

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE
Revised

House Bill 272

(Delegate Frush, *et al.*)

Ways and Means

Budget and Taxation

Municipal Corporations - Special Taxing Districts - Public Safety

This bill authorizes municipal corporations in Maryland to create special taxing districts within their corporate limits for the purpose of financing capital and operating costs to enhance police, fire protection, and rescue services.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: None.

Local Effect: Municipal revenues would increase due to taxes levied on real and personal property in the special taxing district. Municipal expenditures would increase to finance operational and capital improvement costs to enhance police, fire protection, and rescue services in the special taxing district.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Municipal corporations are authorized to create special taxing districts to finance infrastructure improvements such as storm drainage systems, public parking facilities, or pedestrian malls and improvement and maintenance of street and area lighting. However, municipal corporations do not have the authority to create special taxing districts for the purpose of enhancing police, fire protection, and rescue services.

Background: There are 156 municipalities in Maryland. Baltimore and Howard counties are the only jurisdictions in Maryland that do not have any municipalities.

Municipal government expenditures in Maryland totaled \$792.1 million in fiscal 2003, with public works and public safety being the two largest expenditures. Public works accounted for 44% of municipal spending in fiscal 2003 and public safety services accounted for 21% of municipal spending. Municipal expenditures for public safety range from a low of 1% of total expenditures for the municipality in St. Mary's County to 37% for municipalities in Anne Arundel County. **Exhibit 1** shows the amount of public safety expenditures in Maryland municipalities for fiscal 2003.

Local Fiscal Effect: Under the bill, municipalities could begin imposing a special tax on all real and personal property beginning on July 1, 2005, to support police, fire protection, and rescue services in the special taxing district. Accordingly, municipal revenues would increase beginning in fiscal 2006 due to special taxes assessed in the taxing districts. Municipal expenditures would increase beginning in fiscal 2006 to finance capital and operating costs of enhanced police, fire protection, and rescue services. Any amount of revenue generated in the special taxing district would depend on the tax rate imposed in the special taxing district and changes in the assessable base of real and personal property in the district.

To the extent that a municipality exercises its authority to create special taxing districts and it performs its own tax billing and collection functions, expenditures would increase; however, any increase in these costs would be offset by the taxes authorized by the bill. Additionally, a county that performs billing functions for real and personal property taxes in the county's municipalities could incur minimal, nonrecurring increases in expenditures to implement new taxes associated with special taxing districts established by municipalities in the jurisdiction; however, these expenditures are assumed to be minimal and could be handled with existing resources.

Since the bill is only enabling legislation, municipalities could opt not to create special taxing districts for enhanced police, fire protection, and rescue services; accordingly, finances in these municipalities would not be affected.

Small Business Effect: Small businesses in special taxing districts would be negatively impacted as their underlying operating costs would increase either through increased property taxes or through higher rents as increased property taxes would be passed on by property owners to small businesses. Small businesses could absorb the higher operational costs or raise prices on their goods and services to cover any additional expenses associated with the special district tax. However, small businesses could be positively impacted as increased police, fire protection, and rescue services could improve the area and attract customers to their businesses.

Additional Information

Prior Introductions: HB 258 of 2004, a similar bill, received a favorable report from the House Ways and Means Committee. The bill passed the full House on second reader, but a third reader vote was not taken.

Cross File: None. However a similar bill, SB 2, has been introduced in the Senate.

Information Source(s): City of Westminster, Montgomery County, Prince George's County, Town of Leonardtown, Department of Legislative Services

Fiscal Note History: First Reader - February 4, 2005
mp/hlb Revised - House Third Reader - March 24, 2005

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Exhibit 1
Municipal Public Safety Expenditures – Fiscal 2003

<u>County</u>	<u>Police Protection</u>	<u>Fire Protection</u>	<u>Other Public Safety</u>	<u>Total Public Safety Expenditures</u>	<u>Total Municipal Expenditures</u>	<u>Public Safety as Percent of Total</u>
Allegany	\$1,041,326	\$139,467	\$0	\$1,180,793	\$14,568,174	8.1%
Anne Arundel	12,447,245	8,428,894	1,139,907	22,016,046	59,245,561	37.2%
Calvert	637,827	49,941	10,689	698,457	7,085,647	9.9%
Caroline	2,420,746	60,638	161,519	2,642,903	10,801,187	24.5%
Carroll	5,509,770	490,524	66,137	6,066,431	40,074,151	15.1%
Cecil	3,758,359	48,675	258,119	4,065,153	21,404,052	19.0%
Charles	885,574	5,800	209,658	1,101,032	9,339,555	11.8%
Dorchester	2,826,757	826,118	220,872	3,873,747	16,198,547	23.9%
Frederick ¹	16,045,199	245,512	1,272,886	17,563,597	79,377,474	22.1%
Garrett	374,412	1,000	7,002	382,414	5,642,182	6.8%
Harford	7,137,266	313,056	111,321	7,561,643	34,156,321	22.1%
Kent	1,390,639	51,723	41,664	1,484,026	8,271,655	17.9%
Montgomery	13,631,522	13,795	5,265,101	18,910,418	125,870,724	15.0%
Prince George's ²	19,313,423	219,637	3,448,762	22,981,822	98,958,642	23.2%
Queen Anne's	530,827	29,700	995	561,522	3,331,595	16.9%
St. Mary's	25,895	1,500	17	27,412	2,047,764	1.3%
Somerset	1,456,084	35,635	20,879	1,512,598	8,553,830	17.7%
Talbot	5,165,865	355,276	267,050	5,788,191	53,448,069	10.8%
Washington	9,771,808	4,251,853	1,164,861	15,188,522	69,612,652	21.8%
Wicomico	6,891,296	4,361,246	1,287,144	12,539,686	35,341,053	35.5%
Worcester	14,702,498	5,264,980	1,105,780	21,073,258	88,758,376	23.7%
Statewide	\$125,964,338	\$25,194,970	\$16,060,363	\$167,219,671	\$792,087,211	21.1%

¹Excludes Emmitsburg.

²Excludes Eagle Harbor, Laurel, and Mount Rainier. No financial information submitted.

Source: *Local Government Finances*, Department of Legislative Services