

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 690 (Delegate Krimm, *et al.*)
Ways and Means

Property Tax Fairness Act of 2015 (Strengthening Maryland Municipalities)

This bill alters the procedure for establishing property tax setoffs between counties and municipalities.

The bill takes effect July 1, 2015; however, specified provisions of the bill take effect October 1, 2015, and apply to fiscal 2017 and each subsequent fiscal year.

Fiscal Summary

State Effect: None.

Local Effect: County funding for property tax setoffs may increase beginning in FY 2017 contingent on formulas agreed upon by each county and each municipality in the county. Municipal funding increases by the same amount. **The bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Bill Summary: The bill requires a county to meet annually with the governing bodies of municipalities within the county to discuss the property tax rate to be set for assessments of property in the municipality. If it is demonstrated that a municipality performs services or programs in lieu of similar county services and programs, the county must provide a property tax setoff in accordance with a formula agreed to by the county and municipality. A county and a municipality may agree to phase in over a period of three to five years any increase in the level of a tax setoff above the level of the tax setoff granted in fiscal 2016.

Before the amount of a property tax setoff may be established for fiscal 2017, a county with municipalities is required to conduct a detailed study of the scope and nature of the individual services or programs provided by each municipality in the county instead of similar services or programs provided by the county.

The bill repeals certain provisions of law (subsections of section 6-305 of Tax-Property and Section 6-306 of Tax-Property), that govern the procedures for the setting of property tax setoffs in Maryland counties.

Current Law: Section 6-305 of the Tax-Property Article requires that Allegany, Anne Arundel, Baltimore, Frederick, Garrett, Harford, Howard, Montgomery, and Prince George's counties meet annually with the governing bodies of municipalities to discuss the property tax rate to be set for assessments of property in the municipality. If it is demonstrated that a municipality performs services or programs in lieu of similar county services and programs, the governing body of the county *must impose* the county property tax on assessments of property in the municipality at a rate that is less than the general county property tax rate.

Section 6-306 governs the procedure for the setting of a tax differential in the other counties. The governing bodies of the counties are required to meet annually with governing bodies of municipalities to discuss the property tax rate to be set for assessments of property in the municipality. If it is demonstrated that the municipality performs services or programs in lieu of similar county services, the county *may establish* a county property tax rate for property in the municipality that is lower than the general county property tax rate.

Alternatively, both of the above sections provide the counties with the option of making a payment to the municipality to aid the municipality in funding municipal services or programs that are similar to county services or programs. This is commonly known as a tax rebate.

Subsections (d) and (e) of Sections 6-305 and 6-306 of the Tax-Property Article define the procedures for determining the county property tax rate within a municipality. The provisions follow:

- (d) *Setting county rate for a municipality.* In determining the county property tax rate to be set for assessments of property in a municipality, the governing body of the county shall consider:
 - (1) the services and programs that are performed by the municipality instead of similar county services and programs; and

- (2) the extent that the similar services and programs are funded by property tax revenues.
- (e) *Rate need not be uniform.* The county property tax rate for assessments of property located in a municipality is not required to be:
- (1) the same as the rate for property located in other municipalities in the county; or
 - (2) the same as the rate set in a prior year.

A county and one or more municipalities may enter into an agreement setting different terms or timing for negotiations, calculations, or approval of a tax setoff than are set out under Sections 6-305 and 6-306.

Background: There are 156 municipalities in Maryland. According to July 2013 census data, 15.5% of Maryland residents live within municipalities. However, on the Eastern Shore and in Western Maryland, there are nine counties that have over 30% of their residents living in municipalities. Compared to counties, municipalities in Maryland provide a more limited array of public services. Public works and public safety are the two largest functions of municipal governments, comprising 67.0% of municipal expenditures in fiscal 2013. As shown in **Exhibit 1**, municipalities accounted for approximately 4.5% of total local government expenditures. In five counties, municipal governments accounted for over 15% of local government expenditures. **Exhibit 2** shows local government expenditures by county. **Exhibit 3** shows local government expenditures for counties and municipalities by category.

Property Tax Setoffs in Maryland

Property tax setoffs are meant to compensate for double taxation of municipal taxpayers occurring when both municipal and county property taxes are levied to fund similar services. Therefore, counties compensate municipal taxpayers with property tax setoffs through a tax rate differential or through a tax rebate. A tax rate differential results in a lower county property tax rate within the boundaries of a municipality, whereas a tax rebate is a direct payment to a municipality for providing the services or programs.

In Maryland, 18 of the 23 counties had property tax setoffs for municipalities in their jurisdictions in fiscal 2014. Of the 5 remaining counties, Baltimore and Howard counties have no municipalities, while Queen Anne's, Wicomico, and Worcester counties chose not to establish tax setoffs. In fiscal 2014, tax differentials and rebates totaled \$101.5 million, a 2% decrease compared to the prior year. Local funding for tax differentials and rebates in fiscal 2014 ranged from \$50,471 in St. Mary's County to \$27.5 million in Prince George's County. On a per capita basis, local funding ranged from less than \$1 in St. Mary's County to \$95 in Talbot County.

Seven counties (Allegany, Anne Arundel, Calvert, Caroline, Charles, Talbot, and Washington) provided tax rate differentials totaling \$39.2 million for the municipalities in their jurisdictions. Six counties (Carroll, Cecil, Kent, Montgomery, St. Mary's, and Somerset) returned to the municipalities rebates totaling \$11.5 million. Five counties (Dorchester, Frederick, Garrett, Harford, and Prince George's) provided both tax differentials and rebates to their municipalities. Prince George's County provided both tax rebates and tax rate differentials to its municipalities totaling \$27.5 million – as did Harford County, totaling \$10.1 million. Dorchester County provided tax rate differentials to Cambridge and Hurlock totaling \$398,799 and provided tax rebates to its other municipalities totaling \$6,050. Frederick County provided tax rate differentials to Frederick and Myersville totaling \$8.5 million and provided 10 other municipalities \$4.0 million of tax rebates. Garrett County had a tax rate differential totaling \$70,422 for Mountain Lake Park and provided \$237,000 in rebates to seven other municipalities.

In 7 of the 18 counties providing tax set-offs in fiscal 2014, the tax set off amount decreased relative to the amount provided in fiscal 2013. The set-off amount remained the same in Montgomery County and increased in Anne Arundel, Calvert, Carroll, Charles, Dorchester, Frederick, Garrett, Harford, St. Mary's, and Somerset counties.

The City of Annapolis (Anne Arundel County) received the largest tax set-off amount in fiscal 2014. The county real property tax rate within the city was reduced by \$0.381 per \$100 of assessed value, resulting in a property tax revenue offset of \$24.1 million in fiscal 2014 or \$623 per city resident. The City of Bowie (Prince George's County) received the next largest tax set-off amount, with a property tax differential amount of \$9.1 million. For a majority of municipalities in Maryland, the per capita tax differential or rebate amount is under \$75 per municipal resident. In 29 municipalities (18.1%), the county government did not grant either a tax differential or tax rebate. In 10 municipalities (6.3%), the tax differential or rebate amount exceeded \$200 per municipal resident.

Exhibit 4 shows the amount of tax differentials and tax rebates for fiscal 2014.

More detailed information on property tax setoffs for Maryland counties and municipalities can be found in the [Property Tax Set-offs](#) report. A copy of the report can be found on the Department of Legislative Services website.

Exhibit 1
Local Government Expenditures
Fiscal 2013
(\$ in Millions)

	<u>Expenditures</u>	<u>Percent of Total</u>
County Level	\$27,597.4	95.5%
Municipal Level	1,290.2	4.5%
Total	\$28,887.7	100.0%

<u>Municipal Level</u>	<u>Expenditures</u>	<u>Percent of Total</u>
Public Works	\$559.3	43.4%
Public Safety	305.3	23.7%
General Government	155.4	12.0%
Parks, Recreation, & Culture	96.2	7.5%
Community/Economic Development	43.3	3.4%
Miscellaneous	46.8	3.6%
Debt Service	83.8	6.5%
Total	\$1,290.2	100.0%

Source: Department of Legislative Services

Local Fiscal Effect: County funding for property tax setoffs may increase beginning in fiscal 2017 contingent on formulas agreed upon by each county and each municipality in the county. Municipal funding increases by a similar amount. Counties that do not currently have setoffs for municipalities (Queen Anne’s, Wicomico, and Worcester counties) may be impacted to a greater degree than the other counties that already have property tax setoffs. For example, Worcester County advises that it may incur administrative expenditures of approximately \$152,800 for additional staff to conduct the property tax setoff study required by the bill.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore City, Kent County, Worcester County, Town of Bel Air, Town of Leonardtown, State Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Maryland Association of Counties, Maryland Municipal League, Department of Legislative Services

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min/hlb

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Exhibit 2
Local Government Expenditures
Fiscal 2013

County	County (\$ in Millions)	Municipal (\$ in Millions)	Total (\$ in Millions)	Percent County	Percent Municipal
Allegany	\$261.7	\$56.4	\$318.1	82.3%	17.7%
Anne Arundel	2,187.5	91.7	2,279.2	96.0%	4.0%
Baltimore City	3,642.0	0.0	3,642.0	100.0%	0.0%
Baltimore	3,405.4	0.0	3,405.4	100.0%	0.0%
Calvert	400.8	14.2	415.0	96.6%	3.4%
Caroline	115.1	13.9	129.0	89.3%	10.7%
Carroll	643.5	50.6	694.1	92.7%	7.3%
Cecil	355.4	37.8	393.2	90.4%	9.6%
Charles	706.8	13.4	720.2	98.1%	1.9%
Dorchester	117.2	23.0	140.1	83.6%	16.4%
Frederick	979.4	145.3	1,124.7	87.1%	12.9%
Garrett	137.5	7.1	144.7	95.1%	4.9%
Harford	1,027.6	57.8	1,085.4	94.7%	5.3%
Howard	1,721.2	0.0	1,721.2	100.0%	0.0%
Kent	71.5	10.6	82.1	87.1%	12.9%
Montgomery	5,902.2	196.9	6,099.0	96.8%	3.2%
Prince George's	4,042.8	171.5	4,214.3	95.9%	4.1%
Queen Anne's	189.2	7.9	197.2	96.0%	4.0%
St. Mary's	403.7	3.5	407.1	99.1%	0.9%
Somerset	77.7	8.6	86.3	90.1%	9.9%
Talbot	116.4	74.1	190.4	61.1%	38.9%
Washington	514.8	106.3	621.1	82.9%	17.1%
Wicomico	339.3	57.5	396.9	85.5%	14.5%
Worcester	238.8	142.3	381.1	62.7%	37.3%
Statewide	\$27,597.4	\$1,290.2	\$28,887.7	95.5%	4.5%

Source: *Local Government Finances Fiscal 2013*, Department of Legislative Services

Exhibit 3
Local Government Expenditures by Category
Fiscal 2013

Category	Total Local Expenditures	Percent of Total	County Expenditures	Municipal Expenditures	Percent County	Percent Municipal
General Government	\$1,652,185,618	5.7%	\$1,496,765,416	\$155,420,202	90.6%	9.4%
Public Safety						
Police	1,738,566,097	6.0%	1,516,298,930	222,267,167	87.2%	12.8%
Fire	981,795,441	3.4%	932,832,951	48,962,490	95.0%	5.0%
Corrections	378,538,748	1.3%	378,538,748	-	100.0%	0.0%
Other	350,046,051	1.2%	315,973,475	34,072,576	90.3%	9.7%
Public Works						
Transportation	1,404,737,259	4.9%	1,227,673,209	177,064,050	87.4%	12.6%
Sewer/Solid Waste/Water	2,268,248,731	7.9%	1,969,766,230	298,482,501	86.8%	13.2%
Other	92,004,356	0.3%	8,208,466	83,795,890	8.9%	91.1%
Education						
Public Schools	13,271,569,895	45.9%	13,271,569,895	-	100.0%	0.0%
Community Colleges	1,287,011,027	4.5%	1,287,011,027	-	100.0%	0.0%
Libraries	299,875,509	1.0%	299,875,509	-	100.0%	0.0%
Health/Social Services	992,164,834	3.4%	992,164,834	-	100.0%	0.0%
Parks and Recreation	680,321,684	2.4%	584,135,066	96,186,618	85.9%	14.1%
Community/Economic Development	807,440,724	2.8%	764,116,151	43,324,573	94.6%	5.4%
Miscellaneous	1,250,309,290	4.3%	1,203,486,984	46,822,306	96.3%	3.7%
Debt Service	1,432,835,677	5.0%	1,349,024,937	83,810,740	94.2%	5.8%
Total	\$28,887,650,941	100.0%	\$27,597,441,828	\$1,290,209,113	95.5%	4.5%

Source: *Local Government Finances Fiscal 2013*, Department of Legislative Services

Exhibit 4
Tax Differentials and Tax Rebates
Fiscal 2014

County	Tax Differential	Tax Rebate	Total
Allegany	\$2,204,011	\$0	\$2,204,011
Anne Arundel	24,131,339	0	24,131,339
Baltimore City	N/A	N/A	N/A
Baltimore	N/A	N/A	N/A
Calvert	3,368,991	0	3,368,991
Caroline	473,645	0	473,645
Carroll	0	2,520,690	2,520,690
Cecil	0	760,340	760,340
Charles	1,108,014	0	1,108,014
Dorchester	398,799	6,050	404,849
Frederick	8,542,062	4,011,173	12,553,235
Garrett	70,422	237,000	307,422
Harford	6,550,444	3,554,158	10,104,602
Howard	N/A	N/A	N/A
Kent	0	64,446	64,446
Montgomery	0	7,776,718	7,776,718
Prince George's	26,818,044	651,147	27,469,191
Queen Anne's	0	0	0
St. Mary's	0	50,471	50,471
Somerset	0	315,000	315,000
Talbot	3,588,941	0	3,588,941
Washington	4,320,810	0	4,320,810
Wicomico	0	0	0
Worcester	0	0	0
Total	\$81,575,522	\$19,947,193	\$101,522,715

N/A: indicates the jurisdiction has no municipalities.

Source: Department of Legislative Services