

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 135
Ways and Means

(Charles County Delegation)

Budget and Taxation

Charles County - School Construction Excise Tax Rates

This bill alters the tax rate setting authority of the Charles County Commissioners for school construction excise taxes.

The bill takes effect June 1, 2015.

Fiscal Summary

State Effect: None.

Local Effect: Charles County school construction excise tax revenues increase by approximately \$1.2 million in FY 2016 and by \$2.1 million in FY 2020. School construction expenditures may increase by a commensurate amount.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill authorizes the Charles County Commissioners to alter the base school construction excise tax rates for each dwelling type for fiscal 2016 and every fourth fiscal year thereafter to reflect the number of students generated by each dwelling type and the cost of school construction in the county.

For each fiscal year after fiscal 2016 in which the base tax rates are not adjusted, the tax rates may not exceed the rates imposed in the preceding fiscal year altered by the same percentage as the change in the average statewide per-square-foot school building cost as calculated by the Interagency Committee on School Construction in the calendar year preceding the year for which the amount is being calculated.

Current Law: Chapters 476 and 586 of 2002 authorized Charles County to issue up to \$100 million in new school capacity construction bonds to fund all county costs in providing new school facilities. The bonds were to be repaid over a 10-year period by a special excise tax levied against new residential property. For fiscal 2003, the special excise tax was not to exceed \$9,700 for a single-family detached home, \$9,200 for a town house, and \$7,000 for a multifamily housing unit. For fiscal 2015, the excise tax rate was set at \$13,366 for a single-family detached home, \$12,677 for a town house, and \$9,646 for a multifamily housing unit.

The maximum excise tax is adjusted by the change in the producer price index for the materials and components for construction. The special excise tax constitutes a lien on the real property for a 10-year period or until the lien is satisfied by repayment. If revenue from the special excise tax is insufficient to cover debt service costs, the county can impose an ad valorem tax on all assessable property within the county and other taxes as necessary to cover the debt service expenses.

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. Payment of an impact fee or excise tax is often required by local officials before the issuance of a building permit.

Development impact fees and building excise taxes are imposed in 16 counties in Maryland. Prior to 2008, 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. Recent collections have been higher, reaching \$130.5 million in fiscal 2013, with estimated revenues in fiscal 2014 and 2015 of \$143.2 million and \$138.5 million, respectively.

In fiscal 2015, estimated revenues for individual counties range from \$60,000 in Caroline County to \$58.4 million in Montgomery County. On a per capita basis, estimated revenues for fiscal 2015 range from \$1.84 in Caroline County to \$60.52 in Charles County. **Exhibit 1** lists the various impact fees and excise taxes, legislative references, the

fiscal 2015 fee amount or tax rate, and the estimated fiscal 2015 revenues for each county. **Exhibit 2** provides more detailed information on the development impact fees and building excise tax rates applicable to single family development for each county in fiscal 2013 through 2015. **Exhibit 3** shows the revenue collections for fiscal 2013 and the estimated revenues for fiscal 2014 and 2015.

Public facilities/services funded by development impact fees and building excise taxes include public school construction, libraries, community colleges, transportation, public safety, parks and recreation, and utilities. In fiscal 2013, 75.6% of development charges was targeted to education-related projects while 21.0% was targeted to transportation projects – the two leading governmental uses for these revenues. Of the revenues estimated for fiscal 2015, 81.4% is expected to be allocated to education-related projects and 16.1% is expected to be allocated to transportation projects. Education-related projects include funding for public schools, libraries, and community colleges. **Exhibits 4, 5, and 6** show the governmental uses for development impact fees and building excise taxes collected in fiscal 2013 and the allocation of the estimated revenues for fiscal 2014 and 2015 among the different governmental uses.

Public Schools Facilities Assessment Study

During 2013 and 2014 Charles County Public Schools (CCPS) conducted a facilities assessment study. Among the findings, the school system identified approximately \$600 million in needed capital improvements, including a large number of renovations of older facilities that have been deferred for many years while new construction for capacity purposes was carried out.

Local Fiscal Effect: The bill authorizes Charles County to rebase its school construction excise tax rates every four years beginning in fiscal 2016 and to increase these rates in the years between rebasing at a higher annual percentage rate than under current law. As a result, it is estimated that Charles County excise tax revenues may increase by approximately \$1.2 million in fiscal 2016 and by \$2.1 million in fiscal 2020. The estimate is based on the following:

- Charles County collected \$9.3 million in school construction excise tax revenues in fiscal 2015.
- For fiscal 2015, Charles County school construction excise tax rates are \$13,366 for single-family dwellings; \$12,677 for townhouses; and \$9,646 for multifamily dwellings.
- Excise tax rates will increase by approximately 1.7% annually under current law.
- For fiscal 2016, the new school construction excise tax rates will be \$15,113 for single-family dwellings; \$14,986 for town houses; and \$12,715 for multifamily dwellings.

- Beginning in fiscal 2017, excise tax rates will increase by approximately 3.5% annually.
- 700 new homes will be built in Charles County each year, of which 490 will be single-family homes; 140 will be town houses; and 70 will be multifamily dwellings.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Charles County, Public School Construction Program,
Department of Legislative Services

Fiscal Note History: First Reader - February 9, 2015
mar/jrb

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Exhibit 1
Maryland Counties with Development Impact Fees and Excise Taxes
Fiscal 2015

County	Type	Legislative Reference	Rate Per Dwelling¹	Estimated Revenues
Anne Arundel	Impact Fee	Ch. 350 of 1986	\$11,896	\$8,420,000
Calvert	Excise Tax	Ch. 232 of 2001	12,950	3,128,314
Caroline	Excise Tax	Ch. 565 of 1993 Ch. 566 of 1993 Ch. 538 of 2004	5,000	60,000
Carroll	Impact Fee	Ch. 108 of 1987	533	318,000
Charles	Excise Tax	Ch. 476/586 of 2002	13,366	9,250,767
Dorchester	Excise Tax	Ch. 401 of 2004	3,671	82,770
Frederick	Impact Fee/Excise Tax	Ch. 468 of 1990 Ch. 690 of 2001	14,208	10,508,724
Harford	Impact Fee	Ch. 389 of 2004	6,000	2,500,000
Howard	Excise Tax/Surcharge	Ch. 285 of 1992 Ch. 420 of 2004	\$2.40/sq. ft.	14,414,904
Montgomery	Impact Tax	Ch. 808 of 1963 Ch. 707 of 1990	39,450	58,407,000
Prince George's	Surcharge	Ch. 66 of 1995 Ch. 431 of 2003 Ch. 594 of 2005	22,803	26,104,650
Queen Anne's	Impact Fee	Ch. 532 of 1992	\$4.84/sq. ft.	1,555,000
St. Mary's	Impact Fee	Ch. 814 of 1974	4,500	2,187,500
Talbot	Impact Fee	Ch. 642 of 1991	6,804	200,000
Washington	Excise Tax	Ch. 468 of 2003 Ch. 598 of 2005 Ch. 533 of 2008	\$1.00/sq. ft.	543,000
Wicomico	Impact Fee	Ch. 399 of 1992	5,231	771,142
Total				\$138,451,771

¹ The rates shown are generally those applicable to single-family detached dwellings. See Exhibit 2 for additional footnoted information on the individual rates.
Source: Department of Legislative Services

Exhibit 2
County Development Impact Fees and Excise Tax Rates¹
Fiscal 2013-2015

<u>County</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Anne Arundel ²	\$11,295	\$11,616	\$11,896
Calvert	12,950	12,950	12,950
Caroline ³	5,000	5,000	5,000
Carroll	533	533	533
Charles	12,828	13,139	13,366
Dorchester ⁴	3,671	3,671	3,671
Frederick ⁵	15,185	15,185	14,208
Harford	6,000	6,000	6,000
Howard ⁶	\$2.29/sq. ft.	\$2.37/sq. ft.	\$2.40/sq. ft.
Montgomery ⁷	36,293	39,450	39,450
Prince George's ⁸	22,112	22,355	22,803
Queen Anne's	\$4.60/sq. ft.	\$4.72/sq. ft.	\$4.84/sq. ft.
St. Mary's	4,500	4,500	4,500
Talbot ⁹	6,451	6,625	6,804
Washington	\$3.00/sq. ft.	\$1.00/sq. ft.	\$1.00/sq. ft.
Wicomico	5,231	5,231	5,231

¹ Fees/rates listed are generally those applicable to single-family detached dwellings and are per dwelling unless otherwise indicated.

² Rates are for a 2,000-2,499 square foot residential unit. Residential rates vary by the square footage of a unit.

³ A \$750 development excise tax for agricultural land preservation is also imposed on new lots created by subdivision in a "rural district."

⁴ A slightly higher rate, \$3,765 per dwelling, applies outside of the Cambridge and Hurlock areas.

⁵ The rates shown reflect the public school and library impact fee total. A roads tax of \$0.10/sq. ft. or \$0.25/sq. ft. (depending on the square footage), with the first 700 square feet not taxed, was reduced to \$0.00 effective in November 2011.

⁶ Fiscal 2013, 2014, and 2015 amounts represent the total of the roads tax amount (\$1.08/sq. ft., \$1.13/sq. ft., and \$1.15/sq. ft., respectively) and the school surcharge amount (\$1.21/sq. ft., \$1.24/sq. ft., and \$1.25/sq. ft., respectively).

⁷ Fiscal 2014 and 2015 amounts represent \$13,506 for transportation and \$25,944 for schools. Fiscal 2013 amount represents \$12,425 for transportation and \$23,868 for schools. The school excise tax is increased by \$2 for each square foot between 3,500 and 8,500 gross square feet. Different transportation rates apply in the Metro Station and Clarksburg impact tax districts.

⁸ Fiscal 2015 amount represents \$15,489 for school facilities and \$7,314 for public safety. A lower school facilities rate (\$9,035 in fiscal 2015) applies inside the beltway and to certain development near mass transit and a lower public safety rate (\$2,439 in fiscal 2015) applies inside the "developed tier" as defined in the 2002 Prince George's County Approved General Plan and to certain development near mass transit.

⁹ A lower rate (\$5,877 in fiscal 2015) applies to development inside municipalities.

Source: Department of Legislative Services

Exhibit 3
County Development Impact Fee and Excise Tax Revenues

County	FY 2013	FY 2014	FY 2015	FY 2013-2014		FY 2014-2015	
				Difference	%	Difference	%
Anne Arundel	\$14,927,793	\$8,470,000	\$8,420,000	-\$6,457,793	-43.3%	-\$50,000	-0.6%
Calvert	3,117,154	3,766,424	3,128,314	649,270	20.8%	-638,110	-16.9%
Caroline	100,402	89,236	60,000	-11,166	-11.1%	-29,236	-32.8%
Carroll	297,877	193,300	318,000	-104,577	-35.1%	124,700	64.5%
Charles	8,828,192	10,483,482	9,250,767	1,655,290	18.8%	-1,232,715	-11.8%
Dorchester ¹	249,177	82,770	82,770	-166,407	-66.8%	0	0.0%
Frederick	9,135,853	7,653,760	10,508,724	-1,482,093	-16.2%	2,854,964	37.3%
Harford	2,027,400	2,500,000	2,500,000	472,600	23.3%	0	0.0%
Howard	13,572,460	14,297,000	14,414,904	724,540	5.3%	117,904	0.8%
Montgomery	41,081,651	66,319,105	58,407,000	25,237,454	61.4%	-7,912,105	-11.9%
Prince George's	32,015,929	24,933,000	26,104,650	-7,082,929	-22.1%	1,171,650	4.7%
Queen Anne's	1,412,222	1,055,000	1,555,000	-357,222	-25.3%	500,000	47.4%
St. Mary's	1,794,375	2,162,500	2,187,500	368,125	20.5%	25,000	1.2%
Talbot	151,143	122,000	200,000	-29,143	-19.3%	78,000	63.9%
Washington	481,011	554,386	543,000	73,375	15.3%	-11,386	-2.1%
Wicomico	1,261,911	557,082	771,142	-704,829	-55.9%	214,060	38.4%
Total	\$130,454,550	\$143,239,045	\$138,451,771	\$12,784,495	9.8%	-\$4,787,274	-3.3%

¹ A fiscal 2015 amount is not available from the county because it does not budget for the revenues. The Department of Legislative Services has assumed that the fiscal 2015 revenues are the same as in fiscal 2014.

Source: Department of Legislative Services

Exhibit 4
Governmental Uses of Development Impact Fees and Excise Taxes
Fiscal 2013

County	Education	Transportation	Public Safety	Recreation	Other	Total Revenues	Per Capita Revenues
Allegany	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Anne Arundel	8,528,563	5,915,870	483,360	0	0	14,927,793	26.86
Baltimore City	0	0	0	0	0	0	0.00
Baltimore	0	0	0	0	0	0	0.00
Calvert	1,873,591	913,446	0	330,117	0	3,117,154	34.45
Caroline	91,902	0	0	0	8,500	100,402	3.07
Carroll	80,150	0	0	217,727	0	297,877	1.78
Cecil	0	0	0	0	0	0	0.00
Charles	8,828,192	0	0	0	0	8,828,192	57.75
Dorchester	238,185	0	10,992	0	0	249,177	7.63
Frederick	9,135,853	0	0	0	0	9,135,853	37.84
Garrett	0	0	0	0	0	0	0.00
Harford	2,027,400	0	0	0	0	2,027,400	8.14
Howard	6,581,536	6,990,924	0	0	0	13,572,460	44.56
Kent	0	0	0	0	0	0	0.00
Montgomery	27,901,753	13,179,898	0	0	0	41,081,651	40.41
Prince George's	29,292,330	0	2,723,599	0	0	32,015,929	35.97
Queen Anne's	1,052,691	0	228,043	131,488	0	1,412,222	29.11
St. Mary's	1,437,075	160,425	0	196,875	0	1,794,375	16.37
Somerset	0	0	0	0	0	0	0.00
Talbot	68,109	30,938	0	16,675	35,421	151,143	3.98
Washington	267,508	202,749	0	0	10,754	481,011	3.22
Wicomico	1,261,911	0	0	0	0	1,261,911	12.51
Worcester	0	0	0	0	0	0	0.00
Total	\$98,666,749	\$27,394,250	\$3,445,994	\$892,882	\$54,675	\$130,454,550	\$22.00
Share of Total	75.6%	21.0%	2.6%	0.7%	0.0%	100.0%	

Source: Department of Legislative Services

Exhibit 5
Governmental Uses of Development Impact Fees and Excise Taxes
Fiscal 2014 Estimate

County	Education	Transportation	Public Safety	Recreation	Other	Total Budgeted Revenues	Per Capita Revenues
Allegany	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Anne Arundel	4,120,000	3,850,000	500,000	0	0	8,470,000	15.24
Baltimore City	0	0	0	0	0	0	0.00
Baltimore	0	0	0	0	0	0	0.00
Calvert	2,259,854	1,092,263	0	414,307	0	3,766,424	41.63
Caroline	79,486	0	0	0	9,750	89,236	2.73
Carroll	0	0	0	193,300	0	193,300	1.15
Cecil	0	0	0	0	0	0	0.00
Charles	10,483,482	0	0	0	0	10,483,482	68.58
Dorchester	74,655	0	8,115	0	0	82,770	2.53
Frederick	7,653,760	0	0	0	0	7,653,760	31.70
Garrett	0	0	0	0	0	0	0.00
Harford	2,500,000	0	0	0	0	2,500,000	10.03
Howard	7,797,000	6,500,000	0	0	0	14,297,000	46.94
Kent	0	0	0	0	0	0	0.00
Montgomery	45,914,070	20,405,035	0	0	0	66,319,105	65.23
Prince George's	23,433,000	0	1,500,000	0	0	24,933,000	28.01
Queen Anne's	775,000	0	200,000	80,000	0	1,055,000	21.74
St. Mary's	1,687,500	225,000	0	250,000	0	2,162,500	19.72
Somerset	0	0	0	0	0	0	0.00
Talbot	52,500	24,500	0	15,000	30,000	122,000	3.22
Washington	327,676	211,816	0	0	14,894	554,386	3.71
Wicomico	557,082	0	0	0	0	557,082	5.52
Worcester	0	0	0	0	0	0	0.00
Total	\$107,715,065	\$32,308,614	\$2,208,115	\$952,607	\$54,644	\$143,239,045	\$24.16
Share of Total	75.2%	22.6%	1.5%	0.7%	0.0%	100.0%	

Note: These figures are largely budgeted/estimated amounts, but in some cases counties have provided actual revenue amounts.

Source: Department of Legislative Services

Exhibit 6
Governmental Uses of Development Impact Fees and Excise Taxes
Fiscal 2015 Estimate

County	Education	Transportation	Public Safety	Recreation	Other	Total Budgeted Revenues	Per Capita Revenues
Allegany	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Anne Arundel	4,020,000	3,900,000	500,000	0	0	8,420,000	15.15
Baltimore City	0	0	0	0	0	0	0.00
Baltimore	0	0	0	0	0	0	0.00
Calvert	1,863,072	921,681	0	343,561	0	3,128,314	34.57
Caroline	50,000	0	0	0	10,000	60,000	1.84
Carroll	0	0	0	318,000		318,000	1.90
Cecil	0	0	0	0	0	0	0.00
Charles	9,250,767	0	0	0	0	9,250,767	60.52
Dorchester ¹	74,655	0	8,115	0	0	82,770	2.53
Frederick	10,508,724	0	0	0	0	10,508,724	43.53
Garrett	0	0	0	0	0	0	0.00
Harford	2,500,000	0	0	0	0	2,500,000	10.03
Howard	6,936,068	7,478,836	0	0	0	14,414,904	47.33
Kent	0	0	0	0	0	0	0.00
Montgomery	48,937,000	9,470,000	0	0	0	58,407,000	57.45
Prince George's	24,604,650	0	1,500,000	0	0	26,104,650	29.33
Queen Anne's	1,235,000	0	200,000	120,000	0	1,555,000	32.05
St. Mary's	1,687,500	225,000	0	275,000	0	2,187,500	19.95
Somerset	0	0	0	0	0	0	0.00
Talbot	79,000	37,000	0	19,000	65,000	200,000	5.27
Washington	249,000	279,000	0	0	15,000	543,000	3.63
Wicomico	771,142	0	0	0	0	771,142	7.64
Worcester	0	0	0	0	0	0	0.00
Total	\$112,766,578	\$22,311,517	\$2,208,115	\$1,075,561	\$90,000	\$138,451,771	\$23.35
Share of Total	81.4%	16.1%	1.6%	0.8%	0.1%	100.0%	

¹Fiscal 2015 amounts are not available from the county because it does not budget for the revenues. The Department of Legislative Services has assumed that the fiscal 2015 revenues are the same as in fiscal 2014.

Source: Department of Legislative Services