

Department of Legislative Services  
Maryland General Assembly  
2011 Session

FISCAL AND POLICY NOTE

House Bill 584  
Ways and Means

(Delegate James)

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Harford County - Taxes

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This bill authorizes Harford County to impose a 5% hotel rental tax. The bill also converts an existing optional local property tax credit in Harford County for a continuing care facility for the aged into a mandatory property tax credit.

The bill takes effect June 1, 2011. The property tax credit is applicable to all taxable years beginning after June 30, 2011, but before June 30, 2026.

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Fiscal Summary

**State Effect:** None.

**Local Effect:** Harford County revenues may increase by approximately \$2.2 million annually beginning in FY 2012 from the hotel rental tax. Potential significant decrease in county and municipal property tax revenue in Harford County upon completion of a proposed continuing care facility in the county. Under one set of assumptions, county property tax revenues may decrease by approximately \$448,000 annually and municipal property tax revenues in Aberdeen may decrease by \$344,000 annually. However, any municipal property tax decrease in Aberdeen will be offset by the \$600,000 grant from the hotel rental tax. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** Potential minimal increase in administrative expenses for hotels or motels imposing the tax. Small business tenants of any continuing care retirement community in Harford County will be exempt from county and municipal property taxes.

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## Analysis

**Bill Summary:** The bill authorizes Harford County to impose a 5% hotel rental tax. The county may provide an exemption for transient charges paid by a nonprofit charitable organization to a hotel to provide temporary shelter for individuals who are in need as a result of misfortune.

County hotel tax revenues must be distributed as shown below:

- 35% to tourism and general promotion of the county;
- 15% for grants to municipalities; and
- 50% to the following municipalities and organizations:
  - the first \$600,000 to the City of Aberdeen to offset the cost of a specified mandatory property tax credit (continuing care facility for the aged);
  - the next \$250,000 to the Ripken Stadium Authority to offset the annual operating or capital costs of maintaining Ripkin Stadium (this provision applies only for fiscal 2012 through 2022);
  - the next \$150,000 to the Enterprise Fund for the Harford County Convention Center; and
  - any remaining funds must be distributed to tourism and general promotion of the county and grant to municipalities.

The bill also requires Harford County or a municipality in Harford County to grant a 15-year property tax credit for property owned or operated by a continuing care facility for the aged. Under current law, the county or a municipality is authorized to grant this property tax credit.

**Current Law:** Harford County is not authorized to impose a hotel rental tax.

Chapter 613 of 2009 authorized Harford County or a municipality in Harford County to grant a property tax credit for property owned or operated by a continuing care facility for the aged. In order to qualify for the credit, the property must be exempt, or be owned or operated by a person that is exempt, from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The property must also be available for use in connection with the facility. The county or municipalities are authorized to provide, by law, for the amount and duration of the tax credit, additional eligibility criteria for the tax credit, regulations and procedures for the application and uniform processing of requests for the tax credit, and any other provision necessary.

**Background:** Hotel rental taxes are currently authorized in 22 counties and Baltimore City, with rates ranging from 3% to 9.5% as shown in **Exhibit 1**. Harford County is the only jurisdiction in Maryland that does not impose a hotel rental tax. State law requires, after a distribution for specified administrative costs, hotel tax revenues be distributed to the county's general fund, except:

- in a code county and Calvert, Cecil, Garrett, and St. Mary's counties, that portion of the tax attributable to a hotel in a municipality must be distributed to the municipality;
- Carroll County may retain a reasonable amount of the hotel tax for administrative expense and the remaining balance must be used for tourism and general promotion of the county;
- Dorchester County must provide 80% of the revenues attributed to hotels located in a municipality to the municipality;
- Frederick County must designate a portion for a visitors' center and the remainder to the Tourism Council;
- Garrett County must designate a portion for the promotion of the county;
- Washington County must use 50% to fund the Hagerstown/Washington County Convention and Visitors Bureau; and
- Wicomico County must provide 16.7% of the revenue to the Salisbury Zoological Park, 16.7% to the Tourism Center, and the remainder must be used for the Wicomico County Convention and Visitors Bureau.

**Exhibit 1**  
**Hotel and Motel Tax Revenues**

<b>County</b>	<b>County Tax Rates</b>		<b>FY 2009 Revenues</b>	<b>Per Capita Revenues</b>	<b>Per Capita Ranking</b>
	<b>FY 2009</b>	<b>FY 2011</b>			
Allegany	8.0%	8.0%	\$668,970	\$9	9
Anne Arundel	7.0%	7.0%	13,986,168	27	3
Baltimore City	7.5%	9.5%	16,197,092	25	4
Baltimore	8.0%	8.0%	7,965,849	10	8
Calvert	5.0%	5.0%	763,877	9	13
Caroline	5.0%	5.0%	0	0	23
Carroll	5.0%	5.0%	287,495	2	21
Cecil	3.0%	3.0%	21,747	0	22
Charles	5.0%	5.0%	919,122	6	16
Dorchester	5.0%	5.0%	211,917	7	15
Frederick	3.0%	3.0%	1,096,144	5	19
Garrett	5.0%	5.0%	1,426,900	48	1
Harford	0.0%	0.0%	0	0	23
Howard	5.0%	5.0%	3,059,774	11	6
Kent	5.0%	5.0%	106,340	5	18
Montgomery	7.0%	7.0%	16,829,254	18	5
Prince George's	5.0%	5.0%	5,658,295	7	14
Queen Anne's	5.0%	5.0%	428,998	9	10
St. Mary's	5.0%	5.0%	634,659	6	17
Somerset	5.0%	5.0%	53,128	2	20
Talbot	4.0%	4.0%	1,006,978	28	2
Washington	6.0%	6.0%	1,530,500	11	7
Wicomico	6.0%	6.0%	829,736	9	12
Worcester <sup>1</sup>	4.5%	4.5%	437,093	9	11
<b>Statewide</b>			<b>\$74,120,036</b>	<b>\$13</b>	

<sup>1</sup>Approximately \$11.2 million in revenues is forwarded to noncounty agencies.

Source: Department of Legislative Services; Maryland Association of Counties

*Property Tax Exemptions*

Generally, State law exempts certain types of real property from property taxation such as government-owned, charitable, benevolent, educational, churches, veterans' organizations, fire companies, historical societies, museums, etc.

Property owned by a licensed and certified continuing care facility for the aged is exempt from State and local property taxes if the property is used (1) exclusively for religious worship; (2) exclusively for administration or for providing nonprofit services and activities to residents, including that part of land reasonably allocable to providing the administration, activities, or services, but may not include independent living units; or (3) to provide nursing care, domiciliary care, or comprehensive care including, the part of any central administrative or service facility that is reasonably allocable to the licensed health care part of the facility, or the part of any land that is reasonably allocable to the licensed health care part of the facility.

The Harford County real property tax rate is \$1.042 per \$100 of assessment for fiscal 2011. Within municipalities, the county property tax rate is \$0.896. Municipal property tax rates are as follows:

<u>Municipality</u>	<u>Tax Rate</u>
Aberdeen	\$0.688
Bel Air	\$0.500
Havre de Grace	\$0.600

**Local Fiscal Effect:** Harford County revenues may increase as a result of the hotel rental tax and decrease due to the required property tax, as discussed below.

*Hotel Rental Tax*

Harford County revenues may increase by approximately \$2.2 million annually beginning in fiscal 2012, to the extent the hotel rental tax is imposed. The estimate is based on the following facts and assumptions:

- there are at least 28 hotels, motels, and inns located in the county that could impose the tax;
- these establishments have approximately 2,700 rooms;
- the occupancy rate is 60%;
- the average nightly rate per room is \$75;
- hotels, motels, and inns operate 365 days per year; and
- the hotel rental tax rate is 5%.

The bill authorizes the county to use a reasonable amount of the revenue generated from the hotel tax for administrative expenses. The bill specifies the distribution of revenues as shown above. As a result, county expenditures are not directly affected.

### *Property Tax Credit*

The bill requires Harford County and municipalities in Harford County to provide a property tax credit for continuing care facilities located in the county. The Maryland Department of Aging regulates 35 continuing care retirement communities across the State. There are currently no facilities in Harford County that would qualify for the tax credit proposed by the bill; however there is a proposal to build such a facility near Aberdeen, by the operator of a similar type of facility in Baltimore County. The Maryland Court of Appeals ruled in 1988 (*Supervisor of Assessments v. Asbury Methodist Home*) that independent living units at continuing care communities were taxable, and they continue to be taxable under current law. In addition, any business tenants of these facilities, such as banks, beauty parlors, etc., will also be eligible for the tax credit proposed by the bill.

Local property tax revenues will not likely be affected in fiscal 2012, but will decrease upon completion of the project. The amount of the decrease cannot be reliably estimated and depends on the assessed value of the facility and the number of independent living units constructed at the facility. The State Department of Assessments and Taxation advises that similar facilities in Baltimore City, and Anne Arundel, Baltimore, Montgomery, and Prince George's counties typically pay between \$450,000 and \$1.0 million in State and local property taxes. Therefore, the county and municipal revenue loss associated with the proposed tax credit will be significant. *For illustrative purposes only*, if it is assumed that the newly constructed facility has a taxable assessment of \$50.0 million, Harford County property tax revenues will decrease by \$448,000 annually and Aberdeen's property tax revenues will decrease by \$344,000, to the extent the facility is fully located in the city. However, any city property tax decrease will be offset by the \$600,000 grant from the hotel rental tax.

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### **Additional Information**

**Prior Introductions:** HB 664 of 2010, which authorized Harford County to impose a 5% hotel rental tax, received a hearing in the House Ways and Means Committee, but no further action was taken.

**Cross File:** None.

**Information Source(s):** State Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Harford County, Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - March 9, 2011  
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