

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 381 (Senator Rosapepe)
Budget and Taxation

Special Taxing Districts - Residential Property - Prohibition

This bill prohibits any county from either creating a special taxing district that includes residential property or from expanding an existing special taxing district to include residential property. The bill also abolishes any county-created special taxing district that includes residential property as of October 1, 2008.

A “special taxing district” is defined as a separate entity created by a county that is empowered to levy taxes or impose fees within a defined geographic area to provide services that are not being supplied by other government entities.

Fiscal Summary

State Effect: None.

Local Effect: Local debt service and operating expenditures would increase by at least \$163.0 million in affected jurisdictions. Revenues would also be affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law: All counties have authority to establish special taxing districts for limited purposes, such as providing drainage improvements or providing street lighting. In addition, the governing bodies of counties that have adopted charter home rule or code

home rule also have broad authority under the Express Powers Act to create special taxing districts to carry out most municipal services.

The General Assembly has granted nine counties (Anne Arundel, Calvert, Charles, Garrett, Howard, Prince George's, St. Mary's, Washington, and Wicomico) and Baltimore City broad authority to create special taxing districts and to levy ad valorem taxes and issue bonds and other obligations for purposes of financing infrastructure improvements. The types of infrastructure improvements authorized include storm drainage systems, water and sewer systems, roads, lighting, parking, parks and recreational facilities, libraries, schools, transit facilities, and solid waste facilities. In Prince George's County, this authority has been expanded to include levying hotel rental taxes and financing the cost for the construction, renovation, and maintenance of convention, conference, and visitors' centers.

As it applies to financing projects in special taxing districts, the definition of "cost" generally includes the construction, reconstruction, renovation, and all lands, structures, or property acquired or to be acquired by the county. It also includes extensions, enlargements, improvements, necessary services, plans and studies, administrative expenses, and certain finance charges and interest associated with the project.

Background: Special taxing districts finance the services they provide in two ways. In some instances, the special taxing district finances capital improvements through the issuance of bonded debt and the debt is repaid over time with tax revenue collected within the special taxing district. In other cases, the tax revenues collected within a special taxing district are used to pay for operating expenditures and capital improvements on an ongoing basis.

Local Fiscal Effect: Abolishing county-created special taxing districts would have a substantial affect on certain counties in the State. Many of the county-created special taxing districts that are considered separate entities have considerable bonded debt and operating expenses. It is assumed that each county would be responsible for repayment of the debt and the payment of ongoing operating expenses of the special taxing districts. Consequently, these expenses could be redirected to the county's general fund and result in significant tax increases on overall taxpayers. **Exhibit 1** details the amount of debt and the annual operating expenditures in certain jurisdictions affected by the bill.

Exhibit 1
County Created Special Tax Districts

<u>County</u>	<u>Debt Outstanding</u>	<u>Annual Operating Expenses</u>	<u>Description</u>
Anne Arundel	\$9,470,000	\$14,739,522	Includes 2 Special Tax Districts, 64 Special Community Benefit Districts, 16 Shore Erosion Control Districts, 11 Waterway Improvement Districts
Baltimore City	106,919,000	–	At least 6 Special Tax Districts
Garrett	23,912,346	7,055,935	11 Separate Sanitary Districts
Howard	159,108,704	111,069,198	Water & Sewer District, Fire District
Prince George's	92,370,000	10,785	4 Special Tax Districts that include residential properties
Total	\$391,780,050	\$132,875,440	

Note: Annual Operating Expenses excludes payment for debt service and expenditures on capital improvement that was funded through debt.

Source: As reported by the counties

The affected counties and Baltimore City would assume \$391.8 million in debt liabilities. Annual debt payments would increase by \$29.7 million in total for the affected jurisdictions. This estimate is based on an interest rate of 4.47% and a 20-year term to maturity. This estimate does not include any additional costs associated with issuing bonds for this debt. Annual operating expenditures in counties affected are estimated to increase as shown in Exhibit 1. Additional administrative expenses for the continuation of services within special taxing districts are anticipated but cannot be estimated at this time.

Additional Comments: It is presumed that certain special taxing districts and organizations would not be affected by the bill. The Columbia Association, located in Howard County, is not considered a county-created special tax district. The Columbia Association has \$52.4 million in outstanding debt and annual operating expenses of \$49.6 million. Approximately 51% of revenues collected by the association are from property assessments. Washington County has a light district with a special tax that is considered a part of county government. The light district has annual expenditures of approximately \$50,000. Montgomery County has numerous categories of special taxing districts, but they are also considered to be part of county government and would not be affected by the bill.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore City, Calvert County, Caroline County, Garrett County, Howard County, Montgomery County, Prince George's County, Washington County, Wicomico County, City of Laurel, State Department of Assessments and Taxation, Comptroller's Office, Department of Legislative Services

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