

GO #1
May 3, 2011
Action

MEMORANDUM

April 28, 2011

TO: Government Operations and Fiscal Policy Committee
FROM: ^{CHP} Charles H. Sherer, Legislative Analyst
SUBJECT: Property tax options for FY12: amount of property tax; property tax rates; and the income tax offset credit

Council staff recommendation Select one of the following two options to recommend to the Council for reaching the Charter limit on property taxes in FY12 (this is the action for the Committee to take):

Option 1: Keep the property tax rate the same as in FY11, which was \$0.904 per \$100 of taxable value; and reduce the income tax offset credit (ITOC) by \$297, from \$692 per eligible household in FY11 to \$395 in FY12.

Option 2: Increase the property tax rate by 4.2¢ from \$0.904 in FY11 to \$0.946 in FY12; and keep the ITOC the same as in FY11, which was \$692. This is the Executive's recommendation.

As can be seen, option 1 has the lower tax rate and also the lower ITOC. Option 2 has the higher tax rate and the higher ITOC. As stated above, both options are at the Charter limit.

Historical data A table of the tax rates and the ITOC each year since FY78 is on ©11, followed by a graph of the rates. The rate decreased from FY78 through FY93 (FY92 was the first year of the spending affordability process), stayed at about the same rate through FY05, then decreased slightly in FY06 and again in FY07, and has stayed about the same since FY07.

A table of property tax data is on ©13. In the 20 years in which the Charter limit on property taxes has been in effect, FY92 through FY11, the Council exceeded the limit in four years: FY03-05 and FY09.

Basis for your decision In making your decision, consider the following characteristics of each option.

A. With respect to individual property tax bills:

Option 1 results in lower tax bills than option 2 for residential properties with taxable values greater than \$707,143 and for all non-residential properties. Option 1 results in higher tax bills than option 2 for residential properties with taxable values less than \$707,143. (In FY12, the median taxable value will be about \$390,000, and the average taxable value will be about \$446,000.)

Option 1 would or might be more beneficial **for apartment renters**, because the property tax bills their landlords pay would be less than with option 2, so there would be less expense to pass on to the renters. The State assessor’s office told Council staff that the range of taxable values for individual apartments is \$45,000 to \$225,000, with most between \$80,000 and \$160,000. For a taxable value of \$100,000, the Executive’s proposed 4.2¢ increase in the rate for option 2 would increase the property tax bill per apartment by \$42 per year.

Option 2 results in lower tax bills than option 1 for residential properties with taxable values less than \$707,143. Option 2 results in higher tax bills than option 1 for residential properties with taxable values greater than \$707,143 and for all non-residential properties.

The above descriptions are summarized in the table below. TV = taxable value.

Property	Which option results in lower/higher bill?	
	Option 1 is higher	Option 2 is lower
Residential w TV < \$707,143	Option 1 is higher	Option 2 is lower
Residential w TV > \$707,143 and all non-residential property	Option 1 is lower	Option 2 is higher

B. With respect to the share of property taxes paid by residential versus non-residential properties:

Residential properties pay a lower % of total property taxes with option 2 than with option 1 (61.9% versus 63.6%). Non-residential properties pay a lower % of total property taxes with option 1 than with option 2 (36.4% versus 38.1%).

Additional information, background, and explanation follow.

The purpose of this meeting is for the Committee to discuss and make recommendations to the Council about property taxes in FY12. The Committee and Council must make **two** decisions. The first decision is how much property tax revenue to raise to fund the FY12 budget. After you make that decision, you must then decide the combination of property tax rate and the income tax offset credit (ITOC) that will result in the amount of property tax revenue you want.

The State authorizes counties to approve an ITOC for eligible properties (owner occupied as the principal residence) to “offset” the amount of county income tax resulting from an income tax rate greater than 2.6%. Montgomery County’s income tax rate is 3.2%, the maximum rate the State permits. For FY11, the Council approved an ITOC in the amount of \$692 per eligible residence (\$168.6 million in total for 243,600 estimated eligible properties). The maximum amount of ITOC in FY12 is \$948.

The amount of property tax revenue is calculated by multiplying the taxable value of all taxable property by the tax rate, and then subtracting the total amount of the ITOC. Finance estimates that taxable value in FY12 will be 2.75% less than in FY11. Therefore, if the Council wants to raise more property tax revenue in FY12 than in FY11, the Council will have to increase the property tax rate and/or decrease the amount of ITOC.

Executive’s recommendation For FY12, the Executive recommends property tax at the Charter limit. This is also the amount shown in the six year Fiscal Plan the Council approved on June 29, 2010 in Resolution 16-1416. The so-called “Charter limit” permits two increases:

1. an increase on **existing** real property from FY11 **actual** (not budgeted) property tax revenues for inflation in CY2010 (+1.7%);
2. whatever increase results from new construction and personal property, at whatever property tax rates the Council sets for FY12. If FY12 property tax exceeds the Charter limit as just defined, then nine Councilmembers must approve the tax rates.

Finance estimates that the increase in property tax from new construction will add 0.6%, so the total increase in property tax at the Charter limit would be +2.3% more than the FY11 actual. Since FY11 actual property tax revenue is \$20.1 million less (1.4% less) than the budgeted amount, FY12 property tax at the Charter limit is only 0.8% more than the FY11 budget. The table below may clarify these relationships. \$ amounts are in millions. Additional data are on ©1.

FY11 budget	\$1,450.1
FY11 actual	\$1,430.0
FY12 CE (increase rate 4.2¢, no change ITOC)	\$1,462.2
% change from FY11 budget to FY12	0.8%
% change from FY11 actual to FY12	2.3%

The Executive considered two options, each of which results in property tax at the Charter limit. At the Charter limit, the tax on existing property will increase 1.7% (for inflation) in each option, so this is the average increase. However, as with any average, some will increase more than the average and some will increase less and may even decrease. For example, one tax bill might increase 15.0% and another might decrease 11.6%, for an average of +1.7%. The two options are:

- 1 No change tax rate, decrease ITOC by \$297, from \$692 to \$395.
- 2 Increase tax rate 4.2¢, no change ITOC, it stays at \$692.

Both options result in property tax at the Charter limit. The attached spreadsheets show the impact of the options on tax bills for residential properties that owners occupy as principal residences. The impact cannot be summarized in one number, for two reasons.

1. There is a wide variation in the **% change in taxable values** from FY11 to FY12. Data from DTS show that 24,000 out of 248,000 residential properties will have an increase in taxable value of 10%. This is the maximum % increase because the homestead property tax credit limits the % increase in taxable value to 10%. 24,000 is still a substantial number, although down from 92,000 one year ago. In contrast, some residential properties will have a decrease of 15% or more: data from Finance show that the **average** decrease in taxable value was 11.4% for the group of properties that the State most recently assessed. If the average decrease was 11.4%, some properties must have decreased more to offset those that decreased less. The average % changes for the other two assessment cycle groups is +2.2 and +2.7%. The average for all three groups is -2.5%.

The impact of an option will be much different for two properties if one had an increase of 10% and the other a decrease of 15% in taxable value. The average will not show the wide range or variation between the two.

2. The second reason why the impact of an option cannot be summarized is that the impact varies, depending on the taxable value of the property, **because of the ITOC**. This credit has a big impact on properties with low taxable values and a small impact on properties with high taxable values (and no impact on properties not eligible for the ITOC). Suppose the tax bill before the ITOC was \$1,000 for a property with a low taxable value and \$10,000 for a property with a high taxable value. An ITOC of \$700 would reduce the low bill by 70% to \$300 (a huge impact); would reduce the high bill by only 7% to \$9,300; and would have no impact on a property not eligible for this credit.

Consider also that the ITOC is a double-edged sword. As just shown, this credit results in a large % decrease in tax bills of low valued properties. However, if this credit is reduced (or eliminated), then there will be a large % increase in the tax bill from one year to the next. For the low value example above, suppose the Council eliminated the credit the next year. Then the tax bill would increase \$700, from \$300 to \$1,000, a % increase of 233%! In marked contrast, the high bill would also increase \$700, from \$9,300 to \$10,000, but the % increase would be only 7.5%.

See ©8 for further detail about the ITOC.

Explanation of the spreadsheets There are five sheets to show different % changes in taxable value from FY11 to FY12: -10%, -5%, 0% (no change), +5%, and +10%. Each sheet shows four taxable values: \$200,000, \$600,000, \$1,000,000, and \$10,000,000 for a commercial property not eligible for the credit. See ©9 for the distribution of taxable values. The median taxable value appears to be about \$390,000. Finance estimates that the average taxable value in FY12 will be \$446,000.

How to measure the impacts of the options There are at least two ways.

1. By the % change in the tax bill from FY11 to FY12. Option 1 has high % increases for properties with low taxable values. **This is misleading, because in all cases a large % increase results from a low tax bill in FY11, not from a high tax bill in FY12.** The example above about the double-edged sword illustrates this. Focusing on this measure could lead the Council to reject an option that the Council might not reject if the Council used a different (and Council staff thinks better) measure.

However, Council staff acknowledges that taxpayers who have a large % increase in their bill in FY12 will not likely be comforted by the fact that their tax bill in FY11 was low. Such taxpayers did not contact the Council to thank the Council for a low tax bill in FY11, but very well might contact the Council to complain about the high (% change) tax bill in FY12.

2. A second way to measure the impacts of the options is by the effective tax rate, which is simply the tax after the ITOC, divided by the taxable value. A progressive property tax “structure” is a structure in which the effective property tax rate increases as the taxable value increases. The spreadsheets show that for each option, the highest % change goes with the lowest effective tax rate. For example, for a 10% increase in taxable value **for option 1**, ©6 shows the following:

Taxable value in FY11	\$200,000	\$600,000	\$1,000,000
% change tax bill	42.8%	17.7%	14.4%
Effective tax rate	\$0.724	\$0.844	\$0.868

Note that the \$200,000 property had the largest % increase, but would still be paying the lowest effective tax rate. Therefore, option 1 should not necessarily be rejected based solely on the 42.8% increase in the tax bill. The effective tax rate increases as the taxable value increases because of the ITOC, making the option progressive. The spreadsheets and the graph on ©10 show that **both** options are progressive (both lines slope up), that option 2 is more progressive at taxable values less than \$707,143, and that option 1 is more progressive at taxable values more than \$707,143.

Comparisons and analysis Option 1 has the lowest tax rate and the lowest ITOC. Option 2 (the Executive's option) has a tax rate that is 4.2 cents higher, which results in more tax revenue, but also a \$308 higher ITOC, which results in lower tax revenue, with the result that both options result in property tax at the Charter limit.

Option 1 will result in a lower tax bill than option 2 for all commercial properties and for high value residential properties, because the lower tax rate for option 1 way more than offsets the lower ITOC. In contrast, option 2 will result in a lower tax bill than option 1 for low value residential properties, because the higher ITOC for option 2 way more than offsets the higher tax rate. To put it another way, low value residential properties have a lower tax bill with option 2 (the Executive's option); high value residential properties and all commercial properties have a lower tax bill with option 1.

Residential properties with a taxable value less than \$707,143 will have a lower tax bill with option 2, and residential properties with a taxable value more than that amount will have a lower tax bill with option 1. Finance estimates that the average taxable value in FY12 will be \$446,000.

Option 2 is more progressive than option 1. However, both options are progressive because of the ITOC, which you can see by looking at the effective tax rate, which increases as the taxable value increases. Option 1 would or might be more beneficial **for apartment renters**, because the property tax bill their landlords pay would be less than with option 2, so there would be less expense to pass on to the renters.

With regard to apartments, the State assessor's office told Council staff that the range of taxable values for individual apartments is \$45,000 to \$225,000, with most between \$80,000 and \$160,000. For a taxable value of \$100,000, the Executive's proposed 4.2¢ increase in the rate would increase the property tax bill per apartment by \$42 per year.

Distribution of the property tax between residential and non-residential Based on data from the Department of Finance, for option 1, residential property tax payers pay 63.6% of property taxes (real plus personal), and non-residential property tax payers pay the remaining 36.4%. For option 2, residential property tax payers pay 61.9% of property taxes (real plus personal), and non-residential property tax payers pay the remaining 38.1%.

	A	B	C	D	G
1	PROPERTY TAX				
2	ITOC = Income Tax Offset Credit				
3					CE
4		FY11 budget	FY11 actual	FY12 option 1	FY12 option 2
5	Rate per \$100 of taxable value	0.904	0.904	0.904	0.946
6	Change from FY11 budget			0.000	+0.042
7	PT before ITOC	1,618,718,932	1,598,360,270	1,558,557,000	1,630,957,949
8					
9	ITOC per eligible household	(692)	(692)	(395)	(692)
10	Change from FY11 budget			297	0
11	# eligible households	243,603	243,329	243,800	243,800
12	Total ITOC	(168,573,276)	(168,383,374)	(96,301,000)	(168,709,600)
13					
14	Tax after ITOC	1,450,145,656	1,429,976,896	1,462,256,000	1,462,248,349
15	% change from FY11 budget			0.8%	0.8%
16	% change from FY11 actual			2.3%	2.3%
17					
18	SHARE OF TOTAL REVENUES				
19	Residential			63.6%	61.9%
20	Non residential			36.4%	38.1%

	A	B	C	F	G
1	PROPERTY TAX SCENARIOS FOR FY12 AT THE CHARTER LIMIT				
2	ITOC = Income Tax Offset Credit				
9					
10		FY11	Option 1	Option 2	2 - 1
11	Property tax rate	0.904	0.904	0.946	0.042
12	ITOC	(692)	(395)	(692)	(297)
13	Change rate from FY11		0.000	0.042	
14	Change credit from FY11		297	0	
15					
16	% change TV FY11-FY12	-10.0%			
17		FY11	Option 1	Option 2	
18	Taxable value	200,000	180,000	180,000	
19	Tax rate	0.904	0.904	0.946	
20	Tax before ITOC	1,808	1,627	1,703	
21	Less ITOC	(692)	(395)	(692)	
22	Tax after ITOC	1,116	1,232	1,011	(221)
23	% change tax FY11-FY12		+10.4%	-9.4%	
24	Effective tax rate	0.558	0.685	0.562	
25					
26	% change TV FY11-FY12	-10.0%			
27		FY11	Option 1	Option 2	
28	Taxable value	600,000	540,000	540,000	
29	Tax rate	0.904	0.904	0.946	
30	Tax before ITOC	5,424	4,882	5,108	
31	Less ITOC	(692)	(395)	(692)	
32	Tax after ITOC	4,732	4,487	4,416	(70)
33	% change tax FY11-FY12		-5.2%	-6.7%	
34	Effective tax rate	0.789	0.831	0.818	
35					
36	% change TV FY11-FY12	-10.0%			
37		FY11	Option 1	Option 2	
38	Taxable value	1,000,000	900,000	900,000	
39	Tax rate	0.904	0.904	0.946	
40	Tax before ITOC	9,040	8,136	8,514	
41	Less ITOC	(692)	(395)	(692)	
42	Tax after ITOC	8,348	7,741	7,822	81
43	% change tax FY11-FY12		-7.3%	-6.3%	
44	Effective tax rate	0.835	0.860	0.869	
45					
46	Commercial property, not eligible for ITOC				
47	% change TV FY11-FY12	-10.0%			
48		FY11	Option 1	Option 2	
49	Taxable value	10,000,000	9,000,000	9,000,000	
50	Tax rate	0.904	0.904	0.946	
51	Tax	90,400	81,360	85,140	3,780
52	% change tax FY11-FY12		-10.0%	-5.8%	
53	Effective tax rate	0.904	0.904	0.946	

2

	A	B	C	F	G
1	PROPERTY TAX SCENARIOS FOR FY12 AT THE CHARTER LIMIT				
2	ITOC = Income Tax Offset Credit				
9					
10		FY11	Option 1	Option 2	2 - 1
11	Property tax rate	0.904	0.904	0.946	0.042
12	ITOC	(692)	(395)	(692)	(297)
13	Change rate from FY11		0.000	0.042	
14	Change credit from FY11		297	0	
15					
16	% change TV FY11-FY12	-5.0%			
17		FY11	Option 1	Option 2	
18	Taxable value	200,000	190,000	190,000	
19	Tax rate	0.904	0.904	0.946	
20	Tax before ITOC	1,808	1,718	1,797	
21	Less ITOC	(692)	(395)	(692)	
22	Tax after ITOC	1,116	1,323	1,105	(217)
23	% change tax FY11-FY12		+18.5%	-0.9%	
24	Effective tax rate	0.558	0.696	0.582	
25					
26	% change TV FY11-FY12	-5.0%			
27		FY11	Option 1	Option 2	
28	Taxable value	600,000	570,000	570,000	
29	Tax rate	0.904	0.904	0.946	
30	Tax before ITOC	5,424	5,153	5,392	
31	Less ITOC	(692)	(395)	(692)	
32	Tax after ITOC	4,732	4,758	4,700	(58)
33	% change tax FY11-FY12		+0.5%	-0.7%	
34	Effective tax rate	0.789	0.835	0.825	
35					
36	% change TV FY11-FY12	-5.0%			
37		FY11	Option 1	Option 2	
38	Taxable value	1,000,000	950,000	950,000	
39	Tax rate	0.904	0.904	0.946	
40	Tax before ITOC	9,040	8,588	8,987	
41	Less ITOC	(692)	(395)	(692)	
42	Tax after ITOC	8,348	8,193	8,295	102
43	% change tax FY11-FY12		-1.9%	-0.6%	
44	Effective tax rate	0.835	0.862	0.873	
45					
46	Commercial property, not eligible for ITOC				
47	% change TV FY11-FY12	-5.0%			
48		FY11	Option 1	Option 2	
49	Taxable value	10,000,000	9,500,000	9,500,000	
50	Tax rate	0.904	0.904	0.946	
51	Tax	90,400	85,880	89,870	3,990
52	% change tax FY11-FY12		-5.0%	-0.6%	
53	Effective tax rate	0.904	0.904	0.946	

	A	B	C	F	G
1	PROPERTY TAX SCENARIOS FOR FY12 AT THE CHARTER LIMIT				
2	ITOC = Income Tax Offset Credit				
9					
10		FY11	Option 1	Option 2	2 - 1
11	Property tax rate	0.904	0.904	0.946	0.042
12	ITOC	(692)	(395)	(692)	(297)
13	Change rate from FY11		0.000	0.042	
14	Change credit from FY11		297	0	
15					
16	% change TV FY11-FY12	0.0%			
17		FY11	Option 1	Option 2	
18	Taxable value	200,000	200,000	200,000	
19	Tax rate	0.904	0.904	0.946	
20	Tax before ITOC	1,808	1,808	1,892	
21	Less ITOC	(692)	(395)	(692)	
22	Tax after ITOC	1,116	1,413	1,200	(213)
23	% change tax FY11-FY12		+26.6%	+7.5%	
24	Effective tax rate	0.558	0.707	0.600	
25					
26	% change TV FY11-FY12	0.0%			
27		FY11	Option 1	Option 2	
28	Taxable value	600,000	600,000	600,000	
29	Tax rate	0.904	0.904	0.946	
30	Tax before ITOC	5,424	5,424	5,676	
31	Less ITOC	(692)	(395)	(692)	
32	Tax after ITOC	4,732	5,029	4,984	(45)
33	% change tax FY11-FY12		+6.3%	+5.3%	
34	Effective tax rate	0.789	0.838	0.831	
35					
36	% change TV FY11-FY12	0.0%			
37		FY11	Option 1	Option 2	
38	Taxable value	1,000,000	1,000,000	1,000,000	
39	Tax rate	0.904	0.904	0.946	
40	Tax before ITOC	9,040	9,040	9,460	
41	Less ITOC	(692)	(395)	(692)	
42	Tax after ITOC	8,348	8,645	8,768	123
43	% change tax FY11-FY12		+3.6%	+5.0%	
44	Effective tax rate	0.835	0.865	0.877	
45					
46	Commercial property, not eligible for ITOC				
47	% change TV FY11-FY12	0.0%			
48		FY11	Option 1	Option 2	
49	Taxable value	10,000,000	10,000,000	10,000,000	
50	Tax rate	0.904	0.904	0.946	
51	Tax	90,400	90,400	94,600	4,200
52	% change tax FY11-FY12		0.0%	+4.6%	
53	Effective tax rate	0.904	0.904	0.946	

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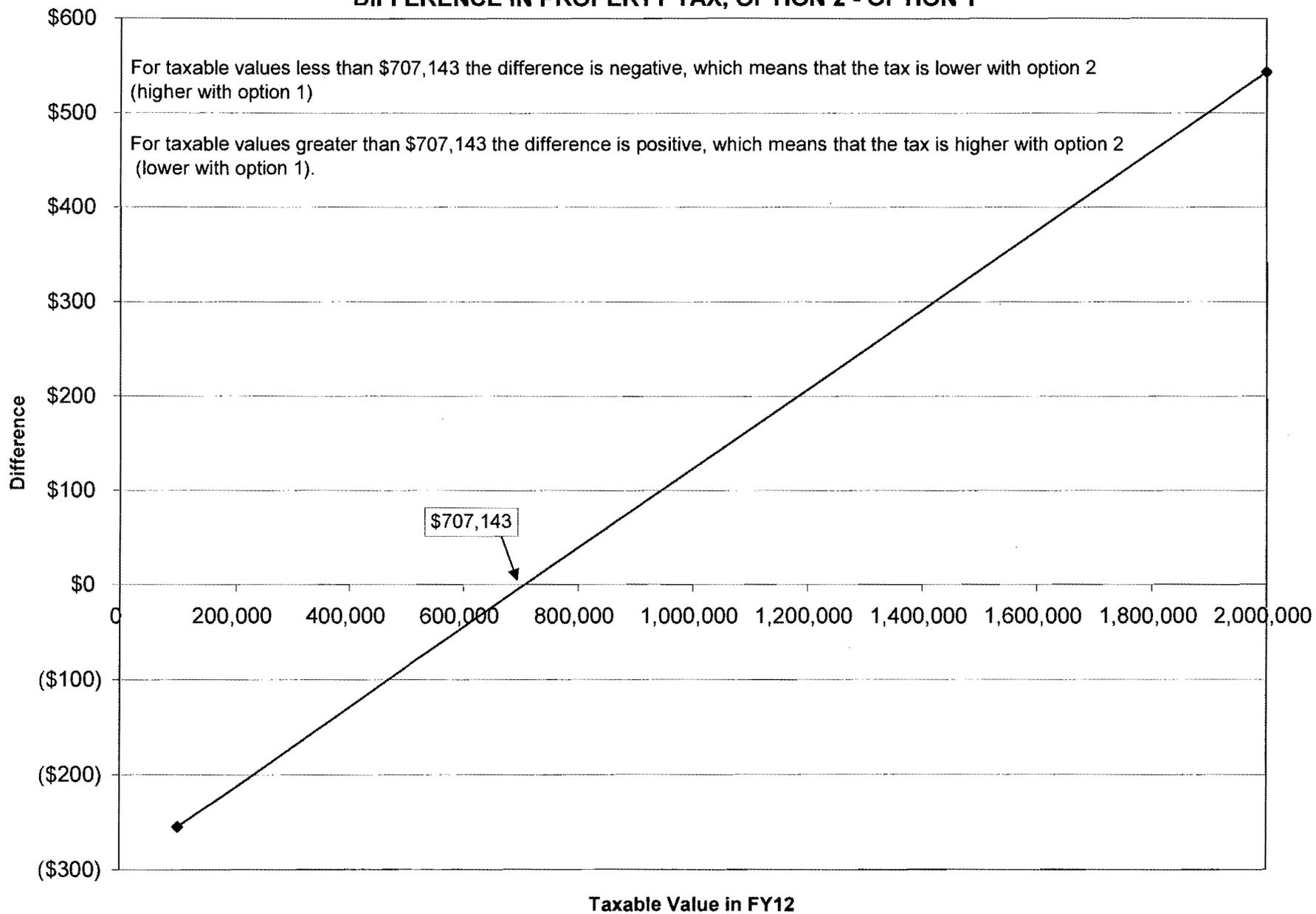
	A	B	C	F	G
1	PROPERTY TAX SCENARIOS FOR FY12 AT THE CHARTER LIMIT				
2	ITOC = Income Tax Offset Credit				
9					
10		FY11	Option 1	Option 2	2 - 1
11	Property tax rate	0.904	0.904	0.946	0.042
12	ITOC	(692)	(395)	(692)	(297)
13	Change rate from FY11		0.000	0.042	
14	Change credit from FY11		297	0	
15					
16	% change TV FY11-FY12	+5.0%			
17		FY11	Option 1	Option 2	
18	Taxable value	200,000	210,000	210,000	
19	Tax rate	0.904	0.904	0.946	
20	Tax before ITOC	1,808	1,898	1,987	
21	Less ITOC	(692)	(395)	(692)	
22	Tax after ITOC	1,116	1,503	1,295	(209)
23	% change tax FY11-FY12		+34.7%	+16.0%	
24	Effective tax rate	0.558	0.716	0.616	
25					
26	% change TV FY11-FY12	+5.0%			
27		FY11	Option 1	Option 2	
28	Taxable value	600,000	630,000	630,000	
29	Tax rate	0.904	0.904	0.946	
30	Tax before ITOC	5,424	5,695	5,960	
31	Less ITOC	(692)	(395)	(692)	
32	Tax after ITOC	4,732	5,300	5,268	(32)
33	% change tax FY11-FY12		+12.0%	+11.3%	
34	Effective tax rate	0.789	0.841	0.836	
35					
36	% change TV FY11-FY12	+5.0%			
37		FY11	Option 1	Option 2	
38	Taxable value	1,000,000	1,050,000	1,050,000	
39	Tax rate	0.904	0.904	0.946	
40	Tax before ITOC	9,040	9,492	9,933	
41	Less ITOC	(692)	(395)	(692)	
42	Tax after ITOC	8,348	9,097	9,241	144
43	% change tax FY11-FY12		+9.0%	+10.7%	
44	Effective tax rate	0.835	0.866	0.880	
45					
46	Commercial property, not eligible for ITOC				
47	% change TV FY11-FY12	+5.0%			
48		FY11	Option 1	Option 2	
49	Taxable value	10,000,000	10,500,000	10,500,000	
50	Tax rate	0.904	0.904	0.946	
51	Tax	90,400	94,920	99,330	4,410
52	% change tax FY11-FY12		+5.0%	+9.9%	
53	Effective tax rate	0.904	0.904	0.946	

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	A	B	C	F	G
1	PROPERTY TAX SCENARIOS FOR FY12 AT THE CHARTER LIMIT				
2	ITOC = Income Tax Offset Credit				
9					
10		FY11	Option 1	Option 2	2 - 1
11	Property tax rate	0.904	0.904	0.946	0.042
12	ITOC	(692)	(395)	(692)	(297)
13	Change rate from FY11		0.000	0.042	
14	Change credit from FY11		297	0	
15					
16	% change TV FY11-FY12	+10.0%			
17		FY11	Option 1	Option 2	
18	Taxable value	200,000	220,000	220,000	
19	Tax rate	0.904	0.904	0.946	
20	Tax before ITOC	1,808	1,989	2,081	
21	Less ITOC	(692)	(395)	(692)	
22	Tax after ITOC	1,116	1,594	1,389	(205)
23	% change tax FY11-FY12		+42.8%	+24.5%	
24	Effective tax rate	0.558	0.724	0.631	
25					
26	% change TV FY11-FY12	+10.0%			
27		FY11	Option 1	Option 2	
28	Taxable value	600,000	660,000	660,000	
29	Tax rate	0.904	0.904	0.946	
30	Tax before ITOC	5,424	5,966	6,244	
31	Less ITOC	(692)	(395)	(692)	
32	Tax after ITOC	4,732	5,571	5,552	(20)
33	% change tax FY11-FY12		+17.7%	+17.3%	
34	Effective tax rate	0.789	0.844	0.841	
35					
36	% change TV FY11-FY12	+10.0%			
37		FY11	Option 1	Option 2	
38	Taxable value	1,000,000	1,100,000	1,100,000	
39	Tax rate	0.904	0.904	0.946	
40	Tax before ITOC	9,040	9,944	10,406	
41	Less ITOC	(692)	(395)	(692)	
42	Tax after ITOC	8,348	9,549	9,714	165
43	% change tax FY11-FY12		+14.4%	+16.4%	
44	Effective tax rate	0.835	0.868	0.883	
45					
46	Commercial property, not eligible for ITOC				
47	% change TV FY11-FY12	+10.0%			
48		FY11	Option 1	Option 2	
49	Taxable value	10,000,000	11,000,000	11,000,000	
50	Tax rate	0.904	0.904	0.946	
51	Tax	90,400	99,440	104,060	4,620
52	% change tax FY11-FY12		+10.0%	+15.1%	
53	Effective tax rate	0.904	0.904	0.946	

6

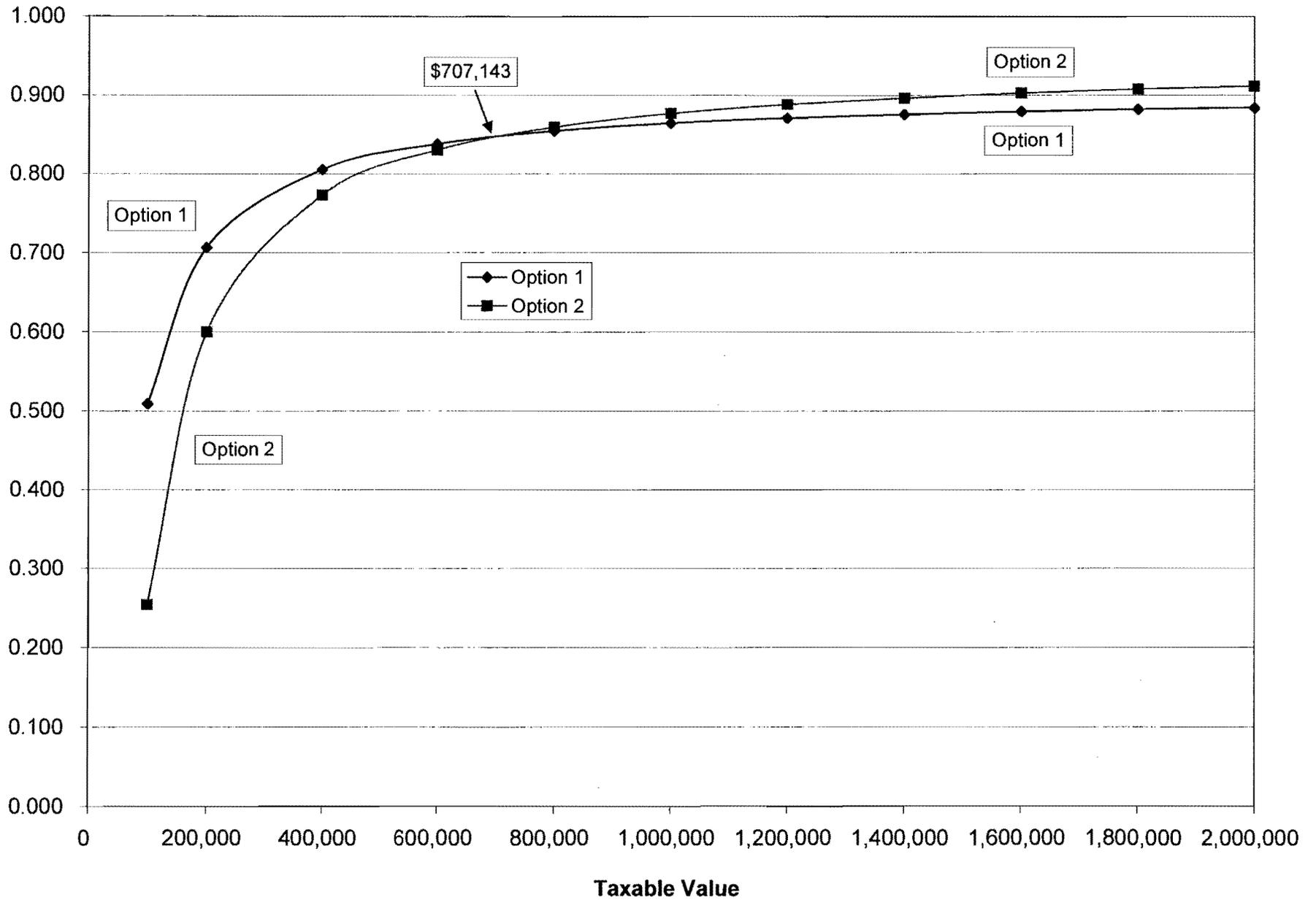
DIFFERENCE IN PROPERTY TAX, OPTION 2 - OPTION 1



	A	B	C	D	E	F
1	EFFECTIVE TAX RATES, versus % CHANGES					
2						
3						
4	<p>The table below compares the impact of the income tax offset credit (ITOC) for low value and for high value properties. In the hypothetical example, there is no ITOC in FY10, so all properties pay the same effective tax rate of 1.000% (effective tax rate is the tax bill after the ITOC divided by the taxable value).</p> <p>A \$700 ITOC in FY11 reduces the tax bill of the low value property by 70%, but only reduces the tax bill of the high value property by 7%. The effective tax rate of the low value property is low, only 0.300%, compared to 0.930%. The ITOC has a large impact on the tax bill for the low value property and a small impact on the tax fill for the high value property.</p> <p>Suppose the County reduced the ITOC from \$700 in FY11 to \$100 in FY12. The tax bill for the low value property would increase 200%, compared to 6.5% for the high value property. However, the effective tax rate for the low value property is still lower for the low value property: 0.900% versus 0.990%, so the tax is still progressive. The large % change for the low value property results from a low tax bill in FY11, not from a high tax bill in FY12, as shown by the low effective tax rate in FY11 of only 0.300%.</p> <p>The low value property will have a lower effective tax rate than the high value property as long as the County approves an ITOC.</p>					
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23						
24	Low value property	FY10	FY11	FY12		
25	Taxable value	100,000	100,000	100,000		
26	Tax rate	1.000%	1.000%	1.000%		
27	Tax before ITOC	1,000	1,000	1,000		
28	ITOC	0	(700)	(100)		
29	Tax after ITOC	1,000	300	900		
30	% reduction resulting from ITOC	0.0%	-70.0%	-10.0%		
31	% change from prior year		-70.0%	200.0%		
32						
33	Effective tax rate	1.000%	0.300%	0.900%		
34						
35	High value property					
36	Taxable value	1,000,000	1,000,000	1,000,000		
37	Tax rate	1.000%	1.000%	1.000%		
38	Tax before ITOC	10,000	10,000	10,000		
39	ITOC	0	(700)	(100)		
40	Tax after ITOC	10,000	9,300	9,900		
41	% reduction resulting from ITOC	0.0%	-7.0%	-1.0%		
42	% change from prior year		-7.0%	6.5%		
43						
44	Effective tax rate	1.000%	0.930%	0.990%		

	A	B	C	D	E
1	TAXABLE VALUE OF OWNER OCCUPIED PRINCIPAL				
2	RESIDENCES, FY12				
3					
4	Range		# accounts	%	Cumulative %
5	\$0	\$99,999	6,795	2.7%	2.7%
6	100,000	199,999	17,791	7.2%	9.9%
7	200,000	299,999	50,265	20.2%	30.1%
8	300,000	399,999	54,971	22.1%	52.3%
9	400,000	499,999	37,807	15.2%	67.5%
10	500,000	599,999	26,958	10.9%	78.3%
11	600,000	699,999	17,582	7.1%	85.4%
12	700,000	799,999	11,166	4.5%	89.9%
13	800,000	899,999	7,320	2.9%	92.8%
14	900,000	999,999	5,304	2.1%	95.0%
15	1,000,000	1,499,999	9,207	3.7%	98.7%
16	1,500,000	1,999,999	2,062	0.8%	99.5%
17	2,000,000	2,999,999	957	0.4%	99.9%
18	3,000,000	3,999,999	170	0.1%	100.0%
19	4,000,000	4,999,999	58	0.0%	100.0%
20	5,000,000	No upper limit	23	0.0%	100.0%
21	Subtotal		248,436	100.0%	
22	Other residences		83,491		
23	Total		331,927		
24					
25	Residences in the category above of "Other residences" are not owner occupied as the principal residence, and therefore are not eligible for the homestead property tax credit nor the income tax offset credit.				
26					
27					
28					

EFFECTIVE TAX RATE



10

WEIGHTED MONTGOMERY COUNTY REAL
PROPERTY TAX RATES

ITOC = income tax offset credit per eligible household

FISCAL YEAR	Total County-ONLY Weighted Average Property Tax Rate (Per \$100 Taxable Value)	ITOC
1978	\$1.484	
1979	1.424	
1980	1.276	
1981	1.304	
1982	1.300	
1983	1.284	
1984	1.264	
1985	1.162	
1986	1.139	
1987	1.172	
1988	1.206	
1989	1.145	
1990	1.135	
1991	1.072	
1992	1.053	
1993	0.991	
1994	1.004	
1995	1.024	
1996	1.024	
1997	1.024	
1998	1.024	
1999	1.017	\$50
2000	1.006	0
2001	1.006	0
2002	1.006	0
2003	1.005	0
2004	1.005	0
2005	0.995	0
2006	0.953	116
2007	0.903	221
2008	0.903	613
2009	0.903	579
2010	0.904	690
2011	0.904	692

PROPERTY TAX RATE



PROPERTY TAXES SINCE SAG PROCESS STARTED
Tax in \$million, Base in \$billion, rate as % of Base

Income tax offset credit per household = ITOC

A FY	B Tax Budgeted	C % Change	F Property Tax		H Needed 7/9 votes?	I Budget - Charter Lim	J Council set rates at	K ITOC per HH
			Current Rates	Charter limit				
92	\$683.9		\$700.0	\$684.0	No	(\$0.1)	CL	
93	705.5	3.2%	744.2	705.6	No	(0.1)	CL	
94	730.0	3.5%	729.3	730.1	No	(0.0)	CL	
95	747.6	2.4%	733.7	751.2	No	(3.6)	< CL	
96	756.2	1.2%	756.0	764.5	No	(8.3)	CR, but <CL	
97	770.7	1.9%	770.7	775.7	No	(5.0)	CR, but <CL	
98	785.7	1.9%	785.7	806.6	No	(20.9)	CR, but <CL	
99	788.2	0.3%	811.6	811.2	No	(23.0)	< CL	\$50
00	804.4	2.1%	807.0	804.6	No	(0.2)	CL	
01	819.5	1.9%	819.5	825.1	No	(5.6)	CR, but <CL	
02	870.7	6.2%	870.7	875.7	No	(5.0)	CR, but <CL	
03	911.9	4.7%	911.9	907.6	Yes	4.3	CR	
04	977.6	7.2%	977.6	948.4	Yes	29.2	CR	
05	1,069.0	9.3%	1,079.7	1,031.7	Yes	37.3	1¢ < CR	
06	1,105.2	3.4%	1,191.0	1,105.2	No	0.0	CL	116
07	1,154.0	4.4%	1,276.6	1,154.0	No	0.0	CL	221
08	1,207.5	4.6%	1,356.6	1,207.5	No	0.0	CL	613
09	1,364.9	13.0%	1,507.3	1,247.5	Yes	117.4	\$118m > CL	579
10	1,440.9	5.6%	1,607.7	1,440.9	No	0.0	CL	690
11	1,450.1	0.6%	1,618.7	1,450.1	No	0.0	CL	692
12	1,462.2	0.8%	1,558.3	1,462.2	No	0.0	CL	692

FY12 is CE recommended

# years exceeded Charter limit	yes	4
# years did not exceed Charter limit	no	17

9 affirmative votes are required to set rates if the amount of tax will exceed the amount specified in §305 of the Charter (7 affirmative votes before FY10).