

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

Senate Bill 157

(Senator McFadden)

(By Request – Baltimore City Administration)

Budget and Taxation

Property Tax - State Grants to Local Government for Tax Exempt Real Property

This bill provides a State general fund grant to local governments in lieu of taxes for specified exempt real property. The grant would equal 77% of the real property taxes that would have been collected by the local government for the exempt real property of nonprofit hospitals and nonprofit higher educational institutions.

The bill is effective July 1, 2003 and applicable for fiscal years beginning on or after July 1, 2004.

Fiscal Summary

State Effect: General fund expenditures would increase by \$38.6 million in FY 2005. Out-year expenditures increase by 2.5% annually due to increases in property assessments. No effect on revenues.

(\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	38.6	39.6	40.6	41.6
Net Effect	\$0	(\$38.6)	(\$39.6)	(\$40.6)	(\$41.6)

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

Local Effect: For those counties and municipalities where exempt nonprofit hospitals and nonprofit higher educational institutions are located, grant revenues will increase by \$38.6 million in FY 2005 and increase by 2.5% annually thereafter.

Small Business Effect: None.

Analysis

Bill Summary: The bill provides a grant to counties and municipalities where tax-exempt nonprofit hospitals and institutions of higher education are located. The grant is equal to 77% of the real property tax revenues the local government would have collected for the taxable year preceding the fiscal year if the property were subject to taxation. The bill defines nonprofit hospital as a nonprofit hospital that owns exempt real property and defines nonprofit higher educational institution as a nonprofit private college, private university, or private institution of higher education approved by the Maryland Higher Education Commission that owns exempt real property.

The bill requires the Department of Assessments and Taxation to certify to the Comptroller by May 1 of each year the assessed value of the exempt property and the amount of the State grant payable to each local government. The Comptroller is to make the grant payment by July 1 of each year.

Current Law: Current law provides an exemption from real and personal property taxation for property that is necessary and used exclusively for a charitable or educational purpose and is owned by a nonprofit hospital; a nonprofit charitable, fraternal, educational, or literary organization; or a nonprofit housing corporation. Although the property is exempt from taxation, the Department of Assessments and Taxation is still required to assess its value in the same manner as other property.

Background: The State of Connecticut has a similar grant program that reimburses its towns (Connecticut has no counties) for lost revenue from tax-exempt hospitals and colleges and universities. The grant is calculated on a portion of the revenue lost by the towns. The grant rate has changed since the program was implemented but is currently based on 77% of the assessed value of the exempt property. However, the grants are reduced proportionately if State appropriations are insufficient to fund the program at that level. The Connecticut fiscal 2003 appropriation for the program is approximately \$97 million, which is a reduced amount of 69.9% instead of 77%.

State Expenditures: General fund expenditures would increase by \$38,616,244 in fiscal 2005, the first year the grants are payable. The grant amount could increase by an estimated 2.5% each fiscal year thereafter as a result of increases in assessable base.

Local Revenues: In counties and municipalities where tax-exempt properties are located, revenues would increase in an amount corresponding to the increase in State general fund expenditures. **Exhibit 1** provides a schedule by county and municipality of the expected \$38.6 million grant amount for fiscal 2005. The grants are estimated to increase by approximately 2.5% annually due to increases in assessable base. Baltimore City would realize the largest grant amount at \$21.2 million in fiscal 2005. Where

exempt property is located in a municipality and the county reduces its tax rate for property located in that municipality, the grant amount is calculated using the reduced tax rate.

Exhibit 1
SB 157/HB 309
Exempt Property General Fund Grant
Fiscal 2005

<u>County</u>	<u>Grant Amount</u>	<u>Municipality</u>	<u>Grant Amount</u>
Allegany	\$713,596	Annapolis	\$163,980
Anne Arundel	834,140	Bel Air	164,925
Baltimore City	21,172,981	Bowie	4,576
Baltimore	1,856,679	Cambridge	73,655
Calvert	225,119	Chestertown	212,508
Caroline	0	Frederick	442,434
Carroll	919,043	Crisfield	31,147
Charles	128,777	Cumberland	512,548
Cecil	210,195	Easton	126,229
Dorchester	95,883	Elkton	92,077
Frederick	1,129,040	Frostburg	18,106
Garrett	67,617	Hagerstown	353,277
Harford	580,368	Havre De Grace	117,276
Howard	1,707,028	La Plata	43,654
Kent	493,791	Leonardtown	26,033
Montgomery	2,162,055	Oakland	31,882
Prince George's	1,342,446	Rising Sun	414
Queen Anne's	0	Salisbury	485,034
St. Mary's	139,349	Sykesville	4,068
Somerset	43,605	Takoma Park	273,357
Talbot	152,355	Westminster	157,595
Washington	507,945		
Wicomico	795,884	Municipal Total	\$3,334,773
Worcester	3,575		
County Total	\$35,281,471		

Source: Department of Assessments and Taxation

Additional Information

Prior Introductions: This bill was introduced as SB 160 in 2002 and cross filed as HB 137. SB 160 was not reported from the Senate Budget and Taxation Committee. HB 137 received an unfavorable report from the House Ways and Means Committee.

Cross File: HB 309 (Delegate Marriott, *et al.*) – Ways and Means.

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

Fiscal Note History: First Reader - February 6, 2003
ncs/jr

Analysis by: Karen S. Benton

Direct Inquiries to:
(410) 946-5510
(301) 970-5510