

MEMORANDUM

April 30, 2010

TO: Management and Fiscal Policy Committee  
FROM: <sup>CHS</sup> Charles H. Sherer, Legislative Analyst  
SUBJECT: Property tax options in FY11

**The purpose of this agenda item** is for the Committee to prepare its recommendation to the Council for the amount of property tax to fund the FY11 operating budget. See ©1 for a table using data from Finance that shows the options and other information.

One option is the amount at current rates, which Finance estimates would be \$1,618.7 million, which is \$177.8 million/12.3% more than the FY10 approved budget of \$1,440.9 million. However, the amount at current rates exceeds the amount at the Charter limit by \$168.8 million. A Charter amendment the voters approved in November 2008 specifies that nine affirmative votes are required to exceed the Charter limit, up from seven previously. Various Councilmembers have stated their intent not to exceed the limit. (The concept of the Charter limit is explained on page 2.)

**County Executive's recommendation** The Executive recommends that property tax should be at the Charter limit, to be achieved entirely by giving an income tax offset credit of \$693 to each eligible household (owner occupied as the principal residence). Total property tax revenue will be \$1,449.9 million, up only \$8.9 million/0.6% from \$1,440.9 million in the FY10 budget. Achieving the Charter limit by giving an income tax offset credit results in \$12.2 million more than by reducing the rate, which is one reason the Executive selected this option. He also noted that the credit makes the property tax more progressive, because the credit is the same amount for low-valued properties as for high-valued properties.

**Council staff** agrees with the Executive. Further background and explanatory information follows, but is not necessary for the Committee's decision.

**Types of property and tax rates** There are two types of property: real and personal. The tax rate on personal property is 2.5 times the tax rate on real property (rounded up to the nearest tenth of a cent, which is the nearest thousandth of a dollar). The County sets the following tax rates on real and personal property. Numbers 1-3 and 4a are Countywide, the rest are not.

1. General County tax
2. Mass Transit tax
3. Fire tax
4. Three taxes for MNCPPC:
  - a. Advance Land Acquisition tax
  - b. Metropolitan tax (for Parks)
  - c. Regional tax (for Planning)
5. Recreation tax
6. Storm Drainage tax
7. Three Urban District taxes
8. Two Noise Abatement District taxes
9. Four Parking Lot District taxes
10. Two Development District taxes, for the CIP. Since these taxes are for the CIP, they are not included in the following analysis.

**Components of property tax** Property tax in the next fiscal year has the following three components:

1. Property tax on REAL property that existed in the current year (“old” construction). This is the **only** component that is limited by the Charter
2. Property tax on REAL property that did not exist in the current year (“new” construction)
3. Property tax on PERSONAL property, both old and new

In this memorandum, TOTAL PROPERTY TAX is the sum of these three components. Of the total property tax, less than 1% is for the parking districts (to provide parking lots and garages and related expenses). The remainder is for all other government services.

**Charter limit** Section 305 of the Charter places a restriction, referred to as the “Charter limit”, only on component #1 above: if the property tax on REAL property that existed in FY10 (the “old” construction) increases more than the rate of inflation, then the tax rates must be approved by all nine Councilmembers. There is no limit on the increase in personal property tax nor on the amount of tax on new construction. Inflation for the 12 months preceding December 1 is used to calculate the Charter limit for the upcoming fiscal year. Total property tax at the Charter limit increases at the rate of inflation plus a small amount, perhaps 0.4% to 1.4%, for new construction and personal property.

For the 20 years in which the Charter restriction has been in effect, the table on ©2 shows that the Council exceeded the restriction in 4 years and did not exceed it in 16 years (assuming the Charter limit in FY11).

**Current Rates** Property tax at current rates increases at the same percentage as the assessable base increases (unless the Council approved a credit in the previous year, in which case the percentage increase is greater than the percentage increase in the assessable base). The Council sets 17 tax rates, for 17 tax districts. Finance calculates property tax at current rates by multiplying the tax rate in the current fiscal year in each district by the estimated assessable base next fiscal year in each district by the collection factor for each district, and then adding the 17 amounts.

**Options to reach the Charter limit** When property tax at the Charter limit is less than property tax at current rates, there are several options for reducing property tax to the Charter limit (which applies only to the old real property): entirely by reducing the rate, entirely by giving a credit, and a combination of both. The effects of the credit are to shift the tax burden: a) from residences with low taxable value to residences with high taxable value; and b) from residential to commercial tax payers.

The Charter limit applies only to existing real property, not to new construction and not to personal property. Existing real property will pay the same amount of property tax at the Charter limit no matter what mix of rate reduction and income tax offset credit the Council uses. However, new construction, and personal property pay different amounts.

The options for achieving the Charter limit are:

1. Entirely by reducing the rates. In this case, all property (old construction, new construction, and personal) gets a reduction and total property tax is the **least** of any option.
2. By keeping rates the same (current rates) and giving property tax credits only for old/existing owner-occupied principal residence housing. The following groups do **not** get any credit: new construction, commercial property (whether new or old), new and old personal property. Since rates are not reduced in this option, new construction and personal property pay more than they would pay under option 1, so the total property tax under option 2 is the **greatest** of any option.
3. By both reducing the rates and by giving credits. Total property tax is in-between options 1 and 2.

Keeping the rates the same and giving an income tax offset credit – as the Executive recommends – results in the maximum amount of property tax at the Charter limit.

A simple hypothetical example will illustrate this point. Note that existing real property pays the same tax in both options, but new real property and personal property pay more if the Council reaches the Charter limit by keeping the rate unchanged and giving a credit. Therefore, total property tax is more with the credit option than with the rate reduction option.

	Existing real	New real	Personal	Total
Property tax at current rates, before credit or rate reduction	1,000	200	100	1,300
<b>Options for reducing tax on existing real property to the Charter limit:</b>				
<b>Option 1:</b> give an income tax offset credit, don't reduce rate	(100)	0	0	(100)
Property tax after credit	900	200	100	<b>1,200</b>
<b>Option 2:</b> reduce rate, don't give credit	(100)	(20)	(10)	(130)
Property tax after reduced rate	900	180	90	<b>1,170</b>

**History of credits** See table below.

FY	Per household	Estimated # households	Total credit Millions
99	\$50	222,000	\$11.1
06	\$116	254,260	\$29.5
07	\$221	250,000	\$55.3
08	\$613	243,173	\$149.1
09	\$579	245,000	\$141.9
10	\$690	245,000	\$169.1
11	\$693	243,600	\$168.8

**Maximum amount of credit** State law specifies that the maximum is the amount of income tax resulting from a County income tax rate in excess of 2.6% of Maryland taxable income. The Council set this rate at 3.2%, the maximum the State permits. See ©1 for the calculation.

	A	B	C	D	E	F	G
1	PROPERTY TAX OPTIONS FOR FY10: CHARTER LIMIT						
2	From David Platt, Apr 22, 2010						
3					\$ increase from	% increase from	
4	<b>Data for calculations</b>				FY10 approved	FY10 approved	
5	FY10 approved property tax (data below are FY11)			1,440,925,381			
6	Property tax at current rates			1,618,679,000	177,753,619	12.3%	
7	CE property tax			1,449,865,000	8,939,619	0.6%	
8	d = Property tax at Charter limit by credit (no change rate)			1,449,865,000	8,939,619	0.6%	
9	e = Property tax at Charter limit by reducing rate (no credit)			1,437,675,000	(3,250,381)	-0.2%	
10	f = Decrease PT from current rates to CL by credit			(168,814,000)			
11	Decrease PT from current rates to CL by reducing rate			(181,004,000)			
12	PT at CL by credit minus PT at CL by reducing rate			12,190,000			
13	Change property tax resulting from 1¢ change rate			17,462,338			
14	g = ¢ reduction from current rates to CL			-10.365393¢			
15	# households eligible for credit			# 243,600			
16	Credit per household to CL			(693)			
17	CE property tax is this much less than current rates			(168,814,000)			
18							
19							
20							
21	<b>Maximum amount of property tax credit for income tax offset.</b> The maximum is the amount						
22	of income tax resulting from a County income tax rate in excess of 2.6%.						
23	Finance's income tax estimate for FY11				1,060,680,000		
24	County income tax rate				3.2%		
25	Income tax per percent				331,462,500		
26	Rate used to calculate excess				2.6%		
27	Income tax if rate were 2.6%				861,802,500		
28	Income tax in excess of 2.6%. This is the maximum total credit.				198,877,500		
29	Maximum credit per household				(816)		
30	Credit amount recommended by CE				(693)		



# PROPERTY TAXES SINCE SAG PROCESS STARTED

Tax in \$million, Base in \$billion, rate as % of Base

Income tax offset credit per household = ITOC

A	B	C	F	G	H	I	J	K
FY	Tax Budgeted	% Change	Property Tax Current Rates	Charter limit	Needed 7/9 votes?	Budget - Charter Lim	Council set rates at	ITOC per HH
92	\$683.9		\$700.0	\$684.0	No	(\$0.1)	CL	
93	705.5	3.2%	744.2	705.6	No	(0.1)	CL	
94	730.0	3.5%	729.3	730.1	No	(0.0)	CL	
95	747.6	2.4%	733.7	751.2	No	(3.6)	< CL	
96	756.2	1.2%	756.0	764.5	No	(8.3)	CR, but <CL	
97	770.7	1.9%	770.7	775.7	No	(5.0)	CR, but <CL	
98	785.7	1.9%	785.7	806.6	No	(20.9)	CR, but <CL	
99	788.2	0.3%	811.6	811.2	No	(23.0)	< CL	\$50
00	804.4	2.1%	807.0	804.6	No	(0.2)	CL	
01	819.5	1.9%	819.5	825.1	No	(5.6)	CR, but <CL	
02	870.7	6.2%	870.7	875.7	No	(5.0)	CR, but <CL	
03	911.9	4.7%	911.9	907.6	Yes	4.3	CR	
04	977.6	7.2%	977.6	948.4	Yes	29.2	CR	
05	1,069.0	9.3%	1,079.7	1,031.7	Yes	37.3	1¢ < CR	
06	1,105.2	3.4%	1,191.0	1,105.2	No	0.0	CL	116
07	1,154.0	4.4%	1,276.6	1,154.0	No	0.0	CL	221
08	1,207.5	4.6%	1,356.6	1,207.5	No	0.0	CL	613
09	1,364.9	13.0%	1,507.3	1,247.5	Yes	117.4	\$118m>CL	579
10	1,440.9	5.6%	1,607.7	1,440.9	No	0.0	CL	690
11	1,449.9	0.6%	1,618.7	1,449.9	No	0.0	CL	693

# years exceeded Charter limit

yes 4

# years did not exceed Charter limit

no 16

9 affirmative votes are required to set rates if the amount of tax will exceed the amount specified in §305 of the Charter (7 affirmative votes before FY10).

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