



## Takoma Park City Council Meeting – January 16, 2019 Agenda Item 2

### **Work Session**

Discussion of Definition of Commercial Property

### **Recommended Council Action**

Discuss options and provide direction

### **Context with Key Issues**

Real property in Takoma Park, except for railroad and utility property, is currently taxed at the same rate regardless of the land use. State law allows municipalities to impose a different property tax on identified classes or subclasses of property. Factors to consider in the assessment of the tax rate are 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 annual tax rate is set by Council as part of the budget process.

Following a detailed review of legal and practical options, staff recommends either of the following options:

- No change. Continuation of the existing classification system. In this system, the base property tax rate would be applied to all residential and commercial properties, with a separate rate for railroad and utility property.
- Addition of a Commercial and Commercial Condominium Category. Addition of a category for all properties identified by the State of Maryland (SDAT) as having a "Commercial" and "Commercial Condominium" use. Remaining categories would be the base category and the category for railroad and utility property. Whether the Council would want to assess a different tax rate for the Commercial and Commercial Condominium category would be a discussion point during the Council's budget deliberations each year.

Consideration of a higher property tax rate than the base rate for commercial real property has been discussed as a way to address the shortfall in property tax revenue resulting from the elimination of the inventory portion of the personal property tax in Takoma Park. Estimates have been that elimination of the inventory tax would reduce the City's revenue by about \$320,000 at current tax rates. Some businesses are saving large amounts of money from not paying the inventory tax, but those savings only affect businesses with inventory and do not necessarily help the owners of commercial real property.

The State Department of Assessment and Taxation has released the 2019 real property tax assessments effective January 1, 2019. The accompanying maps show an increase in assessed value on most commercial properties; some commercial property values in the Takoma Langley Crossroads area rose more than 30 percent.

Factors to consider regarding tax or other revenue for the City:

- Several large tax exempt properties such as Washington Adventist Hospital and John Nevins

Andrews School will likely be taxable in the near future when the properties are vacated and the tax exempt status is eliminated. New redevelopment in the City would also increase the property tax revenue by raising the assessed value of improved property.

- A special taxing district or special assessment area (for example, an arts district, a business revitalization district or public safety district) could be established where all properties located within the designated district would pay a special assessment or tax rate.
- Council could require businesses to be licensed by the City, though it would result in only a modest increase in revenue. An earlier business license requirement established by the Council, the Commercial Occupancy License, expired on June 30, 2007.
- Some jurisdictions assess 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 used in Washington DC; there does not appear to be any example of this approach in use in Maryland.

Property owners have indicated that a higher tax for commercial real property would have an uneven impact on owners and business tenants. Some leases, particularly on the larger properties in the Takoma Langley Crossroads area, are structured to automatically pass a tax increase to tenants. Other property owners do not currently pass taxes through to tenants. Businesses in the Takoma Langley Crossroads CDA are already anticipating business disruptions due to the Purple Line construction in the next few years.

The local business associations have membership fees. In the Takoma-Langley CDA, the mandated fees are levied on business and property owners. The Old Takoma Business Association has optional member fees. The accompanying chart details more information.

### **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 reduces the environmental impact of driving longer distances to meet the retail, service and employment needs of Takoma Park residents.

### **Fiscal Considerations**

Council wishes to consider options to make up approximately \$320,000 due to the elimination of the inventory portion of the personal property tax. An increase in the commercial real property tax would increase City revenues beginning in FY20. Increasing the cost of doing business may chill the business environment. Businesses that are negatively affected may relocate or close; commercial property owners may delay redevelopment plans; new businesses may not choose Takoma Park.

### **Racial Equity Considerations**

In Takoma Park, 90 percent of businesses are considered small businesses, with fewer than 19 employees; 30 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 and a means to build wealth. The new assessments show a significant increase in the commercial properties that house many minority-owned business serving communities of people of color.

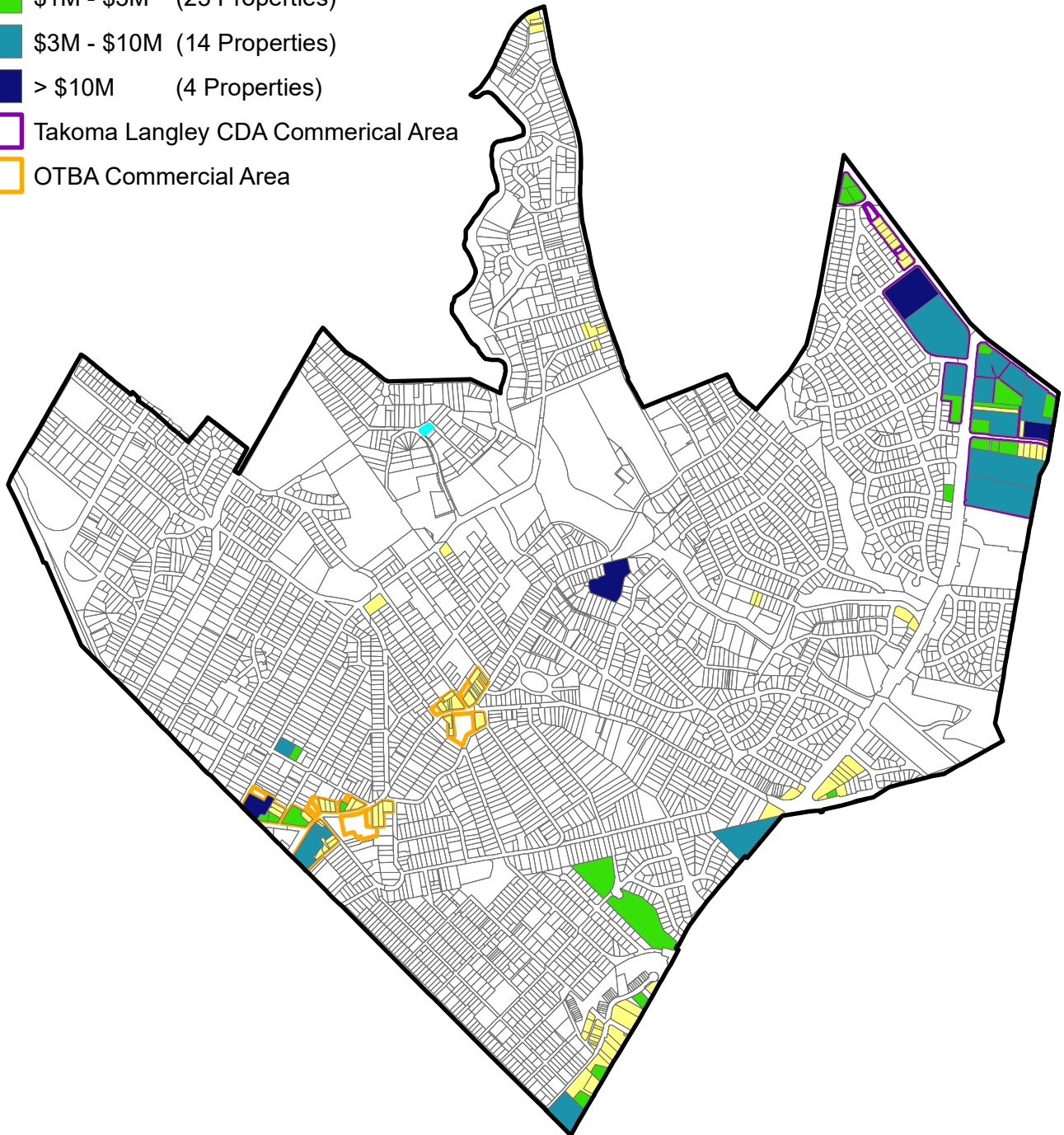
**Attachments and Links**

- City of Takoma Park Web Site: [Commercial Real Property Tax](#)
- Commercial Properties in Takoma Park (Location Map)
- Ranking of FY19 Real Property Tax Charges by Select Communities
- [Map of 2019 Assessed Property Values in Takoma Park](#)
- [Map of Change in Assessed Values 2018-2019](#)

# 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

**RANKING OF FY19 REAL PROPERTY TAX CHARGES BY SELECT COMMUNITIES**

Rank	Jurisdiction	County	Assessed Value	State Tax Rate	County Tax Rate	Local Tax Rate	State Tax	County Tax	Local Tax	Total Property Tax
1	Mt. Rainier	Prince Georges	\$ 500,000	0.1120	0.8200	0.8300	\$ 560	\$ 4,100	\$ 4,150	\$ 8,810
2	Bladensburg	Prince Georges	\$ 500,000	0.1120	0.8391	0.7400	\$ 560	\$ 4,196	\$ 3,700	\$ 8,456
3	District of Columbia - commercial properties with assessed value less than \$3 million	DC	\$ 500,000	1.6500			\$ 8,250			\$ 8,250
<b>4</b>	<b>Takoma Park*</b>	<b>Montgomery</b>	<b>\$ 500,000</b>	<b>0.1120</b>	<b>0.9927</b>	<b>0.5291</b>	<b>\$ 560</b>	<b>\$ 4,964</b>	<b>\$ 2,646</b>	<b>\$ 8,169</b>
5	Hyattsville	Prince Georges	\$ 500,000	0.1120	0.8170	0.6300	\$ 560	\$ 4,085	\$ 3,150	\$ 7,795
6	College Park	Prince Georges	\$ 500,000	0.1120	0.9250	0.3350	\$ 560	\$ 4,625	\$ 1,675	\$ 6,860
7	Rockville	Montgomery	\$ 500,000	0.1120	0.8987	0.2920	\$ 560	\$ 4,494	\$ 1,460	\$ 6,514
8	Gaithersburg	Montgomery	\$ 500,000	0.1120	0.8987	0.2620	\$ 560	\$ 4,494	\$ 1,310	\$ 6,364
9	Kensington	Montgomery	\$ 500,000	0.1120	0.9927	0.1360	\$ 560	\$ 4,964	\$ 680	\$ 6,204
10	Silver Spring -- Downtown District	Montgomery	\$ 500,000	0.1120	1.0167	0.0000	\$ 560	\$ 5,084	\$ -	\$ 5,644
11	Langley Park	Prince Georges	\$ 500,000	0.1120	1.0146	0.0000	\$ 560	\$ 5,073	\$ -	\$ 5,633
12	Bethesda	Montgomery	\$ 500,000	0.1120	1.0047	0.0000	\$ 560	\$ 5,024	\$ -	\$ 5,584
13	Silver Spring -- White Oak	Montgomery	\$ 500,000	0.1120	0.9927	0.0000	\$ 560	\$ 4,964	\$ -	\$ 5,524
13	Long Branch	Montgomery	\$ 500,000	0.1120	0.9927	0.0000	\$ 560	\$ 4,964	\$ -	\$ 5,524

*Business and commercial property owners located within the boundaries of the Takoma Langley Crossroads CDA district pay an additional mandatory fee for services.										
	District of Columbia - blighted properties	DC	\$ 500,000	10.0000			\$ 50,000			\$ 50,000
	District of Columbia - vacant properties	DC	\$ 500,000	5.0000			\$ 25,000			\$ 25,000
	District of Columbia - commercial properties with assessed value greater than \$10 million**	DC	\$ 500,000	1.8900			\$ 9,450			\$ 9,450
	District of Columbia - commercial properties with assessed value between \$5million and \$10 million**	DC	\$ 500,000	1.7700			\$ 8,850			\$ 8,850

\*\*The tax listed is merely illustrative, as a \$500,000 property would not be taxed at the higher, assessment-based rate. The tax rate for properties assessed at the higher rates is computed by a split

**2019 Business and Commercial Property Owners Rates  
Takoma/Langley CDA and Old Takoma Business Association**

<b>TLC-CDA</b>	<b>Fees</b>	<b>OTBA</b>	<b>Fees</b>
Mandatory fees are calculated by type of commercial business and square footage. In addition, a consumer price index adjustment for the DC area is added (2018 it was +1.8%)		Optional member fees are determined by type of business and the number of employees	
		Start-ups, home-based businesses, local musicians and artists, independent trade contractors	\$65
Retail	\$.50/sft	Small business with 1-5 employees, individual member of a group practice, non-profits	\$265
Professional	\$.25/sqft	Business with 6-10 employees	\$475
Hotel/Motel/Theater	\$.18/sqft	Business with 11- 25 employees	\$575
Property owner	\$.13/sqft	Business with more than 25 employees or group practice (law firm, medical office, real estate office),commercial property owner (Republic)	\$775
<b>Examples:</b>			
Sardi's Restaurant	\$1,832	Republic Restaurant	\$775
Elegante (clothing)	\$2,138	Takoma Bicycle	\$265
Guevara and Portio Law Office	\$162	Willow Street Yoga	\$575
Sardana (property and business owner) Property \$590; Malik Grocer \$1,203	\$1,798	House of Musical Traditions (property and business owner)	\$265