TESTIMONY OF THE GREATER CAPITAL AREA ASSOCIATION OF REALTORS® BEFORE THE MONTGOMERY COUNTY COUNCIL

Regarding 2024 Operating Budget & Bill 17-23, Recordation Tax Rates

April 11, 2023

2024 Operating Budget

My name is Avi Adler, and I come before you today on behalf of the Greater Capital Area Association of REALTORS® (GCAAR), and 12,000 REALTORS®, property managers, title attorneys, and other real estate professionals, to express our concerns regarding the County Executive's fiscally irresponsible Proposed FY24 Budget, including the 10 percent tax increase, as well as the recordation tax increases proposed by Councilmembers Mink and Jawando.

The budget document transmitted by the Executive and his staff is a story of contradictions. It makes multiple references to the possibility of a looming recession, our slowed economic growth, and the still felt pain of the pandemic. And in such an instance you would expect belt-tightening, reserve shoring, and future financial liabilities kept at a necessary minimum. Yet this budget patently rejects every single one of those measures. With a stunning level of tax supported expenditure – only reachable through the immense property tax increase that has been proposed – the Executive's proposed budget seems inconsistent with current economic landscape.

The County Executive will say that the budget this year is all about the schools. But frankly, we are tired of this false narrative. I want to take a moment to reiterate that, despite what is presented by proponents of the tax increase, we are not against funding public education, paying teachers, and ensuring our schools are safe. What we cannot abide is setting our County up for future financial burdens by further escalating Maintenance of Effort for a school system that isn't using the funds already appropriated to their full potential.

For example, the MCPS fund balances at the end of the fiscal year have grown from $2 million in 1997 to $88 million in 2022. While a system as large and complex as MCPS is expected to have unused funds, the exponential growth in these surpluses seem to correlate with leftover funds from what is budgeted for instructional salaries. 7 percent of the instructional salary budget was leftover in 2021, and in 2022 it was 8.3 percent. This is more than 4 times the instructional salary funds leftover between 2004 and 2020 - an average of only 1.8 percent. It seems inconsistent that the school system would need hundreds of millions more appropriated while ending each year with tens of millions in unused funds.

As Montgomery County sits at negative 1 percent job growth and negative total employment year after year, we also cannot side idly by while the Executive further burdens taxpayers with an expansion of our already immense County government. In the proposal sitting before the Council, County government's tax supported budget would grow by nearly $170 million versus FY23's approved budget, an increase of 8.9%. Comparing our county to neighboring Maryland counties, Howard County and Frederick County have nearly identical per capita staffing levels across their county governments. But when looking at compensation, our county government payroll per capita is 15 percent higher than Howard and 29 percent higher than Frederick. One might think that cost of living explains such a gap – but a 2019 dataset from Maryland Department of Commerce shows that the cost of living index for Howard County (131.6) is actually *higher than* Montgomery County (130.4), with Frederick only 11% lower (116.4).

During his budget press conference, the County Executive continued to push the claim that Fairfax County taxes are lower than ours, and therefore it would be a flight of fancy to see residents or businesses – current or prospective – go there instead. But, based on a review of audited financial statements for Montgomery County and Fairfax County, our tax burdens per capita were nearly 14% higher for both FY22 and FY21. The difference is even more stark when looking at taxes only – on a per capita basis, combined Maryland state and local tax burdens are 30 percent higher than those in Virginia. Their employment growth was 60 percent between 1990 and 2016, while Montgomery County's was 21%. The business community has been raising the red flag for years but has been largely ignored as county government and its liabilities expand.

A government budget during times of economic stagnation is a public show of its priorities. But this proposed budget doesn't make hard decisions on what to fund and what to delay. Instead of setting priorities it gives out additional funding across the board and puts the onus on residents through tax increases to foot the bill. Put simply, if everything is a priority, then nothing is a priority.

Bill 17-23, Recordation Tax Rates

We also need to express our strong objections to Bill 17-23, Recordation Tax Rates.

In the bill's introduction packet, a chart from Maryland Department of Legislative Services is cited showing Montgomery County's recordation tax rates in the mid-range of all Maryland counties. What the packet leaves out - what appears on the same page - is a chart showing per capita revenue. We suspect it is left out of the packet because it shows only Frederick County with a higher per capita revenue, adding important context to the discussion. Frederick County also does not have a transfer tax. When recordation *and* transfer tax revenue per capita is compared, Montgomery County comes in much higher.

The fact is that our lower-than-our-neighbors tax rates keep us competitive in the region. Why? Because our property values are significantly higher.

Raising recordation taxes will heavily impact affordability in an already constrained market. These costs are not included in a mortgage – they are due at closing. While buyers are struggling to afford down payments, adding to their closing costs will push young families and others looking to put down roots here into neighboring jurisdictions.

I sat at this very table before the Planning, Housing, and Parks Committee a few weeks ago to share the troubling situation regarding affordability. We hope that instead of raising costs of closing on a home, the Council will approach this issue to break down the barriers to homeownership in our county.

When the real estate marketplace contracts, real estate professionals see a reduction in their ranks. And our industry is an integral part of the local economy. According to the United States Bureau of Economic Analysis, the employment multiplier for real estate in Montgomery County is 1.44. This means that each new job in real estate has the effect of creating an additional 0.44 new jobs in other industries. The multiplier for rental and leasing services? 2.20.

Aggressively raising the different rates by magnitudes of 60 percent, 50 percent, and 100 percent will drive prospective residents to our neighboring jurisdictions, hasten the overall decline in Montgomery County employment, and worsen our already slowing economic outlook.

The proposed FY24 Operating Budget and Bill 17-23 will likely serve as bellwethers for the direction this Council wants to take the county in the coming years. Instead of asking residents to shoulder the responsibility of massive budget increases, we urge you to choose fiscal responsibility and the long-term financial health of our county. We know the budget process is difficult and appreciate the work you and your staffs put in over these many weeks. Please do not hesitate to reach out if myself or our association can be helpful in any way.

April 11, 2023

SUMMARY OF KEY ISSUES IN THE FY24 RECOMMENDED OPERATING BUDGET

FY24 RECOMMENDED BUDGET OVERVIEW

Montgomery County Executive Marc Elrich has proposed a $474 M increase in the tax supported budgets for County Government and its agencies.

- The tax supported budget of County Government would increase by 8.9%, while the tax supported increase for MCPS is 10.7%.
- The increase in non-property tax revenue is only $9.4 M. Property tax revenue would increase by $274 M, but only about $51 M of that is from increased property values, with $223 M coming from a rate increase. The remainder of the budget increase is funded with of $159.3 M of fund balance, an increase of $92 M in State Aid, and increased investment income of $33 M due to interest rates.
- Based on the budget and 6-year plan as submitted, we are to assume a FY24-FY25 increase of $158.2 M in tax supported revenue. But the annualized impact of FY24 proposed changes to compensation for County Government employees is approximately $100 M before any additional changes to compensation and benefits, increases to the budgets of MCPS or other agencies, etc.
- By the end of FY25, the General Fund Undesignated Reserve will have a fund balance of $6 M, or about $200 M less than the level required by the County's fiscal and reserve policies.
- Given the above, it is likely that an additional tax increase will be likely at some point during the next three years.

MONTGOMERY COUNTY TAXES AND TAX FUNDED COMPENSATION ARE ALREADY TOO HIGH

Compared to its regional peers and neighbors, tax burdens in Montgomery County are high.

- In FY2022, per capita tax burdens in Montgomery County were 13.75% higher than in Fairfax County, VA (Annual Financial Reports).
- From 2011 to 2021 average annual salaries of local government workers in Montgomery County were, on average, 7.6% higher than those in Fairfax County, VA and 10.9% above those in Howard County, MD. (Bureau of Labor Statistics).
- According to the Census Bureau, full time payroll per capita is much higher in Montgomery County than in Fairfax (-10.5%) and Howard County (-11.3%) despite that both of those peers have larger workforces (+1.7%) per capita. (Annual Survey of Public Employment and Payroll – March 2021).
- Full time payroll per full time worker is also much higher in Montgomery County - 12.0% higher than Fairfax County, and 12.7% higher than Howard County.

MONTGOMERY COUNTY'S ECONOMY IS CONTRACTING

Taxation adds to the headwinds facing Montgomery County businesses.

- From 2017 to 2021, private sector economic output *declined* by an average of 1.0% per year after adjusting for inflation; in Fairfax County, real private sector GDP increased at an average rate of 3.7%/yr (Bureau of Economic Analysis).
- Wage and salary employment (regular jobs) in Montgomery County *declined* by an average of 0.9% per year from 2017 to 2021, while increasing at an annual average rate of 0.7% per year in Fairfax County. (BEA).
- Nonfarm proprietor income, the income earned by business owners, *decreased by an average of 14.0% per year* (it was up 6.8% per year in Fairfax County). From 2017 to 2021, business proprietors' income fell from 17.0% of personal income to 8.5% of personal income in Montgomery County (BEA).

REJECT THE COUNTY EXECUTIVE'S BUDGET

The Council must lead the county to a more sustainable fiscal future.

- County government currently has *more than 1,100 vacant positions*, with budgeted personnel costs of *more than $100 M*. Eliminating vacancies is how the County weathered the Great Recession.
- Millions of dollars in potential savings can be found in the recommended budgets of departments such as the Board of Elections, Environmental Protection, Office of Human Resources, Public Libraries, Utilities, and more.
- The budget includes 170 new positions at an estimated FY24 cost of $11.9 M. Reducing new positions is a time-tested approach to balancing budgets.
- The County underestimated the January income tax distribution ($70 M estimated versus $230 M actual), and in February the income tax distribution exceeded February 2022. As such, it is unclear why the County "wrote down" income tax revenue after the December revenue update.
- The MCPS budget request includes a placeholder for roughly $200 M in additional compensation, though just 6 months ago MCPS informed the Council that it had excess appropriations for salaries of $22.4 M (instructional, special ed, and mid-level administration salaries).

**Full text of this white paper available to Councilmembers and staff upon request.*