

**Department of Legislative Services**  
Maryland General Assembly  
2012 Session

**FISCAL AND POLICY NOTE**

Senate Bill 740

(Senator Madaleno)

Budget and Taxation

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**Property Tax - Charter Counties - Education Funding**

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This bill authorizes the county council of a charter county that 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, 2012, and is applicable to all taxable years beginning after June 30, 2012.

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**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.

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**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 49% comes from the State. The federal government provides only 5% 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 18.1% in Baltimore City to 69.8% in Worcester County. State funding as a percent of public school revenues ranges from 25.3% in Worcester County to 74.7% in Caroline County. 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 \$14,254 in total funding for each pupil in fiscal 2012. Baltimore City had the highest per pupil revenues at \$17,001; while Worcester County had the second highest at \$16,551. Montgomery County had the third highest at \$15,308. Talbot County had the lowest per pupil revenues at \$11,721. **Exhibit 2** shows the per pupil revenues for public schools in fiscal 2012 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. Prior to 2007, counties consistently 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, a goal that has been accomplished in recent years.

Minimum annual appropriations from each county (including Baltimore City) to the local school system are governed by State law, which 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, which is known as the maintenance of effort requirement. A county that does not meet these requirements 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 the maintenance of effort requirement 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 (Montgomery, Prince George’s, and Wicomico) applied for waivers from their fiscal 2010 maintenance of effort levels. The State board denied all three fiscal 2010 applications. Two counties (Montgomery and Wicomico) 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 (0.66% of local wealth in fiscal 2012). 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 2012 local effort levels range from 0.7% of local wealth in Talbot County to 1.7% in Howard County. As a result of this variance, Howard County provided \$1,682 more in 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 2012 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	\$564,912,000	\$556,106,000
Montgomery	1,472,250,214	1,370,101,000
Prince George's	720,561,200	617,515,000
Talbot	29,713,500	32,403,000
Wicomico	59,008,117	36,197,000
<b>Total</b>	<b>\$2,846,445,031</b>	<b>\$2,612,322,000</b>

The following table shows the additional revenue resulting from various real property tax rate increases in fiscal 2013 for the affected counties.

<u>County</u>	<u>\$0.0010 in Tax Rate</u>	<u>\$0.0025 in Tax Rate</u>	<u>\$0.0050 in Tax Rate</u>	<u>\$0.0100 in Tax Rate</u>
Anne Arundel	\$733,506	\$1,833,765	\$3,667,530	\$7,335,060
Montgomery	1,588,735	3,971,837	7,943,675	15,887,349
Prince George's	762,288	1,905,721	3,811,442	7,622,885
Talbot	92,896	232,239	464,479	928,957
Wicomico	61,907	154,767	309,534	619,069
<b>Total</b>	<b>\$3,239,332</b>	<b>\$8,098,329</b>	<b>\$16,196,660</b>	<b>\$32,393,320</b>

## **Additional Information**

**Prior Introductions:** SB 316 of 2011 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

**Cross File:** None.

**Information Source(s):** Anne Arundel, Baltimore, Harford, and Talbot counties; State Department of Assessments and Taxation; Maryland State Department of Education; Maryland Association of Counties; Department of Legislative Services

**Fiscal Note History:** First Reader - February 20, 2012  
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**Exhibit 1**  
**Revenue Sources for Public Schools in Fiscal 2012**

<b>County</b>	<b>Federal</b>	<b>State</b>	<b>Local</b>	<b>Ranking by Percent State</b>		<b>Ranking by Percent Local</b>			
Allegany	6.2%	70.6%	23.2%	1.	Caroline	74.7%	1.	Worcester	69.8%
Anne Arundel	3.8%	38.5%	57.8%	2.	Wicomico	71.8%	2.	Talbot	65.0%
Baltimore City	11.1%	70.8%	18.1%	3.	Baltimore City	70.8%	3.	Montgomery	63.3%
Baltimore	5.6%	45.5%	48.9%	4.	Allegany	70.6%	4.	Howard	61.8%
Calvert	3.0%	46.2%	50.7%	5.	Somerset	67.7%	5.	Anne Arundel	57.8%
Caroline	5.1%	74.7%	20.2%	6.	Dorchester	62.4%	6.	Kent	54.9%
Carroll	4.8%	47.5%	47.7%	7.	Washington	61.7%	7.	Queen Anne's	50.9%
Cecil	4.2%	59.8%	36.0%	8.	Cecil	59.8%	8.	Calvert	50.7%
Charles	5.5%	51.9%	42.6%	9.	Prince George's	57.3%	9.	Baltimore	48.9%
Dorchester	7.3%	62.4%	30.2%	10.	St. Mary's	53.8%	10.	Carroll	47.7%
Frederick	3.6%	51.3%	45.1%	11.	Charles	51.9%	11.	Harford	45.2%
Garrett	5.7%	49.1%	45.2%	12.	Frederick	51.3%	12.	Garrett	45.2%
Harford	4.3%	50.5%	45.2%	13.	Harford	50.5%	13.	Frederick	45.1%
Howard	2.4%	35.8%	61.8%	14.	Garrett	49.1%	14.	Charles	42.6%
Kent	5.1%	40.1%	54.9%	15.	Carroll	47.5%	15.	St. Mary's	40.1%
Montgomery	3.2%	33.5%	63.3%	16.	Calvert	46.2%	16.	Prince George's	36.3%
Prince George's	6.4%	57.3%	36.3%	17.	Baltimore	45.5%	17.	Cecil	36.0%
Queen Anne's	5.5%	43.5%	50.9%	18.	Queen Anne's	43.5%	18.	Washington	32.4%
St. Mary's	6.1%	53.8%	40.1%	19.	Kent	40.1%	19.	Dorchester	30.2%
Somerset	9.6%	67.7%	22.7%	20.	Anne Arundel	38.5%	20.	Allegany	23.2%
Talbot	4.4%	30.6%	65.0%	21.	Howard	35.8%	21.	Somerset	22.7%
Washington	5.9%	61.7%	32.4%	22.	Montgomery	33.5%	22.	Wicomico	21.5%
Wicomico	6.6%	71.8%	21.5%	23.	Talbot	30.6%	23.	Caroline	20.2%
Worcester	5.0%	25.3%	69.8%	24.	Worcester	25.3%	24.	Baltimore City	18.1%
<b>Total</b>	<b>5.3%</b>	<b>49.1%</b>	<b>45.6%</b>						

Source: Local School Budgets, Department of Legislative Services

**Exhibit 2**  
**Per Pupil Revenues for Public Schools in Fiscal 2012**

<b>County</b>	<b>Federal</b>	<b>State</b>	<b>Local</b>	<b>Total</b>	<b>Ranking by Total Per Pupil Funding</b>
Allegany	\$910	\$10,392	\$3,421	\$14,723	1. Baltimore City \$17,001
Anne Arundel	490	5,000	7,514	13,005	2. Worcester 16,551
Baltimore City	1,886	12,040	3,075	17,001	3. Montgomery 15,308
Baltimore	766	6,233	6,691	13,690	4. Howard 15,144
Calvert	406	6,163	6,768	13,337	5. Allegany 14,723
Caroline	612	9,017	2,443	12,073	6. Somerset 14,656
Carroll	623	6,184	6,218	13,026	7. Prince George's 14,629
Cecil	518	7,364	4,440	12,322	8. Kent 14,519
Charles	737	6,951	5,695	13,383	9. Garrett 13,980
Dorchester	954	8,126	3,936	13,016	10. Baltimore 13,690
Frederick	454	6,469	5,692	12,614	11. Charles 13,383
Garrett	800	6,862	6,318	13,980	12. Calvert 13,337
Harford	551	6,468	5,793	12,812	13. Carroll 13,026
Howard	362	5,428	9,354	15,144	14. Dorchester 13,016
Kent	739	5,815	7,965	14,519	15. Anne Arundel 13,005
Montgomery	491	5,133	9,684	15,308	16. Washington 12,826
Prince George's	934	8,381	5,314	14,629	17. Harford 12,812
Queen Anne's	656	5,176	6,054	11,886	18. Frederick 12,614
St. Mary's	726	6,410	4,776	11,912	19. Wicomico 12,416
Somerset	1,406	9,924	3,326	14,656	20. Cecil 12,322
Talbot	521	3,582	7,619	11,721	21. Caroline 12,073
Washington	753	7,915	4,159	12,826	22. St. Mary's 11,912
Wicomico	823	8,918	2,676	12,416	23. Queen Anne's 11,886
Worcester	821	4,183	11,547	16,551	24. Talbot 11,721
<b>Total</b>	<b>\$761</b>	<b>\$6,992</b>	<b>\$6,501</b>	<b>\$14,254</b>	

Source: Local School Budgets, Department of Legislative Services

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**Exhibit 3**  
**Per Pupil Wealth and Local Appropriations**  
**Fiscal 2012**

<b>County</b>	<b>Wealth Per Pupil</b>	<b>Per Pupil Appropriation</b>	<b>Local Effort</b>
Allegany	\$289,935	\$3,356	1.1%
Anne Arundel	627,838	7,472	1.2%
Baltimore City	291,018	3,046	1.1%
Baltimore	512,923	6,581	1.3%
Calvert	469,728	6,743	1.4%
Caroline	324,109	2,356	0.7%
Carroll	439,029	6,102	1.4%
Cecil	393,895	4,407	1.1%
Charles	397,256	5,625	1.4%
Dorchester	412,238	3,754	0.9%
Frederick	428,321	5,610	1.3%
Garrett	583,132	6,300	1.0%
Harford	434,535	5,722	1.3%
Howard	546,509	9,255	1.7%
Kent	786,125	7,902	1.0%
Montgomery	698,439	9,592	1.4%
Prince George's	437,339	5,214	1.2%
Queen Anne's	593,312	5,796	1.0%
St. Mary's	445,122	4,600	1.1%
Somerset	337,402	3,257	1.0%
Talbot	1,121,952	7,573	0.7%
Washington	361,191	4,115	1.1%
Wicomico	312,264	2,515	0.8%
Worcester	1,276,025	11,503	0.9%
<b>Total</b>	<b>\$505,354</b>	<b>\$6,417</b>	<b>1.3%</b>

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