Climate Assessment

Office of Legislative Oversight

Bill 17-23: Taxation – Recordation Tax Rates - Amendments

Summary

The Office of Legislative Oversight (OLO) anticipates Bill 17-23 will likely have a minimal, positive impact on the County's contribution to addressing climate change as a portion of the revenue from the proposed tax increase would go towards rental assistance for low- and moderate-income households. This could increase housing stability for recipients of the assistance, which would have a minimal, positive impact on community resilience. However, this positive impact relies on the assumption that additional revenue raised by the tax will be spent specifically to supplement and not replace current funding of rental assistance.

Background and Purpose of Bill 17-23

A recordation tax is an excise tax imposed by certain states, including Maryland, as compensation for registering the purchase or sale of property as public record.[1] The tax applies to the principal amount of debt secured by a mortgage or deed of trust when a house or building is being purchased. When a mortgage is refinanced, the tax applies to the amount of principal debt that is greater than the principal remaining on the original debt.[2]

Bill 17-23 proposes to increase the recordation tax rate levied under state law for certain transactions and allocate revenue received from the recordation tax for capital improvements and to the Montgomery Housing Initiative Fund (HIF). Specifically, the Bill proposes:

- Increasing the rate of the "school increment" from $2.37 to $3.79 for each $500 of the property's sale price.[3] The school increment funds can be used for any Montgomery County Public Schools capital project;
- Increasing the rate of the "Recordation Tax Premium" from $2.30 to $3.45 for each $500 on the property's sale price,[4] only if it is over $500,000. The proceeds are split equally – half is allocated to County Government capital projects and the other half is for rent assistance for low and moderate income households; and
- Adding a new premium rate of $1.15 for each $500 on the property's sale price,[5] only if it is over $1,000,000. The proceeds would be split equally – half would be allocated to County Government capital projects and the other half to rent assistance for low- and moderate-income households.[6]

Bill 17-23, Taxation – Recordation Tax Rates – Amendments, was introduced by the Council on March 21, 2023.

Methodologies, Assumptions, and Uncertainties

Methodology. OLO conducted a literature review of rental assistance and its impact on housing stability, which increased community resilience. OLO also reviewed previous County revenue from recordation taxes.

Assumptions. The additional revenue earmarked for rental assistance from the proposed tax increase will be spent specifically to supplement and not replace current funding of rental assistance. This will allow for new recipients to have increased housing stability, in addition to current recipients, therefore positively impacting community resilience.

Uncertainties. There are a couple uncertainties associated with the analysis of Bill 17-23: (1) How many recipients of rental assistance there will be and; (2) If the assistance leads to housing stability for recipients.

Rental assistance and its impact on community resilience

Recordation taxes are an important source of revenue for local governments and can be used for a variety of projects and programs. In FY23, Montgomery County is projected to receive $206,466,368[7] in revenue from recordation taxes.[8] Council staff estimate the overall revenue from the proposed tax increase from FY23 through FY28 will be $319,600,525. Of that estimated revenue, approximately $59,009,636 will be earmarked for rental assistance for low- to moderate-income households.[9] Other revenue from the tax would go towards capital improvement projects, such as schools, transportation, public safety, libraries, recreation, and general government projects.[10]

Rental assistance can increase housing stability for recipients, which is an important component of community resilience.[11] Housing stability is associated with physical, social, and psychological well-being for individuals, as well as enhanced social cohesion and community ties.[12] Enhanced social cohesion and community ties enable residents to stay better connected, especially during extreme weather and other emergencies.[13]

Anticipated Impacts

Community Resilience. The Office of Legislative Oversight (OLO) anticipates Bill 17-23 will likely have a minimal, positive impact on the County's contribution to addressing climate change as a portion of the revenue from the proposed tax rates would go towards rental assistance for low- and moderate-income households. This could increase housing stability for recipients of the assistance, which would have a minimal, positive impact on community resilience. However, this positive impact relies on the assumption that additional revenue raised by the tax will be spent specifically to supplement and not replace current funding of rental assistance.

For homebuyers, recordation taxes are a very small percentage of the overall cost of the property and there is no evidence that changes in housing transfer taxes, such as recordation taxes, significantly impacts the volume of house sales.[14] Therefore, the proposed tax increase will likely not impact housing stability for home buyers and owners.

Greenhouse Gas Emissions. There is not enough information available, such as specific capital improvement projects that would be funded by the proposed tax increase, to anticipate any impact on greenhouse gas emissions.

Recommended Amendments

The Climate Assessment Act requires OLO to offer recommendations, such as amendments or other measures to mitigate any anticipated negative climate impacts.[15] OLO does not offer recommendations or amendments as Bill 17-23 is likely to have a minimal, positive impact on the County's contribution to addressing climate change, including the reduction and/or sequestration of greenhouse gas emissions, community resilience, and adaptative capacity.

Caveats

OLO notes two caveats to this climate assessment. First, predicting the impacts of legislation upon climate change is a challenging analytical endeavor due to data limitations, uncertainty, and the broad, global nature of climate change. Second, the analysis performed here is intended to inform the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

Purpose of Climate Assessments

The purpose of the Climate Assessments is to evaluate the anticipated impact of legislation on the County's contribution to addressing climate change. These climate assessments will provide the Council with a more thorough understanding of the potential climate impacts and implications of proposed legislation, at the County level. The scope of the Climate Assessments is limited to the County's contribution to addressing climate change, specifically upon the County's contribution to greenhouse gas emissions and how actions suggested by legislation could help improve the County's adaptative capacity to climate change, and therefore, increase community resilience.

While co-benefits such as health and cost savings may be discussed, the focus is on how proposed County bills may impact GHG emissions and community resilience.

CONTRIBUTIONS

OLO staffer Kaitlyn Simmons drafted this assessment.

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[1] Maryland Tax – Property Code §§12-101 to 12 -118, https://mgaleg.maryland.gov/mgawebsite/Laws/StatuteText?article=gtp&section=12-108&enactments=false
[2] Introduction Staff Report for Bill 17-23, Montgomery County Council, March 21, 2023. https://apps.montgomerycountymd.gov/ccllims/DownloadFilePage?FileName=2792_1_24860_Bill_17-2023_Introduction_20230321.pdf
[3] Or, if refinancing, on the additional amount borrowed over the remaining principal
[4] Or, if refinancing, if additional amount borrowed over the remaining principal is over $500,000
[5] Or, if refinancing, if additional amount borrowed over the remaining principal is over $1,000,000
[6] *Ibid.*
[7] Estimate is based off the current recordation tax, not the proposed increase by Bill 17-23.
[8] "County Revenue Outlook Fiscal 2023", Department of Legislative Services Office of Policy Analysis, December 2022.
[9] Introduction Staff Report for Bill 17-23, Montgomery County Council, March 21, 2023. https://apps.montgomerycountymd.gov/ccllims/DownloadFilePage?FileName=2792_1_24860_Bill_17-2023_Introduction_20230321.pdf
[10]Feedback from County Staff
[11] "The Effects of Rental Assistance on Housing Stability, Quality, Autonomy, and Affordability, Schapiro, R., et. al., Housing Policy Debate, January 8, 2021.
[12] "Research Shows Rental Assistance Reduces Hardship and Provides Platform to Expand Opportunity for Low-Income Families", Fischer, W., et. al., Center on Budget and Policy Priorities, December, 5. 2019.
[13] "Equitable Adaptation Legal and Policy Toolkit", Georgetown Climate Center, Accessed 4/3/23.
[14] "Real Estate Transfer Taxes and Housing Price Volatility in the United States", Chen, H., International Real Estate Review, 2017., "The Behavioral Response to Housing Transfer Taxes: Evidence from a Notched Change in D.C. Policy", Slemrod, J., et. al., Journal of Urban Economics, July 2017.
[15] Bill 3-22, Legislative Branch – Climate Assessments – Required, Montgomery County Council, Effective date October 24, 2022