

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 450

(Senators Brinkley and Mooney)

Budget and Taxation

Ways and Means

Frederick County - Property Tax Setoff

This emergency bill requires Frederick County, for fiscal 2011, to grant a property tax setoff to its municipalities in an amount at least equal to the tax setoffs granted for fiscal 2009. For fiscal 2012, the property tax setoffs must be at least equal to the amounts granted in the prior year. The required tax setoff amounts are then adjusted based on the percentage by which the county property tax rate exceeds the constant yield rate.

Fiscal Summary

State Effect: None.

Local Effect: Frederick County expenditures and municipal revenues increase by at least \$791,700 in FY 2011 and FY 2012, based on the county's budgeted tax rebate amounts. The impact in FY 2012 will depend on the difference between the actual property tax rate and the constant yield rate. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law: Section 6-305 of the Tax-Property Article requires Frederick County to meet annually with its municipalities to discuss the property tax rate to be set for assessments of property in the municipalities. 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 county property tax on assessments of property in the municipality at a rate that is less than the general county property tax rate. The lower county property tax rate within a municipality is commonly known as a tax differential.

Alternatively, the county government has the option of making a payment to the municipality, which is commonly known as a tax rebate.

Background: A property tax rate differential or tax rebate enables county governments to compensate municipalities for governmental services or programs that municipalities provide in lieu of similar county services or programs. The major governmental services performed by municipalities that may result in tax setoffs include police protection, highway and street maintenance, sanitation and waste collection, planning and zoning services, and recreation and parks services. Frederick County provides a tax rebate to its municipalities. **Exhibit 1** shows the amount of tax setoffs provided in each county in fiscal 2009.

Constant Yield Tax Rate Provision

In 1977, the General Assembly passed legislation that requires county governments to hold public hearings regarding proposals to enact a tax rate that exceeds the constant yield rate. The constant yield rate is the rate that, when applied to the current assessable base, yields the same amount of property tax revenues as in the prior year. New construction and annexed land are not included in the calculation of the constant yield rate.

Due to growth in the assessable base, localities may still be able to generate additional property tax revenues while reducing their property tax rates. This may result in an overall property tax increase for homeowners even though the property tax rate has been reduced. In most cases the constant yield rate is usually below the current tax rate. For example, seven counties reduced their property tax rates in fiscal 2010; however, in comparison to the constant yield tax rate, every jurisdiction in Maryland, except Worcester, had a property tax rate at or above the constant yield rate. **Exhibit 2** shows the property tax rate and the constant yield rate for Frederick County and the State's other jurisdictions. **Exhibit 3** shows the estimated revenue yield from property tax rates above the constant yield.

Local Fiscal Effect: Frederick County provided tax rebates totaling \$7.4 million in fiscal 2009 to all of its 12 municipalities for police protection, planning and zoning, parks and recreation, and highway services. The tax rebates were determined by calculating a certain factor (called a CAP factor), which is based on the municipalities' total taxable income, assessable base, and population compared to the county's total taxable income, assessable base, and population. The net expenditures for each of the duplicative services were then calculated. For police protection and planning and zoning, the net expenditures for duplicative services were used to calculate the cost of these services per capita for the municipality; however, for highways, cost per mile was used, and for parks and recreation, cost per acre of parkland was used. The county then compared the

per capita (or per mile or acre) calculation to the net cost of the service multiplied by the CAP factor. The lesser of the two calculations was the total amount to be distributed among the municipalities, based on each municipality's population. The total tax rebate amounts were as follows:

<u>Municipality</u>	<u>Rebate Amount</u>
Brunswick	\$491,313
Burkittsville	1,080
Emmitsburg	237,766
Frederick	5,011,040
Middletown	296,537
Mount Airy	244,615
Myersville	107,681
New Market	7,987
Rosemont	8,651
Thurmont	523,627
Walkersville	438,008
Woodsboro	25,126
Total	\$7,393,431

In fiscal 2010 and 2011, Frederick County has budgeted \$6.6 million for municipal tax rebates, which is \$791,663 less than was provided in fiscal 2009. Because the bill requires the minimum fiscal 2011 payment to be at least equal to the amount paid in fiscal 2009, Frederick County expenditures and municipal revenues will increase by at least \$791,663 in fiscal 2011.

The bill also requires that beginning in fiscal 2011, the amount of the tax rebate increase from the prior year in an amount equal to the percentage that the county property tax rate exceeds the county's constant yield rate. As a point of reference, the county's fiscal 2010 property tax rate (\$1.064) exceeds its constant yield tax rate (\$1.005) by \$0.059. This means that the actual property tax rate exceeds the constant yield rate by 5.6%. However, at the present, the county's tax rate and constant yield rate for fiscal 2011 is not known. *For illustrative purposes only*, if it is assumed that the difference between the actual property tax rate and the constant yield rate stays the same, county expenditures and municipal revenues would increase by approximately \$836,000 in fiscal 2011.

In fiscal 2012 county expenditures and municipal revenues will depend on the difference between actual property tax rates and the constant yield rate, using fiscal 2009 tax rebate amounts as the base for future calculations, but will be at least the same as fiscal 2011.

Additional Information

Prior Introductions: None.

Cross File: HB 476 (Frederick County Delegation) - Ways and Means.

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

Fiscal Note History: First Reader - February 16, 2010
ncs/hlb Revised - Enrolled Bill - May 14, 2010

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Exhibit 1
Tax Differentials and Tax Rebates
Fiscal 2009

County	Tax Differential	Tax Rebate	Total
Allegany	\$1,058,874	\$0	\$1,058,874
Anne Arundel	26,576,259	0	26,576,259
Baltimore City	N/A	N/A	N/A
Baltimore	N/A	N/A	N/A
Calvert	3,268,735	0	3,268,735
Caroline	1,024,121	0	1,024,121
Carroll	0	2,232,534	2,232,534
Cecil	0	750,270	750,270
Charles	1,052,643	0	1,052,643
Dorchester	455,953	6,050	462,003
Frederick	0	7,393,431	7,393,431
Garrett	51,591	224,615	276,206
Harford	6,599,677	2,188,716	8,788,393
Howard	N/A	N/A	N/A
Kent	0	164,945	164,945
Montgomery	0	7,424,836	7,424,836
Prince George's	27,571,404	669,670	28,241,074
Queen Anne's	0	0	0
St. Mary's	0	55,780	55,780
Somerset	0	300,000	300,000
Talbot	3,655,167	0	3,655,167
Washington	0	1,906,923	1,906,923
Wicomico	0	0	0
Worcester	0	0	0
Total	\$71,314,424	\$23,317,770	\$94,632,194

N/A: indicates the jurisdiction has no municipalities

Source: Department of Legislative Services

Exhibit 2
Property Tax Rates Exceed Constant Yield Rate in Fiscal 2010

County	Actual FY 2009	Actual FY 2010	Difference	Constant Yield Rate	Difference	Amount in Excess of Constant Yield Ranking by Highest to Lowest		
Allegany	\$0.983	\$0.983	\$0.000	\$0.915	\$0.068	1.	Baltimore City	\$0.175
Anne Arundel	0.888	0.876	-0.012	0.861	0.015	2.	Prince George's	0.084
Baltimore City	2.268	2.268	0.000	2.093	0.175	3.	Carroll	0.070
Baltimore	1.100	1.100	0.000	1.046	0.054	4.	Allegany	0.068
Calvert	0.892	0.892	0.000	0.825	0.067	5.	Calvert	0.067
Caroline	0.870	0.870	0.000	0.816	0.054	6.	Harford	0.066
Carroll	1.048	1.048	0.000	0.978	0.070	7.	Kent	0.064
Cecil	0.960	0.940	-0.020	0.897	0.043	8.	Charles	0.060
Charles*	1.026	1.026	0.000	0.966	0.060	9.	Frederick	0.059
Dorchester	0.896	0.896	0.000	0.843	0.053	10.	St. Mary's	0.059
Frederick*	1.064	1.064	0.000	1.005	0.059	11.	Washington	0.056
Garrett	1.000	0.990	-0.010	0.946	0.044	12.	Baltimore	0.054
Harford	1.082	1.064	-0.018	0.998	0.066	13.	Caroline	0.054
Howard*	1.150	1.150	0.000	1.096	0.054	14.	Howard	0.054
Kent	0.972	0.972	0.000	0.908	0.064	15.	Dorchester	0.053
Montgomery*	0.915	0.916	0.001	0.869	0.047	16.	Montgomery	0.047
Prince George's*	1.319	1.319	0.000	1.235	0.084	17.	Queen Anne's	0.046
Queen Anne's	0.770	0.770	0.000	0.724	0.046	18.	Garrett	0.044
St. Mary's	0.857	0.857	0.000	0.798	0.059	19.	Cecil	0.043
Somerset	0.920	0.900	-0.020	0.874	0.026	20.	Somerset	0.026
Talbot	0.449	0.432	-0.017	0.422	0.010	21.	Anne Arundel	0.015
Washington	0.948	0.948	0.000	0.892	0.056	22.	Talbot	0.010
Wicomico	0.814	0.759	-0.055	0.758	0.001	23.	Wicomico	0.001
Worcester	0.700	0.700	0.000	0.738	-0.038	24.	Worcester	-0.038

*Includes Special Property Tax Rates

Source: State Department of Assessments and Taxation, Department of Legislative Services

Exhibit 3
Revenue Yield from Property Tax Rates above Constant Yield
Fiscal 2010

County	Assessable Base	Actual Rate	Constant Yield Rate	Difference	Estimated Revenue Yield	Per Capita Yield
Allegany	\$3,256,583,394	\$0.983	\$0.915	\$0.068	\$2,205,000	\$30.52
Anne Arundel	58,184,028,751	0.876	0.861	0.015	8,728,000	17.02
Baltimore City	28,840,751,965	2.268	2.093	0.175	50,471,000	79.24
Baltimore	66,644,815,040	1.100	1.046	0.054	35,988,000	45.81
Calvert	11,877,566,820	0.892	0.825	0.067	7,958,000	89.72
Caroline	2,548,765,015	0.870	0.816	0.054	1,376,000	41.52
Carroll	17,804,685,179	1.048	0.978	0.070	12,463,000	73.59
Cecil	9,827,415,634	0.940	0.897	0.043	4,226,000	42.29
Charles*	16,063,171,244	1.026	0.966	0.060	9,638,000	68.47
Dorchester	2,898,794,009	0.896	0.843	0.053	1,536,000	48.00
Frederick*	25,949,735,475	1.064	1.005	0.059	15,413,000	68.28
Garrett	4,296,831,406	0.990	0.946	0.044	1,891,000	63.67
Harford	25,085,794,713	1.064	0.998	0.066	16,557,000	68.89
Howard*	37,541,046,282	1.150	1.096	0.054	20,211,000	73.50
Kent	2,692,425,194	0.972	0.908	0.064	1,723,000	85.50
Montgomery*	167,265,836,070	0.916	0.869	0.047	79,208,000	83.32
Prince George's*	70,492,502,522	1.319	1.235	0.084	59,541,000	72.54
Queen Anne's	7,408,970,570	0.770	0.724	0.046	3,408,000	72.37
St. Mary's	10,109,769,194	0.857	0.798	0.059	5,965,000	58.72
Somerset	1,564,662,882	0.900	0.874	0.026	407,000	15.58
Talbot	7,068,267,861	0.432	0.422	0.010	707,000	19.52
Washington	12,156,731,558	0.948	0.892	0.056	6,808,000	46.83
Wicomico	6,777,978,384	0.759	0.758	0.001	68,000	0.72
Worcester	17,512,579,126	0.700	0.738	-0.038	0	0.00
Total	\$613,869,708,288				\$346,496,000	\$61.51

*Includes Special Property Tax Rates

Source: State Department of Assessments and Taxation, Department of Legislative Services