Economic Impact Statement

Montgomery County, Maryland

Bill 15-24 Taxation – Public Safety Officers – Bi-County Agency Police

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that Bill 15-24 would have a positive impact on economic conditions in the County in terms of the Council's priority economic indicators. By expanding eligibility for the Property Tax Credit for Public Safety Officers to public safety officers who are employed by bi-county agencies, the Bill would reduce property tax liabilities for residents who would receive the credit. Holding all else equal, reduced property tax liabilities would reduce non-discretionary household expenses and increase net household income for these recipients. In addition, based on OLO's review of impact evaluations on the economic impacts of property tax relief, the Bill may reduce mobility for certain public safety officers, which, in some cases, may prevent moves induced by mortgage foreclosure or property tax liens. Finally, because residents may use a portion of the property tax savings to spend on goods and services produced by County-based businesses, certain businesses' revenue and income may increase.

BACKGROUND AND PURPOSE OF BILL 15-24

In 2022, the County Council passed Bill 39-21, which established the Property Tax Credit for Public Safety Officers. The Council passed this Bill with the intent of increasing the number of public safety staff who reside in the County and to "help recruit and retain these employees."[1] With this credit, public safety staff who own property in the County can receive a credit of up to $2,500 each year to offset the amount of property tax that is due on their property.[2] Public safety officers who are currently eligible for this property tax credit include full-time sworn police officers, firefighters, emergency medical technicians and correctional officers employed by the County, among other staff.[3]

The purpose of Bill 15-24 is to expand eligibility for the Property Tax Credit for Public Safety Officers to public safety officers who are employed by bi-county agencies.[4] The Bill is intended to recognize public safety officers who are employed by the Maryland-National Capital Park and Planning Commission (M-NCPPC) and Washington Suburban Sanitary Commission (WSSC) while also "addressing the ongoing challenges in recruiting and retaining public safety professionals."[5] If enacted, Bill 15-24 would allow eligible officers employed by M-NCPPC and WSSC to receive the Property Tax Credit for Public Safety Officers.

The Council introduced Bill 15-24, Taxation – Public Safety Officers – Bi-County Agency Police, on September 10, 2024.

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[1] Introduction Staff Report for Bill 15-24.
[2] Property Tax Credit for Public Safety Officers.
[3] Montgomery County Code § 52-112
[4] Introduction Staff Report for Bill 15-24, pg. 2.
[5] "Councilmembers Fani-González and Albornoz Introduce Bill to Reduce Property Taxes for Park and WSSC Police."

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess, both, the impacts of Bill 15-24 on residents and private organizations in terms of the Council's priority economic indicators and whether the Bill would have a net positive or negative impact on overall economic conditions in the County.[6]

Methodology and Information Sources

To assess the economic impacts of Bill 15-24, this analysis draws on Economic Impact Statements on previous homeowner property tax credit legislation and *impact evaluations*. As a key tool of evidence-based policymaking, impact evaluations examine cause-and-effect questions about a policy's impact on specific outcome(s).[7,8] This analysis reviews the following peer-reviewed articles to identify empirically established effects of property tax credits on economic outcomes:

- Hanson, Andrew (2021), "Taxes and Economic Development: An Update on the State of the Economics Literature," *Economic Development Quarterly*
- Kim, Jinyhup, and Casey Dawkins (2021), "Aging, Property Taxes, and Housing Adjustments: Lessons From the Health and Retirement Study," *Housing Policy Debate*
- Mouiton, Waller, and Wentland (2018), "Who Benefits from Targeted Property Tax Relief?" *Journal of Policy Analysis and Management*
- Spreen and Keddington (2023), "Temporary Property Tax Relief and Residential Home Sales," *National Tax Journal*

OLO reviews these studies to draw evidence-based conclusions on the effects of property tax credits. These conclusions inform OLO's assessment of the potential economic impacts of Bill 15-24 on businesses, residents, and overall economic conditions in the County.

Scope of Analysis

The economic impacts of Bill 15-24 largely depend on the number of residents eligible to receive the property tax credit and the total credits disbursed annually. Importantly, the County would allocate its tax revenue to fund the property tax credits. This transfer of funds from the County to credit recipients would not generate new economic activity, as it would redistribute existing resources rather than introduce additional funds into the local economy. As a result, the Bill's total economic impact would depend on the: (a) economic impacts to County residents and businesses from reduced property taxes; and (b) economic opportunity cost of forgone County revenues.

Because OLO cannot predict how the forgone property tax revenues would be spent if Bill 15-24 were not passed, this analysis does not account for the economic impacts of alternative uses of the funds. As a result, the scope of

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[6] Montgomery County Code, Sec. 2-81B.
[7] Gertler et al., *Impact Evaluation in Practice, Second Edition*.
[8] Priority is given to studies that use quasi-experimental methods over non-experimental studies because the former are better able to identify the causal effects of a policy intervention from outcomes correlated with, but unrelated to, the intervention due to unmeasured confounding and other threats to causal inference.

this analysis is limited to the economic impacts of the reduced property tax liabilities for residents who otherwise would not receive the credit without this legislation.

VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 15-24 are the following:

- total number of property tax credit recipients;
- total property tax savings for recipients;
- residential property values; and
- residential mobility.

IMPACTS

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

Impact Evaluations

While rising home values increase property wealth, they typically induce higher property tax liabilities for homeowners. Higher property taxes can be especially challenging for homeowners who have low incomes, depend on retirement or disability payments, etc. Homeowners may respond to higher property tax burdens by down-sizing to a smaller home or renting in their current jurisdiction or relocating to a jurisdiction with lower taxes and/or cost-of-living.[9] To reduce the burden of housing costs, many states and local governments have enacted targeted property tax relief programs to help the poor, seniors, disabled, or veterans.[10]

The literature on the economic impacts of property tax reductions has focused on programs targeting seniors. These programs are typically "permanent" and "portable across properties in the state or locality."[11] Studies have found these programs have had two impacts:[12]

(1) Reduce homeowner mobility: This impact is significant because it suggests property tax relief may reduce home sales that occur under duress, namely tax lien sales or mortgage foreclosures.

However, the impact of property tax relief on mobility may depend on specific policy designs. For example, Spreen and Keddington (2023) examine whether this finding extends to *temporary* senior property tax relief programs in Maryland counties, including Montgomery County, which began in 2017.[13] They found that "the balance of the empirical results suggest that temporary [senior] property tax relief did not significantly affect the home sales decisions of eligible homeowners during the benefit period."[14]

[9] Spreen and Keddington, "Temporary Property Tax Relief and Residential Home Sales"; Kim and Dawkins, "Aging, Property Taxes, and Housing Adjustments."
[10] Mouiton, Waller, and Wentland, "Who Benefits from Targeted Property Tax Relief?"
[11] Spreen and Keddington, "Temporary Property Tax Relief and Residential Home Sales."
[12] Spreen and Keddington; Hanson, "Taxes and Economic Development"; Kim and Dawkins, "Aging, Property Taxes, and Housing Adjustments."
[13] DeFazio and Roblin, "Senior Property Tax Credits."
[14] Spreen and Keddington, "Temporary Property Tax Relief and Residential Home Sales."

(2) **Increase property values:** This impact is significant because it suggests that property tax relief may result in property tax capitalization. This occurs when property tax relief raises demand for homeownership among the beneficiaries, thereby raising home prices. This outcome "arbitrarily benefits current homeowners at the time of the policy change, whether or not they are part of the targeted group." [15] In contrast, "the corresponding homeownership cost hikes may potentially offset some or all of the tax relief benefit among future homeowners in the targeted groups, who subsequently purchase homes at higher prices."[16]

Importantly, the effect of property tax credits on capitalization may depend on the concentration of recipients. Mouiton et al (2019) examine Virginia's property tax relief targeting disabled veterans. They found that "areas with high proportions of veterans experienced an 8.1 percent increase in property prices, while areas with relatively fewer veterans report no statistically significant effect." This finding suggests that property tax relief is more likely to increase property values in local housing markets with higher concentration of recipients.

Residents

OLO anticipates that Bill 15-24 would have a positive impact on certain residents in the County in terms of the Council's priority economic indicators.

The Bill would reduce property tax liabilities for public safety officers who are employed by bi-county agencies, own homes in the County, and apply for the credit. Recipients would receive up to $2,500 in property tax credits each year they remain eligible. An annual application would be required. Holding all else equal, the credits would reduce nondiscretionary household expenses and increase net household income for these recipients.

Based on impact evaluations on the effect of permanent senior property tax relief on residential mobility, the Bill may reduce mobility for certain recipients. In some cases, the Bill may reduce moves induced by mortgage foreclosure or property tax liens, which would prevent costs associated with unwanted moves.

While OLO does not know many residents who would meet these eligibility requirements, it is doubtful that there would be enough for the Bill to increase home prices.

Beyond these potential impacts, OLO does not expect the Bill to affect residents in terms of the Council's other priority indicators.

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that enacting Bill 15-24 would have positive impacts on certain private organizations in the County in terms of the Council's priority economic indicators.

[15] Mouiton, Waller, and Wentland, "Who Benefits from Targeted Property Tax Relief?"
[16] Mouiton, Waller, and Wentland.

Recipients of the property tax credit may use a portion of the property tax savings to spend on goods and services produced by County-based businesses. Holding all else equal, these businesses would experience increased revenue and income.

Beyond these potential impacts, OLO does not expect the Bill to affect private organizations in terms of the Council's other priority indicators.

Net Impact

The Office of Legislative Oversight (OLO) anticipates that Bill 15-24 would have a positive impact on economic conditions in the County in terms of the Council's priority economic indicators. By expanding eligibility for the Property Tax Credit for Public Safety Officers to public safety officers who are employed by bi-county agencies, the Bill would reduce property tax liabilities for residents who receive the credit. Holding all else equal, reduced property tax liabilities would reduce nondiscretionary household expenses and increase net household income for these recipients. In addition, based on OLO's review of impact evaluations on the economic impacts of property tax relief, the Bill may reduce mobility for certain disabled veterans and surviving spouses, which, in some cases, may prevent moves induced by mortgage foreclosure or property tax liens. Finally, because residents likely would use a portion of the property tax savings to spend on goods and services produced by County-based businesses, certain businesses' revenue and income would likely increase.

DISCUSSION ITEMS

Not applicable

WORKS CITED

DeFazio, Blaise, and Stephen Roblin. "Senior Property Tax Credits." Office of Legislative Oversight, Montgomery County Council, July 25, 2023.

Gertler, Paul J., Sebastian Martinez, Patrick Premand, Laura B. Rawlings, and Christel M. J. Vermeersch. *Impact Evaluation in Practice, Second Edition*. Washington, DC: Inter-American Development Bank and World Bank, 2016.

Hanson, Andrew. "Taxes and Economic Development: An Update on the State of the Economics Literature." *Economic Development Quarterly* 35, no. 3 (August 1, 2021): 232–53.

Kim, Jinyhup, and Casey Dawkins. "Aging, Property Taxes, and Housing Adjustments: Lessons From the Health and Retirement Study." *Housing Policy Debate* 31, no. 6 (November 2, 2021): 947–66.

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

Montgomery County Council. Introduction Staff Report for Bill 15-24 - Taxation - Public Security Officers - Bi-County Agency Police. September 10, 2024.

Mouiton, Jeremy G., Bennie D. Waller, and Scott A. Wentland. "Who Benefits from Targeted Property Tax Relief? Evidence from Virginia Elections." *Journal of Policy Analysis and Management* 37, no. 2 (April 1, 2018): 240–64.

Spreen, Thomas Luke, and Colton Keddington. "Temporary Property Tax Relief and Residential Home Sales." *National Tax Journal* 76, no. 3 (September 2023): 593–620.

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.

AUTHOR

Stephen Roblin (OLO) prepared this report.