

Department of Legislative Services  
Maryland General Assembly  
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 760  
Budget and Taxation

(Senator Brinkley)

Ways and Means

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Frederick County - Property Tax Setoff

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This bill requires Frederick County, for fiscal 2013, to grant a property tax setoff to its municipalities in an amount at least equal to the amounts granted in the prior year, adjusted for the percentage by which the county property tax rate exceeds the constant yield rate.

The bill takes effect July 1, 2011.

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Fiscal Summary

**State Effect:** None.

**Local Effect:** Frederick County will be required to provide at least \$7.4 million in tax setoffs to its municipalities in FY 2013. This estimate is based on the county's budgeted tax rebate amounts in FY 2011 and the estimated amount in FY 2012. However, the actual impact in FY 2013 will depend on the difference between the actual property tax rate and the constant yield rate. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** None.

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Analysis

**Current Law:** Section 6-305 of the Tax-Property Article requires Frederick County to meet annually with its municipalities to discuss the property tax rate to be set for assessments of property in the municipalities. If it is demonstrated that a municipality performs services or programs in lieu of similar county services and programs, the county

government must impose a county property tax on assessments of property in the municipality at a rate that is less than the general county property tax rate. The lower county property tax rate within a municipality is commonly known as a tax differential. Alternatively, the county government has the option of making a payment to the municipality, which is commonly known as a tax rebate.

Chapter 415 of 2010 required Frederick County, for fiscal 2011, to grant a property tax setoff to its municipalities in an amount at least equal to the tax setoffs granted for fiscal 2009. For fiscal 2012, the property tax setoffs must be at least equal to the amounts granted in the prior year, adjusted for the percentage by which the county property tax rate exceeds the constant yield rate. Chapter 415 did not specify the tax setoff amounts after fiscal 2012.

**Background:** A property tax rate differential or tax rebate enables county governments to compensate municipalities for governmental services or programs that municipalities provide in lieu of similar county services or programs. The major governmental services performed by municipalities that may result in tax setoffs include police protection, highway and street maintenance, sanitation and waste collection, planning and zoning services, and recreation and parks services. Frederick County provides a tax rebate to its municipalities. **Exhibit 1** shows the amount of tax setoffs provided in each county in fiscal 2010.

#### *Constant Yield Tax Rate Provision*

In 1977, the General Assembly passed legislation that requires county governments to hold public hearings regarding proposals to enact a tax rate that exceeds the constant yield rate. The constant yield rate is the rate that, when applied to the current assessable base, yields the same amount of property tax revenues as in the prior year. New construction and annexed land are not included in the calculation of the constant yield rate.

Due to growth in the assessable base, localities may still be able to generate additional property tax revenues while reducing their property tax rates. This may result in an overall property tax increase for homeowners even though the property tax rate has been reduced. In most cases the constant yield rate is usually below the current tax rate. For example, five counties reduced their property tax rates in fiscal 2011; however, in comparison to the constant yield tax rate, every jurisdiction in Maryland, except Charles, Prince George's, and Worcester, had a property tax rate at or above the constant yield rate. The revenue yield from property tax rates above the constant yield rate is estimated at \$105.0 million in fiscal 2011. **Exhibit 2** shows the property tax rate and the constant yield rate for Frederick County and the State's other jurisdictions. **Exhibit 3** shows the estimated revenue yield from property tax rates above the constant yield.

**Local Fiscal Effect:** Frederick County provided tax rebates totaling \$6.6 million in fiscal 2010 to all of its 12 municipalities for police protection, planning and zoning, parks and recreation, and highway services. The tax rebates were determined by calculating a certain factor (called a CAP factor), which is based on the municipal total taxable income, assessable base, and population compared to the county total taxable income, assessable base, and population. The net expenditures for each of the duplicative services were then calculated. For police protection and planning and zoning, the net expenditures for duplicative services were used to calculate the cost of these services per capita for the municipality; however, for highways, cost per mile was used, and for parks and recreation, cost per acre of parkland was used. The county then compared the per capita (or per mile or acre) calculation to the net cost of the service multiplied by the CAP factor. The lesser of the two calculations was the total amount to be distributed among the municipalities, based on each municipality's population. In addition, in fiscal 2010, each municipality's rebate was reduced due to a decrease in State highway user funds. As noted, Chapter 415 of 2010 requires the county to provide tax setoffs to each municipality of at least certain minimum amounts in fiscal 2011 and 2012. The total tax rebate amounts in fiscal 2010 were as follows:

<u>Municipality</u>	<u>Rebate Amount</u>
Brunswick	\$429,312
Burkittsville	953
Emmitsburg	208,740
Frederick	4,395,138
Middletown	301,725
Mount Airy	230,950
Myersville	103,379
New Market	12,079
Rosemont	11,846
Thurmont	458,659
Walkersville	420,097
Woodsboro	28,890
<b>Total</b>	<b>\$6,601,768</b>

The Frederick County fiscal 2011 budget and the proposed fiscal 2012 budget include \$7.4 million for municipal tax rebates, which is \$800,000 more than was provided in fiscal 2010.

Current law requires that in fiscal 2012, the amount of the tax rebate increase from the prior year in an amount equal to the percentage that the county property tax rate exceeds the county's constant yield rate. As a point of reference, the county's fiscal 2011 property tax rate (\$1.064) exceeds its constant yield tax rate (\$1.063) by \$0.001. This

means that the actual property tax rate exceeds the constant yield rate by 0.1%. However, at the present, the county's tax rate and constant yield rate for fiscal 2013 is not known. *For illustrative purposes only*, if it is assumed that the difference between the actual property tax rate and the constant yield rate stays the same, county expenditures and municipal revenues would increase by approximately \$7,400 in fiscal 2013 over the amount provided in fiscal 2012, which is projected to total \$7.4 million.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Frederick County, State Department of Assessments and Taxation, Department of Legislative Services

**Fiscal Note History:** First Reader - March 9, 2011  
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**Exhibit 1**  
**Tax Differentials and Tax Rebates**  
**Fiscal 2010**

<b>County</b>	<b>Tax Differential</b>	<b>Tax Rebate</b>	<b>Total</b>
Allegany	\$1,204,375	\$0	\$1,204,375
Anne Arundel	25,314,437	0	25,314,437
Baltimore City	N/A	N/A	N/A
Baltimore	N/A	N/A	N/A
Calvert	3,704,026	0	3,704,026
Caroline	1,046,937	0	1,046,937
Carroll	0	2,331,479	2,331,479
Cecil	0	813,452	813,452
Charles	913,414	0	913,414
Dorchester	455,679	6,050	461,729
Frederick	0	6,601,768	6,601,768
Garrett	53,045	174,080	227,125
Harford	7,198,028	2,274,714	9,472,742
Howard	N/A	N/A	N/A
Kent	0	185,633	185,633
Montgomery	0	7,482,613	7,482,613
Prince George's	33,605,645	669,671	34,275,316
Queen Anne's	0	0	0
St. Mary's	0	64,425	64,425
Somerset	0	300,000	300,000
Talbot	4,076,993	0	4,076,993
Washington	0	1,988,255	1,988,255
Wicomico	0	0	0
Worcester	0	0	0
<b>Total</b>	<b>\$77,572,577</b>	<b>\$22,892,140</b>	<b>\$100,464,717</b>

N/A: indicates the jurisdiction has no municipalities.  
Source: Department of Legislative Services

**Exhibit 2**  
**Property Tax Rates Exceed Constant Yield Rate in Fiscal 2011**

<b>County</b>	<b>Actual FY 2010</b>	<b>Actual FY 2011</b>	<b>Difference</b>	<b>Constant Yield Rate</b>	<b>Difference</b>	<b>Amount in Excess of Constant Yield Ranking by Highest to Lowest</b>		
Allegany	\$0.983	\$0.983	\$0.000	\$0.942	\$0.041	1.	Baltimore City	0.106
Anne Arundel	0.876	0.880	0.004	0.865	0.015	2.	Kent	0.070
Baltimore City	2.268	2.268	0.000	2.162	0.106	3.	Garrett	0.046
Baltimore	1.100	1.100	0.000	1.063	0.037	4.	Allegany	0.041
Calvert	0.892	0.892	0.000	0.857	0.035	5.	St. Mary's	0.038
Caroline	0.870	0.870	0.000	0.853	0.017	6.	Baltimore	0.037
Carroll	1.048	1.048	0.000	1.013	0.035	7.	Carroll	0.035
Cecil	0.940	0.915	-0.025	0.915	0.000	8.	Calvert	0.035
Charles*	1.026	1.026	0.000	1.042	-0.016	9.	Dorchester	0.026
Dorchester	0.896	0.896	0.000	0.870	0.026	10.	Howard*	0.021
Frederick*	1.064	1.064	0.000	1.063	0.001	11.	Caroline	0.017
Garrett	0.990	0.990	0.000	0.944	0.046	12.	Anne Arundel	0.015
Harford	1.064	1.042	-0.022	1.042	0.000	13.	Talbot	0.012
Howard*	1.150	1.150	0.000	1.128	0.021	14.	Wicomico	0.010
Kent	0.972	1.022	0.050	0.952	0.070	15.	Washington	0.007
Montgomery*	0.916	0.915	-0.001	0.912	0.003	16.	Somerset	0.005
Prince George's*	1.319	1.319	0.000	1.323	-0.004	17.	Montgomery*	0.003
Queen Anne's	0.770	0.767	-0.003	0.767	0.000	18.	Frederick*	0.001
St. Mary's	0.857	0.857	0.000	0.819	0.038	19.	Cecil	0.000
Somerset	0.900	0.884	-0.016	0.879	0.005	20.	Queen Anne's	0.000
Talbot	0.432	0.432	0.000	0.420	0.012	21.	Harford	0.000
Washington	0.948	0.948	0.000	0.941	0.007	22.	Prince George's*	-0.004
Wicomico	0.759	0.759	0.000	0.749	0.010	23.	Charles*	-0.016
Worcester	0.700	0.700	0.000	0.735	-0.035	24.	Worcester	-0.035

\*Includes Special Property Tax Rates

Source: State Department of Assessments and Taxation, Department of Legislative Services

**Exhibit 3**  
**Revenue Yield from Property Tax Rates above Constant Yield**  
**Fiscal 2011**

<b>County</b>	<b>Assessable Base</b>	<b>Actual Rate</b>	<b>Constant Yield Rate</b>	<b>Difference</b>	<b>Estimated Revenue Yield</b>	<b>Per Capita Yield</b>
Allegany	\$3,460,604,981	\$0.983	\$0.942	\$0.041	\$1,422,000	\$19.61
Anne Arundel	60,820,676,564	0.880	0.865	0.015	9,123,000	17.50
Baltimore City	30,831,631,999	2.268	2.162	0.106	32,682,000	51.27
Baltimore	70,176,449,949	1.100	1.063	0.037	25,965,000	32.87
Calvert	12,560,893,788	0.892	0.857	0.035	4,396,000	49.28
Caroline	2,672,225,378	0.870	0.853	0.017	454,000	13.61
Carroll	18,496,816,933	1.048	1.013	0.035	6,474,000	38.06
Cecil	10,190,115,610	0.915	0.915	0.000	31,000	0.31
Charles*	16,287,561,982	1.026	1.042	-0.016	0	0.00
Dorchester	3,009,552,588	0.896	0.870	0.026	782,000	24.40
Frederick*	26,192,685,547	1.064	1.063	0.001	325,000	1.43
Garrett	4,419,475,744	0.990	0.944	0.046	2,033,000	68.79
Harford	25,859,358,036	1.042	1.042	0.000	0	0.00
Howard*	38,858,063,807	1.150	1.128	0.021	8,341,000	29.59
Kent	2,802,838,126	1.022	0.952	0.070	1,962,000	96.90
Montgomery*	168,465,033,191	0.915	0.912	0.003	4,360,000	4.49
Prince George's*	72,054,156,105	1.319	1.323	-0.004	0	0.00
Queen Anne's	7,557,854,556	0.767	0.767	0.000	8,000	0.17
St. Mary's	10,774,297,559	0.857	0.819	0.038	4,094,000	39.75
Somerset	1,611,812,149	0.884	0.879	0.005	76,000	2.93
Talbot	7,306,988,020	0.432	0.420	0.012	877,000	24.19
Washington	12,385,933,067	0.948	0.941	0.007	867,000	5.94
Wicomico	6,925,875,354	0.759	0.749	0.010	693,000	7.35
Worcester	16,629,343,091	0.700	0.735	-0.035	0	0.00
<b>Total</b>	<b>\$630,350,244,124</b>				<b>\$104,965,000</b>	<b>\$18.42</b>

\*Includes Special Property Tax Rates

Source: State Department of Assessments and Taxation, Department of Legislative Services