

Department of Legislative Services
Maryland General Assembly
2007 Special Session

FISCAL AND POLICY NOTE

House Bill 42 (Delegate Barve, *et al.*)
Ways and Means

Recordation Tax - Distribution to Municipal Corporations

This bill alters the distribution of local recordation tax revenues by requiring counties to distribute to a municipality 50% of any recordation tax attributable to an instrument of writing for property located within the municipality.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: None.

Local Effect: County recordation tax revenues could decrease by approximately \$36.8 million annually beginning in FY 2009, and municipal revenues could increase by a commensurate amount as shown in **Exhibit 1. This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law: Municipalities are not authorized to impose a local recordation tax, nor are counties required to share a portion of these revenues with municipalities.

Background: County governments collected \$482.4 million in local recordation taxes in fiscal 2007. This amount is significantly lower than the amounts collected in fiscal 2005 and 2006 when the soaring real estate market yielded recordation taxes totaling \$525.4 million in fiscal 2005 and \$619.0 million in fiscal 2006. If the current downward

trend in the real estate market continues, local recordation taxes could reach a five-year low in fiscal 2008. The following table shows local recordation tax collections since fiscal 2002.

Local Recordation Tax Revenues
Fiscal 2002-2007
(\$ in Millions)

<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
\$245.9	\$295.2	\$417.1	\$525.4	\$619.0	\$482.4

Structure of Local Governments in Maryland

In terms of the types and number of local governments, Maryland’s structure is relatively simple. There are 265 local governments in Maryland, including 23 counties, Baltimore City, 156 municipalities, and 85 special taxing districts. Maryland ranks forty-sixth among the states in terms of the number of local governments.

Counties are the primary unit of local government in Maryland, responsible for basic services such as police, fire, local corrections, sanitation, local highways, and parks and recreation. In addition, counties are responsible for funding 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. Municipalities account for only 4% of total local government expenditures. In five counties, municipal governments account for over 15% of local government expenditures. **Exhibit 2** shows local government expenditures in fiscal 2004 for counties and municipalities (the most recent in which data is readily available). County expenditures include the local school systems, library boards, health departments, and local community colleges.

Public works and public safety are the two largest functions of municipal governments, comprising approximately 65% of municipal expenditures. Common public services performed by municipalities include street lighting, trash/refuse collection, snow removal, and street maintenance. Police protection, planning/zoning, leaf collection, and water services are provided by at least one-half of municipalities. Unlike county governments, municipalities do not fund local school systems and community colleges, which account for over 50% of local government expenditures.

Most of the 156 municipalities in Maryland are relatively small: 60% of municipalities have fewer than 2,500 residents and only 5% have more than 25,000 residents. Approximately 15% of the State’s residents live within municipalities (excluding

Baltimore City). On the Eastern Shore and in Western Maryland, nine counties have over 30% of their residents living in municipalities.

Local Fiscal Effect: Based on estimated recordation tax collections for fiscal 2007, county recordation tax revenues could decrease by approximately \$36.8 million beginning in fiscal 2009 and municipal recordation tax revenues could increase by the same amount. This estimate is based on the following facts and assumptions:

- 14.9% of Maryland's residents reside within a municipality; and
- instruments of writing subject to recordation taxes occur proportionally to municipal populations as a percent of county populations.

Exhibit 1 shows the distribution between county and municipal governments based on estimated fiscal 2007 recordation tax collections. To the extent that actual recordation tax collections differ from those used in the estimate, the associated revenue distribution would vary accordingly.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Association of Counties, Allegany County, Baltimore City, Department of Legislative Services

Fiscal Note History: First Reader - November 1, 2007
mcp/hlb

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Exhibit 1
Potential Effect on Local Recordation Tax Revenues
Based on Fiscal 2007 Revenue Estimates

County	Estimated Recordation Taxes	Municipal Population within County	Recordation Taxes Attributable to Municipality	Effect on Counties Under HB 42	Effect on Municipalities Under HB 42
Allegany	\$1,500,000	44.9%	\$673,500	-\$336,800	\$336,800
Anne Arundel	53,000,000	7.1%	3,763,000	-1,881,500	1,881,500
Baltimore City	46,550,000	0.0%	0	0	0
Baltimore	38,116,000	0.0%	0	0	0
Calvert	9,000,000	6.1%	549,000	-274,500	274,500
Caroline	3,700,000	32.8%	1,213,600	-606,800	606,800
Carroll	20,100,000	25.6%	5,145,600	-2,572,800	2,572,800
Cecil	8,630,000	26.5%	2,286,950	-1,143,500	1,143,500
Charles	25,754,000	8.7%	2,240,598	-1,120,300	1,120,300
Dorchester	4,000,000	46.0%	1,840,000	-920,000	920,000
Frederick	22,100,000	39.7%	8,773,700	-4,386,900	4,386,900
Garrett	3,850,000	22.2%	854,700	-427,400	427,400
Harford	23,678,916	15.1%	3,575,516	-1,787,800	1,787,800
Howard	25,997,574	0.0%	0	0	0
Kent	2,148,600	42.2%	906,709	-453,400	453,400
Montgomery	95,790,000	16.5%	15,805,350	-7,902,700	7,902,700
Prince George's	55,533,300	26.7%	14,827,391	-7,413,700	7,413,700
Queen Anne's	5,500,000	10.0%	550,000	-275,000	275,000
St. Mary's	9,975,000	2.1%	209,475	-104,700	104,700
Somerset	750,000	21.7%	162,750	-81,400	81,400
Talbot	4,500,000	46.3%	2,083,500	-1,041,800	1,041,800
Washington	9,000,000	35.9%	3,231,000	-1,615,500	1,615,500
Wicomico	4,688,000	40.6%	1,903,328	-951,700	951,700
Worcester	8,500,000	34.9%	2,966,500	-1,483,300	1,483,300
Total	\$482,361,390	14.9%	\$73,562,168	-\$36,781,500	\$36,781,500

Source: Maryland Association of Counties; Department of Legislative Services

Exhibit 2
Local Government Expenditures
Fiscal 2004
(\$ in Millions)

County	County	Municipal	Total	% Municipal
Allegany	\$202.6	\$13.4	\$216.0	6.2%
Anne Arundel	1,477.3	56.5	1,533.8	3.7%
Baltimore City	2,810.9	0.0	2,810.9	0.0%
Baltimore	2,209.6	0.0	2,209.6	0.0%
Calvert	286.2	8.5	294.7	2.9%
Caroline	84.0	11.1	95.1	11.7%
Carroll	449.9	38.1	488.0	7.8%
Cecil	231.1	20.2	251.2	8.0%
Charles	469.8	13.5	483.3	2.8%
Dorchester	95.1	18.1	113.1	16.0%
Frederick	650.2	90.3	740.6	12.2%
Garrett	101.5	5.8	107.2	5.4%
Harford	675.3	37.7	712.9	5.3%
Howard	1,035.0	0.0	1,035.0	0.0%
Kent	57.2	6.5	63.7	10.1%
Montgomery	3,995.6	154.0	4,149.6	3.7%
Prince George's	2,683.2	103.5	2,786.7	3.7%
Queen Anne's	149.4	1.4	150.8	0.9%
St. Mary's	269.4	1.9	271.4	0.7%
Somerset	64.1	4.6	68.7	6.7%
Talbot	85.8	59.1	144.9	40.8%
Washington	310.0	78.7	388.7	20.3%
Wicomico	232.8	43.3	276.0	15.7%
Worcester	168.7	94.5	263.2	35.9%
Statewide	\$18,794.6	\$860.6	\$19,655.2	4.4%

Source: Department of Legislative Services