

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 627

(Senator Madaleno, *et al.*)

Budget and Taxation

**Special Taxing Districts - Transportation Improvements and Exemption From
County Tax Limitations**

This bill authorizes Baltimore City and county governments to set special property tax rates in special taxing districts for any class of property that is subject to the county property tax. In setting these tax rates, charter counties that have either a property tax rate limitation or revenue limitation are authorized to set tax rates higher than the county tax limitation. The bill specifies that subject to the annual budget and appropriation process, any revenue attributable to a special tax rate authorized under this legislation must be distributed for the purpose of financing the cost of State or local transportation improvements.

The bill takes effect June 1, 2014, and applies to taxable years beginning after June 30, 2014.

Fiscal Summary

State Effect: None.

Local Effect: Potential increase in local property tax revenues beginning in FY 2015 to the extent special property tax rates are imposed in special taxing districts. Expenditures for State and local transportation improvements will increase by a commensurate amount.

Small Business Effect: Minimal.

Analysis

Current Law: Baltimore City and county governments must, on an annual basis, set the tax rate for the next taxable year on all assessments of property subject to that county's property tax. Except for specified circumstances, there is one county property tax rate for real property; the rate for personal property may not exceed 2.5 times the real property rate. While a municipality may impose property taxes on those classes of property that it selects to be subject to the municipal property tax, county governments are not authorized to set separate property tax rates among different classes and subclasses of property.

The county property tax rate may be supplemented by special property tax rates for special districts. Several counties have exercised this authority and have created special taxing districts to finance services not included in the general rate. These services range from fire protection and parks and recreation services, which usually encompass the entire local jurisdiction, to water, sewer, and community benefit services that target a smaller segment of the county. Further, taxpayers are subject to different rates in many districts depending on the level of services provided in those districts.

Property Tax Limitation Measures

Five charter counties (Anne Arundel, Montgomery, Prince George's, Talbot, and Wicomico) have amended their charters to limit property tax rates or revenues. In Anne Arundel County, the total annual increase in property tax revenues is limited to the lesser of 4.5% or the increase in the Consumer Price Index (CPI). In Montgomery County, the growth in property tax revenues is limited to the increase in CPI; however, this limitation does not apply to new construction. In addition, the limitation may be overridden by a unanimous vote of all nine county council members. In Prince George's County, the general property tax rate is capped at \$0.96 per \$100 of assessed value. Special taxing districts, such as the Maryland-National Capital Park and Planning Commission, are not included under the tax cap. In Talbot and Wicomico counties, the total annual increase in property tax revenues is limited to the lesser of 2% or the increase in CPI.

The counties may exceed the charter limitations on local property taxes for the purpose of funding the approved budget of the local board of education. If a local property tax rate is set above the charter limit, the county governing body may not reduce funding provided to the local board of education from any other local source and must appropriate to the local board of education all of the revenues generated from any increase beyond the existing charter limit. Any use of this authority must be reported annually to the Governor and the General Assembly. This authority was enacted at the 2012 session in order to ensure that counties have the fiscal ability to meet new maintenance of effort requirements. In fiscal 2013, Talbot County became the first jurisdiction to exercise this

new authority by establishing a 2.6 cent supplemental property tax rate for the local board of education. No jurisdiction exercised this authority in fiscal 2014.

Section 21-701 of the Local Government Article specifies that a county tax limitation that would otherwise apply to *ad valorem* or special taxes imposed only in the special taxing district does not apply for the purpose of financing the cost of specified State or county transportation improvements.

Background: 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-type” services. The number of special taxing districts established under this authority varies significantly. Anne Arundel County has established approximately 65 special districts known as community benefit districts. Other home rule counties have created few, if any, special taxing districts under this authority.

In addition, the General Assembly has granted 12 counties (Anne Arundel, Baltimore, Calvert, Cecil, Charles, Garrett, Harford, 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.

Separate Tax Rates for Different Property Classes

Title 8 of the Tax Property Article establishes the methods of property valuation and assessments; and lists those classifications of property created by the General Assembly. For assessment purposes, property is divided into two classes – real property and personal property. Real property is divided into 11 subclasses and personal property is divided into 7 subclasses as shown in **Appendix 1**. The State only imposes a property tax on real property; whereas, county governments impose separate tax rates for real and personal property. The personal property tax rate may not exceed 2.5 times the real property tax rate. Several county governments do not impose a personal property tax on business property. State and county governments are not authorized to set separate property tax rates among different subclasses of property.

Unlike the State and county governments, municipalities have broader discretion to impose property tax rates on different classes of property. Municipalities may impose

property taxes on those classes of property that it selects to be subject to the municipal property tax. In addition, municipalities retain the authority to classify property for local purposes and to impose different tax treatment on those classes. Furthermore, municipalities have the express power to exempt classes of property from taxation. Moreover, because municipalities may select the classes of property to be taxed and may set special rates for any class of property that is subject to the municipal property tax; municipalities retain the authority to levy different tax rates on selected classes of property. The Maryland Municipal League advises that only six municipalities – Berwyn Heights, Cheverly, Colmar Manor, Forest Heights, and North Brentwood in Prince George’s County and Pocomoke City in Worcester County – currently impose separate property tax rates on different classes of property.

Local Fiscal Effect: The bill allows Baltimore City and county governments to raise additional revenue by establishing a special taxing district and imposing a special property tax rate for any class of property for transportation improvements. In addition, Anne Arundel, Montgomery, Prince George’s, Talbot, and Wicomico counties will be able to raise revenue from a special taxing district tax in excess of each county’s revenue or property tax rate limit, provided these revenues are used for transportation related improvements.

The actual effect of the bill on county property tax revenues cannot be reliably estimated and depends on whether or not a county decides to impose special rates on property in a special taxing district for transportation improvements.

Appendix 2 shows the real property tax rates for each county in fiscal 2005 through 2014. These rates are based on property assessments at 100% of market valuation. Certain counties impose special tax rates for services such as fire protection, transit, and water and sewer. **Appendix 3** shows the countywide special tax rates for these counties in fiscal 2014. **Appendix 4** shows the per capita assessable base and assessable base growth for each jurisdiction for fiscal 2014. **Appendix 5** shows the real, personal, and total county assessable base for each county for fiscal 2014.

Revenue Yield from Property Taxes

Jurisdictions with a relatively larger property tax base can generate more revenues with an increase in the property tax rate. For example, a one-cent increase in the real property tax rate in Talbot County will generate approximately \$688,400 in revenues in fiscal 2015, whereas it will generate only \$136,000 in Somerset County, even though both jurisdictions have nearly the same number of residents. The fiscal impact of a one-cent increase in real property tax rates for fiscal 2012 through 2016 is depicted in **Appendix 6**. These revenue amounts reflect deductions for the Homestead Tax Credit Program.

Potential Impact in Montgomery County

Currently, Montgomery County has five countywide special property taxes that it imposes, as well as several targeted property taxes that it imposes in special taxing districts. **Exhibit 1** shows the property tax rates and estimated revenues for each special taxing district for fiscal 2014. Under current law, revenue from these taxes is subject to the county's revenue limitation. Pursuant to the bill, Montgomery County will be able to impose an additional special tax rate in which the resulting revenue could exceed the county's revenue cap, provided it is used for transportation improvements.

Exhibit 1
Montgomery County Special Taxing Districts
Fiscal 2014

<u>Special Taxing District</u>	<u>Tax Rates</u>	<u>Property Tax Revenues</u>
Transit Tax	\$0.042	\$70,071,096
Fire District Tax	0.125	208,544,928
M-NCPPC	0.072	104,120,501
Recreation Tax	0.020	29,016,049
Storm Drainage Tax	0.003	4,241,450
Bethesda Parking District ¹	0.124	2,478,318
Montgomery Hills Parking District ¹	0.240	78,955
Silver Spring Parking District ¹	0.317	6,641,556
Wheaton Parking District ¹	0.240	413,542
Bethesda Urban District	0.012	450,080
Silver Spring Urban District	0.024	631,314
Wheaton Urban District	0.030	148,519
Bradley Noise Abatement	0.000	0
Cabin John Noise Abatement	0.000	0
Total		\$426,836,308

¹Represents commercial real property tax rate.

Potential Impact in Prince George's County

Prince George's County imposes three countywide special property taxes, as shown in **Exhibit 2**. Revenues generated from these taxes are not included under the county's property tax cap.

Exhibit 2
Prince George's County Special Taxing Districts
Fiscal 2013

<u>Special Taxing District</u>	<u>Tax Rates</u>	<u>Property Tax Revenues</u>
M-NCPPC	\$0.279	\$221,684,300
WSTC	0.026	21,621,298
Stormwater	0.054	39,629,544
Total		\$282,935,142

Potential Impact in Other Charter Counties

Wicomico County indicates that there are two special taxing districts in the county – Tax Ditches and the Urban Services Fund. The Tax Ditch fee is collected by the county and used for the maintenance and upkeep of tax ditches in rural areas of the county. The Urban Services Fund is used to provide water and sewer services to homes outside of municipalities in the county. In fiscal 2013, the Urban Services Fund generated \$597,870 in revenue and Tax Ditches generated \$106,650. Both of these funds are excluded from the county's revenue cap.

Anne Arundel and Talbot counties have a number of small special taxing districts, community benefits districts, sewer districts, and tax increment financing districts.

Additional Information

Prior Introductions: SB 707 of 2013 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: HB 1279 (Delegate Hixson, *et al.*) – Ways and Means.

Information Source(s): Howard, Montgomery, Prince George's, and Wicomico counties; Maryland Association of Counties; State Department of Assessments and Taxation; Maryland Department of Transportation; Department of Legislative Services

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mc/hlb

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Appendix 1
Classification of Property – Title 8 of Tax Property Article

Real Property Class

1. farm or agricultural use
2. marshland
3. woodland
4. country club or golf course
5. planned development use
6. rezoned real property – residential use
7. operating real property of a railroad
8. operating real property of a public utility
9. commercial real property – Internal Revenue Code
10. conservation property
11. all other real property

Personal Property Class

1. stock in business
2. distilled spirits
3. operating personal property of a railroad
4. operating personal property of a public utility that is machinery or equipment used to generate electricity or steam for sale
5. all other operating personal property of a public utility
6. machinery and equipment, other than operating personal property of a public utility
7. all other personal property

Appendix 2
County Real Property Tax Rates in Fiscal 2005-2014
(per \$100 of assessed value)

County	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Allegany	\$1.001	\$1.001	\$0.983	\$0.983	\$0.983	\$0.983	\$0.983	\$0.982	\$0.981	\$0.980
Anne Arundel	0.941	0.931	0.918	0.891	0.888	0.876	0.880	0.910	0.941	0.950
Baltimore City	2.328	2.308	2.288	2.268	2.268	2.268	2.268	2.268	2.268	2.248
Baltimore	1.115	1.115	1.100	1.100	1.100	1.100	1.100	1.100	1.100	1.100
Calvert	0.892	0.892	0.892	0.892	0.892	0.892	0.892	0.892	0.892	0.892
Caroline	0.952	0.910	0.870	0.870	0.870	0.870	0.870	0.870	0.890	0.940
Carroll	1.048	1.048	1.048	1.048	1.048	1.048	1.048	1.028	1.018	1.018
Cecil	0.980	0.980	0.960	0.960	0.960	0.940	0.915	0.940	0.991	0.991
Charles	1.026	1.026	1.026	1.026	1.026	1.026	1.026	1.067	1.121	1.205
Dorchester	0.930	0.920	0.896	0.896	0.896	0.896	0.896	0.976	0.976	0.976
Frederick	1.135	1.135	1.064	1.064	1.064	1.064	1.064	1.064	1.064	1.064
Garrett	1.036	1.000	1.000	1.000	1.000	0.990	0.990	0.990	0.990	0.990
Harford	1.092	1.082	1.082	1.082	1.082	1.064	1.042	1.042	1.042	1.042
Howard	1.170	1.170	1.140	1.150	1.150	1.150	1.150	1.150	1.190	1.190
Kent	1.012	0.992	0.972	0.972	0.972	0.972	1.022	1.022	1.022	1.022
Montgomery	1.009	0.967	0.916	0.916	0.915	0.916	0.915	0.959	1.003	1.021
Prince George's	1.319	1.319	1.319	1.319	1.319	1.319	1.319	1.319	1.319	1.319
Queen Anne's	0.926	0.870	0.800	0.770	0.770	0.770	0.767	0.847	0.847	0.847
St. Mary's	0.878	0.872	0.857	0.857	0.857	0.857	0.857	0.857	0.857	0.857
Somerset	1.010	0.990	0.940	0.940	0.920	0.900	0.884	0.884	0.884	0.915
Talbot	0.540	0.520	0.500	0.475	0.449	0.432	0.432	0.448	0.491	0.512
Washington	0.948	0.948	0.948	0.948	0.948	0.948	0.948	0.948	0.948	0.948
Wicomico	1.025	0.993	0.942	0.881	0.814	0.759	0.759	0.769	0.840	0.909
Worcester	0.730	0.730	0.700	0.700	0.700	0.700	0.700	0.700	0.770	0.770

Note: The rate in Charles, Frederick, Howard, Montgomery, and Prince George's counties reflect special rates for services not funded from the general county property tax rate.

Source: Department of Legislative Services

Appendix 3
Special County Property Tax Rates
Fiscal 2014

	<u>Real Property Tax Rate</u>	<u>Percent of Total</u>
Charles County		
General Tax	\$1.141	94.7%
Fire District Tax	0.064	5.3%
Total Rate	\$1.205	100.0%
Howard County		
General Tax	\$1.0140	85.2%
Fire District Tax	0.176	14.8%
Total Rate	\$1.1900	100.0%
Montgomery County		
General Tax	\$0.759	74.3%
Transit Tax	0.042	4.1%
Fire District Tax	0.125	12.2%
M-NCPPC	0.072	7.1%
Recreation Tax	0.020	2.0%
Storm Drainage Tax	0.003	0.3%
Total Rate	\$1.021	100.0%
Prince George's County		
General Tax	\$0.960	72.8%
M-NCPPC	0.279	21.2%
WSTC	0.026	2.0%
Stormwater	0.054	4.1%
Total Rate	\$1.319	100.0%

Source: Department of Legislative Services

Appendix 4 County Assessable Base Measures for Fiscal 2014

<u>County</u>	<u>Population July 1, 2012</u>	<u>Assessable Base (\$ in Thousands)</u>	<u>Per Capita Assessable Base</u>	<u>Assessable Base Growth</u>	<u>County</u>	<u>Per Capita Assessable Base</u>	<u>County</u>	<u>Assessable Base Growth</u>
Allegany	74,012	\$3,910,750	\$52,839	-1.3%	1. Worcester	\$287,689	1. Montgomery	0.9%
Anne Arundel	550,488	76,405,438	138,796	0.1%	2. Talbot	232,214	2. Howard	0.6%
Baltimore City	621,342	34,582,451	55,658	-1.5%	3. Montgomery	163,924	3. Anne Arundel	0.1%
Baltimore	817,455	78,477,913	96,003	-2.8%	4. Garrett	161,529	4. Somerset	0.0%
Calvert	89,628	12,277,912	136,987	-2.2%	5. Queen Anne's	158,435	5. Garrett	-0.3%
Caroline	32,718	2,651,005	81,026	-5.7%	6. Kent	149,231	6. Frederick	-0.6%
Carroll	167,217	18,588,705	111,165	-1.4%	7. Howard	147,884	7. Harford	-0.8%
Cecil	101,696	9,657,230	94,962	-3.1%	8. Anne Arundel	138,796	8. St. Mary's	-1.1%
Charles	150,592	16,383,332	108,793	-1.9%	9. Calvert	136,987	9. Allegany	-1.3%
Dorchester	32,551	2,981,840	91,605	-4.4%	10. Carroll	111,165	10. Carroll	-1.4%
Frederick	239,582	25,734,580	107,414	-0.6%	11. St. Mary's	110,661	11. Kent	-1.5%
Garrett	29,854	4,822,283	161,529	-0.3%	12. Charles	108,793	12. Baltimore City	-1.5%
Harford	248,622	26,605,582	107,012	-0.8%	13. Frederick	107,414	13. Charles	-1.9%
Howard	299,430	44,280,928	147,884	0.6%	14. Harford	107,012	14. Calvert	-2.2%
Kent	20,191	3,013,117	149,231	-1.5%	15. Baltimore	96,003	15. Baltimore	-2.8%
Montgomery	1,004,709	164,696,351	163,924	0.9%	16. Cecil	94,962	16. Cecil	-3.1%
Prince George's	881,138	76,137,876	86,409	-3.9%	17. Dorchester	91,605	17. Washington	-3.1%
Queen Anne's	48,595	7,699,153	158,435	-4.1%	18. Prince George's	86,409	18. Prince George's	-3.9%
St. Mary's	108,987	12,060,567	110,661	-1.1%	19. Washington	83,260	19. Queen Anne's	-4.1%
Somerset	26,253	1,483,405	56,504	0.0%	20. Caroline	81,026	20. Dorchester	-4.4%
Talbot	38,098	8,846,903	232,214	-5.1%	21. Wicomico	62,702	21. Talbot	-5.1%
Washington	149,180	12,420,699	83,260	-3.1%	22. Somerset	56,504	22. Wicomico	-5.4%
Wicomico	100,647	6,310,794	62,702	-5.4%	23. Baltimore City	55,658	23. Caroline	-5.7%
Worcester	51,578	14,838,405	287,689	-5.9%	24. Allegany	52,839	24. Worcester	-5.9%
Statewide	5,884,563	\$664,867,219	\$112,985	-1.3%				

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

Appendix 5
County Assessable Base for Fiscal 2014 and Percent Change from Fiscal 2013
(\$ in Thousands)

County	Subject to Real Property	Percent Change	Subject to Personal Property	Percent Change	Total Property	Percent Change
Allegany	\$3,579,448	-1.2%	\$331,302	-1.9%	\$3,910,750	-1.3%
Anne Arundel	73,865,355	0.2%	2,540,083	-1.8%	76,405,438	0.1%
Baltimore City	32,548,629	-1.8%	2,033,822	2.2%	34,582,451	-1.5%
Baltimore	75,469,078	-2.9%	3,008,835	-0.7%	78,477,913	-2.8%
Calvert	11,334,235	-2.9%	943,677	7.8%	12,277,912	-2.2%
Caroline	2,550,357	-5.7%	100,648	-4.1%	2,651,005	-5.7%
Carroll	17,999,418	-1.5%	589,287	-0.6%	18,588,705	-1.4%
Cecil	9,280,440	-3.2%	376,790	-1.0%	9,657,230	-3.1%
Charles	15,414,254	-2.5%	969,078	9.6%	16,383,332	-1.9%
Dorchester	2,861,600	-4.7%	120,240	2.0%	2,981,840	-4.4%
Frederick	25,433,656	-0.6%	300,924	1.4%	25,734,580	-0.6%
Garrett	4,621,273	-0.3%	201,010	1.5%	4,822,283	-0.3%
Harford	25,569,637	-1.0%	1,035,945	3.8%	26,605,582	-0.8%
Howard	42,755,118	0.7%	1,525,810	-1.0%	44,280,928	0.6%
Kent	2,976,520	-1.5%	36,597	-1.6%	3,013,117	-1.5%
Montgomery	161,008,847	1.0%	3,687,504	-3.1%	164,696,351	0.9%
Prince George's	73,074,771	-4.2%	3,063,105	3.9%	76,137,876	-3.9%
Queen Anne's	7,636,884	-4.2%	62,269	-2.1%	7,699,153	-4.1%
St. Mary's	11,806,248	-1.1%	254,319	0.2%	12,060,567	-1.1%
Somerset	1,417,905	0.6%	65,500	-10.2%	1,483,405	0.0%
Talbot	8,789,477	-5.1%	57,426	-4.9%	8,846,903	-5.1%
Washington	11,906,479	-3.2%	514,220	-2.2%	12,420,699	-3.1%
Wicomico	5,832,822	-5.5%	477,972	-3.8%	6,310,794	-5.4%
Worcester	14,526,197	-6.0%	312,208	-2.0%	14,838,405	-5.9%
Statewide	\$642,258,648	-1.4%	\$22,608,571	0.4%	\$664,867,219	-1.3%

Source: State Department of Assessments and Taxation
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Appendix 6
One-cent Yield in County Real Property Tax Rates
Fiscal 2012-2016

County	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Allegany	\$360,300	\$359,100	\$356,300	\$353,600	\$347,000
Anne Arundel	6,157,300	6,161,100	6,344,700	6,505,200	6,713,500
Baltimore City	3,024,700	2,895,800	2,959,400	3,018,100	2,909,200
Baltimore	7,129,800	7,186,900	7,231,500	7,326,000	7,395,400
Calvert	1,230,100	1,165,900	1,132,900	1,127,300	1,136,100
Caroline	266,100	261,100	251,300	246,800	244,500
Carroll	1,854,500	1,809,400	1,793,700	1,787,700	1,809,900
Cecil	1,005,500	956,900	927,500	925,300	929,900
Charles	1,635,600	1,576,200	1,539,200	1,531,900	1,575,500
Dorchester	280,000	288,200	280,700	275,900	270,400
Frederick	2,595,200	2,538,800	2,534,900	2,554,000	2,566,400
Garrett	467,500	451,800	453,500	420,600	423,900
Harford	2,610,300	2,577,100	2,555,200	2,494,200	2,544,600
Howard	3,988,800	4,052,800	4,163,000	4,277,800	4,319,400
Kent	284,800	282,600	283,400	281,400	285,000
Montgomery	16,313,400	15,923,600	16,089,200	16,498,200	17,045,100
Prince George's	7,209,300	7,093,900	7,023,800	7,117,800	7,216,000
Queen Anne's	762,400	756,600	743,000	741,000	768,900
St. Mary's	1,118,000	1,122,500	1,140,400	1,147,100	1,149,500
Somerset	158,700	140,100	141,400	136,000	142,800
Talbot	730,100	720,600	706,400	688,400	660,100
Washington	1,225,100	1,212,500	1,186,100	1,172,200	1,181,400
Wicomico	657,600	615,900	582,800	567,800	579,200
Worcester	1,650,100	1,493,400	1,422,800	1,379,800	1,476,300

Source: Department of Legislative Services