

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 116

(Senator Benson)

Budget and Taxation

Ways and Means

Property Tax - Municipal Corporation Business Personal Property Tax Rate and
Local Government Reporting Requirements - Alterations

This bill establishes a maximum personal property tax rate (\$3.75 per \$100 of assessed value) that may be imposed by municipalities. The bill also requires the City of Seat Pleasant to hire an independent certified public accounting firm to evaluate all municipal revenues and expenditures since fiscal 2019 and submit a report to the Joint Audit and Evaluation Committee, the Office of Legislative Audits, and the General Assembly by January 1, 2024. Finally, the bill imposes a financial penalty through the reduction of State aid payments for the failure of a local government to submit required audited financial reports. **The bill takes effect June 1, 2023. The personal property tax rate provision applies to taxable years beginning after June 30, 2023.**

Fiscal Summary

State Effect: None.

Local Effect: Municipal personal property tax revenues in three jurisdictions may decrease beginning in FY 2024. Municipal expenditures in the City of Seat Pleasant increase by approximately \$50,000 in FY 2024 to conduct a performance audit. State aid to Dorchester County and several municipalities may be reduced by a significant amount due to the failure to submit required local government financial reports. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful. Beginning in FY 2024, small businesses in the City of Seat Pleasant may realize reduced personal property taxes.

Analysis

Current Law:

Personal Property Taxes

Local governments (counties, municipalities, and special taxing districts) are authorized to tax personal property and to establish local tax rates. Prior to July 1, 2013, State law required the county personal property tax rate to be set at 2.5 times the county real property tax rate. Beginning July 1, 2013, the county personal property tax rate was decoupled from the county real property tax rate by authorizing county governments to set a personal property tax rate at up to 2.5 times the county real property tax rate. Municipalities are not subject to this limitation.

Local Government Financial Reports

Annual Reporting Requirements

Counties, municipalities, and special taxing districts must file a financial report covering the full period of the previous fiscal year by October 31 to the Department of Legislative Services (DLS). Local jurisdictions with a population greater than 400,000, however, may take until December 31 to file their financial report. This deadline extension applies to Baltimore City and Anne Arundel, Baltimore, Montgomery, and Prince George's counties. Due to legislation passed by the General Assembly, the reporting deadlines have been extended for several other jurisdictions. The annual financial report for Howard County is due by November 30; whereas, the annual financial reports for 11 counties (Allegany, Calvert, Caroline, Charles, Frederick, Garrett, Queen Anne's, St. Mary's, Somerset, Talbot, and Wicomico) are due by December 31. The annual financial report due to DLS is commonly known as the Uniform Financial Report (UFR). It has been common practice for DLS to grant an extension of the annual financial report upon receipt of a reasonable request from a local jurisdiction.

Local jurisdictions must also submit an annual audit report covering the full period of the previous fiscal year to the State Legislative Auditor. Chapter 493 of 2008 tied the due date for the annual audit report to the due date for the annual financial report.

Potential Penalties for Failing to Submit Required Reports

If a local jurisdiction does not submit its annual UFR on time, the Comptroller, on notice from the Executive Director of DLS may order the discontinuance of all money, grants or State aid the local jurisdiction is entitled to receive under State law, including (1) the

income tax; (2) the tax on racing; (3) the recordation tax; (4) the admissions and amusement tax; and (5) the license tax.

If a local jurisdiction does not submit its annual audit report on time, as specified, the Comptroller, on notice from the Executive Director of DLS may order the discontinuance of all money, grants or State aid the local jurisdiction is entitled to receive under State law that are distributed by the Comptroller, the clerks of the court, or any other unit of State government.

Local Revenues:

Personal Property Tax Revenues

The \$3.75 personal property tax rate limit established under the bill is intended to affect only one municipality, the City of Seat Pleasant. With the city's personal property tax rate currently set at \$12 per \$100 of assessment, the bill will require the City of Seat Pleasant to reduce the municipal personal property tax rate by \$8.25, which represents a 68.75% reduction. As shown in **Exhibit 1**, this will result in a \$581,700 revenue loss for the city government. This estimate is based on assessment data provided by the State Department of Assessments and Taxation for fiscal 2022.

However, if the personal property tax rate limit applies to the utility tax rate imposed by local governments, two additional municipalities may be affected. The Town of Centreville (Queen Anne's County) currently imposes a \$13 utility tax rate on the real and personal property of utilities; while the Town of Kensington (Montgomery County) imposes a \$5 utility tax rate on utility property. If the utility tax rate in both municipalities is capped at \$3.75; local revenues will decrease by \$660,600 in the Town of Centreville and \$116,500 in the Town of Kensington.

Exhibit 1
Estimated Annual Revenue Decrease

	<u>Business Personal</u>	<u>Railroad Personal</u>	<u>Utility Real</u>	<u>Utility Personal</u>	<u>Total</u>
Seat Pleasant					
Property Tax Rate	\$12.00	\$12.00	\$0.00	\$0.00	
Property Tax Base	7,050,800	0	10,360	4,787,080	\$11,848,240
Potential Revenue					
Loss	581,691	0	0	0	581,691

*Potential Fiscal Impact if Tax Cap Applies to Utility
Property*

Centreville					
Property Tax Rate	\$0.00	\$0.00	\$13.00	\$13.00	
Property Tax Base	0	0	2,226,530	4,914,720	\$7,141,250
Potential Revenue					
Loss	0	0	205,954	454,612	660,566

Kensington					
Property Tax Rate	\$0.80	\$0.80	\$5.00	\$5.00	
Property Tax Base	18,194,010	160,660	957,890	8,362,890	\$27,675,450
Potential Revenue					
Loss	0	0	11,974	104,536	116,510

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

City of Seat Pleasant Municipal Audit

The bill requires the City of Seat Pleasant to hire an independent certified public accounting firm to evaluate all municipal revenues and expenditures since fiscal 2019 and submit a report by January 1, 2024. It is estimated that city expenditures will increase by approximately \$50,000 in fiscal 2024 to perform this task.

Failure to File Local Financial Reports

The bill specifies that if local jurisdictions are more than one year late in filing specified audited financial reports with DLS, the department must notify the Comptroller, who must then discontinue 20% of all State aid payments for police aid, highway user revenues, and disparity grants that the jurisdiction is entitled to receive. Payments may resume if the required reports are submitted in the same year that the payments were discontinued. As shown in **Exhibit 2**, there is one county (Dorchester) and seven municipalities that are currently at least one year late in submitting the required reports. Based on fiscal 2024 State aid allocations, Dorchester County would realize a reduction of \$1.1 million in State aid and the seven municipalities would realize a combined reduction of \$461,200.

Exhibit 2
Potential State Aid Reductions
FY 2024

<u>Local Government</u>	<u>Fiscal Years Outstanding</u>	<u>Highway User Revenues</u>	<u>Police Aid</u>	<u>Disparity Grant</u>	<u>Total</u>	<u>20% of Total</u>
Dorchester County	2021	\$1,244,486	\$154,359	\$3,934,595	\$5,333,440	\$1,066,688
Deer Park	2021	36,228	0	0	36,228	7,246
East New Market	2021	28,077	0	0	28,077	5,615
Forest Heights	2021	138,052	143,572	0	281,624	56,325
Hyattsville	2020, 2021	659,593	525,238	0	1,184,831	236,966
Middletown	2020, 2021	302,242	29,231	0	331,473	66,295
Seat Pleasant	2020, 2021	177,959	242,067	0	420,026	84,005
Sudlersville	2021	23,637	0	0	23,637	4,727

Note: Police Aid amount for Town of Middletown is for FY 2023. Other data points are for FY 2024.

Source: Department of Legislative Services

Additional Information: The following is a fiscal analysis on property tax collections and other revenue sources for the City of Seat Pleasant and similar communities in Prince George’s County.

Personal Property Tax Rates and Revenues

The City of Seat Pleasant has the highest personal property tax rate in both the State and Prince George’s County in fiscal 2023, with the rate set at \$12 per \$100 of assessment. This compares with a \$2.50 personal property tax rate in the Town of Capitol Heights, which is the second highest tax rate in Prince George’s County, and a \$2.648 personal property tax rate in the City of Cumberland (Allegany County), which is the second highest tax rate in Maryland.

The personal property tax rate in the City of Seat Pleasant has remained extremely high over the last 10 years (fiscal 2014 through 2023) as shown in **Exhibit 3**. During this period, the personal property tax rate ranged from \$11 per \$100 of assessment in fiscal 2014 through 2017; \$15 in fiscal 2018 through 2022; and \$12 in fiscal 2023. During this 10-year period, the personal property tax rate remained relatively stable in other jurisdictions. The City of Cumberland continued to have the second highest personal property tax rate in the State, and the Town of Capitol Heights continued to have the second highest personal property tax rate in Prince George’s County. The personal property tax rates in both municipalities remained unchanged during this period.

Exhibit 3
Personal Property Tax Rates
Fiscal 2014-2023

	<u>2014-2017</u>	<u>2018-2022</u>	<u>2023</u>
Seat Pleasant	\$11.00	\$15.00	\$12.00
Capitol Heights	2.50	2.50	2.50
Cumberland	2.648	2.648	2.648

Source: Department of Legislative Services

Municipal Revenues from Fines and Forfeiture

In recent years, the City of Seat Pleasant has become more reliant on fine-forfeiture revenues, primarily from red light and speed camera violations. In fiscal 2019, the City of Seat Pleasant collected \$9.3 million in total revenues. Local property taxes accounted for \$3.4 million (36.1%), and fines-forfeitures accounted for \$3.3 million (35.1%). Other leading sources of revenue included debt proceeds (5.7%), local income taxes (3.6%), State grants (3.3%), and service charges (3.0%). Over a five-year period (fiscal 2014 through 2019), the share of municipal revenues from local property and

income taxes has declined sharply as the City of Seat Pleasant became more reliant on fine revenues from red light and speed camera violations. In fiscal 2014, approximately 72% of municipal revenue (\$2.6 million) came from local property taxes, and 6.1% (\$222,270) came from the local income tax. Municipal revenues from fines-forfeitures increased from \$232,138 in fiscal 2014 to \$3.3 million in fiscal 2019. The City of Seat Pleasant leads other municipalities in Prince George's County in the collection of fine-forfeiture revenue.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 450 (Delegates J. Lewis and Harrison) - Ways and Means.

Information Source(s): Maryland Municipal League; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - January 18, 2023
js/hlb Third Reader - March 27, 2023
Revised - Amendment(s) - March 27, 2023

Analysis by: Michael D. Sanelli

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