Economic Impact Statement

Office of Legislative Oversight

Bill 39-21 Taxation – Public Safety Officers – Public Safety Emergency Communications Specialists – Property Tax Credit

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that enacting Bill 39-21 would have a positive impact on economic conditions in the County. By providing annual property tax credits to certain Public Safety Officers (PSOs) who own and occupy residential property located in the County, the Bill would increase their net household income, thereby increasing household demand for goods and services provided by businesses operating in the County. However, while OLO anticipates the Bill would have a positive impact, the impact is likely to be limited because the property tax credit would not offset lower home prices in jurisdictions where many PSOs reside and other individual and social preferences that affect PSOs' homebuying behavior. It is therefore uncertain how many PSOs would take advantage of the property tax credit. Finally, it should be noted this analysis does not account for the economic opportunity cost of using County funds for the annual property tax credit.

BACKGROUND

Bill Description

The aim of Bill 39-21 is to increase the number of County employees occupying certain Public Safety Officers (PSOs) positions who reside in the County and help recruit and retain these employees. If enacted, the Bill would attempt to do so by establishing a County property tax credit for residential property located in the County that is owned and occupied by a full-time sworn police officer, firefighter, emergency medical technician, or public safety emergency communications specialist employed by the County. The maximum property tax credit for eligible employees would be $2,500 per year.[1]

[1] Montgomery County Council, Bill 39-21, Taxation – Public Safety Officers – Public Safety Emergency Communications Specialists – Property Tax Credit, Introduced on October 19, 2021.

Residence of PSOs

Staff from the Office of Management and Budget provided OLO with data on the place of residence of PSOs employed by the County from October 2021. It is important to note the total number of PSOs per location continually change due to retirement, turnover, new hires, etc. For this reason, OLO presents rounded figures on place of residence.

As shown in **Table 1**, approximately 1 in 2 PSOs in the Montgomery County Police Department reside outside the County and approximately 4 in 5 PSOs in the Montgomery County Fire and Rescue Services reside outside the County. Moreover, the outside jurisdictions that attract the most County PSOs are Frederick, Carroll, Anne Arundel, Washington, and Prince George's Counties.

Table 1. Place of Residence of County PSOs in October 2021 (rounded percentages)

Place of Residence	Police	Fire
Within Montgomery County	50%	20%
Outside of DC and its contiguous jurisdictions (Alexandria, Arlington, Fairfax, Montgomery, and Prince George's)	45%	75%
Top five jurisdictions	Montgomery, MD: 50% Frederick, MD: 25% Carroll, MD: 5% Washington, MD: 5% Anne Arundel, MD: 5%	Montgomery, MD: 20% Frederick, MD: 15% Carroll, MD: 10% Anne Arundel, MD: 5% Prince George's, MD: 5%

Source: Office of Management and Budget; Stephen Roblin

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Scope of Analysis

Enacting Bill 39-21 would involve using County revenue to provide certain PSOs a property tax credit for residential property located in the County that they own and occupy. Recipients would experience a net increase in household income. For PSOs who already reside in the County, the transfer from the County to employees would entail an intra-jurisdictional shift where economic activity occurs—that is, County revenues being used to increase net household income versus some other use of government spending.

In contrast, if the property tax credit achieves its intended aim of increasing the number of PSOs residing in the County and help recruit and retain these employees, then the transfer would reduce outflows from the County in the form of employee compensation spent outside the County. This outcome would be beneficial for County economic conditions for two reasons. First, given the strong relationship between proximity to home and transaction location,[2] County employees who reside locally are more likely to patronize County-based businesses. Second, locally-based employees contribute to the stimulating effects of County government expenditure by paying local taxes.

Ultimately, the total annual economic impact of Bill 39-21 would depend on:

(a) the per year economic benefits of the property tax credit to PSOs currently residing in the County;
(b) the per year economic benefits of preventing capital outflow by increasing the share of PSOs based in the County;
(c) the per year economic opportunity cost of using County revenues for the credit.

Because OLO does not know how the County revenues used to fund the property tax credit would otherwise be allocated in the absence of enacting Bill 39-21, OLO limits the scope of the analysis below to (a) and (b). Thus, this analysis does not account for the economic impacts of alternative government spending.

Methodology

To assess the economic impacts of (a) and (b), OLO estimates the multiplier effects of:

- increasing household income through the property tax credit for PSOs residing in the County; and
- increasing resident households through recruiting residents to PSO positions and/or non-resident PSOs re-locating to the County.

The multiplier effect captures how changes in economic activity affect other rounds of spending, and how additional spending impacts certain economic indicators. To illustrate, an increase in household income may in turn increase demand for local restaurants, resulting in restaurant owners hiring more workers.

This analysis uses the Regional Input-Output Modeling System (RIMS II) "final-demand multipliers" for Montgomery County developed by the U.S. Bureau of Economic Analysis.[3] The multiplier effect of increased household income is estimated in terms of four economic measures:

- Output (sales): total market value of industry output;
- Value-Added: total value of income generated from production (equivalent to gross domestic product);
- Earnings: employee compensation plus net earnings of sole proprietors and partnerships; and

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[2] Sumit Agarwal, J. Bradford Jenson, and Ferdinando Monte, "Consumer Mobility and the Local Structure of Consumption Industries," National Bureau of Economic Research, January 2020.
[3] U.S. Bureau of Economic Analysis, *RIMS II: An Essential Tool for Regional Developers and Planners*, December 2013.

- Employment: number of full- and part-time employees.[4]

Table 2 presents the RIMS II household multipliers for Montgomery County. OLO uses these multipliers to estimate the household multiplier effects for each economic measure.

Table 2. RIMS II Household Multipliers for Montgomery County

Output	Earnings	Employment	Value-Added
0.7951	0.1587	3.8028	0.4936

Data Source: U.S. Bureau of Economic Analysis

Estimates

(a) *Per year economic benefits of the property tax credit to PSOs currently residing in the County:* Based on the data on PSOs' place of residence from October 2021, there were approximately 880 PSOs residing in the County at that time. Assuming the County would provide the full $2,500 property tax credit to each recipient per year, affected households would experience a combined $2.2 million net increase in household income. **Table 3** presents the annual multiplier effects for this estimated increase in household income.

Table 3. Annual Multiplier Effects of an Increase in Total Household Income

Increase in Total Household Income	Output	Earnings	Employment	Value-Added
$2,200,000	$1,748,220	$349,140	8	$1,085,920

(b) *Per year economic benefits of preventing capital outflow by increasing the share of PSOs based in the County:* The RIMS II multipliers in **Table 2** also are used here to estimate the multiplier effects for every PSO who would otherwise reside outside the County in the absence of receiving the property tax credit. Based on FY21 salary schedules for police and fire, the salaries range from approximately $50,000 to $128,000, with the midpoint being approximately $89,000.[5] **Table 4** presents the multiplier effects of the County retaining one PSO for this salary range.

[4] Ibid, 3 – 3 and 3 – 4.

[5] See Montgomery County Government, Fire/Rescue and Police Bargaining Unit Salary Schedules, Fiscal Year 2021.

Table 4. Annual Multiplier Effects of Retaining One PSO

PSO Salary	Output	Earnings	Employment	Value-Added
$50,000	$39,755	$7,935	0.2	$24,680
$128,000	$101,773	$20,314	0.5	$63,181

VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 39-21 are the following:

- total number of PSOs residing in the County per year;
- total dollar amount of property tax credits awarded to PSOs per year;
- total number of PSOs recruited from within the County per year; and
- total number of non-resident PSOs re-locating to the County per year.

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Businesses, Non-Profits, Other Private Organizations

Private organizations in the County would indirectly benefit from the property tax credit that certain PSOs would receive if Bill 39-21 is enacted.

(a) *Indirect impacts of County-based PSOs receiving the property tax credit each year:* Based on the RIMS II household multipliers for the County, PSOs' place of residence data from October 2021, and the assumption that eligible PSOs would receive the total $2,500 property tax per year, OLO estimates that increasing total household by $2.2 million in one year would generate:

- $1,748,220 in output (i.e., total market value of industry output)
- $1,085,920 in value-added (i.e., total value of income generated from production)
- $349,140 in earnings (i.e., employee compensation plus net earnings of sole proprietors and partnerships)
- 8 new jobs (i.e., full- and part-time employees)

The gains in output and value-added reflect increased household spending on goods and services provided by businesses operating in the County. These gains would entail net increases in income for businesses that benefit from the increase in household spending from the property tax credit. In addition to business income, the Bill would also affect business workforces by increasing employee earnings and creating new jobs. Because PSOs residing in the

County would be eligible to receive the property tax credit each year, the indirect benefits to private organizations occur on an annual basis.

(b) *Indirect impacts of preventing capital outflow by increasing the share of PSOs based in the County:* As illustrated above, increasing the share of PSOs based in the County would reduce net capital outflow and generate a positive multiplier effect. This economic impact depends on the property tax credit playing a causal role in recruiting and retaining resident PSOs, as Bill 39-21 intends.

What is the likelihood of Bill 39-21 increasing the share of resident PSOs? Comparing housing costs in the County to outside jurisdictions with the highest residence of PSOs suggest that the property tax credit may be insufficient to change PSOs' preferences. Using estimates from the National Association of Realtors and Bankrate's mortgage calculator,[6] **Table 5** presents median home values and estimated monthly mortgage payments for 2021 Q2. Assuming PSOs would receive $2,500 in property tax credits, the median mortgage payment in Montgomery County effectively would decrease from $2,709 to $2,501. As shown in the table, the adjusted mortgage payment in Montgomery County would be significantly higher than payments in other jurisdictions.

It is important to note that the simple median home price comparison performed here does not account for transportation costs, differences in characteristics of homes at median price, or individual and social preferences for home residence among PSOs. For this reason, OLO's anticipation that the property tax credit may be insufficient to affect PSOs' homebuyer behavior should be interpreted as tentative conclusion.

Table 5. Median Home Values in Jurisdictions with Highest Residence of PSOs

County	Median Home Prices (2021 Q2)	Estimated Monthly Mortgage Payment	Difference from Adjusted Montgomery Monthly Mortgage
Montgomery	$558,173	$2,501 adjusted	
Frederick	$387,430	$1,868	$633
Carroll	$397,143	$1,916	$585
Anne Arundel	$414,784	$2,003	$498
Washington	$241,807	$1,150	$1,351
Prince George's	$375,411	$1,809	$692

Sources: National Association of Realtors, County Median Home Prices 2021 Q2; and Bankrate, Mortgage Calculator.

[6] Monthly mortgage payments were estimated based on the following assumptions: $25,000 down payment, 30-year loan, and 3.1 interest rate.

Beyond these impacts, OLO does not anticipate Bill 39-21 would impact private organizations in terms of the Council's other priority indicators.[7]

Residents

By altering County taxation policy, Bill 39-21 would have targeted, positive impacts for PSO residents who would receive a property tax credit on an annual basis. Residents who would receive the property tax credit would experience a net increase in household income. The Bill would also have more diffuse, positive impacts for residents. Specifically, residents who experience increases in employee earnings and new jobs as result of the household multiplier effect would also benefit from the Bill.

DISCUSSION ITEMS

Councilmembers may want to consider whether the property tax credit would be sufficient to offset lower home prices and other individual and social preferences that affect PSOs' homebuying behavior.

WORKS CITED

Bankrate. Mortgage Calculator.

Montgomery County Code. Sec. 2-81B, Economic Impact Statements.

Montgomery County Council. Taxation – Public Safety Officers – Public Safety Emergency Communications Specialists – Property Tax Credit. Introduced on October 19, 2021.

Montgomery County Council. Resolution 19-300. Economic Development Platform for Montgomery County. Adopted on November 19, 2019.

Sumit Agarwal, J. Bradford Jenson, and Ferdinando Monte. "Consumer Mobility and the Local Structure of Consumption Industries," National Bureau of Economic Research. January 2020.

U.S. Bureau of Economic Analysis. *RIMS II: An Essential Tool for Regional Developers and Planners*. December 2013.

National Association of Realtors. County Median Home Prices 2021 Q2.

Montgomery County Government. Fire/Rescue and Police Bargaining Unit Salary Schedules. Fiscal Year 2021

[7] For the Council's priority indicators, see Montgomery County Code, Sec. 2-81B. Economic Impact Statements, https://codelibrary.amlegal.com/codes/montgomerycounty/latest/montgomeryco_md/0-0-0-80894.

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the Bill under consideration

CONTRIBUTIONS

Stephen Roblin (OLO) prepared this report.