

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 1080 (Washington County Delegation)
Ways and Means

Washington County - Property Tax Setoffs in Municipal Corporations

This bill requires Washington County to provide a property tax setoff to a municipality under specified circumstances.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: None.

Local Effect: Washington County revenues would decrease by a significant amount beginning in FY 2009 assuming the county provides a tax differential to its municipalities; county expenditures could increase if the county provides a higher municipal tax rebate than currently provided. Municipal revenues would increase by a commensurate amount. No effect on 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 2007, 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 2007, municipal tax differentials and rebates totaled approximately \$67.0 million, a 12.6% increase over the prior year. **Exhibit 2** shows the amount of tax setoffs provided in fiscal 2007 by county.

Exhibit 1
County and Municipal Tax Rate
Fiscal 2008

	<u>Population</u> <u>July 2006</u>	<u>County</u> <u>Rate</u>	<u>Municipal</u> <u>Rate</u>	<u>Total</u> <u>Rate</u>
Washington County	143,748	\$0.948		\$0.948
Boonsboro	3,252	0.948	0.300	1.248
Clear Spring	466	0.948	0.190	1.138
Funkstown	942	0.948	0.220	1.168
Hagerstown	39,008	0.948	0.798	1.746
Hancock	1,723	0.948	0.395	1.343
Keedysville	815	0.948	0.180	1.128
Sharpsburg	665	0.948	0.176	1.124
Smithsburg	2,894	0.948	0.280	1.228
Williamsport	2,203	0.948	0.405	1.353

Local Fiscal Effect: In fiscal 2007, Washington County provided \$1.6 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 3** shows the tax rebate amount for each municipality.

Washington County revenues would decrease by a significant amount beginning in fiscal 2009 if the county provides a property tax differential to its municipalities. County expenditures could increase to the extent the county provides a higher municipal tax rebate than under current law. The potential impact of requiring either a tax differential or rebate is not known as demonstrated by the tax differential/rebate amounts provided in neighboring jurisdictions.

Tax differentials or rebates are currently required in both Allegany and Frederick counties. In fiscal 2007, Allegany County provided its largest municipality, Cumberland, with a tax differential totaling \$641,000 or \$31 per city resident; whereas, Frederick County provided its largest municipality, Frederick City, with a tax rebate totaling \$4,014,300 or \$68 per city resident. In comparison, Washington County provided its largest municipality, Hagerstown, a tax rebate totaling \$1,253,300 or \$32 per city resident.

Exhibit 2
Tax Differentials and Tax Rebates in Fiscal 2007

County	Tax Differential	Tax Rebate	Total
Allegany	\$931,935	\$0	\$931,935
Anne Arundel	19,614,189	0	19,614,189
Baltimore City	N/A	N/A	N/A
Baltimore	N/A	N/A	N/A
Calvert	2,365,852	0	2,365,852
Caroline	727,333	0	727,333
Carroll	0	2,048,180	2,048,180
Cecil	0	550,898	550,898
Charles	472,399	0	472,399
Dorchester	0	69,000	69,000
Frederick	0	6,012,915	6,012,915
Garrett	136,012	0	136,012
Harford	4,930,535	1,510,762	6,441,297
Howard	N/A	N/A	N/A
Kent	0	148,245	148,245
Montgomery	0	7,438,235	7,438,235
Prince George's	15,416,163	669,672	16,085,835
Queen Anne's	0	0	0
St. Mary's	0	53,796	53,796
Somerset	0	0	0
Talbot	2,301,956	0	2,301,956
Washington	0	1,561,700	1,561,700
Wicomico	0	0	0
Worcester	0	0	0
Total	\$46,896,374	\$20,063,403	\$66,959,777

N/A: indicates the jurisdiction has no municipalities.

Source: Department of Legislative Services

Exhibit 3
Washington County Tax Rebates in Fiscal 2007

<u>Municipality</u>	<u>Tax Rebate</u>
Boonsboro	\$95,755
Clear Spring	3,000
Funkstown	6,203
Hagerstown	1,253,286
Hancock	58,929
Keedysville	3,042
Sharpsburg	4,361
Smithsburg	73,310
Williamsport	<u>63,814</u>
Total	\$1,561,700

Additional Information

Prior Introductions: HB 1399 of 2007, a similar bill, received a hearing in the House Ways and Means Committee, but no further action was taken on the bill.

Cross File: None.

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

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