

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 188

(Senator Shank, *et al.*)

Budget and Taxation

Ways and Means

**Washington County - Distribution of Amounts to Town of Williamsport -
Payments in Lieu of Property Taxes on Electricity Generation Facilities**

This bill alters the amount that Washington County must distribute to the Town of Williamsport under an existing payment in lieu of property taxes agreement from an electricity generation facility. Under the bill, the electricity generation facility must be located within the Town of Williamsport in order for the municipality to receive a payment from the county. Under current law, the electricity generation facility does not have to be located within the municipal corporate limits in order for the Town of Williamsport to receive a payment from the county.

The bill takes effect June 1, 2012, and applies to all taxable years beginning after June 30, 2012.

Fiscal Summary

State Effect: None.

Local Effect: Potential significant decrease in municipal revenues in future years for the Town of Williamsport to the extent that an electricity generation facility locates in Washington County, but outside the municipal corporate limits. Washington County expenditures will decrease by a similar amount.

Small Business Effect: None.

Analysis

Current Law: Counties are authorized to enter into a payment in lieu of taxes agreement with the owner of an electricity generation facility located in the county. The agreement must provide that (1) the owner pay to the county a specified amount each year in lieu of county property taxes; and (2) all or a specified part of the real and personal property at the facility be exempt from county property tax for the term of the agreement.

Washington County must distribute to the Town of Williamsport an amount equal to 35% of (1) any county property tax revenue attributable to increasing the percent of assessment of any specified personal property subject to county property tax; or (2) any amount received by the county under a negotiated payment in lieu of taxes agreement.

Background: Chapter 2 of the 2007 special session repealed a State grant designed to partially offset the loss of local revenue resulting from a statewide 50% personal property tax exemption for machinery and equipment used to generate electricity. Counties are authorized to increase the percent of the equipment and machinery that is subject to taxation to 65% in fiscal 2009. This percent decreased five percentage points per year until it returned to 50% in fiscal 2012. Counties were also authorized to enter into agreements with the owners of electricity-generating facilities for payments in lieu of taxes. Chapter 2 also allowed a county to exclude property tax revenues equal to the amount the county would have received under the State grant from the calculation of the county's property tax revenues for property tax limit purposes.

Each year, Washington County was required to pay the Town of Williamsport 35% of any property tax revenue received from an increase in the assessment percentage on electricity-generating equipment or a negotiated payment in lieu of taxes. However, because Washington County never increased the percent of the equipment and machinery subject to taxation, as authorized by Chapter 2, no payments to the town have been made under this provision of law.

Local Fiscal Effect: As noted, under current law, Washington County is required to distribute to the Town of Williamsport 35% of any payment in lieu of taxes agreement for electricity generation facilities that exist or are built in Washington County. The Town of Williamsport reports that these payments were originally intended to provide the municipality with a type of restitution for the environmental and/or infrastructural damages incurred from the 116 megawatt coal-fired R. Paul Smith Power Station located within the municipality.

The Town of Williamsport indicates that due to the increased environmental restrictions and the significant costs to upgrade the facility, the R. Paul Smith Power Station is scheduled to close by September 1, 2012. When the facility closes, it is uncertain to what extent county and municipal property tax revenues will be affected. According to the State Department of Assessments and Taxation (SDAT), the facility has a taxable personal property assessment of approximately \$9.0 million as of January 1, 2011. SDAT indicates that because the property is still on the assessment rolls, property taxes will still be owed by the owner of the facility. However, if the facility is not operational, there will likely be additional depreciation or removal of the personal property from the tax rolls, thereby reducing both county and municipal property taxes over time.

Exhibit 1 shows the amount of real and personal property taxes collected by the Town of Williamsport from the R. Paul Smith Power Station. Property tax revenues from the facility account for approximately 12% of municipal revenues. Washington County reports collecting \$212,600 in personal property taxes and \$44,200 in real property taxes from the plant for fiscal 2012. **Exhibit 2** shows the level of revenues and expenditures for the Town of Williamsport for fiscal 2010. The town has a current population of 2,137 residents.

Exhibit 1
Municipal Real and Personal Property Taxes from R. Paul Smith Power Plant

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$105,700
2009	106,700
2010	154,900
2011	139,800

Source: Town of Williamsport

There is a proposed 20 megawatt solar farm to be located in an area near Hagerstown. Under the bill, Washington County will not be required to pay the Town of Williamsport 35% of any payment in lieu of tax agreement between the county and the facility.

Altering the law under which the Town of Williamsport is entitled to receive 35% of any payment in lieu of tax agreement to only those electricity generation facilities located within the municipal corporate limits will exclude any payments to the municipality from future facilities built within the county but outside the municipality resulting in a

potential significant loss of revenue for the municipality. Washington County expenditures will decrease by a similar amount.

Additional Information

Prior Introductions: None.

Cross File: HB 216 (Washington County Delegation) - Ways and Means.

Information Source(s): Washington County, Town of Williamsport, State Department of Assessments and Taxation, Public Service Commission, Department of Legislative Services

Fiscal Note History: First Reader - February 6, 2012
mlm/hlb Revised - Updated Information - February 9, 2012

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Exhibit 2
Town of Williamsport Revenues and Expenditures
Fiscal 2010

	Governmental Operations	Enterprise Operations	Total	% of Total	Per Capita
Revenues by Source					
Taxes – Local – Property	589,723		589,723	14.1%	259
Taxes – Local – Income	146,237		146,237	3.5%	64
Taxes – Local – Other	2,299		2,299	0.1%	1
Licenses and Permits	21,736		21,736	0.5%	10
Intergovernmental					
Federal Grants	80,870	392,866	473,736	11.3%	208
State Grants	29,000		29,000	0.7%	13
County Grants	162,330		162,330	3.9%	71
Other Grants			0	0.0%	0
Service Charges	198,924	2,498,557	2,697,481	64.3%	1,185
Fines and Forfeitures	3,760		3,760	0.1%	2
Miscellaneous	66,931	277	67,208	1.6%	30
Debt Proceeds			0	0.0%	0
Total Revenues	1,301,810	2,891,700	4,193,510	100.0%	1,842
Expenditures by Function					
General Government	532,323		532,323	13.3%	234
Public Safety					
Police	133,548		133,548	3.3%	59
Fire	1,121		1,121	0.0%	0
Other	4,133		4,133	0.1%	2
Public Works					
Transportation	156,624		156,624	3.9%	69
Sewer/Solid Waste/Water	129,933	759,324	889,257	22.3%	391
Other		1,876,876	1,876,876	47.0%	824
Parks, Recreation, & Culture	263,347		263,347	6.6%	116
Community Dev. & Pub. Housing			0	0.0%	0
Economic Dev. & Opportunity	47,897		47,897	1.2%	21
Debt Service					
Principal			0	0.0%	0
Interest		5,865	5,865	0.1%	3
Miscellaneous	84,173		84,173	2.1%	37
Total Expenditures	1,353,099	2,642,065	3,995,164	100.0%	1,755
Excess of Revenues Over/(Under) Expenditures	(51,289)	249,635	198,346		