



Committee: Directly to Council
Committee Review: N/A
Staff: Gene Smith, Legislative Analyst
Purpose: Review – straw vote expected
Keywords: Taxes, FY21 Budget

AGENDA ITEM #8
May 7, 2020
Worksession

SUBJECT

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

EXPECTED ATTENDEES

Mike Coveyou, Department of Finance (Finance)
Rob Hagedoorn, Finance
David Platt, Finance

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

The Council will take a straw vote today on:

- the amount of the Income Tax Offset Credit (ITOC) for FY21;
- the amount of total real property tax revenues to levy in FY21; and
- the weighted average real property tax rate for FY21.

DESCRIPTION/ISSUE

The Council considers its options each year for all three of the items above. The Council only needs to decide the first two items because a decision on those two items will automatically determine the weighted real property tax rate in FY21.

SUMMARY OF KEY DISCUSSION POINTS

- See staff report.

This report contains:

Staff report	#1-5
Table: History of ITOC FY00-20	© #1
Council Press Release	© #2

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MEMORANDUM

May 4, 2020

TO: County Council
FROM: Gene Smith, Legislative Analyst
SUBJECT: Property tax options: amount, rate, and income tax offset credit
PURPOSE: Review and take a straw vote

I. Summary

The Council will take a straw vote today on:

- 1) the amount of the Income Tax Offset Credit (ITOC) for FY21;
- 2) the amount of total real property tax revenues to levy in FY21; and
- 3) the weighted average real property tax rate for FY21.

The Council considers its options each year for all three of these items. The Council only needs to decide on the first two items because all three decisions are interrelated. In other words, a decision about the total real property tax revenues to levy and the amount of the ITOC automatically determines the weighted real property tax rate.

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

II. Background

See ©1 for details about the weighted real property tax rate and the ITOC amount from FY00 through FY20. The following are highlights from the table.

- 1) 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.
- 2) The rate has steady decreased from the FY17 high because the County's assessable base has increased more rapidly than the County's real property tax revenues.
- 3) The ITOC amount was increased from \$0 in FY05 to \$692 in FY11.
- 4) The ITOC amount has been set at \$692 from FY11-FY20.

The Executive’s recommended FY21 Operating Budget included two changes for the Council’s consideration today.

- 1) The Executive recommended an increase to the ITOC amount from \$692 to \$800.
- 2) The Executive recommended an increase of 4.78 cent to the weighted real property tax rate. This increase is due to the change in the ITOC amount and the recommendation for a 3.18 cent “supplementary school funding property tax.”

II. FY21 ITOC Amount

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. The County’s income tax rate is 3.2%; therefore, the maximum value of the ITOC for FY21 is \$1,307 per eligible property.

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 Executive recommended an amount of \$800 for the ITOC in FY21. **The Council received testimony in support of this amount during its April 21, 2020 public hearing.**

A. Analysis of ITOC Value

The Council adopted a resolution for a continuity of services budget for FY21, so Council staff’s analysis focuses on two options for the Council’s consideration of the ITOC amount - \$692 or \$800. The Council, however, may set the ITOC amount from \$0 to \$1,307 while remaining within the Charter Limit and achieve a continuity of services budget.

Below is a table comparing the tax rate and real property taxes generated using the \$692 amount as the base. The greater the ITOC amount the greater the tax rate because tax credits are a form of expenditure. This increase in expenditure results in a greater tax rate to offset those expenditures. Since that tax rate applies to personal property tax and to new construction of real property, the County levies a small amount of additional revenue from the proposed increase in the ITOC amount.

ITOC Amount	Weighted Average Tax Rate per \$100	Additional Property Tax Revenues if greater than \$692
\$692	\$0.9810	--
\$800	\$0.9946	\$1,868,132

Below is a table comparing the net real property taxes from the increase in the ITOC amount to \$800 for eligible properties at different assessed values. Since the ITOC is a flat rate, higher-valued properties receive less benefit from the increase in the ITOC amount. The breakeven – where the increase in the ITOC amount equals the increase in taxes – is about \$790,000 for FY21 at an \$800 ITOC amount.

Assessed Value	ITOC Amount	Net Taxes	Net Tax Difference from \$692 ITOC Amount
\$250,000	\$692	\$1,761	--
	\$800	\$1,687	(\$74)
\$500,000	\$692	\$4,213	--
	\$800	\$4,173	(\$40)
\$750,000	\$692	\$6,666	--
	\$800	\$6,660	(\$6)
\$1,000,000	\$692	\$9,118	--
	\$800	\$9,146	\$28

An important note is that the analysis above does not include a change in assessments. For simplicity, Council staff has excluded this variable. All properties are reassessed on a three-year cycle, and total taxes will increase or decrease in relation to the change in the annual assessments. The percentage increase or decrease in a properties assessment will result in equivalent percentage change in taxes for the following year regardless of the Council’s decision on the ITOC amount.

B. ITOC Amount Discussion

Council staff highlights the items below for the Council’s consideration of setting the ITOC amount for FY21.

- The ITOC amount effectively shifts some of the County’s property tax burden from eligible properties to non-eligible properties. This is true for all real property tax credits in the County.
- As an eligible property’s value increases, the impact from increasing the ITOC amount is diluted from the increase in the tax rate.
- Changes in an individual property’s assessment is the greatest driver to net tax differences year-over-year for that property.

The Council must indicate by a straw vote today what ITOC amount it plans to approve when it passes the budget. A Council decision to set the ITOC amount at \$692 would reduce total resources in the FY21 budget by \$1,868,132.

III. Property Tax Revenues

The amount of property tax revenue is a function of the assessable base, tax rates, collection factors, and property tax credits. The Council may deliberate certain variables, like the ITOC amount, but the most important decision it makes regarding property tax revenues is whether to levy real property tax revenues at the “Charter Limit” or to exceed that limit.

The Charter Limit is the amount of real property tax revenues collected in the previous year plus the percentage increase based on the Consumer Price Index (CPI) increase from the previous year. Section 305 of the County Charter places certain restrictions on the Council when setting the real property tax revenues for the next fiscal year. **Unless there are nine affirmative votes, the Council may not exceed the Charter Limit as described above.** The Council is not restricted setting a rate that would generate revenues less than the Charter Limit. The Council, however, always sets revenues at least at the Charter Limit to reduce pressure from other tax sources given the super majority restriction of limiting revenues by the percentage increase in the CPI each year.

The Executive’s proposed budget exceeds the Charter Limit calculation by \$65,518,400 at an \$800 ITOC value or \$67,386,532 at an \$692 ITOC value. Eight Councilmembers indicated that they would not raise taxes this year; an indication that the preference is not to exceed the Charter Limit (see ©2).

The Council must indicate by a straw vote today whether it intends to set real property tax revenues at the Charter Limit when it passes the budget. The Council’s decision to set real property tax revenues at the Charter Limit would reduce the amount of resources in the proposed budget.

IV. Rate

The Council’s decision on the ITOC amount and whether to set real property tax revenues at the Charter Limit will determine the weight real property tax rate for FY21. There is no separate decision that must be made. The Executive recommended a weighted average real property tax rate at \$1.0264 per \$100 in FY21. There is, however, one item that the Council must keep in mind about the rate when considering the other two decisions.

The Council may not exceed the Constant Yield Tax Rate it advertised and held a public hearing for in April. That advertised rate was \$0.7400; the rate proposed by the Executive. Council decisions to set the ITOC at \$692 or \$800 and to levy real property tax revenues at the Charter Limit will result in a rate that does not exceed the one advertised.

The table below illustrates the various weighted average real property rates based on the options before the Council today.

Description	FY21 Weighted Average Real Property Tax Rate	Rate Change from CE Rec.	Estimated Revenue Change from CE Rec.
CE Recommended (+3.18 cent MCPS tax and \$800 ITOC)	\$1.0264 per \$100	--	--
At Charter Limit and \$800 ITOC	\$0.9946 per \$100	(\$0.3180)	(\$65,518,400)
At Charter Limit and \$692 ITOC	\$0.9810 per \$100	(\$0.0454)	(\$67,386,532)

The FY20 Weighted Average Real Property Tax Rate is \$0.9786 per \$100.

This packet contains:

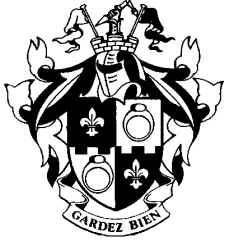
Table: History of ITOC FY00-20
Council Press Release

Circle #

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**Income Tax Offset Credit and Weighted Average Real Property Tax Rate
FY00-FY20**

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



Montgomery County Council

For Immediate Release

March 16, 2020

Contact: Sonya Healy 240-777-7926

**Statement by Montgomery County Council President
Katz and Councilmembers Albornoz, Friedson, Glass, Jawando,
Navarro, Rice and Riemer on the County Executive's Fiscal Year
2021 \$5.9 Billion Operating Budget Recommendation**

ROCKVILLE, Md., March 16, 2020—Montgomery County Council President Sidney Katz and Councilmembers Gabe Albornoz, Andrew Friedson, Evan Glass, Will Jawando, Nancy Navarro, Craig Rice and Hans Riemer, made the following statement on County Executive Marc Elrich's proposed 3.18 cent property tax increase in the fiscal year 2021 Recommended Operating Budget:

"Our focus in the midst of an unprecedented health emergency must be on bringing together businesses and residents, nonprofits and government to address the immediate crisis we face. We also must provide as much certainty and support as we can for county residents who understandably fear what the economic realities of this global pandemic will have on their jobs, retirement savings, small businesses and families.

This is a time for cautious decision-making, not property tax increases. We look forward to working with the County Executive to address the initiatives in his budget recommendations."

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