

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 828 (Delegate Clagett)
Ways and Means

Frederick County - Municipal Corporations - Building Excise Tax

This bill authorizes a municipality in Frederick County to retain the revenue it collects from a building excise tax imposed by Frederick County on buildings within the municipality. Frederick County must remit to the municipality the building excise tax collected for a building located in a municipality.

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: None.

Local Effect: Frederick County revenues decrease by approximately \$423,000 beginning in FY 2012 and municipal revenues increase by the same amount. Future year revenues will be dependent on the level of building activity that occurs. County expenditures are not directly affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law: Frederick County imposes both impact fees and a building excise tax, as shown in **Exhibit 1**. A municipality must assist the Frederick County Commissioners in the collection of the building excise tax within the municipality by collecting and remitting the tax to the county; or requiring the tax to be paid to the county commissioners in accordance with a county ordinance.

Exhibit 1
Impact Fees and Excise Taxes in Frederick County
Fiscal 2011

Impact Fees

<u>Land Use Type</u>	<u>Levy</u>	<u>Public School</u>	<u>Library</u>	<u>Total Impact Fee</u>
Single-family detached	per unit	\$14,426	\$759	\$15,185
Townhouse/duplex	per unit	12,380	709	13,089
All other residential (including manufactured homes)	per unit	2,368	477	2,845

Excise Taxes

<u>Land Use Type</u>	<u>Levy</u>	<u>Tax</u>
Residential*		
First 700 gross sq. ft.	per sq. ft.	\$0.00
701 sq. ft.-1,400 sq. ft.	per sq. ft.	0.10
In excess of 1,400 sq. ft.	per sq. ft.	0.25
Nonresidential	per sq. ft.	0.75

*Any gross square footage of multifamily residential construction not within a dwelling unit is allocated on a *pro rata* basis to each dwelling unit within the building.

Source: Frederick County

Background: Development impact fees and building excise taxes enable local governments to collect revenue from builders for public facilities necessitated by new residential or commercial development. As a result of these development charges, local governments are able to shift the costs of financing new public facilities from existing taxpayers to individuals responsible for the development. In many situations, the use of such development charges may eliminate the need for jurisdiction-wide tax increases. Another benefit of development charges is that local officials can collect the needed revenue for the expansion or construction of new public facilities prior to the construction of any new residential development. In this manner, payment of an impact fee or excise tax may be required by local officials before the issuance of a building permit or approval of a subdivision plat.

Development impact fees and building excise taxes are imposed in 16 counties in Maryland, with 1 county (Frederick) imposing both an impact fee and an excise tax. Until recently, overall development impact fee and building excise tax revenues were, for the most part, increasing each year. From fiscal 1998 to 2007, county revenues from development impact fees and building excise taxes increased from \$31.4 million to \$129.1 million. Due to the downturn in the real estate market, impact fee and excise tax

revenues declined by 30% in fiscal 2008 to \$90.7 million and by another 31% in fiscal 2009 to \$62.4 million. In fiscal 2010, revenues increased to \$79.4 million.

In Frederick County, \$8.7 million in impact fee and excise tax revenues were collected in fiscal 2010, with total collections estimated at \$7.7 million in fiscal 2011 as shown in **Exhibit 2**. Impact fee revenues support public schools and library capital projects, and excise tax revenues are used for transportation related projects.

Exhibit 2
Frederick County Revenues from Impact Fees and Excise Taxes

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Impact Fees – Schools	\$5,974,512	\$7,130,937	\$6,312,983
Impact Fees – Libraries	405,516	489,270	535,480
Excise Taxes – Transportation	1,190,925	1,061,254	900,000
Total	\$7,570,953	\$8,681,461	\$7,748,463

The following municipalities are located in Frederick County: Brunswick, Burkittsville, Emmitsburg, Frederick, Middletown, Mount Airy, Myersville, New Market, Rosemont, Thurmont, Walkersville, and Woodsboro. As of July 2009, 39.4% of county residents lived within one of these municipalities, which is the fifth highest percentage of municipal residency in the State.

Local Fiscal Effect: Frederick County revenues may decrease by a significant amount beginning in fiscal 2012 and municipal revenues will increase by a corresponding amount. The impact on county and municipal revenues will depend on the amount of building activity occurring in the county and each municipality each year.

The fiscal 2012 county budget assumes \$900,000 in building excise tax revenues. Based on an analysis of prior year excise tax collections, it is estimated that approximately 47% of collections are attributable to construction within municipal boundaries. As a result, Frederick County revenues are estimated to decrease by \$423,000 in fiscal 2012 while municipal revenues increase by the same amount. Future year revenues will be dependent on the level of building activity that occurs each year.

Frederick County advises that current law mandates building excise tax revenue be spent on growth-related transportation projects. As a result, county expenditures for these projects will decrease accordingly. The county reports that a decrease in revenue dedicated to transportation projects will likely lessen the county's ability to further growth-related transportation infrastructure projects, as well as participate in State

transportation projects. In fiscal 2009, local governments in Frederick County spent \$59.7 million on transportation services and projects. Of this amount, \$35.8 million or 60% was spent by the county government and \$23.9 million or 40% was spent by municipal governments.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Frederick County, Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2011
ncs/hlb

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