

**Department of Legislative Services**  
Maryland General Assembly  
2015 Session

**FISCAL AND POLICY NOTE**  
**Revised**

Senate Bill 886

(Senators Hough and Young)

Budget and Taxation

Ways and Means

---

**Frederick County Property Tax Fairness Act of 2015 (Strengthening Frederick Municipalities)**

---

This bill alters the procedure for establishing property tax setoffs between Frederick County and municipalities in Frederick County.

The bill takes effect July 1, 2015; however specified provisions of the bill take effect October 1, 2015, and apply to fiscal 2017 and each subsequent fiscal year.

---

**Fiscal Summary**

**State Effect:** None.

**Local Effect:** Frederick County funding for property tax setoffs may increase or decrease beginning in FY 2017 contingent on formulas agreed upon by the county and each municipality in the county. Municipal funding for setoffs increase or decrease by a similar amount. **The bill imposes a mandate on a unit of local government.**

**Small Business Effect:** Minimal.

---

**Analysis**

**Bill Summary:** The bill requires Frederick County to meet and discuss annually with each municipality the county property tax rate to be set for assessments of property in the municipality. After the meeting if it can be demonstrated that a municipality performs services or programs instead of similar county services or programs, Frederick County must grant a tax setoff to the municipality in accordance with a formula agreed to by the county and the municipality. If Frederick County and a municipality fail to reach an agreement concerning the formula by which a tax setoff is to be calculated, Frederick

County must grant a tax setoff using the formula for the preceding taxable year. Frederick County and a municipality must agree to phase in over a period of three to five years, beginning in fiscal 2017, any increase in the level of a tax setoff above the level of the tax setoff granted in fiscal 2016 if the increase is attributable to the funding of new services or programs.

Before the amount of a property tax setoff may be established for fiscal 2017, Frederick County must conduct a detailed study of the scope and nature of the individual services or programs provided by each municipality in the county instead of similar services or programs provided by the county.

The bill also repeals a provision of law that requires Frederick County, for the taxable years that begin July 1, 2011, and July 1, 2012, to grant a tax setoff to a municipality in an amount that is no less than the tax setoff granted to that municipality for the preceding taxable year; and increases by the same percentage by which the county property tax rate exceeds the constant yield tax rate.

**Current Law:** Section 6-305 of the Tax-Property Article requires that Allegany, Anne Arundel, Baltimore, Frederick, Garrett, Harford, Howard, Montgomery, and Prince George's counties meet annually with the governing bodies of municipalities to discuss the property tax rate to be set for assessments of property in the municipality. If it is demonstrated that a municipality performs services or programs in lieu of similar county services and programs, the governing body of the county *must impose* the county property tax on assessments of property in the municipality at a rate that is less than the general county property tax rate.

Section 6-306 governs the procedure for the setting of a tax differential in the other counties. The governing bodies of the counties are required to meet annually with governing bodies of municipalities to discuss the property tax rate to be set for assessments of property in the municipality. If it is demonstrated that the municipality performs services or programs in lieu of similar county services, the county *may establish* a county property tax rate for property in the municipality that is lower than the general county property tax rate.

Alternatively, both of the above sections provide the counties with the option of making a payment to the municipality to aid the municipality in funding municipal services or programs that are similar to county services or programs. This is commonly known as a tax rebate.

Subsections (d) and (e) of Sections 6-305 and 6-306 of the Tax-Property Article define the procedures for determining the county property tax rate within a municipality. The provisions follow:

- (d) *Setting county rate for a municipality.* In determining the county property tax rate to be set for assessments of property in a municipality, the governing body of the county shall consider:
  - (1) the services and programs that are performed by the municipality instead of similar county services and programs; and
  - (2) the extent that the similar services and programs are funded by property tax revenues.
- (e) *Rate need not be uniform.* The county property tax rate for assessments of property located in a municipality is not required to be:
  - (1) the same as the rate for property located in other municipalities in the county; or
  - (2) the same as the rate set in a prior year.

A county and one or more municipalities may enter into an agreement setting different terms or timing for negotiations, calculations, or approval of a tax set-off than are set out under Sections 6-305 and 6-306.

**Background:** Property tax setoffs are meant to compensate for double taxation of municipal taxpayers occurring when both municipal and county property taxes are levied to fund similar services. Therefore, counties compensate municipal taxpayers with property tax setoffs through a tax rate differential or through a tax rebate. A tax rate differential results in a lower county property tax rate within the boundaries of a municipality, whereas a tax rebate is a direct payment to a municipality for providing the services or programs.

In Maryland, 18 of the 23 counties had property tax setoffs for municipalities in their jurisdictions in fiscal 2014. Of the 5 remaining counties, Baltimore and Howard counties have no municipalities, while Queen Anne's, Wicomico, and Worcester counties chose not to establish tax set offs. In fiscal 2014, tax differentials and rebates totaled \$101.5 million, a 2% decrease compared to the prior year. Local funding for tax differentials and rebates in fiscal 2014 ranged from \$50,471 in St. Mary's County to \$27.5 million in Prince George's County. On a per capita basis, local funding ranged from less than \$1 in St. Mary's County to \$95 in Talbot County. **Exhibit 1** shows the amount of tax differentials and tax rebates for fiscal 2014.

More detailed information on property tax setoffs for Maryland counties and municipalities can be found in the [Property Tax Set-offs](#) report. A copy of the report can be found on the Department of Legislative Services website.

**Local Fiscal Effect:** Frederick County funding for property tax setoffs may increase or decrease beginning in fiscal 2017 contingent on formulas agreed upon by the county and each municipality. Municipal funding for setoffs increase or decrease by a similar amount.

As a point of reference, Frederick County provided a real property tax rate differential to Frederick and Myersville totaling \$8.5 million in fiscal 2014. Frederick County provided tax rebates totaling \$4.0 million in fiscal 2014 to the other 10 municipalities for police protection, planning and zoning, and parks and recreation. The tax rebates were determined by calculating a certain factor (called a CAP factor), which is based on the municipalities' total taxable income, assessable base, and population compared to the county's 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. The tax rate differentials are calculated in a similar manner. **Exhibit 2** shows the total tax setoff amounts in fiscal 2014 for municipalities in Frederick County.

---

### Additional Information

**Prior Introductions:** None.

**Cross File:** HB 664 (Frederick County Delegation) - Ways and Means.

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

**Fiscal Note History:** First Reader - March 16, 2015  
min/hlb Revised - Senate Third Reader - March 30, 2015

---

Analysis by: Michael Sanelli

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

**Exhibit 1**  
**Tax Differentials and Tax Rebates**  
**Fiscal 2014**

| <b>County</b>   | <b>Tax Differential</b> | <b>Tax Rebate</b>   | <b>Total</b>         |
|-----------------|-------------------------|---------------------|----------------------|
| Allegany        | \$2,204,011             | \$0                 | \$2,204,011          |
| Anne Arundel    | 24,131,339              | 0                   | 24,131,339           |
| Baltimore City  | N/A                     | N/A                 | N/A                  |
| Baltimore       | N/A                     | N/A                 | N/A                  |
| Calvert         | 3,368,991               | 0                   | 3,368,991            |
| Caroline        | 473,645                 | 0                   | 473,645              |
| Carroll         | 0                       | 2,520,690           | 2,520,690            |
| Cecil           | 0                       | 760,340             | 760,340              |
| Charles         | 1,108,014               | 0                   | 1,108,014            |
| Dorchester      | 398,799                 | 6,050               | 404,849              |
| Frederick       | 8,542,062               | 4,011,173           | 12,553,235           |
| Garrett         | 70,422                  | 237,000             | 307,422              |
| Harford         | 6,550,444               | 3,554,158           | 10,104,602           |
| Howard          | N/A                     | N/A                 | N/A                  |
| Kent            | 0                       | 64,446              | 64,446               |
| Montgomery      | 0                       | 7,776,718           | 7,776,718            |
| Prince George's | 26,818,044              | 651,147             | 27,469,191           |
| Queen Anne's    | 0                       | 0                   | 0                    |
| St. Mary's      | 0                       | 50,471              | 50,471               |
| Somerset        | 0                       | 315,000             | 315,000              |
| Talbot          | 3,588,941               | 0                   | 3,588,941            |
| Washington      | 4,320,810               | 0                   | 4,320,810            |
| Wicomico        | 0                       | 0                   | 0                    |
| Worcester       | 0                       | 0                   | 0                    |
| <b>Total</b>    | <b>\$81,575,522</b>     | <b>\$19,947,193</b> | <b>\$101,522,715</b> |

N/A: indicates the jurisdiction has no municipalities.

Source: Department of Legislative Service

---

**Exhibit 2**  
**Tax Differentials and Tax Rebates in Frederick County**  
**Fiscal 2014**

| <u>Municipality</u> | <u>Real Property<br/>Tax Rate<br/>Differential</u> | <u>Differential<br/>Amount</u> | <u>Rebate<br/>Amount</u> | <u>Total</u>        |
|---------------------|--|--------------------------------|--------------------------|---------------------|
| Brunswick           | \$0.0000   | \$0                            | \$822,546                | \$822,546           |
| Burkittsville       | 0.0000   | 0                              | 22,255                   | 22,255              |
| Emmitsburg          | 0.0000   | 0                              | 372,491                  | 372,491             |
| Frederick           | 0.1283   | 8,356,167                      | 0                        | 8,356,167           |
| Middletown          | 0.0000   | 0                              | 584,765                  | 584,765             |
| Mount Airy          | 0.0000   | 0                              | 480,150                  | 480,150             |
| Myersville          | 0.1235   | 185,895                        | 0                        | 185,895             |
| New Market          | 0.0000   | 0                              | 78,902                   | 78,902              |
| Rosemont            | 0.0000   | 0                              | 10,819                   | 10,819              |
| Thurmont            | 0.0000   | 0                              | 844,590                  | 844,590             |
| Walkersville        | 0.0000   | 0                              | 701,903                  | 701,903             |
| Woodsboro           | 0.0000   | 0                              | 92,752                   | 92,752              |
| <b>Total</b>        |  | <b>\$8,542,062</b>             | <b>\$4,011,173</b>       | <b>\$12,553,235</b> |

---