

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 1399 (Delegate Donoghue)
Ways and Means

Washington County - Taxes - Municipal Corporations

This bill requires Washington County to provide a property tax setoff to a municipality under specified circumstances. Washington County must also distribute to a municipality the recordation and local transfer tax revenues attributable to instruments of writing for property located in the municipality.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: None.

Local Effect: Washington County revenues would decrease by a significant amount beginning in FY 2008. Municipal revenues would increase by a commensurate amount. No effect on county or municipal expenditures. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful. Small business with real and personal property in Washington County could realize reduced county property tax payments.

Analysis

Current Law: County governments must meet annually with their municipalities to discuss the county property tax rate to be set for properties located within the municipality. In nine counties (Allegany, Anne Arundel, Baltimore, Frederick, Garrett, Harford, Howard, Montgomery, and Prince George's), if it is demonstrated that a municipality performs services or programs in lieu of similar county services and

programs, the county government *must impose* a lower property tax rate within the municipality. In the other 14 counties, the county government *may establish* a lower property tax rate within the municipality.

Alternatively, county governments have the option of making a payment to the municipality to aid in funding municipal services or programs that are similar to county services or programs. This is commonly known as a tax rebate.

Background: Counties are the primary unit of local government in Maryland responsible for providing direct services to their residents such as police, fire, local corrections, sanitation, local highways, and parks and recreation; while also providing funding to public schools, libraries, local community colleges, local health departments, and the circuit courts. Compared to counties, municipalities in Maryland provide a more limited array of public services. Public works and public safety are the two largest functions of municipal governments. Municipal governments do not provide funding to local school systems, the largest expense for most local governments.

In Washington County, the county government accounts for 80% of local expenditures while municipal governments account for 20%. County funding for the local school system and community college accounts for 52.5% of total local expenditures in Washington County.

Local Property Taxes

Individuals and businesses residing and located in incorporated areas are subject to both county and municipal property taxes. Approximately 36% of residents in Washington County reside within a municipality, the statewide average is 15%. **Exhibit 1** shows the real property tax rates and population for each municipality in Washington County.

Tax Setoff Programs in Maryland

To compensate municipalities for providing services in lieu of similar county services or programs and to address the effect of double taxation in municipalities (when residents pay both county and municipal property taxes), 17 counties provided property tax setoffs in fiscal 2006, through either a tax rate differential or tax rebate. A municipal tax rate differential takes the form of a reduced county property tax rate within the boundaries of a municipality. A tax rebate is a direct grant to municipalities for providing services that are similar to county services. These services include police protection, highway and street maintenance, sanitation and waste collection, planning and zoning, and recreation and parks. In fiscal 2006, municipal tax differentials and rebates totaled approximately \$59.5 million, a 14.5% increase over the prior year. **Exhibit 2** shows the amount of tax setoffs provided in fiscal 2006 by county.

Exhibit 1
County and Municipal Tax Rate
Fiscal 2007

	Population <u>July 2005</u>	County <u>Rate</u>	Municipal <u>Rate</u>	Total <u>Rate</u>
Washington County	141,895	\$0.948		\$0.948
Boonsboro	2,982	0.948	0.300	1.248
Clear Spring	467	0.948	0.190	1.138
Funkstown	960	0.948	0.220	1.168
Hagerstown	38,326	0.948	0.798	1.746
Hancock	1,736	0.948	0.395	1.343
Keedysville	812	0.948	0.180	1.128
Sharpsburg	674	0.948	0.176	1.124
Smithsburg	2,859	0.948	0.280	1.228
Williamsport	2,135	0.948	0.405	1.353

Local Fiscal Effect: Washington County revenues would decrease by a significant amount beginning in fiscal 2008 depending on any additional property tax setoffs that are granted as well as the amount of recordation and transfer taxes that are redistributed to municipalities. As shown in **Exhibit 3**, Washington County is projected to receive \$99.1 million in real property, recordation, and transfer taxes in fiscal 2007.

Assuming that 36% of county recordation and transfer taxes are attributable to property located within a municipality, county revenues could decrease by \$4.3 million while municipal revenues would increase by the same amount. The potential impact of requiring either a tax differential or rebate is not known. In fiscal 2006, Washington County provided \$1.4 million in tax rebates to its nine municipalities for providing police protection, road maintenance, and park maintenance. The rebates were based on the municipality's assessable base, net taxable income, and population in relation to the county's. **Exhibit 4** shows the tax rebate amount for each municipality.

Exhibit 2
Tax Differentials and Tax Rebates in Fiscal 2006

County	Tax Differential	Tax Rebate	Total
Allegany	\$815,009	\$0	\$815,009
Anne Arundel	16,524,487	0	16,524,487
Baltimore City	N/A	N/A	N/A
Baltimore	N/A	N/A	N/A
Calvert	2,002,378	0	2,002,378
Caroline	592,504	0	592,504
Carroll	0	2,130,555	2,130,555
Cecil	0	491,045	491,045
Charles	735,875	0	735,875
Dorchester	0	69,000	69,000
Frederick	0	5,405,180	5,405,180
Garrett	214,828	0	214,828
Harford	4,280,483	1,296,801	5,577,284
Howard	N/A	N/A	N/A
Kent	0	128,508	128,508
Montgomery	0	7,256,887	7,256,887
Prince George's	13,619,026	669,672	14,288,698
Queen Anne's	0	0	0
St. Mary's	0	55,370	55,370
Somerset	0	0	0
Talbot	1,806,947	0	1,806,947
Washington	0	1,382,248	1,382,248
Wicomico	0	0	0
Worcester	0	0	0
Total	\$40,591,537	\$18,885,266	\$59,476,803

N/A: indicates the jurisdiction has no municipalities.

Source: Department of Legislative Services

Exhibit 3
Washington County Tax Rates and Estimated Revenues
Fiscal 2007

	<u>Tax Rate</u>	<u>Estimated Revenue Yield</u>
Real Property Tax ¹	\$0.948	\$87,072,850
Recordation Tax ²	\$3.80	\$9,000,000
Transfer Tax	0.5%	<u>\$3,000,000</u>
Total		\$99,072,850

¹Per \$100 of assessment.

²Per \$500 of consideration.

Source: Washington County; Department of Legislative Services

Exhibit 4
Washington County Tax Rebates in Fiscal 2006

<u>Municipality</u>	<u>Tax Rebate</u>
Boonsboro	\$84,715
Clear Spring	2,000
Funkstown	6,057
Hagerstown	1,108,797
Hancock	52,135
Keedysville	2,970
Sharpsburg	4,258
Smithsburg	64,859
Williamsport	<u>56,457</u>
Total	\$1,382,248

Additional Information

Prior Introductions: None.

Cross File: None.

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

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nas/hlb

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