

Department of Legislative Services

Maryland General Assembly

2001 Session

FISCAL NOTE

Senate Bill 120 (Senator Green, *et al.*)

Budget and Taxation

Prince George's County - Sales Tax for School Construction

This bill authorizes the County Council of Prince George's County to impose a 1% local sales tax in addition to the State's 5% sales tax. Net revenue collected under these provisions may be used only for the purpose of providing capital funding for the construction, renovation, and upgrading of public schools in Prince George's County, including funding of debt service on bonds. To take effect, the sales tax must first be submitted to a referendum of Prince George's County voters at the November 2002 election.

The bill takes effect October 1, 2002 for the purposes of holding the referendum; if the tax is approved, it would take effect January 1, 2003.

Fiscal Summary

State Effect: None.

Local Effect: Assuming approval of the mandated referendum, Prince George's County revenues could increase by an estimated \$33.4 million in FY 2003 based on the January 1, 2003 effective date, increasing to \$70.3 million in FY 2004. Future year growth reflects estimated growth in sales tax revenue. Expenditures could increase by approximately \$150,000.

Small Business Effect: Meaningful impact on small businesses in Prince George's County.

Analysis

Bill Summary: Vendors shall file returns with the county on the twenty-first day of each month, and shall remit the taxes collected with the return. Vendors are allowed a deduction of 1.5% of the tax collected.

Current Law: State law prohibits local governments from imposing any general retail sales or use taxes, with certain exceptions. These exceptions include taxes that existed before January 1, 1971; sales or use taxes on fuels, utilities, space rentals, and certain controlled dangerous substances; and certain sales or use taxes on food and beverages. The last permits the Town of Ocean City to levy a 1% sales tax on food and beverages.

Background: Prince George's County is in the midst of a program to construct 26 new schools. Proposed capital spending for fiscal 2002 (including not only new construction, but also renovation and expansion of existing schools) is estimated to be \$113 million, of which \$53 million is requested State funds and \$60 million is county funds. Of the 26 new schools, 13 are part of a settlement of a lawsuit to end busing in the county and to increase the availability of "neighborhood" schools.

Local Revenues: Prince George's County revenues could increase \$33.4 million in fiscal 2003. In fiscal 2000, the Comptroller's Office estimates that \$283.6 million of net sales and use tax (after the State's vendor discount) is attributable to sales in Prince George's County. Incorporating the Bureau of Revenue Estimates' (BRE) forecasted sales tax growth and factoring back in the vendor discount, about \$337.9 million in taxes would be collected in fiscal 2003. Adjusting for the January 1 effective date, the county 1% rate would therefore result in gross collections of about \$33.8 million, and net revenue after the vendor's commission of \$33.4 million. Due to the method by which the Comptroller apportions sales tax revenues to the counties, however, the county's actual collections could differ. The estimates included in this note are based on the Comptroller's apportionment.

In fiscal 2004, net revenues would total \$70.3 million, due to annualization and assumed growth in sales tax revenue. As illustrated below, revenues thereafter would grow at the rates forecasted by the BRE; fiscal 2006 growth is assumed to be 5%. These estimates do not include an adjustment for cross-border economic activity, although an indeterminate amount of such shifting could take place on "big-ticket" purchases.

Senate Bill 120
Projected Increase in Prince George's County Revenues
Fiscal 2002 through 2006 - \$ in millions

FY 2002	--
FY 2003	\$33.4
FY 2004	\$70.3
FY 2005	\$74.2
FY 2006	\$77.9

Local Expenditures: The costs associated with conducting the referendum could be handled with existing resources. Prince George's County advises that in order to administer the tax, county expenditures could increase by an estimated \$150,000 for three additional fiscal positions (including salaries and fringe benefits).

Small Business Effect: For retail establishments in Prince George's County, there will be additional initial costs associated with reprogramming cash registers and ongoing administrative costs from remitting the tax collections. In most cases, these costs will be offset by the vendor commission. For retail establishments that lose sales to other jurisdictions because of the tax, the vendor commission may not offset the lost revenue.

Additional Comments: Recent efforts by the National Conference of State Legislatures (NCSL) and other multi-state organizations to streamline the nation's system of sales taxes has led to proposed model legislation that would put certain restrictions on local sales taxes. Many other states allow local governments to impose sales and use taxes. The large number of such local government tax rates across the country has posed one of the most difficult obstacles to a streamlined sales tax system. The NCSL's model legislation would restrict local governments within a state to a single local sales tax rate and would restrict the timing and manner by which the local government could change the rate or the taxable base. It is not clear whether imposition of a sales tax in Prince George's County, in light of the existing tax in Ocean City on a different tax base, would conflict with the model legislation.

Additional Information

Prior Introductions: SB 151 of 1996, a similar but not identical bill which would have created a temporary (for six months) sales tax of 1% in Prince George's County to fund school construction, was not reported out of the Senate Budget and Taxation Committee.

Cross File: None.

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

Fiscal Note History: First Reader – January 19, 2001
ncs/jr

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