

## MEMORANDUM

April 29, 2013

TO: Government Operations and Fiscal Policy Committee  
FROM: Jacob Sesker, Senior Legislative Analyst *JS*  
SUBJECT: Property tax options for FY14

### PURPOSE

The Committee must recommend the amount of the property tax credit for income tax offset, the amount of property tax revenue that should be raised to fund the FY14 budget, and the weighted property tax rate. Decisions on any two of these will effectively determine the third—for example, determining the amount of property tax revenue and the amount of the credit effectively determines the weighted property tax rate.<sup>1</sup>

The Executive recommends setting property tax revenue at the Charter limit<sup>2</sup> with a credit of \$692 (\$1,504.9 million).<sup>3</sup> To set property tax revenue at the Charter limit and maintain the current credit of \$692 requires increasing the weighted property tax rate by 1.8 cents, from \$0.991 to \$1.009 per \$100 of taxable value.

### INCOME TAX OFFSET CREDIT

Under County Code §52-11B, the Council is authorized to set, by resolution, the amount or rate of a property tax credit to offset a portion of the income tax revenue resulting from a County income tax rate that is higher than 2.6% (the County income tax rate is currently 3.2%). The credit applies only to owner-occupied principal residences.

*§52-11B(c): The County Council must set the amount or rate of the credit under this Section annually by resolution, adopted no later than the date the Council sets the property tax rates. A public*

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<sup>1</sup> These decisions ultimately take the form of a resolution to set the property tax credit for income tax offset, and a tax levy resolution that includes the tax rates for all of the property taxes that are part of the weighted property tax rate.

<sup>2</sup> Charter §305 limits increases in real property tax revenue to the rate of inflation, excluding specified exceptions (new construction, development districts, etc.). Nine affirmative votes are required to exceed the Charter limit.

<sup>3</sup> As a reminder, the Council held a public hearing on the income tax offset credit on April 23<sup>rd</sup>.

hearing must be held, with at least 15 days' notice, before the Council adopts a resolution under this Section. The amount or rate of the credit must, in the Council's judgment, offset some or all of the income tax revenue resulting from a County income tax rate higher than 2.6%. The Council must set the amount of the credit at zero for any tax year in which the rate of the County income tax does not exceed 2.6%.

The credit shifts a portion of the County's property tax burden to non-homeowners (including commercial property owners and residential renters). The Council sets the credit as a specific amount, rather than as a percentage of value; consequently, the credit adds a degree of progressivity to the property tax.

The Council reduced the credit once since 2000—from \$613 in FY08 to \$579 in FY09. The credit has been more stable than the property tax rate over the last several years.

Table 1: Weighted property tax rates and income tax offset credit, FY00-FY13

Fiscal Year	Weighted real property tax rate (per \$100)	Change	ITOC
2000	\$1.006	(\$0.011)	\$0
2001	\$1.006	\$0.000	\$0
2002	\$1.006	\$0.000	\$0
2003	\$1.005	(\$0.001)	\$0
2004	\$1.005	\$0.000	\$0
2005	\$0.995	(\$0.010)	\$0
2006	\$0.953	(\$0.042)	\$116
2007	\$0.903	(\$0.050)	\$221
2008	\$0.903	\$0.000	\$613
2009	\$0.903	\$0.000	\$579
2010	\$0.904	\$0.001	\$690
2011	\$0.904	\$0.000	\$692
2012	\$0.946	\$0.042	\$692
2013	\$0.991	\$0.045	\$692

In FY13, Finance estimated that 244,391 households would be eligible for the credit. At \$692 per household, total credits for those households were \$169 million. Finance assumes 244,391 households will again be eligible for the credit in FY14 as well, even though the total number of households increased from an estimated 368,611 in FY13 to 372,535 in FY14. If credits increase along with total households, then property tax revenue (net of credits) will fall short of budget projections.

Changes to the credit affect not only property tax revenue but also property tax rates. If the Council chooses to set property tax revenue at the Charter limit and chooses to reduce the credit, the Council would also need to reduce the property tax rate. In this scenario, the results would include (1) a slight

decrease in property tax revenue at the Charter limit<sup>4</sup>, (2) a less progressive property tax regime among homeowners eligible for the credit, and (3) a shift of a portion of the overall property tax burden from those who are not eligible for the credit (commercial properties, residential renters) to those who are eligible for the credit (resident homeowners).

Alternatively, if the Council chooses to set property tax revenue at the Charter limit and also chooses to increase the credit, the Council would also need to increase the property tax rate. In this scenario, the results would include (1) a slight increase in property tax revenue at the Charter limit, (2) a more progressive property tax regime among homeowners eligible for the credit, and (3) a shift of a portion of the overall property tax burden from those who are eligible for the credit (resident homeowners) to those who are not eligible for the credit (commercial properties, residential renters).

*The proposed resolution to set the income tax offset credit at \$692 is attached at © 1.*

**Staff recommends setting the income tax offset credit at \$692.**

## **AMOUNT OF PROPERTY TAX REVENUE**

The Executive has proposed property tax revenue at \$1,504.9 million, not including parking districts (\$1,514.5 million with parking districts). The Executive's recommendation sets property tax revenue at the Charter limit; the Council could set property tax rates above the Charter limit if all nine Councilmembers vote to do so.<sup>5</sup>

The ten-year history of revenue by category shows that while property tax revenue has increased over the last decade, property tax revenue as a percentage of total revenue has remained relatively constant, falling below 30% of total revenue only in FY07 and FY08 (corresponding with a sharp increase in revenue from the income tax), and peaking in FY10 (corresponding with a precipitous decline in income tax revenue). *See Schedule F-2 (10-year history of revenue), © 3.*

**Staff recommends setting property tax revenue at the Charter limit with a credit of \$692.**

## **PROPERTY TAX RATE**

The property tax rate is a function of the taxable base (the value of taxable property), credits, and the amount of revenue to be raised by the property tax.

- The amount of revenue to be raised by the property tax is a function of limitations (such as the Charter limit), demands for resources (such as levels of service), and other sources of revenue available to pay for demands for resources (such as income tax revenue).
- Credits are a function of policy.
- The taxable real property base is primarily a function of real estate market conditions. Real property reassessments declined for 4 consecutive years (from 2009 to 2012) as a result of

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<sup>4</sup> This is because the rate also applies to property taxes that are not subject to the Charter limit, including personal property taxes paid by businesses (that rate is 2.5 times greater than real property tax rate) and also to newly constructed or re-zoned real property.

<sup>5</sup> The Council could also increase (slightly) property tax revenues without exceeding the Charter limit by increasing both the rate and credit. This would occur because increases in the rate would result in a slight increase in personal property tax revenue as well as an increase in property tax revenue from new construction.

negative real estate market conditions, but increased slightly during this most recent reassessment cycle, reflecting current market conditions.

The State assesses roughly one-third of the properties every year, so that each property is assessed once every three years. The three reassessment groups do not represent 1/3 of all properties of each use (e.g. residential or commercial), but rather the groups are geographically based.

Any decrease in value since the previous assessment (three years ago) is reflected or phased in immediately on the next property tax bill. Any increase is phased in over three years. For example, if the previous assessment was \$300,000 and the new assessment is \$390,000, the increase of \$90,000 is phased in by adding \$30,000 each year for three years.<sup>6</sup> Together, those policies protect homeowners in periods of increasing home values, but tend to force significant budget adjustments or tax rate increases in periods of declining home values.

Montgomery County’s weighted average property tax rate in FY13 (\$0.991 per \$100) is actually below the weighted average property tax rate for FY05 (\$0.995). *See Schedule F-6 (Historical Analysis of Weighted Real Property Tax Rates, © 4.* Rates declined from FY05 to FY07 because the taxable base increased in value. Rates increased in FY12 and FY13 because the taxable base decreased in value. The proposed FY14 rate is, for the first time in the last decade, higher than the FY05 rate. The proposed FY14 total weighted property tax rate (including Maryland property taxes) is still lower than the FY05 rate—this is attributable to the decline in the State’s property tax rate. *See also Average Tax Burden © 5, and County Taxes as a Share of Personal Income © 6.*

**Staff recommends setting the property tax rate at \$1.009, the rate at which property tax revenue is at the Charter limit with a credit of \$692.**

## OPTIONS

The Council has multiple options with respect to the credit, property tax revenue, and property tax rate. Each of the last several years the Council has discussed two options: increasing the rate in order to pay for the level of services (see Option 1, below), or decreasing the credit in order to hold the rate constant (see Option 2, below). If the Committee would like other options to consider, those options would be the subject of a subsequent worksession.

	Rates (a)	ITOC	Tax-Supported	Total
Option 1: CE FY14 Recommended Budget	\$1.009	\$692	\$1,504,875,000	\$1,514,487,000
Option 2: Same rate, reduced credit	\$0.991	\$578	\$1,503,064,000	\$1,512,676,000

NOTE: (a) Rates are weighted based on real-property taxable assessments and tax-supported only.

A higher credit is more progressive because the tax credit is not “ad valorem” – based on the value of the property. However, if the credit is too high, then many homeowners will end up paying very little

<sup>6</sup> Property tax revenue is related to changes in *assessed value*; however, property tax revenue is actually calculated by multiplying the *taxable value* of all taxable property by the weighted tax rate, and then subtracting the total amount of the income tax offset credit. The taxable value is the lesser of the phase-in value (PIV) or the previous year’s taxable value plus 10%.

in property tax relative to the County's cost of providing services. The reduced credit option, on the other hand, is regressive when compared to the Executive's recommended rate and credit.

In May 2011, the Committee (and subsequently the Council) discussed at length the policy tradeoffs implicated in the decision to increase revenue by increasing the rate or by reducing the credit. *See 2011 Memos from Councilmember Andrews and Councilmember Riemer*, © 7-9. These memos, written two years ago, remain relevant today even though circumstances have changed.

- Attachments:
- © 1 Proposed resolution to set the income tax offset credit
  - © 2 Schedule F-2 (10-year history of revenue)
  - © 3 Schedule F-6 (Historical Analysis of Weighted Real Property Tax Rates)
  - © 4 Average Tax Burden
  - © 5 County Taxes as a Share of Personal Income
  - © 6 Spreadsheet
  - © 7 Memos from Councilmember Andrews and Councilmember Riemer

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Resolution No.: \_\_\_\_\_  
Introduced: \_\_\_\_\_  
Adopted: \_\_\_\_\_

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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By: Council President at the Request of the County Executive

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**SUBJECT:** Property Tax Credit for Income Tax Offset

**Background**

1. County Code Section 52-11B authorizes the County Council by resolution to set the rate or amount of the property tax credit to offset certain income tax revenues resulting from a County income tax rate higher than 2.6%.
2. The County Executive has recommended the amount of property tax credit under County Code Section 52-11B for the tax year beginning July 1, 2013 to be \$692 for each eligible taxpayer.
3. A public hearing was held on April 23, 2013.

**Action**

The County Council for Montgomery County, Maryland, approves the following action:

The amount of the property tax credit under County Code Section 52-11B for the tax year beginning July 1, 2013 is \$692 for each eligible taxpayer.

This is a correct copy of Council action.

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Linda M. Lauer, Clerk of the Council

# SCHEDULE F-2

## TEN-YEAR HISTORY OF REVENUE BY MAJOR CATEGORY AND AS A PERCENT OF TOTAL REVENUE

FISCAL YEAR	(In Millions)																
	PROPERTY TAX		INCOME TAX		TRANSFER TAX		OTHER TAXES		LICENSES & PERMITS		CHARGES FOR SERVICES		INTERGOV. AID		FINES & MISC REVENUE		TOTAL REVENUE*
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
FY14 Rec	1,514.5	31.3	1,299.2	26.8	150.6	3.1	291.3	6.0	42.3	0.9	401.7	8.3	975.6	20.2	165.5	3.4	4,840.7
FY13 Estimate	1,470.9	31.0	1,331.4	28.0	144.6	3.0	289.1	6.1	48.7	1.0	387.0	8.2	940.9	19.8	135.0	2.8	4,747.7
FY13 Approved	1,471.6	31.3	1,263.6	26.9	141.0	3.0	305.4	6.5	42.0	0.9	392.2	8.3	926.0	19.7	156.5	3.3	4,698.2
FY12 Actual	1,447.9	31.3	1,255.1	27.2	127.3	2.8	295.3	6.4	50.0	1.1	371.5	8.0	911.2	19.7	163.0	3.5	4,621.3
FY11 Actual	1,430.2	33.1	1,039.2	24.1	129.5	3.0	305.2	7.1	41.3	1.0	352.9	8.2	879.0	20.4	141.8	3.3	4,319.2
FY10 Actual	1,447.4	34.6	1,042.1	24.9	125.1	3.0	205.6	4.9	38.1	0.9	328.2	7.8	861.2	20.6	140.9	3.4	4,188.5
FY09 Actual	1,374.9	32.4	1,291.7	30.5	109.8	2.6	179.2	4.2	33.1	0.8	313.2	7.4	782.5	18.5	153.6	3.6	4,238.1
FY08 Actual	1,224.0	29.8	1,291.3	31.5	135.0	3.3	168.7	4.1	37.6	0.9	298.1	7.3	774.8	18.9	173.2	4.2	4,102.8
FY07 Actual	1,180.7	29.5	1,265.4	31.7	179.6	4.5	168.1	4.2	34.5	0.9	289.4	7.2	719.1	18.0	160.1	4.0	3,996.8
FY06 Actual	1,115.1	30.0	1,044.6	28.1	241.7	6.5	164.8	4.4	32.7	0.9	287.1	7.7	688.5	18.5	139.9	3.8	3,714.4
FY05 Actual	1,079.2	31.4	940.9	27.4	221.3	6.4	162.1	4.7	33.6	1.0	267.5	7.8	606.4	17.6	126.7	3.7	3,437.6

\* Totals do not include uses of prior year reserves or transfers

# SCHEDULE F-6

## HISTORICAL ANALYSIS OF WEIGHTED REAL PROPERTY TAX RATES MONTGOMERY COUNTY

Average Weighted Rate Per \$100 of Assessed Value

Fiscal Year	Total	Maryland	Municipalities	Montgomery County
2014	\$1.166	\$0.112	\$0.045	\$1.009
2013	\$1.148	\$0.112	\$0.045	\$0.991
2012	\$1.101	\$0.112	\$0.043	\$0.946
2011	\$1.060	\$0.112	\$0.044	\$0.904
2010	\$1.057	\$0.112	\$0.041	\$0.904
2009	\$1.055	\$0.112	\$0.040	\$0.903
2008	\$1.057	\$0.112	\$0.042	\$0.903
2007	\$1.058	\$0.112	\$0.043	\$0.903
2006	\$1.130	\$0.132	\$0.045	\$0.953
2005	\$1.173	\$0.132	\$0.046	\$0.995

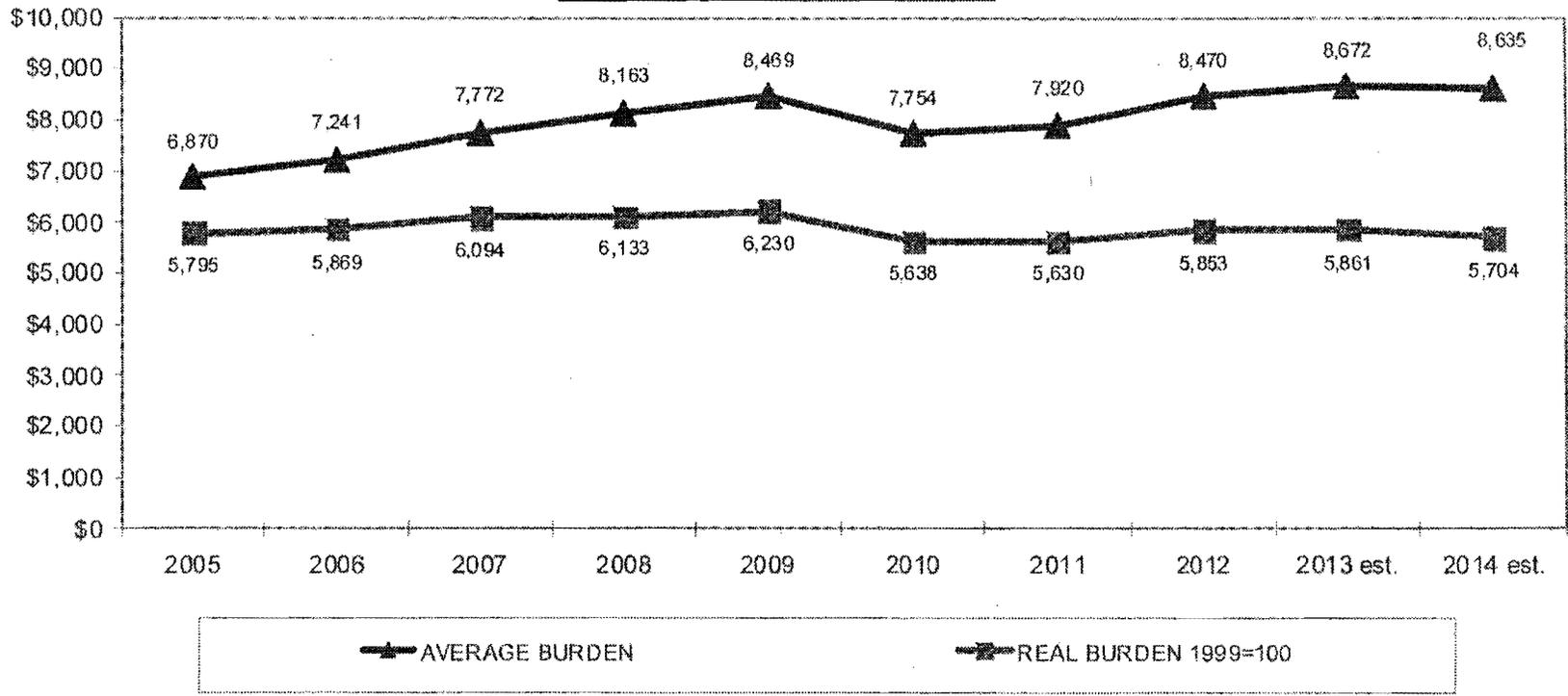
Notes: "Montgomery County" is the weighted average of proposed rates for the tax-supported property revenues and do not include parking lot districts.

"Municipalities" are the weighted average of approximately 23 municipal districts and are based on estimated taxable assessments for FY14.

MONTGOMERY COUNTY DEPARTMENT OF FINANCE

MARCH 2013

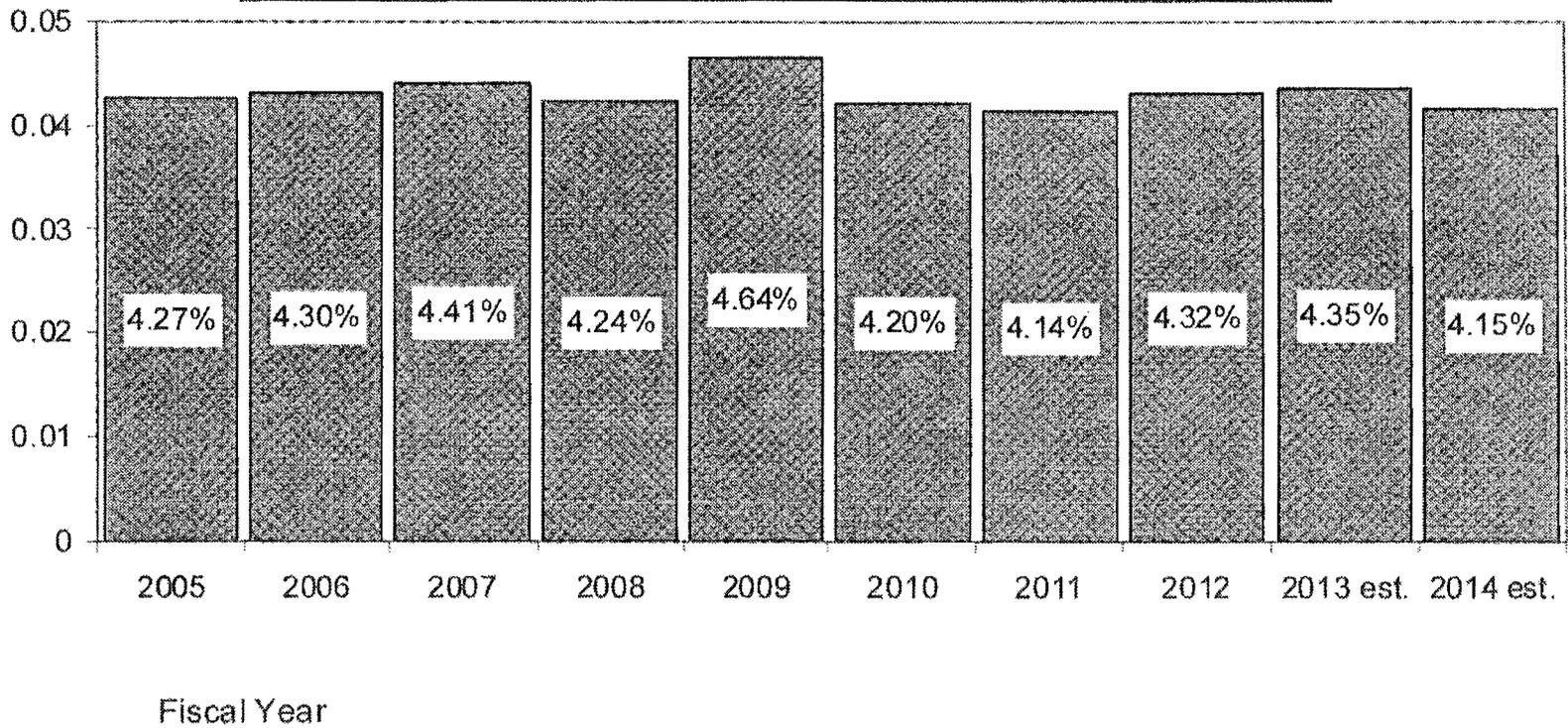
### AVERAGE TAX BURDEN MONTGOMERY COUNTY BY FISCAL YEAR



Prepared by Montgomery County Department of Finance

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### COUNTY TAXES AS A SHARE OF PERSONAL INCOME MONTGOMERY COUNTY



Prepared by Montgomery County Department of Finance

**ASSESSMENTS BY GROUP**

	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>	<b>TOTAL</b>
<b>TAXABLE VALUE (LY2013)(a)</b>				
Residential	\$45,144,402,720	\$43,199,364,116	\$37,007,495,390	\$125,351,262,226
Commercial	\$3,601,509,497	\$6,830,864,658	\$8,936,857,815	\$19,369,231,970
Industrial	\$185,220,230	\$1,405,626,800	\$4,420,364,723	\$6,011,211,753
Apartments	\$2,120,821,973	\$2,055,823,900	\$2,950,343,649	\$7,126,989,522
Other	\$483,338,408	\$278,024,744	\$317,866,655	\$1,079,229,807
<b>TOTAL TAXABLE</b>	<b>\$51,535,292,828</b>	<b>\$53,769,704,218</b>	<b>\$53,632,928,232</b>	<b>\$158,937,925,278</b>
Residential	\$45,144,402,720	\$43,199,364,116	\$37,007,495,390	\$125,351,262,226
Commercial et. al	\$6,390,890,108	\$10,570,340,102	\$16,625,432,842	\$33,586,663,052
<b>TOTAL TAXABLE</b>	<b>\$51,535,292,828</b>	<b>\$53,769,704,218</b>	<b>\$53,632,928,232</b>	<b>\$158,937,925,278</b>

**COMPARISON OF SCENARIOS**

	<b>CE Recommended Budget</b>	<b>Option #2</b>
Residential	\$125,351,262,226	\$125,351,262,226
Tax Rate	\$1.009	\$0.991
Revenues (pre-IOTC)	\$1,264,794,236	\$1,242,231,009
IOTC	(\$169,118,572)	(\$141,257,998)
<b>Subtotal</b>	<b>\$1,095,675,664</b>	<b>\$1,100,973,011</b>
Commercial	\$33,586,663,052	\$33,586,663,052
Tax Rate	\$1.009	\$0.991
<b>Subtotal</b>	<b>\$338,889,430</b>	<b>\$332,843,831</b>
<b>TOTAL (b)</b>	<b>\$1,434,565,094</b>	<b>\$1,433,816,842</b>
<b>SHARE</b>		
Residential	76.4%	76.8%
Commercial	23.6%	23.2%

NOTE: (a) Taxable assessments at the start of FY14 from TXP340-1 Report dated February 1, 2013  
 Assessments do not contain new construction added during FY14  
 (b) Total revenues do not include revenues from new construction, revenues from personal property, penalties and interest, prior year adjustments, and other miscellaneous credits

May 3, 2011

**MEMORANDUM**

TO: Councilmembers

FROM: Councilmember Phil Andrews



SUBJECT: The County Executive's Proposal to Raise the Property Tax Rate

Although County Executive Leggett has proposed staying within the Charter Limit in his budget, he has recommended raising the property tax rate by approximately 4.5%. A far better alternative is available: Keep property tax rates the same and reduce the FY 12 income tax offset credit from \$692 to \$395. The Council would thereby provide homeowners with a substantial tax credit without raising the property tax rate.

While the County Council has increased many taxes in recent years, the Council has not raised the property tax rate for many years. There are several good reasons why the Council should reject the CE's proposal to increase the property tax rate.

For the past two decades the Council has appropriately strived to reduce reliance on property tax revenues vis-à-vis other taxes, because property taxes are more regressive than many other taxes. During the middle of the last decade, the County received about the same amount of revenue from the local income tax as from property taxes, the first time this had occurred. This resulted, in part, from Council decisions in 2003 to increase the income tax rate to the legal maximum, and from decisions in 2004-06 to decrease the property tax rate. These decisions helped make the County's tax structure and tax burden more progressive.

About 24,000 households in the County face a 10% increase in the taxable value of their home for FY 12, even though the assessed value of almost all homes in Montgomery County decreased substantially in the past three years. These homeowners would likely find it particularly hard to understand a Council decision to increase the property tax rate. Moreover, all homeowners would reasonably view a Council decision to increase the property tax rate as a multi-year increase, since the Council has not increased property tax rates in nearly two decades and will not have reduced rates for five years after this year's budget. Apartment owners will pass along increased property taxes to renters, who in many cases already face large increases in rent because of the tight rental market.

In addition to these arguments against raising the property tax rate, less than three years ago, voters approved a ballot measure that makes it significantly harder for the Council to exceed the Charter Limit on property tax revenues. A Council decision to increase the property tax rate in the wake of that action by voters and during hard economic times would be ill-advised.

Memorandum

May 11, 2011

To: Council Colleagues  
From: Council Member Riemer  
Re: Property tax revenue proposals

Please find the attached spreadsheet demonstrating the comparative impact of two proposals to raise property tax revenues. Chuck Sherer's excellent analysis provides much or all of this information, but I will present it a little differently. The data sheet attached is not provided in the staff memo.

The "Regressive Option" assumes that the rate will be kept constant while the credit will be reduced from \$692 to \$407. The "Progressive Option" assumes that the rate will be increased from 0.904 to 0.946 while the credit will be kept at \$692. (The latter approach was proposed by the County Executive.) Each would raise nearly identical amounts of money but would distribute the tax burden differently.

Under the Regressive Option, residents whose homes are worth less than \$678,571 pay more than they would under the Progressive Option.

Data from GO Packet #1 on May 3 shows that 85% of owner-occupied principal residences have taxable values of less than \$700,000. That strongly suggests that compared to the Progressive Option, the Regressive Option would raise taxes on over 80% of county owner-occupied households.

Another important consideration, as I believe Council Member Elrich has observed, is that a rate increase will distribute the burden of the increase across commercial property owners, who will also pay more. On the other hand, keeping the rate constant and adjusting the credit constrains the burden of increased revenues solely to residential property owners.

One argument that has been put forward in favor of the regressive option is that rate increases are permanent while credit adjustments are not. That conclusion is not supported by experience. In every budget year, the council considers a new combination of the rate and the credit and sets each according its policy objectives at the time. In the ten fiscal years from 2002 - 2011, the property tax rate changed substantially three times. The rate and credit combination we pick this year will not determine what we pick next year. We should focus our consideration on the impact that we want to have this year.

Data on the impact of the two proposals by Council District and locality, though not surprising, may be of interest.

**Property Tax Options**

FY11: Rate=.904, Credit=692.

Regressive Option: Keep the rate constant, cut the offset credit. Rate=.904, Credit=407.

Progressive Option: Keep the offset credit constant, raise the rate. Rate=.946, Credit=692.

<u>Property Type</u>	<u>Property Value</u>	<u>FY12 Regressive Option Tax</u>	<u>FY12 Progressive Option Tax</u>	<u>Difference, Progressive vs. Regressive</u>	<u>% White, Non-Hispanic</u>
<b>Single Family Homes, Median Sale Price (2009)</b>					
District 1	800,000	6,825	6,876	51	72%
District 2	400,150	3,210	3,093	-117	54%
District 3	400,000	3,209	3,092	-117	50%
District 4	370,000	2,938	2,808	-130	46%
District 5	380,000	3,028	2,903	-125	46%
All County	460,000	3,751	3,660	-92	53%
<b>All Owner-Occupied Housing Units, Median Value (2005-2009)</b>					
Potomac	870,900	7,468	7,547	81	71%
Chevy Chase	842,300	7,207	7,276	69	85%
Darnestown	780,100	6,645	6,688	43	74%
Bethesda	778,700	6,632	6,675	42	81%
Cabin John	730,900	6,200	6,222	22	89%
Kensington	650,100	5,470	5,458	-12	88%
North Potomac	635,500	5,338	5,320	-18	55%
Clarksburg	552,500	4,588	4,535	-53	49%
Olney	548,000	4,529	4,473	-56	73%
Colesville	535,200	4,431	4,371	-60	44%
North Bethesda	499,500	4,108	4,033	-75	66%
Rockville	494,600	4,064	3,987	-77	58%
Takoma Park	493,900	4,058	3,980	-78	51%
Silver Spring	480,800	3,759	3,667	-91	39%
Burtonsville	426,800	3,451	3,346	-106	28%
Damascus	413,000	3,327	3,215	-112	75%
Gaithersburg	395,000	3,164	3,045	-119	45%
Wheaton-Glenmont	389,200	3,111	2,990	-122	30%
Montgomery Village	351,600	2,771	2,634	-137	42%
Germantown	333,600	2,609	2,464	-145	41%
<b>Break-Even Point Between the Two Options</b>	<b>678,571</b>	<b>5,727</b>	<b>5,727</b>	<b>0</b>	

All households Below \$678,571 will get a lower tax under the Progressive Option.

More than 80% of all county households are valued at less than \$678,571.

So the Regressive Option raises taxes on more than 80% of MoCo households.

**Notes:**

Data on single family home median sale prices in 2009 from Planning Department.

Data on owner-occupied housing unit median values in 2005-2009 from Census Bureau.

Data on demographics by council district from Planning Department.

Data on demographics by place from Census Bureau, 2005-2009 American Community Survey.

(6)