

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 221

(Chairman, Ways and Means Committee)

(By Request – Departmental – Assessments and Taxation)

Ways and Means

Budget and Taxation

Constant Yield Tax Rate - Exemptions

This departmental bill increases the municipal exemption level for compliance with the constant yield tax rate law from \$10,000 to \$25,000 of additional real property tax revenues.

Fiscal Summary

State Effect: None. The bill would affect local government operations only.

Local Effect: Some municipalities would realize cost savings as a result of not having to advertise and hold public hearings regarding changes in tax rates.

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

Analysis

Current Law: The “constant yield tax rate” is the rate that, when applied to the current base, yields the same local property tax revenues as in the prior year. When there is growth in the assessable base, the constant yield tax rate is lower than the existing tax rate. SDAT notifies all county and municipal corporations on or before February 15 of their constant yield tax rate for the upcoming fiscal year.

Under the Constant Yield Tax Rate Program, taxing authorities are required to: (1) provide information about the constant yield tax rate and the assessable base to the public through advertisements in the local newspapers; and (2) hold public hearings regarding proposals to enact a tax rate that is higher than the constant yield rate. Municipalities that have an increase in revenues of less than \$10,000 over the current fiscal year revenues are exempt from the requirements of the constant yield tax rate law. SDAT is required to report to the Attorney General any taxing authority that appears to have violated the requirements of this law. Violating jurisdictions must reduce their property tax rates to the constant yield level.

Background: The constant yield tax rate law was established by Chapter 964 of 1977. Originally the law did not provide for a dollar limit for an exemption but left the decision to the discretion of the director of SDAT. Chapter 662 of 1982 established an amount of \$2,000 or less in new revenue for an exemption from the law, and Chapter 547 of 1989 increased that limit to the current \$10,000.

Two municipalities – Bladensburg and Glenarden – had their tax rates rolled back to the constant yield tax rate for failure to comply with the law in 2001. Both had been exempt the previous year. The bill is intended to help more small municipalities by not requiring them to advertise their intent to exceed the constant yield and not potentially have their tax rate rolled back to the constant yield tax rate due to noncompliance with the law's provisions.

Local Fiscal Effect: For fiscal 2004, 78 municipalities were exempt from the constant yield tax rate law. Under the bill an additional 25 municipalities would gain an exemption. There are 156 municipalities in Maryland. Municipalities which are exempt from the requirements of the constant yield tax rate law would not have the cost of running a newspaper advertisement and would therefore have reduced expenditures. Each year 5 to 10 municipalities advertise incorrectly and must re-advertise. If the newspaper is at fault, the second advertisement is free. Otherwise, the municipality must pay for the additional advertisement. SDAT does offer to proofread advertisements, however, not all municipalities take advantage of this service.

Additional Comments: For 2004, the following 78 towns were exempt from the requirements of the constant yield tax rate law: Barton, Lonaconing, Luke, Midland, Westernport, Highland Beach, North Beach, Goldsboro, Henderson, Hillsboro, Marydel, Preston, New Windsor Union Bridge, Cecilton, Charlestown, Port Tobacco, Brookview, Church Creek, East New Market, Eldorado, Galestown, Secretary, Vienna, Burkittsville, New Market, Rosemont, Woodsboro, Accident, Deer Park, Friendsville, Grantsville, Kitzmiller, Loch Lynn Heights, Mountain Lake Park, Oakland, Betterton, Galena, Barnesville, Brookville, Chevy Chase Section 3, Chevy Chase Section 5, Chevy Chase

View, Glen Echo, Laytonsville, Martin's Addition, North Chevy Chase, Washington Grove, Colmar Manor, Cottage City, Eagle Harbor, Edmonston, Fairmount Heights, Forest Heights, Landover Hills, North Brentwood, Upper Marlboro, Barclay, Church Hill, Queenstown, Sudlersville, Leonardtown, Crisfield, Trappe, Clear Spring, Funkstown, Hancock, Keedysville, Sharpsburg, Williamsport, Hebron, Mardela Springs, Pittsville, Sharptown, Willards, Millington, Queen Anne, and Templeville.

If the exemption level was raised from \$10,000 to \$25,000 the following 25 additional towns would be exempted from the requirements of the constant yield tax rate law: Frostburg, Denton, Federalsburg, Greensboro, Ridgely, Hampstead, Manchester, Chesapeake City, Port Deposit, Rising Sun, Indian Head, Hurlock, Emmitsburg, Myersville, Walkersville, Town of Chevy Chase, Somerset, Brentwood, Capitol Heights, Glenarden, Morningside, Seat Pleasant, Boonsboro, Smithsburg, and Delmar.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - January 31, 2005
n/hlb

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