

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 316 (Senator Madaleno)
Budget and Taxation

Property Tax - Charter Counties - Education Funding

This bill authorizes the county council of a charter county, which has either a property tax revenue or rate limitation, to set a property tax rate higher or to collect more property tax revenues than authorized under the county charter for the sole purpose of funding the approved budget of the county board of education. A charter county is prohibited from reducing revenue from any other local source to the county board of education and must appropriate all property tax revenues collected resulting from the increased rate to the county board of education.

The bill takes effect June 1, 2011, and is applicable to all taxable years beginning after June 30, 2011.

Fiscal Summary

State Effect: None.

Local Effect: Potential revenue increase in Anne Arundel, Montgomery, Prince George's, Talbot, and Wicomico counties. County expenditures are not directly affected.

Small Business Effect: None.

Analysis

Current Law: 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. In Montgomery County, the growth in property tax revenues is limited to the increase in the consumer price index; 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 (M-NCPPC) and the Washington Suburban Transit Commission (WSTC), 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 the consumer price index.

Background: Public schools are funded from federal, State, and local sources. Approximately 46% of public school funding in Maryland comes from local sources, and 48% comes from the State. The federal government provides only 6% of public school funding. As shown in **Exhibit 1**, the reliance on local funding varies across the State. Local revenue as a percent of total public school funding ranges from 16.3% in Baltimore City to 68.2% in Worcester County. State funding as a percent of public school revenues ranges from 24.8% in Worcester County to 74.0% in Baltimore City. Seven local school systems (Baltimore City and Allegany, Caroline, Dorchester, Somerset, Washington, and Wicomico counties) receive over 60% of their revenue from the State.

Public schools in Maryland received about \$14,350 in total funding for each pupil in fiscal 2011. Worcester County had the highest per pupil revenues at \$16,585; while Baltimore City had the second highest at \$16,338. Montgomery County had the third highest at \$15,776. St. Mary's County had the lowest per pupil revenues at \$12,034. **Exhibit 2** shows the per pupil revenues for public schools in fiscal 2011 by revenue source.

Unlike many other states, Maryland's local school systems do not have independent taxing authority. Instead, they rely on the counties and Baltimore City for a significant share of their funding. Historically, counties have accounted for more than half of total funding for Maryland school systems. One of the goals of the Bridge to Excellence in Public Schools Act of 2002 was to move toward a school finance system in which the State and counties are more equal partners in their contributions to schools.

Minimum annual appropriations from each county (including Baltimore City) to the local school system are governed by a maintenance of effort provision under State law. This provision requires each county to provide, at a minimum, the greater of (1) the local share of the foundation amount, which is a uniform percentage of the local wealth base applicable to all counties; or (2) the per pupil amount provided by the county in the

previous year. A county that does not meet this requirement may be penalized by having State aid for the local board of education reduced. Historically, county contributions to local school boards have easily exceeded the local share of the foundation, so providing at least as much funding per pupil as was provided in the previous fiscal year has been the higher threshold for counties to meet. Counties also have the option of appropriating more than the minimum requirement, which they often do. From fiscal 2003 to 2010, county appropriations were an average of 3.5% higher than the required maintenance of effort level, although there was a wide range in the level of increases provided by the 24 localities.

In 1996, the State enacted legislation to allow county governments to apply to the State Board of Education for a one-year waiver from the maintenance of effort requirement. To approve a waiver, the State board must find that the county showed, by a preponderance of evidence, that its “fiscal condition significantly impedes the county’s ability to fund the maintenance of effort requirement.” No county had applied for a waiver until 2009, when three counties applied for waivers from their fiscal 2010 maintenance of effort levels. The State board denied all three fiscal 2010 applications. Two counties applied for fiscal 2011 waivers, and approval of both applications represented the first time the waiver process was used to successfully reduce maintenance of effort funding levels without the threat of a penalty.

Another avenue for suspending the maintenance of effort requirement is through legislative action. During the fiscal crisis of the early 1990s, before the State board waiver process had been established, the State enacted legislation for two consecutive years waiving the maintenance of effort requirement for all counties in fiscal 1992 and again in fiscal 1993. In 1996, legislation waived the requirement for Wicomico County only. More recently, Chapters 73 and 74 of 2010 prohibited the imposition of any penalty for not meeting maintenance of effort in fiscal 2010.

Ultimately, the amount of funding that counties provide to the local boards of education is based on two factors: local tax capacity and the extent to which this capacity is used to support education. All counties are required to contribute a uniform percentage of their local wealth bases to public education as the local share of the foundation. The local share of the foundation represents a specific effort level (0.65% of local wealth in fiscal 2011). Counties then determine how much funding they provide over the amount required for the local share of the foundation. All counties provide some funding over the local share of the foundation, but the amount of supplemental funding each county provides is a local decision that is made over a number of years (since the maintenance of effort provision requires per pupil funding levels to remain at least equivalent from one year to the next). **Exhibit 3** compares per pupil county appropriations to per pupil county wealth and shows the proportion of each county’s wealth base used to support education.

The exhibit shows that fiscal 2011 local effort levels ranged from 0.70% of local wealth in Talbot County to 1.65% in Howard County. As a result of this variance, Howard County provided more per pupil funding for the local school system than Talbot County despite higher per pupil wealth in Talbot County.

Local Fiscal Effect: The bill allows Anne Arundel, Montgomery, Prince George’s, Talbot, and Wicomico counties to raise property tax revenue in excess of each county’s revenue or property tax rate limit, provided the excess revenues are earmarked to the county board of education. However, the actual amount of any revenue increase depends on whether the county sets a tax rate higher than authorized and the amount of revenue generated from that tax rate that is in excess of any county revenue limitation.

The following table shows the fiscal 2011 local appropriation to the local boards of education for Anne Arundel, Montgomery, Prince George’s, Talbot, and Wicomico counties, as well as estimated property tax revenues.

<u>County</u>	<u>Property Tax Revenues</u>	<u>Local Education Appropriations</u>
Anne Arundel	\$553,800,000	\$562,360,000
Montgomery	1,460,576,386	1,415,085,344
Prince George’s	720,719,200	599,014,431
Talbot	28,781,000	34,329,542
Wicomico	60,575,912	43,196,892
Total	\$2,824,452,498	\$2,653,986,209

The following table shows the additional revenue resulting from various real property tax rate increases for Anne Arundel, Montgomery, Prince George’s, Talbot, and Wicomico counties.

<u>County</u>	<u>\$0.001 Increase in Tax Rate</u>	<u>\$0.0025 Increase in Tax Rate</u>	<u>\$0.005 Increase in Tax Rate</u>	<u>\$0.01 Increase in Tax Rate</u>
Anne Arundel	\$766,013	\$1,915,032	\$3,830,065	\$7,660,130
Montgomery	1,670,604	4,176,511	8,353,022	16,706,045
Prince George’s	837,842	2,094,606	4,189,212	8,378,425
Talbot	96,912	242,280	484,560	969,121
Wicomico	66,370	165,926	331,852	663,704
Total	\$3,437,742	\$8,594,356	\$17,188,712	\$34,377,425

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Harford, Montgomery, Talbot, and Wicomico counties, Maryland Association of Counties; State Department of Assessments and Taxation; Department of Legislative Services

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mlm/hlb

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Exhibit 1
Revenue Sources for Public Schools in Fiscal 2011

<u>County</u>	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Ranking by Percent State</u>		<u>Ranking by Percent Local</u>		
Allegany	6.7%	71.2%	22.1%	1.	Baltimore City	74.0%	1. Worcester	68.2%
Anne Arundel	4.7%	37.4%	57.9%	2.	Caroline	72.3%	2. Talbot	66.5%
Baltimore City	9.8%	74.0%	16.3%	3.	Allegany	71.2%	3. Montgomery	64.5%
Baltimore	6.3%	44.8%	48.9%	4.	Wicomico	68.9%	4. Howard	61.1%
Calvert	4.9%	47.1%	48.0%	5.	Somerset	66.5%	5. Anne Arundel	57.9%
Caroline	7.9%	72.3%	19.8%	6.	Dorchester	62.5%	6. Kent	55.8%
Carroll	4.1%	47.5%	48.4%	7.	Washington	60.0%	7. Queen Anne's	52.5%
Cecil	6.0%	58.8%	35.2%	8.	Cecil	58.8%	8. Baltimore	48.9%
Charles	5.4%	51.4%	43.2%	9.	Prince George's	57.3%	9. Carroll	48.4%
Dorchester	6.0%	62.5%	31.5%	10.	St. Mary's	55.3%	10. Calvert	48.0%
Frederick	5.1%	48.9%	46.0%	11.	Charles	51.4%	11. Frederick	46.0%
Garrett	8.0%	50.9%	41.1%	12.	Garrett	50.9%	12. Harford	44.4%
Harford	5.8%	49.9%	44.4%	13.	Harford	49.9%	13. Charles	43.2%
Howard	3.9%	35.1%	61.1%	14.	Frederick	48.9%	14. Garrett	41.1%
Kent	5.0%	39.2%	55.8%	15.	Carroll	47.5%	15. St. Mary's	38.8%
Montgomery	4.2%	31.3%	64.5%	16.	Calvert	47.1%	16. Cecil	35.2%
Prince George's	7.8%	57.3%	34.9%	17.	Baltimore	44.8%	17. Prince George's	34.9%
Queen Anne's	6.8%	40.7%	52.5%	18.	Queen Anne's	40.7%	18. Washington	33.1%
St. Mary's	6.0%	55.3%	38.8%	19.	Kent	39.2%	19. Dorchester	31.5%
Somerset	11.4%	66.5%	22.2%	20.	Anne Arundel	37.4%	20. Wicomico	23.8%
Talbot	4.7%	28.8%	66.5%	21.	Howard	35.1%	21. Somerset	22.2%
Washington	6.9%	60.0%	33.1%	22.	Montgomery	31.3%	22. Allegany	22.1%
Wicomico	7.3%	68.9%	23.8%	23.	Talbot	28.8%	23. Caroline	19.8%
Worcester	7.0%	24.8%	68.2%	24.	Worcester	24.8%	24. Baltimore City	16.3%
Total	6.1%	48.4%	45.5%					

Source: Local School Budgets, Department of Legislative Services

Exhibit 2
Per Pupil Revenues for Public Schools in Fiscal 2011

County	Federal	State	Local	Total	Ranking by Total Per Pupil Funding	
Allegany	\$1,027	\$10,891	\$3,382	\$15,300	1.	Worcester \$16,585
Anne Arundel	620	4,941	7,656	13,218	2.	Baltimore City 16,338
Baltimore City	1,598	12,083	2,657	16,338	3.	Montgomery 15,776
Baltimore	866	6,142	6,706	13,713	4.	Howard 15,403
Calvert	660	6,329	6,439	13,428	5.	Allegany 15,300
Caroline	1,005	9,178	2,510	12,693	6.	Kent 15,214
Carroll	533	6,151	6,279	12,963	7.	Somerset 14,901
Cecil	762	7,500	4,490	12,752	8.	Prince George's 14,618
Charles	704	6,735	5,660	13,099	9.	Garrett 13,805
Dorchester	795	8,226	4,150	13,171	10.	Baltimore 13,713
Frederick	658	6,279	5,912	12,848	11.	Calvert 13,428
Garrett	1,101	7,025	5,680	13,805	12.	Anne Arundel 13,218
Harford	753	6,484	5,769	13,006	13.	Dorchester 13,171
Howard	596	5,400	9,408	15,403	14.	Wicomico 13,101
Kent	758	5,966	8,491	15,214	15.	Charles 13,099
Montgomery	656	4,943	10,177	15,776	16.	Harford 13,006
Prince George's	1,141	8,377	5,100	14,618	17.	Carroll 12,963
Queen Anne's	853	5,071	6,544	12,467	18.	Frederick 12,848
St. Mary's	720	6,651	4,664	12,034	19.	Cecil 12,752
Somerset	1,693	9,906	3,302	14,901	20.	Caroline 12,693
Talbot	574	3,511	8,109	12,194	21.	Washington 12,523
Washington	858	7,516	4,148	12,523	22.	Queen Anne's 12,467
Wicomico	957	9,020	3,124	13,101	23.	Talbot 12,194
Worcester	1,156	4,117	11,312	16,585	24.	St. Mary's 12,034
Total	\$870	\$6,946	\$6,535	\$14,351		

Source: Local School Budgets, Department of Legislative Services

Exhibit 3
Per Pupil Wealth and Local Appropriations
Fiscal 2011

School System	Wealth Per Pupil	Per Pupil Appropriation	Local Effort (Appropriation/Wealth)
Allegany	\$272,517	\$3,249	1.19%
Anne Arundel	648,477	7,713	1.19%
Baltimore City	290,050	2,653	0.91%
Baltimore	525,394	6,664	1.27%
Calvert	452,950	6,316	1.39%
Caroline	324,375	2,377	0.73%
Carroll	452,808	6,086	1.34%
Cecil	391,395	4,376	1.12%
Charles	413,751	5,611	1.36%
Dorchester	412,813	3,941	0.95%
Frederick	454,814	5,858	1.29%
Garrett	542,523	5,537	1.02%
Harford	435,418	5,678	1.30%
Howard	566,901	9,363	1.65%
Kent	783,593	8,328	1.06%
Montgomery	740,535	10,244	1.38%
Prince George's	433,556	4,985	1.15%
Queen Anne's	617,757	6,414	1.04%
St. Mary's	432,658	4,641	1.07%
Somerset	339,417	3,238	0.95%
Talbot	1,142,003	8,034	0.70%
Washington	383,087	4,154	1.08%
Wicomico	316,297	3,094	0.98%
Worcester	1,371,358	11,389	0.83%
Total	\$518,733	\$6,492	1.25%
