OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

February 27, 2024

TO: The Honorable Vanessa E. Atterbeary
Chair, Ways and Means Committee

FROM: Marc Elrich
County Executive

RE: House Bill 919, *Property Tax – County Authority to Set Special Rates*
Support

House Bill 919 would allow Maryland counties and Baltimore City to establish different real property tax rates for different classes of properties. Municipalities in the State currently have and use this authority, but counties and Baltimore City do not. Instead, counties and Baltimore City are required to apply a single county property tax rate for all classes of real property subject to the county or City property tax, with limited exceptions (the value of public utility operating real property allocated to the State and personal property).

House Bill 919 has been carefully crafted to place limits on this authority by identifying the specific subclasses that could be taxed at different rates, as follows:

- Commercial or industrial;
- Residential rental that has at least four units built as apartments;
- Residential, commercial, or industrial condominium;
- Property used for both residential and commercial purposes;
- Residential townhouse or rowhouse; and
- Abandoned property.

These subclasses were selected for inclusion in House Bill 919 based on a review of State Department of Assessments and Taxation's (SDAT) codes for "Classes of Property – Land Use" with the goal of making it as reasonable as possible for SDAT to implement the law should any of the counties or Baltimore City choose to exercise the authority granted under the bill. In addition to specifically naming the subclasses, House Bill 919 limits the use of any revenue that would be generated to support the costs of: (1) State or county transportation improvements, through the use of special taxing districts; and (2) minimum school funding amounts as required by State law. It places yet another "guardrail" by limiting any differential to 12.5 cents for each $100 of assessed value.

I strongly support House Bill 919.

As the County Executive of Montgomery County, a community famous for horrific traffic congestion, I have become increasingly frustrated by our inability to compete with the expansion of transportation infrastructure in Northern Virginia. Differences in the application of development taxes and fees hinder our County's ability to compete with the Northern Virginia (NOVA) suburbs for the buildout of crucial new infrastructure, especially transportation, which is essential for successful development. While independent reports document that taxes for businesses are higher in NOVA than in Montgomery County, the method of taxation used in our County is a negative for developers and the County. Because of limitations on ways any county in Maryland can generate revenue, Montgomery County relies on impact taxes to cover new infrastructure. This is a particularly burdensome tax since it must be paid at the time of construction. This drives up the initial costs of development. Because impact taxes produce an unpredictable and volatile revenue stream that is project specific and comes in one-time payments, it is impossible to bond, thereby limiting opportunities to finance the infrastructure investment necessary to support the new development.

In contrast, the NOVA counties, by law, are required to impose differential rates – higher rates on commercial properties than residential – with the strong backing of the business community. The business community in Northern Virginia understood that higher property taxes that are dedicated for specific infrastructure investment would be good for business. They knew they could not thrive without making the kinds of investments that would be necessary to attract new development; the most obvious example is the Silver Line, which was partially paid for by differentiated commercial taxes levied in special taxing districts. The NOVA region has thrived, at our expense, with the ability to invest billions of dollars in new infrastructure because their elected officials and the business community took the long view and agreed that they needed a new approach to regionalism and infrastructure investment – and were willing to pay to make that happen.

In summary, I am asking you to also take the long view and allow counties this additional taxation tool. At the County level, we will be pursuing a local law that will allow the County to establish differential property tax rates, the revenue from which will help us partner with the State to make critical transportation investments, including our comprehensive bus rapid transit network, that are necessary now and cannot wait to queue up in the State's long backlog of unfunded transportation projects. Other counties may choose to use this authority to help meet the funding requirements of the Blueprint, which without a larger complement of local revenue options, may not be able to be met.

I join my colleagues in the Maryland Association of Counties to urge the Ways and Means Committee to move favorably on House Bill 919. This needed authority will ensure that Montgomery County can compete for new development in the Washington region, and allow other counties and Baltimore City another option to generate local revenues to cover their specific needs.

cc: Members of the Ways and Means Committee