

MEMORANDUM

April 28, 2015

TO: Government Operations and Fiscal Policy Committee

FROM: Jacob Sesker, Senior Legislative Analyst *JS*

SUBJECT: FY16 Property Tax: Amount of Revenue, Credit, and Rate

PURPOSE

The Committee must recommend the amount of the property tax credit for income tax offset, the amount of property tax revenue that should be raised to fund the FY16 budget, and the weighted property tax rate. Decisions on any two of these will effectively determine the third—for example, determining the amount of property tax revenue and the amount of the credit effectively determines the weighted property tax rate.¹

The Executive recommends setting property tax revenue at the Charter limit² with a credit of \$692 (\$1,582.6 million).³ To set property tax revenue at the Charter limit and maintain the current credit of \$692 requires decreasing the weighted property tax rate from \$0.996 to \$0.987 per \$100 of taxable value. Every year at this time, the Government Operations and Fiscal Policy Committee considers its options with respect to the amount of revenue, the amount of the credit, and the weighted average real property tax rate. If the Committee requests alternative options, Council Staff will work with Finance to provide responses over the next few days.

AMOUNT OF PROPERTY TAX REVENUE

The Executive has proposed property tax revenue at \$1,582.6 million. The Executive's recommendation sets property tax revenue at the Charter limit; the Council could set property tax rates above the Charter limit if all nine Councilmembers vote to do so.⁴

¹ These decisions ultimately take the form of a resolution to set the property tax credit for income tax offset and a tax levy resolution that includes the tax rates for all of the property taxes that are part of the weighted property tax rate.

² Charter §305 limits increases in real property tax revenue to the rate of inflation, excluding specified exceptions (new construction, development districts, etc.). Nine affirmative votes are required to exceed the Charter limit.

³ The Council held a public hearing on the income tax offset credit on April 21.

⁴ The Council could also increase (slightly) property tax revenues without exceeding the Charter limit by increasing both the rate and credit. This would occur because increases in the rate would result in a slight increase in personal property tax

The ten-year history of revenue by category shows that, while property tax revenue has increased over the last decade, property tax revenue as a percentage of total revenue has remained relatively constant, falling below 30 percent of total revenue only in FY07 and FY08 (corresponding with a sharp increase in revenue from the income tax), and peaking in FY10 at 34.6 percent of revenue (corresponding with a precipitous decline in income tax revenue). Based on the revenue projections in the FY16 budget, property tax will account for 30.9 percent of revenue in FY16. *See Schedule F-2 (10-year history of revenue), © 2.*

Viewing the property tax in the context of all taxes is important because the County has a diverse revenue portfolio. While the real (adjusted for inflation) average household tax burden would be higher in FY16 than FY15, it would still be lower than FY07-FY09 and FY12-FY14. *See Average Tax Burden, © 5.* Similarly, while County taxes as a share of personal income would increase from 4.12 percent in FY15 to 4.13 percent in FY16, this is still below the level of FY07-FY09 and FY12-FY14. *See County Taxes as a Share of Personal Income, © 6.*

Staff recommends setting property tax revenue at the Charter limit with a credit of \$692.

INCOME TAX OFFSET CREDIT

Under County Code §52-11B, the Council is authorized to set, by resolution, the amount or rate of a property tax credit to offset a portion of the income tax revenue resulting from a County income tax rate that is higher than 2.6 percent (the County income tax rate is currently 3.2 percent). The credit applies only to owner-occupied principal residences.

§52-11B(c): The County Council must set the amount or rate of the credit under this Section annually by resolution, adopted no later than the date the Council sets the property tax rates. A public hearing must be held, with at least 15 days' notice, before the Council adopts a resolution under this Section. The amount or rate of the credit must, in the Council's judgment, offset some or all of the income tax revenue resulting from a County income tax rate higher than 2.6%. The Council must set the amount of the credit at zero for any tax year in which the rate of the County income tax does not exceed 2.6%.

The credit shifts a portion of the County's property tax burden to non-homeowners (including commercial property owners and residential renters). The Council sets the credit as a specific amount, rather than as a percentage of value; consequently, the credit adds a degree of progressivity to the property tax.

For FY16, Finance estimates that approximately 244,000 households will be eligible for the credit, down slightly from FY15/LY14⁵ (although the estimated total number of households will increase from an estimated 377,500 in 2015 to 381,000 in 2016). At \$692 per household, total credits for those households are estimated at \$168.8 million (not all households are eligible for the entire \$692 credit).

If the Council chooses to set property tax revenue at the Charter limit and to reduce the credit, the Council would need to further reduce the property tax rate below the CE's recommended rate. In this scenario, the results would include (1) a slight decrease in property tax revenue at the Charter limit⁶, (2) a

revenue as well as an increase in property tax revenue from new construction. For example, increasing the credit from \$692 to \$702 and increasing the rate from \$0.987 to \$0.988 would yield approximately \$155,325 in additional revenue.

⁵ LY = Levy Year.

⁶ This is because the rate also applies to property taxes that are not subject to the Charter limit, including personal property taxes paid by businesses (that rate is 2.5 times greater than real property tax rate), and also to newly constructed or re-zoned real property.

less progressive property tax regime among homeowners eligible for the credit, and (3) a shift of a portion of the overall property tax burden from those who are not eligible for the credit (commercial properties, residential renters) to those who are eligible for the credit (resident homeowners).

Alternatively, if the Council chooses to set property tax revenue at the Charter limit and also chooses to increase the credit, the Council would need to increase the property tax rate above the CE’s recommended rate.⁷ In this scenario, the results would include (1) a slight increase in property tax revenue at the Charter limit⁸, (2) a more progressive property tax regime among homeowners eligible for the credit, and (3) a shift of a portion of the overall property tax burden from those who are eligible for the credit (resident homeowners) to those who are not eligible for the credit (commercial properties, residential renters).

Table 1: Weighted property tax rates and income tax offset credit (FY00/LY99 to current)

Fiscal Year	Weighted real property tax rate (per \$100)	Change	ITOC
2000	\$1.006	(\$0.011)	\$0
2001	\$1.006	\$0.000	\$0
2002	\$1.006	\$0.000	\$0
2003	\$1.005	(\$0.001)	\$0
2004	\$1.005	\$0.000	\$0
2005	\$0.995	(\$0.010)	\$0
2006	\$0.953	(\$0.042)	\$116
2007	\$0.903	(\$0.050)	\$221
2008	\$0.903	\$0.000	\$613
2009	\$0.903	\$0.000	\$579
2010	\$0.904	\$0.001	\$690
2011	\$0.904	\$0.000	\$692
2012	\$0.946	\$0.042	\$692
2013	\$0.991	\$0.045	\$692
2014	\$1.010	\$0.019	\$692
2015	\$0.996	(\$0.014)	\$692
2016R	\$0.987	(\$0.009)	\$692

Historically, the amount of the credit has moved in only one direction. The Council reduced the credit once since 2000—from \$613 in FY08 to \$579 in FY09, before increasing it to \$690 the following year. The Council has set the credit at its current level of \$692 when funding the FY11 to FY15 budgets, and the Executive has proposed setting the credit at \$692 again for FY16.

⁷ For example, increasing the credit by \$10 and keeping revenue at the Charter limit would require an increase of approximately 0.1¢ in the property tax rate.

⁸ For example, increasing the credit by \$10 and keeping revenue at the Charter limit would result in a revenue increase of \$155,325.

The proposed resolution to set the income tax offset credit at \$692 is attached at © 1.

Staff recommends setting the income tax offset credit at \$692.

PROPERTY TAX RATE

The property tax rate is a function of the taxable base (the value of taxable property), credits, and the amount of revenue to be raised by the property tax. The taxable real property base is primarily a function of real estate market conditions. Credits against the property tax are a function of policy. The amount of property tax revenue is a function of limitations (such as the Charter limit), demands for resources, and the availability of alternative sources of revenue.

The County Executive's recommended weighted average property tax rate in FY16 (\$0.987 per \$100) is just below the weighted average property tax rate for FY13 (\$0.991). *See Schedule F-6 (Historical Analysis of Weighted Real Property Tax Rates), © 4.*

To reduce the rate by 1.0¢ while holding the credit constant would reduce real property tax revenue by \$17.1 million. A similar increase in real property tax revenue would result if the rate were increased by 1.0¢ (which would only be possible if all 9 councilmembers voted to exceed the Charter limit). Of course, the Council could support both an increase in the rate and an offsetting increase in the credit that would keep revenue at the Charter limit. To offset a small increase in the property tax rate, a large increase in the credit would be necessary.

Staff recommends setting the property tax rate at \$0.987, the rate at which property tax revenue is at the Charter limit with a credit of \$692.

- Attachments:
- © 1 Proposed resolution to set the income tax offset credit
 - © 2 Schedule F-2 (10-year history of revenue)
 - © 3 Schedule F-5 (10-year history of property tax rates)
 - © 4 Schedule F-6 (Historical Analysis of Weighted Real Property Tax Rates)
 - © 5 Average Tax Burden
 - © 6 County Taxes as a Share of Personal Income
 - © 7 Spreadsheet

Resolution No.: _____
Introduced: _____
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: Council President at the Request of the County Executive

SUBJECT: Property Tax Credit for Income Tax Offset

Background

1. County Code Section 52-11B authorizes the County Council by resolution to set the rate or amount of the property tax credit to offset certain income tax revenues resulting from a County income tax rate higher than 2.6%.
2. The County Executive has recommended the amount of property tax credit under County Code Section 52-11B for the tax year beginning July 1, 2015 to be \$692 for each eligible taxpayer.
3. A public hearing was held on April 21, 2015.

Action

The County Council for Montgomery County, Maryland, approves the following action:

The amount of the property tax credit under County Code Section 52-11B for the tax year beginning July 1, 2015 is \$692 for each eligible taxpayer.

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council

SCHEDULE F-2

TEN-YEAR HISTORY OF REVENUE BY MAJOR CATEGORY AND AS A PERCENT OF TOTAL REVENUE

FISCAL YEAR	(In Millions)																
	PROPERTY TAX		INCOME TAX		TRANSFER TAX		OTHER TAXES		LICENSES & PERMITS		CHARGES FOR SERVICES		INTERGOV. AID		FINES & MISC REVENUE		TOTAL REVENUE*
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
FY16 Rec	1,582.6	30.9	1,443.4	28.2	162.2	3.2	283.4	5.5	50.9	1.0	420.3	8.2	1,030.6	20.1	152.7	3.0	5,126.1
FY15 Estimate	1,546.2	31.4	1,333.1	27.1	149.3	3.0	278.7	5.7	50.2	1.0	402.3	8.2	1,011.7	20.6	145.0	3.0	4,916.6
FY15 Approved	1,549.9	31.3	1,340.6	27.1	169.6	3.4	280.7	5.7	52.8	1.1	406.7	8.2	1,010.7	20.4	135.0	2.7	4,945.9
FY14 Actual	1,537.8	31.0	1,376.8	27.7	152.5	3.1	287.6	5.8	54.2	1.1	403.0	8.1	982.8	19.8	167.2	3.4	4,961.9
FY13 Actual	1,486.0	31.2	1,317.5	27.6	151.3	3.2	295.1	6.2	52.1	1.1	389.0	8.2	939.4	19.7	136.5	2.9	4,767.0
FY12 Actual	1,447.9	31.3	1,255.1	27.2	127.3	2.8	295.3	6.4	50.0	1.1	371.5	8.0	911.2	19.7	163.0	3.5	4,621.3
FY11 Actual	1,430.2	33.1	1,039.2	24.1	129.5	3.0	305.2	7.1	41.3	1.0	352.9	8.2	879.0	20.4	141.8	3.3	4,319.2
FY10 Actual	1,447.4	34.6	1,042.1	24.9	125.1	3.0	205.6	4.9	38.1	0.9	328.2	7.8	861.2	20.6	140.9	3.4	4,188.5
FY09 Actual	1,374.9	32.4	1,291.7	30.5	109.8	2.6	179.2	4.2	33.1	0.8	313.2	7.4	782.5	18.5	153.6	3.6	4,238.1
FY08 Actual	1,224.0	29.8	1,291.3	31.5	135.0	3.3	168.7	4.1	37.6	0.9	298.1	7.3	774.8	18.9	173.2	4.2	4,102.8
FY07 Actual	1,180.7	29.5	1,265.4	31.7	179.6	4.5	168.1	4.2	34.5	0.9	289.4	7.2	719.1	18.0	160.1	4.0	3,996.8

* Totals do not include uses of prior year reserves or transfers

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TEN-YEAR HISTORY OF PROPERTY TAX RATES FOR TYPICAL PROPERTY OWNER

Tax Rate Per \$100 Assessed Value

FISCAL YEAR	COUNTY	MASS TRANSIT	FIRE	REC- REATION	STORM DRAINAGE	M-NCPPC	TOTAL COUNTY	STATE	TOTAL TAX RATE
FY16 - Real	0.723	0.060	0.116	0.023	0.003	0.074	0.999	0.112	1.111
FY16 - Personal	1.808	0.150	0.290	0.058	0.008	0.186	2.499	n/a	2.499
FY15 - Real	0.732	0.040	0.136	0.023	0.003	0.074	1.008	0.112	1.120
FY15 - Personal	1.830	0.100	0.340	0.058	0.008	0.185	2.520	n/a	2.520
FY14 - Real	0.759	0.042	0.125	0.020	0.003	0.072	1.021	0.112	1.133
FY14 - Personal	1.898	0.105	0.313	0.050	0.008	0.181	2.554	n/a	2.554
FY13 - Real	0.724	0.048	0.134	0.021	0.003	0.073	1.003	0.112	1.115
FY13 - Personal	1.810	0.120	0.335	0.053	0.008	0.183	2.508	n/a	2.508
FY12 - Real	0.713	0.038	0.121	0.018	0.003	0.066	0.959	0.112	1.071
FY12 - Personal	1.783	0.095	0.303	0.045	0.008	0.166	2.400	n/a	2.400
FY11 - Real	0.699	0.037	0.097	0.018	0.003	0.061	0.915	0.112	1.027
FY11 - Personal	1.747	0.092	0.242	0.045	0.007	0.153	2.286	n/a	2.286
FY10 - Real	0.683	0.037	0.105	0.019	0.003	0.069	0.916	0.112	1.028
FY10 - Personal	1.707	0.092	0.262	0.047	0.007	0.173	2.288	n/a	2.288
FY09 - Real	0.661	0.040	0.116	0.022	0.003	0.073	0.915	0.112	1.027
FY09 - Personal	1.652	0.100	0.290	0.055	0.007	0.182	2.286	n/a	2.286
FY08 - Real	0.627	0.058	0.126	0.024	0.003	0.078	0.916	0.112	1.028
FY08 - Personal	1.567	0.145	0.315	0.060	0.007	0.195	2.289	n/a	2.289
FY07 - Real	0.624	0.053	0.134	0.024	0.003	0.078	0.916	0.112	1.028
FY07 - Personal	1.560	0.133	0.335	0.060	0.008	0.196	2.292	n/a	2.292

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SCHEDULE F-6

HISTORICAL ANALYSIS OF WEIGHTED REAL PROPERTY TAX RATES MONTGOMERY COUNTY Average Weighted Rate Per \$100 of Assessed Value				
Fiscal Year	Total	Maryland	Municipalities	Montgomery County
2016	\$1.142	\$0.112	\$0.043	\$0.987
2015	\$1.152	\$0.112	\$0.044	\$0.996
2014	\$1.167	\$0.112	\$0.045	\$1.010
2013	\$1.148	\$0.112	\$0.045	\$0.991
2012	\$1.101	\$0.112	\$0.043	\$0.946
2011	\$1.060	\$0.112	\$0.044	\$0.904
2010	\$1.057	\$0.112	\$0.041	\$0.904
2009	\$1.055	\$0.112	\$0.040	\$0.903
2008	\$1.057	\$0.112	\$0.042	\$0.903
2007	\$1.058	\$0.112	\$0.043	\$0.903

Notes: "Montgomery County" is the weighted average of proposed rates for the tax-supported property revenues and do not include parking lot districts.

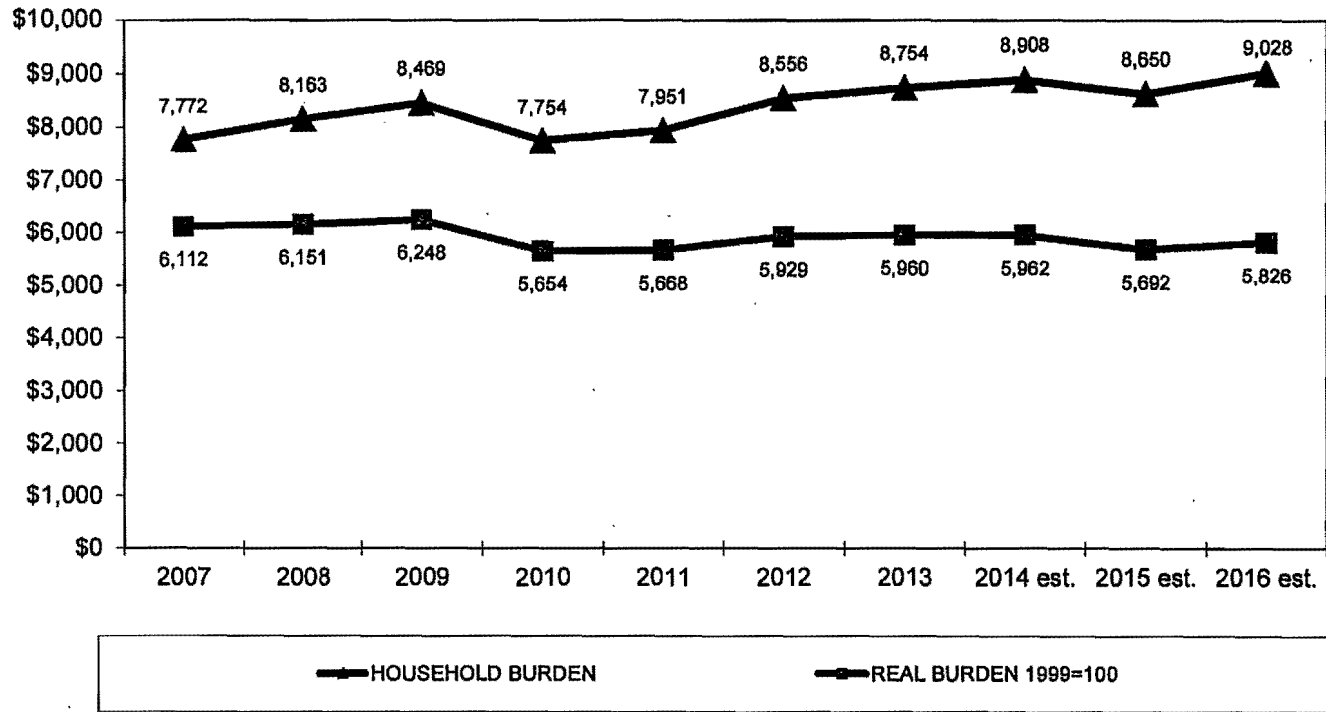
"Municipalities" are the weighted average of approximately 23 municipal districts and are based on actual tax rates and taxable assessments for FY 15.

MONTGOMERY COUNTY DEPARTMENT OF FINANCE

MARCH 2015

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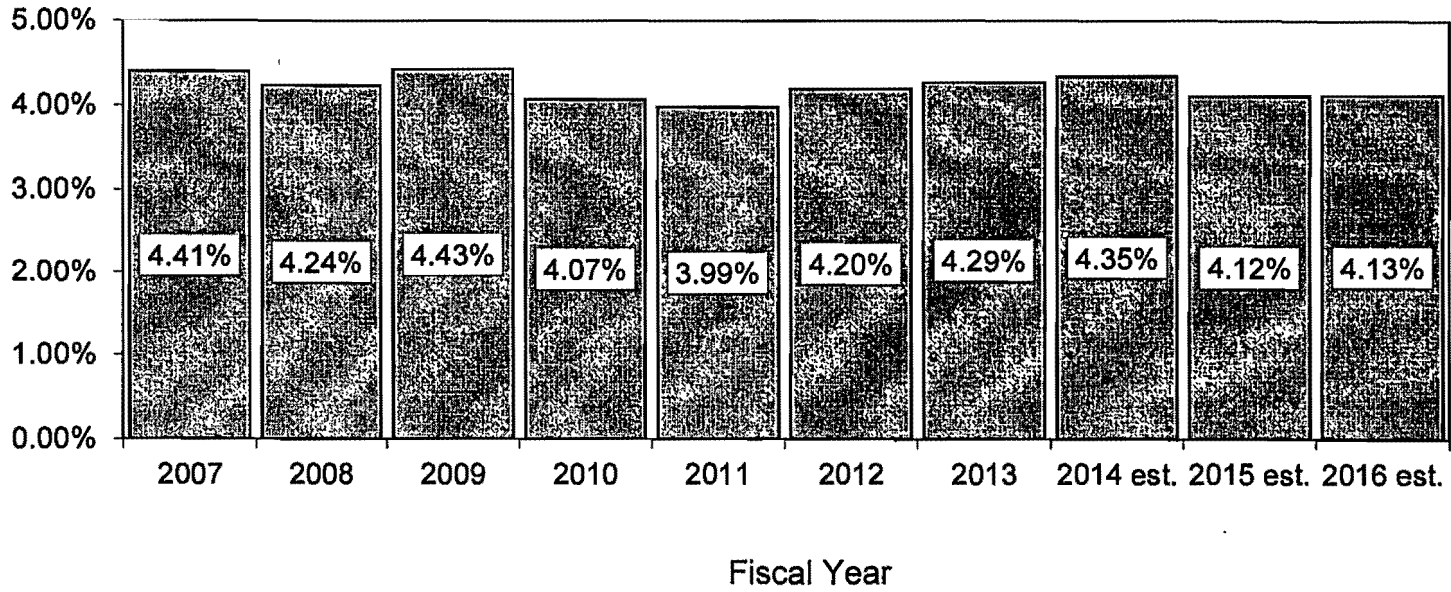
AVERAGE TAX BURDEN MONTGOMERY COUNTY BY FISCAL YEAR



Prepared by Montgomery County Department of Finance

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COUNTY TAXES AS A SHARE OF PERSONAL INCOME MONTGOMERY COUNTY



Prepared by Montgomery County Department of Finance

	Group 1	Group 2	Group 3	TOTAL
TAXABLE VALUE (LY2015)(a)				
Residential	\$47,160,934,737	\$45,210,796,731	\$39,000,115,585	\$131,371,847,053
Commercial	\$4,415,797,174	\$8,386,480,742	\$10,903,347,181	\$23,705,625,097
Industrial	\$194,669,800	\$1,535,228,130	\$4,720,064,668	\$6,449,962,598
Apartments	\$2,650,443,800	\$3,125,721,469	\$3,344,710,493	\$9,120,875,762
Other	\$455,272,807	\$95,584,830	\$177,816,542	\$728,674,179
TOTAL TAXABLE	\$54,877,118,318	\$58,353,811,902	\$58,146,054,469	\$171,376,984,689
Residential	\$47,160,934,737	\$45,210,796,731	\$39,000,115,585	\$131,371,847,053
Commercial et. al	\$7,716,183,581	\$13,143,015,171	\$19,145,938,884	\$40,005,137,636
TOTAL TAXABLE	\$54,877,118,318	\$58,353,811,902	\$58,146,054,469	\$171,376,984,689

**CE Recommended
Budget**

Residential	\$131,371,847,053
Tax Rate	\$0.977
Revenues (pre-IOTC)	\$1,283,502,946
IOTC	(\$168,787,213)
Subtotal	\$1,114,715,733
Commercial	\$40,005,137,636
Tax Rate	\$0.977
Subtotal	\$390,850,195
TOTAL (b)	\$1,505,565,927

SHARE	
Residential	74.0%
Commercial	26.0%

- NOTE: (a) Taxable assessments at the start of FY16 (LY15) from TXP340-1 Report dated February 8, 2015
Assessments do not contain new construction added during FY15 (LY14)
- (b) Total revenues do not include revenues from new construction, revenues from personal property, penalties and interest, prior year adjustments, and other miscellaneous credits
- (c) property tax revenues calculated in the table are to illustrate the share of revenue between residential and commercial and should not be construed as the total estimated property tax revenues FY2016 for the reasons noted in footnote (b) with the addition of the collection factor in the footnote and use of a weighted average rate.