Income Tax Rate Testimony- 5/13/25

Gordie Brenne, Treasurer, Montgomery County Taxpayers League

Couple any income tax increase with a reversal of last year's 4.7% property tax rate increase, and make spending cuts like Howard County is doing. This will reduce the regressive impact of property taxes, offset some of the economic development impacts, and lower the structural deficit. The 4.7% increase was based on a bogus education emergency and didn't fix a very real management emergency. Our analysis showed most of the money went to pay for other county programs with supplementals that weren't in the approved budget. Basically, the Council robbed Peter to pay Paul, and Peter is a blind taxpayer who will get retroactively sucker punched.

The structural deficit timebomb will explode in two years when home assessment and capital gains revenue gushers stop growing. But, the Council just increased the deficit by unanimously approving above market union pay raises. (This is a bitter pill for taxpayers losing their Federal jobs and tightening their belts. Worse, county pay raises are not based on a comparative salary survey; it was last done in 2011. Relying on the substitute OMB survey is a very narrow analysis that's not representative of county jobs. County pay raises are piled on top of similar above market pay raises for MCPS that have our teachers earning 13% more than Fairfax teachers. Because employee productivity has not increased to justify these pay raises, service delivery costs have increased faster than the rate of inflation, and the number of eligible residents served will not increase, nor will kids get a better education.)

The structural deficit also grows because of new revenue subsidy programs. Recent approval of a PILOT program for office to residence conversions will reduce property tax revenues by at least $130 million (in the first 6 years). Maybe this will override the high costs of building in our county due to regulations the Council imposed, but who will pay to make up the revenue loss? Less wealthy residents who live in unimproved housing will be subsidizing more expensive homes. (Also, while conversions will produce higher revenues after 25 years, they have a discounted cash flow value of almost nothing. Worse, OLOs analysis discloses projections are based on assumptions that are unpredictable- see note below- and the revenue losses could be even greater. This increases the risk the county bond rating could be reduced.)

Our revenue analysis shows those lucky to live in new homes and tear/down rebuilds benefit from delayed reassessments that are often below market value. That's inequitable, as are appeal delays. Also, income taxes are less stable than property taxes because of capital gains require growing incomes to offset timing risks, and increases will lose wealthier residents and reduce tax revenues.

A **new economic development model** is needed to pace government costs with commercial job growth, and reduce our dependence on government jobs and income taxes to pay for growth. Restructuring the property assessment process with a county takeover pilot test is a way to increase accountability, and boost revenue efficiency so that spending cuts that reduce the structural deficit can be matched to property tax rate reductions, thereby increasing the tax base.

State audits have shown SDAT was doing less than half the assessments they were assigned (2018), and more recently there were issues with reassessment notices and credits (2024). County staff can do better assessments, and combined with economic development from lower property tax rates our property tax revenue efficiency could increase by at least 20%. That's $500 million for tax rate reductions. (The county's assessment process subsidy increases from 50% to 90%, making this the right time for a more cost-effective solution. Integrating assessments with the county's permitting process is key, and the county can do a better job of controlling needed data for better scheduling and credit approvals-$100 million. Better market-based assessments for new construction would also boost revenues by 10% for 10% of assessments- $25 million. In exchange for shifting accountability and costs to the county the state should agree cut its revenue share from 10% to 5%- $125 million. Decreases in the property tax rate would grow the tax base by 10%- $250 million.)

You've got to do something because Peter is about to get even with Paul with a looming ballot referendum that would place a CPI limit on spending, and revenues depend on growth. (This would replace the revenue limit the Council dropped in 2020, and requiring significant cost reductions. We are working with MCPS to bring their overhead and instruction management costs in line with what's required to turn low-income schools into high performing organizations. The same kind of restructuring is needed for county government.)

Note
OLO's attached Economic Impact Analysis (pg. 28 of staff report):
"the Bill's overall economic impact would depend on: (a) the annual economic effects of the tax exemption on County residents and businesses, and (b) the economic opportunity cost of the forgone County revenue. Since OLO cannot determine how the lost tax revenue would otherwise be allocated, this analysis does not assess the economic impact of alternative government spending
Translation: The first part is saying (among other examples) that if owned townhouses are built instead of multifamily rentals, then the revenue loss would be greater. The second part is saying the lost $130 million could have been used for more productive economic development that would generate returns now, not 25 years from now.

State Audits
https://dls.maryland.gov/pubs/prod/NoPblTabPDF/SDAT24.pdf

file:///C:/Users/user/Downloads/SDAT18.pdf