

MEMORANDUM

May 3, 2021

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:

- Mike Coveyou, Department of Finance (Finance)
- Nancy Feldman, Finance
- David Platt, 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 FY22; and
- 2) the weighted average real property tax rate for FY22.

The Council considers its options each year for setting property tax rates, property tax revenues, and the ITOC during the operating budget deliberations. **With the recent Charter amendment, the Council's approach is simplified 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 Beginning in FY22, the Council 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 FY21. 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 steadily 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-FY21.

Below is the Executive’s recommendation for FY22 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. FY22 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 FY22 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.** In FY20, about 243,500 properties qualified for the \$692 ITOC. The impact on the County was an estimated \$168.5 million in tax credit expenditures.

The Executive recommended an ITOC of \$692 in FY22. The Council is holding a public hearing on May 4, 2021 at 1:30 PM. This report was published prior to the 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 less 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 are accounted for 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 FY22 will result in \$243,500 fewer resources. Table 1 provides illustrative examples how the general fund revenues are impacted based on different ITOC values.

Table 1: Illustrative Examples of Changes to the FY22 ITOC Value and General Fund Revenues

ITOC Amount	Estimated Total Increase (decrease) to Property Tax Revenues
\$650	\$10,227,000
\$675	\$4,139,500
\$692	---
\$725	(\$8,035,500)
\$750	(\$14,123,000)

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.

The GO Committee must recommend a FY22 ITOC value for the Council’s consideration. An ITOC value of \$692 in FY22 maintains the same value for owner-occupied properties since FY11 and does not impact the estimated property tax revenues in FY22.

IV. **Weighted Tax Rate**

The Council’s consideration of the weighted tax rate is simplified 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 needs to consider how the weighted tax rate changes compared to the current fiscal year’s weighted tax rate.

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 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 simple 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 weighted tax rate of \$0.9785 per \$100, the same as FY21’s weighted tax rate.** Levying property taxes at this rate with an ITOC value of \$692 yields an estimated \$1,884.7 million in total property taxes for FY22.

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 it advertised, and held a public hearing on April 27, 2021. That advertised rate was \$0.7180 per \$100 of assessed value; the rate proposed by the Executive. Council decisions related to expenditures in the general fund will impact the actual tax rate levied in FY22. Council staff will continue to evaluate the Council’s recommended general fund expenditures to ensure the Council does not exceed the advertised CYTR in FY22. Based on the known changes as of May 3, 2021, the Council is not anticipated to exceed the advertised 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 FY22 Charter Limit and is the recommendation of the Executive. This rate with an ITOC of \$692 will levy approximately \$1,884.7 million in property taxes in FY22.

<u>This packet contains:</u>	<u>Circle #</u>
Table: History of weight tax rates and ITOC FY00-21	1
Proposed FY22 ITOC resolution	2

**Income Tax Offset Credit and Weighted Average Real Property Tax Rate
FY00-FY21**

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

Resolution No.: _____
Introduced: April 13, 2021
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: Council President at the request of the County Executive

SUBJECT: Property Tax Credit for Income Tax Offset

Background

1. County Code Section 52-11B authorizes the County Council by resolution to set the rate or amount of the property tax credit to offset certain income tax revenues resulting from a County income tax rate greater than 2.6%.
2. The County Executive has recommended the amount of property tax credit under County Code Section 52-11B for the tax year beginning July 1, 2021 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 52-11B for the tax year beginning July 1, 2021 is \$692 for each eligible taxpayer.

This is a correct copy of Council action.

Selena Mendy Singleton, Esq.
Clerk of the Council