

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 914 (Delegate Smigiel)
Ways and Means

Cecil County Property Tax Rate - Constant Yield Tax Rate

This bill prohibits the Cecil County Commissioners from setting a county or municipal real property tax rate that exceeds the constant yield tax rate in any taxable year. The bill excludes revenue from real property appearing on the tax roll for the first time from this requirement.

The bill takes effect June 1, 2010, and applies to taxable years beginning after June 30, 2010.

Fiscal Summary

State Effect: None.

Local Effect: Cecil County property tax revenues decrease by \$2.5 million in FY 2011, based on current tax rates and the constant yield rate for FY 2011. Property tax revenues in five municipalities decrease by a total of \$215,000 in FY 2011. Future year revenues will remain relatively constant, excluding revenue derived from new construction. Local expenditures are not directly affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Meaningful. The increases in property tax bills will be limited for small business property owners.

Analysis

Current Law: The “constant yield” is a concept that, as property values fluctuate, the tax rate should be adjusted so that the revenue derived from the property tax stays at a constant level from year to year, thus assuring local governments a “constant yield” from its tax source.

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.

Generally, when there is growth in the real property assessable base, the constant yield tax rate is lower than the existing tax rate. The State Department of Assessments and Taxation (SDAT) notifies all county and municipalities by February 14 of their constant yield tax rates for the upcoming fiscal year.

Under the constant yield tax rate law, taxing authorities are required to (1) provide information to the public about the constant yield tax rate and the assessable base and (2) hold public hearings regarding proposals to enact a tax rate that is higher than the constant yield rate. A municipality is exempt from the requirements of the constant yield tax rate law if the difference in revenue generated by the current year’s tax rate and the constant yield tax rate is less than \$10,000. If a municipality is exempt from the constant yield tax rate law, it is not required to advertise or hold public hearings on the proposed tax rate increase. The municipality may set any tax rate within the limits of its municipal charter. SDAT is required to report to the Attorney General any taxing authority that appears to have violated the requirements of this law. Violating jurisdictions must reduce their property tax rates to the constant yield level and must refund all excessive taxes that have been collected.

Background: 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. The revenue yield from property tax rates above the constant yield rate is estimated at \$346.5 million in fiscal 2010. **Appendix 1** shows the property tax rate in excess of the constant yield rate for each county in fiscal 2010 and **Appendix 2** shows the estimated revenue yield from property tax rates above the constant yield.

Local Fiscal Effect: Restricting the growth in property tax revenues will impact Cecil County and municipal revenues and will most likely have a negative effect on local government services. The property tax is the leading revenue source for the county government, projected to account for 61.3% of general fund revenues in fiscal 2010.

The bill specifies that, beginning in fiscal 2011 Cecil County may not set county or municipal tax rates above the constant yield rate. Specified exceptions are provided for real property that is added to the tax roll for the first time (new construction). Consequently, for the most part, county and municipal property tax revenues will be capped at their fiscal 2011 levels. As a result, the county may have to limit spending by the same amount, unless other measures are adopted to make up for decreases in property tax revenue.

As shown in **Exhibit 1**, county revenues may decrease by approximately \$2.5 million in fiscal 2011. The estimate is based on the most recent assessable base forecast and the county's fiscal 2011 constant yield tax rate as calculated by SDAT. This represents a 2.7% decline in property revenues from the county's current property tax rate. In addition, five municipalities in the county also will experience a decrease in property tax revenue. Three municipalities (Cecilton, Chesapeake City, and Elkton) are not affected since they have a lower tax rate than the constant yield rate.

Exhibit 1
Revenue Effect of Constant Yield Rate – Cecil County and Municipalities

	FY 2011 Net Assessable Base	FY 2010 Tax Rate	FY 2011 Constant Yield Rate	Estimated Revenue Change
Cecil County	\$10,190,115,610	\$0.940	\$0.915	(\$2,547,529)
Cecilton	48,228,080	0.219	0.224	N/A
Charlestown	121,695,650	0.280	0.267	(15,820)
Chesapeake City	85,074,593	0.425	0.432	N/A
Elkton	1,182,810,973	0.464	0.473	N/A
North East	325,525,996	0.480	0.464	(52,084)
Perryville	461,250,326	0.353	0.336	(78,413)
Port Deposit	66,484,011	0.551	0.532	(12,632)
Rising Sun	222,260,213	0.360	0.335	(55,565)
Total	\$12,703,445,452			(\$2,762,043)

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

Future year revenues can only increase by any new construction added to the property tax roll, which cannot be reliably estimated at this time. As a point of reference, Cecil County indicates that in fiscal 2010, 172 properties have been added to the property tax roll. The average assessment for owner occupied property in the county is \$243,002 for fiscal 2010 and \$265,084 for fiscal 2011. If 172 properties were added to the property tax roll in fiscal 2011, county property tax revenue may increase by approximately \$428,600, thus offsetting the projected decrease of \$2.5 million.

Additional Information

Prior Introductions: None.

Cross File: SB 730 (Senators Pipkin and Jacobs) - Budget and Taxation.

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

Fiscal Note History: First Reader - March 8, 2010
mpc/hlb

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Appendix 1
Property Tax Rates Exceed Constant Yield Rate in Fiscal 2010

County	Actual	Actual	Difference	Constant	Difference	Amount in Excess of Constant Yield		
	FY 2009	FY 2010		Yield Rate		<u>Ranking by Highest to Lowest</u>		
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
<i>Cecil</i>	<i>0.960</i>	<i>0.940</i>	<i>-0.020</i>	<i>0.897</i>	<i>0.043</i>	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.	<i>Cecil</i>	<i>0.043</i>
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

Appendix 2
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
<i>Cecil</i>	<i>9,827,415,634</i>	<i>0.940</i>	<i>0.897</i>	<i>0.043</i>	<i>4,226,000</i>	<i>42.29</i>
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