GO/T&E ITEM 1
May 7, 2015
Worksession

MEMORANDUM

TO: Government Operations and Fiscal Policy Committee
Transportation, Infrastructure, Energy and Environment Committee

FROM: Robert H. Drummer, Senior Legislative Attorney
Leslie Rubin, Senior Legislative Analyst, Office of Legislative Oversight

SUBJECT: **Worksession:** Resolution to amend fuel/energy tax rates

The Council introduced a resolution to amend fuel-energy tax rates on April 14, 2015. The resolution's Lead Sponsor is Councilmember Floreen and the Co-Sponsors are Councilmembers Katz and Berliner. The proposal would revise the tax rates to reduce the projected revenue received from the 2010 increase to the fuel/energy tax rates by 10% (with an estimated revenue loss of $11.5 million).

In his FY16 Recommended Operating Budget, the County Executive recommended continuing the fuel-energy tax rates set last year for FY15. The Executive's budget estimates that the County will receive $206.2 million in fuel-energy tax revenue in FY16.

Public Hearing

At general public hearings on the operating budget, several speakers presented testimony about the fuel-energy tax. Gigi Godwin, on behalf of the Montgomery County Chamber of Commerce (©3), Chris Ruhlen, on behalf of the Bethesda-Chevy Chase Chamber of Commerce (©6), Joan Fidler, on behalf of the Montgomery County Taxpayers League (©8), and Nicola Whiteman, on behalf of the Apartment and Office Building Association (AOBA) (©9, each urged the Council to reduce the fuel-energy tax. At the May 5th public hearing on the resolution, Chris Rhulen, on behalf of the Bethesda-Chevy Chase Chamber (©14-17) and Nicola Whiteman, on behalf of AOBA (©23-26) repeated their testimony supporting the resolution that would reduce the tax. Jane Redicker, on behalf of the Silver Spring Chamber of Commerce (©18), Ilaya Hopkins, on behalf of the Montgomery County Chamber (©21-22), and Marilyn Balcombe, on behalf of the Gaithersburg-Germantown Chamber of Commerce (©27) supported the resolution to reduce the tax. Each of these speakers argued that the fuel-energy tax was diminishing the success of local businesses. A contrary view was explained by David Sears, speaking on behalf of the Sierra Club (©19-20). Mr. Sears argued that the high energy tax helps to encourage conservation of energy which reduced greenhouse gases in the atmosphere. Mr. Sears argued that the Council should not reduce the tax.

Fuel-energy Tax Rates – Recent History

The fuel-energy tax is imposed on suppliers of electricity, fuel oil, gas, steam, or liquefied petroleum gas. It is based on the quantity of energy supplied, not on changes in the price of the energy product. (For details, see County Code §52-14.) The tax is paid by the supplier, who will generally pass it on to its customers; for regulated electricity and natural gas suppliers, the state Public Service Commission approves this pass-through. Separate rates are set by Council resolution for residential/agricultural and commercial "categories of final consumption", as §52-14 allows.

In his FY11 Recommended Operating Budget, the County Executive proposed a large increase to the fuel-energy tax rates to help raise revenue in the County's fiscal crisis. The Executive eventually proposed raising the tax rates 100% beginning May 1, 2010 (before the start of FY11) and letting the increase sunset at the end of FY12.

Ultimately, the Council in 2010 increased the fuel-energy tax rates for FY11 by a lower amount than the Executive recommended – raising 85% of the Executive's recommended revenue from the tax increase – an additional $110 million. The FY11 rate increase followed rate increases in 2003, 2004, 2005, and 2008.

In FY13, the County Executive recommended not carrying out his proposal to sunset the FY11 tax rate increases and instead extending the rate increases indefinitely. The Council instead reduced the tax rates for residential suppliers by about 6% and for non-residential suppliers by 4%, reducing overall tax revenue by about $11.4 million. Over the Executive's objection, the Council similarly reduced the tax rates in FY14 and FY15, reducing projected revenue by $11.4 million in FY14 and by $8.0 million in FY15. This proposed resolution would continue to reduce the revenue received from the large tax rate increase proposed by the Executive and approved by the Council for FY11.

Current Proposal

In his FY16 Recommended Operating Budget, the Executive estimated $206.2 million in revenue from the fuel-energy tax. Currently, the fuel-energy tax is the County's third largest source of tax revenue, following the income tax ($1.4 billion) and property tax ($1.1 billion).

The resolution introduced by Councilmembers Floreen, Katz and Berliner would reduce the revenue produced by the 2010 rate increase by 10%, an estimated $11.5 million revenue decrease in FY16. This decrease would reduce rates by approximately 8% for residential suppliers and 4% for non-residential suppliers.

If the Council implements this rate decrease, the Council will have reduced revenue from the FY11 increase by 37% over three years, or approximately $42.5 million.

Issues/Options

1) How much revenue should the fuel-energy tax produce in FY16? In his FY16 Recommended Operating Budget, the County Executive proposed no change to the fuel-energy tax rates set by the Council last year. The Executive's budget projected $206.2 million in fuel-energy tax revenue in FY16, a 1.4% decrease from the FY15 budgeted revenue of $209.2 million.

The resolution before the Council would lower the revenue received from the 2010 rate increases by reducing the tax rates. The proposal would reduce the revenue from the FY11 tax increase by $11.5 million or 10% (reducing the overall revenue from this tax by 5.6% from the Executive's projection).

2) How should the energy tax revenue be allocated? In FY10, 27% of total revenue from the fuel-energy tax came from residential suppliers and 73% came from commercial suppliers. After the Executive proposed increasing the tax rates for FY11, the Council adjusted the rates so that the revenue *from the rate increase* came equally from residential and commercial suppliers – resulting in a higher percentage rate increase for residential customers (a 155% rate increase) than commercial suppliers (a 60% rate increase). This change reallocated the tax burden between residential and commercial suppliers, increasing the residential share from 27% to 37% of total revenue.

When the Council lowered the tax rates in FY13, FY14 and FY15, the Council changed the rates to split the revenue reduction in the same way it had increased the revenue in FY11 – evenly between residential and commercial suppliers. The table below shows the rate changes in the past three fiscal years.

	Residential Rates	Non-Residential Rates
FY13	-6%	-4%
FY14	-7.5%	-4%
FY15	-5%	-3%

Chambers of Commerce continue to express concerns about the larger percentage of fuel-energy tax revenue generated from commercial sources and its effect on local businesses and the County's economic development goals.

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Resolution No. ______________
Introduced: April 14, 2015
Adopted: ______________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Councilmember Floreen
Co-Sponsors: Councilmembers Katz and Berliner

SUBJECT: Fuel/energy Tax - Rates

Background

1. Section 52-14 of the County Code levies a tax on persons transmitting, distributing, manufacturing, producing, or supplying electricity, gas, steam, coal, fuel, oil, or liquefied petroleum gas in the County.

2. Section 52-14 also provides that the County Council may amend the fuel/energy tax rates by resolution, after a public hearing advertised as required by Section 52-17. A public hearing was held on this resolution on May 5, 2015.

3. The Council finds that it is fair and equitable to continue different rates for fuels and energy transmitted, distributed, manufactured, produced, or supplied for residential and agricultural purposes and for non-residential purposes.

Action

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

1. On and after July 1, 2015, the fuel/energy tax rates levied under Section 52-14 of the County Code are specified on Schedule A, attached to this resolution.

2. This Resolution supersedes Resolution 17-1123.

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council   Date

SCHEDULE A (effective July 1, 2015)

(a) For fuel-energy transmitted, distributed, manufactured, produced, or supplied for residential and agricultural purposes:

FUEL-ENERGY	TAX RATE
Electricity (per kilowatt hr)	0.01015
Natural Gas (per therm)	0.08735
Steam (per therm)	0.11409
Coal (per ton)	25.83598
Fuel oil (per gallon)	
No. 1	0.12519
No. 2	0.12987
No. 3	0.12987
No. 4	0.13291
No. 5	0.13549
No. 6	0.13853
Liquefied petroleum gas (per pound)	0.01888

(b) For fuel-energy transmitted, distributed, manufactured, produced, or supplied for non-residential purposes:

FUEL-ENERGY	TAX RATE
Electricity (per kilowatt hr)	0.01894
Natural Gas (per therm)	0.16301
Steam (per therm)	0.21374
Coal (per ton)	48.39424
Fuel oil (per gallon)	
No. 1	0.23361
No. 2	0.24234
No. 3	0.24234
No. 4	0.24803
No. 5	0.25282
No. 6	0.25850
Liquefied petroleum gas (per pound)	0.03522

THE VOICE OF MONTGOMERY COUNTY BUSINESS

Public Hearing on Proposed FY 2016 Operating Budget
April 14, 2015
Testimony by Gigi Godwin
Montgomery County Chamber of Commerce

For the proposed FY 16 Operating Budget, the Montgomery County Chamber of Commerce continues to advocate for investments in schools, transportation and public safety. A vibrant and healthy community is an attractive place to be.

The slow revenue growth in the budget demonstrates that we need policies that grow the economy and provide access to opportunity for current residents and the next generation of talent. Economic development is of utmost importance.

The Montgomery County Government is a great partner in helping MCCC members succeed. The Montgomery County Council has approved important master plans, identified transportation priorities and worked on initiatives ranging from the green certified business program to streamlining the permitting process.

These "business friendly policies" result in our members:

- placing new orders,
- attracting new customers,
- making new deals,
- discovering new technologies, and
- changing the marketplace for the better.

As these businesses expand, they

- do more business with each other,
- hire more people,
- pump dollars into the local economy, and
- create access to opportunities our residents need.

Montgomery County Chamber of Commerce
51 Monroe Street, Suite 1800 Rockville, MD 20850
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We think you will agree that these are good things. And, according to a recent article in the Washington Post (see attached), business (or voluntary trade) is one of the best ways to combat poverty.

But there is more to be done to help our businesses succeed, especially with the pressures of a global competition and a slow economic recovery that makes success for businesses even more difficult to achieve.

Therefore, we support an independent economic development entity that is:

- **Publically funded,**
- **Advised by a Private Sector Board of Directors,**
- **Staffed by credentialed economic development professionals, and**
- **Singularly focused on retaining and attracting business.**

We have shared our ideas about an effective economic development effort with the County Executive as he considers how to move forward. Our letter to him is attached to our testimony.

At the same time as we bolster our economic development efforts, the county must take necessary steps to level the playing field for our Montgomery County businesses and make sure our companies can continue to compete, win and grow.

That is why, once again, **we strongly urge the County Council to sunset the FY 11 100% increase in Energy Tax** which continues to impact non-residential consumer disproportionately at the rate of 68%. It is a burden to existing businesses and a barrier to attracting new businesses and it undermines all other efforts being made to make Montgomery County more business friendly.

We appreciate the many good things the Montgomery County Council has done for the quality of life in our County. We look forward to working with you to leverage our many assets to bring more economic activity to our local economy. We need more "business-friendly policies" - like an independent economic development entity and a repeal of the increased energy tax - to generate more economic activity to sustain what we have and be competitive in the future.

Thank you for your ongoing commitment to making Montgomery County the County that works for business and the residents they employ.

Attachments:
MCCC Letter to County Executive
MCCC 2015 Legislative Agenda
"Business Rx" and "Middle-aged Capitalism"

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April 14, 2015

The Honorable Isiah Leggett
Montgomery County Executive
Executive Office Building (EOB)
101 Monroe Street, 2nd Floor
Rockville, MD 20850

Dear Mr. Leggett:

The Montgomery County Chamber of Commerce applauds your interest in improving economic development in Montgomery County in order to increase economic activity and expand the tax base. Economic development is a government function that is core to a sustainable community. It requires a structure that is built to last and resources to support its efforts.

As you look to change economic development in Montgomery County, we urge you to consider the following:

- The strategy should be guided by an overarching economic development strategy that promotes success of business and is incorporated into all work of the government.

- The structure should be a publically funded, independent chartered corporate entity with a private sector board of directors and an executive director with economic development professional credentials. Staff compensation should include performance-based commission. The Board and Executive Director should have authority over the use of the Montgomery County Economic Development Fund.

- The success should be based on metrics related to the ability to retain and attract business in Montgomery County.

We are vested in your success and the success of this effort. The Chamber's Board of Directors stands ready to assist in the launch and implementation of this entity and we look forward to serving as a resource and partner for this new chapter in economic development in Montgomery County.

Sincerely,

Georgette "Gigi" Godwin
President and CEO

cc:
Secretary Mike Gill, Maryland Department of Business and Economic Development
Members of the Montgomery County Council
Members of Montgomery County Delegation to the Maryland General Assembly
Members of the MCCC Board of Directors

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THE GREATER BETHESDA-CHEVY CHASE CHAMBER OF COMMERCE
TESTIMONY BY CHRISTOPHER RUHLEN
ON PROPOSED FY16 OPERATING BUDGET
BEFORE THE MONTGOMERY COUNTY COUNCIL – April 14, 2015

Good evening. I am Chris Ruhlen, Vice President of Economic Development and Government Affairs for The Greater Bethesda-Chevy Chase Chamber of Commerce, representing over 600 member businesses and nonprofit organizations in Montgomery County.

Each Spring, our Chamber looks forward to participating in the County Council's review of the County Executive's proposed operating budget. Our members are truly vested in the collective success of our County, and your budget decisions are viewed with the utmost importance. The operating budget directly impacts the achievement of a thriving Montgomery County and greater Bethesda-Chevy Chase region, which is a fundamental tenet of our Advocacy Agenda.

This year is no different, and we are pleased to once again have this opportunity to offer comments for your consideration. While we have a few specific concerns about aspects of the operating budget, we are pleased that the County Executive has proposed funding for certain measures that we believe will advance the long-term economic health and vitality of the County. These measures include providing the necessary funding for increased staffing at the Department of Permitting Services to facilitate faster turnarounds on permitting; increasing funding for Montgomery College and for the Maryland-National Capital Park & Planning Commission (which is currently working on several Master Plans that are of particular interest to our members); and continued support for efforts to promote start-up and cybersecurity businesses in the County. We would urge you to continue to support these measures.

Nonetheless, our members are dismayed that the County Executive continues to recommend retention of the fuel/energy tax at the FY15 rates. As many of you are aware, our Chamber first testified about the fuel/energy tax in April, 2010, when we informed you that the fuel/energy tax would adversely impact our members – small and large businesses alike – and stifle economic competitiveness. When the fuel/energy tax was adopted in 2010, it was with an express legislative intent that the tax would sunset in two years. Although we appreciate that the County Council has provided small incremental reductions in the tax rates since 2010, the sun has never set as promised. Once again, the proposed operating budget treats the tax as dedicated revenue, subsidizing increases in County employee salaries and agency expenditures while our members continue to struggle with a tepid economy. We

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respectfully request that you keep the intended sunset in mind as you work through the proposed operating budget, and continue to work towards the fulfillment of the promises made by the Council in 2010.

We are also most concerned that the proposed budget includes a $135,147 reduction for FY16 operating expenditures associated with the Bethesda Urban District. This reduction of 3.63 percent from FY15 appropriations is greater than the reduction amounts proposed for the Silver Spring and Wheaton Urban Districts, which are 3.02 percent each. While this inequity is disconcerting, more critically, these cuts will directly impair the ability of the Bethesda Urban Partnership to provide services and amenities that are needed and desired by our Bethesda businesses, including sidewalk repair, sign maintenance, landscaping, and holiday decorations. We would specifically request that the Council fully restore funds for the Bethesda Urban Partnership, so that these services can be conducted at the levels that are expected and desired within the Bethesda Urban District.

We thank you for the opportunity to present these comments, and we look forward to continuing our discussions with you as we all work to support our existing businesses in the County and to improve our economic viability and competitiveness.

Testimony before the County Council on the County Executive's Proposed FY 2016 Budget - April 15, 2015

Good evening. I am **Joan Fidler, president of the Montgomery County Taxpayers League.** It is only fitting that I be here on Tax Day.

Let me begin by stating that we come here not to ask for a larger budget but to laud the County Executive for proposing a FY 2016 tax-supported budget of $4.4 billion, a small increase of 1.2 %. His budget reflects the reality of slow revenue growth and a sluggish economic recovery. However, we are a little anxious about the somewhat rosy projections on which this budget is based given the lost jobs and drops in home sales of just a year ago. So we assume that you will have a contingency fund to address this optimism.

The concern we have though is next year and the series of threats and promises we keep hearing about a huge increase in property taxes in 2017. The outcome of the Wynne case looms ahead. It does seem ironic - and unfair - that this case of double taxation for some could result in a huge tax increase for all.

And now to the energy tax - a weed whose roots sink ever deeper and is now at $243 million. Mr. Leggett raised energy taxes by 100% in 2010 claiming the revenue shortfalls of the recession. He also promised that this unprecedented increase would sunset in 2012. It is now the 2016 budget and the energy tax continues to flourish in the full sun. Yes, we do realize that you have reduced increases by 27% over the last 3 years. We ask that you help Mr. Leggett keep his 2010 promise in 2016.

Finally, the $2.2 billion budget of the public schools that accounts for 49% of the entire tax-supported budget, **fully funded** at the Maintenance of Effort level. If in fact, the MCPS budget is for the children, it is ironic that close to 90% goes to the adults in the system. Here are some examples: Why don't MCPS employees pay the same share of their healthcare premiums as do County workers? If they did, there would be a savings of $20 million which could be directed towards smaller class sizes **for our children**. Why do our teachers get a supplement to their pensions, not provided to any other county worker nor to teachers in any other jurisdiction in the state? Without this generous supplement, the school system would save $56.3 million which could be used to hire over 500 additional teachers **for our children.** Why are MCPS employees on a defined benefits pension plan unlike the defined contributions pension for all our non-public safety county workers? These savings would require a change in state law. But now that the county funds teacher pensions, it's time for a change. Let's do it **for our children.**

I would like to end by misquoting a French king: "Apres 2016, le deluge". Let's hope not. We look to you for "*liberte, egalite and fratemite*" for working people and for those on fixed incomes whose labor, sacrifice and taxes support this budget.

Thank you for listening.

Good evening President Leventhal and members of the Council. I am Nicola Whiteman, Senior Vice President of Government Affairs for the Apartment and Office Building Association of Metropolitan Washington (AOBA), a non-profit trade association whose members are owners and managers of more than 112,000 apartment units and over 33 million square feet of office space in suburban Maryland, including over 24 million square feet of office space and more than 57,000 apartment units in Montgomery County. AOBA wishes to note that its members recognize and appreciate the efforts that the county government has made in recent years to deal with the extraordinary fiscal challenges faced by the County – and to remind the Council that its citizens and businesses have done so as well.

AOBA first wants to commend the County Executive for his continued commitment to affordable housing. The County stands apart in the region, for example, by again proposing funding for much-needed rental assistance programs. The budget also includes proposed reductions to the solid waste charges which will result in some savings for AOBA members. We also applaud the County Executive for allocating additional resources for the Department of Permitting Services (DPS) and recognizing that funding such a critical agency which regularly touches new and existing businesses is a critical component of any economic development program. The elimination of obstacles to the opening, operation and expansion of businesses enhances the reputation of the County as an attractive place to do business. The additional resources, in the form of staff provided to DPS, are evidence of the County's strong commitment to growing its economy by supporting business location and expansion.

We also commend the County Executive for his continued efforts to create a more robust economic development program which will enhance the County's competitive position in the region and increase the commercial tax base.[1] Initiatives like the MOVE (Make Office Vacancies Extinct) Program, the proposed Real Property Tax Incentive Package to Spur Office Buildings and Hotels Construction or BUILD Program, the recently approved Bill 58-14 to create a non-merit Development Ombudsman position, and other programs send a powerful signal to the business community that the County welcomes diversified and vibrant economic development.

AOBA is disappointed, however, to see no reduction to the energy tax or corresponding mitigation effort included in the proposed FY16 budget which proposes to maintain the energy tax at the FY15 rates.[2] AOBA cautions that the County's otherwise robust business attraction and retention efforts continue to be undermined by forcing businesses to shoulder the County's staggering energy tax.[3] These numbers represent real costs that impact commercial and multifamily operations and ultimately the fiscal health of the County.[4] For commercial tenants who pay **<u>tens of thousands of dollars a year,</u>** the tax is a factor in decisions to sign or renew commercial leases in Montgomery County. The tax burden is also experienced by multifamily properties for which it results in rent pressure for every building where utility costs are included in the rent, and the County has many such buildings.

The Council should recognize that, for any business in, or considering locating to, Montgomery County, the optics of the energy tax are hard to obscure or sugar-coat. It is:

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[1]See, for example: **Montgomery County: The MOVE (Make Office Vacancies Extinct) Program**: As part of a continuing effort to attract new businesses, the County recently increased the available funding under the MOVE program from $4/SF to $8/SF and expanded the eligibility rules to include leases up to 10,000/SF and all businesses, except retail and restaurants; **Montgomery County Real Property Tax Incentive Package to Spur Office Buildings and Hotels Construction:** The County Executive proposed the creation of a $30 million tax abatement BUILD program as part of his <u>Six-Point Economic Development Plan</u> to expand upon the current MOVE initiative by supporting shovel-ready commercial office projects. The Department of Economic Development (DED) briefed the Council on its efforts to develop the program as part of the <u>February 23, 2015 DED Quarterly Status Report on Economic Development.</u> Under the BUIID program as currently proposed, approved property owners will receive 25 - 50% of the real property taxes generated by the new project for ten years through an annual grant payment. **Montgomery County Ombndsman:** The Council recently approved Bill 58-14, Administration – Non-merit Positions-Development Ombudsman (Development Ombudsman) which allows for a non-merit Development Ombudsman position that will provide a high level contact to guide developers and facilitate the resolution of problems in the development process.

[2]Additionally, the County's FY15-20 fiscal plan assumes the energy tax "will continue for the entire … period and will not be unsettled or reduced." *See* Overview of FY 15 Operating Budget, page 4, Stephen Barber, Council Administrator, April 4,, 2014.

[3]Notably, the County Executive proposed a sunset provision in 2010 because the proposed increase would have ***"significant impact … on County residents and businesses."*** April 14, 2014 Memorandum from Council Administrator Farber to the Council.

[4] Increased costs to businesses can and will result in lost revenues for the County if companies elect to relocate or locate elsewhere.

- a tax disproportionately placed on the county's ***existing*** businesses, by virtue of rates that have commercial rate payers paying 68% of the total revenue take;[5]
- a tax that adds $8,000 to $15,000 a month to the costs that office building tenants must pay;
- a tax that accounts for more than 50% of the utility's charge for delivering energy to a home or building;
- a tax once quaintly considered a nuisance, but which the county has increased over 700% in the last twelve years; and
- a tax which the county has increasingly turned to an unseemly degree to as a revenue source, allowing it to become its third largest tax source.[6]

The Council should keep in mind that County businesses cannot view the energy tax in a vacuum—it is one of the multitude of other county-imposed taxes, fees and charges they are required to bear, such as:

- **Real Property Tax.** While the Executive's budget proposes a welcome, modest reduction in the rate for FY16, the fact is that it was raised in previous years, and businesses were not insulated from the hikes the way homeowners were;[7]
- **Water Quality Protection Charge:** A significantly increased number of non-residential properties are now subject to the water quality protection charge. While the Executive is not proposing an increase in the charge for FY16, over 500 such properties already paying the charge previously received annual hikes of at least $1,000 or more;[8]
- **Other costs:** the ongoing per square foot charge on commercial spaces in four Transportation Management Districts; and
- **$34 million Pepco/Exelon-Montgomery County settlement:** The effect of the proposed settlement is immediate and sustained rate increases, in addition to the energy tax.

The fact that the energy tax is paid primarily by businesses is the kind of factor that makes businesses acutely aware of whether they have chosen a location in which the tax burdens placed

[5]Revenues FY 16 Recommended: "Based on partial fiscal year data fro FY15, Finance estimates that the share of receipts from residential users is approximately 32 percent of total collections, with the larger share received from the non-residential sector (68%).

[6]Revenues FY 16 Recommended: (1) property tax; (2) income tax; and (3) energy tax. See also total revenues, which include other taxes.

TAXES	RECOMMENDED FY 2016 REVENUES ($ MILLIONS)
PROPERTY TAX	1,582.6
INCOME TAX	1,443.4
ENERGY TAX	206.2
TOTAL LOCAL REVENUES	3,460.1

[7]The County provides some relief in the form of the homestead deduction. Specifically, "there is a ten percent annual assessment growth limitation for residential property that is owner-occupied. As a result of this "homestead tax credit," these taxable reassessments … may not grow more than ten percent in one year." *See* Revenues FY 16 Recommended, Property Tax. The FY 16 budget assumes a reduction to the real property tax rate from 99.6 cents/$100 assessed value to 98.7 cents per $100 of assessed valuation. *See* Memorandum from County Executive to Council President on FY16 Recommended Operating Budget and FY16-21 Public Services Program.

[8]Montgomery County also did not increase the charge in FY 2015 and maintained the base rates at the same level as FY14.

on them by the local government are predictable, or not; and whether a jurisdiction is truly sensitive to business and fiscal realities, as the entreaties from its economic development officials steadfastly insist, or not. Further, it does nothing to dispel the "perception of Montgomery County as business-unfriendly." Given the current economic climate, it is critical that the County develop cohesive polices that will enhance its competitive position in the region.[9] Note, for example, that many jurisdictions in the region, including the County, are experiencing or projected to experience double-digit vacancy rates as Federal and private sector tenants continue to significantly reduce their leasing requirements.[10]

How, then should the County begin to take tangible steps to reduce the burden on the existing businesses which pay the tax and remain competitive in the region? First, we need to acknowledge the adverse impact of maintaining the energy tax has on economic development. Second, it is imperative that the County take concrete steps to eliminate or, at a minimum, begin to reduce the inequitable energy tax. Given the disparity in the amount paid by the nonresidential sector, which is unsustainable, AOBA urges the County to research ways to mitigate the impact of the energy tax on its citizens and businesses such as through a tax credit. A proposal to reduce or even repeal the oppressive energy tax would serve as evidence of the County's strong commitment to growing its economy while also sending a strong and important signal to current and prospective businesses and investors of the business friendly environment in the County.

To its credit, the Council, over the Executive's objections, lowered the 2011 increase by 10% in two prior budget cycles and by 7% last year.[11] County businesses, and undoubtedly its

[9]Montgomery County vacancy rates: (1) Class A office vacancy rate is 15%; Class B rate is 15.7%. See January 23, 2015 Memorandum re: Public Hearing-Spending Affordability Guidelines for the FY 16 Operating Budget, page 3.
[10]OMB Instructs Agencies on Freezing Real Estate Footprint: The Obama administration continued its drive to economize on federally owned real estate, issuing guidance requiring all agencies to submit a plan to "restrict the growth in their office and warehouse inventories."
[11]The Council's FY15 action was the third consecutive year the Council has voted to reduce the increase in the tax.

homeowners, as well, very much appreciate that. This tax is unjustifiably high, and AOBA urges the Council to continue its reduction of the energy tax rate for FY16. We commend Councilmembers Floreen and Katz for their leadership earlier this week in introducing a measure which proposes to reduce by 10 percent the revenues received from the 2010 increase to the fuel and energy tax rate.[12] This is an important first step towards remedying a tax policy clearly at odds with the County's stated economic and business development goals.

Thank you again for considering the views and interests of AOBA members.

[12]April 14, 2014 introduction - Resolution to amend Fuel/Energy tax rates. Lead sponsor is Councilmember Nancy Floreen and the Co-Sponsor is Councilmember Katz.

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THE GREATER BETHESDA-CHEVY CHASE CHAMBER OF COMMERCE TESTIMONY BY CHRISTOPHER RUHLEN ON RESOLUTION TO AMEND FUEL/ENERGY TAX RATES BEFORE THE MONTGOMERY COUNTY COUNCIL – MAY 5, 2015

Good afternoon. I am Chris Ruhlen, Vice President of Economic Development and Government Affairs for The Greater Bethesda-Chevy Chase Chamber of Commerce, representing over 600 member businesses and nonprofit organizations in Montgomery County who have expressed their opinions regarding our advocacy agenda (which is attached to my testimony), so that we can represent them before the County Council and to be their spokesperson.

We are here today to support the current Resolution by Councilmembers Floreen, Katz and Berliner to diverge from the County Executive's recommended FY16 operating budget, which would hold fuel/energy tax rates at current levels, and to reduce the fuel/energy tax rate by 10%. The proposed reduction is consistent with the incremental reductions in the tax rates that have been approved by the Council in previous years, and the Council's continued efforts to lead on this issue are appreciated by the business community.

It is important to note that even with these reductions, the fuel/energy tax will continue to adversely impact small and large businesses in the County. When the County Executive first proposed significant increases to the County fuel/energy tax rates in April 2010, we expressed concerns that the initial tax increase would stifle economic development at a sensitive moment when the County should have been doing all it could to attract and retain businesses. We were assured that any adverse effects to local businesses would only be short term, as the increases would sunset in two years.

Five years have now passed and we are well past the two-year sunset for this "temporary" increase. Our business members are continuing to struggle with setbacks and losses incurred during the Great Recession, and honoring the promise to sunset the fuel/energy tax increases would provide much needed relief. Nonetheless, the County Executive's proposed FY16 operating budget again treats the tax increase as if it is here to stay, to the great dismay of our members. The failure to sunset the tax has real fiscal impacts, and sends the wrong message.

Our members remain concerned that the fuel/energy tax is hampering economic development by disproportionately increasing costs for Federal government operations in Montgomery County. In 2010, when the tax increase was first approved, the Federal government leased over 7 million square feet of space within the County. By the end of 2015, GSA records show that 24 leases are due to expire, potentially freeing up <u>almost 3 million square feet of office space</u> at a time when our office market is still very soft. 24 additional federal leases in Montgomery County are scheduled to expire in 2016 and 2017, representing more than <u>another 1 million square feet of additional office space</u>. That's a total of 4 million square feet of space and 48 leases in just three years that are at risk of leaving Montgomery County.

The fuel/energy tax rate will be a factor in decisions regarding the renewal of these leases at a time when neighboring jurisdictions are aggressively trying to lure the same Federal installations out of the County and the Federal government is trying to consolidate space. If theses leases are not renewed, this space will almost certainly remain vacant for the foreseeable future, with ripple effects on our local economy and on commercial property assessments.

As we stated at the outset, the Chamber supports Councilmembers Floreen, Katz, and Berliner's proposal to decrease the fuel/energy tax rate by 10% this year. We again ask the Council, however, to work to find a way to sunset the rate increase. We believe that sunsetting the tax increase will help strike a better balance between the costs and benefits of doing business in the County, and at the same time, will allow the County to be more competitive with our neighbors.

We thank you for the opportunity to present these comments, and we look forward to continuing our discussions with you as we all work to support our existing businesses in the County and to improve our economic viability and competitiveness.

Doing Business Since 1926

THE GREATER BETHESDA-CHEVY CHASE CHAMBER OF COMMERCE 2014-2015 ADVOCACY AGENDA

The Greater Bethesda-Chevy Chase Chamber of Commerce works to achieve a thriving Montgomery County and greater Bethesda-Chevy Chase region by supporting efforts to strengthen economic vitality; improve competitiveness relative to our neighbors; attract new businesses, residents, and nonprofits while supporting and retaining existing ones; and recognize the business community's contributions to the quality of life in our County and region. To accomplish this mission, the Chamber promotes and advocates the following:

ECONOMIC DEVELOPMENT

Systemic change is needed to replace outdated and irresponsible fiscal policies with proactive planning and innovation.

- Responsible County and State budgets that address shortfalls by tackling the structural deficit, systemic pension reform, and general spending restraints.
- Targeted economic development expenditures primarily to attract new and retain existing businesses and residents, in order to sustain and grow the tax base (e.g., expenditures to support the Montgomery Business Development Corporation).
- Mandatory in-depth governmental analysis of the fiscal impact on the regulated parties prior to adoption of all proposed County legislation and regulations.
- Legislation and programs that support small businesses and non-profits, such as procurement reserves, redevelopment impact funds, and education.
- Repeal of legislation that directly or indirectly increases the costs of doing business in the County for our members – specifically, a reduction in the energy tax increase and amend the current bag tax.
- Reducing barriers to entry and promoting the diversity of businesses that attract young adults to the County, recognizing the positive effect that young adults have on the County's long-term economic viability and vitality.
- Privatization of the wholesale and retail beverage alcohol system (distribution and sale of beer, wine, and liquor to on premise and off-premise licensees).
- Reform of the liquor licensing process in order to provide more flexibility and better opportunities for licensees.

LAND USE AND TRANSPORTATION

Increased growth and development around existing and planned Metrorail, Purple Line, and Rapid Transit Vehicle stations will grow our tax base, attract new businesses and residents, remove vehicle trips from our roadways, and improve quality of life.

- Approval and ongoing support for master and minor sector plan amendments (e.g., the Bethesda Downtown Plan, White Flint and White Flint II, Chevy Chase Lake and Westbard) and redevelopment proposals that foster transit-oriented development, bring new tax revenue to the County, and promote sustainability and smart growth principles.
- A comprehensive school capacity solution that ensures sufficient and realistic resources in the County's Capital Improvements Program and eliminates the potential for subdivision approval moratoriums.
- Implementation of the Purple Line light rail and trail along the Georgetown Branch alignment.
- Short- and long-term improvements to the Bethesda Metro Station through the Bethesda Metro Improvement Task Force in partnership with WMATA and other parties.
- Across-the-board improvement of the Metro system (including management, safety, reliability, and communications,) and dedicated regional funding for WMATA (including all 8-car trains) that is reliable and predictable.

<u>LAND USE AND TRANSPORTATION</u> (Continued)

- Support for our area urban district services (e.g., the Bethesda Urban Partnership and the White Flint Urban District).
- Protection and expansion of the Bethesda Circulator service and Ride-On bus routes to transit nodes and employment centers within the greater B-CC region.
- Implementation of a Rapid Transit Vehicle (RTV) system, bikeshare, telecommuting, transit ridership incentives, and other programs that help reduce vehicle trips.
- Innovative, coordinated, and long-term transportation improvements to address the impacts of BRAC-related expansion at the Walter Reed National Military Medical Center and growth at the National Institutes of Health.
- Accelerated construction of the State portion of Montrose Parkway (east of Rockville Pike to Veirs Mill Road).
- Improvements to technology and services for Parking Lot District (PLD) users and protection of the fiscal integrity of the Bethesda PLD.
- Oversight and vigilance of the Maryland Transportation Trust Fund to ensure that funds are directed, as appropriate, to the greater Bethesda-Chevy Chase community to secure positive outcomes.
- Continued independence of the County's Transportation Management Districts (TMDs), specifically Bethesda Transportation Solutions and the North Bethesda TMD, in recognition of the key roles they play in "branding" the areas that they serve.

<u>PUBLIC HEALTH, EDUCATION, AND SAFETY</u>

These facets of our community are vital to attracting new businesses and residents and retaining existing ones, and maintaining the stature and quality of life for which the County and region have become well known.

- Reform of the maintenance of effort (MOE) law to respect the County's fiscal situation and ensure that every County agency receives its due share of the annual budget.
- The Suburban Hospital campus enhancement project, to ensure continuation of quality health care in the region.
- Reinvestment of fees and taxes generated in the Bethesda Urban District, including the Bethesda PLD, to improve and upgrade existing facilities and services including street lighting, streetscape, and pedestrian facilities.
- Improvement to our community's public health and safety by restoring and maintaining budgetary resources allocated to our first responders, and preserving the significant contribution of volunteers in providing first-class fire, rescue, and EMS services.

<u>CULTURAL ENRICHMENT AND ENVIRONMENTAL AWARENESS</u>

The County and the Greater B-CC region can remain on the cutting edge of cultural enrichment and environmental awareness through novel and innovative partnerships and approaches.

- Legislative awareness of the fiscal challenges facing cultural arts organizations, including the need for sustained annual County government funding amongst them.
- Partnerships with Bethesda Green to promote sustainable business and living practices by providing education about eco-friendly programs, best practices, and business incentives.
- Support for public-private partnerships that encourage innovation in cultural arts and environmental practices.

Approved by the Board of Directors on 9/17/14

GREATER SILVER SPRING
CHAMBER OF COMMERCE

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Testimony of
The Greater Silver Spring Chamber of Commerce
Public Hearing – Fuel Energy Tax Rates
Montgomery County Council
Tuesday, May 5, 2015

Council President Leventhal, members of the Council, good afternoon. Jane Redicker, Greater Silver Spring Chamber President.

Last year, I came before you and began my testimony by paraphrasing a line from a famous horror movie, "I'm baaack."

Well, here I am, I'm baaacck again, probably in the same seat where I have been for the past three years....asking you to, once and for all, sunset what started as a 100% increase in the County's Energy Tax. Aren't any of you getting tired of seeing me?

As I mentioned in the letter in lieu of testimony from our Chamber on the FY16 budget, our members were dismayed that the County Executive's proposal reflects neither the promised sunset nor even an incremental reduction of the energy tax. Yet, in his inaugural address, he laid out a six-point plan that included a goal of growing our economy and "dispel[ling] any myths about a lack of a welcoming business environment." But, sadly, instead of "put[ting] to rest any misperceptions about the business climate in Montgomery County," his decision to continue the highest energy tax in the region flies in the face of any desire to retain existing employers or attract new businesses.

Clearly, the arguments about how this tax harms our County are well documented. You've heard them from us for years now. Having the highest Energy Tax in the region makes it more expensive to operate a business here than in surrounding jurisdictions. The cost of the tax adds to business overhead and, along with other County policies enacted recently, makes it more difficult for businesses to invest in their employees, to provide better benefits, and to improve their services, all important to growing businesses. The high Energy Tax hurts non-profits too, since it leaves less money in their budgets to provide services to those in need.

We applaud the Council, for taking steps over the past several years to incrementally decrease the burden of the original 100% increase in the tax. We want to thank Councilmembers Floreen, Berliner, and Katz for your leadership this year in introducing a resolution to reduce by another ten percent the revenues to be received from the tax.

So, why not take steps to make sure we don't have to come back again, year after year. Once and for all, please, sunset the energy tax increase, or at least vote to adopt the Councilmembers' resolution to reduce the tax again this year. Because supporting the highest energy tax in the region is not a strategy to attract businesses, create jobs, or assure long-term sustainability for our County's fiscal needs.

Thank you for your attention.

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Testimony of Montgomery County Sierra Club

May 5, 2015

My name is Dave Sears. I am here as Chair of the Montgomery County Sierra Club Executive Committee, representing the more than 5,000 Sierra Club members in Montgomery County. We appreciate this opportunity to speak in opposition to the resolution to decrease the fuel-energy tax rates that was proposed on April 14, 2015. The proposal would lower the tax rates on energy use , with an estimated revenue loss of $11.5 million.

Climate change is one of the most urgent, challenging, multi-generational problems facing society. Because of the global impact of climate change, it is tempting to hope that solutions will come from national and international organizations. But decades of inaction at the federal and international levels make local initiatives critical. Moreover, while greenhouse gases emissions have global repercussions, they originate locally and ultimately must be constrained locally.

For these reasons, Sierra Club applauded the leadership of Montgomery County in committing the County to reduce global warming emissions by 80% by the year 2050. Specifically, Montgomery County made a *commitment* to reduce emissions by 10% every five years until 2050, for a total reduction of 80% below 2005 levels. In March 2015, however, the Department of Environmental Protection's (DEP) Annual Report on the status of greenhouse gas emission reductions determined that there was an approximately 5% *increase* in energy use over the period that emissions were to decline by 10%. Thus, the County is now about 15% *behind* in achieving its goals.

How does Montgomery County's failure to reduce emissions relate to retaining the energy tax at current levels? Taxing energy consumption increases incentives for energy conservation and energy efficiency. We know that 2/3 of greenhouse gas emissions in Montgomery County derive from energy consumption in residential and non-residential buildings. A direct way to reduce greenhouse gas emissions is to reduce energy consumption. As a 2009 report from

McKinsey and Company on energy efficiency determined, "the US economy has the potential to reduce annual non-transportation energy consumption by roughly 23 percent by 2020, eliminating more than $1.2 trillion in waste .... The reduction in energy use would also result in the abatement of 1.1 gigatons of greenhouse-gas emissions annually—the equivalent of taking the entire US fleet of passenger vehicles and light trucks off the roads." Thus, one way to honor the County's commitment to reducing emissions is to maintain financial disincentives to energy use. Not only that, reducing energy consumption saves businesses and homeowners money – including savings on the energy tax itself, because the tax would be applied to a lower base. Reducing energy use through conservation and efficiency is a better way of reducing the taxes owed than lowering tax rates.

In addition, we oppose reducing the energy tax because it is the only County tax imposed on all levels of government, including federal and state agencies located in the County. Thus, it is the only County tax that helps defray the County's costs of providing substantial services and amenities, such as for public safety and roads, which benefit federal and state offices and their employees.

Finally, decreasing the energy tax would reduce funds available for the county's FY 2016 budget by nearly $12 million. These are funds that would otherwise be available to support a variety of high priority programs and services for county residents and businesses.

For all of these reasons, we urge the County Council to reject a reduction in the fuel/energy tax below FY 2015 levels.

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THE VOICE OF MONTGOMERY COUNTY BUSINESS

Public Hearing on a Resolution to Amend Fuel/Energy Tax Rates
May 5, 2015 1:30 p.m.

Testimony by Ilaya Hopkins, Vice President, Public Affairs
Montgomery County Chamber of Commerce

SUPPORT

The Montgomery County Chamber of Commerce represents close to 500 members who employ over 60,000 people. It is our job to advocate on their behalf for policies that support a robust local economy because that, in turn, helps grow a successful community. While our members are focused on meeting payroll and growing their business, we are here today representing our members who are concerned about the cost of doing business in Montgomery County.

For five years, the County Council has approved a budget that relies on an increase of the energy tax in order to meet its commitments. Continuing to rely on revenue from this tax undermines the efforts to support a thriving business sector because it disproportionately impacts the very types of businesses we seek to attract and retain.

The 100% increase in the 2010 Energy Tax should be sunset as originally planned in the FY 11 approved budget.

We know that with a FY16 same services budget and very real possibilities of the pending Supreme Court case settlement, it is highly unlikely the increased energy tax will be sunset this year.

Nevertheless, it is imperative to reduce the over-reliance on revenue from this tax. We support the resolution to reduce the revenues by 10% and ask you to reduce the government's reliance on this counter- productive source of revenue.

Real costs: The Energy Tax adds to the cost of doing business in Montgomery County.

- It disproportionately impacts non-residential consumers at a rate of more than 2 to 1. The larger share of receipts is received from the non-residential sector at 68% and residential users at 32%.

- It creates a larger overhead for Montgomery County businesses making them less able to win contracts in the competitive government contracting procurement space.
- It translates into fewer reinvestments into the improvements, employees and services (in the case of non-profits especially) necessary to grow a business and contribute to the local economy.

Dangerous over reliance: The Energy Tax was intended to be a stop-gap measure in the FY11 budget. Five years later, the proposed revenue from the FY16 Fuel/Energy Tax is $206.2 million, the third highest source of tax generated revenue.

Counterproductive: The Energy Tax harms the very industries Montgomery County is trying to attract, namely life sciences (biotech, pharmaceuticals, vaccines, therapeutics, medical devices), cyber security and information technology which, despite rigorous conservation efforts, are all heavy consumers of energy and pay hundreds of thousands of dollars in extra taxes.

Lastly, the increased Energy Tax is unsustainable as a source of revenue. As this Council continues to pursue legislation to create a more environmentally sustainable community such as Benchmarking and the recently introduced Green Bank, consumption – on which this tax is based – will decline. And, with that, so will the revenues from this energy tax.

For these reasons, we believe the energy tax is a harmful long-term policy for Montgomery County. The 100% increase in the 2010 Energy Tax, if left in place, will undermine efforts to improve our local economy at the very time when we can least afford to weaken our tax base.

We respectfully request that you approve the resolution to amend the fuel/energy tax rates and look to ways to bring the fuel/energy tax back to the 2010 level in order to remain competitive.

— APARTMENT AND OFFICE — BUILDING ASSOCIATION OF METROPOLITAN WASHINGTON

TESTIMONY ON

"RESOLUTION TO AMEND FUEL/ENERGY TAX RATES"

BILL 16-15 "ECONOMIC DEVELOPMENT FUND-STRATEGIC PLAN - AMENDMENTS"

AND

BILL 8-15, "TAXATION - DEVELOPMENT IMPACT TAX - EXEMPTIONS"

Nicola Y Whiteman, Esq.
Senior Vice President of Government Affairs
Apartment and Office Building Association of Metropolitan Washington

May 5, 2015

1050 17th Street, NW Suite 300 Washington, DC 20036
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Good afternoon President Leventhal and members of the Council. I am Nicola Whiteman, Senior Vice President of Government Affairs for the Apartment and Office Building Association of Metropolitan Washington (AOBA), a non-profit trade association whose members are owners and managers of more than 112,000 apartment units and over 33 million square feet of office space in suburban Maryland, including over 24 million square feet of office space and more than 57,000 apartment units in Montgomery County.

I. Resolution to Amend Fuel/Energy Tax Rates

AOBA is pleased to testify in support of the resolution to amend the County's energy tax rates. It is an important first step towards remedying a tax disproportionately placed on the County's businesses by virtue of rates that have the commercial/nonresidential sector paying 68% of the total revenue take. Understanding the effect of this tax on the County necessitates a better understanding of who bears the burden of this tax. So who does ultimately pay this exorbitant tax? Residents in apartment communities and commercial tenants. Notably, commercial tenants paying the tax include restaurants, retail stores, medical offices, dry cleaners and other local, large and small businesses which contribute to the vibrancy of the County's neighborhoods and economy and the diversification of the tax and revenue base. Commercial office tenants can pay \$8,000 to \$15,000 a month. For multifamily properties, the energy tax results in rent pressures for those building where utilities are included in the rent.

The disparity in the amount paid by the nonresidential sector is unsustainable yet the energy tax is one which the county has increasingly turned to an unseemly degree to as a revenue source, allowing it to become its third largest tax source. AOBA cautions that the County's otherwise robust business attraction and retention efforts continue to be undermined by forcing businesses to shoulder the County's staggering energy tax.[1] Forcing the very businesses that are the engine of economic activity and growth and source of a diverse commercial tax base to bear a disproportionate share of the costs associated with the tax also does nothing to dispel the "perception of Montgomery County as business-unfriendly."

AOBA commends the Council for its leadership in proposing to amend the energy tax rates. However, it is important to note that the County's five-year FY 2015-2020 plan proposes no change whatsoever to the energy tax. [2] Thus, it is necessary that the Council question the purported rationale for the energy tax as a "broad-based revenue source that incudes federal institutions based in the County who otherwise pay no taxes in exchange for County services." AOBA urges the Council to require an audit of energy tax revenues to determine who in fact is paying in order to make an informed decision as to whether the pain being inflicted on businesses and adverse impact of maintaining the energy tax on economic development is worth the unspecified revenues obtained from federal institutions.

II. Bill 16-15 Economic Development Fund - Strategic Plan – Amendments

While the Code does not reference the energy tax specifically, the additional time for the Executive to submit his economic development strategic plan provides an opportunity to discuss remedying a tax policy clearly at odds with the County's stated economic and business development goals. Given the current economic climate, it is important that the County develop

[1]Notably, the County Executive proposed a sunset provision in 2010 because the proposed increase would have ***"significant impact ... on County residents and businesses."*** April 14, 2014 Memorandum from Council Administrator Farber to the Council.

[2]The County's FY15-20 fiscal plan assumes the energy tax "will continue for the entire ... period and will not be unsettled or reduced." *See* Overview of FY 15 Operating Budget, page 4, Stephen Barber, Council Administrator, April 4,, 2014.

cohesive policies that will enhance its competitive position in the region.[3] Doing so begins with an analysis of how the County's tax structure, especially the energy tax, hinders economic development and efforts to increase and diversify the commercial tax base.

III. Bill 8-15 Taxation - Development Impact Tax – Exemptions

The legislation proposes to exempt the market-rate rental dwelling units in any development which consists of at least 25% affordable housing units from the transportation and school development impact taxes. AOBA supports this measure which will enhance the County's efforts to provide a continuum of housing that matches the diversity of choices and needs in the rental housing market. Initiatives such as B8-16 promote healthy competition in the rental market by increasing the supply of rental units, particularly affordable units and keeping prices down.

Thank you again for considering the views and interests of AOBA members.

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[3]Note, for example, that many jurisdictions in the region, including the County, are experiencing or projected to experience double-digit vacancy rates as Federal and private sector tenants continue to significantly reduce their leasing requirements. See for example, Montgomery County's vacancy rates: (1) Class A office vacancy rate is 15%; Class B rate is 15.7%. See January 23, 2015 Memorandum re: Public Hearing-Spending Affordability Guidelines for the FY 16 Operating Budget, page 3.

Item #72

Gaithersburg-Germantown Chamber of Commerce, Inc.

2016 Operating Budget – Energy Tax

Marilyn Balcombe, President and CEO
301-840-1400, mbalcombe@ggchamber.org

Good afternoon, Council President and Council Members. My name is Marilyn Balcombe and I am the President and CEO of the Gaithersburg-Germantown Chamber of Commerce. Thank you for allowing me the opportunity to share my thoughts this afternoon. Thank you for honoring our Small Business this morning. It meant a lot to my members to receive the recognition for the work they do. The presentation this morning also reminded me that we are all part of the same team and we all have a job to do. My job today is to push back a little bit.

At the moment there is a lot of time, energy, and resources spent on trying to improve the economic development in Montgomery County. The County is in the middle of a Strategic Planning Process for Economic Development. It is also in the process of a potential reorganization of the Department of Economic Development.

An important aspect of Economic Development for both recruitment and retention is our business climate. The Gaithersburg-Germantown Chamber would like you to consider reducing and ultimately eliminated the 2010 increase in the energy tax.

The energy tax is a lightening rod issue for our Chamber members and it is often invoked when discussing the business climate in the County. But it is not merely a symbolic issue, it is a real burden to businesses large and small.

The increased energy tax was never meant to be a staple in the County's operating budget. The tax was increased as a short term, stop-gap measure with the promise of sunsetting a few years later. As a temporary solution, the increase in the energy tax was convenient, but as a long-term strategy there are some major concerns. Because this was seen as temporary, an extensive analysis of the negative impact of the tax was never done. There has never been a meaningful study of how the energy tax is hurting our local economy.

We understand that eliminating the increase in the energy tax leaves a gap in the budget – what now seems to be a permanent gap in the budget. We need to take a step back and determine what is the best way to fill that gap and not assume that the convenient short-term increase in the energy tax is the permanent way to balance the budget.

Please consider the supporting the Resolution to decrease the energy tax.

Thank you.

SCHEDULE C-2

Revenues Detailed By Agency

	Actual FY14	Budget FY15	Estimated FY15	Recommended FY16	% Chg Bud/Rec
MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION					
Special Funds Tax Supported	110,841,109	116,389,214	115,928,568	120,397,111	3.4%
Special Funds Non-Tax Supported	53,086	550,000	550,000	550,000	—
Enterprise Funds Non-Tax Supported	13,592,432	13,451,825	13,367,080	14,209,639	5.6%
TOTAL M-NCPPC	***124,486,627***	***130,391,039***	***129,845,648***	***135,156,750***	***3.7%***
OTHER					
SUMMARY					
GRAND TOTAL ALL FUNDS/AGENCIES	**5,978,927,671**	**4,945,938,049**	**5,303,991,977**	**5,513,462,070**	**11.5%**

SCHEDULE C-3

Revenues Detailed By Agency, Fund and Type

	Actual FY14	Budget FY15	Estimated FY15	Recommended FY16	% Chg Bud/Rec
TAX SUPPORTED					
MONTGOMERY COUNTY GOVERNMENT					
County General Fund					
Taxes					
Admissions Tax	2,983,891	3,212,000	3,045,800	3,247,808	1.1%
County Income Tax	1,376,763,653	1,340,644,366	1,333,119,043	1,443,417,237	7.7%
Energy Tax	210,678,660	209,181,624	203,515,000	206,190,000	-1.4%
Hotel/Motel Tax	17,675,982	17,512,115	19,608,800	20,339,825	16.1%
Property Tax	1,109,081,029	1,088,918,814	1,085,950,164	1,117,010,577	2.6%
Real Property Transfer Tax	90,496,157	97,880,000	88,710,000	96,240,000	-1.7%
Recordation Tax	53,962,477	62,814,266	52,897,862	57,593,411	-8.3%
Telephone Tax	53,160,865	47,833,000	49,600,236	50,416,800	5.4%
TOTAL TAXES	***2,914,802,714***	***2,867,996,185***	***2,836,446,905***	***2,994,455,658***	***4.4%***
Licenses & Permits					
Clerk of the Court Business Licenses	19	215,000	215,000	215,000	—
Hazardous Materials Permits	825,762	800,000	800,000	800,000	—
Health Inspection: Restaurants	1,804,845	1,808,680	1,737,820	1,737,820	-3.9%
Health Inspections: Living Facilities	272,848	240,730	240,730	240,730	—
Health Inspections: Swimming Pools	544,905	501,220	526,390	526,330	5.0%
Landlord-Tennant Fees	5,041,465	4,988,040	4,988,040	5,436,018	9.0%
Marriage Licenses	364,370	353,100	372,000	372,000	5.4%
New Home Builder's License	137,679	134,000	134,000	134,000	—
Pet Licenses	264,378	1,251,707	440,000	1,251,707	—
Residential Parking Permits	236,700	200,000	200,000	200,000	—
Trader's License	857,042	780,000	780,000	780,000	—
Other Licenses/Permits	235,321	213,920	211,470	208,470	-2.5%
TOTAL LICENSES & PERMITS	***10,585,334***	***11,486,397***	***10,645,450***	***11,902,075***	***3.6%***
Charges for Services					
Alternative Community Services	405,847	440,000	550,000	550,000	25.0%
Board of Appeals Fees	169,354	306,334	306,334	306,334	—
Care of Federal/State Prisoners	2,077,732	1,639,310	1,703,690	2,038,313	24.3%
Common Ownership Community Fees	408,770	405,500	415,500	410,000	1.1%
Discovery Materials	29,825	30,000	30,000	30,000	—
Facility Rental Fees	23,971	23,000	25,000	25,000	8.7%
Health and Human Services Fees	1,379,170	1,426,320	1,424,210	1,332,800	-6.6%
Home Confinement Fees	105,747	41,000	41,000	41,000	—
Library Fees	27,781	600	20,000	20,000	3233.3%

GO/T&E ITEM 1
May 7, 2015
Worksession
ADDENDUM

MEMORANDUM

TO: Government Operations and Fiscal Policy Committee
Transportation, Infrastructure, Energy & Environment Committee

FROM: Robert Drummer, Senior Legislative Attorney
Leslie Rubin, Senior Legislative Analyst, Office of Legislative Oversight

SUBJECT: **Worksession:** Resolution to amend fuel/energy tax rates

This addendum includes a memorandum from Councilmember Nancy Floreen received after the packet was published. See ©1. The memo also responds to requests from Councilmembers for information about options for FY16 fuel-energy tax rates. The data summarize differences in the average annual fuel-energy tax bill for rate-payers based on the Executive's Recommended Operating Budget and based on options for reducing the fuel-energy tax rates.

The revenue reductions are calculated based on the additional $114.0 million in revenue raised from the FY11 tax rate increase, adjusted by projected growth.[1]

The data in the table below show the average annual tax as proposed in the County Executive's (CE) FY16 recommended budget and the average annual tax in FY11, when fuel-energy tax rates last increased.

Average Annual Tax Bill for Non-Residential and Residential Consumers Based on CE's FY16 Recommended Operating Budget

	Average Annual Fuel-Energy Tax	
Rate Payer	**CE's FY16 Rec. Budget**	**FY11**
Non-Residential	$3,775	$4,042
Residential	$185	$251

Source: OMB data and Finance data, OLO analysis

[1] For FY10, the Council adjusted fuel-energy tax rates to raise a projected additional $114,010,000 in tax revenue. The Council has lowered the tax rates in subsequent years starting from assumed changes (reductions) in tax revenue (rather than doing the reverse, which is calculating revenue based on changes to the rates). To reduce the revenue each year, the Council's assumptions include an adjustment to the revenue assumptions based on changes in energy usage by consumers, which are calculated by the Department of Finance. So, rather than assuming a 10% revenue reduction is a flat $11.401 million each year, that amount is adjusted to compensate for increased energy usage. In calculations for FY16, the revenue 10% equates to $11.55 million based on an assumption that energy usage will increase by 1.3%.

The data in the table on the next page summarize the projected average annual tax for rate-payers based on reductions between 1% and 10% to FY11 increased revenue. The data show (1) the average annual tax paid by rate-payers, (2) the reduction in the average annual tax compared to the CE's FY16 recommended budget, and (3) reduction in the average annual tax compared to FY11 tax rates, when rates were last increased. Each 1% reduction in revenue from the FY11 revenue increase will reduce FY16 fuel-energy revenue by $1.2 million.

Changes in FY16 Average Annual Tax Based on Reductions to Fuel-Energy Tax Revenue from FY11 Rate Increase

			Savings Compared to			
			CE's FY16 Rec. Budget		FY11 Rates	
Revenue Reduction	**Rate Payer**	**FY16 Average Annual Tax**	**$**	**%**	**$**	**%**
10%	Residential	$170	($15)	(8%)	($81)	(32%)
-$11,550,765	Non-Residential	$3,614	($161)	(4%)	($428)	(11%)
9%	Residential	$171	($14)	(7%)	($80)	(32%)
-$10,395,688	Non-Residential	$3,630	($145)	(4%)	($412)	(10%)
8%	Residential	$173	($12)	(7%)	($78)	(31%)
-$9,240,612	Non-Residential	$3,647	($129)	(3%)	($395)	(10%)
7%	Residential	$174	($11)	(6%)	($77)	(31%)
-$8,085,535	Non-Residential	$3,663	($112)	(3%)	($379)	(9%)
6%	Residential	$176	($9)	(5%)	($75)	(30%)
-$6,930,459	Non-Residential	$3,679	($96)	(3%)	($363)	(9%)
5%	Residential	$177	($8)	(4%)	($74)	(29%)
-$5,775,382	Non-Residential	$3,695	($80)	(2%)	($347)	(9%)
4%	Residential	$179	($6)	(3%)	($72)	(29%)
-$4,620,306	Non-Residential	$3,711	($64)	(2%)	($331)	(8%)
3%	Residential	$180	($5)	(2%)	($71)	(28%)
-$3,465,229	Non-Residential	$3,727	($48)	(1%)	($315)	(8%)
2%	Residential	$182	($3)	(2%)	($69)	(28%)
-$2,310,153	Non-Residential	$3,743	($32)	(1%)	($299)	(7%)
1%	Residential	$183	($2)	(1%)	($68)	(27%)
-$1,155,076	Non-Residential	$3,759	($16)	(<1%)	($283)	(7%)

Source: OMB and Finance data; OLO analysis

MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

NANCY FLOREEN
COUNCIL VICE PRESIDENT

MEMORANDUM

May 6, 2015

TO: Councilmembers

FROM: Council Vice President Nancy Floreen

SUBJECT: Energy Tax

While I appreciate the fact that this is a tight budget year, I urge you to support reducing the FY11 energy tax increase by another 10 percent. As you will recall, we stated our commitment to using that 100 percent increase as a stopgap measure in light of enormous fiscal collapse, and we pledged to eliminate it in two years. Despite our best efforts, to date we have only made good on 27 percent of that promise.

Yet at this point in time, we are looking at an aggregate operating budget that is **$800 million greater than the budget we approved in FY11**. We are contributing to OPEB **$108 million** more than we did in FY11 (we contributed zero in FY11). We have approved increases in employee compensation that total about **$119 million** more than we approved for FY11. We are contemplating an MCPS tax supported budget that is **$249 million more than what we approved in FY11**.

Under these circumstances there is no excuse for us to not keep our promise and continue on our path to improve the county's competitive stature within the region. Please join me in reducing the energy tax increase by another 10 percent.

cc: Steve Farber
Bob Drummer
Leslie Rubin
Jennifer Hughes

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