

Why Are Montgomery County's Financial Resources Strained?

By Walter E. Bader

Ride-On, social programs, and welfare are easy targets for criticism by the middle class, but they distract us from the real culprits by creating class conflict. Criticize these programs if you want, but be fair.

Ride-On, like Metro, is a means of transportation for many people; from kids to seniors, business people, low-income people who don't own cars, and tourists who put their money in the fare box. The taxpayer cost of Ride-On is far less than the taxpayer cost for roads for those who drive cars. Yes, we all see nearly empty busses, but how many large cars do you see driving down the public highways with only a driver? Transportation needs to be balanced between the private and public. It has been that way in urban and suburban areas for many decades. Besides, mass transit reduces traffic congestion to a degree.

There is another form of welfare about which neither the elite nor the politicians want the middle class to know. Take, for instance, benefits that the \$9 Billion Marriott Corporation is receiving, i.e., about \$3 million in a tax-supported conditional loan and tax credits.

Then there is the Discovery Channel deal that consisted of about \$707,000 in a conditional grant and tax credits. In addition, Discovery got SWAT officers assigned to the area around their headquarters so their visitors and employees would feel secure.

But even this corporate welfare pales in comparison to the gifts taxpayers provide developers and development related businesses.

It would appear that the rapid increase of residential development that results in new real estate taxes would increase County revenues. It does, but the problem is that the revenues fall short of the cost of providing services these new homes require.

The most immediate and obvious effect of residential development is traffic congestion. Those who have lived in the County for ten or more years know that it now takes them considerably longer to go from one place to another. Those who work normal business hours experience the worst of increased traffic congestion.

Traffic is only part of the problem. It is only a symptom of irrationally allowing over-development prior to the financing and building of the infrastructure necessary to accommodate more people and their cars.

Another sign of residential development is the portable classrooms situated outside of many schools. Also apparent is higher real estate taxes that are the result of higher assessments.

Housing costs in Montgomery County are considerably higher than in most other Maryland counties, with the median cost of a new, detached single family home being in excess of \$436,458.¹

¹ Montgomery County Department of Park and Planning, Research and Technology Division (2001 data.)

Higher housing costs are offset by Montgomery County's relatively low real estate tax rate. The County's base tax rate of \$ 0.75 per \$100 assessed value compares with the average of \$1.02 for the other 22 counties and Baltimore City.²

Montgomery County's FY 03 tax-supported budget is \$2.6 Billion.³ On the revenue (income) side, 35% (\$911,900,000) comes from property tax while 32% (\$827,300,000) is funded by income taxes.⁴

On the expenditure side of the equation, about 54% (\$1.36 Billion) goes to fund Montgomery County Public Schools. This is equivalent 100% of the property tax, plus 54% of the income tax just to fund public schools. (This does not include Montgomery College.)

Of the remaining 47% of tax-supported revenues, 5.7% goes to Montgomery College, 2.9% to the Maryland National Capital Park and Planning Commission, and 2.5% goes to reserves. That leaves 35% (\$902,800,000) for the County Government.⁵

County Government includes police, fire, corrections, the sheriff's office, roads, transportation, storm water management, and most other services that directly impact people.

The cost of development is high.⁶ For example: Assume that a 150 acre farm is bought by a developer for \$3 Million and converted into 280 single family homes with an average price of \$420,000. Let's further assume that the average total family income for each homeowner in this new neighborhood is about \$120,000.⁷ After normal deductions, each family will pay about \$2,251 in local income tax plus about \$4,500 in real estate taxes per year.⁸ (This does not include first year transfer and recordation taxes.)

Therefore, the average family in the new development will pay \$6,751 in combined income and real estate taxes to Montgomery County. For 280 new homes, Montgomery County receives \$1,890,280 in new revenue plus first year transfer and recordation taxes.

Now, let's further assume that the average family has only one child of school age in public schools. That education costs about \$9,600 per child or \$2,688,000 total for the new neighborhood. The increase in cost to the County for education alone is, therefore, \$797,720.⁹ Add to this the cost of general government to pay for roads needed to accommodate increased traffic, police and fire protection, plus all other County services and the fiscal impact is considerable.

² Maryland Department of Assessments and Taxation.

³ The total estimated FY 03 budget is \$3.06 Billion.

⁴ Approved FY 03 Budget, Montgomery County, MD.

⁵ *Id.*

⁶ It is not my intent to imply that all development is bad. "Smart Growth", a Maryland program, is intended, *inter alia*, to support existing communities by targeting resources to support development in areas where infrastructure exists and to save taxpayers from the high cost of building infrastructure to serve development.

⁷ Assumes both parents work. One has a retirement plan, and employer-sponsored medical insurance. The other spouse participates in a 401(a) plan.

⁸ Local tax is Montgomery County piggyback tax at the rate of .0295.

⁹ Per household cost of education in excess of household income and property tax revenue is \$2,849.

Had the County bought the farm for \$3 Million and given it to a farmer the long-term savings is apparent.¹⁰ There would be no new impact on services, there would be less traffic, there would be more open land, and the farmer would pay taxes.

So, the developer made money on the land, a residential builder made money on the houses, and the county coffers dwindled. Moreover, many of these developers do not live in Montgomery County and employ a lot of workers who cannot afford to live here. Obviously, people who don't live in the County don't pay taxes to the County. (When developers and builders want to make a showing before the County Council, they sometimes will bring their non-resident workers to make a showing of support.)

This new fiscal burden has to be made up from somewhere. So, how is it done? One way is to increase revenue from the real estate, income, and real property taxes, but the County still falls short. User fees are increased and other cost-saving measures are taken. A popular way to cut costs in order to balance the budget is to reduce payroll costs. Because government provides services rather than products, payroll costs are naturally the single largest County expenditure

Payroll expenses are reduced in several ways. One is to claim poverty during collective bargaining and interest arbitration. Another is to try to reduce benefits and increase employee contributions to health benefit premiums through bargaining and arbitration.

Reducing the size of the workforce lowers payroll costs, but this requires that fewer employees perform more work for less pay.

Reducing payroll is popular with politicians and the public who has been duped into believing that it is "high wages" for government workers that are at the root of the evil they see in the form of taxes. Developers and residential builders are not even on the radar of the average County resident or employee. Moreover, many (if not most) believe that new residential development increases the tax base. As demonstrated, this is not the case.

It should be stated that although commercial taxes in Montgomery County are relatively low, commercial development generally adds to the tax base and is, therefore, beneficial. There is no public education cost to commercial development and it requires very few additional public services.

Why, if new residential development and construction is fiscally adverse, does it occur? The answer is the political.

The politicians' answer to this question is simple: There is demand for housing and if we encourage residential development, they maintain, business will follow.¹¹ Eventually, they conclude, the local economy will be good and the tax base will grow. This is an excellent argument for a city such as Rockville or Gaithersburg, but a faulty one for the County. Gaithersburg and Rockville collect local taxes but neither fund nor

¹⁰ There is a Maryland program that pays farmers in designated areas not to develop their land provided certain conditions are met. In addition, there are County programs.

¹¹ See "Future Housing Supply and Demand Analysis for the Greater Washington Area", a report prepared for the building industry by John McClain and Stephen S. Fuller, PhD of The Center for Regional Analysis, School of Public Policy, George Mason University (November 2002.)

provide public education and some other services. These local governments do not contribute revenue toward to that huge cost, but their resident taxpayers do in the form of County taxes.

Some politicians may support an "impact tax" that developers must pay on new development, but that tax won't pay for but a few miles of new roads or improvements. It exists more for the purpose of silencing the critics than to make any significant impact on the high cost of development. Moreover, this cost is passed on to the homebuyer resulting in even higher housing prices.

The real source of the problem is political contributions. Developers and related industries contribute large sums to politicians such as Doug Duncan.

One public awareness group, Neighbors For A Better Montgomery, has reported that through December 31, 2002, Doug Duncan had collected \$769,928 from development-related businesses and individuals. That equates to 56% of his total campaign receipts through the end of last year.

I don't think the voters are dumb; rather most simply don't have time to research what is going on. The media, particularly local newspapers, generate a lot of their advertising revenues from development-related industries and do not seriously report on the issue in a consistent, prominent manner or with the same vigor they report on a DOJ investigation of the police department or an arrest on Good Hope Road.

Duncan is a good politician. He manipulates the media into getting out his message. (The taxpayers pay for his mouthpiece.) In a partly successful coup, he attacked two incumbent council members who were running for reelection last year. The council members, Phil Andrews and Blair Ewing were targeted because they opposed over-development. Mr. Andrews won, but Mr. Ewing was narrowly defeated.

How did Duncan do it? After promoting over development for nearly eight years, and the traffic congestion it brought, Duncan ran for reelection on a platform called "End Gridlock." In effect, Duncan created a mess, and then sought a third term on the promise that he would cleanup the mess!

How does he plan to clean up the mess? The most costly plan Duncan has to "end gridlock" is called "Go Montgomery", a \$1 Billion transportation plan to be implemented over ten years. He wants to create a dedicated transportation account that will be funded by a three-cent increase in the property tax, an increase in the State gas tax and a local vehicle registration fee, plus other sources, including the impact tax.

Clearly, the development interests, not employee greed, have diminished the quality of life in Montgomery County. The County has assumed the costs associated with this development and is now balancing its budget on the backs of taxpayers and employees while making it difficult for County employees to own a single-family home with a little land in a nice neighborhood.

Ultimately, after Duncan is gone, this will surely lead to another taxpayer revolt, employee compensation will be again be blamed, and the budget will be balanced. As it becomes harder to attract quality candidates because of pay and benefits, the quality of police officers, firefighters, teachers, and other essential employees will diminish.

Surely, when the day comes that the majority of police officers and other career public service employees are, through economics, either driven from the community they serve, or forced to live in undesirable housing while progressing through their careers, the level of dedication and commitment to that community will diminish.

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