

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 919 (Senator Pipkin)
Budget and Taxation

Caroline County - Development Excise Tax - Straw Ballot

This bill requires a question to be placed on the ballot in Caroline County at the November 2004 general election to determine whether the voters support increasing the development excise tax in Caroline County from a maximum of \$750 per lot to a maximum of \$5,000 per lot. The vote on this question is advisory only.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: None.

Local Effect: The Caroline County Board of Elections could place the question on the ballot at the November 2004 general election with existing resources.

Small Business Effect: None.

Analysis

Current Law: A code home rule county may impose a development excise tax per lot when a subdivision lot is initially sold or transferred for the purpose of financing school construction projects. The maximum tax per lot is set at \$2,000 in fiscal 2004 and \$750 for each year thereafter. In addition, a code home rule county may impose a maximum \$750 development excise tax per lot for financing agricultural land preservation. These limitations do not apply to a code home rule county that has been granted specific statutory authorization to impose either an impact fee or development excise tax. Six

counties operate under the code home rule form of government: Allegany, Caroline, Charles, Kent, Queen Anne's, and Worcester.

Background: Chapter 474 of 2003 increased, from \$750 to \$2,000, the maximum development excise tax that can be imposed to finance public school facilities or improvements in code home rule counties for fiscal 2004 only. After fiscal 2004, the maximum excise tax returns to \$750 per lot. Legislation introduced at the 2004 session (SB 663 and HB 1162) would increase the maximum development excise tax from \$2,000 to \$5,000 per lot beginning on June 1, 2004.

Development Impact Fees and Excise Taxes in Code Home Rule Counties

Code home rule counties have the authority to impose either a development impact fee under Article 25B, Section 13D or a development excise tax under Article 25B, Sections 13F (school construction) and 13G (agricultural land preservation). The counties cannot impose both an impact fee and an excise tax. The development impact fee does not have a maximum cap; however, the development excise tax is limited to \$2,000 per lot for school construction in fiscal 2004 and \$750 per lot thereafter; and \$750 per lot for agricultural land preservation.

Three code home rule counties (Caroline, Charles, and Queen Anne's) impose either a development excise tax or impact fee on new construction. Allegany, Kent, and Worcester counties do not impose such taxes or fees.

Caroline County is the only code home rule county that imposes a development excise tax pursuant to Article 25B, Section 13F. Charles County imposes a school construction excise tax pursuant to Article 66B, Section 14.05 and Queen Anne's County imposes a school impact fee pursuant to Article 25B, Section 13D. According to a February 25, 2004 letter from the Attorney General's Office, the provisions in this bill would not affect the taxing authority granted to Charles County under Article 66B.

Fiscal Impact in Caroline County By Increasing the Maximum Excise Tax to \$5,000

In fiscal 2001 through 2003, Caroline County collected approximately \$43,500 in development excise taxes for school construction. This represented the maximum \$750 charge on 58 subdivision lots. In fiscal 2004, the county is expected to collect \$110,000 which represents the maximum \$2,000 charge on 55 subdivision lots. If the maximum tax was increased to \$5,000, and assuming the same number of lots, Caroline County would be able to collect \$275,000 in development excise taxes for school construction annually. This represents a \$165,000 increase over the amount that will be collected in fiscal 2004. **Exhibit 1** shows the potential annual increase in revenues from increasing the maximum development excise tax. Under current law, the maximum \$2,000 excise tax in fiscal 2004 will revert back to \$750 in fiscal 2005, due to the sunset provision in

Chapter 474 of 2003. **Exhibit 2** shows the potential revenues impact if the sunset provision is not repealed or extended beyond June 30, 2004.

Exhibit 1
Potential Revenue Increase in Fiscal 2005 – Compared to Prior Year Collections

	<u>FY 2004</u>	<u>FY 2005</u>	<u>Difference</u>
Maximum Tax	\$2,000	\$5,000	\$3,000
Subdivision Lots	55	55	55
Revenues	\$110,000	\$275,000	\$165,000

Exhibit 2
Potential Revenue Loss if Sunset Provision Is Not Repealed or Extended

	<u>FY 2004 Rate</u>	<u>Current Law</u>	<u>Difference</u>
Maximum Tax	\$2,000	\$750	-\$1,250
Subdivision Lots	55	55	55
Revenues	\$110,000	\$41,250	-\$68,750

Additional Information

Prior Introductions: None.

Cross File: HB 1530 (Delegates Sossi and Smigiel) – Ways and Means.

Information Source(s): Caroline County, Department of Legislative Services

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mh/mdr

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