OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

January 28, 2025

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

FROM: Marc Elrich
County Executive

RE: House Bill 23, *Property Taxes – Authority of Counties to Establish a Subclass and Set a Special Rate for Commercial and Industrial Property*
Support

House Bill 23 is an improved version of legislation that was introduced last year, for the same purpose. The bill authorizes Baltimore City and county governments to set a single special property tax rate for subclasses of commercial and industrial real property for the purpose of financing transportation improvements or providing required funding to their local school systems. The bill establishes the subclasses as commercial, industrial, commercial/industrial condominium, residential/commercial, and commercial/residential. It limits the special tax rate that may be applied to $0.125 for each $100 of assessed value and prohibits the application of the higher rate to any residential portion of a mixed-use property that receives either an exemption or credit from the special rate. The bill outlines how counties should develop and implement a system of credits or exemptions to satisfy the goal of protecting residential portions of a mixed-use development from being subject to the special property tax. For transportation funding, the bill limits the imposition of the special rate to a special taxing district established for the purpose of financing State or county transportation improvements. For education funding, the special rate may be imposed on a countywide basis.

I strongly support House Bill 23.

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

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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 – a tool that Maryland's municipalities have had for many years. At the County level, with the passage of HB 23, I would quickly pursue 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 23. 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