

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 939 (Senator Muse)
Budget and Taxation

Prince George's County - Maintenance of Effort - Property Tax Rate

This bill prohibits Prince George's County from setting a property tax rate that is greater than the rate authorized under the county's charter, unless the rate increase is necessitated by an economic downturn in the county that impedes the county's ability to fund the required education maintenance of effort (MOE) amount.

The bill takes effect June 1, 2015, and is applicable to all taxable years after June 30, 2015.

Fiscal Summary

State Effect: None.

Local Effect: Prince George's County FY 2016 property tax revenues are reduced by approximately \$115.5 million compared to the county executive's proposed FY 2016 county budget, and Prince George's County appropriations to public schools in FY 2016 are reduced by the same amount. Prince George's County is relieved from increased MOE required funding for public schools that would result from the county executive's proposed FY 2016 budget. Out-years reflect certain Prince George's County property tax rates not increasing, thus preventing any associated revenue and expenditure increases in FY 2017 and subsequent years.

Small Business Effect: None.

Analysis

Current Law: Under Chapter 6 of 2012, counties are authorized to exceed county charter limitations on local property tax rates and revenues for the purpose of funding the approved budget of the local school board, beginning in fiscal 2013. If a local property tax rate is

set above the limit, the county governing body may not reduce funding provided to the school board from any other local source and must appropriate to the school board all of the revenues generated from any increase beyond the existing limit. Any use of this authority must be reported annually to the Governor and the General Assembly.

In Prince George's County, the real property tax rate is capped at \$0.96 per \$100 of assessed value. State law requires that a county's tax rate for personal property may not be more than 2.5 times the real property tax rate for the county.

Maintenance of Effort

Under the MOE requirement, each county government (including Baltimore City) must provide on a per pupil basis at least as much funding for the local school board as was provided in the prior fiscal year. Statute exempts from the MOE calculation qualifying nonrecurring costs as approved by the Maryland State Department of Education (MSDE), the cost of any program that has been shifted from the local school board's operating budget to the county operating budget, and debt service payments for school construction. The Budget Reconciliation and Financing Acts of 2011 and 2012 (Chapter 397 of 2011 and Chapter 1 of the 2012 first special session) provided one-year exemptions from MOE for a county (including Baltimore City) that shifted recurring health care costs for current retirees to the local school board if those costs were reduced the following year. Chapter 647 of 2013 made this exemption permanent, and also excluded recurring retiree health costs from MOE if they resulted in additional State aid that was dedicated to public school construction.

Chapter 6 of 2012 requires a county governing body to apply to the State board for a waiver from the State's MOE requirement if the county is unable to fund the full MOE amount. If a county does not receive a waiver from the State board, it must fund the full MOE amount or the State will intercept the county's local income tax revenues in the amount by which the county is below MOE and forward the funds to the local school board. Counties that receive waivers and are making above-average education effort may request "rebasement waivers" that allow limited decreases to their annual MOE amounts if they can demonstrate ongoing problems with meeting MOE.

Also under Chapter 6, beginning in fiscal 2015, a county that has an education effort below the five-year statewide average education effort must increase its MOE payment to the local school board in years when the wealth base per pupil is increasing. The required increase is the lesser of the increase in a county's per pupil wealth, the average statewide increase in per pupil local wealth, or 2.5%. This provision ensures an increase in the amount a county provides to the local school board concomitant with an increase in county wealth.

A county's MOE requirement for a given year is based upon the highest local appropriation to its school operating budget for the prior fiscal year. Each local board of education must submit its proposed budget to its county governing body not less than 45 days before the date for levying local taxes, or on an earlier date on or after March 1, as requested by the county fiscal authority. Each county must submit its approved budget to the State Superintendent of Schools no later than 7 days after approval of the budget, or June 30, whichever is earlier. No later than 15 days after receipt of the county's approved budget, the State Superintendent must certify whether the county has met State funding requirements and must notify the county and county board of certification.

Background: Five charter counties (Anne Arundel, Montgomery, Prince George's, Talbot, and Wicomico) have amended their charters to limit property tax rates or revenues. 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, are not included under the tax cap. As noted in the floor report for Senate Bill 848 (signed into law as Chapter 6 of 2012), the authority to exceed charter limitations on local property tax rates and revenues for the purpose of funding the approved budget of the local board of education was adopted in order to ensure that counties have the fiscal ability to meet their education funding obligations. In fiscal 2013, Talbot County became the first jurisdiction to exercise this new authority by establishing a 2.6 cent supplemental property tax rate for the local board of education. No jurisdiction exercised this authority in fiscal 2014 or 2015.

Prince George's County Proposed Budget

The county executive's proposed fiscal 2016 budget for Prince George's County contains, subject to county council approval, a \$0.15 increase in the county real property tax rate, from \$0.96 to \$1.11 per \$100 of assessed value. According to budget documents, the increase in the real property tax rate is expected to generate an additional \$104.9 million in revenues for the Prince George's County Public School System in fiscal 2016.

The proposed county budget also includes an increase in the personal property tax rate, from \$2.40 to \$2.78 per \$100 of assessed value (consistent with the limit that is tied to the real property rate) and is expected to generate \$10.6 million in additional revenues.

An increase in the telecommunications tax, which is dedicated solely to public schools, from 8% to 12% is also proposed, generating an estimated \$12.2 million in additional revenues in fiscal 2016 for public schools in Prince George's County. State law indicates that the telecommunications tax rate for Prince George's County must be at least 5%, but does not impose an upper limit on this tax rate.

The proposed fiscal 2016 Prince George's County appropriation for public schools totals \$763.2 million, an increase of \$133.0 million, or 21% over the \$630.2 million fiscal 2015 county appropriation. According to the Prince George's County Board of Education budget request, this \$133.0 million increase would amount to a funding total that is \$117.5 million in excess of the \$15.5 million increase needed to meet the Prince George's County fiscal 2016 MOE requirement. Prince George's County advises that the increased revenues generated by the tax rate increases are intended to help in supporting the following priorities:

- increasing teacher compensation to a level that is comparable with surrounding jurisdictions;
- providing student-based budgeting for 118,000 students in 179 schools;
- enhancing digital literacy in classrooms to grades 3, 5, and 8;
- offering breakfast to an additional 11,000 students;
- expanding prekindergarten classes to 16 elementary schools;
- providing stipends for National Board certified teachers; and
- expanding college and career academies to all high schools.

Prince George's County Economic Conditions

The bill specifies that if an economic downturn in the county that impedes the county's ability to fund the required education funding MOE amount necessitates a higher tax rate than the charter limit indicates, then a tax increase above that limit is authorized. The bill does not define "economic downturn" or specify who must determine if an economic downturn is occurring in Prince George's County. Several measures suggest that Prince George's County is not presently experiencing an economic downturn. Based on first quarter average employment figures, the number of individuals employed in Prince George's County has increased each year since 2010. Similarly, the unemployment rate in the county decreased in 2013 and again in 2014. The median price of a home in Prince George's County increased by 13.8% in fiscal 2014, the largest percentage increase of all counties in Maryland.

Local Fiscal Effect: Assuming that there is not an economic downturn in Prince George's County that impedes the ability of the county to fund the MOE requirement, the bill prevents an increase in the Prince George's County real property tax rate for fiscal 2016, which in turn prevents an increase in the county's personal property tax rate. Based on the county's budget estimates, this reduces the proposed budget for Prince George's County Public Schools by an estimated \$115.5 million in foregone county revenues (\$104.9 million in real property tax revenues; \$10.6 million in personal property tax revenues.) In doing so, the bill relieves Prince George's County of the increased MOE requirement for fiscal 2017 and subsequent years that would result from increasing county funding

approximately \$115.5 million above the fiscal 2016 requirement for Prince George's County.

Property tax rate increases in future years, and concomitant increases in county revenues and appropriations to public schools are also prevented, to the extent that economic conditions in Prince George's County (*i.e.*, an economic downturn) do not allow for an increase in the county real property tax rate increase, and therefore an increase in the county personal property rate.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland State Department of Education, Prince George's County, Department of Legislative Services

Fiscal Note History: First Reader - March 31, 2015
md/rhh

Analysis by: Scott P. Gates

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