GO Item 6
May 3, 2018
Worksession 4

MEMORANDUM

May 1, 2018

TO: Government Operations and Fiscal Policy Committee

FROM: Robert H. Drummer, Senior Legislative Attorney

SUBJECT: Bill 10-17, Recordation Tax – Rates — Amendments

PURPOSE: Worksession – Committee should make recommendations on Bill

Expected attendees:
Dennis Hetman, Fiscal and Policy Analyst, Department of Finance
Mike Coveyou, Chief, Division of Treasury, Department of Finance

Bill 10-17, Recordation Tax – Rates — Amendments, by Lead Sponsor Councilmember Elrich and Co-sponsor Councilmember Leventhal, was introduced on April 4, 2017. A public hearing was held on April 25 and Government Operations and Fiscal Policy Committee worksessions were held on May 4, June 22 and July 13, 2017.

Bill 10-17 would modify the recordation tax rates levied under state law for certain transactions.

Background

The "Recordation Tax Premium" went into effect in 2008. Bill 15-16, enacted on May 18, 2016, increased the Premium rate from $1.55 to $2.30/$500. Unlike the two elements of the base rate paid on all transactions, the Premium applies only to the cost of a property or a refinancing that is more than $500,000. Half of the proceeds from the Premium are allocated to County Government capital projects (i.e., capital projects of departments in the Executive Branch); the other half is for rent assistance for low and moderate income households.

Bill 10-17 would reduce the Premium for transactions that are more than $500,000 but less than $1,000,000 from 2.30 to $1.55/$500. The Bill would increase the Premium for transactions that are more than $1,000,000 but less than $2,000,000 from $2.30 to $2.55/$500. The Bill would also increase the Premium for transactions that are more than $2,000,000 from $2.30 to $3.55/$500.

Public Hearing

The lone speaker, Peg Mancuso, representing the Greater Capital Area Association of Realtors, supported the Bill to the extent it lowers the premium recordation tax rate on transactions greater than $500,000 and less than $1 million. See ©5-6. Ms. Mancuso also recommended that the Bill be amended to lower all recordation tax rates. The Apartment and Office Building Association of Metropolitan Washington (AOBA) submitted written testimony opposing an increase in the recordation tax rates for commercial transactions greater than $1,000,000. See ©7-12.

May 4 GO Worksession

Councilmember Elrich also attended the worksession. Alex Espinosa, David Platt, and Mike Coveyou, Department of Finance, represented the Executive Branch. Jacob Sesker, Senior Legislative Analyst and Robert Drummer, Senior Legislative Attorney, represented the Council staff. The Committee discussed the need to have a fiscal impact statement for the Bill before acting. Finance representatives said they expect to have an estimate for the fiscal impact in 1 month. Mr. Elrich indicated that his intent was to make the Bill revenue neutral on the overall recordation tax collected. The Committee agreed to wait for the fiscal impact before acting on the Bill.

June 22 GO Worksession

Councilmember Elrich also attended the worksession. David Platt, Mike Coveyou, and Dennis Hetman, Department of Finance, represented the Executive Branch. Mary Beck, OMB, also answered questions. Gene Smith, Legislative Analyst and Robert Drummer, Senior Legislative Attorney, represented the Council staff. The Committee discussed the fiscal impact statement for the Bill received on June 21. The Committee requested additional information from Finance, including examples of the recordation tax due at different price points, a breakdown of commercial and residential transactions greater than $500,000, and the possible tax rates if the proposed reduction in the premium tax rates only goes up to $750,000.

July 13 Worksession

Councilmember Elrich attended the worksession in addition to the Committee members. David Platt, Mike Coveyou, and Dennis Hetman, Department of Finance, represented the Executive Branch. Gene Smith, Legislative Analyst and Robert Drummer, Senior Legislative Attorney, represented the Council staff. The Committee discussed the additional information prepared by Finance including examples of the recordation tax due at different price points, a breakdown of commercial and residential transactions greater than $500,000, and the possible tax rates if the second tier of the premium tax rates started at $750,000 instead of $1 million. The Committee requested additional information from Finance, including the actual dollars received from each tier in the premium rates, the estimated loss of revenue if the rate for the lowest tier is reduced and the 2 higher tiers remain the same. The Committee also asked what, if any, recordation tax is due on a transfer of agricultural property from a parent to a child.

Issues

1. What is the fiscal and economic impact of the Bill?

The goal of the Lead Sponsor, Councilmember Elrich, is to change the premium rates so that transactions valued at more than $1 million would be charged a higher tax rate than transactions valued at less than $1 million. The intent of the Bill is to make this change without changing the total amount of recordation tax revenue received by the County. However, the tax rates in the Bill, as introduced, were not verified to be revenue neutral.

Since the May 4 worksession, Finance analyzed State assessment records for multiple years to determine an estimate of the total revenue. Finance determined that the rates in the Bill, as introduced, would result in additional revenue of $8,400,000 in FY18 and increasing over the next 5 years to $9,430,000 in FY23. See the FEIS at ©13-19. Finance also provided the following alternative premium rates that would lower the premium rates for transactions less than $1,000,000 and raise the premium rates for transactions greater than $1,000,000:

	Current rates	Alternative rates	Percent change
$500K to <$1M	$2.30	$1.55	-32.61%
$1M to <$2M	$2.30	$2.55	10.87%
$2M or more	$2.30	$2.75	19.57%

These alternative rates would increase estimated revenue by $2.7 million annually and $16.2 million over 6 years to account for the 10-year average variability of the volatile greater than $2 million tier.

2. Would the Bill increase the volatility of recordation tax revenue received each year?

Recordation tax is charged on real property transactions. The total revenue depends upon the total number of transactions completed in each fiscal year. Historically, the number of transactions between $500,000 and $1,000,000 each year varies less than the number of larger transactions. The table below details the historical percentages for the Bill's proposed divisions based on sales data from FY09-16. To the extent that more revenue is derived from fewer, larger commercial transactions, the total revenue received each fiscal year is likely to vary more.

Tier	Percentage of Total Transactions	Percentage of Total Premium Tax Revenue
$500K to <$1M	78%	20%
$1M to <$2M	18%	20%
$2M or more	4%	60%

Finance concluded that 60% of the premium tax revenue comes from only 4% of the transactions.

3. Technical amendment.

The Bill, as introduced, inadvertently left no premium tax for transactions valued at $1,000,000 or at $2,000,000. Council staff recommends the following technical amendment to implement the intent of the Bill:

Amend lines 13-20 as follows:

(2) if the consideration payable or principal amount of debt secured exceeds $500,000[,]:

(A) an additional [$2.30] $1.55 for each $500 or fraction of $500 of the amount over $500,000 but less than $1,000,000[,];

(B) an additional $2.55 for each $500 or fraction of $500 of the amount equal to or more than [[over]] $1,000,000 but less than $2,000,000; and

(C) an additional $3.55 for each $500 or fraction of $500 of the amount equal to or more than [[over]] $2,000,000.

4. Additional information requested by the Committee at the June 22 worksession.

a. The Council staff worked with Finance to prepare sample recordation tax amounts due for different size transactions under both the current rates and the proposed new premium rates. These charts include percent of the tax as sales value and the percent change in the amount of the tax under different scenarios. See the Recordation Tax Sample Calculations at ©20-21.

b. Finance calculated potential revenue neutral rates changing the middle tier to begin at $750,000 instead of $1 million. Finance concluded that keeping the premium rate for transactions between $500,000 and $750,000 at $1.55 and changing the premium rate from the current $2.30 to $2.25 for transactions greater than $750,000 up to $2 million and increasing the premium rate for transactions greater than $2 million from $2.30 to $2.75 would result in the same revenue estimated under current rates over time. Finance calculated the following alternate rates with the revised tiers.

Tier	Current Rate	Finance Suggested Rate
$500K to <$750K	$2.30	$1.55
$750 K to <$2 M	$2.30	$2.25
2 M or more	$2.30	$2.75

See the Finance Rates Analysis Summary at ©22.

c. What is the breakdown between commercial and residential transactions in each tier?

Finance reviewed the last 10 years of transactions. Over the last 10 years, the commercial versus residential split for each tier paying the premium rate was:

Tier	Percent of Residential Transactions
$500K to <1M	98.4%
$1M to <$2M	96.2%
$2M or more	55.8%

It is important to note that the $2M plus tier is a smaller percentage of a smaller total. There are on average about 200 transactions in that category versus thousands in the other two. Tier three is where most of the commercial transactions occur. Very few commercial transactions occur below the $2 million threshold.

5. Additional information requested by the Committee after the July 13 worksession.

a. What revenue would be lost if the rate for sales between $500K and $1M was reduced from $2.30/$500 to $1.55/$500 and other rates remain the same?

If rate is reduced for $500K to $1M, projected revenue lost would be $1.878M in FY20.
If rate is reduced for $500K to $750K, projected revenue lost would be $845K in FY20.

Finance calculated the projected loss in revenue for the next 6 years. See Finance answers at ©23-24 and Finance spreadsheet at ©25-26.

b. What is the recordation tax rate for a family gifting agricultural land to their children?

Answer: Transfers among immediate family members are not subject to the recordation tax.

c. Finance also updated the recordation tax forecasts for the next 6 years from the last worksession in the Finance answers at ©23.

6. What should be the effective date for the Bill?

Finance requested that any change to the recordation tax rates be made effective 6 months after the Bill is enacted to give time for the title industry to adjust to the new rates and give Finance time to make the necessary changes to their computer system. See the email from Mike Coveyou at ©27.

7. What are the policy issues for the Committee?

a. Should the premium tax rates be split into divisions that create a higher premium tax for larger transactions?

b. If yes:
   (1) how should the tiers be split; and
   (2) what should the tax rate be for each tier?

c. If enacted, what should the effective date be? The Bill, as introduced, would apply to any transaction occurring on or after September 1, 2017.[1] As discussed earlier, the Committee concluded that the Bill did not need to be acted on before the budget if the final rates produced the same estimated revenue as the current rates. However, both Finance and potential buyers and sellers would need time to either implement or adjust to the new rates. **Finance recently requested the Committee to delay the effective date of the Bill by at least 6 months, if enacted, to January 1, 2019.**

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[1] The Bill was introduced more than a year ago. The Committee must change the effective date to keep it prospective.

Bill No. 10-17
Concerning: Recordation Tax – Rates – Amendments
Revised: April 30, 2018 Draft No. 4
Introduced: April 4, 2017
Expires: October 4, 2018
Enacted:
Executive:
Effective:
Sunset Date: None
Ch. [#], Laws of Mont. Co. [year]

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Councilmember Elrich
Co-sponsor: Councilmember Leventhal

AN ACT to:

(1) modify the recordation tax rates levied under state law for certain transactions; and
(2) generally amend the law governing the recordation tax

By amending
Montgomery County Code
Chapter 52, Taxation
Section 52-16B

Boldface	*Heading or defined term.*
Underlining	*Added to existing law by original bill.*
[Single boldface brackets**]**	*Deleted from existing law by original bill.*
Double underlining	*Added by amendment.*
[[Double boldface brackets**]]**	*Deleted from existing law or the bill by amendment.*
* * *	*Existing law unaffected by bill.*

The County Council for Montgomery County, Maryland approves the following Act:

Sec. 1. Section 52-16B is amended as follows:

52-16B. Recordation Tax.

(a) *Rates*. The rates and the allocations of the recordation tax, levied under Md. Tax-Property Code §§12-101 to 12-118, as amended, are:

(1) for each $500 or fraction of $500 of consideration payable or of the principal amount of the debt secured for an instrument of writing, including the amount of any mortgage or deed of trust assumed by a grantee;

(A) $2.08, of which the net revenue must be reserved for and allocated to the County general fund; and

(B) $2.37, of which the net revenue must be reserved for and allocated to the cost of capital improvements to schools; and

(2) if the consideration payable or principal amount of debt secured exceeds $500,000[,]:

(A) an additional [$2.30] $1.55 for each $500 or fraction of $500 of the amount over $500,000 but less than $1,000,000[,];

(B) an additional $2.55 for each $500 or fraction of $500 of the amount over $1,000,000 but less than $2,000,000; and

(C) an additional $3.55 for each $500 or fraction of $500 of the amount over $2,000,000.

(3) The net revenue from the premiums payable under paragraph (2) [of which the net revenue] must be reserved for and allocated equally to:

(A) the cost of County government capital improvements; and

(B) rent assistance for low and moderate income households, which must not be used to supplant any otherwise available funds.

(b) *Exemption.* The first $100,000 of the consideration payable on the conveyance of any owner-occupied residential property is exempt from the recordation tax if the buyer of that property is an individual and intends to use the property as the buyer's principal residence by actually occupying the residence for at least 7 months of the 12-month period immediately after the property is conveyed.

Sec. 2. Effective Date.

This Act must apply to any transaction which occurs on or after September 1, 2017.

Approved:

Hans D. Riemer, President, County Council | Date

Approved:

Isiah Leggett, County Executive | Date

This is a correct copy of Council action.

Megan Davey Limarzi, Esq., Clerk of the Council | Date

LEGISLATIVE REQUEST REPORT

Bill 10-17
Recordation Tax – Rates — Amendments

DESCRIPTION: Bill 10-17 would modify the recordation tax rates levied under state law for transactions that are more than $500,000.

PROBLEM: The premium rate for transactions that are more than $500,000 but less than $1,000,000 is high. The revenue loss from lowering this premium rate can be made up by increasing the premium rate for transactions that are more than $1,000,000.

GOALS AND OBJECTIVES: The goal is to lower the premium rate for transactions that are less than $1,000,000.

COORDINATION:

FISCAL IMPACT: Office of Management and Budget, Finance

ECONOMIC IMPACT: To be determined.

EVALUATION: N/A

EXPERIENCE ELSEWHERE: N/A

SOURCE OF INFORMATION: Robert H. Drummer, Senior Legislative Attorney

APPLICATION WITHIN MUNICIPALITIES: applicable

PENALTIES: N/A

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GCAAR

TESTIMONY OF *THE GREATER CAPITAL AREA ASSOCIATION OF REALTORS®* BEFORE THE MONTGOMERY COUNTY COUNCIL ON Bill 10-17, "Recordation Tax—Rates and Amendments" April 25, 2017

This testimony is on behalf of the Greater Capital Area Association of REALTORS®. GCAAR represents nearly 10,000 REALTORS® and real estate professionals. We are also the voice for *thousands* of buyers, sellers and homeowners. GCAAR appreciates the Council revisiting the issue of possible ways to lower recordation taxes, and we support lowering recordation taxes from $500k to under $1m within Bill 10-17.[1]

Overall, GCAAR maintains a commitment to the inherent value of homeownership and the consistent positive force it has in our communities. We believe homeownership is the best opportunity for people to securely plant their roots into Montgomery County, maintain stability and gain financial freedom. In the long term, homeowners across the economic spectrum will contribute immensely to Montgomery County's revenue streams via the taxes they pay and local businesses they support. This leads to greater resources for social services, transportation and schools-- to name a few.

Unfortunately, the rising cost of housing in the County have made it unaffordable for most residents to purchase a home, especially in comparison to other local jurisdictions. GCAAR has been seriously concerned that instead making homeownership viable, all we have seen over the past few years are initiatives that move us further from this goal.

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[1] GCAAR must emphasize, if the recordation tax rate structure has more than the current number of tiers, this may pose certain technical necessities that would need to be put in place by our industry to properly administer the rates. GCAAR would like to have a more detailed conversation about ensuring accurate implementation of a multi-tiered system with the Council and members of the real estate community on these technical issues such as a later implementation date to allow the industry to make any necessary changes.

Specifically, I came before you last when this Council pushed through a nearly $200 million recordation tax increase on homeownership in less than a month's time. To make matters worse, the County's recordation taxes were already amongst the **highest in the country**. That surge in tax rates presented immediate challenges to residents across the County, particularly those first-time homebuyers who already found themselves having immense difficulty putting together their final closing costs.

Today, we find ourselves evaluating a Bill whose effect would be to nominally reduce and return the recordation tax rate to its' previous level prior to last year's increase for transactions more than $500,000 but less than $1,000,000. We approximate this group the measure would reduce their recordation tax costs by a couple hundred dollars.

As we often stress, while a few hundred dollars may not seem like much for lawmakers dealing with millions of tax dollars, this adds up very quickly for working families. In fact, the down payment is often the greatest impediment for homeownership. GCAAR is supportive of the part of Bill 10-17 that lowers recordation taxes from $500k to under $1m because we firmly believe this relatively small benefit could have a worthy impact. The folks who are now tapping into the last of their savings could find relief in saving even a small amount of additional dollars.

Further, we recommend lowering recordation taxes for future homeowners across the board. GCAAR is able and willing to sit down and work with you and any another other interested school stakeholders on finding funding mechanisms for our most critical priorities such as MCPS. If the County needs more revenue, we can all work together on broader solutions.

In conclusion, GCAAR respectfully asks you to lower the high cost of the Montgomery County's recordation taxes to make homeownership more attainable. Specifically, we believe returning the rate to what it was previously for recordation taxes at the $500k to under $1m price point is a positive start.

— APARTMENT AND OFFICE — BUILDING ASSOCIATION OF METROPOLITAN WASHINGTON

TO:	**Councilmember Nancy Navarro, Chair,** **Committee on Government Operations and Fiscal Policy** **Councilmember Sidney Katz, Member** **Committee on Government Operations and Fiscal Policy** **Councilmember Hans Riemer, Member** **Committee on Government Operations and Fiscal Policy**
FROM:	**Nicola Y. Whiteman, Senior Vice President of Government Affairs** **Apartment and Office Building Association of Metropolitan Washington**
DATE:	**May 2, 2017**
RE:	**Oppose Bill 10-17 Recordation Tax - Rates – Amendments**

The Apartment and Office Building Association of Metropolitan Washington (AOBA) is a non-profit trade association whose members include owners and managers of more than 112,000 apartment units and over 33 million square feet of office space in suburban Maryland, of which more than **57,000 apartment units and over 24 million square feet of office space are located in Montgomery County.**

AOBA strongly opposes Bill 10-17 Recordation Tax - Rates – Amendments, which proposes to increase the recordation tax premium component of the recordation tax. ***This measure will almost triple the recordation tax premium for commercial and multifamily properties*** as most are valued at more than $1 million. Property owners could thus face, for example, a staggering increase from $1.55 (2015 rate) to an additional $3.55 for each $500 or fraction of $500 of the amount over $2,000,000 in a just a few years.

The proposal will ***unfairly*** impose a second, significant increase to the recordation tax rate on AOBA members and other businesses that already bear a disproportionate share of the County's tax burden. The non-residential sector, for example, accounts for approximately ***67.1%*** of energy tax revenues. AOBA supports across the board tax enhancements that are universally applicable but cannot support a proposed structure that intentionally targets businesses.

The 2017 proposed tax hike follows the Council's 2016 decision to significantly raise both the school increment and recordation tax premium ***in addition*** to a record increase to the property tax rate. The 2016 increase was a shock to the real estate market, especially a weak commercial office market, and the 2017 proposal is pending as the market continues to struggle.

A second recordation tax increase will undermine the County's economic development goals and serve as a disincentive to needed investment in the County. Annual tax increases primarily borne by businesses sends the wrong signal that MONTGOMERY COUNTY IS CLOSED FOR BUSINESS.

TAX INCREASES UNDERMINE THE COUNTY'S AFFORDABLE HOUSING GOALS

The proposal will increase the costs associated with the purchase and sale of rental housing.

Rising interest rates and higher transaction costs: AOBA cautions the Council that the impact of this misguided proposal must also be considered along with other changing market conditions. Notably, the loan period for many multifamily properties averages 7 to 10 years, making refinancing a frequent, and if this proposal passes, more expensive occurrence. Higher recordation rates, in addition to projected increases to interest rates and rising operating expenses (i.e. increases to electric and water rates in addition to numerous surcharges, among others) should raise alarms about the ability to preserve and operate the County's existing rental housing stock.

Draft Rental Housing Study Policy Recommendations – Tax *Incentives*: At the same time a tax increase is before the Council, the same government is also considering real property tax abatement and exemptions as a tool for preserving and incentivizing affordable rental housing. (See Policy Recommendation, page 32.) Real property taxes can account for 22% of operating expenses so real property tax ***credits*** not increases can serve to preserve existing and incentivize the development of new rental housing.

Tax proposal paints bull's eye on real estate investment trusts ("REITs"): Many of the apartment communities in Montgomery County are owned by REITs and other investment ventures that rely on stable markets so that they can buy and sell properties quickly. REITs are already hesitant to invest in this County, given the high taxes and uncertainty regarding the future of the County's rental housing laws. An increase to recordation taxes could further dissuade REITs from investing in the County.

Government regulation and policies, such as the current proposal can limit access to housing by increasing the costs of producing new and preserving existing housing. See 14 Million Households "Priced Out" By Government Regulation, "NAHBV Economics estimates that 14 million American households are priced out of the market for a new home by government regulations that, on average, increase the new home price by 24.3%." This does not include, for example, costs such as the impact fee here in the County. **For multifamily properties, the percentage can be as much as 30%.**

TAX HIKE PUNISHES NOT HELPS ALREADY FRAGILE OFFICE MARKET

The struggling office market is already facing high vacancy rates that create the risk of ***declining property values and tax revenues***. Another proposed recordation tax increase will thus do little to address the challenges plaguing the office market sector and may in fact result in a net decrease in projected revenue. For example, the proposal could scare away potential purchasers already skittish about acquiring challenged properties. Adopting a second recordation tax increase will encourage many to instead look to neighboring jurisdictions where the tax burden is more reasonable, making development and reposition deals more attractive.

Montgomery County is not an island. Consider, for example, that Prince George's County is aggressively working to attract new residents and businesses through a variety of regulatory policies and incentives. The County is also an increasingly attractive market due to a number of factors including, for example, cheaper land and the availability of jobs for persons choosing to relocate to the County. Prince George's County is indeed "Primed for Business." See, for example, Five Key Takeaways from DC's Q1 Office Market, Banister, April 4, 2017. https://www.bisnow.com/washington-dc/news/office/five-takeaways-from-dcs-q1-office-market-72927. **"The relative lack of affordable metro-centric developments in other locations may be a catalyst for Prince George's County** ...," JLL director of U.S. office research Scott Homa said. **"Natural economic forces are driving government tenants to Prince George's** and will likely continue to do so over the long term, especially with this [Trump] administration focused on reining in the cost of government."

How will the fairly new Montgomery County Economic Development Corporation, whose mission includes business retention and expansion and removing barriers, respond to existing and prospective businesses concerned about seemingly annual tax increases in the County?[1] Will businesses continue to "Choose Montgomery?" Will they be able to afford to "Choose Montgomery?"

THE PERFECT STORM:
Higher Recordation Tax and Troubled Financial Markets

Understanding the full impact of the proposed increase requires the Council to first carefully consider how many commercial loans are structured as well as anticipated developments in the financial market. First as noted, many of these loans are for 7 to 10-year terms, thus making refinancing and exposure to a high recordation tax rate a frequent occurrence. Secondly, the proposed increase comes at a time when financial markets are predicting additional challenges ahead due to the storm brewing around commercial mortgage backed securities (CMBS) loans.[2]

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[1] https://thinkmoco.com/about-mcedc/who-we-are/ "Business retention and expansion efforts continue to be our priority. We are engaging with businesses across the county to add value and remove barriers as needed, knowing that the greatest job growth will be generated by those businesses already located in the region."

[2] Real estate's ticking bomb: Who gets hurt, CNBC, Olick, Diana, March 10 2016 ("Commercial mortgage backed securities (CMBS) are bonds sold to investors"); US Commercial Mortgage Backed Securities FAQs ("CMBS are bonds, which are backed by commercial real estate collateral."); Refinancing CMBS loans could prove difficult, Greater Fort Wayne Business Weekly, Lipp, Linda, March 30, 2017 ("While $6.7 billion in maturing CMBS debt is

The Council should be mindful that many of these CMBS loans, which were hugely popular in 2007 and many of which are 10-year balloon mortgages, were due in the fourth quarter of 2016 and 2017 for refinancing.[3] Given the strict defeasance and prepayment penalties, the only time to refinance is within the narrow 6-month period before maturation. A second, substantial increase to the County's recordation taxes could stand in the way of, or change the structure of, refinances for these commercial loans, and lead to catastrophic default. If unable to refinance these properties, building owners may be forced to sell properties and at prices far below the loan amount. ***This will result in lower recordation tax collections and revenues earmarked for the various capital projects and rental assistance programs.***

AOBA also cautions the Council that owners planning to refinance CBMS loans already face a challenged financial market. CMBS loans are essentially bonds and some industry analysts are questioning whether there will be sufficient investor demand for these loans.[4] Additionally, the ability to refinance assumes an owner has sufficient equity in a property. Those properties which have not been able to sufficiently increase rents and income and thus increase property values will find refinancing much more challenging.[5] We know, given the current state of the

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coming due this month, the figure is minuscule compared to what's coming. ***Over the next six months alone, about $61.1 billion in debt will come due.*** But almost 6 percent of the maturing debt is past due on payment and 10.5 percent is in special servicing, according to data from market research firm Trepp. Difficulty in refinancing is the key culprit. ***Tighter regulations in the financial markets have made it more difficult and more expensive to refinance these loans***, said attorney Daniel Martin, a partner in McDermott Will & Emery in New York. Loans that were originated more than 10 years ago may have been at 75 percent to 80 percent, loan to value. It's much harder to borrow that much today.")

[3]Projected CMBS Issuance for 2017 Under $80 Billion, Bell, Diana, Jan 19, 2017 ("While 2016 brought choppiness to the CMBS market, rising interest rates and risk retention rules in 2017 may pose headwinds to the sector this year, sources say. ...Rising interest rates will be a concern for CMBS financiers watching their bottom line... Approximately 30 percent of $47 billion in Fitch-rated CMBS loans maturing this year could default. ... The firm says expects "significant delinquencies" in those loans, citing high leverage levels. ... About $112 billion in CMBS loans is scheduled to come due in 2017, according to research firm Trepp, with another $17.6 billion slated to mature in 2018. Office and retail loans account for the bulk of the balances, Trepp analysts say"); Banks to Fed: We've Tightened Commercial Real Estate Lending, Drake, Martin, May 6, 2016 ("CMBS is also facing a looming maturity wall - i.e. the wave of securitized loans that will need refinancing over the next six months."); Real estate's ticking bomb: Who gets hurt ("CMBS tends to have a 10-year life span, at which point the debt matures and real estate owners ***have*** to refinance the loans.")

[4]Real estate's ticking bomb: Who gets hurt ("CMBS tend to have a 10-year life span, at which point the debt matures and real estate owners have to refinance the loans. These maturities are expected to surpass $400 billion annually this year and in 2017, according to CBRE, a real estate services firm. That is $100 billion more than last year. *CBRE "conservatively" estimates that 18 percent of loans this year and 29 percent of loans next year could have problems refinancing, due to lack of investor demand for the bonds. This translates into about $43 billion in potentially troubled loans over these two years.*" "We think some of these are going to be remonetized through asset sales, but some will certainly hit the foreclosure list ...""); Coming Due: How CMBS Market Will Handle $300B Maturing 2015-2017, January 7, 2015, Colomer, Nora ("The amount of commercial mortgage debt maturing is set to spike this year, when loans taken out during the height of the real estate bubble start coming due. *Between 2015 and 2017, more than $300 billion will need to be refinanced.*")

[5]Wall of CMBS Loan Maturities Shrinks, Remains Daunting, Commercial RealEstate Direct, January 19, 2016, ("Healthy real estate market fundamentals have enabled many owners to increase rents and income, which has contributed to an increase in property values and made refinancing easier than it otherwise would be. Borrowers have taken advantage of the strong market fundamentals, the availability of debt capital and relatively low interest rates to defease CMBS loans and refinance properties before their underlying loans mature.") While owners of challenged properties will still be able to refinance a property, they might face, for example, higher interest rates.

commercial office market in Montgomery County, that this is a reality for many property owners. In other words - the perfect storm.

BACKGROUND

Q1 2017 JLL REPORT – SUBURBAN, MD VACANCY RATES[6]				
"No office buildings were under construction in Montgomery County and only one office development was under construction in the Suburban Maryland region in the first quarter. No office buildings will be completed in 2017; the next office building isn't scheduled to deliver until the third quarter of 2018."[7]				
Submarket	**Total Vacancy**	**Class A**	**Class B**	**Class C**
Montgomery County	16.3%	17.3%	15.4%	16.3%
Bethesda CBD	9.5%	7.5%	11.4%	15.8%
Bethesda - Rock Spring	28.1%	26.4%	42.3%	N/A
Burtonsville	9.2%	N/A	9.2%	N/A
Chevy Chase	11.3%	3.9%	16.7%	N/A
Clarksburg	3.5%	N/A	3.5%	N/A
Gaithersburg	13.7%	13.7%	13.3%	20.6%
Germantown	15.8%	14.5%	15.8%	26.1%
Kensington	9.6%	N/A	2.5%	11.7%
North Rockville	9.9%	6.6%	15.3%	N/A
Shady Grove	18.6%	17.5%	21.9%	10.9%
Park Potomac/Tower Oaks	25.1%	27.4%	28.5%	3.4%
Rockville Pike Corridor	16.6%	21.9%	9.3%	20%
Downtown Silver Spring	14.6%	11.8%	20.7%	14.5%
North Silver Spring	16.5%	23.8%	14.9%	N/A
Wheaton	25.9%	N/A	N/A	25.9%

MONTGOMERY COUNTY COMPREHENSIVE ECONOMIC STRATEGY MARCH 2016

- "It is clear, however, that diversifying the County's business sector portfolio beyond those tied to the federal government while exploring new opportunities to better leverage federal institutions for private sector investments will strengthen the economy. For this to happen, a full commitment to private sector success is required. Businesses must not be seen as an afterthought; the County must wholeheartedly embrace the success of its private sector. This must involve existing businesses, ensuring that they are satisfied with the County's commitment to them and to their expansion.")

[6]Q1 2017 JLL Report – Suburban, MD Vacancy Rates, http://www.us.jll.com/united-states/en-us/Research/US-Suburban%20Maryland-Office-Insight-Q1-2017-JLL.pdf?705bc663-0f4c-4170-8ce8-5a8d7b0cc94d
[7]Q1 2017 JLL Report – Suburban, MD Vacancy Rates, p. 1

- STRATEGY 1.1.4. Tax and Regulatory Policies: <u>**Ensure County Tax and Regulatory Polices are Supportive of Business Attraction and Expansion, Especially as They Affect Targeted Markets**</u>.

SOBERING NEWS

State of the Commercial Real Estate Market in Montgomery County

Excerpts: Montgomery County Planning Department's June 2015 Office Market Assessment

"**High vacancies also threaten the financial viability of individual buildings.** They pressure each landlord who has vacant space to lower rents or increase concession packages in order to lure tenants, undercutting the building's cashflow and thus its market value. **As more buildings are affected, these depressed values could have negative implications for the property tax base of the county, the City of Gaithersburg, and the City of Rockville."** Page 1.

'**Projected occupancy rates do not suggest any near-term relief in these problems.** Only significant increases in office-based employment, office building demolitions or conversions to other uses could make a dent in the county's nearly 11 million square-foot vacant office inventory." Page 2.

ROCKVILLE, MARYLAND

MEMORANDUM

June 21, 2017

TO: Roger Berliner, President, County Council

FROM: Jennifer A. Hughes, Director, Office of Management and Budget
Alexandre A. Espinosa, Director, Department of Finance

SUBJECT: FEIS for Bill 10-17, Recordation Tax - Rates - Amendments

Please find attached the fiscal and economic impact statements for the above-referenced legislations.

JAH:fz

cc: Bonnie Kirkland, Assistant Chief Administrative Officer
Lisa Austin, Offices of the County Executive
Joy Nurmi, Special Assistant to the County Executive
Patrick Lacefield, Director, Public Information Office
David Platt, Department of Finance
Dennis Hetman, Department of Finance
Jane Mukira, Office of Management and Budget

Fiscal Impact Statement
Bill 10-17 – Recordation Tax Rates - Amendments

1. **Legislative Summary**

   The "Recordation Tax Premium" went into effect in 2008. The tax premium applies to property sales or refinancing transactions greater than $500,000. Bill 15-16, enacted on May 18, 2016, increased the premium rate from $1.55 to $2.30/$500 in the sale. Half of the proceeds from the premium are allocated to County Government capital projects (i.e., capital projects of departments in the Executive Branch); the other half is for rent assistance for low and moderate income households.

   Bill 10-17 would reduce the premium for transactions that are more than $500,000 but less than $1,000,000 from $2.30 to $1.55/$500 (33% reduction). The bill would increase the premium for transactions that are more than $1,000,000 but less than $2,000,000 from $2.30 to $2.55/$500 (11% increase). The bill would also increase the premium for transactions that are more than $2,000,000 from $2.30 to $3.55/$500 (54% increase).

2. **An estimate of changes in County revenues and expenditures regardless of whether the revenues or expenditures are assumed in the recommended or approved budget. Includes source of information, assumptions, and methodologies used.**

   Sales data was analyzed from the Maryland Department of Assessments and Taxation for the past ten fiscal years from fiscal year 2008 through fiscal year 2017. The analysis quantified the volatility of the number of transactions occurring in each tier and the number of taxable units charged historically.

   The share of realized sale prices from the past ten fiscal years yields the following blended commercial and residential percentages for the taxes collected annually for each tier:

Bill 10-17 Proposed Tiers	Proportion of premium collected (ten-year average)
$500,000-$1m	19.6%
$1m - $2m	20.8%
>$2m	59.6%
Total	100%

   Aligning these percentages to the FY18 projected recordation tax premium revenue of $29,722,676 yields an estimated increase of $8,402,622 in the amount likely to be collected in FY18. The percentages or shares of sales value for each of the three tiers is expected to change over the years affecting the fiscal impact estimates.

3. **Revenue and expenditure estimates covering at least the next 6 fiscal years.**

It is estimated that revenues will increase by $53,728,922 over the next six years assuming the percentages of the taxes collected for each tier maintain their percentage averages over the past decade:

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	
current	$29,722,676	$30,456,841	$31,199,015	$31,959,906	$33,358,698	$33,358,698	
proposed	**$38,125,298**	**$39,067,012**	**$40,019,000**	**$40,994,994**	**$42,789,226**	**$42,789,226**	total 6 yr
	$ 8,402,622	$ 8,610,171	$ 8,819,985	$ 9,035,088	$ 9,430,528	$ 9,430,528	$53,728,922

Bill 10-17 increases the recordation tax premium rate for properties above $1 million. Properties in that category have experienced a high degree of volatility in sales value and volume. Volatility could increase further with the increased recordation tax premium rates. Moreover, the number of properties subject to the premium is a small share of the total recordation tax base (less than 22% historically), which adds to the volatility. As a proxy for the volatility, the average absolute deviation of properties valued over $2 million is $2.7 million annually over the past ten years assuming current rates and $3.5 million assuming the proposed $3.55/$500.

The six-year estimates are based on Bill 10-17's currently proposed recordation tax premium rates:

	Current Rates	Bill 10-17 rates	Percent Change
$500,000-$1m	$2.30	$1.55	-32.61%
$1m - $2m	$2.30	$2.55	10.87%
>$2m	$2.30	$3.55	54.35%

The intent of Bill 10-17 is that it would be revenue neutral. Revenue neutrality is impossible to achieve given the number of macroeconomic and microeconomic variables fluctuating over the course of the estimated calculations. However, the following rates would achieve closer to revenue neutral estimates for FY18 and beyond:

	Current Rates	Alternative rates	Percent Change
$500,000-$1m	$2.30	$1.55	-32.61%
$1m - $2m	$2.30	$2.55	10.87%
>$2m	$2.30	$2.75	19.57%

The alternative rates allow for one standard deviation worth (68% of values within the mean) of excess revenue or approximately $2.7 million annually. Over the six-year time horizon this amounts to $16.2 million to account for the ten-year average variability of the volatile $2 million plus tier. There are no additional expenditures as a result of the bill over the six-year period.

4. **An actuarial analysis through the entire amortization period for each bill that would affect retiree pension or group insurance costs.**

Not applicable.

5. **An estimate of expenditures related to County's information technology (IT) systems, including Enterprise Resource Planning (ERP) systems.**

   Not applicable.

6. **Later actions that may affect future revenue and expenditures if the bill authorizes future spending.**

   Bill 10-17 does not authorize future expenditures.

7. **An estimate of the staff time needed to implement the bill.**

   It is estimated that there will be some minimal staff time necessary to implement this bill to accommodate changes to accounting information.

8. **An explanation of how the addition of new staff responsibilities would affect other duties.**

   The additional workload can be absorbed within the department's current resources.

9. **An estimate of costs when an additional appropriation is needed.**

   No additional appropriation is needed.

10. **A description of any variable that could affect revenue and cost estimates.**

    See number 3.

11. **Ranges of revenue or expenditures that are uncertain or difficult to project.**

    See number 3.

12. **If a bill is likely to have no fiscal impact, why that is the case.**

    Not applicable.

13. **Other fiscal impacts or comments.**

    Not applicable.

14. The following contributed to and concurred with this analysis:

Dennis Hetman, Department of Finance
David Platt, Department of Finance
Jane Mukira, Office of Management and Budget

Mary C Beck for JAH

Jennifer A. Hughes, Director
Office of Management and Budget

6/21/17
Date

Economic Impact Statement
Bill 10-17, Recordation Tax – Rates – Amendments

Background:

This legislation would reduce the Recordation Tax Premium (Premium) from $2.30 to $1.55/$500 for transactions that are over $500,000 but less than $1,000,000. Bill 10-17 would also increase the Premium from $2.30 to $2.55/$500 for transactions equal to or more than $1,000,000 but less than $2,000,000 and would increase the Premium from $2.30 to $3.55/$500 for transactions equal to or more than $2,000,000.

1. **The sources of information, assumptions, and methodologies used.**

   Source of information is monthly sales data from the Maryland Department of Assessments and Taxation. The Department of Finance (Finance) analyzed the real estate sales data from fiscal year 2008 to fiscal year 2017 in preparation for the economic impact statement. The analysis included the value of sales for each of the three categories referenced in Bill 10-17. Finance calculated the percentage of sales value for each of the three categories as a share of the total sales value.

2. **A description of any variable that could affect the economic impact estimates.**

   Since Finance used data from fiscal year 2008 to fiscal year 2017, the percentages or shares of total sales for each of three categories can be expected to change over the forecast period although the degree of that change cannot be accurately estimated. Therefore, such a change would affect the economic impact estimates. For example, Bill 10-17 increases the Premium tax rate for properties equal to or more than $1 million. Properties in these two categories have experienced a higher degree of volatility in sales compared to sales greater than $500,000 but less than $1 million and, therefore, revenue volatility can be expected to increase with the increase in the tax rates for the two high-end categories. For example, the average absolute deviation of properties equal to or more than $1,000,000 but less than $2,000,000 is $440,000 annually over the past ten years and the average absolute deviation of properties equal to or more than $2,000,000 is $2,700,000 annually over the past ten years under the current rate structure. For properties equal to or more than $2,000,000, the average absolute deviation is $3,500,000 based on the proposed rate of $3.55/$500

3. **The Bill's positive or negative effect, if any on employment, spending, savings, investment, incomes, and property values in the County.**

   Due to the combination of lower premium recordation tax rate for properties under $1 million but a higher rate for properties at $1 million and above, there may be positive economic impact for the former but a negative economic impact for the latter. The initial analysis confirms that revenues from the category under $1 million would be reduced which may stimulate more economic activity in that much larger category. However, that same analysis also confirms that revenues would increase sharply for the much smaller category, in terms of number of transactions, starting at $1 million, which may have a deleterious economic impact for that segment of the real estate market. It is not possible to accurately estimate to what degree these two impacts will offset each other and therefore it is uncertain whether Bill 10-17 would have an economic impact on the County's economy.

4. **If a Bill is likely to have no economic impact, why is that the case?**

   See #4.

5. **The following contributed to or concurred with this analysis:** David Platt, Dennis Hetman, and Robert Hagedoorn, Finance.

Alexandre A. Espinosa, Director
Department of Finance

6/16/2017
Date

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Recordation Tax Sample Calculations

The County's recordation tax has three components. Below is a table comparing the current recordation tax rates for each component and the rates suggested by the Department of Finance (DOF) after analyzing the fiscal impact from Bill 10-17.

Recordation Tax Component	Current Rate	Proposed Rate	Change
Base	$2.08 per $500	$2.08 per $500	$0.00
School Capital Improvements	$2.37 per $500	$2.37 per $500	$0.00
Premium			
$500,000 to $1,000,000	$2.30 per $500	$1.55 per $500	- $0.75
$1,000,000 to $2,000,000	$2.30 per $500	$2.55 per $500	+ $0.25
Greater than $2,000,000	$2.30 per $500	$2.75 per $500	+ $0.45

Notes:

1) The recordation tax applies to each $500 or fraction of $500 of consideration payable or of the principal amount of the debt secured for an instrument of writing. When refinancing, the recordation tax only applies to the principal that exceeds the unpaid principal of the existing mortgage.

2) The first $100,000 of the sales value is exempt from the recordation tax for any property that is used as a primary residence.

3) The premium component applies only to the portion of the sales value that exceeds $500,000.

Below is a table that details the amount of tax for each component of the recordation tax at certain sales values based on the current rates.

	Recordation Tax Components – Current Rates				
Sales Value	Base	School Capital Improvements	Premium	Total	Percent of Tax as Sales Value
$410,000	$1,290	$1,469	$0	$2,759	0.7%
$750,000	$2,704	$3,081	$1,150	$6,935	0.9%
$1,200,000	$4,576	$5,214	$3,220	$13,010	1.1%
$2,500,000	$9,984	$11,376	$9,200	$30,560	1.2%
$50,000,000	$208,000	$237,000	$227,700	$672,700	1.3%
$105,500,000	$438,880	$500,070	$483,000	$1,421,950	1.3%

Notes:

1) $410,000 was the median sales price in the County for FY16, and $105.5 million was the sales price of the Apex property in Bethesda in 2015.

2) The first $100,000 exemption was not considered for the $50 million and the $105.5 million example because these properties are considered commercial.

Below is a table that details the amount of tax for each component of the recordation tax at certain sales values based on DOF's suggested rates.

	Recordation Tax Components – Suggested Rates				
Sales Value	Base	School Capital Improvements	Premium	Total	Percent of Tax as Sales Value
$410,000	$1,290	$1,469	$0	$2,759	0.7%
$750,000	$2,704	$3,081	$775	$6,560	0.9%
$1,200,000	$4,576	$5,214	$3,570	$13,360	1.1%
$2,500,000	$9,984	$11,376	$11,000	$32,360	1.3%
$50,000,000	$208,000	$237,000	$272,250	$717,250	1.4%
$105,500,000	$438,880	$500,070	$577,500	$1,516,450	1.4%

Notes:

1) $410,000 was the median sales price in the County for FY16, and $105.5 million was the sales price of the Apex property in Bethesda in 2015.

2) The first $100,000 exemption was not considered for the $50 million and the $105.5 million example because these properties are considered commercial.

Below is a summary table comparing the differences in total recordation tax collected based on the current rates and DOF's suggested rates.

Sales Value	Current Rates Total Tax Collected	Suggested Rates Total Tax Collected	Difference	Percent Difference
$410,000	$2,759	$2,759	$0	0.0%
$750,000	$6,935	$6,560	-$375	-5.4%
$1,200,000	$13,010	$13,360	$350	2.7%
$2,500,000	$30,560	$32,360	$1,800	5.9%
$50,000,000	$672,700	$717,250	$44,550	6.6%
$105,500,000	$1,421,950	$1,516,450	$94,500	6.6%

F:\LAW\BILLS\1710 Recordation Tax Rates - Amendments\Updated Version Of Recordation Tax Sample Calculations.Docx

Bill 10-17 Recordation Tax – Rates Analysis Summary

Bill 10-17 would reduce the premium for transactions that are more than $500,000 but less than $1 million from 2.30 to $1.55/$500 (33% reduction) and increase the premium for transactions that are more than $1 million but less than $2 million from $2.30 to $2.55/$500 (11% increase). The bill would also increase the premium for transactions that are more than $2M from $2.30 to $3.55/$500 (54% increase).

1.) Perform same analysis with the following bands: $500K to $750K, $750K to $2M, $2M plus
2.) Provide scenario estimated tax for different valued properties under the current rates versus the proposed

Problems to solve remain the same:

1.) Quantify the volatility across two dimensions with respect to number of transactions occurring and the number of taxable units charged historically
2.) Suggest rates that would theoretically keep the changes as close to revenue neutral as possible with the understanding that it cannot be perfectly neutral given the number of fluctuating micro and macro variables at play

Conclusions:

1.) Shares for new bands continue to be consistent over ten years with minimal variability:

$500K to $1M - 78%	$500K to $750K - 56%
$1M to $2M - 18%	$750K to $2M - 40%
$2M plus - 4%	$2M plus - 4%

2.) Estimated taxable $ shares have more variability over the same time horizon but average out to (shift 11% to second tier):

$500K to $1M - 20%	$500K to $750K - 9%
$1M to $2M - 20%	$750K to $2M - 31%
$2M plus - 60%	$2M plus - 60%

- Under the new $750K tier, additional homes will be included in the second tier where rates are increasing by 11% therefore intuitively the estimated net revenue to the County annually will increase by approximately $1M per year to $3.8 million (or one standard deviation plus $1M) from the mean over the ten-year period for the most volatile $2 million plus tier
- A rate of $2.25 (2% decrease from current) for the middle $750K to $2M tier would achieve similar one standard deviation revenue neutrality
- Scenario differentials scale from a 2.7% increase in total tax for a $1.2M properties up to 6.6% increase for $50M and above

Bill 10-17 Recordation Tax – Rate Analysis update

Bill 10-17 would reduce the premium for transactions that are more than $500,000 but less than $1 million from 2.30 to $1.55/$500 (33% reduction) and increase the premium for transactions that are more than $1 million but less than $2 million from $2.30 to $2.55/$500 (11% increase). The bill would also increase the premium for transactions that are more than $2M from $2.30 to $3.55/$500 (54% increase).

Two outstanding questions from the July 13th GO session include:

1.) What is the total projected revenue loss in dollars given a reduction for transactions that are more than $500K but less than $1M from $2.30/$500 to $1.55 while keeping all other property value rates the same at $2.30/$500?

2.) What are the tax implications of a family gifting agricultural land or a farm to their children?

Answers:

1.) $1M tiers:

	current rate	prop rate	% chng		FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	6 yr total Δ	6 yr avg Δ
[500K to 1M	$ 2.30	$ 1.55	-33%		($1,759,034)	($1,816,925)	($1,878,961)	($1,938,239)	($2,017,930)	($2,044,900)	($2,115,292)	($11,812,248)	($1,968,708)
1M to 2M	$ 2.30	$ 2.30	0%		$0	$0	$0	$0	$0	$0	$0	$0	$0
2M plus]	$ 2.30	$ 2.30	0%		$0	$0	$0	$0	$0	$0	$0	$0	$0
				current	$27,584,454	$28,492,284	$29,465,107	$30,394,683	$31,644,358	$32,067,299	$33,171,158		
				proposed	$25,825,420	$26,675,359	$27,586,146	$28,456,444	$29,626,428	$30,022,399	$31,055,866	6 yr total	
				Δ	-$1,759,034	-$1,816,925	-$1,878,961	-$1,938,239	-$2,017,930	-$2,044,900	-$2,115,292	-$11,812,248	

$750K tiers:

	current rate	prop rate	% chng		FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	6 yr total Δ	6 yr avg Δ
[$500k-$750K	$ 2.30	$ 1.55	-33%		($791,554)	($817,605)	($845,520)	($872,195)	($908,055)	($920,192)	($951,868)	($5,315,436)	($885,906)
$750K - $2m	$ 2.30	$ 2.30	0%		$0	$0	$0	$0	$0	$0	$0	$0	$0
>$2m]	$ 2.30	$ 2.30	0%		$0	$0	$0	$0	$0	$0	$0	$0	$0
				current	$27,584,454	$28,492,284	$29,465,107	$30,394,683	$31,644,358	$32,067,299	$33,171,158		
				proposed	$26,792,900	$27,674,679	$28,619,587	$29,522,488	$30,736,303	$31,147,107	$32,219,290	6 yr total	
				Δ	-$791,554	-$817,605	-$845,520	-$872,195	-$908,055	-$920,192	-$951,868	-$5,315,436	

2.) Transfers among immediate family are not subject to recordation tax.

Updates since last GO session in July:

3.) Differences from the newly update 6-year recordation tax premium forecasts are marginal and fluctuate according to the specific scenario (see summary chart)

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	
Dec '17 update	$29,288,803	$29,822,141	$29,345,791	$29,268,582	$30,763,465	$32,344,771	$35,027,804	
FY19 budget	27,584,454	28,492,284	29,465,107	30,394,683	31,644,358	32,067,299	33,171,158	total:
diff	(1,704,349)	(1,329,857)	119,316	1,126,101	880,893	(277,472)	(1,856,646)	(3,042,014)

4.) Total transaction shares for bands continue to be consistent over ten years with minimal variability:

$500K to $1M - 78%	$500K to $750K - 56%
$1M to $2M - 18%	$750K to $2M - 40%
$2M plus - 4%	$2M plus - 4%

5.) Estimated taxable $ shares have more variability over the same time horizon but average out to (shift 11% to second tier):

$500K to $1M - 20%	$500K to $750K - 9%
$1M to $2M - 20%	$750K to $2M - 31%
$2M plus - 60%	$2M plus - 60%

6.) 60% of the premium tax comes from only 4% of the transactions

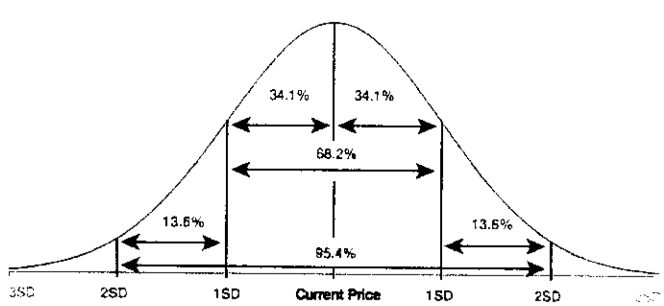
7.) Under the $750K tier, additional homes will be included in the second tier where rates are increasing by 11% therefore intuitively the estimated net revenue to the County annually will increase by approximately $1M per year to $3.8 million (or one standard deviation plus $1M) from the mean over the ten-year period for the most volatile $2 million plus tier

8.) <u>Potentially revenue neutral $750K bandwidths (within one standard dev annually):</u>

b.)	current rate	prop rate	% chng
[$500k-$750K	$ 2.30	$ 1.55	-33%
$750K - $2m	$ 2.30	$ 2.25	-2%
>$2m]	$ 2.30	$ 2.75	20%

9.) <u>Potentially revenue neutral $1M bandwidths (within one standard dev annually):</u>

	current rate	prop rate	% chng
[500K to 1M	$ 2.30	$ 1.55	-33%
1M to 2M	$ 2.30	$ 2.55	11%
2M plus]	$ 2.30	$ 2.81	22%



1.) Proj rev for previous rates ($1.55 per $500):

	current rate	prop rate	% chng		FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	6 yr total Δ	6 yr avg Δ
[500K to 1M	$ 2.30	$ 1.55	-33%		**($1,759,034)**	**($1,816,925)**	**($1,878,961)**	**($1,938,239)**	**($2,017,930)**	**($2,044,900)**	**($2,115,292)**	**($11,812,248)**	**($1,968,708)**
1M to 2M	$ 2.30	$ 2.55	11%		$625,662	$646,253	$668,319	$689,403	$717,748	$727,341	$752,378	$4,201,442	$700,240
2M plus]	$ 2.30	$ 3.55	54%		$8,931,517	$9,225,461	$9,540,450	$9,841,435	$10,246,065	$10,383,008	$10,740,425	$59,976,844	$9,996,141
				current	$27,584,454	$28,492,284	$29,465,107	$30,394,683	$31,644,358	$32,067,299	$33,171,158		
				proposed	$35,382,599	$36,547,073	$37,794,914	$38,987,282	$40,590,241	$41,132,748	$42,548,668		
				Δ	$7,798,145	$8,054,789	$8,329,807	$8,592,599	$8,945,883	$9,065,449	$9,377,510	$52,366,038	

2.) Proj rev for current rates ($2.30 per $500):

	current rate	prop rate	% chng		FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	6 yr total Δ	6 yr avg Δ
[500K to 1M	$ 2.30	$ 1.55	-33%		**($1,759,034)**	**($1,816,925)**	**($1,878,961)**	**($1,938,239)**	**($2,017,930)**	**($2,044,900)**	**($2,115,292)**	**($11,812,248)**	**($1,968,708)**
1M to 2M	$ 2.30	$ 2.30	0%		$0	$0	$0	$0	$0	$0	$0	$0	$0
2M plus]	$ 2.30	$ 2.30	0%		$0	$0	$0	$0	$0	$0	$0	$0	$0
				current	$27,584,454	$28,492,284	$29,465,107	$30,394,683	$31,644,358	$32,067,299	$33,171,158		
				proposed	$25,825,420	$26,675,359	$27,586,146	$28,456,444	$29,626,428	$30,022,399	$31,055,866	6 yr total	
				Δ	-$1,759,034	-$1,816,925	-$1,878,961	-$1,938,239	-$2,017,930	-$2,044,900	-$2,115,292	-$11,812,248	

3.) Proj rev for estimated rev neutral rates Bill 10-17:

	current rate	prop rate	% chng		FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	6 yr total Δ	6 yr avg Δ
[500K to 1M	$ 2.30	$ 1.55	-33%		**($1,759,034)**	**($1,816,925)**	**($1,878,961)**	**($1,938,239)**	**($2,017,930)**	**($2,044,900)**	**($2,115,292)**	**($11,812,248)**	**($1,968,708)**
1M to 2M	$ 2.30	$ 2.55	11%		$625,662	$646,253	$668,319	$689,403	$717,748	$727,341	$752,378	$4,201,442	$700,240
2M plus]	$ 2.30	$ 2.81	22%		$3,639,136	$3,758,903	$3,887,245	$4,009,881	$4,174,747	$4,230,545	$4,376,173	$24,437,495	$4,072,916
				current	$27,584,454	$28,492,284	$29,465,107	$30,394,683	$31,644,358	$32,067,299	$33,171,158		
				proposed	$30,090,218	$31,080,516	$32,141,710	$33,155,728	$34,518,923	$34,980,284	$36,184,417	6 yr total	
				*	$2,505,764	$2,588,232	$2,676,603	$2,761,045	$2,874,565	$2,912,985	$3,013,259	$16,826,688	

4.) CM Riemer's suggested tiers ($750k):

*std dev approx $2.7M for upper most volatile tier (cons. in FY20)

a.)

	current rate	prop rate	% chng		FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	6 yr total Δ	6 yr avg Δ
[$500k-$750K	$ 2.30	$ 1.55	-33%		**($791,554)**	**($817,605)**	**($845,520)**	**($872,195)**	**($908,055)**	**($920,192)**	**($951,868)**	**($5,315,436)**	**($885,906)**
$750K - $2m	$ 2.30	$ 2.55	11%		$953,463	$984,842	$1,018,468	$1,050,599	$1,093,794	$1,108,413	$1,146,568	$6,402,684	$1,067,114
>$2m]	$ 2.30	$ 2.75	20%		$3,205,793	$3,311,299	$3,424,358	$3,532,391	$3,677,625	$3,726,778	$3,855,065	$21,527,516	$3,587,919
				current	$27,584,454	$28,492,284	$29,465,107	$30,394,683	$31,644,358	$32,067,299	$33,171,158		
				proposed	$30,952,156	$31,970,820	$33,062,412	$34,105,477	$35,507,721	$35,982,298	$37,220,924	6 yr total	
				Δ	$3,367,702	$3,478,536	$3,597,305	$3,710,794	$3,863,363	$3,914,999	$4,049,766	$22,614,764	

b.)

	current rate	prop rate	% chng		FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	6 yr total Δ	6 yr avg Δ
[$500k-$750K	$ 2.30	$ 1.55	-33%		**($791,554)**	**($817,605)**	**($845,520)**	**($872,195)**	**($908,055)**	**($920,192)**	**($951,868)**	**($5,315,436)**	**($885,906)**
$750K - $2m	$ 2.30	$ 2.25	-2%		($190,693)	($196,968)	($203,694)	($210,120)	($218,759)	($221,683)	($229,314)	($1,280,537)	($213,423)
>$2m]	$ 2.30	$ 2.75	20%		$3,205,793	$3,311,299	$3,424,358	$3,532,391	$3,677,625	$3,726,778	$3,855,065	$21,527,516	$3,587,919
				current	$27,584,454	$28,492,284	$29,465,107	$30,394,683	$31,644,358	$32,067,299	$33,171,158		
				proposed	$29,808,001	$30,789,010	$31,840,251	$32,844,759	$34,195,168	$34,652,202	$35,845,042	6 yr total	
				*	$2,223,547	$2,296,726	$2,375,144	$2,450,076	$2,550,810	$2,584,903	$2,673,884	$14,931,543	

*std dev approx $2.7M for upper most volatile tier (less cons. FY24)

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c.)	current rate	prop rate	% chng		FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	6 yr total Δ	6 yr avg Δ
[$500k-$750K	$ 2.30	$ 1.55	-33%		**($791,554)**	**($817,605)**	**($845,520)**	**($872,195)**	**($908,055)**	**($920,192)**	**($951,868)**	**($5,315,436)**	**($885,906)**
$750K - $2m	$ 2.30	$ 2.55	11%		$953,463	$984,842	$1,018,468	$1,050,599	$1,093,794	$1,108,413	$1,146,568	$6,402,684	$1,067,114
>$2m]	$ 2.30	$ 2.60	13%		$2,137,196	$2,207,533	$2,282,905	$2,354,927	$2,451,750	$2,484,519	$2,570,044	$14,351,677	$2,391,946
				current	$27,584,454	$28,492,284	$29,465,107	$30,394,683	$31,644,358	$32,067,299	$33,171,158		
				proposed	$29,883,558	$30,867,054	$31,920,960	$32,928,014	$34,281,846	$34,740,039	$35,935,902	6 yr total	
				*	$2,299,104	$2,374,770	$2,455,853	$2,533,331	$2,637,488	$2,672,740	$2,764,744	$15,438,925	

5.) tier 1 = $1.55, tier 2 & 3 = $2.30:

*std dev approx $2.7M for upper most volatile tier (less cons. FY24)

note: see 2.) for $1M tiers, for $750K tiers:

	current rate	prop rate	% chng		FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	6 yr total Δ	6 yr avg Δ
[$500k-$750K	$ 2.30	$ 1.55	-33%		**($791,554)**	**($817,605)**	**($845,520)**	**($872,195)**	**($908,055)**	**($920,192)**	**($951,868)**	**($5,315,436)**	**($885,906)**
$750K - $2m	$ 2.30	$ 2.30	0%		$0	$0	$0	$0	$0	$0	$0	$0	$0
>$2m]	$ 2.30	$ 2.30	0%		$0	$0	$0	$0	$0	$0	$0	$0	$0
				current	$27,584,454	$28,492,284	$29,465,107	$30,394,683	$31,644,358	$32,067,299	$33,171,158		
				proposed	$26,792,900	$27,674,679	$28,619,587	$29,522,488	$30,736,303	$31,147,107	$32,219,290	6 yr total	
				Δ	-$791,554	-$817,605	-$845,520	-$872,195	-$908,055	-$920,192	-$951,868	-$5,315,436	

option 3.) still likely the best fit given historical data and the conservative nature of std dev estimate in FY18 as opposed to FY24

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Drummer, Bob

From:	Coveyou, Michael
Sent:	Monday, April 30, 2018 7:58 AM
To:	Drummer, Bob; Hetman,Dennis
Cc:	Smith, Gene; Hagedoorn, Robert; Platt, David
Subject:	Re: Bill 10-17, Recordation Tax - Rates - Amendments

Bob,

As we did last summer, we would ask that the new bands and rates be effective at least 6 months after the bill is passed. This bill is more complicated than the one from 2016, and we now have two computer systems that need to be updated, as well as the manual process used for complicated transfers. Couple this with the fact that the title industry needs time to get the word to all of its peers and partners, and it becomes clear that a much longer lead time is warranted, compared to that required by 2016's minor changes.
A starting date of January 1, 2019 makes sense--it gives the time that's necessary and it's the beginning of a new calendar year.

I have discussed this with DTS, again, and they believe they can make the coding changes required in our current e-Transfer system, used by roughly 150 title companies and title attorneys, for simple transfers.

I have told the State Clerk of the Circuit Court's office that these amendments may become law shortly--the Clerk is overseeing the implementation of a new electronic Recordation Tax system in Circuit Court Clerks' offices around the state. They are currently implementing the system in Montgomery County's Clerk's office. They would like all county departments that handle Transfer and Recordation taxes to also adopt this new program, which is called Simplifile. Simplifile is a very widely used system used around the country. The State Clerk believes that Simplifile can be made to accommodate the changes in Bill 10-17, but the County has not even had a demonstration of the program at this time. Before we adopt Simplifile, we will have to test it thoroughly. Simplifile will hopefully allow us to retire e-Transfer, by providing us a system that is even more robust than e-Transfer, but we won't start using it until late summer, early autumn, this year.

Hopefully the Committee and the Council will approve making the changes effective on January 1, 2019, at the earliest.

Let me know if you have any questions.

Thanks,
Mike

Michael J. Coveyou
Chief, Division of Treasury
Montgomery County Finance
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240-777-8878