

**Department of Legislative Services**  
Maryland General Assembly  
2007 Session

**FISCAL AND POLICY NOTE**

House Bill 200

(Frederick County Delegation)

Environmental Matters

Budget and Taxation

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**Frederick County - Road Projects - Repeal of State Match Requirement**

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This bill repeals the requirement that the Frederick County Commissioners receive State matching funds before expending building excise tax revenues for improvements on State highways.

The bill takes effect July 1, 2007.

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**Fiscal Summary**

**State Effect:** None.

**Local Effect:** A portion of Frederick County general fund expenditures for public road facilities could be funded with building excise tax revenues. County revenues would not be affected.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** The Frederick County Commissioners are authorized to impose a building excise tax for public road facilities; and an impact fee for the capital costs of additional or expanded public works, improvements, and facilities required to accommodate new construction or development. If a building excise tax is imposed, the county commissioners may not impose an impact fee for financing public road facilities.

The county commissioners must provide matching funds for capital projects for public road facilities before expending funds from the Development Road Improvement Fund (building excise tax revenues). For a project on a State highway, the county commissioners must receive matching funds from the State before expending funds from the Development Road Improvement Fund.

**Background:** Development impact fees and excise taxes enable local governments to collect revenue from builders for public facilities required by new residential or commercial development. As a result of these development charges, local governments are able to shift the costs of new public facilities from existing taxpayers to individuals responsible for the development. In many situations, the use of development charges may eliminate the need for countywide tax increases. Another benefit of development charges is that local officials can collect the needed revenue for the expansion or construction of new public facilities prior to the construction of any new residential development. In this manner, payment of an impact fee or excise tax may be required by local officials prior to the issuance of a building permit or approval of a subdivision plat.

Chapter 690 of 2001 authorized the Frederick County Commissioners to impose a building excise tax for financing public road facilities. The law specifies the following exemptions from the building excise tax: (1) construction in municipal corporations that is subject to a municipal tax for public road facilities; (2) construction intended to be actively used for farm or agricultural use; and (3) residential construction for a single-family residence existing on July 1, 2001 that increases the square footage of the building by less than 100% of the existing permitted square footage. The county commissioners may grant additional building excise tax exemptions.

#### *Frederick County Excise Tax Rates and Revenues*

Frederick County has imposed a building excise tax since fiscal 2002, and the tax rates have not changed since the tax was first imposed. Revenues were relatively constant from fiscal 2003, the first full fiscal year the tax was imposed until fiscal 2005. Revenues increased from \$2.2 million in fiscal 2005 to approximately \$3.0 million in fiscal 2006, primarily due to growth of commercial and industrial development in the county. **Exhibit 1** lists the excise tax rates for Frederick County.

**Local Fiscal Effect:** For a project on a State highway, the county commissioners must receive matching funds from the State before expending excise tax revenues. Due to this requirement, the county has had to use county general funds rather than the excise tax revenues for State highway projects where the State has not participated in the funding. Basically, any State highway project that the county wants to prefund must be from the county general funds and not with any building excise tax revenues. Pursuant to this

legislation, a portion of Frederick County general fund expenditures for public road facilities could be funded with building excise tax revenues.

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**Exhibit 1**  
**Frederick County Residential Excise Tax Rate for Roads**  
**Fiscal 2007**

<u>Land Use Type</u>	<u>Levy</u>	<u>Tax</u>
Residential <sup>1</sup>		
First 700 gross sq. ft.	per sq. ft.	\$0.00
701 sq. ft. - 1,400 sq. ft.	per sq. ft.	0.10
In excess of 1,400 sq. ft.	per sq. ft.	0.25
Nonresidential	per sq. ft.	0.75

<sup>1</sup>Any gross square footage of multifamily residential construction not within a dwelling unit is allocated on a pro rata basis to each dwelling unit within the building.

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**Additional Information**

**Prior Introductions:** HB 1370 of 2005, as amended, would have repealed the State match requirement as this bill does. However, it would have required the county commissioners to act aggressively to obtain State funds or other grants before county money is used exclusively for a road project on a State highway. The bill passed the House and was referred to the Senate Budget and Taxation Committee, where no further action was taken.

**Cross File:** None.

**Information Source(s):** Maryland Department of Transportation, Frederick County, Department of Legislative Services

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