

ALLEGANY COUNTY TAX DIFFERENTIAL 101



Prepared by the Allegany County Finance Office

March 31, 2011

Tax Differential Explained



§ 6-305

ANNOTATED CODE OF MARYLAND

governing body of the county or of the municipal corporation passing a law to set that rate. (An. Code 1957, art. 81, § 32; 1985, ch. 8, § 2.)

§ 6-305. County tax rate in certain municipal corporations.

(a) "Tax setoff" defined. — In this section, "tax setoff" means:

- (1) the difference between the general county property tax rate and the property tax rate that is set for assessments of property in a municipal corporation; or
- (2) a payment to a municipal corporation to aid the municipal corporation in funding services or programs that are similar to county services or programs.

(b) *Applicability of section.* — This section applies only in:

- (1) Allegany County;
- (2) Anne Arundel County;
- (3) Baltimore County;
- (4) Frederick County;
- (5) Garrett County;
- (6) Harford County;
- (7) Howard County;
- (8) Montgomery County; and
- (9) Prince George's County.

(c) *Discussion and adjustment.* — The governing body of the county shall meet and discuss with the governing body of any municipal corporation in the county the county property tax rate to be set for assessments of property in the municipal corporation as provided in this section. After the meeting if it can be demonstrated that a municipal corporation performs services or programs instead of similar county services or programs, the governing body of the county shall grant a tax setoff to the municipal corporation.

(d) *Setting county rate for municipal corporation.* — In determining the county property tax rate to be set for assessments of property in a municipal corporation, the governing body of the county shall consider:

- (1) the services and programs that are performed by the municipal corporation instead of similar county services and programs; and
- (2) the extent that the similar services and programs are funded by property tax revenues.

(e) *Rate need not be uniform.* — The county property tax rate for assessments of property located in a municipal corporation is not required to be:

- (1) the same as the rate for property located in other municipal corporations in the county; or

- (2) the same as the rate set in a prior year.

(f) *Tax setoff request.* — (1) At least 180 days before the date that the annual county budget is required to be approved, any municipal corporation in the county that desires that a tax setoff be provided shall submit to the county a proposal that states the desired level of property tax setoff for the next fiscal year.

Tax - Property

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(2)(i) A request submitted under paragraph (1) of this subsection shall be accompanied by:

1. a description of the scope and nature of the services or programs provided by the municipal corporation instead of similar services or programs provided by the county; and

2. financial records and other documentation regarding municipal revenues and expenditures.

(ii) The materials submitted under subparagraph (i) of this paragraph shall provide sufficient detail for an assessment of the similar services or programs.

(3) After receiving a proposal from a municipal corporation requesting a tax setoff under this subsection, the governing body of the county shall promptly submit to the municipal corporation financial records and other documentation regarding county revenues and expenditures.

(g) *Meetings, officers, information and services.* — (1) At least 90 days before the date that the annual county budget is required to be approved, the county and any municipal corporation submitting a tax setoff request under subsection (f) of this section shall designate appropriate policy and fiscal officers or representatives to meet and discuss the nature of the tax setoff request, relevant financial information of the county and municipal corporation, and the scope and nature of services provided by both entities.

(2) A meeting held under paragraph (1) of this subsection may be held by the county representatives jointly with representatives from more than one municipal corporation.

(3) (i) The county officers or representatives may request from the municipal corporation officers or representatives additional information that may reasonably be needed to assess the tax setoff.

(ii) The municipal corporation officers or representatives shall provide the additional information expeditiously.

(h) *Statement of intent.* — (1) At or before the time the proposed county budget is released to the public, the county commissioners, the county executive of a charter county, or the county council of a charter county without a county executive shall submit a statement of intent to each municipal corporation that has requested a tax setoff.

(2) The statement of intent shall contain:

- (i) an explanation of the level of the proposed tax setoff;
- (ii) a description of the information or process used to determine the level of the proposed tax setoff; and

- (iii) an indication that, before the budget is enacted, appropriate officials or representatives of the municipal corporation are entitled to appear before the county governing body to discuss or contest the level of the proposed tax setoff.

(i) *Municipal representatives may testify at hearings.* — Representatives of each municipal corporation in the county requesting a tax setoff shall be afforded an opportunity to testify before the county governing body during normally scheduled hearings on the county's proposed budget.

(j) *Agreements regarding tax setoff.* — Notwithstanding the provisions of subsections (d), (f), and (g) of this section:

Tax Differential Explained



- As explained in The Annotated Code of Maryland Section 6-305, Tax Differential Represents – “the difference between the general county property tax rate and the rate that is set for assessments of property in a municipality...in funding services or programs that are similar to county services or programs.”

Tax Differential Explained



- Simply stated, a tax differential is created to account for **DUPLICATION OF SERVICES**
- There are three items that can affect the calculation of property taxes on an annual basis: Tax Differential, Assessments, and the Tax rate set by the taxing authority.

Tax Differential Explained



- Section 6-305 also outlines how to set the differential rate – “In determining the county property tax rate to be set for assessments of property in a municipality, the county **shall** consider:
 - 1) the services and programs that are performed by the municipality instead of similar county services and programs; and
 - 2) The extent that the similar services and programs are funded by property tax revenues.
- Allegany County is mandated by State Law to provide a Tax Differential to its municipalities , and the current methodology has been established by two circuit court lawsuits in 1985 & 2004.
- The following spreadsheets detail the complex methodology for each differential service offered by Allegany County & displays the duplication of services for each municipality:

**ALLEGANY COUNTY
TAX DIFFERENTIAL COMPUTATION**

FOR FISCAL YEAR 2011

USING FY 2009 ACTUAL SOURCES AND USES

TAX DIFFERENTIAL COMPUTATION SHEET: for Board of Commissioners application in determining the levy of County tax in municipalities performing governmental services and programs in lieu of similar County services or programs.



MUNICIPALITY: CUMBERLAND

AGENCY: HIGHWAYS

EXAMPLE

Does the agency perform a governmental service or program?

Is the agency funded in part by property tax?

Does the municipality perform similar governmental service or program in lieu of the agency?

	Check One	
	Yes	No
Does the agency perform a governmental service or program?	<u>X</u>	
Is the agency funded in part by property tax?	<u>X</u>	
Does the municipality perform similar governmental service or program in lieu of the agency?	<u>X</u>	

A. Actual transfer to Highway Fund	\$	<u>0</u>
B. Indirect Cost Allocation		<u>0</u>
C. Total Expense	\$	<u>0</u>
D. Expenditures funded by program Revenues		<u>0</u>
E. Cost of Operations	\$	<u>0</u>
F. Countywide Expense		<u>0</u>
G. Net Cost	\$	<u>0</u>
H. Property Tax Factor		<u>0.4530</u>
I. Net Property Tax Support of this agency	\$	<u>0</u>

DIFFERENTIAL CALCULATION

$$\frac{\$ \quad \underline{I} \quad 0}{\quad} \div \frac{\quad \underline{J} \quad 36916184}{\quad} = \frac{\quad \underline{K} \quad 0.0000}{\quad}$$

Note:

- H. = Ratio of Property Tax to Total Revenues.
- J. = Amount raised by \$1 of levy.
- K. = Tax rate per \$100 of Assessed Valuation.



**ALLEGANY COUNTY
TAX DIFFERENTIAL COMPUTATION**

FOR FISCAL YEAR 2011

USING FY 2009 ACTUAL SOURCES AND USES

TAX DIFFERENTIAL COMPUTATION SHEET: for Board of Commissioners application in determining the levy of County tax in municipalities performing governmental services and programs in lieu of similar County services or programs.



MUNICIPALITY: CUMBERLAND

AGENCY: HIGHWAYS

ACTUAL

	Check One	
	Yes	No
Does the agency perform a governmental service or program?	<u>X</u>	
Is the agency funded in part by property tax?	<u>X</u>	
Does the municipality perform similar governmental service or program in lieu of the agency?	<u>X</u>	

A. Actual transfer to Highway Fund	\$ 2,398,687
B. Indirect Cost Allocation	<u>486,496</u>
C. Total Expense	\$ 2,885,183
D. Expenditures funded by program Revenues	<u>0</u>
E. Cost of Operations	\$ 2,885,183
F. Countywide Expense	<u>0</u>
G. Net Cost	\$ 2,885,183
H. Property Tax Factor	<u>0.4530</u>
I. Net Property Tax Support of this agency	\$ <u><u>1,306,988</u></u>

DIFFERENTIAL CALCULATION

$$\frac{\text{I}}{\$ 1,306,988} \quad / \quad \frac{\text{J}}{36,916,184} \quad = \quad \frac{\text{K}}{0.0354}$$

Note:

H. = Ratio of Property Tax to Total Revenues.

J. = Amount raised by \$1 of levy.

K. = Tax rate per \$100 of Assessed Valuation.



ALLEGANY COUNTY
MUNICIPAL SUMMARY OF TAX DIFFERENTIAL ITEMS
REAL ESTATE TAX RATES
FY 2012



PRELIMINARY

MUNICIPALITY		Planning & Zoning	Police Protection	Public Works	Highways	UPRC	Solid Waste	Bond Indebtness Highways	Emergency Medical Services	Total
<u>Barton</u>	FY 11				0.0354					0.0354
	FY 12				0.0782					0.0782
	Net Change				0.0428					0.0428
<u>Cumberland</u>	FY 11	0.012	0.021	0.0143	0.0354	0.0011	0	0.0007	0.0048	0.0893
	FY 12	0.0116	0.0204	0.0139	0.0782	0.001	0	0.0003	0.0047	0.1301
	Net Change	(0.0004)	(0.0006)	(0.0004)	0.0428	(0.0001)	-	(0.0004)	(0.0001)	0.0408
<u>Frostburg</u>	FY 11	0.012	0.021	0.0143	0.0354					0.0827
	FY 12	0.0116	0.0204	0.0139	0.0782					0.1241
	Net Change	-0.0004	-0.0006	-0.0004	0.0428					0.0414
<u>Lonaconing</u>	FY 11		0.021		0.0354					0.0564
	FY 12		0.0204		0.0782					0.0986
	Net Change		-0.0006		0.0428					0.0422
<u>Luke</u>	FY 11		0.021		0.0354		0.0039			0.0603
	FY 12		0.0204		0.0782		0.0035			0.1021
	Net Change		-0.0006		0.0428		-0.0004			0.0418
<u>Midland</u>	FY 11				0.0354					0.0354
	FY 12				0.0782					0.0782
	Net Change				0.0428					0.0428
<u>Westernport</u>	FY 11		0.021		0.0354					0.0564
	FY 12		0.0184		0.0782					0.0966
	Net Change		-0.0026		0.0428					0.0402

Sample Calculations



Unincorporated Allegany County vs. City of Cumberland County Rate FY 2011 and Proposed FY 2012

	<u>Actual FY 2011</u>	<u>Proposed FY 2012</u>	<u>Difference</u>
<u>Unincorporated</u>			
Rate	0.9829	0.9990	0.0161
Example using \$100,000 Assessment	\$ 982.90	\$ 999.00	\$ 16.10
<u>City of Cumberland</u>			
Rate	0.8999	0.8689	-0.031
Example using \$100,000 Assessment	<u>\$ 899.90</u>	<u>\$ 868.90</u>	<u>\$ (31.00)</u>
Total Tax	\$1,882.80	\$1,867.90	\$ (14.90)

- This example highlights the fact that the General Fund is now paying for most of our Highway Fund as a result of substantial state cuts to Highway User Revenues.

Tax Differential Explained



- One thing to note about tax differential – **there is no revenue generated by tax differential.**
- The only thing tax differential does is allocate the existing revenue based upon the level of service provided to each of our 8 taxing areas.

Allegany County
General Fund FY 2011 Budget
Services Not Provided by Municipal Government



Service	Dollars	%
Board Of Education	\$28,240,000	34.0%
Allegany College	7,425,000	8.9%
Detention Center	6,714,299	8.1%
Debt Service On Services	5,069,102	6.1%
911	1,759,133	2.1%
Health Department	1,206,695	1.5%
State's Attorney	1,164,197	1.4%
Allegany County Library	905,000	1.1%
Other Health Services Programs	783,516	0.9%
HRDC (Sr Citizen Centers)	707,570	0.9%
Tourism	582,190	0.7%
Election Office	580,772	0.7%
Economic Development	519,916	0.6%
Animal Control	407,240	0.5%
County Fair & Ag Expo	379,280	0.5%
Transit Operation	275,501	0.3%
Emergency Management	271,745	0.3%
Family Law Master	237,041	0.3%
Airport	235,000	0.3%
Domestic Preparedness	233,182	0.3%
Soil Conservation	167,747	0.2%
Solid Waste Recycling	164,917	0.2%
Alternative Sentencing Program	155,214	0.2%
Home Detention	135,206	0.2%
Agricultural Extension Agent	128,730	0.2%
Liquor Board	110,040	0.1%
Circuit Court Master Program	97,265	0.1%
Haz Mat	73,513	0.1%
Other Education	24,511	0.0%
Some 36 Services For 70.7% Of Budget	\$58,753,522	70.7%
Total General Fund Budget	\$83,126,302	

Tax Differential By Municipality	
Municipality:	
Barton	\$4,727
Cumberland	861,298
Frostburg	287,061
Lonaconing	16,208
Luke	40,716
Midland	4,484
Westernport	31,203
Total	\$1,245,697

Note: Services Above Represent Primary Services And Is Not All-Inclusive