

**Department of Legislative Services**  
Maryland General Assembly  
2002 Session

**FISCAL NOTE**

Senate Bill 98 (Chairman, Budget and Taxation Committee)  
(Departmental – Assessments and Taxation)

Budget and Taxation

Ways and Means

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**State Aid - Property Values**

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This departmental bill alters the definition of real property, personal property, and local wealth for the purpose of calculating State education, library, and police aid. The bill takes effect July 1, 2002 and is applicable to all State aid payments beginning in fiscal 2004.

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**Fiscal Summary**

**State Effect:** Minimal increase in State general fund expenditures beginning in FY 2004. Revenues are not affected.

**Local Effect:** Minimal impact on State aid to local governments beginning in FY 2004. Local expenditures are not affected.

**Small Business Effect:** The State Department of Assessments and Taxation has determined that this bill will have minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

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**Analysis**

**Current Law:** Six State aid programs (current expense, compensatory aid, targeted improvement, special education, library aid, and police aid) use property assessments to allocate funding to local jurisdictions.

- For State education aid, local wealth includes net taxable income, 40% of the assessed valuation of real property, 100% of the assessed valuation of utility operating real property, and 50% of the assessed valuation of personal property. Railroad operating real property has historically been included with the valuation of personal property. Railroad operating real property includes buildings used by the railroads for operational purposes, such as to store equipment or materials. Land and nonoperating property of railroads has been included with the valuation of real property. This type of property includes buildings owned by the railroads but that are not used for railroad purposes, such as an office building rented to another business.
- For State library aid, local wealth includes real property at 50% of market value, utility operating real property at 100% of market value, and net taxable income. Railroad operating real property has historically been included with the valuation of personal property and therefore has not been included in the local wealth base for purposes of calculating State library aid.
- For purposes of calculating State education aid, local wealth includes agricultural use property at 50% of the use value. This adjustment, however, has never been implemented.
- For State police aid, local wealth includes net taxable income, 40% of the assessed valuation of real property, and 100% of the assessed valuation of utility operating real property.

**Background:** During the 2000 session, the General Assembly passed legislation (Chapter 80) that changed the method of assessing real property from 40% of market value to full value beginning in fiscal 2002. A simultaneous reduction in property tax rates was required so that the assessment change would remain revenue neutral; however, the local governing body could elect to impose a higher property tax rate. In addition to changing the assessment of real property to full value assessment, the legislation made numerous adjustments to provisions throughout the Annotated Code of Maryland relating to State aid. The Department of Assessments and Taxation (DAT) was directed to report to the General Assembly by December 1, 2000 regarding any further amendments to the law necessary to correct any provisions rendered inaccurate or obsolete as a result of the change to full value assessment for real property.

DAT changed the reporting classification of railroad operating real property beginning in the fiscal 2002 tax year. Historically, land property of railroads was included in the full year real property classification. Beginning this year (fiscal 2002), land property of

railroads was included in the railroad operating real property. This has an impact on State aid calculations, since the local wealth base includes 40% of the market value of property under the full year real property classification and only 20% of the market value of property under the railroad operating real property classification. This reporting change primarily benefited Baltimore City.

**State Fiscal Effect:** State aid to local governments would be minimally affected by the changes incorporated in this bill.

### *Education Aid*

State education aid is affected due to the reclassification of railroad operating real property in the calculation of the education aid formulas. Railroad operating real property has historically been included with the valuation of personal property. Currently, only 20% of the market value of railroad operating real property is included in the local wealth base. Beginning in fiscal 2004, 40% of the market value of railroad operating real property will be included in the local wealth base. This increases the local wealth base by \$28 million or \$35 per pupil. Since the increase in the local wealth base is not proportional, counties with a per pupil local wealth base increase greater than the statewide average (\$35) will realize a reduction in State education aid. This occurs because these counties become relatively wealthier than counties with a smaller wealth base increase. Since the overall State funding for the aid programs remain the same, changes in local wealth results in a redistribution of existing State funding.

Based on the fiscal 2003 formula calculations, three local school systems (Allegany, Baltimore City, and Washington) would realize a decrease in State aid. **Exhibit 1** shows the fiscal impact based on the fiscal 2003 formula calculations. Most of the fiscal impact results from the unintentional transfer by MSDE of railroad land property from the real property category to the personal property category that occurred in fiscal 2003 due to a reporting change by DAT. Absent the DAT reporting change, this legislation would have increased the local wealth base by only \$9 million instead of \$28 million. This would have significantly reduced the fiscal impact on the three local school systems.

### *Library Aid*

State library aid is affected due to the elimination of a statistical adjustment (equalization ratio) to real property assessments and the inclusion of railroad operating real property to the local wealth base calculation. Railroad operating real property has historically been included with the valuation of personal property. The statistical adjustment (equalization ratio) was made to equalize property assessments thereby ensuring that each county's

assessable base reflected 50% of the market valuation. A similar statistical adjustment was used in State education aid formulas until 1984 when it was discontinued.

The “equalization ratio” for fiscal 2001 ranges from 35% in Cecil County to 39% in Allegany, Queen Anne’s, and Somerset counties. Through the statistical adjustment, a county’s real property assessment would be adjusted to reflect the amount at 50% of market valuation. For example, in Cecil County the real property assessable base is increased by 15 percentage points; whereas in Allegany, Queen Anne’s, and Somerset counties the real property assessable base is increased by only 11 percentage points. Due to the differences in the “equalization ratios,” the statistical adjustment was greater in Cecil County than the other three counties thereby making the county relatively wealthier than without the statistical adjustment. The elimination of the statistical adjustment benefits counties with a relatively lower “equalization ratio.”

As shown in **Exhibit 2**, the fiscal impact for each county varies from year-to-year depending upon the “equalization ratio” used by SDAT. For example, in Cecil County, State library aid would increase by \$25,400 in fiscal 2001 but decrease by \$4,600 in the following year.

#### *Police Aid*

The State police aid formula has seven funding components, one of which is affected by local wealth. This component provides funding to each jurisdiction for any police expenditures over .09% of their local wealth base up to \$6 per capita. Growth in the local wealth base has made this formula calculation obsolete because .09% of each jurisdiction’s local wealth base currently exceeds the \$6 per capita cap. No State funding has been allocated according to this component since 1980. Accordingly, local wealth does not affect a county’s allocation under the State police aid formulas. The other six funding components of the police aid formula do not use local wealth to calculate funding.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Sources:** Department of Assessments and Taxation, Maryland State Department of Education, Department of State Police, Department of Legislative Services

**Fiscal Note History:** First Reader - January 29, 2002  
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**Exhibit 1**  
**Fiscal Impact of SB 98 on State Education Aid Formulas**  
**Based on Fiscal 2003 Formula Calculations**

<u>County</u>	<u>Current Expense</u>	<u>Compensatory Aid</u>	<u>Special Education</u>	<u>Targeted Improvement</u>	<u>Total Education Aid</u>
Allegany	-\$6,875	-\$290	-\$81	-\$67	-\$7,312
Anne Arundel	20,244	3,081	258	3	23,941
Baltimore City	-113,768	-39,787	-2,394	-6,400	-162,349
Baltimore	18,102	5,304	322	864	24,592
Calvert	3,485	860	80	87	4,511
Caroline	760	967	43	151	1,921
Carroll	4,705	1,122	130	95	6,053
Cecil	-284	1,173	68	127	1,084
Charles	3,638	1,647	96	219	5,600
Dorchester	886	798	25	107	1,816
Frederick	1,884	1,423	120	176	3,603
Garrett	995	847	29	100	1,971
Harford	6,662	2,197	199	260	9,319
Howard	2,765	952	88	107	3,913
Kent	751	202	9	34	996
Montgomery	44,726	3,625	313	679	49,343
Prince George's	15,837	10,724	532	2,530	29,623
Queen Anne's	1,847	386	30	38	2,302
St. Mary's	2,977	1,484	81	140	4,681
Somerset	156	718	17	95	985
Talbot	2,032	219	9	27	2,286
Washington	-12,389	300	-41	20	-12,111
Wicomico	289	1,692	53	210	2,244
Worcester	2,434	355	14	44	2,847
<b>Total</b>	<b>\$1,859</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,859</b>

Prepared by: Department of Legislative Services, January 2002

**Exhibit 2**  
**Fiscal Impact of SB 98 on the State Library Aid Formula**

<u>County</u>	<u>Fiscal 2001 Calculation</u>	<u>Fiscal 2002 Calculation</u>
Allegany	-\$6,731	\$997
Anne Arundel	36,943	106,978
Baltimore City	13,045	48,571
Baltimore	37,960	-57,738
Calvert	-4,468	4,895
Caroline	-867	-1,142
Carroll	-7,102	-9,881
Cecil	25,378	-4,597
Charles	-5,014	-7,121
Dorchester	1,883	-1,170
Frederick	-9,063	13,252
Garrett	-517	3,019
Harford	10,979	9,440
Howard	-17,724	-24,280
Kent	-540	2,097
Montgomery	0	0
Prince George's	-27,890	-40,050
Queen Anne's	-7,418	4,503
St. Mary's	-3,100	-4,245
Somerset	-1,780	-629
Talbot	0	0
Washington	-5,433	20,189
Wicomico	-3,357	3,268
Worcester	0	0
<b>Total</b>	<b>\$25,184</b>	<b>\$66,356</b>

Prepared by: Department of Legislative Services, January 2002