

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 1352
Ways and Means

(Delegate Hixson, *et al.*)

Local School Boards - Authority to Impose a Property Tax

This bill authorizes local boards of education to impose a property tax to fund public school operations and expenses. The public school property tax rate must be collected in the same manner that the State and county property taxes are collected. County governments must reduce their property tax rates to offset the amount of revenues budgeted for the local boards of education for the prior fiscal year. The local boards of education may issue bonds for public school construction and capital improvement projects.

The bill takes effect October 1, 2011, and applies to all fiscal years beginning after June 30, 2012.

Fiscal Summary

State Effect: None. State funding for local school systems will remain the same.

Local Effect: Potential significant impact on local government revenues and expenditures beginning in FY 2013. **This bill may impose a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Bill Summary: Local boards of education are authorized to impose a property tax to fund public school operations and expenses. If a local board of education imposes a

property tax, the property tax rate must be set so as to provide revenues equal to a level of expenditures that is the greater of the level required to meet the county's maintenance of effort requirement or the level of expenditures in the budget of the local board for the prior fiscal year. A county is authorized to appropriate additional funds to the local board of education. County governments must reduce their property tax rates to offset the amount of revenues budgeted for the local boards of education for the prior fiscal year. The local boards of education may issue bonds for public school construction and capital improvement projects.

If a local board of education decides to impose a property tax, the local school system is exempt from submitting an annual school budget to the county governing body for approval. In addition, the county government is exempt from the requirements relating to the levying and collecting property taxes necessary to fund public schools and specified reporting requirements.

Current Law: Unlike most other states, local school systems in Maryland do not have independent taxing authority. Instead, they rely on county governments for a significant share of their funding. Historically, counties have accounted for more than half of total funding for local school systems. One of the goals of the Bridge to Excellence in Public Schools Act of 2002 was to move toward a school finance system in which the State and counties are more equal partners in their contributions to public schools.

Background: Public schools are funded from federal, State, and local sources. Approximately 46% of public school funding in Maryland comes from local sources, and 48% comes from the State. The federal government provides only 6% of public school funding. As shown in **Exhibit 1**, the reliance on local funding varies across the State. Local revenue as a percent of total public school funding ranges from 16.3% in Baltimore City to 68.2% in Worcester County. State funding as a percent of public school revenues ranges from 24.8% in Worcester County to 74.0% in Baltimore City. Seven local school systems (Baltimore City and Allegany, Caroline, Dorchester, Somerset, Washington, and Wicomico counties) receive over 60% of their revenue from the State.

Public schools in Maryland received about \$14,350 in total funding for each pupil in fiscal 2011. Worcester County had the highest per pupil revenues at \$16,585; while Baltimore City had the second highest at \$16,338. Montgomery County had the third highest at \$15,776. St. Mary's County had the lowest per pupil revenues at \$12,034. **Exhibit 2** shows the per pupil revenues for public schools in fiscal 2011 by revenue source.

Maintenance of Effort Provision

Minimum annual appropriations from each county (including Baltimore City) to the local school system are governed by a maintenance of effort provision under State law. This provision requires each county to provide, at a minimum, the greater of (1) the local share of the foundation amount, which is a uniform percentage of the local wealth base applicable to all counties; or (2) the per pupil amount provided by the county in the previous year. A county that does not meet this requirement may be penalized by having State aid for the local board of education reduced. Historically, county contributions to local school boards have easily exceeded the local share of the foundation, so providing at least as much funding per pupil as was provided in the previous fiscal year has been the higher threshold for counties to meet. Counties also have the option of appropriating more than the minimum requirement, which they often do. From fiscal 2003 to 2010, county appropriations were an average of 3.5% higher than the required maintenance of effort level, although there was a wide range in the level of increases provided by the 24 local jurisdictions.

In 1996, the State enacted legislation to allow county governments to apply to the State Board of Education for a one-year waiver from the maintenance of effort requirement. To approve a waiver, the State board must find that the county showed, by a preponderance of evidence, that its “fiscal condition significantly impedes the county’s ability to fund the maintenance of effort requirement.” No county had applied for a waiver until 2009, when three counties (Montgomery, Prince George’s, and Wicomico) applied for waivers from their fiscal 2010 maintenance of effort levels. The State board denied all three fiscal 2010 applications. Two counties (Montgomery and Wicomico) applied for fiscal 2011 waivers, and approval of both applications represented the first time the waiver process was used to successfully reduce maintenance of effort funding levels without the threat of a penalty.

Another avenue for suspending the maintenance of effort requirement is through legislative action. During the fiscal crisis of the early 1990s, before the State board waiver process had been established, the State enacted legislation for two consecutive years waiving the maintenance of effort requirement for all counties in fiscal 1992 and again in fiscal 1993. In 1996, legislation waived the requirement for Wicomico County only. More recently, Chapters 73 and 74 of 2010 prohibited the imposition of any penalty for not meeting maintenance of effort in fiscal 2010.

Local Funding for Public Schools

Funding for local school systems constitutes the largest portion of a county’s budget, accounting for 48.2% of county expenditures in fiscal 2009. Fifteen counties allocate over one-half of county expenditures on funding for public schools.

Ultimately, the amount of funding that counties provide to the local boards of education is based on two factors: local tax capacity and the extent to which this capacity is used to support education. All counties are required to contribute a uniform percentage of their local wealth bases to public education as the local share of the foundation. The local share of the foundation represents a specific effort level (0.65% of local wealth in fiscal 2011). Counties then determine how much funding they provide over the amount required for the local share of the foundation. All counties provide some funding over the local share of the foundation, but the amount of supplemental funding each county provides is a local decision that is made over a number of years (since the maintenance of effort provision requires per pupil funding levels to remain at least equivalent from one year to the next). **Exhibit 3** compares per pupil county appropriations to per pupil county wealth and shows the proportion of each county's wealth base used to support education. The exhibit shows that fiscal 2011 local effort levels ranged from 0.70% of local wealth in Talbot County to 1.65% in Howard County. As a result of this variance, Howard County provided more per pupil funding for the local school system than Talbot County despite higher per pupil wealth in Talbot County. Both Howard and Talbot counties are among the top five jurisdictions in the State in terms of the amount of per pupil local funding provided to public schools.

Local Property Tax Revenues

The property tax is one of the three major revenue sources for county governments, accounting for 26.8% of total revenues in fiscal 2009, excluding debt proceeds. In terms of local own-source revenues, the property tax is the largest revenue source for county governments, accounting for 42.0% of county own-source revenues in fiscal 2009. In fiscal 2011, county governments are projected to collect \$6.7 billion in property taxes.

Local Fiscal Effect: Granting local school boards the authority to impose property taxes will significantly impact how both county governments and local school systems are funded. Under current law, the local boards of education have to rely on the county governing body for the local portion of their funding. Absent the local education maintenance of effort requirement which requires the counties to provide local school systems with at least the same amount of funds per pupil as in the previous fiscal year, the determination on the amount of local funding earmarked to public schools is made in the context of other local spending priorities (public safety, public works, and social programs) and revenue constraints (local taxes).

Pursuant to this legislation, local education funding decisions and the establishment of the public school property tax rate would be made solely by the local board of education without regard for noneducational spending priorities. In addition, in the first year in which a school board can impose its own property tax rate, county governments are required to lower their property tax rates by the amount of revenue budgeted for the local

boards of education in the prior year. Accordingly, this legislation shifts the local funding source for county government programs from a combination of property, income, and other local taxes to primarily income and other local taxes. (Other local taxes include sales and service taxes, admission and amusement taxes, public utilities taxes, and recordation/transfer taxes.)

Because public school funding comprises a large share of local spending, most property tax revenues would go to the local boards of education. County governments thus would have to rely on other local revenue sources (income taxes) to fund noneducation programs, unless the combined school and county property tax rates exceed current levels. Furthermore, since the local school appropriation in some counties (Anne Arundel and Talbot) is higher than the property tax yield, current property tax rates may have to increase in order to generate enough revenue to meet the minimum required school funding amount. The increased tax revenue could be offset by reducing other local taxes (income tax rate). In addition, the bill could impact counties with property tax limitation measures, such as TRIM in Prince George's County. **Exhibit 4** shows the property tax yield and local public school appropriation for the local boards of education.

Additional Information

Prior Introductions: A similar bill was introduced as HB 697 in 1999. The bill received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

Information Source(s): Baltimore City, Montgomery County, Maryland Association of Counties, State Department of Assessments and Taxation, Maryland State Department of Education, Department of Legislative Services

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mlm/hlb

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Exhibit 1
Revenue Sources for Public Schools in Fiscal 2011

<u>County</u>	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Ranking by Percent State</u>		<u>Ranking by Percent Local</u>	
Allegany	6.7%	71.2%	22.1%	1.	Baltimore City 74.0%	1.	Worcester 68.2%
Anne Arundel	4.7%	37.4%	57.9%	2.	Caroline 72.3%	2.	Talbot 66.5%
Baltimore City	9.8%	74.0%	16.3%	3.	Allegany 71.2%	3.	Montgomery 64.5%
Baltimore	6.3%	44.8%	48.9%	4.	Wicomico 68.9%	4.	Howard 61.1%
Calvert	4.9%	47.1%	48.0%	5.	Somerset 66.5%	5.	Anne Arundel 57.9%
Caroline	7.9%	72.3%	19.8%	6.	Dorchester 62.5%	6.	Kent 55.8%
Carroll	4.1%	47.5%	48.4%	7.	Washington 60.0%	7.	Queen Anne's 52.5%
Cecil	6.0%	58.8%	35.2%	8.	Cecil 58.8%	8.	Baltimore 48.9%
Charles	5.4%	51.4%	43.2%	9.	Prince George's 57.3%	9.	Carroll 48.4%
Dorchester	6.0%	62.5%	31.5%	10.	St. Mary's 55.3%	10.	Calvert 48.0%
Frederick	5.1%	48.9%	46.0%	11.	Charles 51.4%	11.	Frederick 46.0%
Garrett	8.0%	50.9%	41.1%	12.	Garrett 50.9%	12.	Harford 44.4%
Harford	5.8%	49.9%	44.4%	13.	Harford 49.9%	13.	Charles 43.2%
Howard	3.9%	35.1%	61.1%	14.	Frederick 48.9%	14.	Garrett 41.1%
Kent	5.0%	39.2%	55.8%	15.	Carroll 47.5%	15.	St. Mary's 38.8%
Montgomery	4.2%	31.3%	64.5%	16.	Calvert 47.1%	16.	Cecil 35.2%
Prince George's	7.8%	57.3%	34.9%	17.	Baltimore 44.8%	17.	Prince George's 34.9%
Queen Anne's	6.8%	40.7%	52.5%	18.	Queen Anne's 40.7%	18.	Washington 33.1%
St. Mary's	6.0%	55.3%	38.8%	19.	Kent 39.2%	19.	Dorchester 31.5%
Somerset	11.4%	66.5%	22.2%	20.	Anne Arundel 37.4%	20.	Wicomico 23.8%
Talbot	4.7%	28.8%	66.5%	21.	Howard 35.1%	21.	Somerset 22.2%
Washington	6.9%	60.0%	33.1%	22.	Montgomery 31.3%	22.	Allegany 22.1%
Wicomico	7.3%	68.9%	23.8%	23.	Talbot 28.8%	23.	Caroline 19.8%
Worcester	7.0%	24.8%	68.2%	24.	Worcester 24.8%	24.	Baltimore City 16.3%
Total	6.1%	48.4%	45.5%				

Source: Local School Budgets, Department of Legislative Services

Exhibit 2
Per Pupil Revenues for Public Schools in Fiscal 2011

<u>County</u>	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>	<u>Ranking by Total Per Pupil Funding</u>		
Allegany	\$1,027	\$10,891	\$3,382	\$15,300	1.	Worcester	\$16,585
Anne Arundel	620	4,941	7,656	13,218	2.	Baltimore City	16,338
Baltimore City	1,598	12,083	2,657	16,338	3.	Montgomery	15,776
Baltimore	866	6,142	6,706	13,713	4.	Howard	15,403
Calvert	660	6,329	6,439	13,428	5.	Allegany	15,300
Caroline	1,005	9,178	2,510	12,693	6.	Kent	15,214
Carroll	533	6,151	6,279	12,963	7.	Somerset	14,901
Cecil	762	7,500	4,490	12,752	8.	Prince George's	14,618
Charles	704	6,735	5,660	13,099	9.	Garrett	13,805
Dorchester	795	8,226	4,150	13,171	10.	Baltimore	13,713
Frederick	658	6,279	5,912	12,848	11.	Calvert	13,428
Garrett	1,101	7,025	5,680	13,805	12.	Anne Arundel	13,218
Harford	753	6,484	5,769	13,006	13.	Dorchester	13,171
Howard	596	5,400	9,408	15,403	14.	Wicomico	13,101
Kent	758	5,966	8,491	15,214	15.	Charles	13,099
Montgomery	656	4,943	10,177	15,776	16.	Harford	13,006
Prince George's	1,141	8,377	5,100	14,618	17.	Carroll	12,963
Queen Anne's	853	5,071	6,544	12,467	18.	Frederick	12,848
St. Mary's	720	6,651	4,664	12,034	19.	Cecil	12,752
Somerset	1,693	9,906	3,302	14,901	20.	Caroline	12,693
Talbot	574	3,511	8,109	12,194	21.	Washington	12,523
Washington	858	7,516	4,148	12,523	22.	Queen Anne's	12,467
Wicomico	957	9,020	3,124	13,101	23.	Talbot	12,194
Worcester	1,156	4,117	11,312	16,585	24.	St. Mary's	12,034
Total	\$870	\$6,946	\$6,535	\$14,351			

Source: Local School Budgets, Department of Legislative Services

Exhibit 3
Per Pupil Wealth and Local Appropriations
Fiscal 2011

County	Wealth Per Pupil	Per Pupil Appropriation	Local Effort (Appropriation/Wealth)
Allegany	\$272,517	\$3,249	1.19%
Anne Arundel	648,477	7,713	1.19%
Baltimore City	290,050	2,653	0.91%
Baltimore	525,394	6,664	1.27%
Calvert	452,950	6,316	1.39%
Caroline	324,375	2,377	0.73%
Carroll	452,808	6,086	1.34%
Cecil	391,395	4,376	1.12%
Charles	413,751	5,611	1.36%
Dorchester	412,813	3,941	0.95%
Frederick	454,814	5,858	1.29%
Garrett	542,523	5,537	1.02%
Harford	435,418	5,678	1.30%
Howard	566,901	9,363	1.65%
Kent	783,593	8,328	1.06%
Montgomery	740,535	10,244	1.38%
Prince George's	433,556	4,985	1.15%
Queen Anne's	617,757	6,414	1.04%
St. Mary's	432,658	4,641	1.07%
Somerset	339,417	3,238	0.95%
Talbot	1,142,003	8,034	0.70%
Washington	383,087	4,154	1.08%
Wicomico	316,297	3,094	0.98%
Worcester	1,371,358	11,389	0.83%
Total	\$518,733	\$6,492	1.25%

Exhibit 4
Local Property Tax Collections and Local Appropriation to Public Schools
Fiscal 2011

County	Property Tax Collections	County Funding for Public Schools	County Funding as Percent of Property Taxes
Allegany	\$41,805,668	\$28,240,000	67.6%
Anne Arundel	553,800,000	562,360,000	101.5%
Baltimore City	765,738,000	206,668,572	27.0%
Baltimore	841,405,415	663,192,510	78.8%
Calvert	146,507,535	105,010,110	71.7%
Caroline	23,897,000	12,415,902	52.0%
Carroll	206,214,900	166,878,900	80.9%
Cecil	101,291,202	68,350,618	67.5%
Charles	198,615,700	145,296,600	73.2%
Dorchester	29,938,117	17,389,545	58.1%
Frederick	286,939,679	228,825,838	79.7%
Garrett	46,044,612	23,159,000	50.3%
Harford	253,644,151	214,061,789	84.4%
Howard	504,413,806	464,708,788	92.1%
Kent	29,545,426	17,154,835	58.1%
Montgomery	1,460,576,386	1,415,085,344	96.9%
Prince George's	720,719,200	599,014,431	83.1%
Queen Anne's	59,934,809	47,957,462	80.0%
St. Mary's	99,250,867	76,000,000	76.6%
Somerset	15,697,433	8,751,100	55.7%
Talbot	28,781,000	34,329,542	119.3%
Washington	125,823,260	88,829,790	70.6%
Wicomico	60,575,912	43,196,892	71.3%
Worcester	120,210,559	71,339,072	59.3%
Total	\$6,721,370,637	\$5,308,216,640	79.0%

Source: Department of Legislative Services
