

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

House Bill 763 (Delegate Patterson)
 Ways and Means

Prince George's County - Sales Tax to Fund Health Care Services

This bill authorizes the Prince George’s County Council to impose a maximum 0.5% local sales and use tax on retail sales in Prince George’s County for the purpose of funding health care services.

The bill is effective July 1, 2003.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately \$1.7 million in FY 2004. Out-year losses reflect underlying sales tax revenue growth. Expenditures would not be affected.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	(\$1,700,000)	(\$1,850,000)	(\$1,950,000)	(\$2,100,000)	(\$2,200,000)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$1,700,000)	(\$1,850,000)	(\$1,950,000)	(\$2,100,000)	(\$2,200,000)

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

Local Effect: Prince George’s County revenues could increase by approximately \$34.9 million in FY 2004 and by \$44.0 million in FY 2008. Out-year losses reflect underlying sales tax revenue growth. County expenditures would increase by \$150,000 annually to administer the tax.

Small Business Effect: Meaningful.

Analysis

Current Law: A county, municipal corporation, special taxing district, or other political subdivision of the State may not impose any retail sales or use tax except: (1) a sales tax or use tax that was in effect on January 1, 1971; (2) a tax on the sale or use of fuels, utilities, space rentals, or any controlled dangerous substance; or (3) a tax imposed by a code county on the sale or use of food and beverages.

Background: Prince George's County has five hospitals: the Prince George's Hospital Center, the Doctor's Community Hospital of Prince George's County, the Greater Laurel Beltsville Hospital, the Southern Maryland Hospital Center, and Washington Adventist Hospital. For illustrative purposes only, the Prince George's County Hospital Center (PGHC) is the largest and most comprehensive hospital in the county, serves more than 75% of the uninsured population in the county, and has experienced approximately \$27.5 million in losses during its three most recent fiscal years. In fiscal 2001, PGHC had 14,521 inpatient admissions, 2,941 newborn deliveries, 57,690 emergency room visits, 7,045 ambulatory surgeries, and 11,136 clinic visits.

Chapter 342 of 2002 authorized the creation of the Prince George's County Hospital System Improvement Task Force. The task force is charged with studying the Prince George's Hospital System and must consider the factors which have contributed to the financial deterioration of the hospital system. The task force must deliver a final report to the Governor by September 30, 2004.

The State currently participates in the Streamlined Sales Tax Project, a multistate effort to harmonize state sales tax structures and thereby overcome the administrative and legal hurdles of collecting sales taxes on remote transactions, such as sales from catalogs and the Internet. One significant obstacle to the harmonization effort has been local sales taxes. As noted above, Maryland has relatively few local sales taxes, while some other states have extensive local sales tax structures.

A similar proposal was implemented in Hillsborough County, Florida. A state statute implemented a half-cent sales tax in Hillsborough County to fund a health care plan for indigent county residents with incomes up to 100% of the federal poverty level who did not qualify for other coverage.

State Fiscal Effect: General fund revenues would decrease assuming some taxable retail purchases shift from Prince George's County to non-Maryland jurisdictions. Assuming 0.5% of retail purchases made in Prince George's County are transferred to Virginia, general fund revenues would decrease by approximately \$1.7 million in fiscal 2004 and

by \$2.3 million by fiscal 2008. Virginia has a 4.5% sales tax and the District of Columbia has a 5.75% sales tax.

Local Revenues: Approximately \$6.3 billion in retail sales occurred in Prince George’s County in fiscal 2002 resulting in the collection of \$311.4 million in sales and use taxes. The Comptroller estimates that retail sales in Prince George’s County will increase by approximately 6% annually. Imposing a 0.5% local sales and use tax in Prince George’s County could generate approximately \$34.9 million in fiscal 2004 and approximately \$44.0 million by fiscal 2008. This estimate assumes that 1.5% of current retail sales in Prince George’s County would occur in other jurisdictions as a result of the higher retail sales tax rate. **Exhibit 1** shows the potential revenue increase from a 0.5% local sales and use tax.

Exhibit 1
Projected Increase in Sales and Use Tax Revenues

FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
\$34.9 million	\$37.0 million	\$39.2 million	\$41.5 million	\$44.0 million

Due to the method by which the Comptroller apportions sales tax revenues to the counties, the county’s actual collections could differ significantly from the estimate above. Legislative Services advises, however, that there is no alternative, more accurate measure of retail sales taking place in the county. Also, 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.

Local Expenditures: 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).

The bill does not authorize Prince George’s County to use any funds from the additional retail sales tax revenue to cover the costs of administering the tax; accordingly, it is assumed that all additional retail sales tax revenue would be spent on health care services in Prince George’s County.

Small Business Effect: Imposing a 0.5% local sales tax in Prince George’s County makes the sales tax in the county higher than neighboring Maryland jurisdictions (5%) and Virginia (4.5%). The District of Columbia imposes a 5.75% sales tax. Increasing the sales tax in Prince George’s County may result in a decline in consumer purchases in the county. According to the U.S. Census Bureau, about 60% of Prince George’s County residents work outside the county and 30% of individuals working in the county live in another jurisdiction. In addition, almost the entire county population lives within ten

miles of another jurisdiction. Accordingly, a higher sales tax may encourage individuals to make purchases in neighboring jurisdictions that have a lower tax rate or on the Internet. With annual taxable retail sales of over \$7 billion, a 1.5% decline in sales would cost county businesses \$106 million in gross sales. However, businesses located in surrounding jurisdictions would benefit as individuals transfer their purchases outside the county. 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 diverted lost revenues.

Additional Comments: Section 817c of the Prince George's County Charter requires approval at referendum any ordinance or resolution levying or charging the amount of tax or fee in excess of the amount levied or charged in the preceding fiscal year. However, according to the Office of the Attorney General, any authority to impose an additional tax or fee by a public local law enacted by the General Assembly does not require voter approval at referendum unless specified in the bill.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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