



## Takoma Park City Council Meeting – December 5, 2018 Agenda Item 9

### **Work Session**

Update on Process to Review Commercial Real Property Tax

### **Recommended Council Action**

Discuss options and provide direction

### **Context with Key Issues**

On April 25, 2018 the Council adopted Ordinance 2018-14 removing the assessment of inventory ("Inventory Tax") as part of the Personal Property Tax paid by businesses in Takoma Park. This action, effective July 1, 2019, was taken to address identified inequities in the application and enforcement of the Inventory Tax and the competitive disadvantage the City faced in attracting businesses to the community. The Council acknowledged that this decision would result in lost tax revenue, estimated at \$320,000 per year, and committed to identifying ways to fill the funding gap during the upcoming budget process.

Real property in Takoma Park, except for railroad and utility property, is currently taxed at the same rate regardless of how the property is used. State law does however, allow municipalities to impose a different property tax on identified classes or subclasses of property. Factors to be considered in the assessment of the higher tax rate is the rationality of the classification and the availability of the data required to apply the different rate on an annual basis. The tax must be uniformly applied and it must be based on the property's actual value.

The following is a summary of the options that have been proposed by the Council, City staff, and members of the business community:

- Assessment of a real property tax surcharge on all properties identified by the State of Maryland (SDAT) as having a "COMMERCIAL" use. This category does not include apartments or multifamily buildings. The higher tax rate could be applied to either the assessed value of the land, the building, or the total assessed value of the property (land and improvements). Approximately 144 properties would be impacted using this criterion.
- Assessment of a real property tax surcharge on all properties identified by the State of Maryland (SDAT) as having a "RETAIL" use (a subclass of the larger Commercial designation). As with the earlier scenario, the higher tax rate could be applied to either the assessed value of the land value, the building, or the total assessed value of the property (land and improvements). Approximately 76 properties would be impacted using this criterion.
- Increase in the rate used to calculate real property taxes for all properties, regardless of their classification. Under this assessment, the rate would be applied to all residential and commercial properties.
- Assessment of different tax rates based on the assessed value of the property. For example, a tax rate could be assessed that increases as the value of the property increases. This value

based classification is in place in Washington DC. Additional research would be required to determine its viability as there does not appear to be any example of this approach being used in Maryland.

Suggestions to apply a higher or different tax rate based on the occupancy status of the building or the status of the ownership of the property have been explored but have been found to violate the legal requirement that property taxes be uniformly applied within each class or sub-class of the property. This includes the application of a different real property tax rate on properties that are occupied in whole or in part by national or regional franchises; properties that are owned by non-residents, national firms, or entities with more than one commercial property, or commercial and residential properties that are owned by the same Takoma Park residents. These options are not viable and should not be considered.

Feedback from property owners to date has raised concerns about an increased tax on commercial property. Some property owners have leases in place which will pass through the increase to tenants, but expressed concern about the burden on tenants. Other property owners do not currently pass taxes through to tenants and expect an impact on themselves. Businesses in the Takoma Langley Crossroads CDA are already anticipating business disruptions due to the Purple Line construction in the next few years. In addition, the Takoma-Langley CDA and Old Takoma Business Association (OTBA) already have member fees that businesses and property owners pay. While OTBA membership fees are optional, an increased commercial real property tax would be a disincentive for redevelopment, according to some owners.

Other possibilities for closing the projected revenue gap may be considered.

- Several large tax exempt properties such as Washington Adventist Hospital and John Nevins Andrews School will be required to begin to pay real property taxes in the near future once the properties have been vacated and their tax exempt status is lost. New redevelopment in the City would also increase the real property tax revenue by increasing the assessed value of improved property.
- A special taxing district or special assessment area (for example, an arts district or a business revitalization district or public safety taxing district) could be established where all properties located within the designated district or assessment area would pay a special assessment or tax rate.
- And, while the revenue stream would admittedly be limited, the Council could require business to be licensed. An earlier business license requirement established by the Council, the Commercial Occupancy License, expired on June 30, 2007.

Further discussion of Council's options is tentatively scheduled for January 2019.

### **Council Priority**

A Livable Community for All; Fiscally Sustainable Government; Community Development for an Improved & Equitable Quality of Life

### **Environmental Considerations**

Maintaining vibrant commercial areas that provide for many of residents' needs reduces the environmental impact of driving longer distances to meet retail and service demands. Many businesses in Takoma Park serve the local community, allowing residents to walk, bike, bus or drive

short distances to patronize those businesses. Employees who can work locally also reduce the environmental impact of transportation. Increasing the cost of doing business in the area may push those businesses out, requiring residents and employees to travel farther to get the same needs met.

### **Fiscal Considerations**

Council is seeking a way to offset the approximately \$320,000 gap in City revenue due to the elimination the inventory portion of the personal property tax on businesses. An increase in the commercial real property tax would increase City revenues beginning in FY20.

The effect of the proposed commercial real property tax rate and its long term impact on the City's economic development efforts is more difficult to predict. Some businesses will relocate due to the increased tax burden. Commercial property owners may delay redevelopment plans which could delay an increase in more tax revenue in the future. New businesses may not open due to the higher property tax rates they would be required to pay in Takoma Park.

### **Racial Equity Considerations**

An increase in commercial real property tax will be passed through to business tenants, either immediately or when the leases are renegotiated. In Takoma Park, 90 percent of businesses are considered small businesses, with fewer than 19 employees. Thirty percent of businesses are minority-owned. Many small, locally-owned businesses in Takoma Park, including those located in the largest commercial properties at the Takoma-Langley Crossroads and the Ethan Allen Gateway, are owned by and serve new immigrants and people of color, as business can provide an economic opportunity for disadvantaged communities. These businesses, such as Angkor Market, Caribbean Market, two Halal markets, Malik Grocers, Mega Mart, Sheger Market, and additional retail and service businesses also serve minority populations. In addition, owners of smaller commercial properties come from diverse backgrounds as property ownership provides people with a means to build wealth.

### **Attachments and Links**

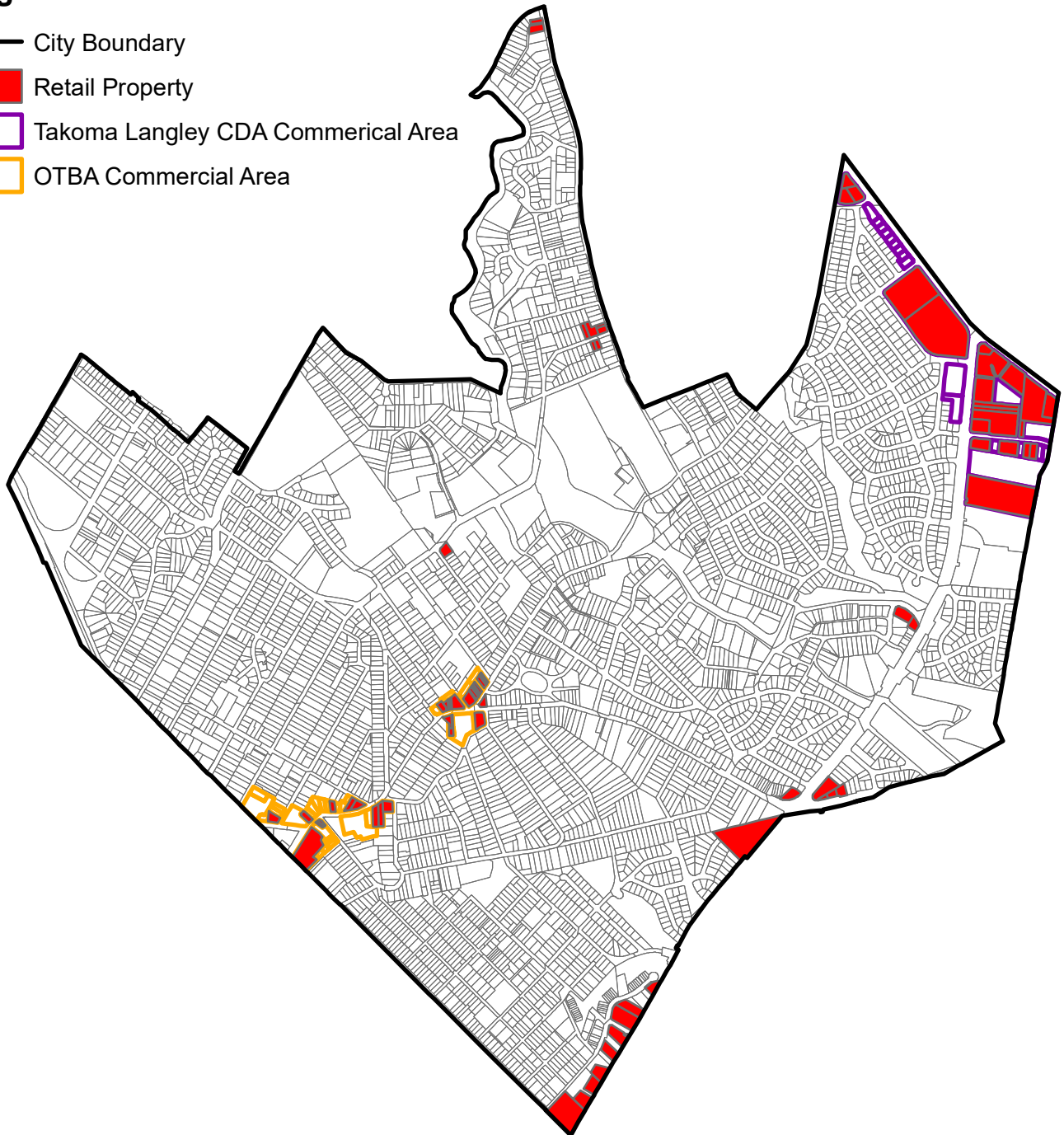
- City of Takoma Park Web Site: [Commercial Real Property Tax](#)
- Retail Properties in Takoma Park (Location Map)
- Commercial Properties in Takoma Park (Location Map)
- Ranking of FY19 Real Property Tax Charges by Select Communities

# City of Takoma Park Retail Property



## Legend

- City Boundary
- Retail Property
- Takoma Langlely CDA Commerical Area
- OTBA Commercial Area



0 0.125 0.25 0.5 Miles

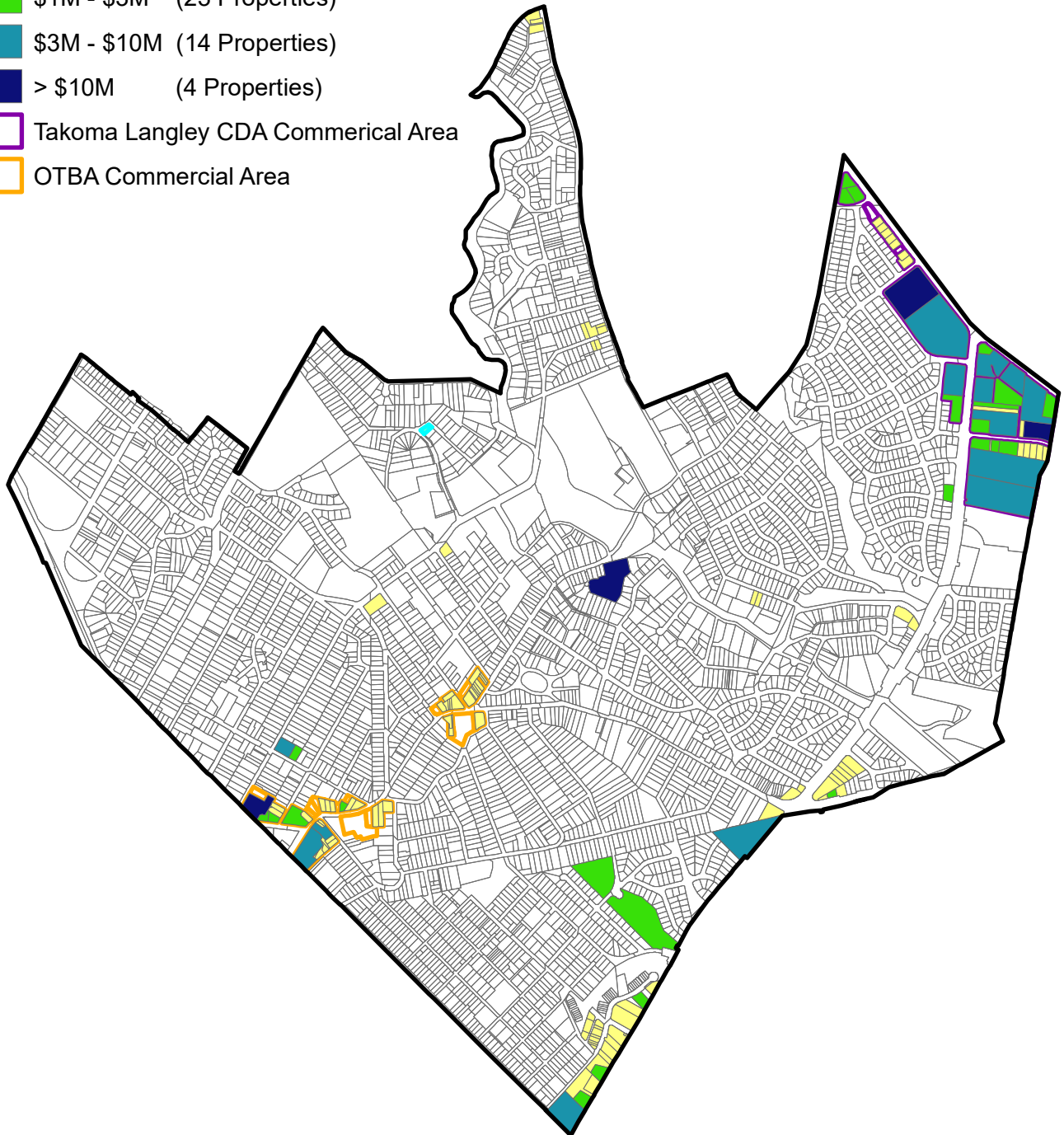
76 of 4457 properties in the  
City of Takoma Park have a retail land use.

Source Data: Maryland State Department of Assessments and Taxation

# City of Takoma Park Commercial Property

## Legend

- City Boundary
- < \$1M (103 Properties)
- \$1M - \$3M (23 Properties)
- \$3M - \$10M (14 Properties)
- > \$10M (4 Properties)
- Takoma Langley CDA Commercial Area
- OTBA Commercial Area



0 0.125 0.25 0.5 Miles  
|-----|-----|-----|

144 of 4457 properties in the  
City of Takoma Park have a commercial land use.

Source Data: Maryland State Department of Assessments and Taxation