

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

Senate Bill 777

(Senator Green, *et al.*)

Budget and Taxation

Prince George's County - Sales Tax for School Construction and Operating Costs

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 revenues 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 July 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 \$32.4 million in FY 2003 based on the January 1, 2003 effective date, increasing to \$67.5 million in FY 2004. Future year growth reflects estimated growth in sales tax revenues. 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 \$32.4 million in fiscal 2003. In fiscal 2001, the Comptroller's Office estimates that \$310.1 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 \$335.1 million in taxes would be collected in fiscal 2003. Adjusting for the January 1 effective date, the county 1% rate would therefore result in net collections of \$32.4 million after adjusting for vendor commissions and assuming that 1% of sales leave Maryland altogether and 2% of sales are diverted to other Maryland counties. 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 \$67.5 million, due to annualization and assumed growth in sales tax revenue. As illustrated below, revenues thereafter would grow at the rates forecasted by BRE; fiscal 2007 growth is assumed to be 5%. To the extent that avoidance of the additional sales tax is greater than estimated, particularly for "big ticket" purchases, then realized revenues may be lower than estimated.

**Projected Increase in Prince George's County Revenues
Fiscal 2003 through 2006 - \$ in millions**

FY 2003	\$67.5
FY 2004	\$70.2
FY 2005	\$73.0
FY 2006	\$75.9

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 Information

Prior Introductions: SB 120 of 2001 received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: None.

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

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lc/jr

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