

Department of Legislative Services  
Maryland General Assembly  
2007 Session

FISCAL AND POLICY NOTE

House Bill 1355  
Ways and Means

(Washington County Delegation)

Budget and Taxation

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Washington County - Building Excise Tax

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This bill suspends the building excise tax rate caps in Washington County during fiscal 2008 only. Any excise tax imposed by the county commissioners during that year may be based on the construction's square footage and imposed on an increasing graduated scale. The county commissioners are required to appoint a task force to study and make recommendations concerning excise tax rates for residential development. The task force has to submit its findings and recommendations to members of the General Assembly representing Washington County and the county commissioners by September 30, 2007.

The bill takes effect July 1, 2007 and terminates June 30, 2008.

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Fiscal Summary

**State Effect:** None.

**Local Effect:** Potential increase in Washington County excise tax revenues in FY 2008. Minimal operational impact on the county related to staffing the task force.

**Small Business Effect:** Minimal.

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Analysis

**Current Law:** Washington County imposes a building excise tax on residential and nonresidential building construction to fund capital improvements for public services and facilities. The current excise tax caps that are suspended by the bill for fiscal 2008 are as follows:

- For nonresidential buildings:
  - \$5 per square foot; and
  - the county commissioners may impose different rates or waive the tax.
  
- For a subdivision containing 25 residential units or less:
  - \$13,000 per single-family residential unit; and
  - \$15,500 per residential unit in a multifamily development.
  
- For a subdivision containing more than 25 residential units:
  - \$26,000 per single-family residential unit; and
  - \$31,000 per residential unit in a multifamily development.

**Background:** Development impact fees and excise taxes enable local governments to collect revenue from builders for public facilities required by new residential or commercial development. As a result of these development charges, local governments are able to shift the costs of new public facilities from existing taxpayers to individuals responsible for the development. In many situations, the use of development charges may eliminate the need for countywide tax increases. Another benefit of development charges is that local officials can collect the needed revenue for the expansion or construction of new public facilities prior to the construction of any new residential development. In this manner, payment of an impact fee or excise tax may be required by local officials prior to the issuance of a building permit or approval of a subdivision plat.

#### *Excise Tax Revenues in Washington County*

In Washington County, revenues collected from nonresidential building types may only be used for primary, secondary, or higher education capital expenditures; public safety capital expenditures; public infrastructure projects; and debt reduction related to capital improvements expenditures. Revenues collected from residential building types must be used according to the following percentages: 70% for schools; 23% for roads; 2% for public libraries; and 5% for parks and recreational facilities, public safety, water and sewer infrastructure, and agricultural land preservation. Revenues collected from residential building types and used for schools must be used for capital costs that primarily provide additional capacity. Residential revenues used for public libraries, water and sewer infrastructure, and parks and recreation must be used for capital costs of public works, improvements, and facilities.

Washington County first imposed a building excise tax in fiscal 2004 after receiving authorization from the General Assembly in 2003 (Chapter 468). The Act capped the tax rate at \$1 per square foot for all construction until the end of fiscal 2007. Beginning in fiscal 2008, the county commissioners would have had the authority to set the rate. Chapter 598 of HB 1355 / Page 2

2005 increased the caps to their current amount. The county subsequently increased the excise tax rates up to the statutory limit, and revenues increased from \$3.5 million in fiscal 2005 to \$7.7 million in fiscal 2006.

**Local Fiscal Effect:** According to Washington County, staffing the task force could be handled with existing personnel.

The excise tax is currently levied per unit regardless of the housing unit's size; this bill would allow the county to levy the tax based on the size of the unit. If Washington County begins imposing excise tax rates above the current cap, then county excise tax revenues would increase. However, the county advises that its goal is to keep the same revenue base while restructuring the excise tax rates. Future year excise tax revenues would depend on the task force's recommendations and whether these recommendations are codified.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Washington County, Department of Legislative Services

**Fiscal Note History:** First Reader - March 20, 2007  
ncs/hlb

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