Economic Impact Statement

Office of Legislative Oversight

Bill 10-20

Property Tax Credit – Energy and Environmental Design – Eligibility Criteria and Amounts of Credit

SUMMARY

Overall, the Office of Legislative Oversight (OLO) expects Bill 10-20 to have a positive, yet modest, impact on the Montgomery County economy.

BACKGROUND

Property tax credits are one tool in the County government's toolkit to reach its greenhouse gas (GHG) reduction goals.[1] Under the current property tax credit for energy and environmental design, owners of commercial and multifamily buildings receive tax credits for attaining specific building certifications or equivalents.[2] The purpose of Bill 10-20 is to shift the focus from attaining building certifications to achieving greater reductions in commercial building energy use, which compromises "more than 26% of the County's measured GHG emissions."[3] Bill 10-20 would incentivize energy reduction in the commercial building sector by altering the following three features of the current property tax credit policy:

- "the eligibility criteria for the property tax credit for energy and environmental design,"
- "the amounts and durations of the property tax credit for energy and environmental design by type of building," and
- "annual limits on the total amounts of property tax credits granted by the County for energy and environmental design."[4]

If passed, Bill 10-20 would generate economic impacts for the County economy primarily through removing the $5 million annual cap on credits given to eligible new construction[5] and incentivizing energy reduction in private commercial and multifamily buildings.

INFORMATION, ASSUMPTIONS

This analysis illustrates how Bill 10-20 could generate positive, yet modest, local multiplier effects. To do so, OLO uses Regional Input-Output Modeling System (RIMS II) multipliers for Montgomery County developed by the U.S. Bureau of Economic Analysis. These multipliers are "ratios of total changes to initial changes in regional economic activity."[6] Using these multipliers, OLO illustrates how the injection of funds from

[1] County Council for Montgomery County Maryland. Emergency Climate Mobilization. Resolution No. 18-974. December 5, 2017.
[2] County Council for Montgomery County Maryland. Property Tax Credit – Energy and Environmental Design – Eligibility Criteria and Amounts of Credit. Bill No. 10-20. Legislative Request Report. March 3, 2020. 9, and County Council for Montgomery County Maryland. Memorandum. Christine Wellons. February 27, 2020. 1-2.
[3] Commercial/Multifamily Stakeholder Work Group. Recommendations on Montgomery County High-Performance Green Building Incentives. March 2019. 11.
[4] County Council for Montgomery County. Property Tax Credit. 1.
[5] County Council for Montgomery County. Memorandum. 3.
[6] US Bureau of Economic Analysis. *RIMS II: An Essential Tool for Regional Developers and Planners*. 3-1.

and METHODOLOGIES

removing the $5 million cap on property tax credits could increase the following economic dimensions of the Montgomery County economy:

- Output – total market value of industry output (sales)
- Earnings – employee compensation plus net earnings of sole proprietors and partnerships
- Employment – number of full- and part-time employees
- Value added – total value of income generated from production[7]

VARIABLES

The variables that could affect economic impacts in the County are the following:

- Total amount of property tax credit awarded per year (based on energy reduction levels and sustainability certification bonus for new buildings and backlogged buildings)
- Total energy costs per year for households living in multifamily residential properties, and owners/tenants of nonresidential commercial properties
- Number of property tax credits received per year
- Montgomery County property tax rate
- Energy rates by utility companies

IMPACTS

Businesses, Non-Profits, Other Private Organizations

Workforce, operating costs, property values, capital investment, taxation policy, economic development, competitiveness, etc.

The two primary factors that would create economic impacts for businesses, non-profits, and other private organizations are: (1) growth of total building credits, given the elimination of the $5 million cap for new buildings, and (2) energy savings for owners of commercial/multifamily properties.

By removing the $5 million cap on credits for new buildings, OLO expects that the total amount of property tax credits per year would increase. **Figure 1** shows the total amount from credit applications that Montgomery County Government receives every year for new and existing properties. Since 2016, applications for property tax credits have exceeded the $5 million annual cap by more than $1.3 million. Removing the cap would result in greater tax relief for developers in the event that applications for new properties exceed $5 million.

Greater tax relief would reduce the cost of capital investments and generate a small positive multiplier effect in the County economy. To illustrate this effect, OLO used RIMS II multipliers for investments in “residential structures” and “nonresidential structures.”[8] As indicated in **Table 1**, for every additional $1 million in tax savings, the local economy could see an additional $1.4 million in output, $340,000 in earnings, and six jobs.[9] Thus, in addition to reducing the cost of capital investments, Bill 10-20 could have positive, yet modest, impacts on the workforce and economic development.

[7] Ibid. G1-G3.

[8] For definitions, see US Bureau of Economic Analysis. Glossary. BEA.gov. https://www.bea.gov/help/glossary (accessed March 18, 2020).

[9] This analysis uses the average multipliers for residential and nonresidential structures.

Figure 1. Total Building Credits for Received Applications by Year

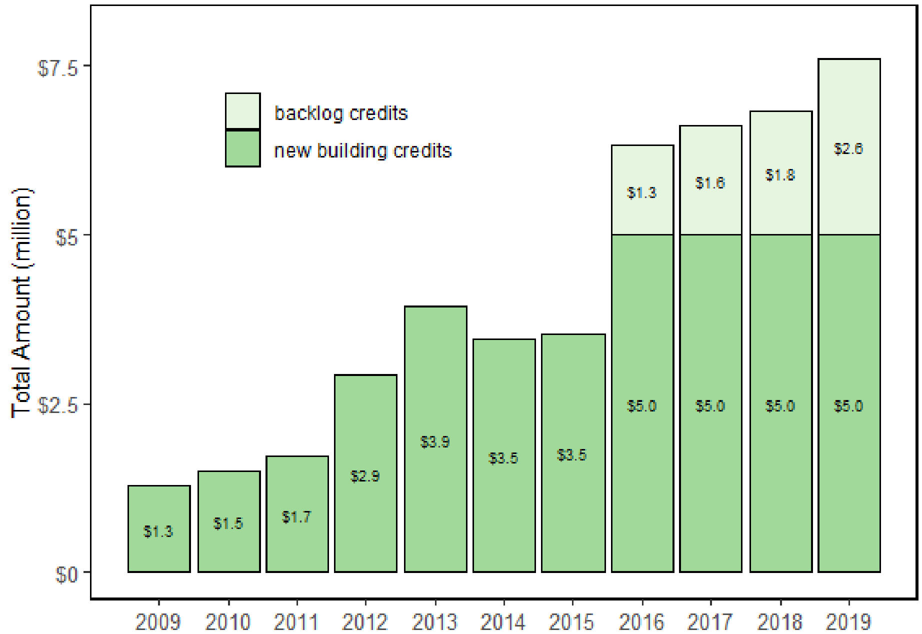

Table 1. Estimated Impacts on Output, Earnings, Employment and Value Added

Credit Increase (million)	Output (million)	Earnings (million)	Employment	Value Added (million)
$1	$1.44	$0.34	6.07	$0.82
$5	$7.22	$1.69	30.36	$4.09
$10	$14.45	$3.39	60.72	$8.17

Theoretically, these positive economic impacts would affect some of the County Council's priority indicators. In addition to lowering the cost of capital improvements, slight increases in output, earnings, and employment could enhance competitiveness and economic development. However, these effects would be small given the small increases in annual credits assumed here.

By prioritizing energy reduction, Bill 10-20 would generate energy savings for owners of commercial and multifamily properties that receive the credit. Although difficult to calculate, total annual energy savings for credit recipients would have direct impacts on key priority indicators. According to a report by Dodge Data & Analytics, a leading provider of analysis for the construction industry, constructing green buildings and performing green retrofits and renovations lower operating costs, improves occupational health and productivity, and increases property values.[10] OLO believes that energy savings would reduce net operating costs for owners of commercial and multifamily properties and very likely boost the value of these properties.

However, it should be noted that two factors could offset these potential energy savings. First, utility companies may respond to the reduced energy sales to commercial and multifamily buildings by asking the Public Services Commission for rate increases to compensate for shortfalls. Second, an increase in property taxes would offset the savings for buildings that do not attain credit for 100% of taxes.

Residents

Employment, property values, taxes paid, etc.

Bill 10-20 could impact residents through the growth of total building credits and energy savings for households living in multifamily properties. The multiplier effects on output, earnings, employment, and value-added that are discussed above would span the County. Residents would, therefore, share in these economic benefits. Moreover, due to energy savings, owners of units in multifamily properties would see a reduction in household expenses and would also benefit from potential increases in property values. However, the extent to which commercial tenants and multifamily renters would benefit is uncertain. Depending on the leasing arrangement, it is possible that landlords would "pocket" the energy savings rather than passing them to renters. Renters may or may not see a reduction in their monthly rental rates, but if multifamily buildings are individually metered and billed for energy use, renters would see a reduction on their utility bills.

WORKS CITED

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County Council for Montgomery County Maryland. Memorandum. Christine Wellons. February 27, 2020.

[10] Dodge Data & Analytics. *Smart Market Report: World Green Building Trends 2018*. 32-40. https://www.construction.com/toolkit/reports/world-green-building-trends-2018 (accessed on March 18, 2020).

Dodge Data & Analytics. *Smart Market Report: World Green Building Trends 2018*.

US Bureau of Economic Analysis. *RIMS II: An Essential Tool for Regional Developers and Planners*.

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. 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.

CONTRIBUTIONS

This economic impact statement was drafted by Stephen Roblin (OLO).