

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 1470
Ways and Means

(Delegate Frush, *et al.*)

Special Taxing Districts - Residential Property - Prohibition - Property Tax
Credit

This bill prohibits a county from either creating a special taxing district that includes residential property or from expanding an existing special taxing district to include residential property. The bill also requires a county to grant a property tax credit for residential property located within a special taxing district in an amount equal to 100% of the amount of the special taxing district assessment.

A “special taxing district” is a defined geographic area established by a county where special taxes are imposed to finance infrastructure improvements or services not funded through general tax revenue.

The bill takes effect June 1, 2008 and applies to all taxable years beginning after June 30, 2008.

Fiscal Summary

State Effect: None.

Local Effect: Local debt service and operating expenditures could increase to the extent that jurisdictions cannot create new districts or modify existing districts to include residential property. Local property tax revenues would decrease by a significant amount beginning in FY 2009 as a result of granting additional property tax credits. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law: All counties have authority to establish special taxing districts for limited purposes, such as providing drainage improvements or providing street lighting. In addition, the governing bodies of counties that have adopted charter home rule or code home rule also have broad authority under the Express Powers Act to create special taxing districts to carry out most municipal services.

The General Assembly has granted nine counties (Anne Arundel, Calvert, Charles, Garrett, Howard, Prince George's, St. Mary's, Washington, and Wicomico) and Baltimore City broad authority to create special taxing districts and to levy *ad valorem* taxes and issue bonds and other obligations for purposes of financing infrastructure improvements. The types of infrastructure improvements authorized include storm drainage systems, water and sewer systems, roads, lighting, parking, parks and recreational facilities, libraries, schools, transit facilities, and solid waste facilities. In Prince George's County, this authority has been expanded to include levying hotel rental taxes and financing the cost for the construction, renovation, and maintenance of convention, conference, and visitors' centers.

As it applies to financing projects in special taxing districts, the definition of "cost" generally includes the construction, reconstruction, renovation, and all lands, structures, or property acquired or to be acquired by the county. It also includes extensions, enlargements, improvements, necessary services, plans and studies, administrative expenses, and certain finance charges and interest associated with the project.

Background: Special taxing districts finance the services they provide in two ways. In some instances, the special taxing district finances capital improvements through the issuance of bonded debt and the debt is repaid over time with tax revenue collected within the special taxing district. In other cases, the tax revenues collected within a special taxing district are used to pay for operating expenditures and capital improvements on an ongoing basis.

Local Fiscal Effect: Limiting county-created special taxing districts could have a substantial affect on certain counties in the State. Many of the county-created special taxing districts that are considered separate entities have considerable bonded debt and operating expenses. It is assumed that each county would be responsible for repayment of the debt and the payment of ongoing operating expenses of the special taxing districts. Consequently, these expenses could be redirected to the county's general fund and result in significant tax increases on overall taxpayers. **Exhibit 1** details the amount of debt and the annual operating expenditures in certain jurisdictions.

Exhibit 1
County Created Special Tax Districts

<u>County</u>	<u>Debt Outstanding</u>	<u>Annual Operating Expenses</u>	<u>Description</u>
Anne Arundel	\$9,470,000	\$14,739,522	Includes 2 Special Tax Districts, 64 Special Community Benefit Districts, 16 Shore Erosion Control Districts, 11 Waterway Improvement Districts
Baltimore City	106,919,000	–	At least 6 Special Tax Districts
Garrett	23,912,346	7,055,935	11 Separate Sanitary Districts
Howard	159,108,704	111,069,198	Water and Sewer District, Fire District
Prince George's	92,370,000	10,785	4 Special Tax Districts that include residential properties
Total	\$391,780,050	\$132,875,440	

Note: Annual operating expenses excludes payment for debt service and expenditures on capital improvement that was funded through debt.

Source: As reported by the counties

The bill also requires counties to grant a property tax credit in the full amount of the special taxing district assessment on residential property in the taxing district. The actual local revenue loss cannot be reliably estimated, but could be significant, and depends on the number of residential properties located in special taxing districts in each county and each special taxing district assessment. The State Department of Assessments and Taxation has identified 462 areas in the State that could be considered special taxing districts.

As a point of reference, Calvert County reports that there are two special taxing districts in the county that consist entirely of residential properties – Chesapeake Ranch Estates and Drum Point. The special taxing district assessments are \$250 and \$192, respectively. The Montgomery County Comprehensive Annual Financial Report indicates that the county collected approximately \$285.0 million in taxes from its special taxing districts in fiscal 2007.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Montgomery County, Calvert County, Baltimore City, Department of Legislative Services

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