Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 213 (Delegate Conroy, *et al.*)
Commerce and Government Matters

Municipal Corporations - Incorporation Process

This bill changes the process by which an organizing community can become an incorporated municipality.

Fiscal Summary

State Effect: None. The Attorney General's Office could create standard petition forms with existing resources.

Local Effect: Indeterminate effect on local government finances. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Fiscal Analysis

Bill Summary: The Office of the Attorney General must create a standard petition form. An organizing community must obtain the minimum number of valid signatures within 18 months after receiving the form. The bill also establishes an organizing committee which means the group of individuals from the organizing community that is responsible for working with the county government in the proposed municipal corporation.

Within 60 days after receiving the petition, the county must verify the petition. The petition must contain the valid signatures of: 1) at least 20% of the registered voters who reside within the proposed municipal corporation; and 2) the owners of at least 25% of the assessed valuation of the real property of the area to be incorporated. A group of individuals may also submit a proposal to incorporate if a petition is signed by at least 25% of the registered voters of that area. If the petition meets these requirements, the county shall appoint a county official to represent the county as a liaison to the organizing committee. An organizing community becomes an organizing committee once a petition is verified by the county.

The bill also requires, within 90 days of verification of the petition, that the county and the organizing committee share information through public meetings. The organizing committee must also submit a report to the county detailing the fiscal impact of the proposed incorporation. Within 45 days after receiving the county's position statement, the organizing committee must give the county a proposed charter to be used in the referendum election. Between 40 and 60 days after receiving the proposed charter, the county may specify, by resolution, the day and hours for a special referendum election on the proposed incorporation for the voters of the area to be incorporated. If the county rejects the referendum request, it must provide the reason(s) in writing and publicize this information, and also establish procedures for reconsideration.

If the majority of the voters cast their vote in favor of incorporation under the proposed charter, the area is deemed to be a municipal corporation.

Under current law, the county must defray the costs of the referendum election. This bill mandates that the county also defray the costs of the original election of officers and any third party consultants hired by the county to analyze the issues related to the proposed incorporation. If the referendum vote results in incorporation, the municipal corporation must repay these expenses within one year of the date of incorporation. After one year the county may withhold any payments due to the municipal corporation to cover unpaid expenses.

The bill also establishes a disbursement schedule for income taxes owed to the municipal corporation.

Background: Currently, there are 156 incorporated municipalities in Maryland, located throughout 21 counties. Baltimore and Howard counties are the only counties that do not have any municipalities within their jurisdictions. Since municipalities were granted home rule in 1954, there have been six municipal incorporation efforts that have made it to referendum. Five of these efforts were successful, all in Montgomery County, with the latest being North Chevy Chase in 1995.

Local Effect: If the bill allows for more municipalities to be created, county governments would be significantly impacted. A county would most likely have to share a portion of its revenues from income taxes, highway user revenues, State police and fire aid, and other local charges and fees with the new municipality.

In addition, property tax revenues could also decrease if a county imposes a lower tax rate in the new municipality in order to compensate for services provided by the municipality that would otherwise be provided by the county (i.e., tax differential or offset). However, since the county would not provide certain services in the municipality, the revenue decrease would be partially, if not fully, offset by a decrease in expenditures. Prince George's County reports that there are other fiscal effects that are not directly related to municipal services replacing county services. For example, municipalities share in hotel\motel tax revenues and municipalities preempt the county in admissions and amusement taxes. The revenue decrease for counties would depend upon the number of municipalities, the size of the municipalities, and the types of services provided by the municipalities.

County expenditures could also increase due to the costs associated with referendum elections, original elections of officers for new municipalities, and third party consultants to analyze proposed incorporations. However, if a referendum vote leads to incorporation, the new municipality must repay the county for these costs within one year after incorporation. These costs would depend upon the number of referendum elections and original municipal elections. The costs would also depend upon the number of consultants hired by the county and the scope of their activities.

Somerset County reports that the cost of hiring an outside consultant would be between $10,000 and $20,000 for each proposed incorporation. It is further estimated that it would cost $2,000 to verify a petition and review a proposal for incorporation, and $52,000 to conduct a referendum election.

Information Source(s): Office of the Attorney General, Prince George's County, Department of Legislative Services

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