

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE

Senate Bill 596 (Senator Pinsky) (Prince George's County Administration)
 Budget and Taxation

**Political Subdivisions - Grants to Counties - Property Tax Disparity Grant
 Formula**

This bill establishes a new State aid program that provides funding to counties whose per capita property tax yields are less than 85% of the statewide average.

This bill takes effect on July 1, 2001.

Fiscal Summary

State Effect: General fund expenditures would increase by \$10.3 million in FY 2002 and by \$26.0 million in FY 2003. Future year expenditures reflect growth in population and property assessable base. Revenues would not be affected.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	\$0	\$0	\$0	\$0	\$0
Expenditure	10.3	26.0	26.8	27.6	28.4
Net Effect	(\$10.3)	(\$26.0)	(\$26.8)	(\$27.6)	(\$28.4)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: State aid to eight local governments would increase by \$10.3 million in FY 2002 and by \$28.4 million in FY 2006.

Small Business Effect: None.

Analysis

Bill Summary: A county with a one-cent per capita property tax yield less than 85% of the statewide average would receive a property tax disparity grant. Pursuant to this legislation, a county's per capita property tax yield is based on the assessed value of real property divided by the county's population as determined by the Office of Planning. Real property would include railroad operating personal property and utility operating real and personal property. The property tax disparity grant is calculated as follows:

- (1) multiply the county's population by 2;
- (2) multiply the result in (1) by 85% of the statewide per capita property tax yield;
and
- (3) multiply the result in (2) by the following fraction: (85% of the statewide one-cent per capita property tax yield/ county's one-cent per capita property tax yield).

Current Law: Disparity grants are provided to counties whose per capita income tax yields are less than 75% of the statewide average. The State does not provide counties with a disparity grant based on local property tax yields.

Background: Property taxes are the largest revenue source for local governments, accounting for 27% of total revenues in fiscal 1998. Per capita property tax revenues range from \$274 in Somerset County to \$973 in Worcester County, with the statewide average at \$706. The larger the assessable property tax base in a county, the more revenues that can be derived with an increase in the property tax rate. For example, a one-cent increase in the property tax rate in Talbot County generates an additional \$138,125 in revenues, whereas it generates only \$69,718 in Dorchester County, even though both jurisdictions have nearly the same number of residents.

The State began providing disparity grants in fiscal 1992 to counties whose per capita income tax yields were below 70% of the statewide average. Baltimore City and five counties (Allegany, Caroline, Dorchester, Garrett, and Somerset) qualified for the grants. Funding for the program totaled \$8.6 million in fiscal 1992. Today, the disparity grant is based on 75% of the per capita statewide local income tax yield. Nine jurisdictions (Baltimore City and Allegany, Caroline, Dorchester, Garrett, Prince George's, Somerset, Washington, and Wicomico counties) will receive \$89.2 million in funding in fiscal 2002.

State and Local Fiscal Effect: This bill establishes a property tax disparity grant for counties whose one-cent per capita property tax yields are less than 85% of the statewide average. Eight jurisdictions would receive funding under this aid program as shown in **Exhibit 1**. Future year expenditures reflect growth in county population and property assessable base.

Exhibit 1
Funding for Proposed Property Tax Disparity Grant

County	Fiscal 2002	Fiscal 2003
Allegany	\$503,300	\$1,278,100
Baltimore City	4,872,400	12,417,500
Caroline	158,400	376,100
Dorchester	130,100	329,300
Prince George's	3,489,100	8,689,400
Somerset	185,400	472,900
Washington	590,800	1,423,800
Wicomico	404,800	995,500
Total	\$10,334,300	\$25,982,600

Additional Comments: As a result of legislation adopted at the 2000 session, beginning in fiscal 2002, a county's assessable base for tax purposes will be based on 100% of the property's market value instead of the current assessment rate of 40%. Since the property tax disparity grant is based on a county's assessable base in the prior fiscal year, the one-cent per capita yield of the county property tax used in the fiscal 2002 calculation would be based on 40% of the county's assessable real property base. Beginning in fiscal 2003, the calculation would be based on 100% of the assessable real property base.

Additional Information

Prior Introductions: None.

Cross File: HB 1177 (Delegate R. Baker, *et al.*) – Appropriations.

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

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