OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Marc Elrich
County Executive

TESTIMONY BY COUNTY EXECUTIVE MARC ELRICH
on proposals to amend Section 305 of the Montgomery County Charter

July 21, 2020

As we address the immediate needs of our residents and plan for the future, one thing has become abundantly clear - our county government's fiscal structure has reached the breaking point and must be fundamentally altered. Quite frankly, our charter manufactures austerity to create a system that is broke on purpose. It leaves our residents and our business community with the false perception that we cannot manage our resources. And while our neighbors in the region focus on what future they want to build for their communities, our charter prevents us from tackling a range of issues from the opportunity gap in our schools to quality infrastructure, affordable housing, and adequately funded reserves. Over the past year, I have been making the case for changing our charter, and I am grateful that this Council is ready and willing to join me.

Our County Charter includes a provision that limits the growth in property tax revenue - not property tax rates - to the growth in the Consumer Price Index (CPI) for all consumers in the Baltimore-Washington Region from the December 1 to November 30 of the preceding year. Since the Federal Government no longer publishes this index, we have been using the CPI for just the Washington Region. For the period of December 1, 2018, to November 30, 2019, the CPI for the Washington region was only 1.27 percent. No matter how much assessments increased and no matter how much we succeeded in growing our tax base, the total amount of property tax revenues could not grow by more than 1.27 percent for the current fiscal year.[1]

[1] It is slightly above inflation rate because the current charter allows certain exemptions: (1) newly constructed property, (2) newly rezoned property, (3) property that, because of a change in state law, is assessed differently than it was assessed in the previous tax year, (4) property that has undergone a change in use, and (5) any development district tax used to fund capital improvement projects. In practice though only new construction has been added, and only part of that. Because new property assessments are phased in over three years on tax bills, the practice has been to only add the first year's amount on to the additional taxable base. And with some new construction, it is only a partial first year so it is less than 1/3.

It is important to note that the charter's revenue limit does not mean the average property tax bill will only increase by 1.27 percent. Quite the opposite. Most individual bills will increase (or decrease) by the change in one's taxable assessment. Since county law limits growth in assessments to 10 percent in any given year, a property with such an increase in value will see its tax bill go up by roughly 10 percent. The charter revenue limit only redistributes the tax burden from properties with little to no increased value to those properties with the greatest increase in value. This has meant that some residents in modestly priced homes have faced 10 percent increases while some high-value properties actually saw their tax bill cut. Furthermore, the existing charter limit does not allow the County to benefit from increased economic growth – to expand the economic pie - while having to pay the costs of the increased growth.

When the County Council proposed to the voters our current charter limit on property taxes in 1990, few people could have foreseen the dramatic changes that would take place in Montgomery County and around the globe. In the past 30 years, our school population has grown by 65 percent and our overall population has grown by 40 percent. The services we provide are now more complex and seek to address a range of challenges, from traffic congestion and climate change to health care disparities and linguistic diversity. And over the same time period, our property tax rate has declined by 35 percent.

We have all witnessed other local governments regionally and nationally experience generational decline due to conflicting, irreconcilable fiscal policies. Montgomery County is at the precipice of such a decline if we cannot get ourselves out of this cycle of self-enforced structural deficits and an inequitable, unpredictable revenue cap.

To address this issue, I called for a change in the charter when I released my recommended budget on March 16th and submitted a formal proposal for an amendment that will revise our fiscal policy.

First, my proposal calls for the elimination of our three-decade old, cumbersome revenue cap, and I am glad that the Government Operations Committee has unanimously recommended this approach. Second, my proposal also contains a three percent cap on the increase in any homeowner's taxable assessment. Fortunately, state law provides the Council with the ability to enact this cap through the existing Homestead Property Tax Credit program by a simple resolution. I am pleased that you have expressed interest in this policy and want to have further conversation about its potential to benefit our homeowners. Therefore, I would propose we put that issue aside for additional discussion in the Fall.

Finally, I propose that the charter require a super-majority of two-thirds of the council for any change in any property tax rates. The County's property tax is composed of several different taxes; some impact all properties while others have a special purpose or limited scope. I am concerned that a unanimous consent requirement for any change in any of these rates, especially the special purpose property taxes, would only continue to limit our ability to respond to emergencies or opportunities.

Like you, I have often heard that we in Montgomery County need to be more like Northern Virginia in order to increase our competitiveness in attracting business investment. What many residents and observers may not know is that our colleagues in Northern Virginia are quite aggressive in using special purpose districts to supplement their effort to grow their communities. For example, Fairfax County has authorized special purpose taxes in Tysons that add 55 cents to the Fairfax's general property tax rate, which stood at $1.14 per $100 in taxable value this year. This combined tax rate is 60 cents higher than the combined state/county rate in Montgomery County. These special taxes in Tysons help pay for road improvements, the Silver Line, and operations of the business district. These types of special purpose taxes allow Fairfax County to quickly improve infrastructure without the need for high upfront impact taxes. A charter freed from our unusual revenue cap and from a unanimous consent requirement would allow us to work with our state government to craft a tax policy that competes with Northern Virginia and the District of Columbia.

Once again, I applaud your willingness to respond to the concerns of our residents and to join me in forwarding to our voters a critical change to our charter.