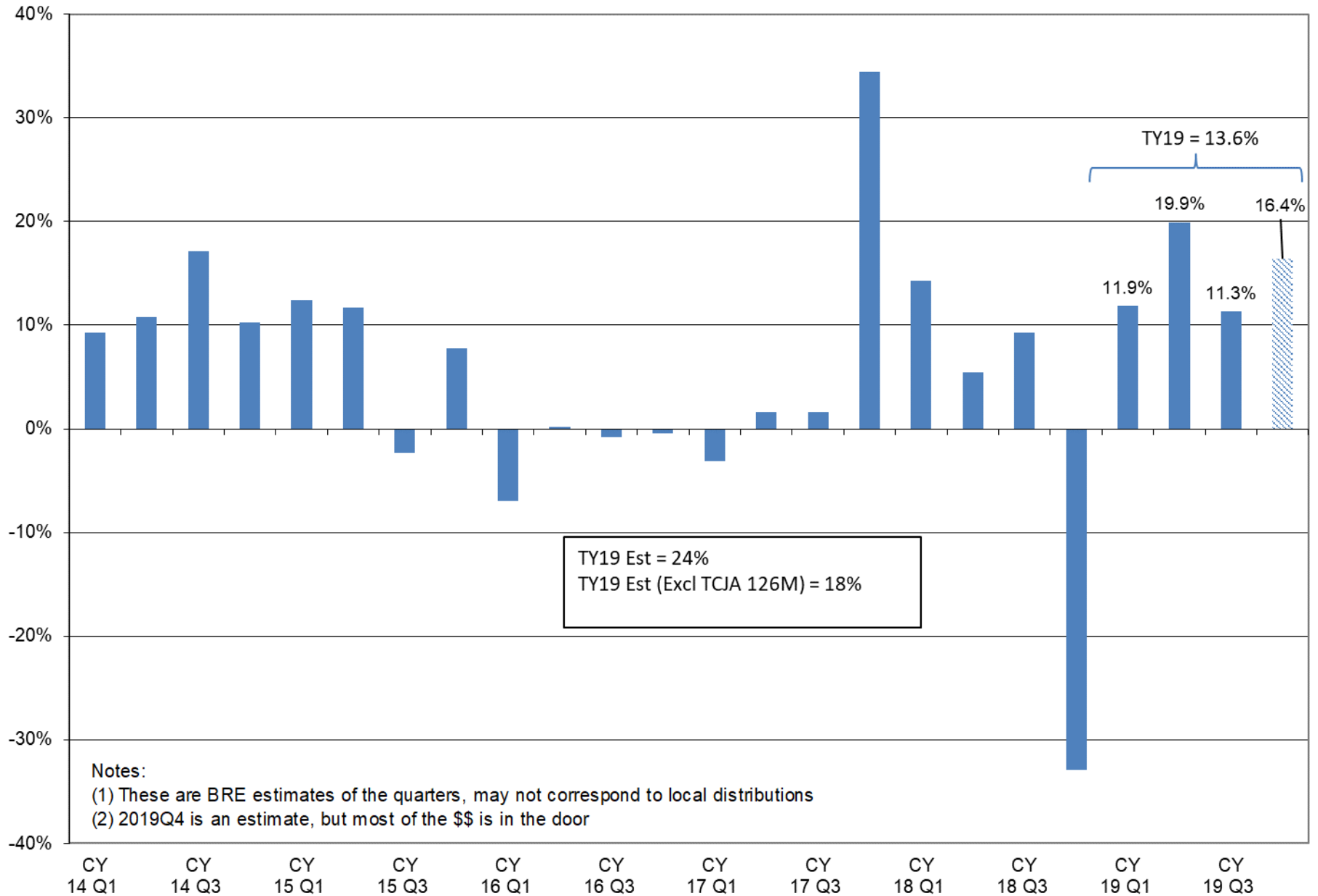


## Taxable Resident Returns - Through 365th Processing Day

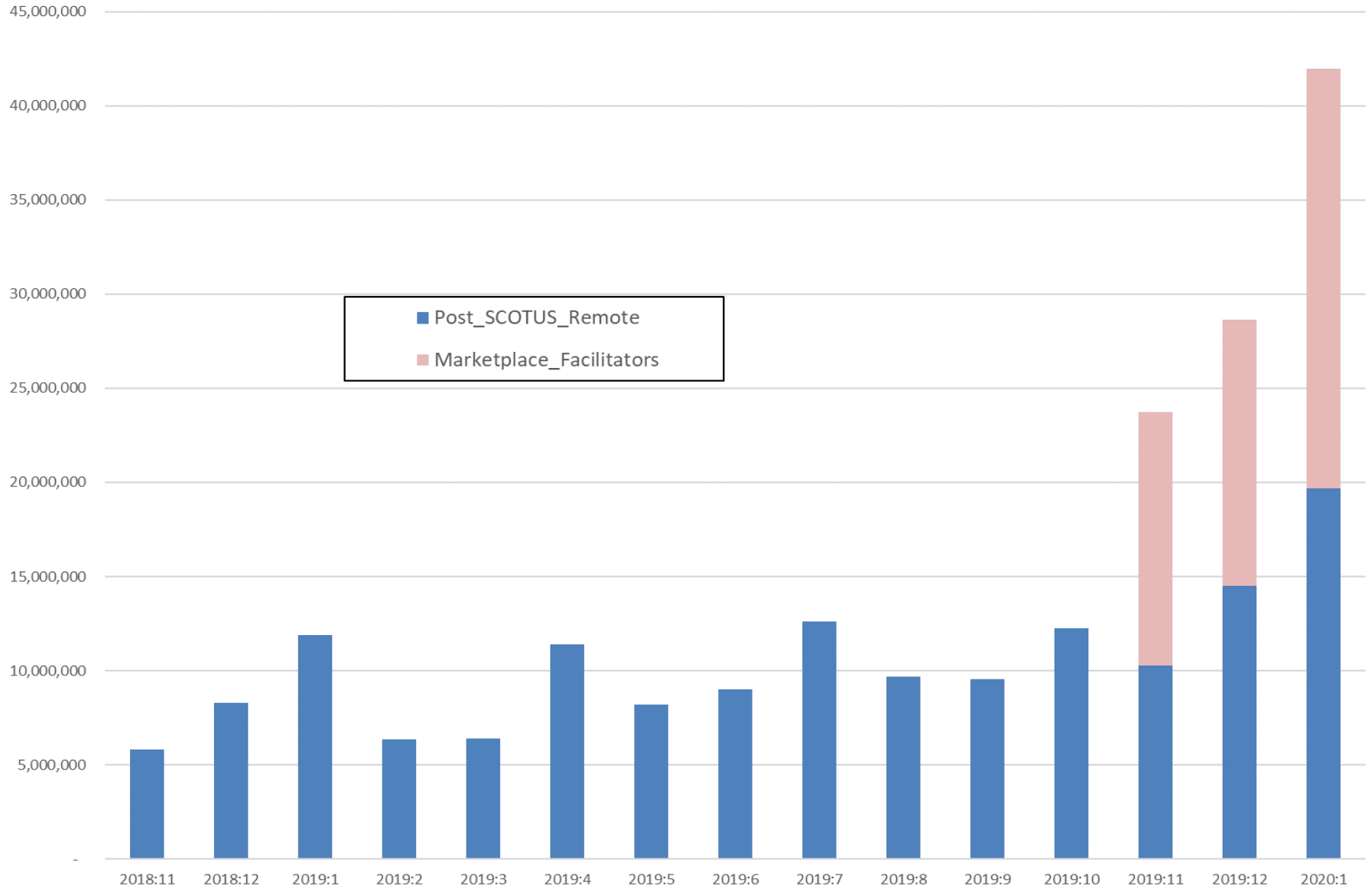




## Cash Estimated Payments - BRE



### Sales Tax Collections By Pay Month From Certain Filers



Source: Bureau of Revenue Estimates

# MONTGOMERY COUNTY

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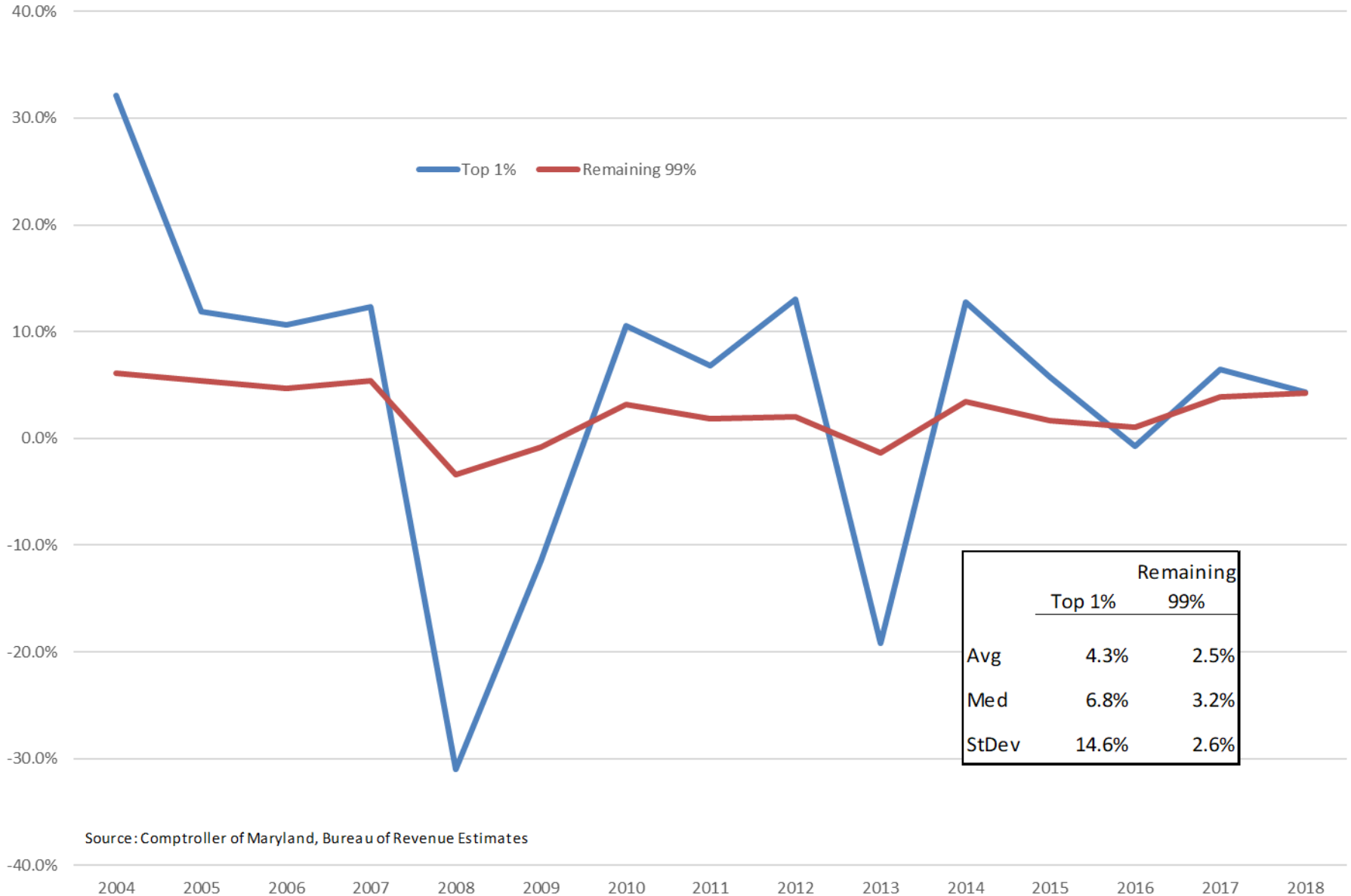
Comparison to State with Tax Data

# Income Concentration & Taxpayer Behavior

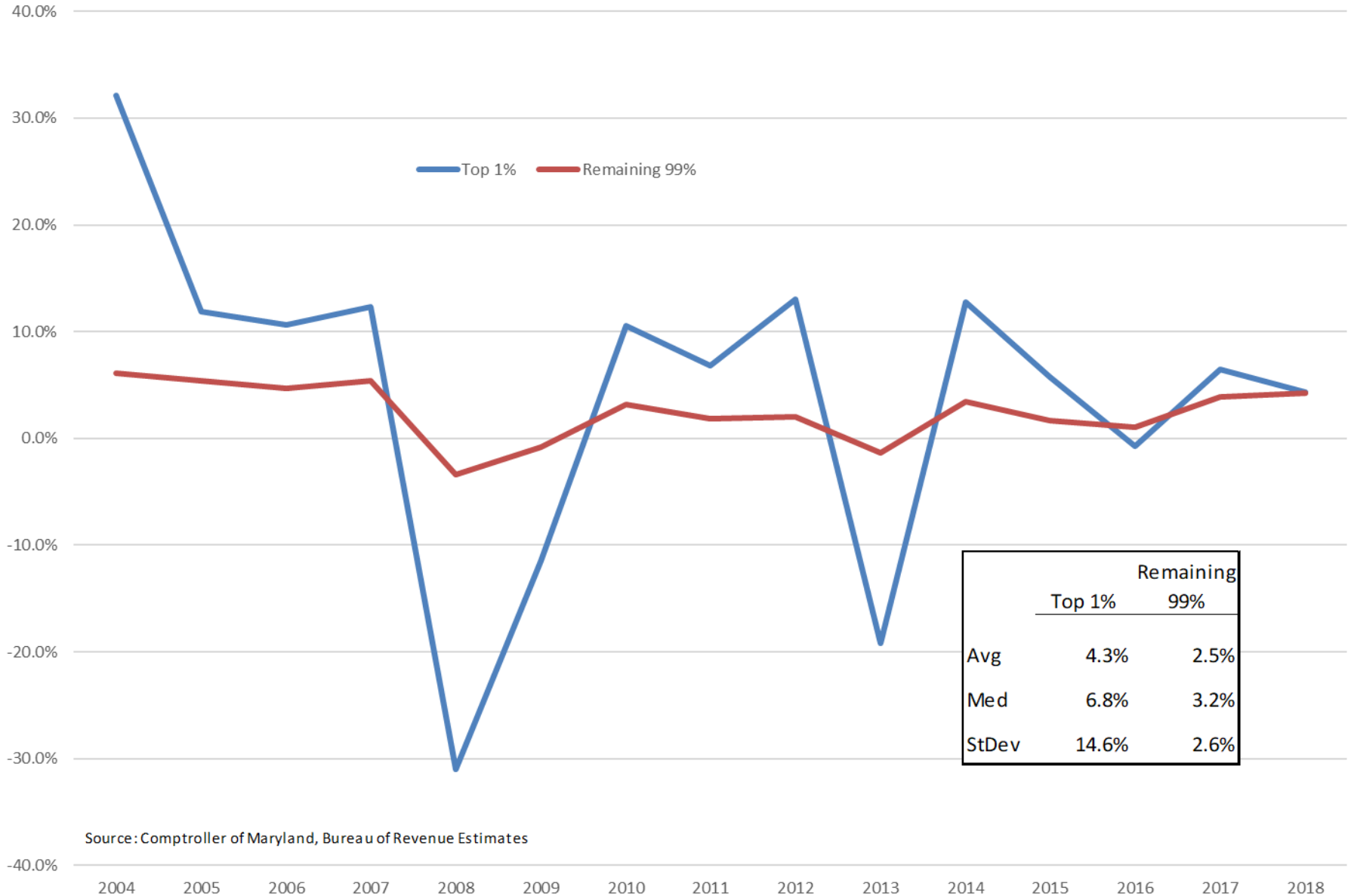
Percentile	# Tax Payers	Net Local Tax (\$)	Average Federal Gross Income (\$)	Share Local Net Tax (%)	Cum Share Local Net Tax (%)
Top 0.01%	49	43,642	31,824	2.9	2.9
>0.01% & <=0.1%	441	84,033	6,676	5.6	8.5
>0.1% & <=1.0%	4,410	197,485	1,624	13.1	21.6
>1.0% & <=5.0%	19,600	289,656	521	19.2	40.8
>5.0% & <=10.0%	24,501	197,244	285	13.1	53.9
>10.0% & <=25.0%	73,502	343,942	175	22.8	76.7
>25.0% & <=50.0%	122,503	259,174	88	17.2	93.8
>50.0% & <=75.0%	122,503	90,899	39	6.0	99.9
>75.0% & <=100.0%	122,503	1,902	10	0.1	100.0
Total	490,012	1,507,978	119	100	100

Notes: (1) Dollars in Thousands; (2) Ordered by Local Net Tax; (3) Tax Year 2018

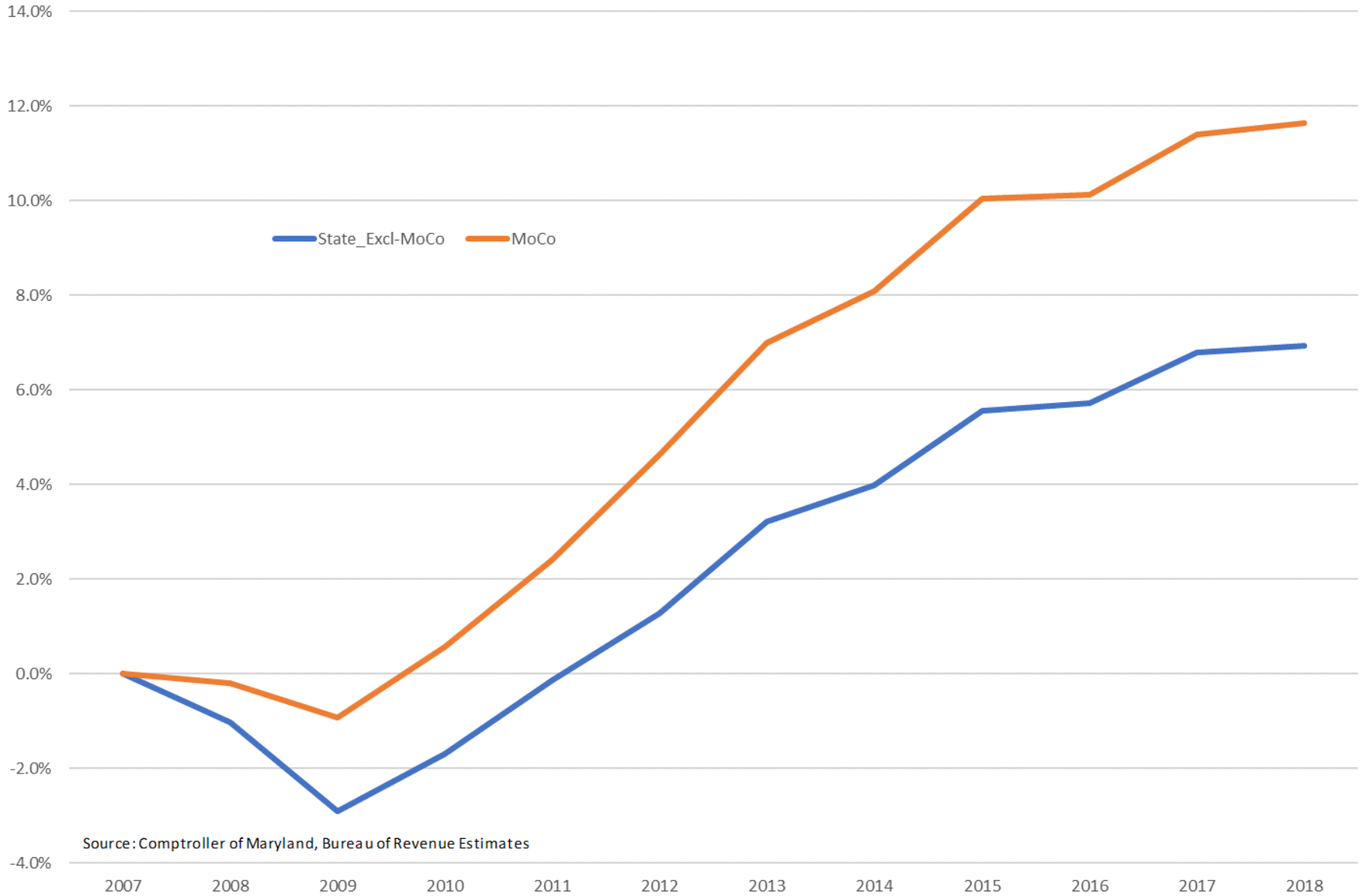
## Growth in Average Gross Income (AGI)



## Growth in Average Gross Income (AGI)

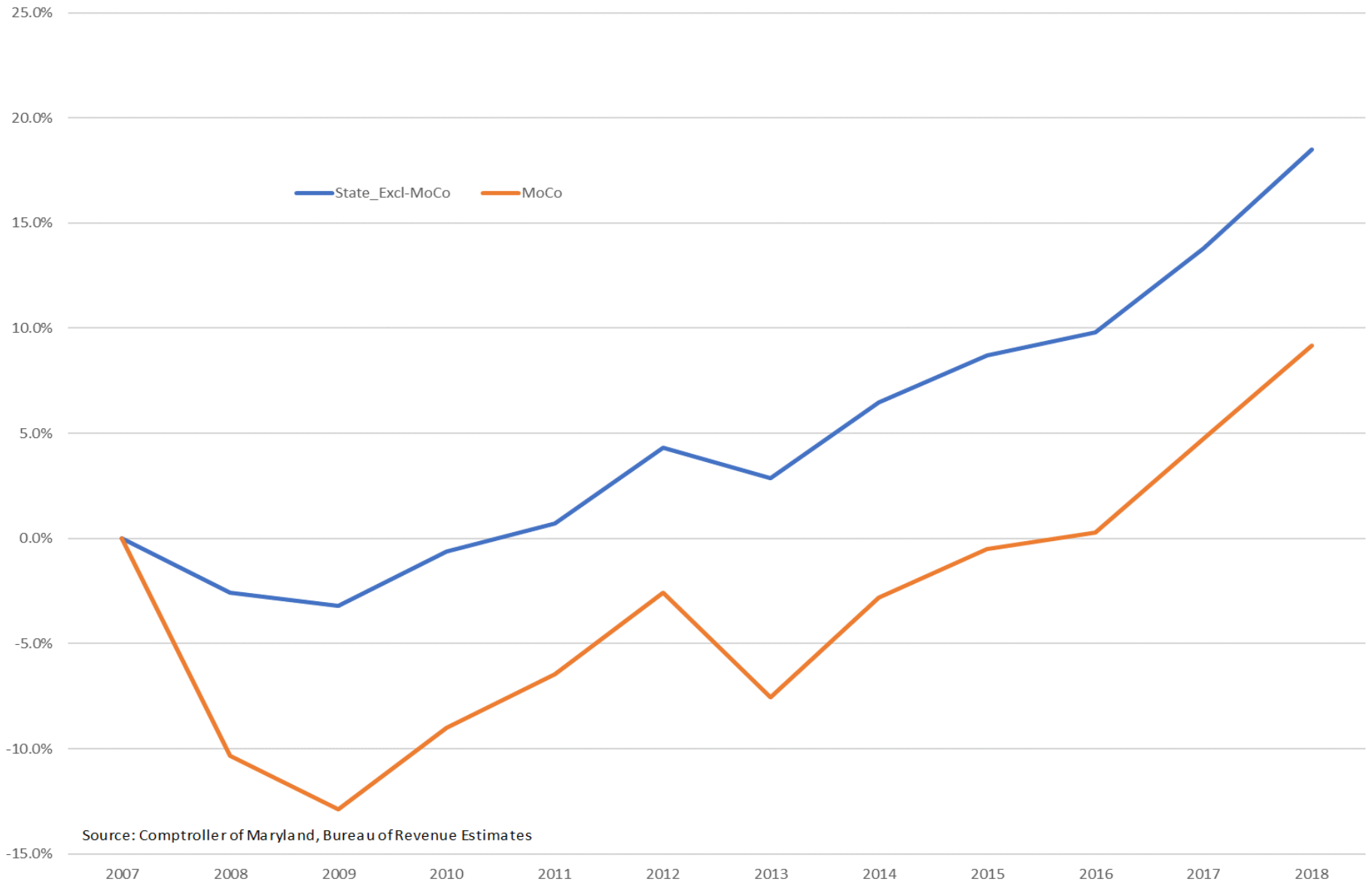


## Growth in Taxpayers - Indexed to 2007



Source: Comptroller of Maryland, Bureau of Revenue Estimates

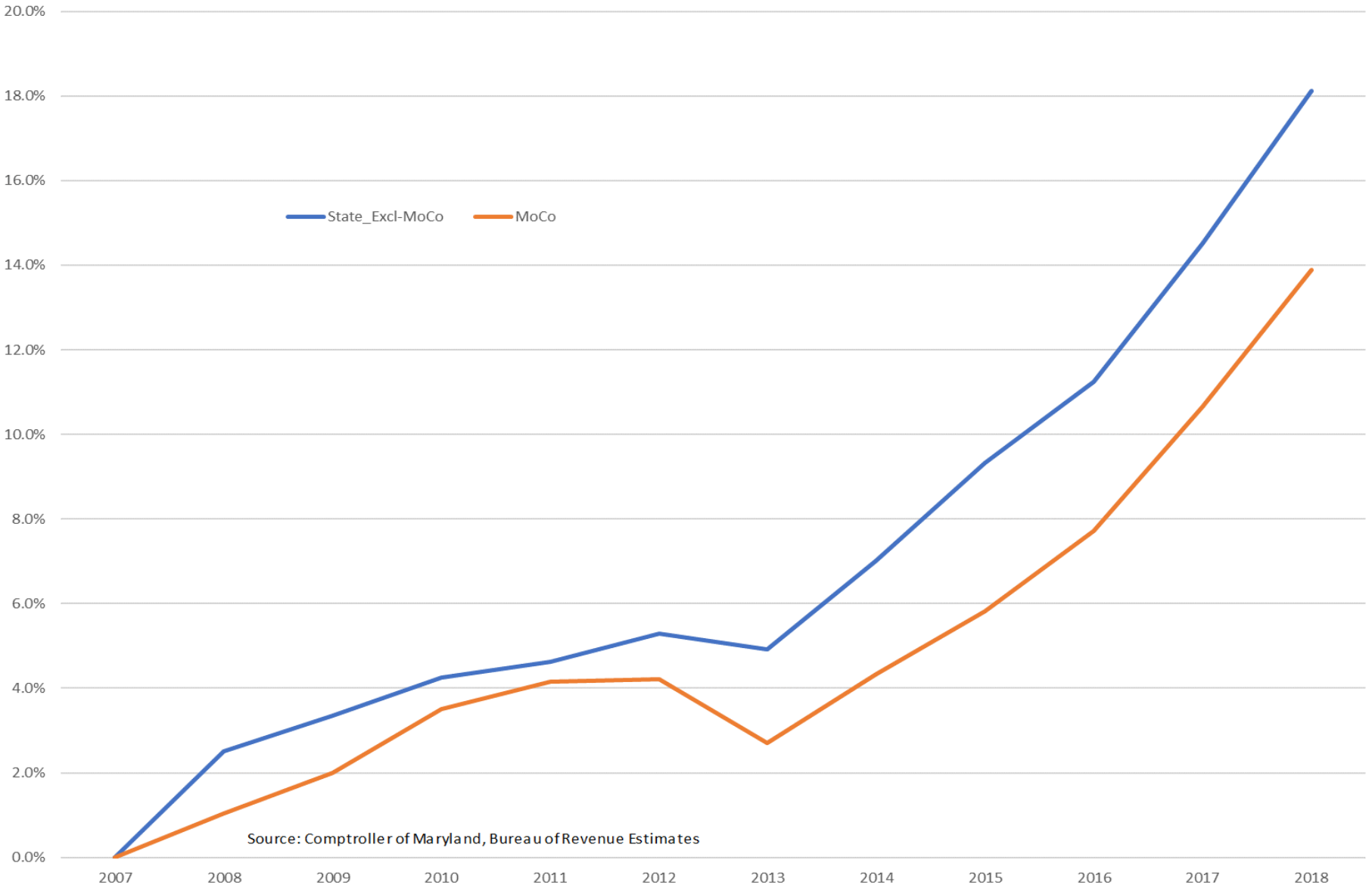
## Growth in Average AGI - Indexed to 2007



Source: Comptroller of Maryland, Bureau of Revenue Estimates



Growth in Median AGI - Indexed to 2007



Source: Comptroller of Maryland, Bureau of Revenue Estimates

# Thank You

Andrew Schaufele

Comptroller of Maryland

Director, Bureau of Revenue Estimates

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