



CR85-2020

Recordation Proposal

Howard County Council
May 18, 2020 - Work Session



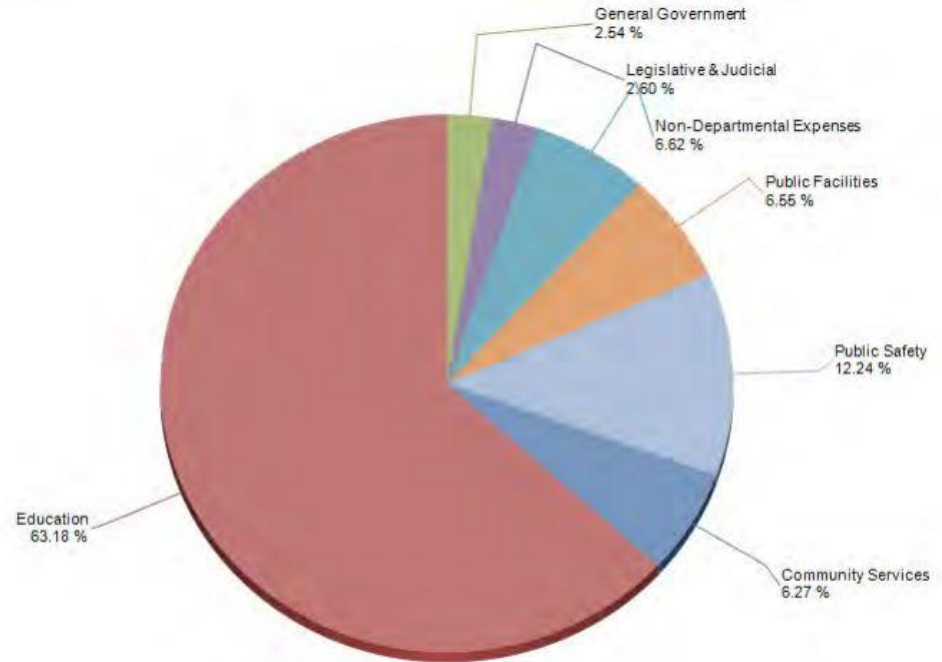
What is the Problem?

Howard County is facing increased demands for service and increased costs of delivering services:

- Education (HCPSS, HCC, HCLS)
- Public Safety (Police, Sheriff, State's Attorney, etc.)
- Health Department
- Community Services

The only way to meet these needs is to increase funding to the General Fund on an ongoing basis.

**Howard County
General Fund Expenditures**
How the Budget is Spent





FY21 Budget

- Howard County needs to pass a balanced budget.
- County revenues are down at least \$35 million in FY20 and are expecting significant decreases in income tax, hotel/motel tax, and recordation tax in FY21.
- Goal: Filling a \$20 -- 21 million dollar gap in the FY21 budget
 - Need a plan to balance the budget
 - Our proposal: restructuring Howard County's recordation tax progressively



Why Updating the Recordation Rate is Our Solution

- Create recurring funding stream in the General Fund to support education, public safety, community services, and other essential services.
- Avoid raising property taxes, which would impact every property owner annually.
- Roughly 1.5% of county residents bought property in 2019.
- Recordation tax on real estate transactions:
 - Paid per transaction, not an annual tax
 - Recordation rate has not been increased since 1992 (when it was increased from \$2.20 to \$2.50)
 - Currently the lowest rate in the state
 - Closing costs are typically split between the buyer and seller
- Provide for structural change in the education budget in future years.

Maryland Counties Fiscal 2020 Budgets-in-Brief

County	Fiscal year 2020 General Fund Operating Budget (in millions)	Percent change from 2019 budget	Changes to county's real property tax rates	Changes to the county's income tax rate, or other county tax rates	Steps or raises for county employees	Cost of living allowances (COLA) for county employees	K-12 operating funding provided in addition to required funding
ALLEGANY	\$91.8	↑ 1.6%				2%	
ANNE ARUNDEL	\$1,696.1	↑ 6.7%	+\$0.033	+0.31% income	3% merit	2% ⁱ	\$41.7 million
BALTIMORE CITY	\$1,917.3	↑ 3.2%		+transfer/recordation tax surcharges ^l	labor-negotiated raises ⁱⁱⁱ	2%	\$3.28 million ^{iv}
BALTIMORE COUNTY	\$2,153.7	↑ 4.84%		+0.37% income +1.5% hotel/motel +8% new cell phone +1% new PEG fee -7%/\$20 rent repeal mobile homes		2% ^v	\$33.9 million
CALVERT	\$312.9	↑ 5.2%			2% step ^{vi}	2.05%	\$3.89 million
CAROLINE	\$53.8	↑ 9.6%			3% or \$ 2,000 ^{vii}		\$400,000
CARROLL	\$418.8	↑ 1.8%			1% increment	2%	\$5.72 million
CECIL	\$202.8	↑ 3.8%			2.3% step ^{viii}	1% ^{ix}	\$3.00 million
CHARLES	\$425.1	↑ 5.10%			merit increases ^x	1%	\$8.0 million
DORCHESTER	\$56.1	↑ 2.53%		+0.58% income	2.5% ^{xi}		\$500,000
FREDERICK	\$637.7	↑ 4.78%			3.5% merit ^{xii}		\$7.6 million
GARRETT	\$78.5	↑ 2.37%	+\$0.0661	+2% hotel/motel ^{xiii}	-	2%	
HARFORD	\$595.4	↑ 4.15%			\$2,000 merit ^{xiv}		\$10.7 million
HOWARD	\$1,163.2	↑ 2.0%		+\$0.06 fire/rescue tax -mobile home tax repeal	Steps	2% ^{xv}	\$7.4 million
KENT	\$50.8	↑ 2.9%		+0.35% income	2% average	1%	\$1.10 million
MONTGOMERY	\$2,999.0 ^{xvi}	↑ 2.2%	-\$0.0028 ^{xvii}		service increments ^{xviii}	general wage adjustments	\$8.6 million
PRINCE GEORGE'S	\$2,325.8	↑ 3%			3.5% merit ^{xix}	2% general wage adjustments	\$18.8 million
QUEEN ANNE'S	\$144.4	↑ 4.47%			3% merit	1%	\$1.48 million
ST. MARY'S	\$253.1	↑ 10%		+0.17% income	2.5% merit ^{xx}	1%	\$3.09 million
SOMERSET	\$36.5	↑ 6.46%			2.5% steps	-	
TALBOT	\$92.4	↑ 0.314%	+ \$0.0311		step increases ^{xxi}	1%	\$1.31 million
WASHINGTON	\$233.8	↑ 1.80%		+0.4% income	2.5% step ^{xxii}		\$24,199
WICOMICO	\$148.4	↓ 1.7%	-\$0.008 ^{xxiii}		2% ^{xxiv}		\$938,000
WORCESTER	\$201.3	↑ 5.9%	+\$0.01	+0.5% income	2.5% step ^{xxv}	2%	\$2.5 million



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ii Baltimore City added a 40% surcharge on the total amount of transfer tax collected and a 15% on the total amount of recording tax collected for values higher than \$1M.

Statewide Context



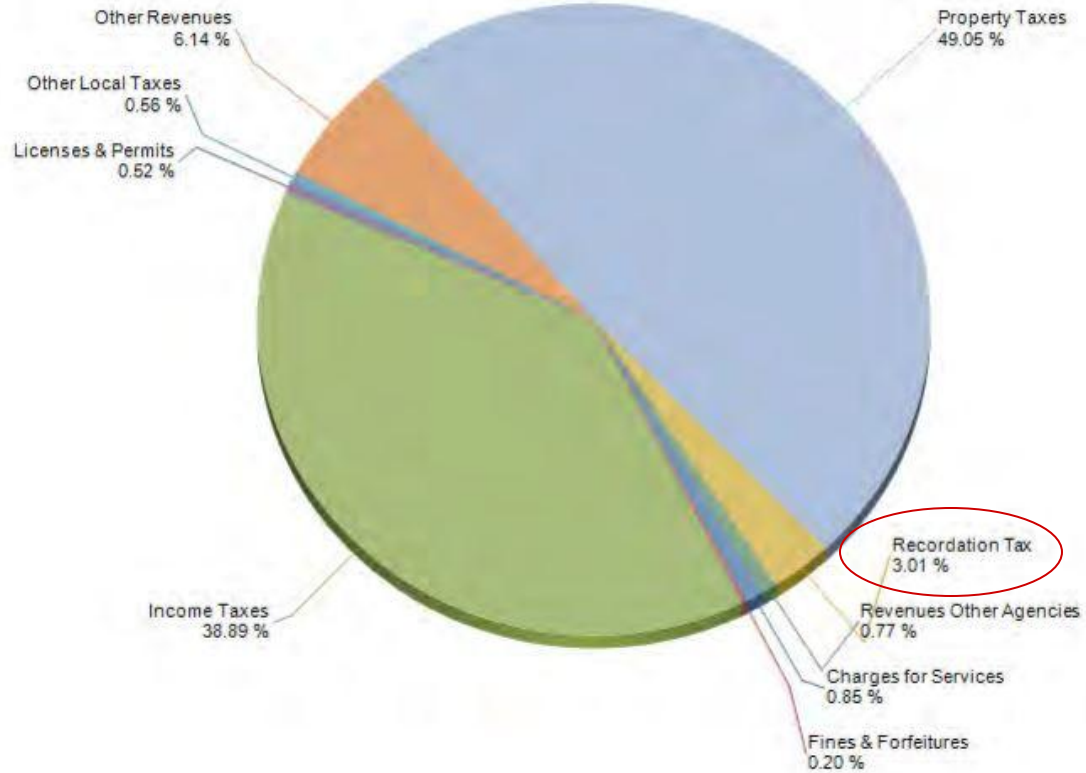
- Frederick County
 - Raised recordation tax in FY21
- Montgomery County
 - Raised recordation tax in FY19
 - Proposed property tax increase in FY21
- Anne Arundel County
 - Raised property tax in FY20
 - Raised income tax in FY20
- Baltimore County
 - Raised income tax in FY20
 - Raised hotel/motel tax in FY20
 - Cell phone tax in FY20
 - New PEG fee in FY20
- Baltimore City
 - Raised transfer tax in FY20
 - Raised recordation tax in FY20

Neighboring jurisdictions have increased their General Fund over the last few years through income taxes, property taxes, and recordation taxes.

Howard County has not raised additional revenue for its General Fund in a decade.

Howard County General Fund Revenue

How the Budget is Funded





Recordation Tax - Progressive Structure

Brackets	Recordation Rate	Effective Recordation Rate
\$0 - \$250,000	\$2 on each \$500	\$2.00
\$250,001 to \$500,000	\$5 on each \$500	\$2.00 - \$3.50
\$500,001 to \$1,000,000	\$8 on each \$500	\$3.50 - \$5.75
\$1,000,001 and above	\$11 on each \$500	\$5.75 - \$11.00

- ← Tax cut from current rate; lowest rate in the state
- ← Rate for median sale remains one of the lowest in MD (6 jurisdictions)
- ← In-line w/ the majority of MD counties (15 jurisdictions)
- ← Highest rate in the state for million-dollar properties & land development transactions (2 jurisdictions)



Recordation Tax - Progressive Structure

- Progressive structures have been implemented successfully on real estate transactions in at least 6 states and in many local jurisdictions.
- In Maryland, Montgomery County and Baltimore City have implemented progressive structures for their recordation tax rates in recent years.
- Asking those in the top income brackets to chip in more to sustain and expand the services that all Howard County residents need.
- Our current recordation rate is a flat, regressive tax rate. Individuals in lower tax brackets are contributing a higher percentage of their wealth & income under a flat tax.
- This structure reduces the tax burden on the lowest bracket and asks those at the top to pay a little more.



2019 Snapshot of Real Estate Transactions

- Roughly 5,000 residential units were sold in 2019
 - 10% were in the \$0 - \$250,000 range
 - 52% were in the \$250,001 - \$500,000 range
 - 34% were in the \$500,001 - \$1,000,000 range
 - 4% were in the \$1,000,001+ range
- 20% of residential sales were for \$300,000 or less and would pay a lower effective rate
- Roughly 130 commercial properties were sold in 2019
 - 13% were in the \$0 - \$250,000 range
 - 18% were in the \$250,001 - \$500,000 range
 - 20% were in the \$500,001 - \$1,000,000 range
 - 49% were in the \$1,000,001+ range



Revenue Estimates

Original Revenue Estimate based on CY2019 data for residential and commercial sales.

- Initial estimate showed \$21 million in additional revenue, after accounting for a 3-4 month loss.
- This estimate was used for the FY21 budget projections.

Revised Revenue Estimate for FY19 from the Auditor's office:

- Revised estimate shows \$26.9 million in increased revenue over FY19.
- Assuming 3.5 months of revenue loss leaves an **increase of \$19 million** in the FY21 budget.

FY 2021 Estimated Recordation Tax
Based Upon FY2019 Actual Recordation Tax Collected

	Actual	Audit Estimates	
Document Type	Finance FY2019	\$6 / \$500 Executive Proposed	Proposed by CR85-2020
Deeds	\$ 9,278,123	\$ 22,265,345	\$ 19,556,910
Deed Simple	6,990,255	16,758,043	14,080,773
Deeds of Trust	4,029,798	9,667,342	12,432,821
Mortgage – Refinance	606,283	1,451,825	1,585,960
Other	211,208	498,112	320,995
Grand Total	\$ 21,115,665	\$ 50,640,668	\$ 47,977,459
FY 2021 Revenue Assumption:			
FY19 less 3.5 Months	\$ 14,956,930	\$ 35,870,473	\$ 33,984,033

Example 1: Starter Home

- First-time homebuyer is purchasing a \$275,000 townhome in Columbia.
- **Current** recordation tax total: \$1,375
- **Proposed** recordation tax total: \$1,250
- The **effective** recordation tax rate for this sale is \$2.27.



Example 2: Median Home Sale

- The median Howard County homebuyer purchased a \$436,000 home in 2019.
- **Current** recordation tax total: \$2,180
- **Proposed** recordation tax total: \$2,860
- The **effective** recordation tax rate for this sale is \$3.28.



Example 3: Million-dollar Home

- Million-dollar home for \$1,500,000.
- **Current** recordation tax total: \$7,500
- **Proposed** recordation tax total: \$22,500
- The **effective** recordation tax rate for this sale is \$7.50.



Example 4: Home Equity Loan

- Pulling out a home equity loan for \$75,000.
- **Current** recordation tax total: \$375
- **Proposed** recordation tax total: \$300
- The **effective** recordation tax rate for this sale is \$2.00.



Example 5: Small Business

- Small business purchasing property for their business for \$650,000.
- **Current** recordation tax total: \$3,250
- **Proposed** recordation tax total: \$5,900
- The **effective** recordation tax rate for this sale is \$4.54.



Example 6: Large Development Parcel

- Large piece of land sold in 2019 for residential development for \$44,000,000.
- **Current** recordation tax total: \$220,000
- **Proposed** recordation tax total: \$957,000
- The **effective** recordation tax rate for this sale is \$10.88.





Comparison of Examples

Example	Price	Current Recordation Tax	Proposed Recordation Tax	Effective Rate
Starter home	\$275,000	\$1,375	\$1,250	\$2.27 per \$500
2019 Median Home Sale	\$436,000	\$2,180	\$2,860	\$3.28 per \$500
Million-dollar home	\$1,500,000	\$7,500	\$22,500	\$7.50 per \$500
Home Equity Loan	\$75,000	\$375	\$300	\$2.00 per \$500
Refinancing Existing Principal	--	\$0	\$0	\$0
Small Business Property	\$650,000	\$3,250	\$5,900	\$4.54 per \$500
Large Development Parcel	\$44,000,000	\$220,000	\$957,900	\$10.88 per \$500



Takeaways

- Property purchases under \$300k will receive a tax cut. This accounts for roughly 20% of 2019 residential sales in Howard County.
- The majority of additional revenue comes from properties sold above \$1 million.
- Standard home refinancing is **exempt**.
- Home equity loans are more accessible to Howard County residents because of the reduced rate.
- This makes first-time homeownership more accessible, which is a fundamental building block to building intergenerational wealth.
- County services will continue to be supported in FY21, providing important funding for our school system and other essential departments.
- This proposal increases funding to the General Fund on an ongoing basis.



Questions?