

M E M O R A N D U M

April 19, 2022

TO: Government Operations and Fiscal Policy (GO) Committee

FROM: Gene Smith, Legislative Analyst

SUBJECT: Property tax options: amount, rate, and income tax offset credit

PURPOSE: Make recommendations for the Council

Expected Participants:

Nancy Feldman, Fiscal Management Division Chief, Department of Finance (Finance)
David Platt, Chief Economist, Finance

I. Summary

The GO Committee will make recommendations on the following two items today:

- 1) the amount of the Income Tax Offset Credit (ITOC) value for FY23; and
- 2) the weighted average real property tax rate for FY23.

Property tax revenues are estimated to be 45.3% of the total tax revenues levied in FY23. **With the recent Charter amendment, the Council's approach for considering property tax rates and revenues was simplified starting in FY22.** The Council previously considered the total real property tax revenues to levy each year because that value was the threshold in the County's Charter (i.e., the "Charter Limit").¹ The Council now only needs to consider the weighted tax rate and the ITOC amount. The real property tax revenues are easily calculated once those two values are set.

The Council will officially set the ITOC value and the property tax rates when it approves the budget at the end of May. It will memorialize the total real property tax revenues levied when it approves the fiscal plan and revenue estimates in July.

¹ The term "Charter Limit" is a colloquial reference to the voting threshold in the County's Charter. The Charter Limit, either the current value or former value, is not a statutory limitation on the Council's authority to levy property tax rates. The term references the value where an affirmative vote by all Councilmembers is required to exceed the limit. The current Charter Limit is the weighted tax rate from the previous fiscal year. The former Charter Limit was the total real property tax revenues collected in the prior fiscal year multiplied by the annual inflation rate.

II. Background

Section 305 of the County Charter requires an affirmative vote from all current Councilmembers to approve a weighted property tax rate (or “weighted tax rate”) for the next fiscal year that exceeds the weighted tax rate of the current fiscal year. The current Charter language focuses on the weighted tax rate, not property tax revenues. **The likely effect of this amendment is the County’s weighted tax rate will not fluctuate as much as it did previously.** See ©1 for details about the weighted real property tax rate and the ITOC value from FY00 through FY22. The following are highlights from the table:

- The County’s weighted average real property tax rate has fluctuated from a low of \$0.903 per \$100 in FY07-FY09 to a high of \$1.0264 per \$100 in FY17.
- The rate steadily decreased from the FY17-FY21 because the County’s assessable base increased more rapidly than the County’s real property tax revenues during that period.
- The ITOC amount was increased from \$0 in FY05 to \$692 in FY11.
- The ITOC amount has been set at \$692 from FY11-FY21.

Below is the Executive’s recommendation for FY23 for the ITOC amount and the weighted tax rate. Both items are before the committee today.

- 1) The Executive recommended retaining the current ITOC at \$692.
- 2) The Executive recommended the weighted tax rate at the Charter Limit – \$0.9785 per \$100 of assessed value.

III. FY23 ITOC Value

A. ITOC Background

The ITOC provides a tax credit to owner-occupied properties in the County. The value of the credit must be adopted by the Council each year and is based on the total County income tax revenues collected that exceed 2.6% and the number of eligible properties in the County. See ©2 for the proposed resolution for FY23 to set the ITOC value.

The credit is a flat-rate and provides a small degree of progressivity to the property tax system since lower-valued properties will experience a greater reduction in taxes compared to higher-valued properties. The credit shifts a portion of the County’s property tax burden to properties that are not eligible for the credit, which includes commercial, residential rental, and residential properties that are not owner-occupied. **The ITOC is the largest tax credit expenditure currently approved by the Council** as evidenced in the [Annual Tax Expenditure Report](#) published by Finance. In FY21, 247,306 properties qualified for the \$692 ITOC with an impact of \$170.6 million in tax credit expenditures.

The Executive recommends an ITOC of \$692 in FY23. The Council is holding a public hearing on April 19, 2022 at 1:30 PM. This report was published prior to the public hearing. **Council staff will provide an update on any comments from the public during the GO Committee’s review today.**

B. Analysis of ITOC Value

The current Charter Limit has shifted the Council's consideration of setting an ITOC value. **Previously, the ITOC could be adjusted to be greater or lesser than the previous year without significantly increasing or decreasing the County's total real property tax revenues.**² The Council could offset this property tax credit expenditure because the former Charter Limit resulted in the Council first setting the total real property tax revenues to levy that fiscal year, not the tax rate. Through this process, the Council recouped any tax credit expenditures by marginally adjusting the weighted tax rate.

The current Charter Limit allows the Council to set the same weighted tax rate from year-to-year. **This process allows the County to reap the benefits of a growing economy, but tax credit expenditures impact the property tax revenues differently.** Any changes to the value of the County's property tax credits, including the ITOC, will directly impact the estimated property tax revenues for that fiscal year. For example, a \$1 increase to the ITOC in FY23 will result in a decrease of \$248,100 to the estimated FY23 property tax revenues. Table 1 below provides illustrative examples how the general fund revenues are impacted based on different ITOC values.

Table 1: Illustrative Examples of Changes to the FY23 ITOC Value and General Fund Revenues

ITOC Amount	Estimated Total Increase (decrease) to Property Tax Revenues
\$650	\$10,420,200
\$675	\$4,217,700
\$692	---
\$725	(\$8,187,300)
\$750	(\$14,389,800)

There are multiple variables that impact the total property tax bill for properties in the County. **The change in a property's assessable base is the single largest factor for fluctuations to a property tax bill most years.** Properties in Maryland are assessed on a three-year cycle. The percentage increase or decrease in a property's assessment will result in a commensurate percentage change in the property taxes owed that year with all other factors held constant.

The GO Committee must recommend a FY23 ITOC value for the Council's consideration. An ITOC value of \$692 in FY23 maintains the same value for owner-occupied properties since FY11 and does not impact the estimated property tax revenues in FY23.

IV. Weighted Tax Rate

The Council's consideration of the weighted tax rate was simplified starting in FY22. Previous years required County staff to calculate the changes in tax credit expenditures, including the ITOC, and estimates of the County's assessable base to determine the different weighted average rates that achieved

² Under the former Charter Limit, a change in the ITOC value would result in a commensurate change in the weighted average tax rate. The tax rate was applied to all properties, including new construction; therefore, the County's revenues would slightly increase or decrease based on the total value of the County's tax credits.

the Charter Limit. Beginning in FY22, the Council only considered how the weighted tax rate changes compared to the current fiscal year’s weighted tax rate.

The Council, in accordance with the Charter, may set a weighted tax rate for the next fiscal year that is equal to or less than the weighted tax rate for the current fiscal year with a majority vote. The Council will need affirmative votes from all current Councilmembers to exceed the weighted tax rate of the current fiscal year. **The Executive has recommended a FY23 weighted tax rate of \$0.9785 per \$100, the same as FY22’s weighted tax rate.** Levying property taxes at this rate with an ITOC value of \$692 yields an estimated \$1,951.4 million in total property taxes for FY23.

The Council must also consider the Constant Yield Tax Rate (CYTR) as it sets property tax rates each fiscal year. **The CYTR only applies to the County’s general fund real property tax rate.** Per State law, the Council may not exceed the CYTR unless it advertises a rate that exceeds the CYTR for that fiscal year. **The Council was not required to advertise for FY23 because the Executive’s recommended general fund property tax rate was less than the FY23 CYTR.** Unless the Council chooses to advertise a different rate, the maximum FY23 general fund property tax rate will be \$0.7071 per \$100 of assessed value.

Council decisions related to expenditures in the general fund will impact the actual tax rate levied in FY23. Council staff will continue to evaluate the Council’s recommended general fund expenditures to ensure the Council does not exceed the FY23 CYTR.

The GO Committee must recommend a weighted tax rate for the Council’s consideration. A weighted rate of \$0.9785 per \$100 is the FY23 Charter Limit and is the rate recommended by the Executive in the proposed budget.

<u>This packet contains:</u>	<u>Circle #</u>
Table: History of weight tax rates and ITOC FY01-22	1
Proposed FY23 ITOC resolution	2

**Income Tax Offset Credit and Weighted Average Real Property Tax Rate
FY00-FY22**

Fiscal Year	Weighted average real property tax rate (per \$100)	Change in weighted average	ITOC amount
2000	\$1.0060	(\$0.0110)	\$0
2001	\$1.0060	\$0.0000	\$0
2002	\$1.0060	\$0.0000	\$0
2003	\$1.0050	(\$0.0010)	\$0
2004	\$1.0050	\$0.0000	\$0
2005	\$0.9950	(\$0.0100)	\$0
2006	\$0.9530	(\$0.0420)	\$116
2007	\$0.9030	(\$0.0500)	\$221
2008	\$0.9030	\$0.0000	\$613
2009	\$0.9030	\$0.0000	\$579
2010	\$0.9040	\$0.0010	\$690
2011	\$0.9040	\$0.0000	\$692
2012	\$0.9460	\$0.0420	\$692
2013	\$0.9910	\$0.0450	\$692
2014	\$1.0100	\$0.0190	\$692
2015	\$0.9960	(\$0.0140)	\$692
2016	\$0.9870	(\$0.0090)	\$692
2017	\$1.0264	\$0.0394	\$692
2018	\$1.0012	(\$0.0252)	\$692
2019	\$0.9814	(\$0.0198)	\$692
2020	\$0.9786	(\$0.0028)	\$692
2021	\$0.9785	(\$0.0001)	\$692
2022	\$0.9785	\$0.0000	\$692

Resolution No.: _____
Introduced: March 22, 2022
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 52-86 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 greater than 2.6%.
2. The County Executive has recommended the amount of property tax credit under County Code Section 52-86 for the tax year beginning July 1, 2022 to be \$692 for each eligible taxpayer.
3. Notice of public hearing was given, and public hearing was held.

Action

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

The amount of the property tax credit under County Code Section 52-86 for the tax year beginning July 1, 2022 is \$692 for each eligible taxpayer.

This is a correct copy of Council action.

Selena Mendy Singleton, Esq.
Clerk of the Council