SB 95

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE
Revised

Senate Bill 95 (Senator Baker)
Budget and Taxation Ways and Means

Cecil County - Property Tax - Payment in Lieu of Taxes - Electricity Generation Facility

This bill authorizes Cecil County to enter into a negotiated payment in lieu of property taxes agreement with the owner of an electric generating facility that locates in the county. The personal property of the facility will be included in the county's assessable base for State aid purposes.

The bill is effective July 1, 2001.

Fiscal Summary

State Effect: None. This bill does not provide an exemption from the State property tax.

Local Effect: No net effect on Cecil County revenues because the county plans on entering into a payment in lieu of taxes agreement that would approximate the property tax revenues it would have received.

Small Business Effect: None.

Analysis

Current Law: Generally, the real property of electric generating facilities is subject to county property taxes at the county rate of $.98 per $100 of full value assessment. During the 1999 session the General Assembly passed legislation to deregulate the electric and gas utility industry. As a result, Chapters 5 and 6 of 1999 changed the tax structure related to electric generating facilities and granted a 50% exemption on personal property that is machinery or equipment of electric generating facilities. Cecil County's personal property tax rate is $2.45 per $100 of full value assessment.

Approximately 66% of the State's education aid is allocated inversely to local wealth, whereby less affluent jurisdictions receive relatively more aid. Wealth is usually defined as some combination of property assessable base and net taxable income. Two of the State's primary aid programs, current expense and compensatory aid, include personal property assessable base as a wealth component to distribute aid to local governments. State funding for these programs totals $1.7 billion in the proposed fiscal 2002 budget. One goal of the aid formulas based on wealth is to divorce the computation of aid from local decisions on whether to tax property. The aid is based on the property that could be subject to taxation, not the property actually taxed by a county. That way counties are treated consistently under the aid formula, because wealth base changes result in a redistribution of aid. The use of real property for State property tax purposes in the computation insures that local decisions on exemptions do not impact State aid. County real property tax exemptions, where a county has chosen to forego revenues, do not affect State education aid. With respect to personal property, assessments for county tax purposes are used in aid formulas, in part, because the State does not tax personal property. If property is exempt for taxation in a county, the property is not included in the county's wealth base for aid purposes. Fifty percent of the value of personal property for county tax purposes is included in the wealth base.

Background: Old Dominion Electric Cooperative has plans to build a gas turbine at Rock Springs in Cecil County. The plant would be built in phases, with the first phase being taxable as early as fiscal 2003. The county intends to negotiate a payment in lieu of taxes for a 20-year period that is approximately equal to the property tax revenue it would have collected. The payment in lieu of taxes would be granted in order for the facility to have a steady expenditure stream, which would allow Old Dominion to obtain a better bond rating.

Local Fiscal Effect:

Cecil County – Property Taxes

Assuming that the county enters into an agreement with Old Dominion as planned, there will be no net effect on county revenue related to the reduction in property tax revenues because the county will negotiate a payment in lieu of taxes. Based on preliminary information regarding the electric generating facility, if the county did not grant the facility an exemption from the property tax, property tax revenues would increase by $2.3 million in fiscal 2003 and by $4.5 million in fiscal 2004. The estimated value of the facility property, accounting for the 50% exemption for personal property from the 1999 utility deregulation, is as follows:

	Fiscal 2003	Fiscal 2004
Real Property	$9 million	$18 million
Personal Property	$88 million	$176 million

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Assessments and Taxation, Cecil County, Department of Legislative Services

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