

SUBJECT

FY23 Property Tax Options: Amount, Rate, and Income Tax Offset Credit

EXPECTED ATTENDEES

- Mike Coveyou, Director, Department of Finance
- David Platt, Department of Finance
- Chris Mullin, Office of Management and Budget

SUMMARY OF KEY DECISIONS

- The Council will take straw votes on the following items:
 - 1) The amount of the Income Tax Offset Credit (ITOC) value for FY24; and
 - 2) The weighted average real property tax rate for FY24.
- For FY24, the County Executive recommends retaining the current ITOC at \$692 and increasing the weighted property tax rate by 10 cents – from \$0.9785 to \$1.0785 per \$100 of assessed value.
- Section 305 of the County Charter requires an affirmative vote from all current Councilmembers to approve a weighted property tax rate for the next fiscal year that exceeds the weighted tax rate of the current fiscal year. However, under state law (Section 5-104 of the Education Article of the Maryland Code), counties can exceed any charter limits on property tax rates or revenues solely to fund their local school boards by a simple majority vote. The County Executive's recommendation designates the revenue from the proposed 10-cent tax increase to Montgomery County Public Schools.
- If the Council adopts a weighted average property tax rate that is less than proposed by the Executive, it will need to make offsetting reductions to proposed expenditures in the Executive's recommended budget.
- The Council has carefully reviewed proposed expenditures for each agency and department as part of the Committee and full Council budget review process, and to date has recommended \$49.2 million in reductions to the Executive's budget and identified \$7.7 million in additional resources.
- In addition, per the Council President's budget review guidance, the Council has placed \$294.4 million in proposed FY24 expenditures on the reconciliation list (\$238.4 million as high priority and \$56.0 million as priority).

This report contains:

Staff Report
Staff Report Attachments

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M E M O R A N D U M

May 15, 2023

TO: County Council
FROM: Craig Howard, Deputy Director
SUBJECT: Property tax options: amount, rate, and income tax offset credit

A. Background

The Council will take votes on the following two items:

- 1) the amount of the Income Tax Offset Credit (ITOC) value for FY24; and
- 2) the weighted average real property tax rate for FY24.

For FY24, the County Executive recommends retaining the current ITOC at \$692 and increasing the weighted property tax rate by 10 cents – from \$0.9785 to \$1.0785 per \$100 of assessed value.

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. However, under state law (Section 5-104 of the Education Article of the Maryland Code), counties can exceed any charter limits on property tax rates or revenues solely to fund their local school boards by a simple majority vote. The County Executive’s recommendation designates the revenue from the proposed 10-cent tax increase to Montgomery County Public Schools.

See ©1 for details about the weighted real property tax rate and the ITOC value from FY00 through FY23. 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. This was an impact of the prior Charter provision limiting the growth in property tax revenue to the rate of inflation.
- The ITOC amount was increased from \$0 in FY05 to \$692 in FY11.
- The ITOC amount has been set at \$692 from FY11-FY23.

B. FY24 ITOC Value

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 FY24 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 FY22, 251,330 properties qualified for the \$692 ITOC with an impact of \$173.3 million in tax credit expenditures.

The Executive recommends an ITOC of \$692 in FY24. The Council held a public hearing on April 18, 2023, and there were no speakers. The Council did receive [testimony specific to the ITOC](#) recapture (described below) at its April 11 public hearing on the FY24 operating budget.

FY24 ITOC Recapture. For FY24, Finance includes a one-time increase in property tax revenue of \$13.8 million for estimated recapture of ITOC revenue due to a new State requirement that a homeowner must apply for the Homestead Tax Credit to be eligible to keep their ITOC. This estimate is based on assumption that approximately 10,000 homeowners, or around 4% of all ITOC recipients, would lose the ITOC they received on their July 2022 tax bills. As of mid-April, there were approximately 77,000 property accounts in the County that do not have an application on file and therefore may no longer be eligible to receive the ITOC.

Analysis of ITOC Value. 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 FY24 will result in a decrease of \$250,446 to the estimated FY24 property tax revenues. Table 1 below provides illustrative examples how the general fund revenues are impacted based on different ITOC values. An ITOC value of \$692 in FY24 maintains the same value for owner-occupied properties since FY11 and does not impact the estimated property tax revenues in FY24.

Table 1. Illustrative Examples of Changes to the FY24 ITOC Value and General Fund Revenues

ITOC Amount	Estimated Total Increase (Decrease) to Property Tax Revenues
\$650	\$10,518,732
\$675	\$4,257,582
\$692	---
\$725	(\$8,264,718)
\$750	(\$14,525,868)

Council Decision Point. Determine the level of the ITOC for FY24.

C. 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 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.

FY24 Executive Recommendation. The Executive recommends an FY24 weighted tax rate of \$1.0785 per \$100, an increase of \$0.10 over the FY23 weighted tax rate of \$0.9785. Levying property taxes at this rate with an ITOC value of \$692 yields an estimated \$2,225.4 million in total property taxes for FY24. The proposed 10-cent tax increase accounts for \$223,359,602 of the FY24 total.

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. For FY24, Council [advertised and held a public hearing](#) on the general fund recommended by the Executive. This allows the Council to set a property tax rate at any level up to the rate recommended by the Executive.

The table below shows how much additional property tax revenue would be generated for each 1-cent increase between the FY23 level and the Executive’s recommended increase. If the Council adopts a property tax rate that is less than proposed by the Executive, it will need to make offsetting reductions to proposed expenditures absent any changes to other revenues.

Table 2. Additional FY24 Revenue from Property Tax Rate Increase Scenarios

Tax Rate Increase	FY24 Revenue	Additional Amount
No Increase	\$2,002,042,581	\$0
1-cent	\$2,024,377,541	\$22,334,960
2-cent	\$2,046,712,501	\$44,669,920
3-cent	\$2,069,047,462	\$67,004,881
4-cent	\$2,091,382,422	\$89,339,841
5-cent	\$2,113,717,382	\$111,674,801
6-cent	\$2,136,052,342	\$134,009,761
7-cent	\$2,158,387,302	\$156,344,721
8-cent	\$2,180,722,263	\$178,679,682
9-cent	\$2,203,057,223	\$201,014,642
10-cent (CE Rec)	\$2,225,392,183	\$223,349,602

The Council has carefully reviewed proposed expenditures for each agency and department as part of the Committee and full Council budget review process, and through May 12 has recommended \$49.2 million in reductions and identified \$7.7 million in additional resources – a total difference of \$57.1 million compared to the Executive’s recommended budget. In addition, per the Council President’s

budget review guidance, the Council has placed \$294.4 million in proposed FY24 expenditures on the reconciliation list (\$238.4 million as high priority and \$56.0 million as priority).

Absent any other changes, the \$57.1 million in net changes to date would reduce the tax rate increase needed to fund the FY24 budget by approximately 2.6 cents as compared to the Executive’s recommendation (from 10 cents to 7.4 cents). The Council’s decision on the tax rate will impact its ability to fund items on the reconciliation list. For example:

- The Council could reduce the Executive’s proposed tax rate by 14.6 cents (or 4.6 cents below the FY23 tax rate) and fund **none** of the high priority or priority items (including MCPS funding) on the reconciliation list.
- The Council could reduce the Executive’s proposed tax rate by 1.8 cents and fund **all** the high priority and priority items on the reconciliation list.
- The Council could reduce the Executive’s proposed tax rate by 4.3 cents and fund **only** the high priority items on the reconciliation list.

Impact of property tax increase and assessment increase. Homeowners in Montgomery County will experience, on average, an increase in assessed value in FY24. The State Department of Assessment and Taxation’s (SDAT) most recent [triennial reassessment cycle](#) resulted in average assessment increases of 6.6% for residential properties in Group 3 (effective FY22), 11.3% for residential properties in Group 2 (effective FY23) and 19.8% for residential properties in Group 1 (effective FY24). Since assessment increases are phased-in over three years, the average property owner will experience a 2.2%, 3.8%, or 6.6% assessment increase, respectively, for FY24. The table below shows the cumulative increase a homeowner would pay in FY24 due to assessment increases and the Executive’s proposed 10% property tax increase based on assessed value.

Table 3. Range of Potential FY24 Tax Increase by Assessed Value

Assessed Value of Home	FY24 Cumulative Tax Increase (CE Rec)
\$300,000	\$307-320
\$500,000	\$511-533
\$700,000	\$715-746
\$1,000,000	\$1,022-1,066

If the tax rate approved for FY24 is held flat in FY25, property owners that are still in the “phase-in” period will pay higher taxes due to the assessments.

Property tax impact on commercial properties. The Department of Finance provided the table below that estimates that impact of the Executive’s proposed tax increase on commercial properties in land-use categories that are not stand-alone or attached residential properties. For each category, the table includes the number of accounts, total assessed value, average assessed value per account, and the estimated increased tax bill.

Table 4. Projected Impact of Property Tax Increase on Commercial Properties

Category	Total Accounts (LY2023)	Total Assessed Value (LY2023)	Average Assessed Value (LY2023)	Average Tax Bill Increase at \$0.10 Rate Increase
Commercial	3,804	23,940,075,804	6,293,395	\$6,293
Commercial Condominium	3,846	7,686,749,090	1,998,635	\$1,999
Industrial	1,181	7,078,395,400	5,993,561	\$5,994
Apartments	829	8,797,701,307	10,612,426	\$10,612

Finance also provided the following note about the apartment sector: “For the apartment sector, we have about 90,000 apartments in the County so the estimated tax increase per apartment, assuming all are subject to property taxes, is about \$100/year.”

Council Decision Point. Determine the weighted average property tax rate for FY24.

**Income Tax Offset Credit and Weighted Average Real Property Tax Rate
FY00-FY23**

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
2023	\$0.9785	\$0.0000	\$692



OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

MEMORANDUM

March 15, 2023

TO: Evan Glass, President
Montgomery County Council

FROM: Marc Elrich, County Executive *Marc Elrich*

SUBJECT: Property Tax Credit for Income Tax Offset

The purpose of this memorandum is to transmit for introduction by the County Council a resolution to authorize the Property Tax Credit for Income Tax Offset included in my FY24 Recommended Operating Budget. If approved by the County Council, this will provide a \$692 property tax credit for each owner-occupied dwelling in the County. I urge the Council to review and adopt this resolution as part of its deliberations on the FY24 Operating Budget.

ME:cmm

Enclosure: Resolution - Property Tax Credit for Income Tax Offset

cc: Richard S. Madaleno, Chief Administrative Officer, Office of the County Executive
Fariba Kassiri, Deputy Chief Administrative Officer, Office of the County Executive
Dale Tibbitts, Special Assistant to the County Executive, Office of the County Executive
Jennifer Bryant, Director, Office of Management and Budget
Michael J. Coveyou, Director, Department of Finance

Resolution No: _____
Introduced: _____
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: Council President at the Request of the County Executive

SUBJECT: Property Tax Credit for Income Tax Offset

Background

1. County Code Section 52-86 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 higher 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, 2023, 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 resolution:

The amount of the property tax credit under County Code Section 52-86 for the tax year beginning July 1, 2023, is \$692 for each eligible taxpayer.

This is a correct copy of Council action.

Judy Rupp
Clerk of the Council